ARCTIC PAPER CAPITAL GROUP

Consolidated quarterly report
for Q1 2018

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Introduction

Information on the report

This Consolidated Quarterly Report for Q1 2018 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 UE). IFRS cover standards and interpretations approved by the International Accounting Standards Board (IASB). 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 2017.

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 with the exception of provisions for retirement benefits)
Grycksbo Group	Arctic Paper Grycksbo AB and Arctic Paper Investment AB,
Sales Offices	Arctic Paper Papierhandels GmbH with its registered office in Vienna (Austria);
	Arctic Paper Benelux SA with its registered office in Oud-Haverlee (Belgium);
	Arctic Paper Danmark A/S with its registered office Greve (Denmark);
	Arctic Paper France SA with its registered office in Paris (France);
	Arctic Paper Deutschland GmbH with its registered office in Hamburg, Germany;
	Arctic Paper Italia Srl with its registered office in Milan (Italy);
	Arctic Paper Baltic States SIA with its registered office in Riga (Latvia);
	Arctic Paper Norge AS with its registered office in Oslo (Norway);
	Arctic Paper Polska Sp. z o.o. with its registered office in Warsaw (Poland);
	Arctic Paper España SL with its registered office in Barcelona (Spain);
	Arctic Paper 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 sales profit (loss) to sales income from continuing operations
EBIT	Profit on continuing operating activity (Earnings Before Interest and Taxes)
EBIT profitability, operating profitability, operating profit margin	Ratio of operating profit (loss) to sales income from continuing operations
EBITDA	Operating profit from continuing operations plus depreciation and amortisation and impairment charges (Earnings Before Interest, Taxes, Depreciation and Amortisation)
EBITDA profitability, EBITDA margin	Ratio of operating profit plus depreciation and amortisation and impairment charges to sales income from continuing operations
Gross profit margin	Ratio of gross profit (loss) to sales income from continuing operations
Sales profitability ratio, net profit margin	Ratio of net profit (loss) to sales revenues
Return on equity, ROE	Ratio of net profit (loss) to equity income
Return on assets, ROA	Ratio of net profit (loss) to total assets
EPS	Earnings Per Share, ratio of net profit to the weighted average number of shares
BVPS	Book Value Per Share, Ratio of book value of equity to the number of shares
Debt-to-equity ratio	Ratio of total liabilities to equity
Equity-to-non-current assets ratio	Ratio of equity to non-current assets
Interest-bearing debt-to-equity ratio	Ratio of interest-bearing debt and other financial liabilities to equity
Net debt-to-EBITDA ratio	Ratio of interest-bearing debt minus cash to EBITDA from continuing operations
Solidity ratio	Ratio of equity (calculated in compliance with Swedish GAAP accounting principles) to assets
Interest coverage	Ratio of interest value (less of financial lease interest) to EBITDA (calculated in compliance with Swedish GAAP accounting principles)
EBITDA-to-interest coverage ratio	Ratio of EBITDA to interest expense from continuing operations
Current liquidity ratio	Ratio of current assets to short-term liabilities
Quick ratio	Ratio of current assets minus inventory and short-term accruals, prepayments and deferred costs to short-term liabilities
Acid test ratio	Ratio of total cash and similar assets to current liabilities
DSI	Days Sales of Inventory, ratio of inventory to cost of sales multiplied by the number of days in the period

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

Other definitions and abbreviations

Series A Shares	50,000 Shares of Arctic Paper S.A. A series ordinary shares of PLN 1 each.
Series B Shares	44,253,500 Shares of Arctic Paper S.A. B series ordinary shares of PLN 1 each.
Series C Shares	8,100,000 Shares of Arctic Paper S.A. C series ordinary shares of PLN 1 each.

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

Forward looking statements

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

Management Board's report from operations of the Arctic Paper Capital Group

to the report for Q1 2018

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. 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 2018 totalled PLN 790 million.
Arctic Paper S.A. is a holding company set up in April 2008. The Parent Entity is entered in the register of entrepreneurs of the National Court Register maintained by the District Court in Poznań – Nowe Miasto i Wilda, 8th Commercial Division of the National Court Register, under KRS number 0000306944. The Parent Entity holds statistical number REGON 080262255. The Company has a foreign branch in Göteborg, Sweden.

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 2018 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 250,000 tons per year and produces coated wood-free paper used for printing maps, books, magazines, posters and printing of advertising materials.

As on 31 March 2018 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 160,000 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 240,000 tons and produces two types of long-fibre sulphate pulp: fully bleached sulphate pulp and unbleached sulphate pulp. The most of Vallvik Pulp Mill production is known as NBSK pulp. The unbleached sulphate pulp produced by the mill is characterised with a high level of purity. The high quality of this pulp, which has been achieved over the years, made Vallvik the global leader in deliveries of this type of pulp, which is used, among others, in the production of power transformers and in the cable industry.

Our products

The product assortment of the Arctic Paper Group covers:

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

A detailed description of the Group's assortment is included in the consolidated annual report for 2017.

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 2018, 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 2018) 40,381,449 shares of our Company, which constitutes 58.28% of its share capital and corresponds to 58.28% of the total number of votes at General Meetings. Thus Nemus Holding AB is the parent entity of the Issuer.

Additionally, Mr Thomas Onstad, an indirect shareholder of Nemus Holding AB, holds directly 6,223,658 shares representing 8.98% of the total number of shares in the Company, and via another entity – 600,000 shares accounting for 0.87% of the total number of shares of the Issuer. Mr Thomas Onstad's total direct and indirect holding in the capital of Arctic Paper S.A. as at 31 March 2018 was 68.13% and has not changed until the date hereof.

	as at 14.05.2018			
Shareholder	Number of shares	Share in the share capital [%]	Number of votes	Share in the total number of votes [%]
Thomas Onstad	**47 205 107**	**68,13%**	**47 205 107**	**68,13%**
- indirectly via	40 981 449	59,15%	40 981 449	59,15%
Nemus Holding AB	40 381 449	*58,28%*	*40 381 449*	*58,28%*
other entity	600 000	*0,87%*	*600 000*	*0,87%*
- directly	6 223 658	8,98%	6 223 658	8,98%
Other	**22 082 676**	**31,87%**	**22 082 676**	**31,87%**
Total	69 287 783	100,00%	69 287 783	100,00%
Treasury shares	-	0,00%	-	0,00%
Total	**69 287 783**	**100,00%**	**69 287 783**	**100,00%**

as at 09.04.2018

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

The data in the above table is provided as of the date hereof and as of the publication date of this report and the delivery of the annual statements for 2017.

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Summary of the consolidated financial results

Selected consolidated profit and loss account items

PLN thousand	Q1 2018	Q4 2017	Q1 2017	YTD Q1 2018	YTD Q1 2017	% change Q1 2018/ Q4 2017	% change Q1 2018/ Q1 2017	% change YTD Q1 2018/ YTD Q1 2017
Sales revenues	**789 731**	**739 950**	**773 902**	**789 731**	**773 902**	**6,7**	**2,0**	**2,0**
of which:								
Sales of paper	*573 621*	*542 970*	*575 056*	*573 621*	*575 056*	*5,6*	*(0,2)*	*(0,2)*
Sales of pulp	*216 110*	*196 980*	*198 846*	*216 110*	*198 846*	*9,7*	*8,7*	*8,7*
Profit on sales	119 976	85 849	126 140	119 976	126 140	39,8	(4,9)	(4,9)
% of sales revenues	*15,19*	*11,60*	*16,30*	*15,19*	*16,30*	*3,6 p.p.*	*(1,1) p.p.*	*(1,1) p.p.*
Selling and distribution costs	(56 803)	(84 580)	(63 858)	(56 803)	(63 858)	(32,8)	(11,0)	(11,0)
Administrative expenses	(15 695)	(24 218)	(17 206)	(15 695)	(17 206)	(35,2)	(8,8)	(8,8)
Other operating income	11 818	10 946	12 936	11 818	12 936	8,0	(8,6)	(8,6)
Other operating expenses	(12 099)	(9 030)	(8 917)	(12 099)	(8 917)	34,0	35,7	35,7
EBIT	**47 197**	**(21 033)**	**49 096**	**47 197**	**49 096**	**(324,4)**	**(3,9)**	**(3,9)**
% of sales revenues	*5,98*	*(2,84)*	*6,34*	*5,98*	*6,34*	*8,8 p.p.*	*(0,4) p.p.*	*(0,4) p.p.*
EBITDA	**71 187**	**33 550**	**75 498**	**71 187**	**75 498**	**112,2**	**(5,7)**	**(5,7)**
% of sales revenues	*9,01*	*4,53*	*9,76*	*9,01*	*9,76*	*4,5 p.p.*	*(0,7) p.p.*	*(0,7) p.p.*
Financial income	564	(5 787)	6 710	564	6 710	(109,8)	(91,6)	(91,6)
Financial expenses	(7 819)	483	(7 920)	(7 819)	(7 920)	(1 719,6)	(1,3)	(1,3)
Gross profit (loss)	**39 942**	**(26 338)**	**47 886**	**39 942**	**47 886**	**(251,7)**	**(16,6)**	**(16,6)**
Income tax	(10 544)	9 790	(8 924)	(10 544)	(8 924)	(207,7)	18,2	18,2
Net profit (loss) from continuing operations	**29 398**	**(16 547)**	**38 962**	**29 398**	**38 962**	**(277,7)**	**(24,5)**	**(24,5)**
% of sales revenues	*3,72*	*(2,24)*	*5,03*	*3,72*	*5,03*	*6,0 p.p.*	*(1,3) p.p.*	*(1,3) p.p.*
Discontinued operations								
Net profit / (loss) from discontinued operations	**(904)**	**214**	**(2 148)**	**(904)**	**(2 148)**	**(522,1)**	**(57,9)**	**(57,9)**
% of sales revenues	*(0,11)*	*0,03*	*(0,28)*	*(0,11)*	*(0,28)*	*(0,1) p.p.*	*0,2 p.p.*	*0,2 p.p.*
Net profit/(loss)	**28 494**	**(16 333)**	**36 814**	**28 494**	**36 814**	**(274,5)**	**(22,6)**	**(22,6)**
% of sales revenues	*3,61*	*(2,21)*	*4,76*	*3,61*	*4,76*	*5,8 p.p.*	*5,8 p.p.*	*(1,1) p.p.*
Net profit / (loss) for the reporting period attributable to the shareholders of the Parent Entity	15 834	(14 559)	26 138	15 834	26 138	(208,8)	(39,4)	(39,4)

Due to adjustment to previous years' error concerning verification of economic useful life periods of tangible fixed assets and intangible assets of Rottneros companies (detailed in note 6.2 of these abbreviated consolidated quarterly financial statements), the above numbers for Q4 do not constitute a difference from the numbers for 2017 disclosed in the Annual Consolidated Report for 2017 and the data for Q3 2017, disclosed in the abbreviated consolidated quarterly financial statements of the Arctic Paper Group for the period of 9 months ended on 30 September 2017.

Commentary of the President of the Management Board Per Skoglund on the results of Q1 2018

During the first quarter of 2018, Arctic Paper Group had a turnover of PLN 789,7 million (compared to PLN 773,9 million in Q1, 2017) with an EBITDA of PLN 71,2 million (75,5 million). The paper segment generated a turnover of PLN 573,6 million (575,1 million) with an EBITDA of PLN 31,1 million (39,1 million).

The continued rise in pulp prices is putting pressure on the margins. However, during the period price increases have been implemented that partially compensate for the increase in costs, and we are planning for further prices increases. Developments in the exchange rate between the euro, dollar and Swedish krona has mainly been positive for the paper segment.

The result of the period was affected by production disturbances at the mill in Grycksbo, occurred during the commissioning of paper machine PM10 after a planned maintenance and investment stoppage. This year Easter fell in the first quarter, which also contributed to reduced sales in this period.

Production amounted to 169,000 tonnes (176,000), with a more favourable product mix increasing the sales volume of our premium brand Munken during the period. A decision has been taken to invest EUR 7 million in the hydropower plant at Munkedal, which strengthens our sustainability profile and competitiveness.

For Rottneros AB, of which the Arctic Paper Group owns 51 percent, net turnover increased by 15 percent to SEK 541 million (472 million) and EBITDA by 31 percent to SEK 101 million (77mn).

The past quarter demonstrates again the benefits of combining our paper operations with our ownership in the pulp producer Rottneros AB. The result of this quarter confirms that we are on the right track. It is now important that we continue in line with our strategy to strengthen the profitability of our paper segment.

Revenues

In Q1 2018, the consolidated sales revenues amounted to PLN 789,731 thousand as compared to PLN 773,902 thousand in the equivalent period of the previous year. That means a growth by PLN 15,829 thousand or by +2.0%. In Q1 2018, paper sales revenues amounted to PLN 573,621 thousand (Q1 2017: PLN 575,056 thousand) while sales of pulp generated PLN 216,110 thousand (Q1 2017: PLN 198,846 thousand)

Paper sales volume in Q1 2018 amounted to 169 thousand tons compared to 176 thousand tons in the same period of the previous year. The change represents a decrease of 7 thousand tons and by -4.0% respectively.

Pulp sales volume in Q1 2018 amounted to 94 thousand tons and was on the same level as compared to 94 thousand tons in the same period of the previous year.

