ARCTIC PAPER CAPITAL GROUP

Consolidated quarterly report
for Q1 2019

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Introduction

Information on the report

This Consolidated Quarterly Report for Q1 2019 was prepared in accordance with the Minister of Finance Regulation of 29 March 2018 on current and periodic disclosures made by issuers of securities and terms and conditions of classifying as equivalent information required by the law of non-member states (Journal of Laws of 2018, item 757) and a part of the condensed consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), in particular in accordance with International Accounting Standard No. 34 and IFRS approved by the EU (EU IFRS).

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 2018.

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

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

Definitions and abbreviations

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

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

Arctic Paper, AP SA, Company, Issuer, Parent 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 exclusion of 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 in Greve (Denmark);
	Arctic Paper France SA with its registered office in Paris (France);
	Arctic Paper Deutschland GmbH with its registered office in Hamburg (Germany);
	Arctic Paper 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 Finance AB with its registered office in Munkedal (Sweden);
	Arctic Paper Schweiz AG with its registered office in Derendingen (Switzerland);
	Arctic Paper UK Ltd with its registered office in London (UK);
	Arctic Paper East Sp. z o.o. with its registered office in Kostrzyn nad Odrą (Poland);
Arctic Paper Finance AB	Arctic Paper Finance AB with its registered office in Göteborg, Sweden;
Rottneros, Rottneros AB	Rottneros AB with its registered office in Sunne, Sweden;
Rottneros Group, Rottneros AB Group	Rottneros AB with its registered office in Sunne, Sweden; Rottneros Bruk AB with its registered office in Sunne, Sweden; Utansjo Bruk AB with its registered office in Harnösand, Sweden, Vallviks Bruk AB with its registered office in Söderhamn, Sweden; Rottneros Packaging AB with its registered office in Stockholm,

	Sweden; SIA Rottneros Baltic with its registered office in Ventspils, Latvia;
Pulp Mills	Rottneros Bruk AB in Sunne, Sweden; Vallviks Bruk AB with its registered office in Söderhamn, Sweden;
Rottneros Purchasing Office	SIA Rottneros Baltic with its registered office in Latvia
Office Kalltorp	Kalltorp Kraft Handelsbolaget with its registered office in Trollhattan, Sweden
Nemus Holding AB	Nemus Holding AB with its registered office in Göteborg, Sweden
Thomas Onstad	The Issuer's core shareholder, holding directly and indirectly over 50% of shares in Arctic Paper S.A.; a member of the Issuer's Supervisory Board
Management Board, Issuer's Management Board, Company's Management Board, Group's Management Board	Management Board of Arctic Paper S.A.
Supervisory Board, Issuer's Supervisory Board, Company's Supervisory Board, Group's Supervisory Board, SB	Supervisory Board of Arctic Paper S.A.
GM, General Meeting, Issuer's General Meeting, Company's General Meeting	General Meeting of Arctic Paper S.A.
EGM, Extraordinary General Meeting, Issuer's Extraordinary General Meeting, Company's Extraordinary General Meeting	Extraordinary General Meeting of Arctic Paper S.A.
Articles of Association, Issuer's Articles of Association, Company's Articles of Association	Articles of Association of Arctic Paper S.A.
SEZ	Kostrzyńsko-Słubicka Special Economic Zone
Court of Registration	District Court Poznań-Nowe Miasto i Wilda in Poznań
Warsaw Stock Exchange, WSE	Giełda Papierów Wartościowych w Warszawie Spółka Akcyjna
KDPW, Depository	Krajowy Depozyt Papierów Wartościowych Spółka Akcyjna with its registered office in Warsaw
PFSA	Polish Financial Supervision Authority
SFSA	Swedish Financial Supervisory Authority, equivalent to PFSA
NASDAQ in Stockholm, Nasdaq	Stock Exchange in Stockholm, Sweden
CEPI	Confederation of European Paper Industries
EURO-GRAPH	The European Association of Graphic Paper Producers
Eurostat	European Statistical Office
GUS	Central Statistical Office of Poland
NBSK	Northern Bleached Softwood Kraft
BHKP	Bleached Hardwood Kraft Pulp

Definitions of selected terms and financial indicators and abbreviations of currencies

Sales profit margin	Ratio of profit (loss) on sales to sales revenues from continuing operations
EBIT	Profit on continuing operating activity (Earnings Before Interest and Taxes)
EBIT profitability, operating profitability, operating profit margin	Ratio of operating profit (loss) to sales revenues from continuing operations
EBITDA	Operating profit from continuing operations plus depreciation and amortisation and impairment charges (Earnings Before Interest, Taxes, Depreciation and Amortisation)
EBITDA profitability, EBITDA margin	Ratio of operating profit plus depreciation and amortisation and impairment charges to sales revenues from continuing operations
Gross profit margin	Ratio of gross profit (loss) to sales revenues from continuing operations
Sales profitability ratio, net profit margin	Ratio of net profit (loss) to sales revenues
Return on equity, ROE	Ratio of net profit (loss) to equity income
Return on assets, ROA	Ratio of net profit (loss) to total assets
EPS	Earnings Per Share, ratio of net profit to the weighted average number of shares
BVPS	Book Value Per Share, Ratio of book value of equity to the number of shares
Debt-to-equity ratio	Ratio of total liabilities to equity
Equity-to-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
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 cash equivalents to short-term liabilities
DSI	Days Sales of Inventory, ratio of inventory to cost of sales multiplied by the number of days in the period
DSO	Days Sales Outstanding, ratio of trade receivables to sales revenues from continuing operations multiplied by the number of days in the period
DPO	Days Payable Outstanding, Ratio of trade payables to costs 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 endorsed by the European Union
GDP	Gross Domestic Product

Other definitions and abbreviations

Series A Shares	50,000 Shares of Arctic Paper S.A. A series ordinary shares of PLN 1 each.
Series B Shares	44,253,500 Shares of Arctic Paper S.A. B series ordinary shares of PLN 1 each.
Series C Shares	8,100,000 Shares of Arctic Paper S.A. C series ordinary shares of PLN 1 each.
Series E Shares	3,000,000 Shares of Arctic Paper S.A. E series ordinary shares of PLN 1 each.
Series F Shares	13,884,283 Shares of Arctic Paper S.A. F series 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.

Selected consolidated and standalone financial data

Selected consolidated financial data

	For the period from 01.01.2019 to 31.03.2019 PLN '000	For the period from 01.01.2018 to 31.03.2018 PLN '000	For the period from 01.01.2019 to 31.03.2019 EUR '000	For the period from 01.01.2018 to 31.03.2018 EUR '000
Sales revenues	820 572	788 054	190 685	188 503
Operating profit (loss)	59 070	47 519	13 727	11 367
Gross profit (loss)	51 836	40 264	12 046	9 631
Net profit (loss) from continuing operations	38 208	29 659	8 879	7 094
Net profit (loss) for the period	36 891	28 755	8 573	6 878
Net profit (loss) for the financial year attributable to the shareholders of the Parent Entity	14 252	16 095	3 312	3 850
Net cash flows from operating activities	59 761	1 801	13 887	431
Net cash flows from investing activities	(18 764)	(41 710)	(4 360)	(9 977)
Net cash flows from financing activities	(32 654)	8 397	(7 588)	2 009
Change in cash and cash equivalents	8 344	(31 513)	1 939	(7 538)
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)	0,21	0,23	0,05	0,06
Diluted EPS (in PLN/EUR)	0,21	0,23	0,05	0,06
Mean PLN/EUR exchange rate*			4,3033	4,1806

	As at 31 March 2018 PLN '000	As at 31 December 2018 PLN '000	As at 31 March 2018 EUR '000	As at 31 December 2018 EUR '000
Assets	2 122 045	2 156 174	493 350	501 436
Long-term liabilities	397 849	441 381	92 495	102 647
Short-term liabilities	866 255	850 245	201 394	197 731
Equity	854 328	861 193	198 621	200 277
Share capital	69 288	69 288	16 109	16 113
Number of ordinary shares	69 287 783	69 287 783	69 287 783	69 287 783
Diluted number of ordinary shares	69 287 783	69 287 783	69 287 783	69 287 783
Book value per share (in PLN/EUR)	12,33	12,43	2,87	2,89
Diluted book value per share (in PLN/EUR)	12,33	12,43	2,87	2,89
Declared or paid dividend (in PLN/EUR)	-	13 857 557	-	3 222 687,58
Declared or paid dividend per share (in PLN/EUR)	-	0,20	-	0,05
PLN/EUR exchange rate at the end of the period**	-	-	4,3013	4,3000

* - 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.

Selected standalone financial data

	Period from 01.01.2019 to 31.03.2019 PLN '000	Period from 01.01.2018 to 31.03.2018 PLN '000	Period from 01.01.2019 to 31.03.2019 EUR '000	Period from 01.01.2018 to 31.03.2018 EUR '000
Sales revenues	11 111	9 751	2 582	2 332
Operating profit (loss)	2 318	304	539	73
Gross profit (loss)	(1 794)	(4 545)	(417)	(1 087)
Net profit (loss) from continuing operations	(1 795)	(4 545)	(417)	(1 087)
Net profit (loss) for the period	(1 795)	(4 545)	(417)	(1 087)
Net cash flows from operating activities	26 110	(11 208)	6 068	(2 681)
Net cash flows from investing activities	182	(23)	42	(5)
Net cash flows from financing activities	(40 644)	2 998	(9 445)	717
Change in cash and cash equivalents	(14 352)	(8 233)	(3 335)	(1 969)
Weighted average number of ordinary shares	69 287 783	69 287 783	69 287 783	69 287 783
Diluted weighted average number of ordinary shares	69 287 783	69 287 783	69 287 783	69 287 783
EPS (in PLN/EUR)	(0,03)	(0,07)	(0,01)	(0,02)
Diluted EPS (in PLN/EUR)	(0,03)	(0,07)	(0,01)	(0,02)
Mean PLN/EUR exchange rate*			4,3033	4,1806

	As at 31 March 2019 PLN '000	As at 31 December 2018 PLN '000	As at 31 March 2019 EUR '000	As at 31 December 2018 EUR '000
Assets	928 436	992 611	215 850	230 840
Long-term liabilities	23 461	82 807	5 454	19 257
Short-term liabilities	370 694	374 679	86 182	87 135
Equity	534 282	535 124	124 214	124 447
Share capital	69 288	69 288	16 109	16 113
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)	7,71	7,72	1,79	1,80
Diluted book value per share (in PLN/EUR)	7,71	7,72	1,79	1,80
Declared or paid dividend (in PLN/EUR)	-	13 857 557	-	3 222 688
Declared or paid dividend per share (in PLN/EUR)	-	0,20	-	0,05
PLN/EUR exchange rate at the end of the period**	-	-	4,3013	4,3000

* - 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.

Management Board's Report from activity of the Arctic Paper Capital Group

to the report for Q1 2019

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. 1,530 people in its Paper Mills, Pulp Mills, companies dealing in paper distribution and sales, and a company dealing in timber procurement for pulp production. The Group's Paper Mills located in Poland and Sweden have total production capacity of over 650,000 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 2019 totalled PLN 821 million.

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

Business objects

The principal business of the Arctic Paper Group is paper production and sales.
The Group's additional business, partly subordinate to paper production, covers:

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

Our production facilities

As on 31 March 2019 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 210,000 tons per year (in 2018, after the closure of one paper machine at the beginning of 2019 - 250,000 tons annually) and produces coated wood-free paper used for printing maps, books, magazines, posters and printing of advertising materials.

As on 31 March 2019 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 2018.

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 2019, 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 2019) 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 2019 was 68.13% and has not changed until the date hereof.

	as at 28.05.2019			
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 18.03.2019

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 tables is provided as of the date hereof and as of the publication date of this report and the delivery of the annual statements for 2018.

