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ARCTIC PAPER S.A. CAPITAL GROUP

Consolidated semi-annual report for six months ended on 30 June 2016 along with an independent auditor's report from a review

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

ARCTIC PAPER

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Introduction

Information on the report

This Consolidated Semi-Annual Report for six months ended on 30 June 2016 was prepared in accordance with the Regulation of the Minister of Finance of 25 May 2016 amending the Regulation on current and periodic information provided by issuers of securities and on conditions under which information required by legal regulations of a third country may be recognised as equivalent (Journal of Laws of 2016, item 860) and a part of the abbreviated consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), in particular in accordance with International Accounting Standard No. 34 and IFRS approved by the EU. IFRS comprise standards and interpretations accepted by the International Accounting Standards Board (IASB) and the International Financial Reporting Standards Interpretation Committee (IFRIC). The abbreviated consolidated financial statements do not comprise all information and disclosures required in the annual consolidated financial statements which are subject to mandatory audit and therefore they should be read in conjunction with the consolidated financial statements of the Group for the year ended on 31 December 2015. The data for the periods of 3 months ended on 30 June 2016 and on 30 June 2015, disclosed in the abbreviated consolidated and standalone financial statements was not reviewed or audited by statutory auditor. The interim financial result may not fully reflect the financial result that may be generated for the entire financial year.

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

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

Definitions and abbreviations

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

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

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

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

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

Definitions of selected terms and financial indicators and abbreviations of currencies

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

Gross profit margin	Ratio of gross profit (loss) to sales income from continuing operations
Sales profitability ratio, net profit margin	Ratio of net profit (loss) to sales revenues
Return on equity, ROE	Ratio of net profit (loss) to equity income
Return on assets, ROA	Ratio of net profit (loss) to total assets
EPS	Earnings Per Share, Ratio of net profit to the weighted average number of shares
BVPS	Book Value Per Share, Ratio of book value of equity to the number of shares
Debt-to-equity ratio	Ratio of total liabilities to equity
Equity-to-non-current assets ratio	Ratio of equity to non-current assets
Interest-bearing debt-to-equity ratio	Ratio of interest-bearing debt and other financial liabilities to equity
Net debt-to-EBITDA ratio	Ratio of interest-bearing debt minus cash to EBITDA from continuing operations
Solidity ratio	Ratio of equity (calculated in compliance with Swedish GAAP accounting principles) to assets
Interest coverage	Ratio of interest value (less of financial lease interest) to EBITDA (calculated in compliance with Swedish GAAP accounting principles)
EBITDA-to-interest coverage ratio	Ratio of EBITDA to interest expense from continuing operations
Current liquidity ratio	Ratio of current assets to current liabilities
Quick ratio	Ratio of current assets minus inventory and short-term accruals, prepayments and deferred costs to current liabilities
Acid test ratio	Ratio of total cash and similar assets to current 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 income 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
GDP	Gross Domestic Product

Other definitions and abbreviations

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

Forward looking statements

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

Forward looking statements relating to risk factors

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

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

Management Board's report from operations of the Arctic Paper S.A. Capital Group and of Arctic Paper S.A. to the report for H1 2016

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, our assortment was expanded with the production of pulp. As on the day hereof, the Arctic Paper Group employs approx. 1,700 people in its paper mills, pulp mills, companies dealing in paper distribution and sales, and a company dealing in timber procurement for pulp production. The Group's paper mills are located in Poland and Sweden, and have total production capacity of more than 700,000 tons of paper per year. Paper production in the Paper Mill located in Germany, with total production output of 115,000 tons of paper annually, was discontinued at the end of 2015. The pulp mills are located in Sweden and have total production capacity of 400,000 tons 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. The Group's consolidated sales revenues for H1 2016 totalled PLN 1,500 million.

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

Group Profile

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

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

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

Our production facilities

As on 30 June 2016 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 285,000 tons per year and mainly produces uncoated wood-free paper for general printing use such as printing books, brochures and forms, and for producing envelopes and other paper products;
- the paper mill in Munkedal (Sweden) has the production capacity of about 160,000 tons per year and mainly produces fine uncoated wood-free paper used primarily for printing books and high-quality brochures;

The paper mill in Mochenwangen (Germany) had the production capacity of about 115,000 tons. The production in the paper mill was discontinued at the end of 2015;

- the paper mill in Grycksbo (Sweden) has the production capacity of about 260,000 tons per year and produces coated wood-free paper used for printing maps, books, magazines, posters and printing of advertising materials.

As on 30 June 2016 as well as on the day hereof, the Group owned the following pulp mills:

- the pulp mill in Rottneros (Sweden) has the production capacity of about 160,000 tons per year and manufactures primarily two types of mechanical fibre pulp: groundwood and CTMP;
- the pulp mill in Vallvik (Sweden) has the annual production capacity of about 240,000 tons and produces two types of long-fibre sulphate pulp: fully bleached sulphate pulp and unbleached sulphate pulp. The most of Vallvik pulp mill production is known as NBSK pulp. The unbleached sulphate pulp produced by the mill is characterised with a high level of purity. The high quality of this pulp, which has been achieved over the years, made Vallvik the global leader in deliveries of this type of pulp, which is used, among others, in the production of power transformers and in the cable industry.

Our products

The product assortment of the Arctic Paper Group covers:

Uncoated wood-free paper, in particular:

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

Coated wood-free paper, in particular:

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

Uncoated wood-containing paper, in particular:

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

As a result of the discontinued production in the paper mill in Mochenwangen, the assortment of uncoated wood-containing paper no longer contains two types of paper: Pamo and L-Print.

Unbleached sulphate pulp;

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

Mechanical fibre pulp:

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

Capital Group structure

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

Detailed information on the organisation of the Arctic Paper S.A. Capital Group with identification of the consolidated entities is provided in the section 'Accounting principles (policies)' and in note to the consolidated financial statements (Note No. 1 and 2).

Changes in the capital structure of the Arctic Paper Group

In H1 2016, no changes in the capital structure of the Arctic Paper Group occurred.

Shareholding structure

Nemus Holding AB, a company under Swedish law (a company owned indirectly by Mr Thomas Onstad), is the majority shareholder of Arctic Paper S.A., holding (as on 30 June 2016) 40,006,449 shares of the Company, which constitutes 57.74% of its share capital and corresponds to 57.74% 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 5,848,658 shares representing 8.44% of the total number of shares in the Company, and indirectly via an entity other than Nemus Holding AB – 1,350,000 shares accounting for 1.95% of the total number of shares of the Issuer.

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

	as at 29.08.2016				as at 30.06.2016				as at 16.05.2016			
Shareholder	Number of shares	Share in the share capital [%]	Number of votes	Share in the total number of votes [%]	Number of shares	Share in the share capital [%]	Number of votes	Share in the total number of votes [%]	Number of shares	Share in the share capital [%]	Number of votes	Share in the total number of votes [%]
Thomas Onstad	**47 205 107**	**68,13%**	**47 205 107**	**68,13%**	**47 205 107**	**68,13%**	**47 205 107**	**68,13%**	**47 205 107**	**68,13%**	**47 205 107**	**68,13%**
- indirectly via	41 356 449	59,69%	41 356 449	59,69%	41 356 449	59,69%	41 356 449	59,69%	41 356 449	59,69%	41 356 449	59,69%
Nemus Holding AB	40 006 449	57,74%	40 006 449	57,74%	40 006 449	57,74%	40 006 449	57,74%	40 006 449	57,74%	40 006 449	57,74%
other entity	1 350 000	1,95%	1 350 000	1,95%	1 350 000	1,95%	1 350 000	1,95%	1 350 000	1,95%	1 350 000	1,95%
- directly	5 848 658	8,44%	5 848 658	8,44%	5 848 658	8,44%	5 848 658	8,44%	5 848 658	8,44%	5 848 658	8,44%
Other	**22 082 676**	**31,87%**	**22 082 676**	**31,87%**	**22 082 676**	**31,87%**	**22 082 676**	**31,87%**	**22 082 676**	**31,87%**	**22 082 676**	**31,87%**
Total	69 287 783	100,00%	69 287 783	100,00%	69 287 783	100,00%	69 287 783	100,00%	69 287 783	100,00%	69 287 783	100,00%
Treasury shares	-	0,00%	-	0,00%	-	0,00%	-	0,00%	-	0,00%	-	0,00%
Total	**69 287 783**	**100,00%**	**69 287 783**	**100,00%**	**69 287 783**	**100,00%**	**69 287 783**	**100,00%**	**69 287 783**	**100,00%**	**69 287 783**	**100,00%**

The data in the above table is provided as of the date of signing hereof and as of the publication date of the report for Q1 2016 and as at 30 June 2016.

Summary of consolidated financial results

Consolidated income statement

Selected items of the consolidated income statement

PLN thousand	2Q 2016	1Q 2016	2Q 2015	1H 2016	1H 2015	Change % 2Q2016/ 1Q2016	Change % 2Q2016/ 2Q2015	Change % 1H2016/ 1H2015
Continuing operations								
Sales revenues	**721 265**	**778 560**	**688 249**	**1 499 825**	**1 459 352**	**(7,4)**	**4,8**	**2,8**
of which:								
Sales of paper	*539 552*	*589 849*	*507 238*	*1 129 401*	*1 085 971*	*(8,5)*	*6,4*	*4,0*
Sales of pulp	*181 713*	*188 711*	*181 011*	*370 424*	*373 382*	*(3,7)*	*0,4*	*(0,8)*
Profit on sales	106 823	118 034	85 572	224 857	221 545	(9,5)	24,8	1,5
% of sales revenues	*14,81*	*15,16*	*12,43*	*14,99*	*15,18*	*(0,4) p.p.*	*2,4 p.p.*	*(0,2) p.p.*
Selling and distribution costs	(62 770)	(64 401)	(59 833)	(127 171)	(142 547)	(2,5)	4,9	(10,8)
Administrative expenses	(18 632)	(15 946)	(14 418)	(34 578)	(30 292)	16,8	29,2	14,1
Other operating income	20 503	18 450	8 570	38 952	32 020	11,1	139,2	21,7
Other operating expenses	(12 219)	(14 760)	(8 026)	(26 979)	(17 901)	(17,2)	52,2	50,7
EBIT	**33 705**	**41 377**	**11 865**	**75 081**	**62 825**	**(18,5)**	**184,1**	**19,5**
% of sales revenues	*4,67*	*5,31*	*1,72*	*5,01*	*4,30*	*(0,6) p.p.*	*2,9 p.p.*	*0,7 p.p.*
EBITDA	**63 695**	**70 669**	**38 899**	**134 364**	**116 898**	**(9,9)**	**63,7**	**14,9**
% of sales revenues	*8,83*	*9,08*	*5,65*	*8,96*	*8,01*	*(0,2) p.p.*	*3,2 p.p.*	*0,9 p.p.*
Financial income	401	218	1 988	619	2 096	84,0	(79,8)	(70,5)
Financial expenses	(13 667)	(7 920)	(982)	(21 586)	(14 419)	72,6	1 292,1	49,7
Gross profit (loss)	**20 439**	**33 675**	**12 872**	**54 115**	**50 502**	**(39,3)**	**58,8**	**7,2**
Income tax	(8 474)	(8 968)	12 328	(17 442)	1 387	(5,5)	(168,7)	(1 357,1)
Net profit (loss) from continuing operations	**11 965**	**24 707**	**25 200**	**36 672**	**51 890**	**(51,6)**	**(52,5)**	**(29,3)**
% of sales revenues	*1,66*	*3,17*	*3,66*	*2,45*	*3,56*	*(1,5) p.p.*	*(2,0) p.p.*	*(1,1) p.p.*
Discontinued operations								
Net profit / (loss) from discontinued operations	**(1 261)**	**(5 079)**	**(12 102)**	**(6 340)**	**(25 946)**	**(75,2)**	**(89,6)**	**(75,6)**
% of sales revenues	*(0,17)*	*(0,65)*	*(1,76)*	*(0,42)*	*(1,78)*	*0,5 p.p.*	*1,6 p.p.*	*1,4 p.p.*
Net profit / (loss)	**10 704**	**19 628**	**13 098**	**30 332**	**25 944**	**(45,5)**	**(18,3)**	**16,9**
% of sales revenues	*1,48*	*2,52*	*1,90*	*2,02*	*1,78*	*(1,0) p.p.*	*(0,4) p.p.*	*0,2 p.p.*
Net profit / (loss) for the reporting period attributable to the shareholders of the Parent Entity	1 535	8 346	(3 529)	9 881	(7 181)	na	na	na

Commentary of the President of the Management Board Per Skoglund on the results of H1 2016

In the 1st half of 2016 the results of Arctic Paper Group confirmed that the chosen strategy continues to deliver. Consistent improvement of the results is proven by, not least, EBITDA being up by 14.9% (from PLN 116.9m to PLN 134.4m), compared to the same period of 2015. For the same period revenues were 2.8% higher and amounted to PLN 1.5bn.

During Q2 2016 Arctic Paper Group raised the EBITDA result of the paper business to PLN 29.4m, an improvement of PLN 29.2m compared to Q2 2015. EBITDA for the first half-year improved by PLN 34.0m, to PLN 60.2m, compared to the same period of 2015.

Results excluding Rottneros

Excluding Rottneros sales revenue was PLN 539.6m for the second quarter, bringing the total for the first half-year of 2016 to PLN 1,129.4m. Both periods were significantly better than the corresponding periods of 2015 (PLN 513.6m and PLN 1,076.7m, respectively). An increase of EBITDA by PLN 34.0m (half-year) and PLN 29.2m (Q2) is further proof of a stable start to 2016.

The market for coated and uncoated fine graphic paper continues to decline, down 5.4% year-on-year and 6.6% in comparison to Q2 2015. Compared to 2015 Arctic Paper kept volumes and prices of its fine paper up to a financially beneficial level and thereby maintained the strong position in its market segment.

Several factors have contributed to the stable result not least the successful activities of the Profit Improvement Program 2015/16. Among these, the hard focus on efficiency and a more flexible organisation are worth mentioning. The results and effects in the Swedish units, yielded by the programmes, are especially valuable. Despite the market environment being troublesome, the first phase of the current period has started in a satisfactory way. Still the unpleasant exchange levels of the USD in relation to European currencies remain a complication.

The revenues from the sale of paper in Q2 generated an 8.4% increase compared to Q2 2015 and 4.9% for the first half-year of 2016 compared to 2015. In part due to a winning price strategy, per-tonne revenue increased by 8.0% compared to Q2 2015 and 1% for the half-year respectively.

The total production volume of 158,000 tonnes in Q2 2016 was 4.6% higher than in the equivalent period in 2015 and 0.7% higher for the first half of 2016 compared to the first half of 2015.

Results including Rottneros

The Group's results are affected at the consolidated level by pulp prices through its majority ownership of Rottneros AB. The convincing result of Rottneros, in the face of declining pulp prices, is mainly due the development program "Agenda 500" and the increased efficiency it has established. By establishing a new production record, 100,000 tonnes produced during Q2, the programme's quality is proven.

New financing

The evaluation of potential refinancing continues, and is in an intense phase. Reaching a sustainable and stable financial situation is the main aim, thereby also securing an improved cash structure for the Group with a larger degree of flexibility.

We are determined to reach a state of financial stability and unite it with the mobility and swiftness of a niche actor. On this complex market we are convinced that our competitive advantages will substantiate themselves even more and continue to create stable results. The refinancing is a vital measure in our long-term plan for the future of Arctic Paper Group, and we aim to be successful in achieving it during 2016.

Revenues

In Q2 2016, the consolidated sales revenues amounted to PLN 721,265 thousand (sales of paper: PLN 539,552 thousand), pulp sales: PLN 181,713 thousand), as compared to PLN 688,249 thousand (sales of paper: PLN 507,238 thousand), pulp sales: PLN 181,011 thousand), in the equivalent period of the previous year. That means a growth by PLN 33,016 thousand (growth of paper sales by PLN 32,314 thousand growth of pulp sales by PLN 702 thousand) and by 4.8% respectively (growth of paper sales by 6.4%, growth of pulp sales by 0.4%).

In the first six months 2016, the sales revenues amounted to PLN 1,499,825 thousand (sales of paper: PLN 1,129,401 thousand), pulp sales: PLN 370,424 thousand), as compared to PLN 1,459,352 thousand (sales of paper: PLN 1,085,971 thousand), pulp sales: PLN 373,382 thousand), generated in the equivalent period of the previous year. That means a growth of revenues by PLN 40,473 thousand (growth of paper sales by PLN 43,430 thousand and a decrease of sales of pulp by PLN 2,958 thousand) and by 2.8% respectively (growth of paper sales by 4.0%, drop of pulp sales by 0.8%).

Paper sales volume in Q2 2016 amounted to 160 thousand tons compared to 159 thousand tons in the previous year. The change represents an increase of 1 thousand tons and by 0.6% respectively. Pulp sales volume in Q2 2016 amounted to 87 thousand tons compared to 88 thousand tons in the previous year. The change represents a decrease of 1 thousand tons and by 1.1% respectively.

Paper sales volume in H1 2016 amounted to 332 thousand tons compared to 340 thousand tons in the previous year. The change represents a decrease of 8 thousand tons and by 2.4% respectively. Pulp sales volume in H1 2016 amounted to 173 thousand tons compared to 172 thousand tons in the previous year. The change represents an increase of 1 thousand tons and by 0.6% respectively.

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

In H1 2016, profit on sales amounted to PLN 224,857 thousand. This result was by 1.5% higher than in the corresponding period of the previous year. Sales profit margin in the current year stood at 14.99% compared to 15.18% (-0.2 p.p.) in the same period of the previous year. The core reason underlying the increased profit in H1 2016 compared to the equivalent period of the previous year included higher paper sales revenues denominated in PLN, primarily due to the depreciation of the currency vis-a-vis EUR and SEK, partly offset by higher costs of sales.

In the reporting period, the selling and distribution costs amounted to PLN 127,171 thousand which was a decrease by 10.8% compared to the costs incurred in H1 2015. The relatively high selling and distribution costs in H1 2015 were mainly due to increased impairment charges for trade receivables, primarily receivables from the PaperlinX group companies.

In H1 2016, the administrative expenses amounted to PLN 34,578 thousand as compared to PLN 30,292 thousand in the equivalent period of 2015 which was a growth by 14.1%. The main reason of the higher costs in H1 this year was a growth of expenses related to the provision of consulting and administrative services in the Group.

Other operating income and expenses

Other operating income totalled PLN 38,952 thousand in H1 2016 which was an increase as compared to the equivalent period of the previous year by PLN 6,932 thousand.

Other operating income consisted mainly of revenues from heat and electricity sales as well as sales revenues from other materials and CO2 emission rights. The growth of other operating income in the current period was due mainly to received damages and sales of other materials.

Other operating expenses totalled PLN 26,979 thousand in H1 2016 which was an increase as compared to the equivalent period of the previous year by PLN 9,078 thousand.

The other operating expenses comprised mainly the costs of electricity and heat sales as well as the costs of other materials sold. The higher other operating expenses in H1 2016 were affected primarily by the higher costs of other materials sold.

Financial income and financial expenses

In H1 2016, financial income and expenses amounted to PLN 619 thousand and PLN 21,586 thousand respectively which was a decrease of income by PLN 1,477 thousand as compared to the equivalent period of the previous year and a growth of expenses by PLN 7,167 thousand.

The changes to financial income and expenses were primarily due to the amount of net FX differences. In H1 2016 the Group recorded a surplus of FX losses over FX profit of PLN 6,127 thousand (financial expenses). In the equivalent period of 2015, the Group recorded a surplus of FX profit over FX losses of PLN 1,230 thousand (financial income).

Income tax

For the six months of 2016, income tax amounted to PLN -17,442 thousand while in the equivalent period in 2015 it was PLN +1,387 thousand.

The current portion of income tax in the analysed semi-annual period amounted to PLN -2,339 thousand (H1 2015: PLN -992 thousand), while the deferred portion – PLN -15,103 thousand (H1 2015: PLN +2,379 thousand),

Net profit (loss) on discontinued operations

Net profit/loss on discontinued operations covers the results of AP Mochenwangen and of the companies set up to acquire the Paper mill. As the Management Board of Arctic Paper S.A. remains ready to sell the Paper mill, its business has been treated as discontinued. In H1 2016, the loss on discontinued operations amounted to PLN 6,340 thousand (H1 2015: PLN 25,946 thousand).

Profitability analysis

In H1 2016, the result on continuing operations amounted to PLN +75,081 thousand as compared to the profit of PLN +62,825 thousand in the equivalent period in the previous year. The changes resulted in a growth of operational profit margin from +4.30% in the six months of 2015 to +5.01% in the equivalent period of 2016.

EBITDA on continuing operations in H1 2016 amounted to PLN 134,364 thousand while in the equivalent period in 2015 it was PLN 116,898 thousand. In the reporting period, the EBITDA margin was 8.96% compared to 8.01% for 6 months of 2015.

In H1 2016, net profit amounted to PLN +30,332 thousand as compared to PLN +25,944 thousand in Q1 2015. Net profit margin accrued after six months of 2016 amounted to +2.02% as compared to +1.78% in the equivalent period of 2015.

Profitability analysis

PLN thousand	2Q 2016	1Q 2016	2Q 2015	1H 2016	1H 2015	Change % 2Q2016/ 1Q2016	Change % 2Q2016/ 2Q2015	Change % 1H2016/ 1H2015
Profit / (loss) on sales	106 823	118 034	85 572	224 857	221 545	(9,5)	24,8	1,5
% of sales revenues	*14,81*	*15,16*	*12,43*	*14,99*	*15,18*	*(0,4) p.p.*	*2,4 p.p.*	*(0,2) p.p.*
EBITDA	**63 695**	**70 669**	**38 899**	**134 364**	**116 898**	**(9,9)**	**63,7**	**14,9**
% of sales revenues	*8,83*	*9,08*	*5,65*	*8,96*	*8,01*	*(0,2) p.p.*	*3,2 p.p.*	*0,9 p.p.*
EBIT	**33 705**	**41 377**	**11 865**	**75 081**	**62 825**	**(18,5)**	**184,1**	**19,5**
% of sales revenues	*4,67*	*5,31*	*1,72*	*5,01*	*4,30*	*(0,6) p.p.*	*2,9 p.p.*	*0,7 p.p.*
Net profit (loss) from continuing operations	**11 965**	**24 707**	**25 200**	**36 672**	**51 890**	**(51,6)**	**(52,5)**	**(29,3)**
% of sales revenues	*1,66*	*3,17*	*3,66*	*2,45*	*3,56*	*(1,5) p.p.*	*(2,0) p.p.*	*(1,1) p.p.*
Net profit / (loss) from discontinued operations	**(1 261)**	**(5 079)**	**(12 102)**	**(6 340)**	**(25 946)**	**(75,2)**	**(89,6)**	**(75,6)**
% of sales revenues	*(0,17)*	*(0,65)*	*(1,76)*	*(0,42)*	*(1,78)*	*0,5 p.p.*	*1,6 p.p.*	*1,4 p.p.*
Net profit / (loss)	**10 704**	**19 628**	**13 098**	**30 332**	**25 944**	**(45,5)**	**(18,3)**	**16,9**
% of sales revenues	*1,48*	*2,52*	*1,90*	*2,02*	*1,78*	*(1,0) p.p.*	*(0,4) p.p.*	*0,2 p.p.*
Return on equity / ROE (%)	1,5	2,8	1,8	4,3	3,5	(1,3) p.p.	(0,3) p.p.	0,8 p.p.
Return on assets / ROA (%)	0,6	1,1	0,7	1,7	1,4	(0,5) p.p.	(0,1) p.p.	0,3 p.p.

