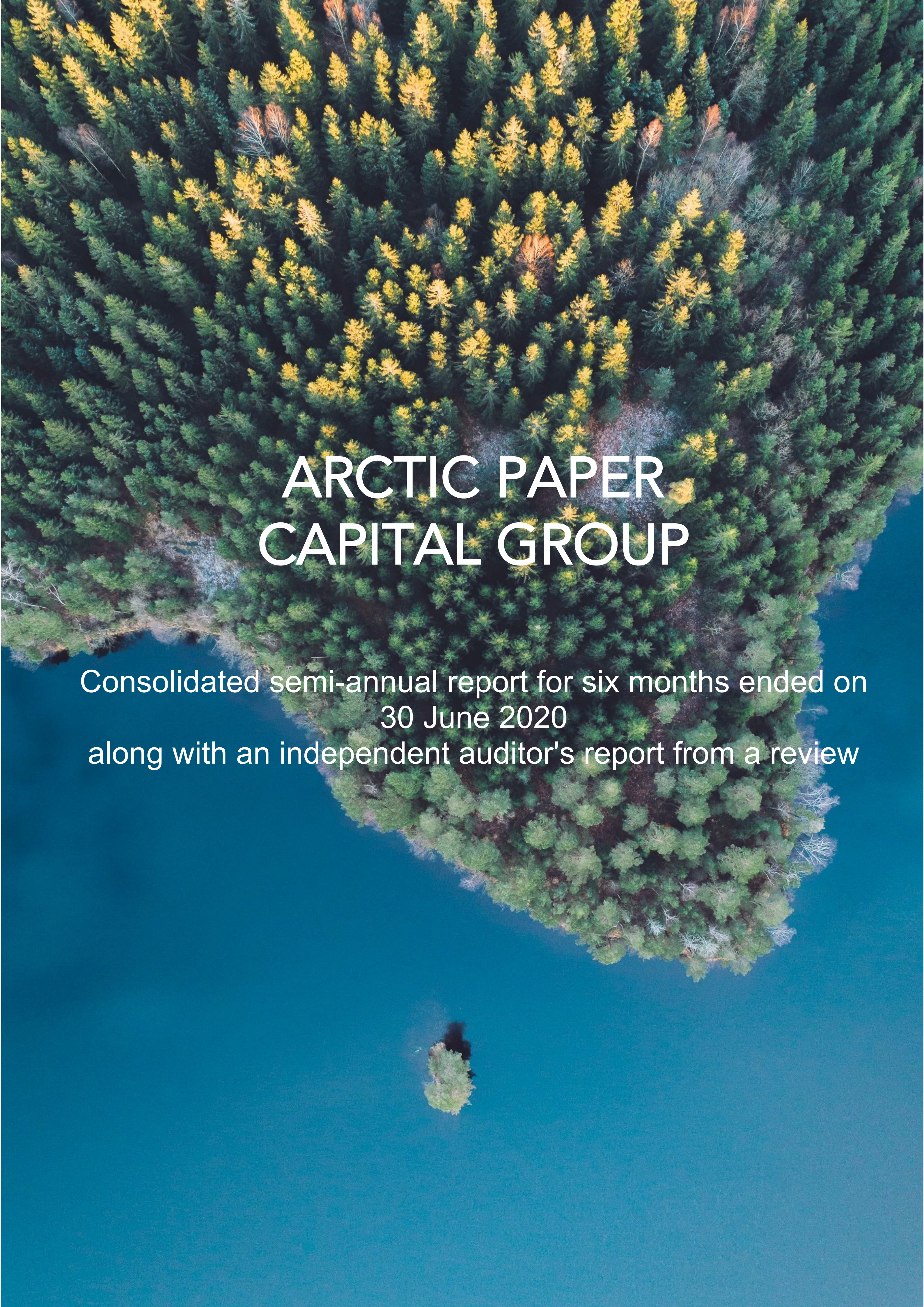

ARCTIC PAPER CAPITAL GROUP

Consolidated semi-annual report for six months ended on 30 June 2020
along with an independent auditor's report from a review

Translator's Explanatory Note: the following document is a free translation of the report of the above-mentioned Company. In the event of any discrepancy in interpreting the terminology in Polish version is binding.

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Introduction

Information on the report

This Interim Consolidated Quarterly Report for six months ended on 30 June 2020 was prepared in accordance with the Regulation of the Minister of Finance of 29 March 2018 on current and periodic information provided by issuers of securities and on conditions under which information required by legal regulations of a third country may be recognised as equivalent (Journal of Laws of 2018, item 757) and a part of the interim abbreviated consolidated financial statements in accordance with International Accounting Standard No. 34.

The 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 31 December 2019. The data for the periods of 3 months ended on 30 June 2020 and on 30 June 2019, disclosed in the interim abbreviated consolidated and standalone financial statements was not reviewed or audited by statutory auditor.

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 Götaland County, Sweden
Arctic Paper Mochenwangen, AP Mochenwangen, APMW	Arctic Paper Mochenwangen GmbH with its registered office in Mochenwangen, Germany
Arctic Paper Grycksbo, AP Grycksbo, APG	Arctic Paper Grycksbo AB with its registered office in Kungsvagen, Grycksbo, Sweden
Paper Mills	Arctic Paper Kostrzyn, Arctic Paper Munkedals, Arctic Paper Grycksbo
Arctic Paper Investment AB, API AB	Arctic Paper Investment AB with its registered office in Göteborg, Sweden
Arctic Paper Investment GmbH, API GmbH	Arctic Paper Investment GmbH with its registered office in Wolpertswende, Germany

Arctic Paper Verwaltungs	Arctic Paper Verwaltungs GmbH with its registered office in Wolpertswende, Germany
Arctic Paper Immobilienverwaltungs	Arctic Paper Immobilienverwaltungs GmbH & Co. KG with its registered office in Wolpertswende, Germany
Kostrzyn Group	Arctic Paper Kostrzyn Spółka Akcyjna with its registered office in Kostrzyn nad Odrą and EC Kostrzyn Sp. z o.o. with its registered office in Kostrzyn nad Odrą
Mochenwangen Group	Arctic Paper Investment GmbH, Arctic Paper Mochenwangen GmbH, Arctic Paper 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 Söderhamn, Sweden; Rottneros Bruk AB with its registered office in Rottneros, Sweden;

	Utansjo Bruk AB with its registered office in Söderhamn, Sweden; Vallviks Bruk AB with its registered office in Vallvik, Sweden; Rottneros Packaging AB with its registered office in Sunne, Sweden; SIA Rottneros Baltic with its registered office in Kuldiga, Latvia; since 1 January 2020 – Nykvist Skogs AB with its registered office in Gräsmark, Sweden
Pulp Mills	Rottneros Bruk AB with its registered office in Rottneros, Sweden; Vallviks Bruk AB with its registered office in Vallvik, Sweden
Rottneros Purchasing Office	SIA Rottneros Baltic with its registered office in Kuldiga, Latvia
Office Kalltorp	Kalltorp Kraft Handelsbolaget with its registered office in Trollhattan, Sweden
Nemus Holding AB	Nemus Holding AB with its registered office in Göteborg, Sweden
Thomas Onstad	The Issuer's core shareholder, holding directly and indirectly over 50% of shares in Arctic Paper S.A.; a member of the Issuer's Supervisory Board
Management Board, Issuer's Management Board, Company's Management Board, Group's Management Board	Management Board of Arctic Paper S.A.
Supervisory Board, Issuer's Supervisory Board, Company's Supervisory Board, Group's Supervisory Board, SB	Supervisory Board of Arctic Paper S.A.
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
EBIT profitability, operating profitability, operating profit margin	Ratio of operating profit (loss) to sales revenues from continuing operations
EBITDA	Operating profit from continuing operations plus depreciation and amortisation and impairment charges
EBITDA profitability, EBITDA margin	Ratio of operating profit plus depreciation and amortisation and impairment charges of assets to sales revenues from continuing operations
Gross profit margin	Ratio of gross profit (loss) to sales revenues from continuing operations
Sales profitability ratio, net profit margin	Ratio of net profit (loss) to sales revenues
Return on equity, ROE	Ratio of net profit (loss) to equity income
Return on assets, ROA	Ratio of net profit (loss) to total assets
EPS	Earnings Per Share, ratio of net profit to the weighted average number of shares
BVPS	Book Value Per Share, Ratio of book value of equity to the number of shares
Debt-to-equity ratio	Ratio of total liabilities to equity
Equity to fixed assets ratio	Ratio of equity to fixed assets
Interest-bearing debt-to-equity ratio	Ratio of interest-bearing debt and other financial liabilities to equity
Net debt-to-EBITDA ratio	Ratio of interest-bearing debt minus cash to EBITDA from continuing operations
EBITDA-to-interest coverage ratio	Ratio of EBITDA to interest expense from continuing operations
Current liquidity ratio	Ratio of current assets to short-term liabilities
Quick ratio	Ratio of current assets minus inventory and short-term accruals and deferred income to short-term liabilities
Acid test ratio	Ratio of total cash and cash equivalents to short-term liabilities
DSI	Days Sales of Inventory, ratio of inventory to cost of sales multiplied by the number of days in the period
DSO	Days Sales Outstanding, ratio of trade receivables to sales revenues from continuing operations multiplied by the number of

	days in the period
DPO	Days Payable Outstanding, Ratio of trade payables to cost of sales from continuing operations multiplied by the number of days in the period
Operating cycle	DSI + DSO
Cash conversion cycle	Operating cycle – DPO
FY	Financial year
Q1	1st quarter of the financial year
Q2	2nd quarter of the financial year
Q3	3rd quarter of the financial year
Q4	4th quarter of the financial year
H1	First half of the financial year
H2	Second half of the financial year
YTD	Year-to-date
Like-for-like, LFL	Analogous, with respect to operating result.
p.p.	Percentage point, difference between two amounts of one item given in percentage
PLN, zł, 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 of the nominal value of PLN 1 each
Shares, Issuer's Shares	Series A, Series B, Series C, Series E, and Series F Shares jointly

Forward looking statements

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

Forward looking statements relating to risk factors

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

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

Selected consolidated and standalone financial data

Selected consolidated financial data

	Period from 01.01.2020 to 30.06.2020 PLN'000	Period from 01.01.2019 to 30.06.2019 PLN'000	Period from 01.01.2020 to 30.06.2020 EUR'000	Period from 01.01.2019 to 30.06.2019 EUR'000
Continuing operations				
Sales revenues	1 429 948	1 583 089	323 932	368 677
Operating profit (loss)	103 896	127 651	23 536	29 728
Gross profit (loss)	88 434	110 415	20 033	25 714
Net profit (loss) for the period	73 062	84 588	16 551	19 699
Net profit / (loss) attributable to the shareholders of the Parent Entity	65 404	45 896	14 816	10 688
Net cash flows from operating activities	70 106	105 497	15 881	24 569
Net cash flows from investing activities	(77 133)	(31 995)	(17 473)	(7 451)
Net cash flows from financing activities	(46 600)	(64 788)	(10 557)	(15 088)
Change in cash and cash equivalents	(53 627)	8 715	(12 148)	2 030
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)	0,94	0,66	0,21	0,15
Diluted EPS (in PLN/EUR)	0,94	0,66	0,21	0,15
Mean PLN/EUR exchange rate*			4,4143	4,2940

	As at 30 June 2020 PLN'000	As at 31 December 2019 PLN'000	As at 30 June 2020 EUR'000	As at 31 December 2019 EUR'000
Assets	2 045 675	2 035 753	458 055	478 045
Long-term liabilities	557 207	477 127	124 766	112 041
Short-term liabilities	567 455	688 098	127 061	161 582
Equity	921 012	870 528	206 228	204 421
Share capital	69 288	69 288	15 514	16 270
Number of ordinary shares	69 287 783	69 287 783	69 287 783	69 287 783
Diluted number of ordinary shares	69 287 783	69 287 783	69 287 783	69 287 783
Book value per share (in PLN/EUR)	13,29	12,56	2,98	2,95
Diluted book value per share (in PLN/EUR)	13,29	12,56	2,98	2,95
Declared or paid dividend (in PLN/EUR)	-	-	-	-
Declared or paid dividend per share (in PLN/EUR)	-	-	-	-
PLN/EUR exchange rate at the end of the period**	-	-	4,4660	4,2585

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

Selected standalone financial data

	Period from 01.01.2020 to 30.06.2020 PLN'000	Period from 01.01.2019 to 30.06.2019 PLN'000	Period from 01.01.2020 to 30.06.2020 EUR'000	Period from 01.01.2019 to 30.06.2019 EUR'000
Sales revenues	11 012	42 894	2 495	9 989
Operating profit (loss)	(2 343)	26 114	(531)	6 082
Gross profit (loss)	(7 725)	19 675	(1 750)	4 582
Net profit (loss) from continuing operations	(7 725)	19 675	(1 750)	4 582
Net profit (loss) for the financial year	(7 725)	19 675	(1 750)	4 582
Net cash flows from operating activities	41 810	25 185	9 471	5 865
Net cash flows from investing activities	-	(1 492)	-	(347)
Net cash flows from financing activities	(48 638)	(32 690)	(11 018)	(7 613)
Change in cash and cash equivalents	(6 828)	(8 997)	(1 547)	(2 095)
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)	(0,11)	0,28	(0,03)	0,07
Diluted EPS (in PLN/EUR)	(0,11)	0,28	(0,03)	0,07
Mean PLN/EUR exchange rate*			4,4143	4,2940

	As at 30 June 2020 PLN'000	As at 31 December 2019 PLN'000	As at 30 June 2020 EUR'000	As at 31 December 2019 EUR'000
Assets	871 541	926 486	195 150	217 562
Long-term liabilities	93 981	57 326	21 044	13 462
Short-term liabilities	217 749	301 081	48 757	70 701
Equity	559 811	568 078	125 350	133 399
Share capital	69 288	69 288	15 515	16 270
Number of ordinary shares	69 287 783	69 287 783	69 287 783	69 287 783
Diluted number of ordinary shares	69 287 783	69 287 783	69 287 783	69 287 783
Book value per share (in PLN/EUR)	8,08	8,20	1,81	1,93
Diluted book value per share (in PLN/EUR)	8,08	8,20	1,81	1,93
Declared or paid dividend (in PLN/EUR)	-	-	-	-
Declared or paid dividend per share (in PLN/EUR)	-	-	-	-
PLN/EUR exchange rate at the end of the period**	-	-	4,4660	4,2585

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

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

to the report for H1 2020

Description of the business of the Arctic Paper Group

General information

The Arctic Paper Group is a leading European producer in terms of production volume of bulky book paper, offering a broad range of products in the segment and one of the leading producers of high-quality graphic paper in Europe. The Group produces numerous types of uncoated and coated wood-free paper as well as wood-containing uncoated paper for printing houses, paper distributors, book and magazine publishing houses and the advertising industry. In connection with acquisition of the Rottneros Group in December 2012, the Group's assortment was expanded with the production of pulp. As on the day hereof, the Arctic Paper Group employs app. 1,500 people in its Paper Mills, Pulp Mills, companies dealing in paper distribution and sales, 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 685,000 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 2020 totalled PLN 1,430 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 2020, as well as on the day hereof, the Group owned the following Paper Mills:

- the Paper Mill in Kostrzyn nad Odrą (Poland) has the production capacity of about 315,000 tonnes per year and mainly produces uncoated wood-free paper for general printing use such as printing books, brochures and forms, and for producing envelopes and other paper products;
- the Paper Mill in Munkedal (Sweden) has the production capacity of about 160,000 tons per year and mainly produces fine uncoated wood-free paper used primarily for printing books and high-quality brochures;
- the Paper Mill in Grycksbo (Sweden) has the production capacity of about 210,000 tonnes per year (after the closure of one paper machine in H1 2019) and produces coated wood-free paper used for printing maps, books, magazines, posters and printing of advertising materials.

As on 30 June 2020, as well as on the day hereof, the Group owned the following Pulp Mills:

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

Our products

The product assortment of the Arctic Paper Group covers:

- uncoated wood-free paper,
- coated wood-free paper,
- uncoated wood-containing paper,
- sulphate pulp,
- mechanical fibre pulp.

A detailed description of the Group's assortment is included in the consolidated annual report for 2019.

Capital Group structure

The Arctic Paper Capital Group comprises Arctic Paper S.A., as the Parent Entity, and its subsidiaries, as well as joint ventures. Since 23 October 2009, Arctic Paper S.A. has been listed on the primary market of the Warsaw Stock Exchange and since 20 December 2012 in the NASDAQ stock exchange in Stockholm. The Group operates through its Paper Mills and Pulp Mills 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 Abbreviated Consolidated Financial Statements, further below in this quarterly report.

Changes in the capital structure of the Arctic Paper Group

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

In H1 2020, no other changes in the capital structure of the Arctic Paper Group occurred.

Shareholding structure

Nemus Holding AB, a company under Swedish law (a company owned indirectly by Mr Thomas Onstad), is the majority shareholder of Arctic Paper S.A., holding (as at 30 June 2020) 40,381,449 shares of our Company, which constitutes 58.28% of its share capital and corresponds to 58.28% of the total number of votes at General Meetings. Thus Nemus Holding AB is the Parent Entity of the Issuer.

Additionally, Mr Thomas Onstad, an indirect shareholder of Nemus Holding AB, holds directly 6,223,658 shares representing 8.98% of the total number of shares in the Company, and via another entity – 600,000 shares accounting for 0.87% of the total number of shares of the Issuer. Mr Thomas Onstad's total direct and indirect holding in the capital of Arctic Paper S.A. as at 30 June 2020 was 68.13% and has not changed until the date hereof.

as at 19.08.2020

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

as at 30.06.2020

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

as at 14.05.2020

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

The data in the above tables is provided as of the date hereof and as of the publication date of the report for Q1 2020 and as at 30 June 2020.