Summary of the consolidated financial results

Selected items from the consolidated statement of profit and loss

PLN '000	Q1 2019	Q4 2018	Q1 2018	YTD Q1 2019	YTD Q1 2018	% change Q1 2019/ Q4 2018	% change Q1 2019/ Q1 2018	% change YTD Q1 2019/ YTD Q1 2018
Sales revenues	**820 572**	**769 075**	**788 054**	**820 572**	**788 054**	**6,7**	**4,1**	**4,1**
of which:								
Sales of paper	*573 344*	*539 094*	*573 621*	*573 344*	*573 621*	*6,4*	*(0,0)*	*(0,0)*
Sales of pulp	*247 228*	*229 981*	*214 433*	*247 228*	*214 433*	*7,5*	*15,3*	*15,3*
Profit on sales	152 535	97 106	147 617	152 535	147 617	57,1	3,3	3,3
% of sales revenues	*18,59*	*12,63*	*18,73*	*18,59*	*18,73*	*6,0 p.p.*	*(0,1) p.p.*	*(0,1) p.p.*
Selling and distribution costs	(84 757)	(92 244)	(84 852)	(84 757)	(84 852)	(8,1)	(0,1)	(0,1)
Administrative expenses	(19 963)	(27 208)	(21 119)	(19 963)	(21 119)	(26,6)	(5,5)	(5,5)
Other operating income	26 875	13 146	17 972	26 875	17 972	104,4	49,5	49,5
Other operating expenses	(15 621)	(12 609)	(12 099)	(15 621)	(12 099)	23,9	29,1	29,1
EBIT	**59 070**	**(21 809)**	**47 519**	**59 070**	**47 519**	**(370,9)**	**24,3**	**24,3**
% of sales revenues	*7,20*	*(2,84)*	*6,03*	*7,20*	*6,03*	*10,0 p.p.*	*1,2 p.p.*	*1,2 p.p.*
EBITDA	**82 377**	**2 721**	**71 472**	**82 377**	**71 472**	**2 928,0**	**15,3**	**15,3**
% of sales revenues	*10,04*	*0,35*	*9,07*	*10,04*	*9,07*	*9,7 p.p.*	*1,0 p.p.*	*1,0 p.p.*
Financial income	1 132	589	564	1 132	564	92,1	100,6	100,6
Financial expenses	(8 366)	(9 662)	(7 819)	(8 366)	(7 819)	(13,4)	7,0	7,0
Gross profit (loss)	**51 836**	**(30 881)**	**40 264**	**51 836**	**40 264**	**(267,9)**	**28,7**	**28,7**
Income tax	(13 628)	(2 092)	(10 605)	(13 628)	(10 605)	551,3	28,5	28,5
Net profit (loss) from continuing operations	**38 208**	**(32 973)**	**29 659**	**38 208**	**29 659**	**(215,9)**	**28,8**	**28,8**
% of sales revenues	*4,66*	*(4,29)*	*3,76*	*4,66*	*3,76*	*8,9 p.p.*	*0,9 p.p.*	*0,9 p.p.*
Discontinued operations								
Net profit / (loss) from discontinued operations	**(1 317)**	**(2 318)**	**(904)**	**(1 317)**	**(904)**	**(43,2)**	**45,6**	**45,6**
% of sales revenues	*(0,16)*	*(0,30)*	*(0,11)*	*(0,16)*	*(0,11)*	*0,1 p.p.*	*(0,0) p.p.*	*(0,0) p.p.*
Net profit/(loss)	**36 891**	**(35 292)**	**28 755**	**36 891**	**28 755**	**(204,5)**	**28,3**	**28,3**
% of sales revenues	*4,50*	*(4,59)*	*3,65*	*4,50*	*3,65*	*9,1 p.p.*	*9,1 p.p.*	*0,8 p.p.*
Net profit / (loss) for the reporting period attributable to the shareholders of the Parent Entity	14 252	(37 872)	16 095	14 252	16 095	(137,6)	(11,4)	(11,4)

Due to adjustment to previous years' error concerning the elimination of perpetual usufruct right and reduction of tangible fixed assets for AP Kostrzyn (detailed in note 6.3.1 of these Abbreviated consolidated quarterly financial statements), the above numbers for Q4 do not constitute a difference from the numbers for 2018 disclosed in the Annual Consolidated Report for 2018 and the data for Q3 2018, disclosed in the Abbreviated consolidated quarterly financial statements of the Arctic Paper Group for the period of 9 months ended on 30 September 2018.

Additionally, a change was made to the presentation of revenues for pulp sales, costs of sales and other operational revenues for RROS companies in the data for Q1 2018 (detailed in note 6.3.2 of these Abbreviated consolidated quarterly financial statements) and for Q4 2018 and adjustments to the presentation of the costs of sales, selling and distribution costs and administrative expenses (detailed in note 6.3.2 of these Abbreviated consolidated quarterly financial statements).

Comments of the President of the Management Board Michał Jarczyński on the results of Q1 2019

During the first quarter of 2019, Arctic Paper Group had a turnover of PLN 820,6 million (compared to 788,1 million in Q1, 2018) with an EBITDA of PLN 82,4 million (71,5 million). The consolidated result makes the quarter the best Q1 we have seen.

Despite good consolidated result, the results of the paper segment were below our expectations. This segment is operating in a continued tough market and generated a turnover of PLN 573,3 million (573,6 million) with an EBITDA of PLN 16,3 million (31,1 million). Price increases and a better product mix grew the average revenue per tonne by 9.8 per cent compared to the first quarter 2018, which compensated for the volume loss. Pulp prices are still 40-45 percent higher than Q1, 2017, leading to higher raw material costs, increased paper prices and – as a result – lower demand for paper. In spite of this, the demand for premium and speciality products remain stable and now represent 30 percent of total sales (28). Production amounted to 149,000 tonnes (166,000) and sales to 154,000 (169,000).

In 2018, Arctic Paper decided on a new strategy which now is being implemented, but at the same time the market development clearly shows that market related actions are not enough to restore our margins. The Group therefore introduced a profit improvement program, for the paper segment, with the ambition to generate annual cost savings of approximately PLN 40 million from 2020. Actions have already been taken to reduce costs, among them closure of PM7 at the Grycksbo Mill and staff reductions at Arctic Paper Munkedals. Further initiatives have been taken during the period. The head office in Poznan will be closed and the function moved to our mill in Kostrzyn, where a shared service center will be established for Group supporting functions. We are also revitalising the sales organisation and appointed in February a new EVP Sales. A cooperation agreement has been reached with Adven AB for an investment in a biomass boiler in Munkedal that ensure lower, stable, predictable energy costs and reduce CO2-emissions.

In order to expand our product portfolio, we have recently introduced Munken Kraft, a paper for non-graphic applications aimed at the growing packaging segment. We work continuously to develop new products. By the end of 2022, a quarter of our sales must come from other products than graphic paper. During the period we have also launched G-snow – a new, ultra-white, high-quality coated paper which has been well received by the market.

The past quarter proves that the decision taken in 2012 to combine pulp and paper to stabilise consolidated results was right. The fluctuations on both segments offset each other. For Rottneros AB, of which the Arctic Paper Group owns 51 percent, net turnover increased by 17 percent to SEK 630 million (537 million) and EBITDA by 81 percent to a record high SEK 141 million (78 million). The full report is available at http://www.rottneros.com/investors/financial-reports/

In order to meet the market development and strengthen our competitiveness, it is necessary that we work ever harder to lower our costs, increase productivity and accelerate the reshaping of our product portfolio. I am confident that these actions will give us the necessary take-off on the road towards better margins.

Revenues

In Q1 2019, the consolidated sales revenues amounted to PLN 820,572 thousand as compared to PLN 788,054 thousand in the equivalent period of the previous year. That means a growth by PLN 32,518 thousand or by +4.1%. In Q1 2019, paper sales revenues amounted to PLN 573,344 thousand (Q1 2018: PLN 573,621 thousand) while sales of pulp generated PLN 247,228 thousand (Q1 2018: PLN 214,433 thousand).

Paper sales volume in Q1 2019 amounted to 154 thousand tons compared to 169 thousand tons in the same period of the previous year. The change represents a decrease of 15 thousand tons and by -8.9% respectively.

Pulp sales volume in Q1 2019 amounted to 94 thousand tons and was at the same level as in the same period of the previous year.

Higher sales revenues in Q1 2019, compared to Q4 2018, result both from higher pulp sales volume as well as higher sales prices of pulp when translated into PLN. Paper sales revenues in the last quarter of 2018 amounted to PLN 539,094 thousand (sales volume 145 thousand tons) while for pulp sales – PLN 229,981 thousand (sales volume 90 thousand tons).

Profit on sales, selling and distribution costs and administrative expenses

In Q1 2019, profit on sales amounted to PLN 152,535 thousand and was by 3.3% higher than in the equivalent period last year and by 57.1% higher than in Q4 2018. Sales profit margin in the current quarter stood at 18.59% compared to 18.73% (-0.1 p.p.) in the same period of the previous year and 12.63% (+6.0%) in Q4 2018.

The main reasons of the increased profit on sales in Q1 2019 versus the equivalent period of the previous year were the higher prices of pulp sales by the RROS Group companies when translated into PLN.

In Q1 2019, the selling and distribution costs amounted to PLN 84,757 thousand which represents a decrease by 0.1% compared to the costs incurred in Q1 2018 and a decrease by 8.1% compared to Q4 2018. The selling and distribution costs include primarily the costs of transport and a decrease of the costs contributed to reduced selling and distribution costs in Q1 2019.

In Q1 2019, the administrative expenses amounted to PLN 19,963 thousand as compared to PLN 21,119 thousand in the equivalent period in 2018 and PLN 27,208 thousand in Q4 2018. 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 26,875 thousand in Q1 2019 which was an increase as compared to the equivalent period of the previous year (by PLN 8,903 thousand and a growth by PLN 13,729 thousand as compared to the last quarter of 2018.

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

In Q1 2019, the other operating expenses amounted to PLN 15,621 thousand as compared to PLN 12,099 thousand in Q1 2018 and PLN 12,609 thousand in Q4 2018. 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 2019, the financial income amounted to PLN 1,132 thousand and was by PLN 568 thousand higher than income generated in Q1 2018 and was by PLN 543 thousand higher than the financial income for Q4 2018.

The higher financial revenues in Q1 2018 were due to net FX gains (specified below).

In Q1 2019, financial income amounted to PLN 8,366 thousand as compared to PLN 7,819 thousand incurred in Q1 2018 and PLN 9,662 thousand for the last quarter of 2018.

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 619 thousand in Q1 2019, and FX losses of PLN 1,963 thousand for Q4 2018 and FX gains of PLN 281 thousand in Q1 2018.

Income tax

In Q1 2019, income tax amounted to PLN -13,628 thousand while in the equivalent period in 2018 it was PLN -10,605 thousand and PLN -2,092 thousand in Q4 2018.

The current portion of income tax in the analysed period amounted to PLN -13,322 thousand while the deferred portion to PLN -306 thousand. In the first quarter of the previous year, the amount was PLN -676 thousand and PLN -9,929 thousand respectively. . In the last quarter of the previous year, the amount was PLN -2,463 thousand and PLN +371 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 1,317 thousand for Q1 2019 and PLN 904 thousand in the equivalent period of the previous year. The fourth quarter of 2018 was closed with a net profit on discontinued activity of PLN 2,318 thousand.

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

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

In Q1 2018, the Group generated net profit in the amount of PLN 28,755 thousand. The portion of the net profit attributable to the shareholders of Arctic Paper S.A. amounts to PLN 16,095 thousand.

In Q4 2018, the Group generated net loss in the amount of PLN 35,292 thousand. The portion of the net loss attributable to the shareholders of Arctic Paper S.A. amounted to PLN 37,872 thousand.

Profitability analysis

In Q1 2019, the result on operations amounted to PLN +59,070 thousand as compared to PLN +47,519 thousand in the equivalent period in the previous year and PLN -21,809 thousand in Q4 2018. These changes mean there was an increase of operating profit margin from +6.03% in the first quarter of 2018 and -2.84% in the last quarter of 2018 to +7.20 in the first quarter of the current year.

EBITDA in Q1 2019 was PLN 82,377 thousand while in the equivalent period in 2018 it was PLN 71,472 thousand and PLN 2,721 thousand respectively in Q4 2018. In the reporting period, the EBITDA margin was 10.04% compared to 9.07% in the equivalent period of 2018 and 0.35% in Q4 2018.

In Q1 2019, net profit amounted to PLN 36,891 thousand as compared to the net profit of PLN 28,755 thousand in Q1 2018 and net loss of PLN 35,292 thousand in Q4 2018.

PLN '000	Q1 2019	Q4 2018	Q1 2018	YTD Q1 2019	YTD Q1 2018	% change Q1 2019/ Q4 2018	% change Q1 2019/ Q1 2018	% change YTD Q1 2019/ YTD Q1 2018
Profit on sales	152 535	97 106	147 617	152 535	147 617	57,1	3,3	3,3
% of sales revenues	*18,59*	*12,63*	*18,73*	*18,59*	*18,73*	*6,0 p.p.*	*(0,1) p.p.*	*(0,1) p.p.*
EBITDA	**82 377**	**2 721**	**71 472**	**82 377**	**71 472**	**2 928,0**	**15,3**	**15,3**
% of sales revenues	*10,04*	*0,35*	*9,07*	*10,04*	*9,07*	*9,7 p.p.*	*1,0 p.p.*	*1,0 p.p.*
EBIT	**59 070**	**(21 809)**	**47 519**	**59 070**	**47 519**	**(370,9)**	**24,3**	**24,3**
% of sales revenues	*7,20*	*(2,84)*	*6,03*	*7,20*	*6,03*	*10,0 p.p.*	*1,2 p.p.*	*1,2 p.p.*
Net profit (loss) from continuing operations	**38 208**	**(32 973)**	**29 659**	**38 208**	**29 659**	**(215,9)**	**28,8**	**28,8**
% of sales revenues	*4,66*	*(4,29)*	*3,76*	*4,66*	*3,76*	*8,9 p.p.*	*0,9 p.p.*	*0,9 p.p.*
Net profit / (loss) from discontinued operations	**(1 317)**	**(2 318)**	**(904)**	**(1 317)**	**(904)**	**(43,2)**	**45,6**	**45,6**
% of sales revenues	*(0,16)*	*(0,30)*	*(0,11)*	*(0,16)*	*(0,11)*	*0,1 p.p.*	*(0,0) p.p.*	*(0,0) p.p.*
Net profit/(loss)	**36 891**	**(35 292)**	**28 755**	**36 891**	**28 755**	**(204,5)**	**28,3**	**28,3**
% of sales revenues	*4,50*	*(4,59)*	*3,65*	*4,50*	*3,65*	*9,1 p.p.*	*0,8 p.p.*	*0,8 p.p.*
Return on equity / ROE (%)	4,3	(4,1)	3,6	4,3	3,6	8,4 p.p.	0,7 p.p.	0,7 p.p.
Return on assets / ROA (%)	1,7	(1,6)	1,5	1,7	1,5	3,4 p.p.	0,2 p.p.	0,2 p.p.

