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ARCTIC PAPER S.A. CAPITAL GROUP  
Consolidated Annual Report  
for the year ended 31st December 2016

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

Dear Sirs,

### **2016 – a good year with more steps to a more stable future.**

It's not without satisfaction that I now conclude that in 2016 we delivered a great result for 2016. Not only financially was this a remarkable result, also in the aspects of market presence, production efficiency and product development Arctic Paper progressed in the right direction.

Our operations delivered an improved and good result due to several proactive measures taken during 2015 and 2016. The operating result (EBIT) of PLN 125,0 million and net result of PLN 58,0 million are solid figures and give credit to the work performed in production, on the market and of all other functions in the company. Combined with total revenues of PLN 2.96 billion we created a good base for further developments.

### **Finalized the Profit Improvement Program 2015/16**

Already in the beginning of 2016 we saw the first, inspiring signs that our efforts regarding financial improvements were having the intended effects. These effects became stronger during the coming months, proving that there are possibilities even in the complicating graphical paper market. In the aspects of market presence, production efficiency and product development we have shown endurance, which were resulting in a good year 2016. The construction of a successful re-financing, accomplished in the autumn of 2016, only emphasizes this.

Some bigger and many small actions combined created the Profit Improvement Program 2015/16. The program has now successfully met its target, with savings of PLN 46 million during 2016, and the remaining part in Q1 2017.

### **Market gains and a new refinancing creates a new base.**

Creating new grades has always been at the core of our way of doing business to face the declining graphical fine paper markets in Europe. Also in 2016 we gained market shares. The launch of the first 'Arctic Paper Highway' grades into the HighSpeedInkJet niche market has proven this strategy and is a very positive achievement. Additional grades for this segment will follow in 2017.

The aim to reduce our net debt to EBITDA and optimising our working capital continued with intensified efforts during the year. In Q3 2016 we managed to create a new and truly improved structure for financing of our operations. This meant full repayment of the prior indebtedness, and a complete

implementation of the new financing structure during 2016. Thereby the financial stability was greatly improved and the flexibility that the volatile market demands increased.

### **Rottneros – the perfect match**

A continued reliable result in 2016 from Rottneros has a great value for the Arctic Paper Group. It also confirms the favourability that our investment in Rottneros has had. The two companies have proven, separately, their closeness and natural positions with-in the business chain of the pulp and paper market.

It is with confidence we have entered 2017 and we continue to see positive signs of our actions. During the year we will invest in enhanced production efficiency as well as in our competences of developing and marketing the unique high-quality grades we bring to the market.

*Yours faithfully*

*Per Skoglund*

*President of Management Board of Arctic Paper S.A.*

## Introduction

### Information on the report

This Consolidated Annual Report for 2016 was prepared in accordance with the Regulation of the Minister of Finance of 19 February 2009 on current and periodic disclosures made by issuers of securities and terms and conditions of classifying as equivalent information required by the law of non-member states (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 EU.

As at the approval date of these consolidated financial statements for publication, 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 effective IFRS standards and the IFRS standards endorsed by the European Union. IFRS comprise standards and interpretations accepted by the International Accounting Standards Board (IASB) and the International Financial Reporting Standards Interpretation Committee (IFRIC).

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

This Consolidated Annual Report presents data in PLN, and all figures, unless otherwise specified, are disclosed in PLN thousand.

### Definitions and abbreviations

Unless the context requires otherwise, the following definitions and abbreviations are used in the whole document:

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

Arctic Paper, Company, Issuer, Parent Company, AP	Arctic Paper Spółka Akcyjna with its registered office 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 ventures
Arctic Paper Kostrzyn, AP Kostrzyn, APK	Arctic Paper Kostrzyn Spółka Akcyjna with its registered office in Kostrzyn nad Odrą, Poland
Arctic Paper Munkedals, AP Munkedals, APM	Arctic Paper Munkedals AB with its registered office in Munkedal Municipality, Västra County, Sweden
Arctic Paper Mochenwangen, AP Mochenwangen, APMW	Arctic Paper Mochenwangen GmbH with its registered office in Mochenwangen, Germany
Arctic Paper Grycksbo, AP Grycksbo, APG	Arctic Paper Grycksbo AB with its registered office in Kungsvagen, Grycksbo, Sweden
Paper Mills	Arctic Paper Kostrzyn, Arctic Paper Munkedals, Arctic Paper Grycksbo, Arctic Paper Mochenwangen (by the end of December 2015)
Arctic Paper Investment AB, API AB	Arctic Paper Investment AB with its registered office in Göteborg, Sweden
Arctic Paper Investment GmbH, API	Arctic Paper Investment GmbH with its registered office in Wolpertswende, Germany

GmbH	
Arctic Paper Verwaltungs	Arctic Paper Verwaltungs GmbH with its registered office in Wolpertswende, Germany
Arctic Paper Immobilienverwaltungs	Arctic Paper Immobilienverwaltungs GmbH & Co. KG with its registered office in Wolpertswende, Germany
Kostrzyn Group	Arctic Paper Kostrzyn Spółka Akcyjna with its registered office in Kostrzyn nad Odrą and EC Kostrzyn Sp. z o.o. with its registered office in Kostrzyn nad Odrą
Mochenwangen Group	Arctic Paper Investment GmbH, Arctic Paper Mochenwangen GmbH, Arctic Paper Verwaltungs GmbH, Arctic Paper Immobilienverwaltungs GmbH & Co.KG (disclosed in this report as discontinued operations)
Grycksbo Group	From 8 July 2014: Arctic Paper Grycksbo AB, formerly: Arctic Paper Grycksbo AB and Grycksbo Paper Holding AB
Sales Offices	Arctic Paper Papierhandels GmbH with its registered office in Vienna (Austria); Arctic Paper Benelux SA with its registered office in Oud-Haverlee (Belgium); Arctic Paper Danmark A/S with its registered office in Greve (Denmark); Arctic Paper France SA with its registered office in Paris (France); Arctic Paper Deutschland GmbH with its registered office in Hamburg (Germany); Arctic Paper Ireland Ltd with its registered office in Dublin (Ireland); liquidated on 25 October 2016 Arctic Paper Italia Srl with its registered office in Milan (Italy); Arctic Paper Baltic States SIA with its registered office in Riga (Latvia); Arctic Paper Norge AS with its registered office in Kolbotn (Norway); Arctic Paper Polska Sp. z o.o. with its registered office in Warsaw (Poland); Arctic Paper España SL with its registered office in Barcelona (Spain); Arctic Paper Sverige AB with its registered office in Munkedal (Sweden); Arctic Paper Schweiz AG with its registered office in Zurich (Switzerland); Arctic Paper UK Ltd with its registered office in Caterham (UK); Arctic Paper East Sp. z o.o. with its registered office in Kostrzyn nad Odrą (Poland);
Arctic Paper Finance AB	Arctic Paper Finance AB with its registered office in Göteborg, Sweden
Rottneros, Rottneros AB	Rottneros AB with its registered office in Sunne, Sweden
Rottneros Group, Rottneros AB Group	Rottneros AB with its registered office in Sunne, Sweden; Rottneros Bruk AB with its registered office in Sunne, Sweden; Utansjo Bruk AB with its registered office in Harnösand, Sweden, Vallviks Bruk AB with its registered office in Söderhamn, Sweden; Rottneros Packaging AB with its registered office in Stockholm, Sweden; SIA Rottneros Baltic with its registered office in Ventspils, Latvia
Pulp Mills	Rottneros Bruk AB in Sunne, Sweden; Vallviks Bruk AB with its registered office in Söderhamn, Sweden
Rottneros Purchasing Office	SIA Rottneros Baltic with its registered office in Latvia
Office Kalltorp	Kalltorp Kraft Handelsbolaget with its registered office in Trollhattan, Sweden
Nemus Holding AB	Nemus Holding AB with its registered office in Göteborg, Sweden
Thomas Onstad	The Issuer's core shareholder, holding directly and indirectly over 50% of shares in Arctic Paper S.A.; 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	
GM, General Meeting, Issuer's General Meeting, Company's General Meeting	General Meeting of Arctic Paper S.A.
EGM, Extraordinary General Meeting, Issuer's Extraordinary General Meeting, Company's Extraordinary General Meeting	Extraordinary General 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
Warsaw Stock Exchange, WSE	Giełda Papierów Wartościowych w Warszawie Spółka Akcyjna
KDPW, Depository	Krajowy Depozyt Papierów Wartościowych Spółka Akcyjna with its registered office in Warsaw
PFSA	Polish Financial Supervision Authority
SFSA	Swedish Financial Supervisory Authority, equivalent to PFSA
NASDAQ in Stockholm, Nasdaq	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	Central Statistical Office of Poland
NBSK	Northern Bleached Softwood
BHKP	Bleached Hardwood Kraft Pulp

#### Definitions of selected terms and financial indicators and abbreviations of currencies

Sales profit margin	Ratio of profit (loss) on sales to sales revenues from continuing operations
EBIT	Profit on continuing operating activity (Earnings Before Interest and Taxes)
EBIT profitability, operating profitability, operating profit margin	Ratio of operating profit (loss) to sales revenues from continuing operations
EBITDA	Operating profit from continuing operations plus depreciation and amortisation and impairment charges (Earnings Before Interest, Taxes, Depreciation and Amortisation)
EBITDA profitability, EBITDA margin	Ratio of operating profit plus depreciation and amortisation and impairment charges to sales revenues from continuing operations
Gross profit margin	Ratio of gross profit (loss) to sales revenues from continuing operations
Sales profitability ratio, net profit margin	Ratio of net profit (loss) to sales revenues
Return on equity, ROE	Ratio of net profit (loss) to equity income
Return on assets, ROA	Ratio of net profit (loss) to total assets
EPS	Earnings Per Share, ratio of net profit to the weighted average 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 fixed assets ratio	Ratio of equity to fixed 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 from continuing operations
Solidity ratio	Ratio of equity (calculated in compliance with Swedish GAAP accounting principles) to 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 expense from continuing operations
Current liquidity ratio	Ratio of current assets to short-term liabilities
Quick ratio	Ratio of current assets minus inventory and short-term accruals, prepayments and deferred costs to current liabilities
Acid test ratio	Ratio of total cash and similar assets to short-term liabilities
DSI	Days Sales of Inventory, ratio of inventory to cost of sales multiplied by the number of days in the period
DSO	Days Sales Outstanding, ratio of trade receivables to sales revenues from continuing operations multiplied by the number of days in the period
DPO	Days Payable Outstanding, Ratio of trade payables to cost of sales from continuing operations multiplied by the number of days in the period
Operating cycle	DSI + DSO
Cash conversion cycle	Operating cycle – DPO
FY	Financial year
Q1	1st quarter of the financial year
Q2	2nd quarter of the financial year
Q3	3rd quarter of the financial year
Q4	4th quarter of the financial year
H1	First half of the financial year
H2	Second half of the financial year
YTD	Year-to-date
Like-for-like, LFL	Analogous, with respect to operating result.
p.p.	Percentage point – difference between two amounts of one item given in percentage
PLN, zł, zloty	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 United Kingdom
thousand	Swedish Krona – monetary unit of the Kingdom of Sweden
USD	United States dollar, the 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 Shares of Arctic Paper S.A. A series ordinary shares of PLN 1 each.
Series B Shares	44,253,500 Shares of Arctic Paper S.A. B series ordinary shares of PLN 1 each.
Series C Shares	8,100,000 Shares of Arctic Paper S.A. C series ordinary shares of PLN 1 each.
Series E Shares	3,000,000 Shares of Arctic Paper S.A. E series ordinary shares of PLN 1 each.
Series F Shares	13. 884,283 Shares of Arctic Paper S.A. F series ordinary shares of the nominal value of PLN 1 each
Shares, Issuer's Shares	Series A, Series B, Series C, Series E, and Series F Shares jointly

### Forward looking statements

The information contained in this 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 this 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 occur, 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 as at the date they are expressed. Unless legal regulations 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.

### Forward looking statements relating to risk factors

In this report we described the risk factors that the Management Board of our Group considers specific to the sector we operate in; however, the list may not be exhaustive. Other factors may arise that have not been identified by us and that could have material and adverse impact in the business, financial condition, results on operations or prospects of the Arctic Paper Group. In such circumstances, the price of the shares of the Company listed at the Warsaw Stock Exchange or

at NASDAQ in Stockholm may decrease, investors may lose their invested funds in whole or in part and the potential dividend disbursement by the Company may be limited.

We ask you to perform a careful analysis of the information disclosed in 'Risk factors' of this report – the section contains a description of risk factors and uncertainties related to the business of the Arctic Paper Group.



Management Board's Report from operations of the Arctic  
Paper S.A. Capital Group  
to the report for 2016



## Description of the business of the Arctic Paper Group

### General information

The Arctic Paper Group is a leading European producer in terms of production volume of bulky book paper, offering a broad range of products in the segment and one of the leading producers of high-quality graphic paper in Europe. 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. In connection with acquisition of the Rottneros Group in December 2012, our assortment was expanded with the production of pulp. As at 31 December 2016 the Arctic Paper Group employs about 1,750 people in its Paper Mills, companies involved in sale of paper and in pulp producing companies, procurement office and a company producing food packaging. The Group's Paper Mills are located in Poland and Sweden, and have total production capacity of over 700,000 tons of paper per

year. Paper production in the Paper Mill located in Germany, with total production output of 115,000 tons of paper annually, was discontinued at the end of 2015. Our Pulp Mills are located in Sweden and have aggregated production capacities of over 400,000 tons of pulp annually. As at 31 December 2016 the Group had 14 Sales Offices ensuring access to all European markets, including Central and Eastern Europe. Our consolidated sales revenues for 12 months of 2016 amounted to PLN 2,967 million.

Arctic Paper S.A. is a holding company set up in April 2008. The Parent Entity is entered in the register of entrepreneurs of the National Court Register maintained by the District Court in Poznań – Nowe Miasto i Wilda, 8th Commercial Division of the National Court Register, under KRS number 0000306944. The Parent Entity holds statistical number REGON 080262255.

### Group Profile

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

The Group's additional business, partly subordinate to paper production, covers:

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

## Our production facilities

As on 31 December 2016 as well as on the day hereof, the Group owned the following Paper Mills:

- the Paper Mill in Kostrzyn nad Odrą (Poland) has the production capacity of about 280,000 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 the production capacity of about 160,000 tons per year and mainly produces fine uncoated wood-free paper used primarily for printing books and high-quality brochures;
- the Paper Mill in Grycksbo (Sweden) has the production capacity of about 265,000 tons per year and produces coated wood-free paper used for printing maps, books, magazines, posters and printing of advertising materials.

Additionally, at the end of 2015, production in the Paper Mill in Mochenwangen (Germany) was discontinued – it used to have production capacity of about 115.00 tons annually.

As on 31 December 2016 as well as on the day hereof, the Group owned the following Pulp Mills:

- The Pulp Mill in Rottneros (Sweden) has production capacity of about 150,000 tons annually and produces mainly two types of mechanical pulp: groundwood and chemo thermo mechanical pulp CTMP;
- the Pulp Mill in Vallvik (Sweden) has the annual production capacity of about 250,000 tons and produces two types of long-fibre sulphate pulp: fully bleached sulphate pulp and unbleached sulphate pulp. The most of Vallvik Pulp Mill production is known as NBSK pulp. The unbleached sulphate pulp produced by the Pulp Mill is characterised by very high purity and is primarily used to produce transformers and in cable industry.

## Our products

The product assortment of the Arctic Paper Group covers:

Uncoated wood-free paper, in particular:

- white offset paper that we produce and distribute primarily under the Amber brand which is one of the most versatile types of paper destined for various applications;
- woodfree bulky book paper that we produce under the Munken brand, used primarily for book printing;
- high quality graphic paper with very smooth surface, used for printing of various advertising and marketing materials that we produce under the Munken brand;

Coated wood-free paper, in particular:

- coated woodfree paper, manufactured under the G-Print and Arctic brands, used primarily for printing of books, magazines, catalogues, maps, personalised direct mail correspondence.

Uncoated wood-containing paper, in particular:

- premium wood containing bulky book paper that we produce and distribute under the Munken brand, was developed specially for multi-colour and B/W printing of books;

#### Unbleached sulphate pulp:

- fully bleached sulphate pulp and unbleached sulphate pulp used primarily to produce printing and writing paper, cardboard, toilet paper and white packaging paper.

#### Mechanical fibre pulp:

- chemo thermo mechanical pulp (CTMP) and groundwood which are used mainly for production of printing and writing papers;

Until the end of 2015 the Group used to produce wood containing bulky book paper under the PAMO brand and wood containing offset paper under the L-Print brand. In view of discontinued production at the Paper Mill in AP Mochenwangen, the Group discontinued manufacturing those kinds of paper.

### Capital Group structure

The Arctic Paper Capital Group comprises Arctic Paper S.A., as the Parent Entity, and its subsidiaries, as well as joint ventures. Since 23 October 2009, Arctic Paper S.A. has been listed on the primary market of the Warsaw Stock Exchange and since 20 December 2012 in the NASDAQ stock exchange in Stockholm. The Group operates through its Paper Mills and Pulp Mills and its

subsidiary producing packaging as well as its Sales Offices and Procurement Offices.

Detailed information on the organisation of the Arctic Paper S.A. Capital Group with identification of the consolidated entities is provided in the section 'Accounting principles (policies)' and in note to the consolidated financial statements (Note No. 1 and 2).

### Changes in the capital structure of the Arctic Paper Group

In 2016, no material changes in the capital structure of the Arctic Paper Group occurred.

### Amendments to the core management principles

In 2016 there were no material amendments to the core management principles.

### Shareholding structure

Nemus Holding AB, a company under Swedish law (a company owned indirectly by Mr Thomas Onstad), is the majority shareholder of Arctic Paper S.A., holding (as at 31 December 2016) 40,231,449 shares of our Company, which constitutes 58.06% of its share capital and corresponds to 58.06% of the total number of votes at General Meetings. Thus Nemus Holding AB is the parent entity of the Issuer.

Additionally, Mr Thomas Onstad, an indirect shareholder of Nemus Holding AB, holds directly 6,073,658 shares representing 8.77% of the total number of shares in the Company, and via another entity – 900,000 shares accounting for 1.30% of the total number of shares of the Issuer. Mr Thomas Onstad's total direct and indirect holding in the capital of Arctic Paper S.A. as at 31 December 2016 was 68.13% and has not changed until the date hereof.

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

Shareholder	as at 20.03.2017				as at 10.11.2016			
	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 [%]
<b>Thomas Onstad</b>	<b>47 205 107</b>	<b>68,13%</b>	<b>47 205 107</b>	<b>68,13%</b>	<b>47 205 107</b>	<b>68,13%</b>	<b>47 205 107</b>	<b>68,13%</b>
- indirectly via	41 131 449	59,36%	41 131 449	59,36%	41 356 449	59,69%	41 356 449	59,69%
<i>Nemus Holding AB</i>	40 231 449	58,06%	40 231 449	58,06%	40 006 449	57,74%	40 006 449	57,74%
<i>other subsidiary</i>	900 000	1,30%	900 000	1,30%	1 350 000	1,95%	1 350 000	1,95%
- directly	6 073 658	8,77%	6 073 658	8,77%	5 848 658	8,44%	5 848 658	8,44%
Others	<b>22 082 676</b>	<b>31,87%</b>	<b>22 082 676</b>	<b>31,87%</b>	<b>22 082 676</b>	<b>31,87%</b>	<b>22 082 676</b>	<b>31,87%</b>
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%
<b>Total</b>	<b>69 287 783</b>	<b>100,00%</b>	<b>69 287 783</b>	<b>100,00%</b>	<b>69 287 783</b>	<b>100,00%</b>	<b>69 287 783</b>	<b>100,00%</b>

The data in the above table is provided as of the date of approval hereof and as of the publication date of the quarterly report for Q3 2016.

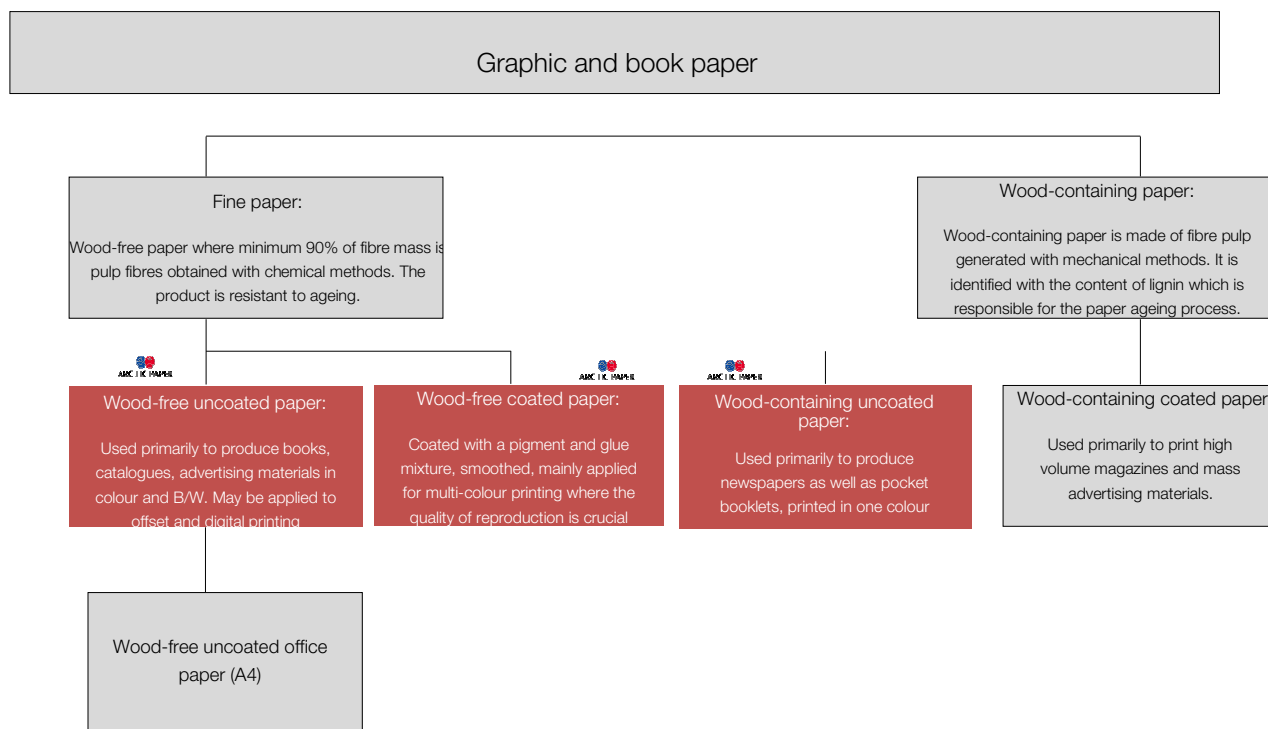
## Market environment

### Segments of the graphic paper market

The graphic paper market is split into three core segments:

- high-quality paper,
- newsprint paper,
- magazine paper.

The Group operates solely in the segment of high quality graphic papers. We are not present in the segment of newsprint paper and paper used to print magazines or photocopy or office paper



Below is a description of segments in the graphic market:

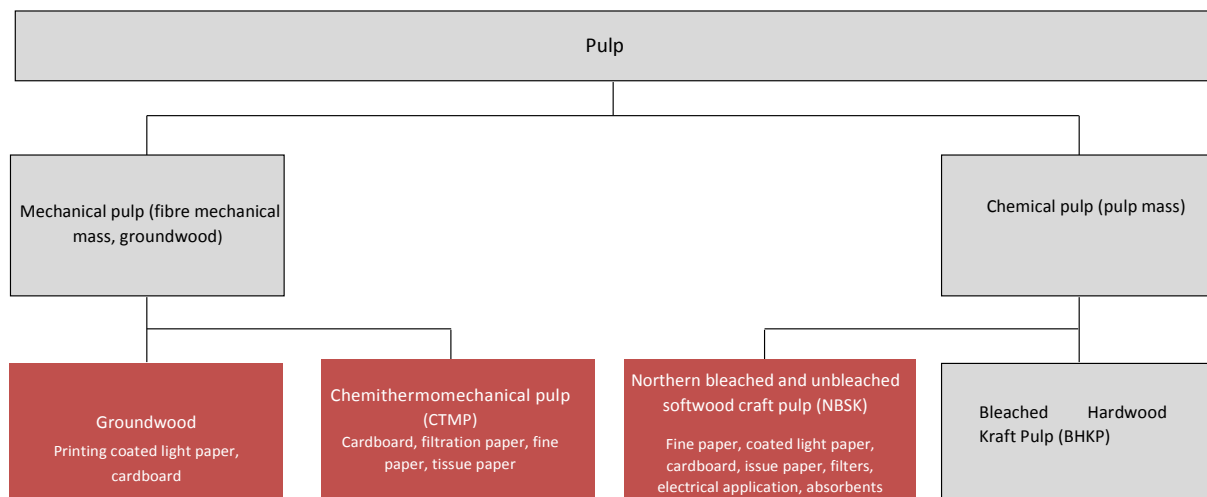
- fine paper is wood-free paper where minimum 90% of fibre mass is pulp fibres obtained with chemical methods;
- uncoated wood-free paper made of pulp. It may be subject to additional processing like surface sizing, calendering, surface or mass dyeing. Two core categories of the paper include graphic paper (used e.g. to print books, handbooks and catalogues) and office copying paper.
- coated wood-free paper made of pulp is subject to coating with pigment and glue mixtures (kaolin, calcium carbonate). The coating may be performed on paper machines (online) or outside paper machines (offline). Coating of paper improves its smoothness and transparency of the background, improves the quality of colour reproduction.

- Wood-containing paper is most often manufactured of mechanical pulp or recycled-paper pulp, without or with small quantities of filler. It contains lignin which increases the opacity of the paper but accelerates ageing.
- uncoated wood-containing paper is manufactured of mechanical pulp, used to print magazines with rotogravure and offset techniques (newsprint) and to print single-colour publications. Products of the Group in that segment are usually used to print paperbacks.
- coated wood-containing paper is manufactured of mechanical pulp, it is double coated. It is used to print multi-colour magazines and catalogues. In that product group there is e.g.: SC (Supercalandered), MFC (Machine Finished Coated), LWC (Light Weight Coated), ULWC (Ultra Light Weight Coated) MWC (Medium Weight Coated). The paper in the form of rolls is used for typographic, offset and flexo printing.



Additional information on the market environment is provided further in this report in the section: Information on market trends.

### Segments of the pulp market



Since December 2012, along with the acquisition of Rottneros AB, our assortment has been expanded by:

- fully bleached sulphate pulp and unbleached sulphate pulp used primarily to produce printing and

writing paper, cardboard, toilet paper and white packaging paper.

- chemo thermo mechanical pulp (CTMP) and groundwood which are used mainly for production of printing and writing papers.

### Development directions and strategy

The core elements of the strategy of the Group include:

#### Development in the Central and East European markets while maintaining a leading position in core markets

Our strategic objective for the coming years is to maintain our leading position in high quality paper for West European markets while benefiting from the anticipated growth of the paper market in the Central and East European markets. The West European markets remain our strategic objective due to their size; however, we are of the opinion that the paper market in Central and Eastern Europe will grow faster than

Western Europe. We expect the growth to rely on long-term growth of the low paper consumption per inhabitant and the anticipated transfer of printing capacities from Western Europe to Central and Eastern Europe. The core elements of the strategy cover the use of our competitive advantages resulting from the location and effective performance of our Paper Mill in

Kostrzyn nad Odrą and the expansion of our sales network in Central and Eastern Europe.

### Continued improvement of production performance and distribution

A core element underlying the success of our business is the ability to maintain cost effectiveness. In this connection we pursue the following initiatives:

- maximisation of energy effectiveness,
- careful HR management,
- use of our strong bargaining position to negotiate lower prices of pulp and other materials purchased from external suppliers,
- maximisation of performance of our production lines and effectiveness of logistics systems.

### Sales structure

In 2016 and in 2015, the sales structure by main product lines was as follows:

#### Sales structure by products

<i>tonnes thousands</i>	2016 share %		2015 share %	
<i>Paper</i>	661	65%	671	66%
Amber	329	32%	324	32%
G-Print	128	13%	145	14%
Munken	100	10%	91	9%
Arctic	104	10%	103	10%
AP Tech	0	0%	1	0%
Other	-	0%	7	1%
<i>Pulp</i>	351	35%	344	34%
NBSK	206	20%	201	20%
Groundwood	67	7%	67	7%
CTMP	77	8%	75	7%
<b>Total paper and pulp</b>	<b>1 012</b>	<b>100%</b>	<b>1 015</b>	<b>100%</b>

## Sales revenues structure by products

<i>PLN thousands</i>	2016	share %	2015	share %
<i>Paper</i>	2 219 154	75%	2 159 642	74%
Amber	1 042 710	35%	981 273	34%
G-Print	389 778	13%	413 688	14%
Munken	451 037	15%	419 438	14%
Arctic	334 907	11%	328 590	11%
AP Tech	722	0%	3 730	0%
Other	-	0%	12 923	0%
<i>Pulp</i>	747 818	25%	740 818	26%
NBSK	501 423	17%	504 539	17%
Groundwood	114 972	4%	109 605	4%
CTMP	131 423	4%	124 659	4%
Other	-	0%	2 015	0%
<b>Total paper and pulp</b>	<b>2 966 972</b>	<b>100%</b>	<b>2 900 460</b>	<b>100%</b>

In 2016 there were no material changes to the sales structure of paper and pulp by the Group or in the revenue structure from sales of paper and pulp by the Group by its products.

### Sales markets

In 2016, the proportion of the Group's sales outside of Poland in PLN thousand was 88% and was not changed versus 2015 (88%). This year, similarly to previous years, sales were focused on European markets. The share of those markets in the overall value of sales was 94% in 2016 (92% in the previous year).

The geographical structure of sales revenues by the main markets in 2016 versus the previous year is presented in note No. 10.1 to the consolidated financial statements.

### Buyers

The base of our customers covers both direct and indirect buyers. Direct buyers purchase the Group's products at our Paper Mills. Indirect buyers do not acquire the Group's products directly but use the services of advertising companies or paper distributors; nevertheless, they are an important target group of marketing activities by Arctic Paper since it is the indirect buyers that recommend or indicate the use of the Group's products by direct buyers. The groups of direct and indirect buyers of products include:

- printing houses – they are direct buyers straight from the Group's Paper Mills,
- distributors – they are direct buyers of paper manufactured by the Group for further re-sale,
- publishers – they are direct and indirect buyers of paper manufactured by the Group straight from the Group for their publishing business and instruct or recommend the use of our paper to printing houses to which they commission the printing of books and other publications,
- advertising agencies – they are mainly indirect buyers that do not buy our products directly; however, they play an important role in

commissioning and recommending our products to printing houses, in particular high quality paper to print annual reports of companies, brochures, leaflets and packaging,

- final buyers – those are direct and indirect buyers that buy our products directly; they also play an important role in commissioning and recommending our products to printing houses to which they commission printing services.

Pulp mill products are mainly bought by customers that produce paper for printing, paper hygienic products and

cardboard as well as electrical devices and filters. Pulp is supplied to entities that do not have the capacity to produce pulp by themselves and to buyers that produce certain types of pulp and look for suppliers of other types of pulp.

In our opinion, we are not materially dependent on any single specific buyer. The Group's consolidated revenues for 2016 show that the share of the largest buyer did not exceed 10% of total sales revenues.

## Vendors & Suppliers

In its business, the Group relies on the following goods and services:

- Pulp for Paper Mills,
- Wood for Pulp Mills,
- Chemicals,
- Electricity,
- Transport services.

## Pulp

Pulp is the core material used by the Group to produce paper. The Group acquires pulp on the basis of revolving annual contracts concluded under framework agreements or one-off transactions.

As a result of the acquisition of the Rottneros Group in December 2012, a part of pulp is provided to the Pulp Mills from the Rottneros Group Pulp Mills.

## Wood

Wood is the core material used by the Pulp Mills to produce pulp. The Rottneros Group has a procurement department placing orders with sawmills in Sweden as

well as its subsidiary company – SIA Rottneros Baltic, purchasing wood for the Pulp Mill in Vallvik in Eastern Europe, primarily in Latvia and Russia.

## Chemicals

The core chemicals used to produce papers are fillers (mainly calcium carbonate), starch (of maize, potatoes, tapioca), optical bleaching agents and other chemicals.

The chemicals are also used to produce pulp, mainly NBSK.

## Electricity

In its production processes, the Group uses electricity and heat energy. The entire demand for electricity and

heat energy for the Paper Mill in Kostrzyn is covered with its own heat and power plant using natural gas. The gas

is supplied pursuant to a contract with a Polish supplier (PGNiG) at annual indexed prices in line with changes to the sectoral indicators publish by GUS [Central Statistical Office of Poland] subject to negotiations of the indexation formula when the contractual change levels are exceeded. Gas is acquired from deposits located close to Kostrzyn nad Odrą and delivered to the Paper Mill with a local pipeline.

In the analysed period, electricity for the Paper Mill in Munkedal was purchased from external suppliers. We were also buying heating oil to cover our needs for heat energy.

### **Transport services**

The Group does not operate its own means of transportation and resorts to specialised external entities for distribution of its products from Paper Mills and warehouses to buyers.

Entities in the Group are not dependent on those providers. The Group's consolidated revenues for 2016 show that the share of the largest service provider did not exceed 10% of total sales revenues.

### **Information on the seasonal or cyclical nature of business**

The demand for the Group's products is subject to slight variations throughout the year.

Reduced demand for paper occurs each year during summer holidays and around Christmas when some

Energy for the Paper Mill Arctic Paper Grycksbo AB is obtained from biomass and electricity is partly acquired from external suppliers.

The Rottneros Pulp Mill covers its entire demand for electricity with purchases from external suppliers.

The Vallvik Pulp Mill provides for about 75% of its demand for electricity with its own resources. The remaining demand for electricity is covered with purchases from external suppliers.

printing houses, in particular in Western Europe are closed. Changes in the demand for paper are not material versus the demand for paper in other periods of the year.

### **Research and development**

The Arctic Paper Group conducts primarily development works aimed at enhancing and modernising production processes and improving the quality of products on offer and expanding the assortment thereof. In the period covered with this report, the Paper Mills and Pulp Mills carried out development works to improve production

processes, in particular to shorten the idle time of paper machines as well as works aimed at improving the paper/pulp quality and extending the assortment and to improve quality properties of the products.

New product development was an important aspect of the development works in 2016.

## Environment

Our Group complies with environmental standards set forth in numerous applicable regulations and in administrative decisions. The standards are aimed at ensuring protection of soil, air and water against

### Kostrzyn Paper Mill

Pursuant to a decision of the Governor of the Lubuskie Province of 8 December 2005, Kostrzyn obtained an integrated permit to operate a paper production installation with a fuel combustion installation at the facility in Kostrzyn nad Odrą. In the case of Kostrzyn, the need for such permit was due to its paper production capacity in excess of 20 tons per day. In order to comply with the requirements specified in the environmental permit and other environmental standards related to waste management, Kostrzyn has entered into a number of contracts covering collection and recycling of production waste.

In May 2008 a new sewage treatment plan was opened at the facility in Kostrzyn nad Odrą. Pursuant to a decision of the Governor of the Lubuskie Province of 14 August 2007, Kostrzyn obtained a water law permit to discharge rainwater and melt water and to construct a discharge dock to the River of Warta (valid until 1 August 2017).

AP Kostrzyn participates in the EU Emissions Trading System (ETS) for greenhouse gases. A permit to emit greenhouse gases was obtained by AP Kostrzyn pursuant to a decision of the Governor of the Lubuskie Province of 9 November 2016 for the paper production

### Munkedals Paper Mill

The business of Munkedals is subject to environmental management systems EMAS and ISO 14001. EMAS (Eco-Management and Audit Scheme) is a voluntary system applied by the European Union which applies to enterprises outstanding for their constantly improved environmental protection level within their business.

pollution as well as noise and electromagnetic fields. Below, we provide a description of how environmental regulations affect the operations of our Paper Mills and Pulp Mills:

installation with the production capacity in excess of 20 tons per day located in the facility in Kostrzyn nad Odrą. The permit was granted for an indefinite period of time. In connection with the permit, Kostrzyn is obliged to monitor the volumes of CO<sub>2</sub> emissions and to file annual report on the emissions.

In connection with environmental protection, Kostrzyn has made major investments, inter alia, into a new gas fuelled heat and power plant that was opened in 2007 stage I and in 2009 stage II. The Paper Mill in Kostrzyn nad Odrą holds compliance certificates with the following standards: OHSAS 18001, ISO 14001, ISO 9001 and EMAS. Additionally, the paper produced at the facility has obtained special FSC and PEFC certificates. The certificates are to document that the pulp used to produce the paper comes from forests used in a sustainable manner. The FSC (Forest Stewardship Council) certificate is a major certificate granted to paper producing companies. In 2006 the first FSC certificate was granted to the paper manufactured at AP Kostrzyn. Now, the Amber branded paper produced at Kostrzyn nad Odrą relies in 85% on pulp certified by FSC and 15% on pulp certified by PEFC (Programme for the Endorsement of Forest Certification).

Companies registered with EMAS comply with environmental protection regulations, maintain an environmental management system and publish information on environmental protection in their business in the form of a separate verified statement on compliance with environmental protection regulations.

ISO, International Standards Organisation, has been developing various standards. ISO 14000 is a group of best known standards related to environmental management (activities taken up by enterprises in order to (i) mitigate the adverse impact of their business on the environment, and (ii) ensure ongoing improvement of the level of environmental protection).

Certain properties owned by Munkedals are located in the Natura 2000 area. Areas in the Natura 2000 constitute wild nature reservations established on the basis of a decision of the District Council of Munkedal (Sweden) in 2005. The objective to establish the Natura

### Grycksbo Paper Mill

Paper production in the Paper Mill Arctic Paper Grycksbo AB has been carried out in compliance with the environmental permit of March 2007. The permit was issued by the Swedish Environmental Protection Tribunal for the production of up to 310,000 tons annually. Additionally, the Paper Mill holds a CO2 emission permit issued by the regional authorities of the province of Dalarna.

Since 1997 Arctic Paper Grycksbo AB has held an ISO 14001 certificate and our environmental activities are reported in compliance with EMAS. The core objective of EMAS is to encourage its member companies to enhance their efforts to protect the natural environment in a systematic and consistent manner, to an extent even beyond legislative requirements. This is achieved by establishing a programme composed of specific action plans and assessment of all effects for the environment resulting from the activities pursued. Companies are obliged to file annual reports on the results of their pro-environmental activities. Independent inspectors ensure that companies comply with their obligations.

Arctic Paper Grycksbo AB participates in the EU Emissions Trading System (ETS) for greenhouse gases.

2000 network was to preserve the natural habitats and vegetation and animal species most endangered with extinction all over Europe. The extent of the coverage and the restrictions concerning business operations are set forth in the Council Directive 92/43/EEC on the conservation of natural habitats and of wild fauna and flora (Habitat Directive) and in the Council Directive 79/409/EEC on the conservation of wild birds (Birds Directive) of 2 April 1979 and the applicable domestic regulations. The protection level of habitats and birds in Natura 2000 areas is subject to the occurrence of specific species and/or habitats that are protected.

2010 was the first year when zero CO2 emissions from fossil fuels were declared. That was made possible as a result of a reconstruction of the boiler combined with an investment in equipment to handle biofuels, electrical filters for flue gas particles and reconstruction to turbine generating electricity from renewable sources.

In numbers, the switch to biofuels means annual reduction of CO2 emissions from fossil fuels by about 70,000 tons. The reconstructed turbine provides for 20% of demand for electricity by the Paper Mill with renewable energy sources that it generates itself which in turn results in reduction of CO2 emissions by another 4,000 tons.

The Paper Mill has implemented an energy management system in compliance with ISO 50001 (Energy Management System). Our products are verified within the "Chain of Custody" in compliance with FSC (Forest Stewardship Council) and in compliance with PEFC (Programme for the Endorsement of Forest Certification) as well as they meet the requirements of the new standards of Nordic Ecolable (Scandinavian Swan).

### Pulp Mills

Pulp Mills see to it that the wood used to produce pulp comes from reliable and certified sources. Pulp is marked with the "FSC" and "PEFC" symbols – two

systems that operate in Europe and stand guard over the lawful sources of wood.



## Summary of consolidated financial results

### Consolidated profit and loss account

Selected items of the consolidated profit and loss account

<i>PLN thousands</i>	2016	2015	Change % 2016/2015
<b>Revenues</b>	<b>2 966 972</b>	<b>2 900 460</b>	<b>2,3</b>
<i>including:</i>			
<i>Sales of paper</i>	2 219 154	2 159 642	2,8
<i>Sales of pulp</i>	747 818	740 818	0,9
Gross profit on sales	423 661	409 927	3,4
<i>Gross profit on sales margin %</i>	14,28	14,13	0,1 p.p.
Sales costs	(250 257)	(266 296)	(6,0)
Administrative expenses	(69 770)	(63 597)	9,7
Other operating income	66 554	59 644	11,6
Other operating cost	(45 147)	(39 440)	14,5
<b>EBIT</b>	<b>125 040</b>	<b>100 239</b>	<b>24,7</b>
<i>EBIT margin %</i>	4,21	3,46	0,8 p.p.
<b>EBITDA</b>	<b>249 603</b>	<b>212 697</b>	<b>17,4</b>
<i>EBITDA margin %</i>	8,41	7,33	1,1 p.p.
Financial income	1 350	1 587	(14,9)
Financial cost	(52 192)	(29 676)	75,9
<b>EBT</b>	<b>74 198</b>	<b>72 150</b>	<b>2,8</b>
Corporate income tax	(15 369)	(1 131)	1 258,8
<b>Net profit/ (loss) from continuing operations</b>	<b>58 829</b>	<b>71 019</b>	<b>(17,2)</b>
<i>Net profit margin from continuing operations %</i>	1,98	2,45	(0,5) p.p.
Discontinued operations			
<b>Net profit/ (loss) from discontinued operations</b>	<b>2 198</b>	<b>(97 588)</b>	<b>na</b>
<i>Net profit margin from discontinuing operations %</i>	0,07	(3,36)	na
<b>Net profit/ (loss)</b>	<b>61 026</b>	<b>(26 570)</b>	<b>na</b>
<i>Net profit margin %</i>	2,06	(0,92)	na
Profit/(Loss) attributable to equity holders of the parent	39 946	(71 258)	na
Earnings per share (in PLN) attributable to equity holders of the parent	0,58	(1,03)	na

## Revenues

In 2016, the consolidated sales revenues amounted to PLN 2,966,972 thousand as compared to PLN 2,900,460 thousand in the previous year and increased by 2.3% (PLN 66,512 thousand). Sales revenues from paper increased by 2.8% (PLN 59,512 thousand) while sales revenues from pulp increased by 0.9% (PLN 7,000 thousand) versus 2015.

Paper sales volume in 2016 amounted to 661 thousand tons and was by 10 thousand tons lower than in the

previous year. This means a decrease in sales volume by 1.5%.

