



# **ARCTIC PAPER CAPITAL GROUP**

Consolidated quarterly report  
for Q3 2019

# Table of contents

<b>Table of contents</b>	<b>2</b>	Material off-balance sheet items .....	35
<b>Introduction</b>	<b>3</b>	Information on court and arbitration proceedings and proceedings pending before public administrative authorities .....	35
Information on the report.....	3	Information on transactions with related parties executed on non-market terms and conditions .....	35
Definitions and abbreviations .....	3	<b>Interim abbreviated consolidated financial statements</b>	<b>37</b>
Forward looking statements .....	8	Interim abbreviated consolidated profit and loss statement.....	37
Forward looking statements relating to risk factors .....	8	Interim abbreviated consolidated statement of total comprehensive income .....	38
<b>Selected consolidated financial data</b>	<b>10</b>	Interim abbreviated consolidated statement of financial position .....	39
<b>Selected standalone financial data</b>	<b>11</b>	Interim abbreviated consolidated cash flow statement.....	40
<b>Description of the business of the Arctic Paper Group</b>	<b>13</b>	Interim abbreviated consolidated statement of changes in equity .....	41
General information .....	13	<b>Interim abbreviated standalone financial statements</b>	<b>42</b>
Capital Group structure .....	14	Interim abbreviated standalone profit and loss statement.....	42
Changes in the capital structure of the Arctic Paper Group .....	14	Interim abbreviated standalone income statement.....	43
Shareholding structure.....	14	Interim abbreviated standalone statement of financial position .....	44
<b>Summary of the consolidated financial results</b>	<b>16</b>	Interim abbreviated standalone cash flow statement.....	45
Selected items of the consolidated profit and loss account .....	16	Interim abbreviated standalone statement of changes in equity .....	46
Selected items of the consolidated statement of financial position .....	20	<b>Additional explanatory notes</b>	<b>47</b>
Selected items of the consolidated cash flow statement.....	24	1. General information .....	47
<b>Summary of standalone financial results</b>	<b>25</b>	2. Composition of the Group.....	48
Selected items of standalone profit and loss statement.....	25	3. Management and supervisory bodies .....	49
Selected items of the standalone statement of financial position .....	27	4. Approval of the financial statements.....	50
Selected items of the standalone cash flow statement.....	28	5. Basis of preparation of the interim abbreviated consolidated financial statements.....	50
<b>Relevant information and factors affecting the financial results and the assessment of the financial standing</b>	<b>29</b>	6. Significant accounting principles (policies) .....	51
Key factors affecting the performance results .....	29	7. Seasonality.....	54
Unusual events and factors .....	30	8. Information on business segments .....	54
Impact of changes in Arctic Paper Group's structure on the financial result.....	30	9. Discontinued operations .....	59
Other material information .....	30	10. Dividend paid and proposed.....	60
Information on market trends .....	32	11. Earnings/(loss) per share .....	60
Factors influencing the financial results in the perspective of the next quarter .....	33	12. Interest-bearing loans, borrowings and bonds.....	61
Risk factors.....	33	13. Share capital .....	62
<b>Supplementary information</b>	<b>34</b>	14. Financial instruments.....	63
The Management Board position on the possibility to achieve the projected financial results published earlier.....	34	15. Financial risk management objectives and policies .....	68
Changes in holdings of the Issuer's shares or rights to shares by persons managing and supervising Arctic Paper S.A. ....	34	16. Capital management .....	68
Information on sureties and guarantees .....	34	17. Contingent liabilities and contingent assets .....	68
		18. Legal claims .....	68
		19. CO2 emission rights .....	68
		20. Government grants and operations in the Special Economic Zone .....	70
		21. Material events after the reporting period .....	71

# Introduction

## Information on the report

This Consolidated Quarterly Report for Q3 2019 was prepared in accordance with the Regulation of the Minister of Finance of 29 March 2018 on current and periodic information provided by issuers of securities and on conditions under which information required by legal regulations of a third country may be recognised as equivalent (Journal of Laws of 2018, item 757) and a part of the interim abbreviated consolidated financial statements in accordance with International Accounting Standard No. 34.

The abbreviated consolidated financial statements do not comprise all information and disclosures required in the annual consolidated financial statements which are subject to mandatory audit and therefore they should be read in conjunction with the consolidated financial statements of the Group for the year ended on 31 December 2018.

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

This consolidated quarterly report presents data in PLN, and all figures, unless otherwise indicated, are given in thousand PLN.

## Definitions and abbreviations

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

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

Arctic Paper, Company, Issuer, Parent Entity, AP	Arctic Paper Spółka Akcyjna with its registered office in Kostrzyn nad Odrą, Poland (until 8 October 2019 the Company had its registered office in Poznań, Poland)
Capital Group, Group, Arctic Paper Group, AP Group	Capital Group comprised of Arctic Paper Spółka Akcyjna and its subsidiaries as well as joint ventures
Arctic Paper Kostrzyn, AP Kostrzyn, APK	Arctic Paper Kostrzyn Spółka Akcyjna with its registered office in Kostrzyn nad Odrą, Poland
Arctic Paper Munkedals, AP Munkedals, APM	Arctic Paper Munkedals AB with its registered office in Munkedal Municipality, Västra County, Sweden
Arctic Paper Mochenwangen, AP Mochenwangen, APMW	Arctic Paper Mochenwangen GmbH with its registered office in Mochenwangen, Germany
Arctic Paper Grycksbo, AP Grycksbo, APG	Arctic Paper Grycksbo AB with its registered office in Kungsvagen, Grycksbo, Sweden
Paper Mills	Arctic Paper Kostrzyn, Arctic Paper Munkedals, Arctic Paper Grycksbo
Arctic Paper Investment AB, API AB	Arctic Paper Investment AB with its registered office in Göteborg, Sweden
Arctic Paper Investment GmbH, API GmbH	Arctic Paper Investment GmbH with its registered office in Wolpertswende, Germany
Arctic Paper Verwaltungs	Arctic Paper Verwaltungs GmbH with its registered office in Wolpertswende, Germany
Arctic Paper Immobilienverwaltungs	Arctic Paper Immobilienverwaltungs GmbH & Co. KG with its registered office in Wolpertswende, Germany

Kostrzyn Group	Arctic Paper Kostrzyn Spółka Akcyjna with its registered office in Kostrzyn nad Odrą and EC Kostrzyn Sp. z o.o. with its registered office in Kostrzyn nad Odrą
Mochenwangen Group	Arctic Paper Investment GmbH, Arctic Paper Mochenwangen GmbH, Arctic Paper Verwaltungs GmbH, Arctic Paper Immobilienverwaltungs GmbH & Co.KG
Grycksbo Group	Arctic Paper Grycksbo AB and Arctic Paper Investment AB
Sales Offices	Arctic Paper Papierhandels GmbH with its registered office in Vienna (Austria)
	Arctic Paper Benelux SA with its registered office in Oud-Haverlee (Belgium)
	Arctic Paper Danmark A/S with its registered office in Greve (Denmark)
	Arctic Paper France SA with its registered office in Paris (France)
	Arctic Paper Deutschland GmbH with its registered office in Hamburg (Germany)
	Arctic Paper Italia Srl with its registered office in Milan (Italy)
	Arctic Paper Baltic States SIA with its registered office in Riga (Latvia)
	Arctic Paper Norge AS with its registered office in Oslo (Norway)
	Arctic Paper Polska Sp. z o.o. with its registered office in Warsaw (Poland)
	Arctic Paper España SL with its registered office in Barcelona (Spain)
	Arctic Paper Finance AB with its registered office in Munkedal (Sweden)
	Arctic Paper Schweiz AG with its registered office in Derendingen (Switzerland)
	Arctic Paper UK Ltd with its registered office in London (UK)
	Arctic Paper East Sp. z o.o. with its registered office in Kostrzyn nad Odrą (Poland)
Arctic Paper Finance AB	Arctic Paper Finance AB with its registered office in Göteborg (Sweden)
Rottneros, Rottneros AB	Rottneros AB with its registered office in Sunne (Sweden)
Rottneros Group, Rottneros AB Group	Rottneros AB with its registered office in Söderhamn (Sweden); Rottneros Bruk AB with its registered office in Rottneros (Sweden) Utansjo Bruk AB with its registered office in Söderhamn (Sweden); Vallviks Bruk AB with its registered office in Vallvik (Sweden); Rottneros Packaging AB with its registered office in Sunne (Sweden); SIA Rottneros Baltic with its registered office in Kuldiga (Latvia)
Pulp Mills	Rottneros Bruk AB in Rottneros, Sweden; Vallviks Bruk AB with its registered office in Vallvik (Sweden)
Rottneros Purchasing Office	SIA Rottneros Baltic with its registered office in Kuldiga in Latvia
Office Kalltorp	Kalltorp Kraft Handelsbolaget with its registered office in Trollhattan (Sweden)
Nemus Holding AB	Nemus Holding AB with its registered office in Göteborg (Sweden)

Thomas Onstad	The Issuer's core shareholder, holding directly and indirectly over 50% of shares in Arctic Paper S.A.; a member of the Issuer's Supervisory Board
Management Board, Issuer's Management Board, Company's Management Board, Group's Management Board	Management Board of Arctic Paper S.A.
Supervisory Board, Issuer's Supervisory Board, Company's Supervisory Board, Group's Supervisory Board, SB	Supervisory Board of Arctic Paper S.A.
GM, General Meeting, Issuer's General Meeting, Company's General Meeting	General Meeting of Arctic Paper S.A.
EGM, Extraordinary General Meeting, Issuer's Extraordinary General Meeting, Company's Extraordinary General Meeting	Extraordinary General Meeting of Arctic Paper S.A.
Articles of Association, Issuer's Articles of Association, Company's Articles of Association	Articles of Association of Arctic Paper S.A.
SEZ	Kostryńsko-Słubicka Special Economic Zone
Court of Registration	District Court Poznań-Nowe Miasto i Wilda in Poznań
Warsaw Stock Exchange, WSE	Giełda Papierów Wartościowych w Warszawie Spółka Akcyjna
KDPW, Depository	Krajowy Depozyt Papierów Wartościowych Spółka Akcyjna with its registered office in Warsaw
PFSA	Polish Financial Supervision Authority
SFSA	Swedish Financial Supervisory Authority, equivalent to PFSA
NASDAQ in Stockholm, Nasdaq	Stock Exchange in Stockholm, Sweden
CEPI	Confederation of European Paper Industries
EURO-GRAPH	The European Association of Graphic Paper Producers
Eurostat	European Statistical Office
GUS	Central Statistical Office of Poland
NBSK	Northern Bleached Softwood Kraft
BHKP	Bleached Hardwood Kraft Pulp

#### Definitions of selected terms and financial indicators and abbreviations of currencies

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

EBITDA	Operating profit from continuing operations plus depreciation and amortisation and impairment charges (Earnings Before Interest, Taxes, Depreciation and Amortisation)
EBITDA profitability, EBITDA margin	Ratio of operating profit plus depreciation and amortisation and impairment charges to sales revenues from continuing operations
Gross profit margin	Ratio of gross profit (loss) to sales revenues from continuing operations
Sales profitability ratio, net profit margin	Ratio of net profit (loss) to sales revenues
Return on equity, ROE	Ratio of net profit (loss) to equity income
Return on assets, ROA	Ratio of net profit (loss) to total assets
EPS	Earnings Per Share, ratio of net profit to the weighted average number of shares
BVPS	Book Value Per Share, Ratio of book value of equity to the number of shares
Debt-to-equity ratio	Ratio of total liabilities to equity
Equity to fixed assets ratio	Ratio of equity to fixed assets
Interest-bearing debt-to-equity ratio	Ratio of interest-bearing debt and other financial liabilities to equity
Net debt-to-EBITDA ratio	Ratio of interest-bearing debt minus cash to EBITDA from continuing operations
EBITDA-to-interest coverage ratio	Ratio of EBITDA to interest expense from continuing operations
Current liquidity ratio	Ratio of current assets to short-term liabilities
Quick ratio	Ratio of current assets minus inventory and short-term accruals, prepayments and deferred costs to short-term liabilities
Acid test ratio	Ratio of total cash and cash equivalents to short-term liabilities
DSI	Days Sales of Inventory, ratio of inventory to cost of sales multiplied by the number of days in the period
DSO	Days Sales Outstanding, ratio of trade receivables to sales revenues from continuing operations multiplied by the number of days in the period
DPO	Days Payable Outstanding, Ratio of trade payables to cost of sales from continuing operations multiplied by the number of days in the period
Operating cycle	DSI + DSO
Cash conversion cycle	Operating cycle – DPO
FY	Financial year
Q1	1st quarter of the financial year
Q2	2nd quarter of the financial year
Q3	3rd quarter of the financial year

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

**Other definitions and abbreviations**

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

**Forward looking statements**


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

**Forward looking statements relating to risk factors**

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

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





**Selected consolidated  
and standalone  
financial data**

## Selected consolidated financial data

	Period from 01.01.2019 to 30.09.2019 PLN'000	Period from 01.01.2018 to 30.09.2018 PLN'000	Period from 01.01.2019 to 30.09.2019 EUR'000	Period from 01.01.2018 to 30.09.2018 EUR'000
Continuing operations				
Sales revenues	2 377 452	2 389 573	552 615	562 375
Operating profit (loss)	178 253	150 183	41 433	35 345
Gross profit (loss)	152 807	122 432	35 518	28 814
Net profit (loss) from continuing operations	119 150	91 187	27 695	21 460
Discontinued operations				
Profit (loss) from discontinued operations	-	-	-	-
Net profit (loss) for the financial year	119 150	91 187	27 695	21 460
Net profit (loss) for the financial year attributable to the shareholders of the Parent Entity	72 214	45 551	16 785	10 720
Net cash flows from operating activities	224 904	68 123	52 277	16 032
Net cash flows from investing activities	(74 201)	(114 739)	(17 247)	(27 003)
Net cash flows from financing activities	(94 615)	(12 112)	(21 992)	(2 851)
Change in cash and cash equivalents	56 088	(58 728)	13 037	(13 821)
Weighted average number of ordinary shares	69 287 783	69 287 783	69 287 783	69 287 783
Diluted weighted average number of ordinary shares	69 287 783	69 287 783	69 287 783	69 287 783
EPS (in PLN/EUR)	1,04	0,66	0,24	0,15
Diluted EPS (in PLN/EUR)	1,04	0,66	0,24	0,15
Mean PLN/EUR exchange rate*			4,3022	4,2491

	As at September 2019 PLN'000	As at 31 December 2018 PLN'000	As at September 2019 EUR'000	As at 31 December 2018 EUR'000
Assets	2 155 512	2 156 174	492 846	501 436
Long-term liabilities	535 786	441 381	122 505	102 647
Short-term liabilities	707 571	850 245	161 782	197 731
Equity	912 154	861 193	208 559	200 277
Share capital	69 288	69 288	15 842	16 113
Number of ordinary shares	69 287 783	69 287 783	69 287 783	69 287 783
Diluted number of ordinary shares	69 287 783	69 287 783	69 287 783	69 287 783
Book value per share (in PLN/EUR)	13,16	12,43	3,01	2,89
Diluted book value per share (in PLN/EUR)	13,16	12,43	3,01	2,89
Declared or paid dividend (in PLN/EUR)	-	13 857 557	-	3 222 688
Declared or paid dividend per share (in PLN/EUR)	-	0,20	-	0,05
PLN/EUR exchange rate at the end of the period**	-	-	4,3736	4,3000

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

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

## Selected standalone financial data

	Period from 01.01.2019 to 30.09.2019 PLN'000	Period from 01.01.2018 to 30.09.2018 PLN'000	Period from 01.01.2019 to 30.09.2019 EUR'000	Period from 01.01.2018 to 30.09.2018 EUR'000
Sales revenues	52 726	69 287	12 255	16 306
Operating profit (loss)	29 702	42 002	6 904	9 885
Gross profit (loss)	19 084	28 979	4 436	6 820
Net profit (loss) from continuing operations	19 083	28 675	4 436	6 749
Net profit (loss) for the financial year	19 083	28 675	4 436	6 749
Net cash flows from operating activities	58 422	(90 408)	13 580	(21 277)
Net cash flows from investing activities	(1 618)	(199)	(376)	(47)
Net cash flows from financing activities	(60 544)	59 884	(14 073)	14 093
Change in cash and cash equivalents	(3 740)	(30 723)	(869)	(7 231)
Weighted average number of ordinary shares	69 287 783	69 287 783	69 287 783	69 287 783
Diluted weighted average number of ordinary shares	69 287 783	69 287 783	69 287 783	69 287 783
EPS (in PLN/EUR)	0,28	0,41	0,06	0,10
Diluted EPS (in PLN/EUR)	0,28	0,41	0,06	0,10
Mean PLN/EUR exchange rate*			4,3022	4,2491

	As at 30 September 2019 PLN'000	As at 31 December 2018 PLN'000	As at 30 September 2019 EUR'000	As at 31 December 2018 EUR'000
Assets	951 494	992 611	217 554	230 840
Long-term liabilities	143 077	82 807	32 714	19 257
Short-term liabilities	252 563	374 679	57 747	87 135
Equity	555 855	535 124	127 093	124 447
Share capital	69 288	69 288	15 842	16 113
Number of ordinary shares	69 287 783	69 287 783	69 287 783	69 287 783
Diluted number of ordinary shares	69 287 783	69 287 783	69 287 783	69 287 783
Book value per share (in PLN/EUR)	8,02	7,72	1,83	1,80
Diluted book value per share (in PLN/EUR)	8,02	7,72	1,83	1,80
Declared or paid dividend (in PLN/EUR)	-	13 857 557	-	3 222 688
Declared or paid dividend per share (in PLN/EUR)	-	0,20	-	0,05
PLN/EUR exchange rate at the end of the period**			4,3736	4,3000

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

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



**Management Board's Report  
from operations of the  
Arctic Paper Capital Group  
and of Arctic Paper S.A.**

to the report for Q3 2019

# Description of the business of the Arctic Paper Group

## General information

The Arctic Paper Group is a leading European producer in terms of production volume of bulky book paper, offering a broad range of products in the segment and one of the leading producers of high-quality graphic paper in Europe. The Group produces numerous types of uncoated and coated wood-free paper as well as wood-containing uncoated paper for printing houses, paper distributors, book and magazine publishing houses and the advertising industry. In connection with acquisition of the Rottneros Group in December 2012, the Group's assortment was expanded with the production of pulp. As on the day hereof, the Arctic Paper Group employs app. 1,530 people in its Paper Mills, Pulp Mills, companies dealing in paper distribution and sales, and a company dealing in timber procurement for pulp production. Our paper mills are located in Poland and Sweden and have total production capacity of more than 685,000 metric tonnes of paper per year. The Pulp Mills are located in Sweden and have total production capacity of 400,000 tonnes of pulp per year. The Group has fourteen Sales Offices which handle distribution and marketing of products offered by the Group providing access to all European markets, including Central and Eastern Europe. Our consolidated sales revenues for three quarters of 2019 amounted to PLN 2,377 million.

Arctic Paper S.A. is a holding company set up in April 2008. The Parent Entity is entered in the register of entrepreneurs of the National Court Register maintained by the District Court in Poznań – Nowe Miasto i Wilda, 8th Commercial Division of the National Court Register, under KRS number 0000306944. The Parent Entity holds statistical number REGON 080262255. On 8 October 2019, the court registered change of the Company's registered office to Kostrzyn nad Odrą. The Company also has a foreign branch in Göteborg, Sweden.

## Group Profile

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

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

- production and sales of pulp,
- generation of electricity,
- transmission of electricity,
- electricity distribution,
- heat production,
- heat distribution,
- logistics services,
- paper distribution.

## Our production facilities

As on 30 September 2019, as well as on the day hereof, the Group owned the following Paper Mills:

- the Paper Mill in Kostrzyn nad Odrą (Poland) has the production capacity of about 315,000 tonnes per year (after completion of the project increasing production capacity at APK in August 2019) and mainly produces uncoated wood-free paper for general printing use such as printing books, brochures and forms, and for producing envelopes and other paper products;
- the Paper Mill in Munkedal (Sweden) has the production capacity of about 160,000 tonnes per year and mainly produces fine uncoated wood-free paper used primarily for printing books and high-quality brochures;
- the Paper Mill in Grycksbo (Sweden) has the production capacity of about 210,000 tonnes per year (after the closure of one paper machine in H1 2019) and produces coated wood-free paper used for printing maps, books, magazines, posters and printing of advertising materials.

