



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

TRANSLATORS' EXPLANATORY NOTE

The following document is a free translation of the report of  
the above-mentioned Company.

In the event of any discrepancy in interpreting the  
terminology, the Polish version is binding.



**ARCTIC PAPER**

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## Description of the business of Arctic Paper

### General information

Arctic Paper S.A. is a holding company set up in April 2008. As a result of capital restructuring carried out in 2008, the Paper Mills Arctic Paper Kostrzyn (Poland) and Arctic Paper Munkedals (Sweden), Distribution Companies and Sales Offices have become the properties of Arctic Paper SA. Previously they were owned by Trebruk AB (formerly Arctic Paper AB), the parent company of the Issuer. In addition, under the expansion, the Group acquired the Paper Mill Arctic Paper Mochenwangen (Germany) in December 2008 and the Paper Mill Grycksbo (Sweden) in March 2010.

In 2012 and 2013 Arctic Paper S.A. acquired shares in Rottneros AB, a company listed at NASDAQ stock exchange in Stockholm, Sweden, holding 100% shares in two Pulp Companies, Procurement Office and a company manufacturing food packaging.

The main statutory activity of the Company is the activity of a holding company, consisting in managing of entities belonging to the controlled Capital Group. The operations are conducted through Paper Mills and Pulp Mills as well as Sales Offices and Procurement Office. The description of the Arctic Paper Capital Group was provided in the Management Board's Report from operations of the Arctic Paper S.A. Capital Group, published in the consolidated annual report for the year ended on 31 December 2016.

The Company is entered in the register of entrepreneurs of the National Court Register maintained by the District Court in Poznań – Nowe Miasto i Wilda, 8th Commercial Division of the National Court Register, under KRS number 0000306944. The Parent Entity holds statistical number REGON 080262255.

### Group Profile

The core business of Arctic Paper S.A. covers holding activities.

### Subsidiaries

Since 23 October 2009, Arctic Paper S.A. has been listed on the primary market of the Warsaw Stock Exchange and since 20 December 2012 on the NASDAQ stock exchange in Stockholm, Sweden. The Company operates through its Paper Mills and Pulp Mills as well as its Sales Offices and Procurement Office.

In September and October 2008, the Issuer acquired Paper Mills in Poland and in Sweden, and Distribution Companies and Sales Offices involved in distribution and sale of paper manufactured by the Group in Europe. Three Distribution Companies – in Sweden, Norway and

Denmark – until 2015 were involved in distribution activities, offering our products as well as products of other paper manufacturers on a small scale.

Arctic Paper S.A. acquired shares and interests in Arctic Paper Kostrzyn, Arctic Paper Munkedals and the Distribution Companies and Sales Offices from Trebruk AB (formerly Arctic Paper AB) and Nemus Holding AB, now a majority shareholder of the Issuer.

In its expansion, the Group acquired the Paper Mill Arctic Paper Mochenwangen (Germany) in December

2008 and the Paper Mill Arctic Paper Grycksbo (Sweden) in March 2010.

In 2012 and 2013 Arctic Paper S.A. acquired shares in Rottneros AB, a company listed at NASDAQ in Stockholm, Sweden, holding 100% shares in two Pulp Companies, Procurement Office and a company manufacturing food packaging. The acquisition of Rottneros was partly effected by a swap of shares in Rottneros AB into shares in Arctic Paper S.A. Arctic Paper S.A. assumed control over the Rottneros Group

on 20 December 2012. Since that day the stock of Arctic Paper has been listed at NASDAQ in Stockholm.

In connection with the Profitability Improvement Programme implemented in the Arctic Paper Group, the Distribution Companies in Sweden, Norway and Denmark discontinued their distribution activities by the end of December 2015 and since 2016 they have been acting as Sales Offices. Distribution functions have been transferred to factories.

As at 31 December 2016, Arctic Paper S.A. held investments in the following subsidiary companies:

- Arctic Paper Kostrzyn S.A. – Paper Mill in Kostrzyn nad Odrą (Poland);
- Arctic Paper Munkedals AB – Paper Mill in Munkedal (Sweden);
- Arctic Paper Sverige AB – sales office operating in Sweden;
- Arctic Paper Norge AS – sales office operating in Norway;
- Arctic Paper Danmark A/S – sales office operating in Denmark;
- Arctic Paper UK Limited – a sales office in the United Kingdom;
- Arctic Paper Baltic States SIA – a sales office covering the Baltic States;
- Arctic Paper Benelux S.A. – a sales office covering the Benelux countries;
- Arctic Paper Schweiz AG – a sales office in Switzerland;
- Arctic Paper Italia srl – a sales office in Italy;
- Arctic Paper France SAS – a sales office in France;
- Arctic Paper Espana SL – a sales office in Spain;
- Arctic Paper Papierhandels GmbH – a sales office in Austria;
- Arctic Paper Deutschland GmbH – a sales office in Germany;
- Arctic Paper Polska Sp. z o.o. – a sales office in Poland;
- Arctic Paper East Sp. z o.o. – a sales office in Ukraine;
- Arctic Paper Investment GmbH – a holding company established to acquire shares in the Paper Mill in Mochenwangen;
- Arctic Paper Investment AB – a holding company established for the purpose of acquisition of Grycksbo Paper Holding AB;
- Rottneros AB – a holding company with shares in the Paper Mills of Rottneros Bruk AB and Rottneros Vallvik AB, in the procurement office and in the company manufacturing food packaging
- Arctic Paper Finance AB – a holding company involved in attracting financing.

Arctic Paper Ireland Limited – a sales office in Ireland, liquidated on 25 October 2016.

Information on percentage holdings in each subsidiary company is provided in the Company's financial statements (note No. 5).

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

In 2016 there were no changes to the capital structure of the Group.

## Provided services

As a holding company, Arctic Paper S.A. receives dividend, interest on loans granted and revenues for the management services it provides for related entities operating within the Arctic Paper S.A. Capital Group.