Pulp sales volume in 2016 amounted to 351 thousand tons (2015: 344 thousand tons). This means an increase in sales volume by 2.0%.

## Profit on sales, costs of sales, selling and distribution costs, and administrative expenses

Profit on sales in 2016 was by 3.4% higher than in the previous year. Sales profit margin in the current year stood at 14.28% compared to 14.13% (+0.1 p.p.) in the previous year.

The increased profit on sales in 2016 versus 2015 was due to higher sales prices of paper dominated in PLN as well as lower production costs, primarily costs of pulp.

In 2016 the costs of sales amounted to PLN 250,257 thousand and decreased versus 2015 by 6.0%, mainly

due to lower costs of transport and a decrease in charges for uncollectible receivables. In 2015 the Group recognised a write-off for receivables from PaperlinX, UK, in excess of PLN 10 million.

In 2016, the administrative expenses amounted to PLN 69,770 thousand as compared to PLN 63,597 thousand in 2015 which was a growth by 9.7%. The main reason of the increase were higher costs related to consulting services rendered to the Group by third parties.

## Other operating income and expenses

Other operating income amounted to PLN 66,554 thousand in 2016 which was an increase versus the previous year by PLN 6,910 thousand.

In 2016 other operating expenses amounted to PLN 45,147 thousand as compared to PLN 39,440 thousand in 2015.

A major part of the other operational revenue and expenses includes revenues and internal costs of sales of sold energy and other materials.

## Financial income and financial expenses

In 2016, the financial income amounted to PLN 1,350 thousand and was by PLN 237 thousand lower than generated in 2015.

The financial expenses in 2016 amounted to PLN 52,192 thousand as compared to PLN 29,676 thousand

in 2015. The higher financial expenses in 2016 were due primarily to higher net FX losses and one-off costs related to prepayment of bank loans contracted in 2012.

### **Income tax**

In 2016, income tax amounted to PLN -15,369 thousand while in 2015 it was PLN -1,131 thousand.

The relatively low amount of income tax versus the gross profit on the continuing operations in 2015 was due to

the utilisation of tax losses for which no deferred income tax asset had been recognised earlier.

### **Net profit/ (loss) from discontinued operations**

Net profit/loss from discontinued operations covers the results of AP Mochenwangen and of the companies set up to acquire the Paper Mill. As the Management of Arctic Paper S.A. has been actively looking for a buyer for the Paper Mill, its business has been treated as discontinued.

The positive result on discontinued activity was due to the reversal of an impairment charge to fixed assets up to the amount of the sales proceeds to be realised in 2017.

### **Profitability analysis**

EBITDA in 2016 was PLN 249,603 thousand while in 2015 it was PLN 212,697 thousand. The growth of EBITDA in 2016 results primarily from higher sales prices of paper denominated in PLN and lower pulp costs as well as lower impairment charges to uncollectible receivables versus 2015. In the reporting period, the EBITDA margin was 8.41% versus 7.33% in 2015.

In 2016, the profit on operations amounted to PLN 125,040 thousand while in 2015 it was PLN 100,239 thousand. The operational profit margin in 2016 was +4.21% versus +3.46% in 2015.

The net profit in 2016 amounted to PLN 61,026 thousand. The net loss in 2015 amounted to PLN 26,570 thousand. Net profit/loss margin in 2016 amounted to +2.06% as compared to -0.92% in 2015.

## Profitability analysis

<i>PLN thousands</i>	2016	2015	Change % 2016/2015
<b>Profit on sales</b>	<b>423 661</b>	<b>409 927</b>	<b>3,4</b>
<i>sales revenues %</i>	14,28	14,13	0,1 p.p.
<b>EBITDA</b>	<b>249 603</b>	<b>212 697</b>	<b>17,4</b>
<i>sales revenues %</i>	8,41	7,33	1,1 p.p.
<b>EBIT</b>	<b>125 040</b>	<b>100 239</b>	<b>24,7</b>
<i>sales revenues %</i>	4,21	3,46	0,8 p.p.
<b>Net profit/ (loss) from continuing operations</b>	<b>58 829</b>	<b>71 019</b>	<b>(17,2)</b>
<i>Profit on sales %</i>	1,98	2,45	(0,5) p.p.
<b>Net profit/ (loss) from discontinued operations</b>	<b>2 198</b>	<b>(97 588)</b>	<b>na</b>
<i>sales revenues %</i>	0,07	(3,36)	na
<b>Net profit/ (loss)</b>	<b>61 026</b>	<b>(26 570)</b>	<b>na</b>
<i>sales revenues %</i>	2,06	(0,92)	na
ROE - Return on equity (%)	8,2	(3,9)	na
ROA - Return on assets (%)	3,4	(1,5)	na

In 2016, return on equity was +8.2% while in 2015 it was -3.9%.

In 2016, return on assets was +3.4% while in 2015 it was -1.5%.

## Statement of financial position

### Selected items of the consolidated balance sheet

PLN thousands	31/12/2016	31/12/2015	Change
			31/12/2016 -31/12/2015
Fixed assets	884 343	830 668	53 675
Inventory	360 353	390 631	(30 279)
Receivables, therein:	354 824	343 441	11 383
<i>Trade and other receivables</i>	343 496	336 499	6 996
Other current assets	27 711	12 475	15 236
Cash and equivalents	130 157	188 552	(58 396)
Assets associated with discontinued operations	12 694	47 467	(34 773)
<b>Total assets</b>	<b>1 770 081</b>	<b>1 813 235</b>	<b>(43 154)</b>
Equity	742 902	676 856	66 046
Short-term liabilities	580 457	682 515	(102 059)
<i>therein:</i>			
<i>Trade and other payables</i>	399 727	411 774	(12 047)
<i>Interest-bearing loans and borrowings</i>	82 053	166 386	(84 334)
<i>Other non-financial liabilities</i>	98 677	104 355	(5 678)
Long-term liabilities	428 634	372 599	56 035
<i>therein:</i>			
<i>Interest-bearing debt</i>	305 546	263 363	42 183
<i>Other non-financial liabilities</i>	123 088	109 236	13 852
Liabilities directly associated with discontinued operations	18 088	81 264	(63 176)
<b>Total equity and liabilities</b>	<b>1 770 081</b>	<b>1 813 235</b>	<b>(43 154)</b>

As at 31 December 2016 total assets amounted to PLN 1,770,081 thousand as compared to PLN 1,813,235 thousand at the end of 2015.

### Fixed assets

As at the end of December 2016 fixed assets amounted to PLN 884,343 thousand and accounted for 50.0% of total assets as compared to PLN 830,668 thousand as at the end of 2015 (45.8% of total assets).

The increased fixed assets were primarily due to relatively high investment purchases, mostly in the companies of the Rottneros Group.

### Current assets

As at the end of December 2016, current assets amounted to PLN 873,044 thousand as compared to PLN 935,099 thousand at the end of December 2015. As part of the current assets, inventories decreased by

PLN 30,279 thousand and receivables increased by PLN 11,383 thousand, other current assets increased by PLN 15,236 thousand while cash and cash equivalents decreased by PLN 58,396 thousand.

Current assets represented 49.4% of total assets as at the end of December 2016 (51.6% as at the end of 2015) and included inventories – 20.4% (21.6% as at the end of 2015), receivables – 20.0% (18.9% as at the

end of 2014), other current assets – 1.6% (0.7% as at the end of 2015) and cash and cash equivalents – 7.4% (10.4% as at the end of 2015).

### **Assets related to discontinued operations**

The assets related to the discontinued operations cover the assets of the Mochenwangen Group with the exception of assets of the other companies in the Arctic Paper Group. The amount of PLN 12,694 thousand as at 31 December 2016 (PLN 47,467 thousand as at 31 December 2015) was composed of inventories and tangible assets of PLN 10,618 thousand (31 December

2015: PLN 29,396 thousand), trade and other receivables of PLN 358 thousand (31 December 2015: PLN 15,912 thousand), cash – PLN 1,320 thousand (31 December 2015: PLN 1,051 thousand), and other financial and non-financial assets – PLN 398 thousand (31 December 2015: PLN 1,108 thousand).

### **Equity**

As at the end of 2016, the equity amounted to PLN 742,902 thousand as compared to PLN 676,856 thousand at the end of 2015. As at the end of December 2016 equity accounted for 42.0% of total equity and liabilities (37.3% as at 31 December 2015).

The increase of equity resulted from the net profit for 2016 and a positive measurement of financial instruments treated as hedges to future cash flows, partly compensated with dividend distributed by Rottneros to its non-controlling shareholders and actuarial losses.

### **Short-term liabilities**

As at the end of December 2016, short-term liabilities amounted to PLN 580,457 thousand (32.8% of balance sheet total) as compared to PLN 682,515 thousand (37.7% of balance sheet total) as at the end of 2015.

In 2016, a decrease in short-term liabilities occurred by PLN 102,059 thousand, mainly as a result of decreased trade and other payables and short-term bank loans and borrowings.

### **Long-term liabilities**

As at the end of December 2016, long-term liabilities amounted to PLN 428,634 thousand (24.2% of balance sheet total) as compared to PLN 372,599 thousand (20.5% of balance sheet total) as at the end of 2015. In the analysed year, an increase in long-term liabilities occurred by PLN 56,035 thousand.

The increase in long-term liabilities was primarily due to a change to the financial debt structure in connection with new financing and transfer of a portion of the loans to long-term liabilities.

## Liabilities directly related to the discontinued operations

The liabilities directly related to the discontinued operations cover the liabilities of the Mochenwangen Group with the exception of liabilities to the other companies in the Arctic Paper Group. The amount of PLN 18,088 thousand as at 31 December 2016 (31 December 2015: PLN 81,264 thousand), was

composed of provisions of PLN 15,406 thousand (31 December 2015: PLN 55,484 thousand), trade and other payables of PLN 2,541 thousand (31 December 2015: PLN 23,172 thousand), and other financial and non-financial liabilities of PLN 142 thousand, (31 December 2015: PLN 2,608 thousand).

## Debt analysis

### Debt analysis

	2016	2015	Change % 2016/2015
Debt-to-equity ratio (%)	135,8	155,9	(20,1) p.p.
Equity-to-non-current assets ratio (%)	84,0	81,5	2,5 p.p.
Interest-bearing debt-to-equity ratio (%)	52,2	63,5	(11,3) p.p.
Net borrowings-to-EBITDA (times)	1,03x	1,13x	(0,10)
EBITDA-to-interest (times)	10,5x	9,8x	0,7

As at the end of December 2016 the debt to equity ratio was 135.8% and was lower by 20.1 p.p. versus the end of December 2015. The decrease of the ratio was primarily due to an increase in the equity alongside simultaneous decrease in total liabilities.

The equity to fixed assets ratio was 84.0% as at the end of 2016 and was higher by 2.5 p.p. than at the end of December of 2015 as a result of a faster growth of equity than the growth of fixed assets.

The interest-bearing debt to equity ratio was 52.2% at the end of 2016 and was by 11.3 p.p. lower versus the

ratio calculated at the end of December 2015, mainly due to a growth of equity with a simultaneous decrease in interest-bearing debt.

The net debt to EBITDA ratio for the last 12 months of 2016 was 1.03x and was not changed versus the level for 2015.

The EBITDA to interest expense ratio for the last 12 months of 2016 increased from 9.8x for 2015 to 10.5x for 2016. The ratio was improved mainly due to the increase of EBITDA.

## Liquidity analysis



### Liquidity analysis

	2016	2015	Change % 2016/2015
<b>Current ratio</b>	<b>1,5x</b>	<b>1,4x</b>	<b>0,1</b>
<b>Quick ratio</b>	<b>0,9x</b>	<b>0,8x</b>	<b>0,1</b>
<b>Acid test ratio</b>	<b>0,2x</b>	<b>0,3x</b>	<b>(0,1)</b>
DSI (days)	51,0	56,5	(5,5)
DSO (days)	41,7	41,8	(0,1)
DPO (days)	56,6	59,5	(2,9)
Operational cycle (days)	92,7	98,2	(5,5)
<b>Cash conversion cycle (days)</b>	<b>36,1</b>	<b>38,7</b>	<b>(2,6)</b>

The current liquidity ratio at the end of December 2016 was 1.5x and was higher than at the end of December 2015 (1.4x).

The quick ratio increased from 0.8x as at the end of December 2015 to 0.9x as at the end of December 2016.

The cash ratio decreased from 0.3x as at the end of December 2015 to 0.2x as at the end of December 2016.

The cash conversion cycle for 2016 (36.1 days) was shortened versus 2015 (38.7 days) by 2.6 days.



## Consolidated cash flows

### Selected items of the consolidated cash flow

<i>PLN thousands</i>	2016	2015	Change % 2016/2015
Cash flow from operating activities	184 958	172 748	7,1
<i>including:</i>			
<i>Gross profit/(loss)</i>	75 388	(25 848)	(391,7)
<i>Depreciation/amortisation and impairment charge</i>	125 028	119 057	5,0
<i>Changes to working capital</i>	1 236	30 409	(95,9)
<i>Other corrections adjustments</i>	(16 694)	49 130	(134,0)
Cash flow investing activities	(174 677)	(81 646)	113,9
Cash flow financing activities	(66 817)	(62 359)	7,1
<b>Total Cash Flow</b>	<b>(56 536)</b>	<b>28 742</b>	<b>(296,7)</b>

### Cash flows from operating activities

In 2016, net cash flows from operating activities amounted to PLN 184,958 thousand as compared to PLN 172,748 thousand in 2015. The higher cash flows

from operating activities in 2016 resulted primarily from gross profit.

### Cash flows from investing activities

In 2016, cash flows from investing activities amounted to PLN -174,677 thousand as compared to PLN -81,646 thousand in 2015 and covered mainly expenditures on tangible fixed assets decreased by sales of tangible fixed

assets. Cash flows from investing activities in 2015 also included termination of a bank deposit established in 2014 for a period in excess of 3 months.

### Cash flows from financing activities

In 2016, cash flows from financing activities amounted to PLN -66,817 thousand as compared to PLN -62,359 thousand in 2015. During the 12 months of 2016, the inflows and outflows were primarily related to repayment

of the loans contracted in 2012 as a result of the new funding disbursed at the end of 2016 and repayment of factoring liabilities and interest as well as distribution of dividend to the non-controlling shareholders.

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

### Key factors affecting the performance results

The Group's operating activity has been historically and will continue to be 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 prices;
- FX rate 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 high-quality paper, and they may also influence the demand for the Group products and our operating results. Those factors include:

- GDP growth;
- net income – as a metric of income and affluence of the population;
- production capacity – the surplus of supply in the high quality paper segment over demand and decreasing sales margins on paper;
- paper consumption;
- technology development.

#### Paper prices

Paper prices undergo cyclic changes and fluctuations, they depend on global changes in demand and overall macroeconomic and other economic factors such as indicated above. Prices of paper are also influenced by a number of factors related to the supply, primarily changes in production capacities at the worldwide and European level.

#### Costs of raw materials, energy and transportation

The main elements of the Group's operating expenses include 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 the costs of electricity, natural gas, coal and fuel oil. The costs of transportation include the costs of transportation services provided to the Group mainly by external entities.

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

A part of pulp supplies to our Paper Mills is made from our own Pulp Mills. The remaining part of pulp manufactured at our Pulp Mills is sold to external customers.

### Currency rate fluctuations

Our operating results are significantly influenced by currency rate fluctuations. In particular, our revenues and costs are expressed in different foreign currencies and are not matched, therefore, the appreciation of the currencies in which we incur costs towards the currencies in which we generate revenues, will have an adverse effect on our results. We sell our products in all Eurozone countries, Scandinavia, Poland and the 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), 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 the Rottneros and Vallvik Pulp Mills).

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

### Unusual events and factors

In 2016 there were no unusual events or factors.

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

In 2016 there were no material changes in the Arctic Paper Group's structure that would have material influence on the financial result generated.

### Obtaining of new funding

On 9 September 2016:

1. The Company signed a term and revolving facilities agreement ("Loan Agreement") which was concluded between the Company as the borrower, subsidiaries of the Company: Arctic Paper Kostrzyn S.A., Arctic Paper Munkedals AB and Arctic Paper Grycksbo AB, as guarantors ("Guarantors") and a consortium of banks as follows: Bank BGŻ BNP Paribas S.A. ("BGŻ BNP Paribas"), Bank Zachodni WBK S.A. and the European Bank for Reconstruction and Development ("EBRD") (jointly the "Lenders") pursuant to which the Lenders granted the Company term and revolving facilities up to the amount of PLN 31,500,000 (in words: PLN thirty one million five hundred thousand) and EUR 52,400,000 (in words: EUR fifty two million four hundred thousand) ("Loans").
2. The Company signed agreements with Haitong Bank, S.A. Spółka Akcyjna Branch in Poland ("Haitong") related to a bond issue programme up to PLN 150,000,000 (in words: PLN one hundred fifty million) ("Bonds"), including an agency agreement ("Agency Agreement") and a bond issue underwriting agreement ("Underwriting Agreement").
3. The Company, Mr Thomas Onstad, Bank Zachodni WBK S.A., Haitong, BGŻ BNP Paribas and other parties entered into an intercreditor agreement ("Intercreditor Agreement") pursuant to which a structure of parallel debt was established in favour of BGŻ BNP Paribas (acting as the collateral agent) in an amount equal to, in appropriate currencies,

to the sum of liabilities under the Loans, Bonds, hedging transactions and other liabilities specified in the Intercreditor Agreement.

4. To secure the receivables due to BGŻ BNP Paribas under the Intercreditor Agreement and other claims specified in the collateral documents, the Company and the Guarantors will, inter alia, conclude registered and financial pledge agreements on the existing shares and interests and on bank accounts and an agreement establishing mortgage on properties with BGŻ BNP Paribas, submitted to BGŻ BNP Paribas a declaration on submission to voluntary enforced collection and granted BGŻ BNP Paribas authorisation to access the existing bank accounts (in compliance with other agreements as specified above).

With report No. 9/2016 of 4 May 2016, the Management Board of Arctic Paper S.A. informed investors of its decision on formal commencement of work on the contemplated refinancing of the existing debt of the Company and its subsidiaries resulting from loan agreements and raising alternative financing. The agreements listed above constitute the acquisition of alternative financing and a change to the funding structure of the Company's capital group.

The centralised funding ensured more effective management of financial liquidity and flexible adjustment of the funding level for each company.

Below are details of the above items provided by the Company:

#### Re. 1 – Loan agreement

In accordance with the Loan Agreement, the Lenders provided the Company with the following Loans:

- (A) a term loan in three tranches – tranche 1 of EUR 12,000,000 (in words: EUR twelve million) was

disbursed by EBRD, tranche 2 of EUR 2,600,000 (in words: EUR two million six hundred thousand) was disbursed by BGŻ BNP Paribas and tranche 3 of PLN 11,500,000 (in words: PLN eleven million five hundred thousand) was disbursed by Bank Zachodni WBK S.A. ("Term Loan") as well as term investment loans A and B disbursed by EBRD, of EUR 8,000,000 (in words: EUR eight million) and EUR 10,000,000 (in words: EUR ten million) respectively ("Investment Loan"); and

- (B) revolving facility to be disbursed by BGŻ BNP Paribas and Bank Zachodni WBK S.A., in two tranches – Tranche 1 of EUR 19,800,000 (in words: EUR nineteen million eight hundred thousand) and Tranche 2 of PLN 20,000,000 (in words: PLN twenty million) ("Revolving Facility").

The Term Loan was made available subject to corresponding provisions of the Loan Agreement, for the following purposes:

- (i) refinance the Company's intragroup liabilities to Arctic Paper Kostrzyn S.A. or financing intragroup loans granted by the Company to Arctic Paper Kostrzyn S.A. to repay the existing debt – the loan may also be replaced with the proceeds from the bond issue;
- (ii) refinance liabilities of Arctic Paper Grycksbo AB, by the Company granting an intragroup loan to Arctic Paper Grycksbo AB;
- (iii) refinance liabilities of Arctic Paper Munkedals AB, by the Company granting an intragroup loan to Arctic Paper Munkedals AB;
- (iv) refinance capital expenditures of companies in the Company's capital group, including in particular investment outlays by Arctic Paper Kostrzyn S.A. up to EUR 4,750,000 – indirectly by the Company granting an intragroup loan to the relevant member of the capital group – the loan may also be replaced with the proceeds from the bond issue; and

- (v) finance or refinance the financing costs referred to in the Loan Agreement.

The Investment Loan was made available – subject to corresponding provisions of the Loan Agreement – to finance investments aimed at the improving the effective use of the resources and operational effectiveness as well as production capacities in Poland. With its investment plans, the Company plans to materially improve its competitiveness, expand its production potential and improve the energy effectiveness and resource management. The Company's Paper Mill in Kostrzyn will be modernised with investments under EBRD's programme – Green Economy Transition (GET) aimed at improving its energy effectiveness and minimising the quantities of waste generated.

The Revolving Facility was made available – subject to corresponding provisions of the Loan Agreement – to refinance Company's intragroup liabilities or to finance intragroup loans – the loan may also be replaced with the proceeds from the bond issue – for the following purposes:

- (i) refinance obligations under an overdraft facility of Arctic Paper Kostrzyn S.A. under the existing bank loans;
- (ii) refinance outstanding liabilities of Arctic Paper Grycksbo AB under the existing factoring contracts with Svenska Handelsbanken AB;
- (iii) refinance obligations under an overdraft facility of Arctic Paper Grycksbo AB;
- (iv) refinance outstanding liabilities of Arctic Paper Munkedals AB under the existing factoring contracts with Svenska Handelsbanken AB; and
- (v) after repayment of the existing bank debt – pursuant of overall corporate objectives or related to working capital of the Company's capital group (with the exception of Rottneros AB, Arctic Paper Mochenwangen GmbH and Arctic Paper Investment GmbH and their subsidiaries), including the

provision of intragroup loans – such loans may also be replaced with the proceeds from the bond issue.

Loan disbursements (except the Investment Loan for investment purposes of the Company's investment purposes with the exception of Rottneros AB, Arctic Paper Mochenwangen GmbH and Arctic Paper Investment GmbH and their subsidiaries, in compliance with the Loan Agreement) was subject to the Company and the Guarantors complying with the conditions precedent, including the submission of:

- (i) copy of the Company's Articles of Association and corporate documents of the Guarantors;
- (ii) certified copies of extracts from the register of entrepreneurs (Register of Entrepreneurs) of the National Court Register, concerning the company and each Guarantor; with reference to the companies registered in Sweden – registration certificates, in each case issued not earlier than 7 days before the application for disbursement of each tranche of the Loans;
- (iii) as required by the applicable laws and/or the Articles of Association or articles of association of the company – copies of resolutions of the general meeting, supervisory board (if any) and management of the Company and the Guarantors;
- (iv) copy resolutions of the Company's management board and supervisory board concerning the initiation of the bond issue programme;
- (v) copies of insurance policies of the Company and the Guarantors;
- (vi) Loan Agreement, Intercreditor Agreement, fee letters, agreements concerning hedging transactions and other financial documents specified in the Loan Agreement;
- (vii) copies of submitted applications to register the collateral as required to have them entered in the relevant register and submission of extracts from

- the land and mortgage registers for the relevant properties;
- (viii) appropriate legal opinions issued, inter alia, for the Lenders; and
  - (ix) submission of other documents or compliance with other conditions specified in the Loan Agreement.

In accordance with the provisions of the Loan Agreement, the Loans bear interest at a variable interest rate relying on WIBOR in case of PLN financing and on EURIBOR in case of EUR financing, plus a variable margin for the Lenders subject to the level of debt indicators.

In compliance with the Loan Agreement, the Loans will be repaid by:

- (A) Term Loan – tranche 1 by 31 August 2022, tranche 2 by 31 August 2021 and tranche 3 by 31 August 2021, Investment loan by 31 August 2022 (both the A investment loan and the B investment loan); and
- (B) Revolving Facilities – tranche 1 and 2 by 31 August 2019, subject to potential extension in compliance with the Loan Agreement.

The Loan Agreement is subject to English law and does not provide for any contractual penalties. Should any breach occur and continue as specified in the Loan Agreement, Bank Zachodni WBK S.A. (as the entity operating as the agent in compliance with the Loan Agreement) may – in compliance with the Loan Agreement – notify the Company on a duty to prepay the Loans immediately.

## Re. 2 – agreements related to the Bond issue

On 9 September 2016 the Company – in connection with the planned issue programme and the planned Bond issue by the Company – entered into an Agency Agreement, Underwriting Agreement and other agreements of purely technical nature, related to the activation of the Bond issue programme. Under the Bond issue programme, the Company issued series A

Bonds for PLN 100,000,000 (in words: PLN one hundred million).

The Agency Agreement covers the organisation of the Bond issue programme by Haitong that will act as the issue agent, dealer, payment agent, calculation agent, technical agent, administrative agent and depository.

Pursuant to the Underwriting Agreement for the planned Bond issue, Haitong agreed to acquire the Bonds that will not be placed in the market, up to the total amount of PLN 100,000,000 (in words: PLN one hundred million).

The agreements related to the Bond issue were concluded under Polish law and do not provide for any contractual penalties. The Agency Agreement may be terminated by the Company or Haitong subject to a 30-day notice period. Both the Company and Haitong may also terminate any of the above agreements for reasons specified therein.

## Re. 3 – Intercreditor Agreement

The Company further informs that on 9 September 2016 one of the conditions precedent specified in the Loan Agreement will be satisfied – the Intercreditor Agreement will be signed. It regulates the sequence of repayments to creditors (the obligations specified in the Intercreditor Agreement will be satisfied *pari passu*, with the exception of intragroup obligations that will be subordinated to those of the Lenders), the principles of pursuing claims, the principles of enforcing collateral and release of collateral.

Pursuant to the Intercreditor Agreement, parallel debt was created covering:

- (i) Company's parallel debt
- (ii) parallel debt of selected subsidiaries of the Company – each being a standalone and independent debt to BGŻ BNP Paribas (acting as the collateral agent) from each respective entity.



The obligations of the Company and each Guarantor under parallel debt covering, inter alia, the obligations under the Loan Agreement and the Bonds, were secured with the establishment of a package of collateral. Pursuant to each obligation under parallel debt, each of the above entities is obliged to pay to BGŻ BNP Paribas an amount being the sum of all obligations of such entity under the core legal relationships covered with the Intercreditor Agreement. Enforceability of any of the core obligations of an entity will automatically generate enforceability of parallel debt in the same amount. Payment by any entity of any parallel debt to BGŻ BNP Paribas will automatically reduce the amount of core obligations of such entity equivalent to parallel debt, by the amount of such payment. Any repayment of core obligations by an entity will automatically reduce the parallel debt of the entity by the amount of such payment.

The Intercreditor Agreement is subject to English law and does not provide for any contractual penalties.

#### Art. 4 – Collateral

The Company and the Guarantors established the following collateral to their obligations under the Intercreditor Agreement:

- subject to Polish law (inter alia):
  - (i) financial and registered pledges on all shares and interests registered in Poland, owned by the Company and the Guarantors, in companies in the Company Group (with the exception of Rottneros AB, Arctic Paper Mochenwangen GmbH and Arctic Paper Investment GmbH), except the shares in the Company;
  - (ii) mortgages on all properties located in Poland and owned by the Company and the Guarantors;
  - (iii) registered pledges on all material rights and movable assets owned by the Company and the Guarantors, constituting an organised part of

- enterprise, located in Poland (with the exception of the assets listed in the Loan Agreement);
- (iv) assignment of (existing and future) insurance policies covering the assets of the Company and the Guarantors (with the exception of insurance policies listed in the Loan Agreement);
- (v) declaration by the Company and the Guarantors on voluntary submission to enforcement, in the form of a notary deed;
- (vi) financial pledges and registered pledges on the bank accounts of the Company and the Guarantors, registered in Poland;
- (vii) powers of attorney to Polish bank accounts of the Company and the Guarantors, registered in Poland;
- (viii) subordination of the debt held by intragroup lenders (specified in the Intercreditor Agreement).

- subject to Swedish law (inter alia):

- (i) pledges on all shares and interests registered in Poland, owned by the Company and the Guarantors, in Group companies, with the exception of the shares in the company, as well as pledged on the shares in Rottneros (with the exception of the free package of shares in Rottneros);
- (ii) mortgages on all properties located in Sweden and owned by the Company and the Guarantors as long as such collateral covers solely the existing mortgage deeds;
- (iii) corporate mortgage loans granted by the Guarantors registered in Sweden as long as such collateral covers solely the existing mortgage deeds;
- (iv) assignment of (existing and future) insurance policies covering the assets of the Company and the Guarantors (with the exception of insurance policies listed in the Loan Agreement);

- (v) pledges on Swedish bank accounts of the Company and the Guarantors as long as such collateral is without prejudice to free management of funds deposited on bank accounts until an event of default specified in the Loan Agreement.

The collateral agreements do not provide for contractual penalties.

## Bond issue

On 30 September 2016 ("Issue Date"), under the bond issue programme up to PLN 150,000,000 of 9 September 2016 – the Company made a private placement of 100,000 series A bonds ("Bonds").

The Bond issue was based on the following legal basis:

- (i) Art. 33.2 of the Act on Bonds of 15 January 2015;
- (ii) Resolution of the Company's Management Board No. 1/05/2016 of 4 May 2016;
- (iii) Resolution of the Company's Supervisory Board No. 11/04/2016 of 28 April 2016;
- (iv) Resolution of the Company's Management Board No. 1/09/2016 of 22 September 2016; and
- (v) Resolution of the Company's Management Board No. 2/09/2016 of 23 September 2016.

The purpose of the issue was not identified in the Bond issue terms and conditions; the Company applied the proceeds from the Bond issue to refinance its existing obligations.

The Bonds were issued as unsecured, bearer bonds and in dematerialised form. The total nominal value of the Bonds is PLN 100,000,000 and the nominal value of

one Bond is PLN 1,000. The issue price of the Bonds is equal to their nominal value. The Bonds will be redeemed on 31 August 2021 or at a premature redemption date ("Redemption Date").

The parallel debt concerning, inter alia, receivables of the bond holders (that are parties to the intercreditor agreement) under the Bonds, was collateralised in compliance with the intercreditor agreement concluded by the Company. The Bonds were registered with Krajowy Depozyt Papierów Wartościowych S.A. [Central Securities Depository of Poland].

The bonds earn interest. The interest rate applicable to the Bonds is variable and equal to the sum of WIBOR 6M and a margin which is subject to the net debt to EBITDA ratio. Interest on the Bonds will be paid semi-annually. The Bond issue terms and conditions do not provide for non-monetary benefits.

The Bond issue terms and conditions provide for bond holder meetings.

The Bonds were admitted to trading in an alternative trading system operated by the Warsaw Stock Exchange on 16 December 2016.

## Debt repayment by subsidiary companies

### Arctic Paper Kostrzyn S.A.

On 25 October 2016 ("Repayment Date"), the subsidiary of the Company: Arctic Paper Kostrzyn S.A. ("Borrower") repaid the debt specified below (jointly "Debt") under the loan agreement for maximum equivalent of PLN 359 million (in words: PLN three

hundred fifty nine million) of 6 November 2012, as amended and consolidated and most recently amended pursuant to the amendment letter No. 7 of 15 December 2015, concluded between Bank Polska Kasa Opieki S.A. ("Pekao") as the collateral agent and lender, Bank



Zachodni WBK S.A. ("BZ WBK") as a lender and mBank S.A. ("mBank") as a lender, and the Borrower, and Arctic Paper Mochenwangen GmbH and Arctic Paper Investment GmbH as the guarantors and the Company as a joint debtor, with the Borrower and the agent of the obliged entities, pursuant to which Pekao, BZ WBK and mBank provided the Borrower with:

- a multicurrency term loan ("Term Loan"); and
- an overdraft facility ("Overdraft Facility")

subject to the terms and conditions specified in the Existing Loan Agreement, as follows:

- with reference to EUR denominated liabilities, the total repayment amount in EUR was EUR 12.7 million;

#### Arctic Paper Grycksbo AB

In connection with the new funding as described above and the change to the financing structure of the Arctic Paper Group, on 19 December 2016 the Company's subsidiary: Arctic Paper Grycksbo AB (APG) repaid its debt to Svenska Handelsbanken AB under factoring totalling PLN 41 million. In order to repay the above debt

#### Factoring contract by Arctic Paper Munkedals AB

With reference to the refinancing process of the existing debt of the Company and its subsidiaries, and a change to the funding structure of the Company's capital group, including the planned repayment of debt of Arctic Paper Munkedals AB ("AP Munkedals") under the factoring contract with Svenska Handelsbanken AB, on 8 February 2017 Arctic Paper Munkedals AB and the Company entered into a factoring contract with an assignment of receivables under an insurance contract ("Factoring Contract"), concluded between AP Munkedals as the seller, the Company as the guarantor and BNP Paribas Faktoring sp. z o.o. ("Factor") as the factor.

- with reference to PLN denominated liabilities, the total repayment amount in PLN was PLN 140.5 million.

The Company disclosed information on the conclusion of the above loan agreement and amendments thereto with its current reports No. 19/2012 of 6 November 2012, No. 44/2013 of 20 December 2013 and No. 24/2014 of 16 October 2014.

The Debt was repaid as a result of a changed financing structure of the Company's capital group, in particular its centralisation providing for more effective financial liquidity management and flexible adjustment of the financing level of each company, of which the Company notified in its current reports No. 9/2016 and 20/2016.

to Svenska Handelsbanken AB as well as to maintain current liquidity of Arctic Paper Grycksbo AB, the Company granted APG long- and short-term loans totalling about PLN 61 million – a specification of the loans is provided in note No. 18.2 to the standalone financial statements of Arctic Paper SA.

The contract provides for the provisions by the Factor of factoring services for AP Munkedals covering the acquisition of cash receivables due to AP Munkedals from its counterparties with the maximum factoring limit granted to AP Munkedals of PLN 35 million. Pursuant to the Factoring Contract, the Company shall perform the obligations of AP Munkedals under the Factoring Contract should AP Munkedals fails to perform such obligations in whole in part within the time specified in the Factoring Contract. The Company's liability remains valid until compliance with all obligations under the Factoring Contract, however no longer than 36 months of its termination and is capped to the amount of PLN 52.5 million.

The Factoring Contract provides for the establishment of standard collateral for such contracts as follows:

- assignment of existing and future receivables from counterparties, notified by AP Munkedals to the Factor;
- blank promissory note with a promissory note agreement; and

- power of attorney to accounts of AP Munkedals with Bank BGŻ BNP Paribas S.A.

The Factoring Contract is in line with market standards for similar factoring contracts.

## Other material information

### Profitability improvement programme for 2015/2016 of the Arctic Paper – Arctic Paper Grycksbo AB Group

In Q1 2016, the Management Board of the Issuer's subsidiary – Arctic Paper Grycksbo AB (Sweden) started negotiations with its trade unions to reduce the fixed costs by about SEK 25 million (about PLN 12 million) in 2017, mainly by reducing the headcount by about 40 persons in

2016. Apart from improved productivity of the factory and improved organisational flexibility, in 2016 the profitability improvement programme generated cost savings of SEK 10 million (about PLN 4.6 million).

# Factors influencing the development of the Arctic Paper Group

## Information on market trends

### Supplies, demand and production capacity

Supplies of fine paper to the European market in Q4 2016 were lower compared to the equivalent period of 2015 by approximately 6.1%. Supplies in the segment of uncoated wood-free paper (UWF) were lower by 3.7%, while in the segment of coated wood-free paper (CWF) were lower by 8.8%.

As compared to Q3 2016, deliveries of fine paper were higher by about 4.4%. In the analysed period, supplies in the segment of uncoated wood-free paper (UWF) were 5.1% higher, while those in the segment of coated wood-free paper (CWF) were 3.7% higher.

Supplies of fine paper in the European market in 12 months of 2016 were by 6.1% lower than in the

equivalent period in 2015. Supplies in the segment of uncoated wood-free paper (UWF) were lower by 5.7%, while in the segment of coated wood-free paper (CWF) were lower by 6.6%.

In Q4 2016 the Arctic Paper Group recorded a decreased level of orders versus Q3 2016 by 7.8% and a growth of orders versus the equivalent period of 2015 by 0.6%.

The data both for 2016 and prior periods does not include the facility in Mochenwangen where the activity was discontinued.

Source of data: EuroGraph, RISI, Arctic Paper analysis

### Paper prices

In December 2016 the average prices of high quality UWF paper decreased by 1.6% while the prices of CWF paper decreased by 3% versus equivalent prices at the end of 2015.

In the period from September to December 2016, the prices of uncoated wood-free paper (UWF) and coated wood-free paper (CWF) for selected markets: Germany, France, Spain, Italy and the UK, expressed in EUR and GBP, experienced a decrease by 0.7%

The average prices invoiced by Arctic Paper in EUR for comparable products in the segment of uncoated wood-free paper (UWF) decreased from September to December 2016 by 3.4% while in the segment of coated wood-free paper (CWF) the prices decreased by 1.8%.

The average prices invoiced by Arctic Paper in 2016 and the prices in the reference periods do not include data from the Paper Mill in Mochenwangen where the production was discontinued.

Source: For market data – RISI, price changes for selected markets in Germany, France, Spain, Italy and the UK in local currencies for graphic papers similar to the product portfolio of the Arctic Paper Group. The prices are expressed without considering specific rebates for individual clients and they include neither additions nor price reductions in relation to the publicly available price lists. The estimated prices for each month reflect orders placed in the month while the deliveries may take place in the future. Because of that, RISI price

estimates for a particular month do not reflect the actual prices at which deliveries are performed but only express ordering prices. For Arctic Paper products, the

## Pulp prices

At the end of Q4 2016, the pulp prices reached the level of: NBSK – USD 809/ton and BHKP – USD 653/ton. The average pulp price in Q4 2016 was lower by 1.2% for NBSK while lower by 18.3% for BHKP, compared to the corresponding period of the previous year. The average pulp price in Q4 2016 was lower by 0.3% for NBSK and lower by 2.4% for BHKP as compared to Q3 2016.

The average cost of pulp per ton as calculated for the AP Group, expressed in PLN, in Q4 2016 decreased by 1.9% compared to Q3 2016 and decreased by 14% compared to Q4 2015. The share of pulp costs in cost

average invoiced sales prices for all served markets in EUR

of paper sales in Q4 of the current year amounted to 56% and was lower compared to the level recorded in Q4 2015 (62%).

In the four quarters of 2016, the AP Group used pulp in the production process in the following structure: BHKP 73%, NBSK 20% and other 9%.

The average pulp costs at Arctic Paper and the consumption structure (2016 and the reference periods) do not cover the data from the Paper Mill in Mochenwangen where the activity was discontinued.

Source of data: [www.foex.fi](http://www.foex.fi) analysis by Arctic Paper.

## Currency exchange rates

The EUR/PLN exchange rate at the end of Q4 2016 amounted to 4.4240 and was higher by 2.6% than at the end of Q3 2016 and higher by 3.8% than at the end of Q4 2015. The average exchange rate in Q4 2016 was higher by 0.9% than in Q3 2016 and amounted to 4.3785 versus 4.3411. The average exchange rate in Q4 2016 was by 2.7% higher than in Q4 2015.

The EUR/SEK exchange rate as at the end of 2016 was 9.5778 and was by 0.3% lower versus 9.6100 at the end of Q3 2016 and was by 4.4% higher than at the end of 2015 when it was 9.1724.

For this pair, the mean exchange rate in Q4 was by 2.5% higher compared to Q3 2016. The mean exchange rate in Q4 2016 was by 4.9% higher than in the corresponding period of 2015.

The changes mean a depreciation of SEK vis-a-vis EUR in Q4 2016 which had favourable impact on the Group's financial results, primarily with reference to the sales revenues generated by the Swedish factories that depend on prices in EUR.

At the end of Q4 2016, the USD/PLN rate recorded an increase by 8.4% versus the end of Q3 2016 and amounted to 4.1793. In Q4 2016, the mean exchange rate amounted to 4.0597 compared to 3.8891 in Q3 2016. That was a PLN depreciation to USD by 4.4%.

At the end of Q4 2016, the USD/SEK rate amounted to 9.0481 and was by 5.3% higher than at the end of Q3 2016. The mean exchange rate in Q4 2016 amounted to 9.0396 which was an increase by 6.1% compared to Q3 2016.

The changes of the USD/SEK exchange rates adversely affected the costs incurred in USD by the Swedish Pulp Mills, in particular the costs of pulp. With reference to the Paper Mill in Kostrzyn, the mean monthly USD/PLN exchange rate remained relatively neutral with a material PLN depreciation in Q4.

At the end of 2016, the EUR/USD rate amounted to 1.0586 compared to 1.1183 at the end of Q3 2016 and to 1.0924 at the end of 2015. In a percentage presentation, that was a EUR depreciation to USD by 5.3% and 3.1% respectively. In Q4 2016, the mean

exchange rate of the pair amounted to 1.0794 compared to 1.1164 in Q3 2016 (-3.3%).

Further depreciation of SEK versus EUR has positively affected the Group's financial profit, mainly due to increased sales revenues generated in EUR and translated into SEK. The appreciating USD versus PLN, in particular in Q4 2016, materially affected the higher purchase prices of raw materials for the Paper Mill in Kostrzyn. USD appreciating vis-a-vis SEK adversely affected the costs in the Paper Mills in Sweden.

## Factors influencing the financial results in the perspective of the next year

The material factors that have an impact on the financial results over the next year:

- Demand for fine paper in Europe. Over the recent years there has been a major decrease of demand for fine paper in Europe (level of executed orders). Further adverse developments in the market situation may negatively affect the levels of orders placed with our Paper Mills and, as a result, will have an adverse impact on the financial results of the Group.
- Price changes of fine paper. In particular, the possibility to raise the prices of Arctic Paper products in local currencies in view of the declining supply/demand in Europe and in the context exchange rates fluctuations, will have a material impact on the financial results. Paper prices are going to be of particular importance for the Paper Mill of Grycksbo which – in connection with the market changes – experiences the greatest adverse impact of drop of sales volumes, prices as well as of exchange rate fluctuations.
- Price fluctuations of raw materials, including pulp for Paper Mills and electricity for all operational entities. In particular, financial results of Paper Mills may be negatively influenced by increasing pulp prices, particularly BHKP. On the other hand, dropping NBSK pulp prices may negatively affect the financial results of Pulp Mills. Fluctuations of electricity prices in Sweden may also have a material impact on the results generated by the Group. In future, such market changes may translate into changes of sales profitability in Paper Mills of AP Munkedals and AP Grycksbo as well as in Pulp Mills of Rottneros and Vallvik.
- Changes in currency rates, in particular, the appreciation of PLN and SEK in relation to EUR and GBP, the appreciation of PLN in relation to SEK, and the depreciation of PLN and SEK in relation to USD, may have an adverse effect on the financial results. However, our Pulp Mills may benefit from the appreciation of USD in relation to SEK.

## Risk factors

### Major changes to risk factors

In 2016 there were no material changes to the risk factors.

