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ARCTIC PAPER S.A. CAPITAL GROUP
Consolidated half-yearly report for the six months' period ended 30th June 2013 together with the report of independent auditor

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

ARCTIC PAPER

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Introduction

Information on report

The hereby Consolidated Quarterly Report for the first quarter of 2013 was prepared in accordance with the Minister of Finance Regulation of 19th February 2009 concerning current and periodical information submitted by issuers of securities and terms and conditions of classifying as equivalent information required by the law of a non-member state (Journal of Laws of 2009 no. 33, item 259, as amended) and the part of interim condensed consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), in particular in accordance with International Accounting Standard no 34 and IFRS approved by the EU. IFRS comprise standards and interpretations accepted by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC"). Interim condensed consolidated financial statements does not comprise all information and disclosures required in the annual consolidated financial statements which is subject to obligatory audit and therefore it should be read in conjunction with the consolidated financial statements of the Group for the year ended 31st December 2012. The data as for three months' periods ended 30th June 2013 and 30th June 2012 presented in the interim condensed consolidated and standalone financial statements were not subject to revision nor examination of the auditor. Interim financial result may not fully reflect the financial result possible for realization in the financial year

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

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

Definitions and abbreviations

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

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

Arctic Paper, Company, Issuer, Parent Company, AP	Arctic Paper Spółka Akcyjna seated in Poznań, Poland
Capital Group, Group, Arctic Paper Group, AP Group	Capital Group comprised of Arctic Paper Spółka Akcyjna and its subsidiaries as well as joint enterprises
Arctic Paper Kostrzyn, AP Kostrzyn, APK	Arctic Paper Kostrzyn Spółka Akcyjna seated in Kostrzyn nad Odrą, Poland
Arctic Paper Munkedals, AP Munkedals, APM	Arctic Paper Munkedals AB seated in Munkedal Municipality, Västra Götaland County, Sweden
Arctic Paper Mochenwangen, AP Mochenwangen, APMW	Arctic Paper Mochenwangen GmbH seated in Mochenwangen, Germany
Arctic Paper Grycksbo, AP Grycksbo, APG	Arctic Paper Grycksbo AB seated in Kungsvagen, Grycksbo, Sweden
Paper Mills	Arctic Paper Kostrzyn, Arctic Paper Munkedals, Arctic Paper Mochenwangen, Arctic Paper Grycksbo
Arctic Paper Investment	Arctic Paper Investment GmbH seated in Wolpertswende, Germany

Arctic Paper Verwaltungs	Arctic Paper Verwaltungs GmbH seated in Wolpertswende, Germany
Arctic Paper Immobilienverwaltungs	Arctic Paper Immobilienverwaltungs GmbH & Co. KG seated in Ulm, Germany
Kostrzyn Group	Arctic Paper Kostrzyn Spółka Akcyjna seated in Kostrzyn nad Odrą and EC Kostrzyn Sp. z o.o. seated in Kostrzyn nad Odrą
Mochenwangen Group	Arctic Paper Investment GmbH, Arctic Paper Mochenwangen GmbH, Arctic Paper Verwaltungs GmbH, Arctic Paper Immobilienverwaltungs GmbH & Co.KG
Grycksbo Group	Arctic Paper Grycksbo AB, Grycksbo Paper Holding AB,
Distribution Companies	Arctic Paper Sverige AB, Arctic Paper Danmark A/S and Arctic Paper Norge AS
Sales Offices	Arctic Paper Papierhandels GmbH seated in Vienna (Austria); Arctic Paper Benelux SA seated in Waterloo (Belgium); Arctic Paper Danmark A/S seated in Vallensbaek (Denmark); Arctic Paper France SAS seated in Paris (France); Arctic Paper Deutschland GmbH seated in Hamburg (Germany); Arctic Paper Ireland Ltd seated in Dublin (Ireland); Arctic Paper Italia Srl seated in Milan (Italy); Arctic Paper Baltic States SIA seated in Riga (Latvia); Arctic Paper Norge AS seated in Oslo (Norway); Arctic Paper Polska Sp. z o.o. seated in Warsaw (Poland); Arctic Paper España SL seated in Barcelona (Spain); Arctic Paper Sverige AB seated in Uddevalla (Sweden); Arctic Paper Schweiz AG seated in Zurich (Switzerland); Arctic Paper UK Ltd seated in Caterham (UK); Arctic Paper East Sp. z o.o. seated in Kostrzyn nad Odrą (Poland); Grycksbo Paper Deutschland GmbH seated in Hamburg (Germany); liquidated in 2012.
Rottneros, Rottneros AB	Rottneros AB seated in Stockholm, Sweden
Rottneros Group, Rottneros AB Group	Rottneros AB seated in Stockholm, Sweden; Rottneros Bruk AB seated in Sunne, Sweden; Utansjo Bruk AB seated in Sweden, Vallviks Bruk AB seated in Sweden; Rottneros Packaging AB seated in Sweden; SIA Rottneros Baltic seated in Latvia
Pulp mills	Rottneros Bruk AB seated in Sunne, Sweden; Vallviks Bruk AB seated in Sweden
Purchasing Office	SIA Rottneros Baltic seated in Latvia
Kalltorp	Kalltorp Kraft Handelsbolaget seated in Trollhattan, Sweden
Trebruk AB	Trebruk AB (formerly Arctic Paper AB) seated in Göteborg Municipality, Västra Götaland County, Sweden
Management Board, Issuer's Management Board, Company's Management Board, Group's Management Board	Management Board of Arctic Paper S.A.
Supervisory Board, Issuer's Supervisory Board, Company's Supervisory Board, Group's Supervisory Board, SB	Supervisory Board of Arctic Paper S.A.
SM, Shareholders Meeting, Issuer's Shareholders Meeting, Company's Shareholders Meeting	Shareholders Meeting of Arctic Paper S.A.
ESM, Extraordinary Shareholders Meeting, Issuer's Extraordinary Shareholders Meeting, Company's	Extraordinary Shareholders Meeting of Arctic Paper S.A.

Extraordinary Shareholders Meeting	
Articles of Association, Issuer's Articles of Association, Company's Articles of Association	Articles of Association of Arctic Paper S.A.
SEZ	Kostrzyńsko-Słubicka Special Economic Zone
Court of Registration	District Court Poznań-Nowe Miasto i Wilda in Poznań
Stock Exchange	Giełda Papierów Wartościowych w Warszawie Spółka Akcyjna (Warsaw Stock Exchange)
KDPW, Depository	Krajowy Depozyt Papierów Wartościowych Spółka Akcyjna seated in Warsaw
KNF	Komisja Nadzoru Finansowego (Financial Supervision Authority)
SFSA	Swedish Financial Supervisory Authority
NASDAQ OMX, OMX	Stock Exchange in Stockholm, Sweden
CEPI	Confederation of European Paper Industries
EURO-GRAPH	The European Association of Graphic Paper Producers
Eurostat	European Statistical Office
GUS	Polish Central Statistical Office
NBSK	Northern Bleached Softwood Kraft
BHKP	Bleached Hardwood Kraft Pulp

Definitions of selected terms and financial indicators and abbreviations of currencies

Sales profit margin	Ratio of sales profit (loss) to sales income
EBIT	Profit on operating activity (Earnings Before Interest and Taxes)
EBIT profitability, operating profitability, operating profit margin	Ratio of operating profit (loss) to sales income
EBITDA	Operating profit plus depreciation and amortization and impairment charges (Earnings Before Interest, Taxes, Depreciation and Amortization)
EBITDA profitability, EBITDA margin	Ratio of operating profit plus depreciation and amortization and impairment charges to sales income
Gross profit margin	Ratio of gross profit (loss) to sales income
Sales profitability ratio, net profit margin	Ratio of net profit (loss) to sales income
Return on equity, ROE	Ratio of net profit (loss) to equity
Return on assets, ROA	Ratio of net profit (loss) to total assets
EPS	Earnings Per Share, ratio of net profit to the number of shares
BVPS	Book Value Per Share, ratio of book value of equity to the number of shares
Debt-to-equity ratio	Ratio of total liabilities to equity
Equity-to-non-current assets ratio	Ratio of equity to non-current assets
Interest-bearing debt-to-equity ratio	Ratio of interest-bearing debt and other financial liabilities to equity
Net debt-to-EBITDA ratio	Ratio of interest-bearing debt minus cash to EBITDA
Solidity ratio	Ratio of equity (calculated in compliance with Swedish Gaap accounting principles) to value of assets

Interest coverage	Ratio of interest value (less of financial lease interest) to EBITDA (calculated in compliance with Swedish Gaap accounting principles)
EBITDA-to-interest coverage ratio	Ratio of EBITDA to interest cost
Current ratio	Ratio of current assets to current liabilities
Quick ratio	Ratio of current assets minus inventory and short-term prepayments and deferred costs to current liabilities
Acid test ratio	Ratio of total cash assets and other cash assets to current liabilities
Days inventory outstanding, DSI, DIO	Days Sales of Inventory or Days Inventory Outstanding, ratio of inventory to cost of sales multiplied by the number of days in the period
Days sales outstanding, DSO	Days Sales Outstanding, ratio of trade receivables to sales income multiplied by the number of days in the period
Days payable outstanding, DPO	Days Payable Outstanding, ratio of trade payables to cost of sales multiplied by the number of days in the period
Operating cycle	DSI + DSO
Cash conversion cycle	Operating cycle – DPO
FY	Financial year
1Q	1st quarter of the financial year
2Q	2nd quarter of the financial year
3Q	3rd quarter of the financial year
4Q	4th quarter of the financial year
1H	First half of the financial year
2H	Second half of the financial year
YTD	Year-to-date
Like-for-like, LFL	Analogous, with respect to operating result – in the meaning of this report excluding the effect of the purchase of Arctic Paper Grycksbo in March 2010
p.p.	Percentage point – difference between two amounts of one item given in percentage
PLN, zł, złoty	Monetary unit of the Republic of Poland
gr	grosz – 1/100 of one zloty (the monetary unit of the Republic of Poland)
Euro, EUR	Monetary unit of the European Union
GBP	Pound sterling – monetary unit of the Great Britain
SEK	Swedish Krona - Monetary unit of the Kingdom of Sweden
USD	United States dollar, the currency being legal tender in the United States of America
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
GDP	Gross Domestic Product

Other definitions and abbreviations

Series A Shares	50,000 Arctic Paper S.A. Series A Shares with a par value of 1 PLN each

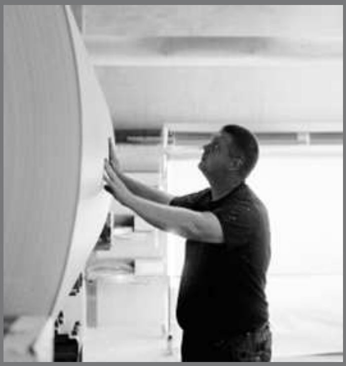
Series B Shares	44,253,500 Arctic Paper S.A. Series B Shares with a par value of 1 PLN each
Series C Shares	8,100,000 Arctic Paper S.A. Series C Shares with a par value of 1 PLN each
Series E Shares	3,000,000 Arctic Paper S.A. Series E Shares with a par value of 1 PLN each
Series F Shares	13,884,283 Arctic Paper S.A. shares as on 30th June 2013 (10,740,983, Arctic Paper S.A. shares as on 31st December 2012) with a par value of 1 PLN each
Shares, Stock, Issuer's Shares, Issuer's Stock	Series A, Series B, Series C, Series E and Series F Shares jointly

Forward looking statements

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

Statements concerning risk factors

In the hereby report, we have described the risk factors that the Management Board of our Group finds typical for our industry; however, this list may not be complete. It may happen that other factors exist which we have not identified and which could have a material adverse impact on the operations, financial situation, operating results or perspectives of the Arctic Paper Group. In such circumstances, the prices of the Company's shares listed on the Warsaw Stock Exchange or on NASDAQ OMX stock exchange in Stockholm may drop, investors may lose all or part of their invested funds, and the payment of dividend by the Company may be limited. Please analyze carefully the information contained in the "Risk factors" section of the hereby report which describes the risks and uncertainties related to Arctic Paper Group's operations.



Management Board report on the operations of Arctic Paper S.A. Capital Group and Arctic Paper S.A. to the report for the first half of the year 2013

Arctic Paper Group profile

General information

The Arctic Paper Group is the second-largest European producer of bulky book paper in terms of production volume, offering the largest product assortment in this segment, and one of Europe's leading producers of fine graphic paper. The Group produces numerous types of uncoated and coated wood-free paper, as well as wood-containing uncoated paper for printing houses, paper distributors, book and magazine publishing houses and the advertising industry. In connection with the acquisition of Rottneros Group in December 2012, our assortment was broadened with production of pulp. As on the day of this report, the Arctic Paper Group employs nearly 1,830 people in four paper mills, two pulp mills, fifteen companies dealing in paper distribution and sales, and a company dealing in wood procurement for pulp production. The Group's paper mills are located in Poland, Sweden and Germany and have total production capacity of more than 800,000 metric tons of paper per year. The pulp mills are located in Sweden and have total production capacity of 410,000 tons per year. The Group has three Distribution Companies which handle sales, distribution and marketing of products offered by the Group in Scandinavia and twelve Sales Offices providing access to all European markets, including Central and Eastern Europe. The Group's consolidated sales revenues for the first half of 2013 totaled app. PLN 1,586 million.

Arctic Paper S.A. is a holding company established in April 2008. The Parent Company is entered in the commercial register of the Polish Court Register maintained by the District Court in Poznań – Nowe Miasto i Wilda, 8th Commercial Department of the Polish Court Register, under number KRS 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 electric energy,
- Transmission of electric energy,
- Distribution of electric energy,
- Production of heat,
- Distribution of heat,
- Logistic services,
- Distribution of paper.

