Arctic Paper Capital Group

Consolidated Annual Report 2018

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,

2018 was a challenging year for the paper industry. The price of pulp, the main raw material, continued to rise sharply. At the end of 2018 the price was about a third higher than at the end of 2017, but the rate of increase slowed during the fourth quarter of 2018, signalling stabilization of pulp prices. Increases in paper prices have not fully compensated for the increased costs, exerting strong pressure on our margins. The paper price increases also contributed to a sharp fall in demand for paper in the fourth quarter, with the coated paper market being hit the hardest. In early 2019, however, demand has normalized.

For Arctic Paper, it is an extremely challenging market environment to operate in, but we do see trends that are to our advantage. First, significant reductions have been announced in the European production capacity for graphical paper. Several mills have been closed and more cutbacks are expected. Many mills have machinery designed for a very narrow range of products and lack the flexibility to maintain profitability in a rapidly changing market.

This means that Arctic Paper's market position has strengthened in relative terms. The paper sales volume in 2018 decreased by just over 4 percent compared to 2017, but the share of specialty and premium paper increased both in terms of tonnes and in value. Our average revenue per tonne increased by just over 12 percent during 2018. We also clearly see that the market for uncoated paper, premium and specialty paper developed significantly better than for example the market for coated bulk papers.

The need for graphical paper will not cease, but the market is changing rapidly. We see opportunities to continue to grow our business, focusing on the European market, our core market. As an innovative company we will develop new products, not just graphical paper but also in new segments such as packaging and technical paper. Arctic Paper is a brand-oriented company. We will continue to develop strong brands, and also explore the possibilities of extending our portfolio in segments other than graphical paper.

In 2018 we continued to invest in energy projects. We decided to expand the hydro power plant at Arctic Paper Munkedal. In March 2019 Arctic Paper signed a 15-year contract with Adven AB, which will construct and operate a biomass boiler plant with a capacity of 30 MW at Arctic Paper Munkedal. It will ensure lower, more stable and predictable energy costs and reduce CO_2 emissions.

Our strategy shows the way to a growing and more profitable business, but there is still a lot to do to strengthen Arctic Paper's competitiveness. Our machine park is optimal for meeting the changes in the market with high efficiency. We are faster, smarter, more customer-oriented and above all more flexible than the largest paper producers. At the same time, we are large enough to develop new products together with our customers and to offer well-functioning logistics and excellent service.

To succeed in achieving our long-term financial goal, even greater focus is needed on efficiency and productivity. We must spend our money in a more efficient way to achieve better results. The road to sustainably higher profitability is not only about cost savings but about building a strong performance-oriented culture at Arctic Paper. We need to be better at recruiting, engaging, involving and motivating all employees in contributing to the company's development and making the necessary changes.

Last but not least, I want to emphasize the importance of our strategic holding in Rottneros, which contributes to stability and greater financial muscle. All in all, this means that I look to the future with confidence, and I look forward to leading Arctic Paper in a time of great challenges and major changes.

Sincerely yours,

Michał Jarczyński
CEO, Arctic Paper S.A.

Introduction

to the annual report for 2018
Arctic Paper Capital Group

Information on the report

This Consolidated Annual Report for 2018 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 cover standards and interpretations approved 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

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, AP SA 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 exclusion of retirement benefits)
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 in 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 Finance 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	Management Board of Arctic Paper S.A.

Board	
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 sales profit (loss) to sales income 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 income 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 income from continuing operations

Gross profit margin	Ratio of gross profit (loss) to sales income 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-non-current assets ratio	Ratio of equity to non-current 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
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 short-term liabilities
Acid test ratio	Ratio of total cash and similar assets to current 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 income 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 endorsed 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.

Selected consolidated financial data

Selected consolidated financial data

	Period from 01.01.2018 to 31.12.2018 PLN '000	Period from 01.01.2017 to 31.12.2017 PLN '000	Period from 01.01.2018 to 31.12.2018 EUR '000	Period from 01.01.2017 to 31.12.2017 EUR '000
Continuing operations				
Sales revenues	3 158 210	2 952 806	741 064	693 428
Operating profit (loss)	130 698	109 705	30 668	25 763
Gross profit (loss)	93 888	85 608	22 030	20 104
Net profit (loss) from continuing operations	60 498	70 751	14 196	16 615
Net profit (loss) for the financial year	55 889	65 113	13 114	15 291
Net profit (loss) for the financial year attributable to the shareholders of the Parent Entity	7 673	36 841	1 801	8 652
Net cash flows from operating activities	148 609	261 595	34 871	61 432
Net cash flows from investing activities	(173 970)	(180 715)	(40 822)	(42 439)
Net cash flows from financing activities	(14 221)	41 798	(3 337)	9 816
Change in cash and cash equivalents	(39 583)	122 678	(9 288)	28 809
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)	0,11	0,53	0,03	0,12
Diluted EPS (in PLN/EUR)	0,11	0,53	0,03	0,12
Mean PLN/EUR exchange rate*			4,2617	4,2583

	As at 31 December 2018 PLN '000	As at 31 December 2017 PLN '000	As at 31 December 2018 EUR '000	As at 31 December 2017 EUR '000
Assets	2 156 174	1 887 608	501 436	452 566
Long-term liabilities	441 381	528 712	102 647	126 762
Short-term liabilities	850 245	576 275	197 731	138 166
Equity	861 193	780 993	200 277	187 248
Share capital	69 288	69 288	16 113	16 612
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)	12,43	11,27	2,89	2,70
Diluted book value per share (in PLN/EUR)	12,43	11,27	2,89	2,70
Declared or paid dividend (in PLN/EUR)	13 857 557	-	3 222 688	-
Declared or paid dividend per share (in PLN/EUR)	0,20	-	0,05	-
PLN/EUR exchange rate at the end of the period**	-	-	4,3000	4,1709

* - 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 and book value per share have been translated at the mean arithmetic exchange rates published by the National Bank of Poland, prevailing on the balance sheet date.

Management Board Report

from operations of Arctic Paper Capital Group
to the annual report for 2018

Description of the business of the Arctic Paper S.A. Group

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 2018 the Arctic Paper Group employs about 1,730 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 located in Poland and Sweden have total production capacity of over 700,000 tons of paper per year. Our Pulp Mills are located in Sweden and have aggregated production capacities of over 400,000 tons of pulp annually. As at 31 December 2018 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 2018 amounted to PLN 3,158 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 foreign branch in Göteborg, Sweden.

Business objects

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 2018 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 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 (after the announced closure of one paper machine at the beginning of 2019 – 210,000 tons) and produces coated wood-free paper used for printing maps, books, magazines, posters and printing of advertising materials.

As on 31 December 2018 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 160,000 tons annually and produces mainly two types of mechanical pulp: groundwood and chemi-thermo mechanical pulp (CTMP);

— the pulp mill in Vallvik (Sweden) has the annual production capacity of about 240,000 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;
  › woodfree 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 wood-free 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:
  › chemi-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 2018, no material changes in the capital structure of the Arctic Paper Group occurred.

Modifications to the core management principles

In 2018 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 2018) 40,381,449 shares of our 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 2018 was 68.13% and has not changed until the date hereof.

as at 18.03.2019

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 31.12.2018

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 09.11.2018

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%
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Treasury shares	-	0,00%	-	0,00%
Total	**69 287 783**	**100,00%**	**69 287 783**	**100,00%**

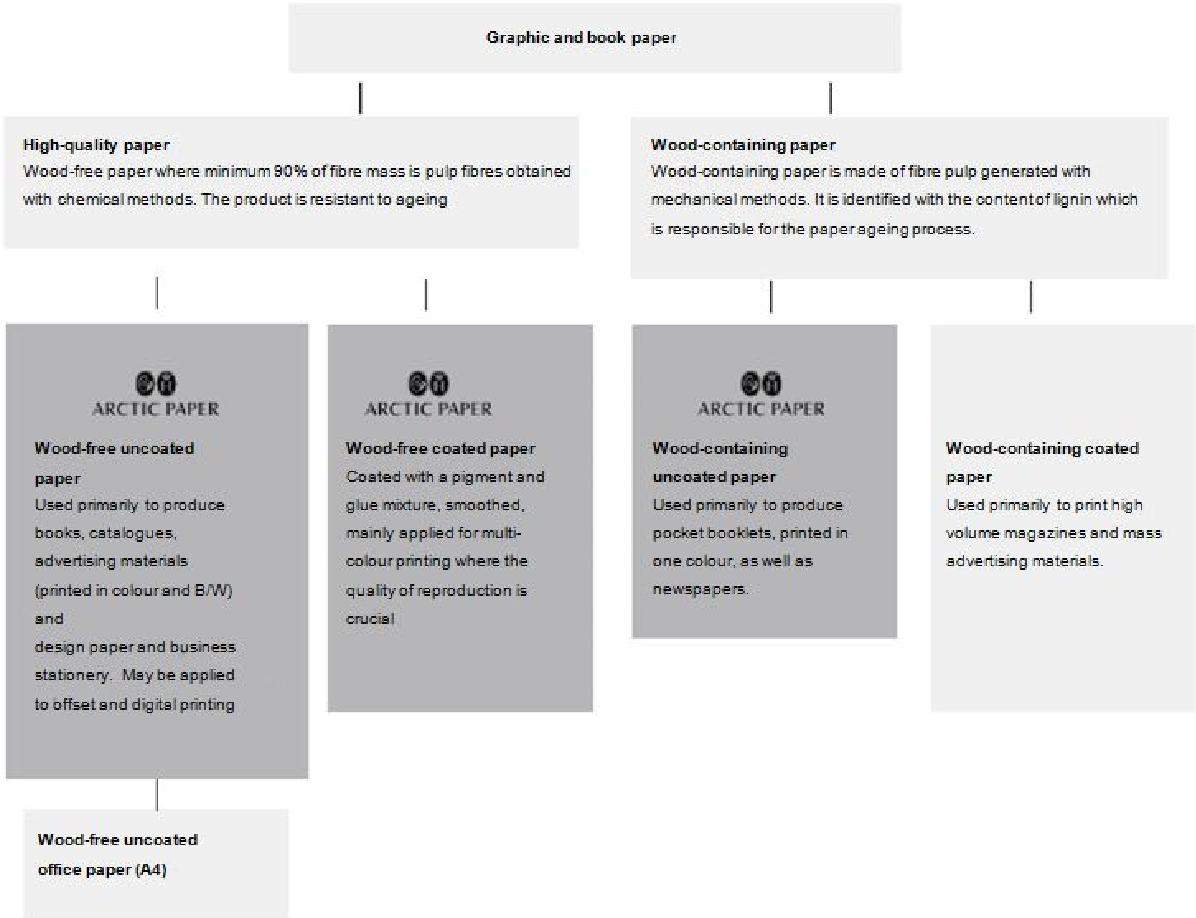
The data in the above tables is provided as of the date of approval hereof, as at 31 December 2018 and as of the publication date of the quarterly report for Q3 2018.

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.



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.

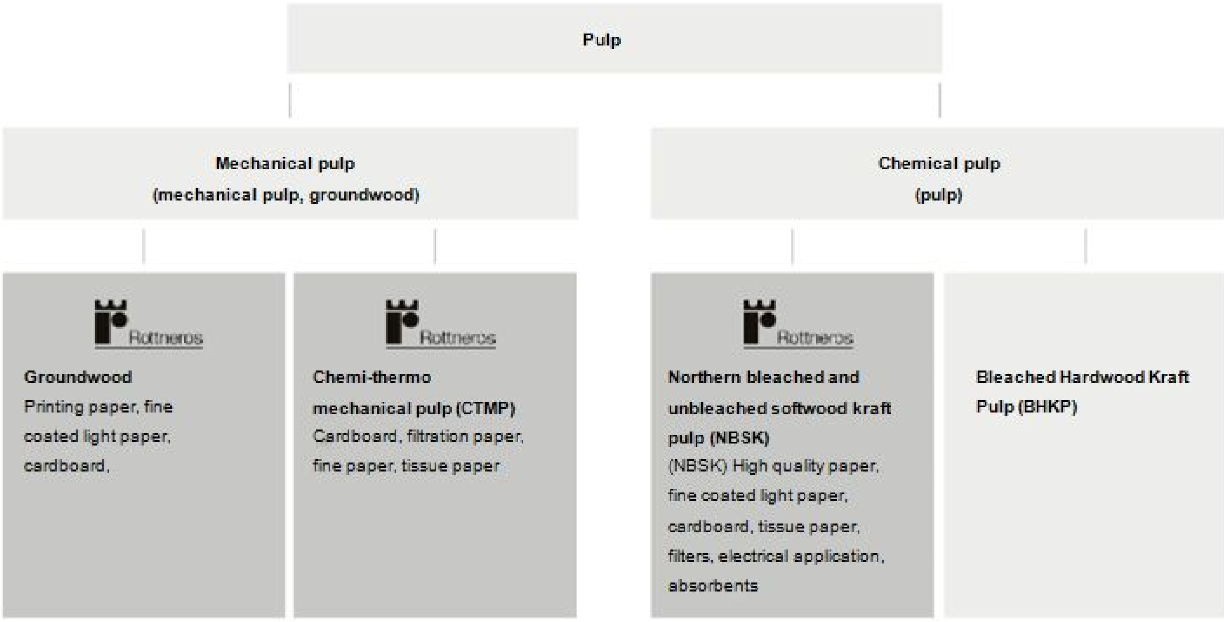
› uncoated wood-containing paper is manufactured of mechanical pulp, used to print magazines with rotogravure and offset techniques (newsprint) and to print single-colour publications. Products of the Group in that segment are usually used to print paperbacks.

› 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.
— chemi-thermo mechanical pulp (CTMP) and groundwood which are used mainly for production of printing and writing papers.

Development directions and strategy

In 2017 the Management Board approved its new strategy for the Group's paper business "The future lies in paper – Strategic Agenda 2022" which aims at developing the business and improving the profitability of the segment. The new business strategy relies on six strategic initiatives:

— Business development by focusing on selected profitable segments and markets, including specialist products and premium products, in Eastern Europe and in new markets,
— New innovative products and weights, developed in close cooperation with customers,
— Development of strong brands for the premium segment in order to increase revenues per one ton of paper,
— Optimisation of all processes in order to reduce costs,
— Reinforcement of the efficiency culture among employees, based on clear and measurable objectives,
— Sustainable activities based on products that may be recycled and on renewable materials.

Sales structure

In 2018 and in 2017, the sales structure by main product lines was as follows:

thousand tons	2018	share %	2017	share %
Paper	*635*	63%	*663*	65%
Amber	313	31%	*329*	32%
G-Print	122	12%	*131*	13%
Munken	104	10%	*101*	10%
Arctic	94	9%	*102*	10%
AP Tech	3	0%	0	0%
Pulp	*365*	37%	*365*	35%
NBSK	204	20%	205	20%
Groundwood	69	7%	72	7%
CTMP	92	9%	88	9%
Total paper and pulp	**1 000**	**100%**	**1 028**	**100%**

PLN '000	2018	share %	2017	*share %*
Paper	*2 263 284*	*72%*	*2 173 538*	*74%*
Amber	1 087 153	34%	1 030 309	35%
G-Print	382 273	12%	381 160	13%
Munken	469 808	15%	440 530	15%
Arctic	314 857	10%	321 451	11%
AP Tech	9 193	0%	88	0%
Pulp	*894 926*	*28%*	779 267	26%
NBSK	534 760	17%	502 215	17%
Groundwood	178 764	6%	119 564	4%
CTMP	181 402	6%	157 487	5%
Total paper and pulp	**3 158 210**	**100%**	**2 952 806**	**100%**

In 2018 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 2018, the proportion of the Group's sales outside of Poland in PLN thousand was 88% and was not changed versus 2017 (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 88% in 2018 (2017: 90%).

The geographical structure of sales revenues by the main markets in 2018 and 2017 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 instructor 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 2018 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 2018 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 2018.

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 plan 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 consolidated profit and loss statement items

PLN '000	2018	2017	Change % 2018/2017
Sales revenues	**3 158 210**	**2 952 806**	**7,0**
of which:			
Sales of paper	*2 263 284*	*2 173 538*	*4,1*
Sales of pulp	*894 926*	*779 267*	*14,8*
Profit on sales	549 950	535 875	2,6
% of sales revenues	*17,41*	*18,15*	*(0,7) p.p.*
Selling and distribution costs	(346 177)	(348 093)	(0,6)
Administrative expenses	(88 205)	(92 671)	(4,8)
Other operating income	47 418	43 654	8,6
Other operating expenses	(32 288)	(29 060)	11,1
EBIT	**130 698**	**109 705**	**19,1**
% of sales revenues	*4,14*	*3,72*	*0,4 p.p.*
EBITDA	**223 486**	**244 388**	**(8,6)**
% of sales revenues	*7,08*	*8,28*	*(1,2) p.p.*
Financial income	1 823	1 831	(0,4)
Financial expenses	(38 634)	(25 929)	49,0
Gross profit/(loss)	**93 888**	**85 608**	**9,7**
Income tax	(33 390)	(14 857)	124,7
Net profit (loss) from continuing operations	**60 498**	**70 751**	**(14,5)**
% of sales revenues	*1,92*	*2,40*	*(0,5) p.p.*
Discontinued operations			
Net profit / (loss) from discontinued operations	**(4 609)**	**(5 637)**	**(18,2)**
% of sales revenues	*(0,15)*	*(0,19)*	*0,0 p.p.*
Net profit/(loss)	**55 889**	**65 113**	**(14,2)**
% of sales revenues	*1,77*	*2,21*	*(0,4) p.p.*
Net profit/(loss) attributable to the shareholders of the Parent Entity	7 673	36 841	(79,2)
Net profit / (loss) per share (PLN) attributable to the shareholders of the Parent Entity	0,11	0,53	(79,2)

Revenues

In 2018, the consolidated sales revenues amounted to PLN 3,158,210 thousand as compared to PLN 2,952,806 thousand in the previous year and increased by 7.0% (PLN 205,404 thousand). Sales revenues from paper increased by 4.1% (PLN 89,746 thousand) while sales revenues from pulp increased by 14.8% (PLN 115,659 thousand) versus 2017.

Paper sales volume in 2018 amounted to 635 thousand tons and was by 28 thousand tons lower than in the previous year. This means a decrease in sales volume by 4.2%.

Pulp sales volume in 2018 amounted to 365 thousand tons (2017: 365 thousand tons).

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

Profit on sales in 2018 was by 2.6% higher than in the previous year. Sales profit margin in the current year stood at 17.41% compared to 18.15% (-0.7 p.p.) in the previous year.
The growth of profit on sales in 2018 versus 2017 resulted primarily from increased profit on sales of pulp due to relatively high pulp prices in global markets.

In 2018 selling and distribution costs amounted to PLN 346,177 thousand and dropped insignificantly versus 2017 by 0.6%. The selling and distribution costs comprise particularly transportation costs.

In 2018, the administrative expenses amounted to PLN 88,205 thousand as compared to PLN 92,671 thousand in 2017 which was a drop by 4.8%. The main reason of the decrease was lower costs related to consulting services rendered to the Group by third parties.

Other operating income and expenses

Other operating income amounted to PLN 47,418 thousand in 2018 which was an increase versus the previous year by PLN 3,764 thousand.

In 2018 other operating expenses amounted to PLN 32,288 thousand which was an increase versus the previous year by PLN 3,228 thousand.

A major part of the other operational revenue and expenses includes revenues and internal costs of sales of sold energy and other materials. The growth of revenues and costs of sales of other materials and profit on sales of the right to emit CO2 resulted mainly in an increase of other operating income and expenses in 2018.

Financial income and financial expenses

In 2018, the financial income amounted to PLN 1,823 thousand and was by PLN 8 thousand lower than generated in 2017.

The financial expenses in 2018 amounted to PLN 38,634 thousand as compared to PLN 25,929 thousand in 2017. The higher financial expenses in 2018 were primarily due to net FX losses of PLN 8,401 thousand (in 2017 net FX gains of PLN 231 thousand) and a higher negative measurement to the adjusted purchase price.

Income tax

In 2018, income tax amounted to PLN -33,390 thousand while in 2017 it was PLN -14,857 thousand. The relatively high effective tax rate on gross profit in 2018 of 37% (2017: 19%) was due to non-recognition of a deferred income tax asset on tax losses (note 13.2).

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 with the exception of the provision for retirement benefits. 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.

Profitability analysis

EBITDA in 2018 was PLN 223,486 thousand while in 2017 it was PLN 244,388 thousand. The reduced EBITDA in 2018 was primarily due to higher costs of raw materials for paper production, in particular pulp, denominated in PLN. In the reporting period, the EBITDA margin was 7.08% versus 8.28% in 2017.

In 2018, the profit on operations amounted to PLN 130,698 thousand while in 2017 it was PLN 109,705 thousand. The operational profit margin in 2018 was +4.14% versus +3.72% in 2017. The lower value of profit on operations in 2017 was due to an impairment allowance of PLN 23,761 thousand.

The net profit in 2018 amounted to PLN 55,889 thousand while in 2017 it was PLN 65,113 thousand. Net profit margin in 2018 amounted to +1.77% as compared to +2.21% in 2017.

PLN '000	2018	2017	Change % 2018/2017
Profit on sales	549 950	535 875	2,6
% of sales revenues	*17,41*	*18,15*	*(0,7) p.p.*
EBITDA	223 486	244 388	(8,6)
% of sales revenues	*7,08*	*8,28*	*(1,2) p.p.*
EBIT	130 698	109 705	19,1
% of sales revenues	*4,14*	*3,72*	*0,4 p.p.*
Net profit (loss) from continuing operations	60 498	70 751	(14,5)
% of sales revenues	*1,92*	*2,40*	*(0,5) p.p.*
Net profit / (loss) from discontinued operations	(4 609)	(5 637)	na
% of sales revenues	*(0,15)*	*(0,19)*	*na*
Net profit/(loss)	55 889	65 113	na
% of sales revenues	*1,77*	*2,21*	*(0,4) p.p.*
Return on equity / ROE (%)	6,5	8,3	(22,2)
Return on assets / ROA (%)	2,6	3,4	(24,9)

In 2018, return on equity was +6.5% while in 2017 it was +8.3%.
In 2018, return on assets was +2.6% while in 2017 it was +3.4%.
The drop of return on equity and return on assets in 2018 was mainly due to reduced net profit generated in 2018 versus 2017.

