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ARCTIC PAPER S.A. CAPITAL GROUP  
Consolidated half-yearly report  
for the six months' period ended 30th June 2014  
together with independent auditor's opinion on the  
revision

**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 report

The hereby Consolidated Half-Yearly Report for the six months' period ended 30th June 2014 was prepared in accordance with the Minister of Finance Regulation of 19th February 2009 concerning current and periodical information submitted by issuers of securities and terms and conditions of classifying as equivalent information required by the law of a non-member state (Journal of Laws of 2009 no. 33, item 259, as amended) and the part of the interim condensed consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), in particular in accordance with International Accounting Standard no 34 and IFRS approved by the EU. IFRS comprise standards and interpretations accepted by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC"). Interim condensed consolidated financial statements do not comprise all information and disclosures required in the annual

consolidated financial statements which are subject to obligatory audit and therefore they should be read in conjunction with the consolidated financial statements of the Group for the year ended 31st December 2013. Data for the three months' period ended 30th June 2014 and as on 30th June 2014 presented in the condensed consolidated and standalone financial statements have not been subject to revision or audit of an auditor. The interim financial result may not fully reflect the financial result possible to achieve in the financial year.

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

The hereby consolidated half-yearly report presents data in PLN, and all figures, unless otherwise indicated, are given in thousand PLN.

### Definitions and abbreviations

Insofar as the context does not require otherwise, the following definitions and abbreviations are used in the whole document:

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

Arctic Paper, Company, Issuer, Parent Company, AP	Arctic Paper Spółka Akcyjna seated 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 enterprises
Arctic Paper Kostrzyn, AP Kostrzyn, APK	Arctic Paper Kostrzyn Spółka Akcyjna seated in Kostrzyn nad Odrą, Poland
Arctic Paper Munkedals, AP Munkedals, APM	Arctic Paper Munkedals AB seated in Munkedal Municipality, Västra Götaland County, Sweden
Arctic Paper Mochenwangen, AP Mochenwangen, APMW	Arctic Paper Mochenwangen GmbH seated in Mochenwangen, Germany
Arctic Paper Grycksbo, AP Grycksbo, APG	Arctic Paper Grycksbo AB seated in Kungsvagen, Grycksbo, Sweden
Paper Mills	Arctic Paper Kostrzyn, Arctic Paper Munkedals, Arctic Paper Mochenwangen, Arctic Paper Grycksbo
Arctic Paper Investment	Arctic Paper Investment GmbH seated in Wolpertswende, Germany

Arctic Paper Verwaltungs	Arctic Paper Verwaltungs GmbH seated in Wolpertswende, Germany
Arctic Paper Immobilienverwaltungs	Arctic Paper Immobilienverwaltungs GmbH & Co. KG seated in Ulm, Germany
Kostrzyn Group	Arctic Paper Kostrzyn Spółka Akcyjna seated in Kostrzyn nad Odrą and EC Kostrzyn Sp. z o.o. seated in Kostrzyn nad Odrą
Mochenwangen Group	Arctic Paper Investment GmbH, Arctic Paper Mochenwangen GmbH, Arctic Paper Verwaltungs GmbH, Arctic Paper Immobilienverwaltungs GmbH & Co.KG
Grycksbo Group	Arctic Paper Grycksbo AB, Grycksbo Paper Holding AB,
Distribution Companies	Arctic Paper Sverige AB, Arctic Paper Danmark A/S and Arctic Paper Norge AS
Sales Offices	Arctic Paper Papierhandels GmbH seated in Vienna (Austria); Arctic Paper Benelux SA seated in Oud-Haverlee (Belgium); Arctic Paper Danmark A/S seated in Vallensbaek (Denmark); Arctic Paper France SA seated in Paris (France); Arctic Paper Deutschland GmbH seated in Hamburg (Germany); Arctic Paper Ireland Ltd seated in Dublin (Ireland); Arctic Paper Italia Srl seated in Milan (Italy); Arctic Paper Baltic States SIA seated in Riga (Latvia); Arctic Paper Norge AS seated in Trollåsen (Norway); Arctic Paper Polska Sp. z o.o. seated in Warsaw (Poland); Arctic Paper España SL seated in Barcelona (Spain); Arctic Paper Sverige AB seated in Uddevalla (Sweden); Arctic Paper Schweiz AG seated in Zurich (Switzerland); Arctic Paper UK Ltd seated in Caterham (UK); Arctic Paper East Sp. z o.o. seated in Kostrzyn nad Odrą (Poland).
Rottneros, Rottneros AB	Rottneros AB seated in Stockholm, Sweden
Rottneros Group, Rottneros AB Group	Rottneros AB seated in Vallvik, Sweden; Rottneros Bruk AB seated in Sunne, Sweden; Utansjo Bruk AB seated in Sweden, Vallviks Bruk AB seated in Vallvik, Sweden; Rottneros Packaging AB seated in Sweden; SIA Rottneros Baltic seated in Latvia
Pulp Mills	Rottneros Bruk AB seated in Sunne, Sweden; Vallviks Bruk AB seated in Vallvik, Sweden
Purchasing Office	SIA Rottneros Baltic seated in Latvia
Kalltorp	Kalltorp Kraft Handelsbolaget seated in Trollhattan, Sweden
Trebruk AB	Trebruk AB (formerly Arctic Paper AB) seated in Göteborg Municipality, Västra Götaland County, Sweden
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.
SM, Shareholders Meeting, Issuer's Shareholders Meeting, Company's Shareholders Meeting	Shareholders Meeting of Arctic Paper S.A.
ESM, Extraordinary Shareholders Meeting, Issuer's Extraordinary Shareholders Meeting,	Extraordinary Shareholders Meeting of Arctic Paper S.A.

Company's Extraordinary Shareholders Meeting

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
Stock Exchange	Giełda Papierów Wartościowych w Warszawie Spółka Akcyjna (Warsaw Stock Exchange)
KDPW, Depository	Krajowy Depozyt Papierów Wartościowych Spółka Akcyjna seated in Warsaw
KNF	Komisja Nadzoru Finansowego (Financial Supervision Authority)
SFSA	Swedish Financial Supervisory Authority
NASDAQ OMX, OMX	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	Polish Central Statistical Office
NBSK	Northern Bleached Softwood Kraft
BHKP	Bleached Hardwood Kraft Pulp

Definitions of selected terms and financial indicators and abbreviations of currencies

Sales profit margin	Ratio of sales profit (loss) to sales income
EBIT	Profit on operating activity (Earnings Before Interest and Taxes)
EBIT profitability, operating profitability, operating profit margin	Ratio of operating profit (loss) to sales income
EBITDA	Operating profit plus depreciation and amortization and impairment charges (Earnings Before Interest, Taxes, Depreciation and Amortization)
EBITDA profitability, EBITDA margin	Ratio of operating profit plus depreciation and amortization and impairment charges to sales income
Gross profit margin	Ratio of gross profit (loss) to sales income
Sales profitability ratio, net profit margin	Ratio of net profit (loss) to sales income
Return on equity, ROE	Ratio of net profit (loss) to equity
Return on assets, ROA	Ratio of net profit (loss) to total assets
EPS	Earnings Per Share, ratio of net profit to the number of shares
BVPS	Book Value Per Share, ratio of book value of equity to the number of shares
Debt-to-equity ratio	Ratio of total liabilities to equity
Equity-to-non-current assets ratio	Ratio of equity to non-current assets
Interest-bearing debt-to-equity ratio	Ratio of interest-bearing debt and other financial liabilities to equity
Net debt-to-EBITDA ratio	Ratio of interest-bearing debt minus cash to EBITDA
Solidity ratio	Ratio of equity (calculated in compliance with Swedish Gaap accounting principles) to value of 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 cost
Current ratio	Ratio of current assets to current liabilities
Quick ratio	Ratio of current assets minus inventory and short-term prepayments and deferred costs to current liabilities
Acid test ratio	Ratio of total cash assets and other cash assets to current liabilities
Days inventory outstanding, DSI, DIO	Days Sales of Inventory or Days Inventory Outstanding, ratio of inventory to cost of sales multiplied by the number of days in the period
Days sales outstanding, DSO	Days Sales Outstanding, ratio of trade receivables to sales income multiplied by the number of days in the period
Days payable outstanding, DPO	Days Payable Outstanding, ratio of trade payables to cost of sales multiplied by the number of days in the period
Operating cycle	DSI + DSO
Cash conversion cycle	Operating cycle – DPO
FY	Financial year
1Q	1st quarter of the financial year
2Q	2nd quarter of the financial year
3Q	3rd quarter of the financial year
4Q	4th quarter of the financial year
1H	First half of the financial year
2H	Second half of the financial year
YTD	Year-to-date
Like-for-like, LFL	Analogous, with respect to operating result – in the meaning of this report excluding the effect of the purchase of Arctic Paper Grycksbo in March 2010
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 Great Britain
SEK	Swedish Krona - Monetary unit of the Kingdom of Sweden
USD	United States dollar, the currency being 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 Arctic Paper S.A. Series A Shares with a par value of 1 PLN each
Series B Shares	44,253,500 Arctic Paper S.A. Series B Shares with a par value of 1 PLN each
Series C Shares	8,100,000 Arctic Paper S.A. Series C Shares with a par value of 1 PLN each
Series E Shares	3,000,000 Arctic Paper S.A. Series E Shares with a par value of 1 PLN each
Series F Shares	13,884,283 Arctic Paper S.A. Series F shares with a par value of 1 PLN each
Shares, Stock, Issuer's Shares, Issuer's Stock	Series A, Series B, Series C, Series E and Series F Shares jointly

## Forward looking statements

The information contained in the hereby 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 the hereby 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 occurred, 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 on the date they are expressed. Insofar as the legal regulations do not 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.

## Statements concerning risk factors

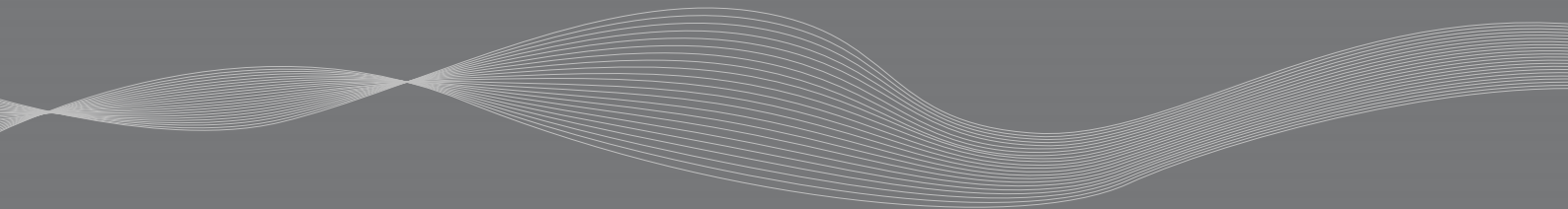
In the hereby report, we have described the risk factors that the Management Board of our Group finds typical for our industry; however, this list may not be complete. It may happen that other factors exist which we have not identified and which could have a material adverse impact on the operations, financial situation, operating results or perspectives of the Arctic Paper Group. In such circumstances, the prices of the Company's shares listed on the Warsaw Stock

Exchange or on NASDAQ OMX stock exchange in Stockholm may drop, investors may lose all or part of their invested funds, and the payment of dividend by the Company may be limited. Please analyze carefully the information contained in the "Risk factors" section of the hereby report which describes the risks and uncertainties related to Arctic Paper Group's operations.





Management's Board report on the operations of  
Arctic Paper S.A. Capital Group and Arctic Paper S.A.  
to the report for the first half of the year 2014



# Arctic Paper Group profile

## General information

The Arctic Paper Group is the second-largest European producer of bulky book paper in terms of production volume, offering the largest product assortment in this segment, and one of Europe's leading producers of fine graphic paper. 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 the acquisition of Rottneros Group in December 2012, our assortment was broadened with production of pulp. As on the day of publishing of this report, the Arctic Paper Group employs nearly 1,800 people in four paper mills, two pulp mills, fifteen 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, Sweden and Germany and have total production capacity of more than

800,000 metric tons of paper per year. The pulp mills are located in Sweden and have total production capacity of 410,000 tons per year. The Group has three Distribution Companies which handle sales, distribution and marketing of products offered by the Group in Scandinavia and twelve Sales Offices providing access to all European markets, including Central and Eastern Europe. The Group's consolidated sales revenue for the first half of 2014 totaled PLN 1,558 million.

Arctic Paper S.A. is a holding company established in April 2008. 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 Department of the National Court Register, under KRS number 0000306944. The Parent Company holds statistical number REGON 080262255.

## Group Profile

The principal business of 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,
- Distribution of electricity,
- Production of heat,
- Distribution of heat,
- Logistic services,
- Distribution of paper.

## Our production units

As on 30th June 2014, as well as on the day of publishing of the hereby report, the Group has owned the following paper mills:

- the paper mill in Kostrzyn nad Odrą (Poland) has a production capacity of about 275,000 metric 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 a production capacity of about 160,000 metric tons per year and

mainly produces fine uncoated wood-free paper used primarily for printing books and high-quality brochures;

- the paper mill in Mochenwangen (Germany) has a production capacity of about 115,000 metric tons per year and mainly produces uncoated wood-containing paper used primarily for printing books and flyers;

- paper mill in Grycksbo (Sweden) has a production capacity of about 265,000 metric tons per year and produces coated wood-free paper used for printing maps, books, magazines, posters and printing of advertising materials.

As on 30th June 2014, as well as on the day of publishing of the hereby report, the Group has owned the following pulp mills:

- the pulp mill in Rottneros (Sweden) has the annual production capacities of app. 170,000 tons and mainly produces two types of fibrous mechanical pulp: groundwood and CTMP;
- the pulp mill in Vallvik (Sweden) has the annual production capacities of app. 240,000 tons and produces two types of long-fiber 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 characteristic of high levels 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 other, in production of power transformers and cable industry.

## Our products

The assortment of products of Arctic Paper Group includes:

### Uncoated wood-free paper, in particular:

- high-white offset paper produced and distributed primarily under the brand name Amber, one of the most versatile types of paper that can be used for many different purposes;
- wood-free bulky book paper produced under the brand name Munken, used primarily for book publishing;
- high quality graphic paper, used for printing various advertising and marketing materials, produced under the brand name Munken;

### Coated wood-free paper, in particular:

- coated wood-free paper produced under the brand names G-Print and Arctic, used primarily for printing books, magazines, catalogs, maps and direct mail.

### Uncoated wood-containing paper, in particular:

- wood-containing bulky book paper produced and distributed under the brand name Pamo, primarily used for printing paperbacks;
- wood-containing offset paper produced and distributed under the brand name L-Print, primarily used for printing low-budget advertising brochures and telephone directories.

### Sulphate pulp:

- fully bleached sulphate pulp and unbleached sulphate pulp which is used mainly for production of printing and writing papers, cardboard, toilet paper and white packaging paper.

### Fibrous mechanical pulp:

- chemithermomechanical pulp and groundwood which are used mainly for production of printing and writing papers.

## Capital Group structure

The Arctic Paper Capital Group comprises Arctic Paper S.A., as the Parent Company and its subsidiaries, as well as joint arrangements. Since 23rd October 2009 Arctic Paper S.A. has been listed on the primary market of the Warsaw Stock Exchange and since 20th December 2012 in NASDAQ OMX stock exchange in Stockholm. The Group carries out business through its Paper Mills and Pulp Mills together with a company

producing packaging as well as Distribution Companies, Sales Offices and a Purchasing Office.

Detailed information about the organization of the Arctic Paper S.A. Capital Group with indication of the entities under consolidation can be found in section 'Significant accounting policies' and in additional explanatory notes to the consolidated financial statements (notes 1 and 2).

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

On 1st January 2014, a sales agreement concluded on 29th October 2013 came into force. Under the agreement, Arctic Paper S.A. acquired 100% shares in Arctic Paper Deutschland GmbH from Arctic Paper Investment GmbH.

In the first half of 2014 and until publishing of the hereby report, no other changes in capital structure of the Arctic Paper Group occurred.

## Shareholding structure

The main shareholder of Arctic Paper S.A. is Trebruk AB, a company under Swedish law, holding as on 30th June 2014 41,360,449 Shares of the Company constituting 59.69% of share capital of the Company and corresponding to 59.69% of total number of votes in Shareholders Meeting. Thus Trebruk AB is the parent company of the Issuer.

Moreover, in June 2014, Mr Thomas Onstad, an indirect shareholder of Trebruk AB, acquired from Nemus Holding AB 5,848,658 Shares constituting 8.44% of total number of Shares.

## Shareholders who hold, directly or indirectly, at least 5% of the total number of votes at the Shareholder Meeting

Shareholder	as at 01.09.2014				as at 15.05.2014			
	Number of shares	Share capital [%]	Number of votes	Of total number of votes [%]	Number of shares	Share capital [%]	Number of votes	Of total number of votes [%]
Trebruk AB (previous Arctic Paper AB)	41 360 449	59,69%	41 360 449	59,69%	41 360 449	59,69%	41 360 449	59,69%
Thomas Onstad	5 848 658	8,44%	5 848 658	8,44%	-	0,00%	-	0,00%
Nemus Holding AB	15 000	0,02%	15 000	0,02%	5 863 658	8,46%	5 863 658	8,46%
Others	22 063 676	31,84%	22 063 676	31,84%	22 063 676	31,84%	22 063 676	31,84%
<b>Total</b>	<b>69 287 783</b>	<b>100,00%</b>	<b>69 287 783</b>	<b>100,00%</b>	<b>69 287 783</b>	<b>100,00%</b>	<b>69 287 783</b>	<b>100,00%</b>
Own shares	-	0,00%	-	0,00%	-	0,00%	-	0,00%
<b>Total</b>	<b>69 287 783</b>	<b>100,00%</b>	<b>69 287 783</b>	<b>100,00%</b>	<b>69 287 783</b>	<b>100,00%</b>	<b>69 287 783</b>	<b>100,00%</b>

Data in the above table is given as on the date of publishing of the hereby report and as on the date of publishing of the report for the first quarter of 2014. The data as on the day of publishing of the hereby report prevailed also on 30th June 2014.

## Summary of consolidated financial results

### Consolidated income statement

#### Selected items of the consolidated income statement

	2Q	1Q	2Q	1H	1H	Change %	Change %	Change %
<i>PLN thousands</i>	2014	2014	2013	2014	2013	2Q2014/ 1Q2014	2Q2014/ 2Q2013	1H2014/ 1H2013
<b>Revenues</b>	<b>753 883</b>	<b>804 492</b>	<b>763 668</b>	<b>1 558 375</b>	<b>1 586 007</b>	<b>(6,3)</b>	<b>(1,3)</b>	<b>(1,7)</b>
<i>including:</i>								
<i>Sales of paper</i>	575 987	626 216	589 321	1 202 203	1 246 289	(8,0)	(2,3)	(3,5)
<i>Sales of pulp</i>	177 896	178 276	174 347	356 172	339 719	(0,2)	na	na
Gross profit on sales	100 759	103 645	(7 812)	204 404	82 056	(2,8)	(1 389,9)	149,1
<i>Gross profit on sales margin %</i>	13,37	12,88	(1,02)	13,12	5,17	0,5 p.p.	14,4 p.p.	7,9 p.p.
Sales costs	(72 008)	(74 181)	(73 976)	(146 189)	(153 592)	(2,9)	(2,7)	(4,8)
Administrative expenses	(16 803)	(20 057)	(19 170)	(36 860)	(40 269)	(16,2)	(12,4)	(8,5)
Other operating income	17 843	16 649	13 986	34 492	32 638	7,2	27,6	5,7
Other operating cost	(5 573)	(6 731)	(8 176)	(12 305)	(15 668)	(17,2)	(31,8)	(21,5)
<b>EBIT</b>	<b>24 218</b>	<b>19 325</b>	<b>(95 148)</b>	<b>43 543</b>	<b>(94 836)</b>	<b>25,3</b>	<b>(125,5)</b>	<b>(145,9)</b>
<i>EBIT margin %</i>	3,21	2,40	(12,46)	2,79	(5,98)	0,8 p.p.	15,7 p.p.	8,8 p.p.
<b>EBITDA</b>	<b>52 820</b>	<b>48 389</b>	<b>3 346</b>	<b>101 209</b>	<b>35 714</b>	<b>9,2</b>	<b>1 478,4</b>	<b>183,4</b>
<i>EBITDA margin %</i>	7,01	6,01	0,44	6,49	2,25	1,0 p.p.	6,6 p.p.	4,2 p.p.
Financial income	312	696	152	1 008	2 742	(55,2)	105,6	(63,2)
Financial cost	(8 037)	(8 553)	(8 468)	(16 591)	(16 842)	(6,0)	(5,1)	(1,5)
<b>EBT</b>	<b>16 492</b>	<b>11 468</b>	<b>(103 464)</b>	<b>27 961</b>	<b>(108 936)</b>	<b>43,8</b>	<b>(115,9)</b>	<b>(125,7)</b>
Corporate income tax	(3 017)	(2 560)	11 613	(5 577)	11 004	17,9	(126,0)	(150,7)
<b>Net profit/ (loss)</b>	<b>13 475</b>	<b>8 908</b>	<b>(91 852)</b>	<b>22 383</b>	<b>(97 932)</b>	<b>51,3</b>	<b>(114,7)</b>	<b>(122,9)</b>
<i>Net profit margin %</i>	1,79	1,11	(12,03)	1,44	(6,17)	0,7 p.p.	13,8 p.p.	7,6 p.p.

### Commentary of the President of the Management Board Wolfgang Lübbert to the results for the first half of 2014

The financial results of Arctic Paper Group for the 2nd quarter of 2014 kept the profitable pace of the first quarter. Thereby the first half of 2014 ended considerably better than the same period of 2013. The Group's EBITDA of PLN 101,2 m was an increase of PLN 65,5 m (over 183%) compared to first half of 2013. The Group's net result of PLN 22,4 m compares to a loss in 2013 of PLN - 97,9 m (partly due to a write-down in first half-year of 2013). Sales revenues in the 1st half of 2014 decreased slightly (by 1,7%) reaching PLN 1.558,4 m.

Besides external factors, such as favourable development of pulp prices and exchange rates, these positive figures indicate that the internal steps taken by the Group, both in Arctic Paper and in Rottneros, are starting to have an effect.

In terms of operations on the paper market (that is excluding Rottneros), Arctic Paper shows constructive and profitable figures such as EBITDA of PLN 63,3 m, compared to PLN 32,0 m (growth thereby 97,3%) for the first half of 2013. Net profit amounted to PLN 5,4 m (compared to a loss of PLN - 82,5 m first half of 2013, related to write-downs). The sales

revenue for the first half of 2014 reached PLN 1.181,2 m compared to PLN 1.215,4 m in the same period of 2013.

According to Euro-Graph of June 2014 the decline in prices continued on this competitive market in the second quarter. In effect, as of at the end of June 2014 the average prices were -5,1% down for coated and -4,7% for uncoated paper compared to the same month of 2013. However, the market did grow slightly in the first half of 2014, 0,7%, compared to the first half of 2013.

Utilization of production capacity of the Arctic Paper remained at 93% in the 2nd quarter (same as in the 1st quarter of 2014). Thereby the figure of utilization for the first half-year 2014, 93%, up by 1,5% compared to the six months prior.

We have a very long perspective and a still winding road ahead of us. We don't believe in quick fixes. Our progress and gains so far are, outside of the positive external factors, due to continuous internal cost measures and an extreme focus on sales and customer needs.

Meanwhile, the favourable market trends in pulp prices, (decrease of BHKP, favourable for Arctic Paper SA and increase of NBSK, favourable for Rottneros), indicated since the 4th quarter of 2013, did continue into the 2nd quarter of

## Revenue

In the second quarter of 2014 consolidated sales revenue amounted to PLN 753,883 thousand compared to PLN 763,668 thousand in the same period of the previous year, which represents a decrease by PLN 9,785 thousand and accordingly by 1.3%.

In the first six months of 2014 paper sales revenues amounted to PLN 1,558,375 thousand compared to PLN 1,586,007 achieved in the analogous period of the previous year, which means a decrease of revenue by PLN 27,632 thousand and respectively 1.7%.

## Profit on sales, cost of sales, selling and administrative expenses

Profit on sales in the first half of 2014 amounted to PLN 204,404 thousand and was higher by 149.1% compared to the same period of the previous year. The gross profit on sales margin in the current year stood at 13.12% compared to 5.17% (+7.9 p.p.) in the same period of the previous year. The

2014. For the Arctic Paper Group this development, in combination with beneficial exchange rates (mainly the weakened SEK), resulted to in an encouraging impact.

Our Group's work continues to focus two pillars – Stability and Mobility. Stability in financial terms means to have a secure base and low debts, and Mobility in market actions translates to innovation, product development, new product launches. The process of this work will take time but our objective is clear.

