



# ARCTIC PAPER CAPITAL GROUP

Consolidated quarterly report  
Q1 2020

## Table of contents

<b>Table of contents</b>	<b>2</b>	Information on court and arbitration proceedings and proceedings pending before public administrative authorities .....34
<b>Introduction</b>	<b>3</b>	Information on transactions with related parties executed on non-market terms and conditions .....34
Information on the report.....3		
Definitions and abbreviations.....3		
Forward looking statements.....8		
<b>Selected consolidated financial data</b>	<b>9</b>	<b>Consolidated financial statements</b> <b>37</b>
<b>Selected standalone financial data</b>	<b>11</b>	Abbreviated consolidated statement of profit and loss .....37
<b>Description of the business of the Arctic Paper Group</b>	<b>13</b>	Abbreviated consolidated statement of financial position .....39
General information.....13		Abbreviated consolidated statement of cash flow .....40
Capital Group structure.....14		Abbreviated consolidated statement of changes in equity .....41
Changes in the capital structure of the Arctic Paper Group.....14		<b>Standalone financial statements</b> <b>43</b>
Shareholding structure.....14		Abbreviated standalone statement of profit and loss .....43
Selected items of the consolidated statement of profit and loss.....16		Abbreviated standalone statement of total comprehensive income.....44
Selected items of the consolidated statement of financial position.....20		Abbreviated standalone statement of financial position.....45
Selected items of the consolidated statement of cash flow.....23		Abbreviated standalone statement of cash flow .....46
<b>Summary of standalone financial results</b>	<b>24</b>	Abbreviated standalone statement of changes in equity .....47
Selected items of the standalone statement of profit and loss.....24		<b>Additional explanatory notes</b> <b>49</b>
Selected items of the standalone statement of financial position.....26		1. General information.....49
Selected items of the standalone statement of cash flow.....27		2. Composition of the Group.....50
<b>Relevant information and factors affecting the financial results and the assessment of the financial standing</b>	<b>28</b>	3. Management and supervisory bodies.....51
Key factors affecting the performance results.....28		4. Approval of the financial statements.....52
Unusual events and factors.....29		5. Basis of preparation of the consolidated financial statements .....52
Impact of changes in Arctic Paper Group's structure on the financial result.....29		6. Significant accounting principles (policies) .....53
Other material information.....29		7. New standards and interpretations that have been published and are not yet effective.....55
Information on market trends.....31		8. Seasonality.....55
Factors influencing the financial results in the perspective of the next quarter.....32		9. Information on business segments.....56
Risk factors.....32		10. Assets classified as available for sale, discontinued operations .....60
<b>Supplementary information</b>	<b>33</b>	11. Dividend paid and proposed.....60
Changes in holdings of the Issuer's shares or rights to shares by persons managing and supervising Arctic Paper S.A. ....33		12. Earnings per share .....61
Information on sureties and guarantees.....33		13. Acquisition of a subsidiary company.....61
Material off-balance sheet items.....34		14. Interest-bearing bank loans and borrowings and lease contracts.....62
		15. Equity securities .....62
		16. Financial instruments.....63
		17. Financial risk management objectives and policies .....68
		18. Capital management .....68
		19. Contingent liabilities and contingent assets .....68
		20. Legal claims .....68
		21. CO2 emission rights .....69
		22. Government grants and operations in the Special Economic Zone .....69
		23. Material events after the balance sheet date .....70

# Introduction

## Information on the report

This Consolidated Quarterly Report for Q1 2020 was prepared in accordance with the Minister of Finance Regulation of 29 March 2018 on current and periodic disclosures made by issuers of securities and terms and conditions of classifying as equivalent information required by the law of non-member states (Journal of Laws of 2018, item 757) and a part of the condensed consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), in particular 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 31 December 2019.

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, AP SA, 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	<p>Arctic Paper Papierhandels GmbH with its registered office in Vienna (Austria)</p> <p>Arctic Paper Benelux SA with its registered office in Oud-Haverlee (Belgium)</p> <p>Arctic Paper Danmark A/S with its registered office in Greve (Denmark)</p> <p>Arctic Paper France SA with its registered office in Paris (France)</p> <p>Arctic Paper Deutschland GmbH with its registered office in Hamburg (Germany)</p> <p>Arctic Paper Italia Srl with its registered office in Milan (Italy)</p> <p>Arctic Paper Baltic States SIA with its registered office in Riga (Latvia)</p> <p>Arctic Paper Norge AS with its registered office in Oslo (Norway)</p> <p>Arctic Paper Polska Sp. z o.o. with its registered office in Warsaw (Poland)</p> <p>Arctic Paper España SL with its registered office in Barcelona (Spain)</p> <p>Arctic Paper Finance AB with its registered office in Munkedal (Sweden)</p> <p>Arctic Paper Schweiz AG with its registered office in Derendingen (Switzerland)</p> <p>Arctic Paper UK Ltd with its registered office in London (UK)</p> <p>Arctic Paper East Sp. z o.o. with its registered office in Kostrzyn nad Odrą (Poland)</p>
Arctic Paper Finance AB	Arctic Paper Finance AB with its registered office in Göteborg, Sweden
Rottneros, Rottneros AB	Rottneros AB with its registered office in Sunne, Sweden
Rottneros Group, Rottneros AB Group	Rottneros AB with its registered office in Söderhamn, Sweden; Rottneros Bruk AB with its registered office in Rottneros, Sweden; Utansjo Bruk AB with its registered office in Söderhamn, Sweden, Vallviks Bruk AB with its registered office in Vallvik, Sweden; Rottneros Packaging AB with its registered office in Sunne, Sweden; SIA Rottneros Baltic with its registered office in Kuldiga, Latvia; since 1 January 2020 – Nykvist Skogs AB with its registered office in Gräsmark, Sweden

Pulp Mills	Rottneros Bruk AB with its registered office in Rottneros, Sweden; Vallviks Bruk AB with its registered office in Vallvik, Sweden
Rottneros Purchasing Office	SIA Rottneros Baltic with its registered office in Kuldīga, Latvia
Office Kalltorp	Kalltorp Kraft Handelsbolaget with its registered office in Trollhattan, Sweden
Nemus Holding AB	Nemus Holding AB with its registered office in Göteborg, Sweden
Thomas Onstad	The Issuer's core shareholder, holding directly and indirectly over 50% of shares in Arctic Paper S.A.; a member of the Issuer's Supervisory Board
Management Board, Issuer's Management Board, Company's Management Board, Group's Management Board	Management Board of Arctic Paper S.A.
Supervisory Board, Issuer's Supervisory Board, Company's Supervisory Board, Group's Supervisory Board, SB	Supervisory Board of Arctic Paper S.A.
GM, General Meeting, Issuer's General Meeting, Company's General Meeting	General Meeting of Arctic Paper S.A.
EGM, Extraordinary General Meeting, Issuer's Extraordinary General Meeting, Company's Extraordinary General Meeting	Extraordinary General Meeting of Arctic Paper S.A.
Articles of Association, Issuer's Articles of Association, Company's Articles of Association	Articles of Association of Arctic Paper S.A.
SEZ	Kostrzyńsko-Słubicka Special Economic Zone
Court of Registration	District Court 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
EBIT profitability, operating profitability, operating profit margin	Ratio of operating profit (loss) to sales income from continuing operations
EBITDA	Operating profit from continuing operations plus depreciation and amortisation and impairment charges (Earnings Before Interest, Taxes, Depreciation and Amortisation)
EBITDA profitability, EBITDA margin	Ratio of operating profit plus depreciation and amortisation and impairment charges of assets 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-non-current assets ratio	Ratio of equity to fixed assets
Interest-bearing debt-to-equity ratio	Ratio of interest-bearing debt and other financial liabilities to equity
Net debt-to-EBITDA ratio	Ratio of interest-bearing debt minus cash to EBITDA from continuing operations
EBITDA-to-interest coverage ratio	Ratio of EBITDA to interest expense from continuing operations
Current ratio	Ratio of current assets to short-term liabilities
Quick ratio	Ratio of current assets minus inventory and short-term accruals, 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, zloty	Monetary unit of the Republic of Poland
gr	grosz – 1/100 of one zloty (the monetary unit of the Republic of Poland)
Euro, EUR	Monetary unit of the European Union
GBP	Pound sterling, monetary unit of the United Kingdom
SEK	Swedish Krona – monetary unit of the Kingdom of Sweden
USD	United States dollar, the legal tender in the United States of America
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
IFRS EU	International Financial Reporting Standards endorsed by the European Union
GDP	Gross Domestic Product

#### Other definitions and abbreviations

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

## **Forward looking statements**

The information contained in this report which does not relate to historical facts relates to forward looking statements. Such statements may, in particular, concern the Group's strategy, business development, market projections, planned investment outlays, and future revenues. Such statements may be identified by the use of expressions pertaining to the future such as, e.g., "believe", "think", "expect", "may", "will", "should", "is expected", "is assumed", and any negations and grammatical forms of these expressions or similar terms. The statements contained in this report concerning matters which are not historical facts should be treated only as projections subject to risk and uncertainty. Forward-looking statements are inevitably based on certain estimates and assumptions which, although our management finds them rational, are naturally subject to known and unknown risks and uncertainties and other factors that could cause the actual results to differ materially from the historical results or the projections. For this reason, we cannot assure that any of the events provided for in the forward-looking statements will occur or, if they occur, about their impact on the Group's operating 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.





**Selected consolidated  
and standalone  
financial data**

## Selected consolidated financial data

	For the period from 01.01.2020 to 31.03.2020 PLN '000	For the period from 01.01.2019 to 31.03.2019 PLN '000	For the period from 01.01.2020 to 31.03.2020 EUR '000	For the period from 01.01.2019 to 31.03.2019 EUR '000
Sales revenues	813 948	820 572	188 166	190 685
Operating profit (loss)	79 665	57 775	18 417	13 426
Gross profit (loss)	73 416	50 541	16 972	11 745
Net profit (loss) for the period	62 289	36 891	14 400	8 573
Net profit (loss) for the financial year attributable to the shareholders of the Parent Entity	54 963	14 252	12 706	3 312
Net cash flows from operating activities	70 781	59 761	16 363	13 887
Net cash flows from investing activities	(37 565)	(18 764)	(8 684)	(4 360)
Net cash flows from financing activities	(34 185)	(32 654)	(7 903)	(7 588)
Change in cash and cash equivalents	(969)	8 344	(224)	1 939
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)	0,79	0,21	0,18	0,05
Diluted EPS (in PLN/EUR)	0,79	0,21	0,18	0,05
Mean PLN/EUR exchange rate*			4,3257	4,3033

	As at 31 March 2020 PLN '000	As at 31 December 2019 PLN '000	As at 31 March 2020 EUR '000	As at 31 December 2019 EUR '000
Assets	2 104 104	2 035 753	462 207	478 045
Long-term liabilities	562 011	477 127	123 456	112 041
Short-term liabilities	683 894	688 098	150 230	161 582
Equity	858 199	870 528	188 520	204 421
Share capital	69 288	69 288	15 220	16 270
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)	12,39	12,56	2,72	2,95
Diluted book value per share (in PLN/EUR)	12,39	12,56	2,72	2,95
Declared or paid dividend (in PLN/EUR)	-	-	-	-
Declared or paid dividend per share (in PLN/EUR)	-	-	-	-
PLN/EUR exchange rate at the end of the period**	-	-	4,5523	4,2585

\* – 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 01.01.2020 to 31.03.2020 PLN '000	Period from 01.01.2019 to 31.03.2019 PLN '000	Period from 01.01.2020 to 31.03.2020 EUR '000	Period from 01.01.2019 to 31.03.2019 EUR '000
Sales revenues	5 171	11 111	1 195	2 582
Operating profit (loss)	(1 928)	2 318	(446)	539
Gross profit (loss)	(7 791)	(1 794)	(1 801)	(417)
Net profit (loss) from continuing operations	(7 791)	(1 795)	(1 801)	(417)
Net profit (loss) for the period	(7 791)	(1 795)	(1 801)	(417)
Net cash flows from operating activities	41 261	26 110	9 539	6 068
Net cash flows from investing activities	-	182	-	42
Net cash flows from financing activities	(32 167)	(40 644)	(7 436)	(9 445)
Change in cash and cash equivalents	9 094	(14 352)	2 102	(3 335)
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)	(0,11)	(0,03)	(0,03)	(0,01)
Diluted EPS (in PLN/EUR)	(0,11)	(0,03)	(0,03)	(0,01)
Mean PLN/EUR exchange rate*			4,3257	4,3033

	As at 31 March 2020 PLN '000	As at 31 December 2019 PLN '000	As at 31 March 2020 EUR '000	As at 31 December 2019 EUR '000
Assets	894 331	926 486	196 457	217 562
Long-term liabilities	93 386	57 326	20 514	13 462
Short-term liabilities	240 756	301 081	52 887	70 701
Equity	560 188	568 078	123 056	133 399
Share capital	69 288	69 288	15 220	16 270
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)	8,08	8,20	1,78	1,93
Diluted book value per share (in PLN/EUR)	8,08	8,20	1,78	1,93
Declared or paid dividend (in PLN/EUR)	-	-	-	-
Declared or paid dividend per share (in PLN/EUR)	-	-	-	-
PLN/EUR exchange rate at the end of the period**	-	-	4,5523	4,2585

\* – 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.



**The Management Board's  
Report  
from operations of the  
Arctic Paper Capital Group**

to the report for Q1 2020

# 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. 1,500 people in its Paper Mills, Pulp Mills, companies dealing in paper distribution and sales, and a company dealing in timber procurement for pulp production. The Group's Paper Mills located in Poland and Sweden have total production capacity of over 685,000 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. The Group's consolidated sales revenues for Q1 2020 totalled PLN 814 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. The Company has a foreign branch in Göteborg, Sweden.

## Business objects

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

The Group's additional business, partly subordinate to paper 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 31 March 2020, as well as on the day hereof, the Group owned the following Paper Mills:

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

As on 31 March 2020, 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 Pulp Mill is characterised with a high level of purity. The high quality of this pulp, which has been achieved over the years, made Vallvik the global leader in deliveries of this type of pulp, which is used, among others, in the production of power transformers and in the 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 2019.

## 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 Capital Group of Arctic Paper S.A. 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

On 1 January 2020, the Company, via Rottneros acquired control over Nykvist Skogs AB, a company grouping private owners of forests in Sweden. The transaction provided a broader access to raw materials over a long-term horizon.

In Q1 2020, no other 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 31 March 2020) 40,381,449 shares of our Company, which constitutes 58.28% of its share capital and corresponds to 58.28% of the total number of votes at General Meetings. Thus Nemus Holding AB is the Parent Entity of the Issuer.

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

as at 14.05.2020

Shareholder	Number of shares	Share in the share capital [%]	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>



as at 26.03.2020

Shareholder	Number of shares	Share in the share capital [%]	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>
Total	69 287 783	100,00%	69 287 783	100,00%
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 table is provided as of the date hereof and as of the publication date of this report and the delivery of the annual statements for 2019.