### Risk factors related to the environment in which the Group operates

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

#### The risk related to intensifying competition in the paper market in Europe

Our Group operates in a very competitive market. The achievement of the strategic objectives assumed by the Group may be made difficult by operations of competitors, particularly integrated paper producers operating on a larger scale than our Group. Any more intensified competition resulting from potential growth of production capacity of our competitors and thus an increased supply of paper to the market, may adversely affect the achievement of the planned revenues and thus the ability to achieve the underlying financial and operational assumptions.

#### Risk of changing legal regulations

Our Group operates in a legal environment characterised with a high level of uncertainty. The regulations affecting our business have been frequently amended and often there are no consistent interpretations which generates a risk of violating the existing regulations and the resultant consequences even if such breach was unintentional. Additionally, amendments to regulations relating to environmental protection and other may generate the need to incur material expenditures to ensure compliance, inter alia, more restrictive regulations or stricter implementation of the existing regulations concerning the protection of surface waters, soil waters, soil and atmospheric air.

#### FX risk

Revenues, expenses and results of the Group are exposed to FX risk, in particular relating to exchange rates of PLN and SEK to EUR, GBP and other currencies. Our Group exports a majority of its produced paper to European markets, generating a material part of its sales revenues in EUR, GBP, PLN and SEK. Sales revenues of pulp in the Pulp Mills are subject to USD FX risk. The purchase costs of materials for paper production, in particular pulp for Paper Mills are paid primarily in USD and EUR. Additionally, we hold loan liabilities mainly in PLN, EUR and SEK. PLN is the currency used in our financial statements and therefore our revenues, expenses and results generated by the subsidiary companies domiciled abroad are subject to FX exchange rate fluctuations. Thus FX rate fluctuations may have a strong adverse effect on the results, financial conditions and prospects of the Group.

#### Interest rate risk

The Group is exposed to interest rate risk in view of the existing interest-bearing debt. The risk results from fluctuations of such interest rates as WIBOR for debt in PLN, EURIBOR for debt in EUR and STIBOR for debt in SEK. Unfavourable changes of interest rates may adversely affect the results, financial condition and prospects of the Group.

### Risk related to increasing importance of alternative media

Trends in advertising, electronic data transmission and storage and in the Internet have adverse impact on

traditional printed media and thus on the products of the Group and its customers. Continuation of such changes may adversely affect the results, financial condition and prospects of the Group.

## Risk factors relating to the business of the Group

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

### Risk related to relatively low operational margins

Historically, the operational results of the Group are characterised by relatively high volatility and low profit margins on operations. Reduced revenues resulting e.g. from changes to production capacity, output, pricing policies or increased operating expenses that primarily comprise costs of raw materials (mainly pulp for Paper Mills) and energy, may mean that the Group loses its earning capacity. Material adverse changes to profitability may result in reduced prices of our stock and reduced capacity to generate working capital thus adversely affecting our business and deteriorating our prospects.

### Risk of price changes to raw materials, energy and products

We are exposed to the risk of price changes of raw materials and energy, primarily related to price fluctuations of pulp, fuel oil, diesel oil, coal and electricity. Paper Mills buy pulp under frame agreements or in one-off transactions and do not hedge against fluctuations of pulp prices. A part of pulp is supplied to our Paper Mills from the Pulp Mills of the Rottneros Group. The risk of changing prices of raw materials is related primarily to changing prices of paper and pulp in the markets to which we sell our products. A material growth of prices of one or more raw materials and energy may adversely affect the operating results and financial condition of the Group.

### Risk of disruption to production processes

Our Group holds three Paper Mills operating jointly seven production lines with total annual production capacity of over 700,000 tons of paper and two Pulp Mills with total production capacity of 400,000 tons of pulp. Long-lasting disruption to the production process may result from a number of factors, including a breakdown, human error, unavailability of raw materials, natural catastrophes and other that are beyond our control. Each such disruption, even relatively short, may have material impact on our production and profitability and result in material costs for repairs, liabilities to buyers whose orders we are not able to satisfy and other expenses.

### Risk related to our investments

Investments by the Group aimed at expanding the production capacity of the Group require material capital outlays and a relatively long time to complete. As a result, the market conditions under which we operate may be materially changed in the period between our decision to incur investment outlays to expand production capacity and the completion time. Changes of market conditions may result in volatile demand for our products which may be too low in the context of additional production capacities. Differences between demand and investments in new production capacities may result in failure to utilise the expanded production capacity to the full extent. This may have adverse effect



on the operating results and financial condition of the Group.

#### Risk factors relating to the debt of the Group

Our Group has the largest portion of its debt under a loan agreement with a consortium of banks (European Bank for Reconstruction and Development, Bank Zachodni WBK S.A. and BGŻ BNP Paribas S.A.) of 9 September 2016, loans from Svenska Handelsbanken and Danske Bank, and under lease contracts.

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

#### Risk related to insurance limits

In the context of deteriorating situation in paper industry and the results of the Arctic Paper Group, our suppliers, in particular suppliers of such raw materials as pulp, may have problems with acquiring insurance limits (sale on credit) and thus they may lose the possibility of offering deferred payment terms to the Arctic Paper Group. Such situation may result in deteriorated financial situation and loss of financial liquidity of operating units and as a result this may adversely affect the situation in the entire Group.

#### Risk of restricted supplies of natural gas

Polskie Górnictwo Naftowe i Gazownictwo S.A (PGNiG) is the sole supplier of natural gas used by AP Kostrzyn

to generate heat and electrical energy for paper production. In this context, the business and costs of paper production at AP Kostrzyn is materially affected by availability and price of natural gas. Potential disruptions of supplies of natural gas to the Paper Mill in Kostrzyn nad Odrą may have adverse effect on production, results on operations and financial condition of the Group.

#### Risk of loss of tax relieves related to the operation of AP Kostrzyn

AP Kostrzyn has been using a major tax relief resulting from its operations in the Kostrzyńsko-Słubicka Specjalna Strefa Ekonomiczna. The relief was granted until 2017 and is subject to compliance by AP Kostrzyn of the applicable laws, regulations and other conditions relating to the relief, including compliance with certain criteria concerning employment and investment outlays. Tax regulations and interpretations thereof are subject to very frequent changes in Poland. Changes to the regulations applicable to the tax relief or breach by AP Kostrzyn of the applicable conditions may result in loss of the relief and have material adverse impact on the results of operations and financial condition of the Group.

#### Risk related to consolidation and liquidity of key customers

Consolidation trends among our existing and potential customers may result in a more concentrated customer base covering a few large buyers. Such buyers may rely on their improved bargaining position in negotiating terms of paper purchases or decide to change the supplier and acquire products from our competitors. Additionally, in the context of the deteriorating condition in printing industry, such customers as paper distributors, printing houses or publishers may not be able to obtain insurance limits (sale on credit) or have problems with financial liquidity which may result in their bankruptcy and adversely affect our financial results.



The above factors may have adverse impact on the operational results and financial condition of the Group.

#### Risk related to compliance with regulations on environmental protection and adverse impact of the production process on the environment

The Group meets the requirements related to environmental protection; however, no certainty exists that it will always be able to comply with its obligations and that in the future it will avoid material expenses or that it will not incur material obligations related to the requirements or that it will be able to obtain all permits, approvals and other consents to carry on its business as planned. Similarly, considering that paper and pulp production is related to potential hazards relating to waste generated in Paper Mills and Pulp Mills and contamination with chemicals, no certainty exists that in the future the Group is not charged with liability for environmental pollution or that no event that may underlie the liability of the Group has not already occurred. Thus the Group may be required to incur major expenses in connection with the need to remove contamination and land reclamation.

#### Risk related to CO<sub>2</sub> emissions

Our Paper Mills and Pulp Mills are provided with free carbon dioxide emission rights for each period. The emission rights are awarded within the EU Emission Trading Scheme. Should such free carbon dioxide emission rights be cancelled and replaced with a system of paid emission rights, our costs of energy generation will grow accordingly. Additionally, we may be forced to

incur other unpredictable expenses in connection with the emission rights or changing legal regulations and the resultant requirements. Due to the above we may be forced to reduce the quantity of generated energy or to increase the production costs which may adversely affect our business, financial condition, operational results or development prospects.

#### Risk related to the capacity of the Company to pay dividend

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

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

## Supplementary information

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

The Management Board of Arctic Paper S.A. did not publish projections of financial results for 2016 and has not published and does not intend to publish projections of financial results for 2017.

### Dividend information

The Company did not distribute dividend in 2016.

### Changes to the bodies of Arctic Paper S.A.

As at 31 December 2016, the Company's Supervisory Board was composed of:

- Per Lundeen – Chairman of the Supervisory Board appointed on 14 September 2016
- Roger Mattsson – Deputy Chairman of the Supervisory Board appointed on 16 September 2014
- Thomas Onstad – Member of the Supervisory Board appointed on 22 October 2008
- Mariusz Grendowicz – Member of the Supervisory Board appointed on 28 June 2012
- Maciej Georg – Member of the Supervisory Board appointed on 14 September 2016

On 30 June 2016 Mr Dariusz Witkowski filed his resignation from the function of a Member of the Supervisory Board. On 8 August resignation from membership in the Supervisory Board was filed by Mr Rolf Olof Grundberg, effective on 14 September 2016, and on 16 August resignation from membership in the Supervisory Board was filed by Rune Ingvarsson, effective on 14 September 2016.

On 14 September 2016, the Extraordinary General Meeting appointed two new Members of the Supervisory Board: Mr Per Lundeen and Mr Maciej Georg.

At its meeting on 22 September 2016, the Supervisory Board elected the Chairperson of the Supervisory Board from among its Members and elected Mr Per Lundeen as the Chairman and Mr Roger Mattsson as the Deputy Chairman of the Supervisory Board.

The Management Board of the Parent Entity as at the publication hereof was composed as follows:

- Per Skoglund – President of the Management Board
- Wolfgang Lübbert – Member of the Management Board
- Małgorzata Majewska-Śliwa – Member of the Management Board
- Jacek Łoś – Member of the Management Board
- Michał Sawka – Member of the Management Board

On 27 April 2016, the Issuer's Supervisory Board approved a resolution dismissing Mr Wolfgang Lübbert from the function of the President of the Management Board and approved another resolution appointing Mr Per Skoglund, performing the function of a Member of the Management Board, to act as the President of the Management Board.

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

In 2016 there were no changes to the Company's share capital.

### Purchase of treasury shares

On 28 June 2012 the Company's Ordinary General Meeting of Shareholders approved a resolution (current report 12/2012), authorising the Company's Management Board to acquire shares of the Company to have them redeemed and to reduce the share capital or to further transfer or re-sell such shares subject to the terms and conditions and in the mode detailed below:

- a) the total number of acquired shares may not exceed 5,500,000 shares;
- b) the total amount that the Company intends to allocate to purchase its own shares may not exceed the amount of the dedicated reserve capital being PLN 27,500,000, to cover the price of the shares to be acquired as well as the relate purchase costs;
- c) the price at which the Company will be acquiring its shares may not be less than PLN 1.00 and higher than PLN 10.00 per share;
- d) the authority to acquire its own shares by the Company will be valid for 60 (sixty) months since the day of the resolution;
- e) the shares may be acquired via an investment company, in stock exchange and OTC transactions.

The Management Board, pursuing the Company's interests, may – subject to an opinion of the Supervisory Board:

- a) end the purchase of the shares before expiry of a period of 60 days of the resolution or before all the funds allocated for such purchases are spent,

- b) resign from the purchases in whole or in part.

Should such decisions be taken, the Management Board shall be obliged to publish such information in the manner specified in the Act on Public Offerings.

The terms and conditions of acquiring treasury shares for redemption or further transfer or re-sale shall be compliant with the provisions of the Commission Regulation (EC) No. 2273/2003 of 22 December 2003.

When the process of treasury share acquisition is completed by the Company subject to the terms and conditions set by the Company's General Meeting, the Management Board shall convene a General Meeting to approve a resolution on redeeming the Company's shares and to reduce the share capital or – if such acquired shares are to be further transferred or re-sold – the Company's Management Board shall take decisions on such further transfer or re-sale of the treasury shares. A portion of the shares acquired by the Company may be redeemed and the share capital may be decreased before the end of the acquisition process of treasury shares.

The Ordinary General Meeting, acting pursuant to Art. 362 § 2.3 of the Code of Commercial Companies, Art. 348 § 1 in connection with Art. 396 § 4 and § 5 of the Code of Commercial Companies, decides to set up a reserve capital named "Share Purchase Programme Fund" to fund the purchase of treasury shares, in order to fund the acquisition by the Company of its own shares, pursuant to this authorisation and within the

authority granted by this resolution. The amount of the Share Purchase Programme Fund is set at PLN 27,500,000. The Share Purchase Programme Fund shall be applied to purchase treasury shares and cover the related purchase costs. The Ordinary General Meeting decides to allocate the Share Purchase Programme Fund from the reserve capital.

Until the date hereof, the Company's Management Board has not been acquiring shares of the Company to have them redeemed and to reduce the share capital or to further transfer or re-sell such shares subject to the terms and conditions and in the mode detailed above.

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

The table below presents information on the total amount of remuneration and other benefits paid or payable to members of the Management Board and of the Supervisory Board of the Parent Entity in the period from 1 January 2016 to 31 December 2016 (data in PLN).

#### Remuneration of the Management Board and Supervisory Board Members

Managing and supervising persons	Remuneration (base salary and overheads) for the functions performed at Arctic Paper S.A.	Retirement plan	Other	Total
<b>Management Board</b>				
Wolfgang Lübbert	1 444 403	-	587 397	2 031 800
Per Skoglund	1 750 583	344 969	266 012	2 361 564
Jacek Łoś	830 357	-	228 090	1 058 447
Małgorzata Majewska-Śliwa	1 080 000	-	228 090	1 308 090
Michał Sawka	861 549	-	228 090	1 089 639
<b>Supervisory Board</b>				
Rolf Olof Grundberg*	192 833	-	-	192 833
Rune Roger Ingvarsson*	105 833	-	-	105 833
Thomas Onstad	128 270	-	-	128 270
Mariusz Grendowicz	180 000	-	-	180 000
Roger Mattsson	165 738	-	-	165 738
Dariusz Witkowski**	75 000	-	-	75 000
Per Lundeen***	96 339	-	-	96 339
Maciej Georg***	43 917	-	-	43 917

\*for the period from 2016-01-01 until 2016-09-14

\*\*for the period from 2016-01-01 until 2016-06-30

\*\*\*for the period from 2016-09-14 until 2016-12-31

## Agreements with Members of the Management Board guaranteeing financial compensation

As at 31 December 2016 and as at the approval date of this annual report, Members of the Management Board are entitled to compensation in case of their resignation or dismissal from their respective positions with no valid

reason or when they are dismissed or their employment is terminated as a result of a merger of the Issuer by take-over. The amount of such compensation will correspond to their remuneration for 6 to 24 months.

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

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

	Number of shares or rights thereto as at 20/03/2017	Number of shares or rights thereto as at 31/12/2016	Number of shares or rights thereto as at 10/11/2016	Change
<b>Managing and supervising persons</b>				
<b>Management Board</b>				
Per Skoglund	10 000	-	-	10 000
Jacek Łoś	-	-	-	-
Wolfgang Lübbert	-	-	-	-
Małgorzata Majewska-Śliwa	-	-	-	-
Michał Sawka	-	-	-	-
<b>Supervisory Board</b>				
Per Lundeen	14 760	-	-	14 760
Thomas Onstad	6 073 658	6 073 658	5 848 658	225 000
Roger Mattsson	-	-	-	-
Maciej Georg	-	-	-	-
Mariusz Grendowicz	-	-	-	-

## Management of financial resources

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

## Capital investments

In 2016 the companies in the Arctic Paper Group invested its funds solely in standard short-term deposits, including overnight deposits. In 2016 the Group made no financial investments.

## Information of sureties, guarantees and pledges

As at 31 December 2016, the Capital Group reported:

- pledge on properties of Arctic Paper Munkedals AB resulting from a factoring contract with Svenska Handelsbanken AB for SEK 160,000 thousand;
- pledge on properties of Arctic Paper Grycksbo AB resulting from a factoring contract with Svenska Handelsbanken AB for SEK 85,000 thousand;

- pledge on properties of Arctic Paper Grycksbo AB resulting from a factoring contract with Svenska Handelsbanken AB for SEK 20,000 thousand;
- pledge on properties of Arctic Paper Grycksbo AB resulting from an FPG contract in favour of the mutual life insurance company PRI for SEK 50,000 thousand;
- contingent liability under a guarantee for FPG in favour of the mutual life insurance company PRI for SEK 1,448 thousand at Arctic Paper Grycksbo AB and for SEK 758 thousand at Arctic Paper Munkedals AB;
- pledge on properties of Arctic Paper Munkedals AB resulting from an FPG contract in favour of the mutual life insurance company PRI for SEK 50,000 thousand;
- receivables limit covered with a factoring contract in Arctic Paper Munkedals AB up to SEK 158,821 thousand;
- a contingent liability of Arctic Paper Munkedals AB related to a surety for the obligations of Kalltorp Kraft HB in the amount of SEK 1,624 thousand
- mortgage on the properties held by Kalltorp Kraft HB for SEK 8,650 thousand
- a bank guarantee in favour of Skatteverket Ludvika for SEK 135 thousand;
- a bank guarantee for Arctic Paper Grycksbo AB from Svenska Handelsbanken AB covering VAT liabilities in Norway for SEK 1,686 thousand;
- pledges on shares in subsidiary companies in the Rottneros Group for SEK 539,800 thousand under loan agreements concluded with Danske Bank;
- pledge on 39,900,000 shares of Rottneros AB under the loan agreement for EUR 4,000 thousand concluded by Arctic Paper S.A. with Mr Thomas Onstad.

Moreover, the following collateral securing the loan agreement (Arctic Paper Kostrzyn S.A. as the Borrower, Arctic Paper S.A. that 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 Pekao S.A., Bank Zachodni WBK S.A. and mBank S.A. as Lenders) of 6 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 the companies;
- mortgage on properties held by Arctic Paper Kostrzyn S.A.;
- land charge on properties held by 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;
- assignment of rights under insurance policy;
- assignment of receivables under loan agreements within the Group (Arctic Paper Kostrzyn S.A. and Arctic Paper Investment GmbH);
- submission to enforcement pursuant to Art. 97 of the Banking Act (individually in favour of each bank) – Arctic Paper Kostrzyn S.A and Arctic Paper S.A.

In connection with the repayment of debt under the above loan agreement on 25 October 2016, the Company and Arctic Paper Kostrzyn SA received on 28 October 2016 documents from banks confirming the release of all collateral related to that loan agreement.

In connection with the term and revolving loan agreements, agreements relating to the bond issue and the intercreditor agreement (described in more detail in the note "Obtaining new financing") signed on 9 September 2016, on 3 October 2016 the Company signed agreements and statements pursuant to which collateral to the above debt and other claims would be

established in favour of Bank BGŻ BNP Paribas S.A., acting as the Collateral Agent, that is

1. under Polish law – Collateral Documents establishing the following Collateral:

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

■ subordination of the debt held by intragroup lenders (specified in the Intercreditor Agreement).

2. under Swedish law – Collateral Documents establishing the following Collateral:

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

## Material off-balance sheet items

The information regarding off-balance sheet items is disclosed in note No. 36 to the consolidated financial statements.

## Assessment of the feasibility of investment plans

In view of the improved financial results and market conditions in 2016 and subject to accomplishment of the current financial objectives, the Company plans to

carry out the investments in line with its financial plan. The core objective of the investments in 2017 is to develop new products, minimise production costs,

including the costs of electricity, and to improve the effectiveness of the production process. The Group intends to finance its investment plan for 2016 with its own funds.

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

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

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

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

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

Otherwise than stated herein, the Issuer is not aware of any agreements that may in the future generate changes to the proportions of shareholdings by the existing shareholders and bond holders.

### **Information on purchase of treasury shares**

In 2016 and in 2015 the Parent Entity did not buy any treasury shares.

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

Information on the entity authorised to audit the financial statements is provided in note No. 38 to the standalone financial statements.

### **Headcount**

Information on the headcount is provided in note No. 42 to the consolidated financial statements.



## Statement on the application of the principles of corporate governance

### Principles of corporate governance

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

The text of the "Best Practice of GPW Listed Companies 2016" is available at:

[https://static.gpw.pl/pub/files/PDF/inne/GPW\\_1015\\_17\\_DOBRE\\_PRAKTYKI\\_v2.pdf](https://static.gpw.pl/pub/files/PDF/inne/GPW_1015_17_DOBRE_PRAKTYKI_v2.pdf)

Pursuant to Art. 29.3 of the Warsaw Stock Exchange Rules, the Management Board of ARCTIC PAPER S.A. on 25 January 2016 published an EBI report concerning the exclusion of certain rules of the Best Practice.

### Information on the extent the Issuer waived the provisions of the principles of corporate governance

Arctic Paper S.A. was striving at applying principles of corporate governance as set forth in the document Best Practices of GPW Listed Companies. In 2016 Arctic Paper S.A. did not apply the following rules:

#### **Good practices – Information Policy, Communication with Investors**

Principle No. 1.Z.1.10

"A company should operate a corporate website and publish on it, in a legible form and in a separate section, in addition to information required under the legislation: financial projections, if the company has decided to publish them – published at least in the last 5 years, including information about the degree of their implementation"

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

Principle No. I.Z.1.15:

"A company should operate a corporate website and publish on it, in a legible form and in a separate section, in addition to information required under the legislation: information about the company's diversity policy applicable to the company's governing bodies and key managers; the description should cover the following elements of the diversity policy: gender, education, age, professional experience, and specify the goals of the diversity policy and its implementation in the reporting period; where the company has not drafted and implemented a diversity policy, it should publish the explanation of its decision on its website"

Explanation:

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

Principle No. 1.Z.1.16

"A company should operate a corporate website and publish on it, in a legible form and in a separate section, in addition to information required under the legislation: information about the planned transmission of a general meeting, not later than 7 days before the date of the general meeting".

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

Principle No. I.Z.1.20

"A company should operate a corporate website and publish on it, in a legible form and in a separate section, in addition to information required under the legislation: information about the planned transmission of a general meeting, not later than 7 days before the date of the general meeting".

Explanation:

The Company does not plan to broadcast its General Meetings.

### **Good practices – Management Board and Supervisory Board**

Recommendation II.R.2:

"Persons taking decisions to elect members of the management board or the supervisory board of a company should ensure that the composition of these bodies is comprehensive and diverse among others in terms of gender, education, age and professional experience".

Explanation:

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

### **Good practices – Systems and internal functions**

Recommendation III.R.1

"The company's structure should include separate units responsible for the performance of tasks in individual systems or functions, unless the separation of such units is not justified by the size or type of the company's activity".

Explanation:

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

Principle No. III.Z.1.

"The company's management board is responsible for the implementation and maintenance of efficient internal control, risk management and compliance systems and internal audit function".

Explanation:

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

#### Principle No. III.Z.2

Subject to principle III.Z.3, persons responsible for risk management, internal audit and compliance should report directly to the president or other member of the management board and should be allowed to report directly to the supervisory board or the audit committee".

#### Explanation:

The Company has not established dedicated units involved in risk management, internal audit and compliance. However, the Company states that managers of each division of the Company report directly to the relevant members of the Management Board. External entities providing consulting services, including legal consulting services and auditing companies, have direct and indirect contact with the Company's Management Board.

#### Principle No. III.Z.3.

"The independence rules defined in generally accepted international standards of the professional internal audit practice apply to the person heading the internal audit function and other persons responsible for such tasks".

#### Explanation:

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

#### Principle No. II.Z.4.

"The person responsible for internal audit (if the function is separated in the company) and the management board should report to the supervisory board at least once per year with their assessment of the efficiency of the systems and functions referred to in principle III.Z.1 and submit a relevant report".

#### Explanation:

In the Company, it is the Supervisory Board that performs the function of the audit committee with members elected by the General Meeting.

### **Good practices – General Meeting and Relations with Shareholders**

#### Recommendation IV.R.2

"If justified by the structure of shareholders or expectations of shareholders notified to the company, and if the company is in a position to provide the technical infrastructure necessary for a general meeting to proceed efficiently using electronic communication means, the company should enable its shareholders to participate in a general meeting using such means, in particular through:

- 1) real-life broadcast of the general meeting,

2) real-time bilateral communication where shareholders may take the floor during a general meeting from a location other than the general meeting,

3) exercise, either in person or through a proxy, the right to vote at the General Shareholders Meeting”.

**Explanation:**

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

**Principle No. IV.Z.2.**

“If there is justification due to the shareholding structure, the company ensures the public broadcast of the General Shareholders Meeting in real time”.

**Explanation:**

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

## **Good practices – Remuneration**

**Recommendation VI.R.1**

“The remuneration of members of the company's governing bodies and key managers should follow the approved remuneration policy”.

**Explanation:**

The remuneration principles and amounts of Members of the Management Board are set by the Supervisory Board.

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

**Recommendation VI.R.2**

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

**Explanation:**

The remuneration principles and amounts of Members of the Management Board are set by the Supervisory Board.

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

**Principle No. VI.Z.4.**

In its report from operations, the company should report on the remuneration policy including at least the following:

- 1) general information on remuneration system adopted by the Company,
- 2) information on conditions and amount of remuneration granted to each member of the Management Board, split into fixed and variable

components, specifying key parameters used to determine variable components of remuneration and rules for the payment of retirement allowance and other payments related to termination of the employment contract, commission or other legal relationship of similar nature – separately for the Company and for entity belonging to the capital group,

3) information on non-financial components of remuneration assigned to individual members of the Management Board and key managers,

4) significant amendments of the remuneration policy in the last financial year or information about their absence,

5) assessment of the functioning of the remuneration policy from the viewpoint of implementation of its objectives, in particular long-term growth of value for shareholders and sustainability of the company.

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

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

Explanation:

The remuneration principles and amounts of Members of the Management Board are set by the Supervisory Board.

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

of the companies versus their budgets and the results generated in the previous reporting period.

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

The Company's Management Board systematically assesses the quality of internal control and risk management systems with reference to the preparation process of consolidated financial statements. On the basis of such review, the Company's Management Board found that as at 31 December 2016 there were no weaknesses that could materially affect the effectiveness of internal control with respect to financial reporting.

## Shareholders that directly or indirectly hold significant packages of shares

Information on the shareholders that directly or indirectly hold large packages of shares is presented in the table below – the table presents the situation as of the publication date of the annual report (20 March 2017).

Shareholder	as at 20.03.2017			
	Number of shares	Share capital [%]	Number of votes	Of total number of votes [%]
<b>Thomas Onstad</b>	<b>47 205 107</b>	<b>68,13%</b>	<b>47 205 107</b>	<b>68,13%</b>
- indirectly via	41 131 449	59,36%	41 131 449	59,36%
<i>Nemus Holding AB</i>	40 231 449	58,06%	40 231 449	58,06%
<i>other subsidiary</i>	900 000	1,30%	900 000	1,30%
- directly	6 073 658	8,77%	6 073 658	8,77%
Others	<b>22 082 676</b>	<b>31,87%</b>	<b>22 082 676</b>	<b>31,87%</b>
<b>Total</b>	<b>69 287 783</b>	<b>100,00%</b>	<b>69 287 783</b>	<b>100,00%</b>
Own shares	-	0,00%	-	0,00%
<b>Total</b>	<b>69 287 783</b>	<b>100,00%</b>	<b>69 287 783</b>	<b>100,00%</b>

## Securities with special control rights

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

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

The Company's Articles of Association do not provide for any restrictions concerning transfer of title to the Issuer's securities. Such restrictions are specified in law, including in Chapter 4 of the Act on public offering and on conditions governing the introduction of financial instruments to organised trading and on public companies of 29 July 2005, Art. 11 and Art. 19 and Section VI of the Act on trading in financial instruments of 29 July 2005, the Act on Protection of Competition and Consumers of 16 February 2007 and the Council

Regulation (EC) No. 139/2004 on the control of concentrations between undertakings of 20 January 2004.

Each share in Arctic Paper S.A. authorises to one vote at General Meetings. The Company's Articles of Association provide for no restrictions as to the exercising of voting rights of shares in Arctic Paper S.A., such as any restrictions on voting rights, such as limitations of the voting rights of holders of a given percentage or number of

votes, deadlines for exercising voting rights, or systems whereby, with the company's cooperation, the financial rights attaching to securities are separated from the holding of securities.

A ban on voting rights by shareholders may result from Art. 89 of the Act on Offering of 29 July 2005 if such shareholder breaches the regulations provided in

Chapter 4 of the Act on Offering. According to Art. 6 § 1 of the Code of Commercial Companies, if the parent company fails to notify its capital subsidiary company of the occurrence of a domination relationship within two weeks of the occurrence thereof, the voting rights will be suspended with respect to the shares held by the parent company representing more than 33% of the subsidiary's share capital.

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

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

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

## Description of the functioning of the General Meeting

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

The Company's Articles of Association are available at:

[http://www.arcticpaper.com/Global/IR%20Documents/Dokumenty%20korporacyjne/Statut%20tekst%20jednolity\\_akt\\_ualny\\_2016\\_PL%2014.09.2016.pdf](http://www.arcticpaper.com/Global/IR%20Documents/Dokumenty%20korporacyjne/Statut%20tekst%20jednolity_akt_ualny_2016_PL%2014.09.2016.pdf)

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

- General Meetings are held in the Company's offices or in Warsaw;
- General Meetings may be ordinary or extraordinary;
- Ordinary General Meetings shall be held within six months after the end of the financial year;
- General Meetings are opened by the Chairperson of the Supervisory Board or a person designated by him/her which is followed by election of the Chair of the General Meeting;
- Voting shall be open unless a Shareholder demands a secret ballot or a secret ballot is required by the provisions of the Code of Commercial Companies;
- Unless the Code of Commercial Companies or the Articles of Association of the Company provide otherwise, resolutions of the General Meeting require an absolute majority of votes;
- In compliance with the Company's Articles of Association, the following matters fall within the exclusive competences of the General Meeting:
  - review and approval of the Management Board's report from operations of the Company and financial statements of the Company for the previous financial year;
  - granting a vote of approval to members of the Management Board and members of the Supervisory Board for the performance of their duties;

- decisions concerning distribution of profit or coverage of losses;
- changes to the business objects of the Company;
- changes to the Articles of Association of the Company;
- increase or decrease in the Company's share capital;
- merger of the Company with another company or other companies, split of the Company or transformation of the Company;
- dissolution and liquidation of the Company;
- issues of convertible bonds or pre-emption bonds and issues of subscription warrants;
- purchase and sale of properties;
- sale and lease of the entire enterprise or an organised part thereof or establishment of limited rights in rem thereon;
- all other issues for which these Articles of Association or the Code of Commercial Companies require a resolution of the General Meeting.

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

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

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



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

### Management Board

#### Composition of the Management Board

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

#### Core competences of the Management Board

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

Otherwise, the individual members of the Management Board shall be responsible for their running of the affairs of the Company as resulting from the internal delegation of duties and functions approved by a decision of the Management Board.

The Management Board may approve resolutions at meetings or outside meetings in writing or with the use of direct means of remote telecommunications. The Management Board approves resolutions with a majority of votes cast. Resolutions shall be valid if minimum one half of members of the Management Board are present at the meeting. In case of equal number of votes, the President of the Management Board shall have the casting vote.

The detailed mode of operation of the Management Board is set forth in the Regulations of the Management Board with its updated version available at:

<http://www.arcticpaper.com/Global/IR%20Documents/Corporate%20Documents/Regulamin%20Zarzadu%20AP%20S.A.pdf>

The Management Board of the Company as at the publication hereof was composed as follows:

- Per Skoglund – President of the Management Board appointed on 27 April 2016 (appointed as a Member of the Management Board on 27 April 2011).
- Małgorzata Majewska-Śliwa – Member of the Management Board appointed on 27 November 2013.
- Jacek Łoś – Member of the Management Board appointed on 27 April 2011.
- Wolfgang Lübbert – Member of the Management Board appointed on 5 June 2012.
- Michał Sawka – Member of the Management Board appointed on 12 February 2014.

## **Supervisory Board**

### **Composition and organisation of the Supervisory Board**

- The Supervisory Board is composed of 5 (five) to 7 (seven) members elected by the General Meeting for a joint three-year term of office. A member of the Supervisory Board may be dismissed at any time;
- The Supervisory Board is composed of the Chairperson, Deputy Chairpersons and other members. The Chairperson of the Supervisory Board and Deputy Chairperson are elected by the Supervisory Board from among its members at the first meeting and – if so required – during the term of office in by-elections;
- Since the General Meeting approved resolutions on the first public issue of shares and having them listed, two members of the Supervisory Board have to be independent;
- When an independent member of the Supervisory Board is nominated, resolutions on the following matters require consent of minimum one independent member of the Supervisory Board:
  - any benefits to be provided by the Company and any entity related to the Company for members of the Management Board;
  - consent to the Company or its subsidiary entity to enter into a material agreement with a member of the Supervisory Board or of the Management Board and with their related entities, other than agreements

concluded in the normal course of the Company's business subject to normal terms and conditions applied by the Company;

- election of auditor to perform audits of the Company's financial statements;
- For the avoidance of any doubts, it is assumed that loss of the independent status by a member of the Supervisory Board and failure to appoint an independent member of the Supervisory Board shall not invalidate the decisions approved by the Supervisory Board. Loss by an Independent Member of their independent status during the performance of their function of a member of the Supervisory Board shall not affect the validity or expiry of their mandate;
- In case of expiry of the mandate of a Member of the Supervisory Board before the term of office, the other Members of the Supervisory Board shall be entitled to co-opt a new Member of the Supervisory Board in such vacated position by way of a resolution approved with an absolute majority of the other Members of the Supervisory Board. The mandate of such co-opted Member of the Supervisory Board shall expire if the first Ordinary General Meeting to be held after such Member has been co-opted, fails to approve such Member. At any time, only two persons elected as Members of the Supervisory Board in the co-option procedure and who were not approved as candidates by the Ordinary General Meeting, may act as Members of the Supervisory Board. Expiry of the mandate of a co-opted Member of the Supervisory Board as a result of failure to approve such candidate by the Ordinary General Meeting may not be treated as finding any resolution approved with the participation of such Member as invalid or ineffective.
- Chairperson and Deputy Chairperson of the Supervisory Board:
  - maintain contact with the Company's Management Board;
  - manage the operations of the Supervisory Board;
  - represent the Supervisory Board in external contacts and in contacts with the other bodies of the Company, including in contacts with members of the Company's Management Board;
  - approve the presentation of initiatives and proposals submitted for meetings of the Supervisory Board;
  - take other actions as specified in the Company's Regulations and Articles of Association;
- Members of the Supervisory Board should not resign from their function during the term of office if that could prevent the operation of the Supervisory Board, in particular prevent timely approval of major resolutions;
- Members of the Supervisory Board shall be loyal to the Company. Should a conflict of interests arise, members of the Supervisory Board shall report it to the other members of the Supervisory Board and refrain from participating in discussions and from voting on the issue to which the conflict of interests is related;
- Members of the Supervisory Board shall comply with law, the Company's Articles of Association and Regulations of the Supervisory Board.

#### **Competences of the Supervisory Board:**

- The Supervisory Board performs overall supervision over the business of the Company in all areas of its operation;
- The Supervisory Board approves resolutions, issues recommendations and opinions and submits proposals to the General Meeting;
- The Supervisory Board may not issue binding instructions to the Management Board concerning the management of the Company's affairs;

- Disputes between the Supervisory Board and the Management Board shall be resolved by the General Meeting;
- In order to exercise their rights, the Supervisory Board may review the business of the Company in any respect, request the presentation of any documents, reports and clarification from the Management Board and issue opinions on issues related to the Company and submit proposals and initiatives to the Management Board;
- Apart from other issues specified in law or in the Company's Articles of Association, the competences of the Supervisory Board include, inter alia:
  - review of the financial statements of the Company;
  - review of the Management Board's report from operations of the Company and proposals of the Management Board concerning profit distribution and coverage of losses;
  - submission to the General Meeting of an annual report from results of the above reviews;
  - appointment and dismissal of members of the Management Board, including the President and Deputy Presidents, and setting the remuneration of members of the Management Board;
  - appointment of the auditor of the Company;
  - suspension of Members of the Management Board in their functions for valid reasons;
  - approval of annual financial plans for the capital group of which the Company and its subsidiary companies are members;
  - approving terms and conditions of bond issues by the Company (other than convertible bonds or bonds with priority rights, referred to in Art. 393.5 of the Code of Commercial Companies) and issues of other debt securities, provision of consent to contract financial liabilities or taking actions resulting in contracting any financial liabilities, such as borrowings, loans, overdraft facilities, conclusion of factoring, forfaiting, lease contracts and other generating liabilities in excess of PLN 10,000,000;
  - approving the principles and amounts of remuneration of members of the Management Board and other persons in key managerial functions in the Company as well as approval of any incentive programme, including incentive programmes for members of the Management Board, persons in key managerial functions in the Company or any persons cooperating with or related to the Company, including incentive programmes for employees of the Company;
- Annually the Supervisory Board submits to the General Meeting a brief assessment of the Company's condition ensuring that it is made available to all shareholders at a time that they are able to review it before the Ordinary General Meeting;
- The Supervisory Board concludes contracts with members of the Management Board on behalf of the Company and represents the Company in disputes with members of the Management Board. The Supervisory Board may authorise by way of a resolution one or more of its members to perform such legal actions.

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

Resolutions of the Supervisory Board may be approved when all members have been notified by registered letter, fax or e-mail message, sent minimum 15 days in advance and the meeting is attended by a majority of members of the

Supervisory Board. Resolutions may be approved without formal convening a meeting when all members of the Supervisory Board agreed to vote on the specific issue or to the content of the resolution to be approved.

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

The detailed mode of operation of the Supervisory Board is set forth in the Regulations of the Supervisory Board with its updated version available at:

[http://www.arcticpaper.com/Global/IR%20Documents/Dokumenty%20korporacyjne/1\\_11\\_2016\\_appendix%20PL\\_AP%20SA%20-%20Regulamin%20Rady%20Nadzorczej\\_fin.pdf](http://www.arcticpaper.com/Global/IR%20Documents/Dokumenty%20korporacyjne/1_11_2016_appendix%20PL_AP%20SA%20-%20Regulamin%20Rady%20Nadzorczej_fin.pdf)

The Supervisory Board of the Company as at the publication hereof was composed as follows:

- Per Lundeen – Chairman of the Supervisory Board appointed on 14 September 2016;
- Roger Mattsson – Deputy Chairman of the Supervisory Board appointed on 16 September 2014;
- Thomas Onstad – Member of the Supervisory Board appointed on 22 October 2008;
- Mariusz Grendowicz – Member of the Supervisory Board appointed on 28 June 2012 (independent member);
- Maciej Georg – Member of the Supervisory Board appointed on 14 September 2016 (independent member).

## **Audit Committee**

### **Composition and organisation of the Audit Committee**

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

## Competences of the audit committee

- The basic task of the Audit Committee is advisory to the Supervisory Board on issues of proper implementation and control of the financial reporting processes in the Company, effectiveness of the internal control and risk management systems and cooperation with statutory auditors;
- The tasks of the Audit Committee resulting from supervising the Company's financial reporting process, ensuring the effectiveness of the Company's internal control systems and monitoring of internal audit operations, include in particular:
  - control if the financial information provided by the Company is correct, including the accuracy and consistency of the accounting principles applied in the Company and its Capital Group as well as the consolidation principles of financial statements;
  - assessment minimum once a year of the internal control and management systems in the Company and its Capital Group in order to ensure adequate recognition and management of the Company;
  - ensuring the effective functioning of internal control, in particular by providing recommendations to the Supervisory Board with respect to:
    - strategic and operational internal audit plans and material amendments to such plans;
    - internal audit policies, strategy and procedures, developed in compliance with the approved internal audit standards;
    - audits of specific areas of the Company's operations;
- The tasks of the Audit Committee resulting from monitoring the independence of the statutory auditor and the entity authorised to audit financial statements, include in particular:
  - issue of recommendations to the Supervisory Board relating to the election, appointment and re-appointment and dismissal of the entity acting as the statutory auditor;
  - control of independence and impartiality of the statutory auditor, in particular with a view to replacing the statutory auditor, the level of its remuneration and other relationships with the Company;
  - verification of the effectiveness of the works performed by the statutory auditor;
  - review of reasons of resignation by the statutory auditor;
- The Audit Committee may resort to advisory services and assistance by external legal, accounting or other advisers if it finds it necessary to perform its duties;
- The Audit Committee is obliged to file annual reports from its operations to the Supervisory Board by 30 September in each calendar year.

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

As at 22 September 2016, the Audit Committee was composed of:

- Per Lundeen
- Roger Mattsson
- Mariusz Grendowicz
- Maciej Georg

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

## Remuneration Committee

### Composition and organisation of the Remuneration Committee

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

### Competences of the Remuneration Committee

- The basic task of the Remuneration Committee is advisory support to the Supervisory Board on issues related to remuneration policy, bonus policy and other issues related to the remuneration of the employees, members of the Company's authorities and the authorities of Capital Group companies;
- The tasks of the Remuneration Committee resulting from supervision over the Company's remuneration policy and ensuring the effective functioning of the Company's remuneration policy, is to provide recommendations to the Supervisory Board in particular with respect to:
  - approval and amendments to the remuneration principles of member of the Company's bodies;
  - the amount of total remuneration to members of the Company's Management Board;
  - legal disputes between the Company and Members of the Management Board with respect to the tasks of the Committee;
  - proposing remuneration and approving additional benefits to individual members of the Company's bodies, in particular under managerial option plans (convertible into shares of the Company);
  - strategy of the Company's remuneration and bonus policies and HR policies;
- The Remuneration Committee may resort to advisory services and assistance by external legal or other advisers if it finds it necessary to perform its duties;
- The Remuneration Committee is obliged to file annual reports from its operations to the Supervisory Board by 30 September in each calendar year.

Meetings of the Remuneration Committee shall be held minimum twice a year, on dates designated by its Chairperson.

From 22 September 2016 the Remuneration Committee was operating in the following composition:

- Per Lundeen
- Thomas Onstad

On 9 February 2017 the Supervisory Board appointed Mr Roger Mattsson as a member of the Remuneration Committee.

