Arctic Paper Capital Group
Consolidated Annual Report 2021

Translator's Explanatory Note: the following document is a free translation of the report of the above-mentioned Company. In the event of any discrepancy in interpreting the terminology in Polish version is binding.

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

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

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

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

Dear Sirs,

Another successful year for the Arctic Paper Group is behind us. Although the pandemic still had a major impact on societies and the economy, the conviction that it was time to rebuild and to continue to grow created a boom, and we took full advantage of it. The economic recovery across Europe has increased demand for our products. Demand, for both pulp and paper, has increased significantly compared to 2020. Graphic paper as a medium for conveying information – has maintained its strong position. Paper sales volumes increased by more than 12%, and this, combined with capacity reductions by competitors, significantly increased our share of the overall European graphic paper market.

We recorded very good results in the packaging paper segment. Sales dynamics exceeded 200%. This shows a clear trend towards substituting plastic with packaging made from natural raw materials such as pulp. This gives us a strong conviction that this direction of pulp and packaging development is worth continuing.

The prosperity of the economy also causes negative factors. These include increases in the cost of raw materials (pulp, oil), energy, transport costs and extended delivery times for machinery, equipment and spare parts. Inflation pressures were reflected in the rapidly rising costs of manufacturing our products, but an appropriate pricing policy and rapid response to changing market conditions allowed us not only to maintain margins but to increase them.

The results achieved by our two segments, the pulp segment and the paper segment, once again confirm the validity and effectiveness of the mutual hedging policy of these two segments. The paper segment contributed 48% of total EBITDA and the pulp segment 52%.

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

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

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

Sincerely yours,

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

INTRODUCTION

to the annual report for 2021
Arctic Paper Capital Group

Information on the report

This Consolidated Annual Report for 2021 was prepared in accordance with the Regulation of the Minister of Finance of 19 February 2009 on the current and periodic information provided by securities issuers and on the conditions for recognizing information required by the law of a non-member state as equivalent information (Journal of Laws of 2009, No. 33, item 259, as amended) and a part of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), approved by the EU (IFRS, EU).

As at the approval date of these Consolidated Financial Statements for publication, in light of the current process of IFRS endorsement in the European Union and the nature of the Group's activities, there is no difference between the effective IFRS standards and the IFRS standards endorsed by the European Union. IFRS cover standards and interpretations approved by the International Accounting Standards Board (IASB).

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

This Consolidated Annual Report presents data in PLN, and all figures, unless otherwise specified, are disclosed in PLN '000.

Definitions and abbreviations

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

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

Arctic Paper, Company, Issuer, Parent Entity, AP	Arctic Paper Kostrzyn 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 County, Sweden
Arctic Paper Mochenwangen, AP Mochenwangen, APMW	Arctic Paper Mochenwangen GmbH with its registered office in Mochenwangen, Germany
Arctic Paper Grycksbo, AP Grycksbo, APG	Arctic Paper Grycksbo AB with its registered office in Kungsvagen, Grycksbo, Sweden
Paper Mills	Arctic Paper Kostrzyn, Arctic Paper Munkedals, Arctic Paper Grycksbo
Arctic Paper Investment AB, API AB	Arctic Paper Investment AB with its registered office in Göteborg, Sweden
Arctic Paper Investment GmbH, API GmbH	Arctic Paper Investment GmbH with its registered office in Wolpertswende, Germany
Arctic Paper Verwaltungs	Arctic Paper Verwaltungs GmbH with its registered office in Wolpertswende, Germany
Arctic Paper Immobilienverwaltungs	Arctic Paper Immobilienverwaltungs GmbH & Co. KG with its registered office in Wolpertswende, Germany
Kostrzyn Group	Arctic Paper Kostrzyn Spółka Akcyjna with its registered office in Kostrzyn nad Odrą and EC Kostrzyn Sp. z o.o. with its registered office in Kostrzyn nad Odrą
Mochenwangen Group	Arctic Paper Investment GmbH, Arctic Paper Mochenwangen GmbH, Arctic Paper Verwaltungs GmbH, Arctic Paper Immobilienverwaltungs GmbH & Co.KG
Grycksbo Group	Arctic Paper Grycksbo AB and Arctic Paper Investment AB,
Sales Offices	Arctic Paper Papierhandels GmbH with its registered office in Vienna (Austria);
	Arctic Paper Benelux SA with its registered office in Oud-Haverlee (Belgium);
	Arctic Paper Danmark A/S with its registered office in Greve (Denmark);

	Arctic Paper France SA with its registered office in Paris (France);
	Arctic Paper Deutschland GmbH with its registered office in Hamburg, Germany;
	Arctic Paper Italia Srl with its registered office in Milan (Italy);
	Arctic Paper Baltic States SIA with its registered office in Riga (Latvia);
	Arctic Paper Norge AS with its registered office in Oslo (Norway);
	Arctic Paper Polska Sp. z o.o. with its registered office in Warsaw (Poland);
	Arctic Paper España SL with its registered office in Barcelona (Spain);
	Arctic Paper 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);
Arctic Paper Finance AB	Arctic Paper Finance AB with its registered office in Göteborg, Sweden
Rottneros, Rottneros AB	Rottneros AB with its registered office in Sunne, Sweden
Rottneros Group, Rottneros AB Group	Rottneros AB with its registered office in Söderhamn, Sweden; Rottneros Bruk AB with its registered office in Rottneros, Sweden; Utansjo Bruk AB with its registered office in Söderhamn, Sweden, Vallviks Bruk AB with its registered office in Vallvik, Sweden; Rottneros Packaging AB with its registered office in Sunne, Sweden; SIA Rottneros Baltic with its registered office in Kuldiga, Latvia; 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.
GM, General Meeting, Issuer's General Meeting, Company's General Meeting	General Meeting of Arctic Paper S.A.
EGM, Extraordinary General Meeting, Issuer's Extraordinary General Meeting, Company's Extraordinary General Meeting	Extraordinary General Meeting of Arctic Paper S.A.
Articles of Association, Issuer's Articles of Association, Company's Articles of Association	Articles of Association of Arctic Paper S.A.
SEZ	Kostrzyńsko-Słubicka Special Economic Zone
Court of Registration	District Court 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 sales profit (loss) to sales income from continuing operations
EBIT	Profit on continuing operating activity (Earnings Before Interest and Taxes)
EBIT profitability, operating profitability, operating profit margin	Ratio of operating profit (loss) to sales income from continuing operations

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

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

Other definitions and abbreviations

Series A Shares	50,000 Shares of Arctic Paper S.A. A series ordinary shares of PLN 1 each.
Series B Shares	44,253,500 Shares of Arctic Paper S.A. B series ordinary shares of PLN 1 each.
Series C Shares	8,100,000 Shares of Arctic Paper S.A. C series ordinary shares of PLN 1 each.
Series E Shares	3,000,000 Shares of Arctic Paper S.A. E series ordinary shares of PLN 1 each.
Series F Shares	13. 884,283 Shares of Arctic Paper S.A. Series F ordinary shares of the nominal value of PLN 1 each
Shares, Issuer’s Shares	Series A, Series B, Series C, Series E, and Series F Shares jointly

Forward looking statements

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

Forward looking statements relating to risk factors

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

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

Selected consolidated financial data

Selected consolidated financial data

	Period from 01.01.2021 to 31.12.2021 PLN'000	Period from 01.01.2020 to 31.12.2020 PLN'000	Period from 01.01.2021 to 31.12.2021 EUR'000	Period from 01.01.2020 to 31.12.2020 EUR'000
Continuing operations				
Sales revenues	3 412 576	2 847 450	747 225	640 604
Operating profit (loss)	244 570	158 242	53 552	35 600
Gross profit (loss)	223 115	122 318	48 854	27 518
Net profit (loss) for the period	175 907	103 586	38 517	23 304
Net profit (loss) attributable to the shareholders of the Parent Entity	127 154	111 070	27 842	24 988
Net cash flows from operating activities	238 193	211 464	52 155	47 574
Net cash flows from investing activities	(159 513)	(141 239)	(34 927)	(31 775)
Net cash flows from financing activities	(162 068)	(100 950)	(35 487)	(22 711)
Change in cash and cash equivalents	(83 388)	(30 725)	(18 259)	(6 912)
Weighted average number of ordinary shares	69 287 783	69 287 783	69 287 783	69 287 783
Diluted weighted average number of ordinary shares	69 287 783	69 287 783	69 287 783	69 287 783
EPS (in PLN/EUR)	1,84	1,60	0,40	0,36
Diluted EPS (in PLN/EUR)	1,84	1,60	0,40	0,36
Mean PLN/EUR exchange rate*			4,5670	4,4449

	As at 31 December 2021 PLN'000	As at 31 December 2020 PLN'000	As at 31 December 2021 EUR'000	As at 31 December 2020 EUR'000
Assets	2 389 266	2 136 646	519 473	462 999
Long-term liabilities	424 205	464 596	92 230	100 675
Short-term liabilities	722 066	639 016	156 991	138 471
Equity	1 242 996	1 033 033	270 252	223 852
Share capital	69 288	69 288	15 064	15 014
Number of ordinary shares	69 287 783	69 287 783	69 287 783	69 287 783
Diluted number of ordinary shares	69 287 783	69 287 783	69 287 783	69 287 783
Book value per share (in PLN/EUR)	17,94	14,91	3,90	3,23
Diluted book value per share (in PLN/EUR)	17,94	14,91	3,90	3,23
Declared or paid dividend (in PLN/EUR)	20 786 335	-	4 519 358	-
Declared or paid dividend per share (in PLN/EUR)	0,30	-	0,07	-
PLN/EUR exchange rate at the end of the period**	-	-	4,5994	4,6148

* – Profit and loss and cash flow statement items have been translated at the mean arithmetic exchange rates published by the National Bank of Poland, prevailing in the period that the presented data refers to.
** – Balance sheet items and book value
per share have been converted at the average exchange rate announced by the National Bank of Poland (NBP) as at the balance sheet date.

REPORT OF THE MANAGEMENT BOARD

from operations of the Arctic Paper
Capital Group
to the report for 2021

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

General information

The Arctic Paper Group is a producer of paper and pulp. We offer bulky book paper and a broad range of products in the segment and high-quality graphic paper. The Group produces numerous types of uncoated and coated wood-free paper as well as wood-containing uncoated paper for printing houses, paper distributors, book and magazine publishing houses and the advertising industry. 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 2021, 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 685,000 tonnes of paper per year. Our Pulp Mills located in Sweden have aggregated production capacities of over 400,000 tonnes of pulp annually. As at 31 December 2021, 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 2021 amounted to PLN 3,413 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 objects
The principal business of the Arctic Paper Group is paper production and sales. The Group's additional business, partly subordinate to paper and pulp production, covers:

- Generation of electricity,
- Transmission of electricity,
- Electricity distribution,
- Heat production,
- Heat distribution,
- Logistics services,
- Distribution of paper and pulp.

Our production facilities
As on 31 December 2021, as well as on the day hereof, the Group owned the following Paper Mills:

- the Paper Mill in Kostrzyn nad Odrą (Poland) has the production capacity of about 315,000 tonnes per year and mainly produces uncoated wood-free paper for general printing use such as printing books, brochures and forms, and for producing envelopes and other paper products;
- the Paper Mill in Munkedal (Sweden) has the production capacity of about 160,000 tonnes and mainly produces fine uncoated wood-free paper used primarily for printing books and high-quality brochures;
- the Paper Mill in Grycksbo (Sweden) has the production capacity of about 210,000 tonnes per year and produces coated wood-free paper used for printing maps, books, magazines, posters and printing of advertising materials.

As on 31 December 2021, as well as on the day hereof, the Group owned the following Pulp Mills:

- The pulp mill in Rottneros (Sweden) has production capacity of about 160,000 tonnes annually and produces mainly two types of mechanical pulp: groundwood and chemo thermo mechanical pulp (CTMP);

— the Pulp Mill in Vallvik (Sweden) has the annual production capacity of about 240,000 tonnes and produces two types of long-fibre sulphate pulp: fully bleached sulphate pulp and unbleached sulphate pulp. The most of Vallvik Pulp Mill production is known as NBSK pulp. The unbleached sulphate pulp produced by the Pulp Mill is characterised by very high purity and is primarily used to produce transformers and in cable industry.

Our products

The product assortment of the Arctic Paper Group covers:

— Uncoated wood-free paper, in particular:

› white offset paper that we produce and distribute primarily under the Amber brand which is one of the most versatile types of paper destined for various applications;
› woodfree bulky book paper that we produce under the Munken brand, used primarily for book printing;
› high quality graphic paper with 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 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) and groundwood which are used mainly for production of printing and writing papers;

Capital Group structure

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

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

Changes in the capital structure of the Arctic Paper Group

In 2021, no material changes in the capital structure of the Arctic Paper Group occurred.

Modifications to the core management principles

In 2021, there were no material modifications to the core management principles.

Shareholding structure

Nemus Holding AB, a company under Swedish law (a company owned indirectly by Mr Thomas Onstad), is the majority shareholder of Arctic Paper S.A., holding (as at 31 December 2021) 40,381,449 shares of our Company, which constitutes 58.28% of its share capital and corresponds to 58.28% of the total number of votes at General Meetings. Thus Nemus Holding AB is the Parent Entity of the Issuer.

Additionally, Mr Thomas Onstad, an indirect shareholder of Nemus Holding AB, holds directly 6,223,658 shares representing 8.98% of the total number of shares in the Company, and via another entity – 600,000 shares accounting for 0.87% of the total number of shares of the Issuer. Mr Thomas Onstad's total direct and indirect holding in the capital of Arctic Paper S.A. as at 31 December 2021 was 68.13% and has not changed until the date hereof.

as at 22.03.2022

Shareholder	Number of shares	Share in the share capital [%]	Number of votes	Share in the total number of votes [%]
Thomas Onstad	**47 205 107**	**68,13%**	**47 205 107**	**68,13%**
- indirectly via	40 981 449	59,15%	40 981 449	59,15%
Nemus Holding AB	40 381 449	*58,28%*	*40 381 449*	*58,28%*
other entity	600 000	*0,87%*	*600 000*	*0,87%*
- directly	6 223 658	8,98%	6 223 658	8,98%
Other	**22 082 676**	**31,87%**	**22 082 676**	**31,87%**
Total	69 287 783	100,00%	69 287 783	100,00%
Treasury shares	-	0,00%	-	0,00%
Total	**69 287 783**	**100,00%**	**69 287 783**	**100,00%**

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 2021 and the date of publication of the quarterly report for Q3 2021.

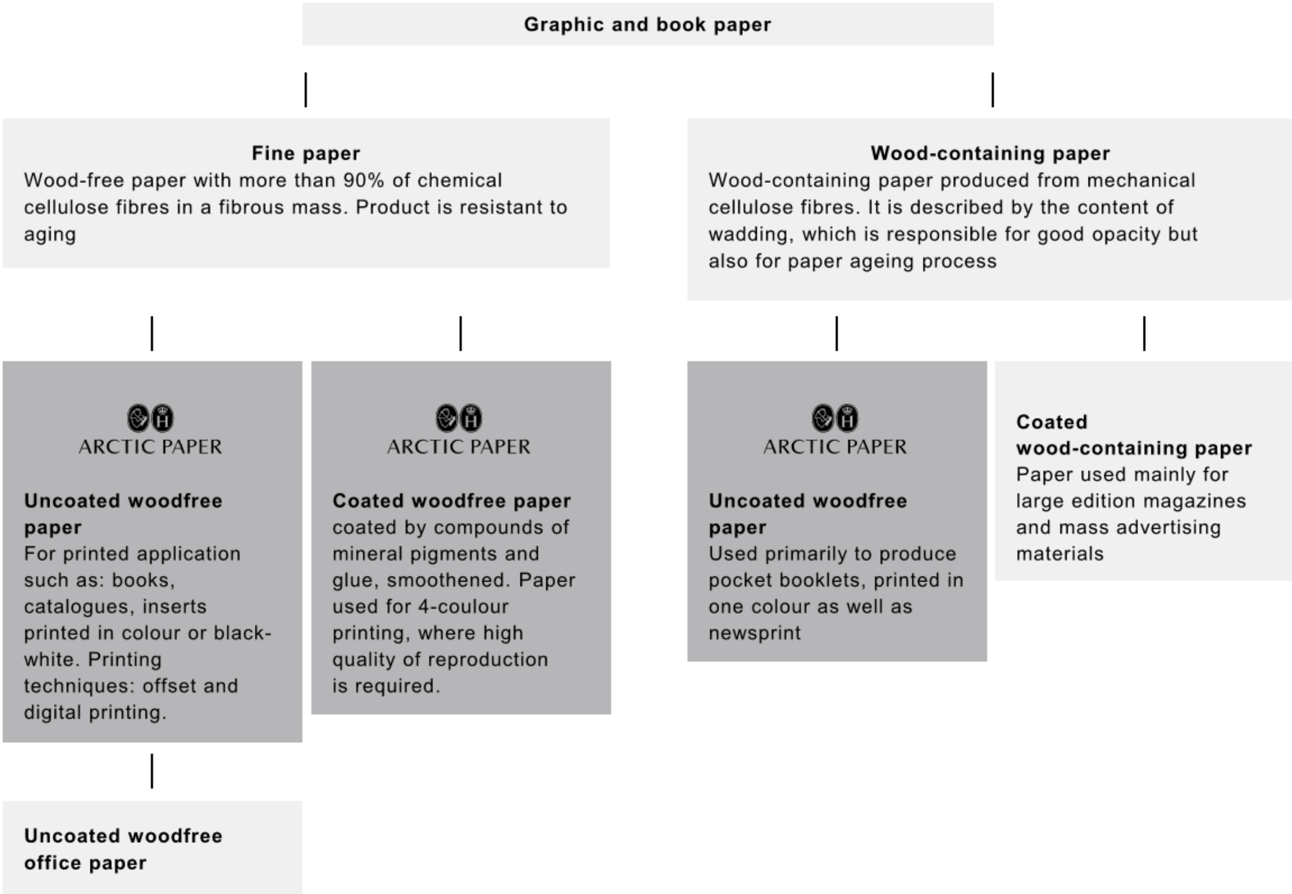
Market environment

Segments of the graphic paper market

The graphic paper market is split into three core segments:

— coated and uncoated fine paper,
— newsprint paper,
— magazine paper.

The Group operates solely in the segment of high quality graphic papers. We are not present in the newsprint 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.

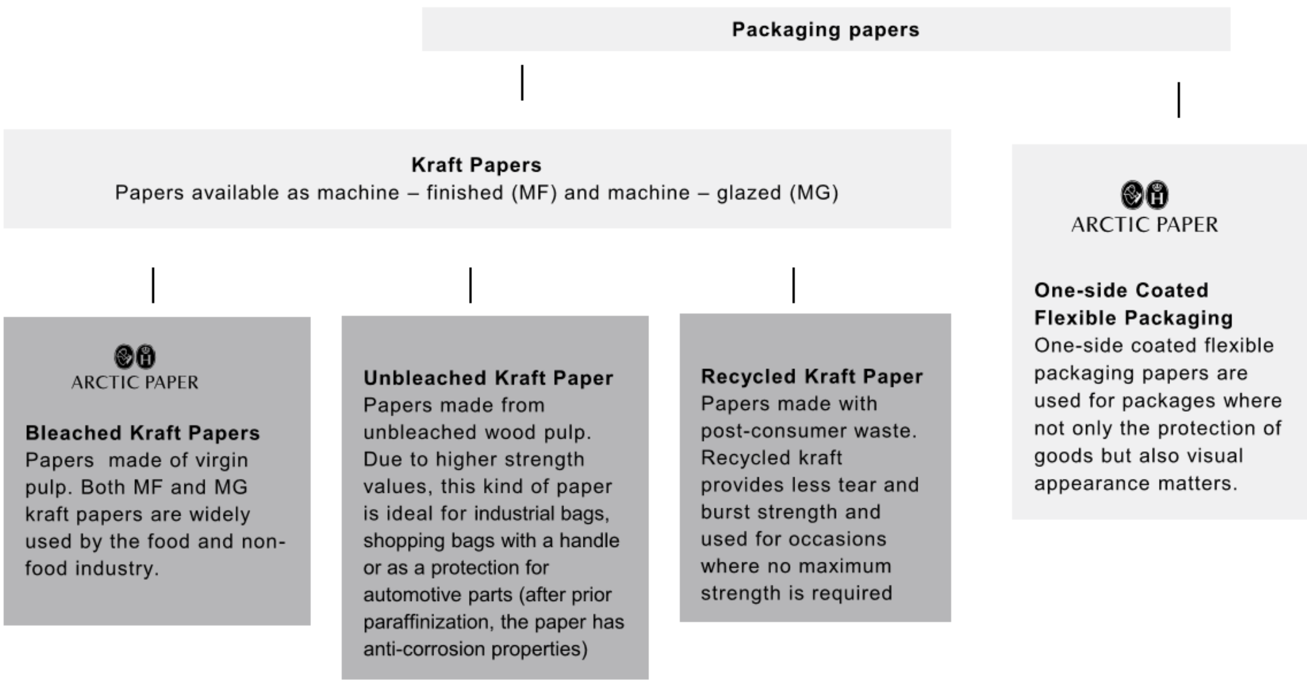
› uncoated wood-containing paper is manufactured of mechanical pulp, used to print magazines with rotogravure and offset techniques (newsprint) and to print single-colour publications. Products of the Group in that segment are usually used to print paperbacks.
› coated wood-containing paper is manufactured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

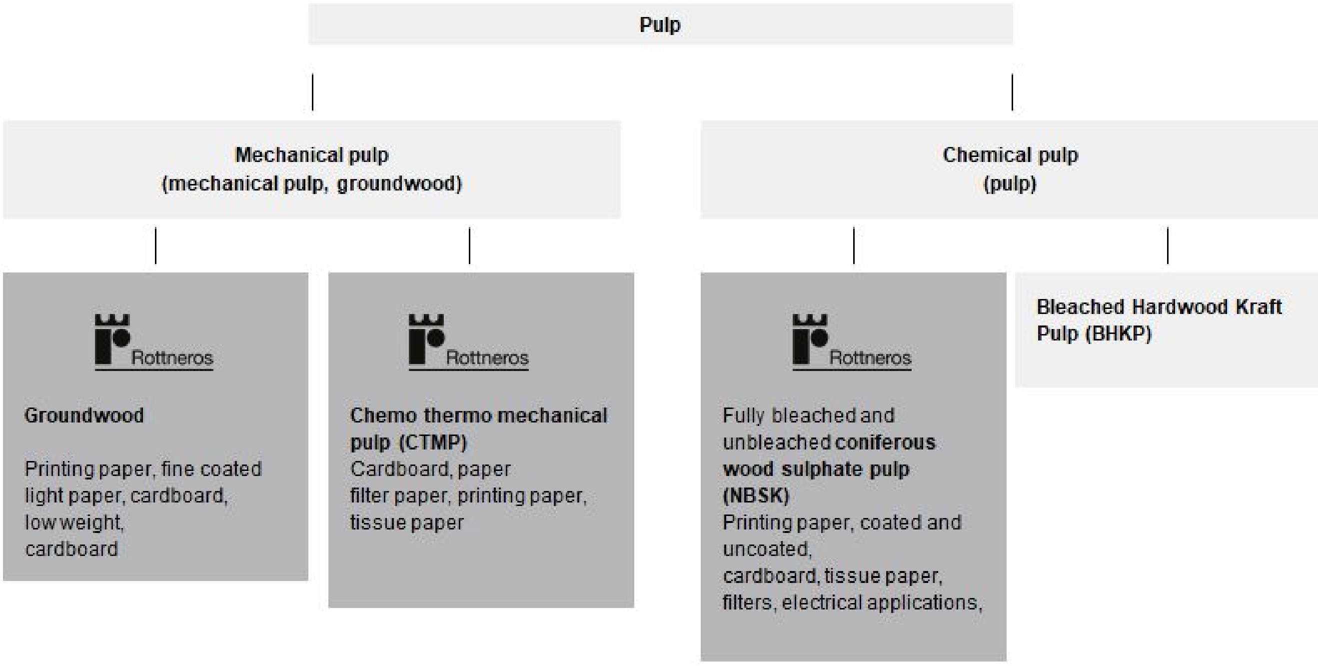
Packaging paper market segments in which Arctic Paper operates:

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-whitened kraft paper and single-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) and groundwood which are used mainly for production of printing and writing papers.

Development directions and strategy

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

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

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

– revenue growth by 25 per cent,
– an increase in EBITDA of around 70 per cent,
– an increase in EBITDA margin to 15 per cent.

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

Sales structure

In 2021 and in 2020, the sales structure by main product lines was as follows:

thousand tons	2021	share %	2020	share %
Paper	*648*	62%	*575*	59%
Amber	310	30%	*295*	30%
G-Print	95	9%	*83*	9%
Munken	107	10%	*93*	10%
Arctic	115	11%	*93*	10%
AP Tech	17	2%	*8*	1%
Other	4	0%	*3*	0%
Pulp	*392*	38%	*401*	41%
NBSK and derivatives	212	20%	*231*	24%
Groundwood	69	7%	*71*	7%
CTMP	111	11%	*99*	10%
Total paper and pulp	**1 040**	**100%**	**976**	**100%**

PLN '000	2021	share %	2020	share %
Paper	*2 408 330*	71%	*1 990 774*	70%
Amber	1 093 092	32%	950 237	33%
G-Print	321 211	9%	264 120	9%
Munken	520 685	15%	429 341	15%
Arctic	398 475	12%	311 022	11%
AP Tech	62 104	2%	27 691	1%
Other	12 762	0%	8 362	0%
Pulp	*1 004 245*	29%	856 677	30%
NBSK and derivatives	*603 627*	18%	514 428	18%
Groundwood	132 177	4%	119 808	4%
CTMP	202 163	6%	161 328	6%
Other	66 278	2%	61 113	2%
Total paper and pulp	**3 412 576**	**100%**	**2 847 450**	**100%**

In 2021 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 2021 there was a volume and value increase in paper sales and a value increase in pulp sales with a slight decrease in volumes.

Sales markets

In 2021 the share of Group sales outside Poland was 89% compared to 2020 (88%). This year, similarly to previous years, sales were focused on European markets. The share of those markets in the overall value of sales was 88% in 2021 (2020: 89%).

The geographical structure of sales revenues by the main markets in 2021 and in 2020 is presented in note 10.1 to the consolidated financial statements.

Buyers

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

- printing houses – they are direct buyers straight from the Group's Paper Mills,
- 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,
- final buyers – those are direct and indirect buyers that buy our products directly; they also play an important role in commissioning and recommending our products to printing houses to which they commission printing services.

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

In our opinion, we are not materially dependent on any single specific buyer. The Group's consolidated revenues for 2021 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 for the Pulp Mill in Vallvik in Eastern Europe, primarily in Latvia and Russia.

Chemicals
The core chemicals used to produce papers are fillers (mainly calcium carbonate), starch (of maize, potatoes, tapioca), optical bleaching agents and other chemicals. 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 the analysed period, electricity for the Paper Mill in Munkedal was purchased from external suppliers. The company also uses its own hydroelectric power plant. We were also buying heating oil to cover our needs for heat energy.

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

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

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

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

Entities in the Group are not dependent on those providers. The Group's consolidated revenues for 2021 show that the share of the largest service provider did not exceed 10% of total sales revenues.

Information on the seasonal or cyclical nature of business

The demand for the Group's products is subject to slight variations throughout the year. Reduced demand for paper occurs each year during summer holidays and around Christmas when some printing houses, in particular in Western Europe are closed. 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 conducts primarily development works aimed at enhancing and modernising production processes and improving the quality of products on offer and expanding the assortment thereof. In the period covered with this report, the Paper Mills and Pulp Mills carried out development works to improve production processes, in particular to shorten the idle time of paper machines as well as works aimed at improving the paper/pulp quality and extending the assortment and to improve quality properties of the products.

An important goal of development works last year was the development of new products, especially packaging and barrier papers. In the area of packaging papers, the work focused on obtaining a product with increased resistance to water and fats. The global trend of replacing plastic packaging with cellulose and paper packaging is expected, especially in the food packaging segment.

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 2021".

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 17 December 2019 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). In particular, the election must not exceed the applicable emission standards.

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

In May 2008, 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.

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 and 14.04.2020). In connection with the permit, Kostrzyn is obliged to monitor the volumes of CO2 emissions and to file annual report on the emissions.
On 10 June 2021, the Law of 15 April 2021 amending the Law on the greenhouse gas emission trading scheme and certain other laws was published in the Journal of Laws. Due to changes in the applicable provisions of the Act, Arctic Paper Kostrzyn SA applied for an amendment to the decision of the Lubuskie Province Marshal. This authorisation is pending.

In connection with environmental protection, Kostrzyn has made major investments, inter alia, into a gas fuelled heat and power plant that was opened in 2007 stage I and in 2009 stage II.

The fight against global warming is one of the greatest challenges for the future. Arctic Paper Kostrzyn 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 will allow 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. Currently, Arctic Paper Kostrzn SA has started design preparations for the construction of further modules of the photovoltaic installation.

The Paper Mill in Kostrzyn nad Odrą holds compliance certificates with the following standards: ISO 45001, ISO 14001, ISO 9001 and EMAS. It publishes an annual publicly available environmental report, providing an assessment of the environmental impact of its activities. In addition, the paper produced here has been certified to meet the FSC® chain of custody and PEFC™ wood-based product supply chain certifications. The certificates are to document that the pulp used to produce the paper comes from forests used in a sustainable manner. The FSC (Forest Stewardship Council) certificate is a major certificate granted to paper producing companies. In 2006, the first FSC certificate was granted to the paper manufactured at AP Kostrzyn. Now, the Amber branded paper produced at Kostrzyn nad Odrą relies in 45% on pulp certified by FSC and 55% on pulp certified by PEFC (Programme for the Endorsement of Forest Certification).

Munkedals Paper Mill
The business of Munkedals is subject to environmental management systems EMAS and ISO 14001. EMAS (Eco-Management and Audit Scheme) is a voluntary system applied by the European Union which applies to enterprises outstanding for their constantly improved environmental protection level within their business. Companies registered with EMAS comply with environmental protection regulations, maintain an environmental management system and publish information on environmental protection in their business in the form of a separate verified statement on compliance with environmental protection regulations. ISO, International Standards Organisation, has been developing various standards. ISO 14000 is a group of one of the best known environmental management standards (i.e. activities undertaken by entrepreneurs in order to (i) reduce the harmful impact of their activities on the environment and (ii) 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 (C2CPII). 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 entire life cycle. Cradle to Cradle design means not only minimizing negative impacts 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 20% of demand for electricity by the Paper Mill with renewable energy sources that it generates itself which in turn results in reduction of CO2 emissions by another 4,000 tonnes.

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

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 Rottneros wants to be a leading player in the industry. Work to improve environmental performance is ongoing. 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 PEFCTM certified and has for many years purchased raw materials mainly from certified suppliers. Where suppliers are not certified, they are carefully assessed to meet customer requirements in accordance with our certifications.
The company's efficient use of raw materials in production provides environmental and economic benefits. The Rottneros plant uses 95-98% of the raw material. At the Vallvik plant, approximately 44-47% 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 approximately 50% and Rottneros approximately 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 site, 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 CO_2 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, which are used by subcontractors working for the Group, as well as our suppliers and customers.

In 2020, the Rottneros plant invested SEK 18 million in a methane burner as part of an initiative to achieve the goal of a fossil fuel-free production process. Methane formed as a by-product is collected during the biological water treatment process. It can then be used as an energy source for the cast dryers in which cellulose is dried.
The investment will result in both reduced fossil fuel consumption and lower variable costs. The plant has therefore largely achieved its goal of a fossil fuel-free production process. Through a series of investments in recent years, the plant has reduced its annual oil consumption by around 7,000 cubic metres while increasing production.

It is Group policy that all employees in relevant positions must have the necessary environmental knowledge. The Group's senior environmental employees are constantly undergoing further training.
The Vallvik plant has been certified to environmental management standards since 2000. Rottneros Bruk also updated its energy management system in 2020 and obtained ISO 50001 certification. A key element of this effort has been the establishment of an energy management group that actively works on energy-related issues. The group conducted an analysis to identify everything that causes electricity consumption at the site.

Summary of consolidated financial results

Selected items of the consolidated statement of profit and loss

PLN'000	2021	2020	Change % 2021/2020
Continuing operations			
Sales revenues	**3 412 576**	**2 847 450**	**19,8**
of which:			
Sales of paper	*2 408 330*	*1 990 774*	*21,0*
Sales of pulp	*1 004 246*	*856 677*	*17,2*
Profit on sales	707 928	541 791	30,7
% of sales revenues	*20,74*	*19,03*	*1,7 p.p.*
Selling and distribution costs	(381 287)	(336 524)	13,3
Administrative expenses	(103 080)	(76 348)	35,0
Other operating income	73 749	65 280	13,0
Other operating expenses	(52 741)	(35 957)	46,7
EBIT	**244 570**	**158 242**	**54,6**
% of sales revenues	*7,17*	*5,56*	*1,6 p.p.*
EBITDA	**327 756**	**271 368**	**20,8**
% of sales revenues	*9,60*	*9,53*	*0,1 p.p.*
Financial income	3 435	710	384,0
Financial expenses	(24 890)	(36 633)	(32,1)
Gross profit (loss)	**223 115**	**122 319**	**82,4**
Income tax	(47 207)	(18 734)	152,0
Net profit/(loss)	**175 907**	**103 585**	**69,8**
% of sales revenues	*5,15*	*3,64*	*1,5 p.p.*
Net profit / (loss) for the reporting period attributable to the shareholders of the Parent Entity	127 154	111 070	14,5

Revenues

In 2021, the consolidated sales revenues amounted to PLN 3,412,576 thousand as compared to PLN 2,847,450 thousand in the previous year and increased by 19.8% (PLN 565,126 thousand). Sales revenues from paper increased by 21.0% (PLN 417,556 thousand) while sales revenues from pulp increased by 17.2% (PLN 147,569 thousand) versus 2020.

