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ARCTIC PAPER S.A. CAPITAL GROUP  
Consolidated quarterly report  
for Q1 2017

#### TRANSLATORS' EXPLANATORY NOTE

The following document is a free translation of the report of the above-mentioned Company.

In the event of any discrepancy in interpreting the terminology, the Polish version is binding.



ARCTIC PAPER

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## Introduction

### Information on the report

This Consolidated Quarterly Report for Q1 2017 was prepared in accordance with the Minister of Finance Regulation of 19 February 2009 on current and periodic disclosures made by issuers of securities and terms and conditions of classifying as equivalent information required by the law of non-member states (Journal of Laws of 2009, No. 33, item 259, as amended) and a part of the condensed consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), in particular in accordance with International Accounting Standard No. 34 and IFRS approved by the EU. IFRS comprise standards and interpretations accepted by the International Accounting Standards Board (IASB) and the International Financial Reporting Standards Interpretation Committee (IFRIC).

The 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 2016.

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 on 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 Meeting, Company's General Meeting	General Meeting of Arctic Paper S.A.
EGM, Extraordinary General Meeting, Issuer's Extraordinary General Meeting, Company's Extraordinary General Meeting	Extraordinary General Meeting of Arctic Paper S.A.
Articles of Association, Issuer's Articles of Association, Company's Articles of Association	Articles of Association of Arctic Paper S.A.
SEZ	Kostrzyńsko-Słubicka Special Economic Zone
Court of Registration	District Court Poznań-Nowe Miasto i Wilda in Poznań
Warsaw Stock Exchange, WSE	Giełda Papierów Wartościowych w Warszawie Spółka Akcyjna
KDPW, Depository	Krajowy Depozyt Papierów Wartościowych Spółka Akcyjna with its registered office in Warsaw
PFSA	Polish Financial Supervision Authority
SFSA	Swedish Financial Supervisory Authority, equivalent to PFSA
NASDAQ in Stockholm, Nasdaq	Stock Exchange in Stockholm, Sweden
CEPI	Confederation of European Paper Industries
EURO-GRAPH	The European Association of Graphic Paper Producers)
Eurostat	European Statistical Office
GUS	Central Statistical Office of Poland
NBSK	Northern Bleached Softwood Kraft
BHKP	Bleached Hardwood Kraft Pulp

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

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

Equity to fixed assets ratio	Ratio of equity to fixed assets
Interest-bearing debt-to-equity ratio	Ratio of interest-bearing debt and other financial liabilities to equity
Net debt-to-EBITDA ratio	Ratio of interest-bearing debt minus cash to EBITDA from continuing operations
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 short-term liabilities
DSI	Days Sales of Inventory, ratio of inventory to cost of sales multiplied by the number of days in the period
DSO	Days Sales Outstanding, ratio of trade receivables to sales revenues from continuing operations multiplied by the number of days in the period
DPO	Days Payable Outstanding, Ratio of trade payables to cost of sales from continuing operations multiplied by the number of days in the period
Operating cycle	DSI + DSO
Cash conversion cycle	Operating cycle – DPO
FY	Financial year
Q1	1st quarter of the financial year
Q2	2nd quarter of the financial year
Q3	3rd quarter of the financial year
Q4	4th quarter of the financial year
H1	First half of the financial year
H2	Second half of the financial year
YTD	Year-to-date
Like-for-like, LFL	Analogous, with respect to operating result.
p.p.	Percentage point – difference between two amounts of one item given in percentage
PLN, zł, złoty	Monetary unit of the Republic of Poland
gr	grosz – 1/100 of one zloty (the monetary unit of the Republic of Poland)
Euro, EUR	Monetary unit of the European Union
GBP	Pound sterling – monetary unit of the United Kingdom
SEK	Swedish Krona – monetary unit of the Kingdom of Sweden
USD	United States dollar, the legal tender in the United States of America
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
GDP	Gross Domestic Product

#### Other definitions and abbreviations

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

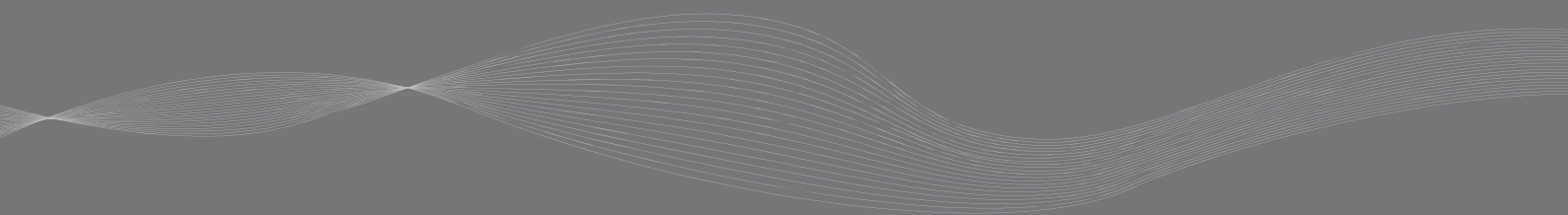
#### Forward looking statements

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

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



Management Board's Report from operations  
of the Arctic Paper S.A. Capital Group  
to the report for Q1 2017





## Description of the business of the Arctic Paper Group

### General information

The Arctic Paper Group is a leading European producer in terms of production volume of bulky book paper, offering a broad range of products in the segment and one of the leading producers of high-quality graphic paper in Europe. The Group produces numerous types of uncoated and coated wood-free paper as well as wood-containing uncoated paper for printing houses, paper distributors, book and magazine publishing houses and the advertising industry. In connection with acquisition of the Rottneros Group in December 2012, the Group's assortment was expanded with the production of pulp. As on the day hereof, the Arctic Paper Group employs app. 1,750 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 of pulp per year. The Group has fourteen Sales Offices which handle distribution and marketing of products offered by the Group providing access to all European markets, including Central and Eastern Europe. The Group's consolidated sales revenues for Q1 2017 totalled PLN 774 million.

Arctic Paper S.A. is a holding company set up in April 2008. The Parent Entity is entered in the register of entrepreneurs of the National Court Register maintained by the District Court in Poznań – Nowe Miasto i Wilda, 8th Commercial Division of the National Court Register, under KRS number 0000306944. The Parent Entity holds statistical number REGON 080262255.

### Group Profile

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

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

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

### Our production facilities

As on 31 March 2017 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 280,000 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 265,000 tons per year and produces

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

The Paper Mill in Mochenwangen (Germany) whose production was discontinued at the end of 2015, had production capacity of about 115,000 tons.

As on 31 March 2017 as well as on the day hereof, the Group owned the following pulp mills:

- The Pulp Mill in Rottneros (Sweden) has production capacity of about 150,000 tons annually and produces mainly two types of mechanical pulp: groundwood and chemo thermo mechanical pulp CTMP);
- the Pulp Mill in Vallvik (Sweden) has the annual production capacity of about 250,000 tons and produces two types of long-fibre sulphate pulp: fully bleached sulphate pulp

and unbleached sulphate pulp. The most of Vallvik Pulp Mill production is known as NBSK pulp. The unbleached sulphate pulp produced by the mill is characterised with a high level of purity. The high quality of this pulp, which has been achieved over the years, made Vallvik the global leader in deliveries of this type of pulp, which is used, among others, in the production of power transformers and in the cable industry.

## Our products

The product assortment of the Arctic Paper Group covers:

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

A detailed description of the Group's assortment is included in the consolidated annual report for 2016.

## Capital Group structure

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

Pulp Mills and its subsidiary producing packaging as well as its sales Offices and Procurement Offices.

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

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

In Q1 2017, 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 31 March 2017) 40,231,449 shares of the Group's Company, which constitutes 58.06% of its share capital and corresponds to 58.06% of the total number of votes at General Meetings. Thus Nemus Holding AB is the parent entity of the Issuer.

Additionally, Mr Thomas Onstad, an indirect shareholder of Nemus Holding AB, holds directly 6,073,658 shares representing 8.77% of the total number of shares in the Company, and via another entity – 900,000 shares accounting for 1.30% of the total number of shares of the Issuer. Mr Thomas Onstad's total direct and indirect holding in the capital of Arctic Paper S.A. as at 31 March 2017 was 68.13% and has not changed until the date hereof.

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

Shareholder	as at 16.05.2017				as at 20.03.2017			
	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	41 131 449	59,36%	41 131 449	59,36%	41 131 449	59,36%	41 131 449	59,36%
<i>Nemus Holding AB</i>	40 231 449	58,06%	40 231 449	58,06%	40 231 449	58,06%	40 231 449	58,06%
<i>other entity</i>	900 000	1,30%	900 000	1,30%	900 000	1,30%	900 000	1,30%
- directly	6 073 658	8,77%	6 073 658	8,77%	6 073 658	8,77%	6 073 658	8,77%
<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 annual report for 2016.

## Summary of consolidated financial results

### Consolidated income statement

#### Selected items of the consolidated income statement

<i>PLN thousand</i>	Q1 2017	Q4 2016	Q1 2016	YTD Q1 2017	YTD Q1 2016	% change Q1 2017/ Q4 2016	% change Q1 2017/ Q1 2016	YTD Q1 2017/ YTD Q1 2016
<b>Sales revenues</b>	<b>773 902</b>	<b>707 166</b>	<b>778 560</b>	<b>773 902</b>	<b>778 560</b>	<b>9,4</b>	<b>(0,6)</b>	<b>(0,6)</b>
<i>of which:</i>								
Sales of paper	575 056	520 465	589 849	575 056	589 849	10,5	(2,5)	(2,5)
Sales of pulp	198 846	186 701	188 711	198 846	188 711	6,5	5,4	5,4
Profit on sales	121 165	77 072	118 034	121 165	118 034	57,2	2,7	2,7
% of sales revenues	15,66	10,90	15,16	15,66	15,16	4,8 p.p.	0,5 p.p.	0,5 p.p.
Selling and distribution costs	(63 858)	(61 008)	(64 401)	(63 858)	(64 401)	4,7	(0,8)	(0,8)
Administrative expenses	(17 206)	(20 531)	(15 946)	(17 206)	(15 946)	(16,2)	7,9	7,9
Other operating income	12 936	16 275	18 450	12 936	18 450	(20,5)	(29,9)	(29,9)
Other operating expenses	(8 917)	(9 883)	(14 760)	(8 917)	(14 760)	(9,8)	(39,6)	(39,6)
<b>EBIT</b>	<b>44 121</b>	<b>1 924</b>	<b>41 376</b>	<b>44 121</b>	<b>41 376</b>	<b>2 193,4</b>	<b>6,6</b>	<b>6,6</b>
% of sales revenues	5,70	0,27	5,31	5,70	5,31	5,4 p.p.	0,4 p.p.	0,4 p.p.
<b>EBITDA</b>	<b>75 498</b>	<b>38 384</b>	<b>70 669</b>	<b>75 498</b>	<b>70 669</b>	<b>96,7</b>	<b>6,8</b>	<b>6,8</b>
% of sales revenues	9,76	5,43	9,08	9,76	9,08	4,3 p.p.	0,7 p.p.	0,7 p.p.
Financial income	6 710	207	218	6 710	218	3 145,2	2 975,8	2 975,8
Financial expenses	(7 920)	(20 889)	(7 920)	(7 920)	(7 920)	(62,1)	0,0	0,0
<b>Gross profit (loss)</b>	<b>42 911</b>	<b>(18 759)</b>	<b>33 675</b>	<b>42 911</b>	<b>33 675</b>	<b>(328,8)</b>	<b>27,4</b>	<b>27,4</b>
Income tax	(7 829)	8 398	(8 968)	(7 829)	(8 968)	(193,2)	(12,7)	(12,7)
<b>Net profit (loss) from continuing operations</b>	<b>35 082</b>	<b>(10 361)</b>	<b>24 707</b>	<b>35 082</b>	<b>24 707</b>	<b>(438,6)</b>	<b>42,0</b>	<b>42,0</b>
% of sales revenues	4,53	(1,47)	3,17	4,53	3,17	6,0 p.p.	1,4 p.p.	1,4 p.p.
Discontinued operations								
<b>Net profit / (loss) from discontinued</b>	<b>(2 148)</b>	<b>9 411</b>	<b>(5 079)</b>	<b>(2 148)</b>	<b>(5 079)</b>	<b>(122,8)</b>	<b>(57,7)</b>	<b>(57,7)</b>
% of sales revenues	(0,28)	1,33	(0,65)	(0,28)	(0,65)	(0,3) p.p.	(1,6) p.p.	(0,7) p.p.
<b>Net profit/(loss)</b>	<b>32 934</b>	<b>(950)</b>	<b>19 628</b>	<b>32 934</b>	<b>19 628</b>	<b>(3 567,3)</b>	<b>67,8</b>	<b>67,8</b>
% of sales revenues	4,26	(0,13)	2,52	4,26	2,52	4,1 p.p.	4,4 p.p.	2,5 p.p.
Net profit / (loss) for the reporting period attributable to the shareholders of the Parent Entity	24 148	5 542	8 346	24 148	8 346	335,7	189,3	189,3

## Commentary of the President of the Management Board Per Skoglund on the results of Q1 2017

In Q1 2017 the Arctic Paper Group generated sales revenue of PLN 773.9m. EBITDA was PLN 75.5m (an increase of 6.8% compared to Q1 2016), and operating profit exceeded PLN 44.1m (up 6.6%). The Group's net profit on continuing operations\* grew by 42% in Q1 2017, to PLN 35.1m.

The good results achieved by Arctic Paper in the paper segment should be stressed. The Group generated solid sales volumes, translating into an increased market share. Combined with the effects of the Profit Improvement Program 2015/2016, this led to achievement of robust operating results in this segment in Q1 2017. In the end of Q1 substantial pulp price increases were observed, impacting the financial results in the last month of the quarter.

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

Sales revenues in the paper segment in Q1 2017 were over PLN 575m, down 2.5% compared to the same period of 2016. At the same time, the Group achieved very good operating results in this segment. EBITDA rose to over PLN 39m, a 26.8% increase y/y. Operating profit rose by 73.2% y/y, to almost PLN 18.8m, and the Group earned a net profit on continuing operations\* of over PLN 17m, that is 11 times higher y/y.

In Q1 the market for fine graphical papers developed in two directions: while the uncoated market remained on a stable level

## Revenues

In Q1 2017, the consolidated sales revenues amounted to PLN 773,902 thousand as compared to PLN 778,560 thousand in the equivalent period of the previous year. That means a decrease by PLN 4,658 thousand or by -0.6%. In Q1 2017, paper sales revenues amounted to PLN 575,056 thousand (Q1 2016: PLN 589,849 thousand) while sales of pulp generated PLN 198,846 thousand (Q1 2016: PLN 188,711 thousand).

Paper sales volume in Q1 2017 amounted to 176 thousand tons compared to 172 thousand tons in the same period of the previous year. The change represents an increase of 4 thousand tons and by 2.3% respectively.

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

In Q1 2017, profit on sales amounted to PLN 121,165 thousand and was by 2.7% higher than in the equivalent period last year and by 57.2% higher than in Q4 2016. Sales profit margin in the

(increasing by 0.2%), the coated market continued to decline, by 3.8% (compared to Q1 2016, according to EuroGraph data). During the same period Arctic Paper increased its sales by 1.8%, thus strengthening its position on the market.