Summary of the consolidated financial results

Selected items of the consolidated statement of profit and loss

PLN'000	Q2 2020	Q1 2020	Q2 2019	H1 2020	H1 2019	Change % Q2 2020/ Q1 2020	Change % Q2 2020/ Q2 2019	Change % H1 2020/ H1 2019
Continuing operations								
Sales revenues	**616 000**	**813 948**	**762 517**	**1 429 948**	**1 583 089**	**(24,3)**	**(19,2)**	**(9,7)**
of which:								
Sales of paper	*403 773*	*587 781*	*537 633*	*991 553*	*1 110 977*	*(31,3)*	*(24,9)*	*(10,7)*
Sales of pulp	*212 227*	*226 167*	*224 884*	*438 395*	*472 112*	*(6,2)*	*(5,6)*	*(7,1)*
Profit on sales	106 605	187 930	149 062	294 535	300 946	(43,3)	(28,5)	(2,1)
% of sales revenues	*17,31*	*23,09*	*19,55*	*20,60*	*19,01*	*(5,8) p.p.*	*(2,2) p.p.*	*1,6 p.p.*
Selling and distribution costs	(73 950)	(92 618)	(83 381)	(166 568)	(168 137)	(20,2)	(11,3)	(0,9)
Administrative expenses	(19 638)	(19 170)	(21 016)	(38 807)	(41 855)	2,4	(6,6)	(7,3)
Other operating income	20 893	13 312	34 882	34 204	61 998	56,9	(40,1)	(44,8)
Other operating expenses	(9 679)	(9 790)	(9 671)	(19 468)	(25 300)	(1,1)	0,1	(23,1)
EBIT	**24 231**	**79 665**	**69 877**	**103 896**	**127 651**	**(69,6)**	**(65,3)**	**(18,6)**
% of sales revenues	*3,93*	*9,79*	*9,16*	*7,27*	*8,06*	*(5,9) p.p.*	*(5,2) p.p.*	*(0,8) p.p.*
EBITDA	**48 017**	**111 834**	**90 529**	**159 851**	**171 610**	**(57,1)**	**(47,0)**	**(6,9)**
% of sales revenues	*7,79*	*13,74*	*11,87*	*11,18*	*10,84*	*(5,9) p.p.*	*(4,1) p.p.*	*0,3 p.p.*
Financial income	(744)	1 457	(189)	713	943	(151,1)	294,3	(24,4)
Financial expenses	(8 470)	(7 705)	(9 814)	(16 175)	(18 180)	9,9	(13,7)	(11,0)
Gross profit (loss)	**15 017**	**73 416**	**59 874**	**88 434**	**110 415**	**(79,5)**	**(74,9)**	**(19,9)**
Income tax	(4 244)	(11 128)	(12 176)	(15 372)	(25 827)	(61,9)	(65,1)	(40,5)
Net profit (loss)	**10 773**	**62 289**	**47 697**	**73 062**	**84 588**	**(82,7)**	**(77,4)**	**(13,6)**
% of sales revenues	*1,75*	*7,65*	*6,26*	*5,11*	*5,34*	*(5,9) p.p.*	*(4,5) p.p.*	*(0,2) p.p.*
Net profit (loss) for the reporting period attributable to the shareholders of the Parent Entity	10 441	54 963	31 644	65 404	45 896	(81,0)	(67,0)	42,5

Comments of the President of the Management Board Michał Jarczyński on the results of H1 2020

The first and second quarter of 2020 proved how fast the market conditions and the Company's situation can change - primarily due to external factors. After the record first quarter of 2020, the administrative decisions taken by the governments of many EU countries to lockdown regions and entire countries as a result of the COVID 19 pandemic threat materially affected the functioning and results of Arctic Paper.

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

Special stress was put on ongoing monitoring of our customers' financial condition in order to mitigate the risk of overdue receivables. Optimisation measures were applied to improve the management effectiveness of working capital. We benefited from various financial support programs offered by various countries to group entities operating in specific countries.

As a result of our advance measures, no facility of ours suffered any interruptions in supplies of raw materials or in transports of their products. Both paper mills and pulp mills recorded a reduced demand for their products. That was due to the lockdown introduced in a majority of European countries which are the core markets for Arctic Paper. A large number of our customers completely stopped operation or reduced their activity to a large extent. Companies stopped their marketing operations, reduced printing of promotional materials. On the other hand, we recorded some increased demand for book paper. In the pulp segment, a rapid growth of demand for hygienic products partly compensated for the reduced demand for pulp in the sectors of graphic and packaging paper types.

The second quarter of 2020 confirmed the accuracy of the strategy approved almost 10 years ago - a financial consolidation of results generated in the pulp sector and the paper sector is the optimum solution. The combination of both business segments supports the stability of results over time.

As a result of all the efforts mentioned above, the Arctic Paper Group generated profit in the second quarter and the results attributable to the shareholder of the Prent Entity for the first half of 2020 is much better that a year earlier. It is worth stressing that despite the disruptions caused by the pandemic, the Arctic Paper Group closed the first half of the year with an increased liquidity available and with an improved debt ratio.

Now it is hard to predict the impact of the pandemic and the related economic and social impact on the results and functioning of the Arctic Paper Group in the following quarters of 2020.

Revenues

In Q2 2020, the consolidated sales revenues amounted to PLN 616,000 thousand (sales of paper: PLN 403,773 thousand, pulp sales: PLN 212,227 thousand), as compared to PLN 762,517 thousand (sales of paper: PLN 537,633 thousand, pulp sales: PLN 224,884 thousand), in the equivalent period of the previous year. That means a decrease by PLN 146,517 thousand (a drop of paper sales by PLN 133,860 thousand, and a drop of sales of pulp by PLN 12,657 thousand) and respectively by -19.2% (for sales paper by -24.9% and pulp sales by -5.6%).

In the first six months 2020, the sales revenues amounted to PLN 1,429,948 thousand (sales of paper: PLN 991,553 thousand, pulp sales: PLN 438,395 thousand), as compared to PLN 1,583,089 thousand (sales of paper: PLN 1,110,977 thousand, pulp sales: PLN 472,112 thousand, generated in the equivalent period of the previous year. This means a decrease of revenues by PLN 153,141 thousand (a drop of paper sales by PLN 119,424 thousand, and a drop of sales of pulp by PLN 33,717 thousand) and respectively by -9.7% (for sales paper by -10.7% and pulp sales by -7.1%).

Paper sales volume in Q2 2020 amounted to 115 thousand tons compared to 147 thousand tons in the previous year. The change represents a decrease of 32 thousand tonnes and by -21.8% respectively. Pulp sales volume in Q2 2020 amounted to 95 thousand tons compared to 91 thousand tons in the previous year. The change represents an increase of 4 thousand tons and by +4.4% respectively.

Paper sales volume in H1 2020 amounted to 286 thousand tons compared to 301 thousand tons in the previous year. The change represents a decrease of 15 thousand tonnes and by -5.0% respectively. Pulp sales volume in H1 2020 amounted to 196 thousand tons compared to 185 thousand tons in the previous year. The change represents an increase of 11 thousand tons and by +5.9% respectively.

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

In H1 2020, profit on sales amounted to PLN 294,535 thousand. and was by 2.1% lower than in the corresponding period of the previous year. Sales profit margin in the current year stood at 20.60% compared to 19.01% (-1.6 p.p.) in the same period of the previous year. The lower costs of pulp for paper production (reduced prices) despite lower sales revenues of paper and pulp were the core reason for the increased profit margin in H1 2020 versus the equivalent period last year.
In the reporting period, the selling and distribution costs amounted to PLN 166,568 thousand which was a decrease by 0.9% compared to the costs incurred in H1 2019. The selling costs include primarily costs of transport of finished products to counterparties.
In H1 2020, the administrative expenses amounted to PLN 38,807 thousand which was a decrease by 7.3% compared to the costs incurred in H1 2019. 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 34,204 thousand in H1 2020 which was a decrease as compared to the equivalent period of the previous year by PLN 27,794 thousand. Other operating income consisted mainly of revenues from heat and electricity sales as well as sales revenues from other materials and CO2 emission rights. The lower other operating revenues in the current period were primarily due to lower sales of other materials and energy and CO2 emission rights. Additionally, land was sold by AP Mochenwangen in Q2 2019.

Other operating expenses totalled PLN 19,468 thousand in H1 2020, which was a decrease as compared to the equivalent period of the previous year (by PLN 5,832 thousand). The other operating expenses comprised mainly the costs of electricity and heat sales as well as the costs of other materials sold. The lower other operating expenses in H1 2020 were due to lower costs of sold energy and other materials.

Financial income and financial expenses

In H1 2020, financial income and expenses amounted to PLN 713 thousand and PLN 16,175 thousand respectively which was a decrease of income as compared to the equivalent period of the previous year by PLN 230 thousand and a growth of expenses by PLN 2,005 thousand.

The changes to financial income and expenses were primarily due to the amount of net FX differences and interest expense. In H1 2020 the Group recorded a surplus of FX losses over FX profit of PLN 1,744 thousand (financial expenses). In the equivalent period of 2019, the Group recorded a surplus of FX losses over FX profit of PLN 2,645 thousand (also financial expenses). The interest expense dropped by PLN 808 thousand in H1 2020 versus H1 2019.

Income tax

For the six months of 2020, income tax amounted to PLN -15,372 thousand while in the equivalent period in 2019 it was PLN -25,827 thousand.
The current portion of income tax in the analysed semi-annual period amounted to PLN -9,255 thousand (H1 2019: PLN -3,658 thousand, while the deferred portion to PLN -6,117 thousand (H1 2019: PLN -22,169 thousand).

Profitability analysis

In H1 2020, the result on continuing operations amounted to PLN +103,896 thousand as compared to the profit of PLN +127,651 thousand in the equivalent period in the previous year. The changes resulted in a reduction of operational profit margin from +8.06% in the six months of 2019 to +7.27% in the equivalent period of 2020. The decreased margin was due to higher depreciation/amortisation costs in H1 2020 versus the equivalent period last year as a result of higher outlays on tangible fixed assets and intangible assets in H2 2019 and in H1 2020.

EBITDA on continuing operations in H1 2020 amounted to PLN 159,851 thousand while in the equivalent period in 2019 it was PLN 171,610 thousand. In the reporting period, the EBITDA margin was 11.18% compared to 10.84% for 6 months of 2019.

In H1 2020, net profit amounted to PLN +73,062 thousand as compared to PLN +84,588 thousand in H1 2019. Net profit margin accrued after six months of 2020 amounted to +5.11% as compared to +5.34% in the equivalent period of 2019.

PLN'000	Q2 2020	Q1 2020	Q2 2019	H1 2020	H1 2019	Change % Q2 2020/ Q1 2020	Change % Q2 2020/ Q2 2019	Change % H1 2020/ H1 2019
Profit (loss) on sales	106 605	187 930	149 062	294 535	300 946	(43,3)	(28,5)	(2,1)
% of sales revenues	*17,31*	*23,09*	*19,55*	*20,60*	*19,01*	*(5,8) p.p.*	*(2,2) p.p.*	*1,6 p.p.*
EBITDA	**48 017**	**111 834**	**90 529**	**159 851**	**171 610**	**(57,1)**	**(47,0)**	**(6,9)**
% of sales revenues	*7,79*	*13,74*	*11,87*	*11,18*	*10,84*	*(5,9) p.p.*	*(4,1) p.p.*	*0,3 p.p.*
EBIT	**24 231**	**79 665**	**69 877**	**103 896**	**127 651**	**(69,6)**	**(65,3)**	**(18,6)**
% of sales revenues	*3,93*	*9,79*	*9,16*	*7,27*	*8,06*	*(5,9) p.p.*	*(5,2) p.p.*	*(0,8) p.p.*
Net profit (loss)	**10 773**	**62 289**	**47 697**	**73 062**	**84 588**	**(82,7)**	**(77,4)**	**(13,6)**
% of sales revenues	*1,75*	*7,65*	*6,26*	*5,11*	*5,34*	*(5,9) p.p.*	*(4,5) p.p.*	*(0,2) p.p.*
Return on equity / ROE (%)	1,2	7,3	5,5	7,9	9,8	(6,1) p.p.	(4,3) p.p.	(1,8) p.p.
Return on assets / ROA (%)	0,5	3,0	2,3	3,6	4,0	(2,4) p.p.	(1,7) p.p.	(0,4) p.p.

In H1 2020, return on equity was +7.9% while in the equivalent period of 2019 it was +9.8%.

Return on assets decreased from +4.0% in H1 2019 to +3.6% in H1 2020.

Lower return on equity and return on assets ratios were due primarily to the lower net profit generated in H1 2020 versus the equivalent period last year.

Selected items of the consolidated statement of financial position

PLN'000	30.06.2020	31.12.2019	30.06.2019	Change 30.06.2020 -31.12.2019	Change 30.06.2020 -30.06.2019
Fixed assets	1 125 025	1 080 905	1 041 517	44 120	83 507
Inventories	369 174	353 774	419 983	15 400	(50 808)
Receivables	313 121	307 445	413 871	5 676	(100 750)
receivables	*306 000*	*302 121*	*404 605*	*3 879*	*(98 605)*
Other current assets	18 087	27 744	35 327	(9 657)	(17 240)
Cash and cash equivalents	220 268	265 885	206 406	(45 617)	13 862
Total assets	**2 045 675**	**2 035 753**	**2 117 105**	**9 921**	**(71 430)**
Equity	921 012	870 528	867 118	50 484	53 895
Short-term liabilities	567 455	688 098	846 994	(120 643)	(279 539)
of which:					
trade and other payables	*354 121*	*435 366*	*476 243*	*(81 245)*	*(122 122)*
interest-bearing debt	*99 462*	*161 591*	*275 520*	*(62 129)*	*(176 059)*
other non-financial liabilities	*113 873*	*91 141*	*95 231*	*22 732*	*18 642*
Long-term liabilities	557 207	477 127	402 993	80 080	154 214
of which:					
interest-bearing debt	*342 592*	*263 268*	*204 347*	*79 323*	*138 245*
other non-financial liabilities	*214 615*	*213 858*	*198 646*	*757*	*15 969*
Total equity and liabilities	**2 045 675**	**2 035 753**	**2 117 105**	**9 921**	**(71 430)**

As at 30 June 2020, total assets amounted to PLN 2,045,675 thousand as compared to PLN 2,035,753 thousand at the end of 2019.

Fixed assets

At the end of June 2020 fixed assets accounted for 55.0% of total assets vs. 53.1% at the end of 2019. The value of fixed assets grew in the current half-year period by PLN 44,120 thousand, mainly due to a growth of tangible fixed assets as an effect of capital outlays and of intangible assets, including the recognition of goodwill on the acquisition of a subsidiary entity, partly set off with a drop of other financial assets (decrease of valuation of hedging instruments, mainly forward contracts for energy purchase).

Current assets

Current assets understood as a sum of inventories, receivables, other current assets and cash and cash equivalents.
As at the end of June 2020, current assets amounted to PLN 920,650 thousand as compared to PLN 954,848 thousand at the end of December 2019. As part of the current assets, inventories increased by PLN 15,400 thousand and receivables increased by PLN 5,676 thousand, other current assets decreased by PLN 9,657 thousand, while cash and cash equivalents decreased by PLN 45,617 thousand. Current assets represented 45.0% of total assets as at the end of June 2020 (46.9% as at the end of 2019) and included inventories – 18.0% (17.3% as at the end of 2019), receivables – 15.3% (15.1% as at the end of 2019), other current assets – 0.9% (1.4% as at the end of 2019) and cash and cash equivalents – 10.8% (13.1% as at the end of 2019).

Equity

As at the end of the current period, equity amounted to PLN 921,012 thousand as compared to PLN 870,528 thousand at the end of 2019. As at the end of June 2020 equity accounted for 45.0% of total equity and liabilities vs. 42.8% of balance sheet total as at 31 December 2019. The increase of equity was the effect of net profit for H1 2020 and an increased valuation of subsidiary entities whose functional currency is other than PLN, recognised in other comprehensive income, partly set off with a reduced net valuation of hedging instruments.

Short-term liabilities

As at the end of June 2020, short-term liabilities amounted to PLN 567,455 thousand (27.7% of balance sheet total) as compared to PLN 688,098 thousand (33.8% of balance sheet total) as at the end of 2019. In the period under report, a decrease of long-term liabilities occurred by PLN 120,643 thousand, mainly as a result of a decrease of trade and other payables (note 22 to the interim abbreviated consolidated financial statements) and a decrease of short-term loans, borrowings and bonds to partial repayment of loans, borrowings and bonds as well as reclassification of certain long-term loans of PLN 61,404 thousand to short-term loans as at 31 December 2019 due to failure to comply with the ratios specified in the loan agreements.

Long-term liabilities

As at the end of June 2020, long-term liabilities amounted to PLN 557,207 thousand (27.3% of balance sheet total) as compared to PLN 477,127 thousand (23.4% of balance sheet total) as at the end of 2019. In the period under report, an increase of long-term liabilities occurred by PLN 80,080 thousand, which was the result primarily of the loan re-classification as at 31 December 2019 as detailed above and a growth of other financial liabilities (note 21 of the interim abbreviated consolidated financial statements).

Debt analysis

	Q2 2020	Q1 2020	Q2 2019	Change % Q2 2020/ Q1 2020	Change % Q2 2020/ Q2 2019
Debt to equity ratio (%)	122,1	145,2	144,2	(23,1) p.p.	(22,0) p.p.
Equity to fixed assets ratio (%)	81,9	78,1	83,3	3,8 p.p.	(1,4) p.p.
Interest-bearing debt-to-equity ratio (%)	48,0	56,1	55,3	(8,1) p.p.	(7,3) p.p.
Net debt to EBITDA ratio for the last 12 months (x)	0,8	0,7	1,1	0,13	(0,22)
EBITDA to interest expense ratio (x)	11,7	13,4	10,7	(1,7)	1,0

As at the end of June 2020, debt to equity ratio amounted to 122.1% and was lower by 23.1 p.p. compared to the end of March of 2020 and lower by 22.0 p.p. compared to the end of June 2019. The equity to non-current assets ratio was 81.9% and was higher by 3.8 p.p. than at the end of March 2020 and lower by 1.4 p.p. than at the end of June 2019.

Interest bearing debt to equity ratio amounted to 48.0% as at the end of the current half year and was lower by 8.1 p.p. compared to the end of March 2020 and lower by 7.3 p.p. compared to the level of the ratio calculated at the end of June 2019.

Net borrowings to EBITDA calculated for the last 12 months ended on 30 June 2020 amounted to 0.8x compared to 0.7x in the equivalent period ended on 31 March 2020 and 1.1x for the period ended on 30 June 2019.

The EBITDA to interest coverage ratio was 11.7x for the twelve months ended on 30 June 2020 and 13.4x and 10.7x for the periods ended on 31 March 2020 and on 30 June 2019 respectively.

Liquidity analysis

	Q2 2020	Q1 2020	Q2 2019	Change % Q2 2020/ Q1 2020	Change % Q2 2020/ Q2 2019
Current ratio	**1,6x**	**1,5x**	**1,3x**	**0,2**	**0,4**
Quick ratio	**0,9x**	**0,9x**	**0,8x**	**0,0**	**0,2**
Acid test ratio	**0,4x**	**0,4x**	**0,2x**	**(0,0)**	**0,1**
DSI (days)	65,2	51,3	61,6	14,0	3,6
DSO (days)	44,7	40,7	47,8	4,0	(3,0)
DPO (days)	62,6	63,9	69,9	(1,4)	(7,3)
Operational cycle (days)	109,9	92,0	109,4	18,0	0,6
Cash conversion cycle (days)	**47,4**	**28,0**	**39,5**	**19,3**	**7,9**

The current liquidity ratio as at the end of June 2020 was 1.6x and it grew by 0.2 in relation to the level as at the end of Q1 2020 and grew versus the end of June 2019 by 0.4.

The quick liquidity ratio reached the level of 0.9x at the end of June 2020 and did not change materially in relation to the level as at 31 March 2020 and 30 June 2019.

The cash ratio as at the end of Q2 2020 was 0.4 and it did not change materially in relation to the level as at the end of 31 March 2020 and 30 June 2019.

The cash conversion cycle in Q2 2020 was 47.4 days and was by 19.3 days longer versus Q1 2020 and by 7.9 days longer than reported at the end of Q2 2019. The extended cash conversion cycle was primarily due to the stock rotation cycle.