As on 30 September 2019, as well as on the day hereof, the Group owned the following Pulp Mills:

- the Pulp Mill in Rottneros (Sweden) has the production capacity of about 160,000 tonnes annually and produces mainly two types of mechanical pulp: groundwood and chemo thermo mechanical pulp (CTMP);
- the Pulp Mill in Vallvik (Sweden) has the annual production capacity of about 240,000 tonnes and produces two types of long-fibre sulphate pulp: fully bleached sulphate pulp and unbleached sulphate pulp. The most of Vallvik Pulp Mill production is known as NBSK pulp. The unbleached sulphate pulp produced by the mill is characterised with a high level of purity. The high quality of the pulp which had been developed for years, made Vallvik a leader in supplies of such pulp. The pulp is used among others to produce transformers and in cable industry.

### **Our products**

The product assortment of the Arctic Paper Group covers:

- Uncoated wood-free paper,
- Coated wood-free paper,
- Uncoated wood-containing paper,
- Sulphate pulp,
- Mechanical fibre pulp.

A detailed description of the Group's assortment is included in the consolidated annual report for 2018.

### **Capital Group structure**

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

Details on the organisation of the Arctic Paper S.A. Capital Group along with identification of the consolidated entities are specified in note 2 in the abbreviated consolidated financial statements, further below in this quarterly report.

### **Changes in the capital structure of the Arctic Paper Group**

In Q3 2019, no changes in the capital structure of the Arctic Paper Group occurred.

### **Shareholding structure**

Nemus Holding AB, a company under Swedish law (a company owned indirectly by Mr Thomas Onstad), is the majority shareholder of Arctic Paper S.A., holding (as at 30 September 2019) 40,381,449 shares of our Company, which constitutes 58.28% of its share capital and corresponds to 58.28% of the total number of votes at General Meetings. Thus Nemus Holding AB is the parent entity of the Issuer.

Additionally, Mr Thomas Onstad, an indirect shareholder of Nemus Holding AB, holds directly 6,223,658 shares representing 8.98% of the total number of shares in the Company, and via another entity – 600,000 shares accounting for 0.87% of the total number of shares of the Issuer. Mr Thomas Onstad's total direct and indirect holding in the capital of Arctic Paper S.A. as at 30 September 2019 was 68.13% and has not changed until the date hereof.

Shareholder	Number of shares	Share in the share capital [%]	as at 18.11.2019	
			Number of votes	Share in the total number of votes [%]
<b>Thomas Onstad</b>	<b>47 205 107</b>	<b>68,13%</b>	<b>47 205 107</b>	<b>68,13%</b>
- indirectly via	40 981 449	59,15%	40 981 449	59,15%
<i>Nemus Holding AB</i>	40 381 449	58,28%	40 381 449	58,28%
<i>other entity</i>	600 000	0,87%	600 000	0,87%
- directly	6 223 658	8,98%	6 223 658	8,98%
<b>Other</b>	<b>22 082 676</b>	<b>31,87%</b>	<b>22 082 676</b>	<b>31,87%</b>
<b>Total</b>	<b>69 287 783</b>	<b>100,00%</b>	<b>69 287 783</b>	<b>100,00%</b>
Treasury shares	-	0,00%	-	0,00%
<b>Total</b>	<b>69 287 783</b>	<b>100,00%</b>	<b>69 287 783</b>	<b>100,00%</b>

Shareholder	Number of shares	Share in the share capital [%]	as at 30.09.2019	
			Number of votes	Share in the total number of votes [%]
<b>Thomas Onstad</b>	<b>47 205 107</b>	<b>68,13%</b>	<b>47 205 107</b>	<b>68,13%</b>
- indirectly via	40 981 449	59,15%	40 981 449	59,15%
<i>Nemus Holding AB</i>	40 381 449	58,28%	40 381 449	58,28%
<i>other entity</i>	600 000	0,87%	600 000	0,87%
- directly	6 223 658	8,98%	6 223 658	8,98%
<b>Other</b>	<b>22 082 676</b>	<b>31,87%</b>	<b>22 082 676</b>	<b>31,87%</b>
<b>Total</b>	<b>69 287 783</b>	<b>100,00%</b>	<b>69 287 783</b>	<b>100,00%</b>
Treasury shares	-	0,00%	-	0,00%
<b>Total</b>	<b>69 287 783</b>	<b>100,00%</b>	<b>69 287 783</b>	<b>100,00%</b>

Shareholder	Number of shares	Share in the share capital [%]	as at 3.09.2019	
			Number of votes	Share in the total number of votes [%]
<b>Thomas Onstad</b>	<b>47 205 107</b>	<b>68,13%</b>	<b>47 205 107</b>	<b>68,13%</b>
- indirectly via	40 981 449	59,15%	40 981 449	59,15%
<i>Nemus Holding AB</i>	40 381 449	58,28%	40 381 449	58,28%
<i>other entity</i>	600 000	0,87%	600 000	0,87%
- directly	6 223 658	8,98%	6 223 658	8,98%
<b>Other</b>	<b>22 082 676</b>	<b>31,87%</b>	<b>22 082 676</b>	<b>31,87%</b>
<b>Total</b>	<b>69 287 783</b>	<b>100,00%</b>	<b>69 287 783</b>	<b>100,00%</b>
Treasury shares	-	0,00%	-	0,00%
<b>Total</b>	<b>69 287 783</b>	<b>100,00%</b>	<b>69 287 783</b>	<b>100,00%</b>

The data in the above tables is provided as of the date hereof and as of the publication date of the report for H1 2019 and as at 30 September 2019.

## Summary of the consolidated financial results

### Selected items of the consolidated profit and loss account

<i>PLN'000</i>	Q3 2019	Q2 2019	Q3 2018	YTD 2019	YTD 2018	Change % Q3 2019/ Q2 2019	Change % Q3 2019/ Q2 2018	Change % YTD 2019/ YTD 2018
<b>Sales revenues</b>	<b>794 363</b>	<b>762 517</b>	<b>816 531</b>	<b>2 377 452</b>	<b>2 389 573</b>	<b>4,2</b>	<b>(2,7)</b>	<b>(0,5)</b>
<i>of which:</i>								
<i>Sales of paper</i>	563 801	537 633	591 808	1 674 778	1 724 190	4,9	(4,7)	(2,9)
<i>Sales of pulp</i>	230 562	224 884	224 723	702 674	665 384	2,5	2,6	5,6
Profit (loss) on sales	156 085	149 062	158 146	457 031	451 980	4,7	(1,3)	1,1
<i>% of sales revenues</i>	19,65	19,55	19,37	19,22	18,91	0,1 p.p.	0,3 p.p.	0,3 p.p.
Selling and distribution costs	(81 487)	(83 381)	(85 064)	(249 624)	(253 987)	(2,3)	(4,2)	(1,7)
Administrative expenses	(24 520)	(21 016)	(21 497)	(66 376)	(63 346)	16,7	14,1	4,8
Other operating income	9 048	34 882	15 452	71 046	35 216	(74,1)	(41,4)	101,7
Other operating expenses	(8 524)	(9 671)	(8 037)	(33 824)	(19 679)	(11,9)	6,1	71,9
<b>EBIT</b>	<b>50 602</b>	<b>69 877</b>	<b>59 001</b>	<b>178 253</b>	<b>150 183</b>	<b>(27,6)</b>	<b>(14,2)</b>	<b>18,7</b>
<i>% of sales revenues</i>	6,37	9,16	7,23	7,50	6,28	(2,8) p.p.	(0,9) p.p.	1,2 p.p.
<b>EBITDA</b>	<b>71 512</b>	<b>90 529</b>	<b>82 030</b>	<b>243 122</b>	<b>218 444</b>	<b>(21,0)</b>	<b>(12,8)</b>	<b>11,3</b>
<i>% of sales revenues</i>	9,00	11,87	10,05	10,23	9,14	(2,9) p.p.	(1,0) p.p.	1,1 p.p.
Financial income	377	(189)	299	1 321	1 234	(300,0)	26,1	7,0
Financial expenses	(8 587)	(9 814)	(7 017)	(26 767)	(28 985)	(12,5)	22,4	(7,7)
<b>Gross profit (loss)</b>	<b>42 392</b>	<b>59 874</b>	<b>52 283</b>	<b>152 807</b>	<b>122 432</b>	<b>(29,2)</b>	<b>(18,9)</b>	<b>24,8</b>
Income tax	(7 830)	(12 176)	(9 509)	(33 657)	(31 245)	(35,7)	(17,7)	7,7
<b>Net profit (loss)</b>	<b>34 562</b>	<b>47 697</b>	<b>42 774</b>	<b>119 150</b>	<b>91 187</b>	<b>(27,5)</b>	<b>(19,2)</b>	<b>30,7</b>
<i>% of sales revenues</i>	4,35	6,26	5,24	5,01	3,82	(1,9) p.p.	(0,9) p.p.	1,2 p.p.
Net profit (loss) attributable to the shareholders of the Parent Entity	26 317	31 644	25 359	72 214	45 551	(16,8)	3,8	58,5

Due to an adjustment of a previous years' error concerning perpetual usufruct right, discontinued presentation of discontinued activity and change to the presentation of revenues from pulp sales (described in note 6.4 of these interim abbreviated consolidated financial statements), the above data for Q3 2018 and YTD2018 is not the data disclosed in the Consolidated Report for Q3 2018 of the Arctic Paper Group.

#### Comments of the President of the Management Board Michał Jarczyński on the results of Q3 2019

During the third quarter of 2019, the Arctic Paper Group reached a turnover of PLN 794.4 million (compared to PLN 816.5 million in Q3 2018) with an EBITDA of PLN 71.5 million (vs PLN 82.0 million). On the consolidated level, the result remains relatively stable: while pulp prices fell during the period, market conditions for paper improved. The combination stabilizes our results as the fluctuations offset each other.

A new factoring agreement of PLN 30 million was concluded for the Kostrzyn mill. Since the end of the period, we have agreed to an extension of a revolving credit facility worth EUR 19.8 million and PLN 20 million with interest rate and other provisions unchanged. Stable finances, and the fact that we received an additional dividend of PLN 21.8 million from Rottneros in November, improve our financial situation.

The paper segment generated a turnover of PLN 563.8 million (vs PLN 591.8 million) with an EBITDA of PLN 43.2 million (vs PLN 27.5 million). Although the market conditions remain challenging, we are doing a good job and have gained market share. The changes in the sales organization have resulted in a more agile way of working, with greater focus on maximizing output from production. During Q3, we reached a capacity utilization of 96 percent (vs 95 percent), production amounted to 154,000 tonnes (vs 161,000) and sales 156,000 tonnes (vs 162,000).

The profit improvement program is being implemented according to plan, and we are relentlessly striving for additional business opportunities within premium and speciality paper as well as in the packaging sector. The modernized PM1 in Kostrzyn provides greater flexibility, and we now have a dedicated sales resource to grow our packaging business. During the period, the Kostrzyn mill received a grant of PLN 16.4 million from the National Centre for Research and Development



(NCRD) for co-financing an innovation project aimed at developing new types of paper, which will increase efficiency, expand our product portfolio and improve our margins.

For Rottneros AB, of which the Arctic Paper Group owns 51 percent, net turnover increased by 9 percent to SEK 617 million (vs SEK 567 million) while EBITDA fell to SEK 81 million (vs SEK 136 million) due to lower pulp prices and continued high wood costs. The volume was affected by the annual maintenance shutdown at the Rottneros mill, which went according to plan. The full report is available at <http://www.rottneros.com/investors/financial-reports/>

During the period we saw a change in market conditions, which again illustrates the advantages of combining pulp and paper. At the same time, we also clearly see that our efforts are starting to show results. We will continue on our way towards better margins!

## Revenues

In Q3 2019, the consolidated sales revenues amounted to PLN 794,363 thousand (sales of paper: PLN 563,801 thousand, pulp sales: PLN 230,562 thousand), as compared to PLN 816,531 thousand (sales of paper: PLN 591,808 thousand, pulp sales: PLN 224,723 thousand), in the equivalent period of the previous year. That means a decrease by PLN 22,168 thousand (decrease of paper sales: PLN 28,007 thousand and growth of pulp sales by PLN 5,839 thousand) and by -2.7% respectively (paper sales: -4.7%, pulp sales: +2.6%).

In the first nine months of 2019, the sales revenues amounted to PLN 2,377,452 thousand (sales of paper: PLN 1,674,778 thousand, pulp sales: PLN 702,674 thousand) as compared to PLN 2,389,573 thousand (sales of paper: PLN 1,724,190 thousand pulp sales: PLN 665,384 thousand) generated in the equivalent period of the previous year. This means a decrease of revenues by PLN 12,121 thousand (decrease of paper sales: PLN 49,412 thousand, a growth of pulp sales by PLN 37,290 thousand) and by -0.5% respectively (paper sales: -2.9%, pulp sales: +5.6%).

Paper sales volume in Q3 2019 amounted to 156 thousand tonnes compared to 162 thousand tonnes in the same period of the previous year. The change represents a decrease of 6 thousand tonnes and by -3.7% respectively. Pulp sales volume in Q3 2019 amounted to 106 thousand tonnes compared to 88 thousand tonnes in the same period of the previous year. The change represents an increase of 18 thousand tonnes and by +20.5% respectively.

Paper sales volume in the first three quarters of 2019 amounted to 457 thousand tonnes compared to 490 thousand tonnes in the same period of the previous year. The change represents a decrease of 33 thousand tonnes and by -6.7% respectively. Pulp sales volume in the first three quarters of 2019 amounted to 291 thousand tonnes compared to 275 thousand tonnes in the same period of the previous year. The change represents an increase of 16 thousand tonnes and by +5.8% respectively.

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

In Q3 2019, profit on sales amounted to PLN 156,085 thousand and was by 1.3% lower than in the corresponding period of the previous year. Sales profit margin in the current quarter stood at 19.65% compared to 19.37% (-1.3 p.p.) in the equivalent period of the previous year. The core reason underlying the decrease of profit on sales in Q3 2019 versus the equivalent period of the previous year were lower revenues from the sale of paper, primarily due to lower sales volumes.

For three quarters of 2019, profit on sales amounted to PLN 457,031 thousand. This result was by 1.1% higher than in the corresponding period of the previous year. Sales profit margin in the period stood at 19.22% compared to 18.91% (+0.3 p.p.) in the equivalent period of the previous year. The core reason underlying the growth of profit on sales in 9 months of 2019 versus the corresponding period of the previous year was primarily higher revenues from pulp sales as a result of higher sales volumes.

In Q3 2019, the selling and distribution costs amounted to PLN 81,487 thousand, which was a decrease by 4.2% compared to the costs incurred in Q3 2018.

In three quarters of 2019, the selling and distribution costs amounted to PLN 249,624 thousand, which was a decrease by 1.7% compared to the costs incurred in the equivalent period of 2018. The selling and distribution costs include primarily costs of transport of finished products to counterparties.

In Q3 2019, the administrative expenses amounted to PLN 24,520 thousand as compared to PLN 21,497 thousand in the equivalent period of 2018 (growth by 14.1%). The overheads are composed primarily of the costs of advisory and administrative services in the Group.

In three quarters of 2019, the administrative expenses amounted to PLN 66,376 thousand as compared to PLN 63,346 thousand in the equivalent period of 2018, which was an increase by 4.8%. The main reason of the increase were higher costs related to consulting services rendered to the Group by third parties.

#### **Other operating income and expenses**

Other operating income amounted to PLN 9,048 thousand in Q3 2019 as compared to PLN 15,452 thousand in Q3 2018. The relatively high other operating income in Q3 2019 is primarily due to the sales of CO2 emission rights.

Other operating income amounted to PLN 71,046 thousand for three quarters of 2019, which was an increase as compared to the equivalent period of the previous year (by PLN 35,830 thousand).

Other operating income consisted mainly of revenues from heat and electricity sales as well as sales revenues from other materials and CO2 emission rights. The growth of current operating income in the recent period was primarily due to the sale of land by AP Mochenwangen and higher sales of other materials and energy and CO2 emission rights.

In Q3 2019, the other operating expenses amounted to PLN 8,524 thousand as compared to PLN 8,037 thousand in Q3 2018.

Other operating expenses amounted to PLN 33,824 thousand for three quarters of 2019, which was an increase as compared to the equivalent period of the previous year by PLN 14,145 thousand.

The other operating expenses comprised mainly the costs of electricity and heat sales as well as the costs of other materials sold.

#### **Financial income and financial expenses**

Financial income in Q3 2019 amounted to PLN 377 thousand as compared to PLN 299 thousand generated in Q3 2018.

In the first nine months 2019, the financial income amounted to PLN 1,321 thousand, while in the equivalent period in 2018 it was PLN 1,234 thousand.

In Q3 2019, financial expenses amounted to PLN 8,587 thousand as compared to PLN 7,017 thousand incurred in Q3 2018.

Financial expenses for three quarters of 2019 amounted to PLN 26,767 thousand as compared to PLN 28,985 thousand incurred for three quarters of 2018. The lower financial expenses for three quarters of 2019 were primarily due to lower FX losses.

#### **Income tax**

In Q3 2019, income tax amounted to PLN -7,830 thousand, while in the equivalent period in 2018 it was PLN -9,509 thousand.

The current portion of income tax in the analysed quarter of 2019 amounted to PLN -821 thousand, while the deferred portion to PLN -7,009 thousand. In Q3 of the previous year, the amount was PLN -1,234 thousand and PLN -8,275 thousand respectively.

For three quarters of 2019, income tax amounted to PLN -33,657 thousand, while in the equivalent period in 2018 it was PLN -31,245 thousand.

The current portion of income tax in the analysed three quarters of 2019 amounted to PLN -4,479 thousand, while the deferred portion to PLN -29,178 thousand. In the equivalent quarters of the previous year, the amount was PLN -4,351 thousand and PLN -26,894 thousand respectively.

## Profitability analysis

In Q3 2019, the result on continuing operations amounted to PLN 50,602 thousand as compared to PLN 59,001 thousand in the equivalent period of the previous year. The changes resulted in a decrease of operational profit margin from +7.2% in Q3 of 2018 to +6.4% in the Q3 this year.

For three quarters of 2019, the result on continuing operations amounted to PLN 178,253 thousand as compared to PLN 150,183 thousand in the equivalent period of the previous year. The changes resulted in a growth of operational profit margin from +6,3% for three quarters of 2018 to +7.5% for three quarters of the current year.

EBITDA in Q3 2019 was PLN 71,512 thousand, while in the equivalent period in 2018 it was PLN 82,030 thousand. In the reporting period, the EBITDA margin was 9.0% compared to 10.0% in the equivalent period of 2018.

EBITDA for three quarters of 2019 was PLN 243,122 thousand, while in the equivalent period in 2018 it was PLN 218,444 thousand. In the reporting period, the EBITDA margin was 10.2% compared to 9.1% in the equivalent period of 2018.

In the current quarter of 2019, net profit amounted to PLN 34,562 thousand as compared to the net profit of PLN 42,774 thousand in Q3 2018.

In three quarters of 2019, net profit amounted to PLN 119,150 thousand as compared to the net profit of PLN 91,187 thousand in three quarters of 2018.

<i>PLN'000</i>	Q3 2018	Q2 2018	Q3 2017	YTD 2018	YTD 2017	Change % Q3 2018/ Q2 2018	Change % Q3 2018/ Q3 2017	Change % YTD 2018/ YTD 2017
Profit on sales	156 085	149 062	158 146	457 031	451 980	4,7	(1,3)	1,1
<i>% of sales revenues</i>	19,65	19,55	19,37	19,22	18,91	0,1 p.p.	0,3 p.p.	0,3 p.p.
<b>EBITDA</b>	<b>71 512</b>	<b>90 529</b>	<b>82 030</b>	<b>243 122</b>	<b>218 444</b>	<b>(21,0)</b>	<b>(12,8)</b>	<b>11,3</b>
<i>% of sales revenues</i>	9,00	11,87	10,05	10,23	9,14	(2,9) p.p.	(1,0) p.p.	1,1 p.p.
<b>EBIT</b>	<b>50 602</b>	<b>69 877</b>	<b>59 001</b>	<b>178 253</b>	<b>150 183</b>	<b>(27,6)</b>	<b>(14,2)</b>	<b>18,7</b>
<i>% of sales revenues</i>	6,37	9,16	7,23	7,50	6,28	(2,8) p.p.	(0,9) p.p.	1,2 p.p.
<b>Net profit/(loss)</b>	<b>34 562</b>	<b>47 697</b>	<b>42 774</b>	<b>119 150</b>	<b>91 187</b>	<b>(27,5)</b>	<b>(19,2)</b>	<b>30,7</b>
<i>% of sales revenues</i>	4,35	6,26	5,24	5,01	3,82	(1,9) p.p.	(0,9) p.p.	1,2 p.p.
Return on equity / ROE (%)	3,8	5,5	4,9	13,1	10,5	(1,7) p.p.	(1,1) p.p.	2,5 p.p.
Return on assets / ROA (%)	1,6	2,3	2,0	5,5	4,3	(0,6) p.p.	(0,4) p.p.	1,2 p.p.

