

Arctic Paper Capital Group

Consolidated Annual Report 2019



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 Sirs,

ONE OF THE BEST YEARS IN THE GROUP'S HISTORY 2019 – AND NOW ONE OF THE BIGGEST CHALLENGES IN FRONT OF US.

2019 was a good year, due to many different reasons, external as well as internal. But as we all know, we are now facing the biggest challenge for our societies and our businesses; the Coronavirus. At this moment, and probably for weeks to come, it is impossible to forecast 2020. Therefore, we need prudence, positive energy and good communication to find the best possible way for us in 2020. Let us work together and find our way.

Innovation to meet changing needs

In 2019 we have shown that innovations are essential for the future of Arctic Paper. We need to continue in 2020 our move to more packaging grades to secure our premium grades.

Investments for a sustainable future

During 2019, we have taken major steps towards reducing our carbon footprint, where our main focus has been on energy use, CO2 emissions, water consumption and waste handling. We need to continue this process in 2020, and major decisions are already taken.

Combining pulp and paper creates shareholder value

The last years have shown the advantage of a combination of pulp and paper. The year ended with a more balanced market situation where lower raw material prices favoured the paper segment. The Group achieved an operative profit (EBITDA) of PLN 278.0mn (218.8mn) and a strong cash flow, which means that we have gained strength for the difficult times that lies ahead of us.

Resilience and proactivity

I would like to thank all our employees for their dedicated work during 2019. But now we have to show even more dedication in 2020. The spread of the Corona virus has left deep marks, first and foremost for those who have been directly affected, but also for communities and companies as the whole economic system is rocked. We have gained strength 2019 and we are now proactively fighting the consequences of the virus – both for health and financially – with great determination.

I am fully convinced that we will succeed.

Sincerely yours,

Michał Jarczyński
President of the Management Board of Arctic Paper S.A.

A graphic of a rolled-up sheet of paper. The left side is a solid red cylinder, and the right side is a white cylinder. The white part is unrolled, showing the text. The background is a light, neutral color with soft shadows.

Introduction

to the annual report for 2019
Arctic Paper Capital Group

Information on the report

This Consolidated Annual Report for 2019 was prepared in accordance with the Regulation of the Minister of Finance of 19 February 2009 on the current and periodic information provided by securities issuers and on the conditions for recognizing information required by the law of a non-member state as equivalent information (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 '000.

Definitions and abbreviations

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

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

Arctic Paper, Company, Issuer, Parent Entity, AP	Arctic Paper Spółka Akcyjna with its registered office in Kostrzyn nad Odrą, Poland (until 8 October 2019 the Company had 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 Götaland 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 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
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 Sverige AB with its registered office in Munkedal (Sweden)
	Arctic Paper Schweiz AG with its registered office in Derendingen (Switzerland)
	Arctic Paper UK Ltd with its registered office in London (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 Söderhamn, Sweden; Rottneros Bruk AB with its registered office in Rottneros, Sweden; Utansjo Bruk AB with its registered office in Söderhamn, Sweden; Vallviks Bruk AB with its registered office in Vallvik, Sweden; Rottneros Packaging AB with its registered office in Sunne, Sweden; SIA Rottneros Baltic with its registered office in Kuldiga, Latvia
Pulp Mills	Rottneros Bruk AB with its registered office in Rottneros, Sweden; Vallviks Bruk AB with its registered office in Vallvik, Sweden
Rottneros Purchasing Office	SIA Rottneros Baltic with its registered office in Kuldiga, Latvia
Office Kalltorp	Kalltorp Kraft Handelsbolaget with its registered office in Trollhattan, Sweden
Nemus Holding AB	Nemus Holding AB with its registered office in Göteborg, Sweden
Thomas Onstad	The Issuer's core shareholder, holding directly and indirectly over 50% of shares in Arctic Paper S.A.; a member of the Issuer's Supervisory Board
Management Board, Issuer's Management Board, Company's Management Board, Group's Management Board	Management Board of Arctic Paper S.A.

Supervisory Board, Issuer's Supervisory Board, Company's Supervisory Board of Arctic Paper S.A.
Supervisory Board, Group's Supervisory Board, SB

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

Kostryńsko-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 gross profit (loss) on sales to sales revenues from continuing operations

EBIT

Profit on continuing operating activities

EBIT profitability, operating profitability, operating profit margin

Ratio of operating profit (loss) to sales revenues from continuing operations

EBITDA

Operating profit from continuing operations plus depreciation and amortisation and impairment charges

EBITDA profitability, EBITDA margin

Ratio of operating profit plus depreciation and amortisation and impairment charges to sales revenues from continuing operations

Gross profit margin

Ratio of gross profit (loss) to sales revenues from continuing operations

Sales profitability ratio, net profit margin

Ratio of net profit (loss) to sales revenues

Return on equity, ROE	Ratio of net profit (loss) to equity income
Return on assets, ROA	Ratio of net profit (loss) to total assets
EPS	Earnings Per Share, ratio of net profit to the weighted average number of shares
BVPS	Book Value Per Share, Ratio of book value of equity to the number of shares
Debt-to-equity ratio	Ratio of total liabilities to equity
Equity to fixed assets ratio	Ratio of equity to fixed assets
Interest-bearing debt-to-equity ratio	Ratio of interest-bearing debt and other financial liabilities to equity
Net debt-to-EBITDA ratio	Ratio of interest-bearing debt minus cash to EBITDA from continuing operations
EBITDA-to-interest coverage ratio	Ratio of EBITDA to interest expense from continuing operations
Current ratio	Ratio of current assets to short-term liabilities
Quick ratio	Ratio of current assets minus inventory and short-term accruals and deferred income to short-term liabilities
Acid test ratio	Ratio of total cash and cash equivalents to short-term liabilities
DSI	Days Sales of Inventory, ratio of inventory to cost of sales multiplied by the number of days in the period
DSO	Days Sales Outstanding, ratio of trade receivables to sales revenues from continuing operations multiplied by the number of days in the period
DPO	Days Payable Outstanding, Ratio of trade payables to cost of sales from continuing operations multiplied by the number of days in the period
Operating cycle	DSI + DSO
Cash conversion cycle	Operating cycle – DPO
FY	Financial year
Q1	1st quarter of the financial year
Q2	2nd quarter of the financial year
Q3	3rd quarter of the financial year
Q4	4th quarter of the financial year
H1	First half of the financial year
H2	Second half of the financial year
YTD	Year-to-date
Like-for-like, LFL	Analogous, with respect to operating result.

p.p.	Percentage point, difference between two amounts of one item given in percentage
PLN, zł, złoty	Monetary unit of the Republic of Poland
gr	grosz – 1/100 of one zloty (the monetary unit of the Republic of Poland)
Euro, EUR	Monetary unit of the European Union
GBP	Pound sterling, monetary unit of the United Kingdom
SEK	Swedish Krona – monetary unit of the Kingdom of Sweden
USD	United States dollar, the legal tender in the United States of America
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
IFRS EU	International Financial Reporting Standards 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 on 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.

A stack of numerous white pages is arranged to form a large, stylized number '1'. The pages are slightly offset, creating a sense of depth. The bottom portion of the '1' is filled with a smooth, vertical gradient from light blue to a darker cyan. The entire graphic is set against a plain, light gray background.

**Selected consolidated
financial data**

Selected consolidated financial data

	Period from 01.01.2019 to 31.12.2019 PLN '000	Period from 01.01.2018 to 31.12.2018 PLN '000	Period from 01.01.2019 to 31.12.2019 EUR '000	Period from 01.01.2018 to 31.12.2018 EUR '000
Continuing operations				
Sales revenues	3 117 118	3 158 210	725 107	741 064
Operating profit (loss)	191 422	125 988	44 529	29 563
Gross profit (loss)	157 931	89 154	36 738	20 920
Net profit (loss) for the financial year	124 681	55 889	29 003	13 114
Net profit (loss) for the financial year attributable to the shareholders of the Parent Entity	82 709	7 673	19 240	1 800
Net cash flows from operating activities	342 290	148 609	79 624	34 871
Net cash flows from investing activities	(121 834)	(173 970)	(28 341)	(40 822)
Net cash flows from financing activities	(152 939)	(14 221)	(35 577)	(3 337)
Change in cash and cash equivalents	67 517	(39 583)	15 706	(9 288)
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)	1,19	0,11	0,28	0,03
Diluted EPS (in PLN/EUR)	1,19	0,11	0,28	0,03
Mean PLN/EUR exchange rate*			4,2988	4,2617
	As at 31 December 2019 PLN '000	As at 31 December 2018 PLN '000	As at 31 December 2019 EUR '000	As at 31 December 2018 EUR '000
Assets	2 035 753	2 156 174	478 045	501 436
Long-term liabilities	477 127	441 381	112 041	102 647
Short-term liabilities	688 098	850 245	161 582	197 731
Equity	870 528	861 193	204 421	200 277
Share capital	69 288	69 288	16 270	16 113
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)	12,56	12,43	2,95	2,89
Diluted book value per share (in PLN/EUR)	12,56	12,43	2,95	2,89
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
PLN/EUR exchange rate at the end of the period**	-	-	4,2585	4,3000

* – 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 2019

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 2019, the Arctic Paper Group employs about 1,500 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 Sweden, and have total production capacity of over 685,000 tonnes of paper per year. Our Pulp Mills located in Sweden have aggregated production capacities of over 400,000 tonnes of pulp annually. As at 31 December 2019, 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 2019 amounted to PLN 3,117 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 2019, 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 315,000 tonnes 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 tonnes 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 210,000 tonnes per year and produces coated wood-free paper used for printing maps, books, magazines, posters and printing of advertising materials.

As on 31 December 2019, as well as on the day hereof, the Group owned the following Pulp Mills:

- the Pulp Mill in Rottneros (Sweden) has the production capacity of about 160,000 tonnes annually and produces mainly two types of mechanical pulp: groundwood and chemo-thermo mechanical pulp (CTMP);
- the Pulp Mill in Vallvik (Sweden) has the annual production capacity of about 240,000 tonnes 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 2019, no material changes in the capital structure of the Arctic Paper Group occurred.

Modifications to the core management principles

In 2019, 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 2019) 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 Issuer. Mr Thomas Onstad's total direct and indirect holding in the capital of Arctic Paper S.A. as at 31 December 2019 was 68.13% and has not changed until the date hereof.

as at 26.03.2020

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%
<i>Nemus Holding AB</i>	40 381 449	58,28%	40 381 449	58,28%
<i>other entity</i>	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 31.12.2019

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%
<i>Nemus Holding AB</i>	40 381 449	58,28%	40 381 449	58,28%
<i>other entity</i>	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 18.11.2019

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%
<i>Nemus Holding AB</i>	40 381 449	58,28%	40 381 449	58,28%
<i>other entity</i>	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%

The data in the above tables is provided as of the date of approval hereof, as at 31 December 2019 and as of the publication date of the quarterly report for Q3 2019.

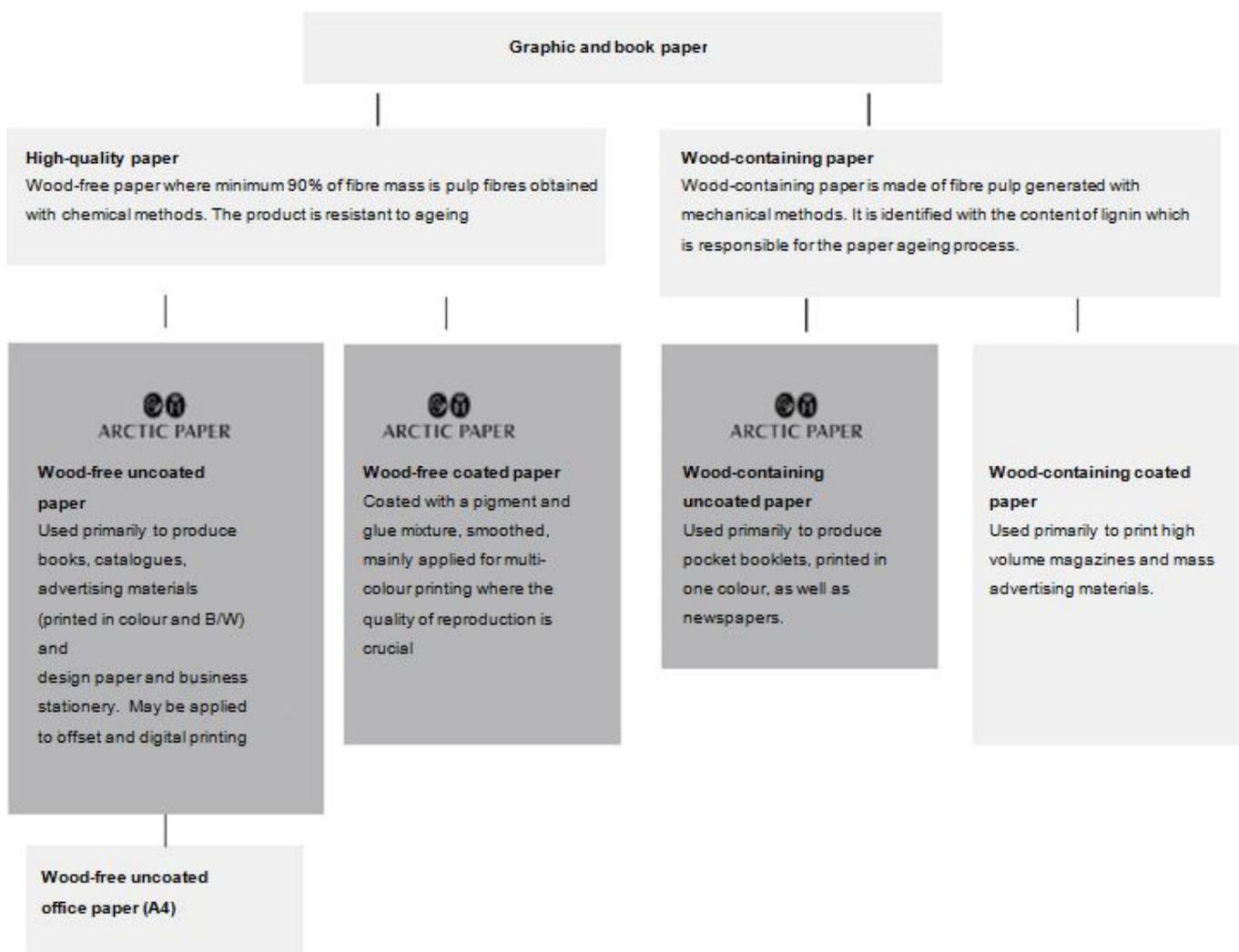
Market environment

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:

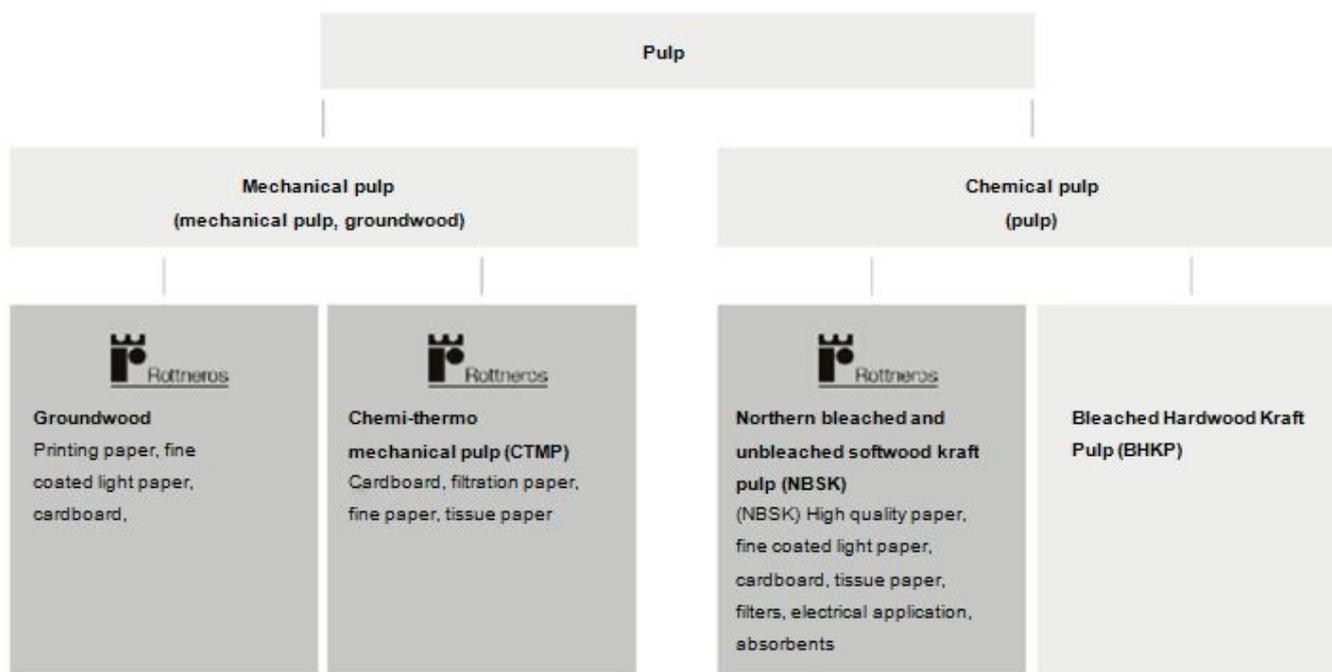
- fine paper is wood-free paper where minimum 90% of fibre mass is pulp fibres obtained with chemical methods:
 - › uncoated wood-free paper made of pulp. It may be subject to additional processing like surface sizing, calendering, surface or mass dyeing. Two core categories of the paper include graphic 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 "A Future in Paper – Strategic Agenda 2022" which aims at developing the business and improve 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 technical paper, packaging and premium products, in the growing East European markets and in new markets outside of Europe;
- New innovative products developed in close cooperation with customers;

- Development of strong brands for the premium segment in order to increase revenues per one tonne of paper or one tonne of pulp;
- 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 2019 and in 2018, the sales structure by main product lines was as follows:

<i>thousand tons</i>	2019	share %	2018	share %
<i>Paper</i>	608	61%	635	63%
<i>Amber</i>	291	29%	313	31%
<i>G-Print</i>	108	11%	122	12%
<i>Munken</i>	102	10%	104	10%
<i>Arctic</i>	100	10%	94	9%
<i>AP Tech</i>	7	1%	3	0%
<i>Pulp</i>	384	39%	365	37%
NBSK	216	22%	204	20%
Groundwood	74	7%	69	7%
CTMP	94	9%	92	9%
Total paper and pulp	992	100%	1 000	100%

<i>PLN '000</i>	2019	share %	2018	share %
<i>Paper</i>	2 206 814	71%	2 263 284	72%
<i>Amber</i>	1 029 238	33%	1 087 153	34%
<i>G-Print</i>	342 341	11%	382 273	12%
<i>Munken</i>	476 581	15%	469 808	15%
<i>Arctic</i>	334 608	11%	314 857	10%
<i>AP Tech</i>	24 047	1%	9 193	0%
	-	0%	-	0%
<i>Pulp</i>	910 304	29%	894 926	28%
NBSK	571 452	18%	534 760	17%
Groundwood	137 685	4%	178 764	6%
CTMP	201 168	6%	181 402	6%
Total paper and pulp	3 117 118	100%	3 158 210	100%

In 2019, 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 2019, the proportion of the Group's sales outside of Poland in PLN '000 was 88% and was not changed versus 2018 (88%). This year, similarly to previous years, sales were focused on European markets. The share of those markets in the overall value of sales was 90% in 2019 (2018: 88%).

