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ARCTIC PAPER S.A. CAPITAL GROUP  
Consolidated quarterly report  
for Q3 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 Q3 2016 was prepared in accordance with the Minister of Finance Regulation of 25 May 2016 amending the Regulation on current and periodic information provided by issuers of securities and on conditions under which information required by legal regulations of a third country may be recognised as equivalent (Journal of Laws of 2016, item 860, as amended) and a part of the abbreviated 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 abbreviated consolidated financial statements do not comprise all information and disclosures required in the annual consolidated financial statements which are subject to mandatory audit and therefore they should be read in conjunction with the consolidated financial statements of the Group for the year ended on 31 December 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 operations)
Grycksbo Group	From 8 July 2014: Arctic Paper Grycksbo AB, formerly: Arctic Paper Grycksbo AB and Grycksbo Paper Holding AB
Sales Offices	Arctic Paper Papierhandels GmbH with its registered office in Vienna (Austria); Arctic Paper Benelux SA with its registered office in Oud-Haverlee (Belgium); Arctic Paper Danmark A/S with its registered office in Greve (Denmark); Arctic Paper France SA with its registered office in Paris (France); Arctic Paper Deutschland GmbH with its registered office in Hamburg (Germany); Arctic Paper Ireland Ltd with its registered office in Dublin (Ireland); liquidated as at 25 October 2016 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 Stockholm, 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 liquidity ratio	Ratio of current assets to short-term liabilities
Quick ratio	Ratio of current assets minus inventory and short-term accruals, prepayments and deferred costs to 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, złoty	Monetary unit of the Republic of Poland
gr	grosz – 1/100 of one zloty (the monetary unit of the Republic of Poland)
Euro, EUR	Monetary unit of the European Union
GBP	Pound sterling – monetary unit of the United Kingdom
SEK	Swedish Krona – monetary unit of the Kingdom of Sweden
USD	United States dollar, the legal tender in the United States of America
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
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
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Series B Shares	44,253,500 Shares of Arctic Paper S.A. B series ordinary shares of PLN 1 each
Series C Shares	8,100,000 Shares of Arctic Paper S.A. C series ordinary shares of PLN 1 each
Series E Shares	3,000,000 Shares of Arctic Paper S.A. E series ordinary shares of PLN 1 each
Series F Shares	13,884,283 Shares of Arctic Paper S.A. F series ordinary shares of the nominal value of PLN 1 each
Shares, Issuer's Shares	Series A, Series B, Series C, Series E, and Series F Shares jointly

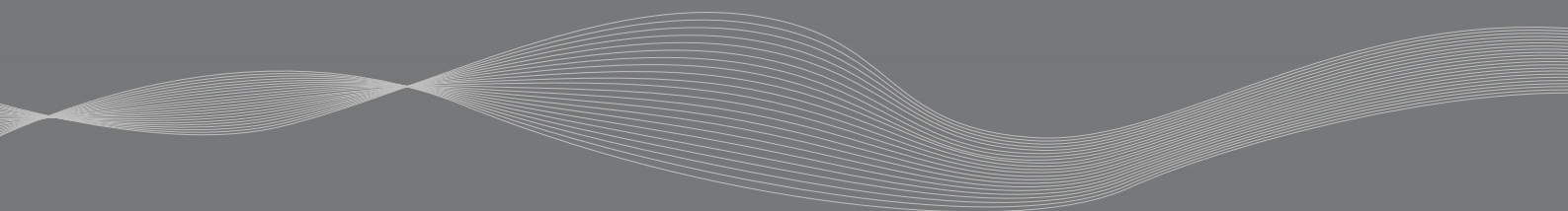
## Forward looking statements

The information contained in this report which does not relate to historical facts relates to forward looking statements. Such statements may, in particular, concern the Group's strategy, business development, market projections, planned investment outlays, and future revenues. Such statements may be identified by the use of expressions pertaining to the future such as, e.g., "believe", "think", "expect", "may", "will", "should", "is expected", "is assumed", and any negations and grammatical forms of these expressions or similar terms. The statements contained in this report concerning matters which are not historical facts should be treated only as projections subject to risk and uncertainty. Forward-looking statements are inevitably based on certain estimates and assumptions which, although our management finds them rational, are naturally subject to known and unknown risks and

uncertainties and other factors that could cause the actual results to differ materially from the historical results or the projections. For this reason, we cannot assure that any of the events provided for in the forward-looking statements will occur or, if they occur, about their impact on the Group's operating activity or financial situation. When evaluating the information presented in this report, one should not rely on such forward-looking statements, which are stated only as at the date they are expressed. Unless legal regulations contain detailed requirements in this respect, the Group shall not be obliged to update or verify those forward-looking statements in order to provide for new developments or circumstances. Furthermore, the Group is not obliged to verify or to confirm the analysts' expectations or estimates, except for those required by law.



Management Board's report from operations of  
the Arctic Paper S.A. Capital Group  
to the report for Q3 2016





## Description of the business of the Arctic Paper Group

### General information

The Arctic Paper Group is a leading European producer in terms of production volume of bulky book paper, offering a broad range of products in the segment and one of the leading producers of high-quality graphic paper in Europe. The Group produces numerous types of uncoated and coated wood-free paper as well as wood-containing uncoated paper for printing houses, paper distributors, book and magazine publishing houses and the advertising industry. In connection with acquisition of the Rottneros Group in December 2012, our assortment was expanded with the production of pulp. As on the day hereof, the Arctic Paper Group employs approx. 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 Paper 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 seventeen Sales Offices which handle distribution and marketing of products offered by the Group providing access to all European markets, including Central and Eastern Europe. Our consolidated sales revenues for three quarters of 2016 amounted to PLN 2,260 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 30 September 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

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 30 September 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

coated wood-free paper used for printing maps, books, magazines, posters and printing of advertising materials.

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, in particular:

- white offset paper that we produce and distribute primarily under the Amber brand which is one of the most versatile types of paper destined for various applications;
- woodfree bulky book paper that we produce under the Munken brand, used primarily for book printing;
- high quality graphic paper with very smooth surface, used for printing of various advertising and marketing materials that we produce under the Munken brand;

### Coated wood-free paper, in particular:

- coated woodfree paper, manufactured under the G-Print and Arctic brands, used primarily for printing of books, magazines, catalogues, maps, personalised direct mail correspondence.

### Uncoated wood-containing paper, in particular:

- premium wood containing bulky book paper that we produce and distributed under the Munken brand,

was developed specially for multi-colour and B/W printing of books;

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.

### Unbleached sulphate pulp:

- fully bleached sulphate pulp and unbleached sulphate pulp used primarily to produce printing and writing paper, cardboard, toilet paper and white packaging paper.

### Mechanical fibre pulp:

- chemo thermo mechanical pulp (CTMP) and groundwood which are used mainly for production of printing and writing papers.

## Capital Group structure

The Arctic Paper Capital Group comprises Arctic Paper S.A., as the Parent 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 Q3 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 at 30 September 2016) 40,006,449 shares of our Company, which constitutes 57.74% of its share capital and corresponds to 57.74% of the total number of votes at General Meetings. Thus Nemus Holding AB is the parent entity of the Issuer.

Additionally, Mr Thomas Onstad, an indirect shareholder of Nemus Holding AB, holds directly 5,848,658 shares representing 8.44% of the total 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 total 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 10.11.2016				as at 29.08.2016			
	Number of shares	Share in the share capital [%]	Number of votes	Share in the total number of votes [%]	Number of shares	Share in the share capital [%]	Number of votes	Share in the total number of votes [%]
<b>Thomas Onstad</b>	<b>47 205 107</b>	<b>68,13%</b>	<b>47 205 107</b>	<b>68,13%</b>	<b>47 205 107</b>	<b>68,13%</b>	<b>47 205 107</b>	<b>68,13%</b>
- indirectly via	41 356 449	59,69%	41 356 449	59,69%	41 356 449	59,69%	41 356 449	59,69%
Nemus Holding AB	40 006 449	57,74%	40 006 449	57,74%	40 006 449	57,74%	40 006 449	57,74%
other entity	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%
<b>Other</b>	<b>22 082 676</b>	<b>31,87%</b>	<b>22 082 676</b>	<b>31,87%</b>	<b>22 082 676</b>	<b>31,87%</b>	<b>22 082 676</b>	<b>31,87%</b>
Total	69 287 783	100,00%	69 287 783	100,00%	69 287 783	100,00%	69 287 783	100,00%
Treasury shares	-	0,00%	-	0,00%	-	0,00%	-	0,00%
<b>Total</b>	<b>69 287 783</b>	<b>100,00%</b>	<b>69 287 783</b>	<b>100,00%</b>	<b>69 287 783</b>	<b>100,00%</b>	<b>69 287 783</b>	<b>100,00%</b>

The data in the above table is provided as of the date hereof and as of the publication date of the semi-annual report for 2016. The data in the above table as at 10 November 2016 will also apply as at 30 September 2016.

## Summary of consolidated financial results

### Consolidated income statement

#### Selected items of the consolidated income statement

PLN thousand	3Q	2Q	3Q	YTD	YTD	Change %	Change %	Change %
	2016	2016	2015	2016	2015	3Q2016/ 2Q2016	3Q2016/ 3Q2015	YTD 2016/ YTD 2015
<b>Sales revenues</b>	<b>759 981</b>	<b>721 265</b>	<b>730 700</b>	<b>2 259 806</b>	<b>2 190 052</b>	<b>5,4</b>	<b>4,0</b>	<b>3,2</b>
<i>of which:</i>								
<i>Sales of paper</i>	569 288	539 552	546 755	1 698 689	1 632 726	5,5	4,1	4,0
<i>Sales of pulp</i>	190 693	181 713	183 945	561 117	557 326	4,9	3,7	0,7
Profit / (loss) on sales	121 732	106 823	111 566	346 589	323 725	14,0	9,1	7,1
<i>% of sales revenues</i>	16,02	14,81	15,27	15,34	14,78	1,2 p.p.	0,7 p.p.	0,6 p.p.
Selling and distribution costs	(62 078)	(62 770)	(58 839)	(189 249)	(201 386)	(1,1)	5,5	(6,0)
Administrative expenses	(14 660)	(18 632)	(15 693)	(49 238)	(45 985)	(21,3)	(6,6)	7,1
Other operating income	11 327	20 503	15 119	50 279	56 525	(44,8)	(25,1)	(11,0)
Other operating expenses	(8 285)	(12 219)	(9 115)	(35 264)	(27 016)	(32,2)	(9,1)	30,5
<b>EBIT</b>	<b>48 035</b>	<b>33 705</b>	<b>43 038</b>	<b>123 116</b>	<b>105 862</b>	<b>42,5</b>	<b>11,6</b>	<b>16,3</b>
<i>% of sales revenues</i>	6,32	4,67	5,89	5,45	4,83	1,6 p.p.	0,4 p.p.	0,6 p.p.
<b>EBITDA</b>	<b>76 856</b>	<b>63 695</b>	<b>70 463</b>	<b>211 219</b>	<b>187 361</b>	<b>20,7</b>	<b>9,1</b>	<b>12,7</b>
<i>% of sales revenues</i>	10,11	8,83	9,64	9,35	8,56	1,3 p.p.	0,5 p.p.	0,8 p.p.
Financial income	523	401	(1 076)	1 143	1 021	30,4	(148,7)	11,9
Financial expenses	(9 717)	(13 667)	(10 685)	(31 303)	(25 103)	(28,9)	(9,1)	24,7
<b>Gross profit (loss)</b>	<b>38 842</b>	<b>20 439</b>	<b>31 277</b>	<b>92 956</b>	<b>81 780</b>	<b>90,0</b>	<b>24,2</b>	<b>13,7</b>
Income tax	(6 325)	(8 474)	(8 556)	(23 767)	(7 169)	(25,4)	(26,1)	231,5
<b>Net profit/ (loss) from continuing operations</b>	<b>32 517</b>	<b>11 965</b>	<b>22 721</b>	<b>69 189</b>	<b>74 611</b>	<b>171,8</b>	<b>43,1</b>	<b>(7,3)</b>
<i>% of sales revenues</i>	4,28	1,66	3,11	3,06	3,41	2,6 p.p.	1,2 p.p.	(0,3) p.p.
Discontinued operations								
<b>Net profit/ (loss) from discontinued operations</b>	<b>(873)</b>	<b>(1 261)</b>	<b>(9 795)</b>	<b>(7 213)</b>	<b>(35 741)</b>	<b>(30,8)</b>	<b>(91,1)</b>	<b>(79,8)</b>
<i>% of sales revenues</i>	(0,11)	(0,17)	(1,34)	(0,32)	(1,63)	0,1 p.p.	1,2 p.p.	1,3 p.p.
<b>Net profit / (loss)</b>	<b>31 644</b>	<b>10 704</b>	<b>12 926</b>	<b>61 976</b>	<b>38 870</b>	<b>195,6</b>	<b>144,8</b>	<b>59,4</b>
<i>% of sales revenues</i>	4,16	1,48	1,77	2,74	1,77	2,7 p.p.	2,4 p.p.	1,0 p.p.

### Commentary of the President of the Management Board Per Skoglund to the results of Q3 2016

The financial results of the Arctic Paper Group in Q3 2016 were decisively better than those generated in the same period of the prior year. Revenues rose by 4.0% (to nearly PLN 760m), EBITDA by 9.1% (to PLN 76.9m), and net profit on continuing operations by 43.1% (to PLN 32.5m).

The excellent results achieved in the paper segment should be stressed. Despite the continuing difficult market environment,

an increase in sales volumes was achieved. This, combined with the results of the Profit Improvement Program 2015/2016 and favourable prices of short-fibre pulp, translated into achievement of very good operating results in this segment.

#### Results in the paper segment (excluding Rottneros)

Revenue from sales in the paper segment was PLN 569.3m, up 5.1% from Q3 2015. EBITDA rose above PLN 49.1m, an

increase of 75% year-on-year, and operating profit rose to PLN 29.4m, up 230.3% compared to the same period last year. Net profit on continuing activity\* was PLN 17.9m, whereas in Q3 2015 the Group recorded a loss of nearly PLN 3.0m.

In Q3 of this year the market for fine graphical papers continued to shrink, noting a decline of 6.5% in the case of coated papers and 9.3% in the uncoated segment (compared to Q3 2015, according to EuroGraph in 9/2016). The Arctic Paper Group succeeded in reinforcing its market position in this declining market with sales volume up 2.2% compared to Q3 2015 and 7.2% compared to Q2 2016.

Revenue from paper sales in Q3 of this year was 5.1% higher year-on-year and 5.5% higher than in the 2nd quarter. Revenue per tonne of product also rose year-on-year in Q3, by 2.8%. But compared to the 2nd quarter this figure was down slightly, at -1.6%.

Production volume in Q3 2016 was 167,000 tonnes, down 1.1% from the same period of 2015. The average use of production capacity in the last 3 months was over 95.3%, 2% higher than in Q3 2015.

## Results including Rottneros

The results of Rottneros in Q3 2016 were very solid, despite a decline in prices of the long-fibre pulp produced by Rottneros

## Revenues

In Q3 2016, the consolidated sales revenues amounted to PLN 759,981 thousand (sales of paper: PLN 569,288 thousand), pulp sales: PLN 190,693 thousand), as compared to PLN 730.700 thousand (sales of paper: PLN 546,755 thousand), pulp sales: PLN 183,945 thousand), in the equivalent period of the previous year. That means a growth by PLN 29,281 thousand (growth of paper sales by PLN 22,533 thousand, growth of pulp sales by PLN 6,748 thousand) and by +4.0% respectively (paper sales: +4.1%, pulp sales: +3.7%).

In the first nine months of 2016, the sales revenues amounted to PLN 2,259,806 thousand (sales of paper: PLN 1,698,689 thousand), pulp sales: PLN 561,117 thousand), as compared to PLN 2,190,052 thousand (sales of paper: PLN 1,632,726 thousand), pulp sales: PLN 557,326 thousand), generated in the equivalent period of the previous year. That means a growth of revenues by PLN 69,754 thousand (growth of paper sales by PLN 65,964 thousand), growth of pulp sales by PLN

(NBSK) of 4.1% (compared to Q3 2015). For the quarter, the underlying market was stable as a whole. In a historical perspective, the level of earnings and profitability remained good.

In effect, the Arctic Paper Group's sales revenues steadily increased in comparison to both Q3 2015 and Q2 2016, by 4.0% and 5.4% respectively. The EBITDA and EBIT results were PLN 76.9m (+9.1% y/y) and PLN 48.0m (+11.6% y/y) respectively. The Group's net result from continued operations\* was PLN 32.5m (+43.1% y/y).

## New financing structure

During Q3 2016 the Arctic Paper Group successfully created a new, improved structure for financing of its operations in the paper segment.

Arctic Paper S.A. signed a term and revolving credit agreement for PLN 31.3m and EUR 52.4m with a consortium of banks including Bank BGŻ BNP Paribas, Bank Zachodni WBK (Santander Group), and EBRD.

At the same time, Arctic Paper S.A. signed agreements with Haitong Bank S.A. connected with a bond issue program of up to PLN 150m, pursuant to which on 30 September 2016 it issued bonds worth PLN 100m. Repayment of the prior indebtedness, and thus full implementation of the new financing structure, occurred on 25 October 2016.

3,791 thousand), and by +3.2% respectively (paper sales: +4.0%, pulp sales: +0.7%).

Paper sales volume in Q3 2016 amounted to 171 thousand tons compared to 167 thousand tons in the same period of the previous year. The change represents an increase of 4 thousand tons and by 2.4% respectively. Pulp sales volume in Q3 2016 amounted to 90 thousand tons compared to 87 thousand tons in the same period of the previous year. The change represents an increase of 3 thousand tons and by 3.4% respectively.

Paper sales volume in the first three quarters of 2016 amounted to 503 thousand tons compared to 507 thousand tons in the same period of the previous year. The change represents a decrease of 4 thousand tons and by 0.8% respectively. Pulp sales volume in the first three quarters of 2016 amounted to 262 thousand tons compared to 259 thousand tons in the same period of the previous year. The

change represents an increase of 3 thousand tons and by 1.2% respectively.

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

In Q3 2016, profit on sales amounted to PLN 121,732 thousand. This result was by 9.1% higher than in the corresponding period of the previous year. Sales profit margin in the current quarter stood at 16.0% compared to 15.27% (+0.7 p.p.) in the same period of the previous year. The core reasons underlying the growth of profit margin on sales in Q3 2016 versus the equivalent period of the previous year were higher revenues from the sale of products and lower costs of pulp consumption.

For three quarters of 2016, profit on sales amounted to PLN 346,589 thousand. This result was by 7.1% higher than in the corresponding period of the previous year. Sales profit margin in the period stood at 15.34% compared to 14.78% (+0.6 p.p.) in the same period of the previous year. The core reasons underlying the growth of profit on sales in the period of 2016 versus the equivalent period of the previous year were higher revenues from the sale of products without material changes to the profit margin on sales.

In Q3 2016, the selling and distribution costs amounted to PLN 62,078 thousand which was an increase by 5.5% compared to the costs incurred in Q3 2015.

## Other operating income and expenses

Other operating income amounted to PLN 11,327 thousand in Q3 2016 which was a decrease as compared to the equivalent period of the previous year (by PLN 3,792 thousand).

Other operating income amounted to PLN 50,279 thousand for three quarters of 2016 which was an increase as compared to the equivalent period of the previous year (by PLN 6,246 thousand).

Other operating income consisted mainly of revenues from heat and electricity sales as well as sales revenues from other materials and CO<sub>2</sub> emission rights. The growth of other operating income in the current period was due mainly to received damages and sales of other materials.

In the three quarters of 2016, the selling and distribution costs amounted to PLN 189,249 thousand which was a decrease by 6.0% compared to the costs incurred in the equivalent period of 2015. An analysis of the selling and distribution costs in the three quarters of 2015 should first take into account the one-off increased impairment charges for trade receivables, primarily receivables from the PaperlinX group companies.

In Q3 2016, the administrative expenses amounted to PLN 14,660 thousand as compared to PLN 15,693 thousand in the equivalent period of 2015 (a decrease by 6.6%).

In the three quarters of 2016, the administrative expenses amounted to PLN 49,238 thousand as compared to PLN 45,985 thousand in the equivalent period of 2015 which was a growth by 7.1%. The main reason of the increase were higher costs related to consulting services rendered to the Group by third parties.

In Q3 2016, the other operating expenses amounted to PLN 8,285 thousand as compared to PLN 9,115 thousand in Q3 2015.

Other operating expenses amounted to PLN 35,264 thousand for three quarters of 2016 which was an increase as compared to the equivalent period of the previous year by PLN 8,248 thousand.

The other operating expenses comprised mainly the costs of electricity and heat sales as well as the costs of other materials sold. The higher other operating expenses in the first three quarters of 2016 were affected primarily by the higher costs of other materials sold.

## Financial income and financial expenses

In the first nine months 2016, the financial income amounted to PLN 1,143 thousand while in the equivalent period in 2015 it was PLN 1,021 thousand. The negative value of financial income in Q3 2015 results from the presentation of net FX differences or as a surplus of FX gains over FX losses (financial revenues) or as a surplus of FX losses over FX gains (financial expenses).

