Arctic Paper Spółka Akcyjna
Financial statements
for the year ended on 31 December 2016
along with an independent auditor's opinion

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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ARCTIC PAPER S.A. Financial statements for the year ended 31 December 2016 (PLN thousand)

Standalone financial statements and selected financial data

Selected standalone financial data

	For the period from 01.01.2016 to 31.12.2016 000'PLN	For the period from 01.01.2015 to 31.12.2015 000'PLN	For the period from 01.01.2016 to 31.12.2016 000'EUR	For the period from 01.01.2015 to 31.12.2015 000'EUR
Sales revenues	98 911	106 706	22 666	25 501
Operating profit (loss)	(19 553)	8 436	(4 481)	2 016
Gross profit (loss)	(32 430)	5 077	(7 431)	1 213
Net profit (loss) from continuing operations	(32 644)	4 909	(7 481)	1 173
Net profit (loss) for the financial year	(32 644)	4 909	(7 481)	1 173
Net cash flows from operating activities	(253 361)	(11 111)	(58 059)	(2 655)
Net cash flows from investing activities	(3 122)	4 468	(715)	1 068
Net cash flows from financing activities	257 911	(2 529)	59 102	(604)
Change in cash and cash equivalents	1 428	(9 172)	327	(2 192)
	-	-	-	-
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)	(0,47)	0,07	(0,11)	0,02
Diluted EPS (in PLN/EUR)	(0,47)	0,07	(0,11)	0,02
Mean PLN/EUR exchange rate*			4,3638	4,1843

	As at 31 December 2016 000'PLN	As at 31 December 2015 000'PLN	As at 31 December 2016 000'EUR	As at 31 December 2015 000'EUR
Total assets (as at 31/12/2016 and 31/12/2015)	1 042 184	950 202	235 575	222 974
Long-term liabilities (as at 31/12/2016 and 31/12/2015)	277 171	205 001	62 652	48 105
Short-term liabilities (as at 31/12/2016 and 31/12/2015)	133 979	76 242	30 285	17 891
Equity (as at 31/12/2016 and 31/12/2015)	631 034	668 959	142 639	156 977
Share capital (as at 31/12/2016 and 31/12/2015)	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)	9,11	9,65	2,06	2,27
Diluted book value per share (in PLN/EUR)	9,11	9,65	2,06	2,27
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 have been translated at the mean arithmetic exchange rates published by the National Bank of Poland, prevailing on the balance sheet date.

ARCTIC PAPER S.A. Financial statements for the year ended 31 December 2016 (PLN thousand)

Profit and loss account

	Note	Year ended on 31 December 2016	Year ended on 31 December 2015
Continuing operations			
Revenues from sales of services	*28*	43 283	40 410
Interest income on loans	*28*	985	937
Dividend income	*28*	54 643	65 359
Sales revenues	*11*	98 911	106 706
Interest expense to related entities and internal costs of sale of logistics services		(9 890)	(11 381)
Gross profit (loss) on sales		**89 021**	**95 325**
Other operating income	*12.1*	197	398
Selling and distribution costs	*12.5*	(4 072)	(4 069)
Administrative expenses	*12.5*	(34 571)	(31 517)
Other operating expenses	*12.2*	(70 128)	(51 701)
Operating profit (loss)		**(19 553)**	**8 436**
Financial income	*12.3*	575	666
Financial expenses	*12.4*	(13 452)	(4 026)
Gross profit (loss)		**(32 430)**	**5 077**
Income tax	*13.1*	(214)	(167)
Net profit (loss) from continuing operations		**(32 644)**	**4 909**
Discontinued operations		-	-
Profit (loss) for the financial year from discontinued operations		-	-
Net profit (loss) for the reporting period		**(32 644)**	**4 909**
Profit (loss) per share in PLN:			
– basic earnings from the profit (loss) for the period	*14*	(0,47)	0,07
– basic earnings from the profit (loss) from continuing operations for the period		(0,47)	0,07
– diluted earnings from the profit (loss) for the period	*14*	(0,47)	0,07
– diluted earnings from the profit (loss) from the continuing operations for the period		(0,47)	0,07

ARCTIC PAPER S.A. Financial statements for the year ended 31 December 2016 (PLN thousand)

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		(32 644)	(4 909)
Items to be reclassified to profit/loss in future reporting periods:	*31.3*	(4 580)	-
FX differences on translation of foreign operations	*22.2*	60	(227)
Other total comprehensive income		(4 520)	(227)
Total comprehensive income		**(37 164)**	**(4 682)**

ARCTIC PAPER S.A. Financial statements for the year ended 31 December 2016 (PLN thousand)

Balance sheet

	Note	As at 31 December 2016	As at 31 December 2015
ASSETS			
Fixed assets			
Fixed assets	*16*	1 979	2 108
Intangible assets	*17*	1 332	1 322
Shares in subsidiaries	*18.1*	802 682	838 741
Other financial assets	*18.2*	62 905	0
Other non-financial assets	*18.3*	1268	1 103
		870 166	**843 274**
Current assets			
Trade and other receivables	*20*	76 687	81 928
Income tax receivables		371	193
Other current financial assets	*18.2*	77 332	12 683
Other current non-financial assets	*18.3*	6 765	2 689
Cash and cash equivalents	*21*	10 863	9 435
		172 017	**106 927**
TOTAL ASSETS		**1 042 184**	**950 202**

ARCTIC PAPER S.A. Financial statements for the year ended 31 December 2016 (PLN thousand)

Balance sheet cont.

	Note	As at 31 December 2016	As at 31 December 2015
EQUITY AND LIABILITIES			
Equity			
Share capital	*22.1*	69 288	69 288
Reserve capital	*22.3*	447 641	447 641
Other reserves	*22.4*	148 200	147 871
FX differences on translation	*22.2*	350	290
Retained earnings / Accumulated losses		(34 445)	3 870
		631 034	**668 959**
Long-term liabilities			
Interest-bearing loans, borrowings and bonds	*24*	275 514	203 357
Provisions	*25*	1 357	1 151
Other financial liabilities		300	390
Accruals and deferred income	*26.2*	-	103
		277 171	**205 001**
Short-term liabilities			
Interest-bearing loans, borrowings and bonds	*24*	48 894	788
Trade payables	*26.1*	73 472	69 593
Other financial liabilities		4 486	187
Other short-term liabilities	*26.1*	2 072	1 688
Accruals and deferred income	*26.2*	5 056	3 985
		133 979	**76 242**
Total liabilities		**411 150**	**281 243**
TOTAL EQUITY AND LIABILITIES		**1 042 184**	**950 202**

ARCTIC PAPER S.A. Financial statements for the year ended 31 December 2016 (PLN thousand)

Cash flow statement

	Note	Year ended 31 December 2016	Year ended 31 December 2015
Cash flows from operating activities			
Gross profit (loss)		**(32 430)**	**5 077**
Adjustments for:			
Depreciation/amortisation	*12.6*	402	266
Loss on exchange rate differences		2 688	(227)
Impairment of assets	*34*	38 896	3 194
Net interest and dividends	*34*	6 182	2 529
Increase / decrease in receivables and other non-financial assets		1 001	(38 760)
Increase / decrease in liabilities except for loans and borrowings and other financial liabilities		4 262	33 522
Change in accruals and prepayments		967	(2 047)
Change in provisions		206	(540)
Income tax paid	*34*	(392)	(228)
Increase / decrease in loans granted to subsidiaries	*34*	(270 120)	(13 898)
Other		(5 022)	-
Net cash flows from operating activities		**(253 361)**	**(11 111)**
Cash flows from investing activities			
Purchase of tangible fixed and intangible assets		(283)	(1 525)
Increase in interests in subsidiaries		(2 839)	(15 318)
Short-term deposit		-	21 312
Net cash flows from investing activities		**(3 122)**	**4 468**

ARCTIC PAPER S.A. Financial statements for the year ended 31 December 2016 (PLN thousand)

Cash flow statement cont.

