



ARCTIC PAPER

ARCTIC PAPER CAPITAL GROUP

Management Board
report on the operations 2023

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 2023 consolidated annual financial statement 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. This PDF version of consolidated annual financial statement of Arctic Paper Capital Group has been prepared solely only for the convenience of digital reading.

Despite all the efforts devoted to the conversion of XHTML file into PDF format, certain discrepancies, omissions or approximations may exist. In case of any differences between the PDF and the XHTML versions, the XHTML version is the only one legally binding and shall prevail.

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

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

Dear Sirs,

I am pleased to present you the Arctic Paper Group's annual report for 2023.

It was another year in when we had to operate in a dynamically changing economic environment. The economic situation, which was very favorable for us in 2022, has changed dramatically and the entire industry has recorded a significant drop in demand and deterioration of results. However, thanks to quick adjustment actions, we achieved very good results even with significantly reduced production. Focusing on the margins achieved, and not on the production volume, brought the expected results. The achieved EBITDA level is the second best result in the history of the Group. It is worth noting the group's very strong financial situation, strong balance sheet and high level of cash flow. This has two benefits, as it both reduces financial costs, especially at the current high interest rate levels, and enables the implementation of an ambitious investment plan related to the implementation of subsequent stages of the 4P strategy. Most of the expenditure is allocated to the development of our two new, promising segments - energy and packaging. In just a few months (June 2024), a photovoltaic installation with a capacity of 17 MW will be launched at the Kostrzyn paper mill, and another one (with a capacity of 9 MW) is in the development phase. This will significantly reduce the carbon footprint of our production. We have started the construction of a new biomass installation for the factory in Grycksbo, which, in addition to generating green thermal energy necessary for paper production, will enable the production of 50,000 tons of wood pellets, which will be sold as green fuel to customers in Germany and France. Consistent implementation of the 4P strategy and the results achieved as a result confirm that the Arctic Paper Group is a reliable and solid partner for its Clients and meets the expectations of shareholders.

I would like to thank the entire Arctic Paper Group team for their consistency in implementing the tasks set before us.

Sincerely yours,

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



INTRODUCTION

Information on the report

This Management Board's Report, which is a component of the Consolidated Annual Report for 2023, has been prepared in accordance with the Regulation of the Minister of Finance of 29 March 2018 on current and periodical information disclosed by issuers of securities and conditions of recognition as equivalent of information required by the law of non-member states (Journal of Laws of 2018, item 757).

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

This Management Board's Report presents data in PLN, and all figures, unless otherwise specified, are disclosed in PLN '000.

Definitions and abbreviations

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

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

Arctic Paper, Company, Issuer, Parent Entity, AP	Arctic Paper Spółka Akcyjna with its registered office in Kostrzyn nad Odrą, Poland
Capital Group, Group, Arctic Paper Group, AP Group	Capital Group comprised of Arctic Paper Spółka Akcyjna and its subsidiaries as well as joint ventures
Arctic Paper Kostrzyn, AP Kostrzyn, APK	Arctic Paper Kostrzyn Spółka Akcyjna with its registered office in Kostrzyn nad Odrą, Poland
Arctic Paper Munkedals, AP Munkedals, APM	Arctic Paper Munkedals AB with its registered office in Munkedal Municipality, Västra Götaland County, Sweden
Arctic Paper Mochenwangen, AP Mochenwangen, APMW	Arctic Paper Mochenwangen GmbH with its registered office in Mochenwangen, Germany
Arctic Paper Grycksbo, AP Grycksbo, APG	Arctic Paper Grycksbo AB with its registered office in Kungsvagen, Grycksbo, Sweden
Paper Mills	Arctic Paper Kostrzyn, Arctic Paper Munkedals, Arctic Paper Grycksbo
Arctic Paper Investment AB, API AB	Arctic Paper Investment AB with its registered office in Göteborg, Sweden
Arctic Paper Investment GmbH, API GmbH	Arctic Paper Investment GmbH with its registered office in Wolpertswende, Germany
Arctic Paper Verwaltungs	Arctic Paper Verwaltungs GmbH with its registered office in Wolpertswende, Germany
Arctic Paper Immobilienverwaltungs	Arctic Paper Immobilienverwaltungs GmbH & Co. KG with its registered office in Wolpertswende, Germany
Kostrzyn Group	Arctic Paper Kostrzyn Spółka Akcyjna with its registered office in Kostrzyn nad Odrą and EC Kostrzyn Sp. z o.o. with its registered office in Kostrzyn nad Odrą
Mochenwangen Group	Arctic Paper Investment GmbH, Arctic Paper Mochenwangen GmbH, Arctic Paper Verwaltungs GmbH, Arctic Paper Immobilienverwaltungs GmbH & Co.KG
Grycksbo Group	Arctic Paper Grycksbo AB and Arctic Paper Investment AB, Arctic Paper Finance AB
Sales Offices	Arctic Paper Papierhandels GmbH with its registered office in Vienna (Austria)
	Arctic Paper Benelux SA with its registered office in Oud-Haverlee (Belgium)

	Arctic Paper Danmark A/S with its registered office in Greve (Denmark)
	Arctic Paper France SA with its registered office in Paris (France)
	Arctic Paper Deutschland GmbH with its registered office in Hamburg, Germany
	Arctic Paper Italia Srl with its registered office in Milan (Italy)
	Arctic Paper Baltic States SIA with its registered office in Riga (Latvia)
	Arctic Paper Norge AS with its registered office in Oslo (Norway)
	Arctic Paper Polska Sp. z o.o. with its registered office in Warsaw (Poland)
	Arctic Paper España SL with its registered office in Barcelona (Spain)
	Arctic Paper Finance AB with its registered office in Munkedal (Sweden)
	Arctic Paper Schweiz AG with its registered office in Derendingen (Switzerland)
	Arctic Paper UK Ltd with its registered office in London (UK)
Arctic Power Sp. z o.o. (formerly Arctic Paper East Sp. z o.o.)	Arctic Power Sp. z o.o. with its registered office in Kostrzyn nad Odrą (Poland)
Kostrzyn Packaging Spółka z o.o.	Arctic Paper East Sp. z o.o. with its registered office in Kostrzyn nad Odrą (Poland)
Rottneros, Rottneros AB	Rottneros AB with its registered office in Sunne (Sweden)
Rottneros Group, Rottneros AB Group	Rottneros AB with its registered office in Söderhamn, Sweden; Rottneros Bruk AB with its registered office in Rottneros, Sweden; Utansjo Bruk AB with its registered office in Söderhamn, Sweden; Vallviks Bruk AB with its registered office in Vallvik, Sweden; Rottneros Packaging AB with its registered office in Sunne, Sweden; SIA Rottneros Baltic with its registered office in Kuldiga, Latvia; since 1 January 2020 – Nykvist Skogs AB with its registered office in Gräsmark, Sweden
Pulp Mills	Rottneros Bruk AB with its registered office in Rottneros, Sweden; Vallviks Bruk AB with its registered office in Vallvik, Sweden
Rottneros Purchasing Office	SIA Rottneros Baltic with its registered office in Kuldiga, Latvia
Office Kalltorp	Kalltorp Kraft Handelsbolaget with its registered office in Trollhattan, Sweden
Nemus Holding AB	Nemus Holding AB with its registered office in Göteborg, Sweden
Thomas Onstad	The Issuer's core shareholder, holding directly and indirectly over 50% of shares in Arctic Paper S.A.; a member of the Issuer's Supervisory Board

Management Board, Issuer's Management Board, Company's Management Board, Group's Management Board	Management Board of Arctic Paper S.A.
Supervisory Board, Issuer's Supervisory Board, Company's Supervisory Board, Group's Supervisory Board, SB	Supervisory Board of Arctic Paper S.A.
AGM, GM, Issuer's General Meeting, Company's General Meeting	Annual General Meeting of Arctic Paper S.A.
EGM, Extraordinary General Meeting, Issuer's Extraordinary General Meeting, Company's Extraordinary General Meeting	Extraordinary General Meeting of Arctic Paper S.A.
Articles of Association, Issuer's Articles of Association, Company's Articles of Association	Articles of Association of Arctic Paper S.A.
SEZ	Kostrzyńsko-Słubicka Special Economic Zone
Registration Court	District Court in Zielona Góra
Warsaw Stock Exchange, WSE	Giełda Papierów Wartościowych w Warszawie Spółka Akcyjna
KDPW, Depository	Krajowy Depozyt Papierów Wartościowych Spółka Akcyjna with its registered office in Warsaw
PFSA	Polish Financial Supervision Authority
SFSA	Swedish Financial Supervisory Authority, equivalent to PFSA
NASDAQ in Stockholm, Nasdaq	Stock Exchange in Stockholm, Sweden
CEPI	Confederation of European Paper Industries
EURO-GRAPH	The European Association of Graphic Paper Producers
Eurostat	European Statistical Office
GUS	Central Statistical Office of Poland
NBSK	Northern Bleached Softwood Kraft
BHKP	Bleached Hardwood Kraft Pulp

Definitions of selected terms and financial indicators and abbreviations of currencies

Sales profit margin	Ratio of profit/(loss) on sales to sales revenues from continuing operations
EBIT	Profit on continuing operating activities (Earnings Before Interest and Taxes)
EBIT profitability, operating profitability, operating profit margin	Ratio of operating profit/(loss) to sales revenues from continuing operations

EBITDA	Operating profit from continuing operations plus depreciation and amortisation and impairment allowances (Earnings Before Interest, Taxes, Depreciation and Amortisation)
EBITDA profitability, EBITDA margin	Ratio of operating profit plus depreciation and amortisation and impairment allowances to sales income from continuing operations
Gross profit margin	Ratio of gross profit/(loss) to sales revenues from continuing operations
Sales profitability ratio, net profit margin	Ratio of net profit/(loss) to sales revenues
Return on equity, ROE	Ratio of net profit/(loss) to equity income
Return on assets, ROA	Ratio of net profit/(loss) to total assets
EPS	Earnings Per Share, ratio of net profit to the weighted average number of shares
BVPS	Book Value Per Share, Ratio of book value of equity to the number of shares
Debt-to-equity ratio	Ratio of total liabilities to equity
Equity to fixed assets ratio	Ratio of equity to fixed assets
Interest-bearing debt-to-equity ratio	Ratio of interest-bearing debt and other financial liabilities to equity
Net debt-to-EBITDA ratio	Ratio of interest-bearing debt minus cash to EBITDA from continuing operations
EBITDA-to-interest coverage ratio	Ratio of EBITDA to interest expense from continuing operations
Current ratio	Ratio of current assets to short-term liabilities
Quick ratio	Ratio of current assets minus inventory and short-term accruals and deferred income to short-term liabilities
Cash solvency ratio	Ratio of total cash and similar assets to short-term liabilities
DSI	Days Sales of Inventory, ratio of inventory to cost of sales multiplied by the number of days in the period
DSO	Days Sales Outstanding, ratio of trade receivables to sales income from continuing operations multiplied by the number of days in the period
DPO	Days Payable Outstanding, Ratio of trade payables to cost of sales from continuing operations multiplied by the number of days in the period
Operating cycle	DSI + DSO
Cash conversion cycle	Operating cycle – DPO
FY	Financial year
Q1	1st quarter of the financial year
Q2	2nd quarter of the financial year

