ARCTIC PAPER CAPITAL GROUP

Consolidated semi-annual report
for six months ended on 30 June 2018
along with an independent auditor's report from a review

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Introduction

Information on the report

This Consolidated Semi-Annual Report for six months ended on 30 June 2018 was prepared in accordance with the Regulation of the Minister of Finance of 29 March 2018 on current and periodic information provided by issuers of securities and on conditions under which information required by legal regulations of a third country may be recognised as equivalent (Journal of Laws of 2018, item 757) and a part of the interim condensed consolidated financial statements in accordance with International Accounting Standard No. 34.

The interim condensed consolidated financial statements do not comprise all information and disclosures required in the annual consolidated financial statements which are subject to mandatory audit and therefore they should be read in conjunction with the consolidated financial statements of the Group for the year ended on 31 December 2017. The data for the periods of 3 months ended on 30 June 2018 and on 30 June 2017, disclosed in the intermin condensed consolidated and standalone financial statements was not reviewed or audited by statutory auditor. The interim financial result may not fully reflect the financial result that may be generated for the entire financial year.

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

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

Definitions and abbreviations

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

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

Arctic Paper, Company, Issuer, Parent Entity, AP	Arctic Paper Spółka Akcyjna with its registered office in Poznań, Poland
Capital Group, Group, Arctic Paper Group, AP Group	Capital Group comprised of Arctic Paper Spółka Akcyjna and its subsidiaries as well as joint ventures
Arctic Paper Kostrzyn, AP Kostrzyn, APK	Arctic Paper Kostrzyn Spółka Akcyjna with its registered office in Kostrzyn nad Odrą, Poland
Arctic Paper Munkedals, AP Munkedals, APM	Arctic Paper Munkedals AB with its registered office in Munkedal Municipality, Västra County, Sweden
Arctic Paper Mochenwangen, AP Mochenwangen, APMW	Arctic Paper Mochenwangen GmbH with its registered office in Mochenwangen, Germany
Arctic Paper Grycksbo, AP Grycksbo, APG	Arctic Paper Grycksbo AB with its registered office in Kungsvagen, Grycksbo, Sweden
Paper Mills	Arctic Paper Kostrzyn, Arctic Paper Munkedals, Arctic Paper Grycksbo, Arctic Paper Mochenwangen (by the end of December 2015)
Arctic Paper Investment AB, API AB	Arctic Paper Investment AB with its registered office in Göteborg, Sweden
Arctic Paper Investment GmbH, API GmbH	Arctic Paper Investment GmbH with its registered office in Wolpertswende, Germany

Arctic Paper Verwaltungs	Arctic Paper Verwaltungs GmbH with its registered office in Wolpertswende, Germany
Arctic Paper Immobilienverwaltungs	Arctic Paper Immobilienverwaltungs GmbH & Co. KG with its registered office in Wolpertswende, Germany
Kostrzyn Group	Arctic Paper Kostrzyn Spółka Akcyjna with its registered office in Kostrzyn nad Odrą and EC Kostrzyn Sp. z o.o. with its registered office in Kostrzyn nad Odrą
Mochenwangen Group	Arctic Paper Investment GmbH, Arctic Paper Mochenwangen GmbH, Arctic Paper Verwaltungs GmbH, Arctic Paper Immobilienverwaltungs GmbH & Co.KG (disclosed in this report as discontinued operations, with the exception of provisions for retirement benefits)
Grycksbo Group	Arctic Paper Grycksbo AB and Arctic Paper Investment AB,
Sales Offices	Arctic Paper Papierhandels GmbH with its registered office in Vienna (Austria);
	Arctic Paper Benelux SA with its registered office in Oud-Haverlee (Belgium);
	Arctic Paper Danmark A/S with its registered office in Greve (Denmark);
	Arctic Paper France SA with its registered office in Paris (France);
	Arctic Paper Deutschland GmbH with its registered office in Hamburg, Germany;
	Arctic Paper Italia Srl with its registered office in Milan (Italy);
	Arctic Paper Baltic States SIA with its registered office in Riga (Latvia);
	Arctic Paper Norge AS with its registered office in Oslo (Norway);
	Arctic Paper Polska Sp. z o.o. with its registered office in Warsaw (Poland);
	Arctic Paper España SL with its registered office in Barcelona (Spain);
	Arctic Paper Sverige AB with its registered office in Munkedal (Sweden);
	Arctic Paper Schweiz AG with its registered office in Zurich (Switzerland);
	Arctic Paper UK Ltd with its registered office in Caterham (UK);
	Arctic Paper East Sp. z o.o. with its registered office in Kostrzyn nad Odrą (Poland);
Arctic Paper Finance AB	Arctic Paper Finance AB with its registered office in Göteborg, Sweden
Rottneros, Rottneros AB	Rottneros AB with its registered office in Sunne, Sweden

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

NBSK	Northern Bleached Softwood Kraft
BHKP	Bleached Hardwood Kraft Pulp

Definitions of selected terms and financial indicators and abbreviations of currencies

Sales profit margin	Ratio of profit (loss) on sales to sales revenues from continuing operations
EBIT	Profit on continuing operating activity (Earnings Before Interest and Taxes)
EBIT profitability, operating profitability, operating profit margin	Ratio of operating profit (loss) to sales revenues from continuing operations
EBITDA	Operating profit from continuing operations plus depreciation and amortisation and impairment charges (Earnings Before Interest, Taxes, Depreciation and Amortisation)
EBITDA profitability, EBITDA margin	Ratio of operating profit plus depreciation and amortisation and impairment charges to sales revenues from continuing operations
Gross profit margin	Ratio of gross profit (loss) to sales revenues from continuing operations
Sales profitability ratio, net profit margin	Ratio of net profit (loss) to sales revenues
Return on equity, ROE	Ratio of net profit (loss) to equity income
Return on assets, ROA	Ratio of net profit (loss) to total assets
EPS	Earnings Per Share, ratio of net profit to the weighted average number of shares
BVPS	Book Value Per Share, Ratio of book value of equity to the number of shares
Debt-to-equity ratio	Ratio of total liabilities to equity
Equity to fixed assets ratio	Ratio of equity to fixed assets
Interest-bearing debt-to-equity ratio	Ratio of interest-bearing debt and other financial liabilities to equity
Net debt-to-EBITDA ratio	Ratio of interest-bearing debt minus cash to EBITDA from continuing operations
EBITDA-to-interest coverage ratio	Ratio of EBITDA to interest expense from continuing operations
Current liquidity ratio	Ratio of current assets to short-term liabilities
Quick ratio	Ratio of current assets minus inventory and short-term accruals, prepayments and deferred costs to short-term liabilities
Acid test ratio	Ratio of total cash and cash equivalents to short-term liabilities
DSI	Days Sales of Inventory, ratio of inventory to cost of sales multiplied by the number of days in the period

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

Other definitions and abbreviations

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

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

Forward looking statements

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

Forward looking statements relating to risk factors

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

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

Selected consolidated and standalone financial data

Selected consolidated financial data

	Period from 01.01.2018 to 30.06.2018 PLN thousand	Period from 01.01.2017 to 30.06.2017 PLN thousand	Period from 01.01.2018 to 30.06.2018 EUR thousand	Period from 01.01.2017 to 30.06.2017 EUR thousand
Continuing operations				
Sales revenues	1 582 162	1 476 989	374 914	345 849
Operating profit (loss)	92 651	86 688	21 955	20 299
Gross profit (loss)	71 630	75 093	16 974	17 584
Net profit (loss) from continuing operations	49 961	57 341	11 839	13 427
Discontinued operations				
Profit (loss) from discontinued operations	(1 838)	(4 003)	(436)	(937)
Net profit / (loss) for the period	48 123	53 339	11 403	12 490
Net profit / (loss) attributable to the shareholders of the Parent Entity	19 902	31 527	4 716	7 382
Net cash flows from operating activities	374	103 773	89	24 299
Net cash flows from investing activities	(75 650)	(75 151)	(17 926)	(17 597)
Net cash flows from financing activities	(22 039)	(56 297)	(5 222)	(13 182)
Change in cash and cash equivalents	(97 315)	(27 674)	(23 060)	(6 480)
Weighted average number of ordinary shares	69 287 783	69 287 783	69 287 783	69 287 783
Diluted weighted average number of ordinary shares	69 287 783	69 287 783	69 287 783	69 287 783
EPS (in PLN/EUR)	0,29	0,46	0,07	0,11
Diluted EPS (in PLN/EUR)	0,29	0,46	0,07	0,11
Mean PLN/EUR exchange rate*			4,2201	4,2706

	As at 30 June 2018 PLN thousand	As at 31 December 2017 PLN thousand	As at 30 June 2018 EUR thousand	As at 31 December 2017 EUR thousand
Assets	2 034 263	1 900 325	466 403	455 615
Long-term liabilities	435 750	531 128	99 906	127 341
Short-term liabilities	755 996	576 275	173 330	138 166
Equity	840 772	791 294	192 767	189 718
Share capital	69 288	69 288	15 886	16 612
Number of ordinary shares	69 287 783	69 287 783	69 287 783	69 287 783
Diluted number of ordinary shares	69 287 783	69 287 783	69 287 783	69 287 783
Book value per share (in PLN/EUR)	12,13	11,42	2,78	2,74
Diluted book value per share (in PLN/EUR)	12,13	11,42	2,78	2,74
Declared or paid dividend (in PLN/EUR)	13 857 557	-	3 177 173	-
Declared or paid dividend per share (in PLN/EUR)	0,20	-	0,05	-
PLN/EUR exchange rate at the end of the period**	-	-	4,3616	4,1709

* - The profit and loss items have been translated at the mean arithmetic exchange rates published by the National Bank of Poland from the beginning of the year until the end of the period covered with the report.
** - Balance sheet items and book value per share have been translated at the mean exchange rates published by the National Bank of Poland, prevailing on the balance sheet date.

Selected standalone financial data

	Period from 01.01.2018 to 30.06.2018 PLN thousand	Period from 01.01.2017 to 30.06.2017 PLN thousand	Period from 01.01.2018 to 30.06.2018 EUR thousand	Period from 01.01.2017 to 30.06.2017 EUR thousand
Sales revenues	59 214	68 065	14 031	15 938
Operating profit (loss)	39 885	8 537	9 451	1 999
Gross profit (loss)	31 450	3 731	7 452	874
Net profit (loss) from continuing operations	31 150	3 731	7 381	874
Net profit (loss) for the financial year	31 150	3 731	7 381	874
Net cash flows from operating activities	(88 717)	54 738	(21 022)	12 817
Net cash flows from investing activities	(139)	(2 795)	(33)	(655)
Net cash flows from financing activities	53 595	(47 437)	12 700	(11 108)
Change in cash and cash equivalents	(35 260)	4 507	(8 355)	1 055
Weighted average number of ordinary shares	69 287 783	69 287 783	69 287 783	69 287 783
Diluted weighted average number of ordinary shares	69 287 783	69 287 783	69 287 783	69 287 783
EPS (in PLN/EUR)	0,45	0,05	0,11	0,01
Diluted EPS (in PLN/EUR)	0,45	0,05	0,11	0,01
Mean PLN/EUR exchange rate*			4,2201	4,2706

	As at 30 June 2018 PLN thousand	As at 31 December 2017 PLN thousand	As at 30 June 2018 EUR thousand	As at 31 December 2017 EUR thousand
Assets	965 372	944 061	221 334	226 345
Long-term liabilities	90 472	207 214	20 743	49 681
Short-term liabilities	326 360	205 815	74 826	49 345
Equity	548 540	531 032	125 766	127 318
Share capital	69 288	69 288	15 886	16 612
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)	7,92	7,66	1,82	1,84
Diluted book value per share (in PLN/EUR)	7,92	7,66	1,82	1,84
Declared or paid dividend (in PLN/EUR)	13 857 557	-	3 177 173	-
Declared or paid dividend per share (in PLN/EUR)	0,20	-	0,05	-
PLN/EUR rate at the end of the period**	-	-	4,3616	4,1709

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

** - Balance sheet items have been translated at the mean arithmetic exchange rates published by the National Bank of Poland, prevailing on the balance sheet date.

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

to the report for H1 2018

Description of the business of the Arctic Paper Group

General information

The Arctic Paper Group is a leading European producer in terms of production volume of bulky book paper, offering a broad range of products in the segment and one of the leading producers of high-quality graphic paper in Europe. The Group produces numerous types of uncoated and coated wood-free paper as well as wood-containing uncoated paper for printing houses, paper distributors, book and magazine publishing houses and the advertising industry. In connection with acquisition of the Rottneros Group in December 2012, the Group's assortment was expanded with the production of pulp. As on the day hereof, the Arctic Paper Group employs app. 1,750 people in its Paper Mills, Pulp Mills, companies dealing in paper distribution and sales, and a company dealing in timber procurement for pulp production. Our paper mills are located in Poland and Sweden and have total production capacity of more than 700,000 metric tons of paper per year. The Pulp Mills are located in Sweden and have total production capacity of 400,000 tons of pulp per year. The Group has fourteen Sales Offices which handle distribution and marketing of products offered by the Group providing access to all European markets, including Central and Eastern Europe. Our consolidated sales revenues for H1 2018 totalled PLN 1,582 million.

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

Group Profile

The principal business of the Arctic Paper Group is paper production and sales.
The Group's additional business, partly subordinate to paper production, covers:
- Production and sales of pulp,
- Generation of electricity,
- Transmission of electricity,
- Electricity distribution,
- Heat production,
- Heat distribution,
- Logistics services,
- Paper distribution.

Our production facilities

As on 30 June 2018 as well as on the day hereof, the Group owned the following Paper Mills:
- the Paper Mill in Kostrzyn nad Odrą (Poland) has the production capacity of about 280,000 tons per year and mainly produces uncoated wood-free paper for general printing use such as printing books, brochures and forms, and for producing envelopes and other paper products;
- the Paper Mill in Munkedal (Sweden) has the production capacity of about 160,000 tons per year and mainly produces fine uncoated wood-free paper used primarily for printing books and high-quality brochures;
- the Paper Mill in Grycksbo (Sweden) has the production capacity of about 250,000 tons per year and produces coated wood-free paper used for printing maps, books, magazines, posters and printing of advertising materials.

As on 30 June 2018 as well as on the day hereof, the Group owned the following Pulp Mills:
- The pulp mill in Rottneros (Sweden) has production capacity of about 160,000 tons annually and produces mainly two types of mechanical pulp: groundwood and chemo thermo mechanical pulp (CTMP);
- the Pulp Mill in Vallvik (Sweden) has the annual production capacity of about 240,000 tons and produces two types of long-fibre sulphate pulp: fully bleached sulphate pulp and unbleached sulphate pulp. The most of Vallvik Pulp Mill production is known as NBSK pulp. The unbleached sulphate pulp produced by the mill is characterised with a high level of purity. The high quality of this pulp, which has been achieved over the years, made Vallvik the global leader in

deliveries of this type of pulp, which is used, among others, in the production of power transformers and in the cable industry.

Our products

The product assortment of the Arctic Paper Group covers:

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

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

Capital Group structure

The Arctic Paper Capital Group comprises Arctic Paper S.A., as the Parent Entity, and its subsidiaries, as well as joint ventures. Since 23 October 2009, Arctic Paper S.A. has been listed on the primary market of the Warsaw Stock Exchange and since 20 December 2012 in the NASDAQ stock exchange in Stockholm. The Group operates through its Paper Mills and Pulp Mills and its subsidiary producing packaging as well as its sales Offices and Procurement Offices.
Details on the organisation of the Arctic Paper S.A. Capital Group along with identification of the consolidated entities are specified in note 2 in the intermin condensed consolidated financial statements, further below in this semi-annual report.

Changes in the capital structure of the Arctic Paper Group

In H1 2018, no changes in the capital structure of the Arctic Paper Group occurred.

Shareholding structure

Nemus Holding AB, a company under Swedish law (a company owned indirectly by Mr Thomas Onstad), is the majority shareholder of Arctic Paper S.A., holding (as at 30 June 2018) 40,381,449 shares of our Company, which constitutes 58.28% of its share capital and corresponds to 58.28% of the total number of votes at General Meetings. Thus Nemus Holding AB is the parent entity of the Issuer.

Additionally, Mr Thomas Onstad, an indirect shareholder of Nemus Holding AB, holds directly 6,223,658 shares representing 8.98% of the total number of shares in the Company, and via another entity – 600,000 shares accounting for 0.87% of the total number of shares of the Issuer. Mr Thomas Onstad's total direct and indirect holding in the capital of Arctic Paper S.A. as at 30 June 2018 was 68.13% and has not changed until the date hereof.

	as at 27.08.2018			
Shareholder	Number of shares	Share in the share capital [%]	Number of votes	Share in the total number of votes [%]
Thomas Onstad	**47 205 107**	**68,13%**	**47 205 107**	**68,13%**
- indirectly via	40 981 449	59,15%	40 981 449	59,15%
Nemus Holding AB	*40 381 449*	*58,28%*	*40 381 449*	*58,28%*
other entity	*600 000*	*0,87%*	*600 000*	*0,87%*
- directly	6 223 658	8,98%	6 223 658	8,98%
Other	**22 082 676**	**31,87%**	**22 082 676**	**31,87%**
Total	69 287 783	100,00%	69 287 783	100,00%
Treasury shares	-	0,00%	-	0,00%
Total	**69 287 783**	**100,00%**	**69 287 783**	**100,00%**

as at 30.06.2018

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

as at 14.05.2018

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

The data in the above tables is provided as of the date hereof and as of the publication date of the report for Q1 2018 and as at 30 June 2018.

Summary of the consolidated financial results

Selected consolidated statement of profit and loss items

PLN thousand	Q2 2018	Q1 2018	Q2 2017	H1 2018	H1 2017	Change % Q2 2018/ Q1 2018	Change % Q2 2018/ Q2 2017	Change % H1 2018/ H1 2017
Continuing operations								
Sales revenues	**792 431**	**789 731**	**703 087**	**1 582 162**	**1 476 989**	**0,3**	**12,7**	**7,1**
of which:								
Sales of paper	*558 761*	*573 621*	*513 168*	*1 132 382*	*1 088 224*	*(2,6)*	*8,9*	*4,1*
Sales of pulp	*233 670*	*216 110*	*189 919*	*449 780*	*388 765*	*8,1*	*23,0*	*15,7*
Profit on sales	158 076	153 449	146 068	311 525	305 681	3,0	8,2	1,9
% of sales revenues	*19,95*	*19,43*	*20,78*	*19,69*	*20,70*	*0,5 p.p.*	*(0,8) p.p.*	*(1,0) p.p.*
Selling and distribution costs	(84 046)	(84 852)	(85 866)	(168 898)	(177 774)	(0,9)	(2,1)	(5,0)
Administrative expenses	(19 186)	(21 119)	(26 109)	(40 305)	(48 739)	(9,2)	(26,5)	(17,3)
Other operating income	7 176	11 818	9 342	18 994	22 278	(39,3)	(23,2)	(14,7)
Other operating expenses	(16 566)	(12 099)	(5 842)	(28 665)	(14 759)	36,9	183,5	94,2
EBIT	**45 454**	**47 197**	**37 592**	**92 651**	**86 688**	**(3,7)**	**20,9**	**6,9**
% of sales revenues	*5,74*	*5,98*	*5,35*	*5,86*	*5,87*	*(0,2) p.p.*	*0,4 p.p.*	*(0,0) p.p.*
EBITDA	**66 770**	**71 187**	**64 561**	**137 957**	**140 059**	**(6,2)**	**3,4**	**(1,5)**
% of sales revenues	*8,43*	*9,01*	*9,18*	*8,72*	*9,48*	*(0,6) p.p.*	*(0,8) p.p.*	*(0,8) p.p.*
Financial income	371	564	(1 344)	935	5 366	(34,3)	(127,6)	(82,6)
Financial expenses	(14 136)	(7 819)	(9 041)	(21 956)	(16 961)	80,8	56,4	29,4
Gross profit (loss)	**31 688**	**39 942**	**27 206**	**71 630**	**75 093**	**(20,7)**	**16,5**	**(4,6)**
Income tax	(11 125)	(10 544)	(8 828)	(21 669)	(17 751)	5,5	26,0	22,1
Net profit/(loss) from continuing operations	**20 563**	**29 398**	**18 379**	**49 961**	**57 341**	**(30,1)**	**11,9**	**(12,9)**
% of sales revenues	*2,59*	*3,72*	*2,61*	*3,16*	*3,88*	*(1,1) p.p.*	*(0,0) p.p.*	*(0,7) p.p.*
Discontinued operations								
Net profit/ (loss) from discontinued operations	**(934)**	**(904)**	**(1 855)**	**(1 838)**	**(4 003)**	**3,3**	**(49,6)**	**(54,1)**
% of sales revenues	*(0,12)*	*(0,11)*	*(0,26)*	*(0,12)*	*(0,27)*	*(0,0) p.p.*	*0,1 p.p.*	*0,2 p.p.*
Net profit/(loss)	**19 629**	**28 494**	**16 524**	**48 123**	**53 339**	**(31,1)**	**18,8**	**(9,8)**
% of sales revenues	*2,48*	*3,61*	*2,35*	*3,04*	*3,61*	*(1,1) p.p.*	*0,1 p.p.*	*(0,6) p.p.*
Net profit / (loss) for the reporting period attributable to the shareholders of the Parent Entity	4 069	15 834	5 388	19 902	31 527	(74,3)	(24,5)	(36,9)

Due to an adjustment of a previous years' error concerning verification of periods of economic useful lives of tangible fixed assets and intangible assets for Rottneros companies (described in note 6.5 and 6.6 of the intermin condensed consolidated financial statements), the above data for H1 2017 and Q2 2017 is not the data disclosed in the semi-annual consolidated report for 2017 of the Arctic Paper Group.

Commentary of the President of the Management Board Per Skoglund on the results of H1 2018

For the second quarter, which typically is the weakest quarter, Artic Paper Group increased its turnover to PLN 792,4 million (compared to PLN 703,1 million in Q2, 2017) and reached an EBITDA of PLN 66,8 million (64,6 million). For the paper segment, turnover rose to PLN 558,8 million (513,2 million) while EBITDA fell to PLN 19,7 million (26,8 million).

During the period the pulp price reached a record high. According to forecasts, the pulp price will continue to rise in the foreseeable future, thus putting continued pressure on our margins. However, in Q3 we have seen a tendency towards a stabilization in the price for short fibre pulp (BHKP), which accounts for more than two thirds of our pulp consumption. The price increases we have implemented have not yet fully compensated for the rising costs and we are working hard to defend our margins.

The challenging market conditions stresses the value of combining our paper operations with our 51 percent ownership in the pulp producer Rottneros AB, which reached a turnover of SEK 596 million (472 million) and an EBITDA of SEK 118 million (83 million). The full report is available at http://www.rottneros.com/investors/financial-reports/

For the second quarter, production amounted to 160,000 tonnes, equal to last year. During the period we have advanced the implementation of the new strategy – A Future in Paper. Our efforts are already showing progress: one example is the continued growth of speciality products with a higher revenue per tonne. We are currently developing new high end products and grades to further increase sales. We are also committed to achieve greater efficiency in our operations in order to strengthen our margins.

All together, we are confident that our efforts will result in stronger future performance for our paper segment.

Revenues

In Q2 2018, the consolidated sales revenues amounted to PLN 792,431 thousand (sales of paper: PLN 558,761 thousand), pulp sales: PLN 233,670 thousand), as compared to PLN 703,087 thousand (sales of paper: PLN 513,168 thousand), pulp sales: PLN 189,919 thousand), in the equivalent period of the previous year. That means a growth by PLN 89,344 thousand (growth of paper sales by PLN 45,593 thousand growth of pulp sales by PLN 43,751 thousand) and respectively by +12.7% (for sales paper by +8.9% and pulp sales by +23.0%).

In the first six months 2018, the sales revenues amounted to PLN 1,582,162 thousand (sales of paper: PLN 1,132,382 thousand), pulp sales: PLN 449,780 thousand), as compared to PLN 1,476,989 thousand (sales of paper: PLN 1,088,224 thousand), pulp sales: PLN 388,765 thousand), generated in the equivalent period of the previous year. That means a growth of revenues by PLN 105,173 thousand (growth of paper sales by PLN 44,158 thousand growth of pulp sales by PLN 61,015 thousand) and respectively by +7.1% (for sales paper by +4.1% and pulp sales by +15.7%).

Paper sales volume in Q2 2018 amounted to 160 thousand tons compared to 160 thousand tons in the previous year. Pulp sales volume in Q2 2018 amounted to 93 thousand tons compared to 91 thousand tons in the previous year. The change represents an increase of 2 thousand tons and by +2.2% respectively.

Paper sales volume in H1 2018 amounted to 328 thousand tons compared to 336 thousand tons in the previous year. The change represents a decrease of 8 thousand tons and by -2.4% respectively. Pulp sales volume in H1 2018 amounted to 187 thousand tons compared to 185 thousand tons in the previous year. The change represents an increase of 2 thousand tons and by +1.1% respectively.

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

In H1 2018, profit on sales amounted to PLN 311,525 thousand. This result was by 1.9% higher than in the corresponding period of the previous year. Sales profit margin in the current year stood at 19.69% compared to 20.70% (-1.0 p.p.) in the equivalent period of the previous year. The core reason for the increased profit on sales in H1 2018 versus the equivalent period of the previous year was the faster growth of sales revenues primarily due to growing PLN denominated sales prices than the growth of costs of sales due mainly to a growth of consumption costs of pulp and energy.

In the reporting period, the selling and distribution costs amounted to PLN 168,898 thousand which was a decrease by 5.0% compared to the costs incurred in H1 2017. The selling costs include primarily costs of transport of finished products to counterparties.

In H1 2018, the administrative expenses amounted to PLN 40,305 thousand as compared to PLN 48,739 thousand in the equivalent period of 2017 which was a decrease by 17.3%. The overheads are composed primarily of the costs of advisory and administrative services in the Group.