The use of production capacity in Q1 2017 was 98%.

### Results including Rottneros

The results of Rottneros continued to be very solid in Q1 2017, in connection with an increase in the prices of the long-fibre pulp produced by Rottneros (NBSK) by 3.2% (compared to Q1 2016). In the historical perspective, profit and margins remained at a similar level.

It should be pointed out that production at Rottneros's Vallvik mill in the beginning of Q2 was affected by an unplanned shutdown. The problem is now resolved and production is back to normal. The shutdown represents an estimated production loss of 4.5% of Rottneros's total planned production for the quarter.

Sales revenue of the Arctic Paper Group in Q1 2017 fell slightly, by 0.6%, compared to Q1 2016. EBITDA was PLN 75.5m (+6.8% y/y), and operating profit was over PLN 44.1m. The operating profit on the Group's continuing operations\* rose by 42% from the previous year, to PLN 35.1m.

Pulp sales volume in Q1 2017 amounted to 94 thousand tons compared to 93 thousand tons in the same period of the previous year. The change represents an increase of 1 thousand tons and by 1.1% respectively.

Higher sales revenues in Q1 2017, compared to Q4 2016, result mainly from higher paper and pulp sales volume. Paper sales revenues in the last quarter of 2016 amounted to PLN 520,465 thousand (sales volume 158 thousand tons) while for pulp sales – PLN 186,701 thousand (sales volume 89 thousand tons).

current quarter stood at 15.66% compared to 15.16% (+0.5 p.p.) in the same period of the previous year and 10.90% (+4.8%) in Q4 2016.

The main reasons of the increased profit on sales in Q1 2017 versus the equivalent period of the previous year were the lower costs of material for production, in particular pulp.

The relatively low profit on sales in Q4 2016 resulted mainly from lower sales of paper in the quarter.

In Q1 2017, the selling and distribution costs amounted to PLN 63,858 thousand which represents a decrease by 0.8% compared to the costs incurred in Q1 2016 and an increase by

4.7% compared to Q4 2016. The selling and distribution costs comprise particularly transportation costs.

In Q1 2017, the administrative expenses amounted to PLN 17,206 thousand as compared to PLN 15,946 thousand in the equivalent period in 2016 and PLN 20,531 thousand in Q4 2016. The administrative expenses comprise primarily costs related to consulting services rendered to the Group by third parties.

### Other operating income and expenses

Other operating income totalled PLN 12,936 thousand in Q1 2017 which was a decrease as compared to the equivalent period of the previous year by PLN 5,513 thousand and a decrease by PLN 3,338 thousand as compared to the last quarter of 2016.

Other operating income consists mainly of income from heat and electricity sales as well as income from sales of other materials.

In Q1 2017, the other operating expenses amounted to PLN 8,917 thousand as compared to PLN 14,760 thousand in Q1 2016 and PLN 9,883 thousand in Q4 2016. The other operating expenses comprised mainly the costs of electricity and heat sales as well as costs of other materials sold.

### Financial income and financial expenses

In Q1 2017, the financial income amounted to PLN 6,710 thousand and was by PLN 6,491 thousand higher than income generated in Q1 2016 and was by PLN 6,503 thousand higher than the financial income for Q4 2016.

The relatively high financial income in Q1 2017 resulted from net FX gains (as described below) as well as revaluation of financial payables at the adjusted purchase price.

In Q1 2017, financial income amounted to PLN 7,920 thousand as compared to PLN 7,920 thousand incurred in Q1 2016 and PLN 20,889 thousand for the last quarter of 2016.

Foreign exchange differences are presented net, i.e. the surplus of foreign exchange profit over foreign exchange loss is presented as financial income while the surplus of foreign exchange loss over foreign exchange profit is presented as financial expenses. The Group generated foreign exchange profit of PLN 3,715 thousand in Q1 2017, and FX losses of PLN 4,763 thousand for Q4 2016 (disclosed as financial expenses) and FX gains of PLN 125 thousand in Q1 2016.

Additionally, as a result of pre-payment of certain loans at the end of 2016, the Group incurred additional one-off financial expenses in Q4 2016.

### Income tax

In Q1 2017, income tax amounted to PLN -7,829 thousand while in the equivalent period in 2016 it was PLN -8,968 thousand and PLN +8,398 thousand in Q4 2016.

The current portion of income tax in the analysed period amounted to PLN -2,956 thousand while the deferred portion to

PLN -4,873 thousand. In the first quarter of the previous year, the amount was PLN -1,203 thousand and PLN -7,765 thousand respectively. In the last quarter of the previous year, the amount was PLN +228 thousand and PLN +8,170 thousand respectively.

## Net profit / (loss) from discontinued operations

Net profit/loss on discontinued operations covers the results of AP Mochenwangen and of the companies set up to acquire the Paper Mill. Since the Management Board of Arctic Paper S.A. has been actively looking for a buyer for the Paper Mill, its activity has been recognised as discontinued and in compliance with IFRS it was disclosed as a separate line item in the consolidated profit and loss account.

The net loss on the discontinued activity amounted to PLN 2,148 thousand for Q1 2017 and PLN 5,079 thousand in the equivalent period of the previous year. The fourth quarter of 2016 was closed with net profit on discontinued activity of PLN 9,411 thousand and resulted from reversal of certain write-offs in view of the anticipated sales of certain assets.

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

In Q1 2017, the Group generated net profit in the amount of PLN 32,934 thousand. The portion of the net profit attributable to the shareholders of Arctic Paper S.A. amounts to PLN 24,148 thousand.

In Q1 2016, the Group generated net profit in the amount of PLN 19,628 thousand. The portion of the net profit attributable

to the shareholders of Arctic Paper S.A. amounts to PLN 8,346 thousand.

In Q4 2016, the Group generated net loss in the amount of PLN 950 thousand. The portion of the net profit attributable to the shareholders of Arctic Paper S.A. amounts to PLN 5,542 thousand.

## Profitability analysis

In Q1 2017, the result on operations amounted to PLN +44,121 as compared to PLN +41,376 thousand in the equivalent period in 2016 and PLN +1,924 thousand in Q4 2016. Those changes mean there was an increase of operating profit margin from +5.31% in Q1 2016 and an increase of operating profit margin from +0.27% in the last quarter of 2016 to +5.70 in the first quarter of the current year.

EBITDA in Q1 2017 was PLN 75,498 thousand while in the equivalent period in 2016 it was PLN 70,669 thousand and PLN 38,384 thousand in Q4 2016. In the reporting period, the EBITDA margin was 9.76% compared to 9.08% in the equivalent period of 2016 and 5.43% in Q4 2016.

In Q1 2017, net profit amounted to PLN 32,934 thousand as compared to the net profit of PLN 19,628 thousand in Q1 2016 and net loss of PLN 950 thousand in Q4 2016.

## Profitability analysis

<i>PLN thousand</i>	Q1 2017	Q4 2016	Q1 2016	YTD Q1 2017	YTD Q1 2016	% change Q1 2017/ Q4 2016	% change Q1 2017/ Q1 2016	% change YTD Q1 2017/ YTD Q1 2016
<b>Profit on sales</b>	<b>121 165</b>	<b>77 072</b>	<b>118 034</b>	<b>121 165</b>	<b>118 034</b>	<b>57,2</b>	<b>2,7</b>	<b>2,7</b>
<i>% of sales revenues</i>	<i>15,66</i>	<i>10,90</i>	<i>15,16</i>	<i>15,66</i>	<i>15,16</i>	<i>4,8 p.p.</i>	<i>0,5 p.p.</i>	<i>0,5 p.p.</i>
<b>EBITDA</b>	<b>75 498</b>	<b>38 384</b>	<b>70 669</b>	<b>75 498</b>	<b>70 669</b>	<b>96,7</b>	<b>6,8</b>	<b>6,8</b>
<i>% of sales revenues</i>	<i>9,76</i>	<i>5,43</i>	<i>9,08</i>	<i>9,76</i>	<i>9,08</i>	<i>4,3 p.p.</i>	<i>0,7 p.p.</i>	<i>0,7 p.p.</i>
<b>EBIT</b>	<b>44 121</b>	<b>1 924</b>	<b>41 376</b>	<b>44 121</b>	<b>41 376</b>	<b>2 193,4</b>	<b>6,6</b>	<b>6,6</b>
<i>% of sales revenues</i>	<i>5,70</i>	<i>0,27</i>	<i>5,31</i>	<i>5,70</i>	<i>5,31</i>	<i>5,4 p.p.</i>	<i>0,4 p.p.</i>	<i>0,4 p.p.</i>
<b>Net profit (loss) from continuing operations</b>	<b>35 082</b>	<b>(10 361)</b>	<b>24 707</b>	<b>35 082</b>	<b>24 707</b>	<b>(438,6)</b>	<b>42,0</b>	<b>42,0</b>
<i>% of sales revenues</i>	<i>4,53</i>	<i>(1,47)</i>	<i>3,17</i>	<i>4,53</i>	<i>3,17</i>	<i>6,0 p.p.</i>	<i>1,4 p.p.</i>	<i>1,4 p.p.</i>
<b>Net profit / (loss) from discontinued operations</b>	<b>(2 148)</b>	<b>9 411</b>	<b>(5 079)</b>	<b>(2 148)</b>	<b>(5 079)</b>	<b>(122,8)</b>	<b>(57,7)</b>	<b>(57,7)</b>
<i>% of sales revenues</i>	<i>(0,28)</i>	<i>1,33</i>	<i>(0,65)</i>	<i>(0,28)</i>	<i>(0,65)</i>	<i>(1,6) p.p.</i>	<i>0,4 p.p.</i>	<i>0,4 p.p.</i>
<b>Net profit/(loss)</b>	<b>32 934</b>	<b>(950)</b>	<b>19 628</b>	<b>32 934</b>	<b>19 628</b>	<b>(3 567,3)</b>	<b>67,8</b>	<b>67,8</b>
<i>% of sales revenues</i>	<i>4,26</i>	<i>(0,13)</i>	<i>2,52</i>	<i>4,26</i>	<i>2,52</i>	<i>4,4 p.p.</i>	<i>1,7 p.p.</i>	<i>1,7 p.p.</i>
<b>Return on equity / ROE (%)</b>	<b>4,5</b>	<b>(0,1)</b>	<b>2,8</b>	<b>6,8</b>	<b>(433,1)</b>	<b>4,6 p.p.</b>	<b>1,6 p.p.</b>	<b>1,6 p.p.</b>
<b>Return on assets / ROA (%)</b>	<b>1,9</b>	<b>(0,1)</b>	<b>1,1</b>	<b>2,7</b>	<b>(31,1)</b>	<b>2,0 p.p.</b>	<b>0,8 p.p.</b>	<b>0,8 p.p.</b>

In Q1 2017, return on equity was +4.5% while in Q1 2016 it was +2.8% and in Q4 2016 it was -0.1%.

In the same period, return on assets was +1.9% while in Q1 2016 it was +1.1% and in Q4 2016 it was -0.1%.

The growth of return on equity and return of assets in Q1 2017, compared to the first and last quarter of 2016 was mainly due to increase of net profit in the analysed period.



## Statement of financial position

### Selected consolidated balance sheet items

PLN thousand	31.03.2017	31.12.2016	31.03.2016	Change	Change
				31.03.2017	31.03.2017
<b>Fixed assets</b>	<b>853 343</b>	<b>884 343</b>	<b>814 867</b>	<b>(31 000)</b>	<b>38 476</b>
Inventories	326 857	360 353	375 793	(33 496)	(48 936)
Receivables	395 405	354 824	389 923	40 581	5 482
<i>including trade receivables</i>	<i>386 465</i>	<i>343 496</i>	<i>381 595</i>	<i>42 969</i>	<i>4 870</i>
Other current assets	17 370	27 711	17 929	(10 341)	(560)
Cash and cash equivalents	101 595	130 157	168 237	(28 562)	(66 642)
Assets related to discontinued operations	12 339	12 694	26 922	(355)	(14 583)
<b>Total assets</b>	<b>1 706 908</b>	<b>1 770 081</b>	<b>1 793 672</b>	<b>(63 173)</b>	<b>(86 764)</b>
<b>Equity</b>	<b>738 370</b>	<b>742 902</b>	<b>693 665</b>	<b>(4 532)</b>	<b>44 705</b>
<b>Short-term liabilities</b>	<b>521 357</b>	<b>580 457</b>	<b>674 008</b>	<b>(59 100)</b>	<b>(152 651)</b>
<i>of which:</i>					
<i>trade and other payables</i>	<i>359 628</i>	<i>399 906</i>	<i>385 154</i>	<i>(40 278)</i>	<i>(25 526)</i>
<i>interest-bearing debt</i>	<i>61 574</i>	<i>82 053</i>	<i>182 361</i>	<i>(20 478)</i>	<i>(120 786)</i>
<i>other non-financial liabilities</i>	<i>100 154</i>	<i>98 498</i>	<i>106 494</i>	<i>1 657</i>	<i>(6 339)</i>
<b>Long-term liabilities</b>	<b>427 051</b>	<b>428 634</b>	<b>369 038</b>	<b>(1 583)</b>	<b>58 013</b>
<i>of which:</i>					
<i>interest-bearing debt</i>	<i>307 484</i>	<i>305 546</i>	<i>260 838</i>	<i>1 938</i>	<i>46 646</i>
<i>other non-financial liabilities</i>	<i>119 567</i>	<i>123 088</i>	<i>108 200</i>	<i>(3 521)</i>	<i>11 367</i>
Liabilities directly related to the discontinued operations	20 129	18 088	56 960	2 041	(38 831)
<b>Total liabilities</b>	<b>1 706 908</b>	<b>1 770 081</b>	<b>1 793 672</b>	<b>(63 173)</b>	<b>(86 764)</b>

As at 31 March 2017 total assets amounted to PLN 1,706,908 thousand as compared to PLN 1,770,081 thousand at the end of 2016 which was a decrease by PLN 63,173 thousand.

### Fixed assets

As at the end of March 2017, fixed assets amounted to PLN 853,343 thousand and accounted for 50.0% of total assets as compared to PLN 884,343 thousand at the end of 2016 – 50.0%. Fixed assets mainly consist of property, plant &

equipment and intangible assets. The value of fixed assets dropped in the three months of 2017, mainly due to depreciation/amortisation allowances of tangible fixed assets and intangible assets in excess of investment outlays.

### Current assets

As at the end of March 2017, current assets amounted to PLN 841,226 thousand as compared to PLN 873,044 thousand at the end of December 2016. As part of the current assets, inventories decreased by PLN 33,496 thousand and receivables increased by PLN 40,581 thousand, other current assets

decreased by PLN 10,341 thousand while cash and cash equivalents decreased by PLN 28,562 thousand. Current assets represented 49.3% of total assets as at the end of March 2017 (49.4% as at the end of 2016) and included inventories – 19.1% (20.4% as at the end of 2016), receivables – 23.2%

(20.0% as at the end of 2016), other current assets – 1.0% (1.6% as at the end of 2016) and cash and cash equivalents – 6.0% (7.4% as at the end of 2016).