In Q1 2019, return on equity was +4.3% while in Q1 2018 it was +3.6% and in Q4 2018 it was -4.1%.

In the same period, return on assets was +1.7% while in Q1 2018 it was +1.5% and in Q4 2018 it was -1.6%.

The growth of return on equity and return of assets in the first quarter of 2019, compared to the last quarter of 2018 is mainly due to the generated net profit in the analysed period.

Selected items from the consolidated statement of financial position

PLN '000	31.03.2019	31.12.2018	31.03.2018	Change 31.03.2019 -31.12.2018	Change 31.03.2019 -31.03.2018
Fixed assets	1 035 694	1 037 969	930 023	(2 275)	105 671
Inventories	439 600	478 614	344 704	(39 015)	94 896
Receivables	402 580	371 963	394 420	30 618	8 161
including trade receivables	*394 445*	*365 946*	*386 337*	*28 499*	*8 108*
Other current assets	34 135	64 794	42 330	(30 659)	(8 194)
Cash and cash equivalents	208 625	201 118	205 273	7 507	3 352
Assets for sale	1 411	1 716	3 388	(305)	(1 977)
Total assets	**2 122 045**	**2 156 174**	**1 920 137**	**(34 129)**	**201 908**
Equity	854 328	861 193	797 800	(6 865)	56 527
Short-term liabilities	866 255	850 245	565 994	16 010	300 261
of which:					
trade and other payables	*486 181*	*516 678*	*403 176*	*(30 497)*	*83 005*
interest-bearing debt	*283 497*	*232 184*	*67 462*	*51 313*	*216 035*
other non-financial liabilities	*96 577*	*101 383*	*95 356*	*(4 806)*	*1 221*
Long-term liabilities	397 849	441 381	554 731	(43 533)	(156 883)
of which:					
interest-bearing debt	*205 956*	*249 659*	*396 555*	*(43 704)*	*(190 599)*
other non-financial liabilities	*191 893*	*191 722*	*158 176*	*171*	*33 717*
Liabilities related to assets held for sale.	3 613	3 355	1 611	258	2 002
Total liabilities and equity	**2 122 045**	**2 156 174**	**1 920 137**	**(34 129)**	**201 908**

As at 31 March 2019 total assets amounted to PLN 2,122,045 thousand as compared to PLN 2,156,174 thousand at the end of 2018 which was a decrease by PLN 34,129 thousand.

Fixed assets

As at the end of March 2019, fixed assets amounted to PLN 1,035,694 thousand and accounted for 48.8% of total assets as compared to PLN 1,037,969 thousand at the end of 2018 – 48.1%. Fixed assets mainly consist of property, plant & equipment and intangible assets. The value of fixed assets was not changed materially when compared to 31 December 2018; the growth of tangible fixed assets as at the end of March 2019 was primarily due to the implementation of IFRS 16 on 1 January 2019 was compensated with a decrease of financial assets and intangible assets.

Current assets

As at the end of March 2019, current assets amounted to PLN 1,084,940 thousand as compared to PLN 1,116,489 thousand at the end of December 2018. As part of the current assets, inventories decreased by PLN 39,015 thousand and receivables increased by PLN 30,618 thousand, other current assets decreased by PLN 30,659 thousand while cash and cash equivalents increased by PLN 7,507 thousand. Current assets represented 51.1% of total assets as at the end of March 2019 (51.8% as at the end of 2018) and included inventories – 20.7% (22.2% as at the end of 2018), receivables – 19.0% (17.3% as at the end of 2018), other current assets – 1.6% (3.0% as at the end of 2018) and cash and cash equivalents – 9.8% (9.3% as at the end of 2018).

Assets for sale

The assets available for sales cover the assets of the Mochenwangen Group with the exception of assets of the other companies in the Arctic Paper Group.

Equity

In Q1 2019, the equity amounted to PLN 854,328 thousand as compared to PLN 861,193 thousand at the end of 2018. Equity represented 40.3% of total equity and liabilities as at the end of March 2019 as compared to 39.9% of balance sheet total as at the end of December 2018. The decrease of equity in Q1 2019 was due primarily to a lower valuation of financial instruments than at the end of 2018 that hedge future cash flows, partly compensated with the net profit for the period.

Short-term liabilities

As at the end of March 2019, current liabilities amounted to PLN 866,255 thousand (40.8% of balance sheet total) as compared to PLN 850,245 thousand (39.4% of balance sheet total) as at the end of 2018. In the current quarter, a growth of short-term liabilities occurred by PLN 16,010 thousand. The growth of short-term liabilities was primarily due to the growth of short-term loans, borrowings and bonds, including as a result of a change to the presentation due to the breach of ratios resulting from the credit facilities agreements and bond issue agreements, partly compensated with reduced trade and other payables.

Long-term liabilities

As at the end of March 2019, long-term liabilities amounted to PLN 397,849 thousand (18.7% of balance sheet total) as compared to PLN 441,381 thousand (20.5% of balance sheet total) as at the end of 2018. In the period under report, a decrease of long-term liabilities occurred by PLN 43,533 thousand, primarily due to the change of the presentation of loans and bonds in PLN to short-term liabilities due to the breach of the ratios.

Liabilities related to assets held for sale

The liabilities related to assets held for sale cover the liabilities of the Mochenwangen Group with the exception of liabilities to the other companies in the Arctic Paper Group and the provision for retirement benefits.

Debt analysis

	Q1 2019	Q4 2018	Q1 2018	% change Q1 2019/ Q4 2018	% change Q1 2019/ Q1 2018
Debt to equity ratio (%)	148,4	150,4	140,7	(2,0) p.p.	7,7 p.p.
Equity to fixed assets ratio (%)	82,5	83,0	85,8	(0,5) p.p.	(3,3) p.p.
Equity to interest-bearing debt ratio (%)	57,3	56,0	58,2	1,3 p.p.	(0,9) p.p.
Net debt to EBITDA ratio for the last 12 months (x)	1,2x	1,3x	1,1x	(0,1)	0,1
EBITDA to interest expense ratio (x)	9,9x	9,4x	9,8x	0,5	0,1

As at the end of March 2019 the debt to equity ratio was 148.4% and was higher by 2.0 p.p. As compared to the end of 2018 and higher by 7.7 p.p. as compared to the end of March 2018.

The equity to non-current assets ratio was 82.5% as at the end of Q1 2019 and was lower by 0.5 p.p. than at the end of 2018 and lower by 3.3 p.p. than at the end of March 2018.

Interest bearing debt to equity ratio amounted to 57.3% as at the end of Q1 2019 and was higher by 1.3 p.p. compared to the end of December 2018 and lower by 0.9 p.p. compared to the level of the ratio calculated at the end of March 2018.

Net borrowings to EBITDA calculated for the last 12 months ended on 31 March 2019 amounted to 1.2x compared to 1.3x in the equivalent period ended on 31 December 2018 and 1.1x for the 12-month period ended on 31 March 2018.

The EBITDA to interest coverage ratio amounted to 9.9x for the twelve months ended on 31 March 2019, 9.4x for the twelve months ended on 31 December 2018 and 9.8x for the twelve months ended on 31 March 2018.

Liquidity analysis

	Q1 2019	Q4 2018	Q1 2018	% change Q1 2019/ Q4 2018	% change Q1 2019/ Q1 2018
Current ratio	**1,3x**	**1,3x**	**1,7x**	**(0,1)**	**(0,5)**
Quick ratio	**0,7x**	**0,7x**	**1,1x**	**(0,0)**	**(0,4)**
Acid test	**0,2x**	**0,2x**	**0,4x**	**0,0**	**(0,1)**
DSI (days)	59,2	64,1	48,4	(4,9)	10,8
DSO (days)	43,3	42,8	44,1	0,4	(0,9)
DPO (days)	65,5	69,2	56,7	(3,7)	8,8
Operational cycle (days)	102,5	106,9	92,6	(4,4)	9,9
Cash conversion cycle (days)	**37,0**	**37,7**	**35,9**	**(0,7)**	**1,1**

The current liquidity ratio was 1.3 at the end of March 2019 and as at to 31 December 2018 and it dropped by 0.5 as compared to 31 March 2018.

The quick ratio was 0.7 at the end of March 2019 and as at 31 December 2018 and 1.1 as at 31 March 2018.

At the end of March 2019, the acid test ratio was at a similar level as compared to the end of 2018 and lower by 0.2 as at the end of March 2018.

The cash conversion cycle for the period ended on 31 March 2019 was 37.0 days (the period ended on 31 December 2018: 37.7 days and for the period ended on 31 March 2018: 35.9 days).

Selected items of the consolidated statement of cash flow

PLN '000	Q1 2019	Q4 2018	Q1 2018	YTD Q1 2019	YTD Q1 2018	% change Q1 2019/ Q4 2018	% change Q1 2019/ Q1 2018	% change YTD Q1 2019/ YTD Q1 2018
Cash flows from operating activities	59 761	80 485	1 801	59 761	1 801	(25,7)	3 218,5	3 218,5
of which:								
Gross profit (loss)	*50 541*	*(33 271)*	*39 353*	*50 541*	*39 353*	*(251,9)*	*28,4*	*28,4*
Depreciation/amortisation and impairm	*23 307*	*24 529*	*23 953*	*23 307*	*23 953*	*(5,0)*	*(2,7)*	*(2,7)*
Changes to working capital	*(23 743)*	*78 925*	*(64 707)*	*(23 743)*	*(64 707)*	*(130,1)*	*(63,3)*	*(63,3)*
Other adjustments	*9 657*	*10 303*	*3 202*	*9 657*	*3 202*	*(6,3)*	*201,6*	*201,6*
Cash flows from investing activities	(18 764)	(59 232)	(41 710)	(18 764)	(41 710)	(68,3)	(55,0)	(55,0)
Cash flows from financing activities	(32 654)	(2 109)	8 397	(32 654)	8 397	1 448,3	(488,9)	(488,9)
Total cash flows	**8 344**	**19 145**	**(31 513)**	**8 344**	**(31 513)**	**(56,4)**	**(126,5)**	**(126,5)**

Due to adjustment to previous years' error concerning the elimination of perpetual usufruct right and reduction of tangible fixed assets for AP Kostrzyn (detailed in note 6.3.1 of these Abbreviated consolidated quarterly financial statements), the above numbers for Q4 do not constitute a difference from the numbers for 2018 disclosed in the Annual Consolidated Report for 2018 and the data for Q3 2018, disclosed in the Abbreviated consolidated quarterly financial statements of the Arctic Paper Group for the period of 9 months ended on 30 September 2018.

Cash flows from operating activities

In Q1 2019, net cash flows from operating activities amounted to PLN +59,761 thousand as compared to PLN +1,801 thousand in the equivalent period of 2018 and PLN +80,485 thousand in the fourth quarter of the previous year. Gross profit generated in Q1 2019, 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 2019.

Cash flows from investing activities

In Q1 2019, cash flows from investing activities amounted to PLN -18,764 thousand as compared to PLN -41,710 thousand in Q1 2018 and PLN -59,232 thousand in Q4 2018. Cash flows from investing activities in Q1 2019 resulted primarily from purchase of tangible fixed and intangible assets.

Cash flows from financing activities

In Q1 2019, cash flows from financing activities amounted to PLN -32,654 thousand as compared to PLN +8,397 thousand in Q1 2018 and PLN -2,109 thousand in Q4 2018. In Q1 2019 negative cash flows from financing activities were related primarily to repayment of debt under bank loans and bonds with interest.

