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ARCTIC PAPER S.A. CAPITAL GROUP
Consolidated semi-annual report
for six months ended on 30 June 2017
along with an independent auditor's report from a review

TRANSLATORS' EXPLANATORY NOTE
The following document is a free translation of the report of the above-mentioned Company.
In the event of any discrepancy in interpreting the terminology, the Polish version is binding.

ARCTIC PAPER

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Introduction

Information on the report

This Consolidated Semi-Annual Report for six months ended on 30 June 2017 was prepared in accordance with the Regulation of the Minister of Finance of 25 May 2016 amending the Regulation on current and periodic information provided by issuers of securities and on conditions under which information required by legal regulations of a third country may be recognised as equivalent (Journal of Laws of 2016, item 860) and a part of the abbreviated consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), in particular in accordance with International Accounting Standard No. 34 and IFRS approved by the EU IFRS approved by the EU cover standards and interpretations approved by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC). The abbreviated consolidated financial statements do not comprise all information and disclosures required in the annual consolidated financial statements which are subject to mandatory audit and therefore they should be read in conjunction with the consolidated financial statements of the Group for the year ended on 31 December 2016. The data for the periods of 3 months ended on 30 June 2017 and on 30 June 2016, disclosed in the abbreviated consolidated and standalone financial statements was not reviewed or audited by statutory auditor. The interim financial result may not fully reflect the financial result that may be generated for the entire financial year.

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

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

Definitions and abbreviations

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

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

Arctic Paper, Company, Issuer, Parent Company, AP	Arctic Paper Spółka Akcyjna with its registered office in Poznań, Poland
Capital Group, Group, Arctic Paper Group, AP Group	Capital Group comprised of Arctic Paper Spółka Akcyjna and its subsidiaries as well as joint ventures
Arctic Paper Kostrzyn, AP Kostrzyn, APK	Arctic Paper Kostrzyn Spółka Akcyjna with its registered office in Kostrzyn nad Odrą, Poland
Arctic Paper Munkedals, AP Munkedals, APM	Arctic Paper Munkedals AB with its registered office in Munkedal Municipality, Västra County, Sweden
Arctic Paper Mochenwangen, AP Mochenwangen, APMW	Arctic Paper Mochenwangen GmbH with its registered office in Mochenwangen, Germany
Arctic Paper Grycksbo, AP Grycksbo, APG	Arctic Paper Grycksbo AB with its registered office in Kungsvagen, Grycksbo, Sweden
Paper Mills	Arctic Paper Kostrzyn, Arctic Paper Munkedals, Arctic Paper Grycksbo, Arctic Paper

	Mochenwangen (by the end of December 2015)
Arctic Paper Investment AB, API AB	Arctic Paper Investment AB with its registered office in Göteborg, Sweden
Arctic Paper Investment GmbH, API GmbH	Arctic Paper Investment GmbH with its registered office in Wolpertswende, Germany
Arctic Paper Verwaltungs	Arctic Paper Verwaltungs GmbH with its registered office in Wolpertswende, Germany
Arctic Paper Immobilienverwaltungs	Arctic Paper Immobilienverwaltungs GmbH & Co. KG with its registered office in Wolpertswende, Germany
Kostrzyn Group	Arctic Paper Kostrzyn Spółka Akcyjna with its registered office in Kostrzyn nad Odrą and EC Kostrzyn Sp. z o.o. with its registered office in Kostrzyn nad Odrą
Mochenwangen Group	Arctic Paper Investment GmbH, Arctic Paper Mochenwangen GmbH, Arctic Paper Verwaltungs GmbH, Arctic Paper Immobilienverwaltungs GmbH & Co.KG (disclosed in this report as discontinued operations)
Grycksbo Group	From 8 July 2014: Arctic Paper Grycksbo AB, formerly: Arctic Paper Grycksbo AB and Grycksbo Paper Holding AB
Sales Offices	Arctic Paper Papierhandels GmbH with its registered office in Vienna (Austria); Arctic Paper Benelux SA with its registered office in Oud-Haverlee (Belgium); Arctic Paper Danmark A/S with its registered office in Greve (Denmark); Arctic Paper France SA with its registered office in Paris (France); Arctic Paper Deutschland GmbH with its registered office in Hamburg (Germany); Arctic Paper Ireland Ltd with its registered office in Dublin (Ireland); liquidated on 25 October 2016 Arctic Paper Italia Srl with its registered office in Milan (Italy); Arctic Paper Baltic States SIA with its registered office in Riga (Latvia); Arctic Paper Norge AS with its registered office in Kolbotn (Norway); Arctic Paper Polska Sp. z o.o. with its registered office in Warsaw (Poland); Arctic Paper España SL with its registered office in Barcelona (Spain); Arctic Paper Sverige AB with its registered office in Munkedal (Sweden); Arctic Paper Schweiz AG with its registered office in Zurich (Switzerland); Arctic Paper UK Ltd with its registered office in Caterham (UK); Arctic Paper East Sp. z o.o. with its registered office in Kostrzyn nad Odrą (Poland);
Arctic Paper Finance AB	Arctic Paper Finance AB with its registered office in Göteborg, Sweden
Rottneros, Rottneros AB	Rottneros AB with its registered office in Sunne, Sweden
Rottneros Group, Rottneros AB Group	Rottneros AB with its registered office in Sunne, Sweden; Rottneros Bruk AB with its registered office in Sunne, Sweden; Utansjo Bruk AB with its registered office in Harnösand, Sweden, Vallviks Bruk AB with its registered office in Söderhamn, Sweden; Rottneros Packaging AB with its registered office in Stockholm, Sweden; SIA Rottneros Baltic with its registered office in Ventspils, Latvia
Pulp Mills	Rottneros Bruk AB in Sunne, Sweden; Vallviks Bruk AB with its registered office in Söderhamn, Sweden
Rottneros Purchasing Office	SIA Rottneros Baltic with its registered office in Latvia
Office Kalltorp	Kalltorp Kraft Handelsbolaget with its registered office in Trollhattan, Sweden
Nemus Holding AB	Nemus Holding AB with its registered office in Göteborg, Sweden
Thomas Onstad	The Issuer's core shareholder, holding directly and indirectly over 50% of shares in

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

Definitions of selected terms and financial indicators and abbreviations of currencies

Sales profit margin	Ratio of profit (loss) on sales to sales revenues from continuing operations
EBIT	Profit on continuing operating activity (Earnings Before Interest and Taxes)
EBIT profitability, operating profitability, operating profit margin	Ratio of operating profit (loss) to sales revenues from continuing operations
EBITDA	Operating profit from continuing operations plus depreciation and amortisation and impairment charges (Earnings Before Interest, Taxes, Depreciation and Amortisation)
EBITDA profitability, EBITDA margin	Ratio of operating profit plus depreciation and amortisation and impairment charges to

	sales revenues from continuing operations
Gross profit margin	Ratio of gross profit (loss) to sales revenues from continuing operations
Sales profitability ratio, net profit margin	Ratio of net profit (loss) to sales revenues
Return on equity, ROE	Ratio of net profit (loss) to equity income
Return on assets, ROA	Ratio of net profit (loss) to total assets
EPS	Earnings Per Share, ratio of net profit to the weighted average number of shares
BVPS	Book Value Per Share, Ratio of book value of equity to the number of shares
Debt-to-equity ratio	Ratio of total liabilities to equity
Equity to fixed assets ratio	Ratio of equity to fixed assets
Interest-bearing debt-to-equity ratio	Ratio of interest-bearing debt and other financial liabilities to equity
Net debt-to-EBITDA ratio	Ratio of interest-bearing debt minus cash to EBITDA from continuing operations
Solidity ratio	Ratio of equity (calculated in compliance with Swedish GAAP accounting principles) to assets
Interest coverage	Ratio of interest value (less of financial lease interest) to EBITDA (calculated in compliance with Swedish GAAP accounting principles)
EBITDA-to-interest coverage ratio	Ratio of EBITDA to interest expense from continuing operations
Current liquidity ratio	Ratio of current assets to short-term liabilities
Quick ratio	Ratio of current assets minus inventory and short-term accruals, prepayments and deferred costs to short-term liabilities
Acid test ratio	Ratio of total cash and similar assets to short-term liabilities
DSI	Days Sales of Inventory, ratio of inventory to cost of sales multiplied by the number of days in the period
DSO	Days Sales Outstanding, ratio of trade receivables to sales revenues from continuing operations multiplied by the number of days in the period
DPO	Days Payable Outstanding, Ratio of trade payables to cost of sales from continuing operations multiplied by the number of days in the period
Operating cycle	DSI + DSO
Cash conversion cycle	Operating cycle – DPO
FY	Financial year
Q1	1st quarter of the financial year
Q2	2nd quarter of the financial year
Q3	3rd quarter of the financial year
Q4	4th quarter of the financial year
H1	First half of the financial year
H2	Second half of the financial year
YTD	Year-to-date
Like-for-like, LFL	Analogous, with respect to operating result.

p.p.	Percentage point – difference between two amounts of one item given in percentage
PLN, zł, złoty	Monetary unit of the Republic of Poland
gr	grosz – 1/100 of one zloty (the monetary unit of the Republic of Poland)
Euro, EUR	Monetary unit of the European Union
GBP	Pound sterling – monetary unit of the United Kingdom
thousand,	Swedish Krona – monetary unit of the Kingdom of Sweden
USD	United States dollar, the legal tender in the United States of America
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
GDP	Gross Domestic Product

Other definitions and abbreviations

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

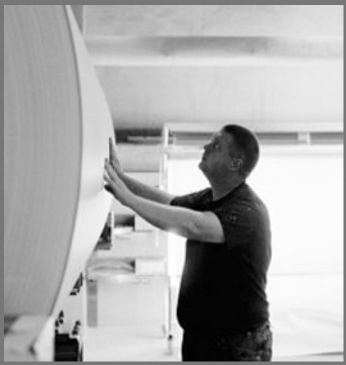
Forward looking statements

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



Management Board's report from operations of
the Arctic Paper S.A. Capital Group
and of Arctic Paper S.A.
to the report for the first half of 2017

Description of the business of the Arctic Paper Group

General information

The Arctic Paper Group is a leading European producer in terms of production volume of bulky book paper, offering a broad range of products in the segment and one of the leading producers of high-quality graphic paper in Europe. The Group produces numerous types of uncoated and coated wood-free paper as well as wood-containing uncoated paper for printing houses, paper distributors, book and magazine publishing houses and the advertising industry. In connection with acquisition of the Rottneros Group in December 2012, the Group's assortment was expanded with the production of pulp. As on the day hereof, the Arctic Paper Group employs app. 1,750 people in its Paper Mills, Pulp Mills, companies dealing in paper distribution and sales, and a company dealing in timber procurement for pulp production. The Group’s Paper Mills are located in Poland and Sweden, and have total production capacity of more than 700,000 tons of paper per year. Paper production in the Paper Mill located in Germany, with total production output of 115,000 tons of paper annually, was discontinued at the end of 2015. The Pulp Mills are located in Sweden and have total production capacity of over 400,000 tons of pulp per year. The Group has fourteen Sales Offices which handle distribution and marketing of products offered by the Group providing access to all European markets, including Central and Eastern Europe. Our consolidated sales revenues for H1 2017 totalled PLN 1,477 million.

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

Group Profile

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

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

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

Our production facilities

As on 30 June 2017 as well as on the day hereof, the Group owned the following Paper Mills:

- the Paper Mill in Kostrzyn nad Odrą (Poland) has the production capacity of about 280,000 tons per year and mainly produces uncoated wood-free paper for general printing use such as printing books, brochures and forms, and for producing envelopes and other paper products;

- the Paper Mill in Munkedal (Sweden) has the production capacity of about 160,000 tons per year and mainly produces fine uncoated wood-free paper used primarily for printing books and high-quality brochures;
- the Paper Mill in Grycksbo (Sweden) has the production capacity of about 265,000 tons per year and produces coated wood-free paper used for printing maps, books, magazines, posters and printing of advertising materials.

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

As on 30 June 2017 as well as on the day hereof, the Group owned the following pulp mills:

- the pulp mill in Rottneros (Sweden) has production capacity of about 150,000 tons annually and produces mainly two types of mechanical pulp: groundwood and chemo thermo mechanical pulp CTMP);
- the pulp mill in Vallvik (Sweden) has the annual production capacity of about 250,000 tons and produces two types of long-fibre sulphate pulp: fully bleached sulphate pulp and unbleached sulphate pulp. The most of Vallvik Pulp Mill production is known as NBSK pulp. The unbleached sulphate pulp produced by the mill is characterised with a high level of purity. The high quality of this pulp, which has been achieved over the years, made Vallvik the global leader in deliveries of this type of pulp, which is used, among others, in the production of power transformers and in the cable industry.

Our products

The product assortment of the Arctic Paper Group covers:

Uncoated wood-free paper, in particular:

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

Coated wood-free paper, in particular:

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

Uncoated wood-containing paper, in particular:

- premium wood containing bulky book paper that we produce and distribute under the Munken brand, was developed specially for multi-colour and B/W printing of books;

Unbleached sulphate pulp:

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

Mechanical fibre pulp:

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

Until the end of 2015 the Group used to produce wood containing bulky book paper under the PAMO brand and wood containing offset paper under the L-Print brand. In view of discontinued production at the Paper Mill in AP Mochenwangen, the Group discontinued manufacturing those kinds of paper.

Capital Group structure

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

Detailed information on the organisation of the Arctic Paper S.A. Capital Group with identification of the consolidated entities is provided in the section 'Accounting principles (policies)' and in note to the consolidated financial statements (notes 1 and 2).

Changes in the capital structure of the Arctic Paper Group

In H1 2017, no changes in the capital structure of the Arctic Paper Group occurred.

Shareholding structure

Nemus Holding AB, a company under Swedish law (a company owned indirectly by Mr Thomas Onstad), is the majority shareholder of Arctic Paper S.A., holding (as at 30 June 2017) 40,231,449 shares of our Company, which constitutes 58.06% of its share capital and corresponds to 58.06% of the total number of votes at General Meetings. Thus Nemus Holding AB is the parent entity of the Issuer.

Additionally, Mr Thomas Onstad, an indirect shareholder of Nemus Holding AB, holds directly 6,073,658 shares representing 8.77% of the total number of shares in the Company, and indirectly via an entity other than Nemus Holding AB – 900,000 shares accounting for 1.30% of the total number of shares of the Issuer.

Until the publication of this report, the number of shares held by Nemus Holding AB and directly by Mr Thomas Onstad increased totally by 300,000 shares while there was a decrease in the number of shares held indirectly by Mr Thomas Onstad via another entity than Nemus Holding AB. The total number of shares held directly and indirectly by Mr Thomas Onstad and his share in the share capital and in the overall number of votes has not changed versus 30 June 2017.

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

	as at 28.08.2017				as at 30.06.2017				as at 16.05.2017			
Shareholder	Number of shares	Share in the share capital [%]	Number of votes	Share in the total number of votes [%]	Number of shares	Share in the share capital [%]	Number of votes	Share in the total number of votes [%]	Number of shares	Share in the share capital [%]	Number of votes	Share in the total number of votes [%]
Thomas Onstad	**47 205 107**	**68,13%**	**47 205 107**	**68,13%**	**47 205 107**	**68,13%**	**47 205 107**	**68,13%**	**47 205 107**	**68,13%**	**47 205 107**	**68,13%**
- indirectly via	40 981 449	59,15%	40 981 449	59,15%	41 131 449	59,36%	41 356 449	59,69%	41 131 449	59,36%	41 356 449	59,69%
Nemus Holding AB	40 381 449	58,28%	40 381 449	58,28%	40 231 449	58,06%	40 231 449	58,06%	40 231 449	58,06%	40 231 449	58,06%
other entity	600 000	0,87%	600 000	0,87%	900 000	1,30%	900 000	1,30%	900 000	1,30%	900 000	1,30%
- directly	6 223 658	8,98%	6 223 658	8,98%	6 073 658	8,77%	6 073 658	8,77%	6 073 658	8,77%	6 073 658	8,77%
Other	**22 082 676**	**31,87%**	**22 082 676**	**31,87%**	**22 082 676**	**31,87%**	**22 082 676**	**31,87%**	**22 082 676**	**31,87%**	**22 082 676**	**31,87%**
Total	69 287 783	100,00%	69 287 783	100,00%	69 287 783	100,00%	69 287 783	100,00%	69 287 783	100,00%	69 287 783	100,00%
Treasury shares	-	0,00%	-	0,00%	-	0,00%	-	0,00%	-	0,00%	-	0,00%
Total	**69 287 783**	**100,00%**	**69 287 783**	**100,00%**	**69 287 783**	**100,00%**	**69 287 783**	**100,00%**	**69 287 783**	**100,00%**	**69 287 783**	**100,00%**

The data in the above table is provided as of the date of signing hereof and as of the publication date of the report for Q1 2017 and as at 30 June 2017.

Summary of consolidated financial results

Consolidated profit and loss account

Selected items of the consolidated income statement

PLN thousand	2Q 2017	1Q 2017	2Q 2016	1H 2017	1H 2016	Change % 2Q2017/ 1Q2017	Change % 2Q2017/ 2Q2016	Change % 1H2017/ 1H2016
Continuing operations								
Sales revenues	**703 087**	**773 902**	**721 265**	**1 476 989**	**1 499 825**	**(9,2)**	**(2,5)**	**(1,5)**
of which:								
Sales of paper	*513 168*	*575 056*	*539 552*	*1 088 224*	*1 129 401*	*(10,8)*	*(4,9)*	*(3,6)*
Sales of pulp	*189 919*	*198 846*	*181 713*	*388 765*	*370 424*	*(4,5)*	*4,5*	*5,0*
Profit on sales	141 503	154 638	138 980	296 141	289 858	(8,5)	1,8	2,2
% of sales revenues	*20,13*	*19,98*	*19,27*	*20,05*	*19,33*	*0,1 p.p.*	*0,9 p.p.*	*0,7 p.p.*
Selling and distribution costs	(85 866)	(91 907)	(89 141)	(177 774)	(181 395)	(6,6)	(3,7)	(2,0)
Administrative expenses	(26 109)	(22 630)	(24 419)	(48 739)	(45 355)	15,4	6,9	7,5
Other operating income	9 342	12 936	20 503	22 278	38 952	(27,8)	(54,4)	(42,8)
Other operating expenses	(5 842)	(8 917)	(12 219)	(14 759)	(26 979)	(34,5)	(52,2)	(45,3)
EBIT	**33 026**	**44 121**	**33 705**	**77 147**	**75 081**	**(25,1)**	**(2,0)**	**2,8**
% of sales revenues	*4,70*	*5,70*	*4,67*	*5,22*	*5,01*	*(1,0) p.p.*	*0,0 p.p.*	*0,2 p.p.*
EBITDA	**64 561**	**75 498**	**63 695**	**140 059**	**134 364**	**(14,5)**	**1,4**	**4,2**
% of sales revenues	*9,18*	*9,76*	*8,83*	*9,48*	*8,96*	*(0,6) p.p.*	*0,4 p.p.*	*0,5 p.p.*
Financial income	(1 344)	6 710	401	5 366	619	(120,0)	(434,8)	766,2
Financial expenses	(9 041)	(7 920)	(13 667)	(16 961)	(21 586)	14,2	(33,8)	(21,4)
Gross profit (loss)	**22 641**	**42 911**	**20 439**	**65 552**	**54 115**	**(47,2)**	**10,8**	**21,1**
Income tax	(7 823)	(7 829)	(8 474)	(15 652)	(17 442)	(0,1)	(7,7)	(10,3)
Net profit (loss) from continuing operations	**14 818**	**35 082**	**11 965**	**49 899**	**36 672**	**(57,8)**	**23,8**	**36,1**
% of sales revenues	*2,11*	*4,53*	*1,66*	*3,38*	*2,45*	*(2,4) p.p.*	*0,4 p.p.*	*0,9 p.p.*
Discontinued operations								
Net profit / (loss) from discontinued operations	**(1 855)**	**(2 148)**	**(1 261)**	**(4 003)**	**(6 340)**	**(13,7)**	**47,1**	**(36,9)**
% of sales revenues	*(0,26)*	*(0,28)*	*(0,17)*	*(0,27)*	*(0,42)*	*0,0 p.p.*	*(0,1) p.p.*	*0,2 p.p.*
Net profit/(loss)	**12 963**	**32 934**	**10 704**	**45 897**	**30 332**	**(60,6)**	**21,1**	**51,3**
% of sales revenues	*1,84*	*4,26*	*1,48*	*3,11*	*2,02*	*(2,4) p.p.*	*0,4 p.p.*	*1,1 p.p.*
Net profit / (loss) for the reporting period attributable to the shareholders of the Parent Entity	*3 561*	*24 148*	*1 535*	*27 709*	*9 881*	(85,3)	132,0	180,4

Commentary of the President of the Management Board Per Skoglund on the results of H1 2017

In the 1st half of 2017 the Arctic Paper Group generated sales revenue of PLN 1.48bn. EBITDA was PLN 140m (an increase of 4.2% compared to H1 2016) and operating profit was PLN 77.1m (up 2.8%). The Group's net profit on continuing operations in the 1st half of 2017 grew by 36.1% y/y, to PLN 49.9m.

Arctic Paper in the paper segment delivered good results although pulp prices continued to increase. This was due in part to the effects of an improved cost and financing structure, increasing the Group's operating flexibility and competitiveness. A vital role in generating good results in the paper segment was also played by expansion of the product line and an appropriate product mix in this segment.

Results in the paper segment (excluding Rottneros)

The Group achieved good operating results in the paper segment, with EBITDA in H1 2017 growing to PLN 65.8m, up 9.3% year-on-year. Operating profit rose by 27.6%, to almost PLN 25.7m. The Group's net profit on continuing operations during the period reached nearly PLN 26m, i.e. 96.3% higher than the same period of the prior year. Sales revenue was nearly PLN 1.09bn, 3.6% lower than in the same period of 2016.

The average use of production capacity was 98%.

Results in the pulp segment (Rottneros)

The Group's results in the pulp segment in the 1st half of 2017 continued to be very solid, with profit and margins remaining at a good level. The good results of Rottneros were achieved despite an unscheduled shutdown of production at the Vallvik pulp plant in April of this year. Price development for the pulp produced by Rottneros (NBSK) was favourable for the company. Investments implemented in the Agenda 500 programme are also paying off in higher volumes.

Revenues

In Q2 2017, the consolidated sales revenues amounted to PLN 703,087 thousand (sales of paper: PLN 513,168 thousand), pulp sales: PLN 189,919 thousand), as compared to PLN 721,265 thousand (sales of paper: PLN 539,552 thousand), pulp sales: PLN 181,713 thousand), in the equivalent period of the previous year. That means a decrease by PLN 18,178 thousand (a drop of paper sales by PLN 26,384 thousand, growth of pulp sales by PLN 8,206 thousand) and respectively by -2.5% (for sales paper by -4.9% and pulp sales by +4.5%).

In the first six months 2017, the sales revenues amounted to PLN 1,476,989 thousand (sales of paper: PLN 1,088,224 thousand, pulp sales: PLN 388,765 thousand), as compared to PLN 1,499,825 thousand (sales of paper: PLN 1,129,401 thousand, pulp sales: PLN 370,424 thousand), generated in the equivalent period of the previous year. This means a decrease of revenues by PLN 22,836 thousand (a drop of paper sales by PLN 41,177 thousand, a growth of pulp sales by PLN 18,341 thousand) and respectively by -1.5% (for sales paper by -3.6% and pulp sales by +5.0%).

Paper sales volume in Q2 2017 amounted to 160 thousand tons compared to 160 thousand tons in the previous year. Pulp sales volume in Q2 2017 amounted to 91 thousand tons compared to 87 thousand tons in the previous year. The change represents an increase of 4 thousand tons and by 4.6% respectively.

Paper sales volume in H1 2017 amounted to 336 thousand tons compared to 332 thousand tons in the previous year. The change represents an increase of 4 thousand tons and by 1.2% respectively. Pulp sales volume in H1 2017 amounted to 185 thousand tons compared to 173 thousand tons in the previous year. The change represents an increase of 12 thousand tons and by 6.9% respectively.

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

In H1 2017, profit on sales amounted to PLN 296,141 thousand. This result was by 2.2% higher than in the corresponding period of the previous year. Sales profit margin in the current year stood at 20.05% compared to 19.33% (+0.7 p.p.) in the same period of the previous year. The growth of profit on sales in H1 2017 versus the equivalent period last year was primarily due to lower costs of pulp consumption as a result of better negotiated commercial terms and conditions.

In the reporting period, the selling and distribution costs amounted to PLN 177,774 thousand which was a decrease by 2.0% compared to the costs incurred in H1 2016. The selling costs include primarily costs of transport of finished products to counterparties.

In H1 2017, the administrative expenses amounted to PLN 48,739 thousand as compared to PLN 45,355 thousand in the equivalent period of 2016 which was a growth by 7.5%. The overheads are composed primarily of the costs of advisory and administrative services in the Group.

Other operating income and expenses

Other operating income totalled PLN 22,278 thousand in H1 2017 which was a decrease as compared to the equivalent period of the previous year by PLN 16,674 thousand.

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 growth of other operating revenues in the current period was due mainly to lower sales of other materials and energy.

Other operating expenses totalled PLN 14,759 thousand in H1 2017 which was a decrease as compared to the equivalent period of the previous year by PLN 12,220 thousand.

The other operating expenses comprised mainly the costs of electricity and heat sales as well as the costs of other materials sold. The lower other operating expenses in H1 2017 were affected primarily by the internal costs of other materials sold.

Financial income and financial expenses

In H1 2017, financial income and expenses amounted to PLN 5,366 thousand and PLN 16,961 thousand respectively which was an increase of income as compared to the equivalent period of the previous year by PLN 4,747 thousand and a growth of expenses by PLN 4,625 thousand.

