Arctic Paper Capital Group

Consolidated Annual Report

2017

ARCTIC PAPER

Translator's 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 in Polish version is binding.

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

Dear Ladies and Gentlemen,

2017 – important steps taken towards a brighter future in paper

Over the past two years, we have laid the foundation for positive development for the Arctic Paper Group. The first steps were taken in 2015-2016, when a comprehensive cost-efficiency programme, combined with refinancing, strengthened our competitiveness. During 2017, we have developed a new strategy for the paper business "A Future in Paper - Strategic Agenda 2022", which is now being implemented in order to achieve sustainably higher profitability.

Our efforts have shown results. In 2017, the Arctic Paper Group reached a turnover of PLN 2,953 million and an EBITDA of PLN 242 million, despite tough market conditions for graphic paper operations. The massive increase in the pulp price during the year - which we have not yet fully compensated for by price increases – in combination with the fact that we operate in a competitive environment has put pressure on our margins. Through our majority ownership in the Swedish listed pulp producer Rottneros, which we consider to be a strategic financial asset, we receive our share of the profitability in the pulp market. The combination contributes to stability.

We continue to gain market share

The market for graphic paper is shrinking and there remains significant overcapacity in the industry. Even though we estimate that we have the largest volume loss behind us, we are expecting the trend to continue in the foreseeable future. But development is not negative. There are growing segments in the graphical paper market, for example within digital printing and high-quality graphical design.

The future of Arctic Paper does not primarily build on volumes and tonnes, but on customer relations and premium products with a higher value per tonne. We continue to gain market share with the help of our strong brands Munken, Arctic Volume, G-Print, Amber and Arctic. During 2017, we created growth in the digital printing segment, having introduced Amber Highway in 2015 and Munken Highway in 2016. This year, we completed the offering with the coated G-Print Highway. Of our total output of 663,000 tonnes, specialty and premium papers now account for 20 percent of the volume, measured in tonnes, and 26 percent of the sales value.

Building a result-oriented corporate culture

An important part of our work is to continue to build a strong result-oriented corporate culture, in which all employees are truly engaged in our efforts. Therefore, we work goal-oriented, breaking down our goals to the level of entities and individuals. Sustainability is a central part of our strategy, and we make significant investments to reduce our environmental impact. The decision to expand the hydropower at our mill in Munkedal is one important step in this process.

We enter 2018 stronger than before. We have a plan for the future with six strategic initiatives for achieving an EBIT margin of 10 percent at least 2022. We believe in the future of paper and see great opportunities to become more profitable by focusing on selected segments and new geographical markets, working with customer-driven innovation and continuing to build strong brands.

Sincerely yours,
Per Skoglund
President of the Management Board of Arctic Paper S.A.

Introduction

to the annual report for 2017
Arctic Paper S.A. Capital Group

Information on the report

This Consolidated Annual Report for 2017 was prepared in accordance with the Regulation of the Minister of Finance of 19 February 2009 on current and periodic disclosures made by issuers of securities and terms and conditions of classifying as equivalent information required by the law of non-member states (Journal of Laws of 2009, No. 33, item 259, as amended) and a part of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), approved by the EU (IFRS, EU).

As at the approval date of these consolidated financial statements for publication, in light of the current process of IFRS endorsement in the European Union and the nature of the Group's activities, there is no difference between the effective IFRS standards and the IFRS standards endorsed by the European Union. IFRS comprise standards and interpretations accepted by the International Accounting Standards Board (IASB).

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

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

Definitions and abbreviations

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

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

Arctic Paper, Company, Issuer, Parent Company, AP	Arctic Paper Spółka Akcyjna with its registered office in Poznań, Poland
Capital Group, Group, Arctic Paper Group, AP Group	Capital Group comprised of Arctic Paper Spółka Akcyjna and its subsidiaries as well as joint ventures
Arctic Paper Kostrzyn, AP Kostrzyn, APK	Arctic Paper Kostrzyn Spółka Akcyjna with its registered office in Kostrzyn nad Odrą, Poland
Arctic Paper Munkedals, AP Munkedals, APM	Arctic Paper Munkedals AB with its registered office in Munkedal Municipality, Västra County, Sweden
Arctic Paper Mochenwangen, AP Mochenwangen, APMW	Arctic Paper Mochenwangen GmbH with its registered office in Mochenwangen, Germany
Arctic Paper Grycksbo, AP Grycksbo, APG	Arctic Paper Grycksbo AB with its registered office in Kungsvagen, Grycksbo, Sweden
Paper Mills	Arctic Paper Kostrzyn, Arctic Paper Munkedals, Arctic Paper Grycksbo, Arctic Paper Mochenwangen (by the end of December 2015)
Arctic Paper Investment AB, API AB	Arctic Paper Investment AB with its registered office in Göteborg, Sweden
Arctic Paper Investment GmbH, API GmbH	Arctic Paper Investment GmbH with its registered office in Wolpertswende, Germany
Arctic Paper Verwaltungs	Arctic Paper Verwaltungs GmbH with its registered office in Wolpertswende, Germany
Arctic Paper Immobilienverwaltungs	Arctic Paper Immobilienverwaltungs GmbH & Co. KG with its registered office in Wolpertswende, Germany
Kostrzyn Group	Arctic Paper Kostrzyn Spółka Akcyjna with its registered office in Kostrzyn nad Odrą and EC Kostrzyn Sp. z o.o. with its registered office in Kostrzyn nad Odrą
Mochenwangen Group	Arctic Paper Investment GmbH, Arctic Paper Mochenwangen GmbH, Arctic Paper Verwaltungs GmbH, Arctic Paper Immobilienverwaltungs GmbH & Co.KG (disclosed in this report as discontinued operations with the exception of provisions for retirement severance pay)
Grycksbo Group	Arctic Paper Grycksbo AB and Arctic Paper Investment AB,
Sales Offices	Arctic Paper Papierhandels GmbH with its registered office in Vienna (Austria);
	Arctic Paper Benelux SA with its registered office in Oud-Haverlee (Belgium);
	Arctic Paper Danmark A/S with its registered office Greve (Denmark);
	Arctic Paper France SA with its registered office in Paris (France);
	Arctic Paper Deutschland GmbH with its registered office in Hamburg (Germany);

	Arctic Paper Italia Srl with its registered office in Milan (Italy);
	Arctic Paper Baltic States SIA with its registered office in Riga (Latvia);
	Arctic Paper Norge AS with its registered office in Oslo (Norway);
	Arctic Paper Polska Sp. z o.o. with its registered office in Warsaw (Poland);
	Arctic Paper España SL with its registered office in Barcelona (Spain);
	Arctic Paper Sverige AB with its registered office in Munkedal (Sweden);
	Arctic Paper Schweiz AG with its registered office in Zurich (Switzerland);
	Arctic Paper UK Ltd with its registered office in Caterham (UK);
	Arctic Paper East Sp. z o.o. with its registered office in Kostrzyn nad Odrą (Poland);
Arctic Paper Finance AB	Arctic Paper Finance AB with its registered office in Göteborg, Sweden
Rottneros, Rottneros AB	Rottneros AB with its registered office in Sunne, Sweden
Rottneros Group, Rottneros AB Group	Rottneros AB with its registered office in Sunne, Sweden; Rottneros Bruk AB with its registered office in Sunne, Sweden; Utansjo Bruk AB with its registered office in Harnösand, Sweden, Vallviks Bruk AB with its registered office in Söderhamn, Sweden; Rottneros Packaging AB with its registered office in Stockholm, Sweden; SIA Rottneros Baltic with its registered office in Ventspils, Latvia
Pulp Mills	Rottneros Bruk AB in Sunne, Sweden; Vallviks Bruk AB with its registered office in Söderhamn, Sweden
Rottneros Purchasing Office	SIA Rottneros Baltic with its registered office in Latvia
Office Kalltorp	Kalltorp Kraft Handelsbolaget with its registered office in Trollhattan, Sweden
Nemus Holding AB	Nemus Holding AB with its registered office in Göteborg, Sweden
Thomas Onstad	The Issuer's core shareholder, holding directly and indirectly over 50% of shares in Arctic Paper S.A.; a member of the Issuer's Supervisory Board
Management Board, Issuer's Management Board, Company's Management Board, Group’s Management Board	Management Board of Arctic Paper S.A.
Supervisory Board, Issuer’s Supervisory Board, Company’s Supervisory Board, Group’s Supervisory Board, SB	Supervisory Board of Arctic Paper S.A.
GM, General Meeting, Issuer’s General Meeting, Company’s General Meeting	General Meeting of Arctic Paper S.A.
EGM, Extraordinary General Meeting, Issuer's Extraordinary General Meeting, Company's Extraordinary General Meeting	Extraordinary General Meeting of Arctic Paper S.A.
Articles of Association, Issuer's Articles of Association, Company’s Articles of Association	Articles of Association of Arctic Paper S.A.

SEZ	Kostrzyńsko-Słubicka Special Economic Zone
Court of Registration	District Court Poznań-Nowe Miasto i Wilda in Poznań
Warsaw Stock Exchange, WSE	Giełda Papierów Wartościowych w Warszawie Spółka Akcyjna
KDPW, Depository	Krajowy Depozyt Papierów Wartościowych Spółka Akcyjna with its registered office in Warsaw
PFSA	Polish Financial Supervision Authority
SFSA	Swedish Financial Supervisory Authority, equivalent to PFSA
NASDAQ in Stockholm, Nasdaq	Stock Exchange in Stockholm, Sweden
CEPI	Confederation of European Paper Industries
EURO-GRAPH	The European Association of Graphic Paper Producers
Eurostat	European Statistical Office
GUS	Central Statistical Office of Poland
NBSK	Northern Bleached Softwood Kraft
BHKP	Bleached Hardwood Kraft Pulp

Definitions of selected terms and financial indicators and abbreviations of currencies

Sales profit margin	Ratio of profit (loss) on sales to sales revenues from continuing operations
EBIT	Profit on continuing operating activity (Earnings Before Interest and Taxes)
EBIT profitability, operating profitability, operating profit margin	Ratio of operating profit (loss) to sales revenues from continuing operations
EBITDA	Operating profit from continuing operations plus depreciation and amortisation and impairment charges (Earnings Before Interest, Taxes, Depreciation and Amortisation)
EBITDA profitability, EBITDA margin	Ratio of operating profit plus depreciation and amortisation and impairment charges to sales revenues from continuing operations
Gross profit margin	Ratio of gross profit (loss) to sales revenues from continuing operations
Sales profitability ratio, net profit margin	Ratio of net profit (loss) to sales revenues
Return on equity, ROE	Ratio of net profit (loss) to equity income
Return on assets, ROA	Ratio of net profit (loss) to total assets
EPS	Earnings Per Share, ratio of net profit to the weighted average number of shares
BVPS	Book Value Per Share, Ratio of book value of equity to the number of shares
Debt-to-equity ratio	Ratio of total liabilities to equity
Equity to fixed assets ratio	Ratio of equity to fixed assets
Interest-bearing debt-to-equity ratio	Ratio of interest-bearing debt and other financial liabilities to equity
Net debt-to-EBITDA ratio	Ratio of interest-bearing debt minus cash to EBITDA from continuing operations
Solidity ratio	Ratio of equity (calculated in compliance with Swedish GAAP accounting principles) to assets

Interest coverage	Ratio of interest value (less of financial lease interest) to EBITDA (calculated in compliance with Swedish GAAP accounting principles)
EBITDA-to-interest coverage ratio	Ratio of EBITDA to interest expense from continuing operations
Current liquidity ratio	Ratio of current assets to short-term liabilities
Quick ratio	Ratio of current assets minus inventory and short-term accruals, prepayments and deferred costs to current liabilities
Acid test ratio	Ratio of total cash and similar assets to short-term liabilities
DSI	Days Sales of Inventory, ratio of inventory to cost of sales multiplied by the number of days in the period
DSO	Days Sales Outstanding, ratio of trade receivables to sales revenues from continuing operations multiplied by the number of days in the period
DPO	Days Payable Outstanding, Ratio of trade payables to cost of sales from continuing operations multiplied by the number of days in the period
Operating cycle	DSI + DSO
Cash conversion cycle	Operating cycle – DPO
FY	Financial year
Q1	1st quarter of the financial year
Q2	2nd quarter of the financial year
Q3	3rd quarter of the financial year
Q4	4th quarter of the financial year
H1	First half of the financial year
H2	Second half of the financial year
YTD	Year-to-date
Like-for-like, LFL	Analogous, with respect to operating result.
p.p.	Percentage point – difference between two amounts of one item given in percentage
PLN, zł, złoty	Monetary unit of the Republic of Poland
gr	grosz – 1/100 of one zloty (the monetary unit of the Republic of Poland
Euro, EUR	Monetary unit of the European Union
GBP	Pound sterling – monetary unit of the United Kingdom
SEK	Swedish Krona – monetary unit of the Kingdom of Sweden
USD	United States dollar, the legal tender in the United States of America
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
IFRS EU	International Financial Reporting Standards approved by the European Union
GDP	Gross Domestic Product

Other definitions and abbreviations

Series A Shares	50,000 Shares of Arctic Paper S.A. A series ordinary shares of PLN 1 each.

Series B Shares	44,253,500 Shares of Arctic Paper S.A. B series ordinary shares of PLN 1 each.
Series C Shares	8,100,000 Shares of Arctic Paper S.A. C series ordinary shares of PLN 1 each.
Series E Shares	3,000,000 Shares of Arctic Paper S.A. E series ordinary shares of PLN 1 each.
Series F Shares	13,884,283 Shares of Arctic Paper S.A. F series ordinary shares of the nominal value of PLN 1 each
Shares, Issuer's Shares	Series A, Series B, Series C, Series E, and Series F Shares jointly

Forward looking statements

The information contained in this report which does not relate to historical facts relates to forward looking statements. Such statements may, in particular, concern the Group's strategy, business development, market projections, planned investment outlays, and future revenues. Such statements may be identified by the use of expressions pertaining to the future such as, e.g., "believe", "think", "expect", "may", "will", "should", "is expected", "is assumed", and any negations and grammatical forms of these expressions or similar terms. The statements contained in this report concerning matters which are not historical facts should be treated only as projections subject to risk and uncertainty. Forward-looking statements are inevitably based on certain estimates and assumptions which, although our management finds them rational, are naturally subject to known and unknown risks and uncertainties and other factors that could cause the actual results to differ materially from the historical results or the projections. For this reason, we cannot assure that any of the events provided for in the forward-looking statements will occur or, if they occur, about their impact on the Group's operating activity or financial situation. When evaluating the information presented in this report, one should not rely on such forward-looking statements, which are stated only as at the date they are expressed. Unless legal regulations contain detailed requirements in this respect, the Group shall not be obliged to update or verify those forward-looking statements in order to provide for new developments or circumstances. Furthermore, the Group is not obliged to verify or to confirm the analysts' expectations or estimates, except for those required by law.

Forward looking statements relating to risk factors

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

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

Management Board's Report

from operations of the Arctic Paper S.A.
Capital Group to the report for 2017

Description of the Arctic Paper Group's business

General information

The Arctic Paper Group is a leading European producer in terms of production volume of bulky book paper, offering a broad range of products in the segment and one of the leading producers of high-quality graphic paper in Europe. The Group produces numerous types of uncoated and coated wood-free paper as well as wood-containing uncoated paper for printing houses, paper distributors, book and magazine publishing houses and the advertising industry. In connection with acquisition of the Rottneros Group in December 2012, the Group's assortment was expanded with the production of pulp. As at 31 December 2017 the Arctic Paper Group employs about 1,750 people in its Paper Mills, companies involved in sale of paper and in pulp producing companies, procurement office and a company producing food packaging. The Group's Paper Mills are located in Poland and Sweden, and have total production capacity of over 700,000 tons of paper per year. Paper production in the Paper Mill located in Germany, with total production output of 115,000 tons of paper annually, was discontinued at the end of 2015. Our Pulp Mills are located in Sweden and have aggregated production capacities of over 400,000 tons of pulp annually. As at 31 December 2017 the Group had 14 Sales Offices ensuring access to all European markets, including Central and Eastern Europe. Our consolidated sales revenues for 12 months of 2017 amounted to PLN 2,953 million.

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

Group Profile

The principal business of the Arctic Paper Group is paper production and sales. The Group's additional business, partly subordinate to paper production, covers:

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

Our production facilities

As on 31 December 2017 as well as on the day hereof, the Group owned the following Paper Mills:

- the Paper Mill in Kostrzyn nad Odrą (Poland) has the production capacity of about 280,000 tons per year and mainly produces uncoated wood-free paper for general printing use such as printing books, brochures and forms, and for producing envelopes and other paper products;
- the Paper Mill in Munkedal (Sweden) has the production capacity of about 160,000 tons per year and mainly produces fine uncoated wood-free paper used primarily for printing books and high-quality brochures;
- the Paper Mill in Grycksbo (Sweden) has the production capacity of about 250,000 tons per year and produces coated wood-free paper used for printing maps, books, magazines, posters and printing of advertising materials.

As on 31 December 2017 as well as on the day hereof, the Group owned the following Pulp Mills:

- The Pulp Mill in Rottneros (Sweden) has production capacity of about 150,000 tons annually and produces mainly two types of mechanical pulp: groundwood and chemo thermo mechanical pulp CTMP);

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

Our products

The product assortment of the Arctic Paper Group covers:

– Uncoated wood-free paper, in particular:
  › white offset paper that we produce and distribute primarily under the Amber brand which is one of the most versatile types of paper destined for various applications;
  › wood-free bulky book paper that we produce under the Munken brand, used primarily for book printing;
  › high quality graphic paper with very smooth surface, used for printing of various advertising and marketing materials that we produce under the Munken brand;
– Coated woodfree paper, in particular:
  › coated woodfree paper, manufactured under the G-Print and Arctic brands, used primarily for printing of books, magazines, catalogues, maps, personalised direct mail correspondence.
– Uncoated wood-containing paper, in particular:
  › premium wood containing bulky book paper that we produce and distribute under the Munken brand, was developed specially for multi-colour and B/W printing of books;
– Unbleached sulphate pulp:
  › fully bleached sulphate pulp and unbleached sulphate pulp used primarily to produce printing and writing paper, cardboard, toilet paper and white packaging paper.
– Mechanical fibre pulp:
  › chemo thermo mechanical pulp (CTMP) and groundwood which are used mainly for production of printing and writing papers;

Capital Group structure

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

Detailed information on the organisation of the Arctic Paper Capital Group with identification of the consolidated entities is provided in the section ‘Accounting principles (policies)’ and in note to the consolidated financial statements (note 1 and 2).

Changes in the capital structure of the Arctic Paper Group

In 2017, no material changes in the capital structure of the Arctic Paper Group occurred.

Modifications to the core management principles

In 2017 there were no material modifications 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 2017) 40,381,449 shares of the Group's Company, which constitutes 58.28% of its share capital and corresponds to 58.28% 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 6,223,658 shares representing 8.98% of the total number of shares in the Company, and via another entity – 600,000 shares accounting for 0.87% of the total number of shares of the Company. Mr Thomas Onstad's total direct and indirect holding in the capital of Arctic Paper S.A. as at 31 December 2017 was 68.13% and has not changed until the date hereof.

as at 09.04.2018

Shareholder	Number of shares	Share in the share capital [%]	Number of votes	Share in the total number of votes [%]
Thomas Onstad	**47 205 107**	**68,13%**	**47 205 107**	**68,13%**
- indirectly via	40 981 449	59,15%	40 981 449	59,15%
Nemus Holding AB	40 381 449	*58,28%*	*40 381 449*	*58,28%*
other entity	600 000	*0,87%*	*600 000*	*0,87%*
- directly	6 223 658	8,98%	6 223 658	8,98%
Other	**22 082 676**	**31,87%**	**22 082 676**	**31,87%**
Total	69 287 783	100,00%	69 287 783	100,00%
Treasury shares	-	0,00%	-	0,00%
Total	**69 287 783**	**100,00%**	**69 287 783**	**100,00%**

as at 31.12.2017

Shareholder	Number of shares	Share in the share capital [%]	Number of votes	Share in the total number of votes [%]
Thomas Onstad	**47 205 107**	**68,13%**	**47 205 107**	**68,13%**
- indirectly via	40 981 449	59,15%	40 981 449	59,15%
Nemus Holding AB	40 381 449	*58,28%*	40 381 449	*58,28%*
other entity	600 000	*0,87%*	600 000	*0,87%*
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Total	69 287 783	100,00%	69 287 783	100,00%
Treasury shares	-	0,00%	-	0,00%
Total	**69 287 783**	**100,00%**	**69 287 783**	**100,00%**

	as at 13.11.2017			
Shareholder	Number of shares	Share in the share capital [%]	Number of votes	Share in the total number of votes [%]
Thomas Onstad	**47 205 107**	**68,13%**	**47 205 107**	**68,13%**
- indirectly via	40 981 449	59,15%	40 981 449	59,15%
Nemus Holding AB	40 381 449	*58,28%*	40 381 449	*58,28%*
other entity	600 000	*0,87%*	600 000	*0,87%*
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Treasury shares	-	0,00%	-	0,00%
Total	**69 287 783**	**100,00%**	**69 287 783**	**100,00%**

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 2017.

Market environment

Segments of the graphic paper market

The graphic paper market is split into three core segments:
- high-quality paper,
- newsprint paper,
- magazine paper.

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

Graphic and book paper

- **Fine paper**
  Wood-free paper with more than 90% of chemical cellulose fibres in a fibrous mass. Product is resistant to aging.
  - ARCTIC PAPER — **Uncoated woodfree paper**
    For printed application such as: books, catalogues, inserts printed in colour or black-white. Printing techniques: offset and digital printing.
    - **Uncoated woodfree office paper**
  - ARCTIC PAPER — **Coated woodfree paper**
    coated by compounds of mineral pigments and glue, smoothened. Paper used for 4-coulour printing, where high quality of reproduction is required.
- **Wood-containing paper**
  Wood-containing paper produced from mechanical cellulose fibres. It is described by the content of wadding, which is responsible for good opacity but also for paper ageing process.
  - ARCTIC PAPER — **Uncoated wood-containing paper**
    paper used mainly for printing magazines, and one-colour pocket-books
  - **Coated wood-containing paper**
    Paper used mainly for large edition magazines and mass advertising materials

Below is a description of segments in the graphic market:

– fine paper is wood-free paper where minimum 90% of fibre mass is pulp fibres obtained with chemical methods;
  › uncoated wood-free paper made of pulp. It may be subject to additional processing like surface sizing, calendering, surface or mass dyeing.
  Two core categories of the paper include graphic paper (used e.g. to print books, handbooks and catalogues) and office copying paper.

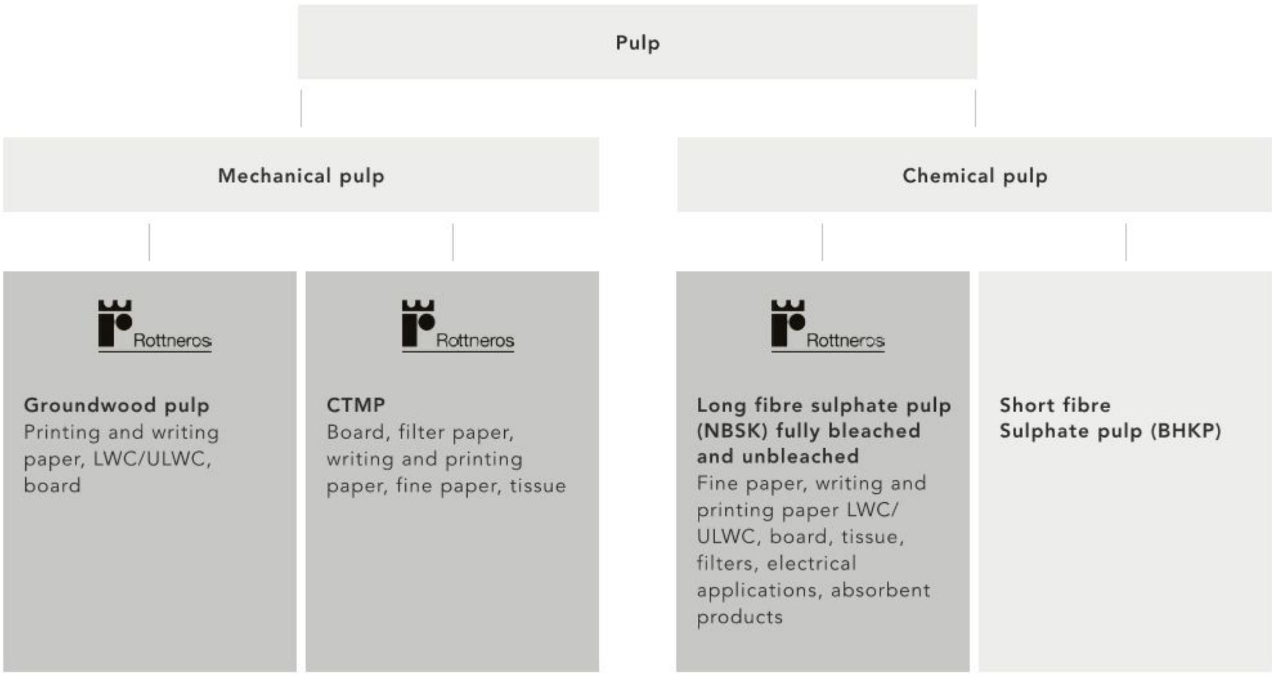
  › coated wood-free paper made of pulp is subject to coating with pigment and glue mixtures (kaolin, calcium carbonate). The coating may be performed on paper machines (online) or outside paper machines (offline). Coating of paper improves its smoothness and transparency of the background, improves the quality of colour reproduction.

– Wood-containing paper is most often manufactured of mechanical pulp or recycled-paper pulp, without or with small quantities of filler. It contains lignin which increases the opacity of the paper but accelerates ageing.
  › uncoated wood-containing paper is manufactured of mechanical pulp, used to print magazines with rotogravure and offset techniques (newsprint) and to print single-colour publications. Products of the Group in that segment are usually used to print paperbacks.

  › coated wood-containing paper is manufactured of mechanical pulp, it is double coated. It is used to print multi-colour magazines and catalogues.
  In that product group there is e.g.: SC (Supercalandered), MFC (Machine Finished Coated), LWC (Light Weight Coated), ULWC (Ultra Light Weight Coated) MWC (Medium Weight Coated). The paper in the form of rolls is used for typographic, offset and flexo printing.

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

Segments of the pulp market



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

- fully bleached sulphate pulp and unbleached sulphate pulp used primarily to produce printing and writing paper, cardboard, toilet paper and white packaging paper,
- chemo thermo mechanical pulp (CTMP) and groundwood which are used mainly for production of printing and writing papers.

Development directions and strategy

The core elements of the strategy of the Group include:

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

Our strategic objective for the coming years is to maintain our leading position in high quality paper for West European markets while benefiting from the anticipated growth of the paper market in the Central and East European markets. The West European markets remain our strategic objective due to their size; however, we are of the opinion that the paper market in Central and Eastern Europe will grow faster than Western Europe. We expect the growth to rely on long-term growth of the low paper consumption per inhabitant and the anticipated transfer of printing capacities from Western Europe to Central and Eastern Europe. The core elements of the strategy cover the use of our competitive advantages resulting from the location and effective performance of our Paper Mill in Kostrzyn nad Odrą and the expansion of our sales network in Central and Eastern Europe.

In the near future we will be reviewing possibilities to increase sales by adding new products and an increase in new markets of specialist papers and design papers.

Continued improvement of production performance and distribution

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

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

Sales structure

In 2017 and in 2016, the sales structure by main product lines was as follows:

thousand tons	2017	share %	2016	share %
Paper	*663*	65%	*661*	65%
Amber	329	32%	*329*	32%
G-Print	131	13%	*128*	13%
Munken	101	10%	*100*	10%
Arctic	102	10%	*104*	10%
AP Tech	0	0%	0	0%
Pulp	*365*	35%	*351*	35%
NBSK	205	20%	206	20%
Groundwood	72	7%	67	7%
CTMP	88	9%	77	8%
Total paper and pulp	1 028	100%	1 012	100%

PLN thousands	2017	share %	2016	*share %*
Paper	*2 173 538*	*74%*	*2 219 154*	*75%*
Amber	1 030 309	35%	1 042 710	35%
G-Print	381 160	13%	389 778	13%
Munken	440 530	15%	451 037	15%
Arctic	321 451	11%	334 907	11%
AP Tech	88	0%	722	0%
Pulp	*779 267*	*26%*	747 818	25%
NBSK	502 215	17%	501 423	17%
Groundwood	119 564	4%	114 972	4%
CTMP	157 487	5%	131 423	4%
Total paper and pulp	2 952 806	100%	2 966 972	100%

In 2017 there were no material changes to the sales structure of paper and pulp by the Group or in the revenue structure from sales of paper and pulp by the Group by its products.

Sales markets

In 2017, the proportion of the Group's sales outside of Poland in PLN thousand was 88% and was not changed versus 2016 (88%). This year, similarly to previous years, sales were focused on European markets. The share of those markets in the overall value of sales was 90% in 2017 (94% in the previous year).
The geographical structure of sales revenues by the main markets in 2016 versus the previous year is presented in note 10.1 to the consolidated financial statements.

Buyers

The base of our customers covers both direct and indirect buyers. Direct buyers purchase the Group's products at our Paper Mills. Indirect buyers do not buy the Group's products on their own and they resort to the services of advertising companies or paper distributors, nevertheless, they constitute an important target group of marketing activities of Arctic Paper since it is indirect buyers that recommend the use of the Group’s papers to direct buyers. The groups of direct and indirect buyers of products include:

- printing houses – they are direct buyers straight from the Group's Paper Mills,
- distributors – they are direct buyers of paper manufactured by the Group for further re-sale,
- publishers – they are direct and indirect buyers of paper manufactured by the Group straight from the Group for their publishing business and instruct or recommend the use of our paper to printing houses to which they commission the printing of books and other publications,
- advertising agencies – they are mainly indirect buyers that do not buy our products directly; however, they play an important role in commissioning and recommending our products to printing houses, in particular high quality paper to print annual reports of companies, brochures, leaflets and packaging,
- final buyers – those are direct and indirect buyers that buy our products directly; they also play an important role in commissioning and recommending our products to printing houses to which they commission printing services.

Pulp mill products are mainly bought by customers that produce paper for printing, paper hygienic products and cardboard as well as electrical devices and filters. Pulp is supplied to entities that do not have the capacity to produce pulp by themselves and to buyers that produce certain types of pulp and look for suppliers of other types of pulp.

In our opinion, we are not materially dependent on any single specific buyer. The Group's consolidated revenues for 2017 show that the share of the largest buyer did not exceed 10% of total sales revenues.

Vendors & Suppliers

In its business, the Group relies on the following goods and services:
- Pulp for Paper Mills,
- Wood for Pulp Mills,
- Chemicals,
- Electricity,
- Transport services.

Pulp

Pulp is the core material used by the Group to produce paper. The Group acquires pulp on the basis of revolving annual contracts concluded under framework agreements or one-off transactions.
As a result of the acquisition of the Rottneros Group in December 2012, a part of pulp is provided to the Pulp Mills from the Rottneros Group Pulp Mills.

Wood

Wood is the core material used by the Pulp Mills to produce pulp. The Rottneros Group has a procurement department placing orders with sawmills in Sweden as well as its subsidiary company – SIA Rottneros Baltic, purchasing wood for the Pulp Mill in Vallvik in Eastern Europe, primarily in Latvia and Russia.

Chemicals

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

Electricity

In its production processes, the Group uses electricity and heat energy. The entire demand for electricity and heat energy for the Paper Mill in Kostrzyn is covered with its own heat and power plant using natural gas. The gas is supplied pursuant to a contract with a Polish supplier (PGNiG) at annual indexed prices in line with changes to the sectoral indicators publish by GUS [Central Statistical Office of Poland] subject to negotiations of the indexation formula when the contractual change levels are exceeded. Gas is acquired from deposits located close to Kostrzyn nad Odrą and delivered to the Paper Mill with a local pipeline.

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

Energy for the Paper Mill Arctic Paper Grycksbo AB is obtained from biomass and electricity is partly acquired from external suppliers.
The Rottneros Pulp Mill covers its entire demand for electricity with purchases from external suppliers.
The Vallvik Pulp Mill provides for about 75% of its demand for electricity with its own resources. The remaining demand for electricity is covered with purchases from external suppliers.

Transport services

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

Entities in the Group are not dependent on those providers. The Group's consolidated revenues for 2017 show that the share of the largest service provider did not exceed 10% of total sales revenues.

Information on the seasonal or cyclical nature of business

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

Reduced demand for paper occurs each year during summer holidays and around Christmas when some printing houses, in particular in Western Europe are closed. Changes in the demand for paper are not material versus the demand for paper in other periods of the year.

Research and development

The Arctic Paper Group conducts primarily development works aimed at enhancing and modernising production processes and improving the quality of products on offer and expanding the assortment thereof. In the period covered with this report, the Paper Mills and Pulp Mills carried out development works to improve production processes, in particular to shorten the idle time of paper machines as well as works aimed at improving the paper/pulp quality and extending the assortment and to improve quality properties of the products.
New product development was an important aspect of the development works in 2017.