In H1 2016, return on equity was +4.3% while in the equivalent period of 2015 it was +3.5%.

Return on assets grew +1.4% in H1 2015 to +1.7% in H1 2016.

Statement of financial position

Selected items of the consolidated balance sheet

PLN thousand	30.06.2016	31.12.2015	30.06.2015	Change 30.06.2016 -31.12.2015	Change 30.06.2016 -30.06.2015
Fixed assets	825 104	830 668	826 846	(5 564)	(1 741)
Inventories	378 261	390 631	365 897	(12 370)	12 364
Receivables	388 198	343 441	374 672	44 758	13 526
trade receivables	*377 901*	*336 499*	*364 738*	*41 402*	*13 164*
Other current assets	16 059	12 475	16 368	3 584	(309)
Cash and cash equivalents	124 219	188 552	184 698	(64 334)	(60 479)
Assets related to discontinued operations	18 370	47 467	64 381	(29 097)	(46 011)
Total assets	**1 750 212**	**1 813 235**	**1 832 862**	**(63 022)**	**(82 649)**
Equity	704 158	676 856	737 378	27 302	(33 220)
Short-term liabilities	645 970	682 515	649 411	(36 546)	(3 441)
of which:					
trade and other payables	*349 920*	*407 409*	*370 536*	*(57 489)*	*(20 616)*
interest-bearing debt	*187 673*	*166 386*	*173 106*	*21 287*	*14 567*
other non-financial liabilities	*108 377*	*108 720*	*105 769*	*(344)*	*2 607*
Long-term liabilities	360 071	372 599	395 285	(12 527)	(35 213)
of which:					
interest-bearing debt	*249 591*	*263 363*	*273 420*	*(13 772)*	*(23 829)*
other non-financial liabilities	*110 480*	*109 236*	*121 864*	*1 244*	*(11 384)*
Liabilities directly related to the discontinued operations	40 013	81 264	50 788	(41 252)	(10 775)
Total liabilities	**1 750 212**	**1 813 235**	**1 832 862**	**(63 022)**	**(82 649)**

As at 30 June 2016 total assets amounted to PLN 1,750,212 thousand as compared to PLN 1,813,235 thousand at the end of 2015.

Fixed assets

At the end of June 2016 fixed assets accounted for 47.1% of total assets vs. 45.9% at the end of 2015. The value of fixed assets dropped in the current half-year period by PLN 5,564 thousand mainly due to a decrease of deferred income tax asset, primarily due to the application of tax losses in the Rottneros Group companies and set off of the deferred income tax asset against expenses incurred in KSSSE.

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 2016, current assets amounted to PLN 906,738 thousand as compared to PLN 935,099 thousand at the end of December 2015. As part of the current assets, inventories dropped by PLN 12,370 thousand and receivables grew by PLN 44,758 thousand, other current assets grew by PLN 3,584 thousand while cash and cash equivalents dropped by PLN 64,334 thousand Current assets represented 51.8% of total assets as at the end of June 2016 (51.5% as at the end of 2015) and included inventories – 21.6% (21.5% as at the end of 2015), receivables – 22.2% (18.9% as at the end of 2015), other current assets – 0.9% (0.7% as at the end of 2015) and cash and cash equivalents – 7.1% (10.4% as at the end of 2015).

Assets related to discontinued operations

The assets related to the discontinued operations cover the assets of the Mochenwangen Group with the exception of assets of the other companies in the Arctic Paper Group. The amount of PLN 18,370 thousand as at 30 June 2016 was composed of inventories of PLN 12,706 thousand (31 December 2015: PLN 29,396 thousand), trade and other receivables of PLN 3,040 thousand (31 December 2015: PLN 15,912 thousand), cash – PLN 1,739 thousand (31 December 2015: PLN 1,051 thousand), and other financial and non-financial assets PLN 885 thousand (31 December 2015: PLN 1,108 thousand).

Equity

As at the end of the current period, equity amounted to PLN 704,158 thousand as compared to PLN 676,856 thousand at the end of 2015. As at the end of June 2016 equity accounted for 40.2% of total equity and liabilities vs. 37.3% of balance sheet total as at 31 December 2015.

Short-term liabilities

As at the end of June 2016, short-term liabilities amounted to PLN 645,970 thousand (36.9% of balance sheet total) as compared to PLN 682,515 thousand (37.7% of balance sheet total) as at the end of 2015. During H1 2016 there was a decrease of short-term liabilities by PLN 36,546 thousand which was primarily due to reduced trade and other payables.

Long-term liabilities

As at the end of June 2016, long-term liabilities amounted to PLN 360,071 thousand (20.6% of balance sheet total) as compared to PLN 372,599 thousand (20.5% of balance sheet total) as at the end of 2015. In the period under report, a decrease of long-term liabilities occurred by PLN 12,527 thousand, primarily due to a decrease of loans.

Liabilities directly related to discontinued operations

The liabilities directly related to the discontinued operations cover the liabilities of the Mochenwangen Group with the exception of liabilities to the other companies in the Arctic Paper Group. The amount of PLN 40,013 thousand as at 30 June 2016 was composed on provisions of PLN 28,112 thousand (31 December 2015: PLN 55,484 thousand), trade and other payables of PLN 11,002 thousand (31 December 2015: PLN 23,172 thousand), and other financial and non-financial liabilities of 898 thousand (31 December 2015: PLN 2,608 thousand).

Debt analysis

Debt analysis

	2Q 2016	1Q 2016	2Q 2015	Change 2Q2016/ 1Q2016	Change 2Q2016/ 2Q2015
Debt to equity ratio (%)	148,6	150,4	148,6	(1,8) p.p.	(0,0) p.p.
Equity to fixed assets ratio (%)	85,3	85,1	89,2	0,2 p.p.	(3,8) p.p.
Interest-bearing debt-to-equity ratio (%)	62,1	63,9	60,6	(1,8) p.p.	1,5 p.p.
Net debt to EBITDA ratio for the last 12 months (x)	1,4x	1,3x	1,0x	0,02	0,38
EBITDA to interest expense ratio (x)	10,3x	9,4x	11,4x	1,0	(1,0)

As at the end of June 2016 the debt to equity ratio was 148.6% and was lower by 1.8 p.p. as compared to the end of March of 2016 and it did not change as compared to the end of June 2015.

The fixed asset to equity ratio grew from 85.1% as at the end of Q1 2016 to 85.3% at the end of June 2016 and was higher by 0.2 p.p. as compared to the end of March 2016 and lower by 3.8 p.p. as compared to the level of the ratio calculated at the end of June 2015.

Interest bearing debt to equity ratio amounted to 62.1% as at the end of the current half year and was lower by 1.8 p.p. compared to the end of March 2016 and higher by 1.5 p.p. compared to the level of the ratio calculated at the end of June 2015.

Net borrowings to EBITDA calculated for the last 12 months ended on 30 June 2016 amounted to 1.4x compared to 1.3x in the equivalent period ended on 31 March 2016 and 1.0x for the period ended on 30 June 2015.

The EBITDA to interest coverage ratio was 10.3x for the twelve months ended on 30 June 2016 and 9.4x and 11.4x for periods ended on 31 March 2016 and on 30 June 2015 respectively.

Liquidity analysis

Liquidity analysis

	2Q 2016	1Q 2016	2Q 2015	Change 2Q2016/ 1Q2016	Change 2Q2016/ 2Q2015
Current ratio	**1,4x**	**1,4x**	**1,4x**	**(0,0)**	**(0,0)**
Quick ratio	**0,8x**	**0,8x**	**0,9x**	**(0,0)**	**(0,1)**
Acid test ratio	**0,2x**	**0,2x**	**0,3x**	**(0,1)**	**(0,1)**
DSI (days)	55,4	51,2	54,6	4,2	0,8
DSO (days)	47,2	44,1	47,7	3,0	(0,5)
DPO (days)	51,3	52,4	55,3	(1,2)	(4,1)
Operational cycle (days)	102,6	95,3	102,3	7,2	0,2
Cash conversion cycle (days)	**51,3**	**42,9**	**47,0**	**8,4**	**4,3**

The current liquidity ratio as at the end of June 2016 was 1.4x and it did not change in relation to the level as at the end of Q1 2016 and the end of June 2015.

The quick liquidity ratio reached the level of 0.8x at the end of June 2016 and did not change materially in relation to the level as at 31 March 2016 and was by 0.1 lower than as at the end of 30 June 2015.

The cash ratio as at the end of Q2 2016 was 0.2x and it did not change materially in relation to the level as at the end of Q1 2016 and was by 0.1 lower versus the end of Q2 2015.

The cash conversion cycle in Q2 2016 was 51.3 days and was by 8.4 days longer versus Q1 2016 and by 4.3 days longer than reported at the end of Q2 2015.

Consolidated cash flows

Selected items of the consolidated cash flow statements

PLN thousand	2Q 2016	1Q 2016	2Q 2015	1H 2016	1H 2015	Change % 2Q2016/ 1Q2016	Change % 2Q2016/ 2Q2015	Change % 1H2016/ 1H2015
Cash flows from operating activities	15 140	245	17 912	15 384	55 890	6 091,7	(15,5)	(72,5)
of which:								
Gross profit (loss)	*18 193*	*28 588*	*527*	*46 781*	*24 319*	*(36,4)*	*3 354,6*	*92,4*
Depreciation/amortisation and impairment charges	*30 108*	*29 501*	*29 205*	*59 610*	*60 409*	*2,1*	*3,1*	*(1,3)*
Changes to working capital	*(21 664)*	*(57 041)*	*(12 113)*	*(78 705)*	*(28 628)*	*(62,0)*	*78,9*	*174,9*
Other adjustments	*(11 497)*	*(804)*	*293*	*(12 301)*	*(210)*	*1 330,2*	*(4 024,1)*	*5 767,1*
Cash flows from investing activities	(36 751)	(25 848)	(10 511)	(62 599)	(23 349)	42,2	249,6	168,1
Cash flows from financing activities	(23 021)	5 485	12 983	(17 536)	(6 113)	(519,7)	(277,3)	186,9
Total cash flows	**(44 632)**	**(20 118)**	**20 383**	**(64 750)**	**26 428**	**121,8**	**(319,0)**	**(345,0)**

Cash flows from operating activities

In the first six months of 2016, net cash flows from operating activities amounted to PLN +15,384 thousand as compared to PLN +55,890 thousand in the equivalent period of 2015. The gross profit generated in H1 2016 increased by depreciation/amortisation over the period and decreased partly primarily by repayment of trade and other payables resulted in positive cash flows from operating activities.

Cash flows from investing activities

In H1 2016, cash flows from investing activities amounted to PLN -62,599 thousand as compared to PLN -23,349 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 2016, cash flows from financing activities amounted to PLN -17,536 thousand as compared to PLN -6,113 thousand in the equivalent period of 2015. The cash flows from financing activities in 2016 were primarily related to repayment of bank loans with interest and dividend distribution to non-controlling shareholders, partly set off with increased debt under factoring contracts.

Summary of standalone financial results

Standalone income statement

Selected items of the standalone income statement

PLN thousand	2Q 2016	1Q 2016	2Q 2015	1H 2016	1H 2015	Change % 2Q2016/ 1Q2016	Change % 2Q2016/ 2Q2015	Change % 1H2016/ 1H2015
Sales revenues	**49 249**	**10 140**	**59 474**	**59 389**	**70 133**	**386**	**(17)**	**(15)**
of which:								
Revenues from sales of services	*10 031*	*10 014*	*11 487*	*20 045*	*21 936*	*0*	*(13)*	*(9)*
Interest income on loans	*126*	*126*	*203*	*252*	*413*	*(0)*	*(38)*	*(39)*
Dividend income	*39 093*	*-*	*47 784*	*39 093*	*47 784*	*-*	*(18)*	*(18)*
Profit on sales	47 663	8 313	57 349	55 976	65 716	473	(17)	(15)
% of sales revenues	*96,78*	*81,98*	*96,43*	*94,25*	*93,70*	*14,8 p.p.*	*0,4 p.p.*	*0,6 p.p.*
Selling and distribution costs	(1 044)	(997)	(987)	(2 041)	(1 907)	5	6	7
Administrative expenses	(10 429)	(8 122)	(9 003)	(18 551)	(17 131)	28	16	8
Other operating income	105	6	113	111	245	1 706	(6)	(55)
Other operating expenses	(11 886)	(8 824)	(14 082)	(20 710)	(22 486)	35	(16)	(8)
EBIT	**24 409**	**(9 625)**	**33 390**	**14 784**	**24 437**	**(354)**	**(27)**	**(40)**
% of sales revenues	*49,56*	*(94,92)*	*56,14*	*24,89*	*34,84*	*144,5 p.p.*	*(6,6) p.p.*	*(10,0) p.p.*
EBITDA	**24 512**	**(9 530)**	**33 451**	**14 982**	**24 564**	**(357)**	**(27)**	**(39)**
% of sales revenues	*49,77*	*(93,99)*	*56,24*	*25,23*	*35,02*	*143,8 p.p.*	*(6,5) p.p.*	*(9,8) p.p.*
Financial income	5	7	(141)	12	639	(32)	(103)	(98)
Financial expenses	(3 163)	(1 436)	(983)	(4 599)	(1 964)	120	222	134
Gross profit (loss)	**21 251**	**(11 054)**	**32 266**	**10 197**	**23 112**	**(292)**	**(34)**	**(56)**
Income tax	-	-	-	-	-	-	-	-
Net profit / (loss)	**21 251**	**(11 054)**	**32 266**	**10 197**	**23 112**	**(292)**	**(34)**	**(56)**
% of sales revenues	*43,15*	*(109,02)*	*54,25*	*17,17*	*32,96*	*152,2 p.p.*	*(11,1) p.p.*	*(15,8) 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 2016, the standalone sales revenues amounted to PLN 49,249 thousand and comprised services provided to Group companies (PLN 10,031 thousand), interest income on loans (PLN 126 thousand) and dividend income (PLN 39,093 thousand). In the equivalent period of the previous year, the standalone sales revenues amounted to PLN 59,474 thousand and comprised services provided to Group companies (PLN 11,487 thousand interest income on loans (PLN 203 thousand) and dividend income (PLN 47,748 thousand)

In H1 2016, the standalone sales revenues amounted to PLN 59,389 thousand and comprised services provided to Group companies (PLN 20,045 thousand interest on loans (PLN 252 thousand) and dividend income (PLN 39,093 thousand). In the equivalent period of the previous year, the standalone sales revenues amounted to PLN 70,133 thousand and comprised services provided to Group companies (PLN 21,936 thousand interest income on loans (PLN 413 thousand) and dividend income (PLN 47,748 thousand). That means a decrease of sales revenues in H1 2016 by PLN 10,744 thousand versus the equivalent period of 2015, mainly as a result of lower dividend income.

Costs of sales comprise interest income on loans received from other Group companies.

Profit on sales amounted to PLN 55,976 thousand in H1 2016 and dropped by PLN 9,740 thousand versus the equivalent period of the previous year.

Selling and distribution costs

In H1 2016 the Company recognised the amount of PLN 2,041 thousand as selling and distribution costs (PLN 1,907 thousand in the equivalent period of 2015) which comprised solely the expenses related to intermediary services in the purchase of pulp for Arctic Paper Kostrzyn S.A.

Administrative expenses

In H1 2016, the administrative expenses amounted to PLN 18,551 thousand which was an increase as compared to the equivalent period of the previous year by PLN 1,420 thousand. The growth was due higher costs of consulting services provided to the Group by external entities. 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 111 thousand in H1 2016 which was a decrease as compared to the equivalent period of the previous year by PLN 134 thousand. At the same time there was a decrease of other operating expenses that reached the level of PLN 20,710 thousand (PLN 22,486 thousand in Q1 2015). The high level of the other operating expenses in H1 2016 was primarily due to an impairment charge to the loans to Arctic Paper Mochenwangen GmbH and an impairment charge to trade receivables from Arctic Paper Investment GmbH and Arctic Paper Mochenwangen GmbH.

Financial income and financial expenses

In H1 2016, the financial income amounted to PLN 12 thousand and was by PLN 627 thousand lower than generated in H1 2015. The financial expenses after six months of 2016 amounted to PLN 4,599 thousand and primarily covered the negative net FX differences and interest income on the loan from Arctic Paper Finance AB (PLN 1,385 thousand) and from Mr Thomas Onstad (PLN 746 thousand). In the equivalent period of 2015, the financial expenses amounted to PLN 1,964 thousand.

Statement of financial position

Selected standalone balance sheet items

PLN thousand	30.06.2016	31.12.2015	30.06.2015	Change 30.06.2016 -31.12.2015	Change 30.06.2016 -30.06.2015
Fixed assets	845 974	843 274	827 582	2 700	18 392
Receivables	71 893	82 121	81 178	(10 228)	(9 284)
Other current assets	14 170	15 371	30 264	(1 201)	(16 094)
Cash and cash equivalents	7 681	9 435	25 103	(1 753)	(17 421)
Total assets	**939 718**	**950 202**	**964 126**	**(10 483)**	**(24 407)**
Equity	679 049	668 959	687 960	10 090	(8 911)
Short-term liabilities	70 740	76 242	79 945	(5 502)	(9 205)
Long-term liabilities	189 929	205 001	196 221	(15 072)	(6 292)
Total liabilities	**939 718**	**950 202**	**964 126**	**(10 483)**	**(24 408)**

As at 30 June 2016 total assets amounted to PLN 939,718 thousand as compared to PLN 950,202 thousand at the end of 2015.

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

Fixed assets

At the end of June 2016 fixed assets accounted for 90.0% of total assets vs. 88.7% at the end of 2016. The value of fixed assets grew in the current half-year period by PLN 2,700 thousand. The main item of non-current assets includes interests in subsidiaries. At the end of H1 2016, the value was PLN 841,584 thousand (PLN 838,741 thousand as at 31 December 2015). The increased value of interests in subsidiary entities was mostly due to an increase of the value of shares held in Arctic Paper Investment AB (PLN 2,843 thousand).

Current assets

As at the end of June 2016, current assets amounted to PLN 93,744 thousand as compared to PLN 106,927 thousand at the end of December 2015.

As part of the current assets, receivables dropped by PLN 10,228 thousand, other current assets decreased by PLN 1,201 thousand while cash and cash equivalents dropped by PLN 1,753 thousand). As at the end of June 2016, current assets accounted for 10.0% of total assets (11.3% as at the end of 2015).

Equity

At the end of the H1 2016, the equity amounted to PLN 679,049 thousand as compared to PLN 668,959 thousand at the end of 2015. That was a growth of equity by PLN 10,090 thousand, mainly due to net profit generated in H1 2016. As at the end of June 2016 equity accounted for 72.3% of balance sheet total vs. 70.4% of balance sheet total as at the end of 2015.

Short-term liabilities

As at the end of June 2016, short-term liabilities amounted to PLN 70,740 thousand (7.5% of balance sheet total) as compared to PLN 76,242 thousand (8.0% of balance sheet total) as at the end of 2015. The lower amount of short-term liabilities in H1 2016 was due to a lower level of trade payables.

Long-term liabilities

As at the end of June 2016, long-term liabilities amounted to PLN 189,929 thousand (20.2% of balance sheet total) as compared to PLN 205,001 thousand (21.6% of balance sheet total) as at the end of 2015.

The drop of long-term liabilities in H1 2016 was mainly due to repayment (set off against dividend) of the loan granted to the Company by Arctic Paper Kostrzyn SA.

Standalone cash flows

Selected items of the standalone cash flow statements

PLN thousand	2Q 2016	1Q 2016	1H 2016	1H 2015	Change % 2Q2016/ 1Q2016	Change % 1H2016/ 1H2015
Cash flows from operating activities	7 056	(5 122)	1 934	(12 781)	(237,8)	(115,1)
of which:						
Gross profit (loss)	*21 251*	*(11 054)*	*10 197*	*23 112*	*(292,2)*	*(55,9)*
Depreciation/amortisation and impairment charges	*102*	*95*	*197*	*4 651*	*7,7*	*(95,8)*
Changes to working capital	*(44)*	*4 673*	*4 629*	*(2 880)*	*(100,9)*	*(260,7)*
Net interest and dividends	*355*	*351*	*706*	*698*	*1,2*	*1,1*
Other adjustments	*(14 608)*	*813*	*(13 795)*	*(38 362)*	*(1 896,5)*	*(64,0)*
Cash flows from investing activities	(2 916)	(66)	(2 982)	19 980	4 325,5	(114,9)
Cash flows from financing activities	(355)	(351)	(706)	(703)	1,2	0,4
Total cash flows	**3 785**	**(5 538)**	**(1 753)**	**6 496**	**(168,3)**	**(127,0)**

The cash flow statement presents a decrease in cash in H1 2016 by PLN 1,753 thousand which includes:

- positive cash flows from operating activities of PLN 1,934 thousand,
- negative cash flows from investing activities of PLN 2,982 thousand,
- negative cash flows from financing activities of PLN - 706 thousand.

Cash flows from operating activities

In H1 2016, net cash flows from operating activities amounted to PLN 1,934 thousand as compared to PLN -12,781 thousand in the equivalent period of 2015. The cash flows from operating activities in H1 of this year included repayment (set off against dividend) of the loan granted to the Company by Arctic Paper Kostrzyn SA and the effects of reduced working capital.

Cash flows from investing activities

In H1 2016, cash flows from investing activities amounted to PLN -2,982 thousand as compared to PLN +19,980 thousand in the equivalent period of the previous year. The increased interest in Arctic Paper Investment AB had the major effect on the negative cash flows from investing activities in H1 of the year.

Cash flows from financing activities

In H1 2016, cash flows from financing activities amounted to PLN -706 thousand as compared to PLN -703 thousand in the equivalent period of 2015. Cash flows from financing activities are related to interest paid.

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

Key factors affecting the performance results

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

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

Macroeconomic and other economic factors

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

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

Paper prices

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

Costs of raw materials, energy and transportation

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

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

A part of pulp is supplied to our Paper Mills from the Pulp Mills of the Rottneros Group. The rest of the pulp produced in our Pulp Mills is sold to external customers.

Currency rate fluctuations

Our operating results are significantly influenced by currency rate fluctuations. In particular, our 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 our results. We sell our products in all Eurozone countries, Scandinavia, Poland and the UK; therefore, our revenues are to a great extent expressed in EUR, GBP, SEK and PLN, while the revenues of Pulp Mills are primarily dependent on USD. The Group's operating expenses are primarily expressed in USD (pulp costs for Paper Mills), EUR (costs related to pulp for Paper Mills, energy, transportation, chemicals and a majority of costs related to the operations of the Mochenwangen paper mill), PLN (the majority of other costs incurred by the mill in Kostrzyn nad Odrą) and SEK (the majority of other costs incurred by the Munkedal and Grycksbo mills as well as the Rottneros and Vallvik pulp mills).

