



ARCTIC PAPER CAPITAL GROUP

Consolidated semi-annual report
for six months ended on 30 June 2019
along with an independent auditor's report from a review

Table of contents

Introduction	4	Statements of the Management Board	42
Information on the report	4	Accuracy and reliability of the presented reports	42
Definitions and abbreviations	4	Interim abbreviated consolidated financial statements	44
Forward looking statements	9	Interim abbreviated consolidated statement of profit and loss	44
Forward looking statements relating to risk factors	9	Interim abbreviated consolidated statement of total comprehensive income	45
Selected consolidated financial data	11	Interim abbreviated consolidated statement of financial position	46
Selected standalone financial data	12	Interim abbreviated consolidated statement of cash flow	47
Description of the business of the Arctic Paper Group	14	Interim abbreviated consolidated statement of changes in equity	48
General information	14	Additional explanatory notes	49
Capital Group structure	15	1. General information	49
Changes in the capital structure of the Arctic Paper Group	15	2. Composition of the Group	51
Shareholding structure	15	3. Management and supervisory bodies	52
Summary of the consolidated financial results	17	4. Approval of the financial statements	53
Selected items of the consolidated statement of profit and loss	17	5. Basis of preparation of the interim abbreviated consolidated financial statements	53
Selected items of the consolidated statement of financial position	22	6. Significant accounting principles (policies)	54
Selected items of the consolidated statement of cash flow	26	7. Seasonality	57
Summary of standalone financial results	27	8. Information on business segments	57
Selected items of the standalone statement of profit and loss	27	9. Discontinued operations	62
Selected items of the standalone statement of financial position	29	10. Income and costs	63
Selected items of the standalone statement of cash flow	31	11. Cash and cash equivalents	65
Relevant information and factors affecting the financial results and the assessment of the financial standing	32	12. Dividend paid and proposed	66
Key factors affecting the performance results	32	13. Income tax	67
Unusual events and factors	33	14. Earnings/(loss) per share	68
Impact of changes in Arctic Paper Group's structure on the financial result	33	15. Tangible fixed assets and intangible assets and impairment	68
Other material information	33	16. Inventories	69
Information on market trends	34	17. Trade and other receivables	70
Factors influencing the financial results in the perspective of the next quarter	35	18. Other non-financial and financial assets	70
Risk factors	36	19. Interest-bearing loans, borrowings and bonds	70
Supplementary information	39	20. Other financial liabilities	71
The Management Board position on the possibility to achieve the projected financial results published earlier	39	21. Trade and other payables	71
Changes to the supervisory and management bodies of Arctic Paper S.A.	39	22. Change in provisions	71
Changes in holdings of the Issuer's shares or rights to shares by persons managing and supervising Arctic Paper S.A.	39	23. Accruals and deferred income	72
Information on sureties and guarantees	39	24. Share capital	72
Material off-balance sheet items	41	25. Financial instruments	73
Information on court and arbitration proceedings and proceedings pending before public administrative authorities	41	26. Financial risk management objectives and policies	80
Information on transactions with related parties executed on non-market terms and conditions	41	27. Capital management	80
Information on remuneration of the entity authorised to audit the financial statements	41	28. Contingent liabilities and contingent assets	80
		29. Legal claims	80
		30. Tax settlements	80
		31. Investment plans	81
		32. Transactions with related entities	81
		33. CO2 emission rights	82
		34. Government grants and operations in the Special Economic Zone	83
		35. Material events after the reporting period	84

Interim abbreviated standalone financial statements **86**

Interim abbreviated standalone statement of profit and loss	86
Interim abbreviated standalone statement of total comprehensive income	87
Interim abbreviated standalone statement of financial condition	88
Interim abbreviated standalone statement of cash flow	89
Interim abbreviated standalone statement of changes in equity	90

Additional explanatory notes **91**

1. General information	91
2. Basis of preparation of the interim abbreviated financial statements.....	91
3. Identification of the consolidated financial statements	92
4. Composition of the Company's Management Board	92
5. Composition of the Company's Supervisory Board	92

6. Approval of the interim abbreviated standalone financial statements.....	92
7. Investments by the Company.....	93
8. Significant accounting principles (policies)	94
9. Seasonality	95
10. Information on business segments	95
11. Income and costs	95
12. Investments in subsidiaries	96
13. Cash and cash equivalents	97
14. Dividend paid and proposed	97
15. Dividend received	97
16. Trade and other receivables.....	97
17. Income tax.....	98
18. Tangible fixed assets and intangible assets.....	98
19. Other financial assets	98
20. Interest-bearing loans, borrowings and bonds.....	98
21. Share capital and reserve capital/other reserves	99
22. Trade payables.....	100
23. Financial instruments.....	100
24. Financial risk management objectives and policies	105
25. Capital management.....	105
26. Contingent liabilities and contingent assets	106
27. Transactions with related entities	106
28. Events after the reporting period	107

Introduction

Information on the report

This Consolidated Semi-Annual Report for six months ended on 30 June 2019 was prepared in accordance with the Minister of Finance Regulation of 29 March 2018 on current and periodic information provided by issuers of securities and on conditions under which information required by legal regulations of a third country may be recognised as equivalent (Journal of Laws of 2018, item 757) and a part of the interim abbreviated consolidated financial statements in accordance with International Accounting Standard No. 34.

The interim abbreviated consolidated financial statements do not comprise all information and disclosures required in the annual consolidated financial statements which are subject to mandatory audit and therefore they should be read in conjunction with the consolidated financial statements of the Group for the year ended on 31 December 2018. The data for the periods of 3 months ended on 30 June 2019 and on 30 June 2018, disclosed in the interim abbreviated consolidated and standalone financial statements was not reviewed or audited by statutory auditor. The interim financial result may not fully reflect the financial result that may be generated for the entire financial year.

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

This Consolidated Semi-Annual Report presents data in PLN, and all figures, unless otherwise indicated, are given in thousand PLN.

Definitions and abbreviations

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

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

Arctic Paper, Company, Issuer, Parent 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
Grycksbo Group	Arctic Paper Grycksbo AB and Arctic Paper Investment AB
Sales Offices	Arctic Paper Papierhandels GmbH with its registered office in Vienna (Austria)
	Arctic Paper Benelux SA with its registered office in Oud-Haverlee (Belgium)
	Arctic Paper Danmark A/S with its registered office in Greve (Denmark)
	Arctic Paper France SA with its registered office in Paris (France)
	Arctic Paper Deutschland GmbH with its registered office in Hamburg, Germany
	Arctic Paper Italia Srl with its registered office in Milan (Italy)
	Arctic Paper Baltic States SIA with its registered office in Riga (Latvia)
	Arctic Paper Norge AS with its registered office in Oslo (Norway)
	Arctic Paper Polska Sp. z o.o. with its registered office in Warsaw (Poland)
	Arctic Paper España SL with its registered office in Barcelona (Spain)
	Arctic Paper Finance AB with its registered office in Munkedal (Sweden)
	Arctic Paper Schweiz AG with its registered office in Derendingen (Switzerland)
	Arctic Paper UK Ltd with its registered office in London (UK)
	Arctic Paper East Sp. z o.o. with its registered office in Kostrzyn nad Odrą (Poland)
Arctic Paper Finance AB	Arctic Paper Finance AB with its registered office in Göteborg, Sweden
Rottneros, Rottneros AB	Rottneros AB with its registered office in Sunne, Sweden
Rottneros Group, Rottneros AB Group	Rottneros AB with its registered office in Sunne, Sweden; Rottneros Bruk AB with its registered office in Sunne, Sweden; Utansjo Bruk AB with its registered office in Harnösand, Sweden, Vallviks Bruk AB with its registered office in Söderhamn, Sweden; Rottneros Packaging AB with its registered office in Stockholm, Sweden; SIA Rottneros Baltic with its registered office in Ventspils, Latvia
Pulp Mills	Rottneros Bruk AB in Sunne, Sweden; Vallviks Bruk AB with its registered office in Söderhamn, Sweden
Rottneros Purchasing Office	SIA Rottneros Baltic with its registered office in Latvia

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

Definitions of selected terms and financial indicators and abbreviations of currencies

Sales profit margin	Ratio of gross profit (loss) on sales to sales revenues from continuing operations
EBIT	Profit on continuing operating activities (Earnings Before Interest and Taxes)

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

Other definitions and abbreviations

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


Forward looking statements

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

Forward looking statements relating to risk factors

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

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



**Selected consolidated
and standalone
financial data**

Selected consolidated financial data

	Period from 01.01.2019 to 30.06.2019 PLN'000	Period from 01.01.2018 to 30.06.2018 PLN'000	Period from 01.01.2019 to 30.06.2019 EUR'000	Period from 01.01.2018 to 30.06.2018 EUR'000
Continuing operations				
Sales revenues	1 583 089	1 572 178	368 677	372 545
Operating profit (loss)	127 651	91 182	29 728	21 607
Gross profit (loss)	110 415	70 148	25 714	16 622
Net profit (loss) from continuing operations	84 588	48 413	19 699	11 472
Discontinued operations				
Profit (loss) from discontinued operations	-	-	-	-
Net profit / (loss) for the period	84 588	48 413	19 699	11 472
Net profit / (loss) attributable to the shareholders of the Parent Entity	45 896	20 192	10 688	4 785
Net cash flows from operating activities	105 497	374	24 569	89
Net cash flows from investing activities	(31 995)	(75 650)	(7 451)	(17 926)
Net cash flows from financing activities	(64 788)	(22 039)	(15 088)	(5 222)
Change in cash and cash equivalents	8 715	(97 315)	2 030	(23 060)
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)	0,66	0,29	0,15	0,07
Diluted EPS (in PLN/EUR)	0,66	0,29	0,15	0,07
Mean PLN/EUR exchange rate*			4,2940	4,2201
	As at 30 June 2019	As at 31 December 2018	As at 30 June 2019	As at 31 December 2018
	PLN'000	PLN'000	EUR'000	EUR'000
Assets	2 117 105	2 156 174	497 908	501 436
Long-term liabilities	402 993	441 381	94 777	102 647
Short-term liabilities	846 994	850 245	199 199	197 731
Equity	867 118	861 193	203 932	200 277
Share capital	69 288	69 288	16 295	16 113
Number of ordinary shares	69 287 783	69 287 783	69 287 783	69 287 783
Diluted number of ordinary shares	69 287 783	69 287 783	69 287 783	69 287 783
Book value per share (in PLN/EUR)	12,51	12,43	2,94	2,89
Diluted book value per share (in PLN/EUR)	12,51	12,43	2,94	2,89
Declared or paid dividend (in PLN/EUR)	-	13 857 557	-	3 222 687,58
Declared or paid dividend per share (in PLN/EUR)	-	0,20	-	0,05
PLN/EUR exchange rate at the end of the period**	-	-	4,2520	4,3000

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

** – Balance sheet items and book value per share have been translated at the mean arithmetic exchange rates published by the National Bank of Poland, prevailing on the balance sheet date.

Selected standalone financial data

	Period from 01.01.2019 to 30.06.2019 PLN'000	Period from 01.01.2018 to 30.06.2018 PLN'000	Period from 01.01.2019 to 30.06.2019 EUR'000	Period from 01.01.2018 to 30.06.2018 EUR'000
Sales revenues	42 894	59 214	9 989	14 031
Operating profit (loss)	26 114	39 885	6 082	9 451
Gross profit (loss)	19 675	31 450	4 582	7 452
Net profit (loss) from continuing operations	19 675	31 450	4 582	7 452
Net profit (loss) for the financial year	19 675	31 150	4 582	7 381
Net cash flows from operating activities	25 185	(88 717)	5 865	(21 022)
Net cash flows from investing activities	(1 492)	(139)	(347)	(33)
Net cash flows from financing activities	(32 690)	53 595	(7 613)	12 700
Change in cash and cash equivalents	(8 997)	(35 260)	(2 095)	(8 355)
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)	0,28	0,45	0,07	0,11
Diluted EPS (in PLN/EUR)	0,28	0,45	0,07	0,11
Mean PLN/EUR exchange rate*			4,2940	4,2201

	As at 30 June 2019 PLN'000	As at 31 December 2018 PLN'000	As at 30 June 2019 EUR'000	As at 31 December 2018 EUR'000
Assets	962 457	992 611	226 354	230 840
Long-term liabilities	13 401	82 807	3 152	19 257
Short-term liabilities	393 191	374 679	92 472	87 135
Equity	555 865	535 124	130 730	124 447
Share capital	69 288	69 288	16 295	16 113
Number of ordinary shares	69 287 783	69 287 783	69 287 783	69 287 783
Diluted number of ordinary shares	69 287 783	69 287 783	69 287 783	69 287 783
Book value per share (in PLN/EUR)	8,02	7,72	1,89	1,80
Diluted book value per share (in PLN/EUR)	8,02	7,72	1,89	1,80
Declared or paid dividend (in PLN/EUR)	-	13 857 557	-	3 222 688
Declared or paid dividend per share (in PLN/EUR)	-	0,20	-	0,05
PLN/EUR exchange rate at the end of the period**	-	-	4,2520	4,3000

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

** – Balance sheet items and book value per share have been translated at the mean 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 2019

Description of the business of the Arctic Paper Group

General information

The Arctic Paper Group is a leading European producer in terms of production volume of bulky book paper, offering a broad range of products in the segment and one of the leading producers of high-quality graphic paper in Europe. The Group produces numerous types of uncoated and coated wood-free paper as well as wood-containing uncoated paper for printing houses, paper distributors, book and magazine publishing houses and the advertising industry. In connection with acquisition of the Rottneros Group in December 2012, the Group's assortment was expanded with the production of pulp. As on the day hereof, the Arctic Paper Group employs app. 1,530 people in its Paper Mills, Pulp Mills, companies dealing in paper distribution and sales, and a company dealing in timber procurement for pulp production. Our paper mills are located in Poland and Sweden and have total production capacity of more than 650,000 metric tonnes of paper per year. The Pulp Mills are located in Sweden and have total production capacity of over 400,000 tonnes of pulp per year. The Group has fourteen Sales Offices which handle distribution and marketing of products offered by the Group providing access to all European markets, including Central and Eastern Europe. Our consolidated sales revenues for H1 2019 totalled PLN 1,583 million.

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

Business objects

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

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

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

Our production facilities

As on 30 June 2019, as well as on the day hereof, the Group owned the following Paper Mills:

- the Paper Mill in Kostrzyn nad Odrą (Poland) has the production capacity of about 280,000 tonnes per year and mainly produces uncoated wood-free paper for general printing use such as printing books, brochures and forms, and for producing envelopes and other paper products;
- the Paper Mill in Munkedal (Sweden) has the production capacity of about 160,000 tonnes per year and mainly produces fine uncoated wood-free paper used primarily for printing books and high-quality brochures;
- the Paper Mill in Grycksbo (Sweden) has the production capacity of about 210,000 tonnes per year (after the closure of one paper machine in H1 2019) and produces coated wood-free paper used for printing maps, books, magazines, posters and printing of advertising materials.

As on 30 June 2019, as well as on the day hereof, the Group owned the following Pulp Mills:

- the Pulp Mill in Rottneros (Sweden) has the production capacity of about 160,000 tonnes annually and produces mainly two types of mechanical pulp: groundwood and chemo thermo mechanical pulp (CTMP);
- the Pulp Mill in Vallvik (Sweden) has the annual production capacity of about 240,000 tonnes and produces two types of long-fibre sulphate pulp: fully bleached sulphate pulp and unbleached sulphate pulp. The most of Vallvik Pulp Mill production is known as NBSK pulp. The unbleached sulphate pulp produced by the mill is characterised with a high level of purity. The high quality of the pulp which had been developed for years, made Vallvik a leader in supplies of such pulp. The pulp is used among others to produce transformers and in cable industry.

Our products

The product assortment of the Arctic Paper Group covers:

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

A detailed description of the Group's assortment is included in the consolidated annual report for 2018.

Capital Group structure

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

Details on the organisation of the Capital Group of Arctic Paper S.A. along with identification of the consolidated entities are specified in note 2 in the interim abbreviated consolidated financial statements, further below in this semi-annual report.

Changes in the capital structure of the Arctic Paper Group

In H1 2019, no changes in the capital structure of the Arctic Paper Group occurred.

Shareholding structure

Nemus Holding AB, a company under Swedish law (a company owned indirectly by Mr Thomas Onstad), is the majority shareholder of Arctic Paper S.A., holding (as at 30 June 2019) 40,381,449 shares of our Company, which constitutes 58.28% of its share capital and corresponds to 58.28% of the total number of votes at General Meetings. Thus Nemus Holding AB is the parent entity of the Issuer.

Additionally, Mr Thomas Onstad, an indirect shareholder of Nemus Holding AB, holds directly 6,223,658 shares representing 8.98% of the total number of shares in the Company, and via another entity – 600,000 shares accounting for 0.87% of the total number of shares of the Company. Mr Thomas Onstad's total direct and indirect holding in the capital of Arctic Paper S.A. as at 30 June 2019 was 68.13% and has not changed until the date hereof.

as at 03.09.2019

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

as at 30.06.2019

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

as at 28.05.2019

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

The data in the above tables is provided as of the date hereof and as of the publication date of the report for Q1 2019 and as at 30 June 2019.

Summary of the consolidated financial results

Selected items of the consolidated statement of profit and loss

PLN'000	Q2 2019	Q1 2019	Q2 2018	H1 2019	H1 2018	Change % Q2 2019/ Q1 2019	Change % Q2 2019/ Q2 2018	Change % H1 2019/ H1 2018
Continuing operations								
Sales revenues	762 517	820 572	784 111	1 583 089	1 572 178	(7,1)	(2,8)	0,7
of which:								
Sales of paper	537 633	573 344	558 761	1 110 977	1 132 382	(6,2)	(3,8)	(1,9)
Sales of pulp	224 884	247 228	225 350	472 112	439 796	(9,0)	(0,2)	7,3
Profit on sales	149 062	151 884	145 740	300 946	292 968	(1,9)	2,3	2,7
% of sales revenues	19,55	18,51	18,59	19,01	18,63	1,0 p.p.	1,0 p.p.	0,4 p.p.
Selling and distribution costs	(83 381)	(84 757)	(84 059)	(168 137)	(168 923)	(1,6)	(0,8)	(0,5)
Administrative expenses	(21 016)	(20 839)	(20 045)	(41 855)	(41 850)	0,9	4,8	0,0
Other operating income	34 882	27 116	7 440	61 998	19 764	28,6	368,9	213,7
Other operating expenses	(9 671)	(15 629)	(4 502)	(25 300)	(10 777)	(38,1)	114,8	134,8
EBIT	69 877	57 775	44 574	127 651	91 182	20,9	56,8	40,0
% of sales revenues	9,16	7,04	5,68	8,06	5,80	2,1 p.p.	3,5 p.p.	2,3 p.p.
EBITDA	90 529	81 081	65 854	171 610	136 414	11,7	37,5	25,8
% of sales revenues	11,87	9,88	8,40	10,84	8,68	2,0 p.p.	3,5 p.p.	2,2 p.p.
Financial income	(189)	1 132	371	943	935	(116,7)	(150,9)	0,9
Financial expenses	(9 814)	(8 366)	(14 149)	(18 180)	(21 969)	17,3	(30,6)	(17,2)
Gross profit (loss)	59 874	50 541	30 795	110 415	70 148	18,5	94,4	57,4
Income tax	(12 176)	(13 650)	(11 137)	(25 827)	(21 735)	(10,8)	9,3	18,8
Net profit (loss) from continuing operations	47 697	36 891	19 658	84 588	48 413	29,3	142,6	74,7
% of sales revenues	6,26	4,50	2,51	5,34	3,08	1,8 p.p.	3,7 p.p.	2,3 p.p.
Discontinued operations								
Net profit / (loss) from discontinued operations	-	-	-	-	-	-	-	-
% of sales revenues	-	-	-	-	-	- p.p.	- p.p.	- p.p.
Net profit/(loss)	47 697	36 891	19 658	84 588	48 413	29,3	142,6	74,7
% of sales revenues	6,26	4,50	2,51	5,34	3,08	1,8 p.p.	3,7 p.p.	2,3 p.p.
Net profit / (loss) for the reporting period attributable to the shareholders of the Parent Entity	31 644	14 252	4 098	45 896	20 192	122,0	672,2	127,3

Due to an adjustment of a previous years' error concerning perpetual usufruct right, discontinued presentation of discontinued activity and change to the presentation of revenues from pulp sales (described in note 6.4 of these interim abbreviated consolidated financial statements), the above data for H1 2018 and Q2 2018 is not the data disclosed in the Consolidated Semi-Annual Report for 2018 of the Arctic Paper Group.

Comments of the President of the Management Board Michał Jarczyński on the results of H1 2019

During the second quarter of 2019, Arctic Paper Group reached a turnover of PLN 762.5 million (compared to PLN 784.1 million in Q2 2018) with an EBITDA of PLN 90.5 million (vs. PLN 65.9 million). On the consolidated level, the result continues to be strong. The combination of pulp and paper stabilizes our results, as the fluctuations on the two segments offset each other.

The paper segment generated a turnover of PLN 537.6 million (vs. PLN 558.8 million in Q2 2018) with an EBITDA of PLN 35.4 million (vs. PLN 19.7 million), of which PLN 18 million is non-recurring revenue attributable to the sale of the land at the Mochenwangen mill. Production during Q2 was 147,000 tonnes (vs. 160,000) and during the first half of 2019 production was 296,000 tonnes (vs. 326,000 in H1 2018).

Our paper business is still operating in a challenging and highly competitive environment, even though we have seen a tendency towards more favourable market conditions during the second quarter. Pulp prices have decreased by 10 percent on average, while our revenue per tonne, due to price adjustments and a better product mix, has increased by 4.6 percent compared to Q2 2018. Our biggest challenge now is to compensate for the lower demand for graphical paper by introducing new products in other segments and maximizing the output from our mills. Our growing business in kraft paper has resulted in 3,000 tonnes of new volume during the first half of 2019. The investment in expanded capacity at Arctic Paper Kostrzyn was finalized during Q2 and the modernized PM1 is now in production. The investment of EUR 10m opens up a wider range of products and qualities to be produced, both graphical and kraft paper, thus making the mill much more flexible. The share of premium and speciality products represented 28 percent of total sales during the first half of 2019 (vs 26 percent in H1 2018).

