ARCTIC PAPER S.A.

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2015
TOGETHER WITH INDEPENDENT AUDITORS' REPORT

Poznań, 21st March 2016

Content

(in PLN thousand)

INCOME STATEMENT

for year ended 31st December 2015

	Note	Year ended 31 December 2015	Year ended 31 December 2014
Continuing operations			
Sales of services	*29*	40 410	37 640
Interest income	*29*	937	999
Dividend income	*29*	65 359	140
Revenues	*11*	106 706	38 779
Cost of interest to subsidiaries and cost of sold logistics services		(11 381)	(9 417)
Gross profit (loss)		**95 325**	**29 362**
Other operating income	*12.1*	398	270
Selling expenses	*12.5*	(4 069)	(4 036)
Administrative expenses	*12.5*	(31 517)	(29 196)
Other operating costs	*12.2*	(51 701)	(18 614)
Operating profit (loss)		**8 436**	**(22 215)**
Financial income	*12.3*	666	156
Financial costs	*12.4*	(4 026)	(3 018)
Profit (loss) before tax		**5 077**	**(25 077)**
Income tax	*13.1*	(167)	-34
Profit (loss) from continuing operations		**4 909**	**(25 110)**
Discontinued operation		-	-
Profit (loss) from discontinued operation		-	-
Profit (loss) for the period		**4 909**	**(25 110)**
Earnings per share (in PLN):			
- basic from the profit (loss) for the period	*14*	0,07	(0,36)
- basic from the profit (loss) from continuing operations		0,07	(0,36)
- diluted from the profit (loss) for the period	*14*	0,07	(0,36)
- diluted from the profit (loss) from continuing operations		0,07	(0,36)

(in PLN thousand)

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31st December 2015

	Note	Year ended 31 December 2015	Year ended 31 December 2014
Profit (loss) for the period		(4 909)	(25 110)
Items to be recognized in profit/loss in future periods:			
Foreign currency translation differences for foreign operations	*22.2*	(227)	152
Other comprehensive income		(227)	152
Total comprehensive income for the period		**(4 682)**	**(24 958)**

(in PLN thousand)

STATEMENT OF BALANCE SHEET

as on 31st December 2015

	Note	As at 31 December 2015	As at 31 December 2014
ASSETS			
Non - current assets			
Fixed assets	*16*	2 108	677
Intangible fixed assets	*17*	1 322	1 319
Investments in subsidiaries	*18.1*	838 741	827 190
Other non-financial assets	*18.3*	1103	869
		843 274	**830 055**
Current assets			
Trade and other receivables	*20*	81 928	45 320
Income tax receivables		193	167
Other current financial assets	*18.2*	12 683	41 714
Other current non-financial assets	*18.3*	2 689	771
Cash and cash equivalents	*21*	9 435	18 607
		106 927	**106 579**
TOTAL ASSETS		**950 202**	**936 635**
EQUITY			
Share capital	*22.1*	69 288	69 288
Share premium account	*22.3*	447 641	472 751
Other reserve capital	*22.4*	147 871	147 871
Translation reserve	*22.2*	290	517
Retained earnings		3 870	(25 533)
Total equity		**668 959**	**664 893**
Non-current liabilities			
Borrowings, loans and bonds	*24*	203 357	225 168
Provisions	*25*	1 151	866
Other financial liabilities		390	300
Deferred tax liabilities	*13.3*	0	0
Accrued expenses and prepaid income	*26.2*	103	776
		205 001	**227 109**
Current liabilities			
Provisions	*25*	0	826
Borrowings, loans and bonds	*24*	788	551
Trade payables	*26.1*	69 593	36 026
Other financial liabilities		187	102
Other current liabilities	*26.1*	1 688	1 733
Current income tax liabilities		0	35
Accrued expenses and prepaid income	*26.2*	3 985	5 360
		76 242	**44 632**
TOTAL LIABILITIES		**281 243**	**271 741**
TOTAL EQUITY AND LIABILITIES		**950 202**	**936 635**

(in PLN thousand)

STATEMENT OF CASH FLOWS

for the year ended 31st December 2015

	Note	Year ended 31 December 2015 (audited)	Year ended 31 December 2014 (audited)
Cash flows from operating activities			
Profit (loss) before tax		**5 077**	**(25 076)**
Adjustments for:			
Amortization and depreciation	*12.6*	266	110
Net foreign exchange differences		(227)	334
Impairment of non-current assets		3 194	
Net interests and dividends		2 529	8 360
Change in trade and other receivables	*28*	(38 760)	(1 093)
Change in trade and other payables (except for borrowings, loans and other financial liabilities)		33 522	3 066
Change in accruals and prepayments		(2 047)	1 561
Change in provisions		(540)	959
Income tax		(228)	643
Loans granted		(13 898)	740
Other adjustments		-	10
Net cash used in operating activities		**(11 111)**	**(10 387)**
Cash flows from investing activities			
Proceeds from sales of property, plant and equipment and intangible assets		-	20
Purchase of property, plant and equipment and intangible assets		(1 525)	(45)
Increse of shares in subsidiaries		(15 318)	-
Acquisition of shares in subsidiary		-	(68)
Short-term deposit		21 312	(21 312)
Net cash from investing activities		**4 468**	**(21 405)**

(in PLN thousand)

STATEMENT OF CASH FLOWS
for the year ended 31st December 2015 – continued

	Note	Year ended 31 December 2015 (audited)	Year ended 31 December 2014 (audited)
Cash flow from financing activities			
Repayment of leasing liabilities		-	(91)
Proceeds from loans		-	43 176
Interest paid		(2 529)	(1 704)
Net cash from financing activities		**(2 529)**	**41 381**
Cash and cash equivalents at the beginning of the period	*21*	**18 607**	**9 018**
Net increase (decrease) in cash and cash equivalents		(9 172)	9 589
Cash and cash equivalents at the end of the period	*21*	**9 435**	**18 607**

(in PLN thousand)

STATEMENT OF CHANGES IN EQUITY

for the year ended 31st December 2015

	Note	Share capital	Share premium	Translation reserve	Other reserve capital	Retained earnings	Total equity
As at 1 January 2015		69 288	472 751	517	147 871	(25 533)	664 893
Profit (loss) for the period		-	-	-	-	4 909	4 909
Other comprehensive income for the period	*22.2*	-	-	(227)	-	-	(227)
Total comprehensive income		-	-	(227)	-	4 909	4 682
Profit distribution	*22.1*	-	(25 110)	-	-	25 110	-
Payments within the tax group in Sweden		-	-	-	-	(617)	(617)
As at 31 December 2015		69 288	447 641	290	147 871	3 870	668 959

(in PLN thousand)

For the year ended 31st December 2014

	Note	Share capital	Share premium	Translation reserve	Other reserve capital	Retained earnings	Total equity
As at 1 January 2014		69 288	652 662	192	147 871	(179 968)	690 043
Profit (loss) for the period		-	-	-	-	(25 110)	(25 110)
Other comprehensive income for the period		-	-	325	-	-	325
Total comprehensive income		-	-	325	-	(25 110)	(24 785)
Profit distribution		-	(179 911)	-	-	179 911	-
Payments within the tax group in Sweden		-	-	-	-	(366)	(366)
As at 31 December 2014		69 288	472 751	517	147 871	(25 533)	664 893

ACCOUNTING POLICIES AND ADDITIONAL EXPLANATORY NOTES

1. General information

Financial statements of Arctic Paper S.A cover the year ended 31st December 2015 and contain comparative data for the year ended 31st December 2014.

Arctic Paper S.A. (hereinafter „Company", „Entity") is a joint-stock company which was incorporated on the basis of a Notarial Deed dated 30th April 2008 and has publicly traded shares.

The seat of the Company is located in Poznań, Jana Henryka Dąbrowskiego 334A.

The Company is entered in the Register of Entrepreneurs kept by the District Court in Poznań – Nowe Miasto i Wilda, 8th Commercial Department of the National Court Register, Entry No. KRS0000306944.

The Company was granted statistical REGON number 080262255.

The Company has an unlimited period of operation.

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

The direct parent company of Arctic Paper S.A. is Nemus Holding AB. The ultimate parent company of Arctic Paper Group is Incarta Development SA.

2. Identification of consolidated financial statements

The Company prepared consolidated financial statements for the year ended 31st December 2015, which was approved for publishing on 21st March 2016.

3. Composition of the Management Board

As on 31st December 2015, the Management Board of the Company consisted of:

- Wolfgang Lübbert - President of the Management Board appointed on 27th November 2013 (appointed as a Member of the Management Board on 5th June 2012);
- Małgorzata Majewska - Śliwa - Member of the Management Board appointed on 27th November 2013;
- Jacek Łoś - Member of the Management Board appointed on 27th April 2011;
- Per Skoglund - Member of the Management Board appointed on 27th April 2011;
- Michał Sawka – Member of the Management Board appointed on 12th February 2014.

From 31st December 2015 until the day of publishing of financial statements no changes in the composition of the Management Board of the Company occurred.

4. Approval of the financial statements

These financial statements were approved for publishing by the Management Board on 21st March 2016.

