

The background of the image is a high-angle aerial shot of a dense forest. The trees are mostly evergreens, their branches heavily laden with a thick layer of white snow. The lighting is dramatic, with the sun low on the horizon, casting long, golden-yellow rays that pierce through the canopy and illuminate the tops of the trees, creating a warm glow against the cool blue tones of the snow and the dark trunks.

Arctic Paper SA ANNUAL REPORT 2021

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.

Arctic Paper has prepared its 2021 annual financial report in the European Single Electronic Format (ESEF) which is the electronic reporting format in which issuers on EU regulated markets shall prepare their annual financial reports from 1 January 2020 based on Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format as amended.

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Arctic Paper, its representatives and employees decline all responsibility in this regard.

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ARCTIC PAPER

**SELECTED STANDALONE
FINANCIAL DATA**

Selected standalone financial data

	Period from 01.01.2021 to 31.12.2021 PLN '000	Period from 01.01.2020 to 31.12.2020 PLN '000	Period from 01.01.2021 to 31.12.2021 EUR '000	Period from 01.01.2020 to 31.12.2020 EUR '000
Sales revenues	63 836	39 469	13 978	8 879
Operating profit/(loss)	32 920	12 646	7 208	2 845
Gross profit/(loss)	21 787	3 419	4 771	769
Net profit/(loss) from continuing operations	21 787	3 387	4 771	762
Net profit/(loss) for the financial year	21 787	3 387	4 771	762
Net cash flows from operating activities	(15 320)	97 949	(3 354)	22 036
Net cash flows from investing activities	(2 498)	-	(547)	-
Net cash flows from financing activities	(7 364)	(89 741)	(1 612)	(20 189)
Change in cash and cash equivalents	(25 182)	8 208	(5 514)	1 847
Weighted average number of ordinary shares	69 287 783	69 287 783	69 287 783	69 287 783
Diluted weighted average number of ordinary shares	69 287 783	69 287 783	69 287 783	69 287 783
EPS (in PLN/EUR)	0,31	0,05	0,07	0,01
Diluted EPS (in PLN/EUR)	0,31	0,05	0,07	0,01
Mean PLN/EUR exchange rate*			4,5670	4,4449

	As at 31 December 2021 PLN '000	As at 31 December 2020 PLN '000	As at 31 December 2021 EUR '000	As at 31 December 2020 EUR '000
Total assets	857 299	882 117	186 394	191 150
Long-term liabilities	105 398	31 049	22 916	6 728
Short-term liabilities	174 841	280 473	38 014	60 777
Equity	577 059	570 594	125 464	123 644
Share capital	69 288	69 288	15 064	15 014
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)	8,33	8,24	1,81	1,78
Diluted book value per share (in PLN/EUR)	8,33	8,24	1,81	1,78
Declared or paid dividend (in PLN/EUR)	20 786 335	-	4 519 358	-
Declared or paid dividend per share (in PLN/EUR)	0,30	-	0,07	-
PLN/EUR exchange rate at the end of the period**			4,5994	4,6148

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

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

MANAGEMENT BOARD'S REPORT ON THE OPERATIONS OF ARCTIC PAPER S.A. to the report for 2021

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

Dear Sirs,

Another successful year for the Arctic Paper Group is behind us. Although the pandemic still had a major impact on societies and the economy, the conviction that it was time to rebuild and to continue to grow created a boom, and we took full advantage of it.

Despite many market turbulences, very rapidly changing conditions, 2021 once again confirmed that Arctic Paper is a reliable and solid partner for its customers.

An important event was the development and adoption of our strategy 2022-2030. It sets out areas for investment and growth directions that we believe provide a strong basis for growing performance and increasing shareholder value.

I would like to thank the entire team of the Arctic Paper Group for their hard work in 2021. Thanks to your commitment and initiative, we have seized the market opportunities that have presented themselves to us. The business and operational results achieved give me confidence that 2022 will be equally successful.

Sincerely yours,

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

Description of the business of Arctic Paper

General information

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 Trebruk AB (formerly Arctic Paper AB), the Parent Entity of the Issuer. In addition, under the expansion, the Group acquired the Paper Mill Arctic Paper Mochenwangen (Germany) in December 2008 and the Paper Mill Grycksbo (Sweden) in March 2010.

In 2012 and 2013 Arctic Paper S.A. acquired shares in Rottneros AB, a company listed at NASDAQ in Stockholm, Sweden, holding 100% shares in two Pulp Companies, Procurement Office and a company manufacturing food packaging.

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 on the NASDAQ stock exchange in Stockholm, Sweden.

The main statutory activity of the Company is the activity of a holding company, consisting in managing of entities belonging to the controlled Capital Group. The operations are conducted through Paper Mills and Pulp Mills as well as Sales Offices and Procurement Office. The description of the Arctic Paper Capital Group was provided in the Management Board's Report from operations of the Arctic Paper Capital Group, published in the consolidated annual report for the year ended on 31 December 2021.

The Company is entered in the register of entrepreneurs of the National Court Register maintained by the District Court in Zielona Góra – 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 activity

The core business of Arctic Paper S.A. covers holding activities.

Subsidiaries

As at 31 December 2021, Arctic Paper S.A. held investments in the following subsidiary companies:

- Arctic Paper Kostrzyn S.A. – Paper Mill in Kostrzyn nad Odrą (Poland);
- Arctic Paper Munkedals AB – Paper Mill in Munkedal (Sweden);
- Arctic Paper Sverige AB – a sales office operating in Sweden;
- Arctic Paper Norge AS – a sales office operating in Norway;
- Arctic Paper Danmark A/S – a sales office operating in Denmark;
- Arctic Paper UK Limited – a sales office in the United Kingdom;
- Arctic Paper Baltic States SIA – a sales office covering the Baltic States;
- Arctic Paper Benelux S.A. – a sales office covering the Benelux countries;
- Arctic Paper Schweiz AG – a sales office in Switzerland;
- Arctic Paper Italia srl – a sales office in Italy;
- Arctic Paper France SAS – a sales office in France;
- Arctic Paper Espana SL – a sales office in Spain;
- Arctic Paper Papierhandels GmbH – a sales office in Austria;
- Arctic Paper Deutschland GmbH – a sales office in Germany;
- Arctic Paper Polska Sp. z o.o. – a sales office in Poland;
- Arctic Power Sp. z o.o. – an energy production company;
- Arctic Paper Investment GmbH – a holding company established to acquire shares in the Paper Mill in Mochenwangen;
- Arctic Paper Investment AB – a holding company established for the purpose of acquisition of Grycksbo Paper Holding AB;
- Rottneros AB – a holding company with shares in the Paper Mills of Rottneros Bruk AB and Rottneros Vallvik AB, in the procurement office and in the company manufacturing food packaging;

— Arctic Paper Finance AB – a holding company involved in attracting financing.

Information on percentage holdings in each subsidiary company is provided in the Company's financial statements (note 5).

Changes in the capital structure of the Arctic Paper Group

Effective 1 January 2020, the Group, through Rottneros AB, acquired control of Nykvist Skogs AB, which is further described in note 20 to the consolidated financial statements.

In 2021, there were no changes to the capital structure of the Group.

Provided services

As a holding company, Arctic Paper S.A. receives dividend, interest on loans granted and revenues for the management services it provides for related entities operating within the Arctic Paper Capital Group.

In connection with restructuring activities in the Arctic Paper Group, at the beginning of 2016 a centralised logistics department started to operate within the structures of Arctic Paper S.A. The logistics department provides services in planning and coordinating transport to the Paper Mills in Kostrzyn, Grycksbo and Munkedals.

The assortment of products manufactured at the Paper Mills of the Arctic Paper Group was described in the consolidated annual report for 2021.

Modifications to the core management principles

In 2021, 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 2021) 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 2021 was 68.13% and has not changed until the date hereof.

as of 22.03. 2022

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	40 989	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%
Own shares	-	0,00%	-	0,00%
Total	69 287 783	100,00%	69 287 783	100,00%

The data in the above table are shown as at the date of approval of this report. The shareholder structure has not changed compared to the balance sheet date and the date of publication of the quarterly report for Q3 2021.

Market environment

The Company provides no services directly to external entities. The Company's financial condition and its ability to distribute dividend is primarily affected by the market environment in which the Paper and Pulp Mills controlled by the Company operate.

Information on the core products offered by the Group with details of their value and quantities and the share of each product in total sales of the Group as well as information on markets with a split into domestic and foreign markets and information on procurement sources of materials for production and services, are all provided in the consolidated annual report.

Development directions and strategy

On 4 October 2021, the Company's Supervisory Board approved the "Arctic Paper Group Strategy for 2022-2030" presented by the Issuer's Management Board. With the Group's new strategy to 2030, Arctic Paper will accelerate its transformation into a more comprehensive company, leveraging the synergies and competencies of its existing businesses. The Company's strategic directions are reflected in its 4 pillars: packaging, energy, graphic paper and pulp.

With its strong position as a premium paper producer and owner of the recognisable Graphic Paper and Pulp brands, as part of its Four Pillars(4P) strategy, the Group will invest in two new business areas where sustainability and renewable resources – packaging and energy – play a key role.

The Group's main strategic objectives in the 2030 perspective are:

- an increase in revenues by 25 per cent,
- an increase in EBITDA of around 70 per cent,
- an increase in EBITDA margin to 15 per cent.

The total investment between 2022 and 2030 in all four pillars is planned at over PLN 1.5 billion, of which around 40 per cent of this amount will be allocated to new business areas. The Group assumes that it will achieve carbon neutrality by 2035 at the latest.

Sales structure

In 2021, the sales structure by main sources of the Company's revenues was as follows:

PLN '000	2021	share %	2020	share %
Services	22 402	35%	20 495	52%
Dividend	38 724	61%	15 287	39%
Interest income on loans	2 710	4%	3 687	9%
Total	63 836	100%	39 469	100%

The Company provides management services to companies pursuant to agreements signed with those entities.

PLN '000	2021	share %	2020	share %
Arctic Paper Kostrzyn S.A.	30 065	47%	23 966	61%
Rottneros AB	15 989	25%	-	0%
Arctic Paper Munkedals AB	3 691	6%	3 387	9%
Arctic Paper Grycksbo AB	12 247	19%	11 354	29%
Other	1 843	3%	762	2%
Total	63 836	100%	39 469	100%

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. Changes in the demand for paper affect largely changes in demand for pulp.

Research and development

The Company has no direct expenses on 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 the expanding the assortment thereof. In the period covered with this report, the Paper 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 quality and extending the assortment and to improve paper quality properties.

New product development was an important aspect of the development works in 2021.

Natural environment

The description of the impact of environmental regulations on the operations of the Paper and Pulp Mills controlled by the Company is provided in the consolidated annual report.

Summary of financial results

Selected items of the consolidated income statement

PLN '000	2021	2020	Change % 2021/2020
Sales revenues	63 836	39 469	61,7
of which:			
Revenues from sales of services	22 402	20 495	9,30
Interest income on loans	2 710	3 687	(26,50)
Dividend income	38 724	15 287	153,31
Profit on sales	58 664	35 139	66,9
% of sales revenues	91,90	89,03	2,9 p.p.
Administrative expenses	(25 144)	(24 292)	3,5
Other operating income	488	783	(37,6)
Other operating expenses	(1 087)	1 016	(207,0)
EBIT	32 920	12 646	160,3
% of sales revenues	51,57	32,04	19,5 p.p.
EBITDA	33 309	13 121	153,9
% of sales revenues	52,18	33,25	18,9 p.p.
Financial income	3 899	4 893	(20,3)
Financial expenses	(15 031)	(14 120)	6,5
Gross profit	21 787	3 419	537,3
Income tax	-	(32)	(100,0)
Net profit	21 787	3 387	543,3
% of sales revenues	34,13	8,58	25,5 p.p.

Revenues, costs of sales and profit on sales

The main statutory activity of the Company is the activity of a holding company, consisting in managing of entities belonging to the controlled Capital Group. The operations of the Group are conducted through Paper Mills and Pulp Mills as well as Sales Offices and Procurement Office. In 2021, the standalone sales revenues amounted to PLN 63,836 thousand and included: dividend income (PLN 38,724 thousand), services provided to Group companies (PLN 22,402 thousand) and interest income on loans (PLN 2,710 thousand). In 2020 the Company's standalone revenues amounted to PLN 39,469 thousand and included: dividend income (PLN 15,287 thousand), services provided to Group companies (PLN 20,495 thousand) and interest income on loans (PLN 3,687 thousand).

In 2021 and in 2020, the Company did not render services to the Pulp Mills of the Rottneros Group.

Costs of sales cover internal costs of providing logistics services and interest on loans granted to the Company by its related entities (PLN 5,171 thousand).

Administrative expenses

In 2021, the administrative expenses amounted to PLN 25,144 thousand. They cover costs of the administration of the Company operation, costs of services provided to the companies in the Group and all costs incurred by the Company for the purposes of pursuing holding company activities. The above costs include a group of costs that are related solely to statutory activities and cover, inter alia: audit costs of financial statements, functioning costs of the Supervisory Board, costs of periodic owners' inspections in the Company, etc.

Selling and distribution costs

Neither in 2021 nor in 2020 did the company recognise costs of sales, which in previous years were entirely related to costs associated with the brokerage of pulp purchases for Arctic Paper Kostrzyn S.A.

Other operating income and expenses

Other operating income amounted to PLN 488 thousand in 2021, which means a decrease compared to the same period of the previous year.

At the same time there was an increase of other operating expenses that reached the level of PLN 1,087 thousand (in 2020 it was PLN +1,016 thousand). The increase in the amount of other operating expenses is mainly due to the reversal of the impairment allowance on assets (Arctic Paper Investment AB) in the amount of PLN 2,200 thousand in 2020.

Financial income and financial expenses

In 2021, the financial income amounted to PLN 3,899 thousand and was by PLN 4,893 thousand lower than generated in the equivalent period last year. At the same time, there was an increase of financial expenses from PLN 14,120 thousand in 2020 to PLN 15,031 thousand.

Changes in finance costs are mainly due to bank commissions and fees related to financing, interest on loans, exchange rate differences and realised interest rate swaps.

Profitability analysis

EBITDA in 2021 was PLN 33,309 thousand, while in the equivalent period in 2020 it was PLN 13,121 thousand.

EBIT in 2021 amounted to PLN 32,920 thousand as compared to PLN 12,646 thousand in the previous year.

The net profit in 2021 amounted to PLN 21,787 thousand as compared to the net profit of PLN 3,387 thousand in 2020.

PLN '000	2021	2020	Change % 2021/2020
Profit on sales	58 664	35 139	66,9
% of sales revenues	91,90	89,03	2,9 p.p.
EBITDA	33 309	13 121	153,9
% of sales revenues	52,18	33,25	18,9 p.p.
EBIT	32 920	12 646	160,3
% of sales revenues	51,57	32,04	19,5 p.p.
Net profit	21 787	3 387	543,3
% of sales revenues	34,13	8,58	25,5 p.p.
Return on equity / ROE (%)	3,8	0,6	3,2 p.p.
Return on assets / ROA (%)	2,5	0,4	2,2 p.p.