## Summary of the consolidated financial results

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

<i>PLN '000</i>	Q1 2020	Q4 2019	Q1 2019	YTD Q1 2020	YTD Q1 2019	% change Q1 2020/ Q4 2019	% change Q1 2020/ Q1 2019	% change YTD Q1 2020/ YTD Q1 2019
<b>Sales revenues</b>	<b>813 948</b>	<b>739 666</b>	<b>820 572</b>	<b>813 948</b>	<b>820 572</b>	<b>10,0</b>	<b>(0,8)</b>	<b>(0,8)</b>
<i>of which:</i>	-	-	-	-	-	-	-	-
<i>Sales of paper</i>	587 781	532 036	573 344	587 781	573 344	10,5	2,5	2,5
<i>Sales of pulp</i>	226 167	207 630	247 228	226 167	247 228	8,9	(8,5)	(8,5)
Profit on sales	187 930	128 476	151 884	187 930	151 884	46,3	23,7	23,7
<i>% of sales revenues</i>	23,09	17,37	18,51	23,09	18,51	5,7 p.p.	4,6 p.p.	4,6 p.p.
Selling and distribution costs	(92 618)	(87 238)	(84 757)	(92 618)	(84 757)	6,2	9,3	9,3
Administrative expenses	(19 170)	(22 152)	(20 839)	(19 170)	(20 839)	(13,5)	(8,0)	(8,0)
Other operating income	13 312	7 065	27 116	13 312	27 116	88,4	(50,9)	(50,9)
Other operating expenses	(9 790)	(12 982)	(15 629)	(9 790)	(15 629)	(24,6)	(37,4)	(37,4)
<b>EBIT</b>	<b>79 665</b>	<b>13 168</b>	<b>57 775</b>	<b>79 665</b>	<b>57 775</b>	<b>505,0</b>	<b>37,9</b>	<b>37,9</b>
<i>% of sales revenues</i>	9,79	1,78	7,04	9,79	7,04	8,0 p.p.	2,7 p.p.	2,7 p.p.
<b>EBITDA</b>	<b>111 834</b>	<b>34 909</b>	<b>81 081</b>	<b>111 834</b>	<b>81 081</b>	<b>220,4</b>	<b>37,9</b>	<b>37,9</b>
<i>% of sales revenues</i>	13,74	4,72	9,88	13,74	9,88	9,0 p.p.	3,9 p.p.	3,9 p.p.
Financial income	1 457	(172)	1 132	1 457	1 132	(948,3)	28,7	28,7
Financial expenses	(7 705)	(7 873)	(8 366)	(7 705)	(8 366)	(2,1)	(7,9)	(7,9)
<b>Gross profit (loss)</b>	<b>73 416</b>	<b>5 124</b>	<b>50 541</b>	<b>73 416</b>	<b>50 541</b>	<b>1 332,8</b>	<b>45,3</b>	<b>45,3</b>
Income tax	(11 128)	407	(13 650)	(11 128)	(13 650)	(2 836,4)	(18,5)	(18,5)
<b>Net profit (loss)</b>	<b>62 289</b>	<b>5 531</b>	<b>36 891</b>	<b>62 289</b>	<b>36 891</b>	<b>1 026,3</b>	<b>68,8</b>	<b>68,8</b>
<i>% of sales revenues</i>	7,65	0,75	4,50	7,65	4,50	6,9 p.p.	3,2 p.p.	3,2 p.p.
Net profit / (loss) for the reporting period attributable to the shareholders of the Parent Entity	54 963	10 496	14 252	54 963	14 252	423,7	285,7	285,7

The presentation of the discontinued activity for Q1 2019 was modified as described in note 6.2.1 of the Abbreviated Quarterly Consolidated Financial Statements.



## **Comments of the President of the Management Board Michał Jarczyński on the results of Q1 2020**

The year began with a record strong first quarter, with EBITDA earnings of PLN 111.8 million (PLN 81,1 million) and an EBIT margin of 9.8 percent, which is in line with the financial target. Sales amounted to PLN 813.9 million (PLN 820.6 million). Both the pulp and paper segments developed well. The trend with stable raw material prices continued to favour the paper business. The strong consolidated result contributed to the Group reducing its net debt by PLN 65 million compared to Q1, 2019.

The paper business made one of the best quarters with total sales of PLN 587.8 million (PLN 573.3 million) and an EBITDA of PLN 84.8 million (PLN 16.3 million). The driving forces behind the strong result are mainly stable raw material costs. The profit improvement program launched in 2019 contributed to lower fixed costs, although partly offset by costs for maintenance work that normally takes place during summer. Production amounted to 167,000 tons of paper (149,000) and the capacity utilization reached 97 percent.

For Rottneros net turnover decreased to SEK 585 million (630 million). After a stable start of the year, the pulp market has been profoundly affected by the corona pandemic. The negative price trend was offset by higher delivery volumes 110,000 (99,100) tons. Production reached a new quarterly record at 109,400 (97,600) tons. EBIT for the first quarter was SEK 48 million (141 million).

After a solid fourth quarter 2019 and a robust beginning of this year, the Group stands strong and is better equipped to meet the significant increase in uncertainty. Our main European markets are highly affected by the massive restrictions that have been imposed to protect us all against the spread of Covid-19.

Since mid-March, we have started to see weakened markets and subsequently a decline in demand for our products. We are therefore adjusting our operations to mitigate the negative effects and handle the considerable uncertainty. This means, among other things, that we have applied for relevant supporting measures offered by the states in the markets where we operate. For example, in Sweden, the staff at our mills in Grycksbo and Munkedal have been subject to short-term allowance. For the time being, the Kostrzyn mill is operating as normal. We continuously evaluate the market situation and are prepared to take the necessary steps to adapt our operations to market conditions. As a measure of precaution, the supervisory board has decided to withdraw the proposed dividend of PLN 0.20 per share.

Last but not least, we do whatever we can to secure the health and safety of our employees. We have taken measures to protect them, and thus our operations, against the corona virus. We strictly follow the rules and recommendations that apply in each country. So far, no employees have been found to be infected by Covid-19. Challenging times lie ahead of us. We expect both the second and the third quarters of 2020 to be impacted by the corona crisis. Resilience, prudence and creativity will guide our actions as we deal with the current situation and plan for different future scenarios.

## **Revenues**

In Q1 2020, the consolidated sales revenues amounted to PLN 813,948 thousand as compared to PLN 820,572 thousand in the equivalent period of the previous year. That means a decrease by PLN 6,624 thousand or by -0.8%. In Q1 2020, paper sales revenues amounted to PLN 587,781 thousand (Q1 2019: PLN 573,344 thousand), while sales of pulp generated PLN 226,167 thousand (Q1 2019: PLN 247,228 thousand).

Paper sales volume in Q1 2020 amounted to 171 thousand tonnes compared to 154 thousand tonnes in the same period of the previous year. The change represents an increase of 17 thousand tonnes and by +11.0% respectively.

Pulp sales volume in Q1 2020 amounted to 104 thousand tonnes compared to 94 thousand tonnes in the same period of the previous year. The change represents an increase of 10 thousand tonnes and by +10.6% respectively.

Higher sales revenues in Q1 2020, compared to Q4 2019, result from higher paper and pulp sales volume. Paper sales revenues in the last quarter of 2019 amounted to PLN 532,036 thousand (sales volume 151 thousand tonnes) while for pulp sales – PLN 207,630 thousand (sales volume 93 thousand tonnes).

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

In Q1 2020, profit on sales amounted to PLN 187,930 thousand and was by 23.7% higher than in the equivalent period last year and by 46.3% higher than in Q4 2019. Sales profit margin in the current quarter stood at 23.09% compared to 18.51% (+4.6 p.p.) in the same period of the previous year and 17.37% (+5.7%) in Q4 2019.

The main reasons of the increased profit on sales in Q1 2020 versus the equivalent period of the previous year and Q4 2019 were the lower costs of pulp for paper production.

In Q1 2020, the selling and distribution costs amounted to PLN 92,618 thousand, which represents an increase by 9.3% compared to the costs incurred in Q1 2019 and an increase by 6.2% compared to Q4 2019. The selling and distribution costs include primarily the costs of transport and the increase of the costs contributed to growing costs of sales in Q1 2020.

In Q1 2020, the administrative expenses amounted to PLN 19,170 thousand as compared to PLN 20,839 thousand in the equivalent period in 2018 and PLN 22,152 thousand in Q4 2019. The administrative expenses comprise primarily costs related to consulting services rendered to the Group by third parties.

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

Other operating income totalled PLN 13,312 thousand in Q1 2020, which was a decrease as compared to the equivalent period of the previous year (by PLN 13,804 and a growth by PLN 6,247 thousand as compared to the last quarter of 2019).

Other operating income consists mainly of income from heat and electricity sales as well as income from sales of other materials. Additionally, the amount of the other operational revenues in Q1 2019 was due to the sale of CO2 emission rights.

In Q1 2020, the other operating expenses amounted to PLN 9,790 thousand as compared to PLN 15,629 thousand in Q1 2019 and PLN 12,982 thousand in Q4 2019. The other operating expenses comprised mainly the costs of electricity and heat sales as well as costs of other materials sold.

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

In Q1 2020, the financial income amounted to PLN 1,457 thousand and was by PLN 325 thousand higher than income generated in Q1 2019 and was by PLN 1,629 thousand higher than the financial income for Q4 2019.

The higher financial revenues in Q1 2019 were due to net FX gains (specified below).

In Q1 2020, financial income amounted to PLN 7,705 thousand as compared to PLN 8,366 thousand incurred in Q1 2019 and PLN 7,873 thousand for the last quarter of 2019.

Foreign exchange differences are presented net, i.e. the surplus of foreign exchange profit over foreign exchange loss is presented as financial income while the surplus of foreign exchange loss over foreign exchange profit is presented as financial expenses. The Group generated foreign exchange profit of PLN 1,007 thousand in Q1 2020, and FX losses of PLN 379 thousand for Q4 2019 and FX gains of PLN 619 thousand in Q1 2019.

#### **Income tax**

In Q1 2020, income tax amounted to PLN -11,128 thousand while in the equivalent period in 2019 it was PLN -13,650 thousand and PLN +407 thousand in Q4 2019.

The current portion of income tax in the analysed period amounted to PLN -5,933 thousand while the deferred portion to PLN -5,195 thousand. In the first quarter of the previous year, the amount was PLN -13,344 thousand PLN and PLN -306 thousand. In the last quarter of the previous year, the amount was PLN -7,783 thousand and PLN +8,190 thousand.

#### **Net profit/loss and net profit/loss attributable to the shareholders of the Parent Entity**

In Q1 2020, the Group generated net profit in the amount of PLN 68,289 thousand. The portion of the net profit attributable to the shareholders of Arctic Paper S.A. amounts to PLN 54,963 thousand.

In Q1 2019, the Group generated net profit in the amount of PLN 36,891 thousand. The portion of the net profit attributable to the shareholders of Arctic Paper S.A. amounts to PLN 14,252 thousand.

In the last quarter 2019, the Group generated a net loss in the amount of PLN 5,531 thousand. The portion of the net profit attributable to the shareholders of Arctic Paper S.A. amounts to PLN 10,496 thousand.

#### **Profitability analysis**

In Q1 2020, the result on operations amounted to PLN +79,665 as compared to PLN +57,775 thousand in the equivalent period of the previous year and PLN +13,168 thousand in Q4 2019. These changes mean there was an increase of operating profit margin from +7.04% in the first quarter of 2019 and +1.78% in the last quarter of 2019 to +9.79% in the first quarter of the current year.

EBITDA in Q1 2020 was PLN 111,834 thousand while in the equivalent period in 2019 it was PLN 81,081 thousand and PLN 34,909 thousand in Q4 2019. In the reporting period, the EBITDA margin was 13.74% compared to 9.88% in the equivalent period of 2019 and 4.72% in Q4 2019.

In Q1 2020, net profit amounted to PLN 62,289 thousand as compared to the net profit of PLN 36,891 thousand in Q1 2019 and net profit of PLN 5,531 thousand in Q4 2019.

<i>PLN '000</i>	Q1 2020	Q4 2019	Q1 2019	YTD Q1 2020	YTD Q1 2019	% change Q1 2020/ Q4 2019	% change Q1 2020/ Q1 2019	% change YTD Q1 2020/ YTD Q1 2019
Profit on sales	187 930	128 476	151 884	187 930	151 884	46,3	23,7	23,7
<i>% of sales revenues</i>	23,09	17,37	18,51	23,09	18,51	5,7 p.p.	4,6 p.p.	4,6 p.p.
<b>EBITDA</b>	<b>111 834</b>	<b>34 909</b>	<b>81 081</b>	<b>111 834</b>	<b>81 081</b>	<b>220,4</b>	<b>37,9</b>	<b>37,9</b>
<i>% of sales revenues</i>	13,74	4,72	9,88	13,74	9,88	9,0 p.p.	3,9 p.p.	3,9 p.p.
	-	-	-	-	-	-	-	-
<b>EBIT</b>	<b>79 665</b>	<b>13 168</b>	<b>57 775</b>	<b>79 665</b>	<b>57 775</b>	<b>505,0</b>	<b>37,9</b>	<b>37,9</b>
<i>% of sales revenues</i>	9,79	1,78	7,04	9,79	7,04	8,0 p.p.	2,7 p.p.	2,7 p.p.
<b>Net profit (loss)</b>	<b>62 289</b>	<b>5 531</b>	<b>36 891</b>	<b>62 289</b>	<b>36 891</b>	<b>1 026,3</b>	<b>68,8</b>	<b>68,8</b>
<i>% of sales revenues</i>	7,65	0,75	4,50	7,65	4,50	6,9 p.p.	3,2 p.p.	3,2 p.p.
Return on equity / ROE (%)	7,3	0,6	4,3	7,3	4,3	6,6 p.p.	2,9 p.p.	2,9 p.p.
Return on assets / ROA (%)	3,0	0,3	1,7	3,0	1,7	2,7 p.p.	1,2 p.p.	1,2 p.p.

In Q1 2020, return on equity was +7.3% while in Q1 2019 it was +4.3% and in Q4 2019 it was +0.6%.

In the same period, return on assets was +3.0% while in Q1 2019 it was +1.7% and in Q4 2019 it was +0.3%.

The growth of return on equity and return of assets in Q1 2020, compared to the first and last quarter of 2019 was mainly due to the net profit generated in the analysed period.