Exchange rates also have an important influence on results reported in 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

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

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

In H1 2016 there were no material changes in the Arctic Paper Group's structure that would have material influence on the financial result generated.

Other material information

Profitability improvement programme for 2015/2016 of the Arctic Paper – Arctic Paper Grycksbo AB Group

With reference to the Profitability Improvement Programme of the Arctic Paper Group published in July 2015, on 19 January 2016 the Management Board of the Issuer's subsidiary – Arctic Paper Grycksbo AB (Sweden) started negotiations with its trade unions to reduce the fixed costs by about SEK 12 million (about PLN 5.8 million) in 2016 and by about SEK 25 million (about PLN 12 million) in 2017 as well as to improve the performance of the facility in Grycksbo. To this end, the facility may potentially reduce its headcount by about 40 persons in 2016.

Plan to raise funding with the contemplated bond issue or loans

On 4 May 2016 the Management Board of Arctic Paper S.A. took a decision on formal commencement of work on the contemplated refinancing of the existing debt of the Company and its subsidiaries and raising alternative financing ("Financing"). The core objective of the actions of the Company's Management Board is to change the financing structure of the Company's capital group, in particular by centralising the debt to facilitate more effective management of liquidity and flexible adjustment of the financing of each company.

The contemplated Financing provides for raising funds through:

- an issue or issues of PLN denominated bonds under a bond issue programme up to the total amount of PLN 150,000,000 ("Bond Issue Programme"); or
- senior term and revolving loans totalling EUR 85,700,000 and PLN 47,000,000 to be granted to the Company by a group of banks or credit institutions ("Loans"),

and the funds under the contemplated Financing will be raised jointly either under the Bond Issue Programme and Loans (in that case, the amount of Loans would be adequately reduced by the value of bonds issued at the same time under the Bond Issue Programme), or solely under the Loans.

When the Financing is implemented, it will be necessary to establish appropriate collateral and to enter into additional agreements. The Company's Management Board has been contemplating to establish collateral in line with market practices in similar transactions, in particular registered pledge on a group of items and rights constituting the enterprise of the Company or an organised part thereof ("Pledge").

In this connection, the Ordinary General Meeting approved a resolution on 2 June 2016 approving the establishment of registered pledge on a group of items and rights of the Company in view of the contemplated refinancing of the financial debt of the Company and its subsidiaries.

The above decision of the Company's Management Board is preliminary and may be modified. In particular, the Company's Management Board may decide to abandon the above plans in whole or in part. Additionally, the Company's Management Board has been discussing with banks or credit institutions their involvement in the Financing; however, so far no binding decision has been taken in that respect.

Factors influencing the development of the Arctic Paper Group

Information on market trends

Supplies of fine paper

Supplies of fine paper in the European market in Q2 2016 were lower versus than in Q1 2016 by about 6.1% and they were lower by about 6.6% versus Q2 2015. In the analysed period, supplies in the segment of uncoated wood-free paper (UWF) were by 3.6% and 6.2% lower respectively while those in the segment of coated wood- free paper (CWF) were by 9.1% and 7.1% lower respectively.

Supplies of fine paper in H1 2016 were by 5.4% lower than in the equivalent period in 2015. Supplies in the segment of uncoated wood-free paper (UWF) were lower by 5.3%, while in the segment of coated wood-free paper (CWF) were lower by 5.5%.

In Q2 2016 the Arctic Paper Group recorded a decreased level of orders versus Q1 2016 by 7.4% and a growth of orders versus the equivalent period of 2015 by 0.3%. The data both for 2016 and prior periods does not include the facility in Mochenwangen where the activity was discontinued.

Source of data: EuroGraph, RISI, Arctic Paper analysis

Paper prices

At the end of H1 2016, the prices of uncoated wood-free paper (UWF) in Europe remained unchanged versus the prices at the end of 2015 while for coated wood-free paper (CWF) there was a decrease by 2.24%.

At the end of June 2016, 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 2016 by 1.5% and 3.1% respectively.

The prices invoiced by Arctic Paper in EUR for comparable products in the segment of uncoated wood-free paper (UWF) dropped from the end of March 2016 until the end of June 2016 by -1.6% on the average while in the segment of coated wood- free paper (CWF) the prices decreased by -0.3%.

The average prices invoiced by Arctic Paper in 2016 and the prices in the reference periods do not include data from the paper mill in Mochenwangen where the production was discontinued.

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

Pulp prices

At the end of Q2 2016, the pulp prices reached the level of: NBSK – USD 806.5/ton and BHKP – USD 682/ton.

The average NBSK price in Q2 2016 was lower by 6.8% compared to the equivalent period of the previous year while for BHKP the average price was lower by 11.3%. Compared to Q1, the average pulp price in Q2 2016 was higher by 0.6% for NBSK and lower by 9.1% for BHKP.

Pulp costs are characterised by high volatility. Decreasing raw material prices – in this case of BHKP pulp – improves the Group's profitability in that period.

The average pulp cost used for production of paper calculated for the Arctic Paper Group in PLN dropped in Q2 2016 versus Q1 2016 by 8.2% while in relation to Q2 2015 it dropped by 3%.

The share of pulp costs in overall selling costs after 6 months of the current year was 55% versus about 54% in H1 2015.

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

The average pulp costs at Arctic Paper and the consumption structure (2016 and the reference periods) do not cover the data from the paper mill in Mochenwangen where the activity was discontinued.

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

Currency exchange rates

At the end of Q2 2016, the EUR/PLN rate amounted to 4.4255 and was by 5.5% higher than at the end of Q2 2015. The mean EUR/PLN exchange rate in H1 2016 amounted to 4.3680 and was by 5.5% higher than in the equivalent period of 2015.

The EUR/SEK exchange rate amounted to 9.4240 at the end of Q2 2016 (growth by 2.4% versus the end of Q2 2015). For that currency pair, the mean exchange rate in H1 2016 was by 0.4% lower than in the equivalent period of 2015. The weakening SEK versus EUR has been positively impacting the revenues invoiced in EUR in the factories in Sweden (AP Munkedals and AP Grycksbo).

The USD/PLN exchange rate as at the end of Q2 2016 amounted to 3.9803. In H1 2016 the mean USD/PLN exchange rate was 3.9142 versus 3.7150 in the equivalent period of the previous year which was a growth by 5.4%. In Q2 2016 the mean USD/PLN exchange rate was 3.8711 and was by 4.6% higher than in Q2 2015. 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 2016 amounted to 8.4759. In H1 2016, the mean exchange rate amounted to 8.3338 compared to 8.3786 in the equivalent period of the previous year which was a decrease of the rate by 0.5%. In Q2 2016 the mean USD/SEK exchange rate dropped by 2.8% versus Q1 2016. The change in comparison to Q1 2016 favourably affected the costs incurred in USD by AP Munkedals and AP Grycksbo, in particular the costs of pulp.

At the end of June 2016, the EUR/USD exchange rate amounted to 1.1119 compared to 1.1142 (-0.2%) at the end of June 2015. In H1 2016 EUR slightly appreciated versus USD. In H1 2016 the mean exchange rate was 1.1163 while in the equivalent period of the previous year it was 1.1152 which was an appreciation of EUR versus USD by 0.1%.

The depreciation of PLN versus EUR has positively 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.

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

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

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

Risk factors

Major changes to risk factors

In H1 2016 there were no material changes to the risk factors described in the report for 2015.

Risk factors related to the environment in which the Group operates

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

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

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

Risk of changing legal regulations

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

FX risk

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

Interest rate risk

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

Risk related to increasing importance of alternative media

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

Risk factors relating to the business of the Group

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

Risk related to relatively low operational margins

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

Risk of price changes to raw materials, energy and products

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

Risk of disruption to production processes

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

Risk related to our investments

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

Risk factors relating to the debt of the Group

Our Group has the largest portion of its debt under a loan agreement with a consortium of banks (Bank Pekao S.A., Bank Zachodni WBK S.A. and mBank Bank S.A.) of 6 November 2012, loans from Svenska Handelsbanken and Danske Bank, and under lease contracts.

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

Risk related to insurance limits

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

Risk of restricted supplies of natural gas

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

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

AP Kostrzyn has been using a major tax relief resulting from its operations in the Kostrzyńsko-Słubicka Specjalna Strefa Ekonomiczna. The relief was granted until 2017 and is subject to compliance by AP Kostrzyn of the applicable laws, regulations and other conditions relating to the relief, including compliance with certain criteria concerning employment and investment outlays. Tax regulations and interpretations thereof are subject to very frequent changes in Poland. Changes to the regulations applicable to the tax relief or breach by AP Kostrzyn of the applicable conditions may result in loss of the relief and have material adverse impact on the results of operations and financial condition of the Group.

Risk related to consolidation and liquidity of key customers

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

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

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

Risk related to CO2 emissions

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

Risk related to the capacity of the Company to pay dividend

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

Pursuant to Annex No. 3 of 20 December 2013 to the Loan Agreement of 6 November 2012 concluded by Arctic Paper S.A. together with its subsidiaries, i.e. Arctic Paper Kostrzyn S.A., Arctic Paper Investment GmbH and Arctic Paper Mochenwangen GmbH with the consortium of banks (Bank Pekao S.A., Bank Zachodni WBK S.A. and mBank S.A.), Arctic Paper S.A. agreed not to declare not to disburse dividend should a breach of the agreement occur or in case such declaration or disbursement of dividend could cause a breach of the agreement.

Supplementary information

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

The Management Board of Arctic Paper S.A. has not published the projected financial results for 2016.

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

In H1 2016 there were no changes to the Company's Management Board.

On 30 June 2016 Mr Dariusz Witkowski filed his resignation from the function of a Member of the Supervisory Board. On 8 August resignation from membership in the Supervisory Board was filed by Mr Rolf Olof Grundberg, effective on 14 September 2016, and on 16 August resignation from membership in the Supervisory Board was filed by Rune Ingvarsson, effective on 14 September 2016.

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

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

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

Managing and supervising persons		Number of shares or rights to shares as at 29.08.2016	Number of shares or rights to shares as at 16.05.2016	Change
Management Board				
Wolfgang Lübbert		-	-	-
Jacek Łoś		-	-	-
Per Skoglund		-	-	-
Małgorzata Majewska-Śliwa		-	-	-
Michał Sawka		-	-	-
Supervisory Board	-			
Rolf Olof Grundberg		12 000	12 000	-
Rune Roger Ingvarsson		-	-	-
Thomas Onstad		5 848 658	5 848 658	-
Roger Mattsson		-	-	-
Dariusz Witkowski*		NA	-	-
Mariusz Grendowicz.		-	-	-

*On 30 June 2016 resignation from membership in the Supervisory Board was filed by Mr Dariusz Witkowski

Information on sureties and guarantees

As at 30 June 2016, the Group reported:

- a pledge on movables of Arctic Paper Munkedals AB resulting from a factoring contract with Svenska Handelsbanken AB amounting to SEK 160,000 thousand;
- pledge on movables of Arctic Paper Grycksbo AB resulting from a factoring contract with Svenska Handelsbanken AB for SEK 85,000 thousand;
- pledge on real estate of Arctic Paper Grycksbo AB resulting from a factoring contract with Svenska Handelsbanken AB for SEK 20,000 thousand;
- pledge on shares of Arctic Paper Grycksbo AB resulting from a factoring contract with Svenska Handelsbanken AB for SEK 117,542 thousand;
- pledge on movables 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 1,459 thousand at Arctic Paper Grycksbo AB and for SEK 759 thousand at Arctic Paper Munkedals AB
- pledge on real estate of Arctic Paper Munkedals AB resulting from an FPG contract in favour of the mutual life insurance company PRI for SEK 50,000 thousand;
- receivables limit covered with a factoring contract in Arctic Paper Munkedals AB up to SEK 153,327 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 2,711 thousand;
- mortgage on the properties held by Kalltorp Kraft HB for SEK 8,650 thousand;
- a bank guarantee in favour of Skatteverket Ludvika for SEK 135 thousand;
- security on a bank account of Arctic Paper Mochenwangen GmbH covering employee benefits for EUR 255 thousand;
- pledges on shares in subsidiary companies in the Rottneros Group for SEK 509,000 thousand;
- pledge on 39,900,000 shares of Rottneros AB under the loan agreement for EUR 4,000 thousand concluded by Arctic Paper S.A. with Mr Thomas Onstad.

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

- pledges on shares of Arctic Paper Kostrzyn S.A., shares of Arctic Paper Investment GmbH, Arctic Paper Mochenwangen GmbH and on shares of holding companies in Germany;
- pledges on bank accounts of all the companies;
- mortgage on properties held by Arctic Paper Kostrzyn S.A.;
- land charge on properties held by Arctic Paper Mochenwangen GmbH;
- pledge on components of assets of Arctic Paper Kostrzyn S.A.;
- lien of property as security in Arctic Paper Mochenwangen GmbH;
- assignment of rights under insurance policies;
- Mochenwangen GmbH; assignment of rights under loan agreements in the Group (Arctic Paper Kostrzyn S.A. and Arctic Paper Investment GmbH);
- submission to enforcement pursuant to Art. 97 of the Banking Act (individually in favour of each bank) – Arctic Paper Kostrzyn S.A and Arctic Paper S.A.

Material off-balance sheet items

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

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

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

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

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

Statements of the Management Board

Accuracy and reliability of the presented reports

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

- The interim abbreviated consolidated financial statements for the period of 6 months ended on 30 June 2016 of the Arctic Paper S.A. Capital Group and the comparable data have been prepared in compliance with the applicable accounting standards and that they reflect in a true, reliable and clear manner the economic and financial condition of the Capital Group and its financial results for the period of the first 6 months of 2016.
- The Management Board's report from operations of the Arctic Paper S.A. Capital Group to the report for H1 2016 contains a true image of the development, achievements and condition of the Arctic Paper S.A. Capital Group, including a description of core hazards and risks.

Appointment of the entity authorized to audit financial statements

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

Signatures of the Members of the Management Board

Position	Name and surname	Date	Signature
acting President of the Management Board Chief Executive Officer	Per Skoglund	29 August 2016	
Member of the Management Board Chief Financial Officer	Małgorzata Majewska-Śliwa	29 August 2016	
Member of the Management Board Strategy Director	Wolfgang Lübbert	29 August 2016	
Member of the Management Board Chief Procurement Officer	Jacek Łoś	29 August 2016	
Member of the Management Board Sales Director	Michał Sawka	29 August 2016	

Interim abbreviated consolidated
financial statements for six months
ended on 30 June 2016
along with an independent auditor's report
from a review

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Interim abbreviated consolidated financial statements and selected financial data

Selected consolidated financial data

	For the period from 01.01.2016 to 30.06.2016 PLN thousand	For the period from 01.01.2015 to 30.06.2015 PLN thousand	For the period from 01.01.2016 to 30.06.2016 EUR thousand	For the period from 01.01.2015 to 30.06.2015 EUR thousand
Continuing operations				
Sales revenues	1 499 825	1 459 352	343 340	352 422
Operating profit (loss)	75 081	62 825	17 188	15 172
Gross profit (loss)	54 115	50 502	12 388	12 196
Net profit (loss) from continuing operations	36 672	51 890	8 395	12 531
Discontinued operations				
Profit (loss) from discontinued operation	(6 340)	(25 946)	(1 451)	(6 266)
Net profit / (loss) for the period	30 332	25 944	6 944	6 265
Net profit / (loss) attributable to the shareholders of the Parent Entity	9 881	(7 181)	2 262	(1 734)
Net cash flows from operating activities	15 384	55 890	3 522	13 497
Net cash flows from investing activities	(62 599)	(23 349)	(14 330)	(5 639)
Net cash flows from financing activities	(17 536)	(6 113)	(4 014)	(1 476)
Change in cash and cash equivalents	(64 750)	26 428	(14 823)	6 382
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)	0,14	(0,10)	0,03	(0,03)
Diluted EPS (in PLN/EUR)	0,14	(0,10)	0,03	(0,03)
Mean PLN/EUR exchange rate*			4,3683	4,1409

	As at 30 June 2016 PLN thousand	As at 31 December 2015 PLN thousand	As at 30 June 2016 EUR thousand	As at 31 December 2015 EUR thousand
Assets	1 750 212	1 813 235	395 483	425 492
Long-term liabilities	360 071	372 599	81 363	87 434
Short-term liabilities	645 970	682 515	145 965	160 159
Liabilities directly related to the discontinued operations	40 013	81 264	9 041	19 069
Equity	704 158	676 856	159 114	158 830
Share capital	69 288	69 288	15 656	16 259
Number of ordinary shares	69 287 783	69 287 783	69 287 783	69 287 783
Diluted number of ordinary shares	69 287 783	69 287 783	69 287 783	69 287 783
Book value per share (in PLN/EUR)	10,16	9,77	2,30	2,29
Diluted book value per share (in PLN/EUR)	10,16	9,77	2,30	2,29
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**	-	-	4,4255	4,2615

* - Profit and loss items have been translated at the mean arithmetic exchange rates published by the National Bank of Poland, prevailing on the last day of each month.
** - Balance sheet items and book value per share have been translated at the mean exchange rates published by the National Bank of Poland, prevailing on the balance sheet date.

Interim abbreviated consolidated financial statements for six months ended on 30 June 2016 PLN thousand

Interim abbreviated consolidated profit and loss account

	Note	3-month period ended on 30 June 2016 (unaudited)	6-month period ended on 30 June 2016 (unaudited)	3-month period ended on 30 June 2015 (transformed)	6-month period ended on 30 June 2015 (transformed)
Continuing operations					
Revenues from sales of goods	10.1	721 265	1 499 825	688 249	1 459 352
Sales revenues		721 265	1 499 825	688 249	1 459 352
Costs of sales	10.2	(614 442)	(1 274 968)	(602 677)	(1 237 807)
Profit (loss) on sales		106 823	224 857	85 572	221 545
Selling and distribution costs	10.3	(62 770)	(127 171)	(59 833)	(142 547)
Administrative expenses	10.4	(18 632)	(34 578)	(14 418)	(30 292)
Other operating income	10.5	20 503	38 952	8 570	32 020
Other operating expenses	10.6	(12 219)	(26 979)	(8 026)	(17 901)
Operating profit (loss)		33 705	75 081	11 865	62 825
Financial income	10.7	401	619	1 988	2 096
Financial expenses	10.7	(13 667)	(21 586)	(982)	(14 419)
Gross profit (loss)		20 439	54 115	12 872	50 502
Income tax	13	(8 474)	(17 442)	12 328	1 387
Net profit (loss) from continuing operations		11 965	36 672	25 200	51 890
Discontinued operations					
Profit (loss) from discontinued operation	9	(1 261)	(6 340)	(12 102)	(25 946)
Net profit / (loss)		10 704	30 332	13 098	25 944
Attributable to:					
The shareholders of the Parent Entity, of which:		1 535	9 881	(3 529)	(7 181)
- profit (loss) from continuing operations		2 796	16 221	8 573	18 765
- profit (loss) from discontinued operations		(1 261)	(6 340)	(12 102)	(25 946)
Non-controlling shareholders, of which:		9 169	20 451	16 627	33 125
- profit (loss) from continuing operations		9 169	20 451	16 627	33 125
- profit (loss) from discontinued operations		-	-	-	-
		10 704	30 332	13 098	25 944
Earnings per share:					
– basic earnings from the profit/(loss) attributable to the shareholders of the Parent Entity	14	0,02	0,14	(0,05)	(0,10)
– basic profit/(loss) from continuing operations attributable to the shareholders of the Parent Entity	14	0,04	0,23	0,12	0,27
– diluted earnings from the profit attributable to the shareholders of the Parent Entity	14	0,02	0,14	(0,05)	(0,10)
– diluted profit from continuing operations attributable to the shareholders of the Parent Entity	14	0,04	0,23	0,12	0,27

Interim abbreviated consolidated statement of comprehensive income

Additional notes to the interim abbreviated consolidated financial statements provided on pages 52 to 90 constitute an integral part hereof

Interim abbreviated consolidated financial statements for six months ended on 30 June 2016 PLN thousand

	Note	3-month period ended on 30 June 2016 (unaudited)	6-month period ended on 30 June 2016 (unaudited)	3-month period ended on 30 June 2015 (unaudited)	6-month period ended on 30 June 2015 (unaudited)
Profit for the reporting period		10 704	30 332	13 098	25 944
Other comprehensive income					
Items to be reclassified to profit/loss in future reporting periods:					
FX differences on translation of foreign operations		7 257	4 641	15 806	2 099
Deferred income tax		(2 851)	(2 765)	1 548	522
Measurement of financial instruments		12 885	12 596	(8 956)	(3 933)
Items not to be reclassified to profit /loss in future reporting periods:					
Actuarial profit/loss		-	-	868	868
Deferred income tax on actuarial profit/loss		-	-	(243)	(243)
Other comprehensive income (net)		17 291	14 472	9 023	(687)
Total Comprehensive income for the period		27 995	44 804	22 121	25 257
Total comprehensive income attributable to:					
The shareholders of the Parent Entity		12 675	20 419	349	(7 689)
Non-controlling shareholders		15 319	24 386	21 772	32 947

Interim abbreviated consolidated financial statements for six months ended on 30 June 2016 PLN thousand

Interim abbreviated consolidated balance sheet

	Note	As at 30 June 2016 (unaudited)	As at 31 December 2015 (audited)
ASSETS			
Fixed assets			
Tangible fixed assets	15	725 590	719 782
Investment properties		3 982	3 982
Intangible assets	15	52 694	51 622
Interests in joint ventures		5 224	5 169
Other financial assets	18	5 723	1 017
Other non-financial assets	18	1 489	1 472
Deferred income tax asset	13	30 402	47 625
		825 104	830 668
Current assets			
Inventories	16	378 261	390 631
Trade and other receivables	17	377 901	336 499
Corporate income tax receivables		10 297	6 941
Other non-financial assets	18	15 539	11 531
Other financial assets	18	520	944
Cash and cash equivalents	11	124 219	188 552
		906 738	935 099
Assets related to discontinued operations	9	18 370	47 467
TOTAL ASSETS		1 750 212	1 813 235
EQUITY			
Equity (attributable to the shareholders of the Parent Entity)			
Share capital	24	69 288	69 288
Reserve capital		447 638	447 638
Other reserves		141 116	127 976
FX differences on translation		24 343	21 810
Retained earnings / Accumulated losses		(176 654)	(181 625)
Cumulated other comprehensive income related to discontinued operations		(9 201)	(8 974)
		496 530	476 111
Non-controlling stake		207 628	200 744
Total equity		704 158	676 856
Long-term liabilities			
Interest-bearing loans and borrowings	19	210 952	222 305
Provisions	22	84 597	82 855
Other financial liabilities	20	38 639	41 057
Deferred income tax liability	13	3 330	2 468
Accruals and deferred income	23	22 554	23 914
		360 071	372 599
Short-term liabilities			
Interest-bearing loans and borrowings	19	81 826	82 883
Provisions	22	-	-
Other financial liabilities	20	105 847	83 503
Trade and other payables	21	349 040	407 128
Income tax liability		880	281
Accruals and deferred income	23	108 377	108 720
		645 970	682 515
Liabilities directly related to the discontinued operations	9	40 013	81 264
TOTAL LIABILITIES		1 046 054	1 136 379
TOTAL EQUITY AND LIABILITIES		1 750 212	1 813 235

