

An aerial photograph of a dense forest of evergreen trees, likely spruce or fir, with a rich green color palette. The trees are packed closely together, creating a textured, layered appearance. The lighting is even, highlighting the intricate details of the needles and branches.

ARCTIC PAPER CAPITAL GROUP

Consolidated quarterly report
for Q3 2020

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Introduction

Information on the report

This Consolidated Quarterly Report for Q3 2020 was prepared in accordance with the Regulation of the Minister of Finance of 29 March 2018 on current and periodic information provided by issuers of securities and on conditions under which information required by legal regulations of a third country may be recognised as equivalent (Journal of Laws of 2018, item 757) and a part of the interim abbreviated consolidated financial statements in accordance with International Accounting Standard No. 34.

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 31 December 2019.

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

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

Definitions and abbreviations

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

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

Arctic Paper, Company, Issuer, Parent Entity, AP	Arctic Paper Spółka Akcyjna with its registered office in Kostrzyn nad Odra, 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 Götaland 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 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 Verwaltungen GmbH, Arctic Paper Immobilienverwaltungs GmbH & Co.KG
Grycksbo Group	Arctic Paper Grycksbo AB and Arctic Paper Investment AB
Sales Offices	<p>Arctic Paper Papierhandels GmbH with its registered office in Vienna (Austria)</p> <p>Arctic Paper Benelux SA with its registered office in Oud-Haverlee (Belgium)</p> <p>Arctic Paper Danmark A/S with its registered office in Greve (Denmark)</p> <p>Arctic Paper France SA with its registered office in Paris (France)</p> <p>Arctic Paper Deutschland GmbH with its registered office in Hamburg, (Germany)</p> <p>Arctic Paper Italia Srl with its registered office in Milan (Italy)</p> <p>Arctic Paper Baltic States SIA with its registered office in Riga (Latvia)</p> <p>Arctic Paper Norge AS with its registered office in Oslo (Norway)</p> <p>Arctic Paper Polska Sp. z o.o. with its registered office in Warsaw (Poland)</p> <p>Arctic Paper España SL with its registered office in Barcelona (Spain)</p> <p>Arctic Paper Finance AB with its registered office in Munkedal (Sweden)</p> <p>Arctic Paper Schweiz AG with its registered office in Derendingen (Switzerland)</p> <p>Arctic Paper UK Ltd with its registered office in London (UK)</p> <p>Arctic Paper East Sp. z o.o. with its registered office in Kostrzyn nad Odrą (Poland)</p>
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 Söderhamn, Sweden; Rottneros Bruk AB with its registered office in Rottneros, Sweden; Utansjo Bruk AB with its registered office in Söderhamn, Sweden, Vallviks Bruk AB with its registered office in Vallvik, Sweden; Rottneros Packaging AB with its registered office in Sunne,

	Sweden; SIA Rottneros Baltic with its registered office in Kuldiga, Latvia; since 1 January 2020 – Nykvist Skogs AB with its registered office in Gråsmark, Sweden
Pulp mills	Rottneros Bruk AB with its registered office in Rottneros, Sweden; Vallviks Bruk AB with its registered office in Vallvik, Sweden
Rottneros Purchasing Office	SIA Rottneros Baltic with its registered office in Kuldiga, 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.
AGM, GM, 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 gross profit (loss) on sales to sales revenues from continuing operations
EBIT	Profit on continuing operating activities
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
EBITDA profitability, EBITDA margin	Ratio of operating profit plus depreciation and amortisation and impairment charges of assets to sales revenues from continuing operations
Gross profit margin	Ratio of gross profit (loss) to sales revenues from continuing operations
Sales profitability ratio, net profit margin	Ratio of net profit (loss) to sales revenues
Return on equity, ROE	Ratio of net profit (loss) to equity income
Return on assets, ROA	Ratio of net profit (loss) to total assets
EPS	Earnings Per Share, ratio of net profit to the weighted average number of shares
BVPS	Book Value Per Share, Ratio of book value of equity to the number of shares
Debt-to-equity ratio	Ratio of total liabilities to equity
Equity to fixed assets ratio	Ratio of equity to fixed assets
Interest-bearing debt-to-equity ratio	Ratio of interest-bearing debt and other financial liabilities to equity
Net debt-to-EBITDA ratio	Ratio of interest-bearing debt minus cash to EBITDA from continuing operations
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 and deferred income 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 cost of sales from continuing operations multiplied by the number of days in the period
Operating cycle	DSI + DSO
Cash conversion cycle	Operating cycle – DPO
FY	Financial year
Q1	1st quarter of the financial year
Q2	2nd quarter of the financial year
Q3	3rd quarter of the financial year
Q4	4th quarter of the financial year
H1	First half of the financial year
H2	Second half of the financial year
YTD	Year-to-date
Like-for-like, LFL	Analogous, with respect to operating result.
p.p.	Percentage point, difference between two amounts of one item given in percentage
PLN, zł, zloty	Monetary unit of the Republic of Poland
gr	grosz – 1/100 of one zloty (the monetary unit of the Republic of Poland)
Euro, EUR	Monetary unit of the European Union
GBP	Pound sterling, monetary unit of the United Kingdom
SEK	Swedish Krona – monetary unit of the Kingdom of Sweden
USD	United States dollar, the legal tender in the United States of America
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
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 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.

Forward looking statements relating to risk factors

In this report we described the risk factors that the Management Board of our Group considers specific to the sector we operate in; however, the list may not be exhaustive. Other factors may arise that have not been identified by us and that could have material and adverse impact on the business, financial condition, results on operations or prospects of the Arctic Paper Group. In such circumstances, the price of the shares of the Company listed at the Warsaw Stock Exchange or at NASDAQ in Stockholm may decrease, investors may lose their invested funds in whole or in part and the potential dividend disbursement by the Company may be limited.

We ask you to perform a careful analysis of the information disclosed in 'Risk factors' of this report – the section contains a description of risk factors and uncertainties related to the business of the Arctic Paper Group.



**Selected consolidated
and standalone
financial data**

Selected consolidated financial data

	Period from 01.01.2020 to 30.09.2020 PLN'000	Period from 01.01.2019 to 30.09.2019 PLN'000	Period from 01.01.2020 to 30.09.2020 EUR'000	Period from 01.01.2019 to 30.09.2019 EUR'000
Continuing operations				
Sales revenues	2 132 784	2 377 452	482 084	552 615
Operating profit (loss)	163 028	178 253	36 850	41 433
Gross profit (loss)	138 807	152 807	31 375	35 518
Net profit (loss) from continuing operations	118 418	119 150	26 767	27 695
Net profit (loss) for the financial year	118 418	119 150	26 767	27 695
Net profit (loss) for the financial year attributable to the shareholders of the Parent Entity	109 861	72 214	24 832	16 785
Net cash flows from operating activities	187 557	224 904	42 394	52 277
Net cash flows from investing activities	(107 621)	(74 201)	(24 326)	(17 247)
Net cash flows from financing activities	(86 016)	(94 615)	(19 443)	(21 992)
Change in cash and cash equivalents	(6 080)	56 088	(1 374)	13 037
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)	1,59	1,04	0,36	0,24
Diluted EPS (in PLN/EUR)	1,59	1,04	0,36	0,24
Mean PLN/EUR exchange rate*			4,4241	4,3022

	As at 30 September 2020 PLN'000	As at 31 December 2019 PLN'000	As at 30 September 2020 EUR'000	As at 31 December 2019 EUR'000
Assets	2 123 824	2 035 753	469 167	478 045
Long-term liabilities	504 896	477 127	111 535	112 041
Short-term liabilities	641 348	688 098	141 678	161 582
Equity	977 580	870 528	215 954	204 421
Share capital	69 288	69 288	15 306	16 270
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)	14,11	12,56	3,12	2,95
Diluted book value per share (in PLN/EUR)	14,11	12,56	3,12	2,95
Declared or paid dividend (in PLN/EUR)	-	-	-	-
Declared or paid dividend per share (in PLN/EUR)	-	-	-	-
PLN/EUR exchange rate at the end of the period**	-	-	4,5268	4,2585

* – 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 arithmetic exchange rates published by the National Bank of Poland, prevailing on the balance sheet date.

Selected standalone financial data

	Period from 01.01.2020 to 30.09.2020 PLN'000	Period from 01.01.2019 to 30.09.2019 PLN'000	Period from 01.01.2020 to 30.09.2020 EUR'000	Period from 01.01.2019 to 30.09.2019 EUR'000
Sales revenues	32 094	52 726	7 254	12 255
Operating profit (loss)	12 737	29 702	2 879	6 904
Gross profit (loss)	4 396	19 084	994	4 436
Net profit (loss) from continuing operations	4 396	19 083	994	4 436
Net profit (loss) for the financial year	4 396	19 083	994	4 436
Net cash flows from operating activities	114 318	58 422	25 840	13 580
Net cash flows from investing activities	-	(1 618)	-	(376)
Net cash flows from financing activities	(85 467)	(60 544)	(19 318)	(14 073)
Change in cash and cash equivalents	28 852	(3 740)	6 522	(869)
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)	0,06	0,28	0,01	0,06
Diluted EPS (in PLN/EUR)	0,06	0,28	0,01	0,06
Mean PLN/EUR exchange rate*			4,4241	4,3022

	As at 30 September 2020 PLN'000	As at 31 December 2019 PLN'000	As at 30 September 2020 EUR'000	As at 31 December 2019 EUR'000
Assets	881 904	926 486	194 819	217 562
Long-term liabilities	33 708	57 326	7 446	13 462
Short-term liabilities	275 449	301 081	60 849	70 701
Equity	572 747	568 078	126 524	133 399
Share capital	69 288	69 288	15 306	16 270
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)	8,27	8,20	1,83	1,93
Diluted book value per share (in PLN/EUR)	8,27	8,20	1,83	1,93
Declared or paid dividend (in PLN/EUR)	-	-	-	-
Declared or paid dividend per share (in PLN/EUR)	-	-	-	-
PLN/EUR exchange rate at the end of the period**			4,5268	4,2585

* – 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 arithmetic exchange rates published by the National Bank of Poland, prevailing on the balance sheet date.



**Management Board's Report
from operations of the
Arctic Paper Capital Group
and of Arctic Paper S.A.**

to the report for Q3 2020

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. 1,500 people in its Paper Mills, Pulp Mills, companies dealing in paper distribution and sales, a company dealing in timber procurement for pulp production and in a company of forest owners. Our paper mills are located in Poland and Sweden and have total production capacity of more than 685,000 metric tonnes of paper per year. The Pulp Mills are located in Sweden and have total production capacity of 400,000 tonnes 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 three quarters of 2020 amounted to PLN 2,133 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. On 8 October 2019, the court registered change of the Company's registered office to Kostrzyn nad Odrą. The Company also has a foreign branch in Göteborg, Sweden.

Group Profile

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

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

- production and sales of pulp,
- generation of electricity,
- transmission of electricity,
- electricity distribution,
- heat production,
- heat distribution,
- logistics services,
- paper distribution.

Our production facilities

As on 30 September 2020, 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 315,000 tonnes 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 tonnes per year (after the closure of one paper machine in H1 2019) and produces coated wood-free paper used for printing maps, books, magazines, posters and printing of advertising materials.

As on 30 September 2020, 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 tonnes 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 pulp mill is characterised with a high level of purity. The high quality of the pulp which had been developed for years, made Vallvik a leader in supplies of such pulp. The pulp is used among others to produce transformers and in 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 2019.

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 with its subsidiary producing packaging, a company of forest owners as well as Sales Offices and Procurement Offices.

Details on the organisation of the Capital Group of Arctic Paper S.A. 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

On 1 January 2020, the Company, via Rottneros acquired control over Nykvist Skogs AB, a company grouping private owners of forests in Sweden. The transaction provided a broader access to raw materials over a long-term horizon.

In Q3 2020, no other changes in the capital structure of the Arctic Paper Group occurred.

Shareholding structure

Nemus Holding AB, a company under Swedish law (a company owned indirectly by Mr Thomas Onstad), is the majority shareholder of Arctic Paper S.A., holding (as at 30 September 2020) 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 30 September 2020 was 68.13% and has not changed until the date hereof.

Shareholder	Number of shares	Share in the share capital [%]	as at 16.11.2020	
			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%
<i>Nenus Holding AB</i>	40 381 449	58,28%	40 381 449	58,28%
<i>other entity</i>	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%

Shareholder	Number of shares	Share in the share capital [%]	as at 30.09.2020	
			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%
<i>Nenus Holding AB</i>	40 381 449	58,28%	40 381 449	58,28%
<i>other entity</i>	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%

Shareholder	Number of shares	Share in the share capital [%]	as at 19.08.2020	
			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%
<i>Nenus Holding AB</i>	40 381 449	58,28%	40 381 449	58,28%
<i>other entity</i>	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 the report for H1 2020 and as at 30 September 2020.

Summary of the consolidated financial results

Selected items of the consolidated profit and loss account

<i>PLN thousand</i>	Q3 2020	Q2 2020	Q3 2019	YTD 2020	YTD 2019	Change % Q3 2020/ Q2 2020	Change % Q3 2020/ Q3 2019	Change % YTD 2020/ YTD 2019
Sales revenues	702 836	616 000	794 363	2 132 784	2 377 452	14,1	(11,5)	(10,3)
<i>of which:</i>								
<i>Sales of paper</i>	491 860	403 773	563 801	1 483 413	1 674 778	21,8	(12,8)	(11,4)
<i>Sales of pulp</i>	210 976	212 227	230 562	649 371	702 674	(0,6)	(8,5)	(7,6)
Profit (loss) on sales	149 468	106 605	156 085	444 003	457 031	40,2	(4,2)	(2,9)
<i>% of sales revenues</i>	21,27	17,31	19,65	20,82	19,22	4,0 p.p.	1,6 p.p.	1,6 p.p.
Selling and distribution costs	(84 587)	(73 950)	(81 487)	(251 155)	(249 624)	14,4	3,8	0,6
Administrative expenses	(16 531)	(19 638)	(24 520)	(55 339)	(66 376)	(15,8)	(32,6)	(16,6)
Other operating income	17 229	20 893	9 048	51 433	71 046	(17,5)	90,4	(27,6)
Other operating expenses	(6 445)	(9 679)	(8 524)	(25 913)	(33 824)	(33,4)	(24,4)	(23,4)
EBIT	59 132	24 231	50 602	163 028	178 253	144,0	16,9	(8,5)
<i>% of sales revenues</i>	8,41	3,93	6,37	7,64	7,50	4,5 p.p.	2,0 p.p.	0,1 p.p.
EBITDA	86 412	48 017	71 512	246 263	243 122	80,0	20,8	1,3
<i>% of sales revenues</i>	12,29	7,79	9,00	11,55	10,23	4,5 p.p.	3,3 p.p.	1,3 p.p.
Financial income	(81)	(744)	377	632	1 321	(89,1)	(121,4)	(52,2)
Financial expenses	(8 678)	(8 470)	(8 587)	(24 853)	(26 767)	2,5	1,1	(7,2)
Gross profit (loss)	50 373	15 017	42 392	138 807	152 807	235,4	18,8	(9,2)
Income tax	(5 017)	(4 244)	(7 830)	(20 389)	(33 657)	18,2	(35,9)	(39,4)
Net profit (loss)	45 357	10 773	34 562	118 418	119 150	321,0	31,2	(0,6)
<i>% of sales revenues</i>	6,45	1,75	4,35	5,55	5,01	4,7 p.p.	2,1 p.p.	0,5 p.p.
Net profit (loss) attributable to the shareholders of the Parent Entity	44 457	10 441	26 317	109 861	72 214	325,8	68,9	52,1

Comments of the President of the Management Board Michał Jarczyński on the results of Q3 2020

During the third quarter of 2020, Arctic Paper Group achieved a turnover of PLN 702.8mn (compared to 794.4mn in Q3 2019) with an EBITDA of PLN 86.4mn (71.5mn). On a consolidated level, the combination of pulp and paper continues to stabilize our results, as the fluctuations offset each other. Arctic Paper's financial position remains strong and has improved during the period. Our liquidity is on a three-year high, providing us the opportunity to repay debt as we are currently renegotiating and rebalancing our debt structure. Net debt at the end of the period was PLN 135.5mn (199.6mn), and net debt/EBITDA was 0.48 (0.82).