	Note	Year ended 31 December 2016	Year ended 31 December 2015
Cash flows from financing activities			
Loans, bonds received	*34*	263 446	-
Interest paid		(5 536)	(2 529)
Net cash flows from financing activities		**257 911**	**(2 529)**
Cash and cash equivalents at the beginning of the period	*21*	**9 435**	**18 607**
Change in cash and cash equivalents		1 428	(9 172)
Cash and cash equivalents at the end of the period	*21*	**10 863**	**9 435**

ARCTIC PAPER S.A. Financial statements for the year ended 31 December 2016 (PLN thousand)

Statement of changes in equity

	Note	Share capital	Share premium	Translation reserve	Other reserve capital	Retained earnings	Total equity
As at 1 January 2016		69 288	447 641	290	147 871	3 870	668 959
Net profit / (loss) for the period		-	-	-	-	(32 644)	(32 644)
Other comprehensive income for the period	*22.2*	-	-	60	(4 580)	-	(4 520)
Total comprehensive income for the period		-	-	60	(4 580)	(32 644)	(37 164)
Profit distribution	*22.4*	-	-	-	4 909	(4 909)	-
Settlement of the tax group in Sweden		-	-	-	-	(761)	(761)
As at 31 December 2016		69 288	447 641	350	148 200	(34 445)	631 034

ARCTIC PAPER S.A. Financial statements for the year ended 31 December 2016 (PLN thousand)

	Note	Share capital	Share premium	Translation reserve	Other reserve capital	Retained earnings	Total equity
As at 1 January 2015		69 288	472 751	517	147 871)	(25 533)	664 892
Net profit / (loss) for the period		-	-	-	-	4 909	4 909
Other comprehensive income for the period		-	-	(227)	-	-	(227)
Total comprehensive income for the period		-	-	(227)	-	4 909	4 682
Issue of shares		-	-	-	-	-	-
Profit distribution		-	(25 110)	-	-	25 110	-
Settlement of the tax group in Sweden		-	-	-	-	(617)	(617)
As at 31 December 2015		69 288	447 641	290	147 871	3 870	668 959

Accounting principles (policies) and additional explanatory notes

1. General information

The financial statements of Arctic Paper S.A cover the year ended on 31 December 2016 and contain comparative data for the year ended on 31 December 2015.

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

The Company's registered office is located in Poznań at ul. Jana Henryka Dąbrowskiego 334A.

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

The Company holds statistical number REGON 080262255.

The duration of the Company is indefinite.

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

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

2. Identification of the consolidated financial statements

The Company prepared its consolidated financial statements for the year ended on 31 December 2016 which were approved for publishing on 20 March 2017.

3. Composition of the Company's Management Board

As on 31 December 2016, the Management Board of the Company consisted of:

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

From 31 December 2016 until the publication date of the financial statements no changes in the composition of the Management Board of the Company occurred.

ARCTIC PAPER S.A. Financial statements for the year ended 31 December 2016 (PLN thousand)

4. Approval of the financial statements

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

5. Investments by the Company

The Company holds interests in the following subsidiary companies:

Unit	Registered office	Group profile	Share	
			31.12.2016	31.12.2015
Arctic Paper Kostrzyn S.A.	Poland, Kostrzyn nad Odrą, Fabryczna 1	Paper production	100%	100%
Arctic Paper Munkedals AB	Sweden, SE 455 81 Munkedal	Paper production	100%	100%
Arctic Paper UK Limited	Great Britain, Quadrant House, 47 Croydon Road, Caterham, Surrey	Trading company	100%	100%
Arctic Paper Baltic States SIA	Latvia, K. Vardemara iela 33-20, Riga LV-1010	Trading company	100%	100%
Arctic Paper Benelux S.A.	Belgium, Ophemstraat 24, B-3050 Oud-Heverlee	Trading company	100%	100%
Arctic Paper Schweiz AG	Switzerland, Technoparkstrasse 1, 8005 Zurich	Trading company	100%	100%
Arctic Paper Italia srl	Italy,Via Cavriana 7, 20 134 Milano	Trading company	100%	100%
Arctic Paper Ireland Limited	Ireland, 4 Rosemount Park Road, Dublin 11	Liquidated	-	100%
Arctic Paper Danmark A/S	Denmark, Korskildelund 6 DK-2670 Greve	Trading company	100%	100%
Arctic Paper France SAS	France, 43 rue de la Breche aux Loups, 75012 Paris	Trading company	100%	100%
Arctic Paper Espana SL	Spain, Avenida Diagonal 472-474, 9-1 Barcelona	Trading company	100%	100%
Arctic Paper Papierhandels GmbH	Austria, Hainborgerstrasse 34A, A-1030 Wien	Trading company	100%	100%
Arctic Paper Polska Sp. z o.o.	Poland, Okrężna 9, 02-916 Warsaw	Trading company	100%	100%
Arctic Paper Norge AS	Norway, Rosenholmsveien 25, NO-1414 Trollasen	Trading company	100%	100%
Arctic Paper Sverige AB	Sweden, SE 455 81 Munkedal	Trading company	100%	100%
Arctic Paper East Sp. z o.o.	Poland, Kostrzyn nad Odrą, Fabryczna 1	Trading company	100%	100%
Arctic Paper Investment GmbH	Germany, Fabrikstrasse 62, DE-882, 84 Wolpertswende	Activities of holding companies	99,80%	99,80%
Arctic Paper Investment AB	Sweden, Box 383, 401 26 Göteborg	Activities of holding companies	100%	100%
Arctic Paper Deutschland GmbH	Germany, Am Sandtorkai 72, D-20457 Hamburg	Trading company	100%	100%
Arctic Paper Finance AB (wcześniej Arctic Energy Sverige AB)	Sweden, Box 383, 401 26 Göteborg	Activities of holding companies	100%	100%
Rottneros AB	Sweden, Sunne	Pulp production	51,27%	51,27%

As at 31 December 2016 and as at 31 December 2015 the share in the overall number of votes held by the Company in its subsidiary entities was equal to the share of the Company in the share capital of those entities.

On 25 October 2016, Arctic Paper Ireland Ltd was deleted from the register of entrepreneurs in Ireland.

6. Material values based on professional judgement and estimates

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

Deferred income tax asset

Due to the uncertainty regarding utilisation in future periods of tax losses recorded in 2011-2016, the Management Board decided not to create a deferred income tax asset for tax losses. Furthermore, the Management Board decided to create a deferred income tax asset up to the amount of the deferred tax provision.

Impairment of assets in subsidiaries

The Management Board follows a prudent policy of investments in subsidiaries related to the Mochenwangen Paper Mill and for that reason all investments in those companies were written-off when incurred. The greatest amount was connected with the capital increase in Arctic Paper Investment GmbH in the amount of PLN 18,347 thousand.

As at 31 December 2016 impairment tests were held at Arctic Paper Grycksbo AB whose 100% are held by Arctic Paper Investment AB. The tests were performed with the discounted cash flow method with reference to investments in both companies.

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

The impairment test resulted in the establishment of an impairment charge to assets of PLN 38,896 thousand as at 31 December 2016.

Impairment of intangible assets

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

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. 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 much 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 related to current and deferred income tax liabilities, group restructuring or reorganisation.

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

7. Basis of preparation of the financial statements

The financial statements have been prepared on a historical cost basis.

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

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

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

7.1. Compliance statement

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

IFRS comprise standards and interpretations accepted by the International Accounting Standards Board (IASB) and the International Financial Reporting Standards Interpretation Committee (IFRIC).