The volume of paper sales in 2021 was 648 thousand tonnes (2020: 575 thousand tonnes) and was 73 thousand tonnes higher than in the previous year. This means an increase in sales volume by 12.6%.

The volume of pulp sales in 2021 was 392,000 tonnes (2020: 401 thousand tonnes) and was 9 thousand tonnes lower than in the previous year. This means a decrease in sales volume by 2.2%.

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

Profit on sales in 2021 was by 30.7% higher than in the previous year. Sales profit margin in the current year stood at 20.74% compared to 19.03% (+1.7 p.p.) in the previous year.

The increase in profit on sales in 2021 compared to 2020 was primarily due to an increase in revenues from the sale of paper and pulp due to both higher volumes and an increase in PLN denominated selling prices for paper and an increase in selling prices for pulp. The increase in profit on sales was also a result of the lower growth rate of production costs and partial reversal of impairment allowance to non-financial fixed assets in Arctic Paper Grycksbo AB.

In 2021, selling and distribution costs amounted to PLN 381,287 thousand and increased by 13.3% compared to 2020. The selling and distribution costs comprise particularly transportation costs.

In 2021, the administrative expenses amounted to PLN 103,080 thousand as compared to PLN 76,348 thousand in 2020 which was a growth by 35.0%. The main reason of the increase were higher costs related to consulting services rendered to the Group by third parties.

Other operating income and expenses

Other operating income amounted to PLN 73,749 thousand in 2021 which was an increase versus the previous year by PLN 8,469 thousand.

In 2021, other operating expenses amounted to PLN 52,741 thousand, which was an increase versus the previous year by PLN 16,784 thousand.

A major part of the other operational revenue and expenses includes revenues and costs of sales of sold energy and other materials. In addition, costs related to research work partly compensated by the National Research and Development Centre contributed to the increase in other operating income and expenses in 2021.

Financial income and financial expenses

In 2021, the financial income amounted to PLN 3,435 thousand and was by PLN 2,725 thousand higher than generated in 2020, mainly due to foreign exchange gains.

The financial expenses in 2021 amounted to PLN 24,890 thousand as compared to PLN 36,633 thousand in 2020. The lower finance costs in 2021 were mainly due to the value of foreign exchange losses amounting to PLN 10,429 thousand for 2020 (2021: foreign exchange gains of PLN 2,268 thousand , see financial revenue).

Income tax

In 2021, income tax amounted to PLN -47,208 thousand, while in 2020 it was PLN -18,734 thousand. The relatively low effective tax rate on gross profit in 2020 of 15% (2021: 21%) results from the use of tax losses for which a deferred tax asset was previously unrecognised within the Swedish tax group.

Profitability analysis

EBITDA in 2021 was PLN 327,756 thousand, while in 2020 it was PLN 271,368 thousand. The increase in EBITDA in 2021 is primarily due to higher revenues from the sale of paper and pulp and the lower growth rate of production costs relative to the increase in revenues from the sale of products. In the reporting period, the EBITDA margin was 9.60% versus 9.53% in 2020.

In 2021, the profit on operations amounted to PLN 244,570 thousand, while in 2020 it was PLN 158,242 thousand. The operational profit margin in 2021 was +7.17% versus +5.56% in 2020. The higher operating profit in 2021 was due to higher EDITDA and partial reversal of impairment allowance to non-financial fixed assets in Arctic Paper Grycksbo AB in 2021 compared to the previous year.

The net profit in 2021 amounted to PLN 175,907 thousand, while in 2020 it was PLN 103,585 thousand. Net profit margin in 2021 amounted to +5.15% as compared to +3.64% in 2020.

PLN'000	2021	2020	Change % 2021/2020
Profit / (loss) on sales	707 928	541 791	30,7
% of sales revenues	*20,74*	*19,03*	*1,7 p.p.*
EBITDA	**327 756**	**271 368**	**20,8**
% of sales revenues	*9,60*	*9,53*	*0,1 p.p.*
EBIT	**244 570**	**158 242**	**54,6**
% of sales revenues	*7,17*	*5,56*	*1,6 p.p.*
Net profit / (loss)	**175 907**	**103 585**	**69,8**
% of sales revenues	*5,15*	*3,64*	*1,5 p.p.*
Return on equity / ROE (%)	14,2	10,0	4,1 p.p.
Return on assets / ROA (%)	7,4	4,8	2,5 p.p.

In 2021, return on equity was +14.2%, while in 2020 it was +10.0%.

In 2021, return on assets was +7.4%, while in 2020 it was +4.8%.

The growth of return on equity and return on assets in 2021 was mainly due to increased net profit generated in 2021 versus 2020.

Selected items of the consolidated statement of financial position

PLN'000	31.12.2021	31.12.2020	Change 30.06.2020 -31.12.2019
Fixed assets	1 301 750	1 194 503	107 247
Inventories	402 868	365 491	37 377
Receivables	410 939	302 751	108 188
trade receivables	*402 530*	*297 543*	*104 987*
Other current assets	105 781	18 337	87 445
Cash and cash equivalents	167 927	255 563	(87 635)
Total assets	**2 389 266**	**2 136 646**	**252 621**
Equity	1 242 996	1 033 033	209 963
Short-term liabilities	722 066	639 017	83 049
of which:			
trade and other payables	*506 813*	*367 751*	*139 062*
interest-bearing debt	*96 659*	*148 426*	*(51 767)*
other non-financial liabilities	*118 594*	*122 840*	*(4 246)*
Long-term liabilities	424 205	464 596	(40 391)
of which:			
interest-bearing debt	*190 363*	*241 144*	*(50 781)*
other non-financial liabilities	*233 841*	*223 452*	*10 389*
Total equity and liabilities	**2 389 266**	**2 136 646**	**252 621**

As at 31 December 2021 total assets amounted to PLN 2,389,266 thousand, as compared to PLN 2,136,646 thousand at the end of 2020.

Fixed assets

As at the end of December 2021 fixed assets amounted to PLN 1,301,750 thousand and accounted for 54.5% of total assets as compared to PLN 1,194,503 thousand as at the end of 2020 (55.9% of total assets).

The increase in non-current assets was primarily due to investment purchases, partial reversal of impairment allowance to non-financial fixed assets and the positive valuation of power purchase forwards.

Current assets

As at the end of December 2021, current assets amounted to PLN 1,087,516 thousand as compared to PLN 942,142 thousand at the end of December 2020. As part of the current assets, inventories increased by PLN 37,377 thousand and receivables grew by PLN 108,188 thousand, other current assets increased by PLN 87,445 thousand, while cash and cash equivalents dropped by PLN 87,635 thousand. Current assets represented 45.5% of total assets as at the end of December 2021 (44.1% as at the end of 2020) and included inventories – 16.9% (17.0% as at the end of 2020), receivables – 17.2% (14.2% as at the end of 2020), other current assets – 4.4% (0.9% as at the end of 2020) and cash and cash equivalents – 7.0% (12.0% as at the end of 2020). The increase in other current assets was primarily due to the positive valuation of power purchase forwards. The decrease in cash was mainly due to the refinancing of loans by AP SA and the redemption of bonds in SEK partly financed by a loan from the Rottneros Group.

Equity

As at the end of 2021, the equity amounted to PLN 1,242,996 thousand as compared to PLN 1,033,033 thousand at the end of 2020. As at the end of December 2021, equity accounted for 52.0% of total equity and liabilities (48.3% as at 31 December 2020).

The increase in equity was primarily due to the net profit for 2021 and an increase in the positive valuation of financial instruments treated as hedges of future cash flows offset in part by the dividend to AP SA Shareholders and to non-controlling Shareholders paid by Rottneros AB.

Short-term liabilities

As at the end of December 2021, short-term liabilities amounted to PLN 722,066 thousand (30.2% of balance sheet total) as compared to PLN 639,017 thousand (29.9% of balance sheet total) as at the end of 2020.

In 2021, an increase of short-term liabilities occurred by PLN 83,049 thousand, mainly due to an increase in trade payables offset in part by a decrease in short-term loans and bonds resulting from the refinancing of debt at AP SA and the Rottneros Group.

Long-term liabilities

As at the end of December 2021, long-term liabilities amounted to PLN 424,205 thousand (17.8% of balance sheet total) as compared to PLN 464,596 thousand (21.8% of balance sheet total) as at the end of 2020. In the year under review there was a decrease in non-current liabilities by 40,391 thousand.

The decrease in non-current liabilities was mainly due to a decrease in provisions for employee benefits and loans and bonds.

Debt analysis

	2021	2020	Change % 2021/2020
Debt to equity ratio (%)	92,2	106,8	(14,6) p.p.
Equity to fixed assets ratio (%)	95,5	86,5	9,0 p.p.
Interest-bearing debt-to-equity ratio (%)	23,1	37,7	(14,6) p.p.
Net debt to EBITDA ratio for the last 12 months (x)	0,36	0,49	(0,13)
EBITDA to interest expense ratio (x)	17,4	13,7	3,7

As at the end of December 2021, the equity debt ratio was 92.2% and was lower by 14.6 p.p. versus the end of December 2020. The decrease in the ratio was mainly due to an increase in equity.

The ratio of fixed assets to equity stood at 95.5% at the end of 2021, 9.0 p.p. higher than at the end of December 2020 as a result of higher growth in equity than in non-current assets.

The interest-bearing debt to equity ratio was 23.1% at the end of 2021 and was by 14.6 p.p. lower versus the ratio calculated at the end of December 2020, both due to a decrease of interest-bearing debt than an increase of equity.

The net debt to EBITDA ratio for the last 12 months of 2021 was 0.36x, 0.13 lower than the ratio for 2020 due to both a decrease in net debt calculated as interest-bearing liabilities less cash and an increase in EBITDA.

The EBITDA to net interest expense ratio for the 12 last months of 2021 was 17.4x and it was higher by 3.7 versus the level of the ratio for 2020 as a result of an increase of EBITDA.

Liquidity analysis

	2021	2020	Change % 2021/2020
Current ratio	**1,5x**	**1,5x**	**0,0**
Quick ratio	**0,9x**	**0,9x**	**(0,0)**
Cash solvency ratio	**0,2x**	**0,4x**	**(0,2)**
DSI (days)	53,6	57,1	(3,4)
DSO (days)	42,5	37,6	4,8
DPO (days)	67,5	57,4	10,0
Operational cycle (days)	96,1	94,7	1,4
Cash conversion cycle (days)	**28,6**	**37,3**	**(8,6)**

The quick ratio at the end of December 2021 was 1.6x and was higher than at the end of December 2020 (by 0.1). The quick ratio at the end of December 2021 was 1.0x and was higher than at the end of December 2020 (by 0.1). The increase in the current and quick ratios was due to the faster growth of the respective current assets than the growth of current liabilities.

The cash solvency ratio was 0.2x at the end of December 2021, lower than the level of this ratio at the end of December 2020 (by 0.2) mainly due to the decrease in cash.

The cash conversion cycle for 2021 (28.6 days) shortened compared to 2020 (37.3 days) by 8.6 days mainly due to the extension of the rotation of liabilities.

Selected items of the consolidated cash flow statement

PLN '000	2021	2020	Change % 2021/2020
Cash flows from operating activities	238 193	211 464	12,6
of which:			
Gross profit/(loss)	*223 115*	*122 318*	*82,4*
Depreciation/amortisation and impairment allowance	*83 186*	*113 126*	*(26,5)*
Changes to working capital	*(33 166)*	*(25 164)*	*31,8*
Other adjustments	*(34 941)*	*1 184*	*(3 052,3)*
Cash flows from investing activities	(159 513)	(141 239)	12,9
Cash flows from financing activities	(162 068)	(100 950)	60,5
Total cash flows	**(83 388)**	**(30 725)**	**171,4**

Cash flows from operating activities

In 2021, net cash flows from operating activities amounted to PLN 238,193 thousand as compared to PLN 211,464 thousand in 2020. The higher cash flow from operating activities in 2021 was due to the increase in gross profit.

Cash flows from investing activities

In 2021, cash flows from investing activities amounted to PLN -159,513 thousand as compared to PLN -141,239 thousand in 2020, and covered mostly expenses related to purchases of tangible fixed assets.

Cash flows from financing activities

In 2021, cash flows from financing activities amounted to PLN -162,068 thousand as compared to PLN -100,950 thousand in 2020. The increase in negative cash flows from financing activities in 2021 was primarily due to the repayment of debt mainly under loans and bonds as well as the payment of dividends to AP SA Shareholders and Non-Controlling Shareholders.

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

Key factors affecting the performance results

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

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

Macroeconomic and other economic factors

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

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

Demand growth for products based on natural fibres

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

Reduced demand for certain paper types

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

Paper prices

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

Costs of raw materials, energy and transportation

The main elements of the Group's operating expenses include raw materials, energy and transportation. The costs of raw materials include mainly the costs of pulp for Paper Mills, timber for Pulp Mills and chemical agents used for paper and pulp production. Our energy costs historically include mostly the costs of electricity, gas and rights to CO2 emissions. The costs of transportation include the costs of transportation services provided to the Group mainly by external entities.

Taking into account the share of those costs in total operating expenses of the Group and the limited possibility of controlling these costs by the Group Companies, their fluctuations may have a 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 2021, there were no unusual events or factors.

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

In 2021, there were no material changes in the Arctic Paper Group's structure that would have material influence on the financial result generated.

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

Other material information

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

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

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

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

On 2 April 2021 the Company signed a term and revolving facilities agreement ("Loan Agreement") which was concluded between the Company as the borrower and guarantor, subsidiaries of the Company: Arctic Paper Kostrzyn S.A., Arctic Paper Munkedals AB and Arctic Paper Grycksbo AB, as guarantors ("Guarantors") and a consortium of banks as follows: Santander Bank Polska

S.A. (the "Collateral Agent"), BNP Paribas Bank Polska S.A. and Bank Polska Kasa Opieki S.A. (: "Lenders"), pursuant to which the Lenders granted to the Company a term loan divided into two tranches in the amounts of PLN 75,000,000 and EUR 16,100,000, respectively, and a revolving loan in the total amount of EUR 32,200,000 (collectively, the "Loans").

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

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

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

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

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

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

In compliance with the Loan Agreement, some Loans will be repaid by:
(i) in the case of a Term Loan, on the day falling five years after the date of conclusion of the Loan Agreement; and
(ii) in the case of a Revolving Loan, on the date falling three years after the conclusion of the Loan Agreement with the option to extend the terms of the Revolving Loan for an additional two years in accordance with the terms of the Loan Agreement.

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

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

i. the full repayment of the Company's existing indebtedness under the Term and Revolving Loan Agreement of 9 September 2016 (as amended) entered into between the Company, as lender, the Company's subsidiaries: Arctic Paper Kostrzyn S.A., Arctic Paper Munkedals AB and Arctic Paper Grycksbo AB, as guarantors and a consortium of banks as follows: BNP Paribas Bank Polska S.A., European Bank for Reconstruction and Development and Santander Bank Polska S.A. as mandated lead arrangers and lenders, Santander Bank Polska S.A. as agent and BNP Paribas Bank Polska S.A. as collateral agent (the "Previous Credit Agreement"), the execution of which was announced by the Company in current report No. 20/2016 of 9 September 2016; and

ii. closing and full settlement of the closing amount in respect of interest rate hedging transactions (irs) entered into in connection with the Prior Loan Agreement (the "Hedging Agreements").

At the same time, with the repayment of the Company's indebtedness under the Previous Loan Agreement, the Hedging Agreements and the early redemption of all of the Series A Bonds, as announced by the Company in current report No. 8/2021 of 1 March 2021, all collateral provided by the Company and the Company's subsidiaries expired: Arctic Paper Kostrzyn S.A., Arctic Paper Munkedals AB and Arctic Paper Grycksbo AB in connection with an intercreditor agreement, under the English name –

intercreditor agreement – concluded between the Company, Mr Thomas Onstad, Santander Bank Polska (formerly: Bank Zachodni WBK S.A.), Haitong Bank Spółka Akcyjna, BNP Paribas Bank Polska S.A. (formerly: Bank BGŻ BNP Paribas S.A.) and other parties (the "Intercreditor Agreement"). The Company reported on the conclusion of the Intercreditor Agreement and the establishment of collateral in connection with this agreement in current report No. 20/2016 of 9 September 2016.

Proceedings before the General Court of the European Union concerning the grant of emission rights to Arctic Paper Grycksbo AB

On 19 May 2021, Arctic Paper Grycksbo AB filed an application with the General Court of the European Union (the "General Court") in Case T-269/21, seeking the annulment of European Commission Decision No. 2021/355 (the "Decision"), adopted on 25 February 2021, which is the formal means by which the European Commission (the "Commission)" approves the lists of installations and undertakings of individual European Union Member States under the EU Emissions Trading Scheme (EU ETS).

Pursuant to Article 1(1) of the Decision and Annex I, the application for inclusion of Arctic Paper Grycksbo AB in the Swedish list of installations admitted to the EU ETS that is the basis for receiving free allocation of emission allowances was rejected. The Commission's reason for rejecting the application was that, in its view, Arctic Paper Grycksbo AB was using only biomass in its installation. The application for annulment concerns both the administrative errors made by the Commission in determining the level of biomass use by Arctic Paper Grycksbo AB and the legal interpretation of certain provisions of the EU ETS Directive.

The value of the free emission allowances that Arctic Paper Grycksbo AB could receive, calculated on the basis of the current market value, is approximately EUR 3 million per year for the period 2021-2027.

The General Court of the European Union has given the European Commission until 30 July 2021 to submit its position in the proceedings. The Court will then decide on the admission of third parties and whether an answer and rejoinder will be given by Arctic Paper Grycksbo AB and the European Commission respectively. The written part of the procedure will be followed by an oral procedure. The resolution of the proceedings is not expected until H2 2022 at the earliest. The judgment of the General Court may be appealed before the Court of Justice of the European Union.

Redemption of bonds issued by Rottneros AB

On 8 July 2021, the subsidiary Rottneros AB decided on an early redemption of all bonds issued under the bond issue programme of up to SEK 600 million(i.e. up to PLN 267.5 million), which the Company reported in current report No. 16/2017 of 28 August 2017. The early redemption of the bonds, was carried out on 19 July 2021. The redemption of the bonds was financed by a term loan granted to Rottneros AB by Danske Bank. The redeemed bonds are redeemable. In connection with the redemption, the bonds will be delisted from Nasdaq Stockholm.

Letter of Intent on joint investment by Arctic Paper and Rottneros

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

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

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

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

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

Conclusion of an agreement by Arctic Paper Kostrzyn SA

On 14 December 2021, the subsidiary company Arctic Paper Kostrzyn S.A. signed an agreement with MAZEL S.A. to execute comprehensive documentation and obtain relevant permits and approvals necessary to commence construction of a photovoltaic

installation with a capacity of approximately 17 MW. This is the first stage of preparation for the implementation of a significant investment by the subsidiary Arctic Paper Kostrzyn S.A.
Construction of the plant is scheduled to begin in autumn 2022, with completion in mid-2023. The photovoltaic farm will be connected to the distribution network of Arctic Paper Kostrzyn S.A., which holds a concession for the distribution of electricity.
The construction of the photovoltaic plant is one of the projects implemented under the "4Ps" strategy, i.e. the Energy pillar of the "Arctic Paper Group Strategy for 2022 – 2030". The Energy pillar addresses investments in energy to achieve higher profitability and business diversification for the Arctic Paper Group.

Factors influencing the development of the Arctic Paper Group

Information on market trends

Supplies of fine paper

In Q4 2021, the Arctic Paper Group recorded a decreased level of orders versus Q3 2021 by 1% and a growth of orders versus the equivalent period of 2020 by 13.7%.

Source of data: Analysis by Arctic Paper

Paper prices

At the end of Q4 2021, average prices for high-grade papers were higher by respectively: 11.4% for UWF papers and by 12.6% for CWF papers compared to the corresponding prices at the end of 2020.

In the period from October to December 2021, the prices of uncoated wood-free paper (UWF) and coated wood-free paper (CWF) for selected markets: Germany, France, Spain, Italy and the UK, expressed in EUR and GBP, experienced an increase by: 7.2% for UWF papers and 8.4% for CWF papers respectively.

The average prices invoiced by Arctic Paper in EUR for comparable products in the segment of uncoated wood-free paper (UWF) grew from at the end of 2021 were higher by 20.5% versus the end of 2020 while in the segment of coated wood- free paper (CWF) the prices grew by 20.4%.

Source: For market data – RISI, price changes for selected markets in Germany, France, Spain, Italy and the UK in local currencies for graphic papers similar to the product portfolio of the Arctic Paper Group. The prices are expressed without considering specific rebates for individual 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 2021, the pulp prices were as follows: NBSK 1,260 USD/tonne and BHKP 1,140 USD/tonne. The average price of NBSK in Q4 2021 was higher by 53.1% compared to the equivalent period of the previous year while the price of BHKP was by 67.6% higher. The average pulp price in Q4 2021 was lower by 2.2% for NBSK and higher by 0.2% for BHKP as compared to Q3 2021.

The average cost of pulp per ton of produced paper as calculated for the AP Group, expressed in PLN, in Q4 2021 increased by 8% versus Q3 2021 and increased by 58.6% versus Q4 2020. The share of pulp costs in cost of paper sales in Q4 of the current year amounted to 57% and grew compared to the level recorded in Q4 2020 (51%).

In the four quarters of 2021, the AP Group used pulp in the production process in the following structure: BHKP 72%, NBSK 21% and other 7%.

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

Currency exchange rates

The EUR/PLN exchange rate at the end of Q4 2021 amounted to 4.5994 and was lower by 0.7% than at the end of Q3 2021 and lower by 0.3% than at the end of Q4 2020. The average exchange rate in Q4 2021 was higher by 1.2% than in Q3 2021 and amounted to 4.6199 versus 4.5670. The average exchange rate in Q4 2021 was by 2.5% higher than in Q4 2020.

The EUR/SEK exchange rate at the end of December 2021 stood at 10.2528 against 10.1979 at the end of Q3 2021 and 10.0365 at the end of Q4 2020, implying an appreciation of the EUR against the SEK by respectively: 0.5% and by 2.2%.

For this pair, the mean exchange rate in Q4 was by 0.6% lower compared to Q3 2021. The mean exchange rate in Q4 2021 was by 1.3% lower than in the corresponding period of 2020.

The changes mean an appreciation of SEK vis-a-vis EUR in Q4 2021 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 2021, the USD/PLN rate recorded an increase by 1.7% versus the end of Q3 2021 and amounted to 4.06. In Q4 2021, the mean exchange rate amounted to 4.0421 compared to 3.8740 in Q3 2021. That was a PLN depreciation to USD by 4.3%.

At the end of Q4 2021, the USD/SEK rate amounted to 9.0504 and was by 3% higher than at the end of Q3 2021. The mean exchange rate in Q4 2021 amounted to 8.8672 which was an increase by 2.9% compared to Q4 2020.

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

At the end of December 2021, the EUR/USD rate amounted to 1.1329 compared to 1.1604 at the end of Q3 2020 and to 1.2279 at the end of December 2020. In terms of percentage, that means a depreciation of EUR to USD by 2.4% versus Q3 2021 and a depreciation of the currency by 7.7% versus the equivalent period of the previous year. In Q4 2021, the mean exchange rate of the pair amounted to 1.1432 compared to 1.1790 in Q3 2021 (-3%).

The strengthening of the SEK against the EUR on a mid-month basis adversely affected the Group's financial results, mainly due to a reduction in sales revenues generated in EUR and expressed in SEK. The depreciating PLN versus USD in Q4 2021 adversely affected the purchase prices of raw materials for the paper mill in Kostrzyn. SEK depreciating vis-a-vis USD negatively affected the costs in the Paper Mills in Sweden.

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

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

- Changes to demand for high quality paper in Europe during the COVID-19 pandemic and the anticipated related 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. Cancelled international events, restrictions to free movement of people, intensified remote work – may additionally reduce demand for high quality graphic paper and thus adversely affect the financial results of the Group.
- Price changes of fine paper. In particular, the possibility to raise the prices of Arctic Paper products in local currencies in view of the declining supply/demand in Europe and in the context exchange rates fluctuations, will have a material influence on the financial results. Paper prices are going to be of particular importance for the Paper Mill of Grycksbo which – in connection with the market changes – experiences the greatest adverse impact of drop of sales volumes, prices as well as of exchange rate fluctuations.
- Price fluctuations of raw materials, including pulp for Paper Mills and electricity for all operational entities. In particular, financial results of Paper Mills may be negatively influenced by increasing pulp prices, particularly BHKP. On the other hand, dropping NBSK pulp prices may negatively affect the financial results of Pulp Mills. Fluctuations of electricity prices in Sweden may also have a material impact on the results generated by the Group. In future, such market changes may translate into changes of sales profitability in Paper Mills of
AP Munkedals and AP Grycksbo as well as in Pulp Mills of Rottneros and Vallvik.

- Changes in currency rates, in particular, the appreciation of PLN and SEK in relation to EUR and GBP, the appreciation of PLN in relation to SEK, and the depreciation of PLN and SEK in relation to USD, may have an adverse effect on the financial results. However, our Pulp Mills may benefit from the appreciation of USD in relation to SEK.

Risk factors

Major changes to risk factors

In 2020, there was a new risk factor – the COVID19 coronavirus pandemic This factor will significantly affect the market situation and demand for paper in the second quarter of 2020. The lockdowns introduced in many European countries – the main sales markets of the Group – resulted in limited economic activity and thus a decrease in demand. The group adjusted the work organization to the reduced demand of those implementing scheduled downtimes. The priority was to reduce the risk for employees, therefore a new work organization was implemented in individual organizational units, and some employees worked in a remote system for many weeks and months. The measures taken have brought the expected effect and there have been no reports of numerous cases or factory closures for this reason.

Risk factors related to the environment in which the Group operates

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

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

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

Risk of changing legal regulations

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

FX risk

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

Interest rate risk

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

Risk related to increasing importance of alternative media

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

The objectives and methods of financial risk management in the Group along with hedging methods of major transactions are detailed in note 35 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 of loss of tax relieves related to the operation of AP Kostrzyn

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

Risk related to consolidation and liquidity of key customers

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

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

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

Risk related to CO2 emissions

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

Risk related to dividend distribution

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

In connection with the Term and Revolving Credit Facilities and Intercreditor Agreement signed on 2 April 2021 (as further described in note 27 to the Financial Statements), the Company's ability to pay dividends is subject to the Group meeting certain financial ratios in the period prior to payment (as that term is defined in the Term and Revolving Credit Facilities) and there being no event of default (as that term is defined in the Term and Revolving Credit Facilities).

Supplementary information

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

The Management Board of Arctic Paper S.A. did not publish projections of financial results for 2021 and has not published and does not intend to publish projections of financial results for 2022.

Dividend information

The General Meeting of the Company held on 22 June 2021 resolved to pay a dividend from the Company's net profit for the financial year 2020 and from net profits from previous years accumulated in the Company's reserve capital, in the total amount of PLN 20,786,334.90, i.e. PLN 0.30 gross per share. The dividend was paid on 14 July 2021.

On 17 Fabruary 2022, taking into account the preliminary financial results of the Company and the Arctic Paper S.A. Group of 2021, the Management Board of the Company decided to recommend to the Annual General Meeting of the Company the payment of dividend from the Company's net profit of 2021 in the amount of PLN 0.40 gross per share, amounting in total PLN 27,715,113.20.

Changes to the bodies of Arctic Paper S.A.

As at 31 December 2020, 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;

On 20 May 2021, Ms Dorota Raben resigned as a Member of the Supervisory Board of the Company with effect from 22 June 2021.
On 26 May 2021, Mr Mariusz Grendowicz resigned as a Member of the Supervisory Board of the Company with effect from 22 June 2021.
On 22 June 2021, the Annual General Meeting of the Company, passed a resolution on the appointment of Ms Zofia Dzik and Ms Anna Jakubowski to the Supervisory Board.

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

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

- Michał Jarczyński – President of the Management Board
- Göran Eklund – Member of the Management Board

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 2021 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 2021 to 31 December 2021 (data in PLN).

Managing and supervising persons		Remuneration (base salary and overheads) for the functions performed at Arctic Paper S.A.	Retirement plan	Other	Total
Management Board	**Management Board**				
Michał Jarczyński	Michał Jarczyński	770 448		684 000	1 454 448
Göran Eklund	Göran Eklund	907 057	352 864	251 312	1 511 232
Supervisory Board	**Supervisory Board**				
Per Lundeen	Per Lundeen	300 000			300 000
Roger Mattsson	Roger Mattsson	210 000			210 000
Thomas Onstad	Thomas Onstad	174 390			174 390
Mariusz Grendowicz	Mariusz Grendowicz*	90 878			90 878
Dorota Raben****	Dorota Raben*	83 318			83 318
Zofia Dzik**	Zofia Dzik**	87 842			87 842
Anna Jakubowski**	Anna Jakubowski**	87 401			87 401

* for the period from 1.01.2021 to 22.06.2021
** for the period from 22.06.2021 to 31.12.2021

Agreements with Members of the Management Board guaranteeing financial compensation

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

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

Managing and supervising persons	Number of shares or rights to shares as at 22.03.2022	Number of shares or rights to shares as at 31.12.2021	Number of shares or rights to shares as at 9.11.2021	Change
Management Board				
Michał Jarczyński	-	-	-	-
Göran Eklund	-	-	-	-
Supervisory Board	-	-	-	-
Per Lundeen	34 760	34 760	34 760	-
Thomas Onstad	6 223 658	6 223 658	6 223 658	-
Roger Mattsson	-	-	-	-
Zofia Dzik	-	-	-	-
Anna Jakubowski	-	-	-	
	-	-	-	-

Management of financial resources

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

Capital investments

The Group did not make any financial investments or equity placements in 2021.

Information on financial instruments

Information on financial instruments on:

a) the risks of: price changes, credit, material disruption of cash flows and loss of liquidity to which the Group is exposed; and

b) the entity's financial risk management objectives and policies, including its methods of hedging significant types of forecast transactions for which hedge accounting is used, are disclosed in the consolidated financial statements in notes 35 and 36.

Information of sureties, guarantees and pledges

As at 31 December 2021, the Capital Group reported:

— pledge on properties of Arctic Paper Grycksbo AB resulting from an FPG agreement in favour of the mutual life insurance company PRI for SEK 50,000 thousand; SEK
— contingent liability under a guarantee for FPG in favour of the mutual life insurance company PRI for SEK 623 thousand at Arctic Paper Grycksbo AB and for SEK 764 thousand at Arctic Paper Munkedals AB;
— pledge on properties of Arctic Paper Munkedals AB resulting from an FPG contract in favour of the mutual life insurance company PRI for SEK 50,000 thousand;
— a bank guarantee in favour of Skatteverket Ludvika for 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 578 thousand;
— pledge on properties held by Arctic Paper 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 subsidiaries in the Rottneros Group for SEK 284,730 thousand; under loan agreements concluded with Danske Bank;

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

1. under Polish law – Collateral Documents establishing the following Collateral:
   › financial and registered pledges on all shares held by the Company and the Guarantors, registered in Poland, belonging 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 the Company's 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 the Guarantors, constituting an organised part of enterprise, located in Poland (with the exception of the assets listed in the Loan Agreement);
   › assignment of (existing and future) insurance policies covering the assets of the Company and the Guarantors (with the exception of insurance policies listed in the Loan Agreement);
   › declaration by the Company and the Guarantors on voluntary submission to enforcement, in the form of a notary deed;
   › financial pledges and registered pledges on the bank accounts of the Company and the Guarantors, registered in Poland;
   › powers of attorney to Polish bank accounts of the Company and the Guarantors, registered in Poland;

2. under Swedish law – Collateral Documents establishing the following Collateral:
   - pledges on all shares held by the Companies and the Guarantors, registered in Sweden, belonging to group companies, except for the Company's shares
   - mortgages on all real properties located in Sweden and owned by the Company and the Guarantors as long as such collateral covers solely the existing mortgage deeds;
   - corporate mortgage loans granted by the Guarantors registered in Sweden as long as such collateral covers solely the existing mortgage deeds;
   - assignment of (existing and future) insurance policies covering the assets of the Company and the Guarantors (with the exception of insurance policies listed in the Loan Agreement);
   - pledges on Swedish bank accounts of the Company and the Guarantors as long as such collateral is without prejudice to free management of funds deposited on bank accounts until an event of default specified in the Loan Agreement.

Material off-balance sheet items

The information regarding off-balance sheet items is disclosed in note 36 to the consolidated financial statements.

Assessment of the feasibility of investment plans

In view of the improved financial results and 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 2022 with its own funds and external funding sources.

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

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

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

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

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

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

Information on purchase of treasury shares

In 2021 and in 2020 the Parent Entity did not buy any treasury shares.

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

On 20 January 2021, Arctic Paper S.A. entered into a contract with KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. for audit of the Company's financial statements and consolidated financial statements of the Group for the year ended on 31 December 2020 and ending on 31 December 2021. The contract was concluded for the time required to perform the above services.

Other information on the entity authorised to audit the financial statements is provided in note 34 to the standalone financial statements.

Headcount

Information on the headcount is provided in note 38 to the consolidated financial statements.

Report on non-financial information

Apart from this report, the Group publishes a separate report on non-financial information for the Arctic Paper Capital Group.

Statement on the application of the Corporate Governance Rules

Corporate Governance Rules

on 29 March 2021, the Supervisory Board of the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.) by Resolution No. 13/1834/2021 adopted new corporate governance rules for companies listed on the WSE Main Market – "Best Practice of GPW Listed Companies (Best Practice 2021, DPSN2021).
Best Practice 2021 came into force on 1 July 2021.
Application by companies of the principles of corporate governance contained in the Best Practice is voluntary, but reporting on their application is an obligation of every listed company, enshrined in the Regulations of the WSE. Companies had to publish their first reports on the application of DPSN2021 by 31 July 2021.

The text of the "Best Practice of GPW Listed Companies 2021" is available at:
https://www.gpw.pl/pub/GPW/files/PDF/dobre_praktyki/DPSN21_BROSZURA.pdf

Pursuant to § 29 (3) of the Rules of the Warsaw Stock Exchange, the Management Board of Arctic Paper S.A. published on 29 July 2021, in the form of an EBI report, the first statement on the status of the company's application principles contained in the Code of Best Practice of GPW Listed Companies 2021.