In Q3 2016, financial expenses amounted to PLN 9,717 thousand as compared to PLN 10,685 thousand incurred in Q3 2015.

## Income tax

In Q3 2016, income tax amounted to PLN -6,325 thousand while in the equivalent period in 2015 it was PLN -8,556 thousand.

The current portion of income tax in the analysed quarter of 2016 amounted to PLN -722 thousand while the deferred portion to PLN -5,603 thousand. In Q3 the previous year, the amount was PLN -1,042 thousand and PLN -7,514 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. As the Management Board of Arctic Paper S.A.

## Profitability analysis

In Q3 2016, the result on continuing operations amounted to PLN 48,035 thousand as compared to PLN 43,038 thousand in the equivalent period of the previous year. The changes resulted in a growth of operational profit margin from +5.9% in the Q3 2015 to +6.3% in Q3 the current year.

For three quarters of 2016, the result on continuing operations amounted to PLN 123,116 thousand as compared to PLN 105,862 thousand in the equivalent period of the previous year. The changes resulted in a growth of operational profit margin from +4.8% for three quarters of 2015 to +5.5% for three quarters of the current year.

Financial expenses for three quarters of 2016 amounted to PLN 31,303 thousand as compared to PLN 25,103 thousand incurred in the three quarters of 2015. The higher financial expenses for three quarters of 2016 were primarily due to a higher surplus of FX losses over FX gains recorded in the period.

For three quarters of 2016 income tax amounted to PLN -23,767 thousand while in the equivalent period in 2015 it was PLN -7,169 thousand.

The current portion of income tax in the analysed three quarters of 2016 amounted to PLN -3,061 thousand while the deferred portion to PLN -20,706 thousand. In the equivalent quarters of the previous year, the amount was PLN -2,034 thousand and PLN -5,135 thousand respectively.

remains ready to sell the Paper mill and to alternatively use its assets, its business has been disclosed as discontinued. In the first three quarters of 2016, the loss on discontinued operations amounted to PLN 7,213 thousand (for 3 quarters of 2015: PLN 35,741 thousand).

EBITDA in Q3 2016 was PLN 76,856 thousand while in the equivalent period in 2015 it was PLN 70,463 thousand. In the reporting period, the EBITDA margin was 10.1% compared to 9.6% in the equivalent period of 2015.

EBITDA for three quarters of 2016 was PLN 211,219 thousand while in the equivalent period in 2015 it was PLN 187,361 thousand. In the reporting period, the EBITDA margin was 9.3% compared to 8.6% in the equivalent period of 2015.



In the current quarter of 2016, net profit amounted to PLN 31,644 thousand as compared to the net profit of PLN 12,926 thousand in Q3 2015.

In the three quarters of 2016, net profit amounted to PLN 61,976 thousand as compared to the net profit of PLN 38,870 thousand in the three quarters of 2015.

## Profitability analysis

<i>PLN thousand</i>	3Q 2016	2Q 2016	3Q 2015	YTD 2016	YTD 2015	Change % 3Q2016/ 2Q2016	Change % 3Q2016/ 3Q2015	Change % YTD 2016/ YTD 2015
<b>Profit on sales</b>	<b>121 732</b>	<b>106 823</b>	<b>111 566</b>	<b>346 589</b>	<b>323 725</b>	<b>14,0</b>	<b>9,1</b>	<b>7,1</b>
<i>% of sales revenues</i>	<i>16,02</i>	<i>14,81</i>	<i>15,27</i>	<i>15,34</i>	<i>14,78</i>	<i>1,2 p.p.</i>	<i>0,7 p.p.</i>	<i>0,6 p.p.</i>
<b>EBITDA</b>	<b>76 856</b>	<b>63 695</b>	<b>70 463</b>	<b>211 219</b>	<b>187 361</b>	<b>20,7</b>	<b>9,1</b>	<b>12,7</b>
<i>% of sales revenues</i>	<i>10,11</i>	<i>8,83</i>	<i>9,64</i>	<i>9,35</i>	<i>8,56</i>	<i>1,3 p.p.</i>	<i>0,5 p.p.</i>	<i>0,8 p.p.</i>
<b>EBIT</b>	<b>48 035</b>	<b>33 705</b>	<b>43 038</b>	<b>123 116</b>	<b>105 862</b>	<b>42,5</b>	<b>11,6</b>	<b>16,3</b>
<i>% of sales revenues</i>	<i>6,32</i>	<i>4,67</i>	<i>5,89</i>	<i>5,45</i>	<i>4,83</i>	<i>1,6 p.p.</i>	<i>0,4 p.p.</i>	<i>0,6 p.p.</i>
<b>Net profit/ (loss) from continuing operations</b>	<b>32 517</b>	<b>11 965</b>	<b>22 721</b>	<b>69 189</b>	<b>74 611</b>	<b>171,8</b>	<b>43,1</b>	<b>(7,3)</b>
<i>% of sales revenues</i>	<i>4,28</i>	<i>1,66</i>	<i>3,11</i>	<i>3,06</i>	<i>3,41</i>	<i>2,6 p.p.</i>	<i>1,2 p.p.</i>	<i>(0,3) p.p.</i>
<b>Net profit/ (loss) from discontinued operations</b>	<b>(873)</b>	<b>(1 261)</b>	<b>(9 795)</b>	<b>(7 213)</b>	<b>(35 741)</b>	<b>(30,8)</b>	<b>(91,1)</b>	<b>(79,8)</b>
<i>% of sales revenues</i>	<i>(0,11)</i>	<i>(0,17)</i>	<i>(1,34)</i>	<i>(0,32)</i>	<i>(1,63)</i>	<i>0,1 p.p.</i>	<i>1,2 p.p.</i>	<i>1,3 p.p.</i>
<b>Net profit / (loss)</b>	<b>31 644</b>	<b>10 704</b>	<b>12 926</b>	<b>61 976</b>	<b>38 870</b>	<b>195,6</b>	<b>144,8</b>	<b>59,4</b>
<i>% of sales revenues</i>	<i>4,16</i>	<i>1,48</i>	<i>1,77</i>	<i>2,74</i>	<i>1,77</i>	<i>2,7 p.p.</i>	<i>2,4 p.p.</i>	<i>1,0 p.p.</i>
Return on equity / ROE (%)	4,3	1,5	1,7	8,5	5,2	2,8 p.p.	2,6 p.p.	3,3 p.p.
Return on assets / ROA (%)	1,7	0,6	0,7	3,4	2,1	1,1 p.p.	1,0 p.p.	1,2 p.p.

In Q3 2016, return on equity was 4.3%, (8.5% for three quarters of 2016) while in Q3 2015 it was 1.7% (5.2% for three quarters of 2015). In the same period,

return on assets increased from 0.7% (2.1% for three quarters of 2015) to 1.7% (3.4% for three quarters of 2016).



## Statement of financial position

### Selected consolidated balance sheet items

PLN thousand	30.09.2016	31.12.2015	30.09.2015	Change	Change
				30.09.2016	30.09.2016
				-31.12.2015	-30.09.2015
Fixed assets	827 712	830 668	812 329	(2 957)	15 382
Inventories	344 352	390 631	334 724	(46 279)	9 629
Trade	407 482	343 441	389 403	64 041	18 079
<i>trade and other payables</i>	395 745	336 499	377 702	59 245	18 043
Other current assets	18 784	12 475	12 509	6 309	6 275
Cash and cash equivalents	211 923	188 552	196 012	23 371	15 912
Assets related to discontinued operations	15 760	47 467	63 481	(31 707)	(47 720)
<b>Total assets</b>	<b>1 826 014</b>	<b>1 813 235</b>	<b>1 808 457</b>	<b>12 779</b>	<b>17 556</b>
Equity	728 986	676 856	741 916	52 130	(12 929)
Short-term liabilities	768 296	682 515	626 604	85 781	141 693
<i>of which:</i>					
<i>trade and other payables</i>	371 573	407 409	356 969	(35 835)	14 605
<i>interest-bearing liabilities</i>	289 576	166 386	168 595	123 189	120 980
<i>other non-financial liabilities</i>	107 147	108 720	101 040	(1 573)	6 108
Long-term liabilities	299 554	372 599	391 462	(73 045)	(91 908)
<i>of which:</i>					
<i>interest-bearing liabilities</i>	188 583	263 363	270 863	(74 779)	(82 280)
<i>other non-financial liabilities</i>	110 971	109 236	120 599	1 735	(9 628)
The liabilities directly related to the discontinued operations	29 177	81 264	48 476	(52 088)	(19 299)
<b>Total liabilities</b>	<b>1 826 014</b>	<b>1 813 235</b>	<b>1 808 457</b>	<b>12 779</b>	<b>17 556</b>

As at 30 September 2016 total assets amounted to PLN 1,826,014 thousand as compared to PLN 1,813,235 thousand at the end of 2015 which was an increase by PLN 12,779 thousand.

### Fixed assets

As at the end of September 2016 fixed assets amounted to PLN 827,712 thousand and accounted for 45.3% of total assets as compared to PLN 830,668 thousand as at the end

of 2015 and their share in total assets of 45.8%. The book value of fixed assets decreased in the three quarters of 2016, primarily due to a decrease of the deferred income tax asset.

### Current assets

As at the end of September 2016, current assets amounted to PLN 982,542 thousand as compared to PLN 935,099 thousand at the end of December 2015. As part of the current assets, inventories decreased by PLN 46,279 thousand and receivables grew by PLN 64,041 thousand, other current

assets increased by PLN 6,309 thousand while cash and cash equivalents increased by PLN 23,371 thousand. Current assets represented 53.8% of total assets as at the end of September 2016 (51.5% as at the end of 2015) and included inventories – 18.9% (21.5% as at the end of 2015), receivables

– 22.3% (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 – 11.6% (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 15,760 thousand as at 30 September 2016

was composed of inventories (PLN 12,380 thousand), trade and other receivables (PLN 1,557 thousand), cash (PLN 1,436 thousand) and other financial and non-financial assets (PLN 388 thousand).

### Equity

As at the end of Q3 2016, the equity amounted to PLN 728,986 thousand as compared to PLN 676,856 thousand at the end of 2015. Equity represented 39.9% of total liabilities as

at the end of September 2016 as compared to 37.3% of total liabilities as at the end of December 2015.

### Short-term liabilities

As at the end of September 2016, short-term liabilities amounted to PLN 768,296 thousand (42.1% of balance sheet total) as compared to PLN 682,515 thousand (37.6% of balance sheet total) as at the end of 2015. During three quarters of 2016 there was an increase of short-term liabilities by PLN 85,781 thousand.

The change is due primarily to reclassification of the existing bank loans to short-term liabilities as a result of the execution of new loan agreements and the anticipated premature repayment of the existing loans. The growth of short-term liabilities resulting from the modified presentation was partly set off with a decrease of trade payables.

### Long-term liabilities

As at the end of September 2016, long-term liabilities amounted to PLN 299,554 thousand (16.4% 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 73,045 thousand, primarily due to the presentation of loans as described above, partly set off with bond liabilities.

### Liabilities directly related to the 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 29,177 thousand as at 30

September 2016 was composed of provisions (PLN 26,063 thousand), trade and other payables (PLN 2,803 thousand) and other financial and non-financial liabilities of PLN 310 thousand).

## Debt analysis

### Debt analysis

	3Q 2016	2Q 2016	3Q 2015	Change % 3Q2016/ 2Q2016	Change % 3Q2016/ 3Q2015
Debt-to-equity ratio (%)	150,5	148,6	143,8	1,9 p.p.	6,7 p.p.
Equity-to-non-current assets ratio (%)	88,1	85,3	91,3	2,7 p.p.	(3,3) p.p.
Interest-bearing debt-to-equity ratio (%)	65,6	62,1	59,2	3,5 p.p.	6,4 p.p.
Net borrowings-to-EBITDA (times)	1,13x	1,36x	0,97x	(0,23)	0,15
EBITDA-to-interest (times)	10,5x	10,3x	11,2x	0,1	(0,8)

As at the end of September 2016 the debt to equity ratio was 150.5% and was higher by 1.9 p.p. as compared to the end of June of 2016 and higher by 6.7 p.p. as compared to the end of September 2015.

The equity to non-current assets ratio was 88.1% as at the end of Q3 2016 and was higher by 2.7 p.p. than at the end of June of 2016 and lower by 3.3 p.p. than at the end of September 2015.

The interest bearing debt to equity ratio was 65.6% as at the end of Q3 2016 and was higher by 3.5 p.p. as compared to the end of June 2016 and higher by 6.4 p.p. as compared to the level of the ratio calculated at the end of September 2015.

Net borrowings to EBITDA calculated for the last 12 months ended on 30 September 2016 amounted to 1.13x compared to 1.36x in the equivalent period ended on 30 June 2016 and 0.97x for the twelve months period ended on 30 September 2015.

EBITDA to interest coverage ratio amounted to 10.5x for the twelve months ended on 30 September 2016, 10.3x for the twelve months ended on 30 June 2016 and 11.2x for the twelve months ended on 30 September 2015.

## Liquidity analysis

### Liquidity analysis

	3Q 2016	2Q 2016	3Q 2015	Change % 3Q2016/ 2Q2016	Change % 3Q2016/ 3Q2015
<b>Current ratio</b>	<b>1,3x</b>	<b>1,4x</b>	<b>1,5x</b>	<b>(0,1)</b>	<b>(0,2)</b>
<b>Quick ratio</b>	<b>0,8x</b>	<b>0,8x</b>	<b>0,9x</b>	<b>0,0</b>	<b>(0,1)</b>
<b>Acid test ratio</b>	<b>0,3x</b>	<b>0,2x</b>	<b>0,3x</b>	<b>0,1</b>	<b>(0,0)</b>
DSI (days)	48,6	55,4	48,7	(6,8)	(0,1)
DSO (days)	46,9	47,2	46,5	(0,3)	0,4
DPO (days)	52,3	51,3	51,8	1,0	0,5
Operational cycle (days)	95,4	102,6	95,2	(7,1)	0,2
<b>Cash conversion cycle (days)</b>	<b>43,1</b>	<b>51,3</b>	<b>43,4</b>	<b>(8,2)</b>	<b>(0,3)</b>

The current liquidity ratio at the end of September 2016 was 1.3x and was lower than at the end of June 2016 (1.4x) and as at the end of September 2015 (1.5x).

The quick ratio decreased from 0.9x as at the end of September 2015 to 0.8x as at the end of September 2016 (0.8x as at the end of June 2016).

The cash ratio reached 0.3x as at the end of September 2016 (0.2x as at the end of June September 2016 and 0.3x as at the end of September 2015).

The cash conversion cycle for Q3 2016 (43.1 days) was shortened versus Q2 2016 (by 8.2 days) and was also shortened versus Q3 2015 (by 0.3 days).

## Consolidated cash flows

### Selected items of the consolidated cash flow statements

PLN thousand	3Q	2Q	3Q	YTD	YTD	Change %	Change %	Change %
	2016	2016	2015	2016	2015	3Q'16/ 2Q'16	3Q'16/ 3Q'15	YTD'16/ YTD'15
Cash flows from operating activities	82 485	15 140	55 236	97 869	111 126	444,8	49,3	(11,9)
<i>of which:</i>								
<i>Gross profit (loss)</i>	37 963	18 193	21 486	84 744	45 805	108,7	76,7	85,0
<i>Depreciation/amortisation and Impairment of assets</i>	28 830	30 108	28 051	88 440	88 460	(4,2)	2,8	(0,0)
<i>Changes to working capital</i>	16 969	(21 664)	944	(61 736)	(27 684)	(178,3)	1 698,4	123,0
<i>Other adjustments</i>	(1 277)	(11 497)	4 755	(13 578)	4 546	(88,9)	(126,9)	(398,7)
Cash flows from investing activities	(53 375)	(36 751)	(22 749)	(115 973)	(46 098)	45,2	134,6	151,6
Cash flows from financing activities	60 858	(23 021)	(20 489)	43 323	(26 601)	(364,4)	(397,0)	(262,9)
<b>Total cash flows</b>	<b>89 969</b>	<b>(44 632)</b>	<b>11 998</b>	<b>25 219</b>	<b>38 427</b>	<b>(301,6)</b>	<b>649,8</b>	<b>(34,4)</b>

### Cash flows from operating activities

In Q3 2016, net cash flows from operating activities amounted to PLN +82,485 thousand as compared to PLN +55,236 thousand in the equivalent period of 2015. The positive cash flows in Q3 2016 were primarily due to EBITDA generated in the period.

In the three quarters of 2016, net cash flows from operating activities amounted to PLN +97,869 thousand as compared to PLN +111,126 thousand in the equivalent period of 2015. The positive cash flows in the period between January and September this year resulted primarily from the generated EBITDA, partly set off with changes to working capital.

### Cash flows from investing activities

In Q3 2016, net cash flows from investing activities amounted to PLN -53,375 thousand as compared to PLN -22,749 thousand in 2015. Higher expenditures for tangible fixed assets in Q3 2016 resulted in decreased cash flows from investing activities.

In the three quarters of 2016, the cash flows amounted to PLN -115,973 thousand as compared to PLN -46,098 thousand for three quarters of 2015. The negative cash flows from investing activities in the current period resulted from expenditures on tangible fixed assets.

### Cash flows from financing activities

In Q3 2016, cash flows from financing activities amounted to PLN +60,858 thousand as compared to PLN -20,489 thousand in Q3 2015. The positive cash flows from financing activities in Q3 this year were composed primarily of inflows from a bond issue and under factoring contracts.

26,601 thousand in the equivalent period of 2015. The positive cash flows from financing activities in 2016 are primarily due to inflows from a bond issue and under factoring contracts, partly set off with debt repayment under bank loans and overdraft facilities with interest, and dividend distribution to non-controlling shareholders.

Cash flows from financing activities for three quarters of 2016 amounted to PLN +43,323 thousand as compared to PLN -

## Summary of standalone financial results

### Standalone income statement

#### Selected items of the standalone income statement

<i>PLN thousands</i>	3Q 2016	2Q 2016	3Q 2015	YTD 2016	YTD 2015	Change % 3Q2016/ 2Q2016	Change % 3Q2016/ 3Q2015	Change % YTD 2016/ YTD 2015
<b>Revenues:</b>	<b>10 672</b>	<b>49 249</b>	<b>10 514</b>	<b>70 061</b>	<b>80 647</b>	<b>(78)</b>	<b>2</b>	<b>(13)</b>
<i>including:</i>								
<i>Sales of services</i>	10 194	10 031	8 308	30 239	30 245	2	23	(0)
<i>Loans interest</i>	114	126	274	366	687	(9)	(58)	(47)
<i>Income from dividends</i>	364	39 093	1 931	39 457	49 715	(99)	-	(21)
<b>Gross profit on sales</b>	<b>9 072</b>	<b>47 663</b>	<b>8 758</b>	<b>65 048</b>	<b>74 474</b>	<b>(81)</b>	<b>4</b>	<b>(13)</b>
<i>Gross profit on sales margin %</i>	85,01	96,78	83,30	92,84	92,35	(11,8) p.p.	1,7 p.p.	0,5 p.p.
<b>Sales costs</b>	<b>(1 016)</b>	<b>(1 044)</b>	<b>(988)</b>	<b>(3 057)</b>	<b>(2 895)</b>	<b>(3)</b>	<b>3</b>	<b>6</b>
<b>Administrative expenses</b>	<b>(7 981)</b>	<b>(10 429)</b>	<b>(8 462)</b>	<b>(26 532)</b>	<b>(25 593)</b>	<b>(23)</b>	<b>(6)</b>	<b>4</b>
<b>Other operating income</b>	<b>11</b>	<b>105</b>	<b>51</b>	<b>122</b>	<b>296</b>	<b>(90)</b>	<b>(78)</b>	<b>(59)</b>
<b>Other operating cost</b>	<b>(8 519)</b>	<b>(11 886)</b>	<b>(4 804)</b>	<b>(29 229)</b>	<b>(27 290)</b>	<b>(28)</b>	<b>77</b>	<b>7</b>
<b>EBIT</b>	<b>(8 432)</b>	<b>24 409</b>	<b>(5 446)</b>	<b>6 352</b>	<b>18 991</b>	<b>(135)</b>	<b>55</b>	<b>(67)</b>
<i>EBIT margin %</i>	(79,01)	49,56	(51,80)	9,07	23,55	(128,6) p.p.	(27,2) p.p.	(14,5) p.p.
<b>EBITDA</b>	<b>(8 332)</b>	<b>24 512</b>	<b>(4 663)</b>	<b>6 650</b>	<b>24 425</b>	<b>(134)</b>	<b>79</b>	<b>(73)</b>
<i>EBITDA margin %</i>	(78,08)	49,77	(44,35)	9,49	30,29	(127,8) p.p.	(33,7) p.p.	(20,8) p.p.
<b>Financial income</b>	<b>2</b>	<b>5</b>	<b>(543)</b>	<b>14</b>	<b>96</b>	<b>(53)</b>	<b>(100)</b>	<b>(86)</b>
<b>Financial cost</b>	<b>(148)</b>	<b>(3 163)</b>	<b>(1 443)</b>	<b>(4 747)</b>	<b>(3 407)</b>	<b>(95)</b>	<b>(90)</b>	<b>39</b>
<b>EBT</b>	<b>(8 578)</b>	<b>21 251</b>	<b>(7 432)</b>	<b>1 619</b>	<b>15 681</b>	<b>(140)</b>	<b>15</b>	<b>(90)</b>
<b>Corporate income tax</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net profit/(loss)</b>	<b>(8 578)</b>	<b>21 251</b>	<b>(7 432)</b>	<b>1 619</b>	<b>15 681</b>	<b>(140)</b>	<b>15</b>	<b>(90)</b>
<i>Net profit margin %</i>	(80,38)	43,15	(70,69)	2,31	19,44	(123,5) p.p.	(9,7) p.p.	(17,1) p.p.