## Selected items of the consolidated statement of financial position

PLN '000	31/03/2020	31/12/2019	31/03/2019	Change	Change
				31/03/2020	31/03/2020
				-31/12/2019	-31/03/2019
Fixed assets	1 099 454	1 080 905	1 035 694	18 549	63 760
Inventories	356 536	353 774	439 600	2 762	(83 063)
Receivables	373 790	307 445	402 580	66 345	(28 790)
<i>including trade receivables</i>	<i>368 031</i>	<i>302 121</i>	<i>394 445</i>	<i>65 910</i>	<i>(26 414)</i>
Other current assets	8 585	27 744	34 135	(19 159)	(25 550)
Cash and cash equivalents	265 738	265 885	208 625	(147)	57 113
Assets for sale	-	-	1 411	-	(1 411)
<b>Total assets</b>	<b>2 104 104</b>	<b>2 035 753</b>	<b>2 122 045</b>	<b>68 351</b>	<b>(17 941)</b>
Equity	858 199	870 528	854 328	(12 329)	3 871
Short-term liabilities	683 894	688 098	866 255	(4 204)	(182 361)
<i>of which:</i>					
<i>trade and other payables</i>	<i>444 654</i>	<i>435 366</i>	<i>486 181</i>	<i>9 288</i>	<i>(41 527)</i>
<i>interest-bearing debt</i>	<i>131 888</i>	<i>161 591</i>	<i>283 497</i>	<i>(29 703)</i>	<i>(151 609)</i>
<i>other non-financial liabilities</i>	<i>107 352</i>	<i>91 141</i>	<i>96 577</i>	<i>16 210</i>	<i>10 775</i>
Long-term liabilities	562 011	477 127	397 849	84 884	164 162
<i>of which:</i>					
<i>interest-bearing debt</i>	<i>349 715</i>	<i>263 268</i>	<i>205 956</i>	<i>86 447</i>	<i>143 759</i>
<i>other non-financial liabilities</i>	<i>212 296</i>	<i>213 858</i>	<i>191 893</i>	<i>(1 563)</i>	<i>20 403</i>
Liabilities related to assets held for sale.	-	-	3 613	-	(3 613)
<b>Total liabilities and equity</b>	<b>2 104 104</b>	<b>2 035 753</b>	<b>2 122 045</b>	<b>68 351</b>	<b>(17 941)</b>

As at 31 March 2020, total assets amounted to PLN 2,104,104 thousand as compared to PLN 2,035,753 thousand at the end of 2019 which was an increase by PLN 68,351 thousand.

### Fixed assets

As at the end of March 2020, fixed assets amounted to PLN 1,099,454 thousand and accounted for 52.3% of total assets as compared to PLN 1,080,905 thousand at the end of 2019 – 53.1%. Fixed assets mainly consist of tangible fixed assets and intangible assets. The increased value of fixed assets in Q1 2020 was primarily due to a growth of tangible fixed assets (purchased of capital goods partly compensated with depreciation) and of intangible assets (goodwill resulting from the acquisition of the subsidiary company – Nykvist Skogs AB).

### Current assets

As at the end of March 2020, current assets amounted to PLN 1,004,650 thousand as compared to PLN 954,848 thousand at the end of December 2019. As part of the current assets, inventories increased by PLN 2,762 thousand and receivables grew by PLN 66,345 thousand, other current assets decreased by PLN 19,159 thousand while cash and cash equivalents decreased by PLN 147 thousand. Current assets represented 47.7% of total assets as at the end of March 2020 (46.9% as at the end of 2019) and included inventories – 16.9% (17.3% as at the end of 2019), receivables – 17.8% (15.1% as at the end of 2019), other current assets – 0.4% (1.4% as at the end of 2019) and cash and cash equivalents – 12.6% (13.1% as at the end of 2019).

### Assets for sale

As at 31 March 2019, the assets available for sales cover the assets of the Mochenwangen Group with the exception of assets of the other companies in the Arctic Paper Group. Along with discontinued presentation of the Mochenwangen Group as discontinued activity, its assets were disclosed in current assets as at 31 December 2019 and 31 March 2020.

### Equity

In Q1 2020, the equity amounted to PLN 858,199 thousand as compared to PLN 870,528 thousand at the end of 2019. Equity represented 40.8% of total equity and liabilities as at the end of March 2020 as compared to 42.8% of balance sheet total as at the end of December 2019. The decrease of equity in Q1 2020 was due primarily to a lower valuation of financial instruments than at the end of 2019 that hedge future cash flows, partly compensated with the net profit for the period.

### Short-term liabilities

As at the end of March 2020, short-term liabilities amounted to PLN 683,894 thousand (32.5% of balance sheet total) as compared to PLN 688,098 thousand (33.8% of balance sheet total) as at the end of 2019. In the current quarter, a decrease of short-term liabilities occurred by PLN 4,204 thousand. Carrying out an analysis of changes to short-term liabilities, it is necessary to note a growth of short-term loans, borrowings and bonds as at the end of 2019 by PLN 61,404 thousand (transfer from long-term liabilities) as a result of failure to comply with the financial ratios required under loan agreements and a PLN bond issue. Elimination of the presentation change as at the end of 2019 would have resulted in a growth of short-term liabilities at the end of March 2020, primarily due to a growth of a negative measurement of financial instruments hedging future cash flows, accruals and trade payable and other liabilities.

### Long-term liabilities

As at the end of March 2020, long-term liabilities amounted to PLN 562,011 thousand (26.7% of balance sheet total) as compared to PLN 477,127 thousand (23.4% of balance sheet total) as at the end of 2019. In the period under report, an increase of long-term liabilities occurred by PLN 84,884 thousand, primarily as a result of the presentation change of loans and PLN bonds as short-term liabilities due to failure to comply with the ratios and a negative measurement of financial instruments hedging future cash flows.

### Liabilities related to assets held for sale

As at 31 March 2019, the liabilities related to assets held for sale cover the liabilities of the Mochenwangen Group with the exception of liabilities to the other companies in the Arctic Paper Group and the provision for retirement benefits. Along with discontinued presentation of the Mochenwangen Group as discontinued activity, its liabilities were disclosed in current liabilities as at 31 December 2019 and 31 March 2020.

### Debt analysis

	Q1 2020	4Q 2019	1Q 2019	% change Q1 2020/ Q4 2019	% change Q1 2020/ Q1 2019
Debt to equity ratio (%)	145,2	133,9	148,4	11,3 p.p.	(3,2) p.p.
Equity to fixed assets ratio (%)	78,1	80,5	82,5	(2,5) p.p.	(4,4) p.p.
Equity to interest-bearing debt ratio (%)	56,1	48,8	57,3	7,3 p.p.	(1,2) p.p.
Net debt to EBITDA ratio for the last 12 months (x)	0,7x	0,6x	1,2x	0,1	(0,5)
EBITDA to interest expense ratio (x)	13,4x	11,8x	9,7x	1,6	3,7

As at the end of March 2020, debt to equity ratio amounted to 145.2% and was higher by 11.3 p.p. compared to the end of 2019 and lower by 3.2 p.p. compared to the end of March 2019.

The equity to non-current assets ratio was 78.1% as at the end of Q1 2020 and was lower by 2.5 p.p. than at the end of 2019 and lower by 4.4 p.p. than at the end of March 2019.

Interest bearing debt to equity ratio amounted to 56.1% as at the end of Q1 2020 and was higher by 7.3 p.p. compared to the end of December 2019 and lower by 1.2 p.p. compared to the level of the ratio calculated at the end of March 2019.

Net borrowings to EBITDA calculated for the last 12 months ended on 31 March 2020 amounted to 0.7x compared to 0.6x in the equivalent period ended on 31 December 2019 and 1.2x for the 12-month period ended on 31 March 2019.

The EBITDA to interest coverage ratio amounted to 13.4x for the twelve months ended on 31 March 2020, 11.8x for the twelve months ended on 31 December 2019 and 9.7x for the twelve months ended on 31 March 2019.

## Liquidity analysis

	Q1 2020	4Q 2019	1Q 2019	% change Q1 2020/ Q4 2019	% change Q1 2020/ Q1 2019
<b>Current ratio</b>	<b>1,5x</b>	<b>1,4x</b>	<b>1,3x</b>	<b>0,1</b>	<b>0,2</b>
<b>Quick ratio</b>	<b>0,9x</b>	<b>0,9x</b>	<b>0,7x</b>	<b>0,1</b>	<b>0,2</b>
<b>Acid test ratio</b>	<b>0,4x</b>	<b>0,4x</b>	<b>0,2x</b>	<b>0,0</b>	<b>0,1</b>
DSI (days)	51,3	52,1	59,2	(0,8)	(7,9)
DSO (days)	40,7	36,8	43,3	3,9	(2,6)
DPO (days)	63,9	64,1	65,4	(0,2)	(1,5)
Operational cycle (days)	92,0	88,9	102,4	3,1	(10,5)
<b>Cash conversion cycle (days)</b>	<b>28,0</b>	<b>24,7</b>	<b>37,0</b>	<b>3,3</b>	<b>(9,0)</b>

The current liquidity ratio was 1.5 at the end of March 2020 increased by 0.1 as compared to 31 December 2019 and by 0.2 as compared to 31 March 2019.

The quick ratio was 0.9 at the end of March 2020 and as at 31 December 2019 and 0.7 as at 31 March 2019.

At the end of March 2020, the acid test ratio was at a similar level as compared to the end of 2019 (0.4) and higher by 0.2 as at the end of March 2019.

The cash conversion cycle for the period ended on 31 March 2020 was 28.0 days (the period ended on 31 December 2019: 24.7 days and for the period ended on 31 March 2019: 37.0 days).

## Selected items of the consolidated statement of cash flow

PLN '000	Q1 2020	Q4 2019	Q1 2019	YTD Q1 2020	YTD Q1 2019	% change Q1 2020/ Q4 2019	% change Q1 2020/ Q1 2019	% change YTD Q1 2020/ YTD Q1 2019
Cash flows from operating activities	70 781	117 386	59 761	70 781	59 761	(39,7)	18,4	18,4
<i>of which:</i>	-	-	-	-	-	-	-	-
<i>Gross profit (loss)</i>	73 416	5 124	50 541	73 416	50 541	1 332,8	45,3	45,3
<i>Depreciation/amortisation and impairment charges</i>	32 169	21 741	23 307	32 169	23 307	48,0	38,0	38,0
<i>Changes to working capital</i>	(44 645)	71 776	(23 743)	(44 645)	(23 743)	(162,2)	88,0	88,0
<i>Other adjustments</i>	9 841	18 745	9 657	9 841	9 657	(47,5)	1,9	1,9
Cash flows from investing activities	(37 565)	(47 634)	(18 764)	(37 565)	(18 764)	(21,1)	100,2	100,2
Cash flows from financing activities	(34 185)	(58 323)	(32 654)	(34 185)	(32 654)	(41,4)	4,7	4,7
<b>Total cash flows</b>	<b>(969)</b>	<b>11 429</b>	<b>8 344</b>	<b>(969)</b>	<b>8 344</b>	<b>(108,5)</b>	<b>(111,6)</b>	<b>(111,6)</b>

### Cash flows from operating activities

In Q1 2020, net cash flows from operating activities amounted to PLN +70,781 thousand as compared to PLN +59,761 thousand in the equivalent period of 2019 and PLN +117,386 thousand in Q4 of the previous year. Gross profit generated in Q1 2020, increased by depreciation/amortisation in the period, partly compensated with changes in working capital (mainly increased receivables) resulted in positive cash flows from operating activities in the first three months of 2020.

### Cash flows from investing activities

In Q1 2020, cash flows from investing activities amounted to PLN -37,565 thousand as compared to PLN -18,764 thousand in Q1 2019 and PLN -47,634 thousand in Q4 2019. Cash flows from investing activities in the first quarter of 2020 resulted primarily from purchase of tangible fixed and intangible assets and acquisition costs of a subsidiary company.

### Cash flows from financing activities

In Q1 2020, cash flows from financing activities amounted to PLN -34,185 thousand as compared to PLN -32,654 thousand in Q1 2019 and PLN -58,323 thousand in Q4 2019. In Q1 2020, negative cash flows from financing activities were related primarily to repayment of debt under bank loans and bonds with interest.

## Summary of standalone financial results

### Selected items of the standalone statement of profit and loss

PLN '000	Q1 2020	Q4 2019	Q1 2019	YTD Q1 2020	YTD Q1 2019	% change Q1 2020/ Q4 2019	% change Q1 2020/ Q1 2019	% change YTD Q1 2020/ YTD Q1 2019
<b>Sales revenues</b>	<b>5 171</b>	<b>30 357</b>	<b>11 111</b>	<b>5 171</b>	<b>11 111</b>	<b>(83,0)</b>	<b>(53,5)</b>	<b>(53,5)</b>
<i>of which:</i>								
Revenues from sales of ser	4 245	6 892	7 321	4 245	7 321	(38,4)	(42,0)	(42,0)
Interest income on loans	927	1 610	1 139	927	1 139	(42,4)	(18,7)	(18,7)
Dividend income	-	21 855	2 650,1	-	2 650,1	-	(100,0)	(100,0)
<b>Profit on sales</b>	<b>3 892</b>	<b>28 699</b>	<b>9 775</b>	<b>3 892</b>	<b>9 775</b>	<b>(86,4)</b>	<b>(60,2)</b>	<b>(60,2)</b>
% of sales revenues	75,26	94,54	87,98	75,26	87,98	(19,3) p.p.	(12,7) p.p.	(12,7) p.p.
Selling and distribution costs	-	(886)	(574)	-	(574)	(100,0)	(100,0)	(100,0)
Administrative expenses	(5 483)	(9 145)	(6 646)	(5 483)	(6 646)	(40,0)	(17,5)	(17,5)
Other operating income	271	2 083	82	271	82	(87,0)	231,4	231,4
Other operating expenses	(608)	(3 497)	(319)	(608)	(319)	(82,6)	90,6	90,6
<b>EBIT</b>	<b>(1 928)</b>	<b>17 253</b>	<b>2 318</b>	<b>(1 928)</b>	<b>2 318</b>	<b>(111,2)</b>	<b>(183,2)</b>	<b>(183,2)</b>
% of sales revenues	(37,29)	56,83	20,86	(37,29)	20,86	(94,1) p.p.	(58,1) p.p.	(58,1) p.p.
<b>EBITDA</b>	<b>(1 656)</b>	<b>16 905</b>	<b>2 441</b>	<b>(1 656)</b>	<b>2 441</b>	<b>(109,8)</b>	<b>(167,9)</b>	<b>(167,9)</b>
% of sales revenues	(32,03)	55,69	21,97	(32,03)	21,97	(87,7) p.p.	(54,0) p.p.	(54,0) p.p.
Financial income	1 295	654	1 203	1 295	1 203	97,9	7,6	7,6
Financial expenses	(7 157)	(3 651)	(5 315)	(7 157)	(5 315)	96,0	34,7	34,7
<b>Gross profit</b>	<b>(7 791)</b>	<b>14 256</b>	<b>(1 794)</b>	<b>(7 791)</b>	<b>(1 794)</b>	<b>(154,6)</b>	<b>334,3</b>	<b>334,3</b>
Income tax	-	(304)	(1)	-	(1)	-	(100,0)	(100,0)
<b>Net profit</b>	<b>(7 791)</b>	<b>13 952</b>	<b>(1 795)</b>	<b>(7 791)</b>	<b>(1 795)</b>	<b>(155,8)</b>	<b>334,1</b>	<b>334,1</b>
% of sales revenues	(150,65)	45,96	(16,15)	(150,65)	(16,15)	(196,6) p.p.	(134,5) p.p.	(134,5) p.p.