(in PLN thousand)

5. Company's investments

The Company has investments in the following subsidiaries:

Entity	Registered office	Busines activities	Share in capital	
			31.12.2015	31.12.2014
Arctic Paper Kostrzyn S.A.	Poland, Kostrzyn nad Odrą, Fabryczna 1	Paper production	100%	100%
Arctic Paper Munkedals AB	Sweden, SE 455 81 Munkedal	Paper production	100%	100%
Arctic Paper UK Limited	Great Britain, Quadrant House, 47 Croydon Road, Caterham, Surrey	Trading services	100%	100%
Arctic Paper Baltic States SIA	Latvia, K. Vardemara iela 33-20, Riga LV-1010	Trading services	100%	100%
Arctic Paper Benelux S.A.	Belgium, Ophemstraat 24, B-3050 Oud-Heverlee	Trading services	100%	100%
Arctic Paper Schweiz AG	Switzerland, Technoparkstrasse 1, 8005 Zurich	Trading services	100%	100%
Arctic Paper Italia srl	Italy,Via Cavriana 7, 20 134 Milano	Trading services	100%	100%
Arctic Paper Ireland Limited	Ireland, 4 Rosemount Park Road, Dublin 11	Trading services	100%	100%
Arctic Paper Danmark A/S	Denmark, Korskildelund 6 DK-2670 Greve	Trading services	100%	100%
Arctic Paper France SAS	France, 43 rue de la Breche aux Loups, 75012 Paris	Trading services	100%	100%
Arctic Paper Espana SL	Spain, Avenida Diagonal 472-474, 9-1 Barcelona	Trading services	100%	100%
Arctic Paper Papierhandels GmbH	Austria, Hainborgerstrasse 34A, A-1030 Wien	Trading services	100%	100%
Arctic Paper Polska Sp. z o.o.	Poland, Biskupia 39, 04-216 Warsaw	Trading services	100%	100%
Arctic Paper Norge AS	Norway, Rosenholmsveien 25, NO-1414 Trollasen	Trading services	100%	100%
Arctic Paper Sverige AB	Sweden, SE 455 81 Munkedal	Trading services	100%	100%
Arctic Paper East Sp. z o.o.	Poland, Kostrzyn nad Odrą, Fabryczna 1	Trading services	100%	100%
Arctic Paper Investment GmbH	Germany, Fabrikstrasse 62, DE-882, 84 Wolpertswende	Holding company	99,80%	99,80%
Arctic Paper Investment AB	Sweden, Box 383, 401 26 Göteborg	Holding company	100%	100%
Arctic Paper Deutschland GmbH	Germany, Am Sandtorkai 72, D-20457 Hamburg	Trading services	100%	100%
Arctic Paper Finance AB (previous Arctic Energy Sverige AB)	Sweden, Box 383, 401 26 Göteborg	Holding company	100%	100%
Rottneros AB	Sweden, Sunne	Pulp production	51,27%	51,27%

As on 31st December 2015 and 31st December 2014, the percentage of voting rights held by the Company in subsidiaries corresponds to the percentage held in share capital of those entities.

6. Significant professional judgment and estimates

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

Deferred tax asset

Due to the uncertainty regarding utilization in future periods of tax losses recorded in years 2011-2014, the Management Board decided not to create deferred tax asset on tax losses. Furthermore, the Management Board decided to create deferred tax asset up to the amount of the deferred tax liability.

Impairment of assets in subsidiaries

The Management Board sustains the cautious policy of investments in subsidiaries related to Mochenwangen paper mill and for that reason all investments in these companies were written-off when incurred. The greatest amount was connected with the capital increase in Arctic Paper Investment GmbH in the amount of PLN 18,347 thousand.

Impairment of intangible assets' components

In accordance with IAS 36, the Company performs analyses of premises for impairment of rights to trademarks, which were acquired from Trebruk AB in 2009, on a regular basis. As the result of the analysis performed, it has been confirmed there is no need for a write-off.

7. Basis of preparation of financial statements

The financial statements have been prepared on a historical cost basis.

These financial statements are presented in Polish zloty ("PLN") and all values are rounded to the nearest thousand (PLN '000) except when otherwise indicated.

The hereby financial statements have been prepared based on the assumption that the Company will continue as going concerns in the foreseeable future.

As described in note 32.1. Loans and borrowings in the consolidated financial statements for 2013, on 20th December 2013 the Company and its subsidiaries, that is Arctic Paper Kostrzyn S.A. ("APK"), Arctic Paper Investment GmbH and Arctic Paper Mochenwangen GmbH concluded an annex to a loan agreement with a consortium of banks (Bank Pekao S.A., Bank Zachodni WBK S.A and mBank S.A.), the details of which have been listed in this note. The annex introduced additional case of breach of the bank loan agreement provisions if Svenska Handelsbanken does not prolong the short-term loans and factoring agreements concluded by APG. Failure to keep the condition precedent, including selected financial ratios, may cause the loans to be placed on demand, which therefore may significantly impact the Group's liquidity and continuation of its business operations.

The Management Board has analyzed possible scenarios concerning financing of AP Grycksbo. Based on these analyses, the Management Board is of the opinion that, despite the existing risk, the Group is able to continue its business operations in the next twelve months.

7.1. Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as well as with IFRSs endorsed by the European Union. At the balance sheet date, in light of the current process of IFRS endorsement in the European Union and the nature of the Company's activities, there is no difference between the IFRSs applied by the Company and the IFRSs endorsed by the European Union.

IFRSs comprise standards and interpretations accepted by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC").

7.2. Functional currency and presentation currency

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

8. Changes in accounting policies

The accounting policies adopted in preparation of the financial statements are consistent with those followed in preparation of the Company's annual financial statements for the year ended 31st December 2014, except for application of the following changes in standards and new interpretations binding for yearly periods beginning on 1st January 2015:

- Amendments to IAS 19 Defined Benefit Plans: Employee Contributions (issued on 21st November 2013) – effective for financial years beginning on or after 1st July 2014, in EU effective at the latest for financial years beginning on or after 1st February 2015;
- Annual Improvements to IFRSs 2010-2012 (issued on 12th December 2013) – some amendments effective for financial years beginning on or after 1st July 2014 and some effective prospectively for transactions occurring on or after 1st July 2014, in EU effective at the latest for financial years beginning on or after 1st February 2015;

Adoption of the amendments had no impact on the Company's financial position, its performance, and the scope of information presented in the Company's financial statements.

Adoption of the aforementioned amendments did not cause changes in comparable data.

The Company and Arctic Paper Group have not early adopted any other standard, interpretation or amendment that was issued but is not yet effective.

9. Amendments to existing standards and new regulations – issued but not yet effective

The following standards and interpretations were issued by the IASB or IFRIC but are not yet effective:

- Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations (issued on 6th May 2014) – effective for financial years beginning on or after 1st January 2016;
- Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization (issued on 12th May 2014) – effective for financial years beginning on or after 1st January 2016;
- Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants (issued on 30th June 2014) - effective for financial years beginning on or after 1st January 2016;
- Amendments to IAS 27 Equity Method in Separate Financial Statements (issued on 12th August 2014) – effective for financial years beginning on or after 1st January 2016;

- Annual Improvements to IFRSs 2012–2014 (issued on 25th September 2014) - effective for financial years beginning on or after 1st January 2016;
- Amendments to IAS 1 Disclosures (issued on 18th December 2014) – effective for financial years beginning on or after 1st January 2016,
- IFRS 14 Regulatory Deferral Accounts (issued on 30th January 2014) – The European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard– not yet endorsed by EU at the date of approval of these financial statements – effective for financial years beginning on or after 1st January 2016;
- Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception (issued on 18th December 2014) – not yet endorsed by EU at the date of approval of these financial statements - effective for financial years beginning on or after 1st January 2016;
- Amendments to IAS 7 Disclosure Initiative (issued on 29th January 2016) - not yet endorsed by EU at the date of approval of these financial statements – effective for financial years beginning on or after 1st January 2017.
- Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses (issued on 19th January 2016) - not yet endorsed by EU at the date of approval of these financial statements – effective for financial years beginning on or after 1st January 2017,
- IFRS 9 Financial Instruments (issued on 24th July 2014) – not yet endorsed by EU at the date of approval of these financial statements - effective for financial years beginning on or after 1st January 2018;
- IFRS 15 Revenue from Contracts with Customers (issued on 26th May 2014), including amendments to IFRS 15 (issued on 11th September 2015) – not yet endorsed by EU at the date of approval of these financial statements - effective for financial years beginning on or after 1st January 2018
- IFRS 16 Leases (issued on 13th January 2016) - decision about terms of performing particular steps resulting in endorsement of the standard has not yet been made by EFRAG – not yet endorsed by EU at the date of approval of these financial statements - effective for financial years beginning on or after 1st January 2019,
- Amendments to IFRS 10 and IAS 28 Sales or contributions of assets between an investor and its associate/joint venture (issued on 11th September 2014) – decision about terms of performing particular steps resulting in endorsement of the standard has not yet been made by EFRAG – not yet endorsed by EU at the date of approval of these financial statements - effective for financial years beginning on or after 1st January 2019,

The Management Board considers the possible impact of the above-mentioned changes on the accounting policies applied by the Company but does not expect that the introduction of the above-mentioned amendments and interpretations would have a significant impact on the Company.

(in PLN thousand)

10. Summary of significant accounting policies

10.1. Foreign currency translation

The presentation currency of the Company is Polish zloty, however, for the foreign branch the functional currency is Swedish crown. As on the balance sheet date, assets and liabilities of the foreign branch are translated into presentation currency of the Company using the foreign exchange rate prevailing for the given currency on the balance sheet date and its statement of comprehensive income is translated to functional currency using weighted average for particular period.

Exchange differences arising from the translation are recognized in other comprehensive income and accumulated in a separate item of equity – translation differences.

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

At the balance sheet date, assets and monetary liabilities expressed in currencies other than Polish zloty are translated to Polish zloty using the average NBP rate prevailing for the given currency at the end of the reporting period.

Exchange differences resulting from translation are recorded under financial income or financial costs, or – in cases defined in accounting policies – are capitalized in assets. Non-monetary foreign currency assets and liabilities recognized at historical cost are translated at the historical foreign exchange rate prevailing on the transaction date. Non-monetary foreign currency assets and liabilities recognized at fair value are translated into Polish zloty using the rate of exchange binding as at the date of re-measurement to fair value.

The following exchange rates were used for valuation purposes:

	31 grudnia 2015	31 grudnia 2014
USD	3,9011	3,5072
EUR	4,2615	4,2623
SEK	0,4646	0,4532
DKK	0,5711	0,5725
NOK	0,4431	0,4735
GBP	5,7862	5,4648
CHF	3,9394	3,5447

For valuation of assets and liabilities of the foreign branch as on 31st December 2015, the exchange rate SEK/PLN was used amounting to 0.4646 (31st December 2014: 0.4532). For valuation of the items of comprehensive income for the year ended 31st December 2015 the exchange rate SEK/PLN was used amounting to 0.4475 (for the year ended 31st December 2014: 0.4601) which is an arithmetic mean of NBP average exchange rates announced in 2015 (2014).