The paper segment generated a turnover of PLN 491.9mn (563.8mn) with an EBITDA of PLN 69.7mn (43.2mn). While the market environment remains challenging, Arctic Paper's position on the European paper market strengthened during the period. We have a leading position for example on the market for high-quality uncoated book paper from Arctic Paper Munkedal, as well as on the markets for coated and uncoated design paper, where Munken and Arctic Volume are strong brands. We are working intensively to boost our competitiveness and our profitability.

All our mills are currently running with a full workforce, as we have terminated available short-term allowance measures. During the period, we reached a capacity utilization of 83 percent (96). Paper sales volume reached 143,000 tonnes (156,000). The investment in PM1 at Arctic Paper Kostrzyn has paved the way for an increase in production, with Amber reaching higher volumes than during Q3 last year. After the restructuring, the mill in Grycksbo has been profitable and reports progress with its G-brand.

For Rottneros AB, in which the Arctic Paper Group owns 51 percent, net turnover decreased to SEK 508mn (617mn) with EBIT of SEK 4mn (54mn). The decline is explained by lower sales prices due to the weaker pulp market. Rottneros continued to sell a larger share than normal on short-term contracts, affecting margins negatively. Production reached a new record of 110,200 tonnes (100,300). While the pulp market is still characterized by uncertainty and reduced demand, the pulp price has been relatively stable for over a year.

We have so far succeeded well in protecting the organization and its employees against infection by Covid-19. As a second wave of the pandemic clearly has hit many European countries, our Group stands well prepared. I am confident that we will endure this crisis and emerge stronger.

Revenues

In Q3 2020, the consolidated sales revenues amounted to PLN 702,836 thousand (sales of paper: PLN 491,860 thousand, pulp sales: PLN 210,976 thousand, as compared to PLN 794,363 thousand (sales of paper: PLN 563,801 thousand, while sales of pulp generated PLN 230,562 thousand in the equivalent period of the previous year. That means a decrease by PLN 91,527 thousand (decrease of paper sales: PLN 71,941 thousand and decrease of pulp sales: PLN 19,586 thousand) and by -11.5% respectively (paper sales: -12.8%, pulp sales: -8.5%).

In the first nine months of 2020, the sales revenues amounted to PLN 2,132,784 thousand (sales of paper: PLN 14,83,413 thousand, pulp sales: PLN 649,371 thousand, as compared to PLN 2,377,452 thousand (sales of paper: PLN 1,674,778 thousand, pulp sales: PLN 702,674 thousand, generated in the equivalent period of the previous year. This means a decrease of revenues by PLN 244,668 thousand (decrease of paper sales: PLN 191,365 thousand, decrease of pulp sales: PLN 53,303 thousand, and by -10.3% respectively (paper sales: -11.4%, pulp sales: -7.6%).

Paper sales volume in Q3 2020 amounted to 143 thousand tonnes compared to 156 thousand tonnes in the same period of the previous year. The change represents a decrease of 13 thousand tonnes and by -8.3% respectively. Pulp sales volume in Q3 2020 amounted to 103 thousand tonnes compared to 106 thousand tonnes in the same period of the previous year. The change represents a decrease of 3 thousand tonnes and by -2.8% respectively.

Paper sales volume in the first three quarters of 2020 amounted to 429 thousand tons compared to 457 thousand tons in the same period of the previous year. The change represents a decrease of 28 thousand tonnes and by -6.1% respectively. Pulp sales volume in the first three quarters of 2020 amounted to 299 thousand tonnes compared to 291 thousand tonnes in the same period of the previous year. The change represents an increase of 8 thousand tonnes and by +2.7% respectively.

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

In Q3 2020, profit on sales amounted to PLN 149,468 thousand and was by 4.2% lower than in the corresponding period of the previous year. Sales profit margin in the current quarter stood at 21.27% compared to 19.65% (+1.6 p.p.) in the equivalent period of the previous year. The core reason underlying the decrease of profit on sales in Q3 2020 versus the equivalent period of the previous year were lower revenues from the sale of paper and pulp (lower sales volumes and prices). The lower costs of pulp for paper production (reduced prices) despite lower sales revenues of paper and pulp were the core reason for the increased profit margin in Q3 2020 versus the equivalent period last year.

For three quarters of 2020, profit on sales amounted to PLN 444,003 thousand and was by 2.9% lower than in the corresponding period of the previous year. Sales profit margin in the period stood at 20.82% compared to 19.22% (+1.6 p.p.) in the equivalent period of the previous year. The reasons for the changes are the same as for the changes in Q3 2020 versus the equivalent period of the previous year.

In Q3 2020, the selling and distribution costs amounted to PLN 84,587 thousand, which was an increase by 3.8% compared to the costs incurred in Q3 2019.

In three quarters of 2020, the selling and distribution costs amounted to PLN 251,155 thousand which was an increase by 0.6% compared to the costs incurred in the equivalent period of 2019. The selling and distribution costs include primarily costs of transport of finished products to counterparties.

In Q3 2020, the administrative expenses amounted to PLN 16,531 thousand as compared to PLN 24,520 thousand in the equivalent period of 2019 (a decrease by 32.6%). The administrative expenses are composed primarily of the costs of advisory and administrative services in the Group.

In three quarters of 2020, the administrative expenses amounted to PLN 55,339 thousand as compared to PLN 66,376 thousand in the equivalent period of 2019, which was a decrease by 16.6%. The main reason of the decrease was lower costs related to consulting services rendered to the Group by third parties.

Other operating income and expenses

Other operating income amounted to PLN 17,229 thousand in Q3 2020, as compared to PLN 9,048 thousand in Q3 2019. Other operating income consisted mainly of revenues from heat and electricity sales as well as sales revenues from other

materials and CO2 emission rights. The higher value of other operating income in the current period resulted mainly from the receipt of public aid for the costs of purchase of greenhouse gas emission allowances and sale of CO2 emission rights.

Other operating income amounted to PLN 51,433 thousand for three quarters of 2020, which was a decrease as compared to the equivalent period of the previous year by PLN 19,613 thousand mainly as a result of profit from the sale of land in AP Mochenwangen in H1 2019.

In Q3 2020, the other operating expenses amounted to PLN 6,445 thousand as compared to PLN 8,524 thousand in Q3 2019.

Other operating expenses amounted to PLN 25,913 thousand for three quarters of 2020, which was a decrease as compared to the equivalent period of the previous year (by PLN 7,911 thousand).

The other operating expenses comprised mainly the costs of electricity and heat sales as well as the costs of other materials sold.

Financial income and financial expenses

Financial income in Q3 2020 amounted to PLN -81 thousand as compared to PLN 377 thousand generated in Q3 2019.

In the first nine months 2020, the financial income amounted to PLN 632 thousand, while in the equivalent period in 2019 it was PLN 1,321 thousand.

In Q3 2020, financial expenses amounted to PLN 8,678 thousand as compared to PLN 8,587 thousand incurred in Q3 2019.

Financial expenses for three quarters of 2020 amounted to PLN 24,853 thousand as compared to PLN 26,767 thousand incurred for three quarters of 2019. The lower financial costs for the three quarters of 2020 were mainly due to lower interest costs as a result of the repayment of some loans, bonds and borrowings.

Income tax

In Q3 2020, income tax amounted to PLN -5,017 thousand while in the equivalent period in 2019 it was PLN -7,830 thousand.

The current portion of income tax in the analysed quarter of 2020 amounted to PLN -4,437 thousand, while the deferred portion to PLN -580 thousand. In Q3 of the previous year, the amount was PLN -821 thousand and PLN -7,009 thousand respectively.

For three quarters of 2020, income tax amounted to PLN -20,389 thousand while in the equivalent period in 2019 it was PLN -33,657 thousand.

The current portion of income tax in the analysed three quarters of 2020 amounted to PLN -13,692 thousand, while the deferred portion to PLN -6,697 thousand. In the equivalent quarters of the previous year, the amount was PLN -4,479 thousand and PLN -29,178 thousand respectively.

Profitability analysis

In Q3 2020, the result on continuing operations amounted to PLN 59,132 thousand as compared to PLN 50,602 thousand in the equivalent period of the previous year. The changes resulted in a growth of operational profit margin from +6.4% in the Q3 2019 to +8.4% in Q3 the current year.

For three quarters of 2020, the result on continuing operations amounted to PLN 163,028 thousand as compared to PLN 178,253 thousand in the equivalent period of the previous year. The changes resulted in a growth of operational profit margin from +7.5% for three quarters of 2019 to +7.6% for three quarters of the current year.

EBITDA in Q3 2020 was PLN 86,412 thousand, while in the equivalent period in 2019 it was PLN 71,512 thousand. In the reporting period, the EBITDA margin was 12.3% compared to 9.0% in the equivalent period of 2019.

EBITDA for three quarters of 2020 was PLN 246,263 thousand, while in the equivalent period in 2019 it was PLN 243,122 thousand. In the reporting period, the EBITDA margin was 11.6% compared to 10.2% in the equivalent period of 2019.

In the current quarter of 2020, net profit amounted to PLN 45,357 thousand as compared to the net profit of PLN 34,562 thousand in Q3 2019.

In three quarters of 2020, net profit amounted to PLN 118,418 thousand as compared to the net profit of PLN 119,150 thousand in three quarters of 2019.

<i>PLN'000</i>	Q3 2020	Q2 2020	Q3 2019	YTD 2020	YTD 2019	Change % Q3 2020/ Q2 2020	Change % Q3 2020/ Q3 2019	Change % YTD 2020/ YTD 2019
Profit on sales	149 468	106 605	156 085	444 003	457 031	40,2	(4,2)	(2,9)
<i>% of sales revenues</i>	<i>21,27</i>	<i>17,31</i>	<i>19,65</i>	<i>20,82</i>	<i>19,22</i>	<i>4,0 p.p.</i>	<i>1,6 p.p.</i>	<i>1,6 p.p.</i>
EBITDA	86 412	48 017	71 512	246 263	243 122	80,0	20,8	1,3
<i>% of sales revenues</i>	<i>12,29</i>	<i>7,79</i>	<i>9,00</i>	<i>11,55</i>	<i>10,23</i>	<i>4,5 p.p.</i>	<i>3,3 p.p.</i>	<i>1,3 p.p.</i>
EBIT	59 132	24 231	50 602	163 028	178 253	144,0	16,9	(8,5)
<i>% of sales revenues</i>	<i>8,41</i>	<i>3,93</i>	<i>6,37</i>	<i>7,64</i>	<i>7,50</i>	<i>4,5 p.p.</i>	<i>2,0 p.p.</i>	<i>0,1 p.p.</i>
Net profit (loss)	45 357	10 773	34 562	118 418	119 150	321,0	31,2	(0,6)
<i>% of sales revenues</i>	<i>6,45</i>	<i>1,75</i>	<i>4,35</i>	<i>5,55</i>	<i>5,01</i>	<i>4,7 p.p.</i>	<i>2,1 p.p.</i>	<i>0,5 p.p.</i>
Return on equity / ROE (%)	4,6	1,2	3,8	12,1	13,1	3,4 p.p.	0,9 p.p.	(0,9) p.p.
Return on assets / ROA (%)	2,1	0,5	1,6	5,6	5,5	1,6 p.p.	0,5 p.p.	0,0 p.p.

In Q3 2020, return on equity was 4.6%, (12.1% for three quarters of 2020) while in Q3 2019 it was 3.8% (13.1% for three quarters of 2019).

In Q3 of 2020, return on assets was 2.1% (5.6% for three quarters of 2020) while in the third quarter of 2019 it was 1.6% (5.5% for three quarters of 2019).

Selected items of the consolidated statement of financial position

PLN'000	30.09.2020	31.12.2019	30.09.2019	Change	Change
				30.09.2020	30.09.2019
Fixed assets	1 132 134	1 080 905	1 063 031	51 229	69 103
Inventories	367 297	353 774	393 806	13 523	(26 509)
Receivables	342 605	307 445	401 370	35 159	(58 766)
<i>trade and other payables</i>	334 248	302 121	390 248	32 127	(56 000)
Other current assets	11 953	27 744	42 724	(15 791)	(30 771)
Cash and cash equivalents	269 835	265 885	254 581	3 951	15 254
Total assets	2 123 824	2 035 753	2 155 512	88 070	(31 688)
Equity	977 580	870 528	912 154	107 052	65 426
Short-term liabilities	641 348	688 098	707 571	(46 750)	(66 223)
<i>of which:</i>					
<i>trade and other payables</i>	424 158	435 366	491 360	(11 209)	(67 203)
<i>interest-bearing debt</i>	115 781	161 591	125 451	(45 810)	(9 669)
<i>other non-financial liabilities</i>	101 409	91 141	90 761	10 268	10 649
Long-term liabilities	504 896	477 127	535 786	27 769	(30 890)
<i>of which:</i>					
<i>interest-bearing debt</i>	289 549	263 268	328 699	26 281	(39 149)
<i>other non-financial liabilities</i>	215 347	213 858	207 088	1 488	8 259
Total equity and liabilities	2 123 824	2 035 753	2 155 512	88 070	(31 688)

As at 30 September 2020, total assets amounted to PLN 2,123,824 thousand as compared to PLN 2,035,753 thousand at the end of 2019 which was an increase by PLN 88,070 thousand.

Fixed assets

At the end of June 2020, fixed assets accounted for 53.3% of total assets vs. 53.1% at the end of 2019. The value of fixed assets increased in the current period by PLN 51,229 thousand, mainly due to a growth of tangible fixed assets as an effect of capital outlays and of intangible assets, including the recognition of goodwill on the acquisition of a subsidiary entity, partly set off with a drop of other financial assets (decrease of valuation of hedging instruments, mainly forward contracts for energy purchase).