### Revenues, profit on sales

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

Sales revenues for Q3 2016 amounted to PLN 10,672 thousand and comprised services provided to Group companies (PLN 10,194 thousand), interest income on loans

(PLN 114 thousand) and dividend income (PLN 364 thousand). In the equivalent period of the previous year, the standalone sales revenues amounted to PLN 10,514 thousand which included revenues from the services provided to Group companies (PLN 8,308 thousand), interest income on loans (PLN 274 thousand) and dividend income (PLN 1,931 thousand).

In the three quarters of 2016, the standalone sales revenues amounted to PLN 70,061 thousand which included revenues from the services provided to Group companies (PLN 30,239 thousand) and interest income on loans granted (PLN 366 thousand) and dividend income (PLN 39,457 thousand).

In the three quarters of 2014, the standalone sales revenues amounted to PLN 80,647 thousand which included revenues from the services provided to Group companies (PLN 30,245 thousand) and interest income on loans granted (PLN 687 thousand) and dividend income (PLN 49,715 thousand).

### Selling and distribution costs

In Q3 2016 the Company recognised the amount of PLN 1,016 thousand as selling and distribution costs (PLN 988 thousand in Q3 2015). In the three quarters of 2016 the Company recognised the amount of PLN 3,057 thousand as

### Administrative expenses

In Q3 2016, the administrative expenses amounted to PLN 7,981 thousand which was a decrease as compared to the equivalent period of the previous year by PLN 481 thousand. In the three quarters of 2016, administrative expenses amounted to PLN 26,532 thousand as compared to PLN 25,593 thousand in the equivalent period of 2015.

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 amounted to PLN 11 thousand in Q3 2016 which was a decrease as compared to the equivalent period of the previous year by PLN 40 thousand. Other operating expenses totalled PLN 8,519 thousand in Q3 2016 (PLN 4,804 thousand in the equivalent quarter of 2015).

For the three quarters of 2016, the other operating income and other operating expenses amounted to PLN +122 thousand and PLN -29,229 thousand respectively, while in the equivalent

The decrease of sales revenues in the three quarters of 2016 versus the equivalent period of 2015 was primarily due to a decrease in dividend received.

The interest expense on loans contracted from Group companies was presented as operating expenses and reduced profit on sales.

Profit on sales amounted to PLN 9,072 thousand in Q3 2016 (PLN 8,758 thousand in Q3 2015) and PLN 65,048 thousand for the three quarters of 2016 (74,474 thousand for the three quarters of in 2015).

selling and distribution costs (PLN 2,895 thousand in the three quarters of 2015).

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

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.

period in 2015 the amounted to PLN +296 thousand and PLN -27,290 thousand respectively.

The high level of the other operating expenses in the three quarters of 2016 was primarily due to an impairment charge to the loans to Arctic Paper Mochenwangen GmbH and an impairment charge to trade receivables from Arctic Paper Investment GmbH and Arctic Paper Mochenwangen GmbH.

## Financial income and financial expenses

In Q3 2016, the financial income amounted to PLN 2 thousand and was by PLN 545 thousand higher than generated in Q3 2015. The negative value of financial income in Q3 2015 results from the presentation of net FX differences or as a surplus of FX gains over FX losses (financial revenues) or as a surplus of FX losses over FX gains (financial expenses).

In Q3 2016, financial expenses amounted to PLN 148 thousand. In the equivalent period of 2015, the financial expenses amounted to PLN 1,443 thousand.

For three quarters of 2015, the financial income and expenses amounted to PLN +14 thousand and PLN -4,747 thousand

respectively and for the equivalent period in 2014 – PLN +96 thousand and PLN -3,407 thousand respectively.

Financial expenses for three quarters of 2016 related primarily interest on the loan from Arctic Paper Finance AB (PLN 2,090 thousand) and from Mr Thomas Onstad (PLN 1,120 thousand).



## Statement of financial position

### Selected standalone balance sheet items

PLN thousand	30.09.2016	31.12.2015	30.09.2015	Change	Change
				30.09.2016	30.09.2015
Fixed assets	845 821	843 274	828 042	2 547	17 779
Trade	62 289	82 121	72 676	(19 832)	(10 387)
Other current assets	14 808	15 371	28 193	(563)	(13 385)
Cash and cash equivalents	104 149	9 435	14 079	94 714	90 070
<b>Total assets</b>	<b>1 027 067</b>	<b>950 202</b>	<b>942 991</b>	<b>76 866</b>	<b>84 077</b>
Equity	670 906	668 959	680 621	1 947	(9 715)
Short-term liabilities	194 362	76 242	66 066	118 120	128 296
Long-term liabilities	161 798	205 001	196 304	(43 203)	(34 505)
<b>Total liabilities</b>	<b>1 027 067</b>	<b>950 202</b>	<b>942 991</b>	<b>76 865</b>	<b>84 076</b>

As at 30 September 2016 total assets amounted to PLN 1,027,067 thousand as compared to PLN 950,202 thousand at the end of 2015.

### Fixed assets

As at the end of September 2016 non-current assets represented nearly 82.4% of total assets which means that the share decreased (by 6.4 p.p.) compared to the end of 2015. The main item of non-current assets includes interests in subsidiaries. At the end of Q3 2016, the value was PLN

841,584 thousand as compared to PLN 838,741 thousand at the end of 2015. The change in value of interests in subsidiary entities was mostly due to an increase of the value of shares held in Arctic Paper Investment AB (PLN 2,843 thousand).

### Current assets

As at the end of September 2016, current assets amounted to PLN 181,245 thousand as compared to PLN 106,927 thousand at the end of 2015. The level of current assets increased at the end of September 2015, primarily with respect to cash assets. As at the end of Q3 2016, current assets represented 17.6% of total assets compared to 11.3% as at the end of the previous year.

As part of the current assets, receivables increased by PLN 27,189 thousand, other current assets decreased by PLN 14,292 thousand while cash and cash equivalents decreased by PLN 4,528 thousand.

The material growth of cash at the end of September 2016 is due to the recognition of the funds from the bond issue in the escrow account.

### Equity

As at the end of Q3 2016, the equity amounted to PLN 670,906 thousand as compared to PLN 668,959 thousand at the end of 2015. As at the end of September 2016, equity accounted for 65.3 % of balance sheet total vs. 70.4% of

balance sheet total as at the end of 2015. The increase of equity is primarily due to the net profit for three quarters of 2016.

### Short-term liabilities

As at the end of September 2016, short-term liabilities amounted to PLN 194,362 thousand (18.9% of balance sheet total) as compared to PLN 76,242 thousand as at the end of 2015 (8.0 % of balance sheet total).

The increase of short-term liabilities in the analysed period resulted primarily from reclassification from the loan to Arctic Paper Kostrzyn S.A. from long-term to short-term liabilities.

### Long-term liabilities

As at the end of September 2016, long-term liabilities amounted to PLN 161,798 thousand (15.8% of balance sheet total) as compared to PLN 205,001 thousand as at the end of 2015 (21.6% of balance sheet total).

The change in long-term liabilities in the analysed period resulted primarily from reclassification of the loan to Arctic Paper Kostrzyn S.A. from long-term to short-term liabilities and recognition of the bond issue.

## Cash flows

### Selected items of the standalone cash flow statements

PLN thousand	3Q	2Q	YTD	YTD	Change %	Change %
	2016	2016	2016	2015	3Q2016/ 2Q2016	YTD 2016/ YTD 2015
<b>Cash flows from operating activities</b>	<b>(2 442)</b>	<b>7 056</b>	<b>(508)</b>	<b>(22 864)</b>	<b>(134,6)</b>	<b>(97,8)</b>
<i>of which:</i>						
<i>Gross profit</i>	<i>(8 578)</i>	<i>21 251</i>	<i>1 619</i>	<i>15 680</i>	<i>(140,4)</i>	<i>(89,7)</i>
<i>Depreciation and impairment of fixed assets</i>	<i>100</i>	<i>102</i>	<i>298</i>	<i>5 433</i>	<i>(2,1)</i>	<i>(94,5)</i>
<i>Changes to working capital</i>	<i>8 096</i>	<i>(44)</i>	<i>12 737</i>	<i>(5 686)</i>	<i>(18 430,4)</i>	<i>(324,0)</i>
<i>Net interest and dividends</i>	<i>359</i>	<i>355</i>	<i>1 064</i>	<i>1 060</i>	<i>1,1</i>	<i>0,4</i>
<i>Other adjustments</i>	<i>(2 419)</i>	<i>(14 608)</i>	<i>(16 226)</i>	<i>(39 352)</i>	<i>(83,4)</i>	<i>(58,8)</i>
<b>Cash flows from investing activities</b>	<b>(44)</b>	<b>(2 916)</b>	<b>(3 026)</b>	<b>19 400</b>	<b>(98,5)</b>	<b>(115,6)</b>
<b>Cash flows from financing activities</b>	<b>98 953</b>	<b>(355)</b>	<b>98 248</b>	<b>(1 064)</b>	<b>(27 975,8)</b>	<b>(9 333,8)</b>
<b>Total cash flows</b>	<b>96 467</b>	<b>3 785</b>	<b>94 715</b>	<b>(4 527)</b>	<b>2 448,5</b>	<b>(2 192,3)</b>

The cash flow statement presents an increase in cash and cash equivalents in the three quarters of 2016 by PLN +94,715 thousand which includes:

- negative cash flows from operating activities of PLN -508 thousand,

- negative cash flows from investing activities of PLN -3,026 thousand,
- positive cash flows from financial activities of PLN +98,248 thousand.

### Cash flows from operating activities

In the three quarters of 2016, net cash flows from operating activities amounted to PLN -508 thousand as compared to PLN -22,864 thousand in the equivalent period of 2015. The negative cash flows from investing activities in the three

quarters this year were primarily due to repayment of the loan granted to the Company by Arctic Paper Kostrzyn S.A. (set-off with dividend in April 2016).

### Cash flows from investing activities

In the first nine months of 2016, cash flows from investing activities amounted to PLN -3.026 thousand as compared to PLN +19,400 thousand for three quarters of 2015. Cash flows

from investing activities in 2015 were related to termination of a short-term deposit.

### Cash flows from financing activities

In 2016 cash flows from financing activities amounted to PLN +98,248 thousand as compared to PLN -1,064 thousand in

2015. Cash flows from financing activities in 2016 were related to interest paid and inflow of proceeds from the bond issue.

## 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 electricity 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 is supplied to our Paper Mills from the Rottneros Pulp Mills. The remaining part of pulp manufactured at our Pulp Mills is sold to external customers.

#### Currency rate fluctuations

Our operating results are significantly influenced by currency rate fluctuations. In particular, our revenues and expenses are denominated in various foreign currencies and are not matched, therefore any appreciation of the currencies in which we incur expenses vis-a-vis the currencies in which we generate revenues will have adverse impact on our results. Our products are primarily sold to euro zone countries, Scandinavia, Poland and the UK, thus our revenues are largely denominated in EUR, GBP, SEK and PLN while revenues from the Pulp Mills are primarily 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 Odra) 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 Q3 2016 there were no unusual events or factors.

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

In Q3 2016 there were no material changes in the Arctic Paper Group's structure that would have material influence on the financial result generated.

## Obtaining of new funding

On 9 September 2016:

1. The Company signed a term and revolving facilities agreement ("Loan Agreement") which was concluded between the Company as the borrower, subsidiaries of the Company: Arctic Paper Kostrzyn S.A., Arctic Paper Munkedals AB and Arctic Paper Grycksbo AB, as guarantors ("Guarantors") and a consortium of banks as follows: Bank BGŻ BNP Paribas S.A. ("BGŻ BNP Paribas"), Bank Zachodni WBK S.A. and the European Bank for Reconstruction and Development ("EBRD") (jointly the "Lenders") pursuant to which the Lenders granted the Company term and revolving facilities up to the amount of PLN 31,500,000 (in words: PLN thirty one million five hundred thousand) and EUR 52,400,000 (in words: EUR fifty two million four hundred thousand) ("Loans").
2. The Company signed agreements with Haitong Bank, S.A. Spółka Akcyjna Branch in Poland ("Haitong") related to a bond issue programme up to PLN 150,000,000 (in words: PLN one hundred fifty million) ("Bonds"), including an agency agreement ("Agency Agreement") and a bond issue underwriting agreement ("Underwriting Agreement").
3. The Company, Mr Thomas Onstad, Bank Zachodni WBK S.A., Haitong, BGŻ BNP Paribas and other parties entered into an intercreditor agreement ("Intercreditor Agreement") pursuant to which a structure of parallel debt was established in favour of BGŻ BNP Paribas (acting as the collateral agent) in an amount equal to, in appropriate currencies, to the sum of liabilities under the Loans, Bonds, hedging transactions and other liabilities specified in the Intercreditor Agreement.
4. To secure the receivables due to BGŻ BNP Paribas under the Intercreditor Agreement and other claims specified in the collateral documents, the Company and the Guarantor will inter alia Conclude registered and financial pledge agreements on the existing shares and interests and on bank accounts and an agreement establishing mortgage on properties with BGŻ BNP Paribas, will submit to BGŻ BNP Paribas a declaration on submission to voluntary enforced collection and will grant BGŻ BNP Paribas authorisation to access the existing bank accounts (in compliance with other agreements as specified above).

With report No. 9/2016 of 4 May 2016, the Management Board of Arctic Paper S.A. informed investors of its decision on formal commencement of work on the contemplated refinancing of the existing debt of the Company and its subsidiaries resulting from loan agreements and raising alternative financing. The agreements listed above constitute the acquisition of alternative financing and a change to the funding structure of the Company's capital group.

The centralised funding will ensure more effectiveness management of financial liquidity and flexible adjustment of the funding level for each company.

Herebelow, the Company provides details of the above items:

### Re. 1 – Loan agreement

In accordance with the Loan Agreement, the Lenders provided the Company with the following Loans:

- (A) a term loan in three tranches – tranche 1 of EUR 12,000,000 (in words: EUR twelve million) to be disbursed by EBRD, tranche 2 of EUR 2,600,000 (in words: EUR two million six hundred thousand) to be disbursed by BGŻ BNP Paribas and tranche 3 of PLN 11,500,000 (in words: PLN eleven million five hundred thousand) to be disbursed by Bank Zachodni WBK S.A. ("Term Loan") as well as term investment loans A and B disbursed by EBRD, of EUR 8,000,000 (in words: EUR eight million) and EUR 10,000,000 (in words: EUR ten million) respectively ("Investment Loan"); and
- (B) revolving facility to be disbursed by BGŻ BNP Paribas and Bank Zachodni WBK S.A., in two tranches – Tranche 1 of EUR 19,800,000 (in words: EUR nineteen million eight hundred thousand) and Tranche 2 of PLN 20,000,000 (in words: PLN twenty million) ("Revolving Facility").

The Term Loan was made available subject to corresponding provisions of the Loan Agreement, for the following purposes:

- (i) refinance the Company's intragroup liabilities to Arctic Paper Kostrzyn S.A. or financing intragroup loans granted by the Company to Arctic Paper Kostrzyn S.A. to repay the existing debt – the loan may also be replaced with the proceeds from the bond issue;
- (ii) refinance liabilities of Arctic Paper Grycksbo AB, by the Company granting an intragroup loan to Arctic Paper Grycksbo AB;
- (iii) refinance liabilities of Arctic Paper Munkedals AB, by the Company granting an intragroup loan to Arctic Paper Munkedals AB;
- (iv) refinance capital expenditures of companies in the Company's capital group, including in particular investment outlays by Arctic Paper Kostrzyn S.A. up to EUR 4,750,000 – indirectly by the Company granting an intragroup loan to the relevant member of the capital

group – the loan may also be replaced with the proceeds from the bond issue; and

- (v) finance or refinance the financing costs referred to in the Loan Agreement.

The Investment Loan was made available – subject to corresponding provisions of the Loan Agreement – to finance investments aimed at the improving the effective use of the resources and operational effectiveness as well as production capacities in Poland. With its investment plans, the Company plans to materially improved its competitiveness, expand its production potential and improve the energy effectiveness and resource management. The Company's Paper Mill in Kostrzyn will be modernised with investments under EBRD's programme – Green Economy Transition (GET) aimed at improving its energy effectiveness and minimising the quantities of waste generated.

The Revolving Facility was made available – subject to corresponding provisions of the Loan Agreement – to refinance Company's intragroup liabilities or to finance intragroup loans – the loan may also be replaced with the proceeds from the bond issue – for the following purposes:

- (i) Refinance obligations under an overdraft facility of Arctic Paper Kostrzyn S.A. under the existing bank loans;
- (ii) refinance outstanding liabilities of Arctic Paper Grycksbo AB under the existing factoring contracts with Svenska Handelsbanken AB;
- (iii) refinance obligations under an overdraft facility of Arctic Paper Grycksbo AB;
- (iv) refinance outstanding liabilities of Arctic Paper Munkedals AB under the existing factoring contracts with Svenska Handelsbanken AB; and
- (v) after repayment of the existing bank debt – pursuance of overall corporate objectives or related to working capital of the Company's capital group (with the exception of Rottneros AB, Arctic Paper Mochenwangen GmbH and Arctic Paper Investment GmbH and their subsidiaries), including the provision of intragroup loans – such loans may also be replaced with the proceeds from the bond issue.

Loan disbursements (except the Investment Loan for investment purposes of the Company's investment purposes with the exception of Rottneros AB, Arctic Paper

Mochenwangen GmbH and Arctic Paper Investment GmbH and their subsidiaries, in compliance with the Loan Agreement) is subject to the Company and the Guarantors complying with the conditions precedent, including the submission of:

- (i) copy of the Company's Articles of Association and corporate documents of the Guarantors;
- (ii) certified copies of extracts from the register of entrepreneurs (Register of Entrepreneurs) of the National Court Register, concerning the company and each Guarantor; with reference to the companies registered in Sweden – registration certificates, in each case issued not earlier than 7 days before the application for disbursement of each tranche of the Loans;
- (iii) as required by the applicable laws and/or the by-laws or articles of association of the company – copies of resolutions of the general meeting, supervisory board (if any) and management of the Company and the Guarantors;
- (iv) copy resolutions of the Company's management board and supervisory board concerning the initiation of the bond issue programme;
- (v) copies of insurance policies of the Company and the Guarantors;
- (vi) Loan Agreement, Intercreditor Agreement, fee letters), agreements concerning hedging transactions and other financial documents specified in the Loan Agreement;
- (vii) copies of submitted applications to register the collateral as required to have them entered in the relevant register and submission of extracts from the land and mortgage registers for the relevant properties;
- (viii) appropriate legal opinions issued inter alia for the Lenders; and
- (ix) submission of other documents or compliance with other conditions specified in the Loan Agreement.

In accordance with the provisions of the Loan Agreement, the Loans bear interest at a variable interest rate relying on WIBOR in case of PLN financing and on EURIBOR in case of EUR financing, plus a variable margin for the Lenders subject to the level of debt indicators.

In compliance with the Loan Agreement, the Loans will be repaid by:

- (A) Term Loan – tranche 1 by 31 August 2022, tranche 2 by 31 August 2021 and tranche 3 by 31 August 2021, Investment loan by 31 August 2022 (both the A investment loan and the B investment loan); and
- (B) Revolving Facilities – tranche 1 and 2 by 31 August 2019, subject to potential extension in compliance with the Loan Agreement.

The Loan Agreement is subject to English law and does not provide for any contractual penalties. Should any breach occur and continue as specified in the Loan Agreement, Bank Zachodni WBK S.A. (as the entity operating as the agent in compliance with the Loan Agreement) may – in compliance with the Loan Agreement – notify the Company on a duty to prepay the Loans immediately.

## **Re. 2 – agreements related to the planned Bond issue**

On 9 September 2016 the Company – in connection with the planned issue programme and the planned Bond issue by the Company – entered into an Agency Agreement, Underwriting Agreement and other agreements of purely technical nature, related to the activation of the Bond issue programme. Under the Bond issue programme, the Company intends to issue series A Bonds for PLN 100,000,000 (in words: PLN one hundred million).

The Agency Agreement covers the organisation of the Bond issue programme by Haitong that will act as the issue agent, dealer, payment agent, calculation agent, technical agent, administrative agent and depository.

Pursuant to the Underwriting Agreement for the planned Bond issue, Haitong agrees to acquire the Bonds that will not be placed in the market, up to the total amount of PLN 100,000,000 (in words: PLN one hundred million).

The agreements related to the planned Bond issue were concluded under Polish law and do not provide for any contractual penalties. The Agency Agreement may be terminated by the Company or Haitong subject to a 30-day notice period. Both the Company and Haitong may also terminate any of the above agreements for reasons specified therein.



