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ARCTIC PAPER S.A. CAPITAL GROUP
Consolidated Annual Report
for the year ended 31st December 2015

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,

2015 - a year of tough, firm and necessary decisions

The year 2015 started with turbulence in the currency market – a turbulence that affected us as well as all of the paper industry. This quickly erased the hopes that the somewhat unexpected stability during 2014 had injected in the paper market. The strengthening of the dollar and the yearlong volatility between European currencies (PLN, SEK and EUR) and US dollar lead to weak and an overall declining paper market. On top of this Arctic Paper was greatly affected by the insolvency of one of the large pan-European paper merchants.

The cessation of production at the Arctic Paper Mochenwangen mill

The combined impact of the events on the market made us aware that a steady state for the industry still is far away. To further increase our possibilities on the market we took the tough, but necessary decision to close down production at the non-profitable Arctic Paper Mochenwangen mill. The cessation at the end of the year means that almost 12 % of our total capacity does no longer affect our financial reporting.

The Profit Improvement Program 2015/16

The cessation of Arctic Paper Mochenwangen mill is a part of an all-encompassing Profit Improvement Program 2015/16. This Program, which was started in the summer, aims to increase our already sharp focus on cost minimizing, on flexibility and on efficiency of different units. The Program concerns and focuses on each single one of our units with developed individual programs. Among the actions is centralisation of a mayor part of our customer services. The purpose of the Program is to reduce our total cost by PLN 50m annually and the accomplishment of all units in implementing the Program is already visible. The focus and the determination of the staff has made it possible for us to reach an essential part of the target of the Profit Improvement Program already in the summer of 2016. This will give us a beneficial advantage for the rest of the year.

Combined with our market actions this makes us able to look back at a challenging 2015 as a year of great resolve. Having implemented firm but necessary measures during the year we have now entered 2016 with a certain confidence even though we know the year will be no less troublesome for the paper business than the prior years have been.

The introduction of new grades

In 2015 we also started to enhance our core competence - developing and producing new grades. We increased our devotion to search and identify high value market niches suitable for our line of products.

By focusing on our competitive advantage we have been able to develop unique paper products for the premium paying market niches. Amber Highway, especially developed for the High Speed Ink Jet market, was launched in the summer of 2015, and Munken Kristall will be introduced globally this spring. Munken Kristall will, due to its whiter and brighter surface, substantially reinforce and strengthen the Munken Design Range as the leading European design range.

Financial results and targets

In this very challenging environment we have defended our market position and produced acceptable results. A operating result (EBIT) of PLN 102,9 million and net result of PLN 71,0 million are, given the market conditions, numbers that stand out. With total revenues of PLN 2.88bn we have gained market shares in certain and essential market niches.

Our overall aim continues to be a reduction of our net debt to EBITDA and optimising our working capital. Without the continued support and loyalty of customers and suppliers these efforts would be less successful. Paper merchants, converters and publishers are all contributing and cooperating with us not least in our effort to create new products.

Rottneros – a great performance

The work and results of Rottneros can and should not be overlooked. In 2015 the advantages of our investment in Rottneros continued to prove its worth. Rottneros had a record year 2015, made possible by intelligent product development and aided by the strong US dollar and a reasonably stable pulp market. Our investment in Rottneros balances the fact that we are a non-integrated paper producer. Therefore it is our ambition to continue our involvement in Rottneros.

Entering 2016 we have seen positive signs of our different measures not least of the Profit Improvement Program. This program will continue to run, in parallel with further enhancing our competences in providing unique grades for quality conscious customers during 2016.

Yours faithfully

Wolfgang Lübbert

CEO of Arctic Paper S.A.

Introduction

Information on the report

The hereby Consolidated Annual Report for 2015 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 AB, API AB	Arctic Paper Investment AB seated in Göteborg, Sweden

Arctic Paper Investment GmbH, API GmbH	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 (in the hereby report presented as discontinued operations)
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 (starting from 1st January 2016 transformed into Sales Offices)
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 Greve (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 Kolbotn (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 Munkedal (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);
Arctic Paper Finance AB	Arctic Paper Finance AB seated in Göteborg, Sweden
Rottneros, Rottneros AB	Rottneros AB seated in Sunne, Sweden
Rottneros Group, Rottneros AB Group	Rottneros AB seated in Sunne, Sweden; Rottneros Bruk AB seated in Sunne, Sweden; Utansjo Bruk AB seated in Harnösand, Sweden, Vallviks Bruk AB seated in Söderhamn, Sweden; Rottneros Packaging AB seated in Stockholm, Sweden; SIA Rottneros Baltic seated in Ventspils, Latvia
Pulp mills	Rottneros Bruk AB seated in Sunne, Sweden; Vallviks Bruk AB seated in Söderhamn, Sweden
Purchasing Office	SIA Rottneros Baltic seated in Latvia
Kalltorp	Kalltorp Kraft Handelsbolaget seated in Trollhattan, Sweden
Nemus Holding AB	Nemus Holding AB seated in Göteborg, Sweden
Thomas Onstad	Major shareholder of the Issuer who holds, directly and indirectly, more than 50% of Arcic Paper S.A. shares; a member of the Issuer's Supervisory Board
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,	Supervisory Board of Arctic Paper S.A.

Group's Supervisory Board, SB	
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 2015

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 31st December 2015, Arctic Paper Group employs app. 1,800 people in its paper mills and companies dealing in paper distribution and sales, as well as in pulp mills, a purchasing office, and a company producing food packaging. The Group's paper mills are located in Poland and Sweden and have total production capacity of app. 700,000 metric tons of paper per year. Paper production in a German mill with total production capacity of 115,000 tons of paper per year was shut down at the end of 2015. The pulp mills are located in Sweden and have total production capacity of 400,000 tons per year. As on 31st December 2015, The Group had three Distribution Companies which handle sales, distribution and marketing of products offered by the Group in Scandinavia (starting from 1st January 2016 they were transformed into Sales Offices) and twelve Sales Offices providing access to all European markets, including Central and Eastern Europe. The Group's consolidated sales revenue in twelve months of 2015 totaled PLN 2,900 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 REGON statistical number 080262255.

Group Profile

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

Additional businesses of the Group, partly subsidiary to paper production, include:

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

Our production units

As on 31st December 2015, 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 280,000 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 fine uncoated wood-free paper used primarily for printing books and high-quality brochures;
- 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.
- the paper mill in Mochenwangen (Germany) had a production capacity of about 115,000 metric tons per year. Production in this mill was shut down at the end of 2015;

As on 31st December 2015, 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:

- premium wood-containing bulky book paper produced and distributed under the brand name Munken, primarily used for printing books in color as well as in black and white;
- bulky book paper was produced in APMW mill under the brand name Pamo, primarily used for paperbacks;
- wood-containing offset paper was produced in APMW mill 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 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

In 2015, no 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 2015.

Shareholder structure

Nemus Holding AB, a company under Swedish law (and which is indirectly held by Mr Thomas Onstad), is the majority shareholder of Arctic Paper S.A., holding as on 31st December 2015 40,006,449 shares of the Company, which constitute 57.74% of its share capital and representing 57.74% of total number of votes in the Shareholders Meeting. Thus Nemus Holding AB is the parent entity of the Issuer.

Moreover, Mr. Thomas Onstad, an indirect shareholder of Nemus Holding AB, directly holds 5,848,658 Shares constituting 8.44% of total number of the Company's shares.

On 8th July 2015, the Company received information concerning sales of 1,350,000 shares of the Company, constituting 1.95% of total number of the Company's Shares, performed by Nemus Holding AB to a third party indirectly held by Mr Thomas Onstad.

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

	as at 21.03.2016				as at 13.11.2015			
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 [%]
Thomas Onstad	**47 205 107**	**68,13%**	**47 205 107**	**68,13%**	**47 205 107**	**68,13%**	**47 205 107**	**68,13%**
- indirectly via	41 356 449	59,69%	41 356 449	59,69%	41 356 449	59,69%	41 356 449	59,69%
Nemus Holding AB	*40 006 449*	*57,74%*	*40 006 449*	*57,74%*	*40 006 449*	*57,74%*	*40 006 449*	*57,74%*
other subsidiary	*1 350 000*	*1,95%*	*1 350 000*	*1,95%*	*1 350 000*	*1,95%*	*1 350 000*	*1,95%*
- directly	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%**	**22 082 676**	**31,87%**	**22 082 676**	**31,87%**
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 2015.

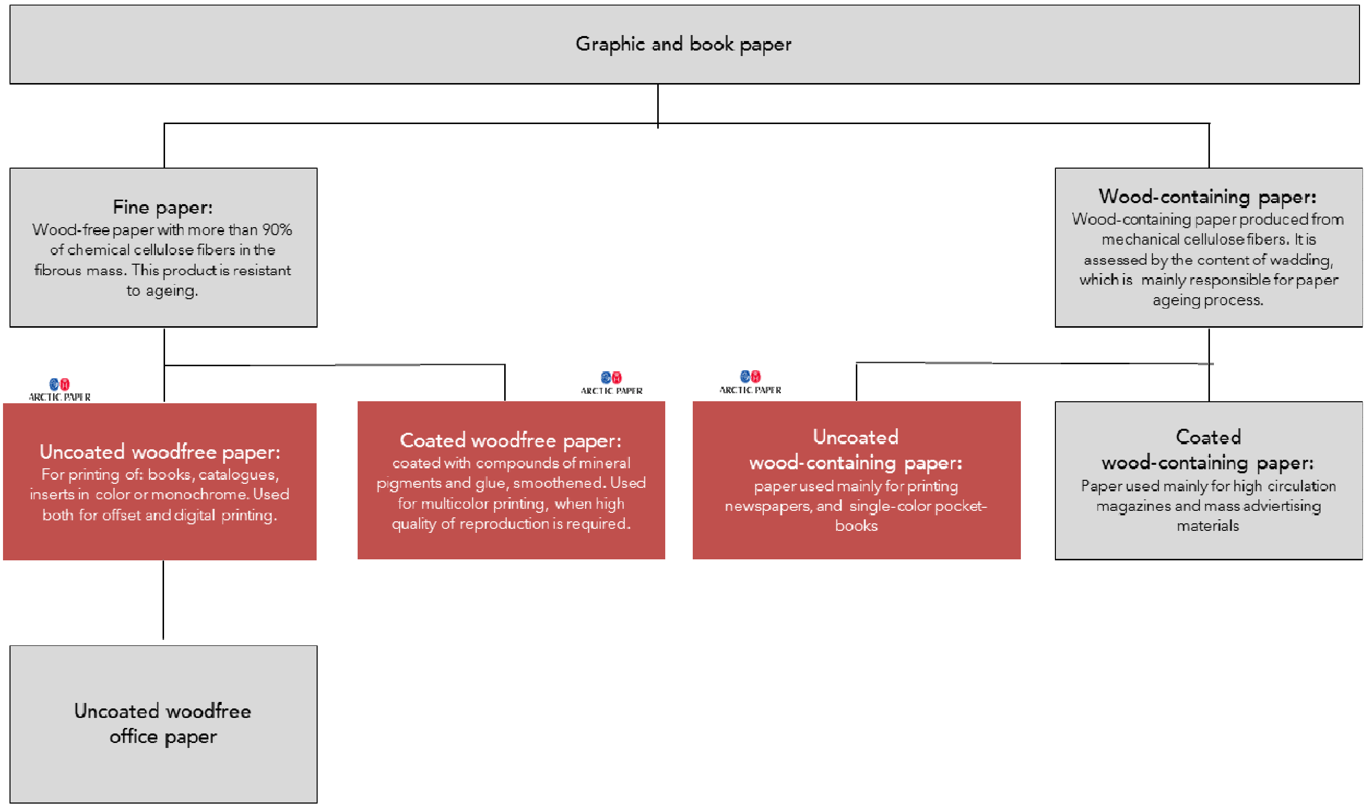
Market environment

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:

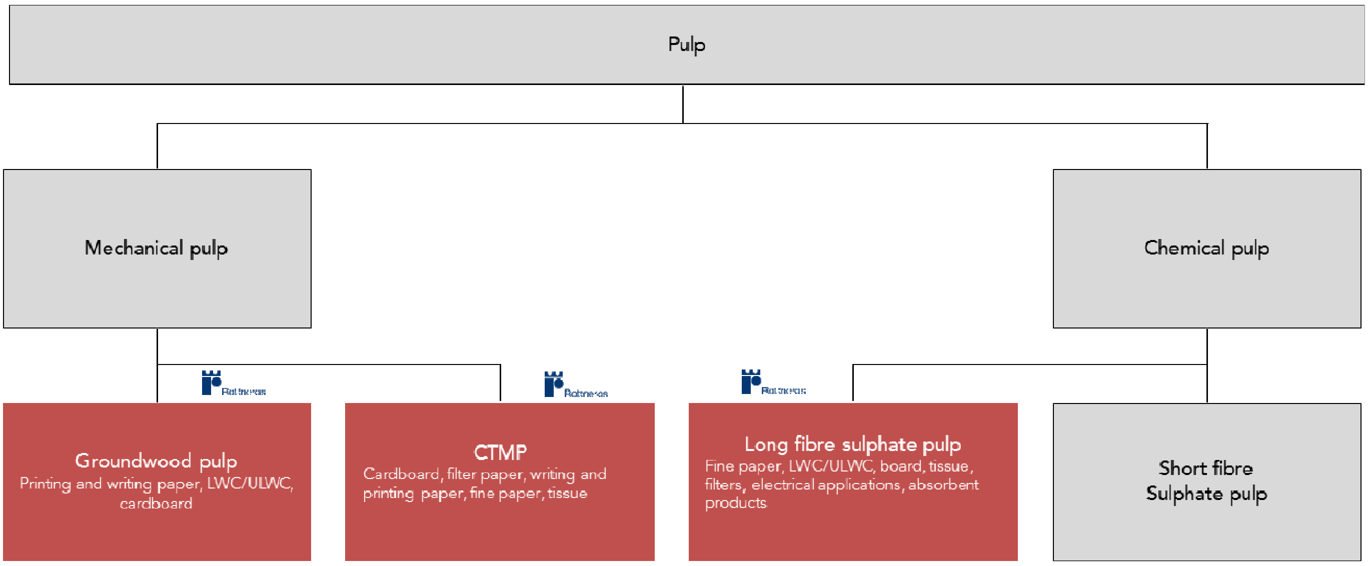
- Uncoated wood-free paper is wood-free paper for printing. Uncoated wood-free paper can be produced from various types of pulp, with different filler content, and can undergo various finishing enhancing processes, such as surface sizing and calandering. Two main categories of this type of paper are 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;

- Wood-containing paper is produced mostly from mechanical pulp or recycled papers, with little or no use of fillers. It contains cellulose wadding, which increases opacity but accelerates ageing.
  - Uncoated wood-containing paper is produced from mechanical pulp and intended for printing of magazines with the use of rotogravure or offset printing techniques, as well as for monochrome printing. The Group's products in this segment are usually used for printing paperbacks.
  - Coated wood-containing paper is produced from mechanical pulp and coated on both sides. It is used for printing of color magazines and catalogues.

    This category includes, among others, the following types of paper: SC (Supercalandered), MFC (Machine Finished Coated), LWC (Light Weight Coated), ULWC (Ultra Light Weight Coated) MWC (Medium Weight Coated). This kind of paper in scrolls is used for typographic, offset or flexographic printing.

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 is 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 2015 and 2014 the sales structure divided to main production lines presented as follows:

Sales structure by products

thousand tons	2015	share %	2014	share %
Paper	*671*	*66%*	695	68%
Amber	324	32%	333	32%
G-Print	147	14%	151	15%
Munken	150	15%	98	10%
Pamo	24	2%	0	0%
Arctic	17	2%	95	9%
L-Print	1	0%	-	0%
AP Tech	0	0%	1	0%
Other	7	1%	16	2%
Pulp	*344*	*34%*	333	32%
NBSK	201	20%	208	20%
Groundwood	67	7%	52	5%
CTMP	75	7%	73	7%
Other	-	0%	-	0%
Total paper and pulp	**1 015**	**100%**	**1 028**	**100%**

Sales revenues structure by products

PLN thousands	2015	share %	2014	share %
Paper	*2 159 642*	*74%*	*2 196 706*	*77%*
Amber	981 273	34%	993 307	35%
G-Print	413 688	14%	449 308	16%
Munken	419 438	14%	408 644	14%
Arctic	57	0%	46	0%
Pamo	328 590	11%	308 192	11%
L-Print	-	0%	-	0%
AP Tech	3 730	0%	3 460	0%
Other	12 866	0%	33 749	1%
Pulp	*740 818*	*26%*	*668 415*	*23%*
NBSK	504 539	17%	*466 679*	*16%*
Groundwood	109 605	4%	*83 698*	*3%*
CTMP	124 659	4%	*114 574*	*4%*
Other	2 015	0%	*3 463*	*0%*
Total paper and pulp	**2 900 460**	**100%**	**2 865 121**	**100%**

In 2015, 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 2015, the market share of sales outside Poland in metric tons was 88% and did not change compared to 2014 (88%). This year, as in previous years, sales focused on European markets. The share of these markets in total sales volume was 92% in 2015 (91% in the previous year).

The geographic structure of sales revenues from the most important sales markets in 2015, as compared to 2014, 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 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 2015, 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.

Electricity

The Group uses electricity and heat in the production process. Kostrzyn paper mill's total demand for electricity and heat is satisfied from the mill's combined heat and power plant fueled with 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 pulp mill satisfies fully its demand for electricity with purchases from external suppliers.