Q3	3rd quarter of the financial year
Q4	4th quarter of the financial year
H1	First half of the financial year
H2	Second half of the financial year
YTD	Year-to-date
Like-for-like, LFL	Analogous, with respect to operating result.
p.p.	Percentage point, difference between two amounts of one item given in percentage
PLN, zł, złoty	Monetary unit of the Republic of Poland
gr	grosz – 1/100 of one zloty (the monetary unit of the Republic of Poland)
Euro, EUR	Monetary unit of the European Union
GBP	Pound sterling, monetary unit of the United Kingdom
SEK	Swedish Krona – monetary unit of the Kingdom of Sweden
USD	United States dollar, the legal tender in the United States of America
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
IFRS EU	International Financial Reporting Standards endorsed by the European Union
GDP	Gross Domestic Product

Other definitions and abbreviations

Series A Shares	50,000 shares of Arctic Paper S.A. A series ordinary shares of PLN 1 each
Series B Shares	44,253.500 shares of Arctic Paper S.A. B series ordinary shares of PLN 1 each
Series C Shares	8,100.000 shares of Arctic Paper S.A. C series ordinary shares of PLN 1 each
Series E Shares	3,000.000 shares of Arctic Paper S.A. E series ordinary shares of PLN 1 each
Series F Shares	13,884.283 shares of Arctic Paper S.A. F series of the nominal value of PLN 1 each
Shares, Issuer's Shares	Series A, Series B, Series C, Series E, and Series F Shares jointly


Forward-looking statements

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

Forward-looking statements relating to risk factors

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

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



**SELECTED
CONSOLIDATED
FINANCIAL DATA**

Selected consolidated financial data

	Period from 01.01.2023 to 31.12.2023 PLN '000	Period from 01.01.2022 to 31.12.2022 PLN '000	Period from 01.01.2023 to 31.12.2023 EUR '000	Period from 01.01.2022 to 31.12.2022 EUR '000
Continuing operations				
Sales revenues	3 549 153	4 894 276	781 121	1 043 934
Operating profit/(loss)	357 068	842 979	78 586	179 805
Gross profit/(loss)	340 917	927 577	75 031	197 849
Net profit/(loss) for the period	272 388	756 822	59 949	161 428
Net profit/(loss) attributable to the shareholders of the Parent Entity	247 132	631 001	54 390	134 591
Net cash flows from operating activities	471 204	607 383	103 706	129 553
Net cash flows from investing activities	(146 720)	(155 879)	(32 291)	(33 249)
Net cash flows from financing activities	(288 934)	(124 588)	(63 591)	(26 574)
Change in cash and cash equivalents	35 550	326 916	7 824	69 730
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)	3,57	9,11	0,78	1,94
Diluted EPS (in PLN/EUR)	3,57	9,11	0,78	1,94
Mean PLN/EUR exchange rate*			4,5437	4,6883
	As at 31 December 2023 PLN'000	As at 31 December 2022 PLN'000	As at 31 December 2023 EUR'000	As at 31 December 2022 EUR'000
Assets	2 722 877	3 254 485	626 237	693 935
Long-term liabilities	279 753	395 397	64 341	84 308
Short-term liabilities	641 616	806 906	147 566	172 052
Equity	1 801 508	2 052 182	414 330	437 575
Share capital	69 288	69 288	15 936	14 774
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)	26,00	29,62	5,98	6,32
Diluted book value per share (in PLN/EUR)	26,00	29,62	5,98	6,32
Declared or paid dividend (in PLN/EUR)	187 077 014	27 715 113	43 025 992	5 909 532
Declared or paid dividend per share (in PLN/EUR)	2,70	0,40	0,62	0,09
PLN/EUR exchange rate at the end of the period**	-	-	4,3480	4,6899

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

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



MANAGEMENT BOARD'S REPORT

from operations of the Arctic Paper Capital Group
for 2023

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

General information

The Arctic Paper Group is a paper and pulp producer. We offer voluminous book paper and a wide range of products in this segment, as well as high-grade graphic paper. The Group produces numerous types of uncoated and coated wood-free paper as well as wood-containing uncoated paper for printing houses, paper distributors, book and magazine publishing houses and the advertising industry. In connection with acquisition of the Rottneros Group in December 2012, the Group's assortment was expanded with the production of pulp. As at 31 December 2023, the Arctic Paper Group employs over 1,500 people in its Paper Mills, companies involved in sale of paper and in pulp producing companies, procurement office and a company producing food packaging. Our Paper Mills are located in Poland and Sweden, and have total production capacity of over 695,000 tonnes of paper per year. Our Pulp Mills located in Sweden have aggregated production capacities of over 400,000 tonnes of pulp annually. As at 31 December 2023, the Group had 13 Sales Offices ensuring access to all European markets, including Central and Eastern Europe. Our consolidated sales revenues for 12 months of 2023 amounted to PLN 3,549 million.

Arctic Paper S.A. is a holding company set up in April 2008. The Parent Entity is entered in the register of entrepreneurs of the National Court Register maintained by the District Court in 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 principal business of the Arctic Paper Group is production and sales of paper and pulp. The Group's additional business, partly subordinate to paper and pulp production, covers:

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

Our production facilities

As on 31 December 2023, as well as on the day hereof, the Group owned the following Paper Mills:

- the Paper Mill in Kostrzyn nad Odrą (Poland) has the production capacity of about 315,000 tonnes per year and mainly produces uncoated wood-free paper for general printing use such as printing books, brochures and forms, and for producing envelopes and other paper products;
- the Paper Mill in Munkedal (Sweden) has the production capacity of about 160,000 tonnes and mainly produces fine uncoated wood-free paper used primarily for printing books and high-quality brochures;
- the Paper Mill in Grycksbo (Sweden) has the production capacity of about 220,000 tonnes per year and produces coated wood-free paper used for printing maps, books, magazines, posters and printing of advertising materials.

As on 31 December 2023, as well as on the day hereof, the Group owned the following Pulp Mills:

- the Rottneros mill (Sweden) has a production capacity of around 160,000 tonnes per year and produces one type of mechanical fibre pulp: chemi-thermo mechanical pulp (CTMP);
- the Pulp Mill in Vallvik (Sweden) has the annual production capacity of about 240,000 tonnes and produces two types of long-fibre sulphate pulp: fully bleached sulphate pulp and unbleached sulphate pulp. The most of Vallvik Pulp Mill production is

known as NBSK pulp. The unbleached sulphate pulp produced by the Pulp Mill is characterised by very high purity and is primarily used to produce transformers and in cable industry.

Our products

The product assortment of the Arctic Paper Group covers:

— Uncoated wood-free paper, in particular:

- › white offset paper that we produce and distribute primarily under the Amber brand which is one of the most versatile types of paper destined for various applications;
- › woodfree bulky book paper that we produce under the Munken brand, used primarily for book printing;
- › high quality graphic paper with a particularly smooth or rough surface, used for printing various advertising and marketing materials, which we produce under the Munken Design brand;

— Coated wood-free paper, in particular:

- › coated woodfree paper, manufactured under the G and Arctic Volume brands, used primarily for printing of books, magazines, catalogues, maps, personalised direct mail correspondence.

— Uncoated wood-containing paper, in particular:

- › premium wood containing bulky book paper that we produce and distributed under the Munken brand, was developed specially for multi-colour and B/W printing of books;

— Packaging papers

- › kraft paper, which is manufactured under the brand name Munken Kraft
- › one side coated packaging papers produced under the brand name G-Flexmatt

Both grades are ideal for a wide range of packaging applications, such as shopping bags, bags for loose food, packaging or laminates used in the food or non-food industry.

— Unbleached sulphate pulp

- › fully bleached sulphate pulp and unbleached sulphate pulp used primarily to produce printing and writing paper, cardboard, toilet paper and white packaging paper.

— Mechanical fibre pulp

- › chemi-thermo mechanical pulp (CTMP), which is mainly used in the production of printing and writing paper;

Capital Group structure

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

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

Changes in the capital structure of the Arctic Paper Group

In 2023, no material changes in the capital structure of the Arctic Paper Group occurred.

Modifications to the core management principles

In 2023, 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 2023) 40,981.449 shares of our Company, which constitutes 59.15% of its share capital and corresponds to 59.15% 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 5,623.658 shares representing 8.12% 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 2023 was 68.13% and has not changed until the date of approval of this report.

as at 31.12.2023

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	41 581 449	60,01%	41 581 449	60,01%
<i>Nemus Holding AB</i>	40 981 449	59,15%	40 981 449	59,15%
<i>other entity</i>	600 000	0,87%	600 000	0,87%
- directly	5 623 658	8,12%	5 623 658	8,12%
Other	22 082 676	31,87%	22 082 676	31,87%
Total	69 287 783	100,00%	69 287 783	100,00%
Treasury shares	-	0,00%	-	0,00%
Total	69 287 783	100,00%	69 287 783	100,00%

The data in the above tables are shown as at the date of approval of this report, which has not changed as compared to 31 December 2023, and the date of publication of the quarterly report for Q3 2023, i.e. as at 7 November 2023.

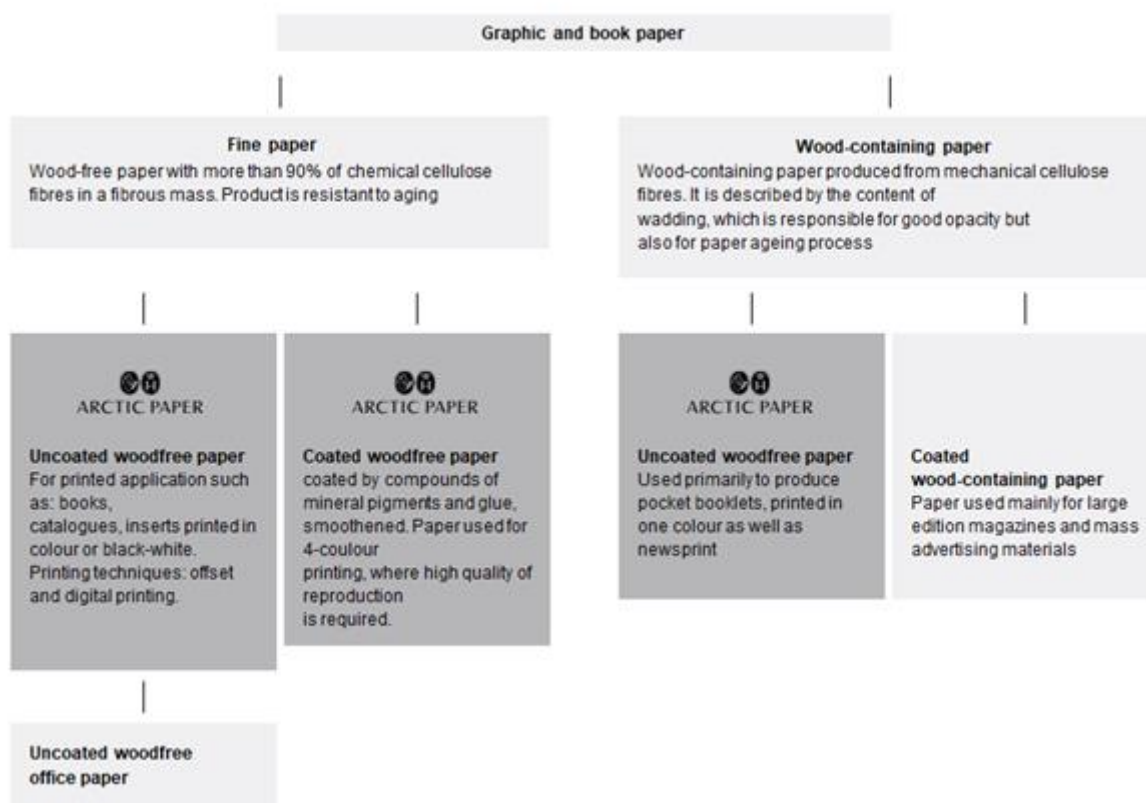
Market environment

Segments of the graphic paper market

The graphic paper market is split into three core segments:

- coated and uncoated fine paper,
- coated and uncoated wood-containing paper,
- magazine paper.