Selected items from the consolidated statement of financial position

PLN '000	31.12.2018	31.12.2017	Change 31/12/2018 -31/12/2017
Fixed assets	1 037 969	933 646	104 324
Inventories	478 614	350 996	127 619
Receivables	371 963	336 758	35 204
including trade receivables	*365 946*	*330 071*	*35 875*
Other current assets	64 794	20 734	44 060
Cash and cash equivalents	201 118	241 403	(40 286)
Assets related to discontinued operations	1 716	4 071	(2 355)
Total assets	**2 156 174**	**1 887 608**	**268 566**
Equity	861 193	780 993	80 200
Short-term liabilities	850 245	576 275	273 969
of which:			
trade and other payables	*516 678*	*423 868*	*92 810*
interest-bearing debt	*232 184*	*72 593*	*159 591*
other non-financial liabilities	*101 383*	*79 814*	*21 569*
Long-term liabilities	441 381	528 712	(87 331)
of which:			
interest-bearing debt	*249 659*	*376 521*	*(126 862)*
other non-financial liabilities	*191 722*	*152 191*	*39 531*
Liabilities directly related to the discontinued operations	3 355	1 626	1 729
Total liabilities	**2 156 174**	**1 887 608**	**268 566**

As at 31 December 2018 total assets amounted to PLN 2,156,174 thousand as compared to PLN 1,887,608 thousand at the end of 2017.

Fixed assets

As at the end of December 2018 fixed assets amounted to PLN 1,037,969 thousand and accounted for 48.1% of total assets as compared to PLN 933,646 thousand as at the end of 2017 (49.5% of total assets).

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

Current assets

As at the end of December 2018, current assets amounted to PLN 1,116,489 thousand as compared to PLN 949,891 thousand at the end of December 2017. As part of the current assets, inventories increased by PLN 127,619 thousand and receivables grew by PLN 35,204 thousand, other current assets increased by PLN 44,060 thousand while cash and cash equivalents dropped by PLN 40,286 thousand. Current assets represented 51.8% of total assets as at the end of December 2018 (50.3% as at the end of 2017) and included inventories – 22.2% (18.6% as at the end of 2017), receivables – 17.3% (17.8% as at the end of 2017), other current assets – 3.0% (1.1% as at the end of 2017) and cash and cash equivalents – 9.3% (12.8% as at the end of 2017). 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 1,716 thousand as at 31 December 2018 (PLN 4,071 thousand as at 31 December 2017) included primarily trade receivables and other receivables of PLN 619 thousand (31 December 2017: PLN 1,293 thousand). and cash of PLN 972 thousand (31 December 2017: PLN 2,448 thousand).

Equity

As at the end of 2018, the equity amounted to PLN 861,193 thousand as compared to PLN 780,993 thousand at the end of 2017. As at the end of December 2018 equity accounted for 39.9% of total equity and liabilities (41.4% as at 31 December 2017).

The increase of equity resulted from the net profit for 2018 and a positive measurement of financial instruments treated as hedges to future cash flows, partly compensated with dividend distributed by AP S.A. to its shareholders and by Rottneros to its non-controlling shareholders, increase of FX losses on measurement of subsidiary entities and actuarial losses.

Short-term liabilities

As at the end of December 2018, short-term liabilities amounted to PLN 850,245 thousand (39.4% of balance sheet total) as compared to PLN 576,275 thousand (30.5% of balance sheet total) as at the end of 2017.

In 2018, an increase of short-term liabilities occurred by PLN 273,969 thousand, mainly due to increased trade payables as well as loans, bonds and borrowings repayable in 2019 and re-classification of certain loans as short-term as a result of failure to comply with the ratios specified in loan agreements.

Long-term liabilities

As at the end of December 2018, long-term liabilities amounted to PLN 441,381 thousand (20.5% of balance sheet total) as compared to PLN 528,712 thousand (28.0% of balance sheet total) as at the end of 2017. In the analysed year, a decrease of long-term liabilities occurred by PLN 87,331 thousand.

The drop of long-term liabilities was due to changed classification of loans as detailed above, partly compensated with an increased deferred income tax provision.

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 the provision for retirement benefits. The amount of PLN 3,355 thousand as at 31 December 2018 (31 December 2017: PLN 1,626 thousand) was composed of provisions of PLN 864 thousand (31 December 2017: PLN 838 thousand) and trade and other payables of PLN 2,284 thousand (31 December 2017: PLN 517 thousand).

Debt analysis

	2018	2017	Change % 2018/2017
Debt to equity ratio (%)	150,4	141,7	8,7 p.p.
Equity to fixed assets ratio (%)	83,0	83,6	(0,7) p.p.
Interest-bearing debt-to-equity ratio (%)	56,0	57,5	(1,6) p.p.
Net debt to EBITDA ratio for the last 12 months (x)	1,26x	0,85x	0,41
EBITDA to interest expense ratio (x)	9,4x	10,6x	(1,2)

As at the end of December 2018 the debt to equity ratio was 150.4% and was higher by 8.7 p.p. versus the end of December 2017. The increase of the ratio was due primarily to increased debt, mainly under loans, borrowings and bonds and trade and other payables.

The equity to fixed assets ratio was 83.0% as at the end of 2018 and was lower by 0.7 p.p. than at the end of December of 2017 as a result of a faster growth of fixed assets than of equity.

The interest-bearing debt to equity ratio was 56.0% at the end of 2018 and was by 1.6 p.p. lower versus the ratio calculated at the end of December 2017, mainly due to a lower growth of interest-bearing debt than the growth of equity.

The net debt to EBITDA ratio for the 12 last months of 2018 was 1.26x and it was higher by 0.41 versus the level of the ratio for 2017 as a result of decrease of EBITDA.

The EBITDA to net interest expense ratio for the 12 last months of 2018 was 9.4x and it was lower by 1.2 versus the level of the ratio for 2017 as a result of decrease of EBITDA.

Liquidity analysis

	2018	2017	Change % 2018/2017
Current ratio	**1,3x**	**1,6x**	**(0,3)**
Quick ratio	**0,7x**	**1,0x**	**(0,3)**
Acid test	**0,2x**	**0,4x**	**(0,2)**
DSI (days)	66,1	52,3	13,8
DSO (days)	41,7	40,2	1,5
DPO (days)	71,3	63,1	8,2
Operational cycle (days)	107,8	92,5	15,3
Cash conversion cycle (days)	**36,5**	**29,4**	**7,1**

The current liquidity ratio at the end of December 2018 was 1.3x and was lower than at the end of December 2017 (by 0.3).

The quick ratio decreased from 1.0x as at the end of December 2017 to 0.7x as at the end of December 2018.

The cash ratio decreased from 0.4x as at the end of December 2017 to 0.2x as at the end of December 2018.

The relatively high liquidity ratios at the end of 2017 resulted from high cash balances due to the SEK bond issue in the second half of 2017.

The cash conversion cycle for 2018 (36.5 days) was prolonged versus 2017 (29.4 days) by 7.1 days.

Selected items of the consolidated cash flow statement

PLN '000	2018	2017	Change % 2018/2017
Cash flows from operating activities	148 609	261 595	(43,2)
of which:			
Gross profit/(loss)	*89 154*	*79 963*	*11,5*
Depreciation/amortisation and impairment charge	*92 788*	*134 683*	*(31,1)*
Changes to working capital	*(52 774)*	*17 834*	*(395,9)*
Other adjustments	*19 441*	*29 115*	*(33,2)*
Cash flows from investing activities	(173 970)	(180 715)	(3,7)
Cash flows from financing activities	(14 221)	41 798	(134,0)
Total cash flows	**(39 583)**	**122 678**	**(132,3)**

Cash flows from operating activities

In 2018, net cash flows from operating activities amounted to PLN 148,609 thousand as compared to PLN 261,595 thousand in 2017. The lower cash flows from operating activities in 2018 resulted from increased working capital, in particular inventories.

Cash flows from investing activities

In 2018, cash flows from investing activities amounted to PLN -173,970 thousand as compared to PLN -180,715 thousand in 2017 and covered mostly expenses related to purchases of tangible fixed assets.

Cash flows from financing activities

In 2018, cash flows from financing activities amounted to PLN -14,221 thousand as compared to PLN +41,798 thousand in 2017. The negative cash flows from financing activities in 2018 were due primarily to dividend distribution to the shareholders of AP S.A.

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,
- currency 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 our Paper Mills is made from our 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 impact on results reported in our 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 our financial results (PLN).

Unusual events and factors

In 2018 there were no unusual events or factors.

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

In 2018 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

Repayment of lease liabilities of Arctic Paper Grycksbo AB and receipt of a re-financing tranche from banks

On 7 January 2018, Arctic Paper S.A. granted a loan to its subsidiary Arctic Paper Grycksbo AB of EUR 5.56 million to cover repayment under lease contracts with Svenska Handelsbanken AB. The Company requested the existing consortium of financing banks (Santander Bank S.A. and Bank BGŻ BNP Paribas S.A.) for approval for the Company to contract an additional short-term loan up to PLN 25,820 thousand to be granted as an additional tranche under the loan agreement of 9 September 2016 in order to finance or re-finance repayment of lease debt by Arctic Paper Grycksbo AB to Svenska Handelsbanken AB. The Meeting of Bondholders agreed to contract such financing on 20 February 2018. The new loan tranche of PLN 25,820 thousand was disbursed by the banks on 18 July 2018.

New investment by the Group

On 12 March 2018 the Company's Management Board decided to commence a project to expand the hydro power plant in the paper mill in Munkedal (Sweden). The objective of the project is to support the factory's environmental sustainability. The investment will double the quantity of energy generated by the environment-friendly hydro power plant at Arctic Paper Munkedals which will enhance the energy self-sufficiency of the paper mill.

The investment is estimated at SEK 70 million (about PLN 29 million). The Arctic Paper Group plans to finance the project with its own funds. When the project is completed, it will be refinanced with a bank loan. The Company has already signed a letter of intent with Swedbank concerning refinancing of the project.

The Arctic Paper Group has obtained the permits required for the investment. The project is to be completed in Q4 2019.

Sustainable energy investment in Arctic Paper Munkedals

In March 2019 Arctic Paper signed a 15-year contract with Adven AB, which will construct and operate a biomass boiler plant with a capacity of 30 MW at Arctic Paper Munkedal. It will ensure lower, more stable and predictable energy costs and reduce CO_2 emissions.

Received release from complying with the financial ratios as at 31 December 2018

As described in note 7 of the consolidated financial statement, in view of failure to comply with a financial ratio, after the balance sheet date Arctic Paper S.A. received a written assurance from Santander Bank S.A. acting as the consortium agent of the financing banks that failure by the Group to comply with the required Cashflow Cover ratio as at 31 December 2018 will not constitute an event of default under the loan agreement of 9 September 2016. However, in compliance with IAS 1 in view of no such assurance as at 31 December 2018 the Group disclosed all its debt to the bank consortium as at that day of PLN 65,996 thousand as short-term liabilities: interest-bearing loans, borrowings and bonds.

Factors influencing the development of the Arctic Paper Group

Information on market trends

Supplies of fine paper

In Q4 2018 the Arctic Paper Group recorded a decreased level of orders versus Q3 2018 by 10.5% and a decrease of orders versus the equivalent period of 2017 by 11.5%.

Source of data: Analysis by Arctic Paper

Paper prices

As at the end of Q4 2018 the average prices of high-quality UWF papers grew by 10.3% while the prices of CWF papers grew by 8.8% versus the prices at the end of 2017.

In the period from October to December 2018, 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 an increase by: 2.3% for UWF papers and 1.4% for CWF papers respectively.

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 2018 were higher by 9.7% versus the end of 2017 while in the segment of coated wood- free paper (CWF) the prices grew by 9.8%. 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 2018, the pulp prices were as follows: NBSK 1200 USD/ton and BHKP 1024 USD/ton. The average price of NBSK in Q4 2018 was higher by 28.2% compared to the equivalent period of the previous year while the price of BHKP was by 10.9% higher. The average pulp price in Q4 2018 was lower by 0.4% for NBSK and lower by 0.6% for BHKP as compared to Q3 2018.

The average cost of pulp per ton of produced paper as calculated for the AP Group, expressed in PLN, in Q4 2018 increased by 3.4% versus Q3 2018 and increased by 27.2% versus Q4 2017. The share of pulp costs in cost of paper sales in Q4 of the current year amounted to 62% and grew compared to the level recorded in Q4 2017 (56%).

In the four quarters of 2018, the AP Group used pulp in the production process in the following structure: BHKP 69%, NBSK 20% and other 11%.

Source of data: www.foex.fi analysis by Arctic Paper.

Currency exchange rates

The EUR/PLN exchange rate at the end of Q4 2018 amounted to 4.300 and was higher by 0.7% than at the end of Q3 2018 and higher by 3.1% than at the end of Q4 2017. The average exchange rate in Q4 2018 was lower by 0.1% than in Q3 2018 and amounted to 4.2997 versus 4.3057. The average exchange rate in Q4 2018 was by 1.6% higher than in Q4 2017.

The EUR/SEK exchange rate at the end of December 2018 was 10.2357 versus 10.2950 at the end of Q3 2018, and 9.8301 at the end of Q4 2017 which was a depreciation of EUR to SEK by 0.6% and appreciation of EUR to SEK by 4.1% respectively.

For this pair, the mean exchange rate in Q4 was by 0.8% lower compared to Q3 2018. The mean exchange rate in Q4 2018 was by 5.4% higher than in the corresponding period of 2017.

The changes mean an appreciation of SEK vis-a-vis EUR in Q4 2018 which had an unfavourable impact on the Group's financial results, primarily with reference to the sales revenues generated by the Swedish factories that rely on prices in EUR.

At the end of Q4 2018, the USD/PLN rate recorded an increase by 2.3% versus the end of Q3 2018 and amounted to 3.7597. In Q4 2018, the mean exchange rate amounted to 3.7671 compared to 3.7018 in Q3 2018. That was a PLN depreciation to USD by 1.8%.

At the end of Q4 2018, the USD/SEK rate amounted to 8.9495 and was by 1.0% higher than at the end of Q3 2018. The mean exchange rate in Q4 2018 amounted to 9.0437 which was an increase by 1.1% compared to Q3 2018.

The changes of the USD/SEK exchange rates adversely affected the costs incurred in USD by the Swedish Pulp Mills, in particular the costs of pulp. For the Paper Mill in Kostrzyn, the changes of monthly average USD/PLN exchange rate had a similar impact on USD-denominated expenses, in particular the cost of pulp.

At the end of December 2018, the EUR/USD rate amounted to 1.1437 compared to 1.1622 at the end of Q3 2017 and to 1.1981 at the end of December 2017. In terms of percentage, that means a depreciation of EUR to USD by 1.6% versus Q3 2018 and a depreciation of the currency by 4.5% versus the equivalent period of the previous year. In Q4 2018, the mean exchange rate of the pair amounted to 1.1414 compared to 1.1632 in Q3 2018 (-1.9%).

The depreciation of EUR versus SEK has adversely affected the Group's financial profit, mainly due to decreased sales revenues generated in EUR and translated into SEK. The depreciating PLN versus USD in Q4 2018 adversely 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 quarter, include:

— Demand for fine papers 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 influence 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 2018 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.

The objectives and methods of financial risk management in the Group along with the methods applied to hedge material transactions are detailed in note 39 to the consolidated financial statements.

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 in 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, Santander Bank 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. (PGNiG). 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.

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, the agreements related to the bond issue pursuant to which on 30 September 2016 the Company issued bonds and the intercreditor agreement (described in more detail in note 32.2 "Obtaining of new 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).

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 2018 and has not published and does not intend to publish projections of financial results for 2019.

Dividend information

The Company's General Meeting held on 13 June 2018 approved a resolution on distribution of dividend to the Company's shareholders from its retained net profit in the Company's reserves of PLN 13,857,556.60. Dividend per share was PLN 0.20. The Company's General Meeting determined 20 June 2018 as the ex-dividend date and 27 June 2018 as the dividend distribution date. The dividend was paid according to schedule.

Changes to the bodies of Arctic Paper S.A.

As at 31 December 2018, 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:
- Michał Jarczyński – President of the Management Board,
- Göran Eklund – Member of the Management Board.

At its meeting on 10 December 2018, the Supervisory Board dismissed Mr Per Skoglund from the function of the President of the Company's Management Board and CEO, effective on 31 January 2019 and appointed Mr Michał Jarczyński for the function, effective on 1 February 2019.

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

In 2018 there were no changes to the Company's share capital.

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 2018 to 31 December 2018 (data in PLN).

Managing and supervising persons	Remuneration (base salary and overheads) for the functions performed at Arctic Paper S.A.	Retirement plan	Costs related to termination of the employment contract	Other	Total
Management Board					
Per Skoglund	1 241 148	362 188	2 189 269	132 964	3 925 570
Göran Eklund	780 051	215 058	-	17 743	1 012 852
Supervisory Board					
Per Lundeen	300 321	-	-	-	300 321
Roger Mattsson	210 000	-	-	-	210 000
Thomas Onstad	150 000	-	-	-	150 000
Mariusz Grendowicz	180 252	-	-	-	180 252
Maciej Georg	150 000	-	-	-	150 000

Agreements with Members of the Management Board guaranteeing financial compensation

As at 31 December 2018 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 18.03.2019	Number of shares or rights to shares as at 31.12.2018	Number of shares or rights to shares as at 09.11.2018	Change
Management Board				
Michał Jarczyński	-	N/A	N/A	-
Per Skoglund	N/A	20 000	20 000	-
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 2018 the companies in the Arctic Paper Group invested its funds solely in standard short-term deposits, including overnight deposits. In 2018 the Group made no financial investments.

Information of sureties, guarantees and pledges

As at 31 December 2018, the Capital Group reported:

— 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 1,404 thousand at Arctic Paper Grycksbo AB and for SEK 773 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 168 thousand;
— a bank guarantee in favour of Skatteverket Ludvika for SEK 135 thousand;
— pledge on a bank account of Arctic Paper Mochenwangen GmbH covering future retirement benefits for employees for EUR 255 thousand;
— pledges on shares in subsidiary companies in the Rottneros Group for SEK 284,730 thousand under loan agreements concluded with Danske Bank;
— guarantee by Rottneros AB for SEK 5,000 thousand vis-a-vis local authorities under future environmental obligations of the Vallvik paper mill;
— pledge on 19,950,000 shares of Rottneros AB under loan agreements for EUR 10,000 thousand granted by Arctic Paper Finance AB to Arctic Paper S.A. and 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 2018 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 2019 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 2019 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 shareholdings by the existing shareholders and bond holders.

Information on purchase of treasury shares

In 2018 and in 2017 the Parent Entity did not buy any treasury shares.

Information on the entity authorised to audit the financial statements

On 25 September 2018 Arctic Paper S.A. entered into a contract with KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. for audit of the Company's financial statements and consolidated financial statements of the Group for the year ended on 31 December 2018 and ending on 31 December 2019. The contract was concluded for the time required to perform the above services.

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

Headcount

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

Report on non-financial information

Apart from this report, the Group publishes a separate report on non-financial information for the 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 of 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 8 January 2019 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 Practice of GPW Listed Companies. In 2018 Arctic Paper S.A. did not apply the following rules:

Good practice – Information Policy, Communication with Investors

Recommendation I.R.2
"Where a company pursues sponsorship, charity or other similar activities, it should publish information about the relevant policy in its annual activity report."

Explanation: The Company is not involved in any sponsorship, charity or similar activities.

Principle No. 1.Z.1.10
"A company operates a corporate website and publishes 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 operates a corporate website and publishes 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 as: 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 operates a corporate website and publishes 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 applicable laws: a recorded transmission of a general meeting, in audio or video form".

Explanation:
Publication of the entire recording from a general meeting, in audio or video form, might infringe interests of shareholders. Information on the approved resolutions is published by the company in the form of current reports. When this solution becomes more popular in the market, the company will consider implementing it.

Good practice – Systems and internal functions

Recommendation III.R.1
"The company's structure includes 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.

Principle No. III.Z.2
"Subject to Principle No. III.Z.3, persons responsible for risk management, internal audit and compliance report directly to the president or other member of the management board and are allowed to report directly to the supervisory board or the audit committee".

Explanation:
The Company has not established dedicated units to be 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. The external entities that provide consultancy services, including legal consulting and performing audits, have regular and direct 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. III.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:
An Audit Committee operates within the Supervisory Board. Members of the Supervisory Board are elected by the General Meeting.

Good practice – 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) two-way communication in real time, under which the shareholders may speak at the General Meeting of Shareholders, while not present at the place where the General Meeting of Shareholders is held,
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 to carry out a number of technical and organisational activities, and the related costs and risks, the Company has decided not 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 practice – 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.1
Incentive schemes should be constructed in a way necessary among others to tie the level of remuneration of members of the company's management board and key managers to the actual long-term financial standing of the company and long-term shareholder value creation as well as the company's stability.

Explanation:
At present the company pursues no incentive schemes.

Principle No. VI.Z.2
To tie the remuneration of members of the management board and key managers to the company's long-term business and financial goals, the period between the allocation of options or other instruments linked to the company's shares under the incentive scheme and their exercisability should be no less than two years.

Explanation:
The company pursues no incentive schemes. The rules of remuneration are set forth in the remuneration regulations in force at the company. The remuneration of members of the Management Board is set by the Supervisory Board who are guided by their best knowledge and will.