The process of restructuring that started in the 2nd half of 2013 continues at full force with increased operational efficiency and continued reduction of costs as primary targets. The overall objective is to strengthen the Group's financial position.

Implementation of our strategy with the objective of reaching a secure financial base will take time. Lessening the debt-side and optimization measures could aid in this pursuit. On a market that will continue to be tough and also turbulent we will use patience, endurance and quick action to fulfil our customer's needs. Thereby securing that the profitable result of the first half-year of 2014 is a long-term indication that we are moving in the right direction.

Paper sales volume in the second quarter of 2014 amounted to 185 thousand tons compared to 183 thousand tons in the same period of the previous year. The change represents an increase of 2 thousand tons and respectively 1.0%.

Sales volume in the first half of 2014 amounted to 382 thousand tons compared to 388 thousand tons in the same period of the previous year. The change represents a decrease of 6 thousand tons and respectively 1.5%.

main reasons for the increase of gross profit on sales margin in the first half of 2014, compared to the analogous period of the previous year, was the decrease of materials use costs and the reduction of other production expenses in Paper Mills as well as better pulp sales results achieved by Rottneros Group.

In the reporting period, selling expenses amounted to PLN 146,189 thousand, which represents a decrease by 4.8% compared to the costs incurred in the corresponding period of 2013. Selling expenses comprise mostly transportation costs.

In the first half of 2014, the administrative expenses amounted to PLN 36,860 thousand compared to PLN 40,269 thousand

### Other operating income and cost

Other operating income in the first half of 2014 amounted to PLN 34,492 thousand, which means an increase compared to the same period of the previous year by PLN 1,854 thousand.

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

### Financial income and financial cost

Financial income and cost in the first half of 2014 amounted respectively to PLN 1,008 thousand and 16,591 thousand, which corresponds, compared to the analogous period of the previous year, to a decrease of income by PLN 1,734 thousand and a decrease of cost by PLN 251 thousand.

Lower financial income in the first half of 2014 resulted primarily from a lower excess of positive exchange differences

### Income tax

Income tax for the six months of 2014 amounted to PLN -5,577 thousand, while in the analogous period of 2013 it amounted to PLN +11,004 thousand.

### Profitability analysis

Profit on operating activities in the first half of 2014 amounted to PLN +43,543 thousand compared to the loss of PLN -94,836 thousand in the analogous period of the previous year. These changes mean there was an increase of operating profit margin from -5.98% in six months of 2013 to +2.79% in the analogous period of 2014. The operating loss in the first half of 2013 was mainly a result of impairment write-off of non-financial non-current assets in AP Grycksbo in the amount of PLN 66,650 thousand.

in the analogous period of 2013, which represents a decrease of 8.5%. The main reason for the lower expenses in the first half of the current year the decrease of expenses related to consulting and administrative services.

In the first half of 2014, other operating expenses amounted to PLN 12,305 thousand, which means a decrease compared to the analogous period of the previous year by PLN 3,363 thousand.

Other operating expenses comprise mainly cost of electricity and heat sales as well as cost of other materials sold.

over negative exchange differences which was presented net as financial income. The excess of positive exchange differences over negative exchange differences in the first half of 2014 amounted to PLN 444 thousand (in the first half of 2013: PLN 2,019 thousand).

Current income tax in the analyzed period amounted to PLN -194 thousand (first half of 2013: PLN -1,040 thousand) while the deferred part amounted to PLN -5,383 thousand (first half of 2013: PLN +12,044 thousand).

EBITDA for the first half of 2014 amounted to PLN 101,209 thousand while in the same period of 2013 it amounted to PLN 35,714 thousand. In the reporting period, EBITDA margin amounted to 6.49% compared to 2.25% for six months of 2013.

Net result in the first half of 2014 amounted to PLN +22,383 thousand compared to net PLN -97,932 thousand in the first half of 2013. Net profit margin amounted to +1.44% YTD after



six months of 2014 compared to -6.17% in the corresponding period of 2013.

## Profitability analysis

PLN thousands	2Q	1Q	2Q	1H	1H	Change %	Change %	Change %
	2014	2014	2013	2014	2013	2Q2014/ 1Q2014	2Q2014/ 2Q2013	1H2014/ 1H2013
Gross profit on sales	100 759	103 645	(7 812)	204 404	82 056	(2,8)	(1 389,9)	149,1
Gross profit on sales margin %	13,37	12,88	(1,02)	13,12	5,17	0,5 p.p.	14,4 p.p.	7,9 p.p.
<b>EBITDA</b>	<b>52 820</b>	<b>48 389</b>	<b>3 346</b>	<b>101 209</b>	<b>35 714</b>	<b>9,2</b>	<b>1 478,4</b>	<b>183,4</b>
EBITDA margin %	7,01	6,01	0,44	6,49	2,25	1,0 p.p.	6,6 p.p.	4,2 p.p.
<b>EBIT</b>	<b>24 218</b>	<b>19 325</b>	<b>(95 148)</b>	<b>43 543</b>	<b>(94 836)</b>	<b>25,3</b>	<b>(125,5)</b>	<b>(145,9)</b>
EBIT margin %	3,21	2,40	(12,46)	2,79	(5,98)	0,8 p.p.	15,7 p.p.	8,8 p.p.
<b>Net profit/ (loss)</b>	<b>13 475</b>	<b>8 908</b>	<b>(91 852)</b>	<b>22 383</b>	<b>(97 932)</b>	<b>51,3</b>	<b>(114,7)</b>	<b>(122,9)</b>
Net profit margin %	1,79	1,11	(12,03)	1,44	(6,17)	0,7 p.p.	13,8 p.p.	7,6 p.p.
ROE - Return on equity (%)	2,0	1,3	(12,5)	3,3	(13,3)	0,7 p.p.	14,5 p.p.	16,6 p.p.
ROA - Return on assets (%)	0,8	0,5	(4,7)	1,3	(5,0)	0,3 p.p.	5,5 p.p.	6,3 p.p.

In the first half of 2014, return on equity amounted to +3.3% while in the corresponding period of 2013 it amounted to -13.3%. Return on assets increased from -5.0% in the first half of 2013 to +1.3% in the first half of 2014.

## Report on financial situation

### Selected items of the consolidated balance sheet

PLN thousands	30/06/2014	31/12/2013	30/06/2013	Change	Change
				30/06/2014	30/06/2014
				-31/12/2013	-30/06/2013
<b>Non-current assets</b>	<b>870 414</b>	<b>924 650</b>	<b>1 004 005</b>	<b>(54 236)</b>	<b>(133 591)</b>
Inventory	351 228	397 373	419 734	(46 145)	(68 506)
Receivables	390 601	328 848	377 333	61 753	13 268
<i>including: trade receivables</i>	<i>379 552</i>	<i>319 784</i>	<i>360 870</i>	<i>59 767</i>	<i>18 682</i>
Other current assets	17 613	15 553	24 265	2 060	(6 652)
Cash and equivalents	95 216	118 033	134 578	(22 817)	(39 362)
<b>Total assets</b>	<b>1 725 072</b>	<b>1 784 458</b>	<b>1 959 915</b>	<b>(59 385)</b>	<b>(234 843)</b>
<b>Equity</b>	<b>678 665</b>	<b>671 532</b>	<b>736 030</b>	<b>7 133</b>	<b>(57 365)</b>
<b>Short-term liabilities</b>	<b>650 708</b>	<b>684 774</b>	<b>1 001 474</b>	<b>(34 066)</b>	<b>(350 766)</b>
<i>including:</i>					
<i>trade liabilities and other</i>	<i>363 548</i>	<i>367 267</i>	<i>375 955</i>	<i>(3 719)</i>	<i>(12 407)</i>
<i>interest-bearing bank loans, borrowings, bonds and other</i>					
<i>financial liabilities</i>	<i>201 057</i>	<i>219 932</i>	<i>489 648</i>	<i>(18 874)</i>	<i>(288 591)</i>
<i>Other financial liabilities</i>					
<i>provisions, accruals and deferred income</i>	<i>86 102</i>	<i>97 575</i>	<i>135 871</i>	<i>(11 473)</i>	<i>(49 769)</i>
<b>Long-term liabilities</b>	<b>395 698</b>	<b>428 151</b>	<b>222 411</b>	<b>(32 453)</b>	<b>173 288</b>
<i>including:</i>					
<i>interest-bearing bank loans, borrowings, bonds and other</i>					
<i>financial liabilities</i>	<i>269 614</i>	<i>290 377</i>	<i>50 815</i>	<i>(20 763)</i>	<i>218 799</i>
<i>Other financial liabilities</i>					
<i>other liabilities</i>	<i>126 085</i>	<i>137 775</i>	<i>171 596</i>	<i>(11 690)</i>	<i>(45 511)</i>
<b>Total equity and liabilities</b>	<b>1 725 072</b>	<b>1 784 458</b>	<b>1 959 915</b>	<b>(59 385)</b>	<b>(234 843)</b>

As on 30th June 2014, total assets amounted to PLN 1,725,072 thousand compared to PLN 1,784,458 thousand as at the end of 2013.

#### Non-current assets

As at the end of June 2014, non-current assets amounted to 50.5% of total assets compared to 51.8% as at the end of 2013. Non-current assets decreased in the first half of 2014 by

PLN 54,236 thousand, mainly due to amortization allowances on property, plant & equipment and the decrease of deferred tax asset.

#### Current assets

Current assets reached the level of PLN 854,658 thousand as at the end of June 2014 compared to PLN 859,808 thousand as at the end of December 2013. Within the current assets inventories decreased by PLN 46,145 thousand, receivables increased by PLN 61,753 thousand, other current assets

increased by PLN 2,060 thousand, and cash and cash equivalents decreased by PLN 22,817 thousand. Current assets represented 49.5% of total assets as at the end of June 2014 (48.2% as at the end of 2013) and included inventories 20.4% (22.3% as at the end of 2013), receivables 22.6%

(18.4% as at the end of 2013), other current assets 1.0% (0.9% as at the end of 2013) and cash and cash equivalents

5.5% (6.6% as at the end of 2013).

## Equity

Equity amounted to PLN 678,665 thousand as at the end of the first half of 2014 compared to PLN 671,532 thousand as at the end of 2013. Equity represented 39.4% of total equity and

liabilities as at the end of June 2014 compared to 37.6% of total equity and liabilities as at the end of December 2013.

## Short-term liabilities

As at the end of June 2014, short-term liabilities amounted to PLN 650,708 thousand (37.7% of total equity and liabilities) compared to PLN 684,774 thousand (38.4% of total equity and liabilities) as at the end of 2013. In the first half of 2014, a

decrease of short-term liabilities occurred by PLN 34,066 thousand. The decrease resulted primarily from the decrease of accruals, interest liabilities and the liabilities resulting from factoring agreements.

## Long-term liabilities

As at the end of June 2014, long-term liabilities amounted to PLN 395,698 thousand (22.9% of total equity and liabilities) compared to PLN 428,151 thousand (24.0% of total equity and liabilities) as at the end of 2013. In the analyzed period, a

decrease of long-term liabilities occurred by PLN 32,453 thousand, mainly due to the reduction of loan debt and lower level of deferred tax liability.

## Debt analysis

### Debt analysis

	2Q 2014	1Q 2014	2Q 2013	Change 2Q2014/ 1Q2014	Change 2Q2014/ 2Q2013
Debt-to-equity ratio (%)	154,2	162,9	166,3	(8,7) p.p.	(12,1) p.p.
Equity-to-non-current assets ratio (%)	78,0	74,4	73,3	3,6 p.p.	4,7 p.p.
Interest-bearing debt-to-equity ratio (%)	69,4	71,9	73,4	(2,5) p.p.	(4,1) p.p.
Net borrowings-to-EBITDA (times)	2,71x	4,35x	1,37x	(1,63)	1,34
EBITDA-to-interest (times)	5,1x	3,2x	9,9x	1,9	(4,8)

As at the end of June 2014, debt to equity ratio amounted to 154.2% and was lower by 8.7 p.p. compared to the end of March 2014 and lower by 12.1 p.p. compared to the end of June 2013.

Equity to non-current assets increased from 74.4% as at the end of the first quarter of 2014 to 78.0% at the end of June 2014 and was higher by 3.6 p.p. than as at the end of March 2014 and higher by 4.7 p.p. than as at the end of June 2013.

Interest bearing debt to equity ratio amounted to 69.4% as at the end of the first half of 2014 and was lower by 2.5 p.p. compared to the end of March 2014 and lower by 4.1 p.p. compared to the level of this factor calculated at the end of June 2013.

Net borrowings to EBITDA calculated for the last 12 months ended 30th June 2014 amounted to 2.71x compared to 4.35x as for period ended 31st March 2014 and 1.37x for the period ended 30th June 2013.

EBITDA to interest coverage ratio amounted to 5.1x for the twelve months ended 31st June 2014, 3.2x for the twelve

months' period ended 31st March 2014 and 9.9x for the twelve months' period ended 30th June 2013.

## Liquidity analysis

### Liquidity ratios

	2Q 2014	1Q 2014	2Q 2013	Change 2Q2014/ 1Q2014	Change 2Q2014/ 2Q2013
<b>Current liquidity ratio</b>	<b>1,3x</b>	<b>1,3x</b>	<b>1,0x</b>	<b>0,0</b>	<b>0,4</b>
<b>Quick liquidity ratio</b>	<b>0,7x</b>	<b>0,7x</b>	<b>0,5x</b>	<b>0,0</b>	<b>0,2</b>
<b>Acid test ratio (cash liquidity)</b>	<b>0,1x</b>	<b>0,1x</b>	<b>0,1x</b>	<b>0,0</b>	<b>0,0</b>
Inventory turnover DSI (days)	48,4	46,6	49,0	1,8	(0,6)
Receivables turnover DSO (days)	45,3	42,0	42,5	3,3	2,8
Liabilities turnover DPO (days)	50,1	49,8	43,9	0,3	6,2
Operating cycle (days)	93,7	88,6	91,5	5,1	2,2
<b>Cash conversion cycle (days)</b>	<b>43,6</b>	<b>38,9</b>	<b>47,6</b>	<b>4,8</b>	<b>(4,0)</b>

Current liquidity ratio amounted to 1.3x as at the end of June 2014 and did not change compared to the end of the first quarter of 2014, while it was higher by 0.3 than the level of this factor at the end of June 2013.

Quick liquidity ratio amounted to 0.7x as at the end of June 2014 and did not change compared to 31st March 2014, while it was higher by 0.2 compared to 30th June 2013.

Acid test ratio amounted to 0.1x as at the end of the second quarter and was at the same level as at the end of the first quarter of 2014 and at the end of the second quarter of 2013.

Cash conversion cycle in the second quarter of 2014 amounted to 43.6 days and was longer by 4.8 days compared to the first quarter of 2014 and shorter by 4 days than reported at the end of the second quarter of 2013.

## Consolidated cash flow statement

### Selected items of the consolidated cash flow statement

	2Q	1Q	2Q	1H	1H	Change %	Change %	Change %
<i>PLN thousands</i>	2014	2014	2013	2014	2013	2Q2014/ 1Q2014	2Q2014/ 2Q2013	1H2014/ 1H2013
Cash flow from operations	29 936	31 386	22 407	61 321	(52 645)	(4,6)	33,6	(216,5)
<i>including:</i>								
<i>EBT</i>	16 492	11 468	(103 464)	27 961	(108 936)	43,8	(115,9)	(125,7)
<i>Depreciation and impairment</i>	28 602	29 064	98 494	57 666	130 550	(1,6)	(71,0)	(55,8)
<i>Δ in working capital</i>	(26 198)	(16 802)	14 438	(43 001)	(74 546)	55,9	(281,5)	(42,3)
<i>Other corrections</i>	11 039	7 656	12 939	18 695	287	44,2	(14,7)	6 422,7
Cash flow investing activities	(21 466)	(11 251)	(24 406)	(32 717)	(49 608)	90,8	(12,0)	(34,0)
Cash flow financing activities	(9 423)	(41 342)	16 768	(50 764)	35 775	(77,2)	(156,2)	(241,9)
<b>Total Cash Flow</b>	<b>(954)</b>	<b>(21 206)</b>	<b>14 770</b>	<b>(22 160)</b>	<b>(66 478)</b>	<b>(95,5)</b>	<b>(106,5)</b>	<b>(66,7)</b>

### Cash flows from operating activities

In the six months of 2014, net cash flows from operating activities amounted to PLN +61,321 thousand compared to PLN -52,645 thousand in the corresponding period of 2013.

Gross profit achieved in the first half of 2014 increased by amortization of this period contributed to positive cash flows from operating activities.

### Cash flows from investment activities

In the first half of 2014, cash flows from investment activities amounted to PLN -32,717 thousand compared to PLN -49,608 thousand in the corresponding period of 2013.

Higher investment expenses in the first half of 2013 were related to higher expenditures on purchases of property, plant and equipment and acquisition of non-controlling interests in Rottneros AB.

### Cash flows from financial activities

Cash flows from financial activities in the first half of 2014 amounted to PLN -50,764 thousand compared to PLN +35,775 thousand in the corresponding period of 2013.

Negative cash flows from financial activities in 2014 related mainly to reduction of indebtedness on the grounds of bank overdrafts and lower liabilities from factoring agreements.

## Summary of standalone financial results

### Standalone income statement

#### Selected items of the standalone income statement

PLN thousands	2Q	1Q	2Q	1H	1H	Change %	Change %	Change %
	2014	2014	2013	2014	2013	2Q2014/ 1Q2014	2Q2014/ 2Q2013	1H2014/ 1H2013
<b>Revenues:</b>	<b>10 601</b>	<b>9 561</b>	<b>83 773</b>	<b>20 162</b>	<b>99 527</b>	<b>11</b>	<b>(87)</b>	<b>(80)</b>
<i>including:</i>								
<i>Sales of services</i>	10 200	9 302	13 844	19 502	23 845	10	(26)	(18)
<i>Loans interest</i>	262	259	(5 187)	521	568	1	(105)	(8)
<i>Income from dividends</i>	140	-	75 115	140	75 115	-	(100)	(100)
<b>Gross profit on sales</b>	<b>8 213</b>	<b>7 203</b>	<b>80 984</b>	<b>15 416</b>	<b>93 696</b>	<b>14</b>	<b>(90)</b>	<b>(84)</b>
<i>Gross profit on sales margin %</i>	77,47	75,34	96,67	76,46	94,14	2,1 p.p.	(19,2) p.p.	(17,7) p.p.
<b>Sales costs</b>	<b>(924)</b>	<b>(928)</b>	<b>(720)</b>	<b>(1 852)</b>	<b>(1 461)</b>	<b>(0)</b>	<b>28</b>	<b>27</b>
<b>Administrative expenses</b>	<b>(5 604)</b>	<b>(5 746)</b>	<b>(9 874)</b>	<b>(11 350)</b>	<b>(16 530)</b>	<b>(2)</b>	<b>(43)</b>	<b>(31)</b>
<b>Other operating income</b>	<b>23</b>	<b>168</b>	<b>87</b>	<b>191</b>	<b>142</b>	<b>(86)</b>	<b>(73)</b>	<b>35</b>
<b>Other operating cost</b>	<b>(4 220)</b>	<b>(842)</b>	<b>(186 242)</b>	<b>(5 063)</b>	<b>(186 311)</b>	<b>401</b>	<b>(98)</b>	<b>(97)</b>
<b>EBIT</b>	<b>(2 512)</b>	<b>(145)</b>	<b>(115 765)</b>	<b>(2 657)</b>	<b>(110 463)</b>	<b>1 632</b>	<b>(98)</b>	<b>(98)</b>
<i>EBIT margin %</i>	(23,70)	(1,52)	(138,19)	(13,18)	(110,99)	(22,2) p.p.	114,5 p.p.	97,8 p.p.
<b>EBITDA</b>	<b>(2 483)</b>	<b>(122)</b>	<b>78 533</b>	<b>(2 605)</b>	<b>83 865</b>	<b>1 933</b>	<b>(103)</b>	<b>(103)</b>
<i>EBITDA margin %</i>	(23,42)	(1,28)	93,75	(12,92)	84,26	(22,1) p.p.	(117,2) p.p.	(97,2) p.p.
<b>Financial income</b>	<b>619</b>	<b>507</b>	<b>61</b>	<b>450</b>	<b>1 646</b>	<b>22</b>	<b>910</b>	<b>(73)</b>
<b>Financial cost</b>	<b>(1 402)</b>	<b>(657)</b>	<b>(688)</b>	<b>(1 383)</b>	<b>(1 031)</b>	<b>113</b>	<b>104</b>	<b>34</b>
<b>EBT</b>	<b>(3 295)</b>	<b>(295)</b>	<b>(116 392)</b>	<b>(3 590)</b>	<b>(109 848)</b>	<b>1 017</b>	<b>(97)</b>	<b>(97)</b>
<b>Corporate income tax</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net profit/(loss)</b>	<b>(3 295)</b>	<b>(295)</b>	<b>(116 392)</b>	<b>(3 590)</b>	<b>(109 848)</b>	<b>1 017</b>	<b>(97)</b>	<b>(97)</b>
<i>Net profit margin %</i>	(31,08)	(3,08)	(138,94)	(17,81)	(110,37)	(28,0) p.p.	107,9 p.p.	92,6 p.p.

### Revenue, profit on sales, sales cost

The main statutory activity of the Company is holding activity consisting in managing of entities belonging to the controlled Capital Group. Operating activity of Arctic Paper Group is conducted through Paper Mills and Pulp Mills as well as Distribution Companies and Sales Offices.

Standalone sales revenue for the second quarter of 2014 amounted to PLN 10,601 thousand and comprised services rendered for entities belonging to the Group (PLN 10,200

thousand), interest on loans (PLN 262 thousand), and dividends (PLN 140 thousand). In the same period of the previous year, standalone sales revenue amounted to PLN 83,773 thousand and comprised services rendered to the Group entities (PLN 13,844 thousand), interest on loans (PLN - 5,187 thousand), and dividends (PLN 75,115 thousand).

Standalone sales revenue for the first half of 2014 amounted to PLN 20,162 thousand and comprised: services rendered to

entities belonging to the Group (PLN 19,502 thousand), interest on loans (PLN 521 thousand) and dividends (PLN 140 thousand). In the corresponding period of the previous year, standalone sales revenue amounted to PLN 99,527 thousand and comprised services rendered to the Group entities (PLN 23,845 thousand), interest on loans (PLN 568 thousand), and dividends (PLN 75,115 thousand). It means a decrease of sales revenue in the first half of 2014 by PLN 79,365 thousand

### Selling expenses

In the first half of 2014, the Company recognized PLN 1,852 thousand of selling expenses (PLN 1,461 thousand in the analogous period of 2013), related solely to costs of pulp

### Administrative expenses

In the first half of 2014, administrative expenses amounted to PLN 11,350 thousand and were lower compared to the analogous period of the previous year by PLN 5,180 thousand. The main reason for such decrease was reduction of costs related to consulting services rendered to the Group by third parties.

Administrative expenses of the company include costs of the administration of the Company operation, costs of services provided to companies in the Group and all costs incurred by

### Other operating income and cost

Other operating income amounted to PLN 191 thousand in the first half of 2014 which represents an increase by PLN 49 thousand compared to analogous period of 2013. In the same period, other operating cost significantly decreased and totaled PLN 5,063 thousand (first half of 2013: PLN 186,311 thousand).

### Financial income and cost

In the first half of 2014, financial income amounted to PLN 450 thousand and was lower compared to financial income achieved in the first half of 2013 by PLN 1,196 thousand, mainly due to the excess of positive exchange differences over negative exchange differences recognized as financial income of 2013.

Financial cost after six months of 2014 amounted to PLN 1,383 thousand and were mainly related to cost of interest on

compared to the corresponding period of 2013, mainly due to lower dividend income.

Sales cost comprises cost of interest on loans received from other Group entities.

Profit on sales amounted to PLN 15,416 thousand in the first half of 2014 and decreased by PLN 78,280 thousand compared to the analogous period of the previous year..

procurement agency services rendered to Arctic Paper Kostrzyn S.A.

the Company for the purpose of holding company activities. Among them, a significant group of costs can be distinguished that applies 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.

High other operating cost in the first half of 2013 resulted mainly from impairment of loans granted to Arctic Paper Investment AB, impairment of shares in Arctic Paper Investment GmbH, and impairment of trade receivables of Arctic Paper Investment GmbH and Arctic Paper Mochenwangen GmbH.

the loan taken from Mr Thomas Onstad (PLN 708 thousand). The rest of financial cost related to the excess of negative exchange differences over positive exchange differences.

In the analogous period of 2013 financial cost amounted to PLN 1,031 thousand.