Summary of standalone financial results

Selected items from the standalone statement of profit and loss

PLN '000	Q1 2019	Q4 2018	Q1 2018	YTD Q1 2019	YTD Q1 2018	% change Q1 2019/ Q4 2018	% change Q1 2019/ Q1 2018	% change YTD Q1 2019/ YTD Q1 2018
Sales revenues	**11 111**	**13 408**	**9 751**	**11 111**	**9 751**	**(17,1)**	**13,9**	**13,9**
of which:								
Revenues from sales of services	7 321	11 923	8 524	7 321	8 524	(38,6)	(14,1)	(14,1)
Interest income on loans	1 139	1 241	1 227	1 139	1 227	(8,2)	(7,1)	(7,1)
Dividend income	2 650	245	-	2 650	-	-	-	-
Profit on sales	9 775	11 994	8 394	9 775	8 394	(18,5)	16,5	16,5
% of sales revenues	*87,98*	*89,45*	*86,08*	*87,98*	*86,08*	*(1,5) p.p.*	*3,4 p.p.*	*1,9 p.p.*
Selling and distribution costs	(574)	(750)	(750)	(574)	(750)	(23,5)	(23,5)	(23,5)
Administrative expenses	(6 646)	(12 251)	(7 144)	(6 646)	(7 144)	(45,8)	(7,0)	(7,0)
Other operating income	82	3 649	58	82	58	(97,8)	40,7	40,7
Other operating expenses	(319)	(8 346)	(254)	(319)	(254)	(96,2)	25,6	25,6
EBIT	**2 318**	**(5 704)**	**304**	**2 318**	**304**	**(140,6)**	**663,4**	**663,4**
% of sales revenues	*20,86*	*(42,54)*	*3,11*	*20,86*	*3,11*	*63,4 p.p.*	*17,7 p.p.*	*17,7 p.p.*
EBITDA	**2 441**	**(5 597)**	**427**	**2 441**	**427**	**(143,6)**	**472,1**	**472,1**
% of sales revenues	*21,97*	*(41,74)*	*4,38*	*21,97*	*4,38*	*63,7 p.p.*	*17,6 p.p.*	*17,6 p.p.*
Financial income	1 203	1 108	1 009	1 203	1 009	8,5	19,2	19,2
Financial expenses	(5 315)	(4 099)	(5 857)	(5 315)	(5 857)	29,7	(9,3)	(9,3)
Gross profit	**(1 794)**	**(8 695)**	**(4 545)**	**(1 794)**	**(4 545)**	**(79,4)**	**(60,5)**	**(60,5)**
Income tax	(1)	(457)	-	(1)	-	-	-	-
Net profit	**(1 795)**	**(9 152)**	**(4 545)**	**(1 795)**	**(4 545)**	**(80,4)**	**(60,5)**	**(60,5)**
% of sales revenues	*(16,15)*	*(68,26)*	*(46,61)*	*(16,15)*	*(46,61)*	*52,1 p.p.*	*30,5 p.p.*	*30,5 p.p.*

Revenues

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

Sales revenues for Q1 2019 amounted to PLN 8,461 thousand and comprised services provided to Group companies (PLN 7,321 thousand), and interest income on loans (PLN 1,139 thousand). In the equivalent period of the previous year, the standalone sales revenues 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 Q4 2018, the standalone sales revenues amounted to PLN 13,408 thousand which included revenues from the services provided to Group companies (PLN 11,923 thousand) and interest income on borrowings granted (PLN 1,241 thousand).

In 2019 and in 2018, the Company did not render services to the Pulp Mills of the Rottneros Group.

In 2019, the costs of sales comprised interest income on loans received from other Group companies and costs of sales of logistics services.

Selling and distribution costs

In Q1 2019 the Company recognised the amount of PLN 574 thousand as selling and distribution costs (PLN 750 thousand in the equivalent quarter of 2018) 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 2019, the administrative expenses amounted to PLN 6,646 thousand and were lower than in the same period of the previous year (by PLN 7,144 thousand) and the expenses recorded in Q4 2018 by PLN 12,251 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 82 thousand in Q1 2019 which was an increase as compared to the equivalent period of the previous year (by PLN 24 thousand). In the equivalent period of 2018, the income amounted to PLN 3,649 thousand and was primarily due to a decrease of impairment allowances of assets at Arctic Paper Sverige AB (PLN 2,939 thousand) and in Arctic Paper Norge AS (PLN 516 thousand). Other operating expenses totalled PLN 319 thousand in Q1 2019. In the equivalent period of 2018, the expenses amounted to PLN 254 thousand while in Q4 2018 they amounted to PLN 8,346 thousand with the largest part thereof being an increase of impairment allowances to assets - shares in Arctic Paper Investment AB (PLN 7,828 thousand).

Financial income and financial expenses

In Q1 2019, the financial income amounted to PLN 1,203 thousand and was higher by PLN 194 thousand than generated in Q1 2018.

The financial expenses in 2019 amounted to PLN 5,315 thousand (in the equivalent period of 2018: PLN 5,857 thousand) while in Q4 2018 they amounted to PLN 4,099 thousand. The largest part of financial expenses in Q1 2019 included interest on amortised cost and costs of financial transactions.

Selected items from the standalone statement of financial position

PLN '000	31/03/2019	31/12/2018	31/03/2018	Change 31.03.2019 -31.12.2018	Change 31.03.2019 -31.03.2018
Fixed assets	739 715	751 507	760 681	(11 792)	(20 965)
Receivables	69 824	90 818	86 148	(20 994)	(16 324)
Other current assets	113 643	130 681	100 066	(17 037)	13 577
Cash and cash equivalents	5 254	19 605	28 711	(14 352)	(23 457)
Total assets	**928 436**	**992 611**	**975 606**	**(64 175)**	**(47 170)**
Equity	534 282	535 124	527 054	(842)	7 227
Short-term liabilities	370 694	374 679	204 739	(3 985)	165 956
Long-term liabilities	23 461	82 807	243 814	(59 346)	(220 353)
Total equity and liabilities	**928 436**	**992 611**	**975 607**	**(64 175)**	**(47 171)**

As at 31 March 2019 total assets amounted to PLN 928,436 thousand as compared to PLN 992.611 thousand at the end of 2018.

Fixed assets

As at the end of March 2019 non-current assets represented nearly 79.67% of total assets which means the share increased (by 3.96 p.p.) compared to the end of 2018. The main item of non-current assets includes interests in subsidiaries. At the end of Q1 2018, the value was PLN 673,937 thousand and was the same as at the end of 2018.

Current assets

As at the end of March 2019, current assets amounted to PLN 188,721 thousand as compared to PLN 241,104 thousand at the end of 2018. Working assets decreased in Q1 2019, particularly in trade receivables and other current assets. As at the end of Q1 2019, current assets represented 21.33% of total assets compared to 24.29% as at the end of the previous year.

Equity

In Q1 2019, the equity amounted to PLN 534,282 thousand as compared to PLN 534,124 thousand at the end of 2018. Equity amounted to 57.55% of balance sheet total as at the end of March 2019 and the share decreased by 3.64 p.p. as compared to the end of 2018.

Short-term liabilities

As at the end of March 2019, current liabilities amounted to PLN 370,694 thousand (39.9% of balance sheet total) as compared to PLN 374,679 thousand as at the end of 2018 (37.7% of balance sheet total).

Long-term liabilities

As at the end of March 2019, long-term liabilities amounted to PLN 23,461 thousand (2.5% of balance sheet total) as compared to PLN 82,807 thousand as at the end of 2018 (8.3% of balance sheet total).The decrease of long-term liabilities was primarily due to increase of short-term loans, borrowing and bonds, including as a result of a change to the presentation due to the breach of ratios resulting from the credit facilities agreements and bond issue agreements.

Selected items of the standalone statement of cash flow

PLN '000	Q1 2019	Q4 2019	Q1 2018	YTD Q1 2019	YTD Q1 2018	% change Q1 2019/ Q4 2018	% change Q1 2019/ Q1 2018	% change YTD Q1 2019/ YTD Q1 2018
Cash flows from operating activities	26 110	5 709	(11 208)	26 110	(11 208)	357,3	(333,0)	(333,0)
of which:								
Gross profit (loss)	*(1 794)*	*(8 695)*	*(4 545)*	*(1 794)*	*(4 545)*	*(79,4)*	*(60,5)*	*(60,5)*
Depreciation/amortisation	*100*	*108*	*212*	*100*	*212*	*(7,4)*	*(53,0)*	*(53,0)*
Changes to working capital	*(15 839)*	*11 319*	*(3 496)*	*(15 839)*	*(3 496)*	*(239,9)*	*353,0*	*353,0*
Net interest and dividends	*2 298*	*2 078*	*4 167*	*2 298*	*4 167*	*10,6*	*(44,9)*	*(44,9)*
Increase / decrease of loans granted to subsidiaries	*27 830*	*(3 118)*	*(29 671)*	*27 830*	*(29 671)*	*(992,6)*	*(193,8)*	*(193,8)*
Increase / decrease of liabilities from cash-pooling	*13 169*	*1 158*	*20 613*	*13 169*	*20 613*	*1 036,8*	*(36,1)*	*(36,1)*
Other adjustments	*347*	*2 859*	*22 126*	*347*	*22 126*	*(87,9)*	*(98,4)*	*(98,4)*
Cash flows from investing activities	182	2 810	(23)	182	(23)	(93,5)	(900,1)	(900,1)
Cash flows from financing activities	(40 644)	124 836	2 998	(40 644)	2 998	(132,6)	(1 455,9)	(1 455,9)
Total cash flows	(14 352)	133 355	(8 233)	(14 352)	(8 233)	(110,8)	74,3	74,3

The cash flow statement presents an increase in cash in Q1 2019 by PLN -14,352 thousand which includes:

- positive cash flows from operating activities of PLN 26,110 thousand,
- positive cash flows from investing activities of PLN 182 thousand,
- negative cash flows from financing activities of PLN -40,644 thousand.

Cash flows from operating activities

In Q1 2019, net cash flows from operating activities amounted to PLN 26,110 thousand as compared to PLN -11,208 thousand in the equivalent period of 2018. The positive cash flows from operating activities this year was affected largely by the changes to the loans to subsidiaries and liabilities under cash-pooling.

Cash flows from investing activities

In the first three months 2019, cash flows from investing activities amounted to PLN 182 thousand as compared to PLN -23 thousand in Q1 2018. The cash flows from investing activities in 2019 included primarily sales of tangible fixed assets.

Cash flows from financing activities

In 2019 cash flows from financing activities amounted to PLN -40,644 thousand as compared to PLN 2,998 thousand in 2018. The cash flows from financing activities were primarily affected by repayment of liabilities under loans and loans received.

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 2019 there were no unusual events or factors.

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

In Q1 2019 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

Release from complying with the financial ratios as at 31 March 2019 received from the bank consortium and failure to maintain the financial ratio as at 31 March 2019 in reference to the bonds

In connection with the term and revolving loan agreements, agreements related to bond issues, signed on 9 September 2016, the Group agreed to maintain specified financial ratios that are calculated at the end of each quarter. The calculation of ratios is based on paper segment results.

As at 31 March 2019, the Group failed to maintain the Net Debt to EBITDA ratio (being the ratio of interest bearing liabilities decreased by cash on hand to EBITA) and Cashlow Cover ratio as required in the loan agreement with the consortium of financing banks (Santander Bank S.A., Bank BGŻ BNP Paribas S.A. and the European Bank for Reconstruction and Development) – the Cashflow Cover being a ratio of cash flows from operating activities to the repayment amount of financial liabilities made in the 12 months from the end of each quarter (net of any discontinued operations and operations by the Rottneros Group in both ratios). The defined level of Net Debt to EBITDA has also not been complied with according to bonds' terms and conditions. Failure to comply with the ratios was due to higher pulp prices and maintaining lower demand for paper.

After the balance sheet date, Arctic Paper S.A. received a written assurance from Santander Bank S.A. acting as the consortium agent of the financing banks that failure by the Group to comply with the required level ratios as at 31 March 2018 does not constitute an event of default under the loan agreement of 9 September 2016. In accordance with IAS 1, as such assurance was not available on 31 March 2018, the Group disclosed its entire debt to the bank consortium as at that day as short-term liabilities: interest-bearing loans, borrowings and bonds.

Similarily, the whole debt resulting from bonds was disclosed as short-term. At the same time, the Management Board have taken the preventive and remedial actions in order to prevent any potential negative effects that may occur due to the breach of the terms of issue of the Bonds. Therefore, depending on the effect of those actions, the breach of the financial covenants alone might not lead to the holders of the Bonds becoming entitled to exercise the right to redeem the Bonds early or have other potential negative effects for the Company.

In particular, as part of the actions referred to above, the Company initiated talks with the entity acting as, inter alia, the issuing agent of the Bonds, i.e. Haintong Bank S.A. Spółka Akcyjna Oddział w Polsce, inter alia in order to obtain a waiver from the holders of the Bonds of their right to redeem the Bonds early on the terms described in the terms of issue of the Bonds.

Factors influencing the development of the Arctic Paper Group

Information on market trends

Supplies of fine paper

In Q1 2019 the Arctic Paper Group recorded an increased level of orders versus Q4 2018 by 6.2% and a decrease of orders versus the equivalent period of 2018 by 9%.

Source of data: Analysis by Arctic Paper

Paper prices

In Q1 2019 the average prices of high quality UWF paper increased by 8.4% while the prices of CWF paper increased by 7.2% versus equivalent prices of Q1 2018.

In the period from December 2018 to March 2019, 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 1% and 0.6% 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 2019 by 7.1% versus the equivalent period of 2018 while in the segment of coated wood-free paper (CWF) the prices increased by 4%.

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

Pulp prices

At the end of Q1 2019, the pulp prices reached the level of: NBSK – USD 1104.5/ton and BHKP – USD 972.9/ton. The average price of NBSK in Q1 2019 was higher by 8.5% compared to the equivalent period of the previous year while the price of BHKP was by 1.7% lower. The average pulp price in Q1 2019 was lower as compared to Q4 2018 by 6.2% for NBSK by 4.9% for BHKP.

The average cost of pulp per ton of produced paper as calculated for the AP Group, expressed in PLN, in Q1 2019 decreased by 3.1% versus Q4 2018 and increased by 16.9% versus Q1 2018. The share of pulp costs in the internal costs of paper sales in Q1 of the current year amounted to 59% and it was the same as the level recorded in Q1 2018.

In Q1 2019, the AP Group used pulp in the production process in the following structure: BHKP 70%, NBSK 23% and other 7%.