Principle No. VI.Z.4.
In its report from operations, the Company should report on the remuneration policy including at least the following:
- general information on remuneration system adopted by the Company;
- 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 each entity belonging to the Capital group;
- information about non-financial remuneration components due to each management board member and key manager;
- significant amendments of the remuneration policy in the last financial year or information about their absence;
- 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 9 March 2018. 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 Company prepares its financial statements and periodic reports on the basis of the procedures of making and publishing periodic reports and consolidated reports, in force at Arctic Paper S.A. 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 next 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 2018 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.

	as at 18.03.2019			
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%**

Securities with special control rights

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

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

The Company's Articles of Association do not provide for any restrictions concerning transfer of title to the Issuer's securities. Such restrictions are specified in law, including in Chapter 4 of the Act on Public Offering and on Conditions Governing the Introduction of Financial Instruments to Organised Trading and on Public Companies of 29 July 2005, Art. 11 and Art. 19 and Section VI of the Act on Trading in Financial Instruments of 29 July 2005, the Act on Competition and Consumer Protection of 16 February 2007 and the Council Regulation (EC) No. 139/2004 on the control of concentrations between undertakings of 20 January 2004.

Additional restrictions related to purchases and sales of the Issuer's securities by persons in managerial functions and their closely related persons are set forth in Regulation (EU) No. 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (market abuse regulation) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC ("MAR").

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 of on Offering and Marketing of Financial Instruments to Organised Trading Systems and on Public Companies 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 Chairperson 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:
- Michał Jarczyński – President of the Management Board appointed on 1 February 2019;
- Per Skoglund – President of the Management Board appointed on 27 April 2016 and acting until 31 January 2019 (appointed as Member of the Management Board on 27 April 2011);
- Göran Eklund – Member of the Management Board appointed on 30 August 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 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 doubt, 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 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 management functions in the Company as well as approval of any incentive programme, including incentive programmes for members of the Management Board, persons in key management 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).

In 2018, the Supervisory Board held meetings on: 21-22 February, 19-20 April, 28-29 June, 12-13 September and 10 December 2018.

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 no 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;
- At least one member of the audit committee shall have knowledge and skills in terms of accounting or auditing financial statements. The Supervisory Board is of the opinion that the requirement of competences in the sphere accounting and financial audit is recognised as satisfied if a member of the Audit Committee has a significant experience in financial management in commercial partnerships, internal audit or audit of financial statements, and additionally:
  - has the title of a certified auditor or equivalent international certificate, or
  - has an academic degree in the field of accounting or financial audit, or
  - has long-term experience as a financial director in public companies or in working in an audit committee of such companies.
- Members of the Audit Committee shall have knowledge and skills relating to the industry in which the Issuer operates. This condition is recognised as satisfied if at least one member of the Audit Committee has knowledge and skills relating to that industry or individual members within specific scopes have knowledge and skills relating to the scope of that industry. The Supervisory Board is of the opinion that the requirement of competences relating to the industry is recognised as satisfied if a member of the Audit Committee has information on the characteristics of the sector, that allows him to obtain a complete picture of the sector's complexity or has knowledge on part of the chain of activities carried out by the Company.

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.
In 2018, the Audit Committee held 3 meetings on: 21 February, 12 September, 10 December.

As at 18 October 2017, the Audit Committee was composed of:

- Mariusz Grendowicz – a member meeting the independence criteria. Mr Mariusz Grendowicz being a member of the Supervisory Board for over five years, including being a member of the Audit Committee, has experience and qualifications relating to the scope of the industry in which the Company operates.
- Roger Mattsson – due to his long-term experience as the financial controller at the Arctic Paper Group and over three years in the Audit Committee, Mr Roger Mattsson meets the requirement of knowledge and know-how of the Company's business as required of members of the Audit Committee. Additionally, he has knowledge and skills in the sphere of accounting or auditing financial statements;
- Maciej Georg – a member meeting the independence criteria.

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

Core assumptions underlying the policy of selecting an audit firm to conduct audits

- According to the regulations applicable to the Company, the Company's Supervisory Board shall select – by way of a resolution and acting under a recommendation of the Audit Committee – the auditor authorised to carry out the audit;
- The selection is made taking into account the principles of impartiality and independence of the audit firm and the analysis of the audit firm's work carried out in the Company which falls beyond the scope of the audit of financial statements, in order to avoid any conflict of interest (observance of impartiality and independence);
- A request for proposals concerning the selection of an audit firm for statutory audit of the Company's financial statements is developed by the Audit Committee in concert with the Company's Financial Director;
- After analysing the submitted offers, the Audit Committee shall develop a recommendation with conclusions from the selection procedure to be approved by the Audit Committee and shall submit a recommendation on the selection of the audit firm to the Supervisory Board within such time that will support a resolution on audit firm selection;
- The Supervisory Board shall select the audit firm on the basis of the submitted offers and after becoming acquainted with the Audit Committee's opinion and recommendation;
- If the Supervisory Board's decision differs from the recommendation of the Audit Committee, the Supervisory Board shall justify the reasons for its failure to comply with the Audit Committee's recommendation and shall submit such justification to the body approving the financial statements;
- The Company's Management Board shall enter into a contract with the selected audit firm for the audit of financial statements of the Company;
- The first contract is concluded for minimum 2 years and it may be extended for another two or three years. The duration of the cooperation shall be counted from the first financial year covered by the audit contract, in which the authorised auditor was appointed for the first time to carry out the consecutive statutory audits of the Company;
- After expiry of the maximum period of the cooperation, the authorised auditor or, where applicable, any member of its network, may not undertake a statutory audit of the Company's financial statements for further 4 years;
- The key statutory auditor may not perform a statutory audit in the Company for a period longer than 5 years. The key statutory auditor may conduct a statutory audit again after the expiry of 3 years;
- The maximum period of uninterrupted performance of statutory audits by the same audit firm or an audit firm related to that audit firm or any member of the network operating in the European Union of which the audit firms are members, may not exceed 5 years.

Core assumptions underlying the policy of the provision of permitted services other than audit services by the audit firm performing the audit, by entities related to the audit firm and by a member of the audit firm's network;

- The Audit Committee of Arctic Paper S.A. shall be responsible for the policy covering the provision of permitted services other than audit services by the audit firm performing the audit, by entities related to the audit firm and by a member of the audit firm's network;
- The Audit Committee of Arctic Paper S.A. controls and monitors the independence of the auditor and the audit firm, in particular if the audit firm provides other services than audit of statutory financial statements to Arctic Paper S.A.
- The Audit Committee of Arctic Paper S.A., when so requested by a competent body or person, approves the provision of permitted services by the auditor that are not an audit of Arctic Paper S.A.
- The prohibited services do not include:

- carrying out due diligence procedures for economic and financial condition;
- issue of letters of support;
- attestation services related to pro forma financial information, forecast of results, or estimation of results, contained in the issue prospectus of the audited entity;
- review of historic financial information for projects referred to in the Commission Regulation (EC) No 809/2004 of 29 April 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisement;
- verifying consolidation packages;
- confirming the fulfilment of terms and conditions of concluded loan agreements on the basis of the analysis of financial information from the financial statements audited by the audit firm;
- attestation services related to reporting on corporate governance, risk management, and corporate social responsibility;
- services consisting in assessing the conformity of information disclosed by financial institutions and investment firms with requirements for disclosure of information on capital adequacy and variable remuneration components;
- certifying financial statements or other financial information intended for supervisory authorities, supervisory board or other supervisory body of the company or owners, which falls beyond the scope of statutory audit and helps these bodies to fulfil their statutory obligations.

— Provision of the above services is possible solely to the extent not related to the entity's tax policies after a review by the Audit Committee of hazards and mitigants of the audit firm's independence as referred to in Art. 69-73 of the Act on Certified Auditors, Audit Firms and Public Supervision.

On 22 February the Supervisory Board of Arctic Paper S.A. in its resolution elected KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. as the Company's auditor to audit the financial statements for 2018 and 2019.
The Supervisory Board selected the audit firm on the basis of a recommendation by the Audit Committee. The recommendation of the Audit Committee was issued as a result of the selection procedure in compliance with the "Policy and selection procedure of the audit firm to perform statutory and voluntary audit of consolidated and stand-alone financial statements of Arctic Paper S.A. with its registered office in Poznań".

Apart from the above, KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. will also conduct assurance services covering the audited period regarding calculation of the covenants and the underlying pro-forma financial statements. The provision of such services is in compliance with the policy on the provision of permitted services by the audit firm that carries out the audit (...) which are not audit services of statutory consolidated and standalone financial statements of Arctic Paper S.A., approved by the Company.

KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k., entities related to the audit firm and members of its audit firm network, in the period covered by the audit did not provide any permitted services to the issuer that are not a statutory audit.

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 no 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 members 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 management 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.

The Remuneration Committee held a meeting on 21 February 2018.

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 no 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;

The Risk Committee held a meeting on 28 June 2018.

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 governing bodies of the company

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

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

Tasks of the bodies of the Company

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

In accordance with the Polish applicable regulations, members of the Management Board, including its General Director who is the President of the Management Board, may not get involved in competitive activities outside the company. Pursuing of other business outside the company is not regulated either in the Best 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 management 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 management 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 rules 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.

Information by the Management Board of Arctic Paper S.A. on selection of the audit firm

On the basis of a statement made by the Supervisory Board of Arctic Paper S.A. on the selection of the audit firm to audit the annual consolidated financial statements of the Arctic Paper Group and standalone financial statements of the Company for the financial year ended on 31 December 2018 in compliance with applicable laws and on the basis of a statement received from KPMG Audyt spółka z ograniczoną odpowiedzialnością spółka komandytowa, the Company's Management Board informs that the audit firm and members of its team performing the audit have complied with the requirements to make an impartial and independent report from the audit of the annual consolidated financial statements of the Arctic Paper Group and standalone financial statements of the Company for the financial year ended on 31 December 2018 in compliance with the applicable laws, professional standards and the rules of professional ethics.

The Management Board of the Company also informs that the applicable laws with regard to a change of the audit firm and the key statutory auditor, as well as mandatory periods of grace have been complied with, The Arctic Paper Group has a policy relating to the selection of the auditing company and a policy of the provision of services that are not an audit by the audit firm, entities related to the audit firm or a member of its group, including services that are not covered with the ban on being provided by audit firms.

Signatures of the Members of the Management Board

Position	First and last name	Date	Signature
President of the Management Board Chief Executive Officer	Michał Jarczyński	18 marca 2019	signed with a qualified electronic signature
Member of the Management Board Chief Financial Officer	Göran Eklund	18 marca 2019	signed with a qualified electronic signature

Statements of the Management Board

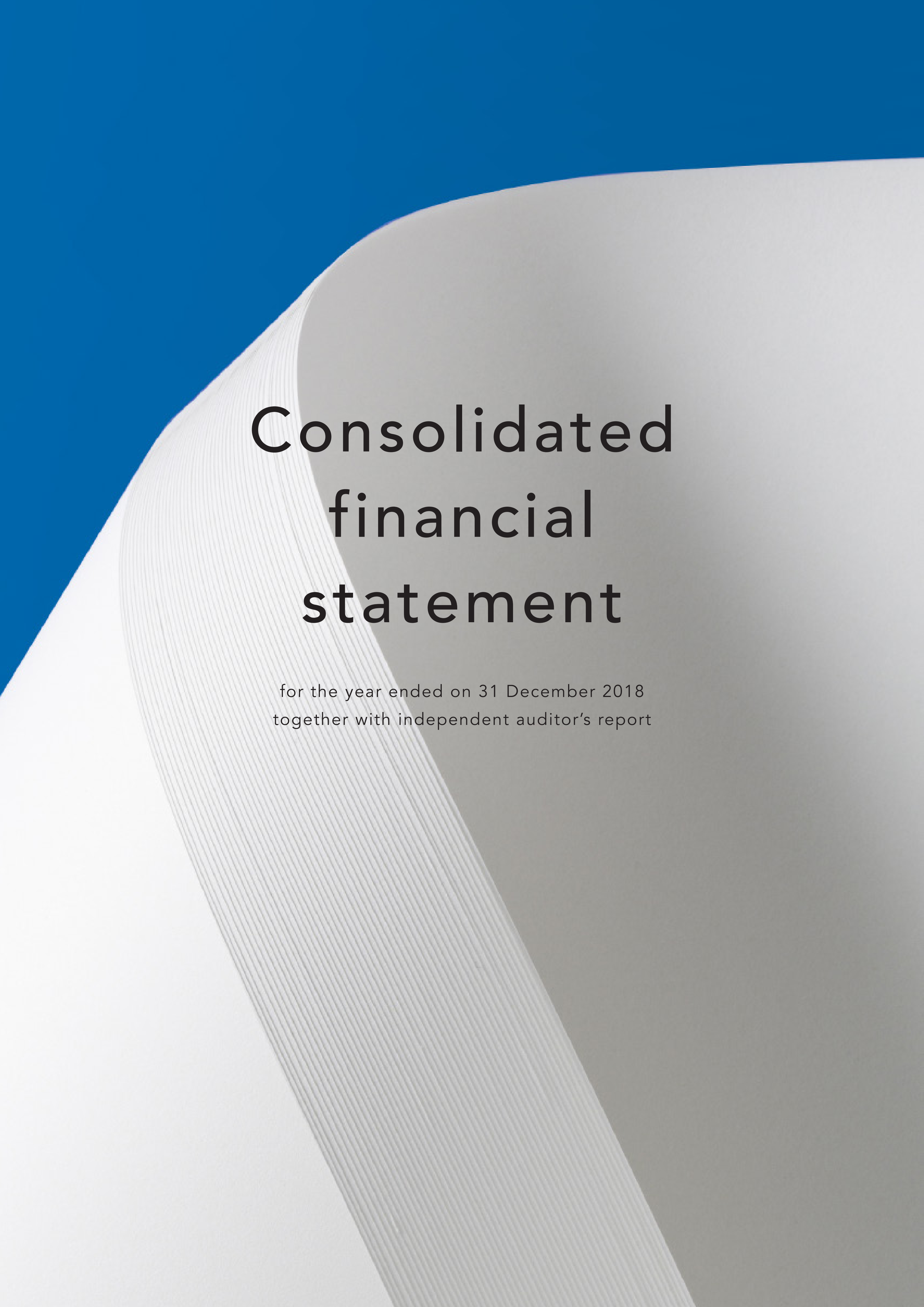
Accuracy and reliability of the presented reports

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 S.A. Capital Group for the year ended on 31 December 2018 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 2018 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.

Signatures of the Members of the Management Board

Position	First and last name	Date	Signature
President of the Management Board Chief Executive Officer	Michał Jarczyński	18 marca 2019	signed with a qualified electronic signature
Member of the Management Board Chief Financial Officer	Göran Eklund	18 marca 2019	signed with a qualified electronic signature



Consolidated financial statement

for the year ended on 31 December 2018
together with independent auditor's report

(all amounts in PLN '000 unless specified otherwise)

Consolidated financial statements

Consolidated profit and loss account

	Note	Year ended on 31 December 2018	Year ended on 31 December 2017 (transformed)*
Continuing operations			
Revenues from sales of paper and pulp	10.1	3 158 210	2 952 806
Sales revenues		3 158 210	2 952 806
Costs of sales	11.5	(2 608 260)	(2 416 931)
Profit / (loss) on sales		549 950	535 875
Selling and distribution costs	11.5	(346 177)	(348 093)
Administrative expenses	11.5	(88 205)	(92 671)
Other operating income	11.1	47 418	43 654
Other operating expenses	11.2	(32 288)	(29 060)
Operating profit (loss)		130 698	109 705
Financial income	11.3	1 823	1 831
Financial expenses	11.4	(38 634)	(25 929)
Gross profit (loss)		93 888	85 608
Income tax	13	(33 390)	(14 857)
Net profit (loss) from continuing operations		60 498	70 751
Discontinued operations			
Profit (loss) for the financial year from discontinued operations	14	(4 609)	(5 637)
Net profit (loss) for the financial year		55 889	65 113
Attributable to:			
The shareholders of the Parent Entity, of which:		7 673	36 841
- profit (loss) from continuing operations		12 282	42 479
- profit (loss) from discontinued operations		(4 609)	(5 637)
The non-controlling shareholder, of which:		48 216	28 272
- profit (loss) from continuing operations		48 216	28 272
- profit (loss) from discontinued operations		-	-
		55 889	65 113
Earnings per share:			
– basic earnings from the profit/(loss) for the period attributable to the shareholders of the Parent Entity	16	0,11	0,53
– basic earnings from the profit/(loss) from continuing operations for the period attributable to the shareholders of the Parent Entity	16	0,18	0,61
– diluted earnings from the profit for the period attributable to the shareholders of the Parent Entity	16	0,11	0,53
– diluted earnings from the profit from the continuing operations attributable to the shareholders of the Parent Entity	16	0,18	0,61

* information on the transformed data is provided in note 7.4.1

(all amounts in PLN '000 unless specified otherwise)

Consolidated statement of total comprehensive income

	Nota	Rok zakończony 31 grudnia 2018	Rok zakończony 31 grudnia 2017 (przekształcone)*
Zysk / (strata) netto okresu sprawozdawczego		55 889	65 113
Pozycje podlegające przeklasyfikowaniu do zysku/ (straty) w przyszłych okresach sprawozdawczych:			
Różnice kursowe z przeliczenia jednostek zagranicznych	30.2	(4 881)	(48 581)
Wycena instrumentów finansowych	12	72 041	3 244
Podatek odroczony od wyceny instrumentów finansowych	13.1	(15 066)	(958)
Pozycje nie podlegające przeklasyfikowaniu do zysku/ (straty) w przyszłych okresach sprawozdawczych:			
Zyski (straty) aktuarialne dotyczące programów określonych świadczeń	11.7	(3 083)	(5 343)
Podatek odroczony od zysków/(strat) aktuarialnych dotyczących programów określonych świadczeń	13.1	668	1 157
Pozostałe calkowite dochody		49 678	(50 481)
Całkowite dochody		105 567	14 633
Przypadające:			
Akcjonariuszom jednostki dominującej		41 061	5 907
Akcjonariuszowi niekontrolującemu		64 506	8 726

* informacje na temat danych przekształconych znajdują się w nocie 7.4.1

(all amounts in PLN '000 unless specified otherwise)

Consolidated statement of financial position

	Note	As at 31 December 2018	As at 31 December 2017 (transformed)*	As at 01 January 2017 (transformed)*
ASSETS				
Fixed assets				
Tangible fixed assets	18	901 960	821 488	821 746
Investment properties	20	4 236	4 107	4 074
Intangible assets	21	49 160	51 108	57 033
Interests in joint ventures	22	1 182	988	924
Other financial assets	24.1	52 520	22 056	10 913
Other non-financial assets	24.2	1 773	1 513	1 548
Deferred income tax asset	13.3	27 137	32 387	21 879
		1 037 969	933 646	918 116
Current assets				
Inventories	27	478 614	350 996	360 353
Trade and other receivables	28	365 946	330 071	343 496
Corporate income tax receivables		6 017	6 687	11 328
Other non-financial assets	24.2	14 267	13 583	16 492
Other financial assets	24.1	50 527	7 151	11 218
Cash and cash equivalents	29	201 118	241 403	130 157
		1 116 489	949 891	873 044
Assets related to discontinued operations	14	1 716	4 071	12 694
TOTAL ASSETS		2 156 174	1 887 608	1 803 854
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	407 976	447 638	447 638
Other reserves	30.4	151 110	125 997	156 975
FX differences on translation	30.2	(12 338)	(9 207)	19 717
Retained earnings / Accumulated losses	30.5	(27 745)	(72 665)	(137 965)
Cumulated other comprehensive income related to discontinued operations	14	(11 649)	(11 611)	(12 120)
		576 643	549 439	543 532
Non-controlling stake	30.6	284 550	231 555	235 588
TOTAL EQUITY		861 193	780 993	779 120
Long-term liabilities				
Interest-bearing loans, bonds and borrowings	32	246 805	372 576	275 464
Provisions	33	106 846	101 554	90 313
Other financial liabilities	32	2 854	3 945	30 082
Deferred income tax liability	13.3	68 316	31 885	9 406
Accruals and deferred income	34.2	16 560	18 752	20 924
		441 381	528 712	426 189
Short-term liabilities				
Interest-bearing loans, bonds and borrowings	32	223 698	39 440	55 367
Provisions	33	939	4 667	-
Other financial liabilities	32	8 486	33 153	26 686
Trade and other payables	34.1	516 678	423 868	399 727
Income tax liability		1 141	570	179
Accruals and deferred income	34.2	99 303	74 576	98 498
		850 245	576 275	580 457
Liabilities directly related to the discontinued operations	14	3 355	1 626	18 088
TOTAL LIABILITIES		1 294 981	1 106 614	1 024 734
TOTAL EQUITY AND LIABILITIES		2 156 174	1 887 607	1 803 853

* information on the transformed data is provided in note 7.4.1

The accounting policies and additional notes included on pages from 75 to 169 form an integral part of these financial statements.