In Q3 2019, return on equity was 3.8% (13.1% for three quarters of 2019) while in Q3 2018 it was 4.9% (10.5% for three quarters of 2018).

In Q3 of 2019, return on assets was 1.6% (5.5% for three quarters of 2019) while in the third quarter of 2018 it was 2.0% (4.3% for three quarters of 2018).

## Selected items of the consolidated statement of financial position

PLN'000	30.09.2019	31.12.2018	30.09.2018	Change	Change
				30.09.2019	30.09.2019
				-31.12.2018	-30.09.2018
Fixed assets	1 063 031	1 037 969	995 000	25 061	68 030
Inventories	393 806	478 614	439 420	(84 808)	(45 614)
Receivables	401 370	371 963	437 640	29 408	(36 269)
<i>trade and other payables</i>	390 248	365 946	426 486	24 302	(36 238)
Other current assets	42 724	64 794	63 908	(22 070)	(21 184)
Cash and cash equivalents	254 581	201 118	180 773	53 464	73 808
Assets related to discontinued operations	-	1 716	2 383	(1 716)	(2 383)
<b>Total assets</b>	<b>2 155 512</b>	<b>2 156 174</b>	<b>2 119 124</b>	<b>(662)</b>	<b>36 388</b>
Equity	912 154	861 193	866 188	50 961	45 966
Short-term liabilities	707 571	850 245	755 855	(142 673)	(48 284)
<i>of which:</i>					
<i>trade and other payables</i>	491 360	516 678	481 940	(25 318)	9 420
<i>interest-bearing debt</i>	125 451	232 184	173 568	(106 733)	(48 117)
<i>other non-financial liabilities</i>	90 761	101 383	100 347	(10 622)	(9 587)
Long-term liabilities	535 786	441 381	495 504	94 405	40 282
<i>of which:</i>					
<i>interest-bearing debt</i>	328 699	249 659	314 678	79 039	14 020
<i>other non-financial liabilities</i>	207 088	191 722	180 826	15 366	26 261
Liabilities directly related to the discontinued operations	-	3 355	1 576	(3 355)	(1 576)
<b>Total equity and liabilities</b>	<b>2 155 512</b>	<b>2 156 174</b>	<b>2 119 124</b>	<b>(662)</b>	<b>36 388</b>

Due to an adjustment of a previous years' error concerning perpetual usufruct right (described in note 6.4 to these interim abbreviated consolidated financial statements), the above data for as at 30 September 2018 is not the data disclosed in the Consolidated Report for Q3 of 2018 of the Arctic Paper Group.

As at 30 September 2019, total assets amounted to PLN 2,155,512 thousand as compared to PLN 2,156,174 thousand at the end of 2018 which was a decrease by PLN 662 thousand.

### Fixed assets

At the end of June 2019, fixed assets accounted for 49.3% of total assets vs. 48.1% at the end of 2018. The value of fixed assets grew in the current period by PLN 25,061 thousand, mainly due to a growth of tangible fixed assets as an effect of capital outlays and implementation of IFRS 16, partly set off with a decrease of other financial assets (reduction of a positive measurement of hedging instruments, mainly forward contracts for energy purchases) and intangible assets.

### Current assets

Current assets understood as a sum of inventories, receivables, other current assets and cash and cash equivalents. As at the end of September 2019, current assets amounted to PLN 1,092,481 thousand as compared to PLN 1,116,489 thousand at the end of December 2018. As part of the current assets, inventories decreased by PLN 84,808 thousand and receivables increased by PLN 29,408 thousand, other current assets decreased by PLN 22,070 thousand, while cash and cash equivalents increased by PLN 53,464 thousand. Current assets represented 50.7% of total assets as at the end of September 2019 (51.9% as at the end of 2018) and included inventories – 18.3% (22.2% as at the end of 2018), receivables – 18.6% (17.3% as at the end of 2018), other current assets – 2.0% (3.0% as at the end of 2018) and cash and cash equivalents – 11.8% (9.4% as at the end of 2018).

### Assets for sale

In Q2 2019, AP Mochenwangen sold a plot of land. In this connection, the Issuer's Management Board assessed the opportunity to sell the other assets and liabilities as an organised part of the AP Mochenwangen Group as unlikely and decided to discontinue to present the results of the Group as discontinued operations. As a result, the assets earlier classified as assets available for sale as at 30 September 2019 and 30 June 2019 were presented as assets related to continued activity.

## **Equity**

As at the end of Q3 2019, the equity amounted to PLN 912,154 thousand as compared to PLN 861,193 thousand at the end of 2018. Equity represented 42.3% of total liabilities as at the end of September 2019 as compared to 39.9% of total liabilities as at the end of December 2018. The increase of equity is due to the net profit for 9 months of 2019 and reduced mainly by the effects of a lower net measurement of hedging instruments recognised in other comprehensive income and by dividend distribution to the non-controlling shareholders.

## **Short-term liabilities**

As at the end of September 2019, short-term liabilities amounted to PLN 707,571 thousand (32.8% of balance sheet total) as compared to PLN 850,245 thousand (39.5% of balance sheet total) as at the end of 2018. During nine months of 2019 there was a decrease of short-term liabilities by PLN 142,673 thousand, which was primarily due to a decrease of trade and other payables, accruals and deferred income and short-term loans (including partial repayment of overdraft facilities and bonds).

## **Long-term liabilities**

As at the end of September 2019, long-term liabilities amounted to PLN 535,786 thousand (24.9% of balance sheet total) as compared to PLN 441,381 thousand (20.5% of balance sheet total) as at the end of 2018. In the period under report, an increase of long-term liabilities occurred by PLN 94,405 thousand, primarily due to growing liabilities under interest-bearing loans, borrowings and bonds, an increase of other financial liabilities due to the impact of IFRS 16 Leasing and the deferred income tax liability. The increase of long-term liabilities under interest-bearing loans, borrowings and bonds as at 30 September 2019 was primarily due to the fact that as at 31 December 2018 the Group failed to comply with the ratios under loan agreements and as a result certain of those were liabilities were re-classified to short-term liabilities as at that date.

## **Liabilities directly related to assets held for sale**

In Q2 2019, AP Mochenwangen sold a plot of land. In this connection, the Issuer's Management Board assessed the opportunity to sell the other assets and liabilities as an organised part of the AP Mochenwangen Group as unlikely and decided to discontinue to present the results of the Group as discontinued operations. As a result, the liabilities earlier classified as assets available for sale as at 30 September 2019 and 30 June 2019 were presented as liabilities related to continuing operations.

## Debt analysis

	Q3 2019	Q2 2019	Q3 2018	Change % Q3 2019/ Q2 2019	Change % Q3 2019/ Q3 2018
Debt to equity ratio (%)	136,3	144,2	144,6	(7,8) p.p.	(8,3) p.p.
Equity to fixed assets ratio (%)	85,8	83,3	87,1	2,6 p.p.	(1,2) p.p.
Interest-bearing debt-to-equity ratio (%)	49,8	55,3	56,4	(5,6) p.p.	(6,6) p.p.
Net debt to EBITDA ratio for the last 12 months (x)	0,82x	1,06x	1,22x	(0,24)	(0,40)
EBITDA to interest expense ratio for the last 12 months (x)	10,1x	10,7x	10,2x	(0,7)	(0,1)

As at the end of September 2019, the debt to equity ratio was 136.3% and was lower by 7.8 p.p. as compared to the end of June of 2019 and lower by 8.3 p.p. as compared to the end of September 2018. The changes were due to a simultaneous decrease of liabilities and a increase of equity as at the end of September 2019.

The equity to non-current assets ratio was 85.8% as at the end of Q3 2019 and was higher by 2.6 p.p. than at the end of June of 2019 and lower by 1.2 p.p. than at the end of September 2018.

The interest bearing debt to equity ratio was 49.8% as at the end of Q3 2019 and was lower by 5.6 p.p. as compared to the end of June 2019 and lower by 6.6 p.p. as compared to the level of the ratio calculated at the end of September 2018. The changes were due to a simultaneous decrease of interest-bearing liabilities and a increase of equity as at the end of September 2019.

Net borrowings to EBITDA calculated for the last 12 months ended on 30 September 2019 amounted to 0.82x compared to 1.06x in the equivalent period ended on 30 June 2019 and 1.22x for a 12-month period ended on 30 September 2018. The changes were due primarily to a decrease of net debt as a result of a increase of cash balances as at the end of September 2019.

EBITDA to interest coverage ratio amounted to 10.1x for a 12-month period ended on 30 September 2019, 10.7x for a 12-month period ended on 30 June 2019 and 10.2x for a 12-month period ended on 30 September 2018.

## Liquidity analysis

	Q3 2019	Q2 2019	Q3 2018	Change % Q3 2019/ Q2 2019	Change % Q3 2019/ Q3 2018
<b>Current ratio</b>	<b>1,5x</b>	<b>1,3x</b>	<b>1,5x</b>	<b>0,3</b>	<b>0,1</b>
<b>Quick ratio</b>	<b>1,0x</b>	<b>0,8x</b>	<b>0,9x</b>	<b>0,2</b>	<b>0,1</b>
<b>Acid test ratio</b>	<b>0,4x</b>	<b>0,2x</b>	<b>0,2x</b>	<b>0,1</b>	<b>0,1</b>
DSI (days)	55,5	61,6	60,1	(6,1)	(4,5)
DSO (days)	44,2	47,8	47,0	(3,5)	(2,8)
DPO (days)	69,3	69,9	65,9	(0,6)	3,4
Operational cycle (days)	99,7	109,4	107,1	(9,6)	(7,3)
<b>Cash conversion cycle (days)</b>	<b>30,5</b>	<b>39,5</b>	<b>41,2</b>	<b>(9,0)</b>	<b>(10,7)</b>

The current liquidity ratio at the end of September 2019 was 1.5x and was higher than at the end of June 2019 (1.3x) and comparable to the level as at the end of September 2018 (1.5x).

The fast liquidity ratio at the end of September 2019 was 1.0x and was higher than at the end of June 2019 (0.8x) and higher than at the end of September 2018 (0.9x).

The cash ratio at the end of September 2019 was 0.4x and was higher than at the end of June 2019 (0.2x) and at the end of September 2018 (0.2x).

The higher liquidity ratios as at 30 September 2019 were primarily due to a higher balance of cash.

The cash conversion cycle for Q3 2019 (30.5 days) was shortened versus Q2 2019 (by 9.0 days) and was also shortened versus Q3 2018 (by 10.7 days).

## Selected items of the consolidated cash flow statement

PLN'000	Q3 2019	Q2 2019	Q3 2018	YTD 2019	YTD 2018	Change % Q3 2019/ Q2 2019	Change % Q3 2019/ Q3 2018	Change % YTD 2019/ YTD 2018
Cash flows from operating activities	119 407	45 736	67 749	224 904	68 123	161,1	76,2	230,1
<i>of which:</i>								
<i>Gross profit (loss)</i>	42 392	59 874	52 283	152 807	122 432	(29,2)	(18,9)	24,8
<i>Depreciation/amortisation and Impairment of</i>	20 910	20 652	23 029	64 869	68 261	1,2	(9,2)	(5,0)
<i>Changes to working capital</i>	53 396	(22 726)	(9 580)	6 927	(131 699)	(335,0)	(657,4)	(105,3)
<i>Other adjustments</i>	2 709	(12 064)	2 017	302	9 129	(122,5)	34,3	(96,7)
Cash flows from investing activities	(42 206)	(13 231)	(39 089)	(74 201)	(114 739)	219,0	8,0	(35,3)
Cash flows from financing activities	(29 827)	(32 134)	9 926	(94 615)	(12 112)	(7,2)	(400,5)	681,1
<b>Total cash flows</b>	<b>47 374</b>	<b>371</b>	<b>38 587</b>	<b>56 088</b>	<b>(58 728)</b>	<b>12 668,3</b>	<b>22,8</b>	<b>(195,5)</b>

Due to an adjustment of a previous years' error concerning perpetual usufruct right (described in note 6.4 of these interim abbreviated consolidated financial statements), the above data for Q3 2018 and YTD 2018 is not the data disclosed in the Consolidated Report for Q3 2018 of the Arctic Paper Group.

### Cash flows from operating activities

In Q3 2019, net cash flows from operating activities amounted to PLN +119,407 thousand as compared to PLN +67,749 thousand in the equivalent period of 2018. The positive cash flows in Q3 2019 were primarily due to EBITDA generated in the period and a decrease of working capital.

In the three quarters of 2019, net cash flows from operating activities amounted to PLN +224,904 thousand as compared to PLN +68,123 thousand in the equivalent period of 2018. The positive cash flows in the period between January and September this year resulted primarily from the generated EBITDA.

### Cash flows from investing activities

In Q3 2019, net cash flows from investing activities amounted to PLN -42,206 thousand as compared to PLN -39,089 thousand in 2018. Expenditures for tangible fixed assets in Q3 2019 and 2018 resulted in negative cash flows from investing activities.

In the three quarters of 2019, the cash flows amounted to PLN -74,201 thousand as compared to PLN -114,739 thousand for three quarters of 2018. The negative cash flows from investing activities in the current period resulted primarily from expenditures on tangible fixed assets.

### Cash flows from financing activities

In Q3 2019, cash flows from financing activities amounted to PLN -29,827 thousand as compared to PLN +9,926 thousand in Q3 2018. The negative cash flows from financing activities in Q3 this year were primarily affected by partial loan repayments (including overdraft facilities) and bonds, partly set-off with drawdowns of new loan tranches. The positive cash flows from financing activities in Q3 of the previous year were composed primarily of inflows under loans.

Cash flows from financing activities for three quarters of 2019 amounted to PLN -94,615 thousand as compared to PLN -12,112 thousand in the equivalent period of 2018. The negative cash flows from financing activities in 2019 were primarily related to partial repayment of loans (including overdraft facilities) and bonds, partly set-off with drawdowns of new loan tranches and dividend distribution to non-controlling shareholders.



## Summary of standalone financial results

### Selected items of standalone profit and loss statement

<i>PLN'000</i>	Q3 2019	Q2 2019	Q3 2018	YTD 2019	YTD 2018	Change % Q3 2019/ Q2 2019	Change % Q3 2019/ Q3 2018	Change % YTD 2019/ YTD 2018
<b>Sales revenues</b>	<b>9 831</b>	<b>31 783</b>	<b>10 073</b>	<b>52 726</b>	<b>69 287</b>	<b>(69)</b>	<b>(2)</b>	<b>(24)</b>
<i>of which:</i>								
<i>Revenues from sales of services</i>	7 176	7 587	8 184	22 084	26 047	(5)	(12)	(15)
<i>Interest income on loans</i>	1 081	1 088	1 219	3 308	3 672	(1)	(11)	(10)
<i>Dividend income</i>	1 574	23 109	670	27 333	39 567	(93)	135	(31)
<b>Profit on sales</b>	<b>8 667</b>	<b>30 430</b>	<b>8 683</b>	<b>48 872</b>	<b>65 372</b>	<b>(72)</b>	<b>(0)</b>	<b>(25)</b>
<i>% of sales revenues</i>	88,16	95,74	86,20	92,69	94,35	(7,6) p.p.	2,0 p.p.	(1,7) p.p.
Selling and distribution costs	(719)	(955)	(748)	(2 248)	(2 247)	(25)	(4)	0
Administrative expenses	(6 051)	(6 310)	(6 596)	(19 007)	(20 730)	(4)	(8)	(8)
Other operating income	114	21	62	217	311	443	85	(30)
Other operating expenses	1 577	611	(239)	1 868	(704)	158	(759)	(366)
<b>EBIT</b>	<b>3 587</b>	<b>23 797</b>	<b>1 161</b>	<b>29 702</b>	<b>42 002</b>	<b>(85)</b>	<b>209</b>	<b>(29)</b>
<i>% of sales revenues</i>	36,49	74,87	11,53	56,33	60,62	(38,4) p.p.	25,0 p.p.	(4,3) p.p.
<b>EBITDA</b>	<b>4 168</b>	<b>23 939</b>	<b>1 281</b>	<b>30 525</b>	<b>42 370</b>	<b>(85)</b>	<b>209</b>	<b>(29)</b>
<i>% of sales revenues</i>	42,40	75,32	12,72	57,89	61,15	(38,4) p.p.	25,0 p.p.	(4,3) p.p.
Financial income	400	2 109	1 428	3 712	3 522	(81)	(72)	5
Financial expenses	(4 579)	(4 436)	(5 060)	(14 329)	(16 545)	3	(10)	(13)
<b>Gross profit (loss)</b>	<b>(591)</b>	<b>21 469</b>	<b>(2 470)</b>	<b>19 084</b>	<b>28 979</b>	<b>(103)</b>	<b>(76)</b>	<b>(34)</b>
Income tax	0	-	(4)	(1)	(304)	-	(100)	(100)
<b>Net profit/(loss)</b>	<b>(591)</b>	<b>21 469</b>	<b>(2 475)</b>	<b>19 083</b>	<b>28 675</b>	<b>(103)</b>	<b>(76)</b>	<b>(33)</b>
<i>% of sales revenues</i>	(6,01)	67,55	(24,57)	36,19	41,39	(73,6) p.p.	18,6 p.p.	(5,2) p.p.

### Revenues, profit on sales, costs of sales

The main statutory activity of the Company is the activity of a holding company, consisting in managing of entities belonging to the controlled Capital Group. The operations of the Arctic Paper Group are conducted through Paper Mills and Pulp Mills, Distribution Companies and Sales Offices.

Sales revenues for Q3 2019 amounted to PLN 9,831 thousand and comprised services provided to Group companies (PLN 7,176 thousand), interest income on loans (PLN 1,081 thousand) and dividend income (PLN 1,574 thousand). In the equivalent period of the previous year, the standalone sales revenues amounted to PLN 10,073 thousand, which included revenues from the services provided to Group companies (PLN 8,184 thousand), interest income on loans (PLN 1,219 thousand) and dividend income (PLN 670 thousand).

In the three quarters of 2019, the standalone sales revenues amounted to PLN 52,726 thousand, which included revenues from the services provided to Group companies (PLN 22,084 thousand) and interest income on loans granted (PLN 3,308 thousand) and dividend income (PLN 27,333 thousand).

In the three quarters of 2018, the standalone sales revenues amounted to PLN 69,287 thousand, which included revenues from the services provided to Group companies (PLN 26,047 thousand) and interest income on loans granted (PLN 3,672 thousand) and dividend income (PLN 39,567 thousand).

The decrease of sales revenues in the three quarters of 2019 versus the equivalent period of 2018 was primarily due to a decrease in dividend received and service revenues.

Profit on sales amounted to PLN 8,667 thousand in Q3 2019 (PLN 8,683 thousand in Q3 2018) and PLN 48,872 thousand for the three quarters of 2019 (65,372 thousand for the three quarters of in 2018).

### **Selling and distribution costs**

In Q3 2019, the Company recognised the amount of PLN 719 thousand as selling and distribution costs (PLN 748 thousand in Q3 2018). In the three quarters of 2019 the Company recognised the amount of PLN 2,248 thousand as selling and distribution costs (PLN 2,247 thousand in three quarters of 2018).

The selling and distribution costs relate fully to intermediation costs in pulp purchases.