The geographical structure of sales revenues by the main markets in 2019 and in 2018 is presented in note 10.1 to the consolidated financial statements.

Buyers

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

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

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

In our opinion, we are not materially dependent on any single specific buyer. The Group's consolidated revenues for 2019 show that the share of the largest buyer did not exceed 15% 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 published 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 2019.

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 tonnes 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 tonnes per day located in the facility in Kostrzyn nad Odrą (as amended on 26.02.2019). 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 63% on pulp certified by FSC and 37% 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 tonnes 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 prepare 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 tonnes. 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 tonnes.

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 standards of Nordic Ecolable (the Nordic 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 the consolidated financial results

Selected items of the consolidated profit and loss account

PLN '000	2019	2018	Change % 2019/2018
Sales revenues	3 117 118	3 158 210	(1,3)
<i>of which:</i>			
<i>Sales of paper</i>	2 206 815	2 263 284	(2,5)
<i>Sales of pulp</i>	910 304	894 926	1,7
Profit on sales	585 506	548 635	6,7
<i>% of sales revenues</i>	18,78	17,37	1,4 p.p.
Selling and distribution costs	(336 862)	(347 045)	(2,9)
Administrative expenses	(88 527)	(91 042)	(2,8)
Other operating income	78 111	49 543	57,7
Other operating expenses	(46 806)	(34 102)	37,3
EBIT	191 422	125 988	51,9
<i>% of sales revenues</i>	6,14	3,99	2,2 p.p.
EBITDA	278 031	218 777	27,1
<i>% of sales revenues</i>	8,92	6,93	2,0 p.p.
Financial income	1 149	1 823	(37,0)
Financial expenses	(34 640)	(38 658)	(10,4)
Gross profit (loss)	157 931	89 154	77,1
Income tax	(33 250)	(33 265)	(0,0)
Net profit (loss)	124 681	55 889	123,1
<i>% of sales revenues</i>	4,00	1,77	2,2 p.p.
Net profit/(loss) attributable to the shareholders of the Parent Entity	82 709	7 673	977,9
Net profit / (loss) per share (PLN) attributable to the shareholders of the Parent Entity	1,19	0,11	977,9

Revenues

In 2019, the consolidated sales revenues amounted to PLN 3,117,118 thousand as compared to PLN 3,158,210 thousand in the previous year and decreased by 1.3% (PLN 41,092 thousand). Sales revenues from paper decreased by 2.5% (PLN 56,471 thousand) while sales revenues from pulp increased by 1.7% (PLN 15,378 thousand) versus 2018.

Paper sales volume in 2019 amounted to 608 thousand tonnes and was by 27 thousand tonnes lower than in the previous year. This means a decrease in sales volume by 4.3%.

Pulp sales volume in 2019 amounted to 384 thousand tonnes and was by 19 thousand tonnes higher than in the previous year. This means an increase in sales volume by 5.2%.

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

Profit on sales in 2019 was by 6.7% higher than in the previous year. Sales profit margin in the current year stood at 18.78% compared to 17.37% (+1.4 p.p.) in the previous year.

The increased profit on sales in 2019 versus 2018 was primarily due to lower costs of materials for paper production, including pulp and energy.

In 2019, selling and distribution costs amounted to PLN 336,862 thousand and decreased versus 2018 by 2.9%. The selling and distribution costs comprise particularly transportation costs.

In 2019, the administrative expenses amounted to PLN 88,527 thousand as compared to PLN 91,042 thousand in 2018 which was a decrease by 2.8%. 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 78,111 thousand in 2019, which was an increase versus the previous year by PLN 28,568 thousand.

In 2019, other operating expenses amounted to PLN 46,806 thousand, which was an increase versus the previous year by PLN 12,704 thousand.

A major part of the other operational revenue and expenses includes revenues and 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 2019. Additionally, in 2019 the Group generated profit on sale of land in AP Mochenwangen.

Financial income and financial expenses

In 2019, the financial income amounted to PLN 1,149 thousand and was by PLN 674 thousand lower than generated in 2018.

The financial expenses in 2019 amounted to PLN 34,640 thousand as compared to PLN 38,658 thousand in 2018. The lower financial expenses in 2019 were primarily due to lower net FX losses of PLN 3,384 thousand (in 2018 net FX losses: PLN 8,401 thousand) and lower interest expense.

Income tax

In 2019, income tax amounted to PLN -33,250 thousand, while in 2018 it was PLN -33,265 thousand. The relatively high effective tax rate on gross profit in 2018 of 37% (2019: 21%) was due to non-recognition of a deferred income tax asset on tax losses (note 13.2).

Profitability analysis

EBITDA in 2019 was PLN 278,031 thousand, while in 2018 it was PLN 218,777 thousand. The increased EBITDA in 2019 was primarily due to lower costs of raw materials for paper production, in particular pulp and energy, denominated in PLN and profit on sale of land. In the reporting period, the EBITDA margin was 8.92 % versus 6.93% in 2018.

In 2019, the profit on operations amounted to PLN 191,422 thousand, while in 2018 it was PLN 125,988 thousand. The operational profit margin in 2019 was +6.14% versus +3.99% in 2018. The higher profit on operations in 2019 was due to lower costs of materials for paper production.

The net profit in 2019 amounted to PLN 124,681 thousand, while in 2018 it was PLN 55,889 thousand. Net profit margin in 2019 amounted to +4.00% as compared to +1.77% in 2018.

PLN '000	2019	2018	Change % 2019/2018
Profit on sales	585 506	548 635	6,7
<i>% of sales revenues</i>	<i>18,78</i>	<i>17,37</i>	<i>1,4 p.p.</i>
EBITDA	278 031	218 777	27,1
<i>% of sales revenues</i>	<i>8,92</i>	<i>6,93</i>	<i>2,0 p.p.</i>
EBIT	191 422	125 988	51,9
<i>% of sales revenues</i>	<i>6,14</i>	<i>3,99</i>	<i>2,2 p.p.</i>
Net profit/(loss)	124 681	55 889	123,1
<i>% of sales revenues</i>	<i>4,00</i>	<i>1,77</i>	<i>2,2 p.p.</i>
Return on equity / ROE (%)	14,3	6,5	120,7
Return on assets / ROA (%)	6,1	2,6	136,3

In 2019, return on equity was +14.3%, while in 2018 it was +6.5%.

In 2019, return on assets was +6.1%, while in 2018 it was +2.6%.

The growth of return on equity and return on assets in 2019 was mainly due to increased net profit generated in 2019 versus 2018.

Selected items of the consolidated statement of financial position

PLN '000			Change
	31.12.2019	31.12.2018	31/12/2019 -31/12/2018
Fixed assets	1 080 905	1 037 969	42 936
Inventories	353 774	478 614	(124 840)
Receivables	307 445	371 963	(64 517)
<i>including trade receivables</i>	<i>302 121</i>	<i>365 946</i>	<i>(63 824)</i>
Other current assets	27 744	64 794	(37 050)
Cash and cash equivalents	265 885	201 118	64 767
Assets related to discontinued operations	-	1 716	(1 716)
Total assets	2 035 753	2 156 174	(120 421)
Equity	870 528	861 193	9 335
Short-term liabilities	688 098	850 245	(162 146)
<i>of which:</i>			
<i>trade and other payables</i>	<i>435 366</i>	<i>516 678</i>	<i>(81 312)</i>
<i>interest-bearing debt</i>	<i>161 591</i>	<i>232 184</i>	<i>(70 593)</i>
<i>other non-financial liabilities</i>	<i>91 141</i>	<i>101 383</i>	<i>(10 241)</i>
Long-term liabilities	477 127	441 381	35 745
<i>of which:</i>			
<i>interest-bearing debt</i>	<i>263 268</i>	<i>249 659</i>	<i>13 609</i>
<i>other non-financial liabilities</i>	<i>213 858</i>	<i>191 722</i>	<i>22 136</i>
Liabilities directly related to the discontinued operations	-	3 355	(3 355)
Total equity and liabilities	2 035 753	2 156 174	(120 421)

As at 31 December 2019, total assets amounted to PLN 2,035,753 thousand as compared to PLN 2,156,174 thousand at the end of 2018.

Fixed assets

As at the end of December 2018 fixed assets amounted to PLN 1,080,905 thousand and accounted for 53.1% of total assets as compared to PLN 1,037,969 thousand as at the end of 2018 (48.1% of total assets).

The increase of fixed assets was due primarily to relatively high investment purchases and recognition of assets with right of use as a result of implementation of IFRS 16 Leasing.

Current assets

As at the end of December 2019, current assets amounted to PLN 954,848 thousand as compared to PLN 1,116,489 thousand at the end of December 2018. As part of the current assets, inventories decreased by PLN 124,840 thousand, receivables decreased by PLN 64,517 thousand, other current assets decreased by PLN 37,050 thousand, while cash and cash equivalents increased by PLN 64,767 thousand. Current assets represented 46.9% of total assets as at the end of December 2019 (51.8% as at the end of 2018) and included inventories – 17.3% (22.2% as at the end of 2018), receivables – 15.1% (17.3% as at the end of 2018), other current assets –

1.4% (3.0% as at the end of 2018) and cash and cash equivalents – 13.1% (9.3% as at the end of 2018).

Assets related to discontinued operations

In 2019, the Group stopped disclosing its discontinued operations (details in note 14 of the consolidated financial statements). As at 31 December 2018, 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 included primarily trade receivables and other receivables of PLN 619 thousand and cash of PLN 972 thousand.

Equity

As at the end of 2019, the equity amounted to PLN 870,528 thousand as compared to PLN 861,193 thousand at the end of 2018. As at the end of December 2019, equity accounted for 42.8% of total equity and liabilities (39.9% as at 31 December 2018).

The increase of equity was the effect of net profit for 2019 partly compensated with a reduction of positive measurement of financial instruments hedging future cash flows, an increase of FX losses on measurement of subsidiary entities, actuarial

losses and dividend paid by Rottneros to non-controlling shareholders.

Short-term liabilities

As at the end of December 2019, short-term liabilities amounted to PLN 688,098 thousand (33.8% of balance sheet total) as compared to PLN 850,245 thousand (39.4% of balance sheet total) as at the end of 2018.

In 2019, a decrease in short-term liabilities occurred by PLN 162,146 thousand, mainly due to decreased trade payables as well as loans, bonds and borrowings, despite of the re-classification as at 31 December 2019 and as at 31 December 2018 of certain loans to short-term loans as a result of failure to comply with the ratios specified in loan agreements as at that day.

Long-term liabilities

As at the end of December 2019, long-term liabilities amounted to PLN 477,127 thousand (23.4% of balance sheet total) as compared to PLN 441,381 thousand (20.5% of

balance sheet total) as at the end of 2018. In the analysed year there was a growth of long-term liabilities by PLN 35,745 thousand.

The increase of long-term liabilities resulted from an increase of lease liabilities as a result of implementation of IFRS 16 Leasing and increase of provisions regarding post-employment benefits.

Liabilities directly related to discontinued operations

In 2019, the Group stopped disclosing its discontinued operations (details in note 14 of the consolidated financial statements). As at 31 December 2018, 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 was composed primarily of provisions of PLN 864 thousand and trade and other payables of PLN 2,284 thousand.

Debt analysis

	2019	2018	Change 2019/2018
Debt to equity ratio (%)	133,9	150,4	(16,5) p.p.
Equity to fixed assets ratio (%)	80,5	83,0	(2,4) p.p.
Interest-bearing debt-to-equity ratio (%)	48,8	56,0	(7,1) p.p.
Net debt to EBITDA ratio for the last 12 months (x)	0,57x	1,28x	(0,71)
EBITDA to interest expense ratio (x)	11,8x	9,2x	2,6

As at the end of December 2019, the debt to equity ratio was 133.9% and was lower by 16.5 p.p. versus the end of December 2018. The decrease of the ratio was due to decreased debt, mainly under loans, borrowings and bonds and trade and other payables and an increase of equity.

The equity to fixed assets ratio was 80.5% as at the end of 2019 and was lower by 2.4 p.p. than at the end of December of 2018 as a result of a faster growth of fixed assets than of equity.

The interest-bearing debt to equity ratio was 48.8% at the end of 2019 and was by 7.1 p.p. lower versus the ratio calculated at the end of December 2018, both due to a decrease of interest-bearing debt than an increase of equity.

The net debt to EBITDA ratio for the 12 last months of 2019 was 0.57x and it was lower by 0.71 versus the level of the ratio for 2018 mainly as a result of an increase of EBITDA.

The EBITDA to net interest expense ratio for the 12 last months of 2019 was 11.8x and it was higher by 2.6 versus the level of the ratio for 2018 as a result of an increase of EBITDA.

Liquidity analysis

	2019	2018	Change 2019/2018
Current ratio	1,4x	1,3x	0,1
Quick ratio	0,9x	0,7x	0,1
Acid test ratio	0,4x	0,2x	0,1
DSI (days)	50,3	66,0	(15,7)
DSO (days)	34,9	41,7	(6,8)
DPO (days)	61,9	71,3	(9,4)
Operational cycle (days)	85,2	107,7	(22,5)
Cash conversion cycle (days)	23,3	36,5	(13,2)

The current liquidity ratio at the end of December 2019 was 1.4x and was higher than at the end of December 2018 (by 0.1).

The quick ratio increased from 0.7x as at the end of December 2018 to 0.9x as at the end of December 2019.

The cash ratio increased from 0.2x as at the end of December 2018 to 0.4x as at the end of December 2019.

The improved liquidity ratios as at the end of 2019 was primarily due to a decrease of short-term liabilities.

The cash conversion cycle for 2019 (23.3 days) was shortened versus 2018 (36.5 days) by 13.2 days.

Selected items of the consolidated cash flow statement

PLN '000	2019	2018	Change % 2019/2018
Cash flows from operating activities	342 290	148 609	130,3
<i>of which:</i>			
<i>Gross profit/(loss)</i>	157 931	89 154	77,1
<i>Depreciation/amortisation and impairment charge</i>	86 609	92 788	(6,7)
<i>Changes to working capital</i>	78 703	(52 774)	(249,1)
<i>Other adjustments</i>	19 047	19 441	(2,0)
Cash flows from investing activities	(121 834)	(173 970)	(30,0)
Cash flows from financing activities	(152 939)	(14 221)	975,4
Total cash flows	67 517	(39 583)	(270,6)

Cash flows from operating activities

In 2019, net cash flows from operating activities amounted to PLN 342,290 thousand as compared to PLN 148,609 thousand in 2018. The higher cash flows from operating activities in 2019 resulted from gross profit and decreased working capital.

Cash flows from investing activities

In 2019, cash flows from investing activities amounted to PLN -121,834 thousand as compared to PLN -173,970 thousand in 2018, and covered mostly expenses related to purchases of tangible fixed assets.

Cash flows from financing activities

In 2019, cash flows from financing activities amounted to PLN -152,939 thousand as compared to PLN -14,221 thousand in 2018. The growth of negative cash flows from financing activities in 2019 was primarily due to the repayment of overdraft facilities.

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 and will continue to be historically influenced by the following key factors:

- macroeconomic and other economic factors,
- demand growth for products based on natural fibres,
- reduced demand for certain paper types,
- fluctuations of paper prices,
- pulp price fluctuations for Paper Mills, timber for Pulp Mills and energy prices,
- FX rates fluctuation.

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's 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.

Demand growth for products based on natural fibres

The trend observed in developed societies concerning a reduction of man's adverse impact on the environment, in particular reduction of use of disposable, plastic packaging that may not be recycled, offers new opportunities for the development of the pulp & paper sector. In many companies, work has been under way to develop new methods of packaging and production of packaging with natural materials, including pulp, so that it can be recycled. Arctic Paper is also involved in such research. In the near future, the product segment is expected to increase its percentage share in the volumes and revenues of the Arctic Paper Group.

Reduced demand for certain paper types

Development of new technologies, in particular in the areas of information and communication, results in decreasing demand for certain paper types – in particular, this affects newsprint and to a lesser extent – graphic papers. However, despite the increasing popularity of e-books, the volume of book paper produced and sold by Arctic Paper has been stable in the recent years, less sensitive to changing market conditions. Nevertheless, in its strategy Arctic Paper has set a direction of activity so that within several years, the segment of non-graphic papers (that is technical or packaging paper) accounts for 1/5 of its consolidated revenues.

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 Pulp Mills and chemical agents used for paper and pulp production. Our energy costs historically include mostly the costs of electricity, gas and rights to CO₂ emissions. 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 these 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

Our 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 Paper Mill in Kostrzyn nad Odrą) and SEK (the majority of other costs incurred by the Munkedal and Grycksbo Paper 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 2019, there were no unusual events or factors.

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

In 2019, 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

Extension of repayment date of the revolving loan

On 22 October 2019, the Borrowers extended the availability of the Revolving Loan ("Revolving Loan") until 31 October 2020. In its current report No. 20/2016 of 9 September 2016, the Company informed that Arctic Paper S.A. and BNP Paribas Bank Polska S.A., Santander Bank Polska S.A. and the European Bank for Reconstruction and Development ("Lenders") concluded material agreements related to the refinancing of the Company and its subsidiary companies ("Loan Agreement") and in its current report No. 19/2019 of 30 August 2019 the Company informed about the technical extension of the original maturity date of the revolving loan.

The Revolving Loan was granted to the Company for the total amount of EUR 19,800,000 and PLN 20,000,000 and was provided primarily to refinance the Company's intragroup liabilities or to finance intragroup loans. The other provisions of the Loan Agreement, including interest rate, collateral for the Bank under the Loan Agreement, were not changed and do not differ from terms and conditions applicable to such agreements.