10.2. Property, plant and equipment

Property, plant and equipment are measured at purchase price or construction cost less accumulated depreciation and impairment losses.

The initial cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to working condition for its intended use. 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 the reporting period in which they were incurred.

Purchase price of property, plant & equipment from the clients is determined in its fair value as on the day the control started.

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

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

Type	Period
Buildings and constructions	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 derecognized upon disposal or when no future economic benefits are expected from its further use. Any gain or loss arising on derecognition of an asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in the income statement for the period in which derecognition took place.

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

10.3. Intangible assets

Intangible assets acquired separately or constructed (if they meet the recognition criteria for development costs) are measured on initial recognition at cost.

The cost of intangible assets acquired in a business combination is fair value as at the date of combination. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Expenditures incurred for internally generated intangible assets, excluding capitalized development costs, are not capitalized and are charged against profits in the year in which they are incurred.

The useful lives of intangible assets are assessed by the Company to be either finite or indefinite.

Intangible assets with finite lives are amortized over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization 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 amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the income statement in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives and those that are not in use are tested for impairment annually either individually or at the cash generating unit level.

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

Research and development costs

Research costs are expensed in the profit and loss account as incurred.
Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. Following the initial recognition, the historical cost model is applied, which requires the asset to be carried at cost less any accumulated amortization and accumulated impairment losses.
Any expenditure carried forward is amortized over the period of expected future sales from the related project.

A summary of the policies applied to the Company's intangible assets is as follows:

	License and Software	**Trademarks**
Useful lives	2 - 5 years	Indefinite
Method of amortization	2 - 5 years on a straight-line basis	Not amortized
Internally generated or acquired	Acquired	Acquired
Impairment testing	Annual assessment to determine whether there is any indication that an asset may be impaired.	Annually and where an indication of impairment exists.

After analyzing the relevant factors, for trademarks the Company does not define the limit of its useful life. The intention of the Company 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 Company does not amortize 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 this asset.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the income statement when the asset is derecognized.

10.4. Impairment of non-financial assets

An assessment is made at each reporting date to determine whether there is any indication that a component of non-financial non-current assets may be impaired. If such indication exists, or in case an annual impairment testing is required, the Company makes an estimate of the recoverable amount of that asset or the cash generating unit that the asset is a part of.

The recoverable amount of an asset or a cash-generating unit is the asset’s or cash-generating unit’s fair value less 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 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 losses of continuing operations are recognized in the income statement in the expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. 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 amortization, had no impairment loss been recognized for the asset in prior years.

Such reversal is recognized immediately in the income statement. After a reversal of an impairment loss is recognized, the depreciation (amortization) charge for the asset is adjusted in future periods to allocate the asset's carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life..

10.5. Borrowing costs

Borrowing costs are capitalized as part of the cost of fixed assets and intangible assets.

Borrowing costs include interest calculated using the effective interest rate method, finance charges in respect of finance leases and foreign exchange differences incurred in connection with the external financing to the extent that they are regarded as an adjustment to interest costs.

10.6. Shares in subsidiaries, affiliated entities and joint ventures

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

10.7. Financial assets

Financial assets are classified into one of the following categories:

- financial assets held to maturity,
- financial assets at fair value through profit or loss,
- loans and receivables,
- financial assets available for sale

Financial assets held to maturity are non-derivative financial assets quoted in active market with fixed or determinable payments and fixed maturities, which the Company has the positive intention and ability to hold until maturity, other than:

- those that upon initial recognition are designated as at fair value through profit or loss;
- those that are designated as available for sale; and
- those that meet the definition of loans and receivables.

Financial assets held to maturity are measured at amortized cost using the effective interest rate. Financial assets held to maturity are classified as non-current assets if they are falling due within more than 12 months from the balance sheet date.

A financial asset at fair value through profit or loss is a financial asset that meets either of the following conditions:

a) It is classified as held for trading. A financial asset is classified as held for trading if it is:

- acquired principally for the purpose of selling it in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is probability of short-term profit-taking; or
- a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument),

b) According to IAS 39 upon initial recognition it is designated as at fair value through profit or loss.

Financial assets at fair value through profit or loss are measured at fair value, which takes into account their market value as at the balance sheet date less of sales transaction expenses. Any change of these instruments is taken to income statement/statement of comprehensive income at financial income (favorable changes of fair value) or financial cost (unfavorable changes of fair value). When a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear without profound analysis that if a similar hybrid instrument was initially considered, the separation of the embedded derivative would be prohibited.

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

(i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on a different basis; or

(ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with the documented risk management strategy; or

(iii) the financial asset contains an embedded derivative that needs to be separately recorded.

As on 31st December 2015 and as on 31st December 2014, no financial assets have been designated as at fair value through profit and loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are classified as current assets, provided their maturity does not exceed 12 months after the balance sheet date. Loans and receivables with maturities exceeding 12 months from the balance sheet date are classified under non-current assets.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. Available-for-sale financial assets are measured at fair value, without deducting transaction costs, and taking into account their market value at the balance sheet date. Where no quoted market price is available and there is no possibility to determine their fair value using alternative methods, available-for-sale financial assets are measured at cost, adjusted for any impairment losses. Positive and negative differences between the fair value and acquisition cost, net of deferred tax, of financial assets available for sale (if quoted market price determined on the regulated market is available or if the fair value can be determined using other reliable method), are taken to other comprehensive cost. Any decrease in the value of financial assets available for sale resulting from impairment losses is taken to the income statement and recorded under financial cost.

Purchase and sale of financial assets is recognized at the transaction date. Initially, financial assets are recognized at acquisition cost, i.e. at fair value plus, for financial assets other than classified as financial assets as at fair value through profit and loss, transaction costs, directly attributable to acquisition.

Financial assets are derecognized if the Company loses its control over contractual rights attached to those assets, which usually takes place upon sale of the asset or where all cash flows attributed to the given asset are transferred to an independent third party.

10.8. Impairment of financial assets

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

10.8.1 Assets carried at amortized cost

If there is objective evidence that an impairment loss on loans granted and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced directly. The amount of the loss shall be recognized in profit or loss.
The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying amount of the asset does not exceed its amortized cost at the reversal date.

10.8.2 Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and has to be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

10.8.3 Available-for-sale financial assets

If there is objective evidence for impairment of an available-for-sale asset, then the amount of the difference between the acquisition cost (net of any principal payment and interest) and current fair value, less any impairment loss on that financial asset previously recognized in the profit or loss, is removed from equity and recognized in the income statement. Reversals of impairment losses on equity instruments classified as available for sale cannot be recognized in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed, with the amount of the reversal recognized in the income statement.

10.9. Embedded derivatives

Embedded derivatives are bifurcated from host contracts and treated as derivative financial instruments if all of the following conditions are met:

- the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract,
- a separate instrument with the same terms as embedded derivative would meet the definition of a derivative,
- the hybrid instrument is not recorded at fair value with gains and losses taken to profit or loss.

Embedded derivatives are recognized in a similar manner to that of separate instruments, which have not been designated as hedging instruments.
The extent to which, in accordance with IAS 39, the economic characteristics and risks of foreign currency embedded derivatives are closely related to those of the host contract covers circumstances where the currency of the host contract is also the common currency of purchase or sale of non-financial items on the market of a given transaction.

The Company assesses whether embedded derivatives are required to be separated from host contracts when the instrument is originally recognized.

10.10. Derivative financial instruments and hedges

The Company uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge against the risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.
Any gains or losses arising from changes in the fair value of derivatives that do not qualify for hedge accounting are taken directly to the net profit or loss for the period.
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 valuation patterns, which take into account noticeable 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 fair value of a recognized asset or liability, or
- cash flow hedges, when hedging exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a forecast transaction, or
- hedges of a net investment in a foreign operation.

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

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship, the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess 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 financial reporting periods for which it was designated.

10.10.1 Fair value hedges

Fair value hedge is a hedge of the exposure to changes in fair value of a recognized asset or liability or an unrecognized 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 gain 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 losses on the hedging instrument and hedged item are recognized in profit or loss.

For fair value hedges relating to items carried at amortized cost, the adjustment to carrying amount is amortized through the income statement over the remaining term to maturity of the instrument.

When an unrecognized 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 recognized as an asset or liability with a corresponding gain or loss recognized in profit or loss. The changes in the fair value of the hedging instrument are also recognized in profit or loss.

The Company discontinues hedge accounting if the hedging instrument expires, or is sold, terminated or exercised, or the hedge no longer qualifies for hedge accounting, or the Company revokes the designation. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortized to profit or loss. Amortization 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.

10.10.2 Cash flow hedges

Cash flow hedges are hedges securing for danger of cash flows fluctuations which can be attributed to a particular kind of risk connected with the given item of assets or a liability or with a planned investment of high probability, and which could influence profit or loss. The part of profit or loss connected with the hedging instrument which constitutes effective hedge is recognized directly in other comprehensive income and the non-effective part is recognized in profit or loss.

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

If a hedge of a forecast 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 recognized 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 taken directly to net profit or loss 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 gain or loss on the hedging instrument that has been recognized directly in other comprehensive income and accumulated in equity remains recognized in equity until the forecast transaction occurs. If the forecast transaction is no longer expected to occur, the net cumulative gain or loss recognized in equity is taken to net profit or loss for the period.

10.10.3 Hedges of a net investment in a foreign operation

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for similarly to cash flow hedges. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized in other comprehensive income and the ineffective portion is recognized in profit or loss. On disposal of the foreign operation, the net cumulative gain or loss that was previously recognized in other comprehensive income is taken to profit or loss as a correction resulting from reclassification.

10.11. Inventories

Inventories are valued at the lower of cost and net realizable value.

Purchase price or cost of formation 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:

Goods for resale - at cost determined on an average-weighted price method

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to finalize the sale.

10.12. Trade and other receivables

Trade receivables are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable.

If the effect of the time value of money is material, the value of receivables is determined by discounting the estimated future cash flows to present value using a discount rate that reflects current market assessments of the time value of money. Where discounting is used, any increase in the balance due to the passage of time is recognized as financial income.