Additionally, the company provides intermediation services in purchases of pulp for Group companies. The services are provided in two ways:

- by negotiating terms and conditions of pulp supplies to the Group and individual factories
- by direct pulp purchases by Arctic Paper S.A. and further re-sale to factories

In connection with restructuring activities in the Arctic Paper Group, at the beginning of 2016 a centralised

logistics department started to operate within the structures of Arctic Paper S.A. The logistics department provides services in planning and coordinating transport to the Paper Mills in Kostrzyn, Grycksbo and Munkedals

The assortment of products manufactured at the Paper Mills of the Arctic Paper Group was described in the consolidated annual report for 2016.

## Amendments to the core management principles

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

## Shareholding structure

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

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

The list of shareholders holding directly or indirectly minimum 5% of the overall number of votes at general meetings

Shareholder	as at 20.03.2017				as at 10.11.2016			
	Number of shares	Share in the share capital [%]	Number of votes	Share in the total number of votes [%]	Number of shares	Share in the share capital [%]	Number of votes	Share in the total number of votes [%]
<b>Thomas Onstad</b>	<b>47 205 107</b>	<b>68,13%</b>	<b>47 205 107</b>	<b>68,13%</b>	<b>47 205 107</b>	<b>68,13%</b>	<b>47 205 107</b>	<b>68,13%</b>
- indirectly via	41 131 449	59,36%	41 131 449	59,36%	41 356 449	59,69%	41 356 449	59,69%
<i>Nemus Holding AB</i>	40 231 449	58,06%	40 231 449	58,06%	40 006 449	57,74%	40 006 449	57,74%
<i>other entity</i>	900 000	1,30%	900 000	1,30%	1 350 000	1,95%	1 350 000	1,95%
- directly	6 073 658	8,77%	6 073 658	8,77%	5 848 658	8,44%	5 848 658	8,44%
<b>Other</b>	<b>22 082 676</b>	<b>31,87%</b>	<b>22 082 676</b>	<b>31,87%</b>	<b>22 082 676</b>	<b>31,87%</b>	<b>22 082 676</b>	<b>31,87%</b>
Total	69 287 783	100,00%	69 287 783	100,00%	69 287 783	100,00%	69 287 783	100,00%
Treasury shares	-	0,00%	-	0,00%	-	0,00%	-	0,00%
<b>Total</b>	<b>69 287 783</b>	<b>100,00%</b>	<b>69 287 783</b>	<b>100,00%</b>	<b>69 287 783</b>	<b>100,00%</b>	<b>69 287 783</b>	<b>100,00%</b>

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

## Market environment

The Company provides no services directly to external entities. The Company's financial condition and its ability to distribute dividend is primarily affected by the market environment in which the Paper and Pulp Mills controlled by the Company operate.

Information on the core products offered by the Group with details of their value and quantities and the share of

each product in total sales of the Group as well as information on markets with a split into domestic and foreign markets and information on procurement sources of materials for production and services, are all provided in the consolidated annual report.

## Development directions and strategy

The core objectives of the strategy of the Capital Group of which the Company is the Parent Entity are as follows:

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

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

low paper consumption per inhabitant and the anticipated transfer of printing capacities from Western Europe to Central and Eastern Europe. The core elements of the strategy cover the use of our competitive advantages resulting from the location and effective performance of our Paper Mill in Kostrzyn-upon-Odra River and the expansion of our sales network in Central and Eastern Europe.

### Continued improvement of production performance and distribution

A core element underlying the success of our business will be the ability to maintain cost effectiveness. In this connection we pursue, inter alia, the following initiatives:

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

## Sales structure

In 2016, the sales structure by main sources of the Company's revenues was as follows:

### Sales structure by income sources

<i>PLN thousands</i>	2016 share %		2015 share %	
Services	43 283	44%	40 410	38%
Dividends	54 643	55%	65 359	61%
Loan interest	985	1%	937	1%
<b>Total</b>	<b>98 911</b>	<b>100%</b>	<b>106 706</b>	<b>100%</b>

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

### Sales structure by related parties

<i>PLN thousands</i>	2016 share %		2015 share %	
Arctic Paper Kostrzyn S.A.	56 014	57%	55 717	52%
Rottneros AB	18 560	19%	27 972	26%
Arctic Paper Munkedals AB	11 301	11%	9 994	9%
Arctic Paper Grycksbo AB	10 570	11%	9 129	9%
Other	2 466	2%	3 893	4%
<b>Total</b>	<b>98 911</b>	<b>100%</b>	<b>106 706</b>	<b>100%</b>

## Information on the seasonal or cyclical nature of business

The demand for the Group's products is subject to slight variations throughout the year. Decrease in demand for paper occurs each year during summer holidays and around Christmas when some printing houses,

in particular Western Europe are closed. Changes in the demand for paper are not material versus the demand for paper in other periods of the year. Changes in the demand for paper affect largely changes in demand for pulp.



## Research and development

The Company has no direct expenses on research and development.

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

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

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

## Environment

The description of the impact of environmental regulations on the operations of the Paper and Pulp Mills controlled by the Company is provided in the consolidated annual report.

## Summary of financial results

### Profit and loss account

#### Selected standalone profit and loss account items

<i>PLN thousands</i>	2016	2015	Change % 2016/2015
<b>Sales revenues:</b>	<b>98 911</b>	<b>106 706</b>	<b>(7,3)</b>
<i>including:</i>			
<i>Sales of services</i>	43 283	40 410	7,11
<i>Loans interest</i>	985	937	5,21
<i>Income from dividends</i>	54 643	65 359	(16,40)
Profit on sales	89 021	95 325	(6,6)
<i>sales revenues %</i>	90,00	89,33	0,7 p.p.
Sales costs	(4 072)	(4 069)	0,1
Administrative expenses	(34 571)	(31 517)	9,7
Other operating income	197	398	(50,5)
Other operating cost	(70 128)	(51 701)	35,6
<b>EBIT</b>	<b>(19 553)</b>	<b>8 436</b>	<b>(331,8)</b>
<i>sales revenues %</i>	(19,77)	7,91	(27,7) p.p.
<b>EBITDA</b>	<b>(19 152)</b>	<b>8 702</b>	<b>(320,1)</b>
<i>sales revenues %</i>	(19,36)	8,16	(27,5) p.p.
Financial income	575	666	(13,7)
Financial cost	(13 452)	(4 026)	234,1
<b>Gross profit</b>	<b>(32 429)</b>	<b>5 076</b>	<b>(738,8)</b>
Income tax	(214)	(167)	28,1
<b>Net profit</b>	<b>(32 644)</b>	<b>4 909</b>	<b>(765,0)</b>
<i>sales revenues %</i>	(33,00)	4,60	(37,6) p.p.