Conclusion of a factoring agreement by a subsidiary

On 19 September 2019, Arctic Paper Kostrzyn S.A. ("AP Kostrzyn"), a 100% subsidiary of the Company, concluded a factoring agreement with an assignment of receivables under an insurance contract ("Factoring Agreement"). The parties to the Factoring Agreement are: AP Kostrzyn as the seller and Santander Factoring sp. z o.o. ("Factor") as the factor.

The agreement provides for the provisions by the Factor of factoring services for AP Kostrzyn covering the acquisition of cash receivables due to AP Kostrzyn from its counterparties with the maximum factoring limit granted to AP Kostrzyn of PLN 30,000,000 (in words: PLN thirty million) and is valid until 31 October 2020.

The Factoring Contract provides for the establishment of standard collateral for such contracts as follows:

- assignment of existing and future receivables from counterparties, notified by AP Kostrzyn to the Factor;
- blank promissory note with a promissory note agreement.

The Factoring Contract is in line with market standards for similar factoring contracts.

The Factoring Agreement is related to the profitability improvement programme pursued by the Arctic Paper Group, in particular improvement of working capital management.

New technologies at Arctic Paper Kostrzyn S.A. co-financed by Narodowe Centrum Badań i Rozwoju [National Centre for Research and Development] [NCBiR]

On 26 September 2019, a subsidiary of Arctic Paper Kostrzyn S.A. ("Subsidiary") signed an agreement ("Agreement") with the National Centre for Research and Development ("NCBiR") for co-financing of a project titled: "Development and implementation of a production technology of high quality graphic papers with improved opacity and flexural rigidity with a lower wood fibre content, using a polymer crosslinker" under the Operational Programme Smart Growth 2014-2020 ("Project").

The total net project value is PLN 40,278,582.34 with the maximum amount of co-financing of PLN 16,392,068.30. The remaining project expenditures will be covered by the Company with its own funds.

The new production technology of high quality graphic papers with improved opacity and flexural rigidity will support the production of paper with a lower wood fibre content. Such paper is used in printing industry, direct advertising, paper

articles and packaging and will support higher productivity, expansion of the product portfolio and higher margins.

The period of cost eligibility for the Project commences on 2 December 2019 and ends on 1 December 2022.

The subsidiary agreed to ensure the sustainability of the Project financed with structural funds for 5 years from Project completion (Project sustainability period). The subsidiary is obliged to accomplish the assumed objective and ratios of the Project, as specified in the application for co-financing, and to complete the Project as planned as well as to implement the results of industrial research and development within 3 years of Project completion, as specified in the application for co-financing. The terms and conditions of the Agreement do not differ from standard terms and conditions used in agreements of this type.

Consent of the bank consortium to modify the calculation of the covenants

In accordance with the original calculation, as at 31 December 2019 the Group failed to comply with the limit of investment outlays (Capex) and Guarantors treshold test (loan agreement stipulates that total assets of the Guarantors, i.e. APSA, APM, APG and APK, shall amount to not less than 90% of total assets of paper segment) as set forth in the loan agreement with the bank consortium (Santander Bank Polska S.A., Bank BNP Paribas S.A. and the European Bank for Reconstruction and Development). Failure to comply with the limits was due to an investment in the hydro-electric power plant at Arctic Paper Munkedals Kraft AB. In 2017 the bank consortium agreed to have the investment funded by a financial institution outside the consortium.

After the balance sheet date, Arctic Paper S.A. received a consent from Santander Bank Polska S.A., acting as the agent for the bank consortium, not to include the investment in APM Kraft in the calculation and therefore ultimately the Group complied with the required ratios' levels as at 31 December 2019.

However, in compliance with IAS 1, as such consent was not available as at the balance sheet date, the Group reclassified loans for PLN 61,404 thousand to short-term loans.

Covid-19

In reference to the pandemia of Covid-19 the Management estimated potential influence on the Group's operations as further described in note 6.2.

Factors influencing the development of the Arctic Paper Group

Information on market trends

Supplies of fine paper

In Q4 2019, the Arctic Paper Group recorded a decreased level of orders versus Q3 2019 by 3.4% and a growth of orders versus the equivalent period of 2018 by 3.9%.

Source of data: Analysis by Arctic Paper

Paper prices

As at the end of Q4 2019, the average prices of high-quality UWF papers decreased by 1.3% while the prices of CWF papers decreased by 4.3% versus the prices at the end of 2018.

In the period from October to December 2019, 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: 1.1% for UWF papers and 1.6% 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) at the end of 2019 were lower by 6.6% versus the end of 2018, while in the segment of coated wood-free paper (CWF) the prices decreased by 6.4%. 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 2019, the pulp prices were as follows: NBSK 820 USD/tonne and BHKP 680 USD/tonne. The average pulp price in Q4 2019 was lower by 32.4% for NBSK while lower by

33.3% for BHKP, compared to the corresponding period of the previous year. The average pulp price in Q4 2019 was lower by 9.9% for NBSK and lower by 14.6% for BHKP as compared to Q3 2019.

The average cost of pulp per tonne of produced paper as calculated for the AP Group, expressed in PLN, in Q4 2019 decreased by 12.8% versus Q3 2019 and decreased by 28.3% versus Q4 2018. The share of pulp costs in cost of paper sales in Q4 of the current year amounted to 57% and decreased compared to the level recorded in Q4 2018 (62%).

In the four quarters of 2019, the AP Group used pulp in the production process in the following structure: BHKP 72%, NBSK 20% and other 8%.

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

Currency exchange rates

The EUR/PLN exchange rate at the end of Q4 2019 amounted to 4.2585 and was lower by 2.6% than at the end of Q3 2019 and lower by 1% than at the end of Q4 2018. The average exchange rate in Q4 2019 was lower by 0.7% than in Q3 2019 and amounted to 4.2886 versus 4.3179. The average exchange rate in Q4 2019 was by 0.3% lower than in Q4 2018.

The EUR/SEK exchange rate at the end of December 2019 was 10.4554 versus 10.7275 at the end of Q3 2019, and 10.2357 at the end of Q4 2018 which was a depreciation of EUR to SEK by 2.5% and appreciation of EUR to SEK by 2.1% respectively.

For this pair, the mean exchange rate in Q4 was by 0.1% lower compared to Q3 2019. The mean exchange rate in Q4 2019 was by 3.2% higher than in the corresponding period of 2018.

The changes mean an appreciation of SEK vis-a-vis EUR in Q4 2019 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 2019, the USD/PLN rate recorded a decrease by 5.1% versus the end of Q3 2019 and amounted to 3.7977. In Q4 2019, the mean exchange rate amounted to 3.8741 compared to 3.8831 in Q3 2019. That was a PLN appreciation to USD by 0.2%.

At the end of Q4 2019, the USD/SEK rate amounted to 9.3241 and was by 5% lower than at the end of Q3 2019. The mean exchange rate in Q4 2019 amounted to 9.6209 which was an increase by 0.3% compared to Q3 2019.

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 beneficial impact on USD-denominated expenses, in particular the cost of pulp.

At the end of December 2019, the EUR/USD rate amounted to 1.1213 compared to 1.0934 at the end of Q3 2018 and to 1.1437 at the end of December 2018. In terms of percentage, that means an appreciation of EUR to USD by 2.6% versus Q3 2019 and a depreciation of the currency by 2% versus the equivalent period of the previous year. In Q4 2019, the mean exchange rate of the pair amounted to 1.1071 compared to 1.1121 in Q3 2019 (-0.5%).

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 appreciating PLN versus USD in Q4 2019, positively affected the purchase prices of raw materials for the Paper Mill in Kostrzyn. USD appreciating vis-a-vis SEK negatively affected the costs in the Paper Mills in Sweden.

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

The material factors that have an impact on the financial results over the next quarter, include:

- Demand for fine paper in Europe. Over the recent years there has been a major decrease of demand for fine paper in Europe (level of executed orders). Further adverse developments in the market situation may negatively affect the levels of orders placed with the Group's Paper Mills and, as a result, will have an adverse impact on the financial results of the Group.
- Price changes of fine paper. In particular, the possibility to raise the prices of Arctic Paper products in local currencies in view of the declining supply/demand in Europe and in the context exchange rates fluctuations, will have a material 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 decrease 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, decreasing 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 the 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 2019, 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 a 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 regulations 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 hedging methods of major 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 the Group's 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, gas 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 tonnes of paper and two Pulp Mills with a total production capacity of 400,000 tonnes 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 a 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

BNP Paribas S.A. of 9 September 2016, loans from Danske Bank, Nordea 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, will result in default under those agreements. Events of default may in particular result in demand for repayment of our debt, banks taking control over important assets like Paper Mills or Pulp Mills and loss of other assets which serve as collateral, deterioration of creditworthiness and lost access to external funding which will be converted into lost liquidity and which in turn may materially adversely affect our business and development prospects and our stock prices.

Risk related to insurance limits

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

Risk of restricted supplies of natural gas

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

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

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

Risk related to consolidation and liquidity of key customers

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

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

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

Risk related to CO₂ emissions

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

Risk related to dividend distribution

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

The 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 2019 and has not published and does not intend to publish projections of financial results for 2020.

Dividend information

The Company's General Meeting held on 28 May 2019 did not make any decision on dividend disbursement.

Changes to the bodies of Arctic Paper S.A.

As at 31 December 2019, the Company'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 as a Member of the Supervisory Board 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);
- Dorota Raben – Member of the Supervisory Board appointed on 28 May 2019 (independent member).

On 28 May 2019, the Ordinary General Meeting of the Company approved a resolution dismissing Mr Maciej Georg

from the Supervisory Board. Additionally, the Ordinary General Meeting appointed Ms Dorota Raben to the Supervisory Board.

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

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, effective on 31 January 2019 and appointed Mr Michał Jarczyński for the function, effective on 1 February 2019.

Until the date hereof, there were no changes to the composition of the Management Board of the Parent Entity.

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

In 2019, 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 2019 to 31 December 2019 (data in PLN).

Managing and supervising persons	Remuneration (base salary and overheads) for the functions performed at Arctic Paper S.A.			
	S.A.	Retirement plan	Other	Total
Management Board				
Michał Jarczyński*	660 000	-	-	660 000
Per Skoglund**	106 343	29 427	2 545	138 316
Göran Eklund	741 494	220 351	214 119	1 175 964
Supervisory Board				
Per Lundeen	300 000	-	-	300 000
Roger Mattsson	210 000	-	-	210 000
Thomas Onstad	150 000	-	-	150 000
Mariusz Grendowicz	180 000	-	-	180 000
Maciej Georg***	62 500	-	-	62 500
Dorota Raben****	84 881	-	-	84 881

* for the period 01.02.2019- 31.12.2019

** for the period 01.01.2019- 31.01.2019

*** for the period 01.01.2019- 28.05.2019

**** for the period 28.05.2019- 31.12.2019

Agreements with Members of the Management Board guaranteeing financial compensation

As at 31 December 2019, 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.

Osoby zarządzające i nadzorujące	Liczba akcji lub uprawnień wg stanu na 26/03/2020	Liczba akcji lub uprawnień wg stanu na 31/12/2019	Liczba akcji lub uprawnień wg stanu na 18/11/2019	Zmiana
Zarząd				
Michał Jarczyński*	-	-	-	-
Göran Eklund	-	-	-	-
Rada Nadzorcza				
Per Lundeen	34 760	34 760	34 760	-
Thomas Onstad	6 223 658	6 223 658	6 223 658	-
Roger Mattsson	-	-	-	-
Mariusz Grendowicz	-	-	-	-
Dorota Raben	-	-	-	-

Management of financial resources

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

Capital investments

In 2019, the companies in the Arctic Paper Group invested its funds solely in standard short-term deposits, including

overnight deposits. In 2019, the Group made no financial investments.

Information of sureties, guarantees and pledges

As at 31 December 2019, 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 1,384 thousand at Arctic Paper Grycksbo AB and for SEK 1,166 thousand at Arctic Paper Munkedals AB;
- pledge on properties of Arctic Paper Munkedals AB resulting from a FPG contract in favour of the mutual life insurance company PRI for SEK 50,000 thousand;
- a bank guarantee in favour of Skatteverket Ludvika for SEK 135 thousand;
- pledges on shares in subsidiary companies in the Rottneros Group for SEK 284,730 thousand under loan agreements concluded with Danske Bank;
- 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 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.

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 2019 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 2020 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 2020 with its own funds and with investment loans and bond issues.

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

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

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

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

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

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

Information on purchase of treasury shares

In 2019 and in 2018 the Parent Entity did not buy any treasury shares.

Information on remuneration of 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://www.gpw.pl/pub/GPW/files/PDF/GPW_1015_17_DOBRE_PRAKTYKI_v2.pdf

Pursuant to Article 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 2019, Arctic Paper S.A. did not apply the following rules:

Best 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 report from operations".

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.

Best 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 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 No. 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.

Best 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.

Best 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 Chief Financial Officer 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 2019 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 26.03.2020

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%
<i>Nemus Holding AB</i>	40 381 449	58,28%	40 381 449	58,28%
<i>other entity</i>	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, Article 11 and Article 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 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 Article 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 Article 6 § 1 of the Code of Commercial Companies, if the Parent Entity 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 Entity 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: https://www.arcticpaper.com/Global/IR%20Documents/Cororate%20Documents/Arctic_Paper_Statut_tekst_jednolity_aktualny_2019_PL.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;
- 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 in such vacated position by way of a resolution approved with an absolute majority of the other Members of the Supervisory Board. The mandate of such co-opted Member of the Supervisory Board shall expire if the first Ordinary General Meeting to be held after such Member has been co-opted, fails to approve such Member. At any time, only two persons elected as Members of the Supervisory Board in the co-option procedure and who were not approved as candidates by the Ordinary General Meeting, may act as Members of the Supervisory Board. Expiry of the mandate of a co-opted Member of the Supervisory Board as a result of failure to approve such candidate by the Ordinary General Meeting may not be treated as finding any resolution approved with the participation of such Member as invalid or ineffective.
- Chairperson and Deputy Chairperson of the Supervisory Board:
 - › maintain contact with the Company's Management Board;
 - › manage the operations of the Supervisory Board;
 - › represent the Supervisory Board in external contacts and in contacts with the other bodies of the Company, including in contacts with members of the Company's Management Board;
 - › approve the presentation of initiatives and proposals submitted for meetings of the Supervisory Board;
 - › take other actions as specified in the Company's Regulations and Articles of Association;
 - › Members of the Supervisory Board should not resign from their function during the term of office if that could prevent the operation of the Supervisory Board, in particular prevent timely approval of major resolutions;
 - › Members of the Supervisory Board shall be loyal to the Company. Should a conflict of interests arise, members of the Supervisory Board shall report it to 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 Article 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);
- Dorota Raben – Member of the Supervisory Board appointed on 28 May 2019 (independent member).

In 2019, the Supervisory Board held meetings on: 4 January, 4-5 March, 8-9 May, 25 June and 21-22 August, 22-23 October, 10-11 December 2019.

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 on its scope 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 2019, the Audit Committee held 2 meetings on: 04 March and 22 October.

As at 19 July 2019, 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;

- Dorota Raben – 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 cooperation with the Company's Chief Financial Officer;
- 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 Article 69-73 of the Act on Certified Auditors, Audit Firms and Public Supervision.

On 23 October 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 2020 and 2022.

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".

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. The audit firm and members of its team performing the audit comply with the requirements to make an impartial and independent report from the audit of the annual consolidated and standalone financial statements of the Arctic Paper Group and of the Company in compliance with the applicable regulations, professional standards and the rules of professional ethics. The recommendation of the Audit Committee was free of third party impact and was developed on the basis of 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."

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 meetings on 25 February and 7 May 2019.

Since 9 February 2017 the Remuneration Committee has been 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 4 March 2019.

Since 22 September 2016 the Risk Committee has been 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 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 "Best 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 Best 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 2019 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 2019 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	26 March 2020	signed with a qualified electronic signature
Member of the Management Board Chief Financial Officer	Göran Eklund	26 March 2020	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 Capital Group for the year ended on 31 December 2019 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 2019 in a true, reliable and clear manner;
- The Management Board's Report from operations of the Arctic Paper Capital Group in 2019 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	26 March 2020	signed with a qualified electronic signature
Member of the Management Board Chief Financial Officer	Göran Eklund	26 March 2020	signed with a qualified electronic signature



Consolidated financial statement

for the year ended on 31 December 2019
together with independent auditor's report

Consolidated Financial Statements

Consolidated statement of profit and loss

	Note	Year ended on 31 December 2019	Year ended on 31 December 2018 transformed*
Continuing operations			
Revenues from sales of paper and pulp	10.1	3 117 118	3 158 210
Sales revenues		3 117 118	3 158 210
Costs of sales	11.5	(2 531 612)	(2 609 575)
Gross profit (loss) on sales		585 506	548 635
Selling and distribution costs	11.5	(336 862)	(347 045)
Administrative expenses	11.5	(88 527)	(91 042)
Other operating income	11.1	78 111	49 543
Other operating expenses	11.2	(46 806)	(34 102)
Operating profit (loss)		191 422	125 988
Financial income	11.3	1 149	1 823
Financial expenses	11.4	(34 640)	(38 658)
Gross profit (loss)		157 931	89 154
Income tax	13	(33 250)	(33 265)
Net profit (loss) from continuing operations		124 681	55 889
Discontinued operations			
Profit (loss) for the financial year from discontinued operations	14	-	-
Net profit (loss) for the financial year		124 681	55 889
Attributable to:			
The shareholders of the Parent Entity, of which:			
- profit (loss) from continuing operations		82 709	7 673
- profit (loss) from discontinued operations		-	-
The non-controlling shareholder, of which:			
- profit (loss) from continuing operations		41 971	48 216
- profit (loss) from discontinued operations		-	-
		124 681	55 889
Earnings per share:			
- basic earnings from the profit (loss) for the period attributable to the shareholders of the Parent Entity	16	1,19	0,11
- basic earnings from the profit/(loss) from continuing operations for the period attributable to the shareholders of the Parent Entity	16	1,19	0,11
- diluted earnings from the profit for the period attributable to the shareholders of the Parent Entity	16	1,19	0,11
- diluted earnings from the profit from the continuing operations attributable to the shareholders of the Parent Entity	16	1,19	0,11