Our production units

As on 30th June 2013, as well as on the day of publishing of the hereby report, the Group has owned the following paper mills:

- the paper mill in Kostrzyn nad Odrą (Poland) has a production capacity of about 275,000 metric tons per year and mainly produces uncoated wood-free paper for general printing use such as printing books, brochures and forms, and for producing envelopes and other paper products;
- the paper mill in Munkedal (Sweden) has a production capacity of about 160,000 metric tons per year and mainly produces uncoated wood-free paper used primarily for printing books and high-quality brochures;
- the paper mill in Mochenwangen (Germany) has a production capacity of about 115,000 metric tons per year and mainly produces uncoated wood-containing paper used primarily for printing books and flyers;
- paper mill in Grycksbo (Sweden) has a production capacity of about 265,000 metric tons per year and produces coated wood-free paper used for printing maps, books, magazines, posters and printing of advertising materials.

As on 30th June 2013, as well as on the day of publishing of the hereby report, the Group has owned the following pulp mills:

- the pulp mill in Rottneros (Sweden) has the annual production capacities of app. 170,000 tons and mainly produces two types of fibrous mechanical pulp: groundwood and CTMP;
- the pulp mill in Vallvik (Sweden) has the annual production capacities of app. 240,000 tons and produces two types of long-fiber sulphate pulp: fully bleached sulphate pulp and unbleached sulphate pulp. The most of Vallvik pulp mill production is known as NBSK pulp. The unbleached sulphate pulp produced by the mill is characteristic of high levels of purity. The high quality of this pulp, which has been achieved over the years, made Vallvik the global leader in deliveries of this type of pulp, which is used, among other, in production of power transformers and cable industry.

Our products

The assortment of products of Arctic Paper Group includes:

Uncoated wood-free paper, in particular:

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

Coated wood-free paper, in particular:

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

Uncoated wood-containing paper, in particular:

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

Sulphate pulp:

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

Fibrous mechanical pulp:

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

Capital Group structure

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

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

Changes in the capital structure of the Arctic Paper Group

In the first half of 2013, no changes in capital structure of the Group occurred.

Until 26th February 2013, Arctic Paper S.A. continued to purchase shares of Rottneros AB either under the calling, whose principles were described in the annual report for 2012, or through direct purchases in NASDAQ OMX stock exchange.

Until the date of the hereby report, the Company purchased aggregate 82,726,339 of Rottneros AB shares which represents 54.2% shares in share capital and in the total number of votes.

Since a portion of Rottneros AB shares was purchased as exchange of newly issued AP S.A. shares for Rottneros AB shares, in December 2012 and in 2013, until the date of the hereby report, the Company issued aggregate 13,884,283 series F shares. All issued shares has been until the date of publishing of the hereby report registered in National Court Register.

Shareholder structure

The main shareholder of Arctic Paper S.A. is Trebruk AB, a company under Swedish law, holding as on 30th June 2013 41,450,065 Shares of the Company constituting 59.82% of share capital of the Company and corresponding to 59.82% of total votes in Shareholders Meeting. Thus Trebruk AB is the parent company of the Issuer. Moreover, Nemus Holding AB, holder of 5,857,286 Shares constituting 8,45% of total number of Shares, is a parent company of Trebruk AB.

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

	as at 30.08.2013				as at 15.05.2013			
Shareholder	Number of shares	Share capital [%]	Number of votes	Of total number of votes [%]	Number of shares	Share capital [%]	Number of votes	Of total number of votes [%]
Trebruk AB (previous Arctic Paper AB)	41 450 065	59,82%	41 450 065	59,82%	41 450 065	59,82%	41 450 065	59,82%
Nemus Holding AB	5 857 286	8,45%	5 857 286	8,45%	5 857 286	8,45%	5 857 286	8,45%
Others	21 980 432	31,72%	21 980 432	31,72%	21 980 432	31,72%	21 980 432	31,72%
Total	69 287 783	100,00%	69 287 783	100,00%	69 287 783	100,00%	69 287 783	100,00%
Own shares	-	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%**

Data in the above table are given as on the date of publishing of the hereby report and as on the date of publishing of the report for the first quarter of 2013. Data in the above table prevailed also as on 30th June 2013.

Summary of consolidated financial results

Consolidated income statement

Selected items of the consolidated income statement

PLN thousands	2Q 2013	1Q 2013	2Q 2012	1H 2013	1H 2012	Change % 2Q2013/ 1Q2013	Change % 2Q2013/ 2Q2012	Change % 1H2013/ 1H2012
Revenues	**763 668**	**822 339**	**640 287**	**1 586 007**	**1 328 842**	**(7,1)**	**19,3**	**19,4**
including:								
Sales of paper	*589 321*	*656 968*	*640 287*	*1 246 289*	*1 328 842*	*(10,3)*	*(8,0)*	*(6,2)*
Sales of pulp	*174 347*	*165 372*	*-*	*339 719*	*-*	*5,4*	*na*	*na*
Gross profit on sales	(7 812)	89 867	97 733	82 056	213 102	(108,7)	(108,0)	(61,5)
Gross profit on sales margin %	*(1,02)*	*10,93*	*15,26*	*5,17*	*16,04*	*(12,0) p.p.*	*(16,3) p.p.*	*(10,9) p.p.*
Sales costs	(73 976)	(79 616)	(74 480)	(153 592)	(152 287)	(7,1)	(0,7)	0,9
Administrative expenses	(19 170)	(21 099)	(18 407)	(40 269)	(36 164)	(9,1)	4,1	11,4
Other operating income	13 986	18 651	8 062	32 638	19 271	(25,0)	73,5	69,4
Other operating cost	(8 176)	(7 491)	(5 160)	(15 668)	(12 862)	9,1	58,5	21,8
EBIT	**(95 148)**	**312**	**7 749**	**(94 836)**	**31 060**	**(30 564,3)**	**(1 327,9)**	**(405,3)**
EBIT margin %	*(12,46)*	*0,04*	*1,21*	*(5,98)*	*2,34*	*(12,5) p.p.*	*(13,7) p.p.*	*(8,3) p.p.*
EBITDA	**3 346**	**32 368**	**38 037**	**35 714**	**91 772**	**(89,7)**	**(91,2)**	**(61,1)**
EBITDA margin %	*0,44*	*3,94*	*5,94*	*2,25*	*6,91*	*(3,5) p.p.*	*(5,5) p.p.*	*(4,7) p.p.*
Financial income	152	2 590	293	2 742	559	(94,1)	(48,1)	390,5
Financial cost	(8 468)	(8 374)	(6 430)	(16 842)	(20 226)	1,1	31,7	(16,7)
EBT	**(103 464)**	**(5 471)**	**1 611**	**(108 936)**	**11 392**	**1 791,0**	**(6 522,0)**	**(1 056,2)**
Corporate income tax	11 613	(609)	6 428	11 004	6 258	(2 008,3)	80,7	75,8
Net profit/ (loss)	**(91 852)**	**(6 080)**	**8 039**	**(97 932)**	**17 650**	**1 410,7**	**(1 242,6)**	**(654,8)**
Net profit margin %	*(12,03)*	*(0,74)*	*1,26*	*(6,17)*	*1,33*	*(11,3) p.p.*	*(13,3) p.p.*	*(7,5) p.p.*

Commentary of the President of the Management Board Wolfgang Lübbert to the results for the first half of 2013

In the second quarter of 2013, the demand for papers produced by the Company stayed at a low level and decreased by app. 5% compared to 2012. In the first half of 2013, Arctic Paper lost just 1.6% of sales volume. Compared with a decline of graphic markets in Europe, in the first 6 months of 2013, by app. 7.6%, Arctic Paper gained market shares all over Europe. However, the challenging demand situation has been reflected in lower prices. Arctic Paper results in Swedish mills were adversely influenced by a strong SEK and, as a consequence, by unfavorable exchange rates.

The combination of the following factors: reduced tonnages, slightly decreased prices and disadvantageous exchange rates resulted in significant lower revenues from sales of paper. The revenues decreased in the first 6 months of 2013 by 6.2%, and the revenue per ton decreased by 4.7%.

Due to the extraordinary tough market situation in Europe, that is in the market in which Arctic Paper conducts its main sales, and the unfavorable development of fine paper and the graphic industry in general, the operating profit before depreciation and amortization (EBITDA) in the second quarter of 2013 was PLN

3,300 thousand compared to PLN 32,300 thousand in the first quarter of 2013. The operating profit in the second quarter of 2012 was PLN 38,000 thousand.

The Management Board will continue to develop the strategy in order to meet the long term market trend. The main change will happen in the area of commodity products. Arctic Paper will strengthen its position in mature and declining markets, especially in Europe. We will strengthen the customer orientation and continue our specific brand strategy with the support of flexible mills and strong sales force. The principal direction to concentrate on European markets and to serve the global markets with specialties is correct. Also the strategy to increase sales in non-graphic segments like flooring and packaging industries is correct and will be not changed. However, both segments will be intensified, even though Arctic Paper was hit much less than the average company in graphic paper industry by the heavily reduced demand for graphic fine papers in Europe and globally.

Arctic Paper will continue evaluating its strategy and structure. The Group will increase the efforts, which have been undertaken to rationalize the costs and optimize the product offer. The ongoing investment undertakings are supposed to assist in improving profitability, quality and flexibility.

Revenue

In the second quarter of 2013 consolidated sales revenue amounted to PLN 763,668 thousand compared to PLN 640,287 thousand in the same period of the previous year. This represents an increase by PLN 123,381 thousand and accordingly by 19.3%.

In the six months of 2013 sales revenues amounted to PLN 1,586,007 thousand compared to PLN 1,328,842 achieved in the analogous period of the previous year. This means an increase of PLN 257,165 thousand and respectively 19.4%.

Because of the acquisition of Rottneros Group in December 2012, revenue and costs of this Group, starting from 1st January 2013, are recognized in the consolidated income statement of Arctic Paper Group. Revenue of Arctic Paper Group on sales of products, less of Rottneros Group revenue, amounted in the first half of 2013 to PLN 1,262,766 thousand and were lower than revenue in the first half of 2012 by PLN 66,076 thousand. The revenue from sales of products of Arctic Paper Group, less of Rottneros Group revenue, amounted in the second quarter of 2013 to PLN 597,865 thousand and was lower by PLN 42,422 thousand compared to the corresponding period of 2012. This was due to decrease of paper sold as well as lower unit price expressed in PLN.

Sales volume in the second quarter of 2013 amounted to 183 thousand tons compared to 191 thousand tons in the same period of the previous year. The change represents a decrease of 8 thousand tons and respectively 4.2%.

Sales volume in the first half of 2013 amounted to 388 thousand tons compared to 394 thousand tons in the same period of the previous year. The change represents a decrease of 6 thousand tons and respectively 1.5%.

Profit on sales, own cost of sales, sales costs and administrative expenses

Gross profit on sales in the first half of year 2013 amounted to PLN 82,056 thousand and was 61.5% lower compared to the same period of the previous year. The gross profit on sales margin in the current quarter stood at 5,17% compared to 16.04% (-10.9 p.p.) in the same period of the previous year. The main reason for the decrease of gross profit margin on sales in the first half of 2013, compared to the analogous period of the previous year, was the loss on sales of Rottneros Group, decrease of revenue on paper sales due to lower sales volume and drop of unit price expressed in PLN as well as impairment of non-financial assets in AP Grycksbo.

In the reported period, sales costs amounted to PLN 153,592 thousand, which represents an increase by 0.9% compared to the costs incurred in the first half of 2012. The main reason for the increase of sales costs in the analyzed period was transportation costs which increased by 1.8%. The sales costs per ton of paper sold increased by 3.4% compared to the first half of 2012.

In the first half of 2013 the administrative expenses amounted to PLN 40,269 thousand compared to PLN 36,164 thousand in analogous period of 2012, which means an increase of

11.4%. This results mainly costs of advisory services rendered by external parties.

Other operating income and cost

Other operating income in the first half of 2013 amounted to PLN 32,638 thousand, which means an increase compared to the same period of the previous year by PLN 13,367 thousand (including other operating income of Rottneros Group in the amount of PLN 13,223 thousand).

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

In the first half of 2013 other operating expenses amounted to PLN 15,668 thousand, which means an increase of PLN 2,806 thousand compared to the analogous period of the previous year (including other operating costs related to Rottneros Group of PLN 782 thousand).

Other operating expenses comprise mainly costs of electricity and heat and other materials sold. Higher other operating costs in the first half of 2013 were influenced mostly by higher own costs of sales of electricity and heat.

Financial income and financial cost

Financial income and costs in the first half of 2013 amounted respectively to PLN 2,742 thousand and PLN 16,842 thousand, which means, in comparison with the analogous period of the previous year, an increase of income by PLN 2,183 thousand and decrease of costs by PLN 3,384 thousand.

The changes in financial income and costs result mainly from net presentation of currency exchange differences. In the first half of 2013 the Group noted an excess of positive exchange differences over negative exchange differences in the amount of PLN 2,019 thousand while in the analogous period of 2012 the result was PLN -840 thousand (financial costs). Moreover, the financial costs consist of interest costs which fell in the first half of 2013 by PLN 3,728 thousand compared to the analogous period of the previous year, because of refinancing of financial indebtedness.

Income tax

Income tax for the six months of 2013 amounted to PLN +11,004 thousand, while in analogous period of 2012 amounted to PLN +6,258 thousand.

Current income tax in the analyzed period amounted to PLN -1,040 thousand (first half of 2012: PLN -2,316 thousand), while the deferred part amounted to PLN +12,044 thousand (first half of 2012: PLN +8,574 thousand). The amount of PLN 5,4 million of positive impact of deferred tax in the first half of 2013 resulted from increase of tax asset on the future benefits due to Arctic Paper Kostrzyn S.A. operations in Special Economic Zone. Creating a deferred tax asset on the allowance related to impairment of non-financial assets in AP Grycksbo had a material influence on deferred tax in the first half of 2013.

Profitability analysis

Loss on operating activities in the first half of 2013 amounted to PLN -94,836 thousand compared to profit of PLN +31,060 thousand in analogous period of the previous year. These changes mean there was a decrease of operating profit margin from +2.34% in the six months of 2012 to -5.98% in the corresponding period of the current year.

EBITDA for the first half of 2013 amounted to PLN 35,714 thousand while in the same period of 2012 it amounted to PLN 91,772 thousand. In the reporting period EBITDA margin amounted to 2.25% compared to 6.91% in the analogous period of 2012.