### Revenues

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, as well as Sales Offices.

Sales revenues for Q1 2020 amounted to PLN 5,171 thousand and comprised services provided to Group companies (PLN 4,245 thousand) and interest on loans (PLN 927 thousand). In the equivalent period of the previous year, the standalone sales revenues amounted to PLN 11,111 thousand and comprised services provided to Group companies (PLN 7,321 thousand) and interest on loans (PLN 1,239 thousand).

In Q4 2019, the standalone sales revenues amounted to PLN 30,357 thousand, including dividend income (PLN 21,855 thousand), included revenues from the services provided to Group companies (PLN 6,892 thousand) and interest income on borrowings granted (PLN 1,610 thousand).

In 2020 and in 2019, the Company did not render services to the Pulp Mills of the Rottneros Group.

In 2020, the costs of sales comprised interest expense on loans received from other Group companies and internal costs of sales of logistics services.

### Selling and distribution costs

In Q1 2020, the Company did not recognise selling and distribution costs (PLN 574 thousand in the equivalent quarter of 2019) which comprised solely the expenses related to intermediary services in the purchase of pulp for Arctic Paper Kostrzyn S.A. Sales of pulp to Arctic Paper Kostrzyn commenced in July 2012 and lasted until the end of 2019.



### **Administrative expenses**

In Q1 2020, the administrative expenses amounted to PLN 5,483 thousand and were lower than in the same period of the previous year (by PLN 6,646 thousand) and lower than the expenses recorded in Q4 2019 by PLN 9,145 thousand.

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 totalled PLN 271 thousand in Q1 2020 which was an increase as compared to the equivalent period of the previous year by PLN 189 thousand. In Q4 2019, the income amounted to PLN 5,316 thousand and was primarily due to a decrease of impairment allowances to assets at Arctic Paper Mochenwangen GmbH. Other operating expenses totalled PLN 608 thousand in Q1 2020. In the equivalent period of 2019, the expenses amounted to PLN 319 thousand while in Q4 2019 they amounted to PLN 3,497 thousand with the largest part thereof being an increase of impairment allowances to assets – receivables from Arctic Paper Mochenwangen GmbH.

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

In Q1 2020, the financial income amounted to PLN 1,295 thousand and was higher by PLN 92 thousand than generated in Q1 2019.

The financial expenses in 2020 amounted to PLN 7,157 thousand (in the equivalent period of 2019: PLN 5,315) while in Q4 2019 they amounted to PLN 3,651 thousand. The largest part of financial expenses in Q1 2020 included FX losses, interest on loans measured at amortised cost and costs of financial transactions.

## Selected items of the standalone statement of financial position

PLN '000	31/03/2020	31/12/2019	31/03/2019	Change	Change
				31/03/2020	31/03/2020
				-31/12/2019	-31/03/2019
Fixed assets	717 596	724 693	739 715	(7 097)	(22 120)
Receivables	46 968	70 155	69 824	(23 186)	(22 856)
Other current assets	88 733	99 700	113 643	(10 966)	(24 910)
Cash and cash equivalents	41 034	31 939	5 254	9 094	35 780
<b>Total assets</b>	<b>894 331</b>	<b>926 486</b>	<b>928 436</b>	<b>(32 155)</b>	<b>(34 105)</b>
Equity	560 188	568 078	534 282	(7 890)	25 907
Short-term liabilities	240 756	301 081	370 694	(60 324)	(129 938)
Long-term liabilities	93 386	57 326	23 461	36 061	69 925
<b>Total equity and liabilities</b>	<b>894 331</b>	<b>926 486</b>	<b>928 436</b>	<b>(32 155)</b>	<b>(34 105)</b>

As at 31 March 2020, total assets amounted to PLN 894,331 thousand as compared to PLN 926,486 thousand at the end of 2019.

### Fixed assets

As at the end of March 2020 non-current assets represented nearly 80.2% of total assets which means the share increased (by 2.0 p.p.) compared to the end of 2019. The main item of non-current assets includes interests in subsidiaries. At the end of Q1 2020, the value was PLN 673,937 thousand and was the same as at the end of 2019.

### Current assets

As at the end of March 2020, current assets amounted to PLN 176,735 thousand as compared to PLN 201,794 thousand at the end of 2019. Working assets decreased in Q1 2020, particularly in trade receivables and other current assets. As at the end of Q1 2020, current assets represented 19.8% of total assets compared to 21.8% as at the end of the previous year.

### Equity

In Q1 2020, the equity amounted to PLN 560,188 thousand as compared to PLN 568,078 thousand at the end of 2019. Equity amounted to 62.6 % of balance sheet total as at the end of March 2020 and the share increased by 1.3 p.p as compared to the end of 2019.

### Short-term liabilities

As at the end of March 2020, current liabilities amounted to PLN 240,756 thousand (26.9% of balance sheet total) as compared to PLN 301,081 thousand as at the end of 2019 (32.5% of balance sheet total).

### Long-term liabilities

As at the end of March 2020, long-term liabilities amounted to PLN 93,386 thousand (10.4% of balance sheet total) as compared to PLN 57,326 thousand as at the end of 2019 (6.2% of balance sheet total). The growth of long-term liabilities versus the end of 2019 was due to reclassification as at the end of 2019 of long-term loans, borrowings and bonds and presentation thereof as short-term, due to failure to comply with the financial ratios under loan agreements and a bond issue.

## Selected items of the standalone statement of cash flow

PLN '000	Q1 2020	Q4 2019	Q1 2019	YTD Q1 2020	YTD Q1 2019	% change Q1 2020/ Q4 2019	% change Q1 2020/ Q1 2019	% change YTD Q1 2020/ YTD Q1 2019
Cash flows from operating activities	41 261	66 093	26 110	41 261	26 110	(37,6)	58,0	58,0
<i>of which:</i>								
Gross profit (loss)	(7 791)	4 361	(1 794)	(7 791)	(1 794)	(278,7)	334,3	334,3
Depreciation/amortisation	287	296	100	287	100	(3,0)	188,5	188,5
Changes to working capital	4 567	36 390	(15 839)	4 567	(15 839)	(87,4)	(128,8)	(128,8)
Net interest and dividends	-	2 859	2 298	-	2 298	(100,0)	(100,0)	(100,0)
Increase / decrease of loans granted to subsidiaries	20 231	86 120	27 830	20 231	27 830	(76,5)	(27,3)	(27,3)
Increase / decrease of liabilities from cash-pooling	20 754	(74 533)	13 169	20 754	13 169	(127,8)	57,6	57,6
Other adjustments	3 212	706	347	3 212	347	355,1	825,9	825,9
Cash flows from investing activities	-	1 130	182	-	182	(100,0)	(100,0)	(100,0)
Cash flows from financing activities	(32 167)	(51 149)	(40 644)	(32 167)	(40 644)	(37,1)	(20,9)	(20,9)
<b>Total cash flows</b>	<b>9 094</b>	<b>16 074</b>	<b>(14 352)</b>	<b>9 094</b>	<b>(14 352)</b>	<b>(43,4)</b>	<b>(163,4)</b>	<b>(163,4)</b>

The cash flow statement presents an increase in cash in Q1 2019 by PLN 9,094 thousand which includes:

- positive cash flows from operating activities of PLN 41,261 thousand,
- no cash flows from investing activities of PLN 0 thousand,
- negative cash flows from financing activities of PLN -32,167 thousand.

### Cash flows from operating activities

In Q1 2020, net cash flows from operating activities amounted to PLN 41,261 thousand as compared to PLN 26,110 thousand in the equivalent period of 2019. The positive cash flows from operating activities this year was affected largely by the changes to the loans to subsidiaries and liabilities under cash-pooling.

### Cash flows from investing activities

In the first three months 2020, cash flows from investing activities amounted to PLN 0 as compared to PLN -182 thousand in Q1 2019.

### Cash flows from financing activities

In 2020, cash flows from financing activities amounted to PLN -32,167 thousand as compared to PLN -40,644 thousand in 2019. The cash flows from financing activities were primarily affected by repayments of liabilities under 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,
- demand growth for products based on natural fibres,
- reduced demand for certain paper types,
- fluctuations of paper prices,
- pulp price fluctuations for Paper Mills, timber for Pulp Mills and energy prices,
- FX rates fluctuation.

### Macroeconomic and other economic factors

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

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

### Demand growth for products based on natural fibres

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

### Reduced demand for certain paper types

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

### Paper prices

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

### Costs of raw materials, energy and transportation

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

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

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

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

### **Currency rate fluctuations**

Our 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 the Group incurs costs towards the currencies in which we generate revenues, will have an adverse effect on the Group's results. The Group's products are primarily sold to euro zone countries, Scandinavia, Poland and the UK, thus the Group's revenues are largely denominated in EUR, GBP, SEK and PLN while revenues from the Pulp Mills are primarily denominated in USD. The Group's operating expenses are primarily expressed in USD (pulp costs for Paper Mills), EUR (costs related to pulp for Paper Mills, energy, transportation, chemicals), PLN (the majority of other costs incurred by the Paper Mill in Kostrzyn nad Odrą) and SEK (the majority of other costs incurred by the Munkedal and Grycksbo Paper Mills as well as the Rottneros and Vallvik Pulp Mills).

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

### **Unusual events and factors**

In Q1 2020, there were no unusual events or factors, other than the ones related to COVID-19 as described in p. 5.1 of the attached consolidated financial statement.

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

In Q1 2020, there were no material changes in the Arctic Paper Group's structure that would have material influence on the financial result generated.

### **Other material information**

#### **Actions taken by subsidiaries to mitigate the effects of the COVID-19 epidemic on the business and future results of the Arctic Paper Group**

With references to the risks described in the 2019 annual report, related to the spread of the SARS-CoV-2 coronavirus, responsible for the COVID-19 epidemic in Poland and on a global scale, and due to the fact that the Swedish government will provide a support package to companies, on 7 April 2020 the subsidiary companies: Arctic Paper Munkedals AB and Arctic Paper Grycksbo AB filed applications to the authorities pursuant to which – in case of negative economic or financial effect of the pandemic – they will be able to resort to the instruments available under the support package to companies. Additionally, the companies have completed negotiations with trade unions representing the staff of those companies, concerning a possibility to shorten working time of certain staff members in case of a potential decrease in demand for their products.

Similar solutions may be also implemented with other Group companies in those countries where it is possible to shorten working time or reduce the number of employees.

#### **Recommendations on payment of dividend**

The Management Board of Arctic Paper S.A on 30th of April 2020 took a decision to change a recommendation on payment of dividend from the net profit of 2019, which was announced in current report no.4/2020 dated 27th February 2020.

The Management Board adopted a resolution to submit a recommendation to the Ordinary Shareholders Meeting on non-payment of dividend from the net profit of 2019. A change of the previous Management Board recommendation is a result of decreased demand on the products of Arctic Paper's group companies as an effect of the ongoing COVID-19 pandemic, as well as limited possibility to assess the impact of the pandemic on the economic situation in the 2nd and 3rd quarters of 2020. The Company's Supervisory Board during the meeting held 30th of April 2020 approved the above-mentioned Management Board's recommendation regarding non-payment of dividend from the profit for the financial year ended December 31, 2019.

# Factors influencing the development of the Arctic Paper Group

## Information on market trends

### Supplies of fine paper

In Q1 2020, the Arctic Paper Group recorded an increased level of orders versus Q4 2019 by 13.9% and an increase of orders versus the equivalent period of 2019 by 11.4%.

Source of data: Analysis by Arctic Paper

### Paper prices

In Q1 2020, the average prices of high quality UWF paper decreased by 5.2% while the prices of CWF paper decreased by 7.6% versus equivalent prices of Q1 2019.

In the period from December 2019 to March 2020, the prices declared by manufacturers of uncoated wood-free paper (UWF) and coated wood-free paper (CWF) for selected markets: Germany, France, Spain, Italy and the UK, expressed in EUR and GBP, experienced similar decreases: by 2.1% and 1.6% respectively.

The prices invoiced by Arctic Paper in EUR for comparable products in the segment of uncoated wood-free paper (UWF) decreased at the end of Q1 2020 by 11.4% versus the equivalent period of 2019 while in the segment of coated wood-free paper (CWF) the prices decreased by 7.4%.

Source: For market data – RISI, price changes for selected markets in Germany, France, Spain, Italy and the UK in local currencies for graphic papers similar to the product portfolio of the Arctic Paper Group. The prices are expressed without considering specific rebates for individual 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 Q1 2020, the pulp prices reached the level of: NBSK – USD 839.7/tonne and BHKP – USD 680/tonne. The average pulp price in Q1 2020 was lower by 28.2% for NBSK while lower by 31.6% for BHKP, compared to the corresponding period of the previous year. The average pulp price in Q1 2020 was lower as compared to Q4 2019 by 0.1% for NBSK by 2.4% for BHKP.

The average cost of pulp per tonne of the produced paper as calculated for the AP Group, expressed in PLN, in Q1 2020 decreased by 8% compared to Q4 2019 and decreased by 32.1% compared to Q1 2019. The share of pulp costs in the internal costs of paper sales in Q1 of the current year amounted to 52% and was lower compared to the level recorded in Q1 2019 (59%).

In Q1 2020, 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 Q1 2020 amounted to 4.5523 and was higher by 6.9% than at the end of Q4 2019 and higher by 5.8% than at the end of Q1 2019. The average exchange rate in Q1 2020 was higher by 0.9% than in Q4 2019 and amounted to 4.3257, compared to 4.2886. The average exchange rate in Q1 2020 was by 0.5% higher than in Q1 2019.

The EUR/SEK exchange rate at the end of March 2020 was 11.0654 versus 10.4554 at the end of 2019, and 10.4148 at the end of Q1 2019 which was an appreciation of EUR to SEK by 5.8% and 6.2% respectively.

For this pair, the mean exchange rate in Q1 2020 was by 0.2% higher compared to Q4 2019. The mean exchange rate in Q1 2020 was 2.4% higher than in the corresponding period of 2019.

The changes mean a depreciation of SEK vis-a-vis EUR in Q1 2020 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 Q1 2020, the USD/PLN rate recorded an increase by 9.2% versus the end of Q4 2019 and amounted to 4.1466. In Q1 2020, the average exchange rate amounted to 3.9237 compared to 3.8741 in Q4 2019. That was a PLN depreciation to USD by 1.3%.

At the end of Q1 2020, the USD/SEK rate amounted to 10.0792 and was by 8.1% higher than at the end of 2019. The mean exchange rate in Q1 2020 amounted to 9.6754 which was an increase by 0.6% compared to Q4 2019.