Additional notes to the interim abbreviated consolidated financial statements provided on pages 52 to 90 constitute an integral part hereof

Interim abbreviated consolidated financial statements for six months ended on 30 June 2016 PLN thousand

Interim abbreviated consolidated cash flow statement

	Note	6-month period ended on 30 June 2016 (unaudited)	6-month period ended on 30 June 2015 (unaudited)
Cash flows from operating activities			
Gross profit/(loss) on continued operations		54 115	50 502
Gross profit /(loss) on discontinued operations		(7 334)	(26 184)
Gross profit (loss)		46 781	24 319
Adjustments for:			
Depreciation/amortisation		59 610	60 409
FX gains / (loss)		5 708	(3 303)
Interest, net		11 484	10 499
Profit / loss from investing activities		(324)	1 445
(Increase) / decrease in receivables and other non-financial assets		(28 478)	(44 774)
(Increase) / decrease in inventories		32 939	(32 013)
Increase /(decrease) in liabilities except for loans and borrowings		(74 793)	37 674
Change in accruals and prepayments		(8 374)	10 485
Change in provisions		(28 193)	(5 059)
Income tax paid		(3 461)	(5 593)
Redemption effect of CO2 emission rights		368	145
Certificates in cogeneration		429	(379)
Other		1 688	2 036
Net cash flows from operating activities		15 384	55 890
Cash flows from investing activities			
Disposal of tangible fixed and intangible assets		720	194
Purchase of tangible fixed and intangible assets		(63 319)	(44 193)
Inflows of bank deposit established for over 6 months		-	20 651
Net cash flows from investing activities		(62 599)	(23 349)
Cash flows from financing activities			
Change to overdraft facilities		(1 794)	26 539
Repayment of financial leasing liabilities		(1 544)	(1 433)
Repayment of other financial liabilities		(871)	(1 933)
Inflows from other financial liabilities		32 865	24 874
Repayment of loans, borrowings and debt securities		(17 676)	(30 743)
Dividend disbursed to non-controlling shareholders		(17 502)	(12 950)
Interest paid		(11 014)	(10 468)
Net cash flows from financing activities		(17 536)	(6 113)
Increase / (decrease) in cash and cash equivalents		(64 750)	26 428
Net FX differences		1 105	668
Cash and cash equivalents at the beginning of the period		189 603	158 412
Cash and cash equivalents at the end of the period	11	125 958	185 508

Additional notes to the interim abbreviated consolidated financial statements
provided on pages 52 to 90 constitute an integral part hereof

Interim abbreviated consolidated financial statements for six months ended on 30 June 2016 PLN thousand

Interim abbreviated consolidated statement of changes in equity

	Attributable to the shareholders of the Parent Entity								
	Share capital	Reserve capital	FX differences on translation of foreign operations	Other reserves	Retained earnings / (Accumulated losses)	Cumulated other comprehensive income related to discontinued operations	Total	Equity attributable to non-controlling shareholders	Total equity
As at 1 January 2016	69 288	447 638	21 810	127 976	(181 625)	(8 974)	476 111	200 744	676 856
Net profit / (loss) for the period	-	-	-	-	9 881	-	9 881	20 451	30 332
Other comprehensive income (net) for the period	-	-	2 307	8 230	-	-	10 537	3 935	14 472
Total Comprehensive income for the period	-	-	2 307	8 230	9 881	-	20 419	24 386	44 804
Profit distribution / loss coverage	-		-	4 910	(4 910)	-	-	-	-
Dividend distribution to non-controlling entities	-	-	-	-	-	-	-	(17 502)	(17 502)
Discontinued operations	-	-	227	-	-	(227)	-	-	-
As at 30 June 2016 (unaudited)	69 288	447 638	24 343	141 116	(176 654)	(9 201)	496 530	207 628	704 158

Additional notes to the interim abbreviated consolidated financial statements provided on pages 52 to 90 constitute an integral part hereof

Interim abbreviated consolidated financial statements for six months ended on 30 June 2016 PLN thousand

	Attributable to the shareholders of the Parent Entity								
	Share capital	Reserve capital	FX differences on translation of foreign operations	Other reserves	Retained earnings / (Accumulated losses)	Cumulated other comprehensive income related to discontinued operations	Total	Equity attributable to non-controlling shareholders	Total equity
As at 1 January 2015	69 288	472 748	8 958	136 557	(143 939)	-	543 612	181 459	725 071
Net profit / (loss) for the period	-	-	-	-	(7 181)	-	(7 181)	33 125	25 944
Other comprehensive income (net) for the period	-	-	946	(2 079)	625	-	(508)	(179)	(687)
Total Comprehensive income for the period	-	-	946	(2 079)	(6 556)	-	(7 689)	32 947	25 257
Profit distribution / loss coverage	-	(25 110)	-	-	25 110	-	-	-	-
Dividend distribution to non-controlling entities	-	-	-		-	-	-	(12 950)	(12 950)
Discontinued operations	-	-	6 089	-	(2 633)	(3 456)	-	-	-
As at 30 June 2015 (unaudited)	69 288	447 638	15 993	134 479	(128 018)	(3 456)	535 922	201 456	737 378

Interim abbreviated consolidated financial statements for six months ended on 30 June 2016 PLN thousand

		Attributable to equityholders of the Company								
	Note	Share capital	Reserve capital	FX differences on translation of foreign operations	Other reserves	Retained earnings / (Accumulated losses)	Cumulated other comprehensive income related to discontinued operations	Total	Equity attributable to non-controlling shareholders	Total equity
As at 1 January 2015 (audited)		69 288	472 748	8 958	136 557	(143 939)	-	543 612	181 459	725 071
Net profit / (loss) for the year		-	-	-	-	(71 258)	-	(71 258)	44 688	(26 570)
Other comprehensive income (net) for the year		-	-	6 030	(8 581)	6 309	-	3 758	1 153	4 911
Total Comprehensive income for the period		-	-	6 030	(8 581)	(64 949)	-	(67 500)	45 841	(21 659)
Financial profit distribution	30.5	-	(25 110)	-		25 110		-	-	-
Discountinued operations	14	-	-	6 821		2 153	(8 974)	-	-	-
Dividend distribution to non-controlling entities	30.6	-	-	-	-	-		-	(26 556)	(26 556)
As at 31 December 2015 (audited)		69 288	447 638	21 810	127 976	(181 625)	(8 974)	476 111	200 744	676 856

Additional explanatory notes

1. General information

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

Our consolidated sales revenues for six months of 2016 amounted to PLN 1,500 million.

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

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

The interim abbreviated consolidated financial statements of the Group with respect to the consolidated profit and loss account, statement of comprehensive income, cash flow statement and statement of changes to equity, cover the period of 6 months ended on 30 June 2016 and contain comparable data for the period of 6 months ended on 30 June 2015; and for the consolidated balance sheet, they disclose data as at 30 June 2016 and as at 31 December 2015.

Additionally, the statement of comprehensive income, profit and loss account and notes to the statement of comprehensive income, profit and loss account contain data for the period of 3 months ended on 30 June 2016 and comparable data for the period of 3 months ended on 30 June 2015 that have not been reviewed or audited by statutory auditor.

Group Profile

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

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

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

Shareholding structure

Nemus Holding AB, a company under Swedish law (a company owned indirectly by Mr Thomas Onstad), is the majority shareholder of Arctic Paper S.A., holding (as on 30 June 2016) 40,006,449 shares of the Company, which constitutes 57.74% of its share capital and corresponds to 57.74% 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 5,848,658 shares representing 8.44% of the total number of shares in the Company, and indirectly via an entity other than Nemus Holding AB – 1,350,000 shares accounting for 1.95% of the total number of shares of the Issuer.

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

The duration of the Company is indefinite.

Interim abbreviated consolidated financial statements for six months ended on 30 June 2016 PLN thousand

2. Composition of the Group

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

			Share in equity			
Entity	Registered office	Business activities	29 August 2016	30 June 2016	13 May 2016	31 December 2015
Arctic Paper Kostrzyn S.A.	Poland, Fabryczna 1, 66-470 Kostrzyn nad Odrą	Paper production	100%	100%	100%	100%
Arctic Paper Munkedals AB	Sweden, SE 455 81 Munkedal	Paper production	100%	100%	100%	100%
Arctic Paper Mochenwangen GmbH	Germany, Fabrikstrasse 62, DE-882, 84 Wolpertswende	Paper production	99,74%	99,74%	99,74%	99,74%
Arctic Paper Grycksbo AB	Sweden, Box 1, SE 790 20 Grycksbo	Paper production	100%	100%	100%	100%
Arctic Paper UK Limited	Great Britain, Quadrant House, 47 Croydon Road, Caterham, Surrey	Trading services	100%	100%	100%	100%
Arctic Paper Baltic States SIA	Latvia, K. Vardemara iela 33-20, Riga LV-1010	Trading services	100%	100%	100%	100%
Arctic Paper Deutschland GmbH	Germany, Am Sandtorkai 72, 20457 Hamburg	Trading services	100%	100%	100%	100%
Arctic Paper Benelux S.A.	Belgium, Ophemstraat 24, B-3050 Oud-Heverlee	Trading services	100%	100%	100%	100%
Arctic Paper Schweiz AG	Switzerland, Technoparkstrasse 1, 8005 Zurich	Trading services	100%	100%	100%	100%
Arctic Paper Italia srl	Italy, Via Cavriana 7, 20 134 Milan	Trading services	100%	100%	100%	100%
Arctic Paper Ireland Limited	Ireland, 4 Rosemount Park Road, Dublin 11	Dormant entity	100%	100%	100%	100%
Arctic Paper Danmark A/S	Denmark, Korskildelund 6 DK-2670 Greve	Trading services	100%	100%	100%	100%
Arctic Paper France SAS	France, 43 rue de la Breche aux Loups, 75012 Paris	Trading services	100%	100%	100%	100%
Arctic Paper Espana SL	Spain, Avenida Diagonal 472-474, 9-1 Barcelona	Trading services	100%	100%	100%	100%
Arctic Paper Papierhandels GmbH	Austria, Hainborgerstrasse 34A, A-1030 Wien	Trading services	100%	100%	100%	100%
Arctic Paper Polska Sp. z o.o.	Poland, Okrężna 9, 02-916 Warsaw	Trading services	100%	100%	100%	100%
Arctic Paper Norge AS	Norvay, Rosenholmsveien 25, NO-1411 Kolbotn	Trading services	100%	100%	100%	100%
Arctic Paper Sverige AB	Sweden, SE 455 81 Munkedal	Trading services	100%	100%	100%	100%
Arctic Paper East Sp. z o.o.	Poland, Fabryczna 1, 66-470 Kostrzyn nad Odrą	Trading services	100%	100%	100%	100%

Interim abbreviated consolidated financial statements for six months ended on 30 June 2016 PLN thousand

Entity	Registered office	Business activities	Share in equity			
			29 August 2016	30 June 2016	13 May 2016	31 December 2015
Arctic Paper Investment GmbH *	Germany, Fabrikstrasse 62, DE-882, 84 Wolpertswende	Holding company	100%	100%	100%	100%
Arctic Paper Finance AB	Sweden, Box 383, 401 26 Göteborg	Holding company	100%	100%	100%	100%
Arctic Paper Verwaltungs GmbH *	Germany, Fabrikstrasse 62, DE-882 84 Wolpertswende	Holding company	100%	100%	100%	100%
Arctic Paper Immobilienverwaltung GmbH&Co. KG*	Germany, Fabrikstrasse 62, DE-882 84 Wolpertswende	Holding company	94,90%	94,90%	94,90%	94,90%
Arctic Paper Investment AB **	Sweden, Box 383, 401 26 Göteborg	Holding company	100%	100%	100%	100%
EC Kostrzyn Sp. z o.o.	Poland, ul. Fabryczna 1, 66-470 Kostrzyn nad Odrą	Property and machinery rental	100%	100%	100%	100%
Arctic Paper Munkedals Kraft AB	Sweden, 455 81 Munkedal	Hydro energy production	100%	100%	100%	100%
Rottneros AB	Sweden, Sunne	Holding company	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	Dormant entity	51,27%	51,27%	51,27%	51,27%
Vallviks Bruk AB	Sweden, Söderhamn	Pulp production	51,27%	51,27%	51,27%	51,27%
Rottneros Packaging AB	Sweden, Stockholm	Food packaging production	51,27%	51,27%	51,27%	51,27%
SIA Rottneros Baltic	Latvia, Ventspils	Company for purchase of timber	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 acquisition of Grycksbo Paper Holding AB

As at 30 June 2016 and as well as on the day hereof, the percentage of voting rights held by the Group in its subsidiaries corresponded to the percentage held in the share capital of those entities. All subsidiaries within the Group are consolidated under the full method from the day of obtaining control by the Group and cease to be consolidated from the day the control has been transferred out of the Group.

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

On 28 July 2015, the Company's Management Board published its profitability improvement plan (“Programme”) of the Arctic Paper SA. Capital Group, described in more detail in note 9 to these abbreviated consolidated financial statements. An element of the programme is an active search for an investor for the Arctic Paper Mochenwangen facility and in parallel an analysis of the possibility to take measures for further reduction of losses generated by the paper mill, including those relating to the discontinuation of operations. Production at Arctic Paper Mochenwangen was closed in December 2015.

3. Management and supervisory bodies

3.1. Management Board of the Parent Company

As at 30 June 2016, the Parent Company's Management Board was composed of:

- Per Skoglund – President of the Management Board appointed on 27 April 2016 (appointed as a Member of the Management Board on 27 April 2011);
- Wolfgang Lübbert – Member of the Management Board appointed on 5 June 2012;
- Jacek Łoś – Member of the Management Board appointed on 27 April 2011;
- Małgorzata Majewska-Śliwa – Member of the Management Board appointed on 27 November 2013;
- Michał Sawka – Member of the Management Board appointed on 12 February 2014.

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

3.2. Supervisory Board of the Parent Company

As at 30 June 2016, the Parent Company's Supervisory Board was composed of:

- Rolf Olof Grundberg – Chairman of the Supervisory Board appointed on 30 April 2008;
- Rune Roger Ingvarsson – Member of the Supervisory Board appointed on 22 October 2008;
- Thomas Onstad – Member of the Supervisory Board appointed on 22 October 2008;
- Mariusz Grendowicz – Member of the Supervisory Board appointed on 28 June 2012;
- Roger Mattsson – Member of the Supervisory Board appointed on 17 September 2014.

On 30 June 2016 Mr Dariusz Witkowski filed his resignation from the function of a Member of the Supervisory Board.
On 8 August resignation from membership in the Supervisory Board was filed by Mr Rolf Olof Grundberg, effective on 14 September 2016, and on 16 August resignation from membership in the Supervisory Board was filed by Rune Ingvarsson, effective on 14 September 2016.
Until the date hereof, there were no changes to the composition of the Supervisory Board of the Parent Company.

3.3. Audit Committee of the Parent Company

As at 30 June 2016, the Parent Company's Audit Committee was composed of:

- Rolf Olof Grundberg – Chairman of the Audit Committee appointed on 20 February 2013;
- Rune Ingvarsson – Member of the Audit Committee appointed on 20 February 2013;
- Mariusz Grendowicz – Member of the Audit Committee appointed on 20 February 2013.

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

4. Approval of the financial statements

These interim abbreviated consolidated financial statements were approved for publication by the Management Board on 29 August 2016.

5. Basis of preparation of the consolidated financial statements

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

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

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

As specified in note 32.1. Loans and borrowings in the consolidated financial statements for 2013. On 20 December 2013 the Company and its subsidiary entities – Arctic Paper Kostrzyn S.A. ("APK"), Arctic Paper Investment GmbH and Arctic Paper Mochenwangen GmbH concluded an annex to the loan agreement with the bank consortium: Bank Pekao S.A., Bank Zachodni, WBK S.A. and mBank S.A., the detailed terms and conditions of which are disclosed in this note. The annex introduces an additional event of default to the loan agreement when Svenska Handelsbanken fails to renew short-term loan agreements and factoring contracts concluded by APG. Failure to comply with the conditions precedent, including selected financial ratios, may make the loan be repayable immediately and thus may materially affect the liquidity of the Group and continuing operations of the Group.

The Management Board has analysed potential scenarios relating to the financing of AP Grycksbo. Relying on the analyses, the Management Board is of the opinion that despite the risk the Group is able to continue as a going concern for the next 12 months.

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 2015.

6. Significant accounting principles (policies)

The accounting principles (policies) adopted in the preparation of the interim abbreviated consolidated financial statements are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year that commenced on 1 January 2015, except for the following changes to standards and new interpretations binding for annual periods beginning on or after 1 January 2016.

- Modifications resulting from a review of IFRS 2010-2012 covering:
  - Modifications to IFRS 2 Share-based Payment
    The modifications apply prospectively and contain details of the definition of the market requirements and the conditions to acquire the entitlements; further, a definition is introduced of the definition of the condition to provide the services and the condition related to performance underlying the right to acquire the entitlements.

    The Company does not have programmes of share-based payments and the implementation of the modifications has not affected the Company's financial condition or performance.

  - Modifications to IFRS 3 Business Combinations
    The modifications apply prospectively and clarify the conditional payment which is not classified as an element of capitals is measured at fair value through

profit and loss irrespective of the fact if it is covered with IAS 39 or not.

The implementation of the modifications has not affected the Company's financial condition or performance.

- Modifications to IFRS 8 Operating Segments

  The modifications apply retrospectively and clarify as follows:

  The entity should disclose the judgements made by the Management Board in applying the aggregation criteria to allow two or more operating segments to be aggregated as described in paragraph 12 of IFRS 8, including a brief description the segments that were aggregated and a description of economic segments used for the analysis of similarities

  Reconciliation of assets in a segment with total assets of the entity is required only if such amounts are regularly provided to the chief operating decision maker.

  The entity has incorporated the modification and discloses information in line with IFRS 8 in note 8.

- Modifications to IAS 16 Tangible fixed assets and IAS 38 Intangible Assets

  The modifications apply retrospectively and clarify that an asset may be revalued on the basis of acquired observable data by adjusting the gross book value of the asset to market value or by determining the gross book value proportionately that the obtained book value is equal to market value. Additionally, depreciation is the difference between the gross value and the book value of the asset.

  The modification applies to property, plant and equipment and intangible assets in accordance with the model of revalued value. The Company does not apply the model and therefore the implementation of the modifications has not affected the Company's financial condition or performance.

- Modifications to IFRS 13 Fair Value Measurement

  The modifications clarify that the removal of paragraph B5.4.12 from IFRS 9 Financial Instruments: Recognition and Measurement was not aimed at modifying the requirements related to the measurement of current receivables and payables. In this connection, entities continue to be able to measure current receivables and payables at nominal if the discount effect has no material impact on the presented financial data.

  The implementation of the modifications has not affected the Company's financial condition or performance.

- Modifications to IAS 24 Related Party Disclosures

  The modifications apply retrospectively and clarify that the managing entity (providing the services of key management personnel) is treated as a related party for the purposes of disclosures concerning related parties. Additionally, the entity that uses the services provided by a managing entity is obliged to disclose the costs of such services.

  The clarification is compliant with the classification method of the managing entity as a related party and the disclosures relating to such managing entity.

- Modifications resulting from a review of IFRS 2012-2014 covering:

  - Modifications to IFRS 5 Fixed Assets Held for Sale and Discontinued Operations

    Assets (groups for sale) are usually sold by sale or handover to owners. The modifications clarify that a replacement of one method with another will not be treated as a new disposal plan but as a continuation of the original plan.

    The implementation of the modifications has not affected the Company's financial condition or performance.

  - Modifications to IAS 34 Interim Financial Reporting

    The modifications clarify that the requirements related to interim disclosures may be complied with by either making appropriate disclosures in the interim financial statements or adding references between the interim financial statements and another report (e.g. Management Board's report from operations). The other information in the interim financial statements must be accessible to readers subject to the same principles and at the same time when the interim financial statements are made available.

The implementation of the modifications has not affected the Company's financial condition or performance.

- Modifications to IAS 16 and IAS 38 Clarification of acceptable depreciation/amortisation methods
  The modifications clarify the principles in IAS 16 and IAS 38 stating that the depreciation/amortisation methods relying on revenues reflects the method in which the entity generates economic benefits from assets and not the anticipated method of using future economic benefits generated by such asset. In result, the method bases on revenues may not be applied to depreciate fixed assets and only under certain circumstances it may be applied to the amortisation of intangible assets. The modifications apply prospectively.
  The implementation of the modifications has not affected the Company's financial condition or performance.
- Modifications to IAS 27 Equity Method in Separate Financial Statements
  The modifications allow entities to disclose in their separate financial statements investments in subsidiary, associated entities and in joint ventures with the application of the equity method. The entities that apply IFRS and decide to modify the consolidation method of their investments to the equity method will apply the modification retrospectively.
  The entity has not applied the option allowed by the modification in its standalone financial statements.
- Modifications to IAS 1 Disclosures
  The modifications clarify the existing requirements of IAS 1 related to:
  - materiality,
  - aggregation and interim amounts,
  - sequence of notes,
  - aggregation of information on the share of associated entities and joint ventures consolidated with the equity method in other comprehensive income – disclosure in one line.

  Additionally, the modifications clarify the requirements that apply when additional interim amounts are disclosed in the statement of financial position and profit and loss account and in the statement of other total comprehensive income
  The implementation of the modifications has not affected the Company's financial condition or performance.

Additionally, the following new or modified standards or interpretations apply to annual periods beginning on or after 1 January 2016; however, they do not apply to the information presented and disclosed in the Company's financial statements:

- Modifications to IAS 16 and IAS 41 Agriculture: Bearer Plants
  The modifications relate to the recognition of bearer plants.
- Modifications to IFRS 11 Joint Arrangements
  The modification relates to the recognition by of a partner of the joint arrangements of interests in such joint arrangement.
- Modifications to IAS 19 Defined Benefit Plans: Employee Contributions
  The modification applies to the recognition of contributions made by employees or third parties at recognition of defined benefit plans.
- and modifications resulting from a review of IFRS 2012-2014 covering:
  - Modifications to IFRS 7 Financial Instruments: Disclosures
    I. Servicing contracts – the modification clarifies that servicing contracts providing for a fee may constitute continuation of exposure to financial assets.
    II. Application of modifications to IFRS 7 (issued in December 2011) to abbreviated interim financial statements.
  - Modifications to IAS 19 Employee Benefits

  The modification applies to estimates of the discount rate.

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

6.1. Foreign currency translation

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

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

The functional currencies of the foreign subsidiaries are EUR, SEK, DKK, NOK, GBP and CHF. As on the balance sheet date, the assets and liabilities of those subsidiaries are translated into the presentation currency of the Group (PLN) at the rate of exchange prevailing on the balance sheet date and their income statements are translated using the average weighted exchange rates for the relevant reporting period. The foreign exchange differences arising from the translation are recognised directly in equity as a separate 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 income statement.