Net result in the first half of 2013 amounted to PLN -97,932 thousand compared to PLN +17,650 thousand in the first half of 2012. Net profit margin amounted to YTD -6,17% compared to 1.33% in the same period of 2012. The net loss recorded in the first half of 2013 was mainly a consequence of the decrease of sales profit.

Profitability analysis

PLN thousands	2Q 2013	1Q 2013	2Q 2012	1H 2013	1H 2012	Change % 2Q2013/ 1Q2013	Change % 2Q2013/ 2Q2012	Change % 1H2013/ 1H2012
Gross profit on sales	(7 812)	89 867	97 733	82 056	213 102	(108,7)	(108,0)	(61,5)
Gross profit on sales margin %	*(1,02)*	*10,93*	*15,26*	*5,17*	*16,04*	*(12,0) p.p.*	*(16,3) p.p.*	*(10,9) p.p.*
EBITDA	**3 346**	**32 368**	**38 037**	**35 714**	**91 772**	**(89,7)**	**(91,2)**	**(61,1)**
EBITDA margin %	*0,44*	*3,94*	*5,94*	*2,25*	*6,91*	*(3,5) p.p.*	*(5,5) p.p.*	*(4,7) p.p.*
EBIT	**(95 148)**	**312**	**7 749**	**(94 836)**	**31 060**	**(30 564,3)**	**(1 327,9)**	**(405,3)**
EBIT margin %	*(12,46)*	*0,04*	*1,21*	*(5,98)*	*2,34*	*(12,5) p.p.*	*(13,7) p.p.*	*(8,3) p.p.*
Net profit/ (loss)	**(91 852)**	**(6 080)**	**8 039**	**(97 932)**	**17 650**	**1 410,7**	**(1 242,6)**	**(654,8)**
Net profit margin %	*(12,03)*	*(0,74)*	*1,26*	*(6,17)*	*1,33*	*(11,3) p.p.*	*(13,3) p.p.*	*(7,5) p.p.*
ROE - Return on equity (%)	(12,5)	(0,7)	1,2	(13,3)	2,6	(11,7) p.p.	(13,7) p.p.	(15,9) p.p.
ROA - Return on assets (%)	(4,7)	(0,3)	0,4	(5,0)	1,0	(4,4) p.p.	(5,1) p.p.	(6,0) p.p.

In the first half of 2013 return on equity amounted to -13.3% while in the same period of 2012 it amounted to +2.6%. Return on assets decreased from +1.0% in the first half of 2012 to -5.0% in the first half of 2013.

Report on financial situation

Selected items of the consolidated balance sheet

PLN thousands	30/06/2013	31/12/2012	30/06/2012	Change 30/06/2013 -31/12/2012	Change 30/06/2013 -30/06/2012
Non-current assets	1 004 005	1 070 697	1 083 594	(66 693)	(79 589)
Inventory	419 734	411 716	304 940	8 018	114 794
Receivables	377 333	342 155	303 574	35 177	73 759
including: trade receivables	*360 870*	*329 888*	*295 151*	*30 982*	*65 719*
Other current assets	24 265	18 320	9 271	5 945	14 994
Cash and equivalents	134 578	202 710	146 478	(68 132)	(11 900)
Total assets	**1 959 915**	**2 045 599**	**1 847 857**	**(85 684)**	**112 058**
Equity	736 030	829 486	670 442	(93 456)	65 588
Short-term liabilities	1 001 474	787 265	846 964	214 209	154 511
including:	-	-	-	-	-
trade liabilities and other	*375 955*	*413 571*	*381 467*	*(37 616)*	*(5 512)*
interest-bearing bank loans, borrowings, bonds and other financial liabilities	*489 648*	*249 527*	*385 196*	*240 122*	*104 452*
provisions, accruals and derferred income	*135 871*	*124 167*	*80 300*	*11 704*	*55 570*
Long-term liabilities	222 411	428 848	330 451	(206 438)	(108 040)
including:	-	-	-	-	-
interest-bearing bank loans, borrowings, bonds and other financial liabilities	*50 815*	*246 869*	*63 529*	*(196 054)*	*(12 714)*
other liabilities	*171 596*	*181 979*	*266 921*	*(10 383)*	*(95 326)*
Total equity and liabilities	**1 959 915**	**2 045 599**	**1 847 857**	**(85 684)**	**112 058**

As on 30th June 2013 total assets amounted to PLN 1,959,915 thousand compared to PLN 2,045,599 thousand as at the end of 2012.

Non-current assets

As at the end of June 2013 non-current assets represented 51.2% of total assets compared to 52.3% as at the end of 2012. The carrying value of non-current assets decreased in first half of 2013 by PLN 66,693 thousand, mainly due to impairment of non-financial assets in AP Grycksbo.

Current assets

Current assets reached the level of PLN 955,910 thousand as at the end of June 2013 compared to PLN 974,902 thousand as at the end of December 2012.

Within the current assets inventories increased by PLN 8,018 thousand, receivables increased by PLN 35,177 thousand, other current assets increased by PLN 5,945 thousand, and cash and cash equivalents decreased by PLN 68,132 thousand.

Current assets represented 48.8% of total assets as at the end of June 2013 (47.7% as at the end of 2012) and included inventories 21.4% (20.1% as at the end of 2012), receivables 19.3% (16.8% as at the end of 2012), other current assets

1.2% (0.9% as at the end of 2012) and cash and cash equivalents 6.9% (9.9% as at the end of 2012).

Equity

Equity amounted to PLN 736,030 thousand as at the end of the first half of 2013 compared to PLN 829,486 thousand as at the end of 2012. Equity represented 37.6% of total equity and liabilities as at the end of June 2013 compared to 40.5% of total equity and liabilities as at the end of December 2012.

Short-term liabilities

As at the end of June 2013 short-term liabilities amounted to PLN 1,001,474 thousand (51.1% of total equity and liabilities) compared to PLN 787,265 thousand (38.5% of total equity and liabilities) as at the end of 2012. In the first half of 2013 an increase of short-term liabilities occurred by PLN 214,209 thousand which resulted mainly from reclassification of bank loans taken by the Group from long-term to short-term (PLN 250,275 thousand). The reclassification is a result of failure to keep the financial ratios set in loan agreements – this situation has been described in details in notes 6 and 18 to the interim condensed consolidated financial statements.

Long-term liabilities

As at the end of June 2013 long-term liabilities amounted to PLN 222,411 thousand (11.3% of total equity and liabilities) compared to PLN 428,848 thousand (21.0% of total equity and liabilities) as at the end of 2012. In the analyzed period, a decrease of long-term liabilities occurred by PLN 206,438 thousand, mainly due to the reclassification of bank loans as described in the previous paragraph.

Debt analysis

Debt analysis

	2Q 2013	1Q 2013	2Q 2012	Change 2Q2013/ 1Q2013	Change 2Q2013/ 2Q2012
Debt-to-equity ratio (%)	166,3	143,3	175,6	23,0 p.p.	(9,3) p.p.
Equity-to-non-current assets ratio (%)	73,3	77,8	61,9	(4,5) p.p.	11,4 p.p.
Interest-bearing debt-to-equity ratio (%)	73,4	62,5	66,9	10,9 p.p.	6,5 p.p.
Net borrowings-to-EBITDA (times)	1,37x	1,21x	1,61x	0,17	(0,24)
EBITDA-to-interest (times)	9,9x	10,3x	4,7x	(0,5)	5,2

As at the end of June 2013 debt to equity ratio amounted to 166.3% and was higher by 23.0 p.p. compared to as at the end of March 2013 and lower by 9.3 p.p. compared to the end of June 2012.

Equity to non-current assets decreased from 77.8% as at the end of the first quarter of 2013 to 73.3% as at the end of June 2013 and was lower by 4.5 p.p. than as at the end of March 2013 and higher by 11.4 p.p. than as at the end of June 2012.

Interest bearing debt to equity ratio amounted to 73.4% as at the end of the first half of 2013 and was higher by 10.9 p.p. compared to the end of March 2013 and higher by 6.5 p.p. compared to the level of this factor calculated at the end of June 2012.

Net borrowings to EBITDA calculated for the last 12 months ended 30th June 2013 amounted to 1.37x compared to 1.21x as for the analogous period ended 31st March 2013.

At the same time EBITDA to interest as for the analogous periods decreased from 10.3x as at the end of the first quarter of 2013 to 9.9x as at the end of the current quarter.

Liquidity analysis

Liquidity ratios

	2Q 2013	1Q 2013	2Q 2012	Change 2Q2013/ 1Q2013	Change 2Q2013/ 2Q2012
Current liquidity ratio	**1,0x**	**1,3x**	**0,9x**	**(0,4)**	**0,1**
Quick liquidity ratio	**0,5x**	**0,7x**	**0,5x**	**(0,2)**	**(0,0)**
Acid test ratio (cash liquidity)	**0,1x**	**0,2x**	**0,2x**	**(0,1)**	**(0,0)**
Inventory turnover DSI (days)	49,0	51,8	50,6	(2,8)	(1,6)
Receivables turnover DSO (days)	42,5	41,7	41,5	0,9	1,0
Liabilities turnover DPO (days)	43,9	45,2	63,3	(1,4)	(19,4)
Operating cycle (days)	91,5	93,4	92,1	(2,0)	(0,6)
Cash conversion cycle (days)	**47,6**	**48,2**	**28,8**	**(0,6)**	**18,8**

Current liquidity ratio amounted to 1.0x as at the end of June 2013 and decreased compared to as at the end of the first quarter of 2013 by 0.4x, while it was higher by 0.1 than as at the end of June 2012.

Quick liquidity ratio amounted to 0.5x as at the end of June 2013 and was lower by 0.2 compared to as at the end of the first quarter of 2013 and was similar to as at the end of June 2012.

Acid test ratio amounted to 0.1x as at the end of the second quarter of 2013 and was slightly lower than as at the end of the first quarter of 2013 and the second quarter of 2012.

Cash conversion cycle in the second quarter of 2013 did not significantly change compared to the first quarter of 2013 and was 18.8 days longer than as at the end of the second quarter of 2012.

Consolidated cash flow statement

Selected items of the consolidated cash flow statement

PLN thousands	2Q 2013	1Q 2013	2Q 2012	1H 2013	1H 2012	Change % 2Q2013/ 1Q2013	Change % 2Q2013/ 2Q2012	Change % 1H2013/ 1H2012
Cash flow from operations	22 407	(75 053)	40 921	(52 645)	62 484	(129,9)	(45,2)	(184,3)
including:								
EBT	*(103 464)*	*(5 471)*	*1 612*	*(108 936)*	*11 392*	*1 791,0*	*(6 520,0)*	*(1 056,2)*
Depreciation and impairment	*98 494*	*32 055*	*30 289*	*130 550*	*60 712*	*207,3*	*225,2*	*115,0*
Δ in working capital	*14 438*	*(88 984)*	*(2 404)*	*(74 546)*	*(23 499)*	*(116,2)*	*(700,6)*	*217,2*
Other corrections	*12 939*	*(12 653)*	*11 425*	*287*	*13 878*	*(202,3)*	*13,3*	*(97,9)*
Cash flow investing activities	(24 406)	(25 203)	(11 316)	(49 608)	(20 600)	(3,2)	115,7	140,8
Cash flow financing activities	16 768	19 007	(33 379)	35 775	(56 812)	(11,8)	(150,2)	(163,0)
Total Cash Flow	**14 770**	**(81 249)**	**(3 774)**	**(66 479)**	**(14 928)**	**(118,2)**	**(491,4)**	**345,3**

Cash flows from operating activities

In the six months of 2013 net cash flows from operating activities amounted to PLN -52,645 thousand compared to PLN +62,484 thousand in the corresponding period of 2012. Negative cash flows from operating activities on the first half of 2013 resulted mainly from gross loss noted in this period and the changes in working capital.

Cash flows from investment activities

In the first half of 2013 cash flows from investment activities amounted to PLN -49,608 thousand compared to PLN -20,600 thousand in the same period of 2012. Higher investment expenses in the first half of 2013 were related to greater expenditures for purchase of property, plant and equipment and the acquisition of non-controlling shares in Rottneros AB.

Cash flows from financial activities

Cash flows from financial activities in the first half of 2013 amounted to PLN +35,775 thousand compared to PLN -56,812 thousand in the corresponding period of 2012. In the first half of 2013, positive cash flows from financial activities related mainly to increase of overdraft debts and inflows on the grounds of factoring agreements.

Summary of standalone financial results

Standalone income statement

Selected items of the standalone income statement

PLN thousands	2Q 2013	1Q 2013	2Q 2012	1H 2013	1H 2012	Change % 2Q2013/ 1Q2013	Change % 2Q2013/ 2Q2012	Change % 1H2013/ 1H2012
Revenues:	**83 773**	**15 755**	**61 245**	**99 527**	**73 580**	**432**	**37**	**35**
including:								
Sales of services	*13 844*	*10 000*	*7 315*	*23 845*	*12 775*	*38*	*89*	*87*
Loans interest	*(5 187)*	*5 754*	*6 078*	*568*	*12 953*	*(190)*	*(185)*	*(96)*
Income from dividends	*75 115*	*-*	*47 852*	*75 115*	*47 852*	*-*	*57*	*57*
Gross profit on sales	80 984	15 755	61 245	93 696	73 580	414	32	27
Gross profit on sales margin %	*96,67*	*100,00*	*100,00*	*94,14*	*100,00*	*(3,3) p.p.*	*(3,3) p.p.*	*(5,9) p.p.*
Sales costs	(720)	(741)	-	(1 461)	-	(3)	-	-
Administrative expenses	(9 874)	(6 656)	(6 809)	(16 530)	(12 854)	48	45	29
Other operating income	87	56	279	142	301	56	(69)	(53)
Other operating cost	(186 242)	(69)	(26 464)	(186 311)	(26 568)	270 657	604	601
EBIT	**(115 765)**	**8 344**	**28 250**	**(110 463)**	**34 458**	**(1 487)**	**(510)**	**(421)**
EBIT margin %	*(138,19)*	*52,96*	*46,13*	*(110,99)*	*46,83*	*(191,2) p.p.*	*(184,3) p.p.*	*(157,8) p.p.*
EBITDA	**78 533**	**8 374**	**28 278**	**83 865**	**34 513**	**838**	**178**	**143**
EBITDA margin %	*93,75*	*53,15*	*46,17*	*84,26*	*46,91*	*40,6 p.p.*	*47,6 p.p.*	*37,4 p.p.*
Financial income	61	2 260	45	1 646	111	(97)	36	1 380
Financial cost	(688)	(4 060)	(3 696)	(1 031)	(11 833)	(83)	(81)	(91)
EBT	**(116 392)**	**6 544**	**24 599**	**(109 848)**	**22 736**	**(1 879)**	**(573)**	**(583)**
Corporate income tax	-	-	-	-	-	-	-	-
Net profit/(loss)	**(116 392)**	**6 544**	**24 599**	**(109 848)**	**22 736**	**(1 879)**	**(573)**	**(583)**
Net profit margin %	*(138,94)*	*41,54*	*40,17*	*(110,37)*	*30,90*	*(180,5) p.p.*	*(179,1) p.p.*	*(141,3) p.p.*

Revenue, profit on sales, sales costs

The main statutory activity of the Company is holding activity consisting in managing of entities belonging to the controlled Capital Group. Operating activity of Arctic Paper Group is conducted through paper mills and pulp mills, distribution companies and sales offices.