Vallvik pulp 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 2015, 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 2015 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, 6th January 2009, 25th September 2012, 10th January 2013, and 25th November 2013) 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 25th September 2022. 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 of 2013-2015 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 granted 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 ISO 14001 certificate 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 idea is fulfilled 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 ISO 50001 (Energy Management System). Our products are reviewed under the „Chain of Custody” regulations in compliance with 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	2015	2014	Change % 2015/2014
Revenues	**2 900 460**	**2 865 121**	**1,2**
including:			
Sales of paper	*2 159 642*	*2 196 706*	*(1,7)*
Sales of pulp	*740 818*	*668 415*	*10,8*
Gross profit on sales	409 927	437 558	(6,3)
Sales revenues %	*14,13*	*15,27*	*(1,1) p.p.*
Sales expenses	(266 296)	(265 981)	0,1
Administrative expenses	(63 597)	(67 712)	(6,1)
Other operating income	59 644	62 706	(4,9)
Other operating cost	(39 440)	(30 910)	27,6
EBIT	**100 239**	**135 660**	**(26,1)**
Sales revenues %	*3,46*	*4,73*	*(1,3) p.p.*
EBITDA	**212 697**	**252 319**	**(15,7)**
Sales revenues %	*7,33*	*8,81*	*(1,5) p.p.*
Financial income	1 587	844	87,9
Financial cost	(29 676)	(37 405)	(20,7)
EBT	**72 150**	**99 099**	**(27,2)**
Corporate income tax	(1 131)	(773)	46,4
Net profit/ (loss) from continuing operations	**71 019**	**98 326**	**(27,8)**
Sales revenues %	*2,45*	*3,43*	*(1,0) p.p.*
Discontinued operations			
Net profit/ (loss) from discontinued operations	**(97 588)**	**(20 152)**	**384,3**
Sales revenues %	*(3,36)*	*(0,70)*	*(2,7) p.p.*
Net profit/ (loss)	**(26 570)**	**78 175**	**(134,0)**
Sales revenues %	*(0,92)*	*2,73*	*(3,6) p.p.*
Profit/(Loss) attributable to equity holders of the parent	(71 258)	50 459	(241,2)
Earnings per share (in PLN) attributable to equity holders of the parent	(1,03)	0,73	n.a.

Revenue

In 2015 consolidated sales revenue amounted to PLN 2,900,460 thousand compared to PLN 2,865,121 thousand in the previous year and increased by 1.2% (PLN 35,339 thousand). Paper sales revenue decreased by 1.7% (PLN 37,064 thousand), while pulp sales revenue increased by 10.8% (PLN 72,403 thousand) compared to 2014.

Paper sales volume in 2015 amounted to 671 thousand tons and was lower than in the previous year by 24 thousand tons. This change represents a decrease of sales volume by 3.5%.

Pulp sales volume in 2015 amounted to 344 thousand tons (in 2014: 333 thousand tons). This change represents an increase of sales volume by 3.2%.

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

Profit on sales in 2015 was 6.3% lower than in the previous year. Sales profit margin in the current year stood at 14.13% compared to 15.27% (-1.14 p.p.) in the previous year.

Decrease of profit on sales in 2015 compared to 2014 was due to higher variable production costs, particularly the cost of materials for paper production: of pulp, caused by relatively high prices of this material and strengthening of USD toward EUR. This impact was partially compensated with better sales results achieved by Rottneros Group, mostly due to relatively high pulp prices and depreciation of SEK towards USD.

In 2015 selling expenses amounted to PLN 266,296 thousand and did not significantly change compared to expenses incurred in 2014.

In 2015 administrative expenses amounted to PLN 63,597 thousand compared to PLN 67,712 thousand in 2014, which represents a decrease by 6.1%. The main reason for the decrease was lower cost related to consulting services rendered to the Group by external parties.

Other operating income and cost

Other operating income in 2015 amounted to PLN 59,644 thousand which means a decrease compared to the previous year by PLN 3,062 thousand.

The decrease of other operating income in 2015 compared to operating income in 2014 results mainly from profit on sale of an unused paper machine by Rottneros, recorded in 2014.

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 2015 amounted to PLN 39,440 thousand compared to PLN 30,910 thousand incurred in 2014. Sales cost of energy and other materials had a major share in other operating expenses.

Financial income and cost

In 2015 financial income amounted to PLN 1,587 thousand and was higher comparing to financial income recorded in 2014 by PLN 743 thousand.

Financial cost in 2015 amounted to PLN 29,676 thousand compared to PLN 37,405 thousand in 2014. Lower financial cost in 2015 resulted from lower net exchange differences and lower interest cost.

Income tax

Income tax in 2015 amounted to PLN -1,131 thousand while in 2014 it amounted to PLN -773 thousand.

Relatively low amount of income tax in relation to earnings before tax from continued operations results mostly from use of financial losses, on which a deferred tax asset had not been recognized before.

Net profit/(loss) from discontinued operations

Profit/loss from discontinued operations includes the results of AP Mochenwangen and the companies established for the purpose of acquisition of this Mill. As the Management Board of Arctic Paper S.A. has been actively searching for a buyer of the Mill, its operations have been deemed discontinued and, in compliance with IFRS regulations, a change of presentation has been performed in consolidated income statement for each year presented.

Profitability analysis

EBITDA in 2015 amounted to PLN 212,697 thousand while in 2014 it amounted to PLN 252,319 thousand. The decrease of EBITDA in 2015 was mostly due to lower profit on sales compared to 2014. In the reporting period EBITDA margin amounted to 7.33% compared to 8.81% in 2014.

Profit on operating activities in 2015 amounted to PLN 100,239 thousand, while in 2014 it amounted to PLN 135,660 thousand. Operating profit margin in 2015 amounted to +3.46%, while in 2014 it amounted to +4.73%.

Net loss in 2015 amounted to PLN 26,570 thousand. In 2014 there was a net profit of PLN 78,175 thousand. Net profit/loss margin amounted to -0.92% compared to +2.73% in 2014.

Profitability analysis

PLN thousand	2015	2014	Change % 2015/2014
Gross profit on sales	409 927	437 558	(6,3)
Sales revenues %	*14,13*	*15,27*	*(1,1) p.p.*
EBITDA	**212 697**	**252 319**	**(15,7)**
Sales revenues %	*7,33*	*8,81*	*(1,5) p.p.*
EBIT	**100 239**	**135 660**	**(26,1)**
Sales revenues %	*3,46*	*4,73*	*(1,3) p.p.*
Net profit/ (loss) from continuing operations	**71 019**	**98 326**	**(27,8)**
Sales revenues %	*2,45*	*3,43*	*(1,0) p.p.*
Net profit/ (loss) from discontinued operations	**(97 588)**	**(20 152)**	**384,3**
Sales revenues %	*(3,36)*	*(0,70)*	*(2,7) p.p.*
Net profit (loss)	**(26 570)**	**78 175**	**(134,0)**
Sales revenues %	*(0,92)*	*2,73*	*(3,6) p.p.*
ROE - Return on equity (%)	(3,9)	10,8	(14,7) p.p.
ROA - Return on assets (%)	(1,5)	4,4	(5,9) p.p.

In 2015, return on equity amounted to -3.9%, while in 2014 it reached a level of +10.8%. In 2015, return on assets amounted to -1.5%, while in 2014 it reached +4.4%.

Report on financial situation

Selected items of the consolidated balance sheet

PLN thousand	31/12/2015	31/12/2014	Change 31/12/2014 -31/12/2013
Non-current assets	830 668	843 745	(13 076)
Inventory	390 631	376 486	14 145
Receivables, therein:	343 441	345 964	(2 523)
Trade and other receivables	*336 499*	*339 440*	*(2 940)*
Other current assets	12 475	38 184	(25 709)
Cash and equivalents	188 552	158 412	30 141
Assets associated with discontinued operations	47 467	-	47 467
Total assets	**1 813 235**	**1 762 790**	**50 445**
Equity	676 856	725 071	(48 215)
Short-term liabilities	682 515	590 567	91 948
therein:			
Trade and other payables	*407 409*	*364 992*	*42 417*
Interest-bearing loans and borrowings	*166 386*	*120 566*	*45 820*
Other non-financial liabilities	*108 720*	*105 009*	*3 711*
Long-term liabilities	372 599	447 152	(74 554)
therein:			
Interest-bearing loans and borrowings	*263 363*	*306 380*	*(43 017)*
Other non-financial liabilities	*109 236*	*140 772*	*(31 536)*
Liabilities directly associated with discontinued operations	81 264	-	81 264
Total equity and liabilities	**1 813 235**	**1 762 790**	**50 445**

As on 31st December 2015 total assets amounted to PLN 1,813,235 thousand compared to PLN 1,762,790 thousand at the end of 2014.

Non-current assets

As at the end of December 2015 non-current assets amounted to PLN 830,668 thousand and represented 45.8% of total assets, while as at the end of 2014 it amounted to PLN 843,745 thousand (47.9% of total assets).

The decrease of fixed assets was mainly due to amortization and depreciation higher than investment expenses, as well as to the decrease of deferred tax asset as a result of tax losses absorption.

Current assets

At the end of December 2015 current assets amounted to PLN 935,099 thousand compared to PLN 919,045 thousand as at the end of December 2014. Within current assets there was an increase in inventories by PLN 14,145 thousand, a decrease in receivables by PLN 2,524 thousand, a decrease in other current assets by PLN 25,709 thousand and an increase in cash and cash equivalents by PLN 30,140 thousand.

As at the end of December 2015 current assets represented 51.6% of total assets (52.1% at the end of 2014), therein inventories 21.6% (21.4% at the end of 2014), receivables 18.9% (19.6% at the end of 2014), other current assets 0.7% (2.1% at the end of 2014) and cash and cash equivalents 10.4% (9.0% at the end of 2014).

Assets related to discontinued operations

Assets related to discontinued operations include assets of Mochenwangen Group, except for the assets from other Arctic Paper Group companies. As on 31st December 2015, the amount of PLN 47,467 thousand comprised inventories (PLN 29,396 thousand), trade receivables and other receivables (PLN 15,912 thousand), cash and cash equivalents (PLN 1,051 thousand) and other financial and non-financial assets (PLN 1,108 thousand).

Equity

As at the end of 2015 equity amounted to PLN 676,856 thousand compared to PLN 725,071 thousand as at the end of 2014. As at the end of 2015, equity represented 37.3% of the total equity and liabilities (41.4% as on 31st December 2014).

The decrease of equity was due to net loss for 2015 and the dividend paid by Rottneros.

Current liabilities

As at the end of December 2015 current liabilities amounted to PLN 682,515 thousand (37.7% of the total balance sheet amount) compared to PLN 590,567 thousand (33.5% of the total balance sheet amount) at the end of 2014.

In 2015 there was an increase in current liabilities by PLN 91,948 thousand, which was mostly due to the increase of trade liabilities and other liabilities, liabilities under factoring agreements and measurement of financial instruments, as well as the increase of overdraft debt.

Non-current liabilities

As at the end of December 2015 long-term liabilities amounted to PLN 372,599 thousand (20.5% of the total balance sheet amount) compared to PLN 447,152 thousand at the end of 2014 (25.4% of the balance sheet amount). In the analyzed period, there was a decrease of long-term liabilities by PLN 74,553 thousand.

The decrease of long-term liabilities was particularly due to repayment of bank loans and the decrease of provisions resulting from the fact that a portion of them, which relates to Arctic Paper Mochenwangen, was transferred to discontinued operations.

Liabilities directly related to discontinued operations

Liabilities directly related to discontinued operations include liabilities of Mochenwangen Group, except for the liabilities from other Arctic Paper Group companies. As on 31st December 2015, the amount of PLN 81,264 thousand comprised provisions (PLN 55,484 thousand), trade liabilities and other liabilities (PLN 23,172 thousand), and other financial and non-financial liabilities (PLN 2,608 thousand).

Debt analysis

Debt analysis

	2015	2014	Change % 2015/2014
Debt-to-equity ratio (%)	155,9	143,1	12,8 p.p.
Equity-to-non-current assets ratio (%)	81,5	85,9	(4,5) p.p.
Interest-bearing debt-to-equity ratio (%)	63,5	58,9	4,6 p.p.
Net borrowings-to-EBITDA for the last twelve months (times)	1,13x	1,13x	0,00
EBITDA-to-interest (times)	9,8x	8,5x	1,3

The above ratios for 2014 are compliant with corresponding ratios presented in the Management Board report on the operations of Arctic Paper Group in consolidated report for 2014. These ratios do not include the effect of elimination of discontinued operations in consolidated income statement, therefore they do not directly result from the data included in the hereby report.

As at the end of December 2015 debt to equity ratio was 155.9% and was by 12.8 p.p. higher than at the end of December 2014. The increase of this ratio resulted mainly from the decrease of equity due to net loss and the dividend paid by Rottneros AB, as well as from the increase of trade liabilities and the increase of overdraft and other financial liabilities.

Equity to non-current assets ratio at the end of 2015 stood at 81.5% and was lower by 4.5 p.p than at the end of December 2014, as a result of the decrease of equity.

The interest-bearing debt to equity ratio at the end of 2015 stood at 63.5% and was by 4.6 p.p. higher than at the end of December 2014, mostly due to the decrease of equity.

Net borrowings to EBITDA ratio for the last 12 months of 2015 amounted to 1.13x and did not change compared to 2014.

EBITDA to interest ratio for the last 12 months of 2015 increased from 8.5x for 2014 to 9.8x in 2015. The improvement of this ratio was influenced mostly by the decrease of interest cost.

Liquidity analysis

Liquidity analysis

	2015	2014	Change % 2015/2014
Current liquidity ratio	**1,4x**	**1,6x**	**(0,2)**
Quick liquidity ratio	**0,8x**	**0,9x**	**(0,1)**
Acid test ratio (cash liquidity)	**0,3x**	**0,3x**	**0,0**
Inventory turnover DSI (days)	56,5	50,8	5,7
Receivables turnover DSO (days)	41,8	39,4	2,4
Liabilities turnover DPO (days)	58,9	49,2	9,7
Operating cycle (days)	98,2	90,2	8,0
Cash conversion cycle (days)	**39,3**	**41,0**	**(1,7)**

The above ratios for 2014 are compliant with corresponding ratios presented in the Management Board report on the operations of Arctic Paper Group in consolidated report for 2014. These ratios do not include the effect of elimination of discontinued operations in consolidated income statement, therefore they do not directly result from the data included in the hereby report.

At the end of December 2015 current liquidity ratio amounted to 1.4x and was lower that the level of this ratio as at the end 2014 (1.6x).

Quick liquidity ratio decreased from 0.9x as at the end of December 2014 to 0.8x as at the end of December 2014.

Acid test ratio amounted to 0.3x as at the end of December 2015 and as at the end of December 2014.

Cash conversion cycle in 2015 (39.3 days) shortened compared to 2014 (41.0 days) by 1.7 days.

Consolidated cash flow statement

Selected items of the consolidated cash flow

PLN thousand	2015	2014	Change % 2015/2014
Cash flow from operations	172 748	206 433	(16,3)
including:			
EBT	*(25 848)*	*77 854*	*(133,2)*
Amortization, depreciation and impairment	*119 057*	*121 922*	*(2,3)*
∆ in working capital	*30 409*	*(11 088)*	*(374,2)*
Other corrections	*49 130*	*17 745*	*176,9*
Cash flow from investing activities	(81 646)	(60 206)	35,6
Cash flow from financing activities	(62 359)	(104 354)	(40,2)
Total Cash Flow	**28 742**	**41 873**	**(31,4)**

Cash flow from operating activities

In 2015, net cash flow from operating activities amounted to PLN 172,748 thousand compared to PLN 206,433 thousand in 2014. Lower cash flow from operating activities in 2015 resulted primarily from gross loss.

Cash flow from investing activities

In 2015, cash flow from investing activities amounted to PLN -81,646 thousand compared to PLN -60,206 thousand in 2014 and was mainly related to expenses for purchasing of property, plant and equipment, balanced with inflows from sales of property, plant and equipment. Cash flow from investing activities in 2015 also includes the release of a bank deposit for the period of over three months, which was created in 2014.

Cash flow from financing activities

In 2015, cash flow from financing activities amounted to PLN -62,359 thousand compared to PLN -104,354 thousand in 2014. In twelve months of 2015, cash flow from financing activities related mostly to repayment of loans and interest, as well as to payment of dividend to non-controlling interests, and the inflows were particularly connected with the increase of overdraft debt and the debt under factoring agreements.

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 our 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 2015, 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 2015 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 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.

On 28th December 2015, Arctic Paper Grycksbo AG received a waiver from its financing bank - Svenska Handelsbanken AB – from keeping interest coverage ratio (determined by the loan agreement) as on 31st December 2015.

Restructuring of a client of the Group

In connection with the fact that the Management Board received the information of commencement of restructuring in companies of PaperlinX Limited group, having performed an analysis of the liabilities of these entities towards Arctic Paper Group, on 8th April 2015 the Management Board decided to create a provision on receivables from PaperlinX UK in the amount of PLN 15.3 million (EUR 3.7 million).

Restructuring concerns companies of PaperlinX Limited group, among others: Howard Smith Paper Group Ltd, The Paper Company, Robert Horne Group Ltd, Reel Paper, Webco Trading, and Conversion Company Ltd, all seated in the United Kingdom (jointly hereinafter "Paperlinx UK") – the companies which are customers of the Issuer's subsidiaries: Arctic Paper Kostrzyn, Grycksbo, Munkedals, and Mochenwangen ("Arctic Paper mills"). Restructuring means the management has been entrusted to an external administrator, whose task is to ensure the continuation of the company's operations and prepare an arrangement with the creditors.

Creation of the provision is dictated by the expected lack of payment of the trade receivables from PaperlinX UK companies as listed above to Arctic Paper mills.

Total amount of receivables resulting from cooperation of aforementioned entities is app. EUR 3.7 million. Creation of the provision occurred on 31st March 2015.

As on 31st December 2015, the Company verified the actual level of receivables from the companies subjected to restructuring and as a result the provision for this purpose eventually amounts to EUR 3.0 million.

Centralization of logistic services

In connection with ongoing restructuring in Arctic Paper Group, in the beginning of 2015 a centralized logistics department started its operations within the structures of Arctic Paper S.A. The logistics department provides transportation planning and coordination services to paper mills in Kostrzyn, Grycksbo, Munkedals, and Mochenwangen.

Profitability improvement program for Arctic Paper Group 2015/2016 – Arctic Paper Mochenwangen GmbH

On 28th July 2015, the Management Board of Arctic Paper S.A. made public the schedule of profitability improvement program ("Program") for Arctic Paper S.A. Capital Group ("Group"), aimed at reduction of cost of operations by app. PLN 50 million annually.