The changes to financial income and expenses were primarily due to the amount of net FX differences. In H1 2017, the Group recorded a surplus of FX profit over FX losses of PLN 4,700 thousand (financial income). In the equivalent period of 2016, the Group recorded a surplus of FX losses over FX profit of PLN 6,127 thousand (financial expenses).

Income tax

For the six months of 2017, income tax amounted to PLN -15,652 thousand while in the equivalent period in 2016 it was PLN -17,442 thousand.

The current portion of income tax in the analysed semi-annual period amounted to PLN -3,060 thousand (H1 2016: PLN -2,339 thousand), while the deferred portion to PLN -12,592 thousand (H1 2016: PLN -15,103 thousand).

Net profit (loss) from discontinued operations

Net profit/loss on discontinued operations covers the results of AP Mochenwangen and of the companies set up to acquire the Paper Mill. As the Management Board of Arctic Paper S.A. remains ready to sell the Paper Mill, its business has been treated as discontinued. In H1 2017, the loss on discontinued operations amounted to PLN 4,003 thousand (H1 2016: PLN 6,340 thousand).

Profitability analysis

In H1 2017, the result on continuing operations amounted to PLN +77.147 thousand as compared to the profit of PLN +75,081 thousand in the equivalent period in the previous year. The changes resulted in a growth of operational profit margin from +5.01% in the six months of 2016 to +5.22% in the equivalent period of 2017.

EBITDA on continuing operations in H1 2017 amounted to PLN 140,059 thousand while in the equivalent period in 2016 it was PLN 134,364 thousand. In the reporting period, the EBITDA margin was 9.48% compared to 8.96% for 6 months of 2016.

In H1 2017, net profit amounted to PLN +45,897 thousand as compared to PLN +30,332 thousand in Q1 2016. Net profit margin accrued after six months of 2017 amounted to +3.11% as compared to +2.02% in the equivalent period of 2016.

Profitability analysis

PLN thousand	2Q 2017	1Q 2017	2Q 2016	1H 2017	1H 2016	Change % 2Q2017/ 1Q2017	Change % 2Q2017/ 2Q2016	Change % 1H2017/ 1H2016
Profit / (loss) on sales	141 503	154 638	138 980	296 141	289 858	(8,5)	1,8	2,2
% of sales revenues	*20,13*	*19,98*	*19,27*	*20,05*	*19,33*	*0,1 p.p.*	*0,9 p.p.*	*0,7 p.p.*
EBITDA	**64 561**	**75 498**	**63 695**	**140 059**	**134 364**	**(14,5)**	**1,4**	**4,2**
% of sales revenues	*9,18*	*9,76*	*8,83*	*9,48*	*8,96*	*(0,6) p.p.*	*0,4 p.p.*	*0,5 p.p.*
EBIT	**33 026**	**44 121**	**33 705**	**77 147**	**75 081**	**(25,1)**	**(2,0)**	**2,8**
% of sales revenues	*4,70*	*5,70*	*4,67*	*5,22*	*5,01*	*(1,0) p.p.*	*0,0 p.p.*	*0,2 p.p.*
Net profit (loss) from continuing operations	**14 818**	**35 082**	**11 965**	**49 899**	**36 672**	**(57,8)**	**23,8**	**36,1**
% of sales revenues	*2,11*	*4,53*	*1,66*	*3,38*	*2,45*	*(2,4) p.p.*	*0,4 p.p.*	*0,9 p.p.*
Net profit / (loss) from discontinued operations	**(1 855)**	**(2 148)**	**(1 261)**	**(4 003)**	**(6 340)**	**(13,7)**	**47,1**	**(36,9)**
% of sales revenues	*(0,26)*	*(0,28)*	*(0,17)*	*(0,27)*	*(0,42)*	*0,0 p.p.*	*(0,1) p.p.*	*0,2 p.p.*
Net profit/(loss)	**12 963**	**32 934**	**10 704**	**45 897**	**30 332**	**(60,6)**	**21,1**	**51,3**
% of sales revenues	*1,84*	*4,26*	*1,48*	*3,11*	*2,02*	*(2,4) p.p.*	*0,4 p.p.*	*1,1 p.p.*
Return on equity / ROE (%)	1,8	4,5	1,5	6,2	4,3	(2,7) p.p.	0,2 p.p.	1,9 p.p.
Return on assets / ROA (%)	0,8	1,9	0,6	2,7	1,7	(1,2) p.p.	0,2 p.p.	1,0 p.p.

In H1 2017, return on equity was +6.2% while in the equivalent period of 2016 it was +4.3%.

Return on assets grew +1.7% in H1 2016 to +2.7% in H1 2017.

Higher return on equity and return on assets ratios were due primarily to the higher net profit generated in H1 2017 versus the equivalent period last year.

Statement of financial position

Selected consolidated balance sheet items

PLN thousand	30.06.2017	31.12.2016	30.06.2016	Change 30.06.2017 -31.12.2016	Change 30.06.2017 -30.06.2016
Fixed assets	872 881	884 343	825 104	(11 462)	47 777
Inventories	339 416	360 353	378 261	(20 936)	(38 845)
Receivables	349 927	354 824	388 198	(4 897)	(38 272)
trade receivables	*340 942*	*343 496*	*377 901*	*(2 554)*	*(36 959)*
Other current assets	18 196	27 711	16 059	(9 514)	2 137
Cash and cash equivalents	100 821	130 157	124 219	(29 336)	(23 398)
Assets related to discontinued operations	11 462	12 694	18 370	(1 232)	(6 908)
Total assets	**1 692 704**	**1 770 081**	**1 750 212**	**(77 377)**	**(57 508)**
Equity	739 265	742 902	704 158	(3 637)	35 106
Short-term liabilities	513 746	580 457	645 970	(66 711)	(132 224)
of which:					
trade and other payables	*364 375*	*399 727*	*349 920*	*(35 352)*	*14 455*
interest-bearing debt	*62 241*	*82 053*	*187 673*	*(19 812)*	*(125 432)*
other non-financial liabilities	*87 130*	*98 677*	*108 377*	*(11 547)*	*(21 247)*
Long-term liabilities	420 568	428 634	360 071	(8 066)	60 496
of which:					
interest-bearing debt	*288 179*	*305 546*	*249 591*	*(17 367)*	*38 588*
other non-financial liabilities	*132 389*	*123 088*	*110 480*	*9 301*	*21 908*
Liabilities directly related to the discontinued operations	19 126	18 088	40 013	1 038	(20 887)
Total liabilities	**1 692 704**	**1 770 081**	**1 750 212**	**(77 377)**	**(57 508)**

As at 30 June 2017 total assets amounted to PLN 1,692,704 thousand as compared to PLN 1,770,081 thousand at the end of 2016.

Fixed assets

At the end of June 2017 fixed assets accounted for 51.6% of total assets vs. 50.0% at the end of 2016. The value of fixed assets dropped in the current half-year period by PLN 11,462 thousand mainly due to a reduced value of PLN denominated tangible fixed assets and intangible assets as a result of PLN appreciation versus EUR and SEK.

Current assets

Current assets understood as a sum of inventories, receivables, other current assets and cash and cash equivalents.

As at the end of June 2017, current assets amounted to PLN 808,361 thousand as compared to PLN 873,044 thousand at the end of December 2016. As part of the current assets, inventories decreased by PLN 20,936 thousand, receivables decreased by PLN 4,897 thousand, other current assets dropped by PLN 9,514 thousand while cash and cash equivalents decreased by PLN 29,336 thousand. Current assets represented 47.8% of total assets as at the end of June 2017 (49.3% as at the end of 2016) and included inventories – 20.1% (20.4% as at the end of 2016), receivables – 20.7%

(20.0% as at the end of 2016), other current assets – 1.1% (1.6% as at the end of 2016) and cash and cash equivalents – 6.0% (7.4% as at the end of 2016).

Assets related to discontinued operations

The assets related to the discontinued operations cover the assets of the Mochenwangen Group with the exception of assets of the other companies in the Arctic Paper Group. The amount of PLN 11,462 thousand as at 30 June 2017 was composed of inventories of PLN 10,114 thousand (31 December 2016: PLN 10,618 thousand), trade and other receivables of PLN 292 thousand (31 December 2016: PLN 230), cash – PLN 554 thousand (31 December 2016: PLN 1,320 thousand), and other financial and non-financial assets – PLN 503 thousand (31 December 2016: PLN 526 thousand).

Equity

As at the end of the current period, equity amounted to PLN 739,265 thousand as compared to PLN 742,902 thousand at the end of 2016. As at the end of June 2017 equity accounted for 43.7% of total equity and liabilities vs. 42.0% of balance sheet total as at 31 December 2016.

Short-term liabilities

As at the end of June 2017, short-term liabilities amounted to PLN 513,746 thousand (30.4% of balance sheet total) as compared to PLN 580,457 thousand (32.8% of balance sheet total) as at the end of 2016. During H1 2017 there was a decrease of short-term liabilities by PLN 66,711 thousand was primarily due to reduced trade and other payables (note 21 of the interim consolidated financial statements), accruals (note 23 of the interim consolidated financial statements) and other financial liabilities (note 20 of the interim consolidated financial statements).

Long-term liabilities

As at the end of June 2017, long-term liabilities amounted to PLN 420,568 thousand (24.8% of balance sheet total) as compared to PLN 428,634 thousand (24.2% of balance sheet total) as at the end of 2016. In the period under report, a decrease of long-term liabilities occurred by PLN 8,066 thousand, primarily due to a decrease of loans.

Liabilities directly related to discontinued operations

The liabilities directly related to the discontinued operations cover the liabilities of the Mochenwangen Group with the exception of liabilities to the other companies in the Arctic Paper Group. The amount of PLN 19,126 thousand as at 30 June 2017 was composed on provisions of PLN 13,940 thousand (31 December 2016: PLN 15,406 thousand), trade and other payables of PLN 4,940 thousand (31 December 2016: PLN 2,435 thousand), and other financial and non-financial liabilities of 245 thousand (31 December 2016: PLN 248 thousand).

Debt analysis

	2Q 2017	1Q 2017	2Q 2016	Change % 2Q2017/ 1Q2017	Change % 2Q2017/ 2Q2016
Debt to equity ratio (%)	129,0	128,4	148,6	0,5 p.p.	(19,6) p.p.
Equity to fixed assets ratio (%)	84,7	86,5	85,3	(1,8) p.p.	(0,6) p.p.
Interest-bearing debt-to-equity ratio (%)	47,4	50,0	62,1	(2,6) p.p.	(14,7) p.p.
Net debt to EBITDA ratio for the last 12 months (x)	1,0x	1,1x	1,4x	(0,07)	(0,38)
EBITDA to interest expense ratio (x)	11,4x	11,1x	10,3x	0,3	1,1

As at the end of June 2017, debt to equity ratio amounted to 129.0% and was higher by 0.5 p.p. compared to the end of March of 2017 and lower by 19.6 p.p. compared to the end of June 2016. The fixed asset to equity ratio dropped from 86.5% as at the end of Q1 2017 to 84.7% at the end of June 2017 and was lower by 1.8 p.p. as compared to the end of March 2017 and lower by 0.6 p.p. as compared to the level of the ratio calculated at the end of June 2016.

Interest bearing debt to equity ratio amounted to 47.4% as at the end of the current half year and was lower by 2.6 p.p. compared to the end of March 2017 and higher by 14.7 p.p. compared to the level of the ratio calculated at the end of June 2016.

Net borrowings to EBITDA calculated for the last 12 months ended on 30 June 2017 amounted to 1.0x compared to 1.1x in the equivalent period ended on 31 March 2017 and 1.4x for the period ended on 30 June 2016.

The EBITDA to interest coverage ratio was 11.4x for the twelve months ended on 30 June 2017 and 11.1x and 10.3x for the periods ended on 31 March 2017 and on 30 June 2016 respectively.

The lower debt to equity ratio and interest-bearing debt to equity ratio at the end of June 2017 and March 2017 was primarily due to a drop of short-term liabilities, in particular liabilities under factoring contracts.

Liquidity analysis

Liquidity analysis

	2Q 2017	1Q 2017	2Q 2016	Change % 2Q2017/ 1Q2017	Change % 2Q2017/ 2Q2016
Current ratio	**1,6x**	**1,6x**	**1,4x**	**(0,0)**	**0,2**
Quick ratio	**0,9x**	**1,0x**	**0,8x**	**(0,1)**	**0,1**
Acid test	**0,2x**	**0,2x**	**0,2x**	**0,0**	**0,0**
DSI (days)	54,4	45,1	55,4	9,3	(1,0)
DSO (days)	43,6	44,9	47,2	(1,3)	(3,5)
DPO (days)	58,4	49,6	51,3	8,8	7,1
Operational cycle (days)	98,0	90,0	102,6	8,0	(4,5)
Cash conversion cycle (days)	**39,6**	**40,5**	**51,3**	**(0,8)**	**(11,7)**

The current liquidity ratio as at the end of June 2017 was 1.6x and it did not change in relation to the level as at the end of Q1 2017 and grew versus the end of June 2016 by 0.2.

The quick liquidity ratio reached the level of 0.9x at the end of June 2017 and dropped versus the level as at 31 March 2017 by 0.1 and was by 0.1 higher than as at the end of 30 June 2016.

The cash ratio as at the end of Q2 2017 was 0.2x and it did not change materially in relation to the level as at the end of Q1 2017 and the end of Q2 2016.

The cash conversion cycle in Q2 2017 was 39.6 days and was comparable to Q1 2017 and by 11.7 days shorter than reported at the end of Q2 2016. The shortened cash conversion cycle in Q2 2017 versus the equivalent period of 2016 resulted from faster collection of trade receivables with an extended payment period of trade payables.

Consolidated cash flows

Selected items of the consolidated cash flow statement

PLN thousand	2Q 2017	1Q 2017	2Q 2016	1H 2017	1H 2016	Change % 2Q2017/ 1Q2017	Change % 2Q2017/ 2Q2016	Change % 1H2017/ 1H2016
Cash flows from operating activities	81 838	21 935	15 140	103 773	15 384	273,1	440,5	574,5
of which:								
Gross profit (loss)	*20 779*	*40 755*	*18 193*	*61 534*	*46 781*	*(49,0)*	*14,2*	*31,5*
Depreciation/amortisation and impairment charges	*31 535*	*31 377*	*30 108*	*62 912*	*59 610*	*0,5*	*4,7*	*5,5*
Changes to working capital	*24 763*	*(54 370)*	*(21 664)*	*(29 606)*	*(78 705)*	*(145,5)*	*(214,3)*	*(62,4)*
Other adjustments	*4 761*	*4 173*	*(11 497)*	*8 933*	*(12 301)*	*14,1*	*(141,4)*	*(172,6)*
Cash flows from investing activities	(44 278)	(30 872)	(36 751)	(75 151)	(62 599)	43,4	20,5	20,1
Cash flows from financing activities	(38 173)	(18 124)	(23 021)	(56 297)	(17 536)	110,6	65,8	221,0
Total cash flows	**(613)**	**(27 061)**	**(44 632)**	**(27 674)**	**(64 750)**	**(97,7)**	**(98,6)**	**(57,3)**

Cash flows from operating activities

In the first six months of 2017, net cash flows from operating activities amounted to PLN +103,773 thousand as compared to PLN +15,384 thousand in the equivalent period of 2016. Gross profit generated in H1 2017 increased by depreciation/amortisation over the period and a smaller drop of liabilities except provisions (mainly related to discontinued activities) contributed to positive cash flows from operating activities.

Cash flows from investing activities

In H1 2017, cash flows from investing activities amounted to PLN -75,151 thousand as compared to PLN -62,599 thousand in the equivalent period of the previous year. The negative cash flows from investing activities resulted from expenditures on tangible fixed assets and intangible assets.

Cash flows from financing activities

In H1 2017, cash flows from financing activities amounted to PLN -56,297 thousand as compared to PLN -17,536 thousand in the equivalent period of 2016. The negative cash flows from financing activities in 2017 were primarily related to repayment of overdraft facilities and repayment of debt under factoring contracts.

Summary of standalone financial results

Standalone income statement

Selected items of standalone income statement

PLN thousand	2Q 2017	1Q 2017	2Q 2016*	1H 2017	1H 2016*	Change % 2Q2017/ 1Q2017	Change % 2Q2017/ 2Q2016	Change % 1H2017/ 1H2016
Sales revenues	**57 521**	**11 779**	**49 249**	**69 300**	**59 389**	**388**	**17**	**17**
of which:								
Revenues from sales of services	*11 715*	*10 571*	*10 031*	*22 286*	*20 045*	*11*	*17*	*11*
Interest income on loans	*982*	*1 208*	*126*	*2 191*	*252*	*(19)*	*682*	*771*
Dividend income	*44 823*	*-*	*39 093*	*44 823*	*39 093*	*-*	*15*	*15*
Profit on sales	57 521	11 779	47 663	69 300	55 976	388	21	24
% of sales revenues	*100,00*	*100,00*	*96,78*	*100,00*	*94,25*	*- p.p.*	*3,2 p.p.*	*5,7 p.p.*
Selling and distribution costs	(1 400)	(1 019)	(1 044)	(2 419)	(2 041)	37	34	19
Administrative expenses	(11 938)	(9 364)	(10 429)	(21 301)	(18 551)	27	14	15
Other operating income	110	4	105	114	111	2 861	4	2
Other operating expenses	(35 043)	(940)	(38 523)	(35 983)	(47 347)	3 628	(9)	(24)
EBIT	**9 251**	**461**	**(2 228)**	**9 711**	**(11 853)**	**1 909**	**(515)**	**(182)**
% of sales revenues	*16,08*	*3,91*	*(4,52)*	*14,01*	*(19,96)*	*12,2 p.p.*	*20,6 p.p.*	*34,0 p.p.*
EBITDA	**9 367**	**569**	**24 512**	**9 936**	**14 982**	**1 545**	**(62)**	**(34)**
% of sales revenues	*16,28*	*4,83*	*49,77*	*14,34*	*25,23*	*11,5 p.p.*	*(33,5) p.p.*	*(10,9) p.p.*
Financial income	(2 279)	7 158	5	4 879	12	(132)	(49 055)	42 153
Financial expenses	(5 617)	(5 242)	(3 163)	(10 859)	(4 599)	7	78	136
Gross profit (loss)	**1 355**	**2 377**	**(5 386)**	**3 731**	**(16 440)**	**(43)**	**(125)**	**(123)**
Income tax	-	-	-	-	-	-	-	-
Net profit/(loss)	**1 355**	**2 377**	**(5 386)**	**3 731**	**(16 440)**	**(43)**	**(125)**	**(123)**
% of sales revenues	*2,36*	*20,18*	*(10,94)*	*5,38*	*(27,68)*	*(17,8) p.p.*	*13,3 p.p.*	*33,1 p.p.*

*data for 2Q2016 and 1H2016 have been adjusted – please check note 8,1 of the financial statement

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, as well as Sales Offices.

In Q2 2017, the standalone sales revenues amounted to PLN 57,521 thousand and comprised services provided to Group companies (PLN 11,715 thousand), interest income on loans (PLN 982 thousand) and dividend income (PLN 44,823 thousand). In the equivalent period of the previous year, the standalone sales revenues amounted to PLN 49,249 thousand and comprised services provided to Group companies (PLN 10,031 thousand), interest income on loans (PLN 126 thousand) and dividend income (PLN 39,093 thousand).

In H1 2017, the standalone sales revenues amounted to PLN 69,300 thousand and comprised services provided to Group companies (PLN 22,286 thousand interest income on loans (PLN 2,191 thousand) and dividend income (PLN 44,823 thousand). In the equivalent period of the previous year, the standalone sales revenues amounted to PLN 59,389 thousand and comprised services provided to Group companies (PLN 20,045 thousand), interest on loans (PLN 252 thousand) and dividend income (PLN 39,093 thousand). That means an increase of sales revenues in H1 2017 by PLN 9,911 thousand versus the equivalent period of 2016, mainly as a result of lower dividend income.

Profit on sales amounted to PLN 69,300 thousand in H1 2017 and grew by PLN 13,324 thousand versus the equivalent period of the previous year. In 2016 the interest expense on loans from related entities was presented as selling expenses which was changed at the end of 2016 due to the modified funding structure of the Group and repayment of the loan to APK.

Selling and distribution costs

In H1 2017 the Company recognised the amount of PLN 2,419 thousand as selling and distribution costs (PLN 2,041 thousand in the equivalent period of 2016) which comprised solely the expenses related to intermediary services in the purchase of pulp for Arctic Paper Kostrzyn S.A.

Administrative expenses

In H1 2017, the administrative expenses amounted to PLN 21,301 thousand which was an increase as compared to the equivalent period of the previous year by PLN 2,750 thousand. The growth of the expenses was primarily due to an increase of external consulting costs.

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 group of costs relates only to statutory activities and includes, among others: costs of tax, legal and accounting services, as well as the costs of the Supervisory Board and the Management Board.

Other operating income and expenses

Other operating income totalled PLN 114 thousand in H1 2017 which was an increase as compared to the equivalent period of the previous year by PLN 3 thousand. At the same time, there was an increase of other operating expenses that reached the level of PLN 35,983 thousand (PLN 47,347 thousand in Q1 2016). The major growth of other operating expenses in H1 2017 was primarily due to a write-off of the value of interests in Arctic Paper Investment AB (PLN 32,947 thousand).

Financial income and financial expenses

In H1 2017, the financial income amounted to PLN 4,879 thousand and was by PLN 4,867 thousand higher than the income generated in H1 2016. Financial income in 2017 was composed primarily of net FX profit. The financial expenses after six months of 2017 amounted to PLN 10,859 thousand and largely referred to interest expenses on the received bank loans (PLN 6,507 thousand) and on the loan from Arctic Paper Finance AB by (PLN 1,174 thousand) and from Mr Thomas Onstad (PLN 719 thousand). In the equivalent period of 2016, the financial expenses amounted to PLN 4,599 thousand.

Statement of financial position

Selected items of standalone balance sheet

PLN thousand	30.06.2017	31.12.2016*	30.06.2016*	Change 30.06.2017 -31.12.2016	Change 30.06.2017 -30.06.2016
Fixed assets	780 954	809 158	758 201	(28 204)	22 754
Trade	63 161	77 058	71 893	(13 897)	(8 732)
Other current assets	81 683	84 096	14 170	(2 414)	67 513
Cash and cash equivalents	15 370	10 863	7 681	4 507	7 689
Total assets	**941 168**	**981 176**	**851 945**	**(40 008)**	**89 223**
Equity	574 456	570 026	591 276	4 430	(16 820)
Short-term liabilities	135 228	133 979	70 740	1 249	64 488
Long-term liabilities	231 483	277 171	189 929	(45 688)	41 554
Total liabilities	**941 168**	**981 176**	**851 945**	**(40 008)**	**89 223**

*data for 2Q2016 and 1H2016 have been adjusted – please check note 8,1 of the financial statement

As at 30 June 2017 total assets amounted to PLN 941,168 thousand as compared to PLN 981,176 thousand at the end of 2016.

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

Fixed assets

At the end of June 2017 fixed assets accounted for 83.0% of total assets vs. 82.5% at the end of 2016. The value of fixed assets dropped in the current half-year period by PLN 28,204 thousand. The main item of non-current assets includes interests in subsidiaries. At the end of H1 2017, the value was PLN 711,346 thousand (PLN 741,674 thousand as at 31 December 2016). The reduced value of interests in subsidiary entities was due primarily from changes to the value of interest in Arctic Paper Investment AB, including the write-off of interests in the company of PLN 32,947 thousand.

Current assets

As at the end of June 2017, current assets amounted to PLN 160,214 thousand as compared to PLN 172,017 thousand at the end of December 2016.

As part of the current assets, receivables dropped by PLN 13,897 thousand, other current assets decreased by PLN 2,414 thousand while cash and cash equivalents increased by PLN 4,507 thousand. As at the end of June 2017, current assets accounted for 17.0% of total assets (17.5% as at the end of 2016).

Equity

At the end of the H1 2017, the equity amounted to PLN 574,456 thousand as compared to PLN 570,026 thousand at the end of 2016. That was an increase of equity by PLN 4,430 thousand, mainly due to net gain generated in H1 2017. As at the end of June 2017 equity accounted for 61.0% of balance sheet total vs. 58.1% of balance sheet total as at the end of 2016.

Short-term liabilities

As at the end of June 2017, short-term liabilities amounted to PLN 135,228 thousand (14.4% of balance sheet total) as compared to PLN 133,979 thousand (13.7% of balance sheet total) as at the end of 2016.

Long-term liabilities

As at the end of June 2017, long-term liabilities amounted to PLN 231,483 thousand (24.6% of balance sheet total) as compared to PLN 277,171 thousand (28.2% of balance sheet total) as at the end of 2016.

The reduced long-term liabilities in H1 2017 were due primarily to loan repayment on the respective due date and reduced utilisation of working capital loans.

Standalone cash flows

Selected items of the standalone cash flow statement

PLN thousand	2Q 2017	1Q 2017	1H 2017	1H 2016*	Change % 2Q2017/ 1Q2017	Change % 1H2017/ 1H2016
Cash flows from operating activities	48 676	6 062	54 738	1 934	703,0	2 729,7
of which:						
Gross profit (loss)	*1 355*	*2 377*	*3 731*	*(16 440)*	*(43,0)*	*(122,7)*
Depreciation/amortisation and impairment charges	*116*	*109*	*225*	*197*	*6,5*	*13,8*
Changes to working capital	*(3 595)*	*(887)*	*(4 481)*	*4 629*	*305,5*	*(196,8)*
Net interest and dividends	*4 314*	*3 415*	*7 729*	*706*	*26,3*	*995,3*
Other adjustments	*46 486*	*1 048*	*47 534*	*12 842*	*4 335,6*	*270,1*
Cash flows from investing activities	(2 740)	(55)	(2 795)	(2 982)	4 882,1	(6,3)
Cash flows from financing activities	(37 437)	(10 000)	(47 437)	(706)	274,4	6 621,8
Total cash flows	**8 498**	**(3 993)**	**4 505**	**(1 753)**	**(312,8)**	**(357,0)**

*data for 2Q2016 and 1H2016 have been adjusted – please check note 8,1 of the financial statement

The cash flow statement presents an increase in cash in H1 2017 by PLN 4,507 thousand which includes:

- positive cash flows from operating activities of PLN 54,738 thousand,
- negative cash flows from investing activities of PLN -2,795 thousand, thousand,
- negative cash flows from financial activities of PLN -47,437 thousand.