*EBITDA – Operating profit from continuing operations plus depreciation and amortisation and impairment allowances

* Return on equity, return on equity, ROE – net profit/(loss) to equity

* Return on assets, return on assets, ROA – the ratio of net profit/(loss) to total assets

In 2021, return on equity was 3.8% while in 2020 it was 0.6%. Return on assets increased from 0.4% in 2020 to 2.5% in 2021.

Selected items from the statement of financial position

PLN '000	2021-12-31	2020-12-31	Change 31/12/2021 -31/12/2020
Fixed assets	686 451	701 798	(15 347)
Receivables	31 903	29 308	2 596
Other current assets	123 978	110 864	13 114
Cash and cash equivalents	14 966	40 148	(25 182)
Total assets	857 299	882 117	(24 818)
Equity	577 059	570 594	6 465
Short-term liabilities	174 841	280 472	(105 631)
<i>interest-bearing debt</i>	145 648	252 112	(106 464)
Long-term liabilities	105 398	31 049	74 349
<i>interest-bearing debt</i>	101 546	28 093	73 453
Total equity and liabilities	857 299	882 117	(24 818)

As at 31 December 2021 total assets amounted to PLN 857,299 thousand, as compared to PLN 882,117 thousand at the end of 2020.

Fixed assets

At the end of December 2021 fixed assets accounted for about 80.1% of total assets and their share in total assets increased versus December 2020 (79.6%).

Current assets

As at the end of December 2021, current assets amounted to PLN 170,848 thousand as compared to PLN 180,319 thousand at the end of 2020.

Equity

At the end of December 2021, the equity amounted to PLN 577,059 thousand as compared to PLN 570,594 thousand at the end of 2020.

The increase in equity is mainly due to the net profit generated in 2021 and the valuation of derivatives recognised in equity.

Short-term liabilities

As at the end of December 2021, short-term liabilities amounted to PLN 174,841 thousand (20.4% of balance sheet total) as compared to PLN 280,472 thousand as at the end of 2020 (31.8% of balance sheet total).

The significant decrease in current liabilities is due to the conclusion of new financing agreements in 2021.

Long-term liabilities

As at the end of December 2021, long-term liabilities amounted to PLN 105,398 thousand (12.3% of balance sheet total) as compared to PLN 31,049 thousand as at the end of 2020 (3.5% of balance sheet total).

Debt analysis

	2021	2020	Change % 2021/2020
Debt to equity ratio (%)	48,6	54,6	(6,0) p.p.
Equity to fixed assets ratio (%)	84,1	81,3	2,8 p.p.
Interest-bearing debt-to-equity ratio (%)	42,8	49,1	(6,3) p.p.

* Equity debt ratio (%) – total liabilities to equity ratio

* Equity to fixed assets ratio – equity to non-current assets ratio

* Equity debt to interest-bearing debt – the ratio of interest-bearing debt and other financial liabilities to equity.

As at the end of December 2021, the equity debt ratio was 48.6% and was lower by 6.0 p.p. versus the end of December 2020. The equity to asset ratio increased from 81.3% as at the end of 2020 to 84.1% as at the end of December 2021. The equity debt to interest-bearing debt stood at 42.8% at the end of 2021, and was lower by 6.3 p.p. versus to 2020.

Liquidity analysis

	2021	2020	Change % 2021/2020
Current ratio	0,98x	0,64x	0,3
Quick ratio	0,98x	0,64x	0,3
Cash solvency ratio	0,09x	0,14x	(0,1)

* Current ratio – the ratio of current assets to short-term liabilities

* Quick ratio – the ratio of current assets minus inventory and short-term accruals and deferred income to short-term liabilities

* Cash solvency ratio – the ratio of the sum of cash assets and other cash assets to short-term liabilities

The current ratio and the quick ratio at the end of December 2021 amounted to 0.98x and were by 0.3 higher than at the end of December 2020. The cash solvency ratio dropped versus December 2020 and was 0.09x at the end of 2021.

Selected items from the cash flow statement

PLN '000	2021	2020	Change % 2021/2020
Cash flows from operating activities	(15 320)	97 949	(115,6)
of which:			
Gross profit	21 787	3 419	537,3
Depreciation/amortisation	389	1 021	(61,9)
Changes to working capital	1 537	21 424	(92,8)
Net interest and dividends	5 368	7 450	(28,0)
Increase/decrease of loans granted to subsidiaries	(52 357)	61 913	(184,6)
Other adjustments	7 956	2 722	192,3
Cash flows from investing activities	(2 498)	-	-
Cash flows from financing activities	(7 364)	(89 741)	(91,8)
Total cash flows	(25 182)	8 208	(406,8)

Cash flows from operating activities

In 2021, net cash flows from operating activities amounted to PLN -15,320 thousand as compared to PLN 97,949 thousand in 2020. The biggest impact on the negative cash flow from operating activities in 2021 was the change in cash pooling.

Cash flows from investing activities

In 2021, net cash flows from investing activities amounted to PLN -2,498 and were related to acquisition of shares in Arctic Paper Power Sp. z o.o. (former Arctic Paper East Sp. z o.o.)

Cash flows from financing activities

In 2021 cash flows from financing activities amounted to PLN -7,364 thousand as compared to PLN -89,741 thousand in 2020. In 2021, flows from financing activities were related to the repayment of existing bank loans and the incurrence of new financial liabilities.

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

Key factors affecting the performance results

The operations of the Company are indirectly affected by factors that have direct impact on the business of the Group's operational units – Paper Mills and the factors include:

- 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.

The impact of the factors on the Group's business was described in detail in the consolidated annual report for 2021.

Unusual events and factors

In the period under the report there were no unusual events and/or other factors affecting Arctic Paper S.A.

Other material information

Complete early redemption of the Bonds issued by Arctic Paper S.A.

On 8 February 2021, the Company's Management Board adopted a resolution on the early redemption of all Series A Bonds (marked with ISIN code: PLARTPR00038), the issue of which the Company reported in current report No. 24/2016 of 30 September 2016.

The early redemption of the Bonds, was carried out on 1 March 2021. On the Early Redemption Date, the Company redeemed 100,000 (in words: one hundred thousand) Bonds with a total nominal value of PLN 58,500,000 (in words: fifty-eight million five hundred zlotys). The consideration per Bond amounted to PLN 585, plus accrued interest and a premium, calculated in accordance with the terms and conditions of the Bond issue. The redeemed Bonds were cancelled.

Conclusion by Arctic Paper S.A. of a material agreement related to the refinancing process and loan disbursement

On 2 April 2021 the Company signed a term and revolving facilities agreement ("Loan Agreement") which was concluded between the Company as the borrower and guarantor, subsidiaries of the Company: Arctic Paper Kostrzyn S.A., Arctic Paper Munkedals AB and Arctic Paper Grycksbo AB, as guarantors ("Guarantors") and a consortium of banks as follows: Santander Bank Polska S.A. (the "Collateral Agent"), BNP Paribas Bank Polska S.A. and Bank Polska Kasa Opieki S.A. (": Lenders"), pursuant to which the Lenders granted to the Company a term loan divided into two tranches in the amounts of PLN 75,000,000 and EUR 16,100,000, respectively, and a revolving loan in the total amount of EUR 32,200,000 (collectively, the "Loans").

In order to secure the claims of the Lenders under the Loan Agreement and the related financing documents, the Company and the Guarantors established, inter alia, the following securities: registered pledge and financial pledge on the shares of Arctic Paper Kostrzyn S.A., pledges on the shares of companies under Swedish law, i.e. Arctic Paper Munkedals AB and Arctic Paper Grycksbo AB, statements on submission to execution by the Company and Arctic Paper Kostrzyn S.A, registered and financial pledges on bank accounts of the Company and Arctic Paper Kostrzyn S.A., pledges on bank accounts of Arctic Paper Munkedals AB and Arctic Paper Grycksbo AB, mortgages established on real properties of Arctic Paper Kostrzyn S.A, mortgages established on real properties of Arctic Paper Munkedals AB and Arctic Paper Grycksbo AB, registered pledges on assets of Arctic Paper Kostrzyn S.A. and security of rights under property insurance policies of the Company, Arctic Paper Kostrzyn S.A., Arctic Paper Munkedals AB and Arctic Paper Grycksbo AB.

The agreements listed above constitute the acquisition of alternative financing and a change to the funding structure of the Company's capital group.

In accordance with the Loan Agreement, the Lenders provided the Company with the following Loans:

- (i) a Term Loan repayable in two tranches: the first tranche in the amount of PLN 75,000,000 (seventy five million) and the second tranche in the amount of EUR 16,100,000 (sixteen million and one hundred thousand euro) (the "Term Loan"); and
- (ii) a revolving loan of EUR 32,200,000 (thirty-two million, two hundred thousand euro) (the "Revolving Loan").

Subject to the relevant terms of the Loan Agreement, the Term Loan was made available to refinance the existing financial indebtedness of the Company and its certain subsidiaries.

Subject to the relevant terms and conditions of the Loan Agreement, amounts raised under the Revolving Loan may be used for general corporate purposes and to fund the working capital of the Company and its certain subsidiaries (including intra-group lending in any form).

In accordance with the provisions of the Loan Agreement interest rate is variable, based on the WIBOR base rate in the case of financing in PLN and the EURIBOR base rate in the case of financing in EUR and a variable margin, the level of which will depend on the level of the net debt to EBITDA ratio.

In compliance with the Loan Agreement, some Loans will be repaid by:

- (i) in the case of a Term Loan, on the day falling five years after the date of conclusion of the Loan Agreement; and
- (ii) in the case of a Revolving Loan, on the date falling three years after the conclusion of the Loan Agreement with the option to extend the terms of the Revolving Loan for an additional two years in accordance with the terms of the Loan Agreement.

The Term Loans are repayable in equal semi-annual instalments commencing in November 2021 and the Revolving Loan is repayable on the final repayment date.

On 28 May 2021, the loan amounts were made available to the Company by the Lenders in accordance with the Loan Agreement. in connection with the disbursement of the Loans there has been:

- i. the full repayment of the Company's existing indebtedness under the Term and Revolving Loan Agreement dated 9 September 2016 (as amended) entered into between the Company, as lender, the Company's subsidiaries: Arctic Paper Kostrzyn S.A., Arctic Paper Munkedals AB and Arctic Paper Grycksbo AB, as guarantors and a consortium of banks as follows: BNP Paribas Bank Polska S.A., European Bank for Reconstruction and Development and Santander Bank Polska S.A. as mandated lead arrangers and lenders, Santander Bank Polska S.A. as agent and BNP Paribas Bank Polska S.A. as collateral agent (the "Previous Loanfor Agreement"), the execution of which was announced by the Company in current report No. 20/2016 of 9 September 2016; and
- ii. closing and full settlement of the closing amount in respect of interest rate hedging transactions (irs) entered into in connection with the Prior Loan Agreement (the "Hedging Agreements").

At the same time, with the repayment of the Company's indebtedness under the Previous Loan Agreement, the Hedging Agreements and the early redemption of all of the Series A Bonds, as announced by the Company in current report No. 8/2021 of 1 March 2021, all collateral provided by the Company and the Company's subsidiaries expired: Arctic Paper Kostrzyn S.A., Arctic Paper Munkedals AB and Arctic Paper Grycksbo AB in connection with an intercreditor agreement, under the English name – intercreditor agreement – concluded between the Company, Mr Thomas Onstad, Santander Bank Polska (formerly: Bank Zachodni WBK S.A.), Haitong Bank Spółka Akcyjna, BNP Paribas Bank Polska S.A. (formerly: Bank BGŻ BNP Paribas S.A.) and other parties (the "Intercreditor Agreement"). The Company reported on the conclusion of the Intercreditor Agreement and the establishment of collateral in connection with this agreement in current report No. 20/2016 of 9 September 2016.

Letter of Intent on joint investment by Arctic Paper and Rottneros

On 21 October 2021, ArcticPaper SA and Rottneros AB signed a letter of intent regarding the establishment of a joint venture to build a moulded pulp fibre packaging plant. The new factory in Kostrzyn nad Odrą, Poland, is scheduled to be operational by the end of 2023. It is estimated that the value of the investment will amount to EUR 12-15 million (around PLN 55-70 million), of which the Issuer's share will be 50%. The method of financing the investment is still being determined.

The production capacity of the new factory is estimated at 60-80 million trays per year. According to the Issuer's estimates, the investment will generate annual revenue of EUR 9-11 million (around PLN 40-50 million).

The new investment will utilise Rottneros Packaging AB's expertise in pulp packaging. The planned products include both non-laminated and laminated trays for so-called modified atmosphere packaging with an oxygen barrier, which provides up to three weeks of shelf life for packaged items.

On 10 February 2022, the Supervisory Board of the Company has expressed its positive opinion on the actions taken by the Company to conclude an abovementioned joint venture.

The investment is an important element of the implementation of the new Arctic Paper 4P strategy, which consists in expanding the Arctic Paper offer by new, fast-growing segments (packaging production, manufacturing and energy trading).

Factors affecting the development of the Company

Information on market trends and in factors affecting the Company's financial results over the next year is provided in the consolidated annual report. Below is a description of risk factors that directly affect the Company's business, other risk factors affecting the Company via its subsidiary companies, are described in detail in the consolidated annual report.

Risk factors

Risk factors related to the environment in which the Company operates

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

Risk of changing legal regulations

The Company operates in a legal environment characterised with a high level of uncertainty. The regulations affecting our business have been frequently amended and there are no consistent interpretations which generates a risk of violating the existing regulations and the resultant consequences even if such breach was unintentional.

Risk related to disadvantageous global economic situation

The global economic situation is affected by the effects of the recent financial crisis, in particular the continued lost of trust on the part of consumers and entrepreneurs, concerns related to the availability and increasing costs of loans, decrease in consumer and investment spending, volatility and strength of capital markets. We anticipate that the difficult global economic conditions may result in an overall decreased of demand and average prices of high quality paper which in turn may adversely effect the dividends received from subsidiary companies.

FX risk

The Company's revenues, expenses and results are exposed to the FX risk, in particular of PLN to EUR, SEK and other currencies since the Company has been paid dividend partly in EUR and in SEK. Thus FX rate fluctuations may have an adverse effect on the results, financial conditions and prospects of the Group.

Interest rate risk

The Company is exposed to interest rate risk in view of the existing interest-bearing debt. The risk is due to fluctuations of the reference interest rates WIBOR for debt in PLN. Unfavourable changes of interest rates may adversely affect the results, financial condition and prospects of the Company.

The objectives and methods of financial risk management in the Company along with hedging methods of major transactions are detailed in note 30 to the standalone financial statements.