Other operating income and expenses

Other operating income totalled PLN 18,994 thousand in H1 2018 which was a decrease as compared to the equivalent period of the previous year by PLN 3,284 thousand.
Other operating income consisted mainly of revenues from heat and electricity sales as well as sales revenues from other materials and CO2 emission rights. The drop of other operating revenues in the current period was due mainly to lower sales of other materials.
Other operating expenses totalled PLN 28,665 thousand in H1 2018 which was an increase as compared to the equivalent period of the previous year by PLN 13,906 thousand.
The other operating expenses comprised mainly the costs of electricity and heat sales as well as the costs of other materials sold. The higher other operating expenses in H1 2018 were affected primarily the higher internal costs of other materials sold and losses on term contracts for the sale of pulp.

Financial income and financial expenses

In H1 2018, financial income and expenses amounted to PLN 935 thousand and PLN 21,956 thousand respectively which was a decrease of income as compared to the equivalent period of the previous year by PLN 4,431 thousand and a growth of expenses by PLN 4,995 thousand.
The changes to financial income and expenses were primarily due to the amount of net FX differences. In H1 2018 the Group recorded a surplus of FX losses over FX profit of PLN 7,574 thousand (financial expenses). In the equivalent period of 2017, the Group recorded a surplus of FX profit over FX losses of PLN 4,700 thousand (financial income).

Income tax

For the six months of 2018, income tax amounted to PLN -21,669 thousand while in the equivalent period in 2017 it was PLN -17,751 thousand.
The current portion of income tax in the analysed semi-annual period amounted to PLN -3,118 thousand (H1 2017: PLN -3,060 thousand). while the deferred portion to PLN -18,551 thousand (H1 2017: PLN -14,691 thousand).

Net profit (loss) from discontinued operations

Net profit/loss on discontinued operations covers the results of AP Mochenwangen and of the companies set up to acquire the Paper Mill. As the Management Board of Arctic Paper S.A. remains ready to sell the Paper Mill, its business has been treated as discontinued. In H1 2018, the loss on discontinued operations amounted to PLN 1,838 thousand (H1 2017: PLN 4,003 thousand).

Profitability analysis

In H1 2018, the result on continuing operations amounted to PLN +92,651 thousand as compared to the profit of PLN +86,688 thousand in the equivalent period in the previous year. However, due to a higher growth of sales revenues than the profit increase on operational activity, the changes mean a reduced operational profit margin from +5.87% in the six months of 2017 to +5.86% in the equivalent period of 2018.
EBITDA on continuing operations in H1 2018 amounted to PLN 137,957 thousand while in the equivalent period in 2017 it was PLN 140,059 thousand. In the reporting period, the EBITDA margin was 8.72% compared to 9.48% for 6 months of 2017.
In H1 2018, net profit amounted to PLN +48,123 thousand as compared to PLN +53,339 thousand in H1 2017. Net profit margin accrued after six months of 2018 amounted to +3.04% as compared to +3.61% in the equivalent period of 2017.

PLN thousand	Q2 2018	Q1 2018	Q2 2017	H1 2018	H1 2017	Change % Q2 2018/ Q1 2018	Change % Q2 2018/ Q2 2017	Change % H1 2018/ H1 2017
Profit / (loss) on sales	158 076	153 449	146 068	311 525	305 681	3,0	8,2	1,9
% of sales revenues	*19,95*	*19,43*	*20,78*	*19,69*	*20,70*	*0,5 p.p.*	*(0,8) p.p.*	*(1,0) p.p.*
EBITDA	66 770	71 187	64 561	137 957	140 059	(6,2)	3,4	(1,5)
% of sales revenues	*8,43*	*9,01*	*9,18*	*8,72*	*9,48*	*(0,6) p.p.*	*(0,8) p.p.*	*(0,8) p.p.*
EBIT	45 454	47 197	37 592	92 651	86 688	(3,7)	20,9	6,9
% of sales revenues	*5,74*	*5,98*	*5,35*	*5,86*	*5,87*	*(0,2) p.p.*	*0,4 p.p.*	*(0,0) p.p.*
Net profit (loss) from continuing operations	20 563	29 398	18 379	49 961	57 341	(30,1)	11,9	(12,9)
% of sales revenues	*2,59*	*3,72*	*2,61*	*3,16*	*3,88*	*(1,1) p.p.*	*(0,0) p.p.*	*(0,7) p.p.*
Net profit / (loss) from discontinued operations	(934)	(904)	(1 855)	(1 838)	(4 003)	3,3	(49,6)	(54,1)
% of sales revenues	*(0,12)*	*(0,11)*	*(0,26)*	*(0,12)*	*(0,27)*	*(0,0) p.p.*	*0,1 p.p.*	*0,2 p.p.*
Net profit / (loss)	19 629	28 494	16 524	48 123	53 339	(31,1)	18,8	(9,8)
% of sales revenues	*2,48*	*3,61*	*2,35*	*3,04*	*3,61*	*(1,1) p.p.*	*0,1 p.p.*	*(0,6) p.p.*
Return on equity / ROE (%)	2,3	3,5	2,1	5,7	6,7	(1,2) p.p.	0,2 p.p.	(1,0) p.p.
Return on assets / ROA (%)	1,0	1,5	0,9	2,4	3,1	(0,5) p.p.	0,0 p.p.	(0,7) p.p.

In H1 2018, return on equity was +5.7% while in the equivalent period of 2017 it was +6.7%.
Return on assets decreased from +3.1% in H1 2017 to +2.4% in H1 2018.
Lower return on equity and return on assets ratios were due primarily to the lower net profit generated in H1 2018 versus the equivalent period last year.

Selected consolidated statement of financial position items

PLN thousand	30.06.2018	31.12.2017	30.06.2017	Change 30.06.2018 -31.12.2017	Change 30.06.2018 -30.06.2017
Fixed assets	985 346	946 363	924 468	38 983	60 878
Inventories	409 243	350 996	339 416	58 248	69 827
Receivables	427 732	336 758	349 927	90 974	77 806
trade receivables	*418 237*	*330 071*	*340 942*	*88 166*	*77 295*
Other current assets	65 876	20 734	18 196	45 142	47 680
Cash and cash equivalents	143 235	241 403	100 821	(98 168)	42 414
Assets for sale	2 831	4 071	11 462	(1 240)	(8 632)
Total assets	**2 034 263**	**1 900 325**	**1 744 291**	**133 939**	**289 972**
Equity	840 772	791 294	790 852	49 478	49 921
Short-term liabilities	755 996	576 275	513 746	179 721	242 250
of which:					
trade and other payables	*431 365*	*423 868*	*364 375*	*7 496*	*66 989*
interest-bearing debt	*223 800*	*72 593*	*62 241*	*151 207*	*161 559*
other non-financial liabilities	*100 832*	*79 814*	*87 130*	*21 018*	*13 703*
Long-term liabilities	435 750	531 128	420 568	(95 378)	15 183
of which:					
interest-bearing debt	*257 264*	*376 521*	*288 179*	*(119 257)*	*(30 915)*
other non-financial liabilities	*178 486*	*154 607*	*132 389*	*23 879*	*46 097*
Liabilities directly related to the assets for sale	1 744	1 626	19 126	118	(17 382)
Total equity and liabilities	**2 034 263**	**1 900 325**	**1 744 291**	**133 939**	**289 972**

Due to an adjustment of a previous years' error concerning verification of periods of economic useful lives of tangible fixed assets and intangible assets for Rottneros companies (described in note 6.5 and 6.6 of the intermin condensed consolidated financial statements), the above data as of 30 June 2017 is not the data disclosed in the semi-annual consolidated report for 2017 of the Arctic Paper Group.

As at 30 June 2018 total assets amounted to PLN 2,034,263 thousand as compared to PLN 1,900,325 thousand at the end of 2017.

Fixed assets

At the end of June 2018 fixed assets accounted for 48.4% of total assets vs. 49.8% at the end of 2017. The value of fixed assets grew in the current half-year period by PLN 38,983 thousand mainly due to an increase of tangible fixed assets, as a result of investment outlays and an increase of other financial assets as an effect of a positive valuation of hedging instruments and forward contracts for purchases of energy.

Current assets

Current assets understood as a sum of inventories, receivables, other current assets and cash and cash equivalents.
As at the end of June 2018, current assets amounted to PLN 1,046,087 thousand as compared to PLN 949,891 thousand at the end of December 2017. As part of the current assets, inventories increased by PLN 58,248 thousand and receivables grew by PLN 90,974 thousand, other current assets grew by PLN 45,142 thousand while cash and cash equivalents dropped by PLN 98,168 thousand. Current assets represented 51.5% of total assets as at the end of June 2018 (50.0% as at the end of 2017) and included inventories – 20.2% (18.5% as at the end of 2017), receivables – 21.1% (17.7% as at the end of 2017), other current assets – 3.2% (1.1% as at the end of 2017) and cash and cash equivalents – 7.0% (12.7% as at the end of 2017).

Assets for sale

The assets for sale cover the assets of the Mochenwangen Group with the exception of assets of the other companies in the Arctic Paper Group. The amount of PLN 2,831 thousand as at 30 June 2018 (31 December 2017: PLN 4,071 thousand), was composed of inventories for PLN 22 thousand (31 December 2017: PLN 21 thousand), trade and other receivables of PLN

1,016 thousand (31 December 2017: PLN 1,293 thousand), cash – PLN 1,666 thousand (31 December 2017: PLN 2,448 thousand), and other financial and non-financial assets – PLN 127 thousand (31 December 2017: PLN 309 thousand).

Equity

As at the end of the current period, equity amounted to PLN 840,772 thousand as compared to PLN 791,294 thousand at the end of 2017. As at the end of June 2018 equity accounted for 41.3% of total equity and liabilities vs. 41.6% of balance sheet total as at 31 December 2017. The growth of equity is due to the net profit for H1 2018 and a positive net measurement of hedging instruments recognised in other comprehensive income reduced partly by dividend distribution to the shareholders of AP S.A. and to non-controlling shareholders.

Short-term liabilities

As at the end of June 2018, short-term liabilities amounted to PLN 755,996 thousand (37.2% of balance sheet total) as compared to PLN 576,275 thousand (30.3% of balance sheet total) as at the end of 2017. The major growth of short-term liabilities (by PLN 144,660 thousand) is due to reclassification of a part of long-term loan liabilities to short-term liabilities. That was due to failure by the Group to comply with a ratio required in the loan agreement concluded with the consortium of financing banks (Bank Zachodni WBK S.A., Bank BGŻ BNP Paribas S.A., European Bank for Reconstruction and Development). After the balance sheet date Arctic Paper S.A. received a written assurance from Bank Zachodni WBK S.A. acting as the consortium agent of the financing banks that failure by the Group to comply with the ratio as at 30 June 2018 will not constitute an event of default under the loan agreement of 9 September 2016. However, in compliance with IAS 1 in view of no such assurance as at 30 June 2018 the Group disclosed all its debt to the bank consortium as at that day of PLN 144,660 thousand as short-term liabilities: interest-bearing loans, borrowings and bonds (more information in note 5 to the condensed consolidated financial statements).

Additinally in H1 2018 there was a growth of short-term liabilities by PLN 35,061 thousand which was primarily due to increased trade and other payables (note 21 of the intermin condensed consolidated financial statements), accruals and deferred income (note 23 of the intermin condensed consolidated financial statements) and interest-bearing loans, borrowings and bonds (note 19 of the intermin condensed consolidated financial statements).

Long-term liabilities

As at the end of June 2018, long-term liabilities amounted to PLN 435,750 thousand (21.4% of balance sheet total) as compared to PLN 531,128 thousand (27.9% of balance sheet total) as at the end of 2017. In the period under report, a decrease of long-term liabilities occurred by PLN 75,378 thousand, which was a result of the reclassification of loans, described above, (drop by PLN 144,660 thousand) and also a growth of interest-bearing loans, borrowings and bonds (note 19 to the interim condensed consolidated financial statements) and the deferred income tax liability (note 13 to the interim condensed consolidated financial statements).

Liabilities directly related to assets for sale

The liabilities directly related to assets for sale cover the liabilities of the Mochenwangen Group with the exception of pension provisions and liabilities to the other companies in the Arctic Paper Group. The amount of PLN 1,744 thousand as at 30 June 2018 (31 December 2017: PLN 1,626 thousand), was composed of provisions of PLN 877 thousand (31 December 2017: PLN 838 thousand), trade and other payables of PLN 584 thousand (31 December 2017: PLN 517 thousand), and other financial and non-financial liabilities of 283 thousand (31 December 2017: PLN 271 thousand).

Debt analysis

	Q2 2018	Q1 2018	Q2 2017	Change % Q2 2018/ Q1 2018	Change % Q2 2018/ Q2 2017
Debt to equity ratio (%)	142,0	139,2	120,6	2,7 p.p.	21,4 p.p.
Equity to fixed assets ratio (%)	85,3	85,7	85,5	(0,4) p.p.	(0,2) p.p.
Interest-bearing debt-to-equity ratio (%)	57,2	57,4	44,3	(0,2) p.p.	12,9 p.p.
Net debt to EBITDA ratio for the last 12 months (x)	1,4x	1,1x	1,0x	0,32	0,42
EBITDA to interest expense ratio (x)	9,8x	9,8x	11,4x	0,0	(1,6)

As at the end of June 2018, debt to equity ratio amounted to 142.0% and was higher by 2.7 p.p. compared to the end of March of 2018 and higher by 21.4 p.p. compared to the end of June 2018. The fixed asset to equity ratio dropped from 85.7% as at the end of Q1 2018 to 85.3% at the end of June 2018 and was lower by 0.4 p.p. as compared to the end of March 2018 and lower by 0.2 p.p. as compared to the level of the ratio calculated at the end of June 2017.
Interest bearing debt to equity ratio amounted to 57.2% as at the end of the current half year and was lower by 0.2 p.p. compared to the end of March 2018 and higher by 12.9 p.p. compared to the level of the ratio calculated at the end of June 2017.
Net borrowings to EBITDA calculated for the last 12 months ended on 30 June 2018 amounted to 1.4x compared to 1.1x in the equivalent period ended on 31 March 2018 and 1.0x for the period ended on 30 June 2017.
The EBITDA to interest coverage ratio was 9.8x for the twelve months ended on 30 June 2018 and 9.8x and 11.4x for periods ended on 31 March 2018 and on 30 June 2017 respectively.

Liquidity analysis

	Q2 2018	Q1 2018	Q2 2017	Change % Q2 2018/ Q1 2018	Change % Q2 2018/ Q2 2017
Current ratio	**1,4x**	**1,7x**	**1,6x**	**(0,4)**	**(0,2)**
Quick ratio	**0,8x**	**1,1x**	**0,9x**	**(0,3)**	**(0,1)**
Acid test	**0,2x**	**0,4x**	**0,2x**	**(0,2)**	**(0,0)**
DSI (days)	58,1	48,8	54,8	9,3	3,2
DSO (days)	47,5	44,0	43,6	3,5	3,9
DPO (days)	61,2	57,0	58,9	4,2	2,3
Operational cycle (days)	105,6	92,8	98,5	12,8	7,1
Cash conversion cycle (days)	**44,4**	**35,8**	**39,6**	**8,6**	**4,8**

The current liquidity ratio as at the end of June 2018 was 1.4x and it decreased by 0.4x in relation to the level as at the end of Q1 2018 and was by 0.2 lower versus the end of June 2017.
The quick liquidity ratio reached the level of 0.8x at the end of June 2018 and dropped versus the level as at 31 March 2018 by 0.3 and was by 0.1 lower than as at the end of 30 June 2017.
The cash ratio as at the end of Q2 2018 was 0.2x and it decreased versus 31 March 2017 (0.4) and it did not change materially versus the end of Q2 2017.
The cash conversion cycle in Q2 2018 was 44.4 days and was by 8.6 days longer versus Q1 2018 and by 4.8 days longer than reported at the end of Q2 2017.

Selected items of the consolidated statement of cash flows

PLN thousand	Q2 2018	Q1 2018	Q2 2017	H1 2018	H1 2017	Change % Q2 2018/ Q1 2018	Change % Q2 2018/ Q2 2017	Change % H1 2018/ H1 2017
Cash flows from operating activities	(1 427)	1 801	81 838	374	103 773	(179,2)	(101,7)	(99,6)
of which:								
Gross profit (loss)	*30 760*	*39 031*	*25 344*	*69 791*	*71 075*	*(21,2)*	*21,4*	*(1,8)*
Depreciation/amortisation and impairment charges	*21 316*	*23 990*	*26 969*	*45 306*	*53 371*	*(11,1)*	*(21,0)*	*(15,1)*
Changes to working capital	*(57 412)*	*(64 707)*	*24 763*	*(122 119)*	*(29 606)*	*(11,3)*	*(331,8)*	*312,5*
Other adjustments	*3 909*	*3 487*	*4 760*	*7 396*	*8 933*	*12,1*	*(17,9)*	*(17,2)*
Cash flows from investing activities	(33 939)	(41 710)	(44 278)	(75 650)	(75 151)	(18,6)	(23,4)	0,7
Cash flows from financing activities	(30 436)	8 397	(38 173)	(22 039)	(56 297)	(462,5)	(20,3)	(60,9)
Total cash flows	(65 802)	(31 513)	(613)	(97 315)	(27 674)	108,8	10 630,2	251,6

Due to an adjustment of a previous years' error concerning verification of periods of economic useful lives of tangible fixed assets and intangible assets for Rottneros companies (described in note 6.5 and 6.6 of the interim condensed consolidated financial statements), the above data for H1 2017 and Q2 2017 is not the data disclosed in the Semi-annual Consolidated Report for 2017 of the Arctic Paper Group.

Cash flows from operating activities

In the first six months of 2018, net cash flows from operating activities amounted to PLN +374 thousand as compared to PLN +103,773 thousand in the equivalent period of 2017. Changes to the working capital, in particular increased inventories and trade receivables and other non-financial assets in H1 2018 contributed to higher positive operational cash flows.

Cash flows from investing activities

In H1 2018, cash flows from investing activities amounted to PLN -75,650 thousand as compared to PLN -75,151 thousand in the equivalent period of the previous year. The negative cash flows from investing activities in the period under report resulted primarily from expenditures on tangible fixed assets and intangible assets.

Cash flows from financing activities

In H1 2018, cash flows from financing activities amounted to PLN -22,039 thousand as compared to PLN -56,297 thousand in the equivalent period of 2017. The negative cash flows from financing activities in 2018 are primarily due to repayment of debt under term loans and borrowings along with interest, repayment of obligations under lease contract (in particular pre-payment to Svenska Handelsbanken AB) and dividend distribution to the shareholders of AP S.A. and to non-controlling shareholders.

Summary of standalone financial results

Selected items of standalone statement of profit and loss

PLN thousand	Q2 2018	Q1 2018	Q2 2017	H1 2018	H1 2017	Change % Q2 2018/ Q1 2018	Change % Q2 2018/ Q2 2017	Change % H1 2018/ H1 2017
Sales revenues	**49 463**	**9 751**	**56 812**	**59 214**	**68 065**	**407**	**(13)**	**(13)**
of which:								
Revenues from sales of services	*9 340*	*8 524*	*11 006*	*17 864*	*21 051*	*10*	*(15)*	*(15)*
Interest income on loans	*1 226*	*1 227*	*982*	*2 453*	*2 191*	*(0)*	*25*	*12*
Dividend income	*38 897*	*-*	*44 823*	*38 897*	*44 823*	*-*	*(13)*	*(13)*
Profit on sales	48 295	8 394	55 611	56 689	65 374	475	(13)	(13)
% of sales revenues	*97,64*	*86,08*	*97,89*	*95,74*	*96,05*	*11,6 p.p.*	*(0,2) p.p.*	*(0,3) p.p.*
Selling and distribution costs	(749)	(750)	(1 400)	(1 499)	(2 419)	(0)	(47)	(38)
Administrative expenses	(6 989)	(7 144)	(10 559)	(14 134)	(18 549)	(2)	(34)	(24)
Other operating income	191	58	110	249	114	228	74	119
Other operating expenses	(1 167)	(254)	(35 043)	(1 420)	(35 983)	359	(97)	(96)
EBIT	**39 581**	**304**	**8 720**	**39 885**	**8 537**	**12 936**	**354**	**367**
% of sales revenues	*80,02*	*3,11*	*15,35*	*67,36*	*12,54*	*76,9 p.p.*	*64,7 p.p.*	*54,8 p.p.*
EBITDA	**39 617**	**427**	**9 367**	**40 133**	**9 936**	**9 186**	**323**	**304**
% of sales revenues	*80,10*	*4,38*	*16,49*	*67,78*	*14,60*	*75,7 p.p.*	*63,6 p.p.*	*53,2 p.p.*
Financial income	2 041	1 009	(2 279)	3 050	4 879	102	(190)	(37)
Financial expenses	(5 627)	(5 857)	(5 086)	(11 485)	(9 685)	(4)	11	19
Gross profit (loss)	**35 995**	**(4 545)**	**1 355**	**31 450**	**3 731**	**(892)**	**2 557**	**743**
Income tax	(300)	-	-	(300)	-	-	-	-
Net profit / (loss)	**35 695**	**(4 545)**	**1 355**	**31 150**	**3 731**	**(885)**	**2 535**	**735**
% of sales revenues	*72,17*	*(46,61)*	*2,38*	*52,61*	*5,48*	*118,8 p.p.*	*69,8 p.p.*	*47,1 p.p.*

Revenues, profit on sales, costs of sales

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

In Q2 2018, the standalone sales revenues amounted to PLN 49,463 thousand and comprised services provided to Group companies (PLN 9,340 thousand), interest income on loans (PLN 1,226 thousand) and dividend income (PLN 38,897 thousand). In the equivalent period of the previous year, the standalone sales revenues amounted to PLN 56,812 thousand and comprised services provided to Group companies (PLN 11,006 thousand), interest income on loans (PLN 982 thousand) and dividend income (PLN 44,823 thousand).

In H1 2018, the standalone sales revenues amounted to PLN 59,214 thousand and comprised services provided to Group companies (PLN 17,864 thousand interest income on loans (PLN 2,453 thousand) and dividend income (PLN 38,897 thousand). In the equivalent period of the previous year, the standalone sales revenues amounted to PLN 68,065 thousand and comprised services provided to Group companies (PLN 21,051 thousand), interest income on loans (PLN 2,191 thousand) and dividend income (PLN 44,823 thousand). That means a decrease of sales revenues in H1 2018 by PLN 10,086 thousand versus the equivalent period of 2017.

Profit on sales amounted to PLN 39,885 thousand in H1 2018 and grew by PLN 30,861 thousand versus the equivalent period of the previous year.

Selling and distribution costs

In H1 2018 the Company recognised the amount of PLN 1,499 thousand as selling and distribution costs (PLN 2,419 thousand in the equivalent period of 2017) which comprised solely the expenses related to intermediary services in the purchase of pulp for Arctic Paper Kostrzyn S.A.

Administrative expenses

In H1 2018, the administrative expenses amounted to PLN 14,134 thousand which was a decrease as compared to the equivalent period of the previous year by PLN 4,415 thousand. The drop of the expenses was primarily due to a decrease of external consulting costs.

The administrative expenses include costs of the administration of the Company operation, costs of services provided for the companies in the Group and all costs incurred by the Company for the purposes of pursuing holding company activities. Among them, a group of costs relates only to statutory activities and includes, among others: costs of tax, legal and accounting services, as well as the costs of the Supervisory Board and the Management Board.

Other operating income and expenses

Other operating income totalled PLN 249 thousand in H1 2018 which was an increase as compared to the equivalent period of the previous year by PLN 135 thousand. At the same time there was a decrease of other operating expenses that reached the level of PLN 1,420 thousand. The major growth of other operating expenses in H1 2017 was primarily due to a write-off of the value of interests in Arctic Paper Investment AB (PLN 32,947 thousand).

Financial income and financial expenses

In H1 2018, the financial income amounted to PLN 3,050 thousand and was by PLN 1,829 thousand lower than generated in H1 2017. The financial expenses after six months of 2018 amounted to PLN 11,485 thousand and largely referred to interest expenses on the received bank loans and borrowings (PLN 6,686 thousand) and FX losses. In the equivalent period of 2017, the financial expenses amounted to PLN 9,685 thousand.

Selected items of the standalone statement of financial position

PLN thousand	30.06.2018	31.12.2017	30.06.2017	Change 30.06.2018 -31.12.2017	Change 30.06.2018 -30.06.2017
Fixed assets	759 291	751 157	780 954	8 134	(21 664)
Receivables	78 839	75 287	63 161	3 553	15 678
Other current assets	125 560	80 675	81 683	44 885	43 877
Cash and cash equivalents	1 682	36 943	15 370	(35 260)	(13 688)
Total assets	**965 372**	**944 061**	**941 168**	**21 311**	**24 204**
Equity	548 540	531 032	574 456	17 508	(25 916)
Short-term liabilities	326 360	205 815	135 228	120 545	191 132
Long-term liabilities	90 472	207 214	231 483	(116 742)	(141 011)
Total liabilities	**965 372**	**944 061**	**941 168**	**21 311**	**24 204**

As at 30 June 2018 total assets amounted to PLN 965,372 thousand as compared to PLN 944,061 thousand at the end of 2017.

The growth of assets is primarily due to higher other current assets in the period under report.

Fixed assets

At the end of June 2018 fixed assets accounted for 78.9% of total assets vs. 79.6% at the end of 2017. The value of fixed assets grew in the current half-year period by PLN 8,134 thousand. The main item of non-current assets includes interests in subsidiaries. At the end of H1 2018, the value was PLN 678,313 thousand and there was no change versus 31 December 2017.

Current assets

As at the end of June 2018, current assets amounted to PLN 203,508 thousand as compared to PLN 192,904 thousand at the end of December 2017.

As part of the current assets, receivables increased by PLN 3,553 thousand, other current assets by PLN 44,885 thousand while cash and cash equivalents decreased by PLN 35,260 thousand. As at the end of June 2018, current assets accounted for 21.1% of total assets (20.4% as at the end of 2017).

Equity

At the end of the H1 2018, the equity amounted to PLN 548,540 thousand as compared to PLN 531,032 thousand at the end of 2017. That was a growth of equity by PLN 17,508 thousand, mainly due to net profit generated in H1 2018. As at the end of June 2018 equity accounted for 56.8% of balance sheet total vs. 56.2% of balance sheet total as at the end of 2017.