The adopted Program is going to be realized until no sooner than June 2016.

According to the assumptions of the Program, main actions shall be: creation of common services centers for Group companies, introduction of individual programs for profitability improvement in mills and revision of cost of services rendered by external parties.

As the result of the Program conducted, the Management Board expects improved profitability of the Group's operations and improved effectiveness of all operational support functions.

Simultaneously, Arctic Paper has begun to actively search for a buyer of Arctic Paper Mochenwangen mill.

On 15th November 2015, the Management Board of Arctic Paper Mochenwangen finished negotiations with the Works Council. The negotiations concerned, among other subjects, the agreement on severance pays for employees of Arctic Paper Mochenwangen in connection with shutting down the production in this mill in December 2015.

In consideration of the above, the Management Board started the assessment of costs related to shutting down the production and created a provision thereof in the fourth quarter of 2015, which will amount to app. EUR 9.3 million (app. PLN 39 million). These costs will be charged to discontinued operations of the Group.

At the same time, the Management Board confirms that the process of searching for a buyer for APMW is being continued.

Profitability improvement program for Arctic Paper Group 2015/2016 – Arctic Paper Grycksbo AB

On 19th January 2016, the Management Board of the Issuer's subsidiary – Arctic Paper Grycksbo AB (Sweden) started negotiations with trade unions of the mill, the purpose of which is the reduce fixed costs by app. SEK 12 million (app. PLN 5.8 million) in 2016 and by app. SEK 25 million (app. PLN 12 million) in 2017, as well as improvement of Grycksbo mill's productivity. For this purpose, the facility can potentially reduce employment by app. 40 people during 2016.

Factors influencing Arctic Paper Group development

Information on market tendencies

Supplies, demand and capacity

In 2015, supplies of fine papers to the European market were on average 2% lower compared to the levels from 2014. Supplies in the segment of uncoated wood-free paper (UWF) were 1.8% lower, while those in the segment of coated wood-free paper (CWF) 2.3% lower.

Sales volume of Arctic Paper Group in 2015 was 2.6% lower than in 2014.

Data source: EuroGraph, an analysis of Arctic Paper.

Paper prices

In 2015, UWF fine paper prices in Europe experienced an increase compared to the prices as at the end of 2014, while CWF paper prices decreased. Average prices in December 2015 increased by 5.3% for UWF papers, compared to average prices in December 2014, while decreased by 0.6% for CWF.

Between January and December 2015 average UWF prices declared by producers for the selected markets of Germany, France, Spain, Italy and United Kingdom, expressed in EUR and GBP, increased within the range of 5% to 5.5%, compared to average prices in December 2014. In the same period, the average CWF prices decreased within the range of -0.3% to -1.0%.

Prices invoiced by Arctic Paper in EUR of comparable products in the segment of uncoated wood-free paper increased in December 2015 by 4.3%, and in the segment of coated wood-free paper increased by 1.6%, compared to December 2014.

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 2015 pulp prices reached a level of USD 803 per ton for NBSK and USD 789 per ton for BHKP. The average pulp price in 2015 (expressed in USD) was lower by 7.5% for NBSK and higher by 5.3% for BHKP, compared to the previous year.

The average cost of pulp per ton as calculated for the AP Group, expressed in PLN, in 2015 increased by 18.2% compared to 2014. The share of pulp costs in sales cost in 2015 amounted to 57% and was higher than in 2014 (51%).

Arctic Paper Group uses the pulp in the production process according to the following structure: BHKP 66%, NBSK 18% and other 16%.

Source: www.foex.fi, Arctic Paper analysis

Currency exchange rates

The EUR/PLN exchange rate at the end of 2015 amounted to 4.2615 and was almost identical (-0.02%) with the rate at the end of 2014. The average exchange rate EUR/PLN in 2015 was very similar to 2014 and amounted to 4.1843 compared to 4.1845 (-0.3%).

EUR/SEK rate decreased from 9.4049 as at the end of 2014 to 9.1724 (-2.5%) at the end of 2015. For this pairing, the average rate in 2015 was higher by 2.8% than in 2014.

At the end of 2015 USD/PLN exchange rate was higher by 11.2% than at the end of the previous year and amounted to 3.9011. In 2015, the average USD/PLN rate amounted to 3.7730 compared to 3.1537 in the previous year. It means that the average exchange rate for this pairing increased by 19.6%.

At the end of 2015, USD/SEK rate amounted to 8.3967 and was 8.5% higher than as at the end of 2014. The average exchange rate in 2015 amounted to 8.4324 and was higher by 22.9% compared to the average exchange rate from the previous year.

At the end of December 2015, EUR/USD rate amounted to 1.0924 compared to 1.2153 (-10.1%) at the end of December 2014. In 2015, the average exchange rate equaled 1.1096 compared to 1,3292 (-16.5%) in the previous year.

The material decrease of annual average exchange rate of EUR/USD pairing during the last year had a major adverse impact on performance of all paper mills (purchases of pulp were realized in USD while large portion of sales was realized in EUR). Annual average exchange rate of EUR/PLN pairing in 2015 remained at a similar level to 2014, therefore it had no significant influence on changes of Kostrzyn mill performance. EUR/SEK pairing in 2015 increased by 2.8%, which had an impact on increase of sales revenues generated in EUR and expressed in SEK 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 2015, the demand for fine papers in Europe (levels of orders realized) remained at a lower level (-2%) compared to 2014. 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 Grycksbo mill, who particularly suffers from the market changes of sales volume and prices.
- Pricing of raw materials, including pulp for Paper Mills and electricity for all operating units; in particular, a negative impact on Paper Mills' financial results may be caused by 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 2015, 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 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. 700,000 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 mBank 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 mBank 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 2015, and has not published and does not plan to publish forecast of financial results for 2016.

Information on dividend

In 2015, the Company did not pay dividend.

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

On 21st December 2015, the Extraordinary Shareholders Meeting appointed the Supervisory Board for the next term of office in its hitherto composition, that is:

- Mr. Rolf Olof Grundberg - Chairman of the Supervisory Board
- Mr. Rune Roger Ingvarsson - Member of the Supervisory Board
- Mr. Thomas Onstad - Member of the Supervisory Board
- Mr. Mariusz Cezary Grendowicz - Member of the Supervisory Board
- Mr. Dariusz Witkowski - Member of the Supervisory Board
- Mr. Roger Mattsson - Member of the Supervisory Board

As on the day of publishing of the hereby report, 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 2015, 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.

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 2015 to 31st December 2015 (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	1 512 309	-	-	1 512 309
Per Skoglund	531 765	290 125	28 883	850 773
Jacek Łoś	931 305	-	5 051	936 356
Małgorzata Majewska-Śliwa	1 156 113	-	3 430	1 159 543
Michał Sawka	937 649	-	5 051	942 700
Supervisory Board				
Rolf Olof Grundberg	391 015	-	-	391 015
Rune Roger Ingvarsson	150 009	-	-	150 009
Thomas Onstad	120 034	-	-	120 034
Mariusz Grendowicz	180 000	-	-	180 000
Roger Mattsson	152 811	-	-	152 811
Dariusz Witkowski	150 000	-	-	150 000

Agreements with Management Board Members on financial compensation

As on 31st December 2015 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 21/03/2016	Number of shares or rights thereto as at 31/12/2015	Number of shares or rights thereto as at 13/11/2015	Change
Management Board				
Wolfgang Lübbert	-		-	-
Jacek Łoś	-		-	-
Per Skoglund	-		-	-
Małgorzata Majewska-Śliwa	-		-	-
Michał Sawka	-		-	-
Supervisory Board				
Rolf Olof Grundberg	12 000	12 000	12 000	-
Rune Roger Ingvarsson	-	-	-	-
Thomas Onstad	5 848 658	5 848 658	5 848 658	-
Roger Mattsson	-	-	-	-
Dariusz Witkowski	-	-	-	-
Mariusz Grendowicz	-	-	-	-

Financial resources management

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 2015, 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 2015.

Information on guarantees and pledges

As on 31st December 2015 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 106,245 thousand;
- a pledge of movables 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 1,466 thousand in Arctic Paper Grycksbo AB and in the amount of SEK 759 thousand in Arctic Paper Munkedals AB;
- a pledge of real estate 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 126,920 thousand;
- a contingent liability of Arctic Paper Munkedals AB on the grounds of guarantee for Kalltorp Kraft HB liabilities in the amount of SEK 2,711 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;
- pledge on shares of subsidiaries from Rottneros Group in the total amount of SEK 509,000 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 mBank 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 estate of Arctic Paper Kostrzyn S.A.;
- land debt on real estate 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.

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 2015 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 2016 is to develop new products, minimize production costs, including electricity costs, and to improve the efficiency of production process. The investment plan for 2016 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 2015 and 2014 the Parent Company did not acquire any treasury shares.

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 38 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 http://www.gpw.pl/WSE_corporate_governance

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 2015 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 risk 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 2015 Arctic Paper S.A. did not apply this principle, 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.

New set of corporate governance rules

Starting from 1st January 2016 a new set of corporate governance rules has been introduced as “Best practices of companies listed on the SE 2016”, which is an appendix to Resolution no 26/1413/215 of the Supervisory Board of Warsaw Stock Exchange, dated 13th October 2015.

Pursuant to § 29 item 3 of the Warsaw Stock Exchange Rules, on 25th January 2016 the Management Board of Arctic Paper S.A. published the EBI report concerning exclusion of some provisions of corporate governance rules.

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 internal control system in the company and within the Group, as well as for 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 2015 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 (21st March 2016).

	as at 21.03.2016			
Shareholder	Number of shares	Share capital [%]	Number of votes	Of total number of votes [%]
Thomas Onstad	**47 205 107**	**68,13%**	**47 205 107**	**68,13%**
- indirectly via	41 356 449	59,69%	41 356 449	59,69%
Nemus Holding AB	*40 006 449*	*57,74%*	*40 006 449*	*57,74%*
other subsidiary	*1 350 000*	*1,95%*	*1 350 000*	*1,95%*
- directly	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, and 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 in 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.

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/Global/IR%20Documents/Dokumenty%20korporacyjne/Statut%20tekst%20jednolity_aktualny_2013_PL_new.pdf

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 after the end of each 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, division or transformation of the Company;
  - dissolving and liquidating the Company;
  - issuing senior convertible or priority 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 and purchase 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/Global/IR%20Documents/Cororate%20Documents/Regulamin%20Zarzadu%20AP%20SA.pdf

As on the day of publishing of the hereby report, the following persons 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 July 2012);
- 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.

Supervisory Board

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/Global/IR%20Documents/Dokumenty%20korporacyjne/Regulamin%20Rady%20Nadzorczej%20ArcticPaper%20SA.pdf

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 (dependent 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 (dependent member);
- 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 (dependent member);

On 21st December 2015 the Extraordinary Shareholders Meeting appointed the Supervisory Board in the aforementioned composition for the next term of office (current report 17/2016).

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 a 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 financial statements,
  - evaluation, at least once a year, of the internal control and management system in the Company and its Capital Group 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 independence of the certified auditor and the entity authorized to audit financial statements include in particular:
  - giving recommendations to the Supervisory Board on issues concerning election, appointment, 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 change of the certified auditor, remuneration received, and other relations 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 such advice necessary to perform its duties.
- The Audit Committee is obliged to submit annual reports on its operations to the Supervisory Board, until 30th September of each calendar year.

Audit Committee meetings are held at least twice a year.

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

- Rolf Olof Grundberg
- Rune Ingvarsson
- Mariusz Grendowicz

In connection with the fact that on 21st December 2015 the Extraordinary Shareholders Meeting appointed the Supervisory Board for the next term of office, in the first meeting of the Supervisory Board, held on 3rd February 2016, it appointed the Audit Committee in the following composition:

- Rolf Olof Grundberg;
- Roger Mattsson
- 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 a 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 remuneration of 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 is giving the Supervisory Board recommendations in particular on:
  - approving and changing the principles of remuneration for members of the Company's authorities,
  - total remuneration for the Company's Management Board members,
  - legal disputes between the Company and Management Board members on the Committee's tasks,
  - proposals of remuneration and granting additional benefits to particular members of the Company's authorities, especially under management option plan (convertible into Company's shares),
  - strategy of remuneration and bonus policy and staff policy.
- The Remuneration Committee may also rely on advice and assistance of external legal or other advisors if it deems such advice necessary to perform its duties.
- The Audit Committee is obliged to submit annual reports on its operations to the Supervisory Board until 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 constituted the Remuneration Committee:

- Rolf Olof Grundberg;
- Roger Mattsson.

In connection with the fact that on 21st December 2015 the Extraordinary Shareholders Meeting appointed the Supervisory Board for the next term of office, in the first meeting of the Supervisory Board, held on 3rd February 2016, it appointed the Remuneration Committee in the following composition:

- Rolf Olof Grundberg;
- Rune Ingvarsson.

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 the Supervisory Board, including the Committee Chairman. Members of the Risk Committee are appointed by the 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's 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 a 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 of the actions implemented for risk reduction purposes. The Risk Committee evaluates if undertaken actions have been planned and implemented so that 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 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 such actions 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.

In connection with the fact that on 21st December 2015 the Extraordinary Shareholders Meeting appointed the Supervisory Board for the next term of office, in the first meeting of the Supervisory Board, held on 3rd February 2016, it appointed the Risk Committee in the same composition:

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 Stockholm. The primary listing is on Warsaw Stock Exchange, and the Company is secondary listed on NASDAQ Stockholm. Non-Swedish companies whose shares are admitted to trading on NASDAQ 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 are otherwise listed, or
- the Swedish Code of Corporate Governance (the "Swedish Code").

As Arctic Paper S.A. is a Polish company with its primarily listing on Warsaw Stock Exchange, 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.

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.

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.

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. The Management Board is responsible for ensuring that the company has proper internal control, including e.g. internal control as regards financial reporting. The financial reports are prepared in accordance with applicable rules and regulations and instructions from the company's auditor and audit committee, although there are no internal written routines in relation to internal control as regards financial reporting.

Remuneration of the board and executive management

Polish rules do not provide any limitation as to the size of salary during an employment notice period or the size of severance pay, and the company may from time to time have employees who are entitled to receive notice period salary and severance pay in excess of two years fixed salary.

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 and a statement on the company's compliance with the Best Practices 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 2015 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 2015,
- Management Board report on the activity of Arctic Paper S.A. Capital Group to the report for 2015 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	21 March 2016	
Member of the Management Board Chief Financial Officer	Malgorzata Majewska-Śliwa	21 March 2016	
Member of the Management Board Chief Procurement Officer	Jacek Łoś	21 March 2016	
Member of the Management Board Chief Operating Officer	Per Skoglund	21 March 2016	
Member of the Management Board Sales Director	Michał Sawka	21 March 2016	

Consolidated Financial Statements
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Consolidated Financial Statements for the year ended 31st December 2015 PLN thousand

Consolidated financial statements and selected financial data

Selected consolidated financial data

	For the period from 01.01.2015 to 31.12.2015 000'PLN	For the period from 01.01.2014 to 31.12.2014 000'PLN	For the period from 01.01.2015 to 31.12.2015 000'EUR	For the period from 01.01.2014 to 31.12.2014 000'EUR
Continuing operations				
Revenues	2 900 460	2 865 121	693 179	684 699
Operating profit (loss)	100 239	135 660	23 956	32 420
Profit (loss) before tax	72 150	99 099	17 243	23 683
Profit (loss) from continuing operations	71 019	98 326	16 973	23 498
Discontinued operations				
Profit (loss) from discontinued operations	(97 588)	(20 152)	(23 323)	(4 816)
Profit (loss) for the year	(26 570)	78 175	(6 350)	18 682
Profit (loss) for the year attributable to equity holders of the parent	(71 258)	50 459	(17 030)	12 058
Net operating cash flow	172 748	206 433	41 285	49 333
Net investing cash flow	(81 646)	(60 206)	(19 513)	(14 388)
Net financing cash flow	(62 359)	(104 354)	(14 903)	(24 938)
Change in cash and cash equivalents	28 742	41 873	6 869	10 007
Weighted average number of shares	69 287 783	69 287 783	69 287 783	69 287 783
Weighted average diluted number of shares	69 287 783	69 287 783	69 287 783	69 287 783
EPS (in PLN/EUR)	(1,03)	0,73	(0,25)	0,17
Diluted EPS (in PLN/EUR)	(1,03)	0,73	(0,25)	0,17
Average PLN/EUR rate*			4,1843	4,1845

	As at 31 December 2015 000'PLN	As at 31 December 2014 000'PLN	As at 31 December 2015 000'EUR	As at 31 December 2014 000'EUR
Assets	1 813 235	1 762 790	425 492	413 577
Long-term liabilities	372 599	447 152	87 434	104 909
Short-term liabilities	682 515	590 567	160 159	138 556
Liabilities directly associated with discontinued operations	81 264	-	19 069	-
Equity	676 856	725 071	158 830	170 113
Share capital	69 288	69 288	16 259	16 256
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)	9,77	10,46	2,29	2,46
Diluted book value per share (in PLN/EUR)	9,77	10,46	2,29	2,46
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**	-	-	4,2615	4,2623

* - 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 2015 PLN thousand

Consolidated income statement

	Note	Year ended 31 December 2015 (audited)	Year ended 31 December 2014 (revised)
Continuing operations			
Sales of paper and pulp	10.1	2 900 460	2 865 121
Revenues		2 900 460	2 865 121
Cost of sales	11.5	(2 490 533)	(2 427 563)
Gross profit (loss) on sales		409 927	437 558
Selling and distribution expenses	11.5	(266 296)	(265 981)
Administrative expenses	11.5	(63 597)	(67 712)
Other operating income	11.1	59 644	62 706
Other operating expenses	11.2	(39 440)	(30 910)
Operating profit / (loss)		100 239	135 660
Financial income	11.3	1 587	844
Financial costs	11.4	(29 676)	(37 405)
Profit / (loss) before tax		72 150	99 099
Income tax	13	(1 131)	(773)
Net profit (loss) for the year from continuing operations		71 019	98 326
Discontinued operations			
Profit (loss) for the period from discontinued operations	14	(97 588)	(20 152)
Net profit (loss) for the year		(26 570)	78 175
Attributable to:			
Equity holders of the parent		(71 258)	50 459
- profit (loss) from continuing operations		26 331	70 611
- profit (loss) from discontinued operations		(97 588)	(20 152)
Non-controlling interest		44 688	27 716
- profit (loss) from continuing operations		44 688	27 716
- profit (loss) from discontinued operations		-	-
		(26 570)	78 175
Earnings per share:			
– basic from the profit (loss) for the period attributable to equity holders of the parent	16	(1,03)	0,73
– basic from the profit (loss) from continuing operations attributable to equity holders of the parent	16	0,38	1,02
– diluted from the profit (loss) for the period attributable to equity holders of the parent	16	(1,03)	0,73
– diluted from the profit (loss) from the continuing operations attributable to equity holders of the parent	16	0,38	1,02