Environment

Our Group complies with environmental standards set forth in numerous applicable regulations and in administrative decisions. The standards are aimed at ensuring protection of soil, air and water against pollution as well as noise and electromagnetic fields. Below, we provide a description of how environmental regulations affect the operations of our Paper Mills and Pulp Mills:

Kostrzyn Paper Mill

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

In May 2008 a new sewage treatment plant was opened at the facility in Kostrzyn nad Odrą. Pursuant to a decision of the Governor of the Lubuskie Province of 14 August 2007, Kostrzyn obtained a water law permit to discharge rainwater and melt water and to construct a discharge dock to the River of Warta (valid until 1 August 2017). In 2017 a new water law permit was obtained to discharge rain and melt water, valid until 25 June 2027.

AP Kostrzyn participates in the EU Emissions Trading System (ETS) for greenhouse gases. A permit to emit greenhouse gases was obtained by AP Kostrzyn pursuant to a decision of the Governor of the Lubuskie Province of 9 November 2016 for the paper production installation with the production capacity in excess of 20 tons per day located in the facility in Kostrzyn nad Odrą. The permit was granted for an indefinite period of time. In connection with the permit, Kostrzyn is obliged to monitor the volumes of CO2 emissions and to file annual report on the emissions.

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

Munkedals Paper Mill

The business of Munkedals is subject to environmental management systems EMAS and ISO 14001. EMAS (Eco-Management and Audit Scheme) is a voluntary system applied by the European Union which applies to enterprises outstanding for their constantly improved environmental protection level within their business. Companies registered with EMAS comply with environmental protection regulations, maintain an environmental management system and publish information on environmental protection in their business in the form of a separate verified statement on compliance with environmental protection regulations. ISO, International Standards Organisation, has been developing various standards. ISO 14000 is a group of best known standards related to environmental management (activities taken up by enterprises in order to (i) mitigate the adverse impact of their business on the environment, and (ii) ensure ongoing improvement of the level of environmental protection).

Certain properties owned by Munkedals are located in the Natura 2000 area. Areas in the Natura 2000 constitute wild nature reservations established on the basis of a decision of the District Council of Munkedal (Sweden) in 2005. The objective to establish the Natura 2000 network was to preserve the natural habitats and vegetation and animal species most endangered with extinction all over Europe. The extent of the coverage and the restrictions concerning business operations are set forth in the Council Directive 92/43/EEC on the conservation of natural habitats and of wild fauna and flora (Habitat Directive) and in the Council Directive 79/409/EEC on the conservation of wild birds (Birds Directive) of 2 April 1979 and the applicable domestic regulations. The protection level of habitats and birds in Natura 2000 areas is subject to the occurrence of specific species and/or habitats that are protected.

Grycksbo Paper Mill

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

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

Arctic Paper Grycksbo AB participates in the EU Emissions Trading System (ETS) for greenhouse gases. 2010 was the first year when zero CO2 emissions from fossil fuels were declared. That was made possible as a result of a reconstruction of the boiler combined with an investment in equipment to handle biofuels, electrical filters for flue gas particles and reconstruction to turbine generating electricity from renewable sources.

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

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

Pulp Mills

Pulp Mills see to it that the wood used to produce pulp comes from reliable and certified sources. Pulp is marked with the "FSC" and "PEFC" symbols – two systems that operate in Europe and stand guard over the lawful sources of wood.

Summary of consolidated financial results

Selected items of the consolidated profit and loss account

PLN thousand	2017	2016	Change % 2017/2016
Sales revenues	**2 952 806**	**2 966 972**	**(0,5)**
of which:			
Sales of paper	*2 173 538*	*2 219 154*	*(2,1)*
Sales of pulp	*779 267*	*747 818*	*4,2*
Profit on sales	535 725	567 126	(5,5)
% of sales revenues	*18,14*	*19,11*	*(1,0) p.p.*
Selling and distribution costs	(348 093)	(353 255)	(1,5)
Administrative expenses	(92 671)	(90 335)	2,6
Other operating income	43 654	66 554	(34,4)
Other operating expenses	(29 060)	(45 147)	(35,6)
EBIT	**109 555**	**144 942**	**(24,4)**
% of sales revenues	*3,71*	*4,89*	*(1,2) p.p.*
EBITDA	**244 388**	**249 603**	**(2,1)**
% of sales revenues	*8,28*	*8,41*	*(0,1) p.p.*
Financial income	1 831	1 350	35,7
Financial expenses	(25 929)	(52 192)	(50,3)
Gross profit/(loss)	**85 458**	**94 099**	**(9,2)**
Income tax	(14 829)	(19 747)	(24,9)
Net profit/(loss) from continuing operations	**70 629**	**74 352**	**(5,0)**
% of sales revenues	*2,39*	*2,51*	*(0,1) p.p.*
Discontinued operations			
Net profit/ (loss) from discontinued operations	**(5 637)**	**2 198**	**na**
% of sales revenues	*(0,19)*	*0,07*	*na*
Net profit/(loss)	**64 991**	**76 550**	**(15,1)**
% of sales revenues	*2,20*	*2,58*	*(0,4) p.p.*
Net profit/(loss) attributable to the shareholders of the Parent Entity	36 720	47 910	(23,4)
Net profit / (loss) per share (PLN) attributable to the shareholders of the Parent Entity	0,53	0,69	(23,4)

Revenues

In 2017, the consolidated sales revenues amounted to PLN 2,952,806 thousand as compared to PLN 2,966,972 thousand in the previous year and decreased by 0.5% (PLN 14,166 thousand). Sales revenues from paper decreased by 2.1% (PLN 45,616 thousand) while sales revenues from pulp increased by 4.2% (PLN 31,449 thousand) versus 2016.
Paper sales volume in 2017 amounted to 663 thousand tons and was by 2 thousand tons higher than in the previous year. This means an increase in sales volume by 0.3%.
Pulp sales volume in 2017 amounted to 365 thousand tons (2016: 351 thousand tons). This means an increase in sales volume by 4.0%.

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

Profit on sales in 2017 was by 5.5% lower than in the previous year. Sales profit margin in the current year stood at 18.14% compared to 18.44% (-1.0 p.p.) in the previous year.
The reduced profit on sales in 2017 versus 2016 was primarily due to lower PLN denominated paper sales prices and impairment charge to asstes of Arctic Paper Grycksbo AB..
In 2017 the costs of sales amounted to PLN 348,093 thousand and decreased versus 2016 by 1.5%, mainly due to lower costs of transport.
In 2017, the administrative expenses amounted to PLN 92,671 thousand as compared to PLN 90,335 thousand in 2016 which was a growth by 2.6%. The main reason of the increase were higher costs related to consulting services rendered to the Group by third parties.

Other operating income and expenses

Other operating income amounted to PLN 43,654 thousand in 2017 which was a decrease as compared to previous year by PLN 22,900 thousand.
In 2017 other operating expenses amounted to PLN 29,060 thousand as compared to PLN 45,147 thousand in 2016.
A major part of other operational revenues and expenses included revenues and internal costs of sold energy and other materials – the decrease of those revenues and expenses resulted in lower other operational revenues and expenses.

Financial income and financial expenses

In 2017, the financial income amounted to PLN 1,831 thousand and was by PLN 481 thousand higher than the income generated in 2016.
The financial expenses in 2017 amounted to PLN 25,929 thousand as compared to PLN 52,192 thousand in 2016. The higher financial expenses in 2016 were primarily due to FX net losses (in 2017 FX net gains), one-off expenses related to prepayment of bank loans contracted in 2012 and the loss on interests in joint ventures (in 2017 the interests in joint ventures generated a profit).

Income tax

In 2017, income tax amounted to PLN -14,829 thousand while in 2016 it was PLN -19,747 thousand.

Net profit/ (loss) from discontinued operations

Net profit/loss on discontinued operations covers the results of AP Mochenwangen and of the companies set up to acquire the Paper Mill. As the Management of Arctic Paper S.A. has been actively looking for a buyer for the Paper Mill, its business has been treated as discontinued.
The positive result on discontinued activity in 2016 was due to the reversal of an impairment charge to fixed assets up to the amount of the sales proceeds realised in 2017.

Profitability analysis

EBITDA in 2017 was PLN 244,388 thousand while in 2016 it was PLN 249,603 thousand. The reduced EBITDA in 2017 was primarily due to lower PLN denominated paper sales prices. In the reporting period, the EBITDA margin was 8.20% versus 8.41% in 2016.
In 2017, the profit on operations amounted to PLN 109,555 thousand while in 2016 it was PLN 144,942 thousand. The operational profit margin in 2017 was +3.71% versus +4.89% in 2016.

The net profit in 2017 amounted to PLN 66,991 thousand while in 2016 it was PLN 76,550 thousand. Net profit/loss margin in 2017 amounted to +2.20% as compared to +2.58% in 2016.

PLN thousand	2017	2016	Change % 2017/2016
Profit on sales	535 725	567 126	(5,5)
% of sales revenues	*18,14*	*19,11*	*(1,0) p.p.*
EBITDA	244 388	249 603	(2,1)
% of sales revenues	*8,28*	*8,41*	*(0,1) p.p.*
EBIT	109 555	144 942	(24,4)
% of sales revenues	*3,71*	*4,89*	*(1,2) p.p.*
Net profit/(loss) from continuing operations	70 629	74 352	(5,0)
% of sales revenues	*2,39*	*2,51*	*(0,1) p.p.*
Net profit/ (loss) from discontinued operations	(5 637)	2 198	na
% of sales revenues	*(0,19)*	*0,07*	*na*
Net profit/(loss)	64 991	76 550	na
% of sales revenues	*2,20*	*2,58*	*(0,4) p.p.*
Return on equity / ROE (%)	8,2	9,7	(15,3)
Return on assets / ROA (%)	3,4	4,2	(18,8)

In 2017, return on equity was +8.2% while in 2016 it was +9.7%. In 2017, return on assets was +3.4% while in 2016 it was +4.2%.

Decrease of return on equity and return on assets in 2017 was mainly due to the decrease of net protif of 2017 in comparison to 2016.

Selected items of the statement of financial position

PLN thousand	31.12.2017	31.12.2016	Change 31/12/2017 -31/12/2016
Fixed assets	946 363	930 984	15 379
Inventories	350 996	360 353	(9 357)
Receivables	336 758	354 824	(18 066)
including trade receivables	*330 071*	*343 496*	*(13 425)*
Other current assets	20 734	27 711	(6 977)
Cash and cash equivalents	241 403	130 157	111 246
Assets related to discontinued operations	4 071	12 694	(8 623)
Total assets	**1 900 325**	**1 816 722**	**83 603**
Equity	791 294	789 543	1 752
Short-term liabilities	576 275	580 457	(4 181)
of which:			
trade and other payables	*423 868*	*399 906*	*23 962*
interest-bearing debt	*72 593*	*82 053*	*(9 460)*
other non-financial liabilities	*79 814*	*98 498*	*(18 684)*
Long-term liabilities	531 128	428 634	102 495
of which:			
interest-bearing debt	*376 521*	*305 546*	*70 975*
other non-financial liabilities	*154 607*	*123 088*	*31 519*
Liabilities directly related to the discontinued operations	1 626	18 088	(16 462)
Total equity and liabilities	**1 900 325**	**1 816 722**	**83 603**

As at 31 December 2017 total assets amounted to PLN 1,900,325 thousand as compared to PLN 1,816,722 thousand at the end of 2016.

Fixed assets

As at the end of December 2017 fixed assets amounted to PLN 946,363 thousand and accounted for 49.8% of total assets as compared to PLN 930,984 thousand as at the end of 2016 (50.2% of total assets).

The increased fixed assets were primarily due to relatively high investment purchases, mostly in the companies of the Rottneros Group, and a higher positive measurement of hedging instruments.

Current assets

As at the end of December 2017, current assets amounted to PLN 953,963 thousand as compared to PLN 885,738 thousand at the end of December 2016. As part of the current assets, inventories decreased by PLN 9,357 thousand, receivables decreased by PLN 18,066 thousand, other current assets decreased by PLN 6,977 thousand while cash and cash equivalents increased by PLN 111,246 thousand. Current assets represented 50.2% of total assets as at the end of December 2017 (48.8% as at the end of 2016) and included inventories – 18.5% (19.8% as at the end of 2016), receivables – 17.7% (19.5% as at the end of 2016), other current assets – 1.1% (1.5% as at the end of 2016) and cash and cash equivalents – 12.7% (7.2% as at the end of 2016). The relatively high balances of cash and cash equivalents as at 31 December 2017 resulted from a bond issue for SEK 400 million by Rottneros AB in the second half of 2017.

Assets related to discontinued operations

The assets related to the discontinued operations cover the assets of the Mochenwangen Group with the exception of assets of the other companies in the Arctic Paper Group. The amount of PLN 4,071 thousand as at 31 December 2017 (PLN 12,694 thousand as at 31 December 2016) was composed of inventories and tangible assets of PLN 21 thousand (31 December 2016: PLN 10,618 thousand trade and other receivables of PLN 1,414 thousand (31 December 2016: PLN 358 thousand cash – PLN 2,448 thousand (31 December 2016: PLN 1,320 thousand and other financial and non-financial assets PLN 188 thousand (31 December 2016: PLN 398 thousand).

Equity

As at the end of 2017, the equity amounted to PLN 791,294 thousand as compared to PLN 789,543 thousand at the end of 2016. As at the end of December 2017 equity accounted for 41.6% of total equity and liabilities (43.5% as at 31 December 2016).
The increase of equity resulted from the net profit for 2017 and a positive measurement of financial instruments treated as hedges to future cash flows, partly compensated with dividend distributed by Rottneros to its non-controlling shareholders, reduction of FX gains on valuation of subsidiary entities and actuarial losses.

Short-term liabilities

As at the end of December 2017, short-term liabilities amounted to PLN 576,275 thousand (30.3% of balance sheet total) as compared to PLN 580,457 thousand (32.0% of balance sheet total) as at the end of 2016.

In 2017, a decrease in short-term liabilities occurred by PLN 4,181 thousand.

Long-term liabilities

As at the end of December 2017, long-term liabilities amounted to PLN 531,128 thousand (27.9% of balance sheet total) as compared to PLN 428,634 thousand (23.6% of balance sheet total) as at the end of 2016. In the analysed year there was a growth of long-term liabilities by PLN 102,495 thousand.

The growth of long-term liabilities resulted from an issue of 4-year bonds in SEK, partly compensated with the transfer of a portion of loans to short-term liabilities.

Liabilities directly related to the discontinued operations

The liabilities directly related to the discontinued operations cover the liabilities of the Mochenwangen Group with the exception of liabilities to the other companies in the Arctic Paper Group and provisions for retirement severance pay as at 31 December 2017. The amount of PLN 1,626 thousand as at 31 December 2017 (31 December 2016: PLN 18,088 thousand was composed of provisions of PLN 838 thousand (31 December 2016: PLN 15,406 thousand trade and other payables of PLN 617 thousand (31 December 2016: PLN 2,541 thousand and other financial and non-financial liabilities of PLN 171 thousand). (31 December 2016: PLN 142 thousand).

Debt analysis

	2017	2016	Change % 2017/2016
Debt-to-equity ratio (%)	140,2	130,1	10,1 p.p.
Equity-to-non-current assets ratio (%)	83,6	84,8	(1,2) p.p.
Interest-bearing debt-to-equity ratio (%)	56,8	49,1	7,7 p.p.
Net debt to EBITDA ratio for the last 12 months (x)	0,85x	1,03x	(0,18)
EBITDA to interest expense ratio (x)	10,6x	10,5x	0,1

As at the end of December 2017 the debt to equity ratio was 140,2% and was higher by 10.1 p.p. versus the end of December 2016. The increase of the ratio was due primarily to increased debt, mainly under loans and bonds.

The equity to fixed assets ratio was 83.6% as at the end of 2017 and was lower by 1.2 p.p. than at the end of December of 2016 as a result of a growth of fixed assets.

The interest-bearing debt to equity ratio was 56.8% at the end of 2017 and was by 7.7 p.p. higher versus the ratio calculated at the end of December 2016, mainly due to a growth of debt under loans and bonds.

The net debt to EBITDA ratio foe the 12 last months of 2017 was 0.85x ans it was lower by 0,18 versus the level for 2016 as a result of faster decrease of net debt than of EBITDA.

The EBITDA to interest ratio for the last 12 months of 2017 was 10.6x and higher by 0.1 versus the level for 2016.

Liquidity analysis

	2017	2016	Change % 2017/2016
Current ratio	**1,6x**	**1,5x**	**0,1**
Quick ratio	**1,0x**	**0,9x**	**0,2**
Acid test ratio	**0,4x**	**0,2x**	**0,2**
DSI (days)	52,3	54,1	(1,8)
DSO (days)	40,2	41,7	(1,4)
DPO (days)	63,1	60,0	3,1
Operational cycle (days)	92,5	95,7	(3,2)
Cash conversion cycle (days)	**29,4**	**35,7**	**(6,4)**

The current liquidity ratio at the end of December 2017 was 1.6x and was higher than at the end of December 2016 (by 0.1).

The quick ratio increased from 0.9x as at the end of December 2016 to 1.0x as at the end of December 2017.

The cash ratio increased from 0.2x as at the end of December 2016 to 0.4x as at the end of December 2017.

The increased liquidity ratios, in particular the cash ratio, resulted from relatively high cash balances as at 31 December 2017 related to the bond issue in SEK in the second half of 2017.

The cash conversion cycle for 2017 (29.4 days) was shortened versus 2016 (35.7 days) by 6.4 days.

Selected items of the consolidated cash flows

PLN thousand	2017	2016	Change % 2017/2016
Cash flows from operating activities	261 595	184 958	41,4
of which:			
Gross profit/(loss)	*79 813*	*95 290*	*(16,2)*
Depreciation/amortisation and impairment charge	*134 833*	*105 126*	*28,3*
Changes to working capital	*17 834*	*1 236*	*1 342,8*
Other adjustments	*29 115*	*(16 694)*	*(274,4)*
Cash flows from investing activities	(180 715)	(174 677)	3,5
Cash flows from financing activities	41 798	(66 817)	(162,6)
Total Cash Flows	**122 678**	**(56 536)**	**(317,0)**

Cash flows from operating activities

In 2017, net cash flows from operating activities amounted to PLN 261,595 thousand as compared to PLN 184,958 thousand in 2016. The higher cash flows from operating activities in 2017 were due to an improved rotation of working capital and faster cash conversion apart from gross profit increased by depreciation/amortisation.

Cash flows from investing activities

In 2017, cash flows from investing activities amounted to PLN -180,715 thousand as compared to PLN -174,677 thousand in 2016 and covered mostly expenses related to purchases of tangible fixed assets.

Cash flows from financing activities

In 2017, cash flows from financing activities amounted to PLN +41,798 thousand as compared to PLN -66,817 thousand in 2016. The positive cash flows from financing activities in 2017 were based primarily on proceeds from the issue of long-term bonds in SEK.

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

Key factors affecting the performance results

The Group's operating activity has been historically and will continue to be influenced by the following key factors:
- macroeconomic and other economic factors;
- paper prices;
- prices of pulp for Paper Mills, timber for Pulp Mills and energy prices;
- FX rate fluctuations.

Macroeconomic and other economic factors

We believe that a number of macro-economic and other economic factors have a material impact on the demand for high-quality paper, and they may also influence the demand for the Group products and the Group's operating results. Those factors include:
- GDP growth;
- net income – as a metric of income and affluence of the population;
- production capacity – the surplus of supply in the high quality paper segment over demand and decreasing sales margins on paper;
- paper consumption;
- technology development.

Paper prices

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

Costs of raw materials, energy and transportation

The main elements of the Group's operating expenses include raw materials, energy and transportation. The costs of raw materials include mainly the costs of pulp for Paper Mills, timber for Paper and Pulp Mills and chemical agents used for paper and pulp production. The Group's energy costs historically include mostly the costs of electricity, natural gas, coal and fuel oil. The costs of transportation include the costs of transportation services provided to the Group mainly by external entities.

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

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

Currency rate fluctuations

The Group's operating results are significantly influenced by currency rate fluctuations. In particular, the Group's revenues and costs are expressed in different foreign currencies and are not matched, therefore, the appreciation of the currencies in which we incur costs towards the currencies in which we generate revenues, will have an adverse effect on the Group's results. The Group's products are primarily sold to euro zone countries, Scandinavia, Poland and the UK; therefore, the Group's revenues are to a great extent expressed in EUR, GBP, SEK and PLN, while the revenues of Pulp Mills are primarily dependent on USD. The Group's operating expenses are primarily expressed in USD (pulp costs for Paper Mills), EUR (costs related to pulp for Paper Mills, energy, transportation, chemicals), PLN (the majority of other costs incurred by the mill in

Kostrzyn nad Odrą) and SEK (the majority of other costs incurred by the Munkedal and Grycksbo mills as well as the Rottneros and Vallvik Pulp Mills).
Exchange rates also have an important influence on results reported in the Group's financial statements because of changes in exchange rates of the currencies in which we generate revenues and incur costs, and the currency in which we report the Group's financial results (PLN).

Unusual events and factors

In 2017 there were no unusual events or factors.

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

In 2017 there were no material changes in the Arctic Paper Group’s structure that would have material influence on the financial result generated.

Other material information

Conclusion of a non-recourse 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 assignment of receivables under the 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 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.

Cash – pooling with BGŻ BNP Paribas and BZWBK

On 1 June 2017, cash pooling in EUR was activated in EUR within the Arctic Paper Group with BGŻ BNP Paribas, followed by cash-pooling in PLN in August 2017 with BZWBK. The operation consists in pooling cash balances held by the individual system participants and setting them off with temporary shortages of funds with the other cash-pool participants. The solution is aimed at supporting effective cash management in the Group and minimising the costs of external funding sources by using the Group's own cash.

Repayment of the loan from Mr Thomas Onstad

On 7 July 2017, Arctic Paper SA repaid the loan from the owner Mr Thomas Onstad of EUR 4,000 thousand with interest.

New investments of the Group

On 14 December 2017 the Management Board together with the Supervisory Board it took a decision to launch an investment project in the Company’s subsidiary Arctic Paper Kostrzyn S.A. with the aim to expand the latter’s production capacity by modernising the Mill. The aim of the project is to increase the Mill’s annual production capacity to 315,000 tonnes of fine paper, compared to 285,000 tonnes today. The investment, estimated at approximately EUR 10 million (approx. PLN 42m), will be financed with funds from tranche B of the investment loan from the European Bank of Reconstruction and Development (the Company informed about the conclusion of the investment loan facility agreement in its current report No. 20/2016 dated 9 September 2016). The project is planned for completion in the first half of 2019. Apart from expanding the Mill’s capacity, the planned investment will increase the resource and operating efficiency of the Kostrzyn Mill. It will increase competitiveness of the Group’s products and influence future operational results of the Group.

On 12 March 2018 the Management Board took a decision to launch an investment in an expansion of the hydro power plant at the Munkedal mill, strengthening the mill's sustainability profile. The investment will double the amount of Arctic Paper Munkedal's energy supply produced by environmentally friendly hydro power, which increases the mill's energy self-sufficiency. The value of the investment is estimated at SEK 70 million (approx. PLN 29 million). During the construction phase the Group plans to finance the projects out of its own funds. After completion of the project, the costs will be refinanced with bank credit. Arctic Paper has already signed a letter of intent with Swedbank for refinancing.
All necessary permissions for the investment are already in place. The completion of the project is planned to 4Q 2019.

Repayment of debt under lease contracts at Arctic Paper Grycksbo AB

On 7 January 2018, Arctic Paper SA granted a loan to its subsidiary Arctic Paper Grycksbo AB of EUR 5.56 M to cover repayment under lease contracts with Svenska Handelsbanken AB. In the same time th Company applied to the current consortium of the financing banks (Bank Zachodni WBK S.A. oraz Bank BGŻ BNP Paribas S.A.) to grant consent to contract financial indebtedness in the form of a term facility of up to PLN 25,820 thousand as an additional tranche under the facilities agreement of 9 September 2016, in order to finance or refinance repayment of Arctic Paper Grycksbo AB's indebtedness under a lease granted by Svenska Handelsbanken AB. Such consent was alredy granted as at 20 February 2018 by the Bondholders' Meeting. Currently the Company is completing the documentation regarding the abovementioned additional tranche.

Announcement of the strategic plan for the paper business

The Management Board of Arctic Paper has adopted a long term financial target of EBIT 10 percent. The Management Board has also adopted a new strategy for its paper business – A Future in Paper - Strategic Agenda 2022 – showing the way to a growing and more profitable business. The new general business strategy consists of six strategic initiatives:

- Growth by focusing on selected profitable segments and markets, among them speciality & premium products, Eastern Europe and new markets.
- New innovative products and grades developed in close collaboration with customers.
- Building stronger brands for premium and other segments, leading to higher revenue per ton paper.
- Optimization of all processes with the aim to reduce costs.
- Nurturing a performance culture among all employees built on clear targets and continuous measurement.
- A sustainable business built on recyclable products and renewable materials.

Implementation of the strategy has already begun, which means that different entities and functions are working with action plans based on these strategic initiatives.

Factors influencing the development of the Arctic Paper Group

Information on market trends

Supplies, demand and production capacity

In Q4 2017 the Arctic Paper Group recorded a growth of orders versus Q3 2017 by 0.1% and a growth of orders versus the equivalent period in 2016 by 3.7%.
Source of data: Analysis by Arctic Paper

Paper prices

In Q4 2017 the average prices of high-quality UWF papers grew by 8.3% while the prices of CWF papers grew by 9.4% versus the prices at the end of 2016.
In the period from October to December 2017, the prices of uncoated wood-free paper (UWF) and coated wood-free paper (CWF) for selected markets: Germany, France, Spain, Italy and the UK, expressed in EUR and GBP, experienced a similar growth by 2.1%.
The average prices invoiced by Arctic Paper in EUR for comparable products in the segment of uncoated wood-free paper (UWF) grew from at the end of 2017 were higher by 7.5% versus the end of 2016 while in the segment of coated wood-free paper (CWF) the prices grew by 1.3%.

Source: For market data – RISI, price changes for selected markets in Germany, France, Spain, Italy and the UK in local currencies for graphic papers similar to the product portfolio of the Arctic Paper Group. The prices are expressed without considering specific rebates for individual clients and they include neither additions nor price reductions in relation to the publicly available price lists. The estimated prices for each month reflect orders placed in the month while the deliveries may take place in the future. Because of that, RISI price estimates for a particular month do not reflect the actual prices at which deliveries are performed but only express ordering prices. For Arctic Paper products, the average invoiced sales prices for all served markets in EUR.

Pulp prices

At the end of Q4 2017, the pulp prices reached the level of: NBSK – USD 1000/ton and BHKP – USD 979/ton. The average pulp price in Q4 2017 was higher by 17.8% for NBSK and higher by 43.7% for BHKP, compared to the equivalent period of the previous year. The average pulp price in Q4 2017 was higher by 6.6% for NBSK and higher by 7.8% for BHKP as compared to Q3 2017.
The average cost of pulp per ton as calculated for the AP Group, expressed in PLN, in Q4 2017 increased by 3.1% versus Q3 2017 and increased by 12% versus Q4 2016. The share of pulp costs in the cost of paper sales in Q3 of the current year amounted to 56% and was not changed compared to the level recorded in Q4 2016 (56%).
In the four quarters of 2017, the AP Group used pulp in the production process in the following structure: BHKP 73%, NBSK 19% and other 8%.
Source of data: www.foex.fi analysis by Arctic Paper.

Currency exchange rates

The EUR/PLN exchange rate at the end of Q4 2017 amounted to 4.1709 and was lower by 3.2% than at the end of Q3 2017 and lower by 5.7% than at the end of Q4 2016. The average exchange rate in Q4 2017 was lower by 0.6% than in Q3 2017 and amounted to 4.2337 versus 4.2580. The average exchange rate in Q4 2017 was by 3.3% lower than in Q4 2016.
The EUR/SEK exchange rate at the end of December 2017 was 9.8301 versus 9.5928 at the end of Q3 2017, and 9.5778 at the end of Q4 2016 which was an appreciation of EUR to SEK by 2.5% and 2.6% respectively.
For this pair, the mean exchange rate in Q4 was by 2.4% higher compared to Q3 2017. The mean exchange rate in Q4 2017 was by 0.4% higher than in the corresponding period of 2016.
The changes mean a depreciation of SEK vis-a-vis EUR in Q4 2017 which had favourable impact on the Group's financial results, primarily with reference to the sales revenues generated by the Swedish factories that depend on prices in EUR.
At the end of Q4 2017, the USD/PLN rate recorded a decrease by 4.7% versus the end of Q3 2017 and amounted to 3.4813. In Q4 2017, the mean exchange rate

amounted to 3.5955 compared to 3.6251 in Q3 2017. That was a PLN appreciation to USD by 0.8%.
At the end of Q4 2017, the USD/SEK rate amounted to 8.2048 and was by 0.9% higher than at the end of Q3 2017. The mean exchange rate in Q4 2017 amounted to 8.3155 which was an increase by 2.2% compared to Q3 2017.
The changes of the USD/SEK exchange rates adversely affected the costs incurred in USD by the Swedish Paper Mills, in particular the costs of pulp. With reference to the Paper Mill in Kostrzyn, the average monthly USD/PLN exchange rate remained relatively neutral with a material PLN depreciation at the end of the quarter.
At the end of December 2017, the EUR/USD rate amounted to 1.1981 compared to 1.1800 at the end of Q3 2017 and to 1.0586 at the end of December 2016. In terms of percentage, that means an appreciation of EUR to USD by 1.5% versus Q3 2017 and an appreciation of the currency by 13.2% versus the equivalent period of the previous year. In Q4 2017, the mean exchange rate of the pair amounted to 1.1776 compared to 1.1749 in Q3 2017 (0.2%).
Further appreciation of EUR versus SEK has positively affected the Group's financial profit, mainly due to increased sales revenues generated in EUR and translated into SEK. The appreciating PLN versus USD in Q4 2017, positively affected the purchase prices of raw materials for the paper mill in Kostrzyn. USD appreciating vis-a-vis SEK negatively affected the costs in the paper mills in Sweden.

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

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

- Demand for fine paper in Europe. Over the recent years there has been a major decrease of demand for fine paper in Europe (level of executed orders). Further adverse developments in the market situation may negatively affect the levels of orders placed with the Group's Paper Mills and, as a result, will have an adverse impact on the financial results of the Group.

- Price changes of fine paper. In particular, the possibility to raise the prices of Arctic Paper products in local currencies in view of the declining supply/demand in Europe and in the context exchange rates fluctuations, will have a material impact on the financial results. Paper prices are going to be of particular importance for the Paper Mill of Grycksbo which – in connection with the market changes – experiences the greatest adverse impact of drop of sales volumes, prices as well as of exchange rate fluctuations.

- Price fluctuations of raw materials, including pulp for Paper Mills and electricity for all operational entities. In particular, financial results of Paper Mills may be negatively influenced by increasing pulp prices, particularly BHKP. On the other hand, dropping NBSK pulp prices may negatively affect the financial results of Pulp Mills. Fluctuations of electricity prices in Sweden may also have a material impact on the results generated by the Group. In future, such market changes may translate into changes of sales profitability in Paper Mills of
AP Munkedals and AP Grycksbo as well as in Pulp Mills of Rottneros and Vallvik.

- Changes in currency rates, in particular, the appreciation of PLN and SEK in relation to EUR and GBP, the appreciation of PLN in relation to SEK, and the depreciation of PLN and SEK in relation to USD, may have an adverse effect on the financial results. However, the Group's Pulp Mills may benefit from the appreciation of USD in relation to SEK.

Risk factors

Major changes to risk factors

In 2017 there were no material changes to the risk factors.

Risk factors related to the environment in which the Group operates

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

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

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

Risk of changing legal regulations

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

FX risk

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

Interest rate risk

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

Risk related to increasing importance of alternative media

Trends in advertising, electronic data transmission and storage and in the Internet have adverse impact on traditional printed media and thus on the products of the Group and its customers. Continuation of such changes may adversely affect the results, financial condition and prospects of the Group.

Risk factors relating to the business of the Group

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

Risk related to relatively low operational margins

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

Risk of price changes to raw materials, energy and products

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

Risk of disruption to production processes

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

Risk related to our investments

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

Risk factors relating to the debt of the Group

Our Group has the largest portion of its debt under a loan agreement with a consortium of banks (European Bank for Reconstruction and Development, Bank Zachodni WBK S.A. and BGŻ BNP Paribas S.A.) of 9 September 2016, loans from Svenska Handelsbanken and Danske Bank, and under lease contracts.
Failure by the Group to comply with its obligations, including the agreed levels of financial ratios (covenants) resulting from the agreements, failure by Svenska Handelsbanken to renew the factoring contract and/or the lease contract will result in default under those agreements. Events of default may in particular result in demand for repayment of our debt, banks taking control over important assets like Paper Mills or Pulp Mills and loss of other assets which serve as collateral, deterioration of creditworthiness and lost access to external funding which will be converted into lost liquidity and which in turn may materially adversely affect our business and development prospects and our stock prices.