Short-term liabilities

As at the end of June 2018, short-term liabilities amounted to PLN 326,360 thousand (33.8% of balance sheet total) as compared to PLN 205,815 thousand (21.8% of balance sheet total) as at the end of 2017.

The major growth of short-term liabilities (by PLN 144,660 thousand) is due to reclassification of a part of long-term loan liabilities to short-term liabilities. That was due to failure by the Group to comply with a ratio required in the loan agreement concluded with the consortium of financing banks (Bank Zachodni WBK S.A., Bank BGŻ BNP Paribas S.A. and European Bank for Reconstruction and Development). After the balance sheet date Arctic Paper S.A. received a written assurance from Bank Zachodni WBK S.A. acting as the consortium agent of the financing banks that failure by the Group to comply with the ratio as at 30 June 2018 will not constitute an event of default under the loan agreement of 9 September 2016. However, in compliance with IAS 1 in view of no such assurance as at 30 June 2018 the Group disclosed all its debt to the bank consortium as at that day of PLN 144,660 thousand as short-term liabilities: interest-bearing loans, borrowings and bonds (more information in note 2 to the interim condensed standalone financial statements).

Long-term liabilities

As at the end of June 2018, long-term liabilities amounted to PLN 90,472 thousand (9.4% of balance sheet total) as compared to PLN 207,214 thousand (21.9% of balance sheet total) as at the end of 2017. The decrease of the long-term liabilities is a result of the reclassification of long-term loans described above.

Selected items of the standalone statement of cash flows

PLN thousand	Q2 2018	Q1 2018	H1 2018	H1 2017	Change % Q2 2018/ Q1 2018	Change % H1 2018/ H1 2017
Cash flows from operating activities	(52 370)	(11 208)	(88 717)	54 738	367,3	(262,1)
of which:						
Gross profit (loss)	*35 995*	*(4 545)*	*31 450*	*3 731*	*(892,0)*	*742,8*
Depreciation/amortisation and impairment charges	*37*	*212*	*248*	*225*	*(82,7)*	*10,6*
Changes to working capital	*8 572*	*(3 496)*	*5 076*	*(4 481)*	*(345,2)*	*(213,3)*
Net interest and dividends	*(157)*	*4 167*	*4 010*	*7 729*	*(103,8)*	*(48,1)*
Increase / decrease of loans granted to subsidiaries	*-*	*(29 671)*	*(54 810)*	*-*	*-*	*-*
Other adjustments	*(96 816)*	*22 126*	*(74 691)*	*47 534*	*(537,6)*	*(257,1)*
Cash flows from investing activities	(116)	(23)	(139)	(2 795)	411,0	(95,0)
Cash flows from financing activities	50 598	2 998	53 595	(47 437)	1 587,9	(213,0)
Total cash flows	**(1 888)**	**(8 233)**	**(35 260)**	**4 505**	**(77,1)**	**(882,6)**

The cash flow statement presents a decrease in cash in H1 2018 by PLN 35,260 thousand which includes:

- negative cash flows from operating activities of PLN -88,717 thousand,
- negative cash flows from investing activities of PLN -139 thousand,
- positive cash flows from financial activities of PLN 53,595 thousand.

Cash flows from operating activities

In H1 2018, net cash flows from operating activities amounted to PLN -88,717 thousand as compared to PLN 54,738 thousand in the equivalent period of 2017. The cash flows from operating activities in H1 this year include loans granted to subsidiaries and a change of liabilities under cash-pooling.

Cash flows from investing activities

In H1 2017, cash flows from investing activities amounted to PLN 139 thousand as compared to PLN 2,795 thousand in the equivalent period of the previous year. The increased interest in Arctic Paper Investment AB had the major effect on the negative cash flows from investing activities in H1 of the previous year.

Cash flows from financing activities

In H1 2018, cash flows from financing activities amounted to PLN 53,595 thousand as compared to PLN -47,437 thousand in the equivalent period of 2017. Cash flows from financing activities are related to a new investment loan and a change to working capital loans.

Relevant information and factors affecting the financial results and the assessment of the financial standing

Key factors affecting the performance results

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

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

Macroeconomic and other economic factors

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

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

Paper prices

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

Costs of raw materials, energy and transportation

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

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

A part of pulp supplies to the Group's Paper Mills is made from the Group's own Pulp Mills. The rest of the pulp produced in the Group's Pulp Mills is sold to external customers.

Currency rate fluctuations

The Group's operating results are significantly influenced by currency rate fluctuations. In particular, the Group's revenues and costs are expressed in different foreign currencies and are not matched, therefore, the appreciation of the currencies in which we incur costs towards the currencies in which we generate revenues, will have an adverse effect on the Group's results. The Group's products are primarily sold to euro zone countries, Scandinavia, Poland and the UK; therefore, the Group's revenues are to a great extent expressed in EUR, GBP, SEK and PLN, while the revenues of Pulp Mills are primarily dependent on USD. The Group's operating expenses are primarily expressed in USD (pulp costs for Paper Mills), EUR (costs related to pulp for Paper Mills, energy, transportation, chemicals), PLN (the majority of other costs incurred by the Paper Mill in Kostrzyn nad Odrą) and SEK (the majority of other costs incurred by the Munkedal and Grycksbo mills as well as the Rottneros and Vallvik Pulp Mills).

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

Unusual events and factors

In H1 2018 there were no unusual events or factors.

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

In Q1 2018 there were no changes in the Arctic Paper Group's structure that would have material influence on the financial result generated.

Other material information

Repayment of lease liabilities of Arctic Paper Grycksbo AB and receipt of a re-financing tranche from banks

On 7 January 2018, Arctic Paper SA granted a loan to its subsidiary Arctic Paper Grycksbo AB of EUR 5.56 million to cover repayment under lease contracts with Svenska Handelsbanken AB. The Company requested the existing consortium of financing banks (Bank Zachodni WBK S.A. and Bank BGŻ BNP Paribas S.A.) for approval for the Company to contract an additional short-term loan up to PLN 25,820 thousand to be granted as an additional tranche under the loan agreement of 9 September 2016 in order to finance or re-finance repayment of lease debt by Arctic Paper Grycksbo AB to Svenska Handelsbanken AB. The Meeting of Bondholders agreed to contract such financing on 20 February 2018. The new loan tranche of PLN 25,820 thousand was disbursed by the banks on 18 July 2018.

New investment by the Group

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

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

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

Published strategy on paper business

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

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

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

Factors influencing the development of the Arctic Paper Group

Information on market trends

Supplies of fine paper

In Q2 2018 the Arctic Paper Group recorded a decreased level of orders versus Q1 2018 by 5.6% and a decrease of orders versus the equivalent period of 2017 by 0.5%.

Source of data: Arctic Paper analysis

Paper prices

At the end of H1 2018, the prices of uncoated wood-free paper (UWF) in Europe grew by 10.3% versus the prices at the end of June 2017 while for coated wood-free paper (CWF) there was a growth by 10.8%.

At the end of June 2018, the average prices declared by producers for selected types of paper and the following markets (Germany, France, Spain, Italy, United Kingdom) for both uncoated wood-free paper (UWF) and coated wood-free paper (CWF) were higher than at the end of Q1 2018 by 2.4% and 2.7% respectively.

The prices invoiced by Arctic Paper in EUR for comparable products in the segment of uncoated wood-free paper (UWF) increased from the end of March 2018 until the end of June 2018 by 0.5% on the average while in the segment of coated wood- free paper (CWF) the prices increased by 1.8%. At the end of H1 2018, the prices of uncoated wood-free paper (UWF) invoiced by Arctic Paper grew by 8.1% versus the prices at the end of June 2017 while for coated wood-free paper (CWF) there was a growth by 7.1%.

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

Pulp prices

At the end of Q2 2018, the pulp prices reached the level of: NBSK – USD 1200/ton and BHKP – USD 1050/ton.

The average NBSK price in Q2 2018 was higher by 34.8% compared to the equivalent period of the previous year while for BHKP the average price was higher by 33.4%. Compared to Q1, the average pulp price in Q2 2018 was higher by 9.8% for NBSK and higher by 3.5% for BHKP.

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

The average pulp cost used for production of paper calculated for the Arctic Paper Group in PLN dropped in Q2 2018 versus Q1 2018 by 7.3% while in relation to Q2 2017 it grew by 23.5%.

The share of pulp costs in overall selling costs after 6 months of the current year was 61% versus 54% in H1 2017.

The Arctic Paper Group uses the pulp in the production process according to the following structure: BHKP 71%, NBSK 20% and other 9%.

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

Currency exchange rates

At the end of Q2 2018, the EUR/PLN rate amounted to 4.3616 and was by 3.2% higher than at the end of Q2 2017. The mean EUR/PLN exchange rate in H1 2018 amounted to 4.2201 and was by 1.2% lower than in the equivalent period of 2017.

The EUR/SEK exchange rate amounted to 10.4095 at the end of Q2 2018 (growth by 7.9% versus the end of Q2 2017). For that currency pair, the mean exchange rate in H1 2018 was by 5.8% higher than in the equivalent period of 2017. The weakening SEK versus EUR has been positively impacting the revenues invoiced in EUR in the factories in Sweden (AP Munkedals and AP Grycksbo).

The USD/PLN exchange rate as at the end of Q2 2018 amounted to 3.7440. In H1 2018 the average USD/PLN rate was 3.4872 versus 3.9473 in the equivalent period of the previous year which was a drop by 11.7%. In Q2 2018 the mean USD/PLN exchange rate was 3.5778 and was by 6.6% lower than in Q2 2017. The change has positively affected the costs incurred in USD by AP Kostrzyn, in particular the costs of pulp.

The USD/SEK exchange rate as at the end of Q2 2018 amounted to 8.9356. In H1 2018, the mean exchange rate amounted to 8.3854 compared to 8.8634 in the equivalent period of the previous year which was a decrease of the rate by 5.4%. In Q2 2018 the average USD/SEK rate grew by 6.9% versus Q1 2018. The change versus Q1 2017 unfavourably affected the costs incurred in USD by AP Munkedals and AP Grycksbo, in particular the costs of pulp.

At the end of June 2017, the EUR/USD exchange rate amounted to 1.1650 compared to 1.1404 (+2.2%) at the end of June 2017. In Q2 2018, EUR slightly weakened against USD versus Q1 2018 (-3%). In H1 2018 the average exchange rate was 1.2112 while in the equivalent period of the previous year it was 1.0828 which was an appreciation of EUR versus USD by 11.9%.

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

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

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

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

Risk factors

In H1 2018 there were no material changes to the risk factors described in the report for 2017.

Risk factors related to the environment in which the Group operates

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

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

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

Risk of changing legal regulations

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

FX risk

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

Interest rate risk

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

Risk related to increasing importance of alternative media

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

Risk factors relating to the business of the Group

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

Risk related to relatively low operational margins

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

Risk of price changes to raw materials, energy and products

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

Risk of disruption to production processes

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

Risk related to our investments

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

Risk factors relating to the debt of the Group

Our Group has the largest portion of its debt under a loan agreement with a consortium of banks (European Bank for Reconstruction and Development, Bank Zachodni WBK S.A. and BGŻ BNP Paribas S.A.) of 9 September 2016, debt under bonds in PLN and SEK and a loan from the core shareholder.

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

Risk related to insurance limits

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

Risk of restricted supplies of natural gas

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

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

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

Risk related to consolidation and liquidity of key customers

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

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

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

Risk related to CO2 emissions

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

Risk related to dividend distribution

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

In connection with the term and revolving loan agreements signed on 9 September 2016, the agreements related to the bond issue pursuant to which on 30 September 2016 the Company issued bonds and the intercreditor agreement (described in more detail in note 32.2 "Obtaining of new financing" in the annual report for 2016), the possibility of the Company to pay dividend is subject to satisfying certain financial ratios by the Group in two periods preceding such distribution (as the term is defined in the term and revolving loan agreements) and no occurrence of any events of default (as defined in the term and revolving loan agreements).

Supplementary information

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

The Management Board of Arctic Paper S.A. has not published the projected financial results for 2018.

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

As at 30 June 2018, the Company's Supervisory Board was composed of:

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

On 13 June 2018, the Ordinary General Meeting decided to appoint the Supervisory Board with no changes for the next joint term of office, effective on 21 December 2018.

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

The Management Board of the Parent Entity as at the publication hereof was composed as follows:

— Per Skoglund – President of the Management Board
— Göran Eklund – Member of the Management Board

Until the date hereof, there were no changes in the composition of the Management Board of the Parent Entity.

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

Managing and supervising persons	Number of shares or rights to shares as at 27.08.2018	Number of shares or rights to shares as at 30.06.2018	Number of shares or rights to shares as at 14.05.2018	Change
Management Board				
Per Skoglund	20 000	20 000	20 000	-
Göran Eklund	-	-	-	-
Supervisory Board	-	-	-	-
Per Lundeen	34 760	34 760	34 760	-
Thomas Onstad	6 223 658	6 223 658	6 223 658	-
Roger Mattsson	-	-	-	-
Maciej Georg	-	-	-	-
Mariusz Grendowicz	-	-	-	-

Information on sureties and guarantees

As at 30 June 2018, the Capital Group reported:

— pledge on properties of Arctic Paper Grycksbo AB resulting from an FPG contract in favour of the mutual life insurance company PRI for SEK 50,000 thousand;
— contingent liability under a guarantee for FPG in favour of the mutual life insurance company PRI for SEK 1,439 thousand at Arctic Paper Grycksbo AB and for SEK 760 thousand at Arctic Paper Munkedals AB;
— pledge on properties of Arctic Paper Munkedals AB resulting from an FPG contract in favour of the mutual life insurance company PRI for SEK 50,000 thousand;
— a contingent liability of Arctic Paper Munkedals AB related to a surety for the obligations of Kalltorp Kraft HB in the amount of SEK 1,698 thousand;
— mortgage on the properties held by Kalltorp Kraft HB for SEK 8,650 thousand:

— a bank guarantee in favour of Skatteverket Ludvika for SEK 135 thousand;
— pledges on shares in subsidiary companies in the Rottneros Group for SEK 666,891 thousand under loan agreements concluded with Danske Bank;
— pledge on 19,950,000 shares of Rottneros AB under the loan agreement for EUR 10,000 thousand granted by Arctic Paper Finance AB to Arctic Paper S.A. and EUR 10,000 thousand granted by Mr Thomas Onstad to Arctic Paper Finance AB.

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

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

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

Material off-balance sheet items

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

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

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

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

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

Statements of the Management Board

Accuracy and reliability of the presented reports

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

- The interim condensed consolidated financial statements for the period of 6 months ended on 30 June 2018 of the Arctic Paper S.A. Capital Group and the comparable data have been prepared in compliance with the applicable accounting standards and that they reflect in a true, reliable and clear manner the economic and financial condition of the Capital Group and its financial results for the period of the first 6 months of 2018.
- The Management Board's Report from operations of the Arctic Paper S.A. Capital Group to the report for H1 2018 contains a true image of the development, achievements and condition of the Arctic Paper S.A. Capital Group, including a description of core hazards and risks.

Appointment of the entity authorized to audit financial statements

Members of the Management Board of Arctic Paper S.A, represent that KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.- a statutory auditor that has reviewed the semi-annual condensed consolidated financial statements of the Arctic Paper S.A. Capital Group, was selected in compliance with applicable laws and that the auditors that performed the review complied with the criteria to issue an impartial and independent report on the review and report on the review of the semi-annual condensed consolidated financial statements, in compliance with the applicable regulations and professional standards.

Signatures of the Members of the Management Board

Position	First and last name	Date	Signature
President of the Management Board Chief Executive Officer	Per Skoglund	27 August 2018	
Member of the Management Board Chief Financial Officer	Göran Eklund	27 August 2018	

Interim condensed consolidated financial statements

for the period of six months
ended on 30 June 2018
along with an independent auditor's report

from a review

Interim condensed consolidated financial statements

Interim condensed consolidated statement of profit and loss

	Note	3-month-period ended on 30 June 2018 (unaudited)	6-month-period ended on 30 June 2018 (unaudited)	3-month-period ended on 30 June 2017 (transformed)*	6-month-period ended on 30 June 2017 (transformed)*
Continuing operations					
Revenues from sales of goods	10.1	792 431	1 582 162	703 087	1 476 989
Sales revenues		792 431	1 582 162	703 087	1 476 989
Costs of sales	10.2	(634 355)	(1 270 636)	(557 019)	(1 171 308)
Gross profit (loss) on sales		158 076	311 525	146 068	305 681
Selling and distribution costs	10.3	(84 046)	(168 898)	(85 866)	(177 774)
Administrative expenses	10.4	(19 186)	(40 305)	(26 109)	(48 739)
Other operating income	10.5	7 176	18 994	9 342	22 278
Other operating expenses	10.6	(16 566)	(28 665)	(5 842)	(14 759)
Operating profit (loss)		45 454	92 651	37 592	86 688
Financial income	10.7	371	935	(1 344)	5 366
Financial expenses	10.7	(14 136)	(21 956)	(9 041)	(16 961)
Gross profit (loss)		31 688	71 630	27 206	75 093
Income tax	13	(11 125)	(21 669)	(8 828)	(17 751)
Net profit (loss) from continuing operations		20 563	49 961	18 379	57 341
Discontinued operations					
Profit (loss) from discontinued operations	9	(934)	(1 838)	(1 855)	(4 003)
Net profit / (loss)		19 629	48 123	16 524	53 339
Attributable to:					
The shareholders of the Parent Entity, of which:		4 069	19 902	5 388	31 527
- profit (loss) from continuing operations		5 003	21 740	7 243	35 529
- profit (loss) from discontinued operations		(934)	(1 838)	(1 855)	(4 003)
Non-controlling shareholders, of which:		15 561	28 221	11 136	21 812
- profit (loss) from continuing operations		15 561	28 221	11 136	21 812
- profit (loss) from discontinued operations		-	-	-	-
		19 629	48 123	16 524	53 339
Earnings per share:					
– basic earnings from the profit/(loss) attributable to the shareholders of the Parent Entity	14	0,06	0,29	0,08	0,46
– basic profit/(loss) from continuing operations attributable to the shareholders of the Parent Entity	14	0,07	0,31	0,10	0,51
– diluted earnings from the profit attributable to the shareholders of the Parent Entity	14	0,06	0,29	0,08	0,46
– diluted profit from continuing operations attributable to the shareholders of the Parent Entity	14	0,07	0,31	0,10	0,51

*information on the transformed data is included in note 6.5 and 6.6.hereto

Interim condensed consolidated statement of total comprehensive income

	3-month period ended on 30 June 2018 (unaudited)	6-month period ended on 30 June 2018 (unaudited)	3-month period ended on 30 June 2017 (transformed)*	6-month period ended on 30 June 2017 (transformed)*
Profit for the reporting period	19 629	48 123	16 524	53 339
Other comprehensive income				
Items to be reclassified to profit/loss in future reporting periods:				
FX differences on translation of foreign operations	12 584	(6 108)	(5 326)	(30 774)
Measurement of financial instruments	33 714	41 979	7 449	(11 156)
Deferred income tax on the measurement of financial instruments	(7 629)	(9 148)	(1 746)	2 660
Other comprehensive income (net)	38 670	26 723	377	(39 270)
Total comprehensive income for the period	58 299	74 845	16 901	14 068
Total comprehensive income attributable to:				
The shareholders of the Parent Entity	29 506	40 250	5 673	7 640
Non-controlling shareholders	28 793	34 595	11 228	6 429

*information on the transformed data is included in note 6.5 and 6.6.hereto

Interim condensed consolidated statement of financial position

	Note	As at 30 June 2018 (unaudited)	As at 31 December 2017	As at 30 June 2017 (transformed)*
ASSETS				
Fixed assets				
Tangible fixed assets	15	854 554	834 205	833 471
Investment properties		4 107	4 107	4 074
Intangible assets	15	50 064	51 108	52 181
Interests in joint ventures		976	988	876
Other financial assets	18	46 194	22 056	9 009
Other non-financial assets	18	1 512	1 513	1 470
Deferred income tax assets	13	27 939	32 387	23 388
		985 346	946 363	924 468
Current assets				
Inventories	16	409 243	350 996	339 416
Trade and other receivables	17	418 237	330 071	340 942
Corporate income tax receivables		9 495	6 687	8 985
Other non-financial assets	18	14 123	13 583	14 398
Other financial assets	18	51 753	7 151	3 798
Cash and cash equivalents	11	143 235	241 403	100 821
		1 046 087	949 891	808 361
Assets for sale	9	2 831	4 071	11 462
TOTAL ASSETS		2 034 263	1 900 325	1 744 291
EQUITY AND LIABILITIES				
Equity				
Equity (attributable to the shareholders of the Parent Entity)				
Share capital	24	69 288	69 288	69 288
Reserve capital		407 976	447 638	447 638
Other reserves		136 196	125 997	118 394
FX differences on translation		(12 802)	(9 207)	1 379
Retained earnings / Accumulated losses		(2 800)	(62 364)	(63 372)
Cumulated other comprehensive income related to discontinued operations		(11 725)	(11 611)	(11 733)
		586 133	559 740	561 594
Non-controlling stake		254 640	231 555	229 257
Total equity		840 772	791 294	790 852
Long-term liabilities				
Interest-bearing loans, borrowings and bonds	19	253 868	372 576	260 547
Provisions	22	103 512	101 554	86 102
Other financial liabilities	20	3 396	3 945	27 632
Deferred income tax liability	13	57 409	34 301	26 354
Accruals and deferred income	23	17 565	18 752	19 933
		435 750	531 128	420 568
Short-term liabilities				
Interest-bearing loans, borrowings and bonds	19	198 228	39 440	51 457
Provisions	22	279	4 667	-
Other financial liabilities	20	25 572	33 153	10 784
Trade and other payables	21	431 365	423 868	364 375
Income tax liability		1 212	570	207
Accruals and deferred income	23	99 342	74 576	86 923
		755 996	576 275	513 746
Liabilities directly related to the assets for sale	9	1 744	1 626	19 126
TOTAL LIABILITIES		1 193 491	1 109 030	953 439
TOTAL EQUITY AND LIABILITIES		2 034 263	1 900 324	1 744 291

Interim condensed consolidated statement of cash flows

	Note	6-month period ended on 30 June 2018 (unaudited)	6-month period ended on 30 June 2017 (transformed)*
Cash flows from operating activities			
Gross profit/(loss) on continuing operations		71 630	75 093
Gross profit /(loss) on discontinued operations		(1 840)	(4 017)
Gross profit (loss)		69 791	71 075
Adjustments for:			
Depreciation/amortisation		45 306	53 371
FX gains / (loss)		4 567	(1 059)
Interest, net		11 227	10 076
Profit / loss from investing activities		(4)	13
(Increase) / decrease in receivables and other non-financial assets	11.1	(90 291)	(10 275)
(Increase) / decrease in inventories	11.1	(61 072)	6 934
Increase (decrease) of liabilities except loans, borrowings, bonds and other financial liabilities	11.1	5 904	(19 533)
Change in accruals and prepayments	11.1	23 340	(6 733)
Change in provisions	11.1	(1 943)	(727)
Income tax paid		(5 170)	(683)
Certificates in cogeneration		(861)	672
Other		(421)	641
Net cash flows from operating activities		374	103 773
Cash flows from investing activities			
Disposal of tangible fixed assets and intangible assets		1 162	120
Purchase of tangible fixed assets and intangible assets	11.1	(65 997)	(75 716)
Other capital outflows / inflows		(10 815)	445
Net cash flows from investing activities		(75 650)	(75 151)
Cash flows from financing activities			
Change to overdraft facilities		39 964	(47 477)
Repayment of financial leasing liabilities		(23 140)	(2 004)
Repayment of other financial liabilities		(1)	(16 951)
Inflows under contracted loans, borrowings and debt securities		14 506	51 127
Inflows from other financial liabilities		-	-
Repayment of loans, borrowings and debt securities		(17 094)	(17 049)
Dividend disbursed to shareholders of AP SA		(13 857)	-
Dividend disbursed to non-controlling shareholders		(11 510)	(12 759)
Interest paid		(10 906)	(11 183)
Net cash flows from financing activities		(22 039)	(56 297)
Increase / (decrease) in cash and cash equivalents		(97 315)	(27 674)
Net FX differences		(1 636)	(2 427)
Cash and cash equivalents at the beginning of the period		243 851	131 476
Cash and cash equivalents at the end of the period	11	144 901	101 375

*information on the transformed data is included in note 6.5 and 6.6.hereto

Interim condensed consolidated statement of changes in equity

	Przypadający akcjonariuszom jednostki dominującej								
	Kapitał podstawowy	Kapitał zapasowy	Różnice kursowe z przeliczenia jednostek zagranicznych	Pozostałe kapitały rezerwowe	Zyski zatrzymane (Niepokryte straty)	Zakumulowane inne całkowite dochody związane z działalnością zaniechaną	Razem	Kapitały akcjonariuszy niekontrolujących	Kapitał własny ogółem
Na dzień 1 stycznia 2018 roku	69 288	447 638	(9 207)	125 997	(62 364)	(11 611)	559 740	231 555	791 294
Zysk/(strata) netto za okres obrotowy	-	-	-	-	19 902	-	19 902	28 221	48 123
Inne całkowite dochody netto za okres	-	-	(3 709)	24 057	-	-	20 348	6 375	26 723
Całkowity dochód za okres	-	-	(3 709)	24 057	19 902	-	40 250	34 595	74 845
Wypłata dywidendy udziałowcom AP SA	-	-	-	(13 857)	-	-	(13 857)	-	(13 857)
Podział zysku/ pokrycie straty	-	(39 662)	-	-	39 662	-	-	-	-
Wypłata dywidendy udziałowcom niekontrolującym	-	-	-	-	-	-	-	(11 510)	(11 510)
Działalność zaniechana	-	-	114	-	-	(114)	-	-	-
Na dzień 30 czerwca 2018 roku (niebadane)	69 288	407 976	(12 802)	136 196	(2 800)	(11 725)	586 133	254 640	840 772

	Przypadający akcjonariuszom jednostki dominującej								
	Kapitał podstawowy	Kapitał zapasowy	Różnice kursowe z przeliczenia jednostek zagranicznych	Pozostałe kapitały rezerwowe	Zyski zatrzymane (Niepokryte straty)	Zakumulowane inne całkowite dochody związane z działalnością zaniechaną	Razem	Kapitały akcjonariuszy niekontrolujących	Kapitał własny ogółem
Na dzień 1 stycznia 2017 roku	69 288	447 638	19 717	156 975	(127 542)	(12 120)	553 955	235 588	789 543
Zysk/(strata) netto za okres obrotowy	-	-	-	-	31 527	-	31 527	21 812	53 339
Inne całkowite dochody netto za okres	-	-	(17 950)	(5 937)	-	-	(23 887)	(15 383)	(39 270)
Całkowity dochód za okres	-	-	(17 950)	(5 937)	31 527	-	7 640	6 429	14 068
Podział zysku/pokrycie straty	-		-	(32 644)	32 644	-	-	-	-
Wypłata dywidendy udziałowcom niekontrolującym	-	-	-	-	-	-	-	(12 759)	(12 759)
Działalność zaniechana	-	-	(387)	-	-	387	-	-	-
Na dzień 30 czerwca 2017 roku (przekształcone)	69 288	447 638	1 379	118 394	(63 372)	(11 733)	561 594	229 257	790 852

Additional notes to the quarterly abbreviated consolidated financial statements

provided on pages 46 to 84 form an integral part hereof

Additional explanatory notes

1. General information

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

Our consolidated sales revenues for six months of 2018 amounted to PLN 1,582 million.