Cash flows from operating activities

In H1 2017, net cash flows from operating activities amounted to PLN 54,738 thousand as compared to PLN 1,934 thousand in the equivalent period of 2016. The cash flows from operating activities in H1 2017 include the write-off of interests in Arctic Paper Investment AB and a change in liabilities due to cashpooling.

Cash flows from investing activities

In H1 2017, cash flows from investing activities amounted to PLN -2,795 thousand as compared to PLN -2,982 thousand in the equivalent period of the previous year. The increased interest in Arctic Paper Investment AB had the major effect on the negative cash flows from investing activities in H1 of the year, like in the previous year.

Cash flows from financing activities

In H1 2017, cash flows from financing activities amounted to PLN -47,437 thousand as compared to PLN -706 thousand in the equivalent period of 2016. Cash flows from financing activities are related to repayment and contracting of a new investment loan and a change in 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 historically and will continue to be influenced by the following key factors:

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

Macroeconomic and other economic factors

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

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

Paper prices

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

Costs of raw materials, energy and transportation

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

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

A part of pulp is supplied to our Paper Mills from the Pulp Mills of the Rottneros Group. The rest of the pulp produced in 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. The Group's products are primarily sold to euro zone countries, Scandinavia, Poland and the UK; therefore, the Group's revenues are to a great extent expressed in EUR, GBP, SEK and PLN, while the revenues of Pulp Mills are primarily dependent on USD. The Group's operating expenses are primarily expressed in USD (pulp costs for Paper Mills), EUR (costs related to pulp for Paper Mills, energy, transportation, chemicals and a majority of costs related to the operations of the Mochenwangen Paper Mill), PLN (the majority of other costs incurred by the Paper Mill in Kostrzyn nad Odrą) and SEK (the majority of other costs incurred by the Munkedal and Grycksbo mills as well as the Rottneros and Vallvik Pulp Mills).

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

Unusual events and factors

Under period under the report there were no unusual events and/or other factors.

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

In H1 2017 there were no material changes in the Arctic Paper Group’s structure that would have material influence on the financial result generated.

Other material information

Conclusion of a non-recourse factoring contract by Arctic Paper Munkedals AB

On 8 February 2017 Arctic Paper Munkedals AB as the seller and the Company as the guarantor entered into a factoring contract with assignment of receivables under the insurance contract with BGŻ BNP Paribas Faktoring sp. z o.o. as the factor. The contract provides for the provisions by the Factor of factoring services for AP Munkedals covering the acquisition of cash receivables due to AP Munkedals from its counterparties with the maximum factoring limit granted to AP Munkedals of PLN 35 million. Pursuant to the Factoring Contract, the Company shall perform the obligations of AP Munkedals under the Factoring Contract should AP Munkedals fails to perform such obligations in whole in part within the time specified in the Factoring Contract. The Company's liability remains valid until compliance with all obligations under the Factoring Contract, however no longer than 36 months of its termination and is capped to the amount of PLN 52.5 million.

Cash-pooling with BGŻ BNP Paribas

On 1 June 2017, cash-pooling in EUR was activated within the Arctic Paper Group. 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 is aimed at supporting effective cash management in the Group and minimising the costs of external funding sources by using the Group's own cash.

Repayment of the loan from Mr Thomas Onstad

On 7 July 2017, Arctic Paper SA repaid the loan from the owner Mr Thomas Onstad of EUR 4,000 thousand with interest.

Adjustment of the financial data for H1 2016 and for 2016

As at 23rd of August 2017, The Management Board of Arctic Paper S.A informed that in reference to the ongoing review of the standalone H1 financial statements for 2017 and as a result of its review by the auditor, a decision was taken regarding an adjustment to the approved financial data for H1 2016 and for 2016.

The adjustments that result from acceptance of changed method of calculation of the impairment charges to the investment in Arctic Paper Investment AB (holding 100% of shares in Arctic Paper Grycksbo AB, “APG”), and refer to the adjustments to the calculation of the recoverable amount resulting from the impairment test by the amount of the financial liabilities.

The adjusted financial data of the Company regards the following financial statements and periods:

- In the 2016 annual report, in the financial statements – adjustment of the opening balance as at 1 January 2016 – regards an increase of the impairment charge to the investment by PLN 61,136 thousand;
- In the H1 2016 report, in the interim standalone financial statements – adjustment to the income statement H1 2016 – regards an increase of the impairment charge to the investment by PLN 26,637 thousand;
- In the 2016 annual report, in the financial statements – adjustment to the income statement for 2016 - regards a decrease of the impairment charge to the investment by PLN 128 thousand (the impairment charge was decreased by PLN 26,765 thousand in the second half of 2016 which in connection with the abovementioned adjustment to H1 2016 results in a total net adjustment for 2016 of PLN 128 thousand).

Adjusted financial data of the company for the above periods have been presented in the note 8.1 of the financial statement.

Factors influencing the development of the Arctic Paper Group

Information on market trends

Supplies of fine paper

In Q2 2017 the Arctic Paper Group recorded a decreased level of orders versus Q1 2017 by 8.7% and a growth of orders versus the equivalent period of 2016 by 0.4%. The data both for 2017 and prior periods does not include the facility in Mochenwangen where the activity was discontinued.

Source of data: Arctic Paper analysis

Paper prices

At the end of H1 2017, the prices of uncoated wood-free paper (UWF) in Europe grew by 3.36% versus the prices at the end of 2016 while for coated wood-free paper (CWF) there was a growth by 3.7%.

At the end of June 2017, 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 higher than at the end of Q1 2017 by 1.7% and 2.9% 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 March 2017 until the end of June 2017 by 2.0% on the average while in the segment of coated wood- free paper (CWF) the prices increased by 0.8%.

The average prices invoiced by Arctic Paper in 2017 and the prices in the reference periods do not include data from the Paper Mill in Mochenwangen where the production was discontinued.

Source: For market data – RISI, price changes for selected markets in Germany, France, Spain, Italy and the UK in local currencies for graphic papers similar to the product portfolio of the Arctic Paper Group. The prices are 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 Q2 2017, the pulp prices reached the level of: NBSK – USD 890/ton and BHKP – USD 832/ton.

The average NBSK price in Q2 2017 was higher by 8.0% compared to the equivalent period of the previous year while for BHKP the average price was higher by 12.9%. Compared to Q1, the average pulp price in Q2 2017 was higher by 5.4% for NBSK and higher by 15% 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 Q2 2017 versus Q1 2017 by 1.7% while in relation to Q2 2016 it dropped by 2.7%.

The share of pulp costs in overall selling costs after 6 months of the current year was 54% versus about 55% in H1 2016.

The Arctic Paper Group uses the pulp in the production process according to the following structure: BHKP 74%, NBSK 19% and other 8%.

The average pulp costs at Arctic Paper and the consumption structure (2017 and the reference periods) do not cover the data from the Paper Mill in Mochenwangen where the activity was discontinued.

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

Currency exchange rates

At the end of Q2 2017, the EUR/PLN rate amounted to 4.2265 and was by 4.5% lower than at the end of Q2 2016. The mean EUR/PLN exchange rate in H1 2017 amounted to 4.2706 and was by 2.2% lower than in the equivalent period of 2016.

The EUR/SEK exchange rate amounted to 9.6517 at the end of Q2 2017 (growth by 2.4% versus the end of Q2 2016). For that currency pair, the mean exchange rate in H1 2017 was by 3.2% higher than in the equivalent period of 2016. The weakening SEK versus EUR has been positively 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 Q2 2017 amounted to 3.7062. In H1 2017 the mean USD/PLN exchange rate was 3.9473 versus 3.9142 in the equivalent period of the previous year which was a growth by 0.8%. In Q2 2017 the mean USD/PLN exchange rate was 3.8307 and was by 1.0% lower than in Q2 2016. 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 Q2 2017 amounted to 8.4636. In H1 2017, the mean exchange rate amounted to 8.8634 compared to 8.3338 in the equivalent period of the previous year which was an increase of the rate by 6.4%. In Q2 2017 the mean USD/SEK exchange rate dropped by 1.4% versus Q1 2017. The change in comparison to Q1 2016 favourably affected the costs incurred in USD by AP Munkedals and AP Grycksbo, in particular the costs of pulp.

At the end of June 2016, the EUR/USD exchange rate amounted to 1.1404 compared to 1.1119 (+2.6%) at the end of June 2016. In H1 2017 EUR depreciated versus USD. In H1 2017 the mean exchange rate was 1.0828 while in the equivalent period of the previous year it was 1.1163 which was a depreciation of EUR versus USD by 3%.

The appreciation of PLN versus EUR has adversely affected the Group's financial profit, mainly due to decreased 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.

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 months include:

- Demand for fine paper in Europe. Over the recent years there has been a major decrease of demand for fine paper in Europe (level of executed orders). Further adverse developments in the market situation may negatively affect the levels of orders placed with the Group's Paper Mills and, as a result, will have an adverse impact on the financial results of the Group.
- Price changes of fine paper. In particular, the possibility to raise the prices of Arctic Paper products in local currencies in view of the declining supply/demand in Europe and in the context exchange rates fluctuations, will have a material influence on the financial results. Paper prices are going to be of particular importance for the Paper Mill of Grycksbo which – in connection with the market changes – experiences the greatest adverse impact of drop of sales volumes, prices as well as of exchange rate fluctuations.

- Price fluctuations of raw materials, including pulp for Paper Mills and electricity for all operational entities. In particular, financial results of Paper Mills may be positively influenced by decreasing pulp prices, particularly BHKP. On the other hand, low NBSK prices should negatively influence the financial results of Pulp Mills. Fluctuations of electricity prices in Sweden may also have a material impact on the results generated by the Group. In future, such market changes may translate into changes of sales profitability in Paper Mills of AP Munkedals and AP Grycksbo as well as in Pulp Mills of Rottneros and Vallvik.
- Changes in exchange 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, EUR and SEK in relation to USD, may have an adverse effect on the financial results. However, our Pulp Mills may benefit from the appreciation of USD in relation to SEK.

Risk factors

Major changes to risk factors

In H1 2017 there were no material changes to the risk factors described in the report for 2016.

Risk factors related to the environment in which the Group operates

The sequence in which the risk factors are presented below does not reflect the likelihood of occurrence, extent or materiality of the risks.

The risk related to intensifying competition in the paper market in Europe

Our Group operates in a very competitive market. The achievement of the strategic objectives assumed by the Group may be made difficult by operations of competitors, particularly integrated paper producers operating on a larger scale than our Group. Any more intensified competition resulting from potential growth of production capacity of our competitors and thus an increased supply of paper to the market, may adversely affect the achievement of the planned revenues and thus the ability to achieve the underlying financial and operational assumptions.

Risk of changing legal regulations

Our Group operates in a legal environment characterised with a high level of uncertainty. The regulations affecting our business have been frequently amended and often there are no consistent interpretations which generates a risk of violating the existing regulations and the resultant consequences even if such breach was unintentional. Additionally, amendments to regulations relating to environmental protection and other may generate the need to incur material expenditures to ensure compliance, inter alia, more restrictive regulations or stricter implementation of the existing regulations concerning the protection of surface waters, soil waters, soil and atmospheric air.

FX risk

Revenues, expenses and results of the Group are exposed to FX risk, in particular relating to exchange rates of PLN and SEK to EUR, GBP and other currencies. Our Group exports a majority of its produced paper to European markets, generating a material part of its sales revenues in EUR, GBP, PLN and SEK. Sales revenues of pulp in the Pulp Mills are subject to USD FX risk. The purchase costs of materials for paper production, in particular pulp for paper mills are paid primarily in USD and EUR. Additionally, we hold loan liabilities mainly in PLN, EUR and SEK. PLN is the currency used in our financial statements and therefore our revenues, expenses and results generated by the subsidiary companies domiciled abroad are subject to FX exchange rate fluctuations. Thus FX rate fluctuations may have a strong adverse effect on the results, financial conditions and prospects of the Group.

Interest rate risk

The Group is exposed to interest rate risk in view of the existing interest-bearing debt. The risk results from fluctuations of such interest rates as WIBOR for debt in PLN, EURIBOR for debt in EUR and STIBOR for debt in SEK. Unfavourable changes of interest rates may adversely affect the results, financial condition and prospects of the Group.

Risk related to increasing importance of alternative media

Trends in advertising, electronic data transmission and storage and in the Internet have adverse impact on traditional printed media and thus on the products of the Group and its customers. Continuation of such changes may adversely affect the results, financial condition and prospects of the Group.

Risk factors relating to the business of the Group

The sequence in which the risk factors are presented below does not reflect the likelihood of occurrence, extent or materiality of the risks.

Risk related to relatively low operational margins

Historically, the operational results of the Group are characterised by relatively high volatility and low profit margins on operations. Reduced revenues resulting e.g. from changes to production capacity, output, pricing policies or increased operating expenses that primarily comprise costs of raw materials (mainly pulp for Paper Mills) and energy, may mean that the Group losses its earning capacity. Material adverse changes to profitability may result in reduced prices of our stock and reduced capacity to generate working capital thus adversely affecting our business and deteriorating our prospects.

Risk of price changes to raw materials, energy and products

We are exposed to the risk of price changes of raw materials and energy, primarily related to price fluctuations of pulp, fuel oil, diesel oil, coal and electricity. Paper Mills buy pulp under frame agreements or in one-off transactions and do not hedge against fluctuations of pulp prices. A part of pulp is supplied to our Paper Mills from the Pulp Mills of the Rottneros Group. The Group does not hedge against the risk of rising prices of coal and fuel oil that is used in the Paper Mill of AP Mochenwangen. The risk of changing prices of raw materials is related primarily to changing prices of paper and pulp in the markets to which we sell our products. A material growth of prices of one or more raw materials and energy may adversely affect the operating results and financial condition of the Group.

Risk of disruption to production processes

Our Group holds three Paper Mills operating jointly seven production lines with total annual production capacity of over 700,000 tons of paper and two Pulp Mills with total production capacity of 400,000 tons of pulp. Long-lasting disruption to the production process may result from a number of factors, including a breakdown, human error, unavailability of raw materials, natural catastrophes and other that are beyond our control. Each such disruption, even relatively short, may have material impact on our production and profitability and result in material costs for repairs, liabilities to buyers whose orders we are not able to satisfy and other expenses.

Risk related to our investments

Investments by the Group aimed at expanding the production capacity of the Group require material capital outlays and a relatively long time to complete. As a result, the market conditions under which we operate may be materially changed in the period between our decision to incur investment outlays to expand production capacity and the completion time. Changes of market conditions may result in volatile demand for our products which may be too low in the context of additional production capacities. Differences between demand and investments in new production capacities may result in failure to utilise the expanded production capacity to the full extent. This may have adverse effect on the operating results and financial condition of the Group.

Risk factors relating to the debt of the Group

Our Group has the largest portion of its debt under a loan agreement with a consortium of banks (European Bank for Reconstruction and Development, Bank Zachodni WBK S.A. and BGŻ BNP Paribas S.A.) of 9 September 2016, loans from Swedish Export Credit Corporation and Danske Bank, and under lease contracts.

Failure by the Group to comply with its obligations, including the agreed levels of financial ratios (covenants) resulting from the agreements, failure by Svenska Handelsbanken to renew the lease contract, will result in default under the agreement. Events of default may in particular result in demand for repayment of our debt, banks taking control over important assets like Paper Mills or Pulp Mills and loss of other assets which serve as collateral, deterioration of creditworthiness and lost access to external funding which will be converted into lost liquidity and which in turn may materially adversely affect our business and development prospects and our stock prices.

Risk related to insurance limits

In the context of deteriorating situation in paper industry and the results of the Arctic Paper Group, our suppliers, in particular suppliers of such raw materials as pulp, may have problems with acquiring insurance limits (sale on credit) and thus they may lose the possibility of offering deferred payment terms to the Arctic Paper Group. Such situation may result in deteriorated financial situation and loss of financial liquidity of operating units and as a result this may adversely affect the situation in the entire Group.

Risk of restricted supplies of natural gas

Polskie Górnictwo Naftowe i Gazownictwo S.A (PGNiG) is the sole supplier of natural gas used by AP Kostrzyn to generate heat and electrical energy for paper production. (PGNiG). In this context, the business and costs of paper production at AP Kostrzyn is materially affected by availability and price of natural gas. Potential disruptions of supplies of natural gas to the Paper Mill in Kostrzyn nad Odrą may have adverse effect on production, results on operations and financial condition of the Group.

Risk of loss of tax relieves related to the operation of AP Kostrzyn

AP Kostrzyn has been using a major tax relief resulting from its operations in the Kostrzyńsko-Słubicka Specjalna Strefa Ekonomiczna. The relief was granted until 2026 and is subject to compliance by AP Kostrzyn of the applicable laws, regulations and other conditions relating to the relief, including compliance with certain criteria concerning employment and investment outlays. Tax regulations and interpretations thereof are subject to very frequent changes in Poland. Changes to the regulations applicable to the tax relief or breach by AP Kostrzyn of the applicable conditions may result in loss of the relief and have material adverse impact on the results of operations and financial condition of the Group.

Risk related to consolidation and liquidity of key customers

Consolidation trends among our existing and potential customers may result in a more concentrated customer base covering a few large buyers. Such buyers may rely on their improved bargaining position in negotiating terms of paper purchases or decide to change the supplier and acquire products from our competitors. Additionally, in the context of the deteriorating condition in printing industry, such customers as paper distributors, printing houses or publishers may not be able to obtain insurance limits (sale on credit) or have problems with financial liquidity which may result in their bankruptcy and adversely affect our financial results. The above factors may have adverse impact on the operational results and financial condition of the Group.

Risk related to compliance with regulations on environmental protection and adverse impact of the production process on the environment

The Group meets the requirements related to environmental protection; however, no certainty exists that it will always be able to comply with its obligations and that in the future it will avoid material expenses or that it will not incur material obligations related to the requirements or that it will be able to obtain all permits, approvals and other consents to carry on its business as planned. Similarly, considering that paper and pulp production is related to potential hazards relating to waste generated in Paper Mills and Pulp Mills and contamination with chemicals, no certainty exists that in the future the Group is not charged with liability for environmental pollution or that no event that may underlie the liability of the Group has not already occurred. Thus the Group may be required to incur major expenses in connection with the need to remove contamination and land reclamation.

Risk related to CO2 emissions

Our Paper Mills and Pulp Mills are provided with free carbon dioxide emission rights for each period. The emission rights are awarded within the EU Emission Trading Scheme. Should such free carbon dioxide emission rights be cancelled and replaced with a system of paid emission rights, our costs of energy generation will grow accordingly. Additionally, we may be forced to incur other unpredictable expenses in connection with the emission rights or changing legal regulations and the resultant requirements. Due to the above we may be forced to reduce the quantity of generated energy or to increase the production costs which may adversely affect our business, financial condition, operational results or development prospects.

Risk related to the capacity of the Company to pay dividend

The Issuer is a holding company and therefore its capacity to pay dividend is subject to the level of potential disbursements from its subsidiary companies involved in operational activity, and the level of cash balances. Certain subsidiaries of the Group involved in operational activity may be subject to certain restrictions concerning disbursements to the Issuer. No certainty exists that such restrictions will have no material impact on the business, results on operations and capacity of the Group to distribute dividend.

In connection with the term and revolving loan agreements signed on 9 September 2016, the agreements related to the bond issue pursuant to which on 30 September 2016 the Company issued bonds and the intercreditor agreement (described in more detail in note 32.2 “Obtaining of new financing” in the annual report for 2016), 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).

Supplementary information

Management Board position on the possibility to achieve the projected financial results published earlier

The Management Board of Arctic Paper S.A. has not published the projected financial results for 2017.

Changes to the management and supervisory bodies of Arctic Paper S.A.

Due to the expiry of the term of office of the previous Management Board of 29 May 2017, composed as follows:

- Per Skoglund – President of the Management Board;
- Wolfgang Lübbert – Member of the Management Board;
- Jacek Łoś – Member of the Management Board;
- Małgorzata Majewska-Śliwa – Member of the Management Board;
- Michał Sawka – Member of the Management Board;

The Supervisory Board at its meeting on 19 April 2017 approved a resolution on the appointment on 30 May 2017 of the Management Board for a new term of office composed as follows:

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

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

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

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

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

Managing and supervising persons		Number of shares or rights to shares as at 28.08.2017	Number of shares or rights to shares as at 16.05.2017	Change
Management Board				
Per Skoglund		10 000	10 000	-
Małgorzata Majewska-Śliwa		-	-	-
Wolfgang Lübbert		ND	-	-
Jacek Łoś		ND	-	-
Michał Sawka		ND	-	-
Supervisory Board	-			
Per Lundeen		14 760	14 760	-
Thomas Onstad		6 223 658	6 073 658	150 000
Roger Mattsson		-	-	-
Maciej Georg		-	-	-
Mariusz Grendowicz		-	-	-

Information on sureties and guarantees

As at 30 June 2017, the Group reported:

- pledge on properties of Arctic Paper Munkedals AB resulting from a factoring contract with Svenska Handelsbanken AB for SEK 160,000 thousand;
- pledge on properties of Arctic Paper Grycksbo AB resulting from a factoring contract with Svenska Handelsbanken AB for SEK 85,000 thousand;
- pledge on properties of Arctic Paper Grycksbo AB resulting from a factoring contract with Svenska Handelsbanken AB for SEK 20,000 thousand;
- pledge on 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 1,444 thousand at Arctic Paper Grycksbo AB and for SEK 758 thousand at Arctic Paper Munkedals AB;
- pledge on properties of Arctic Paper Munkedals AB resulting from an FPG contract in favour of the mutual life insurance company PRI for SEK 50,000 thousand;
- a contingent liability of Arctic Paper Munkedals AB related to a surety for the obligations of Kalltorp Kraft HB in the amount of SEK 1,624 thousand;
- mortgage on the properties held by Kalltorp Kraft HB for SEK 8,650 thousand;
- a bank guarantee in favour of Skatteverket Ludvika for SEK 135 thousand;
- a bank guarantee for Arctic Paper Grycksbo AB from Svenska Handelsbanken AB covering VAT liabilities in Norway for SEK 1,616 thousand;
- pledges on shares in subsidiary companies in the Rottneros Group for SEK 501,500 thousand under loan agreements concluded with Danske Bank;

- pledge on 39,900,000 shares of Rottneros AB under the loan agreement for EUR 4,000 thousand concluded by Arctic Paper S.A. with Mr Thomas Onstad.

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

1. under Polish law – Collateral Documents establishing the following Collateral:

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

2. under Swedish law – Collateral Documents establishing the following Collateral:

- pledges on all shares and interests registered in Poland, owned by the Company and the Guarantors, in Group companies, with the exception of the shares in the company, as well as pledged on the shares in Rottneros (with the exception of the free package of shares in Rottneros);
- mortgages on all properties located in Sweden and owned by the Company and the Guarantors as long as such collateral covers solely the existing mortgage deeds;
- corporate mortgage loans granted by the Guarantors registered in Sweden as long as such collateral covers solely the existing mortgage deeds;
- assignment of (existing and future) insurance policies covering the assets of the Company and the Guarantors (with the exception of insurance policies listed in the Loan Agreement);
- pledges on Swedish bank accounts of the Company and the Guarantors as long as such collateral is without prejudice to free management of funds deposited on bank accounts until an event of default specified in the Loan Agreement.

Material off-balance sheet items

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

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

During the period under report, Arctic Paper S.A. and its subsidiaries were not a party to any proceedings pending before a court, arbitration or public administrative authority, the individual or joint value of which would equal or exceed 10% of the Company's equity.

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

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

Statements of the Management Board

Accuracy and reliability of the presented reports

Members of the Management Board of Arctic Paper S.A. represent that to the best of their knowledge:

- The interim abbreviated consolidated financial statements for the period of 6 months ended on 30 June 2017 of the Arctic Paper S.A. Capital Group and the comparable data have been prepared in compliance with the applicable accounting standards and that they reflect in a true, reliable and clear manner the economic and financial condition of the Capital Group and its financial results for the period of the first 6 months of 2017.
- The Management Board's Report from operations of the Arctic Paper S.A. Capital Group to the report for H1 2017 contains a true image of the development, achievements and condition of the Arctic Paper S.A. Capital Group, including a description of core hazards and risks.

Appointment of the entity authorized to audit financial statements

Members of the Management Board of Arctic Paper S.A. represent that Ernst & Young Audyt Polska Spółka z ograniczoną odpowiedzialnością sp.k. – an entity authorized to audit financial statements that has that reviewed the semi-annual abbreviated consolidated financial statements of the Arctic Paper S.A. Capital Group, was selected in compliance with applicable laws and that the auditors that performed the review complied with the criteria to issue an impartial and independent report on the review and report on the review of the semi-annual abbreviated consolidated financial statements, in compliance with the applicable regulations and professional standards.