*information on the transformed data is provided in note 7.3.1

Consolidated statement of total comprehensive income

	Note	Year ended on 31 December 2019	Year ended on 31 December 2018
Net profit/(loss) for the reporting period		124 681	55 889
Items to be reclassified to profit/loss in future reporting periods:			
FX differences on translation of foreign operations	30.2	(19 412)	(4 881)
Measurement of financial instruments	12	(55 809)	72 041
Deferred income tax on the measurement of financial instruments	13.1	12 309	(15 066)
Items not to be reclassified to profit /loss in future reporting periods:			
Actuarial profit (loss) for defined benefit plans	11.7	(13 319)	(3 083)
Deferred income tax on actuarial profit (loss) relating to defined benefit plans	13.1	2 428	668
Other comprehensive income		(73 803)	49 678
Total comprehensive income		50 877	105 567
Attributable to:			
The shareholders of the Parent Entity		30 266	41 061
To the non-controlling shareholder		20 611	64 506

Consolidated statement of financial position

	Note	As at 31 December 2019	As at 31 December 2018
ASSETS			
Fixed assets			
Tangible fixed assets	18	979 851	901 960
Investment properties	20	4 128	4 236
Intangible assets	21	38 471	49 160
Interests in joint ventures	22	1 412	1 182
Other financial assets	24.1	30 658	52 520
Other non-financial assets	24.2	2 039	1 773
Deferred income tax assets	13.3	24 346	27 137
		1 080 905	1 037 969
Current assets			
Inventories	27	353 774	478 614
Trade and other receivables	28	302 121	365 946
Corporate income tax receivables		5 324	6 017
Other non-financial assets	24.2	8 909	14 267
Other financial assets	24.1	18 835	50 527
Cash and cash equivalents	29	265 885	201 118
		954 848	1 116 489
Assets for sale	14	-	1 716
		2 035 753	2 156 174
TOTAL ASSETS			
EQUITY AND LIABILITIES			
Equity			
Equity (attributable to the shareholders of the Parent Entity)			
Share capital	30.1	69 288	69 288
Reserve capital	30.3	407 976	407 976
Other reserves	30.4	139 035	151 110
FX differences on translation	30.2	(28 863)	(12 338)
Retained earnings / Accumulated losses	30.5	19 473	(27 745)
Cumulated other comprehensive income related to discontinued operations	14	-	(11 649)
		606 909	576 643
Non-controlling interests	30.6	263 619	284 550
		870 528	861 193
Long-term liabilities			
Interest-bearing loans, bonds and borrowings	32	233 745	246 805
Provisions	33	124 942	106 846
Other financial liabilities	32	29 523	2 854
Deferred income tax liability	13.3	70 823	68 316
Accruals and deferred income	34.2	18 094	16 560
		477 127	441 381
Short-term liabilities			
Interest-bearing loans, bonds and borrowings	32	149 983	223 698
Provisions	33	5 008	939
Other financial liabilities	32	11 608	8 486
Trade and other payables	34.1	435 366	516 678
Income tax liability		4 284	1 141
Accruals and deferred income	34.2	81 849	99 303
		688 098	850 245
Liabilities related to assets held for sale	14	-	3 355
		1 165 225	1 294 981
		2 035 753	2 156 173
TOTAL EQUITY AND LIABILITIES			

Consolidated cash flow statement

	Note	12-month period ended on 31 December 2019	12-month period ended on 31 December 2018 transformed*
Cash flows from operating activities			
Gross profit (loss)		157 931	89 154
Adjustments for:			
Depreciation/amortisation	11.6	86 609	92 788
FX gains (loss)		748	3 378
Net interest and dividends		22 682	22 525
Profit / loss from investing activities		(14 196)	74
Increase / decrease in receivables and other non-financial assets	29.1	46 633	(40 368)
Change to inventories	29.1	114 714	(129 261)
Increase / decrease in liabilities except for loans and borrowings	29.1	(74 184)	94 858
Change in accruals and prepayments	29.1	(8 460)	21 997
Change in provisions	29.1	13 278	(1 089)
Income tax paid		(10 271)	(5 179)
Co-generation certificates		7 274	659
Other	29.1	(470)	(927)
Net cash flows from operating activities		342 290	148 609
Cash flows from investing activities			
Disposal of tangible fixed assets and intangible assets		15 809	914
Purchase of tangible fixed assets and intangible assets	29.1	(137 643)	(175 300)
Other capital outflows / inflows		-	416
Net cash flows from investing activities		(121 834)	(173 970)
Cash flows from financing activities			
Change to overdraft facilities		(92 605)	51 209
Repayment of financial leasing liabilities		(8 964)	(23 707)
Inflows from other financial liabilities		406	416
Repayment of other financial liabilities		(2)	-
Inflows under contracted loans, borrowings and bonds		61 116	40 325
Repayment of loans and borrowings		(49 067)	(34 839)
Interest paid		(22 281)	(22 259)
Dividend disbursed to shareholders of AP SA	17	-	(13 857)
Dividend disbursed to non-controlling shareholders	30.6	(41 542)	(11 510)
Net cash flows from financing activities		(152 939)	(14 221)
Change in cash and cash equivalents		67 517	(39 583)
Net FX differences		(3 722)	(2 179)
Cash and cash equivalents at the beginning of the period	29	202 090	243 851
Cash and cash equivalents at the end of the period	29	265 885	202 090

*information on the transformed data is provided in note 7.3.1

Consolidated statement of changes in equity

Attributable to the shareholders of the Parent Entity

	Note	Share capital	Reserve capital	FX differences on translation of foreign operations	Other reserves	Retained earnings / (Accumulated losses)	Cumulated other comprehensive income related to discontinued operations	Total	Equity attributable to non-controlling shareholders	Total equity
As at 01 January 2019		69 288	407 976	(12 338)	151 110	(27 745)	(11 649)	576 643	284 550	861 193
Net profit (loss) for the financial year		-	-	-	-	82 709	-	82 709	41 971	124 681
Other comprehensive income for the year		-	-	(9 954)	(31 599)	(10 891)	-	(52 443)	(21 360)	(73 803)
Total comprehensive income for the year		-	-	(9 954)	(31 599)	71 819	-	30 266	20 611	50 877
Profit distribution	30.5	-	-	-	19 523	(19 523)	-	-	-	-
Discontinued operations	14	-	-	(6 572)	-	(5 077)	11 649	-	-	-
Dividend distribution to non-controlling entities	30.6	-	-	-	-	-	-	-	(41 542)	(41 542)
As at 31 December 2019		69 288	407 976	(28 863)	139 035	19 473	-	606 909	263 619	870 528

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 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

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 2019, the Arctic Paper Group employs about 1,500 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 2019, 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 2019 amounted to PLN 3,117 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 Entity 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).

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.

1.2. Shareholding structure

Shareholder	as at 31.12.2019				as at 31.12.2018			
	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%
<i>Nemus Holding AB</i>	40 381 449	58,28%	40 381 449	58,28%	40 381 449	58,28%	40 381 449	58,28%
<i>other entity</i>	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 2019) 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 Issuer. Mr Thomas Onstad's total direct and indirect holding in the capital of Arctic Paper S.A. as at 31 December 2019 was 68.13% (31 December 2018: 68.13%) and has not changed until the date hereof.

2. Composition of the Group

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

	Registered office	Business objects	Group's interest in the equity of the subsidiary entities as at		
			26 March 2020	31 December 2019	31 December 2018
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 (now discontinued operations)	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	United Kingdom, 8 St Thomas Street SE1 9RR London	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-Heverlee	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 Milan	Trading company	100%	100%	100%
Arctic Paper Danmark A/S	Denmark, Korskindelund 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 Warszawa	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 Verwaltungs GmbH *	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%

	Registered office	Business objects	Group's interest in the equity of the subsidiary entities as at		
			26 March 2020	31 December 2019	31 December 2018
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, Söderhamn	Activities of holding companies	51,27%	51,27%	51,27%
Rottneros Bruk AB	Sweden, Rottneros	Pulp production	51,27%	51,27%	51,27%
Utansjö Bruk AB	Sweden, Söderhamn	Non-active company	51,27%	51,27%	51,27%
Vallviks Bruk AB	Sweden, Vallvik	Pulp production	51,27%	51,27%	51,27%
Rottneros Packaging AB	Sweden, Sunne	Production of food packaging	51,27%	51,27%	51,27%
SIA Rottneros Baltic	Latvia, Kuldīga	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 2019 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 2019, the Parent Entity's Management Board was composed of:

- Michał Jarczyński – President of the Management Board appointed on 1 February 2019;
- 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, effective on 31 January 2019 and appointed Mr Michał Jarczyński for the function, effective on 1 February 2019.

Since 31 December 2019 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 2019, 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 as a Member of the Supervisory Board 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);
- Dorota Raben – Member of the Supervisory Board appointed on 28 May 2019 (independent member).

On 28 May 2019, the Ordinary General Meeting of the Company approved a resolution dismissing Mr Maciej Georg from the Supervisory Board. Additionally, the Ordinary General Meeting appointed Ms Dorota Raben to the Supervisory Board.

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

3.3. Audit Committee of the Parent Entity

As at 31 December 2019, the Parent Entity'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);
- Rune Mattsson – Member of the Audit Committee appointed on 23 June 2016;
- Dorota Raben – Member of the Audit Committee appointed on 19 July 2019.

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 26 March 2020.

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.

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.

Liabilities under leases – the Group as the lessee

The Group has lease contracts that it reports according to IFRS 16. IFRS 16 introduces a uniform model of the lessee accounting and requires the lessee to recognize assets and liabilities resulting from each lease. 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.

Discontinued activity (applies to comparable data disclosed in the consolidated statement of financial condition)

On 28 July 2015, the Management Board of Arctic Paper S.A. published the Group's profitability improvement programme aimed at reducing the operational expenses. At the same time, the Management Board of Arctic Paper announced that it had started an active search for an investor for the Arctic Paper Mochenwangen facility and in parallel analysed the possibility to take measures for further reduction of losses generated by the Paper Mill, including those relating to the discontinuation of operations. As at 31 December 2015, as at 31 December 2016 and 31 December 2018, the Management Board treated the operations of the Mochenwangen Group as discontinued operations. As at 31 December 2015 and as at 31 December 2016 and 31 December 2018. In 2019, the Management Board assessed the opportunity to sell the other assets and liabilities as an organised part of the AP Mochenwangen Group as unlikely, therefore it stopped presenting the Mochenwangen Group as discontinued operations.

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 recognised in costs when incurred. In 2017-2019 Arctic Paper Mochenwangen did not incur any investment outlays.

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 and 31 December 2019, following the annual assessment of impairment indications of tangible fixed assets and intangible assets, the Management Board identified the need to perform impairment tests of non-financial fixed assets as at those dates. The results of the tests did not show any further impairment losses of these assets.

The results of completed tests as at 31 December 2018 and 31 December 2019 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.

Discount rate to calculate lease liabilities

Lease liabilities are measured at amortised cost with a margin discount rate. The Group estimates such margin discount rate in compliance with the guidelines in IFRS 16.

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 profit or loss include FX forward contracts, contracts for the purchase of electricity, contracts for the sale of pulp, floor options and interest rate SWAPs when they are not subject to hedge accounting (note 40).

These Consolidated Financial Statements are presented in the Polish Zloty ("PLN"), and all values, unless indicated otherwise, are stated in PLN '000.

These Consolidated Financial Statements have been prepared based on the assumption that the Group will continue as a going concern in the foreseeable future.

6.1. Compliance statement

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

IFRS 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. Covid-19

On 11 March 2020, the World Health Organisation recognised the coronavirus epidemic as a pandemic. In order to reduce the significant threat to public health posed by COVID-19, the authorities of individual Member States of the European Union and worldwide, while awaiting further developments, have taken measures to stop the epidemic, including restrictions on the movement of persons, banning activities in certain sectors. In particular, the organisation of mass events has been suspended, the functioning of cultural facilities has been restricted, public transport has been restricted, retail outlets have been closed down, excluding grocery stores and pharmacies. Some companies have also recommended their employees to stay at home during this time and have limited or temporarily suspended their business activities.

These events may have the following consequences in a macroeconomic perspective:

- disruption of supply chains of goods, in particular for cross-border and transcontinental supplies;
- significant reduction of the capability to provide services or production, in certain sectors and regions. The affected sectors include mainly trade and transport, travel and tourism, cultural activities and entertainment, industrial production, consumer goods production and education;
- a significant decrease in demand for non-essential goods and services;
- increased economic uncertainty, reflected by fluctuations in asset prices and foreign exchange rates.

In response to the identified economic risks, the Governments of individual Member States, as well as European Union institutions, have announced national and pan-European programmes to help citizens and businesses. The details of the programmes, including the specific selection criteria for individual entities, have not yet been announced.

The Group operates in the pulp and paper sector which, as at the time of preparing these consolidated financial statements, was not significantly affected by the COVID-19 epidemic. Over the past few weeks, the Group has been making relatively stable sales, and its business activities, including deliveries, have been continuous. On the basis of publicly available information, as at the date on which these consolidated financial statements were authorised for issue, the management of the Group's Parent Entity considered several extreme but still probable scenarios concerning the potential development of the epidemic and its expected impact on the Group and the economic environment in which it operates, including measures already taken by the governments of the

countries from which the Group's main business partners come.

As of 31 December 2019, the Group's current liquidity ratio was 1.4x and the net debt-to-EBITDA ratio for the last 12 months was 0.57x. The Group has unused credit lines and unused factoring limits. Under the Group's cash-pool agreement, cash available within individual units can be freely disposed of.

The management of the Group has considered the following operational risks, which may have an adverse impact on the Group:

- unavailability of staff for a long time;
- interruptions in the transport of production materials and products that would disrupt distribution;
- recession in the economy of developed countries, which would reduce the purchasing power of consumers, resulting in reduced sales of non-essential goods.

In order to mitigate the risks arising from potential adverse scenarios, the management of the Group has started to implement measures, which include in particular:

- implementation of employee protection programmes, including the introduction of personal protection solutions and shift work;
- confirmation with the suppliers of key materials, the capability to deliver the volumes ordered and an estimation of the sufficiency of the stock held, in particular cellulose;
- contractual arrangements with transport companies to ensure uninterrupted circulation of materials and products;
- adjusting the scale of the Group's operations in response to a possible temporary decrease in demand for its goods;
- securing financial liquidity as a result of working capital management and securing possible bridge financing.

Additionally, the management of the Group conducted a simulation of the Group's financial condition under the conditions of reduced market demand for pulp and paper products – the scenarios under consideration assumed a decrease in sales from April to the end of 2020, between 10-30%, when compared to budgeted data.

In the opinion of the management of the Group, the above circumstances justify the assumption that the Group will have sufficient resources to continue its business activities for at least 12 months from the balance sheet date. The management of the Group concluded that the impact of the possible scenarios considered in making this judgement does not create material uncertainty about events or circumstances that would

cast serious doubt on the Group's ability to continue as a going concern.

6.3. 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 2018, except for the following changes to standards and new interpretations binding for annual periods beginning on or after 1 January 2019:

- IFRS 16 Leasing – effective for financial years beginning on or after 1 January 2019.

The Group did not decide to adopt earlier any other standards, interpretations or amendments that were issued but are not yet effective for periods commencing on 1 January 2019.

7.2. 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. 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). In such instances, the lessee recognises 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.

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

IFRS 16 requires broader disclosures from both the lessee and the lessor than in the case of IAS 17.

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.

The application of IFRS 16 for the first time was subject to the lessee's decision to select a retrospective approach with a recognition of the cumulated effect as the day of the first recognition (1 January 2019) and interim regulations provided for certain practical solutions.

As at 1 January 2019, the Group implemented prospectively 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 operational 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).

As at 1 January 2019, the value of use rights, disclosed in tangible fixed assets and lease liabilities grew by PLN 38,252 thousand. The average weighted margin interest rate applied to lease liabilities recognised in the statement of financial condition on the date of the first application was between 3% and 4.79%, depending on the type of assets or funding method of the Company.

Due to the interim regulations applied in the implementation of IFRS 16, the Group did not adjust any comparable data as at 31 December 2018. Additionally, the Group applied simplifications relating to the contract value or the remaining lease term.

The difference between the amounts of future payments that the Group was obliged to make under operational leases, disclosed in compliance with IFRS 17 as at the end of 2018, discounted with the marginal interest rate as at the day of the first application, and the lease liabilities disclosed in the statement of financial condition on the day of the first application of IFRS 16 – 1 January 2019, was due to the recognition of lease contracts that did not have to be disclosed in 2018 in compliance with IFRS 17.

7.3. Data comparability

7.3.1. Comparability of data – discontinued activity

In Q2 2019, the Issuer's Management Board decided to discontinue presenting the results of the AP Mochenwangen Group as discontinued operations as the applicable criteria for the activity have not been complied with. As a result, profit/loss of discontinued operations for the year ended on 31 December 2018 was disclosed in continuing operations.

The adjustment had no impact on net profit/loss and the basic and diluted earnings per share attributable to the shareholders of the Parent Entity.

Discontinued operations have been described in note 14 to these consolidated financial statements.

The table below presents the impact of the changed presentation of discontinued operations on the consolidated profit and loss account for the year ended on 31 December 2018.

	Approved data	Impact of opening balance-sheet adjustment	Transformed data
Impact on the consolidated profit and loss account for 2018			
Revenues from sales of products	3 158 210	-	3 158 210
Costs of sales	(2 608 260)	(1 315)	(2 609 575)
Selling and distribution costs	(346 177)	(868)	(347 045)
Administrative expenses	(88 205)	(2 837)	(91 042)
Other operating income	47 418	2 124	49 543
Other operating expenses	(32 288)	(1 814)	(34 102)
Financial income	1 823	-	1 823
Financial expenses	(38 634)	(24)	(38 658)
Income tax	(33 390)	125	(33 265)
Discontinued operations	(4 609)	4 609	-
Impact on net profit (loss) for 2018	55 889	-	55 889

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:

Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting policies, changes in accounting estimates and errors (effective for annual periods beginning on or after 1 January 2020). Those amendments have not yet been endorsed by the EU. The amendments harmonise and clarify the definition of "Material" and provide guidelines in order to improve consistency in applying the concept in International Financial Reporting Standards. The above changes are not expected to have material impact on the entity's financial statements.

Disposal or Transfer of Assets between the Investor and an Associate Company or a Joint Venture (amendments to IFRS 10 Consolidated Financial Statements and to IAS 28 Investments in Associates); The European Commission took a decision on deferring approval of those amendments for an undefined period. The amendments clarify that in case of a transaction made with an associate or a joint venture, the extent to recognise the related transactional profit or loss depends on that if the transferred or sold assets constitute a venture:

- the entire profit or loss is recognised if the transferred assets meet the definition of a venture (irrespective of the fact if the venture is a subsidiary entity or not);

- the profit or loss is recognised in part when the transaction covers assets that do not constitute a venture even if such assets were held in a subsidiary entity.