### 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 12,339 thousand as at 31 March 2017 (31 December 2016: PLN 12,694) was composed of inventories for

PLN 10,119 thousand (31 December 2016: PLN 10,618) trade and other receivables of PLN 511 thousand (31 December 2016: PLN 358), cash – PLN 1,317 thousand (31 December 2016: PLN 1,320), and other financial and non-financial assets PLN 393 thousand (31 December 2016: PLN 398 thousand).

### Equity

In Q1 2017, the equity amounted to PLN 738,370 thousand as compared to PLN 742,902 thousand at the end of 2016. Equity represented 43.3% of total equity and liabilities as at the end of March 2017 as compared to 42.0% of balance sheet total as at the end of December 2016. The decrease of equity in Q1 2017

– despite the generated net profit – resulted from FX losses on translation of foreign operations as well as lower measurement of financial instruments than at the end of 2016 that hedge future cash flows.

### Short-term liabilities

As at the end of March 2017, short-term liabilities amounted to PLN 521,357 thousand (30.5% of balance sheet total) as compared to PLN 580,457 thousand (32.8% of balance sheet total) as at the end of 2016. In the current quarter, a decrease

of short-term liabilities occurred by PLN 59,100 thousand. The decrease of short-term liabilities was primarily due to decreased trade and other payables as well as factoring liabilities.

### Long-term liabilities

As at the end of March 2017, long-term liabilities amounted to PLN 427,051 thousand (25.0% of balance sheet total) as compared to PLN 428,634 thousand (24.2% of balance sheet

total) as at the end of 2016. In the analysed period, long-term liabilities did not change materially.

### 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 20,129 thousand as at 31 March 2017 (31 December 2016: PLN 18,088 thousand) was

composed of provisions of PLN 14,197 thousand (31 December 2016: PLN 15,406 thousand) trade and other payables of PLN 5,683 thousand (31 December 2016: PLN 2,435 thousand) and other financial and non-financial liabilities of 249 thousand (31 December 2016: PLN 248 thousand).

## Debt analysis

### Debt analysis

	Q1 2017	Q4 2016	Q1 2016	% change Q1 2017/ Q4 2016	% change Q1 2017/ Q1 2016
Debt to equity ratio (%)	128,4	135,8	150,4	(7,4) p.p.	(21,9) p.p.
Equity to fixed assets ratio (%)	86,5	84,0	85,1	2,5 p.p.	1,4 p.p.
Equity to interest-bearing debt ratio (%)	50,0	52,2	63,9	(2,2) p.p.	(13,9) p.p.
Net debt to EBITDA ratio for the last 12 months (x)	1,1x	1,0x	1,3x	0,02	(0,25)
EBITDA to interest expense ratio (x)	11,1x	10,5x	9,4x	0,6	1,7

As at the end of March 2017, the debt to equity ratio amounted to 128.4 and was lower by 7.4 p.p. compared to the end of 2016 and lower by 21.9 p.p. compared to the end of March 2016.

The equity to non-current assets ratio was 86.5% as at the end of Q1 2017 and was higher by 2.5 p.p. than at the end of 2016 and higher by 146 p.p. than at the end of March 2016.

Interest bearing debt to equity ratio amounted to 50.0% as at the end of Q1 2017 and was lower by 2.2 p.p. compared to the end of December 2016 and lower by 13.9 p.p. compared to the level of the ratio calculated at the end of March 2016.

Net borrowings to EBITDA calculated for the last 12 months ended on 31 March 2017 amounted to 1.1x compared to 1.0x in the equivalent period ended on 31 December 2016 and 1.3x for 12-month period ended on 31 March 2016.

EBITDA to interest coverage ratio amounted to 11.1x for the twelve months ended on 31 March 2017, 10.5x for the twelve months ended on 31 December 2016 and 9.4x for the twelve months ended on 31 March 2016.

## Liquidity analysis

### Liquidity analysis

	Q1 2017	Q4 2016	Q1 2016	% change Q1 2017/ Q4 2016	% change Q1 2017/ Q1 2016
<b>Current ratio</b>	<b>1,6x</b>	<b>1,5x</b>	<b>1,4x</b>	<b>0,1</b>	<b>0,2</b>
<b>Quick ratio</b>	<b>1,0x</b>	<b>0,9x</b>	<b>0,8x</b>	<b>0,1</b>	<b>0,1</b>
<b>Acid test ratio</b>	<b>0,2x</b>	<b>0,2x</b>	<b>0,2x</b>	<b>(0,0)</b>	<b>(0,1)</b>
DSI (days)	45,1	51,5	51,2	(6,4)	(6,1)
DSO (days)	44,9	43,7	44,1	1,2	0,8
DPO (days)	49,6	57,1	52,4	(7,5)	(2,8)
Operational cycle (days)	90,0	95,2	92,3	(5,2)	(2,3)
<b>Cash conversion cycle (days)</b>	<b>40,5</b>	<b>38,1</b>	<b>39,9</b>	<b>2,4</b>	<b>0,6</b>

The current liquidity ratio was 1.6 at the end of March 2017 increased by 0.1 as compared to 31 December 2016 and by 0.2 as compared to 31 March 2016.

The quick ratio was 1.0 at the end of March 2017 and 0.9 as at 31 December 2016 and 0.8 as at 31 March 2016.

At the end of March 2017, the acid test ratio was at a similar level as compared to the end of 2016 and to the end of March 2016.

The cash conversion cycle for the period ended on 31 March 2017 was 40.5 days (the period ended on 31 December 2016: 38.1 days and for the period ended on 31 March 2016: 39.9 days).

## Consolidated cash flows

### Selected items of the consolidated cash flow statements

	Q1	Q4	Q1	YTD Q1	YTD Q1	% change	% change	YTD Q1
<i>PLN thousand</i>	2017	2016	2016	2017	2016	Q1 2017/ Q4 2016	Q1 2017/ Q1 2016	2017/ 2016
Cash flows from operating activities	21 935	87 089	245	21 935	245	(74,8)	8 861,3	8 861,3
<i>of which:</i>								
Gross profit (loss)	40 755	(9 356)	28 588	40 755	28 588	(535,6)	42,6	42,6
Depreciation/amortisation and impairm	31 377	36 588	29 501	31 377	29 501	(14,2)	6,4	6,4
Changes to working capital	(54 370)	62 972	(57 041)	(54 370)	(57 041)	(186,3)	(4,7)	(4,7)
Other adjustments	4 173	(3 115)	(804)	4 173	(804)	(233,9)	(619,3)	(619,3)
Cash flows from investing activities	(30 872)	(58 704)	(25 848)	(30 872)	(25 848)	(47,4)	19,4	19,4
Cash flows from financing activities	(18 124)	(110 139)	5 485	(18 124)	5 485	(83,5)	(430,4)	(430,4)
<b>Total cash flows</b>	<b>(27 061)</b>	<b>(81 754)</b>	<b>(20 118)</b>	<b>(27 061)</b>	<b>(20 118)</b>	<b>(66,9)</b>	<b>34,5</b>	<b>34,5</b>

### Cash flows from operating activities

In Q1 2017, net cash flows from operating activities amounted to PLN +21.935 thousand as compared to PLN +245 thousand in the equivalent period of 2016 and PLN +87,089 thousand in the fourth quarter of the previous year. Gross profit generated in Q1 2017, increased by depreciation/amortisation in the period,

partly compensated with changes in working capital (mainly increased receivables and decreased trade payables) resulted in positive cash flows from operating activities in the first three months of 2017.

### Cash flows from investing activities

In Q1 2017, cash flows from investing activities amounted to PLN -30,872 thousand as compared to PLN -25,848 thousand in Q1 2016 and PLN -58,704 thousand in Q4 2016. Cash flows

from investing activities in Q1 2017 resulted primarily from purchase of tangible fixed and intangible assets.

### Cash flows from financing activities

In Q1 2017, cash flows from financing activities amounted to PLN -18,124 thousand as compared to PLN +5,485 thousand in Q1 2016 and PLN -110,139 thousand in Q4 2016. In Q1 2017 negative cash flows from financing activities were related primarily to repayment of factoring obligations and partly to

repayment of bank loans with interest. The relatively high negative cash flows from financing activities in Q4 2016 resulted from premature repayment of bank loans in 2012 and partly covered with inflows from bonds issued in Q3 2016.

## Standalone income statement

### Selected items of standalone income statement

<i>PLN thousand</i>	Q1 2017	Q4 2016	Q1 2016	YTD Q1 2017	YTD Q1 2016	% change Q1 2017/ Q4 2016	% change Q1 2017/ Q1 2016	YTD Q1 2017/ YTD Q1 2016
<b>Sales revenues</b>	<b>11 779</b>	<b>28 850</b>	<b>10 140</b>	<b>11 779</b>	<b>10 140</b>	<b>(59,2)</b>	<b>16,2</b>	<b>16,2</b>
<i>of which:</i>								
<i>Revenues from sales of services</i>	10 571	13 044	10 014	10 571	10 014	(19,0)	5,6	5,6
<i>Interest income on loans</i>	1 208	619	126	1 208	126	95,1	859,0	859,0
<i>Dividend income</i>	-	15 187	-	-	-	-	-	-
<b>Profit on sales</b>	<b>11 779</b>	<b>23 973</b>	<b>8 313</b>	<b>11 779</b>	<b>8 313</b>	<b>(50,9)</b>	<b>41,7</b>	<b>41,7</b>
<i>% of sales revenues</i>	<i>100,00</i>	<i>83,10</i>	<i>81,98</i>	<i>100,00</i>	<i>81,98</i>	<i>16,9 p.p.</i>	<i>1,1 p.p.</i>	<i>18,0 p.p.</i>
Selling and distribution costs	(1 019)	(1 015)	(997)	(1 019)	(997)	0,4	2,2	2,2
Administrative expenses	(9 364)	(8 039)	(8 122)	(9 364)	(8 122)	16,5	15,3	15,3
Other operating income	4	75	6	4	6	(95,0)	(36,4)	(36,4)
Other operating expenses	(940)	(40 899)	(8 824)	(940)	(8 824)	(97,7)	(89,3)	(89,3)
<b>EBIT</b>	<b>461</b>	<b>(25 905)</b>	<b>(9 625)</b>	<b>461</b>	<b>(9 625)</b>	<b>(101,8)</b>	<b>(104,8)</b>	<b>(104,8)</b>
<i>% of sales revenues</i>	<i>3,91</i>	<i>(89,79)</i>	<i>(94,92)</i>	<i>3,91</i>	<i>(94,92)</i>	<i>93,7 p.p.</i>	<i>98,8 p.p.</i>	<i>98,8 p.p.</i>
<b>EBITDA</b>	<b>569</b>	<b>(25 801)</b>	<b>(9 530)</b>	<b>569</b>	<b>(9 530)</b>	<b>(102,2)</b>	<b>(106,0)</b>	<b>(106,0)</b>
<i>% of sales revenues</i>	<i>4,83</i>	<i>(89,43)</i>	<i>(93,99)</i>	<i>4,83</i>	<i>(93,99)</i>	<i>94,3 p.p.</i>	<i>98,8 p.p.</i>	<i>98,8 p.p.</i>
Financial income	7 158	562	7	7 158	7	1 174,8	103 784,8	103 784,8
Financial expenses	(5 242)	(8 704)	(1 436)	(5 242)	(1 436)	(39,8)	265,1	265,1
<b>Gross profit</b>	<b>2 377</b>	<b>(34 048)</b>	<b>(11 054)</b>	<b>2 377</b>	<b>(11 054)</b>	<b>(107,0)</b>	<b>(121,5)</b>	<b>(121,5)</b>
Income tax	-	(214)	-	-	-	-	-	-
<b>Net profit</b>	<b>2 377</b>	<b>(34 263)</b>	<b>(11 054)</b>	<b>2 377</b>	<b>(11 054)</b>	<b>(106,9)</b>	<b>(121,5)</b>	<b>(121,5)</b>
<i>% of sales revenues</i>	<i>20,18</i>	<i>(118,76)</i>	<i>(109,02)</i>	<i>20,18</i>	<i>(109,02)</i>	<i>138,9 p.p.</i>	<i>129,2 p.p.</i>	<i>129,2 p.p.</i>

## Revenues

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

Sales revenues for Q1 2017 amounted to PLN 11,779 thousand and comprised services provided to Group companies (PLN 10,571 thousand and interest income on loans (PLN 1,208 thousand). In the equivalent period of the previous year, the standalone sales revenues amounted to PLN 10,140 thousand and comprised services provided to Group companies (PLN

10,014 thousand and interest income on loans (PLN 126 thousand).

In Q4 2016, the standalone sales revenues amounted to PLN 28,850 thousand which included revenues from the services provided to Group companies (PLN 13,044 thousand) and interest income on loans granted (PLN 619 thousand) and dividend income (PLN 15,187 thousand).

In 2017 and in 2016, the Company did not render services to the Pulp Mills of the Rottneros Group.

In 2016, costs of sales comprised interest expense on loans received from other Group companies.

## Selling and distribution costs

In Q1 2017 the Company recognised the amount of PLN 1,019 thousand as selling and distribution costs (PLN 1,015 thousand in Q4 2016) which comprised solely the expenses related to

intermediary services in the purchase of pulp for Arctic Paper Kostrzyn S.A. Sales of pulp to Arctic Paper Kostrzyn commenced in July 2012.

## Administrative expenses

In Q1 2017, the administrative expenses amounted to PLN 9,364 thousand and were higher than in the equivalent period of the previous year (by PLN 8,122 thousand) and higher than the expenses recorded in Q4 2016 by PLN 1,325 thousand.

The administrative expenses include costs of the administration of the Company operation, costs of services provided for the companies in

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

## Other operating income and expenses

Other operating income totalled PLN 4 thousand in Q1 2017 which was a decrease as compared to the equivalent period of the previous year by PLN 2 thousand. Other operating expenses totalled PLN 940 thousand in Q1 2017. In the equivalent period,

the expenses amounted to PLN 8,824 thousand with the largest part thereof being an impairment allowance of loans granted to Arctic Paper Mochenwangen GmbH (PLN 8,476 thousand).

## Financial income and financial expenses

In Q1 2017, the financial income amounted to PLN 7,158 thousand and was higher by PLN 7,151 thousand than income generated in Q1 2016 and by PLN 6,596 thousand generated in Q4 2016.

The financial expenses in 2017 amounted to PLN 5,242 thousand (in the equivalent period of 2016: PLN 1,436) while in Q4 2016 they amounted to PLN 8,704 thousand.

## Statement of financial position

### Selected items of standalone balance sheet

PLN thousand	31/03/2017	31/12/2016	31/03/2016	Change	Change
				31.03.2017	31.03.2017
				-31.12.2016	-31.03.2016
Fixed assets	871 947	870 166	843 194	1 781	28 753
Receivables	57 843	77 058	90 278	(19 215)	(32 435)
Other current assets	77 221	84 096	14 986	(6 875)	62 236
Cash and cash equivalents	6 871	10 863	3 897	(3 992)	2 974
<b>Total assets</b>	<b>1 013 882</b>	<b>1 042 184</b>	<b>952 354</b>	<b>(28 302)</b>	<b>61 527</b>
Equity	634 460	631 034	657 952	3 426	(23 492)
Short-term liabilities	111 411	133 979	89 244	(22 568)	22 167
Long-term liabilities	268 011	277 171	205 159	(9 160)	62 853
<b>Total liabilities</b>	<b>1 013 882</b>	<b>1 042 184</b>	<b>952 355</b>	<b>(28 302)</b>	<b>61 528</b>

As at 31 March 2017 total assets amounted to PLN 1,013,882 thousand as compared to PLN 1,042,184 thousand at the end of 2016.