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

## **Risk Committee**

### **Composition and organisation of the Risk Committee**

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

### **Competences of the Risk Committee**

- The basic task of the Risk Committee is advisory support to the Supervisory Board on issues related to the proper identification, assessment and control of potential risks, i.e. opportunities and threats to realization of the Company's strategic goals, with particular consideration for financial risk, related to both external factors (such as volatility of exchange rates, interest rates, general international economic condition) and internal factors (such as cash flows, liquidity management, variation of budget and financial forecasts);
- The tasks of the Risk Committee resulting from the supervision over the risk management process, include in particular:
  - Supervision over correct identification, analysis and assigning priority to types of risk inherent in the operational strategy and business pursued;
  - Confirmation to the identified risk appetite of the Company;



- Verification if actions used to mitigate risk are planned and implemented so that the risk is mitigated to a level acceptable by the Company;
- Monitoring verifying correct risk assessment by the Management Board and the effectiveness of control tools;
- Supervision over correct notification of stakeholders on the risks, risk strategies and control tools.
- The Risk Committee may resort to advisory services and assistance by external advisers if it finds it necessary to perform its duties;

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

From 22 September 2016 the Risk Committee was operating in the following composition:

- Per Lundeen
- Mariusz Grendowicz
- Roger Mattsson

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

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

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

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

### General Meeting of Shareholders

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

### Appointment of the Company's bodies and auditors

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

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

### Tasks of the bodies of the Company

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

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

### **Size and composition of the Company's bodies**

The composition of the Supervisory Board should reflect the independence criteria, just like those specified in the Swedish Code. However, the Management Board being the executive body is composed of persons in executive positions at Arctic Paper S.A., and these members may not be treated as independent of the Company. The terms of office of members of the Management Board – just like the members of the Supervisory Board – lasts three years.

### **Chairpersons of the bodies of the Company**

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

### **Procedures of the bodies of the Company**

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

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

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

### **Information on corporate governance**

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

## Statements of the Management Board

### Accuracy and reliability of the presented reports

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

- The consolidated financial statements of the Arctic Paper S.A. Capital Group for the year ended on 31 December 2016 and the comparable data were prepared in compliance with the applicable accounting principles and they reflect economic and financial condition of the Capital Group and its financial result for 2016 in a true, reliable and clear manner.
- The Management Board's Report from operations of the Arctic Paper S.A. Capital Group in 2016 contains a true image of the development, achievements and condition of the Arctic Paper S.A. Capital Group, including a description of core hazards and risks.

### Appointment of the entity authorized to audit financial statements

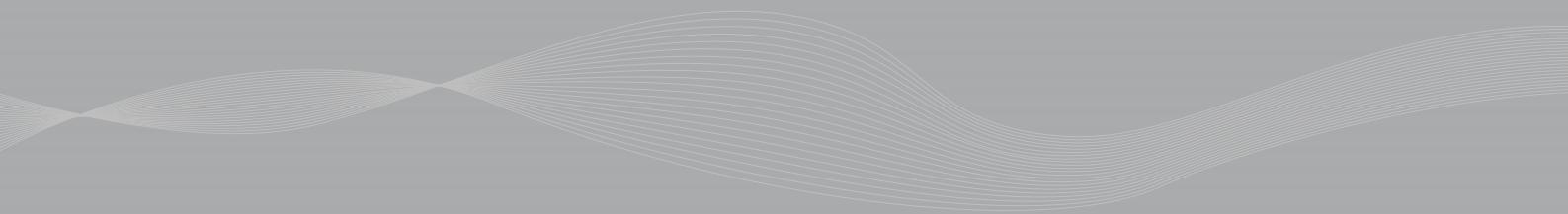
Members of the Management Board of Arctic Paper S.A. represent that Ernst & Young Audyt Polska Spółka z ograniczoną odpowiedzialnością sp.k. – the entity authorised to audit financial statements that reviewed the annual financial statements of the Arctic Paper S.A. Capital Group, was selected in compliance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

Signatures of the Members of the Management Board

Position	Name and surname	Date	Signature
President of the Management Board Chief Executive Officer	Per Skoglund	20 March 2017	
Member of the Management Board Chief Financial Officer	Malgorzata Majewska-Śliwa	20 March 2017	
Member of the Management Board Chief Procurement Officer	Jacek Łoś	20 March 2017	
Member of the Management Board Strategy Director	Wolfgang Lübbert	20 March 2017	
Member of the Management Board Sales Director	Michał Sawka	20 March 2017	



Consolidated financial statements  
for the year ended on 31 December 2016 to the annual  
report for 2016



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## Consolidated financial statements and selected financial data

### Selected consolidated financial data

	Period from 01.01.2016 to 31.12.2016 PLN thousand	Period from 01.01.2015 to 31.12.2015 PLN thousand	Period from 01.01.2016 to 31.12.2016 EUR thousand	Period from 01.01.2015 to 31.12.2015 EUR thousand
Sales revenues	2 966 972	2 900 460	679 901	693 179
Profit (loss) on operating activities	125 040	100 239	28 654	23 956
Gross profit (loss)	74 198	72 150	17 003	17 243
Net profit (loss) from continuing operations	58 829	71 019	13 481	16 973
Net profit (loss) for the financial year	61 026	(26 570)	13 985	(6 350)
Net profit (loss) for the financial year attributable to the shareholders of the Parent Entity	39 946	(71 258)	9 154	(17 030)
Net cash flows from operating activities	184 958	172 748	42 384	41 285
Net cash flows from investing activities	(174 677)	(81 646)	(40 028)	(19 513)
Net cash flows from financing activities	(66 817)	(62 359)	(15 311)	(14 903)
Change in cash and cash equivalents	(56 536)	28 742	(12 837)	6 869
Weighted average number of ordinary shares	69 287 783	69 287 783	69 287 783	69 287 783
Diluted weighted average number of ordinary shares	69 287 783	69 287 783	69 287 783	69 287 783
EPS (in PLN/EUR)	0,58	(1,03)	0,13	(0,25)
Diluted EPS (in PLN/EUR)	0,58	(1,03)	0,13	(0,25)
Mean PLN/EUR exchange rate*			4,3638	4,1843
	As at 31 December 2016 PLN thousand	As at 31 December 2015 PLN thousand	As at 31 December 2016 EUR thousand	As at 31 December 2015 EUR thousand
Assets	1 770 081	1 813 235	400 109	425 492
Long-term liabilities	428 634	372 599	96 888	87 434
Short-term liabilities	580 457	682 515	131 206	160 159
Equity	742 902	676 856	167 925	158 830
Share capital	69 288	69 288	15 662	16 259
Number of ordinary shares	69 287 783	69 287 783	69 287 783	69 287 783
Diluted number of ordinary shares	69 287 783	69 287 783	69 287 783	69 287 783
Book value per share (in PLN/EUR)	10,72	9,77	2,42	2,29
Diluted book value per share (in PLN/EUR)	10,72	9,77	2,42	2,29
Declared or paid dividend (in PLN/EUR)	-	-	-	-
Declared or paid dividend per share (in PLN/EUR)	-	-	-	-
PLN/EUR exchange rate at the end of the period**	-	-	4,4240	4,2615

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

\*\* – Balance sheet items and book value per share have been translated at the mean exchange rates published by the National Bank of Poland, prevailing on the balance sheet date.

## Consolidated profit and loss account

	Note	Year ended on 31 December 2016	Year ended on 31 December 2015
<b>Continuing operations</b>			
Revenues from sales of paper and pulp	10.1	2 966 972	2 900 460
Sales revenues		2 966 972	2 900 460
Costs of sales	11.5	(2 543 312)	(2 490 533)
Gross profit (loss) on sales		423 661	409 927
Selling and distribution costs	11.5	(250 257)	(266 296)
Administrative expenses	11.5	(69 770)	(63 597)
Other operating income	11.1	66 554	59 644
Other operating expenses	11.2	(45 147)	(39 440)
Operating profit (loss)		125 040	100 239
Financial income	11.3	1 350	1 587
Financial expenses	11.4	(52 192)	(29 676)
Gross profit (loss)		74 198	72 150
Income tax	13	(15 369)	(1 131)
Net profit (loss) from continuing operations		58 829	71 019
<b>Discontinued operations</b>			
Profit (loss) for the financial year from discontinued	14	2 198	(97 588)
Net profit (loss) for the financial year		61 027	(26 570)
<b>Attributable to:</b>			
The shareholders of the Parent Entity, of which:			
- profit (loss) from continuing operations		39 946	(71 258)
- profit (loss) from discontinued operations		37 748	26 331
		2 198	(97 588)
The non-controlling shareholder, of which:			
- profit (loss) from continuing operations		21 080	44 688
- profit (loss) from discontinued operations		21 080	44 688
- profit (loss) from discontinued operations		-	-
		61 026	(26 570)
<b>Earnings per share:</b>			
– basic earnings from the profit/(loss) for the period attributable to the shareholders of the Parent Entity			
	16	0,58	(1,03)
– basic earnings from the profit/(loss) from continuing operations for the period attributable to the shareholders of the Parent Entity			
	16	0,54	0,38
– diluted earnings for the profit for the period attributable to the shareholders of the Parent Entity			
	16	0,58	(1,03)
– diluted earnings for the profit for from continuing operations attributable to the shareholders of the Parent Entity			
	16	0,54	0,38



## Consolidated statement of total comprehensive income

	Note	Year ended on 31 December 2016	Year ended on 31 December 2015
Net profit/(loss) for the reporting period		61 026	(26 570)
Items to be reclassified to profit/loss in future reporting periods:			
FX differences on translation of foreign operations	30.2	(2 905)	11 256
Deferred income tax on the measurement of financial instr	13.1	(10 369)	3 609
Measurement of financial instruments	12	43 681	(16 263)
Items not to be reclassified to profit /loss in future reporting periods:			
Actuarial profit / (loss) for defined benefit plans	11.7	(9 281)	8 271
Deferred income tax on actuarial profit / (loss) relating to defined benefit plans	13.1	1 396	(1 963)
Other comprehensive income		22 522	4 911
Total comprehensive income		83 548	(21 659)
Attributable to:			
The shareholders of the Parent Entity		53 916	(67 500)
To the non-controlling shareholder		29 631	45 841

## Consolidated balance sheet

	Note	As at 31 December 2016	As at 31 December 2015
<b>ASSETS</b>			
Fixed assets			
Tangible fixed assets	18	774 818	719 782
Investment properties	20	4 074	3 982
Intangible assets	21	57 033	51 622
Interests in joint ventures	22	924	5 169
Other financial assets	24.1	10 913	1 017
Other non-financial assets	24.2	1 548	1 472
Deferred income tax asset	13.3	35 034	47 625
		884 343	830 668
Current assets			
Inventories	27	360 353	390 631
Trade and other receivables	28	343 496	336 499
Corporate income tax receivables		11 328	6 941
Other non-financial assets	24.2	16 492	11 531
Other financial assets	24.1	11 218	944
Cash and cash equivalents	29	130 157	188 552
		873 044	935 099
Assets related to discontinued operations		12 694	47 467
<b>TOTAL ASSETS</b>		<b>1 770 081</b>	<b>1 813 235</b>
<b>EQUITY AND LIABILITIES</b>			
Equity			
Equity (attributable to the shareholders of the Parent Entity)			
Share capital	30.1	69 288	69 288
Reserve capital	30.3	447 638	447 638
Other reserves	30.4	156 975	127 976
FX differences on translation	30.2	19 798	21 810
Retained earnings / Accumulated losses	30.5	(151 550)	(181 625)
Cumulated other comprehensive income related to discontinued operations	14	(12 120)	(8 974)
		530 028	476 111
Non-controlling stake	30.6	212 874	200 744
<b>Total equity</b>		<b>742 902</b>	<b>676 856</b>
Long-term liabilities			
Interest-bearing loans and borrowings	32	275 464	222 305
Provisions	33	90 313	82 855
Other financial liabilities	32	30 082	41 057
Deferred income tax liability	13.3	11 851	2 468
Accruals and deferred income	34.2	20 924	23 914
		428 634	372 599
Short-term liabilities			
Interest-bearing loans and borrowings	32	55 367	82 883
Other financial liabilities	32	26 686	83 503
Trade and other payables	34.1	399 727	411 774
Income tax liability		179	281
Accruals and deferred income	34.2	98 498	104 074
		580 457	682 515
Liabilities directly related to the discontinued operations	14	18 088	81 264
<b>TOTAL LIABILITIES</b>		<b>1 027 179</b>	<b>1 136 379</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1 770 081</b>	<b>1 813 235</b>

## Consolidated cash flow statement

	Note	12-month period ended on 31 December 2016	12-month period ended on 31 December 2015
<b>Cash flows from operating activities</b>			
Gross profit/(loss) on continuing operations		74 198	72 150
Gross profit/(loss) on discontinued operations		1 191	(97 998)
Gross profit (loss)		75 388	(25 848)
Adjustments for:			
Depreciation/amortisation	11.6	120 877	119 057
FX gains / (loss)		4 404	(2 154)
Impairment of non-financial assets		4 151	-
Net interest and dividends		23 673	21 460
Profit / loss from investing activities		(1 534)	(263)
Increase / decrease in receivables and other non-financial assets	29.1	2 793	(11 377)
Change to inventories	29.1	46 103	(36 725)
Increase / decrease in liabilities except for loans and borrowings	29.1	(31 885)	67 516
Change in accruals and deferred income	29.1	(15 775)	10 995
Change in provisions	29.1	(30 488)	34 721
Income tax paid		(6 407)	(5 212)
Reversal of write-offs of assets related to discontinued operations		(10 618)	-
Redemption effect of CO2 emission rights recognised as a result of combination of business entities		406	1 415
Co-generation certificates		(5 033)	(3 756)
Other		8 903	2 919
Net cash flows from operating activities		184 958	172 748
<b>Cash flows from investing activities</b>			
Disposal of tangible fixed assets and intangible assets		2 005	650
Purchase of tangible fixed and intangible assets	29.1	(177 612)	(102 947)
Bank deposits with maturities in excess of 3 months		-	20 651
Other capital outflows / inflows		930	-
Net cash flows from investing activities		(174 677)	(81 646)
<b>Cash flows from financing activities</b>			
Change to overdraft facilities		(41 830)	22 479
Repayment of financial leasing liabilities		(3 100)	(2 907)
Inflows from other financial liabilities		1 154	15 226
Repayment of other financial liabilities		(45 068)	(2 049)
Inflows from loans and borrowings		261 915	-
Repayment of loans and borrowings		(199 173)	(48 431)
Interest paid		(23 214)	(20 121)
Dividend disbursed to non-controlling shareholders	30.6	(17 502)	(26 556)
Net cash flows from financing activities		(66 817)	(62 359)
Change in cash and cash equivalents		(56 536)	28 742
Net FX differences		(1 591)	2 449
Cash and cash equivalents at the beginning of the period	29	189 603	158 412
Cash and cash equivalents at the end of the period	29	131 476	189 603

## Consolidated statement of changes in equity

### Attributable to the shareholders of the Parent Entity

	Note	Share capital	Reserve capital	FX differences on translation of foreign operations	Other reserves	Retained earnings / (Accumulated losses)	Cumulated other comprehensive income related to discontinued operations	Equity attributable to Total minority shareholders	Total equity	
As at 01 January 2016		69 288	447 638	21 810	127 976	(181 625)	(8 974)	476 111	200 744	676 856
Net profit (loss) for the financial year		-	-	-	-	39 946	-	39 946	21 080	61 026
Other comprehensive income (net) for the year		-	-	(2 234)	24 090	(7 886)	-	13 970	8 551	22 522
Total comprehensive income for the period		-	-	(2 234)	24 090	32 061	-	53 916	29 631	83 548
Profit distribution	30.5	-	-	-	4 909	(4 909)	-	-	-	-
Discontinued operations	14	-	-	222	-	2 924	(3 146)	-	-	-
Dividend distribution to non-controlling entities	30.6	-	-	-	-	-	-	-	(17 502)	(17 502)
As at 31 December 2016		69 288	447 638	19 798	156 975	(151 550)	(12 120)	530 028	212 874	742 902

Attributable to the shareholders of the Parent Entity

	Note	Share capital	Reserve capital	FX differences on translation of foreign operations	Other reserves	Retained earnings / (Accumulated losses)	Cumulated other comprehensive income related to discontinued operations	Equity attributable to Total minority shareholders	Total equity
As at 01 January 2015		69 288	472 748	8 958	136 557	(143 939)		543 612	725 071
Net profit (loss) for the financial year		-	-	-	-	(71 258)		44 688	(26 570)
Other comprehensive income (net) for the year		-	-	6 030	(8 581)	6 309		1 153	4 911
Total comprehensive income for the period		-	-	6 030	(8 581)	(64 949)		45 841	(21 659)
Profit distribution	30.5		(25 110)			25 110		-	-
Discontinued operations	14			6 821		2 153	(8 974)	-	-
Dividend distribution to non-controlling entities	30.6							(26 556)	(26 556)
As at 31 December 2015		69 288	447 638	21 810	127 976	(181 625)	(8 974)	200 744	676 856

# Accounting principles (policies) and additional explanatory notes

## 1. General information

The Arctic Paper Group is a leading European producer in terms of production volume of bulky book paper, offering a broad range of products in the segment and one of the leading producers of high-quality graphic paper in Europe. 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. As at 31 December 2016 the Arctic Paper Group employs about 1,750 people in its Paper Mills, companies involved in sale of paper and in pulp producing companies, procurement office and a company producing food packaging. The Group's Paper Mills are located in Poland and Sweden, and have total production capacity of over 700,000 tons of paper per year. Paper production in the Paper Mill located in Germany, with total production output of 115,000 tons of paper annually, was discontinued at the end of 2015. Our Pulp Mills are located in Sweden and have aggregated production capacities of over 400,000 tons of pulp annually. As at 31 December 2016 the Group had 14 Sales Offices ensuring access to all European markets, including Central and Eastern Europe. Our consolidated sales revenues for 12 months of 2016 amounted to PLN 2,967 million.

Arctic Paper S.A. is a holding company set up in April 2008. As a result of capital restructuring carried out in 2008, the Paper Mills Arctic Paper Kostrzyn (Poland) and Arctic Paper Munkedals (Sweden), Distribution

Companies and Sales Offices have become the properties of Arctic Paper S.A. Previously they were owned by Arctic Paper AB (later Trebruk AB), the indirect parent company of Arctic Paper S.A. In addition, in its expansion, the Group acquired the Paper Mill Arctic Paper Mochenwangen (Germany) in November 2008 and the Paper Mill Grycksbo (Sweden) in March 2010. In December 2012, the Group acquired a controlling package of shares in Rottneros AB, a company listed on NASDAQ in Stockholm, Sweden, holding interests in two pulp companies (Sweden).

In 2015 the Management Board of Arctic Paper announced that it had started an active search for an investor for Arctic Paper Mochenwangen and in parallel assessed the possibility of measures to further reduce the losses generated by the Paper Mill, relating to the discontinuation of production. Due to the above, the business of the Mochenwangen Group was treated in this report as discontinued activity.

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

The Parent Entity holds statistical number REGON 080262255.

## Group Profile

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

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

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

## Shareholding structure

Shareholder	as at 31.12.2016				as at 31.12.2015			
	Number of shares	Share in the share capital [%]	Number of votes	Share in the total number of votes [%]	Number of shares	Share in the share capital [%]	Number of votes	Share in the total number of votes [%]
<b>Thomas Onstad</b>	<b>47 205 107</b>	<b>68,13%</b>	<b>47 205 107</b>	<b>68,13%</b>	<b>47 205 107</b>	<b>68,13%</b>	<b>47 205 107</b>	<b>68,13%</b>
- indirectly via	41 131 449	59,36%	41 131 449	59,36%	41 356 449	59,69%	41 356 449	59,69%
<i>Nemus Holding AB</i>	40 231 449	58,06%	40 231 449	58,06%	40 006 449	57,74%	40 006 449	57,74%
<i>other entity</i>	900 000	1,30%	900 000	1,30%	1 350 000	1,95%	1 350 000	1,95%
- directly	6 073 658	8,77%	6 073 658	8,77%	5 848 658	8,44%	5 848 658	8,44%
<b>Other</b>	<b>22 082 676</b>	<b>31,87%</b>	<b>22 082 676</b>	<b>31,87%</b>	<b>22 082 676</b>	<b>31,87%</b>	<b>22 082 676</b>	<b>31,87%</b>
<b>Total</b>	<b>69 287 783</b>	<b>100,00%</b>	<b>69 287 783</b>	<b>100,00%</b>	<b>69 287 783</b>	<b>100,00%</b>	<b>69 287 783</b>	<b>100,00%</b>
Treasury shares	-	0,00%	-	0,00%	-	0,00%	-	0,00%
<b>Total</b>	<b>69 287 783</b>	<b>100,00%</b>	<b>69 287 783</b>	<b>100,00%</b>	<b>69 287 783</b>	<b>100,00%</b>	<b>69 287 783</b>	<b>100,00%</b>

Nemus Holding AB, a company under Swedish law (a company owned indirectly by Mr Thomas Onstad), is the majority shareholder of Arctic Paper S.A., holding (as at 31 December 2016) 40,231,449 shares of our Company, which constitutes 58.06% of its share capital and corresponds to 58.06% of the total number of votes at General Meetings. Thus Nemus Holding AB is the parent entity of the Issuer.

Additionally, Mr Thomas Onstad, an indirect shareholder of Nemus Holding AB, holds directly 6,073,658 shares representing 8.77% of the total number of shares in the Company, and indirectly via another entity – 900,000 shares accounting for 1.30% of the total number of shares of the Company. Overall, directly and indirectly Mr Thomas Onstad holds 47,205,107 shares or 68.13% of

the Issuer's share capital. The share has not changed versus 31 December 2015.

Until the publication hereof, the share of the core shareholder – Nemus Holding AB in Arctic Paper S.A. has not change versus 31 December 2016 and was 58.06% as at 20 March 2017.

The parent company of the Arctic Paper Group is Incarta Development S.A.

The duration of existence of Arctic Paper S.A. is indefinite.

## 2. Composition of the Group

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

Unit	Registered office	Group profile	Group's interest in the equity of the subsidiary entities as at		
			20 March 2017	31 December 2016	31 December 2015
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 company	100%	100%	100%
Arctic Paper Baltic States SIA	Latvia, K. Vardemara iela 33-20, Riga LV-1010	Trading company	100%	100%	100%
Arctic Paper Deutschland GmbH	Germany, Am Sandtorkai 72, 20457 Hamburg	Trading company	100%	100%	100%
Arctic Paper Benelux S.A.	Belgium, Ophemstraat 24 B-3050 Oud-Haverlee	Trading company	100%	100%	100%
Arctic Paper Schweiz AG	Switzerland, Technoparkstrasse 1, 8005 Zurich	Trading company	100%	100%	100%
Arctic Paper Italia srl	Italy, Via Cavriana 7, 20 134 Milano	Trading company	100%	100%	100%
Arctic Paper Ireland Limited	Ireland, 4 Rosemount Park Road, Dublin 11	Liquidated	-	-	100%
Arctic Paper Danmark A/S	Denmark, Korskindelund 6 DK-2670 Greve	Trading company	100%	100%	100%
Arctic Paper France SAS	France, 43 rue de la Breche aux Loups, 75012 Paris	Trading company	100%	100%	100%
Arctic Paper Espana SL	Spain, Avenida Diagonal 472-474, 9-1 Barcelona	Trading company	100%	100%	100%
Arctic Paper Papierhandels GmbH	Austria, Hainborgerstrasse 34A, A-1030 Wien	Trading company	100%	100%	100%
Arctic Paper Polska Sp. z o.o.	Poland, Okrężna 9, 02-916 Warsaw	Trading company	100%	100%	100%
Arctic Paper Norge AS	Norway, Rosenholmsveien 25, NO-1411 Kolbotn	Trading company	100%	100%	100%
Arctic Paper Sverige AB	Sweden, SE 455 81 Munkedal	Trading company	100%	100%	100%
Arctic Paper East Sp. z o.o.	Poland, Fabryczna 1, 66-470 Kostrzyn nad Odrą	Trading company	100%	100%	100%



Unit	Registered office	Group profile	Group's interest in the equity of the subsidiary entities as at		
			20 March 2017	31 December 2016	31 December 2015
Arctic Paper Investment GmbH *	Germany, Fabrikstrasse 62, DE-882, 84 Wolpertswende	Activities of holding companies	100%	100%	100%
Arctic Paper Finance AB	Sweden, Box 383, 401 26 Göteborg	Activities of holding companies	100%	100%	100%
Arctic Paper Finance AB (previous Arctic Energy Sverige AB)	Germany, Fabrikstrasse 62, DE-882 84 Wolpertswende	Activities of holding companies	100%	100%	100%
Arctic Paper Immobilienverwaltung GmbH	Germany, Fabrikstrasse 62, DE-882 84 Wolpertswende	Activities of holding companies	94,90%	94,90%	94,90%
Arctic Paper Investment AB **	Sweden, Box 383, 401 26 Göteborg	Activities of holding companies	100%	100%	100%
EC Kostrzyn Sp. z o.o.	Poland, ul. Fabryczna 1, 66-470 Kostrzyn nad Odrą	Rental of properties and machines and equipment	100%	100%	100%
Arctic Paper Munkedals Kraft AB	Sweden, 455 81 Munkedal	Production of hydropower	100%	100%	100%
Rottneros AB	Sweden, Sunne	Activities of holding companies	51,27%	51,27%	51,27%
Rottneros Bruk AB	Sweden, Sunne	Pulp production	51,27%	51,27%	51,27%
Utansjo Bruk AB	Sweden, Harnösand	Non-active company	51,27%	51,27%	51,27%
Vallviks Bruk AB	Sweden, Söderhamn	Pulp production	51,27%	51,27%	51,27%
Rottneros Packaging AB	Sweden, Stockholm	Production of food packaging	51,27%	51,27%	51,27%
SIA Rottneros Baltic	Latvia, Ventspils	Procurement bureau	51,27%	51,27%	51,27%

\* – companies established for the purpose of the acquisition of Arctic Paper Mochenwangen GmbH

\*\* – company established to acquire Grycksbo Paper Holding AB (closed in 2015) and indirectly Arctic Paper Grycksbo AB

As at 31 December 2016 and as well as on the day hereof, the percentage of voting rights held by the Group in its subsidiaries corresponded 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 the control has been transferred out of the Group.

### 3. Management and supervisory bodies

#### 3.1. Management Board of the Parent Entity

As at 31 December 2016, the Parent Entity's Management Board was composed of:

- Per Skoglund – President of the Management Board appointed on 27 April 2016 (appointed as a Member of the Management Board on 27 April 2011);

- Wolfgang Lübbert – Member of the Management Board appointed on 5 June 2012;
- Jacek Łoś – Member of the Management Board appointed on 27 April 2011;
- Małgorzata Majewska-Śliwa – Member of the Management Board appointed on 27 November 2013;
- Michał Sawka – Member of the Management Board appointed on 12 February 2014.

Since 31 December 2016 until the publication of these annual consolidated financial statements there were no changes to the composition of the Management Board of the Parent Entity.

### **3.2. Supervisory Board of the Parent Entity**

As at 31 December 2016, the Parent Entity's Supervisory Board was composed of:

- Per Lundeen – Chairman of the Supervisory Board appointed on 22 September 2016 (appointed to the Supervisory Board on 14 September 2016);
- Roger Mattsson – Deputy Chairman of the Supervisory Board appointed on 22 September 2016. (appointed to the Supervisory Board appointed on 16 September 2014);
- Thomas Onstad – Member of the Supervisory Board appointed on 22 October 2008;
- Mariusz Grendowicz – Member of the Supervisory Board appointed on 28 June 2012;
- Maciej Georg – Member of the Supervisory Board appointed on 14 September 2016.

On 30 June 2016 Mr Dariusz Witkowski filed his resignation from the function of a Member of the Supervisory Board. On 8 August resignation from membership in the Supervisory Board was filed by Mr Rolf Olof Grundberg, effective on 14 September 2016, and on 16 August resignation from membership in the Supervisory Board was filed by Rune Ingvansson, effective on 14 September 2016.

On 14 September 2016, the Extraordinary General Meeting appointed two new Members of the Supervisory Board: Mr Per Lundeen and Mr Maciej Georg.

At its meeting on 22 September 2016, the Supervisory Board elected the Chairperson of the Supervisory Board from among its Members and elected Mr Per Lundeen as the Chairman and Mr Roger Mattsson as the Deputy Chairman of the Supervisory Board.

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

### **3.3. Audit Committee of the Parent Entity**

As at 31 December 2016, the Parent Entity's Audit Committee was composed of:

- Per Lundeen – Chairman of the Audit Committee appointed on 22 September 2016;
- Rune Mattsson – Member of the Audit Committee appointed on 23 June 2016;
- Mariusz Grendowicz – Member of the Audit Committee appointed on 20 February 2013;
- Maciej Georg – Member of the Audit Committee appointed on 22 September 2016.

In connection with the appointment of new Members of the Supervisory Board by the Extraordinary General Meeting on 14 September 2016, there were also changes in the composition of the Audit Committee – on 22 September 2016 new Members were appointed by the Supervisory Board: Mr Per Lundeen and Mr Maciej Georg.

Until the date hereof, there were no further changes in the composition of the Audit Committee of the Parent Entity.

#### **4. Approval of the financial statements**

These consolidated financial statements were approved for publication by the Management Board on 20 March 2017.

#### **5. Material values based on professional judgement and estimates**

##### **5.1. Professional judgement**

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

##### **Liabilities under operational and financial leases – the Group as the lessee**

The Group has lease contracts that according to a judgement of the Management Board meet the criteria of operational leases and contracts that meet the criteria of financial leases. The Group classifies leases as operational or financial on the basis of a judgement to what extent the risks and benefits due to the holding of the leased asset are attributable to the lessor and to the lessee. The judgement relies on the economic content of each transaction.

##### **Identification of control over the acquired entities and joint ventures**

If interests in other entities are acquired, the Management Board of the Parent Entity makes a professional judgement with respect to the recognition method of the transaction in the consolidated financial statements pursuant to the guidelines set forth in IFRS 10 and IFRS 11.

##### **Gas purchase contract**

The Group enters into “take or pay” transactions concerning gas supplies to Arctic Paper Kostrzyn S.A. for its internal use. With reference to such transactions, the Management Board applying to professional judgement assesses as at each balance sheet date the likelihood of consumption of the unutilised quantities within the granted limits, subject to the planned production volumes and an optimum potential to use alternative sources of materials for production. In view of no realistic opportunities to use the outstanding gas quantities, the asset related to paid but not consumed quantities is subject to an impairment charge.

##### **Discontinued operations**

On 28 July 2015 the Management Board of Arctic Paper S.A. published the Group's profitability improvement programme aimed at reducing the operational expenses. At the same time, the Management Board of Arctic Paper announced that it had started an active search for an investor for the Arctic Paper Mochenwangen facility and in parallel analysed the possibility to take measures for further reduction of losses generated by the Paper Mill, including those relating to the discontinuation of operations. Due to the material significance of the part of the business pursued by AP Mochenwangen and the companies set up to acquire the Paper Mill and due to their operational and

geographic separation, the Management Board treated the operations of the Mochenwangen Group as discontinued operations as at 31 December 2015. In view of a continued search for an investor for the factory of Arctic Paper Mochenwangen or its individual assets, the Management Board decided to treat the operations

## 5.2. Uncertainty of estimates

The basic assumptions for the future and other key sources of uncertainties as at the balance sheet date that affect the risk of major adjustments in the book value of assets and liabilities in the next financial year are presented below.

### Impairment of tangible and intangible fixed assets in Arctic Paper Mochenwangen and in Arctic Paper Grycksbo

As at 31 December 2012 an impairment test was conducted at the production facility of Arctic Paper Mochenwangen with reference to tangible fixed assets and intangible assets. As a result of the test, an impairment charge was recognised up to the net value of fixed assets and intangible assets as at 31 December 2012. The investment outlays incurred in 2013-2016 were fully depreciated when incurred. Since 31 December 2015 the activities of the Arctic Paper Mochenwangen Group has been presented as discontinued activities.

As at 30 June 2013 and 31 December 2013 impairment tests were conducted at the production facility of Arctic Paper Grycksbo with reference to tangible fixed assets and intangible assets. As a result of the tests, an impairment charge was recognised up to the net value of fixed assets and intangible assets as at 30 June 2013 and 31 December 2013 respectively.

As at 31 December 2015 and 31 December 2016, following the annual assessment of impairment indications of tangible fixed assets and intangible assets, the Management Board identified the need to perform

of the Mochenwangen Group as discontinued activities as at 31 December 2016.

More information on the discontinued activity is provided in note No. 14 to these consolidated financial statements.

impairment tests of non-financial fixed assets as at those dates. The results of the tests did not show any further impairment losses of these assets. The results of the tests are presented in note No. 25.

### Retirement benefits and other post-employment benefits

The costs of retirement post-employment benefits is determined with actuarial techniques. The estimates were presented in note No. 26. Actuarial measurements require certain assumptions as to the applicable discount rates, anticipated salary increases, mortality ratio and projected growth of retirement benefits. Due to the long-term nature of the programmes, the estimates are subject to certain uncertainties.

### Deferred income tax asset

The Group recognises a deferred income tax asset assuming that taxable profit will be generated in the future to utilise the asset. Material deterioration of the generated taxable profit in the future could render this assumption unjustified. The calculation of the deferred income tax asset is presented in note No. 13.3.

### Fair value of financial instruments

Fair value of financial instruments for which there is no active market is measured using the appropriate valuation techniques. The Group uses professional judgement to select adequate methods and to make assumptions. The fair value of financial instruments is presented in note No. 40.

### Depreciation/amortisation rates

Depreciation/amortisation rates are determined on the basis of the anticipated economic useful lives of tangible fixed assets and intangible assets. Every year, the Group reviews the approved economic useful lives on the basis of current estimates. The approved economic useful lives for each tangible fixed asset are presented in note No. 9.5 and for intangible assets in note No. 9.7.

### Uncertainties related to tax settlements

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

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

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

On 15 July 2016 the Tax Code was amended to incorporate the provisions of the General Anti-Avoidance Rule (GAAR). GAAR is to prevent the development and use of artificial legal structures to avoid tax payments in

Poland. GAAR defines tax avoidance as an activity pursued primarily to accomplish tax benefits that under the circumstances would be contradictory to the subject and purpose of the tax regulations. In accordance with GAAR, such activity would not generate tax benefits if the mode of operation was artificial. Any occurrence of (i) unjustified split to operations, (ii) involvement of intermediaries despite no economic justification, (iii) mutually exclusive of compensating elements, and (iv) other similar activities, may be treated as a premise to the existence of artificial activities subject to GAAR. The new regulations will require more accurate judgements in the assessment of tax effects of each transaction.

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

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

## 6. Basis of preparation of the consolidated financial statements

These Consolidated Financial Statements have been made in accordance with the historical cost convention,

with the exception of investment properties and derivative financial instruments that are measured at fair

value. Financial instruments measured at fair value through financial result include FX forward contracts, contracts for the purchase of electricity, contracts for the sale of pulp, floor options and interest rate SWAPs when they are not subject to hedge accounting (note No. 40).

### 6.1. Compliance statement

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), endorsed by the European Union ("EU IFRS"). As at the balance sheet date, 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 that have become effective 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 Standards Interpretation Committee (IFRIC).

### 6.2. Functional currency and presentation currency of the financial statements

The Group's consolidated financial statements are presented in PLN which is also the functional currency of the Parent Entity. A functional currency is determined for each subsidiary and the assets and liabilities of each entity are measured in its relevant functional currency. The functional currencies of the Group companies

These consolidated financial statements are presented in the Polish Zloty ("PLN"), and all values, unless indicated otherwise, are stated in PLN '000.

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

Certain subsidiaries of the Group maintain their books of account in compliance with the accounting policies (principles) as set forth in the Accounting Act of 29 September 1994 ("Act") as amended, and the regulations issued pursuant thereto ("Polish accounting standards") or in compliance with other local accounting standards applicable to foreign operations. The consolidated financial statements contain adjustments that are not incorporated in the books of account of the Group entities, implemented to make the financial data of those entities compliant with EU IFRS.

included in these consolidated financial statements are as follows: Polish zloty (PLN), Swedish krona (SEK), euro (EUR), Norwegian krone (NOK), Danish krone (DKK), pound sterling (GBP) and Swiss franc (CHF).

## 7. Amendments to the applied accounting principles and data comparability

### 7.1. Amendments to the existing accounting principles

The accounting principles (policies) adopted in the preparation of these consolidated financial statements are consistent with those applied in the preparation of the Group's consolidated financial statements for the

year ended on 31 December 2015, except for the following changes to standards and new interpretations binding for annual periods beginning after 1 January 2016:

■ Amendments resulting from a review of IFRS 2010-2012 covering:

■ Amendments to IFRS 2 Share-based Payment

The amendments apply prospectively and contain details of the definition of the market requirements and the conditions to acquire the entitlements; further, a definition is introduced of the definition of the condition to provide the services and the condition related to performance underlying the right to acquire the entitlements.

The Company does not have programmes of share-based payments and the implementation of the amendments has not affected the Company's financial condition or performance.

■ Amendments to IFRS 3 Business Combinations

The amendments apply prospectively and clarify the conditional payment which is not classified as an element of capitals is measured at fair value through profit or loss irrespective of the fact if it is covered with IAS 39 or not.

The implementation of the amendments has not affected the Company's financial condition or performance.

■ Amendments to IFRS 8 Operating Segments

The amendments apply retrospectively and clarify as follows:

The entity should disclose the judgements made by the Management Board in applying the aggregation criteria to allow two or more operating segments to be aggregated as described in paragraph 12 of IFRS 8, including a brief description of the segments that were aggregated and a description of economic segments used for the analysis of similarities

Reconciliation of assets in a segment with total assets of the entity is required only if such

amounts are regularly provided to the chief operating decision maker.

The entity has incorporated the amendment and discloses information in line with IFRS 8 in note No. 8.

■ Amendments to IAS 16 Tangible fixed assets and IAS 38 Intangible Assets

The amendments apply retrospectively and clarify that an asset may be revalued on the basis of acquired observable data by adjusting the gross book value of the asset to market value or by determining the gross book value proportionately that the obtained book value is equal to market value. Additionally, depreciation is the difference between the gross value and the book value of the asset.

The amendment applies to property, plant and equipment and intangible assets in accordance with the model of revalued value. The Company does not apply the model and therefore the implementation of the amendments has not affected the Company's financial condition or performance.

■ Amendments to IFRS 13 Fair Value Measurement

The amendments clarify that the removal of paragraph B5.4.12 from IFRS 9 Financial Instruments: Recognition and Measurement was not aimed at modifying the requirements related to the measurement of current receivables and payables. In this connection, entities continue to be able to measure current receivables and payables at nominal if the discount effect has no material impact on the presented financial data.

The implementation of the amendments has not affected the Company's financial condition or performance.



■ Amendments to IAS 24 Related Party Disclosures

The amendments apply retrospectively and clarify that the managing entity (providing the services of key management personnel) is treated as a related party for the purposes of disclosures concerning related parties. Additionally, the entity that uses the services provided by a managing entity is obliged to disclose the costs of such services.

The clarification is compliant with the classification method of the managing entity as a related party and the disclosures relating to such managing entity.

■ Amendments resulting from a review of IFRS 2012-2014 covering:

■ Amendments to IFRS 5 Fixed Assets Held for Sale and Discontinued Operations

Assets (groups for sale) are usually sold by sale or handover to owners. The amendments clarify that a replacement of one method with another will not be treated as a new disposal plan but as a continuation of the original plan.

The implementation of the amendments has not affected the Company's financial condition or performance.

■ Amendments to IAS 34 Interim Financial Reporting

The amendments clarify that the requirements related to interim disclosures may be complied with by either making appropriate disclosures in the interim financial statements or adding references between the interim financial statements and another report (e.g. Management Board's report from operations). The other information in the interim financial statements must be accessible to readers

subject to the same principles and at the same time when the interim financial statements are made available.

The implementation of the amendments has not affected the Company's financial condition or performance, or the presentation of interim financial statements.

■ Amendments to IAS 16 and IAS 38 Clarification of acceptable depreciation/amortisation methods

The amendments clarify the principles in IAS 16 and IAS 38 stating that the depreciation/amortisation methods relying on revenues reflects the method in which the entity generates economic benefits from assets and not the anticipated method of using future economic benefits generated by such asset. In result, the method based on revenues may not be applied to depreciate fixed assets and only under certain circumstances it may be applied to the amortisation of intangible assets. The amendments apply prospectively and concern financial years beginning on or after 1 January 2016, earlier implementation is possible.

The implementation of the amendments has not affected the Company's financial condition or performance.

■ Amendments to IAS 27 Equity Method in Separate Financial Statements

The amendments allow entities to disclose in their separate financial statements investments in subsidiary, associated entities and in joint ventures with the application of the equity method. The entities that apply IFRS and decide to modify the consolidation method of their investments to the equity method will apply the amendment retrospectively.

The Parent Entity has not applied the option allowed by the amendment in its standalone financial statements.



■ Amendments to IAS 1 Disclosures

The amendments clarify the existing requirements of IAS 1 related to:

- materiality,
- aggregation and interim amounts,
- sequence of notes,
- presentation of information on the share of associated entities and joint ventures consolidated with the equity method in other comprehensive income.

Additionally, the amendments clarify the requirements that apply when additional interim amounts are disclosed in the statement of financial position and profit and loss account and in the statement of other total comprehensive income.

The amendments concern financial years beginning on or after 1 January 2016, earlier implementation is possible.

The implementation of the amendments has not materially affected financial condition or performance, or the presentation of the Group's financial data.

Additionally, the following new or modified standards or interpretations apply to annual periods beginning on or after 1 January 2016; however, they do not apply to the information presented and disclosed in the Group's financial statements:

■ Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

The amendments relate to the recognition of bearer plants.

■ Amendments to IFRS 11 Joint Arrangements

The amendment relates to the recognition by of a partner of the joint arrangements of interests in such joint arrangement.

■ Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

The amendment applies to the recognition of contributions made by employees or third parties at recognition of defined benefit plans.

■ Amendments to IFRS 10 IFRS 12 and IFRS 28 Investment Entities: Applying the Consolidation Exception

The amendments clarify which subsidiary entities of the investment entity should be included in the consolidation and should not be measured at fair value through profit or loss. The amendments further clarify that investment entities being parent entities continue to be exempted from presenting consolidated financial statements. This also applies when the subsidiary company is measured at fair value through profit or loss by the top parent entity.

■ Amendments resulting from a review of IFRS 2012-2014 covering:

■ Amendments to IFRS 7 Financial Instruments: Disclosures

- I. Servicing contracts – the amendment clarifies that servicing contracts providing for a fee may constitute continuation of exposure to financial assets.
- II. Application of amendments to IFRS 7 (issued in December 2011) to abbreviated interim financial statements.

The amendments apply retrospectively and refer to financial years beginning on or after 1 January 2016, earlier implementation is possible.

■ Amendments to IAS 19 Employee Benefits

The amendment applies to estimates of the discount rate.

The Company should include amendments from the beginning of the earliest comparative period presented in the first statements that include the

amendments. Impact of the amendments implementation should be recognised in the opening balance of retained earnings. The amendment is effective from 1 January 2016, earlier implementation is possible.

The implementation of the amendments has not affected the Group's financial condition or results.

## 7.2. Data comparability

A presentation was changed to short-term accruals (liabilities) and short-term trade payables and other liabilities in the consolidated balance sheet as at 31 December 2015 by increasing short-term trade payables

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

The Group has not earlier adopted any other standards, interpretations or amendments that were issued but are not yet effective.

and other liabilities and decreasing short-term accruals (liabilities) by PLN 4,646 thousand as a result of presentation of liabilities to employees under salaries and excise tax liabilities within other short-term liabilities.