Risk factors relating to the business of the Company

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 retention and attraction of management staff and qualified personnel

The achievement of strategic objectives by the Company is subject to the know-how and experience of the professional management staff and the ability to hire and retain qualified specialists. The Company may not be able to retain its management staff and other key specialists or to attract new specialists. If the Company is not able to attract and retain management staff and personnel, this may adversely affect its business, operational results and financial condition.

Risk related to the debt of the Company

Arctic Paper has mainly debt under a loan agreement with a consortium of banks (Pekao SA, Santander Bank S.A. and BNP Paribas SA of 2 April 2021) and under leasing agreements.

Failure to meet the Company's obligations, including the level of agreed financial ratios (covenants) under the loan agreements, results in an event of default. 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 the capacity of the Company to pay dividend

The Issuer is a holding company and therefore its capacity to pay dividend is subject to the level of potential disbursements from its subsidiary companies involved in operational activity, and the level of cash balances. Certain subsidiaries of the Group involved in operational activity may be subject to certain restrictions concerning disbursements to the Issuer. No certainty exists that such restrictions will have no material impact on the business, results on operations and capacity of the Company to distribute dividend.

In connection with the Term and Revolving Credit Facilities and Intercreditor Agreement signed on 2 April, the Company's ability to pay dividends is subject to the Group meeting certain financial ratios in the period prior to payment (as that term is defined in the Term and Revolving Credit Facilities) and there being no event of default (as that term is defined in the Term and Revolving Credit Facilities).

Supplementary information

Management Board position on the possibility to achieve the projected financial results published earlier

The Management Board of Arctic Paper S.A. did not publish projections of financial results for 2022 and has not published and does not intend to publish projections of financial results for 2022.

Dividend information

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 2021.

In connection with the term and revolving loan agreements signed on 2 April 2021, the Company's ability to pay dividends is subject to the Group meeting certain financial ratios in the period prior to payment (as that term is defined in the term and revolving credit facility agreement) and there being no event of default (as that term is defined in the term and revolving loan agreement).

In 2020 the Company did not pay out dividend.

On 22 June 2021, the General Meeting of the Company, having considered the Management Board's proposal on dividend payment, resolved to allocate the Company's net profit for the financial year 2020 and a part of net profits from previous years accumulated on the Company's reserve capital, in the total amount of PLN 20,786,334.90 (in words: twenty million seven hundred and eighty-six thousand three hundred and thirty-four zlotys 90/100) for dividend payment to the Company's shareholders. The dividend per share amounted to PLN 0.30 gross (in words: thirty groszy). Pursuant to the resolution of the AGM, on 14 July 2021, the Company paid a dividend as recommended by the Management Board and the Supervisory Board.

On 17 February 2022, Taking into account the preliminary financial results of the Company and the Arctic Paper S.A. Group of 2021, the Management Board of the Company decided to recommend to the Annual General Meeting of the Company the payment of dividend from the Company's net profit of 2021 in the amount of 27.715.113,20 (21.787) PLN 0.40 gross per share.

Changes to the bodies of Arctic Paper S.A.

As at 31 December 2021, 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 14 September 2014);
- Thomas Onstad – Member of the Supervisory Board appointed on 22 October 2008;
- Zofia Dzik – Member of the Supervisory Board appointed on 22 June 2021;
- Anna Jakubowski – Member of the Supervisory Board appointed on 22 June 2021;

On 20 May 2021, Ms Dorota Raben resigned as a Member of the Supervisory Board of the Company with effect from 22 June 2021.

On 26 May 2021, Mr Mariusz Grendowicz resigned as a Member of the Supervisory Board of the Company with effect from 22 June 2021.

On 22 June 2021, the Annual General Meeting of the Company, passed a resolution on the appointment of Ms Zofia Dzik and Ms Anna Jakubowski to the Supervisory Board.

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

As at 31 December 2021, the Parent Entity's Management Board was composed of:

- Michał Jarczyński – President of the Management Board appointed on 10 December 2018, effective in 1 February 2019;
- Göran Eklund – Member of the Management Board appointed on 30 August 2017.

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

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

In 2021 there were no changes to the Company's share capital.

Purchase of treasury shares

In 2021 and 2020 the Company did not acquire any treasury stock.

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 2021 to 31 December 2021 (data in PLN).

Managing and supervising persons	Remuneration (base salary and overheads) for the functions performed at Arctic Paper S.A.	Retirement plan	Other	Total
Management Board				
Michał Jarczyński	770 448		684 000	1 454 448
Göran Eklund	907 057	352 864	251 312	1 511 232
Supervisory Board				
Per Lundeen	300 000			300 000
Roger Mattsson	210 000			210 000
Thomas Onstad	174 390			174 390
Mariusz Grendowicz*	90 878			90 878
Dorota Raben*	83 318			83 318
Zofia Dzik**	87 841			87 841
Anna Jakubowski**	87 400			87 400

* for the period from 1.01.2021 to 22.06.2021

** for the period from 22.06.2021 to 31.12.2021

Agreements with Members of the Management Board guaranteeing financial compensation

As at 31 December 2021 and as at the approval date of this annual report, Members of the Management Board are entitled to compensation in case of their resignation or dismissal from their respective positions with no valid reason or when they are dismissed or their employment is terminated as a result of a merger of the Issuer by take-over. The amount of such compensation will correspond to their remuneration for 6 to 24 months.

Changes in holdings of the Issuer's shares or rights to shares by persons managing and supervising Arctic Paper S.A.

Managing and supervising persons	Number of shares or rights to shares as at 22.03.2022	Number of shares or rights to shares as at 31.12.2021	Number of shares or rights to shares as at 09.11.2021	Change
Management Board				
Michał Jarczyński	-	-	-	-
Göran Eklund	-	-	-	-
Supervisory Board				
Per Lundeen	34 760	34 760	34 760	-
Thomas Onstad	6 223 658	6 223 658	6 223 658	-
Roger Mattsson	-	-	-	-
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 Arctic Paper S.A.

Capital investments

In 2021, the Company did not place any deposits.

Information on financial instruments

Information on financial instruments on:

- a) the risks of: price changes, credit, material disruption of cash flows and loss of liquidity to which the Company is exposed; and
- b) the entity's financial risk management objectives and policies, including its methods of hedging significant types of forecast transactions for which hedge accounting is used, are disclosed in the financial statements in notes 26 and 27.

Information on sureties, guarantees and contingent liabilities

In connection with the term and revolving loan agreements signed on 2 April 2021, on 11 May 2021 the Company signed agreements and declarations pursuant to which collateral for the above receivables and other claims was established in favour of Bank Santander Bank Polska S.A. acting as Security Agent, i.e.

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 (Arctic Paper Kostrzyn SA, Arctic Paper Munkedals AB, Arctic Paper Grycksbo AB), 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 real properties located in Poland and belonging to 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;

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

- › pledges on all shares held by the Company and the Guarantors, registered in Poland, belonging to the companies of the group, with the exception of the Company's shares
- › mortgages on all real 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.

In the period covered with this report, Arctic Paper S.A. and its subsidiary companies did not grant or receive any guarantee to loans or borrowings, and did not grant – totally to one entity or a subsidiary of such entity – guarantees with the total value exceeding equivalent of 10% of the Company's equity.

Material off-balance sheet items

Information on off-balance sheet items is provided in the Company's standalone financial statements for 2021 in note 24.

Assessment of the feasibility of investment plans

Arctic Paper S.A. plans no material investments to be made in 2022. Material investments are carried out by the Issuer's subsidiary entities, in particular the Paper Mills as described in the Consolidated Annual Report.

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 the Company'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

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 remuneration of the entity authorised to audit the financial statements

On 20 January 2021, the Company 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 2020 and ending on 31 December 2021. 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 29 to the standalone financial statements for 2021.

Headcount

Information on the headcount is provided in note 29 to the standalone financial statements for 2021.

Report on non-financial information

Apart from this report the Company 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 29 March 2021, the Supervisory Board of the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.) by Resolution No. 13/1834/2021 adopted new corporate governance rules for companies listed on the WSE Main Market – “Best Practice of GPW Listed Companies 2021” (Best Practices 2021, DPSN2021).

Best Practice 2021 came into force on 1 July 2021.

Application by companies of the principles of corporate governance contained in the Best Practice is voluntary, but reporting on their application is an obligation of every listed company, enshrined in the Regulations of the WSE. Companies had to publish their first reports on the application of DPSN2021 by 31 July 2021.

The text of the “Best Practice of GPW Listed Companies 2021” is available at:

https://www.gpw.pl/pub/GPW/files/PDF/dobre_praktyki/DPSN21_BROSZURA.pdf

Pursuant to Article 29.3 of the Warsaw Stock Exchange Rules, the Management Board of Arctic Paper S.A. published on 29 July 2021, in the form of an EBI report, the first statement regarding the company's compliance with the principles contained in the Code of Best Practice of GPW Listed Companies 2021.

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 2021”. In 2021, Arctic Paper S.A. did not apply the following rules:

Best practice – Information Policy, Communication with Investors

Rule 1.3.2

“The company also includes ESG topics in its business strategy, in particular covering:
social and labour matters, concerning, inter alia, measures taken and planned to ensure gender equality, sound working conditions, respect for employees' rights, dialogue with local communities, customer relations.”

Explanation: A detailed development of ESG issues covering the entire capital group is presented by the Company in the CSR reports published each year. CSR reports take into account environmental, social, employee and sustainable development issues, including, among others, measures and established goals, description of undertaken and planned actions in the ESG area.

Rule 1.4.2

“In order to ensure proper communication with stakeholders regarding the business strategy adopted, the company publishes on its website information on the assumptions of its strategy, measurable objectives, including in particular long-term objectives, planned activities and progress in its implementation, defined by means of metrics, financial and non-financial. Information on ESG strategies should, inter alia:

present the value of the pay equity ratio paid to its employees, calculated as a percentage of the difference between the average monthly pay (including bonuses, prizes and other allowances) of women and men for the last year, and present information on the actions taken to eliminate possible inequalities in this respect, together with a presentation of the risks involved and the time horizon over which equality is planned to be achieved.

Explanation: A detailed development of ESG issues covering the entire capital group is presented by the Company in the CSR reports published each year. CSR reports take into account environmental, social, employee and sustainable development issues, including, among others, measures and established goals, description of undertaken and planned actions in the ESG area.

Best practice – Management Board and Supervisory Board

Rule 2.1

“The company should have a diversity policy for the management board and the supervisory board, adopted by the supervisory board or the general meeting respectively. The diversity policy sets out diversity objectives and criteria in areas such as gender, field of study, specialist knowledge, age and work experience, among others, and indicates when and how the achievement of these objectives will be monitored. In terms of gender diversity, the condition for ensuring the diversity of the company's bodies is that the minority participation in the respective body is no less than 30%.”

Explanation:

The Company is currently working on a diversity policy document for the Management Board and the Supervisory Board. As at the date of publication of information on the status of application of the Best Practice 2021, the proportion of women on the Supervisory Board is 40%.

Rule 2.11.6

“In addition to its activities under the law, once a year the supervisory board draws up an annual report and submit it to the ordinary general meeting for approval. The report referred to above shall include at least: information on the extent to which the diversity policy has been implemented with respect to the management board and the supervisory board, including the achievement of the objectives referred to in rule 2.1.”

Explanation:

The Company is currently working on a diversity policy document for the Management Board and the Supervisory Board. The Supervisory Board will prepare the first information on the degree of implementation of the diversity policy in the 2021 Supervisory Board Report.

Best practice – Systems and internal functions

Rule 3.3

“A company included in the WIG20, mWIG40 or sWIG80 index shall appoint an internal auditor heading the internal audit function, who shall act in accordance with internationally recognised standards of professional practice for internal auditing. In other companies where no internal auditor meeting the aforementioned requirements has been appointed, the audit committee (or the supervisory board if it performs the functions of an audit committee) shall annually assess whether there is a need to appoint such a person.”

Explanation:

Given the size of the Company and the structure and nature of its business, the appointment of an internal auditor is not justified by the assessments carried out by the Management Board and the Supervisory Board. Audit functions responsible for auditing the various divisions of the operating companies have been established in the Company's group entities.

Rule 3.10

“At least every five years, a company included in the WIG20, mWIG40 or sWIG80 index shall have its internal audit function reviewed by an independent auditor selected with the participation of the audit committee.”

Explanation:

Given the size of the Company and the structure and nature of its business, the Management Board, the Supervisory Board and the Audit Committee acting within it will consider the need for an independent audit in the future.

Best Practice – General Meeting and Relations with Shareholders

Rule 4.1

"The company should enable shareholders to participate in a general meeting using electronic means of communication (e-meeting) if this is justified by the expectations of shareholders communicated to the company, as long as it is able to provide the technical infrastructure necessary for holding such a general meeting."

Explanation:

Given the need for many technical and organisational steps and the associated costs and legal risks, the Company has not decided to hold an electronic general meeting at this time.

Rule 4.3

"The company shall provide a publicly available real-time broadcast of the general meeting."

Explanation:

Taking into account the costs and legal risks, the Company has not decided at this time to carry out a general broadcast of General Meetings. The Company will consider this possibility in the future.

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 29 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 2021 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 of 22.03.2022

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	59,36%
<i>Nemus Holding AB</i>	<i>40 381 449</i>	<i>58,28%</i>	<i>40 381 449</i>	<i>58,28%</i>
<i>other entity</i>	<i>600 000</i>	<i>0,87%</i>	<i>600 000</i>	<i>0,87%</i>
- 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%
Own shares	-	0,00%	-	0,00%
Total	69 287 783	100,00%	69 287 783	100,00%

Securities with special control rights

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

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

The Company's Articles of Association do not provide for any restrictions concerning transfer of title to the Issuer's securities. With the exception of restrictions on the transfer and acquisition of the Company's shares that arise under common law, there are no restrictions on the transfer of ownership of the Company's securities.

The Company's Articles of Association do not provide for any restrictions on the exercise of voting rights on Arctic Paper S.A. shares.

Description of the principles of amending the Issuer's Articles of Association

Changes 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.arcticpapergroup.pl/globalassets/arcticpapergroup.com/02-about/04-corporate-governance/corporate-documents/pl/arctic_paper_statut_tekst_jednolny_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 real properties ;
 - › disposal 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:

<https://www.arcticpapergroup.pl/globalassets/arcticpapergroup.com/02-about/04-corporate-governance/corporate-documents/pl/regulamin-zarzadu-ap-sa.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:

https://www.arcticpapergroup.pl/globalassets/arcticpapergroup.com/02-about/04-corporate-governance/corporate-documents/pl/1_11_2016_appendix-pl_ap-sa---regulamin-rady-nadzorczej_fin.pdf

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

- Per Lundein – 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;
- Zofia Dzik – Member of the Supervisory Board appointed on 22 June 2021 (independent member);
- Anna Jakubowski – Member of the Supervisory Board appointed on 22 June 2021 (independent member).

In 2021, the Supervisory Board held meetings on: 22 February, 15 April, 16 June, 5 August, 2 September, 5 November, 7 December and 20 December.

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 major 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 2021, the Audit Committee held 3 meetings on: 10 March and 12 August and 7 December.