(all amounts in PLN '000 unless specified otherwise)

Consolidated cash flow statement

	Note	12-month period ended on 31 December 2018	12-month period ended on 31 December 2017 (transformed)*
Cash flows from operating activities			
Gross profit (loss) from continuing operations		93 888	85 608
Gross profit /(loss) on discontinued operations		(4 733)	(5 645)
Gross profit (loss)		89 154	79 963
Adjustments for:			
Depreciation/amortisation	11.6	92 788	110 923
FX gains / (loss)		3 378	(699)
Impairment of non-financial assets		-	23 761
Net interest and dividends		22 525	22 344
Profit / loss from investing activities		74	196
Increase / decrease in receivables and other non-financial assets	29.1	(40 368)	(9 227)
Change to inventories	29.1	(129 261)	(2 316)
Increase / decrease in liabilities except for loans and borrowings	29.1	94 858	42 711
Changes in prepayments and accruals	29.1	21 997	(13 335)
Change in provisions	29.1	(1 089)	3 790
Income tax paid		(5 179)	1 363
Co-generation certificates		659	5 601
Other	29.1	(927)	(3 480)
Net cash flows from operating activities		148 609	261 595
Cash flows from investing activities			
Disposal of tangible fixed assets and intangible assets		914	290
Purchase of tangible fixed assets and intangible assets	29.1	(175 300)	(181 448)
Other capital outflows / inflows		416	442
Net cash flows from investing activities		(173 970)	(180 715)
Cash flows from financing activities			
Change to overdraft facilities		51 209	(54 203)
Repayment of financial leasing liabilities		(23 707)	(4 070)
Inflows from other financial liabilities		1	-
Repayment of other financial liabilities		416	(17 066)
Inflows under contracted loans, borrowings and bonds		40 325	228 611
Repayment of loans and borrowings		(34 839)	(75 824)
Interest paid		(22 259)	(22 891)
Dividend paid to AP SA shareholders	17	(13 857)	-
Dividend disbursed to non-controlling shareholders	30.6	(11 510)	(12 759)
Net cash flows from financing activities		(14 221)	41 798
Change in cash and cash equivalents		(39 583)	122 678
Net FX differences		(2 179)	(10 303)
Cash and cash equivalents at the beginning of the period	29	243 851	131 476
Cash and cash equivalents at the end of the period	29	202 090	243 851

* information on the transformed data is provided in note 7.4.1

(all amounts in PLN '000 unless specified otherwise)

Consolidated statement of changes in equity

	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
		Attributable to the shareholders of the Parent Entity								
As at 01 January 2018		69 288	447 638	(9 207)	125 997	(72 665)	(11 611)	549 439	231 555	780 993
Net profit (loss) for the financial year		-	-	-	-	7 673	-	7 673	48 216	55 889
Other comprehensive income for the year		-	-	(3 168)	38 971	(2 415)	-	33 388	16 290	49 678
Total comprehensive income for the year		-	-	(3 168)	38 971	5 258	-	41 061	64 506	105 567
Profit distribution	30.5	-	(39 662)	-	-	39 662	-	-	-	-
Discontinued operations	14	-	-	37	-	-	(37)	-	-	-
Dividend disbursed to shareholders of AP SA	17	-	-	-	(13 857)	-	-	(13 857)	-	(13 857)
Dividend distribution to non-controlling entities	30.6	-	-	-	-	-	-	-	(11 510)	(11 510)
As at 31 December 2018		69 288	407 976	(12 338)	151 110	(27 745)	(11 649)	576 643	284 550	861 193

(all amounts in PLN '000 unless specified otherwise)

		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 (before transformation)		69 288	447 638	19 717	156 975	(127 542)	(2)	553 955	235 588	789 543
Adjustment to the penning balance	7.4.1	-	-	-	-	(10 423)	(1)	(10 423)	-	(10 423)
As at 01 January 2017		69 288	447 638	19 717	156 975	(137 965)	-	543 532	235 588	779 120
Net profit (loss) for the financial year		-	-	-	-	36 841		36 841	28 272	65 113
Other comprehensive income for the year		-	-	(28 415)	1 666	(4 186)		(30 935)	(19 546)	(50 481)
Total comprehensive income for the year		-	-	(28 415)	1 666	32 656		5 907	8 726	14 633
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	(72 665)	(11 611)	549 439	231 555	780 993

Adjustments to the opening balance sheet and information on the transformed data is detailed in note 7.4.

Accounting principles (policies) and additional explanatory notes

1. General information

The Arctic Paper Group is a producer of bulky book paper, offering a broad range of products in the segment, and 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 2018 the Arctic Paper Group employs about 1,730 people in its Paper Mills, companies involved in sale of paper and in pulp producing companies, procurement office and a company producing food packaging. Our paper mills are located in Poland and in Sweden. Pulp mills are located in Sweden. As at 31 December 2018 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 2018 amounted to PLN 3,158 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 also has a foreign branch in Göteborg, Sweden.

1.1. **Business objects**

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.

(all amounts in PLN '000 unless specified otherwise)

1.2. Shareholding structure

	as at 31.12.2018				as at 31.12.2017			
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%	40 981 449	59,15%	40 981 449	59,15%
Nemus Holding AB	*40 381 449*	*58,28%*	*40 381 449*	*58,28%*	*40 381 449*	*58,28%*	*40 381 449*	*58,28%*
other entity	*600 000*	*0,87%*	*600 000*	*0,87%*	*600 000*	*0,87%*	*600 000*	*0,87%*
- directly	6 223 658	8,98%	6 223 658	8,98%	*6 223 658*	8,98%	6 223 658	8,98%
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 2018) 40,381,449 shares of our 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 2018 was 68.13% (31 December 2017: 68.13%) and has not changed until the date hereof.

(all amounts in PLN '000 unless specified otherwise) 77

2. Composition of the Group

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

Unit	Registered office	Business objects	Group's interest in the equity of the subsidiary entities as at		
			18 March 2019	31 December 2018	31 December 2017
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, Gutenbergstrasse 1, CH-4552 Derendingen	Trading company	100%	100%	100%
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%

(all amounts in PLN '000 unless specified otherwise)

Unit	Registered office	Business objects	Group's interest in the equity of the subsidiary entities as at		
			18 March 2019	31 December 2018	31 December 2017
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 2018 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 2018, 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 10 December 2018, the Supervisory Board dismissed Mr Per Skoglund from the function of the President of the Company's Management Board and CEO, effective on 31 January 2019 and appointed Mr Michał Jarczyński for the function, effective on 1 February 2019.

The Management Board of the Parent Entity as at the publication hereof was composed as follows:
— Michał Jarczyński – President of the Management Board;
— Göran Eklund – Member of the Management Board.

Since 31 December 2018 until the publication of these annual consolidated financial statements there were no other changes to the composition of the Management Board of the Parent Entity.

3.2. **Supervisory Board of the Parent Entity**

As at 31 December 2018, 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 Company**

As at 31 December 2018, the Parent Company's Audit Committee was composed of:
- Mariusz Glendowicz – Chairman of the Audit Committee appointed on 18 September 2017 (appointed as a Member of the 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 consolidated financial statements were approved for publication by the Management Board on 18 March 2019.

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 operating 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 if it exercises full control or co-control thereof 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. For such transactions, as at each balance sheet date the Group verifies if the approved minimum limit related to gas consumption has been used and if at the balance sheet date the Group is not required to establish a provision to cover uncollected quantities.

Operational segments

The Group identifies the following business segments: Uncoated paper, coated papers, Pulp and Other. The Management Board of the Parent Entity makes a professional judgement to identify those segments on the basis of the guidelines in IFRS 8. The detailed method to identify the segments and core financial details are presented in note 10 to these consolidated financial statements.

Functional currencies

The financial data of Group units underlying the consolidated financial statements is disclosed in the functional currencies of those units and translated into the presentation currency – PLN, in compliance with the principles detailed in note 6.2 and 9.4 to these consolidated financial statements. The Management Board of the Parent Entity makes a professional judgement to identify functional currencies for each unit on the basis of the guidelines in IAS 21.

Discontinued operations

On 28 July 2015 the Management Board of Arctic Paper S.A. published the Group's profitability improvement program 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 and as at 31 December 2016.

As at 31 December 2017 and 31 December 2018, the Management Board recognised the business of the Mochenangen Group as discontinued activity with the exception of a provision for retirement severance pay which will not be sold along with the other assets of the Group.
The value of the main asset of the Mochenwangen Group – land, is materially affected by the results of environmental inspections identifying the contamination of the soil. As at the balance sheet date, the Group is performing the relevant tests.

More information on the discontinued operations 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 at 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. As a result, the value of the assets was PLN 0 thousand as at that date.

The investment outlays incurred in 2013-2016 were fully recognized in costs when incurred. In 2017 and 2018 Arctic Paper Mochenwangen did not incur any investment outlays.
Since 31 December 2015 the activities of the Arctic Paper Mochenwangen Group has been presented as discontinued operations.

As at 30 June 2013 and 31 December 2013 impairment tests were conducted at 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 was recognised up to the net value of fixed assets and intangible assets 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.

As at 31 December 2017 an impairment test was conducted at the production facility of Arctic Paper Grycksbo with reference to tangible fixed assets and intangible assets. As a result of the test, an impairment charge was recognised up to the net value of fixed assets and intangible assets as at 31 December 2017.

As at 31 December 2018, following the annual assessment of impairment indications of tangible fixed assets and intangible assets, the Management Board identified the need to perform an impairment test of non-financial fixed assets as at that date. The results of the test did not show any further impairment losses of these assets.

The results of the tests are presented in note 25.

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 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 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 allowances to inventories and receivables

The Group estimates its impairment allowance to receivables in the amount of anticipated credit losses over the whole life of the receivables since the initial recognition. The amount of impairment for receivables is the difference between the book value of the receivables and the estimated probable collectible amount.
Impairment allowances for inventories are made when the book value of a specific assortment is lower than its net realisable price. The net sales price is estimated as the realisable price of the assortment net of selling and distribution 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.
In connection with the term and revolving loan agreements, agreements related to bond issues, signed on 9 September 2016, the Group agreed to maintain specified financial ratios that are calculated at the end of each quarter. As at 31 December 2018, the Group failed to maintain the Cashlow Cover ratio as required in the loan agreement with the consortium of financing banks (Santander Bank S.A., Bank BGŻ BNP Paribas S.A. and the European Bank for Reconstruction and Development) – the Cashflow Cover being a ratio of cash flows from operating activities to the repayment amount of financial liabilities made in the 12 months from the end of each quarter, net of any discontinued operations and operations by the Rottneros Group. Failure to comply with the ratio was due to lower operating cash flows in 2018 primarily resulting from higher inventories as a result of higher pulp prices.
After the balance sheet date, Arctic Paper S.A. received a written assurance from Santander Bank S.A. acting as the consortium agent of the financing banks that failure by the Group to comply with the required Cashflow Cover ratio as at 31 December 2018 does not constitute an event of default under the loan agreement of 9 September 2016. In accordance with IAS 1, as such

assurance was not available on 31 December 2018, the Group disclosed its entire debt to the bank consortium as at that day of PLN 192,613 thousand as short-term liabilities: interest-bearing loans, borrowings and bonds.
If the ratio is complied with at future testing dates, the debt to the bank consortium will again be disclosed as long-term liabilities.

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 cover standards and interpretations approved 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. Currency of the financial statements and functional currencies

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 2017, except for the following changes to standards and new interpretations binding for annual periods beginning on or after 1 January 2018:

— IFRS 15 Revenue from Contracts with Customers (issued on 28 May 2014) – effective for financial years beginning on or after 1 January 2018;
  The Management Board analysed the existing agreements and in view of their nature and no non-standard provisions, the amendments to IFRS 15 had no material impact on the Group's results (details are presented in note 7.2 hereof).
— IFRS 9 Financial Instruments (issued on 24 July 2014) – effective for financial years beginning on or after 1 January 2018.
  The Management Board analysed the existing agreements and in view of their nature, the amendments to IFRS 9 had no material impact on the Group's results (details are presented in note 7.3 hereof).

7.2. Implementation of IFRS 15

Selected accounting principles

The International Financial Reporting 15 Revenue from Contracts with Customers ("IFRS 15"), issued in May 2014 and amended in April 2016, establishes a Five-Step Model to recognise revenues resulting from contracts with customers.

- Requirements applicable to identifying contracts with customers: contracts with customers meet the definition when all of the following criteria have been satisfied: the parties to the contract have concluded the contract and are obliged to perform their obligations; the Group is able to identify the rights of each party concerning the goods and services to be provided; the Group is able to identify the payment terms for the goods and services to be provided; the contract has economic content and it is likely that the Group will receive its remuneration due to it in exchange for the goods and services to be provided to the customer.
- Identification of obligations to perform the service: at contract conclusion, the Group assess the goods and services promised in the contract and identifies each promise as a liability for deliver to the customer: the goods or services (or a package of goods or services) that may be identified or a group of separate goods or services that are basically the same and when the delivery has the same nature.
- Identification of the transactional price: in order to determine the transactional price, the Group takes the contractual conditions into account as well as its customary commercial practices. The transactional price is the amount that – as the Group expects – will be due to it in exchange for the delivery of the promised goods or services to the customer, net of any amounts collected on behalf of third parties. The contractual remuneration may cover fixed amounts, variable amounts or both types; in order to estimate the variable remuneration, the Group has decided to apply the most probable value method.
- The allocation of the transactional price of each liability to perform: The Group allocates the transactional price to each obligation to perform (or for separate goods or separate services) in an amount that reflects the remuneration amount, in line with the Group's expectations – it is due to the Group in exchange for the delivery of the promised goods or services to the customer.
- Revenue recognition when the obligation to perform is being executed: The Group recognises revenues at completion (or during completion) of its obligation to perform by delivery of the promised goods or services (an asset) to the customer (the customer acquires control over the asset). Revenues are recognised in the remuneration amount which – as expected by the entity – is due to it in exchange for the goods or services promised to customers.

Within the performed analysis, the Group did not identify contractual assets and liabilities.

Impact assessment of the new standard

The Group applied IFRS 15 from its effective date, applying a full retrospective method.
The Group is primarily involved in sales of paper and pulp. A detailed analysis of the impact of the changes was completed in 2017. The analysed areas:

- Identification of contractual obligations to perform: the business objects of the Group include production and sale of standardised paper types and pulp products; therefore, the acceptance of IFRS 15 has no impact on the Group's revenues and profit and loss with reference to contracts with customers under which sale of products is the sole contractual obligation to perform. The Group generates sales invoices and recognises revenues at the time when control over assets is transferred to customers – generally, at delivery of the goods.
- Variable remuneration: certain contracts with customers provide for quantitative rebates; the Group recognises revenues from sales of goods measured at the fair value of the received remuneration or receivables, net of any discounts and quantitative rebates; if the revenues cannot be reliably estimated, the Group delays revenue recognition until such time when the uncertainty is resolved. As a result, variable remuneration is generated in compliance with IFRS 15 which is estimated at contract conclusion and updated afterwards. In accordance with IFRS 15, the estimated remuneration is limited to prevent re-evaluation of revenues. The applied limitation did not result in additional adjustment to revenues as the amount of the estimated rebate was estimated at contract conclusion (the amount of the estimated rebate is recognised in the period when the sale is executed).
- The Group has no obligations to accept returns, to refund any remuneration or similar obligations, and it has not granted any warranties for its products and as a result has not recognised any related obligations.

— Presentation and requirements concerning disclosures: as IFRS 15 has no impact on the value and time of revenue recognition in the Group versus the principles used so far, the Group has not made any additional disclosures in this consolidated annual report.

7.3. Implementation of IFRS 9

Selected accounting principles

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.

Classification and measurement of financial assets and liabilities

In compliance with IFRS 9, the Group classifies financial assets to one of the following categories:

- measured at amortised cost: To measure its financial assets measured at amortised cost, the Group applies the effective interest rate method; those are trade receivables, loans granted, other financial receivables and cash and cash equivalents. After initial recognition, trade receivables are measured at amortised cost with the effective interest rate method subject to impairment allowances' trade receivables due within 12 months of the day of their origin (without financing elements) and not forwarded to factoring, are not discounted and are measured at nominal;
- measured at fair value through other total comprehensive income: profit and loss on a financial asset being a capital instrument which is subject to a measurement option via other comprehensive income, are recognised in other total comprehensive income with the exception of dividend received;
- measured at fair value through financial results: profit or loss resulting from measurement of financial assets, classified as measured at fair value through profit and loss, are recognised in profit and loss account in the period in which it was generated; those are primarily derivative instruments not designated for hedge accounting. Profit or loss resulting from measurement of items measured at fair value through profit and loss account covers also interest and dividend income.
- hedging financial instruments: Hedging financial instruments are measured in compliance with the principles of hedge accounting.

The Group classifies debt financial assets to an appropriate category subject to the business model of managing financial assets and to the characteristics of contractual cash flows for each financial asset.
In compliance with IFRS 9, the Group classifies financial liabilities to one of the following categories:

- measured at amortised cost: trade payables, loans, borrowings and bonds;
- measured at fair value via the profit and loss account: liabilities under derivative instruments not designated to hedge accounting;
- hedging financial instruments, assets and financial liabilities being derivative instruments hedging cash flows and hedging fair value.

Impairment of financial assets

IFRS 9 introduces a new approach to estimating impairment of financial assets at amortised cost or at fair value via other comprehensive income (except investments in financial assets and contractual assets). The impairment model is based on calculation of anticipated losses contrary to the currently applied model resulting from IAS 39 which was based on a concept of incurred losses. Trade receivables are the most important financial asset in the Group's financial statements that are subject to the new principles of calculating anticipated credit losses.
The Group applies a simplified model to recognise impairment allowances to trade receivables.
In the simplified model, the Group does not monitor changes to credit risk level over the life of the instrument and estimates anticipated credit losses over the horizon until the maturity of the instrument. In order to estimate the anticipated credit loss, the Group applies a provision matrix estimated on the basis of historic collectibility levels and recoveries from counterparties. The anticipated credit loss is calculated at the time the receivables are recognised in the statement of financial position and it is updated as at each closing of reporting periods, subject to the number of overdue dates.

Hedge accounting

The Group decided to continue applying accounting principles compliant with IAS 39 with respect to hedging instruments.

Impact assessment of the new standard

The Group applied IFRS 9 from its effective date which was January 2018, without transforming its comparable 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. The implementation of IFRS 9 did not have any impact on the statement of financial condition and equity. As a result of the application of IFRS 9, classification to certain financial instruments was changed as presented below:

— Classification and measurement: the application of IFRS 9 did not affect the measurement of financial assets and liabilities and on the relevant values recognised in the statement of financial condition and on equity. The Group classified financial assets and liabilities in accordance with IFRS 9. Trade receivables until contractual cash flows are received and therefore they continue to be measured at amortised cost though profit and loss account. The Group sells trade receivables under no-recourse factoring – each payment from the factor automatically repays the receivables from counterparties. The Group uses a practical exemption, and for trade receivables less than 12 months does not identify significant elements of financing.

(all amounts in PLN '000 unless specified otherwise) 87

The table below presents the classification and measurement of the financial assets in compliance with IAS 39 and IFRS 9 as at 1 January 2018:

	Category and method in compliance with IAS 39	*Value in compliance with IAS 39 as at 1 January 2018*	*Category and valuation method in compliance with IFRS 9*	*Value in compliance with IFRS 9 as at 1 January 2018*
Trade and other receivables	Loans and receivables valued at amortised cost	305 368	Financial assets valued at amortised cost	305 368
Other financial assets	Loans and receivables valued at amortised cost	7 293	Financial assets valued at amortised cost	7 293
Cash and cash equivalents	Loans and receivables valued at amortised cost	241 403	Financial assets valued at amortised cost	241 403

IFRS 9 has not resulted in any modifications to the categories and measurement methods of financial liabilities (see note 40.1).

— Impairment: In compliance with IFRS 9, the Group estimates allowances for anticipated credit loss equal to 12-month anticipated credit loss or anticipated credit loss over the life of the financial instrument. In case of trade receivables, the Group applies a simplified approach and estimates allowances for anticipated credit loss equal to anticipated credit loss over the life of the receivables which does not exceed 12 months. In view of the nature of trade receivables, the calculation method of impairment has not changed.
— Hedge accounting: since the Group decided to continue to apply IAS 39 in that respect, the entry into force of IFRS 9 did not affect the Group's financial statements.

The Group has not earlier adopted any other standards, interpretations or amendments that were issued but are not yet effective for periods starting on 1 January 2018.

7.4. **Data comparability**

7.4.1. Data comparability – adjustment of errors

As a result an analysis of IAS 17 Leases, as at 31 December 2018 the Group decided to make an adjustment to eliminate perpetual usufruct right to land and to treat it as operating lease, applying the adjustment retrospectively.

As a consequence, modifications were made to the value of tangible fixed assets, equity and deferred income tax for the comparable data for the year ended on 31 December 2017 and as at 1 January 2017.

As at 31 December 2017 tangible fixed assets were reduced by PLN 12,717 thousand, deferred income tax provision was reduced by PLN 2,416 thousand and the equity was reduced by PLN 10,301 thousand, of which the costs of sales (depreciation costs) for 2017 were reduced by PLN 150 thousand, deferred income tax recognised in profit and loss account for 2017 grew by PLN 28 thousand and retained profit/accumulated loss as at 31 December 2017 net of profit for 2017 were reduced by PLN 10,423 thousand.

As at 1 January 2017 tangible fixed assets were reduced by PLN 12,868 thousand, deferred income tax provision was reduced by PLN 2,445 thousand and with the equity (retained profit/accumulated loss) reduced by PLN 10,423 thousand.

(all amounts in PLN '000 unless specified otherwise)

The table below presents the influence of abovementioned changes on the statement of financial situation as at 31 December 2019 and statement of profit and loss for the year ended on that date.