Current assets

Current assets understood as a sum of inventories, receivables, other current assets and cash and cash equivalents. As at the end of September 2020, current assets amounted to PLN 991,690 thousand as compared to PLN 954,848 thousand at the end of December 2019. As part of the current assets, inventories increased by PLN 13,523 thousand and receivables increased by PLN 35,159 thousand, other current assets decreased by PLN 15,791 thousand, (mainly due to decrease of valuation of hedging instruments, mainly forward contracts for energy purchase), while cash and cash equivalents increased by PLN 3,951 thousand. Current assets represented 46.7% of total assets as at the end of September 2020 (46.9% as at the end of 2019) and included inventories – 17.3% (17.4% as at the end of 2019), receivables – 16.1% (15.1% as at the end of 2019), other current assets – 0.6% (1.3% as at the end of 2019) and cash and cash equivalents – 12.7% (13.1% as at the end of 2019).

Equity

As at the end of Q3 2020, the equity amounted to PLN 977,580 thousand as compared to PLN 870,528 thousand at the end of 2019. Equity represented 46.0% of total liabilities as at the end of September 2020 as compared to 42.8% of total liabilities as at the end of December 2019. The increase of equity was the effect of net profit for the first nine months of 2020 and an increased valuation of subsidiary entities whose functional currency is other than PLN, recognised in other comprehensive income, partly set off with a reduced net valuation of hedging instruments.

Short-term liabilities

As at the end of September 2020, short-term liabilities amounted to PLN 641,348 thousand (30.2% of balance sheet total) as compared to PLN 688,098 thousand (33.8% of balance sheet total) as at the end of 2019. During nine months of 2020 there was a decrease of short-term liabilities by PLN 46,750 thousand, which was mainly due to a decrease in short-term loans (including partial repayment of loans, bonds and borrowings).

Long-term liabilities

As at the end of September 2020, long-term liabilities amounted to PLN 504,896 thousand (23.8% of balance sheet total) as compared to PLN 477,127 thousand (23.4% of balance sheet total) as at the end of 2019. In the period under report, an increase of long-term liabilities occurred by PLN 27,769 thousand, primarily as a result of an increase in other financial liabilities (negative net valuation of hedging instruments, mainly energy purchase contracts).

Debt analysis

	Q3 2020	Q2 2020	3Q 2019	Change % Q3 2020/ Q2 2020	Change % Q3 2020/ Q3 2019
Debt to equity ratio (%)	117,3	122,1	136,3	(4,9) p.p.	(19,1) p.p.
Equity to fixed assets ratio (%)	86,3	81,9	85,8	4,5 p.p.	0,5 p.p.
Interest-bearing debt-to-equity ratio (%)	41,5	48,0	49,8	(6,5) p.p.	(8,3) p.p.
Net debt to EBITDA ratio for the last 12 months (x)	0,48x	0,83x	0,82x	(0,35)	(0,34)
EBITDA to interest expense ratio for the last 12 months (x)	13,2x	11,7x	10,1x	1,5	3,2

As at the end of September 2020, the debt to equity ratio was 117.3% and was lower by 4.9 p.p. as compared to the end of June of 2020 and lower by 19.1 p.p. as compared to the end of September 2019. The changes were due to a simultaneous decrease of liabilities and a increase of equity as at the end of September 2020.

The equity to non-current assets ratio was 86.3% as at the end of Q3 2020 and was higher by 4.5 p.p. than at the end of June of 2020 and higher by 0.5 p.p. than at the end of September 2019. The changes were due to an increase of equity as at the end of September 2020.

The interest bearing debt to equity ratio was 41.5% as at the end of Q3 2020 and was lower by 6.5 p.p. as compared to the end of June 2020 and lower by 8.3 p.p. as compared to the level of the ratio calculated at the end of September 2019. The changes were due to a simultaneous decrease of interest-bearing liabilities and a increase of equity as at the end of September 2020.

Net borrowings to EBITDA calculated for the last 12 months ended on 30 September 2020 amounted to 0.48x compared to 0.83x in the equivalent period ended on 30 June 2020 and 0.82x for the 12-month period ended on 30 September 2019. These changes are mainly the result of a decrease in net debt due to the repayment of loans, bonds and borrowings.

EBITDA to interest coverage ratio amounted to 13.2x for the twelve months ended on 30 September 2020, 11.7x for the twelve months ended on 30 June 2020 and 10.1x for the twelve months ended on 30 September 2019. These changes are mainly due to a decrease in interest costs as a result of the repayment of loans, bonds and borrowings in 2020.

Liquidity analysis

	Q3 2020	Q2 2020	3Q 2019	Change % Q3 2020/ Q2 2020	Change % Q3 2020/ Q3 2019
Current ratio	1,5x	1,6x	1,5x	(0,1)	0,0
Quick ratio	1,0x	0,9x	1,0x	0,0	(0,0)
Acid test ratio	0,4x	0,4x	0,4x	0,0	0,0
DSI (days)	59,7	65,2	55,5	(5,5)	4,2
DSO (days)	42,8	44,7	44,2	(1,9)	(1,4)
DPO (days)	69,0	62,6	69,3	6,4	(0,3)
Operational cycle (days)	102,5	109,9	99,7	(7,4)	2,8
Cash conversion cycle (days)	33,6	47,4	30,5	(13,8)	3,1

The current liquidity ratio at the end of September 2020 was 1.5x and was lower than at the end of June 2020 (1.6x) and comparable to the level as at the end of September 2019 (1.5x).

The quick liquidity ratio at the end of September 2020 was 1.0x and was higher than at the end of June 2020 (0.9x) and comparable to the level as at the end of September 2019 (1.0x).

The cash solvency ratio at the end of September 2020 was 0.4x and did not change significantly.

The cash conversion cycle for Q3 2020 (33.6 days) was shortened versus Q2 2020 (by 13.8 days) and was also extended versus Q3 2019 (by 3.1 days).

Selected items of the consolidated cash flow statement

PLN'000	Q3	Q2	Q3	YTD	YTD	Change %	Change %	Change %
	2020	2020	2019	2020	2019	Q3 2020/ Q2 2020	Q3 2020/ Q3 2019	YTD 2020/ YTD 2019
Cash flows from operating activities	117 451	(675)	119 407	187 557	224 904	(17 502,1)	(1,6)	(16,6)
<i>of which:</i>								
<i>Gross profit (loss)</i>	50 373	15 017	42 392	138 807	152 807	235,4	18,8	(9,2)
<i>Depreciation/amortisation and Impairment</i>	27 279	23 786	20 910	83 235	64 869	14,7	30,5	28,3
<i>Changes to working capital</i>	40 103	(35 941)	53 396	(40 483)	6 927	(211,6)	(24,9)	(684,4)
<i>Other adjustments</i>	(305)	(3 538)	2 709	5 998	302	(91,4)	(111,3)	1 887,5
Cash flows from investing activities	(30 489)	(39 568)	(42 206)	(107 621)	(74 201)	(22,9)	(27,8)	45,0
Cash flows from financing activities	(39 415)	(12 415)	(29 827)	(86 016)	(94 615)	217,5	32,1	(9,1)
Total cash flows	47 547	(52 658)	47 374	(6 080)	56 088	(190,3)	0,4	(110,8)

Cash flows from operating activities

In Q3 2020, net cash flows from operating activities amounted to PLN +117,451 thousand as compared to PLN +119,407 thousand in the equivalent period of 2019. The positive cash flows in Q3 2020 and 2019 were primarily due to EBITDA generated in these periods and a decrease of working capital.

In the three quarters of 2020, net cash flows from operating activities amounted to PLN +187,557 thousand as compared to PLN +224,904 thousand in the equivalent period of 2019. The positive cash flows in the period between January and September this year resulted primarily from the generated EBITDA.

Cash flows from investing activities

In Q3 2020, net cash flows from investing activities amounted to PLN -30,489 thousand as compared to PLN -42,206 thousand in 2019. Expenditures for tangible fixed assets in Q3 2020 and 2019 resulted in negative cash flows from investing activities.

In the three quarters of 2020, the cash flows amounted to PLN -107,621 thousand as compared to PLN -74,201 thousand for three quarters of 2019. The negative cash flows from investing activities in the current period resulted from expenditures on tangible fixed assets and the acquisition of the subsidiary by Rottneros.

Cash flows from financing activities

In Q3 2020, cash flows from financing activities amounted to PLN -39,415 thousand as compared to PLN -29,827 thousand in Q3 2019. The negative cash flows from financing activities in Q3 2020 were affected by partial repayments of loans, bonds and borrowings with interest.

Cash flows from financing activities for three quarters of 2020 amounted to PLN -86,016 thousand as compared to PLN -94,615 thousand in the equivalent period of 2019. Negative cash flows from financing activities in 2020 are mainly related to the partial repayment of loans, bonds and borrowings and interest.

Summary of standalone financial results

Selected items of the standalone income statement

PLN '000	Q3 2020	Q2 2020	Q3 2019	YTD 2020	YTD 2019	Change % Q3 2020/ Q2 2020	Change % Q3 2020/ Q3 2019	Change % YTD 2020/ YTD 2019
Sales revenues	21 082	5 840	9 831	32 094	52 726	261	114	(39)
<i>of which:</i>								
<i>Sales of services</i>	4 933	4 750	7 176	13 927	22 084	4	-31	-37
<i>Interest income on loans</i>	1 166	787	1 081	2 880	3 308	48	8	(13)
<i>Dividend income</i>	14 983	304	1 574	15 287	27 333	4 829	852	-44
Profit on sales	20 135	4 469	8 667	28 496	48 872	351	132	(42)
<i>% of sales revenues</i>	95,51	76,51	88,16	88,79	92,69	19,0 p.p.	7,4 p.p.	(3,9) p.p.
Selling and distribution costs	-	-	(719)	-	(2 248)	-	(100)	(100)
Administrative expenses	(4 896)	(4 842)	(6 051)	(15 221)	(19 007)	1	(19)	(20)
Other operating income	318	40	114	629	217	704	179	190
Other operating expenses	(478)	(82)	1 577	(1 168)	1 868	485	(130)	(162)
EBIT	15 080	(415)	3 587	12 737	29 702	(3 734)	320	(57)
<i>% of sales revenues</i>	71,53	(7,11)	36,49	39,68	56,33	78,6 p.p.	35,0 p.p.	(16,6) p.p.
EBITDA	15 252	(439)	4 168	13 308	30 525	(3 574)	266	(56)
<i>% of sales revenues</i>	72,34	(7,52)	42,40	41,46	57,89	79,9 p.p.	29,9 p.p.	(16,4) p.p.
Financial income	799	1 127	400	3 221	3 712	(29)	100	(13)
Financial expenses	(3 759)	(646)	(4 579)	(11 562)	(14 329)	481	(18)	(19)
Gross profit (loss)	12 120	66	(591)	4 396	19 084	18 284	(2 150)	(77)
Income tax	-	-	-	-	(1)	-	-	(100)
Net profit (loss)	12 120	66	(591)	4 396	19 083	18 284	(2 150)	(77)
<i>% of sales revenues</i>	57,49	1,13	(6,01)	13,70	36,19	56,4 p.p.	63,5 p.p.	(22,5) p.p.

Revenues, profit on sales, costs of sales

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

Sales revenues for Q3 2020 amounted to PLN 21,082 thousand and comprised services provided to Group companies (PLN 4,933 thousand), interest income on loans (PLN 1,166 thousand) and dividend income (PLN 14,983 thousand). In the equivalent period of the previous year, the standalone sales revenues amounted to PLN 9,831 thousand which included revenues from the services provided to Group companies (PLN 7,176 thousand), interest income on loans (PLN 1,081 thousand) and dividend income (PLN 1,574 thousand).

In the three quarters of 2020, the standalone sales revenues amounted to PLN 32,094 thousand, which included sales of services provided to Group companies (PLN 13,927 thousand) and interest income on loans granted (PLN 2,880 thousand) and dividend income (PLN 15,287 thousand).

In the three quarters of 2019, the standalone sales revenues amounted to PLN 52,726 thousand, which included sales of services provided to Group companies (PLN 22,084 thousand) and interest income on loans granted (PLN 3,308 thousand) and dividend income (PLN 27,333 thousand).

The decrease of sales revenues in the three quarters of 2020 versus the equivalent period of 2019 was primarily due to a decrease in dividend received and service revenues.

Profit on sales amounted to PLN 20,135 thousand in Q3 2020 (PLN 8,667 thousand in Q3 2019) and PLN 28,496 thousand for the three quarters of 2020 (PLN 48,872 thousand for the three quarters of in 2019).

Selling and distribution costs

In Q3 2020, the Company did not recognise selling and distribution costs (PLN 719 thousand in Q3 2019). In the three quarters of 2020, the Company did not recognise selling and distribution costs (PLN 2,248 thousand in three quarters of 2019).

The selling and distribution costs in 2019 relate fully to intermediation costs in pulp purchases. From 2020 onwards, these costs were not incurred in connection with the discontinuation of operations related to the intermediary purchase of pulp.

Administrative expenses

In three quarters of 2020, the administrative expenses amounted to PLN 4,896 thousand which was a decrease as compared to the equivalent period of the previous year by PLN 1,155 thousand. In the three quarters of 2020, administrative expenses amounted to PLN 15,221 thousand as compared to PLN 19,007 thousand in the equivalent period of 2019.

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 amounted to PLN 318 thousand in Q3 2020, which was an increase as compared to the equivalent period of the previous year by PLN 204 thousand. Other operating expenses totalled PLN 478 thousand in Q3 2020 (PLN +1,577 thousand in the equivalent quarter of 2019). Positive other operating income in Q3 2019 resulted from reversal of write-downs on receivables under loans to Arctic Paper Mochenwangen GmbH in the amount of PLN 2,020 thousand (the company received partial repayment of loans in June and September 2019).

For the three quarters of 2020, the other operating income and other operating expenses amounted to PLN 629 thousand and PLN +1,168 thousand respectively, and for the equivalent period in 2019 – PLN 217 thousand and PLN +1,868 thousand respectively. The positive level of other operating expenses in the three quarters of 2019 was primarily due to a reversal of write-offs for the loans to Arctic Paper Mochenwangen (PLN 3,347 thousand).

Financial income and financial expenses

In Q3 2020, the financial income amounted to PLN 799 thousand and was by PLN 399 thousand higher than generated in Q3 2019.

In Q3 2020, financial expenses amounted to PLN 3,759 thousand. In the equivalent period of 2019, the financial expenses amounted to PLN 4,579 thousand.

For three quarters of 2020, the financial income and expenses amounted to PLN 3,221 thousand and PLN -11,562 thousand and for the equivalent period in 2019 – PLN 3,712 thousand and PLN -14,329 thousand respectively. The lower financial expenses in 2020 were primarily due to lower financing costs (loans and bonds interest).

Selected items of the standalone statement of financial position

PLN '000	30.09.2020	31.12.2019	30.09.2019	Change	Change
				30.09.2020	30.09.2020
				-31.12.2019	-30.09.2019
Fixed assets	700 230	724 693	733 517	(24 463)	(33 287)
Receivables	27 047	70 155	117 910	(43 108)	(90 863)
Other current assets	93 836	99 700	84 201	(5 863)	9 635
Cash and cash equivalents	60 791	31 939	15 866	28 852	44 925
Total assets	881 904	926 486	951 494	(44 582)	(69 589)
Equity	572 747	568 078	555 855	4 669	16 892
Short-term liabilities	275 449	301 081	252 563	(25 631)	22 886
Long-term liabilities	33 708	57 326	143 077	(23 618)	(109 369)
Total equity and liabilities	881 904	926 486	951 494	(44 582)	(69 590)

As at 30 September 2020, total assets amounted to PLN 881,904 thousand as compared to PLN 926,486 thousand at the end of 2019.