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

The following exchange rates were used for book valuation purposes:

	30 June 2016	31 December 2015
USD	3,9803	3,9011
EUR	4,4255	4,2615
SEK	0,4696	0,4646
DKK	0,5949	0,5711
NOK	0,4749	0,4431
GBP	5,3655	5,7862
CHF	4,0677	3,9394

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

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	01.01 - 30.06.2016	01/01 - 30/06/2015
USD	3,9139	3,7150
EUR	4,3683	4,1409
SEK	0,4698	0,4435
DKK	0,5864	0,5554
NOK	0,4638	0,4790
GBP	5,6072	5,6571
CHF	3,9854	3,9275

6.2. Data comparability

Additionally, presentation was changed to the other operating income and operational expenses in the consolidated profit and loss account for the period of 3 and 6 months ended on 30 June 2015 by reducing the other operating income and costs of sales by PLN 5,352 thousand and PLN 9,386 thousand.

In H1 2016 there were no other changes to the accounting policies that would result in changes to the comparable data.

7. Seasonality

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

8. Information on business segments

The principal continuing operations of the Group are paper production which is conducted in paper mills belonging to the Group and pulp production in two pulp mills.

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

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

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

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

The operating results are measured primarily on the basis of EBITDA calculated by adding depreciation/amortisation and impairment charges to tangible fixed assets and intangible assets to operating profit (loss), in each case in compliance with IFRS. In accordance with 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 2016 and as at 30 June 2016.

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

	Continuing operations						
	Uncoated	Coated	Pulp	Other	Total	Eliminations	Continuing opetations
Revenues							
Sales to external customers	774 396	355 005	370 424	-	1 499 825	-	1 499 825
Sales between segments	23	9 835	26 522	19 659	56 038	(56 038)	-
Total segment revenues	774 419	364 840	396 946	19 659	1 555 863	(56 038)	1 499 825
Result of the segment							
EBITDA	69 338	(9 812)	74 324	726	134 576	(212)	134 364
Interest income	3 621	21	-	944	4 586	(4 437)	150
Interest expense income	(6 297)	(3 468)	-	(5 566)	(15 331)	3 776	(11 555)
Depreciation/amortisation	(25 974)	(13 881)	(19 231)	(197)	(59 282)	-	(59 282)
FX gains and other financial income	66	-	470	39 436	39 972	(39 503)	469
FX losses and other financial expenses	(4 724)	(1 383)	(1 879)	(2 446)	(10 432)	401	(10 031)
Gross profit	36 031	(28 522)	53 684	32 897	94 089	(39 975)	54 115
Assets of the segment	1 042 044	277 599	547 257	246 240	2 113 140	(416 924)	1 696 216
Liabilities of the segment	579 629	358 490	148 863	260 669	1 347 651	(344 940)	1 002 711
Capital expenditures	(17 174)	(831)	(44 956)	(36)	(62 996)	-	(62 996)
Interests in joint ventures	5 224	-	-	-	5 224	-	5 224

- Revenues from inter-segment transactions are eliminated on consolidation.
- The results of the segments do not cover financial income (PLN 619 thousand of which PLN 150 thousand is interest income) and financial expenses (PLN 21,586 thousand) of which PLN 11,555 thousand is interest expense), depreciation/amortisation (PLN 59,282 thousand) and income tax liability (PLN -16,503 thousand). However, segment results include inter-segment sales profit (PLN 212 thousand).
- Assets and liabilities of segments do not contain any deferred income tax (asset: PLN 30,402 thousand), provision: PLN 3,330 thousand), since those items are managed at the Group level.

The table below presents data concerning revenues and profit as well as certain assets and liabilities split by segments of the Group for the period of 3 months ended on 30 June 2016 and as at 30 June 2016.

Three-month period ended on 30 June 2016 and on 30 June 2016

	Continuing operations						
	Uncoated	Coated	Pulp	Other	Total	Eliminations	Continuing opetations
Revenues							
Sales to external customers	366 643	172 909	181 713	-	721 265	-	721 265
Sales between segments	17	4 209	12 989	9 750	26 965	(26 965)	-
Total segment revenues	366 660	177 118	194 702	9 750	748 230	(26 965)	721 265
Result of the segment							
EBITDA	35 180	(5 600)	34 324	(414)	63 490	205	63 695
Interest income	1 692	5	0	497	2 195	(2 139)	56
Interest expense income	(3 150)	(1 802)	-	(2 682)	(7 634)	2 079	(5 554)
Depreciation/amortisation	(13 040)	(6 966)	(9 882)	(102)	(29 990)	-	(29 990)
FX gains and other financial income	(172)	(370)	470	39 261	39 188	(38 843)	345
FX losses and other financial expenses	(3 583)	(1 166)	(943)	(2 068)	(7 759)	(353)	(8 112)
Gross profit	16 927	(15 898)	23 969	34 492	59 490	(39 051)	20 439
Assets of the segment	1 042 044	277 599	547 257	246 240	2 113 140	(416 924)	1 696 216
Liabilities of the segment	579 629	358 490	148 863	260 669	1 347 651	(344 940)	1 002 711
Capital expenditures	(9 934)	(679)	(26 698)	(15)	(37 325)	-	(37 325)
Interests in joint ventures	5 224	-	-	-	5 224	-	5 224

- Revenues from inter-segment transactions are eliminated on consolidation.
- The results of the segments do not cover financial income (PLN 401 thousand of which PLN 56 thousand is interest income) and financial expenses (PLN 13,667 thousand) of which PLN 5,554 thousand is interest expense), depreciation/amortisation (PLN 29,990 thousand) and income tax liability (PLN -7,535 thousand). However, segment result includes inter-segment loss (PLN -205 thousand).
- Assets and liabilities of segments do not contain any deferred income tax (asset: PLN 30,402 thousand), provision: PLN 3,330 thousand), since those items are managed at the Group level.

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 2015 and as at 31 December 2015.

Six-month period ended on 30 June 2015 and as at 31 December 2015

	Continuing operations						
	Uncoated	Coated	Pulp	Other	Total	Eliminations	Continuing opetations
Revenues							
Sales to external customers	759 073	326 898	373 382	-	1 459 352	-	1 459 352
Sales between segments	1 612	10 399	30 217	21 706	63 934	(63 934)	-
Total segment revenues	760 685	337 297	403 598	21 706	1 523 286	(63 934)	1 459 352
Result of the segment							
EBITDA	38 409	(14 208)	91 531	3 007	118 739	(1 841)	116 898
Interest income	5 120	87	-	1 159	6 366	(5 499)	867
Interest expense income	(6 252)	(3 165)	-	(6 380)	(15 797)	4 833	(10 964)
Depreciation/amortisation	(25 070)	(13 246)	(15 630)	(126)	(54 073)	-	(54 073)
Impairment of non-financial assets	-	-	-	(23 272)	(23 272)	23 272	-
FX gains and other financial income	3 122	-	-	48 726	51 848	(50 618)	1 230
FX losses and other financial expenses	(4 402)	(998)	(887)	(2)	(6 290)	2 834	(3 455)
Gross profit (loss)	10 926	(31 530)	75 014	23 112	77 522	(27 020)	50 502
Assets of the segment	1 090 810	309 111	525 504	238 082	2 163 508	(450 535)	1 712 974
Liabilities of the segment	641 627	377 625	153 783	281 243	1 454 278	(401 631)	1 052 647
Capital expenditures	(29 194)	(1 959)	(6 209)	(577)	(37 939)	-	(37 939)
Interests in joint ventures	5 169	-	-	-	5 169	-	5 169

- Revenues from inter-segment transactions are eliminated on consolidation.
- The results of the segments do not cover financial income (PLN 2,096 thousand of which PLN 867 thousand is interest income) and financial expenses (PLN 14,419 thousand) of which PLN 10,964 thousand is interest expense), depreciation/amortisation (PLN 54,073 thousand) and income tax liability (PLN +1,387 thousand). However, segment results include inter-segment sales profit (PLN 1,841 thousand).
- Assets and liabilities of segments do not contain any deferred income tax (asset: PLN 47,625 thousand), provision: PLN 2,468 thousand), since those items are managed at the Group level.

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 2015 and as at 31 December 2015.

Three-month period ended on 30 June 2015 and on 31 December 2015

	Continuing Operations						
	Uncoated	Coated	Pulp	Other	Total	Eliminations	Continuing opetations
Revenues							
Sales to external customers	346 963	160 275	181 011	-	688 249	-	688 249
Sales between segments	646	4 409	14 539	11 285	30 879	(30 879)	-
Total segment revenues	347 609	164 684	195 550	11 285	719 129	(30 879)	688 249
Result of the segment							
EBITDA	7 034	(6 398)	38 976	1 443	41 055	(2 156)	38 899
Interest income	2 688	49	0	609	3 345	(2 687)	658
Interest expense income	(1 981)	(1 484)	-	(3 108)	(6 572)	1 341	(5 231)
Depreciation/amortisation	(12 614)	(6 592)	(7 767)	(61)	(27 034)	-	(27 034)
Impairment of non-financial assets	-	-	-	(23 272)	(23 272)	23 272	-
FX gains and other financial income	3 223	-	-	47 787	51 010	(49 679)	1 330
FX losses and other financial expenses	1 479	1 413	(440)	(1)	2 451	1 797	4 249
Gross profit (loss)	(172)	(13 012)	30 770	23 398	40 984	(28 113)	12 872
Assets of the segment	1 090 810	309 111	525 504	238 082	2 163 508	(450 535)	1 712 974
Liabilities of the segment	641 627	377 625	153 783	281 243	1 454 278	(401 631)	1 052 647
Capital expenditures	(23 075)	(1 414)	(4 421)	(405)	(29 315)	-	(29 315)
Interests in joint ventures	5 169	-	-	-	5 169	-	5 169

- Revenues from inter-segment transactions are eliminated on consolidation.
- The results of the segments do not cover financial income (PLN 1,988 thousand of which PLN 658 thousand is interest income) and financial expenses (PLN 982 thousand) of which PLN 5,231 thousand is interest expense), depreciation/amortisation (PLN 27,034 thousand) and income tax liability (PLN +12,328 thousand). However, segment results include inter-segment sales profit (PLN 2,156 thousand).
- Assets and liabilities of segments do not contain any deferred income tax (asset: PLN 47,625 thousand), provision: PLN 2,468 thousand), since those items are managed at the Group level.

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9. Discontinued operations

With reference to the Profitability Improvement Programme of the Group published in 2015, the Management Board of Arctic Paper S.A. has started an active search for an investor for the Arctic Paper Mochenwangen facility, and, in order to reduce the losses generated by the paper mill, it has decided to discontinue its operations in December 2015. Due to the material significance of the part of the business pursued by AP Mochenwangen and the companies set up to acquire the Paper Mill and due to their operational and geographic separation, the Management Board treated the operations of the Mochenwangen Group as discontinued operations as at 31 December 2015 and as at 30 June 2016. The Mochenwangen Group includes: Arctic Paper Mochenwangen, Arctic Paper Investment GmbH, Arctic Paper Verwaltungs and Arctic Paper Immobilienverwaltung. As a result, the assets and liabilities of the Mochenwangen Group were presented as assets directly related to discontinued operations and liabilities directly related to discontinued operations respectively as at 30 June 2016 and 31 December 2015 while the revenues and expenses of the Group were presented as profit (loss) on discontinued operations in the consolidated profit and loss account for the period of 3 and 6 months ended on 30 June 2016 and as at 30 June 2015.

The Management Board of Arctic Paper S.A. remains ready to sell the facility, and simultaneously considers alternative possibilities of allocating these assets.

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

Revenues and expenses of discontinued operations	6-month period ended on 30 June 2016 (unaudited)	6-month period ended on 30 June 2015 (unaudited)
Revenues from sales of goods	17 945	121 027
Costs of sales	(21 125)	(131 698)
Profit (loss) on sales	(3 180)	(10 671)
Selling and distribution costs	(2 542)	(11 956)
Administrative expenses	(2 961)	(3 441)
Other operating income	3 294	928
Other operating expenses	(1 778)	(87)
Operating profit (loss)	(7 168)	(25 227)
Financial income	79	327
Financial expenses	(245)	(1 284)
Gross profit (loss)	(7 334)	(26 184)
Income tax	993	238
Profit (loss) from discontinued operation	(6 340)	(25 946)
Cumulated other comprehensive income related to discontinued operations		
FX differences on translation of foreign operations	(227)	(6 089)
Actuarial profit/loss	-	2 633
	(227)	(3 456)

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Net assets related to discontinued operations	As at 30 June 2016 (unaudited)	As at 31 December 2015 (audited)
Assets related to discontinued operations		
Inventories	12 706	29 396
Trade and other receivables	2 912	15 789
Corporate income tax receivables	128	124
Other non-financial assets	190	12
Other financial assets	695	1 096
Cash and cash equivalents	1 739	1 051
	18 370	47 467
Liabilities directly related to the discontinued operations		
Provisions	28 112	55 484
Other financial liabilities	-	699
Trade and other payables	10 896	23 069
Income tax liability	106	102
Accruals and deferred income	898	1 909
	40 013	81 264
Net assets related to discontinued operations	(21 643)	(33 797)

Cash flows related to discontinued operations	6-month period ended 30 June 2016	6-month period ended 30 June 2015
Net cash flows from operating activities	(16 934)	(9 592)
Net cash flows from investing activities	275	2 595
Net cash flows from financing activities	17 299	7 286
Increase/(decrese) in cash or its equivalents	639	289
Net differences on translation	49	(5)
Cash at the beginning of the period	1 051	526
Cash at the the end of the period	1 739	810

10. Income and costs

10.1. Revenues from sales of goods

In H1 2016, revenues from sale of products amounted to PLN 1,499,825 thousand which was an increase as compared to the equivalent period of the previous year by PLN 40,473 thousand. Sales revenues from paper amounted to PLN 1,129,401 thousand, (332 thousand tons) while for pulp sales – PLN 370,424 thousand. In H1 2015, paper sales revenues amounted to PLN 1,085,971 thousand (340 thousand tons) while for pulp sales – PLN 373,882 thousand.

Paper sales revenues in Q2 of 2016 amounted to PLN 721,265 thousand which was an increase as compared to the equivalent period of the previous year by PLN 33,016 thousand. Sales revenues from paper amounted to PLN 539,552 thousand, (160 thousand tons) while for pulp sales – PLN 181,713 thousand. In Q2 2015, sales revenues from paper amounted to PLN 507,238 thousand (159 thousand tons) while for pulp sales – PLN 181,011 thousand.

10.2. Costs of sales

In H1 2016, costs of sales of products amounted to PLN 1,274,968 thousand which was an increase as compared to the equivalent period of the previous year by PLN 37,161 thousand. The main reason of growing costs of sales was the growth of indirect production costs and maintenance costs at Paper Mills, as well as the growth of pulp consumption costs translated into PLN (due to the higher mean exchange rate of USD as compared to PLN).

In Q2 2016, costs of sales amounted to PLN 614,442 thousand which was an increase as compared to the equivalent period of the previous year by PLN 11,765 thousand.

10.3. Selling and distribution costs

Selling and distribution costs amounted to PLN 127,171 thousand in H1 2016 which was a decrease as compared to the equivalent period of the previous year by PLN 15,376 thousand. The relatively high selling and distribution costs in H1 2015 were mainly due to increased impairment charges for trade receivables, primarily receivables from the PaperlinX group companies.

Selling and distribution costs amounted to PLN 62,770 thousand in Q2 2016 which was an increase as compared to the equivalent period of the previous year by PLN 2,937 thousand.

10.4. Administrative expenses

Administrative expenses amounted to PLN 34,578 thousand in H1 2016 which was an increase as compared to the equivalent period of the previous year by PLN 4,286 thousand. The increased administrative expenses were primarily due to a growth of expenses related to the services provided to the Group by external consultants.

Administrative expenses amounted to PLN 18,632 thousand in Q2 2016 which was a decrease as compared to the equivalent period of the previous year by PLN 4,214 thousand.

10.5. Other operating income

Other operating income totalled PLN 38,952 thousand in H1 2016 which was an increase as compared to the equivalent period of the previous year by PLN 6,932 thousand. Other operating income consisted mainly of revenues from heat and electricity sales as well as sales revenues from other materials and CO_2 emission rights. The growth of other operating income in the current period was due mainly to received damages and sales of other materials.

Other operating income amounted to PLN 20,503 thousand in Q2 2016 which was an increase as compared to the equivalent period of the previous year by PLN 8,175 thousand.

10.6. Other operating expenses

Other operating expenses totalled PLN 26,979 thousand in H1 2016 which was an increase as compared to the equivalent period of the previous year by PLN 9,078 thousand.

The other operating expenses comprised mainly the costs of electricity and heat sales as well as the costs of other materials sold. The higher other operating expenses in H1 2016 were affected primarily by the higher costs of other materials sold.

Other operating expenses amounted to PLN 12,219 thousand in Q2 2016 which was an increase as compared to the equivalent period of the previous year by PLN 11,933 thousand.

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10.7. Financial income and financial expenses

In H1 2016, financial income and expenses amounted to PLN 619 thousand and PLN 21,586 thousand respectively which was a decrease of income by PLN 1,477 thousand as compared to the equivalent period of the previous year and a growth of expenses by PLN 7,167 thousand.

The changes to financial income and expenses were primarily due to the amount of net FX differences. In H1 2016 the Group recorded a surplus of FX losses over FX profit of PLN 6,127 thousand (financial expenses). In the equivalent period of 2015, the Group recorded a surplus of FX profit over FX losses of PLN 1,230 thousand (financial income).

In Q2 2016, financial income and financial expenses amounted to PLN 401 thousand and PLN 13,667 thousand respectively which was a decrease of income as compared to the equivalent period of the previous year by PLN 1,587 thousand and a growth of expenses by PLN 752 thousand.

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 2016 (unaudited)	As at 30 June 2015 (unaudited)
Cash in bank and on hand	118 808	170 192
Short-term deposits	-	14 083
Cash in transit	5 411	423
Cash and cash equivalents in the consolidated balance sheet	124 219	184 698
Cash in bank and on hand attributable to discontinued operations	1 739	810
Cash and cash equivalents in the consolidated cash flow statement	125 958	185 508

12. Dividend paid and proposed

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

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

In accordance with provisions of the Code of Commercial Companies, the Company is obliged to establish reserve capital to cover potential losses. At least 8% of the profit for the financial year disclosed in the standalone financial statements of the parent company should be transferred to the category of capital until the capital has reached the amount of at least one third of the share capital of the parent company. 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 company 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 2015.

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Pursuant to Annex No. 3 of 20 December 2013 to the Loan Agreement of 6 November 2012 concluded by Arctic Paper S.A. together with its subsidiaries, i.e. Arctic Paper Kostrzyn S.A., Arctic Paper Investment GmbH and Arctic Paper Mochenwangen GmbH with the consortium of banks (Bank Pekao S.A., Bank Zachodni WBK S.A. and mBank S.A.), Arctic Paper S.A. agreed not to declare or disburse dividend should a breach of the agreement occur or in case such declaration or disbursement of dividend could cause a breach of the agreement.

The Company's General Meeting held on 2 June 2016 did not make any decision on dividend disbursement.

12.2. Dividend disbursed by Rottneros AB

At the General Meeting of Rottneros AB of 30 May 2016 adopted a resolution on dividend distribution of SEK 0.50 per share. The dividend was disbursed to Arctic Paper S.A. and to the non-controlling shareholders of Rottneros AB in the total amount of PLN 36 million (SEK 76 million).

13. Income tax

13.1. Tax liability

The main items of tax liability for the period of 3 months and 6 months ended on 30 June 2016 and for the equivalent period of the previous year are as follows:

	3-month period ended on 30 June 2016 (unaudited)	6-month period ended on 30 June 2016 (unaudited)	3-month period ended on 30 June 2015 (unaudited)	6-month period ended on 30 June 2015 (unaudited)
Consolidated profit and loss items				
Current income tax				
Current income tax liability	(1 136)	(2 339)	266	(992)
Adjustments related to current income tax from previous years	-	-	-	-
Deferred income tax				
Resulting from the establishment and reversal of temporary differences	(7 338)	(15 103)	12 062	2 379
Tax liability on continuing operations disclosed in the consolidated profit and loss account	(8 474)	(17 442)	12 328	1 387
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	(2 851)	(2 765)	1 305	279
Reversal of deferred income tax assets originally recognised in equity	-	-	-	-
Tax benefit (tax liability) recognised in other comprehensive income	(2 851)	(2 765)	1 305	279

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13.2. Deferred income tax asset/provision

Deferred income tax asset as at 30 June 2016 and 31 December 2015 was PLN 30,402 thousand and PLN 47,625 thousand respectively. The deferred income tax asset is recognised primarily in relation to tax losses that may be applied in future years and in connection with the acquisition of the Rottneros Group.

Deferred income tax liability as at 30 June 2016 and 31 December 2015 amounted to PLN 3,330 thousand and PLN 2,468 thousand respectively. Deferred income tax liability is recognised primarily with reference to the difference in the measurement of fixed assets largely from the acquisition of Arctic Paper Grycksbo and various periods of economic life applied for accounting and tax purposes.

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 2016 (unaudited)	6-month period ended on 30 June 2016 (unaudited)	3-month period ended on 30 June 2015 (unaudited)	6-month period ended on 30 June 2015 (unaudited)
Net profit / (loss) period from continuing operations attributable to the shareholders of the Parent Entity	2 796	16 221	8 573	18 765
Net profit / (loss) period from discontinued operations attributable to the shareholders of the Parent Entity	(1 261)	(6 340)	(12 102)	(25 946)
Net profit / (loss) attributable to the shareholders of the Parent Entity	1 535	9 881	(3 529)	(7 181)
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	0,02	0,14	(0,05)	(0,10)
– basic earnings profit/(loss) for the period from continuing operations attributable to the shareholders of the Parent Entity	0,04	0,23	0,12	0,27
Diluted profit (loss) per share (in PLN)				
– from the profit/(loss) for the period attributable to the shareholders of the Parent Entity	0,02	0,14	(0,05)	(0,10)
– from the profit/(loss) for the period from continuing operations attributable to the shareholders of the Parent Entity	0,04	0,23	0,12	0,27

15. Tangible fixed assets and intangible assets and impairment

15.1. Tangible fixed assets and intangible assets

The net value of fixed assets as at 30 June 2016 was PLN 725,590 thousand and was by PLN 5,808 thousand higher than as at 31 December 2015. The value of tangible fixed assets acquired in the period under report was PLN 59,286 thousand (for the period of 6 months ended on 30 June 2015 it was PLN 33,104 thousand). The net value of sold or liquidated tangible fixed assets for the period of 6 months ended on 30 June 2016 was PLN 335 thousand (for the period of 6 months ended on 30 June 2015 was PLN 1,013 thousand). Depreciation allowances for the period of 6 months ended on 30 June 2016 amounted to PLN 58,932 thousand) (for the period of 6 months ended on 30 June 2015 they were PLN 53,166 thousand). Loss charges of the value of tangible fixed assets for the period of 6 months ended on 30 June 2016 was PLN 0 thousand (for the period of 6 months ended on 30 June 2015 they were PLN -0 thousand). FX differences amounted to PLN +5,789 thousand for the period of 6 months ended on 30 June 2016 (for the period of 6 months ended on 30 June 2015 they amounted to PLN +1,894 thousand.