#### Fixed assets

As at the end of March 2017, non-current assets represented nearly 86.0% of total assets which means the share increased (by 0.25 p.p.) as compared to the end of 2016. The main item

of non-current assets includes interests in subsidiaries. At the end of Q1 2016, the value was PLN 802,682 thousand and had the same value as at the end of 2016.

#### Current assets

As at the end of March 2016, current assets amounted to PLN 141,934 thousand as compared to PLN 172,017 thousand at the end of 2016. Current assets decreased in Q1 2017, particularly trade receivables. As at the end of Q1 2017, current

assets represented 14.0% of total assets compared to 16.5% as at the end of the previous year.

#### Equity

In Q1 2017, the equity amounted to PLN 634,460 thousand as compared to PLN 631,034 thousand at the end of 2016. Equity amounted to 62.6% of balance sheet total as at the end of

March 2017 and the share increased by 2.0 p.p as compared to the end of 2016.

#### Short-term liabilities

As at the end of March 2017, current liabilities amounted to PLN 111,411 thousand (11.0% of balance sheet total) as compared

to PLN 133,979 thousand as at the end of 2016 (12.9% of balance sheet total).



## Long-term liabilities

As at the end of March 2016, long-term liabilities amounted to PLN 268,011 thousand (26.4% of balance sheet total) as compared to PLN 277,171 thousand as at the end of 2016 (26.6% of balance sheet total).

## Cash flows

### Selected items of the standalone cash flow statements

PLN thousand	1Q	4Q	1Q	YTD 1Q	YTD 1Q	% change	% change	YTD Q1
	2017	2016	2016	2017	2016	Q1 2017/ Q4 2016	Q1 2017/ Q1 2016	2017/ YTD Q1 2016
<b>Cash flows from operating activities</b>	<b>6 062</b>	<b>(252 852)</b>	<b>(5 122)</b>	<b>6 062</b>	<b>(5 122)</b>	<b>(102,4)</b>	<b>(218,4)</b>	<b>(218,4)</b>
<i>of which:</i>								
<i>Gross profit (loss)</i>	2 377	(34 048)	(11 054)	2 377	(11 054)	(107,0)	(121,5)	(121,5)
<i>Depreciation/amortisation</i>	109	104	95	109	95	4,4	14,4	14,4
<i>Changes to working capital</i>	(887)	(276 814)	5 274	(887)	5 274	(99,7)	(116,8)	(116,8)
<i>Net interest and dividends</i>	3 415	5 118	351	3 415	351	(33,3)	873,6	873,6
<i>Other adjustments</i>	1 048	52 787	212	1 048	212	(98,0)	393,4	393,4
<b>Cash flows from investing activities</b>	<b>(55)</b>	<b>(96)</b>	<b>(66)</b>	<b>(55)</b>	<b>(66)</b>	<b>(42,7)</b>	<b>(16,5)</b>	<b>(16,5)</b>
<b>Cash flows from financing activities</b>	<b>(10 000)</b>	<b>159 663</b>	<b>(351)</b>	<b>(10 000)</b>	<b>(351)</b>	<b>(106,3)</b>	<b>2 751,1</b>	<b>2 751,1</b>
<b>Total cash flows</b>	<b>(3 993)</b>	<b>(93 285)</b>	<b>(5 538)</b>	<b>(3 993)</b>	<b>(5 538)</b>	<b>(95,7)</b>	<b>(27,9)</b>	<b>(27,9)</b>

The cash flows statement presents a decrease in cash and cash equivalents in Q1 2017 by PLN 3,993 thousand which includes:

- positive cash flows from operating activities of PLN 6,062 thousand,

- negative cash flows from investing activities of PLN -55 thousand,

- negative cash flows from financing activities of PLN -10,000 thousand.

### Cash flows from operating activities

In Q1 2017, net cash flows from operating activities amounted to PLN 6,062 thousand as compared to PLN -5,122 thousand in the equivalent period of 2016. The positive cash flows from

operating activities in the current year were particularly influenced by both gross profit and changes of working capital.

### Cash flows from investing activities

In the first three months 2017, cash flows from investing activities amounted to PLN -55 thousand as compared to PLN -66 thousand in Q1 2016. The main item of cash flows from

investing activities in 2017 was expenses related to acquisition of tangible fixed assets.

### Cash flows from financing activities

In 2017 cash flows from financing activities amounted to PLN -10,000 thousand as compared to PLN -351 thousand in 2016.

The cash flows from financing activities covered interest paid from financial liabilities.

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

### Key factors affecting the performance results

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

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

#### Macroeconomic and other economic factors

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

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

#### Paper prices

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

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

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

oil. The costs of transportation include the costs of transportation services provided to the Group mainly by external entities.

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

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

#### Currency rate fluctuations

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

Exchange rates also have an important influence on results reported in the Group's financial statements because of changes in exchange rates of the currencies in which we

generate revenues and incur costs, and the currency in which we report the Group's financial results (PLN).

## Unusual events and factors

In Q1 2017 there were no unusual events or factors.

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

In Q1 2017 there were no material changes in the Arctic Paper Group's structure that would have material influence on the financial result generated.

## Other material information

### Factoring contract by Arctic Paper Munkedals AB

On 8 February 2017 Arctic Paper Munkedals AB as the seller and the Company as the guarantor entered into a factoring contract with assignment of receivables under the insurance contract with BGŻ BNP Paribas Faktoring sp. z o.o. as the factor. The contract provides for the provisions by the Factor of factoring services for AP Munkedals covering the acquisition of cash receivables due to AP Munkedals from its counterparties with the maximum factoring limit granted to AP Munkedals of

PLN 35 million. Pursuant to the Factoring Contract, the Company shall perform the obligations of AP Munkedals under the Factoring Contract should AP Munkedals fails to perform such obligations in whole in part within the time specified in the Factoring Contract. The Company's liability remains valid until compliance with all obligations under the Factoring Contract, however no longer than 36 months of its termination and is capped to the amount of PLN 52.5 million.

## Factors influencing the development of the Arctic Paper Group

### Information on market trends

#### Supplies of fine paper

Supplies of fine papers to the European market in Q1 2017 were lower compared to the equivalent period of 2016 by app. 1.7%. Supplies in the segment of uncoated wood-free paper (UWF) were higher by 0.2%, while in the segment of coated wood-free paper (CWF) were lower by 3.8%.

In comparison to Q4 2016, supplies of fine paper increased by 4.0%, with supplies in the uncoated wood-free paper segment (UWF) the supplies were higher by 8.8% while in the coated

wood-free paper segment (CWF) the supplies were lower by 1.5%.

In Q1 2017 Arctic Paper Group paper sales volume was by 11.3% higher than in Q4 2016 and by 1.8% higher than in the corresponding period of 2016. The data both for 2017 and prior periods does not include the facility in Mochenwangen where the activity was discontinued.

Source of data: EuroGraph, RISI, Arctic Paper analysis.

#### Paper prices

In Q1 2017, average fine papers prices in Europe grew in the UWF segment by 1.6% while there was an increase by 0.8% in the CWF segment as compared to the prices at the end of Q4 2016.

In the period from the end of December 2016 until March 2017 the prices of coated wood-free paper (UWF) declared by manufacturers in the selected markets: Germany, France, Italy and the UK, expressed in EUR and GBP, were fluctuating within the range of 0.9% to 2.5%.

Coated wood-free paper (CWF) prices in the same period changed from 0.7% to 1.0%.

At the end of the quarter, average UWF prices decreased by app. 1.4% and CWF prices by 3.2%, compared to the end of the equivalent period of the previous year.

The prices invoiced by Arctic Paper in EUR for comparable products in the segment of uncoated wood-free paper (UWF) increased from the end of December 2016 until March 2017 by

1.9% on the average while in the segment of coated wood-free paper (CWF) the prices decreased by -1.0%.

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

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

#### Pulp prices

At the end of Q1 2017, the pulp prices were as follows: NBSK 826 USD/ton and BHKP 722 USD/ton. The average NBSK price in Q1 2017 was higher by 3.1% while it was lower by 10.8% for

BHKP, compared to the corresponding period of the previous year. The average pulp price in Q1 2017 was higher by 0.9% for NBSK and by 3.9% for BHKP as compared to Q4 2016.

The average cost of pulp per ton as calculated for the AP Group, expressed in PLN, in Q1 2017 increased by 0.7% compared to Q4 2016 and decreased by 12.6% compared to Q1 2016. The share of pulp costs in cost of paper sales in the first quarter of the current year amounted to 52% and was lower compared to the level recorded in Q4 2016 (56%) and the level of 2016 (55%). The AP Group uses the pulp in the production process

according to the following structure: BHKP 73%, NBSK 19% and other 8%.

The average pulp costs at Arctic Paper and the consumption structure (2017 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 Q1 2017 amounted to 4.2198 and was lower by 4.6% than at the end of Q4 2016 and lower by 1.1% than at the end of Q1 2016. The average exchange rate of the two currencies in Q1 2017 was lower than in Q4 2016 by 1.3% and amounted to 4.3221. The average exchange rate in Q1 2017, compared to Q1 2016, was by 1.0% lower.

The EUR/SEK exchange rate decreased from 9.5778 as at the end of Q4 2016 to 9.5492 (-0.3%) at the end of Q1 2017. For the currency pair, the average rate in Q1 2017 was by 2.5% lower compared to Q4 2016. The average exchange rate in Q1 2017 was 1.9% higher than in the corresponding period of 2016.

The changes mean a depreciation of EUR vis-a-vis SEK in Q1 2017 which had unfavourable impact on the sales revenues generated by the Swedish factories that depend on prices in EUR.

At the end of Q1 2017, the USD/PLN rate was by 5.6% lower than at the end of Q4 2016 and amounted to 3.9455. The

average exchange rate in Q1 2017 was 4.0585 and remained at a similar level to Q4 2016 while it was higher by 2.5% versus the equivalent period in 2016.

At the end of Q1 2017, the USD/SEK rate amounted to 8.9285 and was by 1.3% lower than at the end of Q4 2016. The average exchange rate in Q1 2017 amounted to 8.9243 which means a decrease by 1.3% compared to Q4 2016.

The changes of the USD/SEK exchange rates favourably affected the costs incurred in USD by the Swedish Paper Mills, in particular the costs of pulp. For the Paper Mill in Kostrzyn, the average monthly USD/PLN exchange rate favourably affected the price paid for a ton of pulp in PLN.

At the end of March 2016, the EUR/USD rate amounted to 1.0695 compared to 1.0586 (+1.0%) at the end of Q4 2016 and to 1.1355 (-5.8%) at the end of March 2016. In Q1 2017, the average exchange rate amounted to 1.0651 compared to 1.0794 (-1.3%) in Q4 2016.

## 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 the Group's Paper Mills and, as a result, will have an adverse impact on the financial results of the Group.
- Price changes of fine paper. In particular, the possibility to raise the prices of Arctic Paper products in local currencies

in view of the declining supply/demand in Europe and in the context exchange rates fluctuations, will have a material influence on the financial results. Paper prices are going to be of particular importance for the Paper Mill of Grycksbo which – in connection with the market changes – experiences the greatest adverse impact of decrease of sales volumes, prices as well as of exchange rate fluctuations.

- Price fluctuations of raw materials, including pulp for Paper Mills and electricity for all operational entities. In particular, financial results of Paper Mills may be negatively influenced by increasing pulp prices, particularly BHKP. On the other hand, 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, the Group's Pulp Mills may benefit from the appreciation of USD in relation to SEK.

## Risk factors

In Q1 2017 there were no material changes to the risk factors. Those were presented in detail in the 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 2017.

### 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 persons	Number of shares or rights to shares as at 16.05.2017	Number of shares or rights to shares as at 20.03.2017	Change
<b>Management Board</b>			
Per Skoglund	10 000	10 000	-
Jacek Łoś	-	-	-
Wolfgang Lübbert	-	-	-
Małgorzata Majewska-Śliwa	-	-	-
Michał Sawka	-	-	-
<b>Supervisory Board</b>			
Per Lundeen	14 760	14 760	-
Thomas Onstad	6 073 658	6 073 658	-
Roger Mattsson	-	-	-
Maciej Georg	-	-	-
Mariusz Grendowicz	-	-	-

### Information on sureties and guarantees

As at 31 March 2017, the Capital 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 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 1,451 thousand at Arctic Paper Grycksbo AB and for SEK 758 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 168,362 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 1,624 thousand,
  - mortgage on the properties held by Kalltorp Kraft HB for SEK 8,650 thousand,
  - a bank guarantee in favour of Skatteverket Ludvika for SEK 135 thousand;
  - a bank guarantee for Arctic Paper Grycksbo AB from Svenska Handelsbanken AB covering VAT liabilities in Norway for SEK 1,686 thousand;
  - pledges on shares in subsidiary companies in the Rottneros Group for SEK 431,306 thousand under loan agreements concluded with Danske Bank;
  - 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.
- 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).

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

1. under Polish law – Collateral Documents establishing the following Collateral:
  - financial and registered pledges on all shares and interests registered in Poland, owned by the Company and the Guarantors, in companies in the Company Group (with the exception of Rottneros AB, Arctic Paper Mochenwangen GmbH and Arctic Paper Investment GmbH), except the shares in the Company;
  - mortgages on all properties located in Poland and owned by the Company and the Guarantors;
  - registered pledges on all material rights and movable assets owned by the Company and the Guarantors, constituting an organised part of enterprise, located in Poland (with the exception of the assets listed in the Loan Agreement);
2. under Swedish law – Collateral Documents establishing the following Collateral:
  - pledges on all shares and interests registered in Poland, owned by the Company and the Guarantors, in Group companies, with the exception of the shares in the company, as well as pledged on the shares in Rottneros (with the exception of the free package of shares in Rottneros);
  - mortgages on all properties located in Sweden and owned by the Company and the Guarantors as long as such collateral covers solely the existing mortgage deeds;
  - corporate mortgage loans granted by the Guarantors registered in Sweden as long as such collateral covers solely the existing mortgage deeds;
  - assignment of (existing and future) insurance policies covering the assets of the Company and the Guarantors (with the exception of insurance policies listed in the Loan Agreement);
  - pledges on Swedish bank accounts of the Company and the Guarantors as long as such collateral is without prejudice to free management of funds deposited on bank accounts until an event of default specified in the Loan Agreement.