## Statement of financial position

### Selected items of the standalone balance sheet

PLN thousands	30/06/2014	31/12/2013	30/06/2013	Change	Change
				30/06/2014	-30/06/2013
Non-current assets	829 580	829 519	881 994	62	(52 414)
Inventory	0	-	-	0	0
Receivables	37 762	45 300	34 351	(7 538)	3 411
Other current assets	21 606	21 751	21 324	(145)	282
Cash and equivalents	8 458	9 018	7 142	(560)	1 315
<b>Total assets</b>	<b>897 406</b>	<b>905 588</b>	<b>944 812</b>	<b>(8 182)</b>	<b>(47 406)</b>
Equity	686 783	690 044	759 618	(3 262)	(72 835)
Short-term liabilities	33 157	37 356	31 734	(4 199)	1 423
Long-term liabilities	177 466	178 188	153 460	(722)	24 006
<b>Total equity and liabilities</b>	<b>897 406</b>	<b>905 588</b>	<b>944 812</b>	<b>(8 182)</b>	<b>(47 406)</b>

As on 30th June 2014, total assets amounted to PLN 897,406 thousand compared to PLN 905,588 thousand as at the end

of 2013. The decrease of assets resulted primarily from lower level of receivables in the analyzed period.

#### Non-current assets

As at the end of June 2014, non-current assets represented 92.4% of total assets compared to 91.6% at the end of 2013. The carrying value of non-current assets decreased by PLN 62 thousand in the first half of 2014. The main item of non-current assets is shares in subsidiaries. Total value of this position as

at the end of the first half of 2014 was PLN 827,166 thousand compared to PLN 822,189 thousand at the end of 2013. The increase of value of shares in subsidiaries resulted from the acquisition of 100% shares in Arctic Paper Deutschland GmbH.

#### Current assets

Current assets as at the end of June 2014 amounted to PLN 67,826 thousand compared to PLN 76,069 thousand as at the end of 2013.

560 thousand. As at the end of June 2014, current assets represented 7.6% of total assets compared to 8.4% as at the end of the previous year.

Within current assets receivables decreased by PLN 7,538 thousand, other current assets decreased by PLN 145 thousand and cash and cash equivalents decreased by PLN

#### Equity

Equity amounted to PLN 686,783 thousand as at the end of the first half of 2014 compared to PLN 690,044 thousand as at the end of 2013. It represents a decrease of equity by PLN 3,262 thousand, mainly due to net loss recorded in the first

half of 2014. Equity constituted 76.5% of total equity and liabilities as at the end of June 2014 compared to 76.2% at the end of 2013.



### Short-term liabilities

As at the end of June 2014, short-term liabilities amounted to PLN 33,157 thousand (3.7% of total equity and liabilities) compared to PLN 37,356 thousand as at the end of 2013

(4.1% of total equity and liabilities). Decrease of short-term liabilities in the analyzed period resulted primarily from the decrease of trade receivables.

### Long-term liabilities

Long-term liabilities as at the end of June 2014 amounted to PLN 177,466 thousand (19.8% of total equity and liabilities)

compared to PLN 178,188 thousand (19.7% of total equity and liabilities) as at the end of 2013.

## Cash flows

### Selected items of the standalone cash flow statement

PLN thousands	2Q	1Q	1H	1H	Change %	Change %
	2014	2014	2014	2013	2Q2014/ 1Q2014	1H2014/ 1H2013
Cash flow from operations	(4 056)	4 199	144	72 212	(196,6)	(99,8)
including:						
EBT	(3 295)	(295)	(3 590)	(109 848)	1 017,4	(96,7)
Depreciation and impairment	1 622	23	1 644	194 328	6 969,3	(99,2)
Δ in working capital	(337)	563	226	(9 590)	(159,8)	(102,4)
Interest and dividend (net)	(1 425)	2 133	708	(3 223)	(166,8)	(122,0)
Other corrections	(620)	1 775	1 155	544	(134,9)	112,2
Cash flow investing activities	141	(141)	-	(22 523)	(200,0)	(100,0)
Cash flow financing activities	(353)	(352)	(705)	(72 902)	0,2	(99,0)
<b>Total Cash Flow</b>	<b>(4 267)</b>	<b>3 707</b>	<b>(561)</b>	<b>(23 214)</b>	<b>(215,1)</b>	<b>(97,6)</b>

Cash flows statement presents a decrease in cash and cash equivalents in the first half of 2014 by PLN 561 thousand which includes:

- positive cash flows from operating activities in the amount of PLN +144 thousand,
- negative cash flows from investment activities in the amount of PLN 0 thousand,
- negative cash flows from financial activities in the amount of PLN -705 thousand.

### Cash flows from operating activities

In the first half of 2014, net cash flows from operating activities amounted to PLN +144 thousand compared to PLN +72,212 thousand in the corresponding period of 2013. Higher cash

flows from operating activities in the first half of the previous year resulted from impairment of non-financial non-current assets.

### Cash flows from investment activities

In the first half of 2014 cash flows from investment activities amounted to PLN 0 thousand compared to PLN -22,523 thousand in the analogous period of the previous year. The main item of cash flows from investment activities in

the first quarter of 2013 was expenses related to further acquisition of Rottneros AB shares in cash and to the increase of shares in Arctic Paper Investment GmbH.

### Cash flows from financial activities

Cash flows from financial activities in the first half of 2014 amounted to PLN -705 thousand compared to PLN -72,902 thousand in the analogous period of 2013. Cash flows from

financial activities in 2013 were related to full repayment of bonds together with interest.

## Relevant information and factors influencing financial results and evaluation of financial standing

### Key factors affecting the performance results

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

- macroeconomic and other economic factors;
- paper prices;
- prices of pulp for Paper Mills, timber for Pulp Mills and energy prices;
- currency exchange rates 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 fine papers, and that they may also influence the demand for the Group's products and operating results. These factors include:

- GDP growth;
- net income – as a measure of income and prosperity of the population;
- production capacities – oversupply lingering in the segment of fine papers and decline of margins on paper sales;
- paper consumption;
- technological development.

#### Paper prices

Paper prices undergo cyclic changes and fluctuations, depend on global changes in demand and general macroeconomic and other economic factors, as those indicated above. The prices of paper are also influenced by a number of factors connected with the supply, primarily changes in production capacities on worldwide and European levels.

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

The main elements of the Group's operating expenses are cost of raw materials, energy and transportation. Cost of raw materials includes mainly the cost of pulp for Paper Mills, timber for Paper and Pulp Mills and chemical agents used for

paper and pulp production. Our energy cost, historically, includes mostly the cost of electricity, natural gas, coal and fuel oil. Cost of transportation includes the cost of transportation services rendered to the Group mainly by external service providers.

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

Part of pulp supplies to our Paper Mills is realized from the Pulp Mills of Rottneros Group. The rest of pulp produced in Pulp Mills is sold to external customers.

#### Currency exchange fluctuations

Our operating results are significantly influenced by currency exchange rates fluctuations. In particular, our revenues and costs are expressed in different foreign currencies and are not matched, therefore, the appreciation of currencies in which we incur costs towards currencies in which we generate revenues, will have an adverse effect on our results. We sell our products in all EURO zone countries, the Nordic countries, Poland and UK; therefore, our 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 majority of costs related to the operations of the Mochenwangen paper mill), PLN (majority of other costs incurred by the mill in Kostrzyn nad Odrą) and SEK

(majority of other costs incurred by Munkedal and Grycksbo mills as well as Rottneros and Vallvik pulp mills).

Exchange rates also have an important influence on results reported in our financial statements because of changes in

exchange rates of currencies in which we generate revenues and incur costs, and the currency in which we report our financial results (PLN).

## Unusual events and factors

In period covered by the hereby report there were no unusual events or factors.

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

In the first half of 2014, there were no relevant changes in Arctic Paper Group's structure that would have material influence on the financial result achieved.

## Other material information

On 19th March 2014, Arctic Paper S.A. and its subsidiary, Arctic Paper Grycksbo AB, finalized the next stage of negotiations with banks which finance the Issuer's group entities.

As a result of the negotiations, Svenska Handelsbanken AB set the payment term of Arctic Paper Grycksbo AB overdraft on 30th September 2014 and granted Arctic Paper Grycksbo AB a covenant waiver concerning solidity ratio and interest coverage ratio as set in the Loan Agreement until 30th September 2014.

On 17th June 2014, the Company received an agreement dated 12th June 2014, concluded by and between Arctic Paper S.A. and Fibria International Trade GmbH seated in Lustenau, Austria ("Supplier"). The subject of the agreement is pulp supplies realized by the Supplier ("Supplies Agreement").

The Supplies Agreement has been concluded for the period of 1st January 2014 – 31st December 2014. Under the Supplies Agreement, the Supplier is obliged to deliver and the Company to receive 90 thousand metric tons of pulp, whereas the parties of the Supplies Agreement allowed the possibility of both increase and decrease of the total deliveries' volume by 10%. Under the Supplies Agreement, the Supplier is obliged to deliver and the Company to receive pulp of total estimated value of PLN 170 million. The price for a metric ton was calculated based on FOEX PIX USD (U.S. dollar) index for Europe and the discounts agreed by the parties of the Supplies Agreement. The Agreement does not provide for penalties and does not include any stipulations of terms and conditions.

## Factors influencing Arctic Paper Group development

### Information on market tendencies

#### Supplies of fine papers

Supplies of fine papers to European market in the second quarter of 2014 were lower compared to the first quarter of 2014 by app. 7.0%, while higher by app. 0.7% compared to the second quarter of 2013. In the analyzed period, supplies in the segment of uncoated wood-free paper (UWF) were higher by respectively 3.5% and 0.5%, while those in the segment of coated wood-free paper (CWF) were respectively lower by 7.2% and higher by 1.0%.

Supplies of fine papers in the first half of 2014 were 0.7% higher than in the analogous period of 2013. Supplies in the segment of uncoated wood-free paper (UWF) were higher by

1.9%, while those in the segment of coated wood-free paper (CWF) were lower by 0.6%.

In 2Q 2014, Arctic Paper Group recorded a decrease of orders. Sales volume in the second quarter of 2014 was 6.1% lower than in 1Q 2014 and 0.9% higher than in the corresponding period of 2013.

Data source: EuroGraph, RISI, Arctic Paper analysis

#### Paper prices

At the end of the first half of 2014, UWF paper prices in Europe experienced a decrease compared to prices at the end of 2013. Average price decrease amounted to 1.2%. CWF paper prices also decreased (1.6% on average).

At the end of June 2014, average UWF prices, declared by producers for the selected products and markets of Germany, France, Spain, Italy and United Kingdom, were slightly higher than at the end of the first quarter of 2014 (0.6%). The average CWF prices in the corresponding period were slightly lower (0.5%).

Average prices invoiced by Arctic Paper in EUR in the segment of uncoated wood-free paper changed from March to June 2014 by from 1.2% to 1.6%, and in the segment of coated wood-free paper by from -3.2% to -1.9%.

Source: For market data - RISI, price changes for chosen markets in Germany, France, Spain, Italy and United Kingdom in local currencies for graphic papers similar to product portfolio of the Arctic Paper Group. Prices are expressed excluding specific rebates for individual clients and they include neither additions nor price reductions in relation to publicly available price lists. Estimated prices for particular month reflect orders made in that month, whereas their deliveries may take place in the future. Because of that, RISI price estimations for a particular month do not reflect real prices by which deliveries are realized 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 the second quarter of 2014, pulp prices reached the level of USD 926 per ton for NBSK and USD 742 per ton for BHKP.

Average pulp price in 2Q 2014 was higher by 8.2% for NBSK while lower by 6.7% for BHKP, compared to the corresponding period of the previous year. Compared to the first quarter of 2014, average pulp price in the second quarter of 2014 was higher by 0.5% for NBSK and lower by 1.1% for BHKP.

Pulp costs are characteristic of high changeability. Decrease of materials' prices, in this case of BHKP pulp, leads to improved profitability of the Group in the discussed period.

## Currency exchange rates

EUR/PLN exchange rate at the end of the second quarter of 2014 amounted to 4.1609 and was lower by 3.9% than at the end of the second quarter of 2013. The average EUR/PLN exchange rate in the first half of 2014 amounted to 4.1765 and was exactly the same as in the corresponding period of 2013.

EUR/SEK exchange rate at the end of the second quarter of 2014 amounted to 9.1812 (increase by 4.7% compared to the end of the second quarter of 2013). For this pairing, the average rate in the first half of 2014 was 5.0% higher compared to the corresponding period of 2013. Depreciation of SEK towards EUR has a positive influence on revenues invoiced in EUR in Swedish mills of AP Munkedals and AP Grycksbo..

At the end of the second quarter of 2014, USD/PLN rate amounted to 3.0473. In the first half of 2014, the average USD/PLN exchange rate amounted to 3.0466 compared to 3.1803 in the analogous period of 2013, which means a decrease of PLN by 4.2%. In the second quarter of 2014, the average USD/PLN exchange rate amounted to 3.0382 and was 5.5% lower than in the second quarter of 2013. This change had a favorable impact on costs incurred in USD in AP Kostrzyn, particularly pulp costs.

Average cost of pulp per ton as calculated for AP Group and expressed in PLN, decreased in 2Q 2014 by 3.3% compared to 1Q 2014 and by 6.2% compared to 2Q 2013.

The share of pulp costs in cost of sales after six months of 2014 amounted to 46% compared to 47% in the first half of 2013.

Arctic Paper Group uses pulp in the production process according to the following structure: BHKP 65%, NBSK 22% and other 13%.

Source: [www.foex.fi](http://www.foex.fi), Arctic Paper analysis

At the end of the second quarter of 2014, USD/SEK rate amounted to 6.7240. The average exchange rate in the first half of 2014 amounted to 6.5323, which means an increase by 0.6% compared to 6.4938 in the analogous period of the previous year. In the second quarter of 2014, the average USD/SEK exchange rate increased by 2.1% compared to the first quarter of 2014. This change had an adverse impact on costs incurred in USD in AP Munkedals and AP Grycksbo, particularly pulp costs.

At the end of June 2014, EUR/USD rate amounted to 1.3654 compared to 1.3050 (+4.6%) at the end of June 2013. In the first half of 2014, appreciation of EUR towards USD occurred. The average exchange rate in the first half of 2014 amounted to 1.3654 compared to 1.3050 at the end of the analogous period of the previous year, which means appreciation of EUR towards USD by 4.6%. This change had a positive influence on costs incurred in USD in AP Mochenwangen, particularly pulp costs.

Further depreciation of SEK towards EUR may have a favorable impact on the Group's profitability.

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

Material factors, which have an impact on the financial results in the perspective of the next quarter, include:

- Demand for fine papers in Europe. In recent years there have been significant decline of demand for fine papers in Europe (based on levels of supplies realized). Further adverse turnout of market situation may unfavorably influence levels of orders to our Paper Mills and, as a result, have an adverse impact on financial results of the Group.
- The levels of fine papers prices. In particular, the ability to raise the prices of Arctic Paper products in local currencies, in reference to diminishing deliveries/demand in Europe and in connection with exchange rates fluctuations, will have a material influence on the financial results. Paper prices are going to be of particular importance for paper mills of Grycksbo and Mochenwangen, which, in connection with market changes, experience the greatest adverse impact of changes of sales volume, prices, as well as, in case of AP Grycksbo, of exchange rates fluctuations.
- Prices fluctuations of raw materials, including pulp for Paper Mills and electricity for all operational entities. In particular, financial results of Paper Mills may be adversely influenced by increasing pulp prices, particularly BHKP. On the other hand, increasing NBSK prices should positively influence financial results of Pulp Mills. Fluctuations of electricity prices in Sweden may also have a material impact on the results achieved by the Group. In future, such market changes may translate to changes of sales profitability in paper mills of AP Munkedals and AP Grycksbo as well as in pulp mills of Rottneros and Vallvik.
- Currency rates; in particular, the appreciation of PLN and SEK in relation to EUR and GBP, the appreciation of PLN in relation to SEK, and depreciation of PLN and SEK in relation to USD, may have an adverse effect on the financial results. However, our Pulp Mills may benefit from appreciation of USD in relation to SEK.

## Risk factors

### Material changes within risk factors

In the first half of 2014, there were no material changes regarding risk factors, which have been described in details in the annual report for 2013.

### Risk factors connected with the Group's environment

The order in which the following risk factors are presented does not reflect the likelihood of their occurrence, scope or significance of the risks.

#### Risk of growing competition in the paper market in Europe

Our Group operates in a highly competitive market. The accomplishment of the strategic objectives assumed by the Group can be difficult because of the activities of competitors, in particular, integrated paper producers operating on a scale larger than our Group. A potential growth of competition resulting from a possible increase in production capacities of our competitors, and thus, in the paper supply in the market, can have an adverse effect on the achievement of planned

revenues and the ability to achieve financial and operating assumptions made.

#### Risk of changes in law

Our Group operates in a legal environment characterized by a high level of uncertainty. Regulations concerning our activities are often amended and there is no uniform interpretation, which involves a risk of a breach of applicable regulations and related consequences, even if the breach of law is inadvertent. Furthermore, changes in environmental protection and other regulations may result in significant expenditures to ensure

compliance, among other things, with more restrictive regulations or stricter implementation of applicable regulations concerning surface water, ground water, soil and air protection.

#### Foreign exchange rates risk

The Group's revenues, costs and results are exposed to the risk of a change of currency exchange rates, in particular, PLN and SEK to EUR, GBP and other currencies. Our Group exports a large part of the produced paper to the European markets, generating a significant part of its sales revenues in EUR, GBP, PLN, and SEK. Revenues from sales of pulp in Pulp Mills are dependent on USD. The costs of procurement of raw materials for paper production, in particular pulp for Paper Mills, are paid mainly in USD and EUR. Furthermore, we have obligations on account of loans taken in PLN, EUR and SEK. The currency used in financial statements is PLN, and therefore, our revenues, costs and results achieved by the subsidiaries situated abroad are dependent on the levels of currency exchange rates. Thus, currency exchange rates may

#### Risk factors connected with the Group's activities

The order in which the following risk factors are presented does not reflect the likelihood of their occurrence, scope or significance of the risks.

#### Risk connected with relative low operating margins

Historically the Group's operating results have been characterized by relatively high volatility and low operating margins. The decline in revenues caused, among other things, by a change of production capacities, productivity, pricing policy or increase in operating expenses, the main components of which are the costs of raw materials (mainly pulp for Paper Mills) and energy, may lead to the loss of Group's ability to generate profits. Material adverse changes of profitability can lead to a decline in the value of our shares and limit our ability to generate working capital, bringing about serious damage to our business and significantly worsening our prospects.

#### Risk of changes of prices of raw materials, energy and products

We are exposed to risk of changes of prices of raw materials and energy primarily in connection with the changing prices of pulp, fuel oil, diesel oil, coal and electricity. Paper Mills buy

have an adverse effect on the Group's results, financial standing and outlook.

#### The risk of changes of interest rates

The Group is exposed to the risk of changes of interest rates, mainly due to an existing interest debt. This risk results from fluctuation in the benchmark interest rate such as WIBOR for debt in PLN, EURIBOR for the debt in EUR and STIBOR for debt in SEK. Adverse changes of interest rates may adversely affect the results, financial situation and prospects of the Group.

#### Risk of the growing importance of alternative media

The trends in advertising, electronic transmission and storage of data, as well as Internet, may have an adverse effect on traditional print media, and in consequence, on the products of the Group and its customers. Continuation of these trends may adversely affect the results, financial situation and prospects of the Group.

pulp under framework agreements or one-time transaction and do not hedge against pulp price fluctuations. A part of pulp deliveries for our paper mills is realized from Pulp Mills of Rottneros Group. Neither does the Group hedge against the risk of increase of coal and fuel oil prices used at AP Mochenwangen mill. The risk of change of prices of products is connected primarily with changes of paper prices in markets where we sell our products. Any significant increase in the prices of one or more than one raw material and energy can have an adverse effect on the Group's results on operating activities and financial standing.

#### Risk of disturbance in production process

Our Group has four Paper Mills with ten production lines in total, with the aggregate annual production capacities of approx. 800,000 tons of paper and two Pulp Mills with the aggregate production capacities of 410,000 tons of pulp. Any lasting disturbance of the production process can be caused by a number of factors, including an emergency failure, human errors, unavailability of raw materials, a natural disaster and



other, which often are beyond our control. Any distortion, even relatively short, may have a material impact on our production and profitability and may involve significant costs such as repair, liability towards customers, whose orders we are not able to carry out and other expenditures.

#### Risk connected with our investment projects

The Group's investment projects in order to enhance the Group's production capacities generally require significant investments and relatively long period of implementation. Therefore, the market conditions in which we operate can change significantly between the time when we make a decision on making investments in increasing production capacities and the time when the increased production capacities become operational. A change of market conditions can lead to fluctuations of demand for our products, which may be too low in the context of the additional production capacities. The differences between the future demand and investments in new production capacities may lead to the increased production capacities not being fully used. This may have an adverse effect on the Group's operations and financial standing.

#### Risk connected with the Group's debt

Our Group has indebtedness on account of a loan agreement with a consortium of banks (Bank Pekao S.A., Bank Zachodni WBK S.A. and BRE Bank S.A.) dated 6th November 2012, of loans in Svenska Handelsbanken and Danske Bank as well as of leasing agreements.

Failure to keep the level of financial ratios (covenants) defined in the loan agreement and leasing agreements, or lack of prolongation by Svenska Handelsbanken of short-term loan agreements and factoring agreements, may give rise to breaches of the agreement. If an event of default occurs, it could lead in particular to bring in a state of maturity of our debt, the bank can take over control over critical assets such as the Paper Mills and/or Pulp Mills, loss of other collateralized assets, credibility reduction and a loss of access to external sources of finance, and consequently, a loss of financial liquidity, which may have an adverse effect on our business and outlook, and our stock prices.

#### Risk connected with insurance limits

In connection with the declining situation in paper industry, our suppliers, particularly of such raw materials as pulp, may not fulfill the insurance limits (credited sales), and, as a result, lose the ability to offer favorable payment terms to Arctic Paper Group. Such situation may lead to worsening of financial situation and losing of financial liquidity by particular operating entities and, consequently, have an adverse influence on the situation in the whole Group.

#### Risk of limitations on natural gas supplies

The only supplier of natural gas used by AP Kostrzyn to generate thermal and electric energy for paper production purposes is Polskie Górnictwo Naftowe i Gazownictwo S.A. (PGNiG). Therefore, the availability and prices of natural gas have a significant effect on the operations and costs of paper production at AP Kostrzyn. Any distortions in gas supplies to the paper mill at Kostrzyn nad Odrą may have an adverse effect on the Group's production, operating results and financial standing.

#### Risk of loss of tax reliefs in connection with AP Kostrzyn operations

AP Kostrzyn enjoys a significant tax relief thanks to conducting its business activity within the Kostrzyńsko-Słubicka Special Economic Zone. The relief was granted until 2017 and depends on AP Kostrzyn's compliance with the statutory provisions, regulations and other conditions for using a tax relief, including the compliance with certain criteria related to employment and investments. Changes of tax regulations in Poland are particularly frequent. Changes in regulations concerning that tax relief or any breach by AP Kostrzyn of the conditions of the permit based on which the relief has been granted may result in the loss of the relief and have a material adverse effect on the Group's operating results and financial standing.

#### Risk connected with consolidation and liquidity of the key customers

Consolidation tendencies among our present and potential customers may result in the emergence of a more concentrated customer base consisting of several large customers. Those customers may take advantage of a more favorable negotiating position when negotiating conditions of paper purchase or make a decision regarding change of a

supplier and buy products of our competitors. Moreover, in connection with the worsening situation in polygraphy industry, our customers such as paper distributors, printing houses or publishers may not reach insurance limits (credit sales) or have problems with financial liquidity, which can result in their bankruptcy and might have an adverse impact on our financial results. The above factors can have an adverse effect on the Group's operating results and financial standing.

#### **Risk connected with compliance with environmental regulations and adverse impact of the production process on the environment**

The Group meets the environmental protection requirements, however, it is not certain that it will always perform its obligations and that in the future it will not incur significant costs or other material obligations in connection with those requirements or that it will be able to obtain all permits, approvals or other authorizations necessary for it to carry out its activities in the intended manner. Similarly, given that paper and pulp production involves potential threats related to waste discharged by Paper and Pulp mills or pollution with chemical substances, we cannot be certain that in the future the Group will not be held liable because of environmental pollution or that an event which will be a basis for holding the Group liable has not occurred yet. Thus, the Group may incur significant expenditures when having to remove pollution and reclaim land.