IFRS 17 Insurance Contracts applies to annual periods beginning on or after 1 January 2021, prospective application; earlier application is permitted. The standard has not been yet endorsed by the EU. IFRS 17 that replaces temporary standard IFRS 4 Insurance Contracts that was implemented in 2004. IFRS 4 provided companies with a possibility to continue disclosing insurance contracts pursuant to the accounting principles applicable in national standards, which, as a result, meant application of different solutions. IFRS 17 solves the issue of comparability created by IFRS 4 through a requirement of coherent disclosure of all insurance contracts, which will be beneficial for both investors and insurers. Liabilities arising from contracts will be recognised at present values, instead of historic cost.

Amendments to IFRS 3 Business Combinations; effective for annual periods beginning on or after 1 January 2020. Those amendments have not yet been endorsed by the EU. The changes restrict and clarify the definition of business. They also support a simplified assessment if a set of assets and activities constitutes a group of assets and not a business.

Modifications to IFRS 9 Financial Instruments, IAS 39 Financial Instruments and IFRS 7 Financial Instruments: Disclosure of information is effective for annual periods beginning on and after 1 January 2020. Those amendments have not yet been endorsed by the EU. The amendments are mandatory and apply to all hedge relationships affected by the uncertainty resulting from the reformed interest rates. The modifications provide for a temporary waiver of the use of certain hedge accounting requirements so that the interest rate reform does not cancel hedge accounting. The key waivers concerning the amendments refer to:

- the requirement that flows are “highly probable”,
- risk components,
- prospective assessment,
- retrospective tests of effectiveness (applies to IAS 39),
- reclassification of provisions under cash flow hedges.

The amendments further require that entities disclose additional information to investors on hedge relationships that affect the above uncertainties.

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 than the effective dates as specified in the standards and will be announced when endorsed by the European Union.

8.1. Implementation of new standards

As at the date of approval of these Consolidated Financial Statements for publication, the Management Board do not expect that 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 will be significant.

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 parent 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 comprehensive income corresponding to the reduced interest if such profit or loss is subject to reclassification 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 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:

	As at 31 December 2019	As at 31 December 2018
USD	3,7977	3,7597
EUR	4,2585	4,3000
SEK	0,4073	0,4201
DKK	0,5700	0,5759
NOK	0,4320	0,4325
GBP	4,9971	4,7895
CHF	3,9213	3,8166

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

	01.01 - 31.12.2019	01.01 - 31.12.2018
USD	3,8399	3,6117
EUR	4,2988	4,2617
SEK	0,4061	0,4156
DKK	0,5758	0,5718
NOK	0,4365	0,4439
GBP	4,8988	4,8168
CHF	3,8644	3,6912

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

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

9.7. Intangible assets

Intangible assets acquired separately or constructed (if they meet the recognition criteria for development costs) are measured on initial recognition at cost or construction costs. The cost of intangible assets acquired in a business combination is equal to their fair value as at the date of combination. Following initial recognition, intangible assets are recognised at purchase cost or construction cost reduced by

any accumulated amortisation and impairment charges. Expenditures incurred for internally generated intangible assets, excluding capitalised development costs, are not capitalised and are charged to the costs in the period in which they were incurred.

The useful lives of intangible assets are assessed by the Group to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with limited useful life 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 method	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

The recognition principles of lease contracts are detailed in note 7.2 of These Consolidated Financial Statements.

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 finance leases and foreign exchange differences incurred in connection with the external financing to the extent that they are regarded as an adjustment to interest expense.

9.11. Financial assets

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 value;
- 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 comprehensive income with the exception of dividend received;
- measured at fair value through profit or loss: profit or loss resulting from measurement of financial assets, classified as measured at fair value through profit and loss, are recognised through profit or loss 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 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.

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 FX rates fluctuation. 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 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 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 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 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 purchase cost, disposal at average weighted cost
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 purchase cost, disposal at average weighted cost

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 profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as measured to fair value through profit or loss. 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 profit or loss 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.

Financial liabilities measured at fair value through profit or loss 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 profit or loss 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 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 2019 and 2018 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 the service: at contract conclusion the Group assesses the goods and services promised in the contract and identifies each promise as a liability for delivery 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

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 provision applied, 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 comprehensive income in correlation items recognised in other 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 tax 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 continuing activities. The core activity of the Group comprises production of paper presented as "Uncoated" and "Coated" segments and covering the financial results of the Mochenwangen Group and three Paper Mills:

- Arctic Paper Kostrzyn S.A. (Poland) – a producer of high quality uncoated graphic paper under the Amber brand; production output of 315,000 tonnes of paper annually;
- Arctic Paper Munkedals AB (Sweden) – a producer of high quality uncoated graphic paper under the Munken brand; production output of 160,000 tonnes of paper annually;
- Arctic Paper Grycksbo (Sweden) – production of coated wood-free paper under the brands of G-Print and Arctic; production output of 210,000 tonnes annually.

The "Pulp" operating segment is related to the purchase of the Rottneros Group in December 2012 and covers, inter alia, two Pulp Mills:

- the Pulp Mill in Rottneros (Sweden) produces mainly two types of mechanical pulp: groundwood and chemo-thermo

mechanical pulp CTMP), production level of about 160,000 tonnes annually;

- the Pulp Mill in Vallvik (Sweden) 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. Production level of about 240,000 tonnes annually.

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 chemo-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 operating profit (loss), 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 2019 and as at 31 December 2019.

12-month period ended on 31 December 2019 and as at 31 December 2019

	Uncoated	Coated	Pulp	Other	Total	Exclusions	Total continuing operations
Revenues							
Sales to external customers	1 567 762	639 053	910 304	-	3 117 118	-	3 117 118
Sales between segments	-	27 694	54 706	28 976	111 376	(111 376)	-
Total segment revenues	1 567 762	666 747	965 010	28 976	3 228 495	(111 376)	3 117 118
Result of the segment							
EBITDA	117 524	14 470	152 040	(6 625)	277 408	623	278 031
Interest income	2 820	288	-	7 149	10 257	(9 405)	852
Interest expense	(4 204)	(4 098)	(8 529)	(11 751)	(28 582)	5 070	(23 511)
Depreciation/amortisation	(62 866)	11 136	(33 792)	(1 088)	(86 609)	-	(86 609)
FX gains and other financial income	2 210	369	2 437	53 335	58 351	(58 054)	297
FX losses and other financial expenses	(8 108)	(3 442)	-	(7 921)	(19 471)	8 342	(11 128)
Gross profit (loss)	47 377	18 723	112 156	33 099	211 355	(53 424)	157 931
Assets of the segment	943 630	273 031	939 444	418 638	2 574 743	(564 747)	2 009 996
Liabilities of the segment	456 538	412 808	346 612	358 406	1 574 364	(479 961)	1 094 402
Capital expenditures	(91 396)	(2 521)	(43 648)	(77)	(137 643)	-	(137 643)
Interests in joint ventures	1 412	-	-	-	1 412	-	1 412

- Revenues from inter-segment transactions are eliminated on consolidation;
- The results of the segments do not cover financial income (PLN 1,149 thousand, of which PLN 852 thousand is interest income) and financial expenses (PLN 34,640 thousand of which PLN 23,511 thousand is interest expense), depreciation/amortisation (PLN 86,609 thousand), impairment of non-financial assets (PLN 0 thousand) and income tax liability (PLN -33,250 thousand). However, segment result includes an inter-segment loss (PLN 623 thousand);
- Assets and liabilities of segments do not contain any deferred income tax (asset: PLN 24,346 thousand provision: PLN 70,823 thousand since those items are managed at the Group level. Segment assets do not 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 2018 and as at 31 December 2018.

12-month period ended on 31 December 2018 and as at 31 December 2018 (transformed)

	Uncoated	Coated	Pulp	Other	Total	Exclusions	Total continuing operations
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	91 211	(28 435)	157 500	(1 230)	219 046	(269)	218 777
Interest income	511	82	-	7 532	8 126	(6 946)	1 179
Interest expense	(3 409)	(3 670)	(8 311)	(13 053)	(28 443)	4 670	(23 773)
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	(11 121)	(7 381)	-	(9 112)	(27 614)	12 729	(14 885)
Gross profit (loss)	27 729	(48 173)	124 172	27 420	131 147	(41 993)	89 154
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 38,658 thousand of which PLN 23,773 thousand is interest expense), depreciation/amortisation (PLN 92,788 thousand), impairment of non-financial assets (PLN 0 thousand) and income tax liability (PLN -33,265 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 provision: PLN 68,316 thousand since those items are managed at the Group level. Segment assets do not include investments in companies operating in the Group.

10.1. Revenues from contracts with customers

Revenues from contracts with customers amounted to PLN 3,157,824 thousand for 2019 (including sales of paper and pulp: PLN 3,117,118 thousand and sales of utilities, materials, services and rental revenues – PLN 40,706 thousand) PLN 3,190,530 thousand for 2018 (including sales of paper and pulp: PLN 3,158,210 thousand and sales of utilities, materials, services and rental revenues – PLN 32,320 thousand).

The table below presents the Group's revenues from sales of paper and pulp to external customers in each segment, split by countries and regions, in 2018-2019:

Geographical information

Year ended on 31 December 2019

Revenues from sales of paper and pulp from external customers by segment:

	Uncoated	Coated	Pulp	Total
Germany	371 511	135 396	132 811	639 717
France	152 288	34 802	10 154	197 243
United Kingdom	154 832	87 889	19 089	261 809
Scandinavia	112 713	115 305	238 098	466 116
Western Europe (other countries)	157 238	18 694	211 604	387 535
Poland	285 556	48 026	33 333	366 915
Central and Eastern Europe (other than Poland)	306 911	149 246	28 837	484 994
Outside Europe	26 713	49 696	236 379	312 788
Total segment revenues	1 567 762	639 053	910 304	3 117 118

Year ended on 31 December 2018

Revenues from sales of paper and pulp from external customers by segment:

	Uncoated	Coated	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

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 operating income split by country in 2018-2019:

Year ended on 31 December 2019

Revenues from contracts with customers, other	Sale of utilities	Sale of materials	Sales of services	Rental income	Total
Poland	23 813	237	218	1 880	26 148
Sweden	131	12 287	599	386	13 403
Germany	-	-	47	391	438
Other European countries	-	-	432	284	716
Total	23 944	12 524	1 297	2 941	40 706

Year ended on 31 December 2018 (transformed)

Revenues from contracts with customers, other	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
Germany	4	910	89	871	1 875
Total	18 833	9 607	977	2 903	32 320

10.2. Fixed assets by countries and regions

The table below presents the Group's fixed assets reduced by deferred income tax asset split by country and region, as at 31 December 2019 and 31 December 2018:

Geographical information

Fixed assets:	As at 31 December 2019	As at 31 December 2018
Germany	5 021	104
France	1 720	318
Scandinavia	646 663	639 019
Western Europe (other countries)	809	784
Poland	402 069	370 434
Central and Eastern Europe (other than Poland)	278	173
Total fixed assets	1 056 560	1 010 832

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

The growth of fixed assets in the Group results primarily from the implementation of IFRS 16 and investment outlays on tangible fixed assets made in the Group's Paper Mills and Pulp Mills in 2019.

11. Income and costs

11.1. Other operating income

	Year ended on 31 December 2019	Year ended on December 2018 (transformed)
Reversal of provisions	998	282
Damages received	538	2 191
Rental income	2 941	2 903
Sales of services	1 297	977
Subsidies	3 569	4 338
Sale of utilities	23 944	18 833
Sale of materials	12 524	9 607
Profit on disposal of tangible fixed assets	15 174	687
Profit on sale of CO2 emission rights	11 373	5 340
Other	5 754	4 385
Total	78 111	49 543

11.2. Other operating expenses

	Year ended on 31 December 2019	Year ended on 31 December 2018 (transformed)
Real estate tax	(912)	(679)
Costs of sales of utilities	(21 112)	(18 897)
Costs of sales of materials	(15 443)	(8 051)
Reorganisation costs in subsidiary entity	(3 873)	(1 312)
Loss on disposal of tangible fixed assets	(251)	(798)
Write-off of spare parts	(1 938)	(1 042)
Other	(3 277)	(3 323)
Total	(46 806)	(34 102)

11.3. Financial income

	Year ended on 31 December 2019	Year ended on 31 December 2018 (transformed)
Interest income on funds in bank accounts	349	830
Interest income on receivables	480	71
Other interest income	20	279
Profit on financial assets	-	416
Profit on interests in joint ventures	265	202
Other financial income	34	6
Total	1 149	1 823

11.4. Financial expenses

	Year ended on 31 December 2019	Year ended on 31 December 2018 (transformed)
Interest on bank loans measured at amortised cost	(18 384)	(20 163)
Interest on other financial liabilities	(2 427)	(1 454)
Interest on actuarial provisions	(1 999)	(2 003)
Financial expenses under finance lease agreements	(719)	(153)
FX losses	(3 384)	(8 401)
Measurement effect of the adjusted purchase price	(4 326)	(3 254)
Other financial expenses	(3 402)	(3 230)
Total	(34 640)	(38 658)

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 2019	Year ended on 31 December 2018 (transformed)
Depreciation/amortisation	(86 609)	(92 788)
Consumption of materials and energy	(1 912 912)	(2 075 762)
Third party services	(422 946)	(406 505)
Taxes and charges	(10 861)	(13 476)
Employee benefit costs	(390 751)	(407 017)
Other prime costs	(81 418)	(113 486)
Value of goods sold	(7 942)	(10 057)
Prime costs	(2 913 439)	(3 119 092)
Impairment allowances to non-financial assets	-	-
Changes in product inventories	(39 105)	77 078
Change to impairment charges to receivables	(4 457)	(5 648)
TOTAL	(2 957 001)	(3 047 662)
of which:		
Items recognised as internal costs of sales	(2 531 612)	(2 609 575)
Items recognised as selling and distribution costs	(336 862)	(347 045)
Items recognised as administrative expenses	(88 527)	(91 042)

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

	Year ended on 31 December 2019	Year ended on 31 December 2018
Items recognised as internal costs of sales:		
Depreciation of fixed assets and amortisation of intangible assets	(79 957)	(89 573)
Impairment of tangible fixed assets	-	-
Impairment of intangible assets	-	-
Items recognised as selling and distribution costs:		
Depreciation of fixed assets and amortisation of intangible assets	(3 495)	(1 426)
Impairment of tangible fixed assets	-	-
Impairment of intangible assets	-	-
Items recognised as administrative expenses:		
Depreciation of fixed assets and amortisation of intangible assets	(3 158)	(1 789)
Impairment of tangible fixed assets	-	-
Impairment of intangible assets	-	-

11.7. Employee benefit costs

	Note	Year ended on 31 December 2019	Year ended on 31 December 2018 (transformed)
Salary costs		(298 916)	(298 154)
Social insurance premiums		(79 812)	(81 776)
Costs of retirement benefits	26.1	(25 341)	(30 170)
Total costs of employee benefits, of which:		(404 069)	(410 100)
Items recognised as internal costs of sales		(284 686)	(290 760)
Items recognised as selling and distribution costs		(48 493)	(22 131)
Items recognised as administrative expenses		(57 571)	(94 126)
Items recognised as other comprehensive income		(13 319)	(3 083)

12. Components of other comprehensive income

The components of other comprehensive income for the year ended on 31 December 2019 and 31 December 2018 that are re-classified to profit or loss, are as follows:

	Year ended on 31 December 2019	Year ended on 31 December 2018
<i>Cash flow hedges</i>		
Profit (loss) for the period resulting from contracts settled during the reporting period	(42 185)	43 524
Profit (loss) for the period resulting from contracts not settled as the reporting date	(13 624)	28 516
Adjustments resulting from re-classification to profit (loss)	-	-
Total other comprehensive income	(55 809)	72 041

Cash flow hedges are further described in note 40.4 to these statements.

13. Income tax

13.1. Tax liability

The major components of income tax liabilities for the year ended on 31 December 2019 and on 31 December 2018 are as follows:

	Year ended on 31 December 2019	Year ended on 31 December 2018 (transformed)
Consolidated profit and loss account		
<u>Current income tax</u>		
Current income tax liability	(12 253)	(6 118)
Adjustments related to current income tax from previous years	(10)	(648)
<u>Deferred income tax</u>		
Resulting from the establishment and reversal of temporary differences	(20 987)	(26 500)
Tax credit/ (liability) disclosed in the consolidated profit and loss account	(33 250)	(33 265)
Consolidated statement of changes in equity		
<u>Current income tax</u>		
Tax effects of the costs of increase of share capital	-	-
Tax benefit (tax liability) recognised in equity	-	-
Consolidated statement of total comprehensive income		
<u>Deferred income tax</u>		
Deferred income tax on the measurement of hedging instruments	12 309	(15 066)
Deferred income tax on actuarial profit/loss	2 428	668
Tax benefit (tax liability) recognised in other comprehensive income	14 737	(14 398)

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 2019 and 31 December 2018 is as follows:

	Year ended on 31 December 2019	Year ended on 31 December 2018 (transformed)
Gross profit (loss) before tax from continuing operations	157 931	89 154
Profit (loss) before tax from discontinued operations	-	-
Gross profit (loss) before tax	157 931	89 154
Tax at the statutory rate prevailing in Poland in 2008-2019, of 19%	(30 007)	(16 939)
Tax adjustments from previous years, recognised in the current income tax	(10)	(648)
Difference resulting from income tax rates in force in other countries	(3 945)	(2 938)
Tax loss not incorporated in deferred income tax asset calculation	(3 441)	(15 822)
Use of tax losses not recognised earlier	3 492	1 809
Non-taxable revenues	3 662	1 361
Costs that are not tax deductible	(3 001)	(2 251)
Effects of the tax group in Sweden	(0)	5
Change of tax rates	-	2 158
Tax at the effective tax rate of 21% (2018: 37%)	(33 250)	(33 265)
Income tax (charge) stated in the consolidated profit and loss account	(33 250)	(33 265)
Income tax attributed to discontinued operations	-	-

The change to tax rates for the year ended on 31 December 2018 relates to companies in Sweden whereas from 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:

Expiry year of tax losses	Year ended on	Year ended on
	31 December 2019	31 December 2018
no time limits	72 664	52 040
ended on 31 December 2019	na	3 598
ended on 31 December 2020	3 598	6 777
ended on 31 December 2021	6 777	8 040
ended on 31 December 2022	8 208	11 153
ended on 31 December 2023	11 148	6 287
ended on 31 December 2024	6 287	-
Total	80 872	87 895

The future potential tax impact of non-capitalised tax losses is PLN 17,110 thousand.