Risk related to insurance limits

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

Risk of restricted supplies of natural gas

Polskie Górnictwo Naftowe i Gazownictwo S.A (PGNiG) is the sole supplier of natural gas used by AP Kostrzyn to generate heat and electrical energy for paper production. In this context, the business and costs of paper production at AP Kostrzyn is materially affected by availability and price of natural gas. Potential disruptions of supplies of natural gas to the Paper Mill in Kostrzyn nad Odrą may have adverse effect on production, results on operations and financial condition of the Group.

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

AP Kostrzyn has been using a major tax relief resulting from its operations in the Kostrzyńsko-Słubicka Specjalna Strefa Ekonomiczna. The relief was granted until 2026 and is subject to compliance by AP Kostrzyn of the applicable laws, regulations and other conditions relating to the relief, including compliance with certain criteria concerning employment and investment outlays. Tax regulations and interpretations thereof are subject to very frequent changes in Poland. Changes to the regulations applicable to the tax relief or breach by AP Kostrzyn of the applicable conditions may result in loss of the relief and have material adverse impact on the results of operations and financial condition of the Group.

Risk related to consolidation and liquidity of key customers

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

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

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

Risk related to CO2 emissions

Our Paper Mills and Pulp Mills are provided with free carbon dioxide emission rights for each period. The emission rights are awarded within the EU Emission Trading Scheme. Should such free carbon dioxide emission rights be cancelled and replaced with a system of paid emission rights, our costs of energy generation will grow accordingly. Additionally, we may be forced to incur other unpredictable expenses in connection with the emission rights or changing legal regulations and the resultant requirements. Due to the above we may be forced to reduce the quantity of generated energy or to increase the production costs which may adversely affect our business, financial condition, operational results or development prospects.

Risk related to the capacity of the Company to pay dividend

The Issuer is a holding company and therefore its capacity to pay dividend is subject to the level of potential disbursements from its subsidiary companies involved in operational activity, and the level of cash balances. Certain subsidiaries of the Group involved in operational activity may be subject to certain restrictions concerning disbursements to the Issuer. No certainty exists that such restrictions will have no material impact on the business, results on operations and capacity of the Group to distribute dividend.
In connection with the term and revolving loan agreements signed on 9 September 2016, agreements related to the bond issue pursuant to which on 30 September 2016 the Company issued bonds and the creditor agreement (described in more detail in note 32.2 "Obtaining of new financing" of the Annual Report 2016), 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 2017 and has not published and does not intend to publish projections of financial results for 2018.

Dividend information

The Company did not distribute dividend in 2017.

Changes to the bodies of Arctic Paper S.A.

As at 31 December 2017, 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;

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

The Management Board of the Parent Entity as at the publication hereof was composed as follows:
- Per Skoglund – President of the Management Board
- Göran Eklund – Member of the Management Board

At its meeting on 19 April 2017, the Supervisory Board did not extend the term of office expiring on 29 May 2017, for the following members of the Management Board: Mr Wolfgang Lübbert, Mr Jacek Łoś and Mr Michał Sawka.
At its meeting on 30 August 2017, the Supervisory Board dismissed Ms Małgorzata Majewska-Śliwa from the position of a Member of the Management Board effective on 1 September 2017 and appointed Mr Göran Eklund to that position.

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

In 2017 there were no changes to the Company's share capital.

Information on purchase of treasury shares

In 2017 and 2016 the Company did not buy any treasury shares.

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 2017 to 31 December 2017 (data in PLN thousand).

Managing and supervising persons	Remuneration (base salary and overheads) for the functions performed at Arctic Paper S.A.	Retirement plan	Other	Total
Management Board				
Per Skoglund	1 789	388	396	2 572
Göran Eklund*	416	75	6	497
Małgorzata Majewska-Śliwa**	721	-	370	1 091
Wolfgang Lübbert***	513	-	695	1 208
Jacek Łoś***	350	-	370	720
Michał Sawka***	380	-	500	879
Supervisory Board				
Per Lundeen	324	-	-	324
Roger Mattsson	207	-	-	207
Thomas Onstad	150	-	-	150
Mariusz Grendowicz	180	-	-	180
Maciej Georg	150	-	-	150

*for the period from 2017-09-01 until 2017-12-31
**for the period from 2017-01-01 until 2016-08-31
***for the period from 2017-01-01 until 2017-05-29

Agreements with Members of the Management Board guaranteeing financial compensation

As at 31 December 2017 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

Managing and supervising persons	Number of shares or rights to shares as at 09.04.2018	Number of shares or rights to shares as at 31.12.2017	Number of shares or rights to shares as at 13.11.2017	Change
Management Board				
Per Skoglund	20 000	20 000	10 000	10 000
Göran Eklund	-	-	-	-
Supervisory Board				
Per Lundeen	34 760	34 760	34 760	-
Thomas Onstad	6 223 658	6 223 658	6 223 658	-
Roger Mattsson	-	-	-	-
Maciej Georg	-	-	-	-
Mariusz Grendowicz	-	-	-	-

Management of financial resources

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

Capital investments

In 2017 the companies in the Arctic Paper Group invested its funds solely in standard short-term deposits, including overnight deposits. In 2017 the Group made no financial investments.

Information of sureties, guarantees and pledges

As at 31 December 2017, the Capital Group reported:

– pledge on properties of Arctic Paper Grycksbo AB resulting from a lease contract with Svenska Handelsbanken AB for SEK 85,000 thousand;
– pledge on properties of Arctic Paper Grycksbo AB resulting from a lease contract with Svenska Handelsbanken AB for SEK 20,000 thousand;
– pledge on properties of Arctic Paper Grycksbo AB resulting from an FPG contract in favour of the mutual life insurance company PRI for SEK 50,000 thousand;
– contingent liability under a guarantee for FPG in favour of the mutual life insurance company PRI for SEK 1,426 thousand; at Arctic Paper Grycksbo AB and for SEK 760 thousand; at Arctic Paper Munkedals AB;
– pledge on properties of Arctic Paper Munkedals AB resulting from an FPG contract in favour of the mutual life insurance company PRI for SEK 50,000 thousand;
– a contingent liability of Arctic Paper Munkedals AB related to a surety for the obligations of Kalltorp Kraft HB in the amount of SEK 1,698 thousand;
– mortgage on the properties held by Kalltorp Kraft HB for SEK 8,650 thousand;
– a bank guarantee in favour of Skatteverket Ludvika for SEK 135 thousand;
– pledges on shares in subsidiary companies in the Rottneros Group for SEK 478,348 thousand under loan agreements concluded with Danske Bank;
– pledge on 19,950,000 shares of Rottneros AB under the loan agreement for EUR 10,000 thousand granted by Arctic Paper Finance AB to Arctic Paper S.A. and for EUR 10,000 thousand, granted by Mr Thomas Onstad to Arctic Paper Finance AB.

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

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

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

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

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

As a result of repayment on 7 January 2018 of liabilities of Arctic Paper Grycksbo AB under the lease contract with Svenska Handelsbanken AB (pledge on movable assets and properties) and in view of the provisions of loan agreements, the process of releasing the above pledges made in favour of Svenska Handelsbanken AB was started and they were incorporated in the inter-creditor agreement.

Material off-balance sheet items

The information regarding off-balance sheet items is disclosed in note 36 to the consolidated financial statements.

Assessment of the feasibility of investment plans

In view of the improved financial results and market conditions in 2017 and subject to accomplishment of the current financial objectives, the Company plans to carry out the investments in line with its financial plan. The core objective of the investments in 2018 is to develop new products, minimise production costs, including the costs of electricity, and to improve the effectiveness of the production process. The Group intends to finance its investment plan for 2018 with its own funds and with investment loans and bond issues.

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

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

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

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

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

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

Information on purchase of treasury shares

In 2017 and in 2016 the Parent Entity did not buy any treasury shares.

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

As at 19 June 2017 the Company concluded an agreement with Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. regarding the review of the interim abbreviated standalone and consolidated financial statements of the Company and the Group for the period ended on 30 June 2017 and the audits of the financial statements and consolidated financial statements of the Group for the period ended on 31 December 2017. The contract has been concluded for the period of rendering the aforementioned services.

Other information on the entity authorised to audit the financial statements is provided in note 38 to the consolidated financial statements.

Headcount

Information on the headcount is provided in note 42 to the consolidated financial statements.

Non-financial information report

Apart from this Management Report the Group published a separate report - disclosure on non-financial information of Arctic Paper Capital Group.

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

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. I.Z.1.20

"A company should operate a corporate website and publish on it, in a legible form and in a separate section, in addition to information required under the legislation: audio or video record of the debates 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 2017 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 (9 April 2018).

Shareholder		Number of shares	Share capital [%]	Number of votes	Of total number of votes [%]
					as at 09.04.2018
Thomas Onstad		**47 205 107**	**68,13%**	**47 205 107**	**68,13%**
- indirectly via		40 981 449	59,36%	40 981 449	59,36%
	Nemus Holding AB	*40 381 449*	*58,28%*	*40 381 449*	*58,28%*
	other subsidiary	*600 000*	*0,87%*	*600 000*	*0,87%*
- directly		6 223 658	8,98%	6 223 658	8,98%
Others		**22 082 676**	**31,87%**	**22 082 676**	**31,87%**
Total		69 287 783	100,00%	69 287 783	100,00%
Own shares		-	0,00%	-	0,00%
Total		**69 287 783**	**100,00%**	**69 287 783**	**100,00%**

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

he 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_aktualny_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%20SA.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).
- Göran Eklund – Member of the Management Board appointed on 30 September 2017

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 is 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

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

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

Audit Committee

Composition and organisation of the Audit Committee

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

Competences of the audit committee

- The basic task of the Audit Committee is advisory to the Supervisory Board on issues of proper implementation and control of the financial reporting processes in the Company, effectiveness of the internal control and risk management systems and cooperation with statutory auditors;
- The tasks of the Audit Committee resulting from supervising the Company's financial reporting process, ensuring the effectiveness of the Company's internal control systems and monitoring of internal audit operations, include in particular:
  - control if the financial information provided by the Company is correct, including the accuracy and consistency of the accounting principles applied in the Company and its Capital Group as well as the consolidation principles of financial statements;
  - assessment minimum once a year of the internal control and management systems in the Company and its Capital Group in order to ensure adequate recognition and management of the Company;
  - ensuring the effective functioning of internal control, in particular by providing recommendations to the Supervisory Board with respect to:
    - strategic and operational internal audit plans and material modifications 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 18 September 2017, the Audit Committee was composed of:

- 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 modifications 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 9 February 2017 the Remuneration Committee was operating in the following composition:

- Per Lundeen
- Thomas Onstad
- Roger Mattsson

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

General Meeting of Shareholders

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

Appointment of the Company's bodies and auditors

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

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

Tasks of the bodies of the Company

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

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

Size and composition of the Company's bodies

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

Chairpersons of the bodies of the Company

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

Procedures of the bodies of the Company

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

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

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

Information on corporate governance

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

Statements of the Management Board

Accuracy and reliability of the presented reports

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

- The consolidated financial statements of the Arctic Paper Capital Group for the year ended on 31 December 2017 and the comparable data were prepared in compliance with the applicable accounting principles and they reflect the economic and financial condition of the Capital Group and its financial result for 2017 in a true, reliable and clear manner.
- The Management Board's Report from operations of the Arctic Paper Capital Group in 2017 contains a true image of the development, achievements and condition of the Arctic Paper Capital Group, including a description of core hazards and risks.

Appointment of the entity authorized to audit financial statements

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

Signatures of the Members of the Management Board

Position	First and last name	Date	Signature
President of the Management Board Chief Executive Officer	Per Skoglund	9 April 2018	
Member of the Management Board Chief Financial Officer	Göran Eklund	9 April 2018	

Consolidated financial statements

for the year ended on 31 December 2017
to the annual report for 2017

Selected consolidated financial data

	Period from 01.01.2017 to 31.12.2017 PLN thousand	Period from 01.01.2016 to 31.12.2016 PLN thousand	Period from 01.01.2017 to 31.12.2017 EUR thousand	Period from 01.01.2016 to 31.12.2016 EUR thousand
Continuing operations				
Sales revenues	2 952 806	2 966 972	693 428	679 901
Operating profit (loss)	109 555	144 942	25 728	33 214
Gross profit (loss)	85 458	94 099	20 069	21 563
Net profit (loss) from continuing operations	70 629	74 352	16 586	17 038
Net profit (loss) for the financial year	64 991	76 550	15 262	17 542
Net profit (loss) for the financial year attributable to the shareholders of the Parent Entity	36 720	47 910	8 623	10 979
Net cash flows from operating activities	261 595	184 958	61 432	42 384
Net cash flows from investing activities	(180 715)	(174 677)	(42 439)	(40 028)
Net cash flows from financing activities	41 798	(66 817)	9 816	(15 311)
Change in cash and cash equivalents	122 678	(56 536)	28 809	(12 955)
Weighted average number of ordinary shares	69 287 783	69 287 783	69 287 783	69 287 783
Diluted weighted average number of ordinary shares	69 287 783	69 287 783	69 287 783	69 287 783
EPS (in PLN/EUR)	0,53	0,69	0,12	0,16
Diluted EPS (in PLN/EUR)	0,53	0,69	0,12	0,16
Mean PLN/EUR exchange rate*			4,2583	4,3638

	As at 31 December 2017 PLN thousand	As at 31 December 2016 PLN thousand	As at 31 December 2017 EUR thousand	As at 31 December 2016 EUR thousand
Assets	1 900 325	1 816 722	455 615	410 651
Long-term liabilities	531 128	428 634	127 341	96 888
Short-term liabilities	576 275	580 457	138 166	131 206
Equity	791 294	789 543	189 718	178 468
Share capital	69 288	69 288	16 612	15 662
Number of ordinary shares	69 287 783	69 287 783	69 287 783	69 287 783
Diluted number of ordinary shares	69 287 783	69 287 783	69 287 783	69 287 783
Book value per share (in PLN/EUR)	11,42	11,40	2,74	2,58
Diluted book value per share (in PLN/EUR)	11,42	11,40	2,74	2,58
Declared or paid dividend (in PLN/EUR)	-	-	-	-
Declared or paid dividend per share (in PLN/EUR)	-	-	-	-
PLN/EUR exchange rate at the end of the period**	-	-	4,1709	4,4240

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

** - Balance sheet items have been translated at the mean arithmetic exchange rates published by the National Bank of Poland, prevailing on the balance sheet date.

Consolidated financial statements

Consolidated profit and loss account

	Note	Year ended on 31 December 2017	Year ended on 31 December 2016 (revised)
Continuing operations			
Revenues from sales of paper and pulp	10.1	2 952 806	2 966 972
Sales revenues		2 952 806	2 966 972
Costs of sales	11.5	(2 417 081)	(2 399 846)
Gross profit (loss) on sales		535 725	567 126
Selling and distribution costs	11.5	(348 093)	(353 255)
Administrative expenses	11.5	(92 671)	(90 335)
Other operating income	11.1	43 654	66 554
Other operating expenses	11.2	(29 060)	(45 147)
Operating profit (loss)		109 555	144 942
Financial income	11.3	1 831	1 350
Financial expenses	11.4	(25 929)	(52 192)
Gross profit (loss)		85 458	94 099
Income tax	13	(14 829)	(19 747)
Net profit (loss) from continuing operations		70 629	74 352
Discontinued operations			
Profit (loss) for the financial year from discontinued operations	14	(5 637)	2 198
Net profit (loss) for the financial year		64 991	76 550
Attributable to:			
The shareholders of the Parent Entity, of which:		36 720	47 910
- profit (loss) from continuing operations		42 357	45 712
- profit (loss) from discontinued operations		(5 637)	2 198
The non-controlling shareholder, of which:		28 272	28 640
- profit (loss) from continuing operations		28 272	28 640
- profit (loss) from discontinued operations		-	-
		64 991	76 550
Earnings per share:			
– basic earnings from the profit/(loss) for the period attributable to the shareholders of the Parent Entity	16	0,53	0,69
– basic earnings from the profit/(loss) from continuing operations for the period attributable to the shareholders of the Parent Entity	16	0,61	0,66
– diluted earnings for the profit for the period attributable to the shareholders of the Parent Entity	16	0,53	0,69
– diluted earnings for the profit for from continuing operations attributable to the shareholders of the Parent Entity	16	0,61	0,66

Consolidated statement of total comprehensive income

	Note	Year ended on 31 December 2017	Year ended on 31 December 2016 (revised)
Net profit/(loss) for the reporting period		64 991	76 550
Items to be reclassified to profit/loss in future reporting periods:			
FX differences on translation of foreign operations	30.2	(48 581)	(3 063)
Measurement of financial instruments	12	3 244	43 681
Deferred income tax on the measurement of financial instruments	13.1	(958)	(10 369)
Items not to be reclassified to profit /loss in future reporting periods:			
Actuarial profit / (loss) for defined benefit plans	11.7	(5 343)	(9 281)
Deferred income tax on actuarial profit / (loss) relating to defined benefit plans	13.1	1 157	1 396
Other comprehensive income		(50 481)	22 363
Total comprehensive income		14 511	98 913
Attributable to:			
The shareholders of the Parent Entity		5 785	61 799
To the non-controlling shareholder		8 726	37 114

Consolidated balance sheet

	Note	As at 31 December 2017	As at 31 December 2016 (revised)	As at 1 January 2016 (revised)
ASSETS				
Fixed assets				
Tangible fixed assets	18	834 205	834 614	759 879
Investment properties	20	4 107	4 074	3 982
Intangible assets	21	51 108	57 033	51 622
Interests in joint ventures	22	988	924	5 169
Other financial assets	24.1	22 056	10 913	1 017
Other non-financial assets	24.2	1 513	1 548	1 472
Deferred income tax asset	13.3	32 387	21 879	38 804
		946 363	930 984	861 944
Current assets				
Inventories	27	350 996	360 353	390 631
Trade and other receivables	28	330 071	343 496	336 499
Corporate income tax receivables		6 687	11 328	6 941
Other non-financial assets	24.2	13 583	16 492	11 531
Other financial assets	24.1	7 151	11 218	944
Cash and cash equivalents	29	241 403	130 157	188 552
		949 891	873 044	935 099
Assets related to discontinued operations		4 071	12 694	47 467
TOTAL ASSETS		1 900 325	1 816 722	1 844 510
EQUITY AND LIABILITIES				
Equity				
Equity (attributable to the shareholders of the Parent Entity)				
Share capital	30.1	69 288	69 288	69 288
Reserve capital	30.3	447 638	447 638	447 638
Other reserves	30.4	125 997	156 975	127 976
FX differences on translation	30.2	(9 207)	19 717	21 810
Retained earnings / Accumulated losses	30.5	(62 364)	(127 542)	(165 581)
Cumulated other comprehensive income related to discontinued operations	14	(11 611)	(12 120)	(8 974)
		559 740	553 955	492 156
Non-controlling stake	30.6	231 555	235 588	215 976
TOTAL EQUITY		791 294	789 543	708 131
Long-term liabilities				
Interest-bearing loans and borrowings	32	372 576	275 464	222 305
Provisions	33	101 554	90 313	82 855
Other financial liabilities	32	3 945	30 082	41 057
Deferred income tax liability	13.3	34 301	11 851	2 468
Accruals and deferred income	34.2	18 752	20 924	23 914
		531 128	428 634	372 599
Short-term liabilities				
Interest-bearing loans and borrowings	32	39 440	55 367	82 883
Provisions	33	4 667	-	-
Other financial liabilities	32	33 153	26 686	83 503
Trade and other payables	34.1	423 868	399 727	407 128
Income tax liability		570	179	281
Accruals and deferred income	34.2	74 576	98 498	108 720
		576 275	580 457	682 515
Liabilities directly related to the discontinued operations	14	1 626	18 088	81 264
TOTAL LIABILITIES		1 109 030	1 027 179	1 136 379
TOTAL EQUITY AND LIABILITIES		1 900 325	1 816 721	1 844 510

Consolidated cash flow statement

	Note	12-month period ended on 31 December 2017	12-month period ended on 31 December 2016 (revised)
Cash flows from operating activities			
Gross profit/(loss) on continuing operations		85 458	94 099
Gross profit /(loss) on discontinued operations		(5 645)	1 191
Gross profit (loss)		79 813	95 290
Adjustments for:			
Depreciation/amortisation	11.6	111 073	100 975
FX gains / (loss)		(699)	4 404
Impairment of non-financial assets		23 761	4 151
Net interest and dividends		22 344	23 673
Profit / loss from investing activities		196	(1 534)
Increase / decrease in receivables and other non-financial assets	29.1	(9 227)	2 793
Change to inventories	29.1	(2 316)	46 103
Increase / decrease in liabilities except for loans and borrowings	29.1	42 711	(31 885)
Change in accruals and deferred income	29.1	(13 335)	(15 775)
Change in provisions	29.1	3 790	(30 488)
Income tax paid		1 363	(6 407)
Reversal of write-offs of assets related to discontinued operations		-	(10 618)
Redemption effect of CO2 emission rights recognised as a result of combination of business entities		-	406
Co-generation certificates		5 601	(5 033)
Other	29.1	(3 480)	8 903
Net cash flows from operating activities		261 595	184 958
Cash flows from investing activities			
Disposal of tangible fixed assets and intangible assets		290	2 005
Purchase of tangible fixed assets and intangible assets	29.1	(181 448)	(177 612)
Other capital outflows / inflows		442	930
Net cash flows from investing activities		(180 715)	(174 677)
Cash flows from financing activities			
Change to overdraft facilities		(54 203)	(41 830)
Repayment of financial leasing liabilities		(4 070)	(3 100)
Inflows from other financial liabilities		-	1 154
Repayment of other financial liabilities		(17 066)	(45 068)
Inflows from loans, borrowings and bonds		228 611	261 915
Repayment of loans and borrowings		(75 824)	(199 173)
Interest paid		(22 891)	(23 214)
Dividend disbursed to non-controlling shareholders	30.6	(12 759)	(17 502)
Net cash flows from financing activities		41 798	(66 817)
Change in cash and cash equivalents		122 678	(56 536)
Net FX differences		(10 303)	(1 591)
Cash and cash equivalents at the beginning of the period	29	131 476	189 603
Cash and cash equivalents at the end of the period	29	243 851	131 476

Consolidated statement of changes in equity

		Attributable to the shareholders of the Parent Entity								
	Note	Share capital	Reserve capital	FX differences on translation of foreign operations	Other reserves	Retained earnings / (Accumulated losses)	Cumulated other comprehensive income related to discontinued operations	Total	Equity attributable to non-controlling shareholders	Total equity
As at 01 January 2017		69 288	447 638	19 717	156 975	(127 542)	(12 120)	553 955	235 588	789 543
Net profit (loss) for the financial year		-	-	-	-	36 720	-	36 720	28 272	64 991
Other comprehensive income (net) for the year		-	-	(28 415)	1 666	(4 186)	-	(30 935)	(19 546)	(50 481)
Total comprehensive income for the period		-	-	(28 415)	1 666	32 534	-	5 785	8 726	14 511
Profit distribution	30.5	-	-	-	(32 644)	32 644	-	-	-	-
Discontinued operations	14	-	-	(509)	-	-	509	-	-	-
Dividend distribution to non-controlling entities	30.6	-	-	-	-	-	-	-	(12 759)	(12 759)
As at 31 December 2017		69 288	447 638	(9 207)	125 997	(62 364)	(11 611)	559 740	231 555	791 294

	Note	Attributable to the shareholders of the Parent Entity								
	Note	Share capital	Reserve capital	FX differences on translation of foreign operations	Other reserves	Retained earnings / (Accumulated losses)	Cumulated other comprehensive income related to discontinued operations	Total	Equity attributable to non-controlling shareholders	Total equity
As at 01 January 2016 (not revised)		69 288	447 638	21 810	127 976	(181 625)	(2)	476 111	200 744	676 856
Adjusment as at 01 January 2016		-	-	-	-	16 045	(1)	16 045	15 231	31 276
As at 01 January 2016 (revised)		69 288	447 638	21 810	127 976	(165 581)	-	492 156	215 976	708 131
Net profit (loss) for the financial year		-	-	-	-	47 910		47 910	28 640	76 550
Other comprehensive income (net) for the year		-	-	(2 315)	24 090	(7 886)		13 889	8 474	22 363
Total comprehensive income for the period		-	-	(2 315)	24 090	40 024		61 799	37 114	98 913
Profit distribution	30.5	-	-	-	4 909	(4 909)		-		-
Discontinued operations	14			222		2 924	(3 146)	-		-
Dividend distribution to non-controlling entities	30.6								(17 502)	(17 502)
As at 31 December 2016 (revised)		69 288	447 638	19 717	156 975	(127 542)	(12 120)	553 955	235 588	789 543

Accounting principles (policies) and additional explanatory notes

1. General information

The Arctic Paper Group is a lEuropean producer in terms of production volume of bulky book paper, offering a broad range of products in the segment and one of the producers of high-quality graphic paper. The Group produces numerous types of uncoated and coated wood-free paper as well as wood-containing uncoated paper for printing houses, paper distributors, book and magazine publishing houses and the advertising industry. As at 31 December 2017 the Arctic Paper Group employs about 1,750 people in its Paper Mills, companies involved in sale of paper and in pulp producing companies, procurement office and a company producing food packaging. The Group's Paper Mills are located in Poland and Sweden. Paper production in the Paper Mill located in Germany was discontinued at the end of 2015. Our Pulp Mills are located in Sweden. As at 31 December 2017 the Group had 14 Sales Offices ensuring access to all European markets, including Central and Eastern Europe. Our consolidated sales revenues for 12 months of 2017 amounted to PLN 2,953 million.

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

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

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

The Parent Entity holds statistical number REGON 080262255.
The Company has a Branch office, which is located in Sweden, Gothenburg

1.1. Group Profile

The main area of the Arctic Paper Group's business activities is paper production.
The additional business activities of the Group, subordinated to paper production are:

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

1.2. Shareholding structure

	as at 31.12.2017				as at 31.12.2016			
Shareholder	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 [%]
Thomas Onstad	**47 205 107**	**68,13%**	**47 205 107**	**68,13%**	**47 205 107**	**68,13%**	**47 205 107**	**68,13%**
- indirectly via	40 981 449	59,15%	40 981 449	59,15%	41 131 449	59,36%	41 131 449	59,36%
Nemus Holding AB	*40 381 449*	*58,28%*	*40 381 449*	*58,28%*	*40 231 449*	*58,06%*	*40 231 449*	*58,06%*
other entity	*600 000*	*0,87%*	*600 000*	*0,87%*	*900 000*	*1,30%*	*900 000*	*1,30%*
- directly	6 223 658	8,98%	6 223 658	8,98%	6 073 658	8,77%	6 073 658	8,77%
Other	**22 082 676**	**31,87%**	**22 082 676**	**31,87%**	**22 082 676**	**31,87%**	**22 082 676**	**31,87%**
Total	69 287 783	100,00%	69 287 783	100,00%	69 287 783	100,00%	69 287 783	100,00%
Treasury shares	-	0,00%	-	0,00%	-	0,00%	-	0,00%
Total	**69 287 783**	**100,00%**	**69 287 783**	**100,00%**	**69 287 783**	**100,00%**	**69 287 783**	**100,00%**

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 2017) 40,381,449 shares of the Group's Company, which constitutes 58.28% of its share capital and corresponds to 58.28% 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 6,223,658 shares representing 8.98% of the total number of shares in the Company, and via another entity – 600,000 shares accounting for 0.87% of the total number of shares of the Company. Mr Thomas Onstad’s total direct and indirect holding in the capital of Arctic Paper S.A. as at 31 December 2017 was 68.13% (31 December 2016: 68.13%) and has not changed until the date hereof.

2. Composition of the Group

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

Unit	Registered office	Group profile	Group’s interest in the equity of the subsidiary entities as at		
			09 April 2018	31 December 2017	31 December 2016
Arctic Paper Kostrzyn S.A.	Poland, Fabryczna 1, 66-470 Kostrzyn nad Odrą	Paper production	100%	100%	100%
Arctic Paper Munkedals AB	Sweden, SE 455 81 Munkedal	Paper production	100%	100%	100%
Arctic Paper Mochenwangen GmbH	Germany, Fabrikstrasse 62, DE-882, 84 Wolpertswende	Paper production	99,74%	99,74%	99,74%
Arctic Paper Grycksbo AB	Sweden, Box 1, SE 790 20 Grycksbo	Paper production	100%	100%	100%
Arctic Paper UK Limited	Great Britain, Quadrant House, 47 Croydon Road, Caterham, Surrey	Trading company	100%	100%	100%
Arctic Paper Baltic States SIA	Latvia, K. Vardemara iela 33-20, Riga LV-1010	Trading company	100%	100%	100%
Arctic Paper Deutschland GmbH	Germany, Am Sandtorkai 72, 20457 Hamburg	Trading company	100%	100%	100%
Arctic Paper Benelux S.A.	Belgium,Ophemstraat 24 B-3050 Oud-Haverlee	Trading company	100%	100%	100%
Arctic Paper Schweiz AG	Switzerland, Technoparkstrasse 1, 8005 Zurich	Trading company	100%	100%	100%

Unit	Registered office	Group profile	Group's interest in the equity of the subsidiary entities as at		
			09 April 2018	31 December 2017	31 December 2016
Arctic Paper Italia srl	Italy, Via Cavriana 7, 20 134 Milano	Trading company	100%	100%	100%
Arctic Paper Danmark A/S	Denmark, Korskildelund 6 DK-2670 Greve	Trading company	100%	100%	100%
Arctic Paper France SAS	France, 43 rue de la Breche aux Loups, 75012 Paris	Trading company	100%	100%	100%
Arctic Paper Espana SL	Spain, Avenida Diagonal 472-474, 9-1 Barcelona	Trading company	100%	100%	100%
Arctic Paper Papierhandels GmbH	Austria, Hainborgerstrasse 34A, A-1030 Wien	Trading company	100%	100%	100%
Arctic Paper Polska Sp. z o.o.	Poland, Okrężna 9, 02-916 Warsaw	Trading company	100%	100%	100%
Arctic Paper Norge AS	Norway, Eikenga 11-15, NO-0579 Oslo	Trading company	100%	100%	100%
Arctic Paper Sverige AB	Sweden, SE 455 81 Munkedal	Trading company	100%	100%	100%
Arctic Paper East Sp. z o.o.	Poland, Fabryczna 1, 66-470 Kostrzyn nad Odrą	Trading company	100%	100%	100%
Arctic Paper Investment GmbH *	Germany, Fabrikstrasse 62, DE-882, 84 Wolpertswende	Activities of holding companies	100%	100%	100%
Arctic Paper Finance AB	Sweden, Box 383, 401 26 Göteborg	Activities of holding companies	100%	100%	100%
Arctic Paper Finance AB (previous Arctic Ene	Germany, Fabrikstrasse 62, DE-882 84 Wolpertswende	Activities of holding companies	100%	100%	100%
Arctic Paper Immobilienverwaltung GmbH&Co. KG*	Germany, Fabrikstrasse 62, DE-882 84 Wolpertswende	Activities of holding companies	94,90%	94,90%	94,90%
Arctic Paper Investment AB **	Sweden, Box 383, 401 26 Göteborg	Activities of holding companies	100%	100%	100%
EC Kostrzyn Sp. z o.o.	Poland, ul. Fabryczna 1, 66-470 Kostrzyn nad Odrą	Rental of properties and machines and equipment	100%	100%	100%
Arctic Paper Munkedals Kraft AB	Sweden, 455 81 Munkedal	Production of hydropower	100%	100%	100%
Rottneros AB	Sweden, Sunne	Activities of holding companies	51,27%	51,27%	51,27%
Rottneros Bruk AB	Sweden, Sunne	Pulp production	51,27%	51,27%	51,27%
Utansjo Bruk AB	Sweden, Harnösand	Non-active company	51,27%	51,27%	51,27%
Vallviks Bruk AB	Sweden, Söderhamn	Pulp production	51,27%	51,27%	51,27%
Rottneros Packaging AB	Sweden, Stockholm	Production of food packaging	51,27%	51,27%	51,27%
SIA Rottneros Baltic	Latvia, Ventspils	Procurement bureau	51,27%	51,27%	51,27%

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

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

As at 31 December 2017 and as well as on the day hereof, the percentage of voting rights held by the Group in its subsidiaries corresponded to the percentage held in the share capital of those entities. All subsidiaries within the Group are consolidated under the full method from the day of obtaining control by the Group and cease to be consolidated from the day the control has been transferred out of the Group.

3. Management and supervisory bodies

3.1. Management Board of the Parent Entity

As at 31 December 2017, the Parent Entity's Management Board was composed of:

- Per Skoglund – President of the Management Board appointed on 27 April 2016 (appointed as a Member of the Management Board on 27 April 2011);
- Göran Eklund – Member of the Management Board appointed on 30 August 2017.

At its meeting on 19 April 2017, the Supervisory Board did not extend the term of office expiring on 29 May 2017, for the following members of the Management Board: Mr Wolfgang Lübbert, Mr Jacek Łoś and Mr Michał Sawka.
At its meeting on 30 August 2017, the Supervisory Board dismissed Ms Małgorzata Majewska-Śliwa from the position of a Member of the Management Board effective on 1 September 2017 and appointed Mr Göran Eklund to that position.

Since 31 December 2017 until the publication of these annual consolidated financial statements there were no changes to the composition of the Management Board of the Parent Entity.