Higher sales revenues in Q1 2018, compared to Q4 2017, result both from higher paper and pulp sales volume as well as higher sales prices of paper when translated into PLN. Paper sales revenues in the last quarter of 2017 amounted to PLN 542,970 thousand (sales volume 164 thousand tons) while for pulp sales – PLN 196,980 thousand (Sales volume 91 thousand tons).

Profit on sales, selling and distribution costs and administrative expenses

In Q1 2018, profit on sales amounted to PLN 119,976 thousand and was by 4.9% less than in the equivalent period last year and by 39.8% higher than in Q4 2017. Sales profit margin in the current quarter stood at 15.19% compared to 16.30% (-1.1 p.p.) in the same period of the previous year and 11.60% (+3.6%) in Q4 2017.
The main reasons of the reduced profit on sales in Q1 2018 as compared to the equivalent period in the previous year included higher costs of production materials, primarily of pulp.
The relatively low profit on sales in Q4 2017 resulted primarily from impairment allowances to non-financial assets of PLN 23,761 thousand.

In Q1 2018, the selling and distribution costs amounted to PLN 56,803 thousand which represents a decrease by 11.0% compared to the costs incurred in Q1 2017 and a decrease by 32.8% compared to Q4 2017. The costs of sales include primarily the costs of transport and a decrease of the costs contributed to reduced costs of sales in Q1 2018.

In Q1 2018, the administrative expenses amounted to PLN 15,695 thousand as compared to PLN 17,206 thousand in the equivalent period in 2017 and PLN 24,218 thousand in Q4 2017. 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 11,818 thousand in Q1 2018 which was an increase as compared to the equivalent period of the previous year (by PLN 872 thousand and a decrease by PLN 1,118 thousand as compared to the last quarter of 2017.

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

In Q1 2018, the other operating expenses amounted to PLN 12,099 thousand as compared to PLN 8,917 thousand in Q1 2017 and PLN 9,030 thousand in Q4 2017. 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 2018, the financial income amounted to PLN 564 thousand and was by PLN 6,146 thousand lower than the income generated in Q1 2017 and was by PLN 6,351 thousand higher than the financial income for Q4 2017.

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 2018, financial income amounted to PLN 7,819 thousand as compared to PLN 7,920 thousand incurred in Q1 2017 and PLN -483 thousand for Q4 the last quarter of 2017.

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 281 thousand in Q1 2018, and FX losses of PLN 4,125 thousand for Q4 2017 (disclosed as negative financial revenues) and FX gains of PLN 3,715 thousand in Q1 2017.

Income tax

In Q1 2018, income tax amounted to PLN -10,544 thousand while in the equivalent period in 2017 it was PLN -8,924 thousand and PLN +9,790 thousand in Q4 2017.

The current portion of income tax in the analysed period amounted to PLN -676 thousand while the deferred portion to PLN -9,868 thousand. In the first quarter of the previous year, the amount was PLN -2,956 thousand and PLN -5,968 thousand respectively. In the last quarter of the previous year, the amount was PLN -910 thousand and PLN +10,700 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 904 thousand for Q1 2018 and PLN 2,148 thousand in the equivalent period of the previous year. The fourth quarter of 2017 was closed with net profit on discontinued activity of PLN 214 thousand and resulted from sales of other services.

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

In Q1 2018, the Group generated net profit in the amount of PLN 28,494 thousand. The portion of the net profit attributable to the shareholders of Arctic Paper S.A. amounts to PLN 15,834 thousand.

In Q1 2017, the Group generated net profit in the amount of PLN 36,814 thousand. The portion of the net profit attributable to the shareholders of Arctic Paper S.A. amounts to PLN 26,138 thousand

In Q4 2017, the Group generated net loss in the amount of PLN 16,333 thousand. The portion of the net loss attributable to the shareholders of Arctic Paper S.A. amounted to PLN 14,559 thousand.

Profitability analysis

In Q1 2018, the result on operations amounted to PLN +47,197 thousand as compared to PLN +49,096 thousand in the equivalent period in 2016 and PLN -21,033 thousand in Q4 2017. Those changes mean there was a decrease of operating profit margin from +6.34% in Q1 2017 and a growth of operating profit margin from -2.84% in Q4 2017 to +5.98 in the first quarter of the current year.

EBITDA in Q1 2018 was PLN 71,187 thousand while in the equivalent period in 2017 it was PLN 75,498 thousand and PLN 33,550 thousand in Q4 2017. In the reporting period, the EBITDA margin was 9.01% compared to 9.76% in the equivalent period of 2017 and 4.53% in Q4 2017.

In Q1 2018, net profit amounted to PLN 28,494 thousand as compared to the net profit of PLN 36,814 thousand in Q1 2017 and net loss of PLN 16,333 thousand in Q4 2017.

PLN thousand	Q1 2018	Q4 2017	Q1 2017	YTD Q1 2018	YTD Q1 2017	% change Q1 2018/ Q4 2017	% change Q1 2018/ Q1 2017	% change YTD Q1 2018/ YTD Q1 2017
Profit on sales	119 976	85 849	126 140	119 976	126 140	39,8	(4,9)	(4,9)
% of sales revenues	*15,19*	*11,60*	*16,30*	*15,19*	*16,30*	*3,6 p.p.*	*(1,1) p.p.*	*(1,1) p.p.*
EBITDA	**71 187**	**33 550**	**75 498**	**71 187**	**75 498**	**112,2**	**(5,7)**	**(5,7)**
% of sales revenues	*9,01*	*4,53*	*9,76*	*9,01*	*9,76*	*4,5 p.p.*	*(0,7) p.p.*	*(0,7) p.p.*
EBIT	**47 197**	**(21 033)**	**49 096**	**47 197**	**49 096**	**(324,4)**	**(3,9)**	**(3,9)**
% of sales revenues	*5,98*	*(2,84)*	*6,34*	*5,98*	*6,34*	*8,8 p.p.*	*(0,4) p.p.*	*(0,4) p.p.*
Net profit (loss) from continuing operations	**29 398**	**(16 547)**	**38 962**	**29 398**	**38 962**	**(277,7)**	**(24,5)**	**(24,5)**
% of sales revenues	*3,72*	*(2,24)*	*5,03*	*3,72*	*5,03*	*6,0 p.p.*	*(1,3) p.p.*	*(1,3) p.p.*
Net profit / (loss) from discontinued operations	**(904)**	**214**	**(2 148)**	**(904)**	**(2 148)**	**(522,1)**	**(57,9)**	**(57,9)**
% of sales revenues	*(0,11)*	*0,03*	*(0,28)*	*(0,11)*	*(0,28)*	*(0,1) p.p.*	*0,2 p.p.*	*0,2 p.p.*
Net profit/(loss)	**28 494**	**(16 333)**	**36 814**	**28 494**	**36 814**	**(274,5)**	**(22,6)**	**(22,6)**
% of sales revenues	*3,61*	*(2,21)*	*4,76*	*3,61*	*4,76*	*5,8 p.p.*	*(1,1) p.p.*	*(1,1) p.p.*
Return on equity / ROE (%)	3,5	(2,1)	4,7	3,5	222,5	5,6 p.p.	(1,2) p.p.	(1,2) p.p.
Return on assets / ROA (%)	1,5	(0,9)	2,1	1,5	114,3	2,3 p.p.	(0,6) p.p.	(0,6) p.p.

In Q1 2018, return on equity was +3.5% while in Q1 2017 it was +4.7% and in Q4 2017 it was -2.1%.

In the same period, return on assets was +1.5% while in Q1 2017 it was +2.1% and in Q4 2017 it was -0.9%.

The increased return on equity and return on assets in Q1 2018 versus Q4 2017 resulted primarily from the net profit generated in the period under review and impairment allowances to tangible fixed assets and intangible assets in Q4 2017.

Selected consolidated balance sheet items

PLN thousand	31.03.2018	31.12.2017	31.03.2017	Change 31.03.2018 -31.12.2017	Change 31.03.2018 -31.03.2017
Fixed assets	942 418	946 363	901 683	(3 945)	40 736
Inventories	344 704	350 996	326 857	(6 292)	17 847
Receivables	394 420	336 758	395 405	57 662	(985)
including trade receivables	*386 337*	*330 071*	*386 465*	*56 266*	*(128)*
Other current assets	42 330	20 734	17 370	21 596	24 960
Cash and cash equivalents	205 273	241 403	101 595	(36 130)	103 678
Assets related to discontinued operations	3 388	4 071	12 339	(683)	(14 583)
Total assets	**1 932 532**	**1 900 325**	**1 755 248**	**32 207**	**177 284**
Equity	807 840	791 294	786 710	16 546	21 131
Short-term liabilities	565 994	576 275	521 357	(10 282)	44 637
of which:					
trade and other payables	*403 176*	*423 868*	*359 432*	*(20 692)*	*43 744*
interest-bearing debt	*67 462*	*72 593*	*61 574*	*(5 132)*	*5 887*
other non-financial liabilities	*95 356*	*79 814*	*100 351*	*15 542*	*(4 995)*
Long-term liabilities	557 086	531 128	427 051	25 958	130 035
of which:					
interest-bearing debt	*396 555*	*376 521*	*307 484*	*20 034*	*89 071*
other non-financial liabilities	*160 531*	*154 607*	*119 567*	*5 924*	*40 964*
Liabilities directly related to the discontinued operations	1 611	1 626	20 129	(15)	(38 831)
Total liabilities and equity	**1 932 532**	**1 900 325**	**1 755 248**	**32 207**	**177 284**

As at 31 March 2018 total assets amounted to PLN 1,932,532 thousand as compared to PLN 1,900,325 thousand at the end of 2017 which was an increase by PLN 32,207 thousand.

Fixed assets

As at the end of March 2018, fixed assets amounted to PLN 942,418 thousand and accounted for 48.8% of total assets as compared to PLN 946,363 thousand at the end of 2017 – 49.8%. Fixed assets mainly consist of property, plant & equipment and intangible assets. The value of fixed assets dropped in the three months of 2018, mainly due to depreciation/amortisation allowances of tangible fixed assets in excess of investment outlays.

Current assets

As at the end of March 2018, current assets amounted to PLN 986,726 thousand as compared to PLN 949,891 thousand at the end of December 2017. As part of the current assets, inventories decreased by PLN 6,292 thousand and receivables increased by PLN 57,662 thousand, other current assets increased by PLN 21,596 thousand while cash and cash equivalents decreased by PLN 36,130 thousand. Current assets represented 51.0% of total assets as at the end of March 2018 (50.0% as at the end of 2017) and included inventories – 17.8% (18.5% as at the end of 2017), receivables – 20.4% (17.7% as at the end of 2017), other current assets – 2.2% (1.1% as at the end of 2017) and cash and cash equivalents – 10.6% (12.7% as at the end of 2017).

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 3,388 thousand as at 31 March 2018 (31 December 2017: PLN 4,071 thousand). was composed of inventories for PLN 21 thousand (31 December 2017: PLN 21 thousand), trade and other receivables of PLN 1,006 thousand (31 December 2017: PLN 1,293 thousand), cash – PLN 2,239 thousand (31 December 2017: PLN 2,448 thousand), and other financial and non-financial assets (PLN 122 thousand). (31 December 2017: PLN 309 thousand.

Equity

In Q1 2018, the equity amounted to PLN 807,840 thousand as compared to PLN 791,294 thousand at the end of 2017. Equity represented 41.8% of total equity and liabilities as at the end of March 2018 as compared to 41.6% of balance sheet total as at the end of December 2017. The increase of equity in Q1 2018 resulted from the generated net profit and a higher valuation in 2017 financial instruments hedging future cash flows which was partly offset with a decreased result on FX differences of foreign operations.

Short-term liabilities

As at the end of March 2018, current liabilities amounted to PLN 565,994 thousand (29.3% of balance sheet total) as compared to PLN 576,275 thousand (30.3% of balance sheet total) as at the end of 2017. In the current quarter, a decrease of short-term liabilities occurred by PLN 10,282 thousand. The decrease of short-term liabilities was primarily due to a decrease of trade and other payables as well as lease liabilities largely repaid in January 2018 (detailed in note 12 to these abbreviated quarterly consolidated financial statements).

Long-term liabilities

As at the end of March 2018, long-term liabilities amounted to PLN 557,086 thousand (28.8% of balance sheet total) as compared to PLN 531,128 thousand (27.9% of balance sheet total) as at the end of 2017. In the period under report, an increase of long-term liabilities occurred by PLN 25,958 thousand, mainly as a result of increased indebtedness under overdraft facilities with repayment dates in August 2019 and an increased deferred income tax provision.

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 and the provision for retirement benefits. The amount of PLN 1,611 thousand as at 31 March 2018 (31 December 2017: PLN 1,626 thousand) was composed of provisions of PLN 846 thousand (31 December 2017: PLN 838 thousand), trade and other payables of PLN 492 thousand (31 December 2017: PLN 517 thousand), and other financial and non-financial liabilities of PLN 274 thousand (31 December 2017: PLN 271 thousand).