The Group operates solely in the segment of high quality graphic papers. We are not present in the newspaper and photocopy paper segments.



Below is a description of segments in the graphic market:

- fine paper is wood-free paper where minimum 90% of fibre mass is pulp fibres obtained with chemical methods:
 - › uncoated wood-free paper made of pulp. It may be subject to additional processing like surface sizing, calendering, surface or mass dyeing;
 - › two core categories of the paper include graphic paper (used e.g. to print books, handbooks and catalogues) and office copying paper;
 - › coated wood-free paper made of pulp is subject to coating with pigment and glue mixtures (kaolin, calcium carbonate). The coating may be performed on paper machines (online) or outside paper machines (offline). Coating of paper improves its smoothness and transparency of the background, improves the quality of colour reproduction.

— wood-containing paper is most often manufactured of mechanical pulp or recycled-paper pulp, without or with small quantities of filler. It contains lignin which increases the opacity of the paper but accelerates ageing.

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

› coated wood-containing paper is manufactured of mechanical pulp, it is double coated. It is used to print multi-colour magazines and catalogues.

In that product group there is e.g.: SC (Super Calendared), MFC (Machine Finished Coated), LWC (Light Weight Coated), ULWC (Ultra-Light Weight Coated) MWC (Medium Weight Coated). The paper in the form of rolls is used for heat-set printing.

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

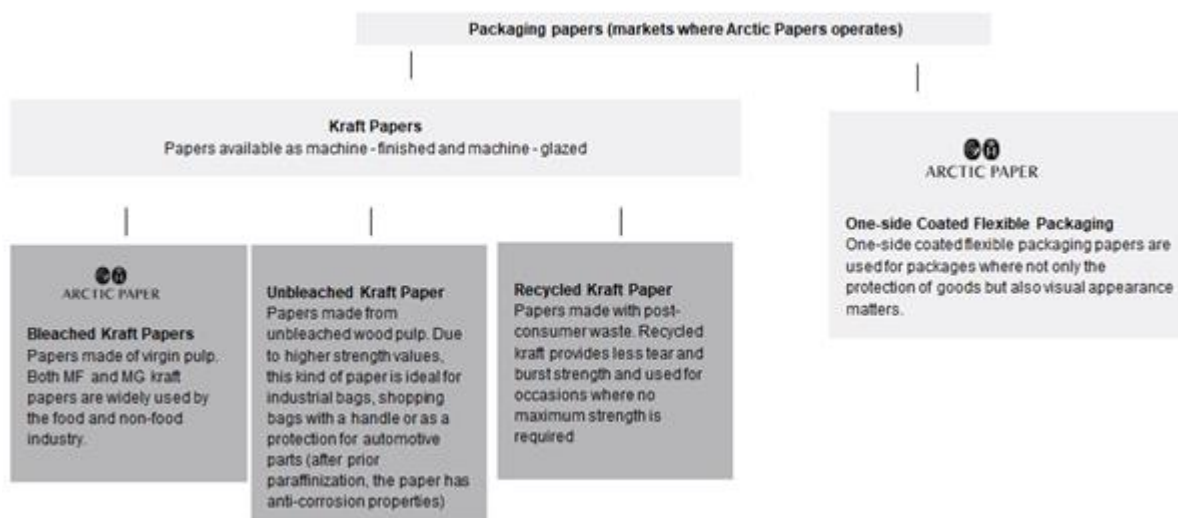
Packaging paper market segments in which Arctic Paper operates:

The packaging paper market, where Arctic Paper operates, is divided into two basic segments:

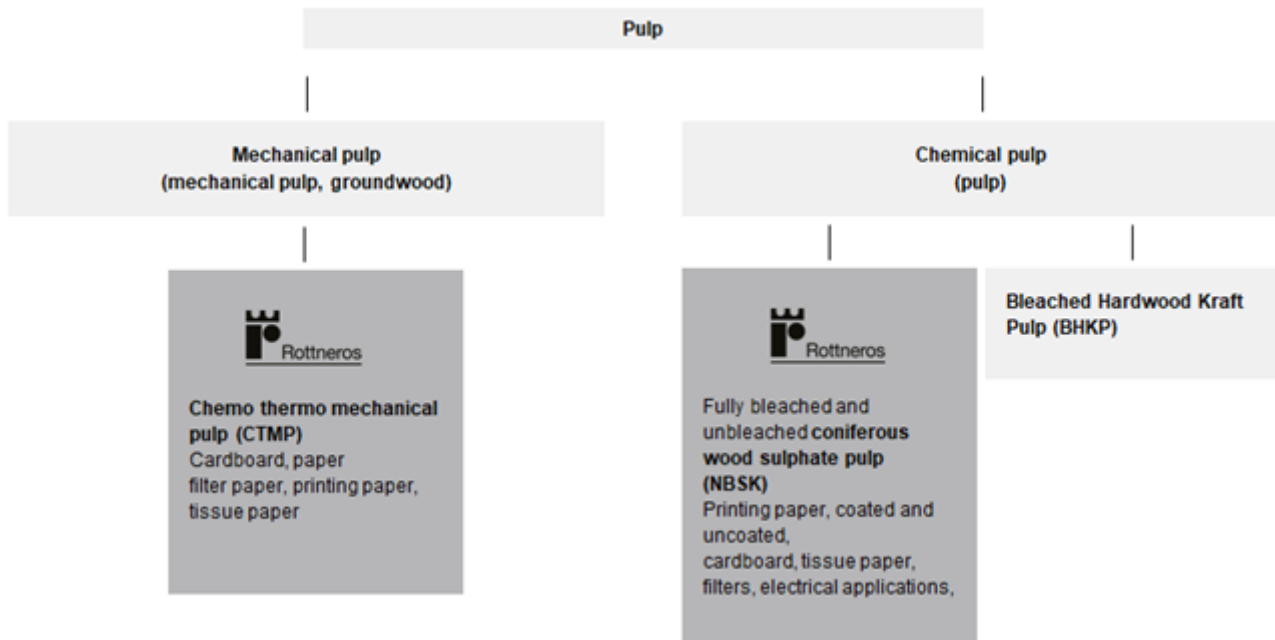
— Kraft paper, which is divided into bleached, unbleached and recycled fibre papers;

— packaging papers coated on one side.

The Group operates exclusively in the segment of machine-finished kraft paper and one-side coated matt surface packaging. We are not present in the other segments.



Segments of the pulp market



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

- fully bleached sulphate pulp and unbleached sulphate pulp used primarily to produce printing and writing paper, cardboard, toilet paper and white packaging paper;
- chemi-thermo mechanical pulp (CTMP), which is mainly used in the production of printing and writing paper.

Market situation and strategy of the Group in 2023

The year 2023 was a period of market challenges for the Arctic Paper Group. The market situation has become radically different from that of 2022. Demand for paper and pulp decreased significantly, which was reflected in lower capacity utilisation and financial performance. The inflationary environment posed further challenges to effective profitability management. Despite such an unfavourable market environment, the Group achieved very good results. It recorded its second-best result in its history, maintained a strong balance sheet and consistently pursued its strategy of developing two new segments – packaging and energy.

Sales structure

In 2023 and in 2022, the sales structure by main product lines was as follows:

<i>PLN '000</i>	2023	% share	2022	% share
<i>Paper</i>	2 460 441	69%	3 579 803	73%
Amber	1 047 941	30%	1 683 656	34%
G-Print	604 247	17%	497 935	10%
Munken	549 767	15%	729 265	15%
Arctic	217 431	6%	604 141	12%
AP Tech	41 031	1%	64 141	1%
Other	24	0%	664	0%
<i>Pulp</i>	1 088 712	31%	1 314 473	27%
NBSK and derivatives	984 514	28%	781 383	16%
Groundwood	-	0%	150 994	3%
CTMP	47 543	1%	285 793	6%
Other	56 655	2%	96 303	2%
Total paper and pulp	3 549 153	100%	4 894 276	100%

<i>thousand tonnes</i>	2023	% share	2022	% share
<i>Paper</i>	431	55%	617	61%
Amber	190	24%	296	29%
G-Print	111	14%	91	9%
Munken	82	10%	108	11%
Arctic	39	5%	110	11%
AP Tech	8	1%	11	1%
Other	-	0%	-	0%
<i>Pulp</i>	356	45%	389	39%
NBSK and derivatives	235	30%	220	22%
Groundwood	-	0%	56	6%
CTMP	121	15%	113	11%
Total paper and pulp	787	100%	1 006	100%

In 2023 there were no material changes to the sales structure of paper and pulp by the Group or in the revenue structure from sales of paper and pulp by the Group by its products. In 2023, there is a quantitative decrease and a quantitative increase in paper and pulp sales.

Markets

In 2023 the share of Group sales outside Poland was 83% compared to 2022 (83%). This year, similarly to previous years, sales were focused on European markets. The share of those markets in the overall value of sales was 99% in 2023 (2022: 98%).

The geographical structure of sales revenues by the main markets in 2023 and in 2022 is presented in note 10.1 to the consolidated financial statements.

Buyers

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

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

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

In our opinion, we are not materially dependent on any single specific buyer. The Group's consolidated revenues for 2023 show that the share of the largest buyer did not exceed 12% of total sales revenues.

Vendors & Suppliers

In its business, the Group relies on the following goods and services:

- Pulp for Paper Mills,
- Wood for Pulp Mills,
- Chemicals,
- Electricity,
- Transport services.

Pulp

Pulp is the core material used by the Group to produce paper. The Group acquires pulp on the basis of revolving annual contracts concluded under framework agreements or one-off transactions.

Wood

Wood is the core material used by the Pulp Mills to produce pulp. The Rottneros Group has a procurement department placing orders with sawmills in Sweden as well as its subsidiary company – SIA Rottneros Baltic, purchasing wood in the Baltic states.

Chemicals

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

Electricity

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

In autumn 2022, a new boiler designed to generate steam from waste fuels was commissioned at the Arctic Paper Munkedals mill. The boiler is designed to handle any solid fuel. The paper mill is also powered by electricity from an internal hydroelectric power station, mains electricity and steam from a natural gas boiler.