The reduced assets are primarily due to reduced receivables in the period under report.

Fixed assets

As at the end of September 2020, non-current assets represented nearly 79.4% of total assets which means that the share increased (by 1.2 p.p.) compared to the end of 2019. The main item of non-current assets includes interests in subsidiaries. At the end of Q3 2020, the value was PLN 673,937 thousand and there was no change versus the end 2019.

Current assets

As at the end of September 2020, current assets amounted to PLN 181,675 thousand as compared to PLN 201,794 thousand at the end of 2019. The level of current assets decreased at the end of September 2020, primarily with respect to receivables. As at the end of Q3 2020, current assets represented 20.6% of total assets compared to 21.8% as at the end of the previous year.

As part of the current assets, receivables increased by PLN 43,108 thousand, other current assets decreased by PLN 5,863 thousand, while cash and cash equivalents increased by PLN 28,852 thousand.

Equity

As at the end of Q3 2020, the equity amounted to PLN 572,747 thousand as compared to PLN 568,078 thousand at the end of 2019. As at the end of September 2020, equity accounted for 64.9% of balance sheet total vs. 61.3% of balance sheet total as at the end of 2019. The increase of equity is primarily due to the net profit for three quarters of 2020.

Short-term liabilities

As at the end of September 2020, short-term liabilities amounted to PLN 275,449 thousand (31.2% of balance sheet total) as compared to PLN 301,081 thousand as at the end of 2019 (32.5% of balance sheet total). The decrease of short-term liabilities was due to the reclassification as at 31 December 2019 of long-term loans to short-term loans and borrowings due to the fact that the ratios under loan agreements were not complied with.

Long-term liabilities

As at the end of September 2020, long-term liabilities amounted to PLN 33,708 thousand (3.8% of balance sheet total) as compared to PLN 57,326 thousand as at the end of 2019 (6.2% of balance sheet total).

The decrease in long-term liabilities results from the partial repayment of loans and borrowings.

Selected items of the standalone cash flow statement

PLN'000	Q3 2020	Q2 2020	Q3 2019	YTD 2020	YTD 2019	Change % Q3 2020/ Q2 2020	Change % Q3 2020/ Q3 2019	Change % YTD 2020/ YTD 2019
Cash flows from operating activities	72 509	549	33 233	114 318	58 422	13 111,0	118,2	95,7
<i>of which:</i>								
<i>Gross profit</i>	12 120	66	(591)	4 396	19 084	18 284	(2 150)	(77,0)
<i>Depreciation and impairment of fixed assets</i>	172	112	581	571	823	54	(70)	(30,6)
<i>Changes to working capital</i>	27 509	(8 398)	(13 338)	23 682	(64 135)	(428)	(306)	(136,9)
<i>Net interest and dividends</i>	(2 740)	6 716	1 916	3 976	5 741	(141)	(243)	(30,7)
<i>Increase / decrease of loans granted to subsidiaries</i>	14 470	(2 780)	8 759	31 921	20 970	(621)	65	52,2
<i>Change to liabilities due to cash-pooling</i>	17 611	2 263	35 619	40 628	74 533	678	(51)	(45,5)
<i>Other adjustments</i>	3 367	2 570	288	9 145	1 406	31	1 069	550,2
Cash flows from investing activities	-	-	(126)	-	(1 618)	-	(100,0)	(100,0)
Cash flows from financing activities	(36 829)	(16 471)	(27 852)	(85 467)	(60 544)	123,6	32,2	41,2
Total cash flows	35 681	(15 923)	5 255	28 852	(3 739)	(324)	579	(871,7)

The cash flow statement presents a decrease in cash and cash equivalents in the three quarters of 2020 by PLN 28,852 thousand, which includes:

- positive cash flows from operating activities of PLN 114,318 thousand,
- cash flows from investing activities of PLN 0,
- negative cash flows from financing activities of PLN 85,467 thousand.

Cash flows from operating activities

In the three quarters of 2020, net cash flows from operating activities amounted to PLN 114,318 thousand as compared to PLN 58,422 thousand in the equivalent period of 2019. The positive cash flows from operating activities in the three quarters of the current year were due primarily to an increase / decrease of loans granted to subsidiaries and liabilities under cash-pooling.

Cash flows from investing activities

In the first three months 2020, cash flows from investing activities amounted to PLN 0 thousand as compared to PLN -1,618 thousand for three quarters of 2019.

Cash flows from financing activities

In 2020 cash flows from financing activities amounted to PLN -85,467 thousand as compared to PLN -50,544 thousand in 2019. The cash flows from financing activities in 2020 and 2019 were primarily related to changes in balances of working capital loans.

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

- macroeconomic and other economic factors,
- demand growth for products based on natural fibres,
- reduced demand for certain paper types,
- fluctuations of paper prices,
- pulp price fluctuations for Paper Mills, timber for Pulp Mills and energy prices,
- FX rates fluctuation.

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's 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.

Demand growth for products based on natural fibres

The trend observed in developed societies concerning a reduction of man's adverse impact on the environment, in particular reduction of use of disposable, plastic packaging that may not be recycled, offers new opportunities for the development of the pulp & paper sector. In many companies, work has been under way to develop new methods of packaging and production of packaging with natural materials, including pulp, so that it can be recycled. Arctic Paper is also involved in such research. In the near future, the product segment is expected to increase its percentage share in the volumes and revenues of the Arctic Paper Group.

Reduced demand for certain paper types

Development of new technologies, in particular in the areas of information and communication, results in decreasing demand for certain paper types – in particular, this affects newsprint and to a lesser extent – graphic papers. However, despite the increasing popularity of e-books, the volume of book paper produced and sold by Arctic Paper has been stable in the recent years, less sensitive to changing market conditions. Nevertheless, in its strategy Arctic Paper has set a direction of activity so that within several years, the segment of non-graphic papers (that is technical or packaging paper) accounts for 1/5 of its consolidated revenues.

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 Pulp Mills and chemical agents used for paper and pulp

production. Our energy costs historically include mostly the costs of electricity, gas and rights to CO2 emissions. 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 these costs by the Group Companies, their fluctuations may have a significant impact on the Group's profitability.

A part of pulp supplies to our Paper Mills is made from our own Pulp Mills. The remaining part of pulp manufactured at our 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. Our products are primarily sold to euro zone countries, Scandinavia, Poland and the UK, thus our revenues are largely denominated in EUR, GBP, SEK and PLN while revenues from the pulp mills are primarily denominated in 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), 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 Paper Mills as well as the Rottneros and Vallvik Pulp Mills).

Exchange rates also have an important impact on results reported in our financial statements because of changes in exchange rates of the currencies in which we generate revenues and incur costs, and the currency in which we report our financial results (PLN).

Unusual events and factors

In Q3 2020 there were no atypical events or factors other than related to COVID-19, that are detailed in item 5.1 of the attached interim abbreviated consolidated financial statements.

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

In Q3 2020, there were no material changes in the Arctic Paper Group's structure that would have material impact on the financial results generated.

Other material information

Support received by companies from the Arctic Paper Group in order to minimise the effects of the COVID-19 epidemic

With reference to the risks described in the annual report for 2019, related to the spread of the SARS-CoV-2 coronavirus responsible for the COVID-19 epidemic in Poland and worldwide, and the current report No. 5/2020 of 7 April 2020 on actions taken within the Arctic Paper Group to minimise the impact of the epidemic, the Management Board informs that the total assistance from the governments of the countries of the Group's registered officers or local authorities received by the Group's companies was approximately PLN 7.2 million.

Decision on approval of compensation from the Energy Regulatory Office for Arctic Paper Kostrzyn SA

On 31 July 2020, the Issuer's subsidiary company – Arctic Paper Kostrzyn SA received a decision granting it public aid to cover the purchase costs of emission rights within the meaning of the Act on the emission trading scheme to emit hothouse gases with respect to the prices of electricity used to manufacture product in energy-intensive sectors or sub-sectors. The amount of the approved compensation is PLN 5.3 million was disbursed in the third quarter 2020.

New technologies at Arctic Paper Kostrzyn S.A. co-financed by Narodowe Centrum Badań i Rozwoju [National Centre for Research and Development] [NCBiR]

In September 2020, a subsidiary of Arctic Paper Kostrzyn S.A. signed an agreement with the National Centre for Research and Development ("NCBiR") for co-financing of a project titled: "Development and implementation of technology for production of high-barrier biodegradable packaging paper" as part of the Smart Growth Operational Programme 2014-2020 ("the Project").

The total net project value is PLN 20,224,638.37 with the maximum amount of co-financing of PLN 8,343,568.42. The remaining Project expenditures will be covered by the Company with its own funds.

The aim of the Project is to develop and implement technology for manufacturing of a new product: high-barrier, biodegradable packaging paper. This manufacturing innovation will introduce products into the packaging paper segment featuring high barrier properties and biodegradability, while maintaining high printing quality. This will allow to extend the range of offered products with packaging papers with special properties and improve the margins achieved.

The period of cost eligibility for the Project commences on 1 September 2020 and ends on 31 May 2023. The subsidiary agreed to ensure the sustainability of the Project financed with structural funds for 5 years from Project completion (Project sustainability period). The subsidiary is obliged to accomplish the assumed objective and ratios of the Project, as specified in the application for co-financing, and to complete the Project as planned as well as to implement the results of industrial research and development within 3 years of Project completion, as specified in the application for co-financing. The terms and conditions of the Agreement do not differ from standard terms and conditions used in agreements of this type.

Revolving Credit Facility Extension

On October 27, 2020, the Lenders (BNP Paribas Bank Polska S.A., Santander Bank Polska S.A.) have extended the availability of the Revolving Facility to the Company until January 31st, 2021, on the conditions adopted so far.

The Revolving Facility was granted to the Company for a total value of EUR 19,800,000 and PLN 20,000,000 and was made available for the purpose of refinancing of intra-group liabilities of the Company or financing of intra-group loans.

The extension of the availability of the Revolving Facility for three months results from the possibilities considered by the Company and the possible conditions for the refinancing of the Group's current debt. The Company plans to simplify the current debt structure and to further optimize the conditions and reduce the costs of debt service. A possible decision on the implementation of refinancing and the selection of its final structure will depend on the analyzes conducted by the Issuer and the current situation on the financial market.

Factors influencing the development of the Arctic Paper Group

Information on market trends

Supplies of fine paper

In Q3 2020, the Arctic Paper Group recorded an increased level of orders versus Q2 2020 by 25% and a decrease of orders versus the equivalent period of 2019 by 8.1%.

Source of data: Arctic Paper analysis

Paper prices

At the end of Q3 2020, the prices of uncoated wood-free paper (UWF) in Europe dropped by 4.1% versus the prices at the end of June 2019 while for coated wood-free paper (CWF) there was a decrease by 4.5%.

At the end of September 2020, the average prices declared by producers for selected types of paper and markets: Germany, France, Spain, Italy, United Kingdom – for both uncoated wood-free paper (UWF) and coated wood-free paper (CWF) were lower than at the end of Q2 2020 by 1.5% and 2% respectively.

The prices invoiced by Arctic Paper in EUR for comparable products in the segment of uncoated wood-free paper (UWF) increased from the end of June 2020 until the end of September 2020 by 0.8% on the average while in the segment of coated wood-free paper (CWF) the prices decreased by 4.8%. At the end of Q3 2020, the prices of uncoated wood-free paper (UWF) invoiced by Arctic Paper dropped by 8.6% versus the prices at the end of June 2019 while for coated wood-free paper (CWF) there was a drop by 9.1%.

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 quoted without considering specific rebates for individual clients and they include neither any additions nor price reductions in relation to the publicly available price lists. The estimated prices for each month reflect orders placed in the month while the deliveries may take place in the future. Because of that, RISI price estimates for a particular month do not reflect the actual prices at which deliveries are performed but only express ordering prices. For Arctic Paper products, the average invoiced sales prices for all served markets in EUR.

Pulp prices

At the end of Q3 2020, the pulp prices reached the level of: NBSK – USD 840/tonne and BHKP – USD 680/tonne.

The average NBSK price in Q3 2020 was lower by 8.3% compared to the equivalent period of the previous year while for BHKP the average price was lower by 16.6%. Compared to Q2 2020, the average pulp price in Q3 2020 decreased by 1.1% for NBSK and remained unchanged for BHKP.

Pulp costs are characterised by high volatility. The prices of the raw materials had major impact on the Group's profitability in the period.

The average pulp cost used for production of paper calculated for the Arctic Paper Group in PLN dropped in Q3 2020 versus Q2 2020 by 6.3% while in relation to Q3 2019 it dropped by 22%.

The share of pulp costs in overall selling costs after 6 months of the current year was 51% versus about 59% in the equivalent quarter in 2019.

The Arctic Paper Group uses the pulp in the production process according to the following structure: BHKP 72%, NBSK 20% and other 8%.

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

Currency exchange rates

At the end of Q3 2020, the EUR/PLN rate amounted to 4.5268 and was by 3.5% higher than at the end of Q3 2019. The mean EUR/PLN exchange rate in Q3 2020 amounted to 4.4425 and was by 2.9% higher than in the equivalent period of 2019.

The EUR/SEK exchange rate amounted to 10.5372 at the end of Q3 2020 (decrease by 1.8% versus the end of Q3 2019). For that currency pair, the mean exchange rate in Q3 2020 was by 2.8% lower than in the equivalent period of 2019. The somewhat appreciating SEK versus EUR has been adversely impacting the revenues invoiced in EUR in the factories in Sweden (AP Munkedals and AP Grycksbo).

The USD/PLN exchange rate as at the end of September 2020 amounted to 3.8658. In Q3 2020 the mean USD/PLN exchange rate was 3.8022 versus 3.8831 in the equivalent period of the previous year which was a decrease by 2.1%. The change has positively affected the costs incurred in USD by AP Kostrzyn, in particular the costs of pulp.

The USD/SEK exchange rate as at the end of Q3 2020 amounted to 8.9986. From July to September 2020 the mean exchange rate amounted to 8.8701 compared to 9.5879 in the equivalent period of the previous year which was a decrease of the rate by 7.5%. The change in comparison to Q3 2020 favourably affected the costs incurred in USD by AP Munkedals and AP Grycksbo, in particular the costs of pulp.

At the end of September 2020, the EUR/USD exchange rate amounted to 1.171 compared to 1.0934 (+7.1%) at the end of September 2019. In Q3 2020, EUR materially strengthened against USD versus Q2 2020 (+6.2%). A significant appreciation of the EUR against USD also occurred in relation to the equivalent period of the previous year (+5.1%).

The depreciation of PLN versus EUR versus the previous year has favourably affected the Group's financial profit, mainly due to increased sales revenues generated in EUR and translated into PLN. USD depreciating versus PLN had a positive effect on the Group's financial result as it decreased the costs of the core raw materials for the Paper Mill in Kostrzyn. The appreciating SEK unfavourably affected the revenues generated in EUR at APM and APG facilities.