### Revenues, costs of sales and profit on sales

The main statutory activity of the Company is the activity of a holding company, consisting in managing of entities belonging to the controlled Capital Group. The operations of the Group are conducted through Paper Mills and Pulp Mills as well as Distribution Companies, Sales Offices and Procurement Office. In 2016 the Company's standalone revenues amounted to PLN 98,911 thousand and included: dividend income (PLN

54,643 thousand), services provided to Group companies (PLN 43,283 thousand) and interest income on loans (PLN 985 thousand). In 2015, the standalone sales revenues amounted to PLN 106,706 thousand and included: dividend income (PLN 65,359 thousand), revenues from services (PLN 40,410 thousand) and interest income on loans (PLN 937 thousand).

In 2016 and in 2015, the Company did not render services to the Pulp Mills of the Rottneros Group.

The internal costs of sales include interest on loans received from other Group companies and since 2016

### **Administrative expenses**

In 2016 the administrative expenses amounted to PLN 34,571 thousand. They cover costs of the administration of the Company operation, costs of services provided to the companies in the Group and all costs incurred by the Company for the purposes of pursuing holding company activities. The above costs include a group

### **Selling and distribution costs**

In 2016 the Company recognised the amount of PLN 4,072 thousand of selling and distribution costs which comprised solely the expenses related to intermediary

### **Other operating income and expenses**

Other operating income amounted to PLN 197 thousand in 2016 which was a decrease as compared to the equivalent period of the previous year by PLN 201 thousand. At the same time there was an increase of other operating expenses that reached the level of PLN 70,128 thousand (in 2015 it was PLN 51,701 thousand). The increased other operating expenses was primarily

### **Financial income and financial expenses**

In 2016, the financial income amounted to PLN 575 thousand and was by PLN 91 thousand lower than generated in the equivalent period last year. At the same time, there was an increase of financial expenses from PLN 4,026 thousand in 2015 up to PLN 13,452 thousand.

In 2016 the Company incurred costs related to changes to the financing structure of the Group and higher interest costs resulting from new financing contracted by the Company.

also internal costs of providing logistics services (PLN 4,442 thousand).

of costs that are related solely to statutory activities and cover, inter alia: audit costs of financial statements, functioning costs of the Supervisory Board, costs of periodic owners' inspections in the Company, etc.

services in the purchase of pulp for Arctic Paper Kostrzyn S.A.

due to the recognition in 2016 of impairment charges to shares, loans and investment in the following companies: Arctic Paper Investment GmbH, Arctic Paper Mochenwangen GmbH and an impairment charge to the shares in Arctic Paper Investment AB (PLN 38,896 thousand).

The changes to financial income and expenses result also from FX differences which are disclosed as a net amount – as the difference between FX profit and loss which is presented as financial income in case of net FX profit or as financial expenses in case of FX losses. In 2015 the Company recorded a surplus of FX profit disclosed as financial income while in 2016 the Company disclosed a surplus of FX losses as financial expenses.

## Profitability analysis

EBITDA in 2016 was PLN -19,152 thousand while in 2015 it was PLN 8,702 thousand.

EBIT in 2016 amounted to PLN -19,553 thousand as compared to PLN 8,436 thousand in the previous year.

The net loss in 2016 amounted to PLN -32,644 thousand as compared to the net profit of PLN 4,909 thousand in 2015.

### Profitability analysis

<i>PLN thousands</i>	2016	2015	Change % 2016/2015
<b>Profit on sales</b>	<b>89 021</b>	<b>95 325</b>	<b>(6,6)</b>
<i>Sales revenues %</i>	<i>90,00</i>	<i>89,33</i>	<i>0,7 p.p.</i>
<b>EBITDA</b>	<b>(19 152)</b>	<b>8 702</b>	<b>(320,1)</b>
<i>Sales revenues %</i>	<i>(19,36)</i>	<i>8,16</i>	<i>(27,5) p.p.</i>
<b>EBIT</b>	<b>(19 553)</b>	<b>8 436</b>	<b>(331,8)</b>
<i>Sales revenues %</i>	<i>(19,77)</i>	<i>7,91</i>	<i>(27,7) p.p.</i>
<b>Net profit</b>	<b>(32 644)</b>	<b>4 909</b>	<b>(765,0)</b>
<i>Sales revenues %</i>	<i>(33,00)</i>	<i>4,60</i>	<i>(37,6) p.p.</i>
ROE - Return on equity (%)	(5,2)	0,7	(5,9) p.p.
ROA - Return on assets (%)	(3,1)	0,5	(3,6) p.p.

In 2016, return on equity was -5.2% while in 2015

it was 0.7%. Return on assets dropped from 0.5% in 2015 to -3.1% in 2016.

## Statement of financial position

### Selected standalone balance sheet items

PLN thousands	31/12/2016	Change 31/12/2016-	
		31/12/2015	31/12/2015
Fixed assets	870 166	843 274	26 892
Receivables	77 058	82 121	(5 063)
Other current assets	84 096	15 371	68 725
Cash and equivalents	10 863	9 435	1 428
<b>Total assets</b>	<b>1 042 184</b>	<b>950 202</b>	<b>91 982</b>
Equity	631 034	668 959	(37 925)
Short-term liabilities	133 979	76 242	57 737
Long-term liabilities	277 171	205 001	72 170
<b>Total equity and liabilities</b>	<b>1 042 184</b>	<b>950 202</b>	<b>91 982</b>

As at 31 December 2016 total assets amounted to PLN 1,042,184 thousand as compared to PLN 950,202 thousand at the end of 2015.