Information on the extent the Issuer waived the provisions of the Corporate Governance Rules

Arctic Paper S.A. was striving at applying corporate governance rules as set forth in the document "Best Practice of GPW Listed Companies 2021". In 2021, Arctic Paper S.A. did not apply the following rules:

Good 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 the strategy in the ESG area should, inter alia: 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 – Management Board and Supervisory Board

Rule 2.1
"The company should have a diversity policy for the management board and the supervisory board, adopted by the supervisory board or the general meeting respectively. The diversity policy sets out diversity objectives and criteria in areas such as gender, field of study, specialist knowledge, age and work experience, among others, and indicates when and how the achievement of these objectives will be monitored. In terms of gender diversity, the condition for ensuring the diversity of the company's bodies is that the minority participation in the respective body is no less than 30%."

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

Rule 2.11.6
"In addition to its activities under the law, once a year the supervisory board draws up an annual report and submit it to the ordinary general meeting for approval. The report referred to
above, shall include at least:
information on the extent to which the diversity policy is implemented in relation to the management board and the supervisory board, including the achievement of the objectives referred to in principle 2.1.

Explanation:
The Company is currently working on a diversity policy document for the Management Board and the Supervisory Board. The first information on the degree of implementation of the diversity policy will be prepared by the Supervisory Board in
the report of the Supervisory Board for 2021.

Good 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 Chief Financial Officer is responsible for the preparation of the Group's consolidated financial statements and interim reports. The Company prepares its financial statements and periodic reports on the basis of the procedures of making and publishing periodic reports and consolidated reports, in force at Arctic Paper S.A. The financial data underlying the Group's consolidated financial statements comes from monthly reporting packages and extended quarterly packages sent to the Issuer by Group member companies. After closing of the books for each calendar month, top management of the Group member companies analyse the financial results of the companies versus their budgets and the results generated in the previous reporting period.

The Group performs an annual review of its strategy and development prospects. The budgeting process is supported by medium- and top-level management of the Group member companies. The budget drafted for the next year is accepted by the Company's Management Board and approved by the Supervisory Board. During the year, the Company's Management Board compares the generated financial results to the adopted budget.

The Company's Management Board systematically assesses the quality of internal control and risk management systems with reference to the preparation process of consolidated financial statements. On the basis of such review, the Company's Management Board found that as at 31 December 2021 there were no weaknesses that could materially affect the effectiveness of internal control with respect to financial reporting.

Shareholders that directly or indirectly hold significant packages of shares

Information on the shareholders that directly or indirectly hold large packages of shares is presented in the table below – the table presents the situation as of the publication date of the annual report.

as at 22.03.2022

Shareholder	Number of shares	Share in the share capital [%]	Number of votes	Share in the total number of votes [%]
Thomas Onstad	**47 205 107**	**68,13%**	**47 205 107**	**68,13%**
- indirectly via	40 981 449	59,15%	40 981 449	59,15%
Nemus Holding AB	40 381 449	*58,28%*	*40 381 449*	*58,28%*
other entity	600 000	*0,87%*	*600 000*	*0,87%*
- directly	6 223 658	8,98%	6 223 658	8,98%
Other	**22 082 676**	**31,87%**	**22 082 676**	**31,87%**
Total	69 287 783	100,00%	69 287 783	100,00%
Treasury shares	-	0,00%	-	0,00%
Total	**69 287 783**	**100,00%**	**69 287 783**	**100,00%**

Securities with special control rights

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

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

The Company's Articles of Association do not provide for any restrictions concerning transfer of title to the Issuer's securities. 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 Deputy Presidents from among members of the Management Board. Deputy Presidents may be dismissed subject to a resolution of the Supervisory Board;
- A member of the Management Board may be dismissed by the Supervisory Board at any time;
- A member of the Management Board may be dismissed or suspended in their duties at any time by the General Meeting.

Core competences of the Management Board

- The Management Board directs the affairs of the Company and represents the Company;
- If the Management Board is composed of more than one person, declarations of intent on the Company's behalf shall be made by the President of the Management Board individually or two Members of the Management Board acting jointly or a Member of the Management Board acting jointly with a Proxy;
- The Management Board is obliged to exercise their duties with due diligence and comply with law, the Company's Articles of Association, approved regulations and resolutions of the Company's bodies; decisions shall be taken in line with reasonable economic risk with a view to the interests of the Company and its shareholders;
- The Management Board is obliged to manage the assets and business of the Company and perform its duties subject to due diligence required in business operations and subject to strict compliance with applicable laws, provisions of the Articles of Association and internal regulations as well as resolutions approved by the General Meeting and the Supervisory Board;
- The Company's Management Board shall not be entitled to take decisions on share issues and redemption.
- Each member of the Management Board shall be liable for any damage inflicted upon the Company as a result of their actions or omissions breaching the provisions of law or the Company's Articles of Association;
- The responsibilities of the Management Board include – in compliance with the Code of Commercial Companies – all affairs of the Company not reserved to the General Meeting of the Supervisory Board;
- Guided with the interests of the Company, the Management Board defines the strategy and core objectives of the Company's business;
- The Management Board shall comply with the regulations relating to confidential information within the meaning of the Act on Trading and to comply with all the duties resulting therefrom.

Otherwise, the individual members of the Management Board shall be responsible for their running of the affairs of the Company as resulting from the internal delegation of duties and functions approved by a decision of the Management Board.

The Management Board may approve resolutions at meetings or outside meetings in writing or with the use of direct means of remote telecommunications. The Management Board approves resolutions with a majority of votes cast. Resolutions shall be valid if minimum one half of members of the Management Board are present at the meeting. In case of equal number of votes, the President of the Management Board shall have the casting vote.

The detailed mode of operation of the Management Board is set forth in the Regulations of the Management Board with its updated version available at:
https://www.arcticpapergroup.pl/globalassets/arcticpapergroup.com/02-about/04-corporate-governance/corporate-documents/pl/regulamin-zarzadu-ap-sa.pdf

The Management Board of the Company as at the publication hereof was composed as follows:
- Michał Jarczyński – President of the Management Board appointed on 1 February 2019;
- Göran Eklund – Member of the Management Board appointed on 30 August 2017.

Supervisory Board

Composition and organisation of the Supervisory Board

- The Supervisory Board is composed of 5 (five) to 7 (seven) members elected by the General Meeting for a joint three-year term of office. A member of the Supervisory Board may be dismissed at any time;
- The Supervisory Board is composed of the Chairperson, Deputy Chairpersons and other members. The Chairperson of the Supervisory Board and Deputy Chairperson are elected by the Supervisory Board from among its members at the first meeting and – if so required – during the term of office in by-elections;
- Since the General Meeting approved resolutions on the first public issue of shares and having them listed, two members of the Supervisory Board have to be independent;

— When an independent member of the Supervisory Board is nominated, resolutions on the following matters require consent of minimum one independent member of the Supervisory Board:

› any benefits to be provided by the Company and any entity related to the Company for members of the Management Board;
› consent to the Company or its subsidiary entity to enter into a material agreement with a member of the Supervisory Board or the Management Board and with their related entities, other than agreements concluded in the normal course of the Company's business subject to normal terms and conditions applied by the Company;
› election of auditor to perform audits of the Company's financial statements;

— For the avoidance of doubt, it is assumed that loss of the independent status by a member of the Supervisory Board and failure to appoint an independent member of the Supervisory Board shall not invalidate the decisions approved by the Supervisory Board. Loss by an Independent Member of their independent status during the performance of their function of a member of the Supervisory Board shall not affect the validity or expiry of their mandate;
— In case of expiry of the mandate of a Member of the Supervisory Board before the term of office, the other Members of the Supervisory Board shall be entitled to co-opt a new Member of the Supervisory Board is such vacated position by way of a resolution approved with an absolute majority of the other Members of the Supervisory Board. The mandate of such co-opted Member of the Supervisory Board shall expire if the first Ordinary General Meeting to be held after such Member has been co-opted, fails to approve such Member. At any time, only two persons elected as Members of the Supervisory Board in the co-option procedure and who were not approved as candidates by the Ordinary General Meeting, may act as Members of the Supervisory Board. Expiry of the mandate of a co-opted Member of the Supervisory Board as a result of failure to approve such candidate by the Ordinary General Meeting may not be treated as finding any resolution approved with the participation of such Member as invalid or ineffective.
— Chairperson and Deputy Chairperson of the Supervisory Board:

› maintain contact with the Company's Management Board;
› manage the operations of the Supervisory Board;
› represent the Supervisory Board in external contacts and in contacts with the other bodies of the Company, including in contacts with members of the Company's Management Board;
› approve the presentation of initiatives and proposals submitted for meetings of the Supervisory Board;
› take other actions as specified in the Company's Regulations and Articles of Association;
› Members of the Supervisory Board should not resign from their function during the term of office if that could prevent the operation of the Supervisory Board, in particular prevent timely approval of major resolutions;
› Members of the Supervisory Board shall be loyal to the Company. Should a conflict of interests arise, members of the Supervisory Board shall report it to other members of the Supervisory Board and refrain from participating in discussions and from voting on the issue to which the conflict of interests is related;
› Members of the Supervisory Board shall comply with law, the Company's Articles of Association and Regulations of the Supervisory Board.

Competences of the Supervisory Board:

— The Supervisory Board performs overall supervision over the business of the Company in all areas of its operation;
— The Supervisory Board approves resolutions, issues recommendations and opinions and submits proposals to the General Meeting;
— The Supervisory Board may not issue binding instructions to the Management Board concerning the management of the Company's affairs;
— Disputes between the Supervisory Board and the Management Board shall be resolved by the General Meeting;
— In order to exercise their rights, the Supervisory Board may review the business of the Company in any respect, request the presentation of any documents, reports and clarification from the Management Board and issue opinions on issues related to the Company and submit proposals and initiatives to the Management Board;
— Apart from other issues specified in law or in the Company's Articles of Association, the competences of the Supervisory Board include, inter alia:

› review of the financial statements of the Company;

- review of the Management Board's report from operations of the Company and proposals of the Management Board concerning profit distribution and coverage of losses;
- submission to the General Meeting of an annual report from results of the above reviews;
- appointment and dismissal of members of the Management Board, including the President and Deputy Presidents, and setting the remuneration of members of the Management Board;
- appointment of the auditor of the Company;
- suspension of Members of the Management Board in their functions for valid reasons;
- approval of annual financial plans for the capital group of which the Company and its subsidiary companies are members;
- approving terms and conditions of bond issues by the Company (other than convertible bonds or bonds with priority rights, referred to in Article 393.5 of the Code of Commercial Companies) and issues of other debt securities, provision of consent to contract financial liabilities or taking actions resulting in contracting any financial liabilities, such as borrowings, loans, overdraft facilities, conclusion of factoring, forfaiting, lease contracts and other generating liabilities in excess of PLN 10,000,000;
- approving the principles and amounts of remuneration of members of the Management Board and other persons in key management functions in the Company as well as approval of any incentive programme, including incentive programmes for members of the Management Board, persons in key management functions in the Company or any persons cooperating with or related to the Company, including incentive programmes for employees of the Company;

— Annually the Supervisory Board submits to the General Meeting a brief assessment of the Company's condition ensuring that it is made available to all shareholders at a time that they are able to review it before the Ordinary General Meeting;
— The Supervisory Board concludes contracts with members of the Management Board on behalf of the Company and represents the Company in disputes with members of the Management Board. The Supervisory Board may authorise by way of a resolution one or more of its members to perform such legal actions.

The Supervisory Board may approve resolutions in writing or with the use of direct means of remote telecommunications. Resolutions approved as specified above shall be valid if all members of the Supervisory Board were notified of the content of the draft resolution. The approval date of the resolution approved as above shall be equivalent to the date of signing by the last member of the Supervisory Board;

Resolutions of the Supervisory Board may be approved when all members have been notified by registered letter, fax or e-mail message, sent minimum 15 days in advance and the meeting is attended by a majority of members of the Supervisory Board. Resolutions may be approved without formal convening a meeting when all members of the Supervisory Board agreed to vote on the specific issue or to the content of the resolution to be approved;

Resolutions of the Supervisory Board require a simple majority of votes; in case of equal votes, the Chairperson of the Supervisory Board shall have the casting vote;

The detailed mode of operation of the Supervisory Board is set forth in the Regulations of the Supervisory Board with its updated version available at:
https://www.arcticpapergroup.pl/globalassets/arcticpapergroup.com/02-about/04-corporate-governance/corporate-documents/pl/1_11_2016_appendix-pl_ap-sa---regulamin-rady-nadzorczej_fin.pdf

The Supervisory Board of the Company as at the publication hereof was composed as follows:
— Per 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 2021, the Supervisory Board held meetings on: 22 February, 15 April, 16 June, 5 August, 2 September, 5 November, 7 December and 20 December.

Audit Committee

Composition and organisation of the Audit Committee

- The Audit Committee is composed of minimum three members of the Supervisory Board, including the Chairperson of the Committee, elected by the Supervisory Board from among its members in compliance with the Articles of Association and Regulations of the Supervisory Board. Minimum one member of the Audit Committee shall hold qualifications and experience in the sphere of accounting and finances;
- Members of the Audit Committee shall be appointed for three-year terms of office, however no longer than the term of office of the Supervisory Board;
- The Chairperson of the Audit Committee, elected with a majority of votes from among its members, shall be an independent member;
- The Audit Committee operates on the basis of the Act on Statutory Auditors, Best Practice of GPW Listed Companies, Regulations of the Supervisory Board and the Regulations of the Audit Committee;
- The Audit Committee performs advisory and consulting functions, operates as a collective body within the Company's Supervisory Board;
- The Audit Committee carries out its tasks by providing the Supervisory Board with its proposals, opinions and reports on its scope in the form of resolutions;
- At least one member of the audit committee shall have knowledge and skills in terms of accounting or auditing financial statements. The Supervisory Board is of the opinion that the requirement of competences in the sphere accounting and financial audit is recognised as satisfied if a member of the Audit Committee has a major experience in financial management in commercial partnerships, internal audit or audit of financial statements, and additionally:
  - has the title of a certified auditor or equivalent international certificate, or
  - has an academic degree in the field of accounting or financial audit, or
  - has long-term experience as a financial director in public companies or in working in an audit committee of such companies;
- Members of the Audit Committee shall have knowledge and skills relating to the industry in which the Issuer operates. This condition is recognised as satisfied if at least one member of the Audit Committee has knowledge and skills relating to that industry or individual members within specific scopes have knowledge and skills relating to the scope of that industry. The Supervisory Board is of the opinion that the requirement of competences relating to the industry is recognised as satisfied if a member of the Audit Committee has information on the characteristics of the sector, that allows him to obtain a complete picture of the sector's complexity or has knowledge on part of the chain of activities carried out by the Company.

Competences of the audit committee

- The basic task of the Audit Committee is advisory to the Supervisory Board on issues of proper implementation and control of the financial reporting processes in the Company, effectiveness of the internal control and risk management systems and cooperation with statutory auditors;
- The tasks of the Audit Committee resulting from supervising the Company's financial reporting process, ensuring the effectiveness of the Company's internal control systems and monitoring of internal audit operations, include in particular:
  - control if the financial information provided by the Company is correct, including the accuracy and consistency of the accounting principles applied in the Company and its Capital Group as well as the consolidation principles of financial statements;
  - assessment minimum once a year of the internal control and management systems in the Company and its Capital Group in order to ensure adequate recognition and management of the Company;
  - ensuring the effective functioning of internal control, in particular by providing recommendations to the Supervisory Board with respect to:
    - \- strategic and operational internal audit plans and material modifications to such plans;
    - \- internal audit policies, strategy and procedures, developed in compliance with the approved internal audit standards;
    - audits of specific areas of the Company's operations;
- The tasks of the Audit Committee resulting from monitoring the independence of the statutory auditor and the entity authorised to audit financial statements, include in particular:

  - issue of recommendations to the Supervisory Board relating to the election, appointment and re-appointment and dismissal of the entity acting as the statutory auditor;
  - control of independence and impartiality of the statutory auditor, in particular with a view to replacing the statutory auditor, the level of its remuneration and other relationships with the Company;
  - verification of the effectiveness of the works performed by the statutory auditor;
  - review of reasons of resignation by the statutory auditor;
- The Audit Committee may resort to advisory services and assistance by external legal, accounting or other advisers if it finds it necessary to perform its duties;
- The Audit Committee is obliged to file annual reports from its operations to the Supervisory Board by 30 September in each calendar year.

Meetings of the Audit Committee shall be held minimum twice a year.
In 2021, the Audit Committee held 3 meetings on: 10 March and 12 August and 7 December.

As of 5 August 2021, the Audit Committee is composed of the following persons:
- Anna Jakubowski – Chairperson of the Audit Committee. Member meeting the criteria for independence. According to the declaration submitted by Ms Anna Jakubowski, she meets the condition of knowledge and skills in accounting or auditing. Ms Anna Jakubowski has several years of experience as a member of the Audit Committee of financial institutions, including Bank Millennium.
- Zofia Dzik – Member of the Audit Committee meeting the independence criteria. According to the declaration submitted by Ms Zofia Dzik, she meets the condition of knowledge and skills in accounting or auditing. Ms Zofia Dzik has several years of experience working for Arthur Andersen and Andersen Business Consulting, where she was responsible, among others, for the area of auditing financial statements and consulting in the area of finance.
- Roger Mattsson – Member of the Audit Committee – due to his long-standing experience as the financial controller of the Arctic Paper Group and his participation in the Audit Committee for more than three years, Mr Roger Mattsson fulfils the condition for the Audit Committee member to have knowledge and skills in the Company's business. Additionally, he has knowledge and skills in the sphere of accounting or auditing financial statements;

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

Core assumptions underlying the policy of selecting an audit firm to conduct audits
- According to the regulations applicable to the Company, the Company's Supervisory Board shall select – by way of a resolution and acting under a recommendation of the Audit Committee – the auditor authorised to carry out the audit;
- The selection is made taking into account the principles of impartiality and independence of the audit firm and the analysis of the audit firm's work carried out in the Company which falls beyond the scope of the audit of financial statements, in order to avoid any conflict of interest (observance of impartiality and independence);
- A request for proposals concerning the selection of an audit firm for statutory audit of the Company's financial statements is developed by the Audit Committee in cooperation with the Company's Chief Financial Officer;
- After analysing the submitted offers, the Audit Committee shall develop a recommendation with conclusions from the selection procedure to be approved by the Audit Committee and shall submit a recommendation on the selection of the audit firm to the Supervisory Board within such time that will support a resolution on audit firm selection;
- The Supervisory Board shall select the audit firm on the basis of the submitted offers and after becoming acquainted with the Audit Committee's opinion and recommendation;
- If the Supervisory Board's decision differs from the recommendation of the Audit Committee, the Supervisory Board shall justify the reasons for its failure to comply with the Audit Committee's recommendation and shall submit such justification to the body approving the financial statements.
- The Company's Management Board shall enter into a contract with the selected audit firm for the audit of financial statements of the Company.

— The first contract is concluded for minimum 2 years and it may be extended for another two or three years. The duration of the cooperation shall be counted from the first financial year covered by the audit contract, in which the authorised auditor was appointed for the first time to carry out the consecutive statutory audits of the Company.
— After expiry of the maximum period of the cooperation, the authorised auditor or, where applicable, any member of its network, may not undertake a statutory audit of the Company's financial statements for further 4 years.
— The key statutory auditor may not perform a statutory audit in the Company for a period longer than 5 years. The key statutory auditor may conduct a statutory audit again after the expiry of 3 years.
— The maximum period of uninterrupted performance of statutory audits by the same audit firm or an audit firm related to that audit firm or any member of the network operating in the European Union of which the audit firms are members, may not exceed 5 years.

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

— The Audit Committee of Arctic Paper S.A. shall be responsible for the policy covering the provision of permitted services other than audit services by the audit firm performing the audit, by entities related to the audit firm and by a member of the audit firm's network;
— The Audit Committee of Arctic Paper S.A. controls and monitors the independence of the auditor and the audit firm, in particular if the audit firm provides other services than audit of statutory financial statements to Arctic Paper S.A.
— The Audit Committee of Arctic Paper S.A., when so requested by a competent body or person, approves the provision of permitted services by the auditor that are not an audit of Arctic Paper S.A.
— The prohibited services do not include:
  › carrying out due diligence procedures for economic and financial condition,
  › issue of letters of support,
  › attestation services related to pro forma financial information, forecast of results, or estimation of results, contained in the issue prospectus of the audited entity;
  › review of historic financial information for projects referred to in the Commission Regulation (EC) No 809/2004 of 29 April 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisement;
  › verifying consolidation packages;
  › confirming the fulfilment of terms and conditions of concluded loan agreements on the basis of the analysis of financial information from the financial statements audited by the audit firm;
  › attestation services related to reporting on corporate governance, risk management, and corporate social responsibility;
  › services consisting in assessing the conformity of information disclosed by financial institutions and investment firms with requirements for disclosure of information on capital adequacy and variable remuneration components;
  › certifying financial statements or other financial information intended for supervisory authorities, supervisory board or other supervisory body of the Company or owners, which falls beyond the scope of statutory audit and helps these bodies to fulfil their statutory obligations.
— Provision of the above services is possible solely to the extent not related to the entity's tax policies after a review by the Audit Committee of hazards and mitigants of the audit firm's independence as referred to in Article 69-73 of the Act on Certified Auditors, Audit Firms and Public Supervision.

On 23 October 2019, the Supervisory Board of Arctic Paper S.A., by way of resolution, selected audit firm KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. to audit the Company's financial statements for the financial years 2020-2022.
The Supervisory Board selected the audit firm on the basis of a recommendation by the Audit Committee. The recommendation of the Audit Committee was issued as a result of the selection procedure in compliance with the "Policy and selection procedure of the audit firm to perform statutory and voluntary audit of consolidated and stand-alone financial statements of Arctic Paper S.A. with its registered office in Poznań".

KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k., entities related to the audit firm and members of its audit firm network, in the period covered by the audit did not provide any permitted services to the issuer that are not a statutory audit. The audit firm and members of its team performing the audit comply with the requirements to make an impartial and independent report from the audit of the annual consolidated and standalone financial statements of the Arctic Paper Group and of the Company in compliance with the applicable regulations, professional standards and the rules of professional ethics. The recommendation of the Audit Committee was free of third party impact and was developed on the basis of the "Policy and selection procedure of the audit firm to perform statutory and voluntary audit of consolidated and stand-alone financial statements of Arctic Paper S.A."

Remuneration Committee

Composition and organisation of the Remuneration Committee

— The Remuneration Committee is composed of minimum two members of the Supervisory Board, including the Chairperson of the Committee, elected by the Supervisory Board from among its members in compliance with the Articles of Association and Regulations of the Supervisory Board;
— Members of the Remuneration Committee shall be appointed for three-year terms of office, however no longer than the term of office of the Supervisory Board;
— The Chairperson of the Remuneration Committee shall be elected with a majority of votes of its members;
— The Remuneration Committee operates pursuant to the Regulations of the Supervisory Board and the Regulations of the Remuneration Committee;
— The Remuneration Committee performs advisory and consulting functions, operates as a collective body within the Company's Supervisory Board;
— The Remuneration Committee carries out its tasks by providing the Supervisory Board with its proposals, opinions and reports in the form of resolutions.

Competences of the Remuneration Committee

— The basic task of the Remuneration Committee is advisory support to the Supervisory Board on issues related to remuneration policy, bonus policy and other issues related to the remuneration of the employees, members of the Company's authorities and the authorities of Capital Group companies;
— The tasks of the Remuneration Committee resulting from supervision over the Company's remuneration policy and ensuring the effective functioning of the Company's remuneration policy, is to provide recommendations to the Supervisory Board in particular with respect to:
  › approval and changes to the remuneration principles of members of the Company's bodies;
  › the amount of total remuneration to members of the Company's Management Board;
  › legal disputes between the Company and Members of the Management Board with respect to the tasks of the Committee;
  › proposing remuneration and approving additional benefits to individual members of the Company's bodies, in particular under management option plans (convertible into shares of the Company);
  › strategy of the Company's remuneration and bonus policies and HR policies;
— The Remuneration Committee may resort to advisory services and assistance by external legal or other advisers if it finds it necessary to perform its duties;
— The Remuneration Committee is obliged to file annual reports from its operations to the Supervisory Board by 30 September in each calendar year.

On 31 August 2020, the General Meeting of the Company, bearing in mind Art. 90d.1 in connection with Art. 90c.2.1 of the Act of 29 July 2005 on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies (i.e. Journal of Laws of 2019, item 623 as amended) adopted the "Remuneration Policy for Members of the Management Board and Members of the Supervisory Board of Arctic Paper SA". Under the above-mentioned Acts of public companies, including the Company, were obliged to adopt, by resolution, the Remuneration Policy of Management Board and Supervisory Board Members, which is the rules for determining the remuneration of Members of the Management Board and

Supervisory Board, by the General Meeting of Shareholders, and to publish a remuneration report. The Company shall pay remuneration to the Members of the Management Board and the Supervisory Board solely in compliance with the adopted Policy. The policy prepared by the Company was drawn up in accordance with the principles set out in the above-mentioned Act and refers to the required elements related to remuneration and other terms of employment for Members of the Management Board and Members of the Supervisory Board. The policy received an opinion from the Remuneration Committee operating at the Supervisory Board, as well as by the Supervisory Board.
on 22 June 2021, the General Meeting of the Company gave a positive opinion on the first remuneration report for 2019 and 2020 prepared by the Supervisory Board. The resolution of the General Meeting on the aforementioned issue is advisory in nature. The report was reviewed by the auditor. The independent auditor's report on the performance of a service providing reasonable assurance regarding the assessment of the remuneration report was attached as Appendix 2 to current report No. 18/2021 – "Content of draft resolutions for the Annual General Meeting convened for 22 June 2021".

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

Since 9 February 2017 the Remuneration Committee has been operating in the following composition:
— Per Lundeen – Chairman of the Remuneration Committee
— Thomas Onstad – Member of the Remuneration Committee
— Roger Mattsson – Member of the Remuneration Committee

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

Risk Committee

Composition and organisation of the Risk Committee

— The Risk Committee is composed of minimum three members of the Supervisory Board, including the Chairperson of the Committee, elected by the Supervisory Board from among its members. Minimum one member of the Risk Committee shall be independent and hold qualifications and experience in the sphere of finances;
— Members of the Risk Committee shall be appointed for three-year terms of office, however no longer than the term of office of the Supervisory Board;
— The Chairperson of the Risk Committee shall be elected with a majority of votes of its members;
— The Risk Committee operates on the basis of commonly accepted corporate risk management models (e.g. COSO-ERM);
— The Risk Committee performs advisory and consulting functions, operates as a collective body within the Company's Supervisory Board;
— The Risk Committee carries out its tasks by providing the Supervisory Board with its proposals, opinions and reports in the form of resolutions;

Competences of the Risk Committee

— The basic task of the Risk Committee is advisory support to the Supervisory Board on issues related to the proper identification, assessment and control of potential risks, i.e. opportunities and threats to realization of the Company's strategic goals, with particular consideration for financial risk, related to both external factors (such as volatility of exchange rates, interest rates, general international economic condition) and internal factors (such as cash flows, liquidity management, variation of budget and financial forecasts);
— The tasks of the Risk Committee resulting from the supervision over the risk management process, include in particular:
  › Supervision over correct identification, analysis and assigning priority to types of risk inherent in the operational strategy and business pursued;
  › Confirmation to the identified risk appetite of the Company;
  › Verification if actions used to mitigate risk are planned and implemented so that the risk is mitigated to a level acceptable by the Company;
  › Monitoring verifying correct risk assessment by the Management Board and the effectiveness of control tools;

› Supervision over correct notification of stakeholders on the risks, risk strategies and control tools.

— The Risk Committee may resort to advisory services and assistance by external advisers if it finds it necessary to perform its duties;

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

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

Information compliant with the requirements of Swedish regulations concerning corporate governance.

Arctic Paper S.A. is a company registered in Poland which stock has been admitted to trading at the Warsaw Stock Exchange and at NASDAQ in Stockholm. The Company's primary market is in Warsaw with a parallel market in Stockholm. Companies not registered in Sweden which shares have been admitted to trading at NASDAQ in Stockholm are obliged to comply with:

— the corporate governance rules in force in the country of their registration or
— the corporate governance rules in force in the country where they have their primary trading market, or
— the Swedish corporate governance code (hereinafter the "Swedish Code").

Arctic Paper S.A. follows the principles set forth in the "Best Practice of GPW Listed Companies 2016" (hereinafter the "Best Practice") that may be applied by companies listed at the Warsaw Stock Exchange and not the Swedish Code. As a result, the conduct of Arctic Paper S.A. is different from the one set forth in the Swedish Code in the following material aspects.

General Meeting of Shareholders

The core documents related to General Meetings of Shareholders, such as notices, reports and approved resolutions, are made in Polish and in English instead of Swedish.

Appointment of governing bodies of the company

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

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

Tasks of the bodies of the Company

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

In accordance with the Polish applicable regulations, members of the Management Board, including its General Director who is the President of the Management Board, may not get involved in competitive activities outside the Company. Pursuing of other business outside the Company is not regulated either in the Best Practice or other Polish regulations; however, certain restrictions are usually incorporated in individual employment contracts.

Size and composition of the Company's bodies

The composition of the Supervisory Board should reflect the independence criteria, just like those specified in the Swedish Code. However, the Management Board being the executive body is composed of persons in executive positions at Arctic Paper S.A., and these members may not be treated as independent of the Company. The terms of office of members of the Management Board – just like the members of the Supervisory Board – lasts three years.

Chairpersons of the bodies of the Company

It is the Supervisory Board and not the General Meeting that elects the chairperson and the deputy chairperson from its members.

Procedures of the bodies of the Company

The Regulations of the Management Board are approved by the Supervisory Board, and the Regulations of the Supervisory Board are approved by the Supervisory Board. The Regulations are not reviewed each year – they are reviewed and modified as need arises. The same principles apply to regulations of committees operating within the Supervisory Board that are approved by the Supervisory Board. The operation of the General Director is not regulated separately since he/she also acts as the president of the Management Board.

Remuneration of members of the bodies of the Company and management staff

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

Information on corporate governance

The Polish Corporate Governance Rules do not require the same detail as to the disclosed information as required by the Swedish Code. However, information on members of the Company's bodies, company's Articles of Association, internal regulations and a summary of material differences between the Swedish and Polish approach to corporate governance and shareholders' rights is published on the Company's website.

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

On the basis of a statement made by the Supervisory Board of Arctic Paper S.A. on the selection of the audit firm to audit the annual consolidated financial statements of the Arctic Paper Group and standalone financial statements of the Company for the financial year ended on 31 December 2021 in compliance with applicable laws and on the basis of a statement received from KPMG Audyt spółka z ograniczoną odpowiedzialnością spółka komandytowa, the Company's Management Board informs that the audit firm and members of its team performing the audit have complied with the requirements to make an impartial and independent report from the audit of the annual consolidated financial statements of the Arctic Paper Group and standalone financial statements of the Company for the financial year ended on 31 December 2021 in compliance with the applicable laws, professional standards and the rules of professional ethics.