Other receivables include particularly receivables on the grounds of input VAT.

Receivables from public authorities are presented within trade receivables and other receivables, except for corporate income tax receivables that constitute a separate item in the balance sheet.

10.13. Cash and cash equivalents

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

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

10.14. Interest-bearing loans, borrowings and bonds

All loans, borrowings and bonds are initially recognized at fair value net of transaction costs associated with obtaining the loan or borrowing.

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

Amortized cost is calculated by taking into account any transaction costs associated with obtaining the loan or borrowing, and any discount or premium received on the grounds of the liability.

Gains and losses are recognized in net profit or loss when the liabilities are derecognized from balance sheet as well as when they are measured with use of the effective interest rate method.

10.15. Trade and other payables

Short-term trade payables are carried at the amount due and payable.

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

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

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

- the designation eliminates or significantly reduces the inconsistent treatment from measuring the liabilities or recognizing gains or losses on them based on different regulations; or
- the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a document risk management strategy; or
- financial liability contains an embedded derivative that would need to be separately recorded

As on 31st December 2015 and 31st December 2014, no financial liabilities have been designated as at fair value through profit and loss.

Financial liabilities at fair value through profit or loss are measured at fair value, reflecting their market value at the balance sheet date less directly attributable transaction costs. Gains or losses on these liabilities are recognized in the income statement as finance income or cost.

Financial liabilities other than financial instruments at fair value through profit or loss, are measured at amortized cost, using the effective interest rate method.

A financial liability is derecognized when the obligation under the liability is fulfilled, cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement.

Other short-term liabilities include, in particular, liabilities to tax office in respect of personal income tax and social insurance liabilities.

Other non-financial liabilities are recognized at the amount due.

10.16. Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of the provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net 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 present value using a pre-tax discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as financial cost.

10.17. Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is recognized at fair value of the consideration received or receivable, net of Value Added Tax and discounts. The following specific recognition criteria must also be met before revenue is recognized.

10.17.1 Rendering of services

Revenue is recognized when material risk and benefits resulting from rendered services has been passed to the buyer and when the revenue amount can be credibly evaluated.

10.17.2 Interest

Revenue is recognized as interest accrues (using the effective interest rate method that is the rate that discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

10.17.3 Dividends

Revenue is recognized when the shareholders' rights to receive the payment are established.

10.18. Tax

10.18.1 Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted at the balance sheet date.

10.18.2 Deferred tax

For financial reporting purposes deferred income tax is recognized, using the liability method, regarding temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts.

Deferred tax liability is recognized for all taxable temporary differences:

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

- except where the deferred tax asset relating to the deductible 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 deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed 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 utilized. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized 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 assets and liabilities are measured at tax rates that are expected to apply in the period in which the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred income tax assets and deferred income tax liabilities are offset, if legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

10.18.3 Value added tax

Revenues, expenses, assets and liabilities are recognized net of the amount of value added tax except:

- Where the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case value added tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

(in PLN thousand)

- Receivables and payables, which are stated with the amount of value added tax included.

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

10.19. Earnings per share

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

11. Operating segments

Arctic Paper S.A. is a holding company, which provides services mainly for companies from the Group. The Company's activity represents one operating segment.

The table below presents geographical split of revenue from selling services as well as income from dividends and interest in the years 2014-2015

	Year ended 31 December 2015	*Year ended 31 December 2014*
Poland	56 166	19 546
Foreign countries, including:		
- Sweden	47 220	19 217
- other	3 320	16
	106 706	**38 779**

Above information about revenue is based on data regarding registered seats of Arctic Paper S.A. subsidiaries.

12. Revenues and expenses

12.1. Other operating income

	Year ended 31 December 2015	*Year ended 31 December 2014*
VAT correction	123	159
Other	275	111
	398	**270**

(in PLN thousand)

12.2. Other operating expenses

	Year ended 31 December 2015	*Year ended 31 December 2014*
Impaiment of non-current assets	51 664	18 590
Other	37	24
	51 701	**18 614**

12.3. Financial income

	Year ended 31 December 2015	*Year ended 31 December 2014*
Interest income on cash in bank	107	156
Foreign exchange gains	559	-
	666	**156**

12.4. Financial costs

	Year ended 31 December 2015	*Year ended 31 December 2014*
Interest on loans and other liabilities	4 022	1 860
Foreign exchange losses	-	1 147
Other financial costs	4	10
	4 026	**3 018**

(in PLN thousand)

12.5. Costs by nature

	Year ended 31 December 2015	*Year ended 31 December 2014*
Amortization and depreciation	266	110
Materials	196	123
External services	20 872	14 267
Taxes and charges	110	195
Salaries and wages	11 914	13 107
Employee benefits expense	2 690	3 172
Other	2 987	2 258
Total cost by nature	**39 035**	**33 232**
Cost by nature:		
whereof:		
Included in selling expenses	4 069	4 036
Included in administrative expenses	31 517	29 196
Included in cost of sold services	3 449	-

12.6. Depreciation / amortization and impairment losses included in income statement

	Year ended 31 December 2015	*Year ended 31 December 2014*
Depreciation of tangible assets	264	108
Amortization of intangible assets	2	2
	266	**110**
Related to:		
- continuing operations	266	110
- discontinued operations	-	-
	266	**110**

12.7. Employee benefits expenses

	Year ended 31 December 2015	*Year ended 31 December 2014*
Salaries	11 914	13 358
Social securities	1 941	1 911
Pension plans	749	1 010
Total employee benefits expense:	**14 604**	**16 279**

(in PLN thousand)

13. Income tax

13.1. Tax burdens

Major components of income tax burdens for the years ended 31st December 2015 and 31st December 2014 are as follows:

	Year ended 31 December 2015	*Year ended 31 December 2014*
Income statement		
Current tax expense	(167)	-
Allowance for deferred tax asset	-	(34)
Income tax presented in income statement	**(167)**	**(34)**

13.2. Reconciliation of the effective income tax rate

A reconciliation of income tax expense applicable to accounting profit (loss) before income tax at the statutory income tax rate to income tax expense at the Company's effective income tax rate for the years ended 31st December 2015 and 31st December 2014 is as follows:

	Year ended 31 December 2015	*Year ended 31 December 2014*
Profit (loss) before tax from continuing operations	5 077	(25 076)
Profit (loss) before tax from discontinued perations	-	-
Profit (loss) before tax	5 077	(25 076)
Income tax at statutory rate applicable in Poland of 19% (2014: 19%)	**965**	**(4 764)**
Adjustments related to current income tax from previous years		-
Unutilized tax losses from previous years	1 890	-
Dividend income	(12 418)	-
Adjustments for calculated and paid interest	(529)	360
Costs permanently non-deductible	609	189
Taxable costs, which were not accounted in the current year	(73)	(37)
Use of inactivated tax losses	(52)	(306)
Unrealized foreign exchange differences	(374)	205
Other unrecognized temporary income/costs	(48)	313
Impairment allowances	10 175	3 880
Difference on tax rates in particular countries	22	162
Tax at effective rate: the company does not pay income tax (2014: the company did not pay income tax)	-	-
Income tax liability recognized in the income statement	**167**	**-**
Income tax attributable to discontinued operations	-	-

(in PLN thousand)

Deferred tax asset is recognized for tax losses carried forward to the extent that realization of the related tax benefit through future taxable profits is probable.

The amounts and expiry dates of unused tax losses are as follows:

Year of expiration of tax losses	*Year ended 31 December 2015*	*Year ended 31 December 2014*
ended 31 December 2015	-	15 657
ended 31 December 2016	7 905	7 905
ended 31 December 2017	1 716	1 716
ended 31 December 2018	1 716	1 716
ended 31 December 2019 and later	9 948	-
Total	**21 285**	**26 994**

At the end of 2015, the 5-year period of possible use of 50% tax loss of 2010 and 50% tax loss of 2011 (PLN 15,657 thousand) expired.

(in PLN thousand)

13.3. Deferred income tax

Deferred income tax relates to the following:

	Balance sheet		*Income statement*	
	31 December 2015	*31 December 2014*	*Year ended 31 December 2015*	*Year ended 31 December 2014*
Deferred tax liability				
Accelerated amortization/depreciation	1	1	-	-
Interest income	7 207	7 394	(187)	(187)
Foreign exchange gains	561	-	561	(18)
Deferred tax liability gross	**7 769**	**7 395**		

	Balance sheet		*Income statement*	
	31 December 2015	*31 December 2014*	*Year ended 31 December 2015*	*Year ended 31 December 2014*
Deferred tax asset				
Accruals and prepayments	996	1 330	335	(322)
Interest on loans taken and bonds	3 519	2 889	(630)	(630)
Foreign exchange losses	-	187	187	(187)
Impairment allowances	-	-	-	34 774
Losses available for offsetting against future taxable income	4 044	7 717	3 673	330
Deferred tax asset gross	**8 559**	**12 124**		
Deferred tax charge			3 938	33 761
Deferred tax asset not recognized in the balance sheet	790	4 728	(3 938)	(33 761)
			-	-
Deferred tax liability net including:	-	1		
Deferred tax liability - continuing operations	-	1		

The Company has not recognized the deferred tax asset on the allowances of receivables, loans and shares in AP Investment GmbH and Arctic Paper Mochenwangen GmbH. A potential asset thereof would amount as on 31st December 2015 to PLN 10,120 thousand (as on 31st December 2014: PLN 3,880 thousand).

(in PLN thousand)

14. Earnings per share

Basic earnings per share amounts are calculated by dividing the net profit for the year attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the reporting period.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary shareholders (after deducting interest on the convertible redeemable preference shares) by the weighted average number of ordinary shares outstanding during the year adjusted by the weighted average number of ordinary shares that would be issued as a result of conversion of all dilutive equity instruments into ordinary shares.