Debt analysis

	Q1 2018	Q4 2017	Q1 2017	% change Q1 2018/ Q4 2017	% change Q1 2018/ Q1 2017
Debt to equity ratio (%)	139,2	140,2	123,1	(0,9) p.p.	16,1 p.p.
Equity to fixed assets ratio (%)	85,7	83,6	87,2	2,1 p.p.	(1,5) p.p.
Equity to interest-bearing debt ratio (%)	57,4	56,8	46,9	0,7 p.p.	10,5 p.p.
Net debt to EBITDA ratio for the last 12 months (x)	1,1x	0,8x	1,1x	0,23	0,03
EBITDA to interest expense ratio (x)	9,8x	10,6x	11,1x	(0,9)	(1,3)

As at the end of March 2018, the debt to equity ratio amounted to 139.2 and was lower by 0.9 p.p. compared to the end of 2017 and higher by 16.1 p.p. compared to the end of March 2017.

The equity to non-current assets ratio was 85.7% as at the end of Q1 2018 and was higher by 2.1 p.p. than at the end of 2017 and lower by 1.5 p.p. than at the end of March 2017.

The interest bearing debt to equity ratio was 57.4% as at the end of Q1 2018 and was higher by 0.7 p.p. as compared to the end of December 2017 and lower by 10.5 p.p. as compared to the level of the ratio calculated at the end of March 2017.

Net borrowings to EBITDA calculated for the last 12 months ended on 31 March 2018 amounted to 1.1x compared to 0.85x in the equivalent period ended on 31 December 2017 and 1.1x for 12-month period ended on 31 March 2017.

The EBITDA to interest coverage ratio amounted to 9.8x for the twelve months ended on 31 March 2018, 10.6x for the twelve months ended on 31 December 2017 and 11.1x for the twelve months ended on 31 March 2017.

Liquidity analysis

	Q1 2018	Q4 2017	Q1 2017	% change Q1 2018/ Q4 2017	% change Q1 2018/ Q1 2017
Current ratio	**1,7x**	**1,6x**	**1,6x**	**0,1**	**0,1**
Quick ratio	**1,1x**	**1,0x**	**1,0x**	**0,1**	**0,2**
Acid test	**0,4x**	**0,4x**	**0,2x**	**(0,1)**	**0,2**
DSI (days)	46,3	48,3	45,4	(2,0)	0,9
DSO (days)	44,0	40,1	44,9	3,9	(0,9)
DPO (days)	54,2	58,3	49,9	(4,1)	4,2
Operational cycle (days)	90,3	88,4	92,3	1,9	(2,0)
Cash conversion cycle (days)	**36,2**	**30,1**	**42,4**	**6,1**	**(6,2)**

The current liquidity ratio was 1.7 at the end of March 2018 increased by 0.1 as compared to 31 December 2017 and 31 March 2017.

The quick ratio was 1.1 at the end of March 2018 and 1.0 as at 31 December 2017 and 1.0 as at 31 March 2017.

At the end of March 2018, the acid test ratio was at a similar level as compared to the end of 2017 and higher by 0.2 compared to the end of March 2017.

The cash conversion cycle for the period ended on 31 March 2018 was 36.2 days (the period ended on 31 December 2017: 30.1 days and for the period ended on 31 March 2017: 42.4 days).

Selected items of the consolidated cash flow statement

PLN thousand	Q1 2018	Q4 2017	Q1 2017	YTD Q1 2018	YTD Q1 2017	% change Q1 2018/ Q4 2017	% change Q1 2018/ Q1 2017	% change YTD Q1 2018/ YTD Q1 2017
Cash flows from operating activities	1 801	99 641	21 935	1 801	21 935	(98,2)	(91,8)	(91,8)
of which:								
Gross profit (loss)	*39 031*	*(26 109)*	*45 731*	*39 031*	*45 731*	*(249,5)*	*(14,7)*	*(14,7)*
Depreciation/amortisation and impairm	*23 990*	*54 583*	*26 402*	*23 990*	*26 402*	*(56,0)*	*(9,1)*	*(9,1)*
Changes to working capital	*(64 707)*	*54 775*	*(54 370)*	*(64 707)*	*(54 370)*	*(218,1)*	*19,0*	*19,0*
Other adjustments	*3 487*	*16 392*	*4 173*	*3 487*	*4 173*	*(78,7)*	*(16,4)*	*(16,4)*
Cash flows from investing activities	(41 710)	(54 179)	(30 872)	(41 710)	(30 872)	(23,0)	35,1	35,1
Cash flows from financing activities	8 397	(17 530)	(18 124)	8 397	(18 124)	(147,9)	(146,3)	(146,3)
Total cash flows	**(31 513)**	**27 932**	**(27 061)**	**(31 513)**	**(27 061)**	**(212,8)**	**16,5**	**16,5**

Due to adjustment to previous years' error concerning verification of economic useful life periods of tangible fixed assets and intangible assets of Rottneros companies (detailed in note 6.2 of these abbreviated consolidated quarterly financial statements), the above numbers for Q4 do not constitute a difference from the numbers for 2017 disclosed in the Annual Consolidated Report for 2017 and the data for Q3 2017, disclosed in the abbreviated consolidated quarterly financial statements of the Arctic Paper Group for the period of 9 months ended on 30 September 2017.

Cash flows from operating activities

In Q1 2018, net cash flows from operating activities amounted to PLN +1,801 thousand as compared to PLN +21,935 thousand in the equivalent period of 2017 and PLN +99,641 thousand in the fourth quarter of the previous year. Gross profit generated in Q1 2018, 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 2018.

Cash flows from investing activities

In Q1 2018, cash flows from investing activities amounted to PLN -41,710 thousand as compared to PLN -30,872 thousand in Q1 2017 and PLN -54,179 thousand in Q4 2017. Investment flows in Q1 2018 resulted primarily from the acquisition of tangible fixed assets and intangible assets and payment of an interest-bearing margin deposit for derivatives hedging the sales price of pulp.

Cash flows from financing activities

In Q1 2018, cash flows from financing activities amounted to PLN +8,397 thousand as compared to PLN -18,124 thousand in Q1 2017 and PLN -17,530 thousand in Q4 2017. In Q1 2018 the positive cash flows from financing activities were related primarily to increased debt under overdraft facilities partly compensated with repayment of leasing obligations and partly with repayment of bank loans with interest.

Summary of standalone financial results

Selected standalone income statement items

PLN thousand	Q1 2018	Q4 2017	Q1 2017	YTD Q1 2018	YTD Q1 2017	% change Q1 2018/ Q4 2017	% change Q1 2018/ Q1 2017	% change YTD Q1 2018/ YTD Q1 2017
Sales revenues	**9 751**	**12 106**	**11 779**	**9 751**	**11 779**	**(19,5)**	**(17,2)**	**(17,2)**
of which:								
Revenues from sales of services	8 524	11 002	10 571	8 524	10 571	(22,5)	(19,4)	(19,4)
Interest income on loans	1 227	1 104	1 208	1 227	1 208	11,2	1,5	1,5
Dividend income	-	-	-	-	-	-	-	-
Profit on sales	8 394	9 199	9 928	8 394	9 928	(8,8)	(15,5)	(15,5)
% of sales revenues	*86,08*	*75,99*	*84,29*	*86,08*	*84,29*	*10,1 p.p.*	*(8,3) p.p.*	*1,8 p.p.*
Selling and distribution costs	(750)	201	(1 019)	(750)	(1 019)	(473,1)	(26,4)	(26,4)
Administrative expenses	(7 144)	(9 719)	(8 517)	(7 144)	(8 517)	(26,5)	(16,1)	(16,1)
Other operating income	58	165	4	58	4	(64,7)	1 465,8	1 465,8
Other operating expenses	(254)	(43 163)	(940)	(254)	(940)	(99,4)	(73,0)	(73,0)
EBIT	**304**	**(43 318)**	**(543)**	**304**	**(543)**	**(100,7)**	**(155,9)**	**(155,9)**
% of sales revenues	*3,11*	*(357,82)*	*(4,61)*	*3,11*	*(4,61)*	*360,9 p.p.*	*7,7 p.p.*	*7,7 p.p.*
EBITDA	**427**	**(43 196)**	**(434)**	**427**	**(434)**	**(101,0)**	**(198,2)**	**(198,2)**
% of sales revenues	*4,38*	*(356,81)*	*(3,69)*	*4,38*	*(3,69)*	*361,2 p.p.*	*8,1 p.p.*	*8,1 p.p.*
Financial income	1 009	(276)	7 158	1 009	7 158	(466,1)	(85,9)	(85,9)
Financial expenses	(5 857)	(1 326)	(4 238)	(5 857)	(4 238)	341,9	38,2	38,2
Gross profit	**(4 545)**	**(44 919)**	**2 377**	**(4 545)**	**2 377**	**(89,9)**	**(291,2)**	**(291,2)**
Income tax	-	(396)	-	-	-	-	-	-
Net profit	**(4 545)**	**(45 315)**	**2 377**	**(4 545)**	**2 377**	**(90,0)**	**(291,2)**	**(291,2)**
% of sales revenues	*(46,61)*	*(374,32)*	*20,18*	*(46,61)*	*20,18*	*327,7 p.p.*	*(66,8) p.p.*	*(66,8) p.p.*

Revenues

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

Sales revenues for Q1 2018 amounted to PLN 9,751 thousand and comprised services provided to Group companies (PLN 8,524 thousand), and interest income on loans (PLN 1,227 thousand). In the equivalent period of the previous year, the standalone sales revenues 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 Q4 2017, the standalone sales revenues amounted to PLN 12,106 thousand which included revenues from the services provided to Group companies (PLN 11,002 thousand) and interest income on loans granted (PLN 1,104 thousand).

In 2018 and in 2017, the Company did not render services to the Pulp Mills of the Rottneros Group.

In 2017, the internal costs of sales comprised interest expense on loans received from other Group companies and internal costs of sales of logistics services.

Selling and distribution costs

In Q1 2018 the Company recognised the amount of PLN 750 thousand as selling and distribution costs (PLN 1,019 thousand in the equivalent quarter of 2017) 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 2018, the administrative expenses amounted to PLN 7,144 thousand and were lower than in the equivalent period of the previous year (by PLN 8,517 thousand) and the expenses recorded in Q4 2017 by PLN 9,719 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 58 thousand in Q1 2017 which was an increase as compared to the equivalent period of the previous year by PLN 54 thousand. Other operating expenses totalled PLN 254 thousand in Q1 2018. In the equivalent period in 2017, the expenses amounted to PLN 940 thousand while in Q4 2017 they amounted to PLN 43,163 thousand with the largest part thereof being an impairment allowance to assets - shares in Arctic Paper Investment AB (PLN 42,291 thousand).

Financial income and financial expenses

In Q1 2018, the financial income amounted to PLN 1,009 thousand and was by PLN 6,149 thousand lower than generated in Q1 2017. The high level of financial income in Q1 2017 was due to FX gains and a positive valuation of financial liabilities at the adjusted purchase price.

The financial expenses in 2018 amounted to PLN 5,857 thousand (in the equivalent period of 2017: PLN 4,238 thousand), while in Q4 2017 they amounted to PLN 1,326 thousand.

Selected items of standalone balance sheet

PLN thousand	31/03/2018	31/12/2017	31/03/2017	Change 31.03.2018 -31.12.2017	Change 31.03.2018 -31.03.2017
Fixed assets	760 681	751 157	810 938	9 524	(50 258)
Receivables	86 148	75 287	57 843	10 862	28 306
Other current assets	100 066	80 675	77 221	19 391	22 845
Cash and cash equivalents	28 711	36 943	6 871	(8 232)	21 840
Total assets	**975 606**	**944 061**	**952 873**	**31 545**	**22 732**
Equity	527 054	531 032	573 451	(3 977)	(46 396)
Short-term liabilities	204 739	205 815	111 411	(1 076)	93 327
Long-term liabilities	243 814	207 214	268 011	36 600	(24 197)
Total liabilities and equity	**975 606**	**944 061**	**952 874**	**31 546**	**22 733**

As at 31 March 2018 total assets amounted to PLN 975,606 thousand as compared to PLN 944,061 thousand at the end of 2017.

Fixed assets

As at the end of March 2018 non-current assets represented nearly 78.0% of total assets which means the share decreased (by 1.6 p.p.) compared to the end of 2017. The main item of non-current assets includes interests in subsidiaries. At the end of Q1 2018, the value was PLN 678,313 thousand and had the same value as at the end of 2017.

Current assets

As at the end of March 2018, current assets amounted to PLN 214,925 thousand as compared to PLN 192,904 thousand at the end of 2017. Working assets increased in Q1 2018, particularly in trade receivables and other current assets. As at the end of Q1 2018, current assets represented 22.0% of total assets compared to 20.4% as at the end of the previous year.

Equity

In Q1 2018, the equity amounted to PLN 527,054 thousand as compared to PLN 531,032 thousand at the end of 2017. Equity amounted to 54.0% of balance sheet total as at the end of March 2018 and the share decreased by 2.2 p.p. as compared to the end of 2017.

Short-term liabilities

As at the end of March 2018, current liabilities amounted to PLN 204,739 thousand (21.0% of balance sheet total) as compared to PLN 205,815 thousand as at the end of 2017 (21.8% of balance sheet total).

Long-term liabilities

As at the end of March 2018, long-term liabilities amounted to PLN 243,814 thousand (25.0% of balance sheet total) as compared to PLN 207,214 thousand as at the end of 2017 (21.9% of balance sheet total).