3.2. Supervisory Board of the Parent Entity

As at 31 December 2017, the Parent Entity's Supervisory Board was composed of:

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

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

3.3. Audit Committee of the Parent Entity

As at 31 December 2017, the Parent Entity's Audit Committee was composed of:

- Mariusz Grendowicz – Chairman of the Audit Committee appointed on 18 September 2017 (appointed to Audit Committee on 20 February 2013;
- Roger Mattsson – Member of the Audit Committee appointed on 23 June 2016;
- Maciej Georg – Member of the Audit Committee appointed on 22 September 2016.

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

4. Approval of the financial statements

These financial statements were approved for publication by the Management Board on 9 April 2018.

5. Material values based on professional judgement and estimates

5.1. Professional judgement

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

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

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

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

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

Identification of control over the acquired entities and joint ventures

If interests in other entities are acquired, the Management Board of the Parent Entity makes a professional judgement with respect to the assessment whether the Group exercises control or joint control over them and with respect to the recognition method of the transaction in the consolidated financial statements pursuant to the guidelines set forth in IFRS 10, IFRS 3 and IFRS 11.

Gas purchase contract

The Group enters into "take or pay" transactions concerning gas supplies to Arctic Paper Kostrzyn S.A. for its internal use. With reference to such transactions, the Group as at each balance sheet date checks if the minimum limit that was granted with regard to gas reception has been used and if as at balance sheet date the Group is not obliged to establish a provision on settlement with regard to not consumed quantities.

Operational segments

The Group identifies the following operational segments: Uncoated, Coated, Pulp and Other. The Management Board of the Parent Entity makes a professional judgement with respect to the identification of these segments on the basis of guidelines set forth in IFRS 8. A detailed method of the segment identification and basic financial data are presented in note 10 to these consolidated financial statements.

Functional currency

The financial data of entities belonging to the group is the basis for the consolidated financial statements and is determined in functional currencies of these entities and then translated into the presentation currency, i.e. PLN, in compliance with rules described in note 6.2 to these consolidated financial statements. The Management Board of the Parent Entity makes a professional judgement with respect to the determination of functional currencies for a given entity on the basis of guidelines set forth in IAS 21.

Discontinued operations

On 28 July 2015 the Management Board of Arctic Paper S.A. published the Group's profitability improvement programme aimed at reducing the operational expenses. At the same time, the Management Board of Arctic Paper announced that it had started an active search for an investor for the Arctic Paper Mochenwangen facility and in parallel analysed the possibility to take measures for further reduction of losses generated by the Paper Mill, including those relating to the discontinuation of operations. Due to the material significance of the part of the business pursued by AP Mochenwangen and the companies set up to acquire the Paper Mill and due to their operational and geographic separation, the Management Board treated the operations of the Mochenwangen Group as discontinued operations as at 31 December 2015. In view of a continued search for an investor for the factory of Arctic Paper Mochenwangen or its individual assets, the Management Board decided to treat the operations of the Mochenwangen Group as discontinued activities as at 31 December 2016.

As at 31 December 2017, the Management Board also decided to treat the operations of the Mochenwangen Group as discontinued activities, with the exception of provisions for retirement benefits as liability that will not be sold with other assets of the Group.
The environmental test results, inter alia, determining the degree of contamination of the land have a significant impact on the value of the main asset of the Mochenwangen Group, i.e. land. As at the balance sheet date the Group is conducting tests in this area.

More information on the discontinued activity is provided in note 14 to these consolidated financial statements.

5.2. Uncertainty of estimates

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

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

As at 31 December 2012 an impairment test was conducted for the production facility of Arctic Paper Mochenwangen with reference to tangible fixed assets and intangible assets. As a result of the test, a further impairment charge was recognised up to the net value of fixed assets and intangible assets as at 31 December 2012. The resulting value of these assets amounter to 0 PLN. The investment outlays incurred in 2013-2016 were fully depreciated when incurred. In 2017 there were no investments of APMW.

Since 31 December 2015 the activities of the Arctic Paper Mochenwangen Group has been presented as discontinued activities.

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

As at 31 December 2015 and 31 December 2016, following the annual assessment of impairment indications of tangible fixed assets and intangible assets, the Management Board identified the need to perform impairment tests of non-financial fixed assets as at those dates. The results of the tests did not show any further impairment losses of these assets. The results of the tests are presented in note 25.

As at 31 December 2017 an impairment test of Arctic Paper Grycksbo Ab was performed regarding tangible fixed assets and intangible assets. As a result, an impairment charge on net tangible fixed assets and intangible assets was recognized respectively as at 31 December 2017.

Retirement benefits and other post-employment benefits

The costs of retirement post-employment benefits is determined with actuarial techniques. The estimates were presented in note 26. Actuarial measurements require certain assumptions as to the applicable discount rates, anticipated salary increases, mortality ratio and projected growth of retirement benefits. Due to the long-term nature of the programmes, the estimates are subject to certain uncertainties.

Deferred income tax asset

The Group recognises a deferred income tax asset assuming that taxable profit will be generated in the future to utilise the asset. Material deterioration of the generated taxable profit in the future could render this assumption unjustified. The calculation of the deferred income tax asset is presented in note 13.3.

Fair value of financial instruments

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

Depreciation/amortisation rates

Depreciation/amortisation rates are determined on the basis of the anticipated economic useful lives of tangible fixed assets and intangible assets. Every year, the Group reviews the approved economic useful lives on the basis of current estimates. The approved economic useful lives for each tangible fixed asset are presented in note 9.5 and for intangible assets in note 9.7.

Uncertainties related to tax settlements

Regulations related to VAT, corporate income tax and charges related to social insurance are subject to frequent modifications. Those frequent modifications result in unavailability of appropriate points of reference, inconsistent interpretations and few precedents that could apply. Additionally, the applicable regulations contain also certain ambiguities that result in differences of opinion as to legal interpretations of tax regulations – among public authorities and between public authorities and enterprises. Tax settlements and other areas of operations (for instance customs or foreign exchange issues) may be inspected by the authorities that are entitled to impose high penalties and fines as well additional tax liabilities resulting from inspections that have to be paid along with high interest. As a result, tax risk in Poland is higher than in countries with more mature tax systems.
Therefore, the amounts presented and disclosed in the financial statements may change in the future as a result of final decisions by tax inspection authorities.

On 15 July 2016 the Tax Code was amended to incorporate the provisions of the General Anti-Avoidance Rule (GAAR). GAAR is to prevent the development and use of artificial legal structures to avoid tax payments in Poland. GAAR defines tax avoidance as an activity pursued primarily to accomplish tax benefits that under the circumstances would be contradictory to the subject and purpose of the tax regulations. In accordance with GAAR, such activity would not generate tax benefits if the mode of operation was artificial. Any occurrence of (i) unjustified split to operations, (ii) involvement of intermediaries despite no economic justification, (iii) mutually exclusive of compensating elements, and (iv) other similar activities, may be treated as a premise to the existence of artificial activities subject to GAAR. The new regulations will require more accurate judgements in the assessment of tax effects of each transaction.
GAAR is to be applied to transactions executed after its effective date and to transactions that were executed before the effective date of GAAR but with respect to which benefits were obtained or continue to be obtained after its effective date. The transposition of the above regulations would support Polish fiscal inspection authorities in questioning arrangements and agreements made by taxpayers such as group restructuring or reorganisation.
The Group recognises and measures current and deferred income tax assets or liabilities applying the requirements of IAS 12 Income Taxes, on the basis of profit (tax loss), taxation base, carried forward tax losses, unutilised tax credits and applicable tax rates, and further subject to uncertainties related to tax settlements. When an uncertainty exists if and to what extent the tax authority accepts tax settlements to specific transactions, the Group recognises those settlements subject to uncertainty assessment.

Impairment charge to inventories and receivables

The impairment charge to receivables is recognized when the probablity of collection of that receivable is no longer probable. The value of the charge is a amount of the difference between book value of the recivable and estimated probable amount reveivedfrom the payment. Impairment charge to inventory is recognized when the book value of the assortment is lower than its net sales price. Net sales price is estimated as the sales price of the certain assortment possible to obtain less sales costs.

6. Basis of preparation of the consolidated financial statements

These Consolidated Financial Statements have been made in accordance with the historical cost convention, with the exception of investment properties and derivative financial instruments that are measured at fair value. Financial instruments measured at fair value through financial result include FX forward contracts, contracts for the purchase of electricity, contracts for the sale of pulp, floor options and interest rate SWAPs when they are not subject to hedge accounting (note 40).

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

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

6.1. Compliance statement

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

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

6.2. Functional currency and presentation currency of the financial statements

The Group's consolidated financial statements are presented in PLN which is also the functional currency of the Parent Entity. A functional currency is determined for each subsidiary and the assets and liabilities of each entity are measured in its relevant functional currency. The functional currencies of the Group companies included in these consolidated financial statements are as follows: Polish zloty (PLN), Swedish krona (SEK), euro (EUR), Norwegian krone (NOK), Danish krone (DKK), pound sterling (GBP) and Swiss franc (CHF).

7. Modifications to the applied accounting principles and data comparability

7.1. Modifications to the existing accounting principles

The accounting principles (policies) adopted in the preparation of these consolidated financial statements are consistent with those applied in the preparation of the Group's consolidated financial statements for the year ended on 31 December 2016, except for the following changes to standards and new interpretations binding for annual periods beginning on or after 1 January 2017:

- Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses
  The changes clarify issues related to deductible temporary differences associated with debt instruments measured at fair value, estimation of probable future taxable profits and assessment of whether taxable profits will be available against which the deductible temporary differences can be utilised. The changes are applied retrospectively.
- Amendments to IAS 7 Disclosure Initiative
  The changes require the entity to disclose information that enable users of financial statements to evaluate changes in liabilities arising from financing activities. Entities need not provide comparative information when they first apply the amendments.
- Amendments to IFRS 12 Disclosure of Interests in Other Entities which are part of Annual Improvements to IFRS Standards 2014-2016 Cycle
  The changes clarify that the requirements in the standard apply also to an entity's interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and unconsolidated structured entities that are classified (or included in a disposal group that is classified) as held for sale or discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operation.

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

7.2. Data comparability and previous year's errors adjustment

7.2.1. Presentation of selling expenses and overheads

Additionally, the presentation was changed to the internal selling expenses and selling expenses and overheads in the consolidated profit and loss account for the year ended on 31 December 2017 by increasing the selling expenses by PLN 102,998 thousand and increasing the overheads by PLN 20,566 thousand and decreasing the internal selling expenses by PLN 123,564 thousand. Change of comparable data was resulting from the separation of sales costs and administrative expenses in some subsidiaries. Due to the different structure of costs from the one that is applied in the consolidated income statement, sales costs and administrative expenses were not separated in these companies in previous years.

7.2.2. Adjustment of economic useful life

As a result of adjustment of the economic useful life for tangible fixed assets and intangible assets, the Group decided to adjust economic useful life periods for tangible fixed assets and intangible assets for the Rottneros Group to those applied by the Rottneros Group in a retrospective approach (earlier economic useful life periods were based on estimates by experts who appraised the assets as of the day control was assumed over Rottneros AB. Tthe verification was incorrect in previous years. The erros appeared in 2014 at the first verification of rates.
As a result, there was a change of the value of the tangible fixed assets and intangible assets and the deferred tax for comparative data as at 31 December 2016 in relation to the consolidated financial statements for the year ended on 31 December 2016 and as at 1 January 2016.

As at 31 December 2016 the value of tangible fixed assets grew by PLN 59,796 thousand while the deferred income tax decreased by PLN 13,155 thousand and the equity increased by PLN 46,641 thousand with the non-controlling shareholders increased by PLN 22,714 thousand and the FX differences from translation decreased by PLN 81 thousand with the accumulated loss reduced by PLN 24,008 thousand. The change of economic useful life for tangible assets of the Rottneros Group resulted in a change of net profit for the year ended on 31 December 2016 by PLN 15,524 thousand as a result of a reduction to internal costs of sales by PLN 19,902 thousand and an increase of income tax by PLN 4,378 thousand.

As at 01 January 2016 the value of tangible fixed assets grew by PLN 40,097 thousand while the deferred income tax decreased by PLN 8,821 thousand and the equity increased by PLN 31,276 thousand with the non-controlling shareholders increased by PLN 15,231 thousand with the accumulated loss reduced by PLN 16,045 thousand.

Basic and diluted profit per share attributable to the shareholders of the parent entity for the year ended on 31 December 2016 grew from PLN 0.58 to PLN 0.69.

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

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

- IFRS 15 Revenue from Contracts with Customers (issued on 28 May 2014), including amendments to IFRS 15 Effective date of IFRS 15 (issued on 11 September 2015) effective for financial years beginning on or after 1 January 2018,
- Clarification to IFRS 15 Revenue from Contracts with Customers (issued on 12 April 2016) – effective for financial years beginning on or after 1 January 2018,

The Management Board made an analysis of the agreements and because of their nature and lack of non-standard provisions in the agreements, the amendments to IFRS 15 will not have a significant impact on the results of the Group (detalis have beed described in note 8.1. of the consloidated financial statement).

- IFRS 9 Financial Instruments (issued on 24 July 2014) – effective for financial years beginning on or after 1 January 2018, (detalis have beed described in note 8.2. of the financial statement)
- IFRS 16 Leasing (issued on 13 January 2016) – effective for financial years beginning on or after 1 January 2019,
- Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (issued on 12 September 2016) – effective for financial years beginning on or after 1 January 2018,
- Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions (issued on 20 June 2016) - effective for financial years beginning on or after 1 January 2018,
- Amendments to IAS 28 Investments in Associates and Joint Ventures which are part of Annual Improvements to IFRS Standards 2014-2016 Cycle (issued on 8 December 2016) – effective for financial years beginning on or after 1 January 2018,
- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards which are part of Annual Improvements to IFRS Standards 2014-2016 Cycle (issued on 8 December 2016) – effective for financial years beginning on or after 1 January 2018,
- Amendments to IAS 40: Transfers of Investment Property (issued on 8 December 2016) – effective for financial years beginning on or after 1 January 2018;
- Amendments to IFRS 9: Prepayment Features with Negative Compensation (issued on 12 October 2017)) - effective for financial years beginning on or after 1 January 2019;
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016) – effective for financial years beginning on or after 1 January 2018;

The effective dates are dates provided by the International Accounting Standards Board. Effective dates in the European Union may differ from the effective dates provided in standards and are published when the standards are endorsed by the European Union.

8.1. Adoption of IFRS 15

International Financial Reporting Standard 15 Revenue from Contracts with Customers ("IFRS 15") was issued in May 2014, and then amended in April 2016, and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The Group can choose either a full retrospective application or a modified retrospective, and interim provisions stipulate some practical solutions. The group plans to adopt the new standard on the required effective date using the full retrospective method.
The Group's main activites are in the fields of selling paper and pulp. Detailed analysis of the impact was completed in 2017.
In preparing to adopt IFRS 15, the group is considering the following:

Identifying the performance obligations in the contract

The group is in the business of manufacturing and selling paper and pulp products, as consequence, for contracts with customers in which the sale of product is generally expected to be the only performance obligation, adoption of IFRS 15 is not expected to have any impact on the group's revenue and profit or loss. The group expects the revenue recognition to occur at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

Variable consideration

Some contracts with customers provide a volume rebates. Currently, the group recognizes revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates. If revenue cannot be reliably measured, the group defers revenue recognition until the uncertainty is resolved. Such provisions give rise to variable consideration under IFRS 15, and will be required to be estimated at contact inception and updated thereafter. IFRS 15 requires the estimated variable consideration to be constrained to prevent over-recognition of revenue. The group expects the application of the constraint will not result in adjustments in revenue, since the amount of estimated rebate is already estimated at contract inception (the amount of estimated rappel is recorded in the period when sales occur).

Presentation and disclosure requirements

The presentation and disclosure requirements in IFRS 15 are more detailed then under current IFRS. The presentation requirements represent a significant change from current practice and significantly increases the volume of disclosure required in the group's financial statements. Many of the disclosure requirements in IFRS 15 are new and the group has assessed that the impact of some of these disclosure requirements will be significant. In particular, the group expects that the notes to the financial statements will be expanded because of the disclosure of significant judgements made: essentially when determining the transaction price of those contracts that include variable consideration. It will also disclose information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment. In 2017 the group continued testing of appropriate system, internal controls, policies and procedures necessary to collect and disclose the required information.

8.2. Adoption of IFRS 9

In July 2014, the International Accounting Standards Board published International Financial Reporting Standard 9 Financial Instruments ("IFRS 9"). IFRS 9 covers three aspects related to financial instruments: classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with the possibility of earlier application.

The Group plans to apply IFRS 9 from the date of entry into force of the standard, without transforming the comparative data.

In 2017, the Group carried out an assessment of the impact of the IFRS 9 introduction on the accounting principles (policy) applied by the Group with respect to the Group 's operations or its financial results. This assessment is based on currently available information and may be subject to amendments resulting from the acquisition of reasonable and documentable additional information during the period in which the Group applies IFRS 9 for the first time.

The Group does not expect a material impact of the IFRS 9 introduction on the statement of financial position and on equity. As a result of the application of IFRS 9, the classification of some financial instruments will change.

Classification and measurement

The Group does not expect a material impact on the statement of financial position and on equity in connection with the application of IFRS 9 in the area of classification and measurement. It is expected that all financial assets measured so-far at fair value will continue to be measured at fair value.

Trade receivables are held with the intention to obtain cash flows resulting from the agreement, and the Group does not sell trade receivables as part of factoring – they will continue to be measured at amortized cost through financial result. The Group uses a practical exemption, and for trade receivables less than 12 months does not identify significant elements of financing.

Impairment

In accordance with IFRS 9, the entity measures write-downs for expected credit losses in the amount equal to the 12-month expected credit losses or expected credit losses in the life of the financial instrument. In the case of trade receivables, the Group will apply a simplified approach and will measure a write-down for expected credit losses at the amount equal to the expected credit losses over the whole life.
The Group estimates that due to the nature of trade receivables, the method of calculating the impairment write-downs will not change significantly.

Hedge accounting

Because IFRS 9 does not change the general principles of the Group 's hedge accounting, the application of IFRS 9 will not have a material impact on the Group 's financial statements.

8.3. Adoption of IFRS 16

In January 2016, the International Accounting Standards Board issued International Financial Reporting Standard 16 Leases ("IFRS 16"), which replaced IAS 17 Leases, IFRIC 4 Determining whether an Arrangement Contains a Lease, SIC 15 Operating Leases – Incentives and SIC 27 Evaluating the Substance of Transactions Involving the

Legal Form of a Lease. IFRS 16 sets out the accounting principles for leases in terms of measurement, presentation and disclosure.

IFRS 16 introduces a uniform model of the lessee accounting and requires the lessee to recognize assets and liabilities resulting from each lease with a period exceeding 12 months, unless the underlying asset is of low value. On the lease commencement date, the lessee recognizes an asset with respect to the right to use the underlying asset and a lease liability that reflects the lessee's obligation to make lease payments.
The lessee separately recognizes depreciation of an asset with respect to the right of use and interest on the lease liability.

The lessee updates the measurement of the lease liability after the occurrence of certain events (e.g. changes in the lease period, changes in future lease payments resulting from a change in the index or the rate used to determine such payments). As a rule, the lessee recognizes the revaluation of the lease liability as an adjustment to the value of the asset with respect to the right of use.

The Group is a lessee mainly in the case of rental agreements for: office space, cars and machinery, and equipment, which is described in detail in Note 19.

The lessor accounting under IFRS 16 remains substantially unchanged from to the current accounting under IAS 17. The lessor will continue to include all lease agreements using the same classification principles as in the case of IAS 17, distinguishing between operating leases and financial leasing.

IFRS 16 requires broader disclosures from both the lessee and the lessor than in the case of IAS 17.
The lessee has the right to choose a full or modified retrospective approach, and the transitional provisions provide for some practical solutions.

IFRS 16 is effective for annual periods beginning on and after 1 January 2019. Earlier application is permitted for entities which apply IFRS 15 from or before the date of the first application of IFRS 16. The Group did not decide on early adoption of IFRS 16.

As at the date of approval of these consolidated financial statements for publication, the Management Board is in the process of assessing the impact of the IFRS 16 introduction on the accounting principles (policy) applied by the Group with respect to the Group's operations or its financial results.

8.4. Implementation of other standards

As at the date of approval of these consolidated financial statements for publication, the Management Board has not yet completed work on assessing the impact of the introduction of other standards and interpretations on the accounting principles (policy) applied by the Group with respect to the Group's operations or its financial results.

9. Significant accounting policies

9.1. Consolidation principles

These consolidated financial statements cover financial statements of Arctic Paper S.A. and its subsidiaries for the year ended on 31 December. The financial statements of subsidiary entities, subject to adjustments to achieve compliance with EU IFRS, are made for the same reporting period as the financial statements of the patent entity relying on consistent accounting principles, applied to similar transactions and economic events. In order to eliminate any discrepancies in the applied accounting standards, adjustments are made. All material balances and transactions among Group entities, including unrealised profit on transactions within the Group, have been fully eliminated. Unrealised losses are eliminated unless they evidence impairment.
The subsidiaries are consolidated from the day of obtaining control by the Group and cease to be consolidated from the day the control discontinues.
Control is exercised by the Parent Entity when:

- it exercises power over the entity,
- it is exposed to variable return or is entitled to variable return as a result of its involvement in the entity,

- it is able to exercise its power to affect the level of generated return.

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

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

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

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

9.2. Involvement in joint ventures

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

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

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

When assessing the need to recognise a loss of the Group's investment in a joint venture, the requirements of IAS 39 are applied. If necessary, the entire book value of the investment is tested for impairment in compliance with IAS 36 Impairment of Assets as a single asset and its realisable value is compared to the book value. Such recognised impaired value constitutes a part of the book value of the investment. Such impairment is reversed in compliance with IAS 36 to the extent corresponding to a subsequent increase in the realisable value of the investment.

The Group discontinues to apply the equity method on the day the investment stops being a joint venture and when it is reclassified to assets available for sale. The difference between the book value of a joint venture as at the day the equity method is no longer applied and the fair value of retained interests and proceeds from the sale of certain interests in the entity, is taken into account when calculating the profit or loss on disposal of such joint venture.

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

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

9.3. Fair value measurement

The Group measures financial instruments such as derivative instruments and non-financial assets such as investment properties at fair value as at each balance sheet date. Additionally, the fair value of financial instruments measured at amortised cost is disclosed in note 40.1.
The fair value is understood as the price that could be received for the sale of an asset or paid as a result of transfer of a liability subject to ordinary sale of such asset between market players as at the measurement date at the prevailing market conditions. Fair value measurement is based on an assumption that the sale transaction of an asset or transfer of a liability is executed either:
- in the main market for such asset or liability,
- if no main market exists, in the most advantageous market for such asset or liability.

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

The fair value of an asset or liability is measured subject to an assumption that market players act in their best economic interests when setting the price of such asset or liability.

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

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

All assets and liabilities that are measured at fair value or their fair value is disclosed in the financial statements, are classified in the hierarchy of fair value in the way described below to the lowest level of input data which is material for the measurement at fair value treated as a whole:
- Level 1 – Listed (unadjusted) market prices in an active market for identical assets or liabilities,
- Level 2 – Measurement techniques for which the lowest level of input data that is material for the measurement at fair value as a whole is observable or indirectly observable,
- Level 3 – Measurement techniques for which the lowest level of input data that is material for the measurement at fair value as a whole is not observable,

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

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

The management boards of subsidiary companies or the Management Board of Arctic Paper S.A. determine the principles and procedures relating both to systematic measurement at fair value, e.g. of investment properties and unlisted financial assets, as well as one-off measurements.

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

Measurement at fair value of financial instruments is performed by independent financial institutions specialised in the measurement of such instruments.
For the disclosure of results of such measurement at fair value, the Group has defined classes of assets and liabilities on the basis of the type, features and risks related to individual assets and liabilities and the level in the hierarchy of fair value, as described above.

9.4. Foreign currency translation

Transactions denominated in currencies other than the functional currency of the entity are translated into the presentation currency at the foreign exchange rate prevailing on the transaction date.

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

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

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

The following exchange rates were used for book valuation purposes:

	Na dzień 31 grudnia 2017	Na dzień 31 grudnia 2016
USD	3,4813	4,1793
EUR	4,1709	4,4240
SEK	0,4243	0,4619
DKK	0,5602	0,5951
NOK	0,4239	0,4868
GBP	4,7001	5,1445
CHF	3,5672	4,1173

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

	01/01 - 31/12/2017	01/01 - 31/12/2016
USD	3,7782	3,9432
EUR	4,2583	4,3638
SEK	0,4422	0,4612
DKK	0,5725	0,5861
NOK	0,4570	0,4697
GBP	4,8595	5,3417
CHF	3,8364	4,0027

9.5. Tangible fixed assets

Tangible fixed assets are measured at purchase price or construction cost reduced by accumulated depreciation and all impairment charges. The initial value of fixed assets comprises their purchase price and any directly attributable costs of bringing the asset to working condition for its intended use. The cost also comprises the expenses for replacement of fixed asset components when incurred, if the recognition criteria are met. Subsequent expenditures, such as repair or maintenance costs, are expensed in profit and loss account in the reporting period in which they were incurred.

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

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

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

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

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

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

9.5.1. Fixed assets available for sale, discontinued activities

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

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

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

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

9.6. Investment properties

The initial recognition of investment properties is at the purchase price, including transactional costs. The book value of an asset covers the replacement cost of the component of the investment property when incurred as long as the recognition criteria are satisfied, and it does not include the current maintenance costs of such properties.
After initial recognition, investment properties are disclosed at fair value. Gains or losses resulting from changes to the fair value are recognised in the profit or loss in the period they arose, subject to the related impact on deferred income tax.
investment properties are derecognised from the balance sheet when they are sold or when they are permanently abandoned, when no future benefits from sale thereof are anticipated. Any profit or loss arising on derecognition of an investment property from the balance sheet are recognised as profit or loss in the period when such derecognition occurred.

Assets are transferred to investment properties only when a change of their use takes place, confirmed with the end of use of such asset by the owner or conclusion of an operational lease contract. If an asset is used by the owner – the Group, it becomes an investment property when the Group applies the principles described in the section Tangible fixed assets (note 9.5) until the date the use of the property is changed. When an asset is transferred from inventories to investment properties, the difference between the fair value of the property set as at the transfer date and its previous book value is recognised in profit or loss.

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

9.7. Intangible assets

Intangible assets acquired separately or constructed (if they meet the recognition criteria for development costs) are measured on initial recognition at cost or construction costs. The cost of intangible assets acquired in a business combination is equal to their fair value as at the date of combination. Following initial recognition, intangible assets are recognised at purchase cost or construction cost reduced by any accumulated amortisation and impairment charges. Expenditures incurred for internally generated intangible assets, excluding capitalised development costs, are not capitalised and are charged to the costs in the period in which they were incurred.
The useful lives of intangible assets are assessed by the Group to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with limited useful live is recognised in profit or loss in the expense category consistent with the function of the intangible asset.
Intangible assets with indefinite useful lives and those that are not in use are tested for impairment annually either individually or at the cash generating unit level.
Useful lives are reviewed on an annual basis and, if necessary, are adjusted with effect from the beginning of the financial year that has just ended.

Research and development costs

Research costs are recognised in profit or loss when incurred. Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. Following the initial recognition of development expenses, the historical cost model is applied, which requires the asset to be recognised at purchase price reduced by any accumulated amortisation and accumulated impairment charges. Any expenditure carried forward is amortised over the expected period of generating sales revenues from the related project.The costs of development works are subject to assessment for impairment every year – if an asset has not been yet commissioned, or more frequently – if during the reporting period, an impairment indication occurs that the book value may not be recovered.

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

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

After analysing the relevant factors, for trademarks the Group does not define any time limit of their useful life. The intention of the Group is to operate for an indefinite period under the same trademark and it is believed that it will not become impaired. Consequently, and in accordance with IAS 38, the Group does not amortise intangible assets with indefinite useful lives. Useful life of such resources should be reviewed in each reporting period, in order to determine whether events and circumstances continue to confirm the assumption of the indefinite useful life of such asset.

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

9.7.1. Goodwill

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

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

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

As at the acquisition date, goodwill is allocated to all cash generating centres that may benefit from combination synergies. Each centre or group of centres to which goodwill has been attributed:

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

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

9.7.2. Emission rights

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

Recognition policy of CER/EUA swaps

The Group enters into forward transactions ("EUA/CER swaps") with external entities in order to swap CO2 emission rights within the European Union Allowance ("EUA") system in the future (before the date on which the facilities have to account for its liabilities in the period) for the same number of certified emission reduction ("CER") instruments. If an EUA/CER swap is entered into and maintained in compliance with the anticipated requirement to utilise CERs by the unit (to cover the obligations resulting from CO2 emissions), it is not subject to IAS 39.

Accounting recognition at payment

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

Accounting recognition at maturity of EUA/CER transactions

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

9.7.3. Certificates in cogeneration

As an entity generating electricity in cogeneration, the Group receives certificates of origin ("yellow certificates"). Revenues from the certificates are recognised as a cost reduction at the time of production and measured at the prevailing market price provided the market for such certificates is active. Otherwise, the revenues are recognised at sale of the certificates. Material rights resulting from the measurement are disclosed in intangible assets. The details of the certificates received in the current year are disclosed in note 44.

9.8. Leases

The Group as a lessee

Financial lease contracts that transfer the entire risk and benefits from the leased assets to the Group are recognised in the balance sheet at the beginning of the lease at the lower of: fair value of the lease fixed asset or the present value of minimum lease fees. Lease fees are divided into financial costs and decreases of the liability balance against leases so as to obtain a fixed interest rate on the outstanding liability amount. Financial expenses are recognised in profit or loss.
Fixed assets used under financial lease contract are depreciated over the shorter period of: estimated useful life of the asset or lease period.
Lease contracts in compliance with which the lessor maintains substantially all risks and benefits resulting from holding of the leased assets are classified as operational lease contracts. Lease fees under operational leases and the subsequent lease instalments are recognised as expenses in P&L with the straight line method over the term of the lease contract.

Group as a lessor

Lease contracts in compliance with which the Group maintains substantially all risks and benefits resulting from holding the leased assets are classified as operational lease contracts. The initial costs incurred at negotiation of operational lease contracts are added to the book value of the leased asset and recognised throughout the lease contract on the same basis as rental revenues. Conditional lease fees are recognised as revenues in the period they are due and payable

9.9. Impairment of non-financial fixed assets

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

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

An assessment is made by the Group as at each balance sheet date as to whether there is any indication that previously recognised impairment charges may no longer be required or may be reduced. If such indications exist, the Group makes an estimate of the recoverable amount of the asset. A previously recognised impairment charge is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment charge was recognised. If that is the case, the book value of the asset is increased to its recoverable amount. That increased amount cannot exceed the book value that would have been determined (net of depreciation or amortisation), had no impairment loss been recognised for the asset in prior years. Reversal of impairment charge to assets is recognised immediately as income. After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the asset is adjusted in future periods to allocate the asset's book value, reduced by its residual value (if any), on a systematic basis over its remaining useful life.

9.10. External borrowing costs

External borrowing costs are capitalised as part of the construction costs of fixed assets, investment properties, intangible assets and finished products. External borrowing costs include interest calculated using the effective interest rate method, finance charges in respect of finance leases and foreign exchange differences incurred in connection with the external financing to the extent that they are regarded as an adjustment to interest expense.

9.11. Financial assets

Financial assets are classified into one of the following categories:

- Financial assets held until maturity;
- Financial assets measured at fair value through financial result;
- Loans and receivables;
- Financial assets available for sale;

Financial assets held until maturity

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

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

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

Financial assets measured at fair value through financial result

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

a) It is classified as held for trading. A financial asset is classified as held for trading if it is:

- acquired principally for the purpose of selling it in the near term,
- part of a portfolio of identified financial instruments that are managed collectively and for which there is probability of generating profit in the near term,
- a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument),

b) According to IAS 39 upon initial recognition it is designated to the category.

Financial assets measured at fair value through financial result are measured at fair value, which takes into account their market value as at the balance sheet date net of sales transaction expenses. Any change to the value of such financial instruments is recognised in profit and loss account as financial income (favourable net changes to fair value) or financial expense (unfavourable net changes to fair value). If a contract contains one or more embedded derivative instruments, the entire contract may be classified as a financial asset measured at fair value through financial result. The above does not apply if the embedded derivative instrument does not materially affect the contractual cash flows or separation of such embedded derivative instruments is explicitly forbidden.
Financial assets may be designated at initial recognition as measured at fair value through financial result if the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment from measuring or recognising gains or losses based on different regulations; or
- the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with the documented risk management strategy; or
- the financial asset contains embedded derivative instruments that need to be recognised separately.

As at 31 December 2017, no financial assets were designated as measured at fair value through financial result.

Loans and receivables

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

Financial assets available for sale

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories.

Available-for-sale financial assets are measured at fair value, without deducting sale transaction costs, and taking into account their market value as at the balance sheet date. Where no listed market price is available and there is no possibility to determine their fair value using alternative methods, available-for-sale financial assets are measured at purchase cost, adjusted for any impairment charges. Positive and negative differences between the fair value and purchase price, net of deferred tax, of financial assets available for sale (if quoted market price determined on an active market is available or if the fair value can be determined using other reliable method), are recognised in other total comprehensive income. Any decrease in the value of financial assets available for sale resulting from impairment losses is recognised as financial expense.