7.2. Functional currency and presentation currency

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

8. Amendments to the applied accounting principles

The accounting policies adopted in preparation of these financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended on 31 December 2015, except for the application of the following amendments to standards and new interpretations binding for yearly periods beginning on 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 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.

- 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 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 affected the Company's financial condition or performance.

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

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

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

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

- IFRS 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 financial years 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 Company.

10. Significant accounting policies

10.1. Foreign currency translation

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

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

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

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

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

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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

For translation of assets and liabilities of the foreign branch as at 31 December 2016, the exchange rate SEK/PLN of 0.4619 was applied (31 December 2015: 0.4646). For translation of the items of comprehensive income for the year ended on 31 December 2016, the exchange rate SEK/PLN of 0.4612 was applied (for the year ended on 31 December 2015: 0.4475) which is an arithmetic mean of NBP's mean exchange rates published by NBP in 2016 (2015).

10.2. Tangible fixed assets

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

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

The purchase price of tangible fixed assets from customers is determined at its fair value as on the day control is assumed.

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

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

Type	Period
Buildings and structures	25 - 50 years
Plant and machinery	5 - 20 years
Office equipment	3 - 10 years
Means of transport	5 - 10 years
Computers	1 - 10 years

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

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

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

10.3. Intangible assets

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

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

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

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

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

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.

Any expenditure carried forward is amortised over the expected period of generating sales revenues from the related project.

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

	Computer software and licences	Trademarks
Useful lives	2 - 5 years	Indefinite
Amortisation/depreciation method	2 - 5 years with the straight line method	Is not amortisated/depreciated
Internally generated or acquired	Acquired	Acquired
Test for impairment	Annual assessment of any impairment indications	Annual assessment of any impairment indicationsi

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

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

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

10.4. Impairment of non-financial fixed assets

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

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

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

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

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

10.5. External borrowing costs

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

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

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

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

10.7. Financial assets

Financial assets are classified into one of the following categories:

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

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

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

Financial assets held until maturity are measured at amortised cost using the effective interest rate. Financial assets held until maturity are classified as long-term assets if they are falling due within more than 12 months of the balance sheet date.

A financial asset measured at fair value through financial result is a financial asset that meets one of the following conditions:

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 was designated to the category.

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

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

(i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from recognition or measurement of the asset (accounting mismatch); or

(ii) 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

(iii) the financial asset contains embedded derivative instruments that need to be recognised separately.

As on 31 December 2016 and as on 31 December 2015, no financial assets were designated as measured at fair value through financial result.

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

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

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

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

10.8. Impairment of financial assets

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

10.8.1 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 future cash flows (excluding future expected credit losses that have not been incurred) discounted at the effective interest rate (i.e. the effective interest rate computed at initial recognition). The book value of the asset is reduced directly. The amount of the loss shall be recognised in profit or loss.

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

Assets that are individually assessed for impairment and for which an impairment charge is or continues to be recognised, are not included in a collective assessment of a group of assets for impairment.

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

10.8.2 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 asset that is linked to and has to be settled by delivery of such an unquoted equity instrument, the amount of the impairment charge is measured as the difference between the book value of the financial asset and the present value of the estimated future cash flows discounted at the current market rate of return for similar financial assets.

10.8.3 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 and loss account, is derecognised from equity and recognised in the profit and loss account. Reversals of impairment losses on equity instruments classified as available for sale cannot be recognised in the profit and loss account. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment charge was recognised in the profit and loss account, the impairment loss is reversed, with the amount of the reversal recognised in the profit and loss account.

10.9. Embedded derivatives

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

- the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract:
- 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.

The Company assesses whether the embedded derivatives are required to be separated from host contracts when the instrument is originally recognised.

10.10. Financial derivatives and hedges

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

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

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

For the purpose of hedge accounting, hedges are classified as:

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

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

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

10.10.1 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 losses on the hedging instrument and hedged item are recognised in profit or loss.

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

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

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

10.10.2 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.

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.

10.10.3 Hedges of interests in net assets in a foreign entity

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

10.11. Inventories

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

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

Goods – at cost determined with an average-weighted price method

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

10.12. Trade and other receivables

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

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

Other receivables include in particular input VAT receivables.

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

10.13. Cash and cash equivalents

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

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

10.14. Interest-bearing loans, borrowings and bonds

All bank loans, borrowings and bonds are initially recognised at fair value reduced by costs associated with obtaining the loan or borrowing.

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

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

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

10.15. 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:

(i) the designation eliminates or significantly reduces the inconsistent treatment from measuring or recognising gains or losses based on different regulations; or

(ii) 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

(iii) financial liabilities contain an embedded derivative that would need to be recognised separately.

As at 31 December 2016 and 31 December 2015, no financial liabilities were designated as measured at fair value through financial result.

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

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

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

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

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

10.16. Provisions

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

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

10.17. Revenues

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

10.17.1 Provision of services

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

10.17.2 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.

10.17.3 Dividend

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

10.18. Taxes

10.18.1 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.

10.18.2 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 disclosed carrying amounts.

Deferred tax provision is recognised for all positive temporary differences:

- except where the deferred income tax liability arises from the initial recognition of goodwill, an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss; and
- in respect of positive differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

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

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

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

10.18.3 Value added tax

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

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

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

10.19. Net profit per share

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

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11. Operational segments

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

The table below presents a geographical split of revenues from selling services as well as dividend and interest income in 2016-2015.

	Year ended 31 December 2016	Year ended 31 December 2015
Poland	56 382	56 166
Foreign countries, including:		
- Sweden	40 432	47 220
- other	2 097	3 320
	98 911	**106 706**

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

12. Income and costs

12.1. Other operating income

	Year ended 31 December 2016	Year ended 31 December 2015
VAT adjustments	-	123
Re-invoices	38	
Other	159	275
	197	**398**

12.2. Other operating expenses

	Year ended 31 December 2016	Year ended 31 December 2015
Impairment of assets (Arctic Paper Mochenwangen GmbH)	31 181	51 664
Impairment of assets (Arctic Paper Investment AB)	38 896	-
Other	51	37
	70 128	**51 701**

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12.3. Financial income

	Year ended 31 December 2016	Year ended 31 December 2015
Interest income on funds in bank accounts	111	107
FX gains	-	559
Re-invoiced financial services	464	
	575	**666**

12.4. Financial expenses

	Year ended 31 December 2016	Year ended 31 December 2015
Interest on loans and other liabilities from related entities	6 294	4 022
FX losses	3 228	-
Warranty costs	357	
Costs related to new financing to be amortised over time	3 517	
Other financial expenses	56	4
	13 452	**4 026**

12.5. Prime costs

	Year ended 31 December 2016	Year ended 31 December 2015
Depreciation/amortisation	402	266
Materials	253	196
Third party services	21 750	20 872
Taxes and charges	65	110
Wages and salaries	14 878	11 914
Employee benefits	3 081	2 690
Other prime costs	2 474	2 987
	42 903	**39 035**
Cost of interest and other cost not icluded in the prime costs	5 631	7 932
	48 534	**46 967**
Prime costs, of which:		
Items recognised as costs of sales	4 072	4 069
Items recognised as administrative expenses	34 571	31 517
Items recognised as internal costs of sales	9 890	11 381

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12.6. Depreciation/amortisation expense and impairment charges recognised in profit or loss

	Year ended 31 December 2016	Year ended 31 December 2015
Depreciation of tangible fixed assets	392	264
Amortisation of intangible assets	10	2
	402	**266**
Attributable to:		
- continuing operations	402	266
- discontinued operations	-	-
	402	**266**