Sales revenue for the second quarter of 2013 amounted to PLN 83,773 thousand and comprised services rendered for entities belonging to the Group (PLN 13,844 thousand) and interest on loans (PLN -5,187 thousand, the negative amount of interest in the second quarter of 2013 results from the allowance for interest on loan granted to Arctic Paper Investment GmbH in the amount of PLN 9,846 thousand and the correction of the allowance for interest on loans granted to Arctic Paper Investment GmbH and Arctic Paper Mochenwangen GmbH in the amount of PLN 610 thousand), as well as dividend income of PLN 75,115 thousand. In the same period of the previous year standalone sales revenue amounted to PLN 61,245 thousand and comprised services rendered to the Group entities (PLN 7,315 thousand) and interest from loans (PLN 6,078 thousand) as well as dividend income (PLN 47,852 thousand). It means an increase of sales revenue in the second quarter of 2013 by PLN 17,374 thousand, compared to analogous period of 2012. The increase of revenue resulted mainly from commission on pulp sales to paper mills within the Group. The Company started to provide this service in second half of 2012. In relation to revenue from commission on pulp sales the Company incurs sales costs.

Standalone sales revenue for the first half of 2013 amounted to PLN 99,527 thousand and comprised services rendered for entities belonging to the Group (PLN 23,845 thousand), interest on loans (PLN 568 thousand) as well as dividend income (PLN 75,115 thousand). In the corresponding period of the previous year the standalone sales revenue amounted to PLN 73,580 thousand and comprised service rendered for entities belonging to the Group (PLN 12,775 thousand), interest on loans (PLN 12,953 thousand) as well as dividend income (PLN 47,852 thousand). It means an increase of sales revenue in the first half of 2013 by PLN 25,947 thousand compared to the analogous period of 2012, mainly due to increase of revenue from agency services on pulp procurement and sales and dividends received.

Cost of interest on loans taken from Group companies have been presented as operating cost and decreased the sales revenue.

Sales revenue in the first half of 2013 amounted to PLN 93,696 thousand and increased by PLN 20,116 thousand compared to the analogous period of the previous year.

Sales costs comprise costs directly connected with agency of procurement and sales of pulp.

Administrative expenses

In the first half of 2013 administrative expenses amounted to PLN 16,530 thousand and were higher compared to the analogous period of the previous year by PLN 3,676 thousand. The material increase of administrative expenses results mainly from costs of advisory services rendered by external parties.

Administrative expenses of the company include costs of the administration of the Company operation, costs of services provided to companies in the Group and all costs incurred by the company for the purpose of holding company activities. Among those costs, a significant group of costs can be distinguished that applies only to statutory activities and includes, among others: costs of tax, legal and accounting services, as well as the costs of the Supervisory Board and the Management Board.

Other operating income and cost

Other operating income amounted to PLN 142 thousand in the first half of 2013 which represents a decrease by PLN 159 thousand compared to analogous period of 2012. In the same period, other operating cost significantly increased and totaled PLN 186,311 thousand in the first half of 2013. It results mainly from impairment of loans granted to Arctic Paper Investment AB in the amount of PLN 124,854 thousand and from impairment of shares in Arctic Paper Investment GmbH for the total amount of PLN 59,574 thousand (allowance for loans granted to Arctic Paper Investment GmbH and Arctic Paper Mochenwangen GmbH, recognized in other operating costs, amounted in the first half of 2012 to PLN 26,265 thousand), as well as from allowance for trade receivables from Arctic Paper Investment GmbH (PLN 192 thousand) and Arctic Paper Mochenwangen GmbH (PLN 1,091 thousand).

Financial income and cost

In the first half of 2013 financial income amounted to PLN 1,646 thousand and was higher compared to financial income achieved in the first half of 2012 by PLN 1,535 thousand.

Financial cost after six months of 2013 amounted to PLN 1,031 thousand and nearly fully concerned costs of interest on bonds. In the analogous period of 2012 financial cost amounted to PLN 11,833 in which PLN 9,845 thousand related to cost of interest mainly on bonds and the rest related mostly to excess of negative exchange differences over positive exchange differences.

Statement of financial position

Selected items of the condensed balance sheet

PLN thousands	30/06/2013	31/12/2012	30/06/2012	Change 30/06/2013 -31/12/2012	Change 30/06/2013 -30/06/2012
Non-current assets	881 994	1 024 309	948 130	(142 315)	(66 135)
Receivables	34 351	31 612	51 890	2 740	(17 539)
Other current assets	21 324	27 240	33 678	(5 916)	(12 354)
Cash and equivalents	7 142	30 356	6 006	(23 213)	1 137
Total assets	**944 812**	**1 113 516**	**1 039 703**	**(168 705)**	**(94 891)**
Equity	759 618	850 198	792 961	(90 580)	(33 343)
Short-term liabilities	31 734	132 216	244 884	(100 483)	(213 151)
Long-term liabilities	153 460	131 102	1 858	22 358	151 602
Total equity and liabilities	**944 812**	**1 113 516**	**1 039 703**	**(168 705)**	**(94 891)**

As on 30th June 2013 total assets amounted to PLN 944,812 thousand compared to PLN 1,113,516 thousand as at the end of 2012. The decrease of assets resulted mainly from lower cash and non-current assets in the reported period.

Non-current assets

As at the end of June 2013 non-current assets represented nearly 93.4% of total assets compared to the end of 2012 – nearly 92.0%. The value of non-current assets decreased in the first half of 2013 by PLN 142,315 thousand. The main position in non-current assets is shares in subsidiaries. Total value of this position as at the end of the first half of 2013 was PLN 879,475 thousand compared to PLN 1,021,820 thousand at the end of 2012. The decrease of value of shares in subsidiaries results from the allowance on loans granted and treated as shares in Arctic Paper Investment AB by the amount of PLN 134,700 thousand and in Arctic Paper Investment GmbH by the amount of PLN 59,574 thousand balanced with the increase of investment in this company of PLN 14,673 thousand and in Rottneros AB as a result of further purchases of shares (PLN 27,408 thousand).

Current assets

Current assets as at the end of June 2013 amounted to PLN 62,818 thousand compared to PLN 89,208 thousand as at the end of 2012. Current assets receivables increased by PLN 2,740 thousand, other current assets decreased by PLN 5,916 thousand while cash and cash equivalents decreased by PLN 23,214 thousand. As at the end of the first half of 2013 current assets represented 6.6% of total assets compared to 8.0% as at the end of the previous year.

Equity

Equity amounted to PLN 759,618 thousand as at the end of the first half of 2013 compared to PLN 850,198 thousand as at the end of 2012. It means a decrease of equity in the amount of PLN 90,580 thousand, mainly due to net loss of the first half of 2013. Equity amounted to 80.4% of total equity and liabilities as at the end of June 2012 whereas as at the end of 2012 it represented 76.4% of total equity and liabilities.

Short-term liabilities

As at the end of June 2013 short-term liabilities amounted to PLN 31,734 thousand (3.4% of total equity and liabilities) compared to PLN 132,216 thousand as at the end of 2012 (11.9% of total equity and liabilities).

The decrease of short-term liabilities resulted primarily from repayment of bonds and from compensation of loans taken from Arctic Paper Kostrzyn S.A. with dividend receivables.

Long-term liabilities

Long-term liabilities as at the end of June 2013 amounted to PLN 153,460 thousand (16.2% of total equity and liabilities) compared to PLN 131,102 thousand (11.7% of total equity and liabilities) as at the end of 2012. In the analyzed period, an increase of long-term liabilities occurred, resulting from the loan taken from AP Kostrzyn for the purpose of repayment of bonds.

Cash flows

Selected items of the standalone cash flow

PLN thousands	2Q 2013	1Q 2013	1H 2013	1H 2012	Change % 2Q2013/ 1Q2013	Change % 1H2013/ 1H2012
Cash flow from operations	(609)	72 821	72 212	18 419	(100,8)	292,1
including:						
EBT	*(116 392)*	*6 544*	*(109 848)*	*22 736*	*(1 878,7)*	*(583,1)*
Depreciation and impairment	*194 298*	*30*	*194 328*	*54*	*652 985,4*	*359 157,7*
∆ in working capital	*(3 033)*	*(6 557)*	*(9 590)*	*(37 584)*	*(53,7)*	*(74,5)*
Interest and dividend (net)	*(1 302)*	*(1 921)*	*(3 223)*	*9 082*	*(32,2)*	*(135,5)*
Other corrections	*(74 180)*	*74 725*	*544*	*24 130*	*(199,3)*	*(97,7)*
Cash flow investing activities	(4 600)	(17 923)	(22 523)	(27 260)	(74,3)	(17,4)
Cash flow financing activities	2 304	(75 206)	(72 902)	(8 913)	(103,1)	718,0
Total Cash Flow	**(2 905)**	**(20 308)**	**(23 214)**	**(17 754)**	**(85,7)**	**30,7**

Cash flows statement presents a decrease in cash and cash equivalents in the first half of 2013 by PLN 23,214 thousand which includes:

- positive cash flows from operating activities in the amount of PLN +72,212 thousand,
- negative cash flows from investment activities in the amount of PLN -22,523 thousand,
- negative cash flows from financial activities in the amount of PLN -72,902 thousand.

Cash flows from operating activities

In the first half of 2013 net cash flows from operating activities amounted to PLN +72,212 thousand compared to PLN +18,419 thousand in the same period of 2012. Receiving the last tranche of the loan taken from AP Kostrzyn for the repayment of the last portion of bonds was the main reason for positive cash flows from operating activities in the first half of 2013.

Cash flows from investment activities

In the first half of 2013 cash flows from investment activities amounted to PLN -22,523 thousand compared to PLN -27,260 thousand in the analogous period of the previous year. The increase of shares in subsidiary and purchase of non-controlling shares had the greatest influence on negative cash flows from investment activities.

Cash flows from financial activities

Cash flows from financial activities in the first half of 2013 amounted to PLN -72,902 thousand compared to PLN -8,913 thousand in the analogous period of 2012. Cash flows from financial activities in the six months of 2013 were influenced by full repayment of bonds together with interest.

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

Key factors affecting the performance results

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

- macroeconomic and other economic factors;
- paper prices;
- prices of pulp for paper mills, timber for pulp mills and energy prices;
- currency exchange rates fluctuations.

Macroeconomic and other economic factors

We believe that a number of macro-economic and other economic factors have a material impact on the demand for 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 measure of income and prosperity of the population;
- production capacities – oversupply lingering in the segment of fine papers and decline of margins on paper sales;
- paper consumption;
- technological development.

Paper prices

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

Costs of raw materials, energy and transportation

The main elements of the Group's operating expenses are costs of 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 costs of electricity, natural gas, coal and fuel oil. Costs of transportation include the costs of transportation services rendered to the Group by external service providers only.

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

Part of pulp supplies to our paper mills is realized from Rottneros pulp mills. The rest of pulp produced in pulp mills is be sold to external customers.

Currency exchange fluctuations

Our operating results are significantly influenced by currency exchange rates fluctuations. In particular, our revenues and costs are expressed in different foreign currencies and are not matched, therefore, the appreciation of currencies in which we incur costs towards currencies in which we generate revenues, will have an adverse effect on our results. We sell our products in all EURO zone countries, the Nordic countries, Poland and UK; therefore, our revenues are to a great extent expressed in EUR, GBP, SEK and PLN, while the revenues of pulp mills are primarily dependent on USD. The Group's operating expenses are primarily expressed in USD (pulp costs for paper mills), EUR (costs related to pulp for paper mills, energy, transportation, chemicals and 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 Rottneros and Vallvik pulp mills).

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

Unusual events and factors

In the first half of 2013 there were no unusual events or factors.

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

In connection with the acquisition of 39.66% of Rottneros AB shares and taking the control over Rottneros Group in December 2012, as well as further increase of Arctic Paper S.A. share in Rottneros AB share capital (up to 54.2% as on 26th February 2013), the consolidated income statement of Arctic Paper Capital Group for the period of 1st January 2013 until 30th June 2013 includes income statement of Rottneros Group for the analogous period. Net result and other comprehensive income of Rottneros Group were divided between shareholders of the parent entity and non-controlling shares proportionally to the share in the share capital of Rottneros AB.

In the first half of 2013 there were no other relevant changes in Arctic Paper Group's structure that would have material influence on the financial result achieved.

Other material information

On 25th February 2013, according to the provisions of issue agreement dated 11th February 2010 (as amended), Arctic Paper S.A. performed a repayment of bonds series A and B for the total amount of PLN 71,900 thousand together with interest. Therefore the Company performed a full repayment of bonds series A and B.

In the first half of 2013, Arctic Paper S.A. performed increase of reserve capital in Arctic Paper Investment GmbH in the amount of EUR 3,400 thousand. The value of shares in Arctic Paper Investment increase under these transactions by PLN 14,673 thousand up to PLN 69,574 thousand. However, in its accounting books Arctic Paper S.A. reports value of shares in Arctic Paper Investment GmbH in the amount of PLN 0 thousand because of the permanent impairment allowance performed in 2013 in the amount of PLN 59,574 thousand (the amount of PLN 10,000 was written off in 2012).