Selected items of the consolidated statement of cash flow

PLN'000	Q2 2020	Q1 2020	Q2 2019	H1 2020	H1 2019	Change % Q2 2020/ Q1 2020	Change % Q2 2020/ Q2 2019	Change % H1 2020/ H1 2019
Cash flows from operating activities	(675)	70 781	45 736	70 106	105 497	(101,0)	(101,5)	(33,5)
of which:								
Gross profit (loss)	*15 017*	*73 416*	*59 874*	*88 434*	*110 415*	*(79,5)*	*(74,9)*	*(19,9)*
Depreciation/amortisation and impairment charges	*23 786*	*32 169*	*20 652*	*55 955*	*43 959*	*(26,1)*	*15,2*	*27,3*
Changes to working capital	*(35 941)*	*(44 645)*	*(22 726)*	*(80 586)*	*(46 469)*	*(19,5)*	*58,2*	*73,4*
Other adjustments	*(3 538)*	*9 841*	*(12 064)*	*6 303*	*(2 407)*	*(135,9)*	*(70,7)*	*(361,9)*
Cash flows from investing activities	(39 568)	(37 565)	(13 231)	(77 133)	(31 995)	5,3	199,1	141,1
Cash flows from financing activities	(12 415)	(34 185)	(32 134)	(46 600)	(64 788)	(63,7)	(61,4)	(28,1)
Total cash flows	**(52 658)**	**(969)**	**371**	**(53 627)**	**8 715**	**5 332,9**	**(14 292,6)**	**(715,3)**

Cash flows from operating activities

In the first six months of 2020, net cash flows from operating activities amounted to PLN +70,106 thousand as compared to PLN +105,497 thousand in the equivalent period of 2019. The lower gross profit increased by depreciation/amortisation and reduced trade and other payables in H1 2020 was primarily due to lower positive cash flows from operating activities.

Cash flows from investing activities

In H1 2020, cash flows from investing activities amounted to PLN -77,133 thousand as compared to PLN -31,995 thousand in the equivalent period of the previous year. The negative cash flows from investing activities resulted from expenditures on tangible fixed assets and intangible assets.

Cash flows from financing activities

In H1 2020, cash flows from financing activities amounted to PLN -46,600 thousand as compared to PLN -64,788 thousand in the equivalent period of 2019. The negative cash flows from financing activities in 2020 were primarily related to repayment of term bank loans and bonds in PLN and repayment of lease liabilities with interest.

Summary of standalone financial results

Selected items of the standalone statement of profit and loss

PLN'000	Q2 2020	Q1 2020	Q2 2019	H1 2020	H1 2019	Change % Q2 2020/ Q1 2020	Change % Q2 2020/ Q2 2019	Change % H1 2020/ H1 2019
Sales revenues	**5 840**	**5 171**	**31 783**	**11 012**	**42 894**	**13**	**(82)**	**(74)**
of which:								
Sales of services	*4 750*	*4 245*	*7 587*	*8 994*	*14 908*	*12*	*(37)*	*(40)*
Interest income on loans	*787*	*927*	*1 088*	*1 713*	*2 227*	*(15)*	*(28)*	*(23)*
Dividend income	*304*	*-*	*23 109*	*304*	*25 759*	*-*	*(99)*	*(99)*
Profit on sales	4 469	3 892	30 430	8 361	40 205	15	(85)	(79)
% of sales revenues	*76,51*	*75,26*	*97,64*	*75,93*	*93,73*	*1,3 p.p.*	*(21,1) p.p.*	*(17,8) p.p.*
Selling and distribution costs	-	-	(955)	-	(1 529)	-	(100)	(100)
Administrative expenses	(4 842)	(5 483)	(6 310)	(10 325)	(12 956)	(12)	(23)	(20)
Other operating income	40	271	472	311	553	(85)	(92)	(44)
Other operating expenses	(82)	(608)	160	(690)	(159)	(87)	(151)	334
EBIT	**(415)**	**(1 928)**	**23 797**	**(2 343)**	**26 114**	**(78)**	**(102)**	**(109)**
% of sales revenues	*(7,11)*	*(37,29)*	*74,87*	*(21,28)*	*60,88*	*30,2 p.p.*	*(82,0) p.p.*	*(82,2) p.p.*
EBITDA	**(439)**	**(1 656)**	**23 945**	**(2 095)**	**26 362**	**(73)**	**(102)**	**(108)**
% of sales revenues	*(7,52)*	*(32,03)*	*75,34*	*(19,03)*	*61,46*	*24,5 p.p.*	*(82,9) p.p.*	*(80,5) p.p.*
Financial income	1 127	1 295	2 109	2 422	3 312	(13)	(47)	(27)
Financial expenses	(646)	(7 157)	(4 436)	(7 804)	(9 751)	(91)	(85)	(20)
Gross profit (loss)	**66**	**(7 791)**	**21 469**	**(7 725)**	**19 675**	**(101)**	**(100)**	**(139)**
Income tax	-	-	0	-	(1)	-	(100)	(100)
Net profit (loss)	**66**	**(7 791)**	**21 469**	**(7 725)**	**19 675**	**(101)**	**(100)**	**(139)**
% of sales revenues	*1,13*	*(150,65)*	*67,55*	*(70,15)*	*45,87*	*151,8 p.p.*	*(66,4) p.p.*	*(116,0) 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 2020, the standalone sales revenues amounted to PLN 5,840 thousand and comprised services provided to Group companies (PLN 4,750 thousand), interest income on loans (PLN 787 thousand) and dividend income (PLN 304 thousand). In the equivalent period of the previous year, 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 H1 2020, the standalone sales revenues amounted to PLN 11,012 thousand and comprised services provided to Group companies (PLN 8,994 thousand) interest income on loans (PLN 1,713 thousand) and dividend income (PLN 304 thousand). In the equivalent period of the previous year, 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). That means a decrease of sales revenues in H1 2020 by PLN 31,883 thousand versus the equivalent period in 2019.

Profit on sales amounted to PLN 8,361 thousand in H1 2020 and dropped by PLN 31,844 thousand versus the equivalent period of the previous year.

Selling and distribution costs

In H1 2020, the Company did not recognise selling and distribution costs (PLN 1,529 thousand in the equivalent period of 2019) which in 2019 comprised solely the expenses related to intermediary services in the purchase of pulp for Arctic Paper Kostrzyn S.A.

Administrative expenses

In H1 2020, the administrative expenses amounted to PLN 10,325 thousand which was an increase as compared to the equivalent period of the previous year by PLN 2,631 thousand. The drop of costs was primarily due to the implemented organisational changes and the savings program in the company.

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 311 thousand in H1 2020 which was a decrease as compared to the equivalent period of the previous year by PLN 243 thousand.

At the same time there was a decrease of other operating expenses that reached the level of PLN 690 thousand. The higher level of other operating costs was due to the recognised allowance for impairment of assets for Arctic Paper Mochenwangen GmbH for PLN 635 thousand.

Financial income and financial expenses

In H1 2020, the financial income amounted to PLN 2,422 thousand and was by PLN 890 thousand lower than generated in H1 2019. The financial expenses after six months of 2020 amounted to PLN 7,804 thousand and largely referred to interest expenses on the received bank loans (PLN 5,096 thousand) and costs of financial transactions. In the equivalent period of 2019, the financial expenses amounted to PLN 9,751 thousand.

Selected items of the standalone statement of financial position

PLN'000	2020-06-30	2019-12-31	2019-06-30	Change 30.06.2020 -31.12.2019	Change 30.06.2020 -30.06.2019
Fixed assets	712 616	724 693	740 384	(12 076)	(27 768)
Receivables	48 555	70 155	105 436	(21 600)	(56 882)
Other current assets	85 260	99 700	106 028	(14 439)	(20 768)
Cash and cash equivalents	25 110	31 939	10 609	(6 829)	14 501
Total assets	**871 541**	**926 486**	**962 457**	**(54 945)**	**(90 916)**
			-		
Equity	559 811	568 078	555 865	(8 267)	3 946
Short-term liabilities	217 749	301 081	393 191	(83 332)	(175 443)
Long-term liabilities	93 981	57 326	13 401	36 655	80 580
Total liabilities	**871 541**	**926 486**	**962 457**	**(54 945)**	**(90 916)**

As at 30 June 2020, total assets amounted to PLN 871,541 thousand as compared to PLN 926,486 thousand at the end of 2019.

The drop of assets was primarily due to lower receivables and other current assets in the analyses period.

Fixed assets

At the end of June 2020 fixed assets accounted for 81.8% of total assets vs. 78.2% at the end of 2019. The value of fixed assets dropped in the current half-year period by PLN 12,076 thousand. The main item of non-current assets includes interests in subsidiaries. At the end of H1 2020, the value was PLN 673,937 thousand and there was no change versus 31 December 2019.

Current assets

As at the end of June 2020, current assets amounted to PLN 158,925 thousand as compared to PLN 201,794 thousand at the end of December 2019.

As part of the current assets, receivables increased by PLN 21,600 thousand, other current assets decreased by PLN 14,439 thousand, while cash and cash equivalents decreased by PLN 6,829 thousand. As at the end of June 2020, current assets accounted for 18.3% of total assets (21.8% as at the end of 2019).

Equity

At the end of the H1 2020, the equity amounted to PLN 559,811 thousand as compared to PLN 568,078 thousand at the end of 2019. That was a decrease of equity by PLN 8,267 thousand, mainly due to net loss generated in H1 2020. As at the end of June 2020 equity accounted for 64.3% of balance sheet total vs. 64.2% of balance sheet total as at the end of 2019.

Short-term liabilities

As at the end of June 2020, short-term liabilities amounted to PLN 217,749 thousand (25.0% of balance sheet total) as compared to PLN 301,081 thousand (32.5% of balance sheet total) as at the end of 2019. The decrease 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 as at 31 December 2019. The significant drop of short-term liabilities is also due to repayment of revolving loans.

Long-term liabilities

As at the end of June 2020, long-term liabilities amounted to PLN 93,981 thousand (10.8 % of balance sheet total) as compared to PLN 57,326 thousand (6.2 % of balance sheet total) as at the end of 2019. The increase of long-term liabilities is due to the reclassification of long-term loans as detailed above at the end of 2019.

Selected items of the standalone statement of cash flow

PLN'000	Q2 2020	Q1 2020	H1 2020	H1 2019	Change % Q2 2020/ Q1 2020	Change % H1 2020/ H1 2019
Cash flows from operating activities	549	41 261	41 810	25 186	(98,7)	66,0
of which:						
Gross profit (loss)	*66*	*(7 791)*	*(7 725)*	*19 675*	*(100,8)*	*(139,3)*
Depreciation/amortisation and impairment charg	*112*	*287*	*399*	*242*	*(61,1)*	*64,9*
Changes to working capital	*(8 398)*	*4 567*	*(3 830)*	*(50 800)*	*(283,9)*	*(92,5)*
Net interest and dividends	*6 716*	*-*	*6 716*	*3 825*	*-*	*75,6*
Increase / decrease of loans granted to subsic	*(2 780)*	*20 231*	*17 451*	*12 211*	*(113,7)*	*42,9*
Change to liabilities due to cash-pooling	*2 263*	*20 754*	*23 017*	*38 914*	*(89,1)*	*(40,9)*
Other adjustments	*2 570*	*3 212*	*5 782*	*1 118*	*(20,0)*	*417,0*
Cash flows from investing activities	-	-	-	(1 492)	-	(100,0)
Cash flows from financing activities	(16 471)	(32 167)	(48 638)	(32 690)	(48,8)	48,8
Total cash flows	**(15 923)**	**9 094**	**(6 828)**	**(8 996)**	**(275,1)**	**(24,1)**

The cash flow statement presents a decrease in cash in H1 2020 by PLN 6,829 thousand which includes:

- positive cash flows from operating activities of PLN 44,810 thousand,
- no cash flows from investing activities,
- negative cash flows from financing activities of PLN -48,638 thousand.

Cash flows from operating activities

In H1 2020, net cash flows from operating activities amounted to PLN 41,810 thousand as compared to PLN 25,186 thousand in the equivalent period of 2019. 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 2020, cash flows from investing activities amounted to PLN 0 thousand as compared to PLN 1,492 thousand in the equivalent period of the previous year.

Cash flows from financing activities

In H1 2020, cash flows from financing activities amounted to PLN -48,638 thousand as compared to PLN -32,690 thousand in the equivalent period of 2019. In 2020, the negative cash flows were due to repayment of borrowings and interest and changed balances of working capital loans.

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

Key factors affecting the performance results

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

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

Macroeconomic and other economic factors

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

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

Demand growth for products based on natural fibres

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

Reduced demand for certain paper types

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

Paper prices

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

Costs of raw materials, energy and transportation

The main elements of the Group's operating expenses include raw materials, energy and transportation. The costs of raw materials include mainly the costs of pulp for Paper Mills, timber for Pulp Mills and chemical agents used for paper and pulp production. Our energy costs historically include mostly the costs of electricity, gas and rights to CO2 emissions. The costs of transportation include the costs of transportation services provided to the Group mainly by external entities.

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

A part of pulp supplies to our Paper Mills is made from our own Pulp Mills. The remaining part of pulp manufactured at our Pulp Mills is sold to external customers.

Currency rate fluctuations

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

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

Unusual events and factors

In H1 2020 there were no atypical events or factors other than related to COVID-19, that are detailed in item 5.1 of the attached interim abbreviated consolidated financial statements.

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

In Q1 2020, there were no changes in the Arctic Paper Group's structure that would have material influence on the financial result generated.

Other material information

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

With references to the risks described in the 2019 annual report, related to the spread of the SARS-CoV-2 coronavirus, responsible for the COVID-19 epidemic in Poland and on a global scale, and current report no. 5/2020 of 7 April 2020 on the actions in the Arctic Paper Group taken to minimise the effect of the epidemic, the Management Board announces that the total aid from governments or local authorities received by the Group's companies in Q2 was approximately PLN 7.2 million.

Recommendations concerning dividend distribution

On 30 April 2020, the Management Board of Arctic Paper S.A. approved a decision concerning a change to its recommendation on dividend distribution from 2019 profit, originally published in current report No. 4/2020 of 27 February 2020. The Company's Management Board approved a resolution to recommend to the Company's General Meeting no dividend distribution from the profit for the financial year ended on 31 December 2019. The change of the previous recommendation of the Company's

Management Board is related to a change of demand for products of the Arctic Paper Group companies as a result of the COVID-19 pandemic as well as no possibility to assess the impact of the pandemic on economic situation in Q2 and Q3 2020. At its meeting of 30 April 2020, the Company's Supervisory Board provided its positive opinion to the above proposal of the Management Board on no distribution of dividend from the profit for the financial year ended on 31 December 2019.

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

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

Factors influencing the development of the Arctic Paper Group

Information on market trends

In Q2 2020 the Arctic Paper Group recorded a decreased level of orders versus Q1 2020 by 33.2% and a decrease of orders versus the equivalent period of 2019 by 22%.

Source of data: Arctic Paper analysis

Paper prices

At the end of H1 2020, the prices of uncoated wood-free paper (UWF) in Europe dropped by 5.2% versus the prices at the end of June 2019 while for coated wood-free paper (CWF) there was a decrease by 6.6%.

At the end of June 2020, the average prices declared by producers for selected types of paper and markets: Germany, France, Spain, Italy, United Kingdom – for both uncoated wood-free paper (UWF) and coated wood-free paper (CWF) were lower than at the end of Q1 2020 by 2% and 1.9% respectively.

The prices invoiced by Arctic Paper in EUR for comparable products in the segment of uncoated wood-free paper (UWF) increased from the end of March 2020 until the end of June 2020 by 2.7% on the average while in the segment of coated wood-free paper (CWF) the prices decreased by 2.4%. At the end of H1 2020, the prices of uncoated wood-free paper (UWF) invoiced by Arctic Paper dropped by 10.8% versus the prices at the end of June 2019 while for coated wood-free paper (CWF) there was a drop by 3.5%.

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 2020, the pulp prices reached the level of: NBSK – USD 858.7/ton and BHKP – USD 680/ton.

The average NBSK price in Q2 2020 was lower by 19% compared to the equivalent period of the previous year while for BHKP the average price was lower by 27.5%. Compared to Q1 2020, the average pulp price in Q2 2020 was higher by 2.9% for NBSK and remained unchanged for BHKP.

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

The average pulp cost used for production of paper calculated for the Arctic Paper Group in PLN dropped in Q2 2020 versus Q1 2020 by 5.7% while in relation to Q2 2019 it dropped by 24.6%.

The share of pulp costs in overall selling costs after 6 months of the current year was 51% versus about 59% in H1 2019.

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

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

Currency exchange rates

At the end of Q2 2020, the EUR/PLN rate amounted to 4.4660 and was by 5% higher than at the end of Q2 2019. The mean EUR/PLN exchange rate in H1 2020 amounted to 4.4143 and was by 5.1% higher than in the equivalent period of 2019.

The EUR/SEK exchange rate amounted to 10.5107 at the end of Q2 2020 (decrease by 0.4% versus the end of Q2 2019). For that currency pair, the mean exchange rate in H1 2020 was by 0.4% higher than in the equivalent period of 2019. The somewhat 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 2020 amounted to 3.9806. In H1 2020 the mean USD/PLN exchange rate was 4.0085 versus 3.8002 in the equivalent period of the previous year which was a growth by 5.5%. In Q2 2020 the mean USD/PLN exchange rate was 4.0946 and was by 7.4% higher than in Q2 2019. 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 2020 amounted to 9.3683. In H1 2020, the mean exchange rate amounted to 9.6822 compared to 9.3066 in the equivalent period of the previous year which was an increase of the rate by 4%. In Q2 2020 the mean USD/SEK exchange rate increased by 0.1% versus Q1 2020. The change in comparison to Q1 2020 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 1.1219 compared to 1.1388 (-1.5%) at the end of June 2019. In Q2 2020, EUR slightly weakened against USD versus Q1 2020 (-0.2%). In H1 2020 the mean exchange rate was 1.1017 while in the equivalent period of the previous year it was 1.1300 which was a depreciation of EUR versus USD by 2.5%.

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 unfavourably affected the revenues generated in EUR at APM and APG facilities.

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

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

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

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

- Price changes of fine paper. In particular, the possibility to raise the prices of Arctic Paper products in local currencies in view of the declining supply/demand in Europe and in the context exchange rates fluctuations, will have a material influence on the financial results. Paper prices are going to be of particular importance for the Paper Mill of Grycksbo which – in connection with the market changes – experiences the greatest adverse impact of drop of sales volumes, prices as well as of exchange rate fluctuations.

- Price fluctuations of raw materials, including pulp for Paper Mills and electricity for all operational entities. In particular, financial results of Paper Mills may be negatively influenced by increasing pulp prices, particularly BHKP. On the other hand, decreasing NBSK pulp prices may negatively affect the financial results of Pulp Mills. Fluctuations of electricity prices in Sweden may also have a material impact on the results generated by the Group. In the future, such market changes may translate into changes of sales profitability in Paper Mills of AP Munkedals and AP Grycksbo as well as in Pulp Mills of Rottneros and Vallvik.

- Changes in currency rates, in particular, the appreciation of PLN and SEK in relation to EUR and GBP, the appreciation of PLN in relation to SEK, and the depreciation of PLN and SEK in relation to USD, may have an adverse effect on the financial results. However, the Group's Pulp Mills may benefit from the appreciation of USD in relation to SEK.

Risk factors

In H1 2020 there were no material changes to the risk factors described in the report for 2019.

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 approx. 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 (PGNiG). In this context, the business and costs of paper production at AP Kostrzyn is materially affected by availability and price of natural gas. Potential disruptions of supplies of natural gas to the Paper Mill in Kostrzyn nad Odrą may have adverse effect on production, results on operations and financial condition of the Group.

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

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

Risk related to consolidation and liquidity of key customers

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

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

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

Risk related to CO2 emissions

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

Risk related to dividend distribution

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

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

Supplementary information

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

The Management Board of Arctic Paper S.A. has not published the projected financial results for 2020.

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

As at 30 June 2020, 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.