The profit improvement program, with the ambition to generate annual cost savings of approximately PLN 40 million from 2020, is on-track and running as planned. During the summer our new shared services centre for Group supporting functions opened in Kostrzyn.

For Rottneros AB, of which the Arctic Paper Group owns 51 percent, net turnover increased by 1 percent to SEK 582 million (vs SEK 576 million in Q2 2018) and EBITDA by 11 percent to SEK 131 million (vs SEK 118 million in Q2 2018). The full report is available at <http://www.rottneros.com/investors/financial-reports/>

We are persistent in defending and restoring our margins. We are therefore working hard to lower our costs, increase productivity and accelerate the reshaping of our product portfolio. The necessary changes will take time to implement, but during the second quarter we started to see some early effects of our efforts.

Revenues

In Q2 2019, the consolidated sales revenues amounted to PLN 762,517 thousand (sales of paper: PLN 537,633 thousand, pulp sales: PLN 224,884 thousand), as compared to PLN 784,111 thousand (sales of paper: PLN 558,761 thousand, pulp sales: PLN 225,350 thousand), in the equivalent period of the previous year. That means a decrease by PLN 21,594 thousand (a decrease of paper sales by PLN 21,128 thousand, and a decrease of sales of pulp by PLN 466 thousand) and respectively by -2.8% (for paper sales by -3.8% and pulp sales by -0.2%).

In the first six months 2019, the sales revenues amounted to PLN 1,583,089 thousand (sales of paper: PLN 1,110,977 thousand, pulp sales: PLN 472,112 thousand), as compared to PLN 1,572,178 thousand (sales of paper: PLN 1,132,382 thousand), pulp sales: PLN 439,796 thousand), generated in the equivalent period of the previous year. That means a growth of revenues by PLN 10,911 thousand (a decrease of paper sales by PLN 21,405 thousand, growth of pulp sales by PLN 32,316 thousand) and respectively by +0.7% (for sales paper by -1.9% and pulp sales by +7.3%).

Paper sales volume in Q2 2019 amounted to 147 thousand tonnes compared to 160 thousand tonnes in the previous year. The change represents a decrease of 13 thousand tonnes and by -8.1% respectively. Pulp sales volume in Q2 2019 amounted to 91 thousand tonnes compared to 93 thousand tonnes in the previous year. The change represents a decrease of 2 thousand tonnes and by -2.2% respectively.

Paper sales volume in H1 2019 amounted to 301 thousand tonnes compared to 328 thousand tonnes in the previous year. The change represents a decrease of 27 thousand tonnes and by -8.3% respectively. Pulp sales volume in H1 2019

amounted to 185 thousand tonnes compared to 187 thousand tonnes in the previous year. The change represents a decrease of 2 thousand tonnes and by -1.5% respectively.

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

In H1 2019, profit on sales amounted to PLN 300,946 thousand. This result was by 2.7% higher than in the corresponding period of the previous year. Sales profit margin in the current year stood at 19.01% compared to 18.63% (+0.4 p.p.) in the same period of the previous year. The core reason underlying the growth of profit on sales in H1 2019 versus the corresponding period of the previous year was primarily higher revenues from pulp sales as a result of increased sales prices denominated in PLN.

In the reporting period, the selling and distribution costs amounted to PLN 168,137 thousand, which was a decrease by 0.5% compared to the costs incurred in H1 2018. The selling and distribution costs include primarily costs of transport of finished products to counterparties.

In H1 2019, the administrative expenses amounted to PLN 41,855 thousand and was on a similar level as compared to the equivalent period of 2018 (PLN 41,850 thousand). 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 61,998 thousand in H1 2019, which was an increase as compared to the equivalent period of the previous year by PLN 42,234 thousand.

Other operating income consisted mainly of revenues from heat and electricity sales as well as sales revenues from other materials and CO2 emission rights. The growth of other operating revenues in the current period was primarily due to sale of land by AP Mochenwangen, as well as higher sales of other materials and energy and CO2 emission rights.

Other operating expenses totalled PLN 25,300 thousand in H1 2019, which was an increase as compared to the equivalent period of the previous year by PLN 14,523 thousand.

The other operating expenses comprised mainly the costs of sales of electricity and heat as well as the costs of other materials sold. The higher other operating expenses in H1 2019 were affected primarily by the higher costs of sales of other materials.

Financial income and financial expenses

In H1 2019, financial income and expenses amounted to PLN 943 thousand and PLN 18,180 thousand respectively, which was an increase of income as compared to the equivalent period of the previous year by PLN 8 thousand and a decrease of expenses by PLN 3,789 thousand.

The changes to financial income and expenses were primarily due to the amount of net FX differences. In H1 2019, the Group recorded a surplus of FX losses over FX profit of PLN 2,645 thousand (financial expenses). In the equivalent period of 2018, the Group recorded a surplus of FX losses over FX profit of PLN 7,574 thousand (financial expenses).

Income tax

For the six months of 2019, income tax amounted to PLN -25,827 thousand while in the equivalent period in 2018 it was PLN -21,735 thousand.

The current portion of income tax in the analysed semi-annual period amounted to PLN -3,658 thousand (H1 2018: PLN -3,131 thousand), while the deferred portion to PLN -22,169 (H1 2018: PLN -18,605 thousand).

Profitability analysis

In H1 2019, the result on continuing operations amounted to PLN +127,651 thousand as compared to the profit of PLN +91,182 thousand in the equivalent period in the previous year. The changes resulted in a growth of operational profit margin from +5.80% in the six months of 2018 to +8.06% in the equivalent period of 2019.

EBITDA on continuing operations in H1 2019 amounted to PLN 171,610 thousand while in the equivalent period in 2018 it was PLN 136,414 thousand. In the reporting period, the EBITDA margin was 10.84% compared to 8.68% for 6 months of 2018.

In H1 2019, net profit amounted to PLN +84,588 thousand as compared to PLN +48,413 thousand in H1 2018. Net profit margin accrued after six months of 2019 amounted to +5.34% as compared to +3.08% in the equivalent period of 2018.

PLN'000	Q2	Q1	Q2	H1	H1	Change %	Change %	Change % H1
	2019	2019	2018	2019	2018	Q2 2019/ Q1 2019	Q2 2019/ Q2 2018	2019/ H1 2018
Profit / (loss) on sales	149 062	151 884	145 740	300 946	292 968	(1,9)	2,3	2,7
% of sales revenues	19,55	18,51	18,59	19,01	18,63	1,0 p.p.	1,0 p.p.	0,4 p.p.
EBITDA	90 529	81 081	65 854	171 610	136 414	11,7	37,5	25,8
% of sales revenues	11,87	9,88	8,40	10,84	8,68	2,0 p.p.	3,5 p.p.	2,2 p.p.
EBIT	69 877	57 775	44 574	127 651	91 182	20,9	56,8	40,0
% of sales revenues	9,16	7,04	5,68	8,06	5,80	2,1 p.p.	3,5 p.p.	2,3 p.p.
Net profit / (loss)	47 697	36 891	19 658	84 588	48 413	29,3	142,6	74,7
% of sales revenues	6,26	4,50	2,51	5,34	3,08	1,8 p.p.	3,7 p.p.	2,3 p.p.
Return on equity / ROE (%)	5,5	4,3	2,4	9,8	5,8	1,2 p.p.	3,1 p.p.	3,9 p.p.
Return on assets / ROA (%)	2,3	1,7	1,0	4,0	2,4	0,5 p.p.	1,3 p.p.	1,6 p.p.

In H1 2019, return on equity was +9.8% while in the equivalent period of 2018 it was +5.8%.

Return on assets grew from +2.4% in H1 2018 to +4.0% in H1 2019.

Higher return on equity and return on assets ratios were due primarily to the higher net profit generated in H1 2019 versus the equivalent period last year.

Selected items of the consolidated statement of financial position

PLN'000	30.06.2019	31.12.2018	30.06.2018	Change	Change
				30.06.2019	30.06.2019
				-31.12.2018	-30.06.2018
Fixed assets	1 041 517	1 037 969	972 987	3 548	68 531
Inventories	419 983	478 614	409 243	(58 632)	10 739
Receivables	413 871	371 963	427 732	41 908	(13 861)
<i>Trade receivables</i>	404 605	365 946	418 237	38 659	(13 632)
Other current assets	35 327	64 794	65 876	(29 467)	(30 549)
Cash and cash equivalents	206 406	201 118	143 235	5 288	63 171
Assets for sale	-	1 716	2 831	(1 716)	(2 831)
Total assets	2 117 105	2 156 174	2 021 904	(39 070)	95 200
Equity	867 118	861 193	830 761	5 925	36 356
Short-term liabilities	846 994	850 245	755 996	(3 251)	90 998
<i>of which:</i>					
<i>trade and other payables</i>	476 243	516 678	431 365	(40 436)	44 878
<i>interest-bearing debt</i>	275 520	232 184	223 800	43 337	51 721
<i>other non-financial liabilities</i>	95 231	101 383	100 832	(6 151)	(5 601)
Long-term liabilities	402 993	441 381	433 402	(38 389)	(30 410)
<i>of which:</i>					
<i>interest-bearing debt</i>	204 347	249 659	257 264	(45 313)	(52 918)
<i>other non-financial liabilities</i>	198 646	191 722	176 138	6 924	22 508
Liabilities directly related to assets held for sale	-	3 355	1 744	(3 355)	(1 744)
Total liabilities	2 117 105	2 156 174	2 021 904	(39 070)	95 200

Due to an adjustment of a previous years' error concerning perpetual usufruct right (described in note 6.4 of these interim abbreviated consolidated financial statements), the above data as at 30 June 2018 is not the data disclosed in the Consolidated Semi-Annual Report for 2018 of the Arctic Paper Group.

As at 30 June 2019, total assets amounted to PLN 2,117,105 thousand as compared to PLN 2,156,174 thousand at the end of 2018.

Fixed assets

At the end of June 2019, fixed assets accounted for 49.2% of total assets vs. 48.1% at the end of 2018. The value of fixed assets grew in the current half-year period by PLN 3,548 thousand, mainly due to a growth of tangible fixed assets as an effect of capital outlays and implementation of IFRS 16, partly set off with a drop of other financial assets (reduction of a positive measurement of hedging instruments, mainly forward contracts for energy purchases) and intangible assets.

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 2019, current assets amounted to PLN 1,075,587 thousand as compared to PLN 1,116,489 thousand at the end of December 2018. As part of the current assets, inventories decreased by PLN 58,632 thousand and receivables grew by PLN 41,908 thousand, other current assets decreased by PLN 29,467 thousand while cash and cash equivalents increased by PLN 5,288 thousand. Current assets represented 50.8% of total assets as at the end of June 2019 (51.8% as at the end of 2018) and included inventories – 19.8% (22.2% as at the end of 2018), receivables – 19.5% (17.3% as at the end of 2018), other current assets – 1.7% (3.0% as at the end of 2018) and cash and cash equivalents – 9.8% (9.3% as at the end of 2018).

Assets for sale

In Q2 2019, AP Mochenwangen sold a plot of land. In this connection, the Issuer's Management Board assessed the opportunity to sell the other assets and liabilities as an organised part of the AP Mochenwangen Group as unlikely and decided to discontinue to present the results of the Group as discontinued operations. As a result, the assets earlier classified as assets available for sale as at 30 June 2019 were presented as assets related to continuing operations.

Equity

As at the end of the current period, equity amounted to PLN 867,118 thousand as compared to PLN 861,193 thousand at the end of 2018. As at the end of June 2019, equity accounted for 40.9% of total equity and liabilities vs. 39.9% of balance sheet total as at 31 December 2018. The increase of equity was the effect of net profit for H1 2019 partly set off with the reduced positive measurement of hedging instruments and reduced valuation of subsidiary entities whose functional currency is other than PLN, recognised in other comprehensive income, and by the dividend distributed to the non-controlling shareholders.

Short-term liabilities

As at the end of June 2019, short-term liabilities amounted to PLN 846,994 thousand (40.0% of balance sheet total) as compared to PLN 850,245 thousand (39.4% of balance sheet total) as at the end of 2018. Short-term liabilities did not change materially. Changes to short-term liabilities included primarily: a growth of interest-bearing borrowings, loans and bonds (note 19 to the interim abbreviated consolidated financial statements) and a decrease of trade and other payables (note 21 to the interim abbreviated consolidated financial statements).

Long-term liabilities

As at the end of June 2019, long-term liabilities amounted to PLN 402,993 thousand (19.0% of balance sheet total) as compared to PLN 441,381 thousand (20.5% of balance sheet total) as at the end of 2018. In the period under report, a decrease of long-term liabilities occurred by PLN 38,389 thousand, which was a result of reclassification of loans and bonds (note 19 to the interim abbreviated consolidated financial statements) by growth of other financial liabilities (note 20 to the interim abbreviated consolidated financial statements) and deferred income tax provision (note 13 to the interim abbreviated consolidated financial statements).

Liabilities directly related to assets held for sale

In Q2 2019, AP Mochenwangen sold a plot of land. In this connection, the Issuer's Management Board assessed the opportunity to sell the other assets and liabilities as an organised part of the AP Mochenwangen Group as unlikely and decided to discontinue to present the results of the Group as discontinued operations. As a result, the liabilities earlier classified as assets available for sale as at 30 June 2019 were presented as liabilities related to continuing operations.

Debt analysis

	Q2 2019	Q1 2019	Q2 2018	Change % Q2 2019/ Q1 2019	Change % Q2 2019/ Q2 2018
Debt to equity ratio (%)	144,2	148,4	143,4	(4,2) p.p.	0,8 p.p.
Equity to fixed assets ratio (%)	83,3	82,5	85,4	0,8 p.p.	(2,1) p.p.
Interest-bearing debt-to-equity ratio (%)	55,3	57,3	57,9	(2,0) p.p.	(2,6) p.p.
Net debt to EBITDA ratio for the last 12 months (x)	1,1x	1,2x	1,4x	(0,14)	(0,32)
EBITDA to interest expense ratio (x)	10,7x	9,9x	10,0x	0,8	0,8

As at the end of June 2019, debt to equity ratio amounted to 144.2% and was lower by 4.2 p.p. compared to the end of March of 2019 and higher by 0.8 p.p. compared to the end of June 2018. The equity to non-current assets ratio was 83.3% and was higher by 0.8 p.p. than at the end of March 2019 and lower by 2.1 p.p. than at the end of June 2018.

Interest bearing debt to equity ratio amounted to 55.3% as at the end of the current half year and was lower by 2.0 p.p. compared to the end of March 2019 and lower by 2.6 p.p. compared to the level of the ratio calculated at the end of June 2018.

Net borrowings to EBITDA calculated for the last 12 months ended on 30 June 2019 amounted to 1.1x compared to 1.2x in the equivalent period ended on 31 March 2019 and 1.4x for the period ended on 30 June 2018.

The EBITDA to interest coverage ratio was 10.7x for the twelve months ended on 30 June 2019 and 9.9x and 10.0x for periods ended on 31 March 2019 and on 30 June 2018 respectively.

Liquidity analysis

	Q2 2019	Q1 2019	Q2 2018	Change % Q2 2019/ Q1 2019	Change % Q2 2019/ Q2 2018
Current ratio	1,3x	1,3x	1,4x	0,0	(0,1)
Quick ratio	0,8x	0,7x	0,8x	0,0	(0,1)
Acid test	0,2x	0,2x	0,2x	0,0	0,1
DSI (days)	61,6	59,2	57,7	2,4	3,9
DSO (days)	47,8	43,3	48,0	4,5	(0,2)
DPO (days)	69,9	65,4	60,8	4,4	9,1
Operational cycle (days)	109,4	102,4	105,7	6,9	3,7
Cash conversion cycle (days)	39,5	37,0	44,9	2,5	(5,4)

The current liquidity ratio as at the end of June 2019 was 1.3x and it did not change in relation to the level as at the end of Q1 2019 and decreased versus the end of June 2018 by 0.1.

The quick liquidity ratio reached the level of 0.8x at the end of June 2019 and did not change materially in relation to the level as at 31 March 2019 and 30 June 2018.

The cash ratio as at the end of Q2 2019 was 0,2 and it did not change materially in relation to the level as at the end of 31 March 2019 and 30 June 2018.

The cash conversion cycle in Q2 2019 was 39.5 days and was by 2.5 days longer versus Q1 2019 and by 5.4 days shorter than reported at the end of Q2 2018.

Selected items of the consolidated statement of cash flow

PLN'000	Q2	Q1	Q2	H1	H1	Change %	Change %	Change % H1
	2019	2019	2018	2019	2018	Q2 2019/ Q1 2019	Q2 2019/ Q2 2018	2019/ H1 2018
Cash flows from operating activities	45 736	59 761	(1 427)	105 497	374	(23,5)	(3 304,5)	28 133,5
of which:								
Gross profit (loss)	59 874	50 541	30 796	110 415	70 148	18,5	94,4	57,4
Depreciation/amortisation and impairment charges	20 652	23 307	21 279	43 959	45 232	(11,4)	(2,9)	(2,8)
Changes to working capital	(22 726)	(23 743)	(57 412)	(46 469)	(122 119)	(4,3)	(60,4)	(61,9)
Other adjustments	(12 064)	9 657	3 910	(2 407)	7 112	(224,9)	(408,6)	(133,8)
Cash flows from investing activities	(13 231)	(18 764)	(33 939)	(31 995)	(75 650)	(29,5)	(61,0)	(57,7)
Cash flows from financing activities	(32 134)	(32 654)	(30 436)	(64 788)	(22 039)	(1,6)	5,6	194,0
Total cash flows	371	8 344	(65 802)	8 715	(97 315)	(95,6)	(100,6)	(109,0)

Due to an adjustment of a previous years' error concerning perpetual usufruct right (described in note 6.4 of these interim abbreviated consolidated financial statements), the above data for H1 2018 and Q2 2018 is not the data disclosed in the Consolidated Semi-Annual Report for 2018 of the Arctic Paper Group.

Cash flows from operating activities

In the first six months of 2019, net cash flows from operating activities amounted to PLN +105,497 thousand as compared to PLN +374 thousand in the equivalent period of 2018. The higher gross profit increased by depreciation/amortisation and reduced inventories in H1 2019 was primarily due to higher positive cash flows from operating activities.

Cash flows from investing activities

In H1 2019, cash flows from investing activities amounted to PLN -31,995 thousand as compared to PLN -75,650 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 2019, cash flows from financing activities amounted to PLN -64,788 thousand as compared to PLN -22,039 thousand in the equivalent period of 2018. The negative cash flows from financing activities in 2019 were primarily related to repayment of short-term bank loans and overdraft facilities with interest, and dividend distribution to non-controlling shareholders.

Summary of standalone financial results

Selected items of the standalone statement of profit and loss

PLN'000	Q2	Q1	Q2	H1	H1	Change %	Change %	Change % H1
	2019	2019	2018	2019	2018	Q2 2019/ Q1 2019	Q2 2019/ Q2 2018	2019/ H1 2018
Sales revenues	31 783	11 111	49 463	42 894	59 214	186	(36)	(28)
<i>of which:</i>								
<i>Sales of services</i>	7 587	7 321	9 340	14 908	17 864	4	(19)	(17)
<i>Interest income on loans</i>	1 088	1 139	1 226	2 227	2 453	(5)	(11)	(9)
<i>Dividend income</i>	23 109	2 650	38 897	25 759	38 897	772	(41)	(34)
Profit on sales	30 430	9 775	48 295	40 205	56 689	211	(37)	(29)
<i>% of sales revenues</i>	95,74	87,98	97,64	93,73	95,74	7,8 p.p.	(1,9) p.p.	(2,0) p.p.
Selling and distribution costs	(955)	(574)	(749)	(1 529)	(1 499)	66	28	2
Administrative expenses	(6 310)	(6 646)	(6 989)	(12 956)	(14 134)	(5)	(10)	(8)
Other operating income	472	82	191	553	249	477	147	122
Other operating expenses	160	(319)	(1 167)	(159)	(1 420)	(150)	(114)	(89)
EBIT	23 797	2 318	39 581	26 114	39 885	927	(40)	(35)
<i>% of sales revenues</i>	74,87	20,86	80,02	60,88	67,36	54,0 p.p.	(5,2) p.p.	(6,5) p.p.
EBITDA	23 945	2 417	39 617	26 362	40 133	891	(40)	(34)
<i>% of sales revenues</i>	75,34	21,76	80,10	61,46	67,78	53,6 p.p.	(4,8) p.p.	(6,3) p.p.
Financial income	2 109	1 203	2 041	3 312	3 050	75	3	9
Financial expenses	(4 436)	(5 315)	(5 627)	(9 751)	(11 485)	(17)	(21)	(15)
Gross profit (loss)	21 469	(1 794)	35 995	19 675	31 450	(1 297)	(40)	(37)
Income tax	0	(1)	(300)	(1)	(300)	(101)	(100)	(100)
Net profit / (loss)	21 469	(1 795)	35 695	19 675	31 150	(1 296)	(40)	(37)
<i>% of sales revenues</i>	67,55	(16,15)	72,17	45,87	52,61	83,7 p.p.	(4,6) p.p.	(6,7) 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 2019, the standalone sales revenues amounted to PLN 31,783 thousand and comprised services provided to Group companies (PLN 7,587 thousand), interest income on loans (PLN 1,088 thousand) and dividend income (PLN 23,109 thousand). In the equivalent period of the previous year, 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 H1 2019, the standalone sales revenues amounted to PLN 42,894 thousand and comprised services provided to Group companies (PLN 14,908 thousand interest income on loans (PLN 2,227 thousand) and dividend income (PLN 25,759 thousand). In the equivalent period of the previous year, 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). That means a decrease of sales revenues in H1 2019 by PLN 16,319 thousand versus the equivalent period in 2018.