Signatures of the Members of the Management Board

Position	First and last name	Date	Signature
President of the Management Board Managing Director	Per Skoglund	28 August 2017	
Member of the Management Board Financial Director	Małgorzata Majewska-Śliwa	28 August 2017	

Interim abbreviated consolidated
financial statements for six months
ended on 30 June 2017
along with an independent auditor's report from a review

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Interim abbreviated consolidated financial statements and selected financial data

Selected consolidated financial data

	For the period from 01.01.2017 to 30.06.2017 PLN thousand	For the period from 01.01.2016 to 30.06.2016 PLN thousand	For the period from 01.01.2017 to 30.06.2017 EUR thousand	For the period from 01.01.2016 to 30.06.2016 EUR thousand
Continuing operations				
Sales revenues	1 476 989	1 499 825	345 849	343 343
Operating profit (loss)	77 147	75 081	18 065	17 188
Gross profit (loss)	65 552	54 115	15 349	12 388
Net profit (loss) from continuing operations	49 899	36 672	11 684	8 395
Discontinued operations				
Profit (loss) from discontinued operations	(4 003)	(6 340)	(937)	(1 451)
Net profit / (loss) for the period	45 897	30 332	10 747	6 944
Net profit / (loss) attributable to the shareholders of the Parent Entity	27 709	9 881	6 488	2 262
Net cash flows from operating activities	103 773	15 384	24 299	3 522
Net cash flows from investing activities	(75 151)	(62 599)	(17 597)	(14 330)
Net cash flows from financing activities	(56 297)	(17 536)	(13 182)	(4 014)
Change in cash and cash equivalents	(27 674)	(64 750)	(6 480)	(14 823)
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)	0,40	0,14	0,09	0,03
Diluted EPS (in PLN/EUR)	0,40	0,14	0,09	0,03
Mean PLN/EUR exchange rate*			4,2706	4,3683

	As at 30 June 2017 PLN thousand	As at 31 December 2016 PLN thousand	As at 30 June 2017 EUR thousand	As at 31 December 2016 EUR thousand
Assets	1 692 704	1 770 081	400 498	400 109
Long-term liabilities	420 568	428 634	99 507	96 888
Short-term liabilities	513 746	580 457	121 554	131 206
Equity	739 265	742 902	174 912	167 925
Share capital	69 288	69 288	16 394	15 662
Number of ordinary shares	69 287 783	69 287 783	69 287 783	69 287 783
Diluted number of ordinary shares	69 287 783	69 287 783	69 287 783	69 287 783
Book value per share (in PLN/EUR)	10,67	10,72	2,52	2,42
Diluted book value per share (in PLN/EUR)	10,67	10,72	2,52	2,42
Declared or paid dividend (in PLN/EUR)	-	-	-	-
Declared or paid dividend per share (in PLN/EUR)	-	-	-	-
PLN/EUR exchange rate at the end of the period**	-	-	4,2265	4,4240

* - The profit and loss items have been translated at the mean arithmetic exchange rates published by the National Bank of Poland from the beginning of the year until the end of the period covered with the report.
** - 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.

Interim abbreviated consolidated financial statements for six months ended on 30 June 2017 PLN thousand

Interim abbreviated consolidated profit and loss account

	Note	3-month period ended on 30 June 2017 (unaudited)	6-month period ended on 30 June 2017 (unaudited)	3-month period ended on 30 June 2016 (unaudited)	6-month period ended on 30 June 2016 (unaudited)
Continuing operations					
Revenues from sales of goods	10.1	703 087	1 476 989	721 265	1 499 825
Sales revenues		703 087	1 476 989	721 265	1 499 825
Costs of sales	10.2	(561 585)	(1 180 848)	(582 285)	(1 209 968)
Gross profit / (loss) on sales		141 503	296 141	138 980	289 858
Selling and distribution costs	10.3	(85 866)	(177 774)	(89 141)	(181 395)
Administrative expenses	10.4	(26 109)	(48 739)	(24 419)	(45 355)
Other operating income	10.5	9 342	22 278	20 503	38 952
Other operating expenses	10.6	(5 842)	(14 759)	(12 219)	(26 979)
Operating profit (loss)		33 026	77 147	33 705	75 081
Financial income	10.7	(1 344)	5 366	401	619
Financial expenses	10.7	(9 041)	(16 961)	(13 667)	(21 586)
Gross profit (loss)		22 641	65 552	20 439	54 115
Income tax	13	(7 823)	(15 652)	(8 474)	(17 442)
Net profit (loss) from continuing operations		14 818	49 899	11 965	36 672
Discontinued operations					
Profit (loss) from discontinued operations	9	(1 855)	(4 003)	(1 261)	(6 340)
Net profit / (loss)		12 963	45 897	10 704	30 332
Attributable to:					
The shareholders of the Parent Entity, of which:		3 561	27 709	1 535	9 881
- profit (loss) from continuing operations		5 416	31 712	2 796	16 221
- profit (loss) from discontinued operations		(1 855)	(4 003)	(1 261)	(6 340)
Non-controlling shareholders, of which:		9 402	18 188	9 169	20 451
- profit (loss) from continuing operations		9 402	18 188	9 169	20 451
- profit (loss) from discontinued operations		-	-	-	-
		12 963	45 897	10 704	30 332
Earnings per share:					
– basic earnings from the profit/(loss) attributable to the shareholders of the Parent Entity	14	0,05	0,40	0,02	0,14
– basic profit/(loss) from continuing operations attributable to the shareholders of the Parent Entity	14	0,08	0,46	0,04	0,23
– diluted earnings from the profit attributable to the shareholders of the Parent Entity	14	0,05	0,40	0,02	0,14
– diluted profit from continuing operations attributable to the shareholders of the Parent Entity	14	0,08	0,46	0,04	0,23

Additional notes to the interim abbreviated consolidated financial statements provided on pages 52 to 93 constitute an integral part hereof

Interim abbreviated consolidated financial statements for six months ended on 30 June 2017 PLN thousand

Interim abbreviated consolidated statement of comprehensive income

	3-month period ended on 30 June 2017 (unaudited)	6-month period ended on 30 June 2017 (unaudited)	3-month period ended on 30 June 2016 (unaudited)	6-month period ended on 30 June 2016 (unaudited)
Profit for the reporting period	12 963	45 897	10 704	30 332
Other comprehensive income				
Items to be reclassified to profit/loss in future reporting periods:				
FX differences on translation of foreign operations	(5 012)	(28 279)	7 257	4 641
Deferred income tax	(1 746)	2 660	(2 851)	(2 765)
Measurement of financial instruments	7 449	(11 156)	12 885	12 596
Other comprehensive income (net)	691	(36 774)	17 291	14 472
Total comprehensive income for the period	13 654	9 122	27 995	44 804
Total comprehensive income attributable to:				
The shareholders of the Parent Entity	4 007	5 102	12 675	20 419
Non-controlling shareholders	9 647	4 020	15 319	24 386

Additional notes to the interim abbreviated consolidated financial statements provided on pages 52 to 93 constitute an integral part hereof

Interim abbreviated consolidated financial statements for six months ended on 30 June 2017 PLN thousand

Interim abbreviated consolidated balance sheet

	Note	As at 30 June 2017 (unaudited)	As at 31 December 2016 (audited)
ASSETS			
Fixed assets			
Tangible fixed assets	15	767 334	774 818
Investment properties		4 074	4 074
Intangible assets	15	52 181	57 033
Interests in joint ventures		876	924
Other financial assets	18	9 009	10 913
Other non-financial assets	18	1 470	1 548
Deferred income tax assets	13	37 938	35 034
		872 881	884 343
Current assets			
Inventories	16	339 416	360 353
Trade and other receivables	17	340 942	343 496
Corporate income tax receivables		8 985	11 328
Other non-financial assets	18	14 398	16 492
Other financial assets	18	3 798	11 218
Cash and cash equivalents	11	100 821	130 157
		808 361	873 044
Assets related to discontinued operations	9	11 462	12 694
TOTAL ASSETS		1 692 704	1 770 081
EQUITY			
Equity (attributable to the shareholders of the Parent Entity)			
Share capital	24	69 288	69 288
Reserve capital		447 638	447 638
Other reserves		118 394	156 975
FX differences on translation		2 741	19 798
Retained earnings / Accumulated losses		(91 197)	(151 550)
Cumulated other comprehensive income related to discontinued operations		(11 733)	(12 120)
		535 130	530 028
Non-controlling stake		204 134	212 874
Total equity		739 265	742 902
Long-term liabilities			
Interest-bearing loans, borrowings and bonds	19	260 547	275 464
Provisions	22	86 102	90 313
Other financial liabilities	20	27 632	30 082
Deferred income tax liability	13	26 354	11 851
Accruals and deferred income	23	19 933	20 924
		420 568	428 634
Short-term liabilities			
Interest-bearing loans, borrowings and bonds	19	51 457	55 367
Other financial liabilities	20	10 784	26 686
Trade and other payables	21	364 375	399 727
Income tax liability		207	179
Accruals and deferred income	23	86 923	98 498
		513 746	580 457
Liabilities directly related to the discontinued operations	9	19 126	18 088
TOTAL LIABILITIES		953 439	1 027 179
TOTAL EQUITY AND LIABILITIES		1 692 704	1 770 081

Additional notes to the interim abbreviated consolidated financial statements provided on pages 52 to 93 constitute an integral part hereof

Interim abbreviated consolidated financial statements for six months ended on 30 June 2017 PLN thousand

Interim abbreviated consolidated cash flow statement

	Note	6-month period ended on 30 June 2017 (unaudited)	6-month period ended on 30 June 2016 (unaudited)
Cash flows from operating activities			
Gross profit/(loss) on continuing operations		65 552	54 115
Gross profit /(loss) on discontinued operations		(4 017)	(7 334)
Gross profit (loss)		61 534	46 781
Adjustments for:			
Depreciation/amortisation		62 912	59 610
FX gains / (loss)		(1 059)	5 708
Interest, net		10 076	11 484
Profit / loss from investing activities		13	(324)
(Increase) / decrease in receivables and other non-financial assets	11.1	(10 275)	(28 478)
(Increase) / decrease in inventories	11.1	6 934	32 939
Increase /(decrease) in liabilities except for loans and borrowings	11.1	(19 533)	(74 793)
Change in accruals and prepayments	11.1	(6 733)	(8 374)
Change in provisions	11.1	(727)	(28 193)
Income tax paid		(683)	(3 461)
Redemption effect of CO2 emission rights		-	368
Certificates in cogeneration		672	429
Other		641	1 688
Net cash flows from operating activities		103 773	15 384
Cash flows from investing activities			
Disposal of tangible fixed assets and intangible assets		120	720
Purchase of tangible fixed and intangible assets	11.1	(75 716)	(63 319)
Other capital outflows / inflows		445	-
Net cash flows from investing activities		(75 151)	(62 599)
Cash flows from financing activities			
Change to overdraft facilities		(47 477)	(1 794)
Repayment of financial leasing liabilities		(2 004)	(1 544)
Repayment of other financial liabilities		(16 951)	(871)
Inflows under contracted loans, borrowings and debt securities		51 127	-
Inflows from other financial liabilities		-	32 865
Repayment of loans, borrowings and debt securities		(17 049)	(17 676)
Dividend disbursed to non-controlling shareholders		(12 759)	(17 502)
Interest paid		(11 183)	(11 014)
Net cash flows from financing activities		(56 297)	(17 536)
Increase / (decrease) in cash and cash equivalents		(27 674)	(64 750)
Net FX differences		(2 427)	1 105
Cash and cash equivalents at the beginning of the period		131 476	189 603
Cash and cash equivalents at the end of the period	11	101 375	125 958

Additional notes to the interim abbreviated consolidated financial statements provided on pages 52 to 93 constitute an integral part hereof

Interim abbreviated consolidated financial statements for six months ended on 30 June 2017 PLN thousand

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 comprehensive income related to discontinued operations	Total	Equity attributable to non-controlling shareholders	Total equity
As at 01 January 2017	69 288	447 638	19 798	156 975	(151 550)	(12 120)	530 028	212 874	742 902
Net profit / (loss) for the period	-	-	-	-	27 709	-	27 709	18 188	45 897
Other comprehensive income (net) for the period	-	-	(16 670)	(5 937)	-	-	(22 607)	(14 168)	(36 774)
Total comprehensive income for the period	-	-	(16 670)	(5 937)	27 709	-	5 102	4 020	9 122
Profit distribution / loss coverage	-		-	(32 644)	32 644	-	-	-	-
Dividend distribution to non-controlling entities	-	-	-	-	-	-	-	(12 759)	(12 759)
Discontinued operations	-	-	(387)	-	-	387	-	-	-
As at 30 June 2017 (unaudited)	69 288	447 638	2 741	118 394	(91 197)	(11 733)	535 130	204 134	739 265

Additional notes to the interim abbreviated consolidated financial statements provided on pages 52 to 93 constitute an integral part hereof

Interim abbreviated consolidated financial statements for six months ended on 30 June 2017 PLN thousand

	Attributable to the shareholders of the Parent Entity								
	Share capital	Reserve capital	FX differences on translation of foreign operations	Other reserves	Retained earnings / (Accumulated losses)	Cumulated other comprehensive income related to discontinued operations	Total	Equity attributable to non-controlling shareholders	Total equity
As at 01 January 2016	69 288	447 638	21 810	127 976	(181 625)	(8 974)	476 111	200 744	676 856
Net profit / (loss) for the period	-	-	-	-	9 881	-	9 881	20 451	30 332
Other comprehensive income (net) for the period	-	-	2 307	8 230	-	-	10 537	3 935	14 472
Total comprehensive income for the period	-	-	2 307	8 230	9 881	-	20 419	24 386	44 804
Profit distribution / loss coverage	-		-	4 910	(4 910)	-	-	-	-
Dividend distribution to non-controlling entities	-	-	-	-	-	-	-	(17 502)	(17 502)
Discontinued operations	-	-	227	-	-	(227)	-	-	-
As at 30 June 2016 (unaudited)	69 288	447 638	24 343	141 116	(176 654)	(9 201)	496 530	207 628	704 158

Additional notes to the interim abbreviated consolidated financial statements provided on pages 52 to 93 constitute an integral part hereof

Interim abbreviated consolidated financial statements for six months ended on 30 June 2017 PLN thousand

	Attributable to the shareholders of the Parent Entity								
	Share capital	Reserve capital	FX differences on translation of foreign operations	Other reserves	Retained earnings / (Accumulated losses)	Cumulated other comprehensive income related to discontinued operations	Total	Equity attributable to minority shareholders	Total equity
As at 01 January 2016	69 288	447 638	21 810	127 976	(181 625)	(8 974)	476 111	200 744	676 856
Net profit (loss) for the financial year	-	-	-	-	39 946	-	39 946	21 080	61 026
Other comprehensive income (net) for the year	-	-	(2 234)	24 090	(7 886)	-	13 970	8 551	22 522
Total comprehensive income for the period	-	-	(2 234)	24 090	32 061	-	53 916	29 631	83 548
Profit distribution	-	-	-	4 909	(4 909)		-	-	-
Discontinued operations	-	-	222		2 924	(3 146)	-	-	-
Dividend distribution to non-controlling entities	-	-	-	-	-		-	(17 502)	(17 502)
As at 31 December 2016	69 288	447 638	19 798	156 975	(151 550)	(12 120)	530 028	212 874	742 902

Additional notes to the interim abbreviated consolidated financial statements
provided on pages 52 to 93 constitute an integral part hereof

Additional explanatory notes

1. General information

The Arctic Paper Group is a leading European producer in terms of production volume of bulky book paper, offering a broad range of products in the segment and one of the leading producers of high-quality graphic paper in Europe. The Group produces numerous types of uncoated and coated wood-free paper as well as wood-containing uncoated paper for printing houses, paper distributors, book and magazine publishing houses and the advertising industry. As of the day hereof, the Arctic Paper Group employs app. 1,750 people in its Paper Mills and Pulp Mills, companies dealing in paper distribution the procurement office. Our Paper Mills are located in Poland and Sweden, and have total production capacity of over 700,000 tons of paper per year. Paper production in the Paper Mill located in Germany, with total production output of 115,000 tons of paper annually, was discontinued at the end of 2015. The Pulp Mills are located in Sweden and have total production capacity of over 400,000 tons of pulp per year. The Group has fourteen Sales Offices which handle distribution and marketing of products offered by the Group providing access to all European markets, including Central and Eastern Europe.

Our consolidated sales revenues for six months of 2017 amounted to PLN 1,477 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 Trebruk AB (formerly Arctic Paper AB), the parent company of Arctic Paper S.A. In addition, under the expansion, the Group acquired the Paper Mill Arctic Paper Mochenwangen (Germany) in November 2008 and the Paper Mill Grycksbo (Sweden) in March 2010. In 2012, the Group acquired shares in Rottneros AB, a company listed on NASDAQ in Stockholm, Sweden, holding interests in two pulp companies (Sweden).

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

The interim abbreviated consolidated financial statements of the Group with respect to the consolidated profit and loss account, statement of comprehensive income, cash flow statement and statement of changes to equity, cover the period of 6 months ended on 30 June 2017 and contain comparable data for the period of 6 months ended on 30 June 2016; and for the consolidated balance sheet, they disclose data as at 30 June 2017 and as at 31 December 2016. The specification of changes in equity also covers the year ended on 31 December 2016.

Additionally, the statement of comprehensive income, profit and loss account and notes to the statement of comprehensive income, profit and loss account contain data for the period of 3 months ended on 30 June 2017 and comparable data for the period of 3 months ended on 30 June 2016 that have not been reviewed or audited by statutory auditor.

Group profile

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

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

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

Shareholding structure

Nemus Holding AB, a company under Swedish law (a company owned indirectly by Mr Thomas Onstad), is the majority shareholder of Arctic Paper S.A., holding (as at 30 June 2017) 40,231,449 shares of our Company, which constitutes 58.06% of its share capital and corresponds to 58.06% of the total number of votes at General Meetings. Thus Nemus Holding AB is the parent entity of the Issuer.

Additionally, Mr Thomas Onstad, an indirect shareholder of Nemus Holding AB, holds directly 6,073,658 shares representing 8.77% of the total number of shares in the Company, and indirectly via an entity other than Nemus Holding AB – 900,000 shares accounting for 1.30% of the total number of shares of the Issuer.

Until the publication of this report, the number of shares held by Nemus Holding AB and directly by Mr Thomas Onstad increased totally by 300,000 shares while there was a decrease in the number of shares held indirectly by Mr Thomas Onstad via another entity than Nemus Holding AB. The total number of shares held directly and indirectly by Mr Thomas Onstad and his share in the share capital and in the overall number of votes has not changed versus 30 June 2017.

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

The duration of the Company is indefinite.

Interim abbreviated consolidated financial statements for six months ended on 30 June 2017 PLN thousand

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			
			28 August 2017	30 June 2017	16 May 2017	31 December 2016
Arctic Paper Kostrzyn S.A.	Poland, Fabryczna 1, 66-470 Kostrzyn nad Odrą	Paper production	100%	100%	100%	100%
Arctic Paper Munkedals AB	Sweden, SE 455 81 Munkedal	Paper production	100%	100%	100%	100%
Arctic Paper Mochenwangen GmbH	Germany, Fabrikstrasse 62, DE-882, 84 Wolpertswende	Paper production	99,74%	99,74%	99,74%	99,74%
Arctic Paper Grycksbo AB	Sweden, Box 1, SE 790 20 Grycksbo	Paper production	100%	100%	100%	100%
Arctic Paper UK Limited	United Kingdom, Quadrant House, 47 Croydon Road, Caterham, Surrey	Trading company	100%	100%	100%	100%
Arctic Paper Baltic States SIA	Latvia, K. Vardemara iela 33-20, Riga LV-1010	Trading company	100%	100%	100%	100%
Arctic Paper Deutschland GmbH	Germany, Am Sandtorkai 72, 20457 Hamburg	Trading company	100%	100%	100%	100%
Arctic Paper Benelux S.A.	Belgium, Ophemstraat 24, B-3050 Oud-Heverlee	Trading company	100%	100%	100%	100%
Arctic Paper Schweiz AG	Switzerland, Technoparkstrasse 1, 8005 Zurich	Trading company	100%	100%	100%	100%
Arctic Paper Italia srl	Italy, Via Cavriana 7, 20 134 Milan	Trading company	100%	100%	100%	100%
Arctic Paper Ireland Limited	Irlandia, 4 Rosemount Park Road, Dublin 11	Spółka zlikwidowana	-	-	-	-
Arctic Paper Danmark A/S	Denmark, Ørestads Boulevard 73 2300 Copenhagen	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, Biskupia 39, 04-216 Warszawa	Trading company	100%	100%	100%	100%
Arctic Paper Norge AS	Norway, Rosenholmsveien 25, NO-1414 Trollasen	Trading company	100%	100%	100%	100%
Arctic Paper Sverige AB	Sweden, Kurodsvagen 9, 451 55 Uddevalla	Trading company	100%	100%	100%	100%
Arctic Paper East Sp. z o.o.	Poland, Fabryczna 1, 66-470 Kostrzyn nad Odrą	Trading company	100%	100%	100%	100%

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Unit	Registered office	Group profile	Group's interest in the equity of the subsidiary entities			
			28 August 2017	30 June 2017	16 May 2017	31 December 2016
Arctic Paper Investment GmbH *	Germany, Fabrikstrasse 62, DE-882, 84 Wolpertswende	Activities of holding companies	100%	100%	100%	100%
Arctic Paper Finance AB	Sweden, Box 383, 401 26 Göteborg	Activities of holding companies	100%	100%	100%	100%
Arctic Paper Verwaltungs GmbH *	Germany, Fabrikstrasse 62, DE-882, 84 Wolpertswende	Activities of holding companies	100%	100%	100%	100%
Arctic Paper Immobilienverwaltung GmbH&Co. KG*	Germany, Fabrikstrasse 62, DE-882, 84 Wolpertswende	Activities of holding companies	94,90%	94,90%	94,90%	94,90%
Arctic Paper Investment AB **	Sweden, Box 383, 401 26 Göteborg	Activities of holding companies	100%	100%	100%	100%
EC Kostrzyn Sp. z o.o.	Poland, ul. Fabryczna 1, 66-470 Kostrzyn nad Odrą	Rental of properties and machines and equipment	100%	100%	100%	100%
Arctic Paper Munkedals Kraft AB	Sweden, 455 81 Munkedal	Production of hydropower	100%	100%	100%	100%
Rottneros AB	Sweden, Sunne	Activities of holding companies	51,27%	51,27%	51,27%	51,27%
Rottneros Bruk AB	Sweden, Sunne	Pulp production	51,27%	51,27%	51,27%	51,27%
Utansjo Bruk AB	Sweden, 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%
Rottneros Packaging AB	Sweden, Stockholm	Production of food packaging	51,27%	51,27%	51,27%	51,27%
SIA Rottneros Baltic	Latvia, Ventspils	Procurement bureau	51,27%	51,27%	51,27%	51,27%

* - companies established for the purpose of the acquisition of Arctic Paper Mochenwangen GmbH
** - the company established for the purpose of the acquisition of Grycksbo Paper Holding AB

As at 30 June 2017 and as well as on the day hereof, the percentage of voting rights held by the Group in its subsidiaries corresponded to the percentage held in the share capital of those entities. All subsidiaries within the Group are consolidated under the full method from the day of obtaining control by the Group and cease to be consolidated from the day the control has been transferred out of the Group.

On 1 October 2012, Arctic Paper Munkedals AB purchased 50% shares in Kalltorp Kraft Handelsbolaget with its registered office in Trolhattan, Sweden. Kalltorp Kraft 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 June 2017, the Parent Entity's Management Board was composed of:

- Per Skoglund – President of the Management Board appointed on 27 April 2016 (appointed as a Member of the Management Board on 27 April 2011);
- Małgorzata Majewska-Śliwa – Member of the Management Board appointed on 27 November 2013;

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

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

3.2. Supervisory Board of the Parent Entity

As at 30 June 2017, 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 to the Supervisory Board appointed on 16 September 2014);
- Thomas Onstad – Member of the Supervisory Board appointed on 22 October 2008;
- Mariusz Grendowicz – Member of the Supervisory Board appointed on 28 June 2012 (independent member);
- Maciej Georg – Member of the Supervisory Board appointed on 14 September 2016 (independent member).

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

3.3. Audit Committee of the Parent Entity

As at 30 June 2017, the Parent Entity's Audit Committee was composed of:

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

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

4. Approval of the financial statements

These interim abbreviated financial statements were approved for publication by the Management Board on 28 August 2017.

5. Basis of preparation of the consolidated financial statements

These interim abbreviated consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS"), in particular in accordance with International Accounting Standard No. 34 and IFRS endorsed by the European Union ("EU IFRS").

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

The 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 2016.

6. Significant accounting principles (policies)

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

The Group has not decided to adopted 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:

- IFRS 15 *Revenue from Contracts with Customers* (issued on 28 May 2014), including amendments to IFRS 15 *Effective date of IFRS 15* (issued on 11 September 2015) effective for financial years beginning on or after 1 January 2018,

The Management Board made an analysis of the agreements and because of their nature and lack of non-standard provisions in the agreements the changes will not have a significant impact on the results of the Group.

- IFRS 16 *Leases* (issued on 13 January 2016) – not yet endorsed by EU at the date of approval of these financial statements – effective for financial years beginning on or after 1 January 2019,

The Management Board considers the possible impact of the above-mentioned change on the accounting policies applied by the Group, but it does not expect that the introduction of the above-mentioned standard would have a significant impact on the Group.

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.

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The functional currencies of the foreign subsidiaries are EUR, SEK, DKK, NOK, GBP and CHF. As on the balance sheet date, the assets and liabilities of those subsidiaries are translated into the presentation currency of the Group (PLN) at the rate of exchange prevailing on the balance sheet date and their income statements are translated using the average weighted exchange rates for the relevant reporting period. The 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 consolidated financial statements in other total comprehensive income.