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 19.08.2020	Number of shares or rights to shares as at 30.06.2020	Number of shares or rights to shares as at 14.05.2020	Change
Management Board				
Michał Jarczyński	-	-	-	-
Göran Eklund	-	-	-	-
Supervisory Board	-	-	-	-
Per Lundeen	34 760	34 760	34 760	-
Thomas Onstad	6 223 658	6 223 658	6 223 658	-
Roger Mattsson	-	-	-	-
Dorota Raben	-	-	-	-
Mariusz Grendowicz	-	-	-	-

Information on sureties and guarantees

As at 30 June 2020, the Capital Group reported:

— pledge on properties of Arctic Paper Grycksbo AB resulting from an FPG contract in favour of the mutual life insurance company PRI for SEK 50,000 thousand;
— contingent liability under a guarantee for FPG in favour of the mutual life insurance company PRI for SEK 1,382 thousand at Arctic Paper Grycksbo AB and for SEK 764 thousand at Arctic Paper Munkedals AB;
— pledge on properties of Arctic Paper Munkedals AB resulting from an FPG contract in favour of the mutual life insurance company PRI for SEK 50,000 thousand;
— a bank guarantee in favour of Skatteverket Ludvika for SEK 135 thousand;
— a contingent liability of Arctic Paper Munkedals AB related to a surety for the obligations of Kalltorp Kraft HB in the amount of SEK 402 thousand;

- pledge on properties held by Arctic Paper Munkedals Kraft AB as required by loan agreements with Nordea Bank for SEK 80,000 thousand (related to the investment in the hydro power plant);
- pledges on shares in subsidiary companies in the Rottneros Group for SEK 284,730 thousand under loan agreements concluded with Danske Bank;
- margin on hedging transactions in the bank account of Rottneros with SEB for SEK 30,810 thousand;
- pledge on 19,950,000 shares of Rottneros AB under loan agreements for EUR 10,000 thousand granted by Arctic Paper Finance AB to Arctic Paper S.A. and EUR 10,000 thousand granted by Mr Thomas Onstad to Arctic Paper Finance AB.

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

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

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

Material off-balance sheet items

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

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

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

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

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

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

On 16 July 2020 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 2020 until 30 June 2020. 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 2020 of the Arctic Paper S.A. Capital Group and the comparable data and the interim abbreviated standalone financial statements for the period of 6 months ended on 30 June 2020 of the Arctic Paper S.A. Capital Group and the comparable data have been prepared in compliance with the applicable accounting standards and that they reflect in a true, reliable and clear manner the economic and financial condition of the Capital Group and its financial results for the period of the first six months of 2020.

— The Management Board's Report from operations of the Arctic Paper S.A. Capital Group to the report for Q2 2020 contains a true image of the development, achievements and condition of the Arctic Paper S.A. Capital Group, including a description of core hazards and risks.

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	19 August 2020	signed with a qualified electronic signature
Member of the Management Board Chief Financial Officer	Göran Eklund	19 August 2020	signed with a qualified electronic signature

Interim abbreviated consolidated financial statements

for the period of six months
ended on 30 June 2020
along with an independent auditor's opinion

from the review

Interim abbreviated consolidated financial statements

Interim abbreviated consolidated statement of profit and loss

	Note	3-month-period ended on 30 June 2020 (unaudited)	6-month-period ended on 30 June 2020 (unaudited)	3-month-period ended on 30 June 2019 (unaudited)	6-month-period ended on 30 June 2019 (unaudited)
Continuing operations					
Revenues from sales of products	10.1	616 000	1 429 948	762 517	1 583 089
Sales revenues		616 000	1 429 948	762 517	1 583 089
Costs of sales	10.2	(509 395)	(1 135 413)	(613 455)	(1 282 143)
Gross profit (loss) on sales		106 605	294 535	149 062	300 946
Selling and distribution costs	10.3	(73 950)	(166 568)	(83 381)	(168 137)
Administrative expenses	10.4	(19 638)	(38 807)	(21 016)	(41 855)
Other operating income	10.5	20 893	34 204	34 882	61 998
Other operating expenses	10.6	(9 679)	(19 468)	(9 671)	(25 300)
Operating profit (loss)		24 231	103 896	69 877	127 651
Financial income	10.7	(744)	713	(189)	943
Financial expenses	10.7	(8 470)	(16 175)	(9 814)	(18 180)
Gross profit (loss)		15 017	88 434	59 874	110 415
Income tax	13	(4 244)	(15 372)	(12 176)	(25 827)
Net profit (loss) from continuing operations		10 773	73 062	47 697	84 588
Discontinued operations					
Profit (loss) from discontinued operations	9	-	-	-	-
Net profit (loss)		10 773	73 062	47 697	84 588
Attributable to:					
The shareholders of the Parent Entity, of which:		10 441	65 404	31 644	45 896
- profit (loss) from continuing operations		10 441	65 404	31 644	45 896
- profit (loss) from discontinued operations		-	-	-	-
Non-controlling shareholders, of which:		332	7 658	16 053	38 692
- profit (loss) from continuing operations		332	7 658	16 053	38 692
- profit (loss) from discontinued operations		-	-	-	-
		10 773	73 062	47 697	84 588
Earnings per share:					
– basic earnings from the profit/(loss) attributable to the shareholders of the Parent Entity	14	0,15	0,94	0,46	0,66
– basic profit/(loss) from continuing operations attributable to the shareholders of the Parent Entity	14	0,15	0,94	0,46	0,66
– diluted earnings from the profit attributable to the shareholders of the Parent Entity	14	0,15	0,94	0,46	0,66
– diluted profit from continuing operations attributable to the shareholders of the Parent Entity	14	0,15	0,94	0,46	0,66

Interim abbreviated consolidated statement of total comprehensive income

	3-month-period ended on 30 June 2020 (unaudited)	6-month-period ended on 30 June 2020 (unaudited)	3-month-period ended on 30 June 2019 (transformed*)	6-month-period ended on 30 June 2019 (transformed*)
Profit for the reporting period	10 773	73 062	47 697	84 588
Other comprehensive income				
Items to be reclassified to profit/loss in future reporting periods:				
FX differences on translation of foreign operations	19 882	26 260	(15 189)	(25 492)
Measurement of financial instruments	40 767	(61 857)	1 868	(41 028)
Deferred income tax on the measurement of financial instruments	(8 609)	13 019	(690)	8 752
Other comprehensive income (net)	52 040	(22 577)	(14 012)	(57 768)
Total comprehensive income for the period	62 813	50 484	33 686	26 820
Total comprehensive income attributable to:				
The shareholders of the Parent Entity	45 699	45 925	23 243	9 414
Non-controlling shareholders	17 114	4 560	10 442	17 406

Interim abbreviated consolidated statement of financial position

	Note	As at 30 June 2020 (unaudited)	As at 31 December 2019
ASSETS			
Fixed assets			
Tangible fixed assets	16	1 019 478	979 851
Investment properties		4 128	4 128
Intangible assets	16	49 312	38 471
Interests in joint ventures		1 473	1 412
Other financial assets	19	20 900	30 658
Other non-financial assets	19	2 112	2 039
Deferred income tax assets	13	27 622	24 346
		1 125 025	1 080 905
Current assets			
Inventories	17	369 174	353 774
Trade and other receivables	18	306 000	302 121
Corporate income tax receivables		7 121	5 324
Other non-financial assets	19	14 263	8 909
Other financial assets	19	3 824	18 835
Cash and cash equivalents	11	220 268	265 885
		920 650	954 848
Assets for sale	9	-	-
TOTAL ASSETS		2 045 675	2 035 753
EQUITY AND LIABILITIES			
Equity			
Equity (attributable to the shareholders of the Parent Entity)			
Share capital	25	69 288	69 288
Reserve capital		407 976	407 976
Other reserves		105 096	139 035
FX differences on translation		(14 403)	(28 863)
Retained earnings / Accumulated losses		84 877	19 473
Cumulated other total comprehensive income related to discontinued operations		-	-
		652 834	606 909
Non-controlling interests		268 179	263 619
Total equity		921 012	870 528
Long-term liabilities			
Interest-bearing loans, bonds and borrowings	20	291 380	233 745
Provisions	23	129 119	124 942
Other financial liabilities	21	51 212	29 523
Deferred income tax liability	13	69 262	70 823
Accruals and deferred income	24	16 235	18 094
		557 207	477 127
Short-term liabilities			
Interest-bearing loans, bonds and borrowings	20	76 885	149 983
Provisions	23	5 188	5 008
Other financial liabilities	21	22 577	11 608
Trade and other payables	22	354 121	435 366
Income tax liability		10 096	4 284
Accruals and deferred income	24	98 589	81 849
		567 455	688 098
Liabilities related to assets held for sale	9	-	-
TOTAL LIABILITIES		1 124 662	1 165 225
TOTAL EQUITY AND LIABILITIES		2 045 676	2 035 753

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 (unaudited)
Cash flows from operating activities			
Gross profit (loss)		88 434	110 415
Adjustments for:			
Depreciation/amortisation		55 955	43 959
FX gains (loss)		3 531	2 804
Interest, net		10 780	11 231
Profit / loss from investing activities		(642)	(17 348)
(Increase) / decrease in receivables and other non-financial assets	11.1	13 716	(38 599)
(Increase) / decrease in inventories	11.1	(2 207)	45 094
Increase (decrease) of liabilities except loans, borrowings, bonds and other financial liabilities	11.1	(87 575)	(49 256)
Change in accruals and prepayments	11.1	(4 520)	(3 707)
Change in provisions	11.1	(753)	905
Income tax paid		(4 919)	(7 269)
Co-generation certificates and emission rights		(1 731)	7 416
Other		35	(146)
Net cash flows from operating activities		70 106	105 497
Cash flows from investing activities			
Disposal of tangible fixed assets and intangible assets		1 292	7 657
Purchase of tangible fixed assets and intangible assets	11.1	(72 336)	(39 652)
Other capital outflows / inflows	15	(6 089)	-
Net cash flows from investing activities		(77 133)	(31 995)
Cash flows from financing activities			
Change to overdraft facilities		(15)	(7 253)
Repayment of leasing liabilities		(5 327)	(4 163)
Repayment of other financial liabilities		(2)	(3)
Inflows under contracted loans, borrowings and bonds		12 283	2 819
Repayment of loans, borrowings and debt securities		(42 960)	(24 461)
Dividend disbursed to non-controlling shareholders		-	(20 895)
Interest paid		(10 579)	(10 831)
Net cash flows from financing activities		(46 600)	(64 788)
Increase (decrease) in cash and cash equivalents		(53 627)	8 715
Net FX differences		8 011	(4 399)
Cash and cash equivalents at the beginning of the period		265 885	202 089
Cash and cash equivalents at the end of the period	11	220 268	206 406

Interim abbreviated consolidated statement of changes in equity

	Attributable to the shareholders of the Parent Entity								
	Share capital	Reserve capital	FX differences on translation of foreign operations	Other reserves	Retained earnings (Accumulated losses)	Cumulated other total comprehensive income related to discontinued operations	Total	Equity attributable to non-controlling shareholders	Total equity
As at 01 January 2020	69 288	407 976	(28 863)	139 035	19 473	-	606 909	263 619	870 528
Net profit (loss) for the period	-	-	-	-	65 404	-	65 404	7 658	73 062
Other comprehensive income (net) for the period	-	-	14 460	(33 939)	-	-	(19 479)	(3 099)	(22 577)
Total comprehensive income for the period	-	-	14 460	(33 939)	65 404	-	45 925	4 560	50 484
As at 30 June 2020 (unaudited)	69 288	407 976	(14 403)	105 096	84 877	-	652 834	268 179	921 012

	Attributable to the shareholders of the Parent Entity								
	Share capital	Reserve capital	FX differences on translation of foreign operations	Other reserves	Retained earnings (Accumulated losses)	Cumulated other total comprehensive income related to discontinued operations	Total	Equity attributable to non-controlling shareholders	Total equity
As at 01 January 2019	69 288	407 976	(12 338)	151 110	(27 745)	(11 649)	576 643	284 550	861 193
Net profit (loss) for the period	-	-	-	-	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 activity	-	-	(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

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 6 months of 2020 amounted to PLN 1,430 million.

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

The Parent 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 2020 and contain comparable data for the period of 6 months ended on 30 June 2019; and in the consolidated statement of financial condition, it presents data as at 30 June 2020 and as at 31 December 2019.

The interim abbreviated consolidated statement of comprehensive income, the interim abbreviated profit and loss account and notes to the interim abbreviated consolidate 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 2020 and comparable data for the period of 3 months ended on 30 June 2019.

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 2020) 40,381,449 shares of our Company, which constitutes 58.28% of its share capital and corresponds to 58.28% of the total number of votes at General Meetings. Thus Nemus Holding AB is the Parent Entity of the Issuer.
Additionally, Mr Thomas Onstad, an indirect shareholder of Nemus Holding AB, holds directly 6,223,658 shares representing 8.98% of the total number of shares in the Company, and via another entity – 600,000 shares accounting for 0.87% of the

total number of shares of the Issuer. Mr Thomas Onstad's total direct and indirect holding in the capital of Arctic Paper S.A. as at 30 June 2020 and 31 December 2019 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	Group profile	Group's interest in the equity of the subsidiary entities as at			
			19 August 2020	30 June 2020	14 May 2020	31 December 2019
Arctic Paper Kostrzyn S.A.	Poland, Fabryczna 1, 66-470 Kostrzyn nad Odrą	Paper production	100%	100%	100%	100%
Arctic Paper Munkedals AB	Sweden, SE 455 81 Munkedal	Paper production	100%	100%	100%	100%
Arctic Paper Mochenwangen GmbH	Germany, Fabrikstrasse 62, DE-882, 84 Wolpertswende	Paper production	99,74%	99,74%	99,74%	99,74%
Arctic Paper Grycksbo AB	Sweden, Box 1, SE 790 20 Grycksbo	Paper production	100%	100%	100%	100%
Arctic Paper UK Limited	Great Britain, 8 St Thomas Street SE1 9RR London	Trading company	100%	100%	100%	100%
Arctic Paper Baltic States SIA	Latvia, K. Vardemara iela 33-20, Riga LV-1010	Trading company	100%	100%	100%	100%
Arctic Paper Deutschland GmbH	Germany, Am Sandtorkai 72, 20457 Hamburg	Trading company	100%	100%	100%	100%
Arctic Paper Benelux S.A.	Belgium,Ophemstraat 24 B-3050 Oud-Haverlee	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 Milano	Trading company	100%	100%	100%	100%
Arctic Paper Danmark A/S	Denmark, Korskildelund 6 DK-2670 Greve	Trading company	100%	100%	100%	100%
Arctic Paper France SAS	France, 43 rue de la Breche aux Loups, 75012 Paris	Trading company	100%	100%	100%	100%
Arctic Paper Espana SL	Spain, Avenida Diagonal 472-474, 9-1 Barcelona	Trading company	100%	100%	100%	100%
Arctic Paper Papierhandels GmbH	Austria, Hainborgerstrasse 34A, A-1030 Wien	Trading company	100%	100%	100%	100%
Arctic Paper Polska Sp. z o.o.	Poland, Okrężna 9, 02-916 Warsaw	Trading company	100%	100%	100%	100%
Arctic Paper Norge AS	Norway, Eikenga 11-15, NO-0579 Oslo	Trading company	100%	100%	100%	100%
Arctic Paper Sverige AB	Sweden, SE 455 81 Munkedal	Trading company	100%	100%	100%	100%
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	Group profile	Group's interest in the equity of the subsidiary entities as at			
			19 August 2020	30 June 2020	14 May 2020	31 December 2019
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%
Nykvist Skogs AB	Szweden, Gräsmark	Comapny grouping private owners of forests	51,27%	51,27%	51,27%	n/d
Rottneros Packaging AB	Sweden, Stockholm	Production of food packaging	51,27%	51,27%	51,27%	51,27%
SIA Rottneros Baltic	Latvia, Kuldiga	Procurement bureau	51,27%	51,27%	51,27%	51,27%

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

On 1 January 2020 the Group – via Rottneros AB – acquired control over Nykvist Skogs AB, a company grouping private owners of forests in Sweden. The transaction provided a broader access to raw materials over a long-term horizon.
As at 30 June 2020, and as well as on the day hereof, the percentage of voting rights held by the Group in its subsidiaries corresponded to the percentage held in the share capital of those entities. All subsidiaries within the Group are consolidated under the full method from the day of obtaining control by the Group and cease to be consolidated from the day the control has been transferred out of the Group.
On 1 October 2012, Arctic Paper Munkedals AB purchased 50% shares in Kalltorp Kraft Handelsbolaget with its registered office in Trolhattan, Sweden. Kalltorp Kraft is involved in the production of energy in its hydro power plant. The purpose of the purchase was to implement the strategy of increasing its own energy potential. The investment in Kalltorp Kraft was recognised as a joint venture and it is consolidated with the equity method.

3. Management and supervisory bodies

3.1. Management Board of the Parent Entity

As at 30 June 2020, the Parent Entity's Management Board was composed of:

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

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

3.2. Supervisory Board of the Parent Entity

As at 30 June 2020, the Parent Entity's Supervisory Board was composed of:

— Per Lundeen – Chairman of the Supervisory Board appointed on 22 September 2016 (appointed to the Supervisory Board on 14 September 2016);

- Roger Mattsson – Deputy Chairman of the Supervisory Board appointed on 22 September 2016 (appointed as a Member of the Supervisory Board on 16 September 2014);
- Thomas Onstad – Member of the Supervisory Board appointed on 22 October 2008;
- Mariusz Grendowicz – Member of the Supervisory Board appointed on 28 June 2012 (independent member);
- Dorota Raben – Member of the Supervisory Board appointed on 28 May 2019 (independent member).

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

3.3. Audit Committee of the Parent Entity

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

- Mariusz Grendowicz – Chairman of the Audit Committee 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;
- Dorota Raben – Member of the Audit Committee appointed on 19 July 2019.

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

4. Approval of the financial statements

These interim abbreviated consolidated financial statements were approved for publication by the Management Board on 19 August 2020.

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

These interim abbreviated consolidated financial statements have been prepared in compliance 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.

The interim abbreviated consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the Group's annual consolidated financial statements for the year ended on 31 December 2019.

5.1. Covid-19

In Q1 2020 the Arctic Paper Group did not suffer as a result of the COVID19 virus pandemic. In second quarter of 2020, the COVID19 pandemic had a material impact on the operations and results generated by the Arctic Paper Group. As a result of our advance measures, no facility of ours suffered any interruptions in supplies of raw materials or in transports of their products. Both paper mills and pulp mills recorded a reduced demand for their products. That was due to the lockdown introduced in a majority of European countries which are the core markets for Arctic Paper.

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

Special stress was put on ongoing monitoring of our customers' financial condition in order to mitigate the risk of overdue receivables. Optimisation measures were applied to improve the management effectiveness of working capital. We benefited from various financial support programs offered by various countries to group entities operating in specific countries.

As a result of all the efforts mentioned above, the Arctic Paper Group generated profit in the second quarter and the results attributable to shareholders of the Parent Entity for the first half of 2020 is much better that a year earlier.

Now it is hard to predict the impact of the pandemic and the related economic and social impact on the results and functioning of the Arctic Paper Group in the following quarters of 2020.

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

6. Significant accounting principles (policies)

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

— Amendments to *IAS 1 Presentation of Financial Statements* and *IAS 8 Accounting policies*, *changes in accounting estimates and errors* – applicable to annual periods beginning on or after 1 January 2020;

The amendments harmonise and clarify the definition of "Material" and provide guidelines in order to improve consistency in applying the concept in International Financial Reporting Standards.