#### **Risk connected with CO<sub>2</sub> emission limits**

Our Paper and Pulp Mills get carbon dioxide emission allowances for a given period. Emission allowances are granted as part of the European Union Emission Trading Scheme. If free of charge carbon dioxide allowances are

eliminated and replaced with a system of buying emission allowances against payment, the energy generation costs incurred by us will increase accordingly. Furthermore, we may be forced to incur other costs, which are now hard to predict, in connection with emission allowances or changes in legal regulations and requirements resulting from that. For that reason we may be forced to reduce the volume of energy generated or to increase the costs of production, which may have an adverse effect on our business, financial standing, operating results or development prospects.

#### **Risk connected with the Company's ability to pay dividend**

The Issuer is a holding company, thus its ability to pay dividend depends on the level of distributions it receives from operational subsidiaries and the level of its cash balances. Some of the Group's subsidiaries conducting operating activity may in certain periods be subject to limitations concerning distributions to the Issuer. It is not certain that such limitations will not have a material adverse effect on the Group's activities, operating results and ability to pay dividend.

Moreover, by the power of the Annex no 3 dated 20th December 2013 to the Loan Agreement dated 6th November 2012 concluded by the consortium of banks (Bank Pekao S.A., Bank Zachodni WBK S.A. and BRE Bank S.A.) and Arctic Paper S.A. together with its subsidiaries, i.e. Arctic Paper Kostrzyn S.A., Arctic Paper Investment GmbH and Arctic Paper Mochenwangen GmbH, Arctic Paper S.A. bound itself not to declare or pay dividend when a breach of the agreement occurred or in case declaration or payment of dividend would have caused a breach of the agreement.

## 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 projections of financial results for 2014.

### Changes in Arctic Paper S.A. company governing and supervising bodies

On 12th February 2014, the Supervisory Board appointed Mr. Michał Sawka as a Member of the Management Board (current report 1/2014)

### Changes in Issuer's shareholding or rights to shares of persons managing and supervising Arctic Paper S.A.

#### Statement of changes to the holdings of the Company's shares and rights thereto by managing and supervising personnel

Managing and supervising personnel	Number of shares or rights thereto as at 01/09/014	Number of shares or rights thereto as at 15/05/2014	Change
<b>Management Board</b>			
Wolfgang Lübbert	-	-	-
Jacek Łoś	-	-	-
Per Skoglund	-	-	-
Małgorzata Majewska-Śliwa	-	-	-
Michał Sawka	-	-	-
<b>Supervisory Board</b>			
Rolf Olof Grundberg	12 102	12 102	-
Rune Roger Ingv arsson	-	-	-
Thomas Onstad	5 848 658	-	5 848 658
Kjell Olsson	-	-	-
Dariusz Witkowski	-	-	-
Mariusz Grendowicz	-	-	-

### Information on guarantees

As on 30th June 2014, the Group reported:

- a pledge on movables of Arctic Paper Munkedals AB resulting from a factoring contract with Svenska Handelsbanken AB amounting to SEK 160,000 thousand;
- a pledge on movables of Arctic Paper Grycksbo AB resulting from a factoring contract with Svenska Handelsbanken AB amounting to SEK 85,000 thousand;

- a pledge on real estate of Arctic Paper Grycksbo AB resulting from a factoring contract with Svenska Handelsbanken AB amounting to SEK 20,000 thousand;
- a pledge on shares of Arctic Paper Grycksbo AB resulting from a factoring contract with Svenska Handelsbanken AB amounting to SEK 155,003 thousand;
- a pledge on shares of Arctic Paper Grycksbo AB resulting from an agreement with FPG in favor of mutual life insurance company PRI in the amount of SEK 50,000 thousand;
- a contingent liability on the grounds of a guarantee for FPG in favor of mutual life insurance company FRI in the amount of SEK 1,486 thousand in Arctic Paper Grycksbo AB and of SEK 711 thousand in Arctic Paper Munkedals AB;
- a pledge on real estate of Arctic Paper Munkedals AB resulting from an agreement with FPG in favor of mutual life insurance company PRI in the amount of SEK 50,000 thousand;
- a limit of liabilities under factoring contract in Arctic Paper Munkedals set to SEK 109,968 thousand;
- a contingent liability of Arctic Paper Munkedals AB on the grounds of a guarantee for Kalltorp Kraft HB liabilities in the amount of SEK 2,722 thousand;
- mortgages on Kalltorp Kraft HB real estate in the amount of SEK 8,650 thousand;
- a bank guarantee in favor of Skatteverket Ludvika in the amount of SEK 135 thousand;
- a guarantee on the bank account of Arctic Paper Mochenwangen GmbH on the grounds of employee benefits in the amount of EUR 257 thousand;
- guarantees granted by the companies of Rottneros Group in the total amount of SEK 3,000 thousand,
- pledges on shares of Rottneros Group subsidiaries in the amount of SEK 245,000 thousand;
- a guarantee in favor of Södra Cell International AB, the supplier of pulp, in the total amount of SEK 12,000 thousand,
- a pledge on 39,900,000 Rottneros AB shares resulting from a loan agreement for the amount of EUR 4,000

thousand, concluded by and between Arctic Paper S.A. and Mr. Thomas Onstad.

Moreover, the following collateral securing the loan agreement (Arctic Paper Kostrzyn S.A. as the Borrower, Arctic Paper S.A. who acceded, by way of cumulative accession, to the Borrower's debt, as well as Arctic Paper Investment GmbH and Arctic Paper Mochenwangen GmbH as Guarantors, concluded a loan agreement with Bank Pekao S.A., Bank Zachodni WBK S.A. and BRE Bank S.A. as Lenders) dated 6th November 2012 was established:

- pledges on shares of Arctic Paper Kostrzyn S.A., shares of Arctic Paper Investment GmbH, Arctic Paper Mochenwangen GmbH and on shares of holding companies in Germany;
- pledges on bank accounts of all companies;
- mortgages on real estate of Arctic Paper Kostrzyn S.A.;
- land debt on real estate of Arctic Paper Mochenwangen GmbH;
- pledge on components of assets of Arctic Paper Kostrzyn S.A.;
- lien of property as security in Arctic Paper Mochenwangen GmbH;
- cession of rights under insurance policy;
- cession of receivables under loan agreements within the Group (Arctic Paper Kostrzyn S.A. and Arctic Paper Investment GmbH);
- submission to enforcement on the basis of art. 97 banking law (separate in favor of each bank) - Arctic Paper Kostrzyn S.A and Arctic Paper S.A.

Apart from the aforementioned guarantees, Arctic Paper Mochenwangen GmbH has a contingent liability in the amount of EUR 7,489 thousand connected with exercising the benefit of lowered electricity costs in 2012 and 2013. Lower charges for electricity had been offered by German state authorities on the grounds of support granted to companies which used renewable sources of energy. Currently the European Union considers if such help is compliant with EU law. German government claims that no infringement of EU law occurred regarding state relief to entrepreneurs. Actions of the government were aimed mostly at supporting pro-environmental proceedings, including encouraging companies to use renewable sources of energy. The Management Boards

of Arctic Paper Mochenwangen GmbH and Arctic Paper S.A. are of the opinion that the EU is likely to decide for the favorable decision for German state authorities and the companies who benefit from the support. Therefore there has been no provision recorded in consolidated income statement for the first half of 2014.

### Significant off-balance sheet items

Information regarding off-balance sheet items is given in the consolidated financial statements.

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

During the period covered by this 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 unit 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 covered by this report, Arctic Paper S.A. and its subsidiaries did not execute any significant transactions with related entities on non-market terms and conditions.

## Management Board's representations

### Accuracy and reliability of presented reports

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

- Interim condensed consolidated financial statements of Arctic Paper S.A. Capital Group for the six months' period ended 30th June 2014 and the comparative information were prepared in accordance with applicable accounting principles and reflect the true, reliable and fair situation of assets and financial position of the Capital Group and its financial results for the period of six months of 2014,
- Management Board's report on the activities of Arctic Paper S.A. Capital Group to the report for the first half of 2014 contains a true picture of development, achievements and situation of Arctic Paper S.A. Capital Group, including a description of major threats and risks.

### Appointment of the Licensed Auditor of the Consolidated Financial Statements

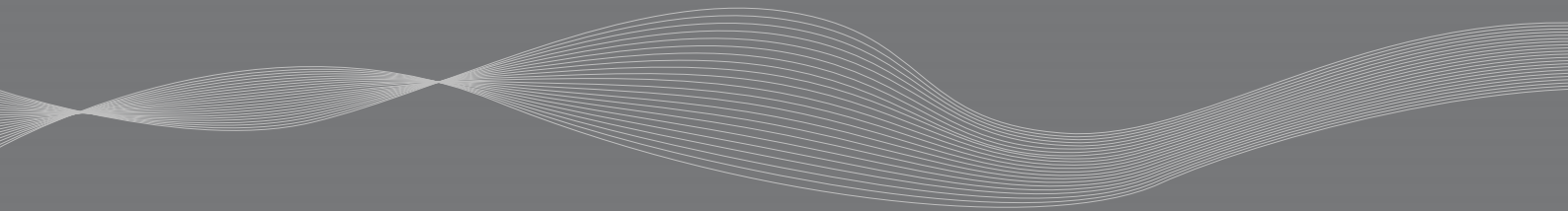
The Management Board Members of Arctic Paper S.A. hereby declares that Ernst & Young Audyt Polska Spółka z ograniczoną odpowiedzialnością sp.k. - a company entitled to audit financial statements, the licensed auditor of the half-yearly condensed consolidated financial statements of Arctic Paper S.A. Capital Group, has been appointed in compliance with the relevant regulations and that both the auditor and the chartered accountants carrying out the audit meet the requirements to develop an impartial and independent opinion on the audited half-yearly condensed consolidated statements in compliance with the relevant regulations and professional standards.

Signatures of the Management Board Members

Position	Name and surname	Date	Signature
President of the Management Board Chief Executive Officer	Wolfgang Lübbert	1 September 2014	
Member of the Management Board Chief Financial Officer	Małgorzata Majewska-Śliwa	1 September 2014	
Member of the Management Board Chief Operating Officer	Per Skoglund	1 September 2014	
Member of the Management Board Chief Procurement Officer	Jacek Łoś	1 September 2014	
Member of the Management Board Sales Director	Michał Sawka	1 September 2014	



Interim condensed consolidated financial statements  
for the six months' period ended 30th June 2014  
together with independent auditor's opinion on the revision



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## Interim condensed consolidated financial statements and selected financial data

### Selected consolidated financial data

	For the period from 01.01.2014 to 30.06.2014 thousand PLN	For the period from 01.01.2013 to 30.06.2013 thousand PLN	For the period from 01.01.2014 to 30.06.2014 thousand EUR	For the period from 01.01.2013 to 30.06.2013 thousand EUR
Revenues	1 558 375	1 586 007	373 129	379 739
Operating profit (loss)	43 543	(94 836)	10 426	(22 707)
Profit (loss) before tax	27 961	(108 936)	6 695	(26 083)
Profit (loss) from continuing operations	22 383	(97 932)	5 359	(23 448)
Profit (loss) for the period	22 383	(97 932)	5 359	(23 448)
Profit (loss) for the period attributable to equity holders of the parent	14 097	(90 504)	3 375	(21 669)
Net operating cash flow	61 321	(52 645)	14 682	(12 605)
Net investment cash flow	(32 717)	(49 608)	(7 834)	(11 878)
Net financial cash flow	(50 764)	35 775	(12 155)	8 566
Net change in cash and cash equivalents	(22 160)	(66 478)	(5 306)	(15 917)
Weighted average number of shares	69 287 783	68 512 027	69 287 783	68 512 027
Weighted average diluted number of shares	69 287 783	68 512 027	69 287 783	68 512 027
EPS (in PLN/EUR)	0,20	(1,32)	0,05	(0,32)
Diluted EPS (in PLN/EUR)	0,20	(1,32)	0,05	(0,32)
Average PLN/EUR rate*			4,1765	4,1766

	As at 30 June 2014 thousand PLN	As at 31 December 2013 thousand PLN	As at 30 June 2014 thousand EUR	As at 31 December 2013 thousand EUR
Assets	1 725 072	1 784 458	414 591	430 280
Long-term liabilities	395 698	428 151	95 099	103 239
Short-term liabilities	650 708	684 774	156 386	165 117
Equity	678 665	671 532	163 105	161 924
Share capital	69 288	69 288	16 652	16 707
Number of shares	69 287 783	69 287 783	69 287 783	69 287 783
Diluted number of shares	69 287 783	69 287 783	69 287 783	69 287 783
Book value per share (in PLN/EUR)	9,79	9,69	2,35	2,34
Diluted book value per share (in PLN/EUR)	9,79	9,69	2,35	2,34
Declared or paid dividend (in PLN/EUR)	-	-	-	-
Declared or paid dividend per share (in PLN/EUR)	-	-	-	-
PLN/EUR rate at the end of the period**	-	-	4,1609	4,1472

\* - Items of the income statement and the cash flow statement are converted at the exchange rate, which is the arithmetic mean of average rates announced by the NBP during the period to which presented data relates.

\*\* - Items of balance sheet and book value per share were converted at the average exchange rate announced by the NBP and prevailing at the balance sheet date.

## Interim condensed consolidated income statement

	Note	3 months period ended 30 June 2014 (unaudited)	6 months period ended 30 June 2014 (unaudited)	3 months period ended 30 June 2013 (unaudited)	6 months period ended 30 June 2013 (unaudited)
Continuing operations					
Sales of products	9.1	753 883	1 558 375	763 668	1 586 007
Revenues		753 883	1 558 375	763 668	1 586 007
Cost of sales	9.2	(653 124)	(1 353 971)	(771 480)	(1 503 951)
Gross profit on sales		100 759	204 404	(7 812)	82 056
Selling and distribution expenses		(72 008)	(146 189)	(73 976)	(153 592)
Administrative expenses	9.3	(16 803)	(36 860)	(19 170)	(40 269)
Other operating income	9.4	17 843	34 492	13 986	32 638
Other operating expenses	9.5	(5 573)	(12 305)	(8 176)	(15 668)
Operating profit		24 218	43 543	(95 148)	(94 836)
Finance income	9.6	312	1 008	152	2 742
Finance costs	9.6	(8 037)	(16 591)	(8 468)	(16 842)
Profit before tax		16 492	27 961	(103 464)	(108 936)
Income tax	12	(3 017)	(5 577)	11 613	11 004
Net profit (loss) for the year from continuing operations		13 475	22 383	(91 852)	(97 932)
Discontinued operations					
Profit (loss) for the period from discontinued operations		-	-	-	-
Net profit (loss) for the year		13 475	22 383	(91 852)	(97 932)
Attributable to:					
Equity holders of the parent		8 395	14 097	(86 371)	(90 504)
Non-controlling interest		5 080	8 286	(5 480)	(7 428)
		8 395	14 097	(86 371)	(90 504)
Earnings per share:					
- basic from the profit (loss) for the period attributable to equity holders of the parent	13	0,12	0,20	(1,25)	(1,32)
- basic from the profit (loss) from continuing operations attributable to equity holders of the parent	13	0,12	0,20	(1,25)	(1,32)
- diluted from the profit (loss) for the period attributable to equity holders of the parent	13	0,12	0,20	(1,25)	(1,32)
- diluted from the profit (loss) from the continuing operations attributable to equity holders of the parent	13	0,12	0,20	(1,25)	(1,32)

## Interim condensed consolidated statement of comprehensive income

	3 months period ended 30 June 2014 (unaudited)	6 months period ended 30 June 2014 (unaudited)	3 months period ended 30 June 2013 (unaudited)	6 months period ended 30 June 2013 (unaudited)
Net profit for the period	13 475	22 383	(91 852)	(97 932)
Other comprehensive income				
Items to recognise in profit/loss in future periods:				
Exchange difference on translation of foreign operations	(12 312)	(15 101)	(8 496)	18 117
Deferred tax	(1 576)	(182)	2 897	1 745
Valuation of derivatives	7 849	1 070	(11 786)	(8 925)
Items not to recognise in profit/loss in future periods:				
Actuarial gains/ losses	(1 037)	(1 037)	(334)	(334)
Other comprehensive income	(7 075)	(15 250)	(17 719)	10 603
Total comprehensive income	6 400	7 133	(109 571)	(87 328)
Total comprehensive income:				
Equity holders of the parent	4 070	3 348	(100 746)	(85 844)
Non-controlling interest	2 331	3 785	(8 824)	(1 484)

## Interim condensed consolidated balance sheet

	Note	As at 30 June 2014 (unaudited)	As at 31 December 2013 (audited)
<b>ASSETS</b>			
Non-current assets			
Property, plant and equipment	14	753 921	790 779
Investment properties		11 181	11 181
Intangible assets	14	48 419	49 379
Shares in joint ventures		4 917	5 093
Other financial assets	17	1 156	1 155
Other non-financial assets	17	2 462	1 174
Deferred tax asset	12	48 359	65 891
		870 414	924 650
Current assets			
Inventories	15	351 228	397 373
Trade and other receivables	16	379 552	319 784
Income tax receivables		11 050	9 064
Other non-financial assets	17	17 613	13 868
Other financial assets	17	-	1 685
Cash and cash equivalents	10	95 216	118 033
		854 658	859 808
<b>TOTAL ASSETS</b>		<b>1 725 072</b>	<b>1 784 458</b>
<b>EQUITY AND LIABILITIES</b>			
Equity attributable to equity holders of the parent company			
Share capital	23	69 288	69 288
Share premium		472 748	652 659
Other reserves		132 481	132 697
Foreign currency translation		8 635	18 132
Retained earnings / Accumulated (unabsorbed) losses		(164 044)	(357 015)
Non-controlling interest		159 558	155 772
<b>Total equity</b>		<b>678 665</b>	<b>671 532</b>
Non-current liabilities			
Interest-bearing loans, borrowings	18	228 347	245 438
Provisions	21	78 782	79 455
Other financial liabilities	19	41 267	44 939
Deferred tax liabilities	12	19 309	28 979
Accruals and deferred income	22	27 994	29 340
		395 698	428 151
Current liabilities			
Interest-bearing loans, borrowings	18	132 267	142 430
Provisions	21	6 193	3 086
Other financial liabilities	19	68 791	77 502
Trade and other payables	20	363 548	365 932
Income tax payable		888	1 335
Accruals and deferred income	22	79 021	94 489
		650 708	684 774
<b>TOTAL LIABILITIES</b>		<b>1 046 406</b>	<b>1 112 925</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1 725 072</b>	<b>1 784 457</b>

## Interim condensed consolidated cash flow statement

	Note	6 months period ended 30 June 2014 (unaudited)	6 months period ended 30 June 2013 (unaudited)
<b>Cash flow from operating activities</b>			
Profit before taxation		27 961	(108 936)
Adjustments for:			
Depreciation		57 666	63 900
Impairment of non-financial assets		-	66 650
Foreign exchange differences		3 439	(5 638)
Net interest		15 469	15 500
Gain/loss from investing activities		(1 916)	150
Increase / decrease in receivables and other non-financial assets <sup>other non-financial asse</sup>		(69 943)	(21 836)
Increase / decrease in inventories		37 855	4 547
Increase / decrease in payables except for loans, borrowings and bonds		8 107	(60 080)
Change in accruals and prepayments		(19 020)	2 823
Change in provisions		4 701	(6 397)
Income tax paid		(1 528)	(8 502)
Derecognition of emission rights to CO <sub>2</sub>		(386)	1 414
Cogeneration of certificates		(128)	3 661
Other		(955)	98
Net cash flow from operating activities		61 321	(52 645)
<b>Cash flow from investing activities</b>			
Proceeds from sale of property, plant and equipment and intangibles		1 939	40
Purchase of property, plant and equipment and intangible assets		(34 656)	(43 522)
Acquisition of non-controlling interest		-	(6 126)
Net cash flow from investing activities		(32 717)	(49 608)
<b>Cash flow from financing activities</b>			
Change in bank overdrafts		(7 385)	39 364
Repayment of finance lease liabilities		(1 410)	(4 362)
Repayment of other finance liabilities		(17 550)	(1 347)
Proceeds from other financial liabilities		8 513	-
Repayment of loans, borrowings and bonds		(17 461)	(17 584)
Interest paid		(15 471)	(17 804)
Net cash flow from financing activities		(50 764)	35 775
Net increase/(decrease) in cash and cash equivalents		(22 160)	(66 478)
Net foreign exchange differences		(657)	(1 654)
Cash and cash equivalents at the beginning of the period		118 033	202 710
Cash and cash equivalents at the end of the period	10	95 216	134 578

## Interim condensed consolidated statement of changes in equity

### Atributable to equity holders of the Company

	Share capital	Share premium	Translation reserve	Other reserves	Retained earnings (losses)	Total	Non-controlling interest	Total equity
As at 1 January 2014	69 288	652 659	18 132	132 697	(357 015)	515 760	155 772	671 532
Net profit/(loss) for the period	-	-	-	-	14 097	14 097	8 286	22 383
Other comprehensive income	-	-	(9 497)	(216)	(1 037)	(10 750)	(4 501)	(15 250)
Total comprehensive income	-	-	(9 497)	(216)	13 060	3 348	3 785	7 133
Profit/loss distribution	-	(179 911)	-	-	179 911	-	-	-
As at 30 June 2014 (unaudited)	69 288	472 748	8 635	132 481	(164 044)	519 108	159 558	678 665

Attributable to equity holders of the Company

	Share capital	Share premium	Translation reserve	Other reserves	Retained earnings (losses)	Total	Non-controlling interest	Total equity
As at 1 January 2013	55 404	580 875	26 312	189 688	(245 859)	606 419	223 067	829 486
Net profit/(loss) for the period	-	-	-	-	(90 504)	(90 504)	(7 428)	(97 932)
Other comprehensive income	-	-	9 946	(4 953)	(334)	4 659	5 944	10 603
Total comprehensive income	-	-	9 946	(4 953)	(90 837)	(85 844)	(1 484)	(87 328)
Issue of shares	10 741	54 242	-	(64 983)	-	-	-	-
Acquisition of non-controlling interest	3 143	16 460	-	-	29 353	48 956	(55 084)	(6 128)
Profit distribution	-	1 082	-	12 447	(13 529)	-	-	-
As at 30 June 2013 (unaudited)	69 288	652 659	36 258	132 199	(320 872)	569 531	166 499	736 030

## Additional explanatory notes

### 1. General information

Arctic Paper Group is the second largest, in terms of production volume, European producer of bulky book paper, offering the widest range of products in this segment and one of the leading producers of fine graphic paper in Europe. We produce many types of wood-free coated and uncoated paper, as well as wood-containing uncoated paper for printing houses, paper distributors, publishers of books and periodicals and advertising industry. At the day of publication of this report, Arctic Paper Group employs app. 1,800 people in four paper mills and fifteen companies involved in the distribution and sale of paper as well as in two pulp companies, a purchasing office and a company dealing in production of food packaging. Our paper mills are located in Poland, Sweden and Germany and have a combined capacity of more than 800,000 tons of paper annually. Our pulp mills are located in Sweden and have aggregated production capacities of 410,000 tons of pulp annually. The Group has three distribution companies engaged in sales, distribution and marketing of the products offered by the Group in Nordic countries and 12 Sales Offices to ensure access for all European markets, including Central and Eastern Europe.

Our consolidated sales revenues for six months of 2014 amounted to PLN 1,558 million.

Arctic Paper SA is a holding company established 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 paper mill Arctic Paper Mochenwangen (Germany) in November 2008 and paper mill Grycksbo (Sweden) in March 2010. In 2012, Arctic Paper S.A. acquired shares in Rottneros AB, a company listed on NASDAQ OMX in Stockholm, Sweden, and owning 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 Department of the National Court Register, under KRS number 0000306944. The Parent Company holds statistical number REGON 080262255.

The interim condensed consolidated financial statements of the Group comprise income statement, statement of comprehensive income, cash flow statement and statement of changes in equity for the period of six months ended 30th June 2014 and includes comparative data for six months' period ended 30th June 2013. The interim condensed consolidated financial statements of the Group comprise also balance sheet as on 30th June 2014 and as on 31st December 2013.

Moreover, statement of comprehensive income, income statement, as well as notes to statement of comprehensive income and income statement comprise data for three months' period ended 30th June 2014 and comparative data for three months' period ended 30th June 2013, which have not been subjected to independent auditor's revision or audit.

### Business activities

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

The additional business activities of the Group, subordinate 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

The main shareholder of Arctic Paper S.A. is Trebruk AB, a company under Swedish law, holding as on 30th June 2014 and 31st December 2013 41,360,449 shares of the Company constituting 59.69% of share capital of the Company and corresponding to 59.69% of total votes in Shareholders Meeting. Thus Trebruk AB is the parent company of Arctic Paper S.A. Moreover, in June 2014, Mr Thomas Onstad, an

indirect shareholder of Trebruk AB, acquired from Nemus Holding AB (a parent company of Trebruk AB) 5,848,658 Shares constituting 8.44% of total number of Shares.

The ultimate parent of the Arctic Paper Group is Cassandrax Financial S.A.