The following exchange rates were used for book valuation purposes:

	30 June 2017	31 December 2016
USD	3,7062	4,1793
EUR	4,2265	4,4240
SEK	0,4379	0,4619
DKK	0,5684	0,5915
NOK	0,4430	0,4868
GBP	4,8132	5,1445
CHF	3,8667	4,1173

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

	01.01 - 30.06.2017	01.01 - 30.06.2016
USD	3,9473	3,9139
EUR	4,2706	4,3683
SEK	0,4452	0,4698
DKK	0,5743	0,5864
NOK	0,4659	0,4638
GBP	4,9632	5,6072
CHF	3,9679	3,9854

6.3. Data comparability/Previous years' mistake adjustment

Due to the incorrect presentation of costs in previous years, the presentation was changed to the internal selling expenses and selling expenses and overheads in the consolidated profit and loss account for the period of 3 and 6 months ended on 30 June

2016 by increasing the selling expenses by PLN 26,370 thousand and PLN 54,224 thousand respectively and increasing the overheads by PLN 5,787 thousand and PLN 10,774 thousand respectively and decreasing the internal selling expenses by PLN 32,157 thousand and PLN 65,001 thousand respectively.

In H1 2017 there were no other changes that would result in changes to the comparable data.

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 are paper production which is conducted in Paper Mills belonging to the Group and pulp production in two Pulp Mills. The presentation of the segments covers 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 which is used mainly for the production of printing and writing papers, cardboard, toilet paper and white packaging paper as well as chemi thermo mechanical pulp (CTMP) and groundwood which are used mainly for production of printing and writing papers.
- Other – the segment contains the results of Arctic Paper S.A. and Arctic Paper Finance AB business operations.

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

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

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

The operating results are measured primarily on the basis of EBITDA calculated by adding depreciation/amortisation and impairment charges to tangible fixed assets and intangible assets to profit (loss) on operations, in each case in compliance with 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 6 months ended on 30 June 2017 and as at 30 June 2017.

Six-month period ended on 30 June 2017 and as at 30 June 2017

	Continuing operations						
	Uncoated	Coated	Pulp	Other	Total	Exclusions	Total continuing operations
Revenues							
Sales to external customers	757 219	331 004	388 765	-	1 476 989	-	1 476 989
Sales between segments	-	10 629	31 550	22 380	64 559	(64 559)	-
Total segment revenues	757 219	341 633	420 316	22 380	1 541 548	(64 559)	1 476 989
Result of the segment							
EBITDA	67 246	(1 096)	74 357	(1 095)	139 411	648	140 059
Interest income	233	25	-	3 178	3 436	(3 213)	222
Interest expense	(2 239)	(2 154)	(223)	(7 729)	(12 345)	2 280	(10 065)
Depreciation/amortisation	(28 132)	(11 770)	(22 786)	(225)	(62 912)	-	(62 912)
FX gains and other financial income	2 207	517	445	49 664	52 833	(47 690)	5 143
FX losses and other financial expenses	(1 886)	(908)	(3 785)	(3 129)	(9 709)	2 813	(6 895)
Gross profit	37 429	(15 386)	48 009	40 663	110 714	(45 163)	65 552
Assets of the segment	863 587	246 835	567 149	393 550	2 071 122	(428 694)	1 642 428
Liabilities of the segment	378 320	344 797	161 147	366 711	1 250 975	(343 015)	907 960
Capital expenditures	(27 438)	(3 566)	(44 525)	(187)	(75 716)	-	(75 716)
Interests in joint ventures	876	-	-	-	876	-	876

- Revenues from inter-segment transactions are eliminated on consolidation.
- The results of the segments do not cover financial income (PLN 5,366 thousand of which PLN 222 thousand is interest income) and financial expenses (PLN 16,961 thousand of which PLN 10,065 thousand is interest expense), depreciation/amortisation (PLN 62,912 thousand), and income tax liability (PLN -15,652 thousand). However, segment result includes inter-segment loss (PLN -648 thousand).

- Assets and liabilities of segments do not contain any deferred income tax (asset: PLN 37,938 thousand), provision: PLN 26,354 thousand), since those items are managed at the Group level. Segment assets do not also include investments in companies operating in 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 June 2017 and as at 30 June 2017.

Three month period ended on 30 June 2017 and on 30 June 2017

	Continuing operations						
	Uncoated	Coated	Pulp	Other	Total	Exclusions	Total continuing operations
Revenues							
Sales to external customers	352 661	160 507	189 919	-	703 087	-	703 087
Sales between segments	-	4 461	15 750	11 738	31 949	(31 949)	-
Total segment revenues	352 661	164 968	205 669	11 738	735 036	(31 949)	703 087
Result of the segment							
EBITDA	29 689	(2 650)	37 976	(1 461)	63 554	1 007	64 561
Interest income	145	15	0	1 460	1 620	(1 497)	123
Interest expense	(1 145)	(930)	(223)	(3 685)	(5 983)	1 018	(4 964)
Depreciation/amortisation	(13 991)	(5 747)	(11 681)	(116)	(31 535)	-	(31 535)
FX gains and other financial income	1 623	(132)	445	42 544	44 481	(45 948)	(1 467)
FX losses and other financial expenses	(852)	(445)	(1 966)	(1 931)	(5 193)	1 117	(4 076)
Gross profit	15 469	(9 888)	24 552	36 811	66 943	(44 302)	22 641
Assets of the segment	863 587	246 835	567 149	393 550	2 071 122	(428 694)	1 642 428
Liabilities of the segment	378 320	344 797	161 147	366 711	1 250 974	(343 015)	907 959
Capital expenditures	(16 945)	(2 287)	(25 425)	(187)	(44 843)	-	(44 843)
Interests in joint ventures	876	-	-	-	876	-	876

- Revenues from inter-segment transactions are eliminated on consolidation.
- The results of the segments do not cover financial income (PLN -1,344 thousand of which PLN 123 thousand is interest income) and financial expenses (PLN 9,041 thousand of which PLN 4,964 thousand is interest expense), depreciation/amortisation (PLN 31,535 thousand), and income tax liability (PLN -7,823 thousand). However, segment result includes inter-segment loss (PLN -1,007 thousand).
- Assets and liabilities of segments do not contain any deferred income tax (asset: PLN 37,938 thousand), provision: PLN 26,354 thousand), since those items are managed at the Group level. Segment assets do not also include investments in companies operating in 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 6 months ended on 30 June 2016 and as at 31 December 2016.

Six-month period ended on 30 June 2016 and as at 31 December 2016

	Continuing operations						
	Uncoated	Coated	Pulp	Other	Total	Exclusions	Total continuing operations
Revenues							
Sales to external customers	774 396	355 005	370 424	-	1 499 825	-	1 499 825
Sales between segments	23	9 835	26 522	19 659	56 038	(56 038)	-
Total segment revenues	774 419	364 840	396 946	19 659	1 555 863	(56 038)	1 499 825
Result of the segment							
EBITDA	69 338	(9 812)	74 324	726	134 576	(212)	134 364
Interest income	3 621	21	-	944	4 586	(4 437)	150
Interest expense	(6 297)	(3 468)	-	(5 566)	(15 331)	3 776	(11 555)
Depreciation/amortisation	(25 974)	(13 881)	(19 231)	(197)	(59 282)	-	(59 282)
FX gains and other financial income	66	-	470	39 436	39 972	(39 503)	469
FX losses and other financial expenses	(4 724)	(1 383)	(1 879)	(2 446)	(10 432)	401	(10 031)
Gross profit (loss)	36 031	(28 522)	53 684	32 897	94 089	(39 975)	54 115
Assets of the segment	913 758	278 235	563 672	399 241	2 154 906	(433 476)	1 721 430
Liabilities of the segment	425 011	360 848	150 118	411 150	1 347 127	(349 886)	997 240
Capital expenditures	(17 174)	(831)	(44 956)	(36)	(62 996)	-	(62 996)
Interests in joint ventures	924	-	-	-	924	-	924

- Revenues from inter-segment transactions are eliminated on consolidation.
- The results of the segments do not cover financial income (PLN 619 thousand of which PLN 150 thousand is interest income) and financial expenses (PLN 21,586 thousand of which PLN 11,555 thousand is interest expense), depreciation/amortisation (PLN 59,282 thousand) and income tax liability (PLN -17,442 thousand). However, segment results include inter-segment sales profit (PLN 212 thousand).
- Assets and liabilities of segments do not contain any deferred income tax (asset: PLN 35,034 thousand), provision: PLN 11,851 thousand), since those items are managed at the Group level. Segment assets do not also include investments in companies operating in the Group.

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 June 2016 and as at 31 December 2016.

Three month period ended on 30 June 2016 and on 31 December 2016

	Continuing Operations						
	Uncoated	Coated	Pulp	Other	Total	Exclusions	Total continuing operations
Revenues							
Sales to external customers	366 643	172 909	181 713	-	721 265	-	721 265
Sales between segments	17	4 209	12 989	9 750	26 965	(26 965)	-
Total segment revenues	366 660	177 118	194 702	9 750	748 230	(26 965)	721 265
Result of the segment							
EBITDA	35 180	(5 600)	34 324	-414	63 490	205	63 695
Interest income	1 692	5	0	497	2 195	(2 139)	56
Interest expense	(3 150)	(1 802)	-	(2 682)	(7 634)	2 079	(5 554)
Depreciation/amortisation	(13 040)	(6 966)	(9 882)	(102)	(29 990)	-	(29 990)
FX gains and other financial income	(172)	(370)	470	39 261	39 188	(38 843)	345
FX losses and other financial expenses	(3 583)	(1 166)	(943)	(2 068)	(7 759)	(353)	(8 112)
Gross profit (loss)	16 927	(15 898)	23 969	34 492	59 490	(39 051)	20 439
Assets of the segment	913 758	278 235	563 672	399 241	2 154 906	(433 476)	1 721 430
Liabilities of the segment	425 011	360 848	150 118	411 150	1 347 127	(349 886)	997 240
Capital expenditures	(9 934)	(679)	(26 698)	(15)	(37 325)	-	(37 325)
Interests in joint ventures	924	-	-	-	924	-	924

- Revenues from inter-segment transactions are eliminated on consolidation.
- The results of the segments do not cover financial income (PLN 401 thousand of which PLN 56 thousand is interest income) and financial expenses (PLN 13,667 thousand of which PLN 5,554 thousand is interest expense), depreciation/amortisation (PLN 29,990 thousand), and income tax liability (PLN -8,474 thousand). However, segment result includes inter-segment loss (PLN -205 thousand).
- Assets and liabilities of segments do not contain any deferred income tax (asset: PLN 35,034 thousand), provision: PLN 11,851 thousand), since those items are managed at the Group level. Segment assets do not also include investments in companies operating in the Group.

9. Discontinued operations

On 28 July 2015 the Management Board of Arctic Paper S.A. announced a Profitability Improvement Programme of the Group aimed at reducing the operating costs primarily by establishing shared service centres for Group companies, implementation of individual profitability improvement programmes in facilities and an audit of the costs of services provided by external entities.

At the same time, the Management Board of Arctic Paper announced that it had started an active search for an investor for the Arctic Paper Mochenwangen facility and in parallel analysed the possibility to take measures for further reduction of losses generated by the Paper Mill, including those relating to the discontinuation of operations. Due to the material significance of the part of the business pursued by AP Mochenwangen and the companies set up to acquire the Paper Mill and due to their operational and geographic separation, the Management Board treated the operations of the Mochenwangen Group as discontinued operations as at 31 December 2015. The Mochenwangen Group includes: Arctic Paper Mochenwangen GmbH, Arctic Paper Investment GmbH, Arctic Paper Verwaltungs GmbH and Arctic Paper Immobilienverwaltung GmbH Co&KG. As a result, the assets and liabilities of the Mochenwangen Group were presented as assets directly related to discontinued operations and liabilities directly related to discontinued operations respectively as at 30 June 2017 and 31 December 2016 while the revenues and expenses of the Group were presented as profit (loss) on discontinued operations in the consolidated profit and loss account for the period of 3 and 6 months ended on 30 June 2017 and as at 30 June 2016.

In view of a continued search for an investor for the factory of Arctic Paper Mochenwangen or its individual assets, the Management Board decided to treat the operations of the Mochenwangen Group as discontinued activities as at 30 June 2017. It is not the intention of the Management Board that the assets relating to the discontinued operations are sold individually.

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

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Revenues and expenses of discontinued operations	6-month period ended on 30 June 2017 (unaudited)	6-month period ended on 30 June 2016 (unaudited)
Revenues from sales of goods	-	17 945
Costs of sales	(1 379)	(21 125)
Gross profit / (loss) on sales	(1 379)	(3 180)
Selling and distribution costs	(16)	(2 542)
Administrative expenses	(2 772)	(2 961)
Other operating income	730	3 294
Other operating expenses	(572)	(1 778)
Operating profit (loss)	(4 009)	(7 168)
Financial income	0	79
Financial expenses	(9)	(245)
Gross profit (loss)	(4 017)	(7 334)
Income tax	15	993
Profit (loss) from discontinued operations	(4 003)	(6 340)
Cumulated other comprehensive income related to discontinued operations		
FX differences on translation of foreign operations	387	(227)
Actuarial profit/loss	-	-
	387	(227)
Earnings per share:		
– basic profit/(loss) from discontinued operations attributable to the shareholders of the Parent Entity	(0,06)	(0,09)
– diluted profit from discontinued operations attributable to the shareholders of the Parent Entity	(0,06)	(0,09)

Net assets related to discontinued operations	As at 30 June 2017 (unaudited)	As at 31 December 2016 (audited)
Assets related to discontinued operations		
Inventories and other tangible assets	10 114	10 618
Trade and other receivables	292	230
Corporate income tax receivables	123	128
Other financial assets	380	398
Cash and cash equivalents	554	1 320
	11 462	12 694
Liabilities directly related to the discontinued operations		
Provisions	13 940	15 406
Trade and other payables	4 940	2 435
Income tax liability	101	106
Accruals and deferred income	144	142
	19 126	18 088
Net assets related to discontinued operations	(7 663)	(5 394)

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Cash flows related to discontinued operations	6-month period ended 30 June 2017	6-month period ended 30 June 2016
Net cash flows from operating activities	(2 337)	(16 934)
Net cash flows from investing activities	-	275
Net cash flows from financing activities	1 623	17 299
Increase / (decrease) in cash and cash equivalents	(714)	639
Net FX differences	(51)	49
Cash and cash equivalents at the beginning of the period	1 320	1 051
Cash and cash equivalents at the end of the period	554	1 739

10. Income and costs

10.1. Revenues from sales of goods

In H1 2017, revenues from sale of products amounted to PLN 1,476,989 thousand which was a decrease as compared to the equivalent period of the previous year (by PLN 22,836 thousand, mainly due to decreases of the mean exchange rates of EUR, SEK, GBP, DKK, NOK and CHF versus PLN as compared to 2016. Sales revenues from paper amounted to PLN 1,088,224 thousand (336 thousand tons) while for pulp sales – PLN 388,765 thousand (185 thousand tons). In H1 2016, paper sales revenues amounted to PLN 1,129,401 thousand (332 thousand tons) while for pulp sales – PLN 370,424 thousand (173 thousand tons).

Paper sales revenues in Q2 of 2017 amounted to PLN 703,087 thousand which was a decrease as compared to the equivalent period of the previous year by PLN 18,178. Sales revenues from paper amounted to PLN 513,168 thousand (160 thousand tons) while for pulp sales – PLN 189,919 thousand (91 thousand tons). In Q2 2016, sales revenues from paper amounted to PLN 539,552 thousand (160 thousand tons) while for pulp sales – PLN 181,713 thousand (87 thousand tons).

10.2. Costs of sales

In H 2017, costs of sales of products amounted to PLN 1,180,848 thousand which was a decrease as compared to the equivalent period of the previous year by PLN 29,120 thousand. The decrease of internal selling costs was primarily due to reduced costs of pulp consumption denominated in PLN (due to the lower purchase price as a result of more advantageous negotiated commercial terms and conditions).

In Q2 2017, costs of sales amounted to PLN 561,585 thousand which was a decrease as compared to the equivalent period of the previous year by PLN 20,700 thousand.

10.3. Selling and distribution costs

Selling and distribution costs amounted to PLN 177,774 thousand in H1 2017 which was a decrease as compared to the equivalent period of the previous year by PLN 3,621 thousand. The core component of the selling expenses is the cost of transport of finished products.

Selling and distribution costs amounted to PLN 85,866 thousand in Q2 2017 which was a decrease as compared to the equivalent period of the previous year by PLN 3,275 thousand.

10.4. Administrative expenses

Administrative expenses amounted to PLN 48,739 thousand in H1 2017 which was an increase as compared to the equivalent period of the previous year by PLN 3,384 thousand. The overheads cover primarily the expenses related to the services provided to the Group by external consultants.

Administrative expenses amounted to PLN 26,109 thousand in Q2 2017 which was a decrease as compared to the equivalent period of the previous year by PLN 1,690 thousand.

10.5. Other operating income

Other operating income totalled PLN 22,278 thousand in H1 2017 which was a decrease as compared to the equivalent period of the previous year by PLN 16,674 thousand. Other operating income consists mainly of income from heat and electricity sales as well as income from sales of other materials. The lower value of other operating revenues in the current period was due mainly to lower sales of other materials and energy.

Other operating income amounted to PLN 9,342 thousand in Q2 2017 which was a decrease as compared to the equivalent period of the previous year (by PLN 11,161 thousand).

10.6. Other operating expenses

Other operating expenses totalled PLN 14,759 thousand in H1 2017 which was a decrease as compared to the equivalent period of the previous year (by PLN 12,220 thousand).

The other operating expenses comprised mainly the costs of electricity and heat sales as well as the costs of other materials sold. The lower other operating expenses in H1 2017 were affected primarily by the internal costs of other materials sold.

Other operating expenses amounted to PLN 5,842 thousand in Q2 2017 which was a decrease as compared to the equivalent period of the previous year (by PLN 6,377 thousand).

10.7. Financial income and financial expenses

In H1 2017, financial income and expenses amounted to PLN 5,366 thousand and PLN 16,961 thousand respectively which was an increase of income as compared to the equivalent period of the previous year by PLN 4,747 thousand and a growth of expenses by PLN 4,625 thousand.

The changes to financial income and expenses were primarily due to the amount of net FX differences. In H1 2017, the Group recorded a surplus of FX profit over FX losses of PLN 4,700 thousand (financial income). In the equivalent period of 2016, the Group recorded a surplus of FX losses over FX profit of PLN 6,127 thousand (financial expenses).

In Q2 2017, financial income and financial expenses amounted to PLN -1,344 thousand and PLN 9,041 thousand respectively which was a decrease of income as compared to the equivalent period of the previous year by PLN 1,745 thousand and a growth of expenses by PLN 4,626 thousand. The negative financial income in Q2 2017 was due to the net presentation of FX differences – lower FX profit/gains for 6 months of 2017 than the value of FX profit/gains for Q1 2017.

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11. Cash and cash equivalents

For the purposes of the interim abbreviated consolidated cash flow statement, cash and cash equivalents include the following items:

	As at 30 June 2017 (unaudited)	As at 30 June 2016 (unaudited)
Cash in bank and on hand	97 764	118 808
Short-term deposits	-	-
Cash in transit	3 057	5 411
Cash and cash equivalents in the consolidated balance sheet	100 821	124 219
Cash in bank and on hand attributable to discontinued operations	554	1 739
Cash and cash equivalents in the consolidated cash flow statement	101 375	125 958

11.1. Reasons of differences between book value changes to certain items and items in the consolidated cash flow statement

The reasons of differences between book value changes to certain items and items in the consolidated cash flow statement are presented in the tables below:

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	6-month-period ended on 30 June 2017	6-month-period ended on 30 June 2016
Increase / decrease in receiv ables and other non-financial assets		
Book change in receiv ables and other non-financial assets	2 554	(41 402)
Book change in other financial assets long term without derivatives	667	4 706
Discontinued operations	(62)	12 877
Differences on translation	(13 434)	(4 659)
Increase / decrease receivables and other non-financial assets disclosed in the consolidated cash flow statement	(10 275)	(28 478)
Change to inv entories		
Book change to inv entories	20 936	12 370
Discontinued operations	504	16 690
Differences on translation	(14 506)	3 879
Change to inv entories disclosed in the consolidated cash flow statement	6 934	32 939
Increase /(decrease) in liabilities ex cept for loans, borrowings, bonds and other financial liabilities		
Book increase /decrease in liabilities ex cept for loans and borrowings	(35 352)	(58 088)
Discontinued operations	2 506	(12 173)
Differences on translation	13 313	(4 532)
Increase / decrease in liabilities ex cept for loans, borrowings, bonds and other financial liabilities disclosed in the consolidated cash flow statement	(19 533)	(74 793)

	6-month-period ended on 30 June 2017	6-month-period ended on 30 June 2016
Change in accruals and prepay ments		
Book change in accruals and prepayments	(10 472)	(5 711)
Discontinued operations	2	(1 189)
Differences on translation	3 737	(1 474)
Change in accruals and prepay ments disclosed in the consolidated cash flow statement	(6 733)	(8 374)
Change in provisions		
Book change in prov isions	(4 211)	1 742
Discontinued operations	(1 465)	(27 372)
Differences on translation	4 950	(2 563)
Change in provisions disclosed in the consolidated cash flow statement	(727)	(28 193)
Wpływy ze sprzedaży udziałów niekontrolujących		
Increase in tangible assets accorting to table of mov ements	(77 235)	(59 286)
Increase in intangible assets accorting to table of mov ements	(11 557)	(13 921)
Financial leasing	209	-
Cogeneration certificates	12 868	9 843
Change in v aluation of emmission rights	-	368
Discontinued operations	-	(323)
Purchase of tangible fix ed and intangible assets in the consolidated cash flow statement	(75 716)	(63 319)

12. Dividend paid and proposed

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

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

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

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

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

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

The Company's General Meeting held on 09 June 2017 did not make any decision on dividend disbursement.

12.2. Dividend disbursed by Rottneros AB

At the General Meeting of Rottneros AB of 16 May 2017 adopted a resolution on dividend distribution of SEK 0.40 per share. The dividend was disbursed to Arctic Paper S.A. and to the non-controlling shareholders of Rottneros AB in the total amount of PLN 13 million (SEK 31 million).

13. Income tax

13.1. Tax liability

The main items of tax liability for the period of 3 months and 6 months ended on 30 June 2017 and for the equivalent period of the previous year are as follows:

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	3-month period ended on 30 June 2017 (unaudited)	6-month period ended on 30 June 2017 (unaudited)	3-month period ended on 30 June 2016 (unaudited)	6-month period ended on 30 June 2016 (unaudited)
Consolidated profit and loss account				
Current income tax				
Current income tax liability	(104)	(3 060)	(1 136)	(2 339)
Adjustments related to current income tax from previous years	-	-	-	-
Deferred income tax				
Resulting from the establishment and reversal of temporary differences	(7 719)	(12 592)	(7 338)	(15 103)
Tax liability on continuing operations disclosed in the consolidated profit and loss account	(7 823)	(15 652)	(8 474)	(17 442)
Consolidated statement of changes in equity				
Current income tax				
Tax effects of the costs of increase of share capital	-	-	-	-
Tax benefit (tax liability) recognised in equity	-	-	-	-
Consolidated statement of total comprehensive income				
Deferred income tax				
Deferred income tax on the measurement of hedging instruments	(1 746)	2 660	(2 851)	(2 765)
Reversal of deferred income tax assets originally recognised in equity	-	-	-	-
Tax benefit (tax liability) recognised in other comprehensive income	(1 746)	2 660	(2 851)	(2 765)

13.2. Deferred income tax asset/provision

Deferred income tax asset as at 30 June 2017 and 31 December 2016 was PLN 37,938 thousand and PLN 35,034 thousand respectively. The deferred income tax asset is recognised primarily in relation to tax losses that may be applied in future years and in connection with the acquisition of the Rottneros Group.

Deferred income tax liability as at 30 June 2017 and 31 December 2016 amounted to PLN 26,354 thousand and PLN 11,851 thousand respectively. Deferred income tax liability is recognised primarily with reference to the difference in the measurement of fixed assets largely from the acquisition of Arctic Paper Grycksbo and various periods of economic life applied for accounting and tax purposes. The increase of the deferred income tax provision is mainly a result of the increase of this provision for companies from the Rottneros Group.

14. 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.

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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 June 2017 (unaudited)	6-month period ended on 30 June 2017 (unaudited)	3-month period ended on 30 June 2016 (unaudited)	6-month period ended on 30 June 2016 (unaudited)
Net profit / (loss) period from continuing operations attributable to the shareholders of the Parent Entity	5 416	31 712	2 796	16 221
Net profit / (loss) period from discontinued operations attributable to the shareholders of the Parent Entity	(1 855)	(4 003)	(1 261)	(6 340)
Net profit / (loss) attributable to the shareholders of the Parent Entity	3 561	27 709	1 535	9 881
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	0,05	0,40	0,02	0,14
– basic earnings profit/(loss) for the period from continuing operations attributable to the shareholders of the Parent Entity	0,08	0,46	0,04	0,23
Diluted profit (loss) per share (in PLN)				
– from the profit/(loss) for the period attributable to the shareholders of the Parent Entity	0,05	0,40	0,02	0,14
– from the profit/(loss) for the period from continuing operations attributable to the shareholders of the Parent Entity	0,08	0,46	0,04	0,23

15. Tangible fixed assets and intangible assets and impairment

15.1. Tangible fixed assets and intangible assets

The net value of fixed assets as at 30 June 2017 was PLN 767,334 thousand and it was by PLN 7,484 thousand lower than as at 31 December 2016. The value of tangible fixed assets acquired in the period under report was PLN 77,235 thousand (for the period of 6 months ended on 30 June 2016 it was PLN 59,286 thousand). The net value of sold or liquidated tangible fixed assets for the period of 6 months ended on 30 June 2016 was PLN 163 thousand (for the period of 6 months ended on 30 June 2016 it was PLN 335 thousand. Depreciation allowances for the period of 6 months ended on 30 June 2017 amounted to PLN 62,544 thousand (for the period of 6 months ended on 30 June 2016 they were PLN 58,932 thousand). Loss charges of the value of tangible fixed assets for the period of 6 months ended on 30 June

2016 was PLN 0 thousand (for the period of 6 months ended on 30 June 2016 they were PLN -0 thousand). FX differences amounted to PLN -22,012 thousand for the period of 6 months ended on 30 June 2017 (for the period of 6 months ended on 30 June 2016 they amounted to PLN +5,789 thousand).