Selected items of the standalone cash flow statement

PLN thousand	1Q 2018	4Q 2017	1Q 2017	YTD 1Q 2018	YTD 1Q 2017	% change Q1 2018/ Q4 2017	% change Q1 2018/ Q1 2017	% change YTD Q1 2018/ YTD Q1 2017
Cash flows from operating activities	(11 208)	48 349	6 062	(11 208)	6 062	(123,2)	(284,9)	(284,9)
of which:								
Gross profit (loss)	*(4 545)*	*(44 919)*	*2 377*	*(4 545)*	*2 377*	*(89,9)*	*(291,2)*	*(291,2)*
Depreciation/amortisation	*212*	*122*	*109*	*212*	*109*	*73,9*	*94,8*	*94,8*
Changes to working capital	*(3 496)*	*(14 277)*	*(5 393)*	*(3 496)*	*(5 393)*	*(75,5)*	*(35,2)*	*(35,2)*
Net interest and dividends	*4 167*	*3 550*	*3 415*	*4 167*	*3 415*	*17,4*	*22,0*	*22,0*
Increase / decrease of loans granted to subsidiaries	*(29 671)*	*67 534*	*4 348*	*(29 671)*	*4 348*	*(143,9)*	*(782,4)*	*(782,4)*
Other adjustments	*22 126*	*36 339*	*1 206*	*22 126*	*1 206*	*(39,1)*	*1 734,6*	*1 734,6*
Cash flows from investing activities	(23)	(9 514)	(55)	(23)	(55)	(99,8)	(58,6)	(58,6)
Cash flows from financing activities	2 998	(18 412)	(10 000)	2 998	(10 000)	(116,3)	(130,0)	(130,0)
Total cash flows	**(8 233)**	**20 423**	**(3 993)**	**(8 233)**	**(3 993)**	**(140,3)**	**106,2**	**106,2**

The cash flows statement presents a decrease in cash and cash equivalents in Q1 2017 by PLN 8,233 thousand which includes:

- positive cash flows from operating activities of PLN -11,208 thousand,
- negative cash flows from investing activities of PLN -23 thousand,
- negative cash flows from financing activities of PLN 2,998 thousand.

Cash flows from operating activities

In Q1 2018, net cash flows from operating activities amounted to PLN -11,208 thousand as compared to PLN 6,062 thousand in the equivalent period of 2017. The negative flows from operating activities this year was affected by the generated gross loss and changes to the loan to subsidiaries and liabilities under cash-pooling.

Cash flows from investing activities

In the first three months 2018, cash flows from investing activities amounted to PLN -23 thousand as compared to PLN -55 thousand in Q1 2017. 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 2018 cash flows from financing activities amounted to PLN 2,998 thousand as compared to PLN -10,000 thousand in 2017. Changes to balances of overdrafts and repayment of financial liabilities materially affected flows from financing activities.

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 2018 there were no unusual events or factors.

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

In Q1 2018 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

Lease debt repayment with Arctic Paper Grycksbo AB

On 7 January 2018, Arctic Paper SA granted a loan to its subsidiary Arctic Paper Grycksbo AB of EUR 5.56 M to cover repayment under lease contracts with Svenska Handelsbanken AB. The Company requested the existing consortium of financing banks (Bank Zachodni WBK S.A. and Bank BGŻ BNP Paribas S.A.) for approval for the Company to contract an additional short-term loan up to PLN 25,820 thousand to be granted as an additional tranche under the loan agreement of 9 September 2016 in order to finance or re-finance repayment of lease debt by Arctic Paper Grycksbo AB to Svenska Handelsbanken AB. The Meeting of Bondholders agreed to contract such financing on 20 February 2018. Now the Company is collecting all documents required for the new loan tranche.

New investment by the Group

On 12 March 2018 the Company's Management Board decided to commence a project to expand the hydro power plant in the paper mill in Munkedal (Sweden). The objective of the project is to support the factory's environmental sustainability. The investment will double the quantity of energy generated by the environment-friendly hydro power plant at Arctic Paper Munkedals which will enhance the energy self-sufficiency of the paper mill.

The investment is estimated at SEK 70 million (about PLN 29 million). The Arctic Paper Group plans to finance the project with its own funds. When the project is completed, it will be refinanced with a bank loan. The Company has already signed a letter of intent with Swedbank concerning refinancing of the project.

The Arctic Paper Group has obtained all permits required for the project. The project is to be completed in Q4 2019.

Published strategy on paper business

The Management Board of Arctic Paper SA decided to set a long-term financial goal – EBIT at 10%. Additionally, the Management Board approved its new strategy for the Group's paper business "The future lies in paper – Strategic Agenda 2022" which aims at developing the business and improving the profitability of the segment. The new business strategy relies on six strategic initiatives:

- Business development by focusing on selected profitable segments and markets, including specialist products and premium products, in Eastern Europe and in new markets.
- New innovative products and weights, developed in close cooperation with customers.
- Development of strong brands for the premium segment in order to increase revenues per one ton of paper.
- Optimisation of all processes in order to reduce costs.
- Reinforcement of the efficiency culture among employees, based on clear and measurable objectives.
- Sustainable activities based on products that may be recycled and on renewable materials.

The implementation of the strategy has already started which means that units of the Company have been developing detailed action plans based on those strategic initiatives.

Factors influencing the development of the Arctic Paper Group

Information on market trends

Supplies of fine paper

In Q1 2018 the Arctic Paper Group recorded an increased level of orders versus Q4 2017 by 3.3% and a decrease of orders versus the equivalent period of 2017 by 3.8%.

The data both for 2017 and prior periods does not include the facility in Mochenwangen where the activity was discontinued.
Source of data: Analysis by Arctic Paper

Paper prices

In Q1 2018 the average prices of high quality UWF paper increased by 9.5% while the prices of CWF paper increased by 11% versus equivalent prices of Q1 2017.

In the period from December 2017 to March 2018, the prices declared by manufacturers of uncoated wood-free paper (UWF) and coated wood-free paper (CWF) for selected markets: Germany, France, Spain, Italy and the UK, expressed in EUR and GBP, experienced similar increases: by 2.8% and 2.2% respectively

The prices invoiced by Arctic Paper in EUR for comparable products in the segment of uncoated wood-free paper (UWF) increased at the end of Q1 2018 by 9.7% versus the equivalent period of 2017 while in the segment of coated wood-free paper (CWF) the prices increased by 6%.

The average prices invoiced by Arctic Paper in 2018 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 2018, the pulp prices reached the level of: NBSK – USD 1092/ton and BHKP – USD 1030/ton. The average price of NBSK in Q1 2018 was higher by 29.4% compared to the equivalent period of the previous year while the price of BHKP was by 48.3% higher. The average pulp price in Q1 2018 was higher as compared to Q4 2017 by 10.8% for NBSK by 7.2% for BHKP.

The average cost of pulp per ton of the produced paper as calculated for the AP Group, expressed in PLN, in Q1 2018 increased by 5.5% compared to Q4 2017 and increased by 17.7% compared to Q1 2017. The share of pulp costs in the internal costs of paper sales in Q1 of the current year amounted to 59% and was higher compared to the level recorded in Q1 2017 (53%).

In Q1 2018, the AP Group used pulp in the production process in the following structure: BHKP 72%, NBSK 21% and other 7%.

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 analysis by Arctic Paper.

Currency exchange rates

The EUR/PLN exchange rate at the end of Q1 2018 amounted to 4.2085 and was higher by 0.9% than at the end of Q4 2017 and lower by 0.3% than at the end of Q1 2017. The average exchange rate in Q1 2018 was lower by 1.3% than in Q4 2017 and amounted to 4.1806, compared to 4.2337. The average exchange rate in Q1 2018 was by 3.3% lower than in Q1 2017.

The EUR/SEK exchange rate at the end of March 2018 was 10.2722 versus 9.8301 at the end of 2017, and 9.5492 at the end of Q1 2017 which was an appreciation of EUR to SEK by 4.5% and 7.6% respectively.

For this pair, the mean exchange rate in Q1 2018 was by 1.9% higher compared to Q4 2017. The mean exchange rate in Q1 2018 was 4.9% higher than in the corresponding period of 2017.

The changes mean a depreciation of SEK vis-a-vis EUR in Q1 2018 which had favourable impact on the Group's financial results, primarily with reference to the sales revenues generated by the Swedish factories that depend on prices in EUR.

At the end of Q1 2018, the USD/PLN rate recorded a decrease by 1.9% versus the end of Q4 2017 and amounted to 3.4139. In Q1 2018, the average exchange rate amounted to 3.4009 compared to 3.5955 in Q4 2017. That was a PLN appreciation to USD by 5.4%.

At the end of Q1 2018, the USD/SEK rate amounted to 8.3327 and was by 1.6% higher than at the end of 2017. The mean exchange rate in Q1 2018 amounted to 8.1136 which was a decrease by 2.4% compared to Q4 2017.

The changes of the USD/SEK exchange rates in Q1 2018 favourably affected the costs incurred in USD by the Swedish paper mills, in particular the costs of pulp. With reference to the Paper Mill in Kostrzyn, the average monthly USD/PLN exchange rate recorded a drop versus the equivalent rate from Q4 2017 which has favourably contributed to the pulp purchase costs in USD.

At the end of March 2018, the EUR/USD rate amounted to 1.2328 compared to 1.1981 at the end of Q4 2017 and to 1.0695 at the end of March 2017. In terms of percentage, that means an appreciation of EUR to USD by 2.9% versus Q4 2017 and an appreciation of the currency by 15.3% Q1 2017. In Q1 2018, the mean exchange rate of the pair amounted to 1.2294 compared to 1.1776 in Q4 2017 (+4.4%).

The depreciation of SEK versus EUR has positively affected the Group's financial results, mainly due to increased sales revenues generated in EUR and translated into SEK. The appreciating PLN versus USD in Q1 2018, positively affected the purchase prices of raw materials for the paper mill in Kostrzyn. SEK appreciating vis-a-vis USD positively affected the costs in the paper mills in Sweden.

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

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

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

- Changes in currency rates, in particular, the appreciation of PLN and SEK in relation to EUR and GBP, the appreciation of PLN in relation to SEK, and the depreciation of PLN and SEK in relation to USD, may have an adverse effect on the financial results. However, our Pulp Mills may benefit from the appreciation of USD in relation to SEK.

Risk factors

In Q1 2018 there were no material changes to the risk factors. Those were presented in detail in the annual report for 2017.

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 2018.

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

Managing and supervising persons	Number of shares or rights to shares as at 14.05.2018	Number of shares or rights to shares as at 09.04.2018	Change
Management Board			
Per Skoglund	20 000	10 000	10 000
Göran Eklund	-	-	-
Supervisory Board			
Per Lundeen	34 760	34 760	-
Thomas Onstad	6 223 658	6 223 658	-
Roger Mattsson	-	-	-
Maciej Georg	-	-	-
Mariusz Grendowicz	-	-	-

Information on sureties and guarantees

As at 31 March 2018, the Group reported:

— pledge on properties of Arctic Paper Grycksbo AB resulting from an FPG contract in favour of the mutual life insurance company PRI for SEK 50,000 thousand;
— contingent liability under a guarantee for FPG in favour of the mutual life insurance company PRI for SEK 1,445 thousand at Arctic Paper Grycksbo AB and for SEK 760 thousand at Arctic Paper Munkedals AB;
— pledge on properties of Arctic Paper Munkedals AB resulting from an FPG contract in favour of the mutual life insurance company PRI for SEK 50,000 thousand;
— a contingent liability of Arctic Paper Munkedals AB related to a surety for the obligations of Kalltorp Kraft HB in the amount of SEK 1,698 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;
— Pledges on shares in subsidiary companies in the Rottneros Group for SEK 566,000 thousand under loan agreements concluded with Danske Bank;
— pledge on 19,950,000 shares of Rottneros AB under loan agreements for EUR 10,000 thousand granted by Arctic Paper Finance AB to Arctic Paper S.A. and EUR 10,000 thousand granted by Mr Thomas Onstad to Arctic Paper Finance AB.

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

1. under Polish law – Collateral Documents establishing the following Collateral:
   › financial and registered pledges on all shares and interests registered in Poland, owned by the Company and the Guarantors, in companies in the Company Group (with the exception of Rottneros AB, Arctic Paper Mochenwangen GmbH and Arctic Paper Investment GmbH), except the shares in the Company;
   › mortgages on all properties located in Poland and owned by the Company and the Guarantors;

- registered pledges on all material rights and movable assets owned by the Company and the Guarantors, constituting an organised part of enterprise, located in Poland (with the exception of the assets listed in the Loan Agreement);
- assignment of (existing and future) insurance policies covering the assets of the Company and the Guarantors (with the exception of insurance policies listed in the Loan Agreement);
- declaration by the Company and the Guarantors on voluntary submission to enforcement, in the form of a notary deed;
- financial pledges and registered pledges on the bank accounts of the Company and the Guarantors, registered in Poland;
- powers of attorney to Polish bank accounts of the Company and the Guarantors, registered in Poland;
- subordination of the debt held by intragroup lenders (specified in the Intercreditor Agreement).