Arctic Paper S.A. is a holding company set up in April 2008. As a result of capital restructuring carried out in 2008, the Paper Mills Arctic Paper Kostrzyn (Poland) and Arctic Paper Munkedals (Sweden), Distribution Companies and Sales Offices have become the properties of Arctic Paper S.A. Previously they were owned by Trebruk AB (formerly Arctic Paper AB), the Parent Entity of Arctic Paper S.A. In addition, under the expansion, the Group acquired the Paper Mill Arctic Paper Mochenwangen (Germany) in November 2008 and the Paper Mill Grycksbo (Sweden) in March 2010. In 2012, the Group acquired shares in Rottneros AB, a company listed on NASDAQ in Stockholm, Sweden, holding interests in two pulp companies (Sweden).

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

The interim condensed consolidated financial statements of the Group with respect to the interim condensed consolidated statement of profit and loss, interim condensed consolidated statement of comprehensive income, interim condensed consolidated statement of cash flows and interim condensed consolidated statement of changes in equity, cover the period of 6 months ended on 30 June 2018 and contain comparable data for the period of 6 months ended on 30 June 2017; and for the interim condensed consolidated statement of financial condition, they disclose data as at 30 June 2018 and as at 31 December 2017 and 30 June 2017.

The interim condensed consolidated statement of comprehensive income, interim condensed consolidated statement of profit and loss and notes to the interim condensed consolidated statement of comprehensive income and interim condensed consolidated statement of profit and loss contain data for the period of 3 months ended on 30 June 2018 and comparable data for the period of 3 months ended on 30 June 2017 that have not been reviewed or audited by statutory auditor.

1.1. Group Profile

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

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

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

1.2. Shareholding structure

Nemus Holding AB, a company under Swedish law (a company owned indirectly by Mr Thomas Onstad), is the majority shareholder of Arctic Paper S.A., holding (as at 30 June 2018) 40,381,449 shares of our Company, which constitutes 58.28% of its share capital and corresponds to 58.28% of the total number of votes at General Meetings. Thus Nemus Holding AB is the parent entity of the Issuer.

Additionally, Mr Thomas Onstad, an indirect shareholder of Nemus Holding AB, holds directly 6,223,658 shares representing 8.98% of the total number of shares in the Company, and via another entity – 600,000 shares accounting for 0.87% of the total number of shares of the Issuer. Mr Thomas Onstad's total direct and indirect holdings in the equity of Arctic Paper S.A. as at 30 June 2018 and as at 31 December 2017 was 68.13% and has not changed until the date hereof.

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

The duration of the Company is indefinite.

2. Composition of the Group

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

Unit	Registered office	Business objects	Group's interest in the equity of the subsidiary entities as at			
			27 August 2018	30 June 2018	14 May 2018	31 December 2017
Arctic Paper Kostrzyn S.A.	Poland, Fabryczna 1, 66-470 Kostrzyn nad Odrą	Paper production	100%	100%	100%	100%
Arctic Paper Munkedals AB	Sweden, SE 455 81 Munkedal	Paper production	100%	100%	100%	100%
Arctic Paper Mochenwangen GmbH	Germany, Fabrikstrasse 62, DE-882, 84 Wolpertswende	Paper production	99,74%	99,74%	99,74%	99,74%
Arctic Paper Grycksbo AB	Sweden, Box 1, SE 790 20 Grycksbo	Paper production	100%	100%	100%	100%
Arctic Paper UK Limited	United Kingdom, Quadrant House, 47 Croydon Road, Caterham, Surrey	Trading company	100%	100%	100%	100%
Arctic Paper Baltic States SIA	Latvia, K. Vardemara iela 33-20, Riga LV-1010	Trading company	100%	100%	100%	100%
Arctic Paper Deutschland GmbH	Germany, Am Sandtorkai 72, 20457 Hamburg	Trading company	100%	100%	100%	100%
Arctic Paper Benelux S.A.	Belgium, Ophemstraat 24, B-3050 Oud-Heverlee	Trading company	100%	100%	100%	100%
Arctic Paper Schweiz AG	Switzerland, Technoparkstrasse 1, 8005 Zurich	Trading company	100%	100%	100%	100%
Arctic Paper Italia srl	Italy, Via Cavriana 7, 20 134 Milan	Trading company	100%	100%	100%	100%
Arctic Paper Danmark A/S	Denmark, Korskildelund 6 DK-2670 Greve	Trading company	100%	100%	100%	100%
Arctic Paper France SAS	France, 43 rue de la Breche aux Loups, 75012 Paris	Trading company	100%	100%	100%	100%
Arctic Paper Espana SL	Spain, Avenida Diagonal 472-474, 9-1 Barcelona	Trading company	100%	100%	100%	100%
Arctic Paper Papierhandels GmbH	Austria, Hainborgerstrasse 34A, A-1030 Wien	Trading company	100%	100%	100%	100%
Arctic Paper Polska Sp. z o.o.	Poland, Okrężna 9, 02-916 Warszawa	Trading company	100%	100%	100%	100%
Arctic Paper Norge AS	Norway, Eikenga 11-15, NO-0579 Oslo	Trading company	100%	100%	100%	100%
Arctic Paper Sverige AB	Sweden, SE 455 81 Munkedal	Trading company	100%	100%	100%	100%
Arctic Paper East Sp. z o.o.	Poland, Fabryczna 1, 66-470 Kostrzyn nad Odrą	Trading company	100%	100%	100%	100%
Arctic Paper Investment GmbH *	Germany, Fabrikstrasse 62, DE-882, 84 Wolpertswende	Activities of holding companies	100%	100%	100%	100%
Arctic Paper Finance AB	Sweden, Box 383, 401 26 Göteborg	Activities of holding companies	100%	100%	100%	100%
Arctic Paper Verwaltungs GmbH *	Germany, Fabrikstrasse 62, DE-882, 84 Wolpertswende	Activities of holding companies	100%	100%	100%	100%
Arctic Paper Immobilienverwaltung GmbH&Co. KG*	Germany, Fabrikstrasse 62, DE-882, 84 Wolpertswende	Activities of holding companies	94,90%	94,90%	94,90%	94,90%
Arctic Paper Investment AB **	Sweden, Box 383, 401 26 Göteborg	Activities of holding companies	100%	100%	100%	100%

Unit	Registered office	Business objects	Group's interest in the equity of the subsidiary entities as at			
			27 August 2018	30 June 2018	14 May 2018	31 December 2017
EC Kostrzyn Sp. z o.o.	Poland, ul. Fabryczna 1, 66-470 Kostrzyn nad Odrą	Rental of properties and machines and equipment	100%	100%	100%	100%
Arctic Paper Munkedals Kraft AB	Sweden, 455 81 Munkedal	Production of hydropower	100%	100%	100%	100%
Rottneros AB	Sweden, Sunne	Activities of holding companies	51,27%	51,27%	51,27%	51,27%
Rottneros Bruk AB	Sweden, Sunne	Pulp production	51,27%	51,27%	51,27%	51,27%
Utansjo Bruk AB	Sweden, Harnösand	Non-active company	51,27%	51,27%	51,27%	51,27%
Vallviks Bruk AB	Sweden, Söderhamn	Pulp production	51,27%	51,27%	51,27%	51,27%
Rottneros Packaging AB	Sweden, Stockholm	Production of food packaging	51,27%	51,27%	51,27%	51,27%
SIA Rottneros Baltic	Latvia, Ventspils	Procurement bureau	51,27%	51,27%	51,27%	51,27%

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

As at 30 June 2018 and as well as on the day hereof, the percentage of voting rights held by the Group in its subsidiaries corresponded to the percentage held in the share capital of those entities. All subsidiaries within the Group are consolidated under the full method from the day of obtaining control by the Group and cease to be consolidated from the day the control has been transferred out of the Group.

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

3. Management and supervisory bodies

3.1. Management Board of the Parent Entity

As at 30 June 2018, the Parent Entity's Management Board was composed of:

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

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

3.2. Supervisory Board of the Parent Entity

As at 30 June 2018, the Parent Entity's Supervisory Board was composed of:

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

— Maciej Georg – Member of the Supervisory Board appointed on 14 September 2016 (independent member).

On 13 June 2018, the Ordinary General Meeting decided to appoint the Supervisory Board with no changes for the next joint term of office, effective on 21 December 2018.

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

3.3. Audit Committee of the Parent Entity

As at 30 June 2018, the Parent Entity's Audit Committee was composed of:

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

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

4. Approval of the financial statements

These Intermin condensed financial statements were approved for publication by the Management Board on 27 August 2018.

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

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

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

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

In connection with the term and revolving loan agreements, agreements related to bond issues, signed on 9 September 2016, the Group agreed to maintain specified financial ratios that are calculated at the end of each quarter. As at 30 June 2018, the Group failed to maintain the Cashlow Cover ratio as required in the loan agreement with the consortium of financing banks (Bank Zachodni WBK S.A., Bank BGŻ BNP Paribas S.A. and European Bank for Reconstruction and Development) - the Cashflow Cover being a ratio of cash flows from operating activities to the repayment amount of financial liabilities made in the 12 months from the end of each quarter, net of any discontinued activities and activities by the Rottneros Group. Failure to comply with the ratio was due to lower cash flows from operating activities in Q2 2018, resulting primarily from the development by the Group of higher inventories in 2018 and the higher value of inventories due to higher pulp prices.

After the balance sheet date Arctic Paper S.A. received a written assurance from Bank Zachodni WBK S.A. acting as the consortium agent of the financing banks that failure by the Group to comply with the required Cashflow Cover ratio as at 30 June 2018 will not constitute an event of default under the loan agreement of 9 September 2016. However, in compliance with IAS 1 in view of no such assurance as at 30 June 2018 the Group disclosed all its debt to the bank consortium as at that day of PLN 144,660 thousand as short-term liabilities: interest-bearing loans, borrowings and bonds.

Compliance with the specified ratio as at successive testing dates will result in a presentation of the loans from the consortium as long-term liabilities again.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the Group's annual consolidated financial statements for the year ended on 31 December 2017.

6. Significant accounting principles (policies)

The accounting principles (policies) applied to prepare the Intermin condensed consolidated financial statements are compliant with those applied to the annual consolidated financial statements of the Group for the year ended on 31 December 2017, with the following exceptions:

— IFRS 15 Revenue from Contracts with Customers (issued on 28 May 2014), including amendments to IFRS 15 Effective date of IFRS 15 (issued on 11 September 2015) effective for financial years beginning on or after 1 January 2018,
  The Management Board analysed the existing agreements and in view of their nature and no non-standard provisions, the amendments to IFRS 15 had no material impact on the Group's results (details are presented in note 6.1 to these financial statements).
— IFRS 9 Financial Instruments (issued on 24 July 2014) – effective for financial years beginning on or after 1 January 2018.
  The Management Board analysed the existing agreements and in view of their nature the amendments to IFRS 9 had no material impact on the Group's results (details are presented in note 6.2 to these financial statements).

6.1. Implementation of IFRS 15

Selected accounting principles

The International Financial Reporting Standard 15 Revenue from Contracts with Customers ("IFRS 15"), issued in May 2014 and amended in April 2016, establishes a Five-Step Model to recognise revenues resulting from contracts with customers. In compliance with IFRS 15, revenues are recognised in the remuneration amount which – as expected by the entity – is due in exchange of the goods or services promised to customers.

— Requirements applicable to identifying contracts with customers: contracts with customers meet the definition when all of the following criteria have been satisfied: the parties to the contract have concluded the contract and are obliged to perform their obligations; the Group is able to identify the rights of each party concerning the goods and services to be provided; the Group is able to identify the payment terms for the goods and services to be provided; the contract has economic content and it is likely that the Group will receive its remuneration due to it in exchange for the goods and services to be provided to the customer.
— Identification of obligations to perform the service: at contract conclusion, the Group assess the goods and services promised in the contract and identifies each promise as a liability for deliver to the customer: the goods or services (or a package of goods or services) that may be identified or a group of separate goods or services that are basically the same and when the delivery has the same nature.
— Identification of the transactional price: in order to determine the transactional price, the Group takes the contractual conditions into account as well as its customary commercial practices. The transactional price is the amount that - as the Group expects - will be due to it in exchange for the delivery of the promised goods or services to the customer, net of any amounts collected on behalf of third parties. The contractual remuneration may cover fixed amounts, variable amounts or both types; in order to estimate the variable remuneration, the Group has decided to apply the most probable value method.
— The allocation of the transactional price of each liability to perform: The Group allocates the transactional price to each obligation to perform (or for separate goods or separate services) in an amount that reflects the remuneration amount, in line with the Group's expectations - it is due to the Group in exchange for the delivery of the promised goods or services to the customer.
— Revenue recognition when the obligation to perform is being executed: The Group recognises revenues at completion (or during completion) of its obligation to perform by delivery of the promised goods or services (an asset) to the customer (the customer acquires control over the asset). Revenues are recognised in the remuneration amount which – as expected by the entity – is due to it in exchange for the goods or services promised to customers.

Impact assessment of the new standard

The Group applied IFRS 15 from its effective date, applying a full retrospective method.

The Group is primarily involved in sales of paper and pulp. A detailed analysis of the impact of the changes was completed in 2017. The analysed areas:

- Identification of contractual obligations to perform .the business objects of the Group include production and sale of standardised paper types and pulp products; therefore, the acceptance of IFRS 15 has no impact on the Group's revenues and profit and loss with reference to contracts with customers under which sale of products is the sole contractual obligation to perform. The Group generates sales invoices and recognises revenues at the time when control over assets is transferred to customers - generally, at delivery of the goods.
- Variable remuneration: certain contracts with customers provide for quantitative rebates. The Group recognises revenues from sales of goods measured at the fair value of the received remuneration or receivables, net of any discounts and quantitative rebates, if the revenues cannot be reliably estimated, the Group delays revenue recognition until such time when the uncertainty is resolved. As a result, variable remuneration is generated in compliance with IFRS 15 which is estimated at contract conclusion and updated afterwards. In accordance with IFRS 15, the estimated remuneration is limited to prevent re-evaluation of revenues. The limitation did not result in additional adjustment to revenues as the amount of the estimated rebate was estimated at contract conclusion (the amount of the estimated rebate is recognised in the period when the sale is executed).
- Presentation and requirements concerning disclosures, as IFRS 15 has no impact on the value and time of revenue recognition in the Group versus the principles used so far, the Group has not made any additional disclosures in this consolidated semi-annual report.

6.2. Implementation of IFRS 9

Selected accounting principles

In July 2014, the International Accounting Standards Board published International Financial Reporting Standard 9 *Financial Instruments* ("IFRS 9"). IFRS 9 covers three aspects related to financial instruments: classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with the possibility of earlier application.

Classification and measurement of financial assets and liabilities

In compliance with IFRS 9, the Group classifies financial assets to one of the following categories:

- measured at amortized cost: To measure its financial assets measured at amortised cost, the Group applies the effective interest rate method; those are trade receivables, loans granted, other financial receivables and cash and cash equivalents. After initial recognition, trade receivables are measured amortised cost with the effective interest rate method subject to impairment allowances' trade receivables due within 12 months of the day of their origin (without financing elements) and not forwarded to factoring, are not discounted and are measured at nominal;
- measured at fair value through other comprehensive income: profit and loss on a financial asset being a capital instrument which is subject to a measurement option via other comprehensive income, are recognised in other comprehensive income with the exception of dividend received;
- measured at fair value through financial results: profit or loss resulting from measurement of financial assets, classified as measured at fair value through profit and loss, are recognised in profit and loss account in the period in which it was generated; those are primarily derivative instruments not designated for hedge accounting. Profit or loss resulting from measurement of items measured at fair value through profit and loss account covers also interest and dividend revenues.
- hedging financial instruments: Hedging financial instruments are measured in compliance with the principles of hedge accounting.

The Group classifies debt financial assets to an appropriate category subject to the business model of managing financial assets and to the characteristics of contractual cash flows for each financial asset.

In compliance with IFRS 9, the Group classifies financial liabilities to one of the following categories:

- measured at amortised cost: trade payables, loans, borrowings and bonds

- measured at fair value via the profit and loss account: liabilities under derivative instruments not designated to hedge accounting
- hedging financial instruments, assets and financial liabilities being derivative instruments hedging cash flows and hedging fair value

Impairment of financial assets

IFRS 9 introduces a new approach to estimating impairment of financial assets at amortised cost or at fair value via other comprehensive income (except investments in financial assets and contractual assets). The impairment model is based on calculation of anticipated losses contrary to the currently applied model resulting from IFRS 39 which was based on a concept of incurred losses. Trade receivables are the most important financial asset in the Group's financial statements that are subject to the new principles of calculating anticipated credit losses.

The Group applies a simplified model to recognise impairment allowances to trade receivables.

In the simplified model, the Group does not monitor changes to credit risk level over the life of the instrument and estimates anticipated credit losses over the horizon until the maturity of the instrument. In order to estimate the anticipated credit loss, the Group applies a provision matrix estimated on the basis of historic collectibility levels and recoveries from counterparties. The anticipated credit loss is calculated at the time the receivables are recognised in the statement of financial position and it is updated as at each closing of reporting periods, subject to the number of overdue dates.

Hedge accounting

The Group decided to continue to apply the accounting principles according to IAS 39 with respect to hedging instruments.

Impact assessment of the new standard

The Group applied IFRS 9 from its effective date which was January 2018, without transforming its comparable data. In 2017, the Group carried out an assessment of the impact of the IFRS 9 introduction on the accounting principles (policy) applied by the Group with respect to the Group's operations or its financial results. The implementation of IFRS 9 did not have any impact on the statement of financial condition and equity. As a result of the application of IFRS 9, classification to certain financial instruments was changed.

- Classification and measurement: the application of IFRS 9 did not affect the measurement of financial assets and liabilities and on the relevant values recognised in the statement of financial condition and on equity. The Group classified financial assets and liabilities in accordance with IFRS 9. Trade receivables are maintained in order to generate contractual cash flows - they continue to be measured at amortised cost though profit and loss account. The Group sells trade receivables within non-recourse factoring, so each payment from the factor results in an automatic repayment of those receivables by customers.The Group uses a practical exemption, and for trade receivables less than 12 months does not identify significant elements of financing.

The table below presents the classification and measurement of the financial assets in compliance with IAS 39 and IFRS 9 as at 1 January 2018.

	Category and method in compliance with IAS 39	*Value in compliance with IAS 39 as at 1 January 2018*	*Category and valuation method in compliance with IFRS 9*	*Value in compliance with IFRS 9 as at 1 January 2018*
Trade and other receivables	Loans and receivables valued at amortised cost	305 368	Financial assets valued at amortised cost	305 368
Other financial assets	Loans and receivables valued at amortised cost	7 293	Financial assets valued at amortised cost	7 293
Cash and cash equivalents	Loans and receivables valued at amortised cost	241 403	Financial assets valued at amortised cost	241 403

- Impairment: in compliance with IFRS 9, the Group estimates allowances for anticipated credit loss equal to 12-month anticipated credit loss or anticipated credit loss over the life of the financial instrument. In case of trade receivables, the Group applies a simplified approach and estimates allowances for anticipated credit loss equal to anticipated credit loss over the life of the receivables which does not exceed 12 months. In view of the nature of trade receivables, the calculation method of impairment has not changed.
- Hedge accounting: since the Group decided to continue to apply of IAS 39 in this scope, the entry into force of IFRS 9 did not impact the Group's financial statements.

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

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

- IFRS 16 Leasing (issued on 13 January 2016) – effective for financial years beginning on or after 1 January 2019,

The Group does not expect the Standard to have material impact on its financial statements at its effective date since no unit is a party to material contracts covered with IFRS 16.

6.4. Foreign currency translation

Transactions denominated in currencies other than the functional currency of the entity are translated into the presentation currency at the foreign exchange rate prevailing on the transaction date.

On the balance sheet date, monetary assets and liabilities expressed in currencies other than the functional currency of the entity are translated into the functional currency using the mean foreign exchange rate prevailing for the presentation currency as at the end of the reporting period. Foreign exchange differences from translation are recognised under financial income or financial expenses or are capitalised as cost of assets, as defined in the accounting policies. Non-monetary foreign currency assets and liabilities recognised at historical cost are translated at the historical foreign exchange rates prevailing on the transaction date. Non-monetary foreign currency assets and liabilities recognised at fair value are translated into PLN using the rate of exchange prevailing on the date of revaluation to fair value.

The functional currencies of the foreign subsidiaries are EUR, SEK, DKK, NOK, GBP and CHF. As on the balance sheet date, the assets and liabilities of those subsidiaries are translated into the presentation currency of the Group (PLN) at the rate of exchange prevailing on the balance sheet date and their income statements are translated using the average weighted exchange rates for the relevant reporting period. The FX differences on translation are recognised in other total comprehensive income and cumulated in a separate equity item. On disposal of a foreign operation, the cumulative amount of the deferred exchange differences recognised in equity and relating to that particular foreign operation shall be recognised in the profit and loss account.

Exchange differences on loans treated in compliance with IAS 21 as investments in subsidiaries are recognised in the interim condensed consolidated financial statements in other total comprehensive income.

The following exchange rates were used for book valuation purposes:

	30 June 2018	31 December 2017
USD	3,7440	3,4813
EUR	4,3616	4,1709
SEK	0,4190	0,4243
DKK	0,5852	0,5602
NOK	0,4599	0,4239
GBP	4,9270	4,7001
CHF	3,7702	3,5672

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

	01/01 - 30/06/2018	01/01 - 30/06/2017
USD	3,4872	3,9473
EUR	4,2201	4,2706
SEK	0,4160	0,4452
DKK	0,5666	0,5743
NOK	0,4398	0,4659
GBP	4,7965	4,9632
CHF	3,6085	3,9679

6.5. Data comparability / adjustments to previous years' errors

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

As a result, changes were made to the value of tangible fixed assets, depreciation costs and deferred tax for the comparative data for the periods of 3 and 6 months respectively ended as at 30 June 2017 and as at 30 June 2017 versus the interim condensed consolidated financial statements for the period ended on 30 June 2017.

As at 30 June 2017 the value of tangible fixed assets grew by PLN 66,137 thousand while the deferred income tax decreased by PLN 14,550 thousand and the equity increased by PLN 51,587 thousand , however the minority interests increased by PLN 25,123 thousand and the FX translation reserve decreased by PLN 1,362 thousand with the accumulated uncovered loss reduced by PLN 27,826 thousand. The change of economic useful life for tangible assets of the Rottneros Group resulted in a growth of net profit for the six-month period ended on 30 June 2017 by PLN 7,442 thousand as a result of a reduction to internal costs of sales by PLN 9,541 thousand and an increase of income tax by PLN 2,099 thousand.

Basic and diluted profit per share attributable to the shareholders of the parent entity for the six-month period ended on 30 June 2017 grew from PLN 0.40 to PLN 0.46.

The change of economic useful life for tangible assets of the Rottneros Group resulted in a growth of net profit for the three-month period ended on 30 June 2017 by PLN 3,562 thousand as a result of a reduction to internal costs of sales by PLN 4,566 thousand and an increase of income tax by PLN 1,004 thousand.

Basic and diluted profit per share attributable to the shareholders of the parent entity for the three-month period ended on 30 June 2017 grew from PLN 0.05 to PLN 0.08.

In H1 2018 there were no other changes that would result in changes to the comparable data.

6.6. Data comparability/change to estimates

Effective on 1 January 2018, on the basis of verification of the previous periods of economic useful lives for tangible fixed assets and intangible assets, AP Kostrzyn has changed the periods of economic useful lives for selected tangible fixed assets, mainly plant and machinery. The changes were primarily due to previous modernisation of the assets that resulted in extension of their periods of economic useful lives. Annual depreciation for those tangible fixed assets will decrease by PLN 7,982 thousand versus the annual depreciation cost for 2017.

7. Seasonality

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

8. Information on business segments

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

The Group identifies four business segments:

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

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

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

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

The operating results are measured primarily on the basis of EBITDA calculated by adding depreciation/amortisation and impairment charges to tangible fixed assets and intangible assets to profit (loss) on operations, in each case in compliance with EU IFRS. In accordance with EU IFRS, EBITDA is not a metric of operating profit (loss), operational results or liquidity. EBITDA is a metric that the Management Board uses to manage the operations.

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

The table below presents data concerning revenues and profit as well as certain assets and liabilities split by segments of the Group for the period of 6 months ended on 30 June 2018 and as at 30 June 2018.