The net value of intangible assets as at 30 June 2017 was PLN 52,181 thousand and it was by PLN 4,852 thousand lower than as at 31 December 2016. The value of intangible assets acquired in the period under report was PLN 11,557 thousand (for the period of 6 months ended on 30 June 2016 it was PLN 13,921 thousand). The net value of sold or liquidated intangible assets for the period of 6 months ended on 30 June 2016 was PLN 13,954 thousand (for the period of 6 months ended on 30 June 2016 it was PLN 12,559 thousand). Amortisation allowances for the period of 6 months ended on 30 June 2017 amounted to PLN 368 thousand) (for the period of 6 months ended on 30 June 2016 they were PLN 350 thousand). Impairment of assets for the period of 6 months ended on 30 June 2016 was PLN 0 thousand (for the period of 6 months ended on 30 June 2016 they were PLN 0 thousand). FX differences for the period of 6 months ended on 30 June 2017 amounted to PLN -2,087 thousand (for the period of 6 months ended on 30 June 2016 they were PLN +60 thousand).

Revenues from disposal of tangible fixed and intangible assets (without including revenues from the sale of co-generation certificates) in H1 2017 amounted to PLN 120 thousand (in H1 2016: PLN 720 thousand).

15.2. Impairment of non-financial assets

An analysis of indications as at 30 June 2017 showed the need to perform impairment tests of non-financial fixed assets for AP Grycksbo as at 30 June 2017. The results of the test did not show any further impairment losses of these assets. As a result, the amount of the impairment charges as at 30 June 2017 was not changed as compared to the impairment charges as at 31 December 2016.

As at 31 December 2016, on the basis of annual data of the Rottneros Group, the Arctic Paper Group recognised an impairment of non-financial fixed assets of the Rottneros Group totalling PLN 4,151 thousand.

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16. Inventories

	As at 30 June 2017 (unaudited)	As at 31 December 2016 (audited)
Materials (at purchase prices)	156 334	170 416
Production in progress (at manufacturing costs)	11 483	8 850
Finished products, of which:		
At purchase price / manufacturing costs	167 665	179 960
At net realisable price	3 905	1 109
Advance payments for deliveries	29	18
Total inventories, at the lower of: purchase price / manufacturing costs or net realisable price	339 416	360 353
Impairment charge to inventories	4 817	4 323
Total inventories before impairment charge	344 233	364 676

Net inventories as at 30 June 2017 amounted to PLN 339,416 thousand (as at 31 December 2016: PLN 360,353 thousand). As at 30 June 2017 impairment charges to inventories amounted to PLN 4,817 thousand (as at 31 December 2016: PLN 4,323 thousand). As at 30 June 2017 the inventories of finished products amounted to PLN 3,905 thousand were measured at the net realisable prices (as at 31 December 2016 the amount was PLN 1,109 thousand).

17. Trade and other receivables

	As at 30 June 2017 (unaudited)	As at 31 December 2016 (audited)
Trade receivables	315 695	307 580
VAT receivables	17 979	28 419
Other third party receivables	4 995	4 622
Other receivables from related entities	2 273	2 875
Total (net) receivables	340 942	343 496
Impairment charges to receivables	28 290	29 786
Gross receivables	369 232	373 282

The value of trade and other receivables amounted to PLN 340,942 thousand as at 30 June 2017 (31 December 2016: PLN 343,496 thousand), The drop of trade and other receivables was primarily due to the drop of VAT budget receivables as a result of lower purchases of tangible fixed assets in Q2 2017 than in Q4 2016 disclosed by the Paper and Pulp Mills.

The impairment charge to receivables amounted to PLN 28,290 thousand as at 30 June 2017 (31 December 2016: PLN 29,786 thousand).

18. Other non-financial and financial assets

Other short-term non-financial assets as at 30 June 2017 and as at 31 December 2016 amounted to PLN 14,398 thousand and PLN 16,492 thousand respectively. The item primarily covers deferred expenses and the changes are due to the changing values of such expenses.

Other long-term non-financial assets as at 30 June 2017 and as at 31 December 2016 amounted to PLN 1,470 thousand and PLN 1,548 thousand respectively.

Other short-term financial assets amounted to PLN 3,798 thousand as at 30 June 2017 and PLN 11,218 thousand as at 31 December 2016. The item includes positive measurement of term contracts and the drop is due to lower positive measurement of forward contracts for the sale of pulp and purchase of electrical energy.

Other long-term financial assets as at 30 June 2017 amounted to PLN 9,009 thousand as at 31 December 2016 – PLN 10,913 thousand. The position covers positive measurement of term contracts, mainly forward contracts for the purchase of electrical energy.

19. Interest-bearing loans and borrowings

In the period covered with these financial statements, the Group partly repaid its term loan and revolving loan under the loan agreement of 9 September 2016 with a bank consortium of PLN 6,585 thousand and PLN 41,244 thousand respectively. Additionally, over the period the Group increased its debt under the term loan to the bank consortium by PLN 16,398 thousand.

Additionally, the Group reduced its debt under the overdraft facility with Den Danske by PLN 6,233 thousand and increased its debt under the terms loans with the bank and with the Swedish Export Credit Corporation, totalling PLN 34,729 thousand.

In April 2017, the Group partly repaid its loan from the main shareholder of PLN 10,464 thousand (PLN 2,500 thousand thousand).

The other changes to loans and borrowings as at 30 June 2017, compared to 31 December 2016 result mainly from balance sheet evaluation and payment of interest accrued as at 31 December 2016 and paid in Q1 2017.

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

On 1 June 2017, cash pooling in EUR was activated within the Arctic Paper Group. 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 is aimed at supporting effective cash management in the Group and minimising the costs of external funding sources by using the Group's own cash.

On 7 July 2017, Arctic Paper SA fully repaid the loan from the main shareholder of EUR 4,000 thousand with interest.

20. Other financial liabilities

As at 30 June 2017 other financial liabilities amounted to PLN 38,416 thousand (including long-term liabilities of PLN 27,632 thousand and short-term liabilities of PLN 10,784 thousand. As at 31 December 2016 other financial liabilities amounted to PLN 56,768 thousand (including long-term liabilities of PLN 30,082 thousand and short-term liabilities of PLN 26,686 thousand. Other financial liabilities include liabilities under lease contracts and negative measurement of hedging instruments. As at 31 December 2016, the other short-term financial liabilities covered also liabilities under factoring contracts of

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PLN 17,487 thousand. The repayment of the agreements in Q2 2017 resulted in a drop of the other short-term financial liabilities.

During the reporting period, the Group repaid a part of its liabilities under financial leasing of PLN 2,004 thousand.

The differences in the amount of other financial liabilities as at 30 June 2017 versus 31 December 2016 are due primarily to the measurement of instruments hedging future currency buy/sell transactions, purchases of electricity and SWAP transactions.

21. Trade and other payables

The value trade and other payables amounted to PLN 364,375 thousand as at 30 June 2017 (as at 31 December 2016: PLN 399,727 thousand). The reduced value of the item versus the end of the previous year was due to repayment of trade payables at Paper Mills and Pulp Mills.

22. Change in provisions

	As at 30 June 2017 (unaudited)	As at 31 December 2016 (audited)
Long-term provisions		
Retirement provisions	84 788	88 928
Other provisions	1 314	1 385
	86 102	90 313
Short-term provisions	-	-
Long-term provisions	86 102	90 313

The drop of long-term provisions in H1 2017 was due primarily from the translation of the provisions into the presentation currency – PLN.

23. Accruals and deferred income

Accruals and deferred income as at 30 June 2017 amounted to PLN 106,856 thousand including short-term accruals and deferred income of PLN 86,923 thousand. Accruals and deferred income as at 31 December 2016 amounted to PLN 119,422 thousand including short-term accruals and deferred income of PLN 98,4980 thousand. The main items of accruals and deferred income include government grants of PLN 22,362 thousand including long-term of PLN 19,933 thousand (31 December 2016: PLN 20,924 thousand) including long-term of PLN 20,924) and short-term employee liabilities, mainly related to holiday leaves that as at 30 June 2017 amounted to PLN 54,641 thousand (31 December 2016: PLN 65.084 thousand).

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24. Share capital

Share capital	As at 30 June 2017 (unaudited)	As at 31 December 2016 (audited)
series A ordinary shares of the nominal value of PLN 1 each	50	50
series B ordinary shares of the nominal value of PLN 1 each	44 254	44 254
series C ordinary shares of the nominal value of PLN 1 each	8 100	8 100
series E ordinary shares of the nominal value of PLN 1 each	3 000	3 000
series F ordinary shares of the nominal value of PLN 1 each	13 884	13 884
	69 288	69 288

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

25. Financial instruments

The Group holds the following financial instruments: cash, loans, borrowings and bonds, receivables, liabilities under financial leases, SWAP interest rate contracts, forward FX contracts and FX options and forward contracts for the purchase of electricity and sale of pulp.

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25.1. Fair value of each class of financial instruments

The table below presents a comparison of the book value and fair value of all financial instruments held by the Group, split into each class and categories of assets and liabilities:

		Book value		Fair value	
	Category in compliance with IAS 39	As at 30 June 2017	As at 31 December 2016	As at 30 June 2017	As at 31 December 2016
Financial assets					
Trade and other receivables	*L&R*	322 963	315 077	322 963	315 077
Hedging instruments		6 594	16 040	6 594	16 040
Other financial assets (net of loans and hedging instruments)	*L&R*	6 213	6 092	6 213	6 092
Cash and cash equivalents	*FVTPL*	100 821	130 157	100 821	130 157
Financial liabilities					
Interest-bearing bank loans and borrowings and bonds, of which:	*OFL*	312 004	330 831	312 004	330 831
- long-term	*OFL*	260 547	275 464	260 547	275 464
- short-term	*OFL*	51 457	55 367	51 457	55 367
Liabilities under financial leases and rental contracts with purchase options, of which		30 867	34 388	30 867	34 388
- long-term		26 757	30 082	26 757	30 082
- short-term		4 110	4 306	4 110	4 306
Trade payables and other financial liabilities	*OFL*	343 717	372 935	343 717	372 935
Hedging instruments		7 368	4 699	7 368	4 699

Abbreviations used:
UdtW – Financial assets kept until maturity
FVTPL – Financial assets/liabilities measured at fair value through profit and loss account
L&R – Loans and receivables
DDS – Financial assets available for sale
OFL – Other financial liabilities measured at amortised cost

The hierarchy of the fair value of financial instruments held by the Group as at 30 June 2017 and as at 31 December 2016:

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30 June 2017	Level 1	Level 2	Level 3
Financial assets measured at fair value through comprehensive income			
Derivative instruments	-	6 594	-
Other financial assets			
Trade and other receivables	-	-	322 963
Other financial assets (net of loans and hedging instruments)	-	-	6 213
Cash and cash equivalents	-	-	100 821
Financial liabilities measured at fair value through comprehensive income	-	-	-
Derivative instruments	-	7 368	-
Other financial liabilities			
Interest-bearing loans and borrowings	-	-	312 004
Liabilities under financial leases and rental contracts with purchase options	-	-	30 867
Trade payables	-	-	343 717

31 December 2016	Level 1	Level 2	Level 3
Financial assets measured at fair value through comprehensive income			
Derivative instruments	-	16 040	-
Other financial assets			
Trade and other receivables	-	-	315 077
Other financial assets (net of loans and hedging instruments)	-	-	6 092
Cash and cash equivalents	-	-	130 157
Financial liabilities measured at fair value through comprehensive income	-	-	-
Derivative instruments	-	4 699	-
Other financial liabilities	-	-	-
Interest-bearing loans and borrowings	-	-	330 831
Liabilities under financial leases and rental contracts with purchase options	-	-	34 388
Trade payables	-	-	372 935

25.2. Interest rate risk

The table below presents the book value of the financial instruments held by the Group, exposed to interest rate risk, split into specific age baskets:

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30 June 2017 Variable interest rate	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Other financial liabilities:							
Liabilities under financial leases and rental contracts with purchase options	4 110	4 080	4 130	17 843	703	-	30 867
Loans and borrowings:							
Loan from EBRD in EUR Capex Facility	-	-	4 783	-	-	-	4 783
Revolving overdraft facility with BNP in EUR	-	-	776	-	-	-	776
Loan from Den Danske Bank in SEK	1 752	1 752	1 752	1 752	876	-	7 882
Loan from Den Danske Bank in SEK	-	2 627	2 627	2 627	2 627	2 627	13 137
Loan from the Swedish Export Credit Corporation in SEK	1 752	2 627	2 627	6 131	-	-	13 137
Total variable interest rate loans and borrowings	3 503	7 006	12 565	10 510	3 503	2 627	39 714
TOTAL VARIABLE INTEREST RATE LIABILITIES	7 613	11 087	16 695	28 353	4 206	2 627	70 581

30 June 2017 Fixed interest rate	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Loans and borrowings:							
Loan from EBRD in EUR	9 545	8 971	8 442	7 912	7 422	3 563	45 855
Loan from BZ WBK in PLN	2 655	2 413	2 210	2 016	947	-	10 242
Loan from BNP in EUR	2 417	2 267	2 129	1 991	946	-	9 750
Bonds	4 808	19 690	17 813	16 073	39 972	-	98 356
Loan from EBRD in EUR Capex Facility	400	7 699	6 933	1 365	-	-	16 398
Revolving overdraft facility with BNP in EUR	-	-	5 000	-	-	-	5 000
Revolving overdraft facility with BZ WBK S.A. in PLN	-	-	16 435	-	-	-	16 435
Revolving overdraft facility with Danske Bank in SEK	-	-	20 921	-	-	-	20 921
Loan from the main shareholder in EUR	17 016	-	-	-	-	-	17 016
Loan from the main shareholder in EUR	11 112	10 596	10 607	-	-	-	32 315
TOTAL FIXED INTEREST RATE LIABILITIES	47 953	51 637	90 491	29 358	49 287	3 563	272 289

Interim abbreviated consolidated financial statements for six months ended on 30 June 2017 PLN thousand

31 December 2016 Variable interest rate	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Other financial liabilities:							
Liabilities under financial leases and rental contracts with purchase options	4 306	4 319	4 242	4 225	17 295	-	34 388
Loans and borrowings:							
Revolving overdraft facility with BNP in PLN	-	-	5 000	-	-	-	5 000
Revolving overdraft facility with BNP in EUR	-	-	17 923	-	-	-	17 923
Revolving overdraft facility with BZ WBK S.A. in PLN	-	-	17 438	-	-	-	17 438
Revolving overdraft facility with Danske Bank in SEK	6 467	-	-	-	-	-	6 467
Total variable interest rate loans and borrowings	6 467	-	40 361	-	-	-	46 828
TOTAL VARIABLE INTEREST RATE LIABILITIES	10 773	4 319	44 604	4 225	17 295	-	81 216

31 December 2016 Fixed interest rate	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Loans and borrowings:							
Loan from EBRD in EUR	9 941	9 587	9 030	8 477	7 960	7 394	52 389
Loan from BZ WBK in PLN	2 639	2 490	2 281	2 083	1 887	-	11 380
Loan from BNP in EUR	2 535	2 425	2 279	2 135	1 986	-	11 360
Bonds	4 473	12 158	18 180	16 434	46 376	14	97 635
Revolving overdraft facility with BNP in PLN	-	-	5 000	-	-	-	5 000
Revolving overdraft facility with BNP in EUR	-	-	21 899	-	-	-	21 899
Revolving overdraft facility with BZ WBK S.A. in PLN	-	-	21 899	-	-	-	21 899
Revolving overdraft facility with Danske Bank in SEK	-	-	-	-	-	-	-
Loan from the owner of the core shareholder in EUR	17 818	-	-	-	-	-	17 818
Loan from the owner of the core shareholder in EUR	11 495	11 043	11 043	11 043	-	-	44 624
TOTAL FIXED INTEREST RATE LIABILITIES	48 900	37 703	91 611	40 172	58 209	7 408	284 003

25.3. Hedge accounting

As at 30 June 2017, the Group used cash flow hedge accounting for the following hedging items:

- Arctic Paper Kostrzyn S.A. and Arctic Paper S.A. designated for cash flow hedge accounting the FX corridor options derivatives in order to hedge a part of inflows in EUR related to exports and pulp purchases in USD,
- the Companies of Rottneros Group designated for cash flow hedge accounting the FX forward derivatives in order to hedge a part of inflows in EUR related to export sales,
- the Companies of Rottneros Group designated for cash flow hedge accounting the FX forward derivatives in order to hedge a part of inflows in EUR related to export sales.
- Arctic Paper 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,

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

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

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

Type of hedge	Cash flow hedge related to planned sales in foreign currencies
Hedged position	The hedged position is a part of highly likely future cash inflows for exports
Hedging instruments	FX forward contracts are used wherein the Company agrees to sell USD for SEK
Contract parameters:	
Contract conclusion dates	2 017
Maturity date	subject to contract; by 14.07.2017
Hedged amount	USD 1.0 million
Term exchange rate	8.70 USD/SEK

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

Type of hedge	Cash flow hedge related to planned sales in foreign currencies
Hedged position	The hedged position is a part of highly likely future cash inflows for exports
Hedging instruments	FX forward contracts are used wherein the Company agrees to sell EUR for SEK
Contract parameters:	
Contract conclusion dates	2 017
Maturity date	subject to contract; by 14.07.2017
Hedged amount	EUR 1 million
Term exchange rate	9.75 EUR/SEK

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

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Type of hedge	Cash flow hedge related to planned sales in foreign currencies
Hedged position	The hedged position is a part of highly likely future cash inflows for exports
Hedging instruments	The hedging transactions - corridor FX options under which the Company acquired an option to sell EUR against USD and sold an opinion to buy EUR against USD
Contract parameters:	
Contract conclusion dates	05.05.2017
Maturity date:	subject to contract; by 27.11.2017
Hedged amount	EUR 7.0 million
Term exchange rate	EUR/USD 1.1000 and 1.0900

Type of hedge	Cash flow hedge related to planned sales in foreign currencies
Hedged position	The hedged position is a part of highly likely future cash inflows for exports
Hedging instruments	The hedging transactions - corridor FX options under which the Company acquired an option to sell EUR against USD and sold an opinion to buy EUR against USD
Contract parameters:	
Contract conclusion dates	20.03.2017
Maturity date:	subject to contract; by 29.09.2017
Hedged amount	EUR 6.0 million
Term exchange rate	EUR/USD 1.0700 and 1.0815

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

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

Type of hedge	Cash flow hedge related to planned purchases of electricity
Hedged position	The hedged position is a part of highly likely future cash flows for electricity purchases
Hedging instruments	Forward contract for the purchase of electricity at Nord Pool Exchange
Contract parameters:	
Contract conclusion date	individually per contract; from 01.06.2013
Maturity date	individually per contract; by 31.12.2021
Hedged quantity of electricity	1.522.000 MWh
Term price	from 16.50 to 33.75 EUR/MWh

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

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

Type of hedge	Cash flow hedge related to sales of pulp
Hedged position	The hedged position is a part of highly likely future cash inflows for pulp sales
Hedging instruments	Forward contracts are used as the hedging item wherein the Company agrees to sell pulp for SEK
Contract parameters:	
Contract conclusion date	2 017
Maturity date	individually per contract; by 31.12.2017
Hedged quantity of pulp	12,000 tons
Term price	SEK 7,150/ton

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

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

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

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

Type of hedge	Hedge of cash flows related to variable interest rate on the EUR short-term loan
Hedged position	Future EUR interest flows on EUR loan calculated on the basis of 3M EURIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in EUR on the EUR loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	2016-11-21
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 30.08.2019
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 9.9 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:

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

Type of hedge	Hedge of cash flows related to variable interest rate on the PLN short-term loan
Hedged position	Future PLN interest flows on PLN loan calculated on the basis of 3M WIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in PLN on the PLN loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	2016-11-21
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 30.08.2019
Hedged value	interest payable in line with the payment schedule under the loan agreement of PLN 10 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 date	each interest payment date in line with the payment schedule under the bond issue agreement; by 31.08.2021
Hedged value	interest payable in line with the payment schedule under of interest of PLN 100 million.

Interim abbreviated consolidated financial statements for six months ended on 30 June 2017 PLN thousand

Cash flow volatility hedge accounting related to a floor option

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

The table below presents the fair value of hedging instruments in cash flow hedge accounting as at 30 June 2017 and the comparative data:

	As at 30 June 2017		As at 31 December 2016	
	(unaudited)	(unaudited)	(audited)	(audited)
	Assets	Equity and Liabilities	Assets	Equity and Liabilities
FX forward	207	1 402	-	462
FX options	-	871	-	-
Forward on pulp sales	12	-	3 695	-
SWAP	-	4 407	-	4 580
Floor option	-	(188)	-	(343)
Forward for electricity	6 375	876	12 345	-
Total hedging derivative instruments	6 594	7 368	16 040	4 699

26. Financial risk management objectives and policies

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

The Group also used factoring with recourse and without recourse for trade receivables. The main purpose for using the financial instrument was to quickly raise funds.

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

In the opinion of the Management Board – in comparison to the annual consolidated financial statements made as at 31 December 2016 there have been no significant changes of the financial risk. There have been no changes to the objectives and policies of the management of the risk.

27. Capital management

The primary objective of the Group's capital management is maintaining a strong credit rating and healthy capital ratios in order to support its business operations and maximise shareholder value. In the Management Board's opinion – in comparison to the annual consolidated financial statements made as at 31 December 2016, there have been no significant changes to the objectives and policies of capital management.

28. Contingent liabilities and contingent assets

As at 30 June 2017, the Capital Group reported:

- contingent liability under a guarantee for FPG in favour of the mutual life insurance company PRI for SEK 1,444 thousand (PLN 632 thousand) at Arctic Paper Grycksbo AB and for SEK 758 thousand (PLN 332 thousand) at Arctic Paper Munkedals AB;
- a contingent liability of Arctic Paper Munkedals AB related to a surety for the obligations of Kalltorp Kraft HB in the amount of SEK 1,624 thousand; (PLN 711 thousand);
- a bank guarantee in favour of Skatteverket Ludvika for SEK 135 thousand (PLN 57 thousand);

29. Legal claims

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

30. Tax settlements

Tax settlements and other areas of activity subject to specific regulations (like customs or FX matters) may be inspected by administrative bodies that are entitled to impose high penalties and sanctions. No reference to stable legal regulations in Poland results in lack of clarity and consistency in the regulations. Frequent differences of opinion as to legal interpretation of tax regulations – both inside state authorities and between state authorities and enterprises – generate areas of uncertainty and conflicts. As a result, tax risks in Poland are much higher than in countries with a more developed tax system.

Tax settlements may be subject to inspections for five years from the beginning the year in which the tax was paid. As a result of inspections, the tax liability of the Group may be increased by additional tax liability. In the opinion of the Group, there is no need to establish additional provisions for any identified and quantifiable tax risk as at 30 June 2016.

11.2. Uncertainties related to tax settlements

Regulations related to VAT, corporate income tax and charges related to social insurance are subject to frequent modifications. Those frequent modifications result in unavailability of appropriate points of reference, inconsistent interpretations and few precedents that could apply. Additionally, the applicable regulations contain also certain ambiguities that result in differences of opinion as to legal interpretations of tax regulations – among public authorities and between public authorities and enterprises.

Tax settlements and other areas of operations (for instance customs or foreign exchange issues) may be inspected by the authorities that are entitled to impose high penalties and fines as well additional tax liabilities resulting from inspections that have to be paid along with high interest. As a result, tax risk in Poland is higher than in countries with more mature tax systems.

Therefore, the amounts presented and disclosed in the financial statements may change in the future as a result of final decisions by tax inspection authorities.

On 15 July 2016 the Tax Code was amended to incorporate the provisions of the General Anti-Avoidance Rule (GAAR). GAAR is to prevent the development and use of artificial legal structures to avoid tax payments in Poland. GAAR defines tax avoidance as an activity pursued primarily to accomplish tax benefits that under the circumstances would be contradictory to the subject and purpose of the tax regulations. In accordance with GAAR, such activity would not generate tax benefits if the mode of operation was artificial. Any occurrence of (i) unjustified split to operations, (ii) involvement of intermediaries despite no economic justification, (iii) mutually exclusive of compensating elements, and (iv) other similar activities, may be treated as a premise to the existence of artificial activities subject to GAAR. The new regulations will require more accurate judgements in the assessment of tax effects of each transaction.

31. Investment commitments

As at 30 June 2017 the Group was committed to make expenditures on tangible fixed assets of minimum PLN 10,000 thousand to the end of 2017 (as at 31 December 2016: PLN 60.000 thousand). The amount will be applied to buy new machines and equipment.

32. Transactions with related entities

The related entities to the Arctic Paper S.A. Group are as follows:

- Thomas Onstad – the corer shareholder of Arctic Paper S.A. holding directly or indirectly over 50% of shares in the Company's share capital
- Nemus Holding AB – parent entity to the Arctic Paper S.A. Group since 3 September 2014
- Centrum Finansowo-Księgowe PROGRESSIO s.c. – an entity related to a Member of the Management Board

Transactions with related entities are carried out at arm's length.