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:

- Changes to demand for high quality paper in Europe during the COVID-19 pandemic and the anticipated related economic slow down.

Over the recent years there has been a major decrease of demand for fine paper in Europe (level of executed orders). Further negative developments in the market may adversely affect order levels to our Paper Mills. Cancelled international events, restrictions to free movement of people, intensified remote work – may additionally reduce demand for high quality graphic paper and thus adversely affect 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, decreasing 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 the 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

Major changes to risk factors

In Q3 2020, there were no material changes to the risk factors. Those were presented in detail in the semi-annual report for 2020.

Supplementary information

The 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 2020.

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 16.11.2020	Number of shares or rights to shares as at 30.09.2020	Number of shares or rights to shares as at 19.08.2020	Change
Management Board				
Michał Jarczyński	-	-	-	-
Göran Eklund	-	-	-	-
Supervisory Board				
Per Lundeen	34 760	34 760	34 760	-
Thomas Onstad	6 223 658	6 223 658	6 223 658	-
Roger Mattsson	-	-	-	-
Dorota Raben	-	-	-	-
Mariusz Grendowicz	-	-	-	-

Information on sureties and guarantees

As at 30 September 2020, the Capital 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 1,371 thousand at Arctic Paper Grycksbo AB and for SEK 764 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 bank guarantee in favour of Skatteverket Ludvika for SEK 135 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 402 thousand;
- pledge on properties held by Arctic Paper Munkedals Kraft AB as required by loan agreements with Nordea Bank for SEK 80,000 thousand (related to the investment in the hydro power plant);
- pledges on shares in subsidiary companies in the Rottneros Group for SEK 284,730 thousand; under loan agreements concluded with Danske Bank;
- margin on hedging transactions in the bank account of Rottneros with SEB for SEK 34,930 thousand;
- 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 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 interim abbreviated 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	16 November 2020	signed with a qualified electronic signature
Member of the Management Board Chief Financial Officer	Göran Eklund	16 November 2020	signed with a qualified electronic signature

The background image shows a vast industrial facility with a high ceiling supported by a complex network of steel beams. A long, multi-stage production line of machinery, possibly for metal processing, stretches across the middle ground. The floor is a light-colored, polished concrete. In the background, there are various industrial components, including what looks like a control room or a large cabinet on the right, and some blue storage bins on the left. The overall atmosphere is one of a modern, well-maintained manufacturing plant.

Interim abbreviated financial statements

for the period of nine months
ended on 30 September 2020

Interim abbreviated consolidated financial statements

Interim abbreviated consolidated statement of profit and loss

	3-month period ended on 30 September 2020 (unaudited)	9-month period ended on 30 September 2020 (unaudited)	3-month period ended on 30 September 2019 (unaudited)	9-month period ended on 30 September 2019 (unaudited)
Continuing operations				
Revenues from sales of products	702 836	2 132 784	794 363	2 377 452
Sales revenues	702 836	2 132 784	794 363	2 377 452
Costs of sales	(553 368)	(1 688 781)	(638 279)	(1 920 421)
Profit / (loss) on sales	149 468	444 003	156 085	457 031
Selling and distribution costs	(84 587)	(251 155)	(81 487)	(249 624)
Administrative expenses	(16 531)	(55 339)	(24 520)	(66 376)
Other operating income	17 229	51 433	9 048	71 046
Other operating expenses	(6 445)	(25 913)	(8 524)	(33 824)
Operating profit (loss)	59 132	163 029	50 602	178 253
Financial income	(81)	632	377	1 321
Financial expenses	(8 678)	(24 853)	(8 587)	(26 767)
Gross profit (loss)	50 373	138 808	42 392	152 807
Income tax	(5 017)	(20 389)	(7 830)	(33 657)
Net profit (loss) from continuing operations	45 357	118 418	34 562	119 150
Discontinued operations				
operations	-	-	-	-
Net profit (loss) for the financial year	45 357	118 418	34 562	119 150
Attributable to:				
The shareholders of the Parent Entity, of which:				
- profit (loss) from continuing operations	44 457	109 861	26 317	72 214
- profit (loss) from discontinued operations	-	-	-	-
Non-controlling shareholders, of which:				
- profit (loss) from continuing operations	899	8 557	8 245	46 937
- profit (loss) from discontinued operations	-	-	-	-
	45 357	118 418	34 562	119 150
Earnings per share:				
- basic earnings from the profit/(loss) attributable to the shareholders of the Parent Entity	0,64	1,59	0,38	1,04
- basic profit/(loss) from continuing operations attributable to the shareholders of the Parent Entity	0,64	1,59	0,38	1,04
- diluted earnings from the profit attributable to the shareholders of the Parent Entity	0,64	1,59	0,38	1,04
- diluted profit from continuing operations attributable to the shareholders of the Parent Entity	0,64	1,59	0,38	1,04

Interim abbreviated consolidated statement of comprehensive income

	3-month period ended on 30 September 2020 (unaudited)	9-month period ended on 30 September 2020 (unaudited)	3-month period ended on 30 September 2019 (unaudited)	9-month period ended on 30 September 2019 (unaudited)
Net profit / (loss) for the reporting period	45 357	118 418	34 562	119 150
Items to be reclassified to profit/loss in future reporting periods:				
FX differences on translation of foreign operations	6 775	33 035	7 153	(18 339)
Measurement of financial instruments	5 162	(56 694)	3 449	(37 579)
Deferred income tax on the measurement of financial instruments	(727)	12 292	(128)	8 624
Other comprehensive income (net)	11 211	(11 367)	10 474	(47 294)
Total comprehensive income for the period	56 567	107 052	45 036	71 856
Total comprehensive income attributable to:				
The shareholders of the Parent Entity	52 568	98 493	31 605	41 020
Non-controlling shareholders	3 999	8 559	13 431	30 837

Interim abbreviated consolidated statement of financial position

	As at 30 September 2020 (unaudited)	As at 30 June 2020 (after review)	As at 31 December 2019 (audited)	As at 30 September 2019 (unaudited)
ASSETS				
Fixed assets				
Tangible fixed assets	1 028 726	1 019 478	979 851	961 165
Investment properties	3 086	4 128	4 128	4 236
Intangible assets	48 902	49 312	38 471	39 021
Interests in joint ventures	1 489	1 473	1 412	1 147
Other financial assets	21 561	20 900	30 658	28 673
Other non-financial assets	2 136	2 112	2 039	1 738
Deferred income tax assets	26 234	27 622	24 346	27 051
	1 132 134	1 125 025	1 080 905	1 063 031
Current assets				
Inventories	367 297	369 174	353 774	393 806
Trade and other receivables	334 248	306 000	302 121	390 248
Corporate income tax receivables	8 357	7 121	5 324	11 123
Other non-financial assets	7 228	14 263	8 909	13 158
Other financial assets	4 726	3 824	18 835	29 566
Cash and cash equivalents	269 835	220 268	265 885	254 581
	991 690	920 650	954 848	1 092 481
TOTAL ASSETS	2 123 824	2 045 675	2 035 753	2 155 512
EQUITY AND LIABILITIES				
Equity				
Equity (attributable to the shareholders of the Parent Entity)				
Share capital	69 288	69 288	69 288	69 288
Reserve capital	407 976	407 976	407 976	407 976
Other reserves	142 313	105 096	139 035	149 026
FX differences on translation	(10 474)	(14 403)	(28 863)	(28 496)
Retained earnings / Accumulated losses	96 300	84 877	19 473	19 868
Cumulated other total comprehensive income related to discontinued operations	-	-	-	-
	705 402	652 834	606 909	617 662
Non-controlling stake	272 178	268 179	263 619	294 492
Total equity	977 580	921 012	870 528	912 154
Long-term liabilities				
Interest-bearing loans and borrowings	235 368	291 380	233 745	298 552
Provisions	130 331	129 119	124 942	103 742
Other financial liabilities	54 182	51 212	29 523	30 147
Deferred income tax liability	69 630	69 262	70 823	87 850
Accruals and deferred income	15 386	16 235	18 094	15 496
	504 896	557 207	477 127	535 786
Short-term liabilities				
Interest-bearing loans and borrowings	103 213	76 885	149 983	114 984
Provisions	3 907	5 188	5 008	2 966
Other financial liabilities	12 569	22 577	11 608	10 466
Trade and other payables	424 158	354 121	435 366	491 360
Income tax liability	11 015	10 096	4 284	569
Accruals and deferred income	86 486	98 589	81 849	87 226
	641 348	567 455	688 098	707 571
TOTAL LIABILITIES	1 146 244	1 124 662	1 165 225	1 243 358
TOTAL EQUITY AND LIABILITIES	2 123 824	2 045 675	2 035 753	2 155 512

Interim abbreviated consolidated statement of cash flow

	3-month period ended on 30 September 2020 (unaudited)	9-month period ended on 30 September 2020 (unaudited)	3-month period ended on 30 September 2019 (unaudited)	9-month period ended on 30 September 2019 (unaudited)
Cash flows from operating activities				
Gross profit (loss)	50 373	138 807	42 392	152 807
Adjustments for:				
Depreciation/amortisation	27 279	83 235	20 910	64 869
FX gains / (loss)	(206)	3 325	(1 544)	1 260
Net interest and dividends	5 098	15 878	5 972	17 203
Profit / loss from investing activities	1 007	365	923	(16 425)
Increase / decrease in receivables and other non-financial assets	(25 151)	(11 435)	6 474	(32 125)
Change to inventories	5 039	2 832	30 015	75 109
Increase (decrease) of liabilities except loans, borrowings, bonds and other financial liabilities	66 750	(20 825)	23 293	(25 963)
Change in accruals and prepayments	(6 534)	(11 054)	(6 387)	(10 094)
Change in provisions	(1 422)	(2 174)	315	1 220
Income tax paid	(4 704)	(9 623)	(2 948)	(10 217)
Co-generation certificates	(120)	(1 851)	(124)	7 292
Other	43	78	115	(32)
Net cash flows from operating activities	117 451	187 557	119 407	224 904
Cash flows from investing activities				
Disposal of tangible fixed assets and intangible assets	42	1 334	9 580	17 238
Purchase of tangible fixed assets and intangible assets	(30 531)	(102 867)	(51 786)	(91 438)
Other capital outflows / inflows	-	(6 089)	-	-
Net cash flows from investing activities	(30 489)	(107 621)	(42 206)	(74 201)
Cash flows from financing activities				
Change to overdraft facilities	9	(6)	(49 066)	(56 319)
Repayment of financial leasing liabilities	(2 410)	(7 738)	(2 076)	(6 239)
Inflows/repayment of other financial liabilities	(419)	(421)	407	404
Inflows from loans, borrowings and bonds	1 673	13 956	48 274	51 093
Repayment of loans, borrowings and bonds	(33 553)	(76 513)	(21 737)	(46 198)
Dividend disbursed to non-controlling shareholders	-	-	-	(20 895)
Interest paid	(4 715)	(15 294)	(5 629)	(16 460)
Net cash flows from financing activities	(39 415)	(86 016)	(29 827)	(94 615)
Change in cash and cash equivalents	47 547	(6 080)	47 374	56 088
Net FX differences	2 021	10 031	802	(3 597)
Cash and cash equivalents at the beginning of the period	220 268	265 885	206 406	202 089
Cash and cash equivalents at the end of the period including with restricted access	269 835	269 835	254 581	254 581

Interim abbreviated 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 total comprehensive income related to discontinued operations	Total	Equity attributable to non-controlling shareholders	Total equity
As at 01 January 2020	69 288	407 976	(28 863)	139 035	19 474	-	606 909	263 619	870 528
Net profit (loss) for the period	-	-	-	-	109 861	-	109 861	8 557	118 418
Other comprehensive income (net) for the period	-	-	18 389	(29 757)	-	-	(11 368)	1	(11 367)
Total comprehensive income for the period	-	-	18 389	(29 757)	109 861	-	98 493	8 559	107 052
Financial profit distribution	-	-	-	33 035	(33 035)	-	-	-	-
As at 30 September 2020 (unaudited)	69 288	407 976	(10 474)	142 313	96 300	-	705 402	272 178	977 580

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 total comprehensive income related to discontinued operations	Total	Equity attributable to non-controlling shareholders	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 (loss) for the period	-	-	-	-	72 214	-	72 214	46 937	119 150
Other comprehensive income (net) for the period	-	-	(9 586)	(21 608)	-	-	(31 194)	(16 100)	(47 294)
Total comprehensive income for the period	-	-	(9 586)	(21 608)	72 214	-	41 020	30 837	71 856
Dividend distribution to non-controlling entities	-	-	-	-	-	-	-	(20 895)	(20 895)
Derecognition of discontinued activity	-	-	(6 572)	-	(5 077)	11 649	-	-	-
Profit distribution	-	-	-	19 523	(19 523)	-	-	-	-
As at 30 September 2019 (unaudited)	69 288	407 976	(28 496)	149 026	19 868	-	617 662	294 491	912 154

Interim abbreviated standalone financial statements

Interim abbreviated standalone statement of profit and loss

	3-month period ended on 30 September 2020 (unaudited)	9-month period ended on 30 September 2020 (unaudited)	3-month period ended on 30 September 2019 (unaudited)	9-month period ended on 30 September 2019 (unaudited)
Continuing operations				
Sales of services	4 933	13 927	7 176	22 084
Interest income on loans	1 166	2 880	1 081	3 308
Dividend income	14 983	15 287	1 574	27 333
Sales revenues	21 082	32 094	9 831	52 726
Interest expense to related entities and costs of sales of logistics services	(947)	(3 598)	(1 164)	(3 854)
Profit (loss) on sales	20 135	28 496	8 667	48 872
Other operating income	318	629	114	217
Selling and distribution costs	-	-	(719)	(2 248)
Administrative expenses	(4 896)	(15 221)	(6 051)	(19 007)
Impairment charges to assets	(455)	(1 090)	2 783	3 233
Other operating expenses	(23)	(78)	(1 206)	(1 365)
Operating profit (loss)	15 080	12 737	3 587	29 702
Financial income	799	3 221	400	3 712
Financial expenses	(3 759)	(11 562)	(4 579)	(14 329)
Gross profit (loss)	12 120	4 396	(591)	19 084
Income tax	-	-	0	(1)
Net profit (loss) from continuing operations	12 120	4 396	(591)	19 083
Discontinued operations				
Profit (loss) for the financial year from discontinued	-	-	-	-
Net profit (loss) for the financial year	12 120	4 396	(591)	19 083
Earnings per share:				
– basic earnings from the profit (loss) for the period	0,17	0,06	(0,01)	0,28
– basic earnings from the profit (loss) from continuing operations for the period	0,17	0,06	(0,01)	0,28

Interim abbreviated standalone statement of comprehensive income

	3-month period ended on 30 September 2020 (unaudited)	9-month period ended on 30 September 2020 (unaudited)	3-month period ended on 30 September 2019 (unaudited)	9-month period ended on 30 September 2019 (unaudited)
Net profit (loss) for the reporting period	12 120	4 396	26 808	19 083
Items to be reclassified to profit/loss in future reporting periods:				
Measurement of financial instruments	916	839	1 101	1 334
FX differences on translation of foreign operations	(101)	(566)	(21)	313
Other comprehensive income (net)	816	273	1 080	1 647
Total comprehensive income	12 936	4 669	27 889	20 731

