INDEPENDENT AUDITOR'S REPORT ON THE AUDIT OF THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

To the General Meeting and Supervisory Board

The audit report on the annual consolidated financial statements

We have audited the accompanying consolidated annual financial statements for the year ended 31 December 2017 of Capital Group Arctic Paper S.A. ('the Group'), for which the holding company is Arctic Paper S.A. ('the Company') located in Poznań at Jana Henryka Dąbrowskiego 334 A, containing the consolidated balance sheet as at 31 December 2017, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flow for the period from 1 January 2017 to 31 December 2017 and the summary of significant accounting policies and other explanatory notes ('the accompanying consolidated financial statements').

Responsibilities of the Company's Management and members of the Supervisory Board for the consolidated financial statements

The Company's Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Accounting Standards, International Financial Reporting Standards and related interpretations announced in the form of European Commission decrees and other applicable laws, as well as the Company's Statute. The Company's Management is also responsible for such internal control as determined is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In accordance with the Accounting Act of 29 September 1994 (the 'Accounting Act'), the Company's Management and the members of the Company's Supervisory Board are required to ensure that the accompanying consolidated financial statements meet the requirements of the Accounting Act.

Auditor's responsibility

Our objective was to express an opinion on whether the accompanying consolidated financial statements give a true and fair view[1] of the financial position and results of the operations of the Group in accordance with International Accounting Standards, International Financial Reporting Standards and related interpretations announced in the form of European Commission regulations and adopted accounting policies.

[1] Translation of the following expression in Polish is 'rzetelny i jasny obraz'.

We conducted our audit of the accompanying consolidated financial statements in accordance with:

- Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (‘Act on Statutory Auditors’),
- National Auditing Standards in the wording of the International Auditing Standards adopted by the resolution no. 2783/52/2015 of the National Council of Statutory Auditors of 10 February 2015 with subsequent amendments,
- Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (“Regulation 537/2014”).

Those regulations require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the accompanying consolidated financial statements are free from material misstatement.

The purpose of the audit is to obtain reasonable assurance as to whether the consolidated financial statements as a whole were prepared based on properly maintained accounting records and are free from material misstatement due to fraud or error, and to issue an independent auditor's report containing our opinion. Reasonable assurance is a high level of assurance, but it is not guarantee that an audit conducted in accordance with the above mentioned standards will always detect material misstatements. Misstatements may arise as a result of fraud or error and are considered material if it can reasonably be expected that individually or in aggregate, they could influence economic decisions of the users taken on the basis of these consolidated financial statements. The risk of not detecting a material misstatement due to fraud is higher than the risk of not recognizing a material misstatement due to an error, as fraud may involve collusion, falsification, deliberate omissions, misleading or circumventing internal control and may affect every area of law and regulation, not just this directly affecting the consolidated financial statements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company’s preparation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the consolidated financial statements.

The scope of the audit does not include assurance on the future profitability of the audited Group nor effectiveness of conducting business matters of the Group now and in the future by the Company’s Management Board.

In accordance with International Auditing Standard 320 section 5 the concept of materiality is applied by the auditor both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the consolidated financial statements and in forming the opinion in the auditor’s report. Hence all auditor’s assertions and statements contained in the auditor’s report, including those on other information or regulatory requirements, are made with the contemplation of the qualitative and quantitative materiality levels established in accordance with auditing standards and auditor’s professional judgement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. The opinion is consistent with the additional report to the audit committee issued on the date of this report.

Independence

While conducting our audit, the key certified auditor and the audit firm remained independent of the entities comprising the Group in accordance with the regulations of Act on Statutory Auditors, Regulation 537/2014 and principles of professional ethics adopted by resolutions of the National Council of Statutory Auditors.

Based on our best knowledge and belief, we declare that we have not provided non-audit services, that are prohibited based on article 136 of the Act on Statutory Auditors and article 5, point 1 of Regulation 537/2014, to the Company.

Appointment of the audit firm

We were appointed to audit the accompanying consolidated financial statements based on the Company's Supervisory Board resolution dated 19th of April 2017. We have been auditing the consolidated financial statements of the Company consecutively since the beginning of the financial year ended 31 December 2008; this is for 10 years.

Most significant assessed risks

In the course of our audit we have identified the below described most significant assessed risks of material misstatement (key audit matters), including due to fraud and we designed appropriate audit procedures in response to those risks. Where we considered to be relevant in order to understand the nature of the identified risk and audit procedures performed we have also included key observations arising with respect to those risks.