12.7. Employee benefit costs

	Year ended 31 December 2016	Year ended 31 December 2015
Wages and salaries	14 878	11 914
Social insurance premiums	2 183	1 941
Costs of retirement benefits	898	749
Total costs of employee benefits, of which	**17 959**	**14 604**

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 31 December 2016	Year ended 31 December 2015
Profit and loss account		
Current income tax liability	(215)	(167)
Amount of deferred income tax charge	-	-
Tax charge disclosed in the profit and loss account	**(215)**	**(167)**

13.2. Recognition of effective tax rate

A reconciliation of income tax expense applicable to gross profit (loss) before income tax at the statutory income tax rate, to income tax expense at the Company's effective income tax rate for the year ended on 31 December 2016 and 31 December 2015 is as follows:

ARCTIC PAPER S.A. Financial statements for the year ended 31 December 2016 (PLN thousand)

	Year ended 31 December 2016	*Year ended 31 December 2015*
Gross profit (loss) before tax from continuing operations	(32 430)	5 077
Profit (loss) before tax from discontinued operations	-	-
Gross profit (loss) before tax	(32 430)	5 077
Tax at the statutory rate in Poland of 19% (2014: 19%)	**(6 162)**	**965**
Adjustments related to current income tax from previous years		-
Non activated accumulated tax loss	2 291	1 890
Incomes on dividend	(10 382)	(12 418)
Adjustment to accrued and paid interest	(504)	(529)
Costs that are permanently non-tax deductible	813	609
Taxable costs being accounting costs in the year	(522)	(73)
Use of non-activated tax losses	(6)	(52)
Unrealised FX differences	100	(374)
Unrecognised other temporary income/expenses	792	(48)
Impairment charges on shares and loans	13 315	10 175
Impairment charges on other receivables	458	-
Difference resulting from income tax rates in force in other countries	22	22
Income tax at the effective tax rate: the company does not pay income tax (2014: the company did not pay income tax)	**-**	**-**
Income tax (charge) recognised in profit or loss	**215**	**167**
Income tax attributed to discontinued operations	-	-

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

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

Expiry year of tax losses	*Year ended 31 December 2016*	*Year ended 31 December 2015*
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 and later	15 654	4 974
Total	**22 685**	**21 285**

At the end of 2016, the five-year period of possible use of 50% tax loss of 2011 and 50% tax loss of 2012 (PLN 7,905 thousand) expired.

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13.3. Deferred income tax

Deferred income tax relates to the following items:

	Balance sheet		Profit and loss account	
	31 December 2016	31 December 2015	Year ended on 31 December 2016	Year ended on 31 December 2015
Deferred income tax provision				
Accelerated tax depreciation/amortisation	1	1	-	-
Accrued interest income	7 090	7 207	(117)	(187)
FX gains	-	561	(561)	561
Gross deferred income tax provision	**7 091**	**7 769**		

	Balance sheet		Profit and loss account	
	31 December 2016	31 December 2015	Year ended on 31 December 2016	Year ended on 31 December 2015
Deferred income tax asset				
Provisions and accruals and deferred income	1 218	996	(223)	335
Interest accrued on loans received and bonds	9 348	3 519	(5 829)	(630)
FX losses	1 193	-	(1 193)	187
Impairment charges	-	-	-	-
Losses deductible from future taxable income	4 310	4 044	(266)	3 673
Gross deferred income tax asset	**16 069**	**8 559**		
Deferred income tax charge			(8 189)	3 938
Deferred income tax assets, not recognised in the balance sheet	8 979	790	8 189	(3 938)
			-	-
Net deferred income tax provision, of which:	-	1		
Deferred income tax provision – continuing activity	-	1		

The Company has not recognised the deferred income tax asset on the impairment charges to receivables, loans and interests in AP Investment GmbH, AP Paper Mochenwangen GmbH and AP Investment AB. The potential related asset as at 31 December 2016 would have amounted to PLN 13,682 thousand (in 2015 – PLN 10,120 thousand).

14. Earnings (loss) per share

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

Diluted earnings per share are calculated by dividing the net profit attributable to ordinary shareholders (deducted by interest from redeemable preference shares convertible into ordinary shares) by the weighted average number of ordinary shares outstanding during the year adjusted by the weighted average number of ordinary shares that would be issued as a result of conversion of all dilutive equity instruments into ordinary shares.

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

	Year ended 31 December 2016	Year ended 31 December 2015
Net profit (loss) from continuing operations	(32 644)	4 909
Profit (loss) for the financial year from discontinued operations	-	-
Net profit (loss) for the reporting period	(32 644)	4 909
Number of ordinary shares – A series	50 000	50 000
Number of ordinary shares – B series	44 253 500	44 253 500
Number of ordinary shares – C series	8 100 000	8 100 000
Number of ordinary shares – E series	3 000 000	3 000 000
Number of ordinary shares – F series	13 884 283	13 884 283
	69 287 783	69 287 783
Total number of shares	69 287 783	69 287 783
Weighted average number of shares	69 287 783	69 287 783
Profit per share (in PLN)	**(0,47)**	**0,07**
Diluted profit per share (in PLN)	**(0,47)**	**0,07**

15. Dividend paid and proposed

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

In accordance with provisions of the Code of Commercial Companies, the 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 risks associated with the Company's ability to pay dividend are described in Additional Information to the Management Board's report on operations of Arctic Paper S.A.

In connection with the term and revolving loan agreements signed on 9 September 2016, agreements related to the bond issue pursuant to which on 30 September 2016 the Company issued bonds and the creditor agreement (described in more detail in note 24.1 "Obtaining of new financing"), 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).

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In 2016 and 2015 the Company did not pay out dividend.

16. Fixed assets

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

Year ended on 31 December 2015	Land and buildings	Plant and machinery	Fixed assets under construction	Total
Gross book value as at 01 January 2015	-	999	-	999
Increases	922	773	-	1 695
Decreases	-	-	-	-
Gross book value as at 31 December 2015	922	1 772	-	2 694
Depreciation and impairment charges as at 01 January 2015	-	321	-	321
Depreciation allowance for the period	-	264	-	264
Reduced depreciation		-		-
Depreciation and impairment charges as at 31 December 2015	-	586	-	586
Net value as at 01 January 2015	-	678	-	678
Net value as at 31 December 2015	922	1 187	-	2 108

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17. Intangible assets

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

Year ended on 31 December 2015	Trademarks	Computer software	Total
Gross book value as at 01 January 2015	1 319	24	1 343
Increases	-	5	5
Decreases	-	-	-
Gross book value as at 31 December 2015	1 319	28	1 347
Depreciation and impairment charges as at 01 January 2015	-	24	24
Depreciation allowance for the period		2	2
Reduced amortisation	-	-	-
Depreciation and impairment charges as at 31 December 2015	-	25	25
Net value as at 01 January 2015	1 319	0	1 319
Net value as at 31 December 2015	1 319	3	1 322

The book value of acquired rights to trademarks as at 31 December 2016 was PLN 1,319 thousand.