Summary of the main accounting policies and other explanatory notes included on pages 79 to 179 are an integral part of these consolidated financial statements

Consolidated Financial Statements for the year ended 31st December 2015 PLN thousand

Consolidated statement of comprehensive income

	Note	Year ended 31 December 2015 (audited)	Year ended 31 December 2014 (audited)
Net profit / (loss) for the year		(26 570)	78 175
Items to be recognized in profit/loss in future periods:			
Exchange difference on translation of foreign operations	30.2	11 256	(14 955)
Deferred tax on valuation of derivatives	13.1	3 609	(2 825)
Valutation of derivatives	30.4	(16 263)	10 438
Items not to be recognized in profit/loss in future periods:			
Actuarial gains/ losses on defined benefits programs	11.7	8 271	(22 205)
Deferred tax on actuarial gain/losses on defined benefits programs	13.1	(1 963)	4 911
Other comprehensive income		4 911	(24 637)
Total comprehensive income		(21 659)	53 538
Attributable to:			
Equity holders of the parent		(67 500)	27 851
Non-controlling interest		45 841	25 686

Consolidated Financial Statements for the year ended 31st December 2015 PLN thousand

Consolidated balance sheet

	Note	As at 31 December 2015 (audited)	As at 31 December 2014 (audited)
ASSETS			
Non-current assets			
Property, plant and equipment	18	719 782	726 448
Investment properties	20	3 982	3 982
Intangible assets	21	51 622	50 692
Shares in joint ventures	22	5 169	5 037
Other financial assets	24.1	1 017	2 088
Other non-financial assets	24.2	1 472	1 238
Deferred tax asset	13.3	47 625	54 259
		830 668	843 745
Current assets			
Inventories	27	390 631	376 486
Trade and other receivables	28	336 499	339 440
Income tax receivables		6 941	6 524
Other non-financial assets	24.2	11 531	16 872
Other financial assets	24.1	944	21 312
Cash and cash equivalents	29	188 552	158 412
		935 099	919 045
Assets associated with discontinued operations		47 467	-
TOTAL ASSETS		1 813 235	1 762 790
LIABILITIES			
Equity and liabilities			
Equity attributable to equity holders of the parent company			
Share capital	30.1	69 288	69 288
Share premium	30.3	447 638	472 748
Other reserves	30.4	127 976	136 557
Foreign currency translation	30.2	21 810	8 958
Retained earnings / Accumulated (unabsorbed) losses	30.5	(181 625)	(143 939)
Accumulated other comprehensive income associated with discontinued (		(8 974)	-
		476 111	543 612
Non-controlling interest	30.6	200 744	181 459
Total equity		676 856	725 071
Non-current liabilities			
Interest-bearing loans and borrowings	32	222 305	269 138
Provisions	33	82 855	100 179
Other financial liabilities	32	41 057	37 241
Deferred tax liabilities	13.3	2 468	13 959
Accruals and deferred income	34.2	23 914	26 634
		372 599	447 152
Current liabilities			
Interest-bearing loans and borrowings	32	82 883	59 727
Provisions	33	-	8 794
Other financial liabilities	32	83 503	60 839
Trade and other payables	34	407 128	364 468
Income tax payable		281	524
Accruals and deferred income	34.2	108 720	96 215
		682 515	590 567
Liabilities directly associated with discontinued operations	14	81 264	-
TOTAL LIABILITIES		1 136 379	1 037 719
TOTAL EQUITY AND LIABILITIES		1 813 235	1 762 790

Summary of the main accounting policies and other explanatory notes
included on pages 79 to 179 are an integral part of these consolidated financial statements

Consolidated Financial Statements for the year ended 31st December 2015 PLN thousand

Consolidated cash flow statement

	Note	12 months period ended 31 December 2015 (audited)	12 months period ended 31 December 2014 (revised)
Cash flow from operating activities			
Profit/(loss) before tax from continuing operations		72 150	99 099
Profit/(loss) before tax from discontinued operations		(97 998)	(21 245)
Profit (loss) before taxation		(25 848)	77 854
Adjustments for:			
Amortization and depreciation	11.6	119 057	121 922
Foreign exchange differences		(2 154)	5 149
Impairment of non-financial assets		-	-
Net interest and dividends		21 460	30 776
Gain/loss from investing activities		(263)	(21 577)
Increase / decrease in receivables and other non-financial assets	29.1	(11 377)	(28 627)
Increase / decrease in inventories	29.1	(36 725)	11 807
Increase / decrease in payables except for loans and borrowings	29.1	62 870	8 251
Change in accruals and prepayments	29.1	15 641	(2 519)
Change in provisions	29.1	34 721	8 248
Income tax paid		(5 212)	(551)
Derecognition of CO2 emission rights identified in a business combination		1 415	(165)
Cogeneration certificates		(3 756)	(4 367)
Other		2 919	233
Net cash flow from operating activities		172 748	206 433
Cash flow from investing activities			
Proceeds from sale of property, plant and equipment and intangibles		650	20 359
Purchase of property, plant and equipment and intangible assets		(102 947)	(68 853)
Bank deposits for period over 3 months		20 651	(21 312)
Proceeds from sale of investment property		-	9 600
Net cash flow from investing activities		(81 646)	(60 206)
Cash flow from financing activities			
Change in bank overdrafts		22 479	(80 627)
Repayment of finance lease liabilities		(2 907)	(2 810)
Proceeeds from other finance liabilities		15 226	-
Repayment of other finance liabilities		(2 049)	(16 592)
Proceeds from loans and borrowings		-	57 580
Repayment of loans and borrowings		(48 431)	(35 028)
Interest paid		(20 121)	(26 876)
Dividends for non-controlling interest		(26 556)	-
Net cash flow from financing activities		(62 359)	(104 354)
Net increase/(decrease) in cash and cash equivalents		28 742	41 873
Net foreign exchange differences		2 449	(1 494)
Cash and cash equivalents at the beginning of the period	29	158 412	118 033
Cash and cash equivalents at the end of the period	29	189 603	158 412

Summary of the main accounting policies and other explanatory notes
included on pages 79 to 179 are an integral part of these consolidated financial statements

Consolidated Financial Statements for the year ended 31st December 2015 PLN thousand

Consolidated statement of changes in equity

	Note	Share capital	Share premium	Translation reserve	Other reserves	Retained earnings (losses)	Accumulated other comprehensive income associated with discontinued operations	Total	Non-controlling interest	Total equity
		Attributable to equity holders of the Company								
As at 1 January 2015 (audited)		69 288	472 748	8 958	136 557	(143 939)	-	543 612	181 459	725 071
Net profit (loss) for the year		-	-	-	-	(71 258)	-	(71 258)	44 688	(26 570)
Other comprehensive income		-	-	6 030	(8 581)	6 309	-	3 758	1 153	4 911
Total comprehensive income		-	-	6 030	(8 581)	(64 949)	-	(67 500)	45 841	(21 659)
Profit distribution	30.5	-	(25 110)	-		25 110		-	-	-
Discountinued operations	14	-	-	6 821		2 153	(8 974)	-	-	-
Payment of dividends to non-controlling interest	30.6	-	-	-	-	-		-	(26 556)	(26 556)
As at 31 December 2015 (audited)		69 288	447 638	21 810	127 976	(181 625)	(8 974)	476 111	200 744	676 856

Summary of the main accounting policies and other explanatory notes
Included on pages from 79 to 179 are an integral part of these consolidated financial statements

Consolidated Financial Statements for the year ended 31st December 2015 PLN thousand

		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
Other comprehensive income		-	-	(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

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. As on 31st December 2015, Arctic Paper Group (exluding Rottneros Group) employed app. 1,800 people in its Paper Mills and companies involved in distribution and sale of paper, as well as in pulp companies, a purchasing office and a company producing food packaging. Our Paper Mills are located in Poland and Sweden and have a combined capacity of app. 700,000 tons of paper annually. Paper production in the mill located in Germany with total capacity of 115,000 tons of paper annually was shut down at the end of 2015. Pulp Mills are located in Sweden and have a combined capacity of more than 400,000 tonnes of pulp anually. As on 31st December 2015, the Group had three Distribution Companies engaged in sales, distribution and marketing of the products offered by the Group in Nordic countries (starting from 1st January 2016 they have been transformed into Sales Offices) and 12 Sales Offices to ensure access for all European markets, including Central and Eastern Europe. Our consolidated sales revenues for twelve months of 2015 amounted to PLN 2,900 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.

In 2015 the Management Board of Arctic Paper announced that it started looking for a buyer of Arctic Paper Mochenwangen mill, and in the same time it started evaluation of possibilities to take actions towards further reduction of the mill's losses, including those related to shutting down the production. Therefore the operations of Mochenwangen Group have been deemed discontinued operations in the hereby report.

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.

Consolidated financial statements for the year ended 31st December 2015 PLN thousand

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 electricity,
- Transmission of electricity,
- Electricity distribution,
- Heat production,
- Heat distribution,
- Logistics services,
- Paper distribution.

Shareholding structure

	as at 31.12.2015				as at 31.12.2014			
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
Thomas Onstad	**47 205 107**	**68,13%**	**47 205 107**	**68,13%**	**47 205 107**	**68,13%**	**47 205 107**	**68,13%**
- indirectly via	41 356 449	59,69%	41 356 449	59,69%	41 356 449	59,69%	41 356 449	59,69%
Nemus Holding AB	*40 006 449*	*57,74%*	*40 006 449*	*57,74%*	*41 356 449*	*59,69%*	*41 356 449*	*59,69%*
other subsidiary	*1 350 000*	*1,95%*	*1 350 000*	*1,95%*	*-*	*0,00%*	*-*	*0,00%*
- directly	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%**	**22 082 676**	**31,87%**	**22 082 676**	**31,87%**
Total	69 287 783	100,00%	69 287 783	100,00%	69 287 783	100,00%	69 287 783	100,00%
Own 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%**

Nemus Holding AB, a company under Swedish law (and which is indirectly held by Mr. Thomas Onstad), is the majority shareholder of Arctic Paper S.A., holding as on 31st December 2015 40,006,449 shares of the Company, which constitute 57.74% of its share capital and representing 57.74% of total number of votes in the Shareholders Meeting. Thus Nemus Holding AB is the parent entity of the Issuer.

Moreover, Mr. Thomas Onstad, an indirect shareholder of Nemus Holding AB, directly holds 5,848,658 Shares constituting 8.44% of total number of the Company's shares.

On 8th July 2015, the Company received information concerning sales of 1,350,000 shares of the Company, constituting 1.95% of total number of the Company's Shares, performed by Nemus Holding AB to a third party indirectly held by Mr. Thomas Onstad.

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 2015 and as on 21st March 2016 it amounted to 57.74%.

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

Consolidated financial statements for the year ended 31st December 2015 PLN thousand

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:

Entity	Registered office	Business activities	Share in equity of subsidiaries as at 21 March 2016	31 December 2015	31 December 2014
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%
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, 20457 Hamburg	Trading services	100%	100%	100%
Arctic Paper Benelux S.A.	Belgium,Ophemstraat 24 B-3050 Oud-Haverlee	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, Korskildelund 6 DK-2670 Greve	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%

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Entity	Registered office	Business activities	Share in equity of subsidiaries as at		
			21 March 2016	31 December 2015	31 December 2014
Arctic Paper Polska Sp. z o.o.	Poland, Biskupia 39, 04-216 Warszawa	Trading services	100%	100%	100%
Arctic Paper Norge AS	Norvay, Rosenholmsveien 25, NO-1411 Kolbotn	Trading services	100%	100%	100%
Arctic Paper Sverige AB	Sweden, SE 455 81 Munkedal	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 (wcześniej Arctic	Sweden, Box 383, 401 26 Göteborg	Holding company (previous hydro energy production)	100%	100%	100%
Arctic Paper Finance AB (previous Arctic Energy Sverige AB)	Germany, Fabrikstrasse 62, DE-882 84 Wolpertswende	Holding company	100%	100%	100%
Arctic Paper Immobilienverwaltung GmbH	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	-	-	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, Sunne	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, Harnösand	Dormant entity	51,27%	51,27%	51,27%
Vallviks Bruk AB	Sweden, Söderhamn	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, Ventspils	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 and indirectly of Arctic Paper Grycksbo AB

As on 31st December 2015 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.

3. Management and supervisory bodies

3.1. Management Board of the Parent Company

As on 31th December 2015, 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.

From 31st December 2015 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 2015 the Company's Supervisory Board consisted of the following members:

- Rolf Olof Grundberg – Chairman 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 21st December 2015, the Extraordinary Shareholders Meeting appointed the Supervisory Board in the hitherto composition for the next joint term of office. The Supervisory Board in its meeting dated 3rd February 2016 again appointed Mr. Olof Grundberg as the Chairman of the Supervisory Board.

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 2015 the Parent Company's Audit Committee consisted of the following members:

- Rolf Olof Grundberg – Chairman 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.

The Supervisory Board in its meeting held on 3rd February 2016 appointed the Audit Committee in the following composition:

- Rolf Olof Grundberg – Chairman of the Audit Committee appointed on 3rd February 2016;
- Mariusz Grendowicz – Member of the Audit Committee appointed on 3rd February 2016;
- Roger Mattsson – Member of the Audit Committee appointed on 3rd February 2016.

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 publishing by the Management Board on 21st March 2016.

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.

Discontinued operations

On 28th July 2015, the Management Board of Arctic Paper S.A. announced the profitability improvement program for the Group, aimed at reduction of cost of operations. Simultaneously, the Management Board of Arctic Paper S.A. announced that it begun to actively search for a buyer of Arctic Paper Mochenwangen mill and that it started evaluation of possibilities to take actions towards further reduction of the mill's losses, including those related to shutting down the production.

As a material portion of the Group's operation is conducted by Arctic Paper Mochenwangen and the companies established for the purpose of its acquisition, and because of their operational and geographic separation, the Management Board deemed operations of Mochenwangen Group as discontinued operations as on 31st December 2015.

For more information on this subject, please see note 14 to the hereby consolidated financial statements.

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 and 2015 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. As a result of the tests, allowances were recorded in the amounts of net values of fixed assets and intangible assets respectively as on 30th June 2013 and 31st December 2013.

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.

As on 31st December 2015 the Management Board decided after annual assessment if premises for impairment of tangible and intangible assets occurred that there was a necessity of a test for impairment of non-financial non-current assets as at this date. The results of the test did not show further impairment of these assets.

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.

Fair value of financial instruments

Fair value of the financial instruments, for which there is no active market is measured using proper measurement methods. The Group uses professional judgment in choosing proper methods and assumptions.

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 contracts, contract for purchase of electric energy, 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.

As described in note 32.1. Loans and borrowings in the consolidated financial statements for 2013, on 20th December 2013 the Company and its subsidiaries, that is Arctic Paper Kostrzyn S.A. ("APK"), Arctic Paper Investment GmbH and Arctic Paper Mochenwangen GmbH concluded an annex to a loan agreement with a consortium of banks (Bank Pekao S.A., Bank Zachodni WBK S.A and mBank S.A.), the details of which have been listed in this note. The annex introduced additional case of breach of the bank loan agreement provisions if Svenska Handelsbanken does not prolong the short-term loans and factoring agreements concluded by APG. Failure to keep the condition precedent, including selected financial ratios, may cause the loans to be placed on demand, which therefore may significantly impact the Group's liquidity and continuation of its business operations.

The Management Board has analyzed possible scenarios concerning financing of AP Grycksbo. Based on these analyses, the Management Board is of the opinion that, despite the existing risk, the Group is able to continue its business operations in the next twelve months.

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), Danish crown (DKK), Pound sterling (GBP), and 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 these consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31st December 2014, except for the following application of changes in standards and new interpretations binding for yearly periods beginning on 1st January 2014.

- Amendments from review of IFRSs 2011 – 2013 including:

- Changes to IFRS 3 Business combinations, which clarify that not only joint operations but also joint arrangements are out of scope of IFRS 3. The scope exception only applies to the accounting in the financial statements of the joint arrangement itself. The amendment is applied prospectively.

  Adoption of the amendments had no impact on the Group's financial position or its performance.

- Changes to IFRS 13 Fair value measurement, which clarify that the portfolio exception can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IAS 39. The amendment is applied prospectively.

  Adoption of the amendments had no impact on the Group's financial position or its performance.

- Changes to IAS 40 Investment property – include the description of ancillary services in IAS 40, which differentiates between investment property and owner occupied property (i.e. property, plant and equipment). The change is applied prospectively and clarifies that IFRS 3, not the description of ancillary services in IAS 40, is used to determine if the transaction is a purchase of an asset or an operation.

Adoption of the amendments had no impact on the Group's financial position or its performance.

- IFRIC 21 Levies

  The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability is recognized before the specified minimum threshold is reached. IFRIC 21 is applied retrospectively.

  Adoption of the amendments had no impact on the Group's financial position or its performance.

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

Because of the fact, that in 2015 Arctic Paper started to actively search for a buyer of Arctic Paper Mochenwangen mill, and at the same time it evaluated the possibility of taking action towards further reduction of the mill's losses, including losses related to shutting down the production, the revenues and costs of Arctic Paper Mochenwangen, Arctic Paper Investment GmbH, Arctic Paper Verwaltungs and Arctic Paper Immobilienverwaltung have been presented as profit/(loss) from discontinued operations in consolidated income statement for the year ended 31st December 2015. According to requirements of International Financial Reporting Standards respective comparable data has been amended for the year ended 31st December 2014 (for more information see note 14).