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

Material off-balance sheet items

The information regarding off-balance sheet items is disclosed in the 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	14 May 2018	
Member of the Management Board Financial Director	Göran Eklund	14 May 2018	

Abbreviated quarterly consolidated financial statements

for the period of three months ended on 31 March 2018

Selected consolidated financial data

	For the period from 01.01.2018 to 31.03.2018 thousand PLN	For the period from 01.01.2017 to 31.03.2017 thousand PLN	For the period from 01.01.2018 to 31.03.2018 thousand EUR	For the period from 01.01.2017 to 31.03.2017 thousand EUR
Sales revenues	789 731	773 902	188 904	179 057
Operating profit (loss)	47 197	49 096	11 290	11 359
Gross profit (loss)	39 942	47 886	9 554	11 079
Net profit (loss) from continuing operations	29 398	38 962	7 032	9 015
Net profit (loss) for the period	28 494	36 814	6 816	8 518
Net profit (loss) for the financial year attributable to the shareholders of the Parent Entity	15 834	26 138	3 787	6 048
Net cash flows from operating activities	1 801	21 935	431	5 075
Net cash flows from investing activities	(41 710)	(30 872)	(9 977)	(7 143)
Net cash flows from financing activities	8 397	(18 124)	2 009	(4 193)
Change in cash and cash equivalents	(31 513)	(27 061)	(7 538)	(6 261)
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)	0,23	0,38	0,05	0,09
Diluted EPS (in PLN/EUR)	0,23	0,38	0,05	0,09
Mean PLN/EUR exchange rate*			4,1806	4,3221

	As at 31 March 2018 thousand PLN	As at 31 December 2017 thousand PLN	As at 31 March 2018 thousand EUR	As at 31 December 2017 thousand EUR
Assets	1 932 532	1 900 325	459 197	455 615
Long-term liabilities	557 086	531 128	132 372	127 341
Short-term liabilities	565 994	576 275	134 488	138 166
Equity	807 840	791 294	191 954	189 718
Share capital	69 288	69 288	16 464	16 612
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)	11,66	11,42	2,77	2,74
Diluted book value per share (in PLN/EUR)	11,66	11,42	2,77	2,74
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**	-	-	4,2085	4,1709

* - 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 Financial Statements

Consolidated profit and loss account

	3 months period ended 31 March 2018 (unaudited)	3 months period ended 31 March 2017 (revised)	Year ended 31 December 2017 (audited)
Continuing operations			
Revenues from sales of goods	789 731	773 902	2 952 806
Sales revenues	789 731	773 902	2 952 806
Costs of sales	(669 754)	(647 761)	(2 417 081)
Profit / (loss) on sales	119 976	126 140	535 725
Selling and distribution costs	(56 803)	(63 858)	(348 093)
Administrative expenses	(15 695)	(17 206)	(92 671)
Other operating income	11 818	12 936	43 654
Other operating expenses	(12 099)	(8 917)	(29 060)
Operating profit (loss)	47 197	49 096	109 555
Financial income	564	6 710	1 831
Financial expenses	(7 819)	(7 920)	(25 929)
Gross profit (loss)	39 942	47 886	85 458
Income tax	(10 544)	(8 924)	(14 829)
Net profit (loss) from continuing operations	29 398	38 962	70 629
Discontinued operations			
Profit (loss) for the period from discontinued operations	(904)	(2 148)	(5 637)
Net profit (loss) for the period	28 494	36 814	64 991
Attributable to:			
Equity holders of the parent	15 834	26 138	36 720
- profit (loss) from continuing operations	16 738	28 287	42 357
- profit (loss) from discontinued operations	(904)	(2 148)	(5 637)
Non-controlling interest	12 660	10 676	28 272
- profit (loss) from continuing operations	12 660	10 676	28 272
- profit (loss) from discontinued operations	-	-	-
	28 494	36 814	64 991
Earnings per share:			
– basic earnings from the profit/(loss) for the period attributable to the shareholders of the Parent Entity	0,23	0,38	0,53
– basic earnings profit/(loss) for the period from continuing operations attributable to the shareholders of the Parent Entity	0,24	0,41	0,61
– diluted earnings from the profit for the period attributable to the shareholders of the Parent Entity	0,23	0,38	0,53
– diluted earnings from the profit for from continuing operations attributable to the shareholders of the Parent Entity	0,24	0,41	0,61

Consolidated statement of total comprehensive income

	3-month period ended on 31 March 2018 (unaudited)	3-month period ended on 31 March 2017 (revised)	Year ended on 31 December 2017 (audited)
Net profit/(loss) for the reporting period	28 494	36 814	64 991
Items to be reclassified to profit/loss in future reporting periods:			
FX differences on translation of foreign operations	(18 693)	(25 449)	(48 581)
Measurement of financial instruments	8 265	(18 605)	3 244
Deferred income tax on the measurement of financial instruments	(1 519)	4 406	(958)
Items not to be reclassified to profit /loss in future reporting periods:			
Actuarial profit / (loss) for defined benefit plans	-	-	(5 343)
Deferred income tax on actuarial profit / (loss) relating to defined benefit plans	-	-	1 157
Other comprehensive income	(11 947)	(39 647)	(50 481)
Total comprehensive income	16 546	(2 833)	14 511
Total comprehensive income attributable to:			
The shareholders of the Parent Entity	10 744	1 966	5 785
Non-controlling interest	5 803	(4 799)	8 726

Consolidated balance sheet

	As at 31 March 2018 (unaudited)	As at 31 December 2017 (audited)	As at 31 March 2017 (revised)
ASSETS			
Fixed assets			
Tangible fixed assets	827 819	834 205	817 443
Investment properties	4 107	4 107	4 074
Intangible assets	52 892	51 108	49 693
Interests in joint ventures	954	988	884
Other financial assets	25 700	22 056	7 193
Other non-financial assets	1 476	1 513	1 481
Deferred income tax asset	29 469	32 387	20 915
	942 418	946 363	901 683
Current assets			
Inventories	344 704	350 996	326 857
Trade and other receivables	386 337	330 071	386 465
Corporate income tax receivables	8 083	6 687	8 940
Other financial assets	26 880	13 583	550
Other non-financial assets	15 450	7 151	16 819
Cash and cash equivalents	205 273	241 403	101 595
	986 726	949 891	841 226
Assets related to discontinued operations	3 388	4 071	12 339
TOTAL ASSETS	1 932 532	1 900 325	1 755 248
EQUITY AND LIABILITIES			
Equity			
Equity (attributable to the shareholders of the Parent Entity)			
Share capital	69 288	69 288	69 288
Reserve capital	447 638	447 638	447 638
Other reserves	131 545	125 997	147 726
FX differences on translation	(19 661)	(9 207)	3 747
Retained earnings / Accumulated losses	(46 531)	(62 364)	(101 404)
Cumulated other comprehensive income related to discontinued operations	(11 795)	(11 611)	(11 073)
	570 483	559 740	555 921
Non-controling interest	237 357	231 555	230 788
Total equity	807 840	791 294	786 710
Long-term liabilities			
Interest-bearing loans, borrowings and bonds	392 995	372 576	274 849
Provisions	99 513	101 554	86 280
Other financial liabilities	3 559	3 945	32 634
Deferred income tax liability	42 838	34 301	12 849
Accruals and deferred income	18 181	18 752	20 439
	557 086	531 128	427 051
Short-term liabilities			
Interest-bearing loans, borrowings and bonds	49 377	39 440	47 251
Provisions	4 507	4 667	-
Other financial liabilities	18 084	33 153	14 324
Trade and other payables	403 176	423 868	359 432
Income tax liability	260	570	196
Accruals and deferred income	90 589	74 576	100 154
	565 994	576 275	521 357
Liabilities directly related to the discontinued operations	1 611	1 626	20 129
TOTAL LIABILITIES	1 124 691	1 109 030	968 537
TOTAL EQUITY AND LIABILITIES	1 932 532	1 900 325	1 755 248

Additional notes to the quarterly abbreviated financial statements
provided on pages 47 to 67 constitute an integral part hereof

Consolidated cash flow statement

	3-month period ended on 31 March 2018 (unaudited)	3-month period ended on 31 March 2017 (revised)	Year ended on 31 December 2017 (audited)
Cash flows from operating activities			
Gross profit (loss) from continuing operations	39 942	47 886	85 458
Gross profit / (loss) from discontinued operations	(911)	(2 155)	(5 645)
Gross profit (loss)	39 031	45 731	79 813
Adjustments for:			
Depreciation/amortisation	23 990	26 402	111 073
FX gains / (loss)	2 777	(4 990)	(699)
Impairment of non-financial assets	-	-	23 761
Net interest and dividends	6 431	5 038	22 344
Profit / loss from investing activities	(99)	(131)	196
Increase / decrease in receivables and other non-financial assets	(64 759)	(54 528)	(9 227)
Change to inventories	(2 520)	22 299	(2 316)
Increase / decrease in liabilities except for loans and borrowings	(13 071)	(26 266)	42 711
Change in accruals and prepayments	15 643	4 125	(13 335)
Change in provisions	608	(999)	3 790
Income tax paid	(2 493)	(907)	1 363
CO2 emission rights	-	308	-
Certificates in cogeneration	(3 612)	5 665	5 601
Other	(127)	189	(3 480)
Net cash flows from operating activities	1 801	21 935	261 595
Cash flows from investing activities			
Disposal of tangible fixed assets and intangible assets	917	-	290
Purchase of tangible fixed assets and intangible assets	(32 985)	(30 872)	(181 448)
Other capital outflows / inflows	(9 642)	-	442
Net cash flows from investing activities	(41 710)	(30 872)	(180 715)
Cash flows from financing activities			
Change to overdraft facilities	41 681	(1 510)	(54 203)
Repayment of financial leasing liabilities	(23 023)	(1 054)	(4 070)
Inflows from other financial liabilities	2 096	-	-
Repayment of other financial liabilities	(0)	(12 095)	(17 066)
Inflows from loans and borrowings	-	8 640	228 611
Repayment of loans and borrowings	(6 404)	(6 585)	(75 824)
Interest paid	(5 953)	(5 520)	(22 891)
Dividend disbursed to non-controlling shareholders	-	-	(12 759)
Net cash flows from financing activities	8 397	(18 124)	41 798
Change in cash and cash equivalents	(31 513)	(27 061)	122 678
Net FX differences	(4 827)	(1 504)	(10 303)
Cash and cash equivalents at the beginning of the period	243 851	131 476	131 476
Cash and cash equivalents at the end of the period	207 512	102 912	243 851

Consolidated statement of changes in equity

	Attributable to the shareholders of the Parent Entity								
	Share capital	Reserve capital	FX differences on translation of foreign operations	Other reserves	Retained earnings / (Accumulated losses)	Cumulated other comprehensive income related to discontinued operations	Total	Non-controlling stake	Total equity
As at 01 January 2018	69 288	447 638	(9 207)	125 997	(62 364)	(11 611)	559 740	231 555	791 294
Net profit for the period	-	-	-	-	15 834	-	15 834	12 660	28 494
Other comprehensive income for the period	-	-	(10 638)	5 548	-	-	(5 090)	(6 858)	(11 947)
Total comprehensive income for the period	-	-	(10 638)	5 548	15 834	-	10 744	5 803	16 546
Discontinued operations	-	-	184	-	-	(184)	-	-	-
As at 31 March 2018 (unaudited)	69 288	447 638	(19 661)	131 545	(46 531)	(11 795)	570 483	237 357	807 840

	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 2017, of which (before revision):	69 288	447 638	19 798	156 975	(151 550)	(12 120)	530 028	212 874	742 902
Adjustment to the opening balance	-	-	(81)	-	24 008	-	23 927	22 714	46 641
As at 01 January 2017 (audited)	69 288	447 638	19 717	156 975	(127 542)	(12 120)	553 955	235 588	789 543
Net profit for the period	-	-	-	-	26 138	-	26 138	10 676	36 814
Other comprehensive income for the period	-	-	(14 923)	(9 249)	-	-	(24 172)	(15 475)	(39 647)
Total comprehensive income for the period	-	-	(14 923)	(9 249)	26 138	-	1 966	(4 799)	(2 833)
Discontinued operations	-	-	(1 047)	-	-	1 047	-	-	-
As at 31 March 2017 (unaudited)	69 288	447 638	3 747	147 726	(101 404)	(11 073)	555 921	230 788	786 710

	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 2017 (audited)	69 288	447 638	19 717	156 975	(127 542)	(12 120)	553 955	235 588	789 543
Net profit for the period	-	-	-	-	36 720	-	36 720	28 272	64 991
Other comprehensive income for the period	-	-	(28 415)	1 666	(4 186)	-	(30 935)	(19 546)	(50 481)
Total comprehensive income for the period	-	-	(28 415)	1 666	32 534	-	5 785	8 726	14 511
Profit distribution									-
Discontinued operations	-	-	(509)	-	-	509	-	-	-
Dividend distribution to non-controlling entities	-	-	-	-	-	-	-	(12 759)	(12 759)
As at 31 December 2017 (audited)	69 288	447 638	(9 207)	125 997	(62 364)	(11 611)	559 740	231 555	791 294