13.3. Deferred income tax

Deferred income tax relates to the following items:

	Consolidated balance sheet		Consolidated profit and loss account for the	
	as at		year ended	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Deferred income tax liability				
Fixed assets	74 444	56 080	(18 364)	(24 577)
Inventories	-	-	-	-
Trade receivables	-	-	-	-
Employment benefits	-	-	-	-
Accruals and deferred income and provisions	-	-	-	-
Co-generation certificates	-	1 299	1 299	287
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	5 903	18 784	12 881	(14 992)
FX profit	-	-	-	-
Gross deferred income tax provision	80 347	76 163	(4 184)	(39 282)

	Consolidated balance sheet		Consolidated profit and loss account for the	
	as at		year ended	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Deferred income tax asset				
Post-employment payments	7 519	6 089	1 430	(643)
Accruals and deferred income and provisions	4 013	3 891	122	496
Adjustments to fair value due to impairment of fixed assets	-	-	-	-
Inventories	1 135	1 385	(250)	266
Trade receivables	3 642	3 623	19	44
Investments tax credits – activity in Kostrzyńsko-Słubicka Specjalna Strefa Ekonomiczna	4 621	6 534	(1 913)	(2 088)
FX differences	-	-	-	-
Untaxed provisions (in compliance with Swedish tax regulations)	-	-	-	-
Hedging instruments	-	-	-	-
Losses deductible from future taxable income	12 940	13 461	(521)	(474)
Gross deferred income tax asset	33 869	34 983	(1 114)	(2 400)
FX differences			(956)	784
Total, of which			(6 253)	(40 898)
Changes to deferred income tax recognised in other comprehensive income			14 737	(14 398)
Changes to deferred income tax recognised in profit and loss account			(20 987)	(26 500)
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	(9 524)	(7 846)		
- Deferred income tax asset	24 346	27 137		
- Deferred income tax liability	70 823	68 316		
of which:				
- Deferred income tax asset – discontinued operations	-	-		
- Deferred income tax liability – 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.

The Group did not recognise any deferred income tax asset on the tax losses suffered by Arctic Paper SA 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.

The decision to recognise or not of the deferred tax asset is based on the recoverability of the asset on the entity level.

14. Assets classified as available for sale, discontinued operations

In Q2 2019, AP Mochenwangen sold a plot of land. In this connection, the Issuer's Management Board assessed the opportunity to sell the other assets and liabilities as an organised part of the AP Mochenwangen Group as unlikely and decided to discontinue to present the results of the Group as discontinued activity as the applicable criteria for the activity have not been complied with. As a result profit/loss of discontinued operations for the year ended on 31 December 2019 and 31 December 2018 was disclosed in continuing operations (the impact of the adjustment was detailed in note 7.3).

Assets and liabilities, except provision for pension benefits, earlier assigned to assets held for sale and the related liabilities as at 31 December 2019 were disclosed as assets and liabilities related to continuing operations. (no change to comparable data in compliance with IFRS 5).

The Mochenwangen Group includes: Arctic Paper Mochenwangen GmbH, Arctic Paper Investment GmbH,

Arctic Paper Verwaltungs GmbH and Arctic Paper Immobilienverwaltung GmbH Co&KG.

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 2019 was PLN 17 thousand (as at 31 December 2018: PLN 6 thousand).

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

	Year ended on 31 December 2019	Year ended on 31 December 2018
Cash	78	35
Fund liabilities	(61)	(29)
Fund expenses covered with own resources		-
Set-off balance	17	6
	Year ended on 31 December 2019	Year ended on 31 December 2018
Fund allocations in the financial year	732	646

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 2019	Year ended on 31 December 2018 transformed
Net profit (loss) period from continuing operations attributable to the shareholders of the Parent Entity	82 709	7 673
Profit (loss) for the financial year from discontinued operations attributable to the shareholders of the Parent Entity	-	-
Net profit (loss) for the reporting period attributable to the shareholders of the Parent Entity	82 709	7 673
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	1,19	0,11
– basic earnings from the profit/(loss) from continuing operations for the period attributable to the shareholders of the Parent Entity	1,19	0,11
Diluted profit (loss) per share (in PLN)		
– from the profit/(loss) for the period attributable to the shareholders of the Parent Entity	1,19	0,11
– from the profit/(loss) for the period from continuing operations attributable to the shareholders of the Parent Entity	1,19	0,11

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 Entity 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" of the annual report for 2019.

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 intercreditor agreement, 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.

The Company's General Meeting held on 28 May 2019 did not make any decision on dividend disbursement.

18. Tangible fixed assets

18.1. Tangible fixed assets without assets with the right of use

	Land and buildings	Plant and machinery	Fixed assets under construction	Total
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 right-of-use assets	-	-	-	-
Net book value as at 31 December 2018	188 929	617 666	95 365	901 960
Net book value as at 01 January 2019	188 929	617 666	95 365	901 960
Increase due to purchase	24 690	20 616	91 962	137 268
Increase due to transfer of tangible fixed assets under construction	18 016	109 059	(127 074)	-
Decreases due to disposal	-	(1 418)	-	(1 418)
Decreases due to liquidation	-	(400)	-	(400)
Depreciation allowance for the period	(15 709)	(59 516)	-	(75 225)
Impairment	-	-	-	-
Change to presentation within groups	-	-	-	-
FX differences on translation	(2 660)	(11 310)	(2 418)	(16 388)
Transfer to right-of-use assets	-	(4 431)	-	(4 431)
Net book value as at 31 December 2019	213 267	670 264	57 835	941 366
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
Balance as at 01 January 2019				
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
Balance as at 31 December 2019				
Gross book value	483 098	2 047 940	57 835	2 588 872
Depreciation/amortisation and impairment charges	(269 831)	(1 377 675)	-	(1 647 506)
Net book value	213 267	670 264	57 835	941 366

Impairment of tangible fixed assets for the year ended on 31 December 2019 was PLN 0 thousand (in the year ended on 31 December 2018: PLN 0 thousand).

Tangible fixed assets without assets with the right of use with book value of PLN 493,666 thousand (as at 31

December 2018: PLN 591,004 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 2019 was PLN 4 thousand (in the year ended on 31 December 2018: PLN 924 thousand).

18.2. Right-of-use assets

	Land and buildings	Plant and machinery	Total
Net book value as at 01 January 2019	34 774	7 909	42 683
<i>of which transfers from tangible fixed assets without right-of-assets</i>			
Increase due to purchase	1 652	3 624	5 276
Increase due to transfer of tangible fixed assets under construction	-	-	-
Decreases due to disposal	-	(92)	(92)
Decreases due to liquidation	-	-	-
Depreciation allowance for the period	(6 113)	(2 672)	(8 786)
Impairment	-	-	-
Change to presentation within groups	-	-	-
FX differences on translation	(476)	(120)	(597)
Net book value as at 31 December 2019	29 836	8 649	38 485
Balance as at 01 January 2019			
Gross book value	34 774	9 155	43 928
Depreciation/amortisation and impairment charges	-	(1 246)	(1 246)
Net book value	34 774	7 909	42 683
Balance as at 31 December 2019			
Gross book value	35 949	12 554	48 504
Depreciation/amortisation and impairment charges	(6 113)	(3 906)	(10 019)
Net book value	29 836	8 649	38 485

Right-of-use assets with the carrying value as at 31 December 2019 of PLN 8,649 thousand are subject to mortgage/pledge to secure lease obligations.

19. Leases

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

As at 31 December 2019 and 31 December 2018 the future minimum lease fees and the present value of minimum net lease fees were as follows:

	Year ended on 31 December 2019 according to IFRS 16		Year ended on 31 December 2018 according to IAS 17	
	Minimum fees	Present value of the fees	Minimum fees	Present value of the fees
In 1 year	9 102	8 692	1 410	1 301
In 1 to 5 years	15 503	13 398	2 964	2 854
Over 5 years	53 164	16 125	-	-
Total minimum lease fees	77 770	38 215	4 375	4 155
Minus financial expenses	(39 557)		(219)	
Value of present minimum lease fees, of which:				
- short-term	38 213	38 215	4 155	4 155
- long-term		8 692		1 301
		29 523		2 854

The difference between the amounts of future payments that the Group was obliged to make under operational leases, disclosed in compliance with IFRS 17 as at the end of 2018, discounted with the marginal interest rate as at the day of the first application, and the lease liabilities disclosed in the statement of financial condition on the day of the first application of IFRS 16 – 1 January 2019, was due to the recognition of lease contracts that did not have to be disclosed in 2018 in compliance with IFRS 17.

20. Investment properties

	2019	2018
Opening balance as at 01 January	4 236	4 107
Increases (subsequent expenditures)	-	-
Sale of properties	-	-
Profit/loss on fair value measurement	(108)	129
Closing balance as at 31 December	4 128	4 236

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 price 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 385 PLN/m² as at 31 December 2019 (31 December 2018: 395 PLN/m²).

The Group does not generate any other revenues apart from those disclosed in the table above. The current costs incurred in 2019 included real estate tax of PLN 10 thousand (2018: PLN 10 thousand).

21. Intangible assets

Status as at 31 December 2019

	Relations with customers	Trademarks	Co-generation certificates	Other*	Total
Net value as at 01 January 2019	-	31 880	8 307	8 973	49 160
Increases	-	-	1 162	447	1 609
Decreases	-	-	(8 682)	177	(8 505)
Depreciation for the period	-	-	-	(2 600)	(2 600)
Impairment	-	-	-	-	-
FX differences on translation	-	(931)	(40)	(222)	(1 194)
Net value as at 31 December 2019	-	30 949	747	6 775	38 471

As at 01 January 2019

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	-	31 880	8 307	8 973	49 160

As at 31 December 2019

Gross value	35 115	81 384	747	39 990	157 235
Depreciation/amortisation and impairment charges	(35 115)	(50 435)	-	(33 215)	(118 764)
Net value	-	30 949	747	6 775	38 471

* – The item Other contains mainly computer software.

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	-	32 186	9 132	9 790	51 108
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	-	31 880	8 307	8 973	49 160

* – The item Other contains mainly computer software.

As at 31 December 2019 and 31 December 2018, the trademarks include those of Arctic Paper and Rottneros. The trademarks are not subject to impairment allowances.

The reduced value of cogeneration certificates is due to no right for AP Kostrzyn to receive certificates as a result of modifications to legal regulations from 1 January 2019.

Impairment of intangible assets for the year ended on 31 December 2019 was PLN 0 thousand (in the year ended on 31 December 2018: PLN 0 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.

No prerequisites for impairment to fixed assets (including the trade mark) regarding Rottneros Group were identified as disclosed in these Consolidated Financial Statements as at 31 December 2019 and 31 December 2018.

The next prerequisites analysis is planned for 31 December 2020.

Intangible assets with book value of PLN 13,543 thousand (as at 31 December 2018: PLN 1,455 thousand constituted security to bank loans (note 32).

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

In the years ended on 31 December 2019 and 31 December 2018 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 in its hydro power plant. The purpose of the purchase was to implement the strategy of increasing its own energy potential. The shares in Kalltorp Kraft were recognised as a joint venture and

were measured with the equity method as at 31 December 2019 and 31 December 2018.

The value of the interests in the joint venture was PLN 1,412 thousand as at 31 December 2019 (31 December 2018: PLN 1,182 thousand). The profit on the interests in the joint venture was PLN 265 thousand in 2019 and was recognised as financial income (2018: profit of PLN 202 thousand). FX differences on translation amounted to PLN -35 thousand as at 31 December 2019 (31 December 2018: PLN -8 thousand).

23. Business combinations and acquisition of non-controlling interests

In 2019 and 2018 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 2019	Year ended on 31 December 2018
Hedging instruments	40.4.3.	29 458	92 466
Investments in equity instruments		3 258	3 361
Other		16 776	7 221
Total		49 492	103 047
- short-term		18 835	50 527
- long-term		30 658	52 520

The Other item contains other interest-earning receivables.

24.2. Other non-financial assets

	Year ended on 31 December 2019	Year ended on 31 December 2018
Insurance costs	2 255	1 245
Lease fees	231	60
Costs of financing relating to tranches not disbursed by the end of the year and working capital loan	-	2 693
Advance payments for services	3 580	7 338
Rent	755	501
Receivables from pension fund	1 731	1 492
Other	2 396	2 712
Total	10 948	16 040
- short-term	8 909	14 267
- long-term	2 039	1 773

25. Impairment test for tangible fixed assets and intangible assets

25.1. Arctic Paper Grycksbo

As at 31 December 2019, 31 December 2018 and 30 June 2018 and earlier 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 2019 and 31 December 2018 did not generate any impairment allowances.

The recoverable value of the tested assets as at 31 December 2019 was PLN 140,549 thousand and was determined with the value in use method.

Below is a presentation of the key assumptions underlying the impairment tests held as at 31 December 2019 and 31 December 2018.

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 2018: 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.

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 2019 and 31 December 2018.

Main assumptions	2019	2018
Approved projections based on	2020-2024	2019-2023
Income tax rate	21,4% (20,6% since 2021)	21,4%
Discount rate before tax effect	10,2%	10,2%
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 2019 was PLN 287,554 thousand (31 December 2018: PLN 296,591 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.

Due to the uncertainty of estimates (the restructuring process in progress in the subsidiary), it was not decided as at 31 December 2019 to reverse the impairment charges recognized in previous years.

The value of tested assets was PLN 45,168 thousand as at 31 December 2019 (31 December 2018: PLN 37,767 thousand, after the allowance).

The table below presents an analysis of an impairment test held on 31 December 2019:

Parameter	Change of the parameter by	Impact on the value of assets in use
<i>31 December 2019</i>		
Weighted average cost of capital (WACC)	+0,1 p.p.	(1 524)
Growth rate in the residual period	+0,1 p.p.	1 033
Sales volume only in the first year of the projection	+ 0,1%	171
Sales prices only in the first year of the projection	+ 0,1%	628
Pulp purchase prices only in the first year of the projection	+1,0%	(2 456)
Energy purchase prices only in the first year of the projection	+1,0%	(451)
Weighted average cost of capital (WACC)	-0,1 p.p.	1 562
Growth rate in the residual period	-0,1 p.p.	(1 007)
Sales volume in the first year of the projection	- 0,1%	(171)
Sales prices only in the first year of the projection	- 0,1%	(628)
Pulp purchase prices in the first year of the projection	-1,0%	2 456
Energy purchase prices in the first year of the projection	-1,0%	451
<i>31 December 2018</i>		
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

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 2018 the Management Board decided 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 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 2019	Year ended on 31 December 2018
Current headcount costs	10 023	4 407
Interest expense on employee benefit liabilities	1 999	2 003
Actuarial (profit) / loss	13 319	3 083
Total costs of benefit in the plan	25 341	9 494
of which:		
recognised in the profit and loss account	12 022	6 410
recognised in other comprehensive income	13 319	3 083

The justification presenting changes in the provisions for the years ended on 31 December 2019 and 31 December 2018 is presented in the table below.

	Defined benefit plan in Sweden (AP SA branch)	Defined benefit plan in Sweden (Munkedals)	Defined benefit plan in Sweden (Grycksbo)	Defined benefit plan in Sweden (Rottneros Group)	Defined benefit plan in Poland (Kostrzyn)	Defined benefit plan in Germany	Total
Provisions for pensions and similar obligations as at 01 January 2019	1 854	28 936	46 493	7 562	8 093	12 648	105 585
Current headcount costs	297	-	-	9 341	385	-	10 023
Interest expense	-	565	916	-	234	284	1 999
Actuarial Loss (Profit)	-	3 695	5 433	-	2 501	1 689	13 319
Benefits paid	-	(760)	(2 297)	-	(372)	(322)	(3 751)
FX differences on translation of foreign plans	-	(872)	(1 405)	(204)	-	(138)	(2 618)
Provisions for pensions and similar benefits as at 31 December 2019	2 150	31 564	49 141	16 699	10 841	14 161	124 556

	Defined benefit plan in Sweden (AP SA branch)	Defined benefit plan in Sweden (Munkedals)	Defined benefit plan in Sweden (Grycksbo)	Defined benefit plan in Sweden (Rottneros Group)	Defined benefit plan in Poland (Kostrzyn)	Defined benefit plan in Germany	Total
Provisions for pensions and similar obligations as at 01 January 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)
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

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 2019	As at 31 December 2018
Discount rate (%)		
Plan in Sweden	1,3%	2,3%
Plan in Poland	2,0%	3,0%
Plan in Germany	1,3%	na
Anticipated salary growth rate (%)		
Plan in Sweden	0,0%	0,0%
Plan in Poland	3,0%	2,5%
Plan in Germany	na	na
Remaining employment period (in years)		
Plan in Sweden	16,0	16,0
Plan in Poland	14,9	15,1
Plan in Germany	nd	na

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

Sensitivity analysis

Change to the applied interest rate by 1 percentage point

	Increase by 1 p.p. in thousands PLN	Decrease by 1 p.p. in thousands PLN
31 December 2019		
Impact on the liabilities under defined benefit plans	(11 363)	13 458
31 December 2018		
Impact on the liabilities under defined benefit plans	(11 205)	12 755

Change to the anticipated salary growth rate by 1 percentage point

	Increase by 1 p.p. PLN '000	Decrease by 1 p.p. PLN '000
31 December 2019		
Impact on the liabilities under defined benefit plans	9 395	(7 504)
31 December 2018		
Impact on the liabilities under defined benefit plans	8 773	(7 055)

26.2. Termination benefits

As at 31 December 2019, the provision for severance pay amounted to PLN 6,419 thousand.

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.

27. Inventories

	Year ended on 31 December 2019	Year ended on 31 December 2018
Materials (at purchase prices)	126 921	209 373
Production in progress (at manufacturing costs)	5 928	7 406
Finished products, goods, of which:		
At purchase price / manufacturing costs	210 411	253 135
At net realisable price	10 413	8 685
Advance payments for deliveries	101	15
Total inventories, at the lower of: purchase price / manufacturing costs or net realisable price	353 774	478 614
Impairment charge to inventories	10 291	5 555
Total inventories before impairment charge	364 065	484 168

The value of the goods was PLN 748 thousand as at 31 December 2019 (31 December 2018: PLN 104 thousand).

In the year ended on 31 December 2019 the Group increased impairment charges to inventories for PLN 4,457 thousand (2018: PLN 1,147 thousand). There were no other changes to the impairment charges to inventories in 2019 and 2018.

The difference in the impairment charges is referred to other operating costs 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 2019 the Group had a pledge agreement on its entire movable assets for PLN 472,723 thousand, SEK 624,865 thousand, partly related to inventories.

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.

As at 31 December 2019 the inventories of finished products for PLN 10,413 thousand were measured at the net realisable prices (as at 31 December 2018: PLN 8,685 thousand).