Energy for the Paper Mill Arctic Paper Grycksbo is obtained from biomass and electricity is partly acquired from external suppliers.

The Rottneros Pulp Mill covers its entire demand for electricity with purchases from external suppliers.

The Vallvik Pulp Mill provides for about 75% of its demand for electricity with its own resources. The remaining demand for electricity is covered with purchases from external suppliers.

Transport services

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

Entities in the Group are not dependent on those suppliers. The Group's consolidated costs for 2023 show that the share of the largest service provider did not exceed 10% of total costs.

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. Global graphic paper markets are also subject to structural decline due to digitalisation in society, but thanks to its efficient sales process and strong brands, Arctic Paper manages its market shares and overall paper decline better than its competitors.

Research and development

The Arctic Paper Group mainly carries out development work aimed at streamlining and modernizing production processes, improving cost and energy efficiency and improving the quality of the products offered. During the period covered by this report, the paper and pulp mills carried out development work aimed at improving the production process, reducing energy and raw material consumption and optimising the cost of the production process.

Labour matters

Matters concerning the Group's employees are described in detail in the document "Non-financial information of the Arctic Paper S.A. Capital Group" published separately – Social Responsibility Report 2023".

Natural environment

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

Kostrzyn Paper Mill

Pursuant to a decision of the Governor of the Lubuskie Province of 8 December 2005, Kostrzyn obtained an integrated permit to operate a paper production installation with a fuel combustion installation at the facility in Kostrzyn nad Odrą. In the case of Kostrzyn, the need for such permit was due to its paper production capacity in excess of 20 tonnes per day. This permit has been updated many times, adjusting the plant to the applicable legal requirements. The last update took place on 8 November 2023 by the decision of the Marshal of the Lubuskie Province.

The condition for receiving the integrated permit is that the installation meets the environmental protection requirements resulting, among others, from best available techniques (BAT). Operation in accordance with the conditions laid down in the permit ensures compliance with the legally prescribed environmental parameters.

In order to comply with the requirements specified in the environmental permit and other environmental standards related to waste management, Kostrzyn has entered into a number of contracts covering collection and management of production waste.

In May 2008, an industrial wastewater treatment plant was opened at the Kostrzyn nad Odrą site. Pursuant to a decision of the Governor of the Lubuskie Province of 14 August 2007, Kostrzyn obtained a water law permit to discharge rainwater and melt water and to construct a discharge dock to the River of Warta (valid until 1 August 2017). In 2017, a new water law permit was obtained to discharge rain and melt water, valid until 25 June 2027. On 8 December 2016, Arctic Paper Kostrzyn S.A. obtained, also, a Water Law Permit for discharging snowmelt and rainwater into the Warta River valid until 7 December 2026, while revoking the permit of 25.06.2013.

AP Kostrzyn participates in the EU Emissions Trading System (ETS) for greenhouse gases. A permit to emit greenhouse gases was obtained by AP Kostrzyn pursuant to a decision of the Governor of the Lubuskie Province of 9 November 2016 for the paper production installation with the production capacity in excess of 20 tonnes per day located in the facility in Kostrzyn nad Odrą (as

amended on 26.02.2019, 14.04.2020 and 24.03.2022). This authorisation was granted for an indefinite period. In connection with the permit, Kostrzyn is obliged to monitor the volumes of CO₂ emissions and to file annual report on the emissions.

With environmental protection in mind, the Arctic Paper Kostrzyn mill has invested in modern and efficient energy solutions. The CHP plant was modernised in 2007 and 2009 and now runs on natural gas, a much cleaner fuel than oil and coal. Thanks to this it has significantly reduced CO₂ emissions into the environment.

The fight against global warming is one of the greatest challenges for the future.

Arctic Paper Kostrzyn S.A. contributes to positive change and the search for long-term sustainable alternatives to today's energy solutions. In 2019, solar cell testing began at our paper mill in Kostrzyn. The first stage was a pilot PV installation in late 2019 / early 2020. The next stage was the expansion of the above PV installation completed in H1 2021 and the commissioning of another unit at the beginning of H2 2021. The results of the above allowed the selection of appropriate technological and operational aspects, the determination of the impact of the PV installation on the electricity grid and the knowledge of the estimated efficiency under our climatic conditions. At present, Arctic Paper Kostrzyn S.A. is taking steps to improve its energy efficiency, so it is continuing preparatory activities for the construction of further modules of the photovoltaic installation together with the accompanying infrastructure.

The Paper Mill in Kostrzyn nad Odrą holds compliance certificates with the following standards: ISO 45001, ISO 14001, ISO 9001. It publishes an annual publicly available EMAS environmental report, providing an assessment of the environmental impact of its activities. In addition, paper produced at APK S.A. has been certified to meet FSC[®] chain of custody certification and PEFC[™] chain of custody certification for products containing wood raw materials. The certificates are to document that the pulp used to produce the paper comes from forests used in a sustainable manner. The FSC (Forest Stewardship Council) certificate is a major certificate granted to paper producing companies. In 2006, the first FSC certificate was granted to the paper manufactured at AP Kostrzyn. At present, the Kostrzyn nad Odrą mill uses FSC-certified pulp and PEFC-certified pulp (Programme for the Endorsement of Forest Certification) for the production of Amber and Munken Kraft paper.

Munkedals Paper Mill

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

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

On 24 June 2020, the entire range produced at the Munkedals factory was certified by the Cradle to Cradle Products Innovation Institute (C2CPPI). A recertification was carried out in 2023. The entire production process of the paper mill in Munkedal has been audited and has reached the bronze level which is the overall level of product certification. The Cradle to Cradle Certified[™] program is an internationally recognised standard for safe and sustainable development. It assesses the environmental impact of products throughout their life cycle. Designing according to "Cradle to Cradle" principles means not only minimising the negative impact on the environment, but above all leaving a positive footprint.

Grycksbo Paper Mill

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

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

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

In numbers, the switch to biofuels means annual reduction of CO₂ emissions from fossil fuels by about 70,000 tonnes. The reconstructed turbine provides for 10% of demand for electricity by the Paper Mill with renewable energy sources that it generates itself which in turn results in reduction of CO₂ emissions by another 4,000 tonnes. In 2022, the paper mill invested in a 0.5MWh solar power plant.

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

The paper mill received Cradle to Cradle certification in April 2021.

Pulp Mills

Environmental issues are central to Rottneros' corporate culture and are part of the DNA of the entire Group. Products from the forest are part of the climate solution, and improving environmental performance is a daily job. The Group's long-term goal is to eliminate fossil fuels altogether.

Rottneros is in the business of being part of the solution to global warming. A growing forest absorbs CO₂ and is thus stored in the products made from it. In many places, intensive research is being conducted to develop new products that replace fossil raw materials with bio-based raw materials.

Rottneros does not own any forest, but contributes to sustainable forestry in many ways. Both of the Group's sites have environmental management systems and are certified to ISO 14001. The environmental management system includes well established procedures for inspection, sampling and dealing with deviations.

Suppliers and raw materials are carefully selected. The Rottneros Group is FSC® and PEFC™ certified and in 2023 purchased raw materials only from FSC® certified suppliers.

The company's efficient use of raw materials in production provides environmental and economic benefits. The Rottneros plant uses around 95% of the raw material. At the Vallvik plant, around 45% of the raw material becomes pulp. Waste products from production are mainly used as energy.

To reduce the environmental impact of transport, the raw material is purchased locally. The Vallvik mill buys around 50% and Rottneros around 75% of its pulp from sources within a 100 kilometre radius. Through proper planning and coordination, we reduce transport distances within the Group and transport from other companies.

Rottneros' production processes involve various risks that affect the environment. The Rottneros plant has a mechanical production process, and the biggest environmental risks are energy consumption and water emissions. Energy consumption is significant, and the focus has been on reducing dependence on fossil fuels through the design of more efficient equipment and product reformulation.

At the Vallvik plant, where cellulose is produced using chemical processes, chemical treatment and emissions to water and air pose the greatest environmental risk. In order to protect the environment and prevent any violations of applicable emission regulations and requirements, the Group has a continuous sampling system with alarm functions linked to plant control systems. In addition, random hand samples are taken.

The Group's long-term goal is to become free of fossil fuels. The plan is for production to be completely free of fossil fuels by 2030. The only challenge that remains is replacing the fossil fuels used to start production, especially at the Vallvik plant, combined with production interruptions and planned maintenance shutdowns. Another challenge that still remains is to ensure that the electricity purchased comes from fossil fuel-free sources.

Eliminating indirect CO₂ emissions that occur outside the gates of operations is another long-term challenge to complete freedom from fossil fuels. This aspect mainly concerns vehicles used to transport deliveries to and from factories.

It is Group policy that all employees in relevant positions must have the necessary environmental knowledge. The Group's senior environmental staff are constantly undergoing further training.

Both factories are certified to management standards and have achieved ISO 50001 certification. A key element of this effort has been the creation of an energy management group that actively works on energy-related issues, including conducting energy management audits in factories.

Summary of the consolidated financial results

Selected items of the consolidated statement of profit and loss

PLN '000	2023	2022	Change % 2023/2022
Continuing operations			
Sales revenues	3 549 153	4 894 276	(27.5)
<i>of which:</i>			
<i>Sales of paper</i>	2 460 441	3 579 803	(31.3)
<i>Sales of pulp</i>	1 088 712	1 314 473	(17.2)
Profit on sales	745 684	1 410 757	(47.1)
% of sales revenues	21.01	28.82	(7.8) p.p.
Selling and distribution costs	(340 973)	(445 197)	(23.4)
Administrative expenses	(124 077)	(138 766)	(10.6)
Other operating income	129 397	85 778	50.9
Other operating expenses	(52 963)	(69 593)	(23.9)
EBIT	357 068	842 979	(57.6)
% of sales revenues	10.06	17.22	(7.2) p.p.
EBITDA	475 304	973 973	(51.2)
% of sales revenues	13.39	19.90	(6.5) p.p.
Financial income	15 069	92 767	(83.8)
Financial expenses	(31 220)	(8 169)	282.2
Gross profit/(loss)	340 917	927 577	(63.2)
Income tax	(68 528)	(170 755)	(59.9)
Net profit/(loss)	272 388	756 822	(64.0)
% of sales revenues	7.67	15.46	(7.8) p.p.
Net profit/(loss) for the reporting period attributable to the shareholders of the Parent Entity	247 132	631 001	(60.8)

Revenues

In 2023, consolidated sales revenues reached PLN 3,549,153 thousand compared to PLN 4,894,276 thousand in the previous year and decreased by 27.5% (PLN 1,345,123 thousand). Revenues from paper sales decreased by 31.3% (PLN 1,119,361 thousand) and revenues from pulp sales decreased by 17.2% (PLN 225,762 thousand) compared to 2022.

The volume of paper sales in 2023 was 431 thousand tonnes (2022: 617 thousand tonnes) and was 217 thousand tonnes lower than in the previous year. This means a decrease in sales volume by 30.2%.

Pulp sales volumes in 2023 were 356 thousand tonnes (2022: 389 thousand tonnes) and was 36 thousand tonnes lower than in the previous year. This means a decrease in sales volume by 9.2%.