— Amendments to *IFRS 9 Financial Instruments, IAS 39 Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures* – applicable to annual periods beginning on or after 1 January 2020;

The amendments are mandatory and apply to all hedge relationships affected by the uncertainty resulting from the reformed interest rates. The modifications provide for a temporary waiver of the use of certain hedge accounting requirements so that the interest rate reform does not cancel hedge accounting. The key waivers concerning the amendments refer to:

- the requirement that flows are "highly probable"
- risk components
- prospective assessment
- retrospective tests of effectiveness (applies to IAS 39)
- reclassification of provisions under cash flow hedges

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

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

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

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

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

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

The following standards and interpretations were issued by the International Accounting Standards Board but are not yet effective:

— *Disposal or Transfer of Assets between the Investor and an Associate Company or a Joint Venture (amendments to IFRS 10 Consolidated Financial Statements and to IAS 28 Investments in Associates);* The European Commission took a decision on deferring approval of those amendments for an undefined period. The amendments clarify that in case of a transaction made with an associate or a joint venture, the extent to recognise the related transactional profit or loss depends on that if the transferred or sold assets constitute a venture:

- the entire profit or loss is recognised if the transferred assets meet the definition of a venture (irrespective of the fact if the venture is a subsidiary entity or not);
- the profit or loss is recognised in part when the transaction covers assets that do not constitute a venture even if such assets were held in a subsidiary entity.

— *IFRS 17 Insurance Contracts* applies to annual periods beginning on or after 1 January 2021, prospective application; earlier application is permitted. The standard has not been yet endorsed by the EU. IFRS 17 that replaces temporary standard IFRS 4 Insurance Contracts that was implemented in 2004. IFRS 4 provided companies with a possibility to continue disclosing insurance contracts pursuant to the accounting principles applicable in national standards, which, as a result, meant application of different solutions. IFRS 17 solves the issue of comparability created by IFRS 4 through a requirement of coherent disclosure of all insurance contracts, which will be beneficial for both investors and insurers. Liabilities arising from contracts will be recognised at present values, instead of historic cost.

— *Amendments to IAS 1 Presentation of Financial Statements Classification of Liabilities as Current or Non-current* (applicable to annual reporting periods beginning on or after 1 January 2022, earlier application is permitted). Those amendments have not yet been endorsed by the EU. The amendments clarify that presentation of liabilities as current and non-current should be based solely on the right available to the Entity as of the reporting date to defer the payment of relevant liabilities. Such right to defer the payment of a liability for minimum 12 months from the reporting date does not have to be unconditional but it has to be material. The above presentation is not affected by intentions or expectations of the Entity's management as to the exercising of the right or the date when this is to happen. The amendments further provide clarification as to the events that are treated as discharge of liabilities.

The above changes are not expected to have material impact on the Group's financial statements.

6.2. Foreign currency translation

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

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

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

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

The following exchange rates were used for book valuation purposes:

	30 June 2020	31 December 2019
USD	3,9806	3,7977
EUR	4,4660	4,2585
SEK	0,4249	0,4073
DKK	0,5992	0,5700
NOK	0,4088	0,4320
GBP	4,8851	4,9971
CHF	4,1818	3,9213

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

	01/01 - 30/06/2020	01/01 - 30/06/2018
USD	4,0085	3,8002
EUR	4,4143	4,2940
SEK	0,4140	0,4085
DKK	0,5914	0,5752
NOK	0,4114	0,4413
GBP	5,0479	4,9167
CHF	4,1499	3,8017

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

Operational segments cover continuing activities. 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) – producer of high quality uncoated graphic paper under the Amber brand; production output of 315,000 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 brands of G-Print and Arctic; production output of 210,000 tonnes annually.

The "Pulp" operating segment is related to the purchase of the Rottneros Group in December 2012 and covers, inter alia, two Pulp Mills:

— the Pulp Mill in Rottneros (Sweden) produces mainly two types of mechanical pulp: groundwood and chemo-thermo mechanical pulp (CTMP), production level of about 160,000 tonnes annually;
— the Pulp Mill in Vallvik (Sweden) 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. Production level of about 240,000 tonnes annually.

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

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

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

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

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

The table below presents data concerning revenues and profit as well as certain assets and liabilities split by segments of the Group for the period of 6 months ended on 30 June 2020 and as at 30 June 2020.

6-month period ended on 30 June 2020 and on 30 June 2020

	Continuing operations						
	Uncoated	Coated	Pulp	Other	Total	Exclusions	Total continuing operations
Revenues							
Sales to external customers	718 404	273 149	438 395	-	1 429 948	-	1 429 948
Sales between segments	-	12 030	14 933	8 994	35 956	(35 956)	-
Total segment revenues	718 404	285 178	453 327	8 994	1 465 904	(35 956)	1 429 948
Result of the segment							
EBITDA	97 702	19 856	45 126	(2 507)	160 177	(326)	159 851
Interest income	222	82	-	2 416	2 720	(2 017)	703
Interest expense	(2 059)	(1 896)	(4 140)	(5 096)	(13 191)	1 843	(11 348)
Depreciation/amortisation	(32 500)	(2 404)	(20 534)	(517)	(55 955)	-	(55 955)
FX gains and other financial income	2 510	48	828	2 186	5 572	(5 562)	10
FX losses and other financial expenses	(2 437)	(4 281)	-	(3 410)	(10 127)	5 301	(4 827)
Gross profit	63 439	11 405	21 280	(6 928)	89 195	(762)	88 434
Assets of the segment	942 198	244 536	986 896	364 491	2 538 121	(521 541)	2 016 580
Liabilities of the segment	400 241	389 732	389 208	311 729	1 490 911	(435 510)	1 055 401
Capital expenditures	(37 384)	(9 191)	(25 761)	-	(72 336)	-	(72 336)
Interests in joint ventures	1 473	-	-	-	1 473	-	1 473

— Revenues from inter-segment transactions are eliminated on consolidation.

— The results of the segments do not cover financial income (PLN 713 thousand, of which PLN 703 thousand is interest income) and financial expenses (PLN 16,175 thousand of which PLN 11,348 thousand is interest expense), depreciation/amortisation (PLN 55,955 thousand), and income tax liability (PLN -15,372 thousand). However, segment results include inter-segment sales profit (PLN +326 thousand).

— Assets and liabilities of segments do not contain any deferred income tax (asset: PLN 27,622 thousand) and provision: PLN 69,262 thousand) and 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 2020 and as at 30 June 2020.

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

	Continuing operations						
	Uncoated	Coated	Pulp	Other	Total	Exclusions	Total continuing operations
Revenues							
Sales to external customers	293 909	109 864	212 227	-	616 000	-	616 000
Sales between segments	-	3 237	3 903	4 749	11 889	(11 889)	-
Total segment revenues	293 909	113 101	216 130	4 749	627 889	(11 889)	616 000
Result of the segment							
EBITDA	28 245	2 224	18 365	(865)	47 969	48	48 017
Interest income	105	20	-	1 111	1 237	(965)	271
Interest expense	(886)	(1 011)	(2 113)	(1 930)	(5 940)	821	(5 118)
Depreciation/amortisation	(16 532)	2 861	(9 870)	(245)	(23 786)	-	(23 786)
FX gains and other financial income	(2 187)	25	(4 849)	1 243	(5 768)	4 754	(1 015)
FX losses and other financial expenses	(1 462)	2 302	-	914	1 754	(5 105)	(3 351)
Gross profit	7 283	6 421	1 533	227	15 465	(448)	15 017
Assets of the segment	942 198	244 536	986 896	364 491	2 538 121	(521 541)	2 016 580
Liabilities of the segment	400 241	389 732	389 208	311 729	1 490 911	(435 510)	1 055 401
Capital expenditures	(17 913)	(4 896)	(16 834)	-	(39 643)	-	(39 643)
Interests in joint ventures	1 473	-	-	-	1 473	-	1 473

— Revenues from inter-segment transactions are eliminated on consolidation.

— The results of the segments do not cover financial income (PLN -744 thousand, of which PLN 271 thousand is interest income) and financial expenses (PLN 8,470 thousand of which PLN 5,118 thousand is interest expense), depreciation/amortisation (PLN 23,786 thousand), and income tax liability (PLN -4,244 thousand), However, segment result includes inter-segment loss (PLN -48 thousand).

— Assets and liabilities of segments do not contain any deferred income tax (asset: PLN 27,622 thousand) and provision: PLN 69.262 thousand) and since those items are managed at the Group level. Segment assets do not also include investments in companies operating in the Group.

The table below presents data concerning revenues and profit as well as certain assets and liabilities split by segments of the Group for the period of 6 months ended on 30 June 2019 and as at 31 December 2019.

6-month period ended on 30 June 2019 and on 31 December 2019

	Continuing operations						
	Uncoated	Coated	Pulp	Other	Total	Exclusions	Total continuing operations
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 (loss)	26 138	(7 228)	100 238	19 225	138 372	(27 957)	110 415
Assets of the segment	943 630	273 031	939 444	418 638	2 574 743	(564 747)	2 009 996
Liabilities of the segment	456 538	412 808	346 612	358 406	1 574 364	(479 961)	1 094 402
Capital expenditures	(22 305)	(1 538)	(15 753)	(56)	(39 652)	-	(39 652)
Interests in joint ventures	1 412	-	-	-	1 412	-	1 412

— Revenues from inter-segment transactions are eliminated on consolidation.

— The results of the segments do not cover financial income (PLN 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 24,346 thousand) and provision: PLN 70,823 thousand) and 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 31 December 2019.

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

	Continuing operations						
	Uncoated	Coated	Pulp	Other	Total	Exclusions	Total continuing operations
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 (loss)	26 446	(3 895)	41 704	20 352	84 608	(24 732)	59 874
Assets of the segment	943 630	273 031	939 444	418 638	2 574 743	(564 747)	2 009 996
Liabilities of the segment	456 538	412 808	346 612	358 406	1 574 364	(479 961)	1 094 402
Capital expenditures	(12 618)	(1 175)	(6 381)	(31)	(20 205)	-	(20 205)
Interests in joint ventures	1 412	-	-	-	1 412	-	1 412

— Revenues from inter-segment transactions are eliminated on consolidation.
— The results of the segments do not cover financial income (PLN -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 24,346 thousand) and provision: PLN 70,823 thousand) and since those items are managed at the Group level. Segment assets do not also include investments in companies operating in the Group.

9. Assets classified as available for sale, 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 activity as the applicable criteria for the activity have not been complied with. As a result, the profit/loss of the Mochenwangen Group was presented as continuing operations while the assets and liabilities of the Mochenwangen Group were presented as assets and liabilities related to continuing operations.

The Mochenwangen Group includes: Arctic Paper Mochenwangen GmbH, Arctic Paper Investment GmbH, Arctic Paper Verwaltungs GmbH and Arctic Paper Immobilienverwaltung GmbH Co&KG.

10. Income and costs

10.1. Revenues from contracts with customers

In H1 2020, revenues from sale of products amounted to PLN 1,429,948 thousand which was a decrease as compared to the equivalent period of the previous year by PLN 153,141 thousand due to a drop of sales volumes and lower sales prices of paper and lower sales prices of pulp when translated into PLN versus 2019. The reduced revenues from paper sales occurred in Q2 2020 while the reduced revenues from pulp sales were recorded both in Q1 and Q2 of the year. Sales revenues from paper amounted to PLN 991,553 thousand, while sales of pulp amounted to PLN 438,395 thousand. In H1 2019, paper sales revenues amounted to PLN 1,110,977 thousand while sales of pulp amounted to PLN 472,112 thousand.

Paper sales revenues in Q2 of 2020 amounted to PLN 616,000 thousand which was a decrease as compared to the equivalent period of the previous year by PLN 146,517 thousand. Sales revenues from paper amounted to PLN 403,773 thousand, while sales of pulp amounted to PLN 212,227 thousand. In Q2 2019, sales revenues from paper amounted to PLN 537,633 thousand while sales of pulp amounted to PLN 224,884 thousand.

The table below presents the Group's revenues from sales of paper and pulp to external customers, split by countries and regions, in 2020:

Revenues from sales of paper and pulp from external customers:	6-month-period ended on 30 June 2019 (unaudited)
Germany	292 526
France	100 858
United Kingdom	105 189
Scandinavia	221 650
Western Europe (other countries)	217 757
Poland	161 813
Central and Eastern Europe (other than Poland)	163 866
Outside Europe	166 289
Total revenues	1 429 948

10.2. Costs of sales

In H 2020, costs of sales of products amounted to PLN 1,135,413 thousand which was a decrease as compared to the equivalent period of the previous year by PLN 146,730 thousand. The costs of sales dropped primarily due to lower sales volumes of paper which affected the decrease of variable costs and additionally the decrease of pulp use costs expressed in PLN which resulted in a decrease of unit variable costs related to paper production.

In Q2 2020, costs of sales amounted to PLN 509,395 thousand, which was a decrease as compared to the equivalent period of the previous year by PLN 104,060 thousand, related primarily to lower paper sales volume and additionally with reduced costs of pulp use expressed in PLN versus the equivalent period in 2019.

10.3. Selling and distribution costs

Selling and distribution costs amounted to PLN 166,568 thousand in H1 2020, which was a decrease as compared to the equivalent period of the previous year by PLN 1,569 thousand. The core component of the selling expenses is the cost of transport of finished products.

Selling and distribution costs amounted to PLN 73,950 thousand in Q2 2020 which was a decrease as compared to the equivalent period of the previous year by PLN 9,431 thousand, primarily due to lower sales volumes of paper.

10.4. Administrative expenses

Administrative expenses amounted to PLN 38,807 thousand in H1 2020 which was a decrease as compared to the equivalent period of the previous year by PLN 3,048 thousand. The overheads cover primarily the expenses related to the services provided to the Group by external consultants.

Administrative expenses amounted to PLN 19,638 thousand in Q2 2020, which was a decrease as compared to the equivalent period of the previous year by PLN 1,378 thousand.

10.5. Other operating income

Other operating income totalled PLN 34,204 thousand in H1 2020, which was a decrease as compared to the equivalent period of the previous year by PLN 27,794 thousand. Other operating income consisted mainly of revenues from heat and electricity sales as well as sales revenues from other materials and CO2 emission rights. The lower other operating revenues in the current period was primarily due to lower sales of other materials and energy and CO2 emission rights. Additionally, land was sold by AP Mochenwangen in Q2 2019.

Other operating income amounted to PLN 20,893 thousand in Q2 2020, which was a decrease as compared to the equivalent period of the previous year by PLN 13.989 thousand, mainly due to the sale of land by AP Mochenwangen in Q2 2019.

10.6. Other operating expenses

Other operating expenses totalled PLN 19,468 thousand in H1 2020, which was a decrease as compared to the equivalent period of the previous year by PLN 5,832 thousand.

The other operating expenses comprised mainly the costs of electricity and heat sales as well as the costs of other materials sold. The lower other operating expenses in H1 2020 were due to lower costs of sold energy and other materials.

Other operating expenses amounted to PLN 9,679 thousand in Q2 2020, which was an increase as compared to the equivalent period of the previous year by PLN 8 thousand.

10.7. Financial income and financial expenses

In H1 2020, financial income and expenses amounted to PLN 713 thousand and PLN 16,175 thousand respectively, which was a decrease of income as compared to the equivalent period of the previous year by PLN 230 thousand and a decrease of expenses by PLN 2,005 thousand.

The changes to financial income and expenses were primarily due to the amount of net FX differences and interest expense. In H1 2020 the Group recorded a surplus of FX losses over FX profit of PLN 1,744 thousand (financial expenses). In the equivalent period of 2019, the Group recorded a surplus of FX losses over FX profit of PLN 2,645 thousand (also financial expenses). The interest expense dropped by PLN 808 thousand in H1 2020 versus H1 2019.

In Q2 2020, financial income and financial expenses amounted to PLN -744 thousand and PLN 8,470 thousand respectively, which was an increase of negative income as compared to the equivalent period of the previous year by PLN -555 thousand and a growth of expenses by PLN 1,344 thousand. The negative financial revenues in Q2 2020 and in 2019 were due to the net presentation of FX differences – lower net FX profit/gains for 3 months of 2020 and 2019 than the value of net FX losses for 6 months of 2020 and 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 2020 (unaudited)	As at 31 December 2019 (unaudited)
Cash in bank and on hand	220 185	206 406
Short-term deposits	-	-
Cash in transit	82	-
Cash and cash equivalents in the consolidated balance sheet	220 268	206 406
Cash in bank and on hand attributable to discontinued operations	-	-
Cash and cash equivalents in the consolidated cash flow statement	220 268	206 406

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

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

	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	(3 879)	(38 659)
Effect of the acquisition of a subsidiary	8 280	-
Discontinued operations	-	619
Differences on translation	9 315	(560)
Increase / decrease in receivables and other non-financial assets disclosed in the consolidated cash flow statement	13 716	(38 599)
Change to inventories		
Book change to inventories	(15 400)	58 632
Discontinued operations	828	-
Differences on translation	12 365	(13 538)
Change to inventories disclosed in the consolidated cash flow statement	(2 207)	45 094
Increase (decrease) of liabilities except loans, borrowings, bonds and other financial liabilities		
Book increase /decrease in liabilities except for loans and borrowings	(81 245)	(40 436)
Change to liabilities due to purchase of tangible fixed assets and intangible assets	6 528	(19 062)
Effect of the acquisition of a subsidiary	(1 242)	-
Discontinued operations	-	(2 284)
Differences on translation	(11 616)	12 526
Increase / decrease in liabilities except for loans, borrowings, bonds and other financial liabilities disclosed in the consolidated cash flow statement	(87 575)	(49 256)

Change in accruals and prepayments		
Book change in accruals and prepayments	9 527	(6 476)
Effect of the acquisition of a subsidiary	(11 178)	-
Discontinued operations	-	(176)
Differences on translation	(2 869)	2 945
	(4 520)	(3 707)
Change in accruals and prepayments disclosed in the consolidated cash flow statement		
Change in provisions		
Book change in provisions	4 357	(2 717)
Discontinued operations	-	(864)
Differences on translation	(5 110)	4 486
Change in provisions disclosed in the consolidated cash flow statement	(753)	905
Purchase of tangible fixed assets and intangible assets		
Increase due to purchase of tangible fixed assets	(65 747)	(58 127)
Increase due to purchase of intangible assets	(2 229)	(1 570)
Co-generation certificates and CO2 emission rights	2 169	982
Change to liabilities due to purchase of tangible fixed assets and intangible assets	(6 528)	19 062
Purchase of tangible fixed assets and intangible assets in the consolidated cash flow statement	(72 336)	(39 652)

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 2019.

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

In 2019 the Company did not pay out dividend.