Profit on sales amounted to PLN 40,205 thousand in H1 2019 and decreased by PLN 16,484 thousand versus the equivalent period of the previous year.

Selling and distribution costs

In H1 2019, the Company recognised the amount of PLN 1,529 thousand as selling and distribution costs (PLN 1,499 thousand in the equivalent period of 2018) which comprised solely the expenses related to intermediary services in the purchase of pulp for Arctic Paper Kostrzyn S.A.

Administrative expenses

In H1 2019, the administrative expenses amounted to PLN 12,956 thousand, which was a decrease as compared to the equivalent period of the previous year by PLN 1,178 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 553 thousand in H1 2019, which was an increase as compared to the equivalent period of the previous year by PLN 304 thousand. The higher level of other operating income is due to, inter alia, the reversal of impairment allowances for loans to Arctic Paper Mochenwangen GmbH for PLN 1,794 thousand (the company received part repayment of the loans in June) with a simultaneous recognition of an allowance for interest accrued on other loans of AP Mochenwangen GmbH and AP Investment GmbH (PLN 1,343 thousand).

At the same time, there was a decrease of other operating expenses, they reached the level of PLN 159 thousand.

Financial income and financial expenses

In H1 2019, the financial income amounted to PLN 3,312 thousand and was by PLN 262 thousand higher than the income generated in H1 2018. The financial expenses after six months of 2019 amounted to PLN 9,751 thousand and largely referred to interest expenses on the received bank loans and borrowings (PLN 6,154 thousand) and FX losses. In the equivalent period of 2018, the financial expenses amounted to PLN 11,485 thousand.

Selected items of the standalone statement of financial position

PLN'000	30.06.2019	31.12.2018	30.06.2018	Change	Change
				30.06.2019	30.06.2019
				-31.12.2018	-30.06.2018
Fixed assets	740 384	751 507	759 291	(11 123)	(18 907)
Receivables	105 436	90 818	78 839	14 618	26 597
Other current assets	106 028	130 681	125 560	(24 652)	(19 531)
Cash and cash equivalents	10 609	19 605	1 682	(8 996)	8 927
Total assets	962 457	992 611	965 372	(30 154)	(2 915)
Equity	555 865	535 124	548 540	20 741	7 325
Short-term liabilities	393 191	374 679	326 360	18 512	66 831
Long-term liabilities	13 401	82 807	90 472	(69 406)	(77 071)
Total liabilities	962 457	992 611	965 372	(30 153)	(2 915)

As at 30 June 2019, total assets amounted to PLN 962,457 thousand as compared to PLN 992,611 thousand at the end of 2018.

The drop of assets was primarily due to higher other current assets in the analysed period.

Fixed assets

At the end of June 2019, fixed assets accounted for 76.9% of total assets vs. 75.8% at the end of 2018. The value of fixed assets dropped in the current half-year period by PLN 11,123 thousand. The main item of non-current assets includes interests in subsidiaries. At the end of H1 2019, the value was PLN 673,937 thousand and there was no change versus 31 December 2018.

Current assets

As at the end of June 2019, current assets amounted to PLN 222,073 thousand as compared to PLN 241,104 thousand at the end of December 2018.

As part of the current assets, receivables increased by PLN 14,618 thousand, other current assets decreased by PLN 24,653 thousand while cash and cash equivalents decreased by PLN 8,996 thousand. As at the end of June 2019, current assets accounted for 23.1% of total assets (24.2% as at the end of 2018).

Equity

At the end of the H1 2019, the equity amounted to PLN 555,745 thousand as compared to PLN 535,124 thousand at the end of 2018. That was a growth of equity by PLN 20,621 thousand, mainly due to net profit generated in H1 2019. As at the end of June 2019, equity accounted for 57.74 % of balance sheet total vs. 53.91 % of balance sheet total as at the end of 2018.

Short-term liabilities

As at the end of June 2019, short-term liabilities amounted to PLN 393,191 thousand (40.9 % of balance sheet total) as compared to PLN 374,679 thousand (37.75 % of balance sheet total) as at the end of 2018.

The growth of short-term loans, borrowings and loans was primarily due to changed presentation resulting from failure to comply with financial ration under the loan agreements and a bond issue.

After the balance sheet date, Arctic Paper S.A. received a written assurance from Santander Bank Poland S.A. acting as the consortium agent of the financing banks that failure by the Group to comply with the required level of the ratio as at 30 June 2019 did not constitute an event of default under the loan agreement of 9 September 2016. However, in view of failure of such assurance as at 30 June 2019 and in compliance with IAS 1, the Company disclosed all its debt to the bank consortium as at that day of PLN 113,065 thousand as short-term debt: interest-bearing loans, borrowings and bonds (more information in note 2 to the interim abbreviated standalone financial statements).

Long-term liabilities

As at the end of June 2019, long-term liabilities amounted to PLN 13,401 thousand (1.4 % of balance sheet total) as compared to PLN 82,807

thousand (8.3 % of balance sheet total) as at the end of 2018. The decrease of long-term liabilities is due to the reclassification of long-term loans as detailed above.

Selected items of the standalone statement of cash flow

PLN'000	Q2	Q1	H1	H1	Change %	Change %
	2019	2019	2019	2018	Q2 2019/ Q1 2019	2019/ H1 2018
Cash flows from operating activities	(924)	26 110	25 186	(88 717)	(103,5)	(128,4)
of which:						
Gross profit (loss)	21 469	(1 794)	19 675	31 450	(1 296,7)	(37,4)
Depreciation/amortisation and impairment charges	142	100	242	248	43,0	(2,6)
Changes to working capital	(34 962)	(15 839)	(50 800)	5 076	120,7	(1 100,8)
Net interest and dividends	1 527	2 298	3 825	4 010	(33,6)	(4,6)
Increase / decrease of loans granted to subsidiaries	(15 618)	27 830	12 211	(54 810)	(156,1)	(122,3)
Change to liabilities due to cash-pooling	25 745	13 169	38 914	-	95,5	-
Other adjustments	771	347	1 118	(74 691)	122,3	(101,5)
Cash flows from investing activities	(1 674)	182	(1 492)	(139)	(1 019,8)	973,4
Cash flows from financing activities	7 954	(40 644)	(32 690)	53 595	(119,6)	(161,0)
Total cash flows	5 355	(14 352)	(8 996)	(35 260)	(137,3)	(74,5)

The cash flow statement presents a decrease in cash in H1 2019 by PLN 8,996 thousand, which includes:

- positive cash flows from operating activities of PLN 25.186 thousand,
- negative cash flows from investing activities of PLN -1.492 thousand,
- negative cash flows from financing activities of PLN -32.690 thousand.

Cash flows from operating activities

In H1 2019, net cash flows from operating activities amounted to PLN 25.186 thousand as compared to PLN -88,717 thousand in the equivalent period of 2018. 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 2019, cash flows from investing activities amounted to PLN -1.492 thousand as compared to PLN -139 thousand in the equivalent period of the previous year. The negative cash flows from investing activities was due to implementation of IFRS16.

Cash flows from financing activities

In H1 2019, cash flows from financing activities amounted to PLN -32.690 thousand as compared to PLN 53,595 thousand in the equivalent period of 2018. The positive cash flows from financing activities are due to a new investment loan obtained in H1 2018. In 2019, the negative cash flows were due to repayment of borrowings and interest and changed balances of overdraft facilities.

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

Key factors affecting the performance results

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

- macroeconomic and other economic factors,
- 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's products and the Group's operating results. Those factors include:

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

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. Our products are primarily sold to euro zone countries, Scandinavia, Poland and the UK, thus our revenues are largely denominated in EUR, GBP, SEK and PLN while revenues from the pulp mills are primarily denominated in USD. The Group's operating expenses are primarily expressed in USD (pulp costs for Paper Mills), EUR (costs related to pulp for Paper Mills, energy, transportation, chemicals), PLN (the majority of other costs incurred by the 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 2019, there were no unusual events or factors.

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

In Q1 2019, there were no changes in the Arctic Paper Group's structure that would have material impact on the financial results generated.

Other material information

Waiver by the Bondholders of their right to demand premature redemption as a result of a breach of the financial ratio as at 31 March 2019

As at 24 July 2019, the Bondholders approved a resolution to waive their rights and claims associated with the option to demand the convening of a Meeting of Bondholders and early redemption of the Bonds in connection with the occurrence of a Put Option Trigger Event (as defined in the Terms and Conditions of Issue) mentioned in section 10.16 (Violation of the Net Debt/EBITDA index) of the Terms and Conditions of Issue, consisting in the Issuer's violating the Net Debt/EBITDA index (as defined in the Terms and Conditions of Issue) for the 12 months preceding the financial index calculate date as at 31 March 2019. The resolution was adopted by 100% of effective votes.

Waiver of compliance with financial ratio as at 30 June 2019 by the consortium of banks

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

As at 30 June 2019, the Group failed to maintain the Net Debt ratio as required in the loan agreement with the consortium of financing banks (Santander Bank S.A., BNP Paribas Bank Polska S.A. and the European Bank for Reconstruction and Development) – being a ratio of interest-bearing debt cash reduced by cash to EBITDA (net of any data on discontinued operations of the Rottneros Group). The set net debt to EBITDA ratio was not complied with as per the bond issue terms and conditions. Failure to comply with the ratios was due to continued lower demand for paper.

After the balance sheet date, Arctic Paper S.A. received a written assurance from Santander Bank S.A. acting as the consortium agent of the financing banks that failure by the Group to comply with the ratio levels as at 30 June 2019 did not constitute an event of default under the loan agreement of 9 September 2016 ("default").

Due to the above assurance received from the consortium of financing banks and maintenance of the ratio within the specified range the Company is not obliged to receive a similar assurance from Bondholders. According to conditions set forth in the Bond issue terms and conditions such violation does not form the basis of their right to claims premature Bond redemption.

Extension of revolving credit facility

As at 30 August 2019 the Lenders have granted to the Company a technical extension of the original end date of the revolving loan ("Revolving Facility") by 2 (two) additional months so that the original end date falls on October 31st, 2019. The original expiration date of the Revolving Facility was set at August 31st, 2019. The Revolving Facility was granted to the Company for a total value of EUR 19,800,000 and PLN 20,000,000 and was made available for the purpose of refinancing of intra-group liabilities of the Company or financing of intra-group loans.

In accordance with clause 5.7 of the Credit Facility (option of extension), on June 26th, 2019, the Company has submitted to the Lenders an application for extension of the term of the Revolving Facility until August 31, 2021. Due to the fact that the procedure related to the extension of the Credit Agreement in the scope of the Revolving Facility requires that the Company provides audited financial statements for the first half of 2019 of the Issuer and its subsidiaries, the Lenders decided about the technical extension of the validity period of the abovementioned Facility. The Issuer will inform about the granting of a Revolving Facility to the Company for next period in a separate report.

Factors influencing the development of the Arctic Paper Group

Information on market trends

Supplies of fine paper

In Q2 2019, the Arctic Paper Group recorded a decreased level of orders versus Q1 2019 by 4.6% and a decrease of orders versus the equivalent period of 2018 by 8%.

Source of data: Arctic Paper analysis

Paper prices

At the end of H1 2019, the prices of uncoated wood-free paper (UWF) in Europe grew by 4.4% versus the prices at the end of 2018 while for coated wood-free paper (CWF) there was a growth by 1.6%.

At the end of June 2019, the average prices declared by producers for selected types of paper and markets: Germany, France, Spain, Italy, United Kingdom – for both uncoated wood-free paper (UWF) and coated wood-free paper (CWF) were lower than at the end of Q1 2019 by 1.4% and 2.6% respectively.

The prices invoiced by Arctic Paper in EUR for comparable products in the segment of uncoated wood-free paper (UWF) decreased from the end of March 2019 until the end of June 2019 by 3.3% on the average while in the segment of coated wood-free paper (CWF) the prices decreased by 1.7%. At the end of H1 2019, the prices of uncoated wood-free paper (UWF) invoiced by Arctic Paper grew by 3.1% versus the prices at the end of June 2018 while for coated wood-free paper (CWF) there was a drop by 0.5%.

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

Pulp prices

At the end of Q2 2019, the pulp prices reached the level of: NBSK – USD 1000/tonne and BHKP – USD 902/tonne.

The average NBSK price in Q2 2019 was lower by 9.5% compared to the equivalent period of the previous year while for BHKP the average price was lower by 10.2%. Compared to Q1, the average pulp price in Q2 2019 was lower by 8.4% for NBSK and lower by 5.4% 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 decreased in Q2 2019 versus Q1 2019 by 5.9% while in relation to Q2 2018 it increased by 2.5%.

The share of pulp costs in costs of sales after 6 months of the current year was 59% versus about 61% in H1 2018.

The Arctic Paper Group uses the pulp in the production process according to the following structure: BHKP 72%, NBSK 21% and other 7%.

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

Currency exchange rates

At the end of Q2 2019, the EUR/PLN rate amounted to 4.2520 and was by 2.5% lower than at the end of Q2 2018. The mean EUR/PLN exchange rate in H1 2019 amounted to 4.2940 and was by 1.8% higher than in the equivalent period of 2018.

The EUR/SEK exchange rate amounted to 10.5509 at the end of Q2 2019 (growth by 1.4% versus the end of Q2 2018). For that currency pair, the mean exchange rate in H1 2019 was by 3.6% higher than in the equivalent period of 2018. 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 2019 amounted to 3.7336. In H1 2019, the mean USD/PLN exchange rate was 3.8002 versus 3.4872 in the equivalent period of the previous year which was a growth by 9.0%. In Q2 2019, the mean USD/PLN exchange rate was 3.8125 and was by 6.6% higher than in Q2 2018. The change has adversely 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 2019 amounted to 9.2645. In H1 2019, the mean exchange rate amounted to 9.3066 compared to 8.3854 in the equivalent period of the previous year which was an increase of the rate by 11%. In Q2 2019, the mean USD/SEK exchange rate increased by 3% versus Q1 2019. The change in comparison to Q1 2019 unfavourably affected the costs incurred in USD by AP Munkedals and AP Grycksbo, in particular the costs of pulp.

At the end of June 2019, the EUR/USD exchange rate amounted to 1.1388 compared to 1.1650 (-2.2%) at the end of June 2018. In Q2 2019, EUR slightly weakened against USD versus Q1 2019 (-1.1%). In H1 2019, the mean exchange rate was 1.1300 while in the equivalent period of the previous year it was 1.2112, which was a depreciation of EUR versus USD by 6.7%.

The depreciation of PLN versus EUR has favourably affected the Group's financial profit, mainly due to increased sales revenues generated in EUR and translated into PLN. USD appreciating versus PLN had adverse effect on the Group's financial result as it increased 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 months include:

- Demand for fine paper in Europe. Over the recent years there has been a major decrease of demand for fine paper in Europe (level of executed orders). Further adverse developments in the market situation may negatively affect the levels of orders placed with the Group's Paper Mills and, as a result, will have an adverse impact on the financial results of the Group;
- Price changes of fine paper. In particular, the possibility to raise the prices of Arctic Paper products in local currencies in view of the declining supply/demand in Europe and in the context exchange rates fluctuations, will have a material influence on the financial results. Paper prices are going to be of particular importance for the Paper Mill of Grycksbo which – in connection with the market changes – experiences the greatest adverse impact of drop of sales volumes, prices as well as of exchange rate fluctuations.
- Price fluctuations of raw materials, including pulp for Paper Mills and electricity for all operational entities. In particular, financial results of Paper Mills may be positively influenced by decreasing pulp prices, particularly BHKP. On the other hand, low NBSK prices should negatively influence the financial results of Pulp Mills. Fluctuations of electricity prices in Sweden may also have a material impact on the results generated by the Group. In the future, such market changes may translate into changes of sales profitability in Paper Mills of AP Munkedals and AP Grycksbo as well as in Pulp Mills of Rottneros and Vallvik.
- Changes in 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 2019, there were no material changes to the risk factors described in the report for 2018.

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 a 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 regulations 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 the Group's losses in 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 tonnes of paper and two Pulp Mills with a total production capacity of 400,000 tonnes 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 a 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, Santander Bank Polska S.A. and BNP Paribas Bank Polska 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. 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

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

The Management Board of Arctic Paper S.A. has not published the projected financial results for 2019.

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

As at 30 June 2019, 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;
- Dorota Raben – Member of the Supervisory Board appointed on 28 May 2019.

On 28 May 2019, the Ordinary General Meeting of the Company approved a resolution dismissing Mr Maciej Georg from the Supervisory Board. Additionally, the Ordinary General Meeting appointed Ms Dorota Raben to the Supervisory Board.

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:

- Michał Jarczyński – 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 03.09.2019	Number of shares or rights to shares as at 30.06.2019	Number of shares or rights to shares as at 28.05.2018	Change
Management Board				
Michał Jarczyński	-	-	-	-
Göran Eklund	-	-	-	-
Supervisory Board				
Per Lundeen	34 760	34 760	34 760	-
Thomas Onstad	6 223 658	6 223 658	6 223 658	-
Roger Mattsson	-	-	-	-
Dorota Raben	-	-	-	-
Mariusz Grendowicz	-	-	-	-

Information on sureties and guarantees

As at 30 June 2019, 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 1,399 thousand at Arctic Paper Grycksbo AB and for SEK 941 thousand at Arctic Paper Munkedals AB;
- pledge on properties of Arctic Paper Munkedals AB resulting from an FPG contract in favour of the mutual life insurance company PRI for SEK 50,000 thousand;
- a bank guarantee in favour of Skatteverket Ludvika for SEK 135 thousand;
- pledge on a bank account of Arctic Paper Mochenwangen GmbH covering future retirement benefits for employees for EUR 255 thousand;
- pledges on shares in subsidiary companies in the Rottneros Group for SEK 284,730 thousand under loan agreements concluded with Danske Bank;
- guarantee by Rottneros AB for SEK 5,000 thousand vis-a-vis local authorities under future environmental obligations of the Vallvik Paper Mill;
- pledge on 19,950,000 shares of Rottneros AB under loan agreements for EUR 10,000 thousand granted by Arctic Paper Finance AB to Arctic Paper S.A. and EUR 10,000 thousand granted by Mr Thomas Onstad to Arctic Paper Finance AB.

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

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

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

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

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

Information on remuneration of the entity authorised to audit the financial statements

On 23 May 2018, Arctic Paper S.A. entered into a contract with KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. for a review of the Company's interim standalone financial statements and interim consolidated financial statements of the Group for the period from 1 January 2019 until 30 June 2019. The contract was concluded for the time required to perform the above services.

Statements of the Management Board

Accuracy and reliability of the presented reports

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

- The interim abbreviated consolidated financial statements for the period of 6 months ended on 30 June 2019 of the Capital Group of Arctic Paper S.A. and the comparable data as well as the interim abbreviated standalone financial statement for the period of 6 months ended on 30 June 2019 of Arctic Paper S.A. 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 2019;
- The Management Board's report from operations of the Capital Group of Arctic Paper S.A. to the report for Q1 2019 contains a true image of the development, achievements and condition of the Capital Group of Arctic Paper S.A., including a description of core hazards and risks.

Signatures of the Members of the Management Board

Position	First and last name	Date	Signature
President of the Management Board Chief Executive Officer	Michał Jarczyński	03 September 2019	signed with a qualified electronic signature
Member of the Management Board Chief Financial Officer	Göran Eklund	03 September 2019	signed with a qualified electronic signature

The background of the document is a photograph of a large industrial factory. The scene shows a long, straight production line of machinery, likely for manufacturing, stretching into the distance. The ceiling is high with a complex network of metal beams and pipes. The lighting is bright and even. The overall atmosphere is one of a modern, well-maintained industrial facility.