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

Currency exchange rates

The EUR/PLN exchange rate at the end of Q1 2019 amounted to 4.3013 and was at the same level as at the end of Q4 2018 and higher by 2.2% than at the end of Q1 2018. The average exchange rate in Q1 2019 was higher by 0.1% than in Q4 2018 and amounted to 4.3033, compared to 4.2997. The average exchange rate in Q1 2019 was by 2.9% higher than in Q1 2018.

The EUR/SEK exchange rate at the end of March 2019 was 10.4148 versus 10.2357 at the end of 2018, and 10.2722 at the end of Q1 2018 which was an appreciation of EUR to SEK by 1.7% and 1.4% respectively.

For this pair, the mean exchange rate in Q1 2019 was by 0.9% higher compared to Q4 2018. The mean exchange rate in Q1 2019 was 4.5% higher than in the corresponding period of 2018.

The changes mean a depreciation of SEK vis-a-vis EUR in Q1 2019 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 2019, the USD/PLN rate recorded an increase by 2% versus the end of Q4 2018 and amounted to 3.8365. In Q1 2019, the average exchange rate amounted to 3.7883 compared to 3.7671 in Q4 2018. That was a PLN appreciation to USD by 0.6%.

At the end of Q1 2019, the USD/SEK rate amounted to 9.2893 and was by 3.8% higher than at the end of 2018. The mean exchange rate in Q1 2019 amounted to 9.1722 which was an increase by 1.4% compared to Q4 2018.

The changes of the USD/SEK exchange rates in Q1 2019 adversely affected the costs incurred in USD by the Swedish paper mills, in particular the costs of pulp. With reference to the Paper Mill in Kostrzyn, the mean monthly USD/PLN exchange rate recorded a growth versus the equivalent rate from Q4 2018 which has adversely affected the pulp purchase costs in USD by the Polish factory.

At the end of March 2018, the EUR/USD rate amounted to 1.1212 compared to 1.1437 at the end of Q4 2018 and to 1.2328 at the end of March 2018. In terms of percentage, that means a depreciation of EUR to USD by 2% versus Q4 2018 and a depreciation of the currency by 9.1% Q1 2018. In Q1 2019, the mean exchange rate of the pair amounted to 1.1360 compared to 1.1414 in Q4 2018 (-0.5%).

The depreciation of SEK versus EUR has positively affected the Group's financial results, mainly due to increased sales revenues generated in EUR and translated into SEK. The depreciating PLN versus USD in Q1 2019 adversely affected the purchase prices of raw materials for the paper mill in Kostrzyn. SEK depreciating vis-a-vis USD adversely affected the costs in the paper mills in Sweden.

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

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

– Demand for fine paper in Europe. Over the recent years there has been a major decrease of demand for fine paper in Europe (level of executed orders). Further adverse developments in the market situation may negatively affect the levels of orders placed with the Group's Paper Mills and, as a result, will have an adverse impact on the financial results of the Group.

– Price changes of fine paper. In particular, the possibility to raise the prices of Arctic Paper products in local currencies in view of the declining supply/demand in Europe and in the context exchange rates fluctuations, will have a material influence on the financial results. Paper prices are going to be of particular importance for the Paper Mill of Grycksbo which - in connection with the market changes - experiences the greatest adverse impact of 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, the Group's Pulp Mills may benefit from the appreciation of USD in relation to SEK.

Risk factors

In Q1 2019 there were no material changes to the risk factors. Those were presented in detail in the annual report for 2018.

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 2019.

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 28/05/2019	Number of shares or rights to shares as at 18/03/2019	Change
Management Board			
Michał Jarczyński	-	-	-
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 2019, 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 1,410 thousand at Arctic Paper Grycksbo AB and for SEK 773 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 168 thousand;
— a bank guarantee in favour of Skatteverket Ludvika for SEK 135 thousand;
— pledge on a bank account of Arctic Paper Mochenwangen GmbH covering future retirement benefits for employees for EUR 255 thousand;
— pledges on shares in subsidiary companies in the Rottneros Group for SEK 284,730 thousand under loan agreements concluded with Danske Bank;
— guarantee by Rottneros AB for SEK 5,000 thousand vis-a-vis local authorities under future environmental obligations of the Vallvik paper mill;
— 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 Chief Executive Officer	Michał Jarczyński	28 May 2019	
Member of the Management Board Chief Financial Officer	Göran Eklund	28 May 2019	

Abbreviated quarterly consolidated financial statements

for the period of three months
ended on 31 March 2019

Consolidated financial statements

Consolidated statement of profit and loss

	3-month period ended on 31 March 2019 (unaudited)	3-month period ended on 31 March 2018 (transformed)	Year ended 31 December 2018
Continuing operations			
Revenues from sales of goods	820 572	788 054	3 158 210
Sales revenues	820 572	788 054	3 158 210
Costs of sales	(668 037)	(640 436)	(2 608 260)
Profit / (loss) on sales	152 535	147 617	549 950
Selling and distribution costs	(84 757)	(84 852)	(346 177)
Administrative expenses	(19 963)	(21 119)	(88 205)
Other operating income	26 875	17 972	47 418
Other operating expenses	(15 621)	(12 099)	(32 288)
Operating profit (loss)	59 070	47 519	130 698
Financial income	1 132	564	1 823
Financial expenses	(8 366)	(7 819)	(38 634)
Gross profit (loss)	51 836	40 264	93 888
Income tax	(13 628)	(10 605)	(33 390)
Net profit (loss) from continuing operations	38 208	29 659	60 498
Discontinued operations			
Profit (loss) for the period on discontinued operations	(1 317)	(904)	(4 609)
Net profit / (loss) for the period	36 891	28 755	55 889
Attributable to:			
The shareholders of the Parent Entity, of which:	14 252	16 095	7 673
- profit (loss) from continuing operations	15 569	16 999	12 282
- profit (loss) from discontinued operations	(1 317)	(904)	(4 609)
Non-controlling interest	22 639	12 660	48 216
- profit (loss) from continuing operations	22 639	12 660	48 216
- profit (loss) from discontinued operations	-	-	-
	36 891	28 755	55 889
Earnings per share:			
– basic earnings from the profit/(loss) for the period attributable to the shareholders of the Parent Entity	0,21	0,23	0,11
– basic earnings profit/(loss) for the period from continuing operations attributable to the shareholders of the Parent Entity	0,22	0,25	0,18
– diluted earnings from the profit for the period attributable to the shareholders of the Parent Entity	0,21	0,23	0,11
– diluted earnings from the profit for from continuing operations attributable to the shareholders of the Parent Entity	0,22	0,25	0,18

* information on the transformed data is provided in notes 6.3.1 and 6.3.2.

Consolidated statement of comprehensive income

	3-month period ended on 31 March 2019 (unaudited)	3-month period ended on 31 March 2018 (transformed)	Year ended on 31 December 2018
Net profit/(loss) for the reporting period	36 891	28 755	55 889
Items to be reclassified to profit/loss in future reporting periods:			
FX differences on translation of foreign operations	(10 303)	(18 693)	(4 881)
Measurement of financial instruments	(42 895)	8 265	72 041
Deferred income tax on the measurement of financial instruments	9 442	(1 519)	(15 066)
Items not to be reclassified to profit /loss in future reporting periods:		-	-
Actuarial profit / (loss) for defined benefit plans	-	-	(3 083)
Deferred income tax on actuarial profit / (loss) relating to defined benefit plans	-	-	668
Other comprehensive income	(43 756)	(11 947)	49 678
Total comprehensive income	(6 865)	16 807	105 567
Total comprehensive income attributable to:			
The shareholders of the Parent Entity	(13 829)	11 005	41 061
Non-controlling interest	6 964	5 803	64 506

information on the transformed data is provided in note 6.3.1

Consolidated statement of financial position

	As at 31 March 2019 (unaudited)	As at 31 December 2018	As at 31 March 2018 (transformed)
ASSETS			
Fixed assets			
Tangible fixed assets	923 567	901 960	815 424
Investment properties	4 236	4 236	4 107
Intangible assets	42 706	49 160	52 892
Interests in joint ventures	1 162	1 182	954
Other financial assets	34 498	52 520	25 700
Other non-financial assets	1 751	1 773	1 476
Deferred income tax asset	27 774	27 137	29 469
	1 035 694	1 037 969	930 023
Current assets			
Inventories	439 600	478 614	344 704
Trade and other receivables	394 445	365 946	386 337
Corporate income tax receivables	8 136	6 017	8 083
Other financial assets	22 312	14 267	26 880
Other non-financial assets	11 823	50 527	15 450
Cash and cash equivalents	208 625	201 118	205 273
	1 084 940	1 116 489	986 726
Assets related to discontinued operations	1 411	1 716	3 388
TOTAL ASSETS	2 122 045	2 156 174	1 920 137
EQUITY AND LIABILITIES			
Equity			
Equity (attributable to the shareholders of the Parent Entity)			
Share capital	69 288	69 288	69 288
Reserve capital	407 976	407 976	447 638
Other reserves	128 518	151 110	131 545
FX differences on translation	(17 815)	(12 338)	(19 661)
Retained earnings / Accumulated losses	(13 493)	(27 745)	(56 571)
Cumulated other comprehensive income related to discontinued operations	(11 660)	(11 649)	(11 795)
	562 814	576 643	560 443
Non-controling interest	291 514	284 550	237 357
Total equity	854 328	861 193	797 800
Long-term liabilities			
Interest-bearing loans, borrowings and bonds	173 903	246 805	392 995
Provisions	104 852	106 846	99 513
Other financial liabilities	32 053	2 854	3 559
Deferred income tax liability	71 244	68 316	40 483
Accruals and deferred income	15 797	16 560	18 181
	397 849	441 381	554 731
Short-term liabilities			
Interest-bearing loans, borrowings and bonds	270 806	223 698	49 377
Provisions	1 617	939	4 507
Other financial liabilities	12 691	8 486	18 084
Trade and other payables	486 181	516 678	403 176
Income tax liability	341	1 141	260
Accruals and deferred income	94 619	99 303	90 589
	866 255	850 245	565 994
Liabilities directly related to the discontinued operations	3 613	3 355	1 611
TOTAL LIABILITIES	1 267 717	1 294 981	1 122 336
TOTAL EQUITY AND LIABILITIES	2 122 045	2 156 174	1 920 137

information on the transformed data is provided in note 6.3.1

Consolidated statement of cash flow

	3-month period ended on 31 March 2019 (unaudited)	3-month period ended on 31 March 2018 (transformed)	Year ended on 31 December 2018
Cash flows from operating activities			
Gross profit (loss) from continuing operations	51 836	40 264	93 888
Gross profit/(loss) on discontinued operations	(1 295)	(911)	(4 733)
Gross profit (loss)	50 541	39 353	89 154
Adjustments for:			
Depreciation/amortisation	23 307	23 953	92 788
FX gains / (loss)	2 329	2 777	3 378
Net interest and dividends	6 134	6 431	22 525
Profit / loss from investing activities	305	(384)	74
Increase / decrease in receivables and other non-financial assets	(33 011)	(64 759)	(40 368)
Change to inventories	33 452	(2 520)	(129 261)
Increase / decrease in liabilities except for loans and borrowings	(22 403)	(13 071)	94 858
Change in accruals and prepayments	(1 782)	15 643	21 997
Change in provisions	120	608	(1 089)
Income tax paid	(4 788)	(2 493)	(5 179)
Certificates in cogeneration	5 572	(3 612)	659
Other	(15)	(127)	(927)
Net cash flows from operating activities	59 761	1 801	148 609
Cash flows from investing activities			
Disposal of tangible fixed assets and intangible assets	683	917	914
Purchase of tangible fixed assets and intangible assets	(19 447)	(32 985)	(175 300)
Other capital outflows / inflows	-	(9 642)	416
Net cash flows from investing activities	(18 764)	(41 710)	(173 970)
Cash flows from financing activities			
Change to overdraft facilities	(820)	41 681	51 209
Repayment of financial leasing liabilities	(2 425)	(23 023)	(23 707)
Inflows from other financial liabilities	-	2 096	1
Repayment of other financial liabilities	-	(0)	416
Inflows under contracted loans, borrowings and bonds	-	-	40 325
Repayment of loans, borrowings and bonds	(23 611)	(6 404)	(34 839)
Interest paid	(5 797)	(5 953)	(22 259)
Dividend disbursed to AP SA shareholders	-	-	(13 857)
Dividend disbursed to non-controlling shareholders	-	-	(11 510)
Net cash flows from financing activities	(32 654)	8 397	(14 221)
Change in cash and cash equivalents	8 344	(31 513)	(39 583)
Net FX differences	(1 237)	(4 827)	(2 179)
Cash and cash equivalents at the beginning of the period	202 090	243 851	243 851
Cash and cash equivalents at the end of the period	209 197	207 512	202 090

information on the transformed data is provided in note 6.3.1

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

	Attributable to the shareholders of the Parent Entity								
	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 (before adjustment)	69 288	447 638	(9 207)	125 997	(62 364)	(11 611)	559 740	231 555	791 294
Adjustment at 01 January 2018	-	-	-	-	(10 301)	-	(10 301)	-	(10 301)
As at 01 January 2018 (revised)*	69 288	447 638	(9 207)	125 997	(72 665)	(11 611)	549 439	231 555	780 993
Net profit for the period	-	-	-	-	16 095	-	16 095	12 660	28 755
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	16 095	-	11 005	5 803	16 807
Discontinued operations	-	-	184	-	-	(184)	-	-	-
As at 31 March 2018 (revised)*	69 288	447 638	(19 661)	131 545	(56 571)	(11 795)	560 443	237 357	797 800

information on the transformed data is provided in note 6.3.1

	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	(72 665)	(11 611)	549 439	231 555	780 993
Foreign currency translation	-	-	-	-	7 673	-	7 673	48 216	55 889
Net profit for the period	-	-	(3 168)	38 971	(2 415)	-	33 388	16 290	49 678
Other comprehensive income for the period	-	-	(3 168)	38 971	5 258	-	41 061	64 506	105 567
Total comprehensive income for the period	-	(39 662)	-	-	39 662	-	-	-	-
Profit distribution	-	-	37	-	-	(37)	-	-	-
Discontinued operations	-	-	-	(13 857)	-	-	(13 857)	-	(13 857)
Dividend distribution to non-controlling entities	-	-	-	-	-	-	-	(11 510)	(11 510)
As at 31 December 2018	69 288	407 976	(12 338)	151 110	(27 745)	(11 649)	576 643	284 550	861 193