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

Signatures of the Members of the Management Board

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

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 2021 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 2021 in a true, reliable and clear manner.
The Management Board's Report from operations of the Arctic Paper Capital Group in 2021 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	22 March 2022	signed with a qualified electronic signature
Member of the Management Board Chief Financial Officer	Göran Eklund	22 March 2022	signed with a qualified electronic signature

Consolidated Financial Statements

for the year ended 31 December 2021, together with the auditor’s report

(unless specified otherwise, all amounts are in PLN ‘000)

Consolidated statement of profit and loss

	Note	Year ended on 31 December 2021	Year ended on 31 December 2020
Continuing operations			
Revenues from sales of paper and pulp	10.1	3 412 576	2 847 450
Sales revenues		3 412 576	2 847 450
Costs of sales	11.5	(2 704 647)	(2 305 659)
Gross profit/(loss) on sales		707 929	541 791
Selling and distribution costs	11.5	(381 287)	(336 524)
Administrative expenses	11.5	(103 080)	(76 348)
Other operating income	11.1	73 749	65 280
Other operating expenses	11.2	(52 741)	(35 957)
Operating profit/(loss)		244 570	158 242
Financial income	11.3	3 435	710
Financial expenses	11.4	(24 890)	(36 633)
Gross profit/(loss)		223 115	122 319
Income tax	13	(47 208)	(18 734)
Net profit/(loss) for the financial year		175 907	103 585
Attributable to:			
The shareholders of the Parent Entity		127 154	111 070
To the non-controlling shareholder		48 753	(7 485)

Earnings per share:			
– basic earnings from the profit/(loss) attributable to the shareholders of the Parent Entity	14	1,84	1,60
– diluted earnings from the profit attributable to the shareholders of the Parent Entity	14	1,84	1,60

(unless specified otherwise, all amounts are in PLN '000)

Consolidated statement of comprehensive income

	Note	Year ended on 31 December 2021	Year ended on 31 December 2020
Net profit/(loss) for the reporting period		175 907	103 585
Other comprehensive income			
Items to be reclassified to profit/(loss) in future reporting periods:			
FX differences on translation of foreign operations	26.2	(15 038)	77 882
Measurement of financial instruments	12	103 065	(8 019)
Deferred income tax on the measurement of financial instruments	13.1	(21 027)	8 574
Items that were reclassified to profit/(loss) during the reporting period:			
Measurement of financial instruments	12	(3 538)	(15 130)
Deferred income tax on the measurement of financial instruments	13.1	722	(3 389)
Items not to be reclassified to profit/loss in future reporting periods:			
Actuarial profit/(loss) for defined benefit plans	28.2	6 251	(969)
Deferred income tax on actuarial profit/(loss) relating to defined benefit plans	13.1	(415)	(29)
Other comprehensive income (net)		70 020	58 920
Total comprehensive income for the period		245 927	162 505
Total comprehensive income attributable to:			
The shareholders of the Parent Entity		182 946	143 068
Non-controlling shareholders		62 981	19 437

(unless specified otherwise, all amounts are in PLN '000)

Consolidated statement of financial position

	Note	As at 31 December 2021	As at 31 December 2020 transformed data*	As at 1 January 2020 transformed data*
ASSETS				
Fixed assets				
Tangible fixed assets	16	1 155 280	1 085 121	979 851
Investment properties	18	2 978	3 086	4 128
Intangible assets	19	56 667	43 251	38 471
Goodwill	19	9 421	9 656	-
Interests in joint ventures	21.3	2 943	1 678	1 412
Other financial assets	21.1	59 858	26 279	32 389
Other non-financial assets	21.2	300	315	308
Deferred income tax assets	13.3	14 303	25 117	24 346
TOTAL FIXED ASSETS		1 301 750	1 194 503	1 080 905
Current assets				
Inventories	23	402 868	365 491	353 774
Trade and other receivables	24	402 530	297 543	302 121
Corporate income tax receivables		8 409	5 209	5 324
Other non-financial assets	21.2	8 424	6 149	8 909
Other financial assets	21.1	97 358	12 188	18 835
Cash and cash equivalents	25	167 927	255 563	265 885
TOTAL CURRENT ASSETS		1 087 516	942 143	954 848
TOTAL ASSETS		2 389 266	2 136 646	2 035 753

(unless specified otherwise, all amounts are in PLN '000)

	Note	As at 31 December 2021	As at 31 December 2020 transformed data*	As at 1 January 2020 transformed data*
EQUITY AND LIABILITIES				
Equity				
Equity (attributable to the shareholders of the Parent Entity)				
Share capital	26.1	69 288	69 288	69 288
Reserve capital	26.3	407 976	407 976	407 976
Other reserves	26.4	201 226	160 376	139 035
FX differences on translation	26.2	7 534	15 827	(28 863)
Retained earnings/Accumulated losses	26.5	226 113	96 510	19 473
		912 137	749 977	606 909
Non-controlling interests	26.6	330 859	283 056	263 619
TOTAL EQUITY		1 242 996	1 033 033	870 528
Long-term liabilities				
Interest-bearing loans, bonds and borrowings	27	161 210	211 094	233 745
Provisions	29	1 346	1 379	1 223
Employee liabilities	28	111 993	135 994	123 719
Other financial liabilities	27	29 153	30 050	29 523
Deferred income tax liability	13,3	106 633	71 448	70 823
Grants and deferred income	30.2	13 870	14 631	18 094
		424 205	464 596	477 127
Short-term liabilities				
Interest-bearing loans, bonds and borrowings	27	84 489	136 278	149 983
Provisions	29	494	116	4 171
Other financial liabilities	27	12 170	12 148	11 608
Trade and other payables	30.1	506 812	367 751	424 430
Employee liabilities	28	107 028	106 069	91 367
Income tax liability		3 914	11 037	4 284
Grants and deferred income	30.2	7 158	5 618	2 255
		722 065	639 017	688 098
TOTAL LIABILITIES		1 146 270	1 103 613	1 165 225
TOTAL EQUITY AND LIABILITIES		2 389 266	2 136 646	2 035 753

*information regarding changes in presentation for the transformed data has beedn described in note 7.2.

(unless specified otherwise, all amounts are in PLN '000)

Consolidated statement of cash flow

	Note	12-month period ended on 31 December 2021	12-month period ended on 31 December 2020 transformed data*
Cash flows from operating activities			
Gross profit (loss)		223 115	122 319
Adjustments for:			
Depreciation/amortisation	11.6	114 672	113 126
Impairment allowance to non-financial assets		(31 486)	-
FX gains/(loss)		3 200	1 608
Interest, net		17 804	19 127
Profit / loss on investing activities		647	277
(Increase)/decrease in trade and other receivables		(114 759)	39 918
(Increase) / decrease in inventories		(44 459)	23 291
Increase (decrease) in liabilities except loans, borrowings, bonds and other financial liabilities		139 265	(73 615)
Change in non-financial assets		(7 506)	(7 625)
Change in provisions		1 295	(3 185)
Income tax paid		(31 178)	(11 514)
Movement in pension provisions and employee liability		(5 707)	(7 133)
Efekt umorzenia praw do emisji CO2		1 040	(3 321)
Change in grants and deferred income		(8 658)	(1 832)
Chnages in settlement of realized forward contracts		(18 811)	-
Other		(281)	23
Net cash flows from operating activities		238 193	211 464
Cash flows from investing activities			
Disposal of tangible fixed assets and intangible assets		911	1 349
Purchase of tangible fixed assets and intangible assets		(159 874)	(136 499)
Acquisition of a subsidiary	20	-	(6 089)
Other capital outflows / inflows		(550)	-
Net cash flows from investing activities		(159 513)	(141 239)
		-	-
Cash flows from financing activities			
Change to overdraft facilities		18 332	-
Repayment of leasing liabilities		(12 179)	(10 514)
Repayment of other financial liabilities		1	422
Inflows under contracted loans, borrowings and bonds		214 642	15 266
Repayment of loans, borrowings and debt securities		(328 976)	(87 519)
Dividends paid to shareholders of AP SA	15	(20 786)	-
Dividends paid to non-controlling shareholders	26.6	(15 178)	-
Interest paid		(17 924)	(18 605)
Other			
Net cash flows from financing activities		(162 068)	(100 950)
Increase (decrease) in cash and cash equivalents		(83 388)	(30 725)
Net FX differences		(4 248)	20 403
Cash and cash equivalents at the beginning of the period		255 563	265 885
Cash and cash equivalents at the end of the period	25	167 927	255 563

(unless specified otherwise, all amounts are in PLN '000)

Consolidated statement of changes in equity

		Attributable to the shareholders of the Parent Entity							
	Note	Share capital	Reserve capital	FX differences on translation of foreign operations	Other reserves	Retained earnings / (Accumulated losses)	Total	Equity attributable to non-controlling shareholders	Total equity
As at 01 January 2021		69 288	407 976	15 827	160 376	96 510	749 977	283 056	1 033 033
Net profit/(loss) for the period		-	-	-	-	127 154	127 154	48 753	175 907
Other net comprehensive income for the period		-	-	(8 293)	58 249	5 836	55 792	14 228	70 020
Total comprehensive income for the period		-	-	(8 293)	58 249	132 990	182 946	62 981	245 927
Payment of dividend to shareholders	15, 26.6	-		-	(17 399)	(3 387)	(20 786)	(15 179)	(35 964)
As at 31 December 2021		69 288	407 976	7 535	201 226	226 113	912 137	330 859	1 242 996

(unless specified otherwise, all amounts are in PLN '000)

	Note	Attributable to the shareholders of the Parent Entity						Equity attributable to non-controlling shareholders	Total equity
		Share capital	Reserve capital	FX differences on translation of foreign operations	Other reserves	Retained earnings / (Accumulated losses)	Total		
As at 01 January 2020		69 288	407 976	(28 863)	139 035	19 473	606 909	263 619	870 528
Net profit/(loss) for the period		-	-	-	-	111 070	111 070	(7 485)	103 586
Other net comprehensive income for the period		-	-	44 690	(11 694)	(998)	31 998	26 922	58 920
Total comprehensive income for the period		-	-	44 690	(11 694)	110 072	143 068	19 437	162 505
Financial profit distribution	26.5	-	-	-	33 035	(33 035)	-	-	-
As at 31 December 2020		69 288	407 976	15 827	160 376	96 510	749 977	283 056	1 033 033

Accounting principles (policies) and additional explanatory notes

1. General information

The Arctic Paper Group is a producer of paper and pulp. We offer bulky book paper and a broad range of products in the segment and high-quality graphic paper. The Group produces numerous types of uncoated and coated wood-free paper as well as wood-containing uncoated paper for printing houses, paper distributors, book and magazine publishing houses and the advertising industry. As at 31 December 2021, 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 in Sweden. Pulp Mills are located in Sweden. As at 31 December 2021, 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 2021 amounted to PLN 3,413 million.

Arctic Paper Spółka Akcyjna is a holding company set up in April 2008. As a result of capital restructuring carried out in 2008, the Paper Mills Arctic Paper Kostrzyn (Poland) and Arctic Paper Munkedals (Sweden), Distribution Companies and sales offices have become the properties of Arctic Paper S.A. Previously they were owned by Arctic Paper AB (later Trebruk AB), the indirect Parent Entity of Arctic Paper S.A. In addition, in its expansion, the Group acquired the Paper Mill Arctic Paper Mochenwangen (Germany) in November 2008 and the Paper Mill Grycksbo (Sweden) in March 2010. In December 2012, the Group acquired a controlling package of shares in Rottneros AB, a company listed on NASDAQ in Stockholm, Sweden, holding interests in two pulp companies (Sweden).

The Parent Entity is entered in the register of entrepreneurs of the National Court Register maintained by the District Court in Zielona Góra (Poland) – 8th Commercial Division of the National Court Register, under KRS number 0000306944. The Parent Entity holds statistical number REGON 080262255.

In 2021 there was no change of name of the Entity.

The company's registered office is located in Poland, in Kostrzyn nad Odrą (ul. Fabryczna 1). The Company also has a foreign branch in Göteborg, Sweden.

1.1. Business objects

The principal business of the Arctic Paper Group is the production of paper and pulp.

The Group's additional business, subordinate to paper and pulp production, covers:

- Generation of electricity,
- Transmission of electricity,
- Electricity distribution,
- Heat production,
- Heat distribution,
- Logistics services,
- Distribution of paper and pulp.

(unless specified otherwise, all amounts are in PLN '000)

1.2. Shareholding structure

				as at 31.12.2021				as at 31.12.2020
Shareholder	Number of shares	Share in the share capital [%]	Number of votes	Share in the total number of votes [%]	Number of shares	Share in the share capital [%]	Number of votes	Share in the total number of votes [%]
Thomas Onstad	**47 205 107**	**68,13%**	**47 205 107**	**68,13%**	**47 205 107**	**68,13%**	**47 205 107**	**68,13%**
- indirectly via	40 981 449	59,15%	40 981 449	59,15%	40 981 449	59,15%	40 981 449	59,15%
Nemus Holding AB	*40 381 449*	*58,28%*	*40 381 449*	*58,28%*	*40 381 449*	*58,28%*	*40 381 449*	*58,28%*
other entity	*600 000*	*0,87%*	*600 000*	*0,87%*	*600 000*	*0,87%*	*600 000*	*0,87%*
- directly	6 223 658	8,98%	6 223 658	8,98%	*6 223 658*	8,98%	6 223 658	8,98%
Other	**22 082 676**	**31,87%**	**22 082 676**	**31,87%**	**22 082 676**	**31,87%**	**22 082 676**	**31,87%**
Total	69 287 783	100,00%	69 287 783	100,00%	69 287 783	100,00%	69 287 783	100,00%
Treasury shares	-	0,00%	-	0,00%	-	0,00%	-	0,00%
Total	**69 287 783**	**100,00%**	**69 287 783**	**100,00%**	**69 287 783**	**100,00%**	**69 287 783**	**100,00%**

Nemus Holding AB, a company under Swedish law (a company owned indirectly by Mr Thomas Onstad), is the majority shareholder of Arctic Paper S.A., holding (as at 31 December 2021) 40,381,449 shares of our Company, which constitutes 58.28% of its share capital and corresponds to 58.28% of the total number of votes at General Meetings. Thus Nemus Holding AB is the Parent Entity of the Issuer.

Additionally, Mr Thomas Onstad, an indirect shareholder of Nemus Holding AB, holds directly 6,223,658 shares representing 8.98% of the total number of shares in the Company, and via another entity – 600,000 shares accounting for 0.87% of the total number of shares of the Issuer. Mr Thomas Onstad's total direct and indirect holding in the capital of Arctic Paper S.A. as at 31 December 2021 was 68.13% (31 December 2020: 68.13%) and has not changed until the date hereof.

The parent company of the highest level Group that prepares consolidated financial statements is Incarta Development S.A. The top owner of the Group is Mr. Thomas Onstad.

(unless specified otherwise, all amounts are in PLN '000)

2. Composition of the Group

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

Unit	Registered office	Business objects	Group's interest in the equity of the subsidiary entities as at		
			22 March 2022	31 December 2021	31 December 2020
Arctic Paper Kostrzyn S.A.	Poland, Fabryczna 1, 66-470 Kostrzyn nad Odrą	Paper production	100%	100%	100%
Arctic Paper Munkedals AB	Sweden, SE 455 81 Munkedal	Paper production	100%	100%	100%
Arctic Paper Mochenwangen GmbH	Germany, Fabrikstrasse 62, DE-882, 84 Wolpertswende	Non-active company	99,74%	99,74%	99,74%
Arctic Paper Grycksbo AB	Sweden, Box 1, SE 790 20 Grycksbo	Paper production	100%	100%	100%
Arctic Paper UK Limited	United Kingdom, 8 St Thomas Street SE1 9RR London	Trading company	100%	100%	100%
Arctic Paper Baltic States SIA	Latvia, K. Valdemara iela 33-20, Riga LV-1010	Trading company	100%	100%	100%
Arctic Paper Deutschland GmbH	Germany, Am Sandtorkai 72, D-20457 Hamburg	Trading company	100%	100%	100%
Arctic Paper Benelux S.A.	Belgium, Interleuvenlaan 62 bus 14, B-3001 Heverlee	Trading company	100%	100%	100%
Arctic Paper Schweiz AG	Switzerland, Gutenbergstrasse 1, CH-4552 Derendingen	Trading company	100%	100%	100%
Arctic Paper Italia srl	Italy, Via Cavriana 7, 20 134 Milan	Trading company	100%	100%	100%
Arctic Paper Danmark A/S	Denmark, Ved Grotten 50 DK-5610 Assens	Trading company	100%	100%	100%
Arctic Paper France SAS	France, 43 rue de la Breche aux Loups, 75012 Paris	Trading company	100%	100%	100%
Arctic Paper Espana SL	Spain, Avenida Diagonal 472-474, 9-1, 8006 Barcelona	Trading company	100%	100%	100%
Arctic Paper Papierhandels GmbH	Austria, Hainburgerstrasse 34A, A-1030 Wien	Trading company	100%	100%	100%
Arctic Paper Polska Sp. z o.o.	Poland, Okrężna 9, 02-916 Warszawa	Trading company	100%	100%	100%
Arctic Paper Norge AS	Norway, Eikenga 11-15, NO-0579 Oslo	Trading company	100%	100%	100%
Arctic Paper Sverige AB	Sweden, SE 455 81 Munkedal	Trading company	100%	100%	100%
Arctic Power Sp.z o.o. (previously Arctic Paper East Sp. z o.o.)	Poland, Fabryczna 1, 66-470 Kostrzyn nad Odrą	Energy production	100%	100%	100%
Arctic Paper Investment GmbH *	Germany, Fabrikstrasse 62, DE-882, 84 Wolpertswende	Activities of holding companies	100%	100%	100%
Arctic Paper Finance AB	Sweden, 455 81 Munkedal	Activities of holding companies	100%	100%	100%
Arctic Paper Verwaltungs GmbH *	Germany, Fabrikstrasse 62, DE-882, 84 Wolpertswende	Activities of holding companies	100%	100%	100%
Arctic Paper Immobilienverwaltung GmbH&Co. KG*	Germany, Fabrikstrasse 62, DE-882, 84 Wolpertswende	Activities of holding companies	94,90%	94,90%	94,90%
Arctic Paper Investment AB **	Sweden, 455 81 Munkedal	Activities of holding companies	100%	100%	100%
EC Kostrzyn Sp. z o.o.	Poland, ul. Fabryczna 1, 66-470 Kostrzyn nad Odrą	Rental of properties and machines and equipment	100%	100%	100%

(unless specified otherwise, all amounts are in PLN '000) 81

Munkedals Kraft AB	Sweden, 455 81 Munkedal	Production of hydropower	100%	100%	100%
Rottneros AB	Sweden, Söderhamn	Activities of holding companies	51,27%	51,27%	51,27%
Rottneros Bruk AB	Sweden, Rottneros	Pulp production	51,27%	51,27%	51,27%
Utansjo Bruk AB	Sweden, Söderhamn	Non-active company	51,27%	51,27%	51,27%
Vallviks Bruk AB	Sweden, Vallvik	Pulp production	51,27%	51,27%	51,27%
Nykvist Skogs AB	Sweden, Sunne	Comapny grouping private owners of forests	51,27%	51,27%	51,27%
Rottneros Packaging AB	Sweden, Sunne	Production of food packaging	51,27%	51,27%	51,27%
SIA Rottneros Baltic	Sweden, Sunne	Procurement bureau	51,27%	51,27%	51,27%

** – companies established for the purpose of the acquisition of Arctic Paper Mochenwangen GmbH*

*** – company established to acquire Grycksbo Paper Holding AB (closed in 2015) and indirectly Arctic Paper Grycksbo AB*

As at 31 December 2021 and as well as on the day hereof, the percentage of voting rights held by the Group in its subsidiaries corresponded to the percentage held in the share capital of those entities. All subsidiaries within the Group are consolidated under the full method from the day of obtaining control by the Group and cease to be consolidated from the day the control has been transferred out of the Group.

3. Management and supervisory bodies

3.1. Management Board of the Parent Entity

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

- Michał Jarczyński – President of the Management Board appointed on 1 February 2019;
- Göran Eklund – Member of the Management Board appointed on 30 August 2017.

Up to the date of publication of these annual consolidated financial statements, there have been no changes in the composition of the Parent Entity's Management Board.

3.2. Supervisory Board of the Parent Entity

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

- Per Lundeen – Chairman of the Supervisory Board appointed on 22 September 2016 (appointed to the Supervisory Board on 14 September 2016);
- Roger Mattsson – Deputy Chairman of the Supervisory Board appointed on 22 September 2016 (appointed as a Member of the Supervisory Board on 14 September 2014);
- Thomas Onstad – Member of the Supervisory Board appointed on 22 October 2008;
- Zofia Dzik – Member of the Supervisory Board appointed on 22 June 2021;
- Anna Jakubowski – Member of the Supervisory Board appointed on 22 June 2021;

On 20 May 2021, Ms Dorota Raben resigned as a Member of the Supervisory Board of the Company with effect from 22 June 2021.
On 26 May 2021, Mr Mariusz Grendowicz resigned as a Member of the Supervisory Board of the Company with effect from 22 June 2021.
On 22 June 2021, the Annual General Meeting of the Company, passed a resolution on the appointment of Ms Zofia Dzik and Ms Anna Jakubowski to the Supervisory Board.

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

3.3. Audit Committee of the Parent Entity

As at 31 December 2021, the Parent Entity's Audit Committee was composed of:

- Anna Jakubowski – Chairperson of the Audit Committee appointed on 22 June 2021 (appointed as Member of the Audit Committee on 5 August 2021);
- Zofia Dzik – Member of the Audit Committee appointed on 22 June 2021 (appointed as Member of the Audit Committee on 5 August 2021);
- Roger Mattsson – Audit Committee Member appointed on 14 September 2014 (appointed as Audit Committee Member on 23 June 2016);

Until the date hereof, there were no changes in the composition of the Audit Committee of the Parent Entity.

4. Approval of the financial statements

These Consolidated Financial Statements were approved for publication by the Management Board on 22 March 2022.

5. Material values based on professional judgement and estimates

5.1. Professional judgement

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

Identification of control over the acquired entities and joint ventures
If interests in other entities are acquired, the Management Board of the Parent Entity makes a professional judgement if it exercises full control or co-control thereof and with respect to the recognition method of the transaction in the consolidated financial statements pursuant to the guidelines set forth in IFRS 10, IFRS 3 and IFRS 11. In particular, this applies to the moment of taking control, taking into account the de facto control analysis. For more information, see Note 9.7 and 20.

Liabilities under leases – the Group as the lessee
The Group has lease contracts which it recognizes in accordance with IFRS 16. IFRS 16 introduces a uniform lessee accounting model and requires the lessee to recognize the assets and liabilities arising from each lease. On the lease commencement date, the lessee recognizes an asset with respect to the right to use the underlying asset and a lease liability that reflects the lessee's obligation to make lease payments. The Management Board of the Parent Entity makes professional judgment, inter alia whether a given contract meets the conditions of the lease and in terms of determining the lease term in the event of an option to extend the term of the contract and makes an estimate when determining the lease rate based on the requirements of IFRS 16. For more information, see Note 17.

5.2. Uncertainty of estimates

The basic assumptions for the future and other key sources of uncertainties as at the balance sheet date that affect the risk of major adjustments in the carrying amount of assets and liabilities in the next financial year are presented below.

Impairment of tangible and intangible fixed assets in Arctic Paper Grycksbo

Due to the high demand for paper and the strong financial performance of Arctic Paper Grycksbo, following the annual assessment of the impairment rationale for property, plant and equipment and intangible assets, the Management Board identified the need to test the non-financial fixed assets for impairment for the Paper Mill in order to review the impairment allowances recognised in previous years.

In connection with the test, the Company makes a number of estimates, of which the forecast sales volumes, selling prices, raw material purchase prices, energy prices, discount rate and growth rate in residual period have the greatest impact on the value in use of the assets. Some of the assumptions used to determine the value in use of assets are based on unobservable inputs and are therefore subject to estimation uncertainty.

The results of the test performed as at 31 December 2021 is described in note 22.2. the test performed as of 31 December 2020 did not result in a change in the impairment allowance.

Impairment of goodwill

As at 31 December 2020, in accordance with the requirements of IFRS EU, Rottneros conducted an impairment test for goodwill arising in connection with the acquisition of a subsidiary in January 2020. The test did not show the need to make an impairment allowance for this asset. The results of the test as at 31 December 2020 are described in Note 22.1. As the results of the cash-generating unit assigned to goodwill for 2021 were better than expected, and the analysis of the events and circumstances that have occurred since the date of the last test indicates that it is unlikely that the recoverable amount will be lower than the carrying amount of the net assets constituting the cash-generating unit, the Group assessed that there is no risk of impairment for goodwill as at December 31, 2021 and in accordance with IAS 36.24, for the test as at December 31, 2021, it used the calculation of the recoverable amount of goodwill performed in the previous reporting period.

Retirement benefits and other post-employment benefits

The costs of retirement post-employment benefits is determined with actuarial techniques. The estimates were presented in note 28.2. Actuarial measurements require certain assumptions as to the applicable discount rates, anticipated salary increases, mortality ratio and projected growth of retirement benefits. Due to the long-term nature of the programmes, the estimates are subject to certain uncertainties. For more information, see Note 28.2.

Deferred income tax asset

The Group recognises a deferred income tax asset assuming that taxable profit will be generated in the future to utilise the asset. Material deterioration of the generated taxable profit in the future could render this assumption unjustified. The calculation of the deferred income tax asset is presented in note 13.3.

Fair value of financial instruments

Fair value of financial instruments for which there is no active market is measured using the appropriate valuation techniques. The Group uses professional judgement to select adequate methods and to make assumptions. The fair value of financial instruments is presented in note 36.1.

Depreciation/amortisation rates

Depreciation/amortisation rates are determined on the basis of the anticipated useful lives of tangible fixed assets and intangible assets. Every year, the Group reviews the approved economic useful lives on the basis of current estimates. The approved economic useful lives for each tangible fixed asset are presented in note 9.5 and for intangible assets in note 9.7.

Uncertainties related to tax settlements

Regulations related to VAT, corporate income tax and charges related to social insurance are subject to frequent changes. Those frequent changes result in unavailability of appropriate points of reference, inconsistent interpretations and few precedents that could apply. Additionally, the applicable regulations contain also certain ambiguities that result in differences of opinion as to legal interpretations of tax regulations – among public authorities and between public authorities and enterprises.

Therefore, the amounts presented and disclosed in the financial statements may change in the future as a result of final decisions by tax inspection authorities.

The Group recognises and measures current and deferred income tax assets or liabilities applying the requirements of IAS 12 Income Taxes, on the basis of profit (tax loss), taxation base, carried forward tax losses, unutilised tax credits and applicable tax rates, and further subject to uncertainties related to tax settlements. When an uncertainty exists if and to what extent the tax authority accepts tax settlements to specific transactions, the Group recognises those settlements subject to uncertainty assessment.

Impairment allowances to inventories and receivables

The Group estimates its impairment allowance to receivables in the amount of anticipated credit losses over the whole life of the receivables since the initial recognition. The amount of impairment for receivables is the difference between the carrying amount of the receivables and the estimated probable collectible amount.

Impairment allowances for inventories are made when the carrying amount of a specific assortment is lower than its net realisable price. The net sales price is estimated as the realisable price of the assortment net of selling and distribution costs.

More information on impairment allowances on inventories is included in note 23, and impairment allowances on receivables in note 24.

6. Basis of preparation of the consolidated financial statements

These Consolidated Financial Statements have been made in accordance with the historical cost convention, with the exception of investment properties and derivative financial instruments that are measured at fair value. Financial instruments measured at fair value through comprehensive income include contracts for the purchase of electricity, contracts for the sale of pulp, floor options and interest rate SWAPs (note 36).

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

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

6.1. Compliance statement

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

IFRS cover standards and interpretations approved by the International Accounting Standards Board (IASB).

Certain subsidiaries of the Group maintain their books of account in compliance with the accounting policies (principles) as set forth in the Accounting Act of 29 September 1994 ("Act") as amended, and the regulations issued pursuant thereto ("Polish accounting standards") or in compliance with other local accounting standards applicable to foreign operations. The consolidated financial statements contain adjustments that are not incorporated in the books of account of the Group entities, implemented to make the financial data of those entities compliant with EU IFRS.

6.2. Covid-19

The Arctic Paper Group operates in the pulp and paper sector which, at the time of preparing these consolidated financial statements, has been affected by the COVID-19 outbreak through a marked reduction in demand for paper in H1 2021. As of 31 December 2021, the Group's current ratio was 1.6x and the net debt-to-EBITDA ratio for the last 12 months was 0.36x. The Group has unused credit lines and unused factoring limits. Under the Group's cash-pool agreement, cash available within individual units can be freely disposed of. The management of the Group has considered the following operational risks, which may have an adverse impact on the Group:

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

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

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

In the opinion of the Group's management, the above circumstances and the uninterrupted operation of post-reporting units throughout the year justify the assumption that the Group is well prepared for the risk of a pandemic also in 2022 and will have sufficient resources to continue its business activities for at least 12 months from the balance sheet date. The management of the Group concluded that the impact of the possible scenarios considered in making this judgement does not create material uncertainty about events or circumstances that would cast serious doubt on the Group's ability to continue as a going concern.

6.3. Currency of the financial statements and functional currencies

The Group's consolidated financial statements are presented in PLN which is also the functional currency of the Parent Entity. A functional currency is determined for each subsidiary and the assets and liabilities of each entity are measured in its relevant functional currency. The functional currencies of the Group companies included in these consolidated financial statements are as follows: Polish zloty (PLN), Swedish krona (SEK), euro (EUR), Norwegian krone (NOK), Danish krone (DKK), pound sterling (GBP) and Swiss franc (CHF).

7. Changes to the applied accounting principles and data comparability

7.1. Modifications to the existing accounting principles

The accounting principles (policies) applied to prepare the these consolidated financial statements are compliant with those applied to the consolidated financial statements of the Group for the year ended on 31 December 2020, with the following exceptions:

— Amendments to IFRS 4 Insurance Contracts (effective for annual periods beginning on or after 1 January 2021)

The amendments extend the expiry date for the temporary exemption from *IFRS 9 Financial Instruments* by two years to annual periods beginning on or after 1 January 2023 to align with the effective date of *IFRS 17 Insurance Contracts* which replaces *IFRS 4 Insurance Contracts*.

— Amendments to IFRS 16 Leases Covid-19 Related Rent Concessions (effective for annual periods beginning on or after 1 June 2020, earlier application is permitted)

The Amendment permits lessees, as a practical expedient, not to assess whether particular COVID-19-related rent concessions are lease modifications. Therefore, if meeting the conditions, lessees that apply the practical expedient would recognise the amount of rent forgiven on or before 30 June 2021 in profit or loss in the year of the concession. In the absence of the practical expedient, it would have been recognised in profit or loss over the duration of the contract.

— Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts and IFRS 16 Leases: Interest Rate Benchmark Reform – Phase 2 (eEffective for annual periods beginning on or after 1 January 2021)

The objective of the Amendments is to assist entities with providing useful information to users of financial statements and to support preparers in applying IFRS Standards when changes are made to contractual cash flows or hedging relationships, as a result of the transition from an IBOR benchmark rate to alternative benchmark rates, in the context of the ongoing risk-free rate reform. The amendments provide practical expedient for particular changes to contractual cash flows and provide a relief from specific hedge accounting requirements.

The Group did not decide to adopt earlier any other standards, interpretations or amendments that were issued but are not yet effective for periods commencing on 1 January 2021.

7.2. Comparability of data

The Group distinguished in the statement of financial position new items: employee liabilities and grants and deferred income, respectively in the long-term and short-term part of liabilities. Employee liabilities primarily comprise provisions for retirement benefits, liabilities for wages and salaries and social security and accruals for unused leave and bonuses. Grants and deferred income include grants for tangible and intangible fixed assets and other deferred income.

(unless specified otherwise, all amounts are in PLN '000)

The table below shows the impact of the change in presentation on selected items in the statement of financial position as at 31 December 2020 and 1 January 2020

	Approved data	Change of presentation	Transformed data
Impact on the consolidated statement of financial position at 31 December 2020			
Long-term liabilities (selected items)			
Provisions	137 373	(135 994)	1 379
Employee liabilities	-	135 994	135 994
Grants and deferred income	-	14 631	14 631
Accruals and deferred income	14 631	(14 631)	-
Short-term liabilities (selected items)			
Provisions	756	(640)	116
Trade and other payables	379 445	(11 694)	367 751
Employee liabilities	-	106 069	106 069
Grants and deferred income	-	5 618	5 618
Accruals and deferred income	99 353	(99 353)	-
Total impact on equity and liabilities	631 558	(0)	631 558

	Approved data	Change of presentation	Transformed data
Impact on the consolidated statement of financial position at 1 January 2020			
Long-term liabilities (selected items)			
Provisions	124 942	(123 719)	1 223
Employee liabilities	-	123 719	123 719
Grants and deferred income	-	18 094	18 094
Accruals and deferred income	18 094	(18 094)	-
Short-term liabilities (selected items)			
Provisions	5 008	(837)	4 171
Trade and other payables	435 366	(10 936)	424 431
Employee liabilities	-	91 367	91 367
Grants and deferred income	-	2 255	2 255
Accruals and deferred income	81 849	(81 849)	-
Total impact on equity and liabilities	665 259	0	665 259

In addition, in order to standardise the presentation under non-current other financial and non-financial assets, the amount of PLN 2,283 thousand was transferred from other non-financial assets to other financial assets as at 31 December 2020 (1 January 2020: EUR 1,731 thousand).

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

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

— Amendments to *IFRS 3 Business Combinations, IAS 16 Tangible Fixed Assets, IAS 37 Provisions, Contingent Liabilities and Contingent Assets and Amendments to International Financial Reporting Standards 2018*-2020 (All issued 14 May 2020); all effective for annual periods beginning on or after 1 January 2022, early application permitted).
The amendment package contains three amendments of narrow scope to the standards:

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

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

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

IFRS 17, which replaces the transitional standard IFRS 4 Insurance Contracts which was introduced in 2004. IFRS 4 provided companies with a possibility to continue disclosing insurance contracts pursuant to the accounting principles applicable in national standards, which, as a result, meant application of different solutions. IFRS 17 solves the issue of comparability created by IFRS 4 through a requirement of coherent disclosure of all insurance contracts, which will be beneficial for both investors and insurers. Liabilities arising from contracts will be recognised at present values, instead of historic cost.

— *Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021);* Effective for annual periods beginning on or after 1 January 2023, with early application permitted).

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

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

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

Standards and Interpretations pending EU endorsement on 3 March 2022:

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

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

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

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

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

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

8.1. Implementation of new standards

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

9. Major accounting policies

9.1. Consolidation principles

These Consolidated Financial Statements cover financial statements of Arctic Paper S.A. and its subsidiaries for the year ended on 31 December 2021. The financial statements of subsidiary entities, subject to adjustments to achieve compliance with EU IFRS, are made for the same reporting period as the financial statements of the patent entity relying on consistent accounting principles, applied to similar transactions and economic events. In order to eliminate any discrepancies in the applied accounting standards, adjustments are made. All material balances and transactions among Group entities, including unrealised profit on transactions within the Group, have been fully eliminated. Unrealised losses are eliminated unless they evidence impairment.

The subsidiaries are consolidated from the day of obtaining control by the Group and cease to be consolidated from the day the control discontinues. Control is exercised by the Parent Entity when:

- it exercises power over the entity,
- it is exposed to variable return or is entitled to variable return as a result of its involvement in the entity,
- it is able to exercise its power to affect the level of generated return.

The Company verifies its effective control over other entities if a situation occurs that may indicate a change to one or more of the above requirements for control to be effective.

When the Company holds less than a majority of votes in an entity but the held voting rights are sufficient to unilaterally direct the essential matters of the entity, this means that control is exercised. When assessing if the voting rights in an entity are sufficient to ensure power, the Company analyses all material circumstances, such as:

- the volume of the package of voting rights versus the volumes of other packages and distribution of voting rights held by other shareholders;
- potential voting rights held by the Company, other shareholders or other parties;
- rights resulting from contractual arrangements; and
- additional circumstances that may prove if the Company is or is not able to direct material operations when decisions are taken, including voting schemes observed at earlier general meetings.

Change to the holdings by the Parent Entity that do not result in loss of control over subsidiary entities, are recognised as capital transactions. In such instances, in order to reflect the changes in relative interests in subsidiary entities, the Group adjusts the carrying amount of controlling interests and non-controlling interests. All differences between the adjustment amounts to non-controlling interests and the fair value of the amount paid or received, are recognised to equity and attributed to the owners of the Parent Entity.

9.2. Involvement in joint ventures

Joint ventures are contractual arrangements pursuant to which two or more parties take up economic operations that is subject to joint control.