The net value of intangible assets as at 30 June 2016 was PLN 52,694 thousand and it was by PLN 1,072 thousand higher than as at 31 December 2015. The value of intangible assets acquired in the period under report was PLN 13,921 thousand (for the period of 6 months ended on 30 June 2015 it was PLN 10,111 thousand). The net value of sold or liquidated intangible assets for the period of 6 months ended on 30 June 2016 was PLN 12,559 thousand (for the period of 6 months ended on 30 June 2015 it was PLN 4,504 thousand). Amortisation allowances for the period of 6 months ended on 30 June 2016 amounted to PLN 350 thousand) (for the period of 6 months ended on 30 June 2015 they were PLN 907 thousand). Impairment of assets for the period of 6 months ended on 30 June 2016 was PLN 0 thousand (for the period of 6 months ended on 30 June 2015 they were PLN 0 thousand). FX differences for the period of 6 months ended on 30 June 2016 amounted to PLN +60 thousand (for the period of 6 months ended on 30 June 2015 they were PLN -265 thousand).

Revenues from disposal of tangible fixed and intangible assets (without including revenues from the sale of co-generation certificates) in H1 2016 amounted to PLN 720 thousand (in H1 2015: PLN 194 thousand).

15.2. Impairment of non-financial assets

An analysis of indications as at 30 June 2016 showed no need to perform impairment tests of non-financial fixed assets and make any impairment charges thereto. As a result, the amount of the impairment charges as at 30 June 2016 was not changed as compared to the impairment charges as at 31 December 2015.

The last impairment test of non-financial assets was conducted as of 31 December 2015. Following the annual assessment of impairment losses of tangible fixed assets and intangible assets, the Management Board identified the need to perform impairment tests of non-financial fixed assets for AP Grycksbo as at this date.

The results of the test did not show any further impairment losses of these assets.

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16. Inventories

	As at 30 June 2016	As at 31 December 2015
	(unaudited)	(audited)
Materials (at purchase prices)	168 656	178 037
Production in progress (at manufacturing costs)	10 417	10 802
Finished products, of which:		
At purchase price / manufacturing costs	192 132	192 389
At net realisable price	6 925	9 403
Advance payments for deliveries	131	-
Total inventories, at the lower of:		
purchase price / manufacturing costs or net realisable price	378 261	390 631
Impairment charge to inventories	5 626	6 813
Total inventories before impairment charge	383 888	397 445

Net inventories as at 30 June 2016 amounted to PLN 378,261 thousand (as at 31 December 2015: PLN 390,631 thousand). As at 30 June 2016 impairment charges to inventories amounted to PLN 5,626 thousand (as at 31 December 2015: PLN 6,813 thousand). As at 30 June 2016 the inventories of finished products amounted to PLN 6,925 thousand were measured at the net realisable prices (as at 31 December 2015 the amount was PLN 9,403 thousand.

17. Trade and other receivables

	As at 30 June 2016	As at 31 December 2015
	(unaudited)	(audited)
Trade receivables	345 974	303 897
VAT receivables	22 418	23 409
Other third party receivables	6 550	6 288
Other receivables from related entities	2 960	2 905
Total (net) receivables	377 901	336 499
Impairment charges to receivables	31 571	32 504
Gross receivables	409 472	369 003

The value of trade and other receivables amounted to PLN 377,901 thousand as at 30 June 2016 (31 December 2015: PLN 336,499 thousand). The growth of trade and other receivables was mainly due to a growth of trade receivables disclosed by Paper Mills and Pulp Mills.

The impairment charge to receivables amounted to PLN 31,571 thousand as at 30 June 2016 (31 December 2015: PLN 32,504 thousand).

18. Other non-financial and financial assets

Other short-term non-financial assets as at 30 June 2016 and as at 31 December 2015 amounted to PLN 15,539 thousand and PLN 11,531 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 2016 and as at 31 December 2015 amounted to PLN 1,489 thousand and PLN 1,472 thousand respectively.

Other short-term financial assets amounted to PLN 520 thousand as at 30 June 2016 and PLN 944 thousand as at 31 December 2015. The item covers the value of positive measurement of term contracts.

Other long-term financial assets as at 30 June 2016 amounted to PLN 5,723 thousand as at 31 December 2015 – PLN 1,017 thousand.

19. Interest-bearing loans and borrowings

In the period covered with this report, the Group partially repaid its debt under a temporary loan resulting from the loan agreement concluded in November 2012 with a consortium of banks (Bank Polska Kasa Opieki S.A., Bank Zachodni WBK S.A. and mBank S.A) of PLN 17,676 thousand, made a net repayment of its debt under overdraft facilities to the above consortium of banks, as well as to Svenska Handelsbanken in the amount of PLN 1,794 thousand and capitalised interest income on the loan from the owner of PLN 1,367 thousand.

The other changes to loans and borrowings as at 30 June 2016, compared to 31 December 2015 result mainly from balance sheet evaluation.

20. Other financial liabilities

As at 30 June 2016 other financial liabilities amounted to PLN 144,486 thousand (including long-term liabilities of PLN 38,639 thousand and short-term liabilities of PLN 105,847 thousand. As at 31 December 2015 other financial liabilities amounted to PLN 124,560 thousand (including long-term liabilities of PLN 41,057 and short-term liabilities of PLN 83,503 thousand). Other financial liabilities include liabilities under factoring contracts, liabilities under leasing contracts and negative measurement of hedging instruments. The growth of other financial liabilities was due primarily to factoring contracts with Svenska Handelsbanken in AP Munkedals and AP Grycksbo whereas at 30 June 2016 other financial liabilities relating to factoring contracts amounted to PLN 93,081 thousand (31 December 2015: PLN 59,887 thousand).

During the reporting period, the Group repaid a part of its liabilities under financial leasing of PLN 1,544 thousand.

The differences in the amount of other financial liabilities as at 30 June 2016 versus 31 December 2015 are due primarily to the measurement of instruments hedging future currency buy/sell transactions, purchases of electricity and SWAP transactions.

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21. Trade and other payables

The value trade and other payables amounted to PLN 349,040 thousand as at 30 June 2016 (as at 31 December 2015: PLN 407,128 thousand). The reduced value of the item versus the end of the previous year was due to repayment of trade payables at Paper Mills and Pulp Mills.

22. Change in provisions

	As at 30 June 2016	As at 31 December 2015
	(unaudited)	(audited)
Long-term provisions		
Retirement provisions	83 188	81 461
Other provisions	1 409	1 394
	84 597	82 855
Short-term provisions	-	-
Long-term provisions	84 597	82 855

The growth of long-term provisions in H1 2016 was due primarily from the translation of the provisions into the presentation currency – PLN.

23. Accruals and deferred income

Accruals and deferred income as at 30 June 2016 amounted to PLN 130,931 thousand including short-term accruals and deferred income of PLN 108,377. Accruals and deferred income as at 31 December 2015 amounted to PLN 132,634 thousand including short-term accruals and deferred income of PLN 108,720. The main items of accruals and deferred income include government grants of PLN 25,274 thousand including long-term of PLN 22,554 (31 December 2015: PLN 26,634 thousand). including long-term of PLN 23,914) and short-term employee liabilities, mainly related to holiday leaves that as at 30 June 2016 amounted to PLN 70,207 thousand (31 December 2015: PLN 64,968 thousand).

Interim abbreviated consolidated financial statements for six months ended on 30 June 2016 PLN thousand

24. Share capital

Share capital	As at 30 June 2016 (unaudited)	As at 31 December 2015 (audited)
series A ordinary shares of the nominal value of PLN 1 each	50	50
series B ordinary shares of the nominal value of PLN 1 each	44 254	44 254
series C ordinary shares of the nominal value of PLN 1 each	8 100	8 100
series E ordinary shares of the nominal value of PLN 1 each	3 000	3 000
series F ordinary shares of the nominal value of PLN 1 each	13 884	13 884
	69 288	69 288

	Registration date of capital increase	Number	Value in PLN
Ordinary issued and fully paid-up shares			
Issued on 30 April 2008	2008-05-28	50 000	50 000
Issued on 12 September 2008	2008-09-12	44 253 468	44 253 468
Issued on 20 April 2009	2009-06-01	32	32
Issued on 30 July 2009	2009-11-12	8 100 000	8 100 000
Issued on 1 March 2010	2010-03-17	3 000 000	3 000 000
Issued on 20 December 2012	2013-01-09	10 740 983	10 740 983
Issued on 10 January 2013	2013-01-29	283 947	283 947
Issued on 11 February 2013	2013-03-18	2 133 100	2 133 100
Issued on 6 March 2013	2013-03-22	726 253	726 253
As at 30 June 2016 (unaudited)		69 287 783	69 287 783

25. Financial instruments

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

Interim abbreviated consolidated financial statements for six months ended on 30 June 2016 PLN thousand

25.1. Fair value of each class of financial instruments

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

	Category in compliance with IAS 39	Book value		Fair value	
		As at 30 June 2016	As at 31 December 2015	As at 30 June 2016	As at 31 December 2015
Financial assets					
Trade and other receivables (without VAT)	*L&R*	355 483	324 706	355 483	324 706
Hedging instruments		520	944	520	944
Other financial assets (net of loans and hedging instruments)	*L&R*	5 723	1 017	5 723	1 017
Cash and cash equivalents	*FVTPL*	124 219	188 552	124 219	188 552
Financial liabilities					
Interest-bearing bank loans and borrowings, of which:	*OFL*	292 779	305 188	292 779	305 188
- long-term	*OFL*	210 952	222 305	210 952	222 305
- short-term	*OFL*	81 826	82 883	81 826	82 883
Liabilities under financial leases and rental contracts with purchase options, of which:		30 383	31 588	30 383	31 588
- long-term		27 288	28 523	27 288	28 523
- short-term		3 094	3 065	3 094	3 065
Trade payables and other financial liabilities (without VAT)	*OFL*	330 928	381 885	330 928	381 885
Hedging instruments		20 827	32 890	20 827	32 890

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

The hierarchy of the fair value of financial instruments held by the Group as at 30 June 2016 and as at 31 December 2015:

Interim abbreviated consolidated financial statements for six months ended on 30 June 2016 PLN thousand

30 June 2016	Level 1	Level 2	Level 3
Financial assets measured at fair value through comprehensive income			
Derivative instruments	-	520	-
Other financial assets			
Trade and other receivables	-	-	355 483
Other financial assets (net of loans and hedging instruments)	-	-	5 723
Cash and cash equivalents	-	-	124 219
Financial liabilities measured at fair value through comprehensive income	-	-	-
Derivative instruments	-	20 827	-
Other financial liabilities			
Interest-bearing loans and borrowings	-	-	292 779
Liabilities under financial leases and rental contracts with purchase options	-	-	30 383
Trade payables	-	-	330 928

31 December 2015	Level 1	Level 2	Level 3
Financial assets measured at fair value through comprehensive income			
Derivative instruments	-	944	-
Other financial assets			
Trade and other receivables	-	-	324 706
Other financial assets (net of loans and hedging instruments)	-	-	1 017
Cash and cash equivalents	-	-	188 552
Financial liabilities measured at fair value through comprehensive income	-	-	-
Derivative instruments	-	32 890	-
Interest-bearing loans and borrowings	-	-	305 188
Liabilities under financial leases and rental contracts with purchase options	-	-	31 588
Trade payables	-	-	381 885

25.2. Interest rate risk

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

Interim abbreviated consolidated financial statements for six months ended on 30 June 2016 PLN thousand

30 June 2016 Variable interest rate	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Other financial liabilities:							
Liabilities under financial leases and rental contracts with purchase options	3 094	1 682	3 103	3 061	3 120	16 321	30 383
Loans and borrowings:							
Revolving overdraft facility with Polska Kasa Opieki S.A. in PLN	19 764	-	-	-	-	-	19 764
Revolving overdraft facility with mBank S.A. in PLN	12 867	-	-	-	-	-	12 867
Revolving overdraft facility with BZ WBK S.A. in PLN	6 342	-	-	-	-	-	6 342
Loan from Polska Kasa Opieki S.A. in PLN	4 878	18 846	-	-	-	-	23 724
Loan from Polska Kasa Opieki S.A. in EUR	1 314	5 436	-	-	-	-	6 750
Loan from mBank S.A. in PLN	6 292	28 138	-	-	-	-	34 430
Loan from mBank S.A. in EUR	3 244	13 418	-	-	-	-	16 662
Loan from BZ WBK in PLN	3 960	17 718	-	-	-	-	21 678
Loan from BZ WBK in EUR	1 254	5 188	-	-	-	-	6 442
Loan from SHB in SEK	7 759	-	-	-	-	-	7 759
Total loans and borrowings	67 673	88 744	-	-	-	-	156 417
TOTAL	70 768	90 426	3 103	3 061	3 120	16 321	186 800

30 June 2016 Fixed interest rate	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Loans and borrowings:							
Loan from the core shareholder in EUR	118	17 702	-	-	-	-	17 820
Loan from the core shareholder in EUR	710	-	-	46 775	-	-	47 485
Loan from Polska Kasa Opieki S.A. in PLN	4 251	19 033	-	-	-	-	23 284
Loan from Polska Kasa Opieki S.A. in EUR	3 074	12 718	-	-	-	-	15 792
Loan from BZ WBK in PLN	3 438	15 383	-	-	-	-	18 821
Loan from BZ WBK in EUR	2 562	10 597	-	-	-	-	13 159
TOTAL	14 153	75 433	-	46 775	-	-	136 361

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31 December 2015

Variable interest rate	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Other financial liabilities:							
Liabilities under financial leases and rental contracts with purchase options	3 065	3 122	3 127	3 040	3 087	16 148	31 589
Loans and borrowings:							
Revolving overdraft facility with Polska Kasa Opieki S.A. in PLN	20 439	-	-	-	-	-	20 439
Revolving overdraft facility with mBank S.A. in PLN	5 861	-	-	-	-	-	5 861
Loan from Polska Kasa Opieki S.A. in PLN	4 330	21 186	-	-	-	-	25 516
Loan from Polska Kasa Opieki S.A. in EUR	1 377	5 887	-	-	-	-	7 264
Loan from mBank S.A. in PLN	6 355	31 316	-	-	-	-	37 671
Loan from mBank S.A. in EUR	3 235	14 502	-	-	-	-	17 737
Loan from BZ WBK in PLN	3 984	19 444	-	-	-	-	23 428
Loan from BZ WBK in EUR	1 320	5 618	-	-	-	-	6 938
Loan from SHB in SEK	6 363	-	-	-	-	-	6 363
Loan from Danske Bank in SEK	6 303	-	-	-	-	-	6 303
Total loans and borrowings	68 984	97 953	-	-	-	-	166 938
TOTAL	72 050	101 075	3 127	3 040	3 087	16 148	198 527

31 December 2015

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 the core shareholder in EUR	117	17 046	-	-	-	-	17 163
Loan from the core shareholder in EUR	668	-	-	43 579	-	-	44 248
Loan from Polska Kasa Opieki S.A. in PLN	4 218	21 168	-	-	-	-	25 386
Loan from Polska Kasa Opieki S.A. in EUR	2 960	13 726	-	-	-	-	16 686
Loan from BZ WBK in PLN	3 469	17 392	-	-	-	-	20 861
Loan from BZ WBK in EUR	2 466	11 440	-	-	-	-	13 906
TOTAL	13 898	80 772	-	43 579	-	-	138 250

25.3. Hedge accounting

As at 30 June 2016, the Group used cash flow hedge accounting for the following hedging items:

- Arctic Paper Kostrzyn S.A. designated for cash flow hedge accounting the FX forward derivatives and corridor FX options in order to hedge a portion of inflows in EUR, connected with export sales, as well as purchase of PLN and USD, and a SWAP derivative contract in order to hedge payments of interest in EUR on a bank loan in EUR and to hedge payments of interest in PLN on a bank loan in PLN.
- Arctic Paper Munkedals AB, Arctic Paper Grycksbo AB and the companies of the Rottneros Group designated for cash flow hedge accounting the forward derivatives in order to hedge future purchases of electricity.
- The Companies of the Rottneros Group designated for cash flow hedge accounting the FX forward derivatives in order to hedge a part of expenditures in EUR related to future purchases of electricity.

- The Companies of Rottneros Group designated for cash flow hedge accounting the FX forward derivatives in order to hedge a part of inflows in EUR related to export sales.
- The Companies of Rottneros Group designated for cash flow hedge accounting the FX forward derivatives in order to hedge a part of inflows in USD related to export sales.

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

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

Type of hedge	Cash flow hedge related to planned purchases of electricity in foreign currencies
Hedged position	The hedged position is a part of highly likely future EUR denominated cash flows for the purchase of electricity
Hedging instruments	FX forward contracts are used wherein the Company agrees to buy EUR with SEK
Contract parameters:	
Contract conclusion dates	2 015
Maturity:	individually per contract up to 31.12.2016
Hedged amount	EUR 0.8 M
Term exchange rate	9.02 EUR/SEK

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

Type of hedge	Cash flow hedge related to planned sales in foreign currencies
Hedged position	The hedged position is a part of highly likely future cash inflows for exports
Hedging instruments	FX forward contracts are used wherein the Company agrees to sell USD for SEK
Contract parameters:	
Contract conclusion dates	2 016
Maturity:	individually per contract up to 31.12.2016
Hedged amount	USD 3.0 M
Term exchange rate	8.38 USD/SEK

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

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Type of hedge	Cash flow hedge related to planned sales in foreign currencies
Hedged position	The hedged position is a part of highly likely future cash inflows for exports
Hedging instruments	FX forward contracts are used wherein the Company agrees to sell EUR for SEK
Contract parameters:	
Contract conclusion dates	2 016
Maturity:	individually per contract up to 31.12.2016
Hedged amount	EUR 2.0 M
Term exchange rate	9.36 EUR/SEK

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

Type of hedge	Cash flow hedge related to planned sales in foreign currencies
Hedged position	The hedged position is a part of highly likely future cash inflows for exports
Hedging instruments	FX forward contracts are used wherein the Company agreed to sell EUR for USD
Contract parameters:	
Contract conclusion dates	2 016
Maturity:	individually per contract up to 30.12.2016
Hedged amount	EUR 6.0 M
Term exchange rate	from 1.12 to 1.17 EUR/USD

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

Type of hedge	Cash flow hedge related to planned sales in foreign currencies
Hedged position	The hedged position is a part of highly likely future cash inflows for exports
Hedging instruments	FX forward contracts are used wherein the Company agreed to sell EUR for PLN
Contract parameters:	
Contract conclusion dates	2 016
Maturity:	individually per contract up to 30.12.2016
Hedged amount	EUR 6.0 M
Term exchange rate	from 4.349 to 4.700 EUR/PLN

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

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Type of hedge	Cash flow hedge related to planned sales in foreign currencies
Hedged position	The hedged position is a part of highly likely future cash inflows for exports
Hedging instruments	FX corridor options wherein the Company bought the right to sell EUR for PLN and sold the right to buy EUR with PLN
Contract parameters:	
Contract conclusion dates	2 016
Maturity:	individually per contract up to 30.12.2016
Hedged amount	EUR 6.0 M
Term exchange rate	4.50 and 4.30 EUR/PLN

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

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

Type of hedge	Cash flow hedge related to planned purchases of electricity
Hedged position	The hedged position is a part of highly likely future cash flows for electricity purchases
Hedging instruments	Forward contract for the purchase of electricity at Nord Pool Exchange
Contract parameters:	
Contract conclusion date	individually per contract; from 02.01.2013
Maturity:	individually per contract; by 31.12.2020
Hedged quantity of electricity	1.215.000 MWh
Term price	from 16.50 to 38.30 EUR/MWh

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

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

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Type of hedge	Hedge of cash flows related to variable interest rate on the EUR long-term loan
Hedged position	Future EUR interest flows on EUR loan calculated on the basis of 3M EURIBOR
Hedging instruments	SWAP transaction under which the Company agreed to pay interest in EUR on the EUR loan on the basis of a fixed interest rate
Contract parameters:	
Contract conclusion date	28.12.2012 and 04.03.2013
Maturity:	each interest payment date in line with the payment schedule under the loan agreement by 07.11.2017
Hedged value	interest payable in line with the payment schedule under the loan agreement of EUR 6.5 M.
Term interest rate	0.69% and 0.78%

The table below presents detailed information concerning the hedging relationship in the cash flow hedge accounting related to 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 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	07.03.2013
Maturity:	each interest payment date in line with the payment schedule under the loan agreement by 07.11.2017
Hedged value	interest payable in line with the payment schedule under the loan agreement of PLN 23.8 M and PLN 19.2 M.
Term interest rate	3,71%

The table below presents the fair value of hedging instruments in cash flow hedge accounting as at 30 June 2016 and the comparative data:

	As at 30 June 2016		As at 31 December 2015	
	(unaudited)	(unaudited)	(audited)	(audited)
	Assets	Equity and Liabilities	Assets	Equity and Liabilities
FX forward	520	173	944	-
SWAP	-	1 465	-	2 001
Forward for electricity	-	19 189	-	30 889
Total hedging derivative instruments	520	20 827	944	32 890

26. Financial risk management objectives and policies

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

The Group also uses factoring with recourse for trade receivables. The main purpose for using the financial instrument is to quickly raise funds.

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

In the opinion of the Management Board – in comparison to the annual consolidated financial statements made as at 31 December 2015 there have been no significant changes of the financial risk. There have been no changes to the objectives and policies of the management of the risk.

27. Capital management

The primary objective of the Group's capital management is maintaining a strong credit rating and healthy capital ratios in order to support its business operations and maximise shareholder value. In the Management Board's opinion – in comparison to the annual consolidated financial statements made as at 31 December 2015, there have been no significant changes to the objectives and policies of capital management.

28. Contingent liabilities and contingent assets

As at 30 June 2016, the Group reported:

- contingent liability under a guarantee for FPG in favour of the mutual life insurance company PRI for SEK 1,459 thousand (PLN 665 thousand) at Arctic Paper Grycksbo AB and for SEK 759 thousand (PLN 346 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 2,711 (PLN 1,236 thousand);
- a bank guarantee in favour of Skatteverket Ludvika for SEK 135 (PLN 62 thousand);

29. Legal claims

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

30. Tax settlements

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

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

31. Investment commitments

As at 30 June 2016 the Group was committed to make expenditures on tangible fixed assets of minimum PLN 10,000 thousand (as at 31 December 2015: PLN 10,000 thousand). The amount will be applied to buy new machines and equipment.