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

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

- holds a valid legal title to set off the recognised amounts, and
- intends to settle accounts in a net amount or simultaneously realise the asset and execute the liability

such financial asset and financial liability are set off and disclosed in the net amount in the financial statements.

The master netting arrangements detailed in IAS 32.50 do not constitute a basis for set-off unless both criteria detailed below are complied with.

9.12. Impairment of financial assets

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

9.12.1. Assets recognised at amortised cost

If there is objective evidence that an impairment loss on loans granted and receivables measured at amortised cost has been incurred, the amount of the impairment charge is measured as the difference between the asset's book value and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the effective interest rate (i.e. the effective interest rate computed at initial recognition). The book value of the asset is reduced directly. The amount of the loss shall be recognised in profit or loss.

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

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

9.12.2. Financial assets recognised at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not measured at fair value because its fair value cannot be reliably measured, or on a derivative instrument that is linked to and has to be settled by delivery of such an unquoted equity instrument, the amount of the impairment charge is measured as the difference between the book value of the financial asset and the present value of the estimated future cash flows discounted at the current market rate of return for similar financial assets.

9.12.3. Financial assets available for sale

If there is objective evidence for impairment of an available-for-sale asset, then the amount of the difference between the purchase price (net of any principal repayment and interest) and its current fair value, reduced by any impairment loss on that financial asset previously recognised in the profit or loss, is derecognised from equity and recognised in profit or loss. Reversals of impairment losses on equity instruments classified as available for sale cannot be recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment charge was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

9.13. Embedded derivatives

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

- the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative;
- the hybrid instrument is not recognised at fair value and changes in its fair value are not recognised in profit or loss.

Embedded derivatives are recognised in a similar manner to that of separate derivative instruments which have not been designated as hedging instruments.

The extent to which, in accordance with IAS 39, the economic characteristics and risks of foreign currency embedded derivatives are closely related to those of the host contract cover circumstances where the currency of the host contract is also the common currency of purchase or sale of non-financial items on the market for a given transaction.

The Group assesses whether the embedded derivatives are required to be separated from host contracts when the instrument is originally recognised. In case of embedded instruments, acquired in a business combination transaction, the Group does not re-measure the embedded derivative instruments as at the combination date (they are measured as at the date of original recognition in the acquired entity).

9.14. Financial derivatives and hedges

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

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

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

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

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

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

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

9.14.1. Fair value hedges

Fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. In the case of a fair value hedge, any profit or loss on the hedged item attributable to the hedged risk is adjusted against the book value of the hedged item, the hedging instrument is re-measured to fair value and the gains and/or losses on the hedging instrument and hedged item are recognised in profit or loss.

For fair value hedges relating to items recognised at amortised cost, the adjustment to the book value is amortised and recognised in profit or loss over the remaining term to maturity of the instrument.
When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding profit or loss recognised in profit or loss. The changes to the fair value of the hedging instrument are also recognised in profit or loss.

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

9.14.2. Cash flow hedge

Cash flow hedges are hedges securing for the risk of cash flow fluctuations which can be attributed to a particular kind of risk inherent in the given item of assets or liabilities or in a contemplated investment of high probability, and which could influence profit or loss. The part of profit or loss related to the hedging instrument which constitutes an effective hedge is recognised directly in other total comprehensive income and the non-effective part is recognised in profit or loss.

If a hedged intended transaction subsequently results in the recognition of a financial asset or financial liability, the associated gains or losses that were recognised in other total comprehensive income and accumulated in equity shall be reclassified to profit and loss account in the same period or periods in which the asset acquired or liability assumed affects profit or loss.

If a hedge of a intended transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, or a forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, then gains and losses that were recognised in other total comprehensive income are reclassified from equity to profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are recognised directly to net financial result for the period.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or the hedge no longer qualifies for hedge accounting. At that point in time, any cumulative profit or loss on the hedging instrument that has been recognised directly in other total comprehensive income and accumulated in equity, remains recognised in equity until the forecast transaction occurs. If the forecast transaction is no longer expected to occur, the net cumulative profit or loss recognised in equity is recognised in net profit or loss for the period.

9.15. Inventories

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

Materials	at cost determined with the "average weighted cost" method
Finished products and work in progress	cost of direct materials and labour and an appropriate surcharge of indirect production costs determined with an assumption of normal use of production capacities with the exclusion of external financing costs
Goods	at cost determined with the "average weighted cost" method

Net realisable value is the estimated selling price in the ordinary course of economic activity, reduced by estimated costs of necessary to finish the items and to finalise the sale.

9.16. Trade and other receivables

Trade and other receivables are stated and recognised at original invoiced amount subject to an allowance for doubtful receivables. An allowance for doubtful receivables is made when collection of the full amount is no longer probable.
If the effect of the time value of money is material, the value of receivables is determined by discounting the estimated future cash flows to present value using a discount rate that reflects current market assessments of the time value of money. Where discounting is used, any increase in the balance due to the passage of time is recognised as financial income.

Other receivables include advances provided on account of future purchases of tangible fixed assets, intangible assets and inventories. Then advances are disclosed in line with the nature of the assets to which they refer – as fixed assets or current assets respectively. As non-cash assets, such advances are not discounted.

Budgetary receivables are presented within other non-financial assets, except for corporate income tax receivables that constitute a separate item in the balance sheet.

9.17. Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and on hand and short-term deposits with an original maturity of three months or less.
For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

9.18. Interest-bearing loans, borrowings and bonds

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

After initial recognition, interest-bearing loans, borrowings and bonds are subsequently measured at amortised cost using the effective interest rate method.
The amortised cost is calculated by taking into account any costs associated with obtaining the loan or borrowing, and any discount or premium received in relation to the liability.

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

9.19. Trade and other payables

Short-term trade payables are recognised at amounts payable.

Financial liabilities measured at fair value through financial result include financial liabilities held for trading and financial liabilities designated upon initial recognition as measured at fair value through financial result. Financial liabilities are classified as held for trading if they are acquired for the purpose of re-sale in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are determined to be effective hedging instruments. Financial liabilities may be designated at initial recognition as measured at fair value through financial result if the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment from measuring or recognising gains or losses based on different regulations; or
- the liabilities are part of a group of financial liabilities which are managed and their performance is measured on a fair value basis, in accordance with a documented risk management strategy; or
- financial liabilities contain an embedded derivative that would need to be recognised separately.

As at 31 December 2017, no financial assets were designated as measured at fair value through financial result (as at 31 December 2016: zero).

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

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

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

Other non-financial liabilities include in particular tax liabilities to tax authorities, liabilities under social and retirement benefits, salary liabilities to employees and liabilities under received advances to be settled with deliveries of goods, services or fixed assets. Other liabilities are recognised at the amount payable.

9.20. Provisions

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

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

9.21. Retirement allowance

In accordance with the Group's remuneration principles, the employees of the Group are entitled to a retirement allowance. It is a one-off payment due to employees upon their retirement. The amount of retirement allowance depends on the seniority and the average salary of the employee. The Group sets up a provision for future retirement allowance liabilities in order to allocate the costs to the relevant periods. In accordance with IAS 19, retirement allowances are defined post-employment benefit plans. The present value of the liabilities is calculated by an independent actuary as at each balance sheet date. The accrued liability is equal to discounted payments to be made in the future subject to staff rotation and applies to the period until the balance sheet date. Demographic information and information on staff rotation is based on historical data.

On the basis of measurements performed by professional actuarial companies, the Group recognises a provision for future employee benefits.

Re-measurement of employee benefits related to defined benefit plans, covering actuarial gains and losses, is recognised in other total comprehensive income and is not later re-classified to profit or loss.

The Group recognises the following changes to its net liabilities relating to defined benefit plans within internal costs of sales, administrative expenses or selling and distribution costs, composed of:

- service costs (including, inter alia, the current service costs, future service costs)
- net interest on the net liability under the defined benefit plans.

9.22. Share-based payments

Group employees (including members of the management board) may receive bonus in the form of shares. In 2017 and 2016 there were no share-based payments in the Group.

9.23. Revenues

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably estimated. Revenue is recognised at fair value of the consideration received or receivable, Revenues are recognised at fair value of the consideration received or receivable, after the deduction of VAT, excise tax and discounts. The following criteria are also applicable to recognition of revenues.

9.23.1. Sale of goods and products

Revenue is recognised when material risk and benefits resulting from the title to the goods and products have been passed to the buyer and when the revenue amount can be credibly estimated.

9.23.2. Provision of services

Group trading companies provide sales services to the Paper Mills. For the service, they are paid a commission computed on the actual value of product sales in each market. This means that profit on the sales services is recognised at the same time as product sales. Sales revenues include only revenues of Paper Mills outside the Group.

9.23.3. Interest

Interest income is recognised as interest accrues (using the effective interest rate method that is the rate that discounts the estimated future cash receipts over the anticipated life of the financial instrument) to the net book value of the financial asset.

9.23.4. Dividend

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

9.23.5. Rental revenues (operational lease revenues)

Rental revenues from investment properties are recognised with the straight-line method throughout the lease term for all open contracts.

9.23.6. Government grants

If it is certain that a grant will be obtained and all the related conditions will be satisfied, then public grants are recognised at fair value.
If the grant applies solely to a specific cost item, then it is recognised as revenues commensurate to the costs that the grant is to compensate. If the grant applies to an asset, then its fair value is recognised in the account of deferred income and then gradually – in equal annual charges – it is recognised in profit or loss over the estimated useful life of the asset.

9.24. Taxes

9.24.1. Current tax

Current income tax liabilities and receivables for the current period and previous periods are measured at amounts projected to be paid to tax authorities (to be recovered from tax authorities) with tax rates and based on tax regulations legally or actually applicable as at the balance sheet date.

9.24.2. Deferred income tax

For financial reporting purposes, deferred income tax is recognised, using the liability method, regarding temporary differences as at the balance sheet date between the tax value of assets and liabilities and their book value disclosed in the financial statements.

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

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

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

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

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

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

9.24.3. Deferred income tax related to the activity in the Special Economic Zone

The Group operates in the Kostrzyńsko – Słubicka Special Economic Zone and it benefits from an investment tax relief up to the value of its investments.
When the actually incurred investment outlays are higher than income for the relevant tax year, then – in compliance with the Regulation of the Council of Ministers of 14 September 2004 on the Kostrzyńsko – Słubicka Special Economic Zone (Journal of Laws No. 222, item 2252 of 13 October 2004) – the Group recognises a deferred income tax asset for the discounted surplus outlays up to the amount with respect to which it is highly likely that it will be utilised.
The asset is utilised in the text taxable period when a sufficient taxable amount is generated.

9.24.4. Value added tax

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

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

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

9.24.5. Excise tax

The amount of excise tax payable on the generated electricity is recognised in the profit and loss account in the period to which it applies and as a liability.

Excise tax on the energy used for internal purposes is recognised as internal costs of sales in the profit and loss account.

9.25. Net profit per share

Net earnings per share are calculated by dividing the net profit and the net profit on continuing operations for the period, attributable to the shareholders of the parent entity, by the weighted average number of shares outstanding in the reporting period. Diluted earnings per share are calculated by dividing the net profit and the net profit on continuing operations for the period, attributable to the shareholders of the parent entity, by the diluted weighted average number of shares outstanding in the reporting period.

10. Operational segments

Paper production is the core type of operations pursued by the Group; by the end of 2015 paper was manufactured in four Paper Mills. In 2015 the Management Board of Arctic Paper announced that it had started an active search for an investor for Arctic Paper Mochenwangen and in parallel assessed the possibility of measures to further reduce the losses generated by the Paper Mill, relating to the discontinuation of production. Due to the material significance of the part of the business pursued by AP Mochenwangen and the companies set up to acquire the Paper Mill and due to their operational and geographic separation, the Management Board treated the operations of the Mochenwangen Group as discontinued operations. For that reason, the presentation of operational segments for the year ended on 31 December 2017 and on 31 December 2016 covering continuing operations covers the financial results of three Paper Mills:

- Arctic Paper Kostrzyn S.A. (Poland) – producer of high quality uncoated graphic paper under the Amber brand; production output of 280,000 tons of paper annually;
- Arctic Paper Munkedals AB (Sweden) – producer of high quality uncoated graphic paper under the Munken brand; production output of 160,000 tons of paper annually;
- Arctic Paper Grycksbo (Sweden) – production of coated wood-free paper under the brands of G-Print and Arctic; production output of 250,000 tons annually.

In connection with the acquisition of the Rottneros Group in December 2012, including two Pulp Mills, the Arctic Paper Group has distinguished its operational segment "Pulp".
The Group identifies the following business segments:

- Uncoated paper – paper for printing or other graphic purposes, including wood-free and wood-containing paper. Uncoated wood-free paper may be produced from various types of pulp, with different filler content, and can undergo various finishing processes, such as surface sizing and calendering. Two main categories of this type of paper are graphic paper (used for example for printing books and catalogues) and office papers (for instance, photocopy paper); however, the Group currently does not produce office paper. Uncoated wood paper from mechanical pulp intended for printing or other graphic purposes. This type of paper is used for printing magazines with the use of rotogravure or offset printing techniques. The Group's products in this segment are usually used for printing paperbacks.

- Coated paper – wood-free paper for printing or other graphic purposes, one-side or two-side coated with mixtures containing mineral pigments, such as china clay, calcium carbonate, etc. The coating process can involve different methods, both on-line and off-line, and can be supplemented by super-calendering to ensure a smooth surface. Coating improves the printing quality of photographs and illustrations.

- Pulp – fully bleached sulphate pulp and unbleached sulphate pulp which is used mainly for the production of printing and writing papers, cardboard, toilet paper and white packaging paper as well as chemi thermo mechanical pulp (CTMP) and groundwood which are used mainly for production of printing and writing papers,

- Other – the segment contains the results of Arctic Paper S.A. and Arctic Paper Finance AB business operations.

The split of segments into the uncoated and coated paper segments and pulp is due to the following factors:

- Demand for products and their supply as well as the prices of products sold in the market are affected by operational factors characteristic for each segment, such as e.g. the production capacity level in the specific paper and pulp segment,
- The key operating parameters such as inflow of orders or the level of production costs are determined by the factors that are similar for each paper and pulp segment,

- The products manufactured at the Paper Mills operated by the Group may (with certain restrictions) be allocated to production in other entities within the same paper segment which to a certain extent distorts the financial results generated by each Paper Mill,

- The results of the Arctic Paper Group are under the pressure of global market trends with respect to the prices of paper and pulp, and to a lesser extent are subject to the specific conditions of the production entities.

Every month, on the basis of internal reports received from companies (apart from companies of the Rottneros Group), the results in each operating segment are analysed by the management of the Group. The financial results of companies in the Rottneros Groups are analysed on the basis of quarterly financial results published on the websites of Rottneros AB.

The operating results are measured primarily on the basis of EBITDA calculated by adding depreciation/amortisation and impairment charges to tangible fixed assets and intangible assets to profit (loss) on operations, in each case in compliance with EU IFRS. In accordance with EU IFRS, EBITDA is not a metric of operating profit (loss), operational results or liquidity. EBITDA is a metric that the Management Board uses to manage the operations.

Transactions between segments are concluded at arms' length like between unrelated entities.

The table below presents data concerning revenues and profit as well as certain assets and liabilities under continuing operations, split by segments of the Group for the period of 12 months ended on 31 December 2017 and as at 31 December 2017.

Twelve-month period ended on 31 December 2017 and as at 31 December 2017

Revenues	Uncoated	Coated	Pulp	Other	Total	Eliminations	Total continuing opetations
Sales to external customers	1 508 586	664 952	779 267	-	2 952 806	-	2 952 806
Sales between segments	-	20 752	66 152	40 892	127 796	(127 796)	-
Total segment revenues	1 508 586	685 704	845 419	40 892	3 080 602	(127 796)	2 952 806
Result of the segment							
EBITDA	130 427	1 484	113 636	(1 560)	243 988	400	244 388
Interest income	491	80	-	6 458	7 030	(6 487)	543
Interest expense	(3 682)	(4 296)	(4 864)	(14 744)	(27 586)	4 609	(22 977)
Depreciation/amortisation	(57 608)	(22 845)	(30 156)	(464)	(111 073)	-	(111 073)
Impairments of non-current assets	-	(23 761)	-	-	(23 761)	-	(23 761)
FX gains and other financial income	4 744	1 122	884	55 030	61 781	(60 493)	1 288
FX losses and other financial expenses	(5 955)	(1 758)	(4 422)	(2 719)	(14 854)	11 902	(2 952)
Gross profit (loss)	68 417	(49 973)	75 080	42 002	135 526	(50 069)	85 458
Assets of the segment	915 148	225 945	801 328	429 320	2 371 742	(508 863)	1 862 878
Liabilities of the segment	430 337	337 764	318 225	413 028	1 499 353	(426 250)	1 073 104
Capital expenditures	(68 026)	(5 447)	(107 666)	(308)	(181 448)	-	(181 448)
Interests in joint ventures	988	-	-	-	988	-	988

- Revenues from inter-segment transactions are eliminated on consolidation.
- The results of the segments do not cover financial income (PLN 1,831 thousand of which PLN 543 thousand is interest income) and financial expenses (PLN 25,929 thousand of which PLN 22,977 thousand is interest expense), depreciation/amortisation (PLN 111,073 thousand), impairment of non-financial assets PLN 23,761 thousand) and income tax liability (PLN -14,829 thousand). However, segment result includes an inter-segment loss (PLN 400 thousand).
- Assets and liabilities of segments do not contain any deferred income tax (asset: PLN 32,387 thousand provision: PLN 34,301 thousand since those items are managed at the Group level. Segment assets do not also include investments in companies operating in the Group.

The table below presents revised data concerning revenues and profit as well as certain assets and liabilities under continuing operations, split by segments of the Group for the period of 12 months ended on 31 December 2016 and as at 31 December 2016.

Twelve-month period ended on 31 December 2016 and as at 31 December 2016

Revenues	Uncoated	Coated	Pulp	Other	Total	Eliminations	Total continuing opetations
Sales to external customers	1 531 825	687 329	747 818	-	2 966 972		2 966 972
Sales between segments	41	18 969	50 134	42 784	111 928	(111 928)	-
Total segment revenues	1 531 866	706 299	797 952	42 784	3 078 901	(111 928)	2 966 972
Result of the segment							
EBITDA	145 369	2 522	101 529	246	249 666	(62)	249 603
Interest income	5 903	59	-	2 750	8 713	(8 289)	424
Interest expense	(12 369)	(6 754)	-	(11 313)	(30 436)	6 637	(23 799)
Depreciation/amortisation	(54 339)	(26 523)	(19 247)	(402)	(100 511)	-	(100 511)
Impairments of non-current assets	-	-	(4 151)	-	(4 151)	-	(4 151)
FX gains and other financial income	3 891	61	922	55 888	60 763	(59 837)	926
FX losses and other financial expenses	(17 979)	(3 804)	(4 151)	(7 586)	(33 521)	5 127	(28 393)
Gross profit (loss)	70 475	(34 438)	74 902	39 584	150 523	(56 424)	94 099
Assets of the segment	913 758	278 235	623 467	399 241	2 214 701	(433 476)	1 781 225
Liabilities of the segment	425 011	360 848	150 118	411 150	1 347 127	(349 886)	997 240
Capital expenditures	(47 128)	(1 729)	(128 226)	(71)	(177 154)	-	(177 154)
Shares in joint ventures	924	-	-	-	924	-	924

- Revenues from inter-segment transactions are eliminated on consolidation.
- The results of the segments do not cover financial income (PLN 1,350 thousand of which PLN 424 thousand is interest income) and financial expenses (PLN 52,192 thousand of which PLN 23,799 thousand is interest expense), depreciation/amortisation (PLN 100,511 thousand), impairment of non-financial assets PLN 4,151 thousand) and income tax liability (PLN -19,747 thousand). However, segment results include inter-segment sales profit – PLN 62 thousand.
- Assets and liabilities of segments do not contain any deferred income tax (asset: PLN 21,879 thousand provision: PLN 11,851 thousand since those items are managed at the Group level. Segment assets do not also include investments in companies operating in the Group.

10.1. Revenues and fixed assets by countries and regions

The table below presents the Group's revenues from external customers by country and region in 2016-2017 and the Group's fixed assets reduced by deferred income tax asset split by country and region, as at 31 December 2017 and 31 December 2016:

Geographical information Revenues from external customers:	Year ended on 31 December 2017	Year ended on 31 December 2016
Germany	643 257	685 936
France	194 756	214 198
United Kingdom	218 249	215 687
Scandinavia	414 802	409 415
Western Europe (other countries)	339 138	410 594
Poland	340 818	342 721
Central and Eastern Europe (other than Poland)	514 243	504 446
Outside Europe	287 543	183 974
Total sales	**2 952 806**	**2 966 972**

Geographical information Fixed assets:	Year ended on 31 December 2017	Year ended on 31 December 2016 (revised)
Germany	104	140
France	300	323
Scandinavia	540 416	538 401
Western Europe (other countries)	1 069	1 020
Poland	371 838	369 140
Central and Eastern Europe (other than Poland)	249	80
Total fixed assets	**913 976**	**909 106**

Sales revenues related to the item "Western Europe" cover mainly sales in Belgium, the Netherlands, Austria, Switzerland, Italy and Spain. Sales revenues related to the item "Central and Eastern Europe" cover mainly sales in Ukraine, the Czech Republic, Slovakia, Hungary and Bulgaria. Sales revenues related to the item "Outside Europe" cover mainly sales in China and the USA. Sales to no buyer exceed 10% of total revenues.

Fixed assets include tangible fixed assets, intangible assets, investment properties and other financial and non-financial assets.

11. Income and costs

11.1. Other operating income

	Year ended on 31 December 2017	Year ended on 31 December 2016
Reversal of provisions	21	3 770
Damages received	7 541	5 175
Rental income	2 139	2 197
Sales of services	890	840
Government grants	4 394	3 376
Sale of utilities	21 435	27 856
Sale of materials	3 654	10 610
Profit on disposal of tangible fixed assets	53	38
Profit on sale of CO2 emission rights	1 769	3 616
Other	1 759	9 075
Total	**43 654**	**66 554**

11.2. Other operating expenses

	Year ended on 31 December 2017	Year ended on 31 December 2016
Real estate tax	(654)	(1 323)
Costs of sales of utilities	(20 779)	(27 835)
Costs of sales of materials	(3 177)	(12 705)
Costs of reorganisation in subsidiary	(983)	(727)
Loss on disposal of tangible fixed assets	(182)	(514)
Write down for spare parts	(355)	-
Other	(2 930)	(2 043)
Total	**(29 060)**	**(45 147)**

11.3. Financial income

	Year ended on 31 December 2017	Year ended on 31 December 2016
Interest income on funds in bank accounts	197	177
Interest income on receivables	51	31
Other interest income	295	212
FX gains	231	-
Profit on financial assets	442	930
Profit on interests in joint ventures	145	-
Other financial income	469	-
Total	**1 831**	**1 350**

11.4. Financial expenses

	Year ended on 31 December 2017	Year ended on 31 December 2016
Interest on bank loans measured at amortised cost	(18 031)	(19 531)
Interest on other financial liabilities	(1 631)	(4 742)
Inter Interest on actuarial provisions	(1 720)	(2 222)
Financial expenses under finance lease agreements	(1 595)	(1 653)
FX losses	-	(12 895)
Financial expenses on premature bank loan repayment	-	(3 517)
Loss on interests in joint venture	-	(4 209)
Valuation in accordance with amortised cost	(703)	-
Ineffective part of the change in fair value measurement due to the hedged risk	116	343
Other financial expenses	(2 364)	(3 767)
Total	**(25 929)**	**(52 192)**

Costs regarding the effect of the amortised cost valuation concern the change of margins in 2017.

11.5. Prime costs

	Year ended on 31 December 2017	Year ended on 31 December 2016 (revised)
Depreciation/amortisation	(111 073)	(100 511)
Consumption of materials and energy	(1 763 637)	(1 748 794)
Third party services	(430 069)	(429 203)
Taxes and charges	(13 779)	(12 541)
Employee benefit costs	(416 921)	(404 132)
Other prime costs	(103 771)	(109 027)
Value of goods sold	(11 269)	(11 988)
Prime costs	(2 850 518)	(2 816 195)
Impairment charge	(23 761)	(4 151)
Changes in product inventories	16 349	(20 600)
Change to impairment charges to receivables	85	(2 490)
TOTAL	**(2 857 845)**	**(2 843 437)**
of which:		
Items recognised as internal costs of sales	(2 417 081)	(2 399 846)
Items recognised as costs of sales	(348 093)	(353 255)
Items recognised as administrative expenses	(92 671)	(90 335)

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

	Year ended on 31 December 2017	Year ended on 31 December 2016 (revised)
Items recognised as internal costs of sales:		
Depreciation of fixed assets and amortisation of intangible assets	(108 004)	(97 743)
Impairment of tangible fixed assets	(22 773)	(1 384)
Impairment of intangible assets	(987)	(2 767)
Impairment to inventories	-	-
Items recognised as costs of sales:		
Depreciation of fixed assets and amortisation of intangible assets	(1 403)	(1 344)
Impairment of tangible fixed assets	-	-
Impairment of intangible assets	-	-
Items recognised as administrative expenses		
Depreciation of fixed assets and amortisation of intangible assets	(1 666)	(1 424)
Impairment of tangible fixed assets	-	-
Impairment of intangible assets	-	-

Depreciation in the consolidated cash flows additionally for 2016 contains the value of outlays on tangible fixed assets concerning discontinued operations and fully written-off in 2016 in the amount of PLN 465 thousand. In 2017 the Group did not incur any outlays on tangible fixed assets concerning discontinued operations.

11.7. Employee benefit costs

	Note	Year ended on 31 December 2017	Year ended on 31 December 2016 revised
Salary costs		(303 276)	(297 017)
Social insurance premiums		(84 627)	(82 058)
Costs of retirement benefits	26.1	(34 361)	(31 413)
Total costs of employee benefits, of which:		**(422 264)**	**(410 488)**
Items recognised as internal costs of sales		(304 258)	(293 567)
Items recognised as costs of sales		(22 891)	(23 239)
Items recognised as administrative expenses		(89 772)	(87 326)
Items recognised as other comprehensive income		(5 343)	(6 356)

The total amount of employee benefits included in other comprehensive income for the year ended on 31 December 2017 was PLN 5,343 thousand (2016: PLN 9,281 thousand), including actuarial profit/losses related to the discontinued activity of PLN 0 thousand (2016: PLN -2,925 thousand).

12. Components of other comprehensive income

The components of other total comprehensive income for the year ended on 31 December 2017 and 31 December 2016 that are re-classified to profit or loss, are as follows:

	Year ended on 31 December 2017	Year ended on 31 December 2016
Cash flow hedges		
Profit (loss) for the period resulting from contracts settled during the reporting period	(900)	22 615
Profit (loss) for the period resulting from contracts not settled as the reporting date	4 145	21 409
Adjustments resulting from re-classification to profit (loss)	-	(343)
Total other comprehensive income	**3 244**	**43 681**

13. Income tax

13.1. Tax liability

The major components of income tax liabilities for the year ended on 31 December 2017 and on 31 December 2016 are as follows:

	Year ended on 31 December 2017	Year ended on 31 December 2016 (revised)
Consolidated profit and loss account		
Current income tax		
Current income tax liability	(3 454)	(2 364)
Adjustments related to current income tax from previous years	(199)	(469)
Deferred income tax		
Resulting from the establishment and reversal of temporary differences	(11 176)	(16 914)
Tax credit/ (liability) disclosed in the consolidated profit and loss account	(14 829)	(19 747)
Consolidated statement of changes in equity		
Current income tax		
Tax effects of the costs of increase of share capital	-	-
Tax benefit (tax liability) recognised in equity	-	-
Consolidated statement of total comprehensive income		
Deferred income tax		
Deferred income tax on the measurement of hedging instruments	(958)	(10 369)
Deferred income tax on actuarial profit/loss	1 157	1 396
Tax benefit (tax liability) recognised in other comprehensive income	199	(8 973)

13.2. Recognition of effective tax rate

A reconciliation of income tax expense applicable to gross profit (loss) before income tax at the statutory income tax rate, to income tax expense at the Group's effective income tax rate for the year ended on 31 December 2017 and 31 December 2016 is as follows:

	Year ended on 31 December 2017	Year ended on 31 December 2016 (revised)
Gross profit (loss) before tax from continuing operations	85 458	94 099
Profit (loss) before tax from discontinued operations	(5 645)	1 191
Gross profit (loss) before tax	79 813	95 290
Tax at the statutory rate prevailing in Poland in 2008-2016, of 19%	(15 164)	(18 105)
Tax adjustments from previous years, recognised in the current income tax	199	977
Difference resulting from income tax rates in force in other countries	(1 353)	(1 803)
Tax loss not incorporated in deferred income tax asset calculation	(2 951)	(2 293)
Investment tax credits – operations in KSSSE	-	-
Use of tax losses not recognised earlier	2 130	2 913
Non-taxable revenues	3 963	3 035
Costs that are not tax deductible	(4 373)	(3 473)
Effects of the tax group in Sweden	2 729	-
Change of tax rates	-	8
Tax at the effective tax rate of 19% (2016: 20%)	(14 821)	(18 740)
Income tax (charge) stated in the consolidated profit and loss account	(14 829)	(19 747)
Income tax attributed to discontinued operations	8	1 007

The amount of unrecognised deferred income tax asset relates mainly to tax losses that are expected to be time barred before realised, as well as those temporary differences that in the Group's opinion may not be used for tax purposes. Deferred income tax asset is recognised for tax losses carried forward to the extent that realisation of the related tax benefit through future taxable profit is probable.
The Polish tax system provides for restrictions in cumulating tax losses by legal persons that remain under joint control which is the case for Group member companies. Therefore, each subsidiary of the Group in Poland may utilise solely their own tax losses in order to reduce taxable income in subsequent years.

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

Expiry year of tax losses	Year ended on 31 December 2017	Year ended on 31 December 2016
no time limits	4 355	13 417
ended on 31 December 2017	na	1 716
ended on 31 December 2018	1 716	1 716
ended on 31 December 2019	3 598	3 598
ended on 31 December 2020	10 151	9 626
ended on 31 December 2021	6 553	6 028
ended on 31 December 2022 and later	-	na
Total	**26 373**	**36 101**

Future potential tax effect of unactivated tax losses amounts PLN 5,141 thousand.

13.3. Deferred income tax

Deferred income tax relates to the following items:

	Consolidated balance sheet as at		Consolidated profit and loss account for the year ended on	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Deferred income tax provision				
Fixed assets	33 919	26 472	(7 447)	512
Inventories	-	-	-	-
Trade receivables	-	-	-	-
Employment benefits	-	-	-	-
Accruals and deferred income and provisions	-	-	-	-
Co-generation certificates	1 586	2 649	1 063	(1 014)
Untaxed provisions (in compliance with Swedish tax regulations)	-	-	-	
Adjustment to fair for take-over of subsidiary entities	`	-	-	-
Losses utilised in standalone financial statements, not recognised in consolidation	-	-	-	-
Hedging instruments	3 793	3 547	(245)	(3 547)
FX profit	-	-	-	-
Gross deferred income tax provision	**39 297**	**32 668**	**(6 629)**	**(4 049)**

	Consolidated balance sheet as at		Consolidated profit and loss account for the year ended on	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Deferred income tax asset				
Post-employment payments	6 732	6 408	324	2 160
Accruals and deferred income and provisions	3 395	3 187	208	(1 755)
Adjustments to fair value due to impairment of fixed assets	-	-	-	-
Inventories	1 120	1 224	(104)	81
Trade receivables	3 579	3 816	(237)	(527)
Investments tax credits – activity in Kostrzyńsko-Słubicka Specjalna Strefa Ekonomiczna	8 622	15 280	(6 658)	(6 785)
FX differences	-	-	-	-
Untaxed provisions (in compliance with Swedish tax regulations)	-	-	-	(52)
Hedging instruments	-	-	-	(5 282)
Losses deductible from future taxable income	13 935	12 781	1 154	(10 145)
Gross deferred income tax asset	**37 383**	**42 696**	**(5 313)**	**(22 304)**
FX differences			965	465
Total, of which			(10 977)	(25 888)
Changes to deferred income tax recognised in other comprehensive income			199	(8 973)
Changes to deferred income tax recognised in profit and loss account			(11 176)	(16 914)
of which:				
Changes to deferred income tax recognised in profit and loss account – discontinued operations			-	-
Net deferred income tax asset/provision				
of which:				
- Adjustment to presentation	(4 996)	(7 662)		
- Deferred income tax asset	32 387	21 879		
- Deferred income tax provision	34 301	11 851		
of which:				
- Deferred income tax asset – discontinued operations	-			
- Deferred income tax provision – discontinued operations	-			

The Management Board made an evaluation of the deferred income tax assets on the tax losses and considered that asset recoverable, among oithers because AP Grycksbo and AP Munkedals operate within a tax group in Sweden.