The Group's investments in joint ventures are recognised in the consolidated financial statements with the equity method. In accordance with the equity method, investments in joint ventures are initially recognised at cost and afterwards adjusted to reflect the Group's share in the financial result and other comprehensive income of the joint venture. If the Group's share in losses of a joint venture exceeds the value of its interest in the entity, the Group discontinues disclosing its share in further losses. Additional losses are recognised solely to the extent corresponding to legal or customary obligations assumed by the Group or payments made on behalf of the joint venture.

Investments in joint ventures are disclosed with the equity method since the day the entity has obtained the status of a joint venture. On the day the investment is made in a joint venture, the amount by which the investment costs exceed the Group's interest in the net fair value of identifiable assets and liabilities of the entity, is recognised as goodwill and included in the carrying amount of the investment. The amount by which the Group's interest in the net fair value of identifiable assets and liabilities exceeds the costs of the investment, is recognised directly in profit and loss of the period in which the investment was made.

If necessary, the entire carrying amount of the investment is tested for impairment in compliance with IAS 36 Impairment of Assets as a single asset and its realisable value is compared to the carrying amount. Such recognised impaired value constitutes a part of the carrying amount of the investment. Such impairment is reversed in compliance with IAS 36 to the extent corresponding to a subsequent increase in the realisable value of the investment.

The Group discontinues applying the equity method on the day the investment stops being a joint venture and when it is reclassified to assets available for sale. The difference between the carrying amount of a joint venture as at the day the equity method is no longer applied and the fair value of retained interests and proceeds from the sale of certain interests in the entity, is taken into account when calculating the profit or loss on disposal of such joint venture.

If the Group decreases its interests in a joint venture and continues to account for it with the equity method, in its financial result it recognises the part of profit or loss previously recognised in other comprehensive income corresponding to the reduced interest if such profit or loss is subject to re-classification to financial result at disposal of the related assets or liabilities.

Gains/losses on measurement of interests in joint ventures are recognised as other financial income/expenses.

9.3. Fair value measurement

The Group measures financial instruments such as derivative instruments and non-financial assets such as investment properties at fair value as at each balance sheet date. Additionally, the fair value of financial instruments measured at amortised cost is disclosed in note 36.1.

The fair value is understood as the price that could be received for the sale of an asset or paid as a result of transfer of a liability subject to ordinary sale of such asset between market players as at the measurement date at the prevailing market conditions. Fair value measurement is based on an assumption that the sale transaction of an asset or transfer of a liability is executed either:

- in the main market for such asset or liability,
- if no main market exists, in the most advantageous market for such asset or liability.

Both the main and most advantageous market must be accessible to the Group.

The fair value of an asset or liability is measured subject to an assumption that market players act in their best economic interests when setting the price of such asset or liability.

The measurement of the fair value of a non-financial asset provides for the possibility of a market player to generate economic benefits as a result of most intensive and best use of the asset or sale thereof to another market player that would ensure the most intensive and best use of such asset.

The Group applies measurement techniques that are adequate to the circumstances at hand and when adequate data is available to measure the fair value with maximum use of adequate observable input data and minimum use of non-observable input data.

All assets and liabilities that are measured at fair value or their fair value is disclosed in the financial statements, are classified in the hierarchy of fair value in the way described below to the lowest level of input data which is material for the measurement at fair value treated as a whole:

- Level 1 – Listed (unadjusted) market prices in an active market for identical assets or liabilities,
- Level 2 – Measurement techniques for which the lowest level of input data that is material for the measurement at fair value as a whole is observable or indirectly observable,
- Level 3 – Measurement techniques for which the lowest level of input data that is material for the measurement at fair value as a whole is not observable,

As at each balance sheet date, for assets and liabilities occurring as at each balance sheet date in the financial statements, the Group assesses if there have been transfers between the hierarchy levels by re-assessment of the classification to each level, following the materiality of the input data from the lowest level which is material for measurement at fair value treated as a whole.

Summary of material accounting principles relating to measurement at fair value.

The management boards of subsidiary companies or the Management Board of Arctic Paper S.A. determine the principles and procedures relating both to systematic measurement at fair value, e.g. of investment properties and unlisted financial assets, as well as one-off measurements.

Independent appraisers are retained to measure material assets such as properties as at the end of each financial year.

Measurement at fair value of financial instruments is performed by independent financial institutions specialised in the measurement of such instruments.

For the disclosure of results of such measurement at fair value, the Group has defined classes of assets and liabilities on the basis of the type, features and risks related to individual assets and liabilities and the level in the hierarchy of fair value, as described above.

9.4. Foreign currency translation

Transactions denominated in currencies other than the functional currency of the entity are translated into the presentation currency at the foreign exchange rate prevailing on the transaction date.

On the balance sheet date, monetary assets and liabilities expressed in currencies other than the functional currency of the entity are translated into the functional currency using the mean foreign exchange rate prevailing for the presentation currency as at the end of the reporting period. Foreign exchange differences from translation are recognised under financial income or financial expenses or are capitalised as cost of assets, as defined in the accounting policies. Non-monetary foreign currency assets and liabilities recognised at historical cost are translated at the historical foreign exchange rates prevailing on the transaction date. Non-monetary assets and liabilities denominated in a currency other than the functional currency, recognised at fair value are translated into the functional currency using the rate of exchange prevailing on the date of revaluation to fair value.

(unless specified otherwise, all amounts are in PLN '000)

The functional currencies of the foreign subsidiaries are EUR, SEK, DKK, NOK, GBP and CHF. As on the balance sheet date, the assets and liabilities of those subsidiaries are translated into the presentation currency of the Group (PLN) at the rate of exchange prevailing on the balance sheet date and their profit and loss accounts are translated using the average weighted exchange rates for the relevant reporting period. The FX differences on translation are recognised in other total comprehensive income and cumulated in a separate equity item. On disposal of a foreign operation, the cumulative amount of the deferred exchange differences recognised in equity and relating to that particular foreign operation shall be recognised in the profit and loss account.

Exchange differences on loans treated in compliance with IAS 21 as investments in subsidiaries are recognised in the consolidated financial statements in other comprehensive income.

The following exchange rates were used for book valuation purposes:

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

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

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

9.5. Tangible fixed assets

Tangible fixed assets are measured at purchase price or construction cost reduced by accumulated depreciation and all impairment allowances. The initial value of fixed assets comprises their purchase price and any directly attributable costs of bringing the asset to working condition for its intended use. The cost also comprises the expenses for replacement of fixed asset components when incurred, if the recognition criteria are met. Subsequent expenditures, such as repair or maintenance costs, are expensed in profit and loss account in the reporting period in which they were incurred.

Upon purchase, fixed assets are divided into components which represent items with a significant value that can be allocated a separate economic useful life. Overhauls also represent asset components.

Property, plant and equipment are depreciated using the straight-line method over their estimated useful lives as follows:

(unless specified otherwise, all amounts are in PLN '000)

Type	Period
Buildings and structures	25 – 50 years
Plant and machinery	5 – 20 years
Office equipment	3 – 10 years
Motor vehicles	5 – 10 years
Computers	1 – 10 years

Residual values, useful lives and depreciation methods of asset components are reviewed annually and, if necessary, adjusted retrospectively i.e. with effect from the beginning of the financial year that has just ended.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its further use. Any profit or loss arising on derecognition of an asset (calculated as the difference between the potential net disposal proceeds and the carrying amount of the asset) is recognised in the profit and loss account for the period in which such derecognition took place.

Assets under construction (construction in progress) include assets in the course of construction or assembly and are recognised at purchase price or cost of construction less any impairment allowances. Assets under construction are not depreciated until completed and brought into use.

9.5.1. Right-of-use assets and leasing

In accordance with IFRS 16, the Group applies a uniform lessee accounting model, which requires the lessee to recognize assets and liabilities resulting from each lease. On the lease commencement date, the lessee recognizes an asset with respect to the right to use the underlying asset and a lease liability that reflects the lessee's obligation to make lease payments.

The lessee separately recognizes depreciation of an asset with respect to the right of use and interest on the lease liability.

The lessee updates the measurement of the lease liability after the occurrence of certain events (e.g. changes in the lease period, changes in future lease payments resulting from a change in the index or the rate used to determine such payments). In such instances, the lessee recognises the revaluation of the lease liability as an adjustment to the value of the asset with respect to the right of use.

As at 1 January 2019, the Group applied IFRS 16 for the first time and introduced a prospectively uniform lessee accounting model, accounting for a lease agreement with a period exceeding 12 months, in accordance with the standard, unless the underlying asset had a value not greater than EUR 5,000 EUR.

The Group is a lessee primarily in case of perpetual usufruct right of land, rental contracts for office space, lease of motor vehicles and machines and equipment.

9.6. Investment properties

The initial recognition of investment properties is at the purchase price, including transactional costs. The carrying amount of an asset covers the replacement cost of the component of the investment property when incurred as long as the recognition criteria are satisfied, and it does not include the current maintenance costs of such properties.

After initial recognition, investment properties are disclosed at fair value. Gains or losses resulting from changes to the fair value are recognised in the profit or loss in the period they arose, subject to the related impact on deferred income tax.

investment properties are derecognised from the balance sheet when they are sold or when they are permanently abandoned, when no future benefits from sale thereof are anticipated. Any profit or loss arising on derecognition of an investment property from the balance sheet are recognised as profit or loss in the period when such derecognition occurred.

Assets are transferred to investment properties only when a change of their use takes place, confirmed with the end of use of such asset by the owner or conclusion of an operational lease contract. If an asset is used by the owner – the Group, it becomes an investment property when the Group applies the principles described in the section Tangible fixed assets (note 9.5) until the date the use of the property is changed. When an asset is transferred from inventories to investment properties, the difference between the fair value of the property set as at the transfer date and its previous carrying amount is recognised in profit or loss.

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

9.7. Intangible assets and goodwill

9.7.1. Intangible assets

Intangible assets acquired separately or constructed (if they meet the recognition criteria for development costs) are measured on initial recognition at cost or construction costs. The cost of intangible assets acquired in a business combination is equal to their fair value as at the date of combination. Following initial recognition, intangible assets are recognised at purchase cost or construction cost reduced by any accumulated amortisation and impairment allowances. Expenditures incurred for internally generated intangible assets, excluding capitalised development costs, are not capitalised and are charged to the costs in the period in which they were incurred.

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

Intangible assets with indefinite useful lives include goodwill and those intangible assets for which the Group is unable to determine the economic useful life on the basis of historical data or experience. Intangible assets with an indefinite useful life and those that are not in use are tested for impairment annually either individually or at the cash generating unit level.

Useful lives are reviewed on an annual basis and, if necessary, are adjusted with effect from the beginning of the financial year that has just ended.

A summary of the principles applied to the Group's intangible assets is as follows:

	Goodwill	Relations with customers	Trademarks	Software
Useful life	Unspecified	10 years	Unspecified	2-5 years
Depreciation method	Is not depreciated	10 years with the straight-line method	Is not depreciated	2-5 years with the straight-line method
Internally generated or acquired	Acquired	Acquired	Acquired	Acquired
Impairment test	Annual verification and in case of any impairment indications	Annual assessment of any impairment indications	Annual verification and in case of any impairment indications	Annual assessment of any impairment indications

After analysing the relevant factors, for trademarks the Group does not define any time limit of their useful life. The intention of the Group is to operate for an indefinite period under the same trademark and it is believed that it will not become impaired. Consequently, and in accordance with IAS 38, the Group does not amortise intangible assets with indefinite useful lives. Useful life of such resources should be reviewed in each reporting period, in order to determine whether events and circumstances continue to confirm the assumption of the indefinite useful life of such asset.

Profit or loss arising from derecognition of an intangible asset are measured as the difference between the net sales proceeds and the book value of the asset and are recognised in the income statement when the asset is derecognised.

9.7.2. Goodwill

Goodwill resulting from acquisition of an entity is initially recognised at the purchase prices being the amount of surplus:

- of the sum of:
  - payment transferred,
  - amount of all non-controlling interests in the acquired entity, and
  - in case of a combination of entities carried out in stages, the fair value as at the acquisition of an interest in the capital of the acquired entity held previously by the acquiring entity.
- over the fair value determined as at the acquisition date of the acquired identifiable acquired assets and liabilities.

After initial recognition, the goodwill is recognised at the purchase cost reduced by all accumulated impairment allowances. An impairment test is held annually or more often if required. Goodwill is not amortised.

As at the acquisition date, goodwill is allocated to all cash generating centres that may benefit from combination synergies. Each centre or group of centres to which goodwill has been attributed:

- corresponds to the lowest level in the Group at which goodwill is monitored for internal management purposes, and
- is not larger than one operational segment determined in compliance with IFRS 8 Operating Segments.

Impairment allowances are determined on the basis of an estimated value of each cash generating centre to which the goodwill was allocated. When the recoverable value of a cash generating centre is lower than its carrying amount, an impairment allowance is recognised. When the goodwill constitutes a part of a cash generating centre and a part of the business within the centre is sold, the goodwill related to such sold operations is included in its carrying amount to determine profit or losses on the sale. Under the circumstances, the sold goodwill is determined on the basis of a relative value of the sold operation and the value of the retained part of the cash generating centre.

9.7.3. Emission rights

The Group owns a heat and power plant and as a result holds rights to emissions generated in its operations. The Group discloses its rights to emit greenhouse gases in a net amount. This means that the rights acquired free of charge are recognised in the balance sheet at "zero" while the provision related to the obligation to redeem the relevant number of rights is established when a deficit of such rights arises. When emission rights to greenhouse gases are acquired to cover a future deficit, at acquisition the rights are recognised as intangible assets. The provision for a deficit of emission rights is then measured at the value of the acquired intangible assets. The provision is recognised in the amount relying on the annual limit of emission rights.

9.7.4. Certificates in cogeneration

As an entity generating electricity in cogeneration, the Group receives certificates of origin ("certificates"). Revenues from the certificates are recognised as a cost reduction at the time of production and measured at the prevailing market price provided the market for such certificates is active. Otherwise, the revenues are recognised at sale of the certificates. Material rights resulting from the measurement are disclosed in intangible assets. The details of the certificates received in the current year are disclosed in note 39.

9.8. Impairment of non-financial fixed assets

An assessment is made by the Group as at each balance sheet date to determine whether there is any indication that a component of non-financial fixed assets may be impaired. If such indications exist, or in case an annual impairment test is required, the Group makes an estimate of the recoverable value of the asset or the cash generating unit that the asset is a part of.

The recoverable amount of an asset or a cash-generating unit is the fair value of such asset or cash-generating unit reduced by costs to sell or its value in use, whichever is higher. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment allowances of continuing operations are recognised in the expense categories consistent with the function of the impaired asset.

An assessment is made by the Group as at each balance sheet date as to whether there is any indication that previously recognised impairment allowances may no longer be required or may be reduced. If such indications exist, the Group makes an estimate of the recoverable amount of the asset. A previously recognised impairment allowance is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment allowance was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined (net of depreciation or amortisation), had no impairment allowance been recognised for the asset in prior years. Reversal of impairment allowance to assets is recognised immediately as income. After a reversal of an impairment allowance is recognised, the depreciation (amortisation) charge for the asset is adjusted in future periods to allocate the asset's carrying amount, reduced by its residual value (if any), on a systematic basis over its remaining useful life.

9.9. External borrowing costs

Borrowing costs are capitalised as part of the cost of the manufacturing of fixed assets, investment properties and intangible assets. External borrowing costs include interest calculated using the effective interest rate method, finance charges in respect of leases and foreign exchange differences incurred in connection with the external financing to the extent that they are regarded as an adjustment to interest expense.

9.10. Financial assets

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

— measured at amortised cost: To measure its financial assets measured at amortised cost, the Group applies the effective interest rate method; those are trade receivables, loans granted, other financial receivables and cash and cash equivalents. After initial recognition, trade receivables are measured at amortised cost with the effective interest rate method subject to impairment allowances' trade receivables due within 12 months of the day of their origin (without financing elements) and not forwarded to factoring, are not discounted and are measured at nominal value; interest, exchange rate differences and write-downs are recognized in profit or loss; gains or losses on derecognition of a financial instrument are recognized in profit or loss for the period;
— measured at fair value through other total comprehensive income: profit and loss on a financial asset being a capital instrument which is subject to a measurement option via other comprehensive income, are recognised in other total comprehensive income with the exception of dividend received;
— measured at fair value through financial results: profit or loss resulting from measurement of financial assets, classified as measured at fair value through profit and loss, are recognised in profit and loss account in the period in which it was generated; those are primarily derivative instruments not designated for hedge accounting. Profit or loss resulting from measurement of items measured at fair value through profit and loss account covers also interest and dividend income.
— hedging financial instruments: Hedging financial instruments are measured in accordance with hedge accounting principles recognised under IAS 39.

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

9.11. Impairment of financial assets

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

In accordance with IFRS 9, the Company measures allowances for expected credit losses in the amount equal to the 12-month expected credit losses or expected credit losses in the life of the financial instrument. In case of trade receivables, the Company applies a simplified approach and estimates allowances for anticipated credit loss equal to anticipated credit loss over the life of the receivables which does not exceed 12 months.

Trade receivables are the most important financial asset in the Group's financial statements that are subject to the principles of calculating anticipated credit losses.

The Group applies a simplified model to recognise impairment allowances to trade receivables.

In the simplified model, the Group does not monitor changes to credit risk level over the life of the instrument and estimates anticipated credit losses over the horizon until the maturity of the instrument. In order to estimate the anticipated credit loss, the Group applies a provision matrix estimated on the basis of historic collectibility levels and recoveries from counterparties. The anticipated credit loss is calculated at the time the receivables are recognised in the statement of financial position and it is updated as at each closing of reporting periods, subject to the number of overdue dates.

The Group divides trade receivables into insurance receivables and uninsured receivables, and on the basis of historical data and taking into account expected future factors, it calculates the percentage of expected loss for each aging range of trade receivables. The receivables aging ranges are as follows: maturity range, up to 30 days, up to 60 days, up to 90 days, up to 120 days, up to 360 days and over 360 days.

9.12. Financial derivatives and hedges

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge the risks associated with interest rate and foreign FX rates fluctuation Such derivative financial instruments are measured at fair value. Such derivatives are stated as assets when the value is positive and as liabilities when the value is negative.

Any gains or losses arising from changes in the fair value of the derivatives that do not qualify for hedge accounting are recognised directly in the net profit or loss for the financial year.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined based on a valuation model which takes into account observable market data, particularly including current term interest rates.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability, or
- cash flow hedges when hedging exposure to variability in cash flows that is attributable to a particular risk inherent in the recognised asset or liability or a forecast transaction, or
- Hedges of interests in net assets in a foreign entity

Hedges of foreign currency risk in an unrecognised firm commitment are accounted for as cash flow hedges.

When a hedge is established, the Group formally identifies and documents the hedging relationship, as well as the objective of risk management and the hedging strategy. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and the assessment method of the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Hedges are expected to be highly effective in offsetting the exposure to changes in the fair value or cash flows attributable to the hedged risk. Hedge effectiveness is assessed on a regular basis to check if the hedge is highly effective throughout all reporting periods for which it was designated.

9.12.1. Fair value hedges

Fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. In the case of a fair value hedge, any profit or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item, the hedging instrument is re-measured to fair value and the gains and/or losses on the hedging instrument and hedged item are recognised in profit or loss.

For fair value hedges relating to items recognised at amortised cost, the adjustment to the carrying amount is amortised and recognised in profit or loss over the remaining term to maturity of the instrument.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding profit or loss recognised in profit or loss. The changes to the fair value of the hedging instrument are also recognised in profit or loss.

The Group discontinues hedge accounting if the hedging instrument expires, or is sold, terminated or exercised, or the hedge no longer qualifies for hedge accounting, or the Group revokes the designation. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised and the allowances are recognised in profit or loss. Amortisation may begin as soon as an adjustment is made, however no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

9.12.2. Cash flow hedge

Cash flow hedges are hedges securing for the risk of cash flow fluctuations which can be attributed to a particular kind of risk inherent in the given item of assets or liabilities or in a contemplated investment of high probability, and which could influence profit or loss. The part of profit or loss related to the hedging instrument which constitutes an effective hedge is recognised directly in other comprehensive income and the non-effective part is recognised in profit or loss.

If a hedged intended transaction subsequently results in the recognition of a financial asset or financial liability, the associated gains or losses that were recognised in other comprehensive income and accumulated in equity shall be reclassified to profit and loss account in the same period or periods in which the asset acquired or liability assumed affects profit or loss.

If a hedge of a intended transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, or a forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, then gains and losses that were recognised in other comprehensive income are reclassified from equity to profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are recognised directly to net financial result for the period.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or the hedge no longer qualifies for hedge accounting. At that point in time, any cumulative profit or loss on the hedging instrument that has been recognised directly in other comprehensive income and accumulated in equity, remains recognised in equity until the forecast transaction occurs. If the forecast transaction is no longer expected to occur, the net cumulative profit or loss recognised in equity is recognised in net profit or loss for the period.

9.13. Inventories

Inventories are valued at the lower of purchase price/construction cost and realisable net selling price. Purchase price or construction cost of every item of inventories includes all purchase expenses, transformation expenses and other costs incurred in bringing each inventory item to its present location and conditions are accounted for as follows for both the current and previous year:

Materials	at purchase cost, disposal at average weighted cost
Finished products and work in progress	cost of direct materials and labour and an appropriate surcharge of indirect production costs determined with an assumption of normal use of production capacities with the exclusion of external financing costs
Goods	at purchase cost, disposal at average weighted cost

Net realisable value is the estimated selling price in the ordinary course of economic activity, reduced by estimated costs of necessary to finish the items and to finalise the sale.

9.14. Budgetary receivables

Receivables from the state budget are presented under other receivables, except for corporate income tax receivables, which constitute a separate item in the balance sheet.

9.15. Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and on hand and short-term deposits with an original maturity of three months or less.

For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

9.16. Interest-bearing loans, borrowings and bonds

All bank loans, borrowings and bonds are initially recognised at fair value reduced by costs associated with obtaining the loan or borrowing.

After initial recognition, interest-bearing loans, borrowings and bonds are subsequently measured at amortised cost using the effective interest rate method.

The amortised cost is calculated by taking into account any costs associated with obtaining the loan or borrowing, and any discount or premium received in relation to the liability.

Revenues and expenses are recognised in profit or loss when the liabilities are derecognised from the balance sheet or accounted for with the effective interest method.

9.17. Financial liabilities

Financial liabilities are classified as measured at fair value through profit or loss or at amortised cost.

Financial liabilities at fair value through profit or loss include financial liabilities held for trading, derivative instruments and financial liabilities initially classified as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of re-sale in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are determined to be effective hedging instruments.

Financial liabilities may be designated at initial recognition as measured at fair value through profit or loss if the following criteria are met:

- such qualification eliminates or significantly reduces the inconsistency of treatment, when both the valuation and the rules for recognizing losses or gains are subject to different regulations; or
- liabilities are part of a group of financial liabilities that are managed and assessed on the basis of fair value, in accordance with a documented risk management strategy; or
- financial liabilities contain embedded derivatives that should be separately recognised.

Financial liabilities measured at fair value through profit or loss are measured at fair value, reflecting their market value as at the balance sheet date without taking sales transaction costs into account. Changes in fair value of those instruments are recognised in the profit or loss as financial income or expenses.

Other financial liabilities other than financial instruments at fair value through profit or loss are measured at amortised cost using the effective interest rate method. Interest costs and FX gains / (loss) are recognised in profit or loss. Any gains or losses arising from exclusion from the balance sheet are also recognised in profit or loss.

The Company excludes a financial liability from its report from financial activities when the liability has expired – that is, when the obligation specified in the contract has been fulfilled, cancelled or expired. Replacement of an existing debt instrument with an instrument with basically different conditions, made between the same entities, is recognised by the Company as expiry of the original financial liability and recognition of a new financial liability. Upon derecognition of a financial liability from the balance sheet, the difference between the carrying amount of the expiring liability and the value of the payment (including all non-cash assets transferred or liabilities assumed) is recognised in the profit and loss account. Similarly, major changes to the terms of an agreement relating to an existing financial liability are recognised by the Company as the expiry of the original and the recognition of a new financial liability measured at fair value. The difference of the respective carrying amounts arising from the replacement is recognised in profit or loss.

Other non-financial liabilities include, in particular, liabilities to the tax office due to tax on goods and services and liabilities due to received advance payments, which will be settled by the delivery of goods. Other non-financial liabilities are recognised at the amount payable.

Modification of financial liabilities

If the contractual terms of a financial liability are modified and the existing liability is not derecognised, the profit or loss is recognised immediately in profit or loss. The profit or loss is calculated as the difference between the present value of the modified and original cash flows, discounted using the original effective interest rate of the liability.

9.18. Provisions

Provisions are created when the Group is charged with a (legal or customary) obligation relating to past events, and when it is likely that satisfaction of such obligation shall result in a necessity of an outflow of economic benefits and an amount of such obligation may be reliably estimated. Where the Group expects some or all of the provisioned costs to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the profit and loss account after the deduction of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the estimated future cash flows to their present value using a discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks inherent in the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as financial expenses.

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

9.19. Retirement allowance

In accordance with the Group's remuneration principles, the employees of the Group are entitled to a retirement allowance. It is a one-off payment due to employees upon their retirement. The amount of retirement allowance depends on the seniority and the average salary of the employee. The Group sets up a provision for future retirement allowance liabilities in order to allocate the costs to the relevant periods. In accordance with IAS 19, retirement allowances are defined post-employment benefit plans. The present value of the liabilities is calculated by an independent actuary as at each balance sheet date. The accrued liability is equal to discounted payments to be made in the future subject to staff rotation and applies to the period until the balance sheet date. Demographic information and information on staff rotation is based on historical data.

On the basis of measurements performed by professional actuarial companies, the Group recognises a provision for future employee benefits.

Re-measurement of employee benefits related to defined benefit plans, covering actuarial gains and losses, is recognised in other comprehensive income and is not later re-classified to profit or loss.

The Group recognises the following changes to its net liabilities relating to defined benefit plans within costs of sales, administrative expenses, selling and distribution costs and financial costs, composed of:

service costs (including, inter alia, the current service costs, future service costs)
net interest on the net liability under the defined benefit plans.

9.20. Revenue from contracts with customers and other income

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

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

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

The following criteria are also applicable to recognition of revenues.

9.20.1. Sale of goods and products

Revenue is recognised if control of the good or product is transferred to another entity.

9.20.2. Provision of services

Group trading companies provide sales services to the Paper Mills. For the service, they are paid a commission computed on the actual value of product sales in each market. This means that profit on the sales services is recognised at the same time as product sales. Sales revenues include only revenues of Paper Mills outside the Group.

9.20.3. Interest

Interest income is recognised as interest accrues (using the effective interest rate method that is the rate that discounts the estimated future cash receipts over the anticipated life of the financial instrument) to the net carrying amount of the financial asset.

9.20.4. Dividend

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

9.20.5. Rental revenues

Rental revenues from investment properties are recognised with the straight-line method throughout the lease term for all open contracts.

9.20.6. Grants

If it is certain that a grant will be obtained and all the related conditions will be satisfied, then public grants are recognised at fair value.

If the grant applies solely to a specific cost item, then it is recognised as revenues commensurate to the costs that the grant is to compensate. If the grant applies to an asset, then its fair value is recognised in the account of deferred income and then gradually – in equal annual charges – it is recognised in profit or loss over the estimated useful life of the asset.

9.21. Taxes

9.21.1. Current tax

Current income tax liabilities and receivables for the current period and previous periods are measured at amounts projected to be paid to tax authorities (to be recovered from tax authorities) with tax rates and based on tax regulations legally or actually applicable as at the balance sheet date.

9.21.2. Deferred income tax

For financial reporting purposes, deferred income tax is recognised, using the liability method, regarding temporary differences as at the balance sheet date between the tax value of assets and liabilities and their carrying amount disclosed in the financial statements.

Deferred tax provision is recognised for all positive temporary differences:

- except where the deferred income tax provision arises from the initial recognition of goodwill, an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss; and

- in respect of positive differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income asset is recognised for all negative temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised:

- except where the deferred tax asset relating to the negative temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of negative temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, the deferred income tax asset is recognised in the balance sheet solely to the extent to which it is probable that in the foreseeable future the above differences will be reversed and sufficient taxable income to deduct such temporary negative differences.

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

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

Income tax relating to items recognised outside profit or loss is recognised outside profit or loss: in other comprehensive income in correlation items recognised in other comprehensive income or directly in equity with reference to items recognised directly in equity.

Deferred income tax asset and deferred income tax liability are offset, if a legally enforceable right exists to set off current income tax asset against current income tax liability and the deferred income tax relates to the same taxable entity and the same tax authority.

9.21.3. Deferred income tax related to the activity in the Special Economic Zone

The Group operates in the Kostrzyńsko-Słubicka Special Economic Zone and it benefits from an investment tax relief up to the value of its investments.

When the actually incurred investment outlays are higher than income for the relevant tax year, then – in compliance with the Regulation of the Council of Ministers of 14 September 2004 on the Kostrzyńsko-Słubicka Special Economic Zone (Journal of Laws No. 222, item 2252 of 13 October 2004) – the Group recognises a deferred income tax asset for the discounted surplus outlays up to the amount with respect to which it is highly likely that it will be utilised.

The asset was utilised in the text taxable period when a sufficient taxable amount is generated.

Until December 31, 2020, the Group used all tax benefits related to the expenses incurred in the KSSSE and therefore did not recognize any deferred tax assets on this account.

9.21.4. Value added tax

Revenues, expenses, assets and liabilities are recognised after the deduction of the amount of VAT, except:

- where VAT incurred on a purchase of assets or services is not recoverable from the tax authority, in which case VAT is recognised as part of the cost of purchase of the asset or as part of the expense item as applicable and

– receivables and payables which are disclosed with the VAT amount inclusive.

The net amount of VAT recoverable from or payable to the tax authority is included as part of receivables or payables in the balance sheet.

9.21.5. Excise tax

The amount of excise tax payable on the generated electricity is recognised in the profit and loss account in the period to which it applies and as a liability.
Excise tax on the energy used for internal purposes is recognised as costs of sales in the profit and loss account.

9.22. Net profit per share

Net earnings per share are calculated by dividing the net profit and the net profit on continuing operations for the period, attributable to the shareholders of the Parent Entity, by the weighted average number of shares outstanding in the reporting period. Diluted earnings per share are calculated by dividing the net profit and the net profit on continuing operations for the period, attributable to the shareholders of the Parent Entity, by the diluted weighted average number of shares outstanding in the reporting period.

10. Operational segments

Operational segments cover continuing activities. The Group's principal activity is the manufacture of paper and pulp.

The paper production business is presented as the "Uncoated" and "Coated" segments and includes the financial results of, among others, three Paper Mills:

— Arctic Paper Kostrzyn S.A. (Poland) – produces high-quality uncoated graph paper under the Amber brand;
— Arctic Paper Munkedals AB (Sweden) – produces high quality uncoated graphic paper under the Munken brand;
— Arctic Paper Grycksbo (Sweden) – production of coated wood-free paper under the brands of G-Print and Arctic.

The pulp business is presented as the "Pulp" segment and includes, among others, two pulp mills:

the Pulp Mill in Rottneros (Sweden) produces mainly two types of mechanical pulp: groundwood and chemo-thermo mechanical pulp (CTMP), production level of about 160,000 tonnes annually;
the Pulp Mill in Vallvik (Sweden) produces two types of long-fibre sulphate pulp: fully bleached sulphate pulp and unbleached sulphate pulp. The most of Vallvik Pulp Mill production is known as NBSK pulp. Production level of about 240,000 tonnes annually.

The Group's business segments are characterised by:

— Uncoated paper – paper for printing or other graphic purposes, including wood-free and wood-containing paper. Uncoated wood-free paper can be produced from various types of pulp, with different filler content, and can undergo various finishing processes, such as surface sizing and calendering. Two main categories of this type of paper are graphic paper (used for example for printing books and catalogues) and office papers (for instance, photocopy paper); however, the Group currently does not produce office paper. Uncoated wood paper from mechanical pulp intended for printing or other graphic purposes. That type of paper is used to print magazines with rotogravure and offset techniques. The Group's products in this segment are usually used for printing paperbacks,
— Coated paper – wood-free paper for printing or other graphic purposes, one-side or two-side coated with mixtures containing mineral pigments, such as china clay, calcium carbonate, etc. The coating process can involve different methods, both on-line

and off-line, and can be supplemented by super-calendering to ensure a smooth surface. Coating improves the quality of printed photos and illustrations.

— Pulp – fully bleached sulphate pulp and unbleached sulphate pulp which is used mainly for the production of printing and writing papers, cardboard, toilet paper and white packaging paper as well as chemi thermo mechanical pulp (CTMP) and groundwood which are used mainly for production of printing and writing papers.

The exclusions include the exclusions of turnover and settlements between segments and the results of operations of Arctic Paper SA and Arctic Paper Finance AB.

The split of segments into the uncoated and coated paper segments and pulp is due to the following factors:

— Demand for products and their supply as well as the prices of products sold in the market are affected by operational factors characteristic for each segment, such as e.g. the production capacity level in the specific paper and pulp segment,
— The key operating parameters such as inflow of orders or the level of production costs are determined by the factors that are similar for each paper and pulp segment,
— The products manufactured at the Paper Mills operated by the Group may (with certain restrictions) be allocated to production in other entities within the same paper segment which to a certain extent distorts the financial results generated by each Paper Mill,
— The results of the Arctic Paper Group are under the pressure of global market trends with respect to the prices of paper and pulp, and to a lesser extent are subject to the specific conditions of the production entities.

Every month, on the basis of internal reports received from companies (apart from companies of the Rottneros Group), the results in each operating segment are analysed by the management of the Group. The financial results of companies in the Rottneros Groups are analysed on the basis of quarterly financial results published on the websites of Rottneros AB.

The operating results are measured primarily on the basis of EBITDA calculated by adding depreciation/amortisation and impairment allowances to tangible fixed assets and intangible assets to operating profit (loss), in each case in compliance with EU IFRS. In accordance with EU IFRS, EBITDA is not a metric of operating profit (loss), operational results or liquidity. EBITDA is a metric that the Management Board uses to manage the operations.