Interim abbreviated standalone statement of financial position

	As at 30 September 2020 (unaudited)	As at 30 June 2020 (after review)	As at 31 December 2019	As at 30 September 2019 (unaudited)
ASSETS				
Fixed assets				
Tangible fixed assets	1 389	1 533	1 969	2 329
Intangible assets	1 515	1 589	1 738	1 799
Shares in subsidiaries	673 937	673 937	673 937	673 938
Other financial assets	21 563	33 751	45 318	54 003
Other non-financial assets	1 826	1 806	1 731	1 448
	700 230	712 617	724 693	733 517
Current assets				
Trade and other receivables	26 676	48 190	69 730	117 601
Income tax receivables	372	364	425	309
Other financial assets	91 425	81 491	94 057	80 972
Other non-financial assets	2 412	3 769	5 643	3 229
Cash and cash equivalents	60 791	25 110	31 939	15 866
	181 675	158 925	201 794	217 977
TOTAL ASSETS	881 904	871 541	926 486	951 494
EQUITY AND LIABILITIES				
Equity				
Share capital	69 288	69 288	69 288	69 288
Reserve capital	427 502	427 502	427 502	427 502
Other reserves	103 953	103 037	103 115	103 733
FX differences on translation	1 219	1 320	1 785	1 774
Retained earnings / Accumulated losses	(29 215)	(41 336)	(33 611)	(46 442)
Total equity	572 747	559 811	568 078	555 855
Long-term liabilities				
Interest-bearing loans and borrowings	31 195	91 410	54 549	140 393
Provisions	2 268	2 243	2 151	1 799
Other long-term liabilities	245	328	626	884
	33 708	93 981	57 326	143 077
Short-term liabilities				
Interest-bearing loans and borrowings	249 525	196 184	252 320	191 744
Trade payables	17 783	13 084	33 962	46 772
Other financial liabilities	2 488	3 370	3 335	2 863
Other short-term liabilities	1 685	1 412	2 102	1 793
Accruals and deferred income	3 968	3 699	9 362	9 392
	275 449	217 749	301 081	252 563
TOTAL LIABILITIES	309 157	311 730	358 407	395 640
TOTAL EQUITY AND LIABILITIES	881 904	871 541	926 486	951 494

Interim abbreviated standalone statement of cash flow

	3-month period ended on 30 September 2020 (unaudited)	9-month period ended on 30 September 2020 (unaudited)	3-month period ended on 30 September 2019 (unaudited)	9-month period ended on 30 September 2019 (unaudited)
Cash flows from operating activities				
Gross profit (loss)	12 120	4 396	(591)	19 084
Adjustments for:				
Depreciation/amortisation	172	571	581	823
FX gains (loss)	2 877	9 089	(1)	(1)
Impairment of assets	-	-	-	-
Net interest and dividends	(2 740)	3 976	1 916	5 741
Profit / loss from investing activities	86	234	-	-
Increase / decrease in receivables and other non-financial assets	22 271	45 671	(9 893)	(23 484)
Zmiana stanu zapasów	0	-	0	-
Increase / decrease in liabilities except for loans, borrowings and debt securities	4 969	(16 595)	(4 597)	(40 753)
Change in accruals and prepayments	269	(5 394)	1 152	102
Change in provisions	25	118	21	(55)
Income tax paid	-	-	(42)	39
Change to liabilities due to cash-pooling	17 611	40 628	35 619	74 533
Increase / decrease of loans granted to subsidiaries	14 470	31 921	8 759	20 970
Other	378	(296)	310	1 423
Net cash flows from operating activities	72 509	114 318	33 233	58 422
Cash flows from investing activities				
Disposal of tangible fixed and intangible assets	-	-	204	204
Purchase of tangible fixed and intangible assets	-	-	(330)	(1 822)
Net cash flows from investing activities	-	-	(126)	(1 618)
Cash flows from financing activities				
Inflows from loans and borrowings	-	-	(6 898)	(6 898)
Repayment of loan liabilities	(33 555)	(76 513)	(21 985)	(46 198)
Change of balance of working capital loans	-	-	5 181	-
Interest paid	(3 191)	(8 573)	(4 153)	(7 448)
Repayment of financial leasing liabilities	(83)	(381)	-	-
Net cash flows from financing activities	(36 829)	(85 467)	(27 854)	(60 544)
Change in cash and cash equivalents	35 681	28 852	5 257	(3 740)
Cash and cash equivalents at the beginning of the period	25 110	31 939	10 609	19 605
Cash and cash equivalents at the end of the period	60 791	60 791	15 866	15 866

Interim abbreviated standalone 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)	Total equity
As at 01 January 2020	69 288	427 502	1 785	103 115	(33 611)	568 078
Net profit for the period	-	-	-	-	4 396	4 396
Other comprehensive income (net) for the period	-	-	(566)	839	-	273
Total comprehensive income for the period	-	-	(566)	839	4 396	4 669
Profit distribution	-	-	-	-	-	-
Dividend distribution	-	-	-	-	-	-
Settlement of the tax group in Sweden	-	-	-	-	-	-
As at 30 September 2020 (unaudited)	69 288	427 502	1 219	103 953	(29 215)	572 747

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)	Total equity
As at 01 January 2019	69 288	447 641	1 167	116 300	(103 364)	535 124
Net profit for the period	-	-	-	-	28 675	19 083
Other comprehensive income (net) for the period	-	-	281	595	-	1 647
Total comprehensive income for the period	-	-	281	595	28 675	20 731
Profit distribution	-	(39 662)	-	-	39 662	-
Dividend distribution	-	-	-	(13 858)	-	(13 858)
Settlement of the tax group in Sweden	-	-	-	-	(185)	-
As at 30 September 2019 (unaudited)	69 288	427 502	1 774	103 733	(46 442)	555 855

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. 1,500 people in its Paper Mills and Pulp Mills, companies dealing in paper distribution, the procurement office and in a company of forest owners. Our Paper Mills are located in Poland and Sweden and have total production capacity of more than 685,000 tonnes of paper per year. The Pulp Mills are located in Sweden and have total production capacity of over 400,000 tonnes 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 nine months of 2020 amounted to PLN 2,133 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), which was then the Parent Entity of Arctic Paper S.A. In addition, under the expansion, the Group acquired the Paper Mill of Arctic Paper Mochenwangen (Germany) in November 2008 and the Paper Mill Grycksbo (Sweden) in March 2010. In 2012, the Group acquired shares in Rottneros AB, a company listed on NASDAQ in Stockholm, Sweden, holding interests in two Pulp Mills (Sweden).

The Parent 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. On 8 October 2019, the court registered change of the Company's registered office to Kostrzyn nad Odrą. The Company has a foreign branch in Göteborg, Sweden.

The interim abbreviated consolidated financial statements of the Group for 9 months of 2020 cover:

- interim abbreviated consolidated profit and loss account, statement of comprehensive income and a cash flow statement for the periods of three and nine months ended on 30 September 2020 and contain comparable data for the equivalent periods ended on 30 September 2019.
- interim abbreviated statement of changes in equity for the period of nine months ended on 30 September 2020 and comparative data for the equivalent period ended on 30 September 2019;
- interim abbreviated consolidated statement of financial condition as at 30 September 2020 and comparative data as at 30 June 2020, 31 December 2019 and 30 September 2019.

1.1. Group Profile

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

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

- production and sales of pulp,
- generation of electricity,
- transmission of electricity,
- electricity distribution,
- heat production,
- heat distribution,
- logistics services,

– paper distribution.

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 30 September 2020) 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 30 September 2020 was 68.13% and has not changed until the date hereof.

The Parent Entity of the Arctic Paper Group is Incarta Development S.A.

The duration of the Company is indefinite.

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			
			16 November 2020	30 September 2020	19 August 2020	31 December 2019
Arctic Paper Kostrzyn S.A.	Poland, Fabryczna 1, 66-470 Kostrzyn nad Odrą	Paper production	100%	100%	100%	100%
Arctic Paper Munkedals AB	Sweden, SE 455 81 Munkedal	Paper production	100%	100%	100%	100%
Arctic Paper Mochenwangen GmbH	Germany, Fabrikstrasse 62, DE-882, 84 Wolpertswende	Paper production	99,74%	99,74%	99,74%	99,74%
Arctic Paper Grycksbo AB	Sweden, Box 1, SE 790 20 Grycksbo	Paper production	100%	100%	100%	100%
Arctic Paper UK Limited	Great Britain, 8 St Thomas Street SE1 9RR London	Trading company	100%	100%	100%	100%
Arctic Paper Baltic States SIA	Latvia, K. Vardemara iela 33-20, Riga LV-1010	Trading company	100%	100%	100%	100%
Arctic Paper Deutschland GmbH	Germany, Am Sandtorkai 72, 20457 Hamburg	Trading company	100%	100%	100%	100%
Arctic Paper Benelux S.A.	Belgium, Ophemstraat 24 B-3050 Oud-Hav erlee	Trading company	100%	100%	100%	100%
Arctic Paper Schweiz AG	Switzerland, Gutenbergstrasse 1, CH-4552 Derendingen	Trading company	100%	100%	100%	100%
Arctic Paper Italia srl	Italy, Via Cav riana 7, 20 134 Milano	Trading company	100%	100%	100%	100%
Arctic Paper Danmark A/S	Denmark, Korskindelund 6 DK-2670 Grev e	Trading company	100%	100%	100%	100%
Arctic Paper France SAS	France, 43 rue de la Breche aux Loups, 75012 Paris	Trading company	100%	100%	100%	100%
Arctic Paper Espana SL	Spain, Avenida Diagonal 472-474, 9-1 Barcelona	Trading company	100%	100%	100%	100%
Arctic Paper Papierhandels GmbH	Austria, Hainborgerstrasse 34A, A-1030 Wien	Trading company	100%	100%	100%	100%
Arctic Paper Polska Sp. z o.o.	Poland, Okrężna 9, 02-916 Warsaw	Trading company	100%	100%	100%	100%
Arctic Paper Norge AS	Norway, Eikenga 11-15, NO-0579 Oslo	Trading company	100%	100%	100%	100%
Arctic Paper Sverige AB	Sweden, SE 455 81 Munkedal	Trading company	100%	100%	100%	100%

Unit	Registered office	Group profile	Group's interest in the equity of the subsidiary entities as at			
			16 November 2020	30 September 2020	19 August 2020	31 December 2019
Arctic Paper East Sp. z o.o.	Poland, Fabryczna 1, 66-470 Kostrzyn nad Odrą	Trading company	100%	100%	100%	100%
Arctic Paper Investment GmbH *	Germany, Fabrikstrasse 62, DE-882, 84 Wolpertswende	Activities of holding companies	100%	100%	100%	100%
Arctic Paper Finance AB	Sweden, Box 383, 401 26 Göteborg	Activities of holding companies	100%	100%	100%	100%
Arctic Paper Verwaltungs GmbH *	Germany, Fabrikstrasse 62, DE-882 84 Wolpertswende	Activities of holding companies	100%	100%	100%	100%
Arctic Paper Immobilienverwaltung GmbH&Co. KG*	Germany, Fabrikstrasse 62, DE-882 84 Wolpertswende	Activities of holding companies	94,90%	94,90%	94,90%	94,90%
Arctic Paper Investment AB **	Sweden, Box 383, 401 26 Göteborg	Activities of holding companies	100%	100%	100%	100%
EC Kostrzyn Sp. z o.o.	Poland, ul. Fabryczna 1, 66-470 Kostrzyn nad Odrą	Rental of properties and machines and equipment	100%	100%	100%	100%
Munkedals Kraft AB	Sweden, 455 81 Munkedal	Production of hydropower	100%	100%	100%	100%
Rottneros AB	Sweden, Sunne	Activities of holding companies	51,27%	51,27%	51,27%	51,27%
Rottneros Bruk AB	Sweden, Sunne	Pulp production	51,27%	51,27%	51,27%	51,27%
Utansjo Bruk AB	Sweden, Harnösand	Non-active company	51,27%	51,27%	51,27%	51,27%
Vallviks Bruk AB	Sweden, Söderhamn	Pulp production	51,27%	51,27%	51,27%	51,27%
Nykvist Skogs AB	Szweden, Gräsmark	Company grouping private owners of forests	51,27%	51,27%	51,27%	n/d
Rottneros Packaging AB	Sweden, Stockholm	Production of food packaging	51,27%	51,27%	51,27%	51,27%
SIA Rottneros Baltic	Latvia, Kuldiga	Procurement bureau	51,27%	51,27%	51,27%	51,27%

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

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

On 1 January 2020 the Group – via Rottneros AB – acquired control over Nykvist Skogs AB, a company grouping private owners of forests in Sweden. The transaction provided a broader access to raw materials over a long-term horizon.

As at 30 September 2020, 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 Entity

As at 30 September 2020, the Parent Entity'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 Entity.

3.2. Supervisory Board of the Parent Entity

As at 30 September 2020, the Parent Entity'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 as a Member of the Supervisory Board on 16 September 2014);
- Thomas Onstad – Member of the Supervisory Board appointed on 22 October 2008;
- Mariusz Grendowicz – Member of the Supervisory Board appointed on 28 June 2012 (independent member);
- Dorota Raben – Member of the Supervisory Board appointed on 28 May 2019 (independent member).

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

3.3. Audit Committee of the Parent Entity

As at 30 September 2020, the Parent Entity's Audit Committee was composed of:

- Mariusz Grendowicz – President of the Management Board appointed on 18 September 2017 (appointed as a Member of the Audit Committee on 20 February 2013);
- Rune Mattsson – Member of the Audit Committee appointed on 23 June 2016;
- Dorota Raben – Member of the Audit Committee appointed on 19 July 2019.

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

4. Approval of the financial statements

These interim abbreviated consolidated financial statements were approved for publication by the Management Board on 16 November 2020.

5. Basis of preparation of the interim abbreviated consolidated financial statements

These interim abbreviated consolidated financial statements were prepared in accordance with the requirements of International Accounting Standard No. 34 and the Regulation of the Minister of Finance of 29 March 2018 on current and periodic information provided by issuers of securities and on conditions under which information required by legal regulations of a third country may be recognised as equivalent (Journal of Laws of 2018, item 757).

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

The interim 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 2019.

5.1. Covid-19

In the first quarter 2020 the Arctic Paper Group did not suffer as a result of the COVID19 virus pandemic. In the second and third quarter, the pandemic had a significant impact on its operations and performance. The economic downturn that has occurred throughout Europe has reduced demand for the Group's products. All the Group's factories had to adapt their work organisation and production to lower demand. Changes were made to the organisation of work, renovation works were carried out due to the under-utilisation of working time by individual production lines, and no seasonal workers were employed. Savings measures have been implemented.

Our priority was to ensure that our employees stay healthy and that they can work in safe conditions. We implemented organisational measures to mitigate the risk of infection and spread of the coronavirus among the employees of our factories and pulp mills. A large group of employees started working remotely. As a result of restrictions in contacts with our customers, communication was transferred to the electronic sphere. In cooperation with logistics companies, we implemented new rules of incoming and outgoing logistics.