Standalone financial statements

Standalone statement of profit and loss

	3-month period ended on 31 March 2019 (unaudited)	3-month period ended on 31 March 2018 (unaudited)	Year ended on 31 December 2018
Continuing operations			
Revenues from sales of services	7 321	8 524	37 970
Interest income on loans	1 139	1 227	4 913
Dividend income	2 650	-	39 812
Sales revenues	11 111	9 751	82 695
Interest expense to related entities and internal costs of sales of logistics services	(1 336)	(1 357)	(5 329)
Profit / (loss) on sales	9 775	8 394	77 366
Other operating income	82	58	3 960
Selling and distribution costs	(574)	(750)	(2 997)
Administrative expenses	(6 646)	(7 144)	(32 981)
Impairment charges to assets	(193)	(228)	(8 652)
Other operating expenses	(126)	(26)	(398)
Operating profit (loss)	2 318	304	36 298
Financial income	1 203	1 009	4 630
Financial expenses	(5 315)	(5 857)	(20 643)
Gross profit (loss)	(1 794)	(4 545)	20 285
Income tax	(1)	-	(762)
Net profit (loss) from continuing operations	(1 795)	(4 545)	19 523
Discontinued operations			
Profit (loss) for the period on discontinued operations	-	-	-
Net profit/ (loss) for the period	(1 795)	(4 545)	19 523
Earnings per share:			
– basic earnings from the profit (loss) for the period	(0,03)	(0,07)	(0,57)
– basic earnings from the profit (loss) from continuing operations for the period	(0,03)	(0,07)	(0,57)
– diluted earnings from the profit (loss) for the period	(0,03)	(0,07)	(0,57)
– diluted earnings from the profit (loss) from the continuing operations for the period	(0,03)	(0,07)	(0,57)

Standalone statement of comprehensive income

	3-month period ended on 31 March 2019 (unaudited)	3-month period ended on 31 March 2018 (unaudited)	Year ended on 31 December 2018
Net profit/(loss) for the reporting period	(1 795)	(4 545)	19 523
Items to be reclassified to profit/loss in future reporting periods:			
Measurement of financial instruments	774	233	(44)
FX differences on translation of foreign operations	179	334	294
Other comprehensive income (net)	954	567	250
Total comprehensive income	(841)	(3 978)	19 773

Standalone statement of financial position

	As at 31 March 2019 (unaudited)	As at 31 December 2018	As at 31 March 2018 (transformed)
ASSETS			
Fixed assets			
Tangible fixed assets	1 177	1 480	1 816
Intangible assets	1 877	1 857	1 650
Shares in subsidiaries	673 937	673 937	678 313
Other financial assets	61 256	72 742	77 696
Other non-financial assets	1 467	1 492	1 205
	739 715	751 508	760 681
Current assets			
Trade and other receivables	69 612	90 469	85 916
Income tax receivables	212	349	233
Other financial assets	107 504	123 848	94 174
Other non-financial assets	6 140	6 833	5 892
Cash and cash equivalents	5 254	19 605	28 711
	188 721	241 104	214 925
TOTAL ASSETS	928 436	992 611	975 606
EQUITY AND LIABILITIES			
Equity			
Share capital	69 288	69 288	69 288
Reserve capital	407 979	407 979	447 641
Other reserves	103 172	102 399	116 533
FX differences on translation	1 640	1 461	1 501
Retained earnings / Accumulated losses	(47 797)	(46 002)	(107 909)
Total equity	534 282	535 124	527 054
Long-term liabilities			
Interest-bearing loans, borrowings and bonds	21 507	80 782	242 031
Provisions	1 823	1 854	1 497
Other financial liabilities	132	171	286
	23 461	82 807	243 814
Short-term liabilities			
Interest-bearing loans, borrowings and bonds	308 050	272 269	124 345
Trade payables	49 096	86 924	65 735
Other financial liabilities	3 001	3 802	4 632
Other short-term liabilities	1 766	2 394	1 658
Income tax liability	-	-	123
Accruals and deferred income	8 781	9 290	8 245
	370 694	374 679	204 739
TOTAL LIABILITIES	394 155	457 486	448 553
TOTAL EQUITY AND LIABILITIES	928 436	992 611	975 606

Standalone statement of cash flow

	3-month period ended on 31 March 2019 (unaudited)	3-month period ended on 31 March 2018 (unaudited)	Year ended on 31 December 2018
Cash flows from operating activities			
Gross profit (loss)	(1 794)	(4 545)	20 285
Adjustments for:		-	
Depreciation/amortisation	100	212	475
FX gains / (loss)	(17)	710	1 721
Impairment of assets	-	-	4 377
Net interest and dividends	2 298	4 167	8 156
Profit / loss from investing activities	-	-	-
Increase / decrease in receivables and other non-financial assets	23 157	(10 129)	(11 337)
Increase / decrease in liabilities except for loans and borrowings and other financial liabilities	(38 455)	6 525	28 450
Change in accruals and prepayments	(509)	160	1 206
Change in provisions	(31)	(53)	303
Income tax paid	136	(69)	(1 070)
Change to liabilities due to cash-pooling	13 169	20 613	(82 174)
Increase / decrease of loans granted to subsidiaries	27 830	(29 671)	(53 190)
Other	228	871	(1 900)
Net cash flows from operating activities	**26 110**	**(11 208)**	**(84 699)**
Cash flows from investing activities			
Disposal of tangible fixed assets and intangible assets	204	16	-
Purchase of tangible fixed assets and intangible assets	(22)	(39)	(258)
Increase of interests in subsidiaries	-	-	-
Net cash flows from investing activities	**182**	**(23)**	**(258)**
Cash flows from financing activities			
Repayment of leasing liabilities	(118)	(71)	(283)
Borrowings received	(15 591)	3 850	(35 683)
Repayment of loan liabilities	(21 592)	(6 476)	-
Change of balance of overdraft facilities	-	6 644	125 011
Interest paid	(3 343)	(949)	(7 569)
Dividend disbursed	-	-	(13 857)
Net cash flows from financing activities	**(40 644)**	**2 998**	**67 619**
Change in cash and cash equivalents	(14 352)	(8 233)	(17 337)
Cash and cash equivalents at the beginning of the period	19 605	36 942	36 942
Cash and cash equivalents at the end of the period	**5 253**	**28 710**	**19 605**

Additional notes to the quarterly abbreviated consolidated financial statements

provided on pages 48 to 72 form an integral part hereof

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 2019	69 288	407 979	1 461	102 398	(46 002)	535 123
FX differences on translation	-	-	179	-	-	179
Net profit / (loss) for the period	-	-	-	-	(1 795)	(1 795)
Other comprehensive income for the period	-	-	-	774	-	774
Total comprehensive income for the period	-	-	179	774	(1 795)	(842)
As at 31 March 2019 (unaudited)	69 288	407 979	1 640	103 172	(47 797)	534 281

	Share capital	Reserve capital	FX differences on translation of foreign operations	Other reserves	Retained earnings / (Accumulated losses)	Total equity
As at 01 January 2018	69 288	447 641	350	148 200	(95 452)	570 026
FX differences on translation	-	-	334	-	-	334
Net profit for the period	-	-	-	-	2 377	2 377
Other comprehensive income	-	-	-	233	-	233
Total comprehensive income for the period	-	-	334	233	2 377	567
As at 31 March 2018 (unaudited)	69 288	447 641	684	148 433	(93 076)	572 970

	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
Net profit for the period	-	-	-	-	19 523	19 523
Other comprehensive income for the period	-	-	294	(44)	-	250
Total comprehensive income for the period	-	-	294	(44)	19 523	19 773
Settlement of the tax group in Sweden	-	-	-	-	(1 824)	(1 824)
Dividend distribution	-	-	-	(13 858)	-	(13 858)
Profit distribution	-	(39 662)	-	-	39 662	-
As at 31 December 2018 (audited)	69 288	407 979	1 461	102 398	(46 002)	535 123

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. 1,530 people in its paper mills and pulp mills, companies dealing in paper distribution the procurement office. The Group's Paper Mills located in Poland and Sweden have total production capacity of over 650,000 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.

Our consolidated sales revenues for 3 months of 2019 amounted to PLN 821 million.

Arctic Paper S.A. is a holding company set up in April 2008. As a result of capital restructuring carried out in 2008, the Paper Mills Arctic Paper Kostrzyn (Poland) and Arctic Paper Munkedals (Sweden), Distribution Companies and Sales Offices have become the properties of Arctic Paper S.A. Previously they were owned by Arctic Paper AB (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 the first three months ended on 31 March 2019 and include comparative data for the period of first three months ended on 31 March 2018 as well as for the twelve month period ended on 31 December 2018.

The abbreviated quarterly consolidated financial statements of the Company comprise also a statement of financial position as at 31 March 2019 and include comparative data as on 31 December 2018 and 31 March 2018.

1.1. Business objects

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

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

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

1.2. Shareholding structure

Nemus Holding AB, a company under Swedish law (a company owned indirectly by Mr Thomas Onstad), is the majority shareholder of Arctic Paper S.A., holding (as at 31 March 2019) 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 2019 was 68.13% and has not changed until the date 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		
			28 May 2019	31 March 2019	31 December 2018
Arctic Paper Kostrzyn S.A.	Poland, Fabryczna 1, 66-470 Kostrzyn nad Odrą	Paper production	100%	100%	100%
Arctic Paper Munkedals AB	Sweden, SE 455 81 Munkedal	Paper production	100%	100%	100%
Arctic Paper Mochenwangen GmbH	Germany, Fabrikstrasse 62, DE-882, 84 Wolpertswende	Paper production	99,74%	99,74%	99,74%
Arctic Paper Grycksbo AB	Sweden, Box 1, SE 790 20 Grycksbo	Paper production	100%	100%	100%
Arctic Paper UK Limited	Great Britain, 8 St Thomas Street SE1 9RR London	Trading company	100%	100%	100%
Arctic Paper Baltic States SIA	Latvia, K. Vardemara iela 33-20, Riga LV-1010	Trading company	100%	100%	100%
Arctic Paper Deutschland GmbH	Germany, Am Sandtorkai 72, 20457 Hamburg	Trading company	100%	100%	100%
Arctic Paper Benelux S.A.	Belgium,Ophemstraat 24 B-3050 Oud-Haverlee	Trading company	100%	100%	100%
Arctic Paper Schweiz AG	Switzerland, Gutenbergstrasse 1, CH-4552 Derendingen	Trading company	100%	100%	100%
Arctic Paper Italia srl	Italy, Via Cavriana 7, 20 134 Milano	Trading company	100%	100%	100%
Arctic Paper Danmark A/S	Denmark, 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%

Unit	Registered office	Group profile	Group's interest in the equity of the subsidiary entities as at		
			28 May 2019	31 March 2019	31 December 2018
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%
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 2019 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 2019, the Parent Company's Management Board was composed of:

— Michał Jarczyński – President of the Management Board appointed on 1 February 2019;
— Göran Eklund – Member of the Management Board appointed on 30 August 2017.

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

3.2. Supervisory Board of the Parent Company

As at 31 March 2019, 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 publication 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 2019, the Parent Company's Audit Committee was composed of:

- Mariusz Grendowicz – Chairman of the Audit Committee appointed on 18 September 2017 (appointed as a Member of the Audit Committee on 20 February 2013);
- Roger Mattsson – Member of the Audit Committee appointed on 23 June 2016;
- Maciej Georg – Member of the Audit Committee appointed on 22 September 2016.

On the 28th of May 2019, the Ordinary Shareholders Meeting of the Company has concluded a resolution regarding the dismissal of Mr. Maciej Georg from the position of Member of the Supervisory Board. In addition, the Ordinary Shareholders Meeting has adopted a resolution regarding the appointment of Ms. Dorota Raben as a Member of the Supervisory Board.

Until the date hereof, there were no other 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 28 May 2019.

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.

In connection with the term and revolving loan agreements, agreements related to bond issues, signed on 9 September 2016, the Group agreed to maintain specified financial ratios that are calculated at the end of each quarter. The calculation of ratios is based on paper segment results.