Moreover, a change of presentation of other operating income and operating cost has been performed in the consolidated income statement for the year ended 31st December 2014 so that other operating cost and cost of sales have been decreased by PLN 14,262 thousand.

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:

- IFRS 9 Financial Instruments (issued on 24th July 2014) – not yet endorsed by EU at the date of approval of these financial statements - effective for financial years beginning on or after 1st January 2018;
- 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,

- IFRS 14 Regulatory Deferral Accounts (issued on 30th January 2014) – The European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard – not yet endorsed by EU at the date of approval of these financial statements – effective for financial years beginning on or after 1st January 2016;
- Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations (issued on 6th May 2014) – effective for financial years beginning on or after 1st January 2016;
- Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization (issued on 12th May 2014) – effective for financial years beginning on or after 1st January 2016;
- IFRS 15 Revenue from Contracts with Customers (issued on 26th May 2014), including amendments to IFRS 15 (issued on 11th September 2015) – not yet endorsed by EU at the date of approval of these financial statements - effective for financial years beginning on or after 1st January 2018,
- 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,
- 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,
- Amendments to IFRS 10 and IAS 28 Sales or contributions of assets between an investor and its associate/joint venture (issued on 11th September 2014) – decision about terms of performing particular steps resulting in endorsement of the standard has not yet been made by EFRAG – not yet endorsed by EU at the date of approval of these financial statements – term of effectiveness has been postponed by IASB indefinitely,
- Amendments resulting from review of IFRS 2012-2014 (published on 25th September 2014) – effective for annual periods beginning on or after 1st January 2016,
- 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;
- IFRS 16 Leases (issued on 13th January 2016) - decision about terms of performing particular steps resulting in endorsement of the standard has not yet been made by EFRAG – not yet endorsed by EU at the date of approval of these financial statements - effective for financial years beginning on or after 1st January 2019,
- Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses (issued on 19th January 2016) - not yet endorsed by EU at the date of approval of these financial statements – effective for financial years beginning on or after 1st January 2017,
- Amendments to IAS 7 Disclosure Initiative (issued on 29th January 2016) - not yet endorsed by EU at the date of approval of these financial statements – effective for financial years beginning on or after 1st January 2017.

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, the Group 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.

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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.

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 2015	As at 31 December 2014
USD	3,9011	3,5072
EUR	4,2615	4,2623
SEK	0,4646	0,4532
DKK	0,5711	0,5725
NOK	0,4431	0,4735
GBP	5,7862	5,4648
CHF	3,9394	3,5447

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

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	01/01 - 31/12/2015	01/01 - 31/12/2014
USD	3,7730	3,1537
EUR	4,1843	4,1845
SEK	0,4475	0,4601
DKK	0,5610	0,5613
NOK	0,4680	0,5011
GBP	5,7675	5,1919
CHF	3,9228	3,4453

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.

9.5.1. Non-current assets held for sale, discontinued operations

Non-current assets – single and in groups – are deemed held for sale when their balance sheet amounts shall be recovered rather in a sale transaction than in their further use. This condition may only be fulfilled if the occurrence of the sale transaction is highly probable and the asset is available for immediate sale in its current condition. Classification of an asset as held for sale assumes the Company management's intention to conduct the sale within one year from the day the classification was performed. Non-current assets classified as held for sale are measured at the lower of two amounts: their balance sheet amount or fair value, less of costs attributed to sale.

If the Group intends to make a disposal, in result of which it would lose its control over a subsidiary, all assets and liabilities of this subsidiary are classified as held for sale, regardless of the fact, whether the Group keeps non-controlling shares after the transaction.

If the Group is obliged to realize a sales plan, which assumes sale of investment in a joint venture or an association, or a portion of such investment, the investment or its portion designated to be sold is classified as held for sale once aforementioned criteria have been met, and the Group ceases the use of equity method to account the portion of an investment classified as held for sale. The other portion of investment in an associate or a joint venture, which is not classified as held for sale, is still accounted with the use of equity method. The Group ceases to use equity method at disposal, if the disposal transaction causes loss of material influence on an associate or a joint venture.

After the sale transaction was conducted, the Group settles the remaining shares in compliance with IAS 39, unless these shares allow for further classification of the entity as an associate or a joint venture; in such case, the Group continues to use equity method.

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 amortized	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 asset may be impaired	Annually and whenever premises for impairment exist	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 2015, 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 2015.

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 2015 no financial liabilities were classified to fair value through profit and loss category (as on 31st December 2014: 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 taxes, liabilities on the grounds of social and retirement benefits, liabilities to employees on the grounds of salaries, as well as 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 was produced in four paper mills in 2014 and 2015. Moreover, in 2015 the Management Board of Arctic Paper S.A. announced that it begun to actively search for a buyer of Arctic Paper Mochenwangen mill and that it started evaluation of possibilities to take actions towards further reduction of the mill's losses, including those related to shutting down the production. As a material portion of the Group's operation is conducted by Arctic Paper Mochenwangen and the companies established for the purpose of its acquisition, and because of their operational and geographic separation, the Management Board deemed operations of Mochenwangen Group as discontinued operations. For this reason presentation of operating segments for the year ended 31st December 2015 and 31st December 2014, which relates to continuing operations, includes financial performance of three 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 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, 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 operation results of Arctic Paper S.A. and Arctic Paper Finance AB.

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

- 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 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, related to continuing operations, divided into individual Group segments for the twelve months' period ended 31st December 2015 and as on 31st December 2015.

12-months' period ended 31st December 2015 and as on 31st December 2015

	Continuing Operations						
	Uncoated	Coated	Pulp	Other	Total	Eliminations	Total continuing opetations
Revenues							
Sales to external customers	1 484 666	674 976	740 818	-	2 900 460		2 900 460
Inter-segment sales	3 550	20 570	62 416	39 937	126 473	(126 473)	-
Total segment revenues	1 488 215	695 547	803 234	39 937	3 026 933	(126 473)	2 900 460
Segment's Result							
EBITDA	78 087	(9 851)	142 982	2 149	213 366	(669)	212 697
Interest Income	8 839	128	0	2 470	11 436	(10 304)	1 132
Interest Costs	(12 198)	(6 404)	-	(11 954)	(30 556)	8 877	(21 679)
Amortization and depreciation	(50 617)	(26 447)	(35 128)	(266)	(112 458)	-	(112 458)
Positive FX and other financial income	1 171	-	447	66 665	68 284	(67 830)	455
Negative FX and other financial costs	(6 610)	(1 616)	(2 237)	(4)	(10 467)	2 470	(7 997)
Profit / (loss) before tax	18 671	(44 189)	106 064	59 059	139 605	(67 456)	72 149
Segment assets	1 090 810	309 111	525 504	238 082	2 163 508	(450 535)	1 712 974
Segment liabilities	641 627	377 625	153 783	281 243	1 454 278	(401 631)	1 052 647
Capital expenditures	(44 081)	(4 510)	(46 538)	(1 338)	(96 468)	-	(96 468)
Shares in joint ventures	5 169	-	-	-	5 169	-	5 169

- Inter-segment sales are eliminated on consolidation.
- Segment result does not include financial income (PLN 1,587 thousand of which PLN 1,132 thousand constitute interest income) and financial costs (PLN 29,676 thousand of which PLN 21,679 thousand constitute interest expense), amortization and depreciation (PLN 112,458 thousand), impairment of non-financial assets (PLN 0 thousand) as well as income tax charges (PLN -1,131 thousand). Segment result includes inter-segment profit (PLN 669 thousand).
- Segment assets and liabilities do not include deferred tax asset and liability (deferred tax asset of PLN 47,625 thousand and deferred tax liability of PLN 2,468 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, which does not include discontinued operations in 2015, 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.

Twelve months' period ended 31st December 2014 and as on 31st December 2014

	Continuing Operations						
	Uncoated	Coated	Pulp	Other	Total	Eliminations	Total continuing opetations
Revenues							
Sales to external customers	1 487 240	673 839	704 041	-	2 865 121		2 865 121
Inter-segment sales	19 983	42 764	43 308	37 543	143 597	(143 597)	-
Total segment revenues	1 507 223	716 603	747 349	37 543	3 008 718	(143 597)	2 865 121
Segment's Result							
EBITDA	131 310	24 337	92 469	4 666	252 782	(463)	252 319
Interest Income	10 342	155	-	2 350	12 847	(12 062)	785
Interest Costs	(20 846)	(7 138)	(1 380)	(11 286)	(40 651)	14 778	(25 873)
Amortization and depreciation	(55 959)	(26 847)	(33 744)	(110)	(116 658)	-	(116 658)
Impairment of non-current assets			-		-		-
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	55 696	(11 496)	57 345	(4 656)	96 889	2 211	99 099
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	(34 584)	(5 133)	(23 923)	(45)	(63 686)	-	(63 686)
Shares in joint ventures	5 037	-	-	-	5 037	-	5 037

- 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 37,405 thousand of which PLN 25,873 thousand constitute interest expense), amortization and depreciation (PLN 116,658 thousand), impairment (PLN 0 thousand) as well as income tax charges (PLN -773 thousand). Segment result includes, however, 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.

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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 2014-2015 as well as non-current assets of the Group less of deferred tax asset divided by countries and regions as on 31st December 2015 and 31st December 2014:

Geographic information	Year ended	Year ended
Revenues from external customers:	31 December 2015	31 December 2014
Germany	635 181	616 842
France	198 333	244 769
UK	247 395	229 320
Scandinavia	405 612	409 303
Western Europe (other than above)	292 238	281 821
Poland	345 626	350 572
Central and Eastern Europe (other than Poland)	537 043	466 450
Outside Europe	239 032	266 044
Total Sales	2 900 460	2 865 121

Geographic information	Year ended	Year ended
Non-current assets:	31 December 2015	31 December 2014
Germany	181	1 337
France	332	354
Scandinavia	407 383	415 063
Western Europe (other than above)	916	761
Poland	374 073	371 731
Central and Eastern Europe (other than Poland)	157	240
Total non-current assets	783 043	789 485

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 2015 (audited)	Year ended 31 December 2014 (revised)
Relase of provisions	96	-
Compensation received	718	227
Rental income	2 173	2 314
Sales of services	838	767
Government grants	172	271
Sales of energy and water	29 449	29 718
Sales of materials	10 127	1 225
Profit on shares in joint venture	4	122
Profit of sales on tangible assets	51	15 551
Grant settlements income	2 719	2 719
Profit on sales of CO2 emission rights	7 857	7 281
Other	5 441	2 510
Total	59 644	62 705

11.2. Other operating expenses

	Year ended 31 December 2015 (audited)	Year ended 31 December 2014 (revised)
Property tax	(1 308)	(1 481)
Cost of sales of energy and water	(27 727)	(25 080)
Cost of sales of materials	(6 412)	(3)
Redundancy costs	(320)	(2 701)
Loss on sale of property, plant and equipment	(1 005)	(5)
Other	(2 669)	(1 641)
Total	(39 440)	(30 910)

Consolidated financial statements for the year ended 31st December 2015 PLN thousand

11.3. Financial income

	Year ended 31 December 2015 (audited)	Year ended 31 December 2014 (revised)
Interest income on cash and cash equivalents	265	377
Interest income on receivables	174	164
Other interest income	694	249
Other financial income	454	54
Total	1 587	844

11.4. Financial costs

	Year ended 31 December 2015 (audited)	Year ended 31 December 2014 (revised)
Interest on bank loans and loans valued at amortized cost	(17 944)	(21 556)
Interest on other financial liablities	(30)	(74)
Interest on actuarial provisions	(2 033)	(3 003)
Finance charges payable under finance leases	(1 860)	(2 182)
Foreign exchange losses	(1 261)	(5 655)
Other financial costs	(6 547)	(4 935)
Total	(29 676)	(37 405)

Consolidated financial statements for the year ended 31st December 2015 PLN thousand

11.5. Cost by nature

	Year ended 31 December 2015 (audited)	Year ended 31 December 2014 (revised)
Depreciation / Amortization	(112 458)	(116 658)
Impairment losses	-	-
Change in inventory of finished goods	17 546	(4 169)
Change in inventory write-down	(2 366)	864
Materials and energy	(1 775 971)	(1 686 433)
External services	(407 982)	(426 065)
Taxes and charges	(12 626)	(11 498)
Employee benefits expense	(395 810)	(377 963)
Other	(103 370)	(88 386)
Cost of goods for resale	(27 388)	(50 947)
Total costs by nature of which:	(2 820 425)	(2 761 256)
Items included in cost of sales	(2 490 533)	(2 427 563)
Items included in selling and distribution expenses	(266 296)	(265 981)
Items included in administrative expenses	(63 597)	(67 712)

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

	Year ended 31 December 2015 (audited)	Year ended 31 December 2014 (revised)
Included in cost of sales:		
Depreciation / Amortization	(109 016)	(113 161)
Impairment of property, plant and equipment	-	-
Impairment of intangible assets	-	-
Inventory write-downs	-	-
Included in selling and distribution expenses:		
Depreciation / Amortization	(2 427)	(2 119)
Impairment of property, plant and equipment	-	-
Impairment of intangible assets	-	-
Included in administrative expenses		
Depreciation / Amortization	(1 015)	(1 379)
Impairment of property, plant and equipment	-	-
Impairment of intangible assets	-	-

Amortization and depreciation in the consolidated cash flow statement also includes the amount of expenditures on property, plant and equipment of the discontinued operations, which were fully amortized/depreciated in 2015 in the amount of PLN 6,599 thousand (2014: PLN 5,263 thousand).

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11.7. Employee benefits expenses

		Year ended 31 December 2015 (audited)	Year ended 31 December 2014 (revised)
Wages and salaries		(292 500)	(286 334)
Social security costs		(99 496)	(88 658)
Retirement benefits	26.1	2 947	(21 669)
Total employee benefits expenses, of which:		(389 049)	(396 661)
Items included in cost of sales		(296 168)	(265 326)
Items included in selling and distribution expenses		(17 829)	(19 711)
Items included in administrative expenses		(81 813)	(92 926)
Items included in other comprehensive income		6 761	(18 698)

12. Components of other comprehensive income

Components of other comprehensive income for the year ended 31st December 2015 and the year ended 31st December 2014 are as follows:

	Year ended 31 December 2015 (audited)	Year ended 31 December 2014 (audited)
Exchange difference on translation of foreign operations	11 256	(14 955)
Deferred tax on valuation of derivatives	3 609	(2 825)
Valutation of derivatives	(16 263)	10 438
Actuarial gains/ losses on defined benefits programs	8 271	(22 205)
Deferred tax on actuarial gain/losses on defined benefits programs	(1 963)	4 911
Total other comprehensive income	4 911	(24 637)

Consolidated financial statements for the year ended 31st December 2015 PLN thousand

13. Income tax

13.1. Tax burdens

Major components of income tax expense for the year ended 31st December 2015 and the year ended 31st December 2014 are as follows:

	Year ended 31 December 2015 (audited)	Year ended 31 December 2014 (revised)
Consolidated income statement		
Current income tax		
Current income tax charge	(3 196)	(2 523)
Adjustments in respect of current income tax of previous years	-	(52)
Deferred income tax		
Relating to origination and reversal of temporary differences	2 065	1 802
Income tax benefit /(expense) reported in consolidated income statement	(1 131)	(773)
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)	3 609	(2 825)
Deffered tax in respect of acturial gain/losses	(1 963)	4 911
Income tax benefit / (income tax expense) reported in other comprehensive income	1 646	2 085

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 2015 and the year ended 31st December 2014 is as follows:

Consolidated financial statements for the year ended 31st December 2015 PLN thousand

	Year ended 31 December 2015 (audited)	Year ended 31 December 2014 (revised)
Accounting profit before tax from continuing operations	72 150	99 099
Profit before tax from discontinued operations	(97 998)	(21 245)
Accounting profit before income tax	(25 848)	77 854
At statutory income tax rate in 2008-2014 of 19%	4 911	(14 792)
Adjustments in respect of current income tax from previous years	-	(52)
Difference resulting from different tax rates if different countries	(1 484)	144
Tax losses on which no deferred tax asset has been recognized	(17 762)	(3 480)
Tax credits in KSSSE	10 137	5 042
Utilisation of previously unrecognised tax losses	10 214	23 089
Non-taxable income	474	1 831
Non-taxable costs	(7 204)	(11 461)
Derecognized deffered tax asset on temporary diffrences	-	-
Change in tax rates	(7)	-
At the effective income tax rate of 3% (2014: 0%)	(722)	320
Income tax expense reported in consolidated income statement	(1 131)	(773)
Income tax attributable to discontinued operations	409	1 093

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.