Transactions between segments are concluded at arms' length like between unrelated entities.

The table below presents data concerning revenues and profit as well as certain assets and liabilities under continuing operations, split by segments of the Group for the period of 12 months ended on 31 December 2021 and as at 31 December 2021.

Twelve-month period ended on 31 December 2021 and as at 31 December 2021

	Continuing operations						
	Uncoated	Coated	Pulp	Other	Total	Eliminations	Continuing opetations
Revenues							
Sales to external customers	1 714 196	694 126	1 004 246		3 412 567	-	3 412 567
Sales between segments	-	21 461	32 135		53 596	(53 596) -	-
Total segment revenues	1 714 196	715 586	1 036 381		3 466 163	(53 596)	3 412 567
Result of the segment							
EBITDA	153 301	12 818	167 375		333 494	(5 738)	327 756
Depreciation/amortisation	(66 972)	(5 687)	(41 624)		(114 283)	- (389)	(114 672)
Operating profit (loss)	86 329	7 131	125 751		219 211	(6 127)	213 084
Interest income	473	59	-		533	182	715
Interest expense	(1 573)	(3 447)	(9 900)		(14 921)	(3 901)	(18 822)
FX gains and other financial income	2 013	587	8 550		11 150	(8 430)	2 720
FX losses and other financial expenses	(5 051)	(4 126)	-		(9 177)	3 109	(6 068)
Gross profit	82 191	204	124 401		206 796	(15 167)	191 629
Assets of the segment	1 133 871	327 938	1 037 384		2 499 193	(159 409)	2 339 784
Liabilities of the segment	620 273	361 341	291 590		1 273 204	(233 567)	1 039 637
Capital expenditures	(94 533)	(12 551)	(52 700)		(159 784)	(90)	(159 874)
Interests in joint ventures	2 943	-	-		2 943	-	2 943

— Revenues from inter-segment transactions are eliminated on consolidation.

— The results of the segments do not cover financial income (PLN 3.435 thousand of which PLN 715 thousand is interest income) and financial expenses (PLN 24,890 thousand of which PLN 18.822 thousand is interest expense), depreciation/amortisation (PLN 114,672 thousand) impairment of non-financial assets (reversal of PLN 31,460 thousand) and income tax liability (PLN 44,207 thousand).

— Segment assets do not include deferred taxes (PLN 14,304 thousand). as this item is managed at Group level and interests in joint ventures (PLN 2,943 thousand). Segment liabilities do not include deferred taxes (PLN 106,633 thousand) since this item is managed at the Group level.

The table below presents data concerning revenues and profit as well as certain assets and liabilities under continuing operations, split by segments of the Group for the period of 12 months ended on 31 December 2020 and as at 31 December 2020.

Twelve-month period ended on 31 December 2020 and as at 31 December 2020

	Continuing operations					
	Uncoated	Coated	Pulp	Total	Eliminations	Continuing opetations
Revenues						
Sales to external customers	1 449 226	541 548	856 677	2 847 450	-	2 847 450
Sales between segments	-	23 350	30 779	54 129	(54 129)	-
Total segment revenues	1 449 226	564 898	887 456	2 901 579	(54 129)	2 847 450
Result of the segment						
EBITDA	212 924	27 990	35 908	276 823	(5 455)	271 368
Depreciation/amortisation	(66 694)	(4 621)	(40 790)	(112 105)	(1 021)	(113 126)
Operating profit (loss)	146 230	23 369	(4 882)	164 718	(6 476)	158 242
Interest income	343	117	-	460	248	708
Interest expense	(3 486)	(3 846)	(8 056)	(15 388)	(4 442)	(19 830)
FX gains and other financial income	7 207	210	-	7 417	(7 415)	2
FX losses and other financial expenses	(10 471)	(3 279)	(8 056)	(21 806)	5 002	(16 804)
Gross profit (loss)	139 823	16 572	(20 994)	135 401	(13 083)	122 318
Assets of the segment	1 019 390	313 735	1 013 394	2 346 519	(236 669)	2 109 850
Liabilities of the segment	446 214	409 052	386 692	1 241 957	(209 793)	1 032 164
Capital expenditures	(71 437)	(13 342)	(51 660)	(136 440)	(59)	(136 499)
Interests in joint ventures	1 678	-	-	1 678	-	1 678

— Revenues from inter-segment transactions are eliminated on consolidation.

— The results of the segments do not cover financial income (PLN 710 thousand of which PLN 708 thousand is interest income) and financial expenses (PLN 36,633 thousand of which PLN 19.830 thousand is interest expense), depreciation/amortisation (PLN 113,126 thousand) impairment of non-financial assets (PLN 0 thousand) and income tax liability (PLN 18,733 thousand).

— Segment assets do not include deferred taxes (PLN 25,117 thousand), as this item is managed at Group level and interests in joint ventures (PLN 1,678 thousand). Segment liabilities do not include deferred taxes (PLN 71,448 thousand) since this item is managed at the Group level.

(unless specified otherwise, all amounts are in PLN '000)

10.1. Revenues from contracts with customers

The table below presents the Group's revenues from sales of paper and pulp to external customers in each segment, split by countries and regions, in 2021 and 2020:

Year ended on 31 December 2021 Revenues from sales of paper and pulp from external customers by segment:	Uncoated	Coated	Pulp	Total
Germany	368 362	143 852	158 033	670 247
France	170 083	45 555	10 798	226 436
UK	160 579	109 076	19 204	288 858
Scandinavia	125 020	97 218	229 936	452 174
Western Europe (other countries)	278 638	20 633	217 106	516 377
Poland	313 950	60 644	1 367	375 961
Central and Eastern Europe (other than Poland)	250 175	200 686	34 534	485 395
Outside Europe	47 398	16 462	333 268	397 127
Total segment revenues	**1 714 204**	**694 126**	**1 004 246**	**3 412 576**

Year ended on 31 December 2020 Revenues from sales of paper and pulp from external customers by segment:	Uncoated	Coated	Pulp	Total
Germany	334 517	121 777	121 691	577 985
France	144 300	37 344	8 056	189 701
UK	128 241	69 712	17 808	215 761
Scandinavia	108 542	77 999	255 145	441 686
Western Europe (other countries)	230 040	15 994	197 165	443 199
Poland	279 295	44 174	6 644	330 113
Central and Eastern Europe (other than Poland)	167 935	147 887	24 169	339 990
Outside Europe	56 356	26 661	225 998	309 014
Total segment revenues	**1 449 226**	**541 548**	**856 677**	**2 847 450**

Sales revenues related to the item "Western Europe" cover mainly sales in Belgium, the Netherlands, Austria, Switzerland, Italy and Spain. Sales revenues related to the item "Central and Eastern Europe" cover mainly sales in Ukraine, the Czech Republic, Slovakia, Hungary and Bulgaria. Sales revenues related to the item "Outside Europe" cover mainly sales in China and the USA. Sales to no buyer exceed 10% of total revenues.

10.2. Fixed assets by countries and regions

The table below presents the Group's fixed assets reduced by deferred income tax asset split by country and region, as at 31 December 2021 and 31 December 2020:

Geographical information Fixed assets:	As at 31 December 2021	As at 31 December 2020
Germany	4 176	4 970
France	990	1 436
Scandinavia	859 348	774 238
Western Europe (other countries)	493	981
Poland	422 234	387 630
Central and Eastern Europe (other than Poland)	205	131
Total fixed assets	1 287 447	1 169 386

The increase in the Group's non-current assets is primarily due to capital expenditure on property, plant and equipment made at the Paper and Pulp Mills during 2021 and an increase in other financial assets comprising the positive valuation of derivatives, mainly power forwards.

(unless specified otherwise, all amounts are in PLN '000)

11. Income and costs

11.1. Other operating income

	Year ended on 31 December 2021	Year ended on 31 December 2020
Reversal of provisions	-	27
Damages received	11 768	9 777
Rental income	2 512	2 407
Sales of services	3 710	1 897
Grants	513	3 316
Sale of utilities	20 773	26 817
Sale of materials	12 378	6 189
Profit on disposal of tangible fixed assets	24	1 003
Profit on sale of CO2 emission rights	6 915	8 251
Compensation of projects from the National Centre for Research and Development	7 653	162
Other	7 501	5 434
Total	**73 749**	**65 280**

11.2. Other operating expenses

	Year ended on 31 December 2021	Year ended on 31 December 2020
Real estate tax	(743)	(1 003)
Costs of sales of utilities	(20 953)	(22 528)
Costs of sales of materials	(11 927)	(7 153)
Reorganisation costs in subsidiary entity	(538)	(1 238)
Loss on disposal of tangible fixed assets	(394)	(34)
Decreasing the value of real estate investments	(108)	(1 042)
Costs of projects from the National Centre for Research and Development	(14 734)	(583)
Other	(3 345)	(2 376)
Total	**(52 741)**	**(35 957)**

11.3. Financial income

	Year ended on 31 December 2021	Year ended on 31 December 2020
Interest income on funds in bank accounts	673	433
Interest income on receivables	(239)	272
Other interest income	281	2
FX gains	2 268	-
Profit on interests in joint ventures	450	-
Other financial income	2	3
Total	**3 435**	**710**

(unless specified otherwise, all amounts are in PLN '000)

11.4. Financial expenses

	Year ended on 31 December 2021	Year ended on 31 December 2020
Interest on bank loans measured at amortised cost	(13 763)	(16 177)
Interest on other financial liabilities	(3 046)	(1 756)
Interest on actuarial provisions	(1 032)	(1 179)
Financial expenses under finance lease agreements	(981)	(718)
FX losses	-	(10 429)
Bank charges	(775)	(1 404)
Charges to PRI (pension fund)	(610)	(607)
Measurement effect of the adjusted purchase price	(2 510)	(3 680)
Other financial expenses	(2 173)	(683)
Total	**(24 890)**	**(36 633)**

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

11.5. Prime costs

	Year ended on 31 December 2021	Year ended on 31 December 2020
Depreciation/amortisation	(114 672)	(113 126)
Consumption of materials and energy	(2 073 770)	(1 653 812)
Third party services	(523 526)	(419 992)
Taxes and charges	(8 506)	(9 579)
Employee benefit costs	(433 727)	(395 503)
Other prime costs	(80 639)	(72 454)
Value of goods sold	(9 444)	(5 363)
Prime costs	(3 244 283)	(2 669 829)
Impairment allowances to non-financial assets	31 486	-
Changes in product inventories	19	(24 498)
Change to impairment allowances to receivables	23 765	(24 204)
TOTAL	**(3 189 013)**	**(2 718 531)**
of which:		
Items recognised as internal costs of sales	(2 704 647)	(2 305 659)
Items recognised as selling and distribution costs	(381 287)	(336 524)
Items recognised as administrative expenses	(103 080)	(76 348)

(unless specified otherwise, all amounts are in PLN '000)

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

	Year ended on 31 December 2021	Year ended on 31 December 2020
Items recognised as costs of sales:		
Depreciation of fixed assets and amortisation of intangible assets	(108 827)	(106 450)
Impairment of tangible fixed assets	22 703	-
Impairment of intangible assets	8 783	-
Items recognised as costs of sales:		
Depreciation of fixed assets and amortisation of intangible assets	(3 344)	(3 556)
Impairment of tangible fixed assets	-	-
Impairment of intangible assets	-	-
Items recognised as administrative expenses:		
Depreciation of fixed assets and amortisation of intangible assets	(2 501)	(3 120)
Impairment of tangible fixed assets	-	-
Impairment of intangible assets	-	-

11.7. Employee benefit costs

	Note	Year ended on 31 December 2021	Year ended on 31 December 2020
Salary costs		(336 612)	(315 565)
Social insurance premiums		(86 705)	(76 635)
Costs of retirement benefits	28.2	(4 159)	(4 272)
Total costs of employee benefits, of which:		**(427 476)**	**(396 472)**
Items recognised as costs of sales		(323 638)	(295 655)
Items recognised as selling and distribution costs		(45 609)	(48 058)
Items recognised as administrative expenses		(64 480)	(51 790)
Items recognised as other comprehensive income		6 251	(969)

(unless specified otherwise, all amounts are in PLN '000)

12. Components of other comprehensive income

The components of other total comprehensive income for the year ended on 31 December 2021 and 31 December 2020 that are re-classified to profit or loss, are as follows:

	Year ended on 31 December 2021 (unaudited)	Year ended on 31 December 2020 (unaudited)
Cash flow hedges		
Profit/(loss) for the period resulting from contracts settled during the reporting period	(3 538)	(15 130)
Profit/(loss) for the period resulting from contracts not settled as the reporting date	103 065	(8 019)
Adjustments resulting from re-classification to profit/(loss)	-	-
Total other comprehensive income	99 527	(23 149)

Cash flow hedges are described in detail in note 36.4 to this report.

13. Income tax

13.1. Tax liability

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

	Year ended on 31 December 2021	Year ended on 31 December 2020
Consolidated profit and loss account		
Current income tax		
Current income tax liability	(20 735)	(17 009)
Adjustments related to current income tax from previous years	(64)	(1 269)
Deferred income tax		
Resulting from the establishment and reversal of temporary differences	(26 408)	(454)
Tax credit/ (liability) disclosed in the consolidated income statement	(47 208)	(18 734)
Consolidated statement of changes in equity		
Current income tax		
Tax effects of the costs of increase of share capital	-	-
Tax benefit (tax liability) recognised in equity	-	-
Consolidated statement of total comprehensive income		
Deferred income tax		
Deferred income tax on the measurement of hedging instruments	(20 305)	5 185
Deferred income tax on actuarial profit/loss	(414)	(29)
Tax benefit (tax liability) recognised in other comprehensive income	(20 719)	5 156

(unless specified otherwise, all amounts are in PLN '000)

13.2. Recognition of effective tax rate

A reconciliation of income tax expense applicable to gross profit (loss) before income tax at the statutory income tax rate, to income tax expense at the Group's effective income tax rate for the year ended on 31 December 2021 and 31 December 2020 is as follows:

	Year ended on 31 December 2021	Year ended on 31 December 2020
Gross profit/(loss) before tax	223 115	122 319
Tax at the statutory rate prevailing in Poland in 2008-2021, of 19%	(42 392)	(23 240)
	-	-
Tax adjustments from previous years, recognised in the current income tax	(64)	(1 269)
Difference resulting from income tax rates in force in other countries	(3 330)	(923)
Tax loss not incorporated in deferred income tax assets calculation	(5 104)	(1 528)
Use of tax losses not recognised earlier	-	63
Non-taxable revenues	1 461	3 114
Costs that are not tax deductible	(3 306)	(2 839)
Effects of the tax group in Sweden	5 527	8 644
Change of tax rates in Sweden	(0)	(754)
Tax at the effective tax rate of 21% (2020: 15%)	(47 208)	(18 734)
Income tax (charge) stated in the consolidated income statement	(47 208)	(18 734)

The change to tax rates for the year ended on 31 December 2020 relates to companies in Sweden whereas from 01 January 2021 the corporate income tax rate was changed from 21.4% to 20.6%.

The low effective income tax rate in 2020 results from the use of tax losses within the Swedish tax group. These losses in previous years were not the basis for the deferred income tax.

The amount of unrecognised deferred income tax asset relates mainly to tax losses that are expected to be time barred before realised, as well as those temporary differences that in the Group's opinion may not be used for tax purposes.

Deferred income tax asset is recognised for tax losses carried forward to the extent that realisation of the related tax benefit through future taxable profit is probable.

The Polish tax system provides for restrictions in cumulating tax losses by legal persons that remain under joint control which is the case for Group member companies. Therefore, each subsidiary of the Group in Poland may utilise solely their own tax losses in order to reduce taxable income in subsequent years.

(unless specified otherwise, all amounts are in PLN '000)

The amounts and expiry dates of tax losses for which deferred tax assets were not recognised are as follows:

	2020	Termination period	2020	Termination period
Expiring tax losses	47 060	2021-2025	47 059	2021-2025
Tax losses and temporary differences without time limit	-		2 842	
TOTAL	47 060		49 901	

The potential tax effect of the non-capitalised tax losses and temporary differences amounts to PLN 7,485 thousand.

13.3. Deferred income tax

Deferred income tax relates to the following items:

	Consolidated balance sheet as at		Consolidated income statement for the year ended	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Deferred income tax liability				
Fixed assets	100 210	77 272	(22 938)	(2 828)
Hedging instruments	21 747	1 896	(19 851)	4 007
Gross deferred income tax provision	**121 956**	**79 168**	**(42 788)**	**1 179**

	Consolidated balance sheet as at		Consolidated income statement for the year ended	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Deferred income tax asset				
Post-employment payments	5 443	9 249	(3 806)	1 730
Uninvoiced liabilities	7 964	3 939	4 025	(73)
Inventories	1 487	2 026	(539)	891
Trade receivables	4 265	3 561	704	(81)
Investments tax credits – activity in Kostrzyńsko-Słubicka Specjalna Strefa Ekonomiczna	-	-	-	(4 621)
Losses deductible from future taxable income	10 469	14 061	(3 592)	1 122
Gross deferred income tax asset	**29 627**	**32 837**	**(3 210)**	**(1 033)**
FX differences			(1 130)	4 555
Total, of which			(47 128)	4 701
Changes to deferred income tax recognised in other comprehensive income			(20 719)	(20 719)
Changes to deferred income tax recognised in profit and loss account			(19 922)	(26 408)
Net deferred income tax asset/provision				
of which:				
– Adjustment to presentation	(15 323)	(7 720)		
– Deferred income tax asset	14 304	25 117		
Deferred income tax liability	106 633	71 448		

The table shows the sum of the positive and negative temporary differences for each Group company, without offsetting at entity level. The presentation adjustment offsets assets and provision at the individual company level.

The Management Board made an assessment of recoverability of the deferred income tax asset related to tax losses and determined the asset was recoverable, inter alia, due to the fact that AP Grycksbo and AP Munkedals are part of a tax group in Sweden, and tax regulations in Sweden do not temporarily limit the use of tax losses incurred in previous years.

(unless specified otherwise, all amounts are in PLN '000)

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

The decision to create or not create an asset is dictated by the recoverability of the asset at the entity level.

14. Earnings per share

Earnings per share are established by dividing the net profit (loss) or net profit (loss) from continuing operations for the reporting period attributable to the Company's ordinary shareholders by the weighted average number of ordinary shares outstanding in the reporting period.

The information regarding profit (loss) and the number of shares which constituted the base to calculate earnings per share and diluted earnings (loss) per share is presented below (all shares are ordinary shares and belong to the same class):

	Year ended on 31 December 2021	Year ended on 31 December 2020
Net profit / (loss) attributable to the shareholders of the Parent Entity	127 154	111 070
Number of ordinary shares – A series	50 000	50 000
Number of ordinary shares – B series	44 253 500	44 253 500
Number of ordinary shares – C series	8 100 000	8 100 000
Number of ordinary shares – E series	3 000 000	3 000 000
Number of ordinary shares – F series	13 884 283	13 884 283
Total number of shares	69 287 783	69 287 783
Weighted average number of shares	69 287 783	69 287 783
Diluted weighted average number of ordinary shares	69 287 783	69 287 783
profit/(loss) per share (in PLN)		
– basic earnings from the profit/(loss) for the period attributable to the shareholders of the Parent Entity	1,84	1,60
Diluted profit/(loss) per share (in PLN)		
– from the profit/(loss) for the period attributable to the shareholders of the Parent Entity	1,84	1,60

In the period between the balance sheet date and the date hereof there were no other transactions related to ordinary shares or potential ordinary shares.

(unless specified otherwise, all amounts are in PLN '000)

15. Dividend paid and proposed

Dividend is paid based on the net profit disclosed in the standalone annual financial statements of Arctic Paper S.A. after covering losses carried forward from the previous years.

As on the date hereof, the Company had no preferred shares.

The possibility of disbursement of potential dividend by the Company to its shareholders depends on the level of payments received from its subsidiaries. The risk associated with the Company's ability to disburse dividend was described in the part "Risk factors" of the annual report for 2021.

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

In 2020 the Company did not pay out dividend.

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

Dividend payment restrictions are described in note 26.5.

On 17 Fabruary 2022, taking into account the preliminary financial results of the Company and the Arctic Paper S.A. Group of 2021, the Management Board of the Company decided to recommend to the Annual General Meeting of the Company the payment of dividend from the Company's net profit of 2021 in the amount of PLN 0.40 gross per share, amounting in total PLN 27,715,113.20.

16. Tangible fixed assets

Tangible fixed assets include property, plant and equipment excluding right-of-use assets and right-of-use assets.

	Year ended on 31 December 2021	Year ended on 31 December 2020
Tangible fixed assets without assets with the right of use	1 115 426	1 047 972
Right-of-use assets	39 854	37 150
TOTAL	**1 155 280**	**1 085 121**

(unless specified otherwise, all amounts are in PLN ‘000)

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

	Land and buildings	Plant and machinery	Fixed assets under construction	Total
Net carrying amount as at 01 January 2020	213 267	670 264	57 835	941 366
Increase due to purchase	10 068	49 279	70 382	129 729
Increase due to transfer of tangible fixed assets under construction	22 087	67 985	(90 071)	-
Increases due to the acquisition of a subsidiary	-	2 120	-	2 120
Decreases due to disposal	-	(447)	-	(447)
Decreases due to liquidation	(31)	(18)	-	(49)
Depreciation allowance for the period	(18 715)	(82 321)	-	(101 037)
FX differences on translation	16 222	56 137	4 155	76 515
Transfer to right-of-use assets				
Net carrying amount as at 31 December 2020	**242 898**	**762 773**	**42 300**	**1 047 972**
Net carrying amount as at 01 January 2021	242 898	762 773	42 300	1 047 972
Increase due to purchase	6 436	73 418	83 494	163 348
Increase due to transfer of tangible fixed assets under construction	9 468	24 889	(34 357)	-
Decreases due to disposal	-	(900)	-	(900)
Decreases due to liquidation	(54)	(497)	-	(551)
Depreciation allowance for the period	(16 347)	(85 158)	-	(101 505)
Reversal of impairment write-off	9 291	13 412	-	22 703
Change to presentation within assets	19 183	(19 305)	-	(122)
FX differences on translation	(3 243)	(11 371)	(906)	(15 519)
				-
Net carrying amount as at 31 December 2021	**267 632**	**757 262**	**90 532**	**1 115 425**
Balance as at 01 January 2020				
Gross carrying amount	483 098	2 047 940	57 835	2 588 872
Depreciation/amortisation and impairment allowances	(269 831)	(1 377 675)	-	(1 647 506)
Net carrying amount	213 267	670 264	57 835	941 366
Balance as at 31 December 2020				
Gross carrying amount	555 708	2 335 094	42 300	2 933 102
Depreciation/amortisation and impairment allowances	(312 810)	(1 572 320)	-	(1 885 130)
Net carrying amount	242 898	762 773	42 300	1 047 972
Balance as at 01 January 2021				
Gross carrying amount	555 708	2 335 094	42 300	2 933 102
Depreciation/amortisation and impairment allowances	(312 810)	(1 572 320)	-	(1 885 130)
Net carrying amount	242 898	762 773	42 300	1 047 972
Balance as at 31 December 2021				
Gross carrying amount	583 677	2 181 612	90 532	2 855 821
Depreciation/amortisation and impairment allowances	(316 045)	(1 424 351)	-	(1 740 395)
Net carrying amount	267 632	757 262	90 532	1 115 425

(unless specified otherwise, all amounts are in PLN '000)

Impairment of tangible fixed assets (reversal) for the year ended on 31 December 2021 was PLN +22,703 thousand (in the year ended on 31 December 2020: PLN 0 thousand).

Property, plant and equipment excluding rights-of-use assets with a carrying amount of PLN 720,498 thousand. (as at 31 December 2020: PLN 498,818 thousand). are subject to mortgage to secure the bank loans (note 27.2).

The amount of capitalised external funding costs and FX gains/losses in the year ended on 31 December 2021 was PLN 2 thousand (in the year ended on 31 December 2020: PLN 0 thousand).

The value of depreciation for 2021 for increases in tangible fixed assets made during 2021 amounted to PLN 4.588 thousand. PLN and mainly related to machines and equipment.

16.2. Right-of-use assets

Assets with the right to use with the carrying amount as at 31 December 2021 of PLN 7,399 thousand (as at 31 December 2020: PLN 9,618 thousand) are covered by a mortgage / pledge established to secure the lease liabilities.

	Land and buildings	Plant and machinery	Total
Net carrying amount as at 01 January 2020	29 836	8 649	38 485
Increase due to purchase	2 246	3 941	6 187
Decreases due to disposal	-	(572)	(572)
Decreases due to liquidation	(27)	-	(27)
Depreciation allowance for the period	(5 970)	(3 327)	(9 297)
FX differences on translation	1 446	927	2 373
Net carrying amount as at 31 December 2020	**27 532**	**9 618**	**37 150**
Net carrying amount as at 01 January 2021	27 532	9 618	37 150
Increase due to purchase	12 274	1 702	13 976
Decreases due to disposal	(437)	-	(437)
Decreases due to liquidation	-	-	-
Depreciation allowance for the period	(6 685)	(3 714)	(10 399)
FX differences on translation	(228)	(208)	(436)
			-
Net carrying amount as at 31 December 2021	**32 455**	**7 399**	**39 854**
Balance as at 01 January 2020			
Gross carrying amount	35 949	12 554	48 504
Depreciation/amortisation and impairment allowances	(6 113)	(3 906)	(10 019)
Net carrying amount	29 836	8 649	38 485
Balance as at 31 December 2020			
Gross carrying amount	40 584	16 887	57 471
Depreciation/amortisation and impairment allowances	(13 052)	(7 269)	(20 321)
Net carrying amount	27 532	9 618	37 150
Balance as at 01 January 2021			
Gross carrying amount	40 584	16 887	57 471
Depreciation/amortisation and impairment allowances	(13 052)	(7 269)	(20 321)
Net carrying amount	27 532	9 618	37 150

(unless specified otherwise, all amounts are in PLN '000)

Balance as at 31 December 2021			
Gross carrying amount	52 436	16 360	68 795
Depreciation/amortisation and impairment allowances	(19 980)	(8 961)	(28 941)
Net carrying amount	32 455	7 399	39 854

17. Leases

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

As at 31 December 2021 and 31 December 2020 the future minimum lease fees and the present value of minimum net lease fees were as follows:

	As at 31 December 2021		As at 31 December 2020	
	Minimum fees	Present value of the fees	Minimum fees	Present value of the fees
In 1 year	9 438	8 845	10 523	9 765
In 1 to 5 years	17 225	15 753	13 574	11 200
Over 5 years	47 824	12 503	50 059	14 756
Total minimum lease fees	74 488	37 101	74 156	35 720
Minus financial expenses	(37 387)		(38 436)	
Value of present minimum lease fees, of which:	37 101	37 101	35 720	35 720
- short-term		8 845		9 765
- long-term		28 256		25 956

18. Investment properties

	Year ended on 31 December 2021	Year ended on 31 December 2020
Opening balance as at 01 January	3 086	4 128
Increases (subsequent expenditures)	-	-
Sale of properties	-	-
Profit/loss on fair value measurement	(108)	(1 042)
		-
Closing balance as at 31 December	**2 978**	**3 086**

Investment properties include undeveloped plots of land in Warsaw.

Investment properties were disclosed at fair value as a result of an appraisal by an accredited appraiser. The appraisal was made with a comparative approach, the adjusted average price method.

(unless specified otherwise, all amounts are in PLN '000)

The property appraiser holds a license in property appraising granted by the President of the Housing and City Development Office. The market value of a property is the most likely price that may be realised in the market, determined with reference to transactional prices and subject to the following assumptions:
the parties to the transaction were independent of each other, were not forced to act and were willing to enter into the transaction,
sufficient time has expired to expose the property to the market and to negotiate contractual terms and conditions.

The market value for the current method of use (WRU) was appraised subject to:

- purpose of the appraisal,
- type and location of the property,
- function in the local development plan,
- existence of technical infrastructure,
- condition of the property,
- available data on prices of similar properties.

The appraisal was made with a comparative approach, the adjusted average price method.

The current costs incurred in 2021 included real estate tax of PLN 11 thousand (2020: PLN 11 thousand).

19. Intangible assets and goodwill

	Goodwill	Relations with customers	Trademarks	Co-generation certificates and CO2 emission rights	Other*	Total
Net value as at 01 January 2020	-	-	30 949	747	6 775	38 471
Increases	8 553	-	-	3 096	841	12 490
Decreases	-	-	-	(749)	-	(749)
Depreciation for the period	-	-	-	-	(2 792)	(2 792)
FX differences on translation	1 103	-	3 819	24	540	5 486
Net value as at 31 December 2020	**9 656**	**-**	**34 768**	**3 118**	**5 365**	**52 907**
As at 01 January 2020						
Gross value	-	35 115	81 384	747	39 990	157 235
Depreciation/amortisation and impairment allowances	-	(35 115)	(50 435)	-	(33 215)	(118 764)
Net value	-	-	30 949	747	6 775	38 471
As at 31 December 2020						
Gross value	9 656	35 115	91 704	3 118	42 717	182 309
Depreciation/amortisation and impairment allowances	-	(35 115)	(56 936)	-	(37 352)	(129 402)
Net value	9 656	-	34 768	3 118	5 365	52 907

* – The item Other contains mainly computer software.

(unless specified otherwise, all amounts are in PLN '000)

Status as at 31 December 2021

	Goodwill	Relations with customers	Trademarks	Co-generation certificates and CO2 emission rights	Other*	Total
Net value as at 01 January 2020	9 656	-	34 768	3 118	5 365	52 907
Increases	-	-	-	11 676	89	11 765
Decreases	-	-	-	(3 042)	-	(3 042)
Depreciation for the period	-	-	-	-	(2 768)	(2 768)
Reversal of impairment write-off	-	-	8 783		-	8 783
FX differences on translation	(235)	-	(1 249)	-	(73)	(1 557)
	-					
Net value as at 31 December 2020	**9 421**	**-**	**42 302**	**11 752**	**2 613**	**66 088**
	-					
As at 01 January 2020	-					
Gross value	9 656	35 115	91 704	3 118	42 717	182 309
Depreciation/amortisation and impairment allowances	-	(35 115)	(56 936)	-	(37 352)	(129 402)
	-					
Net value	9 656	-	34 768	3 118	5 365	52 906
	-					
As at 31 December 2020	-					
Gross value	9 421	35 115	89 502	11 752	41 739	187 528
Depreciation/amortisation and impairment allowances	-	(35 115)	(47 200)	-	(39 126)	(121 440)
	-					
Net value	9 421	-	42 302	11 752	2 613	66 088

* – The item Other contains mainly computer software.

At 31 December 2021 and 31 December 2020, the trademarks include the Arctic Paper (net value as at 31 December 2021 and 31 December 2020: PLN 1,319 thousand), AP Grycksbo (net value as at 31 December 2021: PLN 8,349 thousand, net value as at 31 December 2020: SEK 0 thousand)) and Rottneros trademarks (net value as at 31 December 2021 and 31 December 2020: PLN 32,6349 thousand). The trademarks of Arctic Paper and Rottneros are not covered by an impairment charge. As of 31 December 2021, a trademark in AP Grycksbo is covered by an impairment write-off in the amount of PLN 47,200 thousand (as at 31 December 2021 the trademarks was fully impaired). The reversal of the impairment on the AP Grycksbo trademark is wider described in note 22.2.

Impairment of intangible assets (reversal) for the year ended on 31 December 2021 was PLN +8,783 thousand (in the year ended on 31 December 2020: PLN 0 thousand).

The balance value of the Rottneros Group's tangible and intangible assets adopted for consolidation of the Arctic Paper Group in this consolidated financial statement is valued below the values presented in the Rottneros Group's consolidated accounts. For this reason, the impairment analysis of the assets allocated to the Rottneros Group cash generating unit was based on the impairment analysis prepared by the Rottneros Group. The unit is allocated goodwill and a trademark with an indefinite useful life.

As the results of this cash-generating unit for 2021 were better than expected and the analysis of events and circumstances that have occurred since the last test showed that it was unlikely that the recoverable amount would be lower than the carrying amount of the net assets constituting the cash-generating unit, the Rottneros Group assessed that there is no risk of impairment of their fixed assets and intangible assets as at 31 December 2021 and, in accordance with IAS 36.24, withdrew from the test as at 31 December 2021, relying on the test carried out as at 31 December 2020. As at 31 December 2020, the recoverable amount of the unit was determined based on its value in use, using the discounted cash flow method. To calculate the value in use of net assets assigned to the cash-generating unit, a discount rate (WACC) in the range of 10% -11% and the forecast period from 2022 to a maximum of 2028 were adopted. The projected flows cover the residual period of more than 5 years due to the adopted strategy of the Group, which envisages the operation of the center for an indefinite period of time. As at 31 December 31, the total value of net assets tested for impairment amounted to PLN 548,856 thousand. PLN (including goodwill PLN 9,421 thousand and trademark PLN 32,634 thousand). As at 31 December 2020, the total value of net assets subject to impairment tests amounted to PLN 651,151 thousand. PLN (including goodwill PLN 9,656 thousand and a trademark PLN 33,449 thousand).

As at 31 December 2021, the total value of net assets tested for impairment assigned to the Rottneros Group amounted to PLN 656,972 thousand. PLN (including goodwill PLN 9,421 thousand and trademark PLN 32,634 thousand).

The recoverable amount of the net assets allocated to the cash-generating units was higher than the carrying amount of these assets and therefore the test did not indicate an impairment of the Rottneros Group's property, plant and equipment and intangible assets (including trademark and goodwill) recognised in these consolidated financial statements as at 31 December 2021 and 31 December 2020.

Intangible assets with carrying amount of PLN 22,239 thousand (as at 31 December 2020: PLN 5,660 thousand). constituted security to bank loans (note 27.2).

The goodwill was described in note 20.