14. Fixed assets classified as available for sale, discontinued operations

On 28 July 2015, the Management Board of Arctic Paper S.A. announced that it had started an active search for an investor for the Arctic Paper Mochenwangen facility and in parallel it analysed the possibility to take measures for further reduction of losses generated by the Paper Mill, including those relating to the discontinuation of production. Due to the material significance of the part of the business pursued by AP Mochenwangen and the companies set up to acquire the Paper Mill and due to their operational and geographic separation, the Management Board treated the operations of the Mochenwangen Group as discontinued operations as at 31 December 2015. The Mochenwangen Group includes: Arctic Paper Mochenwangen GmbH, Arctic Paper Investment GmbH, Arctic Paper Verwaltungs GmbH and Arctic Paper Immobilienverwaltung GmbH Co&KG. As a result, the assets and liabilities of the Mochenwangen Group were presented as assets directly related to discontinued operations and liabilities directly related to discontinued operations as at 31 December 2015 while the revenues and expenses of the Group were presented as profit (loss) on discontinued operations in the consolidated profit and loss account for the year ended on 31 December 2015.

In view of a continued search for an investor for the factory of Arctic Paper Mochenwangen or its individual assets, the Management Board decided to treat the operations of the Mochenwangen Group as discontinued activities as at 31 December 2016.

As at 31 December 2017, the Management Board decided that the provision for retirement leaves would not be sold as part of the discontinued activities and as a result it was excluded from liabilities related directly to discontinued activities.

The tables below present the corresponding financial data on the discontinued operations:

Revenues and expenses of discontinued operations	12-month period ended on 31 December 2017	12-month period ended on 31 December 2016
Revenues from sales of products	-	17 988
Costs of sales	(2 282)	(11 251)
Profit / (loss) on sales	(2 282)	6 737
Selling and distribution costs	(774)	(3 456)
Administrative expenses	(4 454)	(6 245)
Other operating income	2 355	12 005
Other operating expenses	(613)	(7 388)
Operating profit (loss)	(5 769)	1 653
Financial income	-	-
Financial expenses	123	(463)
Gross profit (loss)	(5 645)	1 191
Income tax	8	1 007
Profit (loss) from discontinued operations	(5 637)	2 198
Cumulated other comprehensive income related to discontinued operations		
FX differences on translation of foreign operations	509	(222)
Actuarial profit/loss	-	(2 924)
	509	(3 146)
Earnings per share:		
– basic profit/(loss) from discontinued operations attributable to the shareholders of the Parent Entity	(0,08)	0,03
– diluted profit from discontinued operations attributable to the shareholders of the Parent Entity	(0,08)	0,03

Net assets related to discontinued operations	As at 31 December 2017	As at 31 December 2016
Assets related to discontinued operations		
Inventories and other tangible assets	21	10 618
Trade and other receivables	1 293	230
Corporate income tax receivables	121	128
Other non-financial assets	-	-
Other financial assets	188	398
Cash and cash equivalents	2 448	1 320
	4 071	12 694
Liabilities directly related to the discontinued operations		
Provisions	838	15 406
Other financial liabilities	-	-
Trade and other payables	517	2 435
Income tax liability	100	106
Accruals and deferred income	171	142
	1 626	18 088
Net assets related to discontinued operations	2 445	(5 394)

Cash flows related to discontinued operations	12-month period ended on 31 December 2017	12-month period ended on 31 December 2016
Net cash flows from operating activities	1 229	(29 764)
Net cash flows from investing activities	-	1 405
Net cash flows from financing activities	-	28 585
Increase / (decrease) in cash and cash equivalents	1 229	226
Net FX differences	(101)	43
Cash and cash equivalents at the beginning of the period	1 320	1 051
Cash and cash equivalents at the end of the period	2 448	1 320

The Group intends to sell the land and also the entire discountinued operations as an organized part of the enterprise. Because of the fact, that the Group countinues to research the contamination level of the soil and that it may materially influence the market value of that asset, it is not possible to reliably estimate the fair value of that land. In consequence , the Group recognized land in the value of 0 PLN as at 31 December 2017 and 31 December 2016.

15. Social assets and liabilities of ZFŚS

The Act on the Company Social Benefit Fund as amended of 4 March 1994, covering business entities and subject to Polish law, provides that company social benefit funds have to be set up by employers employing staff in excess of 20 FTEs. Arctic Paper Kostrzyn and Arctic Paper S.A. have set up such funds and have been making periodic allocations thereto in basic amounts. The objective of such Fund is to subsidise social operations of the Companies, loans granted to their employees and other social expenses.

The Companies have set-off assets of the Fund with their obligations to the Fund since those assets do not constitute separate assets of the Group. As a result, the net balance as at 31 December 2017 was PLN 3 thousand (as at 31 December 2016: PLN 2 thousand).

The tables below present an analysis of the assets, liabilities and costs of the Fund.

	Year ended on 31 December 2017	Year ended on 31 December 2016
Cash	24	14
Fund liabilities	(21)	(12)
Fund expenses covered with own resources		-
Set-off balance	**3**	**2**

	Year ended on 31 December 2017	Year ended on 31 December 2016
Fund allocations in the financial year	640	607

16. Earnings per share

Earnings per share are established by dividing the net profit/(loss) or net profit/(loss) from continuing operations for the reporting period attributable to the Company's ordinary shareholders by the weighted average number of ordinary shares outstanding in the reporting period.
The information regarding profit/(loss) and the number of shares which constituted the base to calculate earnings per share and diluted earnings/(loss) per share is presented below:

	Year ended on 31 December 2017	Year ended on 31 December 2016 (revised)
Net profit / (loss) period from continuing operations attributable to the shareholders of the Parent Entity	42 357	45 712
Profit / (loss) for the financial year from discontinued operations attributable to the shareholders of the Parent Entity	(5 637)	2 198
Net profit (loss) for the reporting period attributable to the shareholders of the Parent Entity	36 720	47 910
Number of ordinary shares – A series	50 000	50 000
Number of ordinary shares – B series	44 253 500	44 253 500
Number of ordinary shares – C series	8 100 000	8 100 000
Number of ordinary shares – E series	3 000 000	3 000 000
Number of ordinary shares – F series	13 884 283	13 884 283
Total number of shares	69 287 783	69 287 783
Weighted average number of shares	69 287 783	69 287 783
Diluted weighted average number of ordinary shares	69 287 783	69 287 783
Profit (loss) per share (in PLN)		
– basic earnings from the profit/(loss) for the period attributable to the shareholders of the Parent Entity	0,53	0,69
– basic earnings from the profit/(loss) from continuing operations for the period attributable to the shareholders of the Parent Entity	0,61	0,66
Diluted profit (loss) per share (in PLN)		
– from the profit/(loss) for the period attributable to the shareholders of the Parent Entity	0,53	0,69
– from the profit/(loss) from continuing operations for the period attributable to the shareholders of the Parent Entity	0,61	0,66

In the period between the balance sheet date and the date hereof there were no other transactions related to ordinary shares or potential ordinary shares.

17. Dividend paid and proposed

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

In accordance with provisions of the Code of Commercial Companies, the parent entity is obliged to establish reserve capital to cover potential losses. At least 8% of the profit for the financial year disclosed in the standalone financial statements of the parent company should be transferred to the category of capital until the capital has reached the amount of at least one third of the share capital of the parent entity. The use of reserve capital and reserve funds is determined by the General Meeting; however, a part of reserve capital equal to one third of the share capital can be used solely to cover the losses disclosed in the standalone financial statements of the parent entity and cannot be distributed to other purposes.

As on the date hereof, the Company had no preferred shares.

The possibility of disbursement of potential dividend by the Company to its shareholders depends on the level of payments received from its subsidiaries. The risk associated with the Company's ability to disburse dividend was described in the part "Risk factors" hereof.

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

In 2017 and 2016 Arctic Paper S.A. did not pay out dividend.

18. Tangible fixed assets

	Land and buildings	Plant and machinery	Fixed assets under construction	Total
Net book value as at 01 January 2016 (revised)	194 162	496 081	69 636	759 879
Increase due to purchase	15 234	58 784	104 973	178 992
Increase due to transfer of tangible fixed assets under construction	12 285	72 983	(85 480)	(212)
Decreases due to disposal	-	(461)	-	(461)
Decreases due to liquidation	(43)	(65)	-	(108)
Depreciation allowance for the period	(14 918)	(84 873)	-	(99 791)
Impairment				
FX differences	(463)	(1 558)	(281)	(2 301)
Net book value as at 31 December 2016 (revised)	**206 258**	**539 507**	**88 849**	**834 614**
Net book value as at 01 January 2017	206 258	539 507	88 849	834 614
Increase due to purchase	4 864	15 486	154 900	175 249
Increase due to transfer of tangible fixed assets under construction	7 586	87 474	(95 912)	(853)
Decreases due to disposal	-	(155)	-	(155)
Decreases due to liquidation	(103)	(4)	-	(107)
Depreciation allowance for the period	(16 565)	(93 288)	-	(109 853)
Impairment	(9 048)	(13 725)	-	(22 773)
Change to presentation within groups	(1 769)	1 769	-	-
FX differences	(7 585)	(25 818)	(8 514)	(41 917)
Transfer to discontinued operations	-	-	-	-
Net book value as at 31 December 2017	**183 637**	**511 245**	**139 322**	**834 205**
Balance as at 01 January 2016 (revised)				
Gross book value	415 818	1 759 779	69 636	2 245 233
Depreciation/amortisation and impairment charges	(221 656)	(1 263 698)	-	(1 485 354)
Net book value	194 162	496 081	69 636	759 879
Balance as at 31 December 2016 (revised)				
Gross book value	441 684	1 894 939	88 849	2 425 472
Depreciation/amortisation and impairment charges	(235 426)	(1 355 431)	-	(1 590 857)
Net book value	206 258	539 508	88 849	834 614
Balance as at 01 January 2017				
Gross book value	441 684	1 894 939	88 849	2 425 472
Depreciation/amortisation and impairment charges	(235 426)	(1 355 431)	-	(1 590 857)
Net book value	206 258	539 508	88 849	834 614
Balance as at 31 December 2017				
Gross book value	430 696	1 913 696	139 322	2 483 714
Depreciation/amortisation and impairment charges	(247 059)	(1 402 450)	-	(1 649 509)
Net book value	183 637	511 245	139 322	834 205

Impairment of tangible fixed assets for the year ended on 31 December 2017 was PLN 22,773 thousand (for the year ended on 31 December 2016: PLN 1,384 thousand).

The book value of plant and machinery used as at 31 December 2017 pursuant to financial lease contracts and rental contracts with a purchase option amounted to PLN 27,873 thousand (as at 31 December 2016: PLN 33,562 thousand).

A pledge has been established on the assets used pursuant to lease contracts and rental contracts with a purchase option to secure the related obligations under financial leases and rental contracts with a purchase option.

Tangible fixed assets with book value of PLN 475,928 thousand (as at 31 December 2016: PLN 555,431 thousand) are subject to mortgage to secure the bank loans (note 32).

The amount of capitalised external funding costs and FX gains/losses in the financial year ended on 31 December 2017 was PLN 389 thousand (in the year ended on 31 December 2016: PLN 362 thousand).

19. Leases

19.1. Liabilities under operational leases – the Group as the lessee

The Group has entered into operational lease contracts covering selected vehicles and plant.
As at 31 December 2017 and 31 December 2016 the future minimum fees under irrevocable operational lease contracts were as follows:

	Year ended on 31 December 2017	Year ended on 31 December 2016
In 1 year	2 391	3 417
In 1 to 5 years	2 849	4 045
Over 5 years	-	-
Total	**5 240**	**7 462**

19.2. Liabilities under financial leases and rental contracts with purchase options

As at 31 December 2017 and 31 December 2016 the future minimum lease fees and the present value of minimum net lease fees were as follows:

	Year ended on 31 December 2017		Year ended on 31 December 2016	
	Minimum fees	Present value of the fees	Minimum fees	Present value of the fees
In 1 year	24 956	24 438	5 941	4 306
In 1 to 5 years	4 236	3 945	33 844	30 082
Over 5 years	-	-	-	-
Total minimum lease fees	29 192	28 383	39 785	34 388
Minus financial expenses	(809)		(5 397)	
Value of present minimum lease fees, of which:	28 383	28 383	34 387	34 388
- short-term		24 438		4 306
- long-term		3 945		30 082

In view of repayment on 7 January 2018 of liabilities of Arctic Paper Grycksbo AB under its lease contract with Svenska Handelsbanken AB, the minimum fees and the value of the current related fees was disclosed within 1 year as at 31 December 2017.

20. Investment properties

Investment properties regard an undeveloped plot in Warsaw.

	2017	2016
Opening balance as at 01 January	4 074	3 982
Increases (subsequent expenditures)	-	-
Sale of properties	-	-
Profit on fair valuation	33	92
Closing balance as at 31 December	**4 107**	**4 074**

Investment properties were disclosed at fair value as a result of an appraisal by an accredited appraiser. The appraisal was made with a comparative approach, the adjusted average method.

The property appraiser holds a license in property appraising granted by the President of the Housing and City Development Office. The market value of a property is the most likely price that may be realised in the market, determined with reference to transactional prices and subject to the following assumptions:

- the parties to the transaction were independent of each other, were not forced to act and were willing to enter into the transaction,
- sufficient time has expired to expose the property to the market and to negotiate contractual terms and conditions.

The market value for the current method of use (WRU) was appraised subject to:

- purpose of the appraisal,
- type and location of the property,
- function in the local development plan,
- existence of technical infrastructure,
- condition of the property,
- available data on prices of similar properties.

The appraisal was made with a comparative approach, the adjusted average price method.

The adjusted land price was PLN 383/m2.

According to the fair value hierarchy, the method and approach applied to appraising investment properties classifies it to level 3.

The Group does not receive any other revenues that the abovementioned.
The current costs incurred in 2017 included real estate tax of PLN 10 thousand (2016: PLN 10 thousand).

21. Intangible assets

Status as at 31 December 2017

	Relations with customers	Trademarks	Co-generation certificates	CER certificates and emission rights	Other*	Total
Net value as at 01 January 2017	1 571	34 921	13 003	-	7 536	57 033
Increases	-	-	19 815	-	5 329	25 143
Decreases	-	-	(25 640)	-	238	(25 402)
Depreciation for the period	(475)	-	-	-	(745)	(1 220)
Impairment	-	-	-	-	-	-
FX differences on translation into PLN	(109)	(2 735)	1 954	-	(2 570)	(3 460)
Net value as at 31 December 2017	**988**	**32 186**	**9 132**	**-**	**9 788**	**52 095**
As at 01 January 2017						
Gross value	38 505	92 117	13 003	-	33 021	176 646
Depreciation/amortisation and impairment charg	(36 934)	(57 196)	-	-	(25 485)	(119 614)
Net value	1 571	34 921	13 003	-	7 536	57 031
As at 31 December 2017						
Gross value	35 455	84 726	9 132	-	35 730	165 042
Depreciation/amortisation and impairment charg	(34 467)	(52 540)	-	-	(25 942)	(112 949)
Net value	988	32 186	9 132	-	9 788	52 093

* - The item Other contains mainly computer software.

Status as at 31 December 2016

	Relations with customers	Trademarks	Co-generation certificates	CER certificates and emission rights	Other*	Total
Net value as at 01 January 2016 (revised)	2 080	35 117	7 985	409	6 029	51 622
Increases	-	-	23 218	-	4 427	27 645
Decreases	-	-	(18 185)	(409)	85	(18 509)
Dep Depreciation for the period	(495)	-	-	-	(224)	(719)
Impa Impairment	-	-	-	-	(2 767)	(2 767)
FX differences	(13)	(196)	(15)	-	(14)	(239)
Net value as at 31 December 2016 (rev	**1 571**	**34 921**	**13 003**	**-**	**7 536**	**57 033**
As at 01 January 2016 (revised)						
Gross value	38 725	92 647	7 985	409	34 513	174 279
Depreciation/amortisation and impairment charg	(36 645)	(57 530)	-	-	(28 484)	(122 659)
Net value	2 080	35 117	7 985	409	6 029	51 622
As at 31 December 2016 (revised)						
Gross value	38 505	92 117	13 003	-	33 021	176 646
Depreciation/amortisation and impairment charg	(36 934)	(57 196)	-	-	(25 485)	(119 614)
Net value	1 571	34 921	13 003	-	7 536	57 033

* - The item Other contains mainly computer software.

Trademarks regard the trademarks of Arctic Paper and Rottneros. These trademarks were not subject to impairment.

Impairment of intangible assets for the year ended on 31 December 2017 was PLN 987 thousand (for the year ended on 31 December 2016: PLN 2,767 thousand).

The value of fixed assets of the Rottneros Group incorporated in the consolidation of the Arctic Paper Group is measured below the values disclosed in the consolidated financial statements of the Rottneros Group.

The consolidated financial statements of the Rottneros Group for the year ended on 31 December 2017 did not disclose any increased impairment charges to assets in 2017. Besided, the conditions for Rottneros group, including the assumptions for the 2016 test have not changes significantly.

On that basis, no impairment to fixed assets (including the trade mark) was identified as disclosed in these consolidated financial statements as at 31 December 2017. The consolidated financial statements of the Rottneros Group for the year ended on 31 December 2016 disclose a growth of impairment charges to tangible fixed assets of PLN 1,384 thousand (SEK 3 million) and intangible assets for 2016 of PLN 2,767 thousand (SEK 6 million). The charges related to the assets of the Rottneros Group (primarily intangible assets) incorporated in the consolidation of the Arctic Paper Group in the values used in the consolidation of the Rottneros Group and were recognised in these consolidated financial statements as at 31 December 2016. Additionally, the consolidated financial statements of the Rottneros Group for the year ended on 31 December 2016 disclosed a reversal of impairment charges to tangible fixed assets of SEK 23 million. The allowances related to tangible fixed assets and had been established before the Rottneros Group was acquired by Arctic Paper S.A. Therefore, the allowances were not recognised in these consolidated financial statements.

The next test is planned for 31 December 2018.
Intangible assets with book value of PLN 13,165 thousand (as at 31 December 2016: PLN 19,087 thousand). constituted security to bank loans (note 32).

22. Investments in affiliates and joint ventures measured with the equity method

In the years ended on 31 December 2017 and 31 December 2016 the Group had no affiliated entities.
On 1 October 2012, Arctic Paper Munkedals AB purchased 50% shares in Kalltorp Kraft Handelsbolaget with its registered office in Trolhattan, Sweden. Kalltorp Kraft is involved in the production of energy from its own hydro power facility; the purpose of the acquisition was to increase internal power generation potential. The shares in Kalltorp Kraft were recognised as a joint venture and were measured with the equity method as at 31 December 2017 and 31 December 2016.
The value of the interests in the joint venture was PLN 988 thousand as at 31 December 2017 (31 December 2016: PLN 924 thousand). The profit on the interests in the joint venture was PLN 145 thousand in 2017 and was recognised as financial income (2016: loss of PLN 4,209 thousand; financial expenses). FX differences on translation amounted to PLN -81 thousand as at 31 December 2017 (31 December 2016: PLN -36 thousand).

23. Business combinations and acquisition of non-controlling interests

In 2017 the Group did not execute any transactions resulting in changes of its interests in subsidiary companies.

24. Other assets

24.1. Other financial assets

	Note	Year ended on 31 December 2017	Year ended on 31 December 2016
Hedging instruments	40.3.1.	21 914	16 040
Investments in equity instruments		3 394	3 695
Other		3 898	2 396
Total		**29 207**	**22 132**
- short-term		7 151	11 218
- long-term		22 056	10 913

24.2. Other non-financial assets

	Year ended on 31 December 2017	Year ended on 31 December 2016
Insurance costs	2 795	3 841
Lease fees	64	87
Costs of financing relating to tranches disbursed by year-end and overdrafts	3 398	3 511
Advance payments for services	4 512	4 474
Rent	762	652
Receivables from pension fund	1 248	1 092
Other	2 317	4 383
Total	**15 096**	**18 040**
- short-term	13 583	16 492
- long-term	1 513	1 548

25. Impairment test for tangible fixed assets and intangible assets

25.1. Arctic Paper Grycksbo

As at 31 December 2017, 31 December 2016 and 31 December 2015 impairment tests were conducted at Arctic Paper Grycksbo with reference to tangible fixed assets and intangible assets.
The impairment test at Arctic Paper Grycksbo was related to lower results generated at the Paper Mill than expected by the Group's Management Board in 2017, 2016 and in 2015 respectively. The results were adversely affected by market conditions such as unfavourable price fluctuations of raw materials, intensified competition in the segment of the paper produced by Grycksbo.

In view of the above, a decision was taken to perform an impairment test with the discounted cash flow method. As a result of the impairment test performed as at 31 December 206 and 31 December 2015, no further impairment charge was recognised.

The impairment test performed as at 31 December 2017 resulted in an impairment charge of PLN 23,761 thousand.
Below is a presentation of the key assumptions underlying the impairment tests held as at 31 December 2017 and 31 December 2016.

Key assumptions underlying the calculation of value in use

Calculations of the value in use of the paper sale centre at the Grycksbo Paper Mill is most sensitive to the following variables:

- Discount rates;
- Growing raw material prices;
- Growing energy prices;
- FX risk.

Discount rate – reflects the assessment of risks inherent to the centre estimated by the management. This is the rate applied by the management to estimate the operational effectiveness (results) and future investment proposals. In the budgeted period the discount rate is 8.00%. The discount rate was determined on the basis of the following: Weighted average cost of capital (WACC).

Changing raw material prices (mainly pulp) – estimates concerning changes to raw materials are made on the basis of the ratios related to pulp prices. The data underlying the applied assumptions is obtained from: www.foex.fi. It should be noted that the costs of pulp is characterised by high volatility.

Changing energy prices – a growth of energy prices, mainly electricity, listed at Nordpool, the commodity exchange in Sweden, and of the energy generated from biomass as the core source of energy, results from the assumptions applied to the projections approved by the local management of the Grycksbo Paper Mill.

FX risk – it refers to the purchase cost of raw materials for paper production, in particular purchases of pulp with the costs incurred mostly in USD. The projections made as at 31 December 2017 the FX rate of the USD/SEK pair was assumed at 8.12 in the first year of projections and 8.00 in the following years (31 December 2016: 9.05 in 2017 and 8.55 in the following years).

The table below presents the core assumptions applied to calculate the value in use as at 31 December 2017 and 31 December 2016.

General assumption	2017	2016
Approved projections based on	2018-2022	2017-2021
Income tax rate	22,0%	22,0%
Discount rate before tax effect	8,5%	8,8%
Weighted average cost of capital (WACC)	8,0%	6,9%
Growth rate in the residual period	0,0%	2,0%

The total impairment charge to Arctic Paper Grycksbo as at 31 December 2017 was PLN 275,795 thousand (31 December 2016: PLN 300,235 thousand). The difference in the impairment allowance was due to the measurement of the impairment charge denominated in SEK to the presentation currency – PLN.
The value of assets being tested amounts PLN 113,390 thousand and their value in use PLN 153,108 thousand as at 31 December 2017 (as at 31 December 2016: asset value of PLN 141,899 thousand, value in use PLN 153,176 thousand).

The table below presents the impairment charge as at 31 December 2017:

	Balance vaue as at 31 December 2017	Vaule in used by 31 December 2017
Tangible fixed assets, of which:	64 500	41 727
- land	5 717	3 457
- buildings	27 702	20 913
- machinery and equipment	27 276	13 551
- assets under construction	3 806	3 806
Intangible assets with indefinite useful life	-	-
Intangible assets with definite useful life	1 345	357
Working capital	26 930	26 930
Cash and cash equivalents	20 615	20 615
Total value	113 390	89 630
Impairment charge to assets recognised in 2017		23 761

The table below presents sensitivity of the value in use of assets to fluctuations of each parameter underlying the test:

Parameters	Increase in basis points	Effect on value in use
31 December 2017		
Weighted average cost of capital (WACC)	+0,1 p.p.	(1 210)
Growth rate in the residual period	+0,1 p.p.	668
Sales volume in the first year of the projection	+ 0,1%	5 365
Sales prices in the first year of the projection	+ 0,1%	7 127
Pulp prices in first year of the projection	+1,0%	(31 384)
Energy prices in first year of the projection	+1,0%	(4 489)
Weighted average cost of capital (WACC)	-0,1 p.p.	1 239
Growth rate in the residual period	-0,1 p.p.	(651)
Sales volume in the first year of the projection	- 0,1%	(5 365)
Energy prices in first year of the projection	- 0,1%	(7 127)
Pulp prices in first year of the projection	-1,0%	31 384
Energy prices in first year of the projection	-1,0%	4 489
31 December 2016		
Weighted average cost of capital (WACC)	+0,1 p.p.	(3 028)
Growth rate in the residual period	+0,1 p.p.	2 265
Sales volume in the first year of the projection	+ 0,1%	7 689
Sales prices in the first year of the projection	+ 0,1%	10 464
Pulp prices in first year of the projection	+1,0%	(40 072)
Energy prices in first year of the projection	+1,0%	(7 575)
Weighted average cost of capital (WACC)	-0,1 p.p.	3 153
Growth rate in the residual period	-0,1 p.p.	(2 174)
Sales volume in the first year of the projection	- 0,1%	(7 689)
Energy prices in first year of the projection	- 0,1%	(10 464)
Pulp prices in first year of the projection	-1,0%	40 072
Energy prices in first year of the projection	-1,0%	7 575

26. Employment benefits

26.1. Retirement benefits and other post-employment benefits

Group entities pay post-employment benefits to its retiring employees in amounts set forth in Poland's Labour Code in case of Arctic Paper Kostrzyn S.A. and on the basis of existing agreements with trade unions in case of Arctic

Paper Munkedals AB, Arctic Paper Kostrzyn S.A and Arctic Paper Grycksbo AB which additionally has set up a Social Fund for future retirees. Additionally, as at 31 December 2017 the Management Board decried that the provision for retirement pay at Arctic Paper Mochenwangen GmbH would not be sold as part of the discontinued activities and it was disclosed as employee benefits.

In this connection, on the basis of measurement performed in each country by professional actuarial companies, the Group establishes a provision for future benefits. Re-measurement of employee benefits related to defined benefit plans, covering actuarial gains and losses, is recognised in other total comprehensive income and is not later re-classified to profit or loss.

The Group recognises the following changes to its net liabilities relating to defined benefit plans within internal costs of sales, administrative expenses or selling and distribution costs, composed of:

- service costs (including inter alia the current service costs, future service costs)
- net interest on the net liability under the defined benefit plans.

The net cost of employee benefits is presented in the table below

	Year ended on 31 December 2017	Year ended on 31 December 2016
Current headcount costs	1 849	2 102
Interest expense on employee benefit liabilities	1 720	2 222
Actuarial (profit)/loss	5 343	6 356
Total costs of benefit in the plan	**8 912**	**10 680**
of which:		
recognised in the profit and loss account	3 568	4 324
recognised in other comprehensive income	5 343	6 356

The justification presenting changes in the provisions for the years ended on 31 December 2017 and 31 December 2016 is presented in the table below.

	Defined benefit plan in Sweden (AP SA branch)	Defined benefit plan in Sweden (Munkedals)	Defined benefit plan in Sweden (Grycksbo)	Defined benefit plan in Sweden (Rottneros Group)	Defined benefit plan in Poland (Kostrzyn)	Defined benefit plan in Germany	Total
Provisions for pensions and similar obligations as at 01 January 2017	1 356	28 864	49 115	2 771	6 821	-	88 928
Current headcount costs	194	-	-	1 326	328	-	1 849
Interest expense	-	562	961	-	196	-	1 720
Actuarial Loss (Profit)	-	2 009	2 729	-	605	-	5 343
Benefits paid	-	(820)	(2 117)	-	(603)	-	(3 540)
FX differences on translation of foreign plans	-	(2 421)	(4 062)	(279)	-	-	(6 761)
Transfer from discountiued operation	-	-	-	-	-	12 743	12 743
Provisions for pensions and similar obligations as at 31 December 2017	**1 551**	**28 195**	**46 627**	**3 819**	**7 347**	**12 743**	**100 282**

	Defined benefit plan in Sweden (AP SA branch)	Defined benefit plan in Sweden (Munkedals)	Defined benefit plan in Sweden (Grycksbo)	Defined benefit plan in Sweden (Rottneros Group)	Defined benefit plan in Poland (Kostrzyn)	Defined benefit plan in Germany	Total
Provisions for pensions and similar obligations as at 01 January 2016	1 151	25 826	46 783	1 162	6 540	-	81 461
Current headcount costs	206	-	-	1 614	282	-	2 102
Interest expense	-	727	1 303	-	192	-	2 222
Actuarial Loss (Profit)	-	3 181	3 073	-	102	-	6 356
Benefits paid	-	(724)	(1 776)	-	(295)	-	(2 795)
FX differences on translation of foreign plans	-	(145)	(268)	(4)	-	-	(418)
Provisions for pensions and similar obligations as at 31 December 2016	**1 356**	**28 864**	**49 115**	**2 771**	**6 821**	**-**	**88 928**

The core assumptions made by actuary as at each balance sheet date to calculate the amounts of the obligations are as follows

	Year ended 31 December 2017	Year ended 31 December 2016
Discount rate (%)		
Plan in Sweden	2,3%	2,3%
Plan in Poland	3,0%	3,0%
Plan in Germany	1,7%	na
Anticipated salary growth rate (%)		
Plan in Sweden	0,0%	0,0%
Plan in Poland	2,5%	2,0%
Plan in Germany	na	na
Remaining employment period (in years)		
Plan in Sweden	16,0	16,5
Plan in Poland	15,9	16,8
Plan in Germany	na	na

The table below presents a sensitivity analysis of the provision for retirement benefits:

Sensitivity analysis		
Change to the applied interest rate by 1 percentage point		
anej	Increase by 1 p.p.	Dcrease by 1 p.p.
31 December 2017	in thousands PLN	in thousands PLN
Impact on the liabilities under defined benefit plans	(10 780)	12 230
31 December 2016		
Impact on the liabilities under defined benefit plans	(2 769)	1 992
Change to the anticipated salary growth rate by 1 percentage point		
	Increase by 1 p.p.	Dcrease by 1 p.p.
31 December 2017	in thousands PLN	in thousands PLN
Impact on the liabilities under defined benefit plans	8 231	(6 602)
31 December 2016		
Impact on the liabilities under defined benefit plans	717	(601)

26.2. Termination benefits

As at 31 December 2017 the provision for severance pay amounted to PLN 4,667 thousand (31 December 2016: PLN 0 thousand).

27. Inventories

	Year ended on 31 December 2017	Year ended on 31 December 2016 (revised)
Materials (at purchase prices)	156 518	170 416
Production in progress (at manufacturing costs)	7 631	8 850
Finished products, goods, of which:		
At purchase price / manufacturing costs	180 996	179 960
At net realisable price	5 816	1 109
Advance payments for deliveries	35	18
Total inventories, at the lower of: purchase price / manufacturing costs or net realisable price	**350 996**	**360 353**
Impairment charge to inventories	4 408	4 323
Total inventories before impairment charge	355 404	364 676

Goods amountd PLN 594 thousand as at 31 December 2017 (as at 31 December 2016: PLN 530 thousand).
In the year ended on 31 December 2017 the Group increased impairment charges to inventories for PLN 85 thousand (2016: charge reversal PLN 2,490 thousand). There were no other changes in the impairment charge to inventories in 2017 and 2016.

The difference in the impairment charges is referred to costs of sales in the profit and loss account. The impairment charge is related to finished products and slowly rotating materials and exposed to the risk of damage, obsolescence or non use for internal needs.

In the financial year ended on 31 December 2017 the Group had pledge agreements on its movable assets for PLN 628,875 thousand, EUR 256,116 thousand, partly related to inventories.

In the financial year ended on 31 December 2016 the Group had pledge agreements on its movable assets for PLN 523,963 thousand, SEK 715,530 thousand, partly related to inventories.

As at 31 December 2017 the inventories of finished products for PLN 5,816 thousand were measured at the net realisable prices (as at 31 December 2015: PLN 1,109 thousand).

28. Trade and other receivables

	Year ended on 31 December 2017	Year ended on 31 December 2016
Trade receivables	296 408	307 580
VAT receivables	24 703	28 419
Other third party receivables	4 954	4 622
Other receivables from related entities	4 006	2 875
Total (net) receivables	**330 071**	**343 496**
Impairment charges to receivables	27 030	29 786
Gross receivables	357 101	373 282

The terms and conditions of transactions with related entities are presented in note 37.
Trade receivables do not earn interest and have customary payment terms of 30 to 90 days.

The Group has an appropriate policy of selling solely to verified customers. Therefore, in the opinion of the management, there is no additional credit risk in excess of the level identified with the impairment charge to uncollectible receivables characteristic for the Group's trade receivables.

As at 31 December 2017, trade receivables of PLN 27,030 thousand (as at 31 December 2016: PLN 29,786 thousand were deemed as uncollectible and therefore subject to an impairment charge.

The changes to impairment charges to receivables were as follows:

	Year ended on 31 December 2017	Year ended on 31 December 2016
Impairment charge as at 01 January	29 786	32 504
Increases	132	676
Utilisation	(1 779)	(952)
Write-back of unutilised amounts	(65)	(2 187)
FX differences on translation of foreign operations	(1 044)	(254)
Impairment charge as at 31 December	**27 030**	**29 786**

Below is an analysis of trade receivables that as at 31 December 2017 and 31 December 2016 were overdue but not treated as uncollectible:

	Total	Not overdue	Overdue but collectible				
			< 30 days	30 – 60 days	60 – 90 days	90 – 120 days	>120 days
As at 31 December 2017	296 408	250 486	41 073	4 081	614	51	102
As at 31 December 2016	307 580	261 822	38 462	4 291	508	1 648	848

Receivables over 120 days in the prospective assessment of the company's management qualify as collectible and therefore no impairment was recognised.