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

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

- IFRS 9 *Financial Instruments* (issued on 24 July 2014) – not yet endorsed by EU as at the date of approval of these financial statements – effective for financial years beginning on or after 1 January 2018,
- IFRS 14 *Regulatory Deferral Accounts* (issued on 30 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 1 January 2016,
- IFRS 15 *Revenue from Contracts with Customers* (issued on 28 May 2014), including amendments to IFRS 15 *Effective date of IFRS 15* (issued on 11 September 2015) effective for financial years beginning on or after 1 January 2018,
- Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets Between an Investor and its*

*Associate or Joint Venture* (issued on 11 September 2014) – the endorsement process of these Amendments has been postponed by EU – the effective date was deferred indefinitely by IASB,

- IFRS 16 *Leases* (issued on 13 January 2016) – not yet endorsed by EU at the date of approval of these financial statements – effective for financial years beginning on or after 1 January 2019,
- Amendments to IFRS 4 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts* (issued on 12 September 2016) – not yet endorsed by EU at the date of approval of these financial statements – effective for financial years beginning on or after 1 January 2018,
- Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses* (issued on 19 January 2016) – not yet endorsed by EU at the date of approval of these financial statements – effective for financial years beginning on or after 1 January 2017,
- Amendments to IAS 7 *Disclosure Initiative* (issued on 29 January 2016) – not yet endorsed by EU at the date of approval of these financial statements –

effective for financial years beginning on or after 1 January 2017,

- Clarification to IFRS 15 *Revenue from Contracts with Customers* (issued on 12 April 2016) – not yet endorsed by EU at the date of approval of these financial statements – effective for financial years beginning on or after 1 January 2018,
- Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions* (issued on 20 June 2016) – not yet endorsed by EU at the date of approval of these financial statements – effective for financial years beginning on or after 1 January 2018.
- *Amendments resulting from a review of IFRS 2014-2016* (published on 8 December 2016) – not yet endorsed by EU at the date of approval of these financial statements – Amendments to IFRS 12 are effective for annual periods beginning on or after 1 January 2017, whereas Amendments to IFRS 1 and IFRS 28 are effective for financial years beginning on or after 1 January 2018,

- IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration* (issued on 8 December 2016) – not yet endorsed by EU at the date of approval of these financial statements – effective for financial years beginning on or after 1 January 2018,
- Amendments to IAS 40: *Transfers of Investment Property* (issued on 8 December 2016) – not yet endorsed by EU at the date of approval of these financial statements – effective for financial years beginning on or after 1 January 2018.

The Management Board considers the possible impact of the above-mentioned changes on the accounting policies applied by the Company but does not expect that the introduction of the above-mentioned standards and interpretations would have a significant impact on the Group.

## 9. Significant accounting policies

### 9.1. Consolidation principles

These consolidated financial statements cover financial statements of Arctic Paper S.A. and its subsidiaries for the year ended on 31 December. The financial statements of subsidiary entities, subject to adjustments to achieve compliance with EU IFRS, are made for the same reporting period as the financial statements of the parent entity relying on consistent accounting principles, applied to similar transactions and economic events. In order to eliminate any discrepancies in the applied accounting standards, adjustments are made. All material balances and transactions among Group entities, including unrealised profit on transactions within

the Group, have been fully eliminated. Unrealised losses are eliminated unless they evidence impairment.

The subsidiaries are consolidated from the day of obtaining control by the Group and cease to be consolidated from the day the control discontinues. Control is exercised by the Parent Entity when:

- it exercises power over the entity,
- it is exposed to variable return or is entitled to variable return as a result of its involvement in the entity,
- it is able to exercise its power to affect the level of generated return.

The Company verifies its effective control over other entities if a situation occurs that may indicate a change to one or more of the above requirements for control to be effective.

When the Company holds less than a majority of votes in an entity but the held voting rights are sufficient to unilaterally direct the essential matters of the entity, this means that control is exercised. When assessing if the voting rights in an entity are sufficient to ensure power, the Company analyses all material circumstances, such as:

- the volume of the package of voting rights versus the volumes of other packages and distribution of voting rights held by other shareholders;
- potential voting rights held by the Company, other shareholders or other parties;
- rights resulting from contractual arrangements; and
- additional circumstances that may prove if the Company is or is not able to direct material operations when decisions are taken, including

## 9.2. Involvement in joint ventures

Joint ventures are contractual arrangements pursuant to which two or more parties take up economic operations that is subject to joint control.

The Group's investments in joint ventures are recognised in the consolidated financial statements with the equity method. In accordance with the equity method, investments in joint ventures are initially recognised at cost and afterwards adjusted to reflect the Group's share in the financial result and other comprehensive income of the joint venture. If the Group's share in losses of a joint venture exceeds the value of its interest in the entity, the Group discontinues to disclose its share in further losses. Additional losses are recognised solely to the extent corresponding to legal or customary obligations assumed by the Group or payments made on behalf of the joint venture.

voting schemes observed at earlier general meetings.

Change to the holdings by the parent entity that do not result in loss of control over subsidiary entities, are recognised as capital transactions. In such instances, in order to reflect the changes in relative interests in subsidiary entities, the Group adjusts the book value of controlling interests and non-controlling interests. All differences between the adjustment amounts to non-controlling interests and the fair value of the amount paid or received, are recognised to equity and attributed to the owners of the parent entity.

Investments in joint ventures are disclosed with the equity method since the day the entity has obtained the status of a joint venture. On the day the investment is made in a joint venture, the amount by which the investment costs exceed the Group's interest in the net fair value of identifiable assets and liabilities of the entity, is recognised as goodwill and included in the book value of the investment. The amount by which the Group's interest in the net fair value of identifiable assets and liabilities exceeds the costs of the investment, is recognised directly in profit and loss of the period in which the investment was made.

When assessing the need to recognise a loss of the Group's investment in a joint venture, the requirements of IAS 39 are applied. If necessary, the entire book value of the investment is tested for impairment in compliance

with IAS 36 Impairment of Assets as a single asset and its realisable value is compared to the book value. Such recognised impaired value constitutes a part of the book value of the investment. Such impairment is reversed in compliance with IAS 36 to the extent corresponding to a subsequent increase in the realisable value of the investment.

The Group discontinues to apply the equity method on the day the investment stops being a joint venture and when it is reclassified to assets available for sale. The difference between the book value of a joint venture as at the day the equity method is no longer applied and the fair value of retained interests and proceeds from the

### 9.3. Fair value measurement

The Group measures financial instruments such as derivative instruments and non-financial assets such as investment properties at fair value as at each balance sheet date. Additionally, the fair value of financial instruments measured at amortised cost is disclosed in note No. 40.1.

The fair value is understood as the price that could be received for the sale of an asset or paid as a result of transfer of a liability subject to ordinary sale of such asset between market players as at the measurement date at the prevailing market conditions. Fair value measurement is based on an assumption that the sale transaction of an asset or transfer of a liability is executed either:

- in the main market for such asset or liability,
- if no main market exists, in the most advantageous market for such asset or liability.

Both the main and most advantageous market must be accessible to the Group.

The fair value of an asset or liability is measured subject to an assumption that market players act in their best

sale of certain interests in the entity, is taken into account when calculating the profit or loss on disposal of such joint venture.

If the Group decreases its interests in a joint venture and continues to account for it with the equity method, in its financial result it recognises the part of profit or loss previously recognised in other total comprehensive income corresponding to the reduced interest if such profit or loss is subject to re-classification to financial result at disposal of the related assets or liabilities.

Gains/losses on measurement of interests in joint ventures are recognised as other financial income/expenses.

economic interests when setting the price of such asset or liability.

The measurement of the fair value of a non-financial asset provides for the possibility of a market player to generate economic benefits as a result of most intensive and best use of the asset or sale thereof to another market player that would ensure the most intensive and best use of such asset.

The Group applies measurement techniques that are adequate to the circumstances at hand and when adequate data is available to measure the fair value with maximum use of adequate observable input data and minimum use of non-observable input data.

All assets and liabilities that are measured at fair value or their fair value is disclosed in the financial statements, are classified in the hierarchy of fair value in the way described below to the lowest level of input data which is material for the measurement at fair value treated as a whole:

- Level 1 – Listed (unadjusted) market prices in an active market for identical assets or liabilities,

- Level 2 – Measurement techniques for which the lowest level of input data that is material for the measurement at fair value as a whole is observable or indirectly observable,
- Level 3 – Measurement techniques for which the lowest level of input data that is material for the measurement at fair value as a whole is not observable,

As at each balance sheet date, for assets and liabilities occurring as at each balance sheet date in the financial statements, the Group assesses if there have been transfers between the hierarchy levels by re-assessment of the classification to each level, following the materiality of the input data from the lowest level which is material for measurement at fair value treated as a whole.

*Summary of material accounting principles relating to measurement at fair value.*

The management boards of subsidiary companies or the Management Board of Arctic Paper S.A. determine the

#### **9.4. Foreign currency translation**

Transactions denominated in currencies other than the functional currency of the entity are translated into the presentation 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 the functional currency of the entity are translated into the functional currency using the mean foreign exchange rate prevailing for the presentation currency as at the end of the reporting period. Foreign exchange differences from translation are recognised under financial income or financial expenses or are capitalised as cost of assets, as defined in the accounting policies. Non-monetary foreign currency assets and liabilities recognised at historical cost are translated at the historical foreign exchange rates prevailing on the

principles and procedures relating both to systematic measurement at fair value, e.g. of investment properties and unlisted financial assets, as well as one-off measurements.

Independent appraisers are retained to measure material assets such as properties as at the end of each financial year.

Measurement at fair value of financial instruments is performed by independent financial institutions specialised in the measurement of such instruments.

For the disclosure of results of such measurement at fair value, the Group has defined classes of assets and liabilities on the basis of the type, features and risks related to individual assets and liabilities and the level in the hierarchy of fair value, as described above.

transaction date. Non-monetary foreign currency assets and liabilities recognised at fair value are translated into PLN using the rate of exchange prevailing on the date of revaluation to fair value.

The functional currencies of the foreign subsidiaries are EUR, SEK, DKK, NOK, GBP and CHF. As on the balance sheet date, the assets and liabilities of those subsidiaries are translated into the presentation currency of the Group (PLN) at the rate of exchange prevailing on the balance sheet date and their profit and loss accounts are translated using the average weighted exchange rates for the relevant reporting period. The FX differences on translation are recognised in other total comprehensive income and cumulated in a separate equity item. On disposal of a foreign operation, the cumulative amount of the deferred exchange differences

recognised in equity and relating to that particular foreign operation shall be recognised in the profit and loss account.

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

The following exchange rates were used for book valuation purposes:

	As at 31 December 2016	As at 31 December 2015
USD	4,1793	3,9011
EUR	4,4240	4,2615
SEK	0,4619	0,4646
DKK	0,5951	0,5711
NOK	0,4868	0,4431
GBP	5,1445	5,7862
CHF	4,1173	3,9394

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

	01/01 - 31/12/2016	01/01 - 31/12/2015
USD	3,9432	3,7730
EUR	4,3638	4,1843
SEK	0,4612	0,4475
DKK	0,5861	0,5610
NOK	0,4697	0,4680
GBP	5,3417	5,7675
CHF	4,0027	3,9228

## 9.5. Tangible fixed assets

Tangible fixed assets are measured at purchase price or construction cost reduced by accumulated depreciation and all impairment charges. The initial value of fixed assets comprises their purchase price and any directly attributable costs of bringing the asset to working condition for its intended use. The cost also comprises the expenses for replacement of fixed asset components when incurred, if the recognition criteria are

met. Subsequent expenditures, such as repair or maintenance costs, are expensed in profit and loss account in the reporting period in which they were incurred.

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

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



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

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its further use. Any profit or loss arising on derecognition of an asset (calculated as the difference between the potential net

disposal proceeds and the book value of the asset) is recognised in the profit and loss account for the period in which such derecognition took place.

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

#### 9.5.1. Fixed assets available for sale, discontinued activities

Fixed assets and groups of fixed assets available for sale are treated as available for sale in a situation when their book value is recovered as a result of a sale transaction rather than as a result of further use thereof. The condition may be satisfied when a sale transaction is highly probable and the asset is available for immediate sale in its existing condition. Classification of an asset as available for sale assumes an intention of the company's management to execute the transaction within one year from such classification. Fixed assets classified as available for sale are measured at the lower of: book value or fair value, reduced by sale costs.

If the Group intends to execute a sale transaction as a result of which it would lose control over its subsidiary entity, all assets and liabilities of such subsidiary are classified as available for sale irrespective of the fact if the Group retains non-controlling interests after such transaction.

If the Group is obliged to execute its sales plan consisting in the sale of an investment in a joint venture or an associated entity or a part of such investment, the investment or the part to be sold is classified as available for sale subject to compliance with the above criteria and the Group discontinues to apply the equity method to account for the part of the investment classified as available for sale. The other part of the investment in a joint venture or an associated entity, not classified as available for sale, continues to be accounted for with the equity method. The Group discontinues to apply the equity method at disposal if the transaction results in loss of a material impact on such associated entity or joint venture.

After the sale transaction, the Group accounts for the retained interests in compliance with IAS 39 unless the retained interests support further classification of the entity as an associated entity or joint venture; in such situation, the Group continues to apply the equity method.



## 9.6. Investment properties

The initial recognition of investment properties is at the purchase price, including transactional costs. The book value of an asset covers the replacement cost of the component of the investment property when incurred as long as the recognition criteria are satisfied, and it does not include the current maintenance costs of such properties.

After initial recognition, investment properties are disclosed at fair value. Gains or losses resulting from changes to the fair value are recognised in the profit or loss in the period they arose, subject to the related impact on deferred income tax.

Investment properties are derecognised from the balance sheet when they are sold or when they are permanently abandoned, when no future benefits from sale thereof are anticipated. Any profit or loss arising on derecognition of an investment property from the balance sheet are recognised as profit or loss in the period when such derecognition occurred.

## 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 or construction costs. The cost of intangible assets acquired in a business combination is equal to their fair value as at the date of combination. Following initial recognition, intangible assets are recognised at purchase cost or construction cost reduced by any accumulated amortisation and impairment charges. Expenditures incurred for internally generated intangible assets, excluding capitalised development costs, are not capitalised and are charged to the costs in the period in which they were incurred.

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

Assets are transferred to investment properties only when a change of their use takes place, confirmed with the end of use of such asset by the owner or conclusion of an operational lease contract. If an asset is used by the owner – the Group, it becomes an investment property when the Group applies the principles described in the section Tangible fixed assets (note No. 9.5) until the date the use of the property is changed. When an asset is transferred from inventories to investment properties, the difference between the fair value of the property set as at the transfer date and its previous book value is recognised in profit or loss.

When an investment property is transferred to assets used by the owner or to inventories, the alleged cost of such asset to be applied to recognise it in another category, shall be equal to the fair value of the property determined as at the date its mode of use was changed.

with a limited useful life are amortised over the useful life and subject to impairment tests each time when impairment indications exist. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with limited useful life is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

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

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

the financial year that has just ended.

### Research and development costs

Research costs are recognised in profit or loss when 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 of development expenses, the historical cost model is applied, which requires the asset to be recognised at purchase price reduced by any accumulated amortisation and accumulated impairment charges. All outlays for the next period are amortised over an anticipated period of generating revenues from the sales of the project.

The costs of development works are subject to assessment for impairment every year – if an asset has not been yet commissioned, or more frequently – if during the reporting period, an impairment indication occurs that the book value may not be recovered.

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

	Relations with customers	Trademarks	Software
Useful life	10 years	Unspecified	2-5 years
Depreciation method	10 years with the straight-line method	Is not depreciated	2-5 years with the straight-line method
Internally generated or acquired	Acquired	Acquired	Acquired
Impairment test	Annual assessment of any impairment indications	Annual verification and in case of any impairment indications	Annual assessment of any impairment indications

After analysing the relevant factors, for trademarks the Group does not define any time limit of their 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 amortise intangible assets with indefinite useful lives. Useful life of such resources should be reviewed in each reporting

period, in order to determine whether events and circumstances continue to confirm the assumption of the indefinite useful life of such asset.

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

### 9.7.1. Goodwill

Goodwill resulting from acquisition of an entity is initially recognised at the purchase prices being the amount of surplus:

- of the sum of:
  - payment transferred,
  - amount of all non-controlling interests in the acquired entity, and
  - in case of a combination of entities carried out in stages, the fair value as at the acquisition of an interest in the capital of the acquired entity held previously by the acquiring entity.
- over the net amount determined as at the acquisition date of the acquired identifiable acquired assets and liabilities.

After initial recognition, the goodwill is recognised at the purchase cost reduced by all accumulated impairment charges. An impairment test is held annually or more often if required. Goodwill is not amortised.

As at the acquisition date, goodwill is allocated to all cash generating centres that may benefit from

combination synergies. Each centre or group of centres to which goodwill has been attributed:

- corresponds to the lowest level in the Group at which goodwill is monitored for internal management purposes, and
- is not larger than one operational segment determined in compliance with IFRS 8 Operating Segments.

Impairment charges are determined on the basis of an estimated value of each cash generating centre to which the goodwill was allocated. When the recoverable value of a cash generating centre is lower than its book value, an impairment charge is recognised. When the goodwill constitutes a part of a cash generating centre and a part of the business within the centre is sold, the goodwill related to such sold operations is included in its book value to determine profit or losses on the sale. Under the circumstances, the sold goodwill is determined on the basis of a relative value of the sold operation and the value of the retained part of the cash generating centre.

### 9.7.2. Emission rights

The Group owns a heat and power plant and as a result holds rights to emissions generated in its operations. The Group discloses its rights to emit greenhouse gases in a net amount. This means that the rights acquired free of charge are recognised in the balance sheet at "zero" while the provision related to the obligation to redeem the relevant number of rights is established when a deficit of such rights arises. When emission rights to greenhouse gases are acquired to cover a future deficit, at acquisition the rights are recognised as intangible assets. The provision for a deficit of emission rights is then measured at the value of the acquired intangible assets. The provision is recognised in the amount relying on the annual limit of emission rights.

#### Recognition policy of CER/EUA swaps

The Group enters into forward transactions ("EUA/CER swaps") with external entities in order to swap CO<sub>2</sub> emission rights within the European Union Allowance ("EUA") system in the future (before the date on which the facilities have to account for its liabilities in the period) for the same number of certified emission reduction ("CER") instruments. If an EUA/CER swap is entered into and maintained in compliance with the anticipated requirement to utilise CERs by the unit (to cover the obligations resulting from CO<sub>2</sub> emissions), it is not subject to IAS 39.

### Accounting recognition at payment

If payment is received before the maturity date of an EUA/CER swap, the Group recognises deferred income in the amount since EUAs have not been delivered at the time.

### Accounting recognition at maturity of EUA/CER transactions

#### 9.7.3. Certificates in cogeneration

As an entity generating electricity in cogeneration, the Group receives certificates of origin ("yellow certificates"). Revenues from the certificates are recognised as a cost reduction at the time of production and measured at the prevailing market price provided the market for such certificates is active. Otherwise, the

CER certificates are recognised at fair value. The difference between (i) the cash received and the fair value of received CER certificates and (ii) the historic value of the rights of the provided EURs, is recognised as profit (loss). Deferred income is disclosed in profit and loss as a part of the profit (loss).

revenues are recognised at sale of the certificates. Material rights resulting from the measurement are disclosed in intangible assets. The details of the certificates received in the current year are disclosed in note No. 44.

## 9.8. Leases

### The Group as a lessee

Financial lease contracts that transfer the entire risk and benefits from the leased assets to the Group are recognised in the balance sheet at the beginning of the lease at the lower of: fair value of the lease fixed asset or the present value of minimum lease fees. Lease fees are divided into financial costs and decreases of the liability balance against leases so as to obtain a fixed interest rate on the outstanding liability amount. Financial expenses are recognised in profit or loss.

Fixed assets used under financial lease contract are depreciated over the shorter period of: estimated useful life of the asset or lease period.

Lease contracts in compliance with which the lessor maintains substantially all risks and benefits resulting from holding of the leased assets are classified as operational lease contracts. Lease fees under

operational leases and the subsequent lease instalments are recognised as expenses in P&L with the straight line method over the term of the lease contract.

### Group as a lessor

Lease contracts in compliance with which the Group maintains substantially all risks and benefits resulting from holding the leased assets are classified as operational lease contracts. The initial costs incurred at negotiation of operational lease contracts are added to the book value of the leased asset and recognised throughout the lease contract on the same basis as rental revenues. Conditional lease fees are recognised as revenues in the period they are due and payable.

## 9.9. Impairment of non-financial fixed assets

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

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

## 9.10. External borrowing costs

External borrowing costs are capitalised as part of the construction costs of fixed assets, investment properties, intangible assets and finished products. External borrowing costs include interest calculated using the effective interest rate method, finance charges

## 9.11. Financial assets

Financial assets are classified into one of the following categories:

- Financial assets held until maturity;

An assessment is made by the Group as at each balance sheet date as to whether there is any indication that previously recognised impairment charges may no longer be required or may be reduced. If such indications exist, the Group makes an estimate of the recoverable amount of the asset. A previously recognised impairment charge is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment charge was recognised. If that is the case, the book value of the asset is increased to its recoverable amount. That increased amount cannot exceed the book value that would have been determined (net of depreciation or amortisation), had no impairment loss been recognised for the asset in prior years. Reversal of impairment charge to assets is recognised immediately as income. After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the asset is adjusted in future periods to allocate the asset's book value, reduced by its residual value (if any), on a systematic basis over its remaining useful life.

in respect of finance leases and foreign exchange differences incurred in connection with the external financing to the extent that they are regarded as an adjustment to interest expense.

- Financial assets measured at fair value through financial result;
- Loans and receivables;

- Financial assets available for sale;

#### Financial assets held until maturity

Financial assets held until maturity are non-derivative financial assets quoted in active markets 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 measured at fair value through financial result,
- those that are designated as available for sale,
- those that meet the definition of loans and receivables.

Financial assets held until maturity are measured at amortised cost using the effective interest rate. Financial assets held until maturity are classified as long-term assets if they are falling due within more than 12 months of the balance sheet date.

#### Financial assets measured at fair value through financial result

A financial asset measured at fair value through financial result is a financial asset that meets one 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 collectively and for which there is probability of generating profit in the near term,
  - a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument),
- b) According to IAS 39 upon initial recognition it is designated to the category.

Financial assets measured at fair value through financial result are measured at fair value, which takes into account their market value as at the balance sheet date net of sales transaction expenses. Any change to the value of such financial instruments is recognised in profit and loss account as financial income (favourable net changes to fair value) or financial expense (unfavourable net changes to fair value). If a contract contains one or more embedded derivative instruments, the entire contract may be classified as a financial asset measured at fair value through financial result. The above does not apply if the embedded derivative instrument does not materially affect the contractual cash flows or separation of such embedded derivative instruments is explicitly forbidden.

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

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

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

#### Loans and receivables

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

maturities exceeding 12 months from the balance sheet date are classified as fixed assets.

#### Financial assets available for sale

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 sale transaction costs, and taking into account their market value as at the balance sheet date. Where no listed market price is available and there is no possibility to determine their fair value using alternative methods, available-for-sale financial assets are measured at purchase cost, adjusted for any impairment charges. Positive and negative differences between the fair value and purchase price, net of deferred tax, of financial assets available for sale (if quoted market price determined on an active market is available or if the fair value can be determined using other reliable method), are recognised in other total comprehensive income. Any decrease in the value of financial assets available for sale resulting from impairment losses is recognised as financial expense.

Purchase and sale of financial assets is recognised on the transaction date. Initially, financial assets are recognised at fair value plus, for financial assets other than classified as financial assets measured as at fair

### 9.12. Impairment of financial assets

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

#### 9.12.1. Assets recognised at amortised cost

If there is objective evidence that an impairment loss on loans granted and receivables measured at amortised cost has been incurred, the amount of the impairment charge is measured as the difference between the asset's book value and the present value of estimated

value through financial result, transaction costs, directly attributable to the purchase.

Financial assets are derecognised 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 a situation when the Group:

- holds a valid legal title to set off the recognised amounts, and
- intends to settle accounts in a net amount or simultaneously realise the asset and execute the liability

such financial asset and financial liability are set off and disclosed in the net amount in the financial statements.

The master netting arrangements detailed in IAS 32.50 do not constitute a basis for set-off unless both criteria detailed below are complied with.



asset is reduced directly. The amount of the loss shall be recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for each financial asset that are individually material, and indications of impairment of financial assets that are not individually material. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether material or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are

#### 9.12.2. Financial assets recognised at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not measured at fair value because its fair value cannot be reliably measured, or on a derivative instrument that is linked to and has to be settled by delivery of such an unquoted equity instrument, the amount of the

#### 9.12.3. Financial assets available for sale

If there is objective evidence for impairment of an available-for-sale asset, then the amount of the difference between the purchase price (net of any principal repayment and interest) and its current fair value, reduced by any impairment loss on that financial asset previously recognised in the profit or loss, is derecognised from equity and recognised in profit or loss. Reversals of impairment losses on equity

### 9.13. Embedded derivatives

Embedded derivatives are separated from host contracts and treated as derivative instruments if the following conditions are met:

- the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract;

individually assessed for impairment and for which an impairment charge is or continues to be recognised, are not included in a collective assessment of a group of assets for impairment.

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

impairment charge is measured as the difference between the book value of the financial asset and the present value of the estimated future cash flows discounted at the current market rate of return for similar financial assets.

instruments classified as available for sale cannot be recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment charge was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative;
- the hybrid instrument is not recognised at fair value and changes in its fair value are not recognised in profit or loss.



Embedded derivatives are recognised in a similar manner to that of separate derivative 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 cover circumstances where the currency of the host contract is also the common currency of purchase or sale of non-financial items on the market for a given transaction.

#### 9.14. Financial derivatives and hedges

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

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

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

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability, or

The Group assesses whether the embedded derivatives are required to be separated from host contracts when the instrument is originally recognised. In case of embedded instruments, acquired in a business combination transaction, the Group does not re-measure the embedded derivative instruments as at the combination date (they are measured as at the date of original recognition in the acquired entity).

- cash flow hedges when hedging exposure to variability in cash flows that is attributable to a particular risk inherent in the recognised asset or liability or a forecast transaction, or
- Hedges of interests in net assets in a foreign entity.

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

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

### 9.14.1. Fair value hedges

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

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

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a

### 9.14.2. Cash flow hedge

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

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

corresponding profit or loss recognised in profit or loss. The changes to the fair value of the hedging instrument are also recognised in profit or loss.

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

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

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

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or

the hedge no longer qualifies for hedge accounting. At that point in time, any cumulative profit or loss on the hedging instrument that has been recognised directly in other total comprehensive income and accumulated in equity, remains recognised in equity until the forecast

transaction occurs. If the forecast transaction is no longer expected to occur, the net cumulative profit or loss recognised in equity is recognised in net profit or loss for the period.

### 9.15. Inventories

Inventories are valued at the lower of purchase price/construction cost and realisable net selling price. Purchase price or construction cost of every item of inventories includes all purchase expenses,

transformation expenses and other costs incurred in bringing each inventory item to its present location and conditions are accounted for as follows for both the current and previous year:

Materials	at cost determined with the "average weighted cost" method
Finished products and work in progress	cost of direct materials and labour and an appropriate surcharge of indirect production costs determined with an assumption of normal use of production capacities with the exclusion of external financing costs
Goods	at cost determined with the "average weighted cost" method

Net realisable value is the estimated selling price in the ordinary course of economic activity, reduced by

estimated costs of necessary to finish the items and to finalise the sale.

### 9.16. Trade and other receivables

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

Other receivables include advances provided on account of future purchases of tangible fixed assets, intangible assets and inventories. Then advances are disclosed in line with the nature of the assets to which they refer – as fixed assets or current assets respectively. As non-cash assets, such advances are not discounted.

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

Budgetary receivables are presented within other non-financial assets, except for corporate 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 on hand and short-term deposits with an original maturity of three months or less.

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

### 9.18. Interest-bearing loans, borrowings and bonds

All bank loans, borrowings and bonds are initially recognised at fair value reduced by costs associated with obtaining the loan or borrowing.

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

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

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

### 9.19. Trade and other payables

Short-term trade payables are recognised at amounts payable.

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

- the designation eliminates or significantly reduces the inconsistent treatment from measuring or recognising gains or losses based on different regulations; or

- the liabilities are part of a group of financial liabilities which are managed and their performance is measured on a fair value basis, in accordance with a documented risk management strategy; or
- financial liabilities contain an embedded derivative that would need to be recognised separately.

As at 31 December 2016, no financial assets were designated as measured at fair value through financial result (as at 31 December 2015: zero).

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

Financial liabilities other than financial instruments measured at fair value through financial result are

measured at amortised cost with the effective interest rate method.

A financial liability is derecognised when the contractual liability has been fulfilled, cancelled or has expired. Replacement of an existing debt instrument with an instrument with basically different conditions, made between the same entities, is recognised by the Group as expiry of the original financial liability and recognition of a new financial liability. Similarly, major amendments to contractual terms and conditions related to an existing financial liability is recognised by the Group as

## 9.20. Provisions

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

## 9.21. Retirement allowance

In accordance with the Group's remuneration principles, the employees of the Group are entitled to a retirement allowance. It is a one-off payment due to employees upon their retirement. The amount of retirement allowance depends on the seniority and the average salary of the employee. The Group sets up a provision for future retirement allowance liabilities in order to allocate the costs to the relevant periods. In accordance with IAS 19, retirement allowances are defined post-employment benefit plans. The present value of the liabilities is calculated by an independent actuary as at each balance sheet date. The accrued liability is equal to

expiry of the original and recognition of a new financial liability. The differences in the corresponding book values resulting from such exchange are recognised in profit or loss.

Other non-financial liabilities include in particular tax liabilities to tax authorities, liabilities under social and retirement benefits, salary liabilities to employees and liabilities under received advances to be settled with deliveries of goods, services or fixed assets. Other liabilities are recognised at the amount payable.

to any provision is presented in the profit and loss account after the deduction of any reimbursement.

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

discounted payments to be made in the future subject to staff rotation and applies to the period until the balance sheet date. Demographic information and information on staff rotation is based on historical data.

On the basis of measurements performed by professional actuarial companies, the Group recognises a provision for future employee benefits.

Re-measurement of employee benefits related to defined benefit plans, covering actuarial gains and losses, is recognised in other total comprehensive income and is not later re-classified to profit or loss.

The Group recognises the following changes to its net liabilities relating to defined benefit plans within internal costs of sales, administrative expenses or selling and distribution costs, composed of:

- service costs (including, inter alia, the current service costs, future service costs)
- net interest on the net liability under the defined benefit plans.

## 9.22. Share-based payments

Group employees (including members of the management board) received bonus in the form of shares.

### 9.22.1 Transactions settled in equity instruments

The costs of transactions settled with employees in equity instruments are measured by reference to fair value as of the date such rights are allotted. The fair value is determined by an independent appraiser on the basis of a binomial model. Measurement of transactions settled in equity instruments is subject to the market conditions of acquiring the rights (related to the share price of the parent entity) other conditions than the conditions to acquire the rights.

The costs of transactions settled with employees in equity instruments are recognised along with the corresponding growth of equity in the period in which conditions have been satisfied with respect to the performance and provision of work or services, ending on the day on which certain employees acquire full rights to the benefits ("right acquisition day"). The cumulated cost recognised under transactions settled in equity instruments as at the balance sheet date until the day the rights are acquired, reflects the passage of time to acquire the rights and the number of bonus elements to which the rights will be finally acquired, in the w opinion of the Management Board of the parent entity, based on best estimates of the number of equity instruments.

No costs are recognised with reference to the bonus to which rights have not been finally acquired with the exception of bonus where such acquisition of rights is subject to market conditions or conditions other than

those applicable to the acquisition of rights and that are treated as acquired irrespective of satisfaction of market conditions or conditions other than those applicable to the acquisition of rights as long as all other conditions are complied with, concerning the effectiveness of performance and provision of work or services.

When the conditions of granting bonus that is settled in equity instruments, in order to meet the minimum requirements costs are recognised as if such conditions were not changed. Additionally, costs are recognised covering each increase of the transaction value as a result of such amendment, measured as at the change date.

When a bonus settled in equity instruments is cancelled, it is then treated as if the rights thereto were acquired as at the cancellation date and all unrecognised costs related to the bonus are recognised forthwith. The same also applies to bonus when conditions other than conditions to acquire the rights controlled by the parent entity or the employee have not been complied with. However, when the cancelled bonus is replaced with a new bonus – termed as replacement bonus when awarded, the cancelled bonus and the new bonus are treated as it were an amendment to the original bonus – in the way described above.

## 9.23. Revenues

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably estimated. Revenue is recognised at fair value of the consideration received or receivable, Revenues are recognised at fair value of the

consideration received or receivable, after the deduction of VAT, excise tax and discounts. The following criteria are also applicable to recognition of revenues.

### 9.23.1. Sale of goods and products

Revenue is recognised when material risk and benefits resulting from the title to the goods and products have

been passed to the buyer and when the revenue amount can be credibly estimated.

### 9.23.2. Provision of services

Group trading companies provide sales services to the Paper Mills. For the service, they are paid a commission computed on the actual value of product sales in each market. This means that profit on the sales services is

recognised at the same time as product sales. Sales revenues include only revenues of Paper Mills outside the Group

### 9.23.3. Interest

Interest income is recognised as interest accrues (using the effective interest rate method that is the rate that discounts the estimated future cash receipts over the

anticipated life of the financial instrument) to the net book value of the financial asset.

### 9.23.4. Dividend

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

### 9.23.5. Rental revenues (operational lease revenues)

Rental revenues from investment properties are recognised with the straight-line method throughout the lease term for all open contracts.

### 9.23.6. Government grants

If it is certain that a grant will be obtained and all the related conditions will be satisfied, then public grants are recognised at fair value.

If the grant applies solely to a specific cost item, then it is recognised as revenues commensurate to the costs

that the grant is to compensate. If the grant applies to an asset, then its fair value is recognised in the account of deferred income and then gradually – in equal annual charges – it is recognised in profit or loss over the estimated useful life of the asset.



## 9.24. Taxes

### 9.24.1. Current tax

Current income tax liabilities and receivables for the current period and previous periods are measured at amounts projected to be paid to tax authorities (to be

recovered from tax authorities) with tax rates and based on tax regulations legally or actually applicable as at the balance sheet date.

### 9.24.2. Deferred income tax

For financial reporting purposes, deferred income tax is recognised, using the liability method, regarding temporary differences as at the balance sheet date between the tax value of assets and liabilities and their book value disclosed in the financial statements.

Deferred tax provision is recognised for all positive temporary differences:

- except where the deferred income tax provision arises from the initial recognition of goodwill, an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss; and
- in respect of positive differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- except where the deferred tax asset relating to the negative temporary difference arises from the initial recognition of an asset or liability in a transaction

that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of negative temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, the deferred income tax asset is recognised in the balance sheet solely to the extent to which it is probable that in the foreseeable future the above differences will be reversed and sufficient taxable income to deduct such temporary negative differences.

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

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



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

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

#### 9.24.3. Deferred income tax related to the activity in the Special Economic Zone

The Group operates in the Kostrzyńsko – Słubicka Special Economic Zone and it benefits from an investment tax relief up to the value of its investments.

When the actually incurred investment outlays are higher than income for the relevant tax year, then – in compliance with the Regulation of the Council of Ministers of 14 September 2004 on the Kostrzyńsko – Słubicka Special Economic Zone (Journal of Laws No.

222, item 2252 of 13 October 2004) – the Group recognises a deferred income tax asset for the discounted surplus outlays up to the amount with respect to which it is highly likely that it will be utilised.

The asset is utilised in the text taxable period when a sufficient taxable amount is generated.

#### 9.24.4. Value added tax

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

- where VAT incurred on a purchase of assets or services is not recoverable from the tax authority, in which case VAT is recognised as part of the cost of purchase of the asset or as part of the expense item as applicable and

- receivables and payables which are disclosed with the VAT amount inclusive.

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

#### 9.24.5. Excise tax

The amount of excise tax payable on the generated electricity is recognised in the profit and loss account in the period to which it applies and as a liability.

Excise tax on the energy used for internal purposes is recognised as internal costs of sales in the profit and loss account.

### 9.25. Net profit per share

Net earnings per share are calculated by dividing the net profit and the net profit on continuing operations for the period, attributable to the shareholders of the parent entity, by the weighted average number of shares outstanding in the reporting period. Diluted earnings per share are calculated by dividing the net profit and the

net profit on continuing operations for the period, attributable to the shareholders of the parent entity, by the diluted weighted average number of shares outstanding in the reporting period.

## 10. Operational segments

Paper production is the core type of operations pursued by the Group; by the end of 2015 paper was manufactured in four Paper Mills. In 2015 the Management Board of Arctic Paper announced that it had started an active search for an investor for Arctic Paper Mochenwangen and in parallel assessed the possibility of measures to further reduce the losses generated by the Paper Mill, relating to the discontinuation of production. Due to the material significance of the part of the business pursued by AP Mochenwangen and the companies set up to acquire the Paper Mill and due to their operational and geographic separation, the Management Board treated the operations of the Mochenwangen Group as discontinued operations. For that reason, the presentation of operational segments for the year ended on 31 December 2016 and on 31 December 2015 covering continuing operations covers the financial results of three Paper Mills:

- Arctic Paper Kostrzyn S.A. (Poland) – producer of high quality uncoated graphic paper under the Amber brand; production output of 285,000 tons of paper annually;
- Arctic Paper Munkedals AB (Sweden) – producer of high quality uncoated graphic paper under the Munken brand; production output of 160,000 tons of paper annually;
- Arctic Paper Grycksbo (Sweden) – production of coated wood-free paper under the brands of G-Print and Arctic; production output of 260,000 tons annually.

In connection with the acquisition of the Rottneros Group in December 2012, including two Pulp Mills, the Arctic Paper Group has distinguished its 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 paper. Uncoated wood-free paper may be produced from various types of pulp, with different filler content, and can undergo various finishing 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 paper. Uncoated wood 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 on-line and off-line, and can be supplemented by super-calendering to ensure a smooth surface. Coating improves the printing quality of photographs and illustrations.
- **Pulp** – fully bleached sulphate pulp and unbleached sulphate pulp which is used mainly for the production of printing and writing papers, cardboard, toilet paper and white packaging paper as well as chemi thermo mechanical pulp (CTMP) and groundwood which are used mainly for production of printing and writing papers,
- **Other** – the segment contains the results of Arctic Paper S.A. and Arctic Paper Finance AB business operations.

The split of segments into the uncoated and coated paper segments and pulp is due to the following factors:

- Demand for products and their supply as well as the prices of products sold in the market are affected by operational factors characteristic for each segment, such as e.g. the production capacity level in the specific paper and pulp segment,
- The key operating parameters such as inflow of orders or the level of production costs are determined by the factors that are similar for each paper and pulp segment,
- The products manufactured at the Paper Mills operated by the Group may (with certain restrictions) be allocated to production in other entities within the same paper segment which to a certain extent distorts the financial results generated by each Paper Mill,
- The results of the Arctic Paper Group are under the pressure of global market trends with respect to the prices of paper and pulp, and to a lesser extent are

The table below presents data concerning revenues and profit as well as certain assets and liabilities under continuing operations, split by segments of the Group for the period of 12 months ended on 31 December 2016 and as at 31 December 2016.

Twelve-month period ended on 31 December 2016 and as at 31 December 2016

subject to the specific conditions of the production entities.

Every month, on the basis of internal reports received from companies (apart from companies of the Rottneros Group), the results in each operating segment are analysed by the management of the Group. The financial results of companies in the Rottneros Groups are analysed on the basis of quarterly financial results published on the websites of Rottneros AB.

The operating results are measured primarily on the basis of EBITDA calculated by adding depreciation/amortisation and impairment charges to tangible fixed assets and intangible assets to profit (loss) on operations, in each case in compliance with EU IFRS. In accordance with EU IFRS, EBITDA is not a metric of operating profit (loss), operational results or liquidity. EBITDA is a metric that the Management Board uses to manage the operations.

Transactions between segments are concluded at arms' length like between unrelated entities.

Continuing Operations							
	Uncoated	Coated	Pulp	Other	Total	Eliminations	Total continuing operations
<b>Revenues</b>							
Sales to external customers	1 531 825	687 329	747 818	-	2 966 972	-	2 966 972
Inter-segment sales	41	18 969	50 134	42 784	111 928	(111 928)	-
<b>Total segment revenues</b>	<b>1 531 866</b>	<b>706 299</b>	<b>797 952</b>	<b>42 784</b>	<b>3 078 901</b>	<b>(111 928)</b>	<b>2 966 972</b>
<b>Segment's Result</b>							
EBITDA	145 369	2 522	101 529	246	249 666	(62)	249 603
Interest Income	5 903	59	0	2 750	8 713	(8 289)	424
Interest Costs	(12 369)	(6 754)	-	(11 313)	(30 436)	6 637	(23 799)
Depreciation	(54 339)	(26 523)	(39 148)	(402)	(120 412)	-	(120 412)
Impairments of non-current assets	-	-	(4 151)	-	(4 151)	-	(4 151)
Positive FX and other financial income	3 891	61	922	55 888	60 763	(59 837)	926
Negative FX and other financial costs	(17 979)	(3 804)	(4 151)	(7 586)	(33 521)	5 127	(28 393)
Profit / (loss) before tax	70 475	(34 438)	55 000	39 584	130 621	(56 424)	74 197
Segment assets	913 758	278 235	563 672	399 241	2 154 906	(433 476)	1 721 430
Segment liabilities	425 011	360 848	150 118	411 150	1 347 127	(349 886)	997 240
Capital expenditures	(47 128)	(1 729)	(128 226)	(71)	(177 154)	-	(177 154)
Shares in joint ventures	924	-	-	-	924	-	924

- Revenues from inter-segment transactions are eliminated on consolidation.
- The results of the segments do not cover financial income (PLN 1,350 thousand of which PLN 424 thousand is interest income) and financial expenses (PLN 52,192 thousand of which PLN 23,799 thousand is interest expense), depreciation/amortisation (PLN 120,412 thousand), impairment of non-financial assets PLN 4,151 thousand) and income tax liability (PLN -15,369 thousand). However, segment results include inter-segment sales profit (PLN 62 thousand).
- Assets and liabilities of segments do not contain any deferred income tax (asset: PLN 35,034 thousand, provision: PLN 11,851 thousand), since those items are managed at the Group level. Segment assets do not also include investments in companies operating in the Group.

The table below presents data concerning revenues and profit as well as certain assets and liabilities under the continuing operations, split by segments of the Group for the period of 12 months ended on 31 December 2015 and as at 31 December 2015.