### Fixed assets

At the end of December 2016 fixed assets accounted for about 83.5% of total assets and their share it total assets decreased versus December 2015 (88.7%).

### Current assets

As at the end of December 2016, current assets amounted to PLN 172,017 thousand as compared to PLN 106,927 thousand at the end of 2015.

### Equity

At the end of December 2016, the equity amounted to PLN 631,034 thousand as compared to PLN 668,959 thousand at the end of 2015. The decrease in equity was primarily due to the net loss generated in 2016.

### Short-term liabilities

As at the end of December 2016, short-term liabilities amounted to PLN 133,979 thousand (12.9 % of balance sheet total) as compared to PLN 76,242 thousand as at the end of 2015 (4.8 % of balance sheet total).

The material increase of short-term liabilities was primarily due to an increase of liabilities under loans

resulting from the new financing contracted by the Group.

### **Long-term liabilities**

As at the end of December 2016, long-term liabilities amounted to PLN 277.171 thousand (26.6% of balance sheet total) as compared to PLN 205,001 thousand as

at the end of 2015 (21.6% of balance sheet total). The increase in long-term liabilities was primarily due to an increase in the long-term portion of interest payable.

## Debt analysis

### Debt analysis

	2016	2015	Change % 2016/2015
Debt to equity ratio (%)	65,2	42,0	23,1 p.p.
Equity to fixed assets ratio (%)	72,5	79,3	(6,8) p.p.
Interest-bearing debt to equity ratio (%)	35,9	33,9	2,0 p.p.

As at the end of December 2016 the debt to equity ratio was 65.2% and was higher by 23.1 versus the end of December 2015.

The equity to asset ratio dropped from 79.3% as at the end of 2015 to 72.5% as at the end of December 2016. The interest bearing debt to equity ratio was 35.9% as

at the end of 2016 and was higher by 2.0 p.p. as compared to the end of December 2015.

The changes to the Company's debt ratios are primarily due to the changed funding structure of the Group as described in section "Obtaining of new funding" hereof.

## Liquidity analysis



### Liquidity analysis

	2016	2015	Change % 2016/2015
Current liquidity ratio	1,28x	1,40x	(0,1)
Quick liquidity ratio	1,28x	1,40x	(0,1)
Acid test ratio (cash liquidity)	0,08x	0,12x	(0,0)

The current liquidity ratio and the fast liquidity ratio at the end of December 2016 amounted to 1.28x and were by 0.1x lower than at the end of December 2015. The cash ratio was 0.08x at the end of December 2016 and showed a slight decrease versus the end of December 2015.



## Cash flows

### Selected items of the standalone cash flow statements

<i>PLN thousands</i>	2016	2015	Change % 2016/2015
Cash flow from operating activities	(253 361)	(11 111)	2 180,2
<i>including:</i>			
<i>Gross profit</i>	(32 429)	5 077	(738,8)
<i>Depreciation</i>	402	266	50,9
<i>Changes to working capital</i>	6 230	(7 285)	(185,5)
<i>Interest and dividend (net)</i>	6 182	2 529	144,5
<i>Increase / decrease in loans granted to subsidiaries</i>	(270 120)	(13 898)	1 843,6
<i>Other corrections</i>	36 374	2 199	1 554,1
Cash flow investing activities	(3 122)	4 468	(169,9)
Cash flow financing activities	257 911	(2 529)	(10 297,9)
<b>Total Cash Flow</b>	<b>1 428</b>	<b>(9 172)</b>	<b>(115,6)</b>

### Cash flows from operating activities

In 2016, net cash flows from operating activities amounted to PLN -253.361 thousand as compared to PLN -11,111 thousand in 2015. The high cash flows

from operating activities in 2016 were primarily affected by repayment of the loan to Arctic Paper Kostrzyn SA.

### Cash flows from investing activities

In 2016, cash flows from investing activities amounted to PLN -3,122 thousand as compared to PLN 4,468 thousand in 2015.

The negative cash flows from investing activities in 2016 were primarily related to increased interests in subsidiary companies.

### Cash flows from financing activities

In 2016 cash flows from financing activities amounted to PLN 257,911 thousand as compared to PLN -2,529 thousand, in 2015. In 2016 cash flows from financing activities were related to the acquisition of new financing in the form of bank loans and bonds.

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

### Key factors affecting the performance results

The operations of the Company are indirectly affected by factors that have direct impact on the business of the Group's operational units – Paper Mills and the factors include:

- macroeconomic and other economic factors;
- fine paper prices;
- prices of pulp, wood and energy;
- FX rate fluctuations.

The impact of the factors on the Group's business was described in detail in the consolidated annual report for 2016.

### Unusual events and factors

In the period under the report there were no unusual events and/or other factors affecting Arctic Paper S.A.

### Other material information

#### Profitability Improvement Programme for 2015/2016 of the Arctic Paper – Arctic Paper Grycksbo AB Group

In Q1 2016, the Management Board of the Issuer's subsidiary – Arctic Paper Grycksbo AB (Sweden) started negotiations with its trade unions to reduce the fixed costs by about SEK 25 million (about PLN 12 million) in 2017, mainly by reducing the headcount by about 40 persons in 2016. Apart from improved productivity of the factory and improved organisational flexibility, in 2016 the Profitability Improvement Programme generated cost savings of SEK 10 million (about PLN 4.6 million).

#### Factoring contract by Arctic Paper Munkedals AB

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.

## Factors affecting the development of the Company

Information on market trends and in factors affecting the Company's financial results over the next year is provided in the consolidated annual report. Below is a description of risk factors that directly affect the

Company's business, other risk factors affecting the Company via its subsidiary companies, are described in detail in the consolidated annual report.