Selected standalone financial data

	Period from 01.01.2018 to 31.03.2018 PLN thousand	Period from 01.01.2017 to 31.03.2017 PLN thousand	Period from 01.01.2018 to 31.03.2018 EUR thousand	Period from 01.01.2017 to 31.03.2017 EUR thousand
Sales revenues	9 751	11 779	2 332	2 725
Operating profit (loss)	304	(543)	73	(126)
Gross profit (loss)	(4 545)	2 377	(1 087)	550
Net profit (loss) from continuing operations	(4 545)	2 377	(1 087)	550
Net profit (loss) for the period	(4 545)	2 377	(1 087)	550
Net cash flows from operating activities	(11 208)	6 062	(2 681)	1 403
Net cash flows from investing activities	(23)	(55)	(5)	(13)
Net cash flows from financing activities	2 998	(10 000)	717	(2 314)
Change in cash and cash equivalents	(8 233)	(3 993)	(1 969)	(924)
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)	(0,07)	0,03	(0,02)	0,01
Diluted EPS (in PLN/EUR)	(0,07)	0,03	(0,02)	0,01
Mean PLN/EUR exchange rate*			4,1806	4,3221

	As at 31 March 2018 PLN thousand	As at 31 December 2017 PLN thousand	As at 31 March 2018 EUR thousand	As at 31 December 2017 EUR thousand
Assets	975 606	944 061	231 818	226 345
Long-term liabilities	243 814	207 214	57 934	49 681
Short-term liabilities	204 739	205 815	48 649	49 345
Equity	527 054	531 032	125 236	127 318
Share capital	69 288	69 288	16 464	16 612
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)	7,61	7,66	1,81	1,84
Diluted book value per share (in PLN/EUR)	7,61	7,66	1,81	1,84
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**	-	-	4,2085	4,1709

* - 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 financial statements

Standalone profit and loss account

	3-month period ended on 31 March 2018 (unaudited)	3-month period ended on 31 March 2017 (unaudited)	Year ended on 31 December 2017 (audited)
Continuing operations			
Revenues from sales of services	8 524	10 571	40 799
Interest income on loans	1 227	1 208	4 420
Dividend income	-	-	48 412
Sales revenues	9 751	11 779	93 632
Interest expense to related entities and internal costs of sale of logistics services	(1 357)	(1 851)	(2 907)
Profit / (loss) on sales	8 394	9 928	90 725
Other operating income	(26)	4	524
Selling and distribution costs	(750)	(1 019)	(2 855)
Administrative expenses	(7 144)	(8 517)	(39 171)
Impairment charge to assets	(228)	-	(77 057)
Other operating expenses	58	(940)	(707)
Operating profit (loss)	304	(543)	(28 541)
Financial income	1 009	7 158	6 738
Financial expenses	(5 857)	(4 238)	(17 463)
Gross profit (loss)	(4 545)	2 377	(39 265)
Income tax	-	-	(396)
Net profit (loss) from continuing operations	(4 545)	2 377	(39 661)
Discontinued operations			
Profit (loss) for the period from discontinued operations	-	-	-
Net profit (loss) for the period	(4 545)	2 377	(39 661)
Earnings per share:			
– basic earnings from the profit (loss) for the period	(0,07)	0,03	(0,57)
– basic earnings from the profit (loss) from continuing operations for the period	(0,07)	0,03	(0,57)
– diluted earnings from the profit (loss) for the period	(0,07)	0,03	(0,57)
– diluted earnings from the profit (loss) from the continuing operations for the period	(0,07)	0,03	(0,57)

Standalone statement of total comprehensive income

	3-month period ended on 31 March 2018 (unaudited)	3-month period ended on 31 March 2017 (unaudited)	Year ended on 31 December 2017 (audited)
Net profit/(loss) for the reporting period	(4 545)	2 377	(39 662)
Items to be reclassified to profit/loss in future reporting periods:			
Measurement of financial instruments	233	611	744
FX differences on translation of foreign operations	334	437	60
Other comprehensive income (net)	567	1 048	804
Total comprehensive income	(3 978)	3 425	(38 858)

Standalone balance sheet

	As at 31 March 2018 (unaudited)	As at 31 December 2017 (audited)	As at 31 March 2017 (revised)
ASSETS			
Fixed assets			
Tangible fixed assets	1 816	1 940	1 868
Intangible assets	1 650	1 614	1 329
Shares in subsidiaries	678 313	678 313	741 673
Other financial assets	77 696	68 042	64 855
Other non-financial assets	1 205	1 248	1 213
	760 681	751 157	810 938
Current assets			
Trade and other receivables	85 916	75 118	57 629
Income tax receivables	233	168	213
Other financial assets	94 174	74 157	71 034
Other non-financial assets	5 892	6 518	6 187
Cash and cash equivalents	28 711	36 943	6 871
	214 925	192 904	141 934
TOTAL ASSETS	975 606	944 061	952 873
EQUITY AND LIABILITIES			
Equity			
Share capital	69 288	69 288	69 288
Reserve capital	447 641	447 641	447 641
Other reserves	116 533	116 300	148 811
FX differences on translation	1 501	1 167	787
Retained earnings / Accumulated losses	(107 909)	(103 364)	(93 076)
Total equity	527 054	531 032	573 451
Long-term liabilities			
Interest-bearing loans, borrowings and bonds	242 031	205 339	266 467
Provisions	1 497	1 551	1 298
Other financial liabilities	286	323	247
	243 814	207 214	268 011
Short-term liabilities			
Interest-bearing loans, borrowings and bonds	124 345	132 477	47 247
Trade payables	65 735	59 237	51 198
Other financial liabilities	4 632	4 258	3 950
Other short-term liabilities	1 658	1 631	2 071
Income tax liability	123	128	-
Accruals and deferred income	8 245	8 084	6 946
	204 739	205 815	111 411
TOTAL LIABILITIES	448 553	413 029	379 423
TOTAL EQUITY AND LIABILITIES	975 606	944 061	952 873

Standalone cash flow statement

	3-month period ended on 31 March 2018 (unaudited)	3-month period ended on 31 March 2017 (unaudited)	Year ended on 31 December 2017 (audited)
Cash flows from operating activities			
Gross profit (loss)	(4 545)	2 377	(39 266)
Adjustments for:			
Depreciation/amortisation	212	109	464
FX gains / (loss)	710	437	(4 195)
Impairment of assets	-	-	75 236
Net interest and dividends	4 167	3 415	14 474
Increase / decrease in receivables and other non-financial assets	(10 129)	19 690	1 771
Increase / decrease in liabilities except for loans and borrowings and other financial liabilities	6 525	(26 913)	(14 675)
Change in accruals and prepayments	160	1 890	3 295
Change in provisions	(53)	(59)	194
Income tax paid	(69)	158	(268)
Change to liabilities due to cash-pooling	20 613	-	82 978
Increase / decrease of loans granted to subsidiaries	(29 671)	4 348	(4 850)
Other	871	611	(869)
Net cash flows from operating activities	**(11 208)**	**6 062**	**114 289**
Cash flows from investing activities			
Disposal of tangible fixed assets and intangible assets	16	-	38
Purchase of tangible fixed assets and intangible assets	(39)	(55)	(745)
Increase of interests in subsidiaries	-	-	(11 875)
Net cash flows from investing activities	**(23)**	**(55)**	**(12 582)**
Cash flows from financing activities			
Repayment of leasing liabilities	(71)	-	(58)
Borrowings received	3 850		16 216
Repayment of loan liabilities	(6 476)	(6 585)	(30 575)
Change of balance of overdrafts	6 644	-	(48 023)
Interest paid	(949)	(3 415)	(13 187)
Net cash flows from financing activities	**2 998**	**(10 000)**	**(75 628)**
Change in cash and cash equivalents	(8 233)	(3 993)	26 080
Cash and cash equivalents at the beginning of the period	36 942	10 863	10 863
Cash and cash equivalents at the end of the period	**28 710**	**6 871**	**36 942**

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 2018	69 288	447 641	1 167	116 300	(103 364)	531 032
FX differences on translation	-	-	334	-	-	334
Net profit / (loss) for the period	-	-	-	-	(4 545)	(4 545)
Other comprehensive income for the period				233		233
Total comprehensive income for the period	-	-	334	233	(4 545)	(3 978)
As at 31 March 2018 (unaudited)	69 288	447 641	1 501	116 533	(107 909)	527 054

	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	(95 452)	570 026
FX differences on translation	-	-	437	-	-	437
Net profit for the period					2 377	2 377
Other comprehensive income	-	-	-	611	-	611
Total comprehensive income for the period	-	-	437	611	2 377	1 048
As at 31 March 2017 (unaudited)	69 288	447 641	787	148 811	(93 076)	573 451

	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	(95 452)	570 026
Net profit for the period	-	-	-	-	(39 662)	(39 662)
Other comprehensive income for the period	-	-	817	744	-	1 561
Total comprehensive income for the period	-	-	817	744	(39 662)	(38 101)
Settlement of the tax group in Sweden	-	-	-	-	(894)	(894)
Profit distribution	-	-	-	(32 644)	32 644	-
As at 31 December 2017 (audited)	69 288	447 641	1 167	116 300	(103 364)	531 032

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. Our Paper Mills are located in Poland and Sweden, and have total production capacity of over 700,000 tons of paper per year. 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 2018 amounted to PLN 790 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 Company has a foreign branch in Göteborg, Sweden.

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 2018 and include comparative data for the period of first three months ended on 31 March 2017 as well as for the twelve month period ended on 31 December 2017.

The abbreviated quarterly consolidated financial statements of the Company comprise also balance sheet as on 31 March 2018 and include comparative data as on 31 December 2017 and 31 March 2017.

1.1. Business activities

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

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

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

1.2. Shareholding structure

Nemus Holding AB, a company under Swedish law (a company owned indirectly by Mr Thomas Onstad), is the majority shareholder of Arctic Paper S.A., holding (as at 31 March 2018) 40,381,449 shares of our Company, which constitutes 58.28% of its share capital and corresponds to 58.28% of the total number of votes at General Meetings. Thus Nemus Holding AB is the parent entity of the Issuer.

Additionally, Mr Thomas Onstad, an indirect shareholder of Nemus Holding AB, holds directly 6,223,658 shares representing 8.98% of the total number of shares in the Company, and via another entity – 600,000 shares accounting for 0.87% of the total number of shares of the Issuer. Mr Thomas Onstad's total direct and indirect holding in the capital of Arctic Paper S.A. as at 31 March 2018 was 68.13% and has not changed until the date of publication hereof.

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	Group's interest in the equity of the subsidiary entities as at		
			14 May 2018	31 March 2018	31 December 2017
Arctic Paper Kostrzyn S.A.	Poland, Fabryczna 1, 66-470 Kostrzyn nad Odrą	Paper production	100%	100%	100%
Arctic Paper Munkedals AB	Sweden, SE 455 81 Munkedal	Paper production	100%	100%	100%
Arctic Paper Mochenwangen GmbH	Germany, Fabrikstrasse 62, DE-882, 84 Wolpertswende	Paper production	99,74%	99,74%	99,74%
Arctic Paper Grycksbo AB	Sweden, Box 1, SE 790 20 Grycksbo	Paper production	100%	100%	100%
Arctic Paper UK Limited	Great Britain, Quadrant House, 47 Croydon Road, Caterham, Surrey	Trading company	100%	100%	100%
Arctic Paper Baltic States SIA	Latvia, K. Vardemara iela 33-20, Riga LV-1010	Trading company	100%	100%	100%
Arctic Paper Deutschland GmbH	Germany, Am Sandtorkai 72, 20457 Hamburg	Trading company	100%	100%	100%
Arctic Paper Benelux S.A.	Belgium,Ophemstraat 24 B-3050 Oud-Haverlee	Trading company	100%	100%	100%
Arctic Paper Schweiz AG	Switzerland, Technoparkstrasse 1, 8005 Zurich	Trading company	100%	100%	100%
Arctic Paper Italia srl	Italy, Via Cavriana 7, 20 134 Milano	Trading company	100%	100%	100%
Arctic Paper Danmark A/S	Denmark, Korskildelund 6 DK-2670 Greve	Trading company	100%	100%	100%
Arctic Paper France SAS	France, 43 rue de la Breche aux Loups, 75012 Paris	Trading company	100%	100%	100%
Arctic Paper Espana SL	Spain, Avenida Diagonal 472-474, 9-1 Barcelona	Trading company	100%	100%	100%
Arctic Paper Papierhandels GmbH	Austria, Hainborgerstrasse 34A, A-1030 Wien	Trading company	100%	100%	100%
Arctic Paper Polska Sp. z o.o.	Poland, Okrężna 9, 02-916 Warsaw	Trading company	100%	100%	100%
Arctic Paper Norge AS	Norway, Eikenga 11-15, NO-0579 Oslo	Trading company	100%	100%	100%
Arctic Paper Sverige AB	Sweden, SE 455 81 Munkedal	Trading company	100%	100%	100%
Arctic Paper East Sp. z o.o.	Poland, Fabryczna 1, 66-470 Kostrzyn nad Odrą	Trading company	100%	100%	100%
Arctic Paper Investment GmbH *	Germany, Fabrikstrasse 62, DE-882, 84 Wolpertswende	Activities of holding companies	100%	100%	100%
Arctic Paper Finance AB	Sweden, Box 383, 401 26 Göteborg	Activities of holding companies	100%	100%	100%

Unit	Registered office	Group profile	Group's interest in the equity of the subsidiary entities as at		
			14 May 2018	31 March 2018	31 December 2017
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 2018 and as well as on the day hereof, the percentage of voting rights held by the Group in its subsidiaries corresponded to the percentage held in the share capital of those entities. All subsidiaries within the Group are consolidated under the full method from the day of obtaining control by the Group and cease to be consolidated from the day the control has been transferred out of the Group.