Information regarding net profit and number of shares, which was the base for calculation of earnings per share is presented below:

	Year ended 31 December 2015	*Year ended 31 December 2014*
Profit (loss) from continuing operations	4 909	(25 110)
Profit (loss) from discontinued operations	-	-
Profit (loss) for the period	4 909	(25 110)
Number of ordinary shares - A series	50 000	50 000
Number of ordinary shares - B series	44 253 500	44 253 500
Number of ordinary shares - C series	8 100 000	8 100 000
Number of ordinary shares - E series	3 000 000	3 000 000
Number of ordinary shares - F series	13 884 283	13 884 283
Total number of shares	69 287 783	69 287 783
Weighted average number of shares	69 287 783	69 287 783
Weighted diluted number of shares	69 287 783	69 287 783
Profit per share (in PLN)	**0,07**	**(0,36)**
Diluted profit per share (in PLN)	**0,07**	**(0,36)**

15. Dividend paid and proposed

Dividends are paid out based on the net profit shown in the standalone annual financial statements of Arctic Paper S.A. prepared for statutory purposes, after covering losses carried forward from the previous years.

In accordance with the provisions of the Code of Commercial Companies, the company is required to create reserve capital for possible losses. Transferred to this capital category is 8% of profit for the given financial year recognized in the standalone financial statements of the company until such time as the balance of the reserve capital reaches at least one third of the share capital of the company. Appropriation of the reserve capital and other reserves depends on the decision of the Shareholders Meeting; however, the reserve capital in the amount of one third of the share capital may be used solely for the absorption of losses reported in the standalone financial statements of the parent company and shall not be used for any other purpose.

At the date of this statement, the Company had no preferred shares.

The possibility of payment of potential dividend by the Company to shareholders depends on the level of payments received from subsidiaries. Risks associated with the Company's ability to pay dividends have been described in Supplementary information to the Management Board report on Arctic Paper S.A. operations.

By the power of the Annex no 3 dated 20th December 2013 to the Loan Agreement dated 6th November 2012 concluded by Arctic Paper S.A. together with its subsidiaries, i.e. Arctic Paper Kostrzyn S.A., Arctic Paper Investment GmbH and Arctic Paper Mochenwangen GmbH and the consortium of banks (Bank Pekao S.A., Bank Zachodni WBK S.A. and mBank S.A.), Arctic Paper S.A. bound itself not to declare or pay dividend when a breach of the agreement occurred or in case declaration or payment of dividend would have caused a breach of the agreement.

(in PLN thousand)

In 2015 and 2014 the Company did not pay out dividend.

16. Property, plant and equipment

Year ended 31 December 2015	Land and buildings	Plant and equipment	Assets under construction	Total
Gross carrying amount at 1 January 2015	-	999	-	999
Additions	922	773	-	1 695
Disposals	-	-	-	-
Gross carrying amount at 31 December 2015	922	1 772	-	2 694
Accumulated depreciation and impairment at 1 January 2015	-	321	-	321
Depreciation charge for the period		264		264
Decrease of depreciation	-	-	-	-
Accumulated depreciation and impairment at 31 December 2015	-	586	-	586
Net carrying amount at 1 January 2015	-	678	-	678
Net carrying amount at 31 December 2015	922	1 186	-	2 108

Year ended 31 December 2014	Land and buildings	Plant and equipment	Assets under construction	Total
Gross carrying amount at 1 January 2014	-	573	-	573
Additions	-	537	-	537
Disposals	-	(111)	-	(111)
Gross carrying amount at 31 December 2014	-	999	-	999
Accumulated depreciation and impairment at 1 January 2014	-	310	-	310
Depreciation charge for the period	-	108	-	108
Decrease of depreciation		(97)		(97)
Accumulated depreciation and impairment at 31 December 2014	-	321	-	321
Net carrying amount at 1 January 2014	-	263	-	263
Net carrying amount at 31 December 2014	-	678	-	678

(in PLN thousand)

17. Intangible assets

Year ended 31 December 2015	Trademarks	Computer software	Total
Gross carrying amount at 1 January 2015	1 319	24	1 343
Additions	-	5	5
Disposals	-	-	-
Gross carrying amount at 31 December 2015	1 319	28	1 347
Accumulated amortization and impairment at 1 January 2015	-	24	24
Amortization charge for the period	-	2	2
Amortization decrease	-	-	-
Accumulated amortization and impairment at 31 December 2015	-	25	25
Net carrying amount at 1 January 2015	1 319	0	1 319
Net carrying amount at 31 December 2015	1 319	3	1 322

Year ended 31 December 2014	Trademarks	Computer software	Total
Gross carrying amount at 1 January 2014	1 319	24	1 343
Additions	-	-	-
Disposals	-	-	-
Gross carrying amount at 31 December 2014	1 319	24	1 343
Accumulated amortization and impairment at 1 January 2014	-	22	22
Amortization charge for the period		2	2
Amortization decrease	-	-	-
Accumulated amortization and impairment at 31 December 2014	-	24	24
Net carrying amount at 1 January 2014	1 319	2	1 321
Net carrying amount at 31 December 2014	1 319	0	1 319

The carrying amount of acquired rights to trademarks as on 31st December 2015 is PLN 1,319 thousand.

In accordance with IAS 36, the Company performs analyses of premises for impairment of trademarks, which were acquired from Trebruk AB in 2009, on a regular basis. As the result of the analysis performed, it has been confirmed that the trademark is not impaired and there is no need for a write-off.

(in PLN thousand)

18. Other assets

18.1. Investments in subsidiaries

	As at 31 December 2015	*As at 31 December 2014*
Arctic Paper Kostrzyn S.A.	442 535	442 535
Arctic Paper Munkedals AB	88 175	88 175
Rottneros AB	101 616	101 616
Arctic Paper Investment AB, whereof:	192 832	178 132
Arctic Paper Investment AB (shares)	*293 143*	*278 443*
Arctic Paper Investment AB (loans)	*82 709*	*82 709*
Arctic Paper Investment AB (impairment)	*(183 020)*	(183 020)
Arctic Paper Investment GmbH	0	0
Arctic Paper Investment GmbH (shares)	*120 030*	*101 683*
Arctic Paper Investment GmbH (impairment)	*(120 030)*	*(101 683)*
Arctic Paper Sverige AB	0	0
Arctic Paper Sverige AB (shares)	*11 721*	*11 721*
Arctic Paper Sverige AB (impairment)	*(11 721)*	(11 721)
Arctic Paper Danmark A/S	5 539	5 539
Arctic Paper Deutschland GmbH	4 977	4 977
Arctic Paper Norge AS	0	3 194
Arctic Paper Norge AB (shares)	*3 194*	3 194
Arctic Paper Norge AB (impairment)	*(3 194)*	0
Arctic Paper Italy srl	738	738
Arctic Paper UK Ltd.	522	522
Arctic Paper Polska Sp. z o.o.	406	406
Arctic Paper Benelux S.A.	387	387
Arctic Paper France SAS	326	326
Arctic Paper Espana SL	196	196
Arctic Paper Papierhandels GmbH	194	194
Arctic Paper East Sp. z o.o.	102	102
Arctic Paper Baltic States SIA	64	64
Arctic Paper Schweiz AG	61	61
Arctic Paper Finance AB	68	23
Arctic Paper Ireland Ltd.	3	3
Total	**838 741**	**827 190**

The value of shares in subsidiaries was based on historical cost.

In 2015, the Company wrote off shares in Arctic Paper Norge AS in the full amount of PLN 3,194 thousand and increased its share in Arctic Paper Investment AB by PLN 14,700 thousand as well as in Arctic Paper Finance AB by PLN 45 thousand.

(in PLN thousand)

18.2. Other financial assets

	Effective percentage rate %	*Maturity date*	*As at 31 December 2015*
Current			
Loan granted to Arctic Paper Munkedals AB			
- amount: PLN 12,490 thousand			
- interest rate: Wibor 3M + 2.3%	4,02%	31.12.2016	12 683
Loan granted to Arctic Paper Investment GmbH			
- amount: EUR 4,603 thousand			
- interest rate: Euribor 3M + 2%	1,87%	31.12.2015	19 926
Loan granted to Arctic Paper Investment GmbH			
- amount: EUR 2,389 thousand			
- interest rate: Euribor 3M + 5%	4,87%	31.12.2015	10 343
Impairment of assets			(30 269)
- of Arctic Paper Investment GmbH			
			12 683
Non-current			
Loan granted to Arctic Paper Investment AB (interest)			
- interest rate: Wibor 6M + 4,8%	6,57%	31.12.2016	82 709
Loan granted to Arctic Paper Investment GmbH	1,87%	31.12.2015	6 539
- amount: EUR 990 thousand			
- interest rate: Wibor 3M + 2%			
Impairment of assets			
- of Arctic Paper Investment GmbH			(6 539)
Loan treated as investment in subsidiary			(82 709)
			0
			12 683

(in PLN thousand)

The situation of other financial assets in 2014 presented as below:

	Effective percentage rate %	*Maturity date*	*As at 31 December 2014*
Current			
Loan granted to Arctic Paper Munkedals AB - amount: PLN 20,176 thousand - interest rate: Wibor 3M + 2.3%	4,36%	31.12.2014	20 403
Loan granted to Arctic Paper Investment GmbH - amount: EUR 4,603 thousand - interest rate: Euribor 3M + 2%	2,08%	31.12.2015*	24 407
Loan granted to Arctic Paper Investment GmbH - amount: EUR 2,389 thousand - interest rate: Euribor 3M + 5%	5,08%	31.12.2015*	10 951
Short-term deposit - amount: EUR 5,000 thousand - interest rate: 0.32%	0,32%	20.05.2015	21 312
Impairment of assets - of Arctic Paper Investment GmbH			(35 359)
			41 714
Non-current			
Loan granted to Arctic Paper Investment AB (interest) - interest rate: Wibor 6M + 4,8%	6,85%	31.12.2016	82 709
Loan granted to Arctic Paper Investment GmbH - amount: EUR 990 thousand - interest rate: Wibor 3M + 2%	2,08%	30.06.2014	6 273
Impairment of assets - of Arctic Paper Investment GmbH			(6 273)
Loan treated as investment in subsidiary			(82 709)
			0
			41 714

* possibility of early payment on demand

(in PLN thousand)

18.3. Other non-financial assets

	As at 31 December 2015	*As at 31 December 2014*
Insurance fees	146	135
Rental charges and deposits	302	277
Pension receivable	926	697
Accrued income	1 795	192
VAT refundable	309	155
Prepayments	3	54
Other	311	130
Total	**3 792**	**1 640**
- long-term	1 103	869
- short-term	2 689	771
	3 792	**1 640**

19. Inventories

The Company does not have inventories and did not have any inventories in 2014.