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

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 2020 and for the equivalent period of the previous year are as follows:

	3-month-period ended on 30 June 2020 (unaudited)	6-month-period ended on 30 June 2020 (unaudited)	3-month-period ended on 30 June 2019 (unaudited)	6-month-period ended on 30 June 2019 (unaudited)
Consolidated profit and loss account				
Current income tax				
Current income tax liability	(3 322)	(9 255)	9 664	(3 658)
Adjustments related to current income tax from previous years	-	-	-	-
Deferred income tax				
Resulting from the establishment and reversal of temporary differences	(922)	(6 117)	(21 840)	(22 169)
Tax liability on continuing operations disclosed in the consolidated profit and loss account	(4 244)	(15 372)	(12 176)	(25 827)
Consolidated statement of changes in equity				
Current income tax				
Tax effects of the costs of increase of share capital	-	-	-	-
Tax benefit (tax liability) recognised in equity	-	-	-	-
Consolidated statement of comprehensive income				
Deferred income tax				
Deferred income tax on the measurement of hedging instruments	(8 609)	13 019	(690)	8 752
Reversal of deferred income tax assets originally recognised in equity	-	-	-	-
Tax benefit (tax liability) recognised in other comprehensive income	(8 609)	13 019	(690)	8 752

13.2. Deferred income tax asset/provision

Deferred income tax asset as at 30 June 2020 and 31 December 2019 was PLN 27,622 thousand and PLN 24,346 thousand respectively. The deferred income tax asset is recognised primarily in relation to tax losses that may be applied in future years, temporary differences related to the recognised allowance for impairment of non-financial assets in APG and in connection with the acquisition of the Rottneros Group.

Deferred income tax liability as at 30 June 2020 and 31 December 2019 amounted to PLN 69,262 thousand and PLN 70,823 thousand respectively. The deferred income tax provision is recognised primarily in relation to temporary differences due to various economic useful life applied for accounting and tax purposes.

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 2020 (unaudited)	6-month-period ended on 30 June 2020 (unaudited)	3-month-period ended on 30 June 2019 (unaudited)	6-month-period ended on 30 June 2019 (unaudited)
Net profit / (loss) from continuing operations attributable to the shareholders of the Parent Entity	10 441	65 404	31 644	45 896
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	10 441	65 404	31 644	45 896
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	0,15	0,94	0,46	0,66
– basic earnings profit/(loss) for the period from continuing operations attributable to the shareholders of the Parent Entity	0,15	0,94	0,46	0,66
Diluted profit (loss) per share (in PLN)				
– from the profit/(loss) for the period attributable to the shareholders of the Parent Entity	0,15	0,94	0,46	0,66
– from the profit/(loss) for the period from continuing operations attributable to the shareholders of the Parent Entity	0,15	0,94	0,46	0,66

15. Acquisition of a subsidiary company

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

16. Tangible fixed assets and intangible assets and impairment

16.1. Tangible fixed assets and intangible assets

The net value of tangible fixed assets as at 30 June 2020 was PLN 1,019,478 thousand, including assets of the right of use of PLN 36,241 thousand. The net value of tangible fixed assets as at 31 December 2019 was PLN 979,851 thousand, including assets of the right of use of PLN 38,485 thousand.

A comparison to tangible fixed assets (without assets to use) for the six months of 2020 with the equivalent period of 2019 was as follows: The value of tangible fixed assets acquired in the period under report was PLN 65,747 thousand (for the period of 6 months ended on 30 June 2019 it was PLN 58,127 thousand). The net value of sold or liquidated tangible fixed assets for the period of 6 months ended on 30 June 2020 was PLN 437 thousand (for the period of 6 months ended on 30 June 2019 it was PLN 841 thousand). Amortisation allowances for the period of 6 months ended on 30 June 2020 amounted to PLN 50,438 thousand) (for the period of 6 months ended on 30 June 2019 it was PLN 38,506 thousand). Loss charges of the value of tangible fixed assets for the period of 6 months ended on 30 June 2020 was PLN 0 thousand (for the period of 6 months ended on 30 June 2019 it was PLN 0 thousand). FX differences amounted to PLN +24,930 thousand for the period of 6 months ended on 30 June 2020 (for the period of 6 months ended on 30 June 2019 they amounted to PLN -22,106 thousand). Additionally, the good value of fixed assets taken over from the subsidiary company as of the day when control was acquired in H1 2020 was PLN 2,070 thousand. The net value of fixed assets used pursuant to financial leas contracts and transferred as at 1 January 2019 to assets of the right to use amounted to PLN 4,268 thousand.

A comparison of movements in assets to use for the first six months of 2020 with the equivalent period of 2019 was as follows: The increases for the 6-month period ended on 30 June 2020 amounted to PLN 1,429 thousand (for the 6-month period ended on 30 June 2019 the amount was PLN 1,419 thousand), the depreciation allowance for the 6 months ended on 30 June 2020 amounted to PLN 4,357 thousand (for the period of 6 months ended on 30 June 2019 it was PLN 3,997 thousand), the decreases for the 6-month period ended on 30 June 2020 amounted to PLN 264 thousand (for the 6-month period ended on 30 June 2019 the amount was PLN 0 thousand), FX gains/losses for the 6 months ended on 30 June 2020 amounted to PLN +948 thousand (for the period of 6 months ended on 30 June 2019 it was PLN 0 thousand).

The net value of intangible assets as at 30 June 2020 was PLN 49,312 thousand, and it was by PLN 10,841 thousand higher than as at 31 December 2019. The value of intangible assets acquired in the period under report was PLN 2,229 thousand (for the period of 6 months ended on 30 June 2019 it was PLN 1,570 thousand). The net value of sold or liquidated intangible assets for the period of 6 months ended on 30 June 2020 was PLN 213 thousand (for the period of 6 months ended on 30 June 2019 it was PLN 7,824 thousand). Amortisation allowances for the period of 6 months ended on 30 June 2020 amounted to PLN 1,160 thousand (for the period of 6 months ended on 30 June 2019 it was PLN 1,456 thousand). Impairment of assets for the period of 6 months ended on 30 June 2020 was PLN 0 thousand (for the period of 6 months ended on 30 June 2019 it was PLN 0 thousand). FX gains/losses for the period of 6 months ended on 30 June 2020 amounted to PLN +1,291 thousand (for the period of 6 months ended on 30 June 2019 it was PLN -2,386 thousand). Additionally, the value of goodwill as of the day when control was acquired in H1 2020 was PLN 8,694 thousand.

The high value of the sold intangible assets for the 6-month period ended on 30 June 2019 was related to the expiry of the support system in the form of red certificates for coal co-generation and yellow certificates for gas co-generation at AP Kostrzyn as at 31 December 2018.

Revenues from disposal of tangible fixed and intangible assets in H1 2020 amounted to PLN 1,292 thousand (in H1 2019 net of revenues from the sale of co-generation certificates: PLN 18,392 thousand). The high value of revenues from sales of tangible fixed assets and intangible assets in H1 2019 was due to the sale of land by AP Mochenwangen.

16.2. Impairment of non-financial assets

Due to the uncertainty caused by the COVID-19 pandemic, an impairment tests of non-financial fixed assets for AP Grycksbo was carried out. 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 2020 was not changed as compared to the impairment charges as at 31 December 2019.

17. Inventories

	As at 30 June 2020 (unaudited)	As at 31 December 2019
Materials (at purchase prices)	137 357	126 921
Production in progress (at manufacturing costs)	8 666	5 928
Finished products, of which:		
At purchase price / manufacturing costs	216 670	210 411
At net realisable price	6 320	10 413
Advance payments for deliveries	161	101
Total inventories, at the lower of: purchase price / manufacturing costs or net realisable price	369 174	353 774
Impairment charge to inventories	11 286	10 291
Total inventories before impairment charge	380 460	364 065

Net inventories as at 30 June 2020 amounted to PLN 369,174 thousand (as at 31 December 2019: PLN 353,774 thousand). As at 30 June 2020 impairment charges to inventories amounted to PLN 11,286 thousand (as at 31 December 2019: PLN 10,291 thousand). As at 30 June 2020 the inventories of finished products amounted to PLN 6,320 thousand were measured at the net realisable prices (as at 31 December 2019 the amount was PLN 10,413 thousand.

The increased inventories as at 30 June 2020 versus the end of the previous year was the result of lower stock rotation, in comparison to 2019.

18. Trade and other receivables

	As at 30 June 2020 (unaudited)	As at 31 December 2019
Trade receivables	274 970	262 903
VAT receivables	22 562	32 998
Other third party receivables	5 060	3 005
Other receivables from related entities	3 408	3 215
Total (net) receivables	306 000	302 121
Impairment charges to receivables	20 176	19 222
Gross receivables	326 176	321 343

The value of trade and other receivables amounted to PLN 306,000 thousand as at 30 June 2020 (31 December 2019: PLN 302,121 thousand). The value of trade and other receivables did not change materially as at 30 June 2020 versus the end of 2019.

All the trade receivables specified above are receivables under contracts with customers and they do not contain any material financing element.

Trade receivables do not earn interest and have customary payment terms of 30 to 90 days.

The Group has an appropriate policy of selling solely to verified customers. Therefore, in the opinion of the management, there is no additional credit risk in excess of the level identified with the impairment charge to uncollectible receivables characteristic for the Group's trade receivables.

As at 30 June 2020, trade receivables of PLN 20,176 thousand (as at 31 December 2019: PLN 19,222 thousand) were deemed as uncollectible and therefore subject to an impairment charge. The impairment allowance fully refers to receivables under contracts with customers. The growth of the impairment allowances to receivables was primarily due to the recognition thereof in H1 2020.

Below is an analysis of trade receivables that as at 30 June 2020 and 31 December 2019 were overdue but not treated as uncollectible:

	Total	Not overdue	Overdue but collectible				
			< 30 days	30-60 days	60-90 days	90-120 days	>120 days
As at 31 December 2019	274 970	239 824	27 999	3 783	1 219	29	2 116
As at 31 December 2018	262 903	207 231	50 447	2 534	1 438	94	1 159

Receivables over 120 days in the prospective assessment of the Company's management qualify as collectible and therefore no impairment was recognised.

The maturities of other receivables from third parties do not exceed 360 days. Receivables from related entities cover primarily receivables from the core shareholder of AP S.A. and will be settled at dividend distribution.

The Group analyses the balance of its receivables individually and does not analyse the entire portfolio in terms of ageing. The recognised allowance relates to balances analysed individually as a result of an increased credit risk. The Group did not recognise any allowance for the remaining balances. No additional risks were identified and no allowance was recognised for the entire portfolio.

19. Other non-financial and financial assets

Other short-term non-financial assets as at 30 June 2020 and as at 31 December 2019 amounted to PLN 14,263 thousand and PLN 8,909 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 2020 and as at 31 December 2019 amounted to PLN 2,112 thousand and PLN 2,039 thousand respectively.

Other short-term financial assets amounted to PLN 3,824 thousand as at 30 June 2020 and PLN 18,835 thousand as at 31 December 2019. The item primarily includes positive measurement of term contracts and the drop is due to lower measurement of forward contracts for purchases of electrical energy (negative measurement as at 30 June 2020).

Other long-term financial assets as at 30 June 2020 amounted to PLN 20,900 thousand as at 31 December 2019 – PLN 30,658 thousand. The item primarily covers the amount of equity interests in other entities, other financial receivables and the amount of positive measurement of terms contracts, primarily forward contracts for the purchase of electrical energy. The changes in the measurement of those contracts (negative measurement as at 30 June 2020) result in changes to the measurement of that position.

20. 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 23,327 thousand and the Group decreased its debt under revolving overdraft facilities to the above consortium of banks by PLN 15 thousand. In that period, the Group partially redeemed its bonds for PLN 8,300 thousand and partly repaid the loan from the owner of PLN 11,333 thousand. Additionally, the Group increased its debt under the loan with Nordea for PLN 12,283 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 2020, compared to 31 December 2019 result mainly from balance sheet evaluation and payment of interest accrued as at 31 December 2019 and paid in Q1 2020.

In connection with the term and revolving loan agreements, agreements related to bond issues, signed on 9 September 2016, the Group agreed to maintain specified financial ratios that are calculated at the end of each quarter. The ratios are calculated on the basis of results of the paper segment. As at 30 June 2020, the Group complied with the required ratios.

21. Other financial liabilities

As at 30 June 2020 other financial liabilities amounted to PLN 73,789 thousand (including long-term liabilities of PLN 51,212 thousand and short-term liabilities of PLN 22,577 thousand. As at 31 December 2019 other financial liabilities amounted to PLN 41,132 thousand (including long-term liabilities of PLN 29,523 thousand and short-term liabilities of PLN 11,608 thousand). Other financial liabilities primarily cover lease liabilities (30 June 2020: PLN 35,066 thousand) and (31 December 2019: PLN 38,215 thousand) and a negative measurement of hedging instruments (30 June 2020: PLN 37,699 thousand) and (31 December 2019: PLN 2,748 thousand).

During the reporting period, there was a growth of liabilities related to a negative measurement of hedging instruments (primarily forward contracts for purchases of energy) by PLN 34,951 thousand. During the reporting period, the Group repaid a part of its lease liabilities of PLN 5,327 thousand.

The other changes to other financial liabilities as at 30 June 2020, compared to 31 December 2019 result mainly from changes to balance sheet measurement.

22. Trade and other payables

The value trade and other payables amounted to PLN 354,121 thousand as at 30 June 2020 (as at 31 December 2019: PLN 435,366 thousand). The reduced value of the item versus the end of the previous year was due to the following: decreased pulp prices for paper production and lower purchases of raw materials and services for production at Paper Mills and Pulp Mills.

23. Change in provisions

	As at 30 June 2020 (unaudited)	As at 31 December 2019
Retirement provisions	128 681	124 556
Other provisions	5 626	5 394
	134 307	129 950
Short-term provisions	5 188	5 008
Long-term provisions	129 119	124 942

The change of provisions in H1 2020 was due primarily to the translation of the provisions into the presentation currency – PLN. The other provisions cover primarily a provision for the purchase of CO_2 emission rights by AP Munkedals.

24. Accruals and deferred income

Accruals and deferred income as at 30 June 2020 amounted to PLN 114,824 thousand including short-term accruals and deferred income of PLN 98,589 thousand. Accruals and deferred income as at 31 December 2019 amounted to PLN 99,943 thousand including short-term accruals and deferred income of PLN 81,849 thousand. The main items of accruals and deferred income include government grants of PLN 18,653 thousand including long-term of PLN 16,235 thousand (31 December 2019: PLN 20,349 thousand including long-term of PLN 18,094) and short-term employee liabilities, mainly related to holiday leaves that as at 30 June 2020 amounted to PLN 56,668 thousand (31 December 2019: PLN 60,589 thousand).

25. Share capital

Share capital	As at 30 June 2020 (unaudited)	As at 31 December 2019
series A ordinary shares of the nominal value of PLN 1 each	50	50
series B ordinary shares of the nominal value of PLN 1 each	44 254	44 254
series C ordinary shares of the nominal value of PLN 1 each	8 100	8 100
series E ordinary shares of the nominal value of PLN 1 each	3 000	3 000
series F ordinary shares of the nominal value of PLN 1 each	13 884	13 884
	69 288	69 288

	Registration date of capital increase	Number	Value in PLN
Ordinary issued and fully paid-up shares			
Issued on 30 April 2008	2008-05-28	50 000	50 000
Issued on 12 September 2008	2008-09-12	44 253 468	44 253 468
Issued on 20 April 2009	2009-06-01	32	32
Issued on 30 July 2009	2009-11-12	8 100 000	8 100 000
Issued on 01 March 2010	2010-03-17	3 000 000	3 000 000
Issued on 20 December 2012	2013-01-09	10 740 983	10 740 983
Issued on 10 January 2013	2013-01-29	283 947	283 947
Issued on 11 February 2013	2013-03-18	2 133 100	2 133 100
Issued on 06 March 2013	2013-03-22	726 253	726 253
As at 30 June 2020 (unaudited)		69 287 783	69 287 783

26. 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.

26.1. 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 2020	Book value As at 31 December 2019
Financial assets			
Trade and other receivables	*WwZK*	282 679	269 123
Hedging instruments*	*IRZ*	3 824	29 458
Other financial assets (net of loans and hedging instruments)**	*WwWGpWF*	20 900	20 034
Cash and cash equivalents	*WwZK*	220 268	265 885
Financial liabilities			
Interest-bearing bank loans and borrowings and bonds, of which:	*WwZK*	368 265	383 727
- long-term		291 380	233 745
- short-term		76 885	149 983
Leasing liabilities, of which:	*WwZK*	35 066	38 215
- long-term		27 701	29 523
- short-term		7 365	8 692
Trade payables and other financial liabilities	*WwZK*	330 556	387 666
Hedging instruments*	*IRZ*	37 699	2 748

* derivative hedging instruments meeting the requirements of hedge accounting

** primarily equity interests in other entities and other financial receivables.

Abbreviations used:

WwZK – Financial assets/liabilities measured at amortised cost.
IRZ – hedge accounting instruments
WwWGpWF – financial assets/liabilities measured at fair value through profit and loss

The fair value of financial instruments other than bonds in SEK does not materially differ from their book value. The fair value of SEK bonds was determined on the basis of quotations in Bloomberg as at 30 June 2020 and amounted to PLN 174,634 thousand and their book value as at the same date was PLN 168,685 thousand. More information on the fair value of financial instruments is provided in the Annual Consolidated Report for 2019, 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).

26.2. 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 2020 Variable interest rate	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Other financial liabilities:							
Lease liabilities	7 365	7 441	3 155	2 703	1 291	13 111	35 066
Loans and borrowings:							
Bonds in SEK	-	-	168 685	-	-	-	168 685
Loan from Nordea	-	31 285	-	-	-	-	31 285
Total variable interest rate loans and borrowings	-	31 285	168 685	-	-	-	199 970
TOTAL VARIABLE INTEREST RATE LIABILITIES	7 365	38 726	171 840	2 703	1 291	13 111	235 036

30 June 2020 Fixed interest rate	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Loans and borrowings:							
Loan from EBRD TA in EUR	9 377	8 731	4 087	-	-	-	22 195
Loan from EBRD in EUR Capex A Facility	8 236	6 779	1 790	-	-	-	16 805
Loan from EBRD in EUR Capex B Facility	15 526	14 164	6 568	-	-	-	36 258
Loan from Santander in PLN	2 370	1 089	-	-	-	-	3 459
Loan from BNP in EUR	2 361	1 113	-	-	-	-	3 474
Loan from a bank consortium: Santander and BNP in PLN	8 612	-	-	-	-	-	8 612
Bonds in PLN	19 154	47 089	-	-	-	-	66 243
Loan from the main shareholder in EUR	11 249	-	-	-	-	-	11 249
TOTAL FIXED INTEREST RATE LIABILITIES	76 885	78 965	12 445	-	-	-	168 295

31 December 2019 Variable interest rate	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Other financial liabilities:							
Liabilities under leases	8 692	6 328	3 029	2 138	1 903	16 125	38 215
Loans and borrowings:							
Loan from Nordea Bank Abp in SEK	-	17 905	-	-	-	-	17 905
Bonds in SEK	-	-	161 291	-	-	-	161 291
Total variable interest rate loans and borrowings	-	17 905	161 291	-	-	-	179 195
TOTAL VARIABLE INTEREST RATE LIABILITIES	8 692	24 233	164 320	2 138	1 903	16 125	217 410

31 December 2019 Fixed interest rate	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Loans and borrowings:							
Loan from EBRD TA in EUR	25 237	-	-	-	-	-	25 237
Loan from EBRD Capex A in EUR	19 654	-	-	-	-	-	19 654
Loan from Santander in PLN	41 032	-	-	-	-	-	41 032
Loan from BNP in EUR	4 584	-	-	-	-	-	4 584
Loan from a bank consortium: Santander and BNP in PLN	4 382	-	-	-	-	-	4 382
Bonds in PLN	14 348	-	-	-	-	-	14 348
Revolving overdraft facility with BNP in PLN	19 166	54 549	-	-	-	-	73 715
Loan from the owner of the core shareholder in EUR	21 579	-	-	-	-	-	21 579
TOTAL FIXED INTEREST RATE LIABILITIES	149 983	54 549	-	-	-	-	204 532

26.3. 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 2020, the Group used cash flow hedge accounting for the following hedging items:

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

26.3.1. Cash flow hedges

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

Hedge accounting of cash flows from sales of pulp

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

Type of hedge	Cash flow hedge related to sales of pulp
Hedged position	The hedged position is a part of highly likely future cash inflows for pulp sales
Hedging instruments	Forward contracts are used as the hedging item wherein the Company agrees to sell pulp for SEK
Contract parameters:	
Contract conclusion date	2019-2020
Maturity	subject to contract; by 30.06.2021
Hedged quantity of pulp	16,500 tonnes
Term price	SEK 8,828/tonne

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

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

Type of hedge	Cash flow hedge related to planned purchases of electricity
Hedged position	The hedged position is a part of highly likely future cash flows for electricity purchases
Hedging instruments	Forward contract for the purchase of electricity at Nord Pool Exchange
Contract parameters:	
Contract conclusion date	subject to contract; from 01.05.2016
Maturity	subject to contract; by 31.12.2025
Hedged quantity of electricity	1,818,640 MWh
Term price	from 20.90 to 38.45 EUR/MWh

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

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

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

Type of hedge	Hedge of cash flows related to variable interest rate on the EUR long-term loan
Hedged position	Future EUR interest flows on EUR loan calculated on the basis of 6M EURIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in EUR on the EUR loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	2017-07-18
Maturity	each interest payment date in line with the payment schedule under the loan agreement; by 31.08.2022
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 3.986 thousand

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

Type of hedge	Hedge of cash flows related to variable interest rate on the EUR long-term loan
Hedged position	Future EUR interest flows on EUR loan calculated on the basis of 6M EURIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in EUR on the EUR loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	2018-07-27
Maturity	each interest payment date in line with the payment schedule under the loan agreement; by 31.08.2022
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 3.344 thousand

Type of hedge	Hedge of cash flows related to variable interest rate on the EUR long-term loan
Hedged position	Future EUR interest flows on EUR loan calculated on the basis of 6M EURIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in EUR on the EUR loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	2019-10-15
Maturity	each interest payment date in line with the payment schedule under the loan agreement; by 28.08.2022
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 10 million

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

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

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

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

26.3.2. Fair value hedges

As at 30 June 2020, the Group had floor options as hedge to fair value.

