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ARCTIC PAPER S.A. CAPITAL GROUP
Consolidated quarterly report
for Q1 2016

TRANSLATORS' EXPLANATORY NOTE

The following document is a free translation of the report of the above-mentioned Company.
In the event of any discrepancy in interpreting the terminology, the Polish version is binding.



ARCTIC PAPER

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Introduction

Information on the report

This Consolidated Quarterly Report for Q1 2016 was prepared in accordance with the Minister of Finance Regulation of 19 February 2009 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 2009, No. 33, item 259, as amended) 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 and IFRS approved by the EU. IFRS comprise standards and interpretations accepted by the International Accounting Standards Board (IASB) and the International Financial Reporting Standards

Interpretation Committee (IFRIC). The condensed consolidated financial statements do not comprise all information and disclosures required in the annual consolidated financial statements which are subject to mandatory audit and therefore they should be read in conjunction with the consolidated financial statements of the Group for the year ended on 31 December 2015.

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

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

Definitions and abbreviations

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

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

Arctic Paper, Company, Issuer, Parent Company, AP	Arctic Paper Spółka Akcyjna with 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 Mochenwangen (by the end of December 2015)
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 (disclosed in this report as discontinued operation)
Grycksbo Group	From 8 July 2014: Arctic Paper Grycksbo AB, formerly: Arctic Paper Grycksbo AB and Grycksbo Paper Holding AB
Distribution Companies	Arctic Paper Sverige AB, Arctic Paper Danmark A/S and Arctic Paper Norge AS (from 1 January 2016 transformed into Sales Offices)
Sales Offices	Arctic Paper Papierhandels GmbH with its registered office in Vienna (Austria); Arctic Paper Benelux SA with its registered office in Oud-Haverlee (Belgium); Arctic Paper Danmark A/S with its registered office in Greve (Denmark); Arctic Paper France SA with its registered office in Paris (France); Arctic Paper Deutschland GmbH with its registered office in Hamburg (Germany); Arctic Paper Ireland Ltd with its registered office in Dublin (Ireland); in liquidation Arctic Paper Italia Srl with its registered office in Milan (Italy); Arctic Paper Baltic States SIA with its registered office in Riga (Latvia); Arctic Paper Norge AS with its registered office in Kolbotn (Norway); Arctic Paper Polska Sp. z o.o. with its registered office in Warsaw (Poland); Arctic Paper España SL with its registered office in Barcelona (Spain); Arctic Paper Sverige AB with its registered office in Munkedal (Sweden); Arctic Paper Schweiz AG with its registered office in Zurich (Switzerland); Arctic Paper UK Ltd with its registered office in Caterham (UK); Arctic Paper East Sp. z o.o. with its registered office in Kostrzyn nad Odrą (Poland);
Arctic Paper Finance AB	Arctic Paper Finance AB with its registered office in Göteborg, Sweden
Rottneros, Rottneros AB	Rottneros AB with its registered office in Sunne, Sweden
Rottneros Group, Rottneros AB Group	Rottneros AB with its registered office in Sunne, Sweden; Rottneros Bruk AB with its registered office in Sunne, Sweden; Utansjo Bruk AB with its registered office in Harnösand, Sweden, Vallviks Bruk AB with its registered office in Söderhamn, Sweden; Rottneros Packaging AB with its registered office in Stochkolm, Sweden; SIA Rottneros Baltic with its registered office in Ventspils, Latvia
Pulp mills	Rottneros Bruk AB in Sunne, Sweden; Vallviks Bruk AB with its registered office in Söderhamn, Sweden
Rottneros Purchasing Office	SIA Rottneros Baltic with its registered office in Latvia
Office Kalltorp	Kalltorp Kraft Handelsbolaget with its registered office in Trollhattan, Sweden
Nemus Holding AB	Nemus Holding AB with its registered office in Göteborg, Sweden
Thomas Onstad	The Issuer's core shareholder, holding directly and indirectly over 50% of shares in Arctic Paper S.A.; a member of the Issuer's Supervisory Board
Management Board, Issuer's Management Board, Company's Management Board, Group's Management Board	Management Board of Arctic Paper S.A.
Supervisory Board, Issuer's Supervisory Board, Company's Supervisory Board, Group's Supervisory Board, SB	Supervisory Board of Arctic Paper S.A.
GM, General Meeting, Issuer's General	General Meeting of Arctic Paper S.A.

Meeting, Company's General Meeting	
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
BHKP	Bleached Hardwood Kraft Pulp

Definitions of selected terms and financial indicators and abbreviations of currencies

Sales profit margin	Ratio of sales profit (loss) to sales income from continuing operations
EBIT	Profit on continuing operating activity (Earnings Before Interest and Taxes)
EBIT profitability, operating profitability, operating profit margin	Ratio of operating profit (loss) to sales income from continuing operations
EBITDA	Operating profit from continuing operations plus depreciation and amortisation and impairment charges (Earnings Before Interest, Taxes, Depreciation and Amortisation)
EBITDA profitability, EBITDA margin	Ratio of operating profit plus depreciation and amortisation and impairment charges to sales income from continuing operations
Gross profit margin	Ratio of gross profit (loss) to sales income from continuing operations
Sales profitability ratio, net profit margin	Ratio of net profit (loss) to sales revenues
Return on equity, ROE	Ratio of net profit (loss) to equity income
Return on assets, ROA	Ratio of net profit (loss) to total assets
EPS	Earnings Per Share, Ratio of net profit to the weighted average number of shares
BVPS	Book Value Per Share, Ratio of book value of equity to the number of shares
Debt-to-equity ratio	Ratio of total liabilities to equity
Equity-to-non-current assets ratio	Ratio of equity to non-current assets
Interest-bearing debt-to-equity ratio	Ratio of interest-bearing debt and other financial liabilities to equity

Net debt-to-EBITDA ratio	Ratio of interest-bearing debt minus cash to EBITDA from continuing operations
Solidity ratio	Ratio of equity (calculated in compliance with Swedish GAAP accounting principles) to assets
Interest coverage	Ratio of interest value (less of financial lease interest) to EBITDA (calculated in compliance with Swedish GAAP accounting principles)
EBITDA-to-interest coverage ratio	Ratio of EBITDA to interest expense from continuing operations
Current ratio	Ratio of current assets to current liabilities
Quick ratio	Ratio of current assets minus inventory and short-term accruals, prepayments and deferred costs to current liabilities
Acid test ratio	Ratio of total cash and similar assets to current liabilities
DSI	Days Sales of Inventory, Ratio of inventory to cost of sales multiplied by the number of days in the period
DSO	Days Sales Outstanding, ratio of trade receivables to sales income from continuing operations multiplied by the number of days in the period
DPO	Days Payable Outstanding, Ratio of trade payables to cost of sales from continuing operations multiplied by the number of days in the period
Operating cycle	DSI + DSO
Cash conversion cycle	Operating cycle – DPO
FY	Financial year
Q1	1st quarter of the financial year
Q2	2nd quarter of the financial year
Q3	3rd quarter of the financial year
Q4	4th quarter of the financial year
H1	First half of the financial year
H2	Second half of the financial year
YTD	Year-to-date
Like-for-like, LFL	Analogous, with respect to operating result.
p.p.	Percentage point – difference between two amounts of one item given in percentage
PLN, zł, 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
GDP	Gross Domestic Product

Other definitions and abbreviations

Series A Shares 50,000 Shares of Arctic Paper S.A. A series ordinary shares of PLN 1 each.

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

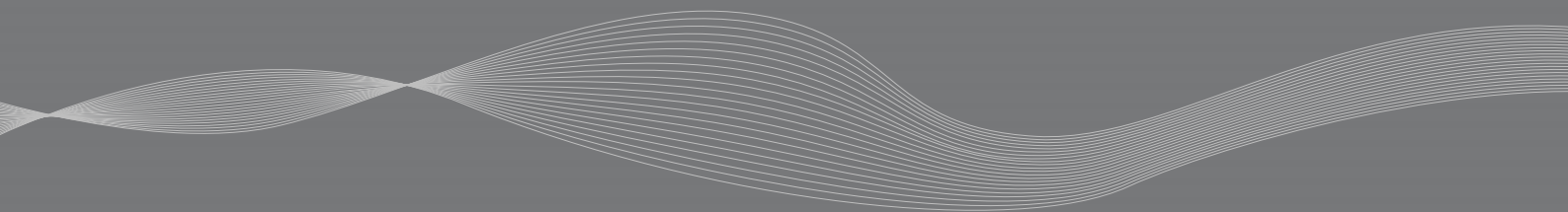
Forward looking statements

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.



Management Board's report from operations of
the Arctic Paper S.A. Capital Group
to the report for Q1 2016



Description of the business of the Arctic Paper Group

General information

The Arctic Paper Group is the second largest European producer in terms of production volume of bulky book paper, offering the widest 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, our assortment was expanded with the production of pulp. As on the day hereof, the Arctic Paper Group employs app. 1,700 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 are located in Poland and Sweden, and have total production capacity of more than 700,000 tons of paper per year. Paper production in the mill located in

Germany, with total production output of 115,000 tons of paper annually, was discontinued at the end of 2015. The pulp mills are located in Sweden and have total production capacity of 400,000 tons 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 2016 totalled PLN 779 million.

Arctic Paper S.A. is a holding company set up in April 2008. The Parent Company 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 Company holds statistical number REGON 080262255.

Group Profile

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

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

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

Our production facilities

As on 31 March 2016 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 285,000 tons 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 tons per year and mainly

produces fine uncoated wood-free paper used primarily for printing books and high-quality brochures;

- the paper mill in Grycksbo (Sweden) has the production capacity of about 260,000 tons per year and produces coated wood-free paper used for printing maps, books, magazines, posters and printing of advertising materials.

the paper mill in Mochenwangen (Germany) had the production capacity of about 115,000 tons. The production in the paper mill was discontinued at the end of 2015;

As on 31 March 2016 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 tons per year and manufactures primarily two types of mechanical fibre pulp: groundwood and CTMP);
- the pulp mill in Vallvik (Sweden) has the annual production capacity of about 240,000 tons and produces two types of long-fibre sulphate pulp: fully bleached sulphate pulp and unbleached sulphate pulp. The most

of Vallvik pulp mill production is known as NBSK pulp. The unbleached sulphate pulp produced by the mill is characterised with a high level of purity. The high quality of 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;
- Unbleached sulphate pulp;
- Mechanical fibre pulp.

As a result of the discontinued production in the paper mill in Mochenwangen, the assortment of uncoated wood-containing paper no longer contains two types of paper: Pamo and L-Print.

A detailed description of the Group's assortment is included in the consolidated annual report for 2015.

Capital Group structure

The Arctic Paper Capital Group comprises Arctic Paper S.A., as the Parent Company, and its subsidiaries, as well as joint ventures. Since 23 October 2009, Arctic Paper S.A. has been listed on the primary market of the Warsaw Stock Exchange and since 20 December 2012 in the NASDAQ stock exchange in Stockholm. The Group operates through its paper mills and

pulp mills and its subsidiary producing packaging as well as its Sales Offices and Procurement Offices.

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

Changes in the capital structure of the Arctic Paper Group

In Q1 2016, no changes in the capital structure of the Arctic Paper Group occurred.

Shareholding structure

Nemus Holding AB, a company under Swedish law (a company owned indirectly by Mr Thomas Onstad), is the majority shareholder of Arctic Paper S.A., holding (as on 31st March 2016) 40,006,449 shares of the Company, which constitutes 57.74% of its share capital and corresponds to 57.74% of the total number of votes at the General Meeting. Thus Nemus Holding AB is the parent entity of the Issuer.

Additionally, Mr Thomas Onstad, an indirect shareholder of Nemus Holding AB, holds directly 5,848,658 shares representing 8.44% of the overall number of shares in the Company, and indirectly via an entity other than Nemus Holding AB - 1,350,000 shares accounting for 1.95% of the overall number of shares of the Issuer.

The list of shareholders holding directly or indirectly minimum 5% of the overall number of votes at general meetings

Shareholder	as at 16.05.2016				as at 21.03.2016			
	Number of shares	Share capital [%]	Number of votes	Of total number of votes [%]	Number of shares	Share capital [%]	Number of votes	Of total number of votes [%]
Thomas Onstad	47 205 107	68,13%	47 205 107	68,13%	47 205 107	68,13%	47 205 107	68,13%
- indirectly via	41 356 449	59,69%	41 356 449	59,69%	41 356 449	59,69%	41 356 449	59,69%
<i>Nemus Holding AB</i>	40 006 449	57,74%	40 006 449	57,74%	40 006 449	57,74%	40 006 449	57,74%
<i>other entity</i>	1 350 000	1,95%	1 350 000	1,95%	1 350 000	1,95%	1 350 000	1,95%
- directly	5 848 658	8,44%	5 848 658	8,44%	5 848 658	8,44%	5 848 658	8,44%
Other	22 082 676	31,87%	22 082 676	31,87%	22 082 676	31,87%	22 082 676	31,87%
Total	69 287 783	100,00%	69 287 783	100,00%	69 287 783	100,00%	69 287 783	100,00%
Treasury shares	-	0,00%	-	0,00%	-	0,00%	-	0,00%
Total	69 287 783	100,00%	69 287 783	100,00%	69 287 783	100,00%	69 287 783	100,00%

The data in the above table is provided as of the date hereof and as of the publication date of the annual report for 2015

Summary of consolidated financial results

Consolidated income statement

Selected items of the consolidated income statement

<i>PLN thousand</i>	1Q 2016	4Q 2015	1Q 2015	YTD 1Q 2016	YTD 1Q 2015	Change % 1Q'2016/ 4Q'2015	Change % 1Q'2016/ 1Q'2015	Change % YTD1Q'2016/ YTD1Q'2015
Sales revenues	778 560	710 408	771 103	778 560	771 103	9,6	1,0	1,0
<i>of which:</i>								
<i>Sales of paper</i>	589 849	526 916	578 733	589 849	578 733	11,9	1,9	1,9
<i>Sales of pulp</i>	188 711	183 492	192 370	188 711	192 370	2,8	(1,9)	(1,9)
Profit on sales	118 034	75 107	136 006	118 034	136 006	57,2	(13,2)	(13,2)
<i>% of sales revenues</i>	15,16	10,57	17,64	15,16	17,64	4,6 p.p.	(2,5) p.p.	(2,5) p.p.
Selling and distribution costs	(64 401)	(64 909)	(82 714)	(64 401)	(82 714)	(0,8)	(22,1)	(22,1)
Administrative expenses	(15 946)	(17 611)	(15 874)	(15 946)	(15 874)	(9,5)	0,5	0,5
Other operating income	18 450	14 215	23 416	18 450	23 416	29,8	(21,2)	(21,2)
Other operating expenses	(14 760)	(12 424)	(9 875)	(14 760)	(9 875)	18,8	49,5	49,5
EBIT	41 377	(5 623)	50 959	41 377	50 959	(835,8)	(18,8)	(18,8)
<i>% of sales revenues</i>	5,31	(0,79)	6,61	5,31	6,61	6,1 p.p.	(1,3) p.p.	(1,3) p.p.
EBITDA	70 669	25 336	77 999	70 669	77 999	178,9	(9,4)	(9,4)
<i>% of sales revenues</i>	9,08	3,57	10,12	9,08	10,12	5,5 p.p.	(1,0) p.p.	(1,0) p.p.
Financial revenue	218	566	108	218	108	(61,4)	101,3	101,3
Financial expenses	(7 920)	(4 572)	(13 437)	(7 920)	(13 437)	73,2	(41,1)	(41,1)
Gross profit/(loss)	33 675	(9 630)	37 630	33 675	37 630	(449,7)	(10,5)	(10,5)
Income tax	(8 968)	6 037	(10 941)	(8 968)	(10 941)	(248,5)	(18,0)	(18,0)
Net profit (loss) from continuing operations	24 707	(3 593)	26 690	24 707	26 690	(787,7)	(7,4)	(7,4)
<i>% of sales revenues</i>	3,17	(0,51)	3,46	3,17	3,46	3,7 p.p.	(0,3) p.p.	(0,3) p.p.
Discontinued operations								
Net profit / (loss) from discontinued	(5 079)	(61 847)	(13 844)	(5 079)	(13 844)	(91,8)	(63,3)	(63,3)
<i>% of sales revenues</i>	(0,65)	(8,71)	(1,80)	(0,65)	(1,80)	8,1 p.p.	1,1 p.p.	1,1 p.p.
Net profit / (loss)	19 628	(65 440)	12 846	19 628	12 846	(130,0)	52,8	52,8
<i>% of sales revenues</i>	2,52	(9,21)	1,67	2,52	1,67	11,7 p.p.	0,9 p.p.	0,9 p.p.
Net profit / (loss) for the reporting period attributable to the shareholders of the Parent Entity	8 346	(64 501)	(3 652)	8 346	(3 652)	na	na	na

Commentary of the acting President of the Management Board Per Skoglund to the results of Q1 2015

Results excluding Rottneros

In the paper segment sales revenue were PLN 589,9m (almost 2.0% higher in comparison to Q1 2015), EBITDA increased to PLN 30.8m (up 18.2%) and operating profit to PLN 10.8m (up 58.0%). Net result from continued operations was PLN 1.5m,

while in the same period of 2015 the segment generated loss of PLN 7.2m.