## 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

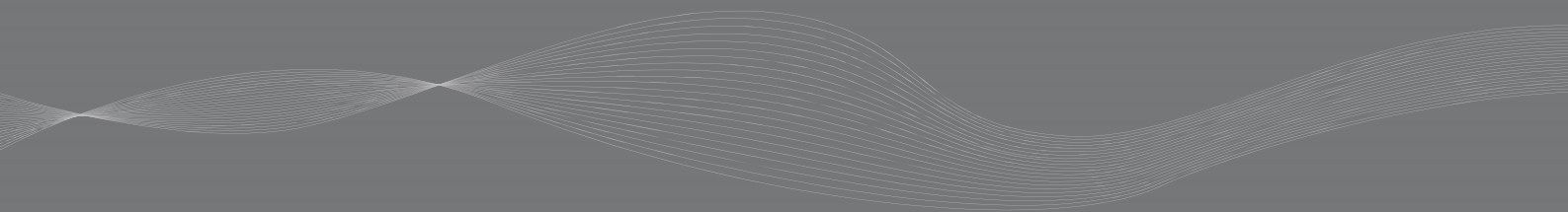
During the period under report, Arctic Paper S.A. and its subsidiaries did not execute any material transactions with related entities on non-market terms and conditions.

### Signatures of the Members of the Management Board

Position	First and last name	Date	Signature
President of the Management Board Managing Director	Per Skoglund	16 May 2017	
Member of the Management Board Financial Director	Małgorzata Majewska-Śliwa	16 May 2017	



Abbreviated quarterly consolidated  
financial statements for the period of three months  
ended on 31 March 2017



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## Consolidated financial statements and selected financial data

### Selected consolidated financial data

	Period from 01.01.2017 to 31.03.2017 PLN thousand	Period from 01.01.2016 to 31.03.2016 PLN thousand	Period from 01.01.2017 to 31.03.2017 EUR thousand	Period from 01.01.2016 to 31.03.2016 EUR thousand
Sales revenues	773 902	778 560	179 057	178 372
Operating profit (loss)	44 121	41 377	10 208	9 480
Gross profit (loss)	42 911	33 675	9 928	7 715
Net profit (loss) from continuing operations	35 082	24 707	8 117	5 660
Net profit (loss) for the financial year	32 934	19 628	7 620	4 497
Net profit (loss) for the financial year attributable to the shareholders of the Parent Entity	24 148	8 346	5 587	1 912
Net cash flows from operating activities	21 935	245	5 075	56
Net cash flows from investing activities	(30 872)	(25 848)	(7 143)	(5 922)
Net cash flows from financing activities	(18 124)	5 485	(4 193)	1 257
Change in cash and cash equivalents	(27 061)	(20 118)	(6 261)	(4 609)
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)	0,35	0,12	0,08	0,03
Diluted EPS (in PLN/EUR)	0,35	0,12	0,08	0,03
Mean PLN/EUR exchange rate*			4,3221	4,3648
	As at 31 March 2017 PLN thousand	As at 31 December 2016 PLN thousand	As at 31 March 2017 EUR thousand	As at 31 December 2016 EUR thousand
Assets	1 706 908	1 770 081	404 500	400 109
Long-term liabilities	427 051	428 634	101 202	96 888
Short-term liabilities	521 357	580 457	123 550	131 206
Equity	738 370	742 902	174 978	167 925
Share capital	69 288	69 288	16 420	15 662
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)	10,66	10,72	2,53	2,42
Diluted book value per share (in PLN/EUR)	10,66	10,72	2,53	2,42
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**	-	-	4,2198	4,4240

\* – 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 profit and loss account

	3-month period ended on 31 March 2017 (unaudited)	3-month period ended on 31 March 2016 (unaudited)	Year ended on 31 December 2016 (audited)
<b>Continuing operations</b>			
Revenues from sales of goods	773 902	778 560	2 966 972
Sales revenues	773 902	778 560	2 966 972
Costs of sales	(652 737)	(660 526)	(2 543 312)
Gross profit / (loss) on sales	121 165	118 034	423 661
Selling and distribution costs	(63 858)	(64 401)	(250 257)
Administrative expenses	(17 206)	(15 946)	(69 770)
Other operating income	12 936	18 450	66 554
Other operating expenses	(8 917)	(14 760)	(45 147)
Operating profit (loss)	44 121	41 377	125 040
Financial income	6 710	218	1 350
Financial expenses	(7 920)	(7 920)	(52 192)
Gross profit (loss)	42 911	33 675	74 198
Income tax	(7 829)	(8 968)	(15 369)
Net profit (loss) from continuing operations	35 082	24 707	58 829
<b>Discontinued operations</b>			
Profit (loss) for the financial year from discontinued operations	(2 148)	(5 079)	2 198
Net profit (loss) for the financial year	32 934	19 628	61 026
<b>Attributable to:</b>			
The shareholders of the Parent Entity, of which:			
- profit (loss) from continuing operations	26 296	13 426	37 748
- profit (loss) from discontinued operations	(2 148)	(5 079)	2 198
The non-controlling shareholder, of which:			
- profit (loss) from continuing operations	8 786	11 282	21 080
- profit (loss) from discontinued operations	-	-	-
	32 934	19 628	61 026
<b>Earnings per share:</b>			
- basic earnings from the profit/(loss) for the period attributable to the shareholders of the Parent Entity	0,35	0,12	0,58
- basic earnings profit/(loss) for the period from continuing operations attributable to the shareholders of the Parent Entity	0,38	0,19	0,54
- diluted earnings from the profit for the period attributable to the shareholders of the Parent Entity	0,35	0,12	0,58
- diluted earnings from the profit for from continuing operations attributable to the shareholders of the Parent Entity	0,38	0,19	0,54

## Consolidated statement of total comprehensive income

	3-month period ended on 31 March 2017 (unaudited)	3-month period ended on 31 March 2016 (unaudited)	Year ended on 31 December 2016 (audited)
Net profit/(loss) for the reporting period	32 933	19 628	61 026
Items to be reclassified to profit/loss in future reporting periods:			
FX differences on translation of foreign operations	(23 267)	(2 616)	(2 905)
Deferred income tax on the measurement of financial instruments	4 406	86	(10 369)
Measurement of financial instruments	(18 605)	(288)	43 681
Items not to be reclassified to profit /loss in future reporting periods:			
Actuarial profit / (loss) for defined benefit plans	-	-	(9 281)
Deferred income tax on actuarial profit / (loss) relating to defined benefit plans	-	-	1 396
Other comprehensive income	(37 465)	(2 819)	22 522
Total comprehensive income	(4 532)	16 810	83 548
Total comprehensive income attributable to:			
The shareholders of the Parent Entity	1 095	7 743	53 916
Non-controlling shareholder	(5 627)	9 066	29 631

## Consolidated balance sheet

	As at 31 March 2017 (unaudited)	As at 31 December 2016 (audited)	As at 31 March 2016 (unaudited)
<b>ASSETS</b>			
Fixed assets			
Tangible fixed assets	755 469	774 818	712 255
Investment properties	4 074	4 074	3 982
Intangible assets	49 693	57 033	50 969
Interests in joint ventures	884	924	5 144
Other financial assets	7 193	10 913	1 474
Other non-financial assets	1 481	1 548	1 486
Deferred income tax asset	34 549	35 034	39 557
	853 343	884 343	814 867
Current assets			
Inventories	326 857	360 353	375 793
Trade and other receivables	386 465	343 496	381 595
Corporate income tax receivables	8 940	11 328	8 328
Other financial assets	550	16 492	2 493
Other non-financial assets	16 819	11 218	15 437
Cash and cash equivalents	101 595	130 157	168 237
	841 226	873 044	951 883
Assets related to discontinued operations	12 339	12 694	26 922
<b>TOTAL ASSETS</b>	<b>1 706 908</b>	<b>1 770 081</b>	<b>1 793 672</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Equity (attributable to the shareholders of the Parent Entity)			
Share capital	69 288	69 288	69 288
Reserve capital	447 638	447 638	447 638
Other reserves	147 726	156 975	128 899
FX differences on translation	4 947	19 798	19 585
Retained earnings / Accumulated losses	(127 402)	(151 550)	(173 279)
Cumulated other comprehensive income related to discontinued operations	(11 073)	(12 120)	(8 276)
	531 123	530 028	483 855
Non-controlling stake	207 247	212 874	209 811
<b>Total equity</b>	<b>738 370</b>	<b>742 902</b>	<b>693 665</b>
<b>Long-term liabilities</b>			
Interest-bearing loans, borrowings and bonds	274 849	275 464	214 299
Provisions	86 280	90 313	82 610
Other financial liabilities	32 634	30 082	46 538
Deferred income tax liability	12 849	11 851	2 356
Accruals and deferred income	20 439	20 924	23 234
	427 051	428 634	369 038
<b>Short-term liabilities</b>			
Interest-bearing loans, borrowings and bonds	47 251	55 367	87 745
Other financial liabilities	14 324	26 686	94 616
Trade and other payables	359 432	399 727	384 791
Income tax liability	196	179	363
Accruals and deferred income	100 154	98 498	106 494
	521 357	580 457	674 008
Liabilities directly related to the discontinued operations	20 129	18 088	56 960
<b>TOTAL LIABILITIES</b>	<b>968 537</b>	<b>1 027 179</b>	<b>1 100 006</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>1 706 908</b>	<b>1 770 081</b>	<b>1 793 672</b>



## Consolidated cash flow statement

	3-month period ended on 31 March 2017 (unaudited)	3-month period ended on 31 March 2016 (unaudited)	Year ended on 31 December 2016 (audited)
<b>Cash flows from operating activities</b>			
Gross profit (loss) from continuing operations	42 911	33 675	74 198
Gross profit / (loss) from discontinued operations	(2 155)	(5 087)	1 191
Gross profit (loss)	40 755	28 588	75 388
Adjustments for:			
Depreciation/amortisation	31 377	29 501	120 877
FX gains / (loss)	(4 990)	441	4 404
Impairment of non-financial assets	-	-	4 151
Net interest and dividends	5 038	5 922	23 673
Profit / loss from investing activities	(131)	(59)	(1 534)
Increase / decrease in receivables and other non-financial assets	(54 528)	(40 094)	2 793
Change to inventories	22 299	28 752	46 103
Increase / decrease in liabilities except for loans and borrowings	(26 266)	(37 819)	(31 885)
Change in accruals and prepayments	4 125	(7 880)	(15 775)
Change in provisions	(999)	(8 196)	(30 488)
Income tax paid	(907)	(2 119)	(6 407)
Reversal of write-offs of assets related to discontinued operations	-	-	(10 618)
CO2 emission rights	308	262	406
Certificates in cogeneration	5 665	2 395	(5 033)
Other	189	550	8 903
Net cash flows from operating activities	21 935	245	184 958
<b>Cash flows from investing activities</b>			
Disposal of tangible fixed assets and intangible assets	-	37	2 005
Purchase of tangible fixed and intangible assets	(30 872)	(25 884)	(177 612)
Other capital outflows / inflows	-	-	930
Net cash flows from investing activities	(30 872)	(25 848)	(174 677)
<b>Cash flows from financing activities</b>			
Change to overdraft facilities	(1 510)	4 278	(41 830)
Repayment of financial leasing liabilities	(1 054)	(765)	(3 100)
Inflows from other financial liabilities	-	16 743	1 154
Repayment of other financial liabilities	(12 095)	(717)	(45 068)
Inflows from loans and borrowings	8 640	-	261 915
Repayment of loans and borrowings	(6 585)	(8 801)	(199 173)
Interest paid	(5 520)	(5 254)	(23 214)
Dividend disbursed to non-controlling shareholders	-	-	(17 502)
Net cash flows from financing activities	(18 124)	5 485	(66 817)
Change in cash and cash equivalents	(27 061)	(20 118)	(56 536)
Net FX differences	(1 504)	(898)	(1 591)
Cash and cash equivalents at the beginning of the period	131 476	189 603	189 603
Cash and cash equivalents at the end of the period	102 912	168 587	131 476

## Consolidated statement of changes in equity

	Attributable to the shareholders of the Parent Entity						Total	Non-controlling stake	Total equity
	Share capital	Reserve capital	FX differences on translation of foreign operations	Other reserves	Retained earnings / (Accumulated losses)	Cumulated other comprehensive income related to discontinued operations			
As at 01 January 2017	69 288	447 638	19 798	156 975	(151 550)	(12 120)	530 028	212 874	742 902
Net profit for the period	-	-	-	-	24 148	-	24 148	8 786	32 933
Other comprehensive income for the period	-	-	(13 804)	(9 249)	-	-	(23 053)	(14 413)	(37 466)
Total comprehensive income for the period	-	-	(13 804)	(9 249)	24 148	-	1 095	(5 627)	(4 533)
Discontinued operations	-	-	(1 047)	-	-	1 047	-	-	-
As at 31 March 2017 (unaudited)	69 288	447 638	4 947	147 726	(127 402)	(11 073)	531 123	207 247	738 370

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	Equity attributable to Total minority shareholders	Total equity	
As at 01 January 2016 (audited)	69 288	447 638	21 810	127 976	(181 625)	(8 974)	476 111	200 744	676 856
Net profit for the period	-	-	-	-	39 946	-	39 946	21 080	61 026
Other comprehensive income for the period	-	-	(2 234)	24 090	(7 886)	-	13 970	8 551	22 522
Total comprehensive income for the period	-	-	(2 234)	24 090	32 061	-	53 916	29 631	83 548
Profit distribution									-
Discontinued operations	-	-	222	-	2 924	(3 146)	-	-	-
Dividend distribution to non-controlling entities	-	-	-	-	-	-	-	(17 502)	(17 502)
As at 31 December 2016 (audited)	69 288	447 638	19 798	156 975	(151 55)	(12 120)	530 028	212 874	742 902

Attributable to the shareholders of the Parent Entity

	Share capital	Reserve capital	FX differences on translation of foreign operations	Other reserves	Retained earnings / (Accumulated losses)	Cumulated other comprehensive income related to discontinued operations	Total	Non-controlling stake	Total equity
As at 01 January 2016	69 288	447 638	21 810	127 976	(181 625)	(8 974)	476 112	200 744	676 856
Net profit for the period	-	-	-	-	8 346	-	8 346	11 282	19 628
Other comprehensive income for the period	-	-	(1 527)	924	-	-	(603)	(2 216)	(2 819)
Total comprehensive income for the period	-	-	(1 527)	924	8 346	-	7 743	9 066	16 810
Discontinued operations	-	-	(698)	-	-	698	8 276	-	8 276
As at 31 March 2016 (unaudited)	69 288	447 638	19 585	128 900	(173 279)	(8 276)	483 856	209 811	693 665

## Standalone financial statements and selected financial data

### Selected standalone financial data

	Period from 01.01.2017 to 31.03.2017 PLN thousand	Period from 01.01.2016 to 31.03.2016 PLN thousand	Period from 01.01.2017 to 31.03.2017 EUR thousand	Period from 01.01.2016 to 31.03.2016 EUR thousand
Sales revenues	11 779	10 140	2 725	2 323
Operating profit (loss)	461	(9 625)	107	(2 205)
Gross profit (loss)	2 377	(11 054)	550	(2 532)
Net profit (loss) from continuing operations	2 377	(11 054)	550	(2 532)
Net profit (loss) for the financial year	2 377	(11 054)	550	(2 532)
Net cash flows from operating activities	6 062	(5 122)	1 403	(1 173)
Net cash flows from investing activities	(55)	(66)	(13)	(15)
Net cash flows from financing activities	(10 000)	(351)	(2 314)	(80)
Change in cash and cash equivalents	(3 993)	(5 538)	(924)	(1 269)
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)	0,03	(0,16)	0,01	(0,04)
Diluted EPS (in PLN/EUR)	0,03	(0,16)	0,01	(0,04)
Mean PLN/EUR exchange rate*			4,3221	4,3648
	As at 31 March 2017 PLN thousand	As at 31 December 2016 PLN thousand	As at 31 March 2017 EUR thousand	As at 31 December 2016 EUR thousand
Assets	1 013 882	1 042 184	240 268	235 575
Long-term liabilities	268 011	277 171	63 513	62 652
Short-term liabilities	111 411	133 979	26 402	30 285
Equity	634 460	631 034	150 353	142 639
Share capital	69 288	69 288	16 420	15 662
Number of ordinary shares	69 287 783	69 287 783	69 287 783	69 287 783
Diluted number of ordinary shares	69 287 783	69 287 783	69 287 783	69 287 783
Book value per share (in PLN/EUR)	9,16	9,11	2,17	2,06
Diluted book value per share (in PLN/EUR)	9,16	9,11	2,17	2,06
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**	-	-	4,2198	4,4240

\* – 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.