As of 5 August 2021, the Audit Committee is composed of the following persons:

- Anna Jakubowski – Chairperson of the Audit Committee. Member meeting the criteria for independence. According to the declaration submitted by Ms Anna Jakubowski, she meets the condition of knowledge and skills in accounting or auditing. Ms Anna Jakubowski has several years of experience as a member of the Audit Committee of financial institutions, including Bank Millennium.
- Zofia Dzik – Member of the Audit Committee meeting the independence criteria. According to the declaration submitted by Ms Zofia Dzik, she meets the condition of knowledge and skills in accounting or auditing. Ms Zofia Dzik has several years of experience working for Arthur Andersen and Andersen Business Consulting, where she was responsible, among others, for the area of auditing financial statements and consulting in the area of finance.
- Roger Mattsson – Member of the Audit Committee – due to his long-standing experience as the financial controller of the Arctic Paper Group and his participation in the Audit Committee for more than three years, Mr Roger Mattsson fulfils the condition for the Audit Committee member to have knowledge and skills in the Company's business. Additionally, he has knowledge and skills in the sphere of accounting or auditing financial statements;

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 2019, the Supervisory Board of Arctic Paper S.A., by way of resolution, selected audit firm KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. to audit the Company's financial statements for the financial years 2020-2022.

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 changes 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.
- On 31 August 2020, the General Meeting of the Company, bearing in mind Art. 90d.1 in connection with Art. 90c.2.1 of the Act of 29 July 2005 on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies (i.e. Journal of Laws of 2019, item 623 as amended amended) adopted the "Remuneration Policy for Members of the Management Board and Members of the Supervisory Board of Arctic Paper SA". Under the above-mentioned Acts of public companies, including the Company, were obliged to adopt, by resolution, the Remuneration Policy of Management Board and Supervisory Board Members, which is the rules for determining the remuneration of Members of the Management Board and Supervisory Board, by the General Meeting of Shareholders, and to publish a remuneration report. The Company shall pay remuneration to the Members of the Management Board and the Supervisory Board solely in compliance with the adopted Policy. The policy prepared by the Company was drawn up in accordance with the principles set out in the above-mentioned Act and refers to the required elements related to remuneration and other terms of employment for Members of the Management Board and Members of the Supervisory Board. The policy received an opinion from the Remuneration Committee operating at the Supervisory Board, as well as by the Supervisory Board.
- on 22 June 2021, the General Meeting of the Company gave a positive opinion on the first remuneration report for 2019 and 2020 prepared by the Supervisory Board. The resolution of the General Meeting on the aforementioned issue is advisory in nature. The report was reviewed by the auditor. The independent auditor's report on the performance of a service providing

reasonable assurance regarding the assessment of the remuneration report was attached as Appendix 2 to current report No. 18/2021 – “Content of draft resolutions for the Annual General Meeting convened for 22 June 2021”.

The Remuneration Committee met on 10 February, 24 March, 15 April and 28 April 2021.

Since 9 February 2017 the Remuneration Committee has been operating in the following composition:

- Per Lundeen – Chairman of the Remuneration Committee
- Thomas Onstad – Member of the Remuneration Committee
- Roger Mattsson – Member of the Remuneration Committee

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;

Since 05 August 2021 the Risk Committee has been operating in the following composition:

- Per Lundeen – Chairman of the Risk Committee
- Zofia Dzik – Independent Member of the Risk Committee
- Roger Mattsson – Member of the Risk Committee

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 Company shall pay remuneration to the Members of the Management Board and the Supervisory Board solely in compliance with the Remuneration Policy adopted by the General Meeting.

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 2021 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 2021 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

	First and last name	Date	Signature
President of the Management Board Chief Executive Officer	Michał Jarczyński	22 March 2022	signed with a qualified electronic signature
Member of the Management Board Chief Financial Officer	Göran Eklund	22 March 2022	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 financial statements of Arctic Paper S.A. for the year ended on 31 December 2021 and the comparable data were prepared in compliance with the applicable accounting principles and they reflect Company's economic and financial condition and its financial result for 2021 in a true, reliable and clear manner.
- The Management Board's Report from operations of Arctic Paper S.A. in 2021 contains a true image of the development, achievements and condition of Arctic Paper S.A., including a description of core hazards and risks.

Signatures of the Members of the Management Board

	First and last name	Date	Signature
President of the Management Board Chief Executive Officer	Michał Jarczyński	22 March 2022	signed with a qualified electronic signature
Member of the Management Board Chief Financial Officer	Göran Eklund	22 March 2022	signed with a qualified electronic signature

FINANCIAL STATEMENTS
for the year ended 31 December 2021 together
with the auditor's report

Standalone financial statements

Standalone statement of profit and loss

	Note	Year ended on 31 December 2021	Year ended on 31 December 2020
Continuing operations			
Revenues from sales of services	24	22 402	20 495
Interest income on loans	24	2 710	3 687
Dividend income	24	38 724	15 287
Sales revenues	11	63 836	39 469
Interest expense to related entities and costs of sales of logistics services	12.5	(5 171)	(4 329)
Gross profit/(loss) on sales		58 664	35 139
Other operating income	12.1	488	783
Administrative expenses	12.5	(25 144)	(24 292)
Impairment allowances to assets	12.2	(996)	1 110
Other operating expenses		(92)	(94)
Operating profit/(loss)		32 920	12 646
Financial income	12.3	3 899	4 893
Financial expenses	12.4	(15 031)	(14 120)
Gross profit/(loss)		21 787	3 419
Income tax	13.1	-	(32)
Net profit/(loss) from continuing operations		21 787	3 387
Earnings/(loss) per share in PLN:			
– basic earnings from the profit/(loss) for the period	14	0,31	0,05
– diluted earnings from the profit/(loss) for the period	14	0,31	0,05

Standalone statement of total comprehensive income

	Note	Year ended on 31 December 2021	Year ended on 31 December 2020
Net profit (loss) for the reporting period		21 787	3 387
<i>Items which were reclassified to profit/loss in current reporting period:</i>			
Measurement of financial instruments		2 574	-
<i>Items to be reclassified to profit/loss in future reporting periods:</i>			
Measurement of financial instruments	27.2, 27.3	3 190	(591)
Deferred tax on measurement of financial instruments		(606)	-
FX differences on translation of foreign operations	19.2	306	(1 335)
Other total comprehensive income		5 464	(744)
Total comprehensive income		27 251	2 643

Standalone statement of financial position

	Note	As at 31 December 2021	As at 31 December 2020*
ASSETS			
Fixed assets			
Fixed assets		797	1 239
Intangible assets		1 319	1 440
Shares in subsidiaries	16.1	678 635	676 137
Other financial assets	16.3	5 701	22 982
		686 451	701 798
Current assets			
Trade and other receivables	17	31 868	28 973
Income tax receivables		35	335
Other financial assets	16.3	121 104	107 070
Other non-financial assets	16.4	2 874	3 793
Cash and cash equivalents	18	14 966	40 148
		170 848	180 319
TOTAL ASSETS		857 299	882 117
	Note	As at 31 December 2021	As at 31 December 2020
EQUITY AND LIABILITIES			
Equity			
Share capital	19.1	69 288	69 288
Reserve capital	19.3	427 502	427 502
Other reserves	19.4	124 500	136 741
FX differences on translation	19.2	756	450
Retained earnings / Accumulated losses		(44 986)	(63 386)
Total equity		577 059	570 595
Long-term liabilities			
Interest-bearing loans, borrowings and bonds	20	101 546	28 093
Provisions	21	3 117	2 837
Other financial liabilities	22.3	128	119
Deferred tax liability	13.3	606	-
		105 398	31 049
Short-term liabilities			
Interest-bearing loans, borrowings and bonds	20	145 648	252 112
Trade payables	22.1	27 307	22 071
Other financial liabilities	22.3	111	2 717
Other short-term liabilities	22.1	1 776	3 573
		174 841	280 473
Total liabilities		280 239	311 522
TOTAL EQUITY AND LIABILITIES		857 299	882 117

*transformed data for the previous financial year are described in note 7.4

Standalone statement of cash flow

		Year ended on 31 December 2021	Year ended on 31 December 2020
	<i>Note</i>		
Cash flows from operating activities			
Gross profit (loss)		21 787	3 419
Adjustments for:			
Depreciation/amortisation	12.6	389	1 021
Loss on exchange rate differences		7 749	4 256
Impairment of interests	12.2	-	(2 200)
Net interest and dividends		5 368	7 450
Profit / loss from investing activities		(264)	(5)
Increase / decrease in receivables and other non-financial assets		(1 902)	42 145
Increase / decrease in liabilities except for loans and borrowings and other financial liabilities		3 440	(16 874)
Change in accruals and prepayments		-	(3 847)
Change in provisions		280	686
Change to liabilities due to cash-pooling		(94 821)	32 546
Increase / decrease of loans granted to subsidiaries	16.3	42 464	29 367
Other		190	(15)
Net cash flows from operating activities		(15 320)	97 949
Cash flows from investing activities			
Increase of interests in subsidiaries		(2 498)	-
Net cash flows from investing activities		(2 498)	-
Cash flows from financing activities			
Repayment of leasing liabilities		(402)	(567)
Repayment of loan liabilities		(144 933)	(86 635)
Borrowings and bonds received	20	166 787	-
Interest paid		(5 445)	(2 539)
Dividend disbursed		(20 786)	-
Other financial expenses		(2 585)	-
Net cash flows from financing activities		(7 364)	(89 741)
Cash and cash equivalents at the beginning of the period	18	40 148	31 939
Change in cash and cash equivalents		(25 182)	8 208
Cash and cash equivalents at the end of the period	18	14 966	40 148

Standalone statement of changes in equity

	Note	Share capital	Reserve capital	Translation reserve	Other reserves	Retained earnings	Total equity
As at 1 January 2021		69 288	427 502	450	136 741	(63 386)	570 594
Net profit / (loss) for the period		-	-	-	-	21 787	21 787
Other comprehensive income for the period		-	-	306	5 158	-	5 464
Total comprehensive income for the period		-	-	306	5 158	21 787	27 251
Dividend distribution		-	-	-	(17 399)	(3 387)	(20 786)
As at 31 December 2021		69 288	427 502	756	124 500	(44 986)	577 059

	Note	Share capital	Reserve capital	Translation reserve	Other reserves	Retained earnings	Total equity
As at 1 January 2020		69 288	427 502	1 785	103 115	(33 611)	568 078
Net profit / (loss) for the period		-	-	-	-	3 387	3 387
Other comprehensive income for the period		-	-	(1 335)	591	-	(744)
Total comprehensive income for the period		-	-	(1 335)	591	3 387	2 643
Profit distribution	19.4	-	-	-	33 035	(33 035)	-
Settlement of the tax group in Sweden		-	-	-	-	(127)	(127)
As at 31 December 2020		69 288	427 502	450	136 741	(63 386)	570 594

Accounting principles (policies) and additional explanatory notes

1. General information

The financial statements of Arctic Paper S.A cover the year ended on 31 December 2021 and contain comparative data for the year ended on 31 December 2020.

Arctic Paper S.A. (hereinafter: ("Company", "Entity") is a joint stock company established with Notary deed on 30 April 2008 with its stock publicly listed. The Company's registered office is located in Kostrzyn nad Odrą, ul. Fabryczna 1. The Company also has a foreign branch in Göteborg, Sweden.

The Company is entered in the register of entrepreneurs of the National Court Register maintained by the District Court in Zielona Góra – 8th Commercial Division of the National Court Register, under KRS number 0000306944. The Company holds statistical number REGON 080262255. The duration of the Company is indefinite.

The main area of the Company's business activity is holding activity for the benefit of the Arctic Paper Capital Group.

Nemus Holding AB is the direct parent entity to the Company. The Ultimate Parent Unit, which prepares consolidated financial statement is Incarta Development S.A. The Ultimate Parent Entity is Thomas Onstad.

2. Identification of the consolidated financial statements

The Company prepared its consolidated financial statements for the year ended on 31 December 2021 which were approved for publishing on 22 March 2022.

3. Composition of the Company's Management Board

As at 31 December 2021, the Company's Management Board was composed of:

- Michał Jarczyński – President of the Management Board appointed on 10 December 2018, effective in 1 February 2019;
- Göran Eklund – Member of the Management Board appointed on 30 August 2017.

From 31 December 2021 until the publication date of the financial statements no other changes in the composition of the Management Board of the Company occurred.

4. Approval of the financial statements

These financial statements were approved for publication by the Management Board on 22 March 2022.

5. Investments by the Company

The Company holds interests in the following subsidiary companies:

Unit	Registered office	Group profile	Share	
			31.12.2021	31.12.2020
Arctic Paper Kostrzyn S.A.	Poland, Kostrzyn nad Odrą, Fabryczna 1	Paper production	100%	100%
Arctic Paper Munkedals AB	Sweden, SE 455 81 Munkedal	Paper production	100%	100%
Arctic Paper UK Limited	United Kingdom, 8 St Thomas Street SE1 9RR London	Trading company	100%	100%
Arctic Paper Baltic States SIA	Latvia, K. Valdemara iela 33-20, Riga LV-1010	Trading company	100%	100%
Arctic Paper Benelux S.A.	Belgium, Interleuvenlaan 62 bus 14, B-3001 Heverlee	Trading company	100%	100%
Arctic Paper Schweiz AG	Szwajcaria, Gutenbergstrasse 1, CH-4552 Dierendingen	Trading company	100%	100%
Arctic Paper Italia srl	Italy, Via Cavriana 7, 20 134 Milano	Trading company	100%	100%
Arctic Paper Danmark A/S	Denmark, Korskiidelund 6 DK-2670 Greve	Trading company	100%	100%
Arctic Paper France SAS	France, 43 rue de la Breche aux Loups, 75012 Paris	Trading company	100%	100%
Arctic Paper Espana SL	Spain, Avenida Diagonal 472-474, 9-1 Barcelona	Trading company	100%	100%
Arctic Paper Papierhandels GmbH	Austria, Hainburgerstrasse 34A, A-1030 Wien	Trading company	100%	100%
Arctic Paper Polska Sp. z o.o.	Poland, Okrężna 9, 02-916 Warsaw	Trading company	100%	100%
Arctic Paper Norge AS	Norway, Eikenga 11-15, NO-0579 Oslo	Trading company	100%	100%
Arctic Paper Sverige AB	Sweden, SE 455 81 Munkedal	Trading company	100%	100%
Arctic Power Sp. z o.o. (previous Arctic Paper East Sp. z o.o.)	Poland, Kostrzyn nad Odrą, Fabryczna 1	Energy production	100%	100%
Arctic Paper Investment GmbH	Germany, Fabrikstrasse 62, DE-882, 84 Wolpertswende	Activities of holding companies	99,80%	99,80%
Arctic Paper Investment AB	Sweden, Box 383, 401 26 Göteborg	Activities of holding companies	100%	100%
Arctic Paper Deutschland GmbH	Germany, Am Sandtorkai 72, D-20457 Hamburg	Trading company	100%	100%
Arctic Paper Finance AB (previous Arctic Energy Sverige AB)	Sweden, Box 383, 401 26 Göteborg	Activities of holding companies	100%	100%
Rottners AB	Szwecja, Box 144, Sunne	Pulp production	51,27%	51,27%

As at 31 December 2021 and as at 31 December 2020, the share in the overall number of votes held by the Company in its subsidiary entities was equal to the share of the Company in the share capital of those entities.