The market for coated and uncoated fine graphic paper in Q1 2016 was still declining, being down 4.3% year-on-year and 0.7 % in comparison to Q4 2015 on this difficult market Arctic

Paper managed to increase volume of its fine paper deliveries in comparison to the last quarter of 2015 and strengthen its market position.

The revenue from sale of paper was up 1.9% in Q1 2016 year-on-year and 12.4% higher than in Q4 2015. Sales revenue per tonne increased by 2.2% and 6.7% respectively. This increase is largely due to the implemented price strategy.

The total production volume in for the period was 169' tonnes, 2.7% lower than in the equivalent period in 2015. Q1 2016 included Easter, normally a weak period, where as last year, Easter occurred during Q2.

Results including Rottneros

The Groups results have been influenced at consolidated level by the performance of Rottneros AB. The development

Revenues

In Q1 2016, the consolidated sales revenues amounted to PLN 778,560 thousand as compared to PLN 771,103 thousand in the equivalent period of the previous year. That means a growth by PLN 7,457 thousand or by 1.0%. In Q1 2016, paper sales revenues amounted to PLN 589,849 thousand (Q1 2015: PLN 578,733 thousand) while sales of pulp generated PLN 188,711 thousand (Q1 2015: PLN 192,370 thousand).

Paper sales volume in Q1 2016 amounted to 172 thousand tons compared to 181 thousand tons in the same period of the previous year. The change represents a decrease of 9 thousand tons and by 5.0% respectively.

Profit on sales, selling and distribution costs and administrative expenses

In Q1 2016, profit on sales amounted to PLN 118,034 thousand and was by 13.2% less than in the equivalent period last year and by 57.2% higher than in Q4 2015. Sales profit margin in the current quarter stood at 15.16% compared to 17.64% (-2.5 p.p.) in the same period of the previous year and 10.57% (+4.6%) in Q4 2015.

The main reasons of the reduced profit on sales in Q1 2016 as compared to the equivalent period in the previous year included higher costs of production materials, primarily of pulp.

program of Rottneros continues with increased efficiency. The results of the first quarter are strong despite the fact that prices of long-fibre pulp (produced by Rottneros) in both US dollars and SEK have fallen. Compared to the exceptional quarter of Q1 2015 the contribution from Rottneros declined, on EBITDA by 23% and as revenue by 2%.

New financing

During the first quarter of 2016, an evaluation of potential refinancing was initiated. The main aim would be to switch the structure of financing and thereby achieve increased financial stability.

Pulp sales volume in Q1 2016 amounted to 93 thousand tons compared to 91 thousand tons in the same period of the previous year. The change represents an increase of 2 thousand tons and by 2.2% respectively.

Higher sales revenues in Q1 2016, compared to Q4 2015, result mainly from higher paper and pulp sales volume. Paper sales revenues in the last quarter of 2015 amounted to PLN 526,916 thousand (Sales volume 157 thousand tons) while for pulp sales - PLN 183,492 thousand (Sales volume 91 thousand tons).

The relatively low profit on sales in Q4 2015 was primarily due to lower paper sales in the quarter and additional operating costs incurred in the Rottneros Group related to delayed commissioning of pulp machines in Vallvik after the annual maintenance.

In Q1 2016, the selling and distribution costs amounted to PLN 64,401 thousand which represents a decrease by 22.1% compared to the costs incurred in Q1 2015 and a decrease by 0.8% compared to Q4 2015. The selling and distribution costs

comprise particularly transportation costs. Moreover, in Q1 2015 the Group recognised a charge in the amount of PLN 15.3 million for the receivables from the companies of the PaperlinX Limited group in connection with the commencement of a restructuring procedure in those companies.

Other operating income and expenses

Other operating income totalled PLN 18,450 thousand in Q1 2016 which was a decrease as compared to the equivalent period of the previous year by PLN 4,967 thousand and a growth by PLN 4,235 thousand as compared to the last quarter of 2015.

Other operating income consists mainly of income from heat and electricity sales as well as income from sales of other materials. Additionally, in Q1 2015 the Group generated

In Q1 2016, the administrative expenses amounted to PLN 15,946 thousand as compared to PLN 15,874 thousand in the equivalent period in 2015 and PLN 17,611 thousand in Q4 2015. The administrative expenses comprise primarily costs related to consulting services rendered to the Group by third parties.

additional operating revenues for the sale of CO2 emission rights.

In Q1 2016, the other operating expenses amounted to PLN 14,760 thousand as compared to PLN 9,875 thousand in Q1 2015 and PLN 12,424 thousand in Q4 2015. 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 2016, the financial income amounted to PLN 218 thousand and was by PLN 110 thousand higher than generated in Q1 2015 and by PLN 348 thousand lower than the financial income for Q4 2015.

In Q1 2016, financial income amounted to PLN 7,920 thousand as compared to PLN 13,437 thousand incurred in Q1 2015 and PLN 4,572 thousand the last quarter of 2015.

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 125 thousand in Q1 2016, foreign exchange profit of PLN 2,759 thousand for Q4 2015 (disclosed as financial expenses) and foreign exchange loss of PLN 6,558 thousand in Q1 2015.

Income tax

In Q1 2016, income tax amounted to PLN -8,968 thousand while in the equivalent period in 2015 it was PLN -10,941 thousand and PLN +6,037 thousand in Q4 2015.

The current portion of income tax in the analysed period amounted to PLN -1,203 thousand while the deferred portion

- PLN -7,765 thousand. In the first quarter of the previous year, the amount was PLN -1,258 thousand and PLN -9,683 thousand respectively. In the last quarter of the previous year, the amount was PLN -1,163 thousand and PLN +7,200 thousand respectively.

Net profit (loss) from discontinued operations

Net profit/loss from discontinued operations covers the results of AP Mochenwangen and of the companies set up to acquire the Paper mill. Since the Management of Arctic Paper S.A. has been actively looking for a buyer for the Paper mill, its business has been recognised as discontinued and in compliance with

IFRS a change was made to the presentation in the consolidated profit and loss account for each presented period, in particular for the three months ended on 31 March 2015.

Net profit/loss and net profit/loss attributable to the shareholders of the Parent Company

In Q1 2016, the Group generated net profit in the amount of PLN 19,628 thousand. The portion of the net profit attributable to the shareholders of Arctic Paper S.A. amounts to PLN 8,346 thousand.

In Q4 2015, the Group generated net loss in the amount of PLN 65,440 thousand. The portion of the net loss attributable to the shareholders of Arctic Paper S.A. amounted to PLN 64,501 thousand.

In Q1 2015, the Group generated net profit in the amount of PLN 12,846 thousand. . The portion of the net result

attributable to the shareholders of Arctic Paper S.A. is a net loss of PLN 3,652 thousand. Net profit of the Group results mainly from the net profit generated by the Rottneros Group in Q1 2015 of which 51.3% is attributable to the shareholders of Arctic Paper S.A. Since the net profit generated by the Rottneros Group and attributable to the shareholders of Arctic Paper S.A. was lower than the total net loss generated by the other companies of the Arctic Paper Group, as a result the net loss for Q1 2015 was attributable to the shareholders of Arctic Paper.

Profitability analysis

In Q1 2016, the result on operations amounted to PLN +41,377 thousand as compared to PLN +50,959 thousand in the equivalent period in 2015 and PLN -5,623 thousand in Q4 2015. Those changes mean there was a decrease of operating profit margin from +6.61% in Q1 2015 and a growth of operating profit margin from -0.79% in Q4 2015 to +5.31 in the first quarter of the current year.

EBITDA in Q1 2016 was PLN 70,669 thousand while in the equivalent period in 2015 it was PLN 77,999 thousand and

PLN 25,336 thousand in Q4 2015. In the reporting period, the EBITDA margin was 9.08% compared to 10.12% in the equivalent period of 2015 and 3.57% in Q4 2015.

In Q1 2016, net profit amounted to PLN 19,628 thousand as compared to the net profit of PLN 12,846 thousand in Q1 2015 and net loss of PLN 65,440 thousand in Q4 2015.

Profitability analysis

	1Q	4Q	1Q	YTD 1Q	YTD 1Q	Change %	Change %	Change %
<i>PLN thousand</i>	2016	2015	2015	2016	2015	1Q'2016/ 4Q'2015	1Q'2016/ 1Q'2015	YTD1Q'2016/ YTD1Q'2015
Profit on sales	118 034	75 107	136 006	118 034	136 006	57,2	(13,2)	(13,2)
<i>% of sales revenues</i>	<i>15,16</i>	<i>10,57</i>	<i>17,64</i>	<i>15,16</i>	<i>17,64</i>	<i>4,6 p.p.</i>	<i>(2,5) p.p.</i>	<i>(2,5) p.p.</i>
EBITDA	70 669	25 336	77 999	70 669	77 999	178,9	(9,4)	(9,4)
<i>% of sales revenues</i>	<i>9,08</i>	<i>3,57</i>	<i>10,12</i>	<i>9,08</i>	<i>10,12</i>	<i>5,5 p.p.</i>	<i>(1,0) p.p.</i>	<i>(1,0) p.p.</i>
EBIT	41 377	(5 623)	50 959	41 377	50 959	(835,8)	(18,8)	(18,8)
<i>% of sales revenues</i>	<i>5,31</i>	<i>(0,79)</i>	<i>6,61</i>	<i>5,31</i>	<i>6,61</i>	<i>6,1 p.p.</i>	<i>(1,3) p.p.</i>	<i>(1,3) p.p.</i>
Net profit (loss) from continuing operations	24 707	(3 593)	26 690	24 707	26 690	(787,7)	(7,4)	(7,4)
<i>% of sales revenues</i>	<i>3,17</i>	<i>(0,51)</i>	<i>3,46</i>	<i>3,17</i>	<i>3,46</i>	<i>3,7 p.p.</i>	<i>(0,3) p.p.</i>	<i>(0,3) p.p.</i>
Net profit / (loss) from discontinued operations	(5 079)	(61 847)	(13 844)	(5 079)	(13 844)	(91,8)	(63,3)	(63,3)
<i>% of sales revenues</i>	<i>(0,65)</i>	<i>(8,71)</i>	<i>(1,80)</i>	<i>(0,65)</i>	<i>(1,80)</i>	<i>8,1 p.p.</i>	<i>1,1 p.p.</i>	<i>1,1 p.p.</i>
Net profit / (loss)	19 628	(65 440)	12 846	19 628	12 846	(130,0)	52,8	52,8
<i>% of sales revenues</i>	<i>2,52</i>	<i>(9,21)</i>	<i>1,67</i>	<i>2,52</i>	<i>1,67</i>	<i>11,7 p.p.</i>	<i>0,9 p.p.</i>	<i>0,9 p.p.</i>
ROE (%)	2,8	(9,7)	1,8	4,1	76,4	12,5 p.p.	1,1 p.p.	1,1 p.p.
ROA (%)	1,1	(3,6)	0,7	1,6	(65,7)	4,7 p.p.	0,4 p.p.	0,4 p.p.

In Q1 2016, return on equity was +2.8% while in Q1 2015 it was +1.8% and in Q4 2015 it was -9.7%.

In the same period, return on assets was +1.1% while in Q1 2015 it was +0.7% and in Q4 2015 it was -3.6%.

The growth of return on equity and return of assets in Q1 2016, compared to the first and last quarter of 2015 was mainly due to increase of net profit in the analysed period.

Statement of financial position

Selected items of the consolidated balance sheet

<i>PLN thousand</i>	31/03/2016	31/12/2015	31/03/2015	Change 31/03/2016 -31/12/2015	Change 31/03/2016 -31/03/2015
Fixed assets	814 867	830 668	804 948	(15 801)	9 919
Inventories	375 793	390 631	389 761	(14 838)	(13 967)
Receivables	389 923	343 441	406 914	46 482	(16 991)
<i>including trade receivables</i>	381 595	336 499	399 251	45 096	(17 656)
Other current assets	17 929	12 475	39 281	5 455	(21 352)
Cash and cash equivalents	168 237	188 552	159 956	(20 315)	8 280
Assets related to discontinued operations	26 922	47 467	-	(20 545)	na
Total assets	1 793 672	1 813 235	1 800 860	(19 563)	(7 189)
Equity	693 665	676 856	728 206	16 810	(34 541)
Current liabilities	674 008	682 515	658 427	(8 507)	15 581
<i>of which:</i>					
<i>trade and other payables</i>	385 154	407 409	416 345	(22 255)	(31 191)
<i>interest-bearing debt</i>	182 361	166 386	129 594	15 974	52 766
<i>other non-financial liabilities</i>	106 494	108 720	112 488	(2 227)	(5 995)
Long-term liabilities	369 038	372 599	414 227	(3 561)	(45 189)
<i>of which:</i>					
<i>interest-bearing debt</i>	260 838	263 363	275 835	(2 525)	(14 998)
<i>other non-financial liabilities</i>	108 200	109 236	138 391	(1 036)	(30 191)
The liabilities directly related to the discontinued operations	56 960	81 264	-	(24 304)	na
Total liabilities	1 793 672	1 813 235	1 800 860	(19 563)	(7 189)

As at 31 March 2016 total assets amounted to PLN 1,793,672 thousand as compared to PLN 1,813,235 thousand at the end of 2015 which was a decrease by PLN 19,563 thousand.

Fixed assets

As at 31 March 2016 fixed assets amounted to PLN 814,867 thousand and accounted for 45.4% of total assets as compared to PLN 830,668 thousand at the end of 2015 – 45.8%. Fixed assets mainly consist of property, plant & equipment and intangible assets. The value of fixed assets was

decreased over the three months of 2016, primarily due to depreciation/amortisation write-downs to tangible fixed assets and intangible assets that were in excess of capital expenditures and due to a decrease of the deferred income tax asset, mainly due to the utilisation of tax losses.

Current assets

As at the end of March 2016, current assets amounted to PLN 951,883 thousand as compared to PLN 935,099 thousand at the end of December 2015. As part of the current assets,

inventories dropped by PLN 14,838 thousand and receivables grew by PLN 46,482 thousand, other current assets grew by PLN 5,455 thousand while cash and cash equivalents dropped

by PLN 20,315 thousand. Current assets represented 53.1% of total assets as at the end of March 2016 (51.6% as at the end of 2015) and included inventories - 21.0% (21.6% as at the end of 2015), receivables - 21.7% (18.9% as at the end of

2015), other current assets - 1.0% (0.7% as at the end of 2015) and cash and cash equivalents - 9.4% (10.4% as at the end of 2015).