The Company has unlimited period of operation.

## 2. Composition of the Group

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

Entity	Registered office	Business activities	Share in capital			
			1 September 2014	30 June 2014	15 May 2014	31 December 2013
Arctic Paper Kostrzyn S.A.	Poland, Fabryczna 1, 66-470 Kostrzyn nad Odrą	Paper production	100%	100%	100%	100%
Arctic Paper Munkedals AB	Sweden, SE 455 81 Munkedal	Paper production	100%	100%	100%	100%
Arctic Paper Mochenwangen GmbH	Germany, Fabrikstrasse 62, DE-882, 84 Wolpertswende	Paper production	99,74%	99,74%	99,74%	99,74%
Arctic Paper Grycksbo AB	Sweden, Box 1, SE 790 20 Grycksbo	Paper production	100%	100%	100%	100%
Arctic Paper UK Limited	Great Britain, Quadrant House, 47 Croydon Road, Caterham, Surrey	Trading services	100%	100%	100%	100%
Arctic Paper Baltic States SIA	Latvia, K. Vardemara iela 33-20, Riga LV-1010	Trading services	100%	100%	100%	100%
Arctic Paper Deutschland GmbH	Germany, Raboisen 3, 20095 Hamburg	Trading services	100%	100%	100%	100%
Arctic Paper Benelux S.A.	Belgium, Dreve des Marroniers 28, 1410 Waterloo	Trading services	100%	100%	100%	100%
Arctic Paper Schweiz AG	Switzerland, Technoparkstrasse 1, 8005 Zurich	Trading services	100%	100%	100%	100%
Arctic Paper Italia srl	Italy, Milano – Via R. Boscovich 14	Trading services	100%	100%	100%	100%

Entity	Registered office	Business activities	Share in capital			
			1 September 2014	30 June 2014	15 May 2014	31 December 2013
Arctic Paper Ireland Limited	Ireland, 4 Rosemount Park Road, Dublin 11	Trading services	100%	100%	100%	100%
Arctic Paper Danmark A/S	Denmark, Jydekrogen 18, DK-2625 Vallensbaek	Trading services	100%	100%	100%	100%
Arctic Paper France SAS	France, 43 rue de la Breche aux Loups,	Trading services	100%	100%	100%	100%
Arctic Paper Espana SL	Spain, Avenida Diagonal 472-474, 9-1 Barcelona	Trading services	100%	100%	100%	100%
Arctic Paper Papierhandels GmbH	Austria, Hainborgerstrasse 34A, A-1030 Wien	Trading services	100%	100%	100%	100%
Arctic Paper Polska Sp. z o.o.	Poland, Biskupia 39, 04-216 Warszawa	Trading services	100%	100%	100%	100%
Arctic Paper Norge AS	Norway, Per Kroghsvei 4, Oslo	Trading services	100%	100%	100%	100%
Arctic Paper Sverige AB	Szweden, Kurodsvagen 9, 451 55 Uddevalla	Trading services	100%	100%	100%	100%
Arctic Paper East Sp. z o.o.	Poland, Fabryczna 1, 66-470 Kostrzyn nad Odra	Trading services	100%	100%	100%	100%
Arctic Paper Investment GmbH *	Germany, Fabrikstrasse 62, DE-882, 84 Wolpertswende	Holding company	100%	100%	100%	100%
Arctic Energy Sverige AB (previous Arctic Paper Investment II AB)	Szwecja, Box 383, 401 26 Göteborg	Hydro energy production	100%	100%	100%	100%
Arctic Paper Verwaltungs GmbH *	Germany, Fabrikstrasse 62, DE-882 84 Wolpertswende	Holding company	100%	100%	100%	100%
Arctic Paper Immobilienverwaltung GmbH & Co. KG*	Germany, Fabrikstrasse 62, DE-882 84 Wolpertswende	Holding company	94,90%	94,90%	94,90%	94,90%
Arctic Paper Investment AB **	Sweden, Box 383, 401 26 Göteborg	Holding company	100%	100%	100%	100%
Grycksbo Paper Holding AB	Sweden, Box 1, SE 790 20 Grycksbo	Holding company	-	100%	100%	100%
EC Kostrzyn Sp. z o.o.	Poland, ul. Fabryczna 1, 66-470 Kostrzyn nad Odra	Property and machinery rental	100%	100%	100%	100%
Arctic Paper Munkedals Kraft AB	Sweden, 455 81 Munkedal	Hydro energy production	100%	100%	100%	100%
Rottheros AB	Sweden, 107 24 Stockholm	Holding company	51,27%	51,27%	51,27%	51,27%
Rottheros Bruk AB	Sweden, Sunne	Pulp production	51,27%	51,27%	51,27%	51,27%
Utansjo Bruk AB	Sweden, Harnosand	Dormant entity	51,27%	51,27%	51,27%	51,27%
Vallviks Bruk AB	Sweden, Vallvik	Pulp production	51,27%	51,27%	51,27%	51,27%
Rottheros Packaging AB	Sweden, Stockholm	Food packaging production	51,27%	51,27%	51,27%	51,27%
SIA Rottheros Baltic	Latvia, Ryga	Company for purchase of timber	51,27%	51,27%	51,27%	51,27%

\* - entities formed for purpose of acquisition of Arctic Paper Mochenwangen GmbH

\*\* - entity formed for purpose of acquisition of Grycksbo Paper Holding AB

As on 30th June 2014 and as well as on the day of publishing of the hereby report, the percentage of voting rights held by the Group in subsidiaries corresponds 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 1st October 2012, Arctic Paper Munkedals AB purchased 50% of shares in Kalltorp Kraft Handelsbolaget seated in Trolhattan, Sweden. Kalltorp Kraft deals in energy production in the owned hydro-power plant. The purpose of the purchase

was realization of the strategy of increasing own energy capacities. The shares in Kalltorp Kraft have been recognized as joint arrangement and measured at ownership rights.

In August 2014, a business combination of Grycksbo Paper Holding AB (a holding company and the entity being acquired) and Arctic Paper Investment AB (the entity which acquires) was registered in Swedish register of commercial companies. As the result, Grycksbo Paper Holding AB terminated its business operations.

### 3. Management and supervisory bodies

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

As on 30th June 2014, the following persons constituted the Parent Company's Management Board:

- Wolfgang Lübbert – President of the Management Board appointed on 27th November 2013 (appointed as a Member of the Management Board on 5th June 2012);
- Jacek Łoś – Member of the Management Board appointed on 27th April 2011;
- Per Skoglund – Member of the Management Board appointed on 27th April 2011;
- Małgorzata Majewska - Śliwa – Member of the Management Board appointed on 27th November 2013;
- Michał Sawka – Member of the Management Board appointed on 12th February 2014.

On 12th February 2014, the Supervisory Board appointed Mr. Michał Sawka as a Member of the Management Board (current report 1/2014).

Until the date of publishing of the hereby report, there were no other changes in the composition of the Management Board of the Parent Company.

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

As on 30th June 2014, the following persons constituted the Parent Company's Supervisory Board:

- Rolf Olof Grundberg – President of the Supervisory Board appointed on 30th April 2008;
- Rune Roger Ingvarsson – Member of the Supervisory Board appointed on 22nd October 2008;
- Thomas Onstad – Member of the Supervisory Board appointed on 22nd October 2008;
- Mariusz Grendowicz – Member of the Supervisory Board appointed on 28th June 2012;
- Kjell Olsson – Member of the Supervisory Board appointed on 24th October 2013;
- Dariusz Witkowski – Member of the Supervisory Board appointed on 24th October 2013.

Until the date of publishing of the hereby report, there were no changes in the composition of the Supervisory Board of the Parent Company.

### 3.3. Audit Committee of the Parent Company

As on 30th June 2014, the following persons constituted the Parent Company's Audit Committee:

- Rolf Olof Grundberg – President of the Audit Committee appointed on 20th February 2013;
- Rune Ingvansson – Member of the Audit Committee appointed on 20th February 2013;
- Mariusz Grendowicz – Member of the Audit Committee appointed on 20th February 2013

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

## 4. Approval of the financial statements

The hereby interim quarterly condensed consolidated financial statements were approved for publishing by the Management Board on 1st September 2014.

## 5. Basis of preparation of consolidated financial statements

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

The hereby interim condensed consolidated financial statements have been presented in Polish zloty ("PLN") and all values are rounded to the nearest thousand (PLN '000) except when otherwise indicated.

The hereby interim condensed consolidated financial statements have been prepared based on the assumption that

the Group's companies will continue as going concern in the foreseeable future. As on the day of authorization of the hereby financial statements, no premises have been found to indicate any threat to continuation of business operations of the Group's companies.

The interim condensed consolidated financial statements do not include all the information and disclosures required in annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31st December 2013.

## 6. Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31st December 2013, except for the following application of changes in standards and new interpretations binding for yearly periods beginning on 1st January 2014.

- Amendments to IAS 32 *Financial Instruments – Presentation: Offsetting Financial Assets and Financial Liabilities* - effective for financial years beginning on or after 1st January 2014,
- Amendments to IFRS 10, IFRS 12 and IAS 27 *Investment Entities* (issued on 31st October 2012) – effective for financial years beginning on or after 1st January 2014,
- Amendments to IAS 36 *Recoverable Amounts Disclosures for Non-Financial Assets* (issued on 29th May 2013) –

effective for financial years beginning on or after 1st January 2014,

- Amendments to IAS 39 *Novation of Derivatives and Continuation of Hedge Accounting* (issued on 27th June 2013) – effective for financial years beginning on or after 1st January 2014.

The adoption of the aforementioned changes to standards did not cause changes of the comparative data.

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

## 6.1. Foreign currency translation

Transactions denominated in currencies other than functional currency of the entity are translated into functional 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 functional currency of the entity are translated into functional currency using the average foreign exchange rate prevailing for the given currency at the end of the reporting period. Exchange differences resulting from translation are recorded under financial income or financial costs or under capitalized cost of assets, based on defined examples in accounting policy. Non-monetary foreign currency assets and liabilities recognized at historical cost are translated at the historical foreign exchange rate prevailing on the transaction date. Non-monetary foreign currency assets and liabilities recognized at fair value are translated into Polish zloty using the rate of exchange binding as on the date of re-measurement to fair value.

The functional currencies of the foreign subsidiaries are EUR, SEK, LVL, DKK, NOK, GBP and CHF. As on the reporting date, the assets and liabilities of these subsidiaries are translated into the presentation currency of the Group (Polish zloty) using the rate of exchange prevailing on the balance sheet date and their income statements are translated using the average weighted exchange rate for the given reporting period. The exchange differences arising from the translation are taken directly to equity and recognized in a separate line. On disposal of a foreign operation, the cumulative amount of the deferred exchange differences recognized in equity and relating to that particular foreign operation shall be recognized in the income statement.

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

The following exchange rates were used for valuation purposes:

	As at 30 June 2014	As at 31 December 2013
USD	3,0473	3,0120
EUR	4,1609	4,1472
SEK	0,4532	0,4694
LVL	na	5,9009
DKK	0,5581	0,5560
NOK	0,4949	0,4953
GBP	5,1885	4,9828
CHF	3,4246	3,3816

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

	01/01 - 30/06/2014	01/01 - 30/06/2013
USD	3,0466	3,1803
EUR	4,1765	4,1766
SEK	0,4665	0,4898
LVL	na	5,9647
DKK	0,5596	0,5601
NOK	0,5045	0,5554
GBP	5,0846	4,9092
CHF	3,4194	3,3961

## 6.2. Data comparability

In the first half of 2014, no changes in accounting policies occurred which would have caused changes of the comparative data.

## 7. Seasonality

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

## 8. Information on business segments

The principal business of the Group is paper production, which is conducted in four paper mills belonging to the Group, and production of pulp in two pulp mills.

The Group identifies four business segments:

- **Uncoated paper** – paper for printing or other graphic purposes, including wood-free and wood-containing. Uncoated wood-free paper can be produced from various types of pulp, with different filler content, and can undergo various finishing enhancing 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 papers. Uncoated paper from mechanical pulp intended for printing or other graphic purposes. This type of paper is used for printing magazines with the use of rotogravure or offset printing techniques. The Group's products in this segment are usually used for printing paperbacks.

- **Coated paper** - wood-free paper for printing or other graphic purposes, one-side or two-side coated with mixtures containing mineral pigments, such as china clay, calcium carbonate, etc. The coating process can involve different methods, both online and offline, 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 production of printing and writing papers, cardboard, toilet paper and white packaging paper as well as chemithermomechanical pulp and groundwood which are used mainly for production of printing and writing papers,
- **Other** – this segment contains results of Arctic Paper S.A. business operations.

The division of business segments to uncoated and coated paper is caused by the following circumstances:

- Demand for products and its supply, as well as the products prices sold on the market are shaped by factors

characteristic for each segment, including i.e. level of the production capacity in each segment,

- Key operational factors such as e.g. orders inflow or production costs level are determined by factors which are close to each other within each paper segment,
- Products produced in the Group's Paper Mills can be, with some exceptions, allocated to production in different subsidiaries within the same paper segment, which to some extent disturbs the financial results of each Paper Mill,
- Arctic Paper Group results are dominated by global market trends in terms of fluctuations of prices of paper

and basic raw materials, particularly pulp, and depend on individual conditions of production subsidiaries to lesser extent.

The results of particular segments of business activity are monthly analyzed by the Group's key management personnel based on internal reporting provided by the companies (excluding companies of Rottneros Group). Results of Rottneros Group are analyzed mainly based on reports published on NASDAQ OMX Stockholm stock exchange. Performance is measured based on the EBITDA level. Transfer prices in transactions between segments are set on an arm's length basis as if it concerned non-related parties.

In the table below presented is the data concerning revenues and profits as well as some of the assets and liabilities. The data is divided to particular segments of the Group and refers to six months' period ended 30th June 2014 and represents the situation as on 30th June 2014.

Six months' period ended 30th June 2014 and as on 30th June 2014

	Continuing Operations						Total Group
	Uncoated	Coated	Pulp	Other	Total	Eliminations	
<b>Revenues</b>							
Sales to external customers	863 758	338 445	356 172	-	1 558 375	-	1 558 375
Inter-segment sales	59 246	64 163	21 000	19 919	164 327	(164 327)	-
<b>Total segment revenues</b>	<b>923 004</b>	<b>402 608</b>	<b>377 172</b>	<b>19 919</b>	<b>1 722 702</b>	<b>(164 327)</b>	<b>1 558 375</b>
<b>Segment's Result</b>							
EBITDA	52 095	7 192	37 894	4 685	101 866	(657)	101 209
Interest Income	5 964	65	-	1 212	7 241	(6 862)	380
Interest Costs	(12 656)	(3 655)	(933)	(5 459)	(22 703)	8 238	(14 465)
Depreciation	(28 769)	(13 696)	(15 148)	(52)	(57 666)	-	(57 666)
Impairment of non-financial assets	-	-	-	(6 006)	(6 006)	6 006	-
Positive FX and other financial income	1 399	509	-	500	2 408	(1 780)	629
Negative FX and other financial costs	(2 714)	(65)	-	(670)	(3 449)	1 324	(2 125)
<b>Profit before tax</b>	<b>15 319</b>	<b>(9 650)</b>	<b>21 813</b>	<b>(5 790)</b>	<b>21 692</b>	<b>6 269</b>	<b>27 961</b>
Segment assets	1 431 681	198 490	341 073	198 300	2 169 544	(497 747)	1 671 797
Segment liabilities	855 505	349 854	154 994	210 624	1 570 978	(543 880)	1 027 098
Capital expenditures	(15 705)	(4 473)	(14 461)	(16)	(34 656)	-	(34 656)

- Revenues from inter-segment transactions are excluded on consolidation.
- Segment result does not include financial income (PLN 1,008 thousand of which PLN 380 thousand is interest income) and financial costs (PLN 16,591 thousand of which PLN 14,465 thousand is interest costs), amortization (PLN 57,666 thousand), as well as income tax charges (PLN -5,577 thousand). However, segment result includes inter-segment sales profit (PLN 657 thousand).
- Segment assets and liabilities do not include deferred tax asset and liability (deferred tax asset of PLN 48,359 thousand, deferred tax liability of PLN 19,309 thousand) as these positions are managed in the Group level.



In the table below presented is the data concerning revenues and profits as well as some of the assets and liabilities. The data is divided to particular segments of the Group and refers to three months' period ended 30th June 2014 and represents the situation as on 30th June 2014.

### Three months' period ended 30th June 2014 and as on 30th June 2014

	Continuing Operations						Total Group
	Uncoated	Coated	Pulp	Other	Total	Eliminations	
<b>Revenues</b>							
Sales to external customers	410 096	165 891	177 896	-	753 883	-	753 883
Inter-segment sales	52 853	52 740	11 400	10 617	127 609	(127 609)	-
<b>Total segment revenues</b>	<b>462 949</b>	<b>218 630</b>	<b>189 296</b>	<b>10 617</b>	<b>881 493</b>	<b>(127 609)</b>	<b>753 883</b>
<b>Segment's Result</b>							
EBITDA	25 785	3 228	21 541	1 863	52 418	402	52 820
Interest Income	3 028	46	0	632	3 706	(3 452)	254
Interest Costs	(6 192)	(1 742)	(460)	(2 745)	(11 139)	4 141	(6 998)
Depreciation	(14 306)	(6 805)	(7 465)	(27)	(28 602)	-	(28 602)
Impairment of non-financial assets	-	-	-	(6 006)	(6 006)	6 006	-
Positive FX and other financial income	1 004	334	-	315	1 652	(1 595)	58
Negative FX and other financial costs	(1 780)	(29)	-	(370)	(2 178)	1 139	(1 039)
<b>Profit before tax</b>	<b>7 539</b>	<b>(4 967)</b>	<b>13 616</b>	<b>(6 338)</b>	<b>9 850</b>	<b>6 642</b>	<b>16 493</b>
Segment assets	1 431 681	198 490	341 073	198 300	2 169 544	(497 747)	1 671 797
Segment liabilities	855 505	349 854	154 994	210 624	1 570 978	(543 880)	1 027 098
Capital expenditures	(9 787)	(1 651)	(10 066)	3	(21 501)	-	(21 501)

- Revenues from inter-segment transactions are excluded on consolidation.
- Segment result does not include financial income (PLN 312 thousand of which PL 254 thousand is interest income) and financial costs (PLN 8,037 thousand of which PLN 6,998 thousand is interest costs), amortization (PLN 28,602 thousand), as well as income tax charges (PLN -3,017 thousand). However, segment result includes inter-segment sales loss (PLN -402 thousand).
- Segment assets and liabilities do not include deferred tax asset and liability (deferred tax asset of PLN 48,359 thousand, deferred tax liability of PLN 19,309 thousand) as these positions are managed in the Group level.

In the table below presented is the data concerning revenues and profits as well as some of the assets and liabilities. The data is divided to particular segments of the Group and refers to six months' period ended 30th June 2013 and represents the situation as on 31st December 2013.

### Six months' period ended 30th June 2013 and as on 31st December 2013

	Continuing Operations						Total Group
	Uncoated	Coated	Pulp	Other	Total	Eliminations	
<b>Revenues</b>							
Sales to external customers	904 218	342 071	339 719	-	1 586 007	-	1 586 007
Inter-segment sales	79 761	80 000	30 853	23 845	214 459	(214 459)	-
<b>Total segment revenues</b>	<b>983 979</b>	<b>422 071</b>	<b>370 572</b>	<b>23 845</b>	<b>1 800 467</b>	<b>(214 459)</b>	<b>1 586 007</b>
<b>Segment's Result</b>							
EBITDA	37 107	-11 261	3 626	6 931	36 403	(689)	35 714
Interest Income	8 454	82	-	11 296	19 832	(19 116)	715
Interest Costs	(12 926)	(12 840)	(1 469)	(6 834)	(34 069)	19 089	(14 980)
Depreciation	(25 364)	(19 311)	(19 171)	(54)	(63 900)	-	(63 900)
Impairment of non-financial assets	-	(66 650)	-	-	(66 650)	-	(66 650)
Positive FX and other financial income	1 562	-	490	75 406	77 458	(75 432)	2 026
Negative FX and other financial costs	(2 053)	(71)	-	(29)	(2 153)	291	(1 862)
<b>Profit/(loss) before tax</b>	<b>6 779</b>	<b>(110 050)</b>	<b>(16 524)</b>	<b>86 716</b>	<b>(33 079)</b>	<b>(75 857)</b>	<b>(108 936)</b>
Segment assets	1 246 372	334 510	423 597	209 866	2 214 345	(500 870)	1 713 474
Segment liabilities	906 176	351 758	159 127	215 543	1 632 603	(548 657)	1 083 946
Capital expenditures	(35 244)	(5 293)	(2 939)	(46)	(43 522)	-	(43 522)

- Revenues from inter-segment transactions are excluded on consolidation.
- Segment result does not include financial income (PLN 2,741 thousand of which 715 PLN is interest income) and financial costs (PLN 16,842 thousand of which PLN 14,980 thousand is interest costs), amortization (PLN 63,900 thousand), impairment of non-financial assets (PLN 66,650 thousand), as well as income tax charges (PLN -1,659 thousand). However, segment result includes inter-segment sales profit (PLN 689 thousand).
- Segment assets and liabilities do not include deferred tax asset and liability (deferred tax asset of PLN 65,606 thousand, deferred tax liability of PLN 46,355 thousand) as these positions are managed in the Group level.

In the table below presented is the data concerning revenues and profits as well as some of the assets and liabilities. The data is divided to particular segments of the Group and refers to three months' period ended 30th June 2013 and represents the situation as on 31st December 2013.

### Three months' period ended 30th June 2013 and as on 31st December 2013

	Continuing Operations						Total Group
	Uncoated	Coated	Pulp	Other	Total	Eliminations	
<b>Revenues</b>							
Sales to external customers	428 926	160 395	174 347	-	763 668	-	763 668
Inter-segment sales	38 700	37 128	15 107	13 844	104 780	(104 780)	-
<b>Total segment revenues</b>	<b>467 626</b>	<b>197 524</b>	<b>189 454</b>	<b>13 844</b>	<b>868 448</b>	<b>(104 780)</b>	<b>763 668</b>
<b>Segment's Result</b>							
EBITDA	9 855	(11 148)	(1 266)	5 335	2 776	570	3 347
Interest Income	4 779	41	0	5 330	10 150	(9 817)	333
Interest Costs	(6 640)	(6 134)	(980)	(2 789)	(16 543)	9 182	(7 361)
Depreciation	(12 804)	(9 665)	(9 352)	(24)	(31 845)	-	(31 845)
Impairment of non-financial assets							
Positive FX and other financial income	1 112	-	(978)	74 896	75 030	(75 211)	(181)
Negative FX and other financial costs	(1 134)	(30)	-	(13)	(1 178)	70	(1 107)
<b>Profit/(loss) before tax</b>	<b>(4 832)</b>	<b>(93 586)</b>	<b>(12 575)</b>	<b>82 735</b>	<b>(28 259)</b>	<b>(75 206)</b>	<b>(103 464)</b>
Segment assets	1 246 372	334 510	423 597	209 866	2 214 345	(500 870)	1 713 474
Segment liabilities	906 176	351 758	159 127	215 543	1 632 603	(548 657)	1 083 946
Capital expenditures	(20 750)	(1 699)	(1 960)	(37)	(24 446)	-	(24 446)

- Revenues from inter-segment transactions are excluded on consolidation.
- Segment result does not include financial income (PLN 152 thousand of which 333 PLN is interest income) and financial costs (PLN 8,469 thousand of which PLN 7,361 thousand is interest costs), amortization (PLN 31,845 thousand), impairment of non-financial assets (PLN 66,650 thousand), as well as income tax charges (PLN -1,050 thousand). However, segment result includes inter-segment sales loss (PLN 570 thousand).
- Segment assets and liabilities do not include deferred tax asset and liability (deferred tax asset of PLN 65,606 thousand, deferred tax liability of PLN 46,355 thousand) as these positions are managed in the Group level.

## 9. Revenue and expenses

### 9.1. Income from sales of products

Income from sales of products amounted in the first half of 2014 to PLN 1,558,375 thousand, which means a decrease compared to the corresponding period of the previous year by PLN 27,632 thousand. Income from paper sales amounted to PLN 1,202,203 thousand (382 thousand tons), while pulp

sales income amounted to PLN 356,172 thousand. In the first half of 2013, income from paper sales amounted to PLN 1,246,289 thousand (388 thousand tons), while income from pulp sales amounted to PLN 339,719 thousand.

### 9.2. Cost of sales

In the first half of 2014, cost of sales amounted to PLN 1,353,971 thousand, which is a decrease compared to the corresponding period of the previous year by PLN 149,981

thousand. The main reason for the decrease was reduction of materials use cost and other production costs.