	Approved data	Transformed data	Impact of opening balance-sheet adjustment
Impact on consolidated balance sheet at 31 December 2017			
Tangible fixed assets	834 205	821 488	(12 717)
Total impact on assets			(12 717)
Retained profit/Accumulated loss	(62 364)	(72 665)	(10 301)
Deferred income tax provision	34 301	31 885	(2 416)
Total impact on and liabilities			(12 717)
Impact on consolidated income statement for the year ended on 31 December 2017			
Costs of sales	(2 417 081)	(2 416 931)	150
Income tax	(14 829)	(14 857)	(28)
Total impact on net profit/ (loss) for 2017			122

The table below presents the influence of abovementioned changes on the statement of financial situation as at 1 January 2019

	Approved data	Revised data	Effect of openning balance adjustment
Impact on consolidated report on financing operations as at 01 January 2017			
Tangible fixed assets	834 614	821 746	(12 868)
Total impact on assets			(12 868)
Retain profit / Accumulated loss	(127 542)	(137 965)	(10 423)
Deferred income tax provision	11 851	9 406	(2 445)
Total impact on liabilities			(12 868)

7.4.2. Data comparability- change to estimates

Effective on 1 January 2018, on the basis of verification of the previous periods of economic useful lives for tangible fixed assets and intangible assets, AP Kostrzyn has changed the periods of economic useful lives for selected tangible fixed assets, mainly plant and machinery. The changes were primarily due to previous modernisation of the assets that resulted in extension of their periods of economic useful lives. Annual depreciation for those tangible fixed assets decreases by PLN 7,982 thousand versus the annual depreciation cost for 2017.

7.4.3. Data comparability – presentation of revenues from pulp sales

Effective on 1 January 2018, the Rottneros Group and the Arctic Paper Group recognised result of completed forward contracts for the sale of pulp as revenues (PLN -54,439 thousand; reduction to revenues from sales of pulp) and revenues from sales of ancillary products (PLN 16,623 thousand increase of revenues from sales of pulp). No adjustment was made to comparable data for 2017 (result on completed forward contracts for sales of pulp PLN 3,979 thousand; reduction of revenues disclosed as other operating income/expenses and revenues from sales of ancillary products (PLN 15,918 thousand; presented as a reduction of costs of sales).

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 but are not yet effective:

— IFRIC 23 Uncertainty over Income Tax Treatments (applicable to annual periods commencing on 1 January 2019, earlier application is permitted)

IFRIC 23 clarities income tax treatment if an applied approach has not been yet accepted by tax authorities and it is aimed at increasing transparency. From a perspective of IFRIC 23 an issue of assessing the likelihood of acceptance of the selected tax treatment by tax authorities is of key importance. If it is probable that tax authorities accept a tax treatment about which there is an uncertainty, then taxes should be recognised in the financial statements in a manner coherent with tax filings without reflecting an uncertainty over current or deferred income tax treatment. Otherwise, the tax base (or tax loss), tax amounts, and unused tax losses should be recognised in an amount that would better reflect resolution of uncertainties, while applying one of the most probable results or the expected value (sum of probability-weighted possible solutions). The company must assume that tax authorities will perform verification of an uncertain tax treatment and have full knowledge of such issue.

The Group does not expect the interpretation to have material impact on its financial statements since in the opinion of the Management Board the recognised deferred income tax liabilities and provisions reflect the requirements of IFRIC 23

— Amendments to IFRS 9 Financial Instruments (applicable to annual periods commencing on 1 January 2019, earlier application is permitted)

The modifications allow measurement of financial assets with a pre-payment option that in compliance with contractual terms and conditions are instruments with cash flows constituting solely repayment of the outstanding nominal amount and interest payment on the amount against negative remuneration, in the amortised cost or at fair value via other comprehensive income, while at fair value through profit and loss account if such financial assets meet the other applicable requirements of IFRS 9.
The Group does not expect the Amendment to have major impact on its financial statements at initial application since it holds no financial assets with a pre-payment option.

The effective dates are the dates detailed in the standards as published by the International Accounting Standards Board. The effective dates in the European Union may be different that the effective dates as specified in the standards and will be announced when endorsed by the European Union.

8.1. **Implementation 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 primarily in case of perpetual usufruct right of land, rental contracts for office space, lease of motor vehicles and machines and equipment, more detailed 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 leases.

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 1 January 2019, prospectively the Group will implement a uniform model of lessee accounting covering lease contracts in compliance with IFRS 16 with terms in excess of 12 months unless the underlying asset has value under EUR 5 thousand. The contracts covered with IFRS 16 are mainly operating lease contracts within the meaning of IAS 17 (motor vehicles and fork-lift trucks, office equipment, perpetual usufruct right of land in Poland) and lease contracts for specified periods of time over 12 months from 31 December 2018 (lease of warehouse and office space, rental of machinery).
The Group anticipates that as at that day the value of its tangible fixed assets (asset of the right of use) and lease liabilities will grow by PLN 31 million without adjusting comparable data.

8.2. 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 IFRS 9 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 income statement.

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:

(all amounts in PLN '000 unless specified otherwise)

	As at 31 December 2018	As at 31 December 2017
USD	3,7597	3,4813
EUR	4,3000	4,1709
SEK	0,4201	0,4243
DKK	0,5759	0,5602
NOK	0,4325	0,4239
GBP	4,7895	4,7001
CHF	3,8166	3,5672

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

	01/01 - 31/12/2018	01/01 - 31/12/2017
USD	3,6117	3,7782
EUR	4,2617	4,2583
SEK	0,4156	0,4422
DKK	0,5718	0,5725
NOK	0,4439	0,4570
GBP	4,8168	4,8595
CHF	3,6912	3,8364

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 IFRS 9 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 operating 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. All outlays for the next period are amortised over an anticipated period of generating revenues from the sales of the 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.

9.7.3. Certificates in cogeneration

As an entity generating electricity in cogeneration, the Group receives certificates of origin ("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 operating lease contracts. Lease fees under operating 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.

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

Borrowing costs are capitalised as part of the cost of the manufacturing of fixed assets, investment properties and intangible assets. External borrowing costs include interest calculated using the effective interest rate method, finance charges in respect of financial 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

In compliance with IFRS 9, the Group classifies financial assets to one of the following categories:
— measured at amortised cost: To measure its financial assets measured at amortised cost, the Group applies the effective interest rate method; those are trade receivables, loans granted, other financial receivables and cash and cash equivalents. After initial recognition, trade receivables are measured amortised cost with the effective interest rate method subject to impairment allowances' trade receivables due within 12 months of the day of their origin (without financing elements) and not forwarded to factoring, are not discounted and are measured at nominal;

— measured at fair value through other total comprehensive income: profit and loss on a financial asset being a capital instrument which is subject to a measurement option via other comprehensive income, are recognised in other total comprehensive income with the exception of dividend received;
— measured at fair value through financial results: profit or loss resulting from measurement of financial assets, classified as measured at fair value through profit and loss, are recognised in profit and loss account in the period in which it was generated; those are primarily derivative instruments not designated for hedge accounting. Profit or loss resulting from measurement of items measured at fair value through profit and loss account covers also interest and dividend income.
— hedging financial instruments: Hedging financial instruments are measured in compliance with the principles of hedge accounting.

The Company classifies debt financial assets to an appropriate category subject to the business model of managing financial assets and to the characteristics of contractual cash flows for each financial asset.

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.

As at the balance sheet date the Company assesses if there are objective premises for impairment of the asset and IFRS 9 introduces a new approach to estimating impairment of financial assets at amortised cost or at fair value via other comprehensive income (except investments in financial assets and contractual assets). The impairment model is based on calculation of anticipated losses contrary to the currently applied model resulting from IFRS 39 which was based on a concept of incurred losses.
In accordance with IFRS 9, the Company 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 case of trade receivables, the Company applies a simplified approach and estimates allowances for anticipated credit loss equal to anticipated credit loss over the life of the receivables which does not exceed 12 months. In view of the nature of trade receivables, the calculation method of impairment has not changed.
Trade receivables are the most important financial asset in the Group's financial statements that are subject to the new principles of calculating anticipated credit losses.
The Group applies a simplified model to recognise impairment allowances to trade receivables.
In the simplified model, the Group does not monitor changes to credit risk level over the life of the instrument and estimates anticipated credit losses over the horizon until the maturity of the instrument. In order to estimate the anticipated credit loss, the Group applies a provision matrix estimated on the basis of historic collectibility levels and recoveries from counterparties. The anticipated credit loss is calculated at the time the receivables are recognised in the statement of financial position and it is updated as at each closing of reporting periods, subject to the number of overdue dates.

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 IFRS 9, 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 2018, no financial assets were designated as measured at fair value through financial result (as at 31 December 2017: 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 costs of sales, administrative expenses, selling and distribution costs and financial 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) received bonus in the form of shares. In 2018 and 2017 no share-based payments were made.

9.23. Revenues

Pursuant to IFRS 15, the Group applies a five-step model to recognise revenues from contracts with customers.

— Requirements applicable to identifying contracts with customers: contracts with customers meet the definition when all of the following criteria have been satisfied: the parties to the contract have concluded the contract and are obliged to perform their obligations; the Group is able to identify the rights of each party concerning the goods and services to be provided; the Group is able to identify the payment terms for the goods and services to be provided; the contract has economic content and it is likely that the Group will receive its remuneration due to it in exchange for the goods and services to be provided to the customer.

— Identification of obligations to perform: at contract conclusion, the Group assesses the goods and services promised in the contract and identifies each promise as a liability for deliver to the customer: the goods or services (or a package of goods or services) that may be identified or a group of separate goods or services that are basically the same and when the delivery has the same nature.

— Identification of the transactional price: in order to determine the transactional price, the Group takes the contractual conditions into account as well as its customary commercial practices. The transactional price is the amount that – as the Group expects – will be due to it in exchange for the delivery of the promised goods or services to the customer, net of any amounts collected on behalf of third parties. The contractual remuneration may cover fixed amounts, variable amounts or both types; in order to estimate the variable remuneration, the Group has decided to apply the most probable value method.

— The allocation of the transactional price of each liability to perform: The Group allocates the transactional price to each obligation to perform (or for separate goods or separate services) in an amount that reflects the remuneration amount, in line with the Group's expectations – it is due to the Group in exchange for the delivery of the promised goods or services to the customer.

— Revenue recognition when the obligation to perform is being executed: The Group recognises revenues at completion (or during completion) of its obligation to perform by delivery of the promised goods or services (an asset) to the customer (the customer acquires control over the asset). Revenues are recognised in the remuneration amount which – as expected by the entity – is due to it in exchange for the goods or services promised to customers.

The following criteria are also applicable to recognition of revenues.

9.23.1. Sale of goods and products

Revenue is recognised if control over the goods or products have been transferred to another entity – 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 (operating 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 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

Operational segments cover continued activities. The core activity of the Group comprises production of paper presented as "Uncoated" and "Coated" segments and covering 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 2018 and as at 31 December 2018.

Twelve-month period ended on 31 December 2018 and as at 31 December 2018

	Uncoated	Coated	Pulp	Other	Total	Exclusions	Total continuing opetations
Revenues							
Sales to external customers	1 608 610	654 674	894 926	-	3 158 210	-	3 158 210
Sales between segments	-	24 959	44 258	37 970	107 188	(107 188)	-
Total segment revenues	1 608 610	679 633	939 184	37 970	3 265 398	(107 188)	3 158 210
Result of the segment							
EBITDA	95 920	(28 435)	157 500	(1 230)	223 755	(269)	223 486
Interest income	511	82	-	7 532	8 126	(6 946)	1 179
Interest expense	(3 398)	(3 670)	(8 311)	(13 053)	(28 432)	4 670	(23 762)
Depreciation/amortisation	(51 484)	(9 164)	(31 666)	(474)	(92 788)	-	(92 788)
Impairment of fixed assets	-	-	-	-	-	-	-
FX gains and other financial income	2 020	395	6 649	43 757	52 821	(52 177)	644
FX losses and other financial expenses	(11 108)	(7 381)	-	(9 112)	(27 601)	12 729	(14 872)
Gross profit (loss)	32 462	(48 173)	124 172	27 420	135 880	(41 993)	93 888
Assets of the segment	972 636	260 699	963 033	485 004	2 681 372	(555 233)	2 126 139
Liabilities of the segment	494 701	404 565	336 500	457 485	1 693 251	(469 942)	1 223 309
Capital expenditures	(62 464)	(6 354)	(106 224)	(258)	(175 300)	-	(175 300)
Interests in joint ventures	1 182	-	-	-	1 182	-	1 182

- Revenues from inter-segment transactions are eliminated on consolidation.
- The results of the segments do not cover financial income (PLN 1,823 thousand of which PLN 1,179 thousand is interest income) and financial expenses (PLN 38,634 thousand of which PLN 23,762 thousand is interest expense), depreciation/amortisation (PLN 92,788 thousand), impairment of non-financial assets PLN 0 thousand) and income tax liability (PLN -33,390 thousand). However, segment results include inter-segment sales profit – PLN 269 thousand.
- Assets and liabilities of segments do not contain any deferred income tax (asset: PLN 27,137 thousand) and provision: PLN 68,316 thousand) and 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 transformed 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 (transformed)

	Uncoated	Coated	Pulp	Other	Total	Exclusions	Total continuing opetations
Revenues							
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	(57 458)	(22 845)	(30 156)	(464)	(110 923)	-	(110 923)
Impairment of fixed 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)	68 567	(49 973)	75 080	42 002	135 676	(50 069)	85 607
Assets of the segment	902 431	225 945	801 328	429 320	2 359 025	(508 863)	1 850 161
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)
Shares 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 110,923 thousand), impairment of non-financial assets PLN 23,761 thousand) and income tax liability (PLN -14,857 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) and provision: PLN 31,885 thousand) and since those items are managed at the Group level. Segment assets do not also include investments in companies operating in the Group.

(all amounts in PLN '000 unless specified otherwise)

10.1. Revenues by countries and regions

Revenues from contracts with customers amounted to PLN 3,188,655 thousand for 2018 (including sales of paper and pulp: PLN 3,158,210 thousand and sales of utilities, materials, services and rental revenues – PLN 30,445 thousand) PLN 2,980,924 thousand for 2017 (including sales of paper and pulp: PLN 2,952,806 thousand and sales of utilities, materials, services and rental revenues – PLN 28,118 thousand).

The table below presents the Group's revenues from external customers for each segment by country and region in 2017/2018:

Geographical information

Year ended on 31 December 2018

Segment paper and pulp revenues from external customers:	Uncoated	Pulp	Pulp	Total
Germany	366 901	128 019	126 101	621 021
France	161 032	29 822	6 259	197 113
United Kingdom	134 763	90 770	14 057	239 590
Scandinavia	119 640	104 791	197 899	422 329
Western Europe (other countries)	149 044	19 454	197 353	365 852
Poland	297 348	43 340	34 635	375 323
Central and Eastern Europe (other than Poland)	316 354	182 552	46 532	545 439
Outside Europe	63 527	55 925	272 090	391 542
Total segment revenues	**1 608 610**	**654 674**	**894 926**	**3 158 210**

Year ended on 31 December 2017

Segment paper and pulp revenues from external customers:	Uncoated	Pulp	Pulp	Total
Germany	375 148	121 310	146 799	643 257
France	154 085	31 385	9 285	194 756
United Kingdom	114 941	92 254	11 054	218 249
Scandinavia	132 273	111 319	171 209	414 802
Western Europe (other countries)	134 204	18 341	186 594	339 138
Poland	265 130	48 635	27 053	340 818
Central and Eastern Europe (other than Poland)	311 436	191 754	11 054	514 243
Outside Europe	21 369	49 955	216 219	287 543
Total segment revenues	**1 508 586**	**664 952**	**779 267**	**2 952 806**

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.

The table below presents the Group's revenues from sales of utilities, materials, services and rental revenues from external customers, presented as other operational revenues split by country in 2017-2018:

Other revenues	Sale of utilities	Sale of materials	Sales of services	Rental income	Total
Poland	18 024	321	187	1 665	20 197
Sweden	805	8 376	701	367	10 248
Total	18 829	8 697	888	2 032	30 445

Year ended on 31 December 2017

Other revenues	Sale of utilities	Sale of materials	Sales of services	Rental income	Total
Poland	21 308	200	233	1 733	23 474
Sweden	805	8 376	701	367	10 248
Total	21 435	3 654	890	2 139	28 118

(all amounts in PLN '000 unless specified otherwise)

10.2. Fixed assets by countries and regions

The table below presents the Group's fixed assets decreased by deferred tax assets by country and regions as at 31 December 2018 and as at 31 December 2017.

Geographical information Fixed assets:	Year ended on 31 December 2018	Year ended on 31 December 2017 (revised)
Germany	104	104
France	318	300
Scandinavia	639 019	540 416
Western Europe (other countries)	784	1 069
Poland	370 434	359 121
Central and Eastern Europe (other than Poland)	173	249
Total fixed assets	**1 010 832**	**901 259**

Fixed assets include tangible fixed assets, intangible assets, investment properties and other financial and non-financial assets. The growth of fixed assets in Scandinavia and Poland results primarily from investment outlays on tangible fixed assets made in the Group's Paper Mills and Pulp Mills in 2018.

11. Income and costs

11.1. Other operating income

	Year ended on 31 December 2018	Year ended on 31 December 2017
Reversal of provisions	32	21
Damages received	2 191	7 541
Rental income	2 032	2 139
Sales of services	888	890
Subsidies	4 338	4 394
Sale of utilities	18 829	21 435
Sale of materials	8 697	3 654
Profit on disposal of tangible fixed assets	687	53
Profit on sale of CO_2 emission rights	5 340	1 769
Other	4 385	1 759
Total	**47 418**	**43 654**

11.2. Other operating expenses

	Year ended on 31 December 2018	Year ended on 31 December 2017
Real estate tax	(679)	(654)
Costs of sales of utilities	(18 897)	(20 779)
Costs of sales of materials	(8 051)	(3 177)
Reorganisation costs in subsidiary entity	(1 312)	(983)
Loss on disposal of tangible fixed assets	(798)	(182)
Write-off of spare parts	(1 042)	(355)
Other	(1 508)	(2 930)
Total	**(32 288)**	**(29 060)**

(all amounts in PLN '000 unless specified otherwise)

11.3. Financial income

	Year ended on 31 December 2018	Year ended on 31 December 2017
Interest income on funds in bank accounts	830	197
Interest income on receivables	71	51
Other interest income	279	295
FX gains	-	231
Profit on financial assets	416	442
Profit on interests in joint ventures	202	145
Other financial income	6	469
Total	**1 823**	**1 831**

11.4. Financial expenses

	Year ended on 31 December 2018	Year ended on 31 December 2017
Interest on bank loans measured at amortised cost	(20 163)	(18 031)
Interest on other financial liabilities	(1 443)	(1 631)
Inter Interest on actuarial provisions	(2 003)	(1 720)
Financial expenses under finance lease agreements	(153)	(1 595)
FX losses	(8 401)	-
Measurement effect of the adjusted purchase price	(3 254)	(703)
Ineffective part of changes of measurement to fair value of derivative instruments	0	116
Other financial expenses	(3 217)	(2 364)
Total	**(38 634)**	**(25 929)**

The costs related to the measurement effect to the adjusted purchase price relate to changed margin.

11.5. Prime costs

	Year ended on 31 December 2018	Year ended on 31 December 2017 (transformed)
Depreciation/amortisation	(92 788)	(110 922)
Consumption of materials and energy	(2 075 762)	(1 763 637)
Third party services	(401 485)	(430 069)
Taxes and charges	(13 476)	(13 779)
Employee benefit costs	(407 017)	(416 921)
Other prime costs	(113 486)	(103 771)
Value of goods sold	(10 057)	(11 269)
Prime costs	(3 114 072)	(2 850 368)
Impairment charge	-	(23 761)
Changes in product inventories	77 078	16 349
Change to impairment charges to receivables	(5 648)	85
TOTAL	**(3 042 642)**	**(2 857 694)**
of which:		
Items recognised as internal costs of sales	(2 608 260)	(2 416 931)
Items recognised as costs of sales	(346 177)	(348 093)
Items recognised as administrative expenses	(88 205)	(92 671)

(all amounts in PLN '000 unless specified otherwise)

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

	Year ended on 31 December 2018	Year ended on 31 December 2017 (transformed)
Items recognised as internal costs of sales:		
Depreciation of fixed assets and amortisation of intangible assets	(89 573)	(107 854)
Impairment of tangible fixed assets	-	(22 773)
Impairment of intangible assets	-	(987)
Items recognised as costs of sales:		
Depreciation of fixed assets and amortisation of intangible assets	(1 426)	(1 403)
Impairment of tangible fixed assets	-	-
Impairment of intangible assets	-	-
Items recognised as administrative expenses		
Depreciation of fixed assets and amortisation of intangible assets	(1 789)	(1 666)
Impairment of tangible fixed assets	-	-
Impairment of intangible assets	-	-

11.7. Employee benefit costs

	Note	Year ended on 31 December 2018	Year ended on 31 December 2017 (transformed)
Salary costs		(298 154)	(303 276)
Social insurance premiums		(81 776)	(84 627)
Costs of retirement benefits	26.1	(30 170)	(34 361)
Total costs of employee benefits, of which:		**(410 100)**	**(422 264)**
Items recognised as internal costs of sales		(290 760)	(304 258)
Items recognised as costs of sales		(22 131)	(22 891)
Items recognised as administrative expenses		(94 126)	(89 772)
Items recognised as other comprehensive income		(3 083)	(5 343)

12. Components of other comprehensive income

The components of other total comprehensive income for the year ended on 31 December 2018 and 31 December 2017 that are re-classified to profit or loss, are as follows:

	Year ended on 31 December 2018	Year ended on 31 December 2017 (transformed)
Cash flow hedges		
Profit (loss) for the period resulting from contracts settled during the reporting period	43 524	(900)
Profit (loss) for the period resulting from contracts not settled as the reporting date	28 516	4 145
Adjustments resulting from re-classification to profit (loss)	-	-
Total other comprehensive income	**72 041**	**3 244**

(all amounts in PLN '000 unless specified otherwise)

13. Income tax

13.1. Tax liability

The major components of income tax liabilities for the year ended on 31 December 2018 and on 31 December 2017 are as follows:

	Year ended on 31 December 2018	Year ended on 31 December 2017 (transformed)
Consolidated profit and loss account		
Current income tax		
Current income tax liability	(6 170)	(3 454)
Adjustments related to current income tax from previous years	(720)	(199)
Deferred income tax		
Resulting from the establishment and reversal of temporary differences	(26 500)	(11 204)
Tax credit/ (liability) disclosed in the consolidated profit and loss account	(33 390)	(14 857)
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	(15 066)	(958)
Deferred income tax on actuarial profit/loss	668	1 157
Tax benefit (tax liability) recognised in other comprehensive income	(14 398)	199

(all amounts in PLN '000 unless specified otherwise)

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 2018 and 31 December 2017 is as follows:

	Year ended on 31 December 2018	Year ended on 31 December 2017 (transformed)
Gross profit (loss) before tax from continuing operations	93 888	85 608
Profit (loss) before tax from discontinued operations	(4 733)	(5 645)
Gross profit (loss) before tax	89 154	79 963
Tax at the statutory rate prevailing in Poland in 2008-2018, of 19%	(16 939)	(15 192)
Tax adjustments from previous years, recognised in the current income tax	(720)	199
Difference resulting from income tax rates in force in other countries	(2 938)	(1 353)
Tax loss not incorporated in deferred income tax asset calculation	(15 822)	(2 951)
Use of tax losses not recognised earlier	1 809	2 130
Non-taxable revenues	1 361	3 963
Costs that are not tax deductible	(2 179)	(4 373)
Effects of the tax group in Sweden	5	2 729
Change of tax rates	2 158	-
Tax at the effective tax rate of 37% (2017: 19%)	(33 265)	(14 849)
Income tax (charge) stated in the consolidated profit and loss account	(33 390)	(14 857)
Income tax attributed to discontinued operations	125	8

The change to tax rates relates to companies in Sweden whereas at 1 January 2019 the corporate income tax rate was changed from 22.0% to 21.4%.