### **Administrative expenses**

In Q3 2019, the administrative expenses amounted to PLN 6,051 thousand, which was a decrease as compared to the equivalent period of the previous year by PLN 545 thousand. In the three quarters of 2019, administrative expenses amounted to PLN 19,007 thousand as compared to PLN 20,730 thousand in the equivalent period of 2018.

The administrative expenses include costs of the administration of the Company operation, costs of services provided for the companies in the Group and all costs incurred by the Company for the purposes of pursuing holding company activities. Among them, a significant group of costs relates only to statutory activities and includes, among others: costs of tax, legal and accounting services, as well as the costs of the Supervisory Board and the Management Board.

### **Other operating income and expenses**

Other operating income amounted to PLN 114 thousand in Q3 2019, which was an increase as compared to the equivalent period of the previous year (by PLN 52 thousand). Other operating expenses totalled PLN +1,577 thousand in Q3 2019 (PLN 239 thousand in the equivalent quarter of 2018). The positive other operating income in Q3 2019 was due to reversal of impairment charges to loan receivables to Arctic Paper Mochenwangen GmbH of PLN 2.020 thousand (Company has received partial repayment of loans in June and September 2019).

For the three quarters of 2019, the other operating income and other operating expenses amounted to PLN 217 thousand and PLN +1,868 thousand respectively, and for the equivalent period in 2018 – PLN 311 thousand and PLN -704 thousand. The positive level of other operating expenses in the three quarters of 2019 was primarily due to a reversal of write-offs for the loans to Arctic Paper Mochenwangen (EUR 763 thousand).

### **Financial income and financial expenses**

In Q3 2019, the financial income amounted to PLN 400 thousand and was by PLN 1,028 thousand lower than generated in Q3 2018.

In Q3 2019, financial expenses amounted to PLN 4,579 thousand. In the equivalent period of 2018, the financial expenses amounted to PLN 5,060 thousand.

For three quarters of 2019, the financial income and expenses amounted to PLN +3,712 thousand and PLN -14,329 thousand and for the equivalent period in 2018 – PLN +3,522 thousand and PLN -16,545 thousand. The lower financial expenses in 2019 were primarily due to lower FX losses.

## Selected items of the standalone statement of financial position

PLN'000	30.09.2019	31.12.2018	30.09.2018	Change	Change
				30.09.2019	30.09.2019
				-31.12.2018	-30.09.2018
Fixed assets	733 517	751 507	761 468	(17 990)	(27 951)
Receivables	117 910	90 818	89 630	27 092	28 280
Other current assets	84 201	130 681	118 896	(46 480)	(34 695)
Cash and cash equivalents	15 866	19 605	6 220	(3 740)	9 646
<b>Total assets</b>	<b>951 494</b>	<b>992 611</b>	<b>976 215</b>	<b>(41 117)</b>	<b>(24 721)</b>
Equity	555 855	535 124	546 540	20 731	9 315
Short-term liabilities	252 563	374 679	269 599	(122 116)	(17 037)
Long-term liabilities	143 077	82 807	160 075	60 270	(16 998)
<b>Total equity and liabilities</b>	<b>951 494</b>	<b>992 611</b>	<b>976 215</b>	<b>(41 116)</b>	<b>(24 721)</b>

As at 30 September 2019, total assets amounted to PLN 951,494 thousand as compared to PLN 992,611 thousand at the end of 2018.

The increase of assets was primarily due to higher other current assets in the period under report.

### Fixed assets

As at the end of September 2019, non-current assets represented nearly 77.1% of total assets which means that the share increased (by 1.4 p.p.) compared to the end of 2018. The main item of non-current assets includes interests in subsidiaries. At the end of Q3 2019, the value was PLN 673,938 thousand and there was no change versus the end 2018.

### Current assets

As at the end of September 2019, current assets amounted to PLN 217,977 thousand as compared to PLN 241,104 thousand at the end of 2018. The level of current assets decreased at the end of September 2018, primarily with respect to other current assets. As at the end of Q3 2019, current assets represented 22.9% of total assets compared to 24.3% as at the end of the previous year.

As part of the current assets, receivables increased by PLN 27,092 thousand, other current assets decreased by PLN 46,480 thousand, while cash and cash equivalents decreased by PLN 3,740 thousand.

### Equity

As at the end of Q3 2019, the equity amounted to PLN 555,855 thousand as compared to PLN 535,124 thousand at the end of 2018. As at the end of September 2019, equity accounted for 58.4% of balance sheet total vs. 53.9% of balance sheet total as at the end of 2018. The increase of equity is primarily due to the net profit for three quarters of 2019.

### Short-term liabilities

As at the end of September 2019, short-term liabilities amounted to PLN 252,563 thousand (26.5% of balance sheet total) as compared to PLN 374,679 thousand as at the end of 2018 (37.7% of balance sheet total). The decrease of short-term liabilities was due to the reclassification as at 31 December 2018 of long-term loans to short-term loans and borrowings due to the fact that the ratios under loan agreements were not complied with.

### Long-term liabilities

As at the end of September 2019, long-term liabilities amounted to PLN 143,077 thousand (15% of balance sheet total) as compared to PLN 82,807 thousand as at the end of 2018 (8.3% of balance sheet total).

The increase of long-term liabilities was due to the reclassification as at 31 December 2018 of long-term loans to short-term loans and borrowings due to the fact that the ratios under loan agreements were not complied with.

## Selected items of the standalone cash flow statement

<i>PLN'000</i>	Q3 2019	Q2 2019	Q3 2018	YTD 2019	YTD 2018	Change % Q3 2019/ Q2 2019	Change % Q3 2019/ Q3 2018	Change % YTD 2019/ YTD 2018
Cash flows from operating activities	33 233	(924)	(1 690)	58 422	(90 408)	32,0	(2 066,2)	(164,6)
<i>of which:</i>								
<i>Gross profit</i>	(591)	21 469	(2 466)	19 084	28 979	(103,0)	(76,0)	(34,1)
<i>Depreciation and impairment of fixed assets</i>	581	142	119	823	368	140,1	386,4	123,7
<i>Changes to working capital</i>	(13 338)	(34 962)	1 921	(64 135)	7 000	(73,7)	(794,5)	(1 016,3)
<i>Net interest and dividends</i>	1 916	1 527	2 068	5 741	6 078	(49,9)	(7,3)	(5,5)
<i>Increase / decrease of loans granted to subsidiaries</i>	8 759	(15 618)	4 738	20 970	(50 072)	(28,3)	84,9	(141,9)
<i>Change to liabilities due to cash-pooling</i>	35 619	25 745	(6 633)	74 533	(83 332)	(8,5)	(637,0)	(189,4)
<i>Other adjustments</i>	288	771	(1 437)	1 406	572	(74,3)	(120,0)	145,7
Cash flows from investing activities	(126)	(1 492)	(60)	(1 618)	(199)	(91,6)	110,0	713,1
Cash flows from financing activities	(27 854)	(32 690)	6 288	(60 544)	59 884	(14,8)	(543,0)	(201,1)
<b>Total cash flows</b>	<b>5 253</b>	<b>(8 997)</b>	<b>4 538</b>	<b>(3 740)</b>	<b>(30 722)</b>	<b>(158,4)</b>	<b>15,8</b>	<b>(87,8)</b>

The cash flow statement presents a decrease in cash and cash equivalents in the three quarters of 2019 by PLN -3,740 thousand, which includes:

- positive cash flows from operating activities of PLN 58,422 thousand,
- negative cash flows from investing activities of PLN 1,618 thousand,
- negative cash flows from financing activities of PLN 60,544 thousand.

### Cash flows from operating activities

In the three quarters of 2019, net cash flows from operating activities amounted to PLN 58,422 thousand as compared to PLN -90,408 thousand in the equivalent period of 2018. The positive cash flows from operating activities in the three quarters of the current year were due primarily to an increase / decrease of loans granted to subsidiaries and liabilities under cash-pooling.

### Cash flows from investing activities

In the first three months 2019, cash flows from investing activities amounted to PLN -1,618 thousand as compared to PLN -199 thousand for three quarters of 2018. The higher cash flows from investing activities in 2019 were due to the implementation of IFRS 16 as a result of which a part of lease liabilities were capitalised as fixed assets.

### Cash flows from financing activities

In 2019, cash flows from financing activities amounted to PLN -60,544 thousand as compared to PLN 59,884 thousand in 2018. The cash flows from financing activities in 2019 and 2018 were primarily related to changes in balances of working capital loans.

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

### Key factors affecting the performance results

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

- macroeconomic and other economic factors,
- paper prices,
- prices of pulp for Paper Mills, timber for Pulp Mills and energy prices,
- currency fluctuations.

#### Macroeconomic and other economic factors

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

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

#### Paper prices

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

#### Costs of raw materials, energy and transportation

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

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

A part of pulp supplies to the Group's Paper Mills is made from the Group's own Pulp Mills. The rest of the pulp produced in the Group's Pulp Mills is sold to external customers.

#### Currency rate fluctuations

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

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

## Unusual events and factors

In Q3 2019, there were no unusual events or factors.

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

In Q3 2019, there were no material changes in the Arctic Paper Group's structure that would have material impact on the financial results generated.

## Other material information

### Extension of repayment date of the revolving loan

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

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

### Conclusion of a factoring agreement by a subsidiary

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

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

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

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

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

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

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

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

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

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

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

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

#### **Extra dividend from subsidiary**

The Extraordinary General Meeting of the subsidiary Rottneros AB ("Subsidiary") concluded on 4 November 2019 the resolution regarding payment of an additional dividend to its shareholders. Pursuant to the information published by the Subsidiary, the Extraordinary General Meeting set the dividend day on 6 November 2019 and the dividend payment date on 11 November 2019. The additional dividend to shareholders of Rottneros AB was paid in the amount of SEK 107 million (approx. PLN 48 million), which is SEK 0.70 per share (approx. PLN 0,28 per share). Arctic Paper SA received the dividend of SEK 54,762 thousand (PLN 21,855 thousand) as at 12 November 2019.

# Factors influencing the development of the Arctic Paper Group

## Information on market trends

### Supplies of fine paper

In Q3 2019, the Arctic Paper Group recorded an increased level of orders versus Q2 2019 by 6.1% and a decrease of orders versus the equivalent period of 2018 by 3.7%.

*Source of data: Arctic Paper analysis*

### Paper prices

In Q3 2019, the average prices of high quality paper sold in Europe decreased by: 0.2% for UWF paper and by 3.8% for CWF paper respectively versus equivalent prices at the end of September of 2018.

In the period from July to September 2019, the prices declared by producers for uncoated wood-free paper (UWF) and coated wood-free paper (CWF) for selected markets: Germany, France, Spain, Italy and the UK, expressed in EUR, experienced a decrease by 2.2% and 4.1% respectively

The average prices invoiced by Arctic Paper in EUR for comparable products in the segment of uncoated wood-free paper (UWF) decreased from July to September 2019 by 1.7% while in the segment of coated wood-free paper (CWF) the prices decreased by 1.1%. Vis-a-vis the equivalent prices from the end of Q3 2018, the average prices invoiced by Arctic Paper decreased by 2.1% for UWF and 1.6% for CWF.

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

### Pulp prices

At the end of Q3 2019, the pulp prices reached the level of: NBSK – USD 851/tonne and BHKP – USD 751/tonne. The average pulp price in Q3 2019 was lower by 25.3% for NBSK while lower by 22.4% for BHKP, compared to the corresponding period of the previous year. The average pulp price in Q3 2019 was lower by 12.6% for NBSK and by 13.1% for BHKP as compared to Q2 2019.

The average cost of pulp per tonne of produced paper as calculated for the Arctic Paper Group, expressed in PLN, in Q3 2019 decreased by 10.4% versus Q2 2019 and by 15% versus Q3 2018. The share of pulp costs in cost of paper sales in Q3 of the current year amounted to 59% and was lower compared to the level recorded in Q3 2018 (62%).

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

*Source of data: [www.foex.fi](http://www.foex.fi) analysis by Arctic Paper.*

### Currency exchange rates

The EUR/PLN exchange rate at the end of Q3 2019 amounted to 4.3736 and was higher by 2.9% than at the end of Q2 2019 and higher by 2.4% than at the end of Q3 2018. The average exchange rate in Q3 2019 was higher by 0.8% than in Q2 2019 and amounted to 4.3179, compared to 4.2843. The average exchange rate in Q3 2019 was by 0.3% higher than in Q3 2018.

The EUR/SEK exchange rate at the end of September 2019 was 10.7275 versus 10.5509 at the end of H1 2019, and 10.2950 at the end of Q3 2018 which was an appreciation of EUR to SEK by 1.7% and appreciation by 4.2% respectively.



For this pair, the mean exchange rate in Q1 was 0.4% higher compared to Q2 2019. The average exchange rate in Q3 2019 was 2.5% higher than in the corresponding period of 2018.

The changes mean a depreciation of SEK vis-a-vis EUR in Q3 2019, which had favourable impact on the Group's financial results, primarily with reference to the sales revenues generated by the Swedish factories that depend on prices in EUR.

At the end of Q3 2019, the USD/PLN rate recorded an increase by 7.1% versus the end of Q2 2019 and amounted to 4.0000. In Q3 2019, the mean exchange rate amounted to 3.8831 compared to 3.8125 in Q2 2019. That was a PLN depreciation to USD by 1.9%. At the end of Q3 2019, the USD/SEK rate amounted to 9.8111 and was by 5.9% higher than at the end of Q2 2019. The mean exchange rate in Q3 2019 amounted to 9.5879 which was an increase by 1.5% compared to Q2 2019.

The changes of the USD/SEK exchange rates adversely affected the costs incurred in USD by the Swedish Pulp Mills, in particular the costs of pulp. For the Paper Mill in Kostrzyn, the average monthly USD/PLN exchange rate remained unfavourable in Q3 2019.

At the end of September 2019, the EUR/USD rate amounted to 1.0934 compared to 1.1388 at the end of Q2 2016 and to 1.1622 at the end of September 2018. In terms of percentage, that means a depreciation of EUR to USD by 4% versus Q2 2018 and a depreciation of the currency by 5.9% versus the equivalent period of the previous year. In Q3 2019, the mean exchange rate of the pair amounted to 1.1121 compared to 1.1238 in Q2 2019 (-1%).

Further appreciation of EUR versus SEK has positively affected the Group's financial results, mainly due to increased sales revenues generated in EUR and denominated in SEK. The depreciating PLN versus USD in Q3 2019 adversely affected the purchase prices of raw materials for the paper mill in Kostrzyn. USD appreciating vis-a-vis SEK adversely affected the above costs in the Paper Mills in Sweden.

## Factors influencing the financial results in the perspective of the next quarter

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

- Demand for fine paper in Europe. Over the recent years there has been a major decrease of demand for fine paper in Europe. Over the recent years there has been a major decrease of demand for fine paper in Europe (level of executed orders). Further adverse developments in the market situation may negatively affect the levels of orders placed with the Group's Paper Mills and, as a result, will have an adverse impact on the financial results of the Group.
- Price changes of fine paper. In particular, the possibility to raise the prices of Arctic Paper products in local currencies in view of the declining supply/demand in Europe and in the context exchange rates fluctuations, will have a material influence on the financial results. Paper prices are going to be of particular importance for the Paper Mill of Grycksbo which – in connection with the market changes – experiences the greatest adverse impact of decrease of sales volumes, prices as well as of exchange rate fluctuations.
- Price fluctuations of raw materials, including pulp for Paper Mills and electricity for all operational entities. In particular, financial results of Paper Mills may be negatively influenced by increasing pulp prices, particularly BHKP. On the other hand, decreasing NBSK pulp prices may negatively affect the financial results of Pulp Mills. Fluctuations of electricity prices in Sweden may also have a material impact on the results generated by the Group. In the future, such market changes may translate into changes of sales profitability in Paper Mills of AP Munkedals and AP Grycksbo as well as in Pulp Mills of Rottneros and Vallvik.
- Changes in currency rates, in particular, the appreciation of PLN and SEK in relation to EUR and GBP, the appreciation of PLN in relation to SEK, and the depreciation of PLN and SEK in relation to USD, may have an adverse effect on the financial results. However, the Group's Pulp Mills may benefit from the appreciation of USD in relation to SEK.

## Risk factors

### Major changes to risk factors

In Q3 2019, there were no material changes to the risk factors. Those were presented in detail in the semi-annual report for 2018.

## Supplementary information

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

The Management Board of Arctic Paper S.A. has not published the projected financial results for 2019.

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

Managing and supervising persons	Number of shares or rights to shares as at 18.11.2019	Number of shares or rights to shares as at 30.09.2019	Number of shares or rights to shares as at 3.09.2019	Change
<b>Management Board</b>				
Michał Jarczyński	-	-	-	-
Göran Eklund	-	-	-	-
<b>Supervisory Board</b>				
Per Lundeen	34 760	34 760	34 760	-
Thomas Onstad	6 223 658	6 223 658	6 223 658	-
Roger Mattsson	-	-	-	-
Dorota Raben	-	-	-	-
Mariusz Grendowicz	-	-	-	-

### Information on sureties and guarantees

As at 30 September 2019, the Capital Group reported:

- pledge on properties of Arctic Paper Grycksbo AB resulting from an FPG contract in favour of the mutual life insurance company PRI for SEK 50,000 thousand;
- contingent liability under a guarantee for FPG in favour of the mutual life insurance company PRI for SEK 1,392 thousand at Arctic Paper Grycksbo AB and for SEK 941 thousand at Arctic Paper Munkedals AB;
- pledge on properties of Arctic Paper Munkedals AB resulting from an FPG contract in favour of the mutual life insurance company PRI for SEK 50,000 thousand;
- a bank guarantee in favour of Skatteverket Ludvika for SEK 135 thousand;
- pledges on shares in subsidiary companies in the Rottneros Group for SEK 284,730 thousand under loan agreements concluded with Danske Bank;
- guarantee by Rottneros AB for SEK 5,000 thousand vis-a-vis local authorities under future environmental obligations of the Vallvik Paper Mill;
- pledge on 19,950,000 shares of Rottneros AB under loan agreements for EUR 10,000 thousand granted by Arctic Paper Finance AB to Arctic Paper S.A. and EUR 10,000 thousand granted by Mr Thomas Onstad to Arctic Paper Finance AB.

In connection with the term and revolving loan agreements, agreements relating to the bond issue and the intercreditor agreement (described in more detail in the note "Obtaining new financing") signed on 9 September 2016, on 3 October 2016 the Company signed agreements and statements pursuant to which collateral to the above debt and other claims would be established in favour of Bank BGŻ BNP Paribas S.A., acting as the Collateral Agent, that is

1. under Polish law – Collateral Documents establishing the following Collateral:
  - › financial and registered pledges on all shares and interests registered in Poland, owned by the Company and the Guarantors, in companies in the Company Group (with the exception of Rottneros AB, Arctic Paper Mochenwangen GmbH and Arctic Paper Investment GmbH), except the shares in the Company;
  - › mortgages on all properties located in Poland and owned by the Company and the Guarantors;
  - › registered pledges on all material rights and movable assets owned by the Company and the Guarantors, constituting an organised part of enterprise, located in Poland (with the exception of the assets listed in the Loan Agreement);
  - › assignment of (existing and future) insurance policies covering the assets of the Company and the Guarantors (with the exception of insurance policies listed in the Loan Agreement);

- › declaration by the Company and the Guarantors on voluntary submission to enforcement, in the form of a notary deed;
  - › financial pledges and registered pledges on the bank accounts of the Company and the Guarantors, registered in Poland;
  - › powers of attorney to Polish bank accounts of the Company and the Guarantors, registered in Poland;
  - › subordination of the debt held by intragroup lenders (specified in the Intercreditor Agreement).
2. under Swedish law – Collateral Documents establishing the following Collateral:
- › pledges on all shares and interests registered in Poland, owned by the Company and the Guarantors, in Group companies, with the exception of the shares in the company, as well as pledged on the shares in Rottneros (with the exception of the free package of shares in Rottneros);
  - › mortgages on all properties located in Sweden and owned by the Company and the Guarantors as long as such collateral covers solely the existing mortgage deeds;
  - › corporate mortgage loans granted by the Guarantors registered in Sweden as long as such collateral covers solely the existing mortgage deeds;
  - › assignment of (existing and future) insurance policies covering the assets of the Company and the Guarantors (with the exception of insurance policies listed in the Loan Agreement);
  - › pledges on Swedish bank accounts of the Company and the Guarantors as long as such collateral is without prejudice to free management of funds deposited on bank accounts until an event of default specified in the Loan Agreement;
  - › As a result of repayment on 7 January 2018 of liabilities of Arctic Paper Grycksbo AB under the lease contract with Svenska Handelsbanken AB (pledge on movable assets and properties) and in view of the provisions of loan agreements, the process of releasing the above pledges made in favour of Svenska Handelsbanken AB was started and they were incorporated in the inter-creditor agreement.