6. Material values based on professional judgement and estimates

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

6.1. Deferred income tax assets

Due to the uncertainty regarding utilisation in future periods of tax losses recorded in 2017-2021, the Management Board decided not to create a deferred income tax asset for tax losses. Furthermore, the Management Board performed professional judgement of possible to achieve taxable income, which would allow to deduct temporary differences. Considering estimated income to equal zero, the Company does not create a deferred income tax asset for tax losses.

As at 31 December 2021, an impairment test was held at Arctic Paper Grycksbo AB whose 100% are held by Arctic Paper Investment AB. The test was performed with the discounted cash flow method with reference to investments in both companies (note 16.2).

In connection with the test, the Company made a number of estimates, of which the forecast sales volume, sales prices, raw material purchase prices, energy prices, discount rate and growth rate in residual period had the greatest impact on the values recognised in these standalone financial statements. Some of the assumptions used to determine the value in use of the investments in Arctic Paper Grycksbo AB and Arctic Paper Investment AB are based on unobservable inputs and are therefore subject to estimation uncertainty.

7. Basis of preparation of the financial statements

These financial statements have been prepared on a historical cost basis (except financial instruments).

These standalone financial statements are presented in Polish zloty ("PLN") and all values are disclosed in PLN thousand unless specified otherwise.

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

As at the publication date hereof, no circumstances were identified that would pose a threat to the Company continuing as a going concern.

7.1. Compliance statement

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), endorsed by the European Union.

7.2. Covid-19

The Arctic Paper Group operates in the pulp and paper sector which, at the time of preparing these consolidated financial statements, has been affected by the COVID-19 outbreak through a marked reduction in demand for paper in H1 2021. As of 31 December 2021, the Group's current 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 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 implemented 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 pulp;
- 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.

In the opinion of the management of the Entity, the above circumstances justify the assumption that the Entity will have sufficient resources to continue its business activities for at least 12 months from the balance sheet date. The management of the Entity 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 Entity's ability to continue as a going concern.

7.3. Functional currency and presentation currency

The Polish zloty (PLN) is the functional currency and the presentation currency of the Company in these financial statements.

7.4. Changes in comparative data

As of 1 January 2021, the Company has separated new items in the statement of financial position: employee liabilities, in the non-current and current portion of liabilities, respectively. Employee liabilities comprise mainly provisions for severance payments, liabilities for salaries and related taxes and social security, and accruals for unused leave and bonuses.

As of 30 June 2021, the Group has separated new items in the statement of financial position: employee liabilities and grants and deferred income, in the non-current and current portions of liabilities, respectively. Employee liabilities comprise mainly provisions for severance payments, liabilities for salaries and related taxes and social security, and accruals for unused leave and bonuses. Grants and deferred income include grants for tangible and intangible fixed assets and other deferred income. Moreover by the end of 2020 uninvited trade liabilities were presented as Accrued expenses. Starting on the 1st January 2021 they are presented in the position of Trade liabilities.

The table below shows the impact of the change in presentation on selected items in the statement of financial position as at 31 December 2020

	Approved data	Change of presentation	Transformed data
Effect on statement of financial position as at 31 December 2020			
Long-term liabilities (selected items)			
Provisions	2 837	(2 837)	-
Long-term employee benefits	-	2 837	2 837
Short-term liabilities (selected items)			
Trade payables	18 443	3 628	22 071
Other short-term liabilities	1 685	1 887	3 573
Accruals and deferred income	5 515	(5 515)	-
Total impact on equity and liabilities	28 480	(0)	28 480

In addition, in order to standardise the presentation under non-current other financial and non-financial assets, the amount of PLN 2,283 thousand was transferred from other non-financial assets to other financial assets as at 31 December 2020.

8. Changes in the applied accounting principles

The accounting principles (policies) applied to prepare these financial statements are compliant with those applied to the financial statements of the Company for the year ended on 31 December 2020, with the exception of presentation changes listed in note 7.4 and listed below IFRS changes.

The amendments to IFRS listed below were applied to these financial statements when they became effective; however, they have no material impact on the presented and disclosed financial information and did not apply to any transactions concluded by the Company:

- Amendments to *IFRS 4 Insurance Contracts* (effective for annual periods beginning on or after 1 January 2021) – Amendments extend the period of temporary exemption from the application of *IFRS 9 Financial Instruments* by two years to annual periods beginning on 1 January 2023 in order to align with the first application of *IFRS 17 Insurance Contracts*, which replaces *IFRS 4 Insurance Contracts*.
- Amendments to *IFRS 16 Leases Covid-19 Rent Relief* (effective for annual periods beginning on or after 1 July 2020, early application possible) – The amendments allow lessees not to assess whether Covid-19 rent relief is a modification of leases. Therefore, under the appropriate conditions, lessees who apply a practical solution will recognize the rent reliefs received until 31 June 2021 in profit or loss for the period in which the relief was granted. In the absence of a practical solution, the relief would be recognised in profit and loss over the term of the lease contract.
- Amendments to *IFRS 9 Financial Instruments, IAS 39 Financial Instruments and IFRS 7 Financial Instruments*: Disclosure of IFRS 4 Insurance Contracts and IFRS 16 Leases: Reform of the interest rate benchmark – Stage 2 (effective for annual periods beginning on or after 1 January 2021) -The purpose of the amendments is to make it easier for entities to provide users of financial statements and to assist entities that prepare IFRS-compliant financial statements with useful information when the contractual cash flows or hedging relationships change due to a change in the reference rate ratio. The amendments provide for a practical solution for certain changes in contractual cash flows and an exemption for certain hedge accounting requirements.

The aforesaid amendments did not have any significant impact on the Entity's financial statements.

The Entity did not decide to adopt earlier any other standards, interpretations or amendments that were issued but are not yet effective for periods commencing on 01 January 2021.

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

Standards, Interpretations and amendments to the published Standards approved by the EU, which were adopted as at the date of publication of these consolidated financial statements, but are not yet effective for annual periods beginning on 1 January 2021:

- Amendments to *IFRS 3 Business Combinations, IAS 16 Tangible Fixed Assets, IAS 37 Provisions, Contingent Liabilities and Contingent Assets and Amendments to International Financial Reporting Standards 2018-2020* (All issued 14 May 2020); all effective for annual periods beginning on or after 1 January 2022, early application permitted).

The amendment package contains three amendments of narrow scope to the standards:

- updates the reference in *IFRS 3 Business Combinations to the Framework for the Preparation and Presentation of Financial Statements* without changing the accounting requirements for the recognition of business combinations,
- prohibits an entity from reducing the cost of an item of tangible fixed assets by the amount received from the sale of assets produced while the entity is preparing the item of tangible fixed assets for its intended use. Such income and related expenses will be recognised in profit or loss for the period,
- explains what costs an entity uses in assessing whether a particular contract will result in a loss.

The package also includes Amendments to International Financial Reporting Standards 2018-2020 which clarify the vocabulary used and correct minor inconsistencies, omissions or contradictions between the standards' requirements in IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and examples in IFRS 16 Leases;

- *IFRS 17 Insurance Contracts* (issued on 18 May 2017); including Amendments to IFRS 17 (issued on 25 June 2020); effective for annual periods beginning on or after 1 January 2023, prospective application, early application permitted;

IFRS 17, which replaces the transitional standard IFRS 4 Insurance Contracts which was introduced 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 IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021); Effective for annual periods beginning on or after 1 January 2023, with early application permitted.*

The key amendments to IAS 1 clarify the scope of disclosures related to accounting policies in an entity's financial statements. According to these amendments, an entity is required to disclose its material accounting policies rather than its significant accounting policies in the financial statements.

- *Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (issued on 12 February 2021)*

The amendments introduce a definition of an estimate and include other amendments to IAS 8 clarifying how to distinguish a change in accounting policy from a change in estimate. The above distinction is very important because changes in accounting policies are generally applied retrospectively while changes in estimates are recognised in the period in which the changes occur.

Standards and Interpretations pending EU endorsement on 22 March 2022:

- *Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current - Deferral of Effective Date (issued on 23 January 2020 and 15 July 2020 respectively); Effective for annual periods beginning on or after 1 January 2023, with early application permitted.*

The amendments clarify that the presentation of liabilities as current or non-current should be based only on the entity's right at the reporting date to defer settlement of the liability. Such right to defer the payment of a liability for minimum 12 months from the reporting date does not have to be unconditional but it has to be material. The above presentation is not affected by intentions or expectations of the Entity's management as to the exercising of the right or the date when this is to happen. The amendments further provide clarification as to the events that are treated as discharge of liabilities.

- *Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (issued on 7 May 2021); Effective for annual reporting periods beginning on or after 1 January 2023, with early application permitted.*

The amendments narrow the scope of the initial recognition exemption (IRE) such that it does not apply to transactions when both assets and liabilities are recognised that give rise to equal and offsetting temporary differences. As a result, an entity will need to recognize a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of a lease and a decommissioning provision.

- *Amendments to IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information (issued on 9 December 2021); Effective for annual reporting periods beginning on or after 1 January 2023.,*

The amendment adds a new transition option to IFRS 17 (the 'classification overlay') to alleviate operational complexities and one-time accounting mismatches in comparative information between insurance contract liabilities and related financial assets on the initial application of IFRS 17. It allows presentation of comparative information about financial assets to be presented in a manner that is more consistent with IFRS 9 Financial Instruments.

As at the date of approval of these financial statements for publication, the Management Board does not expect material impact of the introduction of other standards and interpretations on the accounting principles (policy) applied by the Company with respect to the Company's operations or its financial results.

10. Significant accounting principles (policies)

10.1. Foreign currency translation

The presentation currency of the Company is Polish zloty, however, for the foreign branch the functional currency is Swedish crown. As at the balance sheet date, assets and liabilities of the branch are translated into the presentation currency of the Company using the FX rate prevailing on that date and its income statement is translated using a weighted average FX rate for the reporting period.

The FX differences arising from the translation are recognised in other total comprehensive income and accumulated in a separate item of equity – FX differences on translation.

Transactions denominated in currencies other than Polish zloty are translated to Polish zloty at the FX rate prevailing on the transaction date.

As at the balance sheet date, assets and monetary liabilities expressed in currencies other than Polish zloty are translated into Polish zloty using the National Bank of Poland's mean FX rate prevailing for the given currency as at the end of the reporting period.

FX differences resulting from translation are recognised under financial income (expenses), or – in cases defined in the accounting policies – are capitalised in assets. Non-monetary foreign currency assets and liabilities recognised at historical cost in foreign currency are translated at the historical FX rates prevailing on the transaction date. Non-monetary foreign currency assets and liabilities recognised at fair value in foreign currency are translated using the FX rates prevailing as at the date of fair value measurement.

The following exchange rates were used for book valuation purposes:

	31 December 2021	31 December 2020
USD	4,0600	3,7584
EUR	4,5994	4,6148
SEK	0,4486	0,4598
DKK	0,6184	0,6202
NOK	0,4608	0,4400
GBP	5,4846	5,1327
CHF	4,4484	4,2641

	01/01 - 31/12/2021	01/01 - 31/12/2020
USD	3,8647	3,8978
EUR	4,5670	4,4449
SEK	0,4500	0,4240
DKK	0,6141	0,5963
NOK	0,4493	0,4145
GBP	5,3144	4,9974
CHF	4,2254	4,1534

For translation of assets and liabilities of the foreign branch as at 31 December 2021, the exchange rate SEK/PLN of 0.4486 was applied (31 December 2020: 0.4598). For translation of the items of comprehensive income for the year ended on 31 December

2021, the exchange rate SEK/PLN of 0.4500 was applied (for the year ended on 31 December 2020: 0.4240) which is an arithmetic mean of NBP's mean exchange rates published by NBP in 2021.

10.2. Impairment of non-financial fixed assets

An assessment is made at each reporting 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 Company makes an estimate of the recoverable amount of that 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 carrying amount 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 allowances of continuing operations are recognised in the expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment allowance may no longer exist or may have decreased. If such indications exist, the Company makes an estimate of recoverable amount of the asset. A previously recognised impairment allowance is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment allowance was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined (net of depreciation or amortisation), had no impairment allowance been recognised for the asset in prior years.

Reversal of impairment allowance to assets is recognised immediately as income. After a reversal of an impairment allowance is recognised, the depreciation (amortisation) charge for the asset is adjusted in future periods to allocate the asset's carrying amount, reduced by its residual value (if any), on a systematic basis over its remaining useful life.

10.3. Shares in subsidiaries, affiliated entities and in joint ventures

Shares in subsidiaries, affiliated entities and joint ventures are presented at historical cost basis, subject to impairment allowances.

10.4. Financial assets

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

- measured at amortised cost: To measure its financial assets measured at amortised cost, the Company 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 income: profit and loss on a financial asset being a capital instrument which is subject to a measurement option via other income, are recognised in other income with the exception of dividend received;
- measured at fair value through financial results: profit or loss resulting from measurement of financial assets, classified as measured at fair value through profit and loss, are recognised in profit and loss account in the period in which it was generated; those are primarily derivative instruments not designated for hedge accounting. Profit or loss resulting from measurement of items measured at fair value through profit and loss account covers also interest and dividend income.
- hedging financial instruments: Hedging financial instruments are measured in accordance with hedge accounting principles recognised under IFRS 9.

The Company classifies 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.

10.5. Impairment of financial assets

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

In line with IFRS 9, financial assets are measured at amortised cost or at fair value through other comprehensive income (except for investments in equity and contract assets). The impairment model is based on the calculation of expected losses. Loans and trade receivables are the most important financial asset in the Company's financial statements that are subject to the new principles of calculating anticipated credit losses.

In accordance with IFRS 9, the entity measures allowances for expected credit losses in the amount equal to the 12-month expected credit losses or expected credit losses in the life of the financial instrument. In the case of trade receivables, the Company applies a simplified approach and measures an allowance for expected credit losses at the amount equal to the expected credit losses over the whole life of the asset.

In the case of trade receivables, the Company classifies receivables into the following categories:

- group 1 – includes trade receivables for which a simplified approach has been applied to the valuation of expected credit losses over the lifetime of receivables, except for receivables included in group 2;
- group 2 – includes trade receivables identified individually as uncollectible.

The Company applies similar groups to other financial assets.

The Company applies a simplified model to recognise impairment allowances to trade receivables. In the simplified model, the Company 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 Company 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.

10.6. Financial derivatives and hedges

The derivatives used by the Company to hedge its exposure to interest rate movements are primarily interest rate swap contracts (interest rate swaps). 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 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.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship as well as the risk management objective and strategy for undertaking the hedge. 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.