Assets related to discontinued operations

The assets related to the discontinued operations cover the assets of the Mochenwangen Group with the exception of assets of the other companies in the Arctic Paper Group.

The amount of PLN 26,922 thousand as at 31 March 2016 (31 December 2015: PLN 47,467 thousand) was composed of

inventories for PLN 14,649 thousand (31 December 2015: PLN 29,396 thousand), trade and other receivables of PLN 10,483 thousand (31 December 2015: PLN 15,912 thousand), cash - PLN 350 thousand (31 December 2015: PLN 1,051 thousand) and other financial and non-financial assets - PLN 1,439 thousand (31 December 2015: PLN 1,108 thousand).

Equity

In Q1 2016, the equity amounted to PLN 693,665 thousand as compared to PLN 676,856 thousand at the end of 2015. Equity represented 38.7% of total equity and liabilities as at the end of March 2016 as compared to 37.3% of balance sheet

total as at the end of December 2015. The growth of equity in Q1 2016 resulted primarily from the net profit generated for the period.

Current liabilities

As at the end of March 2016, current liabilities amounted to PLN 674,008 thousand (37.6% of balance sheet total) as compared to PLN 682,515 thousand (37.6% of balance sheet total) as at the end of 2015. In the current quarter, a decrease

of current liabilities occurred by PLN 8,507 thousand. The decrease of current liabilities was primarily due to a decrease of trade and other payables partly compensated with increased loans and borrowings and other financial liabilities.

Long-term liabilities

As at the end of March 2016, long-term liabilities amounted to PLN 369,038 thousand (20.6% of balance sheet total) as compared to PLN 372,599 thousand (20.5% of balance sheet

total) as at the end of 2015. In the period under report, a decrease of long-term liabilities occurred by PLN 3,561 thousand that was primarily due to repayments of bank loans.

Liabilities directly related to discontinued operations

The liabilities directly related to the discontinued operations cover the liabilities of the Mochenwangen Group with the exception of liabilities to the other companies in the Arctic Paper Group. The amount of PLN 56,960 thousand as at 31 March 2016 (31 December 2015: PLN 81,264 thousand) was

composed of provisions of PLN 47,449 thousand (31 December 2015: PLN 55,484 thousand), trade and other payables of PLN 7,779 thousand (31 December 2015: PLN 23,172 thousand) and other financial and non-financial liabilities of 1,732 (31 December 2015: PLN 2,608 thousand).

Debt analysis

Debt analysis

	1Q 2016	4Q 2015	1Q 2015	Change % 1Q'2016/ 4Q'2015	Change % 1Q'2016/ 1Q'2015
Debt to equity ratio (%)	150,4	155,9	147,3	(5,5) p.p.	3,1 p.p.
Equity to fixed assets ratio (%)	85,1	81,5	90,5	3,6 p.p.	(5,3) p.p.
Equity to interest-bearing debt ratio (%)	63,9	63,5	55,7	0,4 p.p.	8,2 p.p.
Net debt to EBITDA ratio for the last 12 months (x)	1,3x	1,1x	0,9x	0,20	0,39
EBITDA to interest expense ratio (x)	9,4x	9,8x	9,8x	(0,5)	(0,4)

The above ratios for Q1 2015 are compliant with the equivalent ratios disclosed in the Management Report from operations of the Arctic Paper Group in the consolidated report for Q1 2015. The ratios do not include the effects of derecognising the discontinued operations in the consolidated profit and loss account and therefore they will not explicitly result from the data disclosed herein.

As at the end of March 2016 the debt to equity ratio was 150.4% and was higher by 5.5 p.p. As compared to the end of 2015 and higher by 3.1 p.p. as compared to the end of March 2015.

The equity to non-current assets ratio was 85.1% as at the end of Q1 2016 and was higher by 3.6 p.p. than at the end of 2015 and lower by 5.3 p.p. than at the end of March 2015.

The interest bearing debt to equity ratio was 63.9% as at the end of Q1 2016 and was higher by 0.4 p.p. as compared to the end of December 2015 and lower by 8.2 p.p. as compared to the level of the ratio calculated at the end of March 2015.

Net borrowings to EBITDA calculated for the last 12 months ended on 31 March 2016 amounted to 1.3x compared to 1.1x in the equivalent period ended on 31 December 2015 and 0.9x for the twelve months period ended on 31 March 2015.

The EBITDA to interest coverage ratio was 9.4x for the twelve months ended on 31 March 2016 and 9.8x for the twelve month period ended on 31 December 2015 and for the twelve month period ended on 31 March 2015.

Liquidity analysis

Liquidity analysis

	1Q 2016	4Q 2015	1Q 2015	Change % 1Q'2016/ 4Q'2015	Change % 1Q'2016/ 1Q'2015
Current ratio	1,4x	1,4x	1,5x	0,0	(0,1)
Quick ratio	0,8x	0,8x	0,9x	0,1	(0,1)
Cash ratio	0,2x	0,3x	0,2x	(0,0)	0,0
DSI (days)	51,2	55,3	49,4	(4,1)	1,8
DSO (days)	44,1	42,6	43,0	1,5	1,1
DPO (days)	52,4	57,7	52,7	(5,3)	(0,2)
Operational cycle (days)	95,3	98,0	92,3	(2,7)	3,0
Cash conversion cycle (days)	42,9	40,3	39,7	2,6	3,2

The above ratios for Q1 2015 are compliant with the equivalent ratios disclosed in the Management Report from operations of the Arctic Paper Group in the consolidated report for Q1 2015. The ratios do not include the effects of derecognising the discontinued operations in the consolidated profit and loss account and therefore they will not explicitly result from the data disclosed herein.

At the end of March 2016, the current liquidity ratio, quick liquidity ratio and acid test ratio were at similar levels compared to the end of 2015 to the end of March 2015.

The cash conversion cycle for the period ended on 31 March 2016 was 42.9 days (the period ended on 31 December 2015: 40.3 days and for the period ended on 31 March 2015: 39.7 days).

Consolidated cash flows

Selected items of the consolidated cash flow

	1Q	4Q	1Q	YTD 1Q	YTD 1Q	Change %	Change %	Change %
<i>PLN thousand</i>	2016	2015	2015	2016	2015	1Q'2016/ 4Q'2015	1Q'2016/ 1Q'2015	YTD1Q'2016/ YTD1Q'2015
Cash flows from operating activities	245	61 621	37 978	245	37 978	(99,6)	(99,4)	(99,4)
<i>of which:</i>								
<i>Gross profit/(loss)</i>	28 588	(71 653)	23 792	28 588	23 792	(139,9)	20,2	20,2
<i>Depreciation/amortisation and impairm</i>	29 501	30 597	31 204	29 501	31 204	(3,6)	(5,5)	(5,5)
<i>Changes to working capital</i>	(57 041)	58 093	(16 515)	(57 041)	(16 515)	(198,2)	245,4	245,4
<i>Other adjustments</i>	(804)	44 584	(503)	(804)	(503)	(101,8)	59,9	59,9
Cash flows from investing activities	(25 848)	(35 548)	(12 838)	(25 848)	(12 838)	(27,3)	101,3	101,3
Cash flows from financing activities	5 485	(35 758)	(19 095)	5 485	(19 095)	(115,3)	(128,7)	(128,7)
Total cash flows	(20 118)	(9 684)	6 045	(20 118)	6 045	107,7	(432,8)	(432,8)

Cash flows from operating activities

In Q1 2016, net cash flows from operating activities amounted to PLN +245 thousand as compared to PLN +37,978 thousand in the equivalent period of 2015 and PLN +61,621 thousand in the fourth quarter of the previous year. The gross profit generated in Q1 2016 increased by

depreciation/amortisation over the period was set off with changes to current assets (primarily a growth of trade and other receivables and a decrease of trade and other payables) resulted in relatively low positive cash flows from operating activities.

Cash flows from investing activities

In Q1 2016, cash flows from investing activities amounted to PLN -25,848 thousand as compared to PLN -12,838 thousand in Q1 2015 and PLN

-35,548 thousand in Q4 2015. Cash flows from investing activities in Q1 2016 resulted primarily from purchase of tangible fixed and intangible assets.

Cash flows from financing activities

In Q1 2016, cash flows from investing activities amounted to PLN +5,485 thousand as compared to PLN -19,095 thousand in Q1 2015 and PLN -35,758 thousand in Q4 2015. In Q1 2016, the positive cash flows from financing activities were

primarily related to a growth of debt under current account overdraft facilities and factoring contracts, partly set off with debt repayment under loan agreements with interest.

Summary of standalone financial results

Standalone income statement

Selected items of the condensed income statement

PLN thousand	1Q	4Q	1Q	YTD 1Q	YTD 1Q	Change %	Change %	Change %
	2016	2015	2015	2016	2015	1Q'2016/ 4Q'2015	1Q'2016/ 1Q'2015	YTD1Q'2016/ YTD1Q'2015
Sales revenues	10 140	26 059	10 659	10 140	10 659	(61,1)	(4,9)	(4,9)
<i>of which:</i>								
Revenues from sales of services	10 014	10 165	10 449	10 014	10 449	(1,5)	(4,2)	(4,2)
Interest income on loans	126	250	210	126	210	(49,5)	(40,0)	(40,0)
Dividend income	-	15 644	-	-	-	-	-	-
Profit on sales	8 313	20 851	8 367	8 313	8 367	(60,1)	(0,7)	(0,7)
<i>% of sales revenues</i>	<i>81,98</i>	<i>80,01</i>	<i>78,50</i>	<i>81,98</i>	<i>78,50</i>	<i>2,0 p.p.</i>	<i>1,5 p.p.</i>	<i>3,5 p.p.</i>
Selling and distribution costs	(997)	(1 174)	(920)	(997)	(920)	(15,1)	8,4	8,4
Administrative expenses	(8 122)	(5 924)	(8 128)	(8 122)	(8 128)	37,1	(0,1)	(0,1)
Other operating income	6	102	133	6	133	(94,3)	(95,6)	(95,6)
Other operating expenses	(8 824)	(24 411)	(8 404)	(8 824)	(8 404)	(63,9)	5,0	5,0
EBIT	(9 625)	(10 556)	(8 952)	(9 625)	(8 952)	(8,8)	7,5	7,5
<i>% of sales revenues</i>	<i>(94,92)</i>	<i>(40,51)</i>	<i>(83,99)</i>	<i>(94,92)</i>	<i>(83,99)</i>	<i>(54,4) p.p.</i>	<i>(10,9) p.p.</i>	<i>(10,9) p.p.</i>
EBITDA	(9 530)	(15 723)	(8 887)	(9 530)	(8 887)	(39,4)	7,2	7,2
<i>% of sales revenues</i>	<i>(93,99)</i>	<i>(60,34)</i>	<i>(83,38)</i>	<i>(93,99)</i>	<i>(83,38)</i>	<i>(33,7) p.p.</i>	<i>(10,6) p.p.</i>	<i>(10,6) p.p.</i>
Financial revenue	7	570	780	7	780	(98,8)	(99,1)	(99,1)
Financial expenses	(1 436)	(619)	(981)	(1 436)	(981)	132,1	46,3	46,3
Gross profit	(11 054)	(10 604)	(9 153)	(11 054)	(9 153)	4,2	20,8	20,8
Income tax	-	(167)	-	-	-	-	-	-
Net profit	(11 054)	(10 772)	(9 153)	(11 054)	(9 153)	2,6	20,8	20,8
<i>% of sales revenues</i>	<i>(109,02)</i>	<i>(41,34)</i>	<i>(85,87)</i>	<i>(109,02)</i>	<i>(85,87)</i>	<i>(67,7) p.p.</i>	<i>(23,1) p.p.</i>	<i>(23,1) p.p.</i>

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 and Sales Offices.

Sales revenues for Q1 2016 amounted to PLN 10,140 thousand and comprised services provided to Group companies (PLN 10,014 thousand and interest income on loans (PLN 126 thousand). In the equivalent period of the previous year, the standalone sales revenues amounted to

PLN 10,659 thousand and comprised services provided to Group companies (PLN 10,449 thousand and interest income on loans (PLN 210 thousand).

In Q4 2015, the standalone sales revenues amounted to PLN 26,059 thousand which included revenues from the services provided to Group companies (PLN 10,165 thousand and interest income on loans granted (PLN 250 thousand) and dividend income (PLN 15,644 thousand).

In 2016 and in 2015, the Company did not render services to the Pulp Mills of the Rottneros Group.

Costs of sales comprise interest expense on loans received

from other Group companies.

Selling and distribution costs

In Q1 2016 the Company recognised the amount of PLN 997 thousand as selling and distribution costs (PLN 1,174 thousand in Q4 2015) 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.

Administrative expenses

In Q1 2016, the administrative expenses amounted to PLN 8,122 thousand and were at the same level as the expenses for the equivalent period of the previous year (PLN 8,128 thousand) and higher than the expenses recorded in Q4 2015 by PLN 2,198 thousand.

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.

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

Other operating income and expenses

Other operating income totalled PLN 6 thousand in Q1 2016 which was a decrease as compared to the equivalent period of the previous year by PLN 127 thousand. Other operating expenses totalled PLN 8,824 thousand in Q1 2016. The main

item of the other operating expenses is the impairment of assets - loans granted to the paper mill - Arctic Paper Mochenwangen GmbH (PLN 8,476 thousand).

Financial income and financial expenses

In Q1 2016, the financial income amounted to PLN 7 thousand and was by PLN 773 thousand lower than generated in Q1 2015 and by PLN 563 thousand generated in Q4 2015.

The financial expenses in 2016 amounted to PLN 1,436 thousand (in the equivalent period of 2015: PLN 981 thousand) while in Q4 2015 they amounted to PLN 619 thousand.

Statement of financial position

Selected items of the standalone balance sheet

PLN thousand	31/03/2016	31/12/2015	31/03/2015	Change	Change
				31/03/2016	31/03/2016
				-31/12/2015	-31/03/2015
Fixed assets	843 194	843 274	830 403	(80)	12 792
Receivables	90 278	82 121	84 414	8 156	5 863
Other current assets	14 986	15 371	41 582	(386)	(26 596)
Cash and cash equivalents	3 897	9 435	12 224	(5 538)	(8 327)
Total assets	952 354	950 202	968 623	2 153	(16 269)
Equity	657 953	668 959	656 004	(11 006)	1 950
Current liabilities	89 244	76 242	87 961	13 003	1 284
Long-term liabilities	205 159	205 001	224 659	158	(19 501)
Total liabilities	952 356	950 202	968 623	2 154	(16 267)

As at 31 March 2016 total assets amounted to PLN 952,356 thousand as compared to PLN 950,202 thousand at the end of 2015.

Fixed assets

As at the end of March 2016 non-current assets represented nearly 88.5% of total assets which means the share decreased (by 0.2 p.p.) compared to the end of 2015. The main item of

non-current assets includes interests in subsidiaries. At the end of Q1 2015, the value was PLN 838,741 thousand and was the same as at the end of 2015.

Current assets

As at the end of March 2016, current assets amounted to PLN 109,160 thousand as compared to PLN 106,927 thousand at the end of 2015. Current assets increased in Q1 2016, particularly in trade receivables. As at the end of Q1 2016,

current assets represented 11.5% of total assets compared to 11.3% as at the end of the previous year.

Equity

In Q1 2016, the equity amounted to PLN 657,953 thousand as compared to PLN 668,959 thousand at the end of 2015. Equity amounted to 69.1% of balance sheet total as at the end

of March 2016 and the share decreased by 1.3 p.p. as compared to the end of 2015.

Current liabilities

As at the end of March 2016, current liabilities amounted to PLN 89,244 thousand (9.4% of balance sheet total),

as compared to PLN 76,242 thousand as at the end of 2015 (8.0% of balance sheet total).

Long-term liabilities

As at the end of March 2016, long-term liabilities amounted to PLN 205,159 thousand (21.5% of balance sheet total) as compared to PLN 205,001 thousand as at the end of 2015 (21.6% of balance sheet total).