## Standalone profit and loss account

	3-month period ended on 31 March 2017 (unaudited)	3-month period ended on 31 March 2016 (unaudited)	Year ended on 31 December 2016 (audited)
<b>Continuing operations</b>			
Revenues from sales of services	10 571	10 014	43 283
Interest income on loans	1 208	126	985
Dividend income	-	-	54 643
Sales revenues	11 779	10 140	98 911
Costs of sales	-	(1 827)	(9 890)
Gross profit / (loss) on sales	11 779	8 313	89 021
Other operating income	4	6	197
Selling and distribution costs	(1 019)	(997)	(4 072)
Administrative expenses	(9 364)	(8 122)	(34 571)
Other operating expenses	(940)	(8 824)	(70 128)
Operating profit (loss)	461	(9 625)	(19 553)
Financial income	7 158	7	575
Financial expenses	(5 242)	(1 436)	(13 452)
Gross profit (loss)	2 377	(11 054)	(32 429)
Income tax	-	-	(214)
Net profit (loss) from continuing operations	2 377	(11 054)	(32 644)
<b>Discontinued operations</b>			
Profit (loss) for the financial year from discontinued operations	-	-	-
Net profit (loss) for the financial year	2 377	(11 054)	(32 644)
<b>Earnings per share:</b>			
- basic earnings from the profit (loss) for the period	0,03	(0,16)	(0,36)
- basic earnings from the profit (loss) from continuing operations for the period	0,03	(0,16)	(0,36)
- diluted earnings from the profit (loss) for the period	0,03	(0,16)	(0,36)
- diluted earnings from the profit (loss) from the continuing operations for the period	0,03	(0,16)	(0,36)

## Standalone income statement

	3-month period ended on 31 March 2017 (unaudited)	3-month period ended on 31 March 2016 (unaudited)	Year ended on 31 December 2016 (audited)
Net profit/(loss) for the reporting period	2 377	(11 054)	(32 644)
Measurement of financial instruments	611		(4 580)
FX differences on translation of foreign operations	437	47	60
Other comprehensive income (net)	1 048	47	(4 520)
Total comprehensive income	3 425	(11 007)	(37 164)

## Standalone balance sheet

	As at 31 March 2017 (unaudited)	As at 31 December 2016 (audited)	As at 31 March 2016 (unaudited)
<b>ASSETS</b>			
Fixed assets			
Tangible fixed assets	1 868	1 979	2 013
Intangible assets	1 329	1 332	1 342
Shares in subsidiaries	802 682	802 682	838 741
Other financial assets	64 855	62 905	-
Other non-financial assets	1 213	1 268	1 098
	871 947	870 166	843 194
Current assets			
Trade and other receivables	57 629	76 687	89 978
Income tax receivables	213	371	299
Other financial assets	71 034	77 332	12 615
Other non-financial assets	6 187	6 765	2 371
Cash and cash equivalents	6 871	10 863	3 897
	141 934	172 017	109 160
<b>TOTAL ASSETS</b>	<b>1 013 882</b>	<b>1 042 184</b>	<b>952 354</b>
<b>EQUITY AND LIABILITIES</b>			
Equity			
Share capital	69 288	69 288	69 288
Reserve capital	447 641	447 641	447 641
Other reserves	148 811	148 200	147 871
FX differences on translation	787	350	337
Retained earnings / Accumulated losses	(32 067)	(34 445)	(7 184)
<b>Total equity</b>	<b>634 460</b>	<b>631 034</b>	<b>657 952</b>
Long-term liabilities			
Interest-bearing loans, borrowings and bonds	266 467	275 514	203 455
Provisions	1 298	1 357	1 146
Other financial liabilities	247	300	344
Accruals and deferred income	-	-	213
	268 011	277 171	205 159
Short-term liabilities			
Interest-bearing loans, borrowings and bonds	47 247	48 894	1 500
Trade payables	51 198	73 472	81 178
Other financial liabilities	3 950	4 486	187
Other short-term liabilities	2 071	2 072	1 976
Accruals and deferred income	6 946	5 056	4 403
	111 411	133 979	89 244
<b>TOTAL LIABILITIES</b>	<b>379 423</b>	<b>411 151</b>	<b>294 403</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>1 013 883</b>	<b>1 042 184</b>	<b>952 356</b>



## Standalone cash flow statement

	3-month period ended on 31 March 2017 (unaudited)	3-month period ended on 31 March 2016 (unaudited)	Year ended on 31 December 2016 (audited)
<b>Cash flows from operating activities</b>			
Gross profit (loss)	2 377	(11 054)	(32 429)
Adjustments for:			
Depreciation/amortisation	109	95	402
FX gains / (loss)	437	212	2 688
Impairment of assets	-	-	38 896
Net interest and dividends	3 415	351	6 182
Increase / decrease in receivables and other non-financial assets	19 690	(7 727)	1 001
Increase / decrease in liabilities except for loans and borrowings	(26 913)	11 873	4 262
Change in accruals and prepayments	1 890	528	967
Change in provisions	(59)	(5)	206
Income tax paid	158	(106)	(392)
Increase / decrease of loans granted to subsidiaries	4 348	712	(270 120)
Other	611	-	(5 022)
Net cash flows from operating activities	6 062	(5 122)	(253 360)
<b>Cash flows from investing activities</b>			
Purchase of tangible fixed and intangible assets	(55)	(66)	(283)
Increase of interests in subsidiaries	-	-	(2 839)
Net cash flows from investing activities	(55)	(66)	(3 122)
<b>Cash flows from financing activities</b>			
Borrowings received	-	-	263 446
Repayment of loan liabilities	(6 585)	-	-
Interest paid	(3 415)	(351)	(5 536)
Net cash flows from financing activities	(10 000)	(351)	257 911
Change in cash and cash equivalents	(3 993)	(5 538)	1 428
Cash and cash equivalents at the beginning of the period	10 863	9 434	9 435
Cash and cash equivalents at the end of the period	6 871	3 897	10 863

## 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 2017	69 288	447 641	350	148 200	(34 443)	631 035
FX differences on translation	-	-	437	-	-	437
Net profit / (loss) for the period	-	-	-	-	2 377	2 377
Other comprehensive income for the period	-	-	-	611	-	611
Total comprehensive income for the period	-	-	437	611	2 377	3 425
As at 31 March 2017 (unaudited)	69 288	447 641	787	148 811	(32 067)	634 460

	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	3 871	668 960
FX differences on translation	-	-	47	-	-	47
Net profit for the period	-	-	-	-	(11 054)	(11 054)
Total comprehensive income for the period	-	-	47	-	(11 054)	(11 007)
As at 31 March 2016 (unaudited)	69 288	447 641	337	147 871	(7 183)	657 953

	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	3 871	668 960
Net profit for the period	-	-	-	-	(32 644)	(32 644)
Other comprehensive income for the period	-	-	60	(4 580)	-	(4 520)
Total comprehensive income for the period	-	-	60	(4 580)	(32 644)	(37 164)
Settlement of the tax group in Sweden	-	-	-	-	(761)	(761)
Profit distribution	-	-	-	4 909	(4 909)	-
As at 31 December 2016 (audited)	69 288	447 641	350	148 200	(34 443)	631 035

## 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. 1,750 people in its Paper Mills and Pulp Mills, companies dealing in paper distribution the procurement office. The Group's Paper Mills are located in Poland and Sweden, and have total production capacity of over 700,000 tons of paper per year. Paper production in the 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 of pulp per year. The Group has fourteen Sales Offices which handle distribution and marketing of products offered by the Group providing access to all European markets, including Central and Eastern Europe.

The Group's consolidated sales revenues for three months of 2017 amounted to PLN 774 million.

Arctic Paper S.A. is a holding company set up in April 2008. As a result of capital restructuring carried out in 2008, the Paper Mills Arctic Paper Kostrzyn (Poland) and Arctic Paper Munkedals (Sweden), Distribution Companies and Sales Offices

have become the properties of Arctic Paper SA. Previously they were owned by Arctic Paper AB (now Trebruk AB), the parent company of Arctic Paper S.A. In addition, under the expansion, the Group acquired the Paper Mill Arctic Paper Mochenwangen (Germany) in November 2008 and the Paper Mill Grycksbo (Sweden) in March 2010. In 2012, the Group acquired shares in Rottneros AB, a company listed on NASDAQ in Stockholm, Sweden, holding interests in two pulp companies (Sweden).

The Parent Entity is entered in the register of entrepreneurs of the National Court Register maintained by the District Court in Poznań – Nowe Miasto i Wilda, 8th Commercial Division of the National Court Register, under KRS number 0000306944. The Parent Entity holds statistical number REGON 080262255.

The abbreviated quarterly consolidated financial statements of the Company comprise profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity for the period of first three months ended on 31 March 2017 and include comparative data for the period of first three months ended on 31 March 2016 as well as for the twelve month period ended on 31 December 2016.

The abbreviated quarterly consolidated financial statements of the Company comprise also balance sheet as on 31 March 2017 and include comparative data as on 31 December 2016 and 31 March 2016.

### Group Profile

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

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

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

## Shareholding structure

Nemus Holding AB, a company under Swedish law (a company owned indirectly by Mr Thomas Onstad), is the majority shareholder of Arctic Paper S.A., holding (as at 31 March 2017) 40,231,449 shares of the Group's Company, which constitutes 58.06% of its share capital and corresponds to 58.06% of the total number of votes at General Meetings. Thus Nemus Holding AB is the parent entity of the Issuer.

Additionally, Mr Thomas Onstad, an indirect shareholder of Nemus Holding AB, holds directly 6,073,658 shares

representing 8.77% of the total number of shares in the Company, and indirectly via another entity – 900,000 shares accounting for 1.30% of the total number of shares of the Company. Overall, directly and indirectly Mr Thomas Onstad holds 47,205,107 shares or 68.13% of the Issuer's share capital. The share has not changed versus 31 December 2016.

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

## 2. Composition of the Group

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

Unit	Registered office	Group profile	the subsidiary entities as at		
			16 May 2017	31 March 2017	31 December 2016
Arctic Paper Kostrzyn S.A.	Poland, Fabryczna 1, 66-470 Kostrzyn nad Odrą	Paper production	100%	100%	100%
Arctic Paper Munkedals AB	Sweden, SE 455 81 Munkedal	Paper production	100%	100%	100%
Arctic Paper Mochenwangen GmbH	Germany, Fabrikstrasse 62, DE-882, 84 Wolpertswende	Paper production to December 2015	99,74%	99,74%	99,74%
Arctic Paper Grycksbo AB	Sweden, Box 1, SE 790 20 Grycksbo	Paper production	100%	100%	100%
Arctic Paper UK Limited	Great Britain, Quadrant House, 47 Croydon Road, Caterham, Surrey	Trading services	100%	100%	100%
Arctic Paper Baltic States SIA	Latvia, K. Vardemara iela 33-20, Riga LV-1010	Trading services	100%	100%	100%
Arctic Paper Deutschland GmbH	Germany, Am Sandtorkai 72, 20457 Hamburg	Trading services	100%	100%	100%
Arctic Paper Benelux S.A.	Belgium, Ophemstraat 24 B-3050 Oud-Haverlee	Trading services	100%	100%	100%
Arctic Paper Schweiz AG	Switzerland, Technoparkstrasse 1, 8005 Zurich	Trading services	100%	100%	100%
Arctic Paper Italia srl	Italy, Via Cavriana 7, 20 134 Milano	Trading services	100%	100%	100%
Arctic Paper Danmark A/S	Denmark, Korskindelund 6 DK-2670 Greve	Trading services	100%	100%	100%
Arctic Paper France SAS	France, 43 rue de la Breche aux Loups, 75012 Paris	Trading services	100%	100%	100%

Unit	Registered office	Group profile	the subsidiary entities as at		
			16 May 2017	31 March 2017	31 December 2016
Arctic Paper Espana SL	Spain, Avenida Diagonal 472-474, 9-1 Barcelona	Trading services	100%	100%	100%
Arctic Paper Papierhandels GmbH	Austria, Hainbergerstrasse 34A, A-1030 Wien	Trading company	100%	100%	100%
Arctic Paper Polska Sp. z o.o.	Poland, Okrężna 9, 02-916 Warszawa	Trading company	100%	100%	100%
Arctic Paper Norge AS	Norway, Rosenholmsveien 25, NO-1411 Kolbotn	Trading company	100%	100%	100%
Arctic Paper Sverige AB	Sweden, SE 455 81 Munkedal	Trading company	100%	100%	100%
Arctic Paper East Sp. z o.o.	Poland, Fabryczna 1, 66-470 Kostrzyn nad Odrą	Trading company	100%	100%	100%
Arctic Paper Investment GmbH *	Germany, Fabrikstrasse 62, DE-882, 84 Wolpertswende	Activities of holding companies	100%	100%	100%
Arctic Paper Finance AB	Sweden, Box 383, 401 26 Göteborg	Activities of holding companies (previously production of hydropower)	100%	100%	100%
Arctic Paper Verwaltungs GmbH *	Germany, Fabrikstrasse 62, DE-882, 84 Wolpertswende	Activities of holding companies	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%
Arctic Paper Investment AB **	Sweden, Box 383, 401 26 Göteborg	Activities of holding companies	100%	100%	100%
EC Kostrzyn Sp. z o.o.	Poland, ul. Fabryczna 1, 66-470 Kostrzyn nad Odrą	Rental of properties and machines and equipment	100%	100%	100%
Arctic Paper Munkedals Kraft AB	Sweden, 455 81 Munkedal	Production of hydropower	100%	100%	100%
Rottneros AB	Sweden, Sunne	Activities of holding companies	51,27%	51,27%	51,27%
Rottneros Bruk AB	Sweden, Sunne	Pulp production	51,27%	51,27%	51,27%
Utansjo Bruk AB	Sweden, Harnösand	Non-active company	51,27%	51,27%	51,27%
Vallviks Bruk AB	Sweden, Söderhamn	Pulp production	51,27%	51,27%	51,27%
Rottneros Packaging AB	Sweden, Stockholm	Production of food packaging	51,27%	51,27%	51,27%
SIA Rottneros Baltic	Latvia, Ventspils	Procurement bureau	51,27%	51,27%	51,27%

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

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

As at 31 March 2017 and as well as on the day hereof, the percentage of voting rights held by the Group in its subsidiaries

corresponded to the percentage held in the share capital of those entities. All subsidiaries within the Group are consolidated

under the full method from the day of obtaining control by the Group and cease to be consolidated from the day the control has been transferred out of the Group. On 1 October 2012, Arctic Paper Munkedals AB purchased 50% shares in Kalltorp Kraft Handelsbolaget with its registered office in Trolhattan, Sweden. Kalltorp Kraft deals in energy production in its own

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

### 3. Management and supervisory bodies

#### 3.1. Management Board of the Parent Entity

As at 31 March 2017, the Parent Entity'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.