28. Trade and other receivables

	Year ended on 31 December 2019	Year ended on 31 December 2018
Trade receivables	262 903	332 258
VAT receivables	32 998	26 794
Other third party receivables	3 005	3 253
Other receivables from related entities	3 215	3 641
Total (net) receivables	302 121	365 946
Impairment charges to receivables	19 222	17 074
Gross receivables	321 343	383 020

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.

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 2019, trade receivables of PLN 19,222 thousand (as at 31 December 2018: PLN 17,074 thousand) were deemed as uncollectible and therefore subject to an impairment charge.

The changes to impairment charges to receivables were as follows:

	Year ended on 31 December 2019	Year ended on 31 December 2018
Impairment charge as at 01 January	17 074	27 030
Increase	1 809	926
Utilisation	(82)	(8 262)
Write-back of unutilised amounts	(89)	(2 411)
FX differences on translation of foreign operations	510	(209)
Impairment allowance as at 31 December	19 222	17 074

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

Below is an analysis of trade receivables that as at 31 December 2019 and 31 December 2018 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 2019	262 903	207 231	50 447	2 534	1 438	94	1 159
As at 31 December 2018	332 258	288 501	39 018	3 924	503	26	287

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.

The Group analyses the balances of receivables individually and not as the whole portfolio in reference to ageing.

Recognized impairment regards individually assessed balances which had increased credit risk. The Group did not recognize any impairment to other balances. No additional risks were identified as well as no impairment according to the portfolio method was recognized.

29. Cash and cash equivalents

Cash at bank earns interest at variable interest rates based on overnight bank deposit rates.

As at 31 December 2019, the fair value of cash and cash equivalents was PLN 265,885 thousand (31 December 2018: PLN 201,118 thousand).

As at 31 December 2019, the Group held undrawn funds under overdraft facilities of PLN 168,447 thousand (31 December 2018: PLN 89,255 thousand).

As at 31 December 2019, the Group utilised its overdraft facilities for PLN 0 thousand (31 December 2018: PLN 92,343 thousand).

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

	Year ended on 31 December 2019	Year ended on 31 December 2018
Cash in bank and on hand	265 885	176 975
Short-term deposits	-	24 143
Cash in transit	-	-
Cash and cash equivalents in the consolidated balance sheet	265 885	201 118
Cash in bank and on hand attributable to discontinued operations	-	972
Cash and cash equivalents in the consolidated cash flow statement	265 885	202 090

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 2019	Year ended on 31 December 2018
Increase / decrease in receivables and other non-financial assets		
Book change of receivables and other non-financial assets	63 824	(35 875)
Discontinued operations	-	674
Differences on translation	(17 192)	(5 167)
Increase / decrease receivables and other non-financial assets disclosed in the consolidated cash flow statement		
	46 633	(40 368)
	-	-
Change to inventories		
Book change to inventories	124 840	(127 619)
Discontinued operations	-	21
Differences on translation	(10 126)	(1 663)
Change to inventories disclosed in the consolidated cash flow statement		
	114 714	(129 261)
Increase / decrease in liabilities except for loans and borrowings		
Book increase / decrease in liabilities except for loans and borrowings	(81 312)	92 810
Change of liabilities for purchase of tangible fixed assets and intangible assets	(253)	(2 077)
Discontinued operations	-	1 767
Differences on translation	7 380	2 357
Increase / decrease in liabilities except for loans and borrowings disclosed in the consolidated cash flow statement		
	(74 184)	94 858
Change in accruals and prepayments		
Book change in accruals and prepayments	(10 828)	21 590
Discontinued operations	-	5
Differences on translation	2 369	402
Change in accruals and prepayments disclosed in the consolidated cash flow statement		
	(8 460)	21 997
Change in provisions		
Book change in provisions	22 165	1 563
Provision for actuarial gains/losses	(13 319)	(3 083)
Discontinued operations	-	26
Differences on translation	4 432	406
Change in provisions disclosed in the consolidated cash flow statement		
	13 278	(1 089)
Classification to "Other" in operating activity		
Measurement adjustment of the adjusted purchase price	(185)	-
Dividend received (transferred to investing activities)	-	(416)
Measurement of interests in joint ventures	(265)	(202)
Other	(20)	(310)
"Other" in operating activities		
	(470)	(927)
Purchase of tangible fixed assets and intangible assets		
Increase due to purchase of tangible fixed assets in line with the change table	(137 268)	(175 481)
Increase due to purchase of intangible assets in line with the change table	(1 609)	(20 191)
Change of liabilities for purchase of tangible fixed assets and intangible assets	253	2 077
Co-generation certificates	982	18 294
Purchase of tangible fixed assets and intangible assets in the consolidated cash flow statement		
	(137 643)	(175 300)

30. Share capital and reserve capital/other reserves

30.1. Share capital

	As at 31 December 2019	As at 31 December 2018
Share capital		
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	Number	Value in PLN
Ordinary issued and fully paid-up shares			
Issued on 30 April 2008	2008-05-28	50 000	50 000
Issued on 12 September 2008	2008-09-12	44 253 468	44 253 468
Issued on 20 April 2009	2009-06-01	32	32
Issued on 30 July 2009	2009-11-12	8 100 000	8 100 000
Issued on 01 March 2010	2010-03-17	3 000 000	3 000 000
Issued on 20 December 2012	2013-01-09	10 740 983	10 740 983
Issued on 10 January 2013	2013-01-29	283 947	283 947
Issued on 11 February 2013	2013-03-18	2 133 100	2 133 100
Issued on 06 March 2013	2013-03-22	726 253	726 253
As at 31 December 2019		69 287 783	69 287 783

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

In 2019 and 2018 there were no changes to the share capital of Arctic Paper S.A.

30.1.2. Nominal value of shares

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

30.1.3. Shareholders' rights

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

30.1.4. Major shareholders

	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 2019 and 31 December 2018:

	Year ended on 31 December 2019	Year ended on 31 December 2018
Reserve capital at the beginning of period	407 976	447 638
Profit/loss distribution	-	(39 662)
Reserve capital at end of the period	407 976	407 976

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 2019 and 31 December 2018:

	As at 31 December 2019	As at 31 December 2018
Other reserves at the beginning of period	151 110	125 997
<u>Changes to cash flow hedges</u>		
Measurement of financial instruments, of which:	(40 536)	49 331
- FX forward	-	860
- Forward for electricity	(44 176)	48 515
- interest rate SWAP	715	(44)
- Forward for pulp	2 925	-
Deferred tax, of which:	8 937	(10 361)
- FX forward	-	(163)
- Forward for electricity	9 564	(10 198)
- interest rate SWAP	-	-
- Forward for pulp	(627)	-
<u>Other changes</u>		
Dividend disbursed to shareholders of AP SA	-	(13 857)
Profit distribution	19 523	-
Other capital reserves at the end of period	139 035	151 110

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 Entity should be transferred to the category of capital until the capital has reached the amount of at least one third of the share capital of the Parent Entity. The use of reserve capital and reserve funds is determined by the General Meeting; however, a part of reserve capital

equal to one third of the share capital can be used solely to cover the losses disclosed in the standalone financial statements of the Parent Entity and cannot be distributed to other purposes.

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

As at 31 December 2019, there were no other restrictions concerning dividend distribution.

The retained profit/accumulated loss in the balance sheet as at 31 December 2019 is composed of the following items:

- consolidated retained profit/accumulated loss attributable to the shareholders of the Parent Entity for 2008-2019 of PLN -83,797 thousand; and standalone profit distribution/loss coverage of Arctic Paper S.A. for 2010-2018 of PLN -114,926 thousand (including transfer of profit for 2018 of PLN 19,523 thousand to other reserves);
- 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 2019 of PLN -34,849 thousand.

30.6. Non-controlling interests

	As at 31 December 2019	As at 31 December 2018
As at beginning of the period	284 550	231 555
Dividend disbursed by subsidiary entities	(41 542)	(11 510)
Share in other comprehensive income of subsidiary entities	20 611	64 506
At the end of period	263 619	284 550

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 on 31 December 2019	Year ended on 31 December 2018
Revenues from sales of products	965 010	939 184
Operating expenses	(858 599)	(822 825)
Operating profit (loss)	106 411	116 359
Financial income/expenses	(6 092)	(1 662)
Gross profit (loss)	100 319	114 697
Income tax	(21 526)	(22 856)
Net profit (loss)	78 793	91 841
	As at	As at
Consolidated balance sheet	31 December 2019	31 December 2018
Fixed assets	521 344	541 929
Current assets, of which:	445 179	466 731
Inventories	152 738	163 419
Receivables and other assets	139 297	203 328
Cash and cash equivalents	153 145	99 984
TOTAL ASSETS	966 523	1 008 660
Equity	562 074	613 346
Long-term liabilities	239 085	223 913
Short-term liabilities	165 364	171 401
TOTAL EQUITY AND LIABILITIES	966 523	1 008 660
	Year ended	Year ended
Consolidated cash flow statement	31 December 2019	31 December 2018
Cash flows from operating activities	187 641	92 672
Cash flows from investing activities	(44 676)	(105 970)
Cash flows from financing activities	(86 916)	(23 272)
Change in cash and cash equivalents	56 049	(36 570)
Cash and cash equivalents at the beginning of the period	99 984	138 322
Net FX differences	(2 888)	(1 768)
Cash and cash equivalents at the end of the period	153 145	99 984

In 2019, Rottneros AB distributed dividend totalling PLN 85,302 thousand (SEK 214 million), of which PLN 41,542 thousand referred to non-controlling shareholders.

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.

31. Conditional increase of share capital

In 2019 and in 2018 there was no conditional increase of share capital.

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

Short-term liabilities	Note	Repayment date	As at	As at
			31 December 2019	31 December 2018
Other financial liabilities:				
Lease liabilities	19.2	31-12-2020	8 692	1 301
Hedging instruments	40.4		2 748	7 009
Other liabilities		31-12-2020	168	176
Total other short-term financial liabilities			11 608	8 486
Interest-bearing loans, borrowings and bonds:				
Loan from EBRD TA (short-term portion) in EUR*	40.1	31-08-2022	25 237	33 867
Loan from EBRD Capex A (short-term portion) in EUR*	40.1	31-08-2022	19 654	27 248
Loan from EBRD Capex B (short-term portion) in EUR	40.1	31-08-2022	41 032	-
Loan from Santander (short-term portion) in PLN*	40.1	31-08-2021	4 584	6 860
Loan from BNP (short-term portion) in EUR*	40.1	31-08-2021	4 382	6 634
Loan from a bank consortium: Santander and BNP in PLN*	40.1	31-01-2021	14 348	25 673
Revolving credit facility with BNP in PLN	40.1	31-10-2020	-	9 147
Revolving credit facility with Santander in EUR	40.1	31-10-2020	-	42 373
Revolving credit facility with BNP in EUR	40.1	31-10-2020	-	40 823
Bonds in PLN	40.1	31-08-2021	19 166	19 992
Loan from the owner /core shareholder in EUR (short-term portion)	40.1	30-04-2020	21 579	11 081
Total short-term interest-bearing loans, borrowings and bonds			149 983	223 698
Total short-term financial liabilities			161 591	232 184
Long-term liabilities	Note	Maturity	As at	As at
			31 December 2019	31 December 2018
Other financial liabilities:				
Lease liabilities	19.2	31-12-2089	29 523	2 854
Hedging instruments	40.4	-	-	-
Total other long-term financial liabilities			29 523	2 854
Interest-bearing loans, borrowings and bonds:				
Loan from the owner /core shareholder in EUR	40.1	30-04-2020	-	10 833
Bonds in PLN	40.1	31-08-2021	54 549	70 032
Bonds in SEK	40.1	01-09-2022	161 291	165 940
Loan from Nordea Bank Abp in SEK	40.1	02-04-2021	17 905	-
Total long-term interest-bearing loans, borrowings and bonds			233 745	246 805
Total long-term financial liabilities			263 268	249 659

* the loans fully disclosed as short-term due to failure to comply with covenants under the bank agreement as at 31 December 2019 and as at 31 December 2018

Lease liabilities as at 31 December 2019 were disclosed according to IFRS 16 and those as at 31 December 2018 according to IAS 17.

32.1. Bank loans, bonds and borrowings

The amount of long-term and short-term interest bearing loans and borrowings as at 31 December 2019 decreased by PLN 86,775 thousand versus 31 December 2018, primarily due to decreased debt under revolving loans.

Loan tranches were disbursed and repaid in line with the agreement of 9 September 2016.

In 2019, APM Kraft contracted a loan with Nordea Bank Abp for PLN 17,905 thousand for investment purchases.

Since 2017, cash pooling in EUR and in PLN has been operating within the Arctic Paper Group companies. 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.

32.2. Collateral to loans

2019

The collateral related to the term and revolving loan agreements, agreements related to the bond issue and the intercreditor agreement, signed in 2016, was not changed in 2019.

Apart from the above, as at 31 December 2019 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 115,970);
- 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.

2018

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

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 2019, the Group maintained the required ratio levels as set in the loan agreement.

As at 31 December 2019, the Arctic Paper Group failed to comply with the limit of investment outlays (Capex) and Guarantors threshold test (further described in note 46.1) set forth in the loan agreement due to an additional investment in the hydro-electric power plant at Arctic Paper Munkedals Kraft. On 12 March 2020 the bank consortium approved a modified method to calculate the limit and not to include the investment in the calculation. However, since the approval had not been granted before 31 December 2019, then in compliance with IAS 1 bank loans for PLN 61,404 thousand were disclosed as short-term loans.

pursuant to which collateral to the above debt and other claims would be established in favour of Bank 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 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.

33. Provisions

33.1. Change in provisions

The table below presents changes to provisions in for 2019-2018:

	Post-employment payments	Other provisions	Total
As at 01 January 2019	105 585	2 200	107 784
Established during the financial year	25 341	3 252	28 592
Applied	(3 429)	-	(3 429)
Reversed	-	-	-
Adjustment due to FX differences	(2 941)	(57)	(2 997)
As at 31 December 2019, of which:	124 556	5 394	129 950
- short-term	837	4 171	5 008
- long-term	123 719	1 223	124 942
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)
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

Provisions for post-employment benefits were further described in note 26 top these statements.

Other provisions as at 31 December 2019 and 31 December 2018 cover a provision for a granted guarantee and a provision for rights to emit CO₂.

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 2019 and 2018.

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

34.1. Trade payables and other short-term liabilities

	As at 31 December 2019	As at 31 December 2018
Trade payables, of which:		
Due to related entities	46	34
Due to other entities	377 026	461 950
	377 072	461 984
Taxes, customs duties, social insurance and other		
VAT	8 348	10 958
Excise tax	604	334
Personal Income Tax	4 422	4 580
Real estate tax	727	749
Social benefit liabilities	14 577	12 767
	28 678	29 388
Other liabilities		
Payable to employees as salaries	7 686	6 515
Retirement liabilities	3 256	3 943
Investment commitments	10 425	10 345
Liabilities related to environmental protection	196	323
Prepayments	1 826	1 564
Other liabilities	6 226	2 616
	29 615	25 306
TOTAL	435 366	516 678

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.

34.2. Accruals and deferred income

	As at 31 December 2019	As at 31 December 2018
Accruals and deferred income		
Employee expenses	60 589	67 787
Audit and legal services	535	3 261
Transport costs	6 938	6 872
Costs of complaints	2 226	2 953
Utility costs	917	1 201
Costs of uninvoiced services	1 813	
Other	6 577	9 366
	79 594	95 426
Deferred income		
Subsidies from Ekofundusz	9 466	10 823
Subsidies from NFOŚiGW	6 918	7 933
Other	3 965	1 680
	20 349	20 436
TOTAL	99 943	115 863
- short-term	81 849	99 303
- long-term	18 094	16 560

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

35. Investment plans

As at 31 December 2019, the Group plans to make expenditures on tangible fixed assets in 2020 of minimum PLN 90 million. The amounts will be spent to purchase new machinery and plant in the Rottneros Group.

As at 31 December 2018, the Group planned expenditures on tangible fixed assets of no less than PLN 70 million in 2019.

36. Contingent liabilities

As at 31 December 2019, the Company held the following contingent liabilities:

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

- contingent liability under a guarantee for FPG in favour of the mutual life insurance company PRI for SEK 1,384 thousand (PLN 564 thousand) at Arctic Paper Grycksbo AB and for SEK 1,166 thousand (PLN 475 thousand) at Arctic Paper Munkedals AB;
- a bank guarantee in favour of Skatteverket Ludvika for SEK 135 thousand (PLN 55 thousand).

36.1. Legal claims

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

36.2. Tax settlements

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 end of 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 2019 were adequate to the recognised and quantifiable task risk and therefore there is no need to establish additional provisions.

- Nemus Holding AB – Parent Entity for Arctic Paper S.A.;
- Munkedal Skog – a subsidiary of Nemus Holding AB.

37. Information on related entities

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

- Thomas Onstad – majority shareholder;

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 2019-2018:

Data for the period from 01 January 2019 to 31 December 2019 and as at 31 December 2019 (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	-	1 194	-	-	3 215	-	-
Thomas Onstad	-	-	-	1 316	-	-	21 574
Munkedal Skog	-	198	-	-	-	-	46
Total	-	1 392	-	1 316	3 215	-	21 620

The receivables from Nemus Holding AB are overdue as at 31 December 2019 but they are compensated with payables for the provision of services.

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

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 2019 and 31 December 2018 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 2019 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 30 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 2019 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 2019 amounted to PLN 1,974 thousand (PLN 4,938 thousand in the year ended on 31 December 2018).

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

	Year ended on 31 December 2019	Year ended on 31 December 2018 (transformed)
Management Board		
Short-term employee benefits	1 724	2 172
Post-employment retirement and medical benefits	250	577
Employment termination benefits	-	2 189
Total amount of remuneration of top managerial staff	1 974	4 938
Supervisory Board		
Short-term employee benefits	987	991

37.5. Loan granted to members of the Management Board

In 2018-2019 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. 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 table below presents the remuneration of the statutory auditor, paid or payable for the year ended on 31 December 2019 and 31 December 2018 by category of services:

	Year ended on 31 December 2019	Year ended on 31 December 2018 (transformed)
Service type		
Statutory audit of the annual financial statements	170	170
Review of interim financial statements	83	63
Statutory audit of the annual financial statements (branch AP S.A.)	26	25
Other services	35	8
Total	314	266

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

39. Financial risk management objectives and policies

The Group's principal financial instruments comprise bank loans, borrowings, bonds, lease contracts. The main purpose of those financial instruments is to raise finance for the Group's operations.

The Group also uses factoring without 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 IFRS 9.

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

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 2018 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.