### Re. 3 – Intercreditor Agreement

The Company further informs that on 9 September 2016 one of the conditions precedent specified in the Loan Agreement will be satisfied – the Intercreditor Agreement will be signed. It regulates the sequence of repayments to creditors (the obligations specified in the Intercreditor Agreement will be satisfied *pari passu*, with the exception of intragroup obligations that will be subordinated to those of the Lenders), the principles of pursuing claims, the principles of enforcing collateral and release of collateral.

Pursuant to the Intercreditor Agreement, parallel debt will be created covering:

- (i) Company's parallel debt
- (ii) parallel debt of selected subsidiaries of the Company – each being a standalone and independent debt to BGŻ BNP Paribas (acting as the collateral agent) from each respective entity.

The obligations of the Company and each Guarantor under parallel debt, covering *inter alia* the obligations under the Loan Agreement and the Bonds, will be secured with the establishment of a packet of collateral. Pursuant to each obligation under parallel debt, each of the above entities shall be obliged to pay to BGŻ BNP Paribas an amount being the sum of all obligations of such entity under the core legal relationships covered with the Intercreditor Agreement. Enforceability of any of the core obligations of an entity will automatically generate enforceability of parallel debt in the same amount. Payment by any entity of any parallel debt to BGŻ BNP Paribas will automatically reduce the amount of core obligations of such entity equivalent to parallel debt, by the amount of such payment. Any repayment of core obligations by an entity will automatically reduce the parallel debt of the entity by the amount of such payment.

The Intercreditor Agreement is subject to English law and does not provide for any contractual penalties.

### Art. 4 – Collateral

The Company and the Guarantors will establish the following collateral to their obligations under the Intercreditor Agreement:

- subject to Polish law (*inter alia*):

- (i) financial and registered pledges on all shares and interests registered in Poland, owned by the Company and the Guarantors, in companies in the Company Group (with the exception of Rottneros AB, Arctic Paper Mochenwangen GmbH and Arctic Paper Investment GmbH), except the shares in the Company;
- (ii) mortgages on all properties located in Poland and owned by the Company and the Guarantors;
- (iii) registered pledges on all material rights and movable assets owned by the Company and the Guarantors, constituting an organised part of enterprise, located in Poland (with the exception of the assets listed in the Loan Agreement);
- (iv) assignment of (existing and future) insurance policies covering the assets of the Company and the Guarantors (with the exception of insurance policies listed in the Loan Agreement);
- (v) declaration by the Company and the Guarantors on voluntary submission to enforcement, in the form of a notary deed;
- (vi) financial pledges and registered pledges on the bank accounts of the Company and the Guarantors, registered in Poland;
- (vii) powers of attorney to Polish bank accounts of the Company and the Guarantors, registered in Poland;
- (viii) subordination of the debt held by intragroup lenders (specified in the Intercreditor Agreement).
  - subject to Swedish law (*inter alia*):
    - (i) pledges on all shares and interests registered in Poland, owned by the Company and the Guarantors, in Group companies, with the exception of the shares in the company, as well as pledged on the shares in Rottneros (with the exception of the free packet of shares in Rottneros);
    - (ii) mortgages on all properties located in Sweden and owned by the Company and the Guarantors as long as such collateral covers solely the existing mortgage deeds;
    - (iii) corporate mortgage loans granted by the Guarantors registered in Sweden as long as such collateral covers solely the existing mortgage deeds;
    - (iv) assignment of (existing and future) insurance policies covering the assets of the Company and the Guarantors



(with the exception of insurance policies listed in the Loan Agreement);

- (v) pledges on Swedish bank accounts of the Company and the Guarantors as long as such collateral is without prejudice to free management of funds deposited on bank

accounts until an event of default specified in the Loan Agreement.

The collateral agreements do not provide for contractual penalties.

## Bond issue

On 30 September 2016 ("Issue Date"), under the bond issue programme up to PLN 150,000,000 of 9 September 2016 – the Company made a private placement of 100,000 series A bonds ("Bonds").

The Bond issue was based on the following legal basis:

- (i) Art. 33.2 of the Act on Bonds of 15 January 2015;
- (ii) Resolution of the Company's Management Board No. 1/05/2016 of 4 May 2016;
- (iii) Resolution of the Company's Supervisory Board No. 11/04/2016 of 28 April 2016;
- (iv) Resolution of the Company's Management Board No. 1/09/2016 of 22 September 2016; and
- (v) Resolution of the Company's Management Board No. 2/09/2016 of 23 September 2016.

The purpose of the issue was not identified in the Bond issue terms and conditions; the Company intends to apply the proceeds from the Bond issue to refinance its existing obligations.

The Bonds were issued as unsecured, bearer bonds and in dematerialised form. The total nominal value of the Bonds is PLN 100,000,000 and the nominal value of one Bond is PLN

1,000. The issue price of the Bonds is equal to their nominal value. The Bonds will be redeemed on 31 August 2021 or at a premature redemption date ("Redemption Date").

In accordance with item 4 of the current report No. 20/2016, there will be parallel debt concerning inter alia receivables of the bond holders (that are parties to the intercreditor agreement) under the Bonds, in compliance with the intercreditor agreement concluded by the Company. The Bonds were registered with Krajowy Depozyt Papierów Wartościowych S.A. [Central Securities Depository of Poland].

Starting from the day after the Issue Date and until the Redemption Date (including), the Bonds will earn interest. The interest rate applicable to the Bonds is variable and equal to the sum of WIBOR 6M and a margin which is subject to the net debt to EBITDA ratio. Interest on the Bonds will be paid semi-annually. The Bond issue terms and conditions do not provide for non-monetary benefits.

The Company intends to have the Bonds admitted to trading in an alternative trading system operated by the Warsaw Stock Exchange and/or BondSpot S.A.

The Bond issue terms and conditions provide for bond holder meetings.

## Debt repayment by Arctic Paper Kostrzyn S.A.

On 25 October 2016 ("Repayment Date"), the subsidiary of the Company: Arctic Paper Kostrzyn S.A. ("Borrower") repaid the debt specified below (jointly "Debt") under the loan agreement for maximum equivalent of PLN 359,000,000 (in words: PLN three hundred fifty nine million) of 6 November 2012, as amended and consolidated and most recently amended pursuant to the amendment letter No. 7 of 15 December 2015, concluded between Bank Polska Kasa Opieki S.A. ("Pekao") as the collateral agent and lender, Bank Zachodni WBK S.A. ("BZ WBK") as a lender and mBank S.A. ("mBank") as a

lender, and the Borrower, and Arctic Paper Mochenwangen GmbH and Arctic Paper Investment GmbH as the guarantors and the Company as a joint debtor, with the Borrower and the agent of the obliged entities, pursuant to which Pekao, BZ WBK and mBank provided the Borrower with:

- a multicurrency term loan ("Term Loan"); and
- an overdraft facility ("Overdraft Facility")

subject to the terms and conditions specified in the Existing Loan Agreement, as follows:

- with reference to EUR denominated obligations:

- the repayment amount of the EUR Term Loan (BZ WBK) was EUR 4,223,436.17;
- the repayment amount of the EUR Term Loan (mBank) was EUR 3,620,579.21; and
- the repayment amount of the EUR Term Loan Pekao) was EUR 4,899,480.76;

with the overall repayment amount in EUR being EUR 12,743,496.14;

with reference to PLN denominated obligations:

- the repayment amount of the PLN Overdraft Facility to BZ WBK was PLN 7,395,271.16;
- the repayment amount of the PLN Overdraft Facility to mBank was PLN 5,663,467.81;
- the repayment amount of the PLN Overdraft Facility to Pekao was PLN 8,335,519.76;

## Other material information

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

With reference to the Profitability Improvement Programme of the Arctic Paper Group published in July 2015, on 19 January 2016 the Management Board of the Issuer's subsidiary – Arctic Paper Grycksbo AB (Sweden) started negotiations with

- the repayment amount of the PLN Term Loan to BZ WBK was PLN 39,479,781.03;
- the repayment amount of the PLN Term Loan to mBank was PLN 33,846,688.07; and
- the repayment amount of the PLN Term Loan to Pekao was PLN 45,784,479.07;

with the overall repayment amount in PLN being PLN 140,505,206.90.

The Company disclosed information on the conclusion of the above loan agreement and amendments thereto with its current reports No. 19/2012 of 6 November 2012, No. 44/2013 of 20 December 2013 and No. 24/2014 of 16 October 2014.

The Debt was repaid as a result of a changed financing structure of the Company's capital group, in particular its centralisation providing for more effective financial liquidity management and flexible adjustment of the financing level of each company, of which the Company notified in its current reports No. 9/2016 and 20/2016.

its trade unions to reduce the 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 as well as to improve the performance of the facility in Grycksbo. To this end, the facility may potentially reduce its headcount by about 40 persons in 2016.

## Factors influencing the development of the Arctic Paper Group

### Information on market trends

#### Supplies of fine paper

Supplies of fine paper to the European market in Q3 2016 were lower compared to the equivalent period of 2015 by approx. 7.7%. Supplies in the segment of uncoated wood-free paper (UWF) were lower by 8.8%, while in the segment of coated wood-free paper (CWF) were lower by 6.5%.

As compared to Q2 2016, deliveries of high quality paper were lower by about 3.6%. In the analysed period, supplies in the segment of uncoated wood-free paper (UWF) were 9.1% lower, while those in the segment of coated wood-free paper (CWF) were 3.5% higher.

Supplies of fine paper in the European market in 9 months of 2016 were by 6.1% lower than in the equivalent period in

2015. Supplies in the segment of uncoated wood-free paper (UWF) were lower by 6.4%, while in the segment of coated wood-free paper (CWF) were lower by 5.8%.

In Q3 2016 the Arctic Paper Group recorded an increased level of orders versus Q2 2016 by 7.2% and a growth of orders versus the equivalent period of 2015 by 2.2%.

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 Q3 2016 the average prices of high quality UWF paper decreased by 0.8% while the prices of CWF paper decreased by 2.6% versus equivalent prices at the end of 2015.

In the period from July to September 2016, the prices of uncoated wood-free paper (UWF) and coated wood-free paper (CWF) for selected markets: Germany, France, Spain, Italy and the UK, expressed in EUR and GBP, experienced similar decreases: by 1.3% and 1.2% respectively

The average prices invoiced by Arctic Paper in EUR for comparable products in the segment of uncoated wood-free paper (UWF) decreased from July to September 2016 by 0.6% versus the equivalent period in 2015, while in the segment of coated wood-free paper (CWF) the prices decreased by 1.9%.

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 Q3 2016, the pulp prices reached the level of: NBSK – USD 810/ton and BHKP – USD 662/ton. The average pulp price in Q3 2016 was lower by 4.1% for NBSK while lower by 16.5% for BHKP, compared to the corresponding period of the previous year. The average pulp price in Q3 2016 was higher by 1.8% for NBSK and lower by 3.1% for BHKP as compared to Q2 2016.

The average cost of pulp per ton as calculated for the AP Group, expressed in PLN, in Q3 2016 decreased by 3.2% compared to Q2 2016 and decreased by 10.2% compared to Q3 2015. The share of pulp costs in cost of paper sales in Q3

of the current year amounted to 53% and was lower compared to the level recorded in Q3 2015 (62%).

In the first three quarters of 2016, the AP Group used pulp in the production process in the following structure: BHKP 72%, NBSK 20% and other 8%.

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](http://www.foex.fi) analysis by Arctic Paper.

## Currency exchange rates

The EUR/PLN exchange rate at the end of Q3 2016 amounted to 4.3120 and was lower by 2.6% than at the end of Q2 2016 and higher by 1.7% than at the end of Q3 2015. The average exchange rate in Q3 2016 was lower by 0.7% than in Q2 2016 and amounted to 4.3411, compared to 4.3712. The average exchange rate in Q3 2016 was by 3.6% higher than in Q3 2015.

The EUR/SEK exchange rate at the end of September 2016 was 9.6100 versus 9.4240 at the end of H1 2016, and 9.3878 at the end of Q3 2015 which was an appreciation of EUR to SEK by 2% and 2.4% respectively.

For this pair, the mean exchange rate in the first quarter was 2.5% higher compared to Q2 2016. The average exchange rate in Q3 2016 was 0.9% higher than in the corresponding period of 2015.

The changes mean a depreciation of SEK vis-a-vis EUR in Q3 2016 which had favourable impact on the Group's financial results, primarily with reference to the sales revenues generated by the Swedish factories that depend on prices in EUR.

At the end of Q3 2016, the USD/PLN rate recorded a decrease by 3.1% versus the end of Q2 2016 and amounted to 3.8558. In Q3 2016, the mean exchange rate amounted to 3.8891 compared to 3.8711 in Q2 2016. That was a PLN depreciation to USD by 0.5%.

At the end of Q3 2016, the USD/SEK rate amounted to 8.5933 and was by 1.4% higher than at the end of Q2 2016. The mean exchange rate in Q3 2016 amounted to 8.5209 which was an increase by 3.7% compared to Q2 2016.

The changes of the USD/SEK exchange rates adversely affected the costs incurred in USD by the Swedish Pulp Mills, in particular the costs of pulp. With reference to the Paper Mill in Kostrzyn, the average monthly USD/PLN exchange rate remained relatively neutral with a material PLN appreciation at the end of the quarter.

At the end of September 2016, the EUR/USD rate amounted to 1.1183 compared to 1.1119 at the end of Q2 2016 and to 1.1227 at the end of September 2015. As a percentage, that meant an appreciation of EUR to USD by 0.6% and depreciation of the currency by 0.4%. In Q3 2016, the mean exchange rate of the pair amounted to 1.1164 compared to 1.1293 in Q2 2016 (-1.1%).

Further depreciation of SEK versus EUR has positively affected the Group's financial profit, mainly due to increased sales revenues generated in EUR and translated into SEK. The relatively stable USD vis-a-vis PLN in Q3 2016 had no major impact on the purchase prices of raw materials at the Paper Mill in Kostrzyn. USD appreciating vis-a-vis SEK adversely affected the costs in the Paper Mills in Sweden.

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

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

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

## Risk factors

### Major changes to risk factors

In Q3 2016 there were no material changes to the risk factors. Those were presented in detail in the semi-annual report for 2016.

## 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 the projected 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.

#### Company's shares or rights to shares held by managing and supervising persons

Managing and supervising personnel	Number of shares or rights to shares as at 10.11.2016	Number of shares or rights to shares as at 29.08.2016	Change
<b>Management Board</b>			
Wolfgang Lübbert	-	-	-
Jacek Łoś	-	-	-
Per Skoglund	-	-	-
Małgorzata Majewska-Śliwa	-	-	-
Michał Sawka	-	-	-
<b>Supervisory Board</b>			
Per Lundeen	20 000	n.a.	-
Rolf Olof Grundberg	n.a.	12 000	-
Rune Roger Ingvarsson	n.a.	-	-
Thomas Onstad	5 848 658	5 848 658	-
Roger Mattsson	-	-	-
Mariusz Grendowicz	-	-	-
Maciej Georg	-	n.a.	-

### Information on sureties and guarantees

As at 30 September 2016, the Group reported:

- pledge on properties of Arctic Paper Munkedals AB resulting from a factoring contract with Svenska Handelsbanken AB for SEK 160,000 thousand;
- pledge on properties of Arctic Paper Grycksbo AB resulting from a factoring contract with Svenska Handelsbanken AB for SEK 85,000 thousand;
- pledge on properties of Arctic Paper Grycksbo AB resulting from a factoring contract with Svenska Handelsbanken AB for SEK 20,000 thousand;
- pledge on shares of Arctic Paper Grycksbo AB resulting from a factoring contract with Svenska Handelsbanken AB for SEK 119,033 thousand;

- pledge on properties of Arctic Paper Grycksbo AB resulting from an FPG contract in favour of the mutual life insurance company PRI for SEK 50,000 thousand;
- contingent liability under a guarantee for FPG in favour of the mutual life insurance company PRI for SEK 1,452 thousand at Arctic Paper Grycksbo AB and for SEK 759 thousand at Arctic Paper Munkedals AB;
- pledge on properties of Arctic Paper Munkedals AB resulting from an FPG contract in favour of the mutual life insurance company PRI for SEK 50,000 thousand;
- receivables limit covered with a factoring contract in Arctic Paper Munkedals AB up to SEK 198,407 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 SEK;
- mortgage on the properties held by Kalltorp Kraft HB for SEK 8,650 SEK;
- a bank guarantee in favour of Skatteverket Ludvika for SEK 135 thousand;
- security on a bank account of Arctic Paper Mochenwangen GmbH covering employee benefits for EUR 255 thousand;
- pledges on shares in subsidiary companies in the Rottneros Group for SEK 509,000 thousand;
- pledge on 39,900,000 shares of Rottneros AB under the loan agreement for EUR 4,000 thousand concluded by Arctic Paper S.A. with Mr Thomas Onstad.

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, 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.

In connection with the repayment of debt under the above loan agreement on 25 October 2016, the Company and Arctic Paper Kostrzyn SA received on 28 October 2016 documents from banks confirming the release of all collateral related to that loan agreement.

In connection with the term and revolving loan agreements signed on 9 September 2016, related to the bond issue and the intercreditor agreement (more detailed in the note "Acquisition of new funding"), on 3 October 2016 the Company signed agreements and statements in compliance with which collateral for the above obligations and other claims will be established in favour of Bank BGŻ BNP Paribas S.A. as follows:

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



- assignment of (existing and future) insurance policies covering the assets of the Company and the Guarantors (with the exception of insurance policies listed in the Loan Agreement);
  - declaration by the Company and the Guarantors on voluntary submission to enforcement, in the form of a notary deed;
  - financial pledges and registered pledges on the bank accounts of the Company and the Guarantors, registered in Poland;
  - powers of attorney to Polish bank accounts of the Company and the Guarantors, registered in Poland;
  - subordination of the debt held by intragroup lenders (specified in the Intercreditor Agreement).
2. under Swedish law – Collateral Documents establishing the following Collateral:
- pledges on all shares and interests registered in Poland, owned by the Company and the Guarantors, in Group companies, with the exception of the shares in the company, as well as pledged on the shares in Rottneros (with the exception of the free packet of shares in Rottneros);
  - mortgages on all properties located in Sweden and owned by the Company and the Guarantors as long as such collateral covers solely the existing mortgage deeds;
  - corporate mortgage loans granted by the Guarantors registered in Sweden as long as such collateral covers solely the existing mortgage deeds;
  - assignment of (existing and future) insurance policies covering the assets of the Company and the Guarantors (with the exception of insurance policies listed in the Loan Agreement);
  - pledges on Swedish bank accounts of the Company and the Guarantors as long as such collateral is without prejudice to free management of funds deposited on bank accounts until an event of default specified in the Loan Agreement.

## Material off-balance sheet items

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

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

During the period under report, Arctic Paper S.A. and its subsidiaries were not a party to any proceedings pending before a court, arbitration or public administrative authority, the

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

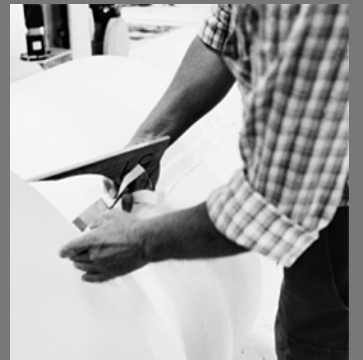
## Information on transactions with related parties executed on non-market terms and conditions

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

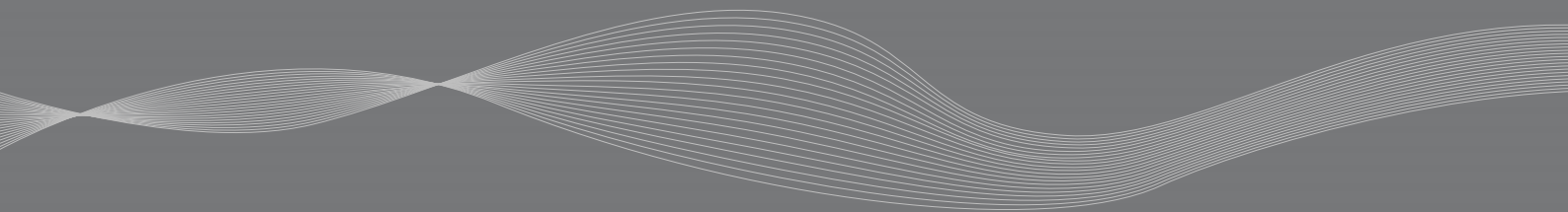


Signatures of the Members of the Management Board

Position	First and last name	Date	Signature
President of the Management Board Managing Director	Per Skoglund	10 November 2016.	
Member of the Management Board Financial Director	Małgorzata Majewska-Śliwa	10 November 2016.	