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

3. Management and supervisory bodies

3.1. Management Board of the Parent Company

As at 31 March 2018, the Parent Company's Management Board was composed of:

— Per Skoglund – President of the Management Board appointed on 27 April 2016 (appointed as a Member of the Management Board on 27 April 2011);
— Göran Eklund – Member of the Management Board appointed on 30 August 2017.

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

3.2. Supervisory Board of the Parent Company

As at 31 March 2018, 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;
— Maciej Georg – Member of the Supervisory Board appointed on 14 September 2016;

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

3.3. Audit Committee of the Parent Company

As at 31 March 2018, the Parent Company's Audit Committee was composed of:

– Mariusz Glendowicz – Chairman of the Audit Committee appointed on 18 September 2017 (appointed as a Member of the Audit Committee on 20 February 2013).
– Rune Mattsson – Member of the Audit Committee appointed on 23 June 2016;
– 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 14 May 2018.

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 2017.

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 2017, with the following exceptions:

— IFRS 15 Revenue from Contracts with Customers (issued on 28 May 2014), including amendments to IFRS 15 Effective date of IFRS 15 (issued on 11 September 2015) effective for financial years beginning on or after 1 January 2018,
— Clarification to IFRS 15 Revenue from Contracts with Customers (issued on 12 April 2016) – effective for financial years beginning on or after 1 January 2018,
The Management Board made an analysis of the agreements and because of their nature and lack of non-standard provisions in the agreements, the amendments to IFRS 15 will not have a significant impact on the results of the Group (details are presented in note 8.1 to the annual consolidated financial statements for 2017).

- IFRS 9 Financial Instruments (issued on 24 July 2014) – effective for financial years beginning on or after 1 January 2018, (details are presented in note 8.2 to the annual consolidated financial statements for 2017),
  The Management Board analysed the existing agreements and in view of their nature, the amendments to IFRS 9 had no material impact on the Group's results (details are presented in note 8.1 to the annual consolidated financial statements).

The Group has not decided to adopted 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 2018	As at 31 December 2017
USD	3,4139	3,4813
EUR	4,2085	4,1709
SEK	0,4097	0,4243
DKK	0,5646	0,5602
NOK	0,4361	0,4239
GBP	4,7974	4,7001
CHF	3,5812	3,5672

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

	01/01 - 31/03/2018	01/01 - 31/03/2017
USD	3,4009	4,0585
EUR	4,1806	4,3221
SEK	0,4192	0,4548
DKK	0,5614	0,5813
NOK	0,4338	0,4809
GBP	4,7327	5,0244
CHF	3,5875	4,0414

6.2. Data comparability and adjustments to previous years' errors

In order to verify the economic useful life for tangible fixed assets and intangible assets as at 31 December 2017, the Group decided to adjust the economic useful life periods for tangible fixed assets and intangible assets for the Rottneros Group to those applied by the Rottneros Group in a retrospective approach (earlier economic useful life periods had been based on estimates by experts who appraised the assets as of the day control was assumed over Rottneros AB which was not cohesive with the economic useful life period applied by the Rottneros` Group and thus the incorrect periods applied in the previous years were adjusted).

As a result, changes were made to the value of tangible fixed assets, depreciation costs and deferred tax for the comparative data for the period and as at 31 March 2017 versus the consolidated quarterly financial statements for the period ended on 31 March 2017.

As at 31 March 2017 the value of tangible fixed assets grew by PLN 61,974 thousand while the deferred income tax decreased by PLN 13,634 thousand and the equity increased by PLN 48,340 thousand, however the minority interests increased by PLN 23,541 thousand and the FX translation reserve decreased by PLN 1,200 thousand with the accumulated uncovered loss reduced by PLN 25,999 thousand. The change of economic useful life for tangible assets of the Rottneros Group resulted in a change of net profit for the period ended on 31 March 2017 by PLN 3,880 thousand as a result of a reduction to internal costs of sales by PLN 4,975 thousand and an increase of income tax by PLN 1,095 thousand.

Basic and diluted profit per share attributable to the shareholders of the parent entity for the period ended on 31 March 2017 grew from PLN 0.35 to PLN 0.38.

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 2018, for the year ended on 31 December 2017 and for the period of 3 months ended on 31 March 2017, covering the continuing operations, includes the financial results of three Paper Mills.

The Group identifies the following business segments:

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

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

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

3-month period ended on 31 March 2018 and on 31 March 2018

	Uncoated	Coated	Pulp	Other	Total	Eliminations	Total continuing operations
Revenues							
Sales to external customers	407 071	166 550	216 110	-	789 731	-	789 731
Sales between segments	-	6 009	10 683	8 524	25 216	(25 216)	-
Total segment revenues	407 071	172 559	226 792	8 524	814 946	(25 216)	789 731
Result of the segment							
EBITDA	38 232	(6 087)	39 825	(103)	71 868	(680)	71 187
Interest income	150	5	0	1 849	2 004	(1 724)	280
Interest expense	(882)	(826)	(2 096)	(4 167)	(7 972)	1 271	(6 701)
Depreciation/amortisation	(14 092)	(2 523)	(7 252)	(123)	(23 990)	-	(23 990)
Impairment of fixed assets	-	-	-	-	-	-	-
FX gains and other financial income	1 984	97	2 515	854	5 450	(5 166)	284
FX losses and other financial expenses	(1 206)	(2 739)	-	(2 160)	(6 105)	4 986	(1 118)
Gross profit	24 186	(12 072)	32 992	(3 850)	41 256	(1 313)	39 942
Assets of the segment	942 735	226 478	808 866	461 561	2 439 641	(540 920)	1 898 721
Liabilities of the segment	436 172	345 640	306 865	448 552	1 537 229	(456 987)	1 080 242
Capital expenditures	(16 132)	(3 848)	(12 965)	(39)	(32 985)	-	(32 985)
Interests in joint ventures	954	-	-	-	954	-	954

— Revenues from inter-segment transactions are eliminated on consolidation.

— The results of the segments do not cover financial income (PLN 564 thousand of which PLN 280 thousand is interest income) and financial expenses (PLN 7,819 thousand of which PLN 6,701 thousand is interest expense), depreciation/amortisation (PLN 23,990 thousand) and income tax liability (PLN 10,544 thousand). However, segment results include inter-segment sales profit (PLN 680 thousand).

— Assets and liabilities of segments do not contain any deferred income tax (asset: PLN 29,469 thousand), provision: PLN - 42,838 thousand), since those items are managed at the Group level. Segment assets do not also include investments in companies operating within the Group.

The table below presents data concerning revenues and profit as well as certain assets and liabilities by segment of the Group for 3-month period ended on 31 March 2017 (transformed data) and as at 31 December 2017.

3-month period ended on 31 March 2017 (revised data) and as at 31 December 2017

	Uncoated	Coated	Pulp	Other	Total	Eliminations	Total continuing operations
Revenues							
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)	-
Total segment revenues	404 559	176 665	214 646	10 641	806 511	(32 609)	773 902
Result of the segment							
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)	(6 129)	(109)	(26 402)	-	(26 402)
Impairment of fixed assets	-	-		-	-		-
FX gains and other financial	584	648	-	7 120	8 352	(1 742)	6 611
FX losses and other financial	(1 034)	(464)	(1 819)	(1 198)	(4 515)	1 696	(2 819)
Gross profit	21 959	(5 498)	28 433	3 853	48 746	(861)	47 886
Assets of the segment	915 148	225 945	801 328	429 320	2 371 742	(508 863)	1 862 878
Liabilities of the segment	430 337	337 764	318 225	413 028	1 499 353	(426 250)	1 073 104
Capital expenditures	(10 494)	(1 279)	(19 100)	-	(30 872)	-	(30 872)
Interests in joint ventures	988	-	-	-	988	-	988

— 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 26,402 thousand) and income tax liability (PLN 8,924 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 32,387 thousand), provision: PLN - 34,301 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 2017 and as at 31 December 2017.

12-month period ended on 31 December 2017 and on 31 December 2017

	Uncoated	Coated	Pulp	Other	Total	Eliminations	Total continuing opetations
Revenues							
Sales to external customers	1 508 586	664 952	779 267	-	2 952 806	-	2 952 806
Sales between segments	-	20 752	66 152	40 892	127 796	(127 796)	-
Total segment revenues	1 508 586	685 704	845 419	40 892	3 080 602	(127 796)	2 952 806
Result of the segment							
EBITDA	130 427	1 484	113 636	(1 560)	243 988	400	244 388
Interest income	491	80	0	6 458	7 030	(6 487)	543
Interest expense	(3 682)	(4 296)	(4 864)	(14 744)	(27 586)	4 609	(22 977)
Depreciation/amortisation	(57 608)	(22 845)	(30 156)	(464)	(111 073)	-	(111 073)
Impairment of fixed assets	-	(23 761)	-	-	(23 761)	-	(23 761)
FX gains and other financial income	4 744	1 122	884	55 030	61 781	(60 493)	1 288
FX losses and other financial expenses	(5 955)	(1 758)	(4 422)	(2 719)	(14 854)	11 902	(2 952)
Profit before tax	68 417	(49 973)	75 080	42 002	135 526	(50 069)	85 458
Segment assets	915 148	225 945	801 328	429 320	2 371 742	(508 863)	1 862 878
Segment liabilities	430 337	337 764	318 225	413 028	1 499 353	(426 250)	1 073 104
Capital expenditures	(68 026)	(5 447)	(107 666)	(308)	(181 447)	-	(181 447)
Interests in joint ventures	988	-	-	-	988	-	988

- Revenues from inter-segment transactions are eliminated on consolidation.
- The results of the segments do not cover financial income (PLN 1,831 thousand of which PLN 543 thousand is interest income) and financial expenses (PLN 25,929 thousand of which PLN 22,977 thousand is interest expense), depreciation/amortisation (PLN 111,073 thousand) impairment losses on fixed assets (PLN 23,761 thousand) and income tax liability (PLN 14,829 thousand). However, segment result includes inter-segment loss (PLN 400 thousand).
- Assets and liabilities of segments do not contain any deferred income tax (asset: PLN 32,387 thousand), provision: PLN 34,301 thousand), since those items are managed at the Group level. Segment assets do not also include investments in companies operating in the Group.

9. Fixed assets classified as available for sale, discontinued operations

On 28 July 2015, the Management Board of Arctic Paper S.A. announced that it had started an active search for an investor for the Arctic Paper Mochenwangen facility and in parallel it analysed the possibility to take measures for further reduction of losses generated by the Paper Mill, including those 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 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 2018, 31 December 2017 and 31 March 2017 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 2018 and on 31 March 2017 and for the year ended on 31 December 2017.

As at 31 December 2017, the Management Board decided that the provision for retirement leaves would not be sold as part of the discontinued activities and as a result it was excluded from liabilities related directly to the discontinued activities as at 31 December 2017 and 31 March 2018.

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

Revenues and expenses of discontinued operations	3-month period ended on 31 March 2018 (unaudited)	3-month period ended on 31 March 2017 (unaudited)
Revenues from sales of goods	-	-
Costs of sales	-	-
Profit / (loss) on sales	-	-
Selling and distribution costs	-	-
Administrative expenses	(1 133)	(2 432)
Other operating income	222	303
Other operating expenses	-	(17)
Operating profit (loss)	(911)	(2 147)
Financial income	-	-
Financial expenses	-	(9)
Gross profit (loss)	(911)	(2 155)
Income tax	7	7
Profit (loss) from discontinued operations	(904)	(2 148)
Cumulated other comprehensive income related to discontinued operations		
FX differences on translation of foreign operations	(184)	1 047
Actuarial profit/loss	-	-
	(184)	1 047
Earnings per share:		
– basic profit/(loss) from discontinued operations attributable to the shareholders of the Parent Entity	(0,01)	(0,03)
– diluted profit from discontinued operations attributable to the shareholders of the Parent Entity	(0,01)	(0,03)

Net assets related to discontinued operations	As at 31 March 2018 (unaudited)	As at 31 December 2017 (audited)
Assets related to discontinued operations		
Inventories and other tangible assets	21	21
Trade and other receivables	1 006	1 293
Corporate income tax receivables	122	121
Other non-financial assets	-	-
Other financial assets	-	188
Cash and cash equivalents	2 239	2 448
	3 388	4 071
Liabilities directly related to the discontinued operations		
Provisions	846	838
Other financial liabilities	-	-
Trade and other payables	492	517
Income tax liability	101	100
Accruals and deferred income	173	171
	1 611	1 626
Net assets related to discontinued operations	1 777	2 445

Cash flows related to discontinued operations	3-month period ended on 31 March 2018	3-month period ended on 31 March 2017
Net cash flows from operating activities	(230)	59
Net cash flows from investing activities	-	-
Net cash flows from financing activities	-	-
Increase / (decrease) in cash and cash equivalents	(230)	59
Net FX differences	21	(62)
Cash and cash equivalents at the beginning of the period	2 448	1 320
Cash and cash equivalents at the end of the period	2 239	1 317

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 2017.