Six-month period ended on 30 June 2018 and as at 30 June 2018

	Continuing operations						
	Uncoated	Coated	Pulp	Other	Total	Eliminations	Continuing opetations
Revenues							
Sales to external customers	801 744	330 638	449 780	-	1 582 162	-	1 582 162
Sales between segments	1	12 206	23 160	17 864	53 231	(53 231)	-
Total segment revenues	801 746	342 843	472 940	17 864	1 635 393	(53 231)	1 582 162
Result of the segment							
EBITDA	65 528	(15 658)	86 934	1 048	137 853	104	137 957
Interest income	248	40	-	3 687	3 976	(3 481)	495
Interest expense	(1 651)	(1 761)	(4 160)	(6 686)	(14 258)	2 485	(11 772)
Depreciation/amortisation	(25 297)	(4 956)	(14 808)	(246)	(45 306)	-	(45 306)
FX gains and other financial income	924	193	4 575	40 712	46 406	(45 965)	440
FX losses and other financial expenses	(5 809)	(6 058)	-	(5 672)	(17 540)	7 356	(10 183)
Gross profit	33 943	(28 200)	72 543	32 844	111 130	(39 500)	71 630
Assets of the segment	935 052	251 208	887 857	452 025	2 526 142	(523 624)	2 002 518
Liabilities of the segment	440 235	379 926	338 133	416 830	1 575 125	(440 787)	1 134 338
Capital expenditures	(28 702)	(5 419)	(31 737)	(139)	(65 997)	-	(65 997)
Interests in joint ventures	976	-	-	-	976	-	976

– Revenues from inter-segment transactions are eliminated on consolidation.
– The results of the segments do not cover financial income (PLN 935 thousand of which PLN 495 thousand is interest income) and financial expenses (PLN 21,956 thousand of which PLN 11.772 thousand is interest expense), depreciation/amortisation (PLN 45,306 thousand), and income tax liability (PLN -21,669 thousand). However, segment result includes inter-segment loss (PLN -104 thousand).
– Assets and liabilities of segments do not contain any deferred income tax (asset: PLN 27,939 thousand), provision: PLN 57,409 thousand), since those items are managed at the Group level. Segment assets do not also include investments in companies operating in the Group.

The table below presents data concerning revenues and profit as well as certain assets and liabilities split by segments of the Group for the period of 3 months ended on 30 June 2018 and as at 30 June 2018.

Three month period ended on 30 June 2018 and on 30 June 2018

	Continuing operations						
	Uncoated	Coated	Pulp	Other	Total	Eliminations	Continuing opetations
Revenues							
Sales to external customers	394 673	164 088	233 670	-	792 431	-	792 431
Sales between segments	1	6 197	12 478	9 340	28 016	(28 016)	-
Total segment revenues	394 674	170 285	246 148	9 340	820 447	(28 016)	792 431
Result of the segment							
EBITDA	27 296	(9 571)	47 110	1 151	65 985	785	66 770
Interest income	99	35	0	1 838	1 972	(1 756)	215
Interest expense	(769)	(936)	(2 063)	(2 518)	(6 286)	1 214	(5 072)
Depreciation/amortisation	(11 205)	(2 432)	(7 556)	(123)	(21 316)	-	(21 316)
FX gains and other financial income	(1 060)	96	2 060	39 859	40 955	(40 799)	157
FX losses and other financial expenses	(4 604)	(3 319)	-	(3 512)	(11 435)	2 370	(9 065)
Gross profit	9 757	(16 128)	39 551	36 694	69 875	(38 187)	31 688
Assets of the segment	935 052	251 208	887 857	452 025	2 526 142	(523 624)	2 002 518
Liabilities of the segment	440 235	379 926	338 133	416 830	1 575 125	(440 787)	1 134 338
Capital expenditures	(12 570)	(1 571)	(18 772)	(100)	(33 012)	-	(33 012)
Interests in joint ventures	976	-	-	-	976	-	976

- Revenues from inter-segment transactions are eliminated on consolidation.
- The results of the segments do not cover financial income (PLN 371 thousand of which PLN 215 thousand is interest income) and financial expenses (PLN 14,136 thousand of which PLN 5.072 thousand is interest expense), depreciation/amortisation (PLN 21,316 thousand), and income tax liability (PLN -11,125 thousand). However, segment result includes inter-segment loss (PLN -785 thousand).
- Assets and liabilities of segments do not contain any deferred income tax (asset: PLN 27,939 thousand), provision: PLN 57,409 thousand), since those items are managed at the Group level. Segment assets do not also include investments in companies operating in the Group.

The table below presents transformed data concerning revenues and profit as well as certain assets and liabilities split by segments of the Group for the period of 6 months ended on 30 June 2017 and as at 31 December 2017.

Six-month period ended on 30 June 2017 and as at 31 December 2017

	Continuing operations						
	Uncoated	Coated	Pulp	Other	Total	Eliminations	Continuing opetations
Revenues							
Sales to external customers	757 219	331 004	388 765	-	1 476 989	-	1 476 989
Sales between segments	-	10 629	31 550	22 380	64 559	(64 559)	-
Total segment revenues	757 219	341 633	420 316	22 380	1 541 548	(64 559)	1 476 989
Result of the segment							
EBITDA	67 246	(1 096)	74 357	-1 095	139 411	648	140 059
Interest income	233	25	-	3 178	3 436	(3 213)	222
Interest expense	(2 239)	(2 154)	(223)	(7 729)	(12 345)	2 280	(10 065)
Depreciation/amortisation	(28 132)	(11 770)	(13 245)	(225)	(53 371)	-	(53 371)
FX gains and other financial income	2 207	517	445	49 664	52 833	(47 690)	5 143
FX losses and other financial expenses	(1 886)	(908)	(3 785)	(3 129)	(9 709)	2 813	(6 895)
Gross profit (loss)	37 429	(15 386)	57 550	40 663	120 255	(45 163)	75 093
Assets of the segment	915 148	225 945	801 328	429 320	2 371 742	(508 863)	1 862 878
Liabilities of the segment	430 337	337 764	318 225	413 028	1 499 353	(426 250)	1 073 103
Capital expenditures	(27 438)	(3 566)	(44 525)	(187)	(75 716)	-	(75 716)
Interests in joint ventures	988	-	-	-	988	-	988

- Revenues from inter-segment transactions are eliminated on consolidation.
- The results of the segments do not cover financial income (PLN 5,366 thousand of which PLN 222 thousand is interest income) and financial expenses (PLN 16,961 thousand of which PLN 10,065 thousand is interest expense), depreciation/amortisation (PLN 53,371 thousand), and income tax liability (PLN -17,751 thousand). However, segment result includes inter-segment loss (PLN -648 thousand).
- Assets and liabilities of segments do not contain any deferred income tax (asset: PLN 32,387 thousand), provision: PLN 34,301 thousand), since those items are managed at the Group level. Segment assets do not also include investments in companies operating in the Group.

The table below presents transformed data concerning revenues and profit as well as certain assets and liabilities split by segments of the Group for the period of 3 months ended on 30 June 2017 and as at 31 December 2017.

Three month period ended on 30 June 2017 and on 31 December 2017

	Continuing Operations						
	Uncoated	Coated	Pulp	Other	Total	Eliminations	Continuing opetations
Revenues							
Sales to external customers	352 661	160 507	189 919	-	703 087	-	703 087
Sales between segments	-	4 461	15 750	11 738	31 949	(31 949)	-
Total segment revenues	352 661	164 968	205 669	11 738	735 036	(31 949)	703 087
Result of the segment							
EBITDA	29 689	(2 650)	37 976	-1 461	63 554	1 007	64 561
Interest income	145	15	0	1 460	1 620	(1 497)	123
Interest expense income	(1 145)	(930)	(223)	(3 685)	(5 983)	1 018	(4 964)
Depreciation/amortisation	(13 991)	(5 747)	(7 116)	(116)	(26 969)	-	(26 969)
FX gains and other financial income	1 623	(132)	445	42 544	44 481	(45 948)	(1 467)
FX losses and other financial expenses	(852)	(445)	(1 966)	(1 931)	(5 193)	1 117	(4 076)
Gross profit (loss)	15 469	(9 888)	29 117	36 811	71 509	(44 302)	27 206
Assets of the segment	915 148	225 945	801 328	429 320	2 371 742	(508 863)	1 862 878
Liabilities of the segment	430 337	337 764	318 225	413 028	1 499 353	(426 250)	1 073 103
Capital expenditures	(16 945)	(2 287)	(25 425)	(187)	(44 843)	-	(44 843)
Interests in joint ventures	988	-	-	-	988	-	988

- Revenues from inter-segment transactions are eliminated on consolidation.
- The results of the segments do not cover financial income (PLN -1,344 thousand of which PLN 123 thousand is interest income) and financial expenses (PLN 9,041 thousand of which PLN 4.964 thousand is interest expense), depreciation/amortisation (PLN 26,969 thousand), and income tax liability (PLN -8,828 thousand). However, segment result includes inter-segment loss (PLN -1,007 thousand).
- Assets and liabilities of segments do not contain any deferred income tax (asset: PLN 32,387 thousand), provision: PLN 34,301 thousand), since those items are managed at the Group level. Segment assets do not also include investments in companies operating in the Group.

9. Discontinued operations

On 28 July 2015, the Management Board of Arctic Paper S.A. announced that it had started an active search for an investor for the Arctic Paper Mochenwangen facility and in parallel it analysed the possibility to take measures for further reduction of losses generated by the Paper Mill, including those relating to the discontinuation of production. Due to the material significance of the part of the business pursued by AP Mochenwangen and the companies set up to acquire the Paper Mill and due to their operational and geographic separation, the Management Board treated the operations of the Mochenwangen Group as discontinued operations as at 31 December 2015. The Mochenwangen Group includes: Arctic Paper Mochenwangen GmbH, Arctic Paper Investment GmbH, Arctic Paper Verwaltungs GmbH and Arctic Paper Immobilienverwaltung GmbH Co&KG. As a result, the assets and liabilities of the Mochenwangen Group were presented as assets held for sale and liabilities directly related to assets held for sale respectively as at 30 June 2018, 31 December 2017 and 30 June 2017 while the revenues and expenses of the Group were presented as profit (loss) on discontinued operations in the consolidated profit and loss account for the period of 3 and 6 months ended on 30 June 2018 and as at 30 June 2017.

In view of a continued search for an investor for the factory of Arctic Paper Mochenwangen or its individual assets and in-process negotiations with potential buyers, the Management Board decided to treat the operations of the Mochenwangen Group as discontinued activities as at 30 June 2018.

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

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

Revenues and expenses of discontinued operations	6-month period ended on 30 June 2018 (unaudited)	6-month period ended on 30 June 2017 (unaudited)
Revenues from sales of goods	-	-
Costs of sales	(743)	(1 379)
Gross profit (loss) on sales	(743)	(1 379)
Selling and distribution costs	(25)	(16)
Administrative expenses	(1 545)	(2 772)
Other operating income	485	730
Other operating expenses	-	(572)
Operating profit (loss)	(1 827)	(4 009)
Financial income	(0)	0
Financial expenses	(13)	(9)
Gross profit (loss)	(1 840)	(4 017)
Income tax	2	15
Profit (loss) from discontinued operations	(1 838)	(4 003)
Cumulated other comprehensive income related to discontinued operations		
FX differences on translation of foreign operations	(114)	387
Actuarial profit/loss	-	-
	(114)	387
Earnings per share:		
– basic profit/(loss) from discontinued operations attributable to the shareholders of the Parent Entity	(0,03)	(0,06)
– diluted profit from discontinued operations attributable to the shareholders of the Parent Entity	(0,03)	(0,06)

Net assets for sale	As at 30 June 2018 (unaudited)	As at 31 December 2017
Assets for sale		
Inventories and other tangible assets	22	21
Trade and other receivables	1 016	1 293
Corporate income tax receivables	126	121
Other financial assets	-	188
Cash and cash equivalents	1 666	2 448
	2 831	4 071
Liabilities directly related to assets for sale		
Provisions	877	838
Trade and other payables	584	517
Income tax liability	105	100
Accruals and deferred income	179	171
	1 744	1 626
Net assets for sale	1 087	2 445

Cash flows related to discontinued operations	6-month period ended on 30 June 2018	6-month period ended on 30 June 2017
Net cash flows from operating activities	(865)	(2 337)
Net cash flows from investing activities	-	-
Net cash flows from financing activities	-	1 623
Increase / (decrease) in cash and cash equivalents	(865)	(714)
Net FX differences	83	(52)
Cash and cash equivalents at the beginning of the period	2 448	1 320
Cash and cash equivalents at the end of the period	1 666	554

The Group intends to sell the land and afterwards the entire discontinued activity as an organised whole. Due to the fact that the Group now is trying to identify the contamination of the land and the condition will materially impact the market value of the asset, it is not possible to estimate the fair value of the land in a reliable manner. In consequence, the Group recognised the land at PLN 0 as at 30 June 2018 and 31 December 2017.

10. Income and costs

10.1. Revenues from sales of goods

In H1 2018, revenues from sale of products amounted to PLN 1,582,162 thousand which was an increase as compared to the equivalent period of the previous year by PLN 105,173 thousand mainly due to higher sales prices of paper and pulp translated into PLN versus 2017. Sales revenues from paper amounted to PLN 1,132,382 thousand, (328 thousand tons) while for pulp sales – PLN 449,780 thousand. (187 thousand tons). In H1 2017, paper sales revenues amounted to PLN 1,088,224 thousand (336 thousand tons) while for pulp sales - PLN 388,765 thousand. (185 thousand tons).

Paper sales revenues in Q2 of 2018 amounted to PLN 792,431 thousand which was an increase as compared to the equivalent period of the previous year by PLN 89,344 thousand. Sales revenues from paper amounted to PLN 558,761 thousand, (160 thousand tons) while for pulp sales – PLN 233,670 thousand (93 thousand tons). In Q2 2017, sales revenues from paper amounted to PLN 513,168 thousand (160 thousand tons) while for pulp sales - PLN 189,919 thousand (91 thousand tons).

10.2. Costs of sales

In H 2018, costs of sales of products amounted to PLN 1,270,636 thousand which was an increase as compared to the equivalent period of the previous year by PLN 99,328 thousand. The main reason of growing costs of sales was a growth of PLN denominated consumption costs of pulp and energy.

In Q2 2018, costs of sales amounted to PLN 634,355 thousand which was an increase as compared to the equivalent period of the previous year by PLN 77,336 thousand.

10.3. Selling and distribution costs

Selling and distribution costs amounted to PLN 168,898 thousand in H1 2018 which was a decrease as compared to the equivalent period of the previous year by PLN 8,876 thousand. The core components of selling expenses include costs of transport of finished products and a drop of the costs resulted in a reduction of selling expenses.

Selling and distribution costs amounted to PLN 84,046 thousand in Q2 2018 which was a decrease as compared to the equivalent period of the previous year (by PLN 1,820 thousand).

10.4. Administrative expenses

Administrative expenses amounted to PLN 40,305 thousand in H1 2018 which was a decrease as compared to the equivalent period of the previous year (by PLN 8,434 thousand). The overheads cover primarily the expenses related to the services provided to the Group by external consultants.

Administrative expenses amounted to PLN 19,186 thousand in Q2 2018 which was a decrease as compared to the equivalent period of the previous year (by PLN 6,923 thousand).

10.5. Other operating income

Other operating income totalled PLN 18,994 thousand in H1 2018 which was a decrease as compared to the equivalent period of the previous year by PLN 3,284 thousand. Other operating income consisted mainly of revenues from heat and electricity sales as well as sales revenues from other materials and CO2 emission rights. The lower value of other operating revenues in the current period was due mainly to lower sales of other materials and energy.

Other operating income amounted to PLN 7,176 thousand in Q2 2018 which was a decrease as compared to the equivalent period of the previous year (by PLN 2,166 thousand.

10.6. Other operating expenses

Other operating expenses totalled PLN 28,665 thousand in H1 2018 which was an increase as compared to the equivalent period of the previous year by PLN 13,906 thousand.

The other operating expenses comprised mainly the costs of electricity and heat sales as well as the costs of other materials sold. The higher other operating expenses in H1 2018 were affected primarily by losses on term contracts for the sale of pulp.

Other operating expenses amounted to PLN 16,566 thousand in Q2 2018 which was an increase as compared to the equivalent period of the previous year by PLN 10,724 thousand.

10.7. Financial income and financial expenses

In H1 2018, financial income and expenses amounted to PLN 935 thousand and PLN 21,956 thousand respectively which was a decrease of income as compared to the equivalent period of the previous year by PLN 4,431 thousand and a growth of expenses by PLN 4,995 thousand.

The changes to financial income and expenses were primarily due to the amount of net FX differences. In H1 2018 the Group recorded a surplus of FX losses over FX profit of PLN 7,574 thousand (financial expenses). In the equivalent period of 2017, the Group recorded a surplus of FX profit over FX losses of PLN 4,700 thousand (financial income).

In Q2 2018, financial income and financial expenses amounted to PLN 371 thousand and PLN 14,136 thousand respectively which was an increase of income as compared to the equivalent period of the previous year by PLN 1,715 thousand and a growth of expenses by PLN 5,095 thousand. The negative financial income in Q2 2017 was due to the net presentation of FX differences - lower FX profit/gains for 6 months of 2017 than the value of FX profit/gains for Q1 2017.

11. Cash and cash equivalents

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

	As at 30 June 2018	As at 30 June 2017
	(unaudited)	(unaudited)
Cash in bank and on hand	139 183	97 764
Short-term deposits	-	-
Cash in transit	4 052	3 057
Cash and cash equivalents in the consolidated balance sheet	143 235	100 821
Cash in bank and on hand attributable to discontinued operations	1 666	554
Cash and cash equivalents in the consolidated cash flow statement	144 901	101 375

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

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

	6-month-period ended on 30 June 2018	6-month-period ended on 30 June 2017
Increase / decrease in receivables and other non-financial assets		
Book change in receivables and other non-financial assets	(88 166)	2 554
Change of carrying value of other financial long-term assets reduced by assets generated from measurement of derivative instruments	-	667
Discontinued operations	277	(62)
Differences on translation	(2 402)	(13 434)
Increase / decrease receivables and other non-financial assets disclosed in the consolidated cash flow statement	(90 291)	(10 275)
Change to inventories		
Book change to inventories	(58 248)	20 936
Discontinued operations	(1)	504
Differences on translation	(2 823)	(14 506)
Change to inventories disclosed in the consolidated cash flow statement	(61 072)	6 934
Increase (decrease) of liabilities except loans, borrowings, bonds and other financial liabilities		
Book increase /decrease in liabilities except for loans and borrowings	7 496	(35 352)
Change to liabilities due to purchase of tangible fixed assets and intangible assets	(5 136)	-
Discontinued operations	67	2 506
Differences on translation	3 477	13 313
Increase / decrease in liabilities except for loans, borrowings, bonds and other financial liabilities disclosed in the consolidated cash flow statement	5 904	(19 533)

Change in accruals and prepayments		
Book change in accruals and prepayments	23 038	(10 472)
Discontinued operations	8	2
Differences on translation	294	3 737
	23 340	(6 733)
Change in accruals and prepayments disclosed in the consolidated cash flow statement		
Change in provisions		
Book change in provisions	(2 431)	(4 211)
Discontinued operations	38	(1 465)
Differences on translation	450	4 950
Change in provisions disclosed in the consolidated cash flow statement	(1 943)	(727)
Purchase of tangible fixed assets and intangible assets		
Increase due to purchase of tangible fixed assets	(71 423)	(77 235)
Increase due to purchase of intangible assets	(8 838)	(11 557)
Purchase of tangible fixed assets under financial lease agreement	-	209
Co-generation certificates	9 128	12 868
Change to liabilities due to purchase of tangible fixed assets and intangible assets	5 136	-
Discontinued operations	-	-
Purchase of tangible fixed assets and intangible assets in the consolidated cash flow statement	(65 997)	(75 716)

12. Dividend paid and proposed

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

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

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

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

The possibility of disbursement of potential dividend by the Company to its shareholders depends on the level of payments received from its subsidiaries. The risk associated with the Company’s ability to disburse dividend was described in the part “Risk factors” of the annual report for 2017.

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

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

12.2. Dividend disbursed by Rottneros AB

At the General Meeting of Shareholders of Rottneros AB of 16 May 2018 adopted a resolution on dividend distribution of SEK 0.37 per share. The dividend was disbursed to Arctic Paper S.A. and to the non-controlling shareholders of Rottneros AB in the total amount of PLN 23.6 million (SEK 56 million).

13. Income tax

13.1. Tax liability

The main items of tax liability for the period of 3 months and 6 months ended on 30 June 2018 and for the equivalent period of the previous year are as follows:

	3-month-period ended on 30 June 2018 (unaudited)	6-month-period ended on 30 June 2018 (unaudited)	3-month-period ended on 30 June 2017 (transformed)	6-month-period ended on 30 June 2017 (transformed)
Consolidated profit and loss account				
Current income tax				
Current income tax liability	(2 442)	(3 118)	(104)	(3 060)
Adjustments related to current income tax from previous years	-	-	-	-
Deferred income tax				
Resulting from the establishment and reversal of temporary differences	(8 683)	(18 552)	(8 724)	(14 691)
Tax liability on continuing operations disclosed in the consolidated profit and loss account	(11 125)	(21 669)	(8 828)	(17 751)
Consolidated statement of changes in equity				
Current income tax				
Tax effects of the costs of increase of share capital	-	-	-	-
Tax benefit (tax liability) recognised in equity	-	-	-	-
Consolidated statement of total comprehensive income				
Deferred income tax				
Deferred income tax on the measurement of hedging instruments	(7 629)	(9 148)	(1 746)	2 660
Reversal of deferred income tax assets originally recognised in equity	-	-	-	-
Tax benefit (tax liability) recognised in other comprehensive income	(7 629)	(9 148)	(1 746)	2 660

13.2. Deferred income tax asset/provision

Deferred income tax asset as at 30 June 2018 and 31 December 2017 was PLN 27,939 thousand and PLN 32,387 thousand respectively. The deferred income tax asset is recognised primarily in relation to tax losses that may be applied in future years and in connection with the acquisition of the Rottneros Group.

Deferred income tax liability as at 30 June 2018 and 31 December 2017 amounted to PLN 57,409 thousand and PLN 34,301 thousand respectively. Deferred income tax liability is recognised primarily with reference to the difference in the measurement of fixed assets largely from the acquisition of Arctic Paper Grycksbo and various periods of economic life applied for accounting and tax purposes. The increased deferred income tax provision is mainly due to a growth of the provision for Rottneros Group companies.

14. Earnings/(loss) per share

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

Information regarding profit/(loss) and the number of shares which constituted the basis to calculate earnings/(loss) per share and diluted earnings/(loss) per share on continuing operations and overall operations is presented below:

	3-month-period ended on 30 June 2018 (unaudited)	6-month-period ended on 30 June 2018 (unaudited)	3-month-period ended on 30 June 2017 (transformed)	6-month-period ended on 30 June 2017 (transformed)
Net profit / (loss) period from continuing operations attributable to the shareholders of the Parent Entity	5 003	21 740	7 243	35 529
Net profit / (loss) period from discontinued operations attributable to the shareholders of the Parent Entity	(934)	(1 838)	(1 855)	(4 003)
Net profit / (loss) attributable to the shareholders of the Parent Entity	4 069	19 902	5 388	31 527
Number of ordinary shares – A series	50 000	50 000	50 000	50 000
Number of ordinary shares – B series	44 253 500	44 253 500	44 253 500	44 253 500
Number of ordinary shares – C series	8 100 000	8 100 000	8 100 000	8 100 000
Number of ordinary shares – E series	3 000 000	3 000 000	3 000 000	3 000 000
Number of ordinary shares – F series	13 884 283	13 884 283	13 884 283	13 884 283
Total number of shares	69 287 783	69 287 783	69 287 783	69 287 783
Weighted average number of shares	69 287 783	69 287 783	69 287 783	69 287 783
Diluted weighted average number of ordinary shares	69 287 783	69 287 783	69 287 783	69 287 783
Profit (loss) per share (in PLN)				
– basic earnings from the profit/(loss) for the period attributable to the shareholders of the Parent Entity	0,06	0,29	0,08	0,46
– basic earnings profit/(loss) for the period from continuing operations attributable to the shareholders of the Parent Entity	0,07	0,31	0,10	0,51
Diluted profit (loss) per share (in PLN)				
– from the profit/(loss) for the period attributable to the shareholders of the Parent Entity	0,06	0,29	0,08	0,46
– from the profit/(loss) for the period from continuing operations attributable to the shareholders of the Parent Entity	0,07	0,31	0,10	0,51

15. Tangible fixed assets and intangible assets and impairment

15.1. Tangible fixed assets and intangible assets

The net value of tangible fixed assets as at 30 June 2018 was PLN 854,554 thousand and it was by PLN 20,349 thousand higher than as at 31 December 2017. The value of tangible fixed assets acquired in the period under report was PLN 71,423 thousand (for the period of 6 months ended on 30 June 2017 it was PLN 77,235 thousand). The net value of sold or liquidated tangible fixed assets for the period of 6 months ended on 30 June 2018 was PLN 1,074 thousand. (for the period of 6 months ended on 30 June 2017 it was PLN 163 thousand). Amortisation allowances for the period of 6 months ended on 30 June 2018 amounted to PLN 44.269 thousand) (for the period of 6 months ended on 30 June 2017 it was PLN 53,003 thousand). Impairment charges of the value of tangible fixed assets for the period of 6 months ended on 30 June 2018 was PLN 0 thousand (for the period of 6 months ended on 30 June 2017 it was PLN 0 thousand). FX differences amounted to PLN -5,731 thousand. for the period of 6 months ended on 30 June 2018 (for the period of 6 months ended on 30 June 2017 they amounted to PLN -22,012 thousand).

