

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

**To the General Meeting and Supervisory Board of Arctic Paper S.A.**

### **The audit report on the annual financial statements**

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

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

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

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

### *Auditor's responsibility*

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

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

- Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight ('Act on Statutory Auditors'),

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<sup>1</sup> Translation of the following expression in Polish is 'rzetelny i jasny obraz'.

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

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

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

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

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

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

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

### *Independence*

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

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

### *Appointment of the audit firm*

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

### *Most significant assessed risks*

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

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

<i>Description of the nature of the risk of material misstatement (key audit matters)</i>	<i>Audit procedures in response to the identified risk</i>
<p><b>Impairment of investments and loans in subsidiaries</b></p> <p>The carrying value of investments in subsidiaries (including loans) presented in standalone financial statements of the Company amounted to PLN 821 million at 31 December 2017, of which the investment in Arctic Paper Grycksbo and the loan granted to the entity amounted to 87 million.</p> <p>The subsidiaries are exposed to the volatility in paper and pulp prices. These factors</p>	<p>Our procedures in this area included i.e.:</p> <ul style="list-style-type: none"><li>- Documenting of understanding of the process relating to identification of impairment indicators and testing for impairment of investment in subsidiaries (including loans) and of the rules relating to recording allowances for impairment of those assets, analysis of internal controls environment in this respect,</li><li>- Analysis of the Company Management judgements in relation to identification of indicators of impairment of investments in subsidiaries (including loans) and assessment</li></ul>

<p>increase the risk of impairment of investments in subsidiaries and loan granted to these entities.</p> <p>Recoverable value of the investments in subsidiaries and loans granted is dependent on macro-economic assumptions about future paper and pulp prices, discount and exchange rates as well as internal assumptions related to future production levels and operating costs.</p> <p>As of 31 December 2017, the Company performed impairment tests in respect of investments in subsidiaries for which there were impairment indicators and assessed the impairment of loans granted to these entities. The above test related to Arctic Paper Grycksbo as financial results of the entity in current year were below the budgeted year 2017.</p> <p>The data taken for the assessment of the recoverable value of investments in subsidiaries and loans bases on a number of assumptions in relation to future cash flows and discount rate. The projections involve significant risk of change due to changing market circumstances.</p> <p>The outcome of performed impairment tests may be significantly different depending on the assumptions taken.</p> <p>In connection with the performed impairment test relating to shares in subsidiaries and loans granted to Arctic Paper Grycksbo there were impairment allowances amounting to PLN 75 million recognized in financial statements as of 31 December 2017.</p> <p>Moreover in the financial statement for the year ended 31 December 2017 the Management Board has verified the accounting and reporting treatment of impairment allowances. After the analysis performed there was an opening balance adjustment booked in relation to calculation of impairment allowances. Moreover the comparative data in the financial statement was appropriately restated.</p>	<p>of significant assumptions taken in the impairment tests,</p> <ul style="list-style-type: none"> <li>- Assessment of assumptions and estimations made by the Company which are used in determination of recoverable value of investments in subsidiaries (including loans), using in the area the support of the valuation internal specialists by: <ul style="list-style-type: none"> <li>- Assessment of the macroeconomic assumptions for the following years taken by the Management of the Company mainly in relation to discount rate by comparison of the values to the publicity available projections,</li> <li>- Assessment of significant input data and assumptions taken in the impairment testing of investments in subsidiaries (including loans), in particular relating to sales and production levels, operating costs by comparison the values to historical data and actual results,</li> <li>- Analysis of realization of historical budgets in relation to current results,</li> <li>- Assessment of discounted cash flows model used by the Company in relation to its compliance with existing reporting standards,</li> </ul> </li> <li>- Sensitivity analysis of the model in relation to key assumptions of the prices and macroeconomic assumptions,</li> <li>- Assessment of objective evidence confirming that the loss on impairment of loans was not incurred and the assessment of significant estimation made by the Management in determination of future cash flows (excluding future credit losses which were not incurred) and assessment of arithmetical appropriateness of discounting using preliminary depreciation rate,</li> </ul> <p>Moreover we have assessed appropriateness and completeness of the disclosures in the financial statement in relation to impairment of investments in subsidiaries (including loans).</p>
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<p>The matters relating to impairment of non-current assets are disclosed in the following notes to the financial statements: Note 6 Material values based on professional judgements and estimates,, Note 8.1. Prior year error adjustment, Note 10 Significant accounting policies, Note 18 Other financial assets.</p>	
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### *Opinion*

In our opinion, accompanying financial statements:

- give a true and fair view of the financial position of the Company as at 31 December 2017 and its financial performance for the year from 1 January 2017 to 31 December 2017 in accordance with International Accounting Standards, International Financial Reporting Standards and related interpretations announced in the form of regulations of the European Commission and other applicable laws and the adopted accounting policies,
- have been prepared based on properly maintained accounting records, in accordance with chapter 2 of Accounting Act,
- are in respect of the form and content in accordance with legal regulations governing the Company and the Company's Statute.

### **Report on other legal and regulatory requirements**

#### *Opinion on the Directors' Report*

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

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

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

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

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

*Opinion on the corporate governance application representation*

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

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

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

*Information on preparation of the statement on non-financial information*

In accordance with the Act on Statutory Auditors, we inform, that the Company has prepared a statement on non-financial information mentioned in article 49b, section 1 of the Accounting Act as a separate element of the Director's Report.

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

Wroclaw, 9<sup>th</sup> of April 2018

Key Certified Auditor

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Marek Musiał  
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on behalf of  
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