### Risk factors

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

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

##### Risk of changing legal regulations

The Company operates in a legal environment characterised with a high level of uncertainty. The regulations affecting our business have been frequently amended and there are no consistent interpretations which generates a risk of violating the existing regulations and the resultant consequences even if such breach was unintentional.

##### Risk related to disadvantageous global economic situation

The global economic situation is affected by the effects of the recent financial crisis, in particular the continued loss of trust on the part of consumers and entrepreneurs, concerns related to the availability and increasing costs of loans, decrease in consumer and investment spending, volatility and strength of capital markets. We anticipate that the difficult global economic conditions may continue to contribute to an overall decrease in demand and average prices of fine paper

which may in turn adversely affect the dividend payable by subsidiary companies.

##### FX risk

The Company's revenues, expenses and results are exposed to the FX risk, in particular of PLN to EUR, SEK and other currencies since the Company has been paid dividend partly in EUR and in SEK. Thus FX rate fluctuations may have an adverse effect on the results, financial conditions and prospects of the Group.

##### Interest rate risk

The Company is exposed to interest rate risk in view of the existing interest-bearing debt. The risk is due to fluctuations of the reference interest rates WIBOR for debt in PLN and EURIBOR for debt in EUR. Unfavourable changes of interest rates may adversely affect the results, financial condition and prospects of the Company.

#### Risk factors relating to the business of the Company

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

#### Risk related to retention and attraction of managerial staff and qualified personnel

The achievement of strategic objectives by the Company is subject to the know-how and experience of the professional managing staff and the ability to hire and retain qualified specialists. The Company may not be able to retain its managerial staff and other key specialists or to attract new specialists. If the Company is not able to attract and retain managerial staff and personnel, this may adversely affect its business, operational results and financial condition.

#### Risk related to the debt of the Company

In connection with the loan agreements signed on 9 September 2016 with a consortium of banks (European Bank for Reconstruction and Development, Bank Zachodni WBK S.A. and BGŻ BNP Paribas SA) and the bond issue agreement, the Company has interest payable under the agreements.

Failure by the Group to comply with its obligations, including the agreed levels of financial ratios (covenants) resulting from the agreements, will result in default under those agreements. Events of default may in particular result in demand for repayment of our debt, banks taking control over important assets like Paper Mills or Pulp Mills and loss of other assets which serve as collateral, deterioration of creditworthiness and lost access to external funding which will be converted into

lost liquidity and which in turn may materially adversely affect our business and development prospects and our stock prices.

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

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

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

## Supplementary information

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

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

### Dividend information

The Company did not distribute dividend in 2016.

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

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

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

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

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

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

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

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

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

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

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

## Purchase of treasury shares

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

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

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

- a) end the purchase of the shares before expiry of a period of 60 days of the resolution or before all the funds allocated for such purchases are spent,
- b) resign from the purchases in whole or in part.

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

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

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

The Ordinary General Meeting, acting pursuant to Art. 362 § 2.3 of the Code of Commercial Companies, Art. 348 § 1 in connection with Art. 396 § 4 and § 5 of the

Code of Commercial Companies, decides to set up a reserve capital named "Share Purchase Programme Fund" to fund the purchase of treasury shares, in order to fund the acquisition by the Company of its own shares, pursuant to this authorisation and within the authority granted by this resolution. The amount of the Share Purchase Programme Fund is set at PLN 27,500,000. The Share Purchase Programme Fund shall be applied to purchase treasury shares and cover the

related purchase costs. The Ordinary General Meeting decides to allocate the Share Purchase Programme Fund from the reserve capital.

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

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

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

## Remuneration of the Management Board and Supervisory Board Members

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

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

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

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

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

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

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

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

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

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

## Management of financial resources

In 2016 the Company contracted loans and borrowings as detailed in the section "Loan agreements, bonds and borrowings".

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

## Capital investments

In 2016 the Company invested its funds solely in standard short-term deposits, including overnight deposits.



## Loan agreements, bonds and borrowings

### 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, inter alia, concluded registered and financial pledge agreements on the existing shares and interests and on bank accounts and an agreement establishing mortgage on properties with BGŻ BNP Paribas, submitted to BGŻ BNP Paribas a declaration on submission to voluntary enforced collection and granted BGŻ BNP Paribas authorisation to access the existing bank accounts (in compliance with other agreements as specified above).

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

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

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 pursuing claims, the principles of enforcing collateral and release of collateral.

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

- (i) Company's parallel debt

### **Bond issue**

On 30 September 2016 ("Issue Date"), under the bond issue programme up to PLN 150,000,000 of 9

- (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, was 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 have established the collaterals to their obligations under the Intercreditor Agreement that were described in note: "Information on sureties, guarantees and contingent liabilities".

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

More information on the concluded loan agreements, borrowings and bonds is provided in note No. 24 to the standalone financial statements for 2016.

### **Information on sureties, guarantees and contingent liabilities**

On 6 November 2012 the following companies: Arctic Paper S.A. and Arctic Paper Kostrzyn S.A. concluded an agreement to guarantee the debt pursuant to which Arctic Paper S.A. acceded the loan agreement cumulatively as a joint and several debtor to the loan agreement of 6 November 2012 concluded between Arctic Paper Kostrzyn S.A. and Bank Polska Kasa Opieki S.A., Bank Zachodni WBK S.A. and mBank S.A. totalling PLN 359,000 thousand. As a result of repayment of the loan agreement on 25 October 2016, the agreement expired.

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.