The net value of intangible assets as at 30 June 2018 was PLN 50,064 thousand and it was by PLN 1,044 thousand lower than as at 31 December 2017. The value of intangible assets acquired in the period under report was PLN 9,122 thousand (for the period of 6 months ended on 30 June 2017 it was PLN 11,557 thousand). The net value of sold or liquidated intangible assets for the period of 6 months ended on 30 June 2016 was PLN 8,351 thousand (for the period of 6 months ended on 30 June 2017 it was PLN 13,954 thousand). Amortisation allowances for the period of 6 months ended on 30 June 2018 amounted to PLN 1.037 thousand) (for the period of 6 months ended on 30 June 2017 it was PLN 368 thousand). Impairment charges of the value of intangible assets for the period of 6 months ended on 30 June 2018 was PLN 0 thousand (for the period of 6 months ended on 30 June 2017 it was PLN 0 thousand). FX gains/losses for the period of 6 months ended on 30 June 2018 amounted to PLN -778 thousand (for the period of 6 months ended on 30 June 2017 it was PLN -2,087 thousand).

Revenues from disposal of tangible fixed and intangible assets (without including revenues from the sale of co-generation certificates) in H1 2018 amounted to PLN 1,162 thousand (in H1 2017: PLN 120 thousand).

15.2. Impairment of non-financial assets

An analysis of indications as at 30 June 2018 showed the need to perform impairment tests of non-financial fixed assets for AP Grycksbo as at this date. The results of the test did not show any further impairment losses of these assets. As a result, the amount of the impairment charges as at 30 June 2018 was not changed as compared to the impairment charges as at 31 December 2017.

16. Inventories

	As at 30 June 2018 (unaudited)	As at 31 December 2017
Materials (at purchase prices)	185 169	156 518
Production in progress (at manufacturing costs)	13 262	7 631
Finished products, of which:		
At purchase price / manufacturing costs	203 135	180 996
At net realisable price	7 615	5 816
Advance payments for deliveries	62	35
Total inventories, at the lower of:		
purchase price / manufacturing costs or net realisable price	409 243	350 996
Impairment charge to inventories	5 069	4 408
Total inventories before impairment charge	414 313	355 404

Net inventories as at 30 June 2018 amounted to PLN 409,243 thousand (as at 31 December 2017: PLN 350,996 thousand). As at 30 June 2018 impairment charges to inventories amounted to PLN 5,069 thousand (as at 31 December 2017: PLN 4,408 thousand). As at 30 June 2018 the inventories of finished products amounted to PLN 7,615 thousand were measured at the net realisable prices (as at 31 December 2017 the amount was PLN 5,816 thousand.

The increased inventories as at 30 June 2018 versus the end of the previous year was the result of higher prices of materials in particularly pulp and energy as well as higher volumes due to sales order in H2 2018.

17. Trade and other receivables

	As at 30 June 2018 (unaudited)	As at 31 December 2017
Trade receivables	389 188	296 408
VAT receivables	22 580	24 703
Other third party receivables	2 513	4 954
Other receivables from related entities	3 956	4 006
Total (net) receivables	418 237	330 071
Impairment charges to receivables	16 351	27 030
Gross receivables	434 589	357 101

The value of trade and other receivables amounted to PLN 418,237 thousand as at 30 June 2018 (31 December 2017: PLN 330,071 thousand). The growth of trade and other receivables is due primarily to a growth of receivables from sales of paper and pulp in the recent months of H1 2018.

The impairment charge to receivables amounted to PLN 16,351 thousand as at 30 June 2018 (31 December 2017: PLN 27,030 thousand). The drop of the impairment allowance to receivables was primarily due to the application thereof in H1 2018 (PLN 8,515 thousand).

18. Other non-financial and financial assets

Other short-term non-financial assets as at 30 June 2018 and as at 31 December 2017 amounted to PLN 14,123 thousand and PLN 13,583 thousand respectively. The item primarily covers deferred expenses and the changes are due to the changing values of such expenses.

Other long-term non-financial assets as at 30 June 2018 and as at 31 December 2017 amounted to PLN 1,512 thousand and PLN 1,513 thousand respectively.

Other short-term financial assets amounted to PLN 51,753 thousand as at 30 June 2018 and PLN 7,151 thousand as at 31 December 2017. The item primarily covers the amount of a positive measurement of term contracts and the growth of the item is due to a higher measurement of forward contracts for purchases of electrical energy and the delivery of an interest-bearing margin as collateral to forward contracts for sales of pulp.

Other long-term financial assets as at 30 June 2018 amounted to PLN 46,194 thousand as at 31 December 2017 – PLN 22,056 thousand. The position covers positive measurement of term contracts, mainly forward contracts for the purchase of electrical energy.

19. Interest-bearing loans and borrowings

In the period covered with these financial statements, the Group partly repaid its term loan under the loan agreement of 9 September 2016 with a bank consortium of PLN 6,404 thousand and the Group increased its debt under overdraft facilities and term loan to the above consortium of banks by PLN 39,964 thousand and PLN 14,506 thousand respectively.

In April 2018, the Group partly repaid its loan from the main shareholder of PLN 10,690 thousand (EUR 2,500 thousand).

The other changes to loans and borrowings as at 30 June 2018, compared to 31 December 2017 result mainly from balance sheet evaluation and payment of interest accrued as at 31 December 2017 and paid in Q1 2018.

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

As described in note 5 of these financial statements, in view of failure by the Group to comply with a financial ratio as at 30 June 2018 and in compliance with IAS 1, the Group disclosed all its debt to the bank consortium as at that day of PLN 144,660 thousand as short-term liabilities: interest-bearing loans, borrowings and bonds. After the balance sheet date Arctic Paper S.A. received a written assurance from Bank Zachodni WBK S.A. acting as the consortium agent of the financing banks that failure by the Group to comply with the required Cashflow Cover ratio as at 30 June 2018 will not constitute an event of default under the loan agreement of 9 September 2016.

20. Other financial liabilities

As at 30 June 2018 other financial liabilities amounted to PLN 28,968 thousand (including long-term liabilities of PLN 3,396 thousand and short-term liabilities of PLN 25,572 thousand. As at 31 December 2017 other financial liabilities amounted to PLN 37,098 thousand (including long-term liabilities of PLN 3,945 thousand and short-term liabilities of PLN 33,153 thousand. Other financial liabilities include liabilities under lease contracts and negative measurement of hedging instruments.

In January 2018, Arctic Paper Grycksbo AB fully pre-paid its lease liabilities to Svenska Handelsbanken AB. During the reporting period, the Group repaid a part of its liabilities under financial leasing of PLN 23,140 thousand.

During the reporting period, there was a growth of liabilities related to a negative measurement of hedging instruments by PLN 15,515 thousand.

The other changes to other financial liabilities as at 30 June 2018, compared to 31 December 2017 result mainly from changes to balance sheet measurement.

21. Trade and other payables

The value trade and other payables amounted to PLN 431,365 thousand as at 30 June 2018 (as at 31 December 2017: PLN 423,868 thousand). The increased value of the item versus the end of the previous year were due to higher purchases of production resources and services in Paper Mills and Pulp Mills.

22. Change in provisions

	As at 30 June 2018 (unaudited)	As at 31 December 2017
Retirement provisions	102 255	100 281
Other provisions	1 536	5 940
	103 791	106 221
Short-term provisions	279	4 667
Long-term provisions	103 512	101 554

The change in long-term provisions in H1 2018 was due primarily from the translation of the provisions into the presentation currency – PLN. The drop of short-term provisions in H1 2018 was primarily due to the application thereof of the Rottneros Group companies.

23. Accruals and deferred income

Accruals and deferred income as at 30 June 2018 amounted to PLN 116,907 thousand including short-term accruals and deferred income of PLN 99,342 thousand. Accruals and deferred income as at 31 December 2017 amounted to PLN 93,328 thousand including short-term accruals and deferred income of PLN 74,576 thousand. The main items of accruals and deferred income include government grants of PLN 19,938 thousand including long-term of PLN 17,565 thousand (31 December 2017: PLN 21,127 thousand including long-term of PLN 18,752) and short-term employee liabilities, mainly related to holiday leaves that as at 30 June 2018 amounted to PLN 62,598 thousand (31 December 2017: PLN 51,698 thousand).

24. Share capital

Share capital	As at 30 June 2018 (unaudited)	As at 31 December 2017
series A ordinary shares of the nominal value of PLN 1 each	50	50
series B ordinary shares of the nominal value of PLN 1 each	44 254	44 254
series C ordinary shares of the nominal value of PLN 1 each	8 100	8 100
series E ordinary shares of the nominal value of PLN 1 each	3 000	3 000
series F ordinary shares of the nominal value of PLN 1 each	13 884	13 884
	69 288	69 288

	Registration date of capital increase	Number	Value in PLN
Ordinary issued and fully paid-up shares			
Issued on 30 April 2008	28.05.2008	50 000	50 000
Issued on 12 September 2008	12.09.2008	44 253 468	44 253 468
Issued on 20 April 2009	01.06.2009	32	32
Issued on 30 July 2009	12.11.2009	8 100 000	8 100 000
Issued on 1 March 2010	17.03.2010	3 000 000	3 000 000
Issued on 20 December 2012	09.01.2013	10 740 983	10 740 983
Issued on 10 January 2013	29.01.2013	283 947	283 947
Issued on 11 February 2013	18.03.2013	2 133 100	2 133 100
Issued on 6 March 2013	22.03.2013	726 253	726 253
As at 30 June 2018 (unaudited)		69 287 783	69 287 783

25. Financial instruments

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

25.1. Fair value of each class of financial instruments

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

		Book value		Fair value	
	Category in compliance with IFRS 9	As at 30 June 2018	As at 31 December 2017	As at 30 June 2018	As at 31 December 2017
Financial assets					
Trade and other receivables	*WwZK*	395 657	305 368	395 657	305 368
Hedging instruments*	*WwWGpCD*	77 337	21 914	77 337	21 914
Other financial assets (net of loans and hedging instruments)**	*WwZK*	20 610	7 293	20 610	7 293
Cash and cash equivalents	*WwZK*	143 235	241 403	143 235	241 403
Financial liabilities					
Interest-bearing bank loans and borrowings and bonds, of which:	*WwZK*	452 096	412 016	452 096	412 016
- long-term		253 868	372 576	253 868	372 576
- short-term		198 228	39 440	198 228	39 440
Liabilities under financial leases and rental contracts with purchase options, of which:	*WwZK*	4 741	28 383	4 741	28 383
- long-term		3 397	3 945	3 397	3 945
- short-term		1 345	24 438	1 345	24 438
Trade payables and other financial liabilities	*WwZK*	411 816	373 780	411 816	373 780
Hedging instruments	*WwWGpCD*	24 054	8 539	24 054	8 539

* derivative hedging instruments meeting the requirements of hedge accounting

** primarily hedging under term contracts

Abbreviations used:

WwZK – Financial assets/liabilities measured at amortised cost.

WwWGpCD – Financial assets/liabilities measured at fair value through other comprehensive income,

WwWGpWF – Financial assets/liabilities measured at fair value through profit and loss account

The hierarchy of the fair value of financial instruments held by the Group as at 30 June 2018 and as at 31 December 2017:

30 June 2018	Level 1	Level 2	Level 3
Financial assets measured at fair value through comprehensive income			
Derivative instruments	-	77 337	-
Other financial assets			
Trade and other receivables	-	-	395 657
Other financial assets (net of loans and hedging instruments)	-	-	20 610
Cash and cash equivalents	-	-	143 235
Financial liabilities measured at fair value through comprehensive income	-	-	-
Derivative instruments	-	24 054	-
Other financial liabilities			
Interest-bearing loans and borrowings	-	-	452 096
Liabilities under financial leases and rental contracts with purchase options	-	-	4 741
Trade payables	-	-	411 816

31 December 2017	Level 1	Level 2	Level 3
Financial assets measured at fair value through comprehensive income			
Derivative instruments	-	21 914	-
Other financial assets			
Trade and other receivables	-	-	305 368
Other financial assets (net of loans and hedging instruments)	-	-	7 293
Cash and cash equivalents	-	-	241 403
Financial liabilities measured at fair value through comprehensive income	-	-	-
Derivative instruments	-	8 539	-
Other financial liabilities	-	-	-
Interest-bearing loans and borrowings	-	-	412 016
Liabilities under financial leases and rental contracts with purchase options	-	-	28 383
Trade payables	-	-	373 780

25.2. Interest rate risk

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

30 June 2018 Variable interest rate	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Other financial liabilities:							
Liabilities under financial leases and rental contracts with purchase options	1 345	819	1 194	1 383	-	-	4 741
Loans and borrowings:							
Loan from EBRD in EUR Capex A Facility (T2)	14 031	-	-	-	-	-	14 031
Revolving overdraft facility with BNP in PLN	1 428	-	-	-	-	-	1 428
Revolving overdraft facility with BZ WBK in PLN	-	-	-	-	-	-	-
Revolving overdraft facility with BNP in EUR	18 777	-	-	-	-	-	18 777
Revolving overdraft facility with BZ WBK in EUR	11 157	-	-	-	-	-	11 157
Bonds in SEK	-	-	-	-	165 505	-	165 505
Total variable interest rate loans and borrowings	45 393	-	-	-	165 505	-	210 898
TOTAL VARIABLE INTEREST RATE LIABILITIES	46 738	819	1 194	1 383	165 505	0	215 639

30 June 2018 Fixed interest rate	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Loans and borrowings:							
Loan from EBRD TA in EUR	38 519	-	-	-	-	-	38 519
Loan from BZ WBK in PLN	7 984	-	-	-	-	-	7 984
Loan from BNP in EUR	7 813	-	-	-	-	-	7 813
Bonds in PLN	20 295	18 469	16 722	42 244	-	-	97 730
Loan from EBRD in EUR Capex A Facility (T1)	17 198	-	-	-	-	-	17 198
Revolving overdraft facility with BNP in PLN	5 000	-	-	-	-	-	5 000
Revolving overdraft facility with BZ WBK in PLN	1 120	-	-	-	-	-	1 120
Revolving overdraft facility with BNP in EUR	21 808	-	-	-	-	-	21 808
Revolving overdraft facility with BZ WBK in EUR	21 808	-	-	-	-	-	21 808
Loan from the main shareholder in EUR	11 290	10 928	-	-	-	-	22 218
TOTAL FIXED INTEREST RATE LIABILITIES	152 835	29 397	16 722	42 244	-	-	241 198

31 December 2017 Variable interest rate	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Other financial liabilities:							
Liabilities under financial leases and rental contracts with purchase options	24 438	1 400	1 298	1 247	-	-	28 382
Loans and borrowings:							
Revolving overdraft facility with BZ WBK S.A. in EUR	-	20 064	-	-	-	-	20 064
Bonds in SEK	-	-	-	-	167 174	-	167 174
Total variable interest rate loans and borrowings	-	20 064	-	-	167 174	-	187 238
TOTAL VARIABLE INTEREST RATE LIABILITIES	24 438	21 464	1 298	1 247	167 174	-	215 620

31 December 2017 Fixed interest rate	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Loans and borrowings:							
Loan from EBRD in EUR							
Loan from EBRD in EUR Capex Facility	2 213	3 855	3 638	3 435	3 230	-	16 372
Loan from BZ WBK in PLN	2 577	2 372	2 173	1 975	-	-	9 098
Loan from BNP in EUR	2 316	2 190	2 071	1 944	-	-	8 521
Bonds in PLN	12 284	18 809	17 059	48 914	-	-	97 065
Revolving overdraft facility with BNP in PLN	-	426	-	-	-	-	426
Revolving overdraft facility with BZ WBK S.A. in EUR	-	20 646	-	-	-	-	20 646
Loan from the owner/the core shareholder in EUR	10 908	10 459	10 459	-	-	-	31 825
TOTAL FIXED INTEREST RATE LIABILITIES	39 440	67 414	43 558	63 960	10 406	-	224 778

25.3. Hedge accounting

In order to reduce the volatility of the projected cash flows related to FX risk, the Group companies use FX risk hedging based on the use of derivatives related to the FX market. Those in particular are forward term contracts. Additionally, in order to mitigate the volatility of future energy prices, the Paper Mills and Pulp Mills in Sweden apply forward contracts for the purchase of electricity. Arctic Paper Kostrzyn, in order to mitigate the volatility of future interest costs on loans, has concluded interest rate SWAP contracts. Rottneros Group companies, in order to mitigate the volatility of future inflows from pulp sales, entered into forward contracts for pulp sales.

As at 30 June 2018, the Group used cash flow hedge accounting for the following hedging items:

- Arctic Paper S.A. designated SWAP derivatives to hedge accounting to hedge interest payments in EUR on a bank loan in EUR,
- Arctic Paper S.A. designated SWAP derivatives to hedge accounting to hedge interest payments in PLN on a bank loan in PLN,
- Arctic Paper Munkedals AB, Arctic Paper Grycksbo AB and the companies of the Rottneros Group designated for cash flow hedge accounting the forward derivatives in order to hedge future purchases of electricity,
- the companies of the Rottneros Group designated for cash flow hedge accounting the FX forward derivatives in order to hedge a part of inflows in EUR related to pulp sales,
- the companies of the Rottneros Group designated for cash flow hedge accounting the FX forward derivatives in order to hedge a part of inflows in USD related to pulp sales,
- the Companies of the Rottneros Group designated for cash flow hedge accounting the FX forward derivatives for the sale of pulp in order to hedge the sale prices of pulp in SEK.

25.3.1. Cash flow hedges

As at 30 June 2018, the Group's cash flows were hedged with forward FX contracts, forward contracts for purchases of electricity, forward contracts for sales of pulp, interest rate SWAPs.

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

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

Type of hedge	Cash flow hedge related to planned sales in foreign currencies
Hedged position	The hedged position is a part of highly likely future cash inflows for exports
Hedging instruments	FX forward contracts are used wherein the Company agrees to sell EUR for SEK
Contract parameters:	
Contract conclusion dates	2 018
Maturity date	subject to contract; by 31.08.2018
Hedged amount	EUR 4.5 million
Term exchange rate	10.30 SEK/EUR

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

Type of hedge	Cash flow hedge related to planned sales in foreign currencies
Hedged position	The hedged position is a part of highly likely future cash inflows for exports
Hedging instruments	FX forward contracts are used wherein the Company agrees to sell USD for SEK
Contract parameters:	
Contract conclusion dates	2 018
Maturity date	subject to contract; by 31.08.2018
Hedged amount	USD 18.0 million
Term exchange rate	8.69 SEK/USD

Hedge accounting of cash flows from sales of pulp

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

Type of hedge	Cash flow hedge related to sales of pulp
Hedged position	The hedged position is a part of highly likely future cash inflows for pulp sales
Hedging instruments	Forward contracts are used as the hedging item wherein the Company agrees to sell pulp for SEK
Contract parameters:	
Contract conclusion date	2017-2018
Maturity date	subject to contract; by 31.12.2018
Hedged quantity of pulp	24,000 tons
Term price	SEK 7,319/ton

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

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

Type of hedge	Cash flow hedge related to planned purchases of electricity
Hedged position	The hedged position is a part of highly likely future cash flows for electricity purchases
Hedging instruments	Forward contract for the purchase of electricity at Nord Pool Exchange
Contract parameters:	
Contract conclusion date	individually per contract; from 01.01.2015
Maturity date	individually per contract; by 31.12.2021
Hedged quantity of electricity	1.251.000 MWh
Term price	from 16.50 to 30.70 EUR/MWh

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

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

Type of hedge	Hedge of cash flows related to variable interest rate on the EUR long-term loan
Hedged position	Future EUR interest flows on EUR loan calculated on the basis of 6M EURIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in EUR on the EUR loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	21.11.2016
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 31.08.2022
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 12 million.

Type of hedge	Hedge of cash flows related to variable interest rate on the EUR long-term loan
Hedged position	Future EUR interest flows on EUR loan calculated on the basis of 6M EURIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in EUR on the EUR loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	18.07.2017
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 31.08.2022
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 3,986 thousand.

Type of hedge	Hedge of cash flows related to variable interest rate on the EUR long-term loan
Hedged position	Future EUR interest flows on EUR loan calculated on the basis of 6M EURIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in EUR on the EUR loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	21.11.2016
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 31.08.2021
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 2.6 million.

Type of hedge	Hedge of cash flows related to variable interest rate on the EUR long-term revolving credit facility
Hedged position	Future EUR interest flows on EUR loan calculated on the basis of 3M EURIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in EUR on the EUR loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	21.11.2016
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 30.08.2019
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 9.9 million.

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

Type of hedge	Hedge of cash flows related to variable interest rate on the PLN long-term loan
Hedged position	Future PLN interest flows on PLN loan calculated on the basis of 6M WIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in PLN on the PLN loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	21.11.2016
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 31.08.2021
Hedged value	interest payable in line with the payment schedule under the loan agreement of PLN 11.5 million.

Type of hedge	Hedge of cash flows related to variable interest rate on the PLN long-term revolving credit facility
Hedged position	Future PLN interest flows on PLN loan calculated on the basis of 3M WIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in PLN on the PLN loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	21.11.2016
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 30.08.2019
Hedged value	interest payable in line with the payment schedule under the loan agreement of PLN 10 million.

Type of hedge	Hedge of cash flows related to variable interest rate on the PLN bonds
Hedged position	Future PLN interest flows in PLN loan calculated on the basis of interest payments on PLN bonds at 6M WIBOR
Hedging instruments	The hedging item is a SWAP transaction under which the Company agreed to pay interest in PLN on the PLN bonds on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	21.11.2016
Maturity date	each interest payment date in line with the payment schedule under the bond issue agreement; by
Hedged value	interest payable in line with the payment schedule under of interest of PLN 100 million.

25.3.2. Fair value hedges

As at 30 June 2018, the Group had floor options as hedge to fair value.

Fair value hedge accounting related to a floor option

Type of hedge	The right to reduce cash flows under payment of interest due to decrease of EURIBOR below 0%
Hedged position	The hedged item are future EUR interest flows in EUR related to a loan in EUR calculated on the basis of 6M EURIBOR
Hedging instruments	The hedging item is a floor option under which the Company acquires the right to pay interest in EUR on the basis of EURIBOR below 0%
Contract parameters:	
Contract conclusion date	21.11.2016
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 31.08.2022
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 12 million.

Type of hedge	The right to reduce cash flows under payment of interest due to decrease of EURIBOR below 0%
Hedged position	The hedged item are future EUR interest flows in EUR related to a loan in EUR calculated on the basis of 6M EURIBOR
Hedging instruments	The hedging item is a floor option under which the Company acquires the right to pay interest in EUR on the basis of EURIBOR below 0%
Contract parameters:	
Contract conclusion date	18.07.2017
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 31.08.2022
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 3,986 thousand.

The table below presents the fair value of hedging instruments in cash flow and fair value hedge accounting as at 30 June 2018 and the comparative data:

	As at 30 June 2018		As at 31 December 2017	
	(unaudited)	(unaudited)		
	Assets	Equity and Liabilities	Assets	Equity and Liabilities
FX forward	-	2 095	849	1 170
Forward on pulp sales	-	18 436	-	3 394
SWAP	-	3 748	-	3 604
Floor option	-	(225)	-	370
Forward for electricity	77 337	-	21 065	-
Total hedging derivative instruments	**77 337**	**24 054**	**21 914**	**8 539**

26. Financial risk management objectives and policies

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

The Group also uses factoring without recourse for trade receivables. The main purpose for using the financial instrument is to quickly raise funds.

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

In the opinion of the Management Board – in comparison to the annual consolidated financial statements made as at 31 December 2017 there have been no significant changes of the financial risk. There have been no changes to the objectives and policies of the management of the risk.

27. Capital management

The primary objective of the Group's capital management is maintaining a strong credit rating and healthy capital ratios in order to support its business operations and maximise shareholder value. In the Management Board's opinion – in comparison to the annual consolidated financial statements made as at 31 December 2017, there have been no significant changes to the objectives and policies of capital management.

28. Contingent liabilities and contingent assets

As at 30 June 2018, the Capital Group reported:

- contingent liability under a guarantee for FPG in favour of the mutual life insurance company PRI for SEK 1,439 thousand (PLN 599 thousand) at Arctic Paper Grycksbo AB and for SEK 760 thousand (PLN 318 thousand) at Arctic Paper Munkedals AB;
- a bank guarantee in favour of Skatteverket Ludvika for SEK 135 thousand (PLN 56 thousand);

29. Legal claims

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

30. Tax settlements

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

Tax settlements and other areas of operations (for instance customs or foreign exchange issues) may be inspected by the authorities that are entitled to impose high penalties and fines as well additional tax liabilities resulting from inspections that have to be paid along with high interest.

As a result, tax risk in Poland is higher than in countries with more mature tax systems.

Tax settlements may be subject to inspections for five years from the beginning the year in which the tax was paid. As a result of inspections, the tax liability of the Group may be increased by additional tax liability. In the opinion of the Group, there is no need to establish additional provisions for any identified and quantifiable tax risk as at 30 June 2018.

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

31. Investment commitments

As at 30 June 2018 the Group was committed to make expenditures on tangible fixed assets of minimum PLN 10,000 thousand by the end of 2018 (as at 31 December 2017: PLN 50,000 thousand). The amount will be applied to buy new machines and equipment.

32. Transactions with related entities

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

- Thomas Onstad – the corer shareholder of Arctic Paper S.A. holding directly or indirectly over 50% of shares in the Company's share capital
- Nemus Holding AB – parent entity to the Arctic Paper S.A. Group since 3 September 2014.
- Munkedal Skog – a subsidiary of Nemus Holding AB,
- Centrum Finansowo-Księgowe PROGRESSIO s.c. – from 1 January 2014 until 31 August 2017 an entity related to a Member of the Management Board,

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

The table below presents the total amount of transactions concluded with related entities within the six-month period ended on 30 June 2018 and as at 30 June 2018:

Data for the period from 01 January 2018 to 30 June 2018 and as at 30 June 2018

Related Entity	Sales to related entities	Purchases from related entities	Interest – financial income	Interest – financial expense	Receivables from related entities	Loan receivables	Liabilities to related entities
Nemus Holding AB	-	-	-	-	3 956	-	-
Thomas Onstad	-	-	-	873	-	-	22 218
Total	-	-	-	873	3 956	-	22 218

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

Data for the period from 01 January 2017 to 30 June 2017 and as at 31 December 2017

Related Entity	Sales to related entities	Purchases from related entities	Interest – financial income	Interest – financial expense	Receivables from related entities	Loan receivables	Liabilities to related entities
Nemus Holding AB	-		-	-	4 006	-	-
Thomas Onstad	-	-	-	1 893	-	-	31 825
Munkedals Skog	-	-	-	-	-	-	1
CFK Progressio s.c.	-	157	-	-	-	-	nd
Total	-	157	-	1 893	4 006	-	31 826

33. CO2 emission rights

Arctic Paper Kostrzyn S.A., Arctic Paper Munkedals AB, Arctic Paper Grycksbo AB and the companies of the Rottneros Group, are all part of the European Union Emission Trading Scheme. The previous period to exercise rights to the issue lasted from 1 January 2008 to 31 December 2012. New allocations cover the period from 1 January 2013 to 31 December 2020.
The table below specifies the allocation for 2013-2020 approved by the European Union and the usage of the emission rights in each entity in 2013, 2014, 2015, 2016, 2017 and in H1 2018.