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 2018, the General Meeting did not decide on any distribution of profit and dividend disbursement.

On 9 April 2018, the Management Board of Arctic Paper S.A. approved a resolution to submit a recommendation to the Company’s Annual General Meeting to disburse dividend to the shareholders from net profit retained in the Company's reserve capital of PLN 13,857,556.60 or PLN 0.20 per share;

On 20 April 2018, the Company’s Supervisory Board expressed its positive opinion on the recommendation of the Management Board. The final decision on dividend disbursement and loss coverage for 2017 will be taken by the General Meeting.

11. Earnings per share

Basic earnings per share are established by dividing the net profit/(loss) or net profit/(loss) from continued 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 2018 (unaudited)	3-month period ended on 31 March 2017 (revised)
Net profit (loss) for the period from continuing operations attributable to equity holders of the parent	16 738	28 287
Profit (loss) for the period from discontinued operations attributable to equity holders of the parent	(904)	(2 148)
Net profit (loss) for the period attributable to equity holders of the parent	15 834	26 138
Number of shares - serie A	50 000	50 000
Number of shares - serie B	44 253 500	44 253 500
Number of shares - serie C	8 100 000	8 100 000
Number of shares - serie E	3 000 000	3 000 000
Number of shares - serie F	13 884 283	13 884 283
Total number of shares (in thousand)	69 287 783	69 287 783
Weighted average number of shares	69 287 783	69 287 783
Weighted average diluted number of shares	69 287 783	69 287 783
Profit/(Loss) per share (in PLN)		
– basic from the profit (loss) for the period attributable to equity holders of the parent	0,23	0,38
– basic from the profit (loss) from continuing operations attributable to equity holders of the parent	0,24	0,41
Diluted profit/(loss) per share (in PLN)		-
– from the profit (loss) for the period attributable to equity holders of the parent	0,23	0,38
– from the profit (loss) from continuing operations attributable to equity holders of the parent	0,24	0,41

12. Interest-bearing bank loans and borrowings and lease contracts

In the period covered with these financial statements, the Group partly repaid its term loan under the loan agreement of 9 September 2016 with a bank consortium of PLN 6,404 thousand and the Group increased its debt under overdraft facilities to the above consortium of banks by PLN 41,687 thousand.

The other changes to loans and borrowings as at 31 March 2018, compared to 31 December 2017 result mainly from balance sheet evaluation and payment of interest accrued as at 31 December 2017 and paid in Q1 2018.

The detailed terms and conditions of bond issues are provided in the consolidated financial statements for the year ended on 31 December 2017, note 32.2.

On 7 January 2018, Arctic Paper SA granted a loan to its subsidiary Arctic Paper Grycksbo AB of EUR 5.56 M to cover repayment under lease contracts with Svenska Handelsbanken AB. The Company requested the existing consortium of financing banks (Bank Zachodni WBK S.A. and Bank BGŻ BNP Paribas S.A.) for approval for the Company to contract an additional short-term loan up to PLN 25,820 thousand to be granted as an additional tranche under the loan agreement of 9 September 2016 in order to finance or re-finance repayment of lease debt by Arctic Paper Grycksbo AB to Svenska Handelsbanken AB. The Meeting of Bondholders agreed to contract such financing on 20 February 2018. Now the Company is collecting all documents required for the new loan tranche.

13. Equity securities

Share capital	As at 31 March 2018 (unaudited)	As at 31 December 2017 (audited)
series A ordinary shares of the nominal value of PLN 1 each	50	50
series B ordinary shares of the nominal value of PLN 1 each	44 254	44 254
series C ordinary shares of the nominal value of PLN 1 each	8 100	8 100
series E ordinary shares of the nominal value of PLN 1 each	3 000	3 000
series F ordinary shares of the nominal value of PLN 1 each	13 884	13 884
	69 288	69 288

	Registration date of capital increase	Volume	Value in PLN
Ordinary issued and fully paid-up shares			
Issued on 30 April 2008	28.05.2008	50 000	50 000
Issued on 12 September 2008	12.09.2008	44 253 468	44 253 468
Issued on 20 April 2009	01.06.2009	32	32
Issued on 30 July 2009	12.11.2009	8 100 000	8 100 000
Issued on 01 March 2010	17.03.2010	3 000 000	3 000 000
Issued on 20 December 2012	09.01.2013	10 740 983	10 740 983
Issued on 10 January 2013	29.01.2013	283 947	283 947
Issued on 11 February 2013	18.03.2013	2 133 100	2 133 100
Issued on 06 March 2013	22.03.2013	726 253	726 253
As at 31 March 2018 (unaudited)		69 287 783	69 287 783

14. Financial instruments

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

14.1. Hedge accounting

In order to reduce the volatility of the projected cash flows related to FX risk, the Group companies use FX risk hedging based on the use of derivatives related to the FX market. Those in particular include forward term contracts. Additionally, in order to mitigate the volatility of future energy prices, the Paper Mills and Pulp Mills in Sweden apply forward contracts for the purchase of electricity. Arctic Paper 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 2018, 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,
— the Companies of the Rottneros Group designated for cash flow hedge accounting the FX forward derivatives for the sale of pulp in order to hedge the sale prices of pulp in SEK.

14.1.1. Cash flow hedges

As at 31 March 2018, the Group's cash flows were hedged with forward FX contracts, forward contracts for purchases of electricity, forward contracts for sales of pulp, interest rate SWAPs.

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

The table below presents detailed information concerning the hedging relationship in the cash flow hedge accounting regarding the 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	2 018
Maturity date	subject to contract; by 11.05.2018
Hedged amount	EUR 3.0 million
Term exchange rate	10.03 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	2 018
Maturity date	subject to contract; by 01.06.2018
Hedged amount	USD 16.0 million
Term exchange rate	8.16 SEK/USD

Hedge accounting of cash flows from sales of pulp

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

Type of hedge	Cash flow hedge related to sales of pulp
Hedged position	The hedged position is a part of highly likely future cash inflows for pulp sales
Hedging instruments	Forward contracts are used as the hedging item wherein the Company agrees to sell pulp for SEK
Contract parameters:	
Contract conclusion date	2017-2018
Maturity date	subject to contract; by 31.12.2018
Hedged quantity of pulp	34,500 tons
Term price	SEK 7,311/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 01.01.2015
Maturity date	individually per contract; by 31.12.2021
Hedged quantity of electricity	1.345.000 MWh
Term price	from 16.50 to 30.70 EUR/MWh

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

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

Type of hedge	Hedge of cash flows related to variable interest rate on the EUR long-term loan
Hedged position	Future EUR interest flows on EUR loan calculated on the basis of 6M EURIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in EUR on the EUR loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	21.11.2016
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 million.

Type of hedge	Hedge of cash flows related to variable interest rate on the EUR long-term loan
Hedged position	Future EUR interest flows on EUR loan calculated on the basis of 6M EURIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in EUR on the EUR loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	18.07.2017
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 3,986 thousand.

Type of hedge	Hedge of cash flows related to variable interest rate on the EUR long-term loan
Hedged position	Future EUR interest flows on EUR loan calculated on the basis of 6M EURIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in EUR on the EUR loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	21.11.2016
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 million.

Type of hedge	Hedge of cash flows related to variable interest rate on the EUR long-term revolving credit facility
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	21.11.2016
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 million.

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

Type of hedge	Hedge of cash flows related to variable interest rate on the PLN long-term loan
Hedged position	Future PLN interest flows on PLN loan calculated on the basis of 6M WIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in PLN on the PLN loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	21.11.2016
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 PLN 11.5 million.

Type of hedge	Hedge of cash flows related to variable interest rate on the PLN long-term revolving credit facility
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	21.11.2016
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 million.

Type of hedge	Hedge of cash flows related to variable interest rate on the PLN bonds
Hedged position	Future PLN interest flows in PLN loan calculated on the basis of interest payments on PLN bonds at 6M WIBOR
Hedging instruments	The hedging item is a SWAP transaction under which the Company agreed to pay interest in PLN on the PLN bonds on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	21.11.2016
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 million.

Type of hedge	The right to reduce cash flows under payment of interest due to decrease of EURIBOR below 0%
Hedged position	The hedged item are future EUR interest flows in EUR related to a loan in EUR calculated on the basis of 6M EURIBOR
Hedging instruments	The hedging item is a floor option under which the Company acquires the right to pay interest in EUR on the basis of EURIBOR below 0%
Contract parameters:	
Contract conclusion date	21.11.2016
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 million.

Type of hedge	The right to reduce cash flows under payment of interest due to decrease of EURIBOR below 0%
Hedged position	The hedged item are future EUR interest flows in EUR related to a loan in EUR calculated on the basis of 6M EURIBOR
Hedging instruments	The hedging item is a floor option under which the Company acquires the right to pay interest in EUR on the basis of EURIBOR below 0%
Contract parameters:	
Contract conclusion date	18.07.2017
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 3,986 thousand.

The table below presents the fair value of hedging instruments in cash flow hedge accounting as at 31 March 2018 and the comparative data:

	As at 31 March 2018		As at 31 December 2017	
	(unaudited)	(unaudited)	(audited)	(audited)
	Assets	Equity and Liabilities	Assets	Equity and Liabilities
FX forward	-	1 639	849	1 170
Forward on pulp sales	-	11 472	-	3 394
SWAP	-	3 426	-	3 604
Floor option	-	-	-	370
Forward for electricity	36 115	-	21 065	-
Total hedging derivative instruments	**36 115**	**16 536**	**21 914**	**8 539**

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 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 2017 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 2017, there have been no significant changes to the objectives and policies of capital management.

17. Contingent liabilities and contingent assets

As at 31 March 2018, the Capital Group reported:

— contingent liability under a guarantee for FPG in favour of the mutual life insurance company PRI for SEK 1,445 thousand (PLN 592 thousand) at Arctic Paper Grycksbo AB and for SEK 760 thousand (PLN 311 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 1,698 thousand (PLN 695 thousand);
— a bank guarantee in favour of Skatteverket Ludvika for SEK 135 thousand (PLN 55 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 period to exercise rights to the issue lasted from 1 January 2008 to 31 December 2012.

New allocations cover the period from 1 January 2013 to 31 December 2020.

The table below specifies the allocation for 2013-2020 and the usage of the rights to the issue by each entity in 2013-2017 and in Q1 2018.

(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	87 652	-	-
Issue	(150 577)	(147 950)	(162 467)	(170 696)	(142 784)	(38 536)		
Purchased quantity	-	-	-	-	-	-		
Sold quantity	-	-	-	-	-	-		
Unused quantity	306 448	263 932	203 917	133 061	87 652	146 050		

(in tons) for Arctic Paper Munkdals AB	2013	2014	2015	2016	2017	2018	2019	2020
Allocation*	44 238	43 470	42 692	41 907	41 113	40 311	39 499	38 685
Unused quantity from previous years	24 305	67 262	107 325	17 559	(11 572)	(10 619)		
Issue	(1 281)	(3 407)	(32 465)	(21 038)	(40 160)	(18 788)		
Purchased quantity	-	-	7	-	-	-		
Sold quantity	-	-	(100 000)	(50 000)	-	-		
Unused quantity	67 262	107 325	17 559	(11 572)	(10 619)	10 904		

(in tons) dla Arctic Paper Grycksbo AB	2013	2014	2015	2016	2017	2018	2019	2020
Allocation*	77 037	75 689	74 326	72 948	71 556	70 151	68 730	67 304
Unused quantity from previous years	69 411	111 448	734	60	1 008	2 564		
Issue	-	-	-	-	-	-		
Purchased quantity	-	-	-	-	-	-		
Sold quantity	(35 000)	(186 403)	(75 000)	(72 000)	(70 000)	(35 000)		
Unused quantity	111 448	734	60	1 008	2 564	37 715		

(in tons) for Rottneros' subsidiaries	2013	2014	2015	2016	2017	2018	2019	2020
Allocation*	30 681	30 484	29 938	29 387	28 830	28 268	27 698	27 127
Unused quantity from previous years	72 888	90 522	101 986	104 991	113 085	123 208		
Issue	(13 047)	(19 020)	(26 933)	(21 293)	(18 707)	(14 235)		
Purchased quantity	-	-	-	-	-	-		
Sold quantity	-	-	-	-	-	-		
Unused quantity	90 522	101 986	104 991	113 085	123 208	137 241		

* - 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 2017.

20.2. Operations in the Special Economic Zone

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

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

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

Based on the permit issued on 25 August 2006, the Company could benefit from the exemption until 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 above terms and conditions have been satisfied.

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

During the period from 25 August 2006 to 31 March 2018, the Company incurred eligible investment expenditures classified as (non-discounted) expenditure in KSSSE in the amount of PLN 227,102 thousand. During the period, the discounted amount of related public aid was PLN 62,964 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 5,875 thousand as at 31 March 2018.

21. Material events after the balance sheet date

After the balance sheet date, there were no 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	14 May 2018	
Member of the Management Board Financial Director	Göran Eklund	14 May 2018	

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