Fair value hedge accounting related to a floor option

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

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

Type of hedge	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	each interest payment date in line with the payment schedule under the loan agreement; by 31.08.2022
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 3.344 thousand

Type of hedge	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	2019-10-15
Maturity	each interest payment date in line with the payment schedule under the loan agreement; by 31.08.2022
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 10 million

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

	As at 30 June 2020		As at 31 December 2019	
	(unaudited)	(unaudited)		
	Assets	Equity and liabilities	Assets	Equity and liabilities
FX forward	-	-	-	-
Forward on pulp sales	3 824	-	2 444	-
SWAP	-	3 290	-	3 163
Floor option	-	(463)	-	(415)
Forward for electricity	-	34 872	27 014	-
Total hedging derivative instruments	**3 824**	**37 699**	**29 458**	**2 748**

27. Financial risk management objectives and policies

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

The Group also uses factoring without recourse for trade receivables. The main purpose for using the financial instrument is to quickly raise funds. The receivables covered with factoring were derecognised from the consolidated balance sheet since conditions have been met to derecognise the assets in compliance with IAS 39.

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

The Arctic Paper Group uses cash-pooling EUR and PLN. The operation consists in pooling cash balances held by the individual system participants and setting them off with temporary shortages of funds with the other cash-pool participants. The solution supports effective cash management in the Group and minimising the costs of external funding sources by using the Group's own cash.

In the opinion of the Management Board – in comparison to the annual consolidated financial statements made as at 31 December 2019 there have been no significant changes of the financial risk. There have been no changes to the objectives and policies of the management of the risk.

28. Capital management

The primary objective of the Group's capital management is maintaining a strong credit rating and healthy capital ratios in order to support its business operations and maximise shareholder value. In the Management Board's opinion – in comparison to the annual consolidated financial statements made as at 31 December 2019, there have been no significant changes to the objectives and policies of capital management.

29. Contingent liabilities and contingent assets

As at 30 June 2020, the Capital Group reported:

— contingent liability under a guarantee for FPG in favour of the mutual life insurance company PRI for SEK 1,382 thousand (PLN 587 thousand) at Arctic Paper Grycksbo AB and for SEK 764 thousand (PLN 325 thousand) at Arctic Paper Munkedals AB;
— a contingent liability of Arctic Paper Munkedals AB related to a surety for the obligations of Kalltorp Kraft HB in the amount of SEK 402 thousand (PLN 171 thousand);
— a bank guarantee in favour of Skatteverket Ludvika for SEK 135 thousand (PLN 57 thousand).

30. Legal claims

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

31. 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 end 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 2020.

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.

32. Investment plans

As at 30 June 2020 the Group was committed to make expenditures on tangible fixed assets of minimum PLN 20 million by the end of 2020. The amount will be applied to buy new machines and equipment.

33. Transactions with related entities

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

- Thomas Onstad – the corer shareholder of Arctic Paper S.A. holding directly or indirectly over 50% of shares in the Company's share capital,
- Nemus Holding AB – parent entity to the Arctic Paper S.A. Group since 3 September 2014,
- Munkedal Skog – a subsidiary of Nemus Holding AB
- Key managing personnel.

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 2020 and as at 30 June 2020:

Data for the period from 01 January 2020 to 30 June 2020 and as at 30 June 2020

Related Entity	Sales to related entities	Purchases from related entities/ remuneration	Interest – financial income	Interest – financial expense	Receivables from related entities	Loan receivables	Liabilities to related entities
Nemus Holding AB	207	477	-	-	3 408	-	465
Thomas Onstad	-	-	-	561	-	-	11 246
Munkedals Skog	-	70	-	-	-	-	-
Key managing personnel	-	1 535	-	-	-	-	180
Total	207	2 083	-	561	3 408	-	11 891

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 31 December 2019:

Data for the period from 01 January 2019 to 30 June 2019 and as at 31 December 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	-	-	3 215	-	-
Thomas Onstad	-	-	-	645	-	-	21 574
Munkedals Skog	-	112	-	-	-	-	46
Total	-	553	-	645	3 215	-	21 620

34. 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, 2019 and in H1 2020.

(in tons) for Arctic Paper Kostrzyn S.A.;	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Allocation*	208 448	208 448	208 448	208 448	208 448	108 535	105 434	102 452	99 840	97 375	94 916	92 454	90 009
Unused quantity from previous years	-	98 511	115 865	183 411	261 812	348 490	306 448	263 932	203 917	133 061	87 652	46 003	7 194
Issue	109 643	131 094	143 659	136 564	(140 994)	(150 577)	(147 950)	(162 467)	(170 696)	(142 784)	(136 565)	(131 263)	(65 531)
Purchased quantity	-	14 000	47 800	21 000	21 424	-	-	-	-	-	-	-	25 000
Sold quantity	-	74 000	45 043	14 483	(2 200)	-	-	-	-	-	-	-	-
Unused quantity	98 511	115 865	183 411	261 812	348 490	306 448	263 932	203 917	133 061	87 652	46 003	7 194	56 672

(in tons) for Arctic Paper Munkdals AB	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Allocation	14 011	14 011	14 011	14 011	14 011	44 238	43 470	42 692	41 907	41 113	40 311	39 499	38 685
Unused quantity from previous years	-	(14 223)	(16 655)	(21 504)	(5 711)	24 305	67 262	107 325	17 559	(11 572)	(10 619)	(27 676)	(36 353)
Issue	28 234	23 834	26 120	15 918	(3 155)	(1 281)	(3 407)	(32 465)	(21 038)	(40 160)	(57 368)	(48 176)	(10 921)
Purchased quantity	-	7 400	19 200	17 700	19 160	-	-	7	-	-	-	-	-
Sold quantity	-	-	11 940	-	-	-	-	(100 000)	(50 000)	-	-	-	-
Unused quantity	(14 223)	(16 655)	(21 504)	(5 711)	24 305	67 262	107 325	17 559	(11 572)	(10 619)	(27 676)	(36 353)	(8 589) **

(in tons) for Arctic Paper Grycksbo AB			2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Allocation	n/a	n/a	69 411*	69 411	69 411	77 037	75 689	74 326	72 948	71 556	70 151	68 730	50 284
Unused quantity from previous years			-	11	411	69 411	111 448	734	60	1 008	2 564	-	-
Issue	n/a	n/a	-	-	-	-	-	-	-	-	-	-	-
Purchased quantity	n/a	n/a	-	-	-	-	-	-	-	-	-	-	-
Sold quantity	n/a	n/a	69 400	69 000	(411)	(35 000)	(186 403)	(75 000)	(72 000)	(70 000)	(72 715)	(68 730)	(25 000)
Unused quantity	n/a	3 175	11	411	69 411	111 448	734	60	1 008	2 564	-	-	25 284

(in tons) for the Rottneros Group					2012	2013	2014	2015	2016	2017	2018	2019	2020
Allocation	n/a	n/a				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	20 037
Issue	n/a	n/a				(13 047)	(19 020)	(26 933)	(21 293)	(18 707)	(15 372)	(25 765)	(14 616)
Purchased quantity	n/a	n/a				-	-	-	-	-	-	-	-
Sold quantity	n/a	n/a				-	-	-	-	-	(63 000)	(55 000)	-
Unused quantity	n/a	3 175			72 888*	90 522	101 986	104 991	113 085	123 208	73 104	20 037	32 548

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

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

35. Government grants and operations in the Special Economic Zone

35.1. Government grants

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

35.2. Operations in the Special Economic Zone

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

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

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

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

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

During the period from 25 August 2006 to 30 June 2020, the Company incurred eligible investment expenditures classified as (non-discounted) expenditure in KSSSE in the amount of PLN 227,102 thousand. During the period, the discounted amount of related public aid was PLN 66,358 thousand.

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

As at June 30, 2020, the Group used all tax benefits related to the expenses incurred in the KSSSE and therefore did not recognize any deferred tax assets on this account.

36. Material events after the reporting period

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

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

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

Signatures of the Members of the Management Board

Position	First and last name	Date	Signature
President of the Management Board Chief Executive Officer	Michał Jarczyński	19 August 2020	signed with a qualified electronic signature
Member of the Management Board Chief Financial Officer	Göran Eklund	19 August 2020	signed with a qualified electronic signature

Interim abbreviated standalone financial statements

for the period of six months
ended on 30 June 2020

Interim abbreviated standalone financial statements

Interim abbreviated standalone statement of profit and loss

	Note	3-month period ended on 30 June 2020 (unaudited)	6-month period ended on 30 June 2020 (unaudited)	3-month period ended on 30 June 2019 (unaudited)	6-month period ended on 30 June 2019 (unaudited)
Continuing operations					
Revenues from sales of services		4 750	8 994	7 587	14 908
Interest income on loans from related entities	11.1	787	1 713	1 088	2 227
Dividend income	15	304	304	23 109	25 759
Sales revenues		5 840	11 012	31 783	42 894
Interest expense to related entities and costs of sales of logistics services	11.1	(1 372)	(2 651)	(1 353)	(2 689)
Gross profit (loss) on sales		4 469	8 361	30 430	40 205
Other operating income		40	311	21	103
Selling and distribution costs	11.3	-	-	(955)	(1 529)
Administrative expenses	11.2	(4 842)	(10 325)	(6 310)	(12 956)
Change of impairment charges to assets		(27)	(635)	643	451
Other operating expenses	11.3	(55)	(55)	(33)	(159)
Operating profit (loss)		(415)	(2 343)	23 797	26 114
Financial income		1 127	2 422	2 109	3 312
Financial expenses		(646)	(7 804)	(4 436)	(9 751)
Gross profit (loss)		66	(7 725)	21 469	19 675
Income tax		-	-	-	(1)
Net profit (loss) from continuing operations		66	(7 725)	21 469	19 675
Discontinued operations					
operations		-	-	-	-
Net profit (loss) for the financial year		66	(7 725)	21 469	19 675
Earnings per share:					
– basic earnings from the profit (loss) for the period		0,00	(0,11)	0,31	0,28
– basic earnings from the profit (loss) from continuing operations for the period		0,00	(0,11)	0,31	0,28

Interim abbreviated standalone statement of total comprehensive income

	Note	3-month period ended on 30 June 2020 (unaudited)	6-month period ended on 30 June 2020 (unaudited)	3-month period ended on 30 June 2019 (unaudited)	6-month period ended on 30 June 2019 (unaudited)
Net profit/(loss) for the reporting period		66	(7 725)	21 469	19 675
Items to be reclassified to profit/loss in future reporting periods:					
Measurement of financial instruments		(90)	(78)	(130)	644
FX differences on translation of foreign operations	20.3	(354)	(465)	243	422
Other comprehensive income (net)		(443)	(543)	113	1 066
Total comprehensive income		(378)	(8 268)	21 582	20 741

Interim abbreviated standalone statement of financial position

	Note	As at 30 June 2020 (unaudited)	As at 31 December 2019
ASSETS			
Fixed assets			
Tangible fixed assets	18	1 533	1 969
Intangible assets		1 589	1 738
Investments in subsidiary entities	12	673 937	673 937
Other financial assets	19	33 751	45 318
Other non-financial assets		1 806	1 731
		712 616	724 693
Current assets			
Trade and other receivables	16	48 190	69 730
Income tax receivables		364	425
Other financial assets	19	81 491	94 057
Other non-financial assets		3 769	5 643
Cash and cash equivalents	13	25 110	31 939
		158 925	201 794
TOTAL ASSETS		871 541	926 486
EQUITY AND LIABILITIES			
Equity			
Share capital	21.1	69 288	69 288
Reserve capital	21.4	427 502	427 502
Other reserves	21.5	103 037	103 115
FX differences on translation	21.3	1 320	1 785
Retained earnings / Accumulated losses	21.6	(41 336)	(33 611)
Total equity		559 811	568 078
Long-term liabilities			
Interest-bearing loans and borrowings	20	91 410	54 549
Provisions		2 243	2 151
Other financial liabilities		328	626
		93 981	57 326
Short-term liabilities			
Rezerwy krótktoterminowe			
Interest-bearing loans and borrowings	20	196 184	252 320
Trade payables	22	13 084	33 962
Other financial liabilities		3 370	3 335
Other short-term liabilities		1 412	2 102
Income tax liability		-	-
Accruals and deferred income		3 699	9 362
		217 749	301 081
TOTAL LIABILITIES		311 730	358 407
TOTAL EQUITY AND LIABILITIES		871 541	926 486

Interim abbreviated standalone statement of cash flow

	Note	6-month period ended on 30 June 2020 (unaudited)	6-month period ended on 30 June 2019 (unaudited)
Cash flows from operating activities			
Gross profit (loss)		(7 725)	19 675
Adjustments for:			
Depreciation/amortisation		399	242
FX gains (loss)		6 212	-
Impairment of assets		-	-
Net interest		6 716	3 825
Profit / loss from investing activities		148	-
Increase / decrease in receivables and other non-financial assets		23 399	(13 591)
Increase / decrease in liabilities except for loans, borrowings and debt securities		(21 567)	(36 159)
Change in accruals and prepayments		(5 663)	(1 050)
Change in provisions		93	(75)
Income tax paid		-	81
Change to liabilities due to cash-pooling		23 017	38 914
Increase / decrease of loans granted to subsidiaries		17 451	12 211
Other		(671)	1 113
Net cash flows from operating activities		41 810	25 185
Cash flows from investing activities			
Disposal of tangible fixed assets and intangible assets		-	-
Purchase of tangible fixed assets and intangible assets		-	(1 492)
Increased interest in subsidiary entity		-	-
Net cash flows from investing activities		-	(1 492)
Cash flows from financing activities			
Repayment of leasing liabilities		(298)	(24 213)
Borrowings received		-	-
Repayment of loan liabilities		(42 958)	-
Interest paid		(5 382)	(3 295)
Net cash flows from financing activities		(48 638)	(32 690)
Change in cash and cash equivalents		(6 828)	(8 997)
Cash and cash equivalents at the beginning of the period		31 939	19 605
Cash and cash equivalents at the end of the period	13	25 111	10 609

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 2020	69 288	427 502	1 785	103 115	(33 611)	568 078
Other comprehensive income for the period	-		(465)	(78)	-	(543)
Net profit (loss) for the period	-	-	-	-	(7 725)	(7 725)
Total comprehensive income for the period	-	-	(465)	(78)	(7 725)	(8 268)
As at 30 June 2020 (unaudited)	69 288	427 502	1 320	103 037	(41 336)	559 811

	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 for the period	-	-	-	-	19 675	19 675
Total comprehensive income for the period	-	-	422	644	19 675	20 741
Profit distribution	-	-	-	19 523	(19 523)	-
As at 30 June 2019 (unaudited)	69 288	407 979	1 883	122 566	(45 851)	555 865

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 Kostrzyn at ul. Fabryczna 1. 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 2020 and contain comparable data for the period of 6 months ended on 30 June 2019; and in the interim abbreviated standalone statement of financial condition, it presents data as at 30 June 2020 and as at 31 December 2019.

The interim abbreviated standalone statement of comprehensive income, the interim abbreviated standalone profit and loss account contain data for the period of 3 months ended on 30 June 2020 and comparable data for the period of 3 months ended on 30 June 2019.

2. Basis of preparation of the interim abbreviated financial statements

These interim abbreviated standalone financial statements have been prepared in compliance with 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.

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 2019.

3. Identification of the consolidated financial statements

The Company made its interim abbreviated consolidated financial statements for the six-month period ended on 30 June 2020 which were approved for publication by the Management Board on 19 August 2020.

4. Composition of the Company's Management Board

As at 30 June 2020, 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 2020, 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).

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

6. Approval of the interim abbreviated standalone financial statements

On 19 August 2020, these interim abbreviated standalone financial statements of the Company for the 6-month period ended on 30 June 2020 were approved for publication by the Management Board.

7. Investments by the Company

The Company holds interests in the following subsidiary companies:

Unit	Registered office	Business objects	Company's interest in the equity of the subsidiary entities		
			19 August 2020	30 June 2020	31 December 2019
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, Korskildelund 6 DK-2670 Greve	Trading company	100%	100%	100%
Arctic Paper France SAS	France, 43 rue de la Breche aux Loups, 75012 Paris	Trading company	100%	100%	100%
Arctic Paper Espana SL	Spain, Avenida Diagonal 472-474, 9-1 Barcelona	Trading company	100%	100%	100%
Arctic Paper Papierhandels GmbH	Austria, Hainborgerstrasse 34A, A-1030 Wien	Trading company	100%	100%	100%
Arctic Paper Polska Sp. z o.o.	Poland, Okrężna 9, 02-916 Warszawa	Trading company	100%	100%	100%
Arctic Paper Norge AS	Norway, Eikenga 11-15, NO-0579 Oslo	Trading company	100%	100%	100%
Arctic Paper Sverige AB	Sweden, SE 455 81 Munkedal	Trading company	100%	100%	100%
Arctic Paper East Sp. z o.o.	Poland, Fabryczna 1, 66-470 Kostrzyn nad Odrą	Trading company	100%	100%	100%
Arctic Paper Investment GmbH	Germany, Fabrikstrasse 62, DE-882, 84 Wolpertswende	Holding activities	99,8%	99,8%	99,8%
Arctic Paper Finance AB	Sweden, Box 383, 401 26 Göteborg	Activities of holding companies	100,0%	100,0%	100,0%
Rottneros AB	Sweden, 826 79 Vallvik	Activities of holding companies	51,27%	51,27%	51,27%

As at 30 June 2020 and as at 31 December 2019, 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 consolidated financial statements of the Group for the year ended on 31 December 2019, with the following exceptions:

— Amendments to *IAS 1 Presentation of Financial Statements* and *IAS 8 Accounting policies*, *changes in accounting estimates and errors* – applicable to annual periods beginning on or after 1 January 2020;

The amendments harmonise and clarify the definition of “Material” and provide guidelines in order to improve consistency in applying the concept in International Financial Reporting Standards.