20. Unit mergers

As of 1 January 2020, the Group, through Rottneros AB, took control of Nykvist Skogs AB. Through the acquisition of Nykvist Skogs AB, the Group strengthened its supply of cellulose wood through the increased access to wood from private forest owners. This group accounts for about half of the forest ownership in Sweden, and private forests are playing an increasing role in the supply of wood to the industry.

Goodwill, calculated below, has been attributed to the Group's wider access to raw materials over the longer term.

Nykvist Skogs AB had no contingent liabilities to be recognised in the combination settlement.

The table below presents the determined fair values of the main items of identifiable assets acquired and liabilities assumed as at the acquisition date:

	SEK '000
Price paid for the shares	24 400
Receivables and liabilities to Nykvist before acquisition	2 000
Acquisition price	26 400
Tangible fixed assets	5 021
Inventories	1 513
Trade and other receivables	22 340
Cash and cash equivalents	9 245
Liabilities	32 554
Net assets	(5 565)
Goodwill recognised	20 835
Recognised goodwill in PLN '000	8 524

Recognition of acquisition of shares in the consolidated statement of cash flows

	SEK '000
Price paid for the shares	(24 400)
Cash and cash equivalents at the date of acquisition of shares	9 245
Flows related to the acquisition of shares	(15 155)
Flows related to the acquisition of shares in PLN '000	(6 089)

21. Other assets

21.1. Other financial assets

	Note	As at 31 December 2021	As at 31 December 2020
Hedging instruments	36.4.2.	109 344	13 107
Investments in equity instruments		3 589	3 678
Settlement of realised forward contracts		18 811	-
Receivables from pension fund		25 472	21 681
			-
Total		**157 216**	**38 467**
- short-term		97 358	12 188
- long-term		59 858	26 279

The Other item contains other interest-earning receivables.

21.2. Other non-financial assets

	As at 31 December 2021	As at 31 December 2020
Insurance costs	771	1 352
Lease fees	35	35
Advance payments for services	4 121	3 981
Rent	631	140
Other	3 166	956
		-
Total	**8 723**	**6 464**
- short-term	8 423	6 149
- long-term	300	315

21.3. Joint ventures

Interests in joint ventures include shares in two energy companies. The purpose of acquiring the shares was to implement the strategy of increasing its own energy capacity.

(unless specified otherwise, all amounts are in PLN '000)

22. Impairment test for tangible fixed assets and intangible assets

22.1. Goodwill

As at 31 December 2020, the Rottneros Group performed impairment tests for goodwill using the discounted cash flow method. The tests did not show the need to write off the goodwill on that day. The results of the cash generating unit allocated to goodwill for 2021 were better than expected. On this basis, the Rottneros Group assessed that there is no risk of impairment to goodwill as at 31 December 2021.

22.2. Arctic Paper Grycksbo

As at 31 December 2021 and December 31, 2020 and in previous periods, Arctic Paper Grycksbo carried out impairment tests for property, plant and equipment and intangible assets (including fully written-off customer relationships with a gross value of PLN 35,115,000) .

The performance of the impairment test as at 31 December 2021 at Arctic Paper Grycksbo was related to the high stay on paper and estimated good results of the Company and the need to consider updating the impairment loss for Arctic Paper Grycksbo.

The recoverable amount of the cash-generating unit as at 31 December 2021 was determined as its value in use and amounted to PLN 121,426 thousand. PLN The test resulted in the reversal of the impairment loss as at 31 December 2021 in the amount of PLN 32,235,000. PLN.

The total accumulated impairment loss for Arctic Paper Grycksbo as at December 31, 2021 amounted to PLN 284,477 thousand. PLN (31 December 2020: PLN 324,619 thousand). The difference in the value of the write-down results from the valuation of the write-off from previous years denominated in SEK against the presentation currency, ie PLN.

The tables below present the results, assumptions and sensitivity analysis for the impairment test conducted as at 31 December 2021:

	Book value before reversal of impairment as at 31 December 2021	Book value after reversal of impairment as at 31 December 2021
Tangible fixed assets, of which:	62 520	86 406
- land	2 423	3 847
- buildings	18 368	26 649
- plant and machinery	32 269	46 449
- fixed assets under construction	9 461	9 461
Intangible assets with indefinite useful life	-	8 349
Intangible assets with definite useful life	41	41
Working capital	26 630	26 630
Total value	89 191	121 426
Reversal of impairment charge to assets recognised in 2021		(32 235)

Main assumptions	2021
Approved projections based on	2022-2026
Income tax rate	20,6%
Discount rate before tax effect	8,6%
Weighted average cost of capital (WACC)	8,0%
Growth rate in the residual period	0,0%

(unless specified otherwise, all amounts are in PLN '000)

Parameter	Change of the parameter by	Impact on the value of assets in use
31 December 2021		
Weighted average cost of capital (WACC)	+0,1 p.p.	(977)
Growth rate in the residual period	+0,1 p.p.	656
Sales volume only in the first year of the projection	+ 0,1%	205
Sales prices only in the first year of the projection	+ 0,1%	701
Pulp purchase prices only in the first year of the projection	+1,0%	(2 939)
Energy purchase prices only in the first year of the projection	+1,0%	(419)
Weighted average cost of capital (WACC)	-0,1 p.p.	977
Growth rate in the residual period	-0,1 p.p.	(656)
Sales volume in the first year of the projection	- 0,1%	(205)
Sales prices only in the first year of the projection	- 0,1%	(701)
Pulp purchase prices in the first year of the projection	-1,0%	2 939
Energy purchase prices in the first year of the projection	-1,0%	419

The value of the weighted average cost of capital (WACC) as at 31 December 2020 was 8.0%.

23. Inventories

	As at 31 December 2021	As at 31 December 2020
Materials (at purchase prices)	184 410	145 949
Production in progress (at manufacturing costs)	10 470	8 075
Finished products, of which:		
At purchase price / manufacturing costs	201 266	149 921
At net realisable price	6 706	61 522
Advance payments for deliveries	16	24
Total inventories, at the lower of: purchase price / manufacturing costs or net realisable price	402 868	365 491
Impairment allowance to inventories	10 451	34 216
Total inventories before impairment allowance	413 320	399 707

The value of the goods was PLN 487 thousand as at 31 December 2021 (31 December 2020: PLN 472 thousand).

The value of inventories recognized in the costs of 2021 is PLN 1,824 million (2020: PLN 1,499 million).

During the year ended 31 December 2021, the Group reduced the inventory write-downs by a net amount of UAH 23,765 thousand. PLN (2020: increase by 24,204 thousand. The decrease in the write-down was mainly due to sale or scrapping of spare parts.

The difference in the impairment allowances is referred to costs of sales in the profit and loss account. The impairment allowance is related to finished products and slowly (including spare parts) rotating materials and exposed to the risk of damage, obsolescence or non-use for internal needs.

In the financial year ended on 31 December 2021 the Group had a pledge agreement on its entire movable assets understood as inventories, trade receivables and cash for PLN 556,087 thousand, SEK 58 thousand, NOK

(unless specified otherwise, all amounts are in PLN '000)

In the financial year ended on 31 December 2020 the Group had a pledge agreement on its entire movable assets understood as inventories, trade receivables and cash for PLN 453,512 thousand, SEK 624,865 thousand, NOK 58 thousand.

24. Trade and other receivables

	As at 31 December 2021	As at 31 December 2020
Trade receivables	359 163	253 977
VAT receivables	33 010	35 273
Other third party receivables	7 118	4 972
Other receivables from related entities	3 239	3 320
Total (net) receivables	402 530	297 543
Impairment allowances to receivables	15 954	18 680
Gross receivables	418 485	316 223

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

The terms and conditions of transactions with related entities are presented in note 33.

Trade receivables do not earn interest and have customary payment terms of 30 to 90 days.

The Group has an appropriate policy of selling solely to verified customers. Therefore, in the opinion of the management, there is no additional credit risk in excess of the level identified with the impairment allowance to uncollectible receivables characteristic for the Group's trade receivables.

As at 31 December 2021, trade receivables of PLN 15,954 thousand (as at 31 December 2020: PLN 18,680 thousand). were deemed as uncollectible and therefore subject to an impairment allowance.

The changes to impairment allowances to receivables were as follows:

	Year ended on 31 December 2021	Year ended on 31 December 2020
Impairment allowance as at 01 January	18 680	19 222
Increase	1 396	715
Utilisation	(3 052)	(1 541)
Write-back of unutilised amounts	(1 531)	(130)
FX differences on translation of foreign operations	461	414
Impairment allowance as at 31 December	**15 954**	**18 680**

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

(unless specified otherwise, all amounts are in PLN '000)

Below is an analysis of trade receivables that as at 31 December 2021 and 31 December 2020 were overdue but not treated as uncollectible:

	Total	Not overdue	Overdue but collectible				
			< 30 days	30-60 days	60-90 days	90-120 days	>120 days
As at 31 December 2021	359 163	332 489	21 349	3 764	155	45	1 361
As at 31 December 2020	253 977	225 075	26 327	1 081	321	14	1 159

Receivables over 120 days in the prospective assessment of the Company's management qualify as collectible and therefore no impairment was recognised.

The maturities of other receivables from third parties do not exceed 360 days. Receivables from related entities cover primarily receivables from the core shareholder of AP S.A. and will be settled at dividend distribution.
The policy regarding the recognition of impairment allowances on receivables is described in Notes 9.11 and 35.4.

25. Cash and cash equivalents

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

As at 31 December 2021, the fair value of cash and cash equivalents was PLN 167,927 thousand (31 December 2020: PLN 255,563 thousand).

As at 31 December 2021, the Group held undrawn funds under overdraft facilities of PLN 212,115 thousand (31 December 2020: PLN 195,057 thousand).

As at 31 December 2021, the Group utilised its overdraft facilities for PLN 0 thousand (31 December 2020: PLN 0 thousand).

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

	As at 31 December 2021	As at 31 December 2020
Cash in bank and on hand	167 824	255 563
Short-term deposits	-	-
Cash in transit	103	-
Cash and cash equivalents in the consolidated balance sheet	167 927	255 563
Cash in bank and on hand attributable to discontinued operations	-	-
Cash and cash equivalents in the consolidated cash flow statement	167 927	255 563

Since 2017, cash pooling in EUR and in PLN has been operating within the Arctic Paper Group companies. The operation consists in pooling cash balances held by the individual system participants and setting them off with temporary shortages of funds with the other cash-pool participants. The solution is aimed at supporting effective cash management in the Group and minimising the costs of external funding sources by using the Group's own cash.

(unless specified otherwise, all amounts are in PLN '000)

26. Share capital and reserve capital/other reserves

26.1. Share capital

Share capital	As at 31 December 2021	As at 31 December 2020
series A ordinary shares of the nominal value of PLN 1 each	50 000	50 000
series B ordinary shares of the nominal value of PLN 1 each	44 253 500	44 253 500
series C ordinary shares of the nominal value of PLN 1 each	8 100 000	8 100 000
series E ordinary shares of the nominal value of PLN 1 each	3 000 000	3 000 000
series F ordinary shares of the nominal value of PLN 1 each	13 884 283	13 884 283
Amount of shares	**69 287 783**	**69 287 783**
Value of share capital	**69 287 783**	**69 287 783**

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

In 2021 and 2021 there were no changes to the share capital of Arctic Paper S.A.

26.1.2. Nominal value of shares

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

26.1.3. Shareholders' rights

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

26.2. FX differences on translation of foreign operations

The item is adjusted for FX differences on translation of financial statements of foreign operations that have a functional currency other than PLN, to the presentation currency of these financial statements being PLN. The rules of translation along with the applied FX rates are described in note 9.4.

26.3. Reserve capital

Reserve capital is made up of the issue price of shares of Arctic Paper S.A. in excess of their nominal value reduced by the costs of the issues that took place in 2009, 2010 and 2013, equal to PLN 134,257 thousand, reduction of the nominal price of the shares from PLN 10 to PLN 1 in 2012 of PLN 498,632 thousand and a portion of retained profit and accumulated loss resulting from profit distribution by Arctic Paper S.A. of PLN -224,913 thousand.

(unless specified otherwise, all amounts are in PLN '000)

The table below presents changes to the reserve capital in the year ended on 31 December 2021 and 31 December 2020:

	Year ended on 31 December 2021	Year ended on 31 December 2020
Reserve capital at the beginning of period	407 976	407 976
Profit/loss distribution	-	-
Reserve capital at end of the period	**407 976**	**407 976**

26.4. Other reserves

Other reserves cover a portion of retained profit and accumulated loss resulting from profit distribution by Arctic Paper S.A., reclassification between types of capital in APSA and capital from revaluation of hedging transactions.

The table below presents changes to the reserve capitals in the year ended on 31 December 2021 and 31 December 2020:

	Year ended on 31 December 2021	Year ended on 31 December 2020
Other reserves at the beginning of period	160 376	139 035
Changes to cash flow hedges		
Change of measurement of financial instruments, of which:	**73 092**	**(15 088)**
– Forward for electricity	70 780	(15 915)
– interest rate SWAP	5 764	591
– Forward for pulp	(3 452)	236
Deferred income tax on the change of measurement of financial instruments, including:	**(14 843)**	**3 394**
– Forward for electricity	(14 927)	3 276
– interest rate SWAP	(606)	-
– Forward for pulp	690	118
Other changes		
Dividend disbursed to shareholders of AP SA	(17 399)	-
Transfer of profit to reserve capital	-	33 035
Other reserves at the end of period	**201 226**	**160 376**

26.5. Retained profit/accumulated loss and restrictions to dividend distribution

The item of retained profit/accumulated loss covers retained profit/accumulated loss of the financial year and actuarial gains/losses on actuarial measurement of provisions for retirement benefits.

Retained profit/accumulated loss in the consolidated financial statements may contain amounts that are not distributable – such that may not be distributed as dividend. The statutory financial statements of the entities are made in compliance with the local accounting standards (with the exception of Arctic Paper Kostrzyn S.A. and Arctic Paper S.A.) and the Articles of Association of those companies. Dividend to the parent entity may be distributed out of net profit disclosed in their standalone financial statements made for statutory purposes. Such local definition of undistributed profit often differs from the definition of undistributed profit resulting from EU IFRS which may restrict profit distribution. For instance, local legal regulations often require allocations to certain reserves on account of potential future losses. Application of different accounting principles may generate differences between statutory financial statements and reporting packages for consolidation purposes.

(unless specified otherwise, all amounts are in PLN '000)

Dividend for shareholders of the parent entity may be distributed out of net profit disclosed in the standalone annual financial statements of Arctic Paper S.A. made for statutory purposes.

In accordance with provisions of the Code of Commercial Companies, the Parent Entity is obliged to establish reserve capital to cover potential losses. At least 8% of the profit for the financial year disclosed in the standalone financial statements of the Parent Entity should be transferred to the category of capital until the capital has reached the amount of at least one third of the share capital of the Parent Entity. The use of reserve capital and reserve funds is determined by the General Meeting; however, a part of reserve capital equal to one third of the share capital can be used solely to cover the losses disclosed in the standalone financial statements of the Parent Entity and cannot be distributed to other purposes.

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

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

The retained profit/accumulated loss in the balance sheet as at 31 December 2021 and 31 December 2020 is composed of the following items:

	As at 31 December 2021	As at 31 December 2020
Consolidated profit / losses attributable to the parent company	154 427	27 274
Consolidated profit / loss from the distribution of profit / loss of the parent company, incl	67 247	81 891
- from the distribution of profit / loss of the last year / dividend payment	*(3 387)*	*(33 035)*
Profit / loss on the acquisition/sale of Rottneros AB shares from non-controlling shareholders, incl.	23 193	23 193
- profit	*29 353*	*29 353*
- loss	*(6 160)*	*(6 160)*
Actuarial profit/loss	(30 011)	(35 847)
Retained gains / losses at the end of the period	**226 113**	**96 510**

26.6. Non-controlling interests

	Year ended on 31 December 2021	Year ended on 31 December 2020
As at beginning of the period	283 056	263 619
Dividend disbursed by subsidiary entities	(15 179)	-
Share in other comprehensive income of subsidiary entities	62 981	19 437
At the end of period	**330 859**	**283 056**

Non-controlling interests cover a portion of the Group's equity attributable primarily to the non-controlling shareholders in Rottneros AB. The table below presents the main financial data for the Rottneros Group disclosed in the consolidation of the Arctic Paper Group, taking into account the settlement of the fair value of the assets acquired as at the date of taking control of the Rottneros Group:

(unless specified otherwise, all amounts are in PLN '000)

Consolidated profit and loss account	Year ended on 31 December 2021	Year ended on 31 December 2020
Revenues from sales of products	1 036 381	856 677
Operating expenses	(912 460)	(858 850)
Operating profit/(loss)	123 921	(2 174)
Financial income/expenses	(1 350)	(16 069)
Gross profit/(loss)	122 571	(18 242)
Income tax	(24 273)	2 873
Net profit/(loss)	98 298	(15 369)

Consolidated balance sheet	As at 31 December 2021	As at 31 December 2020
Fixed assets	490 440	476 582
Current assets, of which:	443 217	434 093
Inventories	146 692	160 594
Receivables and other assets	224 300	121 765
Cash and cash equivalents	72 225	151 734
TOTAL ASSETS	933 657	910 675
Equity	573 398	480 460
Long-term liabilities	159 287	258 791
Short-term liabilities	200 973	171 424
TOTAL EQUITY AND LIABILITIES	933 657	910 675

Consolidated cash flow statement	Year ended on 31 December 2021	Year ended on 31 December 2020
Cash flows from operating activities	135 503	46 148
Cash flows from investing activities	(51 350)	(56 477)
Cash flows from financing activities	(160 205)	(8 904)
Change in cash and cash equivalents	(76 052)	(19 233)
Cash and cash equivalents at the beginning of the period	151 734	153 145
Net FX differences	(3 457)	17 822
Cash and cash equivalents at the end of the period	72 225	151 734

In 2021 Rottneros AB distributed dividend totalling PLN 31,168 thousand (SEK 69 million), of which PLN 15.179 thousand referred to non-controlling shareholders.
In 2020, Rottneros AB did not pay dividends.

Due to the signed loan agreement, RROS AB has a limitation in the payment of dividends representing 50% of net profit. There are no other restrictions on the management of assets and capital for the Arctic Paper Group due to the participation of non-controlling shareholders in the Rottneros Group.

(unless specified otherwise, all amounts are in PLN '000)

26.7. Analysis of other comprehensive income by items of equity

	As at 31 December 2021	As at 31 December 2020
FX differences on translation of foreign operations		
included in item "FX differences on translation of foreign operations" attributable to the shareholders of the Parent Entity	(8 293)	44 690
included in item "Equity attributable to non-controlling shareholders"	(6 745)	33 191
Measurement of financial instruments		
Items to be reclassified to profit/(loss) in future reporting periods:		
included in item "Other reserves"	44 426	8 044
included in item "Equity attributable to non-controlling shareholders"	37 613	(7 489)
Items that were reclassified to profit/(loss) during the reporting period:		
included in item "Other reserves"	13 823	(19 738)
included in item "Equity attributable to non-controlling shareholders"	(16 640)	1 219
Actuarial profit/(loss) for defined benefit plans		
included in item "Retained earnings"	5 836	(998)
included in item "Equity attributable to non-controlling shareholders"	-	-
TOTAL	70 020	58 920
whereof attributable to:		
The shareholders of the Parent Entity	55 792	31 998
Non-controlling shareholders	14 228	26 922

(unless specified otherwise, all amounts are in PLN '000)

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

Short-term liabilities	Note	Repayment date	Interest rate	As at 31 December 2021	As at 31 December 2020
Other financial liabilities:					
Lease liabilities	17	until 31-12-2022		8 845	9 765
Hedging instruments	36.4			3 140	2 195
Other liabilities		until 31-12-2022		184	188
Total other short-term financial liabilities				12 170	12 148
Interest-bearing loans, borrowings and bonds:					
Loan from EBRD TA (short-term portion) in EUR	36.3	until 31-12-2021	2,65%	-	9 552
Loan from EBRD Capex A (short-term portion) in EUR	36.3	until 31-12-2021	2,80%	-	8 383
Loan from EBRD Capex B (short-term portion) in EUR	36.3	until 31-12-2021	3,00%	-	15 826
Loan from Santander (short-term portion) in PLN	36.3	31-08-2021	2,55%	-	2 293
Loan from BNP (short-term portion) in EUR	36.3	31-08-2021	2,65%	-	2 389
Loan from a bank consortium: Santander and BNP in PLN*	36.3	31-01-2021	2,55%	-	2 876
Bonds in PLN	36.3	31-08-2021	3,05%	-	58 194
Long-term loan from a bank consortium: Santander, Pekao, BNP (short-term portion) in PLN		31-03-2026	2,01%	16 064	-
Long-term loan from a bank consortium: Santander, Pekao, BNP (short-term portion) in EUR	36.3	31-03-2026	1,25%	15 556	-
Revolving credit facility with bank consortium (Santander, Pekao, BNP) in PLN	36.3	03-31-2024	2,01%	11 793	-
Revolving credit facility with bank consortium (Santander, Pekao, BNP) in EUR	36.3	03-31-2024	1,25%	6 520	-
Loan from Nordea Bank Abp in SEK	36.3	until 31-12-2024	NSSu+1,75%	34 556	36 766
Total short-term interest-bearing loans, borrowings and bonds				84 489	136 278
Total short-term financial liabilities				**96 659**	**148 426**

Long-term liabilities	Note	Maturity		As at 31 December 2021	As at 31 December 2020
Other financial liabilities:					
Lease liabilities	17	until 31-12-2089		28 256	25 956
Hedging instruments	36.4			-	3 175
Other liabilities				897	920
Total other long-term financial liabilities				29 153	30 050
Interest-bearing loans, borrowings and bonds:					
Loan from EBRD TA (long-term portion) in EUR	36.3	until 31-08-2022	2,65%	-	8 815
Loan from EBRD Capex A (long-term portion) in EUR	36.3	until 31-08-2023	2,80%	-	4 928
Loan from EBRD Capex B (long-term portion) in EUR	36.3	until 31-08-2024	3,00%	-	14 350
Long-term loan from a bank consortium: Santander, Pekao, BNP (long-term portion) in PLN	36.3	03-31-2026	2,01%	50 968	-
Long-term loan from a bank consortium: Santander, Pekao, BNP (long-term portion) in EUR	36.3	03-31-2026	1,25%	50 579	-
Bonds in SEK	36.3	01-09-2022	STIBOR 3M+4,15%	-	183 000
Loan from Danske Bank in SEK	36.3	14-07-2023	STIBOR 3M+1,75%	59 664	-
Total long-term interest-bearing loans, borrowings and bonds				161 210	211 094
Total long-term financial liabilities				**190 364**	**241 144**

* as at 31 December 2020, the loan is reported in accordance with the agreement in force on that date; repayment date extended according to the annex signed in 2021

27.1. Bank loans, bonds and borrowings

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

In accordance with the Loan Agreement, the Lenders provided the Company with the following Loans:
(i) a Term Loan repayable in two tranches: the first tranche in the amount of PLN 75,000,000 (seventy five million) and the second tranche in the amount of EUR 16,100,000 (sixteen million and one hundred thousand euro) (the “Term Loan”); and
(ii) a revolving loan of EUR 32,200,000 (thirty-two million, two hundred thousand euro) (the “Revolving Loan”).

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

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

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

In compliance with the Loan Agreement, some Loans will be repaid by:
(i) in the case of a Term Loan, on the day falling five years after the date of conclusion of the Loan Agreement; and
(ii) in the case of a Revolving Loan, on the date falling three years after the conclusion of the Loan Agreement with the option to extend the terms of the Revolving Loan for an additional two years in accordance with the terms of the Loan Agreement.

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

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

On 8 July 2021, the subsidiary Rottneros AB decided on an early redemption of all bonds issued under the bond issue programme of up to SEK 600 million(i.e. up to PLN 267.5 million), which the Company reported in current report No. 16/2017 of 28 August 2017. The early redemption of the bonds, was carried out on 19 July 2021. The redemption of the bonds was financed by a term loan granted to Rottneros AB by Danske Bank. The redeemed bonds are redeemable. In connection with the redemption, the bonds will be delisted from Nasdaq Stockholm.

The amount of long-term and short-term interest bearing loans and borrowings as at 31 December 2021 decreased by PLN 101,673 thousand compared to 31 December 2020 is primarily due to the redemption of bonds in PLN and the refinancing of loans by AP SA, as well as the redemption of bonds in SEK and the taking out of a bank loan by the Rottneros Group.

27.2. Collateral to loans

2021

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

1. under Polish law – Collateral Documents establishing the following Collateral:

- financial and registered pledges on all shares held by the Company and the Guarantors, registered in Poland, belonging 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 the Company's 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 the Guarantors, constituting an organised part of enterprise, located in Poland (with the exception of the assets listed in the Loan Agreement);
- assignment of (existing and future) insurance policies covering the assets of the Company and the Guarantors (with the exception of insurance policies listed in the Loan Agreement);
- declaration by the Company and the Guarantors on voluntary submission to enforcement, in the form of a notary deed;
- financial pledges and registered pledges on the bank accounts of the Company and the Guarantors, registered in Poland; in the event of a breach, if the secured payment or its part becomes due, the Company may not collect funds from the pledged receivable or order the bank keeping the account to withdraw funds;
- powers of attorney to Polish bank accounts of the Company and the Guarantors, registered in Poland;

2. under Swedish law – Collateral Documents establishing the following Collateral:
   - pledges on all shares held by the Companies and the Guarantors, registered in Sweden, belonging to group companies, except for the Company's shares
   - mortgages on all real properties located in Sweden and owned by the Company and the Guarantors as long as such collateral covers solely the existing mortgage deeds;
   - corporate mortgage loans granted by the Guarantors registered in Sweden as long as such collateral covers solely the existing mortgage deeds;
   - assignment of (existing and future) insurance policies covering the assets of the Company and the Guarantors (with the exception of insurance policies listed in the Loan Agreement);
   - pledges on Swedish bank accounts of the Company and the Guarantors as long as such collateral is without prejudice to free management of funds deposited on bank accounts until an event of default specified in the Loan Agreement.

In addition to the above, the Group reported as at 31 December 2021:

1) collateral on assets related to the obligations contracted by Rottneros AB with Danske Bank – this is:
   - pledge on assets for SEK 284,730 thousand (PLN 127,730 PLN);

2. collaterals on assets on account of AP Kraft's liabilities with Nordea Bank – these are:
   - mortgage on assets for the amount of EUR 80,000 thousand (SEK 35,888 thousand

2020

In connection with the term and revolving loan agreements, agreements relating to the bond issue and the intercreditor agreement, signed on 9 September 2016, on 3 October 2016 the Company signed agreements and statements pursuant to which collateral to the above debt and other claims would be established in favour of Bank BNP Paribas S.A., acting as the Collateral Agent, that is

1. under Polish law – Collateral Documents establishing the following Collateral:

financial and registered pledges on all property held by the Company and the Guarantors (the Guarantors are: AP Kostrzyn, AP Munkedals, AP Grycksbo) shares or interests registered in Poland owned by companies in the Company's group (except Rottneros AB, Arctic Paper Mochenwangen GmbH and Arctic Paper Investment GmbH), with the exception of the Company's shares;

mortgages on all properties located in Poland and owned by the Company and the Guarantors;

registered pledges on all material rights and movable assets owned by the Company and the Guarantors, constituting an organised part of enterprise, located in Poland (with the exception of the assets listed in the Loan Agreement);

assignment of (existing and future) insurance policies covering the assets of the Company and the Guarantors (with the exception of insurance policies listed in the Loan Agreement);

declaration by the Company and the Guarantors on voluntary submission to enforcement, in the form of a notary deed;

(unless specified otherwise, all amounts are in PLN '000)

financial pledges and registered pledges on the bank accounts of the Company and the Guarantors, registered in Poland;
powers of attorney to Polish bank accounts of the Company and the Guarantors, registered in Poland;
subordination of the debt held by intragroup lenders (specified in the Intercreditor Agreement).

2. under Swedish law – Collateral Documents establishing the following Collateral:
pledges on all shares and interests registered in Poland, owned by the Company and the Guarantors, in Group companies, with the exception of the shares in the Company, as well as pledged on the shares in Rottneros (with the exception of the free package of shares in Rottneros);
mortgages on all real properties located in Sweden and owned by the Company and the Guarantors as long as such collateral covers solely the existing mortgage deeds;
corporate mortgage loans granted by the Guarantors registered in Sweden as long as such collateral covers solely the existing mortgage deeds;
assignment of (existing and future) insurance policies covering the assets of the Company and the Guarantors (with the exception of insurance policies listed in the Loan Agreement);
pledges on Swedish bank accounts of the Company and the Guarantors as long as such collateral is without prejudice to free management of funds deposited on bank accounts until an event of default specified in the Loan Agreement.

Apart from the above, as at 31 December 2020 the Group disclosed:

1) collateral on assets related to the obligations contracted by Rottneros AB with Danske Bank – this is:
- pledge on assets for SEK 284,730 thousand (PLN 115,970 PLN);

2. collaterals on assets on account of AP Kraft's liabilities with Nordea Bank – these are:
- mortgage on assets for the amount of EUR 80,000 thousand (SEK 36,784 thousand

28. Employment benefits

28.1. Employee liabilities

The table below summarises the employee liabilities as at 31 December 2021 and 31 December 2020.

	Note	As at 31 December 2021	As at 31 December 2020
Provision for pensions and similar benefits	28.2	119 844	136 634
Payable to employees as salaries		8 735	3 295
Personal Income Tax		5 084	8 351
Social benefit liabilities		16 863	17 088
Retirement liabilities		2 334	4 343
Unused leave		46 549	47 855
Bonuses		9 341	18 791
Other employee liabilities		10 271	5 708
TOTAL		**219 021**	**242 063**
– short-term		107 028	106 069
– long-term		111 993	135 994

(unless specified otherwise, all amounts are in PLN '000)

28.2. Retirement benefits and other post-employment benefits

Group entities pay post-employment benefits to its retiring employees in amounts set forth in Poland's Labour Code in case of Arctic Paper Kostrzyn S.A. and on the basis of existing agreements with trade unions in case of Arctic Paper Munkedals AB, Arctic Paper Kostrzyn S.A and Arctic Paper Grycksbo AB which additionally has set up a Social Fund for future retirees. Moreover, due to legal regulations, Arctic Paper Mochenwangen GmbH is still obliged to recognize the provision for retirement benefits.

In this connection, on the basis of measurement performed in each country by professional actuarial companies, the Group establishes a provision for future benefits.
Re-measurement of employee benefits related to defined benefit plans, covering actuarial gains and losses, is recognised in other comprehensive income and is not later re-classified to profit or loss.

The Group recognises the following changes to its net liabilities relating to defined benefit plans within costs of sales, administrative expenses or selling and distribution costs, composed of:

- service costs (including inter alia the current service costs, future service costs)
- net interest on the net liability under the defined benefit plans.

The net cost of employee benefits is presented in the table below:

	Year ended on 31 December 2021	Year ended on 31 December 2020
Current headcount costs	9 378	2 124
Interest expense on employee benefit liabilities	1 032	1 179
Actuarial (profit) / loss	(6 251)	969
Total costs of benefit in the plan	**4 159**	**4 272**
of which:		
recognised in the income statement	10 410	3 303
recognised in other comprehensive income	(6 251)	969

The justification presenting changes in the provisions for the years ended on 31 December 2021 and 31 December 2020 is presented in the table below.

	Defined benefit plan in Sweden (AP SA branch)	Defined benefit plan in Sweden (Munkedals)	Defined benefit plan in Sweden (Grycksbo)	Defined benefit plan in Sweden (Rottneros Group)	Defined benefit plan in Poland (Kostrzyn)	Defined benefit plan in Germany	Total
Provisions for pensions and similar obligations as at 01 January 2021	2 837	35 238	51 835	19 771	11 607	15 346	136 634
Current headcount costs	280	-	4 051	4 050	613	384	9 378
Interest expense	-	276	409	-	178	169	1 032
Actuarial Loss (Profit)	-	(137)	(1 170)	-	(917)	(4 027)	(6 251)
Benefits paid	-	(969)	(16 614)	-	(315)	(397)	(18 295)
FX differences on translation of foreign plans	-	(856)	(1 221)	(494)	-	(82)	(2 653)
Provisions for pensions and similar benefits as at 31 December 2021	**3 117**	**33 553**	**37 289**	**23 327**	**11 166**	**11 392**	**119 844**

	Defined benefit plan in Sweden (AP SA branch)	Defined benefit plan in Sweden (Munkedals)	Defined benefit plan in Sweden (Grycksbo)	Defined benefit plan in Sweden (Rottneros Group)	Defined benefit plan in Poland (Kostrzyn)	Defined benefit plan in Germany	Total
Provisions for pensions and similar obligations as at 01 January 2020	2 150	31 564	49 141	16 699	10 841	14 161	124 556
Current headcount costs	687	-	-	848	589	-	2 124
Interest expense	-	377	593	-	209	-	1 179
Actuarial Loss (Profit)	-	103	301	-	565	-	969
Benefits paid	-	(844)	(4 251)	-	(597)	-	(5 692)
FX differences on translation of foreign plans	-	4 038	6 051	2 224	-	1 185	13 498
Provisions for pensions and similar benefits as at 31 December 2020	**2 837**	**35 238**	**51 835**	**19 771**	**11 607**	**15 346**	**136 634**

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

	As at 31 December 2020	As at 31 December 2019
Discount rate (%)		
Plan in Sweden	1,7%	0,9%
Plan in Poland	1,5%	1,5%
Plan in Germany	1,3%	na
Anticipated salary growth rate (%)		
Plan in Sweden	0,0%	0,0%
Plan in Poland	3,0%	3,0%
Plan in Germany	na	na
Remaining employment period (in years)		
Plan in Sweden	15,5	15,0
Plan in Poland	11,4	15,0
Plan in Germany	16,3	na

* AP Mochenwangen is not a business operator and therefore changes in interest rates and the duration of employment do not affect the value of the provision for retirement benefits in Germany.