In connection with the term and revolving loan agreements, agreements relating to the bond issue and the intercreditor agreement (described in more detail in the note "Obtaining new financing") signed on 9 September 2016, on 3 October 2016 the Company signed agreements and statements pursuant to which collateral to the above debt and other claims would be established in favour of Bank BGŻ BNP Paribas S.A., acting as the Collateral Agent, that is

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

- financial and registered pledges on all shares and interests registered in Poland, owned by the Company and the Guarantors, in companies in the Company Group (with the exception of Rottneros AB, Arctic Paper Mochenwangen GmbH and Arctic Paper Investment GmbH), except the shares in the Company;
  - mortgages on all properties located in Poland and owned by the Company and the Guarantors;
  - registered pledges on all material rights and movable assets owned by the Company and the Guarantors, constituting an organised part of enterprise, located in Poland (with the exception of the assets listed in the Loan Agreement);
  - assignment of (existing and future) insurance policies covering the assets of the Company and the Guarantors (with the exception of insurance policies listed in the Loan Agreement);
  - declaration by the Company and the Guarantors on voluntary submission to enforcement, in the form of a notary deed;
  - financial pledges and registered pledges on the bank accounts of the Company and the Guarantors, registered in Poland;
  - powers of attorney to Polish bank accounts of the Company and the Guarantors, registered in Poland;
  - subordination of the debt held by intragroup lenders (specified in the Intercreditor Agreement).
- pledges on all shares and interests registered in Poland, owned by the Company and the Guarantors, in Group companies, with the exception of the shares in the company, as well as pledged on the shares in Rottneros (with the exception of the free package of shares in Rottneros);
  - mortgages on all properties located in Sweden and owned by the Company and the Guarantors as long as such collateral covers solely the existing mortgage deeds;
  - corporate mortgage loans granted by the Guarantors registered in Sweden as long as such collateral covers solely the existing mortgage deeds;
  - assignment of (existing and future) insurance policies covering the assets of the Company and the Guarantors (with the exception of insurance policies listed in the Loan Agreement);
  - pledges on Swedish bank accounts of the Company and the Guarantors as long as such collateral is without prejudice to free management of funds deposited on bank accounts until an event of default specified in the Loan Agreement.
2. under Swedish law – Collateral Documents establishing the following Collateral:

In the period covered with this report, Arctic Paper S.A. and its subsidiary companies did not grant or receive any guarantee to loans or borrowings, and did not grant – totally to one entity or a subsidiary of such entity – guarantees with the total value exceeding equivalent of 10% of the Company's equity.

## Material off-balance sheet items

Information on off-balance sheet items is provided in the Company's standalone financial statements for 2016 in note No. 27.

## **Assessment of the feasibility of investment plans**

Arctic Paper S.A. plans no material investments to be made in 2017. Material investments are carried out by the Issuer's subsidiary entities, in particular the Paper Mills as described in the Consolidated Annual Report.

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

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

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

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

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

The Issue is not aware of any agreements that may in the future generate changes to the proportions of shareholdings by the existing shareholders and bond holders.

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

In 2016 the Company did not buy any treasury shares.

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

Information on the entity authorised to audit the financial statements is provided in note No. 29 to the standalone financial statements for 2016.

## **Headcount**

Information on the headcount is provided in note No. 33 to the standalone financial statements for 2016.

# Statement on the application of the Corporate Governance Rules

## Corporate Governance Rules

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

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

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

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

## Information on the extent the Issuer waived the provisions of the Corporate Governance Rules

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

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

Principle No. 1.Z.1.10

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

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

Principle No. I.Z.1.15:

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

Explanation:

The Company has not drafted a diversity policy; however, the Issuer's Management Board has been striving to employ competent, creative people, holding



appropriate qualifications, professional experience and education, compliant with the Company's needs.

Principle No. 1.Z.1.16

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

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

Principle No. 1.Z.1.20

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

Explanation:

The Company does not plan to broadcast its General Meetings.

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

Recommendation II.R.2:

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

Explanation:

Now the Company does not follow this recommendation which is due to the fact that the functions of members of the management board or the supervisory board have been entrusted to specific persons, irrespective of their

gender, and on the basis of their professional background and experience. Nevertheless, the composition of the Issuer's bodies is largely subject to the decisions of the Company's shareholders and the recommendation may be complied with in the future.

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

Recommendation III.R.1

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

Explanation:

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

Principle No. III.Z.1.

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

Explanation:

The rule is not followed due to the size of the Company. Now the Management Board is responsible for controlling

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

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

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

#### Explanation:

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

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

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

#### Explanation:

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

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

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

#### Explanation:

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

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

#### Recommendation IV.R.2

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

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

2) real-time bilateral communication where shareholders may take the floor during a general meeting from a location other than the general meeting,  
3) exercise, either in person or through a proxy, the right to vote at the General Shareholders Meeting”.

**Explanation:**

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

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

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

**Explanation:**

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

## **Good practices – Remuneration**

**Recommendation VI.R.1**

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

**Explanation:**

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

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

**Recommendation VI.R.2**

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

**Explanation:**

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

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

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

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

- 1) general information on remuneration system adopted by the Company,
- 2) information on conditions and amount of remuneration granted to each member of the Management Board, split into fixed and variable components, specifying key parameters used to determine variable components of remuneration and rules for the payment of retirement allowance and other payments related to termination of the employment contract, commission or other legal relationship of similar nature – separately for the Company and for entity belonging to the capital group,
- 3) information on non-financial components of remuneration assigned to individual members of the Management Board and key managers,
- 4) significant amendments of the remuneration policy in the last financial year or information about their absence,
- 5) assessment of the functioning of the remuneration policy from the viewpoint of implementation of its

objectives, in particular long-term growth of value for shareholders and sustainability of the company.

Explanation:

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

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

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

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

books for each calendar month, top management of the Group member companies analyse the financial results of the companies versus their budgets and the results generated in the previous reporting period.

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

The Company's Management Board systematically assesses the quality of internal control and risk management systems with reference to the preparation process of consolidated financial statements. On the

basis of such review, the Company's Management Board found that as at 31 December 2016 there were no weaknesses that could materially affect the

effectiveness of internal control with respect to financial reporting.

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

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

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

## Securities with special control rights

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

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

The Company's Articles of Association do not provide for any restrictions concerning transfer of title to the Issuer's securities. Such restrictions are specified in law, including in Chapter 4 of the Act on public offering and on conditions governing the introduction of financial instruments to organised trading and on public

companies of 29 July 2005, Art. 11 and Art. 19 and Section VI of the Act on trading in financial instruments of 29 July 2005, the Act on Protection of Competition and Consumers of 16 February 2007 and the Council Regulation (EC) No. 139/2004 on the control of

concentrations between undertakings of 20 January 2004.