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:

(all amounts in PLN '000 unless specified otherwise)

Expiry year of tax losses	Year ended on 31 December 2018	Year ended on 31 December 2017
no time limits	8 208	4 355
ended on 31 December 2018	na	1 716
ended on 31 December 2019	3 598	3 598
ended on 31 December 2020	6 777	10 151
ended on 31 December 2021	8 040	6 553
ended on 31 December 2022	11 153	-
ended on 31 December 2023	6 287	-
Total	**44 063**	**26 373**

The future potential tax impact of non-capitalised tax losses is PLN 8,569 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 2018	31 December 2017 (transformed)	31 December 2018	31 December 2017 (transformed)
Deferred income tax liability				
Fixed assets	56 080	31 503	(24 577)	(7 475)
Inventories	-	-	-	-
Trade receivables	-	-	-	-
Employment benefits	-	-	-	-
Accruals and deferred income and provisions	-	-	-	-
Co-generation certificates	1 299	1 586	287	1 063
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	18 784	3 793	(14 992)	(245)
FX profit	-	-	-	-
Gross deferred income tax provision	**76 163**	**36 881**	**(39 282)**	**(6 657)**

(all amounts in PLN '000 unless specified otherwise)

	Consolidated balance sheet as at		Consolidated profit and loss account for the year ended on	
	31 December 2018	31 December 2017 (transformed)	31 December 2018	31 December 2017 (transformed)
Deferred income tax asset				
Post-employment payments	6 089	6 732	(643)	324
Accruals and deferred income and provisions	3 891	3 395	496	208
Adjustments to fair value due to impairment of fixed assets	-	-	-	-
Inventories	1 385	1 120	266	(104)
Trade receivables	3 623	3 579	44	(237)
Investments tax credits – activity in Kostrzyńsko-Słubicka Specjalna Strefa Ekonomiczna	6 534	8 622	(2 088)	(6 658)
FX differences	-	-	-	-
Untaxed provisions (in compliance with Swedish tax regulations)	-	-	-	-
Hedging instruments	-	-	-	-
Losses deductible from future taxable income	13 461	13 935	(474)	1 154
Gross deferred income tax asset	**34 983**	**37 383**	**(2 400)**	**(5 313)**
FX differences			784	965
Total, of which			(40 898)	(11 005)
Changes to deferred income tax recognised in other comprehensive income			(14 398)	199
Changes to deferred income tax recognised in profit and loss account			(26 500)	(11 204)
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	(7 846)	(4 996)		
- Deferred income tax asset	27 137	32 387		
- Deferred income tax provision	68 316	31 885		
of which:				
- Deferred income tax asset – discontinued operations	-			
- Deferred income tax provision – discontinued operations	-			

The Management Board made an assessment of recoverability of the deferred income tax asset related to tax losses and determined the asset was recoverable inter alia due to the fact that AP Grycksbo and AP Munkedals were members of a tax group in Sweden and tax regulations in Sweden do not impose any time restrictions to applying tax losses incurred in previous years.

(all amounts in PLN '000 unless specified otherwise) 118

The Group did not recognise any deferred income tax asset on the tax losses suffered by Arctic Paper S.A. due to the limited period of applying the losses in the coming years when the company does not expect to generate taxable income to be offset against the losses.

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

The Management Board of Arctic Paper S.A. continues its search for buyer for the factory of Arctic Paper Mochenwangen. 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 the day the search for a buyer commenced. In view of the continued search for a buyer for the factory of Arctic Paper Mochenwangen or individual assets thereof, the Management Board recognised the business of the Mochenwangen Group as discontinued activity also as at 31 December 2017 and as at 31 December 2018; as at 31 December 2017, the Management Board decided that the provision for retirement benefits would not be sold as part of the discontinued operations and as a result it was excluded from liabilities related directly to the discontinued activities.

The Mochenwangen Group includes: Arctic Paper Mochenwangen GmbH, Arctic Paper Investment GmbH, Arctic Paper Verwaltungs GmbH and Arctic Paper Immobilienverwaltung GmbH Co&KG.

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 2018	12-month period ended on 31 December 2017
Revenues from sales of products	-	-
Costs of sales	(1 315)	(2 282)
Gross profit (loss) on sales	(1 315)	(2 282)
Selling and distribution costs	(868)	(774)
Administrative expenses	(2 837)	(4 454)
Other operating income	2 124	2 355
Other operating expenses	(1 814)	(613)
Operating profit (loss)	(4 710)	(5 769)
Financial income	0	-
Financial expenses	(24)	123
Gross profit (loss)	(4 733)	(5 645)
Income tax	125	8
Profit (loss) from discontinued operations	(4 609)	(5 637)
Cumulated other comprehensive income related to discontinued operations		
FX differences on translation of foreign operations	(37)	509
Actuarial profit/loss	-	-
	(37)	509
Earnings per share:		
– basic profit/(loss) from discontinued operations attributable to the shareholders of the Parent Entity	(0,07)	(0,08)
– diluted profit from discontinued operations attributable to the shareholders of the Parent Entity	(0,07)	(0,08)

(all amounts in PLN '000 unless specified otherwise) 119

Net assets held for sale	As at 31 December 2018	As at 31 December 2017
Assets held for sale		
Inventories and other tangible assets	-	21
Trade and other receivables	619	1 293
Corporate income tax receivables	125	121
Other financial assets	-	188
Cash and cash equivalents	972	2 448
	1 716	4 071
Liabilities directly related to assets held for sale		
Provisions	864	838
Trade and other payables	2 284	517
Income tax liability	30	100
Accruals and deferred income	176	171
	3 355	1 626
Net assets related to discontinued operations	(1 639)	2 445

Cash flows related to discontinued operations	12-month period ended on 31 December 2018	12-month period ended on 31 December 2017
Net cash flows from operating activities	(1 538)	1 229
Net cash flows from investing activities	-	-
Net cash flows from financing activities	-	-
Increase / (decrease) in cash and cash equivalents	(1 538)	1 229
Net FX differences	63	(101)
Cash and cash equivalents at the beginning of the period	2 448	1 320
Cash and cash equivalents at the end of the period	972	2 448

The Group intends to sell the land and afterwards the entire discontinued activity as an organised whole. Due to the fact that the Group now is trying to identify the contamination of the land and the condition will materially impact the market value of the asset, it is not possible to estimate the fair value of the land in a reliable manner. In consequence, the Group recognised the land at PLN 0 as at 31 December 2018 and 31 December 2017.

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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 2018 was PLN 6 thousand (as at 31 December 2017: PLN 3 thousand).

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

	Year ended on 31 December 2018	Year ended on 31 December 2017
Cash	35	24
Fund liabilities	(29)	(21)
Fund expenses covered with own resources		-
Set-off balance	**6**	**3**

	Year ended on 31 December 2018	Year ended on 31 December 2017
Fund allocations in the financial year	646	640

(all amounts in PLN '000 unless specified otherwise)

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 2018	Year ended on 31 December 2017 (transformed)
Net profit / (loss) period from continuing operations attributable to the shareholders of the Parent Entity	12 282	42 479
Profit / (loss) for the financial year from discontinued operations attributable to the shareholders of the Parent Entity	(4 609)	(5 637)
Net profit (loss) for the reporting period attributable to the shareholders of the Parent Entity	7 673	36 841
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	0,11	0,53
– basic earnings from the profit/(loss) from continuing operations for the period attributable to the shareholders of the Parent Entity	0,18	0,61
Diluted profit (loss) per share (in PLN)		
– from the profit/(loss) for the period attributable to the shareholders of the Parent Entity	0,11	0,53
– from the profit/(loss) for the period from continuing operations attributable to the shareholders of the Parent Entity	0,18	0,61

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 S.A. 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, the agreements related to the bond issue pursuant to which on 30 September 2016 the Company issued bonds and the intercreditor agreement (described in more detail in note 32.2 "Obtaining of new 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).

The Company's General Meeting held on 13 June 2018 approved a resolution on distribution of dividend to the Company's shareholders from its retained net profit in the Company's reserves of PLN 13,857,556.60. Dividend per share was PLN 0.20. The Company's General Meeting determined 20 June 2018 as the ex-dividend date and 27 June 2018 as the dividend distribution date. The dividend was paid according to schedule.

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

(all amounts in PLN '000 unless specified otherwise)

18. Tangible fixed assets

(transformed)	Land and buildings	Plant and machinery	Fixed assets under construction	Total
Net book value as at 01 January 2017	193 390	539 507	88 849	821 746
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	(16 415)	(93 288)	-	(109 703)
Impairment	(9 048)	(13 725)	-	(22 773)
Change to presentation within groups	(1 769)	1 769	-	-
FX differences on translation	(7 584)	(25 818)	(8 514)	(41 916)
Net book value as at 31 December 2017	**170 920**	**511 245**	**139 322**	**821 488**
Net book value as at 01 January 2018	170 920	511 245	139 322	821 488
Increase due to purchase	416	58 979	116 086	175 481
Increase due to transfer of tangible fixed assets under construction	33 881	124 398	(158 279)	-
Decreases due to disposal	(242)	(574)	-	(816)
Decreases due to liquidation	-	(9)	-	(9)
Depreciation allowance for the period	(15 483)	(74 810)	-	(90 292)
Impairment	-	-	-	-
Change to presentation within groups	-	-	-	-
FX differences on translation	(563)	(1 564)	(1 763)	(3 891)
Transfer to discontinued operations	-	-	-	-
Net book value as at 31 December 2018	**188 929**	**617 666**	**95 365**	**901 960**
Balance as at 01 January 2017				
Gross book value	426 719	1 818 286	88 849	2 333 854
Depreciation/amortisation and impairment charges	(233 329)	(1 278 778)	-	(1 512 108)
Net book value	193 390	539 507	88 849	821 746
Balance as at 31 December 2017				
Gross book value	415 732	1 821 858	139 322	2 376 912
Depreciation/amortisation and impairment charges	(244 812)	(1 310 612)	-	(1 555 424)
Net book value	170 920	511 245	139 322	821 488
Balance as at 01 January 2018				
Gross book value	415 732	1 821 858	139 322	2 376 912
Depreciation/amortisation and impairment charges	(244 812)	(1 310 612)	-	(1 555 424)
Net book value	170 920	511 245	139 322	821 488
Balance as at 31 December 2018				
Gross book value	449 429	1 970 631	95 365	2 515 426
Depreciation/amortisation and impairment charges	(260 501)	(1 352 964)	-	(1 613 465)
Net book value	188 929	617 666	95 365	901 960

Impairment of tangible fixed assets for the year ended on 31 December 2018 was PLN 0 thousand (in the year ended on 31 December 2017: PLN 22,773 thousand).

(all amounts in PLN '000 unless specified otherwise)

The book value of plant and machinery used as at 31 December 2018 pursuant to financial lease contracts and rental contracts with a purchase option amounted to PLN 4,330 thousand (as at 31 December 2017: PLN 27,873 thousand). The drop in the value of machines and equipment used under financial lease contracts is due to the purchase of the machines and equipment at AP Grycksbo in January 2018.

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 lease contracts and rental contracts with a purchase option.

Tangible fixed assets with book value of PLN 591,004 thousand (as at 31 December 2017: PLN 475,928 thousand) and are subject to mortgage to secure the bank loans (note 32).

The amount of capitalised external funding costs and FX gains/losses in the year ended on 31 December 2018 was PLN 924 thousand (in the year ended on 31 December 2017: PLN 389 thousand).

19. Leases

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

The Group entered into operating lease contracts covering selected motor vehicles, technical equipment and perpetual usufruct right of land.

As at 31 December 2018 and 31 December 2017 the future minimum fees under irrevocable operating lease contracts were as follows:

	Year ended on 31 December 2018	Year ended on 31 December 2017 (transformed)
In 1 year	4 191	3 102
In 1 to 5 years	6 929	5 383
Over 5 years	11 832	12 468
Total	**22 952**	**20 953**

The transformed data as at 31 December 2017 cover the perpetual usufruct right of land at AP Kostrzyn.

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

As at 31 December 2018 and 31 December 2017 the future minimum lease fees and the present value of minimum net lease fees were as follows:

(all amounts in PLN '000 unless specified otherwise)

	Year ended on 31 December 2018		Year ended on 31 December 2017	
	Minimum fees	Present value of the fees	Minimum fees	Present value of the fees
In 1 year	1 410	1 301	24 956	24 438
In 1 to 5 years	2 964	2 854	4 236	3 945
Over 5 years	-	-	-	-
Total minimum lease fees	4 375	4 155	29 192	28 383
Minus financial expenses	(219)		(809)	
Value of present minimum lease fees, of which:	4 155	4 155	28 383	28 383
- short-term		1 301		24 438
- long-term		2 854		3 945

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

	2018	2017
Opening balance as at 01 January	4 107	4 074
Increases (subsequent expenditures)	-	-
Sale of properties	-	-
Profit on fair valuation	129	33
Closing balance as at 31 December	**4 236**	**4 107**

Investment properties include undeveloped plots of land in Warsaw.

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 price of land was 395 PLN/m2 as at 31 December 2018 (31 December 2017: 383 PLN/m2).

(all amounts in PLN '000 unless specified otherwise)

The Group does not generate any other revenues apart from those disclosed in the table above. The current costs incurred in 2018 included real estate tax of PLN 10 thousand (2017: PLN 10 thousand).

21. Intangible assets

Status as at 31 December 2018

	Relations with customers	Trademarks	Co-generation certificates	Other*	Total
Net value as at 01 January 2018	0	32 186	9 132	9 790	51 108
Increases	-	-	18 156	2 035	20 191
Decreases	-	-	(18 978)	(268)	(19 246)
Depreciation for the period	-	-	-	(2 495)	(2 495)
Impairment	-	-	-	-	-
FX differences on translation	(0)	(306)	(3)	(88)	(396)
Net value as at 31 December 2018	**0**	**31 880**	**8 307**	**8 973**	**49 160**
As at 01 January 2018					
Gross value	35 455	84 726	9 132	35 732	165 044
Depreciation/amortisation and impairment charges	(35 455)	(52 540)	-	(25 942)	(113 936)
Net value	0	32 186	9 132	9 790	51 107
As at 31 December 2018					
Gross value	35 115	83 900	8 307	37 405	164 727
Depreciation/amortisation and impairment charges	(35 115)	(52 020)	-	(28 432)	(115 566)
Net value	(0)	31 880	8 307	8 973	49 160

* the item other contains computer software

(all amounts in PLN '000 unless specified otherwise)

Status as at 31 December 2017

	Relations with customers	Trademarks	Co-generation certificates	Other*	Total
Net value as at 01 January 2017	1 571	34 921	13 003	7 538	57 033
Increases	-	-	19 815	5 329	25 143
Decreases	-	-	(25 640)	238	(25 402)
Depreciation for the period	(475)	-	-	(745)	(1 220)
Impairment	(987)	-	-	-	(987)
FX differences on translation	(109)	(2 735)	1 954	(2 570)	(3 460)
Net value as at 31 December 2017	**0**	**32 186**	**9 132**	**9 790**	**51 108**
As at 01 January 2017					
Gross value	38 505	92 117	13 003	33 023	176 648
Depreciation/amortisation and impairment charges	(36 934)	(57 196)	-	(25 485)	(119 614)
Net value	1 571	34 921	13 003	7 538	57 033
As at 31 December 2017					
Gross value	35 455	84 726	9 132	35 732	165 044
Depreciation/amortisation and impairment charges	(35 455)	(52 540)	-	(25 942)	(113 936)
Net value	0	32 186	9 132	9 790	51 108

* the item other contains computer software

As at 31 December 2018 and 31 December 2017, the trademarks include those of Arctic Paper and Rottneros. The trademarks are not subject to impairment allowances.

Impairment of intangible assets for the year ended on 31 December 2018 was PLN 0 thousand (in the year ended on 31 December 2017: PLN 987 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 2018 and 31 December 2017 did not disclose any increased impairment charges to assets in 2018 and 2017. 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 2018 and 31 December 2017.
The next test is planned for 31 December 2019.

Intangible assets with book value of PLN 11,455 thousand (as at 31 December 2017: PLN 12,178 thousand) and constituted security to bank loans (note 32).

(all amounts in PLN '000 unless specified otherwise)

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

In the years ended on 31 December 2018 and 31 December 2017 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 2018 and 31 December 2017.

The value of the interests in the joint venture was PLN 1,182 thousand as at 31 December 2018 (31 December 2017: PLN 988 thousand). The profit on the interests in the joint venture was PLN 202 thousand in 2018 and was recognised as financial income (2017: profit of PLN 145 thousand). FX differences on translation amounted to PLN -8 thousand as at 31 December 2018 (31 December 2017: PLN -81 thousand).

23. Business combinations and acquisition of non-controlling interests

In 2018 and 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 2018	Year ended on 31 December 2017
Hedging instruments	40.3.1.	92 466	21 914
Investments in equity instruments		3 361	3 394
Other		7 221	3 898
Total		**103 047**	**29 207**
- short-term		50 527	7 151
- long-term		52 520	22 056

(all amounts in PLN '000 unless specified otherwise)

24.2. Other non-financial assets

	Year ended on 31 December 2018	Year ended on 31 December 2017
Insurance costs	1 245	2 795
Lease fees	60	64
Costs of financing relating to tranches not disbursed by the end of the year and revolving credit facility	2 693	3 398
Advance payments for services	7 338	4 512
Rent	501	762
Receivables from pension fund	1 492	1 248
Other	2 712	2 317
Total	**16 040**	**15 096**
- short-term	14 267	13 583
- long-term	1 773	1 513

25. Impairment test for tangible fixed assets and intangible assets

25.1. Arctic Paper Grycksbo

As at 31 December 2018, 30 June 2018 and 31 December 2017 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. 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. The impairment tests held as at 31 December 2018 and 30 June 2018 did not generate any impairment allowances.
The impairment test held as at 31 December 2017 resulted in the establishment of an impairment charge to assets of PLN 23,761 thousand.

Below is a presentation of the key assumptions underlying the impairment tests held as at 31 December 2018 and 31 December 2017.

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,

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 applied discount rate is 8.0% (projected for 31 December 2017: 8.0%). 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.

(all amounts in PLN '000 unless specified otherwise)

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.

The table below presents the core assumptions applied to calculate the value in use as at 31 December 2018 and 31 December 2017.

Main assumptions	2018	2017
Approved projections based on	2019-2023	2018-2022
Income tax rate	21,4%	22,0%
Discount rate before tax effect	10,2%	8,5%
Weighted average cost of capital (WACC)	8,0%	8,0%
Growth rate in the residual period	0,0%	0,0%

The total cumulated impairment charge to Arctic Paper Grycksbo as at 31 December 2018 was PLN 296,591 thousand (31 December 2017: PLN 299,556 thousand). The difference in the impairment allowance was due to the measurement of the impairment charge from previous years denominated in SEK to the presentation currency – PLN.

The value of tested assets was PLN 37,767 thousand as at 31 December 2018 (31 December 2017: PLN 42,084 thousand, after the allowance).