Consolidated financial statements for the year ended 31st December 2015 PLN thousand

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

Year of expiration of tax losses	Year ended 31 December 2015 (audited)	Year ended 31 December 2014 (audited)
With an indefinite life	25 458	234 836
ended 31 December 2015		15 657
ended 31 December 2016	7 905	7 905
ended 31 December 2017	1 716	1 716
ended 31 December 2018	1 716	1 716
ended 31 December 2019	4 974	-
ended 31 December 2020 and later	4 974	-
Total	46 743	261 830

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 2015 (audited)	31 December 2014 (audited)	31 December 2015 (audited)	31 December 2014 (audited)
Deffered income tax liability				
Tangible fixed assets	18 207	27 435	9 228	30 485
Inventories	-	-	-	-
Trade receivables	-	-	-	-
Accruals and provisions	-	-	-	-
Cogeneration certificates	1 635	766	(869)	(766)
Fair value adjustments on acquisition of subsidiary	-	-	-	-
Losses utilized on the level of separate financial statements, unrecognized in consolidated financial statements	-	-	-	-
Hedging instruments	-	-	-	-
Gross deffered income tax liability	19 842	28 201	8 359	29 719

Consolidated financial statements for the year ended 31st December 2015 PLN thousand

	Consolidated balance sheet as at		Consolidated income statement for the year ended	
	31 December 2015 (audited)	31 December 2014 (audited)	31 December 2015 (audited)	31 December 2014 (audited)
Deferred income tax asset				
Post-employment benefits	4 247	7 220	(2 972)	6 236
Accruals and provisions	4 942	3 234	1 708	975
Fair value adjustments on impairment of non-current assets	-	-	-	(37 546)
Inventories	1 143	1 059	84	85
Trade receivables	4 343	3 613	729	(665)
Tax credits in Kostrzynsko - Kostrzynsko Słubicka Special Economic Zone	22 065	15 003	7 062	(3 454)
Foreign exchange differences	-	78	(78)	(2 390)
Untaxed reserves (Swedish tax regulation)	52	-	52	-
Hedging instruments	5 282	952	4 330	(2 198)
Loss available for offset against future taxable income	22 926	37 343	(14 417)	12 625
Gross deferred income income tax asset	65 000	68 501	(3 502)	(26 330)
Foreign exchange differences			(1 146)	1 639
Total, including			3 711	5 027
Changes in deferred tax recognised in other compresensive income			1 646	2 085
Changes in deferred tax recognised in profit and loss			2 065	2 942
including				
Changes in deferred tax recognised in profit and loss - discountined operation				(1 140)
Net deferred tax assets / liability				
therein:				
- Presenation adjustment	(17 374)	(14 242)		
- Deferred tax assets	47 625	54 259		
- Deferred tax liability	2 468	13 959		
therein:				
- Deferred tax assets - discountined operation	-			
- Deferred tax liability - discountined operation	-			

14. Non-current assets held for trading

On 28th July 2015, the Management Board of Arctic Paper S.A. made public the schedule of profitability improvement program, aimed at reduction of cost of operations, mainly through creation of common services centers for Group companies, introduction of individual programs for profitability improvement in mills and revision of cost of services rendered by external parties.

Simultaneously, the Management Board of Arctic Paper S.A. announced that it begun to actively search for a buyer of Arctic Paper Mochenwangen mill and that it started evaluation of possibilities to take actions towards further reduction of the mill's losses, including those related to shutting down the production. As a material portion of the Group's operation is conducted by Arctic Paper Mochenwangen and the companies established for the purpose of its acquisition, and because of their operational and geographic separation, the Management Board deemed operations of Mochenwangen Group as discontinued operations as on 31st December 2015. Mochenwangen Group comprises Arctic Paper Mochenwangen GmbH, Arctic Paper Investment GmbH, Arctic Paper Verwaltungs GmbH, and Arctic Paper Immobilienverwaltung GmbH Co&KG. As the result, assets and liabilities of Mochenwangen Group have been presented respectively as assets related to discontinued operations and liabilities related to discontinued operations as on 31st December 2015, whereas revenues and costs of this Group have been presented as profit (loss) from discontinued operations in consolidated income statement for the year ended 31st December 2015 and 31st December 2014.

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The tables below present respective financial data of discontinued operations:

Revenues and costs of discountinued operations	12 months period ended 31 December 2015 (audited)	12 months period ended 31 December 2014 (revised)
Revenues from sale of products	235 785	234 243
Cost of sales	(259 941)	(226 746)
Gross profit on sales	(24 156)	7 497
Selling and distribution expenses	(24 907)	(23 438)
Administrative expenses	(8 597)	(7 242)
Other operating income	2 639	4 376
Other operating expenses	(40 793)	(235)
Operating profit	(95 814)	(19 042)
Financial income	-	(0)
Financial costs	(2 184)	(2 203)
Profit before tax	(97 998)	(21 245)
Income tax	409	1 093
Profit (loss) from discontinued operations	(97 588)	(20 152)
Earnings per share:		
– basic from the profit (loss) from discontinued operations attributable to equity holders of the parent	(1,41)	(0,29)
– diluted from the profit (loss) from the discontinued operations attributable to equity holders of the parent	(1,41)	(0,29)

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Net assets associated with discontinued operations	As at 31 December 2015 (audited)
Assets associated with discontinued operations	
Inventories	29 396
Trade and other receivables	15 789
Corporate income tax receivables	124
Other non-financial assets	12
Other financial assets	1 096
Cash and cash equivalents	1 051
	47 467
Liabilities directly associated with discontinued operations	
Provisions	55 484
Other financial liabilities	699
Trade and other payables	23 069
Income tax payable	102
Accruals and deferred income	1 909
	81 264
Net assets associated with discontinued operations	(33 797)
Accumulated other comprehensive income associated with discontinued operations	
Transaltion reserve	(6 821)
Actuarial gains/ losses	(2 153)
	(8 974)

Cash flow from discontinued operations	12 months period ended 31 December 2015	12 months period ended 31 December 2014
Net cash flow from operating activities	(3 852)	(16 379)
Net cash flow from investing activities	(6 303)	(3 284)
Net cash flow from financing activities	(1 291)	(1 620)
	(11 446)	(21 282)

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 and Arctic Paper S.A. create such a Fund and make 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.

The companies have compensated the assets and liabilities related to the Social Fund, because the assets are not separate assets of the Group. In relation to the fact mentioned above, the net balance of Social Fund amounted to PLN 30 thousand on 31st December 2015 (on 31st December 2014: PLN 2 thousand).

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

Consolidated financial statements for the year ended 31st December 2015 PLN thousand

	Year ended 31 December 2015 (audited)	Year ended 31 December 2014 (audited)
Cash	47	57
Social Fund liability	(32)	(55)
Fund expenditures covered with own funds	15	
Net balance	30	2

	Year ended 31 December 2015 (audited)	Year ended 31 December 2014 (audited)
Transfers made to the Social Fund during the period	604	609

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

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:

Consolidated financial statements for the year ended 31st December 2015 PLN thousand

	Year ended 31 December 2015 (audited)	Year ended 31 December 2014 (revised)
Net profit (loss) for the year from continuing operations attributable to equity holders of the parent	26 331	70 611
Profit (loss) for the period from discontinued operations attributable to equity holders of the parent	(97 588)	(20 152)
Net profit (loss) for the year attributable to equity holders of the parent	(71 258)	50 459
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	69 287 783
Weighted average diluted number of shares	69 287 783	69 287 783
Profit/(Loss) per share (in PLN)		
– basic from the profit (loss) for the period attributable to equity holders of the parent	(1,03)	0,73
– basic from the profit (loss) from continuing operations attributable to equity holders of the parent	0,38	1,02
Diluted profit/(loss) per share (in PLN)		
– from the profit (loss) for the period attributable to equity holders of the parent	(1,03)	0,73
– from the profit (loss) from continuing operations attributable to equity holders of the parent	0,38	1,02

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

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 mBank 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 2015 and in 2014 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 2014	199 901	550 045	40 832	790 778
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
Net carrying amount at 1 January 2015	194 741	476 720	54 987	726 448
Additions	4 064	9 890	81 510	95 464
Additions from assets under construction	7 903	60 367	(68 270)	0
Disposals	-	(59)	-	(59)
Liquidations	(259)	(72)	-	(331)
Depreciation charge for the period	(14 314)	(96 326)	-	(110 640)
Foreign exchange differences	2 028	5 464	1 408	8 900
Net carrying amount at 31 December 2015 (audited)	194 162	455 984	69 636	719 782
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	790 778
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
At 1 January 2015				
Gross carrying amount	414 114	1 694 051	58 916	2 167 081
Accumulated depreciation and impairment	(219 373)	(1 217 332)	(3 929)	(1 440 634)
Net carrying amount	194 741	476 719	54 987	726 448
At 31 December 2015				
Gross carrying amount	415 818	1 739 731	69 636	2 225 185
Accumulated depreciation and impairment	(221 656)	(1 283 746)	-	(1 505 402)
Net carrying amount (audited)	194 162	455 984	69 636	719 782

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There was no impairment of property, plant & equipment as on 31st December 2015 and 31st December 2014.

The carrying amount of plant and equipment held under finance lease agreements or hire purchase contracts on 31st December 2015 totaled PLN 30,704 thousand (on 31st December 2014: PLN 32,530 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 571,022 thousand (on 31st December 2014: PLN 614,079 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 2015 amounted to PLN 644 thousand (year ended 31st December 2014: PLN 402 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 2015 and 31st December 2014 are as follows:

	Year ended 31 December 2015 (audited)	Year ended 31 December 2014 (audited)
Within 1 year	3 008	4 493
Within 1 to 5 years	4 827	8 115
More than 5 years	-	-
Total	7 835	12 608

19.2. Finance lease and hire purchase commitments

As on 31st December 2015 and 31st December 2014 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 2015		Year ended 31 December 2014	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
Within 1 year	4 774	3 065	3 049	2 857
Within 1 to 5 years	17 488	12 375	14 592	11 792
More than 5 years	16 148	16 148	27 104	18 763
Minimum lease payments, total	38 410	31 588	44 745	33 411
Less amounts representing finance charges	(6 822)		(11 334)	
Present value of minimum lease payments, of which:	31 588	31 588	33 411	33 411
- short-term		3 065		2 857
- long-term		28 523		30 554

20. Investment properties

	2015 (audtied)	2014 (audited)
Opening balance at 1 January	3 982	11 181
Addititons (subsequent expenditure)	-	-
Sales of investment property	-	(7 622)
Profit on a fair value adjustment	-	423
Closing balance at 31 December	3 982	3 982

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.

For the evaluation purposes, the comparative approach and the adjusted average price method was applied.

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The average price for comparative transactions amounted to PLN 479 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 2015 consist of property tax cost amounting to PLN 10 thousand (2014: PLN 17 thousand).

21. Intangible assets

As at 31 December 2015 (audited)

	Customer relationship	Trademarks	Cogeneration certificates	CER certificates and CO2 emission rights	Other *	Total
Net carrying amount at 1 January 2015	2 515	34 288	4 351	495	9 041	50 692
Additions	-	-	21 995	0	1 017	23 012
Disposals	-	-	(18 384)	(610)	(2 217)	(21 211)
Amortization charge for the period	(481)	-	-	-	(1 338)	(1 818)
Foreign exchange differences	45	829	22	116	(65)	947
Transfer to discountinued operations	-	-	-	-	-	-
Net carrying amount at 31 December 2015	2 080	35 117	7 985	0	6 438	51 622
At 1 January 2015						
Gross carrying amount	38 034	90 407	4 351	495	39 305	172 591
Accumulated amortization and impairment	(35 519)	(56 118)	-	-	(30 264)	(121 901)
Net carrying amount	2 515	34 288	4 351	495	9 041	50 690
At 31 December 2015						
Gross carrying amount	38 725	92 647	7 985	0	34 922	174 279
Accumulated amortization and impairment	(36 645)	(57 530)	-	-	(28 484)	(122 659)
Net carrying amount	2 080	35 117	7 985	0	6 438	51 619

* - ‘Other’ position includes computer software

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As at 31 December 2014 (audited)

	Customer relationship	Trademarks	Cogeneration certificates	CER certificates and 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
Amortization 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	50 689
At 1 January 2014						
Gross carrying amount	39 348	93 591	250	468	41 135	174 792
Accumulated amortization 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 amortization 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

As on 31st December 2015 and 31st December 2014 no intangible assets were impaired.

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 2015 was confirmed.

Another test has been scheduled to 31st December 2016.

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 2015 do not show impairment allowances recognized in 2015. 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 2016.

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

During the years ended 31st December 2015 and 31st December 2014 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 venture and evaluated in compliance with equity method in consolidated financial data as on 31st December 2015 and 31st December 2014.

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The value of shares in joint venture amounted to PLN 5,169 thousand as on 31st December 2015 (PLN 5,037 thousand as on 31st December 2014). Profit from the shares held in the joint venture amounted to PLN 4 thousand in 2015 and was recognized as other operating income (2014: PLN 122 thousand). Translation differences amounted to PLN +128 thousand as on 31st December 2015 (31st December 2014: PLN -178 thousand).

23. Business combinations and acquisition of minority interests

In 2015, the Group did not enter any transactions which would influence its shareholding in subsidiaries.

24. Other assets

24.1. Other financial assets

	Note	Year ended 31 December 2015 (audited)	Year ended 31 December 2014 (audited)
Derivatives	39.3	944	906
Guarantee deposits		-	1 096
Bank deposits over 3 months		-	21 312
Other		1 017	85
Total		1 960	23 399
- current		944	21 312
- non-current		1 017	2 088

24.2. Other non - financial assets

	Year ended 31 December 2015 (audited)	Year ended 31 December 2014 (audited)
Insurance costs	3 465	2 268
Leasing charges	53	58
Prepayments for services	6 451	6 343
Rental charges	717	3 068
Receivables due from pension fund	926	697
Other	1 391	5 676
Total	13 003	18 110
- current	11 531	16 872
- non-current	1 472	1 238

25. Impairment test of tangible and intangible assets

25.1. Arctic Paper Mochenwangen

The operations of Mochenwangen Group and the companies established for the purpose of acquisition of this paper mill have been deemed discontinued operations as on 31 December 2015.

Net value of tangible and intangible non-current assets of Mochenwangen Group as on 31st December 2013 amounted to PLN 0 thousand, and the capital investments incurred by the Group in 2015 in the amount of PLN 6,599 thousand (2014: PLN 5,263 thousand) have been fully amortized/depreciated and recognized as loss from discontinued operations.

25.2. Arctic Paper Grycksbo

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.

As on 31st December 2015 an impairment test of property, plant & equipment and intangible assets was performed in Arctic Paper Grycksbo.

The performance of the tests in Arctic Paper Grycksbo was connected with achieving by the mill a lower result than expected by the management of the Group in 2015. 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 did not result in a further allowance on the grounds of impairment.

Key assumptions of the impairment test performed as on 31st December 2015 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.

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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 8.45.

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

General assumptions	2015
Forecast based on years	2016-2020
Income tax rate	22,00%
Pre-tax discount rate	7,00%
Weighted average cost of capital	6,50%
Growth in residual period	2,00%

Total impairment allowance for Arctic Paper Grycksbo as on 31st December 2015 and 31st December 2014 amounted to PLN 301,990 thousand.

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

Parameter	Parameter change	Effect on value in use
Weighted average cost of capital	+0,1 p.p.	(4 117)
Growth in residual period	+0,1 p.p.	3 280
Sales volume in the first year of the forecast	+ 0,1%	9 262
Sales price in the first year of the forecast	+ 0,1%	12 452
Weighted average cost of capital	-0,1 p.p.	4 302
Growth in residual period	-0,1 p.p.	(3 137)
Sales volume in the first year of the forecast	- 0,1%	(9 262)
Sales price in the first year of the forecast	- 0,1%	(12 452)

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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. 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 2015 (audited)	Year ended 31 December 2014 (revised)
Current service cost	1 788	371
Interest on obligation	2 026	2 600
Recognized actuarial gain or loss	(6 761)	18 698
Total pension cost for defined benefit plans, of which:	(2 947)	21 669
recognized in income statement	3 814	2 971
recognized in other comprehansive income	(6 761)	18 698

The table above does not include data of Arctic Paper Mochenwangen, reported as discontinued operations.

The table below settles the changes of provisions over the years ending 31st December 2015 and 31st December 2014.

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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 Sweden (Rottneros Group)	Benefit plan in Poland (Kostrzyn)	Benefit plan in Germany (Mochenwangen)	Total
Pension provison at 1 January 2015	866	27 410	49 540	-	7 412	11 726	96 954
Cost of employment during current period	285	-	-	1 119	384	247	2 035
Interest costs	-	634	1 211	-	181	259	2 285
Actuarial gains or losses	-	(2 387)	(3 289)	-	(1 085)	(1 511)	(8 271)
Pensions paid	-	(437)	(1 777)	-	(352)	(398)	(2 964)
Foreign exchange diffrences	-	605	1 099	43	-	(27)	1 720
Transfer to discountinued operation	-	-	-	-	-	(10 297)	(10 297)
Pension provision at 31 December 2015	1 151	25 826	46 783	1 162	6 540	-	81 461

	Benefit plan in Sweden (AP SA branch office)	Benefit plan in Sweden (Munkedals)	Benefit plan in Sweden (Grycksbo)	Benefit plan in Sweden (Rottneros Group)	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

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 2015 (audited)	Year ended 31 December 2014 (audited)
Discount rate (%)		
Plan in Sweden	3,1%	2,8%
Plan in Poland	3,0%	2,5%
Plan in Germany	2,4%	2,0%
Future salary increases (%)		
Plan in Sweden	0,0%	2,3%
Plan in Poland	2,0%	3,0%
Plan in Germany	-	-
Remaining time of duty (in years)		
Plan in Sweden	8,3	13,0
Plan in Poland	16,8	18,7
Plan in Germany	19,3	20,7

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

Change in discount rate by +(-) 1p.p.		
	Increase by 1 p.p.	Dcrease by 1 p.p.
31 December 2015	in PLN thousand	in PLN thousand
Impact on pension provision	(14 404)	9 045
31 December 2014		
Impact on pension provision	(16 804)	9 759

Change in future salary increase by +(-) 1 p.p.		
	Increase by 1 p.p.	Dcrease by 1 p.p.
31 December 2015	in PLN thousand	in PLN thousand
Impact on pension provision	904	(668)
31 December 2014		
Impact on pension provision	826	(686)

26.2. Redundancy payments

As on 31st December 2015, the Group recognized a provision on redundancy payments in Arctic Paper Sverige AB in the amount of PLN 0 thousand (as on 31st December 2014: PLN 2,000 thousand).

27. Inventories

	Year ended 31 December 2015 (audited)	Year ended 31 December 2014 (audited)
Raw materials (at cost)	178 037	166 699
Work-in-progress (at cost of development)	10 802	9 453
Finished goods and goods for resale, of which:		
At cost / cost of development	192 389	178 567
At net realisable value	9 403	21 187
Prepayments for supplies	-	580
Total inventories, at the lower of cost (or costs of development) and net realisable value	390 631	376 486
Inventory write-down	6 813	7 961
Inventory before write-down	397 445	384 447

In the year ended 31st December 2015, the Group made write-offs of inventories in the amount of PLN 2,366 thousand and transferred write-offs in the amount of PLN 3,514 thousand to discontinued operations.

In the year ended 31st December 2014, the Group made additional write-offs of inventories in the amount of PLN 318 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 2015, the Group had pledges on all movable assets amounting to SEK 421,920 thousand, PLN 538,500 thousand, part of which are inventories.