Special stress was put on ongoing monitoring of our customers' financial condition in order to mitigate the risk of overdue receivables. As a result, there has been no increase in overdue or irregular receivables rates. We benefited from various financial support programs offered by various countries to group entities operating in specific countries.

As a result of all the efforts mentioned above, the Arctic Paper Group generated profit in the subsequent quarter of this year and the profit attributable to the shareholders of the Parent Entity for three quarters of 2020 is much better than a year earlier.

Now it is hard to predict the impact of the pandemic and the related economic and social impact on the results and functioning of the Arctic Paper Group in 2021.

With reference to the above and the standpoint detailed in item 6.2 of the consolidated financial statements for 2019, in the opinion of the Group management the assumption that the Group will hold sufficient resources to continue its business operations for minimum 12 months of the balance sheet date is justified.

6. Significant accounting principles (policies)

The accounting principles (policies) applied to prepare the interim abbreviated consolidated financial statements are compliant with those applied to the annual consolidated financial statements of the Group for the year ended on 31 December 2019, with the following exceptions:

- Amendments to *IAS 1 Presentation of Financial Statements* and *IAS 8 Accounting policies, changes in accounting estimates and errors* – applicable to annual periods beginning on or after 1 January 2020;
The amendments harmonise and clarify the definition of "Material" and provide guidelines in order to improve consistency in applying the concept in International Financial Reporting Standards.
- Modifications to *IFRS 9 Financial Instruments*, *IAS 39 Financial Instruments* and *IFRS 7 Financial Instruments: Disclosures* – applicable to annual periods beginning on or after 1 January 2020;
The amendments are mandatory and apply to all hedge relationships affected by the uncertainty resulting from the reformed interest rates. The modifications provide for a temporary waiver of the use of certain hedge accounting requirements so that the interest rate reform does not cancel hedge accounting. The key waivers concerning the amendments refer to:
 - the requirement that flows are "highly probable",
 - risk components,
 - prospective assessment,
 - retrospective tests of effectiveness (applies to IAS 39),

- reclassification of provisions under cash flow hedges.

The amendments further require that entities disclose additional information to investors on hedge relationships that affect the above uncertainties.

— Amendments to *IFRS 3 Business Combinations*; effective for annual periods beginning on or after 1 January 2020. Those amendments have not yet been endorsed by the EU.

The changes restrict and clarify the definition of business. They also support a simplified assessment if a set of assets and activities constitutes a group of assets and not a business.

The aforesaid amendments did not have any significant impact on the Group's financial statements.

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

6.1. New standards and interpretations that have been published and are not yet effective

The following standards and interpretations were issued by the International Accounting Standards Board (IASB) or the International Financial Reporting Interpretations Committee (IFRIC) but are not yet effective:

- *Disposal or Transfer of Assets between the Investor and an Associate Company or a Joint Venture (amendments to IFRS 10 Consolidated Financial Statements and to IAS 28 Investments in Associates)*; The European Commission took a decision on deferring approval of those amendments for an undefined period. The amendments clarify that in case of a transaction made with an associate or a joint venture, the extent to recognise the related transactional profit or loss depends on that if the transferred or sold assets constitute a venture:
 - the entire profit or loss is recognised if the transferred assets meet the definition of a venture (irrespective of the fact if the venture is a subsidiary entity or not);
 - the profit or loss is recognised in part when the transaction covers assets that do not constitute a venture even if such assets were held in a subsidiary entity.
- *IFRS 17 Insurance Contracts applies to annual periods beginning on or after 1 January 2021, prospective application; earlier application is permitted*. The standard has not been yet endorsed by the EU. IFRS 17 that replaces temporary standard IFRS 4 Insurance Contracts that was implemented in 2004. IFRS 4 provided companies with a possibility to continue disclosing insurance contracts pursuant to the accounting principles applicable in national standards, which, as a result, meant application of different solutions. IFRS 17 solves the issue of comparability created by IFRS 4 through a requirement of coherent disclosure of all insurance contracts, which will be beneficial for both investors and insurers. Liabilities arising from contracts will be recognised at present values, instead of historic cost.
- *Amendments to IAS 1 Presentation of Financial Statements Classification of Liabilities as Current or Non-current* (applicable to annual reporting periods beginning on or after 1 January 2022, earlier application is permitted). Those amendments have not yet been endorsed by the EU. The amendments clarify that presentation of liabilities as current and non-current should be based solely on the right available to the Entity as of the reporting date to defer the payment of relevant liabilities. Such right to defer the payment of a liability for minimum 12 months from the reporting date does not have to be unconditional but it has to be material. The above presentation is not affected by intentions or expectations of the Entity's management as to the exercising of the right or the date when this is to happen. The amendments further provide clarification as to the events that are treated as discharge of liabilities.

The Group does not expect the Standards to have material effect on its financial statements when they become effective.

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 profit and loss accounts are translated using the average weighted exchange rates for the relevant reporting period. The FX differences on translation are recognised in other total comprehensive income and cumulated in a separate equity 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 interim abbreviated consolidated financial statements in other total comprehensive income.

The following exchange rates were used for book valuation purposes:

	30 September 2020	31 December 2019
USD	3,8658	3,7977
EUR	4,5268	4,2585
SEK	0,4296	0,4073
DKK	0,6079	0,5700
NOK	0,4087	0,4320
GBP	4,9560	4,9971
CHF	4,1878	3,9213

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

	01/01 - 30/09/2020	01/01 - 30/09/2019
USD	3,9372	3,8287
EUR	4,4241	4,3022
SEK	0,4191	0,4073
DKK	0,5932	0,5763
NOK	0,4131	0,4403
GBP	4,9998	4,8713
CHF	4,1438	3,8487

7. Seasonality

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

8. Information on business segments

The principal continuing operations of the Group include paper production which is conducted in three Paper Mills belonging to the Group and pulp production in two Pulp Mills. The presentation of the segments cover the continuing activities of the Arctic Paper Group.

The Group identifies four business segments:

- **Uncoated paper** – paper for printing or other graphic purposes, including wood-free and wood-containing paper. Uncoated wood-free paper 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.
- **Coated paper** – coated 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 used primarily to produce printing and writing paper, cardboard, toilet paper and white packaging paper as well as chemo thermo mechanical pulp (CTMP) and groundwood which are used mainly for production of printing and writing papers.
- **Other** – the segment groups the results of operations of Arctic Paper S.A. and Arctic Paper Finance AB.

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 operating profit (loss), in each case in compliance with EU IFRS. In accordance with EU IFRS, EBITDA is not a metric of operating profit (loss), operational results or liquidity. EBITDA is a metric that the Management Board uses to manage the operations.

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

The table below presents data concerning revenues and profit as well as certain assets and liabilities split by segments of the Group for the period of 9 months ended on 30 September 2020 and as at 30 September 2020.

9-month period ended on 30 September 2020 and on 30 September 2020

	Continuing Operations						Total continuing operations
	Uncoated	Coated	Pulp	Other	Total	Exclusions	
Revenues							
Sales to external customers	1 080 174	403 239	649 371	-	2 132 784	-	2 132 784
Sales between segments	-	17 716	22 379	13 926	54 021	(54 021)	-
Total segment revenues	1 080 174	420 955	671 749	13 926	2 186 804	(54 021)	2 132 784
Result of the segment							
EBITDA	157 258	30 224	61 601	(2 851)	246 233	30	246 263
Interest income	290	110	-	3 253	3 653	(3 021)	632
Interest expense	(2 797)	(2 927)	(6 286)	(7 267)	(19 277)	3 064	(16 213)
Depreciation/amortisation	(49 023)	(3 413)	(30 130)	(669)	(83 235)	-	(83 235)
FX gains and other financial income	4 398	72	(1 676)	18 135	20 928	(20 928)	(0)
FX losses and other financial expenses	(3 854)	(5 453)	-	(5 116)	(14 423)	5 784	(8 640)
Gross profit	106 272	18 614	23 509	5 484	153 879	(15 071)	138 807
Assets of the segment	992 382	265 545	1 003 239	375 145	2 636 312	(540 211)	2 096 101
Liabilities of the segment	414 820	403 667	396 521	309 154	1 524 162	(447 548)	1 076 614
Capital expenditures	(56 757)	(10 479)	(35 631)	-	-102 867	-	(102 867)
Interests in joint ventures	1 489	-	-	-	1 489	-	1 489

- Revenues from inter-segment transactions are eliminated on consolidation.
- The results of the segments do not cover financial income (PLN 632 thousand, of which PLN 632 thousand is interest income) and financial expenses (PLN 24,853 thousand of which PLN 16,213 thousand is interest expense), depreciation/amortisation (PLN 83,235 thousand), and income tax liability (PLN -20,389 thousand). However, segment result includes inter-segment loss (PLN 30 thousand).
- Assets and liabilities of segments do not contain any deferred income tax (asset: PLN 26,234 thousand, provision: PLN 69,630 thousand, since those items are managed at the Group level. Segment assets do not also include investments in companies operating within the Group.

The table below presents data concerning revenues and profit as well as certain assets and liabilities split by segments of the Group for the period of 3 months ended on 30 September 2020 and as at 30 September 2020.

3-month period ended on 30 September 2020 and on 30 September 2020

	Continuing Operations						Total continuing operations
	Uncoated	Coated	Pulp	Other	Total	Exclusions	
Revenues							
Sales to external customers	361 770	130 090	210 976	-	702 836	-	702 836
Sales between segments	-	5 687	7 446	4 932	18 064	(18 064)	-
Total segment revenues	361 770	135 776	218 422	4 932	720 900	(18 064)	702 836
Result of the segment							
EBITDA	59 556	10 368	16 476	(344)	86 056	356	86 412
Interest income	68	29	-	837	933	(1 004)	(71)
Interest expense	(738)	(1 031)	(2 146)	(2 171)	(6 086)	1 221	(4 865)
Depreciation/amortisation	(16 522)	(1 009)	(9 596)	(152)	(27 279)	-	(27 279)
FX gains and other financial income	1 888	24	(2 504)	15 949	15 356	(15 366)	(10)
FX losses and other financial expenses	(1 418)	(1 172)	-	(1 706)	(4 296)	483	(3 813)
Gross profit	42 833	7 209	2 229	12 412	64 683	(14 310)	50 373
Assets of the segment	992 382	265 545	1 003 239	375 145	2 636 312	(540 211)	2 096 101
Liabilities of the segment	414 820	403 667	396 521	309 154	1 524 162	(447 548)	1 076 614
Capital expenditures	(19 373)	(1 288)	(9 870)	-	-30 531	-	(30 531)
Interests in joint ventures	1 489	-	-	-	1 489	-	1 489

- Revenues from inter-segment transactions are eliminated on consolidation.
- The results of the segments do not cover financial income (PLN -81 thousand, of which PLN -71 thousand is interest income) and financial expenses (PLN 8,678 thousand of which PLN 4,865 thousand is interest expense), depreciation/amortisation (PLN 27,279 thousand), and income tax liability (PLN -5,017 thousand). However, segment result includes inter-segment loss (PLN 356 thousand).
- Assets and liabilities of segments do not contain any deferred income tax (asset: PLN 26,234 thousand, provision: PLN 69,630 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 transformed data concerning revenues and profit as well as certain assets and liabilities split by segments of the Group for the period of 9 months ended on 30 September 2019 and as at 31 December 2019.

9-month period ended on 30 September 2019 and on 31 December 2019

	Continuing Operations					Exclusions	Total continuing operations
	Uncoated	Coated	Pulp	Other	Total		
Revenues							
Sales to external customers	1 191 392	483 385		-	2 377 452	-	2 377 452
Sales between segments	-	21 487		22 084	85 791	(85 791)	-
Total segment revenues	1 191 392	504 873		22 084	2 463 243	(85 791)	2 377 452
Result of the segment							
EBITDA	90 596	6 302		(2 331)	242 813	309	243 122
Interest income	2 626	183		5 503	8 312	(7 050)	1 262
Interest expense	(3 161)	(3 061)		(9 541)	(21 873)	3 374	(18 499)
Depreciation/amortisation	(45 610)	7 571		(805)	(64 869)	-	(64 869)
FX gains and other financial income	1 443	323		30 333	38 208	(38 151)	58
FX losses and other financial expenses	(7 020)	(5 961)		(5 823)	(18 804)	10 536	(8 268)
Gross profit	38 874	5 358		17 335	183 788	(30 981)	152 807
Assets of the segment	943 630	273 031		418 638	2 574 743	(564 747)	2 009 996
Liabilities of the segment	456 538	412 808		358 406	1 574 364	(479 961)	1 094 402
Capital expenditures	(66 110)	(1 718)		(56)	(91 438)	-	(91 438)
Interests in joint ventures	1 412	-	-	-	1 412	-	1 412

- Revenues from inter-segment transactions are eliminated on consolidation.
- The results of the segments do not cover financial income (PLN 1,321 thousand, of which PLN 1,262 thousand is interest income) and financial expenses (PLN 26,767 thousand of which PLN 18,499 thousand is interest expense), depreciation/amortisation (PLN 64,869 thousand), and income tax liability (PLN -33,657 thousand). However, segment result includes inter-segment loss (PLN 309 thousand).
- Assets and liabilities of segments do not contain any deferred income tax (asset: PLN 24,346 thousand, provision: PLN 70,823 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 transformed data concerning revenues and profit as well as certain assets and liabilities split by segments of the Group for the period of 3 months ended on 30 September 2019 and as at 31 December 2019.

3-month period ended on 30 September 2019 and on 31 December 2019

	Continuing Operations						Total continuing operations
	Uncoated	Coated	Pulp	Other	Total	Exclusions	
Revenues							
Sales to external customers	397 660	166 141	230 562	-	794 363	-	794 363
Sales between segments	-	6 312	19 272	7 176	32 759	(32 759)	-
Total segment revenues	397 660	172 453	249 834	7 176	827 122	(32 759)	794 363
Result of the segment							
EBITDA	31 502	13 043	28 565	-1 208	71 902	-390	71 512
Interest income	724	51	-	1 849	2 624	(2 251)	374
Interest expense	(1 012)	(1 058)	(2 024)	(3 358)	(7 453)	1 110	(6 343)
Depreciation/amortisation	(15 636)	3 643	(8 624)	(293)	(20 910)	-	(20 910)
FX gains and other financial income	467	106	4 067	2 689	7 329	(7 326)	3
FX losses and other financial expenses	(3 308)	(3 199)	-	(1 569)	(8 076)	5 832	(2 244)
Gross profit	12 736	12 586	21 983	(1 890)	45 416	(3 024)	42 392
Assets of the segment	943 630	273 031	939 444	418 638	2 574 743	(564 747)	2 009 996
Liabilities of the segment	456 538	412 808	346 612	358 406	1 574 364	(479 961)	1 094 402
Capital expenditures	(43 806)	(180)	(7 801)	-	(51 786)	-	(51 786)
Interests in joint ventures	1 412	-	-	-	1 412	-	1 412

- Revenues from inter-segment transactions are eliminated on consolidation.
- The results of the segments do not cover financial income (PLN 377 thousand, of which PLN 374 thousand is interest income) and financial expenses (PLN 8,587 thousand of which PLN 6,343 thousand is interest expense), depreciation/amortisation (PLN 20,910 thousand), and income tax liability (PLN -7,830 thousand). However, segment results include inter-segment sales profit (PLN 390 thousand).
- Assets and liabilities of segments do not contain any deferred income tax (asset: PLN 24,346 thousand, provision: PLN 70,823 thousand, since those items are managed at the Group level. Segment assets do not also include investments in companies operating within the Group).