The changes of the USD/SEK exchange rates in Q1 2020 adversely affected the costs incurred in USD by the Swedish Paper Mills, in particular the costs of pulp. With reference to the Paper Mill in Kostrzyn, the mean monthly USD/PLN exchange rate recorded a growth versus the equivalent rate from Q4 2019 which has adversely affected the pulp purchase costs in USD by the Polish factory.

At the end of March 2018, the EUR/USD rate amounted to 1.0978 compared to 1.1213 at the end of Q4 2019 and to 1.1212 at the end of March 2019. In terms of percentage, that means a depreciation of EUR to USD by 2.1% versus Q4 2019 and a depreciation of the currency by 2.1% Q1 2019. In Q1 2020, the mean exchange rate of the pair amounted to 1.1028 compared to 1.1071 in Q4 2019 (-0.4%).

The depreciation of SEK versus EUR has positively affected the Group's financial results, mainly due to increased sales revenues generated in EUR and translated into SEK. The depreciating PLN versus USD in Q1 2020 adversely affected the purchase prices of raw materials for the Paper Mill in Kostrzyn. SEK appreciating vis-a-vis USD adversely affected the 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:

- Changes to demand for high quality paper in Europe during the COVID-19 pandemic and the anticipated related economic slowdown.

Over the recent years there has been a major decrease of demand for fine paper in Europe (level of executed orders). Further negative developments in the market may adversely affect order levels to our Paper Mills. Cancelled international events, restrictions to free movement of people, intensified remote work – may additionally reduce demand for high quality graphic paper and thus adversely affect the financial results of the Group.

- Price changes of fine paper. In particular, the possibility to raise the prices of Arctic Paper products in local currencies in view of the declining supply/demand in Europe and in the context exchange rates fluctuations, will have a material influence on the financial results. Paper prices are going to be of particular importance for the Paper Mill of Grycksbo which – in connection with the market changes – experiences the greatest adverse impact of 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 future, such market changes may translate into changes of sales profitability in Paper Mills of AP Munkedals and AP Grycksbo as well as in Pulp Mills of Rottneros and Vallvik.
- Changes in currency rates, in particular, the appreciation of PLN and SEK in relation to EUR and GBP, the appreciation of PLN in relation to SEK, and the depreciation of PLN and SEK in relation to USD, may have an adverse effect on the financial results. However, our Pulp Mills may benefit from the appreciation of USD in relation to SEK.

## Risk factors

In Q1 2020, there were no material changes to the risk factors. Those were presented in detail in the annual report for 2019.



## 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 2020.

### 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 14/05/2020	Number of shares or rights to shares as at 26/03/2020	Change
<b>Management Board</b>			
Michał Jarczyński	-	-	-
Göran Eklund	-	-	-
<b>Supervisory Board</b>			
Per Lundeen	34 760	34 760	-
Thomas Onstad	6 223 658	6 223 658	-
Roger Mattsson	-	-	-
Dorota Raben	-	-	-
Mariusz Grendowicz	-	-	-

### Information on sureties and guarantees

As at 31 March 2020, the 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 1,394 thousand at Arctic Paper Grycksbo AB and for SEK 764 thousand at Arctic Paper Munkedals AB,
- pledge on properties of Arctic Paper Munkedals AB resulting from an FPG contract in favour of the mutual life insurance company PRI for SEK 50,000 thousand,
- a bank guarantee in favour of Skatteverket Ludvika for SEK 135 thousand,
- a contingent liability of Arctic Paper Munkedals AB related to a surety for the obligations of Kalltorp Kraft HB in the amount of SEK 402 thousand,
- pledge on properties held by Arctic Paper Munkedals Kraft AB as required by loan agreements with Nordea Bank for SEK 80,000 thousand (related to the investment in the hydro power plant),
- pledges on shares in subsidiary companies in the Rottneros Group for SEK 284,730 thousand under loan agreements concluded with Danske Bank,
- margin on hedging transactions in the bank account of Rottneros with SEB for SEK 30,810 thousand,
- 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 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 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 Managing Director	Michał Jarczyński	14 May 2020	signed with a qualified electronic signature
Member of the Management Board Chief Financial Officer	Göran Eklund	14 May 2020	signed with a qualified electronic signature

The background image shows a vast industrial facility, likely a factory or power plant. A long, complex production line of machinery stretches across the middle ground. The ceiling is high with a network of steel beams and industrial lighting fixtures. The walls are made of light-colored corrugated metal. In the foreground, there are some yellow pallets and blue storage containers. The overall atmosphere is one of a large-scale industrial operation.

# **Abbreviated quarterly consolidated financial statements**

for the period of three months  
ended on 31 March 2020

## Consolidated financial statements

### Abbreviated consolidated statement of profit and loss

	3-month period ended on 31 March 2020 (unaudited)	3-month period ended on 31 March 2019 (unaudited)	Year ended 31 December 2019
<b>Continuing operations</b>			
Revenues from sales of goods	813 948	820 572	3 117 118
Sales revenues	813 948	820 572	3 117 118
Costs of sales	(626 018)	(668 688)	(2 531 612)
Profit (loss) on sales	187 930	151 884	585 506
Selling and distribution costs	(92 618)	(84 757)	(336 862)
Administrative expenses	(19 170)	(20 839)	(88 527)
Other operating income	13 312	27 116	78 111
Other operating expenses	(9 790)	(15 629)	(46 806)
Operating profit (loss)	79 665	57 775	191 422
Financial income	1 457	1 132	1 149
Financial expenses	(7 705)	(8 366)	(34 640)
Gross profit (loss)	73 416	50 541	157 931
Income tax	(11 128)	(13 650)	(33 250)
Net profit (loss) from continuing operations	62 289	36 891	124 681
<b>Discontinued operations</b>			
Profit (loss) for the period on discontinued operations	-	-	-
Net profit (loss) for the period	62 289	36 891	124 681
Attributable to:			
The shareholders of the Parent Entity, of which:			
- profit (loss) from continuing operations	54 963	14 252	82 709
- profit (loss) from discontinued operations	-	-	-
The non-controlling shareholder, of which:			
- profit (loss) from continuing operations	7 326	22 639	41 971
- profit (loss) from discontinued operations	-	-	-
	62 289	36 891	124 681
<b>Earnings per share:</b>			
- basic earnings from the profit/(loss) for the period attributable to the shareholders of the Parent Entity	0,79	0,21	1,19
- basic earnings profit/(loss) for the period from continuing operations attributable to the shareholders of the Parent Entity	0,79	0,21	1,19
- diluted earnings from the profit for the period attributable to the shareholders of the Parent Entity	0,79	0,21	1,19
- diluted earnings from the profit for from continuing operations attributable to the shareholders of the Parent Entity	0,79	0,21	1,19

\*information on the transformed data is provided in note 6.2.1

## Abbreviated consolidated statement of total comprehensive income

	3-month period ended on 31 March 2020 (unaudited)	3-month period ended on 31 March 2019 (unaudited)	Year ended on 31 December 2019
Net profit(loss) for the reporting period	62 289	36 891	124 681
Items to be reclassified to profit/loss in future reporting periods:			
FX differences on translation of foreign operations	6 378	(10 303)	(19 412)
Measurement of financial instruments	(102 624)	(42 895)	(55 809)
Deferred income tax on the measurement of financial instruments	21 628	9 442	12 309
Items not to be reclassified to profit /loss in future reporting periods:			
Actuarial profit / (loss) for defined benefit plans	-	-	(13 319)
Deferred income tax on actuarial profit / (loss) relating to defined benefit plans	-	-	2 428
Other comprehensive income	(74 618)	(43 756)	(73 803)
Total comprehensive income	(12 329)	(6 865)	50 877
Total comprehensive income attributable to:			
The shareholders of the Parent Entity	226	(13 829)	30 266
Non-controlling interest	(12 555)	6 964	20 611

## Abbreviated consolidated statement of financial position

	As at 31 March 2020 (unaudited)	As at 31 December 2019	As at 31 March 2019 (unaudited)
<b>ASSETS</b>			
Fixed assets			
Tangible fixed assets	984 605	979 851	923 567
Investment properties	4 128	4 128	4 236
Intangible assets	46 865	38 471	42 706
Interests in joint ventures	1 426	1 412	1 162
Other financial assets	20 236	30 658	34 498
Other non-financial assets	2 054	2 039	1 751
Deferred income tax asset	40 140	24 346	27 774
	1 099 454	1 080 905	1 035 694
Current assets			
Inventories	356 536	353 774	439 600
Trade and other receivables	368 031	302 121	394 445
Corporate income tax receivables	5 760	5 324	8 136
Other financial assets	411	8 909	22 312
Other non-financial assets	8 174	18 835	11 823
Cash and cash equivalents	265 738	265 885	208 625
	1 004 650	954 848	1 084 940
Assets for sale	-	-	1 411
<b>TOTAL ASSETS</b>	<b>2 104 104</b>	<b>2 035 753</b>	<b>2 122 045</b>
<b>EQUITY AND LIABILITIES</b>			
Equity			
Equity (attributable to the shareholders of the Parent Entity)			
Share capital	69 288	69 288	69 288
Reserve capital	407 976	407 976	407 976
Other reserves	80 880	139 035	128 518
FX differences on translation	(25 445)	(28 863)	(17 815)
Retained earnings / Accumulated losses	74 436	19 473	(13 493)
Cumulated other comprehensive income related to discontinued operations	-	-	(11 660)
	607 135	606 909	562 814
Non-controlling interest	251 064	263 619	291 514
<b>Total equity</b>	<b>858 199</b>	<b>870 528</b>	<b>854 328</b>
Long-term liabilities			
Interest-bearing loans, borrowings and bonds	274 736	233 745	173 903
Provisions	127 475	124 942	104 852
Other financial liabilities	74 979	29 523	32 053
Deferred income tax liability	70 551	70 823	71 244
Accruals and deferred income	14 270	18 094	15 797
	562 011	477 127	397 849
Short-term liabilities			
Interest-bearing loans, borrowings and bonds	92 288	149 983	270 806
Provisions	4 213	5 008	1 617
Other financial liabilities	39 600	11 608	12 691
Trade and other payables	444 654	435 366	486 181
Income tax liability	7 591	4 284	341
Accruals and deferred income	95 547	81 849	94 619
	683 894	688 098	866 255
Liabilities related to assets held for sale.	-	-	3 613
<b>TOTAL LIABILITIES</b>	<b>1 245 905</b>	<b>1 165 225</b>	<b>1 267 717</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>2 104 104</b>	<b>2 035 753</b>	<b>2 122 045</b>

## Abbreviated consolidated statement of cash flow

	3-month period ended on 31 March 2020 (unaudited)	3-month period ended on 31 March 2019 (transformed)	Year ended 31 December 2019
<b>Cash flows from operating activities</b>			
Gross profit (loss)	73 416	50 541	157 931
Adjustments for:			
Depreciation/amortisation	32 169	23 307	86 609
FX gains (loss)	7 494	2 329	748
Net interest and dividends	6 071	6 134	22 682
Profit / loss from investing activities	(811)	305	(14 196)
Increase / decrease in receivables and other non-financial assets	(54 957)	(33 011)	46 633
Change to inventories	1 127	33 452	114 714
Increase / decrease in liabilities except for loans and borrowings	10 457	(22 403)	(74 184)
Change in accruals and prepayments	(1 273)	(1 782)	(8 460)
Change in provisions	(269)	120	13 278
Income tax paid	(2 267)	(4 788)	(10 271)
Co-generation certificates and emission rights	(390)	5 572	7 274
Other	13	(15)	(470)
Net cash flows from operating activities	70 781	59 761	342 290
<b>Cash flows from investing activities</b>			
Disposal of tangible fixed assets and intangible assets	1 216	683	15 809
Purchase of tangible fixed assets and intangible assets	(32 693)	(19 447)	(137 643)
Other capital outflows / inflows	(6 089)	-	-
Net cash flows from investing activities	(37 565)	(18 764)	(121 834)
<b>Cash flows from financing activities</b>			
Change to overdraft facilities	405	(820)	(92 605)
Repayment of financial leasing liabilities	(3 075)	(2 425)	(8 964)
Inflows from other financial liabilities	-	-	406
Repayment of other financial liabilities	(2)	-	(2)
Inflows under contracted loans, borrowings and bonds	2 548	-	61 116
Repayment of loans, borrowings and bonds	(28 765)	(23 611)	(49 067)
Interest paid	(5 296)	(5 797)	(22 281)
Dividend disbursed to non-controlling shareholders	-	-	(41 542)
Net cash flows from financing activities	(34 185)	(32 654)	(152 939)
Change in cash and cash equivalents	(969)	8 344	67 517
Net FX differences	823	(1 237)	(3 722)
Cash and cash equivalents at the beginning of the period	265 885	202 090	202 090
Cash and cash equivalents at the end of the period	265 738	209 197	265 885

\*information on the transformed data is provided in note 6.2.1



## 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 comprehensive income related to discontinued operations	Total	Non-controlling stake	Total equity
As at 01 January 2020	69 288	407 976	(28 863)	139 035	19 473	-	606 909	263 619	870 528
Net profit for the period	-	-	-	-	54 963	-	54 963	7 326	62 289
Other comprehensive income for the period	-	-	3 418	(58 155)	-	-	(54 737)	(19 881)	(74 618)
Total comprehensive income for the period	-	-	3 418	(58 155)	54 963	-	226	(12 555)	(12 329)
As at 31 March 2020 (unaudited)	69 288	407 976	(25 445)	80 880	74 436	-	607 135	251 064	858 199

### 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 comprehensive income related to discontinued operations	Total	Non-controlling stake	Total equity
As at 01 January 2019	69 288	407 976	(12 338)	151 110	(27 745)	(11 649)	576 643	284 550	861 193
Net profit for the period	-	-	-	-	14 252	-	14 252	22 639	36 891
Other comprehensive income for the period	-	-	(5 488)	(22 592)	-	-	(28 081)	(15 676)	(43 756)
Total comprehensive income for the period	-	-	(5 488)	(22 592)	14 252	-	(13 829)	6 964	(6 865)
Discontinued operations	-	-	11	-	-	(11)	-	-	-
As at 31 March 2019 (unaudited)	69 288	407 976	(17 815)	128 518	(13 493)	(11 660)	562 814	291 514	854 328

	Attributable to the shareholders of the Parent Entity						Total	Non-controlling stake	Total equity
	Share capital	Reserve capital	FX differences on translation of foreign operations	Other reserves	Retained earnings / (Accumulated losses)	Cumulated other comprehensive income related to discontinued operations			
As at 01 January 2019	69 288	407 976	(12 338)	151 110	(27 745)	(11 649)	576 643	284 550	861 193
Foreign currency translation	-	-	-	-	82 709	-	82 709	41 971	124 681
Net profit for the period	-	-	(9 954)	(31 599)	(10 891)	-	(52 443)	(21 360)	(73 803)
Other comprehensive income for the period	-	-	(9 954)	(31 599)	71 819	-	30 266	20 611	50 877
Profit distribution	-	-	-	19 523	(19 523)	-	-	-	-
Discontinued operations	-	-	(6 572)	-	(5 077)	11 649	-	-	-
Dividend distribution to non-controlling entities	-	-	-	-	-	-	-	(41 542)	(11 510)
As at 31 December 2019	69 288	407 976	(28 863)	139 035	19 473	-	606 909	263 619	870 528