(in tons) for Arctic Paper Kostrzyn S.A.;	2013	2014	2015	2016	2017	2018	2019	2020
Allocation*	108 535	105 434	102 452	99 840	97 375	94 916	92 454	90 009
Unused quantity from previous years	348 490	306 448	263 932	203 917	133 061	87 652	-	-
Issue	(150 577)	(147 950)	(162 467)	(170 696)	(142 784)	(66 818)		
Purchased quantity	-	-	-	-	-	-		
Sold quantity	-	-	-	-	-	-		
Unused quantity	306 448	263 932	203 917	133 061	87 652	115 750		

(in tons) for Arctic Paper Munkdals AB	2013	2014	2015	2016	2017	2018	2019	2020
Allocation	44 238	43 470	42 692	41 907	41 113	40 311	39 499	38 685
Unused quantity from previous years	24 305	67 262	107 325	17 559	(11 572)	(10 619)		
Issue	(1 281)	(3 407)	(32 465)	(21 038)	(40 160)	(33 416)		
Purchased quantity	-	-	7	-	-	-		
Sold quantity	-	-	(100 000)	(50 000)	-	-		
Unused quantity	67 262	107 325	17 559	(11 572)	(10 619)	(3 724) **		

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

(in tons) for the Rottneros Group	2013	2014	2015	2016	2017	2018	2019	2020
Allocation	30 681	30 484	29 938	29 387	28 830	28 268	27 698	27 127
Unused quantity from previous years	72 888	90 522	101 986	104 991	113 085	123 208		
Issue	(13 047)	(19 020)	(26 933)	(21 293)	(18 707)	(18 617)		
Purchased quantity	-	-	-	-	-	-		
Sold quantity	-	-	-	-	-	-		
Unused quantity	90 522	101 986	104 991	113 085	123 208	132 859		

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

** - any deficit of emission rights as at 30 June 2018 will be covered from a surplus over the estimated annual issue of the new allocation for 2019, available before the rights for 2018 have to be accounted for.

34. Government grants and operations in the Special Economic Zone

34.1. Government grants

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

34.2. Operations in the Special Economic Zone

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

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

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

Based on the permit issued on 25 August 2006, the Company could benefit from the exemption until 15 November 2017. Item I of the permit relating to the date by which the Company may enjoy the permit was deleted by Decision of the Minister of Economy No. 321/IW/14 of 6 November 2014. Now the Company is entitled to use the permit by 2026 or by the date SSE exist in Poland pursuant to the applicable regulations. The permit may be used subject to the incurrence in the zone of capital expenditures (within the meaning of Art. 6 of the Regulation of the Council of Ministers of 14 September 2004 on the Kostrzyńsko-Słubicka Specjalna Strefa Ekonomiczna (Special Economic Zone)), underlying the calculation of public aid in compliance with Art. 3 of the Regulation with the value in excess of EUR 40,000 thousand by 31 December 2013, translated at the EUR mean rate published by the President of the National Bank of Poland on the actual expenditure date. Additional conditions include: creation in Zone minimum five new jobs within the meaning of Art. 3.3 and Art. 3.6 of the Regulation by 31 December 2011 and maintaining the employment level of minimum 453 people during the period from 1 January 2012 to 31 December 2013. The above terms and conditions have been satisfied.

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

During the period from 25 August 2006 to 30 June 2018, the Company incurred eligible investment expenditures classified as (non-discounted) expenditure in KSSSE in the amount of PLN 227,102 thousand. During the period, the discounted amount of related public aid was PLN 63,056 thousand.

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

The amount of deferred income tax asset recognised with reference to the expenditures incurred in KSSSE amounted to PLN 5,715 thousand as at 30 June 2018.

35. Material events after the reporting period

35.1. Disbursement of the tranche to refinance repayment of lease of Arctic Paper Grycksbo

In connection with the loan granted to the subsidiary company - Arctic Paper Grycksbo AB on 7 January 2018 for EUR 5.56 million to cover repayment of its lease liabilities to Svenska Handelsbanken AB, on 18 July 2018 the Company received a tranche of the term loan of PLN 25,820 thousand from the consortium of financing banks (Bank Zachodni WBK S.A. and Bank BGŻ BNP Paribas S.A.). The loan was provided as an additional tranche under the loan agreement of 9 September 2016 to re-finance debt repayment by Arctic Paper Grycksbo AB under the lease contracts granted by Svenska Handelsbanken AB. The Meeting of Bondholders agreed to contract such financing on 20 February 2018.

35.2. Received release from complying with the financial ratios as at 30 June 2018

As described in note 5, in view of failure to comply with a financial ratio, after the balance sheet date Arctic Paper S.A. received a written assurance from Bank Zachodni WBK S.A. acting as the consortium agent of the financing banks that failure by the Group to comply with the required Cashflow Cover ratio as at 30 June 2018 will not constitute an event of default under the loan agreement of 9 September 2016. However, in compliance with IAS 1 in view of no such assurance as at 30 June 2018 the Group disclosed all its debt to the bank consortium as at that day of PLN 144,660 thousand as short-term liabilities: interest-bearing loans, borrowings and bonds.

After 30 June 2018 until the date hereof there were no other material events requiring disclosure in this report with the exception of those events that were disclosed in this report in paragraphs above.

Signatures of the Members of the Management Board

Position	First and last name	Date	Signature
President of the Management Board Chief Executive Officer	Per Skoglund	27 August 2018	
Member of the Management Board Chief Financial Officer	Göran Eklund	27 August 2018	

Interim condensed standalone financial statements

for the period of six months
ended on 30 June 2018

Interim condensed standalone financial statements

Interim condensed standalone statement of profit and loss

	Note	3-month period ended on 30 June 2018 (unaudited)	6-month period ended on 30 June 2018 (unaudited)	3-month period ended on 30 June 2017 (unaudited)	6-month period ended on 30 June 2017 (unaudited)
Continuing operations					
Revenues from sales of services		9 340	17 864	11 006	21 051
Interest income on loans from related entities	11.1	1 226	2 453	982	2 191
Dividend income	15	38 897	38 897	44 823	44 823
Sales revenues		49 463	59 214	56 812	68 065
Interest expense to related entities and internal costs of sale of logistics services	11.1	(1 167)	(2 525)	(1 201)	(2 691)
Gross profit (loss) on sales		48 295	56 689	55 611	65 374
Other operating income		275	249	110	114
Selling and distribution costs		(749)	(1 499)	(1 400)	(2 419)
Administrative expenses		(6 989)	(14 134)	(10 559)	(18 549)
Impairment charges to assets		(1 166)	(1 394)	(34 636)	(35 889)
Other operating expenses		(85)	(26)	(407)	(94)
Operating profit (loss)		39 581	39 885	8 720	8 537
Financial income		2 041	3 050	(2 279)	4 879
Financial expenses		(5 627)	(11 485)	(5 086)	(9 685)
Gross profit (loss)		35 995	31 450	1 355	3 731
Income tax		(300)	(300)	-	-
Net profit (loss) from continuing operations		35 695	31 150	1 355	3 731
Discontinued operations					
Profit (loss) for the period from discontinued operations		-	-	-	-
Net profit (loss) for the period		35 695	31 150	1 355	3 731
Earnings per share:					
– basic earnings from the profit (loss) for the period		0,52	0,45	0,02	0,05
– basic from the profit (loss) from continuing operations for the period		0,52	0,45	0,02	0,05

Interim condensed standalone statement of comprehensive income

	Note	3-month period ended on 30 June 2018 (unaudited)	6-month period ended on 30 June 2018 (unaudited)	3-month period ended on 30 June 2017 (unaudited)	6-month period ended on 30 June 2017 (unaudited)
Net profit/(loss) for the reporting period		35 695	31 150	1 355	3 731
Items to be reclassified to profit/loss in future reporting periods:					
Measurement of financial instruments		(146)	87	(439)	172
FX differences on translation of foreign operations	21.3	(20)	314	89	526
Other comprehensive income (net)		(167)	401	(350)	698
Total comprehensive income		35 528	31 551	1 005	4 430

Interim condensed standalone statement of financial position

	Note	As at 30 June 2018 (unaudited)	As at 31 December 2017
ASSETS			
Fixed assets			
Tangible fixed assets	18	1 699	1 940
Intangible assets		1 745	1 614
Investments in subsidiary entities	12	678 313	678 313
Other financial assets	19	76 300	68 042
Other non-financial assets		1 232	1 248
		759 291	751 157
Current assets			
Trade and other receivables	16	78 582	75 118
Income tax receivables		257	168
Other financial assets	19	120 709	74 157
Other non-financial assets		4 851	6 518
Cash and cash equivalents	13	1 682	36 943
		206 081	192 904
TOTAL ASSETS		965 372	944 061
EQUITY AND LIABILITIES			
Equity			
Share capital	21.1	69 288	69 288
Reserve capital	21.4	407 979	447 641
Other reserves	21.5	102 529	116 300
FX differences on translation	21.3	1 481	1 167
Retained earnings / Accumulated losses	21.6	(32 737)	(103 364)
Total equity		548 540	531 032
Long-term liabilities			
Interest-bearing loans and borrowings	20	88 693	205 339
Provisions		1 531	1 551
Other financial liabilities		248	323
		90 472	207 214
Short-term liabilities			
Interest-bearing loans and borrowings	20	249 512	132 477
Trade payables	22	64 107	59 237
Other financial liabilities		3 738	4 258
Other short-term liabilities		1 886	1 631
Income tax liability		-	128
Accruals and deferred income		7 116	8 084
		326 360	205 815
TOTAL LIABILITIES		416 832	413 029
TOTAL EQUITY AND LIABILITIES		965 372	944 061

Interim condensed standalone statement of cash flows

	Note	6-month period ended on 30 June 2018 (unaudited)	6-month period ended on 30 June 2017 (unaudited)
Cash flows from operating activities			
Gross profit (loss)		31 450	3 731
Adjustments for:			
Depreciation/amortisation		248	225
FX gains / (loss)		2 782	(4 861)
Impairment of assets		-	32 944
Net interest		4 010	7 729
Increase / decrease in receivables and other non-financial assets		919	15 460
Increase / decrease in liabilities except for loans, borrowings and debt securities		5 125	(22 957)
Change in accruals and prepayments		(968)	3 016
Change in provisions		(19)	(71)
Income tax paid		(517)	97
Change to liabilities due to cash-pooling		(76 700)	16 858
Increase / decrease of loans granted to subsidiaries		(54 810)	3 066
Other		(237)	(500)
Net cash flows from operating activities		(88 717)	54 738
Cash flows from investing activities			
Purchase of tangible fixed assets and intangible assets		(139)	(180)
Increased interest in subsidiary entity		-	(2 615)
Net cash flows from investing activities		(139)	(2 795)
Cash flows from financing activities			
Inflows from loans and borrowings		88 728	16 625
Repayment of loan liabilities		(17 014)	(17 172)
Dividend disbursed		(13 857)	(40 912)
Interest paid		(4 118)	(5 852)
Repayment of obligations under financial leases		(144)	(126)
Net cash flows from financing activities		53 595	(47 437)
Change in cash and cash equivalents		(35 260)	4 507
Cash and cash equivalents at the beginning of the period		36 943	10 863
Cash and cash equivalents at the end of the period	13	1 682	15 370

Interim condensed standalone statement of changes in equity

	Attributable to the shareholders of the Parent Entity					
	Share capital	Reserve capital	FX differences on translation of foreign operations	Other reserves	Retained earnings / (Accumulated losses)	Total equity
As at 01 January 2018	69 288	447 641	1 167	116 300	(103 364)	531 032
Other comprehensive income for the period	-		314	87	-	401
Net profit / (loss) for the period	-	-	-	-	31 150	31 150
Total comprehensive income for the period	-	-	314	87	31 150	31 551
Dividend distribution	-	-	-	(13 858)	-	(13 858)
Measurement of financial instruments	-	-	-	-	-	-
Profit distribution	-	(39 662)	-	-	39 662	-
Settlement of the tax group in Sweden	-	-	-		(185)	(185)
As at 30 June 2018 (unaudited)	69 288	407 979	1 481	102 529	(32 737)	548 540

	Attributable to the shareholders of the Parent Entity					
	Share capital	Reserve capital	FX differences on translation of foreign operations	Other reserves	Retained earnings / (Accumulated losses)	Total equity
As at 01 January 2017	69 288	447 641	350	148 200	(34 445)	631 034
Adjustment of previous years' errors					(61 008)	(61 008)
Other comprehensive income for the period	-	-	526	172	-	698
Net profit for the period	-	-	-	-	3 731	3 731
Total comprehensive income for the period	-	-	526	172	3 731	4 430
Profit distribution	-		-	(33 217)	33 217	-
As at 30 June 2017 (unaudited)	69 288	447 641	876	115 155	(58 504)	574 456

Additional explanatory notes

1. General information

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

The Company's registered office is located in Poznań at ul. Jana Henryka Dąbrowskiego 334A. The Company has a foreign branch in Göteborg, Sweden.

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

The duration of the Company is indefinite.

Nemus Holding AB is the direct parent entity to the Company. The Parent Entity of the Arctic Paper Group is Incarta Development S.A.

Holding operations is the core business of the Company.

The interim condensed standalone financial statements of the Company with respect to the interim condensed standalone statement of profit and loss, interim condensed standalone statement of comprehensive income, interim condensed standalone statement of cash flows and interim condensed standalone statement of changes in equity, cover the period of 6 months ended on 30 June 2018 and contain comparable data for the period of 6 months ended on 30 June 2017; and for the interim condensed standalone statement of financial condition, they disclose data as at 30 June 2018 and as at 31 December 2017 and 30 June 2017.

The interim condensed standalone statement of comprehensive income, interim condensed standalone statement of profit and loss and notes to the interim condensed standalone statement of comprehensive income and interim condensed standalone statement of profit and loss contain data for the period of 3 months ended on 30 June 2018 and comparable data for the period of 3 months ended on 30 June 2017 that have not been reviewed or audited by statutory auditor.

2. Basis of preparation of the Interim condensed financial statements

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

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

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

In connection with the term and revolving loan agreements, agreements related to bond issues, signed on 9 September 2016, the Group agreed to maintain specified financial ratios that are calculated at the end of each quarter. As at 30 June 2018, the Group failed to maintain the Cashlow Cover ratio as required in the loan agreement with the consortium of financing banks (Bank Zachodni WBK S.A., Bank BGŻ BNP Paribas S.A.and European Bank for Reconstruction and Development) - the Cashflow Cover being a ratio of cash flows from operating activities to the repayment amount of financial liabilities made in the 12 months from the end of each quarter, net of any discontinued activities and activities by the Rottneros Group. Failure to comply with the ratio was due to lower cash flows from operating activities in Q2 2018, resulting primarily from the development by the Group of higher inventories in 2018 and the higher value of inventories due to higher pulp prices.

After the balance sheet date Arctic Paper S.A. received a written assurance from Bank Zachodni WBK S.A. acting as the consortium agent of the financing banks that failure by the Group to comply with the required Cashflow Cover ratio as at 30

June 2018 will not constitute an event of default under the loan agreement of 9 September 2016. However, in compliance with IAS 1 in view of no such assurance as at 30 June 2018 the Group and the Company disclosed all its debt to the bank consortium as at that day of PLN 144,660 thousand as short-term liabilities: interest-bearing loans, borrowings and bonds.

Compliance with the specified ratio as at successive testing dates will result in a presentation of the loans from the consortium as long-term liabilities again.

The interim condensed financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Company's annual financial statements for the year ended on 31 December 2017.

3. Identification of the consolidated financial statements

The Company made its Intermin condensed financial statements for the six-month period ended on 30 June 2018 which were approved for publication by the Management Board on 27 August 2018.

4. Composition of the Company's Management Board

As at 30 June 2018, the Company's Management Board was composed of:

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

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

5. Composition of the Company's Supervisory Board

As at 30 June 2018, the Company's Supervisory Board was composed of:

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

On 13 June 2018, the Ordinary General Meeting decided to appoint the Supervisory Board with no changes to the next joint term of office, effective on 21 December 2018.

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

6. Approval of the interim condensed standalone financial statements

On 27 August 2018, these interim condensed stanalone financial statements of the Company for the six-month period ended on 30 June 2018 were approved for publication by the Management Board.

7. Investments by the Company

The Company holds interests in the following subsidiary companies:

Entity	Registered office	Business activities	Share in equity of subsidiaries		
			27 August 2018	30 June 2018	31 December 2017
Arctic Paper Kostrzyn S.A.	Poland, Fabryczna 1, 66-470 Kostrzyn nad Odrą	Paper production	100%	100%	100%
Arctic Paper Munkedals AB	Sweden, SE 455 81 Munkedal	Paper production	100%	100%	100%
Arctic Paper Investment AB	Sweden, Box 383, 401 26 Göteborg	Holding activities	100%	100%	100%
Arctic Paper UK Limited	United Kingdom, Quadrant House, 47 Croydon Road, Caterham, Surrey	Trading company	100%	100%	100%
Arctic Paper Baltic States SIA	Latvia, K. Vardemara iela 33-20, Riga LV-1010	Trading company	100%	100%	100%
Arctic Paper Deutschland GmbH	Germany, Am Sandtorkai 72, 20457 Hamburg	Trading company	100%	100%	100%
Arctic Paper Benelux S.A.	Belgium, Ophemstraat 24, B-3050 Oud-Heverlee	Trading company	100%	100%	100%
Arctic Paper Schweiz AG	Switzerland, Technoparkstrasse 1, 8005 Zurich	Trading company	100%	100%	100%
Arctic Paper Italia srl	Italy, Via Cavriana 7, 20 134 Milan	Trading company	100%	100%	100%
Arctic Paper Danmark A/S	Denmark, Korskildelund 6 DK-2670 Greve	Trading company	100%	100%	100%
Arctic Paper France SAS	France, 43 rue de la Breche aux Loups, 75012 Paris	Trading company	100%	100%	100%
Arctic Paper Espana SL	Spain, Avenida Diagonal 472-474, 9-1 Barcelona	Trading company	100%	100%	100%
Arctic Paper Papierhandels GmbH	Austria, Hainborgerstrasse 34A, A-1030 Wien	Trading company	100%	100%	100%
Arctic Paper Polska Sp. z o.o.	Poland, Okrężna 9, 02-916 Warszawa	Trading company	100%	100%	100%
Arctic Paper Norge AS	Norway, Eikenga 11-15, NO-0579 Oslo	Trading company	100%	100%	100%
Arctic Paper Sverige AB	Sweden, SE 455 81 Munkedal	Trading company	100%	100%	100%
Arctic Paper East Sp. z o.o.	Poland, Fabryczna 1, 66-470 Kostrzyn nad Odrą	Trading company	100%	100%	100%
Arctic Paper Investment GmbH	Germany, Fabrikstrasse 62, DE-882, 84 Wolpertswende	Holding activities	99,8%	99,8%	99,8%
Arctic Paper Finance AB	Sweden, Box 383, 401 26 Göteborg	Activities of holding companies	100,0%	100,0%	100,0%
Rottneros AB	Sweden, 820 21 Vallvik	Activities of holding companies	51,27%	51,27%	51,27%

As at 30 June 2018 and as at 31 December 2017 the share in the overall number of votes held by the Company in its subsidiary entities was equal to the share of the Company in the share capital of those entities.

8. Significant accounting principles (policies)

The accounting principles (policies) applied to prepare the interim condensed standalone financial statements are compliant with those applied to the annual standalone financial statements of the Company for the year ended on 31 December 2017, with the following exceptions:

- IFRS 15 Revenue from Contracts with Customers (issued on 28 May 2014), including amendments to IFRS 15 Effective date of IFRS 15 (issued on 11 September 2015) effective for financial years beginning on or after 1 January 2018,
  The Management Board analysed the existing agreements and in view of their nature and no non-standard provisions, the amendments to IFRS 15 had no material impact on the Company's results (details are presented in note 8.1 to these financial statements).
- IFRS 9 Financial Instruments (issued on 24 July 2014) – effective for financial years beginning on or after 1 January 2018. The Management Board analysed the existing agreements and in view of their nature, the amendments to IFRS 9 had no material impact on the Company's results (details are presented in note 8.2 to these financial statements).

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

8.1. Implementation of IFRS 15

Accounting policy

The International Financial Reporting Standard 15 Revenue from Contracts with Customers ("IFRS 15"), issued in May 2014 and amended in April 2016, establishes a Five-Step Model to recognise revenues resulting from contracts with customers. In compliance with IFRS 15, revenues are recognised in the remuneration amount which – as expected by the entity – is due in exchange of the goods or services promised to customers.

- Requirements applicable to identifying contracts with customers: contracts with customers meet the definition when all of the following criteria have been satisfied: the parties to the contract have concluded the contract and are obliged to perform their obligations; the Company is able to identify the rights of each party concerning the goods and services to be provided; the Company is able to identify the payment terms for the goods and services to be provided; the contract has economic content and it is likely that the Company will receive its remuneration due to it in exchange for the goods and services to be provided to the customer.
- Identification of obligations to perform the service: at contract conclusion, the Company assess the goods and services promised in the contract and identifies each promise as a liability for deliver to the customer: the goods or services (or a package of goods or services) that may be identified or a group of separate goods or services that are basically the same and when the delivery has the same nature.
- Identification of the transactional price: in order to determine the transactional price, the Company takes the contractual conditions into account as well as its customary commercial practices. The transactional price is the amount that - as the Company expects - will be due to it in exchange for the delivery of the promised goods or services to the customer, net of any amounts collected on behalf of third parties. The contractual remuneration may cover fixed amounts, variable amounts or both types; in order to estimate the variable remuneration, the Company has decided to apply the most probable value method.
- The allocation of the transactional price of each liability to perform: The Company allocates the transactional price to each obligation to perform (or for separate goods or separate services) in an amount that reflects the remuneration amount, in line with the Company's expectations - it is due to the Company in exchange for the delivery of the promised goods or services to the customer.
- Revenue recognition when the obligation to perform is being executed: The Group recognises revenues at completion (or during completion) of its obligation to perform by delivery of the promised goods or services (an asset) to the customer (the customer acquires control over the asset). Revenues are recognised in the remuneration amount which – as expected by the entity – is due to it in exchange for the goods or services promised to customers.

Impact assessment of the new standard

The Company implemented IFRS 15 from its effective date, applying a full retrospective method.

APSA is a holding company and generates revenues for the services it provides, as dividend and interest income. The only anticipated obligation to perform by the companies acquiring the services includes the services and therefore the implementation of IFRS 15 has no material impact on the Company's results.

8.2. Implementation of IFRS 9

Accounting policy

In July 2014, the International Accounting Standards Board published International Financial Reporting Standard 9 *Financial Instruments* ("IFRS 9"). IFRS 9 covers three aspects related to financial instruments: classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with the possibility of earlier application.

Classification and measurement of financial assets and liabilities

In compliance with IFRS 9, the Company classifies financial assets to one of the following categories:

- measured at amortized cost: To measure its financial assets measured at amortised cost, the Company applies the effective interest rate method; those are trade receivables, loans granted, other financial receivables and cash and cash equivalents. After initial recognition, trade receivables are measured amortised cost with the effective interest rate method subject to impairment allowances' trade receivables due within 12 months of the day of their origin (without financing elements) and not forwarded to factoring, are not discounted and are measured at nominal;
- measured at fair value through other comprehensive income: profit and loss on a financial asset being a capital instrument which is subject to a measurement option via other comprehensive income, are recognised in other comprehensive income with the exception of dividend received;
- measured at fair value through through financial results: profit or loss resulting from measurement of financial assets, classified as measured at fair value through profit and loss, are recognised in profit and loss account in the period in which it was generated; those are primarily derivative instruments not designated for hedge accounting. Profit or loss resulting from measurement of items measured at fair value through profit and loss account covers also interest and dividend revenues.
- Hedging financial instruments: Hedging financial instruments are measured in compliance with the principles of hedge accounting.

The Company classifies debt financial assets to an appropriate category subject to the business model of managing financial assets and to the characteristics of contractual cash flows for each financial asset.

In compliance with IFRS 9, the Company classifies financial liabilities to one of the following categories:

- measured at amortised cost: trade payables, loans, borrowings and bonds
- measured at fair value via the profit and loss account: liabilities under derivative instruments not designated to hedge accounting
- hedging financial instruments, assets and financial liabilities being derivative instruments hedging cash flows and hedging fair value

Impairment of financial assets

IFRS 9 introduces a new approach to estimating impairment of financial assets at amortised cost or at fair value via other comprehensive income (except investments in financial assets and contractual assets). The impairment model is based on calculation of anticipated losses contrary to the currently applied model resulting from IFRS 39 which was based on a concept of incurred losses. Trade receivables are the most important financial asset in the Company's financial statements that are subject to the new principles of calculating anticipated credit losses.

The Group applies a simplified model to recognise impairment allowances to trade receivables.

In the simplified model, the Company does not monitor changes to credit risk level over the life of the instrument and estimates anticipated credit losses over the horizon until the maturity of the instrument. In order to estimate the anticipated credit loss, the Company applies a provision matrix estimated on the basis of historic collectibility levels and recoveries from counterparties. The anticipated credit loss is calculated at the time the receivables are recognised in the statement of financial position and it is updated as at each closing of reporting periods, subject to the number of overdue dates.

Hedge accounting

The Company decided to continue to apply the accounting principles according to IAS 39 with respect to hedging instruments.