Abbreviated quarterly consolidated  
statements for the period of nine months  
ended on 30 September 2016



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## Consolidated financial statements and selected financial data

### Selected consolidated financial data

	Period from 01.01.2016 to 30.09.2016 PLN thousand	Period from 01.01.2015 to 30.09.2015 PLN thousand	Period from 01.01.2016 to 30.09.2016 EUR thousand	Period from 01.01.2015 to 30.09.2015 EUR thousand
Continuing operations				
Sales revenues	2 259 806	2 190 052	518 414	526 764
Operating profit (loss)	123 116	105 862	28 244	25 463
Gross profit (loss)	92 956	81 780	21 325	19 670
Net profit (loss) from continuing operations	69 189	74 611	15 872	17 946
Discontinued operations				
Profit (loss) from discontinued operations	(7 213)	(35 741)	(1 655)	(8 597)
Net profit (loss) for the financial year	61 976	38 870	14 218	9 349
Profit (loss) for the period attributable to equity holders of the parent entity	34 404	(6 756)	7 892	(1 625)
Net cash flows from operating activities	97 869	111 126	22 452	26 729
Net cash flows from investing activities	(115 973)	(46 098)	(26 605)	(11 088)
Net cash flows from financing activities	43 323	(26 601)	9 938	(6 398)
Change in cash and cash equivalents	25 219	38 427	5 785	9 243
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)	0,50	(0,10)	0,11	(0,02)
Diluted EPS (in PLN/EUR)	0,50	(0,10)	0,11	(0,02)
Mean PLN/EUR exchange rate*			4,3591	4,1576
	As at 30 September 2016 PLN thousand	As at 31 December 2015 PLN thousand	As at 30 September 2016 EUR thousand	As at 31 December 2015 EUR thousand
Assets	1 826 014	1 813 235	423 473	425 492
Long-term liabilities	299 554	372 599	69 470	87 434
Short-term liabilities	768 296	682 515	178 176	160 159
The liabilities directly related to the discontinued operations	29 177	81 264	6 766	19 069
Equity	728 986	676 856	169 060	158 830
Share capital	69 288	69 288	16 069	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)	10,52	9,77	2,44	2,29
Diluted book value per share (in PLN/EUR)	10,52	9,77	2,44	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**	-	-	4,3120	4,2615

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

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

## Consolidated income statement

	3-month period ended on 30 September 2016 (unaudited)	9-month period ended on 30 September 2016 (unaudited)	3-month period ended on 30 September 2015 (unaudited)	9-month period ended on 30 September 2015 (unaudited)
<b>Continuing operations</b>				
Revenues from sales of goods	759 981	2 259 806	730 700	2 190 052
Sales revenues	759 981	2 259 806	730 700	2 190 052
Costs of sales	(638 249)	(1 913 217)	(619 133)	(1 866 327)
Gross profit / (loss) on sales	121 732	346 589	111 567	323 725
Selling and distribution costs	(62 078)	(189 249)	(58 839)	(201 386)
Administrative expenses	(14 660)	(49 238)	(15 693)	(45 985)
Other operating income	11 327	50 279	15 119	56 525
Other operating expenses	(8 285)	(35 264)	(9 115)	(27 016)
Operating profit (loss)	48 035	123 116	43 038	105 862
Financial income	523	1 143	(1 076)	1 021
Financial expenses	(9 717)	(31 303)	(10 685)	(25 103)
Gross profit (loss)	38 842	92 956	31 277	81 780
Income tax	(6 325)	(23 767)	(8 556)	(7 169)
Net profit (loss) for the period from continuing operations	32 517	69 189	22 721	74 611
<b>Discontinued operations</b>				
Profit (loss) for the period from discontinued operations	(873)	(7 213)	(9 795)	(35 741)
Net profit (loss) for the financial year	31 644	61 976	12 926	38 870
<b>Attributable to:</b>				
The shareholders of the Parent Entity, of which:	24 523	34 404	425	(6 756)
- profit (loss) from continuing operations	25 396	41 617	10 220	28 985
- profit (loss) from discontinued operations	(873)	(7 213)	(9 795)	(35 741)
Non-controlling shareholders, of which:	7 121	27 572	12 501	45 626
- profit (loss) from continuing operations	7 121	27 572	12 501	45 626
- profit (loss) from discontinued operations	-	-	-	-
	31 644	61 976	12 926	38 870
<b>Earnings per share:</b>				
- basic from the profit (loss) for the period attributable to equity holders of the parent	0,35	0,50	0,01	(0,10)
- basic from the profit (loss) from continuing operations attributable to equity holders of the parent	0,37	0,60	0,15	0,42
- diluted from the profit (loss) for the period attributable to equity holders of the parent	0,35	0,50	0,01	(0,10)
- diluted from the profit (loss) from the continuing operations attributable to equity holders of the parent	0,37	0,60	0,15	0,42

## Consolidated statement of total comprehensive income

	3-month period ended on 30 September 2016 (unaudited)	9-month period ended on 30 September 2016 (unaudited)	3-month period ended on 30 September 2015 (unaudited)	9-month period ended on 30 September 2015 (unaudited)
Net profit / (loss) for the reporting period	31 644	61 976	12 926	38 870
Items to recognise in profit/loss in future periods:				
FX differences on translation of foreign operations	(21 635)	(16 994)	(3 401)	(1 302)
Deferred tax on items recognised directly in equity	(4 004)	(6 769)	1 574	2 097
Measurement of financial instruments	18 823	31 419	(6 562)	(10 495)
Items not to recognise in profit/loss in future periods:				
Actuarial gains/ losses	-	-	-	868
Deferred income tax on actuarial profit/loss	-	-	-	(243)
Other comprehensive income (net)	(6 816)	7 656	(8 388)	(9 075)
Total Comprehensive income for the period	24 828	69 632	4 538	29 795
Total comprehensive income:				
Equity holders of the parent	22 855	43 274	(5 380)	(13 069)
Non-controlling interest	1 973	26 358	9 918	42 864

## Consolidated balance sheet

	As at 30 September 2016 (unaudited)	As at 30 June 2016 (after review)	As at 31 December 2015 (audited)	As at 30 September 2015 (unaudited)
<b>ASSETS</b>				
Fixed assets				
Tangible fixed assets	733 838	725 590	719 782	701 640
Investment properties	3 982	3 982	3 982	3 982
Intangible assets	51 403	52 694	51 622	51 925
Interests in joint ventures	4 992	5 224	5 169	5 018
Other financial assets	6 939	5 723	1 017	762
Other non-financial assets	1 429	1 489	1 472	2 813
Deferred income tax asset	25 128	30 402	47 625	46 189
	827 712	825 104	830 668	812 329
Current assets				
Inventories	344 352	378 261	390 631	334 724
Trade and other receivables	395 745	377 901	336 499	377 702
Corporate income tax receivables	11 737	10 297	6 941	11 701
Other non-financial assets	16 105	15 539	11 531	10 861
Other financial assets	2 679	520	944	1 648
Cash and cash equivalents	211 923	124 219	188 552	196 012
	982 542	906 738	935 099	932 647
Assets related to discontinued operations	15 760	18 370	47 467	63 481
<b>TOTAL ASSETS</b>	<b>1 826 014</b>	<b>1 750 212</b>	<b>1 813 235</b>	<b>1 808 457</b>
<b>EQUITY AND LIABILITIES</b>				
Equity				
Equity (attributable to the shareholders of the Parent Entity)				
Share capital	69 288	69 288	69 288	69 288
Reserve capital	452 547	447 638	447 638	447 638
Other reserves	146 945	141 116	127 976	130 798
FX differences on translation	11 965	24 343	21 810	13 598
Retained earnings / Accumulated losses	(152 130)	(176 654)	(181 625)	(127 594)
Cumulated other comprehensive income related to discontinued operations	(9 229)	(9 201)	(8 974)	(3 185)
	519 385	496 530	476 111	530 542
Non-controlling stake	209 601	207 628	200 744	211 373
<b>Total equity</b>	<b>728 986</b>	<b>704 158</b>	<b>676 856</b>	<b>741 916</b>
Long-term liabilities				
Interest-bearing loans and borrowings	160 545	210 952	222 305	229 276
Provisions	80 575	84 597	82 855	86 846
Other financial liabilities	28 038	38 639	41 057	41 587
Deferred income tax liability	8 522	3 330	2 468	9 158
Accruals and deferred income	21 874	22 554	23 914	24 595
	299 554	360 071	372 599	391 462
Short-term liabilities				
Interest-bearing loans and borrowings	200 961	81 826	82 883	80 812
Provisions	-	-	-	164
Other financial liabilities	88 615	105 847	83 503	87 784
Trade and other payables	370 808	349 040	407 128	356 411
Income tax liability	765	880	281	557
Accruals and deferred income	107 147	108 377	108 720	100 876
	768 296	645 970	682 515	626 604
The liabilities directly related to the discontinued operations	29 177	40 013	81 264	48 476
<b>TOTAL LIABILITIES</b>	<b>1 097 027</b>	<b>1 046 054</b>	<b>1 136 379</b>	<b>1 066 542</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>1 826 014</b>	<b>1 750 212</b>	<b>1 813 235</b>	<b>1 808 457</b>

## Consolidated cash flow statement

	3-month period ended on 30 September 2016 (unaudited)	9-month period ended on 30 September 2016 (unaudited)	3-month period ended on 30 September 2015 (unaudited)	9-month period ended on 30 September 2015 (unaudited)
<b>Cash flows from operating activities</b>				
Gross profit/(loss) on continued operations	38 842	92 956	31 277	81 780
Gross profit/(loss) on discontinued operations	(878)	(8 212)	(9 791)	(35 975)
Gross profit (loss)	37 963	84 744	21 486	45 805
Adjustments for:				
Depreciation/amortisation	28 830	88 440	28 051	88 460
FX gains / (loss)	(1 097)	4 611	2 895	(408)
Net interest and dividends	5 576	17 059	5 358	15 857
Profit / loss from investing activities	(1 334)	(1 658)	(564)	881
Increase / decrease in receivables and other non-financial assets	(29 017)	(57 495)	(16 240)	(61 014)
Change to inventories	21 612	54 551	29 047	(2 966)
Increase / decrease in liabilities except for loans, borrowings and debt securities	25 309	(49 484)	(13 081)	24 592
Change in accruals and prepayments	(935)	(9 309)	1 219	11 704
Change in provisions	(1 910)	(30 103)	1 265	(3 794)
Income tax paid	(3 242)	(6 703)	(3 687)	(9 281)
Derecognition of emission rights to CO <sub>2</sub>	42	410	(267)	(122)
Co-generation certificates	370	799	762	383
Other	318	2 006	(1 006)	1 030
Net cash flows from operating activities	82 485	97 869	55 236	111 126
<b>Cash flows from investing activities</b>				
Disposal of tangible fixed and intangible assets	1 215	1 935	0	194
Purchase of tangible fixed and intangible assets	(55 520)	(118 839)	(22 749)	(66 943)
Inflows of bank deposit established for over 6 months	-	-	-	20 651
Other capital outflows / inflows	930	930	(0)	(0)
Net cash flows from investing activities	(53 375)	(115 973)	(22 749)	(46 098)
<b>Cash flows from financing activities</b>				
Change to overdraft facilities	(17 584)	(19 378)	(6 228)	20 311
Repayment of financial leasing liabilities	(754)	(2 298)	(730)	(2 163)
Inflows from other financial liabilities	27 714	26 843	26 702	24 770
Repayment of other financial liabilities	(34 113)	(1 249)	(26 744)	(1 870)
Net inflows from bonds	99 312	99 312	-	-
Repayment of loans, borrowings and debt securities	(8 822)	(26 498)	(8 792)	(39 535)
Dividend disbursed to non-controlling shareholders	-	(17 502)	-	(12 950)
Interest paid	(4 894)	(15 908)	(4 697)	(15 166)
Net cash flows from financing activities	60 858	43 323	(20 489)	(26 601)
Change in cash and cash equivalents	89 969	25 219	11 998	38 427
Net FX differences	(2 568)	(1 463)	(529)	139
Cash and cash equivalents at the beginning of the period	125 958	189 603	185 508	158 412
Cash and cash equivalents at the end of the period	213 359	213 359	196 978	196 978
including with restricted access	99 698	99 698	-	-



## Consolidated statement of changes in equity

### Attributable to the shareholders of the Parent Entity

	Share capital	Reserve capital	FX differences on translation of foreign operations	Other reserves	Retained earnings / (Accumulated losses)	Cumulated other comprehensive income related to discontinued operations	Total	Equity attributable to non-controlling shareholders	Total equity
As at 01 January 2016	69 288	447 638	21 810	127 976	(181 625)	(8 974)	476 111	200 744	676 856
Net profit / (loss) for the period	-	-	-	-	34 404	-	34 404	27 572	61 976
Other comprehensive income (net) for the period	-	-	(10 099)	18 969	-	-	8 870	(1 214)	7 656
Total comprehensive income for the period	-	-	(10 099)	18 969	34 404	-	43 274	26 358	69 632
Dividend distribution to non-controlling entities	-	-	-	-	-	-	-	(17 502)	(17 502)
Discontinued operations	-	-	255	-	-	(255)	-	-	-
Profit/loss distribution	-	4 909	-	-	(4 909)	-	-	-	-
As at 30 September 2016 (unaudited)	69 288	452 547	11 965	146 945	(152 130)	(9 229)	519 385	209 601	728 986

## Attributable to the shareholders of the Parent Entity

	Share capital	Reserve capital	FX differences on translation of foreign operations	Other reserves	Retained earnings / (Accumulated losses)	Cumulated other comprehensive income related to discontinued operations	Total	Equity attributable to non-controlling shareholders	Total equity
As at 01 January 2015	69 288	472 748	8 958	136 557	(143 939)	-	543 612	181 459	725 071
Net profit (loss) for the financial year	-	-	-	-	(71 258)	-	(71 258)	44 688	(26 570)
Other comprehensive income (net) for the year	-	-	6 030	(8 581)	6 309	-	3 758	1 153	4 911
Total comprehensive income for the period	-	-	6 030	(8 581)	(64 949)	-	(67 500)	45 841	(21 659)
Dividend distribution to non-controlling entities	-	-	-	-	-	-	-	(26 556)	(26 556)
Discontinued operations	-	-	6 821	-	2 153	(8 974)	-	-	-
Profit/ loss distribution	-	(25 110)	-	-	25 110	-	-	-	-
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 the shareholders of the Parent Entity

	Share capital	Reserve capital	FX differences on translation of foreign operations	Other reserves	Retained earnings / (Accumulated losses)	Cumulated other comprehensive income related to discontinued operations	Total	Equity attributable to non-controlling shareholders	Total equity
As at 01 January 2015	69 288	472 748	8 958	136 557	(143 939)	-	543 612	181 459	725 071
Net profit / (loss) for the period	-	-	-	-	(6 756)	-	(6 756)	45 626	38 870
Other comprehensive income (net) for the period	-	-	(1 179)	(5 759)	625	-	(6 313)	(2 762)	(9 075)
Total comprehensive income for the period	-	-	(1 179)	(5 759)	(6 131)	-	(13 069)	42 864	29 795
Dividend distribution to non-controlling entities	-	-	-	-	-	-	-	(12 950)	(12 950)
Discontinued operations	-	-	5 818	-	(2 633)	(3 185)	-	-	-
Profit/loss distribution	-	(25 110)	-	-	25 110	-	-	-	-
As at 30 September 2015 (unaudited)	69 288	447 638	13 598	130 798	(127 594)	(3 185)	530 542	211 373	741 916

## Standalone financial statements and selected financial data

	For the period from 01.01.2016 to 30.09.2016 PLN 000's	For the period from 01.01.2015 to 30.09.2015 PLN 000's	For the period from 01.01.2016 to 30.09.2016 EUR 000's	For the period from 01.01.2015 to 30.09.2015 EUR 000's
Revenues	70 061	80 647	16 072	19 398
Operating profit (loss)	6 352	18 991	1 457	4 568
Profit (loss) before tax	1 619	15 681	371	3 772
Profit (loss) from continuing operations	1 619	15 681	371	3 772
Profit (loss) for the period	1 619	15 681	371	3 772
Net operating cash flow	(508)	(22 864)	(117)	(5 499)
Net investment cash flow	(3 026)	19 400	(694)	4 666
Net financial cash flow	98 248	(1 064)	22 539	(256)
Net change in cash and cash equivalents	94 714	(4 527)	21 728	(1 089)
Weighted average number of shares	69 287 783	69 287 783	69 287 783	69 287 783
Weighted average diluted number of shares	69 287 783	69 287 783	69 287 783	69 287 783
EPS (in PLN/EUR)	0,02	0,23	0,01	0,05
Diluted EPS (in PLN/EUR)	0,02	0,23	0,01	0,05
Average PLN/EUR rate*			4,3591	4,1576
	As at 30 September 2016 PLN 000's	As at 31 December 2015 PLN 000's	As at 30 September 2016 EUR 000's	As at 31 December 2015 EUR 000's
Assets	1 027 067	950 202	238 188	222 974
Long-term liabilities	161 798	205 001	37 523	48 105
Short-term liabilities	194 362	76 242	45 075	17 891
Equity	670 906	668 959	155 590	156 977
Share capital	69 288	69 288	16 069	16 259
Number of shares	69 287 783	69 287 783	69 287 783	69 287 783
Diluted number of shares	69 287 783	69 287 783	69 287 783	69 287 783
Book value per share (in PLN/EUR)	9,68	9,65	2,25	2,27
Diluted book value per share (in PLN/EUR)	9,68	9,65	2,25	2,27
Declared or paid dividend (in PLN/EUR)	-	-	-	-
Declared or paid dividend per share (in PLN/EUR)	-	-	-	-
PLN/EUR rate at the end of the period**			4,3120	4,2615

## Standalone income statement

	3 months period ended 30 September 2016 (unaudited)	9 months period ended 30 September 2016 (unaudited)	3 months period ended 30 September 2015 (unaudited)	9 months period ended 30 September 2015 (unaudited)
Continuing operations				
Sales of services	10 194	30 239	8 308	30 245
Interest income	114	366	274	687
Dividends	364	39 457	1 931	49 715
Revenues	10 672	70 061	10 514	80 647
Cost of interest to subsidiaries	(1 600)	(5 013)	(1 756)	(6 173)
Gross profit on sales	9 072	65 048	8 758	74 474
Other operating income	11	122	51	296
Selling and distribution costs	(1 016)	(3 057)	(988)	(2 895)
Administrative expenses	(7 981)	(26 532)	(8 462)	(25 593)
Other operating expenses	(8 519)	(29 229)	(4 804)	(27 290)
Operating profit / (loss)	(8 432)	6 352	(5 446)	18 991
Finance income	2	14	(543)	96
Finance costs	(148)	(4 747)	(1 443)	(3 407)
Profit / (loss) before tax	(8 578)	1 619	(7 432)	15 681
Income tax	-	-	-	-
Net profit (loss) for the period from continuing operations	(8 578)	1 619	(7 432)	15 681
Discontinued operations				
Profit (loss) for the period from discontinued operations	-	-	-	-
Net profit (loss) for the period	(8 578)	1 619	(7 432)	15 681
Earnings per share:				
– basic from the profit (loss) for the period	(0,12)	0,02	(0,11)	0,23
– basic from the profit (loss) from continuing operations for the period	(0,12)	0,02	(0,11)	0,23

## Standalone comprehensive income statement

	3-month period ended on 30 September 2016 (unaudited)	9-month period ended on 30 September 2016 (unaudited)	3-month period ended on 30 September 2015 (unaudited)	9-month period ended on 30 September 2015 (unaudited)
Net profit/(loss) for the reporting period	(8 578)	1 619	(7 432)	15 681
Other total comprehensive income				
Items to recognise in profit/loss in future periods:				
FX differences from translation of foreign entities	435	328	93	47
Other comprehensive income (net)	435	328	93	47
Total comprehensive income	(8 143)	1 947	(7 339)	15 728

## Standalone balance sheet

	As at 30 September 2016 (unaudited)	As at 30 June 2016 (after review)	As at 31 December 2015 (audited)	As at 30 September 2015 (unaudited)
<b>ASSETS</b>				
Fixed assets				
Tangible fixed assets	1 836	1 936	2 108	1 811
Intangible assets	1 335	1 338	1 322	1 322
Shares in subsidiaries	841 584	841 584	838 741	824 042
Other non-financial assets	1 066	1 115	1 103	866
	845 821	845 974	843 274	828 042
Current assets				
Trade and other receivables	61 864	71 893	81 928	72 364
Income tax receivables	425	270	193	312
Other financial assets	11 285	11 297	12 683	27 674
Other non-financial assets	3 523	2 604	2 689	519
Cash and cash equivalents	104 149	7 681	9 435	14 079
	181 245	93 744	106 927	114 948
<b>TOTAL ASSETS</b>	<b>1 027 067</b>	<b>939 718</b>	<b>950 202</b>	<b>942 991</b>
<b>EQUITY AND LIABILITIES</b>				
Equity				
Share capital	69 288	69 288	69 288	69 288
Reserve capital	447 641	447 641	447 641	447 641
Other reserves	152 781	152 781	147 871	147 871
FX differences on translation	618	184	290	564
Retained earnings / Accumulated losses	(9 448)	9 157	3 870	15 257
Total equity	660 880	679 049	668 959	680 621
Long-term liabilities				
Interest-bearing loans and borrowings	160 441	188 260	203 357	194 848
Provisions	1 112	1 164	1 151	862
Other long-term liabilities	246	293	390	333
Accruals and deferred income	-	213	103	260
	161 798	189 929	205 001	196 304
Short-term liabilities				
Short-term provisions	-	-	-	164
Interest-bearing loans and borrowings	125 295	875	788	343
Trade payables	59 947	62 423	69 593	58 851
Other financial liabilities	192	192	187	156
Other short-term liabilities	1 716	1 889	1 688	1 707
Accruals and deferred income	7 212	5 362	3 985	4 845
	194 362	70 740	76 242	66 066
<b>TOTAL LIABILITIES</b>	<b>356 160</b>	<b>260 669</b>	<b>281 243</b>	<b>262 370</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>1 017 040</b>	<b>939 718</b>	<b>950 202</b>	<b>942 991</b>