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In the financial year ended 31st December 2014, the Group had a pledge on all movable assets amounting to PLN 538,500 thousand, SEK 415,301 thousand, EUR 9,894 thousand, part of which were inventories.

As on 31st December 2015, inventories of finished goods in the amount of PLN 9,403 thousand were stated at net realizable value (as on 31st December 2014: PLN 21,187 thousand).

28. Trade and other receivables

	Year ended 31 December 2015 (audtied)	Year ended 31 December 2014 (audtied)
Trade receivables	303 897	293 554
Budget receivables - VAT receivables	11 794	31 295
Other receivables from third parties	17 904	11 461
Other receivables from related parties	2 905	3 130
Total receivables, net	336 499	339 440
Doubtful debts allowance	32 504	20 157
Total receivables, gross	369 003	359 597

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 2015, trade receivables amounting to PLN 32,504 thousand (as on 31st December 2014: PLN 20,157) were considered irrecoverable and impaired.

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

	Year ended 31 December 2015 (audtied)	Year ended 31 December 2014 (audtied)
Provision for bad debts as at 1 January	20 157	20 446
Charge for the year	13 785	944
Utilisation	(67)	(1 070)
Unused amounts reversed	(1 046)	(457)
Result on translation of foreign entities	460	294
Transfer to discountinued operations	(785)	-
Provision for bad debts as at 31 December	32 504	20 157

The table below presents the analysis of trade receivables which as on 31st December 2015 and 31st December 2014 were past due but not considered irrecoverable:

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	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 2015	303 897	263 087	33 626	4 322	434	481	1 946
As at 31 December 2014	293 554	236 949	50 436	5 764	132	237	36

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 2015 amounted to PLN 188,552 thousand (31st December 2014: PLN 158,412 thousand).

As on 31st December 2015, the Group had un-drawn committed borrowing facilities in the amount of PLN 117,480 thousand (as on 31st December 2014: PLN 141,686 thousand).

As on 31st December 2015 the Group had an overdraft in the amount of PLN 48,384 thousand (as on 31st December 2014: PLN 25,607 thousand).

Balance of cash and cash equivalents disclosed in the cash flow statement consisted of the following:

	Year ended 31 December 2015 (audited)	Year ended 31 December 2014 (audited)
Cash at bank and in hand	187 936	147 593
Short-term deposits	-	9 377
Cash in transit	617	1 442
Cash and cash equivalents in consolidated balance sheet	188 552	158 412
Cash at bank and in hand from discountinued operations	1 051	-
Cash and cash equivalents in consolidated cash flow statement	189 603	158 412

Cash in the amount of SEK 4,000 thousand as on 31st December 2015 (31st December 2014: SEK 4,000 thousand) secures forward contracts for electricity purchases in Rottneros.

29.1. Reasons for discrepancy between balance sheet changes of several items and the items in consolidated cash flow statement

The reasons for discrepancy between balance sheet changes of several items and the items in consolidated cash flow statement are presented in the tables below:

Consolidated financial statements for the year ended 31st December 2015 PLN thousand

	Year ended 31 December 2015	
Increase / decrease in receivables and other non-financial assets		
Increase / decrease in receivables and other non-financial assets other non-financial assets in consolidated balance sheet	2 940	
Discountined operation	(15 789)	
Foreign exchange differences	1 471	
Increase / decrease in receivables and other non-financial assets other non-financial assets in consolidated cash flow statement	(11 377)	
Increase / decrease in inventories		
Increase / decrease in inventories in consolidated balance sheet	(14 145)	
Discountined operation	(29 396)	
Foreign exchange differences	6 816	
Increase / decrease in inventories in consolidated cash flow statement	(36 725)	
Increase / decrease in payables except for loans and borrowings		
Increase / decrease in payables except for loans and borrowings in consolidated balance sheet		42 660
Discountined operation		23 069
Foreign exchange differences		(2 859)
Increase / decrease in payables except for loans and borrowings in consolidated cash flow statement		62 870
Change in accruals and prepayments		
Change in accruals and prepayments in consolidated balance sheet		14 893
Discountined operation		1 897
Foreign exchange differences		(1 149)
Change in accruals and prepayments in consolidated cash flow statement		15 641
Change in provisions		
Change in provisions in consolidated balance sheet		(26 119)
Discountined operation		55 484
Foreign exchange differences		5 355
Change in provisions in consolidated cash flow statement		34 721

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30. Share capital and reserve/other capital

30.1. Share capital

	As at 31 December 2015 (audited)	As at 31 December 2014 (audited)
Series A ordinary shares of nominal value PLN 1 each	50	50
Series B ordinary shares of nominal value PLN 1 each	44 254	44 254
Series C ordinary shares of nominal value PLN 1 each	8 100	8 100
Series E ordinary shares of nominal value PLN 1 each	3 000	3 000
Series F ordinary shares of nominal value PLN 1 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 2015 (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 2015 (audited)	As at 31 December 2014 (audited)
Thomas Onstad (directly and indirectly)		
Share in equity	68,13%	68,13%
Share in votes	68,13%	68,13%
Nemus Holding AB (indirectly Thomas Onstad)		
Share in equity	57,74%	59,69%
Share in votes	57,74%	59,69%
Other shareholders		
Share in equity	31,87%	31,87%
Share in votes	31,87%	31,87%

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.

According to Resolution no 8 of the Ordinary Shareholders Meeting dated 29th June 2015, the Company’s loss of PLN 25,110 for 2014 was covered from share premium.

As on 31st December 2015, the total value of the Company's share premium is PLN 447,638 thousand (31st December 2014: PLN 472,748 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 2015, as well as comparatives:

	As at 31 December 2015 (audited)	As at 31 December 2014 (audited)
Other reserves at the beginning of the reporting period	136 557	132 697
Changes in cash flow hedges		
Valuation of financial instruments, therein:	**(11 049)**	**5 361**
- FX forward	128	772
- Forward for electricity	(11 972)	5 543
- interest SWAP	795	(3 445)
- Forward for pulp	-	2 491
Deferred tax, therein:	**2 468**	**(1 501)**
- FX forward	(21)	(229)
- Forward for electricity	2 640	(1 379)
- interest SWAP	(151)	655
- Forward for pulp	-	(548)
Other changes		
Distribution of profits	-	-
Other reserves at the end of the reporting period	127 976	136 557

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 mBank 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 2015 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) Cover of the standalone loss of Arctic Paper S.A. for 2013 in the amount of PLN +179,911 thousand,
d) Consolidated profit attributed to shareholders of the Parent Company, for 2014 in the amount of PLN 50,459 thousand,
e) Actuarial gains/losses as on 31st December 2014 in the amount of PLN -7,318 thousand (excluding actuarial gains/losses related to discontinued operations),
f) Cover of the standalone loss of Arctic Paper S.A. for 2014 in the amount of PLN +25,110 thousand,
g) Consolidated loss attributable to shareholders of the parent entity for 2015 in the amount of PLN -71,258 thousand.

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30.6. Non-controlling interests

	As at 31 December 2015 (audited)	As at 31 December 2014 (audited)
At the beginning of the period	181 458	155 772
Dividends paid by subsidiaries	(26 556)	-
Acquisition of a company	-	-
Changes in the shareholding structure of subsidiaries	-	-
Shares in profit on bargain purchase	-	-
Shares in subsidiaries' comprehensive income	45 841	25 686
At the end of the period	200 744	181 458

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 the general financial data of Rottneros Group:

Consolidated income statement	Year ended 31 December 2015	Year ended 31 December 2014
Sales of products	803 234	711 723
Cost of sales	(685 546)	(657 435)
Operating profit / (loss)	117 688	54 288
Financial income/(costs)	(1 790)	(1 840)
Profit / (loss) before tax	115 898	52 448
Income tax	(16 109)	8 741
Net profit (loss) for the year	99 789	61 189

Consolidated balance sheet	As at 31 December 2015	As at 31 December 2014
Non-current assets	328 008	313 161
Current assets, including	315 928	258 324
Inventories	124 048	115 566
Trade and other receivables	113 362	102 423
Cash and cash equivalents	78 517	40 335
TOTAL ASSETS	643 936	571 485
Equity	491 547	441 870
Non-current liabilities	8 363	17 675
Current liabilities	144 026	111 940
TOTAL EQUITY AND LIABILITIES	643 936	571 485

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Consolidated casf flow statement	Year ended 31 December 2015	Year ended 31 December 2014
Net cash flow from operating activities	149 907	47 847
Net cash flow from investing activities	(46 091)	(9 201)
Net cash flow from financing activities	(68 018)	(13 802)
Net increase/(decrease) in cash and cash equivalents	35 799	24 844
Cash and cash equivalents at the beginning of the period	40 335	16 429
Net foreign exchange differences	2 384	(938)
Cash and cash equivalents at the end of the period	78 517	40 335

31. Conditional increase of share capital

In 2015 and 2014 there was no conditional increase of share capital.

32. Interest-bearing loans, borrowings and bonds

Current liabilities	Maturity	As at 31 December 2015 (audited)	As at 31 December 2014 (audited)
Other financial liabilities			
Obligations under finance leases and hire purchase contracts	31-12-2016	3 065	2 857
Factoring in SEK in SHB		59 887	46 626
Factoring in EUR in GE capital		-	1 146
Derivatives		20 357	10 018
Other liabilities	31-12-2016	194	192
Interest-bearing loans, borrowings and bonds:			
PLN bank overdraft in Bank Polska Kasa Opieki S.A.	20-12-2016	20 439	9 068
PLN bank overdraft in BRE Bank S.A.	20-12-2016	5 861	3 258
PLN bank overdraft in BZ WBK	20-12-2016	9 418	-
PLN bank loan in Bank Polska Kasa Opieki S.A. (current part)	07-11-2017	8 548	8 470
EUR bank loan in Bank Polska Kasa Opieki S.A. (current part)	07-11-2017	4 337	4 353
PLN bank loan in mBank S.A. (current part)	07-11-2017	6 355	6 303
EUR bank loan in mBank S.A. (current part)	07-11-2017	3 235	3 250
PLN bank loan in BZ WBK (current part)	07-11-2017	7 453	7 388
EUR bank loan in BZ WBK (current part)	07-11-2017	3 786	3 803
SEK bank overdraft in SHB	31-03-2016	12 665	13 281
Loan from the owner of the main shareholder (interest)	31-01-2016	117	112
Loan from the owner of the main shareholder (interest)	30-04-2016	668	444
Total current financial liabilities		166 386	120 566

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Non-current	Maturity	As at 31 December 2015 (audited)	As at 31 December 2014 (audited)
Other financial liabilities			
Obligations under finance leases and hire purchase contracts	04-01-2021	28 523	30 554
Derivatives	31-12-2019	12 534	6 687
Interest-bearing loans, borrowings and bonds:			
EUR Loan from the owner of the main shareholder	09-07-2017	17 046	17 049
EUR Loan from the owner of the main shareholder	30-09-2019	43 579	43 124
PLN bank loan in Bank Polska Kasa Opieki S.A. (long term part)	07-11-2017	42 355	50 890
EUR bank loan in Bank Polska Kasa Opieki S.A. (long term part)	07-11-2017	19 613	23 954
PLN bank loan in mBank S.A. (long term part)	07-11-2017	31 316	37 662
EUR bank loan in mBank S.A. (long term part)	07-11-2017	14 502	17 739
PLN bank loan in BZ WBK (long term part)	07-11-2017	36 836	44 278
EUR bank loan in BZ WBK (long term part)	07-11-2017	17 057	20 846
SEK bank loan in Danske Bank	after 31-12-2015	-	13 596
Total non-current financial liabilities		263 362	306 380

32.1. Loans and borrowings

The amount of long-term and short-term interest-bearing loans and borrowings as on 31st December 2015 decreased by PLN 25,952 thousand compared to 31st December 2014.

Other changes in loans and borrowings as on 31st December 2015 compared to as on 31st December 2014 result mainly from balance sheet evaluation and the amount of calculated but not cleared interest on loans, borrowings and bonds.

Negotiations with Swedish banks

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.

On 28th December 2015, Arctic Paper Grycksbo AG received a waiver from its financing bank - Svenska Handelsbanken AB – from keeping interest coverage ratio (determined by the loan agreement) as on 31st December 2015.

32.2. Collaterals

2015

All tranches of the loan taken in the consortium of banks (Bank Polska Kasa Opieki S.A., Bank Zachodni WBK S.A. and mBank 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 estate 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 2015:

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 39,491 thousand);
- a mortgage on real estate amounting to SEK 20,000 thousand (PLN 9,292 thousand);
- a pledge of shares of Arctic Paper Grycksbo AB resulting from the factoring agreement with Svenska Handelsbanken AB and amounting to SEK 106,245 thousand (PLN 49,361 thousand);

2) collaterals on assets on the grounds of liabilities of Arctic Paper Munkedals in bank Svenska Handelsbanken, that is:

- a pledge of assets (receivables under factoring agreement) in the amount of SEK 126,920 thousand (PLN 58,967 thousand);
- a pledge of movables in the amount of SEK 160,000 thousand (PLN 74,336 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 509,000 thousand (PLN 236,481 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, Arctic Paper Group also reports:

- a pledge of movables of Arctic Paper Grycksbo AB to FPG in favor of mutual life insurance company PRI in the amount of SEK 50,000 thousand (PLN 23,230 thousand);
- a pledge of real estate 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 23,230 thousand);
- a mortgages on real estates of Kalltorp Kraft HB in the amount of SEK 8,650 thousand (PLN 4,019 thousand);

2014

All tranches of the loan taken in the consortium of banks (Bank Polska Kasa Opieki S.A., Bank Zachodni WBK S.A. and mBank 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 estate 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 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 estate 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 estate 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).

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33. Provisions

33.1. Movements in provisions

The table below presents movements in provisions in the years 2014-2015.

	Post-employment benefits	Other provisions	Total
At 1 January 2015	96 954	12 021	108 973
Created during the year	(3 951)	30 353	26 402
Utilised	(2 964)	(7 123)	(10 087)
Released	-	(2 092)	(2 092)
Foreign exchange adjustment	1 720	473	2 193
Transfer to discountinued operation	(10 297)	(32 238)	(42 535)
At 31 December 2015, therein:	81 461	1 394	82 855
- current	-	-	-
- non-current	81 461	1 394	82 855
At 1 January 2014	76 196	6 345	82 541
Created during the year	25 686	8 040	33 726
Utilised	(2 799)	(2 502)	(5 301)
Released	-	-	-
Foreign exchange adjustment	(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

Other provisions as on 31st December 2015 include the warranty provision.

The single largest item among other provisions as on 31st December 2014 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.

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 2015 amounted to PLN 0 thousand (as on 31st December 2014: PLN 1,385 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 2015 (audited)	As at 31 December 2014 (audited)
Trade payables:		
To related parties	542	13
To third parties	365 657	324 996
	366 199	325 009
Taxations, customs duty, social insurance and other payables		
VAT	8 238	8 502
Excise tax	428	1 110
Personal income tax	7 288	5 036
Property taxes	911	870
Dividend tax	-	-
Liabilities for social insurance contributions	8 378	8 635
Customs liabilities	-	21
	25 243	24 174
Other liabilities		
Renumeration payable to employees	2 867	4 516
Pension liabilities	2 969	2 853
Investment liabilities	5 058	4 963
Environmental liabilities	588	774
Prepayments	3 749	1 745
Other liabilities	456	434
	15 686	15 285
TOTAL	407 128	364 468

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 2015 (audited)	As at 31 December 2014 (audited)
Accruals		
Employee costs	64 968	61 733
Audit and legal services	505	760
Transportation costs	4 466	2 591
Claims	1 668	1 853
Costs of energy	3 076	2 061
Other	24 814	21 325
	99 496	90 323
Deferred income		
Grant from Ekofundusz	15 318	16 721
Grant from NFOŚiGW	11 316	12 632
Prepayments	-	-
Other	6 504	3 172
	33 138	32 525
TOTAL	132 634	122 849
- short-term	108 720	96 215
- long-term	23 914	26 634

The main items included in accruals are vacation pay liabilities and bonuses to employees.

35. Capital commitments (unaudited)

As on 31st December 2015, the Group has commitments of no less than PLN 10 million for capital expenditures related to property, plant & equipment in 2016. These expenditures will be incurred for acquisition of new plant and equipment.

As on 31st December 2014, the Group planned to bear expenditures for the purchase of property, plant & equipment in 2015 of no less than PLN 10 million.

36. Contingent liabilities

As on 31st December 2015 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 1,466 thousand (PLN 681 thousand) in Arctic Paper Grycksbo AB and in the amount of SEK 759 thousand (PLN 353 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 2,711 thousand (PLN 1,259 thousand);

- a bank guarantee in favor of Skatteverket Ludvika in the amount of SEK 135 thousand (PLN 63 thousand;
- a guarantee in favor of Södra Cell International AB, the supplier of pulp, in the total amount of SEK 12,000 thousand (PLN 5,575 thousand).

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 2015 proper provision was created to cover recognized and countable tax risk.

37. Related party disclosures

Arctic Paper S.A. Group's related parties are:

- Thomas Onstad – majority shareholder,
- Nemus Holding AB – parent company of Arctic Paper S.A.,
- Progessio S.C. – from 1st January 2014 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 2015-2014:

Data for the period from 1 January 2015 to 31 December 2015 and as at 31 December 2015 (PLN thousand)

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	128	1 370	-	-	2 905	-	517
Thomas Onstad	-	-	-	3 911	-	-	61 411
Progressio S.C.	-	211	-	-	-	-	25
Total	128	1 581	-	3 911	2 905	-	61 953

As on 31st December 2015, the receivables of Nemus Holding AB are overdue, but they are settled by means of compensation with liabilities on services rendered.

Data for the period from 1 January 2014 to 31 December 2014 and as at 31 December 2014 (PLN thousand)

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

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 2015 and 31st December 2014.

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37.2. The parent company

The parent company of the Arctic Paper S.A. Group is Nemus Holding AB, which as on 31st December 2015 holds 57,74% 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 2015 comprises five persons: 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 2015 amounted to PLN 5,069 thousand (PLN 5,360 thousand in the year ended 31st December 2014).