9. Dividend paid and proposed

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

Dividend is paid based on the net profit disclosed in the standalone annual financial statements of Arctic Paper S.A. 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 Entity 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 2019.

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

In 2019 the Company did not pay out dividend.

On 30 April 2020, the Management Board of Arctic Paper S.A. approved a decision concerning a change to its recommendation on dividend distribution from 2019 profit, originally published in current report No. 4/2020 of 27 February 2020. The Company's Management Board approved a resolution to recommend to the Company's General Meeting no dividend distribution from the profit for the financial year ended on 31 December 2019. The change of the previous recommendation of the Company's Management Board is related to a change of demand for products of the Arctic Paper Group companies as a result of the COVID-19 pandemic as well as no possibility to assess the impact of the pandemic on economic situation in Q2 and Q3 2020. At its meeting of 30 April 2020, the Company's Supervisory Board provided its positive opinion to the above proposal of the Management Board on no distribution of dividend from the profit for the financial year ended on 31 December 2019.

The Company's General Meeting held on 31 August 2020 did not make any decision on dividend disbursement.

10. Earnings/(loss) per share

Earnings/(loss) per share are established by dividing the net profit/(loss) 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/(loss) and the number of shares which constituted the basis to calculate earnings/(loss) per share and diluted earnings/(loss) per share on continuing operations and overall operations is presented below:

	3-month period ended on 30 September 2020 (unaudited)	9-month period ended on 30 September 2020 (unaudited)	3-month period ended on 30 September 2019 (unaudited)	9-month period ended on 30 September 2019 (unaudited)
Net profit / (loss) period from continuing operations attributable to the shareholders of the Parent Entity	44 457	109 861	26 317	72 214
Net profit / (loss) period from discontinued operations attributable to the shareholders of the Parent Entity	-	-	-	-
Net profit / (loss) attributable to the shareholders of the Parent Entity	44 457	109 861	26 317	72 214
Number of ordinary shares – A series	50 000	50 000	50 000	50 000
Number of ordinary shares – B series	44 253 500	44 253 500	44 253 500	44 253 500
Number of ordinary shares – C series	8 100 000	8 100 000	8 100 000	8 100 000
Number of ordinary shares – E series	3 000 000	3 000 000	3 000 000	3 000 000
Number of ordinary shares – F series	13 884 283	13 884 283	13 884 283	13 884 283
Total number of shares	69 287 783	69 287 783	69 287 783	69 287 783
Weighted average number of shares	69 287 783	69 287 783	69 287 783	69 287 783
Diluted weighted average number of ordinary shares	69 287 783	69 287 783	69 287 783	69 287 783
Profit (loss) per share (in PLN)				
– basic earnings from the profit/(loss) for the period attributable to the shareholders of the Parent Entity	0,64	1,59	0,38	1,04
– basic earnings from the profit (loss) from continuing operations for the period attributable to the shareholders of the Parent Entity	0,64	1,59	0,38	1,04
Diluted profit (loss) per share (in PLN)				
– from the profit (loss) for the period attributable to the shareholders of the Parent Entity	0,64	1,59	0,38	1,04
– from the profit (loss) from continuing operations for the period attributable to the shareholders of the Parent Entity	0,64	1,59	0,38	1,04

11. Acquisition of a subsidiary company

On 1 January 2020 the Group – via Rottneros AB – acquired control over Nykvist Skogs AB, a company grouping private owners of forests in Sweden. The transaction provided a broader access to raw materials over a long-term horizon. The value of the acquired net assets was SEK 5.5 million (PLN 2.2 million) and the purchase price was SEK 26.4 million (PLN 10.7 million). As a result, the Group disclosed goodwill (assets) of PLN 8.5 million. The net expense (net of receivables as at the acquisition date and the amount of the acquired cash) was PLN 6.1 million.

12. Interest-bearing loans, borrowings and bonds

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 44,178 thousand. In that period, the Group partially redeemed its bonds for PLN 16,600 thousand and partly repaid the loan from the owner of PLN 15,735 thousand. Additionally, the Group increased its debt under the loan with Nordea for PLN 13,956 thousand, which is to be used to commence an investment in a hydropower plant by Munkedals Kraft AB.

The other changes to loans and borrowings as at 30 September 2020, compared to 31 December 2019 result mainly from balance sheet evaluation and payment of interest accrued as at 31 December 2019 and paid in 2020.

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 ratios are calculated on the basis of results of the paper segment. As at 30 September 2020, the Group complied with the required ratios.

13. Share capital

	As at 30 September 2020	As at 31 December 2019
Share capital		
	(unaudited)	
series A ordinary shares of the nominal value of PLN 1 each	50	50
series B ordinary shares of the nominal value of PLN 1 each	44 254	44 254
series C ordinary shares of the nominal value of PLN 1 each	8 100	8 100
series E ordinary shares of the nominal value of PLN 1 each	3 000	3 000
series F ordinary shares of the nominal value of PLN 1 each	13 884	13 884
	69 288	69 288
	Registration date of capital increase	Number
		Value in PLN
Ordinary issued and fully paid-up shares		
Issued on 30 April 2008	2008-05-28	50 000
Issued on 12 September 2008	2008-09-12	44 253 468
Issued on 20 April 2009	2009-06-01	32
Issued on 30 July 2009	2009-11-12	8 100 000
Issued on 01 March 2010	2010-03-17	3 000 000
Issued on 20 December 2012	2013-01-09	10 740 983
Issued on 10 January 2013	2013-01-29	283 947
Issued on 11 February 2013	2013-03-18	2 133 100
Issued on 06 March 2013	2013-03-22	726 253
As at 30 September 2020 (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 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 S.A., 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 30 September 2020, 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 for the sale of pulp in order to hedge the sale prices of pulp in SEK.

14.1.1. Cash flow hedges

As at 30 September 2020, the Group's cash flows were hedged with forward contracts for purchases of electricity, forward contracts for sales of pulp, interest rate SWAPs.

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	2019-2020
Maturity	subject to contract; by 30.06.2021
Hedged quantity of pulp	10,500 tonnes
Term price	SEK 8,851/tonne

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	subject to contract; from 01.05.2016
Maturity	subject to contract; by 31.12.2025
Hedged quantity of electricity	1,705,650 MWh
Term price	from 21.30 to 38.45 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	2016-11-21
Maturity	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	2017-07-18
Maturity	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	2016-11-21
Maturity	each interest payment date in line with the payment schedule under the loan agreement; by 31.08.2021
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 2.6 million
Type of hedge	Hedge of cash flows related to variable interest rate on the EUR long-term 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	2018-07-27
Maturity	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 3.344 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	2019-10-15
Maturity	each interest payment date in line with the payment schedule under the loan agreement; by 28.08.2022
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 10 million

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

Type of hedge	Hedge of cash flows related to variable interest rate on the PLN long-term loan
Hedged position	Future PLN interest flows on PLN loan calculated on the basis of 6M WIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in PLN on the PLN loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	2016-11-21
Maturity	each interest payment date in line with the payment schedule under the loan agreement; by 31.08.2021
Hedged value	interest payable in line with the payment schedule under the loan agreement of PLN 11.5 million

Type of hedge	Hedge of cash flows related to variable interest rate on the PLN long-term 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	2018-07-31
Maturity	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

Type of hedge	Hedge of cash flows related to variable interest rate on the PLN bonds
Hedged position	Future PLN interest flows in PLN loan calculated on the basis of interest payments on PLN bonds at 6M WIBOR
Hedging instruments	The hedging item is a SWAP transaction under which the Company agreed to pay interest in PLN on the PLN bonds on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	2016-11-21
Maturity	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

14.1.2. Fair value hedges

As at 30 September 2020, 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	2016-11-21
Maturity	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	2017-07-18
Maturity	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	2018-07-27
Maturity	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 3.344 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	2019-10-15
Maturity	each interest payment date in line with the payment schedule under the loan agreement; by 28.08.2022
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 10 million

The table below presents the fair value of hedging instruments in cash flow and fair value hedge accounting as at 30 September 2020 and the comparative data:

	As at 30 September 2020 (unaudited)		As at 31 December 2019	
	Assets	Equity and liabilities	Assets	Equity and liabilities
FX forward	-	-	-	-
Forward on pulp sales	4 726	-	2 444	-
SWAP	-	2 325	-	3 163
Floor option	-	(358)	-	(415)
Forward for electricity	-	30 758	27 014	-
Total hedging derivative instruments	4 726	32 725	29 458	2 748

15. Financial risk management objectives and policies

The Group's principal financial instruments comprise bank loans, borrowings, bonds, lease 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 2019 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 2019, there have been no significant changes to the objectives and policies of capital management.

17. Contingent liabilities and contingent assets

As at 30 September 2020, the Capital Group reported:

- contingent liability under a guarantee for FPG in favour of the mutual life insurance company PRI for SEK 1,371 thousand (PLN 589 thousand) at Arctic Paper Grycksbo AB and for SEK 764 thousand (PLN 328 thousand) at Arctic Paper Munkedals AB;
- a bank guarantee in favour of Skatteverket Ludvika for SEK 135 thousand (PLN 58 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 approved by the European Union and the usage of the emission rights in each entity in 2013, 2014, 2015, 2016, 2017, 2018 and in the first three quarters of 2020.

(in tonnes) for Arctic Paper Kostrzyn S.A.	2014	2015	2016	2017	2018	2019	2020
Allocation*	105 434	102 452	99 840	97 375	94 916	92 454	90 009
Unused quantity from previous years	306 448	263 932	203 917	133 061	87 652	46 003	7 194
Issue	(147 950)	(162 467)	(170 696)	(142 784)	(136 565)	(131 263)	(92 846)
Purchased quantity	-	-	-	-	-	-	25 000
Sold quantity	-	-	-	-	-	-	-
Unused quantity	263 932	203 917	133 061	87 652	46 003	7 194	29 357

(in tonnes) for Arctic Paper Munkedals AB	2014	2015	2016	2017	2018	2019	2020
Allocation	43 470	42 692	41 907	41 113	40 311	39 499	38 685
Unused quantity from previous years	67 262	107 325	17 559	(11 572)	(10 619)	(27 676)	(36 353)
Issue	(3 407)	(32 465)	(21 038)	(40 160)	(57 368)	(48 176)	(18 464)
Purchased quantity	-	7	-	-	-	-	-
Sold quantity	-	(100 000)	(50 000)	-	-	-	-
Unused quantity	107 325	17 559	(11 572)	(10 619)	(27 676)	(36 353)	(16 132)**

(in tonnes) for Arctic Paper Grycksbo AB	2014	2015	2016	2017	2018	2019	2020
Allocation	75 689	74 326	72 948	71 556	70 151	68 730	50 284
Unused quantity from previous years	111 448	734	60	1 008	2 564	-	-
Issue	-	-	-	-	-	-	-
Purchased quantity	-	-	-	-	-	-	-
Sold quantity	(186 403)	(75 000)	(72 000)	(70 000)	(72 715)	(68 730)	(37 500)
Unused quantity	734	60	1 008	2 564	-	-	12 784

(in tonnes) for the Rottneros Group	2014	2015	2016	2017	2018	2019	2020
Allocation	30 484	29 938	29 387	28 830	28 268	27 698	27 127
Unused quantity from previous years	90 522	101 986	104 991	113 085	123 208	73 104	20 037
Issue	(19 020)	(26 933)	(21 293)	(18 707)	(15 372)	(25 765)	(16 875)
Purchased quantity	-	-	-	-	-	-	-
Sold quantity	-	-	-	-	(63 000)	(55 000)	-
Unused quantity	101 986	104 991	113 085	123 208	73 104	20 037	30 289

* – the values result from the Regulation of the Council of Ministers of 31 March 2014 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,

** – the shortage of emission rights as at 30 September 2020 will be covered with purchases of such rights in the market; AP Munkedals recognises a provision for the missing CO2 emission rights.

20. Government grants and operations in the Special Economic Zone

20.1. Government grants

In the current period, the Group companies have not received any material grants.

20.2. Operations in the Special Economic Zone

Arctic Paper Kostrzyn S.A. operates in the Kostrzyńsko-Słubicka Specjalna Strefa Ekonomiczna (Special Economic Zone – KSSSE). Based on the permission issued by the Kostrzyńsko-Słubicka Specjalna Strefa Ekonomiczna S.A. it benefits from a corporate income 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 by 15 November 2017. Item I of the permit relating to the date by which the Company may enjoy the permit was deleted by Decision of the Minister of Economy No. 321/IW/14 of 6 November 2014. Now, the Company is entitled to use the permit by 2026 or by the date SSE exist in Poland pursuant to the applicable regulations. The permit may be used subject to the incurrence in the zone of capital expenditures within the meaning of Art. 6 of the Regulation of the Council of Ministers of 14 September 2004 on the Kostrzyńsko-Słubicka Specjalna Strefa Ekonomiczna (Special Economic Zone), underlying the calculation of public aid in compliance with Art. 3 of the Regulation with the value in excess of EUR 40,000 thousand by 31 December 2013, translated at the EUR mean rate published by the President of the National Bank of Poland on the actual expenditure date. Creation in Zone minimum five new jobs within the meaning of Article 3.3 and Article 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 30 September 2020, 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 66,358 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.

As at 30 September 2020, the Group had used all the tax benefits related to the expenses incurred in the KSSSE and therefore did not recognise any deferred tax asset on that account.

21. Material events after the reporting period

21.1. Revolving Credit Facility Extension

On October 27, 2020, the Lenders (BNP Paribas Bank Polska S.A., Santander Bank Polska S.A.) have extended the availability of the Revolving Facility to the Company until January 31st, 2021, on the conditions adopted so far.

The Revolving Facility was granted to the Company for a total value of EUR 19,800,000 and PLN 20,000,000 and was made available for the purpose of refinancing of intra-group liabilities of the Company or financing of intra-group loans.

The extension of the availability of the Revolving Facility for three months results from the possibilities considered by the Company and the possible conditions for the refinancing of the Group's current debt. The Company plans to simplify the current debt structure and to further optimize the conditions and reduce the costs of debt service. A possible decision on the implementation of refinancing and the selection of its final structure will depend on the analyzes conducted by the Issuer and the current situation on the financial market.

After 30 September 2020, until the date hereof there were no other material events requiring disclosure in this report with the exception of those events that were disclosed in this report in paragraphs above.

Signatures of the Members of the Management Board

Position	First and last name	Date	Signature
President of the Management Board Chief Executive Officer	Michał Jarczyński	16 November 2020	signed with a qualified electronic signature
Member of the Management Board Chief Financial Officer	Göran Eklund	16 November 2020	signed with a qualified electronic signature

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