20. Trade and other receivables

	Note	*As at 31 December 2015*	*As at 31 December 2014*
Trade receivables from related parties	*29*	88 756	50 311
Trade receivables from non-related entities		277	164
Total receivables gross		**89 033**	**50 475**
Impairment		(7 105)	(5 155)
Total receivables net		**81 928**	**45 320**

As on 31st December 2015, the Company performed a write-off on Arctic Paper Investment GmbH short-term receivables in the amount of PLN 7,105 thousand.

Terms of transaction with related parties are presented in note 29.

(in PLN thousand)

21. Cash and cash equivalents

Cash at bank earns interest at floating rates based on daily bank deposit rates.

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

The fair value of cash and cash equivalents as at 31st December 2015 is PLN 9,435 thousand (31st December 2014: PLN 18,607 thousand).

Balance of cash and cash equivalents presented in statement of cash flows consisted of the following items:

	As at 31 December 2015	*As at 31 December 2014*
Cash at bank and in hand	9 435	9 230
Short-term deposits	-	9 377
	9 435	**18 607**

22. Share capital, share premium and other reserve capital

22.1. Share capital

Issued capital	*As at 31 December 2015*	*As at 31 December 2014*
Series A ordinary shares	50	50
Series B ordinary shares	44 253	44 253
Series C ordinary shares	8 100	8 100
Series E ordinary shares	3 000	3 000
Series F ordinary shares	13 884	13 884
	69 288	**69 288**

Ordinary shares issued and fully covered	*Date of registration of capital increase*	*Volume*	*Value*
Issued on 30 April 2008	2008-05-28	50 000	50
Issued on 12 September 2008	2008-09-12	44 253 468	44 253
Issued on 20 April 2009	2009-06-01	32	0
Issued on 30 July 2009	2009-11-12	8 100 000	8 100
Issued on 1 March 2010	2010-03-17	3 000 000	3 000
Issued on 20 December 2012	2013-01-09	10 740 983	10 741
Issued on 10 January 2013	2013-01-29	283 947	284
Issued on 11 February 2013	2013-03-18	2 133 100	2 133
Issued on 6 March 2013	2013-03-22	726 253	726
As at 31 December 2015		**69 287 783**	**69 288**

22.1.1 Nominal value of shares

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

22.1.2 Purchase of treasury shares

On 28th June 2012, the Company's Ordinary Shareholders Meeting adopted a resolution (current report 12/2012), in which it authorizes the Management Board of the Company to purchase the Company's treasury shares for the purpose of its redemption and decrease of the share capital or for the purpose of further relocation or resale of the treasury shares on conditions and in the course determined as below:

- The total amount of purchased shares shall not exceed 5,500,000 (five million five hundred thousand) shares;
- the total amount assigned by the Company for purchase of treasury shares shall not exceed the amount of the reserve capital established for this purpose, that is PLN 27,500,000 comprising the price of purchased shares together with the costs of purchase;
- the price for which the Company will purchase its treasury shares shall not be lower than PLN 1.00 nor higher than PLN 10.00 per share;
- the authorization for purchase of the Company's treasury shares is valid for 60 (sixty) months since the day the resolution has been resolved;
- purchase of treasury shares may occur with the mediation of investment company, in stock and non-stock transactions.

The Management Board, acting for the benefit of the Company, upon the opinion of the Supervisory Board, may:

- stop the purchase of shares before 60 days starting from the day the resolution was resolved or before the funds assigned for the purchase have been fully utilized,
- refrain from purchase in part or in whole.

In case of a decision being made as mentioned above, the Management Board is bound to submit the information regarding the decision for public knowledge in a manner determined in the Public Offering Act.

The conditions of purchase of treasury shares for the purpose of its redemption or further relocation or resale shall be in compliance with the principles of Commission Regulation (EC) No 2273/2003 dated 22 December 2003.

After the process of purchase of the Company's treasury shares, in compliance with conditions determined by the Shareholders Meeting, has ended, the Management Board will call a Shareholders Meeting for the purpose of adopting resolution regarding redemption of the Company's treasury shares and adequate decrease of share capital, or – in case of assignment of the purchased shares to further relocation or resale – the Management Board will make a decision regarding further relocation or resale of treasury shares. Redemption of the Company's treasury shares and adequate decrease of share capital is acceptable also before the end of the process of purchase of the Company's treasury shares.

The Ordinary Shareholders Meeting, acting by virtue of article 362 § 2 item 3 of the Code of Commercial Codes, 348 § 1 in connection with article 396 § 4 and 5 of the Code of Commercial Companies, for the purpose of financing of the purchase of the Company's treasury shares on conditions and within confines of the authorization granted by the resolution, decides to establish a reserve capital under the name of „Fundusz Programu Odkupu" for the purchase of treasury shares. The amount of "Fundusz Programu Odkupu" is set to PLN 27,500,000. "Fundusz Programu Odkupu" is assigned to purchase of treasury shares together with the cost of the purchase. The Ordinary Shareholders Meeting decides to distinguish the "Fundusz Programu Odkupu" from the reserve capital.

(in PLN thousand)

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

22.1.3 Shareholders with significant shareholding

	As at 31 December 2015	*As at 31 December 2014*
Thomas Onstad (directly and indirectly)		
Share in capital	68,13%	8,44%
Share of votes	68,13%	8,44%
Nemus Holding AB (indirectly Thomas Onstad)		
Share in capital	57,74%	59,69%
Share of votes	57,74%	59,69%
Others		
Share in capital	31,87%	31,87%
Share of votes	31,87%	31,87%

22.2. Foreign branch operations currency translation

Functional currency of the Company's foreign branch is Swedish crown.

As at the balance sheet date, assets and liabilities of foreign branch are translated into functional currency using the foreign exchange rate prevailing for the given currency at the balance sheet date and its statement of comprehensive income is translated to functional currency using weighted average for particular period. The exchange differences arising on the translation are placed in other comprehensive income and accumulated in equity and recognized in a separate line.

On 31st December 2015, foreign exchange differences from translation of foreign branch recognized in equity amounted to PLN 290 thousand (as on 31st December 2014: PLN 517 thousand). Exchange rate differences arising from translation of foreign branch recognized in statement of comprehensive income amounted to PLN -227 thousand in 2015 and PLN 325 thousand in 2014.

22.3. Share premium

Share Premium was originally created in 2009 from the excess of emission value above the nominal value in the amount of PLN 40,500 thousand, less of issuance cost recognized as a reduction of share premium, and was subject to changes in the following years as a result of further shares' issuances and profit write-offs.

In 2010 the share premium capital was increased by PLN 27,570 thousand resulting from the excess of emission value above the nominal value of Series E shares issued.

In 2010, share premium was created from the statutory distributions of the profits generated in previous years amounting to PLN 8,734 thousand, as a result of distribution of Arctic Paper S.A. financial result, pursuant to article 396 of the Code of Commercial Companies (8% of profit for the given financial year).

In 2011 a share premium was founded to cover loss in the amount of PLN 7,771 thousand as a result of distribution of Arctic Paper S.A. financial result, pursuant to article 396 of the Code of Commercial Companies (8% of profit for the given financial year).

In 2012 a share premium was founded to cover loss in the amount of PLN 2,184 thousand as a result of distribution of Arctic Paper S.A. financial result, pursuant to article 396 of the Code of Commercial Companies (8% of profit for the given financial year).

On 28th June 2012, the Company’s Ordinary Shareholders Meeting adopted a resolution regarding decreasing the share capital of the Company by the amount of PLN 498,631,500 that is from the amount of PLN 554,035,000 to the amount of PLN 55,403,500 by decreasing the face value of each share by the amount PLN 9.00 that is from the amount of PLN 10.00 to the amount of PLN 1.00. The amount of the decrease shall be assigned to the Company’s supplementary capital without payment to shareholders.

In 2013 share premium increased by the amount of PLN 70,702 thousand resulting from issue of shares (the excess of issue price over face value) and by the amount of PLN 1,082 thousand resulting from distribution of financial result for 2012.

According to Resolution no 8 of the Ordinary Shareholders Meeting dated 26th June 2014, the Company’s loss of PLN 179,910 for 2013 was covered from share premium.

According to Resolution no 8 of the Ordinary Shareholders Meeting dated 29th June 2015, the Company’s loss of PLN 25,110 for 2014 was covered from share premium.

As on 31st December 2015 the total value of the Company's share premium is PLN 447,641 thousand (31st December 2014: PLN 472,751 thousand).

22.4. Other reserves

As on 31st December 2015, total value of other reserves of the Company amounts to PLN 147,871 thousand – it has not changed compared to 31st December 2014.

22.5. Retained earnings (losses) and limits to its distribution

In accordance with the provisions of the Code of Commercial Companies, the company is required to create reserve capital for possible losses. Transferred to this capital category is 8% of profit for the given financial year recognized in the standalone financial statements of the company until the reserve capital reaches at least one third of the share capital of the company. Appropriation of the reserve capital and other reserves depends on the decision of the General Meeting of Shareholders; however, the reserve capital in the amount of one third of the share capital may be used solely for the absorption of losses reported in the standalone financial statements of the company ad shall not be used for any other purpose.

By the power of the Annex no 3 dated 20th December 2013 to the Loan Agreement dated 6th November 2012 concluded by Arctic Paper S.A. together with its subsidiaries, i.e. Arctic Paper Kostrzyn S.A., Arctic Paper Investment GmbH and Arctic Paper Mochenwangen GmbH and the consortium of banks (Bank Pekao S.A., Bank Zachodni WBK S.A. and mBank S.A.), Arctic Paper S.A. bound itself not to declare or pay dividend when a breach of the agreement occurred or in case declaration or payment of dividend would have caused a breach of the agreement.