The table below presents the sensitivity analysis of the value in use test as at 31 December 2018:

Parameter	Increase in basis points	Effect on value in use
31 December 2018		
Weighted average cost of capital (WACC)	+0,1 p.p.	(1 078)
Growth rate in the residual period	+0,1 p.p.	743
Sales volume in the first year of the projection	+ 0,1%	667
Sales prices in the first year of the projection	+ 0,1%	726
Pulp purchase prices in the first year of the projection	+1,0%	(3 368)
Energy purchase prices in the first year of the projection	+1,0%	(153)
Weighted average cost of capital (WACC)	-0,1 p.p.	1 104
Growth rate in the residual period	-0,1 p.p.	(716)
Sales volume in the first year of the projection	- 0,1%	(667)
Sales prices in the first year of the projection	- 0,1%	(726)
Pulp purchase prices in the first year of the projection	-1,0%	3 368
Energy purchase prices in the first year of the projection	-1,0%	153
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 purchase prices in the first year of the projection	+1,0%	(31 384)
Energy purchase prices in the 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)
Sales prices in the first year of the projection	- 0,1%	(7 127)
Pulp purchase prices in the first year of the projection	-1,0%	31 384
Energy purchase prices in the first year of the projection	-1,0%	4 489

(all amounts in PLN '000 unless specified otherwise)

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 operations 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 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 2018	Year ended on 31 December 2017
Current headcount costs	4 407	1 849
Interest expense on employee benefit liabilities	2 003	1 720
Actuarial (profit)/loss	3 083	5 343
Total costs of benefit in the plan	**9 494**	**8 912**
of which:		
recognised in the profit and loss account	6 410	3 568
recognised in other comprehensive income	3 083	5 343

The justification presenting changes in the provisions for the years ended on 31 December 2018 and 31 December 2017 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 benefits as at 01 January 2018	1 551	28 195	46 627	3 819	7 347	12 743	100 282
Current headcount costs	303	-	-	3 740	364	-	4 407
Interest expense	-	571	950	-	209	273	2 003
Actuarial Loss (Profit)	-	1 279	1 659	-	602	(456)	3 083
Benefits paid	-	(841)	(2 284)	-	(430)	(303)	(3 858)
FX differences on translation of foreign plans	-	(268)	(458)	3	-	390	(333)
Transfer from discountiued operation	-	-	-	-	-	-	-
Provisions for pensions and similar benefits as at 31 December 2018	**1 854**	**28 936**	**46 493**	**7 562**	**8 093**	**12 648**	**105 585**

	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 benefits 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 benefits as at 31 December 2017	**1 551**	**28 195**	**46 627**	**3 819**	**7 347**	**12 743**	**100 282**

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

	As at 31 December 2018	As at 31 December 2017
Discount rate (%)		
Plan in Sweden	2,3%	2,3%
Plan in Poland	3,0%	3,0%
Plan in Germany	2,0%	na
Anticipated salary growth rate (%)		
Plan in Sweden	0,0%	0,0%
Plan in Poland	2,5%	2,5%
Plan in Germany	na	na
Remaining employment period (in years)		
Plan in Sweden	16,0	16,0
Plan in Poland	15,1	15,9
Plan in Germany	nd	na

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

Change to the applied interest rate by 1 percentage point		
ıanej	Increase by 1 p.p.	Dcrease by 1 p.p.
31 December 2018	in thousands PLN	in thousands PLN
Impact on the liabilities under defined benefit plans	(11 205)	12 755
31 December 2017		
Impact on the liabilities under defined benefit plans	(10 780)	12 230

Change to the anticipated salary growth rate by 1 percentage point		
	Increase by 1 p.p.	Dcrease by 1 p.p.
31 December 2018	in thousands PLN	in thousands PLN
Impact on the liabilities under defined benefit plans	8 773	(7 055)
31 December 2017		
Impact on the liabilities under defined benefit plans	8 231	(6 602)

26.2. Termination benefits

In connection with discontinued paper production on a machine at AP Grycksbo, a provision was established for termination of employment contracts of PLN 5,789 thousand as at 31 December 2018. As at 31 December 2017 the provision for severance pay amounted to PLN 4,667 thousand.

(all amounts in PLN '000 unless specified otherwise)

27. Inventories

	Year ended on 31 December 2018	Year ended on 31 December 2017
Materials (at purchase prices)	209 373	156 518
Production in progress (at manufacturing costs)	7 406	7 631
Finished products, goods, of which:		
At purchase price / manufacturing costs	253 135	180 996
At net realisable price	8 685	5 816
Advance payments for deliveries	15	35
Total inventories, at the lower of: purchase price / manufacturing costs or net realisable price	**478 614**	**350 996**
Impairment charge to inventories	5 555	4 408
Total inventories before impairment charge	484 168	355 404

The value of the goods was PLN 104 thousand as at 31 December 2018 (31 December 2017: PLN 594 thousand).

In the year ended on 31 December 2018 the Group increased impairment charges to inventories for PLN 1,147 thousand (2017: PLN 85 thousand). There were no other changes to the impairment charges to inventories in 2018 and 2017.
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 2018 the Group had pledge agreements on its movable assets for PLN 523,963 thousand, SEK 715,530 thousand, partly related to inventories.
In the financial year ended on 31 December 2017 the Group had pledge agreements on its movable assets for SEK 628,875 thousand, PLN 256,116 thousand, partly related to inventories.

As at 31 December 2018 the inventories of finished products for PLN 8,685 thousand were measured at the net realisable prices (as at 31 December 2017: PLN 5,816 thousand).

28. Trade and other receivables

	Year ended on 31 December 2018	Year ended on 31 December 2017
Trade receivables	332 258	296 408
VAT receivables	26 794	24 703
Other third party receivables	3 253	4 954
Other receivables from related entities	3 641	4 006
Total (net) receivables	**365 946**	**330 071**
Impairment charges to receivables	17 074	27 030
Gross receivables	383 020	357 101

All the trade receivables specified above are receivables under contracts with customers and they do not contain any material financing element.
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.

(all amounts in PLN '000 unless specified otherwise)

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 2018, trade receivables of PLN 17,074 thousand (as at 31 December 2017: PLN 27,030 thousand) and 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 2018	Year ended on 31 December 2017
Impairment charge as at 01 January	27 030	29 786
Increase	926	132
Utilisation	(8 262)	(1 779)
Write-back of unutilised amounts	(2 411)	(65)
FX differences on translation of foreign operations	(209)	(1 044)
Impairment allowance as at 31 December	**17 074**	**27 030**

The impairment allowance fully refers to receivables under contracts with customers.

Below is an analysis of trade receivables that as at 31 December 2018 and 31 December 2017 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 2018	332 258	288 501	39 018	3 924	503	26	287
As at 31 December 2017	296 408	250 486	41 073	4 081	614	51	102

Receivables over 120 days in the prospective assessment of the company's management qualify as collectible and therefore no impairment was recognised.
The maturities of other receivables from third parties do not exceed 360 days. Receivables from related entities cover primarily receivables from the core shareholder of AP S.A. and will be settled at dividend distribution.

29. Cash and cash equivalents

Cash at bank earns interest at variable interest rates based on overnight bank deposit rates.
As at 31 December 2018, the fair value of cash and cash equivalents was PLN 201,118 thousand (31 December 2017: PLN 241,403 thousand).
As at 31 December 2018, the Group held undrawn funds under overdraft facilities of PLN 89,255 thousand (31 December 2017: PLN 139,095 thousand).
As at 31 December 2018, the Group utilised its overdraft facilities for PLN 92,343 thousand (31 December 2017: PLN 41,146 thousand).

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

	Year ended on 31 December 2018	Year ended on 31 December 2017
Cash in bank and on hand	176 975	241 403
Short-term deposits	24 143	-
Cash in transit	-	-
Cash and cash equivalents in the consolidated balance sheet	201 118	241 403
Cash in bank and on hand attributable to discontinued operations	972	2 448
Cash and cash equivalents in the consolidated cash flow statement	**202 090**	**243 851**

(all amounts in PLN '000 unless specified otherwise)

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 2018	Year ended on 31 December 2017
Increase / decrease in receivables and other non-financial assets		
Book change of receivables and other non-financial assets	(35 875)	13 425
Discontinued operations	674	(1 063)
Differences on translation	(5 167)	(21 588)
Increase / decrease receivables and other non-financial assets disclosed in the consolidated cash flow statement	(40 368)	(9 227)
	-	-
Change to inventories		
Book change to inventories	(127 619)	9 357
Discontinued activity (2017: sale of assets)	21	10 597
Differences on translation	(1 663)	(22 269)
Change to inventories disclosed in the consolidated cash flow statement	(129 261)	(2 316)
Increase / decrease in liabilities except for loans and borrowings		
Book increase /decrease in liabilities except for loans and borrowings	92 810	24 141
Change of liabilities for purchase of tangible fixed assets and intangible assets	(2 077)	2 084
Discontinued operations	1 767	(1 918)
Other	-	(4 413)
Differences on translation	2 357	22 817
Increase / decrease in liabilities except for loans and borrowings disclosed in the consolidated cash flow statement	94 858	42 711
Changes in prepayments and accruals		
Book change in accruals and prepayments	21 590	(23 149)
Discontinued operations	5	29
Other	-	4 434
Differences on translation	402	5 351
Change in accruals and prepayments disclosed in the consolidated cash flow statement	21 997	(13 335)
Change in provisions		
Book change in provisions	1 563	15 908
Provision for actuarial gains/losses	(3 083)	(5 343)
Discontinued operations	26	(14 567)
Differences on translation	406	7 792
Change in provisions disclosed in the consolidated cash flow statement	(1 089)	3 790
Classification to "Other" in operating activity		
Measurement adjustment of the adjusted purchase price	-	(2 653)
Dividend received (transferred to investing activities)	(416)	(442)
Measurement of interests in joint ventures	(202)	-
Other	(310)	(385)
"Other" in operating activities	(927)	(3 480)
Purchase of tangible fixed assets and intangible assets		
Increase due to purchase of tangible fixed assets in line with the change table	(175 481)	(175 249)
Increase due to purchase of intangible assets in line with the change table	(20 191)	(25 143)
Increase due to purchase of intangible assets recognised as fixed assets under constru	-	853
Acquisition of fixed assets by way of financial leases	-	361
Change of liabilities for purchase of tangible fixed assets and intangible assets	2 077	(2 084)
Co-generation certificates	18 294	19 815
Purchase of tangible fixed assets and intangible assets in the consolidated cash flow statement	(175 300)	(181 448)

(all amounts in PLN '000 unless specified otherwise)

30. Share capital and reserve capital/other reserves

30.1. **Share capital**

Share capital	As at 31 December 2018	As at 31 December 2017
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 2018		**69 287 783**	**69 287 783**

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

In 2018 and 2017 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.

(all amounts in PLN '000 unless specified otherwise)

30.1.4. Major shareholders

	As at 31 December 2018		As at 31 December 2017	
	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%	59,15%	59,15%
Nemus Holding AB	58,28%	58,28%	58,28%	58,28%
other entity	0,87%	0,87%	0,87%	0,87%
directly	8,98%	8,98%	8,98%	8,98%
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 -224,913 thousand.

The table below presents changes to the reserve capital in the year ended on 31 December 2018 and 31 December 2017:

	Year ended on 31 December 2018	Year ended on 31 December 2017
Reserve capital at the beginning of the period	447 638	447 638
Profit/loss distribution	(39 662)	-
Reserve capital at the end of the period	**407 976**	**447 638**

(all amounts in PLN '000 unless specified otherwise)

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 2018 and 31 December 2017:

	As at 31 December 2018	As at 31 December 2017
Other capital reserves at the beginning of period	125 997	156 975
Changes to cash flow hedges		
Measurement of financial instruments, of which:	**49 331**	**2 211**
- FX forward	860	(860)
- Forward for electricity	48 515	5 592
- interest rate SWAP	(44)	744
- Forward for pulp	-	(3 265)
Deferred tax, of which:	**(10 361)**	**(545)**
- FX forward	(163)	163
- Forward for electricity	(10 198)	(1 361)
- interest rate SWAP	-	-
- Forward for pulp	-	653
Other changes		
Dividend disbursed to shareholders of AP SA	(13 857)	-
Profit distribution	-	(32 644)
Other capital reserves at the end of period	**151 110**	**125 997**

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 Arctic 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;

(all amounts in PLN '000 unless specified otherwise)

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 2018, there were no other restrictions concerning dividend distribution.

The retained profit/accumulated loss in the balance sheet as at 31 December 2018 is composed of the following items:

— consolidated retained profit/accumulated loss attributable to the shareholders of the parent entity for 2008-2018 of PLN -166,506 thousand; and standalone profit distribution/loss coverage of Arctic Paper S.A. for 2010-2017 of PLN 134,449 thousand (including loss coverage for 2017 of PLN 39,662 thousand with 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 2018 of PLN -18,881 thousand.

30.6. Non-controlling interests

	As at 31 December 2018	As at 31 December 2017
As at beginning of the period	231 555	235 588
Dividend disbursed by subsidiary entities	(11 510)	(12 759)
Share in other comprehensive income of subsidiary entities	64 506	8 726
At the end of period	**284 550**	**231 555**

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 2018	Year ended 31 December 2017
Revenues from sales of products	939 184	845 419
Operating expenses	(822 825)	(772 020)
Operating profit (loss)	116 359	73 399
Financial income/expenses	(1 662)	(8 401)
Gross profit (loss)	114 697	64 998
Income tax	(22 856)	(14 591)
Net profit/(loss)	91 841	50 407

(all amounts in PLN '000 unless specified otherwise)

Consolidated balance sheet	As at 31 December 2018	As at 31 December 2017
Fixed assets	541 929	457 395
Current assets, of which:	466 731	394 175
Inventories	163 419	118 380
Receivables and other assets	203 328	137 473
Cash and cash equivalents	99 984	138 322
TOTAL ASSETS	1 008 660	851 570
Equity	613 346	512 130
Long-term liabilities	223 913	189 238
Short-term liabilities	171 401	150 202
TOTAL EQUITY AND LIABILITIES	1 008 660	851 570

Consolidated cash flow statement	Year ended 31 December 2018	Year ended 31 December 2017
Cash flows from operating activities	92 672	98 161
Cash flows from investing activities	(105 970)	(104 793)
Cash flows from financing activities	(23 272)	143 704
Change in cash and cash equivalents	(36 570)	137 071
Cash and cash equivalents at the beginning of the period	138 322	7 390
Net FX differences	(1 768)	(6 140)
Cash and cash equivalents at the end of the period	99 984	138 322

In 2018 Rottneros AB distributed dividend totalling PLN 23,635 thousand (SEK 56 million), of which PLN 11,510 thousand referred to non-controlling shareholders.
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.

31. Conditional increase of share capital

In 2018 and in 2017 there was no conditional increase of share capital.

(all amounts in PLN '000 unless specified otherwise)

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

Short-term liabilities	Note	Maturity	As at 31 December 2018	As at 31 December 2017
Other financial liabilities:				
Liabilities under financial leases and rental contracts with purchase options	19.2	31-12-2019	1 301	24 438
Hedging instruments	40.4		7 009	8 539
Other liabilities		31-12-2019	176	177
Total other short-term financial liabilities			8 486	33 153
Interest-bearing loans, borrowings and bonds:				
Loan from EBRD TA (short-term portion) in EUR	40.1	31-08-2022*	33 867	9 143
Loan from EBRD Capex A (short-term portion) in EUR	40.1	31-08-2022*	27 248	2 213
Loan from Santander (short-term portion) in PLN	40.1	31-08-2021*	6 860	2 577
Loan from BNP (short-term portion) in EUR	40.1	31-08-2021*	6 634	2 316
Loan from a bank consortium: Santander and BNP in PLN	40.1	31-01-2021*	25 673	-
Revolving credit facility with BNP in PLN	40.1	31-08-2019	9 147	-
Revolving credit facility with Santander in EUR	40.1	31-08-2019	42 373	-
Revolving credit facility with BNP in EUR	40.1	31-08-2019	40 823	-
Bonds in PLN	40.1	31-08-2021	19 992	12 284
Loan from the owner /core shareholder in EUR (short-term portion)	40.1	30-04-2020	11 081	10 908
Total short-term interest-bearing loans, borrowings and bonds			223 698	39 440
Total short-term financial liabilities			**232 184**	**72 593**

Long-term liabilities	Note	Maturity	As at 31 December 2018	As at 31 December 2017
Other financial liabilities:				
Liabilities under financial leases and rental contracts with purchase options	19.2	31-12-2021	2 854	3 945
Hedging instruments	40.4	31-12-2021	-	-
Total other long-term financial liabilities			2 854	3 945
Interest-bearing loans, borrowings and bonds:				
Loan from the owner /core shareholder in EUR	40.1	30-04-2020	10 833	20 917
Loan from EBRD TA (long-term portion) in EUR	40.1	31-08-2022	-	31 684
Loan from EBRD Capex A (long-term portion) in EUR	40.1	31-08-2022	-	14 158
Loan from Santander (long-term portion) in PLN	40.1	31-08-2021	-	6 521
Loan from BNP (long-term portion) in EUR	40.1	31-08-2021	-	6 205
Bonds in PLN	40.1	31-08-2021	70 032	84 781
Bonds in SEK	40.1	01-09-2022	165 940	167 174
Revolving credit facility with BNP in PLN**	40.1	31-08-2019	-	426
Revolving credit facility with BNP in EUR**	40.1	31-08-2019	-	-
Revolving credit facility with Santander in EUR**	40.1	31-08-2019	-	40 710
Revolving credit facility with Santander in PLN**	40.1	31-08-2019	-	-
Total long-term interest-bearing loans, borrowings and bonds			246 805	372 576
Total long-term financial liabilities			**249 659**	**376 521**

* loans transferred to short-term portion due to breach of covenants in the loan agreement
**31 December 2017: revolving loans extendable until 31-08-2019

32.1. Bank loans, bonds and borrowings

The amount of long-term and short-term interest bearing loans and borrowings as at 31 December 2018 grew by PLN 58,486 thousand versus 31 December 2017, primarily due to increased debt under revolving loans.
Loan tranches were disbursed and repaid in line with the agreement of 9 September 2016.

In connection with the loan granted to the subsidiary company – Arctic Paper Grycksbo AB on 7 January 2018 for EUR 5.56 million to cover repayment of its lease liabilities to Svenska Handelsbanken AB, on 18 July 2018 the Company received a tranche of the term loan of PLN 25,820 thousand from the consortium of financing banks (Bank Zachodni WBK S.A. and Bank BGŻ BNP Paribas S.A.). The loan was provided as an additional tranche under the loan agreement of 9 September 2016 to re-finance debt repayment by Arctic Paper Grycksbo AB under the lease contracts granted by Svenska Handelsbanken AB. The Meeting of Bondholders agreed to contract such financing on 20 February 2018.

In 2018, the Group partly repaid its loan to the main shareholder of PLN 9,767 thousand.

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.

In connection with the term and revolving loan agreements, agreements related to bond issues, signed on 9 September 2016, the Group agreed to maintain specified financial ratios that are calculated at the end of each quarter. As at 31 December 2018 the Group did not comply with a ratio specified in the loan agreement.

32.2. Obtaining of funding

32.2.1. Bond issue in SEK

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 Rottneros Group agreed to maintain the following standard ratios: net debt to EBITDA at maximum 3.5; equity to total assets no less than 50% and to disburse dividend maximum up to 50% of previous year's profit.

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

In 2018 Rottneros AB has had 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 2017, was not changed in 2018.

Apart from the above, as at 31 December 2018 the Group disclosed:
1) collateral on assets related to the obligations contracted by Rottneros AB with Danske Bank – this is:
- pledge on assets for SEK 284,730 thousand (PLN 118,334 thousand);

2) collateral on assets under the loan agreement for EUR 10,000 thousand granted by Arctic Paper Finance AB to Arctic Paper S.A. and 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.

2017

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 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);
   › mortgage properties for SEK 20,000 thousand (PLN 8,486).

2) collateral on assets related to the obligations contracted by Rottneros AB with Danske Bank – this is:
   › 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 EUR 10,000 thousand granted by Mr Thomas Onstad to Arctic Paper Finance AB.
   › pledge on 19,950,000 shares in Rottneros AB.

(all amounts in PLN '000 unless specified otherwise)

- 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.

33. Provisions

33.1. Change in provisions

The table below presents changes to provisions in for 2017-2018:

	Post-employment benefits	Other provisions	Total
As at 01 January 2018	100 281	5 940	106 221
Established during the financial year	9 494	929	10 423
Applied	(3 858)	-	(3 858)
Reversed	-	(4 571)	(4 571)
Adjustment due to FX differences	(333)	(98)	(431)
Transfer to discontinued operations	-	-	-
As at 31 December 2018, of which:	**105 585**	**2 200**	**107 785**
- short-term	-	939	939
- long-term	105 585	1 261	106 846
As at 01 January 2017	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 2017, of which:	**100 281**	**5 940**	**106 221**
- short-term	-	4 667	4 667
- long-term	100 281	1 273	101 554

Other provisions as at 31 December 2018 cover a provision for a granted guarantee and a provision for rights to emit CO_2. Other provisions as at 31 December 2017 cover a provision for a granted guarantee and a provision for severance pay.

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 2018 and 2017.

(all amounts in PLN '000 unless specified otherwise)

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

34.1. Trade and other payables (short-term)

	As at 31 December 2018	As at 31 December 2017
Trade payables, of which:		
Due to related entities	34	1
Due to other entities	461 950	369 199
	461 984	369 200
Taxes, customs duties, social insurance and other		
VAT	10 958	11 857
Excise tax	334	815
Personal Income Tax	4 580	4 374
Real estate tax	749	748
Social benefit liabilities	12 767	12 112
	29 388	29 907
Other liabilities		
Payable to employees as salaries	6 515	6 245
Retirement liabilities	3 943	3 052
Investment commitments	10 345	8 184
Liabilities related to environmental protection	323	497
Prepayments	1 564	2 000
Other liabilities	2 616	4 784
	25 306	24 762
TOTAL	516 678	423 868

Principles and payment terms of the 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.

(all amounts in PLN '000 unless specified otherwise)

34.2. Accruals and deferred income

	As at 31 December 2018	As at 31 December 2017
Accruals and deferred income		
Employee expenses	67 787	51 698
Audit and legal services	3 261	635
Transport costs	6 872	6 057
Costs of complaints	2 953	1 230
Utility costs	1 201	915
Costs of uninvoiced services	3 987	
Other	9 366	2 752
	95 426	64 140
Deferred income		
Subsidies/Grants from Ekofundusz	10 823	12 184
Subsidies/Grants from NFOŚiGW	7 933	8 943
Other	1 680	8 062
	20 436	29 189
TOTAL	**115 863**	**93 328**
- short-term	99 303	74 576
- long-term	16 560	18 752

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

35. Investment plans

As at 31 December 2018 the Group plans to make expenditures on tangible fixed assets in 2019 of minimum PLN 70 million. The amounts will be spent to purchase new machinery and plant in the Rottneros Group.
As at 31 December 2017 the Group planned expenditures on tangible fixed assets of no less than PLN 50 million in 2018.