Interim abbreviated consolidated financial statements

for the period of six months
ended on 30 June 2019
along with an independent auditor's opinion from a
review

Interim abbreviated consolidated financial statements

Interim abbreviated consolidated statement of profit and loss

	Note	3-month-period ended on 30 June 2019 (unaudited)	6-month-period ended on 30 June 2019 (unaudited)	3-month-period ended on 30 June 2018 (transformed)*	6-month-period ended on 30 June 2018 (transformed)*
Continuing operations					
Revenues from sales of goods	10.1	762 517	1 583 089	784 111	1 572 178
Sales revenues		762 517	1 583 089	784 111	1 572 178
Costs of sales	10.2	(613 455)	(1 282 143)	(638 371)	(1 279 209)
Gross profit (loss) on sales		149 062	300 946	145 740	292 968
Selling and distribution costs	10.3	(83 381)	(168 137)	(84 059)	(168 923)
Administrative expenses	10.4	(21 016)	(41 855)	(20 045)	(41 850)
Other operating income	10.5	34 882	61 998	7 440	19 764
Other operating expenses	10.6	(9 671)	(25 300)	(4 502)	(10 777)
Operating profit (loss)		69 877	127 651	44 574	91 182
Financial income	10.7	(189)	943	371	935
Financial expenses	10.7	(9 814)	(18 180)	(14 149)	(21 969)
Gross profit (loss)		59 874	110 415	30 795	70 148
Income tax	13	(12 176)	(25 827)	(11 137)	(21 735)
Net profit (loss) from continuing operations		47 697	84 588	19 658	48 413
Discontinued operations					
Profit (loss) from discontinued operations	9	-	-	-	-
Net profit / (loss)		47 697	84 588	19 658	48 413
Attributable to:					
The shareholders of the Parent Entity, of which:					
- profit (loss) from continuing operations		31 644	45 896	4 098	20 192
- profit (loss) from discontinued operations		-	-	-	-
Non-controlling shareholders, of which:					
- profit (loss) from continuing operations		16 053	38 692	15 561	28 221
- profit (loss) from discontinued operations		-	-	-	-
		47 698	84 588	19 658	48 413
Earnings per share:					
- basic earnings from the profit/(loss) attributable to the shareholders of the Parent Entity	14	0,46	0,66	0,06	0,29
- basic profit/(loss) from continuing operations attributable to the shareholders of the Parent Entity	14	0,46	0,66	0,06	0,29
- diluted earnings from the profit attributable to the shareholders of the Parent Entity	14	0,46	0,66	0,06	0,29
- diluted profit from continuing operations attributable to the shareholders of the Parent Entity	14	0,46	0,66	0,06	0,29

*information on the transformed data is provided in note 6.4 hereof

Interim abbreviated consolidated statement of total comprehensive income

	3-month-period ended on 30 June 2019 (unaudited)	6-month-period ended on 30 June 2019 (unaudited)	3-month-period ended on 30 June 2018 (transformed*)	6-month-period ended on 30 June 2018 (transformed*)
Profit for the reporting period	47 697	84 588	19 658	48 413
Other total comprehensive income				
Items to be reclassified to profit/loss in future reporting periods:				
FX differences on translation of foreign operations	(15 189)	(25 492)	12 584	(6 108)
Measurement of financial instruments	1 868	(41 028)	33 714	41 979
Deferred income tax on the measurement of financial instruments	(690)	8 752	(7 629)	(9 148)
Other comprehensive income (net)	(14 012)	(57 768)	38 670	26 723
Total comprehensive income for the period	33 686	26 820	58 328	75 135
Total comprehensive income attributable to:				
The shareholders of the Parent Entity	23 243	9 414	29 535	40 540
Non-controlling shareholders	10 442	17 406	28 793	34 595

*information on the transformed data is provided in note 6.4 hereof

Interim abbreviated consolidated statement of financial position

	Note	As at 30 June 2019 (unaudited)	As at 31 December 2018
ASSETS			
Fixed assets			
Tangible fixed assets	15	934 136	901 960
Investment properties		4 236	4 236
Intangible assets	15	39 064	49 160
Interests in joint ventures		1 134	1 182
Other financial assets	18	34 051	52 520
Other non-financial assets	18	1 714	1 773
Deferred income tax asset	13	27 182	27 137
		1 041 517	1 037 969
Current assets			
Inventories	16	419 983	478 614
Trade and other receivables	17	404 605	365 946
Corporate income tax receivables		9 266	6 017
Other non-financial assets	18	12 602	14 267
Other financial assets	18	22 726	50 527
Cash and cash equivalents	11	206 406	201 118
		1 075 587	1 116 489
Assets for sale	9	-	1 716
TOTAL ASSETS		2 117 105	2 156 174
EQUITY AND LIABILITIES			
Equity			
Equity (attributable to the shareholders of the Parent Entity)			
Share capital	24	69 288	69 288
Reserve capital		407 976	407 976
Other reserves		147 386	151 110
FX differences on translation		(32 144)	(12 338)
Retained earnings / Accumulated losses		(6 449)	(27 745)
Cumulated other comprehensive income related to discontinued operations		-	(11 649)
		586 057	576 643
Non-controlling interests		281 061	284 550
Total equity		867 118	861 193
Long-term liabilities			
Interest-bearing loans, bonds and borrowings	19	173 014	246 805
Provisions	22	102 813	106 846
Other financial liabilities	20	31 333	2 854
Deferred income tax liability	13	79 726	68 316
Accruals and deferred income	23	16 108	16 560
		402 993	441 381
Short-term liabilities			
Interest-bearing loans, bonds and borrowings	19	262 129	223 698
Provisions	22	2 255	939
Other financial liabilities	20	13 391	8 486
Trade and other payables	21	476 243	516 678
Income tax liability		1 363	1 141
Accruals and deferred income	23	91 614	99 303
		846 994	850 245
Liabilities related to assets held for sale	9	-	3 355
TOTAL LIABILITIES		1 249 987	1 294 981
TOTAL EQUITY AND LIABILITIES		2 117 105	2 156 174

*information on the transformed data is provided in note 6.4 hereof

Interim abbreviated consolidated statement of cash flow

	Note	6-month period ended on 30 June 2019 (unaudited)	6-month period ended on 30 June 2018 (transformed)*
Cash flows from operating activities			
Gross profit (loss) from continuing operations		110 415	70 148
Gross profit /(loss) on discontinued operations		-	-
Gross profit (loss)		110 415	70 148
Adjustments for:			
Depreciation/amortisation		43 959	45 232
FX gains / (loss)		2 804	4 567
Interest, net		11 231	11 227
Profit / loss from investing activities		(17 348)	(288)
(Increase) / decrease in receivables and other non-financial assets	11.1	(38 599)	(90 291)
(Increase) / decrease in inventories	11.1	45 094	(61 072)
Increase (decrease) of liabilities except loans, borrowings, bonds and other financial liabilities	11.1	(49 256)	5 904
Change in accruals and prepayments	11.1	(3 707)	23 340
Change in provisions	11.1	905	(1 943)
Income tax paid		(7 269)	(5 170)
Certificates in cogeneration		7 416	(861)
Other		(146)	(421)
Net cash flows from operating activities		105 497	374
Cash flows from investing activities			
Disposal of tangible fixed assets and intangible assets		7 657	1 162
Purchase of tangible fixed assets and intangible assets	11.1	(39 652)	(65 997)
Other capital outflows / inflows		-	(10 815)
Net cash flows from investing activities		(31 995)	(75 650)
Cash flows from financing activities			
Change to overdraft facilities		(7 253)	39 964
Repayment of leasing liabilities		(4 163)	(23 140)
Repayment of other financial liabilities		(3)	(1)
Inflows under contracted loans, borrowings and bonds		2 819	14 506
Repayment of loans, borrowings and bonds		(24 461)	(17 094)
Dividend disbursed to shareholders of AP SA		-	(13 857)
Dividend disbursed to non-controlling shareholders		(20 895)	(11 510)
Interest paid		(10 831)	(10 906)
Net cash flows from financing activities		(64 788)	(22 039)
Increase / (decrease) in cash and cash equivalents		8 715	(97 315)
Net FX differences		(4 399)	(1 636)
Cash and cash equivalents at the beginning of the period		202 089	243 851
Cash and cash equivalents at the end of the period	11	206 406	144 901

*information on the transformed data is provided in note 6.4 hereof

Interim abbreviated consolidated statement of changes in equity

	Attributable to the shareholders of the Parent Entity							Equity attributable to non-controlling shareholders	Total equity
	Share capital	Reserve capital	FX differences on translation of foreign operations	Other reserves	Retained earnings / (Accumulated losses)	Cumulated other comprehensive income related to discontinued operations	Total		
As at 01 January 2019	69 288	407 976	(12 338)	151 110	(27 745)	(11 649)	576 643	284 550	861 193
Net profit / (loss) for the period	-	-	-	-	45 896	-	45 896	38 692	84 588
Other comprehensive income (net) for the period	-	-	(13 234)	(23 248)	-	-	(36 482)	(21 286)	(57 768)
Total comprehensive income for the period	-	-	(13 234)	(23 248)	45 896	-	9 414	17 406	26 820
Profit distribution	-	-	-	19 523	(19 523)	-	-	-	-
Dividend distribution to non-controlling entities	-	-	-	-	-	-	-	(20 895)	(20 895)
Derecognition of discontinued operations	-	-	(6 572)	-	(5 077)	11 649	-	-	-
As at 30 June 2019 (unaudited)	69 288	407 976	(32 144)	147 386	(6 449)	-	586 057	281 061	867 118

	Attributable to the shareholders of the Parent Entity							Equity attributable to non-controlling shareholders	Total equity
	Share capital	Reserve capital	FX differences on translation of foreign operations	Other reserves	Retained earnings / (Accumulated losses)	Cumulated other comprehensive income related to discontinued operations	Total		
As at 01 January 2018	69 288	447 638	(9 207)	125 997	(72 665)	(11 611)	549 439	231 555	780 993
Net profit / (loss) for the period	-	-	-	-	20 192	-	20 192	28 221	48 413
Other comprehensive income (net) for the period	-	-	(3 709)	24 057	-	-	20 348	6 375	26 723
Total comprehensive income for the period	-	-	(3 709)	24 057	20 192	-	40 540	34 595	75 135
Dividend disbursed to shareholders of AP SA	-	-	-	(13 857)	-	-	(13 857)	-	(13 857)
Profit distribution	-	(39 662)	-	-	39 662	-	-	-	-
Dividend distribution to non-controlling entities	-	-	-	-	-	-	-	(11 510)	(11 510)
Discontinued operations	-	-	114	-	-	(114)	-	-	-
As at 30 June 2018 (transformed)*	69 288	407 976	(12 802)	136 196	(12 811)	(11 725)	576 122	254 640	830 761

*information on the transformed data is provided in note 6.4 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.

Our consolidated sales revenues for six months of 2019 amounted to PLN 1,583 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 abbreviated consolidated financial statements of the Group with respect to the interim abbreviated consolidated profit and loss account, statement of comprehensive income, cash flow statement and statement of changes to equity, cover the period of 6 months ended on 30 June 2019 and contain comparable data for the period of 6 months ended on 30 June 2018; and in the consolidated statement of financial condition, it presents data as at 30 June 2019 and as at 31 December 2018 and 30 June 2018.

The interim abbreviated consolidated statement of comprehensive income, the interim abbreviated profit and loss account and notes to the interim abbreviated consolidated statement of comprehensive income and the interim abbreviated consolidated profit and loss account contain data for the period of 3 months ended on 30 June 2019 and comparable data for the period of 3 months ended on 30 June 2018.

1.1. Business objects

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

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

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

1.2. Shareholding structure

Nemus Holding AB, a company under Swedish law (a company owned indirectly by Mr Thomas Onstad), is the majority shareholder of Arctic Paper S.A., holding (as at 30 June 2019) 40,381,449 shares of our Company, which constitutes 58.28% of its share capital and corresponds to 58.28% of the total number of votes at General Meetings. Thus Nemus Holding AB is the parent entity of the Issuer.

Additionally, Mr Thomas Onstad, an indirect shareholder of Nemus Holding AB, holds directly 6,223,658 shares representing 8.98% of the total number of shares in the Company, and via another entity – 600,000 shares accounting for 0.87% of the total number of shares of the Issuer. Mr Thomas Onstad's total direct and indirect holdings in the equity of Arctic Paper S.A. as at 30 June 2019 and as at 31 December 2018 was 68.13% and has not changed until the date hereof. The ultimate 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			
			3 September 2019	30 June 2019	28 May 2019	31 December 2018
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, 8 St Thomas Street SE1 9RR London	Trading company	100%	100%	100%	100%
Arctic Paper Baltic States SIA	Latvia, K. Vardemara iela 33-20, Riga LV-1010	Trading company	100%	100%	100%	100%
Arctic Paper Deutschland GmbH	Germany, Am Sandtorkai 72, 20457 Hamburg	Trading company	100%	100%	100%	100%
Arctic Paper Benelux S.A.	Belgium, Ophemstraat 24, B-3050 Oud-Heverlee	Trading company	100%	100%	100%	100%
Arctic Paper Schweiz AG	Switzerland, Gutenbergstrasse 1, CH-4552 Derendingen	Trading company	100%	100%	100%	100%
Arctic Paper Italia srl	Italy, Via Cavriana 7, 20 134 Milan	Trading company	100%	100%	100%	100%
Arctic Paper Danmark A/S	Denmark, Korskiidelund 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			
			3 September 2019	30 June 2019	28 May 2019	31 December 2018
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 2019, and as well as on the day hereof, the percentage of voting rights held by the Group in its subsidiaries corresponded to the percentage held in the share capital of those entities. All subsidiaries within the Group are consolidated under the full method from the day of obtaining control by the Group and cease to be consolidated from the day the control has been transferred out of the Group.

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

3. Management and supervisory bodies

3.1. Management Board of the Parent Entity

As at 30 June 2019, the Parent Entity's Management Board was composed of:

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

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

3.2. Supervisory Board of the Parent Entity

As at 30 June 2019, the Parent Entity's Supervisory Board was composed of:

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

— Dorota Raben – Member of the Supervisory Board appointed on 28 May 2019 (independent member).

On 28 May 2019, the Ordinary General Meeting of the Company approved a resolution dismissing Mr Maciej Georg from the Supervisory Board. Additionally, the Ordinary General Meeting appointed Ms Dorota Raben to the Supervisory Board.

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 2019, 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;

As a result of the dismissal of Mr Maciej Georg from the Supervisory Board of 28 May 2019, he also stopped being a Member of the Audit Committee.

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

4. Approval of the financial statements

These interim abbreviated financial statements were approved for publication by the Management Board on 3 September 2019.

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

These interim abbreviated consolidated financial statements were prepared in accordance with International Accounting Standard no 34.

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

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

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

As at 30 June 2019, the Group failed to maintain the Net Debt ratio as required in the loan agreement with the consortium of financing banks (Santander Bank S.A., BNP Paribas Bank Polska S.A. and the European Bank for Reconstruction and Development) – being a ratio of interest-bearing debt cash reduced by cash to EBITDA (net of any data on discontinued operations of the Rottneros Group). The set net debt to EBITDA ratio was not complied with as per the bond issue terms and conditions. Failure to comply with the ratios was due to continued lower demand for paper, which resulted in lower revenues and EBITDA.

After the balance sheet date, Arctic Paper S.A. received a written assurance from Santander Bank S.A. acting as the consortium agent of the financing banks that failure by the Group to comply with the ratio levels as at 30 June 2019 did not constitute an event of default under the loan agreement of 9 September 2016 ("default"). In accordance with IAS 1, as such assurance was not available on 30 June 2019, the Group disclosed its entire debt to the bank consortium as at that day as short-term liabilities: interest-bearing loans, borrowings and bonds.

Similarly, the entire debt to the Bondholders was disclosed as short-term. However, due to the above assurance received from the consortium of financing banks and maintenance of the ratio within the specified range the Company is not obliged to receive a similar assurance from Bondholders. According to conditions set forth in the Bond issue terms and conditions such violation does not form the basis of their right to claims premature Bond redemption.

The interim abbreviated consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the Group's annual consolidated financial statements for the year ended on 31 December 2018.

6. Significant accounting principles (policies)

The accounting principles (policies) applied to prepare the interim abbreviated consolidated financial statements are compliant with those applied to the annual consolidated financial statements of the Group for the year ended on 31 December 2018. The new standards, which were effective on 1 January 2019 did not have significant influence on financial data of the Group, with the following exceptions:

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

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

6.1. Implementation of IFRS 16

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

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

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

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

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

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

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

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

The application of IFRS 16 for the first time was subject to the lessee's decision to select a full retrospective approach with a recognition of the cumulated effect as the day of the first application (1 January 2019) and interim regulations provided for certain practical solutions.

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

As at 01 January 2019, the value of use rights, disclosed in tangible fixed assets and lease liabilities grew by PLN 38,080 thousand. The average weighted margin interest rate applied to lease liabilities recognised in the statement of financial condition on the date of the first application was between 3% and 4.79%, depending on the type of assets or funding method of the company.

Due to the interim regulations applied in the implementation of IFRS 16, the Group did not adjust any comparable data as at 31 December 2018. Additionally, the Group applied simplifications relating to the contract value or the remaining lease term.

The difference between the amounts of future payments that the Group was obliged to make under operational leases, disclosed in compliance with IAS 17 as at the end of 2018, discounted with the marginal interest rate as at the day of the first application, and the lease liabilities disclosed in the statement of financial condition on the day of the first application of IFRS 16 – 1 January 2019, was due to the recognition of lease contracts that did not have to be disclosed in 2018 in compliance with IAS 17.

6.2. 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:

- Modifications to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures; sale or transfer of assets between Investor and Associates and Joint Ventures; the European Commission decided to defer the endorsement of those amendments indefinitely;
- IFRS 17 Insurance Contracts; effective for annual periods beginning on or after 1 January 2021, prospective application, earlier application permitted; the Standard has not yet been endorsed by EU;
- Amendments to IFRS 3 Business Combinations; effective for annual periods beginning on or after 1 January 2020; the amendments have not yet been endorsed by EU;
- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting policies, changes in accounting estimates and errors (effective for annual periods beginning on or after 1 January 2020); the amendments have not yet been endorsed by EU.

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

6.3. Foreign currency translation

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

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

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

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

The following exchange rates were used for book valuation purposes:

	30 June 2019	31 December 2018
USD	3,7336	3,7597
EUR	4,2520	4,3000
SEK	0,4030	0,4201
DKK	0,5697	0,5759
NOK	0,4383	0,4325
GBP	4,7331	4,7895
CHF	3,8322	3,8166

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

	01/01 - 30/06/2019	01/01 - 30/06/2018
USD	3,8002	3,4872
EUR	4,2940	4,2201
SEK	0,4085	0,4160
DKK	0,5752	0,5666
NOK	0,4413	0,4398
GBP	4,9167	4,7965
CHF	3,8017	3,6085

6.4. Data comparability and adjustments to previous years' errors

Error adjustment

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

Basic and diluted profit per share attributable to the shareholders of the parent entity for the 6-month period ended on 30 June 2018 and for the 3-month period ended on 30 June 2018 was not changed and amounted to PLN 0.29 and PLN 0.06 respectively.

Discontinued operations

In Q2 2019, the Issuer's Management Board decided to discontinue presenting the results of the AP Mochenwangen Group as discontinued operations due to non-compliance with its criteria. As a result profit/loss from discontinued operations for 6 months ended on 30 June 2019 and for 3 months ended on that day was disclosed as continuing operations.

The adjustment had no impact on net profit/loss and as a result on basic and diluted profit per share attributable to shareholders of the Parent Entity.

Additional information was presented in the note no.9.

Presentation of revenues from pulp sales

Effective on 1 January 2018, the Rottneros Group and the Arctic Paper Group recognised result of completed forward contracts for the sale of pulp as revenues from auxiliary products.

The adjustment had no impact on net profit/loss and profit per share.

Additional information are specified in note 9 in the interim abbreviated consolidated financial statements, further below in this semi-annual report

The table below presents the impact of the above adjustments on the statement of financial condition as at 30 June 2018 and the profit and loss account for the period of 6 months ended on 30 June 2018 and the period of 3 months ended on 30 June 2018.

	Approved data	Impact of adjustment - error adjustment	Impact of adjustment - discontinued operations	Impact of adjustment - revenues from pulp sales	Transformed data
Impact on the consolidated report on financing activities as at 30 June 2018					
Tangible fixed assets	854 554	(12 359)	-	-	842 195
Total impact on assets	-	(12 359)	-	-	-
Retained earnings / Accumulated losses	(2 800)	(10 011)	-	-	(12 811)
Deferred income tax provision	57 409	(2 348)	-	-	55 061
Total impact on equity and liabilities	-	(12 359)	-	-	-
Impact on the consolidated profit and loss account for six months ended on 30 June 2018					
Revenues from sales of goods	1 582 162	-	-	(9 984)	1 572 178
Costs of sales	(1 270 636)	74	(743)	(7 904)	(1 279 209)
Selling and distribution costs	(168 898)	-	(25)	-	(168 923)
Overheads	(40 305)	-	(1 545)	-	(41 850)
Other operating income	18 994	284	486	-	19 764
Other operating expenses	(28 665)	-	-	17 888	(10 777)
Financial expenses	(21 956)	-	(13)	-	(21 969)
Income tax	(21 669)	(68)	2	-	(21 735)
Discontinued operations	(1 838)	-	1 838	-	-
Impact on net profit (loss) account for six months ended on 30 June 2018	-	290	-	-	290
Impact on the consolidated profit and loss account for three months ended on 30 June 2018					
Revenues from sales of goods	792 431	-	-	(8 320)	784 111
Costs of sales	(634 355)	36	(308)	(3 744)	(638 371)
Selling and distribution costs	(84 046)	-	(13)	-	(84 059)
Administrative expenses	(19 186)	-	(859)	-	(20 045)
Other operating income	7 176	-	264	-	7 440
Other operating expenses	(16 566)	-	-	12 064	(4 502)
Financial expenses	(14 136)	-	(13)	-	(14 149)
Income tax	(11 125)	(7)	(5)	-	(11 137)
Discontinued operations	(934)	-	934	-	-
Impact on net profit (loss) for three months ended on 30 June 2018	-	29	-	-	29

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

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

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

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

The Group identifies 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. The segment also included data for the AP Mochenwangen Group.
- **Coated paper** – wood-free paper for printing or other graphic purposes, one-side or two-side coated with mixtures containing mineral pigments, such as china clay, calcium carbonate, etc. The coating process can involve different methods, both on-line and off-line, and can be supplemented by super-calendering to ensure a smooth surface. Coating improves the printing quality of photographs and illustrations.
- **Pulp** – fully bleached sulphate pulp and unbleached sulphate pulp which is used mainly for the production of printing and writing papers, cardboard, toilet paper and white packaging paper as well as chemi thermo mechanical pulp (CTMP) and groundwood, which are used mainly for production of printing and writing papers.
- **Other** – the segment contains the results of Arctic Paper S.A. and Arctic Paper Finance AB business operations.

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

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

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

The operating results are measured primarily on the basis of EBITDA calculated by adding depreciation/amortisation and impairment charges to tangible fixed assets and intangible assets to profit (loss) on operations, in each case in compliance with 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 2019 and as at 30 June 2019.