## Standalone financial statements

### Abbreviated standalone statement of profit and loss

	3-month period ended on 31 March 2020 (unaudited)	3-month period ended on 31 March 2019 (unaudited)	Year ended on 31 December 2019
<b>Continuing operations</b>			
Revenues from sales of services	4 245	7 321	28 976
Interest income on loans	927	1 139	4 918
Dividend income	-	2 650	49 188
<b>Sales revenues</b>	<b>5 171</b>	<b>11 111</b>	<b>83 083</b>
Interest expense to related entities and internal costs of sales of logistics services	(1 279)	(1 336)	(5 512)
<b>Profit (loss) on sales</b>	<b>3 892</b>	<b>9 775</b>	<b>77 571</b>
Other operating income	271	82	5 533
Selling and distribution costs	-	(574)	(3 134)
Administrative expenses	(5 483)	(6 646)	(28 153)
Impairment charges to assets	(608)	(193)	(2 830)
Other operating expenses	(0)	(126)	(2 032)
<b>Operating profit (loss)</b>	<b>(1 928)</b>	<b>2 318</b>	<b>46 955</b>
Financial income	1 295	1 203	4 366
Financial expenses	(7 157)	(5 315)	(17 980)
<b>Gross profit (loss)</b>	<b>(7 791)</b>	<b>(1 794)</b>	<b>33 340</b>
Income tax	-	(1)	(305)
<b>Net profit (loss) from continuing operations</b>	<b>(7 791)</b>	<b>(1 795)</b>	<b>33 035</b>
<b>Discontinued operations</b>			
Profit (loss) for the period on discontinued operations	-	-	-
<b>Net profit (loss) for the period</b>	<b>(7 791)</b>	<b>(1 795)</b>	<b>33 035</b>
<b>Earnings per share:</b>			
- basic earnings from the profit (loss) for the period	(0,11)	(0,03)	(0,57)
- basic earnings from the profit (loss) from continuing operations for the period	(0,11)	(0,03)	(0,57)
- diluted earnings from the profit (loss) for the period	(0,11)	(0,03)	(0,57)
- diluted earnings from the profit (loss) from the continuing operations for the period	(0,11)	(0,03)	(0,57)

## Abbreviated standalone statement of total comprehensive income

	3-month period ended on 31 March 2020 (unaudited)	3-month period ended on 31 March 2019 (unaudited)	Year ended on 31 December 2019
Net profit/(loss) for the reporting period	(7 791)	(1 795)	33 035
<i>Items to be reclassified to profit/loss in future reporting periods:</i>			
Measurement of financial instruments	12	774	715
FX differences on translation of foreign operations	(111)	179	324
Other comprehensive income (net)	(99)	954	1 039
Total comprehensive income	(7 890)	(841)	34 075

## Abbreviated standalone statement of financial position

	As at 31 March 2020 (unaudited)	As at 31 December 2019	As at 31 March 2019 (unaudited)
<b>ASSETS</b>			
Fixed assets			
Tangible fixed assets	1 754	1 969	1 177
Intangible assets	1 665	1 738	1 877
Shares in subsidiaries	673 937	673 937	673 937
Other financial assets	38 491	45 318	61 256
Other non-financial assets	1 748	1 731	1 467
	717 596	724 693	739 715
Current assets			
Trade and other receivables	46 644	69 730	69 612
Income tax receivables	325	425	212
Other financial assets	84 357	94 057	107 504
Other non-financial assets	4 377	5 643	6 140
Cash and cash equivalents	41 034	31 939	5 254
	176 735	201 794	188 721
<b>TOTAL ASSETS</b>	<b>894 331</b>	<b>926 486</b>	<b>928 436</b>
<b>EQUITY AND LIABILITIES</b>			
Equity			
Share capital	69 288	69 288	69 288
Reserve capital	427 502	427 502	407 979
Other reserves	103 127	103 115	103 172
FX differences on translation	1 674	1 785	1 640
Retained earnings / Accumulated losses	(41 402)	(33 611)	(47 797)
Total equity	560 188	568 078	534 282
Long-term liabilities			
Interest-bearing loans, borrowings and bonds	90 731	54 549	21 507
Provisions	2 172	2 151	1 823
Other financial liabilities	483	626	132
	93 386	57 326	23 461
Short-term liabilities			
Interest-bearing loans, borrowings and bonds	212 400	252 320	308 050
Trade payables	17 957	33 962	49 096
Other financial liabilities	3 291	3 335	3 001
Other short-term liabilities	1 683	2 102	1 766
Accruals and deferred income	5 425	9 362	8 781
	240 756	301 081	370 694
<b>TOTAL LIABILITIES</b>	<b>334 143</b>	<b>358 407</b>	<b>394 155</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>894 331</b>	<b>926 486</b>	<b>928 436</b>

## Abbreviated standalone statement of cash flow

	3-month period ended on 31 March 2020 (unaudited)	3-month period ended on 31 March 2019 (unaudited)	Year ended on 31 December 2019
<b>Cash flows from operating activities</b>			
Gross profit (loss)	(7 791)	(1 794)	33 340
Adjustments for:			
Depreciation/amortisation	287	100	1 119
FX gains (loss)	3 415	(17)	1 897
Net interest and dividends	-	2 298	8 600
Increase / decrease in receivables and other non-financial assets	24 435	23 157	22 846
Increase / decrease in liabilities except for loans and borrowings and other financial liabilities	(15 951)	(38 455)	(53 269)
Change in accruals and prepayments	(3 938)	(509)	2 677
Change in provisions	22	(31)	297
Income tax paid	-	136	-
Change to liabilities due to cash-pooling	20 754	13 169	80 153
Increase / decrease of loans granted to subsidiaries	20 231	27 830	26 936
Other	(202)	228	(81)
<b>Net cash flows from operating activities</b>	<b>41 261</b>	<b>26 110</b>	<b>124 516</b>
<b>Cash flows from investing activities</b>			
Disposal of tangible fixed assets and intangible assets	-	204	-
Purchase of tangible fixed assets and intangible assets	-	(22)	(488)
<b>Net cash flows from investing activities</b>	<b>-</b>	<b>182</b>	<b>(488)</b>
<b>Cash flows from financing activities</b>			
Repayment of leasing liabilities	(55)	(118)	(1 003)
Borrowings received	-	(15 591)	42 753
Repayment of loan liabilities	(28 756)	(21 592)	(144 843)
Interest paid	(3 356)	(3 343)	(8 600)
<b>Net cash flows from financing activities</b>	<b>(32 167)</b>	<b>(40 644)</b>	<b>(111 693)</b>
Change in cash and cash equivalents	9 094	(14 352)	12 334
Cash and cash equivalents at the beginning of the period	31 939	19 605	19 605
<b>Cash and cash equivalents at the end of the period</b>	<b>41 033</b>	<b>5 254</b>	<b>31 939</b>

## Abbreviated standalone statement of changes in equity

	Share capital	Reserve capital	FX differences on translation of foreign operations	Other reserves	Retained earnings / (Accumulated losses)	Total equity
As at 01 January 2020	69 288	427 502	1 785	103 115	(33 611)	568 078
FX differences on translation	-	-	(111)	-	-	(111)
Net profit / (loss) for the period	-	-	-	-	(7 791)	(7 791)
Other comprehensive income for the period	-	-	-	12	-	12
Total comprehensive income for the period	-	-	(111)	12	(7 791)	(7 890)
As at 31 March 2020 (unaudited)	69 288	427 502	1 674	103 127	(41 402)	560 188

	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	102 398	(46 002)	535 123
FX differences on translation	-	-	179	-	-	179
Net profit for the period	-	-	-	-	(1 795)	(1 795)
Other comprehensive income	-	-	-	774	-	774
Total comprehensive income for the period	-	-	179	774	(1 795)	(842)
As at 31 March 2019 (unaudited)	69 288	407 979	1 640	103 172	(47 797)	534 281

	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	407 979	1 461	102 399	(46 002)	535 124
Net profit for the period	-	-	-	-	33 035	33 035
Other comprehensive income for the period	-	-	324	715	-	1 039
Total comprehensive income for the period	-	-	324	715	33 035	34 074
Settlement of the tax group in Sweden	-	-	-	-	(1 120)	(1 120)
Dividend distribution	-	-	-	-	-	-
Profit distribution	-	19 523	-	-	(19 523)	-
As at 31 December 2018 (audited)	69 288	427 502	1 785	103 114	(33 611)	568 078



## 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. 1,500 people in its Paper Mills and Pulp Mills, companies dealing in paper distribution the procurement office. The Group's Paper Mills located in Poland and Sweden have total production capacity of over 685,000 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 3 months of 2020 amounted to PLN 814 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 (later Trebruk AB), the Parent Entity of Arctic Paper S.A. In addition, under the expansion, the Group acquired the Paper Mill 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 companies (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. The Company has a foreign branch in Göteborg, Sweden.

The Abbreviated Quarterly Consolidated Financial Statements of the Company comprise income statement, statement of comprehensive income, cash flow statement and statement of changes in equity for the period of the first three months ended on 31 March 2020 and include comparative data for the period of first three months ended on 31 March 2019 as well as for the twelve month period ended on 31 December 2019.

The Abbreviated Quarterly Consolidated Financial Statements of the Company comprise also a statement of financial position as at 31 March 2020 and include comparative data as on 31 December 2019 and 31 March 2019.

#### 1.1. Business objects

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 31 March 2020) 40,381,449 shares of our Company, which constitutes 58.28% of its share capital and corresponds to 58.28% of the total number of votes at General Meetings. Thus Nemus Holding AB is the Parent Entity of the Issuer.

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

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

## 2. Composition of the Group

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

Unit	Registered office	Group profile	Group's interest in the equity of the subsidiary entities as at		
			14 May 2020	31 March 2020	31 December 2019
Arctic Paper Kostrzyn S.A.	Poland, Fabryczna 1, 66-470 Kostrzyn nad Odrą	Paper production	100%	100%	100%
Arctic Paper Munkedals AB	Sweden, SE 455 81 Munkedal	Paper production	100%	100%	100%
Arctic Paper Mochenwangen GmbH	Germany, Fabrikstrasse 62, DE-882, 84 Wolpertswende	Paper production	99,74%	99,74%	99,74%
Arctic Paper Grycksbo AB	Sweden, Box 1, SE 790 20 Grycksbo	Paper production	100%	100%	100%
Arctic Paper UK Limited	Great Britain, 8 St Thomas Street SE1 9RR London	Trading company	100%	100%	100%
Arctic Paper Baltic States SIA	Latvia, K. Vardemara iela 33-20, Riga LV-1010	Trading company	100%	100%	100%
Arctic Paper Deutschland GmbH	Germany, Am Sandtorkai 72, 20457 Hamburg	Trading company	100%	100%	100%
Arctic Paper Benelux S.A.	Belgium, Ophemstraat 24 B-3050 Oud-Haverlee	Trading company	100%	100%	100%
Arctic Paper Schweiz AG	Switzerland, Gutenbergstrasse 1, CH-4552 Derendingen	Trading company	100%	100%	100%
Arctic Paper Italia srl	Italy, Via Cavriana 7, 20 134 Milano	Trading company	100%	100%	100%
Arctic Paper Danmark A/S	Denmark, Korskindelund 6 DK-2670 Greve	Trading company	100%	100%	100%
Arctic Paper France SAS	France, 43 rue de la Breche aux Loups, 75012 Paris	Trading company	100%	100%	100%
Arctic Paper Espana SL	Spain, Avenida Diagonal 472-474, 9-1 Barcelona	Trading company	100%	100%	100%
Arctic Paper Papierhandels GmbH	Austria, Hainborgerstrasse 34A, A-1030 Wien	Trading company	100%	100%	100%
Arctic Paper Polska Sp. z o.o.	Poland, Okrężna 9, 02-916 Warsaw	Trading company	100%	100%	100%
Arctic Paper Norge AS	Norway, Eikenga 11-15, NO-0579 Oslo	Trading company	100%	100%	100%
Arctic Paper Sverige AB	Sweden, SE 455 81 Munkedal	Trading company	100%	100%	100%
Arctic Paper East Sp. z o.o.	Poland, Fabryczna 1, 66-470 Kostrzyn nad Odrą	Trading company	100%	100%	100%
Arctic Paper Investment GmbH *	Germany, Fabrikstrasse 62, DE-882, 84 Wolpertswende	Activities of holding companies	100%	100%	100%

Unit	Registered office	Group profile	Group's interest in the equity of the subsidiary entities as at		
			14 May 2020	31 March 2020	31 December 2019
Arctic Paper Finance AB	Sweden, Box 383, 401 26 Göteborg	Activities of holding companies	100%	100%	100%
Arctic Paper Verwaltungs GmbH *	Germany, Fabrikstrasse 62, DE-882 84 Wolpertswende	Activities of holding companies	100%	100%	100%
Arctic Paper Immobilienv erwaltung GmbH&Co. KG*	Germany, Fabrikstrasse 62, DE-882 84 Wolpertswende	Activities of holding companies	94,90%	94,90%	94,90%
Arctic Paper Investment AB **	Sweden, Box 383, 401 26 Göteborg	Activities of holding companies	100%	100%	100%
EC Kostrzyn Sp. z o.o.	Poland, ul. Fabryczna 1, 66-470 Kostrzyn nad Odrą	Rental of properties and machines and equipment	100%	100%	100%
Arctic Paper Munkedals Kraft AB	Sweden, 455 81 Munkedal	Production of hydropower	100%	100%	100%
Rottneros AB	Sweden, Sunne	Activities of holding companies	51,27%	51,27%	51,27%
Rottneros Bruk AB	Sweden, Sunne	Pulp production	51,27%	51,27%	51,27%
Utansjo Bruk AB	Sweden, Harnösand	Non-active company	51,27%	51,27%	51,27%
Vallviks Bruk AB	Sweden, Söderhamn	Pulp production	51,27%	51,27%	51,27%
Nykvist Skogs AB	Szweden, Gräsmark	Comapny grouping private owners of forests	51,27%	51,27%	n/d
Rottneros Packaging AB	Sweden, Stockholm	Production of food packaging	51,27%	51,27%	51,27%
SIA Rottneros Baltic	Latvia, Kuldiga	Procurement bureau	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 Arctic Paper Grycksbo AB

On 1 January 2020 the Group – via Rottneros AB – acquired control over Nykvist Skogs AB, a company grouping private owners of forests in Sweden. The transaction provided a broader access to raw materials over a long-term horizon.

As at 31 March 2020 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 31 March 2020, 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 Entity**

As at 31 March 2020, 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).

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

### **3.3. Audit Committee of the Parent Entity**

As at 31 March 2020, the Parent Entity's Audit Committee was composed of:

- Mariusz Grendowicz – Chairman of the Audit Committee 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 Abbreviated Quarterly Consolidated Financial Statements were approved for publication by the Management Board on 14 May 2020.