Each share in Arctic Paper S.A. authorises to one vote at General Meetings. The Company's Articles of Association provide for no restrictions as to the exercising of voting rights of shares in Arctic Paper S.A., such as any restrictions on voting rights, such as limitations of the voting rights of holders of a given percentage or number of votes, deadlines for exercising voting rights, or systems whereby, with the company's cooperation, the financial rights attaching to securities are separated from the holding of securities.

A ban on voting rights by shareholders may result from Art. 89 of the Act on Offering of 29 July 2005 if such shareholder breaches the regulations provided in Chapter 4 of the Act on Offering. According to Art. 6 § 1 of the Code of Commercial Companies, if the parent company fails to notify its capital subsidiary company of the occurrence of a domination relationship within two weeks of the occurrence thereof, the voting rights will be suspended with respect to the shares held by the parent company representing more than 33% of the subsidiary's share capital.

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

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

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

### **Description of the functioning of the General Meeting**

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

The Company's Articles of Association are available at:

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

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

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

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

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

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

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

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

### **Management Board**

#### **Composition of the Management Board**

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

## Core competences of the Management Board

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

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

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

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

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

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



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

## Supervisory Board

### Composition and organisation of the Supervisory Board

- The Supervisory Board is composed of 5 (five) to 7 (seven) members elected by the General Meeting for a joint three-year term of office. A member of the Supervisory Board may be dismissed at any time;
- The Supervisory Board is composed of the Chairperson, Deputy Chairpersons and other members. The Chairperson of the Supervisory Board and Deputy Chairperson are elected by the Supervisory Board from among its members at the first meeting and – if so required – during the term of office in by-elections;
- Since the General Meeting approved resolutions on the first public issue of shares and having them listed, two members of the Supervisory Board have to be independent;
- When an independent member of the Supervisory Board is nominated, resolutions on the following matters require consent of minimum one independent member of the Supervisory Board:
  - any benefits to be provided by the Company and any entity related to the Company for members of the Management Board;
  - consent to the Company or its subsidiary entity to enter into a material agreement with a member of the Supervisory Board or of the Management Board and with their related entities, other than agreements concluded in the normal course of the Company's business subject to normal terms and conditions applied by the Company;
  - election of auditor to perform audits of the Company's financial statements;
- For the avoidance of any doubts, it is assumed that loss of the independent status by a member of the Supervisory Board and failure to appoint an independent member of the Supervisory Board shall not invalidate the decisions approved by the Supervisory Board. Loss by an Independent Member of their independent status during the performance of their function of a member of the Supervisory Board shall not affect the validity or expiry of their mandate;
- In case of expiry of the mandate of a Member of the Supervisory Board before the term of office, the other Members of the Supervisory Board shall be entitled to co-opt a new Member of the Supervisory Board in such vacated position by way of a resolution approved with an absolute majority of the other Members of the Supervisory Board. The mandate of such co-opted Member of the Supervisory Board shall expire if the first Ordinary General Meeting to be held after such Member has been co-opted, fails to approve such Member. At any time, only two persons elected as Members of the Supervisory Board in the co-option procedure and who were not approved as candidates by the Ordinary General Meeting, may act as Members of the Supervisory

Board. Expiry of the mandate of a co-opted Member of the Supervisory Board as a result of failure to approve such candidate by the Ordinary General Meeting may not be treated as finding any resolution approved with the participation of such Member as invalid or ineffective.

- Chairperson and Deputy Chairperson of the Supervisory Board:
  - maintain contact with the Company's Management Board;
  - manage the operations of the Supervisory Board;
  - represent the Supervisory Board in external contacts and in contacts with the other bodies of the Company, including in contacts with members of the Company's Management Board;
  - approve the presentation of initiatives and proposals submitted for meetings of the Supervisory Board;
  - take other actions as specified in the Company's Regulations and Articles of Association;
- Members of the Supervisory Board should not resign from their function during the term of office if that could prevent the operation of the Supervisory Board, in particular prevent timely approval of major resolutions;
- Members of the Supervisory Board shall be loyal to the Company. Should a conflict of interests arise, members of the Supervisory Board shall report it to the other members of the Supervisory Board and refrain from participating in discussions and from voting on the issue to which the conflict of interests is related;
- Members of the Supervisory Board shall comply with law, the Company's Articles of Association and Regulations of the Supervisory Board.

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

- The Supervisory Board performs overall supervision over the business of the Company in all areas of its operation;
- The Supervisory Board approves resolutions, issues recommendations and opinions and submits proposals to the General Meeting;
- The Supervisory Board may not issue binding instructions to the Management Board concerning the management of the Company's affairs;
- Disputes between the Supervisory Board and the Management Board shall be resolved by the General Meeting;
- In order to exercise their rights, the Supervisory Board may review the business of the Company in any respect, request the presentation of any documents, reports and clarification from the Management Board and issue opinions on issues related to the Company and submit proposals and initiatives to the Management Board;
- Apart from other issues specified in law or in the Company's Articles of Association, the competences of the Supervisory Board include, inter alia:
  - review of the financial statements of the Company;
  - review of the Management Board's report from operations of the Company and proposals of the Management Board concerning profit distribution and coverage of losses;
  - submission to the General Meeting of an annual report from results of the above reviews;
  - appointment and dismissal of members of the Management Board, including the President and Deputy Presidents, and setting the remuneration of members of the Management Board;
  - appointment of the auditor of the Company;
  - suspension of Members of the Management Board in their functions for valid reasons;