6-month period ended on 30 June 2019 and as at 30 June 2019

	Continuing operations						Continuing opetations
	Uncoated	Coated	Pulp	Other	Total	Eliminations	
Revenues							
Sales to external customers	793 733	317 244	472 112	-	1 583 089	-	1 583 089
Sales between segments	-	15 176	22 948	14 908	53 032	(53 032)	-
Total segment revenues	793 733	332 420	495 060	14 908	1 636 121	(53 032)	1 583 089
Result of the segment							
EBITDA	59 095	(6 741)	119 680	(1 124)	170 911	699	171 610
Interest income	1 902	132	-	3 654	5 688	(4 799)	889
Interest expense	(2 149)	(2 003)	(4 085)	(6 183)	(14 420)	2 264	(12 156)
Depreciation/amortisation	(29 974)	3 928	(17 400)	(512)	(43 959)	-	(43 959)
FX gains and other financial income	976	218	2 042	27 644	30 880	(30 825)	55
FX losses and other financial expenses	(3 712)	(2 762)	-	(4 254)	(10 728)	4 704	(6 024)
Gross profit	26 138	(7 228)	100 238	19 225	138 372	(27 957)	110 415
Assets of the segment	994 344	256 887	962 279	454 397	2 667 907	(579 118)	2 088 789
Liabilities of the segment	511 471	417 603	329 251	406 585	1 664 910	(494 649)	1 170 261
Capital expenditures	(22 305)	(1 538)	(15 753)	(56)	(39 652)	-	(39 652)
Interests in joint ventures	1 134	-	-	-	1 134	-	1 134

- Revenues from inter-segment transactions are eliminated on consolidation.
- The results of the segments do not cover financial income (PLN 943 thousand of which PLN 889 thousand is interest income) and financial expenses (PLN 18,180 thousand of which PLN 12,156 thousand is interest expense), depreciation/amortisation (PLN 43,959 thousand), and income tax liability (PLN -25,827 thousand). However, segment result includes inter-segment loss (PLN -699 thousand).
- Assets and liabilities of segments do not contain any deferred income tax (asset: PLN 27,182 thousand, provision: PLN 79,726 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 2019 and as at 30 June 2019.

3-month period ended on 30 June 2019 and on 30 June 2019

	Continuing operations						Continuing operations
	Uncoated	Coated	Pulp	Other	Total	Eliminations	
Revenues							
Sales to external customers	387 057	150 577	224 884	-	762 517	-	762 517
Sales between segments	-	6 257	9 936	7 587	23 780	(23 780)	-
Total segment revenues	387 057	156 834	234 820	7 587	786 298	(23 780)	762 517
Result of the segment							
EBITDA	42 228	(5 258)	53 588	(425)	90 133	396	90 529
Interest income	1 750	53	-	1 751	3 554	(3 147)	407
Interest expense	(981)	(1 056)	(2 019)	(2 574)	(6 630)	1 152	(5 478)
Depreciation/amortisation	(15 243)	3 883	(9 015)	(277)	(20 652)	-	(20 652)
FX gains and other financial income	207	110	(849)	24 073	23 541	(24 136)	(595)
FX losses and other financial expenses	(1 515)	(1 626)	-	(2 197)	(5 338)	1 003	(4 335)
Gross profit	26 446	(3 895)	41 704	20 352	84 608	(24 732)	59 874
Assets of the segment	994 344	256 887	962 279	454 397	2 667 907	(579 118)	2 088 789
Liabilities of the segment	511 471	417 603	329 251	406 585	1 664 910	(494 649)	1 170 261
Capital expenditures	(12 618)	(1 175)	(6 381)	(31)	(20 205)	-	(20 205)
Interests in joint ventures	1 134	-	-	-	1 134	-	1 134

- Revenues from inter-segment transactions are eliminated on consolidation.
- The results of the segments do not cover financial income (PLN -189 thousand of which PLN 407 thousand is interest income) and financial expenses (PLN 9,814 thousand of which PLN 5,478 thousand is interest expense), depreciation/amortisation (PLN 20,652 thousand), and income tax liability (PLN -12,176 thousand). However, segment result includes inter-segment loss (PLN -396 thousand).
- Assets and liabilities of segments do not contain any deferred income tax (asset: PLN 27,182 thousand, provision: PLN 79,726 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 2018 and as at 31 December 2018.

6-month period ended on 30 June 2018 and as at 31 December 2018 (transformed)

	Continuing operations						Continuing operations
	Uncoated	Coated	Pulp	Other	Total	Eliminations	
Revenues							
Sales to external customers	801 744	330 638	439 796	-	1 572 178	-	1 572 178
Sales between segments	1	12 206	23 160	17 864	53 231	(53 231)	-
Total segment revenues	801 746	342 843	462 956	17 864	1 625 409	(53 231)	1 572 178
Result of the segment							
EBITDA	63 985	(15 658)	86 934	1 048	136 310	104	136 414
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	(25 223)	(4 956)	(14 808)	(246)	(45 232)	-	(45 232)
FX gains and other financial income	924	193	4 575	40 712	46 406	(45 965)	440
FX losses and other financial expenses	(5 822)	(6 058)	-	(5 672)	(17 553)	7 356	(10 196)
Gross profit (loss)	32 461	(28 200)	72 543	32 844	109 648	(39 500)	70 148
Assets of the segment	972 636	260 699	963 033	485 004	2 681 372	(555 233)	2 126 139
Liabilities of the segment	494 701	404 565	336 500	457 485	1 693 251	(469 941)	1 223 310
Capital expenditures	(28 702)	(5 419)	(31 737)	(139)	(65 997)	-	(65 997)
Interests in joint ventures	1 182	-	-	-	1 182	-	1 182

- Revenues from inter-segment transactions are eliminated on consolidation.
- The results of the segments do not cover financial income (PLN 935 thousand of which PLN 495 thousand is interest income) and financial expenses (PLN 21,969 thousand of which PLN 11,772 thousand is interest expense), depreciation/amortisation (PLN 45,232 thousand), and income tax liability (PLN -21,735 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 27,137 thousand, provision: PLN 68,316 thousand), since those items are managed at the Group level. Segment assets do not also include investments in companies operating in the Group.

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 2018 and as at 31 December 2018.

3-month period ended on 30 June 2018 and as at 31 December 2018 (transformed)

Continuing Operations							
	Uncoated	Coated	Pulp	Other	Total	Eliminations	Continuing operations
Revenues							
Sales to external customers	394 673	164 088	225 350	-	784 111	-	784 111
Sales between segments	1	6 197	12 478	9 340	28 016	(28 016)	-
Total segment revenues	394 674	170 285	237 828	9 340	812 127	(28 016)	784 111
Result of the segment							
EBITDA	26 380	(9 571)	47 110	1 151	65 069	785	65 854
Interest income	99	35	-	1 838	1 972	(1 756)	215
Interest expense income	(769)	(936)	(2 063)	(2 518)	(6 286)	1 214	(5 072)
Depreciation/amortisation	(11 169)	(2 432)	(7 556)	(123)	(21 280)	-	(21 280)
FX gains and other financial income	(1 060)	96	2 060	39 859	40 955	(40 799)	156
FX losses and other financial expenses	(4 617)	(3 319)	-	(3 512)	(11 448)	2 370	(9 078)
Gross profit (loss)	8 864	(16 128)	39 551	36 694	68 982	(38 187)	30 795
Assets of the segment	972 636	260 699	963 033	485 004	2 681 372	(555 233)	2 126 139
Liabilities of the segment	494 701	404 565	336 500	457 485	1 693 251	(469 941)	1 223 310
Capital expenditures	(12 570)	(1 571)	(18 772)	(100)	(33 012)	-	(33 012)
Interests in joint ventures	1 182	-	-	-	1 182	-	1 182

- Revenues from inter-segment transactions are eliminated on consolidation.
- The results of the segments do not cover financial income (PLN 371 thousand of which PLN 215 thousand is interest income) and financial expenses (PLN 14,149 thousand of which PLN 5,072 thousand is interest expense), depreciation/amortisation (PLN 21,280 thousand), and income tax liability (PLN -11,137 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 27,137 thousand, provision: PLN 68,316 thousand), since those items are managed at the Group level. Segment assets do not also include investments in companies operating in the Group.

9. Discontinued operations

In Q2 2019, AP Mochenwangen sold a plot of land. In this connection, the Issuer's Management Board assessed the opportunity to sell the other assets and liabilities as an organised part of the AP Mochenwangen Group as unlikely and decided to discontinue to present the results of the Group as discontinued operations due to non-compliance with its criteria. As a result profit/loss of discontinued operations for 6 months ended on 30 June 2019 and for 3 months ended on that day and the equivalent periods in 2018 was disclosed in continuing operations (the impact of the adjustment was detailed in note 6.4).

Assets and liabilities, except provision for pension benefits, earlier assigned to assets held for sale and the related liabilities as at 30 June 2019 were disclosed as assets and liabilities related to continuing operations.

10. Income and costs

10.1. Revenues from sales of goods

In H1 2019, revenues from sale of products amounted to PLN 1,583,089 thousand, which was an increase as compared to the equivalent period of the previous year by PLN 10,911 thousand, mainly due to higher sales prices of paper and pulp translated into PLN versus 2018. Sales revenues from paper amounted to PLN 1,110,977 thousand, while revenues for pulp sales – PLN 472,112 thousand. In H1 2018, paper sales revenues amounted to PLN 1,132,382 thousand, while for pulp sales – PLN 439,796 thousand.

Paper sales revenues in Q2 of 2019 amounted to PLN 762,517 thousand, which was a decrease as compared to the equivalent period of the previous year by PLN 21,594 thousand. Sales revenues from paper amounted to PLN 537,633 thousand while for pulp sales – PLN 224,884 thousand. In Q2 2018, sales revenues from paper amounted to PLN 558,761 thousand while revenues for pulp sales – PLN 225,350 thousand.

10.2. Costs of sales

In H 2019, costs of sales of products amounted to PLN 1,282,143 thousand, which was an increase as compared to the equivalent period of the previous year by PLN 2,934 thousand. The main reason of growing costs of sales was an increase of PLN denominated consumption costs of pulp and energy.

In Q2 2019, costs of sales amounted to PLN 613,455 thousand, which was a decrease as compared to the equivalent period of the previous year by PLN 24,916 thousand, related primarily to a lower volume of paper versus the equivalent period in 2018.

10.3. Selling and distribution costs

Selling and distribution costs amounted to PLN 168,137 thousand in H1 2019, which was a decrease as compared to the equivalent period of the previous year by PLN 786 thousand. The core component of the selling and distribution costs is the cost of transport of finished products.

Selling and distribution costs amounted to PLN 83,381 thousand in Q2 2019, which was a decrease as compared to the equivalent period of the previous year by PLN 678 thousand.

10.4. Administrative expenses

Administrative expenses amounted to PLN 41,855 thousand in H1 2019, which was an increase as compared to the equivalent period of the previous year by PLN 5 thousand. The administrative expenses cover primarily the expenses related to the services provided to the Group by external consultants.

Administrative expenses amounted to PLN 21,016 thousand in Q2 2019, which was an increase as compared to the equivalent period of the previous year by PLN 971 thousand.

10.5. Other operating income

Other operating income totalled PLN 61,998 thousand in H1 2019, which was an increase as compared to the equivalent period of the previous year by PLN 42,234 thousand. Other operating income consisted mainly of revenues from heat and electricity sales as well as sales revenues from other materials and CO2 emission rights. The growth of other operating income in the current period was primarily due to sale of land by AP Mochenwangen as well as to higher sales of other materials and energy and CO2 emission rights.

Other operating income amounted to PLN 34,882 thousand in Q2 2019, which was an increase as compared to the equivalent period of the previous year by PLN 27,442 thousand, primarily due to higher sales of other materials and energy as well as disposal of land by AP Mochenwangen.

10.6. Other operating expenses

Other operating expenses totalled PLN 25,300 thousand in H1 2019, which was an increase as compared to the equivalent period of the previous year by PLN 14,523 thousand.

The other operating expenses comprised mainly the costs of sales of electricity and heat as well as the costs of other materials sold. The higher other operating expenses in H1 2019 were affected primarily by the higher costs of sold energy and other materials.

Other operating expenses amounted to PLN 9,671 thousand in Q2 2019, which was an increase as compared to the equivalent period of the previous year by PLN 5,169 thousand.

10.7. Financial income and financial expenses

In H1 2019, financial income and expenses amounted to PLN 943 thousand and PLN 18,180 thousand respectively, which was an increase of income as compared to the equivalent period of the previous year by PLN 8 thousand and a growth of expenses by PLN 3,789 thousand.

The changes to financial income and expenses were primarily due to the amount of net FX differences. In H1 2019, the Group recorded a surplus of FX losses over FX profit of PLN 2,645 thousand (financial expenses). In the equivalent period of 2018, the Group recorded a surplus of FX losses over FX profit of PLN 7,574 thousand (also financial expenses).

In Q2 2019, financial income and financial expenses amounted to PLN -189 thousand and PLN 9,814 thousand respectively, which was a decrease of income as compared to the equivalent period of the previous year by PLN 560 thousand and a decrease of expenses by PLN 4,335 thousand. The negative financial income in Q2 2019 was due to the net presentation of FX differences – lower net FX profit/gains for 3 months of 2019 than the value of net FX losses for 6 months of 2019.

11. Cash and cash equivalents

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

	As at 30 June 2019	As at 30 June 2018
	(unaudited)	(unaudited)
Cash in bank and on hand	206 406	139 183
Short-term deposits	-	-
Cash in transit	-	4 052
Cash and cash equivalents in the consolidated balance sheet	206 406	143 235
Cash in bank and on hand attributable to discontinued operations	-	1 666
Cash and cash equivalents in the consolidated cash flow statement	206 406	144 901

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

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

	6-month period ended on 30 June 2019	6-month period ended on 30 June 2018
Increase / decrease in receivables and other non-financial assets		
Book change in receivables and other non-financial assets	(38 659)	(88 166)
Book change of other long-term financial assets decrease by assets from revaluation of derivative instruments)	-	-
Discontinued operations	619	277
Differences on translation	(560)	(2 402)
Increase / decrease in receivables and other non-financial assets disclosed in the consolidated cash flow statement	(38 599)	(90 291)
Change to inventories		
Book change to inventories	58 632	(58 248)
Discontinued operations	-	(1)
Differences on translation	(13 538)	(2 823)
Change to inventories disclosed in the consolidated cash flow statement	45 094	(61 072)
Increase (decrease) of liabilities except loans, borrowings, bonds and other financial liabilities		
Book increase /decrease in liabilities except for loans and borrowings	(40 436)	7 496
Change to liabilities due to purchase of tangible fixed assets and intangible assets	(19 062)	(5 136)
Discontinued operations	(2 284)	67
Differences on translation	12 526	3 477
Increase / decrease in liabilities except for loans, borrowings, bonds and other financial liabilities disclosed in the consolidated cash flow statement	(49 256)	5 904

Change in accruals and prepayments		
Book change in accruals and prepayments	(6 476)	23 038
Discontinued operations	(176)	8
Differences on translation	2 950	294
	(3 702)	23 340
Change in accruals and prepayments disclosed in the consolidated cash flow statement		
Change in provisions		
Book change in provisions	(2 717)	(2 431)
Discontinued operations	(864)	38
Differences on translation	4 486	450
	905	(1 943)
Change in provisions disclosed in the consolidated cash flow statement		
Purchase of tangible fixed assets and intangible assets		
Increase due to purchase of tangible fixed assets	(58 127)	(71 423)
Increase due to purchase of intangible assets	(1 570)	(8 838)
Co-generation certificates	982	9 128
Change to liabilities due to purchase of tangible fixed assets and intangible assets	19 062	5 136
Discontinued operations	-	-
	(39 652)	(65 997)
Purchase of tangible fixed assets and intangible assets in the consolidated cash flow statement		

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 S.A. after covering losses carried forward from the previous years.

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

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

The possibility of disbursement of potential dividend by the Company to its shareholders depends on the level of payments received from its subsidiaries. The risk associated with the Company's ability to disburse dividend was described in the part "Risk factors" of the annual report for 2018.

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

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

The Company's General Meeting held on 28 May 2019 did not make any decision on dividend disbursement.

12.2. Dividend disbursed by Rottneros AB

At the General Meeting of Rottneros AB of 2 May 2019 adopted a resolution on dividend distribution of SEK 0.70 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 42.8 million (SEK 107 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 2019 and for the equivalent period of the previous year are as follows:

	3-month-period ended on 30 June 2019 (unaudited)	6-month-period ended on 30 June 2019 (unaudited)	3-month-period ended on 30 June 2018 (transformed)	6-month-period ended on 30 June 2018 (transformed)
Consolidated profit and loss account				
<u>Current income tax</u>				
Current income tax liability	9 664	(3 658)	(2 455)	(3 131)
Adjustments related to current income tax from previous years	-	-	-	-
<u>Deferred income tax</u>				
Resulting from the establishment and reversal of temporary differences	(21 840)	(22 169)	(8 682)	(18 605)
Tax liability on continuing operations disclosed in the consolidated profit and loss account	(12 176)	(25 827)	(11 137)	(21 735)
Consolidated statement of changes in equity				
<u>Current income tax</u>				
Tax effects of the costs of increase of share capital	-	-	-	-
Tax benefit (tax liability) recognised in equity	-	-	-	-
Consolidated statement of total comprehensive income				
<u>Deferred income tax</u>				
Deferred income tax on the measurement of hedging instruments	(690)	8 752	(7 629)	(9 148)
Reversal of deferred income tax assets originally recognised in equity	-	-	-	-
Tax benefit (tax liability) recognised in other comprehensive income	(690)	8 752	(7 629)	(9 148)

13.2. Deferred income tax asset/provision

Deferred income tax asset as at 30 June 2019 and 31 December 2018 was PLN 27,182 thousand and PLN 27,137 thousand respectively. The deferred income tax asset is recognised primarily in relation to tax losses that may be applied in future years, tax relief related to the business of AP Kostrzyn in SSE and in connection with the acquisition of the Rottneros Group.

Deferred income tax liability as at 30 June 2019 and 31 December 2018 amounted to PLN 79,726 thousand and PLN 68,316 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 liability is mainly due to a growth of the liability 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 2019 (unaudited)	6-month-period ended on 30 June 2019 (unaudited)	3-month-period ended on 30 June 2018 (transformed)	6-month-period ended on 30 June 2018 (transformed)
Net profit / (loss) from continuing operations attributable to the shareholders of the Parent Entity	31 644	45 896	4 098	20 192
Net profit / (loss) from discontinued operations attributable to the shareholders of the Parent Entity	-	-	-	-
Net profit / (loss) attributable to the shareholders of the Parent Entity	31 644	45 896	4 098	20 192
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	0,46	0,66	0,06	0,29
– basic earnings profit/(loss) for the period from continuing operations attributable to the shareholders of the Parent Entity	0,46	0,66	0,06	0,29
Diluted profit (loss) per share (in PLN)				
– from the profit/(loss) for the period attributable to the shareholders of the Parent Entity	0,46	0,66	0,06	0,29
– from the profit/(loss) for the period from continuing operations attributable to the shareholders of the Parent Entity	0,46	0,66	0,06	0,29

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 2019 was PLN 934,136 thousand, including assets of the right of use of PLN 39,770 thousand. The net value of tangible fixed assets as at 31 December 2018 was PLN 901,960 thousand. Due to the implementation method of IFRS 16 applied by the Group, the assets of the right of use amounted to PLN 0 thousand as at 31 December 2018.

A comparison to tangible fixed assets (without assets to use) for the six months of 2019 with the equivalent period of 2018 was as follows. The value of tangible fixed assets acquired in the period under report was PLN 58.127 thousand (for the period of 6 months ended on 30 June 2018 it was PLN 71,423 thousand). The net value of sold or liquidated tangible fixed assets for the period of 6 months ended on 30 June 2019 was PLN 841 thousand (for the period of 6 months ended on 30 June 2018 it was PLN 1,074 thousand). Amortisation allowances for the period of 6 months ended on 30 June 2019 amounted to PLN 38,506 thousand (for the period of 6 months ended on 30 June 2018 it was PLN 44,195 thousand). Impairment charges of the value of tangible fixed assets for the period of 6 months ended on 30 June 2019 was PLN 0

thousand (for the period of 6 months ended on 30 June 2018 it was PLN 0 thousand). FX differences amounted to PLN -22,106 thousand for the period of 6 months ended on 30 June 2019 (for the period of 6 months ended on 30 June 2018 they amounted to PLN -5,731 thousand). Additionally, the net value of fixed assets used pursuant to financial lease contracts and transferred as at 1 January 2019 to assets of the right to use amounted to PLN 4,268 thousand.

Assets of the right of use amounted to PLN 39,770 thousand as at 30 June 2019, of which the value as at 1 January 2019 was PLN 42,348 thousand (of which PLN 4,268 thousand transfer of financial lease contracts recognised as tangible fixed assets as at 31 December 2018), increases during H1 2019 amounted to PLN 1,419 thousand and the depreciation allowance for the six months ended on 30 June 2019 amounted to PLN 3,997 thousand.

The net value of intangible assets as at 30 June 2019 was PLN 39,064 thousand, and it was by PLN 10,096 thousand lower than as at 31 December 2018. The value of intangible assets acquired in the period under report was PLN 1,570 thousand (for the period of 6 months ended on 30 June 2018 it was PLN 9,122 thousand). The net value of sold or liquidated intangible assets for the period of 6 months ended on 30 June 2019 was PLN 7,824 thousand (for the period of 6 months ended on 30 June 2018 it was PLN 8,351 thousand). Amortisation allowances for the period of 6 months ended on 30 June 2019 amounted to PLN 1,456 thousand (for the period of 6 months ended on 30 June 2018 it was PLN 1,037 thousand). Impairment charges of the value of intangible assets for the period of 6 months ended on 30 June 2019 was PLN 0 thousand (for the period of 6 months ended on 30 June 2018 it was PLN 0 thousand). FX gains/losses for the period of 6 months ended on 30 June 2019 amounted to PLN -2,386 thousand (for the period of 6 months ended on 30 June 2018 it was PLN -778 thousand).

As a result of expiry of the period of support in the form of red certificates for coal co-generation and yellow certificates for gas co-generation as of 31 December 2018, AP Kostrzyn did not recognise such certificates and there was a reduction of the value of intangible assets in H1 2019.

Revenues from disposal of tangible fixed and intangible assets (without including revenues from the sale of co-generation certificates) in H1 2019 amounted to PLN 18,392 thousand (in H1 2018: PLN 1,162 thousand).

15.2. Impairment of non-financial assets

An analysis of indications as at 30 June 2019 showed no need to perform impairment tests of non-financial fixed assets for AP Grycksbo. The test did not indicate a need to increase impairment allowances to the non-financial; fixed assets attributable to AP Grycksbo. As a result, the amount of the impairment charges as at 30 June 2019 was not changed as compared to the impairment charges as at 31 December 2018.