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 carrying amount 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 carrying amount 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 Company 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 Company revokes the designation. Any adjustment to the carrying amount 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.

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.

Hedges of interests in net assets in a foreign entity

Hedges of interests in net assets in a foreign entity, including a hedge of a monetary item that is accounted for as part of the net assets, are accounted for similarly to cash flow hedges. The portion of the profit or loss on the hedging instrument that is determined to be an effective portion of the hedge is recognised in other comprehensive income and the ineffective portion is

recognised in profit or loss. On disposal of the foreign entity, the net cumulative profit or loss that was previously recognised in other comprehensive income is recognised in profit or loss as an adjustment resulting from reclassification.

10.7. Trade and other receivables

Trade and other receivables are stated and recognised at original invoiced amount subject to an allowance for doubtful receivables. The allowance for receivables is estimated according to principles presented in note 10.5. The allowance for doubtful receivables is estimated when collection of the full amount of the receivable 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.

Budgetary receivables are presented within trade and other receivables, except for corporate income tax receivables that constitute a separate item in the statement of financial condition.

10.8. Cash and cash equivalents

Cash and short-term deposits in the statement of financial condition 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.

10.9. 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 statement of financial condition or accounted for with the effective interest method.

10.10. Trade and other payables

In compliance with IFRS 9, the Company classifies financial liabilities to one of the following categories:

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

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.

As at 31 December 2021 and 31 December 2020, no financial liabilities were designated as measured at fair value through profit or loss.

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 from the statement of financial condition 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 Company as expiry of the original financial liability and recognition of a new financial liability. Similarly, major changes to contractual terms and conditions related to an existing financial liability is recognised by the Company as expiry of the original and recognition of a new financial liability. The differences in the corresponding carrying amounts resulting from such exchange are recognised in profit or loss.

Other short-term liabilities include in particular liabilities to tax authorities under personal income tax liability and liabilities to ZUS.

Other non-financial liabilities are recognised at the amount payable.

10.11. Offsetting financial assets and liabilities

Financial assets and liabilities are offset, and the net amount is shown in the statement of financial position only if the Company has a valid legal title to set off and intends to settle these amounts net or to realize the asset and settle the liability at the same time.

10.12. Provisions

Provisions are created when the Company 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 Company 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 pre-tax 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.

10.13. Revenues

The International Financial Reporting 15 Revenue from Contracts with Customers ("IFRS 15") establishes a Five-Step Model to recognise revenues resulting from contracts with customers:

- Requirements applicable to identifying contracts with customers: contracts with customers meet the definition when all of the following criteria have been satisfied: the parties to the contract have concluded the contract and are obliged to perform their obligations; the Company is able to identify the rights of each party concerning the goods to be provided; the Company is able to identify the payment terms for the goods to be provided; the contract has economic content and it is likely that the Company 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 Company 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 Company takes the contractual conditions into account as well as its customary commercial practices. The transactional price is the amount that – as the Company 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 Company has decided to apply the most probable value method.
- The allocation of the transactional price of each liability to perform: The Company 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 Company's expectations – it is due to the Company 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 Company 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.

Provision of services

Revenues are valued on the basis of the payment resulting from the contract concluded with the customer. The Company recognizes revenue when it transfers control over a good or service to the customer.

Revenue is recognised over time as services are provided. Since the Company is entitled to receive remuneration from customers in an amount that corresponds directly to the value to the customers of the service already rendered by the entity, the Company recognises revenue in the amount that it is entitled to invoice.

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 carrying amount of the financial asset.

Dividend

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

10.14. Taxes

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.

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 carrying amount disclosed in the financial statements.

Deferred tax provision is recognised for all positive temporary differences:

- except where the deferred income tax liability 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;
- 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;
- 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 statement of financial condition 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 carrying amount of the deferred tax asset is reviewed as at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax asset is reassessed as at each balance sheet date and is recognised to the extent that it has become probable that future taxable profit will be available that will allow the deferred tax asset to be recovered.

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

Income tax relating to items recognised outside profit or loss is recognised outside profit or loss: in other 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.

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 in the statement of financial condition as part of receivables or payables.

10.15. Net profit per share

Net profit per share is calculated by dividing the net profit for the period by the weighted average number of shares during the reporting period. Diluted profit per share is calculated by dividing the net profit for the period by the diluted weighted average number of shares during the reporting period.

11. Sales revenues

Arctic Paper S.A. is a holding company, providing services mostly to the Group companies.

The table below presents a geographical split of revenues from sales of services as well as dividend and interest income in 2021-2020.

	Year ended 31 December 2021	Year ended 31 December 2020
Revenues from sales of services		
- Poland	8 878	8 050
- Sweden	13 523	12 445
- other	-	-
	22 402	20 495
Other income (dividends and interest)		
- Poland	21 187	15 917
- Sweden	18 404	2 296
- other	1 843	761
	41 434	18 974
Total	63 836	39 468

The above information about revenues is based on data regarding registered offices of subsidiaries of Arctic Paper S.A.

Service revenues (management, logistics services) constitute revenues recognised on a time basis since the underlying services are those provided for a specified time agreed in contracts with customers. The Company usually applied a 14 or 21 day payment term, and does not receive payments before services are completed.

12. Other revenues and expenses

12.1. Other operating income

	Year ended on 31 December 2021	Year ended on 31 December 2020
Reversal of provision for pension benefits	-	147
Other	488	635
	488	782

12.2. Impairment allowances to assets

	Year ended on 31 December 2021	Year ended on 31 December 2020
Impairment allowance to assets (Arctic Paper Mochenwangen GmbH)	(996)	(1 090)
Impairment allowance to assets reversal (Arctic Paper Investment AB)	-	2 200
	(996)	1 110

12.3. Financial income

	Year ended on 31 December 2021	Year ended on 31 December 2020
Interest income on funds in bank accounts	191	431
FX gains	-	612
Financial services	3 708	3 890
Other financial income	-	(38)
	3 899	4 893

12.4. Financial expenses

	Year ended on 31 December 2021	Year ended on 31 December 2020
Interest on loans and other liabilities from related entities	9 133	11 137
FX losses	1 459	-
Warranty costs	2 585	2 489
Other financial expenses	1 854	494
	15 031	14 120

12.5. Prime costs

	Year ended on 31 December 2021	Year ended on 31 December 2020
Depreciation/amortisation	389	1 021
Materials	113	75
Third party services	20 797	17 114
Taxes and charges	70	134
Wages and salaries	6 795	8 119
Employee benefits	1 043	128
Other prime costs	1 098	1 178
	30 304	27 769
Interest and other not recognised in costs by type	11	853
	30 316	28 621
Prime costs, of which:		
Items recognised as administrative expenses	25 144	24 292
Items recognised as internal costs of sales	5 171	4 330

12.6. Depreciation/amortisation

	Year ended on 31 December 2021	Year ended on 31 December 2020
Depreciation of tangible fixed assets	267	724
Amortisation of intangible assets	122	297
	389	1 021

12.7. Employee benefit costs

	Year ended on 31 December 2021	Year ended on 31 December 2020
Wages and salaries	6 795	6 660
Social insurance premiums	1 043	1 253
Costs of retirement benefits	-	334
	7 838	8 247

13. Income tax

13.1. Tax liability

The major components of income tax liabilities for the year ended on 31 December 2021 and on 31 December 2020 are as follows:

	Year ended on 31 December 2021	Year ended on 31 December 2020
Current income tax liability	-	(32)
Amount of deferred income tax charge	-	-
Tax charge disclosed in the profit and loss account	-	(32)

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 Company's effective income tax rate for the year ended on 31 December 2021 and 31 December 2020 is as follows:

	Year ended on 31 December 2021	Year ended on 31 December 2020
Gross profit (loss) before tax	21 787	3 419
Tax at the statutory rate in Poland of 19%	4 140	650
Non-activated loss of the current year	1 844	1 456
Dividend income	(7 358)	(3 208)
Costs that are permanently non-tax deductible	1 428	1 560
Use of non-activated tax losses	-	(4)
Unrecognised other temporary income/expenses	(54)	-
Difference resulting from income tax rates in force in other countries	-	(421)
Income tax at the effective tax rate: the company does not pay income tax (2020: the company did not pay income tax)	-	-
Income tax (charge) recognised in profit or loss	-	32

13.3. Deferred income tax

Deferred income tax relates to the following items:

	<i>Balance sheet</i>		<i>Profit and loss</i>	
	<i>31 December 2021</i>	<i>31 December 2020</i>	<i>Year ended on 31 December 2021</i>	<i>Year ended on 31 December 2020</i>
Deferred income tax liability				
Accrued interest income	776	868	(92)	304
FX gains	-	2 983	(2 983)	1 640
Gross deferred income tax provision	776	3 851		
Deferred income tax assets				
Non-invoiced liabilities	1 016	1 031	15	83
Interest accrued on loans received and bonds	-	-	-	62
FX losses	256	3 384	3 128	(1 357)
Other	134	(24)	(158)	2
Gross deferred income tax assets	1 407	4 391		
Deferred income tax charge	-	-	(91)	733
Deferred income tax assets, not recognised in the balance sheet	631	540	91	(733)
Net deferred income tax provision,	31 December 2021	31 December 2020	<i>Year ended on 31 December 2021</i>	<i>Year ended on 31 December 2020</i>
of which:				
Measurement of financial instruments	606	-	606	-

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.

Deferred income tax asset has not been recognised for the following titles, as it is unlikely that taxable profit will be achieved that will allow the related tax benefits to be used.

	2021	2021	2020	2020
	Gross value	Tax effect	Gross value	Tax effect
FX losses	624	119	2 843	540
Impairment allowances API GmbH, APMW GmbH and API AB	996	189	1 089	207
Tax losses	47 060	8 941	51 258	9 739
	47 016	8 933	55 190	10 486

Tax losses for which deferred income tax have not been recognised expire in the years 2022-2026.

In 2022 the Company established tax capital group with Arctic Paper Kostrzyn SA, therefore losses incurred by the Company will not be realised.

14. Earnings (loss) per share

Earnings per share is established by dividing the net profit for the reporting period attributable to the Company's ordinary shareholders by weighted average number of issued ordinary shares existing in the reporting period.

There are no instruments for profit dilution of the Company. All shares are ordinary shares. Shares are not privileged. All ordinary shares belong to the same class.

The information regarding profit and the number of shares which was the base for calculation of earnings per share and diluted earnings per share is presented below:

	Year ended on 31 December 2021	Year ended on 31 December 2020
Net profit/(loss) for the reporting period	21 787	3 387
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
Weighted average diluted number of shares	69 287 783	69 287 783
Profit per share (in PLN)	0,31	0,05
Diluted profit per share (in PLN)	0,31	0,05

15. Dividend paid and proposed

Dividend is paid based on the net profit disclosed in the annual standalone financial statements of Arctic Paper S.A.

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.

As at the date of this report, the Company did not hold any preference shares in respect of dividends.

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 2021.

In connection with the term and revolving loan agreements signed on 2 April 2021, the Company's ability to pay dividends is subject to the Group meeting certain financial ratios in the period prior to payment (as that term is defined in the term and revolving credit facility agreement) and there being no event of default (as that term is defined in the term and revolving loan agreement).

On 22 June 2021, the General Meeting of the Company, having considered the Management Board's proposal on dividend payment, resolved to allocate the Company's net profit for the financial year 2020 and a part of net profits from previous years accumulated on the Company's reserve capital, in the total amount of PLN 20,786,334.90 (in words: twenty million seven hundred and eighty-six thousand three hundred and thirty-four zlotys 90/100) for dividend payment to the Company's shareholders. The dividend per share amounted to PLN 0.30 gross (in words: thirty groszy). Pursuant to the resolution of the AGM, on 14 July 2021, the Company paid a dividend as recommended by the Management Board and the Supervisory Board.

On 17 February 2022, Taking into account the preliminary financial results of the Company and the Arctic Paper S.A. Group of 2021, the Management Board of the Company decided to recommend to the Annual General Meeting of the Company the payment of dividend from the Company's net profit of 2021 in the amount of 27.715.113,20 (21.787) PLN 0.40 gross per share.

16. Other assets

16.1. Shares in subsidiaries

	As at 31 December 2021	As at 31 December 2020
Arctic Paper Kostrzyn S.A.	442 535	442 535
Arctic Paper Munkedals AB	88 175	88 175
Rottners AB	101 616	101 616
Arctic Paper Investment AB, of which:	26 779	26 779
<i>Arctic Paper Investment AB (shares)</i>	<i>307 858</i>	<i>307 858</i>
<i>Arctic Paper Investment AB (loans)</i>	<i>82 709</i>	<i>82 709</i>
<i>Arctic Paper Investment AB (impairment charge)</i>	<i>(363 788)</i>	<i>(363 788)</i>
Arctic Paper Investment GmbH	0	0
<i>Arctic Paper Investment GmbH (shares)</i>	<i>120 031</i>	<i>120 031</i>
<i>Arctic Paper Investment GmbH (impairment charge)</i>	<i>(120 031)</i>	<i>(120 031)</i>
Arctic Paper Sverige AB	2 936	2 936
<i>Arctic Paper Sverige AB (shares)</i>	<i>11 721</i>	<i>11 721</i>
<i>Arctic Paper Sverige AB (impairment charge)</i>	<i>(8 785)</i>	<i>(8 785)</i>
Arctic Paper Danmark A/S	5 539	5 539
Arctic Paper Deutschland GmbH	4 977	4 977
Arctic Paper Norge AS	516	516
<i>Arctic Norge AS (shares)</i>	<i>3 194</i>	<i>3 194</i>
<i>Arctic Paper Norge AS (impairment charge)</i>	<i>(2 678)</i>	<i>(2 678)</i>
Arctic Paper Italy srl	738	738
Arctic Paper UK Ltd.	522	522
Arctic Paper Polska Sp. z o.o.	406	406
Arctic Paper Benelux S.A.	387	387
Arctic Paper France SAS	326	326
Arctic Paper Espana SL	196	196
Arctic Paper Papierhandels GmbH	194	194
Arctic Paper Power Sp. z o.o. (formerly Arctic Paper East Sp. z o.o.)	2 602	102
Arctic Paper Baltic States SIA	64	64
Arctic Paper Schweiz AG	61	61
Arctic Paper Finance AB	68	68
Total	678 635	676 137

The value of investments in subsidiary companies was disclosed on the basis of historic costs. In 2021, shares in Arctic Power Sp. z o.o. were acquired. (former Arctic Paper East Sp. z o.o.) in the amount of PLN 2,500 thousand.

16.2. Impairment test of investments in subsidiaries

As at 31 December 2021, 31 December 2020 and in previous periods, analyses were carried out in terms of premises for impairment of investments in individual subsidiaries.