29. Cash and cash equivalents

Cash at bank earns interest at variable interest rates based on overnight bank deposit rates. Short-term deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the Group and earn interest at the respective short-term deposit rates.

As at 31 December 2017, the fair value of cash and cash equivalents was PLN 241,403 thousand (31 December 2016: PLN 130,157 thousand).

As at 31 December 2017, the Group held undrawn funds under overdraft facilities of PLN 139,095 thousand (31 December 2016: PLN 80,955 thousand).

As at 31 December 2017, the Group utilised its overdraft facilities for PLN 41,146 thousand (31 December 2016: PLN 95,632 thousand).

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

	Year ended on 31 December 2017	Year ended on 31 December 2016
Cash in bank and on hand	241 403	129 926
Short-term deposits	-	-
Cash in transit	-	231
Cash and cash equivalents in the consolidated balance sheet	241 403	130 157
Cash in bank and on hand attributable to discontinued operations	2 448	1 320
Cash and cash equivalents in the consolidated cash flow statement	**243 851**	**131 476**

Cash of SEK 0 thousand as at 31 December 2017 (31 December 2016: PLN 2,771 thousand) constitute a margin to existing forward contracts from the purchase of electricity in Rottneros Group companies).

29.1. Reasons of differences between book value changes to certain items and items in the consolidated cash flow statement

The reasons of differences between book value changes to certain items and items in the consolidated cash flow statement are presented in the tables below:

	Year ended on 31 December 2017	Year ended on 31 December 2016 (revised)
Increase / decrease in receivables and other non-financial assets		
Book change in receivables and other non-financial assets	13 425	(6 996)
Discontinued operations	(1 063)	15 559
Differences on translation	(21 588)	(5 770)
Increase / decrease in receivables and other non-financial assets disclosed in the consolidated cash flow statement	(9 227)	2 793
	-	-
Change to inventories		
Book change to inventories	9 357	30 279
Discontinued operations (sales of assets)	10 597	17 471
Differences on translation	(22 269)	(1 647)
Change to inventories disclosed in the consolidated cash flow statement	(2 316)	46 103
Increase / decrease in liabilities except for loans and borrowings		
Book increase /decrease in liabilities except for loans and borrowings	24 141	(12 047)
Increase / decrease in liabilities from purchases of fixed assets and intangibles	2 084	-
Discontinued operations	(1 918)	(20 635)
Others	(4 413)	-
Differences on translation	22 817	797
Increase / decrease in liabilities except for loans and borrowings disclosed in the consolidated cash flow statement	42 711	(31 885)
Change in accruals and deferred income		
Book change in accruals and deferred income	(23 149)	(13 604)
Discontinued operations	29	(1 756)
Others	4 434	-
Differences on translation	5 351	(415)
Change in accruals and deferred income disclosed in the consolidated cash flow statement	(13 335)	(15 775)
Change in provisions		
Book change in provisions	15 908	7 459
Provison for actuarial gains/losses	(5 343)	(9 281)
Discontinued operations	(14 567)	(40 079)
Provison for discontinued operations presented as write-downs for inventories and other tangible assets	-	12 701
Differences on translation	7 792	(1 288)
Change in provisions disclosed in the consolidated cash flow statement	3 790	(30 488)
Explanation to "Others" in operating activities		
Adjustment of valuation to amortised cost	(2 653)	3 174
Dividend received (transfer to investing activities)	(442)	(922)
Decrease in value of share in joint venture	-	4 209
Bank charges (transfer to financial activities)	-	1 707
Inflow on assets subject to guarantee	-	729
Others	(385)	6
"Others" in operating activities	(3 480)	8 903
Purchase of tangible fixed assets and intangible assets		
Increase in tangible assets accorting to table of movements	(175 249)	(178 992)
Increase in intangible assets accorting to table of movements	(25 143)	(27 645)
Financial leasing	361	6 071
Increase / decrease in liabilities from purchases of fixed assets and intangibles	(2 084)	-
Co-generation certificates	19 815	23 218
Change in valuation of emmission rights	-	194
Discontinued operations	-	(458)
Purchase of tangible fixed and intangible assets in the consolidated cash flow statement	(181 448)	(177 612)

30. Share capital and reserve capital/other reserves

30.1. Share capital

Share capital	As at 31 December 2017	As at 31 December 2016
series A ordinary shares of the nominal value of PLN 1 each	50	50
series B ordinary shares of the nominal value of PLN 1 each	44 254	44 254
series C ordinary shares of the nominal value of PLN 1 each	8 100	8 100
series E ordinary shares of the nominal value of PLN 1 each	3 000	3 000
series F ordinary shares of the nominal value of PLN 1 each	13 884	13 884
	69 288	**69 288**

	Registration date of capital increase	Volume	Value in PLN
Ordinary issued and fully paid-up shares			
Issued on 30 April 2008	28.05.2008	50 000	50 000
Issued on 12 September 2008	12.09.2008	44 253 468	44 253 468
Issued on 20 April 2009	01.06.2009	32	32
Issued on 30 July 2009	12.11.2009	8 100 000	8 100 000
Issued on 01 March 2010	17.03.2010	3 000 000	3 000 000
Issued on 20 December 2012	09.01.2013	10 740 983	10 740 983
Issued on 10 January 2013	29.01.2013	283 947	283 947
Issued on 11 February 2013	18.03.2013	2 133 100	2 133 100
Issued on 06 March 2013	22.03.2013	726 253	726 253
As at 31 December 2017		**69 287 783**	**69 287 783**

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

In 2017 and 2016 there were no changes to the share capital of Arctic Paper S.A.

30.1.2. Nominal value of shares

The shares have a nominal value of PLN 1 and have been fully paid.

30.1.3. Shareholders' rights

Shares in all series are entitled to one vote and they have equal privileges as to dividend and capital refund.

30.1.4. Major shareholders

	As at 31 December 2017		As at 31 December 2016	
	Share in the share capital	Share in the total number of votes	Share in the share capital	Share in the total number of votes
Thomas Onstad	**68,13%**	**68,13%**	**68,13%**	**68,13%**
indirectly via	59,15%	59,15%	59,36%	59,36%
Nemus Holding AB	58,28%	58,28%	58,06%	58,06%
other entity	0,87%	0,87%	1,30%	1,30%
directly	8,98%	8,98%	8,77%	8,77%
Other	**31,87%**	**31,87%**	**31,87%**	**31,87%**

30.2. FX differences on translation of foreign operations

The item is adjusted for FX differences on translation of financial statements of foreign operations that have a functional currency other than PLN, to the presentation currency of these financial statements being PLN. The rules of translation along with the applied FX rates are described in note 9.4.

30.3. Reserve capital

Reserve capital is made up of the issue price of shares of Arctic Paper S.A. in excess of their nominal value reduced by the costs of the issues that took place in 2009, 2010 and 2013, equal to PLN 134,257 thousand, reduction of the nominal price of the shares from PLN 10 to PLN 1 in 2012 of PLN 498,632 thousand and a portion of retained profit and accumulated loss resulting from profit distribution by Arctic Paper S.A. of PLN -185,251 thousand.

The table below presents changes to the reserve capital in the year ended on 31 December 2017 and 31 December 2016:

	Year ended on 31 December 2017	Year ended on 31 December 2016
Reserve capital at the beginning of the period	447 638	447 638
Profit/loss distribution	-	-
Reserve capital at the end of the period	**447 638**	**447 638**

30.4. Other reserves

Other reserves cover a portion of retained profit and accumulated loss resulting from profit distribution by Arctic Paper S.A. and capital from revaluation of hedging transactions.
The table below presents changes to the reserve capitals in the year ended on 31 December 2017 and 31 December 2016:

	As at 31 December 2017	As at 31 December 2016
Other capital reserves at the beginning of period	156 975	127 976
Changes to cash flow hedges		
Measurement of financial instruments, of which:	**2 211**	**31 984**
- FX forward	(860)	(247)
- Forward for electricity	5 592	33 394
- interest rate SWAP	744	(2 822)
- Forward for pulp	(3 265)	1 659
Deferred tax, of which:	**(545)**	**(7 894)**
- FX forward	163	47
- Forward for electricity	(1 361)	(7 370)
- interest rate SWAP	-	(334)
- Forward for pulp	653	(237)
Other changes		
Profit distribution	(32 644)	4 909
Other capital reserves at the end of period	**125 997**	**156 975**

30.5. Retained profit/accumulated loss and restrictions to dividend distribution

The item of retained profit/accumulated loss covers retained profit/accumulated loss of the financial year and actuarial gains/losses on actuarial measurement of provisions for retirement benefits.

Retained profit/accumulated loss in the consolidated financial statements may contain amounts that are not distributable – such that may not be distributed as dividend. The statutory financial statements of the entities are made in compliance with the local accounting standards (with the exception of Arctic Paper Kostrzyn S.A. and Artic Paper S.A.) and the Articles of Association of those companies. Dividend to the parent entity may be distributed out of net profit disclosed in their standalone financial statements made for statutory purposes. Such local definition of undistributed profit often differs from the definition of undistributed profit resulting from EU IFRS which may restrict profit distribution. For instance, local legal regulations often require allocations to certain reserves on account of potential future losses. Application of different accounting principles may generate differences between statutory financial statements and reporting packages for consolidation purposes.

Dividend may be distributed out of net profit disclosed in the standalone annual financial statements of Arctic Paper S.A. made for statutory purposes.

In accordance with provisions of the Code of Commercial Companies, the parent entity is obliged to establish reserve capital to cover potential losses. At least 8% of the profit for the financial year disclosed in the standalone financial statements of the parent company should be transferred to the category of capital until the capital has reached the amount of at least one third of the share capital of the parent entity. The use of reserve capital and reserve funds is determined by the General Meeting; however, a part of reserve capital equal to one third of the share capital can be used solely to cover the losses disclosed in the standalone financial statements of the parent entity and cannot be distributed to other purposes.

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

As at 31 December 2017, there were no other restrictions concerning dividend distribution.
The retained profit/accumulated loss in the balance sheet as at 31 December 2017 is composed of the following items:

- consolidated retained profit/accumulated loss attributable to the shareholders of the parent entity for

2008-2017 of PLN -163,878 thousand; and standalone profit distribution/loss coverage of Arctic Paper SA for 2010-2016 of PLN +94,787 thousand (including loss coverage for 2016 of PLN 32,644 thousand with other reserves and transfer of profit for 2015 of PLN 4,909 thousand to reserve capital);

- gain on the acquisition of shares in Rottneros AB from non-controlling shareholders of PLN 29,353 thousand and loss on sale of shares in Rottneros AB to non-controlling shareholders of PLN -6,160 thousand.
- Actuarial gains/losses as at 31 December 2017 of PLN -16,466 thousand (without actuarial gains/losses on discontinued operations).

30.6. Non-controlling interests

	As at 31 December 2017	As at 31 December 2016 (revised)
As at beginning of the period	235 588	215 976
Dividend disbursed by subsidiary entities	(12 759)	(17 502)
Share in other comprehensive income of subsidiary entities	8 726	37 114
At the end of period	**231 555**	**235 588**

Non-controlling interests cover a portion of the Group's equity attributable primarily to the non-controlling shareholders in Rottneros AB. The table below presents core financial data for the Rottneros Group:

Consolidated profit and loss account	Year ended 31 December 2017	Year ended 31 December 2016
Revenues from sales of products	845 419	797 952
Operating expenses	(772 020)	(719 540)
Operating profit (loss)	73 399	78 411
Financial income/expenses	(8 401)	(3 229)
Gross profit (loss)	64 998	75 183
Income tax	(14 591)	(16 144)
Net profit/(loss)	50 407	59 039

Consolidated balance sheet	As at 31 December 2017	As at 31 December 2016
Fixed assets	457 395	418 020
Current assets, of which:	394 175	269 750
Inventories	118 380	128 408
Receivables and other assets	137 473	133 951
Cash and cash equivalents	138 322	7 390
TOTAL ASSETS	851 570	687 769
Equity	512 130	531 647
Long-term liabilities	189 238	6 467
Short-term liabilities	150 202	149 656
TOTAL EQUITY AND LIABILITIES	851 570	687 769

Consolidated cash flow statement	Year ended 31 December 2017	Year ended 31 December 2016
Cash flows from operating activities	98 161	86 253
Cash flows from investing activities	(104 793)	(128 226)
Cash flows from financing activities	143 704	(28 597)
Change in cash and cash equivalents	137 071	(70 570)
Cash and cash equivalents at the beginning of the period	7 390	78 517
Net FX differences	(6 140)	(557)
Cash and cash equivalents at the end of the period	138 322	7 390

In 2017 Rottneros AB distributed dividend totalling PLN 26,199 thousand (SEK 61 million), of which PLN 12,759 thousand referred to non-controlling shareholders.

In 2016 Rottneros AB distributed dividend totalling PLN 36,062 thousand (SEK 76 million), of which PLN 17,502 thousand referred to non-controlling shareholders.

31. Conditional increase of share capital

In 2017 and in 2016 there was no conditional increase of share capital.

32. Interest-bearing bank loans, bonds and borrowings and other financial liabilities

Short-term liabilities	Note	Maturity	As at 31 December 2017	As at 31 December 2016
Other financial liabilities:				
Liabilities under financial leases and rental contracts with purchase options	19.2	31-12-2018	24 438	4 306
Factoring with SHB in SEK			-	17 487
Hedging instruments	40.3		8 539	4 699
Other liabilities		31-12-2018	177	194
Total other short-term financial liabilities			33 153	26 686
Interest-bearing loans, borrowings and bonds:				
Loan from EBRD TA(short-term portion) in EUR	40.2	31-08-2022	9 143	9 941
Loan from EBRD Capex A(short-term portion) in EUR	40.2	31-08-2022	2 213	-
Loan from BZ WBK (short-term portion) in PLN	40.2	31-08-2021	2 577	2 639
Loan from BNP (short-term portion) in EUR	40.2	31-08-2021	2 316	2 535
Bonds in PLN (2016: accrued interest)	40.2	31-08-2021	12 284	4 473
Revolving overdraft facility with Danske Bank in SEK	40.2	31-12-2017	-	6 467
Loan from the owner of the core shareholder in EUR	40.2	09-07-2017	-	17 818
Loan from the owner of the core shareholder in EUR (short-term portion)	40.2	30-04-2020	10 908	11 495
Total short-term interest-bearing loans, borrowings and bonds			39 440	55 367
Total short-term financial liabilities			**72 593**	**82 053**

Long-term liabilities	Note	Maturity	As at 31 December 2017	As at 31 December 2016
Other financial liabilities:				
Liabilities under financial leases and rental contracts with purchase options	19.2	31-12-2021	3 945	30 082
Hedging instruments	40.3	31-12-2021	-	-
Total other long-term financial liabilities			3 945	30 082
Interest-bearing loans, borrowings and bonds:				
Loan from the owner of the core shareholder in EUR	40.2	30-04-2020	20 917	33 130
Loan from EBRD TA (long-term portion) in EUR	40.2	31-08-2022	31 684	42 448
Loan from EBRD Capex A (long-term portion) in EUR	40.2	31-08-2022	14 158	-
Loan from BZ WBK (long-term portion) in PLN	40.2	31-08-2021	6 521	8 741
Loan from BNP (long-term portion) in EUR	40.2	31-08-2021	6 205	8 825
Bonds in PLN	40.2	31-08-2021	84 781	93 162
Bonds in SEK	40,2	01-09-2022	167 174	-
Revolving overdraft facility with BNP in PLN*	40.2	31-08-2019	426	10 000
Revolving overdraft facility with BNP in EUR*	40.2	31-08-2019	-	39 822
Revolving overdraft facility with BZ WBK S.A. in EUR*	40.2	31-08-2019	40 710	-
Revolving overdraft facility with BZ WBK S.A. in PLN*	40.2	31-08-2019	-	39 337
Total long-term interest-bearing loans, borrowings and bonds			372 576	275 464
Total long-term financial liabilities			**376 521**	**305 546**

*- revolving loans prolongable until 31 August 2019

32.1. Bank loans, bonds and borrowings

The amount of long-term and short-term interest bearing loans and borrowings as at 31 December 2017 grew by PLN 81,185 thousand versus 31 December 2016.

In 2017 the Group fully repaid one loan and partly another one to the main shareholder and Rottneros AB issued bonds totalling SEK 400 million. Loan tranches were disbursed and repaid in line with the agreement of 9 September 2016. The reduced debt under revolving loans resulted from the activation of cash-pooling by Paper S.A. and the paper mills.

On 1 June 2017, cash pooling in EUR was activated within the Arctic Paper Group, followed by cash-pooling in EUR on 21 August 2017. The operation consists in pooling cash balances held by the individual system participants and setting them off with temporary shortages of funds with the other cash-pool participants. The solution is aimed at supporting effective cash management in the Group and minimising the costs of external funding sources by using the Group's own cash.

The amount of receiveables under factoring amounted PLN 35,000 thousand as at 31 December 2017.
In connection with the term and revolving loan agreements signed on 9 September 2016, agreements related to the bond issue, the Group is obliget to satisfy certain financial ratios, which are tested quarterly. As at 31 December 2017 the Group satisfied the levels ratios, which are required by the agreements.

32.2. Acquired financing

On 28 August 2017 Rottneros AB issued five-year unsecured bonds totalling SEK 400 million (PLN 177 million). The proceeds from the bond issue are to finance the approved strategic plans of the Rottneros Group and achieving a long-term effectiveness of the capital structure.

The bonds bear interest at STIBOR 3M plus 4.15% and they will be finally redeemed in September 2022.

The bond issue program enables Rottneros to make issues up to SEK 600 million (PLN 265 million).

Rottneros AB intends to apply to have the bonds listed at the stock exchange in Stockholm (Nasdaq Stockholm).

32.3. Collateral to loans

2017

The collateral related to the term and revolving loan agreements, agreements related to the bond issue and the intercreditor agreement, signed in 2016, was nor changed in 2017.

Apart from the above, as at 31 December 2017 the Group disclosed:

1) collateral on assets related to the obligations contracted by Arctic Paper Grycksbo with Svenska Handelsbanken – those are:
- pledge on assets for SEK 85,000 thousand (PLN 36,066 thousand);
- mortgage properties for SEK 20,000 thousand (PLN 8,486 thousand).

2) collateral on assets related to the obligations contracted by Rottneros AB with Danske Bank – those are:
- pledge on assets for SEK 478,348 thousand (PLN 202,963 thousand);

3) collateral on assets under the loan agreement for EUR 10,000 thousand granted by Arctic Paper Finance AB to Arctic Paper S.A. and for EUR 10,000 thousand, granted by Mr Thomas Onstad to Arctic Paper Finance AB.
- pledge on 19,950,000 shares in Rottneros AB.

As a result of repayment on 7 January 2018 of liabilities of Arctic Paper Grycksbo AB under the lease contract with Svenska Handelsbanken AB (pledge on movable assets and properties) and in view of the provisions of loan agreements, the process of releasing the above pledges made in favour of Svenska Handelsbanken AB was started and they were incorporated in the inter-creditor agreement.

2016

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

1. under Polish law – Collateral Documents establishing the following Collateral:
- financial and registered pledges on all shares and interests registered in Poland, owned by the Company

and the Guarantors, in companies in the Company Group (with the exception of Rottneros AB, Arctic Paper Mochenwangen GmbH and Arctic Paper Investment GmbH), except the shares in the Company;

- mortgages on all properties located in Poland and owned by the Company and the Guarantors;
- registered pledges on all material rights and movable assets owned by the Company and the Guarantors, constituting an organised part of enterprise, located in Poland (with the exception of the assets listed in the Loan Agreement);
- assignment of (existing and future) insurance policies covering the assets of the Company and the Guarantors (with the exception of insurance policies listed in the Loan Agreement);
- declaration by the Company and the Guarantors on voluntary submission to enforcement, in the form of a notary deed;
- financial pledges and registered pledges on the bank accounts of the Company and the Guarantors, registered in Poland;
- powers of attorney to Polish bank accounts of the Company and the Guarantors, registered in Poland;
- subordination of the debt held by intragroup lenders (specified in the Intercreditor Agreement).

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

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

Apart from the above, as at 31 December 2016 the Group disclosed:

4) collateral on assets related to the obligations contracted by Arctic Paper Grycksbo with Svenska Handelsbanken – those are:

- pledge on assets for SEK 85,000 thousand (PLN 39,262 thousand);
- mortgage properties for SEK 20,000 thousand (PLN 9,238 thousand),

5) collateral on assets related to the obligations contracted by Arctic Paper Munkedals with Svenska Handelsbanken – those are:

- pledge on assets (receivables subject to the factoring contracts) for SEK 158,821 thousand (PLN 73,359 thousand);
- mortgage on properties for SEK 160,000 thousand (PLN 73,904 thousand),

6) collateral on assets related to the obligations contracted by Rottneros AB with Danske Bank – those are:

- pledge on assets for SEK 509,000 thousand (PLN 235,107 thousand);

7) collateral on assets under the loan agreement for EUR 4,000 thousand concluded by Arctic Paper S.A. with Mr Thomas Onstad

- pledge on 39,900,000 shares in Rottneros AB.

33. Provisions

33.1. Change in provisions

The table below presents changes to provisions in for 2016-2017:

	Post-employment benefits	Other provisions	Total
As at 01 January 2016	88 928	1 386	90 313
Established during the financial year	8 912	4 864	13 775
Applied	(3 540)	-	(3 540)
Reversed	-	-	-
Adjustment due to FX differences	(6 761)	(309)	(7 071)
Transfer to discontinued operations	12 743	-	12 743
As at 31 December 2016, of which:	**100 281**	**5 940**	**106 221**
- short-term	-	4 667	4 667
- long-term	100 281	1 273	101 554
As at 01 January 2015	81 461	1 394	82 855
Established during the financial year	10 680	-	10 680
Applied	(2 795)	-	(2 795)
Reversed	-	-	-
Adjustment due to FX differences	(418)	(8)	(427)
Transfer to discontinued operations	-	-	-
As at 31 December 2015, of which:	**88 928**	**1 386**	**90 313**
- short-term	-	-	-
- long-term	88 928	1 386	90 313

Other provisions as at 31 December 2017 cover a provision for a granted guarantee and a provision for severance pay. Other provisions as at 31 December 2016 cover a provision for a granted guarantee.

33.2. Provisions for complaints and returns

Provisions for complaints and returns are established on the basis of complaints and returns made in the previous years. Due to regular outlays on improvement of the quality of production processes and products, the Group did not recognise a provision for complaints and returns as at the end of 2017 and 2016.

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

34.1. Trade and other payables (short-term)

	As at 31 December 2017	As at 31 December 2016
Trade payables, of which:		
Due to related entities	1	898
Due to other entities	373 603	354 356
	373 604	355 254
Taxes, customs duties, social insurance and other		
VAT	11 857	6 404
Excise tax	815	1 254
Personal Income Tax	4 374	6 029
Real estate tax	748	1 119
Social benefit liabilities	12 112	7 810
	29 907	22 617
Other liabilities		
Payable to employees as salaries	6 245	6 802
Retirement liabilities	3 052	5 013
Investment commitments	3 780	4 345
Liabilities related to environmental protection	497	529
Prepayments	2 000	4 713
Other liabilities	4 784	454
	20 358	21 857
TOTAL	423 868	399 727

Principles and payment terms of the financial liabilities presented above:

- the terms and conditions of transactions with related entities are presented in note 37.3;
- trade payables are interest free and are usually payable within 60 days;
- other liabilities are interest free and the usual payment term is 1 month;
- the amount of the difference between VAT payable and receivable is paid to the relevant tax authorities on a monthly basis.

34.2. Accruals and deferred income

	As at 31 December 2017	As at 31 December 2016
Accruals and deferred income		
Employee expenses	51 698	65 084
Audit and legal services	635	552
Transport costs	6 057	3 906
Costs of complaints	1 230	1 390
Utility costs	915	1 279
Other	3 604	16 175
	64 140	88 386
Deferred income		
Subsidies from Ekofundusz	12 184	13 584
Subsidies from NFOŚiGW	8 943	10 061
Other	8 062	7 390
	29 189	31 035
TOTAL	**93 328**	**119 421**
- short-term	74 576	98 498
- long-term	18 752	20 924

The core items of deferred expenses include annual holiday benefits and bonus for employees.

35. Investment plans

As at 31 December 2017 the Group plans to make expenditures on tangible fixed assets in 2018 of minimum PLN 50 million. The amounts will be spent to purchase new machinery and plant in the Rottneros Group.
As at 31 December 2016 the Group planned expenditures on tangible fixed assets of no less than PLN 60 million in 2017.

36. Contingent liabilities

As at 31 December 2017, the Company held the following contingent liabilities:

- contingent liability under a guarantee for FPG in favour of the mutual life insurance company PRI for SEK 1,426 thousand (PLN 605 thousand at Arctic Paper Grycksbo AB and for SEK 760 thousand (PLN 322 thousand at Arctic Paper Munkedals AB;
- a contingent liability of Arctic Paper Munkedals AB related to a surety for the obligations of Kalltorp Kraft HB in the amount of SEK 1,698 thousand (PLN 720 thousand);
- a bank guarantee in favour of Skatteverket Ludvika for SEK 135 thousand (PLN 57 thousand);

36.1. Legal claims

Arctic Paper S.A. and its subsidiaries are not a party to any legal cases filed in court against them.

36.2. Tax settlements

Tax settlements and other areas of activity subject to specific regulations (like customs or FX matters) may be inspected by administrative bodies that are entitled to impose high penalties and sanctions. No reference to stable legal regulations in Poland results in lack of clarity and consistency in the regulations. Frequent differences of opinion as to legal interpretation of tax regulations – both inside state authorities and between state authorities and enterprises – generate areas of uncertainty and conflicts. As a result, tax risks in Poland are much higher than in countries with a more developed tax system.

Tax settlements may be subject to inspections for five years from the beginning the year in which the tax was paid. As a result of inspections, the tax liability of the Group may be increased by additional tax liability. The Group believes that tax liabilies as at 31 december 2017 are adequate for identified and quantifiable tax risk, therefore no additional provisions have been recognised.

37. Information on related entities

The related entities to the Arctic Paper S.A. Group are as follows:

- Thomas Onstad – majority shareholder,
- Nemus Holding AB – parent company for Arctic Paper SA,
- Munkedal Skog – a subsidiary of Nemus Holding AB,
- Progessio S.C. – from 1 January 2014 until 31 August 2017 an entity related to a Member of the Management Board,

The top management staff is composed of the President and Members of the Management Board of the Parent Entity as well as the Chairperson and Members of the Supervisory Board of the Parent Entity when in office.

The table below presents the total values of transactions with related parties in 2017-2016:

Data for the period from 01 January 2017 to 31 December 2017 and as at 31 December 2017 (PLN thousand).

Related Entity	Sales to related entities	Purchases from related entities	Interest – financial income	Interest – financial expense	Receivables from related entities	Loan receivables	Liabilities to related entities
Nemus Holding AB	-	1 384	-	-	4 006	-	-
Thomas Onstad	-	-	-	2 897	-	-	31 825
Munkedal Skog	-	304	-	-	-	-	1
Progressio S.C. *	-	195	-	-	-	-	na
Total	**-**	**1 883**	**-**	**2 897**	**4 006**	**-**	**31 826**

* by 31 August 2017

The receivables from Nemus Holding AB are overdue as at 31 December 2017 but they are compensated with payables for the provision of services.

Data for the period from 01 January 2016 to 31 December 2016 and as at 31 December 2016 (PLN thousand).

Related Entity	Sales to related entities	Purchases from related entities	Interest – financial income	Interest – financial expense	Receivables from related entities	Loan receivables	Liabilities to related entities
Nemus Holding AB	131	1 382	-	-	2 875	-	870
Thomas Onstad	-	-	-	4 275	-	-	62 442
Progressio S.C.	-	289	-	-	-	-	28
Total	**131**	**1 671**	**-**	**4 275**	**2 875**	**-**	**63 340**

37.1. Ultimate parent entity of the Group

The parent entity of the whole Group is Incarta Development S.A. In the financial years ended on 31 December 2017 and 31 December 2016 there were no transactions between the Group and Incarta Development S.A.

37.2. Parent entity

Nemus Holding AB is the parent entity for the Arctic Paper S.A. Group which as at 31 December 2017 held 58.28% ordinary shares in Arctic Paper S.A.

37.3. Terms and conditions of transactions with related entities

Trade receivables and payables usually have a payment term of 60 days for related entities. Transactions with related entities are carried out at arm's length.

37.4. Remuneration of top managerial staff of the Parent Entity

Key management staff of the Company as at 31 December 2017 comprises two persons: President of the Management Board and a Member of the Management Board.
The remuneration paid to the management staff in the year ended on 31 December 2017 amounted to PLN 6,969 thousand (PLN 7,848 thousand in the year ended on 31 December 2016).

In 2016-2017 the Group Companies granted no loans to the management staff.

The table below presents the remuneration of the Company’s key management staff in the Parent Entity:

Management Board	Year ended on 31 December 2017	Year ended on 31 December 2016
Short-term employee benefits	6 506	7 504
Post-employment retirement and medical benefits	463	344
Termination benefits	-	-
Total amount of remuneration disbursed to top managerial staff	**6 969**	**7 848**

Supervisory Board		
Short-term employee benefits	1 011	988

37.5. Loan granted to members of the Management Board

In 2016-2017 neither the Parent Entity, nor its subsidiary companies granted any loans to Members of the Management Board.

37.6. Other transactions with the involvement of Members of the Management Board

In the period covered with these consolidated financial statements there were no other transactions between the subsidiary companies and Members of the Management Board.

38. Information on the agreement and remuneration of the statutory auditor or entity authorised to audit financial statements

On 19 June 2017 Arctic Paper S.A. concluded an agreement with Ernst & Young Audyt Polska sp. z o.o. sp.k. with its registered office in Warsaw for the audit of the standalone financial statements of Arctic Paper S.A. and the consolidated financial statements of the Group for 2017.

The table below presents the remuneration of the statutory auditor, paid or payable for the year ended on 31 December 2017 and 31 December 2016 by category of services:

	Year ended on 31 December 2017	Year ended on 31 December 2016
Service type		
Statutory audit of the annual financial statements	310*	325*
Statutory audit of the annual financial statements (branch AP S.A.)	20	32
Tax consultancy services	-	-
Other services	60	-
Total	**390**	**357**

** - relates to Ernst & Young Audyt Polska sp. z o.o sp.k.*

The fees do not include services provided to the other Group companies.

39. Financial risk management objectives and policies

The Group's principal financial instruments comprise bank loans and borrowings, bonds, financial leases and hire purchase contracts. The main purpose of those financial instruments is to raise finance for the Group's operations. The Group also uses factoring with recourse for trade receivables. The main purpose for using the financial instrument is to quickly raise funds.Recivables from factoring have been removed from the consolidated balance sheet as they met the conditions for such removal according to IAS 39.

The Group has various other financial instruments such as trade receivables and payables which arise directly from its operations. The core risks arising from the Group's financial instruments include: interest rate risk, liquidity

risk, FX risk and credit risk. The Management Board reviews and approves policies for managing each of those risks.
In the opinion of the Management Board – in comparison to the annual consolidated financial statements made as at 31 December 2016 there have been no significant changes of the financial risk. There have been no changes to the objectives and policies of the management of the risk.

39.1. Interest rate risk

The Group is exposed to interest rate changes primarily with respect to its long-term financial liabilities.

Interest rate risk – sensitivity to fluctuations

The table below presents the sensitivity of gross profit to rationally feasible interest rate changes assuming no change to other factors (related to liabilities based on variable interest rates). The calculations cover loans, SEK bonds and lease contracts with variable interest rates. For each currency the same growth of interest rate was assumed by 1 percentage point. At the end of each reporting period, the loans in each currency, SEK bonds and lease contracts were grouped and on the sums a growth by 1 percentage point was calculated.

	Increase by percentage points	Impact on gross profit
Year ended on 31 December 2017		
PLN	+1%	(3)
EUR	+1%	(202)
SEK	+1%	(1 706)
Year ended on 31 December 2016		
PLN	+1%	(53)
EUR	+1%	(354)
SEK	+1%	(298)

As a result of hedging a major part of the Group's debt resulting from the PLN and EUR loan agreements with the bank consortium at the end of 2016 and PLN bonds with interest rate SWAPs, the Group's exposure to the risk of interest rate fluctuations was much mitigated.
The bond issue in SEK in H2 2017 increased the Group's exposure to interest rate risk.

39.2. FX risk

The Group is exposed to transactional FX risk. This risk also takes place in the case of transactions in other currencies than the entity's measurement currency.
The table below presents the sensitivity of the financial result and comprehensive income to rationally feasible fluctuations of USD, EUR, GBP and SEK rates assuming no changes to any other factors. The calculations cover all FX balance sheet items and a rate increase or decrease by 5% was applied. At the end of each reporting period, assets and liabilities were grouped by currency and a rate increase or decrease by 5% was calculated on the net position in each currency – assets minus liabilities. During the year, FX assets and liabilities remained stable.