16. Inventories

	As at 30 June 2019	As at 31 December 2018
	(unaudited)	
Materials (at purchase prices)	147 841	209 373
Production in progress (at manufacturing costs)	11 145	7 406
Finished products, of which:		
At purchase price / manufacturing costs	258 235	253 135
At net realisable price	2 746	8 685
Advance payments for deliveries	16	15
Total inventories, at the lower of: purchase price / manufacturing costs or net realisable price	419 983	478 614
Impairment charge to inventories	7 671	5 555
Total inventories before impairment charge	427 654	484 168

Net inventories as at 30 June 2019 amounted to PLN 419,983 thousand (as at 31 December 2018: PLN 478,614 thousand). As at 30 June 2019, impairment charges to inventories amounted to PLN 7,671 thousand (as at 31 December 2018: PLN 5,555 thousand). As at 30 June 2019, the inventories of finished products of PLN 2,746 thousand were measured at the net realisable prices (as at 31 December 2018 the amount was PLN 8,685 thousand).

The increased inventories as at 30 June 2019 versus the end of the previous year was the result of lower purchase volumes, in particular pulp, due to sales orders in H2 2019.

17. Trade and other receivables

	As at 30 June 2019	As at 31 December 2018
	(unaudited)	
Trade receivables	372 063	332 258
VAT receivables	26 784	26 794
Other third party receivables	2 265	3 253
Other receivables from related entities	3 492	3 641
Total (net) receivables	404 605	365 946
Impairment charges to receivables	17 327	17 074
Gross receivables	421 931	383 020

The value of trade and other receivables amounted to PLN 404,605 thousand as at 30 June 2019 (31 December 2018: PLN 365,946 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 2019.

The impairment charge to receivables amounted to PLN 17,327 thousand as at 30 June 2019 (31 December 2018: PLN 17,074 thousand). The growth of the impairment allowances to receivables was primarily due to the recognition thereof in H1 2019.

18. Other non-financial and financial assets

Other short-term non-financial assets as at 30 June 2019 and as at 31 December 2018 amounted to PLN 12,602 thousand and PLN 14,267 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 2019 and as at 31 December 2018 amounted to PLN 1,714 thousand and PLN 1,773 thousand respectively.

Other short-term financial assets amounted to PLN 22,726 thousand as at 30 June 2019 and PLN 50,527 thousand as at 31 December 2018. The item primarily includes positive measurement of term contracts and the drop is due to lower positive measurement of forward contracts for purchases of electrical energy.

Other long-term financial assets as at 30 June 2019 amounted to PLN 34,051 thousand as at 31 December 2018 – PLN 52,520 thousand. The item primarily covers the amount of the positive measurement of term contracts, mainly forwards, for the purchase of electrical energy – changes to measurement of the contracts affect the value of the item.

19. Interest-bearing loans, borrowings and bonds

In the period covered with these financial statements, the Group partly repaid its term loan under the loan agreement of 9 September 2016 with a bank consortium of PLN 24,461 thousand and the Group decreased its debt under revolving overdraft facilities to the above consortium of banks by PLN 7,253. Additionally, the Group contracted a loan with Nordea for PLN 2,819 thousand, which is to be used to commence an investment in a hydropower plant by Arctic Paper Munkedals Kraft AB.

The other changes to loans and borrowings as at 30 June 2019, compared to 31 December 2018 result mainly from balance sheet evaluation and payment of interest accrued as at 31 December 2018 and paid in H1 2019.

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

As at 30 June 2019, the Group failed to maintain the Net Debt ratio as required in the loan agreement with the consortium of financing banks (Santander Bank S.A., BNP Paribas Bank Polska S.A. and the European Bank for Reconstruction and Development) – being a ratio of interest-bearing debt cash reduced by cash to EBITDA(net of any data on discontinued operations of the Rottneros Group). The set net debt to EBITDA ratio was not complied with as per the bond issue terms and

conditions. Failure to comply with the ratios was due to continued lower demand for paper, which resulted in lower revenues and EBITDA.

After the balance sheet date, Arctic Paper S.A. received a written assurance from Santander Bank S.A. acting as the consortium agent of the financing banks that failure by the Group to comply with the ratio levels as at 30 June 2019 did not constitute an event of default under the loan agreement of 9 September 2016 ("default"). In accordance with IAS 1, as such assurance was not available on 30 June 2019, the Group disclosed its entire debt to the bank consortium as at that day as short-term liabilities: interest-bearing loans, borrowings and bonds.

Similarly, the entire debt to the Bondholders was disclosed as short-term. However, due to the above assurance received from the consortium of financing banks and maintenance of the ratio within the specified range the Company is not obliged to receive a similar assurance from Bondholders. According to conditions set forth in the Bond issue terms and conditions such violation does not form the basis of their right to claims premature Bond redemption.

As at 30 August 2019 the Lenders have granted to the Company a technical extension of the original end date of the revolving loan ("Revolving Facility") by 2 (two) additional months so that the original end date falls on October 31st, 2019. The original expiration date of the Revolving Facility was set at August 31st, 2019. The Revolving Facility was granted to the Company for a total value of EUR 19,800,000 and PLN 20,000,000 and was made available for the purpose of refinancing of intra-group liabilities of the Company or financing of intra-group loans.

In accordance with clause 5.7 of the Credit Facility (option of extension), on June 26th, 2019, the Company has submitted to the Lenders an application for extension of the term of the Revolving Facility until August 31, 2021. Due to the fact that the procedure related to the extension of the Credit Agreement in the scope of the Revolving Facility requires that the Company provides audited financial statements for the first half of 2019 of the Issuer and its subsidiaries, the Lenders decided about the technical extension of the validity period of the abovementioned Facility. The Issuer will inform about the granting of a Revolving Facility to the Company for next period in a separate report.

20. Other financial liabilities

As at 30 June 2019, other financial liabilities amounted to PLN 44,724 thousand (including long-term liabilities of PLN 31,333 thousand and short-term liabilities of PLN 13,391 thousand). As at 31 December 2018, other financial liabilities amounted to PLN 11,340 thousand (including long-term liabilities of PLN 2,854 thousand and short-term liabilities of PLN 8,486 thousand). Other financial liabilities primarily cover lease liabilities (30 June 2019: PLN 39,182 thousand, 31 December 2018: PLN 4,155 thousand), a negative measurement of hedging instruments (30 June 2019: PLN 5,377 thousand, 31 December 2018: PLN 7,009 thousand).

On 1 January 2019, the Company implemented IFRS 16 Lease which resulted in a growth of lease liabilities of PLN 38,080 thousand as at that date. In the reporting period, the Group increased its lease liabilities as a result of new contracts for PLN 1,419 thousand and repaid lease liabilities of PLN 4,163 thousand.

During the reporting period, there was a decrease of liabilities related to a negative measurement of hedging instruments by PLN 1,632 thousand.

The other changes to other financial liabilities as at 30 June 2019, compared to 31 December 2018 result mainly from changes to balance sheet measurement.

21. Trade and other payables

The value trade and other payables amounted to PLN 476,243 thousand as at 30 June 2019 (as at 31 December 2018: PLN 516,678 thousand). The reduced value of the item versus the end of the previous year was due to lower purchases of raw materials and services for production at Paper Mills and Pulp Mills.

22. Change in provisions

	As at 30 June 2019	As at 31 December 2018
	(unaudited)	
Retirement provisions	101 604	105 585
Other provisions	3 464	2 200
	105 067	107 784
Short-term provisions	2 255	939
Long-term provisions	102 813	106 846

The change of long-term provisions in H1 2019 was due primarily from the translation of the provisions into the presentation currency – PLN. The increase of short-term provisions in H1 2019 was due primarily to a growth of provisions for the purchase of CO2 emission rights by AP Munkedals.

23. Accruals and deferred income

Accruals and deferred income as at 30 June 2019 amounted to PLN 107,722 thousand including short-term accruals and deferred income of PLN 91,614 thousand. Accruals and deferred income as at 31 December 2018 amounted to PLN 115,863 thousand including short-term accruals and deferred income of PLN 99,303 thousand. The main items of accruals and deferred income include government grants of PLN 26,504 thousand including long-term of PLN 16,108 thousand (31 December 2018: PLN 20,436 including long-term of PLN 16,560 thousand) and short-term employee liabilities, mainly related to holiday leaves that as at 30 June 2019 amounted to PLN 53,990 thousand (31 December 2018: PLN 67,787 thousand).

24. Share capital

	As at 30 June 2019	As at 31 December 2018
	(unaudited)	
series A ordinary shares of the nominal value of PLN 1 each	50	50
series B ordinary shares of the nominal value of PLN 1 each	44 254	44 254
series C ordinary shares of the nominal value of PLN 1 each	8 100	8 100
series E ordinary shares of the nominal value of PLN 1 each	3 000	3 000
series F ordinary shares of the nominal value of PLN 1 each	13 884	13 884
	69 288	69 288

	Registration date of capital increase	Number	Value in PLN
Ordinary issued and fully paid-up shares			
Issued on 30 April 2008	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 2019 (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 leases, SWAP interest rate 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 the financial instruments held by the Group by their book value and split into individual assets and liabilities.

	Category in compliance with IFRS 9	Book value	
		As at 30 June 2019	As at 31 December 2018
Financial assets			
Trade and other receivables	WwZK	377 820	339 152
Hedging instruments*	IRZ	46 223	92 466
Other financial assets (net of loans and hedging instruments)**	WwWGpWF	10 554	10 581
Cash and cash equivalents	WwZK	206 406	201 118
Financial liabilities			
Interest-bearing bank loans and borrowings and bonds, of which:	WwZK	435 143	470 503
- long-term		173 014	246 805
- short-term		262 129	223 698
Leasing liabilities, of which:	WwZK	39 182	4 155
- long-term		31 333	2 854
- short-term		7 849	1 301
Trade payables and other financial liabilities	WwZK	447 324	472 504
Hedging instruments	IRZ	5 377	7 009

* derivative hedging instruments meeting the requirements of hedge accounting

** primarily hedging under term contracts

Abbreviations used:

WwZK – Financial assets/liabilities measured at amortised cost

IRZ – hedge accounting instruments

WwWGpWF – financial assets/liabilities measured at fair value through profit or loss

The fair value of financial instruments other than bonds in SEK does not materially differ from their book value. The fair value of bonds in SEK was calculated according to Bloomberg ratings on 30 June 2019 and amounted for 165,633 PLN and their book value on that day amounted for 159,588 PLN. For more information. More information regarding fair value of the financial instruments is disclosed in the Consolidated Annual Report for 2018, note 40.1.

As at 30 June 2019 and 31 December 2018, financial instruments by the measurement hierarchy are qualified to level 3 with the exception of SEK bonds (level 1) and derivative instruments (level 2).

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 2019		<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Variable interest rate								
Other financial liabilities:								
Lease liabilities		7 849	6 623	3 817	1 997	1 695	17 202	39 182
Loans and borrowings:								
Revolving overdraft facility with BNP in PLN		4 920	-	-	-	-	-	4 920
Revolving overdraft facility with Santander in PLN		-	-	-	-	-	-	-
Revolving overdraft facility with BNP in EUR		12 616	-	-	-	-	-	12 616
Revolving overdraft facility with Santander in EUR		17 734	-	-	-	-	-	17 734
Bonds in SEK		-	-	-	159 588	-	-	159 588
Loan from Nordea		-	2 781	-	-	-	-	2 781
Total variable interest rate loans and borrowings		35 270	2 781	-	159 588	-	-	197 639
TOTAL VARIABLE INTEREST RATE LIABILITIES		43 119	9 404	3 817	161 585	1 695	17 202	236 821

30 June 2019		<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Fixed interest rate								
Loans and borrowings:								
Loan from EBRD TA in EUR		29 385	-	-	-	-	-	29 385
Loan from EBRD in EUR Capex A Facility (T2)		23 315	-	-	-	-	-	23 315
Loan from Santander in PLN		5 732	-	-	-	-	-	5 732
Loan from BNP in EUR		5 473	-	-	-	-	-	5 473
Loan from a bank consortium: Santander and BNP in PLN		19 995	-	-	-	-	-	19 995
Bonds in PLN		82 179	-	-	-	-	-	82 179
Revolving overdraft facility with BNP in PLN		5 000	-	-	-	-	-	5 000
Revolving overdraft facility with Santander in PLN		2 733	-	-	-	-	-	2 733
Revolving overdraft facility with BNP in EUR		21 047	-	-	-	-	-	21 047
Revolving overdraft facility with Santander in EUR		21 047	-	-	-	-	-	21 047
Loan from the main shareholder in EUR		10 953	10 644	-	-	-	-	21 597
TOTAL FIXED INTEREST RATE LIABILITIES		226 859	10 644	-	-	-	-	237 503

31 December 2018		<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Variable interest rate								
Other financial liabilities:								
Liabilities under financial leases and rental contracts with purchase options		1 301	1 214	1 641	-	-	-	4 155
Loans and borrowings:								
Revolving overdraft facility with Santander in EUR		21 088	-	-	-	-	-	21 088
Revolving overdraft facility with BNP in EUR		19 538	-	-	-	-	-	19 538
Revolving overdraft facility with BNP in PLN		4 147	-	-	-	-	-	4 147
Bonds in SEK		-	-	-	165 940	-	-	165 940
Total variable interest rate loans and borrowings		44 774	-	-	165 940	-	-	210 713
TOTAL VARIABLE INTEREST RATE LIABILITIES		46 075	1 214	1 641	165 940	-	-	214 869

31 December 2018		<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Fixed interest rate								
Loans and borrowings:								
Loan from EBRD TA in EUR		33 867	-	-	-	-	-	33 867
Loan from EBRD Capex A in EUR		27 248	-	-	-	-	-	27 248
Loan from Santander in PLN		6 860	-	-	-	-	-	6 860
Loan from BNP in EUR		6 634	-	-	-	-	-	6 634
Loan from a bank consortium: Santander and BNP in PLN		25 673	-	-	-	-	-	25 673
Bonds in PLN		19 992	18 127	51 905	-	-	-	90 024
Revolving overdraft facility with BNP in PLN		5 000	-	-	-	-	-	5 000
Revolving overdraft facility with Santander in EUR		21 285	-	-	-	-	-	21 285
Revolving overdraft facility with BNP in EUR		21 285	-	-	-	-	-	21 285
Loan from the owner of the core shareholder in EUR		11 081	10 833	-	-	-	-	21 914
TOTAL FIXED INTEREST RATE LIABILITIES		178 924	28 960	51 905	-	-	-	259 789

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 include forward term contracts. Additionally, in order to mitigate the volatility of future energy prices, the Paper Mills and Pulp Mills in Sweden apply forward contracts for the purchase of electricity. Arctic Paper S.A., in order to mitigate the volatility of future interest costs on loans, has concluded interest rate SWAP contracts. Rottneros Group companies, in order to mitigate the volatility of future inflows from pulp sales, entered into forward contracts for pulp sales.

As at 30 June 2019, the Group used cash flow hedge accounting for the following hedging items:

- Arctic Paper S.A. designated SWAP derivatives to hedge accounting to hedge interest payments in EUR on a bank loan in EUR;
- Arctic Paper S.A. designated SWAP derivatives to hedge accounting to hedge interest payments in PLN on a bank loan in PLN;
- Arctic Paper Munkedals AB, Arctic Paper Grycksbo AB and the companies of the Rottneros Group designated for cash flow hedge accounting the forward derivatives in order to hedge future purchases of electricity;
- the Companies of the Rottneros Group designated for cash flow hedge accounting the FX forward derivatives 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 2019, the Group's cash flows were hedged with forward contracts for purchases of electricity, forward contracts for sales of pulp, interest rate SWAPs.

Hedge accounting of cash flows from sales of pulp

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

Type of hedge	Cash flow hedge related to sales of pulp
Hedged position	The hedged position is a part of highly likely future cash inflows for pulp sales
Hedging instruments	Forward contracts are used as the hedging item wherein the Company agrees to sell pulp for SEK
Contract parameters:	
Contract conclusion date	2018-2019
Maturity date	subject to contract; by 30.06.2020
Hedged quantity of pulp	12.000 tons
Term price	SEK 9.465/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	subject to contract; by 31.12.2023
Hedged quantity of electricity	1 175 000MWh
Term price	from 16.55 to 36.30 EUR/MWh

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

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

Type of hedge	Hedge of cash flows related to variable interest rate on the EUR long-term loan
Hedged position	Future EUR interest flows on EUR loan calculated on the basis of 6M EURIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in EUR on the EUR loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	2016-11-21
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 31.08.2022
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 12 million
Type of hedge	Hedge of cash flows related to variable interest rate on the EUR long-term loan
Hedged position	Future EUR interest flows on EUR loan calculated on the basis of 6M EURIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in EUR on the EUR loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	2017-07-18
Maturity 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	2016-11-21
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 31.08.2021
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 2.6 million
Type of hedge	Hedge of cash flows related to variable interest rate on the EUR revolving long-term loans
Hedged position	Future EUR interest flows on EUR loan calculated on the basis of 3M EURIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in EUR on the EUR loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	2016-11-21
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 30.08.2019
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 9.9 million

Type of hedge	Hedge of cash flows related to variable interest rate on the EUR long-term loan
Hedged position	Future EUR interest flows on EUR loan calculated on the basis of 6M EURIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in EUR on the EUR loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	2018-07-27
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 28.02.2022
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 3.344 thousand

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

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

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

Type of hedge	Hedge of cash flows related to variable interest rate on the PLN bonds
Hedged position	Future PLN interest flows in PLN loan calculated on the basis of interest payments on PLN bonds at 6M WIBOR
Hedging instruments	The hedging item is a SWAP transaction under which the Company agreed to pay interest in PLN on the PLN bonds on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	2016-11-21
Maturity date	each interest payment date in line with the payment schedule under the bond issue agreement; by 31.08.2021
Hedged value	interest payable in line with the payment schedule under of interest of PLN 100 million

Type of hedge	Hedge of cash flows related to variable interest rate on the PLN long-term loan
Hedged position	Future PLN interest flows on PLN loan calculated on the basis of 3M WIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in PLN on the PLN loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	2018-07-31
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 29.01.2021
Hedged value	interest payable in line with the payment schedule under the loan agreement of PLN 25.8 million

25.3.2. Fair value hedges

As at 30 June 2019, the Group had floor options as hedge to fair value.

Fair value hedge accounting related to a floor option

Type of hedge	The right to reduce cash flows under payment of interest due to decrease of EURIBOR below 0%
Hedged position	The hedged item are future EUR interest flows in EUR related to a loan in EUR calculated on the basis of 6M EURIBOR
Hedging instruments	The hedging item is a floor option under which the Company acquires the right to pay interest in EUR on the basis of EURIBOR below 0%
Contract parameters:	
Contract conclusion date	2016-11-21
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 31.08.2022
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 12 million
Type of hedge	The right to reduce cash flows under payment of interest due to decrease of EURIBOR below 0%
Hedged position	The hedged item are future EUR interest flows in EUR related to a loan in EUR calculated on the basis of 6M EURIBOR
Hedging instruments	The hedging item is a floor option under which the Company acquires the right to pay interest in EUR on the basis of EURIBOR below 0%
Contract parameters:	
Contract conclusion date	2017-07-18
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 31.08.2022
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 3.986 thousand
Type of hedge	The right to reduce cash flows under payment of interest due to decrease of EURIBOR below 0%
Hedged position	The hedged item are future EUR interest flows in EUR related to a loan in EUR calculated on the basis of 6M EURIBOR
Hedging instruments	The hedging item is a floor option under which the Company acquires the right to pay interest in EUR on the basis of EURIBOR below 0%
Contract parameters:	
Contract conclusion date	2018-07-27
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 28.02.2022
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 3.344 thousand

The table below presents the fair value of hedging instruments in cash flow and fair value hedge accounting as at 30 June 2019 and the comparative data:

	(unaudited) Assets	(unaudited) Equity and liabilities	Assets	Equity and liabilities
FX forward	-	-	420	-
Forward on pulp sales	-	2 418	-	3 361
SWAP	-	3 235	-	3 879
Corridor options	-	-	-	-
Floor option	-	(276)	-	(231)
Forward for electricity	46 223	-	92 046	-
Total hedging derivative instruments	46 223	5 377	92 466	7 009

26. Financial risk management objectives and policies

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

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

The Company 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 2018 there have been no significant changes of the financial risk. There have been no changes to the objectives and policies of the management of the risk.

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 2018, there have been no significant changes to the objectives and policies of capital management.

28. Contingent liabilities and contingent assets

As at 30 June 2019, the Capital Group reported:

- contingent liability under a guarantee for FPG in favour of the mutual life insurance company PRI for SEK 1,399 thousand (PLN 563 thousand) at Arctic Paper Grycksbo AB and for SEK 741 thousand (PLN 299 thousand) at Arctic Paper Munkedals AB;
- a bank guarantee in favour of Skatteverket Ludvika for SEK 135 thousand (PLN 54 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 of 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 plans

As at 30 June 2019, the Group was committed to make expenditures on tangible fixed assets of minimum PLN 70,000 thousand by the year-end 2019. The amount will be applied to buy new machines and equipment.

32. Transactions with related entities

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

- Thomas Onstad – the core 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 Group of Arctic Paper S.A. since 3 September 2014,
- Munkedal Skog – a subsidiary of Nemus Holding AB.

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 6-month period ended on 30 June 2019 and as at 30 June 2019:

Data for the period from 01 January 2019 to 30 June 2019 and as at 30 June 2019

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	-	441	-	-	3 492	-	441
Thomas Onstad	-	-	-	645	-	-	21 597
Munkedals Skog	-	112	-	-	-	-	48
Total	-	553	-	645	3 492	-	22 086

The table below presents the total amount of transactions concluded with related entities within the 6-month period ended on 30 June 2018 and as at 31 December 2018:

Data for the period from 01 January 2018 to 30 June 2018 and as at 31 December 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	-	-	-	-	3 641	-	-
Thomas Onstad	-	-	-	873	-	-	21 914
Munkedals Skog	-	-	-	-	-	-	34
Total	-	-	-	873	3 641	-	21 948

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, 2018 and in H1 2019.