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

Profit on sales in 2023 was by 47.1% lower than in the previous year. Sales profit margin in the current year stood at 21.01% compared to 28.82% (-7.8 p.p.) in the previous year.

The decrease in profit on sales in 2023 compared to 2022 was primarily due to a decrease in sales volumes of both paper and pulp due to reduced market demand.

In 2023, the selling and distribution costs amounted to PLN 340,973 thousand, down 23.4% on 2022. The selling and distribution costs comprise particularly transportation costs.

In 2023, administrative expenses reached PLN 124,077 thousand, compared to PLN 138,766 thousand in 2022, a decrease of 10.6%. The main reasons for the decrease were lower costs related to the provision of external consultancy services to the Group and lower employee benefit costs.

Other operating income and expenses

Other operating income in 2023 amounted to PLN 129,397 thousand, an increase of PLN 43,619 thousand compared with the previous year.

Other operating expenses in 2023, reached PLN 52,963 thousand, down by PLN 16,630 thousand on the previous year.

A major part of the other operating income and expenses includes revenues and costs of sales of sold energy and other materials. In addition, the subsidy granted to the Kostrzyn plant of PLN 31.2 million contributed to the increase in other operating income in 2023. This subsidy applied to energy-intensive companies and was intended to offset the increase in the price of emission rights in 2022.

Financial income and financial expenses

In 2023, financial income amounted to PLN 15,069 thousand, down by PLN 77.698 thousand compared to the revenues generated in 2022, mainly due to a lower result on forward energy contracts at RROS.

Financial expenses in 2023 amounted to PLN 31,220 thousand compared to PLN 8,169 thousand incurred in 2022. The higher financial expenses in 2023 were primarily due to the value of FX losses.

Income tax

Income tax in 2023 was PLN -68,528 thousand PLN -170,756 thousand in 2022. The effective tax rate to gross profit in 2023 was 20% (2022: 18%).

Profitability analysis

The Company uses alternative performance measurements when describing the Group's financial position. In the opinion of the Management Board, these selected indicators provide valuable information on the financial and operational situation (in addition to the data provided by the Company in its financial statements), as well as facilitating the analysis and evaluation of the Group's financial results over the individual reporting periods.

The Company presents alternative performance measurements as they represent standard measures and ratios commonly used in financial analysis, however, these ratios may be calculated and presented differently by different companies. Therefore, the Issuer provides the exact definitions used by the Group in its reporting process. The selection of alternative performance measures was preceded by a thorough analysis of their usefulness in terms of providing shareholders, analysts and investors with useful information on financial position and financial efficiency, which the Company believes allows for an optimal assessment of its financial results.

The ratios presented by the Company were calculated according to the formulas described at the beginning of this report in the "Definitions and explanations of abbreviations" section.

EBITDA in 2023 was PLN 475,304 thousand, while in 2022 it was PLN 973,973 thousand. The decrease in EBITDA in 2023 is primarily due to lower paper and pulp sales volumes, partly offset by lower production costs. In the reporting period, the EBITDA margin was 13.39% versus 19.90% in 2022.

Operating profit for 2023 amounted to PLN 357,068 thousand and for 2022 to PLN 842,979 thousand. The operational profit margin in 2023 was +10.06% versus +17.22% in 2022. The lower operating profit in 2023 was due to lower EBITDA.

Net profit in 2023 was PLN 272,388 thousand, while in 2022 it was PLN 756,822 thousand. Net profit margin in 2023 amounted to +7.67% as compared to +15.46% in 2022.

<i>PLN '000</i>	2023	2022	Change % 2023/2022
Profit/(loss) on sales	745 684	1 410 757	(47.1)
<i>% of sales revenues</i>	21.01	28.82	(7.8) p.p.
EBITDA	475 304	973 973	(51.2)
<i>% of sales revenues</i>	13.39	19.90	(6.5) p.p.
EBIT	357 068	842 979	(57.6)
<i>% of sales revenues</i>	10.06	17.22	(7.2) p.p.
Net profit/(loss)	272 388	756 822	(64.0)
<i>% of sales revenues</i>	7.67	15.46	(7.8) p.p.
Return on equity / ROE (%)	15.1	36.9	(21.8) p.p.
Return on assets / ROA (%)	10.0	23.3	(13.3) p.p.

In 2023, return on equity was +15.10%, while in 2022 it was +36.9%.

In 2023, return on assets was +10.0%, while in 2022 it was +23.3%.

The decrease in return on equity and return on assets in 2023 was mainly due to the decrease in net profit achieved in 2023 compared to 2022.

Selected items of the consolidated statement of financial position

<i>PLN '000</i>	31 December 2023	31 December 2022	Change 31.12.2023 -31.12.2022
Fixed assets	1 292 262	1 371 867	(79 606)
Inventories	444 930	601 205	(156 275)
Receivables	416 268	504 024	(87 756)
<i>trade receivables</i>	<i>415 421</i>	<i>503 391</i>	<i>(87 970)</i>
Other current assets	68 968	295 459	(226 491)
Cash and cash equivalents	500 449	481 930	18 520
Total assets	2 722 877	3 254 485	(531 608)
Equity	1 801 508	2 052 182	(250 675)
Short-term liabilities	641 616	806 906	(165 289)
<i>of which:</i>			
<i>trade and other payables</i>	<i>447 917</i>	<i>551 211</i>	<i>(103 294)</i>
<i>interest-bearing debt</i>	<i>48 742</i>	<i>43 443</i>	<i>5 299</i>
<i>other non-financial liabilities</i>	<i>144 958</i>	<i>212 252</i>	<i>(67 294)</i>
Long-term liabilities	279 753	395 397	(115 644)
<i>of which:</i>			
<i>interest-bearing debt</i>	<i>104 198</i>	<i>162 324</i>	<i>(58 126)</i>
<i>other non-financial liabilities</i>	<i>175 555</i>	<i>233 072</i>	<i>(57 517)</i>
Total equity and liabilities	2 722 877	3 254 485	(531 608)

As at 31 December 2023, total assets amounted to PLN 2,722,877 thousand as compared to PLN 3,254.485 thousand at the end of 2022.

Fixed assets

At the end of December 2023, fixed assets amounted to PLN 1,292,262 thousand and accounted for 47.5% of total assets, compared to PLN 1,371.867 thousand at the end of 2022 (42.2% of total assets).

The decrease in the value of fixed assets was mainly due to a decrease in the positive valuation of power purchase forwards.

Current assets

As at the end of December 2023, current assets amounted to PLN 1,430.616 thousand as compared to PLN 1,882.618 thousand at the end of December 2022. Within current assets, inventories decreased by PLN 156,275 thousand, receivables decreased by PLN 87,756 thousand, other current assets decreased by PLN 226,491 thousand, and cash and cash equivalents increased by PLN 18,520 thousand. Current assets represented 52.5% of total assets as at the end of December 2023 (57.8% as at the end of 2022) and included inventories – 16.3% (18.5% as at the end of 2022), receivables – 15.3% (15.5% as at the end of 2022), other current assets – 2.5% (9.1% as at the end of 2022) and cash and cash equivalents – 18.4% (14.8% as at the end of 2022). The decrease in other current assets was mainly due to a decrease in the positive valuation of forwards mainly for the purchase of electricity. The increase in cash was mainly due to positive cash flows from operating activities.

Equity

As at the end of 2023, the equity amounted to PLN 1,801.508 thousand as compared to PLN 2,052.182 thousand at the end of 2022. As at the end of December 2023, equity accounted for 66.2% of total equity and liabilities (63.1% as at 31 December 2022).

The decrease in equity was primarily due to a reduction in the positive valuation of financial instruments treated as hedges of future cash flows and the payment of dividends to other shareholders by Rottneros AB, offset in part by net profit for 2023.

Short-term liabilities

As at the end of December 2023, short-term liabilities amounted to PLN 641,616 thousand (23.6% of the balance sheet total), compared to PLN 806,907 thousand (24.8% of the balance sheet total) at the end of 2022.

Short-term liabilities decreased by PLN 165,289 thousand in 2023 mainly due to a decrease in trade and other payables, employee liabilities and income tax liabilities offset in part by an increase in mainly short-term loans.

Long-term liabilities

As at the end of December 2023, long-term liabilities amounted to PLN 279,753 thousand (10.3% of the balance sheet total), compared to PLN 395,397 thousand (12.1% of the balance sheet total) at the end of 2022. In the year under review, there was a decrease in long-term liabilities by PLN 115,644 thousand.

The decrease in long-term liabilities was mainly due to a decrease in provisions for employee benefits and the repayment of loans.

Debt analysis

	2023	2022	Change % 2023/2022
Debt to equity ratio (%)	51.1	58.6	(7.4) p.p.
Equity to fixed assets ratio (%)	139.4	149.6	(10.2) p.p.
Interest-bearing debt-to-equity ratio (%)	8.5	10.0	(1.5) p.p.
Net debt to EBITDA ratio for the last 12 months (x)	(0.73)	(0.28)	(0.45)
EBITDA to interest coverage ratio (x)	75.6	146.6	(70.9)

As at the end of December 2023, the equity debt ratio was 51.1% and was lower by 7.4 p.p. versus the end of December 2022. The decrease in the ratio was mainly due to an increase in equity.

The ratio of fixed assets to equity stood at 139.4% at the end of 2023, 10.2 p.p. lower than at the end of December 2022 as a result of higher decline in equity than in fixed assets.

The interest-bearing debt to equity ratio was 8.5% at the end of 2023 and was by 1.5 p.p. lower versus the ratio calculated at the end of December 2022, both due to a decrease of interest-bearing debt than a decrease in equity.

The net debt to EBITDA ratio for the last 12 months of 2023 was -0.73, 0.45 lower than the ratio for 2022 due to both a larger decrease in net debt calculated as interest-bearing liabilities less cash than a decrease in EBITDA.

The EBITDA to net interest expense ratio for the 12 last months of 2023 was 75.6 and it was lower by 70.9 versus the level of the ratio for 2022 as a result of a decrease of EBITDA.

Liquidity analysis

	2023	2022	Change % 2023/2022
Current ratio	2.2x	2.3	(0,1)
Quick ratio	1,5x	1,6	(0,1)
Cash solvency ratio	0,8x	0,6	0,2
DSI (days)	57,1	62,1	(5,0)
DSO (days)	42,1	37,0	5,1
DPO (days)	57,5	57,0	0,6
Operating cycle (days)	99,3	99,2	0,1
Cash conversion cycle (days)	41,8	42,2	(0,4)

The current and quick liquidity ratios were 2.2 and 1.5, respectively, at the end of December 2023 and decreased by 0.1 and 0.1 compared to 31 December 2022 mainly due to a higher growth rate of current assets than short-term liabilities.

The cash solvency ratio was 0.8 at the end of December 2023, higher than the level of this ratio at the end of December 2022 (by 0.2) mainly due to the increase in cash.

The cash conversion cycle for 2023 (48.8 days) shortened by 0.4 days compared to 2022 (42.2 days) mainly as a result of a reduction in inventory turnover while receivables turnover increased.