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

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18. Other assets

18.1. Shares in subsidiaries

	As at 31 December 2016	As at 31 December 2015
Arctic Paper Kostrzyn S.A.	442 535	442 535
Arctic Paper Munkedals AB	88 175	88 175
Rottneros AB	101 616	101 616
Arctic Paper Investment AB, of which:	156 776	192 832
Arctic Paper Investment AB (shares)	*295 983*	*293 143*
Arctic Paper Investment AB (loans)	*82 709*	*82 709*
Arctic Paper Investment AB (impairment charge)	*(221 916)*	(183 020)
Arctic Paper Investment GmbH	0	0
Arctic Paper Investment GmbH (shares)	*120 030*	*120 030*
Arctic Paper Investment GmbH (impairment charge)	*(120 030)*	*(120 030)*
Arctic Paper Sverige AB	0	0
Arctic Paper Sverige AB (shares)	*11 721*	*11 721*
Arctic Paper Sverige AB (impairment charge)	*(11 721)*	(11 721)
Arctic Paper Danmark A/S	5 539	5 539
Arctic Paper Deutschland GmbH	4 977	4 977
Arctic Paper Norge AS	0	0
Arctic Norge AS (shares)	*3 194*	*3 194*
Arctic Paper Norge AS (impairment charge)	*(3 194)*	*(3 194)*
Arctic Paper Italy srl	738	738
Arctic Paper UK Ltd.	522	522
Arctic Paper Polska Sp. z o.o.	406	406
Arctic Paper Benelux S.A.	387	387
Arctic Paper France SAS	326	326
Arctic Paper Espana SL	196	196
Arctic Paper Papierhandels GmbH	194	194
Arctic Paper East Sp. z o.o.	102	102
Arctic Paper Baltic States SIA	64	64
Arctic Paper Schweiz AG	61	61
Arctic Paper Finance AB	68	68
Arctic Paper Ireland Ltd.	0	3
Total	**802 682**	**838 741**

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

In 2016 the Company increased its stake in Arctic Paper Investment AB by PLN 2,840 thousand and in Arctic Paper Finance AB by PLN 45 thousand.

As at 31 December 2016 the Company performed an impairment test on investments in Arctic Paper Investment AB and as a result of the test, an impairment charge of PLN 38,896 thousand was made. The assumptions underlying the test were detailed in the consolidated financial statements for 2016.

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Additionally, the shares in Arctic Paper Ireland Ltd. were written off due to deletion of the company from the register of entrepreneurs this year.

18.2. Other financial assets

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

* may be repaid prematurely upon request within 14 days

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Long-term

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

*may be repaid prematurely upon request

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Other financial assets in 2015 were as follows:

	Maturity date	*Value as at 31 December 2015*
Current		
Loan granted to Arctic Paper Munkedals AB		
- amount: PLN 12,490 thousand	31.12.2016	12 683
Loan granted to Arctic Paper Investment GmbH		
- amount: EUR 4,603 thousand	31.12.2015*	19 926
Loan granted to Arctic Paper Investment GmbH		
- amount: EUR 2,389 thousand	31.12.2015*	10 343
Impairment charge to assets		(30 269)
- of Arctic Paper Investment GmbH		
		12 683
Long-term		
Loan granted to Arctic Paper Investment AB (interest)	31.12.2016	82 709
Loan granted to Arctic Paper Investment GmbH	30.06.2014	6 539
- amount: EUR 990 thousand		
Impairment of assets		
- of Arctic Paper Investment GmbH		(6 539)
The loan is recognised as an investment in subsidiary entities		(82 709)
		0
		12 683

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18.3. Other non-financial assets

	As at 31 December 2016	As at 31 December 2015
Insurance	112	146
Rent and security deposits	193	302
Receivables from pension fund	1 092	926
Non-invoiced revenues	14	1 795
VAT refundable	955	309
Prepayments	8	3
Accounting for costs related to new financing	5 295	-
Other	365	311
Total	**8 033**	**3 792**
- long-term	1 268	1 103
- short-term	6 765	2 689
	8 033	**3 792**

19. Inventories

The Company does not and did not have any inventories in 2016 and in 2015.

20. Trade and other receivables

	Note	As at 31 December 2016	As at 31 December 2015
Trade receivables from related entities	*28*	87 234	88 756
Trade receivables from other entities		239	277
Total (gross) receivables		**87 473**	**89 033**
Impairment charges to receivables		(10 786)	(7 105)
Net receivables		**76 687**	**81 928**

As at 31 December 2016, the Company wrote-off short-term receivables from AP Investment GmbH in the amount of PLN 7,930 thousand and receivables from AP Mochenwangen GmbH of PLN 2,856 thousand.

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

21. Cash and cash equivalents

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

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

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As at 31 December 2016, the fair value of cash and cash equivalents was PLN 10,863 thousand (31 December 2015: PLN 9,435 thousand).

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

	As at 31 December 2016	As at 31 December 2015
Cash in bank and on hand	10 863	9 435
	10 863	**9 435**

22. Share capital and reserve capital/other reserves

22.1. Share capital

Share capital	As at 31 December 2016	As at 31 December 2015
Ordinary series A shares	50	50
Ordinary series B shares	44 253	44 253
Ordinary series C shares	8 100	8 100
Ordinary series E shares	3 000	3 000
Ordinary series F shares	13 884	13 884
	69 288	**69 288**

Ordinary issued and fully paid-up shares	*Registration date of capital increase*	*Number*	*Value*
Issued on 30 April 2008	2008-05-28	50 000	50
Issued on 12 September 2008	2008-09-12	44 253 468	44 253
Issued on 20 April 2009	2009-06-01	32	0
Issued on 30 July 2009	2009-11-12	8 100 000	8 100
Issued on 01 March 2010	2010-03-17	3 000 000	3 000
Issued on 20 December 2012	2013-01-09	10 740 983	10 741
Issued on 10 January 2013	2013-01-29	283 947	284
Issued on 11 February 2013	2013-03-18	2 133 100	2 133
Issued on 06 March 2013	2013-03-22	726 253	726
As at 31 December 2016		**69 287 783**	**69 288**

22.1.1 Nominal value of shares

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

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22.1.2 Purchase of treasury shares

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

22.1.3 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%

22.2. FX differences on translation of investments in foreign entities

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

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

On 31 December 2016, FX differences on translation of the foreign branch recognised in equity amounted to PLN 350 thousand (as at 31 December 2015: PLN 290 thousand). The FX differences on translation of the foreign branch, recognised in the total comprehensive income statement, amounted to PLN 60 thousand in 2016 and PLN -227 thousand in 2015.

22.3. Reserve capital

The reserve capital was originally established from the issue premium in 2009 of PLN 40,500 thousand which was reduced by the costs of the issue recognised as a decrease of the reserve capital and was modified over the successive years as a result of subsequent share issues and allocations from profit.

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

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

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

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

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

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

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

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

As at 31 December 2016, the total amount of the Company's reserve capital was PLN 447,641 thousand (31 December 2015: PLN 447.641 thousand).

22.4. Other reserves

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

As at 31 December 2016, the total value of the Company's other reserves was PLN 148,200 thousand (31 December 2015: PLN 147,871 thousand).

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

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

In connection with the term and revolving loan agreements signed on 9 September 2016, agreements related to the bond issue pursuant to which on 30 September 2016 the Company issued bonds and the creditor agreement (described in more detail in note 32.2 "Obtaining of new funding"), 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.

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23. Purchase of interests in subsidiary entities

In 2016 the Company did not acquire any new interests in subsidiaries.