Cash flows

Selected items of the standalone cash flow

PLN thousand	1Q	4Q	1Q	YTD 1Q	YTD 1Q	Change %	Change %	Change %
	2016	2015	2015	2016	2015	1Q'2016/ 4Q'2015	1Q'2016/ 1Q'2015	YTD1Q'2016/ YTD1Q'2015
Cash flows from operating activities	(5 122)	11 753	(5 801)	(5 122)	(5 801)	(143,6)	(11,7)	(11,7)
<i>of which:</i>	-	-	-	-	-	-	-	-
<i>Gross profit/(loss)</i>	(11 054)	(10 604)	(9 153)	(11 054)	(9 153)	4,2	20,8	20,8
<i>Depreciation/amortisation</i>	95	(5 167)	65	95	65	(101,8)	46,4	46,4
<i>Changes to working capital</i>	4 673	(1 599)	1 843	4 673	1 843	(392,3)	153,6	153,6
<i>Net interest and dividends</i>	351	1 469	971	351	971	(76,1)	(63,9)	(63,9)
<i>Other adjustments</i>	813	27 654	474	813	474	(97,1)	71,6	71,6
Cash flows from investing activities	(66)	(14 932)	(172)	(66)	(172)	(99,6)	(61,8)	(61,8)
Cash flows from financing activities	(351)	(1 465)	(410)	(351)	(410)	(76,1)	(14,4)	(14,4)
Total cash flows	(5 538)	(4 644)	(6 383)	(5 538)	(6 383)	19,2	(13,2)	(13,2)

The cash flows statement presents a decrease in cash and cash equivalents in Q1 2016 by PLN 5,538 thousand which includes:

- negative cash flows from operating activities of PLN - 5,122 thousand ,

- negative cash flows from investing activities of PLN -66 thousand ,
- negative cash flows from financing activities of PLN -351 thousand.

Cash flows from operating activities

In Q1 2016, net cash flows from operating activities amounted to PLN -5,122 thousand as compared to PLN -5,801 thousand in the equivalent period of 2015. The negative cash

flows from operating activities in the current year were influenced by both gross loss and the changes to working capital.

Cash flows from investing activities

In the first three months 2016, cash flows from investing activities amounted to PLN -66 thousand as compared to PLN -172 thousand in Q1 2015. The main item of cash flows from

investing activities in 2016 was expenses related to acquisition of tangible fixed assets.

Cash flows from financing activities

In 2016 cash flows from financing activities amounted to PLN -351 thousand as compared to PLN -410 thousand in 2015. The cash flows from financing activities covered interest paid.

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 historically and will continue to be influenced by the following key factors:

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

Macroeconomic and other economic factors

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

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

Paper prices

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

Costs of raw materials, energy and transportation

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

paper and pulp production. Our energy costs historically include mostly the costs of electricity, natural gas, coal and fuel oil. The costs of transportation include the costs of transportation services provided to the Group mainly by external entities.

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

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

Currency rate fluctuations

Our operating results are significantly influenced by currency rate fluctuations. In particular, our revenues and costs are expressed in different foreign currencies and are not matched, therefore, the appreciation of the currencies in which we incur costs towards the currencies in which we generate revenues, will have an adverse effect on our results. We sell our products in all Eurozone countries, Scandinavia, Poland and the UK; therefore, our revenues are to a great extent expressed in EUR, GBP, SEK and PLN, while the revenues of Pulp Mills are primarily dependent on 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 and a majority of costs related to the operations of the Mochenwangen paper mill), PLN (the majority of other costs incurred by the mill in Kostrzyn nad Odrą) and

SEK (the majority of other costs incurred by the Munkedal and Grycksbo mills as well as the Rottneros and Vallvik pulp mills).

Exchange rates also have an important influence on results reported in 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 2016 there were no unusual events or factors.

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

In Q1 2016 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

Profitability improvement programme for 2015/2016 of the Arctic Paper – Arctic Paper Grycksbo AB Group

In connection with the Profitability Improvement Programme of the Arctic Paper Group announced in July 2015, on 19 January 2016 the Management Board of the Issuer's subsidiary - Arctic Paper Grycksbo AB (Sweden) opened negotiations with the trade unions

of the factory in order to reduce fixed costs by about SEK 12 million (about PLN 5.8 million) in 2016 and by about SEK 25 million (about PLN 12 million) in 2017, and to improve the production performance of the facility in Grycksbo. To this end, the facility may potentially reduce its headcount by about 40 persons in 2016.

Plan to raise funding with the contemplated bond issue or loans

The Management Board of Arctic Paper S.A. with its registered office in Poznań ("Company") informs that on 4 May 2016 it decided to commence formally works in connection with the refinancing the existing loans and borrowings of the Company and its subsidiaries and on the obtaining alternative financing ("Financing"). The core objective of the Company's Management Board is to change the financing structure of the Company's capital group and, in particular, to centralise the

debt facilitating more effective liquidity management and flexible adjustment of the level of financing of the individual companies.

The contemplated Financing envisages the procurement of funds through:

- an issue or issues of PLN denominated bonds to be issued by the Company under a bond issue programme for up to PLN 150,000,000 ("Bond Issue Programme"); and/or
- senior term and revolving facilities for up to EUR 85,700,000 and PLN 47,000,000, to be obtained from a group of banks and/or credit institutions ("Facilities"),

whereas the funds under the contemplated Financing will be procured either jointly under the Bond Issue Programme and the Facilities (in such case the amount of the Facilities will be reduced accordingly by the amount of the bonds issued under the Bond Issue Programme simultaneously with the procurement of funds under the Facilities) or exclusively through the Facilities.

If the Financing is obtained, it will be necessary to establish appropriate security and conclude additional agreements. The Management Board of the Company is considering the possibility of security that is in line with market practices in similar transactions, in particular registered pledge over a set

of movables and property rights constituting the Company's enterprise or an organised part thereof (the "Pledge").

In light of the foregoing, the Management Board of the Company will be taking steps to convene an Ordinary Shareholders' Meeting which is necessary to establish the Pledge.

The above-mentioned decision of the Management Board of the Company is preliminary decision and may be subject to change. In particular, the Management Board of the Company

may decide not to take some or all the steps mentioned above. Additionally, the Management Board of the Company informs that it has been discussing with banks and/or credit institutions their potential participation in the Financing; however, so far no binding decision in the matter has been made.

Factors influencing the development of the Arctic Paper Group

Information on market trends

Supplies of fine papers

Supplies of fine papers to the European market in Q1 2016 were lower compared to the equivalent period of 2015 by app. 4.3%. Supplies in the segment of uncoated wood-free paper (UWF) were lower by 4.5%, while in the segment of coated wood-free paper (CWF) were lower by 4.0%.

In comparison to Q4 2015, supplies of fine paper were reduced by 0.7%, with supplies in the uncoated wood-free paper segment (UWF) the supplies were higher by 4.7% while

in the coated wood-free paper segment (CWF) the supplies were lower by 6.5%.

In Q1 2016 the paper sales volume by the Arctic Paper Group was 10.0% higher than in Q4 2015 and 4.5% higher than in the corresponding period of 2015. The data both for 2016 and prior periods does not include the facility in Mochenwangen where the activity was discontinued.

Source of data: EuroGraph, RISI, Arctic Paper analysis

Paper prices

In Q1 2016, average fine paper prices in Europe in the UWF segment were higher by 0.8%, while there was a drop by 0.5% in the CWF segment as compared to the prices at the end of Q4 2015.

In the period from the end of December 2015 until March 2016 the prices of coated wood-free paper (UWF) declared by manufacturers in the selected markets: Germany, France, Italy and the UK, expressed in EUR and GBP, were fluctuating within the range of 1.4% to 1.5%.

Coated wood-free paper (CWF) prices in the same period changed from 0.7% to 0.8%.

At the end of the quarter, average UWF prices increased by app. 6.2% and CWF prices by 0.8%, compared to the end of the equivalent period of the previous year.

The prices invoiced by Arctic Paper in EUR for comparable products in the segment of uncoated wood-free paper (UWF) grew from the end of December 2015 until March 2015 by 0.2% on the average while in the segment of coated wood-free paper (CWF) the prices decreased by -0.6%.

The average prices invoiced by Arctic Paper in 2016 and the prices in the reference periods do not include data from the paper mill in Mochenwangen where the production was discontinued.

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 2016, the pulp prices were as follows: NBSK 790 USD/ton and BHKP 737 USD/ton. The average pulp price in Q1 2016 was lower by 12.5% for NBSK while higher by 1.7% for BHKP, compared to the equivalent period of the previous year. The average pulp price in Q1 2016 was lower by 3.3% for NBSK and by 5.0% for BHKP as compared to Q4 2015.

The average cost of pulp per ton as calculated for the AP Group, expressed in PLN, in Q1 2016 increased by 6.7% compared to Q4 2015 and increased by 8.9% compared to Q1 2015. The share of pulp costs in cost of paper sales in the

first quarter of the current year amounted to 56% and was higher compared to the level recorded in Q4 2015 (62%) while remaining similar to the level of 2015 (57%).

The AP Group uses the pulp in the production process according to the following structure: BHKP 72%, NBSK 21% and other 7%.

The average pulp costs at Arctic Paper and the consumption structure (2016 and the reference periods) do not cover the data from the paper mill in Mochenwangen where the activity was discontinued.

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

Currency exchange rates

The EUR/PLN exchange rate at the end of Q1 2016 amounted to 4.2684 and was higher by 0.2% than at the end of Q4 2015 and higher by 4.4% than at the end of Q1 2015. The average exchange rate in Q1 2016 was higher than in Q4 2015 and amounted to 4.3648, compared to 4.2636 (+2.4%). The average exchange rate in Q1 2016, compared to Q1 2015, was by 4.1% higher.

The EUR/SEK exchange rate increased from 9.1724 as at the end of Q4 2015 to 9.2310 (+0.6%) at the end of Q1 2016. For the currency pair, the average rate in Q1 was by 0.3% higher compared to Q4 2015. The average exchange rate in Q1 2016 was 0.6% lower than in the equivalent period of 2015.

At the end of Q1 2016, the USD/PLN rate was by 3.6% lower than at the end of Q4 2015 and amounted to 3.7590. In Q1 2016, the average exchange rate amounted to 3.9580 compared to 3.8933 in Q4 2015. That was a depreciation of PLN by 1.7%.

At the end of Q1 2016, the USD/SEK rate amounted to 8.1293 and was by 3.2% lower than at the end of Q4 2015. The average exchange rate in Q1 2016 amounted to 8.4534 which means a decrease by 0.4% compared to Q4 2015.

Changes to the USD/PLN and USD/SEK exchange rates resulted in a significant increase of the price of pulp expressed in PLN, compared to the prices in Q4 2015. The changes of the USD/SEK exchange rate operated contrary to the prices paid in SEK.

At the end of March 2016, the EUR/USD rate amounted to 1.1355 compared to 1.0924 (+3.9%) at the end of Q4 2015 and to 1.0725 (+5.9%) at the end of March 2015. In Q1 2016, the average exchange rate amounted to 1.1031 compared to 1.0957 (+0.7%) in Q4 2015.

The light but noticeable appreciation of USD to EUR, PLN and SEK had a positive influence of the Group's financial results, mainly due decreased purchase costs.

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

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

- Demand for fine papers in Europe. Further adverse developments in the market situation will negatively affect the levels of orders placed with our Paper Mills and, as a result, will have an adverse impact on the financial results of the Group.
- Price changes of fine papers. 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 changes of sales volume, prices as well as of exchange rate fluctuations.

- Prices fluctuations of raw materials, including pulp for Paper Mills and electricity for all operational entities. In particular, financial results of Paper Mills may be adversely influenced by increasing pulp prices, particularly BHKP. On the other hand, growing NBSK prices should positively influence financial the 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 2016 there were no material changes to the risk factors. Those were presented in detail in the annual report for 2015.

Supplementary information

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 projections of financial results for 2016.

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

Details and changes to the holdings of the Company's shares and rights thereto by managing and supervising personnel

Managing and supervising personnel	Number of shares or rights thereto as at 16/05/2016	Number of shares or rights thereto as at 21/03/2016	Change
Management Board			
Wolfgang Lübbert	-	-	-
Jacek Łoś	-	-	-
Per Skoglund	-	-	-
Małgorzata Majewska-Śliwa	-	-	-
Michał Sawka	-	-	-
Supervisory Board			
Rolf Olof Grundberg	12 000	12 000	-
Rune Roger Ingvarsson	-	-	-
Thomas Onstad	5 848 658	5 848 658	-
Roger Mattsson	-	-	-
Dariusz Witkowski	-	-	-
Mariusz Grendowicz	-	-	-

Information on sureties and guarantees

As at 31 March 2016, the Group reported:

- a pledge on movables of Arctic Paper Munkedals AB resulting from a factoring contract with Svenska Handelsbanken AB amounting to SEK 160,000 thousand;
- a pledge on movables of Arctic Paper Grycksbo AB resulting from a factoring contract with Svenska Handelsbanken AB amounting to SEK 85,000 thousand;
- a pledge on properties of Arctic Paper Grycksbo AB resulting from a factoring contract with Svenska Handelsbanken AB amounting to SEK 20,000 thousand;
- a pledge on shares of Arctic Paper Grycksbo AB resulting from a factoring contract with Svenska Handelsbanken AB amounting to SEK 105,822 thousand;
- a pledge on properties of Arctic Paper Grycksbo AB resulting from an agreement with FPG in favour of mutual life insurance company PRI in the amount of SEK 50,000 thousand;
- a contingent liability related to a guarantee for FPG in favour of mutual life insurance company PRI in the amount of SEK 1,461 thousand in Arctic Paper Grycksbo AB and of SEK 759 thousand in Arctic Paper Munkedals AB;

- a pledge on properties of Arctic Paper Munkedals AB resulting from an agreement with FPG in favour of mutual life insurance company PRI in the amount of SEK 50,000 thousand;
 - a limit of liabilities under a factoring contract in Arctic Paper Munkedals up to SEK 154,706 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 2,711 thousand;
 - mortgage on properties held by Kalltorp Kraft HB in the amount of SEK 8,650 thousand;
 - a bank guarantee in favour of Skatteverket Ludvika in the amount of SEK 135 thousand;
 - a charge to the bank account of Arctic Paper Mochenwangen GmbH related to employee benefits in the amount of EUR 255 thousand;
 - pledges on shares of Rottneros Group subsidiaries in the amount of SEK 509,000 thousand;
 - a guarantee in favour of Södra Cell International AB, a supplier of pulp, in the amount of SEK 12,000 thousand (expired on 03.03.2016),
 - a pledge on 39,900,000 Rottneros AB shares resulting from a loan agreement for the amount of EUR 4,000 thousand, concluded by and between Arctic Paper S.A. and Mr Thomas Onstad.
- concluded a loan agreement with Bank Pekao S.A., Bank Zachodni WBK S.A. and mBank S.A. as Lenders) of 6 November 2012 were established:
- pledges on shares of Arctic Paper Kostrzyn S.A., shares of Arctic Paper Investment GmbH, Arctic Paper Mochenwangen GmbH and on shares of holding companies in Germany;
 - pledges on bank accounts of all the companies;
 - mortgage on properties held by Arctic Paper Kostrzyn S.A.;
 - land charge on properties held by Arctic Paper Mochenwangen GmbH;
 - pledge on components of assets of Arctic Paper Kostrzyn S.A.;
 - lien of property as security in Arctic Paper Mochenwangen GmbH;
 - assignment of rights under insurance policy;
 - assignment of receivables under loan agreements within the Group (Arctic Paper Kostrzyn S.A. and Arctic Paper Investment GmbH);
 - submission to enforcement pursuant to Art. 97 of the Banking Act (individually in favour of each bank) – Arctic Paper Kostrzyn S.A and Arctic Paper S.A.