Selected items of the consolidated cash flow statement

<i>PLN '000</i>	2023	2022	Change % 2023/2022
Cash flows from operating activities	471 204	607 383	(22,4)
<i>of which:</i>			
<i>Gross profit/(loss)</i>	340 917	927 577	(63,2)
<i>Depreciation/amortisation and impairment allowances (reversal)</i>	118 237	130 994	(9,7)
<i>Changes to working capital</i>	52 740	(289 303)	(118,2)
<i>Other adjustments</i>	(40 691)	(161 884)	(74,9)
Cash flows from investing activities	(146 720)	(155 879)	(5,9)
Cash flows from financing activities	(288 934)	(124 588)	131,9
Total cash flows	35 550	326 916	(89,1)

Cash flows from operating activities

Net cash flows from operating activities reached PLN 471,204 thousand in 2023, compared with PLN 607,381 thousand in 2022. The lower cash flows from operating activities in 2023 was the result of a decrease in gross profit.

Cash flows from investing activities

In 2023, cash flows from investing activities amounted to PLN -146,720 thousand compared with PLN -155,879 thousand in 2022 and mainly comprised expenditure on the acquisition of property, plant and equipment.

Cash flows from financing activities

Cash flows from financing activities in 2023 reached PLN -288,934 thousand compared with PLN -124,587 thousand in 2022. The increase in negative cash flows from financing activities in 2023 was primarily due to dividend payments and loan repayments.

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

Key factors affecting the performance results

The Group's operating activities have been and will continue to be historically influenced by the following key factors:

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

Macroeconomic and other economic factors

We believe that a number of macro-economic and other economic factors have a material impact on the demand for high-quality paper, and they may also influence the demand for the Group's products and the Group's operating results. Those factors include:

- GDP growth,
- net income – as a metric of income and affluence of the population,
- production capacity – the surplus of supply in the high quality paper segment over demand and decreasing sales margins on paper,
- paper consumption,
- technology development.

Demand growth for products based on natural fibres

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

Reduced demand for certain paper types

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

Paper prices

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

Costs of raw materials, energy and transportation

The main elements of the Group's operating expenses include raw materials, energy and transportation. The costs of raw materials include mainly the costs of pulp for Paper Mills, timber for Pulp Mills and chemical agents used for paper and pulp

production. Our energy costs historically include mostly the costs of electricity, gas and rights to CO2 emissions. The costs of transportation include the costs of transportation services provided to the Group mainly by external entities.

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

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

Currency rate fluctuations

The Group's operating results are significantly influenced by currency rate fluctuations. In particular, the Group's revenues and costs are expressed in different foreign currencies and are not matched, therefore, the appreciation of the currencies in which we incur costs towards the currencies in which we generate revenues, will have an adverse effect on the Group's results. Our products are primarily sold to euro zone countries, Scandinavia, Poland and the UK, thus our revenues are largely denominated in EUR, GBP, SEK and PLN while revenues from the pulp mills are primarily denominated in USD. The Group's operating expenses are primarily expressed in USD (pulp costs for Paper Mills), EUR (costs related to pulp for Paper Mills, energy, transportation, chemicals), PLN (the majority of other costs incurred by the Paper Mill in Kostrzyn nad Odrą) and SEK (the majority of other costs incurred by the Munkedal and Grycksbo Paper Mills as well as the Rottneros and Vallvik Pulp Mills).

Exchange rates also have an important impact on results reported in our financial statements because of changes in exchange rates of the currencies in which we generate revenues and incur costs, and the currency in which we report our financial results (PLN).

Unusual events and factors

In 2023 the Kostrzyn plant was granted with the subsidy of PLN 31.2. This subsidy applied to energy-intensive companies and was intended to offset the increase in the price of emission rights in 2022.

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

In 2023, there were no material changes in the Arctic Paper Group's structure that would have material influence on the financial result generated.

Other material information

Joint investment by Arctic Paper and Rottneros – conclusion of joint venture agreement

On 17 February 2023, Arctic Paper S.A. and Rottneros AB ("Rottneros") entered into a joint venture agreement (the "Joint-Venture Agreement") and a joint venture agreement under the name Kostrzyn Packaging Sp. z o.o.

The initial share capital of the Joint-Venture will amount to PLN 460,000.00 and will be divided into 46 equal and indivisible shares with a nominal value of PLN 10,000.00 each. The company and Rottneros will each hold 50% of its share capital.

The object of the Joint-Venture will be: (i) manufacturing moulded cellulose fibre packaging, (ii) sale of finished packaging, (iii) development research and technical analysis of manufactured products.

The source of funding for the Joint-Venture's operations will be shareholders' own contributions and bank loans.

Joint-Venture, under the decision of the Minister of Transport and Development, will benefit from support in the form of income tax exemption up to the amount of PLN 97.2 million of eligible costs under the Polish Investment Zone programme.

The conditions for the income tax exemption to be granted are the minimum value of the investment (PLN 97.2 million), the creation and maintenance of an adequate number of jobs in the production facility and the timing of the investment – no later than 31 December 2025.

The Joint-Venture is also obliged to incur eligible costs of a certain minimum value during the implementation of the investment and to meet qualitative criteria (among others, the criterion of economic and social sustainability) within a period of 5 years from the date of completion of the investment.

The aim of the Joint-Venture is to build a moulded cellulose fibre packaging plant in Kostrzyn nad Odrą, Poland, which is planned to be operational by the end of 2023. The estimated value of the investment will be PLN 100 million, of which the Issuer's share will be 50%. According to the Issuer's estimates, the investment will generate annual revenue of around PLN 60 million.

The joint venture between the Company and Rottneros AB will allow the synergy of Rottneros Packaging AB's know-how in the commercialisation of biodegradable packaging technology, existing operational experience and the favourable location of the Joint-Venture in Kostrzyn nad Odrą. The expansion of the Arctic Paper Group's product portfolio will help strengthen its position in the fast-growing green packaging market and is an important part of the implementation of the Arctic Paper 4P strategy.

Conclusion of an amendment agreement to a significant financing agreement for the Issuer Group

On 8 November 2023, the Company, as borrower, and its selected subsidiaries, as guarantors, concluded an agreement with a syndicate of banks consisting of: Bank Polska Kasa Opieki S.A., BNP Paribas Bank Polska S.A. and Santander Bank Polska S.A. an amending agreement to the term and revolving loan agreement of 2 April 2021 pursuant to which the Lenders granted an additional term loan on the terms and conditions described in current report no. 14/2023 of 9 August 2023 up to a total amount of EUR 20,000.000 of additional loan to finance the construction costs of the biomass drying and pellet production facility to be located in Grycksbo on the property owned by Arctic Paper Grycksbo AB, and extended the repayment date of the revolving loan under the Loan Agreement to 31 March 2026 as the so-called "RCF Repayment Term Extension".

The Additional Loan, representing 67.5% of the amount of the Additional Loan disbursed, will be repaid in semi-annual instalments starting from May 2026. The remaining amount of the Additional Loan will be repaid on the final repayment date of the Additional Loan. Disbursement of the Additional Loan and the RCF Term Extension will be made subject to the satisfaction of the standard conditions precedent provided for in the Amending Agreement. The terms and conditions of the Additional Loan agreement do not differ from those commonly used for this type of agreement.

Factors influencing the development of the Arctic Paper Group

Information on market trends

Supplies of fine paper

In Q4 2023 the Arctic Paper Group recorded an increased level of orders versus Q3 2023 by 4.5% and an increase of orders versus the same period of 2022 by 3.5%.

Source of data: Analysis by Arctic Paper

Paper prices

At the end of Q4 2023, average prices for high-grade papers were lower by respectively: 9.8% for UWF papers and by 12.2% for CWF papers compared to the corresponding prices at the end of 2022.

In the period from October to December 2023, the prices of uncoated wood-free paper (UWF) and coated wood-free paper (CWF) for selected markets: Germany, France, Spain, Italy and the UK expressed in EUR and GBP remained unchanged for both UWF and CWF papers.

The average prices invoiced by Arctic Paper in EUR for comparable products in the segment of uncoated wood-free paper (UWF) at the end of 2023 dropped by 20.8% versus the end of 2022 while in the segment of coated wood-free paper (CWF) the prices dropped by 16.8%.

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

Pulp prices

At the end of Q4 2023, the pulp prices were as follows: NBSK 1,244 USD/tonne and BHKP 1,001 USD/tonne. The average NBSK price in Q4 2023 was 18.6% lower than in the same period last year, while BHKP was 34.2% lower. The average pulp price in Q4 2023 was higher by 1.4% for NBSK and higher by 8.8% for BHKP as compared to Q3 2023.

The average cost of pulp per ton of produced paper as calculated for the AP Group, expressed in PLN, in Q4 2023 decreased by 13.8% versus Q3 2023 and decreased by 44.1% versus Q4 2022. The share of pulp costs in cost of paper sales in Q4 of the current year amounted to 49% and decreased compared to the level recorded in Q4 2022 (61%).

In the four quarters of 2023, the AP Group used pulp in the production process in the following structure: BHKP 75%, NBSK 20% and other 5%.

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

Currency exchange rates

The EUR/PLN exchange rate at the end of Q4 2023 amounted to 4.3480 and was lower by 6.2% than at the end of Q3 2023 and lower by 7.3% than at the end of Q4 2022. The average exchange rate in Q4 2023 was lower by 1.8% than in Q3 2023 and amounted to 4.4193 versus 4.4995. The average exchange rate in Q4 2023 was by 6.6% lower than in Q4 2022.

The EUR/SEK exchange rate at the end of December 2023 stood at 11.0947 against 11.4942 at the end of Q3 2023 and 11.1320 at the end of Q4 2022, representing an appreciation of the SEK against the EUR of 3.5% and 0.3% respectively.

For this pair, the mean exchange rate in Q4 was by 2.5% lower compared to Q3 2023. The mean exchange rate in Q4 2023 was by 4.9% higher than in the corresponding period of 2022.

The changes mean an appreciation of SEK vis-a-vis EUR in Q4 2023 versus Q3 2023 which had an unfavourable impact on the Group's financial results, primarily with reference to the sales revenues generated by the Swedish factories that rely on prices in EUR.

At the end of Q4 2023, the USD/PLN rate recorded a decrease by 9.9% versus the end of Q3 2023 and amounted to 3.9350. The average rate in Q4 2023 was 4.1113, compared to 4.1360 in Q3 2023 and 4.6397 in Q4 2022. This represents an appreciation of the PLN against the USD of 0.6% q/q and a strong appreciation of 11.4% y/y.

At the end of Q4 2023, the USD/SEK rate amounted to 10.0408 and was by 7.3% lower than at the end of Q3 2023. The average rate in Q4 2023 was 10.6757, 0.5% lower than the average rate in Q4 2022.

The average annual change in the USD/SEK exchange rate (+4.9%) adversely affected the costs realised in USD by the Swedish paper mills, in particular pulp costs. With regard to the Kostrzyn paper mill, changes in the average annual USD/PLN exchange rate (-5.8%) had a favourable impact on costs realised in USD, in particular pulp costs.

At the end of December 2023, the EUR/USD rate amounted to 1.1050 compared to 1.0609 at the end of Q3 2022 and to 1.0655 at the end of December 2022. In terms of percentage, that means an appreciation of EUR to USD by 4.2% versus Q3 2023 and an appreciation of the currency by 3.7% versus the equivalent period of the previous year. In Q4 2023, the mean exchange rate of the pair amounted to 1.0755 compared to 1.0884 in Q3 2023 (-1.2%).