(in tons) for Arctic Paper Kostrzyn S.A.;	2013	2014	2015	2016	2017	2018	2019	2020
Allocation*	108 535	105 434	102 452	99 840	97 375	94 916	92 454	90 009
Unused quantity from previous years	348 490	306 448	263 932	203 917	133 061	87 652	46 003	-
Issue	(150 577)	(147 950)	(162 467)	(170 696)	(142 784)	(136 565)	(66 982)	-
Purchased quantity	-	-	-	-	-	-	-	-
Sold quantity	-	-	-	-	-	-	-	-
Unused quantity	306 448	263 932	203 917	133 061	87 652	46 003	71 475	-
(in tons) for Arctic Paper Munkdals AB	2013	2014	2015	2016	2017	2018	2019	2020
Allocation	44 238	43 470	42 692	41 907	41 113	40 311	39 499	38 685
Unused quantity from previous years	24 305	67 262	107 325	17 559	(11 572)	(10 619)	(27 676)	-
Issue	(1 281)	(3 407)	(32 465)	(21 038)	(40 160)	(57 368)	(22 891)	-
Purchased quantity	-	-	7	-	-	-	-	-
Sold quantity	-	-	(100 000)	(50 000)	-	-	-	-
Unused quantity	67 262	107 325	17 559	(11 572)	(10 619)	(27 676)	(11 068)**	-
(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)	(72 715)	(68 730)	-
Unused quantity	111 448	734	60	1 008	2 564	-	-	-
(in tons) for the Rottneros Group	2013	2014	2015	2016	2017	2018	2019	2020
Allocation	30 681	30 484	29 938	29 387	28 830	28 268	27 698	27 127
Unused quantity from previous years	72 888	90 522	101 986	104 991	113 085	123 208	73 104	-
Issue	(13 047)	(19 020)	(26 933)	(21 293)	(18 707)	(15 372)	(10 268)	-
Purchased quantity	-	-	-	-	-	-	-	-
Sold quantity	-	-	-	-	-	(63 000)	(55 000)	-
Unused quantity	90 522	101 986	104 991	113 085	123 208	73 104	35 534	-

* – the values result from the Regulation of the Council of Ministers of 31 March 2014 on the list of installations other than generating electrical energy, subject to the trading system of rights to emit greenhouse gases in the settlement period commencing on 1 January 2013, along with the number of emission rights allocated thereto,

** – any deficit of emission rights as at 30 June 2019 will be covered from the new allocation for 2020; AP Munkedals recognises a provision for its deficit of CO2 emission rights.

34. Government grants and operations in the Special Economic Zone

34.1. Government grants

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

34.2. Operations in the Special Economic Zone

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

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

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

Based on the permit issued on 25 August 2006, the Company could benefit from the exemption by 15 November 2017. Item I of the permit relating to the date by which the Company may enjoy the permit was deleted by Decision of the Minister of Economy No. 321/IW/14 of 6 November 2014. Now, the Company is entitled to use the permit by 2026 or by the date SSE exist in Poland pursuant to the applicable regulations. The permit may be used subject to the incurrence in the zone of capital expenditures within the meaning of Art. 6 of the Regulation of the Council of Ministers of 14 September 2004 on the Kostrzyńsko-Słubicka Specjalna Strefa Ekonomiczna (Special Economic Zone), underlying the calculation of public aid in compliance with Art. 3 of the Regulation with the value in excess of EUR 40,000 thousand by 31 December 2013. The amount was translated at the mean exchange rate of EUR published by the President of the National Bank of Poland of the day the expense was incurred. The additional requirements are as follows: creation in Zone of 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 2019, the Company incurred eligible investment expenditures classified as (non-discounted) expenditure in KSSSE in the amount of PLN 227,102 thousand. During the period, the discounted amount of related public aid was PLN 62,525 thousand.

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

The amount of deferred income tax asset recognised with reference to the expenditures incurred in KSSSE amounted to PLN 6,859 thousand as at 30 June 2019.

35. Material events after the reporting period

35.1. Waiver by the Bondholders of their right to demand premature redemption as a result of a breach of the financial ratio as at 31 March 2019

As at 24 July 2019, the Bondholders approved a resolution to waive their rights and claims associated with the option to demand the convening of a Meeting of Bondholders and early redemption of the Bonds in connection with the occurrence of a Put Option Trigger Event (as defined in the Terms and Conditions of Issue) mentioned in section 10.16 (Violation of the Net Debt/EBITA index) of the Terms and Conditions of Issue, consisting in the Issuer's violating the Net Debt/EBITDA index (as defined in the Terms and Conditions of Issue) for the 12 months preceding the financial index calculate date as at 31 March 2019. The resolution was adopted by 100% of effective votes.

35.2. Extension of revolving credit facility

As at 30 August 2019 the Lenders have granted to the Company a technical extension of the original end date of the revolving loan ("Revolving Facility") by 2 (two) additional months so that the original end date falls on October 31st, 2019. The original expiration date of the Revolving Facility was set at August 31st, 2019. The Revolving Facility was granted to the Company for a total value of EUR 19,800,000 and PLN 20,000,000 and was made available for the purpose of refinancing of intra-group liabilities of the Company or financing of intra-group loans.

In accordance with clause 5.7 of the Credit Facility (option of extension), on June 26th, 2019, the Company has submitted to the Lenders an application for extension of the term of the Revolving Facility until August 31, 2021. Due to the fact that the procedure related to the extension of the Credit Agreement in the scope of the Revolving Facility requires that the Company provides audited financial statements for the first half of 2019 of the Issuer and its subsidiaries, the Lenders decided about the technical extension of the validity period of the abovementioned Facility. The Issuer will inform about the granting of a Revolving Facility to the Company for next period in a separate report.

After 30 June 2019, until the date hereof there were no other material events requiring disclosure in this report with the exception of those events that were disclosed in this report in paragraphs above.

Signatures of the Members of the Management Board

Position	First and last name	Date	Signature
President of the Management Board Chief Executive Officer	Michał Jarczyński	03 September 2019	signed with a qualified electronic signature
Member of the Management Board Chief Financial Officer	Göran Eklund	03 September 2019	signed with a qualified electronic signature



Interim abbreviated standalone financial statements

for the period of six months
ended on 30 June 2019

Interim abbreviated standalone financial statements

Interim abbreviated standalone statement of profit and loss

	Note	3-month period ended on 30 June 2019 (unaudited)	6-month period ended on 30 June 2019 (unaudited)	3-month period ended on 30 June 2018 (unaudited)	6-month period ended on 30 June 2018 (unaudited)
Continuing operations					
Revenues from sales of services		7 587	14 908	9 340	17 864
Interest income on loans from related entities	11.1	1 088	2 227	1 226	2 453
Dividend income	15	23 109	25 759	38 897	38 897
Sales revenues		31 783	42 894	49 463	59 214
Interest expense to related entities and costs of sales of logistics services	11.1	(1 353)	(2 689)	(1 167)	(2 525)
Gross profit (loss) on sales		30 430	40 205	48 295	56 689
Other operating income		21	103	275	249
Selling and distribution costs	11.3	(955)	(1 529)	(749)	(1 499)
Administrative expenses	11.2	(6 310)	(12 956)	(6 989)	(14 134)
Change of impairment charges to assets		643	451	(1 166)	(1 394)
Other operating expenses	11.3	(33)	(159)	(85)	(26)
Operating profit (loss)		23 797	26 114	39 581	39 885
Financial income		2 109	3 312	2 041	3 050
Financial expenses		(4 436)	(9 751)	(5 627)	(11 485)
Gross profit (loss)		21 469	19 675	35 995	31 450
Income tax		-	(1)	(300)	(300)
Net profit (loss) from continuing operations		21 469	19 675	35 695	31 150
Discontinued operations					
Profit (loss) for the financial year from discontinued operations		-	-	-	-
Net profit (loss) for the period		21 469	19 675	35 695	31 150
Earnings per share:					
- basic earnings from the profit (loss) for the period		0,31	0,28	0,52	0,45
- basic earnings from the profit (loss) from continuing operations for the period		0,31	0,28	0,52	0,45

Interim abbreviated standalone statement of total comprehensive income

	Note	3-month period ended on 30 June 2019 (unaudited)	6-month period ended on 30 June 2019 (unaudited)	3-month period ended on 30 June 2018 (unaudited)	6-month period ended on 30 June 2018 (unaudited)
Net profit/(loss) for the reporting period		21 469	19 675	35 695	31 150
Items to be reclassified to profit/loss in future reporting periods:					
Measurement of financial instruments		(130)	644	(146)	87
FX differences on translation of foreign operations	21.3	243	422	(20)	314
Other comprehensive income (net)		113	1 066	(167)	401
Total comprehensive income		21 582	20 741	35 528	31 551

Interim abbreviated standalone statement of financial position

	Note	As at 30 June 2019 (unaudited)	As at 31 December 2018
ASSETS			
Fixed assets			
Tangible fixed assets	18	2 506	1 480
Intangible assets		1 872	1 857
Investments in subsidiary entities	12	673 938	673 937
Other financial assets	19	60 637	72 742
Other non-financial assets		1 431	1 492
		740 384	751 508
Current assets			
Trade and other receivables	16	105 169	90 469
Income tax receivables		267	349
Other financial assets	19	100 244	123 848
Other non-financial assets		5 785	6 833
Cash and cash equivalents	13	10 609	19 605
		222 074	241 104
TOTAL ASSETS		962 457	992 611
EQUITY AND LIABILITIES			
Equity			
Share capital	21.1	69 288	69 288
Reserve capital	21.4	407 979	407 979
Other reserves	21.5	122 566	102 399
FX differences on translation	21.3	1 883	1 461
Retained earnings / Accumulated losses	21.6	(45 851)	(46 002)
Total equity		555 865	535 124
Long-term liabilities			
Interest-bearing loans and borrowings	20	10 630	80 782
Provisions		1 778	1 854
Other financial liabilities		992	171
		13 401	82 807
Short-term liabilities			
Interest-bearing loans and borrowings	20	328 321	272 269
Trade payables	22	51 530	86 924
Other financial liabilities		3 590	3 802
Other short-term liabilities		1 630	2 394
Income tax liability		-	-
Accruals and deferred income		8 120	9 290
		393 191	374 679
TOTAL LIABILITIES		406 592	457 486
TOTAL EQUITY AND LIABILITIES		962 457	992 611

Interim abbreviated standalone statement of cash flow

	Note	6-month period ended on 30 June 2019 (unaudited)	6-month period ended on 30 June 2018 (unaudited)
Cash flows from operating activities			
Gross profit (loss)		19 675	31 450
Adjustments for:			-
Depreciation/amortisation		242	248
FX gains / (loss)		-	2 782
Impairment of assets		-	-
Net interest		3 825	4 010
Increase / decrease in receivables and other non-financial assets		(13 591)	919
Increase / decrease in liabilities except for loans, borrowings and debt securities		(36 159)	5 125
Change in accruals and prepayments		(1 050)	(968)
Change in provisions		(75)	(19)
Income tax paid		81	(517)
Change to liabilities due to cash-pooling		38 914	(76 700)
Increase / decrease of loans granted to subsidiaries		12 211	(54 810)
Other		1 113	(237)
Net cash flows from operating activities		25 185	(88 717)
Cash flows from investing activities			
Disposal of tangible fixed assets and intangible assets		-	-
Purchase of tangible fixed assets and intangible assets		(1 492)	(139)
Increased interest in subsidiary entity		-	-
Net cash flows from investing activities		(1 492)	(139)
Cash flows from financing activities			
Inflows from loans and borrowings		-	88 728
Repayment of loan liabilities		(24 213)	(17 014)
Dividend disbursed		-	(13 857)
Change in overdrafts		(5 181)	-
Interest paid		(3 295)	(4 118)
Repayment of obligations under financial leases		-	(144)
Net cash flows from financing activities		(32 690)	53 595
Change in cash and cash equivalents		(8 997)	(35 260)
Cash and cash equivalents at the beginning of the period		19 605	36 943
Cash and cash equivalents at the end of the period	13	10 609	1 682

Interim abbreviated standalone statement of changes in equity

	Share capital	Reserve capital	FX differences on translation of foreign operations	Other reserves	Retained earnings / (Accumulated losses)	Total equity
As at 01 January 2019	69 288	407 979	1 461	102 399	(46 002)	535 124
Other comprehensive income for the period	-	-	422	644	-	1 066
Net profit / (loss) for the period	-	-	-	-	19 675	19 675
Total comprehensive income for the period	-	-	422	644	19 675	20 741
Dividend distribution	-	-	-	-	-	-
Measurement of financial instruments	-	-	-	-	-	-
Profit distribution	-	19 523	-	19 523	(19 523)	-
Settlement of the tax group in Sweden	-	-	-	-	-	-
As at 30 June 2019 (unaudited)	69 288	407 979	1 883	122 566	(45 851)	555 865

	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 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

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

Holding operations is the core business of the Company.

The interim abbreviated standalone financial statements of the Company with respect to the interim abbreviated standalone profit and loss account, statement of comprehensive income, cash flow statement and statement of changes to equity, cover the period of 6 months ended on 30 June 2019 and contain comparable data for the period of 6 months ended on 30 June 2018; and in the interim abbreviated standalone statement of financial condition, it presents data as at 30 June 2019 and as at 31 December 2018 and 30 June 2018.

The interim abbreviated standalone statement of comprehensive income, the interim abbreviated standalone profit and loss account and notes to the interim abbreviated standalone statement of comprehensive income and the interim abbreviated standalone profit and loss account contain data for the period of 3 months ended on 30 June 2019 and comparable data for the period of 3 months ended on 30 June 2018 that has not been reviewed or audited by statutory auditor.

2. Basis of preparation of the interim abbreviated financial statements

These interim abbreviated standalone financial statements were prepared in accordance with the requirements of International Accounting Standard No. 34.

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

These interim abbreviated 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. The ratios are calculated on the basis of results of the paper segment.

As at 30 June 2019, the Group failed to maintain the Net Debt ratio as required in the loan agreement with the consortium of financing banks (Santander Bank S.A., BNP Paribas Bank Polska S.A. and the European Bank for Reconstruction and Development) – being a ratio of interest-bearing debt cash reduced by cash to EBITDA (net of any data on discontinued operations of the Rottneros Group). The set net debt to EBITDA ratio was not complied with as per the bond issue terms and conditions. Failure to comply with the ratios was due to continued lower demand for paper, which resulted in lower revenues and EBITDA.

After the balance sheet date, Arctic Paper S.A. received a written assurance from Santander Bank S.A. acting as the consortium agent of the financing banks that failure by the Group to comply with the ratio levels as at 30 June 2019 did not constitute an event of default under the loan agreement of 9 September 2016 ("default"). In accordance with IAS 1, as such assurance was not available on 30 June 2019, the Group disclosed its entire debt to the bank consortium as at that day as short-term liabilities: interest-bearing loans, borrowings and bonds.

Similarly, the entire debt to the Bondholders was disclosed as short-term. However, due to the above assurance received from the consortium of financing banks and maintenance of the ratio within the specified range the Company is not obliged to receive a similar assurance from Bondholders. According to conditions set forth in the Bond issue terms and conditions such violation does not form the basis of their right to claims premature Bond redemption.

The interim abbreviated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Company's annual financial statements for the year ended on 31 December 2018.

3. Identification of the consolidated financial statements

The Company made its interim abbreviated consolidated financial statements for the 6-month period ended on 30 June 2019, which were approved for publication by the Management Board on 3 September 2019.

4. Composition of the Company's Management Board

As at 30 June 2019, the Company's Management Board was composed of:

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

Until the 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 2019, 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);
- Dorota Raben – Member of the Supervisory Board appointed on 28 May 2019 (independent member).

On 28 May 2019, the Ordinary General Meeting of the Company approved a resolution dismissing Mr Maciej Georg from the Supervisory Board. Additionally, the Ordinary General Meeting appointed Ms Dorota Raben to the Supervisory Board.

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

6. Approval of the interim abbreviated standalone financial statements

On 3 September 2019, these interim abbreviated standalone financial statements of the Company for the 6-month period ended on 30 June 2019 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 objects	Company's interest in the equity of the subsidiary entities		
			3 September 2019	30 June 2019	31 December 2018
Arctic Paper Kostrzyn S.A.	Poland, Fabryczna 1, 66-470 Kostrzyn nad Odrą	Paper production	100%	100%	100%
Arctic Paper Munkedals AB	Sweden, SE 455 81 Munkedal	Paper production	100%	100%	100%
Arctic Paper Investment AB	Sweden, Box 383, 401 26 Göteborg	Holding activities	100%	100%	100%
Arctic Paper UK Limited	United Kingdom, 8 St Thomas Street SE1 9RR London	Trading company	100%	100%	100%
Arctic Paper Baltic States SIA	Latvia, K. Vardemara iela 33-20, Riga LV-1010	Trading company	100%	100%	100%
Arctic Paper Deutschland GmbH	Germany, Am Sandtorkai 72, 20457 Hamburg	Trading company	100%	100%	100%
Arctic Paper Benelux S.A.	Belgium, Ophemstraat 24, B-3050 Oud-Heverlee	Trading company	100%	100%	100%
Arctic Paper Schweiz AG	Switzerland, Gutenbergstrasse 1, CH-4552 Derendingen	Trading company	100%	100%	100%
Arctic Paper Italia srl	Italy, Via Cavriana 7, 20 134 Milan	Trading company	100%	100%	100%
Arctic Paper Danmark A/S	Denmark, Korskindelund 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, Hainbergerstrasse 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, 826 79 Vallvik	Activities of holding companies	51,27%	51,27%	51,27%

As at 30 June 2019 and as at 31 December 2018 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 abbreviated standalone financial statements are compliant with those applied to the annual standalone financial statements of the Company for the year ended on 31 December 2018. The new standards, which were effective on 1 January 2019 did not have significant influence on financial data of the Company, with the following exceptions:

— IFRS 16 Leases (issued on 13 January 2016) – effective for financial years beginning on or after 1 January 2019.

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 16

In January 2016, the International Accounting Standards Board issued International Financial Reporting Standard 16 *Leases* ("IFRS 16"), which replaced IAS 17 *Leases*, IFRIC 4 *Determining if the Agreement contains the 2018 Annual Report of Arctic Paper S.A 60 Standalone financial statements (all amounts in PLN thousand unless specified otherwise) leasing*, SKI 15 *Operating leases — incentives and SKI 27 Evaluating the substance of transactions involving the legal form of a lease* IFRS 16 sets out the accounting principles for leases in terms of measurement, presentation and disclosure.

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

The lessee updates the measurement of the lease liability after the occurrence of certain events (e.g. changes in the lease period, changes in future lease payments resulting from a change in the index or the rate used to determine such payments). As a rule, the lessee recognizes the revaluation of the lease liability as an adjustment to the value of the asset with respect to the right of use. The lessor accounting under IFRS 16 remains substantially unchanged compared to the current accounting under IAS 17. The lessor will continue to include all lease agreements using the same classification principles as in the case of IAS 17, distinguishing between operating leases and financial leasing.

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

The application of IFRS 16 for the first time was subject to the lessee's decision to select a full retrospective approach with a recognition of the cumulated effect as the day of the first application (1 January 2019) and interim regulations provided for certain practical solutions.

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

As at 1 January 2019, the Company prospectively implemented a uniform model of lessee accounting covering lease contracts in compliance with IFRS 16 with terms in excess of 12 months unless the underlying asset The observed impact resulted in modified measurement of the existing assets and in the Company's opinion it will not be material. Due to IFRS16 Company amended fixed assets of PLN 1,428 thousand net value as at 30 June 2019.

The average weighted margin interest rate applied to lease liabilities recognised in the statement of financial condition on the date of the first application was 4%,

Due to the interim regulations applied in the implementation of IFRS 16, the Company did not adjust any comparable data as at 31 December 2018. Additionally, the Company applied simplifications relating to the contract value or the remaining lease term.

The difference between the amounts of future payments that the Company was obliged to make under operational leases, disclosed in compliance with IAS 17 as at the end of 2018, discounted with the marginal interest rate as at the day of the first application, and the lease liabilities disclosed in the statement of financial condition on the day of the first application of IFRS 16 – 1 January 2019, was due to the recognition of lease contracts that did not have to be disclosed in 2018 in compliance with IAS 17.

8.2. 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:

- Modifications to IFSR 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures; sale or transfer of assets between Investor and Associates and Joint Ventures; the European Commission decided to defer the endorsement of those amendments indefinitely;
- IFRS 17 Insurance Contracts; effective for annual periods beginning on or after 1 January 2021, prospective application, earlier application permitted; the Standard has not yet been endorsed by EU;
- Amendments to IFRS 3 Business Combinations; effective for annual periods beginning on or after 1 January 2020; the amendments have not yet been endorsed by EU;
- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting policies, changes in accounting estimates and errors (effective for annual periods beginning on or after 1 January 2020); the amendments have not yet been endorsed by EU.

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

9. Seasonality

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

10. Information on business segments

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

The table below presents revenues from the sale of services, interest on loans and dividend income for the 6-month period ended on 30 June 2019 and as at 30 June 2018 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 2019 (unaudited)	6-month period ended on 30 June 2018 (unaudited)
Geographical information		
Poland	7 952	29 962
Foreign countries, of which:		
- Sweden	31 690	24 001
- Other	3 253	5 251
Total	42 894	59 214

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

11.2. Administrative expenses

The administrative expenses include costs of the administration of the Company operation, costs of services provided for the companies in the Group and all costs incurred by the Company for the purposes of pursuing holding company activities. In Q1 2019, the administrative expenses amounted to PLN 12.956 thousand (in H1 2018: PLN 14,134 thousand). The increase of the administrative expenses is due to higher costs of services provided to the Group by external entities.