Moreover, the following collateral securing the loan agreement (Arctic Paper Kostrzyn S.A. as the Borrower, Arctic Paper S.A. that acceded, by way of cumulative accession, to the Borrower's debt, as well as Arctic Paper Investment GmbH and Arctic Paper Mochenwangen GmbH as Guarantors,

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

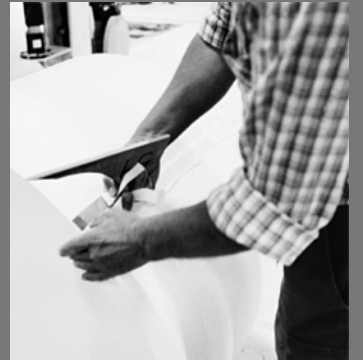
individual or joint value of which would equal or exceed 10% of the Company's equity.

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	Name and surname	Date	Signature
acting President of the Management Board Chief Executive Officer	Per Skoglund	16 May 2016	
Member of the Management Board Chief Financial Officer	Małgorzata Majewska-Śliwa	16 May 2016	



Abbreviated quarterly consolidated
financial statements for the period of three months
ended on 31 March 2016

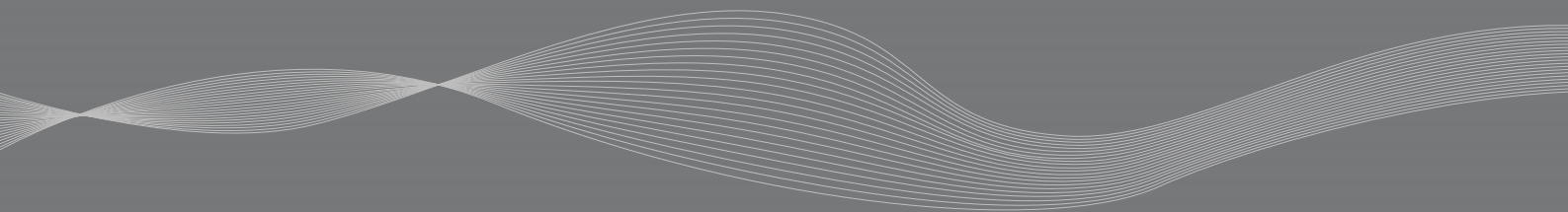


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Consolidated financial statements and selected financial data

Selected consolidated financial data

	For the period from 01.01.2016 to 31.03.2016 thousand PLN	For the period from 01.01.2015 to 31.03.2015 thousand PLN	For the period from 01.01.2016 to 31.03.2016 thousand EUR	For the period from 01.01.2015 to 31.03.2015 thousand EUR
Sales revenues	778 560	771 103	178 372	183 907
Operating profit (loss)	41 377	50 959	9 480	12 154
Gross profit (loss)	33 675	37 630	7 715	8 975
Net profit (loss) from continuing operations	24 707	26 690	5 661	6 365
Net profit (loss) for the financial year	19 628	12 846	4 497	3 064
Net profit (loss) for the financial year attributable to the shareholders of the Parent Entity	8 346	(3 652)	1 912	(871)
Net cash flows from operating activities	245	37 978	56	9 058
Net cash flows from investing activities	(25 848)	(12 838)	(5 922)	(3 062)
Net cash flows from financing activities	5 485	(19 095)	1 257	(4 554)
Change in cash and cash equivalents	(20 118)	6 045	(4 609)	1 442
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)	0,12	(0,05)	0,03	(0,01)
Diluted EPS (in PLN/EUR)	0,12	(0,05)	0,03	(0,01)
Average PLN/EUR exchange rate*			4,3648	4,1929

	As at 31 March 2016 thousand PLN	As at 31 December 2015 thousand PLN	As at 31 March 2016 thousand EUR	As at 31 December 2015 thousand EUR
Assets	1 793 672	1 813 235	420 221	425 492
Long-term liabilities	369 038	372 599	86 458	87 434
Current liabilities	674 008	682 515	157 907	160 159
The liabilities directly related to the discontinued operations	56 960	81 264	13 345	19 069
Equity	693 665	676 856	162 512	158 830
Share capital	69 288	69 288	16 233	16 259
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)	10,01	9,77	2,35	2,29
Diluted book value per share (in PLN/EUR)	10,01	9,77	2,35	2,29
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**	-	-	4,2684	4,2615

* - Items of the income statement and the cash flow statement are translated at the exchange which is the arithmetic mean of average rates published by the National Bank of Poland during the period to which the presented data relates.

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

Consolidated income statement

	3 months period ended 31 March 2016 (unaudited)	3 months period ended 31 March 2015 (revised)	Year ended 31 December 2015 (audited)
Continuing operations			
Revenues from sales of goods	778 560	771 103	2 900 460
Sales revenues	778 560	771 103	2 900 460
Costs of sales	(660 526)	(635 097)	(2 490 533)
Gross profit / (loss) on sales	118 034	136 006	409 927
Selling and distribution costs	(64 401)	(82 714)	(266 296)
Administrative expenses	(15 946)	(15 874)	(63 597)
Other operating income	18 450	23 416	59 644
Other operating expenses	(14 760)	(9 875)	(39 440)
Operating profit (loss)	41 377	50 959	100 239
Financial revenue	218	108	1 587
Financial expenses	(7 920)	(13 437)	(29 676)
Gross profit (loss)	33 675	37 630	72 150
Income tax	(8 968)	(10 941)	(1 131)
Net profit (loss) from continuing operations	24 707	26 690	71 019
Discontinued operations			
Profit (loss) for the financial year from discontinued operations	(5 079)	(13 844)	(97 588)
Net profit (loss) for the financial year	19 628	12 846	(26 570)
Attributable to:			
The shareholders of the Parent Entity, of which:	8 346	(3 652)	(71 258)
- profit (loss) from continuing operations	13 426	10 191	26 331
- profit (loss) from discontinued operations	(5 079)	(13 844)	(97 588)
The non-controlling shareholder, of which:	11 282	16 498	44 688
- profit (loss) from continuing operations	11 282	16 498	44 688
- profit (loss) from discontinued operations	-	-	-
	19 628	12 846	(26 570)
Earnings per share:			
- basic earnings from the profit/(loss) for the period attributable to the shareholders of the Parent Entity	0,12	(0,05)	(1,03)
- basic earnings profit/(loss) for the period from continuing operations attributable to the shareholders of the Parent Entity	0,19	0,15	0,38
- diluted earnings for the profit for the period attributable to the shareholders of the Parent Entity	0,12	(0,05)	(1,03)
- diluted earnings for the profit for from continuing operations attributable to the shareholders of the Parent Entity	0,19	0,15	0,38

Consolidated statement of comprehensive income

	3 months period ended 31 March 2016 (unaudited)	3 months period ended 31 March 2015 (unaudited)	Year ended 31 December 2015 (audited)
Net profit / (loss) for the reporting period	19 628	12 846	(26 570)
Items to be reclassified to profit/loss in future reporting periods:			
FX differences from translation of foreign entities	(2 616)	(13 707)	11 256
Deferred income tax on the measurement of financial instruments	86	(1 026)	3 609
Measurement of financial instruments	(288)	5 023	(16 263)
Items not to be reclassified to profit / (loss) in future reporting periods:			
Actuarial profit / (loss) for defined benefit plans	-	-	8 271
Deferred income tax on actuarial profit / (loss) relating to defined benefit plans	-	-	(1 963)
Other comprehensive income	(2 819)	(9 710)	4 911
Total comprehensive income	16 810	3 136	(21 659)
Total comprehensive income attributable to:			
The shareholders of the Parent Entity	7 743	(8 038)	(67 500)
Non-controlling shareholder	9 066	11 174	45 841

Consolidated balance sheet

	As at 31 March 2016 (unaudited)	As at 31 December 2015 (audited)	As at 31 March 2015 (unaudited)
ASSETS			
Fixed assets			
Tangible fixed assets	712 255	719 782	700 193
Investment properties	3 982	3 982	3 982
Intangible assets	50 969	51 622	49 037
Interests in joint ventures	5 144	5 169	4 902
Other financial assets	1 474	1 017	2 017
Other non-financial assets	1 486	1 472	1 201
Deferred income tax asset	39 557	47 625	43 617
	814 867	830 668	804 948
Current assets			
Inventories	375 793	390 631	389 761
Trade and other receivables	381 595	336 499	399 251
Corporate income tax receivables	8 328	6 941	7 663
Other financial assets	2 493	944	26 223
Other non-financial assets	15 437	11 531	13 058
Cash and cash equivalents	168 237	188 552	159 956
	951 883	935 099	995 912
Assets related to discontinued operations	26 922	47 467	-
TOTAL ASSETS	1 793 672	1 813 235	1 800 860
EQUITY AND LIABILITIES			
Equity			
Equity (attributable to the shareholders of the Parent Entity)			
Share capital	69 288	69 288	69 288
Reserve capital	447 638	447 638	472 748
Other reserves	128 899	127 976	140 769
FX differences on translation	19 585	21 810	360
Retained earnings / Accumulated losses	(173 279)	(181 625)	(147 592)
Cumulated other comprehensive income related to discontinued operations	(8 276)	(8 974)	-
	483 855	476 111	535 573
Non-controlling stake	209 811	200 744	192 633
Total equity	693 665	676 856	728 206
Long-term liabilities			
Interest-bearing loans, borrowings and bonds	214 299	222 305	241 875
Provisions	82 610	82 855	97 369
Other financial liabilities	46 538	41 057	33 960
Deferred income tax liability	2 356	2 468	15 068
Accruals and deferred income	23 234	23 914	25 954
	369 038	372 599	414 227
Current liabilities			
Interest-bearing loans, borrowings and bonds	87 745	82 883	67 756
Provisions	-	-	7 575
Other financial liabilities	94 616	83 503	61 839
Trade and other payables	384 791	407 128	415 895
Income tax liability	363	281	450
Accruals and deferred income	106 494	108 720	104 913
	674 008	682 515	658 427
The liabilities directly related to the discontinued operations	56 960	81 264	-
TOTAL LIABILITIES	1 100 006	1 136 379	1 072 654
TOTAL EQUITY AND LIABILITIES	1 793 672	1 813 235	1 800 860

Consolidated cash flow statement

	3 months period ended 31 March 2016 (unaudited)	3 months period ended 31 March 2015 (revised)	Year ended 31 December 2015 (audited)
Cash flows from operating activities			
Gross profit (loss) from continuing operations	33 675	37 630	72 150
Gross profit / (loss) from discontinued operations	(5 087)	(13 839)	(97 998)
Gross profit (loss)	28 588	23 792	(25 848)
Adjustments for:			
Depreciation/amortisation	29 501	31 204	119 057
FX gains / (loss)	441	(1 769)	(2 154)
Net interest and dividends	5 922	5 612	21 460
Profit / loss from investing activities	(59)	632	(263)
Increase / decrease in receivables and other non-financial assets	(40 094)	(70 197)	(11 377)
Change to inventories	28 752	(21 904)	(36 725)
Increase / decrease in liabilities except for loans and borrowings	(37 819)	61 787	62 870
Change in accruals and prepayments	(7 880)	13 799	15 641
Change in provisions	(8 196)	(1 120)	34 721
Income tax paid	(2 119)	(2 731)	(5 212)
Redemption effect of CO2 emission rights recognised as a result of combination of business entities	262	77	1 415
Certificates in cogeneration	2 395	(1 904)	(3 756)
Other	550	699	2 919
Net cash flows from operating activities	245	37 978	172 748
Cash flows from investing activities			
Disposal of tangible and intangible fixed assets	37	56	650
Purchase of tangible and intangible fixed assets	(25 884)	(12 893)	(102 947)
Bank deposits with maturities in excess of 3 months	-	-	20 651
Net cash flows from investing activities	(25 848)	(12 838)	(81 646)
Cash flows from financing activities			
Change to overdraft facilities	4 278	8 266	22 479
Repayment of financial leasing liabilities	(765)	(728)	(2 907)
Inflows from other financial liabilities	16 743	5 168	15 226
Repayment of other financial liabilities	(717)	(4 678)	(2 049)
Repayment of loans and borrowings	(8 801)	(22 103)	(48 431)
Interest paid	(5 254)	(5 020)	(20 121)
Dividend disbursed to non-controlling shareholders	-	-	(26 556)
Net cash flows from financing activities	5 485	(19 095)	(62 359)
Change in cash and cash equivalents	(20 118)	6 045	28 742
Net FX differences	(898)	(4 500)	2 449
Cash and cash equivalents at the beginning of the period	189 603	158 412	158 412
Cash and cash equivalents at the end of the period	168 587	159 956	189 603

Consolidated statement of changes in equity

	Attributable to shareholders of the Parent Company						Total	Non-controlling interest	Total equity
	Share capital	Reserve capital	Foreign exchange differences from translation	Other reserves	Retained earnings (losses)	Accumulated other comprehensive income related to discontinued operations			
As at 1 January 2016	69 288	447 638	21 810	127 976	(181 625)	(8 974)	476 112	200 744	676 856
Net profit for the period	-	-	-	-	8 346	-	8 346	11 282	19 628
Other comprehensive income	-	-	(1 527)	924	-	-	(603)	(2 216)	(2 819)
Total comprehensive income	-	-	(1 527)	924	8 346	-	7 743	9 066	16 810
Discontinued operations	-	-	(698)	-	-	698	-	-	-
As at 31 March 2016 (unaudited)	69 288	447 638	19 585	128 899	(173 279)	(8 276)	483 855	209 811	693 665

	Attributable to shareholders of the Parent Company						Total	Non-controlling interest	Total equity
	Share capital	Reserve capital	Foreign exchange differences from translation	Other reserves	Retained earnings (losses)	Accumulated other comprehensive income related to discontinued operations			
As at 1 January 2015 (audited)	69 288	472 748	8 958	136 557	(143 939)	-	543 612	181 459	725 071
Net profit for the period	-	-	-	-	(71 258)	-	(71 258)	44 688	(26 570)
Other comprehensive income	-	-	6 030	(8 581)	6 309	-	3 758	1 153	4 911
Total comprehensive income	-	-	6 030	(8 581)	(64 949)	-	(67 500)	45 841	(21 659)
Profit distribution									-
Discontinued operations	-	-	6 821	-	2 153	(8 974)	-	-	-
Payment of dividends to non-controlling interest	-	-	-	-	-	-	-	(26 556)	(26 556)
As at 31 December 2015 (audited)	69 288	447 638	21 810	127 976	(181 625)	(8 974)	476 111	200 744	676 856

Attributable to shareholders of the Parent Company

	Share capital	Reserve capital	Foreign exchange differences from translation	Other reserves	Retained earnings (losses)	Total
As at 1 January 2015	69 288	472 748	8 958	136 557	(143 939)	543 612
Foreign currency translation	-	-	-	-	(3 652)	(3 652)
Other comprehensive income	-	-	(8 598)	4 212	-	(4 386)
Total comprehensive income	-	-	(8 598)	4 212	(3 652)	(8 038)
As at 31 March 2015 (unaudited)	69 288	472 748	360	140 769	(147 592)	535 573

Standalone financial statements and selected financial data

Selected standalone financial data

	For the period from 01.01.2016 to 31.03.2016 tys. PLN	For the period from 01.01.2015 to 31.03.2015 tys. PLN	For the period from 01.01.2016 to 31.03.2016 tys. EUR	For the period from 01.01.2015 to 31.03.2015 tys. EUR
Sales revenues	10 140	10 659	2 323	2 542
Operating profit (loss)	(9 625)	(8 952)	(2 205)	(2 135)
Gross profit (loss)	(11 054)	(9 153)	(2 532)	(2 183)
Net profit (loss) from continuing operations	(11 054)	(9 153)	(2 532)	(2 183)
Net profit (loss) for the financial year	(11 054)	(9 153)	(2 532)	(2 183)
Net cash flows from operating activities	(5 122)	(5 801)	(1 173)	(1 383)
Net cash flows from investing activities	(66)	(172)	(15)	(41)
Net cash flows from financing activities	(351)	(410)	(80)	(98)
Change in cash and cash equivalents	(5 538)	(6 383)	(1 269)	(1 522)
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)	(0,16)	(0,13)	(0,04)	(0,03)
Diluted EPS (in PLN/EUR)	(0,16)	(0,13)	(0,04)	(0,03)
Average PLN/EUR exchange rate*			4,3648	4,1929
	As at March 2016 tys. PLN	As at 31 December 2015 tys. PLN	As at March 2016 tys. EUR	As at 31 December 2015 tys. EUR
Assets	952 354	950 202	223 117	222 974
Long-term liabilities	205 159	205 001	48 065	48 105
Current liabilities	89 244	76 242	20 908	17 891
Equity	657 953	668 959	154 145	156 977
Share capital	69 288	69 288	16 233	16 259
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)	9,50	9,65	2,22	2,27
Diluted book value per share (in PLN/EUR)	9,50	9,65	2,22	2,27
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**	-	-	4,2684	4,2615

* - Items of the income statement and the cash flow statement are translated at the exchange rates which are the arithmetic mean of average rates published by the National Bank of Poland during the period to which the presented data relates.