As at 31 March 2019, the Group failed to maintain the Net Debt to EBITDA ratio (being the ratio of interest bearing liabilities decreased by cash on hand to EBITA) and Cashlow Cover ratio as required in the loan agreement with the consortium of financing banks (Santander Bank S.A., Bank BGŻ BNP Paribas S.A. and the European Bank for Reconstruction and Development) – the Cashflow Cover being a ratio of cash flows from operating activities to the repayment amount of financial liabilities made in the 12 months from the end of each quarter (net of any discontinued operations and operations by the Rottneros Group in both ratios). The defined level of Net Debt to EBITDA has also not been complied with according to bonds' terms and conditions. Failure to comply with the ratios was due to higher pulp prices and maintaining lower demand for paper..

After the balance sheet date, Arctic Paper S.A. received a written assurance from Santander Bank S.A. acting as the consortium agent of the financing banks that failure by the Group to comply with the required level ratios as at 31 March 2018 does not constitute an event of default under the loan agreement of 9 September 2016. In accordance with IAS 1, as such assurance was not available on 31 March 2018, the Group disclosed its entire debt to the bank consortium as at that day as short-term liabilities: interest-bearing loans, borrowings and bonds.

Similarily, the whole debt resulting from bonds was disclosed as short-term. At the same time, the Management Board have taken the preventive and remedial actions in order to prevent any potential negative effects that may occur due to the breach of the terms of issue of the Bonds. Therefore, depending on the effect of those actions, the breach of the financial covenants alone might not lead to the holders of the Bonds becoming entitled to exercise the right to redeem the Bonds early or have other potential negative effects for the Company.

In particular, as part of the actions referred to above, the Company initiated talks with the entity acting as, inter alia, the issuing agent of the Bonds, i.e. Haitong Bank S.A. Spółka Akcyjna Oddział w Polsce, inter alia in order to obtain a waiver from the holders of the Bonds of their right to redeem the Bonds early on the terms described in the terms of issue of the Bonds.

With regard to the above, the Management Board is of the opinion that, despite the existing risk, the adoption of the assumption that the Group will continue as going concerns is reasonable.

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 2018.

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 2018, with the following exceptions:

— IFRS 16 Leasing – effective for financial years beginning on or after 1 January 2019,

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

6.1. Implementation of IFRS 16

In January 2016, the International Accounting Standards Board issued International Financial Reporting Standard 16 *Leases* ("IFRS 16"), which replaced IAS 17 Leases, IFRIC 4 Determining whether an Arrangement Contains a Lease, SIC 15 Operating Leases – Incentives and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the accounting principles for leases in terms of measurement, presentation and disclosure.

IFRS 16 introduces a uniform model of the lessee accounting and requires the lessee to recognize assets and liabilities resulting from each lease with a period exceeding 12 months, unless the underlying asset is of low value. On the lease commencement date, the lessee recognizes an asset with respect to the right to use the underlying asset and a lease liability that reflects the lessee's obligation to make lease payments.

The lessee separately recognizes depreciation of an asset with respect to the right of use and interest on the lease liability.

The lessee updates the measurement of the lease liability after the occurrence of certain events (e.g. changes in the lease period, changes in future lease payments resulting from a change in the index or the rate used to determine such payments). As a rule, the lessee recognizes the revaluation of the lease liability as an adjustment to the value of the asset with respect to the right of use.

The Group is a lessee primarily in case of perpetual usufruct right of land, rental contracts for office space, lease of motor vehicles and machines and equipment.

The lessor accounting under IFRS 16 remains substantially unchanged from to the current accounting under IAS 17. The lessor includes all lease agreements using the same classification principles as in the case of IAS 17, distinguishing between operating leases and financial leasing.

IFRS 16 requires broader disclosures from both the lessee and the lessor than in the case of IAS 17.

The lessee has the right to choose a full or modified retrospective approach, and the transitional provisions provide for some practical solutions.

IFRS 16 is effective for annual periods beginning on and after 1 January 2019. Earlier application is permitted for entities which apply IFRS 15 from or before the date of the first application of IFRS 16. The Group did not decide on early adoption of IFRS 16.

As at 1 January 2019, prospectively the Group implemented a uniform model of lessee accounting covering lease contracts in compliance with IFRS 16 with terms in excess of 12 months unless the underlying asset has value under EUR 5 thousand. The contracts covered with IFRS 16 are mainly operational lease contracts within the meaning of IAS 17 (motor vehicles and fork-lift trucks, office equipment, perpetual usufruct right of land in Poland) and lease contracts for specified periods of time over 12 months from 31 December 2018 (lease of warehouse and office space, rental of machinery).

As at 1 January 2019, the value of use rights, disclosed in tangible fixed assets and lease liabilities grew by PLN 37,863 thousand. Due to the simplifications applied in the implementation of IFRS 16, the Group did not adjust any comparable data as at 31 December 2018.

6.2. 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 2019	As at 31 December 2018
USD	3,8365	3,7597
EUR	4,3013	4,3000
SEK	0,4130	0,4201
DKK	0,5761	0,5759
NOK	0,4433	0,4325
GBP	4,9960	4,7895
CHF	3,8513	3,8166

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

	01/01 - 31/03/2019	01/01 - 31/03/2018
USD	3,7883	3,4009
EUR	4,3033	4,1806
SEK	0,4131	0,4192
DKK	0,5765	0,5614
NOK	0,4416	0,4338
GBP	4,9322	4,7327
CHF	3,8003	3,5875

6.3. Data comparability and adjustments to previous years' errors

6.3.1. Data comparability – adjustment of errors

As a result an analysis of IAS 17 Leases, as at 31 December 2018 the Group decided to make an adjustment to eliminate perpetual usufruct right to land and to treat it as operational lease, applying the adjustment retrospectively.

As a consequence, modifications were made to the value of tangible fixed assets, equity and deferred income tax for the comparable data in this quarterly report for the three months ended on 31 March 2018.

As at 31 March 2018 tangible fixed assets were reduced by PLN 12,395 thousand, deferred income tax provision was reduced by PLN 2,355 thousand and the equity was reduced by PLN 10,040 thousand, of which the costs of sales (depreciation costs) for 3 months of 2018 were reduced by PLN 37 thousand, other operational income grew by PLN 285 thousand, deferred income tax recognised in profit and loss account for 3 months of 2018 grew by PLN 61 thousand and retained profit/accumulated loss as at 31 March 2018 net of profit for 2018 were reduced by PLN 10,301 thousand .

Basic and diluted profit per share attributable to the shareholders of the parent entity for the three-month period ended on 31 March 2018 was not changed and amounted to PLN 0.23.

6.3.2. Data comparability – presentation of revenues from pulp sales

Effective on 1 January 2018, the Rottneros Group and the Arctic Paper Group recognised result of completed forward contracts for the sale of pulp as revenues from auxiliary products. For that reason, ad adjustment was made to comparable data for the three months of 2018 by reducing sales revenues by PLN 1,677 thousand, increasing other operating income by PLN 5,869 thousand (result on completed forward contracts for the sale of pulp) and increasing costs of sales by PLN 4,192 thousand (revenues on the sale of auxiliary products).

Additionally, an adjustment in the presentation was made to the comparable data for the three months ended on 31 March 2018 by decreasing the costs of sales by PLN 33,473 thousand and by increasing expenses by PLN 28.049 thousand and increasing the overheads by PLN 5,424 thousand.

7. Seasonality

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

8. Information on business segments

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

- Arctic Paper Kostrzyn S.A. (Poland) – producer of high quality uncoated graphic paper under the Amber brand; production output of 280,000 tons of paper annually;
- Arctic Paper Munkedals AB (Sweden) – producer of high quality uncoated graphic paper under the Munken brand; production output of 160,000 tons of paper annually;
- Arctic Paper Grycksbo (Sweden) – product\ion of coated wood-free paper under the G-Print and Arctic brands, production capacity of 210,000 tons annually (in 2018 - before one of the paper machines was closed at the beginning of 2019 - 250,000 tons annually).

In connection with the acquisition of the Rottneros Group in December 2012, including two Pulp Mills, the Arctic Paper Group has distinguished its operational segment "Pulp".

The Group identifies the following business segments:

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

The split of operating segments into the uncoated and coated paper segments is due to the following factors:

- Demand for products and their supply as well as the prices of products sold in the market are affected by key operational factors for each segment, such as e.g. the production capacity level in the specific paper segment,
- The key operating parameters such as inflow of orders or the level of production costs are determined by the factors that are similar for each paper segment,
- The products manufactured at the Paper Mills operated by the Group may (with certain restrictions) be allocated to production in other entities within the same paper segment which to a certain extent distorts the financial results generated by each Paper Mill,
- The results of the Arctic Paper Group are under the pressure of global market trends with respect to the prices of paper and core raw materials, in particular of pulp, and to a lesser extent are subject to the specific conditions of production entities.

Every month, on the basis of internal reports received from companies (apart from companies of the Rottneros Group), the results in each operating segment are analysed by the management of the Group. The financial results of companies in the Rottneros Groups are analysed on the basis of quarterly financial results published on the websites of Rottneros AB.

The operating results are measured primarily on the basis of EBITDA calculated by adding depreciation/amortisation and impairment charges to tangible fixed assets and intangible assets to profit (loss) on operations, in each case in compliance with IFRS. In accordance with IFRS, EBITDA is not a metric of 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 2019 and as at 31 March 2019.

3-month period ended on 31 March 2019 and on 31 March 2019

	Uncoated	Coated	Pulp	Other	Total	Exclusions	Total continuing operations
Revenues							
Sales to external customers	406 676	166 668	247 228	-	820 572	-	820 572
Sales between segments	-	8 918	13 012	7 321	29 252	(29 252)	-
Total segment revenues	406 676	175 586	260 240	7 321	849 823	(29 252)	820 572
Result of the segment							
EBITDA	18 162	(1 483)	66 093	(699)	82 073	303	82 377
Interest income	152	79	0	1 903	2 134	(1 652)	482
Interest expense	(1 169)	(946)	(2 065)	(3 609)	(7 790)	1 112	(6 677)
Depreciation/amortisation	(14 730)	45	(8 385)	(235)	(23 307)	-	(23 307)
FX gains and other financial income	769	108	2 892	3 571	7 339	(6 689)	650
FX losses and other financial expenses	(2 197)	(1 136)	-	(2 057)	(5 390)	3 701	(1 689)
Gross profit	987	(3 333)	58 533	(1 127)	55 060	(3 225)	51 836
Assets of the segment	956 675	261 953	980 912	422 937	2 622 476	(530 778)	2 091 698
Liabilities of the segment	488 841	418 152	334 530	395 592	1 637 115	(444 255)	1 192 859
Capital expenditures	(9 687)	(363)	(9 372)	(25)	(19 447)	-	(19 447)
Interests in joint ventures	1 162	-	-	-	1 162	-	1 162

- Revenues from inter-segment transactions are eliminated on consolidation.
- The results of the segments do not cover financial income (PLN 1,132 thousand of which PLN 482 thousand is interest income) and financial expenses (PLN 8,366 thousand of which PLN 6,677 thousand is interest expense), depreciation/amortisation (PLN 23,307 thousand), and income tax liability (PLN 13,628 thousand) . However, segment result includes inter-segment loss (PLN 303 thousand).
- Assets and liabilities of segments do not contain any deferred income tax (asset: PLN 27,774 thousand, provision: PLN -71,244 thousand), since those items are managed at the Group level. Segment assets do not also include investments in companies operating within the Group.

The table below presents data concerning revenues and profit as well as certain assets and liabilities by segment of the Group for 3-month period ended on 31 March 2018 (transformed data) and as at 31 December 2018.

3-month period ended on 31 March 2018 (transformed data) and as at 31 December 2018

	Uncoated	Coated	Pulp	Other	Total	Exclusions	Total continuing operations
Revenues							
Sales to external customers	407 071	166 550	214 433	-	788 054	-	788 054
Sales between segments	-	6 009	10 683	8 524	25 216	(25 216)	-
Total segment revenues	407 071	172 559	225 115	8 524	813 269	(25 216)	788 054
Result of the segment							
EBITDA	38 517	(6 087)	39 825	(103)	72 153	(680)	71 472
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	(14 055)	(2 523)	(7 252)	(123)	(23 953)	-	(23 953)
Impairment of fixed assets	-	-	-	-	-	-	-
FX gains and other financial	1 984	97	2 515	854	5 450	(5 166)	284
FX losses and other financial	(1 206)	(2 739)	-	(2 160)	(6 105)	4 986	(1 118)
Gross profit (loss)	24 508	(12 072)	32 992	(3 850)	41 578	(1 313)	40 264
Assets of the segment	972 636	260 699	963 033	485 004	2 681 372	(555 233)	2 126 139
Liabilities of the segment	494 701	404 565	336 500	457 485	1 693 251	(469 942)	1 223 309
Capital expenditures	(16 132)	(3 848)	(12 965)	(39)	(32 985)	-	(32 985)
Interests in joint ventures	1 182	-	-	-	1 182	-	1 182

— 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 23,953 thousand), and income tax liability (PLN 10,605 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 27,137 thousand, provision: PLN - 68,316 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 2018 and as at 31 December 2018.