The table below presents the total amount of transactions concluded with related entities within the six-month period ended on 30 June 2017 and as at 30 June 2017:

Data for the period from 01 January 2017 to 30 June 2017 and as at 30 June 2017 (PLN thousand)

Related Entity	Sales to related entities	Purchases from related entities	Interest – financial income	Interest – financial expense	Receivables from related entities	Loan receivables	Liabilities to related entities
Nemus Holding AB	-	-	-	-	2 273	-	-
Thomas Onstad	-	-	-	1 893	-	-	49 323
CFK Progressio s.c.	-	157	-	-	-	-	26
Total	-	157	-	1 893	2 273	-	49 349

The table below presents the total amount of transactions concluded with related entities within the six-month period ended on 30 June 2016 and as at 31 December 2016:

Data for the period from 1 January 2016 to 30 June 2016 and as at 31 December 2016 (PLN thousand). PLN)

Related Entity	Sales to related entities	Purchases from related entities	Interest – financial income	Interest – financial expense	Receivables from related entities	Loan receivables	Liabilities to related entities
Nemus Holding AB	-	523	-	-	2 875	-	870
Thomas Onstad	-	-	-	2 124	-	-	62 442
CFK Progressio s.c.	-	137	-	-	-	-	28
Total	-	660	-	2 124	2 875	-	63 340

33. CO2 emission rights

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

The table below specifies the allocation for 2013-2020 approved by the European Union and the usage of the emission rights in each entity in 2013, 2014, 2015, 2016 and in H1 2017.

(in tons) for Arctic Paper Kostrzyn S.A.	2013	2014	2015	2016	2017	2018	2019	2020
Allocation*	108 535	105 434	102 452	99 840	97 375	94 916	92 454	90 009
Unused quantity from previous years	348 490	306 448	263 932	203 917	133 061	-	-	-
Issue	(150 577)	(147 950)	(162 467)	(170 696)	(72 276)			
Purchased quantity	-	-	-	-	-			
Sold quantity	-	-	-	-	-			
Unused quantity	306 448	263 932	203 917	133 061	158 160			

(in tons) for Arctic Paper Munkdals AB	2013	2014	2015	2016	2017	2018	2019	2020
Allocation	44 238	43 470	42 692	41 907	41 113	40 311	39 499	38 685
Unused quantity from previous years	24 305	67 262	107 325	17 559	(11 572)			
Issue	(1 281)	(3 407)	(32 465)	(21 038)	(21 384)			
Purchased quantity	-	-	7	-	-			
Sold quantity	-	-	(100 000)	(50 000)	-			
Unused quantity	67 262	107 325	17 559	(11 572)	8 157			

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

(in tons) for the Rottneros Group	2013	2014	2015	2016	2017	2018	2019	2020
Allocation	30 681	30 484	29 938	29 387	28 830	28 268	27 698	27 127
Unused quantity from previous years	72 888	90 522	101 986	104 991	113 085			
Issue	(13 047)	(19 020)	(26 933)	(21 293)	(11 084)			
Purchased quantity	-	-	-	-	-			
Sold quantity	-	-	-	-	-			
Unused quantity	90 522	101 986	104 991	113 085	130 831			

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

34. Government grants and operations in the Special Economic Zone

34.1. Government grants

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

34.2. Operations in the Special Economic Zone

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

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

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

Based on the permit issued on 25 August 2006, the Company may benefit from tax exemption by 15 November 2017. Item I of the permit relating to the date by which the Company may enjoy the permit was deleted by Decision of the Minister of Economy No. 321/IW/14 of 6 November 2014. Now the

Company is entitled to use the permit by 2026 or by the date SSE exist in Poland pursuant to the applicable regulations. The permit may be used subject to the incurrence in the zone of capital expenditures within the meaning of Art. 6 of the Regulation of the Council of Ministers of 14 September 2004 on the Kostrzyńsko-Słubicka Specjalna Strefa Ekonomiczna (Special Economic Zone), underlying the calculation of public aid in compliance with Art. 3 of the Regulation with the value in excess of EUR 40,000 thousand by 31 December 2013, translated at the EUR mean rate published by the President of the National Bank of Poland on the actual expenditure date. Creation in Zone minimum five new jobs within the meaning of Art. 3.3 and Art. 3.6 of the Regulation by 31 December 2011 and maintaining the employment level of minimum 453 people during the period from 1 January 2012 to 31 December 2013.

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

During the period from 25 August 2006 to 30 June 2017, the Company incurred eligible investment expenditures classified as (non-discounted) expenditure in KSSSE in the amount of PLN 227,102 thousand. During the period, the discounted amount of related public aid was PLN 59,489 thousand.

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

The amount of deferred income tax asset recognised with reference to the expenditures incurred in KSSSE amounted to PLN 11,585 thousand as at 30 June 2017.

35. Material events after the balance sheet date

After 30 June 2017 until the date hereof there were no other material events requiring disclosure in this report with the exception of those events that were disclosed in this report in paragraphs above.

Signatures of the Members of the Management Board

Position	First and last name	Date	Signature
President of the Management Board Managing Director	Per Skoglund	28 August 2017	
Member of the Management Board Financial Director	Małgorzata Majewska-Śliwa	28 August 2017	

Interim abbreviated standalone financial statements for six months ended on 30 June 2017

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Interim abbreviated standalone financial statements and selected financial data

Selected standalone financial data

	For the period from 01.01.2017 to 30.06.2017 PLN thousand	For the period from 01.01.2016 to 30.06.2016 PLN thousand	For the period from 01.01.2017 to 30.06.2017 EUR thousand	For the period from 01.01.2016 to 30.06.2016 EUR thousand
Sales revenues	69 300	59 389	16 227	13 595
Operating profit (loss)	9 711	(11 853)	2 274	(2 713)
Gross profit (loss)	3 731	(16 440)	874	(3 763)
Net profit (loss) from continuing operations	3 731	(16 440)	874	(3 763)
Net profit (loss) for the financial year	3 731	(16 440)	874	(3 763)
Net cash flows from operating activities	54 738	1 934	12 817	443
Net cash flows from investing activities	(2 795)	(2 982)	(655)	(683)
Net cash flows from financing activities	(47 437)	(706)	(11 108)	(162)
Change in cash and cash equivalents	4 507	(1 753)	1 055	(401)
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)	0,05	(0,24)	0,01	(0,05)
Diluted EPS (in PLN/EUR)	0,05	(0,24)	0,01	(0,05)
Mean PLN/EUR exchange rate*			4,2706	4,3683

	As at 30 June 2017 PLN thousand	As at 31 December 2016 PLN thousand	As at 30 June 2017 EUR thousand	As at 31 December 2016 EUR thousand
Assets	941 168	981 176	222 683	221 785
Long-term liabilities	231 483	277 171	54 770	62 652
Short-term liabilities	135 228	133 979	31 995	30 285
Equity	574 456	570 026	135 918	128 849
Share capital	69 288	69 288	16 394	15 662
Number of ordinary shares	69 287 783	69 287 783	69 287 783	69 287 783
Diluted number of ordinary shares	69 287 783	69 287 783	69 287 783	69 287 783
Book value per share (in PLN/EUR)	8,29	8,23	1,96	1,86
Diluted book value per share (in PLN/EUR)	8,29	8,23	1,96	1,86
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**	-	-	4,2265	4,4240

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

Additional notes to the interim abbreviated financial statements
provided on pages 104 to 129 constitute an integral part hereof

Interim abbreviated standalone financial statements for six months ended on 30 June 2017 PLN thousand

Interim abbreviated standalone income statement

	Note	3 months period ended 30 June 2017 (unaudited)	6 months period ended 30 June 2017 (unaudited)	3 months period ended 30 June 2016 (transformed)	6 months period ended 30 June 2015 (transformed)
Continuing operations					
Revenues from sales of services		11 715	22 286	10 031	20 045
Interest income on loans from relatedentities	11.1	982	2 191	126	252
Dividend income	15	44 823	44 823	39 093	39 093
Sales revenues		57 521	69 300	49 249	59 389
Interest expense to related entities	11.1	-	-	(1 586)	(3 413)
Gross profit / (loss) on sales		57 521	69 300	47 663	55 976
Other operating income		110	114	105	111
Selling and distribution costs		(1 400)	(2 419)	(1 044)	(2 041)
Administrative expenses		(11 938)	(21 301)	(10 429)	(18 551)
Other operating expenses		(35 043)	(35 983)	(38 523)	(47 347)
Operating profit / (loss)		9 251	9 711	(2 228)	(11 853)
Financial income		(2 279)	4 879	5	12
Financial expenses		(5 617)	(10 859)	(3 163)	(4 599)
Gross profit (loss)		1 355	3 731	(5 386)	(16 440)
Income tax		-	-	-	-
Net profit (loss) from continuing operations		1 355	3 731	(5 386)	(16 440)
Discontinued operations					
Profit (loss) for the financial year from discontinued operations		-	-	-	-
Net profit (loss) for the financial year		1 355	3 731	(5 386)	(16 440)
Earnings per share:					
– basic earnings from the profit (loss) for the period		0,02	0,05	(0,08)	(0,24)
– basic earnings from the profit (loss) from continuing operations for the		0,02	0,05	(0,08)	(0,24)

Interim abbreviated standalone financial statements for six months ended on 30 June 2017 PLN thousand

Interim abbreviated standalone comprehensive income statement

	Note	3 months period ended 30 June 2017 (unaudited)	6 months period ended 30 June 2017 (unaudited)	3 months period ended 30 June 2016 (transformed)	6 months period ended 30 June 2016 (transformed)
Net profit/(loss) for the reporting period		1 355	3 731	(5 386)	(16 440)
Measurement of financial instruments		(439)	172	-	-
Items to be reclassified to profit/loss in future reporting periods:					
FX differences on translation of foreign operations	21.3	89	526	(154)	(107)
Other comprehensive income (net)		(350)	698	(154)	(107)
Total comprehensive income		1 005	4 430	(5 540)	(16 547)

Interim abbreviated standalone financial statements for six months ended on 30 June 2017 PLN thousand

Interim abbreviated standalone balance sheet

	Note	As at 30 June 2017 (transformed)	As at 31 December 2016 (transformed)
ASSETS			
Fixed assets			
Tangible fixed assets	18	1 968	1 979
Intangible assets		1 507	1 332
Investments in subsidiary entities	12	711 346	741 674
Other financial assets	19	64 931	62 905
Other non-financial assets		1 202	1 268
		780 954	809 158
Current assets			
Trade and other receivables	16	62 887	76 687
Income tax receivables		274	371
Other financial assets	19	76 513	77 332
Other non-financial assets		5 170	6 765
Cash and cash equivalents	13	15 370	10 863
		160 214	172 017
TOTAL ASSETS		941 168	981 176
EQUITY AND LIABILITIES			
Equity			
Share capital	21.1	69 288	69 288
Reserve capital	21.4	447 641	447 641
Other reserves	21.5	115 155	148 200
FX differences on translation	21.3	877	350
Retained earnings / Accumulated losses	21.6	(58 504)	(95 453)
Total equity		574 456	570 026
Long-term liabilities			
Interest-bearing loans and borrowings	20	229 823	275 514
Provisions		1 287	1 357
Other financial liabilities		374	300
		231 483	277 171
Short-term liabilities			
Interest-bearing loans and borrowings	20	69 223	48 894
Trade payables	22	51 112	73 472
Other financial liabilities		5 348	4 486
Other short-term liabilities		1 475	2 072
Accruals and deferred income		8 071	5 056
		135 228	133 979
TOTAL LIABILITIES		366 712	411 151
TOTAL EQUITY AND LIABILITIES		941 168	981 176

Additional notes to the interim abbreviated financial statements provided on pages 104 to 129 constitute an integral part hereof

Interim abbreviated standalone financial statements for six months ended on 30 June 2017 PLN thousand

Interim abbreviated standalone cash flow statements

	Note	6 months period ended 30 June 2017 (transformed)	6 months period ended 30 June 2016 (transformed)
Cash flows from operating activities			
Profit (loss) before taxation		3 731	(16 440)
Adjustments for:			
Depreciation/amortisation		225	197
FX gains / (loss)		(4 861)	(107)
Impairment of assets		32 944	26 637
Net interest		7 729	706
Increase / decrease in receivables and other non-financial assets		15 460	10 108
Increase / decrease in liabilities except for loans, borrowings and debt securities		(22 957)	(6 965)
Change in accruals and prepayments		3 016	1 486
Change in provisions		(71)	12
Income tax paid		97	(76)
Increase/ decrease of cash-pool liabilities		16 858	-
Increase / decrease of loans granted to subsidiaries		3 066	(13 624)
Other		(500)	-
Net cash flows from operating activities		54 738	1 934
Cash flows from investing activities			
Purchase of tangible fixed and intangible assets		(180)	(139)
Increased interest in subsidiary entity		(2 615)	(2 843)
Net cash flows from investing activities		(2 795)	(2 982)
Cash flows from financing activities			
Inflows from loans and borrowings		16 625	-
Repayment of loan liabilities		(17 172)	-
Change in overdrafts		(40 912)	-
Interest paid		(5 852)	(706)
Repayment of leasing liabilites		(126)	-
Net cash flow from financing activities		(47 437)	(706)
Net increase/(decrease) in cash and cash equivalents		4 507	(1 753)
Cash and cash equivalents at the beginning of the period		10 863	9 435
Cash and cash equivalents at the end of the period	13	15 370	7 682

Additional notes to the interim abbreviated financial statements provided on pages 104 to 129 constitute an integral part hereof

Interim abbreviated standalone financial statements for six months ended on 30 June 2017 PLN thousand

Interim abbreviated standalone statement of changes in equity

	Attributable to equity holders of the Company					
	Share capital	Share premium	Translation reserve	Other reserves	Retained earnings (losses)	Total equity
As at 1 January 2017	69 288	447 641	350	148 200	(34 445)	631 034
Adjustment for previous years	-	-	-	-	(61 008)	(61 008)
Other comprehensive income for the period	-		526	172	-	698
Net profit/(loss) for the period	-	-	-	-	3 731	3 731
Total comprehensive income	-	-	526	172	3 731	4 430
Profit distribution	-	-	-	(33 217)	33 217	-
As at 30 June 2017 (unaudited)	69 288	447 641	876	115 155	(58 504)	574 456

Additional notes to the interim abbreviated financial statements provided on pages 104 to 129 constitute an integral part hereof

Interim abbreviated standalone financial statements for six months ended on 30 June 2017 PLN thousand

	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 2016	69 288	447 641	290	147 871	3 870	668 959
Adjustment for previous years					(61 136)	(61 136)
Other comprehensive income for the period	-	-	(107)	-	-	(107)
Net profit for the period	-	-	-	-	(16 440)	(16 440)
Total comprehensive income for the period	-	-	(107)	-	(16 440)	(16 547)
Profit distribution	-		-	4 909	(4 909)	-
As at 30 June 2016 (transformeded)	69 288	447 641	183	152 780	(78 615)	591 276

Interim abbreviated standalone financial statements for six months ended on 30 June 2017 PLN thousand

	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 2016	69 288	447 641	290	147 871	3 870	668 959
Adjustment for previous years					(61 136)	(61 136)
Other comprehensive income for the period	-	-	60	(4 580)	-	(4 520)
Net profit for the period	-	-	-	-	(32 516)	(32 516)
Total comprehensive income for the period	-	-	60	(4 580)	(32 516)	(37 036)
Profit distribution	-	-		4 909	(4 909)	-
Settlement of the tax group in Sweden	-	-	-	-	(761)	(761)
As at 31 December 2016 (transformed)	69 288	447 641	350	148 200	(95 452)	570 026

Additional explanatory notes

1. General information

Arctic Paper S.A. ("Company", "Entity") is a joint stock company established with Notary deed on 30 April 2008 with its stock publicly listed.

On 8 June 2010, pursuant to a resolution of the Ordinary General Meeting of Arctic Paper S.A., the registered office of the Company was moved from Kostrzyn nad Odrą to Poznań, ul. Jana Henryka Dąbrowskiego 334A. The modification was registered by the Registration Court on 14 July 2010.

The interim abbreviated financial statements of the Company cover the period of 6 months ended on 30 June 2017 and contain comparable data for the period of 6 months ended on 30 June 2016 and as at 31 December 2016.

The statement of total comprehensive income, profit and loss account and notes to the statement of total comprehensive income, profit and loss account contain data for the period of 3 months ended on 30 June 2017 and comparable data for the period of 3 months ended on 30 June 2016 that have not been reviewed or audited by statutory auditor.

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

The Company holds statistical number REGON 080262255.

The duration of the Company is indefinite.

Holding operations is the core business of the Company.
Nemus Holding AB is the direct parent entity to the Company. The parent company of the Arctic Paper Group is Incarta Development S.A.

2. Basis of preparation of the Interim abbreviated financial statements

These interim abbreviated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), in particular in accordance with the International Accounting Standard No. 34 and IFRS endorsed by the European Union.

These interim abbreviated financial statements have been presented in Polish zloty ("PLN") and all values are provided in thousand (PLN '000) except as stated otherwise.

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

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

3. Identification of the consolidated financial statements

The Company made its interim abbreviated financial statements for the six-month period ended on 30 June 2016 which were approved for publication by the Management Board on 28 August 2017.

4. Composition of the Company's Management Board

As at 30 June 2017, the Company's Management Board was composed of:

- Per Skoglund – President of the Management Board appointed on 27 April 2016 (appointed as a Member of the Management Board on 27 April 2011);
- Małgorzata Majewska-Śliwa – Member of the Management Board appointed on 27 November 2013.

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

Until the publication hereof, no other changes in the composition of the Company's Management Board took place.

5. Composition of the Company's Supervisory Board

As at 30 June 2017, the Parent Company's Supervisory Board was composed of:

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

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

6. Approval of the financial statements

On 28 August 2017 these interim abbreviated financial statements of the Company for the six-month period ended on 30 June 2016 were approved for publication by the Management Board.

Interim abbreviated standalone financial statements for six months ended on 30 June 2017 PLN thousand

7. Investments by the Company

The Company holds interests in the following subsidiary companies:

Unit	Registered office	Group profile	Company's interest in the equity of the su		
			28 August 2017	30 June 2017	31 December 2016
Arctic Paper Kostrzyn S.A.	Poland, Fabryczna 1, 66-470 Kostrzyn nad Odrą	Paper production	100%	100%	100%
Arctic Paper Munkedals AB	Sweden, SE 455 81 Munkedal	Paper production	100%	100%	100%
Arctic Paper Investment AB	Szwecja, Box 383, 401 26 Göteborg	Holding company	100%	100%	100%
Arctic Paper UK Limited	Great Britain, Quadrant House, 47 Croydon Road, Caterham, Surrey	Trading services	100%	100%	100%
Arctic Paper Baltic States SIA	Latvia, K. Vardemara iela 33-20, Riga LV-1010	Trading services	100%	100%	100%
Arctic Paper Deutschland GmbH	Germany, Am Sandtorkai 72, 20457 Hamburg	Trading services	100%	100%	100%
Arctic Paper Benelux S.A.	Belgium, Ophemstraat 24, B-3050 Oud-Heverlee	Trading services	100%	100%	100%
Arctic Paper Schweiz AG	Switzerland, Technoparkstrasse 1, 8005 Zurich	Trading services	100%	100%	100%
Arctic Paper Italia srl	Italy, Via Cavriana 7, 20 134 Mediolan	Trading services	100%	100%	100%
Arctic Paper Danmark A/S	Denmark, Korskildelund 6 DK-2670 Greve	Trading services	100%	100%	100%
Arctic Paper France SAS	France, 43 rue de la Breche aux Loups, 75012 Paris	Trading services	100%	100%	100%
Arctic Paper Espana SL	Spain, Avenida Diagonal 472-474, 9-1 Barcelona	Trading services	100%	100%	100%
Arctic Paper Papierhandels GmbH	Austria, Hainborgerstrasse 34A, A-1030 Wien	Trading services	100%	100%	100%
Arctic Paper Polska Sp. z o.o.	Poland, Okrężna 9, 02-916 Warsaw	Trading services	100%	100%	100%
Arctic Paper Norge AS	Norway, Rosenholmsveien 25, NO-1411 Kolbotn	Trading services	100%	100%	100%
Arctic Paper Sverige AB	Sweden, SE 455 81 Munkedal	Trading services	100%	100%	100%
Arctic Paper East Sp. z o.o.	Poland, Fabryczna 1, 66-470 Kostrzyn nad Odrą	Trading services	100%	100%	100%
Arctic Paper Investment GmbH	Germany, Fabrikstrasse 62, DE-882, 84 Wolpertswende	Holding company	99,8%	99,8%	99,8%
Arctic Paper Finance AB	Szwecja, Box 383, 401 26 Göteborg	Holding company	100,0%	100,0%	100,0%
Rottneros AB	Sweden, 820 21 Vallvik	Holding company	51,27%	51,27%	51,27%

As at 30 June 2017 and as at 31 December 2016 the share in the overall number of votes held by the Company in its subsidiary entities was equal to the share of the Company in the share capital of those entities.

8. Significant accounting principles (policies) and adjustment of previous years' mistake

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

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

8.1. Previous years' mistake adjustment

in reference to the ongoing review of the standalone H1 financial statements for 2017 and as a result of its review by the auditor, a decision was taken regarding an adjustment to the approved financial data for H1 2016 and for 2016.

The adjustments result from acceptance of changed method of calculation of the impairment charges to the investment in Arctic Paper Investment AB (holding 100% of shares in Arctic Paper Grycksbo AB, "APG"), and refer to the adjustments to the calculation of the recoverable amount resulting from the impairment test by the amount of the financial liabilities.

The adjusted financial data of the Company regards the following financial statements and periods:

- In the 2016 annual report, in the financial statements – adjustment of the opening balance as at 1 January 2016 – regards an increase of the impairment charge to the investment by PLN 61,136 thousand;
- In the H1 2016 report, in the interim standalone financial statements – adjustment to the income statement H1 2016 – regards an increase of the impairment charge to the investment by PLN 26,637 thousand;
- In the 2016 annual report, in the financial statements – adjustment to the income statement for 2016 - regards a decrease of the impairment charge to the investment by PLN 128 thousand (the impairment charge was decreased by PLN 26,765 thousand in the second half of 2016 which in connection with the abovementioned adjustment to H1 2016 results in a total net adjustment for 2016 of PLN 128 thousand).