The appreciation of the EUR against the SEK on an average annual basis (+8% y/y) adversely affected the Group's financial results, mainly due to a reduction in sales revenue generated in EUR and expressed in SEK. The strengthening of the PLN against the USD in the corresponding period had a positive impact on the purchase prices of raw material at the Kostrzyn mill. The SEK weakening against the USD y/y had a negative impact on the above costs at the Swedish paper mills

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

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

- Shaping demand for high-grade paper in Europe at a time of a tense geopolitical situation, high energy prices and elevated inflation, as well as an expected economic slowdown. Over the recent years there has been a major decrease of demand for fine paper in Europe (level of executed orders). Further negative developments in the market may adversely affect order levels to our Paper Mills. The intensification of remote working may have the additional effect of reducing demand for high-quality graphic papers and therefore negatively affect the Group's financial performance.
- Price changes of fine paper. In particular, the possibility to maintain the prices of Arctic Paper products in local currencies in view of the declining supply/demand in Europe and in the context exchange rates fluctuations, will have a material influence on the financial results. Paper prices are going to be of particular importance for the Paper Mill of Grycksbo which – in connection with the market changes – experiences the greatest adverse impact of drop of sales volumes, prices as well as of exchange rate fluctuations.
- Price fluctuations of raw materials, including pulp for Paper Mills and electricity for all operational entities. In particular, financial results of Paper Mills may be negatively influenced by increasing pulp prices, particularly BHKP. On the other hand, dropping NBSK pulp prices may negatively affect the financial results of Pulp Mills. Fluctuations of electricity prices in Sweden may also have a material impact on the results generated by the Group. In the future, such market changes may translate into changes of sales profitability in Paper Mills of AP Munkedals and AP Grycksbo as well as in Pulp Mills of Rottneros and Vallvik.
- Changes in currency rates, in particular, the appreciation of PLN and SEK in relation to EUR and GBP, the appreciation of PLN in relation to SEK, and the depreciation of PLN and SEK in relation to USD, may have an adverse effect on the financial results. However, the Group's Pulp Mills may benefit from the appreciation of USD in relation to SEK.

Risk factors

Risk factors related to the environment in which the Group operates

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

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

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

Risk of changing legal regulations

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

FX risk

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

Interest rate risk

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

Risk related to increasing importance of alternative media

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

The objectives and methods of financial risk management in the Group along with hedging methods of major transactions are detailed in note 34 to the consolidated financial statements.

Risk factors relating to the business of the Group

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

Risk related to relatively low operational margins

Historically, the operational results of the Group are characterised by relatively high volatility and low profit margins on operations. Reduced revenues resulting e.g. from changes to production capacity, output, pricing policies or increased operating

expenses that primarily comprise costs of raw materials (mainly pulp for Paper Mills) and energy, may mean the Group's losses in earning capacity. Material adverse changes to profitability may result in reduced prices of our stock and reduced capacity to generate working capital thus adversely affecting our business and deteriorating our prospects.

Risk of price changes to raw materials, energy and products

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

Risk of disruption to production processes

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

Risk related to our investments

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

Risk factors relating to the debt of the Group

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

Failure by the Group to comply with its obligations, including the agreed levels of financial ratios (covenants) resulting from the agreements, will result in default under those agreements. Events of default may in particular result in demand for repayment of our debt, banks taking control over important assets like Paper Mills or Pulp Mills and loss of other assets which serve as collateral, deterioration of creditworthiness and lost access to external funding which will be converted into lost liquidity and which in turn may materially adversely affect our business and development prospects and our stock prices.

Risk related to insurance limits

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

Risk of restricted supplies of natural gas

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

Risk related to consolidation and liquidity of key customers

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

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

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

Risk related to CO2 emissions

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

Risk related to dividend distribution

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

In connection with the term and revolving loan agreements, and the agreement between creditors 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 loan agreement) and there being no event of default (as that term is defined in the term and revolving loan agreement).

Supplementary information

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

The Management Board of Arctic Paper S.A. did not publish projections of financial results for 2023 and has not published and does not intend to publish projections of financial results for 2024.

Principles for the preparation of annual consolidated financial statements

The Group's consolidated financial statements for the period from 1 January 2023 to 31 December 2023 have been prepared on the basis of International Financial Reporting Standards and related interpretations promulgated as regulations of the European Commission. The financial statements have been prepared on a going concern basis for the foreseeable future. As at the date of the financial statements, there are no circumstances indicating a threat to the Group's and the Issuer's going concern. Details of the preparation of the standalone and consolidated financial statements are discussed in note 9 to the 2023 Consolidated Financial Statements.

Dividend information

On 15 February 2024, the Management Board of the Company, taking into account the preliminary financial results of the Company and the Arctic Paper S.A. Group for 2023, decided to recommend to the Annual General Meeting of the Company the payment of a dividend from the Company's net profit for the financial year 2023, in the total amount of PLN 69,287,783.00, i.e. PLN 1.00 gross per share. The Management Board's recommendation will be reviewed by the Supervisory Board and will be submitted to the Ordinary General Meeting for adoption of a resolution. The final decision on the distribution of the Company's profit for 2023 and the payment of dividend will be made by the Ordinary General Meeting.

Changes to the bodies of Arctic Paper S.A.

As at 31 December 2023, the Company's Supervisory Board was composed of:

- Per Lundeen – Chairman of the Supervisory Board appointed on 22 September 2016 (appointed to the Supervisory Board on 14 September 2016);
- Roger Mattsson – Deputy Chairman of the Supervisory Board appointed on 22 September 2016 (appointed as a Member of the Supervisory Board on 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.

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

The Management Board of the Parent Entity as at the publication hereof was composed as follows:

- Mr Michał Jarczyński – President of the Management Board
- Ms Katarzyna Wojtkowiak – Member of the Management Board
- Mr Tom Fabian Langenskiöld – Member of the Management Board

On 9 May 2023, Mr Göran Eklund resigned as a Member of the Company's Management Board and CFO of the Company with effect from 29 May 2023.

The Supervisory Board, by resolution of 9 May 2023, appointed Ms Katarzyna Wojtkowiak as a member of the Company's Management Board with effect from 29 May 2023. Ms Katarzyna Wojtkowiak also holds the position of the CFO of the Company.

The Supervisory Board, by resolution of 9 August 2023, appointed Mr Tom Fabian Langenskiöld as a member of the Company's Management Board with effect from 14 August 2023. Mr Fabian Langenskiöld also holds the position of Executive Vice-President for Sales and Marketing.

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

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

In 2023 there were no changes to the Company's share capital.

Remuneration paid to Members of the Management Board and the Supervisory Board

The table below presents information on the total amount of remuneration and other benefits paid or payable to members of the Management Board and of the Supervisory Board of the Parent Entity in the period from 1 January 2023 to 31 December 2023 (data in PLN).

Managing and supervising persons	Remuneration for functions performed at Arctic Paper S.A.	Retirement plan	Others	Total
Management Board				
Jarczyński Michał	1 026 511		477 765	1 504 276
Wojtkowiak Katarzyna*	416 679			416 679
Langenskiöld Fabian**	463 559	141 930		605 489
Göran Eklund***	963 157	122 896		1 086 053
				3 612 497
Supervisory Board				
Per Lundeen	353 167			353 167
Roger Mattsson	247 417			247 417
Thomas Onstad	176 583			176 583
Zofia Dzik	216 121			216 121
Anna Jakubowski	180 946			180 946

* for the period 29.05.2023-31.12.2023

** for the period 14.08.2023-31.12.2023

*** for the period 01.01.2023-29.05.2023

The above remuneration includes costs incurred by the Company for senior management services provided to the subsidiary amounting to PLN 1,427 thousand.

Agreements with Members of the Management Board guaranteeing financial compensation

As at 31 December 2023 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 as at 04.04.2024	Number of shares or rights to shares as at 31.12.2023	Number of shares or rights to shares as at 07.11.2023	Change
Management Board				
Michał Jarczyński	5 572	5 572	5 572	-
Katarzyna Wojtkowiak	-	-	-	-
Tom Fabian Langenskiöld	900	900	n/a	-
Supervisory Board				
Per Lundeen	34 760	34 760	34 760	-
Thomas Onstad*	5 623 658	5 623 658	6 223 658	-
Roger Mattsson	-	-	-	-
Zofia Dzik	-	-	-	-
Anna Jakubowski	-	-	-	-

*only direct shareholding

Management of financial resources

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

Capital investments

In 2023, the Group used short-term deposits with a maturity of up to six months.

Information on financial instruments

Information on financial instruments on:

- the risks of: price changes, credit, material disruption of cash flows and loss of liquidity to which the Group is exposed; and
- 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 consolidated financial statements in notes 34 and 35.

Information of sureties, guarantees and pledges

As at 31 December 2023, the Capital Group reported:

- a bank guarantee in favour of Skatteverket Ludvika in the amount of SEK 135 thousand;
- a contingent liability of Arctic Paper Munkedals AB related to a surety for the obligations of Kalltorp Kraft HB in the amount of SEK 428 thousand;
- a pledge on properties held by Munkedals Kraft AB as required by loan agreements with Nordea Bank for SEK 80,000 thousand (related to the investment in the hydro power plant);
- pledges on shares in subsidiary companies in the Rottneros Group for SEK 284,730 thousand under loan agreements concluded with Danske Bank.

In connection with the amendment agreement to the term and revolving loan agreements concluded on 2 April 2021, signed on 8 November 2023, on 16 November 2023 the Company signed annexes to the original collateral agreements (of 11 May 2021) and declarations according to which the above receivables and other claims were secured in favour of Bank Santander Bank Polska S.A., acting as Collateral Agent, i.e.

1. . under Polish law – Collateral Documents establishing the following Collateral:
 - › financial and registered pledges on all shares held by Arctic Paper S.A. and the Guarantors (Arctic Paper Kostrzyn SA, Arctic Paper Munkedals AB, Arctic Paper Grycksbo AB) that are registered in Poland and belong to companies in the Company's group (except Rottneros AB, Arctic Paper Mochenwangen GmbH, Arctic Paper Investment GmbH and Munkedals Kraft AB), with the exception of Arctic Paper S.A. shares; the security includes the right to exercise voting rights attached to the pledged shares;
 - › mortgages on all real properties located in Poland and owned by the Guarantors;
 - › registered pledges on all material rights and movable assets owned by Arctic Paper S.A. 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 Arctic Paper S.A. and the Guarantors (with the exception of insurance policies listed in the Loan Agreement);
 - › declaration by Arctic Paper S.A. and the Guarantors on voluntary submission to enforcement, in the form of a notary deed;
 - › financial pledges and registered pledges on Arctic Paper S.A. and the Guarantors' bank accounts registered in Poland (the pledges relate to current and future bank accounts; in the event of an event of default, in the event that the pledged receivable or part thereof becomes due, Arctic Paper S.A. may not draw funds from the pledged receivable, nor may it instruct the bank maintaining the account to disburse the funds);
 - › powers of attorney to Polish bank accounts of Arctic Paper S.A. and the Guarantors, registered in Poland;
 - › civil surety for liabilities granted by Arctic Paper S.A., Arctic Paper Kostrzyn S.A., Arctic Paper Munkedals AB, Arctic Paper Grycksbo AB

2. under Swedish law – Collateral Documents establishing the following Collateral:
 - › pledges on all shares held by Arctic Paper S.A. and the Guarantors, registered in Poland, belonging to the companies of the group, with the exception of Arctic Paper S.A. shares
 - › mortgages on all real properties located in Sweden and owned by Arctic Paper S.A. 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 Arctic Paper S.A. and the Guarantors (with the exception of insurance policies listed in the Loan Agreement);
 - › pledges on Swedish bank accounts of Arctic Paper S.A. and the Guarantors as long as such collateral is without prejudice to free management of funds deposited on bank accounts until an event of default specified in the Loan Agreement.