2017 Impact of FX rate changes on gross profit	FX rate growth	Total impact	FX rate drop	Total impact
PLN – EUR	+5%	(4 089)	-5%	4 089
PLN – USD	+5%	(2 246)	-5%	2 246
PLN – GBP	+5%	978	-5%	(978)
PLN – SEK	+5%	(305)	-5%	305
SEK – EUR	+5%	3 477	-5%	(3 477)
SEK – USD	+5%	(675)	-5%	675
SEK – GPB	+5%	1 597	-5%	(1 597)

Impact of financial instruments on other comprehensive income (due to differences on translation of foreign operations)	FX rate growth	Total impact	FX rate drop	Total impact
PLN – SEK	+5%	8 062	-5%	(8 062)
PLN – EUR	+5%	(323)	-5%	323

2016 Impact of FX rate changes on gross profit	FX rate growth	Total impact	FX rate drop	Total impact
PLN – EUR	+5%	(6 565)	-5%	6 565
PLN – USD	+5%	(2 952)	-5%	2 952
PLN – GBP	+5%	1 173	-5%	(1 173)
PLN – SEK	+5%	(301)	-5%	301
SEK – EUR	+5%	3 793	-5%	(3 793)
SEK – USD	+5%	(153)	-5%	153
SEK – GBP	+5%	1 276	-5%	(1 276)

Impact of financial instruments on other comprehensive income (due to differences on translation of foreign operations)	FX rate growth	Total impact	FX rate drop	Total impact
PLN – SEK	+5%	6 423	-5%	(6 423)
PLN – EUR	+5%	(1 600)	-5%	1 600

39.3. Risk of changing prices of goods

The Group is exposed to the risk of decreasing sales prices as a result of intensifying competition in the market and the risk of growing prices of raw materials due to restricted supply of raw materials in the market.

39.4. Credit risk

The Group enters into transactions solely with companies of a good financial standing. All customers who wish to use merchant credit are subject to preliminary verification procedures. Additionally, due to monitoring of the status of receivables on an ongoing basis, the Group’s exposure to the risk of uncollectible receivables is limited. The Group treats all receivables that are not overdue and are not subject to any impairment charge, as collectible.

With respect to other financial assets of the Group which comprise cash and cash equivalents, the Group's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the book value of those instruments. The Group has no major concentration of credit risk.

39.5. Liquidity risk

The Group monitors its risk of a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g. accounts receivables, other financial assets) and projected cash flows from operating activity.

The Group's objective is to maintain balance between continuity and flexibility of funding by resorting to various funding sources such as overdraft facilities, bank loans, borrowings and bonds, financial lease contracts and hire purchase contracts.

The table below summarises the Group’s financial liabilities at 31 December 2017 and as at 31 December 2016 by maturity based on contractual undiscounted payments.

As at 31 December 2017	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Interest-bearing loans, borrowings and bonds	-	8 179	42 634	419 164	-	469 977
Financial leasing	-	23 837	1 119	4 236	-	29 192
Trade and other payables	-	441 047	49 902	-	-	490 949
Other financial liabilities	177	2 769	5 769	-	-	8 715
	177	475 832	99 424	423 400	-	998 833

As at 31 December 2016	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Interest-bearing loans, borrowings and bonds	-	11 775	49 433	303 256	9 039	373 503
Financial leasing	-	367	5 412	34 006	-	39 785
Trade and other payables	1	432 331	55 959	-	-	488 291
Other financial liabilities	194	18 998	4 237	-	-	23 429
	195	463 471	115 042	337 262	9 039	925 008

Additionally, the Group holds contingent liabilities totalling PLN 1,704 thousand as at 31 December 2017 (31 December 2016: PLN 1,831 thousand).

40. Financial instruments

The Company holds the following financial instruments: cash on hand and in bank accounts, bank loans, borrowings, bonds, receivables, liabilities under financial leases, SWAP interest rate contracts, floor interest rate options, forward FX contracts, FX corridor options, forward contracts for sales of pulp and forward contracts for the purchase of electricity.

40.1. Fair value of each category of financial instruments

Due to the fact that the book values of the financial instruments held by the Group do not materially differ from their fair value, the table below presents all financial instruments by their book values, split into categories of assets and liabilities.

	Category in compliance with IAS 39	Book value	
		As at 31 December 2017	As at 31 December 2016
Financial assets			
Loans granted	L&R	-	-
Trade and other receivables	L&R	305 368	315 077
Hedging instruments*		21 914	16 040
Other financial assets (net of loans and hedging instruments)**	L&R	7 293	6 092
Cash and cash equivalents	FVTPL	241 403	130 157
Financial liabilities			
Interest-bearing bank loans and borrowings and bonds, of which:	OFL	412 016	330 831
- interest-bearing long-term	OFL	372 576	275 464
- interest-bearing short-term	OFL	39 440	55 367
Liabilities under financial leases and rental contracts with purchase options, of which		28 383	34 388
- long-term		3 945	30 082
- short-term		24 438	4 306
Trade payables and other financial liabilities		373 780	372 935
Hedging instruments*	OFL	8 539	4 699

* derivative hedging instruments meeting the requirements of hedge accounting

Abbreviations used:

FVTPL – Financial assets/liabilities measured at fair value through comprehensive income,

L&R – Loans and receivables

OFL – Other financial liabilities measured at amortised cost.

The table below presents items of revenues, expenses, profit and loss recognised in the profit and loss account, split into categories of financial instruments for the years ended on 31 December 2017 and 31 December 2016:

Year ended on 31 December 2017	Interest income/(expense)	FX gains / (loss)	Reversal / (establishment) of impairment charges	Revaluation profit/(losses)	Profit / (loss) on sales of financial instruments	Other	Total
Financial assets							
Derivative instruments	-	-	-	(1 354)	-	1 257	(96)
Trade and other receivables	51	(12 358)	(67)	(2 862)	-	-	(15 235)
Other financial assets (net of loans and hedging instruments)	-	-	-	3 365	-	1 348	4 713
Cash and cash equivalents	197	(2 294)	-	(86)	-	-	(2 183)
Financial liabilities							
Derivative instruments	-	1 464	-	(2 325)	-	-	(861)
Interest-bearing loans and borrowings	(18 031)	1 786	-	2 762	-	(2 164)	(15 647)
Liabilities under financial leases and rental contracts with purchas	(1 595)	-	-	-	-	-	(1 595)
Trade payables	(146)	15 576	-	2 600	-	(354)	17 677

Year ended on 31 December 2016	Interest income/(expense)	FX gains / (loss)	Reversal / (establishment) of impairment charges	Revaluation profit/(losses)	Profit / (loss) on sales of financial instruments	Other	Total
Financial assets							
Derivative instruments	-	-	-	15 785	-	-	15 785
Trade and other receivables	31	10 909	1 511	1 646	-	-	14 098
Other financial assets (net of loans and hedging instruments)	-	-	-	(1 482)	-	4 527	3 046
Cash and cash equivalents	177	(3 387)	-	-	-	-	(3 210)
Financial liabilities							
Derivative instruments	-	(3 636)	-	343	-	(2 020)	(5 313)
Interest-bearing loans and borrowings	(19 531)	(2 222)	-	(2 254)	-	(5 987)	(29 994)
Liabilities under financial leases and rental contracts with purchas	(1 653)	-	-	-	-	-	(1 653)
Trade payables	(28)	(9 973)	-	(1 664)	-	(497)	(12 162)

40.2. Change of liabilities due to financial activities

Year ended on 31 December 2017	Note	As at 1 January 2017	Changes from financing cash flows	Effect of changes in foreign exchange rates	Changes in fair values	Other changes	As at 31 December 2017
Non-current interest-bearing loans, borrowings and bonds	32	275 464	145 214	(8 662)	-	(39 440)	372 576
Non-current liabilities under finance leases and hire purchase contracts	32	30 082	-	(1 873)	-	(24 264)	3 945
Current interest bearing loans, borrowings and bonds	32	55 367	(46 630)	(8 737)	-	39 440	39 440
Current liabilities under finance leases and hire purchase contracts	32	4 306	(4 070)	(63)	-	24 264	24 438
Derivatives	32	4 699	-	-	3 840	-	8 539
Others	32	17 681	(17 066)	(438)	-	-	177
Total liabilities from financing activities	**32**	**387 599**	**77 448**	**(19 773)**	**3 840**	**0**	**449 114**

Other changes include reclassification within respective short and long term liabilities.

40.3. Interest rate risk

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

31 December 2017 Variable interest rate	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Other financial liabilities:							
Liabilities under financial leases and rental contracts with purchase options	24 438	1 400	1 298	1 247	-	-	28 382
Loans, borrowings and bonds							
Revolving overdraft facility with BZ WBK S.A. in EUR	-	20 064	-	-	-	-	20 064
Bonds in SEK	-	-	-	-	167 174	-	167 174
Total loans, borrowings and bonds	-	20 064	-	-	167 174	-	187 238
TOTAL	24 438	21 464	1 298	1 247	167 174	0	215 620

31 December 2017 Fixed interest rate	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Loans, borrowings and bonds							
Loan from EBRD TA in EUR	9 143	8 658	8 158	7 692	7 176	-	40 827
Loan from EBRD Capex A in EUR	2 213	3 855	3 638	3 435	3 230	-	16 372
Loan from BZ WBK in PLN	2 577	2 372	2 173	1 975	-	-	9 098
Loan from BNP in EUR	2 316	2 190	2 071	1 944	-	-	8 521
Bonds (in PLN)	12 284	18 809	17 059	48 914	-	-	97 065
Revolving overdraft facility with BNP in PLN	-	426	-	-	-	-	426
Revolving overdraft facility with BZ WBK S.A. in EUR	-	20 646	-	-	-	-	20 646
Loan from the owner /the core shareholder in EUR	10 908	10 459	10 459	-	-	-	31 825
TOTAL	39 440	67 414	43 558	63 960	10 406	-	224 778

31 December 2016 Variable interest rate	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Other financial liabilities:							
Liabilities under financial leases and rental contracts with purchase options	4 306	4 319	4 242	4 225	17 295	-	34 388
Loans, borrowings and bonds							
Revolving overdraft facility with BNP in PLN	-	-	5 000	-	-	-	5 000
Revolving overdraft facility with BNP in EUR	-	-	17 923	-	-	-	17 923
Revolving overdraft facility with BZ WBK S.A. in PLN	-	-	17 438	-	-	-	17 438
Revolving overdraft facility with Danske Bank in SEK	6 467	-	-	-	-	-	6 467
Total loans, borrowings and bonds	6 467	-	40 361	-	-	-	46 828
TOTAL	10 773	4 319	44 604	4 225	17 295	0	81 216

31 December 2016 Fixed interest rate	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Loans, borrowings and bonds	9941,14	9587	9030	8477	7960	7394	52 389
Loan from EBRD TA in EUR							-
Loan from EBRD Capex A in EUR	2639,12	2490	2281	2083	1887	0	11 380
Loan from BZ WBK in PLN	2 535	2 425	2 279	2 135	1 986	-	11 360
Loan from BNP in EUR	4 473	12 158	18 180	16 434	46 376	14	97 635
Bonds	-	-	5 000	-	-	-	5 000
Revolving overdraft facility with BNP in PLN	-	-	21 899	-	-	-	21 899
Revolving overdraft facility with BNP in EUR	-	-	21 899	-	-	-	21 899
Revolving overdraft facility with BZ WBK S.A. in PLN	17 818	-	-	-	-	-	17 818
Loan from the owner/the core shareholder in EUR	11 495	11 043	11 043	11 043	-	-	44 624
Loan from the owner /the core shareholder in EUR	48 900	37 703	91 611	40 172	58 209	7 408	284 003
TOTAL	48 900	37 703	91 611	40 172	58 209	7 408	284 003

Fixed interest reate of the loans and bonds is a result of the SWAP heding instruments.

40.4. Collaterals and other derivatives

As at 31 December 2017, the Group used cash flow hedge accounting for the following hedging items:

- Arctic Paper S.A. designated SWAP derivatives to hedge accounting to hedge interest payments in EUR on a bank loan in EUR,
- Arctic Paper S.A. designated SWAP derivatives to hedge accounting to hedge interest payments in PLN on a bank loan in PLN,
- Arctic Paper Munkedals AB, Arctic Paper Grycksbo AB and the companies of the Rottneros Group designated for cash flow hedge accounting the forward derivatives in order to hedge future purchases of electricity,
- the companies of the Rottneros Group designated for cash flow hedge accounting the FX forward derivatives in order to hedge a part of inflows in EUR related to pulp sales,
- the companies of the Rottneros Group designated for cash flow hedge accounting the FX forward derivatives in order to hedge a part of inflows in USD related to pulp sales,
- the Companies of the Rottneros Group designated for cash flow hedge accounting the FX forward derivatives for the sale of pulp in order to hedge the sale prices of pulp in SEK,

As at 31 December 2017, the Group used fair value hedge accounting for the following hedging items:

- Arctic Paper S.A. designated floor option derivatives to hedge accounting to hedge interest payments, entitling to reduce EURIBOR for the interest rate of a part of the bank loan in EUR to the market level if the market EURIBOR falls under 0%.

Moreover, as at 31 December 2017, Arctic Paper Kostrzyn SA had FX corridor options, which were hedging a part of the cash flows in EUR regarding export sales and USD pulp expenses.

40.4.1. Cash flow hedges

As at 31 December 2017, the Group's cash flows were hedged with forward FX contracts, forward contracts for purchases of electricity, forward contracts for sales of pulp and interest rate SWAPs.

Cash flow hedge accounting related to foreign currency trading using FX forward transactions

The table below presents detailed information concerning the hedging relationship in the cash flow hedge accounting regarding the sale of EUR for SEK:

Type of hedge	Cash flow hedge related to planned sales in foreign currencies
Hedged position	The hedged position is a part of highly likely future cash inflows for exports
Hedging instruments	FX forward contracts are used wherein the Company agrees to sell EUR for SEK
Contract parameters:	
Contract conclusion dates	2 017
Maturity date	subject to contract; by 16.01.2018
Hedged amount	EUR 2 M
Term exchange rate	9.88 SEK/EUR

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

Type of hedge	Cash flow hedge related to planned sales in foreign currencies
Hedged position	The hedged position is a part of highly likely future cash inflows for exports
Hedging instruments	FX forward contracts are used wherein the Company agrees to sell USD for SEK
Contract parameters:	
Contract conclusion dates	2 017
Maturity date	subject to contract; by 02.02.2018
Hedged amount	USD 9.8 M
Term exchange rate	8.36 SEK/USD

Hedge accounting of cash flows from sales of pulp

The table below presents detailed information concerning the hedging relationship in cash flow hedge accounting regarding sales of pulp:

Type of hedge	Cash flow hedge related to sales of pulp
Hedged position	The hedged position is a part of highly likely future cash inflows for pulp sales
Hedging instruments	Forward contracts are used as the hedging item wherein the Company agrees to sell pulp for SEK
Contract parameters:	
Contract conclusion date	2 017
Maturity date	subject to contract; by 31.12.2018
Hedged quantity of pulp	42,000 tons
Term price	SEK 7,293/ton

Cash flow hedge accounting related to electricity purchases with the use of forward transactions

The table below presents detailed information concerning the hedging relationship in the cash flow hedge accounting related to electricity purchases:

Type of hedge	Cash flow hedge related to planned purchases of electricity
Hedged position	The hedged position is a part of highly likely future cash flows for electricity purchases
Hedging instruments	Forward contract for the purchase of electricity at Nord Pool Exchange
Contract parameters:	
Contract conclusion date	sucject to contract; from 01.01.2015
Maturity date	indivsucject to contract; by 31.12.2021
Hedged quantity of electricity	1.371.000 MWh
Term price	from 16.50 to 30.70 EUR/MWh

Cash flow volatility hedge accounting related to variable loan interest rate of the long-term loan with the use of SWAP transactions

The table below presents detailed information concerning the hedging relationship in the cash flow hedge accounting related to payment of interest in EUR on the loan in EUR:

Type of hedge	Hedge of cash flows related to variable interest rate on the EUR long-term loan
Hedged position	Future EUR interest flows on EUR loan calculated on the basis of 6M EURIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in EUR on the EUR loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	21.11.2016
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 31.08.2022
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 12 M.

Type of hedge	Hedge of cash flows related to variable interest rate on the EUR long-term loan
Hedged position	Future EUR interest flows on EUR loan calculated on the basis of 6M EURIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in EUR on the EUR loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	18.07.2017
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 31.08.2022
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 3,986 thousand.

Type of hedge	Hedge of cash flows related to variable interest rate on the EUR long-term loan
Hedged position	Future EUR interest flows on EUR loan calculated on the basis of 6M EURIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in EUR on the EUR loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	21.11.2016
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 31.08.2021
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 2.6 M.

Type of hedge	Hedge of cash flows related to variable interest rate on the EUR long-term revolving credit facility
Hedged position	Future EUR interest flows on EUR loan calculated on the basis of 3M EURIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in EUR on the EUR loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	21.11.2016
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 30.08.2019
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 9.9 M.

The table below presents detailed information concerning the hedging relationship in the cash flow hedge accounting related to payment of interest in PLN on the loan in PLN:

Type of hedge	Hedge of cash flows related to variable interest rate on the PLN long-term loan
Hedged position	Future PLN interest flows on PLN loan calculated on the basis of 6M WIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in PLN on the PLN loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	21.11.2016
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 31.08.2021
Hedged value	interest payable in line with the payment schedule under the loan agreement of PLN 11.5 M.

Type of hedge	Hedge of cash flows related to variable interest rate on the PLN long-term revolving credit facility
Hedged position	Future PLN interest flows on PLN loan calculated on the basis of 3M WIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in PLN on the PLN loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	21.11.2016
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 30.08.2019
Hedged value	interest payable in line with the payment schedule under the loan agreement of PLN 10 M

Type of hedge	Hedge of cash flows related to variable interest rate on the PLN bonds
Hedged position	Future PLN interest flows in PLN loan calculated on the basis of interest payments on PLN bonds at 6M WIBOR
Hedging instruments	The hedging item is a SWAP transaction under which the Company agreed to pay interest in PLN on the PLN bonds on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	21.11.2016
Maturity date	each interest payment date in line with the payment schedule under the bond issue agreement; by 31.08.2021
Hedged value	interest payable in line with the payment schedule under of interest of PLN 100 M.

40.4.2. Fair value hedges

As at 31 ecember 2017 the fair value was hedged with floor options.

Fair value volatility hedge accounting related to a floor option

Type of hedge	The right to reduce cash flows under payment of interest due to decrease of EURIBOR below 0%
Hedged position	The hedged item are future EUR interest flows in EUR related to a loan in EUR calculated on the basis of 6M EURIBOR
Hedging instruments	The hedging item is a floor option under which the Company acquires the right to pay interest in EUR on the basis of EURIBOR below 0%
Contract parameters:	
Contract conclusion date	21.11.2016
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 31.08.2022
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 12 M

Type of hedge	The right to reduce cash flows under payment of interest due to decrease of EURIBOR below 0%
Hedged position	The hedged item are future EUR interest flows in EUR related to a loan in EUR calculated on the basis of 6M EURIBOR
Hedging instruments	The hedging item is a floor option under which the Company acquires the right to pay interest in EUR on the basis of EURIBOR below 0%
Contract parameters:	
Contract conclusion date	18.07.2017
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 31.08.2022
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 3,986 thousand.

40.4.3. Other derivatives

The table below presents detailed information concerning the FX corridor options regarding the sale of EUR for USD:

Type of hedge	Cash flow hedge related to planned sales in foreign currencies
Hedged position	The hedged position is a part of highly likely future cash inflows for exports
Hedging instruments	FX corridor options wherein the Company bought the right to sell EUR for PLN and sold the right to buy EUR with PLN
Contract parameters:	
Contract conclusion dates	25.08.2017
Maturity:	sucject to contract; by 29.03.2018
Hedged amount	EUR 6.0 M
Term exchange rate	1.0700 and 1.1640 EUR/USD

The table below presents the fair value of hedging instruments in cash flow, fair value and FX corridor options hedge accounting as at 31 December 2017 and the comparative data:

	Status as at 31 December 2017		Status as at 31 December 2016	
	Assets	Equity and Liabilities	Assets	Equity and Liabilities
FX forward	849	1 170	-	462
Forward on pulp sales	-	3 394	3 695	-
SWAP	-	3 604	-	4 580
Floor option	-	370	-	(343)
Forward for electricity	21 065	-	12 345	-
Total hedging derivative instruments	**21 914**	**8 539**	**16 040**	**4 699**

The table below presents the nominal value of derivative instruments as at 31 December 2017:

	1 year	1 to 5 years	Over 5 years	Total
FX forward:				
Sold currency (in ‘000 EUR)	8 000	-	-	8 000
Sold currency (in ‘000 USD)	9 800	-	-	9 800
Purchased currency (in ‘000 USD)	6 489	-	-	6 489
Forward for electricity:				
Purchased energy (in ‘000 PLN)	41 308	86 397	-	127 706
Forward on pulp sales				
Pulp sold (in tons)	42 000	-	-	42 000
interest rate SWAP				
principal repayment (in ‘000 PLN)	28 532	164 421	-	192 953

The table below presents the amounts related to hedge accounting that were recognised in 2017 by the Group in profit and loss and in the total comprehensive income statement:

	Year ended 31 December 2017
Other reserves in reference to the measurement as at 31 December 2017 – changes of fair value measurement of hedging derivative instruments due to the hedged risk, corresponding to effective hedging	5 887
Ineffective part of the change in fair value measurement due to the hedged risk, recognised in financial income or expenses	116
The period of the anticipated hedged flows	1 January 2018 - 31 December 2021

The table below presents changes to other reserves due to hedge accounting in 2017:

	Year ended 31 December 2017
Other reserves as at 01 January 2017	4 221
Deferral to changes of fair value measurement of the hedging derivative instruments due to the hedged risk, corresponding to the effective hedge	1 783
The amount of the changes of fair value measurement of the hedging derivative instruments due to the hedged risk, removed from the revaluation reserve and transferred to financial income or expenses	(116)
Other reserves as at 31 December 2017	5 887

The amounts in the tables include deferred tax effect.

41. Capital management

The primary objective of the Group's capital management is to maintain a strong credit rating and healthy capital ratios in order to support the Group's business operations and maximise the shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in the economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to its shareholders, return capital to the shareholders or issue new shares. No changes were made in the objectives, policies or processes during the year ended on 31 December 2017 and 31 December 2016.

The Group monitors its equity using a leverage ratio, which is net debt divided by total equity plus net debt. The Group's policy is to keep the leverage ratio between 0.30 and 0.55. The Group includes interest bearing loans and borrowings, trade and other payables, net of cash and cash equivalents within its net debt.

Arctic Paper S.A. Group	As at 31 December 2017	As at 31 December 2016 (revised)
Interest-bearing loans, borrowings and debt instruments and other financial liabilities	449 114	387 599
Trade and other payables	423 868	399 727
Minus cash and cash equivalents	(241 403)	(130 157)
Net debt	631 580	657 169
Equity	791 294	789 543
Equity and net debt	1 422 874	1 446 712
Leverage ratio	**0,44**	**0,45**

In comparison to the annual financial statements for 2016, the financial gearing ratio decreased from 0.47 to 0.46.

42. Employment structure

The average headcount in the Group in the years ended on 31 December 2017 and 31 December 2016 was as follows:

	As at 31 December 2017	As at 31 December 2016
Management Board of the Parent Entity	2	5
Management Boards of Group entities	32	27
Administration	137	108
Sales Department	143	152
Production Division	1 264	1 291
Other	161	171
Total	**1 739**	**1 754**

43. CO2 emission rights

Arctic Paper Kostrzyn S.A., Arctic Paper Munkedals AB, Arctic Paper Grycksbo AB and the companies of the Rottneros Group, are all part of the European Union Emission Trading Scheme. The previous period to exercise rights to issues lasted from 1 January 2008 to 31 December 2012. New allocations cover the period from 1 January 2013 to 31 December 2020. The tables below specify the allocation for 2013-2020 and the usage of emission rights by each of the four entities in 2013-2017.

(in tonnes) for Arctic Paper Kostrzyn S.A.	2013	2014	2015	2016	2017	2018	2019	2020
Allocation*	108 535	105 434	102 452	99 840	97 375	94 916	92 454	90 009
Unused quantity from previous years	348 490	306 448	263 932	203 917	133 061	-	-	-
Issue	(150 577)	(147 950)	(162 467)	(170 696)	(142 784)			
Purchased quantity	-	-	-	-	-			
Sold quantity	-	-	-	-	-			
Unused quantity	306 448	263 932	203 917	133 061	87 652			

(in tonnes) for Arctic Paper Munkedals AB	2013	2014	2015	2016	2017	2018	2019	2020
Allocation*	44 238	43 470	42 692	41 907	41 113	40 311	39 499	38 685
Unused quantity from previous years	24 305	67 262	107 325	17 559	(11 572)			
Issue	(1 281)	(3 407)	(32 465)	(21 038)	(40 160)			
Purchased quantity	-	-	7	-	-			
Sold quantity	-	-	(100 000)	(50 000)	-			
Unused quantity	67 262	107 325	17 559	(11 572)	(10 619) **			

(in tonnes) dla Arctic Paper Grycksbo AB	2013	2014	2015	2016	2017	2018	2019	2020
Allocation*	77 037	75 689	74 326	72 948	71 556	70 151	68 730	67 304
Unused quantity from previous years	69 411	111 448	734	60	1 008			
Issue	-	-	-	-	-			
Purchased quantity	-	-	-	-	-			
Sold quantity	(35 000)	(186 403)	(75 000)	(72 000)	(70 000)			
Unused quantity	111 448	734	60	1 008	2 564			

(in tonnes) for Rottneros' subsidiaries	2013	2014	2015	2016	2017	2018	2019	2020
Allocation*	30 681	30 484	29 938	29 387	28 830	28 268	27 698	27 127
Unused quantity from previous years	72 888	90 522	101 986	104 991	113 085			
Issue	(13 047)	(19 020)	(26 933)	(21 293)	(18 707)			
Purchased quantity	-	-	-	-	-			
Sold quantity	-	-	-	-	-			
Unused quantity	90 522	101 986	104 991	113 085	123 208			

* - the values are an estimate made by AP Kostrzyn on the basis of information on the allocation of emission rights for entities in the EU ETS system, calculated pursuant to the provisions of Art. 10a of the ETS Directive. As of the date hereof, no valid domestic Regulations exist.

** - any deficit of emission rights as at 31 December 2017 will be covered from the new allocation for 2018, available before the rights for 2017 have to be accounted for

44. Certificates in cogeneration

In 2014, pursuant to Art. 91.1.1 of the Act of 10 April 1997 – Energy Law, as amended, AP Kostrzyn obtained property rights to Certificates of Origin confirming the generation of electricity in a highly efficient gas fuelled cogeneration unit.

For the cogeneration of electricity, in 2017 the Company acquired the following rights: yellow certificates 165 210 651 MWh (2016: 192 360 272 MWh), red certificates 58 586 736 MWh (2016: 41 802 763 MWh). In 2017 revenues obtained from the certificates was PLN 19,825 thousand (2016: PLN 23,618 thousand).

Property rights to certificates of origin confirming the cogeneration of electricity are also held by AP Grycksbo and companies in the Rottneros Group.

For the cogeneration of electricity, in 2017 the AP Grycksbo acquired the following rights: green certificates

14 540 MWh (2016: 15 297 MWh). In 2017 revenues obtained from the sale of the certificates was PLN 373 thousand (2016: PLN 628 thousand).

For the cogeneration of electricity, in 2017 the companies in the Rottneros Group acquired the following rights: green certificates 136 000 MWh (2016: 124 870 MWh). In 2017 revenues obtained from the sale of the certificates was PLN 645 thousand (2016: PLN 1,153 thousand). Revenues related to the certificates in cogeneration are recognised as a reduction of internal costs of sales in the profit and loss account.

45. Grants and operation in SEZ (Special Economic Zone)

45.1. Government grants

Since 2016 has been leading the PULPACKTION project funded in 74% by the European Union. The project for the total amount of SEK 120 million is aimed at further development of ecological packaging. Twelve entities from the European Union are beneficiaries of the project. All funds will be disbursed to Rottneros to be further re-distributed to the other beneficiaries. The share of Rottneros in the EU subsidies will be SEK 25 million. The project was commenced in October 2016 and will last 4 years.

The value of grants as at 31 December 2017 amounted PLN 220 thousand.

45.2. Operations in the Special Economic Zone

Arctic Paper Kostrzyn S.A. operates in the Kostrzyńsko-Słubicka Specjalna Strefa Ekonomiczna (Special Economic Zone – KSSSE). Based on the permission issued by the Kostrzyńsko-Słubicka Specjalna Strefa Ekonomiczna S.A. it benefits from an investment tax relief as regards the activities carried out under the permission.

The tax exemption is of conditional nature. The provisions of the Act on special economic zones provide that such tax relief may be revoked if at least one of the following occurs:

- The Company ceases to conduct business operations in the zone for which it obtained the permission,
- The Company materially violates the conditions of the permission,
- The Company does not remedy errors/ irregularities identified during the course of inspections within the period of time specified in the order issued by minister competent for economic affairs,
- The Company transfers, in any form, the title to the assets to which the investment tax relief related within less than 5 years of introducing those assets to the fixed assets register,
- Machines and equipment will be handed over for business purposes outside the zone,
- The Company receives compensation, in any form, of the investment expenditure incurred,
- The Company goes into liquidation or if it is declared bankrupt.

Based on the permit issued on 25 August 2006, the Company may benefit from the exemption to 15 November 2017. Item I of the permit relating to the date by which the Company may enjoy the permit was deleted by Decision of the Minister of Economy No. 321/IW/14 of 6 November 2014. Now the Company is entitled to use the permit by 2026 or by the date SSE exist in Poland pursuant to the applicable regulations. The permit may be used subject to the incurrence in the zone of capital expenditures within the meaning of Art. 6 of the Regulation of the Council of Ministers of 14 September 2004 on the Kostrzyńsko-Słubicka Specjalna Strefa Ekonomiczna (Special Economic Zone), underlying the calculation of public aid in compliance with Art. 3 of the Regulation with the value in excess of EUR 40,000 thousand by 31 December 2013, translated at the EUR mean rate published by the President of the National Bank of Poland on the actual expenditure date. Creation in Zone minimum five new jobs within the meaning of Art. 3.3 and Art. 3.6 of the Regulation by 31 December 2011 and maintaining the employment level of minimum 453 people during the period from 1 January 2012 to 31 December 2013. These conditions were datisfied.

The conditions of the exemption have not changed in the reporting period. The Group has not been inspected by any competent body.

During the period from 25 August 2006 to 31 December 2017, the Company incurred eligible investment expenditures classified as (non-discounted) expenditure in KSSSE in the amount of PLN 227,102 thousand. During the period, the discounted amount of related public aid was PLN 61,365 thousand.

If the eligible investment expenditures incurred are not covered with income of the current year, the Company recognises a deferred income tax asset on the surplus.

The amount of deferred income tax asset recognised with reference to the expenditures incurred in KSSSE amounted to PLN 8,622 thousand as at 31 December 2017 (31 December 2016: PLN 15,280 thousand).

46. Material events after the balance sheet date

46.1. Repayment of debt under lease contracts at Arctic Paper Grycksbo AB

On 7 January 2018, Arctic Paper SA granted a loan to its subsidiary Arctic Paper Grycksbo AB of EUR 5.56 M to cover repayment under lease contracts with Svenska Handelsbanken AB. In the same time th Company applied to the current consortium of the financing banks (Bank Zachodni WBK S.A. oraz Bank BGŻ BNP Paribas S.A.) to grant consent to contract financial indebtedness in the form of a term facility of up to PLN 25,820 thousand as an additional tranche under the facilities agreement of 9 September 2016, in order to finance or refinance repayment of Arctic Paper Grycksbo AB's indebtedness under a lease granted by Svenska Handelsbanken AB. Such consent was alredy grated as at 20 February 2018 by the Bondholders' Meeting. Currently the Company is completing the documentation regarding the abovementioned additional tranche.

46.2. Announcement of the strategic plan for the paper business

The Management Board of Arctic Paper has adopted a long term financial target of EBIT 10 percent. The Management Board has also adopted a new strategy for its paper business – A Future in Paper - Strategic Agenda 2022 – showing the way to a growing and more profitable business. The new general business strategy consists of six strategic initiatives:

- Growth by focusing on selected profitable segments and markets, among them speciality & premium products, Eastern Europe and new markets.
- New innovative products and grades developed in close collaboration with customers.
- Building stronger brands for premium and other segments, leading to higher revenue per ton paper.
- Optimization of all processes with the aim to reduce costs.
- Nurturing a performance culture among all employees built on clear targets and continuous measurement.
- A sustainable business built on recyclable products and renewable materials.

Implementation of the strategy has already begun, which means that different entities and functions are working with action plans based on these strategic initiatives.

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

Signatures of the Members of the Management Board

Position	First and last name	Date	Signature
President of the Management Board Chief Executive Officer	Per Skoglund	9 April 2018	
Member of the Management Board Chief Financial Officer	Göran Eklund	9 April 2018	