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

Standalone income statement

	3 months period ended 31 March 2016 (unaudited)	3 months period ended 31 March 2015 (unaudited)	Year ended 31 December 2015 (audited)
Continuing operations			
Revenues from sales of services	10 014	10 449	40 410
Interest income on loans	126	210	937
Dividend income	-	-	65 359
Sales revenues	10 140	10 659	106 706
Costs of sales	(1 827)	(2 292)	(11 381)
Gross profit (loss) on sales	8 313	8 367	95 325
Other operating income	6	133	398
Selling and distribution costs	(997)	(920)	(4 069)
Administrative expenses	(8 122)	(8 128)	(31 517)
Other operating expenses	(8 824)	(8 404)	(51 701)
Operating profit (loss)	(9 625)	(8 952)	8 436
Financial revenue	7	780	666
Financial expenses	(1 436)	(981)	(4 026)
Gross profit (loss)	(11 054)	(9 153)	5 077
Income tax	-	-	(167)
Net profit (loss) from continuing operations	(11 054)	(9 153)	4 909
Discontinued operations			
Profit (loss) for the financial year from discontinued operations	-	-	-
Net profit (loss) for the financial year	(11 054)	(9 153)	4 909
Earnings per share:			
- basic earnings from the profit (loss) for the period	(0,16)	(0,13)	(0,36)
- basic earnings from the profit (loss) from continuing operations for the period	(0,16)	(0,13)	(0,36)
- diluted earnings from the profit (loss) for the period	(0,16)	(0,13)	(0,36)
- diluted earnings from the profit (loss) from the continuing operations for the period	(0,16)	(0,13)	(0,36)

Standalone comprehensive income statement

	3 months period ended 31 March 2016 (unaudited)	3 months period ended 31 March 2015 (unaudited)	Year ended 31 December 2015 (audited)
Net profit/(loss) for the reporting period	(11 054)	(9 153)	4 909
Items to be reclassified to profit/loss in future reporting periods:			
FX differences from translation of foreign entities	47	263	(227)
Other comprehensive income (net)	47	263	(227)
Total comprehensive income	(11 007)	(8 890)	4 682

Standalone balance sheet

	As at 31 March 2016 (unaudited)	As at 31 December 2015 (audited)	As at 31 March 2015 (unaudited)
ASSETS			
Fixed assets			
Tangible fixed assets	2 013	2 108	998
Intangible assets	1 342	1 322	1 323
Shares and stocks in subsidiaries	838 741	838 741	827 236
Other non-financial assets	1 098	1 103	846
	843 194	843 274	830 403
Current assets			
Trade and other receivables	89 978	81 928	84 199
Income tax receivables	299	193	215
Other financial assets	12 615	12 683	40 831
Other non-financial assets	2 371	2 689	751
Cash and cash equivalents	3 897	9 435	12 224
	109 160	106 927	138 220
TOTAL ASSETS	952 354	950 202	968 623
EQUITY AND LIABILITIES			
Equity			
Share capital	69 288	69 288	69 288
Reserve capital	447 641	447 641	472 751
Other reserves	147 871	147 871	147 871
FX differences on translation	337	290	780
Retained earnings / Accumulated losses	(7 184)	3 870	(34 687)
Total equity	657 952	668 959	656 003
Long-term liabilities			
Interest-bearing loans, borrowings and bonds	203 455	203 357	222 741
Provisions	1 146	1 151	842
Other financial liabilities	344	390	328
Deferred income tax liability	-	-	-
Accruals and deferred income	213	103	747
	205 158	205 001	224 659
Current liabilities			
Short-term provisions	-	-	598
Interest-bearing loans, borrowings and bonds	1 500	788	3 434
Trade payables	81 178	69 593	78 980
Other financial liabilities	187	187	235
Other current liabilities	1 976	1 688	2 390
Income tax liability	-	-	-
Accruals and deferred income	4 403	3 985	2 324
	89 244	76 242	87 961
TOTAL LIABILITIES	294 402	281 243	312 620
TOTAL EQUITY AND LIABILITIES	952 355	950 202	968 623

Standalone cash flow statement

	3 months period ended 31 March 2016 (unaudited)	3 months period ended 31 March 2015 (unaudited)	Year ended 31 December 2015 (audited)
Cash flows from operating activities			
Gross profit (loss)	(11 054)	(9 153)	5 077
Adjustments for:			
Depreciation/amortisation	95	65	266
FX gains / (loss)	212	(1 296)	(227)
Impairment of assets	-	8 868	3 194
Net interest and dividends	351	971	2 529
Profit / loss from investing activities	-	-	-
Increase / decrease in receivables and other non-financial assets	(7 727)	(38 836)	(38 760)
Increase / decrease in liabilities except for loans and borrowings	11 873	43 744	33 522
Change in accruals and prepayments	528	(3 065)	(2 047)
Change in provisions	(5)	(251)	(540)
Income tax paid	(106)	(48)	(228)
Increase / decrease of loans granted to subsidiaries	712	(6 786)	(13 898)
Other	-	(13)	-
Net cash flows from operating activities	(5 122)	(5 801)	(11 111)
Cash flows from investing activities			
Disposal of tangible and intangible fixed assets	-	-	-
Purchase of tangible and intangible fixed assets	(66)	(172)	(1 525)
Increase of interests in subsidiaries	-	-	(15 318)
Short-term deposit	-	-	21 312
Net cash flows from investing activities	(66)	(172)	4 468
Cash flows from financing activities			
Repayment of leasing liabilities	-	(57)	-
Borrowings received	-	-	-
Interest paid	(351)	(353)	(2 529)
Net cash flows from financing activities	(351)	(410)	(2 529)
Change in cash and cash equivalents	(5 538)	(6 383)	(9 173)
Cash and cash equivalents at the beginning of the period	9 434	18 607	18 607
Cash and cash equivalents at the end of the period	3 896	12 225	9 434

Standalone statement of changes in equity

	Share capital	Reserve capital	Foreign exchange differences from translation	Other reserves	Retained earnings (losses)	Total equity
As at 01 January 2016	69 288	447 641	290	147 871	3 870	668 959
FX differences on translation	-	-	47	-	-	47
Net profit / (loss) for the period	-	-	-	-	(11 054)	(11 054)
Total comprehensive income for the period	-	-	47	-	(11 054)	(11 007)
As at 31 March 2016 (unaudited)	69 288	447 641	337	147 871	(7 184)	657 953

	Share capital	Reserve capital	Foreign exchange differences from translation	Other reserves	Retained earnings (losses)	Total equity
As at 01 January 2015	69 288	472 751	517	147 871	(25 533)	664 894
FX differences on translation	-	-	263	-	-	263
Net profit for the period	-	-	-	-	(9 153)	(9 154)
Total comprehensive income for the period	-	-	263	-	(9 153)	(8 890)
As at 31 March 2015 (unaudited)	69 288	472 751	780	147 871	(34 686)	656 003

	Share capital	Reserve capital	Foreign exchange differences from translation	Other reserves	Retained earnings (losses)	Total equity
As at 01 January 2015	69 288	472 751	517	147 871	(25 533)	664 894
Net profit for the period	-	-	-	-	4 909	4 909
Other comprehensive income for the period	-	-	(227)	-	-	(227)
Total comprehensive income for the period	-	-	(227)	-	4 909	4 682
Settlement of the tax group in Sweden	-	-	-	-	(617)	(617)
Profit distribution	-	(25 110)	-	-	25 110	-
As at 31 December 2015 (audited)	69 288	447 641	290	147 871	3 870	668 959

Additional explanatory notes

1. General information

The Arctic Paper Group is the second largest European producer in terms of production volume of bulky book paper, offering the widest 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 approx. 1,700 people in its paper mills and pulp mills, companies dealing in paper distribution the procurement office. The Group's paper mills are located in Poland and Sweden, and have total production capacity of over 700,000 tons of paper per year. Paper production in the mill located in Germany, with total production output of 115,000 tons of paper annually, was discontinued at the end of 2015. The pulp mills are located in Sweden and have total production capacity of 400,000 tons per year. The Group has fourteen Sales Offices which handle distribution and marketing of products offered by the Group providing access to all European markets, including Central and Eastern Europe.

Our consolidated sales revenues for three months of 2016 amounted to PLN 779 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 SA. Previously they were owned by Arctic Paper AB (now Trebruk AB), the parent company 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 Company 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 Company holds statistical number REGON 080262255.

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 first three months ended on 31 March 2016 and include comparative data for the period of first three months ended on 31 March 2015 as well as for the twelve month period ended on 31 December 2015.

The abbreviated quarterly consolidated financial statements of the Company comprise also balance sheet as on 31 March 2016 and include comparative data as on 31 December 2015 and 31 March 2015.

Business activities

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.

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 on 31st March 2016) 40,006,449 shares of the Company, which constitutes 57.74% of its share capital and corresponds to 57.74% of the total number of votes at the General Meeting. Thus Nemus Holding AB is the parent entity of the Issuer.

Additionally, Mr Thomas Onstad, an indirect shareholder of Nemus Holding AB, holds directly 5,848,658 shares representing 8.44% of the overall number of shares in the Company, and indirectly via an entity other than Nemus Holding AB - 1,350,000 shares accounting for 1.95% of the overall number of shares of the Issuer.

The parent company 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:

Entity	Registered office	Business activities	Share in capital of subsidiary entities as at		
			16 May 2016	31 March 2016	31 December 2015
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 to December 2015	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, Quadrant House, 47 Croydon Road, Caterham, Surrey	Trading services	100%	100%	100%
Arctic Paper Baltic States SIA	Latvia, K. Vardemara iela 33-20, Riga LV-1010	Trading services	100%	100%	100%
Arctic Paper Deutschland GmbH	Germany, Am Sandtorkai 72, 20457 Hamburg	Trading services	100%	100%	100%
Arctic Paper Benelux S.A.	Belgium, Ophemstraat 24 B-3050 Oud-Haverlee	Trading services	100%	100%	100%
Arctic Paper Schweiz AG	Switzerland, Technoparkstrasse 1, 8005 Zurich	Trading services	100%	100%	100%
Arctic Paper Italia srl	Italy, Via Cavriana 7, 20 134 Milano	Trading services	100%	100%	100%
Arctic Paper Ireland Limited	Ireland, 4 Rosemount Park Road, Dublin 11	Trading services	100%	100%	100%
Arctic Paper Danmark A/S	Denmark, Korskindelund 6 DK-2670 Greve	Trading services	100%	100%	100%

Entity	Registered office	Business activities	Share in capital of subsidiary entities as at		
			16 May 2016	31 March 2016	31 December 2015
Arctic Paper France SAS	France, 43 rue de la Breche aux Loups, 75012 Paris	Trading services	100%	100%	100%
Arctic Paper Espana SL	Spain, Avenida Diagonal 472-474, 9-1 Barcelona	Trading services	100%	100%	100%
Arctic Paper Papierhandels GmbH	Austria, Hainbergerstrasse 34A, A-1030 Wien	Trading services	100%	100%	100%
Arctic Paper Polska Sp. z o.o.	Poland, Okrężna 9, 02-916 Warsaw	Trading services	100%	100%	100%
Arctic Paper Norge AS	Norway, Rosenholmsveien 25, NO-1411 Kolbotn	Trading services	100%	100%	100%
Arctic Paper Sverige AB	Sweden, SE 455 81 Munkedal	Trading services	100%	100%	100%
Arctic Paper East Sp. z o.o.	Poland, Fabryczna 1, 66-470 Kostrzyn nad Odrą	Trading services	100%	100%	100%
Arctic Paper Investment GmbH *	Germany, Fabrikstrasse 62, DE-882, 84 Wolpertswende	Holding company	100%	100%	100%
Arctic Paper Finance AB	Sweden, Box 383, 401 26 Göteborg	Holding company (previous hydro energy production)	100%	100%	100%
Arctic Paper Finance AB (previous Arctic Energy Sverige AB)	Germany, Fabrikstrasse 62, DE-882 84 Wolpertswende	Holding company	100%	100%	100%
Arctic Paper Immobilienverwaltung GmbH	Germany, Fabrikstrasse 62, DE-882 84 Wolpertswende	Holding company	94,90%	94,90%	94,90%
Arctic Paper Investment AB **	Sweden, Box 383, 401 26 Göteborg	Holding company	100%	100%	100%
EC Kostrzyn Sp. z o.o.	Poland, ul. Fabryczna 1, 66-470 Kostrzyn nad Odrą	Property and machinery rental	100%	100%	100%
Arctic Paper Munkedals Kraft AB	Sweden, 455 81 Munkedal	Hydro energy production	100%	100%	100%
Rottneros AB	Sweden, Sunne	Holding company	51,27%	51,27%	51,27%
Rottneros Bruk AB	Sweden, Sunne	Pulp production	51,27%	51,27%	51,27%
Utansjo Bruk AB	Sweden, Hamösand	Dormant entity	51,27%	51,27%	51,27%
Vallviks Bruk AB	Sweden, Söderhamn	Pulp production	51,27%	51,27%	51,27%
Rottneros Packaging AB	Sweden, Stockholm	Food packaging production	51,27%	51,27%	51,27%
SIA Rottneros Baltic	Latvia, Ventspils	Company for purchase of timber	51,27%	51,27%	51,27%

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

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

As at 31 March 2016 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 deals in energy production in its own 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 Company

As at 31 March 2016, the Parent Company's Management Board was composed of:

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

On 27 April 2016 the Issuer's Supervisory Board approved a resolution dismissing Mr Wolfgang Lübbert from the function of the President of the Company's Management Board and nominated him as a Member of the Company's Management Board. Additionally, the Supervisory Board approved a resolution appointing Mr Per Skoglund, who was a Member of the Company's Management Board to act as the President of the Management Board.

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

3.2. Supervisory Board of the Parent Company

As at 31 March 2016, the Parent Company's Supervisory Board was composed of:

- Rolf Olof Grundberg – Chairman of the Supervisory Board appointed on 30 April 2008;
- Rune Roger Ingvarsson – Member of the Supervisory Board appointed on 22 October 2008;
- Thomas Onstad – Member of the Supervisory Board appointed on 22 October 2008;
- Mariusz Grendowicz – Member of the Supervisory Board appointed on 28 June 2012;
- Dariusz Witkowski – Member of the Supervisory Board appointed on 24 October 2013.
- Roger Mattsson – Member of the Supervisory Board appointed on 17 September 2014.

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

3.3. Audit Committee of the Parent Company

As at 31 March 2016, the Parent Company's Audit Committee was composed of:

- Rolf Olof Grundberg – Chairman of the Audit Committee appointed on 3 February 2016;
- Rune Mattsson – Member of the Audit Committee appointed on 3 February 2016;
- Mariusz Grendowicz – Member of the Audit Committee appointed on 3 February 2016.