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 2019		
PLN	+1%	(138)
EUR	+1%	(60)
SEK	+1%	(1 906)
Year ended on 31 December 2018		
PLN	+1%	(2)
EUR	+1%	(1)
SEK	+1%	(1 685)

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

The bond issue in SEK in H2 2017 increased the Group's exposure to interest rate risk.

39.2. FX risk

The Group is exposed to transactional FX risk. This risk also takes place in the case of transactions in other currencies than the entity's measurement currency.

the impact of FX rate fluctuations on FX balance sheet items and a rate increase or decrease for each currency of 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.

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

As at 31 December 2019

Impact of FX rate changes on gross profit	FX rate growth	Total impact	FX rate drop	Total impact
PLN – EUR	+5%	(3 531)	-5%	3 531
PLN – USD	+5%	(1 389)	-5%	1 389
PLN – GBP	+5%	759	-5%	(759)
PLN – SEK	+5%	(425)	-5%	425
SEK – EUR	+5%	2 651	-5%	(2 651)
SEK – USD	+5%	713	-5%	(713)
SEK – GBP	+5%	1 293	-5%	(1 293)

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%	8 964	-5%	(8 964)
PLN – EUR	+5%	(720)	-5%	720

As at 31 December 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 – GBP	+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

39.3. Risk of changing prices of goods

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

39.4. Credit risk

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 activities.

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 2019 and as at 31 December 2018 by maturity based on contractual undiscounted payments.

As at 31 December 2019	Upon request	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Interest-bearing loans, borrowings and bonds	-	30 340	69 140	310 384	-	409 864
Financial lease	-	2 620	6 482	15 503	53 165	77 769
Trade and other payables	3 377	457 711	58 142	15	-	519 244
Other financial liabilities	168	-	2 748	-	-	2 916
	3 545	490 671	136 511	325 902	53 165	1 009 793

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 lease	-	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

Due to the fact that the required limit of investment outlays (Capex) and Guarantors threshold test (as described further in note 46.1) was exceeded as set forth in the loan agreement due to an additional investment in the hydro-electric power plant at Arctic Paper Munkedals Kraft, the Group presented the entire funding under the loan of 2016 from the Bank Consortium as short-term loans. The Parties further agreed that the loan repayment schedule will remain unchanged versus the original repayment schedules while the applicable interest rates will not be increased. As a result, in the table above as at 31 December 2019 the Group disclosed the financing by the anticipated maturities – that is in line with the original repayment schedules.

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 as at 31 December 2018 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 1,094 thousand as at 31 December 2019 (31 December 2018: PLN 3,144 thousand).

Due to failure to comply with the requirement Cashflow Cover ratio as at 31 December 2018, the Group disclosed

40. Financial instruments

The Company uses the following financial instruments: cash on hand and in bank accounts, bank loans, borrowings, bonds, receivables, liabilities under 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 those listed in the table below), 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 2019	As at 31 December 2018
Financial assets			
Trade and other receivables	WwZK	269 123	339 152
Hedging instruments*	IRZ	29 458	92 466
Other financial assets (net of loans and hedging instruments)**	WwWGPWF	20 034	10 581
Cash and cash equivalents	WwZK	265 885	201 118
Financial liabilities			
Interest-bearing bank loans and borrowings and bonds, of which:	WwZK	383 727	470 503
- interest-bearing long-term	WwZK	233 745	246 805
- interest-bearing short-term	WwZK	149 983	223 698
Liabilities under leases		38 215	4 155
- long-term		29 523	2 854
- short-term		8 692	1 301
Trade payables and other financial liabilities	WwZK	387 666	472 504
Hedging instruments*	IRZ	2 748	7 009

* derivative hedging instruments meeting the requirements of hedge accounting

** primarily investments in equity instruments

Abbreviations used:

WwZK – Financial assets/liabilities measured at amortised cost.

IRZ – hedge accounting instruments

WwWGPWF – financial assets/liabilities measured at fair value through profit and loss

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 2019.

SEK bonds issued by Rottneros AB with the book value of PLN 161,291 thousand as at 31 December 2019 have fair value of PLN 167,400 thousand. 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.

PLN bonds issued by AP S.A. with the book value of PLN 73,715 thousand as at 31 December 2019 have fair value of PLN 75,100 thousand. PLN bonds issued by AP S.A. with the book value of PLN 90,024 thousand as at 31 December 2018 had fair value of PLN 92,035 thousand.

Loans with the book value of PLN 109,238 thousand as at 31 December 2019 have fair value of PLN 111,382 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 2019 and 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).

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 2019 and 31 December 2018:

Year ended on 31 December 2019	Interest income (expense)	FX gains / (loss)	Reversal / (establishment) of impairment charges	Revaluation profit (loss)	Profit (loss) on sales of financial instruments	Other	Total
Financial assets							
Derivative instruments	-	-	-	(16 075)	-	30 949	14 874
Trade and other receivables	480	6 634	(2 279)	-	-	-	4 836
Other financial assets (net of loans and hedging instruments)**	-	-	-	(1 414)	-	1 353	(61)
Cash and cash equivalents	349	(7 393)	-	(2 058)	-	61	(9 041)
Financial liabilities							
Derivative instruments	-	-	-	-	-	(2 031)	(2 031)
Interest-bearing loans and borrowings	(18 384)	(540)	-	1 781	-	(6 653)	(23 796)
Lease liabilities	(719)	-	-	-	-	-	(719)
Trade payables	(24)	(3 611)	-	-	-	(527)	(4 162)
Total	(18 298)	(4 910)	(2 279)	(17 766)	-	23 153	(20 100)

Year ended on 31 December 2018	Interest income (expense)	FX gains / (loss)	Reversal / (establishment) of impairment charges	Revaluation profit (loss)	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 purchase	(153)	-	-	-	-	-	(153)
Trade payables	(8)	(16 155)	-	(962)	-	(504)	(17 630)
Total	(19 423)	(11 024)	1 485	603	-	2 484	(25 875)

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

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	246 805	-	(5 631)	17 490	(24 918)	233 745
Lease liabilities (long-term)	32	2 854	-	(365)	2 751	(8 692)	29 523
Interest-bearing loans, borrowings and bonds (short-term)	32	223 698	(80 556)	(1 090)	(16 987)	24 918	149 983
Lease liabilities (short-term)	32	1 301	(8 964)	(190)	(1 856)	8 692	8 692
Derivative financial instruments	32	7 009	-	-	(900)	(3 361)	2 748
Other	32	176	404	4	-	(416)	168
Total liabilities resulting from financing activity	32	481 843	(89 115)	(7 272)	497	(3 777)	424 859

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

40.3. Interest rate risk

The table below presents the book value of the financial instruments held by the Group, exposed to interest rate risk, split into specific age baskets:

31 December 2019		<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Variable interest rate								
Other financial liabilities:								
Liabilities under financial leases		8 692	6 328	3 029	2 138	1 903	16 125	38 215
Loans, borrowings and bonds								
Loan from Nordea Bank Abp in SEK			17 905					
Bonds in SEK		-	-	161 291	-	-	-	161 291
Total loans, borrowings and bonds		-	17 905	161 291	-	-	-	179 195
TOTAL		8 692	24 233	164 320	2 138	1 903	16 125	217 410

31 December 2018		<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Variable interest rate								
Other financial liabilities:								
Lease liabilities		1 301	1 214	1 641	-	-	-	4 155
Loans, borrowings and bonds								
Revolving credit facility with BNP in EUR		21 088	-	-	-	-	-	21 088
Revolving credit facility with BZ WBK S.A. in PLN		19 538	-	-	-	-	-	19 538
Revolving credit facility with Santander in EUR		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	0	0	214 869

The table below presents the book value of the financial instruments held by the Group, not exposed to interest rate risk, split into specific age baskets:

31 December 2019		<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Fixed interest rate								
Loans, borrowings and bonds								
Loan from EBRD TA in EUR		25 237	-	-	-	-	-	25 237
Loan from EBRD Capex A in EUR		19 654	-	-	-	-	-	19 654
Loan from EBRD Capex B (short-term part) in EUR		41 032	-	-	-	-	-	41 032
Loan from Santander in PLN		4 584	-	-	-	-	-	4 584
Loan from BNP in EUR		4 382	-	-	-	-	-	4 382
Loan from a bank consortium: Santander and BNP in PLN		14 348	-	-	-	-	-	14 348
Bonds in PLN		19 166	54 549	-	-	-	-	73 715
Loan from the owner/ the core shareholder in EUR		21 579	-	-	-	-	-	21 579
TOTAL		149 983	54 549	-	-	-	-	204 532

31 December 2018	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Fixed interest rate							
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 overdraft facility with BNP in PLN	5 000	-	-	-	-	-	5 000
Revolving overdraft facility with Santander in EUR	21 285	-	-	-	-	-	21 285
Revolving overdraft facility with BNP in EUR	21 285	-	-	-	-	-	21 285
Loan from the owner of the core shareholder in EUR	11 081	10 833	-	-	-	-	21 914
TOTAL	178 924	28 960	51 905	-	-	-	259 789

The data in the table above as at 31 December 2019 was presented providing for failure to comply with the covenants (further described in note 46.1) as specified in the loan agreement with the Bank Consortium of 2016.

The data in the table above as at 31 December 2018 was presented providing for failure to comply with the Cashflow Cover ratio as specified in the loan agreement with the Bank Consortium of 2016.

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

40.4. Collateral

As at 31 December 2019, 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 for the sale of pulp in order to hedge the sale prices of pulp in SEK.

As at 31 December 2019, 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%.

40.4.1. Cash flow hedges

As at 31 December 2019, the Group's cash flows were hedged with a forward contract for purchase of electricity, a forward contract for sale of pulp, an interest rate SWAP.

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 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	subject to contract; from 01.01.2016
Maturity	subject to contract; by 31.12.2025
Hedged quantity of electricity	1,357,000 MWh
Term price	from 21.30 to 38.45 EUR/MWh

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 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	2 019
Maturity	subject to contract; by 30.09.2020
Hedged quantity of pulp	12,000 tonnes
Term price	SEK 8,878/tonne

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	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	2017-07-18
Maturity	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	2016-11-21
Maturity	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 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	2018-07-27
Maturity	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

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	2019-10-15
Maturity	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 10,000 thousand

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	2016-11-21
Maturity	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 revolving long-term loans
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	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	2016-11-21
Maturity	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	2018-07-31
Maturity	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

40.4.2. Fair value hedges

As at 31 December 2019, 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	2016-11-21
Maturity	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	2017-07-18
Maturity	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	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
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	2019-10-15
Maturity	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 10,000 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 December 2019 and the comparative data:

	Status as at 31 December 2019		Status as at 31 December 2018	
	Assets	Equity and liabilities	Assets	Equity and liabilities
FX forward	-	-	420	-
Forward on pulp sales	2 444	-	-	3 361
SWAP	-	3 163	-	3 879
Floor option	-	(415)	-	(231)
Forward for electricity	27 014	-	92 046	-
Total hedging derivative instruments	29 458	2 748	92 466	7 009

The table below presents the nominal value of derivative instruments as at 31 December 2019:

	Up to 1 year	1 to 5 years	Over 5 years	Total	
Forward for electricity:					
Purchased energy (in PLN '000)		43 974	56 272	122	100 369
Forward on pulp sales					
Pulp sold (in tons)		12 000	-	-	12 000
interest rate SWAP					
principal repayment (in PLN '000)		128 404	54 549	-	182 953

The table below presents the amounts related to hedge accounting that were recognised in 2019 by the Group in profit and loss and in the total comprehensive income statement:

	Year ended on 31 December 2019
Other reserves in the part related to revaluation as at 31 December 2019 - changes of fair value measurement of hedging derivative instruments due to the hedged risk, corresponding to effective hedging	25 140
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 2020 – 31 December 2025

The table below presents changes to other reserves in the part related to measurement under hedge accounting in 2019:

	Year ended on 31 December 2019
Other reserves in the part related to revaluation as at 01 January 2019	56 739
Deferral to changes of fair value measurement of the hedging derivative instruments due to the hedged risk, corresponding to the effective hedge	(31 599)
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 2019	25 140

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 2019 and 31 December 2018.

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 Group	As at 31 December 2019	Year ended on 31 December 2018 (transformed)
Interest-bearing loans, borrowings and debt instruments and other financial liabilities	424 859	481 843
Trade and other payables	435 366	516 678
Minus cash and cash equivalents	(265 885)	(201 118)
Net debt	594 341	797 404
Equity	872 134	861 193
Equity and net debt	1 466 475	1 658 597
Leverage ratio	0,41	0,48

In comparison to the annual financial statements for 2018, the financial gearing ratio decreased from 0.48 to 0.41.

42. Employment structure

The average headcount in the Group in the years ended on 31 December 2019 and 31 December 2018 was as follows:

	As at 31 December 2019	Year ended on 31 December 2018
Management Board of the Parent Entity	2	2
Management Boards of Group entities	34	34
Administration	99	119
Sales Department	132	148
Production Division	1 085	1 265
Other	146	158
Total	1 498	1 726

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 2014-2020 and the usage of emission rights by each of the four entities in 2014-2019.

(in tons) for Arctic Paper Kostrzyn S.A.	2014	2015	2016	2017	2018	2019	2020
Allocation*	105 434	102 452	99 840	97 375	94 916	92 454	90 009
Unused quantity from previous years	306 448	263 932	203 917	133 061	87 652	46 003	-
Issue	(147 950)	(162 467)	(170 696)	(142 784)	(136 565)	(131 263)	-
Purchased quantity	-	-	-	-	-	-	-
Sold quantity	-	-	-	-	-	-	-
Unused quantity	263 932	203 917	133 061	87 652	46 003	7 194	-

(in tons) for Arctic Paper Munkdals AB	2014	2015	2016	2017	2018	2019	2020
Allocation	43 470	42 692	41 907	41 113	40 311	39 499	38 685
Unused quantity from previous years	67 262	107 325	17 559	(11 572)	(10 619)	(27 676)	-
Issue	(3 407)	(32 465)	(21 038)	(40 160)	(57 368)	(48 176)	-
Purchased quantity	-	7	-	-	-	-	-
Sold quantity	-	(100 000)	(50 000)	-	-	-	-
Unused quantity	107 325	17 559	(11 572)	(10 619)	(27 676)	(36 353)	**

(in tons) for Arctic Paper Grycksbo AB	2014	2015	2016	2017	2018	2019	2020
Allocation	75 689	74 326	72 948	71 556	70 151	68 730	67 304
Unused quantity from previous years	111 448	734	60	1 008	2 564	-	-
Issue	-	-	-	-	-	-	-
Purchased quantity	-	-	-	-	-	-	-
Sold quantity	(186 403)	(75 000)	(72 000)	(70 000)	(72 715)	(68 730)	-
Unused quantity	734	60	1 008	2 564	-	-	-

(in tons) for the Rottneros Group	2014	2015	2016	2017	2018	2019	2020
Allocation	30 484	29 938	29 387	28 830	28 268	27 698	27 127
Unused quantity from previous years	90 522	101 986	104 991	113 085	123 208	73 104	-
Issue	(19 020)	(26 933)	(21 293)	(18 707)	(15 372)	(25 765)	-
Purchased quantity	-	-	-	-	-	-	-
Sold quantity	-	-	-	-	(63 000)	(55 000)	-
Unused quantity	101 986	104 991	113 085	123 208	73 104	20 037	-

* – 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 2019 will be covered from the allocation for 2020, available before the rights for 2019 have to be accounted for, over the estimated annual issue

44. Certificates in cogeneration

In 2014, pursuant to Article 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. Since 1 January 2019, as a result of modifications to the regulations, AP Kostrzyn lost the right to receive cogeneration certificates.

For the cogeneration of electricity, in 2018 AP Kostrzyn acquired the following rights: yellow certificates 152,812 MWh, red certificates 56,477 MWh. In 2018, revenues obtained from the certificates was PLN 12,478 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 2019 the AP Grycksbo acquired the following rights: green certificates 8,996 MWh (2018: 11,628 MWh) In 2019, revenues obtained from the sale of the certificates was PLN 252 thousand (2018: PLN 1,223 thousand).

For the cogeneration of electricity, in 2019 the companies in the Rottneros Group acquired the following rights: green certificates 21,140 MWh (2018: 125,000 MWh). In 2019, revenues obtained from the sale of the certificates was PLN 609 thousand (2018: PLN 1,205 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 a corporate income 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 Article 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 Article 3 of the Regulation with the value in excess of EUR 40,000 thousand by 31 December 2013, translated at the EUR mean rate published by the President of the National Bank of Poland on the actual expenditure date. Creation in Zone minimum five new jobs within the meaning of Article 3.3 and Article 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 2019, 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 63,781 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 4,711 thousand as at 31 December 2019 (31 December 2018: PLN 6,534 thousand).

46. Material events after the balance sheet date

46.1. Consent of the bank consortium to modify the calculation of the covenants

In connection with the term and revolving loan agreements and agreements related to bond issues, signed on 9 September 2016, the Group agreed to maintain specified financial ratios, including those that are calculated at the end of each financial year. The ratios are calculated on the basis of results of the paper segment.

In accordance with the original calculation, as at 31 December 2019 the Group failed to comply with the limit of investment outlays (Capex) and Guarantors threshold test (loan agreement stipulates that total assets of the Guarantors, i.e. APSA, APM, APG and APK, shall amount to not less than 90% of total assets of paper segment) as set forth in the loan agreement with the bank consortium (Santander Bank Polska S.A., Bank BNP Paribas S.A. and the European Bank for Reconstruction and Development). Failure to comply with the limits was due to an investment in the hydro-electric power plant at Arctic Paper Munkedals

Kraft AB. In 2017 the bank consortium agreed to have the investment funded by a financial institution outside the consortium.

After the balance sheet date, Arctic Paper S.A. received a consent from Santander Bank Polska S.A., acting as the agent for the bank consortium, not to include the investment in APK Kraft in the calculation and therefore ultimately the Group complied with the required ratios' levels as at 31 December 2019.

However, in compliance with IAS 1, as such consent was not available as at the balance sheet date, the Group reclassified loans for PLN 61,404 thousand to short-term loans.

46.2. Acquisition of a company

On 1 January 2020 Rottneros acquired control over Nykvist Skogs AB, a company grouping private owners of forests in Sweden. The transaction will provide a broader access to raw materials over a long-term horizon.

46.3. Covid-19

In reference to the pandemic of Covid-19 the Management estimated potential influence on the Group's operations as further described in note 6.2.

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	26 March 2020	signed with a qualified electronic signature
Member of the Management Board Chief Financial Officer	Göran Eklund	26 March 2020	signed with a qualified electronic signature