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

Sensitivity analysis		
Change in the adopted discount rate by 1 percentage point		
31 December 2021	Increase by 1 p.p. in thousands PLN	Dcrease by 1 p.p. in thousands PLN
Impact on the defined benefit obligation (not including Swedish tax)	(18 274)	11 416
31 December 2020		
Impact on the defined benefit obligation (not including Swedish tax)	(23 235)	12 414
Change to the anticipated salary growth rate by 1 percentage point		
31 December 2021	Increase by 1 p.p. in thousands PLN	Dcrease by 1 p.p. in thousands PLN
Impact on the liabilities under defined benefit plans	1 397	(1 171)
31 December 2020		
Impact on the liabilities under defined benefit plans	1 586	(1 314)

(unless specified otherwise, all amounts are in PLN '000)

29. Provisions

29.1. Change in provisions

The table below presents changes to provisions in for 2021-2020:

	Provisions
As at 01 January 2021	1 496
Established during the financial year	494
Applied	(116)
Reversed	-
Adjustment due to FX differences	(34)
As at 31 December 2021, of which:	**1 840**
- short-term	494
- long-term	1 346
As at 01 January 2020	5 394
Established during the financial year	-
Applied	(4 235)
Reversed	-
Adjustment due to FX differences	337
As at 31 December 2020, of which:	**1 496**
- short-term	116
- long-term	1 379

Other provisions as at 31 December 2021 and 31 December 2020 cover mainly a provision for rights to emit CO2.

29.2. Provisions for complaints and returns

Provisions for complaints and returns are established on the basis of complaints and returns made in the previous years. Due to regular outlays on improvement of the quality of production processes and products, the Group did not recognise a provision for complaints and returns as at the end of 2021 and 2020.

(unless specified otherwise, all amounts are in PLN ‘000)

30. Trade and other payables, grants and deferred income

30.1. Trade and other payables (short-term)

	As at 31 December 2021	As at 31 December 2020
Trade payables, of which:		
Due to related entities	396	505
Due to other entities	475 701	348 873
	476 096	349 377
Taxes, duties and other liabilities		
VAT	10 764	6 975
Excise tax	1 167	1 161
Real estate tax	633	719
	12 565	8 854
Other liabilities		
Investment commitments	13 875	7 444
Liabilities related to environmental protection	1 521	260
Prepayments	2 756	1 815
	18 152	9 519
TOTAL	506 813	367 751

Principles and payment terms of the liabilities presented above:

- the terms and conditions of transactions with related entities are presented in note 33.3;
- trade payables are interest free and are usually payable within 60 days;
- other liabilities are interest free and the usual payment term is 1 month;
- the amount of the difference between VAT payable and receivable is paid to the relevant tax authorities on a monthly basis.

30.2. Grants and deferred income

	As at 31 December 2021	As at 31 December 2020
Grants from Ekofundusz	6 891	8 103
Grants from NFOŚiGW	4 970	5 912
Grants in Sweden	1 794	3 219
Deferred income	7 373	3 016
TOTAL	**21 028**	**20 249**
– short-term	7 158	5 618
– long-term	13 870	14 631

31. Investment plans

As at 31 December 2021, the Group plans to make expenditures on tangible fixed assets in 2022 of minimum PLN 130 million. These amounts will be allocated to the purchase of new machinery and equipment.

As at 31 December 2020, the Group planned expenditures on tangible fixed assets of no less than PLN 110 million in 2021.

32. Contingent liabilities

As at 31 December 2021, the Company held the following contingent liabilities:

- contingent liability under a guarantee for FPG in favour of the mutual life insurance company PRI for SEK 623 thousand (PLN 279 thousand) at Arctic Paper Grycksbo AB and for SEK 764 thousand (PLN 343 thousand) at Arctic Paper Munkedals AB;
- a bank guarantee in favour of Skatteverket Ludvika for SEK 135 thousand (SEK 61 thousand

32.1. Legal claims

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

32.2. Tax settlements

Tax settlements and other areas of activity subject to specific regulations (like customs or FX matters) may be inspected by administrative bodies that are entitled to impose high penalties and sanctions. No reference to stable legal regulations in Poland results in lack of clarity and consistency in the regulations. Frequent differences of opinion as to legal interpretation of tax regulations – both inside state authorities and between state authorities and enterprises – generate areas of uncertainty and conflicts. As a result, tax risks in Poland are much higher than in countries with a more developed tax system.

Tax settlements may be subject to inspections for five years from the end of the year in which the tax was paid. As a result of inspections, the tax liability of the Group may be increased by additional tax liability. In the Group's opinion, tax liabilities as at 31 December 2021 were adequate to the recognised and quantifiable task risk and therefore there is no need to establish additional provisions.

33. Information on related entities

The related entities to the Arctic Paper S.A. Group are as follows:
- Thomas Onstad – majority shareholder,
- Nemus Holding AB – parent company for Arctic Paper SA,
- Munkedal Skog – a subsidiary of Nemus Holding AB,
- Key management personnel – company related to the CEO

The top management staff is composed of the President and Members of the Management Board of the Parent Entity as well as the Chairperson and Members of the Supervisory Board of the Parent Entity when in office.

(unless specified otherwise, all amounts are in PLN '000)

The table below presents the total values of transactions with related parties in 2021-2020:

Data for the period from 01 January 2021 to 31 December 2021 and as at 31 December 2021

Related Entity	Sales of services to related entities	Purchases of services from related parties/remuneration	Interest – financial income	Interest – financial expense	Receivables from related entities	Loan receivables	Liabilities to related entities
Nemus Holding AB	442	864	-	-	3 239	-	354
Thomas Onstad	-	-	-	-	-	-	-
Munkedals Skog	-	212	-	-	-	-	-
Key management personnel	-	1 087	-	-	-	-	42
Total	442	2 163	-	-	3 239	-	396

The receivables from Nemus Holding AB are overdue as at 31 December 2021 but they are compensated with payables for the provision of services.

Data for the period from 01 January 2020 to 31 December 2020 and as at 31 December 2020

Related Entity	Sales of services to related entities	Purchases of services from related parties/remuneration	Interest – financial income	Interest – financial expense	Receivables from related entities	Loan receivables	Liabilities to related entities
Nemus Holding AB	417	864	-	-	3 320	-	7
Thomas Onstad	-	-	-	714	-	-	-
Munkedals Skog	-	140	-	-	-	-	52
Key management personnel	-	1 125	-	-	-	-	446
Total	417	2 129	-	714	3 320	-	505

33.1. Ultimate Parent Entity of the Group

The ultimate parent entity of the Group, which prepares the consolidated financial statements, is Incarta Development S.A. In the financial years ended on 31 December 2021 and 31 December 2020 there were no transactions between the Group and Incarta Development S.A.

33.2. Parent Entity

Nemus Holding AB is the Parent Entity for the Arctic Paper S.A. Group which as at 31 December 2021 held 58.28% ordinary shares in Arctic Paper S.A.

33.3. Terms and conditions of transactions with related entities

Trade receivables and payables usually have a payment term of between 14 and 30 days for related entities. Transactions with related entities are carried out at arm's length.

33.4. Remuneration of top managerial staff of the Parent Entity

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

(unless specified otherwise, all amounts are in PLN '000)

The remuneration of the management staff in the year ended on 31 December 2021 amounted to PLN 2,966 thousand (PLN 2,415 thousand in the year ended on 31 December 2020).

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

Management Board	Year ended on 31 December 2021	Year ended on 31 December 2020
Short-term employee benefits	2 613	2 082
Post-employment retirement and medical benefits	353	333
Employment termination benefits	-	-
Total amount of remuneration of top managerial staff	**2 966**	**2 415**
Supervisory Board		
Short-term employee benefits	1 034	998

Short-term employee benefits include costs incurred by the Company for the services of key management personnel provided by a separate management unit in the amount of PLN 1,484,000.

33.5. Loan granted to members of the Management Board

In 2020-2021 neither the Parent Entity, nor its subsidiary companies granted any loans to Members of the Management Board.

33.6. Other transactions with the involvement of Members of the Management Board

In the period covered with these Consolidated Financial Statements there were no other transactions between the subsidiary companies and Members of the Management Board.

34. Information on the agreement and remuneration of the statutory auditor or entity authorised to audit financial statements

On 20 January 2020, Arctic Paper S.A. entered into a contract with KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. for audit of the Company's financial statements and consolidated financial statements of the Group for the year ended on 31 December 2020 and ending on 31 December 2021.

The table below presents the remuneration of the statutory auditor, paid or payable for the year ended on 31 December 2021 and 31 December 2020 by category of services:

	Year ended on 31 December 2021	Year ended on 31 December 2020
Service type		
Statutory audit of the annual financial statements	195	195
Review of interim financial statements	83	83
Statutory audit of the annual financial statements (branch AP S.A.)	-	13
Other services	-	35
Total	**278**	**326**

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

(unless specified otherwise, all amounts are in PLN '000)

35. Financial risk management objectives and policies

The main financial instruments used by the Group include bank loans. The main purpose of those financial instruments is to raise finance for the Group's operations. The Group companies also conclude lease agreements.

The Group also uses factoring without recourse for trade receivables. The main purpose for using the financial instrument is to quickly raise funds. The receivables covered with factoring were derecognised from the consolidated balance sheet since conditions have been met to derecognise the assets in compliance with IFRS 9.

The Group has various other financial instruments such as trade receivables and payables which arise directly from its operations. The core risks arising from the Group's financial instruments include: interest rate risk, liquidity risk, FX risk and credit risk. The Management Board reviews and approves policies for managing each of those risks.

In the opinion of the Management Board – in comparison to the annual consolidated financial statements made as at 31 December 2020 there have been no significant changes of the financial risk. There have been no changes to the objectives and policies of the management of the risk.

35.1. Interest rate risk

The Group is exposed to interest rate changes primarily with respect to its long-term financial liabilities. The Group had no bank deposits as at 31 December 2021 and 31 December 2020.

Interest rate risk – sensitivity to fluctuations

The table below presents the sensitivity of gross profit to rationally feasible interest rate changes assuming no change to other factors (related to liabilities based on variable interest rates). The calculation includes loans and leases with variable interest rates as at 31 December 2021 and loans, bonds in SEK and leases with variable interest rates as at 31 December 2020. For each currency the same growth of interest rate was assumed by 1 percentage point. At the end of each reporting period, the loans in each currency, SEK bonds and lease contracts were grouped and on the sums a growth by 1 percentage point was calculated.

As at 31 December 2021	PLN	SEK	EUR
Long-term portion of loans	50 968	92 412	50 579
Long-term portion of lease liabilities	12 617	11 268	3 929
Less loans covered by SWAP	(50 968)	-	(50 579)
The basis for calculating the impact of a change in the interest rate	12 617	103 680	3 929
Effect on profit before tax of a 1 percentage point increase in interest rates	(126)	(1 037)	(39)

As at 31 December 2020	PLN	SEK	EUR
Long-term portion of loans and bonds	-	219 767	28 093
Long-term portion of lease liabilities	13 178	7 316	5 461
Less loans covered by SWAP	-	-	(28 093)
The basis for calculating the impact of a change in the interest rate	13 178	227 083	5 461
Effect on profit before tax of a 1 percentage point increase in interest rates	(132)	(2 271)	(55)

The basis for calculating the impact of changes in the interest rate as at 31 December 2020 takes into account the extended payment term for the long term loan with Nordea Bank Abp.

Due to the redemption of the SEK bond during 2021 partially financed by the SEK loan, there has been a reduction in the Group's risk to interest rate fluctuations for SEK debt.

(unless specified otherwise, all amounts are in PLN '000)

Note 36.3 presents loans, bonds and leases with variable and fixed interest rates as at 31 December 2021 and 31 December 2020.

35.2. FX risk

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

The table below presents the sensitivity of the financial result and comprehensive income to rationally feasible fluctuations of USD, EUR, GBP and SEK rates assuming no changes to any other factors. The calculations cover only the impact of FX rate fluctuations on FX balance sheet items and a rate increase or decrease for each currency of 5% was applied. At the end of each reporting period, assets and liabilities were grouped by currency and a rate increase or decrease by 5% was calculated on the net position in each currency – assets minus liabilities. During the year, FX assets and liabilities remained stable.

As at 31 December 2021 Impact of FX rate changes on gross profit	Basis for the calculation the effect of FX rate change	FX rate growth	Total impact	FX rate drop	Total impact
PLN – EUR	(45 879)	+5%	(2 294)	-5%	2 294
PLN – USD	(59 171)	+5%	(2 959)	-5%	2 959
PLN – GBP	12 447	+5%	622	-5%	(622)
PLN – SEK	(25 023)	+5%	(1 251)	-5%	1 251
SEK – EUR	164 000	+5%	8 200	-5%	(8 200)
SEK – USD	56 110	+5%	2 805	-5%	(2 805)
SEK – GPB	14 121	+5%	706	-5%	(706)

Impact of financial instruments on other comprehensive income (due to differences on translation of foreign operations)	FX rate growth	Total impact	FX rate drop	Total impact
PLN – SEK	+5%	14 840	-5%	(14 840)
PLN – EUR	+5%	(198)	-5%	198

As at 31 December 2020 Impact of FX rate changes on gross profit	Basis for the calculation growth/drop of FX rates	FX rate growth	Total impact	FX rate drop	Total impact
PLN – EUR	(41 705)	+5%	(2 085)	-5%	2 085
PLN – USD	(24 631)	+5%	(1 232)	-5%	1 232
PLN – GBP	9 891	+5%	495	-5%	(495)
PLN – SEK	(9 170)	+5%	(458)	-5%	458
SEK – EUR	54 113	+5%	2 706	-5%	(2 706)
SEK – USD	53 831	+5%	2 692	-5%	(2 692)
SEK – GBP	16 220	+5%	811	-5%	(811)

Impact of financial instruments on other comprehensive income (due to differences on translation of foreign operations)	FX rate growth	Total impact	FX rate drop	Total impact
PLN – SEK	+5%	12 143	-5%	(12 143)
PLN – EUR	+5%	(550)	-5%	550

(unless specified otherwise, all amounts are in PLN '000)

35.3. Product and raw material price risk

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

The Group uses derivative instruments to manage market risk. The Rottneros Group is hedging against changes in the price of its product, cellulose. The Group hedges the risk of changes in energy prices to limit their impact on the volatility of the result. Details of all hedges used in the Group are set out in note 36.4.

35.4. Credit risk

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

The Group enters into transactions solely with companies of a good financial standing. All customers who wish to use merchant credit are subject to preliminary verification procedures. Additionally, due to monitoring of the status of receivables on an ongoing basis, the Group's exposure to the risk of uncollectible receivables is limited.

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

The table below presents the calculation of the allowance for trade receivables in terms of expected credit losses and specific risk (allowance) :

As at 31 December 2021	Weighted average percentage of the expected loss for uninsured receivables	Gross value of uninsured receivables	Weighted average percentage of expected credit losses insured receivables	Gross value of insured receivables	Allowance for expected loss on uninsured receivables	Allowance for expected loss on insured receivables	Specific allowance	Total allowance for receivables
Not overdue	0,03%	92 350	0,01%	240 181	24	18	-	42
< 30 days	0,02%	2 333	0,02%	19 020	0	4	-	4
30 – 60 days	0,28%	273	0,02%	3 493	1	1	-	1
60 – 90 days	3,10%	138	2,39%	22	4	1	-	5
90 – 120 days	5,99%	16	4,45%	56	1	2	24	27
120-360 days	19,39%	616	10,95%	3 710	119	406	2 439	2 965
>360 days		12 911	0,00%	-	-	-	12 911	12 911
	-	108 637	-	266 480	149	432	15 373	15 954

(unless specified otherwise, all amounts are in PLN '000)

As at 31 December 2020	Weighted average percentage of the expected loss for uninsured receivables	Gross value of uninsured receivables	Weighted average percentage of expected credit losses insured receivables	Gross value of insured receivables	Allowance for expected loss on uninsured receivables	Allowance for expected loss on insured receivables	Specific allowance	Total allowance for receivables
Not overdue	0,38%	75 117	0,00%	150 247	288	1	-	289
< 30 days	0,98%	2 665	0,00%	23 688	26	0	-	26
30 – 60 days	1,50%	334	0,02%	753	5	0	-	5
60 – 90 days	1,55%	137	0,01%	286	2	0	99	101
90 – 120 days	9,77%	9	0,02%	19	1	0	13	14
120-360 days	16,50%	2 987	0,05%	716	493	0	2 052	2 545
>360 days		15 699	0,00%	-	-	-	15 699	15 699
	-	96 948	-	175 709	815	1	17 863	18 680

The weighted average percentage of the expected loss was determined on the basis of historical data for 2018-2020 and took into account the analysis of wet-economic factors that may occur in the future.

The Group treats all receivables that are not overdue and are not subject to any impairment allowance, as collectible.

With respect to other financial assets of the Group such as cash and cash equivalents, the Group's exposure to credit risk arises from default of the counterparty.

The Group has no major concentration of credit risk. Risk concentration is assessed separately for insured and uninsured receivables. Moreover, when determining the credit risk for a given group of receivables, the Group takes into account the type of paper / pulp being the subject of the sale transaction and the transaction currency as well as the geographical location of the counterparties and their rating.

The maximum amount exposed to credit risk is equal to the carrying value of the financial instruments held.

35.5. Liquidity risk

The Group monitors its risk of a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g. accounts receivables, other financial assets) and projected cash flows from operating activities.

The Group aims to maintain a balance between continuity and flexibility of financing through the use of various sources of funding, such as overdrafts, bank loans and leasing agreements.

The table below summarises the Group's financial liabilities at 31 December 2021 and as at 31 December 2020 by maturity based on contractual undiscounted payments.

As at 31 December 2021	Upon request	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Interest-bearing loans, borrowings and bonds	-	1 153	53 263	201 660	-	256 075
Leases	-	2 733	6 705	17 225	47 824	74 488
Trade and other payables for the purchase of property, plant and equipment and intangible assets	1 212	485 806	2 954	-	-	489 972
Other financial liabilities	184	2 177	963	897	-	4 222

(unless specified otherwise, all amounts are in PLN '000)

	1 396	491 869	63 885	219 782	47 824	824 757

As at 31 December 2020	Upon request	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Interest-bearing loans, borrowings and bonds	-	92 856	23 119	222 604	31 126	369 705
Leases	89	2 888	7 547	13 574	50 059	74 156
Trade and other payables for the purchase of property, plant and equipment and intangible assets	465	342 628	13 729	-	-	356 822
Other financial liabilities	188	-	2 195	4 094	-	6 477
	741	438 372	46 590	240 273	81 185	807 161

The table above as at 31 December 2020 takes into account the actual redemption date of the PLN bonds and the extension of the repayment date of the loan from Nordea Bank Abp.

The Group has contractual liabilities incurred to purchase property, plant and equipment, amounting to PLN 16,753,000. PLN as at 31 December 2021.

The table below shows the reconciliation of the items in the table above to the data from the balance sheet or note

31 December 2021	Note/balance	Value according to the note or balance	Interest payable until repayment	Value according to the table
Interest-bearing loans, borrowings and bonds	balance	245 699	10 376	256 075
Leases	17	37 101	37 387	74 488
		-	-	-
Trade and other payables for the purchase of property, plant and equipment and intangible assets	30.1	489 972	na	489 972
Other financial liabilities	27	4 222	na	4 222

31 December 2020	Note/balance	Value according to the note or balance	Interest payable until repayment	Value according to the table
Interest-bearing loans, borrowings and bonds	balance	347 372	22 334	369 705
Leases	17	35 720	38 436	74 156
		-	-	-
Trade and other payables for the purchase of property, plant and equipment and intangible assets	30.1	356 822	na	356 822
Other financial liabilities	27	6 477	na	6 477

36. Financial instruments

The Company uses the following financial instruments: cash on hand and in bank accounts, loans, receivables, payables, lease agreements and interest SWAP contracts, forward contracts for the sale of pulp and forward contracts for the purchase of electricity.

(unless specified otherwise, all amounts are in PLN ‘000)

36.1. Fair value of each class of financial instruments

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

		Book value		Fair value	
	Category in compliance with IFRS 9	As at 31 December 2021	As at 31 December 2020	As at 31 December 2021	As at 31 December 2020
Financial assets					
Trade and other receivables	*WwZK*	369 520	262 269	***	***
Hedging instruments*	*IRZ*	109 343	13 107	***	***
Receivables from pension fund	*WwZK*	25 472	21 681	***	***
Settlement of realised forward contracts	*WwZK*	18 811	-	***	***
Other financial assets (net of loans and hedging instruments)**	*WwWGpWF*	3 589	1 395	***	***
Cash and cash equivalents	*WwZK*	167 927	255 563	***	***
Financial liabilities					
Bonds in SEK	*WwZK*	-	183 000	-	189 254
Bonds in PLN	*WwZK*	-	58 194	-	75 100
Loans	*WwZK*	245 699	106 178	249 738	106 899
Leasing liabilities, of which:	*WwZK*	37 101	35 720	***	***
- long-term		28 256	25 956	***	***
- short-term		8 845	9 765	***	***
Trade and other payables for the purchase of property, plant and equipment and intangible assets	*WwZK*	491 053	357 929	***	***
Hedging instruments*	*IRZ*	3 140	5 370	***	***

* derivative hedging instruments meeting the requirements of hedge accounting
** primarily investments in equity instruments
*** financial assets and liabilities at fair value close to carrying amount
Abbreviations used:
WwZK – Financial assets/liabilities measured at amortised cost
IRZ – hedge accounting instruments
WwWGpWF – financial assets/liabilities measured at fair value through profit and loss

The fair value of hedging instruments was determined on the basis of observable data from active markets that are not market quotations.

The fair value of the PLN bonds and loans was determined with the discounted cash flow method.

The fair value of the bonds in SEK on 31 December 2020 was determined based on the last transaction on Nasdaq on that date.

The fair value of loans is estimated using an internal model based on discounting financial flows.

As at 31 December 2021 and 31 December 2020, financial instruments by the measurement hierarchy are qualified to level 3 with the exception of SEK bonds (level 1) and derivative instruments (level 2).

(unless specified otherwise, all amounts are in PLN '000)

36.2. Changes to liabilities resulting from financing activity

Year ended on 31 December 2021	Note	01 January 2021	Changes resulting from cash flows from financing activity	Effects of currency exchange rate fluctuations	Changes in fair value or amortised cost	Changes due to acquisition/disposal	31 December 2021
Interest-bearing loans, borrowings and bonds (short-term and long-term)	27	347 372	(96 002)	(8 181)	2 510	-	245 699
Lease liabilities (short-term and long-term)	27	35 720	(12 179)	20	-	13 539	37 101
Financial derivatives and hedges (short-term and long-term)	27	5 370	-	-	(2 230)	-	3 140
Other (short-term and long-term)	27	1 107	1	(27)	-	-	1 082
Total liabilities resulting from financing activity		**389 570**	**(108 179)**	**(8 188)**	**280**	**13 539**	**287 022**

36.3. Interest rate risk

The following table shows the carrying amount of the Group's financial instruments exposed and not exposed to interest rate risk.

	As at 31 December 2021			As at 31 December 2020		
	The value of the financial liability, including:	The value of liability subject to fixed interest rate	The value of liability subject to variable interest rate	The value of the financial liability, including:	The value of liability subject to fixed interest rate	The value of liability subject to variable interest rate
Other financial liabilities:						
Lease liabilities	37 101	-	37 101	35 720	-	35 720
Loans and borrowings:						
Bonds in SEK	-	-	-	183 000	-	183 000
	-	-	-	58 194	58 194	-
Loan from EBRD TA in EUR	-	-	-	18 367	18 367	-
Loan from EBRD Capex A in EUR	-	-	-	13 311	13 311	-
Loan from EBRD Capex B in EUR	-	-	-	30 177	30 177	-
Loan from Santander in PLN	-	-	-	2 293	2 293	-
Loan from BNP in EUR	-	-	-	2 389	2 389	-
Loan from a bank consortium: Santander and BNP in PLN	-	-	-	2 876	2 876	-
Long-term loan from a bank consortium: Santander, Pekao, BNP in PLN	67 031	67 031	-	-	-	-
Long-term loan from a bank consortium: Santander, Pekao, BNP in EUR	66 135	66 135	-	-	-	-
Revolving credit facility with bank consortium (Santander, Pekao, BNP) in PLN	11 793	11 793	-	-	-	-
Revolving credit facility with bank consortium (Santander, Pekao, BNP) in EUR	6 520	6 520	-	-	-	-
Loan from Nordea Bank Abp in SEK	34 556	-	34 556	36 766	-	36 766
Loan from Danske Bank in SEK	59 664	-	59 664	-	-	-
Total variable interest rate loans and borrowings	245 699	151 479	94 220	347 372	127 605	219 767
TOTAL VARIABLE INTEREST RATE LIABILITIES	**282 801**	**151 479**	**131 321**	**383 093**	**127 605**	**255 487**

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

(unless specified otherwise, all amounts are in PLN '000)

36.4. Collateral

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

- Arctic Paper S.A. designated SWAP derivatives to hedge accounting to hedge interest payments in EUR on a bank loan in EUR,
- Arctic Paper S.A. designated SWAP derivatives to hedge accounting to hedge interest payments in PLN on a bank loan in PLN,
- Arctic Paper Munkedals AB, Arctic Paper Grycksbo AB and the companies of the Rottneros Group designated for cash flow hedge accounting the forward derivatives in order to hedge future purchases of electricity,
- the Companies of the Rottneros Group designated for cash flow hedge accounting the FX forward derivatives for the sale of pulp in order to hedge the sale prices of pulp in SEK.

36.4.1. Cash flow hedges

As at 31 December 2021, the Group's cash flows were hedged with a forward contract for purchase of electricity, a forward contract for sale of pulp, an interest rate SWAP.

Hedge accounting of cash flows from sales of pulp

The table below presents detailed information concerning the hedging relationship in cash flow hedge accounting regarding sales of pulp:

Type of hedge	Cash flow hedge related to sales of pulp
Hedged position	The hedged position is a part of highly likely future cash inflows for pulp sales
Hedging instruments	Forward contracts are used as the hedging item wherein the Company agrees to sell pulp for SEK
Contract parameters:	
Contract conclusion date	2019-2021
Maturity date:	depending on the contract; until 31.12.2022
Hedged quantity of pulp	12,000 tonnes
Term price	SEK 9,721 /tonne

Cash flow hedge accounting related to electricity purchases with the use of forward transactions

The table below presents detailed information concerning the hedging relationship in the cash flow hedge accounting related to electricity purchases:

Type of hedge	Cash flow hedge related to planned purchases of electricity
Hedged position	The hedged position is a part of highly likely future cash flows for electricity purchases
Hedging instruments	Forward contract for the purchase of electricity at Nord Pool Exchange
Contract parameters:	
Contract conclusion date	subject to contract; from 01.05.2016
Maturity date:	depending on the contract; until 31.12.2026
Hedged quantity of electricity	1,767,069 MWh
Term price	from 25.30 to 51.50 EUR/MWh

(unless specified otherwise, all amounts are in PLN '000)

Cash flow volatility hedge accounting related to variable loan interest rate of the long-term loan with the use of SWAP transactions

The table below presents detailed information concerning the hedging relationship in the cash flow hedge accounting related to payment of interest in EUR and PLN on the loan in EUR and PLN:

SWAP on the interest rate	EUR	PLN
Type of hedge	Hedge of cash flows related to variable interest rate on the EUR long-term loan	Hedge of cash flows related to variable interest rate on the PLN long-term loan
Hedged position	The hedged item are future EUR interest flows in EUR related to a loan in EUR calculated on the basis of 3M EURIBOR	The hedged item are future PLN interest flows in PLN related to a loan in PLN calculated on the basis of 3M WIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in EUR on the EUR loan on the basis of a fixed interest rate	SWAP transaction under which the Company agreed to pay interest in PLN on the PLN loan on the basis of a fixed interest rate

Currency	Date	Loan amount PLN as at 31.12.2021
EUR	2021-04-02 – 2026-04-02	26 424 717
EUR	2021-04-02 – 2026-04-02	19 855 038
EUR	2021-04-02 – 2026-04-02	19 855 038
		66 134 793
PLN	2021-04-02 – 2026-04-02	26 784 007
PLN	2021-04-02 – 2026-04-02	20 123 696
PLN	2021-04-02 – 2026-04-02	20 123 696
		67 031 399
The total value of loans is secured with an interest rate swap		**133 166 191**

The fixed interest rate on the EUR flow hedge is: 0.11%, and for flows in PLN it is: 1.21%.

The effectiveness of the hedging instruments of the SWAP type is very high due to the fact that the parameters of the hedging instruments are matched to the hedged items, in particular in terms of the denominations and dates of cash flows, the interest rate underlying the calculation of these flows, and the convention of calculating interest. The effectiveness of electricity forward hedging instruments is very high due to the fact that the parameters of hedging instruments are matched to the hedged items, in particular in terms of the type and quantity of energy purchased and the dates of cash flows related to energy payments. The effectiveness of forward hedging instruments for the sale of pulp is very high due to the adjustment of the parameters of the hedging instruments to the hedged items, in particular in terms of the type and quantity of pulp sold and the dates of cash flows related to receipt of payment for pulp.
The Group assesses whether the derivative designated in each hedging relationship will effectively offset changes in the cash flows of the hedged item using the hypothetical derivative method.

36.4.2. Other information on derivative instruments

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

	Status as at 31 December 2021		Status as at 31 December 2020	
	Assets	Equity and liabilities	Assets	Equity and liabilities
Forward on pulp sales	-	3 140	3 678	-
SWAP	3 192	-	-	2 572
Floor option	-	-	-	(377)
Forward for electricity	106 152	-	9 429	3 175
Total hedging derivative instruments	**109 343**	**3 140**	**13 107**	**5 370**

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

	Up to 1 year	1 to 5 years	Over 5 years	Total
Forward for electricity:				
Purchased energy (in PLN '000)	70 559	153 946	-	224 505
Forward on pulp sales				
Pulp sold (in tonnes)	12 000	-	-	12 000
interest rate SWAP				
principal repayment (in PLN '000)	31 620	101 546	-	133 166

The table below presents the amounts related to hedge accounting that were recognised in 2021 by the Group in profit and loss and in the total comprehensive income statement:

	Year ended on 31 December 2021
Other reserves in the part related to revaluation as at 31 December 2021 – changes of fair value measurement of hedging derivative instruments due to the hedged risk, corresponding to effective hedging, decreased by deferred tax	59 785
Ineffective part of the change in fair value measurement due to the hedged risk, recognised in financial income or expenses	-
The period of the anticipated hedged flows	01 January 2022 – 31 December 2026

The table below presents changes to other reserves in the part related to measurement under hedge accounting in 2021:

	Year ended on 31 December 2021
Other reserves in the part related to revaluation as at 01 January 2021	1 537
Deferral to changes of fair value measurement of the hedging derivative instruments due to the hedged risk, corresponding to the effective hedge, decreased by deferred tax	54 268

(unless specified otherwise, all amounts are in PLN '000)

The amount of the deferred changes of fair value measurement of the hedging derivative instruments due to the hedged risk, removed from other reserves and transferred to financial income or expenses	3 981
Other reserves in the part related to revaluation as at 31 December 2021	59 785

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

37. Capital management

The primary objective of the Group's capital management is to maintain a strong credit rating and healthy capital ratios in order to support the Group's business operations and maximise the shareholder value.

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

The Group monitors its equity using a leverage ratio, which is net debt divided by total equity plus net debt. The Group's policy is to keep the leverage ratio between 0.30 and 0.55. The Group includes interest bearing loans, trade and other payables, net of cash and cash equivalents within its net debt.

Arctic Paper SA Group	As at 31 December 2021	As at 31 December 2020
Interest-bearing loans, borrowings and debt instruments and other financial liabilities	287 022	389 569
Trade and other payables	506 813	367 751
Minus cash and cash equivalents	(167 927)	(255 563)
Net debt	625 907	501 757
Equity	1 242 996	1 033 033
Equity and net debt	1 868 903	1 534 791
Leverage ratio	**0,33**	**0,33**

In comparison to the annual financial statements for 2020, the financial leverage ratio has not changed.

38. Employment structure

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

	Year ended on 31 December 2021	Year ended on 31 December 2020
Management Board of the Parent Entity	2	2
Management Boards of Group entities	40	37
Administration	99	97
Sales Department	105	124
Production Division	1 093	1 100
Other	164	162
Total	**1 503**	**1 522**

39. Certificates in cogeneration

Property rights to certificates of origin confirming the cogeneration of electricity are held by AP Grycksbo and companies in the Rottneros Group.

For the cogeneration of electricity, in 2021 the AP Grycksbo acquired the following rights: green certificates 11,341 MWh (2020: 594 MWh In 2021 revenues obtained from the sale of the certificates was PLN 9 thousand (2020: PLN 1 thousand).

For the cogeneration of electricity, in 2021 the companies in the Rottneros Group acquired the following rights: green certificates 22,659 MWh (2020: 22,659 MWh In 2021 revenues obtained from the sale of the certificates was PLN 119 thousand (2020: PLN 119 thousand).

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

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

40.1. Grants

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

40.2. Operations in the Special Economic Zone

Arctic Paper Kostrzyn S.A. operates in the Kostrzyńsko-Słubicka Specjalna Strefa Ekonomiczna (Special Economic Zone – KSSSE).

The Company is entitled to use the permit by 2026 or by the date SSE exist in Poland pursuant to the applicable regulations. The company meets the conditions for taking advantage of the exemption.
The conditions of the exemption have not changed in the reporting period. The Company has not been inspected by any competent body.
During the period from 25 August 2006 to 31 December 2021, the Company incurred eligible investment expenditures classified as (non-discounted) expenditure in KSSSE in the amount of PLN 227,102 thousand. During the period, the discounted amount of related public aid was PLN 66,358 thousand.
As at 31 December 2021, the Group had used all the tax benefits related to the expenses incurred in the KSSSE and therefore did not recognise any deferred tax asset on that account.

41. Material events after the balance sheet date

41.1. Political situation in Ukraine

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

From the balance sheet date until the day of publishing of these consolidated financial statements, there were no other events which might have a material impact on the Company's financial and capital position.

Signatures of the Members of the Management Board

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