36. Contingent liabilities

As at 31 December 2018, 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 1,404 thousand (PLN 584 thousand) at Arctic Paper Grycksbo AB and for SEK 773 thousand (PLN 321 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 168 thousand (PLN 70 thousand);
- guarantees for local public authorities in the Rottneros Group for SEK 5,000 thousand (PLN 2,078 thousand);
- a bank guarantee in favour of Skatteverket Ludvika for SEK 135 thousand (PLN 56 thousand).

Due to the discontinued business of the Mochenwangen Group and the contamination of the land held by it, the Group may be obliged to rehabilitate the site. The Group is investigating the case and estimates the potential provision which will affect the realisable sale price of the site.

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. In the Group's opinion, tax liabilities as at 31 December 2018 were adequate to the recognised and quantifiable task risk and therefore there is no need to establish additional provisions.

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 S.A.,
- 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 2018-2017:

Data for the period from 01 January 2018 to 31 December 2018 and as at 31 December 2018 (PLN '000).

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	-	1 234	-	-	3 641	-	-
Thomas Onstad	-	-	-	1 522	-	-	21 914
Munkedal Skog	-	321	-	-	-	-	34
Total	**-**	**1 555**	**-**	**1 522**	**3 641**	**-**	**21 948**

The receivables from Nemus Holding AB are overdue as at 31 December 2018 but they are compensated with payables for the provision of services.

Data for the period from 01 January 2017 to 31 December 2017 and as at 31 December 2017 (PLN '000).

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	-	-	-	-	nd
Total	**-**	**1 883**	**-**	**2 897**	**4 006**	**-**	**31 826**

* by 31 August 2017

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 2018 and 31 December 2017 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 2018 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 2018 comprises two persons: President of the Management Board and a Member of the Management Board.
The remuneration of the management staff in the year ended on 31 December 2018 amounted to PLN 4,938 thousand (PLN 6,969 thousand in the year ended on 31 December 2017).

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

Management Board	Year ended on 31 December 2018	Year ended on 31 December 2017
Short-term employee benefits	2 172	6 506
Post-employment retirement and medical benefits	577	463
Employment termination benefits	2 189	-
Total amount of remuneration of top management staff	**4 938**	**6 969**
Supervisory Board		
Short-term employee benefits	991	1 011

(all amounts in PLN '000 unless specified otherwise)

37.5. **Loan granted to members of the Management Board**

In 2017-2018 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 25 September 2017 Arctic Paper S.A. concluded an agreement with KPMG Audyt 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 2018.

The table below presents the remuneration of the statutory auditor, paid or payable for the year ended on 31 December 2018 and 31 December 2017 by category of services:

	Year ended on 31 December 2018	Year ended on 31 December 2017
Service type		
Statutory audit of the annual financial statements	170	310
Review of the semi-annual financial statements	63	-
Statutory audit of the annual financial statements (branch AP S.A.)	25	20
Other services	8	60
Total	**266**	**390**

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

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

(all amounts in PLN '000 unless specified otherwise)

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. The receivables covered with factoring were derecognised from the consolidated balance sheet since conditions have been met to derecognise the assets in compliance with 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 2017 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 2018		
PLN	+1%	(2)
EUR	+1%	(1)
SEK	+1%	(1 685)
Year ended on 31 December 2017		
PLN	+1%	(3)
EUR	+1%	(202)
SEK	+1%	(1 706)

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.

(all amounts in PLN '000 unless specified otherwise)

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 only influence of FX on the 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.

2018

Impact of FX rate changes on gross profit	FX rate growth	Total impact	FX rate drop	Total impact
PLN – EUR	+5%	(7 111)	-5%	7 111
PLN – USD	+5%	(4 199)	-5%	4 199
PLN – GBP	+5%	1 096	-5%	(1 096)
PLN – SEK	+5%	(471)	-5%	471
SEK – EUR	+5%	5 818	-5%	(5 818)
SEK – USD	+5%	(164)	-5%	164
SEK – GPB	+5%	1 430	-5%	(1 430)

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%	5 959	-5%	(5 959)
PLN – EUR	+5%	(484)	-5%	484

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 – GBP	+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

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.

(all amounts in PLN '000 unless specified otherwise)

39.4. **Credit risk**

Credit risk is the risk of financial loss by the Group when a customer or a counterparty to a financial instrument contract defaults under the contract. Credit risk is primarily related to receivables.

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.

In compliance with the new standard, the Group recognises impairment allowances to financial assets (allowance for anticipated credit losses) classified as financial assets measured at amortised cost or financial assets measured at fair value through profit and loss. If credit risk related to a specific financial instrument has increased materially since initial recognition, the Group estimates the allowance for anticipated credit losses related to the financial instrument equal to anticipated credit losses throughout the lifetime of the instrument. If as at the reporting date, credit risk related to a financial instrument has not increased materially since its initial recognition, the Group assesses the allowance for anticipated losses related to that financial instrument in an amount equal to 12-month anticipated credit losses. Due to the fact that the Group's trade receivables do not contain a material funding component, the impairment allowance for trade receivables is calculated on the basis of the anticipated credit losses throughout the lifetime of the financial instrument.

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 such as cash and cash equivalents, the Group's exposure to credit risk arises from default of the counterparty.
The Group has no major concentration of credit risk.
The maximum amount exposed to credit risk is equal to the carrying value of the financial instruments held.

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 2018 and as at 31 December 2017 by maturity based on contractual undiscounted payments.

As at 31 December 2018	Upon request	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Interest-bearing loans, borrowings and bonds	-	23 896	145 714	351 440	-	521 050
Financial leasing	-	278	1 133	2 964	-	4 375
Trade and other payables	-	556 819	56 427	-	-	613 245
Other financial liabilities	176	1 260	5 749	-	-	7 185
	176	582 253	209 022	354 405	-	1 145 855

As at 31 December 2017	Upon request	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

Due to failure to comply with the requirement Cashflow Cover ratio as at 31 December 2018, the Group disclosed the entire financing under the loan agreement of 2016 with the Bank Consortium as short-term financing. The Parties further agreed that the loan repayment schedule will remain unchanged versus the original repayment schedules while the applicable interest rates will be increased. As a result, in the table above the Group disclosed the financing by the anticipated maturities – that is in line with the original repayment schedules. The above amounts do not contain the impact of higher interest rates on future cash flows.
Additionally, the Group holds contingent liabilities totalling PLN 3,144 thousand as at 31 December 2018 (31 December 2017: PLN 1,704 thousand).

(all amounts in PLN '000 unless specified otherwise)

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 option, forward FX contracts, 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 (except for those presented in the table), the table below presents all financial instruments by their book values, split into classes and categories of assets and liabilities.

	Category in compliance with IFRS 9	Book value As at 31 December 2018	Book value As at 31 December 2017
Financial assets			
Trade and other receivables	WwZK	339 152	305 368
Hedging instruments*	IRZ	92 466	21 914
Other financial assets (net of loans and hedging instruments)**	WwWGpWF	10 581	7 293
Cash and cash equivalents	WwZK	201 118	241 403
Financial liabilities			
Interest-bearing bank loans and borrowings and bonds, of which:	WwZK	470 503	412 016
- interest-bearing long-term	WwZK	246 805	372 576
- interest-bearing short-term	WwZK	223 698	39 440
Liabilities under financial leases and rental contracts with purchase options, of which		4 155	28 383
- long-term		2 854	3 945
- short-term		1 301	24 438
Trade payables and other financial liabilities	WwZK	472 504	381 964
Hedging instruments*	IRZ	7 009	8 539

Abbreviations used:
WwZK – Financial assets/liabilities measured at amortised cost
WwWGpWF – Financial assets/liabilities measured at fair value through profit and loss account
IRZ – Hedge instruments

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* derivative hedging instruments meeting the requirements of hedge accounting
** primarily investments in equity instruments

The fair value of hedging instruments was determined on the basis of observable data from active markets that are not market quotations.
The fair value of the PLN bonds and loans was determined with the discounted cash flow method.
The fair value of SEK bonds was determined on the basis of quotations in Bloomberg as at 31 December 2018.

SEK bonds issued by Rottneros AB with the book value of PLN 165,940 thousand as at 31 December 2018 have fair value of PLN 172,241 thousand .

(all amounts in PLN '000 unless specified otherwise)

PLN bonds issued by AP S.A. with the book value of PLN 90,024 thousand as at 31 December 2018 have fair value of PLN 92,035 thousand .
Loans with the book value of PLN 192,625 thousand as at 31 December 2018 have fair value of PLN 193,991 thousand .

As at 31 December 2018, financial instruments by the measurement hierarchy are qualified to level 3 with the exception of SEK bonds (level 1) and derivative instruments (level 2).
As at 31 December 2017, financial instruments by the measurement hierarchy are qualified to level 3 with the exception of derivative instruments (level 2).

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 2018 and 31 December 2017:

Year ended on 31 December 2018	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	-	-	-	3 864	-	7 134	10 997
Trade and other receivables	71	18 457	1 485	907	-	-	20 920
Other financial assets (net of loans and hedging instruments)**	-	(259)	-	3 914	-	1 242	4 897
Cash and cash equivalents	830	(2 155)	-	(2 366)	-	-	(3 691)
Financial liabilities							
Derivative instruments	-	(6 809)	-	(1 473)	-	-	(8 282)
Interest-bearing loans and borrowings	(20 163)	(4 103)	-	(3 280)	-	(5 388)	(32 934)
Liabilities under financial leases and rental contracts with purchas	(153)	-	-	-	-	-	(153)
Trade payables	(8)	(16 155)	-	(962)	-	(504)	(17 630)
Total	**(19 423)**	**(11 024)**	**1 485**	**603**	**-**	**2 484**	**(25 875)**

Year ended on 31 December 2018	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
Total	**(19 524)**	**4 174**	**(67)**	**2 101**	**-**	**88**	**(13 228)**

** this applies primarily to gains on measurement of investments in equity instruments

(all amounts in PLN '000 unless specified otherwise)

40.2. Changes to liabilities resulting from financing activity

Year ended on 31 December 2018	Note	01 January 2018	Changes resulting from cash flows from financing activity	Effects of currency exchange rate fluctuations	Change to fair values	Other changes	31 December 2018
Interest-bearing loans, borrowings and bonds (long-term)	32	372 576	40 325	(12 622)	-	(153 474)	246 805
Liabilities under financial leases and rental contracts with purchase options (long-term)	32	3 945	-	309	-	(1 400)	2 854
Interest-bearing loans, borrowings and bonds (short-term)	32	39 440	16 370	14 413	-	153 474	223 698
Liabilities under financial leases and rental contracts with purchase options (short-term)	32	24 438	(23 707)	(830)	-	1 400	1 301
Derivative financial instruments	32	8 539	-	-	(1 530)	-	7 009
Other	32	177	416	(1)	-	(416)	176
Total liabilities resulting from financing activity	**32**	**449 114**	**33 405**	**1 269**	**(1 530)**	**(416)**	**481 843**

Other changes cover mainly reclassifications of the relevant short-term and long-term liabilities.

(all amounts in PLN '000 unless specified otherwise)

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 2018 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	1 301	1 214	1 641	-	-	-	4 155
Loans, borrowings and bonds							
Revolving credit facility with Santander in EUR	21 088	-	-	-	-	-	21 088
Revolving credit facility with BNP in EUR	19 538	-	-	-	-	-	19 538
Revolving credit facility with BNP in PLN	4 147	-	-	-	-	-	4 147
Bonds in SEK	-	-	-	165 940	-	-	165 940
Total loans, borrowings and bonds	44 774	-	-	165 940	-	-	210 713
TOTAL	46 075	1 214	1 641	165 940	-	-	214 869

31 December 2018 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	33 867	-	-	-	-	-	33 867
Loan from EBRD Capex A in EUR	27 248	-	-	-	-	-	27 248
Loan from Santander in PLN	6 860	-	-	-	-	-	6 860
Loan from BNP in EUR	6 634	-	-	-	-	-	6 634
Loan from a bank consortium: Santander and BNP in PLN	25 673	-	-	-	-	-	25 673
Bonds in PLN	19 992	18 127	51 905	-	-	-	90 024
Revolving credit facility with BNP in PLN	5 000	-	-	-	-	-	5 000
Revolving credit facility with Santander in EUR	21 285	-	-	-	-	-	21 285
Revolving credit facility with BNP in EUR	21 285	-	-	-	-	-	21 285
Loan from the owner /the core shareholder in EUR	11 081	10 833	-	-	-	-	21 914
TOTAL	178 924	28 960	51 905	-	-	-	259 789

(all amounts in PLN '000 unless specified otherwise)

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 credit facility with Santander in EUR							
Bonds in SEK							
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 Santander 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	12 284	18 809	17 059	48 914	-	-	97 065
Revolving credit facility with BNP in PLN	-	426	-	-	-	-	426
Revolving credit facility with Santander in PLN	-	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

Fixed interest rates on bank loans and bonds result from the existing SWAP instruments.

40.4. **Collateral**

As at 31 December 2018, 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 2018, 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 fair value, 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%.

(all amounts in PLN '000 unless specified otherwise)

40.4.1. Cash flow hedges

As at 31 December 2018, the Group's cash flows were hedged with forward FX contracts, forward contracts for purchases of electricity, forward contracts for sales of pulp, 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	2 018
Maturity date	subject to contract; by 28.02.2019
Hedged amount	EUR 2.5 million
Term exchange rate	10.30 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	2 018
Maturity date	subject to contract; by 28.02.2019
Hedged amount	USD 11.0 million
Term exchange rate	9.01 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	2 018
Maturity date	individually per contract up to 31.12.2019
Hedged quantity of pulp	12,000 tons
Term price	SEK 9,800/ton

(all amounts in PLN '000 unless specified otherwise)

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	individually per contract; from 01.01.2015
Maturity date	subject to contract; by 31.12.2023
Hedged quantity of electricity	1.192.000 MWh
Term price	from 16.55 to 36.30 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	2016-11-21
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 million

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 million

Type of hedge	Hedge of cash flows related to variable interest rate on the EUR revolving long-term loans
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 million

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	27.07.2018
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 28.02.2022
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 3,344 thousand.

(all amounts in PLN '000 unless specified otherwise)

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 million

Type of hedge	Hedge of cash flows related to variable interest rate on the PLN long-term revolving credit facilities
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	2016-11-21
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 million

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 million

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 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	31.07.2018
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 29.01.2021
Hedged value	interest payable in line with the payment schedule under the loan agreement of PLN 25.8 million.

(all amounts in PLN '000 unless specified otherwise) 163

40.4.2. Fair value hedges

As at 31 December 2018, the Group had floor options as hedge to fair value.

Fair value 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 million

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.

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	27.07.2018
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 28.02.2022
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 3,344 thousand.

40.4.3. Other information on derivative instruments

The table below presents the fair value of hedging instruments in cash flow hedge, fair value hedge and corridor options accounting as at 31 March 2018 and the comparative data:

	Assets	Equity and Liabilities	Assets	Equity and Liabilities
FX forward	420	-	849	1 170
Forward on pulp sales	-	3 361	-	3 394
SWAP	-	3 879	-	3 835
Corridor options	-	-	-	370
Floor option	-	(231)	-	(231)
Forward for electricity	92 046	-	21 065	-
Total hedging derivative instruments	**92 466**	**7 009**	**21 914**	**8 539**

The table below presents the nominal value of derivative instruments as at 31 December 2018:

	1 year	1 to 5 years	Over 5 years	Total
FX forward:				
Sold currency (in EUR '000)	2 500	-	-	2 500
Sold currency (in USD '000)	11 000	-	-	11 000
Forward for electricity:				
Purchased energy (in PLN '000)	41 959	80 602	-	122 561
Forward on pulp sales				
Pulp sold (in tons)	12 000	-	-	12 000
interest rate SWAP				
principal repayment (in PLN '000)	167 843	70 032	-	237 875

The table below presents the amounts related to hedge accounting that were recognised in 2018 by the Group in profit and loss and in the total comprehensive income statement:

	Year ended 31 December 2018
Other reserves in the part related to revaluation as at 31 December 2018 – changes of fair value measurement of hedging derivative instruments due to the hedged risk, corresponding to effective hedging	44 832
Ineffective part of the change in fair value measurement due to the hedged risk, recognised in financial income or expenses	-
The period of the anticipated hedged flows	01 January 2018 – 31 December 2021

(all amounts in PLN '000 unless specified otherwise)

The table below presents changes to other reserves in the part related to measurement under hedge accounting in 2018:

	Year ended 31 December 2018
Other reserves in the part related to revaluation as at 01 January 2018	5 861
Deferral to changes of fair value measurement of the hedging derivative instruments due to the hedged risk, corresponding to the effective hedge	38 971
The amount of the deferred changes of fair value measurement of the hedging derivative instruments due to the hedged risk, removed from other reserves and transferred to financial income or expenses	-
Other reserves in the part related to revaluation as at 31 December 2018	44 832

The amounts in the table disclose the effect of deferred income tax.

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 2018 and 31 December 2017.

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 2018	As at 31 December 2017
Interest-bearing loans, borrowings and debt instruments and other financial liabilities	481 843	449 114
Trade and other payables	516 678	423 868
Minus cash and cash equivalents	(201 118)	(241 403)
Net debt	797 404	631 580
Equity	861 193	780 993
Equity and net debt	1 658 597	1 412 573
Leverage ratio	**0,48**	**0,45**

In comparison to the annual financial statements for 2017, the financial leverage ratio increased from 0.45 to 0.48.

(all amounts in PLN '000 unless specified otherwise)

42. Employment structure

The average headcount in the Group in the years ended on 31 December 2018 and 31 December 2017 was as follows:

	As at 31 December 2018	As at 31 December 2017
Management Board of the Parent Entity	2	2
Management Boards of Group entities	34	32
Administration	119	137
Sales Department	148	143
Production Division	1 265	1 264
Other	158	161
Total	**1 726**	**1 739**

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 the issue 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 2013-2018.

(in tons) 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	87 652	-	-
Issue	(150 577)	(147 950)	(162 467)	(170 696)	(142 784)	(136 565)		
Purchased quantity	-	-	-	-	-	-		
Sold quantity	-	-	-	-	-	-		
Unused quantity	306 448	263 932	203 917	133 061	87 652	46 003		

(in tons) for Arctic Paper Munkdals 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)	(10 619)		
Issue	(1 281)	(3 407)	(32 465)	(21 038)	(40 160)	(57 368)		
Purchased quantity	-	-	7	-	-	-		
Sold quantity	-	-	(100 000)	(50 000)	-	-		
Unused quantity	67 262	107 325	17 559	(11 572)	(10 619)	(27 676)	**	

(in tons) for 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	2 564		
Issue	-	-	-	-	-	-		
Purchased quantity	-	-	-	-	-	-		
Sold quantity	(35 000)	(186 403)	(75 000)	(72 000)	(70 000)	(72 715)		
Unused quantity	111 448	734	60	1 008	2 564	-		

(in tons) for the Rottneros Group	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	123 208		
Issue	(13 047)	(19 020)	(26 933)	(21 293)	(18 707)	(15 372)		
Purchased quantity	-	-	-	-	-	-		
Sold quantity	-	-	-	-	-	(63 000)		
Unused quantity	90 522	101 986	104 991	113 085	123 208	73 104		

* - the values result from the Regulation of the Council of Ministers of 31 March 2014 on the list of installations other than generating electrical energy, subject to the trading system of rights to emit greenhouse gases in the settlement period commencing on 1 January 2013, along with the number of emission rights allocated thereto.

** - any deficit of emission rights as at 31 December 2018 will be covered from a surplus over the estimated annual issue of the new allocation for 2019, available before the rights for 2018 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 2018 the Company acquired the following rights: yellow certificates 152 812 MWh (2017: 165 211 MWh), red certificates 56 477 MWh (2017: 58 587 MWh). In 2018 revenues obtained from the certificates was PLN 12,478 thousand (2017: PLN 19,825 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 2018 the AP Grycksbo acquired the following rights: green certificates 11 628 MWh (2017: 14 540 MWh). In 2018 revenues obtained from the sale of the certificates was PLN 1,223 thousand (2017: PLN 373 thousand).

For the cogeneration of electricity, in 2018 the companies in the Rottneros Group acquired the following rights: green certificates 125 000 MWh (2017: 136 000 MWh). In 2018 revenues obtained from the sale of the certificates was PLN 1,205 thousand (2017: PLN 645 thousand).

Revenues related to the certificates in cogeneration are recognised as a reduction of costs of sales in the profit and loss account.

45. Grants and operation in SEZ (Special Economic Zone)

45.1. **Government grants**

In the current year, the Group companies have not received any material grants.

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 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. The above terms and conditions have been satisfied.

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 2018, 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 62,680 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 6,534 thousand as at 31 December 2018 (31 December 2017: PLN 8,622 thousand).

46. Material events after the balance sheet date

46.1. Received release from complying with the financial ratios as at 31 December 2018

As described in note 7, in view of failure to comply with a financial ratio as specified in the loan agreement, after the balance sheet date, Arctic Paper S.A. received a written assurance from Santander Bank S.A. acting as the consortium agent of the financing banks that failure by the Group to comply with the required Cashflow Cover ratio as at 31 December 2018 does not constitute an event of default under the loan agreement of 9 September 2016 ("default"). In accordance with IAS 1, as such assurance was not available on 31 December 2018, the Group disclosed its entire debt to the bank consortium as at that day of PLN 65,996 thousand as short-term liabilities: interest-bearing loans, borrowings and bonds.

From the balance sheet date until the day of publishing of these standalone financial statements, there were no other events which might have a material impact on the Company'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	Michał Jarczyński	18 marca 2019	signed with a qualified electronic signature
Member of the Management Board Chief Financial Officer	Göran Eklund	18 marca 2019	signed with a qualified electronic signature