### 9.3. Selling expenses

In the first half of 2014, selling expenses amounted to PLN 146,189 thousand, which is a decrease compared to the corresponding period of the previous year by PLN 7,403

thousand. The decrease results mainly from reduction of costs connected with transportation of products to customers

### 9.4. Administrative expenses

In the first half of 2014, administrative expenses amounted to PLN 36,860 thousand, which is a decrease compared to the corresponding period of the previous year by PLN 3,410 thousand.

The decrease of administrative expenses resulted mainly from reduction of costs related to services rendered to the Group by external advisors.

### 9.5. Other operating income

Other operating income in the first half of 2014 amounted to PLN 34,492 thousand, which means an increase compared to the corresponding period of the previous year by PLN 1,854 thousand.

Other operating income comprised mainly revenues from heat and electricity sales and revenues from sales of other materials.

### 9.6. Other operating cost

In the first half of 2014, other operating cost amounted to PLN 12,305 thousand, which means a decrease compared to the corresponding period of the previous year by PLN 3,363 thousand.

Other operating cost comprise mainly costs of sales of heat and electricity as well as other materials. Lower other operating cost in the first half of 2014 resulted mainly from lower cost of sales of electricity and heat as well as other materials.

## 9.7. Financial income and cost

In the first half of 2014, financial income and cost amounted respectively to PLN 1,008 thousand and PLN 16,591 thousand, which means, compared to the corresponding period of the previous year, a decrease of income of PLN 1,733 thousand and a decrease of cost by PLN 251 thousand.

Changes in financial income and cost result primarily from net presentation of foreign exchange differences. In the first half of 2014, the Group recorded an excess of positive exchange differences over negative exchange differences in the amount of PLN 444 thousand, while in the analogous period of the previous year the result was PLN 2,019 thousand.

## 10. Cash and cash equivalents

For the purpose of the interim condensed consolidated cash flow statement, cash and cash equivalents consist of the positions defined below:

	As at 30 June 2014 (unaudited)	As at 30 June 2013 (unaudited)
Cash at bank and in hand	88 593	132 280
Short-term deposits	6 000	2 000
Cash in transit	623	298
<b>Total</b>	<b>95 216</b>	<b>134 578</b>

## 11. Dividend paid and proposed

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

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

As on the date of the hereby financial statements, the Company had no preferred shares.

The possibility of payment of potential dividend by the Company to shareholders depends on the level of payments received from subsidiaries. Risks associated with the Company's ability to pay dividends have been described in the part "Risk factors" of the annual report for 2013.

By the power of the Annex no 3 dated 20th December 2013 to the Loan Agreement dated 6th November 2012 concluded by the consortium of banks (Bank Pekao S.A., Bank Zachodni WBK S.A. and BRE Bank S.A.) and Arctic Paper S.A. together with its subsidiaries, i.e. Arctic Paper Kostrzyn S.A., Arctic Paper Investment GmbH and Arctic Paper Mochenwangen GmbH, Arctic Paper S.A. bound itself not to declare or pay dividend when a breach of the agreement occurred or in case declaration or payment of dividend would have caused a breach of the agreement.

The Shareholders Meeting of the Company, which took place on 26th June 2014, did not decide for payment of dividend.

## 12. Income tax

### 12.1. Tax expenses

Major components of income tax expense for the three and six months' periods ended 30th June 2014 and the corresponding periods of the previous year are as follows:

	3 months period ended 30 June 2014 (unaudited)	6 months period ended 30 June 2014 (unaudited)	3 months period ended 30 June 2013 (unaudited)	6 months period ended 30 June 2013 (unaudited)
<b>Consolidated income statement</b>				
<u>Current income tax</u>				
Current income tax charge	(130)	(194)	(899)	(1 040)
Adjustments in respect of current income tax of previous years	-	-	-	-
<u>Deferred income tax</u>				
Relating to origination and reversal of temporary differences	(2 887)	(5 383)	12 512	12 044
Income tax expense reported in consolidated income statement	(3 017)	(5 577)	11 613	11 004
<b>Consolidated statement of changes in equity</b>				
<u>Current income tax</u>				
Tax effect of costs related to increase in share capital	-	-	-	-
Income tax benefit/ (income tax expense) reported in equity	-	-	-	-
<b>Consolidated statement of other comprehensive income</b>				
<u>Deferred income tax</u>				
Deferred tax in respect of valuation in hedging instruments (exchange)	(1 576)	(182)	2 897	1 745
Derecognition of deferred tax asset originally recognised in equity	-	-	-	-
Income tax benefit / (income tax expense) reported in other comprehensive income	(1 576)	(182)	2 897	1 745

### 12.2. Asset/liability of deferred income tax

The deferred tax asset as on 30th June 2014 and 31st December 2013 amounted respectively to PLN 48,359 thousand and PLN 65,891 thousand. The deferred tax asset is recognized mainly on tax losses carried forward to use in future and in connection with acquisition of Rottneros Group.

The deferred tax liability as on 30th June 2014 and 31st December 2013 amounted respectively to PLN 19,309

thousand and PLN 28,979 thousand. The deferred tax liability is recognized mainly on evaluation difference of non-current assets, which arose particularly on acquisition of AP Grycksbo, and different useful lives applied for accounting and tax purposes.

### 13. Earnings per share

Earnings per share ratio is established by dividing the net profit/ (loss) for the reporting period attributable to the Company's ordinary shareholders by weighted average number of issued ordinary shares existing in the reporting period.

Information regarding profit/ (loss) and number of shares, which was the base for calculation of earnings per share and diluted earnings per share, are presented below:

	3 months period ended 30 June 2014 (unaudited)	6 months period ended 30 June 2014 (unaudited)	3 months period ended 30 June 2013 (unaudited)	6 months period ended 30 June 2013 (unaudited)
Net profit (loss) for the period from continuing operations attributable to equity holders of the parent	8 395	14 097	(86 371)	(90 504)
Profit (loss) for the period from discontinued operations attributable to equity holders of the parent	-	-	-	-
Net profit (loss) for the period	8 395	14 097	(86 371)	(90 504)
Number of share - serie A	50 000	50 000	50 000	50 000
Number of share - serie B	44 253 500	44 253 500	44 253 500	44 253 500
Number of share - serie C	8 100 000	8 100 000	8 100 000	8 100 000
Number of share - serie E	3 000 000	3 000 000	3 000 000	3 000 000
Number of share - serie F	13 884 283	13 884 283	13 884 283	13 884 283
Total number of shares (in thousand)	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	68 512 027
Weighted average diluted number of shares	69 287 783	69 287 783	69 287 783	68 512 027
Profit/(Loss) per share (in PLN)	0,12	0,20	(1,25)	(1,32)
Diluted profit/(loss) per share (in PLN)	0,12	0,20	(1,25)	(1,32)

### 14. Property, plant & equipment and intangibles as well as impairment

#### 14.1. Property, plant & equipment and intangibles

Net value of property, plant & equipment as on 30th June 2014 amounted to PLN 753,921 thousand and was lower by PLN 36,858 thousand comparing to 31st December 2013. The value of acquired property, plant & equipment in the analyzed period amounted to PLN 32,758 thousand (for the 6-months' period ended 30th June 2013 amounted to PLN 43,350 thousand). Net amount of property, plant & equipment sold or disposed of for the 6-months' period ended 30th June 2014 totaled PLN 86 thousand (for the 6-months' period ended 30th June 2013 amounted to PLN 638 thousand). Amortization charge for the 6-months' period ended 30th June 2014 amounted to PLN 56,918 thousand (for the 6-months' period ended 30th June 2013 amounted to PLN 62,516

thousand). Impairment allowance on property, plant & equipment for the six months' period ended 30th June 2014 amounted to PLN 0 thousand (for the six months' period ended 30th June 2013: PLN -37,699 thousand). Exchange rate differences for the six months' period ended 30th June 2014 amounted to PLN -12,612 thousand (for the 6-months' period ended 30th June 2013 amounted to PLN +19,413 thousand).

Net value of intangible assets as on 30th June 2014 amounted to PLN 48,419 thousand and was lower by PLN 960 thousand compared to 31st December 2013. The value of acquired intangible assets in the analyzed period amounted to PLN 749 thousand (for the six months' period ended 30th June 2013 it

amounted to PLN 648 thousand). Net result on sales or disposal of intangible assets for the 6-months' period ended 30th June 2014 amounted to PLN 0 thousand (for the 6-month period ended 30th June 2013 amounted to PLN 5,066 thousand). Amortization charge for the 6-months' period ended 30th June 2014 amounted to PLN 748 thousand (for the 6-months' period ended 30th June 2013 it amounted to PLN 1,384 thousand). Impairment allowance on intangibles for the six months' period ended 30th June 2014 amounted to

PLN 0 thousand (for the six months' period ended 30th June 2013: PLN -28,951 thousand). Exchange rate differences recorded for the 6-months' period ended 30th June 2014 amounted to PLN -961 thousand (for the 6-months' period ended 30th June 2013 amounted to PLN +3,227 thousand). Revenue from sales of property, plant & equipment and intangible assets in the first half of 2014 amounted to PLN 1,939 thousand (in the first half of 2013: PLN 40 thousand).

## 14.2. Impairment of non-financial assets

The analysis of premises for impairment as on 30th June 2014 proved that there was no need for performance of impairment test on non-financial non-current assets and

introduction of impairment allowances. Therefore, the amount of impairment allowances as on 30th June 2014 did not change compared to 31st December 2013.

## 15. Inventories

	As at 30 June 2014 (unaudited)	As at 31 December 2013 (audited)
Raw materials (at cost)	171 235	179 573
Work-in-progress (at cost of development)	7 895	9 347
Finished goods and goods for resale, of which:		
At cost / cost of development	160 189	145 643
At net realisable value	11 377	62 470
Prepayments for supplies	532	340
<b>Total inventories, at the lower of cost (or costs of development) and net realisable value</b>	<b>351 228</b>	<b>397 373</b>
Inventory write-down	7 609	7 643
Inventory before write-down	358 836	405 017

In the 6-months' period ended 30th June 2014, the Group decreased the value of inventories by PLN 46,145 thousand. As on 30th June 2014, impairment of inventories amounted to PLN 7,609 thousand (as on 31st December 2013: PLN

7,643 thousand). As on 30th June 2014, stock of finished products worth PLN 11,377 thousand were valued at net sales price (as on 31st December 2013 amounted to PLN 62,470 thousand).



## 16. Trade receivables and other receivables

	As at 30 June 2014 (unaudited)	As at 31 December 2013 (audited)
Trade receivables	337 076	269 854
Budget receivables - VAT receivables	14 929	28 531
Other receivables from third parties	24 201	15 533
Other receivables from related parties	3 346	5 867
<b>Total receivables, net</b>	<b>379 552</b>	<b>319 784</b>
Doubtful debts allowance	20 048	20 446
<b>Total receivables, gross</b>	<b>399 600</b>	<b>340 230</b>

Trade receivables and other receivables increased from PLN 319,784 thousand as on 31st December 2013 to PLN 379,552 thousand as at the end of June 2014. The increase

was due mainly to rise of trade receivables reported by Paper and Pulp Mills.

## 17. Other non-financial and financial assets

Other short-term non-financial assets as on 30th June 2014 and as on 31st December 2013 amounted respectively to PLN 17,613 thousand and PLN 13,868 thousand. This item includes mainly costs accounted in time and its changes result from adjustment of value of these costs.

Other long-term non-financial assets as on 30th June 2014 and 31st December 2013 amounted respectively to PLN 2,462 thousand and PLN 1,174 thousand.

Other short-term financial assets amounted to PLN 0 thousand as on 30th June 2014 and PLN 1,685 thousand as on 31st December 2013. This item includes value of future contracts' positive assessment.

Other long-term financial assets as on 30th June 2014 and 31st December 2013 have not significantly changed

## 18. Interest-bearing loans, borrowings and debt securities

In the period covered by the hereby financial statements, the Group performed partial payment of its debt under temporary credit resulting from the loan agreement concluded in November 2012 with a consortium of banks (Bank Polska Kasa Opieki S.A., Bank Zachodni WBK S.A. and BRE Bank S.A) in the amount of PLN 17,461 thousand and reduced its

debt under overdrafts towards the aforementioned consortium of banks and Svenska Handelsbanken in the amount of PLN 7,385 thousand.

Other changes in the amount of loans and borrowings as on 30th June 2014 compared to 31st December 2013 result mainly from the changes of balance sheet evaluation.

## 19. Other financial liabilities

As on 30th June 2014, other financial liabilities amounted to PLN 110,058 thousand (of which long-term PLN 41,267 thousand and short-term PLN 68,791 thousand) and decreased by PLN 12,383 thousand, compared to 31st December 2013. Decrease of other financial liabilities was

related mostly to the factoring agreements of AP Munkedals and AP Grycksbo with Svenska Handelsbanken, where as on 30th June 2014 other financial liabilities on the grounds thereof amounted to PLN 50,800 thousand (31st December 2013: PLN 56,623 thousand).

During the reporting period the Group repaid a part of financial lease liabilities in the amount of PLN 1,410 thousand.

Other differences in value of other financial liabilities as on 30th June 2014, compared to 31st December 2013, result mainly from valuation of hedging instruments of future currency

sale/purchase transactions as well as transactions of electricity purchases, sales of pulp and SWAP transactions

## 20. Trade liabilities and other liabilities

The value of trade and other liabilities as on 30th June 2014 amounted to PLN 363,548 thousand (as on 31st December 2013: PLN 365,932 thousand). The decrease of the amount of

this position compared to the amount as at the end of the previous year by PLN 2,384 thousand was caused by the decrease of trade liabilities in Paper Mills.

## 21. Changes in provisions

	As at 30 June 2014 (unaudited)	As at 31 December 2013 (audited)
Long-term provision		
Pension provision	75 565	76 196
Other provision	3 217	3 260
	78 782	79 455
Short-term provision	6 193	3 086
Long-term provision	78 782	79 455

As on 30th June 2014, the retirement provision decreased by PLN 631 thousand compared to 31st December 2013..

## 22. Accruals

Main items of accruals are subsidies from state institutions, amounting to PLN 30,712 thousand, including long-term PLN 27,994 thousand (31st December 2013: PLN 34,803 thousand, including long-term PLN 29,340 thousand) as well

as short-term liabilities towards employees, mainly holiday benefits, which as on 30th June 2014 amounted to PLN 43,213 thousand (PLN 44,193 thousand as on 31st December 2013).

## 23. Equity securities

	As at 30 June 2014 (unaudited)	As at 31 December 2013 (audited)
'A' class ordinary shares of PLN 1 each	50	50
'B' class ordinary shares of PLN 1 each	44 254	44 254
'C' class ordinary shares of PLN 1 each	8 100	8 100
'E' class ordinary shares of PLN 1 each	3 000	3 000
'F' class ordinary shares of PLN 1 each	13 884	13 884
	69 288	69 288

	Date of registration of capital increase	Volume	Value in PLN
Ordinary shares issued and fully covered			
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 6 March 2013	2013-03-22	726 253	726 253
As at 30 June 2014 (unaudited)		69 287 783	69 287 783

## 24. Financial instruments

The Company has the following financial instruments: cash in hand and at bank, bank deposits, bank loans, receivables, liabilities of financial leases, as well as SWAP interest

contracts, forward currency contracts, forward contracts for the purchase of electricity, and forward contracts for the sales of pulp.

## 24.1. Fair values of each class of financial instruments

The table below shows the comparison of the carrying amounts and fair values of all financial instruments of the Group, by class and categories of financial assets and liabilities:

	Category complaint with IAS 39	Book value		Fair value	
		As at 30 June 2014	As at 31 December 2013	As at 30 June 2014	As at 31 December 2013
<b>Financial Assets</b>					
Trade and other receivables	<i>L&amp;R</i>	364 623	291 253	364 623	291 253
Hedging instruments		-	1 685	-	1 685
Other financial assets (excluding loans and hedging instruments)	<i>L&amp;R</i>	1 156	1 155	1 156	1 155
Cash and cash equivalents	<i>FVTPL</i>	95 216	118 033	95 216	118 033
<b>Financial Liabilities</b>					
Interest bearing bank loans and borrowings					
therein:	<i>OFL</i>	360 613	387 868	360 613	387 868
- long-term	<i>OFL</i>	228 347	245 438	228 347	245 438
- short-term	<i>OFL</i>	132 267	142 430	132 267	142 430
Liabilities from financial leasing title and lease agreement					
with purchase option, therein:		34 285	36 840	34 285	36 840
- long-term		31 569	34 066	31 569	34 066
- short-term		2 716	2 774	2 716	2 774
Trade and other financial payables		323 569	340 822	323 569	340 822
Hedging instruments	<i>OFL</i>	23 848	27 525	23 848	27 525

Used abbreviations:

- HTM - Financial assets held to maturity
- FVTPL - Financial assets/liabilities measured at fair value through profit & loss
- PiN - Loans and receivables
- DDS - Financial assets held for sale
- OFL - Other financial liabilities measured at amortized cost

Framework of fair value of financial instruments held by the Group, as on 30th June 2014 and as on 31st December 2013, is presented below:

	Level	Level	Level
30 June 2014	1	2	3
Financial assets at fair value through comprehensive income			
Hedging instruments	-	-	-
Other financial assets			
Trade and other receivables	-	-	364 623
Other financial assets (excluding loans and hedging instruments)	-	-	1 156
Cash and cash equivalents	-	-	95 216
Financial liabilities valued through comprehensive income			
Hedging instruments	-	23 848	-
Other financial liabilities			
Interest bearing bank loans and borrowings	-	-	360 613
Liabilities from financial leasing title and lease agreement	-	-	34 285
Trade and other financial payables	-	-	323 569
	Level	Level	Level
31 December 2013	1	2	3
Financial assets at fair value through comprehensive income			
Hedging instruments	-	1 685	-
Other financial assets			
Trade and other receivables	-	-	291 253
Other financial assets (excluding loans and hedging instruments)	-	-	1 155
Cash and cash equivalents	-	-	118 033
Financial liabilities valued through comprehensive income			
Hedging instruments	-	27 525	-
Interest bearing bank loans and borrowings			
Liabilities from financial leasing title and lease agreement	-	-	36 840
Trade and other financial payables	-	-	340 822

## 24.2. Interest rate risk

In the table below presented is the carrying value of financial instruments of the Group exposed to interest rate risk, divided by particular maturity profiles:

30 June 2014

Floating rate	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
<b>Other financial liabilities</b>							
Obligations under finance lease and hire purchase contracts	2 716	1 380	2 772	2 844	2 870	21 703	34 285
<b>Loans, borrowings:</b>							
PLN bank overdraft in Bank Polska Kasa Opieki S.A.	21 630	-	-	-	-	-	21 630
PLN bank overdraft in BRE Bank S.A.	11 470	-	-	-	-	-	11 470
PLN bank overdraft in BZ WBK	16 727	-	-	-	-	-	16 727
PLN bank loan in Bank Polska Kasa Opieki S.A.	4 943	2 140	4 310	22 442	-	-	33 835
EUR bank loan in Bank Polska Kasa Opieki S.A.	1 236	618	1 236	5 730	-	-	8 820
PLN bank loan in BRE Bank S.A.	6 298	3 167	6 380	31 387	-	-	47 232
EUR bank loan in BRE Bank S.A.	3 050	1 525	3 050	14 141	-	-	21 766
PLN bank loan in BZ WBK	3 783	1 903	3 832	18 863	-	-	28 381
EUR bank loan in BZ WBK	1 179	589	1 179	5 467	-	-	8 414
SEK bank loan in SHB	18 297	-	-	-	-	-	18 297
SEK bank loan in Danske Bank	30 364	-	-	-	-	-	30 364
Sum loans, borrowings	118 978	9 942	19 987	98 030	-	-	246 937
TOTAL	121 694	11 322	22 759	100 874	2 870	21 703	281 222

30 June 2014

Fixed rate	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
<b>Loans, borrowings and bonds:</b>							
Loan from the owner of the main shareholder	111	-	16 644	-	-	-	16 755
PLN bank loan in Bank Polska Kasa Opieki S.A.	4 254	2 140	4 310	21 228	-	-	31 932
EUR bank loan in Bank Polska Kasa Opieki S.A.	2 890	1 445	2 890	13 402	-	-	20 627
PLN bank loan in BZ WBK	3 622	1 821	3 669	18 058	-	-	27 170
EUR bank loan in BZ WBK	2 409	1 205	2 409	11 169	-	-	17 192
TOTAL	13 286	6 611	29 922	63 857	-	-	113 676

31 December 2013

Floating rate	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
<b>Other financial liabilities</b>							
Obligations under finance lease and hire purchase contracts	2 774	2 830	2 871	2 914	2 972	22 479	36 840
<b>Loans, borrowings and bonds:</b>							
PLN bank overdraft in Bank Polska Kasa Opieki S.A.	19 247	-	-	-	-	-	19 247
PLN bank overdraft in BRE Bank S.A.	12 040	-	-	-	-	-	12 040
PLN bank overdraft in BZ WBK	12 736	-	-	-	-	-	12 736
PLN bank loan in Bank Polska Kasa Opieki S.A.	4 258	4 276	4 315	21 400	-	-	34 249
EUR bank loan in Bank Polska Kasa Opieki S.A.	1 252	1 232	1 232	5 879	-	-	9 595
PLN bank loan in BRE Bank S.A.	7 012	6 328	6 384	31 730	-	-	51 454
EUR bank loan in BRE Bank S.A.	3 079	3 040	3 040	14 432	-	-	23 591
PLN bank loan in BZ WBK	4 175	3 770	3 804	18 884	-	-	30 632
EUR bank loan in BZ WBK	1 195	1 175	1 175	5 618	-	-	9 163
SEK bank loan in SHB	28 164	-	-	-	-	-	28 164
SEK bank loan in Danske Bank	35 517	-	-	-	-	-	35 517
Sum loans, borrowings and bonds	128 673	19 821	19 950	97 943	-	-	266 387
TOTAL	131 448	22 651	22 821	100 856	2 972	22 479	303 227

31 December 2013

Fixed rate	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
<b>Loans, borrowings and bonds:</b>							
Loan from the owner of the main shareholder	114	-	16 589	-	-	-	16 703
PLN bank loan in Bank Polska Kasa Opieki S.A.	4 259	4 276	4 314	21 401	-	-	34 250
EUR bank loan in Bank Polska Kasa Opieki S.A.	2 901	2 881	2 881	13 527	-	-	22 190
PLN bank loan in BZ WBK	4 063	3 669	3 702	18 382	-	-	29 815
EUR bank loan in BZ WBK	2 421	2 401	2 401	11 302	-	-	18 525
TOTAL	13 757	13 227	29 887	64 612	-	-	121 482

### 24.3. Hedge accounting

As on 30th June 2014, the Group used cash flow hedge accounting for the following hedging relations:

- Arctic Paper Kostrzyn S.A. designated for cash flow hedge accounting the SWAP derivative in order to hedge repayments of interest in EUR on the bank loan in EUR and to hedge repayments of interest in PLN on the bank loan in PLN.
- Arctic Paper Munkedals AB, Arctic Paper Grycksbo AB and the companies of Rottneros Group designated for cash flow hedge accounting the forward derivatives in order to hedge the future purchases of electricity.
- companies of Rottneros Group designated for cash flow hedge accounting the FX forward derivatives in order to hedge a part of currency expenditures in EUR related to future purchases of electricity.
- The Companies of Rottneros Group designated for cash flow hedge accounting the forward derivatives in order to hedge pulp sales price in SEK.