On 3 February 2016 the Supervisory Board dismissed Mr Rune Roger Ingvarsson from the function of a Member of the Audit Committee and appointed Mr Roger Mattsson in his place.

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

4. Approval of the financial statements

These abbreviated quarterly consolidated financial statements were approved for publication by the Management Board on 16 May 2016.

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.

As specified in note 32.1. Loans and borrowings in the consolidated financial statements for 2013. On 20 December 2013 the Company and its subsidiary entities - Arctic Paper Kostrzyn S.A. (“APK”), Arctic Paper Investment GmbH and Arctic Paper Mochenwangen GmbH concluded an annex to the loan agreement with the bank consortium: Bank Pekao S.A., Bank Zachodni, WBK S.A. and mBank S.A., the detailed

terms and conditions of which are disclosed in this note. The annex introduces an additional event of default to the loan agreement when Svenska Handelsbanken fails to renew short-term loan agreements and factoring contracts concluded by APG. Failure to comply with the conditions precedent, including selected financial ratios, may make the loan be repayable immediately and thus may materially affect the liquidity of the Group and continuing operations of the Group.

The Management Board has analysed potential scenarios relating to the financing of AP Grycksbo. Relying on the analyses, the Management Board is of the opinion that despite the risk the Group is able to continue as a going concern for the next 12 months.

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 2015.

6. Significant accounting principles (policies)

The accounting principles (policies) adopted in the preparation of the interim abbreviated financial statements are consistent with those applied in the preparation of the Group’s annual consolidated financial statements for the year ended on 31 December 2015, except for the following changes to standards and new interpretations binding for annual periods beginning on or after 1 January 2016.

- IFRS 14 Regulatory Deferral Accounts (issued on 30 January 2014) – effective for financial years beginning on or after 1 January 2016 (not yet endorsed by EU at the date of approval of these financial statements)
- Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation

Exception (issued on 18 December 2014) - effective for financial years beginning on or after 1 January 2016 (not yet endorsed by EU at the date of approval of these financial statements)

The adoption of the aforementioned changes to standards did not cause changes of the comparative data.

The Group has not earlier adopted 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 given currency as at the end of the reporting period. Foreign exchange differences from translation are recognised under financial income or financial expenses or are capitalised as cost of assets, as defined in the accounting policies. Non-monetary foreign currency assets and liabilities recognised at historical cost are translated at the historical foreign exchange rates prevailing on the transaction date. Non-monetary foreign currency assets and liabilities recognised at fair value are translated into PLN using the rate of exchange prevailing on the date of revaluation to fair value.

The functional currencies of the foreign subsidiaries are EUR, SEK, DKK, NOK, GBP and CHF. As on the balance sheet date, the assets and liabilities of those subsidiaries are translated into the presentation currency of the Group (PLN) at the rate of exchange prevailing on the balance sheet date and their 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 income statement.

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 2016	As at 31 December 2015
USD	3,7590	3,9011
EUR	4,2684	4,2615
SEK	0,4624	0,4646
DKK	0,5729	0,5711
NOK	0,4532	0,4431
GBP	5,4078	5,7862
CHF	3,9040	3,9394

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

	01/01 - 31/03/2016	01/01 - 31/03/2015
USD	3,9580	3,7277
EUR	4,3648	4,1929
SEK	0,4682	0,4472
DKK	0,5851	0,5629
NOK	0,4584	0,4804
GBP	5,6622	5,6444
CHF	3,9819	3,9256

6.2. Data comparability

Due to the fact that in 2015 Arctic Paper started an active search for an investor in Arctic Paper Mochenwangen and in parallel assessed the possibility of measures to reduce the losses generated by the paper mill, including those relating to the discontinuation of production, the revenues and expenses of Arctic Paper Mochenwangen GmbH, Arctic Paper Investment GmbH, Arctic Paper Verwaltungs GmbH and Arctic Paper Immobilienverwaltung GmbH Co&KG were disclosed as profit (loss) on discontinued operations in the consolidated profit and loss account for the period of 3 months ended on 31

March 2016 and for the year ended on 31 December 2015. In compliance with the requirements of the International Financial Reporting Standards, a modification was also made to the relevant comparable data for the period of 3 months ended on 31 March 2015 (more information in note 9).

Additionally, presentation was changed to the other operating income and operational expenses in the consolidated profit and loss account for the period of 3 months ended on 31 March 2015 by reducing the other operating income and costs of sales by PLN 4,067 thousand.

7. 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.

8. Information on business segments

The principal business of the Group is paper production which is conducted in paper mills belonging to the Group. In connection with the acquisition of the Rottneros Group in December 2012, including two pulp mills, the Arctic Paper Group has broadened its business operations with production of pulp.

Additionally, in 2015 the Management Board of Arctic Paper announced that it was beginning an active search for an investor for Arctic Paper Mochenwangen and in parallel assessed the possibility of measures to reduce the losses generated by the paper mill, relating to the discontinuation of

production. Due to the material significance of the part of the business pursued by AP Mochenwangen and the companies set up to acquire the Paper Mill and due to their operational and geographic separation, the Management Board treated the operations of the Mochenwangen Group as discontinued operations. For that reason, the presentation of the operating segments for the period of the 3 months ended on 31 March 2016, for the year ended on 31 December 2015 and for the period of 3 months ended on 31 March 2015, covering the continuing operations, includes the financial results of three Paper Mills.

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 can be produced from various types of pulp, with different filler content, and can undergo various finishing processes, such as surface sizing and calendering. Two main categories of this type of paper are graphic paper (used for example for printing books and catalogues) and office papers (for instance, photocopy paper); however, the Group currently does not produce office paper. Uncoated wood paper from mechanical pulp intended for printing or other graphic purposes. 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 chemical 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 profit (loss) on operations, in each case in compliance with IFRS. In accordance with IFRS, EBITDA is not a metric of profit (loss) on operations, 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 by segment of the Group for the period of 3 months period ended on 31 March 2016 and as at 31 March 2016.

Three month period ended on 31 March 2016 and on 31 March 2016

	Continuing Operations						Total continuing operations
	Uncoated	Coated	Pulp	Other	Total	Eliminations	
Revenues							
Sales to external customers	407 753	182 096	188 711	-	778 560	-	778 560
Inter-segment sales	6	5 625	13 533	9 909	29 073	(29 073)	-
Total segment revenues	407 759	187 721	202 244	9 909	807 633	(29 073)	778 560
Segment's Result							
EBITDA	34 158	(4 212)	39 999	1 141	71 086	(417)	70 669
Interest Income	1 929	16	0	446	2 392	(2 298)	94
Interest Costs	(3 147)	(1 665)	-	(2 884)	(7 697)	1 697	(6 001)
Depreciation	(12 934)	(6 915)	(9 349)	(95)	(29 292)	-	(29 292)
Positive FX and other financial income	238	370	-	176	784	(660)	124
Negative FX and other financial costs	(1 140)	(218)	(936)	(378)	(2 673)	754	(1 919)
Profit before tax	19 104	(12 624)	29 715	(1 595)	34 599	(925)	33 675
Segment assets	1 082 654	297 243	540 343	249 443	2 169 682	(447 633)	1 722 049
Segment liabilities	619 149	372 630	143 806	294 402	1 429 988	(389 298)	1 040 690
Capital expenditures	(7 240)	(152)	(18 258)	(21)	(25 670)	-	(25 670)
Shares in joint ventures	5 144	-	-	-	5 144	-	5 144

- Revenues from inter-segment transactions are eliminated on consolidation.
- Segment results do not include financial income (PLN 218 thousand of which PLN 94 thousand is interest income) and financial expenses (PLN 7,920 thousand of which PLN 6,001 thousand is interest expense), depreciation/amortisation (PLN 29,292 thousand) as well as income tax cost (PLN 8,968 thousand). However, segment results include profit on inter-segment sales (PLN 417 thousand).
- Assets and liabilities of segments do not contain any deferred income tax (asset: PLN 39,557 thousand, provision: PLN -2,356 thousand) since those items are managed at the Group level. Segment assets do not also include investments in companies operating within the Group.

The table below presents data concerning revenues and profit as well as certain assets and liabilities split by segments of the Group for the period of 3 months ended on 31 March 2015 and as at 31 March 2015.

Three month period ended on 31 March 2015 and on 31 December 2015

	Continuing Operations					Eliminations	Total continuing operations
	Uncoated	Coated	Pulp	Other	Total		
Revenues							
Sales to external customers	412 110	166 623	192 370	-	771 103	-	771 103
Inter-segment sales	-	5 639	15 678	10 421	31 738	(31 738)	-
Total segment revenues	412 110	172 263	208 048	10 421	802 841	(31 738)	771 103
Segment's Result							
EBITDA	31 375	(7 810)	52 555	1 564	77 684	315	77 999
Interest Income	2 332	38	0	550	2 920	(2 812)	108
Interest Costs	(4 271)	(1 681)	-	(3 272)	(9 225)	3 492	(5 733)
Depreciation	(12 457)	(6 655)	(7 864)	(65)	(27 040)	-	(27 040)
Positive FX and other financial income	-	-	-	939	939	(939)	-
Negative FX and other financial costs	(5 882)	(2 411)	(447)	(1)	(8 741)	1 037	(7 704)
Profit/(Loss) before tax	11 098	(18 519)	44 244	(285)	36 538	1 092	37 630
Segment assets	1 090 810	309 111	525 504	238 082	2 163 508	(450 535)	1 712 974
Segment liabilities	641 627	377 625	153 783	281 243	1 454 278	(401 631)	1 052 647
Capital expenditures	(44 081)	(4 510)	(46 538)	(1 338)	(96 468)	-	(96 468)
Non-controlling interest	5 169	-	-	-	5 169	-	5 169

- Revenues from inter-segment transactions are eliminated on consolidation.
- Segment results do not include financial income (PLN 108 thousand of which PLN 108 thousand is interest income) and financial expenses (PLN 13,437 thousand of which PLN 5,733 thousand is interest expense), depreciation/amortisation (PLN 27,040 thousand) as well as income tax cost (PLN 10,941 thousand). However, segment result includes inter-segment sales loss (PLN 315 thousand).
- Assets and liabilities of segments do not contain any deferred income tax (asset: PLN 47,625 thousand, provision: PLN -2,468 thousand) since those items are managed at the Group level. Segment assets do not also include investments in companies operating in 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 2015 and as at 31 March 2015.

Twelve month period ended on 31 December 2015 and on 31 December 2015

	Continuing Operations					Eliminations	Total continuing operations
	Uncoated	Coated	Pulp	Other	Total		
Revenues							
Sales to external customers	1 484 666	674 976	740 818	-	2 900 460	-	2 900 460
Inter-segment sales	3 550	20 570	62 416	39 937	126 473	(126 473)	-
Total segment revenues	1 488 215	695 547	803 234	39 937	3 026 933	(126 473)	2 900 460
Segment's Result							
EBITDA	78 087	(9 851)	142 982	2 149	213 366	(669)	212 697
Interest Income	8 839	128	0	2 470	11 436	(10 304)	1 132
Interest Costs	(12 198)	(6 404)	-	(11 954)	(30 556)	8 877	(21 679)
Depreciation	(50 617)	(26 447)	(35 128)	(266)	(112 458)	-	(112 458)
Positive FX and other financial income	1 171	-	447	66 665	68 284	(67 830)	455
Negative FX and other financial costs	(6 610)	(1 616)	(2 237)	(4)	(10 467)	2 470	(7 997)
Profit before tax	18 671	(44 189)	106 064	59 059	139 605	(67 456)	72 149
Segment assets	1 090 810	309 111	525 504	238 082	2 163 508	(450 535)	1 712 974
Segment liabilities	641 627	377 625	153 783	281 243	1 454 278	(401 631)	1 052 647
Capital expenditures	(44 081)	(4 510)	(46 538)	(1 338)	(96 468)	-	(96 468)
Shares in joint ventures	5 169	-	-	-	5 169	-	5 169

- Revenues from inter-segment transactions are eliminated on consolidation.
- Segment results do not include financial income (PLN 1,587 thousand of which PLN 1,132 thousand is interest income) and financial expenses (PLN 29,676 thousand of which PLN 21,679 thousand is interest expense), depreciation/amortisation (PLN 112,458 thousand), as well as income tax cost (PLN 1,131 thousand). However, segment results include inter-segment sales profit (PLN 669 thousand).
- Assets and liabilities of segments do not contain any deferred income tax (asset: PLN 47,625 thousand, provision: PLN 2,468 thousand) since those items are managed at the Group level. Segment assets do not also include investments in companies operating in the Group

9. Discontinued operations

On 28 July 2015 the Management Board of Arctic Paper S.A. announced a Profitability Improvement Programme of the Group aimed at reducing the operating costs primarily by establishing shared service centres for Group companies,

implementation of individual profitability improvement programmes in facilities and an audit of the costs of services provided by external entities.

At the same time, the Management Board of Arctic Paper announced that it had started an active search for an investor for the Arctic Paper Mochenwangen facility and in parallel analysed the possibility to take measures for further reduction of losses generated by the paper mill, including those relating to the discontinuation of operations. Due to the material significance of the part of the business pursued by AP Mochenwangen and the companies set up to acquire the Paper Mill and due to their operational and geographic separation, the Management Board treated the operations of the Mochenwangen Group as discontinued operations as at 31 December 2015. The Mochenwangen Group includes:

Arctic Paper Investment GmbH, Arctic Paper Mochenwangen GmbH, Arctic Paper Verwaltungen GmbH and Arctic Paper Immobilienverwaltungs GmbH & Co.KG As a result, the assets and liabilities of the Mochenwangen Group were presented as assets directly related to discontinued operations and liabilities directly related to discontinued operations respectively as at 31 March 2016 and 31 December 2015 while the revenues and expenses of the Group were presented as profit (loss) on discontinued operations in the consolidated profit and loss account for the period of 3 months ended on 31 March 2016 and on 31 March 2015 and for the year ended on 31 December 2015.

The tables below present the corresponding financial data on the discontinued operations:

Revenues and expenses of discontinued operations	3 months period ended 31 March 2016 (unaudited)	3 months period ended 31 March 2015 (revised)
Revenues from sales of goods	17 114	65 137
Costs of sales	(18 637)	(71 221)
Gross profit (loss) on sales	(1 523)	(6 084)
Selling and distribution costs	(2 082)	(6 086)
Administrative expenses	(1 656)	(1 727)
Other operating income	445	566
Other operating expenses	(140)	(17)
Operating profit (loss)	(4 956)	(13 348)
Financial revenue	9	101
Financial expenses	(140)	(591)
Gross profit (loss)	(5 087)	(13 839)
Income tax	7	(5)
Profit (loss) from discontinued operation	(5 079)	(13 844)
Earnings per share:		
– basic profit/(loss) from discontinued operations attributable to the shareholders of the Parent Entity	(0,07)	(0,20)
– diluted profit from discontinued operations attributable to the shareholders of the Parent Entity	(0,07)	(0,20)

	As at 31 March 2016 (unaudited)	As at 31 December 2015 (audited)
Net assets related to discontinued operations		
Assets related to discontinued operations		
Inventories	14 649	29 396
Trade and other receivables	10 359	15 789
Corporate income tax receivables	124	124
Other non-financial assets	341	12
Other financial assets	1 098	1 096
Cash and cash equivalents	350	1 051
	26 922	47 467
The liabilities directly related to discontinued operations		
Provisions	47 449	55 484
Other financial liabilities	700	699
Trade and other payables	7 676	23 069
Income tax liability	102	102
Accruals and deferred income	1 033	1 909
	56 960	81 264
Net assets related to discontinued operations	(30 039)	(33 797)
Cumulated other comprehensive income related to discontinued operations		
FX differences from translation of foreign entities	(6 123)	(6 821)
Actuarial profit/loss	(2 153)	(2 153)
	(8 276)	(8 974)
	3 months period ended	3 months period ended
Cash flows related to discontinued operations	31 March 2016	31 March 2015
Net cash flows from operating activities	(10 112)	(5 418)
Net cash flows from investing activities	(214)	(4 257)
Net cash flows from financing activities	(100)	(524)
	(10 426)	(10 199)

10. Dividend paid and proposed

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

In accordance with provisions of the Code of Commercial Companies, the company 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 company 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 company. 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 company 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 2015.