## Standalone cash flow statement

	3-month period ended on 30 September 2016 (unaudited)	9-month period ended on 30 September 2016 (unaudited)	3-month period ended on 30 September 2015 (unaudited)	9-month period ended on 30 September 2015 (unaudited)
<b>Cash flows from operating activities</b>				
Gross profit (loss)	(8 578)	1 619	(7 432)	15 681
Adjustments for:				
Depreciation/amortisation	100	298	73	199
FX gains / (loss)	435	329	712	377
Impairment of non-current assets	-	-	710	5 234
Net interest and dividends	359	1 064	362	1 060
Increase / decrease in receivables and other non-financial assets	9 159	19 267	12 012	(26 789)
Increase / decrease in liabilities except for loans, borrowings and debt securities	(2 649)	(9 613)	(14 101)	22 799
Change in accruals and prepay ments	1 637	3 123	(51)	(1 030)
Change in provisions	(52)	(39)	(222)	(665)
Income tax paid	(155)	(232)	(51)	(179)
Increase / decrease in loans to subsidiaries	(2 698)	(16 323)	(2 094)	(39 550)
Net cash flows from operating activities	(2 442)	(508)	(10 083)	(22 864)
<b>Cash flows from investing activities</b>				
Purchase of tangible fixed and intangible assets	(44)	(183)	(579)	(1 250)
Purchase of interest in subsidiary entity	-	(2 843)	-	-
Short-term deposit	-	-	-	20 651
Net cash flows from investing activities	(44)	(3 026)	(579)	19 400
<b>Cash flows from financing activities</b>				
Interest paid	(359)	(1 064)	(361)	(1 064)
Net inflows from bonds	99 312	99 312	-	-
Net cash flows from financing activities	98 953	98 248	(361)	(1 064)
Change in cash and cash equivalents	96 468	94 714	(11 023)	(4 527)
Cash and cash equivalents at the beginning of the period	7 681	9 435	25 103	18 607
Cash and cash equivalents at the end of the period including with restricted access	104 149	104 149	14 079	14 079



## Standalone statement of changes in equity

	Share capital	Reserve capital	FX differences on translation of foreign operations	Other reserves	Retained earnings / (Accumulated losses)	Total equity
As at 01 January 2016	69 288	447 641	290	147 871	3 870	668 959
Net profit for the period	-	-	-	-	1 619	1 619
Other comprehensive income (net) for the period	-	-	328	-	-	328
Total comprehensive income for the period	-	-	328	-	1 619	1 947
Profit distribution	-	-	-	4 910	(4 910)	-
Payments within the tax group	-	-	-	-	-	-
As at 30 September 2016 (unaudited)	69 288	447 641	618	152 781	578	670 905

	Share capital	Reserve capital	FX differences on translation of foreign operations	Other reserves	Retained earnings / (Accumulated losses)	Total equity
As at 01 January 2015	69 288	472 751	517	147 871	(25 533)	664 892
Net profit / loss for the year	-	-	-	-	4 909	4 909
Other net comprehensive income for the year	-	-	(227)	-	-	(227)
Total comprehensive income for the period	-	-	(227)	-	4 909	4 682
Profit distribution	-	(25 110)	-	-	25 110	-
Payments within the tax group	-	-	-	-	(617)	(617)
As at 31 December 2015 (audited)	69 288	447 641	290	147 871	3 870	668 959

	Share capital	Reserve capital	FX differences on translation of foreign operations	Other reserves	Retained earnings / (Accumulated losses)	Total equity
As at 01 January 2015	69 288	472 751	517	147 871	(25 533)	664 892
Net profit for the period	-	-	-	-	15 681	15 681
Other comprehensive income (net) for the period	-	-	47	-	-	47
Total comprehensive income for the period	-	-	47	-	15 681	15 728
Profit distribution	-	(25 110)	-	-	25 110	-
Payments within the tax group	-	-	-	-	-	-
As at 30 September 2015 (unaudited)	69 288	447 641	564	147 871	15 257	680 621

## Additional explanatory notes

### 1. General information

The Arctic Paper Group is a leading European producer in terms of production volume of bulky book paper, offering a broad range of products in the segment and one of the leading producers of high-quality graphic paper in Europe. The Group produces numerous types of uncoated and coated wood-free paper as well as wood-containing uncoated paper for printing houses, paper distributors, book and magazine publishing houses and the advertising industry. As of the day hereof, the Arctic Paper Group employs app. 1,700 people in its Paper Mills and Pulp Mills, companies dealing in paper distribution the procurement office. Our 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 Paper 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 seventeen Sales Offices which handle distribution and marketing of products offered by the Group providing access to all European markets, including Central and Eastern Europe.

Our consolidated sales revenues for nine months of 2016 amounted to PLN 2,260 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), which was then the parent company of Arctic Paper S.A.

#### Group Profile

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

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

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 Mills (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 quarterly abbreviated consolidated financial statements of the Company cover profit and loss account, statement of comprehensive income and a cash flow statement for the periods of three and nine months ended on 30 September 2016 and contains comparable data for the equivalent periods ended on 30 September 2015. The abbreviated quarterly consolidated financial statements of the Company comprise a statement of changes in equity for the period of nine months ended on 30 September 2016 and include comparative data for the equivalent period ended on 30 September 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 a balance sheet as at 30 September 2016 and include comparative data as at 30 June 2016, 31 December 2015 and 30 September 2015.

- 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 at 30 September 2016) 40,006,449 shares of our Company, which constitutes 57.74% of its share capital and corresponds to 57.74% of the total number of votes at General Meetings. Thus Nemus Holding AB is the parent entity of the Issuer.

Additionally, Mr Thomas Onstad, an indirect shareholder of Nemus Holding AB, holds directly 5,848,658 shares representing 8.44% of the total 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 total number of shares of the Issuer.

The parent company of the Arctic Paper Group is Incarta Development S.A.

The duration of the Company is indefinite.

## Composition of the Group

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

Entity	Registered office	Business activities	Group's interest in the equity of the subsidiary entities as at			
			10 November 2016	30 September 2016	29 August 2016	31 December 2015
Arctic Paper Kostrzyn S.A.	Poland, Fabryczna 1, 66-470 Kostrzyn nad Odrą	Paper production	100%	100%	100%	100%
Arctic Paper Munkedals AB	Sweden, SE 455 81 Munkedal	Paper production	100%	100%	100%	100%
Arctic Paper Mochenwangen GmbH	Germany, Fabrikstrasse 62, DE-882, 84 Wolpertswende	Paper production	99,74%	99,74%	99,74%	99,74%
Arctic Paper Grycksbo AB	Sweden, Box 1, SE 790 20 Grycksbo	Paper production	100%	100%	100%	100%
Arctic Paper UK Limited	United Kingdom, Quadrant House, 47 Croydon Road, Caterham, Surrey	Trading company	100%	100%	100%	100%
Arctic Paper Baltic States SIA	Latvia, K. Vardemara iela 33-20, Riga LV-1010	Trading company	100%	100%	100%	100%
Arctic Paper Deutschland GmbH	Germany, Am Sandtorkai 72, 20457 Hamburg	Trading company	100%	100%	100%	100%
Arctic Paper Benelux S.A.	Belgium, Ophemstraat 24, B-3050 Oud-Heverlee	Trading company	100%	100%	100%	100%
Arctic Paper Schweiz AG	Switzerland, Technoparkstrasse 1, 8005 Zurich	Trading company	100%	100%	100%	100%
Arctic Paper Italia srl	Italy, Via Cavriana 7, 20 134 Milan	Trading company	100%	100%	100%	100%
Arctic Paper Ireland Limited	Ireland, 4 Rosemount Park Road, Dublin 11	Non-active company	-	100%	100%	100%

Entity	Registered office	Business activities	Group's interest in the equity of the subsidiary entities as at			
			10 November 2016	30 September 2016	29 August 2016	31 December 2015
Arctic Paper Danmark A/S	Denmark, Korskindelund 6 DK-2670 Greve	Trading company	100%	100%	100%	100%
Arctic Paper France SAS	France, 43 rue de la Breche aux Loups, 75012 Paris	Trading company	100%	100%	100%	100%
Arctic Paper Espana SL	Spain, Avenida Diagonal 472-474, 9-1 Barcelona	Trading company	100%	100%	100%	100%
Arctic Paper Papierhandels GmbH	Austria, Hainburgerstrasse 34A, A-1030 Wien	Trading company	100%	100%	100%	100%
Arctic Paper Polska Sp. z o.o.	Poland, Okrężna 9, 02-916 Warsaw	Trading company	100%	100%	100%	100%
Arctic Paper Norge AS	Norway, Rosenholmsveien 25, NO-1411 Kolbotn	Trading company	100%	100%	100%	100%
Arctic Paper Sverige AB	Sweden, SE 455 81 Munkedal	Trading company	100%	100%	100%	100%
Arctic Paper East Sp. z o.o.	Poland, Fabryczna 1, 66-470 Kostrzyn nad Odrą	Trading company	100%	100%	100%	100%
Arctic Paper Investment GmbH *	Germany, Fabrikstrasse 62, DE-882, 84 Wolpertswende	Activities of holding companies	100%	100%	100%	100%
Arctic Paper Finance AB	Sweden, Box 383, 401 26 Göteborg	Activities of holding companies	100%	100%	100%	100%
Arctic Paper Verwaltungs GmbH *	Germany, Fabrikstrasse 62, DE-882, 84 Wolpertswende	Activities of holding companies	100%	100%	100%	100%
Arctic Paper Immobilienverwaltung GmbH & Co. KG*	Germany, Fabrikstrasse 62, DE-882, 84 Wolpertswende	Activities of holding companies	94,90%	94,90%	94,90%	94,90%
Arctic Paper Investment AB **	Sweden, Box 383, 401 26 Göteborg	Activities of holding companies	100%	100%	100%	100%
EC Kostrzyn Sp. z o.o.	Poland, ul. Fabryczna 1, 66-470 Kostrzyn nad Odrą	Rental of properties and machines and equipment	100%	100%	100%	100%
Arctic Paper Munkedals Kraft AB	Sweden, 455 81 Munkedal	Production of hydropower	100%	100%	100%	100%
Rottneros AB	Sweden, Sunne	Activities of holding companies	51,27%	51,27%	51,27%	51,27%
Rottneros Bruk AB	Sweden, Sunne	Pulp production	51,27%	51,27%	51,27%	51,27%
Utansjo Bruk AB	Sweden, Hamösand	Non-active company	51,27%	51,27%	51,27%	51,27%
Vallviks Bruk AB	Sweden, Söderhamn	Pulp production	51,27%	51,27%	51,27%	51,27%
Rottneros Packaging AB	Sweden, Stockholm	Production of food packaging	51,27%	51,27%	51,27%	51,27%
SIA Rottneros Baltic	Latvia, Ventspils	Procurement bureau	51,27%	51,27%	51,27%	51,27%

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

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

As at 30 September 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 is involved in the production of energy in its hydro power plant. The purpose of the purchase was to implement the strategy of increasing its own energy potential. The shares in Kalltorp Kraft were recognised as a joint venture and measured with the equity method.

On 28 July 2015, the Company's Management Board published its profitability improvement plan ("Programme") of

the Arctic Paper SA. Capital Group, described in more detail in note 9 to these abbreviated consolidated financial statements. An element of the programme is an active search for an investor for the Arctic Paper Mochenwangen facility and in parallel an analysis of the possibility to take measures for further reduction of losses generated by the Paper Mill, including those relating to the discontinuation of operations. Production at Arctic Paper Mochenwangen was closed in December 2015.

On 25 October 2016, Arctic Paper Ireland Ltd. with its registered office in Dublin, Ireland, finished its operations and was deleted from the register of entrepreneurs.

## 2. Management and supervisory bodies

### 2.1. Management Board of the Parent Company

As at 30 September 2016, the Parent Company's Management Board was composed of:

- Per Skoglund – President of the Management Board appointed on 27 April 2016 (appointed as a Member of the Management Board on 27 April 2011);
- Wolfgang Lübbert – Member of the Management Board appointed on 5 June 2012;
- Jacek Łoś – 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.

Since 30 September 2016 until the publication of these interim abbreviated consolidated financial statements there were no changes to the composition of the Management Board of the Parent Entity.

### 2.2. Supervisory Board of the Parent Company

As at 30 September 2016, the Parent Company's Supervisory Board was composed of:

- Per Lundeen – Chairman of the Supervisory Board appointed on 14 September 2016;
- Roger Mattsson – Deputy Chairman of the Supervisory Board appointed on 16 September 2014.
- Thomas Onstad – Member of the Supervisory Board appointed on 22 October 2008;
- Mariusz Grendowicz – Member of the Supervisory Board appointed on 28 June 2012;
- Maciej Georg – Member of the Supervisory Board appointed on 14 September 2016;

On 30 June 2016 Mr Dariusz Witkowski filed his resignation from the function of a Member of the Supervisory Board. On 8 August resignation from membership in the Supervisory Board was filed by Mr Rolf Olof Grundberg, effective on 14 September 2016, and on 16 August resignation from membership in the Supervisory Board was filed by Rune Ingvarsson, effective on 14 September 2016.

On 14 September 2014, the Extraordinary General Meeting appointed two new Members of the Supervisory Board: Mr Per Lundeen and Mr Maciej Georg.

At its meeting on 22 September 2016, the Supervisory Board elected the Chairperson of the Supervisory Board from among its Members and elected Mr Per Lundeen as the Chairman and Mr Roger Mattsson as the Deputy Chairman of the Supervisory Board. Until the date hereof, there were no changes to the composition of the Supervisory Board of the Parent Company.

### 2.3. Audit Committee of the Parent Company

As at 30 September 2016, the Parent Company's Audit Committee was composed of:

- Per Lundeen – Chairman of the Audit Committee appointed on 22 September 2016;
- Rune Mattsson – Member of the Audit Committee appointed on 23 June 2016;
- Mariusz Grendowicz – Member of the Audit Committee appointed on 20 February 2013;
- Maciej Georg – Member of the Audit Committee appointed on 22 September 2016.

In connection with the appointment of new Members of the Supervisory Board by the Extraordinary General Meeting on 14 September 2016, there were also changes in the composition of the Audit Committee – on 22 September 2016 new Members were appointed by the Supervisory Board: Mr Per Lundeen and Mr Maciej Georg.

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

## 3. Approval of the financial statements

These abbreviated quarterly consolidated financial statements were approved for publication by the Management Board on 10 November 2016.

## 4. 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.

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.

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 of the publication date hereof, no circumstances were identified that would pose a threat to the Group companies continuing as a going concern.

## 5. Significant accounting principles (policies)

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

- Modifications resulting from a review of IFRS 2010-2012 covering:
  - Modifications to IFRS 2 Share-based Payment  
The modifications apply prospectively and contain details of the definition of the market requirements and the conditions to acquire the entitlements;

further, a definition is introduced of the definition of the condition to provide the services and the condition related to performance underlying the right to acquire the entitlements.

The Company does not have programmes of share-based payments and the implementation of the modifications has not affected the Company's financial condition or performance.

■ **Modifications to IFRS 3 Business Combinations**

The modifications apply prospectively and clarify the conditional payment which is not classified as an element of capitals is measured at fair value through profit and loss irrespective of the fact if it is covered with IAS 39 or not.

The implementation of the modifications has not affected the Company's financial condition or performance.

■ **Modifications to IFRS 8 Operating Segments**

The modifications apply retrospectively and clarify as follows:

The entity should disclose the judgements made by the Management Board in applying the aggregation criteria to allow two or more operating segments to be aggregated as described in paragraph 12 of IFRS 8, including a brief description the segments that were aggregated and a description of economic segments used for the analysis of similarities

Reconciliation of assets in a segment with total assets of the entity is required only if such amounts are regularly provided to the chief operating decision maker.

The entity has incorporated the modification and discloses information in line with IFRS 8 in note 8.

■ **Modifications to IAS 16 Tangible fixed assets and IAS 38 Intangible Assets**

The modifications apply retrospectively and clarify that an asset may be revalued on the basis of acquired observable data by adjusting the gross book value of the asset to market value or by determining the gross book value proportionately that the obtained book value is equal to market value.

Additionally, depreciation is the difference between the gross value and the book value of the asset.

The modification applies to property, plant and equipment and intangible assets in accordance with the model of revalued value. The Company does not apply the model and therefore the implementation of the modifications has not affected the Company's financial condition or performance.

■ **Modifications to IFRS 13 Fair Value Measurement**

The modifications clarify that the removal of paragraph B5.4.12 from IFRS 9 Financial Instruments: Recognition and Measurement was not aimed at modifying the requirements related to the measurement of current receivables and payables. In this connection, entities continue to be able to measure current receivables and payables at nominal if the discount effect has no material impact on the presented financial data.

The implementation of the modifications has not affected the Company's financial condition or performance.

■ **Modifications to IAS 24 Related Party Disclosures**

The modifications apply retrospectively and clarify that the managing entity (providing the services of key management personnel) is treated as a related party for the purposes of disclosures concerning related parties. Additionally, the entity that uses the services provided by a managing entity is obliged to disclose the costs of such services.

The clarification is compliant with the classification method of the managing entity as a related party and the disclosures relating to such managing entity.

■ **Modifications resulting from a review of IFRS 2012-2014 covering:**

■ **Modifications to IFRS 5 Fixed Assets Held for Sale and Discontinued Operations**

Assets (groups for sale) are usually sold by sale or handover to owners. The modifications clarify that a replacement of one method with another will not be treated as a new disposal plan but as a continuation of the original plan.



The implementation of the modifications has not affected the Company's financial condition or performance.

■ Modifications to IAS 34 Interim Financial Reporting

The modifications clarify that the requirements related to interim disclosures may be complied with by either making appropriate disclosures in the interim financial statements or adding references between the interim financial statements and another report (e.g. Management Board's report from operations). The other information in the interim financial statements must be accessible to readers subject to the same principles and at the same time when the interim financial statements are made available.

The implementation of the modifications has not affected the Company's financial condition or performance.

■ Modifications to IAS 16 and IAS 38 Clarification of acceptable depreciation/amortisation methods

The modifications clarify the principles in IAS 16 and IAS 38 stating that the depreciation/amortisation methods relying on revenues reflects the method in which the entity generates economic benefits from assets and not the anticipated method of using future economic benefits generated by such asset. In result, the method bases on revenues may not be applied to depreciate fixed assets and only under certain circumstances it may be applied to the amortisation of intangible assets. The modifications apply prospectively.

The implementation of the modifications has not affected the Company's financial condition or performance.

■ Modifications to IAS 27 Equity Method in Separate Financial Statements

The modifications allow entities to disclose in their separate financial statements investments in subsidiary, associated entities and in joint ventures with the application of the equity method. The entities that apply IFRS and decide to modify the consolidation method of their investments to the equity method will apply the modification retrospectively.

The entity has not applied the option allowed by the modification in its standalone financial statements.

■ Modifications to IAS 1 Disclosures

The modifications clarify the existing requirements of IAS 1 related to:

- materiality,
- aggregation and interim amounts,
- sequence of notes,
- aggregation of information on the share of associated entities and joint ventures consolidated with the equity method in other comprehensive income – disclosure in one line.

Additionally, the modifications clarify the requirements that apply when additional interim amounts are disclosed in the statement of financial position and profit and loss account and in the statement of other total comprehensive income

The implementation of the modifications has not affected the Company's financial condition or performance.

Additionally, the following new or modified standards or interpretations apply to annual periods beginning on or after 1 January 2016; however, they do not apply to the information presented and disclosed in the Company's financial statements:

■ Modifications to IAS 16 and IAS 41 Agriculture: Bearer Plants

The modifications relate to the recognition of bearer plants.

■ Modifications to IFRS 11 Joint Arrangements

The modification relates to the recognition by of a partner of the joint arrangements of interests in such joint arrangement.

■ Modifications to IAS 19 Defined Benefit Plans: Employee Contributions

The modification applies to the recognition of contributions made by employees or third parties at recognition of defined benefit plans.

■ and modifications resulting from a review of IFRS 2012-2014 covering:

■ Modifications to IFRS 7 Financial Instruments: Disclosures

- I. Servicing contracts – the modification clarifies that servicing contracts providing for a fee may

constitute continuation of exposure to financial assets.

- II. Application of modifications to IFRS 7 (issued in December 2011) to abbreviated interim financial statements.

■ Modifications to IAS 19 Employee Benefits

The modification applies to estimates of the discount rate.