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

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

Hedge type	Hedging the cash flow variations related to the planned purchases of electricity in foreign currencies
Hedge item	Hedged item is part of the future highly probably cash flows resulting from purchases of electricity denominated in EURO
Hedging instruments	Hedging instruments are FX forward transactions in which the Company commits to purchase EUR for SEK
Forward contract parameters	
Trade date	2013 and 2014
Delivery date	depending on the contract, until 31.12.2014
Hedged amount	8.0 mln EUR
Forward ratio	9.13 SEK/EUR

## 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:

Hedge type	Hedging the cash flow variations related to electricity purchases
Hedge item	Hedged item is part of the future highly probably cash flows resulting from electricity purchases
Hedging instruments	Hedging instruments are forward transactions for electricity purchases on the Nord Pool Stock Exchange
Forward contract parameters	
Trade date	depending on the contract, since 01.02.2011
Delivery date	depending on the contract, until 31.12.2017
Hedged amount	665.600 MWh
Forward price	from 30.25 to 48.80 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 the cash flow hedge accounting related to sales of pulp:



Hedge type	Hedging the cash flow variations related to sales of pulp
Hedge item	Hedged item is part of the future highly probably cash flows resulting from sales of pulp
Hedging instruments	Hedging instruments are forward transactions for sales of pulp in SEK
Forward contract parameters	
Trade date	2 013
Delivery date	depending on the contract, untill 31.12.2014
Hedged amount	12.000 ton
Forward price	5 720 SEK/tonne

### Cash flow volatility hedge accounting related to changeable interest rate of a 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 repayment of interest in EUR on the loan in EUR:

Hedge type	Hedging the cash flow variations related to flexible rate interest on bank loan denominated in EURO
Hedge item	Hedged item is future cash flows resulting from interest (in EURO) based on 3M EURIBOR on bank loan denominated in EURO
Hedging instruments	Hedging instruments are SWAP transaction for fixed rate interest in EURO on bank loan denominated in EURO
Forward contract parameters	
Trade date	28.12.2012 and 04.03.2013
Delivery date	depending on interest payment date based on schedule in bank loan agreement, untill 7.11.2017
Hedged amount	interest in accordance with bank loan agreement on bank loan of 10.8 mln EURO
SWAP interest rate	0,69% and 0,78%

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

Hedge type	Hedging the cash flow variations related to flexible rate interest on bank loan denominated in PLN
Hedge item	Hedged item is future cash flows resulting from interest (in PLN) based on 3M WIBOR on bank loan denominated in PLN
Hedging instruments	Hedging instruments are SWAP transaction for fixed rate interest in PLN on bank loan denominated in PLN
Forward contract parameters	
Trade date	07.03.2013
Delivery date	depending on interest payment date based on schedule in bank loan agreement, until 7.11.2017
Hedged amount	interest in accordance with bank loan agreement on bank loan of 38.8 mln PLN
SWAP interest rate	3,71%

The table below presents fair values of hedging instruments in cash flow hedge accounting as on 30th June 2014 and the comparative data:

	As at 30 June 2014		As at 31 December 2013	
	(unaudited) Assets	(unaudited) Liabilities	(audited) Assets	(audited) Liabilities
FX forward	-	(227)	1 685	1 125
Pulp forward	-	2 946	-	1 661
SWAP	-	2 151	-	794
Electricity forward	-	18 978	-	23 945
Total hedging derivatives	-	23 848	1 685	27 525

## 25. Financial risk management objectives and policies

The Group's principal financial instruments comprise bank loans, financial leases and hire purchase contracts, cash and short-term deposits. The main purpose of these financial instruments is to raise finance for Group's operations.

The Group also uses factoring with regression for trade receivables. The main purpose for using this financial instrument is to quickly raise finance.

The Group has various other financial instruments such as trade receivables and liabilities, which arise directly from operations, as well as short-term deposits. The main risks arising from the Group's financial instruments are interest rate

risk, liquidity risk, foreign currency risk and credit risk. The Management Board reviews and agrees policies for managing each of these risks.

In the opinion of the Management Board – in comparison to the annual consolidated financial statements prepared as on 31st December 2013 there have been no significant changes of the financial risk. There have been also no changes in the objectives and policies of the management of the risk.

## 26. Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business operations and maximize shareholder value.

## 27. Contingent liabilities and contingent assets

As on 30th June 2014, the Capital Group reported:

- a contingent liability on the grounds of a guarantee for FPG in favor of mutual life insurance company FRI in the amount of SEK 1,486 thousand (PLN 673 thousand) in Arctic Paper Grycksbo AB and of SEK 711 thousand (PLN 332 thousand) in Arctic Paper Munkedals AB;
- a contingent liability of Arctic Paper Munkedals AB on the grounds of a guarantee for Kalltorp Kraft HB liabilities in the amount of SEK 2,722 thousand (PLN 1,380 thousand);
- a bank guarantee in favor of Skatteverket Ludvika in the amount of SEK 135 thousand (PLN 61 thousand);
- guarantees granted by the companies of Rottneros Group in the total amount of SEK 3,000 thousand (PLN 1,360 thousand),
- a guarantee in favor of Södra Cell International AB, the supplier of pulp, in the total amount of SEK 12,000 thousand (PLN 5,438 thousand).

## 28. Legal claims

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

## 29. Tax settlements

### Arctic Paper Kostrzyn S.A.

Arctic Paper Kostrzyn S.A. has been conducting business in the Kostrzynsko-Słubicka Specjalna Strefa Ekonomiczna (SEZ) business zone since 25 August 2006.

Tax settlements, together with other areas of legal compliance (e.g. customs or foreign exchange law) are subject to review and investigation by a number of authorities, which are entitled to impose severe fines, penalties and interest charges. The lack of reference to well established regulations in Poland

In the Management Board's opinion – in comparison to the annual consolidated financial statements prepared as on 31st December 2013 there have been no significant changes in the objectives and policies of capital management.

Apart from the aforementioned guarantees, Arctic Paper Mochenwangen GmbH has a contingent liability in the amount of EUR 7,489 thousand (PLN 31,161 thousand) connected with exercising the benefit of lowered electricity costs in 2012 and 2013. Lower charges for electricity had been offered by German state authorities on the grounds of support granted to companies which used renewable sources of energy. Currently the European Union considers if such help is compliant with EU law. German government claims that no infringement of EU law occurred regarding state relief to entrepreneurs. Actions of the government were aimed mostly at supporting pro-environmental proceedings, including encouraging companies to use renewable sources of energy. The Management Boards of Arctic Paper Mochenwangen GmbH and Arctic Paper S.A. are of the opinion that the EU is likely to decide for the favorable decision for German state authorities and the companies who benefit from the support. Therefore there has been no provision recorded in consolidated income statement for the year ended 31st December 2013 and the six months' period ended 30th June 2014.

results in a lack of clarity and integrity in the regulations. Frequent contradictions in legal interpretations both within government bodies and between companies and government bodies create uncertainties and conflicts. These facts create tax risks in Poland that are substantially more significant than those typically found in countries with more developed tax systems.

Tax authorities may examine the accounting records within up to five years after the end of the year in which the final tax

payments were performed. Consequently, the Group may be subject to additional tax liabilities, which may arise as a result of additional tax audits. In Group's opinion, as on 30th June

2014, there is no need to create additional provisions to cover recognized and countable tax risk.

### 30. Investment commitments

As on 30th June 2014, the Group bound itself to make expenditures of no less than PLN 52,000 thousand for property, plant & equipment (as on 31st December 2013: PLN 5,000 thousand). The amount will be distributed for purchase of new machinery and technical devices.

### 31. Related parties disclosures

Arctic Paper S.A. Group's related parties are:

- Trebruk AB – parent company of Arctic Paper S.A. Group,
- IPM Sp. z o.o. Sp.k. – related to an ex-Member of the Management Board (until 15th July 2013).
- Galileus Sp.z o.o. Sp.k. – related to an ex-Member of the Management Board (until 26th July 2013),
- Centrum Finansowo-Księgowe PROGRESSIO s.c. – related to a Member of the Management Board (since 27th November 2013).

Transactions with related parties are set on an arm's length basis.

The table below presents the total values of transactions with related parties entered into during the 6-months' period ended 30th June 2014 and as on 30th June 2014:

Data for the period from 1 January 2014 to 30 June 2014 and as at 30 June 2014 (PLN thousands)

Related party	Sales to related parties	Purchases from related parties	Interest – financial income	Interest – financial costs	Receivables		Payables to related parties
					from related parties	Loans granted	
Trebruk AB (Arctic Paper AB)	-	-	-	-	3 346	-	-
CFK Progressio s.c.	-	37	-	-	-	-	8
<b>Total</b>	-	37	-	-	3 346	-	8

The table below presents the total values of transactions with related parties entered into during the 6-months' period ended 30th June 2013 and as on 30th June 2013:

Data for the period from 1 January 2013 to 30 June 2013 and as at 30 June 2013 (PLN thousands)

Related party	Sales to related parties	Purchases from related parties	Interest – financial income	Interest – financial costs	Receivables		Payables to related parties
					from related parties	Loans granted	
Trebruk AB (Arctic Paper AB)	-	-	-	-	3 948	-	-
Arctic Paper Häfreström	-	-	-	-	2 370	-	-
IPM Sp. z o.o. Sp.k.*	-	4 313	-	-	-	-	2 500
Galileus Sp.z o.o.Sp.k.*	-	247	-	-	-	-	-
<b>Total</b>	-	<b>4 560</b>	-	-	<b>6 318</b>	-	<b>2 500</b>

\*party related to Members of Management Board, resignation of Members of Management Board in July 2013

## 32. CO2 emission rights

Arctic Paper Kostrzyn S.A., Arctic Paper Munkedals AB, Arctic Paper Grycksbo AB and Arctic Paper Mochenwangen GmbH, as well as the companies of Rottneros Group, are all part of the European Union Emission Trading Scheme. The previous

trading period lasted from 1st January 2008 to 31st December 2012. New allocation covers the period of 1st January 2013 – 31st December 2017.

The tables below specify the allocation for 2013 and 2014 approved by the EU and the usage of emission rights by each of the five entities.

(in tonnes) for Arctic Paper Kostrzyn S.A.	2013	2014
Amount granted	108 535	105 434
Amount unused from previous years	348 490	306 448
Amount used	(150 577)	(69 113)
Amount purchased	-	-
Amount sold	-	-
Amount unused	306 448	342 769

(in tonnes) for Arctic Paper Munkedals AB	2013	2014
Amount granted	44 238	43 470
Amount unused from previous years	24 305	67 262
Amount used	(1 281)	(514)
Amount purchased	-	-
Amount sold	-	-
Amount unused	67 262	110 218

(in tonnes) for Arctic Paper Mochenwangen GmbH	2013	2014
Amount granted	112 141	76 733
Amount unused from previous years	(78 861)	1 398
Amount used	(110 743)	(100 325)
Amount purchased	78 861	128 700
Amount sold	-	(105 105)
Amount unused	1 398	1 401

(in tonnes) dla Arctic Paper Grycksbo AB	2013	2014
Amount granted	77 037	75 689
Amount unused from previous years	69 411	111 448
Amount used	-	-
Amount purchased	-	-
Amount sold	(35 000)	-
Amount unused	111 448	187 137

(in tonnes) for Rottneros' subsidiaries	2013	2014
Amount granted	30 681	30 681
Amount not used in previous years	72 888	90 522
Amount used	(13 047)	(6 592)
Amount purchased	-	-
Amount sold	-	-
Amount unused	90 522	114 611

### 33. Government grants and operations in Special Economic Zone

#### 33.1. Government grants

In the first half of 2014, the Group companies did not receive any subsidies.

#### 33.2. Operations in Special Economic Zone

Arctic Paper Kostrzyn S.A. operates in the Kostrzyńsko-Słubicka Specjalna Special Economic Zone (the „KSSSE”) and based on the permission issued by the Kostrzyńsko – Słubicka Special Economic Zone S.A. benefits from the company income tax relief as regards the activities carried out under the permission.

The tax exemption is of conditional nature. The provisions of the act on special economic zones provide that Arctic Paper

Kostrzyn S.A. loses its tax relief if at least one of the following occurs:

- Arctic Paper Kostrzyn ceases to conduct business operations in the KSSSE for which it obtained the permission,
- Arctic Paper Kostrzyn severely violates the conditions of the permission,
- Arctic Paper Kostrzyn does not remove errors/irregularities identified during the course of control within

the period of time specified in the order issued by appropriate minister for economic affairs,

- Arctic Paper Kostrzyn transfers, in any form, the ownership right to assets to which the tax relief related within the period shorter than 5 years of introducing those assets to the fixed assets register,
- if the machines and equipment is transferred to conduct business activities outside the SEZ,
- Arctic Paper Kostrzyn receives compensation, in any form, of the investment expenditure incurred,
- Arctic Paper Kostrzyn goes into liquidation or if it is proclaimed bankrupt.

Based on the permit issued on 25th August 2006, Arctic Paper Kostrzyn S.A. may benefit from exemption to 15th November 2017. The pre-requisite condition for this tax relief is that appropriate investment expenditure is made in the Special Economic Zone within the meaning of § 6 of the Decree of the Council of Minister dated 14th September 2004 concerning Kostrzyńsko – Słubicka Special Economic Zone, being the basis for the calculation of public assistance in accordance with § 3 Decree with a value exceeding EUR 40,000,000 to 31st December 2013 calculated using the average EUR announced by the President of the National Bank

of Poland as prevailing on the date the expenditure is made. Creation in the territory of the KSSSE of at least 5 new workplaces within the meaning of § 3 paragraph 3 and paragraph 6 of the Decree by 31st December 2011 and maintaining the employment level at 453 people during the period from 1st January 2012 to 31st December 2013.

The conditions of the exemption have not changed in the reporting period. The Group was subjected to an inspection by the authorized authorities. The inspection concerned checking of all conditions explained in the permission and returned favorable results.

During the period from 25th August 2006 to 30th June 2014, Arctic Paper Kostrzyn incurred investment expenditure classified as expenditure of the SEZ in the amount of PLN 197,917 thousand. During this period, the discounted amount of public assistance used was PLN 48,049 thousand.

If the qualified investment expenditures incurred are not covered by income of the current year, Arctic Paper Kostrzyn S.A. creates a deferred tax asset on the excess.

The amount of deferred tax asset recognized on the expenditures incurred in SEZ as on 30th June 2014 amounted to PLN 16,083 thousand (unrecognized asset: PLN 2,225 thousand).

### 34. Significant events after balance sheet date

From 30th June 2014 until the day of the hereby report, no other material events occurred which would need to be disclosed in the hereby report, apart from those which have been disclosed in the previous sections of the report.

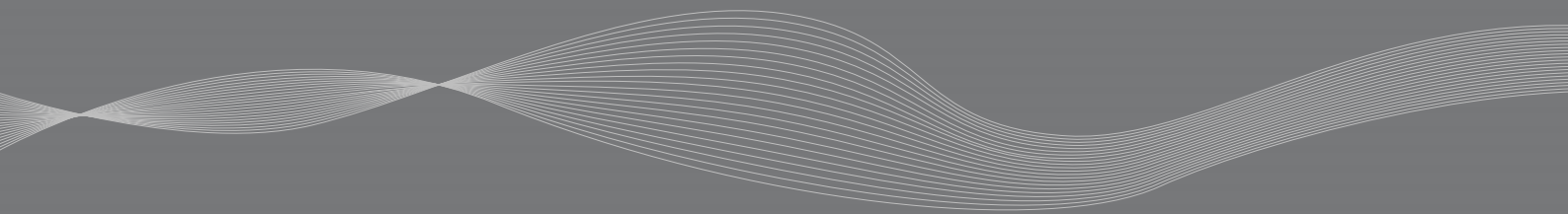
Signatures of Members of the Management Board

Position	Name and surname	Date	Signature
President of the Management Board Chief Executive Officer	Wolfgang Lübbert	1 September 2014	
Member of the Management Board Chief Financial Officer	Małgorzata Majewska-Śliwa	1 September 2014	
Member of the Management Board Chief Operating Officer	Per Skoglund	1 September 2014	
Member of the Management Board Chief Procurement Officer	Jacek Łoś	1 September 2014	
Member of the Management Board Sales Director	Michał Sawka	1 September 2014	





Interim condensed standalone financial statements  
for the six months' period ended 30th June 2014



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## Interim condensed standalone financial statements and selected financial data

### Selected standalone financial data

	For the period from 01.01.2014 to 30.06.2014 PLN thousand	For the period from 01.01.2013 to 30.06.2013 PLN thousand	For the period from 01.01.2014 to 30.06.2014 EUR thousand	For the period from 01.01.2013 to 30.06.2013 EUR thousand
Revenues	20 162	99 527	4 828	23 830
Operating profit (loss)	(2 657)	(110 463)	(636)	(26 448)
Profit (loss) before tax	(3 590)	(109 848)	(860)	(26 301)
Profit (loss) from continuing operations	(3 590)	(109 848)	(860)	(26 301)
Profit (loss) for the period	(3 590)	(109 848)	(860)	(26 301)
Net operating cash flow	144	72 212	34	17 290
Net investment cash flow	-	(22 523)	-	(5 393)
Net financial cash flow	(705)	(72 902)	(169)	(17 455)
Net change in cash and cash equivalents	(561)	(23 214)	(134)	(5 558)
Weighted average number of shares	69 287 783	68 512 027	69 287 783	68 512 027
Weighted average diluted number of shares	69 287 783	68 512 027	69 287 783	68 512 027
EPS (in PLN/EUR)	(0,05)	-1,60	(0,01)	-0,38
Diluted EPS (in PLN/EUR)	(0,05)	-1,60	(0,01)	-0,38
Average PLN/EUR rate*			4,1765	4,1766
	As at June 2014 PLN thousand	As at 31 December 2013 PLN thousand	As at June 2014 EUR thousand	As at 31 December 2013 EUR thousand
Assets	897 406	905 588	215 676	218 361
Long-term liabilities	177 466	178 188	42 651	42 966
Short-term liabilities	33 157	37 356	7 969	9 007
Equity	686 783	690 044	165 056	166 388
Share capital	69 288	69 288	16 652	16 707
Number of shares	69 287 783	69 287 783	69 287 783	69 287 783
Diluted number of shares	69 287 783	69 287 783	69 287 783	69 287 783
Book value per share (in PLN/EUR)	9,91	9,96	2,38	2,40
Diluted book value per share (in PLN/EUR)	9,91	9,96	2,38	2,40
Declared or paid dividend (in PLN/EUR)	-	-	-	-
Declared or paid dividend per share (in PLN/EUR)	-	-	-	-
PLN/EUR rate at the end of the period**	-	-	4,1609	4,1472

\* - Items of the income statement and the cash flow statement are converted at the exchange rate, which is the arithmetic mean of average rates announced by the NBP during the period to which presented data relates.

\*\* - Items of balance sheet and book value per share were converted at the average exchange rate announced by the NBP and prevailing at the balance sheet date.

## Interim condensed standalone income statement

	Note	3 months period ended 30 June 2014 (unaudited)	6 months period ended 30 June 2014 (unaudited)	3 months period ended 30 June 2013 (unaudited)	6 months period ended 30 June 2013 (unaudited)
Continuing operations					
Sales of good		10 200	19 502	13 844	23 845
Interest income from subsidiaries	11.1	262	521	(5 187)	568
Dividends	15	140	140	75 115	75 115
Revenues		10 601	20 162	83 773	99 527
Cost of interest to subsidiaries	11.1	(2 388)	(4 746)	(2 789)	(5 831)
Gross profit on sales		8 213	15 416	80 984	93 696
Other operating income		23	191	87	142
Selling and distribution costs		(924)	(1 852)	(720)	(1 461)
Administrative expenses		(5 604)	(11 350)	(9 874)	(16 530)
Other operating expenses		(4 220)	(5 063)	(186 242)	(186 311)
Operating profit / (loss)		(2 512)	(2 657)	(115 765)	(110 463)
Finance income		619	450	61	1 646
Finance costs		(1 402)	(1 383)	(688)	(1 031)
Profit / (loss) before tax		(3 295)	(3 590)	(116 392)	(109 848)
Income tax		-	-	-	-
Net profit (loss) from continuing operations		(3 295)	(3 590)	(116 392)	(109 848)
Discontinued operations					
Profit (loss) for the period from discontinued operations		-	-	-	-
Net profit (loss) for the period		(3 295)	(3 590)	(116 392)	(109 848)
Earnings per share:					
- basic from the profit (loss) for the period		(0,05)	(0,05)	(1,6798)	(1,6033)
- basic from the profit (loss) from continuing operations for the period		(0,05)	(0,05)	(1,68)	(1,6033)

## Interim condensed standalone statement of comprehensive income

	Note	3 months period ended 30 June 2014 (unaudited)	6 months period ended 30 June 2014 (unaudited)	3 months period ended 30 June 2013 (unaudited)	6 months period ended 30 June 2013 (unaudited)
Net profit (loss) for the period		(3 295)	(3 590)	(116 392)	(109 848)
Other comprehensive income					
Items to recognise in profit/loss in future periods:					
Exchange difference on translation of foreign operations	21.3	273	328	(391)	(337)
Other comprehensive income		273	328	(391)	(337)
Total comprehensive income		(3 022)	(3 262)	(116 783)	(110 184)

## Interim condensed standalone balance sheet

	Note	As at 30 June 2014 (unaudited)	As at 31 December 2013 (audited)
<b>ASSETS</b>			
Non-current assets			
Property, plant and equipment	18	353	263
Intangible assets		1 320	1 321
Investment in subsidiaries, associates and joint ventures	12	827 166	822 189
Other non-financial assets (non-current)		742	5 745
		829 580	829 519
Current assets			
Trade and other receivables	16	37 528	44 489
Income tax receivables		235	811
Other financial assets	19	20 865	21 142
Other non-financial assets		741	609
Cash and cash equivalents	13	8 458	9 018
		67 826	76 069
<b>TOTAL ASSETS</b>		<b>897 406</b>	<b>905 588</b>
<b>EQUITY AND LIABILITIES</b>			
Equity attributable to equity holders of the parent company			
Share capital	21.1	69 288	69 288
Share premium	21.4	472 752	652 662
Other reserves	21.5	147 871	147 871
Foreign currency translation	21.3	520	192
Retained earnings / Accumulated (unabsorbed) losses	21.6	(3 648)	(179 968)
<b>Total equity</b>		<b>686 783</b>	<b>690 044</b>
Non-current liabilities			
Borrowings, loans and bonds	20	175 483	175 428
Provisions		707	733
Deferred tax liabilities		1	1
Other non-current liabilities			
Accruals and deferred income		1 212	2 026
		177 466	178 188
Current liabilities			
Borrowings, loans and bonds	20	4 857	114
Trade payables	22	25 256	33 523
Other current liabilities		1 245	1 170
Accruals and deferred income		1 799	2 548
		33 157	37 356
<b>TOTAL LIABILITIES</b>		<b>210 623</b>	<b>215 544</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>897 406</b>	<b>905 588</b>

## Interim condensed standalone cash flow statement

	Note	6 months period ended 30 June 2014 (unaudited)	6 months period ended 30 June 2013 (unaudited)
<b>Cash flow from operating activities</b>			
Profit (loss) before taxation		(3 590)	(109 848)
Adjustments for:			
Depreciation		52	54
Gain / (loss) from foreign exchange differences		327	(342)
Impairment of non-current assets		1 592	194 274
Net interest and dividends		708	(3 223)
Increase / decrease in receivables and other non-financial assets <sup>other non-financial assets</sup>		5 369	(3 461)
Increase / decrease in payables except for loans, borrowings and bonds		(3 475)	(5 580)
Change in accruals and prepayments		(1 668)	(549)
Change in provisions		(25)	31
Income tax paid		577	689
Increase / decrease in loans to subsidiaries		277	166
Net cash flow from operating activities		144	72 212
<b>Cash flow from investing activities</b>			
Purchase of property, plant and equipment and intangible assets		-	(46)
Increase of shares in subsidiaries		-	(14 673)
Acquisition of shares in subsidiary		-	(7 804)
Net cash flow from investing activities		-	(22 523)
<b>Cash flow from financing activities</b>			
Repayment of loans		-	(71 900)
Interest paid		(767)	(1 002)
Proceeds from finance lease liabilities			
Net cash flow from financing activities		(705)	(72 902)
Net increase/(decrease) in cash and cash equivalents		(561)	(23 214)
Cash and cash equivalents at the beginning of the period		9 018	30 356
Cash and cash equivalents at the end of the period	13	8 457	7 142

## Interim condensed standalone statement of changes in equity

### Atributable to equity holders of the Company

	Share capital	Share premium	Translation reserve	Other reserves	Retained earnings (losses)	Total equity
As at 1 January 2014	69 288	652 662	192	147 871	(179 968)	690 044
Foreign currency translation	-	-	328	-	-	328
Net profit/(loss) for the period	-	-	-	-	(3 590)	(3 590)
Total comprehensive income	-	-	328	-	(3 590)	(3 262)
Profit distribution	-	(179 910)	-	-	179 910	-
Issue of shares	-	-	-	-	-	-
As at 30 June 2014 (unaudited)	69 288	472 752	520	147 871	(3 648)	686 783



Atributable to equity holders of the Company

	Share capital	Share premium	Translation reserve	Other reserves	Retained earnings (losses)	Total equity
As at 1 January 2013	55 404	580 878	40	200 407	13 471	850 198
Other comprehensive income for the period	-	-	(337)	-	-	(337)
Net profit for the period	-	-	-	-	(109 848)	(109 848)
Total comprehensive income	-	-	(337)	-	(109 848)	(110 184)
Profit distribution						
Issue of shares	13 884	70 702	-	(64 983)	-	19 603
As at 30 June 2013 (unaudited)	69 288	652 662	(297)	147 871	(109 906)	759 618

## Additional explanatory notes

### 1. General information

Arctic Paper S.A. („the Company”, „the Entity”) was incorporated on the basis of a Notarial Deed dated 30th April 2008, that has publicly traded shares.