## Material off-balance sheet items

The information regarding off-balance sheet items is disclosed in the interim abbreviated consolidated financial statements.

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

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

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

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

## Signatures of the Members of the Management Board

Position	First and last name	Date	Signature
President of the Management Board Chief Executive Officer	Michał Jarczyński	18 November 2019	signed with a qualified electronic signature
Member of the Management Board Chief Financial Officer	Göran Eklund	18 November 2019	signed with a qualified electronic signature

A large industrial factory interior with a long production line of machinery. The ceiling is high with exposed metal trusses and lighting fixtures. The floor is polished and reflective. The machinery is a long, continuous line of industrial equipment, possibly for manufacturing or processing. The overall scene is bright and clean.

# **Interim abbreviated financial statements**

for the period of 9 months  
ended on 30 September 2019

## Interim abbreviated consolidated financial statements

### Interim abbreviated consolidated profit and loss statement

	3-month period ended on 30 September 2019 (unaudited)	9-month period ended on 30 September 2019 (unaudited)	3-month period ended on 30 September 2018 (transformed)*	9-month period ended on 30 September 2018 (transformed)*
<b>Continuing operations</b>				
Revenues from sales of products	794 363	2 377 452	816 531	2 389 573
Sales revenues	794 363	2 377 453	816 531	2 389 573
Costs of sales	(638 279)	(1 920 421)	(658 384)	(1 937 594)
Profit (loss) on sales	156 085	457 031	158 146	451 980
Selling and distribution costs	(81 487)	(249 624)	(85 064)	(253 987)
Administrative expenses	(24 520)	(66 376)	(21 497)	(63 346)
Other operating income	9 048	71 046	15 452	35 216
Other operating expenses	(8 524)	(33 824)	(8 037)	(19 679)
Operating profit (loss)	50 602	178 254	59 001	150 183
Financial income	377	1 321	299	1 234
Financial expenses	(8 587)	(26 767)	(7 017)	(28 985)
Gross profit (loss)	42 392	152 807	52 283	122 432
Income tax	(7 830)	(33 657)	(9 509)	(31 245)
Net profit (loss) from continuing operations	34 562	119 150	42 774	91 187
<b>Discontinued operations</b>				
operations	-	-	-	-
Net profit (loss) for the financial year	34 562	119 150	42 774	91 187
Attributable to:				
The shareholders of the Parent Entity, of which:				
- profit (loss) from continuing operations	26 317	72 214	25 359	45 551
- profit (loss) from discontinued operations	-	-	-	-
Non-controlling shareholders, of which:				
- profit (loss) from continuing operations	8 245	46 937	17 415	45 635
- profit (loss) from discontinued operations	-	-	-	-
	34 562	119 150	42 774	91 187
<b>Earnings per share:</b>				
- basic earnings from the profit/(loss) attributable to the shareholders of the Parent Entity	0,38	1,04	0,37	0,66
- basic profit/(loss) from continuing operations attributable to the shareholders of the Parent Entity	0,38	1,04	0,37	0,66
- diluted earnings from the profit attributable to the shareholders of the Parent Entity	0,38	1,04	0,37	0,66
- diluted profit from continuing operations attributable to the shareholders of the Parent Entity	0,38	1,04	0,37	0,66

\* information on the transformed data is provided in note 6.4 hereof

## Interim abbreviated consolidated statement of total comprehensive income

	3-month period ended on 30 September 2019 (unaudited)	9-month period ended on 30 September 2019 (unaudited)	3-month period ended on 30 September 2018 (transformed)*	9-month period ended on 30 September 2018 (transformed)*
Net profit/(loss) for the reporting period	34 562	119 150	42 774	91 187
Items to be reclassified to profit/loss in future reporting periods:				
FX differences on translation of foreign operations	7 153	(18 339)	(5 347)	(11 455)
Measurement of financial instruments	3 449	(37 579)	(3 122)	38 857
Deferred income tax on the measurement of financial instruments	(128)	8 624	1 122	(8 026)
Other comprehensive income (net)	10 474	(47 294)	(7 347)	19 375
Total comprehensive income for the period	45 036	71 856	35 427	110 562
Total comprehensive income attributable to:				
The shareholders of the Parent Entity	31 605	41 020	20 469	61 009
Non-controlling shareholders	13 431	30 837	14 957	49 553

\* information on the transformed data is provided in note 6.4 hereof

## Interim abbreviated consolidated statement of financial position

	As at 30 September 2019 (unaudited)	As at 30 June 2019 (after review)	As at 31 December 2018	As at 30 September 2018 (transformed)*
<b>ASSETS</b>				
Fixed assets				
Tangible fixed assets	961 165	934 136	901 960	868 371
Investment properties	4 236	4 236	4 236	4 107
Intangible assets	39 021	39 064	49 160	47 920
Interests in joint ventures	1 147	1 134	1 182	966
Other financial assets	28 673	34 051	52 520	44 659
Other non-financial assets	1 738	1 714	1 773	1 498
Deferred income tax asset	27 051	27 182	27 137	27 479
	1 063 031	1 041 517	1 037 969	995 000
Current assets				
Inventories	393 806	419 983	478 614	439 420
Trade and other receivables	390 248	404 605	365 946	426 486
Corporate income tax receivables	11 123	9 266	6 017	11 154
Other non-financial assets	13 158	12 602	14 267	16 467
Other financial assets	29 566	22 726	50 527	47 441
Cash and cash equivalents	254 581	206 406	201 118	180 773
	1 092 481	1 075 587	1 116 489	1 121 740
Assets related to discontinued operations	-	-	1 716	2 383
<b>TOTAL ASSETS</b>	<b>2 155 512</b>	<b>2 117 105</b>	<b>2 156 174</b>	<b>2 119 124</b>
<b>EQUITY AND LIABILITIES</b>				
Equity				
Equity (attributable to the shareholders of the Parent Entity)				
Share capital	69 288	69 288	69 288	69 288
Reserve capital	407 976	407 976	407 976	407 976
Other reserves	149 026	147 386	151 110	134 282
FX differences on translation	(28 496)	(32 144)	(12 338)	(15 812)
Retained earnings / Accumulated losses	19 868	(6 449)	(27 745)	12 548
Cumulated other total comprehensive income related to discontinued operations	-	-	(11 649)	(11 690)
	617 662	586 057	576 643	596 591
Non-controlling stake	294 492	281 061	284 550	269 597
<b>Total equity</b>	<b>912 154</b>	<b>867 118</b>	<b>861 193</b>	<b>866 188</b>
Long-term liabilities				
Interest-bearing loans and borrowings	298 552	173 014	246 805	311 555
Provisions	103 742	102 813	106 846	102 122
Other financial liabilities	30 147	31 333	2 854	3 123
Deferred income tax liability	87 850	79 726	68 316	61 733
Accruals and deferred income	15 496	16 108	16 560	16 971
	535 786	402 993	441 381	495 504
Short-term liabilities				
Interest-bearing loans and borrowings	114 984	262 129	223 698	153 270
Provisions	2 966	2 255	939	552
Other financial liabilities	10 466	13 391	8 486	20 298
Trade and other payables	491 360	476 243	516 678	481 940
Income tax liability	569	1 363	1 141	291
Accruals and deferred income	87 226	91 614	99 303	99 503
	707 571	846 994	850 245	755 855
Liabilities directly related to the discontinued operations	-	-	3 355	1 576
<b>TOTAL LIABILITIES</b>	<b>1 243 358</b>	<b>1 249 987</b>	<b>1 294 981</b>	<b>1 252 936</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>2 155 512</b>	<b>2 117 105</b>	<b>2 156 174</b>	<b>2 119 124</b>

\* information on the transformed data is provided in note 6.4 hereof

## Interim abbreviated consolidated cash flow statement

	3-month period ended on 30 September 2019 (unaudited)	9-month period ended on 30 September 2019 (unaudited)	3-month period ended on 30 September 2018 (transformed)*	9-month period ended on 30 September 2018 (transformed)*
<b>Cash flows from operating activities</b>				
Gross profit (loss) from continuing operations	42 392	152 807	52 283	122 432
Gross profit (loss) on discontinued operations	-	-	-	-
Gross profit (loss)	42 392	152 807	52 283	122 432
Adjustments for:				
Depreciation/amortisation	20 910	64 869	23 029	68 261
FX gains / (loss)	(1 544)	1 260	(1 153)	3 415
Net interest and dividends	5 972	17 203	5 824	17 052
Profit / loss from investing activities	923	(16 425)	(64)	(352)
Increase / decrease in receivables and other non-financial assets	6 474	(32 125)	(13 245)	(103 536)
Change to inventories	30 015	75 109	(33 015)	(94 087)
Increase (decrease) of liabilities except loans, borrowings, bonds and other financial liabilities	23 293	(25 963)	38 725	44 629
Change in accruals and prepayments	(6 387)	(10 094)	(2 045)	21 295
Change in provisions	315	1 220	(39)	(1 982)
Income tax paid	(2 948)	(10 217)	(4 272)	(9 442)
Co-generation certificates	(124)	7 292	1 627	767
Other	115	(32)	93	(329)
Net cash flows from operating activities	119 407	224 904	67 749	68 123
<b>Cash flows from investing activities</b>				
Disposal of tangible fixed and intangible assets	9 580	17 238	149	1 311
Purchase of tangible and intangible fixed assets	(51 786)	(91 438)	(39 256)	(105 253)
Other capital outflows / inflows	-	-	19	(10 796)
Net cash flows from investing activities	(42 206)	(74 201)	(39 089)	(114 739)
<b>Cash flows from financing activities</b>				
Change to overdraft facilities	(49 066)	(56 319)	8 937	48 901
Repayment of financial leasing liabilities	(2 076)	(6 239)	(258)	(23 398)
Inflows/repayment of other financial liabilities	407	404	(415)	(416)
Inflows from loans, borrowings and bonds	48 274	51 093	22 009	36 514
Repayment of loans, borrowings and bonds	(21 737)	(46 198)	(14 839)	(31 933)
Dividend disbursed to shareholders of AP SA	-	-	-	(13 858)
Dividend disbursed to non-controlling shareholders	-	(20 895)	-	(11 510)
Interest paid	(5 629)	(16 460)	(5 507)	(16 412)
Net cash flows from financing activities	(29 827)	(94 615)	9 926	(12 112)
Change in cash and cash equivalents	47 374	56 088	38 587	(58 728)
Net FX differences	802	(3 597)	(1 463)	(3 099)
Cash and cash equivalents at the beginning of the period	206 406	202 089	144 901	243 851
Cash and cash equivalents at the end of the period including with restricted access	254 581	254 581	182 025	182 024

\* information on the transformed data is provided in note 6.4 hereof



## Interim abbreviated consolidated statement of changes in equity

### Attributable to the shareholders of the Parent Entity

	Share capital	Reserve capital	FX differences on translation of foreign operations	Other reserves	Retained earnings / (Accumulated losses)	Cumulated other total comprehensive income related to discontinued operations	Total	Equity attributable to non-controlling shareholders	Total equity
As at 1 January 2019	69 288	407 976	(12 338)	151 110	(27 745)	(11 649)	576 643	284 550	861 193
Net profit / (loss) for the period	-	-	-	-	72 214	-	72 214	46 937	119 150
Other comprehensive income (net) for the period	-	-	(9 586)	(21 608)	-	-	(31 194)	(16 100)	(47 294)
Total comprehensive income for the period	-	-	(9 586)	(21 608)	72 214	-	41 020	30 837	71 856
Profit distribution	-	-	-	19 523	(19 523)	-	-	-	-
Dividend distribution to non-controlling entities	-	-	-	-	-	-	-	(20 895)	(20 895)
Derecognition of discontinued activity	-	-	(6 572)	-	(5 077)	11 649	-	-	-
As at 30 September 2019 (unaudited)	69 288	407 976	(28 496)	149 026	19 868	-	617 662	294 492	912 154

### Attributable to the shareholders of the Parent Entity

	Share capital	Reserve capital	FX differences on translation of foreign operations	Other reserves	Retained earnings / (Accumulated losses)	Cumulated other total comprehensive income related to discontinued operations	Total	Equity attributable to non-controlling shareholders	Total equity
As at 1 January 2018	69 288	447 638	(9 207)	125 997	(72 665)	(11 611)	549 439	231 555	780 993
Net profit / (loss) for the period	-	-	-	-	45 551	-	45 551	45 635	91 187
Other comprehensive income (net) for the period	-	-	(6 684)	22 142	-	-	15 458	3 917	19 375
Total comprehensive income for the period	-	-	(6 684)	22 142	45 551	-	61 009	49 553	110 562
Dividend disbursed to shareholders of AP SA	-	-	-	(13 857)	-	-	(13 857)	-	(13 857)
Dividend distribution to non-controlling entities	-	-	-	-	-	-	-	(11 510)	(11 510)
Discontinued operations	-	-	79	-	-	(79)	-	-	-
Profit distribution	-	(39 662)	-	-	39 662	-	-	-	-
As at 30 September 2018 (transformed)*	69 288	407 976	(15 812)	134 282	12 548	(11 690)	596 591	269 597	866 188

\* information on the transformed data is provided in note 6.4 hereof

## Interim abbreviated standalone financial statements

### Interim abbreviated standalone profit and loss statement

	3-month period ended on 30 September 2019 (unaudited)	9-month period ended on 30 September 2019 (unaudited)	3-month period ended on 30 September 2018 (unaudited)	9-month period ended on 30 September 2018 (unaudited)
Continuing operations				
Revenues from sales of services	7 176	22 084	8 184	26 047
Interest income on loans	1 081	3 308	1 219	3 672
Dividend income	1 574	27 333	670	39 567
Sales revenues	9 831	52 726	10 073	69 287
Interest expense to related entities and costs of sales of logistics services	(1 164)	(3 854)	(1 390)	(3 915)
Profit (loss) on sales	8 667	48 872	8 683	65 372
Other operating income	114	217	62	311
Selling and distribution costs	(719)	(2 248)	(748)	(2 247)
Administrative expenses	(6 051)	(19 007)	(6 596)	(20 730)
Impairment charges to assets	2 783	3 233	(192)	(630)
Other operating expenses	(1 206)	(1 365)	(47)	(74)
Operating profit (loss)	3 587	29 702	1 161	42 002
Financial income	400	3 712	1 428	3 522
Financial expenses	(4 579)	(14 329)	(5 060)	(16 545)
Gross profit (loss)	(591)	19 084	(2 470)	28 979
Income tax	0	(1)	(4)	(304)
Net profit (loss) from continuing operations	(591)	19 083	(2 475)	28 675
Discontinued operations				
Profit (loss) for the financial year from discontinued	-	-	-	-
Net profit (loss) for the financial year	(591)	19 083	(2 475)	28 675
Earnings per share:				
– basic earnings from the profit (loss) for the period	(0,01)	0,28	(0,04)	0,41
– basic earnings from the profit (loss) from continuing operations for the period	(0,01)	0,28	(0,04)	0,41

## Interim abbreviated standalone income statement

	3-month period ended on 30 September 2019 (unaudited)	9-month period ended on 30 September 2019 (unaudited)	3-month period ended on 30 September 2018 (unaudited)	9-month period ended on 30 September 2018 (unaudited)
Net profit/(loss) for the reporting period	(591)	19 083	(2 475)	28 675
Items to be reclassified to profit/loss in future reporting periods:				
Measurement of financial instruments	1 101	1 334	362	595
FX differences on translation of foreign operations	(21)	313	(53)	281
Other comprehensive income (net)	1 080	1 647	309	876
Total comprehensive income	489	20 731	(2 166)	29 551

## Interim abbreviated standalone statement of financial position

	As at 30 September 2019 (unaudited)	As at 30 June 2019 (after review)	As at 31 December 2018	As at 30 September 2018 (unaudited)
<b>ASSETS</b>				
Fixed assets				
Tangible fixed assets	2 329	2 506	1 480	1 588
Intangible assets	1 799	1 872	1 857	1 797
Shares in subsidiaries	673 938	673 938	673 937	678 313
Other financial assets	54 003	60 637	72 742	78 549
Other non-financial assets	1 448	1 431	1 492	1 220
	733 517	740 384	751 507	761 468
Current assets				
Trade and other receivables	117 601	105 169	90 469	89 331
Income tax receivables	309	267	349	300
Other financial assets	80 972	100 244	123 848	114 724
Other non-financial assets	3 229	5 785	6 833	4 172
Cash and cash equivalents	15 866	10 609	19 605	6 220
	217 977	222 074	241 104	214 747
<b>TOTAL ASSETS</b>	<b>951 494</b>	<b>962 457</b>	<b>992 611</b>	<b>976 215</b>
<b>EQUITY AND LIABILITIES</b>				
Equity				
Share capital	69 288	69 288	69 288	69 288
Reserve capital	427 502	407 979	407 979	407 979
Other reserves	103 733	122 566	102 399	103 037
FX differences on translation	1 774	1 883	1 461	1 448
Retained earnings / Accumulated losses	(46 442)	(45 851)	(46 002)	(35 212)
Total equity	555 855	555 865	535 124	546 540
Long-term liabilities				
Interest-bearing loans and borrowings	140 393	10 630	80 782	158 349
Provisions	1 799	1 778	1 854	1 516
Other long-term liabilities	884	992	171	209
	143 077	13 401	82 807	160 075
Short-term liabilities				
Interest-bearing loans and borrowings	191 744	328 321	272 269	181 682
Trade payables	46 772	51 530	86 924	75 067
Other financial liabilities	2 863	3 590	3 802	3 261
Other short-term liabilities	1 793	1 630	2 394	1 605
Income tax liability	-	-	-	125
Accruals and deferred income	9 392	8 120	9 290	7 860
	252 563	393 191	374 679	269 599
<b>TOTAL LIABILITIES</b>	<b>395 640</b>	<b>406 592</b>	<b>457 486</b>	<b>429 675</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>951 494</b>	<b>962 457</b>	<b>992 611</b>	<b>976 215</b>

## Interim abbreviated standalone cash flow statement

	3-month period ended on 30 September 2019 (unaudited)	9-month period ended on 30 September 2019 (unaudited)	3-month period ended on 30 September 2018 (unaudited)	9-month period ended on 30 September 2018 (unaudited)
<b>Cash flows from operating activities</b>				
Gross profit (loss)	(591)	19 084	(2 466)	28 979
Adjustments for:				
Depreciation/amortisation	581	823	119	368
FX gains / (loss)	(1)	(1)	(1 533)	1 249
Impairment of assets	-	-	-	-
Net interest and dividends	1 916	5 741	2 068	6 078
Increase / decrease in receivables and other non-financial assets	(9 893)	(23 484)	(9 498)	(8 580)
Increase / decrease in liabilities except for loans, borrowings and debt secu	(4 597)	(40 753)	10 676	15 804
Change in accruals and prepayments	1 152	102	743	(225)
Change in provisions	21	(55)	(15)	(34)
Income tax paid	(42)	39	78	(438)
Change to liabilities due to cash-pooling	35 619	74 533	(6 633)	(83 332)
Increase / decrease of loans granted to subsidiaries	8 759	20 970	4 738	(50 072)
Other	310	1 423	33	(204)
<b>Net cash flows from operating activities</b>	<b>33 233</b>	<b>58 422</b>	<b>(1 690)</b>	<b>(90 408)</b>
<b>Cash flows from investing activities</b>				
Disposal of tangible fixed and intangible assets	204	204	-	-
Purchase of tangible fixed and intangible assets	(330)	(1 822)	(60)	(199)
<b>Net cash flows from investing activities</b>	<b>(126)</b>	<b>(1 618)</b>	<b>(60)</b>	<b>(199)</b>
<b>Cash flows from financing activities</b>				
Inflows from loans and borrowings	(6 898)	(6 898)	19 647	38 564
Repayment of loan liabilities	(21 985)	(46 198)	(18 669)	(35 683)
Dividend disbursed	-	-	-	(13 857)
Change of balance of working capital loans	5 181	-	8 835	78 646
Interest paid	(4 153)	(7 448)	(3 451)	(7 569)
Repayment of financial leasing liabilities	-	-	(74)	(218)
<b>Net cash flows from financing activities</b>	<b>(27 854)</b>	<b>(60 544)</b>	<b>6 288</b>	<b>59 884</b>
Change in cash and cash equivalents	5 253	(3 740)	4 538	(30 723)
Cash and cash equivalents at the beginning of the period	10 609	19 605	1 682	36 943
<b>Cash and cash equivalents at the end of the period</b>	<b>15 862</b>	<b>15 866</b>	<b>6 220</b>	<b>6 220</b>