In view of the end of the term of office of the current Management Board on 29 May 2017, the Supervisory Board at its meeting on 19 April 2017 approved a resolution on the appointment on 30 May 2017 of the Management Board for a new term of office composed as follows:

- Per Skoglund – President of the Management Board,
- Małgorzata Majewska-Śliwa – Member of the Management Board.

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

#### 3.2. Supervisory Board of the Parent Company

As at 31 March 2017, the Parent Company's Supervisory Board was composed of:

- Per Lundeen – Chairman of the Supervisory Board appointed on 22 September 2016 (appointed to the Supervisory Board on 14 September 2016);
- Roger Mattsson – Deputy Chairman of the Supervisory Board appointed on 22 September 2016 (appointed to 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 (independent Member);
- Maciej Georg – Member of the Supervisory Board appointed on 14 September 2016 (independent Member);

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

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

As at 31 March 2017, the Parent Entity's Audit Committee was composed of:

- Per Lundeen – Chairman of the Audit Committee appointed on 22 September 2016;
- Roger 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.

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

#### 4. Approval of the financial statements

These abbreviated quarterly consolidated financial statements were approved for publication by the Management Board on 16 May 2017.

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

These abbreviated consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), in particular in accordance with IAS 34 and IFRS endorsed by the European Union.

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

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

The abbreviated consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the Group's annual consolidated financial statements for the year ended on 31 December 2016.

#### 6. Significant accounting principles (policies)

The accounting principles (policies) applied to prepare the abbreviated interim consolidated financial statements are compliant with those applied to the annual consolidated financial statements of the Group for the year ended on 31 December 2016.

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

##### 6.1. Foreign currency translation

Transactions denominated in currencies other than the functional currency of the entity are translated into the 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 profit and loss account.

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

The following exchange rates were used for book valuation purposes:

	As at 31 March 2017	As at 31 December 2016
USD	3,9455	4,1793
EUR	4,2198	4,4240
SEK	0,4419	0,4619
DKK	0,5674	0,5951
NOK	0,4601	0,4868
GBP	4,9130	5,1445
CHF	3,9461	4,1173

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

	01/01 - 31/03/2017	01/01 - 31/03/2016
USD	4,0585	3,9580
EUR	4,3221	4,3648
SEK	0,4548	0,4682
DKK	0,5813	0,5851
NOK	0,4809	0,4584
GBP	5,0244	5,6622
CHF	4,0414	3,9819

## 6.2. Data comparability

No presentation was made to the comparable data in these financial statements.

## 7. Seasonality

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

## 8. Information on business segments

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

Additionally, in 2015 the Management Board of Arctic Paper announced that it was beginning an active search for an investor for Arctic Paper Mochenwangen and in parallel assessed the possibility of measures to reduce the losses generated by the Paper Mill, relating to the discontinuation of production. Due to the material significance of the part of the business pursued by AP Mochenwangen and the companies set up to acquire the Paper Mill and due to their operational and geographic separation, the Management Board treated the operations of the Mochenwangen Group as discontinued operations. For that reason, the presentation of the operating segments for the period of the 3 months ended on 31 March 2017, for the year ended on 31 December 2016 and for the period of 3 months ended on 31 March 2016, covering the continuing operations, includes the financial results of three Paper Mills.

The Group identifies the following business segments:

- Uncoated paper – paper for printing or other graphic purposes, including wood-free and wood-containing paper. Uncoated wood-free paper may be produced from various types of pulp, with different filler content, and can undergo various finishing processes, such as surface sizing and calendering. Two main categories of this type of paper are graphic paper (used for example for printing books and catalogues) and office papers (for instance, photocopy paper); however, the Group currently does not produce office paper. Uncoated wood paper from mechanical pulp intended for printing or other graphic purposes. This type of paper is used for printing magazines with the use of rotogravure or offset printing techniques. The Group's products in this segment are usually used for printing paperbacks.
- Coated paper – wood-free paper for printing or other graphic purposes, one-side or two-side coated with mixtures containing mineral pigments, such as china clay, calcium carbonate, etc. The coating process can involve

different methods, both on-line and off-line, and can be supplemented by super-calendering to ensure a smooth surface. Coating improves the printing quality of photographs and illustrations.

- Pulp – fully bleached sulphate pulp and unbleached sulphate pulp which is used mainly for the production of printing and writing papers, cardboard, toilet paper and white packaging paper as well as 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 financial results of companies in the Rottneros Groups are analysed on the basis of quarterly financial results published on the websites of Rottneros AB.

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

EBITDA is a metric that the Management Board uses to manage the operations.

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

The table below presents data concerning revenues and profit as well as certain assets and liabilities split by segments of the Group for the period of 3 months ended on 31 March 2017 and as at 31 March 2017.

### Three month period ended on 31 March 2017 and on 31 March 2017

	Continuing Operations					Exclusions	Total continuing operations
	Uncoated	Coated	Pulp	Other	Total		
<b>Revenues</b>							
Sales to external customers	404 559	170 497	198 846	-	773 902	-	773 902
Sales between segments	-	6 167	15 801	10 641	32 609	(32 609)	-
<b>Total segment revenues</b>	<b>404 559</b>	<b>176 665</b>	<b>214 646</b>	<b>10 641</b>	<b>806 511</b>	<b>(32 609)</b>	<b>773 902</b>
<b>Result of the segment</b>							
EBITDA	37 557	1 554	36 381	366	75 857	(359)	75 498
Interest income	88	10	0	1 718	1 816	(1 717)	99
Interest expense	(1 094)	(1 224)	-	(4 044)	(6 362)	1 261	(5 101)
Depreciation/amortisation	(14 141)	(6 022)	(11 105)	(109)	(31 377)	-	(31 377)
FX gains and other financial income	584	648	-	7 120	8 352	(1 742)	6 611
FX losses and other financial expenses	(1 034)	(464)	(1 819)	(1 198)	(4 515)	1 696	(2 819)
<b>Gross profit</b>	<b>21 959</b>	<b>(5 498)</b>	<b>23 457</b>	<b>3 853</b>	<b>43 771</b>	<b>(861)</b>	<b>42 911</b>
Assets of the segment	894 823	258 445	546 592	372 414	2 072 275	(413 138)	1 659 137
Liabilities of the segment	390 647	349 026	141 408	379 423	1 260 505	(324 945)	935 559
Capital expenditures	(10 494)	(1 279)	(19 100)	-	(30 872)	-	(30 872)
Interests in joint ventures	884	-	-	-	884	-	884

- Revenues from inter-segment transactions are eliminated on consolidation.
- The results of the segments do not cover financial income (PLN 6,710 thousand of which PLN 99 thousand is interest income) and financial expenses (PLN 7,920 thousand of which PLN 5,101 thousand is interest expense), depreciation/amortisation (PLN 31,377 thousand), and income tax liability (PLN 7,829 thousand). However, segment results include inter-segment sales profit (PLN 359 thousand).

- Assets and liabilities of segments do not contain any deferred income tax (asset: PLN 34,549 thousand, provision: PLN -12,849 thousand), since those items are managed at the Group level. Segment assets do not also include investments in companies operating within the Group.

The table below presents data concerning revenues and profit as well as certain assets and liabilities by segment of the Group for the period of 3-month period ended on 31 March 2016 and as at 31 December 2016.

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

	Continuing Operations						Total continuing operations
	Uncoated	Coated	Pulp	Other	Total	Exclusions	
<b>Revenues</b>							
Sales to external customers	407 753	182 096	188 711	-	778 560	-	778 560
Sales between segments	6	5 625	13 533	9 909	29 073	(29 073)	-
<b>Total segment revenues</b>	<b>407 759</b>	<b>187 721</b>	<b>202 244</b>	<b>9 909</b>	<b>807 633</b>	<b>(29 073)</b>	<b>778 560</b>
<b>Result of the segment</b>							
EBITDA	34 158	(4 212)	39 999	1 141	71 086	(417)	70 669
Interest income	1 929	16	0	446	2 392	(2 298)	94
Interest expense	(3 147)	(1 665)	-	(2 884)	(7 697)	1 697	(6 001)
Depreciation/amortisation	(12 934)	(6 915)	(9 349)	(95)	(29 292)	-	(29 292)
FX gains and other financial income	238	370	-	176	784	(660)	124
FX losses and other financial expenses	(1 140)	(218)	(936)	(378)	(2 673)	754	(1 919)
Gross profit (loss)	19 104	(12 624)	#ADR!	(1 595)	34 599	(925)	33 674
Assets of the segment	913 758	278 235	563 672	399 241	2 154 906	(433 476)	1 721 430
Liabilities of the segment	425 011	360 848	150 118	411 150	1 347 127	(349 886)	997 240
Capital expenditures	(7 240)	(152)	(18 258)	(21)	(25 670)	-	(25 670)
Interests in joint ventures	924	-	-	-	924	-	924

- Revenues from inter-segment transactions are eliminated on consolidation.
- The results of the segments do not cover financial income (PLN 218 thousand of which PLN 94 thousand is interest income) and financial expenses (PLN 7,920 thousand of which PLN 6,001 thousand is interest expense), depreciation/amortisation (PLN 29,292 thousand), and income tax liability (PLN 8,968 thousand). However, segment results include inter-segment sales profit (PLN 417 thousand).
- Assets and liabilities of segments do not contain any deferred income tax (asset: PLN 35,034 thousand, provision: PLN -11.851 thousand), since those items are managed at the Group level. Segment assets do not also include investments in companies operating within the Group.

The table below presents data concerning revenues and profit as well as certain assets and liabilities split by segments of the Group for the period of 12 months ended on 31 December 2016 and as at 31 December 2016.

### Twelve month period ended on 31 December 2016 and on 31 December 2016

	Continuing Operations					Exclusions	Total continuing operations
	Uncoated	Coated	Pulp	Other	Total		
<b>Revenues</b>							
Sales to external customers	1 531 825	687 329	747 818	-	2 966 972	-	2 966 972
Sales between segments	41	18 969	50 134	42 784	111 928	(111 928)	-
<b>Total segment revenues</b>	<b>1 531 866</b>	<b>706 299</b>	<b>797 952</b>	<b>42 784</b>	<b>3 078 901</b>	<b>(111 928)</b>	<b>2 966 972</b>
<b>Result of the segment</b>							
EBITDA	145 369	2 522	101 529	246	249 666	(62)	249 603
Interest income	5 903	59	0	2 750	8 713	(8 289)	424
Interest expense	(12 369)	(6 754)	-	(11 313)	(30 436)	6 637	(23 799)
Depreciation/amortisation	(54 339)	(26 523)	(39 148)	(402)	(120 412)	-	(120 412)
Impairment of fixed assets	-	-	(4 151)	-	(4 151)	-	(4 151)
FX gains and other financial income	3 891	61	922	55 888	60 763	(59 837)	926
FX losses and other financial expenses	(17 979)	(3 804)	(4 151)	(7 586)	(33 521)	5 127	(28 393)
<b>Gross profit</b>	<b>70 475</b>	<b>(34 438)</b>	<b>55 000</b>	<b>39 584</b>	<b>130 621</b>	<b>(56 424)</b>	<b>74 197</b>
Assets of the segment	913 758	278 235	563 672	399 241	2 154 906	(433 476)	1 721 430
Liabilities of the segment	425 011	360 848	150 118	411 150	1 347 127	(349 886)	997 240
Capital expenditures	(47 128)	(1 729)	(128 226)	(71)	(177 154)	-	(177 154)
Interests in joint ventures	924	-	-	-	924	-	924

- Revenues from inter-segment transactions are eliminated on consolidation.
- The results of the segments do not cover financial income (PLN 1,350 thousand of which PLN 424 thousand is interest income) and financial expenses (PLN 52,192 thousand of which PLN 23,799 thousand is interest expense), depreciation/amortisation (PLN 120,412 thousand), impairment losses on fixed assets (PLN 4,151 thousand) and income tax liability (PLN 15,369 thousand). However, segment results include inter-segment sales profit – PLN 62 thousand.
- Assets and liabilities of segments do not contain any deferred income tax (asset: PLN 35,034 thousand, provision: PLN 11,851 thousand), since those items are managed at the Group level. Segment assets do not also include investments in companies operating in the Group.

## 9. Discontinued operations

On 28 July 2015 the Management Board of Arctic Paper S.A. announced a Profitability Improvement Programme of the

Group aimed at reducing the operating costs primarily by establishing shared service centres for Group companies,

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

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

Mochenwangen Group as discontinued operations as at 31 December 2015. The Mochenwangen Group includes: Arctic Paper Mochenwangen GmbH, Arctic Paper Investment GmbH, Arctic Paper Verwaltungs GmbH and Arctic Paper Immobilienverwaltung GmbH Co&KG. As a result, the assets and liabilities of the Mochenwangen Group were presented as assets directly related to discontinued operations and liabilities directly related to discontinued operations respectively as at 31 March 2017, 31 December 2016 and 31 March 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 months ended on 31 March 2017 and on 31 March 2016 and for the year ended on 31 December 2016.

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

	3-month period ended on 31 March 2017 (unaudited)	3-month period ended on 31 March 2016 (unaudited)
Revenues and expenses of discontinued operations		
Revenues from sales of goods	-	17 114
Costs of sales	-	(18 637)
Gross profit / (loss) on sales	-	(1 523)
Selling and distribution costs	-	(2 082)
Administrative expenses	(2 432)	(1 656)
Other operating income	303	445
Other operating expenses	(17)	(140)
Operating profit (loss)	(2 147)	(4 956)
Financial income	-	9
Financial expenses	(9)	(140)
Gross profit (loss)	(2 155)	(5 087)
Income tax	7	7
Profit (loss) from discontinued operations	(2 148)	(5 079)
Cumulated other comprehensive income related to discontinued operations		
FX differences on translation of foreign operations	1 047	698
Actuarial profit/loss	-	-
	1 047	698
Earnings per share:		
– basic profit/(loss) from discontinued operations attributable to the shareholders of the Parent Entity	(0,03)	(0,07)
– diluted profit from discontinued operations attributable to the shareholders of the Parent Entity	(0,03)	(0,07)

Net assets related to discontinued operations	As at 31 March 2017 (unaudited)	As at 31 December 2016 (audited)
Assets related to discontinued operations		
Inventories and other tangible assets	10 119	10 618
Trade and other receivables	388	230
Corporate income tax receivables	122	128
Other non-financial assets	13	-
Other financial assets	380	398
Cash and cash equivalents	1 317	1 320
	12 339	12 694
Liabilities directly related to the discontinued operations		
Provisions	14 197	15 406
Other financial liabilities	-	-
Trade and other payables	5 683	2 435
Income tax liability	101	106
Accruals and deferred income	148	142
	20 129	18 088
Net assets related to discontinued operations	(7 790)	(5 394)
	3-month period ended on	3 month period ended on
Cash flows related to discontinued operations	31 March 2017	31 March 2016
Net cash flows from operating activities	-	(10 112)
Net cash flows from investing activities	-	(214)
Net cash flows from financing activities	-	(100)
Increase / (decrease) in cash and cash equivalents	-	(10 426)

## 10. Dividend paid and proposed

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

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

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

The possibility of disbursement of potential dividend by the Company to its shareholders depends on the level of payments received from its subsidiaries. The risk associated with the Company's ability to disburse dividend was described in the part "Risk factors" of the annual report for 2016.