Adjusted financial data of the company for the above periods are presented in the tables below:

Interim abbreviated standalone financial statements for six months ended on 30 June 2017 PLN thousand

1. Adjustment of the 2016 annual report, in the financial statements – adjustment of the opening balance as at 1 January 2017:

Standalone balance sheet

	As at 01 January 2016		
	approved	adjustment	transformed
ASSETS			
Tangible fixed assets	2 108		2 108
Intangible assets	1 322		1 322
Investments in subsidiary entities	838 741	(61 136)	777 605
Other non-financial assets	1 103		1 103
Fixed assets	843 274		782 138
Current assets	106 927		106 927
TOTAL ASSETS	950 202		889 066
	-		-
EQUITY AND LIABILITIES			
Share capital	69 288		69 288
Reserve capital	447 641		447 641
Other reserves	147 871		147 871
FX differences on translation	290		290
Retained earnings / Accumulated losses	3 870	(61 136)	(57 266)
Total equity	668 959		607 823
Long-term liabilities	205 001		205 001
Short-term liabilities	76 242		76 242
TOTAL LIABILITIES	76 242		76 242
TOTAL EQUITY AND LIABILITIES	950 202		889 066

Interim abbreviated standalone financial statements for six months ended on 30 June 2017 PLN thousand

2. Adjustment of the H1 2016 report:

Interim abbreviated standalone income statement

	6-month period ended on 30 June 2016		
	approved	adjustment	transformed
Continuing operations			
Sales revenues	59 389		59 389
Gross profit / (loss) on sales	55 976		55 976
Other operating income	111		111
Selling and distribution costs	(2 041)		(2 041)
Administrative expenses	(18 551)		(18 551)
Other operating expenses	(20 710)	(26 637)	(47 347)
Operating profit (loss)	14 784		(11 853)
Gross profit (loss)	10 197		(16 440)
Net profit (loss) from continuing operations	10 197		(16 440)
Net profit (loss) for the financial year	10 197		(16 440)
Earnings per share:			
– basic earnings from the profit (loss) for the period	0,15		(0,24)
– basic earnings from the profit (loss) from continuing	0,15		(0,24)

Interim abbreviated standalone comprehensive income statement

	6-month period ended on 30 June 2016		
	approved	adjustment	transformed
Net profit (loss) for the reporting period	10 197	(26 637)	(16 440)
Other total comprehensive income			
Items to be reclassified to profit/loss in future reporting periods:			
FX differences on translation of foreign operations	(107)		(107)
Other comprehensive income (net)	(107)		(107)
Total comprehensive income	10 090		(16 547)

Interim abbreviated standalone financial statements for six months ended on 30 June 2017 PLN thousand

Interim abbreviated standalone balance sheet

	As at 30 June 2016			
	approved	Opening balance as at 01 January 2016	period adjustment	transformed
ASSETS				
Tangible fixed assets	1 936			1 936
Intangible assets	1 338			1 338
Investments in subsidiary entities	841 584	(61 136)	(26 637)	753 811
Other non-financial assets	1 115			1 115
Fixed assets	845 974			758 201
Current assets	93 744			93 744
TOTAL ASSETS	939 718			851 945
EQUITY AND LIABILITIES				
Share capital	69 288			69 288
Reserve capital	447 641			447 641
Other reserves	152 781			152 781
FX differences on translation	184			184
Retained earnings / Accumulated losses	9 157	(61 136)	(26 637)	(78 616)
Total equity	679 049			591 276
Long-term liabilities	189 929			189 929
Short-term liabilities	70 740			70 740
TOTAL LIABILITIES	260 669			260 669
TOTAL EQUITY AND LIABILITIES	939 718			851 945

Interim abbreviated standalone financial statements for six months ended on 30 June 2017 PLN thousand

Interim abbreviated standalone cash flow statement

	6-month period ended on 30 June 2016		
	approved	adjustment	transformed
Cash flows from operating activities			
Gross profit (loss)	10 197	(26 637)	(16 440)
Adjustments for:			
Depreciation/amortisation	197		197
FX gains / (loss)	(107)		(107)
Impairment of assets	-	26 637	26 637
Interest, net	706		706
Increase / decrease in receivables and other non-financial assets	10 108		10 108
Increase / decrease in liabilities except for loans, borrowings and debt securities	(6 965)		(6 965)
Change in accruals and prepayments	1 486		1 486
Change in provisions	12		12
Income tax paid	(76)		(76)
Increase / decrease of loans granted to subsidiaries	(13 624)		(13 624)
Net cash flows from operating activities	1 934		1 934
Net cash flows from investing activities	(2 982)		(2 982)
Net cash flows from financing activities	(706)		(706)
Change in cash and cash equivalents	(1 754)		(1 754)
Cash and cash equivalents at the beginning of the period	9 435		9 435
Cash and cash equivalents at the end of the period	7 681		7 681

Interim abbreviated standalone financial statements for six months ended on 30 June 2017 PLN thousand

3. Adjustment of the 2016 annual report:

Standalone profit and loss account

	Year ended on 31 December 2016		
	approved	adjustment	transformed
Continuing operations			
Sales revenues	98 911		98 911
Gross profit / (loss) on sales	89 021		89 021
Other operating income	197		197
Selling and distribution costs	(4 072)		(4 072)
Administrative expenses	(34 571)		(34 571)
Other operating expenses	(70 128)	128	(70 000)
Operating profit (loss)	(19 553)		(19 425)
Gross profit (loss)	(32 430)		(32 302)
Net profit (loss) from continuing operations	(32 644)		(32 516)
Net profit (loss) for the financial year	(32 644)		(32 516)
Earnings per share:			
– basic earnings from the profit (loss) for the period	(0,47)		(0,47)
– basic earnings from the profit (loss) from continuing	(0,47)		(0,47)

Standalone income statement

	Year ended on 31 December 2016		
	approved	adjustment	transformed
Net profit (loss) for the reporting period	(32 644)	128	(32 516)
Other total comprehensive income			
Items to be reclassified to profit/loss in future reporting periods:			
Measurement of financial instruments	(4 580)		(4 580)
FX differences on translation of foreign operations	60		60
Other comprehensive income (net)	(4 520)		(4 520)
Total comprehensive income	(37 164)		(37 036)

Interim abbreviated standalone financial statements for six months ended on 30 June 2017 PLN thousand

Standalone cash flow statement

	Year ended on 31 December 2016		
	approved	adjustment	transformed
Cash flows from operating activities			
Gross profit (loss)	(32 430)	128	(32 302)
Adjustments for:			
Depreciation/amortisation	402		402
FX gains / (loss)	2 688		2 688
Impairment of assets	38 896	(128)	38 768
Net interest and dividends	6 182		6 182
Increase / decrease in receivables and other non-financial assets	1 001		1 001
Increase / decrease in liabilities except for loans, borrowings and debt securities	4 262		4 262
Change in accruals and prepayments	967		967
Change in provisions	206		206
Income tax paid	(392)		(392)
Increase / decrease of loans granted to subsidiaries	(270 120)		(270 120)
Other	(5 022)		(5 022)
Net cash flows from operating activities	(253 361)		(253 361)
Net cash flows from investing activities	(3 122)		(3 122)
Net cash flows from financing activities	257 911		257 911
Change in cash and cash equivalents	1 428		1 428
Cash and cash equivalents at the beginning of the period	9 435		9 435
Cash and cash equivalents at the end of the period	10 863		10 863

9. Seasonality

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

10. Information on business segments

Arctic Paper S.A. is a holding company, providing services mostly to the Group companies. The Company operates in one segment, the results are assessed by the Management Board on the basis of financial statements.

The table below presents revenues from the sale of services, interest income on loans and dividend income for the six-month period ended on 30 June 2017 and as at 30 June 2016 in geographical presentation.

The geographical split of revenues relies on the location of registered offices of the subsidiary companies of Arctic Paper S.A.

Interim abbreviated standalone financial statements for six months ended on 30 June 2017 PLN thousand

	Continuing operations	
	6 months period ended 30 June 2017 (unaudited)	6 months period ended 30 June 2016 (unaudited)
Geographical information		
Poland	42 685	29 513
Foreign countries, of which:		
- Sweden	26 126	28 424
- Other	490	1 452
Total	69 301	59 389

11. Income and costs

11.1. Interest income and expense

Interest income covers interest income on loans granted to other companies in the Group. Interest expense covers interest income on loans received from other companies in the Group and is disclosed as costs of sales.

11.2. Administrative expenses

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. In Q1 2017, the administrative expenses amounted to PLN 21,301 thousand (in H1 2016: PLN 18,551 thousand). The increase of the administrative expenses is due to higher costs of services provided to the Group by external entities.

11.3. Other operating revenues and costs

Other operating revenues amounted to PLN 114 thousand in two quarters of 2017 (in the equivalent period of 2016: PLN 111 thousand). Other operating costs increased in the analysed period from PLN 47,347 thousand in H1 2016 to PLN 35,983 thousand in H1 2017.

Interim abbreviated standalone financial statements for six months ended on 30 June 2017 PLN thousand

12. Investments in subsidiaries

The value of investments in subsidiary companies as at 30 June 2017 and as at 31 December 2016 was as follows:

	As at 30 June 2017 (unaudited)	As at 31 December 2016 (audited)
Arctic Paper Kostrzyn S.A.	442 535	442 535
Arctic Paper Munkedals AB	88 175	88 175
Arctic Paper Investment AB, whereof:	65 439	95 768
Arctic Paper Investment AB (shares)	*298 599*	295 983
Arctic Paper Investment AB (loans)	*82 709*	82 709
Arctic Paper Investment AB (impairment)	*(315 868)*	(282 924)
Arctic Paper Investment GmbH	-	-
Arctic Paper Investment GmbH (shares)	*120 031*	120 030
Arctic Paper Investment GmbH (impairment)	*(120 031)*	(120 030)
Arctic Paper Sverige AB	-	-
Arctic Paper Sverige AB (shares)	*11 721*	11 721
Arctic Paper Sverige AB (impairment)	*(11 721)*	(11 721)
Arctic Paper Danmark A/S	5 539	5 539
Arctic Paper Deutschland GmbH	4 977	4 977
Arctic Paper Norge AS	-	-
Arctic Paper Norge AS (udziały)	3 194	3 194
Arctic Paper Norge AS (odpis z tytulu utraty wartości)	(3 194)	(3 194)
Arctic Paper Italy srl	738	738
Arctic Paper UK Ltd.	522	522
Arctic Paper Polska Sp. z o.o.	406	406
Arctic Paper Benelux S.A.	387	387
Arctic Paper France SAS	326	326
Arctic Paper Espana SL	196	196
Arctic Paper Papierhandels GmbH	194	194
Arctic Paper East Sp. z o.o.	102	102
Arctic Paper Baltic States SIA	64	64
Arctic Paper Schweiz AG	61	61
Arctic Paper Finance AB	68	68
Arctic Paper Ireland Ltd.	-	-
Rottneros AB	101 616	101 616
Total	**711 346**	**741 674**

The value of investments in subsidiary companies was disclosed on the basis of historic costs.

In H1 2017 Arctic Paper S.A. carried out an increase of its share in Arctic Paper Investment AB by SEK 6,000 thousand.

Interim abbreviated standalone financial statements for six months ended on 30 June 2017 PLN thousand

12.1. Impairment of assets in subsidiaries

As at 30 June 2017 impairment tests were held at Arctic Paper Grycksbo AB whose 100% are held by Arctic Paper Investment AB. The tests were performed with the discounted cash flow method with reference to investments in both companies.

The tests were due to a revision of assumptions underlying stress tests held in previous years, primarily with reference to sales prices, production volumes and investment plans.

The impairment test resulted in the establishment of an impairment charge to assets of PLN 32,947 thousand as at 30 June 2017. For this investment the recoverable amount calculated with the discounted cash flow method adjusted with reference to liabilities and cash amounted to PLN 65,439 thousand.

13. Cash and cash equivalents

For the purposes of the interim abbreviated cash flow statement, cash and cash equivalents include the following items:

	As at 30 June 2017 (unaudited)	As at 30 June 2016 (unaudited)
Cash at bank and in hand	15 370	10 863
Short-term deposits	-	-
Total	15 370	10 863

14. Dividend paid and proposed

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

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

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

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

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

The Shareholders' General Meeting held on 09 June 2017 did not make any decision on dividend disbursement.

15. Dividend received

The dividend income disclosed in the comprehensive financial statement contains the dividend income received from:

- Arctic Paper France SAS of PLN 488 thousand.
- Arctic Paper Kostrzyn SA of PLN 30,896 thousand
- Rottneros AB of PLN 13,440 thousand

16. Trade and other receivables

Trade and other receivables disclosed as at 30 June 2017 dropped by PLN 13,800 versus 31 December 2016 due to lower pulp sales to the subsidiary company in June 2016.

17. Income tax

Due to the uncertainty of future applying the tax loss incurred in 2009-2013, the Management Board decided against establishing the deferred income tax asset for the purpose. Additionally, for the same reasons, the Management Board decided against establishing the deferred income tax asset for other temporary differences.

Due to tax losses from the previous years, the Company did not pay any corporate income tax during the six months of 2017.

18. Tangible fixed assets and intangible assets

18.1. Purchases and disposal

During the six-month period ended on 30 June 2017 the Company acquired tangible fixed assets and intangible assets for PLN 388 thousand (in the equivalent period of 2016: PLN 189 thousand). Amortisation allowances for the period under report were PLN 226 thousand (for 6 months in 2016: PLN 197 thousand).

18.2. Impairment charges

In the current period and in the equivalent period of the previous year the Company did not recognise or reverse any impairment charges to fixed assets.

19. Other financial assets

The other financial assets are composed of loans granted to subsidiary companies with accrued interest.
In H1 the Company granted loans to Arctic Paper Mochenwangen GmbH for EUR 380 thousand (PLN 1,606 thousand) and they were subject to a 100% impairment charge.

In H1 2017, the Company – in line with loan agreement with Arctic Paper Kostrzyn S.A. – disbursed the amount of PLN 12,427 thousand.
In compliance with the agreement, Arctic Paper Kostrzyn SA in H1 repaid the loans in the amount of EUR 1,300 thousand and PLN 2,600 thousand while Arctic Paper Grycksbo AB repaid the loan of EUR 1,000 thousand. EUR.

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20. Interest-bearing loans and borrowings

In accordance with the loan agreement, in H1 2017 the Company repaid principal instalments and paid interest of EUR 1,260 thousand and PLN 2,400 thousand. In H1 the Company received an investment loan from the European Bank for Reconstruction and Development of EUR 3,986 thousand, in accordance with the agreement, the loan will be used for environmental investments in Arctic Paper Kostrzyn SA.

In accordance with the loan repayment schedule, in H1 the Company repaid PLN 2,500 thousand to Arctic Paper Finance AB.

21. Share capital and reserve capital/other reserves

21.1. Share capital

	As at 30 June 2017 (unaudited)	As at 31 December 2016 (audited)
series A ordinary shares of the nominal value of PLN 1 each	50	50
series B ordinary shares of the nominal value of PLN 1 each	44 254	44 254
series C ordinary shares of the nominal value of PLN 1 each	8 100	8 100
series E ordinary shares of the nominal value of PLN 1 each	3 000	3 000
series F ordinary shares of the nominal value of PLN 1 each	13 884	13 884
	69 288	69 288

	Registration date of capital increase	Volume	Value in PLN
Ordinary issued and fully paid-up shares			
Issued on 30 April 2008	2008-05-28	50 000	50 000
Issued on 12 September 2008	2008-09-12	44 253 468	44 253 468
Issued on 20 April 2009	2009-06-01	32	32
Issued on 30 July 2009	2009-11-12	8 100 000	8 100 000
Issued on 01 March 2010	2010-03-17	3 000 000	3 000 000
Issued on 20 December 2012	2013-01-09	10 740 983	10 740 983
Issued on 10 January 2013	2013-01-29	283 947	283 947
Issued on 11 February 2013	2013-03-18	2 133 100	2 133 100
Issued on 06 March 2013	2013-03-22	726 253	726 253
As at 30 June 2015 (unaudited)		69 287 783	69 287 783

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21.2. Major shareholders

	As at 30 June 2017 (unaudited)	As at 31 December 2016 (audited)
Thomas Onstad (direct and indirect)		
Share in the share capital	68,13%	68,13%
Share in the total number of votes	68,13%	68,13%
Nemus Holding AB (indirectly Thomas Onstad)		
Share in the share capital	58,28%	58,06%
Share in the total number of votes	58,28%	58,06%
Other shareholders		
Share in the share capital	31,87%	31,87%
Share in the total number of votes	31,87%	31,87%

21.3. FX differences on translation of investments in foreign entities

Swedish krona is the functional currency of the Company's foreign branch.

As at the balance sheet date, the assets and liabilities of the branch are translated into the presentation currency of the Company at the rate of exchange prevailing on the balance sheet date and its comprehensive income statement is translated using the average weighted exchange rate for the relevant reporting period. The FX differences on translation are recognised in other comprehensive income and cumulated in a separate equity item.

21.4. Reserve capital

In the six months of 2017 reserve capital was not changed and as at 30 June 2017 amounted to PLN 447,641 thousand.

21.5. Other reserves

Other reserves amounted to PLN 115,156 thousand as at 30 June 2017 and decreased versus 31 December 2016 by PLN 33,045 thousand.

Pursuant to Resolution No. 8 of the Ordinary General Meeting of Shareholders of 08 June 2017, the loss generated by the Company in 2016 of PLN 33,217 thousand was transferred to reserve capital.

21.6. Undistributed profit and restrictions in dividend distribution

In accordance with the provisions of the Code of Commercial Companies, the Company is obliged to establish reserve capital to cover potential losses. At least 8% of the profit for the financial year disclosed in the financial statements of the Company should be transferred to the category of the capital until the capital has reached the amount of at least one third of the share capital. The use of reserve capital and reserve funds is determined by the General Meeting; however, a part of reserve capital may be used solely to cover the losses disclosed in the financial statements and may not be distributed for other purposes.

On 09 June 2017 the Ordinary General Meeting of Shareholders approved Resolution No. 8 on covering the loss for the financial year for 2016 of PLN 33,217 thousand from the Company's reserve capital.

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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).

22. Trade payables

Trade payables of the Company dropped by PLN 22,360 thousand versus the end of 2016. The decrease compared to the end of the previous period was caused by lower sales of pulp from external entities.

23. Financial instruments

The Group holds the following financial instruments: cash in bank accounts, loans, borrowings, receivables, liabilities under financial leases and SWAP interest rate contracts and FX options.

23.1. Fair value of each class of financial instruments

The table below presents a comparison of the book value and fair value of all financial instruments held by the Company, split into each class and categories of assets and liabilities:

		Book value		Fair value		
	Category complaint with IAS 39	As at 30 June 2017	As at 31 December 2016	As at 30 June 2017	As at 31 December 2016	*Level of fair value compliant with IFRS 13*
Financial Assets						
Trade and other receivables (without VAT)	*L&R*	62 887	76 687	62 887	76 687	*3*
Other financial assets (short-term)	*L&R*	76 513	77 332	76 513	77 332	*3*
Financial Liabilities						
Interest bearing bank loans and borrowings	*OFL*	299 046	324 408	299 046	324 408	*3*
Trade and other payables (without VAT)	*OFL*	57 934	80 030	57 934	80 030	*3*
Hedging instruments		5 090	4 237	5 090	4 237	*2*

Abbreviations used:
FAuM – Financial assets kept until maturity
FVTPL – Financial assets/liabilities measured at fair value through profit and loss account
L&R – Loans and receivables
AFS – Financial assets available for sale
OFL – Other financial liabilities measured at amortised cost

Due to the lack of possibility of a reliable assessment, the Company did not perform any measurements of unlisted shares and interests at fair value for comparison purposes. In the opinion of the Management Board, the fair value of the other financial instruments does not deviate much from the book value.

23.2. Collateral

As at 30 June 2017, the Group used cash flow hedge accounting for the following hedging items:

- Arctic Paper S.A. designated SWAP derivatives to hedge accounting to hedge interest payments in EUR on a bank loan in EUR,
- Arctic Paper S.A. designated SWAP derivatives to hedge accounting to hedge interest payments in PLN on a bank loan in PLN,
- Arctic Paper S.A. designated floor option derivatives to hedge accounting to hedge interest payments, entitling to reduce EURIBOR for the interest rate of a part of the bank loan in EUR to the market level if the market EURIBOR falls under 0%,
- Arctic Paper S.A. designated for cash flow hedge accounting the FX corridor options derivatives in order to hedge a part of inflows in EUR related to sales and pulp purchases in USD.

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 date	each interest payment date in line with the payment schedule under the loan agreement; by 31.08.2022
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 12 million.

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

Type of hedge	Hedge of cash flows related to variable interest rate on the EUR short-term loan
Hedged position	Future EUR interest flows on EUR loan calculated on the basis of 3M EURIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in EUR on the EUR loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	2016-11-21
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 30.08.2019
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 9.9 million. EURO

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

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

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Type of hedge	Hedge of cash flows related to variable interest rate on the PLN short-term loan
Hedged position	Future PLN interest flows on PLN loan calculated on the basis of 3M WIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in PLN on the PLN loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	2016-11-21
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 30.08.2019
Hedged value	interest payable in line with the payment schedule under the loan agreement of PLN 10 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 date	each interest payment date in line with the payment schedule under the bond issue agreement; by 31.08.2021
Hedged value	interest payable in line with the payment schedule under of interest of PLN 100 million.

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Cash flow volatility hedge accounting related to a floor option

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

Cash flow hedge accounting related to foreign currency trading using FX corridor options

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

Type of hedge	Cash flow hedge related to planned sales in foreign currencies
Hedged position	The hedged position is a part of highly likely future cash inflows for exports
Hedging instruments	The hedging transactions - corridor FX options under which the Company acquired an option to sell EUR against USD and sold an opinion to buy EUR against USD
Contract parameters:	
Contract conclusion dates	05.05.2017
Maturity date:	subject to contract; by 27.11.2017
Hedged amount	EUR 7.0 million
Term exchange rate	EUR/USD 1.1000 and 1.0900

The table below presents the fair value of hedging instruments in cash flow hedge accounting as at 30 June 2017 and the comparative data:

	As at 30 June 2017		As at 31 December 2016	
	Assets	Liabilities	Assets	Liabilities
SWAP	-	4 407	-	4 580
Floor option	-	(189)	-	(343)
Corridor options		872		
Total hedging derivatives	-	5 090	-	4 237

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23.3. Interest rate risk

The table below presents the book value of the financial instruments held by the Company, exposed to interest rate risk, split into specific age baskets:

30 June 2017 Variable interest rate	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Loans granted to related entities	15 873	60 641	64 931	-	-	-	141 445
Bank loans	-	-	5 558	-	-	-	5 558
Total	15 873	60 641	70 490	-	-	-	147 003

30 June 2017 Fixed interest rate	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Bank loans	15 018	21 350	62 070	13 285	9 315	3 563	124 601
Bonds	4 808	19 690	17 813	16 073	39 972	-	98 356
Borrowings received from related persons	28 119	10 566	10 566	-	-	-	49 252
Total	47 945	51 607	90 450	29 358	49 287	3 563	272 209

31 December 2016 Variable interest rate	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Loans granted to related entities	10 100	67 231	62 905	-	-	-	140 237
Bank loans	5 000	-	35 361	-	-	-	40 361
Total	15 100	67 231	98 267	-	-		180 598

31 December 2016 Fixed interest rate	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Bank loans	10 108	14 502	67 388	12 695	11 833	7 394	123 920
Bonds	4 473	12 158	18 180	16 434	46 376	14	97 635
Borrowings received from related persons	29 313	33 180	-	-	-	-	62 493
Total	43 894	59 840	85 568	29 129	58 209	7 408	284 048

24. Financial risk management objectives and policies

The core financial instruments used by the Company include cash on hand and loans granted and borrowings received within the Group. The core objective of the financial instruments is to acquire funding for the business of the Company or for financial support of its subsidiary companies.
The Company has various other financial instruments such as trade receivables and payables which arise directly from its operations.
The principle pursued by the Company now and throughout the period covered with these interim abbreviated financial statements is not to get involved in trading in financial instruments.
The core risks arising from the Company's financial instruments include: interest rate risk, liquidity risk, FX risk and credit risk.
The Management Board verifies and approves the management principles of each type of risk – the principles are concisely presented herebelow. Additionally, the Company keeps monitoring the risk of market prices related to the financial instruments it holds.

25. Capital management

The primary objective of the capital management of the Company and its subsidiary companies is to maintain a strong credit rating and healthy capital ratios in order to support the business operations of the Group and to maximise shareholder value.

In the Management Board's opinion – in comparison to the annual financial statements for 2016, there have been no significant changes to the objectives and policies of capital management.

26. Contingent liabilities and contingent assets

As at 30 June 2017, the Company had no contingent liabilities.

27. Transactions with related entities

The table below presents the total amount of transactions concluded with related entities within the six-month period ended on 30 June 2017 and as at 30 June 2016 and as at 30 June 2017 and as at 31 December 2016:

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Related party		*Sales to related entities*	*Purchases from related entities*	*Interest – financial income*	*Interest – financial expense*	*Receivables from related entities*	*including overdue*	*Loan receivables*	*Liabilities to related entities*	*Loan liabilities*
Parent entity:										
Nemus Holding AB	2017					2 371				
	2016					2 858			870	
Thomas Onstad	2017				719				113	16 906
	2016				746				-	17 818
Subsidiary entities:										
Arctic Paper Kostrzyn S.A.	2017	10 621	169	1 217		45 187		71 900	32	21 279
	2016	10 436	171			61 624		69 085	1 407	-
Arctic Paper Munkedals AB	2017	6 076		202		4 926		14 178	308	
	2016	5 394		252		5 422	-	10 100	407	-
Arctic Paper Grycksbo AB	2017	6 211	15	769		10 001		54 943		
	2016	5 056				6 498	-	61 051	871	-
Arctic Paper Mochenwangen GmbH	2017	93		441		4 731	4 731	30 791		
	2016	141		140		2 856	2 856	29 185	-	-
Arctic Paper Investment GmbH	2017			508		8 317	8 317	34 556		
	2016			541		7 930	7 930	34 556	-	-
Arctic Paper Investment AB	2017							82 709	333	
	2016					-	-	82 709	351	-
Arctic Paper Deutschland GmbH	2017	10	56						24	
	2016	16	94			-	-	-	35	-
Arctic Paper Papierhandels GmbH	2017	7								
	2016	9				-	-	-	-	-
Arctic Paper Sverige AB	2017	8								
	2016	13				-	-	-	-	-
Arctic Paper Danmark A/S	2017	5								
	2016	9				-	-	-	-	-
Arctic Paper Norge AS	2017	2								
	2016	7				-	-	-	-	-
Arctic Paper Italia srl	2017	3								
	2016	5				-	-	-	-	-
Arctic Paper Espana SL	2017	1								
	2016	2				-	-	-	-	-
Arctic Paper Benelux S.A.	2017	5	680	2		24		423		
	2016	13	696			25	-	-	117	-
Arctic Paper France SAS	2017	7								
	2016	12				-	-	-	-	-
Arctic Paper Baltic States SIA	2017	1				2				
	2016	3				2	-	-	-	-
Arctic Paper Schweiz AG	2017	3	756			0			119	
	2016	7	969			1	-	-	223	-
Arctic Paper UK Ltd.	2017	6				6				
	2016	20				-	-	-	-	-
Arctic Paper Polska Sp. z o.o.	2017	6	17						0	
	2016	10	16			-	-	-	3	-
Arctic Paper East Sp. z o.o.	2017	1				17				
	2016	1				17	-	-	-	-
Arctic Energy Sverige AB	2017				1 174				577	31 699
	2016				1 385	1	-	-	46	44 675
Other entities										
Progressio s.c.	2017		157						26	
	2016		137						28	
Razem	**2017**	**23 068**	**1 851**	**3 139**	**1 893**	**75 582**	**13 048**	**289 500**	**1 532**	**69 884**
impairment charges		**(93)**		**(949)**		**(13 048)**	**(13 048)**	**(65 347)**		
presentation as interests in subsidiary entities								**(82 709)**		
2017 net of impairment allowances and reclassification of loan to equity		**22 975**	**1 851**	**2 191**	**1 893**	**62 534**	**-**	**141 444**	**1 532**	**69 884**
	2016	**21 155**	**2 083**	**933**	**2 131**	**87 234**	**10 786**	**286 686**	**4 358**	**62 493**
impairment charges		**(141)**	**-**	**(681)**	**-**	**(10 786)**	**(10 786)**	**(63 741)**	**-**	**-**
presentation as interests in subsidiary entities								**(82 709)**		
2016 net of impairment allowances and reclassification of loan to equity		**21 014**	**2 083**	**252**	**2 131**	**76 448**	**-**	**140 236**	**4 358**	**62 493**

28. Events after the balance sheet date

There were no material events after the balance sheet date that should be disclosed in this report with the exception of those events that are disclosed in this report in paragraphs above.

Signatures of the Members of the Management Board

Position	First and last name	Date	Signature
President of the Management Board Managing Director	Per Skoglund	28 August 2017	
Member of the Management Board Financial Director	Małgorzata Majewska-Śliwa	28 August 2017	

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