These matters were addressed in the context of our audit of the accompanying consolidated financial statements as a whole, and in forming our opinion thereon. Therefore we do not provide a separate opinion on these matters.

Description of the nature of the risk of material misstatement (key audit matters)	*Audit procedures in response to the identified risk*
Impairment of non-current assets The carrying value of the Group's property, plant and equipment, investment properties, intangible assets and shares in joint ventures presented in balance sheet amounted to PLN 890 million at 31 December 2017.	Our procedures in this area included among others: · Documentation of understanding of the process relating to identifications of impairment indicators and testing of impairment of non-current assets and of the principles relating to recording allowances of impairment of these

The volatility of paper and pulp prices to which the Group is significantly exposed is one of the factors which determines financial results of the Group and impact on the risk of impairment relating to non- current assets of the Group. The Management Board has identified impairment indicators, including the carrying amount of the net assets exceeding its market capitalization. Taking into consideration above, the Group's Management Board performed impairment tests in relation to cash generating units where the impairment indicators existed. Recoverable value of non-current assets is dependent on macro-economic assumptions about future paper and pulp prices, discount rates and currency exchange rates as well as internal assumptions relating to future production levels and operating costs. The data used for the assessment of the recoverable value of non- current assets depend on several assumptions in relation to future cash flows, and discount rate. Those projections involve significant risk of change due to changing market circumstances. The outcome of performed impairment tests may be significantly different depending on the assumptions used. As result of the test performed the Management has booked impairment allowance amounting to PLN 24m in relation Arctic Paper Grycksbo cash generating unit in the consolidated financial statement for the year ended 31 December 2017. The matters relating to impairment of non-current assets are disclosed in the following notes to the financial statements: Note 5	non- current assets, analysis of internal controls environment in this respect, · Analysis of the Management judgements in relation to identification of indicators of impairment of non- current assets, · Assessment of the Management judgement in relation to identification of cash generating units, · Assessment of assumptions and estimations made by the Group used in determination of recoverable value of non- current assets, using the support of the EY valuation internal specialists in the area, by: - Assessment of the macro- economic assumptions for the following years taken by the Group Management mainly in relation to discount rate by comparison of the values to the publicity available projections and analysis, - Assessment of significant input data and assumptions taken in the impairment testing of property, plant and equipment, investment properties, intangible assets, shares in joint ventures, in particular relating to sales and production levels, operating costs, by comparison the values to historical data and actual results, - Analysis of realization of historical budgets in relation to current results, Assessment of discounted cash flows model used by the Group in relation to its compliance with existing financial reporting standards, sensitivity analysis of the model in relation to key assumptions of the prices and macro- economic assumptions, Moreover we have assessed the appropriateness and completeness of the disclosures in the financial statement in relation to impairment of non- current assets.

Material values based on professional judgements and estimates, Note 9 Significant accounting policies, Note 10 Operating segments, Note 18 Property, plant and equipment, Note 20 Investment properties, Note 22 Shares in joint ventures, Note 25 Impairment test of non- current assets.	
Capitalization of expenditures for modernization of property, plant and equipment and depreciation of tangible and intangible assets During the year ended 31 December 2017 the Group incurred investment expenditures for property, plant and equipment amounting to PLN 178 million. The significant part of the expenditures related to modernizations of existing machinery. The analysis of meeting of criteria for recognition in relation to capitalized modernizations and whether the capitalizations improve value in use of fixed asset (increase of value in use as required by IAS 16.10) due to the expenditure require professional judgement from the Management. The expenditures effected in increasing of capacity or relating to improving value in use of existing fixed assets are treated as expenditures increasing the value of tangible assets, however the costs of current maintenance of those assets relating to maintenance costs do not increase the value of fixed assets and are recorded in profit and loss as they are incurred. Moreover the area in which significant professional judgement exists and which significantly impacts on fixed assets value in balance sheet is the determination of economic useful lives of fixed assets and periodical verification of depreciation rates.	Our procedures in this area included i.a.: · Documentation of understanding of the process relating to purchases and recognition of tangible assets and capitalization of modernization expenditures, · Analysis of control environment and testing of internal controls in relation to incurring of expenditures for tangible assets including distinguishing between expenditures for current costs and expenditures increasing value in use of property, plant and equipment, · Assessment of accounting principles in relation to recognition of tangible assets and distinguishing between modernization and maintenance costs according to existing financial reporting standards, · Assessment, on the chosen sample, if the recognition criteria were met in relation to modernization expenditures recognized as tangible assets in current year, · Discussion with investment project managers on the impact of particular modernization expenditures on value in use of selected fixed assets, · Check, on the chosen sample, of technical documentation confirming that selected modernization expenditures met the recognition criteria, · Discussion with technical department employees and with Management on