As a result of the analysis, it was decided to perform a full impairment test of the investment in the subsidiary Arctic Paper Grycksbo AB (directly and exclusively controlled by Arctic Paper Investment AB, in which the Parent Company holds 100% shares). The need for impairment test of the investment in Arctic Paper Grycksbo was determined by factors indicating the possibility of reversal of impairment allowance to assets: expected good results of the mill and advantageous market conditions.

As a result of the impairment test carried out as at 31 December 2021 there were no changes in the impairment value of Arctic Paper Grycksbo AB shares. The total impairment allowance of the investment as at 31 December 2021 amounts PLN 363,788 thousand (31 December 2020: PLN 365,988 thousand).

16.3. Other financial assets

	Maturity date	As at 31 December 2021	As at 31 December 2020
Short-term			
Loans granted to Arctic Paper Kostrzyn S.A. (short-term portion)	2021	-	4 813
- amount: PLN 4,800 thousand			
Loan granted to Arctic Paper Kostrzyn S.A. (Capex B, short-term part)	2021	-	15 706
- amount: EUR 3,333 thousand			
Loans granted to Arctic Paper Grycksbo AB (short-term part)	2021	5 167	8 137
- amount: EUR 2,014 thousand			
Loans granted to Paper Grycksbo AB	2022 *	38 906	39 035
- amount: EUR 8,400 thousand			
Loans granted to Arctic Paper Benelux	2022 *	-	277
- amount: EUR 100 thousand			
Cashpooling Arctic Paper Grycksbo AB		77 032	39 102
Loans granted to Arctic Paper Mochenwangen GmbH		27 099	26 103
- amount: EUR 5,743 thousand			
Loan granted to Arctic Paper Investment GmbH		30 269	30 269
- amount: EUR 6,992 thousand			
Impairment allowances to assets		(57 368)	(56 372)
- applies to Arctic Paper Investment GmbH and Arctic Paper Mochenwangen GmbH			
		121 104	107 070

*possibility to repay upon request within 14 days

	Maturity date	As at 31 December 2021	As at 31 December 2020
Long-term			
Loan granted to Arctic Paper Investment GmbH		4 286	4 286
- amount: EUR 990 thousand			
Loan granted to Arctic Paper Kostrzyn S.A. (Capex B)	2022	-	15 383
- amount: EUR 6,667 thousand			
Loans granted to Paper Grycksbo AB	2022	-	5 132
- amount: EUR 2,848 thousand			
Loans granted to Arctic Paper Benelux		2022	185
- amount: EUR 100 thousand			

Impairment allowances to assets		
- applies to Arctic Paper Investment GmbH	(4 286)	(4 286)
Measurement of financial instruments	3 192	-
Employee fund	2 509	2 283
	5 701	22 982
Total other financial assets	126 805	130 052

16.4. Other non-financial assets

	As at 31 December 2021	As at 31 December 2020
Insurance	99	3
VAT refundable	580	1 671
Accounting for costs related to new financing	1 716	1 824
Other	479	295
Total	2 874	3 793
- long-term	-	-
- short-term	2 874	3 793
	2 874	3 793

17. Trade and other receivables

	Note	As at 31 December 2021	As at 31 December 2020
Trade receivables from related entities	25	54 200	51 008
Trade receivables from other entities		200	497
Total (gross) receivables	54 399	51 505	
Impairment charges to receivables		(22 531)	(22 531)
Net receivables	31 868	28 973	

The Company has no receivables payable after 12 months.

As at 31 December 2021, the cumulated amount of allowances to short-term receivables from AP Investment GmbH amounted to PLN 11,415 thousand and receivables from AP Mochenwangen GmbH: PLN 11,116 thousand.

Terms and conditions of transactions with related entities are presented in note 24.

Ageing of trade receivables as at 31 December 2021

	current	1 - 30	31 - 90	91 - 180	181 - 365	over 365
Trade receivables from related entities	31 669	28 488	0	0	0	0
Trade receivables from other entities	200	41	51	0	15	5
Net receivables	31 868	28 529	51	0	15	5
						3 269

18. Cash and cash equivalents

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

Short-term deposits are made for varying periods of between one day to one month depending on the immediate cash requirements of the Company and earn interest at the respective short-term deposit rates.

As at 31 December 2021, the fair value of cash and cash equivalents was PLN 14,966 thousand (31 December 2020: PLN 40,148 thousand).

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

	As at 31 December 2021	As at 31 December 2020
Cash in bank and on hand	14 966	40 148
	14 966	40 148

19. Share capital and reserve capital/other reserves

19.1. Share capital

	As at 31 December 2021	As at 31 December 2020
<i>Share capital</i>		
Ordinary series A shares	50 000	50 000
Ordinary series B shares	44 253 500	44 253 500
Ordinary series C shares	8 100 000	8 100 000
Ordinary series E shares	3 000 000	3 000 000
Ordinary series F shares	13 884 283	13 884 283
Total number of shares	69 287 783	69 287 783
Total share capital (in PLN)	69 287 783	69 287 783

Nominal value of shares

All outstanding shares currently have a nominal value of PLN 1 and have been fully paid.

Purchase of treasury shares

Until the day of these financial statements, the Management Board of Arctic Paper S.A. has not purchased any treasury shares of the Company.

Major shareholders

	As at 31 December 2021		As at 31 December 2020	
	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%

19.2. FX differences on translation of investments in foreign entities

Swedish krona is the functional currency of the Company's foreign branch.

As at the balance sheet date, the assets and liabilities of the branch are translated into the presentation currency of the Group and its profit and loss account is translated using the average weighted exchange rate for the relevant reporting period. The FX differences on translation are recognised in other comprehensive income and cumulated in a separate equity item.

On 31 December 2021, FX differences on translation of the foreign branch recognised in equity amounted to PLN 756 thousand (as at 31 December 2020: PLN 450 thousand). The FX differences on translation of the foreign branch, recognised in the total comprehensive income statement, amounted to PLN 306 thousand in 2021 and PLN -1.335 thousand in 2020.

19.3. Reserve capital

The reserve capital was originally established from the issue premium in 2009 of PLN 35,985 thousand which was reduced by the costs of the issue recognised as a decrease of the reserve capital and was modified over the successive years as a result of subsequent share issues and allocations from profit.

As at 31 December 2021, the total value of the Company's capital reserve amounts to PLN 427,502 thousand. (31 December 2020: PLN 427,502 thousand).

19.4. Other reserves

As at 31 December 2021, the total value of the Company's other reserves was PLN 125,106 thousand (31 December 2020: PLN 136,741 thousand).

19.5. Retained earnings (losses) and restrictions to dividend distribution

In accordance with the provisions of the Code of Commercial Companies, the Company is obliged to establish reserve capital to cover potential losses. At least 8% of the profit for the financial year disclosed in the financial statements of the Company should be transferred to the category of the capital until the capital has reached the amount of at least one third of the share capital. Appropriation of the reserve capital and other reserves depends on the decision of the General Meeting; however, the reserve capital equivalent to one third of the share capital may be used solely for the absorption of losses disclosed in the financial statements and may not be used for any other purposes.

Dividend payment restrictions were described in note 15.

As at 31 December 2021, there were no other restrictions concerning dividend distribution.

20. Interest-bearing loans and borrowings

	<i>Repayment date</i>	<i>Interest rate</i> * %	As at 31 December 2021	As at 31 December 2020
Short-term				
Long-term loan from the European Bank of Reconstruction and Development – agreement of 9 September 2016	2021-2022	2,65%	-	9 547
Long-term loan from Santander Bank Polska S.A. – agreement of 9 September 2016	2021	2,55%	-	2 293
Long-term loan from Bank BNP Paribas S.A. – agreement of 9 September 2016; short-term portion	2021	2,65%	-	2 389
Long-term loan CAPEX A from the European Bank of Reconstruction and Development – agreement of 9 September 2016; short-term portion	2021-2022	2,80%	-	8 383
Long-term loan CAPEX B from the European Bank of Reconstruction and Development – agreement of 9 September 2016; short-term portion	2021-2022	3,00%	-	15 826
Loan from a bank consortium: Santander and BNP PLN; short-term portion	2021	2,55%	-	2 876
Bond issue – agreement of 9 September 2016; short-term portion	2021	3,05%	-	58 194
Long-term loan syndicate of banks (Santander, Pekao, BNP) PLN short-term part	2026	* 2,01%	16 064	
Long-term loan syndicate of banks (Santander, Pekao, BNP) EUR short-term part	2026	* 1,25%	15 556	-
Revolving loan syndicate of banks (Santander, Pekao, BNP) PLN	2024	** 2,01%	11 793	-
Revolving loan syndicate of banks (Santander, Pekao, BNP) EUR	2024	** 1,25%	6 520	
Cashpooling Arctic Paper Kostrzyn S.A.			53 704	122 892
Cashpooling Arctic Paper Munkedals AB			42 010	29 713
			145 648	252 112
	<i>Repayment date</i>	<i>Interest rate</i> * %	As at 31 December 2021	As at 31 December 2020
Long-term				
Long-term loan from the European Bank of Reconstruction and Development – agreement of 9 September 2016; long-term portion	2021-2022	2,65%	-	8 815
Long-term loan CAPEX A from the European Bank of Reconstruction and Development – agreement of 9 September 2016; long-term portion	2021-2022	2,80%	-	4 928
Long-term loan CAPEX B from the European Bank of Reconstruction and Development – agreement of 9 September 2016; long-term portion	2021-2022	3,00%	-	14 350
Long-term loan syndicate of banks (Santander, Pekao, BNP) PLN long-term part	2026	* 2,01%	50 968	-
Long-term loan syndicate of banks (Santander, Pekao, BNP) EUR long-term part	2026	* 1,25%	50 579	-
			101 546	28 093

* The interest rate depends on the reference rates (WIBOR 3M, EURIBOR 3M) and on compliance with certain financial ratios

**The interest rate depends on the reference rates (WIBOR 1M, EURIBOR 1M) and on compliance with certain financial ratios

20.1. Collateral to loans

In connection with the term and revolving loan agreements signed on 2 April 2021, on 11 May 2021 the Company signed agreements and declarations pursuant to which, in favour of Bank Santander Bank Polska S.A., acting as Security Agent, collateral was established for the above receivables and other claims, i.e.

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 real properties located in Poland and belonging to 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;

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

- › pledges on all shares held by the Companies and the Guarantors, registered in Sweden, belonging to group companies, except for the Company's shares
- › mortgages on all real 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.

21. Long term employee liabilities

As at 31 December 2020 provisions created by the Company amounted to PLN 3,117 thousand (in 2019 – PLN 2,837 thousand). The amount fully includes a provision for retirement employee benefits.

22. Trade payables, other liabilities and accruals and differed income and other financial liabilities

22.1. Trade and other payables (short-term)

	Note	As at 31 December 2021	As at 31 December 2021
<hr/>			
Trade payables			
Due to related entities	25	4 251	6 515
Due to other entities		23 055	15 557
		27 307	22 071
<hr/>			
Other liabilities			
Liabilities due to employees		194	672
Liabilities towards the budget		441	941
Bonus for employees		425	1 638
Advisory services		259	153
Other liabilities		457	166
		1 776	3 573

The terms and conditions of financial liabilities presented above:

Terms and conditions of transactions with related entities are presented in note 25.

Other liabilities are interest free and the usual payment term is 30 days.

There are no receivables payable after 12 months.

22.2. Other financial liabilities

		As at 31 December 2021	As at 31 December 2020
<hr/>			
Other financial liabilities			
Measurement of financial instruments		-	2 195
Lease liabilities		239	641
		239	2 836
<hr/>			
Other financial liabilities			
Long-term		128	119
Short-term		111	2 717
		239	2 836

23. Contingent liabilities

As at 31 December 2021, the Company had no contingent liabilities.

23.1. Tax settlements

Tax settlements and other areas of activity subject to specific regulations (like customs or FX matters) may be inspected by administrative bodies that are entitled to impose high penalties and sanctions.

No reference to stable legal regulations in Poland results in lack of clarity and consistency in the regulations. Frequent differences of opinion as to legal interpretation of tax regulations – both inside state authorities and between state authorities and enterprises – generate areas of uncertainty and conflicts. As a result, tax risks in Poland are much higher than in countries with a more developed tax system.

Tax settlements may be subject to inspections for five years from the end of the year in which the tax was paid. Consequently, the Company may be subject to additional tax liabilities, which may arise as a result of additional tax audits.

In the opinion of the Management Board, such risk does not exist as at 31 December 2021 and therefore the Company has not established any provision for recognised and quantifiable tax risk.

23.2. Uncertainties related to tax settlements

Regulations related to VAT, corporate income tax and charges related to social insurance are subject to frequent changes. Those frequent changes 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.

The Company recognises and measures 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 Company recognises those settlements subject to uncertainty assessment.

24. Information on related entities

Related party		Sales to related entities	Purchases from related entities	Interest – operational income	Dividends received	Interest – financial expense	Guarantees received - other financial expenses	Receivables from related entities	including overdue	Loan receivables	Liabilities to related entities	including overdue, after the payment date	Loan liabilities
Parent entity													
Nemus Holding AB	2021	1	801	-	-	-	-	3 194	-	-	347	-	-
	2020	1	1 345	-	-	-	-	3 274	-	-	-	-	-
<u>Subsidiaries:</u>	2021	22 402	15 287	2 710	38 724	11	2 585	51 005	22 531	261 181	3 904	-	95 715
	2020	25 383	14 695	5 582	15 287	853	2 489	51 006	22 531	271 137	6 469	-	152 651
Razem	2021	22 403	16 088	2 710	38 724	11	2 585	54 200	22 531	261 181	4 251	-	95 715
	impairment charges	-	-	-	-	-	-	(22 531)	-	(57 368)	-	-	-
	presentation as interests in subsidiary entities	-	-	-	-	-	-	-	-	(82 709)	-	-	-
2021 following impairment charges and changes to presentation		22 403	16 088	2 710	38 724	11	2 585	31 669	22 531	121 104	4 251	-	95 715
	2020	25 384	14 695	5 582	15 287	853	2 489	51 006	22 531	271 137	6 469	-	152 651
	impairment charges	-	-	(1 896)	-	-	-	(22 531)	-	(60 658)	-	-	-
	presentation as interests in subsidiary entities	-	-	-	-	-	-	-	-	(82 709)	-	-	-
2020 following impairment charges and changes to presentation		25 384	14 695	3 687	15 287	853	2 489	28 475	22 531	127 769	6 469	-	152 651

24.1. Transactions with parent entities

Transactions between the Company and Nemus Holding AB took place during the year ended on 31 December 2021 and 31 December 2020. They were disclosed in note 25.

24.2. Terms and conditions of transactions with related entities

Related entity transactions are made at arm's length.

24.3. Loan granted to members of the Management Board

In the period covered by these financial statements, the Company did not grant any loans to key management and did not grant any loans in the comparable period.

24.4. Remuneration of the Company's managerial staff

Key management staff of the Company as at 31 December 2021 comprised two persons: President of the Management Board and a Member of the Management Board.