Factors influencing Arctic Paper Group development

Information on market tendencies

Supplies of fine papers

Supplies of fine papers to the European market in the second quarter of 2013 were lower than in the first quarter of 2013 by app. 7.0% while compared to the second quarter of 2012 app. 9.2% lower. Supplies in the segment of uncoated wood-free paper (UWF) were lower by respectively 4.3% and 6.8%, while those in the segment of coated wood-free paper (CWF) were lower by respectively 10.0% and 12.0%.

Compared to the corresponding period of 2012 the supplies of fine papers in the first half of 2013 were approximately 7.6% lower. In the analyzed period supplies in the segment of uncoated wood-free paper (UWF) were 5.9% lower, while those in the segment of coated wood-free paper (CWF) were 9.6% lower.

In 2Q 2013 Arctic Paper Group recorded a decline of orders and sales volume was 10.2% lower than in 1Q 2013 and 3.8% lower than in the corresponding period of 2012.

Data source: EuroGraph, RISI, Arctic Paper analysis

Paper prices

As at the end of the first half of 2013 fine papers prices in Europe experienced decreased for UWF, compared to prices at the end of 2012 (average decrease of 0.3%), while prices of CWF increased (average increase of 1.2%).

As at the end of June 2013, average UWF prices declared by producers for the selected products and markets of Germany, France, Spain, Italy and United Kingdom, expressed in EUR and GBP, slightly decreased by 0.1%, compared to the end of the first quarter of 2013, while the average CWF prices increased by 1.2%.

Prices invoiced by Arctic Paper in EUR of comparable products in the segment of uncoated wood-free paper changed from March to June 2013 by from -0.4% to -0.3%, and in the segment of coated wood-free paper by from -1.0% to -0.1%.

Source: For market data - RISI, price changes for chosen markets in Germany, France, Spain, Italy and United Kingdom in local currencies for graphic papers similar to product portfolio of the Arctic Paper Group. Prices are expressed excluding specific rebates for individual clients and they include neither additions nor price reductions in relation to publicly available price lists. Estimated prices for particular month reflect orders made in that month, whereas their deliveries may take place in the future. Because of that, RISI price estimations for a particular month do not reflect real prices by which deliveries are realized buy only express ordering prices. For Arctic Paper products the average invoiced sales prices for all served markets in EUR.

Pulp prices

At the end of the second quarter of 2013 pulp prices reached a level of USD 861 per ton for NBSK and USD 821 per ton for BHKP.

The average pulp price in 2Q 2013 was higher by 0.6% for NBSK while lower by 5.4% for BHKP, compared to the same period of the previous year. In the second quarter of 2013 the average pulp price was higher by 3.4% for NBSK and by 3.3% for BHKP, compared to the first quarter of 2013.

Pulp costs are characteristic of high volatility. Increase of raw materials prices, particularly pulp, leads to worse profitability of the Group in the given period.

The average cost of pulp per ton as calculated for the AP Group, expressed in PLN, in 2Q 2013 increased by 2.5% compared to 1Q 2013 and increased by 5.5% compared to 4Q 2012.

The share of pulp costs in paper sales costs after six months of 2013 amounted to 47% compared to app. 49% in the first half of 2012.

Arctic Paper Group uses the pulp in the production process according to the following structure: BHKP 68%, NBSK 19% and other 13%.

Source: www.foex.fi, Arctic Paper analysis

Currency exchange rates

The EUR/PLN exchange rate at the end of the second quarter of 2013 amounted to 4.3292 and was higher by 1.6% the end of the second quarter of 2012. The average exchange rate in the first half of 2013 amounted to 4.1766 and, compared to the corresponding of the previous year, was 1.6% lower.

EUR/SEK exchange rate at the end of the second quarter of 2013 amounted to 8.7689 (decrease of 0.1% compared to as at the end of the second quarter of 2012). For this pairing, the average rate in the first half of 2013 was lower by 4.0% than in the corresponding period of the previous year. The appreciation of SEK towards EUR has an adverse impact on sales income invoiced in EUR by Swedish mills (AP Munkedals and AP Grycksbo).

At the end of the second quarter of 2013 USD/PLN rate amounted to 3.3175. In the first half of 2013 the average USD/PLN exchange rate amounted to 3.1803 compared to 3.2740 in the corresponding period of 2012, which means a decrease by 2.9%. In the second quarter of 2013, the average USD/PLN exchange rate amounted to 3.2147 and was 3.3% lower than in the second quarter of 2012. This change had a positive influence on costs realized in USD in AP Kostrzyn, particularly pulp costs.

At the end of the second quarter of 2013, USD/SEK rate amounted to 6.7197. The average exchange rate in the first half of 2013 amounted to 6.4938 compared to 6.8490 in the corresponding period of the previous year, which means a decrease of 5.2%. In the second quarter of 2013, the average USD/SEK exchange rate increased by 1.9% compared to the first quarter of 2013. This change, compared to the first quarter of 2013, had an adverse impact costs realized in USD in AP Munkedals and AP Grycksbo, particularly pulp costs, and had a positive impact on revenues of pulp mills realized in USD.

At the end of June 2013, EUR/USD rate amounted to 1.3050 compared to 1.2576 (+3.8%) at the end of June 2012. In the first half of 2013, EUR appreciated towards USD. The average exchange rate in the first half of 2013 amounted to 1.3136, while in the analogous period of the previous year it amounted to 1.2977, which means appreciation of EUR towards USD by +1.2%. This change had an adverse impact on costs realized in USD by AP Mochenwangen, particularly pulp costs.

Further appreciation of SEK towards EUR may have a profoundly adverse influence on the Group's profitability.

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

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

- Demand for fine papers in Europe. In the second quarter of 2013 there was a significant decline of demand for fine papers in Europe (based on levels of supplies realized). Further adverse turnout of market situation may unfavorably influence levels of orders to our mills and, as a result, have an adverse impact on financial results of the Group.
- The levels of fine papers prices, in particular, being able to raise the prices of Arctic Paper products in local currencies, in reference to diminishing deliveries/demand in Europe and in connection with exchange rates fluctuations. Paper prices are going to be of particular importance for paper mills of Grycksbo and Mochenwangen, which, in connection with market changes, experience the greatest adverse impact of decline of sales volume, prices, as well as, in case of AP Grycksbo, of exchange rates fluctuations.
- Prices fluctuations of raw materials, including pulp for paper mills and electricity for all operational entities. In particular, financial results of paper mills may be adversely influenced by increasing pulp prices, particularly BHKP. On the other hand, increasing NBSK prices should positively influence financial results of pulp mills. A material impact on results achieved by the Group may be caused by fluctuations of electricity prices in Sweden. In future, such market changes may translate to changes of sales profitability in paper mills of AP Munkedals and AP Grycksbo as well as in pulp mills of Rottneros and Vallvik.
- Currency rates; in particular, the appreciation of PLN and SEK in relation to EUR and GBP, the appreciation of PLN in relation to SEK, and depreciation of PLN and SEK in relation to USD, may have an adverse effect on the financial results. However, our pulp mills may benefit from appreciation of USD in relation to SEK.

Risk factors

Significant changes in risk factors

In the first half of 2013 there were changes regarding risk factors as described in annual report for 2012.

Particularly, as on 30th June 2013, the Group did not keep the levels of selected financial ratios as defined in loan agreements concluded with banks. Moreover, particular suppliers of Arctic Paper Group lost their insurance limits for the supplies to mills, which caused shortening of payment terms for these suppliers, and mills. The detailed description of these risks has been included in section Risk factors connected with the Group's activities.

The acquisition of Rottneros Group in December 2012 did not increase the number of risk factors but only changed the influence directions of some of them, particularly of pulp prices changes and USD/SEK exchange rate fluctuations. The influence of risk factors on Arctic Paper Group, having taken Rottneros Group into consideration, has been described in detail below.

Risk factors connected with the Group's environment

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

Risk connected with stronger competition on the paper market in Europe

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

Risk of changes of law

Our Group operates in a legal environment characterized by a high level of uncertainty. Regulations concerning our activities are often amended and sometimes there is no uniform interpretation, which involves a risk of a breach of applicable regulations and related consequences, even if the breach of law is inadvertent. Furthermore, changes in environmental protection and other regulations may result in significant expenditures to ensure compliance, among other things, with more restrictive regulations or stricter implementation of applicable regulations concerning surface water, ground water, soil and air protection.

Foreign exchange rates risk

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

The risk of changes in interest rates

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

Risk of the growing importance of alternative media

The trends in advertising, electronic transmission and storage of data, as well as Internet, may have an adverse effect on traditional print media, and in consequence, on the products of the Group and its customers, but it is not possible to predict the timing or scope of those trends with a high degree of certainty.

Risk factors connected with the Group's activities

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

Risk connected with relative low operating margins

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

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

We are exposed to risk of changes of prices of raw materials and energy primarily in connection with the changing prices of pulp, fuel oil, diesel oil, coal and electricity. The Group buys pulp under framework agreements or one-time transaction and does not hedge against pulp price fluctuations. A part of pulp supplies for Arctic Paper paper mills comes from Rottneros pulp mills. Neither does the Group hedge against the risk of an increase in coal and fuel oil prices used at AP Mochenwangen mill. The risk of change of prices of products is connected primarily with changes of paper and pulp prices in markets where we sell our products. Any significant increase in the prices of one or more than one raw material and energy can have an adverse effect on the Group's results on operating activities and financial standing.

Risk of disturbance in production process

Our Group has four paper mills with ten production lines in total, with the aggregate annual production capacities of approx. 800,000 tons of paper and two pulp mills with the aggregate production capacities of 410,000 tons of pulp. Any lasting disturbance of the production process can be caused by a number of factors, including an emergency failure, human errors, unavailability of raw materials, a natural disaster and other, which often are beyond our control. Any distortion, even relatively short, may have a material impact on our production and profitability and may involve significant costs such as repair, liability towards customers, whose orders we are not able to carry out and other expenditures.

Risk connected with our investment projects

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

Risk connected with the Group's debt

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

As on 30th June 2013, the Group did not keep the levels of selected financial ratios as defined in loan agreements concluded with the consortium of banks (Pekao S.A., Bank Zachodni WBK S.A. and BRE Bank S.A.) and with Svenska Handelsbanken. The breach of financial ratios concerned net debt-to-EBITDA ratio for the whole Group as well as solidity ratio and interest coverage ratio for one of the paper mills.

Failure to keep the level of financial ratios defined in the loan agreement and leasing agreements, may give rise to breaches of the agreement. If an event of default occurs, it could lead in particular to bring in a state of maturity of our debt, the bank can take over control over critical assets such as the paper mills and/or pulp mills, loss of other collateralized assets, credibility reduction and a loss of access to external sources of finance, and consequently, a loss of financial liquidity, which may have an adverse effect on our business and outlook, and our stock prices.

The Company keeps permanent contact with the banks who finance the Group. The loan concluded with the consortium of banks (Bank Pekao S.A., Bank Zachodni WBK S.A and BRE Bank S.A.), includes additional feature which makes the possibility of dissolution of the loan agreement by the banks and realization of collaterals conditional on delared default. Until the day of publishing of the hereby report, the Group has not received covenant waiver but has not received any information confirming breach of the agreement, either. The Group has not received any notice for the dissolution of loan agreements or lease agreements. The Management Board expects to receive a proper covenant waiver within next three months.

Nonetheless, it is worth to be pointed out that we might be unable to repay or refinance our indebtedness on the grounds of loans and leases on time.

Risk connected with insurance limits

In connection with the declining situation in paper industry and the worsening Arctic Paper Group financial results, our suppliers, particularly of such raw materials as pulp, may not fulfill the insurance limits (credited sales), and, as a result, lose the ability to offer favorable payment terms to Arctic Paper Group. Such situation may lead to worsening of financial situation and losing of financial liquidity by particular operating entities and, consequently, have an adverse influence on the situation in the whole Group. Until the day of publishing of the hereby report, the Company received notices concerning loss of insurance limits by particular suppliers to certain paper mills of Arctic Paper Group. At the moment, because of the lack of information regarding the scope of insurance protection that is used by our suppliers, it is not possible to estimate the range of adverse consequences and their influence on our results and liquidity. The Company keeps permanent contact with insurance institutions and communicates with them for the financial results achieved and liquidity of particular entities.

Risk of limitations on natural gas supplies

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

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

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

Risk connected with consolidation and liquidity of the key customers

Consolidation tendencies among our present and potential customers may result in the emergence of a more concentrated customer base consisting of several large customers. Those customers may take advantage of a more favorable negotiating position when negotiating conditions of paper purchase or make a decision regarding change of a supplier and buy products of our competitors. Moreover, in connection with the worsening situation in polygraphy industry, our customers such as paper distributors, printing houses or publishers may not reach insurance limits (credit sales) or have problems with financial liquidity, which can result in their bankruptcy and might have an adverse impact on our financial results. The above factors can have an adverse effect on the Group's operating results and financial standing.

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

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

Risk connected with CO2 emission limits

Our paper and pulp mills get carbon dioxide emission allowances for a given period. Emission allowances are granted as part of the European Union Emission Trading Scheme. Starting from 2013, a new emission trading scheme is expected to be introduced. The nature of the new system has not been determined yet but if free of charge carbon dioxide allowances are eliminated and replaced with a system of buying emission allowances against payment, the energy generation costs incurred by us will increase accordingly. Furthermore, we may be forced to incur other costs, which are now hard to predict, in connection with emission allowances or changes in legal regulations and requirements resulting from that. For that reason we may be forced to reduce the volume of energy generated or to increase the costs of production, which may have an adverse effect on our business, financial standing, operating results or development prospects.

Risk connected with the Company's ability to pay dividend

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

Supplementary information

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

The Management Board of Arctic Paper S.A. has not published projections of financial results for 2013.

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

On 18th June 2013, Mr Michał Jarczyński resigned from being the President of the Management Board effective on 15th July 2013 (current report 27/2013). On 18th June 2013, the Supervisory Board of the Company appointed Mr Wolfgang Lübbert as the President of the Management Board of Arctic Paper S.A. (current report 27/2013).