24. Interest-bearing loans and borrowings

	Repayment date	*As at 31 December 2016*	*As at 31 December 2015*
Short-term			
Loan from Thomas Onstad of EUR 4,000	09.07.2017	17 818	117
Loan from Arctic Paper Finance AB of EUR 10,000; short-term portion and interest	30.09.2019	11 495	671
Long-term loan from the European Bank of Reconstruction and Development - agreement of 9 September 2016; short-term portion	31.08.2022	9 941	-
Long-term loan from Bank Zachodni WBK S.A. – agreement of 9 September 2016; short-term portion	31.08.2021	2 639	-
Long-term loan from Bank BGŻ Paribas S.A. – agreement of 9 September 2016; short-term portion	31.08.2021	2 528	-
Bond issue – agreement of 9 September 2016; short-term portion	31.08.2021	4 473	-
		48 894	**788**

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		As at 31 December 2016	As at 31 December 2015
Long-term			
Loan from Arctic Paper Kostrzyn S.A. in PLN **	31.12.2017	-	142 566
Loan from Thomas Onstad of EUR 4,000 thousand	09.07.2017	-	17 046
Loan from Arctic Paper Finance AB of EUR 10,000 thousand, long-term portion	30.09.2019	33 180	43 744
Long-term loan from the European Bank of Reconstruction and Development – agreement of 9 September 2016; long-term portion	31.08.2022	42 448	-
Long-term loan from Bank Zachodni WBK S.A. – agreement of 9 September 2016; long-term portion	31.08.2021	8 741	-
Long-term loan from Bank BGŻ BNP Paribas S.A. – agreement of 9 September 2016; long-term portion	31.08.2021	8 825	-
Bond issue – agreement of 9 September 2016; long-term portion	31.08.2021	93 162	-
Revolving credit facility from Bank Zachodni WBK S.A. – agreement of 9 September 2016;	31.08.2019	39 337	
Revolving credit facility from Bank BGŻ BNP Paribas S.A. – agreement of 9 September 2016;	31.08.2019	49 822	
		275 514	**203 357**

* extendable until 31.08.2019

** the loan was repaid on 25.10.2016 as a result of new financing agreements

24.1. 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, enter with BGŻ BNP Paribas into registered and financial pledge agreements on the existing shares and interests and on bank accounts and an agreement establishing mortgage on properties, 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.

Herebelow, the Company provides details of the above items:

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 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 pursing 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.

24.2. 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.

25. Provisions

As at 31 December 2016 provisions created by the Company amounted to PLN 1,357 thousand (PLN 1,151 thousand in 2015) and were presented as long-term liabilities of PLN 1,357 thousand (PLN 1,151 thousand in 2015) and as short-term liabilities of PLN 0 thousand (PLN 0 thousand in 2015). The amount fully includes a provision for employee benefits.

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

26.1. Trade and other payables (short-term)

	Note	As at 31 December 2016	As at 31 December 2015
Trade payables			
Due to related entities	*29*	4 330	5 200
Due to other entities		69 142	64 393
		73 472	**69 593**
Other liabilities			
Liabilities due to employees		1 092	908
Liabilities towards the budget		974	761
Other liabilities		6	19
		2 072	**1 688**

The terms and conditions of financial liabilities presented above:

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

Other liabilities are interest free and the usual payment term is 30 days.

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26.2. Accruals and deferred income

	As at 31 December 2016	As at 31 December 2015
Accruals and deferred income, including:		
Unutilised holiday leaves	1 119	835
Bonus for Group employees	1 400	300
Advisory services	67	119
Costs of sales agents	90	244
Transport costs	2 235	1 791
Other	143	18
Total	**5 055**	**3 307**
- long-term	-	-
- short-term	5 055	3 307
	5 055	**3 307**
Settlement of accruals and deferred income due to:		
Commission for loan guarantee for Arctic Paper Kostrzyn	0	781
Total	**0**	**781**
- long-term	-	103
- short-term	0	678
	0	**781**

27. Contingent liabilities

As at 31 December 2016, the Company had no contingent liabilities.

27.1. Tax settlements

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

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

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

The Company believes that adequate provisions have been recognised for identified and quantifiable tax risk as at 31 December 2016.

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28. Information on related entities

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

Related Entity		*Sales to related entities*	*Purchases from related entities*	*Interest – operational income*	*Interest – financial expense*	*Receivables from related entities*	*including overdue*	*Loan receivables*	*Liabilities to related entities*	*including overdue, after the payment date*	*Loan liabilities*
Parent entity:											
Nemus Holding AB	2016	-	1 382			2 858			870		
	2015	-	1 370	-	-	2 874	-	-	517	-	-
Thomas Onstad	2016				1 498						17 818
	2015	-	-	-	1 427	-	-	-	-	-	17 163
Subsidiary entities:											
Arctic Paper Kostrzyn S.A.	2016	21 999	3 919	407		61 624		69 085	1 407	-	-
	2015	22 110	194	-	-	65 389	-	-	31	-	142 566
Arctic Paper Munkedals AB	2016	11 482	3	478	-	5 422	-	10 100	407	-	-
	2015	9 545	-	813	-	5 013	-	12 683	-	-	-
Arctic Paper Mochenwangen GmbH	2016	282	-	578		2 856	2 856	29 185	-	-	-
	2015	278	-	310	-	-	-	-	-	-	-
Arctic Paper Grycksbo AB	2016	11 251	15	99		6 498		61 051	871	-	-
	2015	9 828	94	-	-	7 757	-	-	790	-	-
Arctic Paper Investment GmbH	2016	-	-	1 076		7 930	7 930	34 556	-	-	-
	2015	-	-	1 115	-	7 105	7 105	34 556	-	-	-
Arctic Paper Investment AB	2016		-	-	-	-	-	82 709	351	-	-

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	2015	-	-	123	-	-	-	82 709	353	-	-
Arctic Paper Deutschland GmbH	2016	16	197						35		
	2015	17	243	-	-	-	-	-	56	-	-
Arctic Paper Sverige AB	2016	13	-			-			-	-	-
	2015	34	3 045	-	-	209	-	-	2 479	-	-
Arctic Paper Danmark A/S	2016	9	-	-	-	-					
	2015	16	-			313	-	-	-	-	-
Arctic Paper Italia srl	2016	5									
	2015	5	-	-	-	-	-	-	-	-	-
Arctic Paper Espana SL	2016	2									
	2015	2	-	-	-	-	-	-	-	-	-
Arctic Paper Norge AS	2016	7	9			-					
	2015	10	20	-	-	215	-	-	-	-	-
Arctic Paper Benelux S.A.	2016	13	1 391			25			117		
	2015	11	1 456	-	-	12	-	-	339	-	-
Arctic Paper Baltic States SIA	2016	3				2					
	2015	3	-	-	-	2	-	-	-	-	-
Arctic Paper France SAS	2016	12	-			-					
	2015	11	19	-	-	-	-	-	-	-	-
Arctic Paper Papierhandels GmbH	2016	9							-		
	2015	10	-	-	-	-	-	-	-	-	-
Arctic Paper UK Limited	2016	20				-					
	2015	11	-	-	-	11	-	-	-	-	-
Arctic Paper Schweiz AG	2016	7	1 974			1			223		
	2015	8	2 317	-	-	-	-	-	587	-	-
Arctic Paper Polska Sp. z o.o.	2016	10	40						3		
	2015	14	29	-	-	-	-	-	1	-	-

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Arctic Paper Ireland Ltd	2016	-				-					
	2015	-	-	-	-	-	-	-	-	-	-
Arctic Paper East Sp. z o.o.	2016	5				17					
	2015	6	-	-	-	18	-	-	-	-	-
Arctic Paper Finance AB	2016	-	-		2 777	1			46		44 675
	2015	-	-	-	2 563	30	-	-	46	-	44 415
Other units:											
Progressio s.c.	2016		289						28		
	2015	-	211	-	-	-	-	-	25	-	-
Total	**2016**	**45 147**	**9 219**	**2 639**	**4 275**	**87 234**	**10 786**	**286 686**	**4 358**	**-**	**62 493**
impairment charges		**(282)**		**(1 654)**		**(10 786)**		**(63 741)**			
presentation as interests in subsidiary entities								**(82 709)**			
2016 following impairment charges and changes to presentation		**44 865**	**9 219**	**985**	**4 275**	**76 448**	**10 786**	**140 236**	**4 358**	**-**	**62 493**
	2015	**41 919**	**8 998**	**2 361**	**3 990**	**88 950**	**7 105**	**129 947**	**5 225**	**-**	**204 145**
impairment charges		**(275)**	**-**	**(1 425)**	**-**	**(7 105)**	**-**	**(34 556)**	**-**	**-**	**-**
presentation as interests in subsidiary entities								**(82 709)**			
2015 following impairment charges and changes to presentation		**41 644**	**8 998**	**936**	**3 990**	**81 845**	**7 105**	**12 683**	**5 225**	**-**	**204 145**

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28.1. Ultimate parent entity of the Group

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

There were no transactions between the Company and aforementioned companies during the year ended 31 December 2016 and 31 December 2015, apart from the transactions with Nemus Holding AB, as shown in note 29.