As of 31 December 2017 the Management Board has performed verification of depreciation rates set for the tangible assets. As result of the performed analysis the error of prior year was identified. The error was an effect incorrectly determined depreciation rates due to lack of annual review of remaining useful lives in relation to assets relating to acquisition of Rottneros group. After the analysis performed there was opening balance adjustment booked, moreover the comparative data in the financial statement was appropriately restated. The matters relating to Property, Plant & Equipment are disclosed in the following notes to the financial statements: Note 9 Significant accounting policies, Note 18 Property, plant and equipment, Note 7.2.2 Change in depreciation rates	depreciation rates and on remaining economic useful lives for selected fixed assets. Moreover we have assessed the adequacy and completeness of the disclosures to the financial statements in relation to investments in tangible assets.

Opinion

In our opinion, accompanying consolidated financial statements:

- give a true and fair view of the financial position of the Group as at 31 December 2017 and its financial performance for the year from 1 January 2017 to 31 December 2017 in accordance with International Accounting Standards, International Financial Reporting Standards and related interpretations announced in the form of regulations of the European Commission and other applicable laws and the adopted accounting policies,
- are in respect of the form and content in accordance with legal regulations governing the Company and the Company's Statute.

Report on other legal and regulatory requirements

Opinion on the Directors' Report

Our opinion on the consolidated financial statements does not include the Directors' Report.

The Company's Management is responsible for preparation of the Directors' Report in accordance with the Accounting Act and other applicable laws. In addition, the Company's Management and members of the Company's Supervisory Board are required to ensure that the Directors' Report meets the requirements of the Accounting Act.

Our responsibility in accordance with the Act on Statutory Auditors was to issue an opinion on whether the Director's Report was prepared in accordance with relevant laws and that it is consistent with the information contained in the accompanying consolidated financial statements.

Our responsibility was also to make a statement, on whether based on our knowledge about the Company and its environment obtained during the audit of the accompanying consolidated financial statements we have identified in the Director's Report any material misstatements and to indicate the nature of each of material misstatement.

In our opinion the Directors' Report was prepared in accordance with the relevant regulations and reconciles with the information derived from the accompanying consolidated financial statements. Moreover, based on our knowledge of the Company and its environment obtained during the audit of the financial statements, we have not identified material misstatements in the Directors' Report.

Opinion on the corporate governance application representation

The Company's Management and members of the Company's Supervisory Board are responsible for preparation of the representation on application of corporate governance in accordance with the applicable laws.

In connection with the conducted audit of the accompanying consolidated financial statements, our responsibility in accordance with the Act on Statutory Auditors was to issue an opinion on whether the issuer, obliged to present a representation on application of corporate governance, constituting a separate part of the Director's Report, included in the representation information required by applicable laws and whether the related information is in accordance with applicable regulations and with the information included in the accompanying consolidated financial statements.

In our opinion, in the representation on application of corporate governance, the Company has included information stipulated in paragraph 91, section 5, point 4, letter a, b, g, j, k and l of the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities and conditions of deeming information required by the regulations of a non-member country equal ('Regulation'). Information stipulated in paragraph 91, section 5, point 4 letter c-f, h and i of the Regulation included in the representation on application of corporate governance is in accordance with applicable laws and information included in the accompanying consolidated financial statements.

Information on preparation of the statement on non-financial information

In accordance with the requirements of the Act on Statutory Auditors, we inform that the Company has published information on the preparation of a separate report on non-financial information, referred to in art. 49b par. 9 of the Accounting Act and that the Company has prepared such a separate report.

We have not performed any attestation services in respect to the separate report on non-financial information and do not express any assurance in its respect.

Wroclaw, 9th of April 2018

Key Certified Auditor

Marek Musiał
certified auditor
no in the register: 90036

on behalf of
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