- approval of annual financial plans for the capital group of which the Company and its subsidiary companies are members;
- approving terms and conditions of bond issues by the Company (other than convertible bonds or bonds with priority rights, referred to in Art. 393.5 of the Code of Commercial Companies) and issues of other debt securities, provision of consent to contract financial liabilities or taking actions resulting in contracting any financial liabilities, such as borrowings, loans, overdraft facilities, conclusion of factoring, forfaiting, lease contracts and other generating liabilities in excess of PLN 10,000,000;
- approving the principles and amounts of remuneration of members of the Management Board and other persons in key managerial functions in the Company as well as approval of any incentive programme, including incentive programmes for members of the Management Board, persons in key managerial functions in the Company or any persons cooperating with or related to the Company, including incentive programmes for employees of the Company;
- Annually the Supervisory Board submits to the General Meeting a brief assessment of the Company's condition ensuring that it is made available to all shareholders at a time that they are able to review it before the Ordinary General Meeting;
- The Supervisory Board concludes contracts with members of the Management Board on behalf of the Company and represents the Company in disputes with members of the Management Board. The Supervisory Board may authorise by way of a resolution one or more of its members to perform such legal actions.

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

Resolutions of the Supervisory Board may be approved when all members have been notified by registered letter, fax or e-mail message, sent minimum 15 days in advance and the meeting is attended by a majority of members of the Supervisory Board. Resolutions may be approved without formal convening a meeting when all members of the Supervisory Board agreed to vote on the specific issue or to the content of the resolution to be approved.

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

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

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

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

- Per Lundeen – Chairman of the Supervisory Board appointed on 14 September 2016;
- Roger Mattsson – Deputy Chairman of the Supervisory Board appointed on 16 September 2014;
- Thomas Onstad – Member of the Supervisory Board appointed on 22 October 2008;

- Mariusz Grendowicz – Member of the Supervisory Board appointed on 28 June 2012 (independent member);
- Maciej Georg – Member of the Supervisory Board appointed on 14 September 2016 (independent member).

## Audit Committee

### Composition and organisation of the Audit Committee

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

### Competences of the audit committee

- The basic task of the Audit Committee is advisory to the Supervisory Board on issues of proper implementation and control of the financial reporting processes in the Company, effectiveness of the internal control and risk management systems and cooperation with statutory auditors;
- The tasks of the Audit Committee resulting from supervising the Company's financial reporting process, ensuring the effectiveness of the Company's internal control systems and monitoring of internal audit operations, include in particular:
  - control if the financial information provided by the Company is correct, including the accuracy and consistency of the accounting principles applied in the Company and its Capital Group as well as the consolidation principles of financial statements;
  - assessment minimum once a year of the internal control and management systems in the Company and its Capital Group in order to ensure adequate recognition and management of the Company;
  - ensuring the effective functioning of internal control, in particular by providing recommendations to the Supervisory Board with respect to:
    - strategic and operational internal audit plans and material amendments to such plans;
    - internal audit policies, strategy and procedures, developed in compliance with the approved internal audit standards;
    - audits of specific areas of the Company's operations;

- The tasks of the Audit Committee resulting from monitoring the independence of the statutory auditor and the entity authorised to audit financial statements, include in particular:
  - issue of recommendations to the Supervisory Board relating to the election, appointment and re-appointment and dismissal of the entity acting as the statutory auditor;
  - control of independence and impartiality of the statutory auditor, in particular with a view to replacing the statutory auditor, the level of its remuneration and other relationships with the Company;
  - verification of the effectiveness of the works performed by the statutory auditor;
  - review of reasons of resignation by the statutory auditor;
- The Audit Committee may resort to advisory services and assistance by external legal, accounting or other advisers if it finds it necessary to perform its duties;
- The Audit Committee is obliged to file annual reports from its operations to the Supervisory Board by 30 September in each calendar year.

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

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

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

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

## **Remuneration Committee**

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

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

### **Competences of the Remuneration Committee**

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

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

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

- Per Lundeen
- Thomas Onstad

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

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

## **Risk Committee**

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

- The Risk Committee is composed of minimum three members of the Supervisory Board, including the Chairperson of the Committee, elected by the Supervisory Board from among its members. Minimum one member of the Risk Committee shall be independent and hold qualifications and experience in the sphere of finances;
- Members of the Risk Committee shall be appointed for three-year terms of office, however not longer than the term of office of the Supervisory Board;

- The Chairperson of the Risk Committee shall be elected with a majority of votes of its members;
- The Risk Committee operates on the basis of commonly accepted corporate risk management models (e.g. COSO-ERM);
- The Risk Committee performs advisory and consulting functions, operates as a collective body within the Company's Supervisory Board;
- The Risk Committee carries out its tasks by providing the Supervisory Board with its proposals, opinions and reports in the form of resolutions;

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

- The basic task of the Risk Committee is advisory support to the Supervisory Board on issues related to the proper identification, assessment and control of potential risks, i.e. opportunities and threats to realization of the Company's strategic goals, with particular consideration for financial risk, related to both external factors (such as volatility of exchange rates, interest rates, general international economic condition) and internal factors (such as cash flows, liquidity management, variation of budget and financial forecasts);
- The tasks of the Risk Committee resulting from the supervision over the risk management process, include in particular:
  - Supervision over correct identification, analysis and assigning priority to types of risk inherent in the operational strategy and business pursued;
  - Confirmation to the identified risk appetite of the Company;
  - Verification if actions used to mitigate risk are planned and implemented so that the risk is mitigated to a level acceptable by the Company;
  - Monitoring verifying correct risk assessment by the Management Board and the effectiveness of control tools;
  - Supervision over correct notification of stakeholders on the risks, risk strategies and control tools.
- The Risk Committee may resort to advisory services and assistance by external advisers if it finds it necessary to perform its duties;

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

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

- Per Lundeen
- Mariusz Grendowicz
- Roger Mattsson

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

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

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

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

### General Meeting of Shareholders

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

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

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

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

### Tasks of the bodies of the Company

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



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

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

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

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

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

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

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

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

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

### **Information on corporate governance**

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

## Statements of the Management Board

### Accuracy and reliability of the presented reports

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

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

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

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

Signatures of the Members of the Management Board

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