During years 2014 and 2015, no entities within the Group granted any loans to their executives.

The table below presents the remuneration of key executives of the Parent Entity:

Management Board	As at 31 December 2015 (audited)	As at 31 December 2014 (audited)
Short-term employee benefits	5 112	6 535
Post-employment pension and medical benefits	290	297
Termination benefits	-	-
Total compensation paid to key management personnel	5 402	6 832
Supervisory Board		
Short-term employee benefits	1 444	1 483

37.5. Loans granted to the Management Board members

In 2014-2015 either the Parent Entity or any of the subsidiaries did not grant any loans to members of the Management Board.

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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.

38. Information about the contract and remuneration of auditor or audit company

On 25th August 2015 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 2015.

The table below presents the audit company's fees, paid or payable for the year ended 31st December 2015 and 31st December 2014 by category of services:

	As at 31 December 2015 (audited)	As at 31 December 2014 (audited)
Service		
Obligatory audit of annual financial statement	352*	317*
Obligatory audit of annual financial statement (AP S.A. branch)	25	32
Tax advisory	-	-
Other services	3	39
Total	380	388

* - 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, 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.

In the Management Board opinion – compared to consolidated financial statements prepared as on 31st December 2014 there were no significant changes of financial risk and also there were no changes of goals and principles of risk management.

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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 1 p.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 2015		
PLN	+1%	(723)
EUR	+1%	(868)
SEK	+1%	(281)
Year ended 31 December 2014		
PLN	+1%	(860)
EUR	+1%	(914)
SEK*	+1%	(301)

* without taking into account the long-term loan as on 31st December 2014, which was repaid in March 2015

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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2015

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%	(2 605)	-5%	2 605
PLN – USD	+5%	(2 208)	-5%	2 208
PLN – GBP	+5%	754	-5%	(754)
PLN – SEK	+5%	(361)	-5%	361
SEK – EUR	+5%	2 000	-5%	(2 000)
SEK – USD	+5%	(2 531)	-5%	2 531
SEK – GPB	+5%	1 151	-5%	(1 151)

Impact on total comprehensive income (on foreign entities translation)	FX rate increase	Total financial impact	FX rate decrease	Total financial impact
PLN – SEK	+5%	6 006	-5%	(6 006)
PLN – EUR	+5%	(654)	-5%	654

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 – GBP	+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)

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 2015 and 31st December 2014 based on contractual undiscounted payments.

As at 31 December 2015	On demand	Less than 3 months	3-12 months	1-5 years	Over 5 years	Total
Interest bearing loans, borrowings and bonds	-	7 120	87 464	236 178	-	330 761
Financial leases	-	78	4 722	17 507	16 148	38 455
Trade and other payables	283	463 474	49 651	-	-	513 407
Other financial liabilities	194	35 084	48 239	12 534	-	96 051
	477	505 755	190 075	266 219	16 148	978 674

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 leases	-	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

Moreover, as on 31st December 2015 the Group has contingent liabilities in the total amount of PLN 7,931 thousand (31st December 2014: PLN 14,463 thousand).

40. Financial instruments

The Group has the following financial instruments: cash on hand and cash in bank, loans and borrowings, receivables, financial leases liabilities, 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.

	Category compliant with IAS 39	Balance sheet amount As at 31 December 2015	Balance sheet amount As at 31 December 2014	Fair value As at 31 December 2015	Fair value As at 31 December 2014
Financial Assets					
Granted loans	L&R	-	-	-	-
Trade and other receivables	L&R	324 706	308 145	324 706	308 145
Hedging instruments*	FVTCI	944	906	944	906
Other financial assets (excluding loans and hedging intruments)	L&R	1 017	22 493	1 017	22 493
Cash and cash equivalents	FVTCI	188 552	158 412	188 552	158 412
Financial Liabilities					
Interest bearing bank loans and borrowings therein:	OFL	305 188	328 865	305 188	328 865
- long-term interest-bearing	OFL	222 305	269 139	222 305	269 139
- short-term interest-bearing	OFL	82 883	59 726	82 883	59 726
Liabilities under financial leases and hire purchase contracts, therein:		31 588	33 412	31 588	33 412
- long-term		28 523	30 554	28 523	30 554
- short-term		3 065	2 857	3 065	2 857
Trade and other financial payables	OFL	381 885	340 294	381 885	340 294
Hedging instruments*	FVTCI	32 890	16 705	32 890	16 705

* 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 2015 and as on 31st December 2014, is presented below:

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	31 December 2015	Level 1	Level 2	Level 3
Financial assets at fair value through comprehensive income				
Derivatives		-	944	-
Other financial assets				
Trade and other receivables		-	-	324 706
Other financial assets (excluding loans and hedging intruments)		-	-	1 017
Cash and cash equivalents		-	-	188 552
		-	-	-
Financial liabilities at fair value through comprehensive income		-	-	-
Derivatives		-	32 890	-
Other financial liabilities				
Interest bearing bank loans and borrowings		-	-	305 188
Liabilities under financial leases and hire purchase contracts		-	-	31 588
Trade and other financial payables		-	-	381 885

	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 intruments)		-	-	22 493
Cash and cash equivalents		-	-	158 412
Financial liabilities at fair value through comprehensive income				
Derivatives		-	16 705	-
Other financial liabilities				
Interest bearing bank loans and borrowings		-	-	328 865
Liabilities under financial leases and hire purchase contracts		-	-	33 412
Trade and other financial payables		-	-	340 294

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 2015 and 31st December 2014.

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Period ended 31 December 2015	Income/costs on interest	Profit/loss on exchange differences	Income/costs on changes on write-down	Income/costs on valuation	Income/costs on sales of financial instruments	Other	TOTAL
Financial assets							
Derivatives	-	-	-	6 252	-	-	6 252
Trade and other receivables	174	(4 690)	(12 739)	-	-	-	(17 255)
Other financial assets (excluding loans and hedging intruments)	-	-	-	-	-	-	-
Cash and cash equivalents	265	(2 172)	-	-	-	-	(1 907)
Financial liabilities							
Derivatives	-	-	-	(12 060)	-	-	(12 060)
Interest bearing bank loans and borrowings	(17 944)	173	-	-	-	-	(17 772)
Liabilities under financial leases and hire purchase contracts	(1 860)	-	-	-	-	-	(1 860)
Trade and other financial payables	(16)	184	-	-	-	-	168

Period ended 31 December 2014	Income/costs on interest	Profit/loss on exchange differences	Income/costs on changes on write-down	Income/costs on valuation	Income/costs 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 under financial leases and hire purchase contracts	(2 182)	-	-	-	-	-	(2 182)
Trade and other financial payables	(53)	(12 940)	-	-	-	-	(12 993)

40.2. Interest rate risk

The following table sets out the carrying amounts, by maturity, of the Group's financial instruments that are exposed to interest rate risk:

Consolidated financial statements for the year ended 31st December 2015 PLN thousand

31 December 2015 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	3 065	3 122	3 127	3 040	3 087	16 148	31 589
Loans, borrowings and bonds:							
PLN bank overdraft in Bank Polska Kasa Opieki S.A.	20 439	-	-	-	-	-	20 439
PLN bank overdraft in mBank S.A.	5 861	-	-	-	-	-	5 861
PLN bank overdraft in BZ WBK	9 418	-	-	-	-	-	9 418
PLN bank loan in Bank Polska Kasa Opieki S.A.	4 330	21 186	-	-	-	-	25 516
EUR bank loan in Bank Polska Kasa Opieki S.A.	1 377	5 887	-	-	-	-	7 264
PLN bank loan in mBank S.A.	6 355	31 316	-	-	-	-	37 671
EUR bank loan in mBank S.A.	3 235	14 502	-	-	-	-	17 737
PLN bank loan in BZ WBK	3 984	19 444	-	-	-	-	23 428
EUR bank loan in BZ WBK	1 320	5 618	-	-	-	-	6 938
SEK bank loan in SHB	6 363	-	-	-	-	-	6 363
SEK bank loan in SHB	6 303	-	-	-	-	-	6 303
Sum loans, borrowings and bonds	68 984	97 953	-	-	-	-	166 938
TOTAL	72 050	101 075	3 127	3 040	3 087	16 148	198 527

31 December 2015 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	117	17 046	-	-	-	-	17 163
EUR Loan from the owner of the main shareholder	668	-	-	43 579	-		44 248
PLN bank loan in Bank Polska Kasa Opieki S.A.	4 218	21 168	-	-	-	-	25 386
EUR bank loan in Bank Polska Kasa Opieki S.A.	2 960	13 726	-	-	-	-	16 686
PLN bank loan in BZ WBK	3 469	17 392	-	-	-	-	20 861
EUR bank loan in BZ WBK	2 466	11 440	-	-	-	-	13 906
TOTAL	13 898	80 772	-	43 579	-	-	138 250

Consolidated financial statements for the year ended 31st December 2015 PLN thousand

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 finance 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 mBank S.A.	3 258	-	-	-	-	-	3 258
PLN bank overdraft in BZ WBK	-	-	-	-	-	-	-
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 mBank S.A.	6 303	6 247	31 415	-	-	-	43 965
EUR bank loan in mBank 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 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							
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

40.3. Hedge accounting

As on 31st December 2015 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.
- 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,
- Arctic Paper Kostrzyn S.A. designated for cash flow hedge accounting the FX forward derivatives in order to hedge a part of currency inflows in EUR and expenditures in USD and reversed FX forward derivatives, i.e. purchase of EUR and sale of USD.

40.3.1. Cash flow hedge accounting

As on 31st December 2015 as well as on 31st December 2014 the Group held currency forward contracts, a forward contract for electricity purchases and an interest SWAP contract, as cash flow hedge instruments.

Cash flow hedge accounting on the grounds of 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 cash flow variations related to scheduled purchases of electricity in foreign currencies
Hedge item	Part of future highly probable cash flows resulting from purchases of electricity denominated in EURO
Hedging instruments	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 17.10.2016
Hedged amount	1.6 mln EUR
Forward ratio	9.00 SEK/EUR

The table below presents detailed information concerning the hedging relationship in the cash flow hedge accounting on the sales of USD for SEK:

Hedge type	Hedging cash flow variations related to scheduled sales in foreign currencies
Hedge item	Part of the future highly probable cash flows resulting from export sales
Hedging instruments	FX forward transactions in which the Company commits to sell USD for SEK
Forward contract parameters	
Trade date	2 015
Delivery date	depending on the contract, till 05.02.2016
Hedged amount	4.5 mln USD
Forward ratio	8.68 SEK/USD

The table below presents detailed information concerning the hedging relationship in the cash flow hedge accounting on the sales of EUR for USD and the reversed instrument:

Hedge type	Hedging cash flow variations related to scheduledsales in foreign currencies and limiting the settlement amount of FX forward transaction
Hedge item	Part of the future highly probable cash flows resulting from export sales
Hedging instruments	FX forward transactions in which the Company commits to sale EUR for USD and FX forward transactions in which the Company commits to buy EUR for USD
Forward contract parameters	
Trade date	2 015
Delivery date	depending on the contract, untill 31.03.2016
Hedged amount	3.0 mln EUR
Forward ratio	sell EUR - 1.17 EUR/USD; buy EUR - 1,10 EUR/USD

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:

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Hedge type	Hedging cash flow variations related to electricity purchases
Hedge item	Part of the future highly probable cash flows resulting from electricity purchases
Hedging instruments	Forward transactions for electricity purchases on the Nord Pool Stock Exchange
Forward contract parameters	
Trade date	depending on the contract, since 01.01.2013
Delivery date	depending on the contract, untill 31.12.2019
Hedged amount	982.000 MWh
Forward price	from 27.45 to 38.30 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 cash flow variations related to flexible rate interest on a long-term bank loan denominated in EURO
Hedge item	Future cash flows in EUR connected with payment of interest based on 3M EURIBOR on a bank loan denominated in EURO
Hedging instruments	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 7.2 mln
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 cash flow variations related to flexible interest rate on a long-term bank loan denominated in PLN
Hedge item	Future cash flows in PLN connected with payment of interest based on 3M WIBOR on a bank loan denominated in PLN
Hedging instruments	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 loan of PLN 26.1 mln and PLN 21.4 mln
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 2015 and the comparative data:

	As at 31 December 2015		As at 31 December 2014	
	(audited)	(audited)	(audited)	(audited)
	Assets	Liabilities	Assets	Liabilities
FX forward	944	-	906	-
SWAP	-	2 001	-	2 966
Electricity forward	-	30 889	-	13 739
Total hedging derivatives	944	32 890	906	16 705

The table below presents the nominal value of hedging derivatives as on 31st December 2015:

	1 year	1 to 5 years	Over 5 years	Total
FX forward:				
Currency sold (in EUR thousand)	3 000	-	-	3 000
Currency purchased (in EUR thousand)	4 600	-	-	4 600
Currency purchased (in USD thousand)	4 500	-	-	4 500
Electricity forward:				
Electricity purchased (in PLN thousand)	76 548	121 969	-	198 517
SWAP on interest				
instalment payments (in PLN thousand)	13 113	63 726	-	76 839

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The table below presents cash flow hedge accounting amounts which were recognized by the Group in 2015 in the profit and loss account and in comprehensive income statement:

	Year ended 31 December 2015 (audited)
Revaluation reserve capital as at 31 December 2015 - revaluation to fair value of hedging derivatives on account of the hedged risk, corresponding to the effective hedging	(10 879)
Ineffective part of the revaluation to fair value of hedging derrivatives on account of the hedged risk, recognized in financial income or cost	(170)
Period, in which the hedged cash flows are expected to occur	1 January 2016 - 31 December 2019

The table below presents changes in the revaluation reserve capital on account of cash flow hedge accounting in 2015:

	Year ended 31 December 2015 (audited)
Revaluation reserve capital as at 1 January 2015	(12 412)
Deferral of revaluation to fair value of hedging derivatives on account of the hedged risk, corresponding to the effective hedge	(11 049)
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	2 468
Revaluation reserve capital as ast 31 December 2015	(20 993)

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 2015 and 31st December 2014.

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 2015 (audited)	As at 31 December 2014 (audited)
Interest bearing loans, borrowings and bonds, and other financial liabilities	429 749	426 946
Trade and other payables	407 128	364 468
Less cash and short term deposits	(188 552)	(158 412)
Net debts	648 324	633 002
Equity	676 856	725 071
Capital and net debt	1 325 180	1 358 073
Gearing ratio	0,49	0,47

Compared to financial statements for year 2014, there was an increase of financial gearing ratio from 0.47 to 0.49.

42. Employment structure

The average employment in the Group in the years ended 31st December 2015 and 31st December 2014 was as follows:

	As at 31 December 2015 (audited)	As at 31 December 2014 (audited)
Management Board of the parent entity	5	5
Management Boards of subsidiary companies	25	26
Administration department	127	129
Sales department	170	217
Production department	1 292	1 246
Other	151	140
Total	1 770	1 763

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, 2014 and 2015.

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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	263 932	-	-	-	-	-
Amount used	(150 577)	(147 950)	(162 467)					
Amount purchased	-	-	-					
Amount sold	-	-	-					
Amount unused	306 448	263 932	203 917					

(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	107 325					
Amount used	(1 281)	(3 407)	(32 465)					
Amount purchased	-	-	7					
Amount sold	-	-	(100 000)					
Amount unused	67 262	107 325	17 559					

(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	734					
Amount used	-	-	-					
Amount purchased	-	-	-					
Amount sold	(35 000)	(186 403)	(75 000)					
Amount unused	111 448	734	60					

(in tonnes) for Rottneros' subsidiaries	2013	2014	2015	2016	2017	2018	2019	2020
Amount granted	30 681	30 484	29 938	29 387	28 830	28 268	27 698	27 127
Amount not used in previous years	72 888	90 522	101 986					
Amount used	(13 047)	(19 020)	(26 933)					
Amount purchased	-	-	-					
Amount sold	-	-	-					
Amount unused	90 522	101 986	104 991					

* - 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 2015 the Group received the rights in the amount of: yellow certificates MWh 189,134.404 (2014: MWh 104,667.744) and red certificates MWh 48,550.979 (2014: MWh 37,166.257). In 2015, revenues from allocation of cogeneration certificates amounted to PLN 22,527 thousand (2014: 11,317 thousand).

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 2015 AP Grycksbo received rights in the amount of green certificates MWh 15,901 (2014: MWh 26,044). In 2015, revenue on sales of certificates amounted to PLN 735 thousand (2014: PLN 1,463 thousand).

On the grounds of electricity produced in cogeneration in 2015 the companies of Rottneros Group received MWh 138,580 of certificates (2014: MWh 128,000). In 2015, sales revenue on certificates amounted to PLN 1,461 thousand (2014: PLN 1,645 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 2015, 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 heavily 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. Item 1 of the permit, related to the date until which APK may exercise the permit was cancelled with a decision of the Minister of Economy no 321/IW/14 dated 6th November 2014. Currently APK may exercise the permit until 2026, i.e. until the term of existence of SSE in Poland under currently effective regulations. 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 2015, 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 52,931 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 22,065 thousand as on 31st December 2015.

46. Events after the reporting period

On 19th January 2016, in connection with current report no 10/2015 dated 28st July 2015, the Management Board of Arctic Paper S.A. announced that on that day further actions were performed under profitability improvement program of Arctic Paper Group. The Management Board of the subsidiary Arctic Paper Grycksbo AB started negotiations with trade unions of the mill, the purpose of which is to reduce fixed costs by app. SEK 12 million (app. PLN 5.8 million) in 2016 and by app. SEK 25 million (app. PLN 12 million) in 2017, as well as improvement of Grycksbo mill's productivity. For this purpose, the facility can potentially reduce employment by app. 40 people during 2016.

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	21 March 2016	
Member of the Management Board Chief Financial Officer	Malgorzata Majewska-Śliwa	21 March 2016	
Member of the Management Board Chief Procurement Officer	Jacek Łoś	21 March 2016	
Member of the Management Board Chief Operating Officer	Per Skoglund	21 March 2016	
Member of the Management Board Sales Director	Michał Sawka	21 March 2016	

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