Twelve-month period ended on 31 December 2015 and as at 31 December 2015

	Continuing Operations						Total continuing operations
	Uncoated	Coated	Pulp	Other	Total	Eliminations	
<b>Revenues</b>							
Sales to external customers	1 484 666	674 976	740 818	-	2 900 460		2 900 460
Sales between segments	3 550	20 570	62 416	39 937	126 473	(126 473)	-
<b>Total segment revenues</b>	<b>1 488 215</b>	<b>695 547</b>	<b>803 234</b>	<b>39 937</b>	<b>3 026 933</b>	<b>(126 473)</b>	<b>2 900 460</b>
<b>Result of the segment</b>							
EBITDA	78 087	(9 851)	142 982	2 149	213 366	(669)	212 697
Interest income	8 839	128	-	2 470	11 436	(10 304)	1 132
Interest expense	(12 198)	(6 404)	-	(11 954)	(30 556)	8 877	(21 679)
Depreciation/amortisation	(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)
<b>Profit / (loss) before tax</b>	<b>18 671</b>	<b>(44 189)</b>	<b>106 064</b>	<b>59 059</b>	<b>139 605</b>	<b>(67 456)</b>	<b>72 149</b>
Assets of the segment	1 090 810	309 111	525 504	238 082	2 163 508	(450 535)	1 712 974
Liabilities of the segment	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)
Interests in joint ventures	5 169	-	-	-	5 169	-	5 169

- Revenues from inter-segment transactions are eliminated on consolidation.
- The results of the segments do not cover financial income (PLN 1,587 thousand of which PLN 1,132 thousand is interest income) and financial expenses (PLN 29,676 thousand of which PLN 21,679 thousand is interest expense), depreciation/amortisation (PLN 112,458 thousand), impairment of non-financial assets (PLN 0 thousand) and income tax liability (PLN -1,131 thousand). However, segment results include inter-segment sales profit PLN 669 thousand.
- Assets and liabilities of segments do not contain any deferred income tax (asset: PLN 47,625 thousand, provision: PLN 2,468 thousand), since those items are managed at the Group level. Segment assets do not also include investments in companies operating in the Group.

## 10.1. Revenues and fixed assets by countries and regions

The table below presents the Group's revenues from external customers by country and region in 2015-2016 and the Group's fixed assets reduced by deferred income tax asset split by country and region, as at 31 December 2016 and 31 December 2015:

<b>Geographical information</b>	Year ended	Year ended
Revenues from external customers:	31 December 2016	31 December 2015
Germany	685 936	635 181
France	214 198	198 333
United Kingdom	215 687	247 395
Scandinavia	409 415	405 612
Western Europe (other countries)	410 594	292 238
Poland	342 721	345 626
Central and Eastern Europe (other than Poland)	504 446	537 043
Outside Europe	183 974	239 032
<b>Total sales</b>	<b>2 966 972</b>	<b>2 900 460</b>

<b>Geographical information</b>	Year ended	Year ended
Fixed assets:	31 December 2016	31 December 2015
Germany	140	181
France	323	332
Scandinavia	478 605	407 383
Western Europe (other countries)	1 020	916
Poland	369 140	374 073
Central and Eastern Europe (other than Poland)	80	157
<b>Total fixed assets</b>	<b>849 310</b>	<b>783 043</b>

Sales revenues related to the item "Western Europe" cover mainly sales in Belgium, the Netherlands, Austria, Switzerland, Italy and Spain. Sales revenues related to the item "Central and Eastern Europe" cover mainly sales in Ukraine, the Czech Republic, Slovakia, Hungary and Bulgaria. Sales revenues related to the item "Outside Europe" cover mainly sales in China and the USA. Sales to no buyer exceed 10% of total revenues.

Fixed assets include tangible fixed assets, intangible assets, investment properties and other financial and non-financial assets.

## 11. Income and costs

### 11.1. Other operating income

	Year ended 31 December 2016	Year ended 31 December 2015
Reversal of provisions	3 770	96
Damages received	5 175	718
Rental income	2 197	2 173
Sales of services	840	838
Subsidies	3 376	2 891
Sale of utilities	27 856	29 449
Sale of materials	10 610	10 127
Profit on disposal of tangible fixed assets	38	51
Profit on sale of CO2 emission rights	3 616	7 857
Other	9 075	5 445
<b>Total</b>	<b>66 554</b>	<b>59 644</b>

### 11.2. Other operating expenses

	Year ended on 31 December 2016	Year ended on 31 December 2015
Real estate tax	(1 323)	(1 308)
Costs of sales of utilities	(27 835)	(27 727)
Costs of sales of materials	(12 705)	(6 412)
Costs of headcount reduction	(727)	(320)
Loss on disposal of tangible fixed assets	(514)	(1 005)
Other	(2 043)	(2 669)
<b>Total</b>	<b>(45 147)</b>	<b>(39 440)</b>

### 11.3. Financial income

	Year ended on 31 December 2016	Year ended on 31 December 2015
Interest income on funds in bank accounts	177	265
Interest income on receivables	31	174
Other interest income	212	694
Profit on financial assets	930	454
<b>Total</b>	<b>1 350</b>	<b>1 587</b>

### 11.4. Financial expenses

	Year ended on 31 December 2016	Year ended on 31 December 2015
Interest on bank loans measured at amortised cost	(19 531)	(17 944)
Interest on other financial liabilities	(4 742)	(30)
Inter Interest on actuarial provisions	(2 222)	(2 033)
Financial expenses under finance lease agreements	(1 653)	(1 860)
FX losses	(12 895)	(1 261)
Financial expenses on premature bank loan repayment	(3 517)	-
Loss on interest in joint venture	(4 209)	-
Other financial expenses	(3 424)	(6 547)
<b>Total</b>	<b>(52 192)</b>	<b>(29 676)</b>



## 11.5. Prime costs

	Year ended on 31 December 2016	Year ended on 31 December 2015
Depreciation/amortisation	(120 412)	(112 458)
Impairment charge	(4 151)	-
Changes in product inventories	(20 600)	17 546
Change to impairment charges to receivables	(2 490)	(2 366)
Consumption of materials and energy	(1 748 794)	(1 775 971)
Third party services	(429 203)	(407 982)
Taxes and charges	(12 541)	(12 626)
Employee benefit costs	(404 132)	(395 810)
Other prime costs	(109 027)	(103 370)
Value of goods sold	(11 988)	(27 388)
Prime costs, of which:	(2 863 338)	(2 820 425)
Items recognised as internal costs of sales	(2 543 312)	(2 490 533)
Items recognised as costs of sales	(250 257)	(266 296)
Items recognised as administrative expenses	(69 770)	(63 597)

## 11.6. Depreciation/amortisation expense and impairment charges recognised in profit or loss

	Year ended on 31 December 2016	Year ended on 31 December 2015
Items recognised as internal costs of sales:		
Depreciation of fixed assets and amortisation of intangible assets	(117 644)	(109 016)
Impairment of tangible fixed assets	(1 384)	-
Impairment of intangible assets	(2 767)	-
Impairment to inventories	-	-
Items recognised as costs of sales:		
Depreciation of fixed assets and amortisation of intangible assets	(1 344)	(2 427)
Impairment of tangible fixed assets	-	-
Impairment of intangible assets	-	-
Items recognised as administrative expenses		
Depreciation of fixed assets and amortisation of intangible assets	(1 424)	(1 015)
Impairment of tangible fixed assets	-	-
Impairment of intangible assets	-	-

Depreciation in the consolidated cash flows additionally contains the value of outlays on tangible fixed assets concerning discontinued operations and fully written-off in 2016 in the amount of PLN 465 thousand (2015: PLN 6,599 thousand).

## 11.7. Employee benefit costs

	Note	Year ended on 31 December 2016	Year ended on 31 December 2015
Salary costs		(297 017)	(292 500)
Social insurance premiums		(82 058)	(76 827)
Costs of retirement benefits	26.1	(31 413)	(19 722)
<b>Total costs of employee benefits, of which:</b>		<b>(410 488)</b>	<b>(389 049)</b>
Items recognised as internal costs of sales		(319 275)	(319 023)
Items recognised as costs of sales		(18 098)	(17 829)
Items recognised as administrative expenses		(66 760)	(58 958)
Items recognised as other comprehensive income		(6 356)	6 761

The total amount of employee benefits included in other comprehensive income for the year ended on 31 December 2016 was PLN -9,281 thousand (2015: PLN +8,271 thousand) and additionally covers actuarial profit/losses related to the discontinued activity of PLN -2,925 thousand (2015: PLN +1,510 thousand).

## 12. Components of other total comprehensive income

The components of other total comprehensive income for the year ended on 31 December 2016 and 31 December 2015 that are re-classified to profit or loss, are as follows:

	Year ended on 31 December 2016	Year ended on 31 December 2015
<i>Hedges of cash flows</i>		
Profit (loss) for the period resulting from contracts settled during the reporting period	22 615	(21 491)
Profit (loss) for the period resulting from contracts not settled as at the reporting date	21 409	5 398
Adjustments resulting from re-classification to profit (loss)	(343)	(170)
<b>Total other comprehensive income</b>	<b>43 681</b>	<b>(16 264)</b>

## 13. Income tax

### 13.1. Tax liability

The major components of income tax liabilities for the year ended on 31 December 2016 and on 31 December 2015 are as follows:

	Year ended on 31 December 2016	Year ended on 31 December 2015
<b>Consolidated profit and loss account</b>		
<u>Current income tax</u>		
Current income tax liability	(2 364)	(3 196)
Adjustments related to current income tax from previous years	(469)	-
<u>Deferred income tax</u>		
Resulting from the establishment and reversal of temporary differences	(12 536)	2 065
Tax credit/ (liability) disclosed in the consolidated profit and loss account	(15 369)	(1 131)
<b>Consolidated statement of changes in equity</b>		
<u>Current income tax</u>		
Tax effects of the costs of increase of share capital	-	-
Tax benefit (tax liability) recognised in equity	-	-
<b>Consolidated statement of total comprehensive income</b>		
<u>Deferred income tax</u>		
Deferred income tax on the measurement of hedging instruments	(10 369)	3 609
Deferred income tax on actuarial profit/loss	1 396	(1 963)
Tax benefit (tax liability) recognised in other comprehensive income	(8 973)	1 646

### 13.2. Recognition of effective tax rate

A reconciliation of income tax expense applicable to the financial result before income tax at the statutory income tax rate, to the income tax expense at the Group's

effective income tax rate for the years ended on 31 December 2016 and 31 December 2015 is as follows:

	Year ended on 31 December 2016	Year ended on 31 December 2015
Gross profit (loss) before tax from continuing operations	74 198	72 150
Profit (loss) before tax from discontinued operations	1 191	(97 998)
Gross profit (loss) before tax	75 388	(25 848)
Tax at the statutory rate prevailing in Poland in 2008-2016, of 19%	(14 324)	4 911
Tax adjustments from previous years, recognised in the current income tax	977	-
Difference resulting from income tax rates in force in other countries	(1 206)	(1 484)
Tax loss not incorporated in deferred income tax asset calculation	(2 293)	(17 762)
Investment tax credits – operations in KSSSE	-	10 137
Use of tax losses not recognised earlier	2 913	10 214
Non-taxable revenues	3 035	474
Costs that are not tax deductible	(3 473)	(7 204)
Charge to deferred income tax asset on temporary differences	-	-
Change of tax rates	8	(7)
Tax at the effective tax rate of 19% (2015: -3%)	(14 362)	(722)
<b>Income tax (charge) stated in the consolidated profit and loss account</b>	<b>(15 369)</b>	<b>(1 131)</b>
Income tax attributed to discontinued operations	1 007	409

The amount of unrecognised deferred income tax asset relates mainly to tax losses that are expected to be time barred before realised, as well as those temporary differences that in the Group's opinion may not be used for tax purposes.

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

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

The Polish tax system provides for restrictions in cumulating tax losses by legal persons that remain under joint control which is the case for Group member companies. Therefore, each subsidiary of the Group may utilise solely their own tax losses in order to reduce taxable income in subsequent years.

	Year ended on 31 December 2016	Year ended on 31 December 2015
<b>Expiry year of tax losses</b>		
no time limits	13 417	25 458
ended on 31 December 2016	-	7 905
ended on 31 December 2017	1 716	1 716
ended on 31 December 2018	1 716	1 716
ended on 31 December 2019	3 598	4 974
ended on 31 December 2020	9 626	4 974
ended on 31 December 2021 and later	6 028	-
<b>Total</b>	<b>36 101</b>	<b>46 743</b>

### 13.3. Deferred income tax

Deferred income tax relates to the following items:

	Consolidated balance sheet as at		Consolidated profit and loss account for the year ended on	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
<b>Deferred income tax provision</b>				
Fixed assets	13 317	18 207	4 890	9 228
Inventories	-	-	-	-
Trade receivables	-	-	-	-
Accruals and deferred income and provisions	-	-	-	-
Co-generation certificates	2 649	1 635	(1 014)	(869)
Adjustment to fair for take-over of subsidiary entities	-	-	-	-
Losses utilised in standalone financial statements, not recognised in consolidation	-	-	-	-
Hedging instruments	3 547	-	(3 547)	-
<b>Gross deferred income tax provision</b>	<b>19 513</b>	<b>19 842</b>	<b>329</b>	<b>8 359</b>

	Consolidated balance sheet as at		Consolidated profit and loss account for the year ended on	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
<b>Deferred income tax asset</b>				
Post-employment payments	6 408	4 247	2 160	(2 972)
Accruals and deferred income and provisions	3 187	4 942	(1 755)	1 708
Adjustments to fair value due to impairment of fixed assets	-	-	-	-
Inventories	1 224	1 143	81	84
Trade receivables	3 816	4 343	(527)	729
Investments tax credits – activity in Kostrzyńsko-Słubicka Specjalna Strefa Ekonomiczna	15 280	22 065	(6 785)	7 062
FX differences	-	-	-	(78)
Untaxed provisions (in compliance with Swedish tax regulations)	-	52	(52)	52
Hedging instruments	-	5 282	(5 282)	4 330
Losses deductible from future taxable income	12 781	22 926	(10 145)	(14 417)
Gross deferred income tax asset	42 696	65 000	(22 304)	(3 502)
FX differences			465	(1 146)
Total, of which			(21 510)	3 711
Changes to deferred income tax recognised in other comprehensive income			(8 973)	1 646
Changes to deferred income tax recognised in profit and loss account of which:			(12 536)	2 065
Changes to deferred income tax recognised in profit and loss account – discontinued operations			-	-
<b>Net deferred income tax asset/provision</b>				
of which:				
- Adjustment to presentation	(7 662)	(17 374)		
- Deferred income tax asset	35 034	47 625		
- Deferred income tax provision	11 851	2 468		
of which:				
- Deferred income tax asset – discontinued operations	-	-		
- Deferred income tax provision – discontinued operations	-	-		

#### 14. Fixed assets classified as available for sale, discontinued operations

On 28 July 2015, the Management Board of Arctic Paper S.A. announced that it had started an active search for an investor for the Arctic Paper Mochenwangen facility and in parallel it analysed the possibility to take measures for further reduction of losses generated by the Paper Mill, including those relating to the discontinuation of production. Due to the material significance of the part of the business pursued by AP Mochenwangen and the companies set up to

acquire the Paper Mill and due to their operational and geographic separation, the Management Board treated the operations of the Mochenwangen Group as discontinued operations as at 31 December 2015. The Mochenwangen Group includes: Arctic Paper Mochenwangen GmbH, Arctic Paper Investment GmbH, Arctic Paper Verwaltungs GmbH and Arctic Paper Immobilienverwaltung GmbH Co&KG. As a result, the assets and liabilities of the Mochenwangen Group were

presented as assets directly related to discontinued operations and liabilities directly related to discontinued operations as at 31 December 2016 while the revenues and expenses of the Group were presented as profit (loss) on discontinued operations in the consolidated profit and loss account for the year ended on 31 December 2015.

In view of a continued search for an investor for the factory of Arctic Paper Mochenwangen or its individual assets, the Management Board decided to treat the operations of the Mochenwangen Group as discontinued activities as at 31 December 2016.

The tables below present the corresponding financial data on the discontinued operations:

	12-month period ended on 31 December 2016	12-month period ended on 31 December 2015
Revenues and expenses of discontinued operations		
Revenues from sales of products	17 988	235 785
Costs of sales	(11 251)	(259 941)
Gross profit (loss) on sales	6 737	(24 156)
Selling and distribution costs	(3 456)	(24 907)
Administrative expenses	(6 245)	(8 597)
Other operating income	12 005	2 639
Other operating expenses	(7 388)	(40 793)
Operating profit (loss)	1 653	(95 814)
Financial income	-	-
Financial expenses	(463)	(2 184)
Gross profit (loss)	1 191	(97 998)
Income tax	1 007	409
Profit (loss) from discontinued operations	2 198	(97 588)
Cumulated other comprehensive income related to discontinued operations		
FX differences on translation of foreign operations	(222)	(6 821)
Actuarial profit/loss	(2 924)	(2 153)
	(3 146)	(8 974)
Earnings per share:		
– basic profit/(loss) from discontinued operations attributable to the shareholders of the Parent Entity	0,03	(1,41)
– diluted profit from discontinued operations attributable to the shareholders of the Parent Entity	0,03	(1,41)

	As at 31 December 2016	As at 31 December 2015
Net assets related to discontinued operations		
Assets related to discontinued operations		
Inventories and other tangible assets	10 618	29 396
Trade and other receivables	230	15 789
Corporate income tax receivables	128	124
Other non-financial assets	-	12
Other financial assets	398	1 096
Cash and cash equivalents	1 320	1 051
	12 694	47 467
Liabilities directly related to the discontinued operations		
Provisions	15 406	55 484
Other financial liabilities	-	699
Trade and other payables	2 435	23 069
Income tax liability	106	102
Accruals and deferred income	142	1 909
	18 088	81 264
Net assets related to discontinued operations	(5 394)	(33 797)
	12-month period ended on 31 December 2016	12-month period ended on 31 December 2015
Cash flows related to discontinued operations		
Net cash flows from operating activities	(29 764)	(3 852)
Net cash flows from investing activities	1 405	(6 303)
Net cash flows from financing activities	28 585	(1 291)
	226	(11 446)

## 15. Social assets and liabilities of ZFŚS

The Act on the Company Social Benefit Fund as amended of 4 March 1994, covering business entities and subject to Polish law, provides that company social benefit funds have to be set up by employers employing staff in excess of 20 FTEs. Arctic Paper Kostrzyn and Arctic Paper S.A. have set up such funds and have been making periodic allocations thereto in basic amounts. The objective of such Fund is to subsidise social operations of the Companies, loans granted to their employees and other social expenses.

The Companies have set-off assets of the Fund with their obligations to the Fund since those assets do not constitute separate assets of the Group. As a result, the net balance as at 31 December 2016 was PLN 2 thousand (as at 31 December 2015: PLN 30 thousand).

The tables below present an analysis of the assets, liabilities and costs of the Fund.



	Year ended 31 December 2016	Year ended 31 December 2015
Cash	14	47
Fund liabilities	(12)	(32)
Fund expenses covered with own resources		15
Set-off balance	2	30
	Year ended 31 December 2016	Year ended 31 December 2015
Fund allocations in the financial year	607	604

## 16. Earnings per share

Earnings per share are established by dividing the net profit/(loss) or net profit/(loss) from continuing operations for the reporting period attributable to the Company's ordinary shareholders by the weighted average number of ordinary shares outstanding in the reporting period.

The information regarding profit/(loss) and the number of shares which constituted the base to calculate earnings per share and diluted earnings/(loss) per share is presented below:

	Year ended 31 December 2016	Year ended 31 December 2015
Net profit / (loss) period from continuing operations attributable to the shareholders of the Parent Entity	37 748	26 331
Profit / (loss) for the financial year from discontinued operations attributable to the shareholders of the Parent Entity	2 198	(97 588)
Net profit (loss) for the reporting period attributable to the shareholders of the Parent Entity	39 946	(71 258)
Number of ordinary shares – A series	50 000	50 000
Number of ordinary shares – B series	44 253 500	44 253 500
Number of ordinary shares – C series	8 100 000	8 100 000
Number of ordinary shares – E series	3 000 000	3 000 000
Number of ordinary shares – F series	13 884 283	13 884 283
Total number of shares	69 287 783	69 287 783
Weighted average number of shares	69 287 783	69 287 783
Diluted weighted average number of ordinary shares	69 287 783	69 287 783
Profit (loss) per share (in PLN)		
– basic earnings from the profit/(loss) for the period attributable to the shareholders of the Parent Entity	0,58	(1,03)
– basic earnings from the profit/(loss) from continuing operations for the period attributable to the shareholders of the Parent Entity	0,54	0,38
Diluted profit (loss) per share (in PLN)		
– from the profit/(loss) for the period attributable to the shareholders of the Parent Entity	0,58	(1,03)
– from the profit/(loss) from continuing operations for the period attributable to the shareholders of the Parent Entity	0,54	0,38

In the period between the balance sheet date and the date hereof there were no other transactions related to ordinary shares or potential ordinary shares.

## 17. Dividend paid and proposed

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

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

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

The possibility of disbursement of potential dividend by the Company to its shareholders depends on the level of payments received from its subsidiaries. The risk associated with the Company's ability to disburse dividend was described in the part "Risk factors" hereof.

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

In 2016 and 2015 Arctic Paper S.A. did not pay out dividend.

## 18. Tangible fixed assets

	Land and buildings	Plant and machinery	Fixed assets under construction	Total
Net book value as at 01 January 2015	194 741	476 720	54 987	726 448
Increase due to purchase	4 064	9 890	81 510	95 464
Increase due to transfer of tangible fixed assets under construction	7 903	60 367	(68 270)	0
Decreases due to disposal	-	(59)	-	(59)
Decreases due to liquidation	(259)	(72)	-	(331)
Depreciation allowance for the period	(14 314)	(96 326)	-	(110 640)
FX differences	2 028	5 464	1 408	8 900
Net book value as at 31 December 2015	194 162	455 984	69 636	719 782
Net book value as at 01 January 2016	194 162	455 984	69 636	719 782
Increase due to purchase	15 234	58 784	104 973	178 992
Increase due to transfer of tangible fixed assets under construction	12 285	72 983	(85 480)	(212)
Decreases due to disposal	-	(461)	-	(461)
Decreases due to liquidation	(43)	(65)	-	(108)
Depreciation allowance for the period	(14 918)	(104 775)	-	(119 693)
Impairment	-	(1 384)	-	(1 384)
FX differences	(463)	(1 355)	(281)	(2 098)
Net book value as at 31 December 2016	206 258	479 712	88 849	774 818
Balance as at 01 January 2015				
Gross book value	414 114	1 694 051	58 916	2 167 081
Depreciation/amortisation and impairment charges	(219 373)	(1 217 332)	(3 929)	(1 440 634)
Net book value	194 741	476 720	54 987	726 448
Balance as at 31 December 2015				
Gross book value	415 818	1 739 731	69 636	2 225 185
Depreciation/amortisation and impairment charges	(221 656)	(1 283 746)	-	(1 505 402)
Net book value	194 162	455 984	69 636	719 782
Balance as at 01 January 2016				
Gross book value	415 818	1 739 731	69 636	2 225 185
Depreciation/amortisation and impairment charges	(221 656)	(1 283 746)	-	(1 505 402)
Net book value	194 162	455 984	69 636	719 782
Balance as at 31 December 2016				
Gross book value	441 684	1 855 075	88 849	2 385 608
Depreciation/amortisation and impairment charges	(235 426)	(1 375 363)	-	(1 610 789)
Net book value	206 258	479 712	88 849	774 818

Impairment of tangible fixed assets for the year ended on 31 December 2016 was PLN 1,384 thousand (for the year ended on 31 December 2015: PLN 0 thousand).

The book value of plant and machinery used as at 31 December 2016 pursuant to financial lease contracts and rental contracts with a purchase option amounted to PLN 33,562 thousand (as at 31 December 2015: PLN 30.704 thousand).

A pledge has been established on the assets used pursuant to lease contracts and rental contracts with a purchase option to secure the related obligations under financial leases and rental contracts with a purchase option.

Tangible fixed assets with the book value of PLN 555.431 thousand (as at 31 December 2015: PLN 571,022 thousand) are subject to mortgage/pledge to secure bank loans (note No. 32).

The amount of capitalise external funding costs and FX gains/losses in the financial period ended on 31 December 2016 was PLN 362 thousand (in the year ended on 31 December 2015: PLN 644 thousand).

## 19. Leases

### 19.1. Liabilities under operational leases – the Group as the lessee

The Group has entered into operational lease contracts covering selected vehicles and plant. The lease contracts impose no restrictions on the lessee.

As at 31 December 2016 and 31 December 2015 the future minimum fees under irrevocable operational lease contracts were as follows:

	Year ended 31 December 2016	Year ended 31 December 2015
In 1 year	3 417	3 008
In 1 to 5 years	4 045	4 827
Over 5 years	-	-
<b>Total</b>	<b>7 462</b>	<b>7 835</b>

### 19.2. Liabilities under financial leases and rental contracts with purchase options

As at 31 December 2016 and 31 December 2015 the future minimum lease fees and the present value of

minimum net lease fees were as follows:

	Year ended on 31 December 2016		Year ended on 31 December 2015	
	Minimum fees	Present value of the fees	Minimum fees	Present value of the fees
In 1 year	5 941	4 306	4 774	3 065
In 1 to 5 years	33 844	30 082	17 488	12 375
Over 5 years	-	-	16 148	16 148
<b>Total minimum lease fees</b>	<b>39 785</b>	<b>34 388</b>	<b>38 410</b>	<b>31 588</b>
Minus financial expenses	(5 397)		(6 822)	
<b>Value of present minimum lease fees, of which:</b>	<b>34 387</b>	<b>34 388</b>	<b>31 588</b>	<b>31 588</b>
- short-term		4 306		3 065
- long-term		30 082		28 523

## 20. Investment properties

	2016	2015
Opening balance as at 01 January	3 982	3 982
Increases (subsequent expenditures)	-	-
Sale of properties	-	-
Profit on fair valuation	92	-
<b>Closing balance as at 31 December</b>	<b>4 074</b>	<b>3 982</b>

Investment properties were disclosed at fair value as a result of an appraisal by an accredited appraiser. The appraisal was made with a comparative approach, the adjusted average method.

The property appraiser holds a license in property appraising granted by the President of the Housing and City Development Office. The market value of a property is the most likely price that may be realised in the market, determined with reference to transactional prices and subject to the following assumptions:

- the parties to the transaction were independent of each other, were not forced to act and were willing to enter into the transaction,
- sufficient time has expired to expose the property to the market and to negotiate contractual terms and conditions.

The market value for the current method of use (WRU) was appraised subject to:

- purpose of the appraisal,
- type and location of the property,
- function in the local development plan,
- existence of technical infrastructure,
- condition of the property,
- available data on prices of similar properties.

The appraisal was made with a comparative approach, the adjusted average price method.

Adjusted land price was PLN 380/m<sup>2</sup>.

According to the fair value hierarchy, the method and approach applied to appraising investment properties classifies it to level 3.

The current costs incurred in 2016 included real estate tax of PLN 10 thousand (2015: PLN 10 thousand).

Investment properties with the book value of PLN 4,074 thousand (as at 31 December 2015: PLN 0 thousand) are subject to mortgage to secure bank loans (note No. 32).

## 21. Intangible assets

	Status as at 31 December 2016					Total
	Relations with customers	Trademarks	Co-generation certificates	CER certificates and emission rights	Other*	
Net value as at 01 January 2016	2 080	35 117	7 985	409	6 029	51 622
Increases	-	-	23 218	-	4 427	27 645
Decreases	-	-	(18 185)	(409)	85	(18 509)
Depreciation for the period	(495)	-	-	-	(224)	(719)
Impairment	-	-	-	-	(2 767)	(2 767)
FX differences	(13)	(196)	(15)	-	(14)	(239)
Transfer to discontinued operations	-	-	-	-	-	-
Net value as at 31 December 2016	1 571	34 921	13 003	-	7 536	57 033
As at 01 January 2016						
Gross value	38 725	92 647	7 985	409	34 513	174 279
Depreciation/amortisation and impairment charge	(36 645)	(57 530)	-	-	(28 484)	(122 659)
Net value	2 080	35 117	7 985	409	6 029	51 619
As at 31 December 2016						
Gross value	38 505	92 117	13 003	-	33 021	176 646
Depreciation/amortisation and impairment charge	(36 934)	(57 196)	-	-	(25 485)	(119 614)
Net value	1 571	34 921	13 003	-	7 536	57 030

\* – The item Other contains mainly computer software.

	As at 31 December 2015					Total
	Relations with customers	Trademarks	Co-generation certificates	CER certificates and emission rights	Other*	
Net value as at 01 January 2015	2 515	34 288	4 351	1 562	7 974	50 692
Increases	-	-	21 995	0	1 017	23 012
Decreases	-	-	(18 384)	(1 269)	(1 558)	(21 211)
Change of presentation within groups of tangible and intangible fixed assets	-	-	-	-	-	-
Depreciation for the period	(481)	-	-	-	(1 338)	(1 818)
FX differences	45	829	22	116	(65)	947
Transfer to discontinued operations						
Net value as at 31 December 2015	2 080	35 117	7 985	409	6 029	51 622
As at 01 January 2015						
Gross value	38 034	90 407	4 351	1 562	38 237	172 591
Depreciation/amortisation and impairment charge	(35 519)	(56 118)	-	-	(30 264)	(121 901)
Net value	2 515	34 288	4 351	1 562	7 974	50 692
As at 31 December 2015						
Gross value	38 725	92 647	7 985	409	34 513	174 279
Depreciation/amortisation and impairment charge	(36 645)	(57 530)	-	-	(28 484)	(122 659)
Net value	2 080	35 117	7 985	409	6 029	51 622

\* – The item Other contains mainly computer software.

Impairment of intangible assets for the year ended on 31 December 2016 was PLN 2,767 thousand (for the year ended on 31 December 2015: PLN 0 thousand).

As a result of an analysis of the value of the corporate trade mark of Arctic Paper of PLN 1,319 thousand, no need was identified to make any impairment charge as at 31 December 2016.

The next test is planned for 31 December 2017.

The value of fixed assets of the Rottneros Group incorporated in the consolidation of the Arctic Paper Group is measured below the values disclosed in the consolidated financial statements of the Rottneros Group. The consolidated financial statements of the Rottneros Group for the year ended on 31 December 2016 disclose a growth of impairment charges to tangible fixed assets of PLN 1,384 thousand (SEK 3

million) and intangible assets for 2016 of PLN 2,764 thousand (SEK 6 million). The charges relate to the assets of the Rottneros Group (primarily intangible assets) incorporated in the consolidation of the Arctic Paper Group in values used in the consolidation of the Rottneros Group and were recognised in these consolidated financial statements. Additionally, the consolidated financial statements of the Rottneros Group for the year ended on 31 December 2016 disclose the reversal of impairment charges to fixed assets in the amount of SEK 23 million. The impairment charges concern tangible fixed assets and were made before the purchase of the Rottneros Group by Arctic Paper S.A. For that reason the impairment charges were not included in these financial statements.

The consolidated financial statements of the Rottneros Group for the year ended on 31 December 2015 did not



disclose any increased impairment charges to assets in 2015. On that basis, no impairment to fixed assets (including the trade mark) was identified as disclosed in these consolidated financial statements as at 31 December 2015.

The next test is planned for 31 December 2017.

Intangible assets with the book value of PLN 19,087 thousand (as at 31 December 2015: PLN 0 thousand) serve as collateral for bank loans (note 32).

## 22. Investments in affiliates and joint ventures measured with the equity method

In the years ended on 31 December 2016 and 31 December 2015 the Group had no affiliated entities.

On 1 October 2012, Arctic Paper Munkedals AB purchased 50% shares in Kalltorp Kraft Handelsbolaget with its registered office in Trolhattan, Sweden. Kalltorp Kraft is involved in the production of energy from its own hydro power facility; the purpose of the acquisition was to increase internal power generation potential. The shares in Kalltorp Kraft were recognised as a joint venture and were measured with the equity method as at 31 December 2016 and 31 December 2015.

The value of the interests in the joint venture was PLN 924 thousand as at 31 December 2016 (31 December 2015: PLN 5,169 thousand). The loss on the interests in the joint venture was PLN 4,209 thousand in 2016) and was recognised as financial expenses (2015: profit of PLN 4 thousand). FX differences on translation amounted to PLN -36 thousand as at 31 December 2016 (31 December 2015: PLN +128 thousand).

## 23. Business combinations and acquisition of non-controlling interests

In 2016 the Group did not execute any transactions resulting in changes of its interests in subsidiary companies.

## 24. Other assets

### 24.1. Other financial assets

	Note	Year ended 31 December 2016	Year ended 31 December 2015
Hedging instruments	40.3.1.	16 040	944
Investments in equity instruments		3 695	-
Other		2 396	1 017
<b>Total</b>		<b>22 132</b>	<b>1 960</b>
- short-term		11 218	944
- long-term		10 913	1 017

## 24.2. Other non-financial assets

	Year ended 31 December 2016	Year ended 31 December 2015
Insurance costs	3 841	3 465
Lease fees	87	53
Costs of new financing relating to tranches disbursed by 31 December 2016	3 511	-
Advance payments for services	4 474	6 451
Rent	652	717
Receivables from pension fund	1 092	926
Other	4 383	1 391
<b>Total</b>	<b>18 040</b>	<b>13 003</b>
- short-term	16 492	11 531
- long-term	1 548	1 472

## 25. Impairment test for tangible fixed assets and intangible assets

### 25.1. Arctic Paper Mochenwangen

The operations of the Mochenwangen Group carried out by AP Mochenwangen and the companies set up to acquire the Paper Mill were treated as discontinued activities as at 31 December 2015 and 31 December 2016.

The net value of tangible and intangible assets of the Mochenwangen Group as at 31 December 2013 was PLN 0 thousand and the investment outlays incurred by the Group in 2016 of PLN 465 thousand (2014-2015: PLN 11,862 were fully depreciated and recognised as a loss on discontinued operations.

### 25.2. Arctic Paper Grycksbo

As at 31 December 2016 and 31 December 2015 impairment tests were conducted at Arctic Paper Grycksbo with reference to tangible fixed assets and intangible assets.

The impairment test at Arctic Paper Grycksbo was related to lower results generated at the Paper Mill than expected by the Group's Management Board in 2016 and in 2015. The results were adversely affected by market conditions such as unfavourable price

fluctuations of raw materials, intensified competition in the segment of the paper produced by Grycksbo.

In view of the above, a decision was taken to perform an impairment test with the discounted cash flow method. As a result of the impairment test, no further impairment charge was recognised.

Below is a presentation of the key assumptions underlying the impairment tests held as at 31 December 2016 and 31 December 2015.

## Key assumptions underlying the calculation of value in use

Calculations of the value in use of the paper sale centre at the Grycksbo Paper Mill is most sensitive to the following variables:

- Discount rates;
- Growing raw material prices;
- Growing energy prices;
- FX risk.

Discount rate – reflects the assessment of risks inherent to the centre estimated by the management. This is the rate applied by the management to estimate the operational effectiveness (results) and future investment proposals. In the budgeted period the discount rate is 6.50%. The discount rate was determined on the basis of the following: Weighted average cost of capital (WACC).

Changing raw material prices (mainly pulp) – estimates concerning changes to raw materials are made on the basis of the ratios related to pulp prices. The data underlying the applied assumptions is obtained from:

www.foex.fi. It should be noted that the costs of pulp is characterised by high volatility.

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

FX risk – it refers to the purchase cost of raw materials for paper production, in particular purchases of pulp with the costs incurred mostly in USD. The projections made as at 31 December 2016 the FX rate of the USD/SEK pair was assumed at 9.05 in 2017 and 8.55 in the other years (31 December 2015: 8.45).

The table below presents the core assumptions applied to calculate the value in use as at 31 December 2016 and 31 December 2015.

General assumption	2016	2015
Prognosis based on year	2017-2021	2016-2020
Income tax rate	22,00%	22,00%
Pre-tax discount rate	8,85%	8,33%
Weighted average cost of capital	6,90%	6,50%
Growth in residual period	2,00%	2,00%

The total impairment charge to Arctic Paper Grycksbo as at 31 December 2016 and 31 December 2015 was PLN 300,235 thousand.

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

Parameters	Increase in basis points	Effect on value in use
<i>31 December 2016</i>		
Weighted average cost of capital	+0,1 p.p.	(3 028)
Growth in residual period	+0,1 p.p.	2 265
Sales volume in first year	+ 0,1%	7 689
Sales prices in first year	+ 0,1%	10 464
Weighted average cost of capital	-0,1 p.p.	3 153
Growth in residual period	-0,1 p.p.	(2 174)
Sales volume in first year	- 0,1%	(7 689)
Sales prices in first year	- 0,1%	(10 464)
<i>31 December 2015</i>		
Weighted average cost of capital	+0,1 p.p.	(4 117)
Growth in residual period	+0,1 p.p.	3 280
Sales volume in first year	+ 0,1%	9 262
Sales prices in first year	+ 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 first year	- 0,1%	(9 262)
Sales prices in first year	- 0,1%	(12 452)

## 26. Employment benefits

### 26.1. Retirement benefits and other post-employment benefits

Group entities pay post-employment benefits to its retiring employees in amounts set forth in Poland's Labour Code in case of Arctic Paper Kostrzyn S.A. and on the basis of existing agreements with trade unions in case of Arctic Paper Munkedals AB, Arctic Paper Kostrzyn S.A and Arctic Paper Grycksbo AB which additionally has set up a Social Fund for future retirees.

In this connection, on the basis of measurement performed in each country by professional actuarial companies, the Group establishes a provision for future benefits.

Re-measurement of employee benefits related to defined benefit plans, covering actuarial gains and losses, is recognised in other total comprehensive income and is not later re-classified to profit or loss.

The Group recognises the following changes to its net liabilities relating to defined benefit plans within internal costs of sales, administrative expenses or selling and distribution costs, composed of:

- service costs (including inter alia the current service costs, future service costs)
- net interest on the net liability under the defined benefit plans.

The net cost of employee benefits is presented in the table below:

	Year ended 31 December 2016	Year ended 31 December 2015
Current headcount costs	2 102	1 788
Interest expense on employee benefit liabilities	2 222	2 026
Actuarial (profit)/loss	6 356	(6 761)
<b>Total costs of benefit in the plan</b>	<b>10 680</b>	<b>(2 947)</b>
of which:		
recognised in the profit and loss account	4 324	3 814
recognised in other comprehensive income	6 356	(6 761)

The table does not contain data for Arctic Paper Mochenwangen, disclosed as discontinued operations.

The justification presenting changes in the provisions for the years ended on 31 December 2016 and 31 December 2015 is presented in the table below.

	Defined benefit plan in Sweden (AP SA branch)	Defined benefit plan in Sweden (Munkedals)	Defined benefit plan in Sweden (Grycksbo)	Defined benefit plan in Sweden (Rottneros Group)	Defined benefit plan in Poland (Kostrzyn)	Defined benefit plan in Germany (Mochenwangen)	Total
Provisions for pensions and similar obligations as at 01 January 2016	1 151	25 826	46 783	1 162	6 540	-	81 461
Current headcount costs	206	-	-	1 614	282	-	2 102
Interest expense	-	727	1 303	-	192	-	2 222
Actuarial Loss (Profit)	-	3 181	3 073	-	102	-	6 356
Benefits paid	-	(724)	(1 776)	-	(295)	-	(2 795)
FX differences on translation of foreign plans	-	(145)	(268)	(4)	-	-	(418)
<b>Provisions for pensions and similar obligations as at 31 December 2016</b>	<b>1 356</b>	<b>28 864</b>	<b>49 115</b>	<b>2 771</b>	<b>6 821</b>	<b>-</b>	<b>88 928</b>
	Defined benefit plan in Sweden (AP SA branch)	Defined benefit plan in Sweden (Munkedals)	Defined benefit plan in Sweden (Grycksbo)	Defined benefit plan in Sweden (Rottneros Group)	Defined benefit plan in Poland (Kostrzyn)	Defined benefit plan in Germany (Mochenwangen)	Total
Provisions for pensions and similar obligations as at 01 January 2015	866	27 410	49 540	-	7 412	11 726	96 954
Current headcount costs	285	-	-	1 119	384	247	2 035
Interest expense	-	634	1 211	-	181	259	2 285
Actuarial Loss (Profit)	-	(2 387)	(3 289)	-	(1 085)	(1 511)	(8 271)
Benefits paid	-	(437)	(1 777)	-	(352)	(398)	(2 964)
FX differences on translation of foreign plans	-	605	1 099	43	-	(27)	1 720
Transfer to discontinued operations	-	-	-	-	-	(10 297)	(10 297)
<b>Provisions for pensions and similar obligations as at 31 December 2015</b>	<b>1 151</b>	<b>25 826</b>	<b>46 783</b>	<b>1 162</b>	<b>6 540</b>	<b>-</b>	<b>81 461</b>

The core assumptions made by actuary as at each balance sheet date to calculate the amounts of the obligations are as follows:

	Year ended 31 December 2016	Year ended 31 December 2015
Discount rate (%)		
Plan in Sweden	2,3%	3,1%
Plan in Poland	3,0%	3,0%
Plan in Germany	na	2,4%
Anticipated salary growth rate (%)		
Plan in Sweden	0,0%	0,0%
Plan in Poland	2,0%	2,0%
Plan in Germany	na	-
Remaining employment period (in years)		
Plan in Sweden	16,5	16,5
Plan in Poland	16,8	16,8
Plan in Germany	na	19,3

The table below presents a sensitivity analysis of the provision for retirement benefits:

Sensitivity analysis		
Change to the applied interest rate by 1 percentage point		
	Increase by 1 p.p. in thousands PLN	Decrease by 1 p.p. in thousands PLN
31 December 2016		
Impact on the liabilities under defined benefit plans	(2 769)	1 992
31 December 2015		
Impact on the liabilities under defined benefit plans	(14 404)	9 045
Change to the anticipated salary growth rate by 1 percentage point		
31 December 2016		
Impact on the liabilities under defined benefit plans	717	(601)
31 December 2015		
Impact on the liabilities under defined benefit plans	904	(668)

## 26.2. Termination benefits

As at 31 December 2016 and 31 December 2015 the Group recognised no provision for termination benefits.

## 27. Inventories

	Year ended 31 December 2016	Year ended 31 December 2015
Materials (at purchase prices)	170 416	178 037
Production in progress (at manufacturing costs)	8 850	10 802
Finished products, goods, of which:		
At purchase price / manufacturing costs	179 960	192 389
At net realisable price	1 109	9 403
Advance payments for deliveries	18	-
Total inventories, at the lower of: purchase price / manufacturing costs or net realisable price	360 353	390 631
Impairment charge to inventories	4 323	6 813
Total inventories before impairment charge	364 676	397 445

In the year ended on 31 December 2016 the Group reversed impairment charges to inventories for PLN 2,490 thousand.

In the year ended on 31 December 2015 the Group established impairment charges for PLN 2,366 thousand and transferred charges of PLN 3,514 thousand to discontinued activities.