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

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

## 5.1. Foreign currency translation

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

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

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

	30 September 2016	31 December 2015
USD	3,8558	3,9011
EUR	4,3120	4,2615
SEK	0,4487	0,4646
DKK	0,5786	0,5711
NOK	0,4796	0,4431
GBP	4,9962	5,7862
CHF	3,9802	3,9394

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

	01.01 - 30.09.2016	01.01 - 30.09.2015
USD	3,9055	3,7324
EUR	4,3591	4,1576
SEK	0,4652	0,4438
DKK	0,5853	0,5575
NOK	0,4649	0,4718
GBP	5,4386	5,7199
CHF	3,9859	3,9202

## 5.2. Data comparability

Additionally, presentation was changed to the other operating income and operational expenses in the consolidated profit and loss account for the period of 3 and 9 months ended on 30 September 2015 by reducing the other operating income and costs of sales by PLN 1,703 thousand and PLN 11,094 thousand.

In the first three quarters of 2016 there were no other changes to the accounting policies that would result in changes to the comparable data.

## 6. 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.

## 7. Information on business segments

The principal operations of the Group are paper production which is conducted in three Paper Mills belonging to the Group and pulp production in two Pulp Mills.

The Group identifies four 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 quality of printed photos and illustrations.

- **Pulp** – fully bleached sulphate pulp and unbleached sulphate pulp which is used mainly for the production of printing and writing papers, cardboard, toilet paper and white packaging paper as well as chemi thermo mechanical pulp (CTMP) and groundwood which are used mainly for production of printing and writing papers.
- **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 results of the Rottneros Groups are analysed on the basis of reports published at NASDAQ, Stockholm. The results of operations are measured primarily on the basis of EBITDA.

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 operating profit (loss), operational results or liquidity. EBITDA is a metric that the Management Board uses to manage the operations.

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

The table below presents data concerning revenues and profit as well as certain assets and liabilities split by segments of the Group for the period of 9 months ended on 30 September 2016 and as at 30 September 2016.

### Nine-month period ended on 30 September 2016 and as at 30 September 2016

	Continuing Operations					Exclusions	Total continuing operations
	Uncoated	Coated	Pulp	Other	Total		
<b>Revenues</b>							
Sales to external customers	1 174 057	524 632	561 117	-	2 259 806	-	2 259 806
Sales between segments	-	14 622	38 550	29 943	83 116	(83 116)	-
<b>Total segment revenues</b>	<b>1 174 057</b>	<b>539 255</b>	<b>599 667</b>	<b>29 943</b>	<b>2 342 922</b>	<b>(83 116)</b>	<b>2 259 806</b>
<b>Result of the segment</b>							
EBITDA	113 876	(5 727)	101 938	723	210 810	409	211 219
Interest income	5 341	21	0	1 536	6 898	(6 689)	209
Interest expense income	(9 381)	(5 207)	-	(8 251)	(22 839)	5 538	(17 301)
Depreciation/amortisation	(39 325)	(20 146)	(28 335)	(298)	(88 103)	-	(88 103)
FX gains and other financial income	69	-	930	39 963	40 963	(40 029)	933
FX losses and other financial expenses	(7 909)	(2 093)	(2 791)	(1 509)	(14 302)	300	(14 002)
<b>Gross profit</b>	<b>62 672</b>	<b>(33 152)</b>	<b>71 742</b>	<b>32 165</b>	<b>133 427</b>	<b>(40 471)</b>	<b>92 956</b>
Assets of the segment	1 021 501	264 697	572 676	342 652	2 201 527	(421 394)	1 780 134
Liabilities of the segment	533 403	347 001	163 776	356 160	1 400 340	(341 012)	1 059 328
Capital expenditures	32 190	1 325	84 949	36	118 499	-	118 499
Interests in joint ventures	4 992	-	-	-	4 992	-	4 992

- Revenues from inter-segment transactions are eliminated on consolidation.
- The results of the segments do not cover financial income (PLN 1,143 thousand of which PLN 209 thousand is interest income) and financial expenses (PLN 31,303 thousand) of which PLN 17,301 thousand is interest expense), depreciation/amortisation (PLN 88,103 thousand) and income tax liability (PLN -23,767 thousand). However, segment result includes inter-segment loss (PLN 409 thousand).
- Assets and liabilities of segments do not contain any deferred income tax (asset: PLN 25,128 thousand), provision: PLN 8,522 thousand), since those items are managed at the Group level. Segment assets do not also include investments in companies operating within the Group.

The table below presents data concerning revenues and profit as well as certain assets and liabilities split by segments of the Group for the period of 3 months ended on 30 September 2016 and as at 30 September 2016.

### Three-month period ended on 30 September 2016 and on 30 September 2016

	Continuing Operations						Total continuing operations
	Uncoated	Coated	Pulp	Other	Total	Exclusions	
<b>Revenues</b>							
Sales to external customers	399 661	169 627	190 693	-	759 981	-	759 981
Sales between segments	(23)	4 788	12 028	10 285	27 078	(27 078)	-
<b>Total segment revenues</b>	<b>399 638</b>	<b>174 415</b>	<b>202 721</b>	<b>10 285</b>	<b>787 059</b>	<b>(27 078)</b>	<b>759 981</b>
<b>Result of the segment</b>							
EBITDA	44 537	4 085	27 615	(3)	76 234	622	76 856
Interest income	1 720	0	-	592	2 312	(2 252)	60
Interest expense income	(3 084)	(1 740)	-	(2 685)	(7 508)	1 763	(5 745)
Depreciation/amortisation	(13 351)	(6 265)	(9 104)	(100)	(28 821)	-	(28 821)
FX gains and other financial income	3	-	461	527	991	(527)	464
FX losses and other financial expenses	(3 185)	(710)	(912)	937	(3 870)	(101)	(3 971)
<b>Gross profit</b>	<b>26 641</b>	<b>(4 629)</b>	<b>18 059</b>	<b>(732)</b>	<b>39 338</b>	<b>(496)</b>	<b>38 842</b>
Assets of the segment	1 021 501	264 697	572 676	342 652	2 201 527	(421 394)	1 780 134
Liabilities of the segment	533 403	347 001	163 776	356 160	1 400 340	(341 012)	1 059 328
Capital expenditures	15 016	494	39 993	-	55 503	-	55 503
Interests in joint ventures	4 992	-	-	-	4 992	-	4 992

- Revenues from inter-segment transactions are eliminated on consolidation.
- The results of the segments do not cover financial income (PLN 523 thousand of which PLN 60 thousand is interest income) and financial expenses (PLN 9,717 thousand of which PLN 5,745 thousand is interest expense), depreciation/amortisation (PLN 28,821 thousand) and income tax liability (PLN -6,325 thousand). However, segment result includes inter-segment loss (PLN 622 thousand).
- Assets and liabilities of segments do not contain any deferred income tax (asset: PLN 25,128 thousand), provision: PLN 8,522 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 9 months ended on 30 September 2015 and as at 31 December 2015.

### Nine-month period ended on 30 September 2015 and as at 31 December 2015

Continuing Operations							Total continuing operations
Uncoated	Coated	Pulp	Other	Total	Exclusions		
<b>Revenues</b>							
Sales to external customers	1 129 412	503 314		-	2 190 052	-	2 190 052
Sales between segments	2 213	14 514		29 925	95 082	(95 082)	-
<b>Total segment revenues</b>	<b>1 131 625</b>	<b>517 828</b>		<b>29 925</b>	<b>2 285 134</b>	<b>(95 082)</b>	<b>2 190 052</b>
<b>Result of the segment</b>							
EBITDA	64 100	(11 449)		1 896	188 529	(1 168)	187 361
Interest income	6 975	119		1 823	8 918	(7 900)	1 018
Interest expense income	(9 270)	(4 787)		(9 150)	(23 207)	6 860	(16 347)
Depreciation/amortisation	(37 704)	(19 692)		(199)	(81 498)	-	(81 498)
Impairment of fixed assets	-	0	-	(28 540)	(28 540)	28 540	-
FX gains and other financial income	842	-		49 850	50 692	(50 689)	3
FX losses and other financial expenses	(6 224)	(2 620)		-	(10 175)	1 418	(8 756)
<b>Gross profit</b>	<b>18 719</b>	<b>(38 429)</b>		<b>15 681</b>	<b>104 718</b>	<b>(22 938)</b>	<b>81 780</b>
Assets of the segment	1 090 810	309 111		238 082	2 163 508	(450 535)	1 712 974
Liabilities of the segment	641 627	377 625		281 243	1 454 278	(401 631)	1 052 647
Capital expenditures	37 042	3 773		1 105	60 114	-	60 114
Interests in joint ventures	5 169	-	-	-	5 169	-	5 169

- Revenues from inter-segment transactions are eliminated on consolidation.
- The results of the segments do not cover financial income (PLN 1,021 thousand of which PLN 1,018 thousand is interest income) and financial expenses (PLN 25,103 thousand of which PLN 16,347 thousand is interest expense), depreciation/amortisation (PLN 81,498 thousand) and income tax liability (PLN -7,169 thousand). However, segment results include inter-segment sales profit (PLN 1,168 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 within the Group.

The table below presents data concerning revenues and profit as well as certain assets and liabilities split by segments of the Group for the period of 3 months ended on 30 September 2015 and as at 31 December 2015.

### Three-month period ended on 30 September 2015 and on 31 December 2015

	Continuing Operations						Total continuing operations
	Uncoated	Coated	Pulp	Other	Total	Exclusions	
<b>Revenues</b>							
Sales to external customers	370 339	176 416	183 945	-	730 700	-	730 700
Sales between segments	601	4 116	18 213	8 219	31 148	(31 148)	-
<b>Total segment revenues</b>	<b>370 940</b>	<b>180 531</b>	<b>202 157</b>	<b>8 219</b>	<b>761 848</b>	<b>(31 148)</b>	<b>730 700</b>
<b>Result of the segment</b>							
EBITDA	25 692	2 759	42 450	-1 110	69 790	673	70 463
Interest income	1 855	32	-	664	2 552	(2 401)	151
Interest expense income	(3 018)	(1 622)	-	(2 770)	(7 410)	2 027	(5 383)
Depreciation/amortisation	(12 634)	(6 445)	(8 273)	(73)	(27 425)	-	(27 425)
Impairment of fixed assets	-	0	-	(5 268)	(5 268)	5 268	-
FX gains and other financial income	(2 280)	-	-	1 123	(1 157)	(70)	(1 227)
FX losses and other financial expenses	(1 821)	(1 621)	(444)	2	(3 885)	(1 416)	(5 301)
<b>Gross profit</b>	<b>7 794</b>	<b>(6 898)</b>	<b>33 733</b>	<b>(7 432)</b>	<b>27 196</b>	<b>4 081</b>	<b>31 277</b>
Assets of the segment	1 090 810	309 111	525 504	238 082	2 163 508	(450 535)	1 712 974
Liabilities of the segment	641 627	377 625	153 783	281 243	1 454 278	(401 631)	1 052 647
Capital expenditures	7 848	1 814	11 986	527	22 175	-	22 175
Interests in joint ventures	5 169	-	-	-	5 169	-	5 169

- Revenues from inter-segment transactions are eliminated on consolidation.
- The results of the segments do not cover financial income (PLN -1,076 thousand of which PLN 151 thousand is interest income) and financial expenses (PLN 10,685 thousand of which PLN 5,383 thousand is interest expense), depreciation/amortisation (PLN 27,425 thousand) and income tax liability (PLN -8,556 thousand). However, segment result includes inter-segment loss (PLN 673 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 within the Group.



## 8. Discontinued operations

With reference to the Profitability Improvement Programme of the Group published in 2015, the Management Board of Arctic Paper S.A. has started an active search for an investor for the Arctic Paper Mochenwangen facility, and, in order to reduce the losses generated by the Paper Mill, it has decided to discontinue its operations in December 2015. Due to the material significance of the part of the Group's 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 30 June 2015 and currently. The Mochenwangen Group includes: Arctic Paper Mochenwangen, Arctic Paper Investment GmbH, Arctic Paper Verwaltungs and

Arctic Paper Immobilienverwaltung. 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 30 September 2015, 31 December 2015, 30 June 2016 and 30 September 2016 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 and 9 months ended on 30 September 2016 and as at 30 September 2015.

The Management Board of Arctic Paper S.A. remains ready to sell the facility, and simultaneously considers alternative possibilities of allocating these assets.

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

Revenues and expenses of discontinued operations	9-month period ended on 30 September 2016 (unaudited)	9-month period ended on 30 September 2015 (unaudited)
Revenues from sales of goods	17 968	183 170
Costs of sales	(23 405)	(195 753)
Gross profit / (loss) on sales	(5 436)	(12 584)
Selling and distribution costs	(2 694)	(18 145)
Administrative expenses	(3 823)	(5 197)
Other operating income	6 741	1 352
Other operating expenses	(2 842)	(129)
Operating profit (loss)	(8 055)	(34 703)
Financial income	96	353
Financial expenses	(253)	(1 626)
Gross profit (loss)	(8 212)	(35 975)
Income tax	999	233
Profit (loss) from discontinued operations	(7 213)	(35 741)
Accumulated other comprehensive income associated with discontinued operations		
FX differences on translation of foreign operations	(255)	(5 818)
Actuarial profit/loss	-	2 633
	(255)	
Earnings per share:		
– basic from the profit (loss) from discontinued operations attributable to equity holders of the parent	(0,10)	(0,52)
– diluted from the profit (loss) from the discontinued operations attributable to equity holders of the parent	(0,10)	(0,52)

Net assets related to discontinued operations	As at 30 September 2016 (unaudited)	As at 31 December 2015 (audited)
<b>Assets related to discontinued operations</b>		
Inventories	12 380	29 396
Trade and other receivables	1 432	15 789
Corporate income tax receivables	125	124
Other non-financial assets	-	12
Other financial assets	388	1 096
Cash and cash equivalents	1 436	1 051
	15 760	47 467
<b>The liabilities directly related to the discontinued operations</b>		
Provisions	26 063	55 484
Other financial liabilities	-	699
Trade and other payables	2 700	23 069
Income tax liability	103	102
Accruals and deferred income	310	1 909
	29 177	81 264
Net assets related to discontinued operations	(13 417)	(33 797)
	9-month period ended on	9-month period ended on
	30 September 2016	30 September 2015
<b>Cash flows related to discontinued operations</b>		
Net cash flows from operating activities	(25 651)	(12 213)
Net cash flows from investing activities	1 513	6 497
Net cash flows from financing activities	24 515	6 152
Increase / (decrease) in cash and cash equivalents	378	435
Net FX differences	7	5
Cash and cash equivalents at the beginning of the period	1 051	526
Cash and cash equivalents at the end of the period	1 436	966

## 9. Dividend paid and proposed

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

Dividend is paid based on the net profit disclosed in the standalone annual financial statements of Arctic Paper 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.

In connection with the term and revolving loan agreements signed on 9 September 2016, related to the bond issue, pursuant to which the Company issued bonds on 30 September 2016, and the intercreditor agreement (more detailed in the note 11.2 "Acquisition of new funding"), the possibility of dividend disbursement by the Company is subject to the Group complying with specified financial ratios in two

periods preceding such disbursement (in compliance with the definition of the period in the term and revolving loan agreements) and non-occurrence of any event of default (in compliance with the definition of the period in the term and revolving loan agreements).

The Company's General Meeting held on 2 June 2016 did not make any decision on dividend disbursement.

## 9.2. Dividend disbursed by Rottneros AB

At the General Meeting of Rottneros AB of 30 May 2016 adopted a resolution on dividend distribution of SEK 0.50 per share. The dividend was disbursed to Arctic Paper S.A. and to the non-controlling shareholders of Rottneros AB in the total amount of PLN 36 million (SEK 76 million).

## 10. Earnings per share

Earnings per share is established by dividing the net profit for the reporting period attributable to the Company's ordinary shareholders by weighted average number of issued ordinary shares existing in the reporting period.

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

	3-month period ended on 30 September 2016 (unaudited)	9-month period ended on 30 September 2016 (unaudited)	3-month period ended on 30 September 2015 (unaudited)	9-month period ended on 30 September 2015 (unaudited)
Net profit (loss) from continuing operations attributable to equity holders of the parent	25 396	41 617	10 220	28 985
Profit (loss) from discontinued operations attributable to equity holders of the parent	(873)	(7 213)	(9 795)	(35 741)
Net profit (loss) attributable to equity holders of the parent	24 523	34 404	425	(6 756)
Number of ordinary shares – A series	50 000	50 000	50 000	50 000
Number of ordinary shares – B series	44 253 500	44 253 500	44 253 500	44 253 500
Number of ordinary shares – C series	8 100 000	8 100 000	8 100 000	8 100 000
Number of ordinary shares – E series	3 000 000	3 000 000	3 000 000	3 000 000
Number of ordinary shares – F series	13 884 283	13 884 283	13 884 283	13 884 283
Total number of shares	69 287 783	69 287 783	69 287 783	69 287 783
Weighted average number of shares	69 287 783	69 287 783	69 287 783	69 287 783
Diluted weighted average number of ordinary shares	69 287 783	69 287 783	69 287 783	69 287 783
Profit (loss) per share (in PLN)				
– basic from the profit (loss) for the period attributable to equity holders of the parent	0,35	0,50	0,01	(0,10)
– basic from the profit (loss) from continuing operations attributable to equity holders of the parent	0,37	0,60	0,15	0,42
Diluted profit (loss) per share (in PLN)				
– from the profit (loss) for the period attributable to equity holders of the parent	0,35	0,50	0,01	(0,10)
– from the profit (loss) from continuing operations attributable to equity holders of the parent	0,37	0,60	0,15	0,42

## 11. Interest-bearing bank loans and bonds

### 11.1. Loans repaid

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 26,498 thousand, made a net repayment of its debt under overdraft facilities to the above consortium of banks, as well as to Svenska Handelsbanken in the amount of PLN 19,378 thousand and capitalised interest on the loan from the owner of PLN 1,367 thousand and incurred obligations under the bond issue of PLN 99,312 thousand net of the costs related directly to the acquisition of financing in the form of bonds.

The amount of acquired funding under the bond issue net of the banking costs of PLN 99,698 thousand was disclosed in the cash flow statement as funds with limited availability since access to the funds by the Group is subject to the disbursement of new financing in the form of bank loans as detailed in note 11.2 below.

The other changes to loans and borrowings as at 30 September 2016, compared to 31 December 2015 result mainly from balance sheet evaluation.

### 11.2. Obtaining of new funding

On 9 September 2016:

1. The Company signed a term and revolving facilities agreement ("Loan Agreement") which was concluded between the Company as the borrower, subsidiaries of the Company: Arctic Paper Kostrzyn S.A., Arctic Paper Munkedals AB and Arctic Paper Grycksbo AB, as guarantors ("Guarantors") and a consortium of banks as follows: Bank BGŻ BNP Paribas S.A. ("BGŻ BNP Paribas"), Bank Zachodni WBK S.A. and the European Bank for Reconstruction and Development ("EBRD") (jointly the "Lenders") pursuant to which the Lenders granted the Company term and revolving facilities up to the amount of PLN 31,500,000 (in words: PLN thirty one million five hundred thousand) and EUR 52,400,000 (in words: EUR fifty two million four hundred thousand) ("Loans").
2. The Company signed agreements with Haitong Bank, S.A. Spółka Akcyjna Branch in Poland ("Haitong") related to a bond issue programme up to PLN 150,000,000 (in words: PLN one hundred fifty million) ("Bonds"), including an agency agreement ("Agency Agreement") and a bond issue underwriting agreement ("Underwriting Agreement").
3. The Company, Mr Thomas Onstad, Bank Zachodni WBK S.A., Haitong, BGŻ BNP Paribas and other parties entered into an intercreditor agreement ("Intercreditor Agreement") pursuant to which a structure of parallel debt was established in favour of BGŻ BNP Paribas (acting as the collateral agent) in an amount equal to, in appropriate currencies, to the sum of liabilities under the Loans, Bonds, hedging transactions and other liabilities specified in the Intercreditor Agreement.
4. To secure the receivables due to BGŻ BNP Paribas under the Intercreditor Agreement and other claims specified in the collateral documents, the Company and the Guarantor will inter alia Conclude registered and financial pledge agreements on the existing shares and interests and on bank accounts and an agreement establishing mortgage on properties with BGŻ BNP Paribas, will submit to BGŻ BNP Paribas a declaration on submission to voluntary enforced collection and will grant BGŻ BNP Paribas authorisation to access the existing bank accounts (in compliance with other agreements as specified above).

With report No. 9/2016 of 4 May 2016, the Management Board of Arctic Paper S.A. informed investors of its decision on formal commencement of work on the contemplated refinancing of the existing debt of the Company and its subsidiaries resulting from loan agreements and raising alternative financing. The agreements listed above constitute the acquisition of alternative financing and a change to the funding structure of the Company's capital group.

The centralised funding will ensure more effectiveness management of financial liquidity and flexible adjustment of the funding level for each company.

Herebelow, the Company provides details of the above items:

### Re. 1 – Loan agreement

In accordance with the Loan Agreement, the Lenders provided the Company with the following Loans:

(C) a term loan in three tranches – tranche 1 of EUR 12,000,000 (in words: EUR twelve million) to be disbursed by EBRD, tranche 2 of EUR 2,600,000 (in words: EUR two million six hundred thousand) to be disbursed by BGŻ BNP Paribas and tranche 3 of PLN 11,500,000 (in words: PLN eleven million five hundred thousand) to be disbursed by Bank Zachodni WBK S.A. ("Term Loan") as well as term investment loans A and B disbursed by EBRD, of EUR 8,000,000 (in words: EUR eight million) and EUR 10,000,000 (in words: EUR ten million) respectively ("Investment Loan"); and

(D) revolving facility to be disbursed by BGŻ BNP Paribas and Bank Zachodni WBK S.A., in two tranches – Tranche 1 of EUR 19,800,000 (in words: EUR nineteen million eight hundred thousand) and Tranche 2 of PLN 20,000,000 (in words: PLN twenty million) ("Revolving Facility").