## Interim abbreviated standalone statement of changes in equity

Attributable to the shareholders of the Parent Entity						
	Share capital	Reserve capital	FX differences on translation of foreign operations	Other reserves	Retained earnings / (Accumulated losses)	Total equity
As at 01 January 2019	69 288	407 979	1 461	102 399	(46 002)	535 124
Net profit for the period	-	-	-	-	19 083	19 083
Other comprehensive income (net) for the period	-	-	313	1 334	-	1 647
Total comprehensive income for the period	-	-	313	1 334	19 083	20 731
Profit distribution	-	19 523	-	-	(19 523)	-
Dividend distribution	-	-	-	-	-	-
Settlement of the tax group in Sweden	-	-	-	-	-	-
As at 30 September 2019 (unaudited)	69 288	427 502	1 774	103 733	(46 442)	555 856

Attributable to the shareholders of the Parent Entity						
	Share capital	Reserve capital	FX differences on translation of foreign operations	Other reserves	Retained earnings / (Accumulated losses)	Total equity
As at 01 January 2018	69 288	447 641	1 167	116 300	(103 364)	531 032
Net profit for the period	-	-	-	-	28 675	28 675
Other comprehensive income (net) for the period	-	-	281	595	-	876
Total comprehensive income for the period	-	-	281	595	28 675	29 551
Profit distribution	-	(39 662)	-	-	39 662	-
Dividend distribution	-	-	-	(13 858)	-	(13 858)
Settlement of the tax group in Sweden	-	-	-	-	(185)	(185)
As at 30 September 2018 (unaudited)	69 288	407 979	1 448	103 037	(35 212)	546 540

## Additional explanatory notes

### 1. General information

The Arctic Paper Group is a leading European producer in terms of production volume of bulky book paper, offering a broad range of products in the segment and one of the leading producers of high-quality graphic paper in Europe. The Group produces numerous types of uncoated and coated wood-free paper as well as wood-containing uncoated paper for printing houses, paper distributors, book and magazine publishing houses and the advertising industry. As of the day hereof, the Arctic Paper Group employs app. 1,530 people in its Paper Mills and Pulp Mills, companies dealing in paper distribution and the procurement office. Our Paper Mills are located in Poland and Sweden and have total production capacity of more than 685,000 tonnes of paper per year. The Pulp Mills are located in Sweden and have total production capacity of over 400,000 tonnes of pulp per year. The Group has fourteen Sales Offices which handle distribution and marketing of products offered by the Group providing access to all European markets, including Central and Eastern Europe.

Our consolidated sales revenues for nine months of 2019 amounted to PLN 2,377 million.

Arctic Paper S.A. is a holding company set up in April 2008. As a result of capital restructuring carried out in 2008, the Paper Mills Arctic Paper Kostrzyn (Poland) and Arctic Paper Munkedals (Sweden), Distribution Companies and Sales Offices have become the properties of Arctic Paper S.A. Previously, they were owned by Arctic Paper AB (now Trebruk AB), which was then the Parent Entity of Arctic Paper S.A. In addition, under the expansion, the Group acquired the Paper Mill of Arctic Paper Mochenwangen (Germany) in November 2008 and the Paper Mill Grycksbo (Sweden) in March 2010. In 2012, the Group acquired shares in Rottneros AB, a company listed on NASDAQ in Stockholm, Sweden, holding interests in two Pulp Mills (Sweden).

The Parent Entity is entered in the register of entrepreneurs of the National Court Register maintained by the District Court in Poznań – Nowe Miasto i Wilda, 8th Commercial Division of the National Court Register, under KRS number 0000306944. The Parent Entity holds statistical number REGON 080262255. On 8 October 2019, the court registered change of the Company's registered office to Kostrzyn nad Odrą. The Company has a foreign branch in Göteborg, Sweden.

The interim abbreviated consolidated financial statements of the Group for 9 months of 2019 cover:

- interim abbreviated consolidated profit and loss account, statement of comprehensive income and a cash flow statement for the periods of three and nine months ended on 30 September 2019 and contain comparable data for the equivalent periods ended on 30 September 2018;
- interim abbreviated statement of changes in equity for the period of nine months ended on 30 September 2019 and comparative data for the equivalent period ended on 30 September 2018;
- interim abbreviated consolidated statement of financial condition as at 30 September 2019 and comparative data as at 30 June 2019, 31 December 2018 and 30 September 2018.

#### 1.1. Group Profile

The main area of the Arctic Paper Group's business activities is paper production.

The additional business activities of the Group, subordinated to paper production are:

- production and sales of pulp,
- generation of electricity,
- transmission of electricity,
- electricity distribution,
- heat production,
- heat distribution,
- logistics services,
- paper distribution.

## 1.2. Shareholding structure

Nemus Holding AB, a company under Swedish law (a company owned indirectly by Mr Thomas Onstad), is the majority shareholder of Arctic Paper S.A., holding (as at 30 September 2019) 40,381,449 shares of our Company, which constitutes 58.28% of its share capital and corresponds to 58.28% of the total number of votes at General Meetings. Thus Nemus Holding AB is the parent entity of the Issuer.

Additionally, Mr Thomas Onstad, an indirect shareholder of Nemus Holding AB, holds directly 6,223,658 shares representing 8.98% of the total number of shares in the Company, and via another entity – 600,000 shares accounting for 0.87% of the total number of shares of the Issuer. Mr Thomas Onstad's total direct and indirect holding in the capital of Arctic Paper S.A. as at 30 September 2019 was 68.13% and has not changed until the date hereof.

The Parent Entity of the Arctic Paper Group is Incarta Development S.A.

The duration of the Company is indefinite.

## 2. Composition of the Group

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

Unit	Registered office	Business objects	Group's interest in the equity of the subsidiary entities as at			
			28	30	3	31
			November 2019	September 2019	September 2019	December 2018
Arctic Paper Kostrzyn S.A.	Poland, Fabryczna 1, 66-470 Kostrzyn nad Odrą	Paper production	100%	100%	100%	100%
Arctic Paper Munkedals AB	Sweden, SE 455 81 Munkedal	Paper production	100%	100%	100%	100%
Arctic Paper Mochenwangen GmbH	Germany, Fabrikstrasse 62, DE-882, 84 Wolpertswende	Paper production	99,74%	99,74%	99,74%	99,74%
Arctic Paper Grycksbo AB	Sweden, Box 1, SE 790 20 Grycksbo	Paper production	100%	100%	100%	100%
Arctic Paper UK Limited	United Kingdom, 8 St Thomas Street SE1 9RR London	Trading company	100%	100%	100%	100%
Arctic Paper Baltic States SIA	Latvia, K. Vardemara iela 33-20, Riga LV-1010	Trading company	100%	100%	100%	100%
Arctic Paper Deutschland GmbH	Germany, Am Sandtorkai 72, 20457 Hamburg	Trading company	100%	100%	100%	100%
Arctic Paper Benelux S.A.	Belgium, Ophemstraat 24, B-3050 Oud-Heverlee	Trading company	100%	100%	100%	100%
Arctic Paper Schweiz AG	Switzerland, Gutenbergstrasse 1, CH-4552 Derendingen	Trading company	100%	100%	100%	100%
Arctic Paper Italia srl	Italy, Via Cavriana 7, 20 134 Milan	Trading company	100%	100%	100%	100%
Arctic Paper Danmark A/S	Denmark, Korskindelund 6 DK-2670 Greve	Trading company	100%	100%	100%	100%
Arctic Paper France SAS	France, 43 rue de la Breche aux Loups, 75012 Paris	Trading company	100%	100%	100%	100%
Arctic Paper Espana SL	Spain, Avenida Diagonal 472-474, 9-1 Barcelona	Trading company	100%	100%	100%	100%
Arctic Paper Papierhandels GmbH	Austria, Hainborgerstrasse 34A, A-1030 Wien	Trading company	100%	100%	100%	100%
Arctic Paper Polska Sp. z o.o.	Poland, Okrężna 9, 02-916 Warszawa	Trading company	100%	100%	100%	100%
Arctic Paper Norge AS	Norway, Eikenga 11-15, NO-0579 Oslo	Trading company	100%	100%	100%	100%
Arctic Paper Sverige AB	Sweden, SE 455 81 Munkedal	Trading company	100%	100%	100%	100%
Arctic Paper East Sp. z o.o.	Poland, Fabryczna 1, 66-470 Kostrzyn nad Odrą	Trading company	100%	100%	100%	100%



Unit	Registered office	Business objects	Group's interest in the equity of the subsidiary entities as at			
			28 November 2019	30 September 2019	3 September 2019	31 December 2018
Arctic Paper Investment GmbH *	Germany, Fabrikstrasse 62, DE-882, 84 Wolpertswende	Activities of holding companies	100%	100%	100%	100%
Arctic Paper Finance AB	Sweden, Box 383, 401 26 Göteborg	Activities of holding companies	100%	100%	100%	100%
Arctic Paper Verwaltungs GmbH *	Germany, Fabrikstrasse 62, DE-882, 84 Wolpertswende	Activities of holding companies	100%	100%	100%	100%
Arctic Paper Immobilienverwaltung GmbH&Co. KG*	Germany, Fabrikstrasse 62, DE-882, 84 Wolpertswende	Activities of holding companies	94,90%	94,90%	94,90%	94,90%
Arctic Paper Investment AB **	Sweden, Box 383, 401 26 Göteborg	Activities of holding companies	100%	100%	100%	100%
EC Kostrzyn Sp. z o.o.	Poland, ul. Fabryczna 1, 66-470 Kostrzyn nad Odrą	Rental of properties and machines and equipment	100%	100%	100%	100%
Arctic Paper Munkedals Kraft AB	Sweden, 455 81 Munkedal	Production of hydropower	100%	100%	100%	100%
Rottneros AB	Sweden, Söderhamn	Activities of holding companies	51,27%	51,27%	51,27%	51,27%
Rottneros Bruk AB	Sweden, Rottneros	Pulp production	51,27%	51,27%	51,27%	51,27%
Utansjö Bruk AB	Sweden, Söderhamn	Non-active company	51,27%	51,27%	51,27%	51,27%
Vallviks Bruk AB	Sweden, Vallvik	Pulp production	51,27%	51,27%	51,27%	51,27%
Rottneros Packaging AB	Sweden, Sunne	Production of food packaging	51,27%	51,27%	51,27%	51,27%
SIA Rottneros Baltic	Latvia, Kuldīga	Procurement bureau	51,27%	51,27%	51,27%	51,27%

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

\*\* – the company established for the purpose of the acquisition of Grycksbo Paper Holding AB

As at 30 September 2019, and as well as on the day hereof, the percentage of voting rights held by the Group in its subsidiaries corresponded to the percentage held in the share capital of those entities. All subsidiaries within the Group are consolidated under the full method from the day of obtaining control by the Group and cease to be consolidated from the day the control has been transferred out of the Group.

On 1 October 2012, Arctic Paper Munkedals AB purchased 50% shares in Kalltorp Kraft Handelsbolaget with its registered office in Trolhattan, Sweden. Kalltorp Kraft is involved in the production of energy in its hydro power plant. The purpose of the purchase was to implement the strategy of increasing its own energy potential. The shares in Kalltorp Kraft were recognised as a joint venture and measured with the equity method.

## 3. Management and supervisory bodies

### 3.1. Management Board of the Parent Entity

As at 30 September 2019, the Parent Entity's Management Board was composed of:

— Michał Jarczyński – President of the Management Board appointed on 1 February 2019;

— Göran Eklund – Member of the Management Board appointed on 30 August 2017.

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

### 3.2. Supervisory Board of the Parent Company

As at 30 September 2019, the Parent Entity's Supervisory Board was composed of:

- Per Lundeen – Chairman of the Supervisory Board appointed on 22 September 2016 (appointed to the Supervisory Board on 14 September 2016);
- Roger Mattsson – Deputy Chairman of the Supervisory Board appointed on 22 September 2016 (appointed as a Member of the Supervisory Board on 16 September 2014);
- Thomas Onstad – Member of the Supervisory Board appointed on 22 October 2008;
- Mariusz Grendowicz – Member of the Supervisory Board appointed on 28 June 2012 (independent member);
- Dorota Raben – Member of the Supervisory Board appointed on 28 May 2019 (independent member).

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

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

### 3.3. Audit Committee of the Parent Entity

As at 30 September 2019, the Parent Entity's Audit Committee was composed of:

- Mariusz Grendowicz – President of the Management Board appointed on 18 September 2017 (appointed as a Member of the Audit Committee on 20 February 2013);
- Roger Mattsson – Member of the Audit Committee appointed on 23 June 2016;
- Dorota Raben – Member of the Audit Committee appointed on 19 July 2019.

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

## 4. Approval of the financial statements

These interim abbreviated financial statements were approved for publication by the Management Board on 18 November 2019.

## 5. Basis of preparation of the interim abbreviated consolidated financial statements

These interim abbreviated consolidated financial statements were prepared in accordance with the requirements of International Accounting Standard No. 34 and the Regulation of the Minister of Finance of 29 March 2018 on current and periodic information provided by issuers of securities and on conditions under which information required by legal regulations of a third country may be recognised as equivalent (Journal of Laws of 2018, item 757).

These interim abbreviated consolidated financial statements have been presented in Polish zloty ("PLN") and all values are rounded to the nearest thousand (PLN '000) except as stated otherwise.

These interim abbreviated consolidated financial statements have been prepared based on the assumption that the Group will continue as a going concern in the foreseeable future.

In connection with the term and revolving loan agreements, agreements related to bond issues, signed on 9 September 2016, the Group agreed to maintain specified financial ratios that are calculated at the end of each quarter. As at 30 September 2019, the Group complied with the financial ratios required under the above loan agreement concluded with a consortium of financing banks (Santander Bank S.A., Bank BNP Paribas S.A. and the European Bank for Reconstruction and Development).

The interim abbreviated consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the Group's annual consolidated financial statements for the year ended on 31 December 2018.

## 6. Significant accounting principles (policies)

The accounting principles (policies) applied to prepare the interim abbreviated consolidated financial statements are compliant with those applied to the annual consolidated financial statements of the Group for the year ended on 31 December 2018, with the following exceptions:

— IFRS 16 Leases – effective for financial years beginning on or after 1 January 2019,

The Group has not decided to adopt earlier any other standard, interpretation or amendment that was issued but is not yet effective.

### 6.1. Implementation of IFRS 16

In January 2016, the International Accounting Standards Board issued International Financial Reporting Standard 16 *Leases* ("IFRS 16"), which replaced IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC 15 *Operating Leases – Incentives* and SIC 27 *Evaluating the substance of transactions involving the legal form of a lease*. IFRS 16 sets out the accounting principles for leases in terms of measurement, presentation and disclosure.

IFRS 16 introduces a uniform model of the lessee accounting and requires the lessee to recognize assets and liabilities resulting from each lease with a period exceeding 12 months, unless the underlying asset is of low value. On the lease commencement date, the lessee recognizes an asset with respect to the right to use the underlying asset and a lease liability that reflects the lessee's obligation to make lease payments.

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

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

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

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

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

IFRS 16 is effective for annual periods beginning on and after 1 January 2019. Earlier application is permitted for entities which apply IFRS 15 from or before the date of the first application of IFRS 16. The Group did not decide on early adoption of IFRS 16.

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

As at 1 January 2019, the Group implemented prospectively a uniform model of lessee accounting covering lease contracts in compliance with IFRS 16 with terms in excess of 12 months unless the underlying asset has value under EUR 5 thousand. The contracts covered with IFRS 16 are mainly operational lease contracts within the meaning of IAS 17 (motor vehicles and fork-lift trucks, office equipment, perpetual usufruct right of land in Poland) and lease contracts for specified periods of time over 12 months from 31 December 2018 (lease of warehouse and office space, rental of machinery).

As at 01 January 2019, the value of use rights, disclosed in tangible fixed assets and lease liabilities grew by PLN 38,080 thousand. The average weighted margin interest rate applied to lease liabilities recognised in the statement of financial condition on the date of the first application was between 3% and 4.79%, depending on the type of assets or funding method of the company.

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

The difference between the amounts of future payments that the Group was obliged to make under operational leases, disclosed in compliance with IAS 17 as at the end of 2018, discounted with the marginal interest rate as at the day of the first application, and the lease liabilities disclosed in the statement of financial condition on the day of the first application of

IFRS 16 – 1 January 2019, was due to the recognition of lease contracts that did not have to be disclosed in 2018 in compliance with IAS 17.

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

The following standards and interpretations were issued by the International Accounting Standards Board (IASB) or the International Financial Reporting Interpretations Committee (IFRIC) but are not yet effective:

- Modifications to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures; sale or transfer of assets between Investor and Associates and Joint Ventures; the European Commission decided to defer the endorsement of those amendments indefinitely;
- IFRS 17 Insurance Contracts; effective for annual periods beginning on or after 1 January 2021, prospective application, earlier application permitted; the Standard has not yet been endorsed by EU;
- Amendments to IFRS 3 Business Combinations; effective for annual periods beginning on or after 1 January 2020; the amendments have not yet been endorsed by EU;
- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting policies, changes in accounting estimates and errors (effective for annual periods beginning on or after 1 January 2020); the amendments have not yet been endorsed by EU.

The Group does not expect the Standards to have material effect on its financial statements when they become effective.

## 6.3. Foreign currency translation

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

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

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

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

The following exchange rates were used for book valuation purposes:

	30 September 2019	31 December 2018
USD	4,0000	3,7597
EUR	4,3736	4,3000
SEK	0,4077	0,4201
DKK	0,5858	0,5759
NOK	0,4406	0,4325
GBP	4,9313	4,7895
CHF	4,0278	3,8166

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

	01/01 - 30/09/2019	01/01 - 30/09/2018
USD	3,8287	3,5599
EUR	4,3022	4,2491
SEK	0,4073	0,4152
DKK	0,5763	0,5703
NOK	0,4403	0,4431
GBP	4,8713	4,8062
CHF	3,8487	3,6604

#### 6.4. Data comparability / adjustments to previous years' errors

##### Error adjustment

As a result an analysis of IAS 17 Leases, as at 31 December 2018 the Group decided to make an adjustment to eliminate perpetual usufruct right to land and to treat it as operational lease, applying the adjustment retrospectively.

Basic and diluted earnings per share attributable to the shareholders of the parent entity for the period of 9 months ended on 30 September 2018 grew from PLN 0.65 to PLN 0.66 and for the period of 3 months ended on 30 September 2018 was not changed and amounted to PLN 0.37.

##### Discontinued operations

In Q2 2019, the Issuer's Management Board decided to discontinue presenting the results of the AP Mochenwangen Group as discontinued operations as the applicable criteria for the activity have not been complied with. As a result profit/loss of discontinued operations for the period of 9 months ended on 30 September 2018 and for the period of 3 months ended on that day, was disclosed in continuing operations.

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

Additional explanation in that respect was presented in note 9.

##### Presentation of revenues from pulp sales

Effective on 1 January 2018, the Rottneros Group and the Arctic Paper Group recognised result of completed forward contracts for the sale of pulp as revenues from auxiliary products.

The adjustment had no impact on net profit/loss and earnings per share.

The table below presents the impact of the above adjustments on the statement of financial condition as at 30 September 2018 and the profit and loss account for the period of 9 months ended on 30 September 2018 and the period of 3 months ended on 30 September 2018.