32. Transactions with related entities

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

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

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

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

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

Related Entity	Sales to related entities	Purchases from related entities	Interest - financial income	Interest – financial expense	Receivables from related entities	Loan receivables	Liabilities to related entities
Nemus Holding AB	-	523	-	-	2 960	-	523
Thomas Onstad	-	-	-	2 124	-	-	65 305
CFK Progressio s.c.	-	137	-	-	-	-	25
Total	-	660	-	2 124	2 960	-	65 853

The table below presents the total amount of transactions concluded with related entities within the six-month period ended on 30 June 2015 and as at 31 December 2015:

Data for the period from 1 January 2015 to 30 June 2015 and as at 31 December 2015 (PLN thousand).

Related Entity	Sales to related entities	Purchases from related entities	Interest - financial income	Interest – financial expense	Receivables from related entities	Loan receivables	Liabilities to related entities
Nemus Holding AB	-	507	-	-	2 905	-	517
Thomas Onstad	-	-	-	1 945	-	-	61 411
CFK Progressio s.c.	-	85	-	-	-	-	25
Total	-	592	-	1 945	2 905	-	61 953

33. CO2 emission rights

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

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

(in tons) for Arctic Paper Kostrzyn S.A.;	2013	2014	2015	2016	2017	2018	2019	2020
Allocation*	108 535	105 434	102 452	99 840	97 375	94 916	92 454	90 009
Unused quantity from previous years	348 490	306 448	263 932	203 917	-	-	-	-
Issue	(150 577)	(147 950)	(162 467)	(86 119)				
Purchased quantity	-	-	-	-				
Sold quantity	-	-	-	-				
Unused quantity	306 448	263 932	203 917	217 638				

(in tons) for Arctic Paper Munkdals AB	2013	2014	2015	2016	2017	2018	2019	2020
Allocation	44 238	43 470	42 692	41 907	41 113	40 311	39 499	38 685
Unused quantity from previous years	24 305	67 262	107 325	17 559				
Issue	(1 281)	(3 407)	(32 465)	(7 000)				
Purchased quantity	-	-	7	-				
Sold quantity	-	-	(100 000)	-				
Unused quantity	67 262	107 325	17 559	52 466				

(in tons) for Arctic Paper Grycksbo AB	2013	2014	2015	2016	2017	2018	2019	2020
Allocation	77 037	75 689	74 326	72 948	71 556	70 151	68 730	67 304
Unused quantity from previous years	69 411	111 448	734	60				
Issue	-	-	-	-				
Purchased quantity	-	-	-	-				
Sold quantity	(35 000)	(186 403)	(75 000)	-				
Unused quantity	111 448	734	60	73 008				

(in tons) for the Rottneros Group	2013	2014	2015	2016	2017	2018	2019	2020
Allocation	30 681	30 484	29 938	29 387	28 830	28 268	27 698	27 127
Unused quantity from previous years	72 888	90 522	101 986	104 991				
Issue	(13 047)	(19 020)	(26 933)	(10 091)				
Purchased quantity	-	-	-	-				
Sold quantity	-	-	-	-				
Unused quantity	90 522	101 986	104 991	124 287				

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

34. Government grants and operations in the Special Economic Zone

34.1. Government grants

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

34.2. Operations in the Special Economic Zone

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

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

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

Based on the permit issued on 25 August 2006 (with its subsequent updates), the Company may benefit from tax exemption until the end of operation by KSSSE or by 31 December 2026. The permit may be used subject to the incurrence of capital expenditures in the zone within the meaning of Art. 6 of the Regulation of the Council of Ministers of 14 September 2004 on the Kostrzyńsko-Słubicka Special Economic Zone, underlying the calculation of public aid in compliance with Art. 3 of the Regulation in excess of EUR 40,000,000 by 31 December 2013, translated at the EUR mean rate published by the President of the National Bank of Poland on the actual expenditure date. Creation in Zone minimum five new jobs within the meaning of Art. 3.3 and Art. 3.6 of the Regulation by 31 December 2011 and maintaining the employment level of minimum 453 people during the period from 1 January 2012 to 31 December 2013.

The conditions of the exemption have not changed in the reporting period. The Group was inspected by competent authorities. The inspection verified the compliance with all the requirements specified in the permit and was closed with a positive result.

During the period from 25 August 2006 to 30 June 2016, 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 55,093 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.

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The amount of deferred income tax asset recognised with reference to the expenditures incurred in KSSSE amounted to PLN 18,512 thousand as at 30 June 2016.

35. Material events after the balance sheet date

After 30 June 2016 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	Name and surname	Date	Signature
acting President of the Management Board Chief Executive Officer	Per Skoglund	29 August 2016	
Member of the Management Board Chief Financial Officer	Małgorzata Majewska-Śliwa	29 August 2016	
Member of the Management Board Strategy Director	Wolfgang Lübbert	29 August 2016	
Member of the Management Board Chief Procurement Officer	Jacek Łoś	29 August 2016	
Member of the Management Board Sales Director	Michał Sawka	29 August 2016	

Interim abbreviated standalone financial statements for six months ended on 30 June 2016

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Interim abbreviated standalone financial statements and selected financial data

Selected standalone financial data

	For the period from 01.01.2016 to 30.06.2016 PLN thousand	For the period from 01.01.2015 to 30.06.2015 PLN thousand	For the period from 01.01.2016 to 30.06.2016 EUR thousand	For the period from 01.01.2015 to 30.06.2015 EUR thousand
Sales revenues	59 389	70 133	13 595	16 937
Operating profit (loss)	14 784	24 437	3 384	5 901
Gross profit (loss)	10 197	23 112	2 334	5 581
Net profit (loss) from continuing operations	10 197	23 112	2 334	5 581
Net profit (loss) for the financial year	10 197	23 112	2 334	5 581
Net cash flows from operating activities	1 934	(12 781)	443	(3 086)
Net cash flows from investing activities	(2 982)	19 980	(683)	4 825
Net cash flows from financing activities	(706)	(703)	(162)	(170)
Change in cash and cash equivalents	(1 754)	6 496	(401)	1 569
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)	0,15	0,33	0,03	0,08
Diluted EPS (in PLN/EUR)	0,15	0,33	0,03	0,08
Mean PLN/EUR exchange rate*			4,3683	4,1409

	As at 30 June 2016 PLN thousand	As at 31 December 2015 PLN thousand	As at 30 June 2016 EUR thousand	As at 31 December 2015 EUR thousand
Assets	939 718	950 202	212 342	222 974
Long-term liabilities	189 929	205 001	42 917	48 105
Short-term liabilities	70 740	76 242	15 985	17 891
Equity	679 049	668 959	153 440	156 977
Share capital	69 288	69 288	15 656	16 259
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)	9,80	9,65	2,21	2,27
Diluted book value per share (in PLN/EUR)	9,80	9,65	2,21	2,27
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**	-	-	4,4255	4,2615

* - Profit and loss items have been translated at the mean arithmetic exchange rates published by the National Bank of Poland, prevailing on the last day of each month.
** - Balance sheet items and book value per share have been translated at the mean exchange rates published by the National Bank of Poland, prevailing on the balance sheet date.

Interim abbreviated standalone financial statements for six months ended on 30 June 2016 PLN thousand

Interim abbreviated standalone income statement

	Note	3-month period ended on 30 June 2016 (unaudited)	6-month period ended on 30 June 2016 (unaudited)	3-month period ended on 30 June 2015 (unaudited)	6-month period ended on 30 June 2015 (unaudited)
Continuing operations					
Revenues from sales of services		10 031	20 045	11 487	21 936
Interest income on loans from relatedentities	11.1	126	252	203	413
Dividend income	15	39 093	39 093	47 784	47 784
Sales revenues		49 249	59 389	59 474	70 133
Interest expense to related entities	11.1	(1 586)	(3 413)	(2 125)	(4 417)
Profit (loss) on sales		47 663	55 976	57 349	65 716
Other operating income		105	111	113	245
Selling and distribution costs		(1 044)	(2 041)	(987)	(1 907)
Administrative expenses		(10 429)	(18 551)	(9 003)	(17 131)
Other operating expenses		(11 886)	(20 710)	(14 082)	(22 486)
Operating profit (loss)		24 409	14 784	33 390	24 437
Financial income		5	12	(141)	639
Financial expenses		(3 163)	(4 599)	(983)	(1 964)
Gross profit (loss)		21 251	10 197	32 266	23 112
Income tax		-	-	-	-
Net profit (loss) from continuing operations		21 251	10 197	32 266	23 112
Discontinued operations					
Profit (loss) for the financial year from discontinued operations		-	-	-	-
Net profit (loss) for the financial year		21 251	10 197	32 266	23 112
Earnings per share:					
– basic earnings from the profit (loss) for the period		0,31	0,15	0,47	0,33
– basic earnings from the profit (loss) from continuing operations for the period		0,31	0,15	0,47	0,33

Additional notes to the interim abbreviated financial statements
provided on pages 101 to 117 constitute an integral part hereof

Interim abbreviated standalone financial statements for six months ended on 30 June 2016 PLN thousand

Interim abbreviated standalone comprehensive income statement

	Note	3-month period ended on 30 June 2016 (unaudited)	6-month period ended on 30 June 2016 (unaudited)	3-month period ended on 30 June 2015 (unaudited)	6-month period ended on 30 June 2015 (unaudited)
Net profit/(loss) for the reporting period		21 251	10 197	32 266	23 112
Other comprehensive income					
Items to be reclassified to profit/loss in future reporting periods:					
FX differences on translation of foreign operations	21.3	(154)	(107)	(100)	(46)
Other comprehensive income (net)		(154)	(107)	(100)	(46)
Total comprehensive income		21 097	10 090	32 165	23 067

Additional notes to the interim abbreviated financial statements
provided on pages 101 to 117 constitute an integral part hereof

Interim abbreviated standalone financial statements for six months ended on 30 June 2016 PLN thousand

Interim abbreviated standalone balance sheet

	Note	As at 30 June 2016 (unaudited)	As at 31 December 2015 (audited)
ASSETS			
Fixed assets			
Tangible fixed assets	18	1 936	2 108
Intangible assets		1 338	1 322
Investments in subsidiary entities	12	841 584	838 741
Other non-financial assets		1 115	1 103
		845 974	843 274
Current assets			
Trade and other receivables	16	71 893	81 928
Income tax receivables		270	193
Other financial assets	19	11 297	12 683
Other non-financial assets		2 604	2 689
Cash and cash equivalents	13	7 681	9 435
		93 744	106 927
TOTAL ASSETS		939 718	950 202
EQUITY AND LIABILITIES			
Equity			
Share capital	21.1	69 288	69 288
Reserve capital	21.4	447 641	447 641
Other reserves	21.5	152 781	147 871
FX differences on translation	21.3	184	290
Retained earnings / Accumulated losses	21.6	9 157	3 870
Total equity		679 049	668 959
Long-term liabilities			
Interest-bearing loans and borrowings	20	188 260	203 357
Provisions		1 164	1 151
Deferred income tax liability		-	-
Other financial liabilities		293	390
Accruals and deferred income		213	103
		189 929	205 001
Short-term liabilities			
Short-term provisions		-	-
Interest-bearing loans and borrowings	20	875	788
Trade payables	22	62 423	69 593
Other financial liabilities		192	187
Other short-term liabilities		1 889	1 688
Income tax liability		-	-
Accruals and deferred income		5 362	3 985
		70 740	76 242
TOTAL LIABILITIES		260 669	281 243
TOTAL EQUITY AND LIABILITIES		939 718	950 202

Additional notes to the interim abbreviated financial statements provided on pages 101 to 117 constitute an integral part hereof

Interim abbreviated standalone financial statements for six months ended on 30 June 2016 PLN thousand

Interim abbreviated standalone cash flow statements

	Note	6-month period ended on 30 June 2016 (unaudited)	6-month period ended on 30 June 2015 (unaudited)
Cash flows from operating activities			
Gross profit (loss)		10 197	23 112
Adjustments for:			
Depreciation/amortisation		197	126
FX gains / (loss)		(107)	(335)
Impairment of assets		-	4 524
Net interest		706	698
Increase / decrease in receivables and other non-financial assets		10 108	(38 801)
Increase / decrease in liabilities except for loans, borrowings and debt securities		(6 965)	36 900
Change in accruals and prepayments		1 486	(979)
Change in provisions		12	(443)
Income tax paid		(76)	(128)
Increase / decrease of loans granted to subsidiaries		(13 624)	(37 456)
Other		-	-
Net cash flows from operating activities		1 934	(12 781)
Cash flows from investing activities			
Purchase of tangible fixed and intangible assets		(139)	(671)
Short-term deposit		-	20 651
Increased interest in subsidiary entity		(2 843)	-
Net cash flows from investing activities		(2 982)	19 980
Cash flows from financing activities			
Interest paid		(706)	(703)
Inflows from financial leases		-	-
Net cash flows from financing activities		(706)	(703)
Change in cash and cash equivalents		(1 754)	6 496
Cash and cash equivalents at the beginning of the period		9 435	18 607
Cash and cash equivalents at the end of the period	13	7 681	25 103

Additional notes to the interim abbreviated financial statements
provided on pages 101 to 117 constitute an integral part hereof

Interim abbreviated standalone financial statements for six months ended on 30 June 2016 PLN thousand

Interim abbreviated standalone statement of changes in equity

	Attributable to equity holders of the Parent Company					
	Share capital	Share premium	Translation reserve	Other reserves	Retained earnings (losses)	Total equity
As at 1 January 2016	69 288	447 641	290	147 871	3 870	668 959
Foreign currency translation	-		(107)	-	-	(107)
Net profit/(loss) for the period	-	-	-	-	10 197	10 197
Total comprehensive income	-	-	(107)	-	10 197	10 090
Profit distribution	-	-	-	4 910	(4 910)	-
As at 30 June 2016 (unaudited)	69 288	447 641	184	152 781	9 157	679 049

Additional notes to the interim abbreviated financial statements provided on pages 101 to 117 constitute an integral part hereof

Interim abbreviated standalone financial statements for six months ended on 30 June 2016 PLN thousand

	Attributable to equity holders of the Company					
	Share capital	Share premium	Translation reserve	Other reserves	Retained earnings (losses)	Total equity
As at 1 January 2015	69 288	472 751	517	147 871	(25 533)	664 893
Other comprehensive income for the period	-	-	(46)	-	-	(46)
Net profit for the period	-	-	-	-	23 112	23 112
Total comprehensive income	-	-	(46)	-	23 112	23 067
Profit distribution	-	(25 110)	-	-	25 110	-
As at 30 June 2015 (unaudited)	69 288	447 641	472	147 871	22 689	687 961

Interim abbreviated standalone financial statements for six months ended on 30 June 2016 PLN thousand

	Attributable to equity holders of the Company					
	Share capital	Share premium	Translation reserve	Other reserves	Retained earnings (losses)	Total equity
As at 1 January 2015	69 288	472 751	517	147 871	(25 533)	664 893
Other comprehensive income for the period	-	-	(227)	-	-	(227)
Net profit for the period	-	-	-	-	4 909	4 909
Total comprehensive income	-	-	(227)	-	4 909	4 682
Profit distribution	-	(25 110)			25 110	-
Swedish tax Group settlement	-	-	-	-	(617)	(617)
As at 31 December 2015 (audited)	69 288	447 641	290	147 871	3 870	668 959

Additional explanatory notes

1. General information

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

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

The interim abbreviated financial statements of the Company cover the period of 6 months ended on 30 June 2016 and contain comparable data for the period of 6 months ended on 30 June 2015 and as at 31 December 2015.

The statement of total comprehensive income, profit and loss account and notes to the statement of total comprehensive income, profit and loss account contain data for the period of 3 months ended on 30 June 2016 and comparable data for the period of 3 months ended on 30 June 2015 that have not been reviewed or audited by statutory auditor.

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

The Company holds statistical number REGON 080262255.

The duration of the Company is indefinite.

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

2. Basis of preparation of the Interim abbreviated financial statements

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

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

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

As specified in note 32.1. Loans and borrowings in the consolidated financial statements for 2013. On 20 December 2013 the Company and its subsidiary entities – Arctic Paper Kostrzyn S.A. ("APK"), Arctic Paper Investment GmbH and Arctic Paper Mochenwangen GmbH concluded an annex to the loan agreement with the bank consortium: Bank Pekao S.A., Bank Zachodni, WBK S.A. and mBank S.A., the detailed terms and conditions of which are disclosed in this note. The annex introduces an additional event of default to the loan agreement when Svenska Handelsbanken fails to renew short-term loan agreements and factoring contracts concluded by APG. Failure to comply with the conditions precedent, including selected financial ratios, may make the loan be repayable immediately and thus may materially affect the liquidity of the Group and continuing operations of the Group.

The Management Board has analysed potential scenarios relating to the financing of AP Grycksbo. Relying on the analyses, the Management Board is of the opinion that despite the risk the Group is able to continue as a going concern for the next 12 months.

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 2015.

3. Identification of the consolidated financial statements

The Company made its interim abbreviated financial statements for the six-month period ended on 30 June 2016 which were approved for publication by the Management Board on 29 August 2016.

4. Composition of the Company's Management Board

As at 30 June 2016, the Company's Management Board was composed of:

- Per Skoglund – President of the Management Board appointed on 27 April 2016 (appointed as a Member of the Management Board on 27 April 2011);
- Wolfgang Lübbert – Member of the Management Board appointed on 5 June 2012;
- Jacek Łoś – Member of the Management Board appointed on 27 April 2011;
- Małgorzata Majewska-Śliwa – Member of the Management Board appointed on 27 November 2013;
- Michał Sawka – Member of the Management Board appointed on 12 February 2014.

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 2016, the Parent Company's Supervisory Board was composed of:

- Rolf Olof Grundberg – Chairman of the Supervisory Board appointed on 30 April 2008;
- Rune Roger Ingvarsson – Member of the Supervisory Board appointed on 22 October 2008;
- Thomas Onstad – Member of the Supervisory Board appointed on 22 October 2008;
- Mariusz Grendowicz – Member of the Supervisory Board appointed on 28 June 2012;
- Roger Mattsson – Member of the Supervisory Board appointed on 17 September 2014.

On 30 June 2016 Mr Dariusz Witkowski filed his resignation from the function of a Member of the Supervisory Board.
On 8 August resignation from membership in the Supervisory Board was filed by Mr Rolf Olof Grundberg, effective on 14 September 2016, and on 16 August resignation from membership in the Supervisory Board was filed by Rune Ingvarsson, effective on 14 September 2016.
Until the date hereof, there were no other changes to the composition of the Supervisory Board of the Company.

6. Approval of the financial statements

On 29 August 2016 these interim abbreviated financial statements of the Company for the six-month period ended on 30 June 2016 were approved for publication by the Management Board.

Interim abbreviated standalone financial statements for six months ended on 30 June 2016 PLN thousand

7. Investments by the Company

The Company holds interests in the following subsidiary companies:

Entity	Registered office	Business activities	Share in equity of subsidiaries 29 August 2016	30 June 2016	31 December 2015
Arctic Paper Kostrzyn S.A.	Poland, Fabryczna 1, 66-470 Kostrzyn nad Odrą	Paper production	100%	100%	100%
Arctic Paper Munkedals AB	Sweden, SE 455 81 Munkedal	Paper production	100%	100%	100%
Arctic Paper Investment AB	Szwecja, Box 383, 401 26 Göteborg	Holding company	100%	100%	100%
Arctic Paper UK Limited	Great Britain, Quadrant House, 47 Croydon Road, Caterham, Surrey	Trading services	100%	100%	100%
Arctic Paper Baltic States SIA	Latvia, K. Vardemara iela 33-20, Riga LV-1010	Trading services	100%	100%	100%
Arctic Paper Deutschland GmbH	Germany, Am Sandtorkai 72, 20457 Hamburg	Trading services	100%	100%	100%
Arctic Paper Benelux S.A.	Belgium, Ophemstraat 24, B-3050 Oud-Heverlee	Trading services	100%	100%	100%
Arctic Paper Schweiz AG	Switzerland, Technoparkstrasse 1, 8005 Zurich	Trading services	100%	100%	100%
Arctic Paper Italia srl	Italy, Via Cavriana 7, 20 134 Mediolan	Trading services	100%	100%	100%
Arctic Paper Ireland Limited	Ireland, 4 Rosemount Park Road, Dublin 11	Trading services	100%	100%	100%
Arctic Paper Danmark A/S	Denmark, Korskildelund 6 DK-2670 Greve	Trading services	100%	100%	100%
Arctic Paper France SAS	France, 43 rue de la Breche aux Loups, 75012 Paris	Trading services	100%	100%	100%
Arctic Paper Espana SL	Spain, Avenida Diagonal 472-474, 9-1 Barcelona	Trading services	100%	100%	100%
Arctic Paper Papierhandels GmbH	Austria, Hainborgerstrasse 34A, A-1030 Wien	Trading services	100%	100%	100%
Arctic Paper Polska Sp. z o.o.	Poland, Okrężna 9, 02-916 Warsaw	Trading services	100%	100%	100%
Arctic Paper Norge AS	Norvay, Rosenholmsveien 25, NO-1411 Kolbotn	Trading services	100%	100%	100%
Arctic Paper Sverige AB	Sweden, SE 455 81 Munkedal	Trading services	100%	100%	100%
Arctic Paper East Sp. z o.o.	Poland, Fabryczna 1, 66-470 Kostrzyn nad Odrą	Trading services	100%	100%	100%
Arctic Paper Investment GmbH	Germany, Fabrikstrasse 62, DE-882, 84 Wolpertswende	Holding company	99,8%	99,8%	99,8%
Arctic Paper Finance AB	Szwecja, Box 383, 401 26 Göteborg	Holding company	100,0%	100,0%	100,0%
Rottneros AB	Sweden, 820 21 Vallvik	Holding company	51,27%	51,27%	51,27%

As at 30 June 2015 and as at 31 December 2014 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.

With reference to the Profitability Improvement Programme of the Group published in 2015, the Management Board of Arctic Paper S.A. has started an active search for an investor for the Arctic Paper Mochenwangen facility, and, in order to reduce the losses generated by the paper mill, it has decided to discontinue its operations in December 2015. The Management Board of Arctic Paper S.A. remains ready to sell the facility, and simultaneously considers alternative possibilities of allocating these assets.

8. Significant accounting principles (policies)

The accounting principles (policies) adopted in the preparation of the interim abbreviated financial statements are consistent with those applied in the preparation of the Company's annual consolidated financial statements for the year ended on 31 December 2015, except for the following changes to standards and new interpretations binding for annual periods beginning on or after 1 January 2016.

- Modifications resulting from a review of IFRS 2010-2012 covering:
  - Modifications to IFRS 2 Share-based Payment
    The modifications apply prospectively and contain details of the definition of the market requirements and the conditions to acquire the entitlements; further, a definition is introduced of the definition of the condition to provide the services and the condition related to performance underlying the right to acquire the entitlements.

    The Company does not have programmes of share-based payments and the implementation of the modifications has not affected the Company's financial condition or performance.