11.3. Other operating income and costs

Other operating income amounted to PLN 103 thousand in two quarters of 2019 (in the equivalent period of 2018: PLN 249 thousand). Other operating costs increased in the analysed period from PLN 26 thousand in H1 2018 to PLN 159 thousand in H1 2019.

11.4. Change to impairment allowances to assets

The impairment allowances to assets in two quarters of 2019 amounted to PLN 451 thousand (the excess of reversal of impairment allowances to new recognised), while in the equivalent period in 2018 they were PLN -1,394 thousand. In H1 2019, the Company reversed impairment allowances for receivables under loans to Arctic Paper Mochenwangen GmbH for PLN 1,794 thousand (the company received a partial repayment of the loans in June 2019).

12. Investments in subsidiaries

The value of investments in subsidiary companies as at 30 June 2019 and as at 31 December 2018 was as follows:

	As at 30 June 2019 (unaudited)	As at 31 December 2018
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:	24 579	24 579
<i>Arctic Paper Investment AB (shares)</i>	307 858	307 858
<i>Arctic Paper Investment AB (loans)</i>	82 709	82 709
<i>Arctic Paper Investment AB (impairment charge)</i>	(365 988)	(365 988)
Arctic Paper Investment GmbH	-	-
<i>Arctic Paper Investment GmbH (shares)</i>	120 030	120 030
<i>Arctic Paper Investment GmbH (impairment charge)</i>	(120 030)	(120 030)
Arctic Paper Sverige AB	2 936	2 936
<i>Arctic Paper Sverige AB (shares)</i>	11 721	11 721
<i>Arctic Paper Sverige AB (impairment charge)</i>	(8 785)	(8 785)
Arctic Paper Danmark A/S	5 539	5 539
Arctic Paper Deutschland GmbH	4 977	4 977
Arctic Paper Norge AS	516	516
<i>Arctic Paper Norge AS (shares)</i>	3 194	3 194
<i>Arctic Paper Norge AS (impairment charge)</i>	(2 678)	(2 678)
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	673 938	673 938

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

12.1. Impairment of assets in subsidiaries

As at 30 June 2019, impairment tests were held at Arctic Paper Grycksbo AB whose 100% are held by Arctic Paper Investment AB. The tests were performed with the discounted cash flow method with reference to investments in both companies.

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

The impairment tests did not result in the establishment of an additional impairment allowance to assets as at 30 June 2019.

13. Cash and cash equivalents

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

	As at 30 June 2019 (unaudited)	As at 30 June 2018 (unaudited)
Cash in bank and on hand	10 609	1 682
Total	10 609	1 682

14. Dividend paid and proposed

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

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

As on the date of these interim abbreviated financial 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 2018.

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

The Company's General Meeting held on 28 May 2019 did not make any decision on dividend disbursement.

15. Dividend received

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

- Arctic Paper France SAS of PLN 429 thousand;
- Rottneros AB of PLN 21,905 thousand;
- Arctic Paper Norge AS of PLN 215 thousand;
- Arctic Paper Polska Sp. z o.o. of PLN 618 thousand;
- Arctic Paper Schweiz AG of PLN 748 thousand; PLN;
- Arctic Paper Papierhandels GmbH of PLN 302 thousand;
- Arctic Paper UK Limited of PLN 982 thousand;
- Arctic Paper Danmark A/S of PLN 560 thousand.

16. Trade and other receivables

Trade and other receivables disclosed as at 30 June 2019 increased by PLN 14,700 thousand versus 31 December 2018.

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 a 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 2019.

18. Tangible fixed assets and intangible assets

18.1. Purchases and disposal

During the 6-month period ended on 30 June 2019 the Company acquired tangible fixed assets and intangible assets for PLN 56 thousand (in the equivalent period of 2018: PLN 139 thousand). Amortisation allowances for the period under report were PLN 234 thousand (for 6 months in 2018: PLN 248 thousand). Due to implementation of IFRS16 Company amended fixed assets of PLN 1,428 thousand net value as at 30 June 2019.

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 compliance with the agreement, Arctic Paper Kostrzyn SA in H1 2019 repaid the loans in the amount of PLN 11,570 thousand (EUR 2,117 thousand and PLN 2,400 thousand) and Arctic Paper Mochenwangen GmbH repaid loans for PLN 3,156 thousand (EUR 742 thousand). Material impact on decrease of financial receivables had the decrease of cash-pool receivables balance of Arctic Paper Grycksbo, which amounted for about PLN 23 million.

20. Interest-bearing loans, borrowings and bonds

In accordance with the loan agreement, in H1 2019 the Company repaid principal instalments and paid interest of PLN 24,461 thousand.

In connection with the term and revolving loan agreements, agreements related to bond issues, signed on 9 September 2016, the Group agreed to maintain specified financial ratios that are calculated at the end of each quarter. The ratios are calculated on the basis of results of the paper segment. Other changes in loans and borrowings values were due to increase of cash-pool liabilities balance (PLN 8,164 thousand) and intercompany loans contractions (PLN 1,985 thousand).

As at 30 June 2019, the Group failed to maintain the Net Debt ratio as required in the loan agreement with the consortium of financing banks (Santander Bank S.A., BNP Paribas Bank Polska S.A. and the European Bank for Reconstruction and Development) – being a ratio of interest-bearing debt cash reduced by cash to EBITDA(net of any data on discontinued operations of the Rottneros Group). The set net debt to EBITDA ratio was not complied with as per the bond issue terms and conditions. Failure to comply with the ratios was due to continued lower demand for paper, which resulted in lower revenues and EBITDA.

After the balance sheet date, Arctic Paper S.A. received a written assurance from Santander Bank S.A. acting as the consortium agent of the financing banks that failure by the Group to comply with the ratio levels as at 30 June 2019 did not constitute an event of default under the loan agreement of 9 September 2016 ("default"). In accordance with IAS 1, as such assurance was not available on 30 June 2019, the Group disclosed its entire debt to the bank consortium as at that day as short-term liabilities: interest-bearing loans, borrowings and bonds.

Similarly, the entire debt to the Bondholders was disclosed as short-term. However, due to the above assurance received from the consortium of financing banks and maintenance of the ratio within the specified range the Company is not obliged to receive a similar assurance from Bondholders. According to conditions set forth in the Bond issue terms and conditions such violation does not form the basis of their right to claims premature Bond redemption.

As at 30 August 2019 the Lenders have granted to the Company a technical extension of the original end date of the revolving loan ("Revolving Facility") by 2 (two) additional months so that the original end date falls on October 31st ,

2019. The original expiration date of the Revolving Facility was set at August 31st, 2019. The Revolving Facility was granted to the Company for a total value of EUR 19,800,000 and PLN 20,000,000 and was made available for the purpose of refinancing of intra-group liabilities of the Company or financing of intra-group loans.

In accordance with clause 5.7 of the Credit Facility (option of extension), on June 26th, 2019, the Company has submitted to the Lenders an application for extension of the term of the Revolving Facility until August 31, 2021. Due to the fact that the procedure related to the extension of the Credit Agreement in the scope of the Revolving Facility requires that the Company provides audited financial statements for the first half of 2019 of the Issuer and its subsidiaries, the Lenders decided about the technical extension of the validity period of the abovementioned Facility. The Issuer will inform about the granting of a Revolving Facility to the Company for next period in a separate report.

21. Share capital and reserve capital/other reserves

21.1. Share capital

	As at 30 June 2019 (unaudited)	As at 31 December 2018 (audited)
Series A ordinary shares of the nominal value of PLN 1 each	50	50
Series B ordinary shares of the nominal value of PLN 1 each	44 254	44 254
Series C ordinary shares of the nominal value of PLN 1 each	8 100	8 100
Series E ordinary shares of the nominal value of PLN 1 each	3 000	3 000
Series F ordinary shares of the nominal value of PLN 1 each	13 884	13 884
	69 288	69 288

	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 2019 (unaudited)		69 287 783	69 287 783

21.2. Major shareholders

	As at 30 June 2019		As at 31 December 2018	
	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				
Nemus Holding AB	59,15%	59,15%	59,36%	59,36%
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 Company's presentation currency at the exchange rate prevailing on its interim abbreviated profit and loss account, total comprehensive income statement 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 total comprehensive income and cumulated in a separate equity item.

21.4. Reserve capital

The reserve capital as at 30 June 2019 amounted to PLN 407,979 thousand. The amount of reserve capital versus the end of 2018 was not changed.

21.5. Other reserves

Other reserves amounted to PLN 122,566 thousand as at 30 June 2019 and increased versus 31 December 2018 by PLN 20,167 thousand.

The increase of reserve capital was primarily due to the net profit for 2018 transferred to reserve capital of PLN 19,523 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 28 May 2019, the Ordinary General Meeting of Shareholders approved Resolution No. 8 on transferring the profit for the financial year for 2018 of PLN 19,523 thousand – profit was transferred to 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 decreased by PLN 35,395 thousand versus the end of 2018. The reduced value of the item versus the end of the previous year was due to lower 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

Due to the fact that book and fair values of the financial instruments are similar the table below presents the financial instruments held by the Company by their book value split into individual assets and liabilities.

	Category in compliance with IFRS 9	Book value	
		As at	As at
		30 June 2019	31 December 2018
Financial Assets			
Other (long-term) financial assets	WwWGpWF	60 637	72 742
Trade and other receivables	WwZK	105 169	90 469
Cash and cash equivalents	WwZK	10 609	19 605
Other (short-term) financial assets	WwWGpWF	100 244	123 848
Financial Liabilities			
Interest-bearing loans and borrowings	WwZK	338 951	353 051
Other (long-term) financial liabilities	WwZK	992	171
Trade and other payables and other financial liabilities (short-term)	WwZK	55 120	90 726

Abbreviations used:

WwZK – Financial assets/liabilities measured at amortised cost

WwWGpWF – financial assets/liabilities measured at fair value through profit or loss

More information regarding fair values of financial instruments is disclosed in the Annual Report for 2018, note 31.2.

23.2. Collateral

Cash flow hedge

As at 30 June 2019, 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	2016-11-21
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 31.08.2022
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 12 million

Type of hedge	Hedge of cash flows related to variable interest rate on the EUR long-term loan
Hedged position	Future EUR interest flows on EUR loan calculated on the basis of 6M EURIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in EUR on the EUR loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	2017-07-18
Maturity 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	2016-11-21
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 31.08.2021
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 2.6 million
Type of hedge	Hedge of cash flows related to variable interest rate on the EUR revolving long-term loans
Hedged position	Future EUR interest flows on EUR loan calculated on the basis of 3M EURIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in EUR on the EUR loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	2016-11-21
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 30.08.2019
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 9.9 million
Type of hedge	Hedge of cash flows related to variable interest rate on the EUR long-term loan
Hedged position	Future EUR interest flows on EUR loan calculated on the basis of 6M EURIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in EUR on the EUR loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	2018-07-27
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 28.02.2022
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 3.344 thousand

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

Type of hedge	Hedge of cash flows related to variable interest rate on the PLN long-term loan
Hedged position	Future PLN interest flows on PLN loan calculated on the basis of 6M WIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in PLN on the PLN loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	2016-11-21
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 31.08.2021
Hedged value	interest payable in line with the payment schedule under the loan agreement of PLN 11.5 million
Type of hedge	Hedge of cash flows related to variable interest rate on the PLN revolving long-term loans
Hedged position	Future PLN interest flows on PLN loan calculated on the basis of 3M WIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in PLN on the PLN loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	2016-11-21
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 30.08.2019
Hedged value	interest payable in line with the payment schedule under the loan agreement of PLN 10 million
Type of hedge	Hedge of cash flows related to variable interest rate on the PLN bonds
Hedged position	Future PLN interest flows in PLN loan calculated on the basis of interest payments on PLN bonds at 6M WIBOR
Hedging instruments	The hedging item is a SWAP transaction under which the Company agreed to pay interest in PLN on the PLN bonds on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	2016-11-21
Maturity date	each interest payment date in line with the payment schedule under the bond issue agreement; by 31.08.2021
Hedged value	interest payable in line with the payment schedule under of interest of PLN 100 million
Type of hedge	Hedge of cash flows related to variable interest rate on the PLN long-term loan
Hedged position	Future PLN interest flows on PLN loan calculated on the basis of 3M WIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in PLN on the PLN loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	2018-07-31
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 29.01.2021
Hedged value	interest payable in line with the payment schedule under the loan agreement of PLN 25.8 million

Fair value hedges

As at 30 June 2019, the company had floor options as hedge to fair value.

Type of hedge	The right to reduce cash flows under payment of interest due to decrease of EURIBOR below 0%
Hedged position	The hedged item are future EUR interest flows in EUR related to a loan in EUR calculated on the basis of 6M EURIBOR
Hedging instruments	The hedging item is a floor option under which the Company acquires the right to pay interest in EUR on the basis of EURIBOR below 0%
Contract parameters:	
Contract conclusion date	2016-11-21
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 31.08.2022
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 12 million
Type of hedge	The right to reduce cash flows under payment of interest due to decrease of EURIBOR below 0%
Hedged position	The hedged item are future EUR interest flows in EUR related to a loan in EUR calculated on the basis of 6M EURIBOR
Hedging instruments	The hedging item is a floor option under which the Company acquires the right to pay interest in EUR on the basis of EURIBOR below 0%
Contract parameters:	
Contract conclusion date	2017-07-18
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 31.08.2022
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 3.986 thousand
Type of hedge	The right to reduce cash flows under payment of interest due to decrease of EURIBOR below 0%
Hedged position	The hedged item are future EUR interest flows in EUR related to a loan in EUR calculated on the basis of 6M EURIBOR
Hedging instruments	The hedging item is a floor option under which the Company acquires the right to pay interest in EUR on the basis of EURIBOR below 0%
Contract parameters:	
Contract conclusion date	2018-07-27
Maturity date	each interest payment date in line with the payment schedule under the loan agreement; by 28.02.2022
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 3.344 thousand

The table below presents the fair value of hedging instruments in cash flow hedge accounting as at 30 June 2019 and the comparative data:

	Status as at 30 June 2019		Status as at 31 December 2018	
	Assets	Equity and liabilities	Assets	Equity and liabilities
SWAP	-	2 959	-	3 648
Total hedging derivative instruments	-	2 959	-	3 648

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 czerwca 2019							
Oprocentowanie zmienne	<1 rok	1-2 lat	2-3 lat	3-4 lat	4-5 lat	>5 lat	Razem
Pożyczki udzielone do spółek powiązanych	47 822	22 799	14 871	3 474	-	-	88 965
Kredyty bankowe	(35 262)	-	-	-	-	-	(35 262)
Pożyczki otrzymane od spółek powiązanych	(64 001)	-	-	-	-	-	(64 001)
Suma	(51 441)	22 799	14 871	3 474	-	-	(10 298)

30 czerwca 2019							
Oprocentowanie stałe	<1rok	1-2 lat	2-3 lat	3-4 lat	4-5 lat	>5 lat	Razem
Pożyczki udzielone do spółek powiązanych	53 263	7 467	6 141	2 622	-	-	69 494
Kredyty bankowe	(83 307)	(28 627)	(16 329)	(5 466)	-	-	(133 729)
Obligacje	(19 536)	(17 778)	(44 861)	-	-	-	(82 175)
Pożyczki otrzymane od spółek powiązanych	(12 616)	(10 630)	-	-	-	-	(23 246)
Suma	(62 195)	(49 568)	(55 049)	(2 844)	-	-	(169 656)

31 December 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	79 833	23 003	23 003	7 023	-	-	132 864
Bank loans	(44 774)	-	-	-	-	-	(44 774)
Borrowings received from related entities	(48 585)	-	-	-	-	-	(48 585)
Total	(13 526)	23 003	23 003	7 023	-	-	39 505

31 December 2018							
Fixed interest rate	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Loans granted to related entities	44 015	7 465	12 246	-	-	-	63 726
Bank loans	(78 769)	(32 248)	(37 032)	-	-	-	(148 048)
Bonds	(16 600)	(16 600)	(58 700)	-	-	-	(91 900)
Borrowings received from related entities	(10 750)	(10 750)	-	-	-	-	(21 500)
Total	(62 104)	(52 133)	(83 485)	-	-	-	(197 722)

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 abbreviated 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 reviews and approves policies for managing each of those risks. 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 2018, there have been no significant changes to the objectives and policies of capital management.

26. Contingent liabilities and contingent assets

As at 30 June 2019, 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 6-month period ended on 30 June 2019 and on 30 June 2018 and balances as at 30 June 2019 and as at 31 December 2018:

Related Entity		Sales to related entities	Dividend received	Purchases from related entities	Financial income	Financial expenses	Receivables from related entities	including overdue	Loan and interest receivables	Liabilities to related entities	Loan and interest liabilities
Parent entity:											
Nemus Holding AB	2019			578			3 493			439	
	2018						3 641				
Subsidiary entities:											
Arctic Paper Kostrzyn S.A.	2019	6 218		171	2 164	644	41 749		64 686	27	27 586
	2018	9 388	20 900	163	2 276	616	64 678		76 912	30	29 338
Arctic Paper Munkedals AB	2019	4 392			460	289	31 306		7 928		36 415
	2018	5 285			495	246	9 880		8 128		19 247
Arctic Paper Grycksbo AB	2019	4 295			1 442	217	27 779		87 828		
	2018	5 365			1 472	209	11 553		111 099		
Arctic Paper Mochenwangen GmbH	2019				455		9 467	9 467	26 140		
	2018				444		7 385	7 358	29 185		
Arctic Paper Investment GmbH	2019				515		9 899	9 899	37 666		
	2018				512		9 506	9 506	30 269		
Arctic Paper Investment AB	2019								82 709	306	
	2018								82 709		
Arctic Paper Deutschland GmbH	2019					14				76	850
	2018	2		59						32	
Arctic Paper Papierhandels GmbH	2019		302								
	2018	1									
Arctic Paper Sverige AB	2019										
	2018	2	629								
Arctic Paper Danmark A/S	2019					8				8	
	2018	1	3 662								
Arctic Paper Norge AS	2019					3				3	
	2018	1	1 307								
Arctic Paper Italia srl	2019										
	2018	1									
Arctic Paper Espana SL	2019					7				7	510
	2018										
Arctic Paper Benelux S.A.	2019			682	6		11		439	225	
	2018	2		672	6		2		450	114	
Arctic Paper France SAS	2019		429			6	425			6	425
	2018	2	275								
Arctic Paper Baltic States SIA	2019										
	2018										
Arctic Paper Schweiz AG	2019		748				1				
	2018	1		533			1			88	
Arctic Paper UK Ltd.	2019		982								
	2018	4					10				
Arctic Paper Polska Sp. z o.o.	2019		618	11							
	2018	1		22						4	
Arctic Paper East Sp. z o.o.	2019	3				3	19			3	200
	2018						18				
APG Branch Office	2019										
	2018										
API Branch Office	2019										
	2018									319	
Arctic Paper Finance AB	2019					645				363	21 260
	2018					873				42	21 830
Rottneros AB	2019		21 905								
	2018		12 125								
Other entities											
Progressio s.c.	2019										
	2018										
Total	2019	14 908	25 759	1 442	5 042	1 836	124 148	19 366	307 395	1 463	87 246
	impairment charges	-			(959)		(19 366)	(19 366)	(63 806)		
	presentation as interests in subsidiary entities								(82 709)		
	2018 net of impairment allowances and reclassification of loan to equity	14 908	25 759	1 442	4 083	1 836	104 783	-	160 880	1 463	87 246
	2018	20 056	38 898	1 449	5 205	1 944	106 674	16 864	338 752	3 061	70 415
	impairment charges	(93)			(949)		(16 891)	(16 864)	(63 741)	-	-
	presentation as interests in subsidiary entities								(82 709)		
	2017 net of impairment allowances and reclassification of loan to equity	19 963	38 898	1 449	4 256	1 944	89 783	-	192 302	3 061	70 415

28. Events after the reporting period

28.1. Waiver by the Bondholders of their right to demand premature redemption as a result of a breach of the financial ratio as at 31 March 2019

As at 24 July 2019, the Bondholders approved a resolution to waive their rights and claims associated with the option to demand the convening of a Meeting of Bondholders and early redemption of the Bonds in connection with the occurrence of a Put Option Trigger Event (as defined in the Terms and Conditions of Issue) mentioned in section 10.16 (Violation of the Net Debt/EBITA index) of the Terms and Conditions of Issue, consisting in the Issuer's violating the Net Debt/EBITDA index (as defined in the Terms and Conditions of Issue) for the 12 months preceding the financial index calculate date as at 31 March 2019. The resolution was adopted by 100% of effective votes.

28.2. Extension of revolving credit facility

As at 30 August 2019 the Lenders have granted to the Company a technical extension of the original end date of the revolving loan ("Revolving Facility") by 2 (two) additional months so that the original end date falls on October 31st, 2019. The original expiration date of the Revolving Facility was set at August 31st, 2019. The Revolving Facility was granted to the Company for a total value of EUR 19,800,000 and PLN 20,000,000 and was made available for the purpose of refinancing of intra-group liabilities of the Company or financing of intra-group loans.

In accordance with clause 5.7 of the Credit Facility (option of extension), on June 26th, 2019, the Company has submitted to the Lenders an application for extension of the term of the Revolving Facility until August 31, 2021. Due to the fact that the procedure related to the extension of the Credit Agreement in the scope of the Revolving Facility requires that the Company provides audited financial statements for the first half of 2019 of the Issuer and its subsidiaries, the Lenders decided about the technical extension of the validity period of the abovementioned Facility. The Issuer will inform about the granting of a Revolving Facility to the Company for next period in a separate report.

After 30 June 2019, until the date hereof there were no other material events requiring disclosure in this report with the exception of those events that were disclosed in this report in paragraphs above.

Signatures of the Members of the Management Board

Position	First and last name	Date	Signature
President of the Management Board Chief Executive Officer	Michał Jarczyński	03 September 2019	signed with a qualified electronic signature
Member of the Management Board Chief Financial Officer	Göran Eklund	03 September 2019	signed with a qualified electronic signature

Head Office

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