The table below presents the total value of remuneration to the members of the Management Board and the members of the Supervisory Board for the current and previous year:

	As at 31 December 2021	As at 31 December 2020
Management Board		
Short-term employee benefits	2 613	2 081
Post-employment payments	353	334
	2 966	2 415
Supervisory Board		
Short-term employee benefits	1 034	998
Total	3 647	3 079

Short-term employee benefits includes costs 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 amount of 1.484 tys PLN

25. Information on the remuneration of the statutory auditor or entity authorised to audit financial statements

The table below shows the remuneration of the entity authorised to audit financial statements paid or due for the year ended 31 December 2021 and 31 December 2020, broken down by type of service:

Service type	As at 31 December 2021	As at 31 December 2020
Statutory audit of the annual financial statements	195	195
Review of interim financial statements	83	83
Mandatory audit of the annual financial statements (branch)	-	13
Other services	-	35
Total	278	326

26. Financial risk management objectives and policies

The core financial instruments used by the Company include bank loans, cash on hand and loans granted and borrowings received within the Group. The main purpose of these financial instruments is to raise finance for the Company's and Group's operations. The Company has various other financial instruments such as trade payables which arise directly from its operations.

The principle used by the Company currently and throughout the whole period covered with these financial statements is not to trade in financial instruments.

The core risks arising from the Company's financial instruments include: interest rate risk, liquidity risk, FX risk and credit risk.

The Management Board verifies and approves the management principles of each type of risk – the principles are concisely presented herebelow. The Company has also been monitoring the risk of market prices of holdings of financial instruments.

26.1. Interest rate risk

The Company's exposure to the risk of changes in market interest rates relates primarily to financial liabilities and granted variable interest loans.

Interest rate risk – sensitivity to fluctuations

The following table shows financial instruments broken down into fixed and floating rates

Financial instruments:	31.12.2021 carrying amount	31.12.2020 carrying amount
- with a fixed interest rate		
Trade receivables	31 868	28 973
Loans granted	46 582	90 950
Financial liabilities	3 192	-
Cash and cash equivalents	14 966	40 148
Trade liabilities	(27 307)	(18 397)
	69 301	141 674
SWAP effect	(151 479)	(69 406)
	(82 178)	72 268
- with a variable interest rate		
Loans granted – cashpooling	77 032	39 102
Loans received – cashpooling	(95 715)	(152 605)
Interest-bearing loans, borrowings and debt securities (excluding cash pooling)	(151 479)	(127 600)
Lease liabilities	(128)	(641)
	(170 290)	(241 744)
SWAP effect	151 479	69 406
	(18 811)	(172 338)

The following table shows the sensitivity of gross profit/(loss) to reasonably possible changes in interest rates assuming other factors remain constant. No impact on equity or total comprehensive income has been presented.

	Gross financial effect 2021		Gross financial effect 2020	
	+ 1 p.p.	-1 p.p.	+ 1 p.p.	-1 p.p.
Variable interest rate financial instruments	(1 703)	1 703	(2 417)	2 417
SWAP effect	1 515	(1 515)	694	(694)
	(188)	188	(1 723)	1 723

26.2. FX risk

The Company is exposed to transactional FX risk. The risk mainly arises as a result of receiving by the Company dividend from its subsidiaries and granted and received FX loans – and to a lesser extent – as a result of purchase transactions made in currencies other than its functional currency.

The following table demonstrates the sensitivity of gross profit/(loss) (due to changes in the fair value of monetary assets and liabilities) and the Company's equity to reasonably possible change of FX rates with all other variables held constant.

31.12.2021

	PLN	EUR	SEK	Inne
Trade receivables	17 076	4 868	8 670	1 254
Loans granted	44 745	76 359	-	-
Cash and cash equivalents	745	10 326	3 164	731
Employee fund	-	-	2 509	-
Interest-bearing loans	73 552	77 927	-	-
Trade and other payables	12 082	4 431	10 060	734
Net exposure	(23 067)	9 195	4 283	1 251

31.12.2020

	PLN	EUR	SEK	Inne
Trade receivables	12 902	5 759	9 419	893
Loans granted	4 813	122 956	-	-
Cash and cash equivalents	20 582	15 949	3 040	577
Interest-bearing loans	63 363	64 237	-	-
Trade and other payables	13 831	4 005	3 747	488
Borrowings received	53 180	99 426	-	-
Net exposure	(92 077)	(23 003)	8 712	982

	<i>Growth/drop of FX rates</i>	<i>Impact on gross profit or loss</i>	<i>Impact on total comprehensive income</i>
31 December 2021 – SEK	+1%	18	-
	-1%	(18)	-
31 December 2021 – EUR	+1%	92	-
	-1%	(92)	-
31 December 2021 – other	+1%	13	-
	-1%	(13)	-
	<i>Growth/drop of FX rates</i>	<i>Impact on gross profit or loss</i>	<i>Impact on total comprehensive income</i>
31 December 2020 – SEK	+1%	87	-
	-1%	(87)	-
31 December 2020 – EUR	+1%	(230)	-
	-1%	230	-
31 December 2020 - other	+1%	10	-
	-1%	(10)	-

26.3. Credit risk

With respect to the Company's other financial assets such as cash and cash equivalents, the Company's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of those instruments.

	2021-12-31	2020-12-31
Other financial assets	126 805	130 052
Trade receivables	31 868	28 973
Cash and cash equivalents	14 966	40 148
Total	173 640	199 173

There are no significant concentrations of credit risk within the Company, except for the Group entities.

The table below presents information on credit risk exposure for trade receivables and other financial assets (loans and cash pooling) as at 31 December 2021 and 31 December 2020:

	2021-12-31		2020-12-31	
	Group 1	Group 2	Group 1	Group 2
Trade receivables – gross value	47 019	22 531	28 973	22 531
Impairment allowances	-	22 531	-	22 531
Trade receivables – carrying amount	47 019	-	28 973	-
Other financial assets – gross value	126 805	57 368	130 052	60 658
Impairment allowances	-	57 368	-	60 658
Other financial assets – carrying amount	126 805	-	130 052	-

The Company only cooperates with related entities. Credit risk is primarily influenced by the individual characteristics of each of the Company's counterparties. Group 2 assets were fully covered by an impairment allowance. For group 1, the default rates

calculated for the previous 3 years are zero, therefore the Company did not recognize expected credit losses on these assets as at 31 December 2021 and 31 December 2020.

The Company recognises impairment allowances that correspond to the estimated values of expected credit losses. The core component of such allowances is the part covering specific losses due to exposure to a single material risk.

26.4. Liquidity risk

The Company monitors its risk to a shortage of funds using a recurring liquidity planning tool. The tool considers the maturity of both its financial investments and financial assets (e.g. receivables, other financial assets) and projected cash flows from guaranteed bank loans.

The table below presents the maturity profile of the Company's financial liabilities at 31 December 2021 based on maturities of contractual undiscounted payments.

31 December 2021	Carrying amount	Upon request	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Interest-bearing loans, borrowings and bonds	247 194	-	114 028	30 294	108 205	-	252 527
Other liabilities	27 307	-	27 335	83	128	-	27 546
		-	141 363	30 377	108 333	-	280 073

31 December 2020	Carrying amount	Upon request	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Interest-bearing loans, borrowings and bonds	280 205	-	183 742	72 217 *	30 903	-	286 863
Other liabilities	22 071	-	18 465	2 702	121	-	21 288
		-	202 207	74 919	31 024	-	308 151

* Included in this amount are bonds in the amount of PLN 50,200 thousand. These were shown in the table in accordance with the original redemption date, but were redeemed at an earlier date of 1 March 2021, as communicated by Current Announcement No. 5/2021 on 8 February 2021.

Financial liabilities with a maturity period of less than 3 months include, among others, cash-pooling liabilities towards related entities, as at 31 December 2021 they amounted to PLN 95,715 thousand.

As at 31 December 2021, the Company held no contingent liabilities.

27. Financial instruments

The Company holds the following financial instruments: cash in bank accounts, loans, borrowings, receivables, liabilities under financial leases and SWAP interest rate contracts.

27.1. Fair value of each class of financial instruments

Due to the fact that the book values of the financial instruments held by the Company do not materially differ from their fair value (except those listed in the table below), the table below presents all financial instruments by their carrying amounts, split into classes and categories of assets and liabilities.

	Category in compliance with IFRS 9	31 December 2021	31 December 2020	Book value
Financial assets				
Other (long-term) financial assets	WwZK	2 509	22 982	
Trade and other receivables	WwZK	31 868	28 973	
Cash and cash equivalents	WwZK	14 966	40 148	
Derivative instruments	IRZ	3 192	-	
Other (short-term) financial assets	WwZK	121 104	107 070	
Total		173 640	199 173	
Financial liabilities				
Interest-bearing loans, borrowings and bonds	WwZK	247 194	280 205	
Trade payables	WwZK	27 307	22 071	
Leasing liabilities	WwZK	239	641	
Derivative instruments	IRZ	-	2 195	
Total		274 740	305 113	

Abbreviations used:

WwZK - Financial assets/liabilities measured at amortised cost

WwWGpWF – Financial assets/liabilities measured at fair value through profit and loss account

IRZ- hedging instruments

Loans with the carrying amount of PLN 247,194 thousand as at 31 December 2021 have fair value of PLN 250,350 thousand.

As at 31 December 2021 and as at 31 December 2020, financial instruments as at the measurement hierarchy are qualified to level 3 and level 2 in case of derivative instruments.

27.2. Changes to liabilities resulting from financing activity

Year ended on 31 December 2021	Note	As at 1 January 2021	Changes from financing cash flows	Effect of changes in foreign exchange rates	Changes in fair values	Other changes	As at 31 December 2021
Interest-bearing loans, borrowings and bonds	21	280 205	22 632	(350)	-	(56 891) *	245 596
Finance lease liabilities	23.3	641	(402)	-	-	-	239
Derivative financial instruments	23.3	2 195	(2 195)	-	-	-	-
Total liabilities from financing activities	21	283 041	20 035	(350)	-	(56 891)	245 835

* Cash pool

27.3. Collateral

In connection with interest rate risk as detailed in note 30.1, the Company hedges its future cash flows that may fluctuate as a result of the risk. As at 31 December 2021, the Company held loans and debt securities for PLN 133,166 thousand with a variable interest rate that were hedged with SWAP derivative instruments (PLN 127,600 thousand as at 31 December 2021).

In the Company's opinion, the effectiveness of the hedging instruments is very high due to the fact that the parameters of the hedging instruments are matched to the hedged positions, in particular with respect to nominal values and dates of cash flows, interest rates underlying the calculation of the cash flows and the interest accrual convention.

Cash flow hedge

As at 31 December 2021, the Company used cash flow hedge accounting for the following hedging items:

- the Company designated SWAP derivatives to hedge accounting to hedge interest payments in EUR on a bank loan in EUR,
- the Company designated SWAP derivatives to hedge accounting to hedge interest payments in PLN on a bank loan in PLN,

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 the payment of interest:

SWAP on the interest rate	EUR	PLN
Type of hedge	Hedge of cash flows related to variable interest rate on the EUR long-term loan	Hedge of cash flows related to variable interest rate on the PLN long-term loan
Hedged position	The hedged item are future EUR interest flows in EUR related to a loan in EUR calculated on the basis of 3M EURIBOR	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 EUR on the EUR loan on the basis of a fixed interest rate	SWAP transaction under which the Company agreed to pay interest in PLN on the PLN loan on the basis of a fixed interest rate
Currency	Date	PLN amount as at 31.12.2021
EUR	2021-04-02 - 2026-04-02	26 424 717
EUR	2021-04-02 - 2026-04-02	19 855 038
EUR	2021-04-02 - 2026-04-02	19 855 038
		66 134 793
PLN	2021-04-02 - 2026-04-02	26 784 007
PLN	2021-04-02 - 2026-04-02	20 123 696
PLN	2021-04-02 - 2026-04-02	20 123 696
		67 031 399
The total value of loans is secured with an interest rate swap		133 166 191

Fixed interest rate hedging EUR cash flows equals 0.11 % and hedging PLN cash flows equals 1.21%.

The table below presents the fair value of hedging instruments in cash flow hedge accounting as at 31 December 2021 and the comparative data:

	As at 31 December 2021	As at 31 December 2020		
	Assets	Equity and liabilities	Assets	Equity and liabilities
SWAP	3 192	-	-	2 195
Total hedging derivative instruments	3 192	-	-	2 195

The table below presents the nominal value of derivative hedging instruments as at 31 December 2021:

	Up to 1 year	1 to 5 years	Over 5 years	Total
interest rate SWAP principal repayment (in '000 PLN)	31 620	101 546	-	133 166

The table below presents the amounts related to cash flow hedge accounting that were recognised in 2021 by the Company in the income statement and in the total comprehensive income statement:

	Year ended 31 December 2021
Revaluation reserve as at 31 December 2021 – changes of fair value measurement of hedging derivative instruments due to the hedged risk, corresponding to effective hedging, decreased by deferred tax	2 584
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	1 January 2022 - 02 April 2026

The table below presents changes to revaluation reserve due to cash flow hedge accounting in 2021:

	Year ended 31 December 2021
Revaluation reserve as at 01 January 2021	(3 981)
Deferral to changes of fair value measurement of the hedging derivative instruments due to the hedged risk, corresponding to the effective hedge	2 584
The amount of the changes of fair value measurement of the hedging derivative instruments due to the hedged risk, removed from the revaluation reserve and transferred to financial income or expenses	3 981
Revaluation reserve as at 31 December 2021	2 584

28. Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the year ended on 31 December 2021 and 31 December 2020.

	As at 31 December 2021	As at 31 December 2020
Interest-bearing loans, bonds, borrowings and other financial liabilities	247 433	283 041
Trade and other payables	29 083	20 128
Minus cash and cash equivalents	(14 966)	(40 148)
Net debt	261 550	263 022
Equity	577 059	570 595
Equity and net debt	838 609	833 616
Leverage ratio	0,31	0,32

The Company monitors its equity using a leverage ratio, which is net debt divided by total equity plus net debt. The Company includes interest bearing loans and borrowings, trade and other payables, reduced by cash and cash equivalents within its net debt.

29. Employment structure

The average headcount in the Company in the year ended on 31 December 2021 and 31 December 2020 was as follows:

	As at 31 December 2021	As at 31 December 2020
Management Board*	2	2
Finances	4	4
Logistics	26	26
Administration	2	2
Total	34	34

*Members appointed to Management Board

30. Events after the balance sheet date

30.1. Political situation in Ukraine

The Arctic Paper Group sells graphic paper to, among others, Russia, Ukraine and Belarus. The total volume of trade with these countries did not exceed 1.8% of the Group's revenues in 2021. The sources of raw materials and materials are properly diversified and we do not expect any disruptions in the production process. We believe that the war in Ukraine has no direct impact on the Group's operations, including the assumption of business continuation.

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	22 March 2022	signed with a qualified electronic signature
Member of the Management Board Chief Financial Officer	Göran Eklund	22 March 2022	signed with a qualified electronic signature