## **5. Basis of preparation of the consolidated financial statements**

These Abbreviated Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), in particular in accordance with IAS 34 and IFRS endorsed by the European Union.

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

The 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 2019.

### **5.1. Covid-19**

In Q1 2020 the Arctic Paper Group did not suffer as a result of the COVID19 virus pandemic. No logistics chains have been broken, deliveries continued uninterrupted of both raw materials and finished products. The favourable situation in the pulp market supported the margins from 2019. The results that we generated in Q1 were among the best in the company's history. Additionally, a reduction of debt is worth noting. Development projects – concerning both the packaging sector and generation of RES energy initiated in 2018 and 2019 keep being continued.

In connection with the regulations of the Polish and Swedish authorities, special procedures have been implemented to reduce the risk of contagion to employees. Now, in the middle of May, we may confirm that the implemented procedures have proven to be correct since so far no contagion has been recorded among employees of our three Paper Mills. The

lockdown of economies in a majority of European countries has affected the functioning of the Arctic Paper Group in Q2. The reduced demand for paper has resulted in a significant diminished use of production potential since the beginning of Q2. Our Swedish Paper Mills have applied for financial support to cover a portion of personnel costs – in compliance with the rules set forth by the Swedish government.

Despite the very good financial results last year and in Q1 2020, the Management has modified its recommendation concerning dividend for 2019 guided with a conviction that in the situation at hand when it is hard to predict the development of EU economies and the long-term results of the recession, the Arctic Paper Group should retain its financial resources. It is due to the very good results generated in Q1 2020, we are better prepared for the impact of the pandemic in the pulp & paper sector. Nevertheless, the intention of the Management is to return to share profit with the shareholders as soon as the situation stabilises. Now it is hard to predict the impact of the pandemic and the related economic and social impact on the results and functioning of the Arctic Paper Group in the following quarters of 2020.

W nawiązaniu do powyższego oraz stanowiska opisanego w pkt. 6.2 skonsolidowanego raportu rocznego za rok 2019, w opinii kierownictwa Grupy założenie, że Grupa będzie dysponować wystarczającymi zasobami, aby kontynuować swą działalność gospodarczą przez okres co najmniej 12 miesięcy od dnia bilansowego jest uzasadnione.

In reference to the above and the statement expressed in p.6.2 of the consolidated annual report for 2019, in the opinion of the management of the Group, the assumption that the Group will have sufficient resources to continue its business activities for at least 12 months from the balance sheet date is justified.

## 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 2019, with the following exceptions:

— Amendments to *IAS 1 Presentation of Financial Statements* and *IAS 8 Accounting policies, changes in accounting estimates and errors* – applicable to annual periods beginning on or after 1 January 2020;

The amendments harmonise and clarify the definition of “Material” and provide guidelines in order to improve consistency in applying the concept in International Financial Reporting Standards.

— Modifications to *IFRS 9 Financial Instruments*, *IAS 39 Financial Instruments* and *IFRS 7 Financial Instruments: Disclosures* – applicable to annual periods beginning on or after 1 January 2020;

The amendments are mandatory and apply to all hedge relationships affected by the uncertainty resulting from the reformed interest rates. The modifications provide for a temporary waiver of the use of certain hedge accounting requirements so that the interest rate reform does not cancel hedge accounting. The key waivers concerning the amendments refer to:

- the requirement that flows are “highly probable”
- risk components
- prospective assessment
- retrospective tests of effectiveness (applies to IAS 39)
- reclassification of provisions under cash flow hedges

The amendments further require that entities disclose additional information to investors on hedge relationships that affect the above uncertainties.

The aforesaid amendments did not have any significant impact on the Group’s financial statements.

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

### 6.1. Foreign currency translation

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

On the balance sheet date, monetary assets and liabilities expressed in currencies other than the functional currency of the entity are translated into the functional currency using the mean foreign exchange rate prevailing for the presentation

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

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 income statements are translated using the average weighted exchange rates for the relevant reporting period. The foreign exchange differences arising from the translation are recognised directly in equity as a separate item. On disposal of a foreign operation, the cumulative amount of the deferred exchange differences recognised in equity and relating to that particular foreign operation shall be recognised in the profit and loss account.

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

The following exchange rates were used for book valuation purposes:

	As at 31 March 2020	As at 31 December 2019
USD	4,1466	3,7977
EUR	4,5523	4,2585
SEK	0,4114	0,4073
DKK	0,6096	0,5700
NOK	0,3953	0,4320
GBP	5,1052	4,9971
CHF	4,3001	3,9213

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

	01/01 - 31/03/2020	01/01 - 31/03/2019
USD	3,9237	3,7883
EUR	4,3257	4,3033
SEK	0,4055	0,4131
DKK	0,5789	0,5765
NOK	0,4141	0,4416
GBP	5,0169	4,9322
CHF	4,0557	3,8003

## 6.2. Data comparability

### 6.2.1. Data comparability – discontinued activity

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, the profit/loss on discontinued operations for the three-month period ended on 31 March 2019 was disclosed in continuing operations. The adjustment had no impact on the basic and diluted profit per share attributable to the shareholders of the Parent Entity.

The table below presents the impact of the changed presentation of discontinued operations on the consolidated income statement for the period ended on 31 March 2019.

	Approved data	Impact of opening balance-sheet adjustment	Transformed data
Impact on the consolidated profit and loss account for 2018			
Revenues from sales of products	820 572	-	820 572
Costs of sales	(668 037)	(651)	(668 688)
Selling and distribution costs	(84 757)	-	(84 757)
Administrative expenses	(19 963)	(877)	(20 839)
Other operating income	26 875	241	27 116
Other operating expenses	(15 621)	(9)	(15 629)
Financial income	1 132	-	1 132
Financial expenses	(8 366)	-	(8 366)
Income tax	(13 628)	(22)	(13 650)
Discontinued operations	(1 317)	1 317	-
Impact on net profit (loss) for the period ended on 31 March 2019			
	36 891	-	36 891

## 7. 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 but are not yet effective:

- *Disposal or Transfer of Assets between the Investor and an Associate Company or a Joint Venture (amendments to IFRS 10 Consolidated Financial Statements and to IAS 28 Investments in Associates)*; The European Commission took a decision on deferring approval of those amendments for an undefined period. The amendments clarify that in case of a transaction made with an associate or a joint venture, the extent to recognise the related transactional profit or loss depends on that if the transferred or sold assets constitute a venture:
  - the entire profit or loss is recognised if the transferred assets meet the definition of a venture (irrespective of the fact if the venture is a subsidiary entity or not);
  - the profit or loss is recognised in part when the transaction covers assets that do not constitute a venture even if such assets were held in a subsidiary entity.
- *IFRS 17 Insurance Contracts* applies to annual periods beginning on or after 1 January 2021, prospective application; earlier application is permitted. The standard has not been yet endorsed by the EU. IFRS 17 that replaces temporary standard IFRS 4 Insurance Contracts that was implemented in 2004. IFRS 4 provided companies with a possibility to continue disclosing insurance contracts pursuant to the accounting principles applicable in national standards, which, as a result, meant application of different solutions. IFRS 17 solves the issue of comparability created by IFRS 4 through a requirement of coherent disclosure of all insurance contracts, which will be beneficial for both investors and insurers. Liabilities arising from contracts will be recognised at present values, instead of historic cost.
- *Amendments to IFRS 3 Business Combinations*; effective for annual periods beginning on or after 1 January 2020. Those amendments have not yet been endorsed by the EU. The changes restrict and clarify the definition of business. They also support a simplified assessment if a set of assets and activities constitutes a group of assets and not a business.

The above changes are not expected to have material impact on the Group's financial statements.

## 8. Seasonality

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

## 9. Information on business segments

Operational segments cover continuing activities. The core activity of the Group comprises production of paper presented as “Uncoated” and “Coated” segments and covering the financial results of three Paper Mills:

- Arctic Paper Kostrzyn S.A. (Poland) – producer of high quality uncoated graphic paper under the Amber brand; production output of 315,000 tonnes of paper annually;
- Arctic Paper Munkedals AB (Sweden) – a producer of high quality uncoated graphic paper under the Munken brand; production output of 160,000 tonnes of paper annually;
- Arctic Paper Grycksbo (Sweden) – production of coated wood-free paper under the brands of G-Print and Arctic; production output of 210,000 tonnes annually.

The “Pulp” operating segment is related to the purchase of the Rottneros Group in December 2012 and covers, inter alia, two Pulp Mills:

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

The Group identifies the following business segments:

- Uncoated paper – paper for printing or other graphic purposes, including wood-free and wood-containing paper. Uncoated wood-free paper may be produced from various types of pulp, with different filler content, and can undergo various finishing processes, such as surface sizing and calendering. Two main categories of this type of paper are graphic paper (used for example for printing books and catalogues) and office papers (for instance, photocopy paper); however, the Group currently does not produce office paper. Uncoated wood paper from mechanical pulp intended for printing or other graphic purposes. This type of paper is used for printing magazines with the use of rotogravure or offset printing techniques. The Group’s products in this segment are usually used for printing paperbacks,
- Coated paper – wood-free paper for printing or other graphic purposes, one-side or two-side coated with mixtures containing mineral pigments, such as china clay, calcium carbonate, etc. The coating process can involve different methods, both on-line and off-line, and can be supplemented by super-calendering to ensure a smooth surface. Coating improves the printing quality of photographs and illustrations,
- Pulp – fully bleached sulphate pulp and unbleached sulphate pulp which is used mainly for the production of printing and writing papers, cardboard, toilet paper and white packaging paper as well as chemo-thermo mechanical pulp (CTMP) and groundwood which are used mainly for production of printing and writing papers,
- Other – the segment contains the results of Arctic Paper S.A. and Arctic Paper Finance AB business operations.

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 IFRS. In accordance with 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 3 months ended on 31 March 2020 and as at 31 March 2020.

### 3-month period ended on 31 March 2020 and on 31 March 2020

	Uncoated	Coated	Pulp	Other	Total	Exclusions	Total continuing operations
<b>Revenues</b>							
Sales to external customers	424 496	163 285	226 167	-	813 948	-	813 948
Sales between segments	-	8 793	11 030	4 245	24 067	(24 067)	-
<b>Total segment revenues</b>	<b>424 496</b>	<b>172 078</b>	<b>237 197</b>	<b>4 245</b>	<b>838 015</b>	<b>(24 067)</b>	<b>813 948</b>
<b>Result of the segment</b>							
EBITDA	69 457	17 632	26 761	(1 642)	112 208	(374)	111 834
Interest income	117	61	0	1 305	1 484	(1 052)	432
Interest expense	(1 173)	(885)	(2 027)	(3 166)	(7 252)	1 022	(6 230)
Depreciation/amortisation	(15 968)	(5 265)	(10 664)	(272)	(32 169)	-	(32 169)
FX gains and other financial income	4 697	24	5 677	943	11 340	(10 316)	1 024
FX losses and other financial expenses	(974)	(6 583)	-	(4 324)	(11 881)	10 406	(1 475)
Gross profit	56 155	4 984	19 746	(7 155)	73 730	(314)	73 416
Assets of the segment	986 852	275 185	959 448	387 117	2 608 602	(546 064)	2 062 538
Liabilities of the segment	470 314	427 576	403 583	334 140	1 635 613	(460 260)	1 175 354
Capital expenditures	(19 471)	(4 295)	(8 927)	-	(32 693)	-	(32 693)
Interests in joint ventures	1 426	-	-	-	1 426	-	1 426

- Revenues from inter-segment transactions are eliminated on consolidation.
- The results of the segments do not cover financial income (PLN 1,457 thousand of which PLN 432 thousand is interest income) and financial expenses (PLN 7,705 thousand of which PLN 6,230 thousand is interest expense), depreciation/amortisation (PLN 32,169 thousand), and income tax liability (PLN 11,128 thousand). However, segment results include inter-segment sales profit (PLN 374 thousand).
- Assets and liabilities of segments do not contain any deferred income tax (asset: PLN 40,140 thousand, provision: PLN 70,551 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 by segment of the Group for 3-month period ended on 31 March 2019 (transformed data) and as at 31 March 2019.

**3-month period ended on 31 March 2019 (transformed data) and as at 31 March 2019**

	Uncoated	Coated	Pulp	Other	Total	Exclusions	Total continuing operations
<b>Revenues</b>							
Sales to external customers	406 676	166 668	247 228	-	820 572	-	820 572
Sales between segments	-	8 918	13 012	7 321	29 252	(29 252)	-
<b>Total segment revenues</b>	<b>406 676</b>	<b>175 586</b>	<b>260 240</b>	<b>7 321</b>	<b>849 823</b>	<b>(29 252)</b>	<b>820 572</b>
<b>Result of the segment</b>							
EBITDA	16 867	(1 483)	66 093	(699)	80 778	303	81 081
Interest income	152	79	0	1 903	2 134	(1 652)	482
Interest expense	(1 169)	(946)	(2 065)	(3 609)	(7 790)	1 112	(6 677)
Depreciation/amortisation	(14 730)	45	(8 385)	(235)	(23 307)	-	(23 307)
FX gains and other financial income	769	108	2 892	3 571	7 339	(6 689)	650
FX losses and other financial expenses	(2 197)	(1 136)	-	(2 057)	(5 390)	3 701	(1 689)
<b>Gross profit (loss)</b>	<b>(308)</b>	<b>(3 333)</b>	<b>58 533</b>	<b>(1 127)</b>	<b>53 765</b>	<b>(3 225)</b>	<b>50 541</b>
Assets of the segment	956 675	261 953	980 912	422 937	2 622 476	(530 778)	2 091 698
Liabilities of the segment	488 841	418 152	334 530	395 592	1 637 115	(444 255)	1 192 859
Capital expenditures	(9 687)	(363)	(9 372)	(25)	(19 447)	-	(19 447)
Interests in joint ventures	1 162	-	-	-	1 162	-	1 162

- Revenues from inter-segment transactions are eliminated on consolidation.
- The results of the segments do not cover financial income (PLN 1,132 thousand of which PLN 482 thousand is interest income) and financial expenses (PLN 8,366 thousand of which PLN 6,677 thousand is interest expense), depreciation/amortisation (PLN 23,307 thousand), and income tax liability (PLN 13,650 thousand). However, segment result includes inter-segment loss (PLN 303 thousand).
- Assets and liabilities of segments do not contain any deferred income tax (asset: PLN 27,774 thousand, provision: PLN 71,244 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 12 months ended on 31 December 2019 and as at 31 December 2019.