Also on 18th June 2013, Mr Jan Ohlsson resigned from being a Member of the Supervisory Board (current report 28/2013).

On 26th July 2013, Mr Michał Bartkowiak resigned from being a Member of the Management Board (current report 32/2013).

On 26th July 2013, Mr Fredrik Plyhr resigned from being a Member of the Supervisory Board (current report 33/2013).

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

Managing and supervising personnel		Number of shares or rights thereto as at 30/08/2013	Number of shares or rights thereto as at 15/05/2013	Change
Management Board				
Michał Piotr Jarczyński		N/A	86 450	-
Wolfgang Lübbert		-	-	-
Michał Jan Bartkowiak		N/A	-	-
Jacek Łoś		-	-	-
Per Skoglund		-	-	-
Supervisory Board	-			
Rolf Olof Grundberg		12 102	12 102	-
Rune Roger Ingvarsson		-	-	-
Thomas Onstad		-	-	-
Fredrik Lars Plyhr		N/A	19 000	-
Jan Ohlsson		N/A	-	-
Mariusz Grendowicz		-	-	-

Information on guarantees

As on 30th June 2013 the Group reported:

- a bill of exchange guarantee issued by AP Kostrzyn S.A. in favor of the National Fund for Environment Protection and Water Management for the purpose of securing the payment of the amount granted to the company within the confines of the project of the extension to wastewater treatment farm as the pre-requisite for balanced development of Arctic Paper Kostrzyn. The financial support granted to the Company within the confines of this project amounts to PLN 2,100 thousand;

- a pledge on movables of Arctic Paper Munkedals AB resulting from a factoring contract with Svenska Handelsbanken AB amounting to SEK 160,000 thousand;
- a pledge on movables of Arctic Paper Grycksbo AB resulting from a factoring contract with Svenska Handelsbanken AB amounting to SEK 85,000 thousand;
- a pledge on real estates of Arctic Paper Grycksbo AB resulting from a factoring contract with Svenska Handelsbanken AB amounting to SEK 20,000 thousand
- a pledge on shares of Arctic Paper Grycksbo AB resulting from a factoring contract with Svenska Handelsbanken AB amounting to SEK 181,475 thousand;
- a guarantee commitment to FPG in favor of mutual life insurance company PRI in the amount of SEK 50,000 thousand;
- a contingent liability of Arctic Paper Munkedals AB on the grounds of guarantee for Kalltorp Kraft HB liabilities in the amount of SEK 5,862 thousand;
- mortgages on Kalltorp Kraft HB in the amount of SEK 8,650 thousand;
- a bank guarantee in favor of Skatteverket Ludvika in the amount of SEK 135 thousand;
- on 15th March 2012 AP S.A. granted a collateral in favor of Cartiere del Garda S.P.A - paper supplier to the Distribution Companies (Arctic Paper Sweden AB, Arctic Paper Denmark A/S, Arctic Paper Norge AS). The guarantee stands for EUR 1,000 thousand and is valid until 28th March 2014,
- guarantees granted by the companies of Rottneros Group in the total amount of SEK 3,000 thousand,
- a guarantee in favor of Södra Cell International AB, the supplier of pulp, in the total amount of SEK 12,000 thousand.

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

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

Significant off-balance sheet items

Information regarding off-balance sheet items is given in the Consolidated Financial Statements.

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

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

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

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

Management Board's representations

Accuracy and reliability of presented reports

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

- The Interim Consolidated Financial Statements of Arctic Paper S.A. Capital Group for the six months period ended 30th June 2013 and the comparables were prepared in accordance with applicable accounting principles and reflect the true, reliable and fair situation of assets and financial position of the Capital Group and its financial results for first six months of 2013,
- Management Board report on the activity of the Arctic Paper S.A. Capital Group to the report for the first half of 2013 contains a true picture of development, achievements and situation of Arctic Paper S.A. Capital Group, including a description of major threats and risks.

Appointment of the Licensed Auditor of the Consolidated Financial Statements

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

Signatures of the Members of the Management Board

Position	Name and surname	Date	Signature
President of the Management Board Chief Executive Officer	Wolfgang Lübbert	30 August 2013	
Member of the Management Board Chief Operating Officer	Per Skoglund	30 August 2013	
Member of the Management Board Chief Procurement Officer	Jacek Łoś	30 August 2013	

Interim condensed quarterly consolidated financial statements for the six months period ended 30th June 2013 together with independent auditor's opinion

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Interim condensed consolidated financial statements for the six months' period ended 30th June 2013 PLN thousand

Consolidated financial statements and selected financial data

Selected consolidated financial data

	For the period from 01.01.2013 to 30.06.2013 thousand PLN	For the period from 01.01.2012 to 30.06.2012 thousand PLN	For the period from 01.01.2013 to 30.06.2013 thousand EUR	For the period from 01.01.2012 to 30.06.2012 thousand EUR
Revenues	1 586 007	1 328 842	379 739	313 048
Operating profit (loss)	(94 836)	31 060	(22 707)	7 317
Profit (loss) before tax	(108 936)	11 392	(26 083)	2 684
Profit (loss) from continuing operations	(97 932)	17 650	(23 448)	4 158
Profit (loss) for the period	(97 932)	17 650	(23 448)	4 158
Profit (loss) for the period attributable to equity holders of the parent	(90 504)	17 650	(21 669)	4 158
Net operating cash flow	(52 645)	62 484	(12 605)	14 720
Net investment cash flow	(49 608)	(20 600)	(11 878)	(4 853)
Net financial cash flow	35 775	(56 812)	8 566	(13 384)
Net change in cash and cash equivalents	(66 479)	(14 928)	(15 917)	(3 517)
Weighted average number of shares	68 512 027	55 403 500	68 512 027	55 403 500
Weighted average diluted number of shares	68 512 027	55 768 500	68 512 027	55 768 500
EPS (in PLN/EUR)	(1,32)	0,32	(0,32)	0,08
Diluted EPS (in PLN/EUR)	(1,32)	0,32	(0,32)	0,07
Average PLN/EUR rate*			4,1766	4,2449

	As at 30 June 2013 thousand PLN	As at 31 December 2012 thousand PLN	As at 30 June 2013 thousand EUR	As at 31 December 2012 thousand EUR
Assets	1 959 915	2 045 599	452 720	500 367
Long-term liabilities	222 411	428 848	51 375	104 899
Short-term liabilities	1 001 474	787 265	231 330	192 570
Equity	736 030	829 486	170 015	202 898
Share capital	69 288	55 404	16 005	13 552
Number of shares	69 287 783	66 144 483	69 287 783	66 144 483
Diluted number of shares	69 287 783	66 144 483	69 287 783	66 144 483
Book value per share (in PLN/EUR)	10,62	12,54	2,45	3,07
Diluted book value per share (in PLN/EUR)	10,62	12,54	2,45	3,07
Declared or paid dividend (in PLN/EUR)	-	9 972 630	-	2 439 369,40
Declared or paid dividend per share (in PLN/EUR)	-	0,18	-	0,04
PLN/EUR rate at the end of the period**	-	-	4,3292	4,0882

* - Items of the income statement and the cash flow statement are converted at the exchange rate, which is the arithmetic mean of average rates announced by the NBP during the period to which presented data relates.
** - Items of balance sheet and book value per share were converted at the average exchange rate announced by the NBP and prevailing at the balance sheet date.

Interim condensed consolidated financial statements for the six months' period ended 30th June 2013 PLN thousand

Consolidated income statement

	Note	3 months period ended 30 June 2013 (unaudited)	6 months period ended 30 June 2013 (unaudited)	3 months period ended 30 June 2012 (unaudited)	6 months period ended 30 June 2012 (unaudited)
Continuing operations					
Sales of products	9.1	763 668	1 586 007	640 287	1 328 842
Revenues		763 668	1 586 007	640 288	1 328 842
Cost of sales	9.2	(771 480)	(1 503 951)	(542 554)	(1 115 740)
Gross profit on sales		(7 812)	82 056	97 734	213 102
Selling and distribution expenses		(73 976)	(153 592)	(74 480)	(152 287)
Administrative expenses	9.3	(19 170)	(40 269)	(18 407)	(36 164)
Other operating income	9.4	13 986	32 638	8 062	19 271
Other operating expenses	9.5	(8 176)	(15 668)	(5 160)	(12 862)
Operating profit		(95 148)	(94 836)	7 749	31 060
Finance income	9.6	152	2 742	293	559
Finance costs	9.6	(8 468)	(16 842)	(6 430)	(20 226)
Profit before tax		(103 464)	(108 936)	1 612	11 392
Income tax	12	11 613	11 004	6 428	6 258
Net profit (loss) for the year from continuing operations		(91 852)	(97 932)	8 040	17 650
Discontinued operations					
Profit (loss) for the period from discontinued operations		-	-	-	-
Net profit (loss) for the year		(91 852)	(97 932)	8 040	17 650
Attributable to:					
Equity holders of the parent		(86 371)	(90 504)	8 039	17 650
Non-controlling interest		(5 480)	(7 428)	-	-
		(86 371)	(90 504)	8 039	17 650
Earnings per share:					
– basic from the profit (loss) for the period attributable to equity holders of the parent	13	(1,25)	(1,32)	0,15	0,32
– basic from the profit (loss) from continuing operations attributable to equity holders of the parent	13	(1,25)	(1,32)	0,15	0,32
– diluted from the profit (loss) for the period attributable to equity holders of the parent	13	(1,25)	(1,32)	0,14	0,32
– diluted from the profit (loss) from the continuing operations attributable to equity holders of the parent	13	(1,25)	(1,32)	0,14	0,32

Additional explanatory notes to the interim condensed quarterly consolidated financial statements, included on pages from 49 to 86 are its integral part.

Interim condensed consolidated financial statements for the six months' period ended 30th June 2013 PLN thousand

Consolidated statement of comprehensive income

	3 months period ended 30 June 2013 (unaudited)	6 months period ended 30 June 2013 (unaudited)	3 months period ended 30 June 2012 (unaudited)	6 months period ended 30 June 2012 (unaudited)
Net profit for the period	(91 852)	(97 932)	8 039	17 650
Other comprehensive income				
Items to recognise in profit/loss in future periods:				
Exchange difference on translation of foreign operations	(8 496)	18 117	12 122	(6 752)
Deffered tax	2 897	1 745	(43)	686
Valutation of derivatives	(11 786)	(8 925)	(170)	(2 791)
Items not to recognise in profit/loss in future periods:				
Actuarial gains/ losses	(334)	(334)	-	-
Other comprehensive income	(17 719)	10 603	11 909	(8 857)
Total comprehensive income	(109 571)	(87 328)	19 948	8 794
Total comprehensive income:				
Equity holders of the parent	(100 746)	(85 844)	19 948	8 794
Non-controlling interest	(8 824)	(1 484)	-	-

Additional explanatory notes to the interim condensed quarterly consolidated financial statements, included on pages from 49 to 86 are its integral part.

Interim condensed consolidated financial statements for the six months' period ended 30th June 2013 PLN thousand

Consolidated balance sheet

	Note	As at 30 June 2013 (unaudited)	As at 31 December 2012 (revised)
ASSETS			
Non-current assets			
Property, plant and equipment	14	857 964	896 054
Investment properties		10 542	10 542
Intangible assets	14	62 400	93 926
Shares in joint ventures		5 247	5 056
Other financial assets		947	733
Other non-financial assets		1 300	1 238
Deferred tax asset	12	65 606	63 148
		1 004 005	1 070 697
Current assets			
Inventories	15	419 734	411 716
Trade and other receivables	16	360 870	329 888
Income tax receivables		16 463	12 268
Other non-financial assets	17	24 171	14 515
Other financial assets	17	94	3 805
Cash and cash equivalents	10	134 578	202 710
		955 910	974 902
TOTAL ASSETS		1 959 915	2 045 599
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent company			
Share capital	23	69 288	55 404
Share premium		652 659	580 875
Other reserves		132 199	189 688
Foreign currency translation		36 258	26 312
Retained earnings / Accumulated (unabsorbed) losses		(320 872)	(245 859)
Non-controlling interest		166 499	223 067
Total equity		736 030	829 486
Non-current liabilities			
Interest-bearing loans, borrowings and bonds	18	-	198 519
Provisions	21	94 534	94 339
Other financial liabilities	19	50 815	48 350
Deferred tax liabilities	12	46 355	55 569
Accruals and deferred income	22	30 707	32 072
		222 411	428 848
Current liabilities			
Interest-bearing loans, borrowings and bonds	18	400 429	197 986
Provisions	21	2 347	8 415
Other financial liabilities	19	89 219	51 541
Trade and other payables	20	375 748	412 785
Income tax payable		207	786
Accruals and deferred income	22	133 523	115 752
		1 001 474	787 265
TOTAL LIABILITIES		1 223 885	1 216 113
TOTAL EQUITY AND LIABILITIES		1 959 915	2 045 599

Additional explanatory notes to the interim condensed quarterly consolidated financial statements, included on pages from 49 to 86 are its integral part.