28.2. Terms and conditions of transactions with related entities

Related entity transactions are made at arm's length.

28.3. Loan granted to members of the Management Board

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

28.4. Remuneration of the Company's managerial staff

Key management staff as on 31 December 2016 comprised five persons: President of the Management Board and four Members of the Management Board.

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

	As at 31 December 2016	As at 31 December 2015
Management Board		
Employee benefits (salaries and overheads)	7 848	5 402
Supervisory Board		
Employee benefits (salaries and overheads)	988	1 444
Total	**8 836**	**6 846**

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

The table below presents the remuneration of the statutory auditor, paid or payable for the year ended on 31 December 2016 and 31 December 2015 by category of services:

Service type	As at 31 December 2016	As at 31 December 2015
Statutory audit of the annual financial statements	325 *	352 *
Mandatory audit of the annual financial statements (branch)	32	25
Tax consultancy services	-	-
Other services	-	39
Total	**357**	**416**

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

30. Financial risk management objectives and policies

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

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

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

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

30.1. Interest rate risk

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

Interest rate risk – sensitivity to fluctuations

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

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	Increase/decrease by percentage points	*Impact on gross profit or loss for 2016*
As at 31 December 2016		
PLN	+1%	68
EUR	+1%	460
SEK	+1%	-
PLN	-1%	(68)
EUR	-1%	(460)
SEK	-1%	-

	Increase / Decrease in percentage points	*Impact on gross result for 2015*
As at 31 December 2015		
PLN	+1%	(1 301)
EUR	+1%	346
SEK	+1%	-
PLN	-1%	1 301
EUR	-1%	(346)
SEK	-1%	-

30.2. FX risk

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

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

	Growth/drop of FX rates	*Impact on gross profit or loss*	*Impact on total comprehensive income*
31 December 2016 – SEK	+1%	(8)	(103)
	-1%	8	103
31 December 2016 – EUR	+1%	236	-
	-1%	(236)	-
31 December 2016 – USD	+1%	31	-
	-1%	(31)	-
31 December 2015 – SEK	+1%	94	(92)
	-1%	(94)	92
31 December 2015 – EUR	+1%	410	-
	-1%	(410)	-
31 December 2015 – USD	+1%	513	-
	-1%	(513)	-

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30.3. Credit risk

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

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

30.4. Liquidity risk

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

The table below presents the maturity profile of the Company's financial liabilities at 31 December 2016 based on maturities of contractual undiscounted payments.

31 December 2016	*On demand*	*< 3 months*	*3 to 12 months*	*1 to 5 years*	*> 5 years*	*Total*
Interest-bearing loans and borrowings	-	10 740	43 479	300 746	9 039	364 004
Other liabilities	-	75 544	-	-	-	75 544
	-	**86 284**	**43 479**	**300 746**	**9 039**	**439 548**

31 December 2015	*On demand*	*< 3 months*	*3 to 12 months*	*1 to 5 years*	*> 5 years*	*Total*
Interest-bearing loans and borrowings	-	117	671	249 203	-	249 991
Other liabilities	-	71 281	-	-	-	71 281
	-	**71 399**	**671**	**249 203**	**-**	**321 273**

As at 31 December 2016, the Company held no contingent liabilities.

31. Financial instruments

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

31.1. Interest rate risk

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

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

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

31 December 2015 *Variable interest*	*<1 year*	*1–2 tears*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*total*
Loans granted to subsidiary entities	12 683	-	-	-	-	-	12 683
Loans received from subsidiary entities	-	-	-	142 566	-	-	142 566
	12 683	**-**	**-**	**142 566**	**-**	**-**	**155 249**

31 December 2015 *Fixed rate*	*<1 year*	*1–2 tears*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*total*
Loans received from related persons	-	-	17 046	43 744	-	-	60 790
	-	**-**	**17 046**	**43 744**	**-**	**-**	**60 790**

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

31.2. Fair value of each class of financial instruments

The table below presents a comparison of the book value and fair value of all financial instruments held by the Company, split into each class and categories of assets and liabilities:

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		Book value		Fair value		
Financial Assets	*Category in compliance with IAS 39*	31 December 2016	31 December 2015	31 December 2016	31 December 2015	*Level of fair value in compliance with IFRS 13*
Other (long-term) financial assets	*L&R*	62 905	-	62 905	-	*3*
Trade and tax receivables	*L&R*	77 058	82 121	77 058	82 121	*3*
Other (short-term) financial assets	*L&R*	77 332	12 683	77 332	12 683	*3*
Financial liabilities						
Interest-bearing loans and borrowings	*OFL*	324 408	204 145	324 408	204 145	*3*
Trade payables and other financial liabilities	*OFL*	77 958	69 780	77 958	69 780	*3*

Abbreviations used:

L&R – Loans and receivables

OFL – Other financial liabilities measured at amortised cost.

Financial instruments recognised at level 3 of the fair value framework, according to IFRS 13, are measured with the use of the discounted cash flow method, taking into account the market interest rate.

31.3. 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 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%.

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:

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Hedge type	Hedging the cash flow variations related to flexible rate interest on bank loan denominated in EURO
Hedge item	Hedged item is future cash flows resulting from interest (in EURO) based on 6M EURIBOR on bank loan denominated in EURO
Hedging instruments	Hedging instruments are SWAP transaction for fixed rate interest in EURO on bank loan denominated in EURO
Forward contract parameters	
Trade date	2016-11-21
Maturity date	depending on interest payment date based on schedule in bank loan agreement, untill 2022-08-31
Hedged amount	interest in accordance with bank loan agreement on bank loan of 12 mln EURO

Hedge type	Hedging the cash flow variations related to flexible rate interest on bank loan denominated in EURO
Hedge item	Hedged item is future cash flows resulting from interest (in EURO) based on 6M EURIBOR on bank loan denominated in EURO
Hedging instruments	Hedging instruments are SWAP transaction for fixed rate interest in EURO on bank loan denominated in EURO
Forward contract parameters	
Trade date	2016-11-21
Maturity date	depending on interest payment date based on schedule in bank loan agreement, untill 2021-08-31
Hedged amount	interest in accordance with bank loan agreement on bank loan of 2,6 mln EURO

Hedge type	Hedging the cash flow variations related to flexible rate interest on overdratfs denominated in EUR
Hedge item	Hedged item is future cash flows resulting from interest (in EUR) based on 3M EURIBOR on bank loan denominated in EUR
Hedging instruments	Hedging instruments are SWAP transaction for fixed rate interest in EUR on bank loan denominated in EUR
Forward contract parameters	
Trade date	2016-11-21
Maturity date	depending on interest payment date based on schedule in bank loan agreement, untill 2019-08-30
Hedged amount	interest in accordance with bank loan agreement on bank loan of 9,9 mln EUR

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:

ARCTIC PAPER S.A. Financial statements for the year ended 31 December 2016 (PLN thousand)

Hedge type	Hedging the cash flow variations related to flexible rate interest on bank loan denominated in PLN
Hedge item	Hedged item is future cash flows resulting from interest (in PLN) based on 6M WIBOR on bank loan denominated in PLN
Hedging instruments	Hedging instruments are SWAP transaction for fixed rate interest in PLN on bank loan denominated in PLN
Forward contract parameters	
Trade date	2016-11-21
Maturity date	depending on interest payment date based on schedule in bank loan agreement, until 2021-08-31
Hedged amount	interest in accordance with bank loan agreement on bank loan of 11,5 mln PLN