Pursuant to Annex No. 3 of 20 December 2013 to the Loan Agreement of 6 November 2012 concluded by Arctic Paper

S.A. together with its subsidiaries, i.e. Arctic Paper Kostrzyn S.A., Arctic Paper Investment GmbH and Arctic Paper Mochenwangen GmbH with the consortium of banks (Bank Pekao S.A., Bank Zachodni WBK S.A. and mBank S.A.), Arctic Paper S.A. agreed not to declare or disburse dividend should a

breach of the agreement occur or in case such declaration or disbursement of dividend could cause a breach of the agreement.

In Q1 2016, the General Meeting did not decide on any distribution of profit and dividend disbursement.

11. 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 months period ended 31 March 2016 (unaudited)	3 months period ended 31 March 2015 (revised)
Net profit / (loss) for the reporting period from continuing operations attributable to the shareholders of the Parent Entity	13 426	10 191
Net profit / (loss) for the reporting period from discontinued operations attributable to the shareholders of the Parent Entity	(5 079)	(13 844)
Net profit (loss) for the reporting period attributable to the shareholders of the Parent Entity	8 346	(3 652)
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	0,12	(0,05)
– basic earnings profit/(loss) for the period from continuing operations attributable to the shareholders of the Parent Entity	0,19	0,15
Diluted profit (loss) per share (in PLN)		
– from the profit/(loss) for the period attributable to the shareholders of the Parent Entity	0,12	(0,05)
– from the profit/(loss) for the period from continuing operations attributable to the shareholders of the Parent Entity	0,19	0,15

In Q1 2016, the Group generated net profit of PLN 19,628 thousand, of which the portion attributable to the shareholders of Arctic Paper S.A. amounted to PLN 8,346 thousand.

In Q1 2015, the Group generated net profit of PLN 12,846 thousand. The portion of net profit attributable to the shareholders of Arctic Paper S.A. is a net loss of PLN 3,652 thousand. Net profit of the Group results mainly from the net

profit generated by the Rottneros Group in Q1 2015 of which 51.3% is attributable to the shareholders of Arctic Paper S.A. Since the net profit generated by the Rottneros Group and attributable to the shareholders of Arctic Paper S.A. was lower than the total net loss generated by the other companies of the Arctic Paper Group, as a result the net loss for Q1 2015 was attributable to the shareholders of Arctic Paper.

12. Interest-bearing loans and borrowings

In the period covered with this report, the Group partially repaid its debt under a temporary loan resulting from the loan agreement concluded in November 2012 with a consortium of banks (Bank Polska Kasa Opieki S.A., Bank Zachodni WBK S.A. and mBank S.A) of PLN 8,801 thousand.

In the same time the Group increased its debt under overdraft facilities to the above consortium of banks, as well as to Svenska Handelsbanken in the amount of PLN 4,278 thousand.

The other changes to loans and borrowings as at 31 March 2016, compared to 31 December 2015 result mainly from balance sheet evaluation.

13. Share capital

	As at 31 March 2016 (unaudited)	As at 31 December 2015 (audited)
Share capital		
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 2016 (unaudited)		69 287 783	69 287 783

14. Financial instruments

The Company holds the following financial instruments: cash at hand and in bank accounts, bank loans, borrowings, receivables, liabilities under financial leases, SWAP interest rate

contracts, forward FX contracts, corridor FX options and forward contracts for the purchase of electricity.

14.1. Hedge accounting

In order to reduce the volatility of the projected cash flows related to FX risk, the Group companies use FX risk hedging based on the use of derivatives related to the FX market. Those in particular are FX forward contracts and corridor FX options. 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

Kostrzyn, in order to mitigate the volatility of future interest costs on loans, has concluded interest rate SWAP contracts.

As at 31 March 2016, the Group used cash flow hedge accounting for the following hedging items:

- Arctic Paper Kostrzyn S.A. designated for cash flow hedge accounting the FX forward derivatives and corridor FX options in order to hedge a portion of inflows in EUR,

- connected with export sales, as well as purchase of PLN, and a SWAP derivative contract in order to hedge payments of interest in EUR on a bank loan in EUR and to hedge payments of interest 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 in order to hedge a part of expenditures in EUR related to future purchases of electricity.
 - The Companies of Rottneros Group designated for cash flow hedge accounting the FX forward derivatives in order to hedge a part of inflows in EUR related to export sales.
 - The Companies of Rottneros Group designated for cash flow hedge accounting the FX forward derivatives in order to hedge a part of inflows in USD related to export sales.

Cash flow hedge accounting related to foreign currency trading using FX forward transactions and corridor FX options

The table below presents detailed information concerning the hedging relationship in the cash flow hedge accounting regarding the sale of EUR for PLN:

Type of hedge	Cash flow hedge related to planned sales in foreign currencies
Hedged position	The hedged position is a part of highly likely future cash inflows for exports
Hedging instruments	FX forward contracts are used wherein the Company agreed to sell EUR for PLN
Contract parameters:	
Contract conclusion dates	2 016
Maturity:	individually per contract up to 30.12.2016
Hedged amount	EUR 8.0 M
Term exchange rate	from 4.349 to 4.700 EUR/PLN
Type of hedge	Cash flow hedge related to planned sales in foreign currencies
Hedged position	The hedged position is a part of highly likely future cash inflows for exports
Hedging instruments	FX corridor options wherein the Company bought the right to sell EUR for PLN and sold the right to buy EUR with PLN
Contract parameters:	
Contract conclusion dates	2 016
Maturity:	individually per contract up to 30.12.2016
Hedged amount	EUR 15.0 M
Term exchange rate	from 4.44-4.50 to 4.28-4.30 EUR/PLN

The table below presents detailed information concerning the hedging relationship in the cash flow hedge accounting regarding the purchase of EUR for SEK:

Type of hedge	Cash flow hedge related to planned purchases of electricity in foreign currencies
Hedged position	The hedged position is a part of highly likely future EUR denominated cash flows for the purchase of electricity
Hedging instruments	FX forward contracts are used wherein the Company agrees to buy EUR with SEK
Contract parameters:	
Contract conclusion dates	2015 and 2016
Maturity:	individually per contract up to 31.12.2016
Hedged amount	EUR 1.2 M
Term exchange rate	9.01 EUR/SEK

The table below presents detailed information concerning the hedging relationship in the cash flow hedge accounting regarding the sale of EUR for SEK:

Type of hedge	Cash flow hedge related to planned sales in foreign currencies
Hedged position	The hedged position is a part of highly likely future cash inflows for exports
Hedging instruments	FX forward contracts are used wherein the Company agrees to sell EUR for SEK
Contract parameters:	
Contract conclusion dates	2 016
Maturity:	individually per contract up to 01.04.2016
Hedged amount	EUR 0.5 M
Term exchange rate	9.34 EUR/SEK

The table below presents detailed information concerning the hedging relationship in the cash flow hedge accounting regarding the sale of USD for SEK:

Type of hedge	Cash flow hedge related to planned sales in foreign currencies
Hedged position	The hedged position is a part of highly likely future cash inflows for exports
Hedging instruments	FX forward contracts are used wherein the Company agrees to sell USD for SEK
Contract parameters:	
Contract conclusion dates	2 016
Maturity:	individually per contract up to 30.04.2016
Hedged amount	USD 1.5 M
Term exchange rate	8.60 USD/SEK

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	individually per contract from 01.01.2013
Maturity:	individually per contract up to 31.12.2019
Hedged quantity of electricity	1.085.000 MWh
Term price	from 27.45 to 42.40 EUR/PLN

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

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

Type of hedge	Hedge of cash flows related to variable interest rate on the EUR long-term loan
Hedged position	Future EUR interest flows on EUR loan calculated on the basis of 3M EURIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in EUR on the EUR loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	28.12.2012 and 04.03.2013
Maturity:	each interest payment date in line with the payment schedule under the loan agreement by 7.11.2017
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 6.9 M.
Term interest rate	0.69% and 0.78%

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 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	07.03.2013
Maturity:	each interest payment date in line with the payment schedule under the loan agreement by 7.11.2017
Hedged value	interest payable in line with the payment schedule under the loan agreement of PLN 24.9 M and PLN 20.3 M.
Term interest rate	3.71%

The table below presents the fair value of hedging instruments in cash flow hedge accounting as at 31 March 2016 and the comparative data:

	As at 31 March 2016		As at 31 December 2015	
	(unaudited)	(unaudited)	(audited)	(audited)
	Assets	Liabilities	Assets	Liabilities
FX forward	2 493	-	944	-
SWAP	-	1 788	-	2 001
Forward for electricity	-	33 070	-	30 889
Total hedging derivative instruments	2 493	34 858	944	32 890

15. Financial risk management objectives and policies

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

The Group also uses factoring with recourse for trade receivables. The main purpose for using the financial instrument is to quickly raise funds.

The Group has various other financial instruments such as trade receivables and payables which arise directly from its operations. The core risks arising from the Group's financial instruments include: interest rate risk, liquidity risk, FX risk and

credit risk. The Management Board reviews and approves policies for managing each of those risks.

In the opinion of the Management Board – in comparison to the annual consolidated financial statements made as at 31 December 2015 there have been no significant changes of the financial risk. There have been no changes to the objectives and policies of the management of the risk.

16. Capital management

The primary objective of the Group's capital management is to maintain 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 2015, there have been no significant changes to the objectives and policies of capital management.

17. Contingent liabilities and contingent assets

As at 31 March 2016, the Group reported:

- a contingent liability under a guarantee for FPG in favour of mutual life insurance company PRI in the amount of SEK 1,461 thousand (PLN 676 thousand) in Arctic Paper Grycksbo AB and SEK 759 thousand (PLN 351 thousand) in Arctic Paper Munkedals AB;
- a contingent liability of Arctic Paper Munkedals AB under a guarantee for liabilities of Kalltorp Kraft HB for SEK 2,711 thousand (PLN 1,254 thousand);
- a bank guarantee in favour of Skatteverket Ludvika for SEK 135 thousand (PLN 62 thousand);
- a guarantee in favour of Sodra Cell International AB, a supplier of pulp, for SEK 12,000 thousand (PLN 5,549 thousand) (expired on 03.03.2016),

18. Legal claims

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

19. CO2 emission rights

Arctic Paper Kostrzyn S.A., Arctic Paper Munkedals AB, Arctic Paper Grycksbo AB and the companies of the Rottneros Group, are all part of the European Union Emission Trading Scheme. The previous trading period 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 emission rights by each entity in 2013, 2014 and 2015 and in Q1 2016.

(in tons) 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	-	-	-	-
Issue	(150 577)	(147 950)	(162 467)	(45 376)	-	-	-	-
Purchased quantity	-	-	-	-	-	-	-	-
Sold quantity	-	-	-	-	-	-	-	-
Unused quantity	306 448	263 932	203 917	258 381	-	-	-	-

(in tons) 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	-	-	-	-
Issue	(1 281)	(3 407)	(32 465)	(2 602)	-	-	-	-
Purchased quantity	-	-	7	-	-	-	-	-
Sold quantity	-	-	(100 000)	-	-	-	-	-
Unused quantity	67 262	107 325	17 559	56 864	-	-	-	-

(in tons) for Arctic Paper Grycksbo AB	2013	2014	2015	2016	2017	2018	2019	2020
Allocation	77 037	75 689	74 326	72 948	71 556	70 151	68 730	67 304
Unused quantity from previous years	69 411	111 448	734	60	-	-	-	-
Issue	-	-	-	-	-	-	-	-
Purchased quantity	-	-	-	-	-	-	-	-
Sold quantity	(35 000)	(186 403)	(75 000)	-	-	-	-	-
Unused quantity	111 448	734	60	73 008	-	-	-	-

(in tons) for the Rottneros Group	2013	2014	2015	2016	2017	2018	2019	2020
Allocation	30 681	30 484	29 938	29 387	28 830	28 268	27 698	27 127
Unused quantity from previous years	72 888	90 522	101 986	104 991	-	-	-	-
Issue	(13 047)	(19 020)	(26 933)	(5 110)	-	-	-	-
Purchased quantity	-	-	-	-	-	-	-	-
Sold quantity	-	-	-	-	-	-	-	-
Unused quantity	90 522	101 986	104 991	129 268	-	-	-	-

* - the values are an estimate made by AP Kostrzyn on the basis of information on the allocation of emission rights for entities in the EU ETS system, calculated pursuant to the provisions of Art. 10a of the ETS Directive. As of the date hereof, no valid domestic Regulations exist.

20. Government grants and operations in the Special Economic Zone

20.1. Government grants

In the current quarter the Group companies have not received any grants.

20.2. Operations in the Special Economic Zone

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

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

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

Based on the permit issued on 25 August 2006, Arctic Paper Kostrzyn S.A. may benefit from tax exemption by 15 November 2017. Item I of the permit relating to the date by which the Company may enjoy the permit was deleted by

Decision of the Minister of Economy No. 321/IW/14 of 6 November 2014. Now the Company is entitled to use the permit by 2026 or by the date SSE exist in Poland pursuant to the applicable regulations. The permit may be used subject to the incurrence in the zone of capital expenditures within the meaning of Art. 6 of the Regulation of the Council of Ministers of 14 September 2004 on the Kostrzyńsko-Słubicka Special Economic Zone, underlying the calculation of public aid in compliance with Art. 3 of the Regulation 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 Art. 3.3 and Art. 3.6 of the Regulation by 31 December 2011 and maintaining the employment level of minimum 453 people during the period from 1 January 2012 to 31 December 2013.

The 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 2016, 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 53,838 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 2016 amounted to PLN 20,575 thousand.

21. Material events after the balance sheet date

On 4 May 2016 the Management Board of Arctic Paper S.A. decided to commence formally works in connection with the refinancing the existing loans and borrowings of the Company and its subsidiaries and on the obtaining alternative financing ("Financing"). The core objective of the Company's Management Board is to change the financing structure of the Company's capital group and, in particular, to centralise the debt facilitating more effective liquidity management and flexible adjustment of the level of financing of the individual companies.

The contemplated Financing envisages the procurement of funds through:

- an issue or issues of PLN denominated bonds to be issued by the Company under a bond issue programme for up to PLN 150,000,000 ("Bond Issue Programme"); and/or
- senior term and revolving facilities for up to EUR 85,700,000 and PLN 47,000,000, to be obtained from a group of banks and/or credit institutions ("Facilities"),

whereas the funds under the contemplated Financing will be procured either jointly under the Bond Issue Programme and the Facilities (in such case the amount of the Facilities will be reduced accordingly by the amount of the bonds issued under

the Bond Issue Programme simultaneously with the procurement of funds under the Facilities) or exclusively through the Facilities.

If the Financing is obtained, it will be necessary to establish appropriate security and conclude additional agreements. The Management Board of the Company is considering the possibility of security that is in line with market practices in similar transactions, in particular registered pledge over a set of movables and property rights constituting the Company's enterprise or an organised part thereof (the "Pledge").

In light of the foregoing, the Management Board of the Company will be taking steps to convene an Ordinary Shareholders' Meeting which is necessary to establish the Pledge.

The above-mentioned decision of the Management Board of the Company is preliminary decision and may be subject to change. In particular, the Management Board of the Company may decide not to take some or all the steps mentioned above. Additionally, the Management Board of the Company informs that it has been discussing with banks and/or credit institutions their potential participation in the Financing; however, so far no binding decision in the matter has been made.

Signatures of the Members of the Management Board

Position	Name and surname	Date	Signature
acting President of the Management Board Chief Executive Officer	Per Skoglund	16 May 2016	
Member of the Management Board Chief Financial Officer	Małgorzata Majewska-Śliwa	16 May 2016	

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