— Amendments to *IFRS 9 Financial Instruments, IAS 39 Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures* – applicable to annual periods beginning on or after 1 January 2020;

The amendments are mandatory and apply to all hedge relationships affected by the uncertainty resulting from the reformed interest rates. The modifications provide for a temporary waiver of the use of certain hedge accounting requirements so that the interest rate reform does not cancel hedge accounting. The key waivers concerning the amendments refer to:

- the requirement that flows are “highly probable”
- risk components
- prospective assessment
- retrospective tests of effectiveness (applies to IAS 39)
- reclassification of provisions under cash flow hedges

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

The aforesaid amendments did not have any significant impact on the Company’s financial statements.

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

— *Amendments to IFRS 3 Business Combinations; effective for annual periods beginning on or after 1 January 2020. Those amendments have not yet been endorsed by the EU.*
The changes restrict and clarify the definition of business. They also support a simplified assessment if a set of assets and activities constitutes a group of assets and not a business.

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

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

The following standards and interpretations were issued by the International Accounting Standards Board but are not yet effective:

— Disposal or Transfer of Assets between the Investor and an Associate Company or a Joint Venture (amendments to IFRS 10 Consolidated Financial Statements and to IAS 28 Investments in Associates); The European Commission took a decision on deferring approval of those amendments for an undefined period. The amendments clarify that in case of a transaction made with an associate or a joint venture, the extent to recognise the related transactional profit or loss depends on that if the transferred or sold assets constitute a venture:

- the entire profit or loss is recognised if the transferred assets meet the definition of a venture (irrespective of the fact if the venture is a subsidiary entity or not);
- the profit or loss is recognised in part when the transaction covers assets that do not constitute a venture even if such assets were held in a subsidiary entity.

— *IFRS 17 Insurance Contracts* applies to annual periods beginning on or after 1 January 2021, prospective application; earlier application is permitted. The standard has not been yet endorsed by the EU. IFRS 17 that replaces temporary standard IFRS 4 Insurance Contracts that was implemented in 2004. IFRS 4 provided companies with a possibility to continue disclosing insurance contracts pursuant to the accounting principles applicable in national standards, which, as a result, meant application of different solutions. IFRS 17 solves the issue of comparability created by IFRS 4 through a requirement of coherent disclosure of all insurance contracts, which will be beneficial for both investors and insurers. Liabilities arising from contracts will be recognised at present values, instead of historic cost.

— *Amendments to IAS 1 Presentation of Financial Statements Classification of Liabilities as Current or Non-current* (applicable to annual reporting periods beginning on or after 1 January 2022, earlier application is permitted). Those amendments have not yet been endorsed by the EU.The amendments clarify that presentation of liabilities as current and non-current should be based solely on the right available to the Entity as of the reporting date to defer the payment of relevant liabilities. Such right to defer the payment of a liability for minimum 12 months from the reporting date does not have to be unconditional but it has to be material. The above presentation is not affected by intentions or expectations of the Entity's management as to the exercising of the right or the date when this is to happen. The amendments further provide clarification as to the events that are treated as discharge of liabilities.

The Company does not expect the Standards to have material effect 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 income on loans and dividend income for the 6-month period ended on 30 June 2020 and as at 30 June 2019 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 2020 (unaudited)	6-month period ended on 30 June 2019 (unaudited)
Geographical information		
Poland	4 411	7 952
Foreign countries, of which:		
- Sweden	6 291	31 690
- Other	310	3 253
Total	**11 012**	**42 894**

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 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 2020, the administrative expenses amounted to PLN 10,325 thousand (in H1 2019: PLN 12,956 thousand). The decrease of the administrative expenses is due to lower costs of services provided to the Group by external entities.

11.3. Other operating revenues and costs

Other operating revenues amounted to PLN 311 thousand in two quarters of 2020 (in the equivalent period of 2019: PLN 103 thousand). Other operating costs decreased in the analysed period from PLN 159 thousand in H1 2019 to PLN 55 thousand in H1 2020

11.4. Changes to impairment allowances to assets

The impairment allowances to assets in two quarters of 2020 amounted to PLN -635 thousand while in the equivalent period in 2019 it was PLN +451 thousand. In H1 2020 the Company established impairment allowances for receivables under loans to Arctic Paper Mochenwangen GmbH for PLN 635 thousand.

12. Investments in subsidiaries

The value of investments in subsidiary companies as at 30 June 2020 and as at 31 December 2019 was as follows:

	As at 30 June 2020 (unaudited)	As at 31 December 2019
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
Arctic Paper Investment AB (shares)	*307 858*	307 858
Arctic Paper Investment AB (loans)	*82 709*	82 709
Arctic Paper Investment AB (impairment charge)	*(365 988)*	(365 988)
Arctic Paper Investment GmbH	-	-
Arctic Paper Investment GmbH (shares)	*120 030*	120 030
Arctic Paper Investment GmbH (impairment charge)	*(120 030)*	(120 030)
Arctic Paper Sverige AB	*2 936*	2 936
Arctic Paper Sverige AB (shares)	*11 721*	11 721
Arctic Paper Sverige AB (impairment charge)	*(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
Arctic Paper Norge AS (shares)	3 194	3 194
Arctic Paper Norge AS (impairment charge)	(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

Due to the changes in the market caused by the COVID-19 virus pandemic, As at 30 June 2020, impairment tests were held at Arctic Paper Grycksbo AB, Arctic Paper Munkedals AB and Arctic Paper Kostrzyn SA.

The impairment tests did not result in the establishment of an additional impairment allowance to assets of as at 30 June 2020.

13. 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 2020 (unaudited)	As at 30 June 2019 (unaudited)
Cash in bank and on hand	25 110	10 609
Total	**25 110**	**10 609**

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 abbreviated interim 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 2019.

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

In 2019 the Company did not pay out dividend.

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

15. Dividend received

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

- Arctic Paper Danmark A/S of PLN 304 thousand.

16. Trade and other receivables

Trade and other receivables disclosed as at 30 June 2020 dropped by PLN 21,539 thousand versus 31 December 2019.

17. Income tax

Due to the uncertainty of future applying the tax loss incurred in 2015-2017, the Management Board decided against establishing the deferred income tax asset for the purpose. Additionally, for the same reasons, the Management Board decided against establishing the deferred income tax asset for other temporary differences.

Due to tax losses from the previous years, the Company did not pay any corporate income tax during the six months of 2020.

18. Tangible fixed assets and intangible assets

18.1. Purchases and disposal

In the 6-month period ended on 30 June 2020 the Company did not acquire any tangible fixed assets or intangible assets (in the equivalent period of 2019: PLN 56 thousand). Amortisation allowances for the period under report were PLN 399 thousand (for 6 months in 2019: PLN 234 thousand).

18.2. Impairment charges

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

19. Other financial assets

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

In compliance with the agreement, Arctic Paper Kostrzyn SA in H1 2020 repaid the loans in the amount of PLN 9,570 thousand (EUR 1,667 thousand) and PLN 2,400 thousand). Arctic Paper Munkedals AB repaid loans of PLN 7,849 thousand and Arctic Paper Grycksbo AB repaid loans of PLN 5,202 thousand (EUR 1,146 thousand). The reduction of financial receivables was largely due to reduced receivables under the cash-pool of Arctic Paper Grycksbo by about PLN 6 million.

20. Interest-bearing loans, borrowings and bonds

In accordance with the loan agreement, in H1 2020 the Company repaid principal instalments and paid interest of PLN 46,876 thousand. The other changes to borrowings and loans are due inter alia to growing cash-pool liabilities (PLN 16,970 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.

As at 30 June 2020, the Group complied with the net debt to EBITDA ratio as required in the loan agreement concluded with a consortium of financing banks (Santander Bank Polska S.A., Bank BNP Paribas S.A. and the European Bank for Reconstruction and Development) – the ratio is calculated as a ratio of interest-bearing debt reduced by cash to EBITDA (without incorporating data for the Mochenwangen Group and the Rottneros Group). The set net debt to EBITDA ratio was complied with as per the bond issue terms and conditions.

21. Share capital and reserve capital/other reserves

21.1. Share capital

Share capital	As at 30 June 2020 (unaudited)	As at 31 December 2019 (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 issued and fully paid-up shares			
Issued on 30 April 2008	2008-05-28	50 000	50 000
Issued on 12 September 2008	2008-09-12	44 253 468	44 253 468
Issued on 20 April 2009	2009-06-01	32	32
Issued on 30 July 2009	2009-11-12	8 100 000	8 100 000
Issued on 01 March 2010	2010-03-17	3 000 000	3 000 000
Issued on 20 December 2012	2013-01-09	10 740 983	10 740 983
Issued on 10 January 2013	2013-01-29	283 947	283 947
Issued on 11 February 2013	2013-03-18	2 133 100	2 133 100
Issued on 06 March 2013	2013-03-22	726 253	726 253
As at 30 June 2020 (unaudited)		69 287 783	69 287 783

21.2. Major shareholders

	As at 30 June 2020		As at 31 December 2019	
	Share in the share capital	Share in the total number of votes	Share in the share capital	Share in the total number of votes
Thomas Onstad	**68,13%**	**68,13%**	**68,13%**	**68,13%**
indirectly via	59,15%	59,15%	59,36%	59,36%
Nemus Holding AB	58,28%	58,28%	58,06%	58,06%
other entity	0,87%	0,87%	1,30%	1,30%
directly	8,98%	8,98%	8,77%	8,77%
Other	**31,87%**	**31,87%**	**31,87%**	**31,87%**

21.3. FX differences on translation of investments in foreign entities

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

As at the balance sheet date, the assets and liabilities of the branch are translated into the Company's presentation currency at the exchange rate prevailing on its interim abbreviated profit and loss account, 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 2020 amounted to PLN 427,502 thousand. The amount of supplementary capital versus the end of 2019 was not changed.

21.5. Other reserves

Other reserves amounted to PLN 103,037 thousand as at 30 June 2020 and decreased versus 31 December 2019 by PLN 78 thousand.

The decrease of reserve capital was primarily due to measurements of financial instruments.

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 30 April 2020, the Company's Management Board approved a resolution to recommend to the Company's General Meeting no dividend distribution from the profit for the financial year ended on 31 December 2019. At its meeting of 30 April 2020, the Company's Supervisory Board provided its positive opinion to the above proposal of the Management Board on no distribution of dividend from the profit for the financial year ended on 31 December 2019. The final decision on the distribution of the Company's 2019 profit will be taken the Annual General Meeting to be held on 31 August 2020.

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

22. Trade payables

Trade payables of the Company dropped by PLN 20,864 thousand versus the end of 2019. The reduced value of the item versus the end of the previous year was due to discontinued 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 the book values of the financial instruments held by the Company do not materially differ from their fair value, the table below presents all financial instruments by their book values, split into classes and categories of assets and liabilities.

		Book value	
	Category in compliance with IFRS 9	As at 30 June 2020	As at 31 December 2019
Financial assets			
Other (long-term) financial assets	*WwWGpWF*	33 751	45 318
Trade and other receivables	WwZK	48 190	69 730
Cash and cash equivalents	WwZK	25 110	31 939
Other (short-term) financial assets	*WwWGpWF*	81 491	94 057
Financial liabilities			
Interest-bearing loans and borrowings	*WwZK*	287 593	306 870
Other (long-term) financial liabilities	*WwZK*	328	626
Trade and other payables and other (short-term) financial liabilities	*WwZK*	16 453	37 296

Abbreviations used:

WwZK – Financial assets/liabilities measured at amortised cost.

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

More information on the fair value of financial instruments is provided in the Annual Report for 2019, note 31.2.

23.2. Collateral

Cash flow hedge

As at 30 June 2020, 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	each interest payment date in line with the payment schedule under the loan agreement; by 31.08.2022
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 12 million

Type of hedge	Hedge of cash flows related to variable interest rate on the EUR long-term loan
Hedged position	Future EUR interest flows on EUR loan calculated on the basis of 6M EURIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in EUR on the EUR loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	2017-07-18
Maturity	each interest payment date in line with the payment schedule under the loan agreement; by 31.08.2022
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 3.986 thousand

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

Type of hedge	Hedge of cash flows related to variable interest rate on the EUR long-term loan
Hedged position	Future EUR interest flows on EUR loan calculated on the basis of 6M EURIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in EUR on the EUR loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	2018-07-27
Maturity	each interest payment date in line with the payment schedule under the loan agreement; by 31.08.2022
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 3.344 thousand

Type of hedge	Hedge of cash flows related to variable interest rate on the EUR long-term loan
Hedged position	Future EUR interest flows on EUR loan calculated on the basis of 6M EURIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in EUR on the EUR loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	2019-10-15
Maturity	each interest payment date in line with the payment schedule under the loan agreement; by 28.08.2022
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 10 million

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

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

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

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

Fair value hedges

As at 30 June 2020, 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	each interest payment date in line with the payment schedule under the loan agreement; by 31.08.2022
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 12 million

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

Type of hedge	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	each interest payment date in line with the payment schedule under the loan agreement; by 31.08.2022
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 3.344 thousand

Type of hedge	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	2019-10-15
Maturity	each interest payment date in line with the payment schedule under the loan agreement; by 31.08.2022
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 10 million

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

	Status as at 30 June 2020		Status as at 31 December 2019	
	Assets	Equity and liabilities	Assets	Equity and liabilities
SWAP	-	2 889	-	2 748
Total hedging derivative instruments	**-**	**2 889**	**-**	**2 748**

23.3. Interest rate risk

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

30 June 2020 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	35 494	17 285	7 443	-	-	-	60 221
Bank loans	-	-	-	-	-	-	-
Borrowings received from related entities	(119 268)	-	-	-	-	-	(119 268)
Total	(83 775)	17 285	7 443	-	-	-	(59 047)

30 June 2020 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	45 817	6 449	2 572	178	-	-	55 016
Bank loans	(46 482)	(31 876)	(12 444)	-	-	-	(90 802)
Bonds	(19 154)	(47 085)	(4)	-	-	-	(66 244)
Borrowings received from related entities	(11 279)	-	-	-	-	-	(11 279)
Total	(31 098)	(72 513)	(9 876)	178	-	-	(113 309)

31 December 2019 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	48 771	12 128	-	-	-	-	60 900
Bank loans	-	-	-	-	-	-	-
Borrowings received from related entities	(102 298)	-	-	-	-	-	(102 298)
Total	(53 527)	12 128	-	-	-		(41 398)

31 December 2019 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	45 431	18 995	14 195	-	-	-	78 621
Bank loans	(47 834)	(36 590)	(24 814)	-	-	-	(109 238)
Bonds	(19 166)	(54 549)	-	-	-	-	(73 715)
Borrowings received from related entities	(21 293)	-	-	-	-	-	(21 293)
Total	(42 861)	(72 144)	(10 619)	-	-	-	(125 625)

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 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 2019, there have been no significant changes to the objectives and policies of capital management.

26. Contingent liabilities and contingent assets

As at 30 June 2020, the Company had no contingent liabilities.

27. Transactions with related entities

The table below presents the total amount of transactions concluded with related entities within the 6-month period ended on 30 June 2020 and as at 30 June 2019 and as at 30 June 2020 and as at 31 December 2019:

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	2020						3 354			-	
	2019			578			3 215				
Subsidiary entities:											
Arctic Paper Kostrzyn S.A.	2020	3 631		33	1 845	855	7 060		44 931		69 891
	2019	6 218		171	2 164	644	20 094		52 691	9	52 754
Arctic Paper Munkedals AB	2020	1 670		614	379	317	10 261				49 378
	2019	4 392			460	289	18 832		7 929		49 544
Arctic Paper Grycksbo AB	2020	3 693			1 365	118	26 977		69 826		
	2019	4 295			1 442	217	27 028		78 298	1 426	
Arctic Paper Mochenwangen GmbH	2020				39		10 317	10 317	25 609		
	2019				455		10 278	10 278	25 014		
Arctic Paper Investment GmbH	2020				125		10 481	10 481	34 431		
	2019				515		10 300	10 300	34 556		
Arctic Paper Investment AB	2020								82 709		
	2019								82 709	310	
Arctic Paper Deutschland GmbH	2020										
	2019					14				2	
Arctic Paper Papierhandels GmbH	2020										
	2019										
Arctic Paper Sverige AB	2020										
	2019						2				
Arctic Paper Danmark A/S	2020		304								
	2019		560			8				8	
Arctic Paper Norge AS	2020										
	2019		215			3				3	
Arctic Paper Italia srl	2020										
	2019	-									
Arctic Paper Espana SL	2020										
	2019					7					
Arctic Paper Benelux S.A.	2020			118	6		2		486		
	2019			682	6		2		457	113	
Arctic Paper France SAS	2020										
	2019		429			6					
Arctic Paper Baltic States SIA	2020										
	2019										
Arctic Paper Schweiz AG	2020						1				
	2019										
Arctic Paper UK Ltd.	2020										
	2019										
Arctic Paper Polska Sp. z o.o.	2020										
	2019			11							
Arctic Paper East Sp. z o.o.	2020	1					1			3	
	2019	3				3	4				
Arctic Paper Finance AB	2020					561					11 279
	2019					645				43	21 617
Rottneros AB	2020										
	2019		21 905								
Other entities											
Key managing personnel	2020			1 175							
	2019										
Total	**2020**	**8 994**	**304**	**1 939**	**3 759**	**1 850**	**68 455**	**20 798**	**257 991**	**3**	**130 547**
impairment charges		**-**			**(164)**		**(20 798)**	**(20 798)**	**(60 040)**		
presentation as interests in subsidiary entities									**(82 709)**		
2018 net of impairment allowances and reclassification of loan to equity		**8 994**	**304**	**1 939**	**3 595**	**1 850**	**47 657**	**-**	**115 243**	**3**	**130 547**
	2019	**14 908**	**25 759**	**1 442**	**5 042**	**1 836**	**89 753**	**20 578**	**281 654**	**1 913**	**123 915**
impairment charges		**-**	**-**	**-**	**(949)**	**-**	**(20 578)**	**-**	**(59 569)**	**-**	**-**
presentation as interests in subsidiary entities		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(82 709)**	**-**	**-**
2017 net of impairment allowances and reclassification of loan to equity		**14 908**	**25 759**	**1 442**	**4 093**	**1 836**	**69 174**	**20 578**	**139 375**	**1 912**	**123 915**

28. Events after the end of the reporting period

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

Signatures of the Members of the Management Board

Position	First and last name	Date	Signature
President of the Management Board Chief Executive Officer	Michał Jarczyński	19 August 2020	signed with a qualified electronic signature
Member of the Management Board Chief Financial Officer	Göran Eklund	19 August 2020	signed with a qualified electronic signature

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