Material off-balance sheet items

The information regarding off-balance sheet items is disclosed in note 31 to the consolidated financial statements.

Assessment of the feasibility of investment plans

In view of the improved financial results and subject to accomplishment of the current financial objectives, the Company plans to carry out the investments in line with its financial plan. The core objective of the investments is to develop new products, minimise production costs, including the costs of electricity, and to improve the effectiveness of the production process. The Group intends to finance its investment plan for 2023 with its own funds and external funding sources.

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

In the period covered by this report, Arctic Paper S.A. and its subsidiaries were not a party to any material proceedings pending before a court, a competent authority for arbitration proceedings or a public administration authority.

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

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

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

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

Information on purchase of treasury shares

The Parent Entity did not purchase any treasury shares in 2023.

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

On 22 February 2023, the Company's Supervisory Board, based on the Audit Committee's recommendation on the selection of an auditor, decided to select PricewaterhouseCoopers Polska Spółka z ograniczoną odpowiedzialnością Audyt Sp.k. as the auditor of the Company and the Arctic Paper S.A. Group to audit the financial statements for 2023 and 2024. The recommendation of the Audit Committee was issued as a result of the selection procedure in compliance with the "Policy and procedure for the selection of the audit firm for the statutory and voluntary audit of the consolidated and standalone financial statements of Arctic Paper S.A. with its registered office in Kostrzyn nad Odrą".

On 14 July 2023, Arctic Paper S.A. contracted with PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k. to review the Company's interim standalone consolidated financial statements and the Group's interim consolidated financial statements for the periods from 1 January 2023 to 30 June 2023 and from 1 January 2024 to 30 June 2024, and to audit the Company's stand-alone financial statements and the Group's consolidated financial statements for the financial periods from 1 January 2023 to 31 December 2023 and for the financial periods from 1 January 2024 to 31 December 2024. The contract was concluded for the time required to perform the above services.

Other information on the auditor, including information on the audit firm's fees paid or payable for 2023 and 2022, is included in note 33 to the consolidated financial statements.

Headcount

Information on the headcount is provided in note 37 to the consolidated financial statements.

Information on the preparation of a separate group report on non-financial information

The Company has prepared the non-financial information referred to in Article 49b(2) to (8) of the Accounting Act in the form of a separate document entitled "Sustainability Report 2023", in accordance with the requirements set out in the said Act. This document, once published, together with the Annual Report and the Consolidated Annual Report for 2023, will be posted on the Company's website in accordance with Article 49b(6) of the aforementioned Act".

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 corporate governance rules for companies listed on the WSE Main Market – “Best Practice of GPW Listed Companies (Best Practice 2021, DPSN2021).

Best Practice 2021 came into force on 1 July 2021.

Application by companies of the corporate governance rules 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 reports on the application of DPSN2021 by 31 July 2021.

The text of the “Best Practice of WSE Listed Companies 2021” is available on the websites of the Stock Exchange S.A. and the Company:

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

https://www.arcticpapergroup.pl/globalassets/arcticpapergroup.com/02-about/04-corporate-governance/dpsn21_broszura_wersja_do_druku.pdf

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 2023, 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, among other things:

provide the value of the pay equity ratio paid to its employees, calculated as a percentage of the difference between average monthly pay (including bonuses, prizes and other allowances) of women and men for the last year, and provide information on 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 – 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 the General Meeting. 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 CFO 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 compared to 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 2023 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 at the date of approval of this report.

Shareholder	Number of shares	Share in the share capital	Number of votes	Share in the total number of votes
		[%]		[%]
				as at 31.12.2023
Thomas Onstad	47 205 107	68,13%	47 205 107	68,13%
- indirectly via	41 581 449	60,01%	41 581 449	60,01%
<i>Nemus Holding AB</i>	<i>40 981 449</i>	<i>59,15%</i>	<i>40 981 449</i>	<i>59,15%</i>
<i>other entity</i>	<i>600 000</i>	<i>0,87%</i>	<i>600 000</i>	<i>0,87%</i>
- directly	5 623 658	8,12%	5 623 658	8,12%
Other	22 082 676	31,87%	22 082 676	31,87%
Total	69 287 783	100,00%	69 287 783	100,00%
Treasury shares	-	0,00%	-	0,00%
Total	69 287 783	100,00%	69 287 783	100,00%

Securities with special control rights

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

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

The Company's Articles of Association do not provide for any restrictions concerning transfer of title to the Issuer's securities. 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_jednolity_aktualny_2019_pl.pdf

General Meetings are held in accordance with the following basic rules:

- General Meetings are held in the Company's offices or in Warsaw;
- General Meetings may be ordinary or extraordinary;
- Ordinary General Meetings shall be held within six months after the end of the financial year;
- General Meetings are opened by the Chairperson of the Supervisory Board or a person designated by him/her which is followed by election of the Chairperson of the General Meeting;
- Voting shall be open unless a Shareholder demands a secret ballot or a secret ballot is required by the provisions of the Code of Commercial Companies;
- Unless the Code of Commercial Companies or the Articles of Association of the Company provide otherwise, resolutions of the General Meeting require an absolute majority of votes;
- In compliance with the Company's Articles of Association, the following matters fall within the exclusive competences of the General Meeting:
 - › review and approval of the Management Board's report from operations of the Company and financial statements of the Company for the previous financial year;
 - › granting a vote of approval to members of the Management Board and members of the Supervisory Board for the performance of their duties;
 - › decisions concerning distribution of profit or coverage of losses;
 - › changes to the business objects of the Company;
 - › changes to the Articles of Association of the Company;
 - › increase or decrease in the Company's share capital;
 - › merger of the Company with another company or other companies, split of the Company or transformation of the Company;
 - › dissolution and liquidation of the Company;
 - › issues of convertible bonds or pre-emption bonds and issues of subscription warrants;
 - › purchase and sale of 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 Vice-Presidents from among members of the Management Board. Vice-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;
- Katarzyna Wojtkowiak – Member of the Management Board appointed with effect from 9 May 2023;
- Tom Fabian Langenskiöld – Member of the Management Board appointed with effect from 14 August 2023.

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 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 Vice-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 subsidiaries are members;
 - › approval of 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;
 - › approval of 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 Lundeen – Chairman of the Supervisory Board appointed on 14 September 2016;
- Roger Mattsson – Deputy Chairman of the Supervisory Board appointed on 16 September 2014;
- Thomas Onstad – Member of the Supervisory Board appointed on 22 October 2008;
- 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 2023, the Supervisory Board held meetings on: 18 January, 22 February, 9 May, 9 August, 17 October and 12 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.
- 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;
- A majority of the members of the Audit Committee, including the Chairman of the Audit Committee, must be independent members;
- 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:
 - › issuing 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 2023, the Audit Committee held meetings on: 20 February, 28 March, 9 August and 11 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 (CFO);

- 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 10 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 22 February 2023, the Company's Supervisory Board, based on the Audit Committee's recommendation on the selection of an auditor, decided to select PricewaterhouseCoopers Polska Spółka z ograniczoną odpowiedzialnością Audyt Sp.k. as the auditor of the Company and the Arctic Paper S.A. Group to audit the financial statements for 2023 and 2024. The recommendation of the Audit Committee was issued as a result of the selection procedure in compliance with the "Policy and procedure for the selection of the audit firm for the statutory and voluntary audit of the consolidated and standalone financial statements of Arctic Paper S.A. with its registered office in Kostrzyn nad Odrą". 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.

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 Article 90d(1) in connection with Article 90c(2)(1) of the Act of 29 July 2005 on public offerings and conditions for the introduction of financial instruments into the organised trading system and on public companies (i.e. Journal of Laws of 2019, item 623 as 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 6 June 2023, the General Meeting of the Company gave a positive opinion on the remuneration report for 2023 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 on the assessment of the remuneration report was attached as Appendix 2 to current report No. 9/2023 – "Resolutions adopted by the Annual General Meeting of Arctic Paper S.A. on 6 June 2023".

Remuneration Committee meetings were held on: 2 February, 8 February, 21 March, 5 April, 8 May, 11 December.

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 FX 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 5 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

The Risk Committee held a meeting on 12 December 2023.

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 2021" (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 or 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 auditing firm to audit the annual consolidated financial statements of the Arctic Paper Group and the annual standalone financial statements of the Company for the financial year ended 31 December 2023 in accordance with the regulations and based on the statement received from PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k.

The Management Board of the Company informs that the selection of the auditing firm by the Supervisory Board took place in accordance with the regulations and the "Policy and procedure for the selection of the audit firm for the statutory and voluntary audit of the consolidated and standalone financial statements of Arctic Paper S.A. with its registered office in Kostrzyn nad Odrą".

The audit firm and members of the audit team complied with the criteria to issue an impartial and independent report on the audit of the annual consolidated financial statements of the Company for the financial year ended on 31 December 2023, in compliance with the applicable laws, professional standards, and the principles of professional conduct.

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

Signatures of the Members of the Management Board

Position	First and last name	Date	Signature
President of the Management Board CEO	Michał Jarczyński	4 April 2024	signed with a qualified electronic signature
Member of the Management Board CFO	Katarzyna Wojtkowiak	4 April 2024	signed with a qualified electronic signature
Member of the Management Board Vice-President for Sales and Marketing	Fabian Langenskiöld	4 April 2024	signed with a qualified electronic signature

Statements of the Management Board

Accuracy and reliability of the presented reports

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

- The consolidated financial statements of the Arctic Paper Capital Group for the year ended on 31 December 2023 and the comparable data were prepared in compliance with the applicable accounting principles and they reflect the economic and financial condition of the Capital Group and its financial result for 2023 in a true, reliable and clear manner.
- The Management Board's Report from operations of the Arctic Paper Capital Group in 2023 contains a true image of the development, achievements and condition of the Arctic Paper Capital Group, including a description of core hazards and risks.

Signatures of the Members of the Management Board

Position	First and last name	Date	Signature
President of the Management Board Chief Executive Officer	Michał Jarczyński	4 April 2024	signed with a qualified electronic signature
Member of the Management Board Chief Finance Officer	Katarzyna Wojtkowiak	4 April 2024	signed with a qualified electronic signature
Member of the Management Board Executive Vice-President for Sales and Marketing	Fabian Langenskiöld	4 April 2024	signed with a qualified electronic signature