The difference in the impairment charges is referred to costs of sales in the profit and loss account. The impairment charge is related to finished products and slowly rotating materials and exposed to the risk of damage, obsolescence or non-use for internal needs.

In the financial year ended on 31 December 2016 the Group had pledge agreements on its movable assets for PLN 523,963 thousand, SEK 715,530 thousand, partly related to inventories.

In the financial year ended on 31 December 2015 the Group had a pledge agreement on all its movable assets for SEK 421,920 thousand, PLN 538,500 thousand, partly related to inventories.

As at 31 December 2016 the inventories of finished products for PLN 1,109 thousand were measured at the net realisable prices (as at 31 December 2015: PLN 9.403 thousand, thousand).

## 28. Trade and other receivables

	Year ended 31 December 2016	Year ended 31 December 2015
Trade receivables	307 580	303 897
VAT receivables	28 419	23 641
Other third party receivables	4 622	6 056
Other receivables from related entities	2 875	2 905
Total (net) receivables	343 496	336 499
Impairment charges to receivables	29 786	32 504
Gross receivables	373 282	369 003

The terms of transaction with related parties are presented in note No. 37.

Trade receivables do not earn interest and have customary payment terms of 30 to 90 days.

The Group has an appropriate policy of selling solely to verified customers. Therefore, in the opinion of the management, there is no additional credit risk in excess of the level identified with the impairment charge to

uncollectible receivables characteristic for the Group's trade receivables.

As at 31 December 2016, trade receivables of PLN 29,786 thousand (as at 31 December 2015: PLN 32.504 thousand), were deemed as uncollectible and therefore subject to an impairment charge.

The changes to impairment charges to receivables were as follows:

	Year ended 31 December 2016	Year ended 31 December 2015
Impairment charge as at 01 January	32 504	20 157
Increases	676	13 785
Utilisation	(952)	(67)
Write-back of unutilised amounts	(2 187)	(1 046)
FX differences on translation of foreign operations	(254)	460
Transfer to discontinued operations	-	(785)
Impairment charge as at 31 December	29 786	32 504

Below is an analysis of trade receivables that as at 31 December 2016 and 31 December 2015 were overdue but not treated as uncollectible:

	Total	Not overdue	Overdue but collectible				
			< 30 days	30 – 60 days	60 – 90 days	90 – 120 days	>120 days
As at 31 December 2016	307 580	261 822	38 462	4 291	508	1 648	848
As at 31 December 2015	303 897	263 087	33 626	4 322	434	481	1 946

Receivables over 120 days in the prospective assessment of the company's management qualify as collectible and therefore no impairment was recognised.

## 29. Cash and cash equivalents

Cash at bank earns interest at variable interest rates based on overnight bank deposit rates. Short-term deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the Group and earn interest at the respective short-term deposit rates.

As at 31 December 2016, the fair value of cash and cash equivalents was PLN 130,157 thousand (31 December 2015: PLN 188,552 thousand).

As at 31 December 2016, the Group held undrawn funds under overdraft facilities of PLN 80,955 thousand (31 December 2015: PLN 117,480 thousand).

As at 31 December 2016, the Group utilised its overdraft facilities for PLN 95,632 thousand (31 December 2015: PLN 48,384 thousand).

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



	Year ended 31 December 2016	Year ended 31 December 2015
Cash in bank and on hand	129 926	187 936
Short-term deposits	-	-
Cash in transit	231	617
Cash and cash equivalents in the consolidated balance sheet	130 157	188 552
Cash in bank and on hand attributable to discontinued operations	1 320	1 051
Cash and cash equivalents in the consolidated cash flow statement	131 476	189 603

Cash of PLN 2,771 thousand as at 31 December 2016 (31 December 2015: PLN 1,858 thousand) constitute margin to existing forward contracts from the purchase of electricity in the companies of the Rottneros Group).

### 29.1. Reasons of differences between book value changes to certain items and items in the consolidated cash flow statement

The reasons of differences between book value changes to certain items and items in the consolidated cash flow statement are presented in the tables below:

	Year ended 31 December 2016	Year ended 31 December 2015
Increase / decrease in receivables and other non-financial assets		
Book change in receivables and other non-financial assets	(6 996)	2 940
Book change in other financial assets long term without derivatives	(4 988)	-
Discontinued operations	15 559	(15 789)
Differences on translation	(781)	1 471
Increase / decrease in receivables and other non-financial assets disclosed in the consolidated cash flow statement	2 793	(11 377)
Change to inventories		
Book change to inventories	30 279	(14 145)
Discontinued operations	17 471	(29 396)
Differences on translation	(1 647)	6 816
Change to inventories disclosed in the consolidated cash flow statement	46 103	(36 725)

Increase / decrease in liabilities except for loans and borrowings		
Book increase /decrease in liabilities except for loans and borrowings	(12 047)	47 306
Discontinued operations	(20 635)	23 069
Differences on translation	797	(2 859)
Increase / decrease in liabilities except for loans and borrowings disclosed in the consolidated cash flow statement	(31 885)	67 516
Change in accruals and deferred income		
Book change in accruals and deferred income	(13 604)	10 247
Discontinued operations	(1 756)	1 897
Differences on translation	(415)	(1 149)
Change in accruals and deferred income disclosed in the consolidated cash flow statement	(15 775)	10 995
Change in provisions		
Book change in provisions	7 459	(26 119)
Provision for actuarial gains/losses	(9 281)	8 271
Discontinued operations	(40 079)	55 484
Provision for discontinued operations presented as write-downs for inventories and other tangible assets	12 701	-
Differences on translation	(1 288)	(2 916)
Change in provisions disclosed in the consolidated cash flow statement	(30 488)	34 721
Purchase of tangible fixed and intangible assets		
Increase in tangible assets according to table of movements	(178 992)	(95 464)
Increase in intangible assets according to table of movements	(27 645)	(23 012)
Financial leasing	6 071	362
Co-generation certificates	23 218	21 995
Change in valuation of emission rights	194	(349)
Discontinued operations	(458)	(6 479)
Purchase of tangible fixed and intangible assets in the consolidated cash flow statement	(177 612)	(102 946)

## 30. Share capital and reserve capital/other reserves

### 30.1. Share capital

Share capital	As at 31 December 2016	As at 31 December 2015
series A ordinary shares of the nominal value of PLN 1 each	50	50
series B ordinary shares of the nominal value of PLN 1 each	44 254	44 254
series C ordinary shares of the nominal value of PLN 1 each	8 100	8 100
series E ordinary shares of the nominal value of PLN 1 each	3 000	3 000
series F ordinary shares of the nominal value of PLN 1 each	13 884	13 884
	69 288	69 288

	Registration date of capital increase	Volume	Value in PLN
Ordinary issued and fully paid-up shares			
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 06 March 2013	2013-03-22	726 253	726 253
As at 31 December 2016		69 287 783	69 287 783

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

In 2016 and 2015 there were no changes to the share capital of Arctic Paper S.A.

#### 30.1.2. Nominal value of shares

The shares have a nominal value of PLN 1 and have been fully paid.

#### 30.1.3. Purchase of treasury shares

On 28 June 2012 the Company's Ordinary General Meeting approved a resolution (current report 12/2012), authorising the Company's Management Board to acquire shares of the Company to have them redeemed and to reduce the share capital or to further transfer or

re-sell such shares subject to the terms and conditions and in the mode detailed below:

- the total number of acquired shares may not exceed 5,500,000 shares;
- the total amount that the Company intends to allocate to purchase its own shares may not exceed

the amount of the dedicated reserve capital being PLN 27,500,000, to cover the price of the shares to be acquired as well as the related purchase costs;

- c) the price at which the Company will be acquiring its shares may not be less than PLN 1.00 and higher than PLN 10.00 per share;
- d) the authorisation for purchase of the Company's treasury shares is valid for 60 (sixty) months since the date of the resolution;
- e) the shares may be acquired via an investment company, in stock exchange and OTC transactions.

The Management Board, pursuing the Company's interests, may – subject to an opinion of the Supervisory Board:

- a) end the purchase of the shares before expiry of a period of 60 days of the resolution or before all the funds allocated for such purchases are spent,
- b) resign from the purchases in whole or in part.

Should such decisions be taken, the Management Board shall be obliged to publish such information in the manner specified in the Act on Public Offerings.

The terms and conditions of acquiring treasury shares for redemption or further transfer or re-sale shall be compliant with the provisions of the Commission Regulation (EC) No. 2273/2003 of 22 December 2003.

When the process of treasury share purchase is completed by the Company subject to the terms and

#### **30.1.4. Shareholders' rights**

Shares in all series are entitled to one vote and they have equal privileges as to dividend and capital refund.

conditions set by the Company's General Meeting, the Management Board shall convene a General Meeting to approve a resolution on redeeming the Company's shares and to reduce the share capital or – if such acquired shares are to be further transferred or re-sold – the Company's Management Board shall take decisions on such further transfer or re-sale of the treasury shares. A portion of the shares acquired by the Company may be redeemed and the share capital may be decreased before the end of the acquisition process of treasury shares.

The Ordinary General Meeting, acting pursuant to Art. 362 § 2.3 of the Code of Commercial Companies, Art. 348 § 1 in connection with Art. 396 § 4 and § 5 of the Code of Commercial Companies, decides to set up a reserve capital named "Share Purchase Programme Fund" to fund the purchase of treasury shares, in order to fund the acquisition by the Company of its own shares, pursuant to this authorisation and within the authority granted by this resolution. The amount of the Share Purchase Programme Fund is set at PLN 27,500,000. The Share Purchase Programme Fund shall be applied to purchase treasury shares and cover the related purchase costs. The Ordinary General Meeting decides to allocate the Share Purchase Programme Fund from the reserve capital.

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

### 30.1.5. Major shareholders

	As at 31 December 2016	As at 31 December 2015
Thomas Onstad (direct and indirect)		
Share in the share capital	68,13%	68,13%
Share in the total number of votes	68,13%	68,13%
Nemus Holding AB (indirectly Thomas Onstad)		
Share in the share capital	58,06%	57,74%
Share in the total number of votes	58,06%	57,74%
Other		
Share in the share capital	31,87%	31,87%
Share in the total number of votes	31,87%	31,87%

### 30.2. FX differences on translation of foreign operations

The item is adjusted for FX differences on translation of financial statements of foreign operations that have a functional currency other than PLN, to the presentation

currency of these financial statements being PLN. The rules of translation along with the applied FX rates are described in note No. 9.4.

### 30.3. Reserve capital

Reserve capital is made up of the issue price of shares of Arctic Paper S.A. in excess of their nominal value reduced by the costs of the issues that took place in 2009, 2010 and 2013, equal to PLN 134,257 thousand, reduction of the nominal price of the shares from PLN

10 to PLN 1 in 2012 of PLN 498,632 thousand and a portion of retained profit and accumulated loss resulting from profit distribution by Arctic Paper S.A. of PLN - 185,251 thousand.

The table below presents changes to the reserve capital in the year ended on 31 December 2016 and 31 December 2015:

	Year ended 31 December 2016	Year ended 31 December 2015
Reserve capital at the beginning of the period	447 638	472 748
Profit/loss distribution	-	(25 110)
Reserve capital at the end of the period	447 638	447 638

### 30.4. Other reserves

Other reserves cover a portion of retained profit and accumulated loss resulting from profit distribution by Arctic Paper S.A. and capital from revaluation of hedging transactions.

The table below presents changes to the reserve capitals in the year ended on 31 December 2016 and 31 December 2015:

	As at 31 December 2016	As at 31 December 2015
Other capital reserves at the beginning of period	127 976	136 557
<u>Changes to cash flow hedges</u>		
<b>Measurement of financial instruments, of which:</b>	<b>31 984</b>	<b>(11 049)</b>
- FX forward	(247)	128
- Forward for electricity	33 394	(11 972)
- interest rate SWAP	(2 822)	795
- Forward for pulp	1 659	-
<b>Deferred tax, of which:</b>	<b>(7 894)</b>	<b>2 468</b>
- FX forward	47	(21)
- Forward for electricity	(7 370)	2 640
- interest rate SWAP	(334)	(151)
- Forward for pulp	(237)	-
<u>Other changes</u>		
Profit distribution	4 909	-
Other capital reserves at the end of period	156 975	127 976

### 30.5. Retained profit/accumulated loss and restrictions to dividend distribution

The item of retained profit/accumulated loss covers retained profit/accumulated loss of the financial year and actuarial gains/losses on actuarial measurement of provisions for retirement benefits.

Retained profit/accumulated loss in the consolidated statements may contain amounts that are not distributable – such that may not be distributed as dividend. The statutory financial statements of the entities are made in compliance with the local accounting standards (with the exception of Arctic Paper Kostrzyn S.A.) and the Articles of Association of those companies. Dividend to the parent entity may be distributed out of net profit disclosed in their standalone financial statements made for statutory purposes. Such local definition of undistributed profit often differs from

the definition of undistributed profit resulting from EU IFRS which may restrict profit distribution. For instance, local legal regulations often require allocations to certain reserves on account of potential future losses. Application of different accounting principles may generate differences between statutory financial statements and reporting packages for consolidation purposes.

Dividend may be distributed out of net profit disclosed in the standalone annual financial statements of Arctic Paper S.A. made for statutory purposes.

In accordance with provisions of the Code of Commercial Companies, the parent entity is obliged to establish reserve capital to cover potential losses. At least 8% of the profit for the financial year disclosed in

the standalone financial statements of the parent company should be transferred to the category of capital until the capital has reached the amount of at least one third of the share capital of the parent entity. The use of reserve capital and reserve funds is determined by the General Meeting; however, a part of reserve capital equal to one third of the share capital can be used solely to cover the losses disclosed in the standalone financial statements of the parent entity and cannot be distributed to other purposes.

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

As at 31 December 2016, there were no other restrictions concerning dividend distribution.

The retained profit/accumulated loss in the balance sheet as at 31 December 2016 is composed of the following items:

- a) consolidated retained profit/accumulated loss attributable to the shareholders of the parent entity for 2008-2016 of PLN -224,606 thousand; and standalone profit distribution/loss coverage of Arctic Paper SA for 2010-2015 of PLN +62,143 thousand (including transfer of profit for 2015 of PLN 4,909 thousand to reserve capital and loss coverage for 2014 with reserve capital of PLN 25,110 thousand;
- b) gain on the acquisition of shares in Rottneros AB from non-controlling shareholders of PLN 29,353 thousand and loss on sale of shares in Rottneros AB to non-controlling shareholders of PLN -6,160 thousand;
- c) Actuarial gains/losses as at 31 December 2016 of PLN -12,280 thousand (without actuarial gains/losses on discontinued operations).

### 30.6. Non-controlling interests

	As at 31 December 2016	As at 31 December 2015
As at beginning of the period	200 744	181 458
Dividend disbursed by subsidiary entities	(17 502)	(26 556)
Share in other comprehensive income of subsidiary entities	29 631	45 841
At the end of period	212 874	200 744

Non-controlling interests cover a portion of the Group's equity attributable primarily to the non-controlling shareholders in Rottneros AB. The table below presents core financial data for the Rottneros Group:

	Year ended 31 December 2016	Year ended 31 December 2015
<b>Consolidated profit and loss account</b>		
Revenues from sales of products	797 952	803 234
Operating expenses	(719 540)	(685 546)
Operating profit (loss)	78 411	117 688
Financial income/expenses	(3 229)	(1 790)
Gross profit (loss)	75 183	115 898
Income tax	(16 144)	(16 109)
Net profit/(loss)	59 039	99 789
<b>Consolidated balance sheet</b>		
Fixed assets	418 020	328 008
Current assets, of which:	269 750	315 928
Inventories	128 408	124 048
Receivables and other assets	133 951	113 362
Cash and cash equivalents	7 390	78 517
<b>TOTAL ASSETS</b>	<b>687 769</b>	<b>643 936</b>
Equity	531 647	491 547
Long-term liabilities	6 467	8 363
Short-term liabilities	149 656	144 026
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>687 769</b>	<b>643 936</b>
<b>Consolidated cash flow statement</b>		
Cash flows from operating activities	86 253	149 907
Cash flows from investing activities	(128 226)	(46 091)
Cash flows from financing activities	(28 597)	(68 018)
Change in cash and cash equivalents	(70 570)	35 799
Cash and cash equivalents at the beginning of the period	78 517	40 335
Net FX differences	(557)	2 384
Cash and cash equivalents at the end of the period	7 390	78 517

In 2016 Rottneros AB distributed dividend totalling PLN 36,062 thousand (SEK 76 million), of which PLN 17,502 thousand referred to non-controlling shareholders.



In 2015 Rottneros AB distributed dividend totalling PLN 54,528 thousand (SEK 122 million), of which PLN 26.556 thousand referred to non-controlling shareholders.

### 31. Conditional increase of share capital

In 2016 and in 2015 there was no conditional increase of share capital.

### 32. Interest-bearing bank loans, bonds and borrowings and other financial liabilities

	Note	Maturity	As at 31 December 2016	As at 31 December 2015
Short-term liabilities				
<b>Other financial liabilities:</b>				
Liabilities under financial leases and rental contracts with purchase options	19.2	31-12-2017	4 306	3 065
Factoring with SHB in SEK			17 487	59 887
Hedging instruments	40.3		4 699	20 357
Other liabilities		31-12-2017	194	194
Total other short-term financial liabilities			26 686	83 503
<b>Interest-bearing loans, borrowings and bonds:</b>				
Revolving overdraft facility with Polska Kasa Opieki S.A. in PLN	40.2	20-12-2016	-	20 439
Revolving overdraft facility with mBank S.A. in PLN	40.2	20-12-2016	-	5 861
Revolving overdraft facility with BZWBK S.A. in PLN	40.2	20-12-2016	-	9 418
Loan from Bank Polska Kasa Opieki S.A. (short-term portion) in PLN	40.2	07-11-2017*	-	8 548
Loan from Polska Kasa Opieki S.A. (short-term portion) in EUR	40.2	07-11-2017*	-	4 337
Loan from mBank S.A. (short-term portion) in PLN	40.2	07-11-2017*	-	6 355
Loan from mBank S.A. (short-term portion) in EUR	40.2	07-11-2017*	-	3 235
Loan from BZWBK (short-term portion) in PLN	40.2	07-11-2017*	-	7 453
Loan from BZWBK (short-term portion) in EUR	40.2	07-11-2017*	-	3 786
Revolving overdraft facility with SHB in SEK	40.2	31-03-2016	-	12 665
Loan from EBRD (short-term portion) in EUR	40.2	31-08-2022	9 941	-
Loan from BZWBK (short-term portion) in PLN	40.2	31-08-2021	2 639	-
Loan from BNP (short-term portion) in EUR	40.2	31-08-2021	2 535	-
Bonds (accrued interest)	40.2	31-08-2021	4 473	-
Revolving overdraft facility with Danske Bank in SEK	40.2	31-12-2017	6 467	-
Loan from the owner of the core shareholder in EUR	40.2	09-07-2017	17 818	117
Loan from the owner of the core shareholder in EUR (short-term portion)	40.2	30-04-2020	11 495	668
Total short-term interest-bearing loans, borrowings and bonds			55 367	82 883
Total short-term financial liabilities			82 053	166 386

Long-term liabilities	Note	Maturity	As at 31 December 2016	As at 31 December 2015
<b>Other financial liabilities:</b>				
Liabilities under financial leases and rental contracts with purchase options	19.2	04-01-2021	30 082	28 523
Hedging instruments	40.3	31-12-2021	-	12 534
<b>Total other long-term financial liabilities</b>			<b>30 082</b>	<b>41 057</b>
<b>Interest-bearing loans, borrowings and bonds:</b>				
Loan from the owner of the core shareholder in EUR	40.2	09-07-2017	-	17 046
Loan from the owner of the core shareholder in EUR	40.2	30-04-2020	33 130	43 579
Loan from Bank Polska Kasa Opieki S.A. (long-term portion) in PLN	40.2	07-11-2017*	-	42 355
Bank loan from Bank Polska Kasa Opieki S.A. (long-term portion) in EUR	40.2	07-11-2017*	-	19 613
Loan from mBank S.A. (long-term portion) in PLN	40.2	07-11-2017*	-	31 316
Bank loan from mBank S.A. (long-term portion) in EUR	40.2	07-11-2017*	-	14 502
Loan from BZ WBK (long-term portion) in PLN	40.2	07-11-2017*	-	36 836
Bank loan from BZ WBK (long-term portion) in EUR	40.2	07-11-2017*	-	17 057
Loan from EBRD (long-term portion) in EUR	40.2	31-08-2022	42 448	-
Loan from BZ WBK (long-term portion) in PLN	40.2	31-08-2021	8 741	-
Loan from BNP (long-term portion) in EUR	40.2	31-08-2021	8 825	-
<b>Bonds</b>	40.2	31-08-2021	93 162	-
Revolving overdraft facility with BNP in PLN	40.2	31-08-2019	10 000	-
Revolving overdraft facility with BNP in EUR	40.2	31-08-2019	39 822	-
Revolving overdraft facility with BZ WBK S.A. in PLN	40.2	31-08-2019	39 337	-
<b>Total long-term interest-bearing loans, borrowings and bonds</b>			<b>275 464</b>	<b>222 305</b>
<b>Total long-term financial liabilities</b>			<b>305 546</b>	<b>263 362</b>

\*- short-term loans prepaid in Q4 2016

### 32.1. Bank loans, bonds and borrowings

The amount of long-term and short-term interest bearing loans and borrowings as at 31 December 2016 grew by PLN 25,642 thousand versus 31 December 2015.

In Q4 2016 the Arctic Paper Group completely repaid its debt under the agreement of 2012 from a bank consortium composed of Polska Kasa Opieki S.A., mBank S.A. and BZ WBK (more details in note No. 32.4.) and repaid debt under factoring with Svenska HandelsBanken (more details in note No. 32.5.). At the same time, the Group contracted new financing from a consortium of banks composed of: Bank BGŻ BNP Paribas S.A., Bank Zachodni WBK S.A. and the European Bank for Reconstruction and Development

(more details in note No. 32.2.) and issued bonds (more details in note No. 32.3.).

In 2016 the Rottneros Group contracted a revolving loan with Danske Bank for PLN 6,467 thousand as at 31 December 2016.

In December 2016 Rottneros signed a 5-year bank loan agreement for SEK 120 million to finance purchases of tangible fixed assets. The loan will be disbursed in 2017.

The amount of loans granted by the owner of the core shareholder remained unchanged as at 31 December 2016 and 31 December 2015 at PLN 61,886 thousand (net of accrued and unpaid interest).

## 32.2. Obtaining of new funding

On 9 September 2016:

1. The Company signed a term and revolving facilities agreement ("Loan Agreement") which was concluded between the Company as the borrower, subsidiaries of the Company: Arctic Paper Kostrzyn S.A., Arctic Paper Munkedals AB and Arctic Paper Grycksbo AB, as guarantors ("Guarantors") and a consortium of banks as follows: Bank BGŻ BNP Paribas S.A. ("BGŻ BNP Paribas"), Bank Zachodni WBK S.A. and the European Bank for Reconstruction and Development ("EBRD") (jointly the "Lenders") pursuant to which the Lenders granted the Company term and revolving facilities up to the amount of PLN 31,500,000 (in words: PLN thirty one million five hundred thousand) and EUR 52,400,000 (in words: EUR fifty two million four hundred thousand) ("Loans").
2. The Company signed agreements with Haitong Bank, S.A. Spółka Akcyjna Branch in Poland ("Haitong") related to a bond issue programme up to PLN 150,000,000 (in words: PLN one hundred fifty million) ("Bonds"), including an agency agreement ("Agency Agreement") and a bond issue underwriting agreement ("Underwriting Agreement").
3. The Company, Mr Thomas Onstad, Bank Zachodni WBK S.A., Haitong, BGŻ BNP Paribas and other parties entered into an intercreditor agreement ("Intercreditor Agreement") pursuant to which a structure of parallel debt was established in favour of BGŻ BNP Paribas (acting as the collateral agent) in an amount equal to, in appropriate currencies, to the sum of liabilities under the Loans, Bonds, hedging transactions

and other liabilities specified in the Intercreditor Agreement.

4. To secure the receivables due to BGŻ BNP Paribas under the Intercreditor Agreement and other claims specified in the collateral documents, the Company and the Guarantors will, inter alia, conclude registered and financial pledge agreements on the existing shares and interests and on bank accounts and an agreement establishing mortgage on properties with BGŻ BNP Paribas, will submit to BGŻ BNP Paribas a declaration on submission to voluntary enforced collection and will grant BGŻ BNP Paribas authorisation to access the existing bank accounts (in compliance with other agreements as specified above).

With report No. 9/2016 of 4 May 2016, the Management Board of Arctic Paper S.A. informed investors of its decision on formal commencement of work on the contemplated refinancing of the existing debt of the Company and its subsidiaries resulting from loan agreements and raising alternative financing. The agreements listed above constitute the acquisition of alternative financing and a change to the funding structure of the Company's capital group.

The centralised funding will ensure more effective management of financial liquidity and flexible adjustment of the funding level for each company.

Below are details of the above items provided by the Company:

### Re. 1 – Loan agreement

In accordance with the Loan Agreement, the Lenders provided the Company with the following Loans:

(A) a term loan in three tranches – tranche 1 of EUR 12,000,000 (in words: EUR twelve million) was disbursed by EBRD, tranche 2 of EUR 2,600,000 (in words: EUR two million six hundred thousand) was disbursed by BGŻ BNP Paribas and tranche 3 of PLN 11,500,000 (in words: PLN eleven million five hundred thousand) was disbursed by Bank Zachodni WBK S.A. (“Term Loan”) as well as term investment loans A and B disbursed by EBRD, of EUR 8,000,000 (in words: EUR eight million) and EUR 10,000,000 (in words: EUR ten million) respectively (“Investment Loan”); and

(B) revolving facility to be disbursed by BGŻ BNP Paribas and Bank Zachodni WBK S.A., in two tranches – Tranche 1 of EUR 19,800,000 (in words: EUR nineteen million eight hundred thousand) and Tranche 2 of PLN 20,000,000 (in words: PLN twenty million) (“Revolving Facility”).

The Term Loan was made available subject to corresponding provisions of the Loan Agreement, for the following purposes:

- (i) refinance the Company’s intragroup liabilities to Arctic Paper Kostrzyn S.A. or financing intragroup loans granted by the Company to Arctic Paper Kostrzyn S.A. to repay the existing debt – the loan may also be replaced with the proceeds from the bond issue;
- (ii) refinance liabilities of Arctic Paper Grycksbo AB, by the Company granting an intragroup loan to Arctic Paper Grycksbo AB;
- (iii) refinance liabilities of Arctic Paper Munkedals AB, by the Company granting an intragroup loan to Arctic Paper Munkedals AB;
- (iv) refinance capital expenditures of companies in the Company’s capital group, including in particular investment outlays by Arctic Paper Kostrzyn S.A. up to EUR 4,750,000 – indirectly by the Company granting an intragroup loan to the relevant member

of the capital group – the loan may also be replaced with the proceeds from the bond issue; and

- (v) finance or refinance the financing costs referred to in the Loan Agreement.

The Investment Loan was made available – subject to corresponding provisions of the Loan Agreement – to finance investments aimed at the improving the effective use of the resources and operational effectiveness as well as production capacities in Poland. With its investment plans, the Company plans to materially improve its competitiveness, expand its production potential and improve the energy effectiveness and resource management. The Company’s Paper Mill in Kostrzyn will be modernised with investments under EBRD’s programme – Green Economy Transition (GET) aimed at improving its energy effectiveness and minimising the quantities of waste generated.

The Revolving Facility was made available – subject to corresponding provisions of the Loan Agreement – to refinance Company’s intragroup liabilities or to finance intragroup loans – the loan may also be replaced with the proceeds from the bond issue – for the following purposes:

- (i) refinance obligations under an overdraft facility of Arctic Paper Kostrzyn S.A. under the existing bank loans;
- (ii) refinance outstanding liabilities of Arctic Paper Grycksbo AB under the existing factoring contracts with Svenska Handelsbanken AB;
- (iii) refinance obligations under an overdraft facility of Arctic Paper Grycksbo AB;
- (iv) refinance outstanding liabilities of Arctic Paper Munkedals AB under the existing factoring contracts with Svenska Handelsbanken AB; and
- (v) after repayment of the existing bank debt – pursuance of overall corporate objectives or related to working capital of the Company’s capital group (with the exception of Rottneros AB, Arctic Paper

Mochenwangen GmbH and Arctic Paper Investment GmbH and their subsidiaries), including the provision of intragroup loans – such loans may also be replaced with the proceeds from the bond issue.

Loan disbursements (except the Investment Loan for investment purposes of the Company's investment purposes with the exception of Rottneros AB, Arctic Paper Mochenwangen GmbH and Arctic Paper Investment GmbH and their subsidiaries, in compliance with the Loan Agreement) was subject to the Company and the Guarantors complying with the conditions precedent, including the submission of:

- (i) copy of the Company's Articles of Association and corporate documents of the Guarantors;
- (ii) certified copies of extracts from the register of entrepreneurs (Register of Entrepreneurs) of the National Court Register, concerning the company and each Guarantor; with reference to the companies registered in Sweden – registration certificates, in each case issued not earlier than 7 days before the application for disbursement of each tranche of the Loans;
- (iii) as required by the applicable laws and/or the Articles of Association or articles of association of the company – copies of resolutions of the general meeting, supervisory board (if any) and management of the Company and the Guarantors;
- (iv) copy resolutions of the Company's management board and supervisory board concerning the initiation of the bond issue programme;
- (v) copies of insurance policies of the Company and the Guarantors;
- (vi) Loan Agreement, Intercreditor Agreement, fee letters, agreements concerning hedging transactions and other financial documents specified in the Loan Agreement;
- (vii) copies of submitted applications to register the collateral as required to have them entered in the relevant register and submission of extracts from the

land and mortgage registers for the relevant properties;

- (viii) appropriate legal opinions issued, inter alia, for the Lenders; and
- (ix) submission of other documents or compliance with other conditions specified in the Loan Agreement.

In accordance with the provisions of the Loan Agreement, the Loans bear interest at a variable interest rate relying on WIBOR in case of PLN financing and on EURIBOR in case of EUR financing, plus a variable margin for the Lenders subject to the level of debt indicators.

In compliance with the Loan Agreement, the Loans will be repaid by:

- (A) Term Loan – tranche 1 by 31 August 2022, tranche 2 by 31 August 2021 and tranche 3 by 31 August 2021, Investment loan by 31 August 2022 (both the A investment loan and the B investment loan); and
- (B) Revolving Facilities – tranche 1 and 2 by 31 August 2019, subject to potential extension in compliance with the Loan Agreement.

The Loan Agreement is subject to English law and does not provide for any contractual penalties. Should any breach occur and continue as specified in the Loan Agreement, Bank Zachodni WBK S.A. (as the entity operating as the agent in compliance with the Loan Agreement) may – in compliance with the Loan Agreement – notify the Company on a duty to prepay the Loans immediately.

## Re. 2 – agreements related to the Bond issue

On 9 September 2016 the Company – in connection with the planned issue programme and the Bond issue by the Company – entered into an Agency Agreement, Underwriting Agreement and other agreements of purely technical nature, related to the activation of the Bond

issue programme. Under the Bond issue programme, the Company issued series A Bonds for PLN 100,000,000 (in words: PLN one hundred million).

The Agency Agreement covers the organisation of the Bond issue programme by Haitong that will act as the issue agent, dealer, payment agent, calculation agent, technical agent, administrative agent and depository.

Pursuant to the Underwriting Agreement for the Bond issue, Haitong agreed to acquire the Bonds that will not be placed in the market, up to the total amount of PLN 100,000,000 (in words: PLN one hundred million).

The agreements related to the Bond issue were concluded under Polish law and do not provide for any contractual penalties. The Agency Agreement may be terminated by the Company or Haitong subject to a 30-day notice period. Both the Company and Haitong may also terminate any of the above agreements for reasons specified therein.

### Re. 3 – Intercreditor Agreement

The Company further informs that on 9 September 2016 one of the conditions precedent specified in the Loan Agreement will be satisfied – the Intercreditor Agreement will be signed. It regulates the sequence of repayments to creditors (the obligations specified in the Intercreditor Agreement will be satisfied *pari passu*, with the exception of intragroup obligations that will be subordinated to those of the Lenders), the principles of pursuing claims, the principles of enforcing collateral and release of collateral.

Pursuant to the Intercreditor Agreement, parallel debt was created covering:

### 32.3. Bond issue

On 30 September 2016 (“Issue Date”), under the bond issue programme up to PLN 150,000,000 of 9 September 2016 – the Company made a private placement of 100,000 series A bonds (“Bonds”).

- (i) Company’s parallel debt
- (ii) parallel debt of selected subsidiaries of the Company – each being a standalone and independent debt to BGŻ BNP Paribas (acting as the collateral agent) from each respective entity.

The obligations of the Company and each Guarantor under parallel debt covering, *inter alia*, the obligations under the Loan Agreement and the Bonds, were secured with the establishment of a package of collateral. Pursuant to each obligation under parallel debt, each of the above entities is obliged to pay to BGŻ BNP Paribas an amount being the sum of all obligations of such entity under the core legal relationships covered with the Intercreditor Agreement. Enforceability of any of the core obligations of an entity will automatically generate enforceability of parallel debt in the same amount. Payment by any entity of any parallel debt to BGŻ BNP Paribas will automatically reduce the amount of core obligations of such entity equivalent to parallel debt, by the amount of such payment. Any repayment of core obligations by an entity will automatically reduce the parallel debt of the entity by the amount of such payment.

The Intercreditor Agreement is subject to English law and does not provide for any contractual penalties.

The Bond issue was based on the following legal basis:

- (i) Art. 33.2 of the Act on Bonds of 15 January 2015;



- (ii) Resolution of the Company's Management Board No. 1/05/2016 of 4 May 2016;
- (iii) Resolution of the Company's Supervisory Board No. 11/04/2016 of 28 April 2016;
- (iv) Resolution of the Company's Management Board No. 1/09/2016 of 22 September 2016; and
- (v) Resolution of the Company's Management Board No. 2/09/2016 of 23 September 2016.

The purpose of the issue was not identified in the Bond issue terms and conditions; the Company applied the proceeds from the Bond issue to refinance its existing obligations.

The Bonds were issued as unsecured, bearer bonds and in dematerialised form. The total nominal value of the Bonds is PLN 100,000,000 and the nominal value of one Bond is PLN 1,000. The issue price of the Bonds is equal to their nominal value. The Bonds will be redeemed on 31 August 2021 or at a premature redemption date ("Redemption Date").

The parallel debt concerning, inter alia, receivables of the bond holders (that are parties to the intercreditor agreement) under the Bonds, was collateralised in compliance with the intercreditor agreement concluded by the Company. The Bonds were registered with Krajowy Depozyt Papierów Wartościowych S.A. [Central Securities Depository of Poland].

The bonds earn interest. The interest rate applicable to the Bonds is variable and equal to the sum of WIBOR 6M and a margin which is subject to the net debt to EBITDA ratio. Interest on the Bonds will be paid semi-annually. The Bond issue terms and conditions do not provide for non-monetary benefits.

The Bond issue terms and conditions provide for bond holder meetings.

The Bonds were admitted to trading in an alternative trading system operated by the Warsaw Stock Exchange on 16 December 2016.

#### 32.4. Debt repayment by Arctic Paper Kostrzyn S.A.

On 25 October 2016 ("Repayment Date"), the subsidiary of the Company: Arctic Paper Kostrzyn S.A. ("Borrower") repaid the debt specified below (jointly "Debt") under the loan agreement for maximum equivalent of PLN 359 million (in words: PLN three hundred fifty nine million) of 6 November 2012, as amended and consolidated and most recently amended pursuant to the amendment letter No. 7 of 15 December 2015, concluded between Bank Polska Kasa Opieki S.A. ("Pekao") as the collateral agent and lender, Bank Zachodni WBK S.A. ("BZ WBK") as a lender and mBank S.A. ("mBank") as a lender, and the Borrower, and Arctic Paper Mochenwangen GmbH and Arctic Paper Investment GmbH as the guarantors and the Company as a joint debtor, with the Borrower and the agent of the

obliged entities, pursuant to which Pekao, BZ WBK and mBank provided the Borrower with:

- a multicurrency term loan ("Term Loan"); and
- an overdraft facility ("Overdraft Facility")

subject to the terms and conditions specified in the Existing Loan Agreement, as follows:

- with reference to EUR denominated liabilities, the total repayment amount in EUR was EUR 12.7 million;
- with reference to PLN denominated liabilities, the total repayment amount in PLN was PLN 140.5 million.

The Company disclosed information on the conclusion of the above loan agreement and amendments thereto with its current reports No. 19/2012 of 6 November 2012, No. 44/2013 of 20 December 2013 and No. 24/2014 of 16 October 2014.

The Debt was repaid as a result of a changed financing structure of the Company's capital group, in particular its centralisation providing for more effective financial liquidity management and flexible adjustment of the financing level of each company, of which the Company notified in its current reports No. 9/2016 and 20/2016.

### 32.5. Debt repayment by Arctic Paper Grycksbo AB

In connection with the new funding as described above and the change to the financing structure of the Arctic Paper Group, on 19 December 2016 the Company's subsidiary: Arctic Paper Grycksbo AB (APG) repaid its debt to Svenska Handelsbanken AB under factoring totalling PLN 41 million. In order to repay the above debt

to Svenska Handelsbanken AB as well as to maintain current liquidity of Arctic Paper Grycksbo AB, the Company granted APG long- and short-term loans totalling about PLN 61 million – a specification of the loans is provided in note No. 18.2 to the standalone financial statements of Arctic Paper SA.

### 32.6. Collateral to loans

#### 2016

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

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



- subordination of the debt held by intragroup lenders (specified in the Intercreditor Agreement).
2. under Swedish law – Collateral Documents establishing the following Collateral:
- pledges on all shares and interests registered in Poland, owned by the Company and the Guarantors, in Group companies, with the exception of the shares in the company, as well as pledged on the shares in Rottneros (with the exception of the free package of shares in Rottneros);
  - mortgages on all properties located in Sweden and owned by the Company and the Guarantors as long as such collateral covers solely the existing mortgage deeds;
  - corporate mortgage loans granted by the Guarantors registered in Sweden as long as such collateral covers solely the existing mortgage deeds;
  - assignment of (existing and future) insurance policies covering the assets of the Company and the Guarantors (with the exception of insurance policies listed in the Loan Agreement);
  - pledges on Swedish bank accounts of the Company and the Guarantors as long as such collateral is without prejudice to free management of funds deposited on bank accounts until an event of default specified in the Loan Agreement.
- 1) collateral on assets related to the obligations contracted by Arctic Paper Grycksbo with Svenska Handelsbanken – those are:
- pledge on assets for SEK 85,000 thousand (PLN 39,262 thousand)
  - mortgage properties for SEK 20,000 thousand (PLN 9,238 thousand),
- 2) collateral on assets related to the obligations contracted by Arctic Paper Munkedals with Svenska Handelsbanken – those are:
- pledge on assets (receivables subject to the factoring contracts) for SEK 158,821 (PLN 73,359 thousand),
  - mortgage on properties for SEK 160,000 thousand (PLN 73,904 thousand),
- 3) collateral on assets related to the obligations contracted by Rottneros AB with Danske Bank – those are:
- pledge on assets for SEK 509,000 thousand (PLN 235,107 thousand);
- 4) pledge on assets under the loan agreement for EUR 4,000 thousand concluded by Arctic Paper S.A. with Mr Thomas Onstad
- pledge on 39,900,000 shares in Rottneros AB.

Apart from the above, as at 31 December 2016 the Group disclosed:

## 2015

All tranches under the loan contracted from a consortium of banks: Polska Kasa Opieki S.A., Bank Zachodni WBK S.A. and mBank S.A. with more details in note No. 32.1, are subject to the following collateral including:

- pledges on shares of Arctic Paper Kostrzyn S.A., shares of Arctic Paper Investment GmbH and on shares of holding companies in Germany;
- pledges on bank accounts of all the companies;
- mortgage on properties held by Arctic Paper Kostrzyn S.A.;

- land charge on properties held by 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;
- assignment of rights under insurance policy;
- assignment of receivables under loan agreements within the Group (Arctic Paper Kostrzyn S.A. and Arctic Paper Investment GmbH);
- submission to enforcement pursuant to Art. 97 of the Banking Act (individually in favour of each bank) – Arctic Paper Kostrzyn S.A. and Arctic Paper S.A.

Apart from the above, as at 31 December 2015 the Group disclosed:

- 1) collateral on assets related to the obligations contracted by Arctic Paper Grycksbo with Svenska Handelsbanken – those are:

- pledge on assets for SEK 85,000 thousand (PLN 39,491 thousand).
- mortgage properties for SEK 20,000 thousand (PLN 9,292 thousand).

- pledge on shares of Arctic Paper Grycksbo AB resulting from a factoring contract with Svenska Handelsbanken AB for SEK 106,245 (PLN 49,361 thousand);

- 2) collateral on assets related to the obligations contracted by Arctic Paper Munkedals with Svenska Handelsbanken – those are:

- pledge on assets (receivables subject to the factoring contracts) for SEK 126,920 thousand (PLN 58,967 thousand)
- mortgage on properties for SEK 160,000 thousand (PLN 74,336 thousand)

- 3) collateral on assets related to the obligations contracted by Rottneros AB with Danske Bank – those are:

- pledge on assets for SEK 509,000 thousand (PLN 236,481 thousand);

- 4) pledge on assets under the loan agreement for EUR 4,000 thousand concluded by Arctic Paper S.A. with Mr Thomas Onstad

- pledge on 39,900,000 shares in Rottneros AB.

### 33. Provisions

#### 33.1. Change in provisions

The table below presents changes to provisions in for 2015-2016:

	Post-employment benefits	Other provisions	Total
As at 01 January 2016	81 461	1 394	82 855
Established during the financial year	10 680	-	10 680
Applied	(2 795)	-	(2 795)
Reversed	-	-	-
Adjustment due to FX differences	(418)	(8)	(427)
Transfer to discontinued operations	-	-	-
As at 31 December 2016, of which:	88 928	1 385	90 313
- short-term	-	-	-
- long-term	88 928	1 385	90 313
As at 01 January 2015	96 954	12 021	108 975
Established during the financial year	(3 951)	30 353	26 402
Applied	(2 964)	(7 123)	(10 087)
Reversed	-	(2 092)	(2 092)
Adjustment due to FX differences	1 720	473	2 193
Transfer to discontinued operations	(10 297)	(32 238)	(42 535)
As at 31 December 2015, of which:	81 461	1 394	82 855
- short-term	-	-	-
- long-term	81 461	1 394	82 855

Other provisions as at 31 December 2016 and 31 December 2015 cover a provision for a granted guarantee.

### 33.2. Provisions for complaints and returns

Provisions for complaints and returns are established on the basis of complaints and returns made in the previous years. Due to regular outlays on improvement of the

quality of production processes and products, the Group did not recognise a provision for complaints and returns as at the end of 2016 and 2015.