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

In Q1 2017, the General Meeting did not decide on any distribution of profit and dividend disbursement.

## 11. Earnings per share

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

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

	3-month period ended on 31 March 2017 (unaudited)	3-month period ended on 31 March 2016 (unaudited)
Net profit / (loss) for the reporting period from continuing operations attributable to the shareholders of the Parent Entity	26 296	13 426
Net profit / (loss) for the reporting period from discontinued operations attributable to the shareholders of the Parent Entity	(2 148)	(5 079)
Net profit (loss) for the reporting period attributable to the shareholders of the Parent Entity	24 148	8 346
Number of ordinary shares – A series	50 000	50 000
Number of ordinary shares – B series	44 253 500	44 253 500
Number of ordinary shares – C series	8 100 000	8 100 000
Number of ordinary shares – E series	3 000 000	3 000 000
Number of ordinary shares – F series	13 884 283	13 884 283
Total number of shares	69 287 783	69 287 783
Weighted average number of shares	69 287 783	69 287 783
Diluted weighted average number of ordinary shares	69 287 783	69 287 783
Profit (loss) per share (in PLN)		
– basic earnings from the profit/(loss) for the period attributable to the shareholders of the Parent Entity	0,35	0,12
– basic earnings profit/(loss) for the period from continuing operations attributable to the shareholders of the Parent Entity	0,38	0,19
Diluted profit (loss) per share (in PLN)		
– from the profit/(loss) for the period attributable to the shareholders of the Parent Entity	0,35	0,12
– from the profit/(loss) for the period from continuing operations attributable to the shareholders of the Parent Entity	0,38	0,19

## 12. Interest-bearing loans and borrowings

In the period covered with these financial statements, the Group partly repaid its term loan under the loan agreement of 9 September 2016 with a bank consortium of PLN 6,585 thousand and the Group increased its debt under overdraft

facilities to the above consortium of banks by PLN 4,860 thousand.



Additionally, the Group increased its debt under the overdraft facility with Den Danske by PLN 6,370 thousand and increased its debt under the term loan by 8,640 thousand.

The other changes to loans and borrowings as at 31 March 2017, compared to 31 December 2016 result mainly from

balance sheet evaluation and payment of interest accrued as at 31 December 2016 and paid in Q1 2017.

The detailed conditions of new loan agreements and bond issues are provided in the consolidated financial statements for the year ended on 31 December 2016, note 32.2.

### 13. Equity securities

	As at 31 March 2017 (unaudited)	As at 31 December 2016 (audited)
<b>Share capital</b>		
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
	<b>69 288</b>	<b>69 288</b>

	Registration date of capital increase	Number	Value in PLN
<b>Ordinary issued and fully paid-up shares</b>			
Issued on 30 April 2008	2008-05-28	50 000	50 000
Issued on 12 September 2008	2008-09-12	44 253 468	44 253 468
Issued on 20 April 2009	2009-06-01	32	32
Issued on 30 July 2009	2009-11-12	8 100 000	8 100 000
Issued on 01 March 2010	2010-03-17	3 000 000	3 000 000
Issued on 20 December 2012	2013-01-09	10 740 983	10 740 983
Issued on 10 January 2013	2013-01-29	283 947	283 947
Issued on 11 February 2013	2013-03-18	2 133 100	2 133 100
Issued on 06 March 2013	2013-03-22	726 253	726 253
As at 31 March 2017 (unaudited)		<b>69 287 783</b>	<b>69 287 783</b>

### 14. Financial instruments

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

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

#### 14.1. Hedge accounting

In order to reduce the volatility of the projected cash flows related to FX risk, the Group companies use FX risk hedging based on the use of derivatives related to the FX market. Those in particular are FX forward contracts and corridor FX options. Additionally, in order to mitigate the volatility of future energy prices, the Paper Mills and Pulp Mills in Sweden apply forward

contracts for the purchase of electricity. Arctic Paper Kostrzyn, in order to mitigate the volatility of future interest costs on loans, has concluded interest rate SWAP contracts. Rottneros Group companies, in order to mitigate the volatility of future inflows from pulp sales, entered into forward contracts for pulp sales.

As at 31 March 2017, the Group used cash flow hedge accounting for the following hedging items:

- Arctic Paper S.A. designated SWAP derivatives to hedge accounting to hedge interest payments in EUR on a bank loan in EUR,
- Arctic Paper S.A. designated SWAP derivatives to hedge accounting to hedge interest payments in PLN on a bank loan in PLN,
- Arctic Paper Munkedals AB, Arctic Paper Grycksbo AB and the companies of the Rottneros Group designated for cash flow hedge accounting the forward derivatives in order to hedge future purchases of electricity,
- the companies of the Rottneros Group designated for cash flow hedge accounting the FX forward derivatives in order to hedge a part of inflows in EUR related to pulp sales,
- the companies of the Rottneros Group designated for cash flow hedge accounting the FX forward derivatives in order to hedge a part of inflows in USD related to pulp sales,
- Arctic Paper S.A. designated floor option derivatives to hedge accounting to hedge interest payments, entitling to reduce EURIBOR for the interest rate of a part of the bank loan in EUR to the market level if the market EURIBOR falls under 0%.
- The Companies of Rottneros Group designated for cash flow hedge accounting the FX forward derivatives in order to hedge a part of inflows in EUR related to export sales.
- Arctic Paper Kostrzyn designated for cash flow hedge accounting the FX forward derivatives in order to hedge a part of inflows in EUR related to exports and pulp purchases in USD,

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

The table below presents detailed information concerning the hedging relationship in the cash flow hedge accounting regarding the sale of EUR for 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	2 017
Maturity date	individually per contract, by 30.04.2017
Hedged amount	EUR 1.5 M
Term exchange rate	9.56 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	2 017
Maturity date	individually per contract; by 31.05.2017
Hedged amount	USD 3.5 M
Term exchange rate	8.92 SEK/USD

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	The right to exchange EURO into USD coming from the planned sales in foreign currencies and pulp purchases in USD
Hedged position	Hedged position is part of the future highly probably cash flows resulting from export sales and pulp purchases
Hedging instruments	Hedging instruments are FX option transactions in which the Company commits to sell EUR for USD
Contract parameters:	
Contract conclusion dates	2 017
Maturity date	individually per contract; by 30.09.2017
Hedged amount	EUR 12.0 M
Term exchange rate	from 1.07 to 1.0815 USD/EUR

### Cash flow hedge accounting related to pulp sales with the use of forward transactions

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

Type of hedge	Cash flow hedge related to sales of pulp
Hedged position	The hedged position is a part of highly likely future cash inflows for pulp sales
Hedging instruments	Forward contracts are used as the hedging item wherein the Company agrees to sell pulp for SEK
Contract parameters:	
Contract conclusion date	2 016
Maturity date	individually per contract; by 31.12.2017
Hedged quantity of pulp	18,000 tons
Term price	7,150 SEK/ton

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

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

Type of hedge	Cash flow hedge related to planned purchases of electricity
Hedged position	The hedged position is a part of highly likely future cash flows for electricity purchases
Hedging instruments	Forward contract for the purchase of electricity at Nord Pool Exchange
Contract parameters:	
Contract conclusion date	individually per contract; from 01.06.2013
Maturity date	individually per contract; by 31.12.2021
Hedged quantity of electricity	1.454.000 MWh
Term price	from 16.50 to 33.75 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 6M EURIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in EUR on the EUR loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	2016-11-21
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 31.08.2022
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 12 M.

Type of hedge	Hedge of cash flows related to variable interest rate on the EUR long-term loan
Hedged position	Future EUR interest flows on EUR loan calculated on the basis of 6M EURIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in EUR on the EUR loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	2016-11-21
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 31.08.2021
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 2.6 M.
Type of hedge	Hedge of cash flows related to variable interest rate on the EUR short-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	2016-11-21
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 30.08.2019
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 9.9 M.

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

Type of hedge	Hedge of cash flows related to variable interest rate on the PLN long-term loan
Hedged position	Future PLN interest flows on PLN loan calculated on the basis of 6M WIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in PLN on the PLN loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	2016-11-21
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 31.08.2021
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 11.5 M.
Type of hedge	Hedge of cash flows related to variable interest rate on the PLN short-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	2016-11-21
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 30.08.2019
Hedged value	interest payable in line with the payment schedule under the loan agreement of PLN 10 M
Type of hedge	Hedge of cash flows related to variable interest rate on the PLN bonds
Hedged position	Future PLN interest flows in PLN loan calculated on the basis of interest payments on PLN bonds at 6M WIBOR
Hedging instruments	The hedging item is a SWAP transaction under which the Company agreed to pay interest in PLN on the PLN bonds on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	2016-11-21
Maturity date	each interest payment date in line with the payment schedule under the bond issue agreement; by 31.08.2021
Hedged value	interest payable in line with the payment schedule under of interest of PLN 100 M.

## Cash flow volatility hedge accounting related to a floor option

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

The table below presents the fair value of hedging instruments in cash flow hedge accounting as at 31 March 2017 and the comparative data:

	Status as at 31 March 2017		Status as at 31 December 2016	
	(unaudited) Assets	(unaudited) Equity and Liabilities	(audited) Assets	(audited) Equity and Liabilities
FX forward	69	-	-	462
Forward on pulp sales		1 326	3 695	-
SWAP	-	3 968	-	4 580
Floor option		(260)	-	(343)
Forward for electricity	1 847	4 902	12 345	-
Total hedging derivative instruments	1 916	9 936	16 040	4 699

## 15. Financial risk management objectives and policies

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

The Group also uses factoring with recourse and without 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 2016 there have been no significant changes of the financial risk. There have been no changes to the objectives and policies of the management of the risk.

## 16. Capital management

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

comparison to the annual consolidated financial statements made as at 31 December 2016, there have been no significant changes to the objectives and policies of capital management.

## 17. Contingent liabilities and contingent assets

As at 31 March 2017, the Capital Group reported:

- contingent liability under a guarantee for FPG in favour of the mutual life insurance company PRI for SEK 1,451 thousand (PLN 641 thousand) at Arctic Paper Grycksbo AB and for SEK 758 thousand (PLN 335 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 1,624 thousand (PLN 718 thousand);
- a bank guarantee in favour of Skatteverket Ludvika for SEK 135 thousand (PLN 60 thousand);

## 18. Legal claims

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

## 19. CO2 emission rights

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

The table below specifies the allocation for 2013-2020 and the usage of the rights to the issue by each entity in 2013-2016 and in Q1 2017.

(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	133 061	-	-	-
Issue	(150 577)	(147 950)	(162 467)	(170 696)	(38 945)			
Purchased quantity	-	-	-	-	-			
Sold quantity	-	-	-	-	-			
Unused quantity	306 448	263 932	203 917	133 061	191 491			
(in tons) for Arctic Paper Munkedals AB	2013	2014	2015	2016	2017	2018	2019	2020
Allocation	44 238	43 470	42 692	41 907	41 113	40 311	39 499	38 685
Unused quantity from previous years	24 305	67 262	107 325	17 559	(11 572)			
Issue	(1 281)	(3 407)	(32 465)	(21 038)	(15 474)			
Purchased quantity	-	-	7	-	-			
Sold quantity	-	-	(100 000)	(50 000)	-			
Unused quantity	67 262	107 325	17 559	(11 572)	14 067			



(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	1 008			
Issue	-	-	-	-	-			
Purchased quantity	-	-	-	-	-			
Sold quantity	(35 000)	(186 403)	(75 000)	(72 000)	-			
Unused quantity	111 448	734	60	1 008	72 564			

(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	113 085			
Issue	(13 047)	(19 020)	(26 933)	(21 293)	(5 285)			
Purchased quantity	-	-	-	-	-			
Sold quantity	-	-	-	-	-			
Unused quantity	90 522	101 986	104 991	113 085	136 630			

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

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

### 20.1. Government grants

In the current period, the Group companies did not receive any subsidies with the exception of those disclosed in the consolidated financial statements for the year ended on 31 December 2016.

### 20.2. Operations in the Special Economic Zone

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

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

- The Company ceases to conduct business operations in the zone for which it obtained the permission,
- The Company materially violates the conditions of the permission,
- The Company does not remedy errors/ irregularities identified during the course of inspections within the period of time specified in the order issued by minister competent for economic affairs,
- The Company transfers, in any form, the title to the assets to which the investment tax relief related within less than 5

years of introducing those assets to the fixed assets register,

- Machines and equipment will be handed over for business purposes outside the zone,
- The Company receives compensation, in any form, of the investment expenditure incurred,
- The Company goes into liquidation or if it is declared bankrupt.

Based on the permit issued on 25 August 2006, the Company may benefit from tax exemption by 15 November 2017. Item I of the permit relating to the date by which the Company may enjoy the permit was deleted by Decision of the Minister of Economy No. 321/IW/14 of 6 November 2014. Now the Company is entitled to use the permit by 2026 or by the date SSE exist in Poland pursuant to the applicable regulations. The permit may be used subject to the incurrence in the zone of capital expenditures within the meaning of Art. 6 of the Regulation of the Council of Ministers of 14 September 2004 on the Kostrzyńsko-Słubicka Specjalna Strefa Ekonomiczna (Special Economic Zone), underlying the calculation of public aid in compliance with Art. 3 of the Regulation with the value in

excess of EUR 40,000 thousand by 31 December 2013, translated at the EUR mean rate published by the President of the National Bank of Poland on the actual expenditure date. Creation in Zone minimum five new jobs within the meaning of Art. 3.3 and Art. 3.6 of the Regulation by 31 December 2011 and maintaining the employment level of minimum 453 people during the period from 1 January 2012 to 31 December 2013.

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

During the period from 25 August 2006 to 31 March 2017, 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 57,814 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 14,411 thousand as at 31 March 2017.

## 21. Material events after the balance sheet date

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

### Signatures of the Members of the Management Board

Position	First and last name	Date	Signature
President of the Management Board Managing Director	Per Skoglund	16 May 2017	
Member of the Management Board Financial Director	Małgorzata Majewska-Śliwa	16 May 2017	

Head Office Branch in Sweden

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