As on 31st December 2015 there are no other limitation concerning the payout of the dividend.

23. Acquisition of subsidiaries

In 2015 the Company did not acquire any new shares in subsidiaries.

24. Interest-bearing loans and borrowings

	Effective percentage rate %	*Maturity date*	*As at 31 December 2015*	*As at 31 December 2014*
Current				
Loan from Thomas Onstad of 4.000 kEUR, interest rate: 8% (interest)		09.07.2017	117	117
Loan from Arctic Paper Finance AB of 10.265 kEUR, interest rate: 6% (interest)		30.09.2019	671	433
			788	**551**
Długoterminowe				
Loan from Arctic Paper Kostrzyn S.A. in PLN, interest rate: Wibor 3M + 3.42%	5,14%	31.12.2017	142 566	165 495
Loan from Thomas Onstad of 4.000 kEUR, interest rate: 8%	8,00%	09.07.2017	17 046	17 049
Loan from Arctic Paper Finance AB of 10.265 kEUR, interest rate: 6%	6,00%	30.09.2019	43 744	42 623
			203 357	**225 168**

*in October 2015 the loan from Arctic Paper Finance AB has been increased by capitalisation of interest in the amount of PLN 265 thousand

In the year ended 31st December 2015, the Company did not take any other bank loans or borrowings.

(in PLN thousand)

25. Provisions

As on 31st December 2015, the Company made provisions in the amount of PLN 1,151 thousand (2014: PLN 1,692 thousand), which were presented as long-term liabilities in the amount of PLN 1,151 thousand (2014: PLN 866 thousand) and short-term liabilities in the amount of PLN 0 thousand (2014: PLN 826 thousand). This amount fully includes the provision for employee benefits.

26. Trade and other payables, other liabilities and accruals

26.1. Trade and other payables, other liabilities (short – term)

	Note	*As at 31 December 2015*	*As at 31 December 2014*
Trade payables			
to related parties	*29*	5 200	3 257
to non-related parties		64 393	32 769
		69 593	**36 026**
Other current liabilities			
to employees		908	810
to state budget		761	909
Other liabilities		19	15
		1 688	**1 733**

Terms and conditions of financial liabilities presented above:

- for terms and conditions of transactions with related parties, please see note 29.
- Other liabilities are interest free and the usual payment term is 30 days.

(in PLN thousand)

26.2. Accruals

	As at 31 December 2015	*As at 31 December 2014*
Accrued expenses for:		
Vacation liability to employees	835	863
Bonuses to employees of the Group	300	3 036
Audit, legal and consulting services	119	176
Accrued commissions to external agents	244	517
Transportation cost	1 791	-
Other	18	15
Total	**3 307**	**4 606**
- long-term	-	-
- short-term	3 307	4 606
	3 307	**4 606**

	As at 31 December 2015	*As at 31 December 2014*
Prepaid income for:		
Remuneration for guarantee of the Arctic Paper Kostrzyn credit facility	781	1 529
Total	**781**	**1 529**
- long-term	103	776
- short-term	678	753
	781	**1 529**

Prepaid income relates to remuneration of Arctic Paper S.A. on the grounds of commission on guarantee of a loan granted to Arctic Paper Kostrzyn S.A. The total amount of commission, according to concluded agreement, equals 1% of the granted loan amount, that is PLN 3,590 thousand.

27. Contingent liabilities

As of 31st December 2015, the Company had contingent liabilities of PLN 364,575 thousand.

Contingent liabilities of the Company are the following:

- Contingent liabilities of the Company related to the guarantee of the bank loan in the amount of PLN 359,000 thousand granted to Arctic Paper Kostrzyn S.A. on 6th November 2012 by a consortium of banks: Polska Kasa Opieki S.A., Bank Zachodni WBK S.A. and mBank S.A. (the loan agreement was described in details in note 32.1 to annual consolidated financial statements for 2012).
- a guarantee in favor of Södra Cell International AB, the supplier of pulp, in the total amount of SEK 12,000 thousand (PLN 5,575 thousand),

(in PLN thousand)

27.1. Tax settlements

Tax settlements, together with other areas of legal compliance (e.g. customs or foreign exchange law) are subject to review and investigation by a number of authorities, which are entitled to impose severe fines, penalties and interest charges.

The lack of reference to well established regulations in Poland results in a lack of clarity and integrity in the regulations. Frequent contradictions in legal interpretations both within government bodies and between companies and government bodies create uncertainties and conflicts. These facts create tax risks in Poland that are substantially more significant than those typically found in countries with more developed tax systems.

Tax authorities may examine the accounting records within up to five years after the end of the year in which the final tax payments were to be made. Consequently, the Company may be subject to additional tax liabilities, which may arise as a result of additional tax audits.

The Company believes that adequate provisions have been recorded for known and quantifiable risks in this regard as on 31st December 2015.

28. Reasons for discrepancies between changes resulting from statement of financial position and changes resulting from cash flow statement

The discrepancies between changes resulting from statement of financial position and changes resulting from cash flow statement are presented in the table below:

	As at 31 December 2015	*As at 31 December 2014*
Change in trade receivables, other short-term non-financial assets and other long-term non-financial assets, resulting from the report on financial situation	(38 760)	3 884
Change in trade and other receivables, reulting from the cash flow statement	(38 760)	(1 093)
	-	**4 977**

(in PLN thousand)

29. Related party disclosures

The table below presents the total values of transactions with related parties entered into during current and prior year:

Related party		*Sales to related parties*	*Purchases from related parties*	*Interest – financial income*	*Interest – financial costs*	*Receivables from related parties*	*including overdue*	*Loan receivables*	*Payables*	*including due after maturity*	*Loan liabilities*
Parent company:											
Trebruk AB	2015										
	2014										
Nemus Holding AB	2015		1 370			2 874			517		
	2014	23	1 366			3 154					
Thomas Onstad	2015				1 427						17 163
	2014				1 431						17 167
Subsidiaries:											
Arctic Paper Kostrzyn S.A.	2015	22 110	194			65 389			31		142 566
	2014	19 419	9 417	-		36 229			2 761		165 495
Arctic Paper Munkedals AB	2015	9 545	-	813		5 013		12 683			
	2014	10 176	59	985		2 346		20 403	-		
Arctic Paper Mochenwangen GmbH	2015	278		310		-	-				
	2014	641				4 105	4 105				
Arctic Paper Grycksbo AB	2015	9 828	94			7 757			790		
	2014	10 111	175			3 202			-		
Arctic Paper Investment GmbH	2015			1 115		7 105	7 105	34 556			
	2014			1 194		1 152	1 152	41 631			
Arctic Paper Investment AB	2015			123				82 709	353		
	2014			-		-		82 709	344		
Arctic Paper Deutschland GmbH	2015	17	243						56		
	2014	19	187						69		
Arctic Paper Sverige AB	2015	34	3 045			209			2 479		
	2014	21	25			1					
Arctic Paper Danmark A/S	2015	16				313					
	2014	12									

(in PLN thousand)

Related party		*Sales to related parties*	*Purchases from related parties*	*Interest – financial income*	*Interest – financial costs*	*Receivables from related parties*	*including overdue*	*Loan receivables*	*Payables*	*including due after maturity*	*Loan liabilities*
Arctic Paper Italia srl	2015	5		-							
	2014	6		13				-			
Arctic Paper Espana SL	2015	2									
	2014	3									
Arctic Paper Norge AS	2015	10	20			215			-		
	2014	7	25						25		
Arctic Paper Benelux S.A.	2015	11	1 456			12			339		
	2014	12				1					
Arctic Paper Baltic States SIA	2015	3				2					
	2014	2				2					
Arctic Paper France SAS	2015	11	19			-					
	2014	35				14					
Arctic Paper Papierhandels GmbH	2015	10							-		
	2014	10							11		
Arctic Paper UK Limited	2015	11				11					
	2014	13				12					
Arctic Paper Schweiz AG	2015	8	2 317						587		
	2014	8									
Arctic Paper Polska Sp. z o.o.	2015	14	29	-					1		
	2014	11	90	140							
Arctic Paper Ireland Ltd	2015	-									
	2014	-									
Arctic Paper East Sp. z o.o.	2015	6				18					
	2014	2		-		17					
Arctic Paper Finance AB	2015	-			2 563	30			46		44 415
	2014	1				29			45		43 056

(in PLN thousand)

Related party		*Sales to related parties*	*Purchases from related parties*	*Interest – financial income*	*Interest – financial costs*	*Receivables from related parties*	*including overdue*	*Loan receivables*	*Payables*	*including due after maturity*	*Loan liabilities*
Other:											
Progressio s.c.	2015		211						25		
	2014		81						19		
Total	**2015**	**41 919**	**8 998**	**2 361**	**3 990**	**88 951**	**7 105**	**129 947**	**5 225**	**-**	**204 145**
impairment		**(275)**	**-**	**(1 425)**	**-**	**(7 105)**	**-**	**(34 556)**	**-**	**-**	**-**
presented as shares in subsidiaries		**-**	**-**	**-**	**-**	**-**	**-**	**(82 709)**	**-**	**-**	**-**
2015 after impairment and presentation as shares in subsidiaries		**41 644**	**8 998**	**936**	**3 990**	**81 846**	**7 105**	**12 683**	**5 225**	**-**	**204 145**
	2014	**40 532**	**11 425**	**2 331**	**1 431**	**50 265**	**5 257**	**144 743**	**3 268**	**-**	**225 718**
impairment		**(635)**	**-**	**(1 194)**	**-**	**(5 155)**	**-**	**(41 631)**	**-**	**-**	**-**
presented as shares in subsidiaries		**-**	**-**	**-**	**-**	**-**	**-**	**(82 709)**	**-**	**-**	**-**
2014 after impairment and presentation as shares in subsidiaries		**39 897**	**11 425**	**1 137**	**1 431**	**45 110**	**5 257**	**20 403**	**3 268**	**-**	**225 718**

(in PLN thousand)

29.1. The ultimate parent

The direct parent of the Group is Nemus Holding AB. The parent company of the whole Group is Incarta Development SA.