Twelve month period ended on 31 December 2018 and on 31 December 2018

	Uncoated	Coated	Pulp	Other	Total	Exclusions	Total continuing opetations
Revenues							
Sales to external customers	1 608 610	654 674	894 926	-	3 158 210	-	3 158 210
Sales between segments	-	24 959	44 258	37 970	107 188	(107 188)	-
Total segment revenues	1 608 610	679 633	939 184	37 970	3 265 398	(107 188)	3 158 210
Result of the segment							
EBITDA	95 920	(28 435)	157 500	(1 230)	223 755	(269)	223 486
Interest income	511	82	0	7 532	8 126	(6 946)	1 179
Interest expense	(3 398)	(3 670)	(8 311)	(13 053)	(28 432)	4 670	(23 762)
Depreciation/amortisation	(51 484)	(9 164)	(31 666)	(474)	(92 788)	-	(92 788)
Impairment of fixed assets	-	-	-	-	-	-	-
FX gains and other financial income	2 020	395	6 649	43 757	52 821	(52 177)	644
FX losses and other financial expenses	(11 108)	(7 381)	-	(9 112)	(27 601)	12 729	(14 872)
Profit before tax	32 462	(48 173)	124 172	27 420	135 880	(41 993)	93 888
Assets of the segment	972 636	260 699	963 033	485 004	2 681 372	(555 233)	2 126 139
Liabilities of the segment	494 701	404 565	336 500	457 485	1 693 251	(469 942)	1 223 309
Capital expenditures	(62 464)	(6 354)	(106 224)	(258)	(175 300)	-	(175 300)
Interests in joint ventures	1 182	-	-	-	1 182	-	1 182

— Revenues from inter-segment transactions are eliminated on consolidation.
— The results of the segments do not cover financial income (PLN 1,823 thousand of which PLN 1,179 thousand is interest income) and financial expenses (PLN 38,634 thousand of which PLN 23,762 thousand is interest expense), depreciation/amortisation (PLN 92,788 thousand), impairment of non-financial assets PLN 0 thousand) and income tax liability (PLN -33,390 thousand) . However, segment results include inter-segment sales profit – PLN 269 thousand.
— Assets and liabilities of segments do not contain any deferred income tax (asset: PLN 27,137 thousand, provision: PLN 68,316 thousand, since those items are managed at the Group level. Segment assets do not also include investments in companies operating in the Group.

9. Assets classified as available for sale, discontinued operations

The Management Board of Arctic Paper S.A. continues its search for buyer for the factory of Arctic Paper Mochenwangen. 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 the day the search for a buyer commenced. In view of a continued search for an investor for the factory of Arctic Paper Mochenwangen or its individual assets, the Management Board decided to treat the operations of the Mochenwangen Group as discontinued activities also as at 31 March 2019; additionally, as from and as at 31 December 2017, the Management Board decided that the provision for retirement benefits 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.
In 2019 the Management Board decided that the land will not be sold as a part of discontinued operations. The value of the land as at 31 March 2019 amounted to PLN 0 (as at 31 December 2018 and 31 March 2018: PLN 0).

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

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 2019 (unaudited)	3-month period ended on 31 March 2018 (unaudited)
Revenues from sales of goods	-	-
Costs of sales	-	-
Profit / (loss) on sales	-	-
Selling and distribution costs	-	-
Administrative expenses	(1 528)	(1 133)
Other operating income	241	222
Other operating expenses	(9)	-
Operating profit (loss)	(1 295)	(911)
Financial income	-	-
Financial expenses	-	-
Gross profit (loss)	(1 295)	(911)
Income tax	(22)	7
Profit (loss) from discontinued operations	(1 317)	(904)
Cumulated other comprehensive income related to discontinued operations		
FX differences on translation of foreign operations	(11)	(184)
Actuarial profit/loss	-	-
	(11)	(184)
Earnings per share:		
– basic profit/(loss) from discontinued operations attributable to the shareholders of the Parent Entity	(0,02)	(0,01)
– diluted profit from discontinued operations attributable to the shareholders of the Parent Entity	(0,02)	(0,01)

Net assets related to discontinued operations	As at 31 March 2019 (unaudited)	As at 31 December 2018 (audited)
Assets related to discontinued operations		
Trade and other receivables	714	619
Corporate income tax receivables	125	125
Cash and cash equivalents	572	972
	1 411	1 716
Liabilities directly related to the discontinued operations		
Provisions	865	864
Trade and other payables	2 542	2 284
Income tax liability	30	30
Accruals and deferred income	176	176
	3 613	3 355
Net assets related to discontinued operations	(2 202)	(1 639)

Cash flows related to discontinued operations	3-month period ended on 31 March 2019	3-month period ended on 31 March 2018
Net cash flows from operating activities	(960)	(230)
Net cash flows from investing activities	-	-
Net cash flows from financing activities	559	-
Increase / (decrease) in cash and cash equivalents	(401)	(230)
Net FX differences	1	21
Cash and cash equivalents at the beginning of the period	972	2 448
Cash and cash equivalents at the end of the period	572	2 239

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 2018.

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).

The Company's General Meeting held on 13 June 2018 approved the financial statements for 2017, and approved a resolution on distribution of dividend to the Company's shareholders from its retained net profit in the Company's reserves of PLN 13,857,556.60. Dividend per share was PLN 0.20. The Company's General Meeting determined 20 June 2018 as the ex-dividend date and 27 June 2018 as the dividend distribution date. The dividend was paid according to schedule.

The Company's Ordinary Shareholders Meeting held on 28 May 2019 did not make a decision on dividend disbursement.

11. Earnings per share

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

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

	3-month period ended on 31 March 2019 (unaudited)	3-month period ended on 31 March 2018 (revised)
Net profit / (loss) for the reporting period from continuing operations attributable to the shareholders of the Parent Entity	15 569	16 999
Net profit / (loss) for the reporting period from discontinued operations attributable to the shareholders of the Parent Entity	(1 317)	(904)
Net profit (loss) for the reporting period attributable to the shareholders of the Parent Entity	14 252	16 095
Number of ordinary shares – A series	50 000	50 000
Number of ordinary shares – B series	44 253 500	44 253 500
Number of ordinary shares – C series	8 100 000	8 100 000
Number of ordinary shares – E series	3 000 000	3 000 000
Number of ordinary shares – F series	13 884 283	13 884 283
Total number of shares	69 287 783	69 287 783
Weighted average number of shares	69 287 783	69 287 783
Diluted weighted average number of ordinary shares	69 287 783	69 287 783
Profit (loss) per share (in PLN)		
– basic earnings from the profit/(loss) for the period attributable to the shareholders of the Parent Entity	0,21	0,23
– basic earnings profit/(loss) for the period from continuing operations attributable to the shareholders of the Parent Entity	0,22	0,25
Diluted profit (loss) per share (in PLN)		-
– from the profit/(loss) for the period attributable to the shareholders of the Parent Entity	0,21	0,23
– from the profit/(loss) for the period from continuing operations attributable to the shareholders of the Parent Entity	0,22	0,25

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 23,611 thousand and the Group increased its debt under overdraft facilities to the above consortium of banks by PLN 820 thousand.

The other changes to loans and borrowings as at 31 March 2019, compared to 31 December 2018 result mainly from balance sheet evaluation and payment of interest accrued as at 31 December 2018 and paid in Q1 2019.

In connection with the term and revolving loan agreements, agreements related to bond issues, signed on 9 September 2016, the Group agreed to maintain specified financial ratios that are calculated at the end of each quarter. As at 31 March 2019, the Group failed to comply with the ratios specified in the loan agreement and the bond issue agreement. As a result, the entire debt under those agreements was disclosed as short-term liabilities as at 31 March 2019.

13. Equity securities

e capital	As at 31 March 2019 (unaudited)	As at 31 December 2018
s A ordinary shares of the nominal value of PLN 1 each	50	50
s B ordinary shares of the nominal value of PLN 1 each	44 254	44 254
s C ordinary shares of the nominal value of PLN 1 each	8 100	8 100
s E ordinary shares of the nominal value of PLN 1 each	3 000	3 000
s 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
nary issued and fully paid-up shares			
ued on 30 April 2008	28.05.2008	50 000	50 000
ued on 12 September 2008	12.09.2008	44 253 468	44 253 468
ued on 20 April 2009	01.06.2009	32	32
ued on 30 July 2009	12.11.2009	8 100 000	8 100 000
ued on 01 March 2010	17.03.2010	3 000 000	3 000 000
ued on 20 December 2012	09.01.2013	10 740 983	10 740 983
ued on 10 January 2013	29.01.2013	283 947	283 947
ued on 11 February 2013	18.03.2013	2 133 100	2 133 100
ued on 06 March 2013	22.03.2013	726 253	726 253
t 31 March 2019 (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 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 2019, 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.

As at 31 March 2019, the Group used fair value hedge accounting for the following hedging items:

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

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	2 019
Maturity date	subject to contract; by 3.05.2019
Hedged amount	EUR 2.5 million
Term exchange rate	10.59 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	2 019
Maturity date	subject to contract; by 10.05.2019
Hedged amount	USD 10.0 million
Term exchange rate	9.30 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	2 018
Maturity date	individually per contract up to 31.12.2019
Hedged quantity of pulp	9,000 tons
Term price	SEK 9,800/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 01.05.2015
Maturity date	subject to contract; by 31.12.2023
Hedged quantity of electricity	1.260.000 MWh
Term price	from 16.55 to 36.30 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 revolving long-term loans
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

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	27.07.2018
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 28.02.2022
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 3,344 thousand.

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 revolving long-term loans
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	Hedge of cash flows related to variable interest rate on the PLN long-term loan
Hedged position	Future PLN interest flows on PLN loan calculated on the basis of 3M WIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in PLN on the PLN loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	31.07.2018
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 29.01.2021
Hedged value	interest payable in line with the payment schedule under the loan agreement of PLN 25.8 million.

14.1.2. Fair value hedges

As at 31 March 2019, the Group had floor options as hedge to fair value.

Fair value hedge accounting related to a floor option

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

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	27.07.2018
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 28.02.2022
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 3,344 thousand.

14.1.3. Other information on derivative instruments

The table below presents the fair value of hedging instruments in cash flow and fair value hedge accounting as at 31 March 2019 and the comparative data:

	As at 31 March 2019		As at 31 December 2018	
	(unaudited)	(unaudited)		
	Assets	Equity and Liabilities	Assets	Equity and Liabilities
FX forward	413	-	420	-
Forward on pulp sales	-	2 065	-	3 361
SWAP	-	3 104	-	3 879
Floor option	-	(178)	-	(231)
Forward for electricity	45 994	-	92 046	-
Total hedging derivative instruments	**46 407**	**4 991**	**92 466**	**7 009**

15. Financial risk management objectives and policies

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

The Group also uses factoring without recourse for trade receivables. The main purpose for using the financial instrument is to quickly raise funds. The receivables covered with factoring were derecognised from the consolidated balance sheet since conditions have been met to derecognise the assets in compliance with IAS 39

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

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

In the opinion of the Management Board – in comparison to the annual consolidated financial statements made as at 31 December 2018 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 2018, there have been no significant changes to the objectives and policies of capital management.

17. Contingent liabilities and contingent assets

As at 31 March 2019, the Group reported:

— contingent liability under a guarantee for FPG in favour of the mutual life insurance company PRI for SEK 1,410 thousand (PLN 592 thousand) at Arctic Paper Grycksbo AB and for SEK 773 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 168 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 2013-2018 and in Q1 2019.

(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	46 003	-
Issue	(150 577)	(147 950)	(162 467)	(170 696)	(142 784)	(136 565)	(36 486)	-
Purchased quantity	-	-	-	-	-	-	-	-
Sold quantity	-	-	-	-	-	-	-	-
Unused quantity	306 448	263 932	203 917	133 061	87 652	46 003	-	-

(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)	(27 676)	-
Issue	(1 281)	(3 407)	(32 465)	(21 038)	(40 160)	(57 368)	(12 474)	-
Purchased quantity	-	-	7	-	-	-	-	-
Sold quantity	-	-	(100 000)	(50 000)	-	-	-	-
Unused quantity	67 262	107 325	17 559	(11 572)	(10 619)	(27 676)	(651) **	

(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)	(72 715)	(68 730)	-
Unused quantity	111 448	734	60	1 008	2 564	-	-	-

(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	73 104	-
Issue	(13 047)	(19 020)	(26 933)	(21 293)	(18 707)	(15 372)	(6 705)	-
Purchased quantity	-	-	-	-	-	-	-	-
Sold quantity	-	-	-	-	-	(63 000)	(55 000)	-
Unused quantity	90 522	101 986	104 991	113 085	123 208	73 104	39 097	-

* - the values result from the Regulation of the Council of Ministers on the list of installations other than generating electrical energy, subject to the trading system of rights to emit greenhouse gases in the settlement period commencing on 1 January 2013, along with the number of emission rights allocated thereto.

** - any deficit of emission rights as at 31 December 2018 will be covered from a surplus over the estimated annual issue of the new allocation for 2019, available before the rights for 2018 have to be accounted for; the shortage for 2019 will covered with the allocations for 2020.

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 2018.

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 2019, 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 62,718 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 6,513 thousand as at 31 March 2019.

21. Material events after the balance sheet date

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

Signatures of the Members of the Management Board

Position	First and last name	Date	Signature
President of the Management Board Chief Executive Officer	Michał Jarczyński	28 May 2019	
Member of the Management Board Chief Financial Officer	Göran Eklund	28 May 2019	

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