Impact assessment of the new standard

The Company has applied IFRS 9 since its effective date without transforming its comparable data.

In 2018, the Company carried out an assessment of the impact of the IFRS 9 introduction on the accounting principles (policy) applied by the Company with respect to the Company's operations or its financial results.

The implementation of IFRS 9 did not have any impact on the statement of financial condition and equity. As a result of the application of IFRS 9, classification to certain financial instruments was changed.

Classification and measurement

The application of IFRS 9 did not affect the measurement of financial assets and liabilities and on the relevant values recognised in the statement of financial condition and on equity. The Company classified financial assets and liabilities in accordance with IFRS 9.

Trade receivables are maintained in order to generate contractual cash flows and the Company does not sell its trade receivables under factoring arrangements – they continue to be measured at amortised cost though profit and loss account. The Company uses a practical exemption, and for trade receivables less than 12 months does not identify significant elements of financing.

The table below presents the classification and measurement of the financial assets in compliance with IAS 39 and IFRS 9 as at 1 January 2018:

Financial assets	*Category and method in compliance with IAS 39*	*Value in compliance with IAS 39 as at 1 January 2018*	*Category and valuation method in compliance with IFRS 9*	*Value in compliance with IFRS 9 as at 1 January 2018*
Trade and other receivables	Loans and receivables valued at amortised cost	75 118	Financial assets valued at amortised cost	75 118
Other financial assets	Loans and receivables valued at amortised cost	142 199	Financial assets valued at amortised cost	142 199
Cash and cash equivalents	Loans and receivables valued at amortised cost	36 943	Financial assets valued at amortised cost	36 943

Impairment

In compliance with IFRS 9, entities will estimate allowances for anticipated credit loss equal to 12-month anticipated credit loss or anticipated credit loss over the life of the financial instrument. In case of trade receivables, the Company applies a simplified approach and will estimate allowances for anticipated credit loss equal to anticipated credit loss over the life of the receivables.

In view of the nature of trade receivables, the Company has not changed the calculation method of impairment.

Hedge accounting

Since the Company decided to continue to apply of IAS 39 in this scope, the entry into force of IFRS 9 did not impact the Company's's financial statements.

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

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

– IFRS 16 Leasing (issued on 13 January 2016) – effective for financial years beginning on or after 1 January 2019,

The Company does not expect the Standard to have material impact on its financial statements at its effective date since it is not a party to any material contracts covered with IFRS 16.

9. Seasonality

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

10. Information on business segments

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

The table below presents revenues from sales of services, interest income on loans and dividend income for the six-month period ended on 30 June 2018 and as at 30 June 2017 in geographical presentation.

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

	Continuing operations	
	6-month period ended on 30 June 2018 (unaudited)	6-month period ended on 30 June 2017 (unaudited)
Geographical information		
Poland	29 962	41 450
Foreign countries, of which:		
- Sweden	24 001	26 126
- Other	5 251	489
Total	**59 214**	**68 065**

11. Income and costs

11.1. Interest income and expense

Interest income covers interest income on loans granted to other companies in the Group. Interest expense covers interest income on loans received from other companies in the Group and banks. The interest expense on loans from related entities is presented as costs of sales.

11.2. Administrative expenses

The administrative expenses include costs of the administration of the Company operation, costs of services provided for the companies in the Group and all costs incurred by the Company for the purposes of pursuing holding company activities. In Q1 2018, the administrative expenses amounted to PLN 14,134 thousand (in H1 2017: PLN 18,549 thousand). The decrease of the administrative expenses is due to lower costs of consulting services provided to the Group by external entities.

11.3. Other operating revenues and costs

Other operating revenues amounted to PLN 249 thousand in two quarters of 2018 (in the equivalent period of 2017: PLN 114 thousand). Other operating expenses decreased in the analysed period from PLN 94 thousand in H1 2017 to PLN 26 thousand in H1 2018.

11.4. Impairment charges to assets

Impairment allowances to assets in two quarters of 2018 amounted to PLN 1,394 thousand and in the equivalent period of 2017 - PLN 35,889 thousand. In the first half of 2017, the Company recognised impairment to the shares in Arctic Paper AB (owner of 100% of shares in Arctic Paper Grycksbo AB) for PLN 32,944 thousand. The remaining part of the impairment allowance of 2017 and the entire allowance of 2018 relates to interest receivable in Arctic Paper Investment GmbH and Arctic Paper Mochenwangen GmbH.

12. Investments in subsidiaries

The value of investments in subsidiary companies as at 30 June 2018 and as at 31 December 2017 was as follows:

	As at 30 June 2018 (unaudited)	As at 31 December 2017
Arctic Paper Kostrzyn S.A.	442 535	442 535
Arctic Paper Munkedals AB	88 175	88 175
Rottneros AB	101 616	101 616
Arctic Paper Investment AB, of which:	32 407	32 407
Arctic Paper Investment AB (shares)	*307 858*	307 858
Arctic Paper Investment AB (loans)	*82 709*	82 709
Arctic Paper Investment AB (impairment)	*(358 160)*	(358 160)
Arctic Paper Investment GmbH	-	-
Arctic Paper Investment GmbH (shares)	*120 030*	120 030
Arctic Paper Investment GmbH (impairment)	*(120 030)*	(120 030)
Arctic Paper Sverige AB	-	-
Arctic Paper Sverige AB (shares)	*11 721*	11 721
Arctic Paper Sverige AB (impairment)	*(11 721)*	(11 721)
Arctic Paper Danmark A/S	5 539	5 539
Arctic Paper Deutschland GmbH	4 977	4 977
Arctic Paper Norge AS	-	-
Arctic Paper Norge AS (udziały)	3 194	3 194
Arctic Paper Norge AS (odpis z tytulu utraty wartości)	(3 194)	(3 194)
Arctic Paper Italy srl	738	738
Arctic Paper UK Ltd.	522	522
Arctic Paper Polska Sp. z o.o.	406	406
Arctic Paper Benelux S.A.	387	387
Arctic Paper France SAS	326	326
Arctic Paper Espana SL	196	196
Arctic Paper Papierhandels GmbH	194	194
Arctic Paper East Sp. z o.o.	102	102
Arctic Paper Baltic States SIA	64	64
Arctic Paper Schweiz AG	61	61
Arctic Paper Finance AB	68	68
Total	**678 313**	**678 313**

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

12.1. Impairment of interests in subsidiaries

As at 30 June 2018 impairment tests were held at Arctic Paper Grycksbo AB whose 100% are held by Arctic Paper Investment AB. The impairment tests were performed with the discounted cash flow method with reference to investments in both companies.

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

The impairment tests did not result in the establishment of an additional impairment charge to assets of as at 30 June 2018.

13. Cash and cash equivalents

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

	As at 30 June 2018 (unaudited)	As at 31 December 2017
Cash in bank and on hand	1 682	36 943
Total	**1 682**	**36 943**

14. Dividend paid and proposed

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

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

As on the date of the intermin condensed statements, the Company had no preferred shares.

The possibility of disbursement of potential dividend by the Company to its shareholders depends on the level of payments received from its subsidiaries. The risk associated with the Company's ability to disburse dividend was described in the part "Risk factors" of the annual report for 2017.

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

The Company's General Meeting held on 13 June 2018 approved a resolution on distribution of dividend to the Company's shareholders from its retained net profit in the Company's reserves of PLN 13,857,556.60 (in words: PLN thirteen million eight hundred fifty seven thousand five hundred fifty six and 60/100). The dividend per share was PLN 0.20. The Company's General Meeting determined 20 June 2018 as the ex-dividend date and 27 June 2018 as the dividend distribution date. The dividend was paid according to schedule.

15. Dividend received

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

- Arctic Paper France SAS of PLN 275 thousand;
- Arctic Paper Kostrzyn SA of PLN 20,900 thousand;
- Rottneros AB of PLN 12,125 thousand;
- Arctic Paper Norge AS of PLN 1,307 thousand;
- Arctic Paper Sverige AB of PLN 629 thousand;
- Arctic Paper Danmark A/S of PLN 3,662 thousand;
-

16. Trade and other receivables

Trade and other receivables disclosed as at 30 June 2018 grew by PLN 3,464 thousand versus 31 December 2017.

17. Income tax

Due to the uncertainty of future applying the tax loss incurred in 2013-2017, the Management Board decided against establishing the deferred income tax asset for the purpose. Additionally, for the same reasons, the Management Board decided against establishing the deferred income tax asset for other temporary differences.

Due to tax losses from the previous years, the Company did not pay any corporate income tax during the six months of 2018.

18. Tangible fixed assets and intangible assets

18.1. Purchases and disposal

During the six-month period ended on 30 June 2018 the Company acquired tangible fixed assets and intangible assets for PLN 139 thousand (in the equivalent period of 2017: PLN 388 thousand). Amortisation allowances for the period under report were PLN 248 thousand (for 6 months in 2017: PLN 226 thousand).

18.2. Impairment charges

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

19. Other financial assets

The other financial assets are composed of loans granted to subsidiary companies with accrued interest.

In H1 the Company granted a loan to Arctic Paper Grycksbo AB for EUR 5,560 thousand (PLN 24,242 thousand). which was assigned to repay lease liabilities to Svenska Handelsbanken AB. Additionaly the debt of the Company under cash-pooling increased by PLN 34,274 thousand.

In compliance with the agreement, Arctic Paper Kostrzyn SA in H1 2018 repaid the loans in the amount of EUR 1,699 thousand and PLN 2,600 thousand while Arctic Paper Grycksbo AB repaid the loan of EUR 278 thousand.

20. Interest-bearing loans and borrowings

In accordance with the loan agreement, in H1 2018 the Company repaid principal instalments and paid interest of EUR 1,446 thousand and PLN 1,324 thousand.

In H1 2018 the Company received a second tranche of the investment loan from the European Bank for Reconstruction and Development of EUR 3,344 thousand. In accordance with the agreement, the loan will be used for environmental investments in Arctic Paper Kostrzyn SA.

In accordance with the loan repayment schedule, in H1 2018 the Company repaid PLN 2,500 thousand to Arctic Paper Finance AB.

As described in note 2 of these financial statements, in view of failure by the Group to comply with a financial ratio as at 30 June 2018 and in compliance with IAS 1, the Group disclosed all its debt to the bank consortium as at that day of PLN 144,660 thousand as short-term liabilities: interest-bearing loans, borrowings and bonds. After the balance sheet date Arctic Paper S.A. received a written assurance from Bank Zachodni WBK S.A. acting as the consortium agent of the financing banks that failure by the Group to comply with the required Cashflow Cover ratio as at 30 June 2018 will not constitute an event of default under the loan agreement of 9 September 2016.

21. Share capital and reserve capital/other reserves

21.1. Share capital

	As at 30 June 2018 (unaudited)	As at 31 December 2017 (audited)
'A' class ordinary shares with par value of PLN 1 each	50	50
'B' class ordinary shares with par value of PLN 1 each	44 254	44 254
'C' class ordinary shares with par value of PLN 1 each	8 100	8 100
'E' class ordinary shares with par value of PLN 1 each	3 000	3 000
'F' class ordinary shares with par value 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	28.05.2008	50 000	50 000
Issued on 12 September 2008	12.09.2008	44 253 468	44 253 468
Issued on 20 April 2009	01.06.2009	32	32
Issued on 30 July 2009	12.11.2009	8 100 000	8 100 000
Issued on 01 March 2010	17.03.2010	3 000 000	3 000 000
Issued on 20 December 2012	09.01.2013	10 740 983	10 740 983
Issued on 10 January 2013	29.01.2013	283 947	283 947
Issued on 11 February 2013	18.03.2013	2 133 100	2 133 100
Issued on 6 March 2013	22.03.2013	726 253	726 253
As at 30 June 2018 (unaudited)		69 287 783	69 287 783

21.2. Major shareholders

	As at 30 June 2018		As at 31 December 2017	
	Share in the share capital	Share in the total number of votes	Share in the share capital	Share in the total number of votes
Thomas Onstad	**68,13%**	**68,13%**	**68,13%**	**68,13%**
indirectly via	59,15%	59,15%	59,36%	59,36%
Nemus Holding AB	58,28%	58,28%	58,06%	58,06%
other entity	0,87%	0,87%	1,30%	1,30%
directly	8,98%	8,98%	8,77%	8,77%
Other	**31,87%**	**31,87%**	**31,87%**	**31,87%**

21.3. FX differences on translation of investments in foreign entities

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

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

21.4. Reserve capital

The reserve capital amounted to PLN 407,979 thousand as at 30 June 2018. The reduction of reserve capital versus the end of 2017 by PLN 39,662 thousand was due to 2017 loss coverage in the same amount.

21.5. Other reserves

Other reserves amounted to PLN 102,529 thousand as at 30 June 2018 and decreased versus 31 December 2017 by PLN 13,771 thousand.

The reduction of the reserve capital was primarily due to dividend distribution in June 2018 of PLN 13,858 thousand.

21.6. Undistributed profit and restrictions in dividend distribution

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

On 13 June 2018 the Ordinary General Meeting of Shareholders approved Resolution No. 8 on covering the loss for the financial year for 2017 of PLN 39,662 thousand from the Company's reserve capital.

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

22. Trade payables

Trade payables of the Company increased by PLN 4,870 thousand versus the end of 2017. The increased value of the item versus the end of the previous year was due to higher purchases of pulp from external entities.

23. Financial instruments

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

23.1. Fair value of each class of financial instruments

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

		Book value		Fair value	
	Category in compliance with IFRS 9	As at 30 June 2018	As at 31 December 2017	As at 30 June 2018	As at 31 December 2017
Financial Assets					
Other (long-term) financial assets	*WwZK*	76 300	68 042	76 300	68 042
Trade and other receivables	*WwZK*	78 839	75 287	78 839	75 287
Cash and cash equivalents	*WwZK*	1 682	36 943	1 682	36 943
Other (short-term) financial assets	*WwZK*	120 709	74 157	120 709	74 157
Financial Liabilities					
Interest-bearing loans and borrowings	*WwZK*	338 205	337 817	338 205	337 817
Other (long-term) financial liabilities	*WwZK*	248	323	248	323
Hedging instruments	*WwWGpCD*	3 523	3 974	3 523	3 974
Trade and other payables and other financial liabilities (short-term)	*WwZK*	64 322	59 521	64 322	59 521

Abbreviations used:

WwZK – Financial assets/liabilities measured at amortised cost

WwWGpWF – Financial assets/liabilities measured at fair value throu

WwWGpCD – Financial assets/liabilities measured at fair value throu

23.2. Collateral

Cash flow hedge

As at 30 June 2018, the Company used cash flow hedge accounting for the following hedging items:

— Arctic Paper S.A. designated SWAP derivatives to hedge accounting to hedge interest payments in EUR on a bank loan in EUR,
— Arctic Paper S.A. designated SWAP derivatives to hedge accounting to hedge interest payments in PLN on a bank loan in PLN,

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

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

Type of hedge	Hedge of cash flows related to variable interest rate on the EUR long-term loan
Hedged position	Future EUR interest flows on EUR loan calculated on the basis of 6M EURIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in EUR on the EUR loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	21.11.2016
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 31.08.2022
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 12 million.

Type of hedge	Hedge of cash flows related to variable interest rate on the EUR long-term loan
Hedged position	Future EUR interest flows on EUR loan calculated on the basis of 6M EURIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in EUR on the EUR loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	18.07.2017
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 31.08.2022
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 3,986 thousand.

Type of hedge	Hedge of cash flows related to variable interest rate on the EUR long-term loan
Hedged position	Future EUR interest flows on EUR loan calculated on the basis of 6M EURIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in EUR on the EUR loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	21.11.2016
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 31.08.2021
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 2.6 million.

Type of hedge	Hedge of cash flows related to variable interest rate on the EUR long-term revolving credit facility
Hedged position	Future EUR interest flows on EUR loan calculated on the basis of 3M EURIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in EUR on the EUR loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	21.11.2016
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 30.08.2019
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 9.9 million.

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

Type of hedge	Hedge of cash flows related to variable interest rate on the PLN long-term loan
Hedged position	Future PLN interest flows on PLN loan calculated on the basis of 6M WIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in PLN on the PLN loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	21.11.2016
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 31.08.2021
Hedged value	interest payable in line with the payment schedule under the loan agreement of PLN 11.5 million.

Type of hedge	Hedge of cash flows related to variable interest rate on the PLN long-term revolving credit facility
Hedged position	Future PLN interest flows on PLN loan calculated on the basis of 3M WIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in PLN on the PLN loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	21.11.2016
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 30.08.2019
Hedged value	interest payable in line with the payment schedule under the loan agreement of PLN 10 million.

Type of hedge	Hedge of cash flows related to variable interest rate on the PLN bonds
Hedged position	Future PLN interest flows in PLN loan calculated on the basis of interest payments on PLN bonds at 6M WIBOR
Hedging instruments	The hedging item is a SWAP transaction under which the Company agreed to pay interest in PLN on the PLN bonds on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	21.11.2016
Maturity date	each interest payment date in line with the payment schedule under the bond issue agreement; by
Hedged value	interest payable in line with the payment schedule under of interest of PLN 100 million.

Fair value hedges

Fair value hedge accounting related to a floor option

Type of hedge	The right to reduce cash flows under payment of interest due to decrease of EURIBOR below 0%
Hedged position	The hedged item are future EUR interest flows in EUR related to a loan in EUR calculated on the basis of 6M EURIBOR
Hedging instruments	The hedging item is a floor option under which the Company acquires the right to pay interest in EUR on the basis of EURIBOR below 0%
Contract parameters:	
Contract conclusion date	21.11.2016
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 31.08.2022
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 12 million.

Type of hedge	The right to reduce cash flows under payment of interest due to decrease of EURIBOR below 0%
Hedged position	The hedged item are future EUR interest flows in EUR related to a loan in EUR calculated on the basis of 6M EURIBOR
Hedging instruments	The hedging item is a floor option under which the Company acquires the right to pay interest in EUR on the basis of EURIBOR below 0%
Contract parameters:	
Contract conclusion date	18.07.2017
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 31.08.2022
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 3,986 thousand.

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

	Status as at 30 June 2018		Status as at 31 December 2017	
	Assets	Equity and liabilities	Assets	Equity and liabilities
SWAP	-	3 523	-	3 604
Corridor options	-	-		370
Total hedging derivative instruments	**-**	**3 523**	**-**	**3 974**

23.3. Interest rate risk

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

30 June 2018 Variable interest rate	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Loans granted to related entities	73 777	54 368	21 932	-	-	-	150 078
Cash-pooling liabilities	51 614	-	-	-	-	-	51 614
Bank loans	45 393	-	-	-	-	-	45 393
Total	170 784	54 368	21 932	-	-	-	247 085

30 June 2018 Fixed interest rate	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Bank loans	121 250	-	-	-	-	-	121 250
Bonds	20 295	18 469	16 722	42 244	-	-	97 730
Borrowings received from related entities	11 290	10 928	-	-	-	-	22 218
Total	152 835	29 397	16 722	42 244	-	-	241 198

31 December 2017 Variable interest rate	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Loans granted to related entities	18 000	38 781	21 105	-	-	-	77 886
Bank loans	20 064	-	-	-	-	-	20 064
Borrowings received from related entities	93 047	-	-	-	-	-	93 047
Total	131 111	38 781	21 105	-	-		190 997

31 December 2017 Fixed interest rate	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Bank loans	37 310	17 075	16 041	15 046	10 406	-	95 878
Bonds	12 284	18 809	17 059	48 914	-	-	97 065
Borrowings received from related entities	10 907	10 427	10 427	-	-	-	31 761
Total	60 500	46 311	43 527	63 960	10 406	-	224 704

24. Financial risk management objectives and policies

The core financial instruments used by the Company include bank loans, bonds, cash on hand and loans granted and borrowings received within the Group. The main purpose of these financial instruments is to raise finance for the Company's and Group's operations. The Company has various other financial instruments such as trade payables which arise directly from its operations.

The principle pursued by the Company now and throughout the period covered with these interim condensed standalone financial statements is not to get involved in trading in financial instruments.

The core risks arising from the Company's financial instruments include: interest rate risk, liquidity risk, FX risk and credit risk.

The Management Board verifies and approves the management principles of each type of risk. Additionally, the Company keeps monitoring the risk of market prices related to the financial instruments it holds.

25. Capital management

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

In the Management Board’s opinion – in comparison to the annual financial statements for 2017, there have been no significant changes to the objectives and policies of capital management.

26. Contingent liabilities and contingent assets

As at 30 June 2018, the Company had no contingent liabilities.

27. Transactions with related entities

The table below presents the total amount of material transactions concluded with related entities within the six-month period ended on 30 June 2018 and on 30 June 2017 and balances as at 30 June 2017 and as at 31 December 2017:

Related party		*Sales to related entities*	*Dividends received*	*Purchases from related entities*	*Financial income*	*Financial expense*	*Receivables from related entities*	*including overdue*	*Loan receivables*	*Liabilities to related entities*	*Loan liabilities*
Parent entity:											
Nemus Holding AB	2018						3 956				
	2017						4 006				
Thomas Onstad	2018										
	2017					719					
Subsidiary entities:											
Arctic Paper Kostrzyn S.A.	2018	9 338		163	2 276	616	57 861		72 965	29	29 412
	2017	10 621		169	2 326	686	53 317		79 204	28	59 784
Arctic Paper Munkedals AB	2018	5 285			495	246	5 110		7 928	254	21 210
	2017	6 076			354	204	7 505		7 929	254	33 263
Arctic Paper Grycksbo AB	2018	5 365			1 472	209	10 356		115 667	1 307	1 029
	2017	6 211		15	1 244	182	10 063		54 649	1 284	
Arctic Paper Mochenwangen GmbH	2018				444		6 547	6 547	29 185		
	2017	93			441		5 666	5 666	29 185		
Arctic Paper Investment GmbH	2018				512		9 105	9 105	34 556		
	2017				508		8 712	8 712	34 556		
Arctic Paper Investment AB	2018								82 709	318	
	2017								82 709	322	
Arctic Paper Deutschland GmbH	2018	2		59						14	
	2017	10		56						57	
Arctic Paper Papierhandels GmbH	2018	1									
	2017	7									
Arctic Paper Sverige AB	2018	2					629				
	2017	8									
Arctic Paper Danmark A/S	2018	1									
	2017	5									
Arctic Paper Norge AS	2018	1									
	2017	2									
Arctic Paper Italia srl	2018	1									
	2017	3									
Arctic Paper Espana SL	2018	0									
	2017	1									
Arctic Paper Benelux S.A.	2018	2		672	6		2		450	116	
	2017	5		680	2		8		417		
Arctic Paper France SAS	2018	2									
	2017	7									
Arctic Paper Baltic States SIA	2018	0					1				
	2017	1					2				
Arctic Paper Schweiz AG	2018	1		533			0			98	
	2017	3		756						288	
Arctic Paper UK Ltd.	2018	4					10				
	2017	6					5				
Arctic Paper Polska Sp. z o.o.	2018	1		22						0	
	2017	6		17						1	
Arctic Paper East Sp. z o.o.	2018	0					16				
	2017	1					17				
Arctic Paper Finance AB	2018					873				427	21 808
	2017					1 174				42	31 761
Rottneros AB	2018										
	2017										
Other entities											
Progressio s.c.	2018			-	-					-	
	2017			157						-	
Total	**2018**	**20 008**	**38 897**	**1 450**	**5 205**	**1 944**	**93 591**	**15 651**	**343 459**	**2 563**	**73 459**
impairment charges		**-**			**(956)**		**(15 651)**	**(15 651)**	**(63 741)**		
presentation as interests in subsidiary entities									**(82 709)**		
2018 net of impairment allowances and reclassification of loan to equity		**20 008**	**38 897**	**1 450**	**4 249**	**1 944**	**77 940**	**-**	**197 009**	**2 563**	**73 459**
	2017	**23 068**	**44 823**	**1 851**	**4 875**	**2 965**	**89 301**	**14 378**	**288 649**	**2 276**	**124 808**
impairment charges		**(93)**		**-**	**(949)**	**-**	**(14 378)**	**(14 378)**	**(63 741)**	**-**	**-**
presentation as interests in subsidiary entities									**(82 709)**		
2017 net of impairment allowances and reclassification of loan to equity		**22 974**	**44 823**	**1 851**	**3 926**	**2 965**	**74 923**	**-**	**142 199**	**2 276**	**124 808**

28. Events after the reporting period

28.1. Disbursement of the tranche to refinance repayment of lease of Arctic Paper Grycksbo

In connection with the loan granted to the subsidiary company - Arctic Paper Grycksbo AB on 7 January 2018 for EUR 5.56 million to cover repayment of its lease liabilities to Svenska Handelsbanken AB, on 18 July 2018 the Company received a tranche of the term loan of PLN 25,820 thousand from the consortium of financing banks (Bank Zachodni WBK S.A. and Bank BGŻ BNP Paribas S.A.). The loan was provided as an additional tranche under the loan agreement of 9 September 2016 to re-finance debt repayment by Arctic Paper Grycksbo AB under the lease contracts granted by Svenska Handelsbanken AB. The Meeting of Bondholders agreed to contract such financing on 20 February 2018.

35.3. Received release from complying with the financial ratios as at 30 June 2018

As described in note 2, in view of failure to comply with a financial ratio, after the balance sheet date Arctic Paper S.A. received a written assurance from Bank Zachodni WBK S.A. acting as the consortium agent of the financing banks that failure by the Group to comply with the required Cashflow Cover ratio as at 30 June 2018 will not constitute an event of default under the loan agreement of 9 September 2016. However, in compliance with IAS 1 in view of no such assurance as at 30 June 2018 the Group disclosed all its debt to the bank consortium as at that day of PLN 144,660 thousand as short-term liabilities: interest-bearing loans, borrowings and bonds.

After 30 June 2018 until the date hereof there were no other material events requiring disclosure in this report with the exception of those events that were disclosed in this report in paragraphs above.

Signatures of the Members of the Management Board

Position	First and last name	Date	Signature
President of the Management Board Chief Executive Officer	Per Skoglund	27 August 2018	
Member of the Management Board Chief Financial Officer	Göran Eklund	27 August 2018	

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