Interim condensed consolidated financial statements for the six months' period ended 30th June 2013 PLN thousand

Consolidated cash flow statement

	Note	6 months period ended 30 June 2013 (unaudited)	6 months period ended 30 June 2012 (unaudited)
Cash flow from operating activities			
Profit before taxation		(108 936)	11 392
Adjustments for:			
Depreciation		63 900	60 712
Impairment of non-financial assets		66 650	-
Foreign exchange differences		(5 638)	2 812
Net interest		15 500	18 228
Gain/loss from investing activities		150	747
Increase / decrease in receivables and other non-financial assetsother non-financial asse		(21 836)	(3 975)
Increase / decrease in inventories		4 547	5 419
Increase / decrease in payables except for loans, borrowings and bonds		(60 080)	(28 085)
Change in accruals and prepayments		2 823	3 142
Change in provisions		(6 397)	(104)
Income tax paid		(8 502)	(5 003)
Derecognition of emission rigths to CO2		1 414	2 666
Cogeneration of certificates		3 661	(5 595)
Other		98	127
Net cash flow from operating activities		(52 645)	62 484
Cash flow from investing activities			
Proceeds from sale of property, plant and equipment and intangibles		40	321
Purchase of property, plant and equipment and intangible assets		(43 522)	(20 921)
Acquisition of non-controlling interest		(6 126)	-
Net cash flow from investing activities		(49 608)	(20 600)
Cash flow from financing activities			
Change in bank overdrafts		39 364	385
Repayment of finance lease liabilities		(4 362)	(4 184)
Repayment of other finance liabilities		(1 347)	(22 772)
Proceeds from other financial liabilities		37 507	-
Repayment of loans, borrowings and bonds		(17 584)	(12 014)
Interest paid		(17 804)	(18 228)
Net cash flow from financing activities		35 775	(56 812)
Net increase/(decrease) in cash and cash equivalents		(66 479)	(14 928)
Net foreign exchange differences		(1 654)	(4 892)
Cash and cash equivalents at the beginning of the period		202 710	166 299
Cash and cash equivalents at the end of the period	10	134 578	146 478

Interim condensed consolidated financial statements for the six months' period ended 30th June 2013 PLN thousand

Consolidated statement of changes in equity

	Attributable to equity holders of the Company							
	Share capital	Share premium	Translation reserve	Other reserves	Retained earnings (losses)	Total	Non-controlling interest	Total equity
As at 1 January 2013 (revised)	55 404	580 875	26 312	189 688	(245 859)	606 419	223 067	829 486
Net profit/(loss) for the period	-	-	-	-	(90 504)	(90 504)	(7 428)	(97 932)
Other comprehensive income	-	-	9 946	(4 953)	(334)	4 659	5 944	10 603
Total comprehensive income	-	-	9 946	(4 953)	(90 838)	(85 844)	(1 484)	(87 328)
Issue of shares	10 741	54 242	-	(64 983)	-	-	-	-
Acqusition of non-controlling interest	3 143	16 460	-	-	29 353	48 956	(55 084)	(6 128)
Profit distribution	-	1 082	-	12 447	(13 529)	-	-	-
As at 30 June 2013 (unaudited)	69 288	652 659	36 258	132 199	(320 872)	569 531	166 499	736 030

Interim condensed consolidated financial statements for the six months' period ended 30th June 2013 PLN thousand

	Attributable to equity holders of the Company							
	Share capital	Share premium	Translation reserve	Other reserves	Retained earnings (losses)	Total	Non-controlling interest	Total equity
As at 1 January 2012 (revised)	554 035	80 060	36 652	110 849	(110 198)	671 397	225	671 622
Net profit/(loss) for the period	-	-	-	-	17 650	17 650	-	17 650
Other comprehensive income	-	-	(6 752)	(2 105)	-	(8 857)	-	(8 857)
Total comprehensive income	-	-	(6 752)	(2 105)	17 651	8 794	-	8 794
Profit distribution	-	2 184	-	15 148	(27 305)	(9 973)	-	(9 973)
As at 30 June 2012 (unaudited)	554 035	82 244	29 900	123 892	(119 853)	670 217	225	670 442

Additional explanatory notes to the interim condensed quarterly consolidated financial statements, included on pages from 49 to 86 are its integral part.

Additional explanatory notes

1. General information

Arctic Paper Group is the second largest, in terms of production volume, European producer of bulky book paper, offering the widest range of products in this segment and one of the leading producers of high-quality graphic paper in Europe. We produce many types of wood-free coated and uncoated paper, wood uncoated paper for printing houses, paper distributors, publishers of books and periodicals and advertising industry. At the day of publication of this report, Arctic Paper Group employs app. 1,830 people in four paper mills and fifteen companies involved in the distribution and sale of paper as well as in two pulp companies, a purchasing office and a company dealing in production of food packaging. Our paper mills are located in Poland, Sweden and Germany and have a combined capacity of more than 800,000 tons of paper annually. Our pulp mills are located in Sweden and have aggregated production capacities of 410,000 tons of pulp annually. The Group has three distribution companies engaged in sales, distribution and marketing of the products offered by the Group in Nordic countries and 12 Sales Offices to ensure access for all European markets, including Central and Eastern Europe.

Our consolidated sales revenues for six months of 2013 amounted to PLN 1,586 million.

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

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

The half-yearly interim condensed financial statements of the Group comprise income statement, comprehensive income statement, cash flow statement and statement of changes in equity for the periods of six months ended 30th June 2013 and includes comparative data for six months' period ended 30th June 2012, and for the consolidated balance sheet it presents data as on 30th June 2013 and 31st December 2012.

Statement of comprehensive income, income statement, as well as explanatory notes to statement of comprehensive income and income statement include also data for the three months' period ended 30th June 2013 and comparables for three months' period ended 30th June 2012 which were not subject to examination or review of an auditor.

Business activities

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

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

- Production and sales of pulp,

Interim condensed consolidated financial statements for the six months' period ended 30th June 2013 PLN thousand

- Production of electric energy,
- Transmission of electric energy,
- Electricity distribution,
- Heat production,
- Heat distribution,
- Logistics services,
- Paper distribution.

Shareholding structure

The main shareholder of Arctic Paper S.A. is Trebruk AB, a company under Swedish law, holding as on 30th June 2013 and as on 31st December 2012 41,450,065 shares of the Company constituting 59.82% of share capital of the Company and corresponding to 59.82% of total votes in Shareholders Meeting. Thus Trebruk AB is the parent company of Arctic Paper S.A. Moreover, Nemus Holding AB, holder of 5,857,286 shares as on 30th June 2013 and as on 31st December 2012 constituting 8.45% of the total number of shares is a parent company of Trebruk AB.

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

The duration of the Company is unlimited.

2. Composition of the Group

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

			Share in capital			
Entity	Registered office	Business activities	30 August 2013	30 June 2013	15 May 2013	31 December 2012
Arctic Paper Kostrzyn S.A.	Poland, Fabryczna 1, 66-470 Kostrzyn nad Odrą	Paper production	100%	100%	100%	100%
Arctic Paper Munkedals AB	Sweden, SE 455 81 Munkedal	Paper production	100%	100%	100%	100%
Arctic Paper Mochenwangen GmbH	Germany, Fabrikstrasse 62, DE-882, 84 Wolpertswende	Paper production	99,74%	99,74%	99,74%	99,74%
Arctic Paper Grycksbo AB	Sweden, Box 1, SE 790 20 Grycksbo	Paper production	100%	100%	100%	100%
Arctic Paper UK Limited	Great Britain, Quadrant House, 47 Croydon Road, Caterham, Surrey	Trading services	100%	100%	100%	100%
Arctic Paper Baltic States SIA	Latvia, K. Vardemara iela 33-20, Riga LV-1010	Trading services	100%	100%	100%	100%
Arctic Paper Deutschland GmbH	Germany, Raboisen 3, 20095 Hamburg	Trading services	100%	100%	100%	100%
Arctic Paper Benelux S.A.	Belgium, Dreve des Marroniers 28, 1410 Waterloo	Trading services	100%	100%	100%	100%
Arctic Paper Schweiz AG	Switzerland, Technoparkstrasse 1, 8005 Zurich	Trading services	100%	100%	100%	100%
Arctic Paper Italia srl	Italy, Milano – Via R. Boscovich 14	Trading services	100%	100%	100%	100%

Interim condensed consolidated financial statements for the six months' period ended 30th June 2013 PLN thousand

Entity	Registered office	Business activities	Share in capital			
			30 August 2013	30 June 2013	15 May 2013	31 December 2012
Arctic Paper Ireland Limited	Ireland, 4 Rosemount Park Road, Dublin 11	Trading services	100%	100%	100%	100%
Arctic Paper Danmark A/S	Denmark, Jydekrogen 18, DK-2625 Vallensbaek	Trading services	100%	100%	100%	100%
Arctic Paper France SAS	France, 43 rue de la Breche aux Loups,	Trading services	100%	100%	100%	100%
Arctic Paper Espana SL	Spain, Avenida Diagonal 472-474, 9-1 Barcelona	Trading services	100%	100%	100%	100%
Arctic Paper Papierhandels GmbH	Austria, Hainborgerstrasse 34A, A-1030 Wien	Trading services	100%	100%	100%	100%
Arctic Paper Polska Sp. z o.o.	Poland, Biskupia 39, 04-216 Warszawa	Trading services	100%	100%	100%	100%
Arctic Paper Norge AS	Norway, Per Kroghsvei 4, Oslo	Trading services	100%	100%	100%	100%
Arctic Paper Sverige AB	Szweden, Kurodsvagen 9, 451 55 Uddevalla	Trading services	100%	100%	100%	100%
Arctic Paper East Sp. z o.o.	Poland, Fabryczna 1, 66-470 Kostrzyn nad Odrą	Trading services	100%	100%	100%	100%
Arctic Paper Investment GmbH *	Germany, Fabrikstrasse 62, DE-882, 84 Wolpertswende	Holding company	100%	100%	100%	100%
Arctic Energy Sverige AB (previous Arctic Paper Investment II AB)	Szwecja, Box 383, 401 26 Göteborg	Hydro energy production	100%	100%	100%	100%
Arctic Paper Verwaltungs GmbH *	Germany, Fabrikstrasse 62, DE-882 84 Wolpertswende	Holding company	100%	100%	100%	100%
Arctic Paper Immobilienverwaltung GmbH&Co. KG*	Germany, Fabrikstrasse 62, DE-882 84 Wolpertswende	Holding company	94,90%	94,90%	94,90%	94,90%
Arctic Paper Investment AB **	Sweden, Box 383, 401 26 Göteborg	Holding company	100%	100%	100%	100%
Grycksbo Paper Holding AB	Sweden, Box 1, SE 790 20 Grycksbo	Holding company	100%	100%	100%	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	Szwecja, 107 24 Sztokholm	Holding company	54,20%	54,20%	54,20%	39,66%
Rottneros Bruk AB	Sweden, Sunne	Pulp production	54,20%	54,20%	54,20%	39,66%
Utansjo Bruk AB	Sweden, Harnosand	Pulp production	54,20%	54,20%	54,20%	39,66%
Vallviks Bruk AB	Sweden, Vallvik	Pulp production	54,20%	54,20%	54,20%	39,66%
Rottneros Packaging AB	Sweden, Stockholm	Food packaging production	54,20%	54,20%	54,20%	39,66%
SIA Rottneros Baltic	Łotwa	Company for purchase of timber	54,20%	54,20%	54,20%	39,66%

* - formed for the purpose of acquisition of Arctic Paper Mochenwangen GmbH
** - formed for the purpose of acquisition of Grycksbo Paper Holding AB

As on 30th June 2013 and as well as on the day of publishing of this report, the percentage of voting rights held by the Group in subsidiaries corresponds to the percentage held in the share capital of those entities. All subsidiaries within the Group, are consolidated under the full method from the day of obtaining control by the Group and cease to be consolidated from the day of losing control.

On 1st October 2012, Arctic Paper Munkedals AB purchased 50% of shares in Kalltorp Kraft Handelsbolaget seated in Trolhattan, Sweden. Kalltorp Kraft deals in energy production in the owned hydro-power plant. The purpose of the purchase was realization of the strategy of increasing own energy capacities. The shares in Kalltorp Kraft have been recognized as joint arrangement and evaluated in compliance with ownership rights.

3. Management and supervisory bodies

3.1. Management Board of the Parent Company

As on 30th June 2013, the following constituted the Parent Company's Management Board:

- Michał Jarczyński – President of the Management Board appointed on 30th April 2008;
- Michał Bartkowiak – Member of the Management Board appointed on 17th September 2009;
- Jacek Łoś – Member of the Management Board appointed on 27th April 2011;
- Per Skoglund – Member of the Management Board appointed on 27th April 2011.
- Wolfgang Lübbert – Member of the Management Board appointed on 5th June 2012;

On 18th June 2013, Mr Michał Jarczyński resigned from being the President of the Management Board effective on 15th July 2013 (current report 27/2013). On 18th June 2013, the Supervisory Board of the Company appointed Mr Wolfgang Lübbert as the President of the Management Board of Arctic Paper S.A. (current report 27/2013)

On 26th July 2013, Mr Michał Bartkowiak resigned from being a Member of the Management Board with immediate effect (current report 32/2013).

Since 30th June 2013 until the date of publishing of the hereby half-yearly interim condensed consolidated financial statements, there were no other changes in composition of the Management Board of the Parent Company.

3.2. Supervisory Board of the Parent Company

As on 30th June 2013 the Company's Supervisory Board consisted of the following members:

- Rolf Olof Grundberg – President of the Supervisory Board appointed on 30th April 2008;
- Rune Roger Ingvarsson – Member of the Supervisory Board appointed on 22nd October 2008;
- Thomas Onstad – Member of the Supervisory Board appointed on 22nd October 2008;
- Fredrik Lars Plyhr – Member of the Supervisory Board appointed on 22nd October 2008;
- Mariusz Grendowicz - Member of the Supervisory Board appointed on 28th June 2012;

On 18th June 2013, Mr Jan Ohlsson resigned from being a Member of the Supervisory Board (current report 28/2013).

On 26th July 2013, Mr Fredrik Plyhr resigned from being a Member of the Supervisory Board (current report 33/2013).

Since 30th June 2013 until the date of publishing of the hereby re half-yearly interim condensed consolidated financial statements port, there were no other changes in composition of the Supervisory Board of the Parent Company.

3.3. Audit Committee of the Parent Company

As on 30th June 2013 the Parent Company's Audit Committee consisted of the following members:

- Rolf Olof Grundberg – President of the Audit Committee appointed on 3rd December 2009;
- Fredrik Plyhr – Member of the Audit Committee appointed on 3rd December 2009;
- Rune Ingvarsson – Member of the Audit Committee appointed on 3rd December 2009;

In connection with resignation from being a Member of the Supervisory Board filed on 26th July 2013, Mr Fredrik Plyhr ceased to be a Member of the Audit Committee of the Company.

4. Approval of the financial statements

The hereby interim quarterly condensed consolidated financial statements were approved for publishing by the Management Board on 30th August 2013.

5. Basis of preparation of consolidated financial statements

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

At the date of authorization of these consolidated financial statements, in light of the current process of IFRS endorsement in the European Union and the nature of the Group's activities, there is no difference between the IFRS applied by the Group and the IFRS endorsed by the European Union. The Company did not exercise the possibility to, in case IFRS endorsed by the EU are applied, apply IFRS 10, IFRS 11, IFRS 12, amended IAS 27 and IAS 28 only for the yearly periods starting 1st January 2014. The above standards have been implemented into accounting policies of Arctic Paper Capital Group since 1st January 2012.