	Approved data	Impact of adjustment – mistake adjustment	Impact of adjustment – discontinued activity	Impact of adjustment – revenues from pulp sales	Transformed data
Impact on the consolidated report on financing activities as at September 2018					
Tangible fixed assets	880 684	(12 313)	-	-	868 371
Total impact on assets		(12 313)	-	-	
Retained earnings / Accumulated losses	22 521	(9 973)	-	-	12 548
Deferred income tax liability	64 073	(2 340)	-	-	61 733
Total impact on equity and liabilities		(12 313)	-	-	
Impact on the consolidated report on financing activities as at 30 September 2018					
Revenues from sales of products	2 377 509	-	-	12 064	2 389 573
Costs of sales	(1 924 777)	110	(863)	(12 064)	(1 937 594)
Selling and distribution costs	(253 933)	-	(54)	-	(253 987)
Administrative expenses	(60 997)	-	(2 349)	-	(63 346)
Other operating income	33 987	294	935	-	35 216
Other operating expenses	(19 679)	-	-	-	(19 679)
Financial expenses	(28 972)	-	(13)	-	(28 985)
Income tax	(31 222)	(76)	53	-	(31 245)
Discontinued operations	(2 291)	-	2 291	-	-
Total effect on net profit/ (loss)		328	-	-	
Impact on net profit (loss) for three months ended on 30 September 2018					
Revenues from sales of products	812 371	-	-	4 160	816 531
Financial expenses	(654 140)	36	(863)	(4 160)	(659 127)
Selling and distribution costs	(85 035)	-	(54)	-	(85 089)
Administrative expenses	(20 693)	-	(2 349)	-	(23 042)
Other operating income	14 993	10	935	-	15 938
Other operating expenses	(8 037)	-	-	-	(8 037)
Financial expenses	(7 017)	-	(13)	-	(7 030)
Income tax	(9 553)	(8)	52	-	(9 509)
Discontinued operations	(452)	-	452	-	-
Impact on net profit (loss) for three months ended on 30 September 2018		38	-	-	

## 7. Seasonality

The Group's activities are not of seasonal nature. Therefore, the results presented by the Group do not change significantly during the year.

## 8. Information on business segments

The principal continuing operations of the Group include paper production which is conducted in three Paper Mills belonging to the Group and pulp production in two Pulp Mills. The presentation of the segments cover the continuing activities of the Arctic Paper Group.

The Group identifies four business segments:

- **Uncoated papers** – papers for printing and other graphic applications which include wood-free and wood-containing papers. Uncoated wood-free paper may be produced of various pulps, with varying content of fillers and subject to various processing like surface sizing and calendering. Two main categories of this type of paper are graphic paper (used for example for printing books and catalogues) and office papers (for instance, photocopy paper); however, the Group currently does not produce office paper. Uncoated wood paper from mechanical pulp intended for printing or other graphic purposes. This type of paper is used for printing magazines with the use of rotogravure or offset printing techniques.
- **Coated paper** – coated wood-free paper for printing or other graphic purposes, one-side or two-side coated with mixtures containing mineral pigments, such as china clay, calcium carbonate, etc. The coating process can involve different methods, both on-line and off-line, and can be supplemented by super-calendering to ensure a smooth surface. Coating improves the printing quality of photographs and illustrations.
- **Pulp** – fully bleached sulphate pulp and unbleached sulphate pulp used primarily to produce printing and writing paper, cardboard, toilet paper and white packaging paper as well as chemo thermo mechanical pulp (CTMP) and groundwood which are used mainly for production of printing and writing papers.

— **Other** – the segment groups the results of operations of Arctic Paper S.A. and Arctic Paper Finance AB.

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

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

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

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

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

The table below presents data concerning revenues and profit as well as certain assets and liabilities split by segments of the Group for the period of 9 months ended on 30 September 2019 and as at 30 September 2019.

**9-month period ended on 30 September 2019 and on 30 September 2019**

	Continuing Operations						Total continuing operations
	Uncoated	Coated	Pulp	Other	Total	Eliminations	
<b>Revenues</b>							
Sales to external customers	1 191 392	483 385	702 674	-	2 377 452	-	2 377 452
Sales between segments	-	21 487	42 219	22 084	85 791	(85 791)	-
<b>Total segment revenues</b>	<b>1 191 392</b>	<b>504 873</b>	<b>744 894</b>	<b>22 084</b>	<b>2 463 243</b>	<b>(85 791)</b>	<b>2 377 452</b>
<b>Result of the segment</b>							
EBITDA	90 596	6 302	148 246	(2 331)	242 813	309	243 122
Interest income	2 626	183	-	5 503	8 312	(7 050)	1 262
Interest expense	(3 161)	(3 061)	(6 109)	(9 541)	(21 873)	3 374	(18 499)
Depreciation/amortisation	(45 610)	7 571	(26 025)	(805)	(64 869)	-	(64 869)
FX gains and other financial income	1 443	323	6 109	30 333	38 208	(38 151)	58
FX losses and other financial expenses	(7 020)	(5 961)	-	(5 823)	(18 804)	10 536	(8 268)
Gross profit	38 874	5 358	122 221	17 335	183 788	(30 981)	152 807
Assets of the segment	1 014 107	273 011	994 579	442 137	2 723 835	(596 521)	2 127 314
Liabilities of the segment	520 743	424 672	327 383	395 634	1 668 432	(512 924)	1 155 508
Capital expenditures	(66 110)	(1 718)	(23 554)	(56)	-91 438	-	(91 438)
Interests in joint ventures	1 147	-	-	-	1 147	-	1 147

- Revenues from inter-segment transactions are eliminated on consolidation.
- The results of the segments do not cover financial income (PLN 1,321 thousand, of which PLN 1,262 thousand is interest income) and financial expenses (PLN 26,767 thousand, of which PLN 18,499 thousand is interest expense), depreciation/amortisation (PLN 64,869 thousand), and income tax liability (PLN -33,657 thousand). However, segment result includes inter-segment loss (PLN 309 thousand).
- Assets and liabilities of segments do not contain any deferred income tax (asset: PLN 27,051 thousand, provision: PLN 87,850 thousand), since those items are managed at the Group level. Segment assets do not also include investments in companies operating within the Group.



The table below presents data concerning revenues and profit as well as certain assets and liabilities split by segments of the Group for the period of 3 months ended on 30 September 2019 and as at 30 September 2019.

**3-month period ended on 30 September 2019 and on 30 September 2019**

Continuing Operations							Total continuing
	Uncoated	Coated	Pulp	Other	Total	Eliminations	operations
<b>Revenues</b>							
Sales to external customers	397 660	166 141	230 562	-	794 363	-	794 363
Sales between segments	-	6 312	19 272	7 176	32 759	(32 759)	-
<b>Total segment revenues</b>	<b>397 660</b>	<b>172 453</b>	<b>249 834</b>	<b>7 176</b>	<b>827 122</b>	<b>(32 759)</b>	<b>794 363</b>
<b>Result of the segment</b>							
EBITDA	31 502	13 043	28 565	(1 208)	71 902	(390)	71 512
Interest income	724	51	-	1 849	2 624	(2 251)	374
Interest expense	(1 012)	(1 058)	(2 024)	(3 358)	(7 453)	1 110	(6 343)
Depreciation/amortisation	(15 636)	3 643	(8 624)	(293)	(20 910)	-	(20 910)
FX gains and other financial income	467	106	4 067	2 689	7 329	(7 326)	3
FX losses and other financial expenses	(3 308)	(3 199)	-	(1 569)	(8 076)	5 832	(2 244)
Gross profit	12 736	12 586	21 983	(1 890)	45 416	(3 024)	42 392
Assets of the segment	1 014 107	273 011	994 579	442 137	2 723 835	(596 521)	2 127 314
Liabilities of the segment	520 743	424 672	327 383	395 634	1 668 432	(512 924)	1 155 508
Capital expenditures	(43 806)	(180)	(7 801)	-	-51 786	-	(51 786)
Interests in joint ventures	1 147	-	-	-	1 147	-	1 147

- Revenues from inter-segment transactions are eliminated on consolidation.
- The results of the segments do not cover financial income (PLN 377 thousand, of which PLN 374 thousand is interest income) and financial expenses (PLN 8,587 thousand, of which PLN 6,343 thousand is interest expense), depreciation/amortisation (PLN 20,910 thousand), and income tax liability (PLN -7,830 thousand). However, segment results include inter-segment sales profit (PLN 390 thousand).
- Assets and liabilities of segments do not contain any deferred income tax (asset: PLN 27,051 thousand, provision: PLN 87,850 thousand), since those items are managed at the Group level. Segment assets do not also include investments in companies operating within the Group.

The table below presents transformed data concerning revenues and profit as well as certain assets and liabilities split by segments of the Group for the period of 9 months ended on 30 September 2018 and as at 31 December 2018.

**9-month period ended on 30 September 2018 and as at 31 December 2018 (transformed)**

	Continuing Operations					Total continuing operations
	Uncoated	Coated	Other	Total	Eliminations	
<b>Revenues</b>						
Sales to external customers	1 229 083	495 107	-	2 389 573	-	2 389 573
Sales between segments	-	18 882	26 047	77 587	(77 587)	-
<b>Total segment revenues</b>	<b>1 229 083</b>	<b>513 988</b>	<b>26 047</b>	<b>2 467 161</b>	<b>(77 587)</b>	<b>2 389 573</b>
<b>Result of the segment</b>						
EBITDA	89 060	(13 799)	957	218 231	213	218 444
Interest income	332	39	5 640	6 011	(5 202)	810
Interest expense	(2 359)	(2 682)	(10 352)	(21 623)	3 608	(18 015)
Depreciation/amortisation	(38 241)	(6 859)	(364)	(68 261)	-	(68 261)
FX gains and other financial income	1 357	290	42 565	50 026	(49 601)	425
FX losses and other financial expenses	(7 603)	(6 150)	(7 393)	(21 146)	10 175	(10 971)
<b>Gross profit</b>	<b>42 546</b>	<b>(29 160)</b>	<b>31 052</b>	<b>163 238</b>	<b>(40 806)</b>	<b>122 432</b>
Assets of the segment	972 636	260 699	485 004	2 681 372	(555 233)	2 126 139
Liabilities of the segment	494 701	404 565	457 485	1 693 251	(469 941)	1 223 310
Capital expenditures	(40 590)	(6 199)	(199)	(105 253)	-	(105 253)
Interests in joint ventures	1 182	-	-	1 182	-	1 182

- Revenues from inter-segment transactions are eliminated on consolidation.
- The results of the segments do not cover financial income (PLN 1,234 thousand, of which PLN 810 thousand is interest income) and financial expenses (PLN 28,985 thousand, of which PLN 18,015 thousand is interest expense), depreciation/amortisation (PLN 68,261 thousand), and income tax liability (PLN -31,245 thousand). However, segment result includes inter-segment loss (PLN 213 thousand).
- Assets and liabilities of segments do not contain any deferred income tax (asset: PLN 27,137 thousand, provision: PLN 68,316 thousand), since those items are managed at the Group level. Segment assets do not also include investments in companies operating within the Group.

The table below presents transformed data concerning revenues and profit as well as certain assets and liabilities split by segments of the Group for the period of 3 months ended on 30 September 2018 and as at 31 December 2018.

**3-month period ended on 30 September 2018 and as at 31 December 2018 (transformed)**

	Continuing Operations						Total continuing operations
	Uncoated	Coated	Pulp	Other	Total	Eliminations	
<b>Revenues</b>							
Sales to external customers	427 339	164 469	224 723	-	816 531	-	816 531
Sales between segments	(1)	6 676	9 498	8 184	24 356	(24 356)	-
<b>Total segment revenues</b>	<b>427 337</b>	<b>171 145</b>	<b>234 221</b>	<b>8 184</b>	<b>840 887</b>	<b>(24 356)</b>	<b>816 531</b>
<b>Result of the segment</b>							
EBITDA	25 075	1 859	55 078	-91	81 921	109	82 030
Interest income	84	(1)	-	1 953	2 036	(1 721)	315
Interest expense	(708)	(921)	(2 069)	(3 667)	(7 365)	1 122	(6 242)
Depreciation/amortisation	(13 019)	(1 903)	(7 989)	(118)	(23 029)	-	(23 029)
FX gains and other financial income	433	97	1 238	1 852	3 620	(3 635)	(15)
FX losses and other financial expenses	(1 781)	(92)	-	(1 721)	(3 593)	2 819	(774)
Gross profit	10 085	(961)	46 258	(1 792)	53 590	(1 306)	52 283
Assets of the segment	972 636	260 699	963 033	485 004	2 681 372	(555 233)	2 126 139
Liabilities of the segment	494 701	404 565	336 500	457 485	1 693 251	(469 941)	1 223 310
Capital expenditures	(11 888)	(781)	(26 528)	(60)	(39 256)	-	(39 256)
Interests in joint ventures	1 182	-	-	-	1 182	-	1 182

- Revenues from inter-segment transactions are eliminated on consolidation.
- The results of the segments do not cover financial income (PLN 299 thousand, of which PLN 315 thousand is interest income) and financial expenses (PLN 7,017 thousand, of which PLN 6,242 thousand is interest expense), depreciation/amortisation (PLN 23,029 thousand), and income tax liability (PLN -9,509 thousand). However, segment result includes inter-segment loss (PLN 109 thousand).
- Assets and liabilities of segments do not contain any deferred income tax (asset: PLN 27,137 thousand, provision: PLN 68,316 thousand), since those items are managed at the Group level. Segment assets do not also include investments in companies operating in the Group.

## 9. Discontinued operations

In Q2 2019, AP Mochenwangen sold a plot of land. In this connection, the Issuer's Management Board assessed the opportunity to sell the other assets and liabilities as an organised part of the AP Mochenwangen Group as unlikely and decided to discontinue to present the results of the Group as discontinued activity as the applicable criteria for the activity have not been complied with. As a result profit/loss of discontinued operations for the period of 9 months ended on 30 September 2019 and for the period of 3 months ended on that day and the equivalent periods in 2018 was disclosed in continuing operations (the impact of the adjustment was detailed in note 6.4).

Assets and liabilities, except provision for pension benefits, earlier assigned to assets held for sale and the related liabilities as at 30 September 2019 were disclosed as assets and liabilities related to continuing operations.

## 10. Dividend paid and proposed

### 10.1. Dividend disbursed and proposed to be disbursed by Arctic Paper S.A.

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

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

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

The possibility of disbursement of potential dividend by the Company to its shareholders depends on the level of payments received from its subsidiaries. The risk associated with the Company's ability to disburse dividend was described in the part "Risk factors" of the annual report for 2018.

In connection with the term and revolving loan agreements signed on 9 September 2016, agreements related to the bond issue pursuant to which on 30 September 2016 the Company issued bonds and the intercreditor agreement, the possibility of the Company to pay dividend is subject to satisfying certain financial ratios by the Group in two periods preceding such distribution (as the term is defined in the term and revolving loan agreements) and no occurrence of any events of default (as defined in the term and revolving loan agreements).

The Company's General Meeting held on 13 June 2018 approved a resolution on distribution of dividend to the Company's shareholders from its retained net profit in the Company's reserves of PLN 13,857,556.60. Dividend per share was PLN 0.20. The Company's General Meeting determined 20 June 2018 as the ex-dividend date and 27 June 2018 as the dividend distribution date. The dividend was paid according to schedule.

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

### 10.2. Dividend disbursed by Rottneros AB

At the General Meeting of Rottneros AB of 2 May 2019 adopted a resolution on dividend distribution of SEK 0.70 per share. The dividend was disbursed to Arctic Paper S.A. and to the non-controlling shareholders of Rottneros AB in the total amount of PLN 42.8 million (SEK 107 million).

The Extraordinary General Meeting of the subsidiary Rottneros AB ("Subsidiary") concluded on 4 November 2019 the resolution regarding payment of an additional dividend to its shareholders. Pursuant to the information published by the Subsidiary, the Extraordinary General Meeting set the dividend day on 6 November 2019 and the dividend payment date on 11 November 2019. The additional dividend to shareholders of Rottneros AB was paid in the amount of SEK 107 million (approx. PLN 48 million), which is SEK 0.70 per share (approx. PLN 0,28 per share). Arctic Paper SA received the dividend of SEK 54,762 thousand (PLN 21,855 thousand) as at 12 November 2019.

## 11. Earnings/(loss) per share

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

Information regarding profit/(loss) and the number of shares which constituted the basis to calculate earnings/(loss) per share and diluted earnings/(loss) per share on continuing operations and overall operations is presented below:

	3-month period ended on 30 September 2019 (unaudited)	9-month period ended on 30 September 2019 (unaudited)	3-month period ended on 30 September 2018 (transformed)	9-month period ended on 30 September 2018 (transformed)
Net profit / (loss) period from continuing operations attributable to the shareholders of the Parent Entity	26 317	72 214	25 359	45 551
Net profit / (loss) period from discontinued operations attributable to the shareholders of the Parent Entity	-	-	-	-
Net profit / (loss) attributable to the shareholders of the Parent Entity	26 317	72 214	25 359	45 551
Number of ordinary shares – A series	50 000	50 000	50 000	50 000
Number of ordinary shares – B series	44 253 500	44 253 500	44 253 500	44 253 500
Number of ordinary shares – C series	8 100 000	8 100 000	8 100 000	8 100 000
Number of ordinary shares – E series	3 000 000	3 000 000	3 000 000	3 000 000
Number of ordinary shares – F series	13 884 283	13 884 283	13 884 283	13 884 283
Total number of shares	69 287 783	69 287 783	69 287 783	69 287 783
Weighted average number of shares	69 287 783	69 287 783	69 287 783	69 287 783
Diluted weighted average number of ordinary shares	69 287 783	69 287 783	69 287 783	69 287 783
Profit (loss) per share (in PLN)				
– basic earnings from the profit (loss) for the period attributable to the shareholders of the Parent Entity	0,38	1,04	0,37	0,66
– basic earnings from the profit (loss) from continuing operations for the period attributable to the shareholders of the Parent Entity	0,38	1,04	0,37	0,66
Diluted profit (loss) per share (in PLN)				
– from the profit (loss) for the period attributable to the shareholders of the Parent Entity	0,38	1,04	0,37	0,66
– from the profit (loss) from continuing operations for the period attributable to the shareholders of the Parent Entity	0,38	1,04	0,37	0,66

## 12. Interest-bearing loans, borrowings and bonds

In the period covered with these financial statements, the Group partly repaid its term loan under the loan agreement of 9 September 2016 with a bank consortium of PLN 29,598 thousand and drew new loan tranches from the consortium for PLN 43,262 thousand and the Group decreased its debt under revolving overdraft facilities to the above consortium of banks by PLN 56,319 thousand. Additionally, the Group made partial repayments of bonds for PLN 16,600 thousand. Additionally, the Group contracted a loan with Nordea Bank for PLN 7,633 thousand, which is to be used to commence an investment in a hydropower plant by Arctic Paper Munkedals Kraft AB.

The other changes to loans and borrowings as at 30 September 2019, compared to 31 December 2018 result mainly from balance sheet evaluation and payment of interest accrued as at 31 December 2018 and paid during 9 months of 2019.

As at 30 June 2019, the Group failed to comply with the net debt to EBITDA ratio as required in the loan agreement concluded with a consortium of financing banks (Santander Bank Polska S.A., Bank BNP Paribas S.A. and the European Bank for Reconstruction and Development) – the ratio is calculated as a ratio of interest-bearing debt reduced by cash to EBITDA (without incorporating data for the Mochenwangen Group and the Rottneros Group). The set net debt to EBITDA ratio was not complied with as per the bond issue terms and conditions. Failure to comply with the ratio was due to lower demand for paper and thus lower revenues and EBITDA.

After the balance sheet date, Arctic Paper S.A. received a written assurance from Santander Bank S.A. acting as the consortium agent of the financing banks that failure by the Group to comply with the ratio levels as at 30 June 2019 did not constitute an event of default under the loan agreement of 9 September 2016 (“default”). In accordance with IAS 1, as such assurance was

not available on 30 June 2019, the Company disclosed its entire debt to the bank consortium as short-term liability: interest-bearing loans, borrowings and bonds.

Similarly, the entire debt under bonds was disclosed as at 30 June 2019 as short-term. However, in view of the assurance as described above from the bank consortium and due to the fact that the ratio was kept within a pre-determined range, the Company will not have to obtain a similar assurance from the Bond Holders. In accordance with the issue terms and conditions, such breach of the ratio does not trigger the Bond Holders' right to demand premature bond redemption.

The above ratio reached the level required by the agreements as at 30 September 2019 and therefore the debt to the bank consortium and the bond holders was re-presented in compliance with the original maturity dates of the relevant instalments (as long- and short-term).