**12-month period ended on 31 December 2019 and on 31 December 2019**

	Uncoated	Coated	Pulp	Other	Total	Exclusions	Total continuing operations
<b>Revenues</b>							
Sales to external customers	1 567 762	639 053	910 304	-	3 117 118	-	3 117 118
Sales between segments	-	27 694	54 706	28 976	111 376	(111 376)	-
<b>Total segment revenues</b>	<b>1 567 762</b>	<b>666 747</b>	<b>965 010</b>	<b>28 976</b>	<b>3 228 495</b>	<b>(111 376)</b>	<b>3 117 118</b>
<b>Result of the segment</b>							
EBITDA	117 524	14 470	152 040	(6 625)	277 408	623	278 031
Interest income	2 820	288	0	7 149	10 257	(9 405)	852
Interest expense	(4 204)	(4 098)	(8 529)	(11 751)	(28 582)	5 070	(23 511)
Depreciation/amortisation	(62 866)	11 136	(33 792)	(1 088)	(86 609)	-	(86 609)
Impairment of fixed assets	-	-	-	-	-	-	-
FX gains and other financial income	2 210	369	2 437	53 335	58 351	(58 054)	297
FX losses and other financial expenses	(8 108)	(3 442)	-	(7 921)	(19 471)	8 342	(11 128)
<b>Gross profit</b>	<b>47 377</b>	<b>18 723</b>	<b>112 156</b>	<b>33 099</b>	<b>211 355</b>	<b>(53 424)</b>	<b>157 931</b>
Assets of the segment	943 630	273 031	939 444	418 638	2 574 743	(564 747)	2 009 996
Liabilities of the segment	456 538	412 808	346 612	358 406	1 574 364	(479 961)	1 094 402
Capital expenditures	(91 396)	(2 521)	(43 648)	(77)	(137 643)	-	(137 643)
Interests in joint ventures	1 412	-	-	-	1 412	-	1 412

- Revenues from inter-segment transactions are eliminated on consolidation.
- The results of the segments do not cover financial income (PLN 1,149 thousand, of which PLN 852 thousand is interest income) and financial expenses (PLN 34,640 thousand of which PLN 23,511 thousand is interest expense), depreciation/amortisation (PLN 86,609 thousand), impairment of non-financial assets (PLN 0 thousand) and income tax liability (PLN -33,250 thousand). However, segment result includes an inter-segment loss (PLN 623 thousand).
- Assets and liabilities of segments do not contain any deferred income tax (asset: PLN 24,346 thousand, provision: PLN 70,823 thousand), since those items are managed at the Group level. Segment assets do not also include investments in companies operating in the Group.

## 10. Assets classified as available for sale, 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, the profit/loss of discontinued operations for the 3-month period ended on 31 March 2019 was disclosed in continuing operations (the impact of the adjustment was detailed in note 6.2.1).

Assets and liabilities, except provision for pension benefits, earlier assigned to assets held for sale and the related liabilities as at 31 March 2019 were disclosed as assets and liabilities related to continuing operations (no restatement of the comparable data in compliance with IFRS 5).

The Mochenwangen Group includes: Arctic Paper Mochenwangen GmbH, Arctic Paper Investment GmbH, Arctic Paper Verwaltungs GmbH and Arctic Paper Immobilienverwaltung GmbH Co&KG.

## 11. Dividend paid and proposed

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

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 2019.

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).

In 2019 the Company did not pay out dividend.

On 30th of April 2020 the Management Board of Arctic Paper S.A took a decision to change a recommendation on payment of dividend from the net profit of 2019, which was announced in current report no.4/2020 dated 27th February 2020. The Management Board adopted a resolution to submit a recommendation to the Ordinary Shareholders Meeting on non-payment of dividend from the net profit of 2019. A change of the previous Management Board recommendation is a result of decreased demand on the products of Arctic Paper's group companies as an effect of the ongoing COVID-19 pandemic, as well as limited possibility to assess the impact of the pandemic on the economic situation in the 2nd and 3rd quarters of 2020. The Company's Supervisory Board during the meeting held 30th of April 2020 approved the above-mentioned Management Board's recommendation regarding non-payment of dividend from the profit for the financial year ended December 31, 2019.

## 12. Earnings per share

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

Information regarding profit and the number of shares which constituted the base to calculate earnings per share and diluted earnings per share is presented below:

	3-month period ended on 31 March 2020 (unaudited)	3-month period ended on 31 March 2019 (unaudited)
Net profit / (loss) for the reporting period from continuing operations attributable to the shareholders of the Parent Entity	54 963	14 252
Net profit / (loss) for the reporting period from discontinued operations attributable to the shareholders of the Parent Entity	-	-
Net profit (loss) for the reporting period attributable to the shareholders of the Parent Entity	54 963	14 252
Number of ordinary shares – A series	50 000	50 000
Number of ordinary shares – B series	44 253 500	44 253 500
Number of ordinary shares – C series	8 100 000	8 100 000
Number of ordinary shares – E series	3 000 000	3 000 000
Number of ordinary shares – F series	13 884 283	13 884 283
Total number of shares	69 287 783	69 287 783
Weighted average number of shares	69 287 783	69 287 783
Diluted weighted average number of ordinary shares	69 287 783	69 287 783
Profit (loss) per share (in PLN)		
– basic earnings from the profit/(loss) for the period attributable to the shareholders of the Parent Entity	0,79	0,21
– basic earnings profit/(loss) for the period from continuing operations attributable to the shareholders of the Parent Entity	0,79	0,21
Diluted profit (loss) per share (in PLN)		
– from the profit/(loss) for the period attributable to the shareholders of the Parent Entity	0,79	0,21
– from the profit/(loss) for the period from continuing operations attributable to the shareholders of the Parent Entity	0,79	0,21

## 13. Acquisition of a subsidiary company

On 1 January 2020 the Group – via Rottneros AB – acquired control over Nykvist Skogs AB, a company grouping private owners of forests in Sweden. The transaction provided a broader access to raw materials over a long-term horizon. The value of the acquired net assets was SEK 5.5 million (PLN 2.1 million) and the purchase price was SEK 26.4 million (PLN 10.7 million). As a result, the Group disclosed goodwill (assets) of PLN 8.6 million. The net expense (net of receivables as at the acquisition date and the amount of the acquired cash) was PLN 6.1 million.

## 14. Interest-bearing bank loans and borrowings and lease contracts

In the period covered with these financial statements, the Group partly repaid its term loan under the bonds and the loan agreement of 9 September 2016 with a bank consortium of PLN 28,765 thousand. The Group increased its debt under revolving overdraft facilities by PLN 405 thousand and increased its debt under the loan with Nordea Bank Abp by 2,548 thousand.

The other changes to loans and borrowings as at 31 March 2020, compared to 31 December 2019 result mainly from balance sheet evaluation and payment of interest accrued as at 31 December 2019 and paid in Q1 2020.

## 15. Equity securities

	As at 31 March 2020	As at 31 December 2019
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	Volume	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 01 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 06 March 2013	2013-03-22	726 253	726 253
As at 31 March 2020 (unaudited)		69 287 783	69 287 783

## 16. 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 FX contracts, forward contracts for the purchase of electricity and forward contracts for the sale of pulp.

### 16.1. 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 31 March 2020, 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.

As at 31 March 2020, the Group used fair value hedge accounting for the following hedging items:

- Arctic Paper S.A. designated floor option derivatives to hedge accounting to hedge fair value, entitling to reduce EURIBOR for the interest rate of a part of the bank loan in EUR to the market level if the market EURIBOR falls under 0%.

#### 16.1.1. Cash flow hedges

As at 31 March 2020, the Group's cash flows were hedged with a forward contract for purchase of electricity, a forward contract for sale of pulp, an interest rate SWAP.

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

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

Type of hedge	Cash flow hedge related to sales of pulp
Hedged position	The hedged position is a part of highly likely future cash inflows for pulp sales
Hedging instruments	Forward contracts are used as the hedging item wherein the Company agrees to sell pulp for SEK
Contract parameters:	
Contract conclusion date	2019-2020
Maturity	subject to contract; by 30.06.2021
Hedged quantity of pulp	24,000 tonnes
Term price	SEK 8,841/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 01.01.2016
Maturity	subject to contract; by 31.12.2025
Hedged quantity of electricity	1,973,660 MWh
Term price	from 18.00 to 38.45 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	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	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 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 31.08.2022
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 3,344 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	15.10.2019
Maturity	each interest payment date in line with the payment schedule under the loan agreement; by 28.08.2022
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 10 million

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 EUR 11.5 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 bond interest payment schedule in the amount 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

### 16.1.2. Fair value hedges

As at 31 March 2020, 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 31.08.2022
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 3,344 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	15.10.2019
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 10 million

### 16.1.3. Other information on derivative instruments

The table below presents the fair value of hedging instruments in cash flow and fair value hedge accounting as at 31 March 2020 and the comparative data:

	As at 31 March 2020		As at 31 December 2019	
	(unaudited) Assets	(unaudited) Equity and Liabilities	Assets	Equity and Liabilities
Forward on pulp sales	411	-	2 444	-
SWAP	-	3 151	-	3 163
Floor option	-	(434)	-	(415)
Forward for electricity	-	73 704	27 014	-
<b>Total hedging derivative instruments</b>	<b>411</b>	<b>76 421</b>	<b>29 458</b>	<b>2 748</b>

## 17. 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 receivables covered with factoring were derecognised from the consolidated balance sheet since conditions have been met to derecognise the assets in compliance with IAS 39.

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

The Arctic Paper Group uses cash-pooling EUR and PLN. The operation consists in pooling cash balances held by the individual system participants and setting them off with temporary shortages of funds with the other cash-pool participants. The solution supports effective cash management in the Group and minimising the costs of external funding sources by using the Group's own cash.

In the opinion of the Management Board – in comparison to the annual consolidated financial statements made as at 31 December 2019 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.

## 18. 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 2019, there have been no significant changes to the objectives and policies of capital management.

## 19. Contingent liabilities and contingent assets

As at 31 March 2020, the Group reported:

- contingent liability under a guarantee for FPG in favour of the mutual life insurance company PRI for SEK 1,349 thousand (PLN 555 thousand) at Arctic Paper Grycksbo AB and for SEK 764 thousand (PLN 314 thousand) at Arctic Paper Munkedals AB;
- a contingent liability of Arctic Paper Munkedals AB related to a surety for the obligations of Kalltorp Kraft HB in the amount of SEK 402 thousand (PLN 165 thousand);
- a bank guarantee in favour of Skatteverket Ludvika for SEK 135 thousand (PLN 55 thousand).

## 20. Legal claims

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

## 21. 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 and the usage of the rights to the issue by each entity in 2013-2019 and in Q1 2020.

(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	7 194
Issue	(150 577)	(147 950)	(162 467)	(170 696)	(142 784)	(136 565)	(131 263)	(35 492)
Purchased quantity	-	-	-	-	-	-	-	10 000
Sold quantity	-	-	-	-	-	-	-	-
Unused quantity	306 448	263 932	203 917	133 061	87 652	46 003	7 194	71 711
(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)	(36 353)
Issue	(1 281)	(3 407)	(32 465)	(21 038)	(40 160)	(57 368)	(48 176)	(9 847)
Purchased quantity	-	-	7	-	-	-	-	-
Sold quantity	-	-	(100 000)	(50 000)	-	-	-	-
Unused quantity	67 262	107 325	17 559	(11 572)	(10 619)	(27 676)	(36 353)	(7 515)
(in tonnes) dla Arctic Paper Grycksbo AE	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	-	-	67 304
(in tonnes) for Rottneros' subsidiaries	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	20 037
Issue	(13 047)	(19 020)	(26 933)	(21 293)	(18 707)	(15 372)	(25 765)	(11 324)
Purchased quantity	-	-	-	-	-	-	-	-
Sold quantity	-	-	-	-	-	(63 000)	(55 000)	-
Unused quantity	90 522	101 986	104 991	113 085	123 208	73 104	20 037	35 840

\* – 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,

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

### 22.1. Government grants

In the current quarter the Group companies have not received any other grants. The subsidies for 2019 were detailed in the annual consolidated financial statements for the year ended on 31 December 2019.

## 22.2. Operations in the Special Economic Zone

Słubice 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 Article 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 Article 3 of the Regulation with the value in excess of EUR 40,000 thousand by 31 December 2013, translated at the EUR mean rate published by the President of the National Bank of Poland on the actual expenditure date. Creation in Zone minimum five new jobs within the meaning of Article 3.3 and Article 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 31 March 2020, the Company incurred eligible investment expenditures classified as (non-discounted) expenditure in KSSSE in the amount of PLN 227,102 thousand. During the period, the discounted amount of related public aid was PLN 66,358 thousand.

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 as at 31 March 2020 amounted to PLN 0 thousand.

## 23. Material events after the balance sheet date

### 23.1. Actions taken by subsidiaries to mitigate the effects of the COVID-19 epidemic on the business and future results of the Arctic Paper Group

With references to the risks described in the 2019 annual report, related to the spread of the SARS-CoV-2 coronavirus, responsible for the COVID-19 epidemic in Poland and on a global scale, and due to the fact that the Swedish government will provide a support package to companies, on 7 April 2020 the subsidiary companies: Arctic Paper Munkedals AB and Arctic Paper Grycksbo AB filed applications to the authorities pursuant to which – in case of negative economic or financial effect of the pandemic – they will be able to resort to the instruments available under the support package to companies. Additionally, the companies have completed negotiations with trade unions representing the staff of those companies, concerning a possibility to shorten working time of certain staff members in case of a potential decrease in demand for their products.

Similar solutions may be also implemented with other Group companies in those countries where it is possible to shorten working time or reduce the number of employees.

## 23.2. Recommendations on payment of dividend

The Management Board of Arctic Paper S.A on 30th of April 2020 took a decision to change a recommendation on payment of dividend from the net profit of 2019, which was announced in current report no.4/2020 dated 27th February 2020. The Management Board adopted a resolution to submit a recommendation to the Ordinary Shareholders Meeting on non-payment of dividend from the net profit of 2019. A change of the previous Management Board recommendation is a result of decreased demand on the products of Arctic Paper's group companies as an effect of the ongoing COVID-19 pandemic, as well as limited possibility to assess the impact of the pandemic on the economic situation in the 2nd and 3rd quarters of 2020. The Company's Supervisory Board during the meeting held 30th of April 2020 approved the above-mentioned Management Board's recommendation regarding non-payment of dividend from the profit for the financial year ended December 31, 2019.

After the balance sheet date, there were no other material events which have not been disclosed in this report and which might have had a material influence on the capital and financial position of the Group.

### Signatures of the Members of the Management Board

Position	First and last name	Date	Signature
President of the Management Board Managing Director	Michał Jarczyński	14 May 2020	signed with a qualified electronic signature
Member of the Management Board Chief Financial Officer	Göran Eklund	14 May 2020	signed with a qualified electronic signature

Head Office

**Arctic Paper S.A.**

ul. Fabryczna 1  
PL-66470 Kostrzyn nad Odrą, Poland  
Tel. +48 61 6262 000  
Fax.+48 61 6262 001

**Investor relations:**

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

© 2020 Arctic Paper S.A.

Branch in Sweden

Box 383  
SE-401 26 Göteborg, Sweden  
Phone: +46 770 110 120  
Fax. +46 31 631 725



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