On 8th June 2010, by the power of the resolution of the Ordinary Shareholders Meeting, the seat of the Company was changed from Kostrzyn nad Odrą to Poznań, Jana Henryka Dąbrowskiego 334A. The change was registered by the Polish Register Court on 14th July 2010.

The interim condensed financial statements of the Company cover the 6-months' period ended 30th June 2014 and contain comparative data for the 6-months' period ended 30th June 2013 and as on 31st December 2013.

Statement of comprehensive income, income statement and respective notes cover also the 3-months' period ended 30th June 2014 and contain comparative data for the 3-months'

period ended 30th June 2013 – this data was not subject to review or audit by an independent auditor.

The Company is entered in the Register of Entrepreneurs kept by the District Court in Poznań – Nowe Miasto i Wilda, 8th Commercial Department of the National Court Register, Entry No. KRS0000306944.

The Company was granted statistical REGON number 080262255.

The Company has an unlimited period of operation.

The main area of the Company's business activity is holding activities.

The direct parent company of Arctic Paper S.A. is Trebruk AB. The ultimate parent company of the whole Arctic Paper Group is Casandrax Financials S.A.

### 2. Basis of preparation of the interim condensed half-yearly financial statements

The hereby interim condensed financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), in particular in accordance with IAS 34 and IFRS endorsed by the European Union.

The hereby interim condensed financial statements have been presented in Polish zloty (“PLN”) and all values are rounded to the nearest thousand (PLN '000) except when otherwise indicated.

The hereby interim condensed financial statements have been prepared based on the assumption that the Company will

continue as going concern in the foreseeable future. As on the day of approval of the hereby financial statements, no circumstances have been found to indicate any threat to continuation of the Company's business activities.

The interim condensed financial statements do not include all the information and disclosures required in annual financial statements, and should be read in conjunction with the Company's annual financial statements for year ended 31st December 2013.

### 3. Identification of consolidated financial statements

The Company prepared interim condensed consolidated financial statements for the 6-months' period ended 30th June 2014, which have been approved for publishing by the Management Board on 1st September 2014.

#### 4. Composition of the Management Board of The Company

As on 30th June 2014, the following persons constituted the Company's Management Board:

- Wolfgang Lübbert – President of the Management Board appointed on 27th November 2013 (appointed as a Member of the Management Board on 5th June 2012);
- Jacek Łoś – Member of the Management Board appointed on 27th April 2011;
- Per Skoglund – Member of the Management Board appointed on 27th April 2011;
- Małgorzata Majewska - Śliwa – Member of the Management Board appointed on 27th November 2013;
- Michał Sawka – Member of the Management Board appointed on 12th February 2014.

On 12th February 2014, the Supervisory Board appointed Mr. Michał Sawka as a Member of the Management Board (current report 1/2014).

Until the date of publishing of the hereby report, there were no other changes in the composition of the Management Board of the Company.

#### 5. Composition of the Supervisory Board of the Company

As on 30th June 2014, the following persons constituted the Company's Supervisory Board:

- Rolf Olof Grundberg – President of the Supervisory Board appointed on 30th April 2008;
- Rune Roger Ingvarsson – Member of the Supervisory Board appointed on 22nd October 2008;
- Thomas Onstad – Member of the Supervisory Board appointed on 22nd October 2008;
- Mariusz Grendowicz – Member of the Supervisory Board appointed on 28th June 2012;
- Kjell Olsson – Member of the Supervisory Board appointed on 24th October 2013;
- Dariusz Witkowski – Member of the Supervisory Board appointed on 24th October 2013.

Until the date of publishing of the hereby report, there were no changes in the composition of the Supervisory Board of the Company.

#### 6. Approval of the financial statements

On 1st September 2014, the hereby interim condensed financial statements of the Company for the six months' period ended 30th June 2014 were approved for publishing by the Management Board.

## 7. Investments of the Company

The Company has investments in the following subsidiaries:

Entity	Registered office	Business activities	Share in capital of subsidiaries		
			1 September 2013	30 June 2013	31 December 2012
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	Działalność spółek holdingowych	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, Raboisen 3, 20095 Hamburg	Trading services	100%	100%	100%
Arctic Paper Benelux S.A.	Belgium, Dreeve des Marroniers 28, 1410 Waterloo	Trading services	100%	100%	100%
Arctic Paper Schweiz AG	Switzerland, Technoparkstrasse 1, 8005 Zurich	Trading services	100%	100%	100%
Arctic Paper Italia srl	Italy, Milano – Via R. Boscovich 14	Trading services	100%	100%	100%
Arctic Paper Ireland Limited	Ireland, 4 Rosemount Park Road, Dublin 11	Trading services	100%	100%	100%
Arctic Paper Danmark A/S	Denmark, Jydekrogen 18, DK-2625 Vallengbaek	Trading services	100%	100%	100%
Arctic Paper France SAS	France, 43 rue de la Breche aux Loups,	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, Biskupia 39, 04-216 Warszawa	Trading services	100%	100%	100%
Arctic Paper Norge AS	Norway, Per Kroghsv ei 4, Oslo	Trading services	100%	100%	100%
Arctic Paper Sverige AB	Szweden, Kurodsvagen 9, 451 55 Uddevalla	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	100%	100%	100%
Rotneros AB	Sweden, 107 24 Stockholm	Holding company	51,27%	51,27%	51,27%

As on 30th June 2014 and 31st December 2013, the percentage of voting rights held by the Company in subsidiaries corresponds to the percentage held in equity of these entities.

## 8. Significant accounting principles

The accounting policies adopted in the preparation of the interim condensed financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 31st December 2013, except for the following application of changes in standards and new interpretations binding for yearly periods beginning on 1st January 2014.

- Amendments to IAS 32 *Financial Instruments – Presentation: Offsetting Financial Assets and Financial Liabilities* - effective for financial years beginning on or after 1st January 2014,
- Amendments to IFRS 10, IFRS 12 and IAS 27 *Investment Entities* (issued on 31st October 2012) – effective for financial years beginning on or after 1st January 2014,

- Amendments to IAS 36 *Recoverable Amounts Disclosures for Non-Financial Assets* (issued on 29th May 2013) - effective for financial years beginning on or after 1st January 2014,
- Amendments to IAS 39 *Novation of Derivatives and Continuation of Hedge Accounting* (issued on 27th June 2013) – effective for financial years beginning on or after 1st January 2014.

The adoption of the aforementioned changes to standards did not cause changes of the comparative data.

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

## 9. Seasonality

The Company's activities are not of seasonal nature, therefore the results presented by the Company do not fluctuate significantly during the year.

## 10. Business segments information

Arctic Paper S.A. is a holding company, which provides services mainly for companies from the Group. The Company operates in one segment, the results are evaluated by the Management Board on the basis of financial statements.

The table below presents geographical split of revenue from services sales, interest on loans and dividend income for the 6-months' periods ended 30th June 2014 and 30th June 2013.

	Continuing operations	
	6 months period ended 30 June 2014 (unaudited)	6 months period ended 30 June 2013 (unaudited)
<b>Segment information</b>		
Poland	10 245	85 308
Foreign countries:		
- Sweden	9 904	14 194
- Germany	-	14
- Other	13	11
<b>Total</b>	<b>20 162</b>	<b>99 527</b>

The geographic split of revenue is based on the countries of subsidiaries' seats.

## 11. Income and cost

### 11.1. Interest income and interest cost

Interest income comprises income arising from interest on loans granted to other companies of the Group.

Interest cost comprises cost arising from interest on loans received from other companies of the Group and is presented as cost of sales.

## 12. Investments in subsidiaries

The value of investments in subsidiaries as on 30th June 2014 and 31st December 2013 presented as below:

	As at 30 June 2014 (unaudited)	As at 30 June 2013 (audited)
Arctic Paper Kostrzyn S.A.	442 535	442 535
Arctic Paper Munkedals AB	88 175	88 175
Arctic Paper Investment AB, whereof:	178 132	178 132
<i>Arctic Paper Investment AB (shares)</i>	278 443	278 443
<i>Arctic Paper Investment AB (loans)</i>	82 709	82 709
<i>Arctic Paper Investment AB (impairment)</i>	(183 020)	(183 020)
Arctic Paper Investment GmbH	-	-
<i>Arctic Paper Investment GmbH (shares)</i>	88 719	84 305
<i>Arctic Paper Investment GmbH (impairment)</i>	(88 719)	(84 305)
Arctic Paper Sverige AB	-	-
<i>Arctic Paper Sverige AB (shares)</i>		11 721
<i>Arctic Paper Sverige AB (impairment)</i>		(11 721)
Arctic Paper Danmark A/S	5 539	5 539
Arctic Paper Deutschland GmbH	4 977	-
Arctic Paper Norge AS	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 Ireland Ltd.	3	3
Rottneros AB	101 616	101 616
<b>Total</b>	<b>827 166</b>	<b>822 189</b>

The value of investment in subsidiaries is stated at historical cost.

In the first half of 2014, Arctic Paper S.A. performed an increase of reserve capital in Arctic Paper Investment GmbH in the amount of EUR 1,065 thousand. The value of shares in Arctic Paper Investment increased under these transactions by PLN 4,414 thousand and amounted to PLN 88,719 thousand. However, in its accounting books, Arctic Paper S.A. reports

value of shares in Arctic Paper Investment GmbH in the amount of PLN 0 thousand because of the impairment allowances of financial assets.

Moreover, the Company acquired 100% shares in Arctic Paper Deutschland GmbH on 1st January 2014.

### 13. Cash and cash equivalents

For the purpose of the interim condensed statement of cash flows, cash and cash equivalent comprise the following:

	As at 30 June 2014 (unaudited)	As at 30 June 2013 (unaudited)
Cash at bank and in hand	2 458	5 142
Short-term deposits	6 000	2 000
Total	8 458	7 142

### 14. Dividend paid and proposed

Dividends are paid based on the net profit presented 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 company is obliged to establish a supplementary capital to finance possible losses. At least 8% of the profit for the financial year shown in standalone financial statements of the parent company should be transferred to this category of capital until this capital has reached the amount of at least one third of the share capital of the parent company. The use of the supplementary and reserve capital is determined by Shareholders Meeting; however, the part of the supplementary capital equal to one third of the share capital can be used only to finance the losses shown in the standalone financial statements of the parent company and cannot be distributed to other purposes.

As on the date of this report, the Company had no preferred shares.

The possibility of payment of potential dividend by the Company to shareholders depends on the level of payments received from subsidiaries. Risks associated with the Company's ability to pay dividends have been described in section 'Risk factors' of the annual report for 2013.

By the power of the Annex no 3 dated 20th December 2013 to the Loan Agreement dated 6th November 2012 concluded by the consortium of banks (Bank Pekao S.A., Bank Zachodni WBK S.A. and BRE Bank S.A.) and Arctic Paper S.A. together with its subsidiaries, i.e. Arctic Paper Kostrzyn S.A., Arctic Paper Investment GmbH and Arctic Paper Mochenwangen GmbH, Arctic Paper S.A. bound itself not to declare or pay dividend when a breach of the agreement occurred or in case declaration or payment of dividend would have caused a breach of the agreement.

The Shareholders Meeting of the Company, which took place on 26th June 2014, did not decide for payment of dividend.

### 15. Dividends received

In the amount of dividend income as recognized in the financial statements included was the income on the grounds of

dividend from Arctic Paper Polska Sp. z o.o. in the amount of PLN 140 thousand.

## 16. Trade receivables and other receivables

The decrease of trade receivables and other receivables, reported as on 30th June 2014, compared to 31st December 2013 (by PLN 6,961 thousand), results mainly from lower

amount of trade receivables from Arctic Paper Kostrzyn S.A. on pulp procurement.

## 17. Income tax

Due to the uncertainty regarding the possible utilization of tax losses incurred in years 2009-2013 in the next years, the Management Board decided that no deferred tax asset will be recognized for that purpose. Additionally, for the same reason,

the Management Board decided not to recognize a deferred tax asset for other temporary differences.

Because of tax losses from previous years, the Company did not pay corporate income tax in six months of 2014.

## 18. Property, plant & equipment

### 18.1. Purchase and sales

During the 6-months' period ended 30th June 2014, the Company acquired items of property, plant and equipment with a value of PLN 159 thousand (during the 6-months'

period ended 30th June 2013: PLN 46 thousand), which were financed with financial leases.

### 18.2. Impairment and other allowances

In the current period and in the analogous period of the previous year, the Company did neither recognize nor reversed impairment write-downs of fixed assets.

## 19. Other financial assets

Other financial assets comprise loans granted to subsidiaries together with calculated interest.

In the first half of 2014, there were no changes in the amount of loans granted by Arctic Paper S.A., apart from calculated interest.

## 20. Interest bearing loans, borrowings and debt securities

In the first half of 2014, there were no changes in the amount of loans and borrowings taken, apart from calculated interest (interest calculated on the loan from Arctic Paper Kostrzyn S.A. amounted as on 30th June 2014 to PLN 4,746 thousand,

while as on 30th June 2013 it amounted to PLN 5,831 thousand). Other changes result from balance sheet evaluation of the loan from Mr. Thomas Onstad (EUR 4,000 thousand).



## 21. Share capital and supplementary/reserve capitals

### 21.1. Share capital

	As at 30 June 2014 (unaudited)	As at 31 December 2013 (audited)
'A' class ordinary shares of PLN 1 each	50	50
'B' class ordinary shares of PLN 1 each	44 254	44 254
'C' class ordinary shares of PLN 1 each	8 100	8 100
'E' class ordinary shares of PLN 1 each	3 000	3 000
'F' class ordinary shares of PLN 1 each	13 884	13 884
	69 288	69 288

	Date of registration of capital increase	Volume	Value in PLN
Ordinary shares issued and fully covered			
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 6 March 2013	2013-03-22	726 253	726 253
As at 30 June 2014 (unaudited)		69 287 783	69 287 783

## 21.2. Shareholders with significant shareholding

	As at 30 June 2013 (unaudited)	As at 31 December 2013 (audited)
<b>Trebruk AB (previously Arctic Paper AB)</b>		
Share in equity	59,69%	59,69%
Share in votes	59,69%	59,69%
<b>Thomas Onstad</b>		
Share in equity	8,44%	-
Share in votes	8,44%	-
<b>Nemus Holding AB</b>		
Share in equity	0,02%	8,45%
Share in votes	0,02%	8,45%
<b>Other shareholders</b>		
Share in equity	31,84%	31,85%
Share in votes	31,84%	31,85%

## 21.3. Exchange differences on translation of foreign operations

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

As on the balance sheet date, assets and liabilities of foreign branch are translated into functional currency of the Company using foreign exchange rate prevailing on the balance sheet date and its statement of comprehensive income is translated to functional currency using weighted

average exchange rate for particular financial period. The exchange differences arising on the translation are presented in other comprehensive income and accumulated in a separate item of equity.

## 21.4. Share premium

During the 6-months' period ended 30th June 2014, share premium decreased by PLN 179,910 thousand and as on 30th June 2014 amounted to PLN 472,752 thousand.

In compliance with Resolution no 8 of the Ordinary Shareholders Meeting dated 26th June 2014, the Company's loss for 2013 in the amount of PLN 179,910 thousand was covered from share premium.

## 21.5. Other reserve capitals

Other reserve capitals amounted to PLN 147,871 thousand as on 30th June 2014 and did not change compared to 31st December 2013.

## 21.6. Undistributed financial result and limitations in dividend payment

In accordance with provisions of the Code of Commercial Companies, the Company is obliged to establish a supplementary capital to finance losses. At least 8% of the profit for the financial year shown in standalone financial statements of the company should be transferred to this category of capital until this capital has reached the amount of at least one third of the share capital of the company. The use of the supplementary and reserve capital is determined by Shareholders Meeting; however, the part of the supplementary capital equal to one third of the share capital can be used only to finance the losses shown in the financial statements and cannot be distributed to other purposes.

On 26th June 2013 the Ordinary Shareholders Meeting adopted resolution no 8 regarding covering the loss for

financial year 2013 in the amount of PLN 179,910 thousand from the Company's supplementary capital.

By the power of the Annex no 3 dated 20th December 2013 to the Loan Agreement dated 6th November 2012 concluded by the consortium of banks (Bank Pekao S.A., Bank Zachodni WBK S.A. and BRE Bank S.A.) and Arctic Paper S.A. together with its subsidiaries, i.e. Arctic Paper Kostrzyn S.A., Arctic Paper Investment GmbH and Arctic Paper Mochenwangen GmbH, Arctic Paper S.A. bound itself not to declare or pay dividend when a breach of the agreement occurred or in case declaration or payment of dividend would have caused a breach of the agreement.

## 22. Trade liabilities

Significant decrease of trade liabilities of the Company, compared to as at the end 2013, resulted mainly from fewer orders for pulp before the summer season.

## 23. Financial instruments

The Company does not have any significant financial instruments, except for cash in hand and cash at bank, loans and borrowings, trade receivables and trade liabilities.

### 23.1. Fair value of individual classes of financial instruments

The following table presents comparison of carrying amounts and fair values of all financial instruments of the Company, divided by individual classes and categories of assets and liabilities.

	Category complaint with IAS 39	Book value		Fair value		Level of fair value compliant with IFRS 13
		As at 30 June 2014	As at 31 December 2013	As at 30 June 2014	As at 31 December 2013	
<b>Financial Assets</b>						
Other financial assets (long-term)	L&R	-	4 977	-	4 977	3
Trade and other receivables	L&R	37 528	47 794	37 528	47 794	3
Other financial assets (short-term)	L&R	20 865	21 142	20 865	21 142	3
<b>Financial Liabilities</b>						
Interest bearing bank loans and borrowings	OFL	180 340	175 542	180 340	175 542	3
Trade and other financial payables	OFL	26 501	33 523	26 501	33 523	3

Used abbreviations:

HTM - Financial assets held to maturity

FVTPL - Financial assets/liabilities measured at fair value through profit & loss

L&R - Loans and receivables

AFS - Financial assets held for sale

OFL - Other financial liabilities measured at amortized cost

Due to the lack of possibility to make a reliable valuation, the Company has not conducted a valuation of non-listed shares at fair value for comparison purposes. In Management Board's opinion, fair values of other financial instruments does not significantly differ from book values.

## 23.2. Interest rate risk

In the table below presented are the carrying values of financial instruments of the Company exposed to interest rate risk, divided by particular maturity profiles:

30 June 2014							
Floating rate	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Loans granted to related parties	20 592	-	-	-	-	-	20 592
Loans received from related parties	-	-	-	158 839	-	-	158 839
<b>Total</b>	<b>20 592</b>	<b>-</b>	<b>-</b>	<b>158 839</b>	<b>-</b>	<b>-</b>	<b>179 431</b>

30 June 2014							
	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Loans received from related persons	-	-	-	16 644	-	-	16 644
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>16 644</b>	<b>-</b>	<b>-</b>	<b>16 644</b>

31 December 2013							
Floating rate	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Loans granted to related parties	21 149	-	-	-	-	-	21 149
Loans received from related parties	-	-	-	-	158 839	-	158 839
<b>Total</b>	<b>21 149</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>158 839</b>	<b>-</b>	<b>179 988</b>

31 December 2013							
Fixed rate	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Loans received from related persons	-	-	-	16 589	-	-	16 589
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>16 589</b>	<b>-</b>	<b>-</b>	<b>16 589</b>

## 24. Financial risk management objectives and principles

The Company's principal financial instruments comprise cash and loans and borrowings received and granted within the Group. The main purpose of these instruments is to raise finances for the Company's operation or provide financial support to subsidiaries. The Group also holds other financial instruments such as trade receivables and trade liabilities that

arise directly in the course of conducting business activity of the Company.

The principle applied by Company currently and throughout the whole period covered by these interim condensed financial statements is not trading financial instruments.

The main risks arising from the Company's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk.

The Management Board reviews and agrees policies for managing each of these risks – these principles are presented

below. The Company also monitors market prices risk of its financial instruments.

## 25. Capital management

The primary objective of capital management of the Company and the Group's companies is to ensure that they maintain strong credit ratings and healthy capital ratios in order to support their businesses and maximize value for

their shareholders. In the opinion of the Management Board, there were no significant changes compared to annual statement for 2013 regarding the objectives and the principles of capital management.

## 26. Contingent liabilities and contingent assets

Contingent liabilities of the Company relate to the guarantee of a bank loan taken by Arctic Paper Kostrzyn S.A. on 6th

November 2012 from the consortium of banks: Polska Kasa Opieki S.A., Bank Zachodni WBK S.A. and BRE Bank S.A.

## 27. Related parties transactions

The table below presents total values of transactions with related parties concluded during the 6-months' periods ended 30th June 2014 and 30th June 2013 and as on 30th June 2014 and 31st December 2013:

Related party		Sales to related parties	Purchases from related parties	Interest – financial revenues	Interest – financial costs	Receivables from related parties	Borrowings receivables	Payables related parties	Borrowings payables
<b>Parent company:</b>									
Arctic Paper AB	2014					3 346			
	2013					3 613			
Nemus Holding AB	2014								
	2013								-
<b>Subsidiaries:</b>									
Arctic Paper Kostzyn S.A.	2014	10 109	5		4 746	29 109			163 585
	2013	70 167	22		5 831	34 504		374	158 839
Arctic Paper Munkedals AB	2014	4 754		508		2 076	20 431		
	2013	6 573		568		2 114	20 716	460	
Arctic Paper Grycksbo AB	2014	4 642				2 257			
	2013	7 053				3 540		279	
Arctic Paper Mochenwangen GmbH	2014	417				3 203			
	2013	25				2 191			
Arctic Paper Investment GmbH	2014			601		1 152	41 055		
	2013			598		6 128	40 453		
Arctic Paper Investment AB	2014					23	82 709		
	2013			9 846		23	82 709		
Arctic Paper Deutschland GmbH	2014	19	89					63	
	2013	20	33						
Arctic Paper Papierhandels GmbH	2014	10							
	2013	11							
Arctic Paper Sverige AB	2014	20							
	2013	20							
Arctic Paper Danmark A/S	2014	12							
	2013	13							
Arctic Paper Norge AS	2014	7							
	2013	14							
Arctic Paper Italia srl	2014	6		13			422		
	2013	6		11			440		
Arctic Paper Espana SL	2014	3							
	2013	4							
Arctic Paper Benelux S.A.	2014	12				0,9625968			
	2013	12							
Arctic Paper France SAS	2014	14				13,772748			
	2013	17							
Arctic Paper Baltic States SIA	2014	2				2,2718916			
	2013	3							
Arctic Paper Schweiz AG	2014	8							
	2013	8							
Arctic Paper UK Ltd.	2014	12				12			
	2013	14							
Arctic Paper Ireland Ltd.	2014						11		
	2013						11		
Arctic Paper Polska Sp. z o.o.	2014	11	62			11		6	
	2013	153							
Arctic Paper East Sp. z o.o.	2014	2				17			
	2013	2				16			
Arctic Energy Sverige AB	2012					494			
	2011					62			
<b>Other entities</b>									
IPM Sp.z o.o. Sp.k.	2013		4 312					2 500	
	2012		438						
Galileus Sp.z o.o. Sp.k.	2014		-					-	
	2013		71					2	
Thomas Orstad	2014								
	2013								
CFK Progressio s.c.	2014								
	2013								
<b>Razem</b>	<b>2014</b>	<b>20 059</b>	<b>4 467</b>	<b>1 122</b>	<b>4 746</b>	<b>41 717</b>	<b>144 629</b>	<b>2 568</b>	<b>163 585</b>
	impairment allowances presented as shares in subsidiaries	(417)		(601)		(4 355)	(41 055)		
	2014 after consideration of impairment allowances and change of presentation	19 643	4 467	521	4 746	37 362	20 865	2 568	163 585
	<b>2013</b>	<b>84 117</b>	<b>564</b>	<b>11 024</b>	<b>5 831</b>	<b>52 192</b>	<b>144 329</b>	<b>1 115</b>	<b>158 839</b>
	impairment allowances presented as shares in subsidiaries			(9 547)		(3 305)	(40 453)		
	2013 after consideration of impairment allowances and change of presentation	84 117	564	1 477	5 831	48 887	21 167	1 115	158 839

## 28. Events after the reporting period

There were no significant events after balance sheet date, which should have been disclosed in this report, except for the occurrences reported earlier in the hereby report.

### *Signatures of the Members of the Management Board*

Position	Name and surname	Date	Signature
President of the Management Board Chief Executive Officer	Wolfgang Lübbert	1 September 2014	
Member of the Management Board Chief Financial Officer	Małgorzata Majewska-Śliwa	1 September 2014	
Member of the Management Board Chief Operating Officer	Per Skoglund	1 September 2014	
Member of the Management Board Chief Procurement Officer	Jacek Łoś	1 September 2014	
Member of the Management Board Sales Director	Michał Sawka	1 September 2014	

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