On 22 October 2019, the Borrowers extended the availability of the Revolving Loan ("Revolving Loan") until 31 October 2020. In its current report No. 20/2016 of 9 September 2016, the Company informed that Arctic Paper S.A. and BNP Paribas Bank Polska S.A., Santander Bank Polska S.A. and the European Bank for Reconstruction and Development ("Lenders") concluded material agreements related to the refinancing of the Company and its subsidiary companies ("Loan Agreement") and in its current report No. 19/2019 of 30 August 2019 the Company informed about the technical extension of the original maturity date of the revolving loan. The Revolving Loan was granted to the Company for the total amount of EUR 19,800,000 and PLN 20,000,000 and was provided primarily to refinance the Company's intragroup liabilities or to finance intragroup loans. The other provisions of the Loan Agreement, including interest rate, collateral for the Bank under the Loan Agreement, were not changed and do not differ from terms and conditions applicable to such agreements.

## 13. Share capital

	As at 30 September 2019	As at 31 December 2018
Share capital		
	(unaudited)	
series A ordinary shares of the nominal value of PLN 1 each	50	50
series B ordinary shares of the nominal value of PLN 1 each	44 254	44 254
series C ordinary shares of the nominal value of PLN 1 each	8 100	8 100
series E ordinary shares of the nominal value of PLN 1 each	3 000	3 000
series F ordinary shares of the nominal value of PLN 1 each	13 884	13 884
	69 288	69 288

	Registration date of capital increase	Number	Value in PLN
Ordinary issued and fully paid-up shares			
Issued on 30 April 2008	2008-05-28	50 000	50 000
Issued on 12 September 2008	2008-09-12	44 253 468	44 253 468
Issued on 20 April 2009	2009-06-01	32	32
Issued on 30 July 2009	2009-11-12	8 100 000	8 100 000
Issued on 1 March 2010	2010-03-17	3 000 000	3 000 000
Issued on 20 December 2012	2013-01-09	10 740 983	10 740 983
Issued on 10 January 2013	2013-01-29	283 947	283 947
Issued on 11 February 2013	2013-03-18	2 133 100	2 133 100
Issued on 6 March 2013	2013-03-22	726 253	726 253
As at 30 September 2019 (unaudited)		69 287 783	69 287 783

## 14. Financial instruments

The Company holds the following financial instruments: cash at hand and in bank accounts, loans, bonds, borrowings, receivables, liabilities under leases, SWAP interest rate contracts, forward contracts for the purchase of electricity and forward contracts for the sale of pulp.

### 14.1. Hedge accounting

In order to reduce the volatility of the projected cash flows related to FX risk, the Group companies use FX risk hedging based on the use of derivatives related to the FX market. Those in particular include forward term contracts. Additionally, in order to mitigate the volatility of future energy prices, the Paper Mills and Pulp Mills in Sweden apply forward contracts for the purchase of electricity. Arctic Paper S.A., in order to mitigate the volatility of future interest costs on loans, has concluded interest rate SWAP contracts. Rottneros Group companies, in order to mitigate the volatility of future inflows from pulp sales, entered into forward contracts for pulp sales.

As at 30 September 2019, the Group used cash flow hedge accounting for the following hedging items:

- Arctic Paper S.A. designated SWAP derivatives to hedge accounting to hedge interest payments in EUR on a bank loan in EUR,
- Arctic Paper S.A. designated SWAP derivatives to hedge accounting to hedge interest payments in PLN on a bank loan in PLN,
- Arctic Paper Munkedals AB, Arctic Paper Grycksbo AB and the companies of the Rottneros Group designated for cash flow hedge accounting the forward derivatives in order to hedge future purchases of electricity,
- the Companies of the Rottneros Group designated for cash flow hedge accounting the FX forward derivatives for the sale of pulp in order to hedge the sale prices of pulp in SEK.

#### 14.1.1. Cash flow hedges

As at 30 September 2019, the Group's cash flows were hedged with forward contracts for purchases of electricity, forward contracts for sales of pulp, interest rate SWAPs.

##### Hedge accounting of cash flows from sales of pulp

The table below presents detailed information concerning the hedging relationship in cash flow hedge accounting regarding sales of pulp:

Type of hedge	Cash flow hedge related to sales of pulp
Hedged position	The hedged position is a part of highly likely future cash inflows for pulp sales
Hedging instruments	Forward contracts are used as the hedging item wherein the Company agrees to sell pulp for SEK
Contract parameters:	
Contract conclusion date	2018-2019
Maturity	subject to contract; by 30.09.2020
Hedged quantity of pulp	13,500 tonnes
Term price	SEK 9,094/tonne

##### Cash flow hedge accounting related to electricity purchases with the use of forward transactions

The table below presents detailed information concerning the hedging relationship in the cash flow hedge accounting related to electricity purchases:

Type of hedge	Cash flow hedge related to planned purchases of electricity
Hedged position	The hedged position is a part of highly likely future cash flows for electricity purchases
Hedging instruments	Forward contract for the purchase of electricity at Nord Pool Exchange
Contract parameters:	
Contract conclusion date	subject to contract; from 01.01.2015
Maturity	subject to contract; by 31.12.2023
Hedged quantity of electricity	1,139,000MWh
Term price	from 16.55 to 36.30 EUR/MWh

Cash flow volatility hedge accounting related to variable loan interest rate of the long-term loan with the use of SWAP transactions

The table below presents detailed information concerning the hedging relationship in the cash flow hedge accounting related to payment of interest in EUR on the loan in EUR:

Type of hedge	Hedge of cash flows related to variable interest rate on the EUR long-term loan
Hedged position	Future EUR interest flows on EUR loan calculated on the basis of 6M EURIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in EUR on the EUR loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	2016-11-21
Maturity	each interest payment date in line with the payment schedule under the loan agreement; by 31.08.2022
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 12 million

Type of hedge	Hedge of cash flows related to variable interest rate on the EUR long-term loan
Hedged position	Future EUR interest flows on EUR loan calculated on the basis of 6M EURIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in EUR on the EUR loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	2017-07-18
Maturity	each interest payment date in line with the payment schedule under the loan agreement; by 31.08.2022
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 3,986 thousand



Type of hedge	Hedge of cash flows related to variable interest rate on the EUR long-term loan
Hedged position	Future EUR interest flows on EUR loan calculated on the basis of 6M EURIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in EUR on the EUR loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	2016-11-21
Maturity	each interest payment date in line with the payment schedule under the loan agreement; by 31.08.2021
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 2.6 million

Type of hedge	Hedge of cash flows related to variable interest rate on the EUR revolving long-term loans
Hedged position	Future EUR interest flows on EUR loan calculated on the basis of 3M EURIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in EUR on the EUR loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	2016-11-21
Maturity	each interest payment date in line with the payment schedule under the loan agreement; by 30.08.2019
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 9.9 million

Type of hedge	Hedge of cash flows related to variable interest rate on the EUR long-term loan
Hedged position	Future EUR interest flows on EUR loan calculated on the basis of 6M EURIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in EUR on the EUR loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	2018-07-27
Maturity	each interest payment date in line with the payment schedule under the loan agreement; by 28.02.2022
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 3,344 thousand

The table below presents detailed information concerning the hedging relationship in the cash flow hedge accounting related to payment of interest in PLN on the loan in PLN:

Type of hedge	Hedge of cash flows related to variable interest rate on the PLN long-term loan
Hedged position	Future PLN interest flows on PLN loan calculated on the basis of 6M WIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in PLN on the PLN loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	2016-11-21
Maturity	each interest payment date in line with the payment schedule under the loan agreement; by 31.08.2021
Hedged value	interest payable in line with the payment schedule under the loan agreement of PLN 11.5 million

Type of hedge	Hedge of cash flows related to variable interest rate on the PLN revolving long-term loans
Hedged position	Future PLN interest flows on PLN loan calculated on the basis of 3M WIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in PLN on the PLN loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	2016-11-21
Maturity	each interest payment date in line with the payment schedule under the loan agreement; by 30.08.2019
Hedged value	interest payable in line with the payment schedule under the loan agreement of PLN 10 million

Type of hedge	Hedge of cash flows related to variable interest rate on the PLN bonds
Hedged position	Future PLN interest flows in PLN loan calculated on the basis of interest payments on PLN bonds at 6M WIBOR
Hedging instruments	The hedging item is a SWAP transaction under which the Company agreed to pay interest in PLN on the PLN bonds on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	2016-11-21
Maturity	each interest payment date in line with the payment schedule under the bond issue agreement; by 31.08.2021
Hedged value	interest payable in line with the payment schedule under of interest of PLN 100 million

Type of hedge	Hedge of cash flows related to variable interest rate on the PLN long-term loan
Hedged position	Future PLN interest flows on PLN loan calculated on the basis of 3M WIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in PLN on the PLN loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	2018-07-31
Maturity	each interest payment date in line with the payment schedule under the loan agreement; by 29.01.2021
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 25.8 million

#### 14.1.2. Fair value hedges

As at 30 September 2019, the Group had floor options as hedge to fair value.

##### Fair value hedge accounting related to a floor option

Type of hedge	The right to reduce cash flows under payment of interest due to decrease of EURIBOR below 0%
Hedged position	The hedged item are future EUR interest flows in EUR related to a loan in EUR calculated on the basis of 6M EURIBOR
Hedging instruments	The hedging item is a floor option under which the Company acquires the right to pay interest in EUR on the basis of EURIBOR below 0%
Contract parameters:	
Contract conclusion date	2016-11-21
Maturity	each interest payment date in line with the payment schedule under the loan agreement; by 31.08.2022
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 12 million
Type of hedge	The right to reduce cash flows under payment of interest due to decrease of EURIBOR below 0%
Hedged position	The hedged item are future EUR interest flows in EUR related to a loan in EUR calculated on the basis of 6M EURIBOR
Hedging instruments	The hedging item is a floor option under which the Company acquires the right to pay interest in EUR on the basis of EURIBOR below 0%
Contract parameters:	
Contract conclusion date	2017-07-18
Maturity	each interest payment date in line with the payment schedule under the loan agreement; by 31.08.2022
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 3,986 thousand
Type of hedge	The right to reduce cash flows under payment of interest due to decrease of EURIBOR below 0%
Hedged position	The hedged item are future EUR interest flows in EUR related to a loan in EUR calculated on the basis of 6M EURIBOR
Hedging instruments	The hedging item is a floor option under which the Company acquires the right to pay interest in EUR on the basis of EURIBOR below 0%
Contract parameters:	
Contract conclusion date	2018-07-27
Maturity	each interest payment date in line with the payment schedule under the loan agreement; by 28.02.2022
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 3,344 thousand

The table below presents the fair value of hedging instruments in cash flow and fair value hedge accounting as at 30 September 2019 and the comparative data:

	As at 30 September 2019		As at 31 December 2018	
	(unaudited)	(unaudited)		
	Assets	Equity and liabilities	Assets	Equity and liabilities
FX forward	-	-	420	-
Forward on pulp sales	3 262	-	-	3 361
SWAP	-	2 545	-	3 879
Floor option	-	(318)	-	(231)
Forward for electricity	43 892	-	92 046	-
<b>Total hedging derivative instruments</b>	<b>47 154</b>	<b>2 227</b>	<b>92 466</b>	<b>7 009</b>

## 15. Financial risk management objectives and policies

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

The Group also uses factoring without recourse for trade receivables. The main purpose for using the financial instrument is to quickly raise funds.

The Company has various other financial instruments such as trade receivables and payables which arise directly from its operations. The core risks arising from the Group's financial instruments include: interest rate risk, liquidity risk, FX risk and credit risk. The Management Board reviews and approves policies for managing each of those risks.

In the opinion of the Management Board – in comparison to the annual consolidated financial statements made as at 31 December 2018 there have been no significant changes of the financial risk. There have been no changes to the objectives and policies of the management of the risk.

## 16. Capital management

The primary objective of the Group's capital management is maintaining a strong credit rating and healthy capital ratios in order to support its business operations and maximise shareholder value. In the Management Board's opinion – in comparison to the annual consolidated financial statements made as at 31 December 2018, there have been no significant changes to the objectives and policies of capital management.

## 17. Contingent liabilities and contingent assets

As at 30 September 2019, the Capital Group reported:

- contingent liability under a guarantee for FPG in favour of the mutual life insurance company PRI for SEK 1,392 thousand (PLN 568 thousand) at Arctic Paper Grycksbo AB and for SEK 941 thousand (PLN 384 thousand) at Arctic Paper Munkedals AB;
- a bank guarantee in favour of Skatteverket Ludvika for SEK 135 thousand (PLN 55 thousand);
- guarantee by Rottneros AB for SEK 5,000 thousand (PLN 2,039 thousand) vis-a-vis local authorities under future environmental obligations of the Vallvik Paper Mill;

## 18. Legal claims

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

## 19. CO2 emission rights

Arctic Paper Kostrzyn S.A., Arctic Paper Munkedals AB, Arctic Paper Grycksbo AB and the companies of the Rottneros Group, are all part of the European Union Emission Trading Scheme. The previous period to exercise rights to the issue lasted from 1 January 2008 to 31 December 2012. New allocations cover the period from 1 January 2013 to 31 December 2020.

The table below specifies the allocation for 2013-2020 approved by the European Union and the usage of the emission rights in each entity in 2013, 2014, 2015, 2016, 2017, 2018 and in the first three quarters of 2019.

(in tonnes) for Arctic Paper Kostrzyn S.A.	2013	2014	2015	2016	2017	2018	2019	2020
Allocation*	108 535	105 434	102 452	99 840	97 375	94 916	92 454	90 009
Unused quantity from previous years	348 490	306 448	263 932	203 917	133 061	87 652	46 003	-
Issue	(150 577)	(147 950)	(162 467)	(170 696)	(142 784)	(136 565)	(97 185)	-
Purchased quantity	-	-	-	-	-	-	-	-
Sold quantity	-	-	-	-	-	-	-	-
Unused quantity	306 448	263 932	203 917	133 061	87 652	46 003	41 272	-
<hr/>								
(in tonnes) for Arctic Paper Munkdals AB	2013	2014	2015	2016	2017	2018	2019	2020
Allocation	44 238	43 470	42 692	41 907	41 113	40 311	39 499	38 685
Unused quantity from previous years	24 305	67 262	107 325	17 559	(11 572)	(10 619)	(27 676)	-
Issue	(1 281)	(3 407)	(32 465)	(21 038)	(40 160)	(57 368)	(35 356)	-
Purchased quantity	-	-	7	-	-	-	-	-
Sold quantity	-	-	(100 000)	(50 000)	-	-	-	-
Unused quantity	67 262	107 325	17 559	(11 572)	(10 619)	(27 676)	(23 533)**	-
<hr/>								
(in tonnes) for Arctic Paper Grycksbo AB	2013	2014	2015	2016	2017	2018	2019	2020
Allocation	77 037	75 689	74 326	72 948	71 556	70 151	68 730	67 304
Unused quantity from previous years	69 411	111 448	734	60	1 008	2 564	-	-
Issue	-	-	-	-	-	-	-	-
Purchased quantity	-	-	-	-	-	-	-	-
Sold quantity	(35 000)	(186 403)	(75 000)	(72 000)	(70 000)	(72 715)	(68 730)	-
Unused quantity	111 448	734	60	1 008	2 564	-	-	-
<hr/>								
(in tonnes) for the Rotneros Group	2013	2014	2015	2016	2017	2018	2019	2020
Allocation	30 681	30 484	29 938	29 387	28 830	28 268	27 698	27 127
Unused quantity from previous years	72 888	90 522	101 986	104 991	113 085	123 208	73 104	-
Issue	(13 047)	(19 020)	(26 933)	(21 293)	(18 707)	(15 372)	(21 217)	-
Purchased quantity	-	-	-	-	-	-	-	-
Sold quantity	-	-	-	-	-	(63 000)	(55 000)	-
Unused quantity	90 522	101 986	104 991	113 085	123 208	73 104	24 585	-

\* – the values result from the Regulation of the Council of Ministers of 31 March 2014 on the list of installations other than generating electrical energy, subject to the trading system of rights to emit greenhouse gases in the settlement period commencing on 1 January 2013, along with the number of emission rights allocated thereto,

\*\* – any deficit of emission rights as at 30 September 2019 will be covered from the new allocation for 2020; AP Munkedals recognises a provision for its deficit of CO2 emission rights.

## 20. Government grants and operations in the Special Economic Zone

### 20.1. Government grants

In the current period, the Group companies have not received any material grants.

### 20.2. Operations in the Special Economic Zone

Arctic Paper Kostrzyn S.A. operates in the Kostrzyńsko-Słubicka Specjalna Strefa Ekonomiczna (Special Economic Zone – KSSSE). Based on the permission issued by the Kostrzyńsko-Słubicka Specjalna Strefa Ekonomiczna S.A. it benefits from an investment tax relief as regards the activities carried out under the permission.

The tax exemption is of conditional nature. The provisions of the Act on special economic zones provide that such tax relief may be revoked if at least one of the following occurs:

- The Company ceases to conduct business operations in the zone for which it obtained the permission;
- The Company materially violates the conditions of the permission;
- The Company does not remedy errors/ irregularities identified during the course of inspections within the period of time specified in the order issued by minister competent for economic affairs;
- The Company transfers, in any form, the title to the assets to which the investment tax relief related within less than 5 years of introducing those assets to the fixed assets register;
- Machines and equipment will be handed over for business purposes outside the zone;
- The Company receives compensation, in any form, of the investment expenditure incurred;
- The Company goes into liquidation or if it is declared bankrupt.

Based on the permit issued on 25 August 2006, the Company could benefit from the exemption by 15 November 2017. Item I of the permit relating to the date by which the Company may enjoy the permit was deleted by Decision of the Minister of Economy No. 321/IW/14 of 6 November 2014. Now, the Company is entitled to use the permit by 2026 or by the date SSE exist in Poland pursuant to the applicable regulations. The permit may be used subject to the incurrence in the zone of capital expenditures within the meaning of Art. 6 of the Regulation of the Council of Ministers of 14 September 2004 on the Kostrzyńsko-Słubicka Specjalna Strefa Ekonomiczna (Special Economic Zone), underlying the calculation of public aid in compliance with Art. 3 of the Regulation with the value in excess of EUR 40,000 thousand by 31 December 2013. The amount was translated at the mean exchange rate of EUR published by the President of the National Bank of Poland of the day the expense was incurred. The additional conditions are as follows: creation in Zone of minimum five new jobs within the meaning of Art. 3.3 and Art. 3.6 of the Regulation by 31 December 2011 and maintaining the employment level of minimum 453 people during the period from 1 January 2012 to 31 December 2013. The above terms and conditions have been satisfied.

The conditions of the exemption have not changed in the reporting period. The Group has not been inspected by any competent body.

During the period from 25 August 2006 to 30 September 2019, the Company incurred eligible investment expenditures classified as (non-discounted) expenditure in KSSSE in the amount of PLN 227,102 thousand. During the period, the discounted amount of related public aid was PLN 62,945 thousand.

If the eligible investment expenditures incurred are not covered with income of the current year, the Company recognises a deferred income tax asset on the surplus.

The amount of deferred income tax asset recognised with reference to the expenditures incurred in KSSSE amounted to PLN 6,107 thousand as at 30 September 2019.

## 21. Material events after the reporting period

After 30 September 2019, until the date hereof there were no other material events requiring disclosure in this report with the exception of those events that were disclosed in this report in paragraphs above.

### Signatures of the Members of the Management Board

Position	First and last name	Date	Signature
President of the Management Board Chief Executive Officer	Michał Jarczyński	18 November 2019	signed with a qualified electronic signature
Member of the Management Board Chief Financial Officer	Göran Eklund	18 November 2019	signed with a qualified electronic signature

Head Office

**Arctic Paper S.A.**

Fabryczna 1,  
PL 66-470, Kostrzyn nad Odrą, Poland  
Phone: +48 61 6262 000  
Fax.+48 61 6262 001

**Investor relations:**

[ir@arcticpaper.com](mailto:ir@arcticpaper.com)

© 2019 Arctic Paper S.A.

Swedish Branch office

Stampgatan 14  
411 01 Göteborg, Sweden  
Phone: +46 10 451 8000



[www.arcticpaper.com](http://www.arcticpaper.com)