## 34. Trade payables, other liabilities and accruals and deferred income

### 34.1. Trade and other payables (short-term)

	As at 31 December 2016	As at 31 December 2015
<b>Trade payables, of which:</b>		
Due to related entities	898	542
Due to other entities	354 356	365 657
	355 254	366 199
<b>Taxes, customs duties, social insurance and other</b>		
VAT	6 404	8 238
Excise tax	1 254	1 357
Personal Income Tax	6 029	7 288
Real estate tax	1 119	911
Social benefit liabilities	7 810	8 378
	22 617	26 172
<b>Other liabilities</b>		
Payable to employees as salaries	6 802	6 584
Retirement liabilities	5 013	2 969
Investment commitments	4 345	5 058
Liabilities related to environmental protection	529	588
Prepayments	4 713	3 749
Other liabilities	454	456
	21 857	19 403
<b>TOTAL</b>	<b>399 727</b>	<b>411 774</b>

Principles and payment terms of the financial liabilities presented above:

- the terms and conditions of transactions with related entities are presented in note No. 37.3;
- trade payables are interest free and are usually payable within 60 days;
- other liabilities are interest free and the usual payment term is 1 month;
- the amount of the difference between VAT payable and receivable is paid to the relevant tax authorities on a monthly basis.

## 34.2. Accruals and deferred income

	As at 31 December 2016	As at 31 December 2015
<b>Accruals and deferred income</b>		
Employee expenses	65 084	61 251
Audit and legal services	552	505
Transport costs	3 906	4 466
Costs of complaints	1 390	1 668
Utility costs	1 279	3 076
Other	16 175	23 884
	88 386	94 850
<b>Deferred income</b>		
Subsidies from Ekofundusz	13 584	15 318
Subsidies from NFOŚiGW	10 061	11 316
Prepayments	-	-
Other	7 390	6 504
	31 035	33 138
<b>TOTAL</b>	<b>119 421</b>	<b>127 988</b>
- short-term	98 498	104 074
- long-term	20 924	23 914

The core items of deferred expenses include annual holiday benefits and bonus for employees.

## 35. Investment plans

As at 31 December 2016 the Group plans to make expenditures on tangible fixed assets in 2017 of minimum PLN 60 million. The amounts will be spent to purchase new machinery and plant in the Rottneros Group.

As at 31 December 2015 the Group planned expenditures on tangible fixed assets of no less than PLN 10 million in 2016.

## 36. Contingent liabilities

As at 31 December 2016, the Company held the following contingent liabilities:

- contingent liability under a guarantee for FPG in favour of the mutual life insurance company PRI for SEK 1,448 thousand (PLN 669 thousand) at Arctic Paper Grycksbo AB and for SEK 758 thousand (PLN 350 thousand) at Arctic Paper Munkedals AB;
- a contingent liability of Arctic Paper Munkedals AB related to a surety for the obligations of Kalltorp Kraft HB in the amount of SEK 1,624 thousand (PLN 750 thousand);
- a bank guarantee in favour of Skatteverket Ludvika for SEK 135 thousand (PLN 62 thousand);

### 36.1. Legal claims

Arctic Paper S.A. and its subsidiaries are not a party to any legal cases filed in court against them.

### 36.2. Tax settlements

Tax settlements and other areas of activity subject to specific regulations (like customs or FX matters) may be inspected by administrative bodies that are entitled to impose high penalties and sanctions. No reference to stable legal regulations in Poland results in lack of clarity and consistency in the regulations. Frequent differences of opinion as to legal interpretation of tax regulations – both inside state authorities and between state authorities and enterprises – generate areas of uncertainty and conflicts. As a result, tax risks in Poland

are much higher than in countries with a more developed tax system.

Tax settlements may be subject to inspections for five years from the beginning the year in which the tax was paid. As a result of inspections, the tax liability of the Group may be increased by additional tax liability. The Group believes that adequate provisions have been recognised for identified and quantifiable tax risk as at 31 December 2016.

## 37. Information on related entities

The related entities to the Arctic Paper S.A. Group are as follows:

- Thomas Onstad – majority shareholder,
- Nemus Holding AB – parent company for Arctic Paper SA,
- Progressio S.C. – since 1 January 2014 an entity related to a Member of the Management Board,

The top management staff is composed of the President and Members of the Management Board of the Parent Entity as well as the Chairperson and Members of the Supervisory Board of the Parent Entity when in office.

The table below presents the total values of transactions with related parties in 2016-2015:

Data for the period from 01 January 2016 to 31 December 2016 and as at 31 December 2016 (PLN thousand).

Related Entity	Sales to related entities	Purchases from related entities	Interest – financial income	Interest – financial expense	Receivables from related entities	Loan receivables	Liabilities to related entities
Nemus Holding AB	131	1 382	-	-	2 875	-	870
Thomas Onstad	-	-	-	4 275	-	-	62 442
Progressio S.C.	-	289	-	-	-	-	28
<b>Total</b>	<b>131</b>	<b>1 671</b>	<b>-</b>	<b>4 275</b>	<b>2 875</b>	<b>-</b>	<b>63 340</b>

The receivables from Nemus Holding AB are overdue as at 31 December 2016 but they are compensated with payables for the provision of services.

Data for the period from 01 January 2015 to 31 December 2015 and as at 31 December 2015 (PLN thousand).

Related Entity	Sales to related entities	Purchases from related entities	Interest – financial income	Interest – financial expense	Receivables from related entities	Loan receivables	Liabilities to related entities
Nemus Holding AB	128	1 370	-	-	2 905	-	517
Thomas Onstad	-	-	-	3 911	-	-	61 411
Progressio S.C.	-	211	-	-	-	-	25
<b>Total</b>	<b>128</b>	<b>1 581</b>	<b>-</b>	<b>3 911</b>	<b>2 905</b>	<b>-</b>	<b>61 953</b>

### 37.1. Ultimate parent entity of the Group

The parent entity of the whole Group is Incarta Development S.A. In the financial years ended on 31 December 2016 and 31 December 2015 there were no transactions between the Group and Incarta Development S.A.

### 37.2. Parent entity

Nemus Holding AB is the parent entity for the Arctic Paper S.A. Group which as at 31 December 2016 held 58.06% ordinary shares in Arctic Paper S.A.

### 37.3. Terms and conditions of transactions with related entities

Trade receivables and payables usually have a payment term of 60 days for related entities. Transactions with related entities are carried out at arm's length.

### 37.4. Remuneration of top managerial staff of the Parent Entity

#### 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 staff of the Company as at 31 December 2016 comprises five persons: President of the Management Board and four Members of the Management Board.

The remuneration paid to the management staff in the year ended on 31 December 2016 amounted to PLN 7,848 thousand (PLN 5,402 thousand in the year ended on 31 December 2015).

In 2015-2016 the Group Companies granted no loans to the management staff.

The table below presents the remuneration of the Company's key management staff in the Parent Entity:

	As at 31 December 2016	As at 31 December 2015
<b>Management Board</b>		
Short-term employee benefits	7 504	5 112
Post-employment retirement and medical benefits	344	290
Termination benefits	-	-
<b>Total amount of remuneration disbursed to top managerial staff</b>	<b>7 848</b>	<b>5 402</b>
<b>Supervisory Board</b>		
Short-term employee benefits	988	1 444

### 37.5. Loan granted to members of the Management Board

In 2015-2016 neither the Parent Entity, nor its subsidiary companies granted any loans to Members of the Management Board.

### 37.6. Other transactions with the involvement of Members of the Management Board

In the period covered with these consolidated financial statements there were no other transactions between the subsidiary companies and Members of the Management Board.

## 38. Information on the agreement and remuneration of the statutory auditor or entity authorised to audit financial statements

On 25 August 2015 Arctic Paper S.A. concluded an agreement with Ernst & Young Audyt Polska sp. z o.o. sp.k. with its registered office in Warsaw for the audit of the standalone financial statements of Arctic Paper S.A. and the consolidated financial statements of the Group for 2015; the agreement was extended for 2016.

The table below presents the remuneration of the entity authorised to audit financial statements, paid or payable for the years ended on 31 December 2016 and 31 December 2015 by category of services:

	As at 31 December 2016	As at 31 December 2015
<b>Service type</b>		
Statutory audit of the annual financial statements	325*	352*
Statutory audit of the annual financial statements (branch AP S.A.)	32	25
Tax consultancy services	-	-
Other services	-	3
<b>Total</b>	<b>357</b>	<b>380</b>

\* – relates to Ernst & Young Audyt Polska sp. z o.o sp.k.

The fees do not include services provided to the other Group companies.



### 39. Financial risk management objectives and policies

The Group's principal financial instruments comprise bank loans and borrowings, bonds, financial leases and hire purchase contracts. The main purpose of those financial instruments is to raise finance for the Group's operations.

The Group also uses factoring with recourse for trade receivables. The main purpose for using the financial instrument is to quickly raise funds.

The Group has various other financial instruments such as trade receivables and payables which arise directly

from its operations. The core risks arising from the Group's financial instruments include: interest rate risk, liquidity risk, FX risk and credit risk. The Management Board reviews and approves policies for managing each of those risks.

In the opinion of the Management Board – in comparison to the annual consolidated financial statements made as at 31 December 2015 there have been no significant changes of the financial risk. There have been no changes to the objectives and policies of the management of the risk.

#### 39.1. Interest rate risk

The Group is exposed to interest rate changes primarily with respect to its long-term financial liabilities.

##### Interest rate risk – sensitivity to fluctuations

The table below presents the sensitivity of gross profit to rationally feasible interest rate changes assuming no change to other factors (related to liabilities based on variable interest rates). The calculations cover loans and

leasing contracts with variable interest rates. For each currency the same growth of interest rate was assumed by 1 percentage point. At the end of each reporting period, the loans in each currency were grouped and on the sums the growth by 1 percentage point was calculated. The change of interest rates does not directly affect the equity of the Group.

	Increase by percentage points	Impact on gross profit
<b>Year ended on 31 December 2016</b>		
PLN	+1%	(53)
EUR	+1%	(354)
SEK	+1%	(298)
<b>Year ended on 31 December 2015</b>		
PLN	+1%	(723)
EUR	+1%	(868)
SEK	+1%	(281)

As a result of hedging a major part of the Group's debt resulting from the loan agreements with the bank consortium and the bonds with interest rate SWAPs in Q4 2016, the Group's exposure to the risk of interest rate fluctuations was much mitigated.

### 39.2. FX risk

The Group is exposed to transactional FX risk. This risk also takes place in the case of transactions in other currencies than the entity's measurement currency.

The table below presents the sensitivity of the financial result and comprehensive income to rationally feasible fluctuations of USD, EUR, GBP and SEK rates assuming no changes to any other factors. The calculations cover

all FX balance sheet items and a rate increase or decrease by 5% was applied. At the end of each reporting period, assets and liabilities were grouped by currency and a rate increase or decrease by 5% was calculated on the net position in each currency – assets minus liabilities. During the year, FX assets and liabilities remained stable.

Impact of FX rate changes on gross profit	FX rate growth	Total impact	FX rate drop	Total impact
PLN – EUR	+5%	(6 565)	-5%	6 565
PLN – USD	+5%	(2 952)	-5%	2 952
PLN – GBP	+5%	1 173	-5%	(1 173)
PLN – SEK	+5%	(301)	-5%	301
SEK – EUR	+5%	3 793	-5%	(3 793)
SEK – USD	+5%	(153)	-5%	153
SEK – GBP	+5%	1 276	-5%	(1 276)

Impact of financial instruments on comprehensive income (due to differences on translation of foreign operations)	FX rate growth	Total impact	FX rate drop	Total impact
PLN – SEK	+5%	5 262	-5%	(5 262)
PLN – EUR	+5%	(1 600)	-5%	1 600

2015

Impact of FX rate changes on gross profit	FX rate growth	Total impact	FX rate drop	Total 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 – GBP	+5%	1 151	-5%	(1 151)

Impact of financial instruments on comprehensive income (due to differences on translation of foreign operations)	FX rate growth	Total impact	FX rate drop	Total impact
PLN – SEK	+5%	6 006	-5%	(6 006)
PLN – EUR	+5%	(654)	-5%	654

### 39.3. Risk of changing prices of goods

The Group is exposed to the risk of decreasing sales prices as a result of intensifying competition in the

market and the risk of growing prices of raw materials due to restricted supply of raw materials in the market.

### 39.4. Credit risk

The Group enters into transactions solely with companies of a good financial standing. All customers who wish to use merchant credit are subject to preliminary verification procedures. Additionally, due to monitoring of the status of receivables on an ongoing basis, the Group's exposure to the risk of uncollectible receivables is limited. The Group treats all receivables that are not overdue and are not subject to any impairment charge, as collectible.

With respect to other financial assets of the Group which comprise cash and cash equivalents, the Group's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the book value of those instruments. The Group has no major concentration of credit risk.

### 39.5. Liquidity risk

The Group monitors its risk of 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 operating activity.

The Group's objective is to maintain balance between continuity and flexibility of funding by

resorting to various funding sources such as overdraft facilities, bank loans, borrowings and bonds, financial lease contracts and hire purchase contracts.

The table below summarises the Group's financial liabilities at 31 December 2016 and as at 31 December 2015 by maturity based on contractual undiscounted payments.

As at 31 December 2016	On demand	Less than 3			Over 5 years	Total
		months	3 to 12 months	1 to 5 years		
Interest-bearing loans, borrowings and bonds	-	11 775	49 433	303 256	9 039	373 503
Financial leasing	-	367	5 412	34 006	-	39 785
Trade and other payables	1	432 331	55 959	-	-	488 291
Other financial liabilities	194	18 998	4 237	-	-	23 429
	195	463 471	115 042	337 262	9 039	925 008

As at 31 December 2015	On demand	Less than			Over 5 years	Total
		3 months	3-12 months	1-5 years		
Interest-bearing loans, borrowings and bonds	-	7 120	87 464	236 178	-	330 761
Financial leasing	-	72	4 702	17 488	16 148	38 410
Trade and other payables	283	463 474	49 651	-	-	513 407
Other financial liabilities	194	35 084	48 239	12 534	-	96 051
	477	505 749	190 056	266 200	16 148	978 630

Additionally, the Group holds contingent liabilities totalling PLN 1,831 thousand as at 31 December 2016 (31 December 2015: PLN 7.931 thousand).

## 40. Financial instruments

The Company holds the following financial instruments: cash on hand and in bank accounts, bank loans, borrowings, bonds, receivables, liabilities under financial

leases, SWAP interest rate contracts, forward FX contracts, forward contracts for sales of pulp and forward contracts for the purchase of electricity.

### 40.1. Fair value of each class of financial instruments

Due to the fact that the book values of the financial instruments held by the Group do not materially differ from their fair value, the table below presents

all financial instruments by their book values, split into classes and categories of assets and liabilities.

	Category in compliance with IAS 39	Book value		Fair value	
		As at 31 December 2016	As at 31 December 2015	As at 31 December 2016	As at 31 December 2015
<b>Financial assets</b>					
Loans granted	<i>L&amp;R</i>	-	-	-	-
Trade and other receivables	<i>L&amp;R</i>	315 077	324 706	315 077	324 706
Hedging instruments*	<i>FVTPL</i>	16 040	944	16 040	944
Other financial assets (net of loans and hedging instruments)	<i>L&amp;R</i>	6 092	1 017	6 092	1 017
Cash and cash equivalents	<i>FVTPL</i>	130 157	188 552	130 157	188 552
<b>Financial liabilities</b>					
Interest-bearing bank loans and borrowings and bonds, of which:	<i>OFL</i>	330 831	305 188	330 831	305 188
- long-term	<i>OFL</i>	275 464	222 305	275 464	222 305
- interest-bearing short-term	<i>OFL</i>	55 367	82 883	55 367	82 883
Liabilities under financial leases and rental contracts with purchase options, of which		34 388	31 588	34 388	31 588
- long-term		30 082	28 523	30 082	28 523
- short-term		4 306	3 065	4 306	3 065
Trade payables and other financial liabilities	<i>OFL</i>	372 935	426 281	372 935	426 281
Hedging instruments*	<i>FVTPL</i>	4 699	32 890	4 699	32 890

\* derivative hedging instruments meeting the requirements of hedge accounting

Abbreviations used:

UdtW	-	Financial assets kept until maturity
WwWGpCD	-	Financial assets/liabilities measured at fair value through comprehensive income,
PiN	-	Loans and receivables
DDS	-	Financial assets available for sale
PZFwgZK	-	Other financial liabilities measured at amortised cost.

The hierarchy of the fair value of financial instruments held by the Group as at 31 December 2016 and as at 31 December 2015:

	31 December 2016	Level 1	Level 2	Level 3
<hr/>				
Financial assets measured at fair value through comprehensive income				
Derivative instruments		-	16 040	-
Other financial assets				
Trade and other receivables		-	-	315 077
Other financial assets (net of loans and hedging instruments)		-	-	6 092
Cash and cash equivalents		-	-	130 157
		-	-	-
Financial liabilities measured at fair value through comprehensive income				
Derivative instruments		-	4 699	-
Other financial liabilities				
Interest-bearing loans and borrowings		-	-	330 831
Liabilities under financial leases and rental contracts with purchase options		-	-	34 388
Trade payables		-	-	372 935
	31 December 2015	Level 1	Level 2	Level 3
<hr/>				
Financial assets measured at fair value through comprehensive income				
Derivative instruments		-	944	-
Other financial assets				
Trade and other receivables		-	-	324 706
Other financial assets (net of loans and hedging instruments)		-	-	1 017
Cash and cash equivalents		-	-	188 552
Financial liabilities measured at fair value through comprehensive income				
Derivative instruments		-	32 890	-
Other financial liabilities				
Interest-bearing loans and borrowings		-	-	305 188
Liabilities under financial leases and rental contracts with purchase options		-	-	31 588
Trade payables		-	-	381 885

The table below presents items of revenues, expenses, profit and loss recognised in the profit and loss account, split into categories of financial instruments for the years ended on 31 December 2016 and 31 December 2015:

Year ended on 31 December 2016	Interest income/(expense)	FX gains / (loss)	Reversal / (establishment) of impairment charges	Revaluation profit/(losses)	Profit / (loss) on sales of financial instruments	Other	Total
<b>Financial assets</b>							
Derivative instruments	-	-	-	15 785	-	-	15 785
Trade and other receivables	31	10 909	1 511	1 646	-	-	14 098
Other financial assets (net of loans and hedging instruments)	-	-	-	(1 482)	-	4 527	3 046
Cash and cash equivalents	177	(3 387)	-	-	-	-	(3 210)
<b>Financial liabilities</b>							
Derivative instruments	-	(3 636)	-	343	-	(2 020)	(5 313)
Interest-bearing loans and borrowings	(19 531)	(2 222)	-	(2 254)	-	(5 987)	(29 994)
Liabilities under financial leases and rental contracts with purchases	(1 653)	-	-	-	-	-	(1 653)
Trade payables	(28)	(9 973)	-	(1 664)	-	(497)	(12 162)

Year ended on 31 December 2015	Interest income/(expense)	FX gains / (loss)	Reversal / (establishment) of impairment charges	Revaluation profit/(losses)	Profit / (loss) on sales of financial instruments	Other	Total
<b>Financial assets</b>							
Derivative instruments	-	-	-	6 252	-	-	6 252
Trade and other receivables	174	(4 690)	(12 739)	-	-	-	(17 255)
Other financial assets (net of loans and hedging instruments)	-	-	-	-	-	-	-
Cash and cash equivalents	265	(2 172)	-	-	-	-	(1 907)
<b>Financial liabilities</b>							
Derivative instruments	-	-	-	(12 060)	-	-	(12 060)
Interest-bearing loans and borrowings	(17 944)	173	-	-	-	-	(17 772)
Liabilities under financial leases and rental contracts with purchases	(1 860)	-	-	-	-	-	(1 860)
Trade payables	(16)	184	-	-	-	-	168

## 40.2. Interest rate risk

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

31 December 2016							
Variable interest rate	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
<b>Other financial liabilities:</b>							
Liabilities under financial leases and rental contracts with purchase options	4 306	4 319	4 242	4 225	17 295	-	34 388
<b>Loans, borrowings and bonds</b>							
Revolving overdraft facility with BNP in PLN	-	-	5 000	-	-	-	5 000
Revolving overdraft facility with BNP in EUR	-	-	17 923	-	-	-	17 923
Revolving overdraft facility with BZWBK S.A. in PLN	-	-	17 438	-	-	-	17 438
Revolving overdraft facility with Danske Bank in SEK	6 467	-	-	-	-	-	6 467
Total loans, borrowings and bonds	6 467	-	40 361	-	-	-	46 828
TOTAL	10 773	4 319	44 604	4 225	17 295	0	81 216

31 December 2016							
Fixed interest rate	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
<b>Loans, borrowings and bonds</b>							
Loan from EBRD in EUR	9 941	9 587	9 030	8 477	7 960	7 394	52 389
Loan from BZWBK in PLN	2 639	2 490	2 281	2 083	1 887	-	11 380
Loan from BNP in EUR	2 535	2 425	2 279	2 135	1 986	-	11 360
Bonds	4 473	12 158	18 180	16 434	46 376	14	97 635
Revolving overdraft facility with BNP in PLN	-	-	5 000	-	-	-	5 000
Revolving overdraft facility with BNP in EUR	-	-	21 899	-	-	-	21 899
Revolving overdraft facility with BZWBK S.A. in PLN	-	-	21 899	-	-	-	21 899
Loan from the owner/the core shareholder in EUR	17 818	-	-	-	-	-	17 818
Loan from the owner /the core shareholder in EUR	11 495	11 043	11 043	11 043	-	-	44 624
TOTAL	48 900	37 703	91 611	40 172	58 209	7 408	284 003

31 December 2015							
Variable interest rate	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
<b>Other financial liabilities:</b>							
Liabilities under financial leases and rental contracts with purchase options	3 065	3 122	3 127	3 040	3 087	16 148	31 589
<b>Loans, borrowings and bonds</b>							
Revolving overdraft facility with Polska Kasa Opieki S.A. in PLN	20 439	-	-	-	-	-	20 439
Revolving overdraft facility with mBank S.A. in PLN	5 861	-	-	-	-	-	5 861
Revolving overdraft facility with BZ WBK S.A. in PLN	9 418	-	-	-	-	-	9 418
Loan from Polska Kasa Opieki S.A. in PLN	4 330	21 186	-	-	-	-	25 516
Loan from Polska Kasa Opieki S.A. in EUR	1 377	5 887	-	-	-	-	7 264
Loan from mBank S.A. in PLN	6 355	31 316	-	-	-	-	37 671
Loan from mBank S.A. in EUR	3 235	14 502	-	-	-	-	17 737
Loan from BZ WBK in PLN	3 984	19 444	-	-	-	-	23 428
Loan from BZ WBK in EUR	1 320	5 618	-	-	-	-	6 938
Loan from SHB in SEK	6 363	-	-	-	-	-	6 363
Loan from SHB in SEK	6 303	-	-	-	-	-	6 303
Total 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 interest rate	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
<b>Loans, borrowings and bonds</b>							
Loan from the owner/the core shareholder in EUR	117	17 046	-	-	-	-	17 163
Loan from the owner/the core shareholder in EUR	668	-	-	43 579	-	-	44 248
Loan from Polska Kasa Opieki S.A. in PLN	4 218	21 168	-	-	-	-	25 386
Loan from Polska Kasa Opieki S.A. in EUR	2 960	13 726	-	-	-	-	16 686
Loan from BZ WBK in PLN	3 469	17 392	-	-	-	-	20 861
Loan from BZ WBK in EUR	2 466	11 440	-	-	-	-	13 906
TOTAL	13 898	80 772	-	43 579	-	-	138 250

### 40.3. Collateral

As at 31 December 2016, the Group used cash flow hedge accounting for the following hedging items:

- Arctic Paper S.A. designated SWAP derivatives to hedge accounting to hedge interest payments in EUR on a bank loan in EUR,
- Arctic Paper S.A. designated SWAP derivatives to hedge accounting to hedge interest payments in PLN on a bank loan in PLN,
- Arctic Paper Munkedals AB, Arctic Paper Grycksbo AB and the companies of the Rottneros Group designated for cash flow hedge accounting the forward derivatives in order to hedge future purchases of electricity,
- the companies of the Rottneros Group designated for cash flow hedge accounting the FX forward derivatives in order to hedge a part of inflows in EUR related to pulp sales,



- the companies of the Rottneros Group designated for cash flow hedge accounting the FX forward derivatives in order to hedge a part of inflows in USD related to pulp sales,
- Arctic Paper S.A. designated floor option derivatives to hedge accounting to hedge interest payments,

entitling to reduce EURIBOR for the interest rate of a part of the bank loan in EUR to the market level if the market EURIBOR falls under 0%.

#### 40.3.1. Cash flow hedges

As at 31 December 2016, the Group's cash flows were hedged with forward FX contracts, forward contracts for

purchases of electricity, forward contracts for sales of pulp, interest rate SWAPs and floor options.

#### Cash flow hedge accounting related to foreign currency trading using FX forward transactions

The table below presents detailed information concerning the hedging relationship in the cash flow hedge accounting regarding the sale of EUR for SEK:

Type of hedge	Cash flow hedge related to planned sales in foreign currencies
Hedged position	The hedged position is a part of highly likely future cash inflows for exports
Hedging instruments	FX forward contracts are used wherein the Company agrees to sell EUR for SEK
Contract parameters:	
Contract conclusion dates	2 016
Maturity date	individually per contract; by 31.01.2017
Hedged amount	EUR 1 M
Term exchange rate	9.73 SEK/EUR

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

Type of hedge	Cash flow hedge related to planned sales in foreign currencies
Hedged position	The hedged position is a part of highly likely future cash inflows for exports
Hedging instruments	FX forward contracts are used wherein the Company agrees to sell USD for SEK
Contract parameters:	
Contract conclusion dates	2 016
Maturity date	individually per contract; by 31.01.2017
Hedged amount	USD 4 M
Term exchange rate	8.66 SEK/USD

## Hedge accounting of cash flows from sales of pulp

The table below presents detailed information concerning the hedging relationship in cash flow hedge accounting regarding sales of pulp:

Type of hedge	Cash flow hedge related to sales of pulp
Hedged position	The hedged position is a part of highly likely future cash inflows for pulp sales
Hedging instruments	Forward contracts are used as the hedging item wherein the Company agrees to sell pulp for SEK
Contract parameters:	
Contract conclusion date	2 016
Maturity date	individually per contract; by 31.12.2017
Hedged quantity of pulp	24,000 tons
Term price	7 150 SEK/tonne

## Cash flow hedge accounting related to electricity purchases with the use of forward transactions

The table below presents detailed information concerning the hedging relationship in the cash flow hedge accounting related to electricity purchases:

Type of hedge	Cash flow hedge related to planned purchases of electricity
Hedged position	The hedged position is a part of highly likely future cash flows for electricity purchases
Hedging instruments	Forward contract for the purchase of electricity at Nord Pool Exchange
Contract parameters:	
Contract conclusion date	individually per contract; from 01.01.2014
Maturity date	individually per contract; by 31.12.2021
Hedged quantity of electricity	1.444.000 MWh
Term price	from 16.50 to 33.75 EUR/MWh

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

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

Type of hedge	Hedge of cash flows related to variable interest rate on the EUR long-term loan
Hedged position	Future EUR interest flows on EUR loan calculated on the basis of 6M EURIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in EUR on the EUR loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	2016-11-21
Maturity date	each interest payment date in line with the payment schedule under the loan agreement, by 31.08.2022
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 12 M.
Type of hedge	Hedge of cash flows related to variable interest rate on the EUR long-term loan
Hedged position	Future EUR interest flows on EUR loan calculated on the basis of 6M EURIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in EUR on the EUR loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	2016-11-21
Maturity date	each interest payment date in line with the payment schedule under the loan agreement, by 31.08.2021
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 2.6 M.
Type of hedge	Hedge of cash flows related to variable interest rate on the EUR long-term revolving credit facility
Hedged position	Future EUR interest flows on EUR loan calculated on the basis of 3M EURIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in EUR on the EUR loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	2016-11-21
Maturity date	each interest payment date in line with the payment schedule under the loan agreement, by 30.08.2019
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 9.9 M.

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

Type of hedge	Hedge of cash flows related to variable interest rate on the PLN long-term loan
Hedged position	Future PLN interest flows on PLN loan calculated on the basis of 6M WIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in PLN on the PLN loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	2016-11-21
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 31.08.2021
Hedged value	interest payable in line with the payment schedule under the loan agreement of PLN 11.5 M.
Type of hedge	Hedge of cash flows related to variable interest rate on the PLN long-term revolving credit facility
Hedged position	Future PLN interest flows on PLN loan calculated on the basis of 3M WIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in PLN on the PLN loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	2016-11-21
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 30.08.2019
Hedged value	interest payable in line with the payment schedule under the loan agreement of PLN 10 M
Type of hedge	Hedge of cash flows related to variable interest rate on the PLN bonds
Hedged position	Future PLN interest flows in PLN loan calculated on the basis of interest payments on PLN bonds at 6M WIBOR
Hedging instruments	The hedging item is a SWAP transaction under which the Company agreed to pay interest in PLN on the PLN bonds on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	2016-11-21
Maturity date	each interest payment date in line with the payment schedule under the bond issue agreement; by 31.08.2021
Hedged value	interest payable in line with the payment schedule under of interest of PLN 100 M.

## Cash flow volatility hedge accounting related to a floor option

Type of hedge	The right to reduce cash flows under payment of interest due to decrease of EURIBOR below 0%
Hedged position	The hedged item are future EUR interest flows in EUR related to a loan in EUR calculated on the basis of 6M EURIBOR
Hedging instruments	The hedging item is a floor option under which the Company acquires the right to pay interest in EUR on the basis of EURIBOR below 0%
Contract parameters:	
Contract conclusion date	2016-11-21
Maturity date	each interest payment date in line with the payment schedule under the loan agreement, by 31.08.2022
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 12 M
Term interest rate	market rate in case of EURIBOR under 0%

The table below presents the fair value of hedging instruments in cash flow hedge accounting as at 31 December 2016 and the comparative data:

	Status as at 31 December 2016		Status as at 31 December 2015	
	Assets	Equity and Liabilities	Assets	Equity and Liabilities
FX forward	-	462	944	-
Forward on pulp sales	3 695	-	-	-
SWAP	-	4 580	-	2 001
Floor option	-	(343)	-	-
Forward for electricity	12 345	-	-	30 889
Total hedging derivative instruments	16 040	4 699	944	32 890

The table below presents the nominal value of derivative hedging instruments as at 31 December 2016:

	Up to 1 year	1 to 5 years	Over 5 years	Total
FX forward:				
Sold currency (in '000 EUR)	1 000	-	-	1 000
Sold currency (in '000 USD)	4 000	-	-	4 000
Forward for electricity:				
Purchased energy (in '000 PLN)	42 309	110 097	-	152 407
Forward on pulp sales				
Pulp sold (in tons)	24 000	-	-	24 000
interest rate SWAP				
principal repayment (in '000 PLN)	62 246	153 794	8 848	224 888

The table below presents the amounts related to cash flow hedge accounting that were recognised in 2016 by the Group in profit and loss and in the total comprehensive income statement:

	Year ended 31 December 2016
Revaluation reserve as at 31 December 2016 – changes of fair value measurement of hedging derivative instruments due to the hedged risk, corresponding to effective hedging	5 001
Ineffective part of the change in fair value measurement due to the hedged risk, recognised in financial income or expenses	343
The period of the anticipated hedged flows	1 January 2017 - 31 December 2021

The table below presents changes to revaluation reserve due to cash flow hedge accounting in 2016:

	Year ended 31 December 2016
Revaluation reserve as at 01 January 2016	(19 089)
Deferral to changes of fair value measurement of the hedging derivative instruments due to the hedged risk, corresponding to the effective hedge	31 984
The amount of the changes of fair value measurement of the hedging derivative instruments due to the hedged risk, removed from the revaluation reserve and transferred to financial income or expenses	(7 894)
Revaluation reserve as at 31 December 2016	5 001

## 41. Capital management

The primary objective of the Group's capital management is to maintain a strong credit rating and healthy capital ratios in order to support the Group's business operations and maximise the shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in the economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to its shareholders, return capital to the shareholders or issue new shares. No changes were made to the objectives,

policies or processes in the area during the years ended on 31 December 2016 and 31 December 2015.

The Group monitors its equity using a leverage ratio, which is net debt divided by total equity plus net debt. The Group's policy is to keep the leverage ratio between 0.10 and 0.55. The Group includes interest bearing loans and borrowings, trade and other payables, net of cash and cash equivalents within its net debt.

Arctic Paper S.A. Group	As at 31 December 2016	As at 31 December 2015
Interest-bearing loans, borrowings and debt instruments and other financial liabilities	387 599	429 749
Trade and other payables	395 108	407 128
Minus cash and cash equivalents	(130 157)	(188 552)
Net debt	652 550	648 324
Equity	742 902	676 856
Equity and net debt	1 395 452	1 325 180
Leverage ratio	0,47	0,49

In comparison to the annual financial statements for 2015, the financial gearing ratio decreased from 0.49 to 0.47.

## 42. Employment structure

The average headcount in the Group in the years ended on 31 December 2016 and 31 December 2015 was as follows:

	As at 31 December 2016	As at 31 December 2015
Management Board of the Parent Entity	5	5
Management Boards of Group entities	27	25
Administration	108	127
Sales Department	152	170
Production Division	1 291	1 292
Other	171	151
Total	1 754	1 770

## 43. CO2 emission rights

Arctic Paper Kostrzyn S.A., Arctic Paper Munkedals AB, Arctic Paper Grycksbo AB and the companies of the Rottneros Group, are all part of the European Union Emission Trading Scheme. The previous trading period lasted from 1 January 2008 to 31 December 2012. New

allocations cover the period from 1 January 2013 to 31 December 2020. The tables below specify the allocation for 2013-2020 and the usage of emission rights by each of the four entities in 2013-2016.

(in tonnes) for Arctic Paper Kostrzyn S.A.	2013	2014	2015	2016	2017	2018	2019	2020
Allocation*	108 535	105 434	102 452	99 840	97 375	94 916	92 454	90 009
Unused quantity from previous years	348 490	306 448	263 932	203 917	-	-	-	-
Issue	(150 577)	(147 950)	(162 467)	(170 696)				
Purchased quantity	-	-	-	-				
Sold quantity	-	-	-	-				
Unused quantity	306 448	263 932	203 917	133 061				
(in tonnes) for Arctic Paper Munkedals AB	2013	2014	2015	2016	2017	2018	2019	2020
Allocation*	44 238	43 470	42 692	41 907	41 113	40 311	39 499	38 685
Unused quantity from previous years	24 305	67 262	107 325	17 559				
Issue	(1 281)	(3 407)	(32 465)	(21 038)				
Purchased quantity	-	-	7	-				
Sold quantity	-	-	(100 000)	(50 000)				
Unused quantity	67 262	107 325	17 559	(11 572)	**			
(in tonnes) dla Arctic Paper Grycksbo AB	2013	2014	2015	2016	2017	2018	2019	2020
Allocation*	77 037	75 689	74 326	72 948	71 556	70 151	68 730	67 304
Unused quantity from previous years	69 411	111 448	734	60				
Issue	-	-	-	-				
Purchased quantity	-	-	-	-				
Sold quantity	(35 000)	(186 403)	(75 000)	(72 000)				
Unused quantity	111 448	734	60	1 008				
(in tonnes) for Rottheros' subsidiaries	2013	2014	2015	2016	2017	2018	2019	2020
Allocation*	30 681	30 484	29 938	29 387	28 830	28 268	27 698	27 127
Unused quantity from previous years	72 888	90 522	101 986	104 991				
Issue	(13 047)	(19 020)	(26 933)	(21 293)				
Purchased quantity	-	-	-	-				
Sold quantity	-	-	-	-				
Unused quantity	90 522	101 986	104 991	113 085				

\* – the values are an estimate made by AP Kostrzyn on the basis of information on the allocation of emission rights for entities in the EU ETS system, calculated pursuant to the provisions of Art. 10a of the ETS Directive. As of the date hereof, no valid domestic Regulations exist.

\*\* – any deficit of emission rights as at 31 December 2016 will be covered from the new allocation for 2017, available before the rights for 2016 have to be accounted for



## 44. Certificates in cogeneration

In 2014, pursuant to Art. 91.1.1 of the Act of 10 April 1997 – Energy Law, as amended, AP Kostrzyn obtained property rights to Certificates of Origin confirming the generation of electricity in a highly efficient gas fuelled cogeneration unit.

For the cogeneration of electricity, in 2016 the Company acquired the following rights: yellow certificates 192 360.272 MWh (2015: 189 134.404 MWh), red certificates 41 802.763 MWh (2015: 48 550.979 MWh). In 2016 revenues obtained from the certificates was PLN 23,618 thousand (2015: PLN 22.527 thousand).

Property rights to certificates of origin confirming the cogeneration of electricity are also held by AP Grycksbo and companies in the Rottneros Group.

For the cogeneration of electricity, in 2016 the AP Grycksbo acquired the following rights: green certificates 15 297 MWh (2015: 15 901 MWh). In 2015 revenues obtained from the sale of the certificates was PLN 628 thousand (2015: PLN 735 thousand).

For the cogeneration of electricity, in 2016 the companies in the Rottneros Group acquired the following rights: green certificates 124 870 MWh (2015: 138 580 MWh). In 2016 revenues obtained from the sale of the certificates was PLN 1.153 thousand (2015: PLN 1,461 thousand).

Revenues related to the certificates in cogeneration are recognised as a reduction of internal costs of sales in the profit and loss account.

## 45. Grants and operation in SEZ (Special Economic Zone)

### 45.1. Government grants

Since 2016 has been leading the PULPACKTION project funded in 74% by the European Union. The project for the total amount of SEK 120 million is aimed at further development of ecological packaging. Twelve entities from the European Union are beneficiaries of the project.

All funds will be disbursed to Rottneros to be further re-distributed to the other beneficiaries. The share of Rottneros in the EU subsidies will be SEK 25 million. The project was commenced in October 2016 and will last 4 years.

### 45.2. Operations in the Special Economic Zone

Arctic Paper Kostrzyn S.A. operates in the Kostrzyńsko-Słubicka Specjalna Strefa Ekonomiczna (Special Economic Zone) (KSSSE). Based on the permission issued by the Kostrzyńsko-Słubicka Specjalna Strefa Ekonomiczna S.A. it benefits from an investment tax relief as regards the activities carried out under the permission.

The tax exemption is of conditional nature. The provisions of the Act on special economic zones provide that such tax relief may be revoked if at least one of the following occurs:

- The Company ceases to conduct business operations in the zone for which it obtained the permission,
- The Company materially violates the conditions of the permission,
- The Company does not remedy errors/ irregularities identified during the course of inspections within the period of time specified in the order issued by minister competent for economic affairs,
- The Company transfers, in any form, the title to the assets to which the investment tax relief related

within less than 5 years of introducing those assets to the fixed assets register,

- Machines and equipment will be handed over for business purposes outside the zone,
- The Company receives compensation, in any form, of the investment expenditure incurred,
- The Company goes into liquidation or if it is declared bankrupt.

Based on the permit issued on 25 August 2006, the Company may benefit from tax exemption by 15 November 2017. Item I of the permit relating to the date by which the Company may enjoy the permit was deleted by Decision of the Minister of Economy No. 321/IW/14 of 6 November 2014. Now the Company is entitled to use the permit by 2026 or by the date SSE exist in Poland pursuant to the applicable regulations. The permit may be used subject to the incurrence in the zone of capital expenditures within the meaning of Art. 6 of the Regulation of the Council of Ministers of 14 September 2004 on the Kostrzyńsko-Słubicka Specjalna Strefa Ekonomiczna (Special Economic Zone), underlying the calculation of public aid in compliance with Art. 3 of the Regulation with the value in excess of EUR 40,000 by 31 December 2013, translated at the

EUR mean rate published by the President of the National Bank of Poland on the actual expenditure date. Creation in Zone minimum five new jobs within the meaning of Art. 3.3 and Art. 3.6 of the Regulation by 31 December 2011 and maintaining the employment level of minimum 453 people during the period from 1 January 2012 to 31 December 2013.

The conditions of the exemption have not changed in the reporting period. The Group has not been inspected by any competent body.

During the period from 25 August 2006 to 31 December 2016, the Company incurred eligible investment expenditures classified as (non-discounted) expenditure in KSSSE in the amount of PLN 227,102 thousand. During the period, the discounted amount of related public aid was PLN 57,213 thousand.

If the eligible investment expenditures incurred are not covered with income of the current year, the Company recognises a deferred income tax asset on the surplus.

The amount of deferred income tax asset recognised with reference to the expenditures incurred in KSSSE amounted to PLN 15,280 thousand as at 31 December 2016.

## 46. Material events after the balance sheet date

### 46.1. Factoring contract by Arctic Paper Munkedals AB

With reference to the refinancing process of the existing debt of the Company and its subsidiaries, and a change to the funding structure of the Company's capital group, including the planned repayment of debt of Arctic Paper Munkedals AB ("AP Munkedals") under the factoring contract with Svenska Handelsbanken AB, on 8 February 2017 Arctic Paper Munkedals AB and the Company entered into a factoring contract with an assignment of receivables under an insurance contract ("Factoring Contract"), concluded between AP

Munkedals as the seller, the Company as the guarantor and BNP Paribas Faktoring sp. z o.o. ("Factor") as the factor.

The subject of the Agreement relates to the provision of factoring services by the Factor to AP Munkedals covering purchase of receivables due to AP Munkedals from its counterparties; the limit granted to AP Munkedals is PLN 35 million. Pursuant to the Factoring Contract, the Company shall perform the obligations of AP Munkedals under the Factoring Contract should AP

Munkedals fails to perform such obligations in whole in part within the time specified in the Factoring Contract. The Company's liability remains valid until compliance with all obligations under the Factoring Contract, however no longer than 36 months of its termination and is capped to the amount of PLN 52.5 million.

The Factoring Contract provides for the establishment of standard collateral for such contracts as follows:

- assignment of existing and future receivables from counterparties, notified by AP Munkedals to the Factor;

- blank promissory note with a promissory note agreement; and
- power of attorney to accounts of AP Munkedals with Bank BGŻ BNP Paribas S.A.

The Factoring Contract is in line with market standards for similar factoring contracts.

Apart from the factoring contract described above, after the balance sheet date until the date hereof there were no other material events.

#### Signatures of the Members of the Management Board

Position	Name and surname	Date	Signature
President of the Management Board Chief Executive Officer	Per Skoglund	20 March 2017	
Member of the Management Board Chief Financial Officer	Malgorzata Majewska-Śliwa	20 March 2017	
Member of the Management Board Chief Procurement Officer	Jacek Łoś	20 March 2017	
Member of the Management Board Strategy Director	Wolfgang Lübbert	20 March 2017	
Member of the Management Board Sales Director	Michał Sawka	20 March 2017	