There were no transactions between the Company and aforementioned companies during the years ended 31st December 2015 and 31st December 2014, apart for the transactions with Nemus Holding AB, as shown in note 29.

29.2. Terms and conditions of transactions with related parties

Related party transactions are made at an arm's length.

29.3. Loans granted to members of the Management Board

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

29.4. Remuneration of the Company's key management personnel

29.4.1 Remuneration paid or due to the members of the Management Board and the members of the Supervisory Board

Key management personnel as on 31st December 2015 comprised five persons: President of the Management Board and four Members of the Management Board.

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

	As at 31 December 2015	*As at 31 December 2014*
Management Board		
Employee benefits (salaries and social securities)	5 402	6 832
Supervisory Board		
Employee benefits (salaries and social securities)	1 444	1 483
Total	**6 846**	**8 315**

(in PLN thousand)

30. Information about the contract and remuneration of auditor or audit company

The table below presents the remuneration of the audit company, paid or payable for the year ended 31st December 2015 and 31st December 2014 by category of services:

Type of service	*As at 31 December 2015*	*As at 31 December 2014*
Obligatory year-end audit	352 *	317 *
Obligatory year-end audit (branch office)	25	32
Tax consultancy	-	-
Other services	5	39
Razem	**381**	**388**

* relates to Ernst&Young Audyt Polska Spółka z ograniczona odpowiedzialnością Sp.k.

31. Financial risk management objectives and policies

The Company's principal financial instruments comprise cash at bank and in hand as well as loans granted and received within the Group. The main purpose of these financial instruments is to raise finance for the Company's operations. The Company has various other financial instruments such as trade receivables and trade payables, which arise directly from operations.

The principle used by Company currently and throughout the whole period covered by these financial statements is not to put financial instruments on market.

The main risks arising from the Company's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk.

The Management Board reviews and agrees policies for managing each of these risks and they are summarized below. The Company has also been monitoring risk of market prices of holding financial instruments.

31.1. Interest rate risk

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

Interest rate risk – sensitivity to changes

The following table demonstrates the sensitivity of profit before tax to a reasonably possible change in interest rates, with all other variables held constant (in connection with liabilities with floating interest rate). Impact on equity or total comprehensive income has not been presented.

(in PLN thousand)

	Increase / Decrease in percentage points	*Impact on gross result for 2015*
As at 31 December 2015		
PLN	+1%	(1 301)
EUR	+1%	346
SEK	+1%	-
PLN	-1%	1 301
EUR	-1%	(346)
SEK	-1%	-

	Increase / Decrease in percentage points	*Impact on gross result for 2014*
As at 31 December 2014		
PLN	+1%	(1 453)
EUR	+1%	346
SEK	+1%	-
PLN	-1%	1 453
EUR	-1%	(346)
SEK	-1%	-

31.2. Foreign currency risk

The Company is exposed to transactional foreign currency risk. The risk mainly arises as a result of receiving by the Company dividends from subsidiaries - and to a lower extent – as a result of purchase transactions made in currencies other than its functional currency.

The following table demonstrates the sensitivity of profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Company's equity on reasonably possible change of exchange rate of foreign currencies with all other variables held constant.

	Increase/ decrease of currency rate	*Impact on gross result*	*Impact on total comprehensive income*
31 December 2015 – SEK	+1%	94	(3)
	-1%	(94)	3
31 December 2015 – EUR	+1%	410	-
	-1%	(410)	-
31 December 2015 – USD	+1%	513	-
	-1%	(513)	-
31 December 2014 – SEK	+1%	156	(92)
	-1%	(156)	92
31 December 2014 – EUR	+1%	193	-
	-1%	(193)	-
31 December 2014 – USD	+1%	17	-
	-1%	(17)	-

(in PLN thousand)

31.3. Credit risk

With respect to credit risk arising from other financial assets of the Company, which comprise cash and cash equivalents and receivables, the Company's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

There are no significant concentrations of credit risk within the Company, except for the related parties.

31.4. Liquidity risk

The Company monitors its risk to 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 guaranteed bank loans.

The table below summarizes the maturity profile of the Company's financial liabilities at 31st December 2015 and 31st December 2013 based on contractual undiscounted payments.

31 December 2015	*On demand*	*< 3 months*	*3 to 12 months*	*1 to 5 years*	*> 5 years*	*Total*
Interest-bearing borrowings and loans	-	117	671	249 203	-	249 991
Other liabilities	-	71 281	-	-	-	71 281
	-	**71 399**	**671**	**249 203**	**-**	**321 273**

31 December 2014	*On demand*	*< 3 months*	*3 to 12 months*	*1 to 5 years*	*> 5 years*	*Total*
Interest-bearing borrowings and loans	-	117	433	277 641	-	278 192
Other liabilities	-	37 759	-	-	-	37 759
	-	**37 876**	**433**	**277 641**	**-**	**315 951**

Moreover, the Company had contingent liabilities as on 31st December 2015 – they were described in details in note 28 to the hereby financial statements.

31.5. Financial instruments

The Company has material financial instruments of bank agreements related to cash deposits and loan agreements with related parties.

31.6. Fair value

Fair value is the amount at which an asset could be bought or sold on market conditions, and a liability settled in a current transaction between willing and well informed parties.

31.7. Derivatives

Derivative is a financial instrument or other contract covered by IAS 39 compliant with the following three conditions:

- Its value changes alongside with the change of specified interest rate, price of financial instrument, price of commodity, currency exchange rate, price index or ratio index, credit rating or credit index, or other variable, assuming that in case of non-financial variable, that variable is not specific for a counterparty (sometimes called the underlying);

(in PLN thousand)

- It does not require primary net investment or requires primary net investment lesser than for other sorts of contracts that are expected to have similar reactions to market fluctuations, and
- Its realization is going to take place in the future.

Fair value of derivative financial instruments is recognized within assets in the balance sheet when the fair value is positive or within liabilities, when the fair value is negative. Profit or loss on change in the fair value of derivatives is recognized in the income statement under finance income or finance costs.

The Company is entitled to designate selected derivatives as a hedge under hedge accounting.

31.8. Fair values of each class of financial instruments

The table below presents a comparison by category of assets and liabilities of carrying amounts and fair values of all of the Company's financial instruments.

		Book value		*Fair value*		
	Category compliant with IAS 39	*As at 31 December 2015*	*As at 31 December 2014*	*As at 31 December 2015*	*As at 31 December 2014*	*Level of fair value compliant with IFRS 13*
Financial Assets						
Trade and other receivables	*L&R*	89 033	50 475	89 033	50 475	*3*
Other financial assets (short-term)	*L&R*	12 683	41 714	12 683	41 714	*3*
Financial liabilities						
Interest bearing bank loans and borrowings	*OFLMAAC*	204 145	225 718	204 145	225 718	*3*
Trade and other financial payables	*OFLMAAC*	69 593	36 026	69 593	36 026	*3*

Abbreviations used:

L&R – *Loans and receivables,*

OFLMAAC – *Other financial liabilities measured at amortized cost.*

Financial instruments recognized at level 3 of fair value framework, according to IFRS 13, are valued with the use of discounted cash flows method, taking into account the market interest rate.

(in PLN thousand)

31.9. Interest rate risk

The following table sets out the carrying amount, by maturity, of the Company's financial instruments that are exposed to interest rate risk:

31 December 2015 *Variable interest*	*<1 year*	*1–2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*total*
Loans granted to related parties	12 683 -	-	-	-	-	-	12 683
Loans received from related paries	- -	-	-	142 566	-	-	142 566
	12 683	**-**	**-**	**142 566**	**-**	**-**	**155 249**

31 December 2015 *Fixed rate*	*<1 year*	*1–2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*total*
Loans received from related parties	-	-	17 046	43 744	-	-	60 790
	-	**-**	**17 046**	**43 744**	**-**	**-**	**60 790**

In connection with recognized complete write-off, the Company concluded that loans granted to Arctic Paper Investment GmbH (together with interest) are not burdened with interest rate risk.

31 December 2014 *Variable interest*	*<1 year*	*1–2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*total*
Loans granted to related parties	20 403 -	-	-	-	-	-	20 403
Loans received from related paries	- -	-	-	-	165 495	-	165 495
	20 403	**-**	**-**	**-**	**165 495**	**-**	**185 898**

31 December 2014 *Fixed rate*	*<1 year*	*1–2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*total*
	-	-	-	17 049	42 623	-	59 672
	-	**-**	**-**	**17 049**	**42 623**	**-**	**59 672**

(in PLN thousand)

32. Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.
The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31st December 2015 and 31st December 2014.

	As at 31 December 2015	*As at 31 December 2014*
Interest-bearing borrowings, loans and bonds	204 145	225 718
Trade payables and other liabilities	71 281	37 794
Less of cash and cash equivalents	(9 435)	(18 607)
Net debt	265 991	244 905
Equity	668 959	664 893
Equity and debt	934 950	909 798
Leverage ratio	**0,28**	**0,27**

The Company monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Company's policy is to keep the gearing ratio between 10% and 30%. The Company includes interest bearing loans and borrowings, trade and other payables, less cash and cash equivalents within net debt.

33. Employment structure

The average employment in the Company in the years ended 31st December 2015 and 31st December 2014 was as follows:

	As at 31 December 2015	*As at 31 December 2014*
Management Board	5	5
Finance	4	2
Sales and marketing	7	7
Logistics	22	10
Administration	5	5
IT	1	1
Total	**44**	**30**

34. Events after the reporting period

From the balance sheet date until the day of publishing of the hereby financial statements, there were no events which might have a material impact on the Company's financial and capital position.

(in PLN thousand)

Signatures of the Management Board Members

Position	Name and surname	Date	Signature
President of the Management Board Chief Executive Officer	Wolfgang Lübbert	21 March 2016	
Member of the Management Board Chief Financial Officer	Małgorzata Majewska-Śliwa	21 March 2016	
Member of the Management Board Chief Procurement Officer	Jacek Łoś	21 March 2016	
Member of the Management Board Chief Operating Officer	Per Skoglund	21 March 2016	
Member of the Management Board Sales Director	Michał Sawka	21 March 2016	