The Term Loan was made available subject to corresponding provisions of the Loan Agreement, for the following purposes:

- (vi) refinance the Company's intragroup liabilities to Arctic Paper Kostrzyn S.A. or financing intragroup loans granted by the Company to Arctic Paper Kostrzyn S.A. to repay the existing debt – the loan may also be replaced with the proceeds from the bond issue;
- (vii) refinance liabilities of Arctic Paper Grycksbo AB, by the Company granting an intragroup loan to Arctic Paper Grycksbo AB;

(viii) refinance liabilities of Arctic Paper Munkedals AB, by the Company granting an intragroup loan to Arctic Paper Munkedals AB;

(ix) refinance capital expenditures of companies in the Company's capital group, including in particular investment outlays by Arctic Paper Kostrzyn S.A. up to EUR 4,750,000 – indirectly by the Company granting an intragroup loan to the relevant member of the capital group – the loan may also be replaced with the proceeds from the bond issue; and

(x) finance or refinance the financing costs referred to in the Loan Agreement.

The Investment Loan was made available – subject to corresponding provisions of the Loan Agreement – to finance investments aimed at the improving the effective use of the resources and operational effectiveness as well as production capacities in Poland. With its investment plans, the Company plans to materially improved its competitiveness, expand its production potential and improve the energy effectiveness and resource management. The Company's Paper Mill in Kostrzyn will be modernised with investments under EBRD's programme – Green Economy Transition (GET) aimed at improving its energy effectiveness and minimising the quantities of waste generated.

The Revolving Facility was made available – subject to corresponding provisions of the Loan Agreement – to refinance Company's intragroup liabilities or to finance intragroup loans – the loan may also be replaced with the proceeds from the bond issue – for the following purposes:

- (vi) Refinance obligations under an overdraft facility of Arctic Paper Kostrzyn S.A. under the existing bank loans;
- (vii) refinance outstanding liabilities of Arctic Paper Grycksbo AB under the existing factoring contracts with Svenska Handelsbanken AB;
- (viii) refinance obligations under an overdraft facility of Arctic Paper Grycksbo AB;
- (ix) refinance outstanding liabilities of Arctic Paper Munkedals AB under the existing factoring contracts with Svenska Handelsbanken AB; and
- (x) after repayment of the existing bank debt – pursuance of overall corporate objectives or related to working capital of the Company's capital group (with the exception of

Rottneros AB, Arctic Paper Mochenwangen GmbH and Arctic Paper Investment GmbH and their subsidiaries), including the provision of intragroup loans – such loans may also be replaced with the proceeds from the bond issue.

Loan disbursements (except the Investment Loan for investment purposes of the Company's investment purposes with the exception of Rottneros AB, Arctic Paper Mochenwangen GmbH and Arctic Paper Investment GmbH and their subsidiaries, in compliance with the Loan Agreement) is subject to the Company and the Guarantors complying with the conditions precedent, including the submission of:

- (x) copy of the Company's Articles of Association and corporate documents of the Guarantors;
- (xi) certified copies of extracts from the register of entrepreneurs (Register of Entrepreneurs) of the National Court Register, concerning the company and each Guarantor; with reference to the companies registered in Sweden – registration certificates, in each case issued not earlier than 7 days before the application for disbursement of each tranche of the Loans;
- (xii) as required by the applicable laws and/or the by-laws or articles of association of the company – copies of resolutions of the general meeting, supervisory board (if any) and management of the Company and the Guarantors;
- (xiii) copy resolutions of the Company's management board and supervisory board concerning the initiation of the bond issue programme;
- (xiv) copies of insurance policies of the Company and the Guarantors;
- (xv) Loan Agreement, Intercreditor Agreement, fee letters), agreements concerning hedging transactions and other financial documents specified in the Loan Agreement;
- (xvi) copies of submitted applications to register the collateral as required to have them entered in the relevant register and submission of extracts from the land and mortgage registers for the relevant properties;
- (xvii) appropriate legal opinions issued inter alia for the Lenders; and
- (xviii) submission of other documents or compliance with other conditions specified in the Loan Agreement.

In accordance with the provisions of the Loan Agreement, the Loans bear interest at a variable interest rate relying on WIBOR in case of PLN financing and on EURIBOR in case of EUR financing, plus a variable margin for the Lenders subject to the level of debt indicators.

In compliance with the Loan Agreement, the Loans will be repaid by:

- (C) Term Loan – tranche 1 by 31 August 2022, tranche 2 by 31 August 2021 and tranche 3 by 31 August 2021, Investment loan by 31 August 2022 (both the A investment loan and the B investment loan); and
- (D) Revolving Facilities – tranche 1 and 2 by 31 August 2019, subject to potential extension in compliance with the Loan Agreement.

The Loan Agreement is subject to English law and does not provide for any contractual penalties. Should any breach occur and continue as specified in the Loan Agreement, Bank Zachodni WBK S.A. (as the entity operating as the agent in compliance with the Loan Agreement) may – in compliance with the Loan Agreement – notify the Company on a duty to prepay the Loans immediately.

## Re. 2 – agreements related to the planned Bond issue

On 9 September 2016 the Company – in connection with the planned issue programme and the planned Bond issue by the Company – entered into an Agency Agreement, Underwriting Agreement and other agreements of purely technical nature, related to the activation of the Bond issue programme. Under the Bond issue programme, the Company intends to issue series A Bonds for PLN 100,000,000 (in words: PLN one hundred million).

The Agency Agreement covers the organisation of the Bond issue programme by Haitong that will act as the issue agent, dealer, payment agent, calculation agent, technical agent, administrative agent and depository.

Pursuant to the Underwriting Agreement for the planned Bond issue, Haitong agrees to acquire the Bonds that will not be placed in the market, up to the total amount of PLN 100,000,000 (in words: PLN one hundred million).



The agreements related to the planned Bond issue were concluded under Polish law and do not provide for any contractual penalties. The Agency Agreement may be terminated by the Company or Haitong subject to a 30-day notice period. Both the Company and Haitong may also terminate any of the above agreements for reasons specified therein.

### Re. 3 – Intercreditor Agreement

The Company further informs that on 9 September 2016 one of the conditions precedent specified in the Loan Agreement will be satisfied – the Intercreditor Agreement will be signed. It regulates the sequence of repayments to creditors (the obligations specified in the Intercreditor Agreement will be satisfied *pari passu*, with the exception of intragroup obligations that will be subordinated to those of the Lenders), the principles of pursuing claims, the principles of enforcing collateral and release of collateral.

Pursuant to the Intercreditor Agreement, parallel debt will be created covering:

- (iii) Company's parallel debt
- (iv) parallel debt of selected subsidiaries of the Company – each being a standalone and independent debt to BGŻ BNP Paribas (acting as the collateral agent) from each respective entity.

The obligations of the Company and each Guarantor under parallel debt, covering *inter alia* the obligations under the Loan Agreement and the Bonds, will be secured with the establishment of a packet of collateral. Pursuant to each obligation under parallel debt, each of the above entities shall be obliged to pay to BGŻ BNP Paribas an amount being the sum of all obligations of such entity under the core legal relationships covered with the Intercreditor Agreement. Enforceability of any of the core obligations of an entity will automatically generate enforceability of parallel debt in the same amount. Payment by any entity of any parallel debt to BGŻ BNP Paribas will automatically reduce the amount of core obligations of such entity equivalent to parallel debt, by the amount of such payment. Any repayment of core obligations by an entity will automatically reduce the parallel debt of the entity by the amount of such payment.

The Intercreditor Agreement is subject to English law and does not provide for any contractual penalties.

### Art. 4 – Collateral

The Company and the Guarantors will establish the following collateral to their obligations under the Intercreditor Agreement:

- subject to Polish law (*inter alia*):
  - (ix) financial and registered pledges on all shares and interests registered in Poland, owned by the Company and the Guarantors, in companies in the Company Group (with the exception of Rottneros AB, Arctic Paper Mochenwangen GmbH and Arctic Paper Investment GmbH), except the shares in the Company;
  - (x) mortgages on all properties located in Poland and owned by the Company and the Guarantors;
  - (xi) registered pledges on all material rights and movable assets owned by the Company and the Guarantors, constituting an organised part of enterprise, located in Poland (with the exception of the assets listed in the Loan Agreement);
  - (xii) assignment of (existing and future) insurance policies covering the assets of the Company and the Guarantors (with the exception of insurance policies listed in the Loan Agreement);
  - (xiii) declaration by the Company and the Guarantors on voluntary submission to enforcement, in the form of a notary deed;
  - (xiv) financial pledges and registered pledges on the bank accounts of the Company and the Guarantors, registered in Poland;
  - (xv) powers of attorney to Polish bank accounts of the Company and the Guarantors, registered in Poland;
  - (xvi) subordination of the debt held by intragroup lenders (specified in the Intercreditor Agreement).
- subject to Swedish law (*inter alia*):
  - (vi) pledges on all shares and interests registered in Poland, owned by the Company and the Guarantors, in Group companies, with the exception of the shares in the company, as well as pledged on the shares in Rottneros (with the exception of the free packet of shares in Rottneros);
  - (vii) mortgages on all properties located in Sweden and owned by the Company and the Guarantors as long as such collateral covers solely the existing mortgage deeds;

- (viii) corporate mortgage loans granted by the Guarantors registered in Sweden as long as such collateral covers solely the existing mortgage deeds;
  - (ix) assignment of (existing and future) insurance policies covering the assets of the Company and the Guarantors (with the exception of insurance policies listed in the Loan Agreement);
  - (x) pledges on Swedish bank accounts of the Company and the Guarantors as long as such collateral is without prejudice to free management of funds deposited on bank accounts until an event of default specified in the Loan Agreement.
- The collateral agreements do not provide for contractual penalties.

### 11.3. Bond issue

On 30 September 2016 ("Issue Date"), under the bond issue programme up to PLN 150,000,000 of 9 September 2016 – the Company made a private placement of 100,000 series A bonds ("Bonds").

The Bond issue was based on the following legal basis:

- (i) Art. 33.2 of the Act on Bonds of 15 January 2015;
- (ii) Resolution of the Company's Management Board No. 1/05/2016 of 4 May 2016;
- (iii) Resolution of the Company's Supervisory Board No. 11/04/2016 of 28 April 2016;
- (iv) Resolution of the Company's Management Board No. 1/09/2016 of 22 September 2016; and
- (v) Resolution of the Company's Management Board No. 2/09/2016 of 23 September 2016.

The purpose of the issue was not identified in the Bond issue terms and conditions; the Company intends to apply the proceeds from the Bond issue to refinance its existing obligations.

The Bonds were issued as unsecured, bearer bonds and in dematerialised form. The total nominal value of the Bonds is

### 11.4. Debt repayment by Arctic Paper Kostrzyn S.A.

On 25 October 2016 ("Repayment Date"), the subsidiary of the Company: Arctic Paper Kostrzyn S.A. ("Borrower") repaid the debt specified below (jointly "Debt") under the loan agreement for maximum equivalent of PLN 359,000,000 (in words: PLN three hundred fifty nine million) of 6 November 2012, as

PLN 100,000,000 and the nominal value of one Bond is PLN 1,000. The issue price of the Bonds is equal to their nominal value. The Bonds will be redeemed on 31 August 2021 or at a premature redemption date ("Redemption Date").

In accordance with item 4 of the current report No. 20/2016, there will be parallel debt concerning inter alia receivables of the bond holders (that are parties to the intercreditor agreement) under the Bonds, in compliance with the intercreditor agreement concluded by the Company. The Bonds were registered with Krajowy Depozyt Papierów Wartościowych S.A. [Central Securities Depository of Poland].

Starting from the day after the Issue Date and until the Redemption Date (including), the Bonds will earn interest. The interest rate applicable to the Bonds is variable and equal to the sum of WIBOR 6M and a margin which is subject to the net debt to EBITDA ratio. Interest on the Bonds will be paid semi-annually. The Bond issue terms and conditions do not provide for non-monetary benefits.

The Company intends to have the Bonds admitted to trading in an alternative trading system operated by the Warsaw Stock Exchange and/or BondSpot S.A.

The Bond issue terms and conditions provide for bond holder meetings.

amended and consolidated and most recently amended pursuant to the amendment letter No. 7 of 15 December 2015, concluded between Bank Polska Kasa Opieki S.A. ("Pekao") as the collateral agent and lender, Bank Zachodni WBK S.A. ("BZ WBK") as a lender and mBank S.A. ("mBank") as a lender, and the Borrower, and Arctic Paper Mochenwangen



GmbH and Arctic Paper Investment GmbH as the guarantors and the Company as a joint debtor, with the Borrower and the agent of the obliged entities, pursuant to which Pekao, BZ WBK and mBank provided the Borrower with:

- a multicurrency term loan ("Term Loan"); and
- an overdraft facility ("Overdraft Facility")

subject to the terms and conditions specified in the Existing Loan Agreement, as follows:

- with reference to EUR denominated obligations:

- the repayment amount of the EUR Term Loan (BZ WBK) was EUR 4,223,436.17;
- the repayment amount of the EUR Term Loan (mBank) was EUR 3,620,579.21; and
- the repayment amount of the EUR Term Loan Pekao) was EUR 4.899.480,76;

with the overall repayment amount in EUR being EUR 12,743,496.14;

with reference to PLN denominated obligations:

- the repayment amount of the PLN Overdraft Facility to BZ WBK was PLN 7,395,271.16;
- the repayment amount of the PLN Overdraft Facility to mBank was PLN 5,663,467.81;

- the repayment amount of the PLN Overdraft Facility to Pekao was PLN 8,335,519.76;
- the repayment amount of the PLN Term Loan to BZ WBK was PLN 39,479,781.03;
- the repayment amount of the PLN Term Loan to mBank was PLN 33,846,688.07; and
- the repayment amount of the PLN Term Loan to Pekao was PLN 45,784,479.07;

with the overall repayment amount in PLN being PLN 140,505,206.90.

The Company disclosed information on the conclusion of the above loan agreement and amendments thereto with its current reports No. 19/2012 of 6 November 2012, No. 44/2013 of 20 December 2013 and No. 24/2014 of 16 October 2014.

The Debt was repaid as a result of a changed financing structure of the Company's capital group, in particular its centralisation providing for more effective financial liquidity management and flexible adjustment of the financing level of each company, of which the Company notified in its current reports No. 9/2016 and 20/2016.

## 12. Equity securities

	As at 30 September 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	Number	Value in PLN
Ordinary issued and fully paid-up shares			
Issued on 30 April 2008	2008-05-28	50 000	50 000
Issued on 12 September 2008	2008-09-12	44 253 468	44 253 468
Issued on 20 April 2009	2009-06-01	32	32
Issued on 30 July 2009	2009-11-12	8 100 000	8 100 000
Issued on 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 30 September 2016 (unaudited)		69 287 783	69 287 783

## 13. Financial instruments

The Group holds the following financial instruments: cash in bank accounts, loans and bonds, receivables, liabilities under

financial leases, SWAP interest rate contracts, forward and FX options and forward contracts for the purchase of electricity.

### 13.1. 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 forward term contracts and options. Additionally, the Group enters into forward contracts for purchases of electrical energy, and interest rate SWAP contracts.

As at 30 September 2016, the Group used cash flow hedge accounting for the following hedging items:

- Arctic Paper Kostrzyn S.A. designated a SWAP contract to cash flow hedge accounting in order to hedge EUR

interest payments on a bank loan in EUR and to hedge PLN interest payments on a bank loan in PLN as well as forward and FX options to hedge future export inflows, mainly in EUR as well as future expenditures, mainly in USD.

- 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 and USD related to export sales.

## Cash flow hedge accounting related to foreign currency trading using FX forward transactions

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	2 015
Maturity:	individually per contract up to 31.12.2016
Hedged amount	EUR 0.4 M
Term exchange rate	9.04 SEK/EUR

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 31.12.2016
Hedged amount	EUR 7.0 M
Term exchange rate	9.52 SEK/EUR

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 31.12.2016
Hedged amount	USD 13.5 M
Term exchange rate	8.60 USD/SEK

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

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 USD
Contract parameters:	
Contract conclusion dates	2 016
Maturity:	individually per contract up to 31.12.2016
Hedged amount	EUR 3.0 M
Term exchange rate	from 1.12 to 1.17 EUR/USD

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 3.0 M
Term exchange rate	from 4.349 to 4.700 EUR/PLN

The table below presents detailed information concerning the hedging relationship in the cash flow hedge accounting regarding the sale of EUR for PLN with simultaneous purchase of EUR with 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 3.0 M
Term exchange rate	4.50 and 4.30 EUR/PLN

### 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 02.01.2013
Maturity:	individually per contract; by 31.12.2020
Hedged quantity of electricity	1.155.000 MWh
Term price	from 16.50 to 38.30 EUR/MWh

### 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 07.11.2017
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 6.2 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 07.11.2017
Hedged value	interest payable in line with the payment schedule under the loan agreement of PLN 22.6 M and PLN 18.1 M.
Term interest rate	3,71%

In connection with the new funding as specified in item 11.2 hereof, in October 2016 the Group terminated its interest rate SWAP for PLN and EUR denominated loans.

The table below presents the fair value of hedging instruments in cash flow hedge accounting as at 30 September 2016 and the comparative data:

	Status as at 30 September 2016 (unaudited)		Status as at 31 December 2015 (audited)	
	Assets	Equity and Liabilities	Assets	Equity and Liabilities
FX forward	510	139	944	-
Forward on pulp sales	-	-	-	-
SWAP	-	1 108	-	2 001
Forward for electricity	3 282	2 535	-	30 889
<b>Total hedging derivative instruments</b>	<b>3 793</b>	<b>3 782</b>	<b>944</b>	<b>32 890</b>

## 14. Financial risk management objectives and policies

The Group's principal financial instruments comprise bank loans and bonds, financial leases and hire purchase contracts, cash on hand and short-term deposits. 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.

## 15. Capital management

The primary objective of the Group's capital management is maintaining a strong credit rating and healthy capital ratios in order to support its business operations and maximise shareholder value. In the Management Board's opinion – in

comparison to the annual consolidated financial statements made as at 31 December 2015, there have been no significant changes to the objectives and policies of capital management.

## 16. Contingent liabilities and contingent assets

As at 30 September 2015, the Group reported:

- contingent liability under a guarantee for FPG in favour of the mutual life insurance company PRI for SEK 1,459 thousand (PLN 655 thousand) at Arctic Paper Grycksbo AB and for SEK 759 thousand (PLN 341 thousand) at Arctic Paper Munkedals AB;
- a contingent liability of Arctic Paper Munkedals AB related to a surety for the obligations of Kalltorp Kraft HB in the amount of SEK 2,711 (PLN 1,216 thousand);
- a bank guarantee in favour of Skatteverket Ludvika for SEK 135 (PLN 61 thousand);

## 17. Legal claims

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

## 18. CO2 emission rights

Arctic Paper Kostrzyn S.A., Arctic Paper Munkedals AB, Arctic Paper Grycksbo AB and Arctic Paper Mochenwangen GmbH 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 approved by the European Union and the usage of the emission rights in each of the five entities in 2013, 2014 and 2015 and in the first 9 months of 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)	(128 453)				
Purchased quantity	-	-	-	-				
Sold quantity	-	-	-	-				
Unused quantity	306 448	263 932	203 917	175 304				
(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)	(10 881)				
Purchased quantity	-	-	7	-				
Sold quantity	-	-	(100 000)	-				
Unused quantity	67 262	107 325	17 559	48 585				
(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)	(15 614)				
Purchased quantity	-	-	-	-				
Sold quantity	-	-	-	-				
Unused quantity	90 522	101 986	104 991	118 764				

\* - 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.



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

### 19.1. Government grants

In the current quarter, the Rottneros Group companies as the leader in the consortium received government grants of PLN 8.9 million (SEK 19.2 million), of which PLN 2.3 million (SEK 4.9 million) refers to the Rottneros Group companies.

### 19.2. 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 (with its subsequent updates), the Company may benefit from tax exemption until the end of operation by KSSSE or by 31

December 2026. The permit may be used subject to the incurrance of capital expenditures in the zone 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 40,000,000 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 was inspected by competent authorities. The inspection verified the compliance with all the requirements specified in the permit and was closed with a positive result.

During the period from 25 August 2006 to 30 September 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 56,172 thousand.

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

The amount of deferred income tax asset recognised with reference to the expenditures incurred in KSSSE amounted to PLN 16,739 thousand as at 30 September 2016.

## 20. Material events after the balance sheet date

After 30 September 2016 until the date hereof there were no other material events requiring disclosure in this report with the

exception of those events that were disclosed in this report in paragraphs above.

Signatures of the Members of the Management Board

Position	First and last name	Date	Signature
President of the Management Board Managing Director	Per Skoglund	10 November 2016.	
Member of the Management Board Financial Director	Małgorzata Majewska-Śliwa	10 November 2016.	

Head Office

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