Hedge type	Hedging the cash flow variations related to flexible rate interest on overdrafts denominated in PLN
Hedge item	Hedged item is future cash flows resulting from interest (in PLN) based on 3M WIBOR on bank loan denominated in PLN
Hedging instruments	Hedging instruments are SWAP transaction for fixed rate interest in PLN on bank loan denominated in PLN
Forward contract parameters	
Trade date	2016-11-21
Maturity date	depending on interest payment date based on schedule in bank loan agreement, untill 2019-08-30
Hedged amount	interest in accordance with bank loan agreement on bank loan of 10 mln PLN

Hedge type	Hedging the cash flow variations related to flexible rate interest on bonds denominated in PLN
Hedge item	Hedged item is future cash flows resulting from interest (in PLN) based on 6M WIBOR on bonds denominated in PLN
Hedging instruments	Hedging instruments are SWAP transaction for fixed rate interest in PLN on bonds denominated in PLN
Forward contract parameters	
Trade date	2016-11-21
Maturity date	depending on interest payment date based on schedule in bond issue agreement, untill 2021-08-31
Hedged amount	interest in accordance with bank loan agreement on bank loan of 100 mln PLN

Cash flow volatility hedge accounting related to a floor option

Hedge type	Right to decrease cash flow on bank loan interest payments resulting from decrease of EURIBOR below 0
Hedge item	Hedged item is future cash flows resulting from interest (in PLN) based on 6M EURIBOR on bank loan denominated in EUR
Hedging instruments	Hedging instruments are floor options, where the company buys the right to pay interest on EURIBOR base below 0%
Forward contract parameters	
Trade date	2016-11-21
Maturity date	depending on interest payment date based on schedule in bank loan agreement, untill 2022-08-31
Hedged amount	interest in accordance with bank loan agreement on bank loan of 12 mln EUR

The table below presents the fair value of hedging instruments in cash flow hedge accounting as at 31 December 2016 and the comparative data:

	As at 31 December 2016		As at 31 December 2015	
	Assets	Liabilities	Assets	Liabilities
SWAP	-	4 580	-	-
Floor option	-	(343)		
Total hedging derivatives	-	4 237	-	-

The table below presents the nominal value of derivative hedging instruments as at 31 December 2016:

	1 year	1 to 5 years	Over 5 years	Total
SWAP on interest				
principal repayment (in PLN thousand)	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 Company in profit and loss account and in the total comprehensive income statement:

	Year ended 31 December 2016
Revaluation reserve capital as at 31 December 2016 - revaluation to fair value of hedging derivatives on account of the hedged risk, corresponding to the effective hedging	4 580
Inefective part of the revaluation to fair value of hedging derivatives on account of the hedged risk, recognised in financial income or expenses	343
Period, in which the hedged cash flows are expected to occur	1 January 2017 - 31 December 2021

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The table below presents changes to revaluation reserve due to cash flow hedge accounting in 2016:

	Year ended 31 December 2016
Revaluation reserve capital as at 1 January 2016	-
Deferral of revaluation to fair value of hedging derivatives on account of the hedged risk, corresponding to the effective hedge	4 580
Amount of the deferred revaluation to fair value of hedging derivatives on account of the hedged risk, removed from revaluation reserve capital and transferred to financial income or expenses	-
Revaluation reserve capital as ast 31 December 2016	4 580

32. Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the year ended on 31 December 2016 and 31 December 2015.

	As at 31 December 2016	As at 31 December 2015
Interest-bearing loans, borrowings, bonds and other financial liabilities	329 194	204 722
Trade and other payables	75 543	71 281
Minus cash and cash equivalents	(10 863)	(9 435)
Net debt	393 875	266 568
Equity	631 034	668 959
Equity and net debt	1 024 909	935 527
Leverage ratio	**0,38**	**0,28**

The Company monitors its equity using a leverage ratio, which is net debt divided by total equity plus net debt. The Company includes interest bearing loans and borrowings, trade and other payables, reduced by cash and cash equivalents within its net debt. The increase of the ratio in 2016 versus 2015 for the Company is due to changes to the financing structure of the Group described in note 24 of these statements.

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33. Employment structure

The average headcount in the Company in the year ended on 31 December 2016 and 31 December 2015 was as follows:

	As at 31 December 2016	As at 31 December 2015
Management Board	5	5
Finances	7	4
Sales & Marketing	6	7
Logistics	24	22
Administration	2	5
IT	2	1
Total	**46**	**44**

34. The reasons of differences between changes resulting from the statement of financial position and changes resulting from the cash flow statement

The differences between changes resulting from the statement of financial position and changes resulting from the cash flow statement are presented in the following tables:

	Year ended 31 December 2016	Year ended 31 December 2015
Interests from loan T. Onstad	1 370	1 358
Interests from loan AP Finance AB	4 812	1 171
	6 182	**2 529**

	Year ended 31 December 2016	Year ended 31 December 2015
Impairment of assets according other operating expenses	70 077	51 664
Adjustment of impairment of receiveables from AP Mochenwangen GmbH	(31 181)	(51 664)
Arctic Paper Norge AS (impairment charge)	-	3 194
	38 896	**3 194)**

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	Year ended 31 December 2016	*Year ended 31 December 2015*
Change in non-current other financial assets and current other financial assets resulting from the report on financial situation	(127 554)	29 032
Change in loan agreements from subsidiaries	(142 566)	(21 617)
Termination of short-term deposits	-	(21 312)
	(270 121)	**(13 898)**

	Year ended 31 December 2016	*Year ended 31 December 2015*
Change in income tax receivables resulting from the report on financial situation	(178)	(61)
Tax paid	(214)	(167)
	(393)	**(228)**

		Book value		Fair value		
Financial Assets	*Category in compliance with IAS 39*	31 December 2016	31 December 2015	31 December 2016	31 December 2015	*Level of fair value in compliance with IFRS 13*
Other (long-term) financial assets	*L&R*	62 905	-	62 905	-	*3*
Trade and tax receivables	*L&R*	77 058	82 121	77 058	82 121	*3*
Other (short-term) financial assets	*L&R*	77 332	12 683	77 332	12 683	*3*
Financial liabilities						
Interest-bearing loans and borrowings	*OFL*	324 408	204 145	324 408	204 145	*3*
Trade payables and other financial liabilities	*OFL*	77 958	69 780	77 958	69 780	*3*

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	Year ended 31 December 2016	*Year ended 31 December 2015*
Transaction costs allocated to credit facility (amortised cost valuation)	(3 981)	-
Settlement of Swedish tax group	(761)	-
Financial instruments valuation	(280)	-
	(5 022)	**-**

35. Events after the balance sheet date

On 8 February 2017 Arctic Paper Munkedals AB as the seller and the Company as the guarantor entered into a factoring contract with an assignment of receivables under an insurance contract with BGŻ BNP Paribas Faktoring sp. z o.o. as the factor. The contract provides for the provisions by the Factor of factoring services for AP Munkedals covering the acquisition of cash receivables due to AP Munkedals from its counterparties with the maximum factoring limit granted to AP Munkedals of PLN 35 million. Pursuant to the Factoring Contract, the Company shall perform the obligations of AP Munkedals under the Factoring Contract should AP Munkedals fails to perform such obligations in whole or 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.

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

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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	Małgorzata Majewska-Śliwa	20 March 2017	
Member of the Management Board Strategy Director	Wolfgang Lübbert	20 March 2017	
Member of the Management Board Chief Procurement Officer	Jacek Łoś	20 March 2017	
Member of the Management Board Sales Director	Michał Sawka	20 March 2017	