  - Modifications to IFRS 3 Business Combinations
    The modifications apply prospectively and clarify the conditional payment which is not classified as an element of capitals is measured at fair value through profit and loss irrespective of the fact if it is covered with IAS 39 or not.
    The implementation of the modifications has not affected the Company's financial condition or performance.
  - Modifications to IFRS 8 Operating Segments
    The modifications apply retrospectively and clarify as follows:
    The entity should disclose the judgements made by the Management Board in applying the aggregation criteria to allow two or more operating segments to be aggregated as described in paragraph 12 of IFRS 8, including a brief description the segments that were aggregated and a description of economic segments used for the analysis of similarities
    Reconciliation of assets in a segment with total assets of the entity is required only if such amounts are regularly provided to the chief operating decision maker.
    The entity has incorporated the modification and discloses information in line with IFRS 8 in note 8.
  - Modifications to IAS 16 Tangible fixed assets and IAS 38 Intangible Assets

    The modifications apply retrospectively and clarify that an asset may be revalued on the basis of acquired observable data by adjusting the gross book value of the asset to market value or by determining the gross book value proportionately that the obtained book value is equal to market value. Additionally, depreciation is the difference between the gross value and the book value of the asset.

    The modification applies to property, plant and equipment and intangible assets in accordance with the model of revalued value. The Company does not apply the model and therefore the implementation of the modifications has not affected the Company's financial condition or performance.

  - Modifications to IFRS 13 Fair Value Measurement

The modifications clarify that the removal of paragraph B5.4.12 from IFRS 9 Financial Instruments: Recognition and Measurement was not aimed at modifying the requirements related to the measurement of current receivables and payables. In this connection, entities continue to be able to measure current receivables and payables at nominal if the discount effect has no material impact on the presented financial data.

The implementation of the modifications has not affected the Company's financial condition or performance.

- Modifications to IAS 24 Related Party Disclosures
  The modifications apply retrospectively and clarify that the managing entity (providing the services of key management personnel) is treated as a related party for the purposes of disclosures concerning related parties. Additionally, the entity that uses the services provided by a managing entity is obliged to disclose the costs of such services.

  The clarification is compliant with the classification method of the managing entity as a related party and the disclosures relating to such managing entity.

- Modifications resulting from a review of IFRS 2012-2014 covering:
  - Modifications to IFRS 5 Fixed Assets Held for Sale and Discontinued Operations

    Assets (groups for sale) are usually sold by sale or handover to owners. The modifications clarify that a replacement of one method with another will not be treated as a new disposal plan but as a continuation of the original plan.

    The implementation of the modifications has not affected the Company's financial condition or performance.

  - Modifications to IAS 34 Interim Financial Reporting

    The modifications clarify that the requirements related to interim disclosures may be complied with by either making appropriate disclosures in the interim financial statements or adding references between the interim financial statements and another report (e.g. Management Board's report from operations). The other information in the interim financial statements must be accessible to readers subject to the same principles and at the same time when the interim financial statements are made available.

    The implementation of the modifications has not affected the Company's financial condition or performance.

- Modifications to IAS 16 and IAS 38 Clarification of acceptable depreciation/amortisation methods
  The modifications clarify the principles in IAS 16 and IAS 38 stating that the depreciation/amortisation methods relying on revenues reflects the method in which the entity generates economic benefits from assets and not the anticipated method of using future economic benefits generated by such asset. In result, the method bases on revenues may not be applied to depreciate fixed assets and only under certain circumstances it may be applied to the amortisation of intangible assets. The modifications apply prospectively.
  The implementation of the modifications has not affected the Company's financial condition or performance.
- Modifications to IAS 27 Equity Method in Separate Financial Statements
  The modifications allow entities to disclose in their separate financial statements investments in subsidiary, associated entities and in joint ventures with the application of the equity method. The entities that apply IFRS and decide to modify the consolidation method of their investments to the equity method will apply the modification retrospectively.
  The entity has not applied the option allowed by the modification in its standalone financial statements.
- Modifications to IAS 1 Disclosures
  The modifications clarify the existing requirements of IAS 1 related to:
  - materiality,
  - aggregation and interim amounts,
  - sequence of notes,
  - aggregation of information on the share of associated entities and joint ventures consolidated with the

equity method in other comprehensive income – disclosure in one line.

Additionally, the modifications clarify the requirements that apply when additional interim amounts are disclosed in the statement of financial position and profit and loss account and in the statement of other total comprehensive income

The implementation of the modifications has not affected the Company's financial condition or performance.

Additionally, the following new or modified standards or interpretations apply to annual periods beginning on or after 1 January 2015; however, they do not apply to the information presented and disclosed in the Company's financial statements:

- Modifications to IAS 16 and IAS 41 Agriculture: Bearer Plants
  The modifications relate to the recognition of bearer plants.
- Modifications to IFRS 11 Joint Arrangements
  The modification relates to the recognition by of a partner of the joint arrangements of interests in such joint arrangement.
- Modifications to IAS 19 Defined Benefit Plans: Employee Contributions
  The modification applies to the recognition of contributions made by employees or third parties at recognition of defined benefit plans.
- and modifications resulting from a review of IFRS 2012-2014 covering:
  - Modifications to IFRS 7 Financial Instruments: Disclosures
    III. Servicing contracts – the modification clarifies that servicing contracts providing for a fee may constitute continuation of exposure to financial assets.
    IV. Application of modifications to IFRS 7 (issued in December 2011) to abbreviated interim financial statements.
  - Modifications to IAS 19 Employee Benefits
    The modification applies to estimates of the discount rate.

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

9. Seasonality

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

10. Information on business segments

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

The table below presents revenues from the sale of services, interest income on loans and dividend income for the six-month period ended on 30 June 2016 and as at 30 June 2015 in geographical presentation.

Interim abbreviated standalone financial statements for six months ended on 30 June 2016 PLN thousand

	Continuing operations	
	6-month period ended on 30 June 2016 (unaudited)	6-month period ended on 30 June 2015 (unaudited)
Geographical information		
Poland	29 513	45 943
Foreign countries, of which:		
- Sweden	28 424	23 666
- Other	1 452	524
Total	59 389	70 133

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

11. Income and costs

11.1. Interest income and expense

Interest income covers interest income on loans granted to other companies in the Group.

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

11.2. Administrative expenses

Administrative expenses of the company include costs of the administration of the Company operation, costs of services provided to companies in the Group and all costs incurred by the Company for the purpose of holding company activities. In the first half of 2016 these costs amounted PLN 18.551 thousand (in first half of 2015: PLN 17.131 thousand). The main reason for the increase was higher cost of consulting services rendered to the Group by third parties.

11.3. Other operating income and costs

Other operating income amounted in the two quarters of 2016 to PLN 111 thousand (in the same period of 2015: 245 thousand). Other operating costs decreased in th naalyzed period from PLN 22.486 thousand in the first half of 2015 to PLN 20.710 thousand in the same period of 2016. The decrease results from the lower amounts of impaired loans to Arctic Paper Mochenwangen GmbH in 2016.

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12. Investments in subsidiaries

The value of investments in subsidiary companies as at 30 June 2016 and as at 31 December 2015 was as follows:

	As at 30 June 2016 (unaudited)	As at 31 December 2015 (audited)
Arctic Paper Kostrzyn S.A.	442 535	442 535
Arctic Paper Munkedals AB	88 175	88 175
Arctic Paper Investment AB, of which:	195 675	192 832
Arctic Paper Investment AB (shares)	*295 986*	293 143
Arctic Paper Investment AB (loans)	*82 709*	82 709
Arctic Paper Investment AB (impairment charge)	*(183 020)*	(183 020)
Arctic Paper Investment GmbH	-	-
Arctic Paper Investment GmbH (shares)	*120 445*	120 030
Arctic Paper Investment GmbH (impairment charge)	*(120 445)*	(120 030)
Arctic Paper Sverige AB	-	-
Arctic Paper Sverige AB (shares)	*11 721*	11 721
Arctic Paper Sverige AB (impairment charge)	*(11 721)*	(11 721)
Arctic Paper Danmark A/S	5 539	5 539
Arctic Paper Deutschland GmbH	4 977	4 977
Arctic Paper Norge AS	-	-
Arctic Paper Norge AS (shares)	3 194	3 194
Arctic Paper Norge AS (impairment charge)	(3 194)	(3 194)
Arctic Paper Italy srl	738	738
Arctic Paper UK Ltd.	522	522
Arctic Paper Polska Sp. z o.o.	406	406
Arctic Paper Benelux S.A.	387	387
Arctic Paper France SAS	326	326
Arctic Paper Espana SL	196	196
Arctic Paper Papierhandels GmbH	194	194
Arctic Paper East Sp. z o.o.	102	102
Arctic Paper Baltic States SIA	64	64
Arctic Paper Schweiz AG	61	61
Arctic Paper Finance AB	68	68
Arctic Paper Ireland Ltd.	3	3
Rottneros AB	101 616	101 616
Total	**841 584**	**838 741**

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

In H1 2016 Arctic Paper S.A. carried out an increase of its share in Arctic Paper Investment AB by SEK 6,000 thousand. As a result of the transactions, the value of shares in Arctic Paper Investment AB was increased by PLN 2,843 thousand up to PLN 195,675 thousand.

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13. Cash and cash equivalents

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

	As at 30 June 2016	As at 31 December 2015
	(unaudited)	(unaudited)
Cash in bank and on hand	7 681	9 435
Short-term deposits	-	-
Total	7 681	9 435

14. Dividend paid and proposed

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

In accordance with provisions of the Code of Commercial Companies, the company is obliged to establish reserve capital to cover potential losses. At least 8% of the profit for the financial year disclosed in the standalone financial statements of the parent company should be transferred to the category of capital until the capital has reached the amount of at least one third of the share capital of the parent company. 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 company 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 2015.

Pursuant to Annex No. 3 of 20 December 2013 to the Loan Agreement of 6 November 2012 concluded by Arctic Paper S.A. together with its subsidiaries, i.e. Arctic Paper Kostrzyn S.A., Arctic Paper Investment GmbH and Arctic Paper Mochenwangen GmbH with the consortium of banks (Bank Pekao S.A., Bank Zachodni WBK S.A. and mBank S.A.), Arctic Paper S.A. agreed not to declare or disburse dividend should a breach of the agreement occur or in case such declaration or disbursement of dividend could cause a breach of the agreement.

The Shareholders' General Meeting held on 2 June 2016 did not make any decision on dividend disbursement.

15. Dividend received

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

- Arctic Paper France SAS of PLN 623 thousand
- Arctic Paper Deutschland GmbH of PLN 695 thousand
- Arctic Paper Benelux S.A. of PLN 132 thousand
- Arctic Paper Kostrzyn SA of PLN 19,083 thousand
- Rottneros AB of PLN 18,560 thousand

16. Trade and other receivables

Trade and other receivables disclosed as at 30 June 2016 dropped by PLN 10,035 versus 31 December 2015 as a result of lower sales of pulp to subsidiary in June 2016.

17. Income tax

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

Due to tax losses from the previous years, the Company did not pay any corporate income tax during the six months of 2016.

18. Tangible fixed assets

18.1. Purchases and disposal

During the six-month period ended on 30 June 2016 the Company acquired tangible fixed assets for PLN 15 thousand (in the equivalent period of 2015: PLN 795 thousand). Amortisation allowances for the period under report were PLN 197 thousand (for 6 months in 2015: PLN 126 thousand).

18.2. Impairment charges

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

19. Other financial assets

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

In H1 the Company granted loans to Arctic Paper Mochenwangen GmbH for EUR 4,584 thousand (PLN 19,975) and they were subject to a 100% impairment charge.

Additionally, on 30 June – as a result of an agreement with Arctic Paper Munkedals AB – a part of the loan of PLN 1,319 thousand was repaid.

In H1 2016 there were no material changes to the value of loans granted by Arctic Paper S.A. apart from interest accrued.

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20. Interest-bearing loans and borrowings

On 6 April 2016 the Company made a contractual set-off of principal and interest income on the loan from Arctic Paper Kostrzyn SA for PLN 19,082 thousand against the dividend due to the Company.

In H1 2016 there were no material changes to the value of loans received apart from interest accrued (the interest income accrued on the loan from Arctic Paper Kostrzyn S.A. amounted to PLN 3,413 thousand as at 30 June 2016; as at 30 June 2015 it was PLN 4,417 thousand. The other changes are due to the capitalisation of interest on the loan from Arctic Paper Finance AB (EUR 313 thousand) and book valuation of the loan from Mr Thomas Onstad (EUR 4,000 thousand) and Arctic Paper Finance AB (EUR 10,578 thousand).

21. Share capital and reserve capital/other reserves

21.1. Share capital

	As at 30 June 2016 (unaudited)	As at 31 December 2015 (audited)
'A' class ordinary shares with par value of PLN 1 each	50	50
'B' class ordinary shares with par value of PLN 1 each	44 254	44 254
'C' class ordinary shares with par value of PLN 1 each	8 100	8 100
'E' class ordinary shares with par value of PLN 1 each	3 000	3 000
'F' class ordinary shares with par value of PLN 1 each	13 884	13 884
	69 288	69 288

	Date of registration of capital increase	Volume	Value in PLN
Ordinary shares issued and fully covered			
Issued on 30 April 2008	2008-05-28	50 000	50 000
Issued on 12 September 2008	2008-09-12	44 253 468	44 253 468
Issued on 20 April 2009	2009-06-01	32	32
Issued on 30 July 2009	2009-11-12	8 100 000	8 100 000
Issued on 01 March 2010	2010-03-17	3 000 000	3 000 000
Issued on 20 December 2012	2013-01-09	10 740 983	10 740 983
Issued on 10 January 2013	2013-01-29	283 947	283 947
Issued on 11 February 2013	2013-03-18	2 133 100	2 133 100
Issued on 6 March 2013	2013-03-22	726 253	726 253
As at 30 June 2015 (unaudited)		69 287 783	69 287 783

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21.2. Major shareholders

	As at 30 June 2016 (unaudited)	As at 31 December 2015 (audited)
Thomas Onstad (direct and indirect)		
Percentage in the share capital	68,13%	68,13%
Share in the total number of votes	68,13%	68,13%
Nemus Holding AB (indirectly Thomas Onstad)		
Percentage in the share capital	57,74%	57,74%
Share in the total number of votes	57,74%	57,74%
Other		
Percentage in the share capital	31,87%	31,87%
Share in the total number of votes	31,87%	31,87%

21.3. FX differences on translation of investments in foreign entities

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

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

21.4. Reserve capital

In the six months of 2016 reserve capital was not changed and as at 30 June 2016 amounted to PLN 447,641 thousand.

21.5. Other reserves

Other reserves amounted to PLN 152,781 thousand as at 30 June 2015 and increased versus 31 December 2015 by PLN 4,910 thousand.

Pursuant to Resolution No. 8 of the Ordinary General Meeting of Shareholders of 2 June 2016, the profit generated by the Company in 2015 of PLN 4,910 thousand was transferred to other reserves.

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

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reserve capital may be used solely to cover the losses disclosed in the financial statements and may not be distributed for other purposes.
On 2 June 2016 the Ordinary General Meeting of Shareholders approved Resolution No. 8 on transferring the profit for the financial year for 2015 of PLN 4,909 thousand to reserve capital of the Company.
Pursuant to Annex No. 3 of 20 December 2013 to the Loan Agreement of 6 November 2012 concluded by Arctic Paper S.A. together with its subsidiaries, i.e. Arctic Paper Kostrzyn S.A., Arctic Paper Investment GmbH and Arctic Paper Mochenwangen GmbH with the consortium of banks (Bank Pekao S.A., Bank Zachodni WBK S.A. and mBank S.A.), Arctic Paper S.A. agreed not to declare or disburse dividend should a breach of the agreement occur or in case such declaration or disbursement of dividend could cause a breach of the agreement.

22. Trade payables

Trade payables of the Company dropped by PLN 7,170 thousand versus the end of 2015 thousand.

23. Financial instruments

The Company holds no material financial instruments except cash on hand and in bank accounts, loans, trade receivables and payables.

23.1. Fair value of each class of financial instruments

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

	Category in compliance with IAS 39	Book value		Fair value		*Level of fair value in compliance with IFRS 13*
		As at 30 June 2016	As at 31 December 2015	As at 30 June 2016	As at 31 December 2015	
Financial assets						
Trade and other receivables (without VAT)	*PiN*	71 893	89 033	71 893	89 033	3
Other (short-term) financial assets	*PiN*	11 297	12 683	11 297	12 683	3
Financial liabilities						
Interest-bearing loans and borrowings	*PZFwgZK*	189 135	204 145	189 135	204 145	3
Trade and other payables (without VAT)	*PZFwgZK*	64 503	71 468	64 503	71 468	3

Abbreviations used:
UdtW - Financial assets kept until maturity
WwWGpWF - Financial assets/liabilities measured at fair value through profit and loss account
PiN - Loans and receivables
DDS - Financial assets available for sale
PZFwgZK - Other financial liabilities measured at amortised cost

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

23.2. 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 2016

Variable interest rate	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Loans granted to related entities	11 297	-	-	-	-	-	11 297
Borrowings received from related entities		-		123 744	-	-	123 744
Total	11 297	-	-	123 744	-	-	135 041

30 June 2016

Fixed interest rate	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Borrowings received from related persons	-	17 702	46 813	-	-	-	64 515
Total	-	17 702	46 813	-	-	-	64 515

31 December 2015

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	12 683	-	-	-	-	-	12 683
Borrowings received from related entities	-	-	-	142 566	-	-	142 566
Total	12 683	-	-	142 566	-		155 249

31 December 2015

Fixed interest rate	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Borrowings received from related persons	-	-	17 046	43 744	-	-	60 790
Total	-	-	17 046	43 744	-	-	60 790

24. Financial risk management objectives and policies

The core financial instruments used by the Company include cash on hand and loans granted and borrowings received within the Group. The core objective of the financial instruments is to acquire funding for the business of the Company or for financial support of its subsidiary companies. The Company has various other financial instruments such as trade receivables and payables which arise directly from its operations.

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

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

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

25. Capital management

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

In the Management Board's opinion – in comparison to the annual financial statements for 2015, there have been no significant changes to the objectives and policies of capital management.

26. Contingent liabilities and contingent assets

Contingent liabilities relate to the guarantee of the loan contracted by Arctic Paper Kostrzyn S.A. on 6 November 2012 with a consortium of banks: Polska Kasa Opieki S.A., Bank Zachodni WBK S.A. and mBank S.A in the amount of PLN 359.000 thousand.

27. Transactions with related entities

The table below presents the total amount of transactions concluded with related entities within the six-month period ended on 30 June 2016 and as at 30 June 2016 and as at 30 June 2015 and as at 31 December 2015:

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Related Entity		*Sales to related entities*	*Purchases from related entities*	*Interest - financial income*	*Interest – financial expense*	*Receivables from related entities*	*including overdue*	*Loan receivables*	*Liabilities to related entities*	*Loan liabilities*
Parent entity:										
Nemus Holding AB	2016					2 905			523	
	2015	-	-	-	-	3 173	-	-	507	-
Thomas Onstad	2016				746				118	17 702
	2015	-	-	-	698	-	-	-	112	16 778
Subsidiary entities:										
Arctic Paper Kostrzyn S.A.	2016	10 436	171			54 587			3 192	123 744
	2015	12 329	4 417	-	-	62 146	-	-	3 576	135 508
Arctic Paper Munkedals AB	2016	5 394		252		6 912		11 297	98	
	2015	5 105	-	413	-	4 943	-	20 176	-	-
Arctic Paper Grycksbo AB	2016	5 056				7 098			79	
	2015	5 032	-	-	-	9 679	-	-	-	-
Arctic Paper Mochenwangen GmbH	2016	141		140		968	968	19 975		
	2015	153	-	117	-	4 902	4 902	9 856	-	-
Arctic Paper Investment GmbH	2016			541		7 519	7 519	34 556		
	2015	-	-	553	-	6 669	6 669	34 556	-	-
Arctic Paper Investment AB	2016							82 709	364	
	2015	-	-	-	-	-	-	82 709	346	-
Arctic Paper Deutschland GmbH	2016	16	94						34	
	2015	17	-	-	-	-	-	-	67	-
Arctic Paper Papierhandels GmbH	2016	9								
	2015	10	-	-	-	-	-	-	-	-
Arctic Paper Sverige AB	2016	13				0			1 517	
	2015	34	-	-	-	359	-	-	246	-
Arctic Paper Danmark A/S	2016	9								
	2015	16	-	-	-	234	-	-	-	-
Arctic Paper Norge AS	2016	7				88				
	2015	10	-	-	-	187	-	-	-	-
Arctic Paper Italia srl	2016	5								
	2015	5	-	-	-	-	-	-	-	-
Arctic Paper Espana SL	2016	2								
	2015	2	-	-	-	-	-	-	-	-
Arctic Paper Benelux S.A.	2016	13	696			25			352	
	2015	11	-	-	-	12	-	-	-	-
Arctic Paper France SAS	2016	12								
	2015	11	-	-	-	-	-	-	-	-
Arctic Paper Baltic States SIA	2016	3								
	2015	3	-	-	-	2	-	-	-	-
Arctic Paper Schweiz AG	2016	7	969			1			203	
	2015	8	-	-	-	-	-	-	250	-
Arctic Paper UK Ltd.	2016	20								
	2015	11	-	-	-	11	-	-	-	-
Arctic Paper Polska Sp. z o.o.	2016	10	16						1	
	2015	10	-	-	-	-	-	-	-	-
Arctic Paper East Sp. z o.o.	2016	1				18				
	2015	2	-	-	-	18	-	-	-	-
Arctic Paper Finance AB	2016				1 385	31		-	757	46 813
	2015	-	-	-	1 246	30	-	7 293	514	41 944
Other entities										
Progressio s.c.	2016		137						25	
	2015	-	85	-	-	-	-	-	21	-
Total	**2016**	**21 155**	**2 083**	**933**	**2 131**	**80 153**	**8 487**	**148 536**	**7 264**	**188 259**
impairment charges		**(141)**		**(681)**		**(8 487)**	**(8 487)**	**(54 530)**		
presentation as interests in subsidiary entities								**(82 709)**		
2016 following impairment charges and and reclassification of loan into shares		**21 014**	**2 083**	**252**	**2 131**	**71 665**	**-**	**11 297**	**7 264**	**188 259**
	2015	**22 769**	**4 502**	**1 082**	**1 945**	**92 366**	**11 572**	**154 590**	**5 639**	**194 230**
impairment charges		**(150)**	**-**	**(669)**	**-**	**(13 295)**	**(11 572)**	**(50 850)**	**-**	**-**
presentation as interests in subsidiary entities								**(82 709)**		
2015 following impairment charges and and reclassification of loan into shares		**22 619**	**4 502**	**413**	**1 945**	**79 071**	**-**	**21 031**	**5 639**	**194 230**

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28. Events after the balance sheet date

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

Signatures of the Members of the Management Board

Position	Name and surname	Date	Signature
acting President of the Management Board Chief Executive Officer	Per Skoglund	29 August 2016	
Member of the Management Board Chief Financial Officer	Małgorzata Majewska-Śliwa	29 August 2016	
Member of the Management Board Strategy Director	Wolfgang Lübbert	29 August 2016	
Member of the Management Board Chief Procurement Officer	Jacek Łoś	29 August 2016	
Member of the Management Board Sales Director	Michał Sawka	29 August 2016	

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