IFRS comprise standards and interpretations accepted by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC").

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

The hereby interim condensed consolidated financial statements have been prepared based on the assumption that the Company will continue as going concern in the foreseeable future.

As on 30th June 2013, the Group did not keep the levels of selected financial ratios as defined in loan agreements concluded with the consortium of banks (Pekao S.A., Bank Zachodni WBK S.A. and BRE Bank S.A.) and with Svenska Handelsbanken. The breach of financial ratios concerned net debt-to-EBITDA ratio for the whole Group as well as solidity ratio and interest coverage ratio for one of the paper mills.

Failure to keep the level of financial ratios defined in the loan agreement and leasing agreements, may give rise to breaches of the agreement and the loss of collateralized assets.

The key issue for the possibility of continuation of the Company's business activities is financial liquidity. The Management Board has prepared financial forecasts comprising the second half of 2013 and the following years, including forecasted cash flows, based on key assumptions related to sustaining external sources of financing in the form of the existing bank loans. There are key forecast risks connected with the adopted assumptions. Realization of these risks may cause substancial uncertainty regarding the possibility of the Company to continue its business activities. Therefore, the Management Board of the Company has initiated negotiations with banks aimed at receiving covenant waiver.

Until the day of publishing of the hereby report, the Group has not received covenant waiver but has not received any information confirming breach of the agreement, either. The Group has not received any notice for the dissolution of loan agreements or lease agreements. The Management Board expects to receive a proper covenant waiver within next three months.

Tu sum up, the key feature influencing the prosperity of the Management Board's proceedings is continuation of the currently existing loan agreements and lease agreements. Based on the financial forecasts prepared for the Group, which include assumption of continuation of the current sources of external financing, the Management Board has prepared the enclosed financial statements based on the assumption of business activities continuation.

In the same time, the Management Board of the Company has carried out an analysis, conclusion of which is that in case the bank loans have been brought in the state of maturity, the current cash flows from the operating activities supported by the current surplus of working capital will enable the Group to settle the liabilities until an alternative source of financing is obtained.

The half-yearly interim condensed consolidated financial statements do not include all the information and disclosures required in annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31st December 2012.

6. Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed half-yearly financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31st December 2012, except for application of changes in standards and new interpretations binding for yearly periods beginning on 1st January 2013.

The Group has adopted for the first time the standards and amendments to the standards, which resulted in changes of the previous financial statements. These standards are

- Amendments to IAS 19 Employee Benefits - effective for financial years beginning on or after 1st January 2013,

Amendments introduced to IAS 19 relate to: cancelling the corridor approach, introducing the requirement of immediate recognition of changes in assets/liabilities of the program and immediate recognition of costs of past employment, recognizing actuarial profits/losses in other comprehensive income and enhancing the scope of disclosures.

The amendments introduce also changes in division of employee benefits for short-term and long-term.

The Group has retrospectively applied the amendments to IAS 19 Employee Benefits.

In compliance with IAS 34, in note 6.2 of the hereby report, the Group has disclosed the scope and influence of introduced amendments to IAS 19 on comparative data.

In the same time, the Group has updated accounting policy regarding employee benefits.

Employee benefits

In compliance with the internal remuneration systems, the employees of the Group are entitled to jubilee bonuses and retirement gratuities. Jubilee bonuses are paid once the employee has worked the defined number of years. Retirement gratuities are one-time payments on retirement. The levels of jubilee bonuses and retirement gratuities depend on seniority and the average salary of the employee. The Group creates a provision for future liabilities on the grounds of retirement gratuities and jubilee bonuses for the purpose of matching costs with period they concern. In compliance with IAS 19, jubilee bonuses are other long-term employee benefits, while retirement gratuities are programs of certain benefits after employment. Current value of these liabilities as on each balance day, which is also the end of financial year, is calculated by an independent actuary. The calculated liabilities are equal to discounted payments, which will be performed in future, taking into consideration the employment rotation, and relate to the period until balance day. Demographic information and employment rotation information are based on historical data. Profit and loss on actuarial calculation related to benefits after employment are recognized in other comprehensive income.

Moreover, the Group has adopted for the first time, starting from 1st January 2013, other new standards/amendments to existing standards, which has not influenced the current interim condensed financial statements nor the comparative data.

New standards/amendments to existing standards, introduced from 1st January 2013, are as following:

- Amendments to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income* - effective for financial years beginning on or after 1st July 2012,

The amendments concern grouping positions of other comprehensive income. The positions of other comprehensive income subjected to future reclassification to profit or loss are presented in separation from the positions that are not going to be reclassified to profit or loss.

The Group has retrospectively amended presentation of other comprehensive income in the Group's financial statements. The adoption of these changes did not influence the financial situation nor the value of the Company's comprehensive income.

- Amendments to IAS 12 *Income Tax: Deferred Tax: Recovery of Underlying Assets* – effective for financial years beginning on or after 1st January 2012 – in EU effective at the latest for financial years beginning on or after 1st January 2013,

The adoption of these changes did not influence the financial situation, the Company's financial results nor the scope of information presented in the Company's financial statements.

- Amendments to IFRS 1 First–time Adoption of International Financial Reporting Standards: *Severe Hyperinflation and Removal of Fixed Dates for First–time Adopters* – effective for financial years beginning on or after 1st July 2011 – in EU effective at the latest for financial years beginning on or after 1st January 2013,

Amendments to IFRS 1 did not concern the Group.

- IFRS 13 *Fair Value Measurement* - effective for financial years beginning on or after 1st January 2013,

IFRS 13 introduces one set of principles regarding fair value assessment of financial and non-financial assets and liabilities in case such assessment is required or allowed by IFRS. IFRS 13 does not influence the company's duty to perform assessment at fair value. Regulation of IFRS 13 is applicable both to initial valuation and the evaluation after initial recognition.

It requires new disclosures as for the means of assessment and the initial information/data for the assessment of fair value as well as the influence of certain initial information on fair value assessment.

The adoption of IFRS 13 did not influence the financial situation, the Group's financial results nor the scope of information presented in the Group's financial statements.

- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* - effective for financial years beginning on or after 1st January 2013,

The interpretation does not concern the Group.

- Amendments to IFRS 7 *Financial Instruments – Disclosures: Offsetting Financial Assets and Financial Liabilities* - effective for financial years beginning on or after 1st January 2013,

The amendments introduce additional disclosure of quantity and quality related to transfers of financial assets, if:

- financial assets are fully removed from balance sheet but the entity keeps involvement in these assets (for example, by options or guarantees concerning transferred assets),
- financial assets are not fully removed from balance sheet.

The adoption of these changes did not influence the financial situation nor the Group's financial results.

- Amendments to IFRS 1 *First–time Adoption of International Financial Reporting Standards: Government Loans* – effective for financial years beginning on or after 1st July 2013,

Amendments to IFRS 1 did not concern the Group.

- Improvements to IFRS (issued in May 2012) – effective for financial years beginning on or after 1st January 2013,

IAS 1 – The amendment explains the difference between the voluntarily presented additional comparative data and the required minimum of comparative data,

IAS 16 – The amendment explains that main service parts and service equipment which fulfills the criteria of property, plant & equipment definition are not inventories,

IAS 32 – The amendment removes the hitherto existing requirements concerning recognition of tax from IAS 12 and requests for application of IAS 12 in relation to income tax resulting from distribution to owners of financial instruments.

IAS 34 – The amendment explains the requirements of IAS 34 concerning information regarding total value of assets and liabilities of each reporting segment for the purpose of enhancing cohesion with requirements of IFRS 8 Operating segments. Pursuant to the amendment, the total value of assets and liabilities of the particular operating segment has to be disclosed only if: the values are being regularly reported to the main operating decision-maker of the entity and a material change occurred of the total value of assets and liabilities disclosed in the previous annual financial statements for this segment.

The adoption of these changes did not influence the financial situation, the Group's financial results nor the scope of information presented in the Group's financial statements.

Moreover, as described in the annual consolidated financial statements for 2012 (note 7), the Group decided to early (starting on 1st January 2012) adopt, in compliance with transition guidance, the following standards:

- IFRS 10 Consolidated financial statements applicable to annual periods beginning on or after 1st January 2013 – in EU applicable to annual periods beginning no later than 1st January 2014 or later,

Pursuant to IFRS 10 the Group applies the amended definition of control over entity, consisting in the ability or the ownership of rights to influence the returns on the involvement in the entity and the possibilities of exercising these rights to influence the return on the involvement. The adoption of IFRS 10 did not cause any changes in comparative data.

- IFRS 11 Joint arrangements – applicable to annual periods beginning on or after 1st January 2013 – in EU applicable to annual periods beginning no later than 1st January 2014 or later.

Pursuant to IFRS 11, the shares in joint arrangements are evaluated at ownership rights.

The adoption of IFRS 11 did not cause any changes in comparative data.

- IFRS 12 Disclosure of Interests in Other Entities – effective for financial years beginning on or after 1st January 2013 – in EU effective at the latest for financial years beginning on or after 1st January 2014.

Pursuant to IFRS 12, the Group set out, based on professional judgment and estimation, the conditions based on which it recognized its control over the entities belonging to the Capital Group. As for the entities that had been consolidated before, no premises were found that would indicate the possibility of different recognition of subsidiaries compared to the one that had been applied. At the same time, the Group does not own entities, which would have not been consolidated, therefore does not disclose such information.

The adoption of IFRS 12 did not cause any changes in comparative data.

- IAS 27 Separate Financial Statements – effective for financial years beginning on or after 1 January 2013 – in

EU effective at the latest for financial years beginning on or after 1 January 2014,

Pursuant to IAS 27, the Group has changed the application of standard for standalone and consolidated financial statements. The application of the standard did not cause the necessity to change the data presented by the entities within the Group.
The adoption of IAS 27 did not cause any changes in comparative data.

- IAS 28 Investments in Associates and Joint Ventures – effective for financial years beginning on or after 1 January 2013 – in EU effective at the latest for financial years beginning on or after 1 January 2014,

Pursuant to IAS 28, the Group applied it for the joint arrangements described in the latter part of the report.
The adoption of IAS 28 did not cause any changes in comparative data.

- Changes to IFRS 10, IFRS 11 and IFRS 12 Transition Guidance - effective for financial years beginning on or after 1 January 2013.

Pursuant to transition guidance, the Group applied jointly IFRS 10, IFRS 11, IFRS 12, IAS 27 *Separate Financial Statements* and IAS 28 (updated in 2011).
The adoption of transition guidance did not cause any changes in comparative data.

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

6.1. Uncertainty of estimations

As on 30th June 2013, in connection with the conducted verification of forecasted cash flows for the production unit Arctic Paper Grycksbo, an impairment test was performed of property, plant and equipment as well as intangibles.

A detailed description of the impairment test has been included in note 14.2 to the hereby financial statements.

6.2. Foreign currency translation

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

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

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

Interim condensed consolidated financial statements for the six months' period ended 30th June 2013 PLN thousand

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

The following exchange rates were used for valuation purposes:

	As at 30 June 2013	As at 31 December 2012
USD	3,3175	3,0996
EUR	4,3292	4,0882
SEK	0,4937	0,4757
LVL	6,1634	5,8595
DKK	0,5805	0,5480
NOK	0,5486	0,5552
GBP	5,0604	5,0119
CHF	3,5078	3,3868

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

	01/01 - 30/06/2013	01/01 - 30/06/2012
USD	3,1803	3,2740
EUR	4,1766	4,2449
SEK	0,4898	0,4779
LVL	5,9647	6,0791
DKK	0,5601	0,5709
NOK	0,5554	0,5604
GBP	4,9092	5,1597
CHF	3,3961	3,5232

6.3. Data comparability

Because from 1st January 2013 amendments to IAS 19 Employee benefits have taken effect with the necessity for retrospective recognition, the Group introduced changes to the hereby interim condensed financial statements for the period ended 30th June 2013 and performed the change of comparative data as on 31st December 2012. Amendments introduced to IAS 19 relate to: cancelling the corridor approach, introducing the requirement of immediate recognition of changes in assets/liabilities of the program and immediate recognition of costs of past employment, recognizing actuarial profits/losses in other comprehensive income and enhancing the scope of disclosures.

The comparative data include the following changes compared to financial statements approved for the year ended 31st December 2012:

- increase of long-term provisions by the amount of PLN 10,478 thousand (as on 1st January 2012: PLN 3,984 thousand),
- increase of deferred tax asset and decrease of deferred tax liability, respectively in the amounts of PLN 2,190

thousand and PLN 567 thousand (as on 1st January 2012 respectively PLN 79 thousand and PLN 974 thousand);

- increase of trade liabilities and other liabilities by the amount of PLN 1,924 thousand (as on 1st January 2012: PLN 1,008 thousand);
- decrease of retained profit/loss as on 31st December 2012 by the amount of PLN 9,645 thousand, whereas increase of net profit for the year ended 31st December 2012 by PLN 286 thousand (decrease of own cost by PLN 298 thousand and increase of income tax by PLN 12 thousand) and decrease of other comprehensive income for the year ended 31st December 2012 by the amount of PLN 5,992 thousand and decrease of retained profit/loss as on 1st January 2012 and 31st March 2012 by the amount of PLN 3,939 thousand.

Since 1st January 2013, the Group changed presentation of basic materials sales. Basic materials sales income was presented as "Income from sales of products" (previously 'Other operating income") and own cost of basic materials sales was presented as "Own cost of sales" (previously "Other operating cost"). Because of that, the Group changed presentation in consolidated income statement for the six months' period ended 30th June 2012 transferring the amount of PLN 16,068 thousand from "Other operating income" to "Income from sales of products" and the amount of PLN 14,630 thousand from "Other operating cots" to "Own cost of sales: The changes in consolidated income statement for the three months' period ended 30th June 2013 amounted to PLN 7,933 thousand transferred from "Other operating income" to Income from sales of products" and PLN 7,310 thousand transferred from "Other operating cost" to "Own cost od sales".

7. Seasonality

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

8. Information on business segments

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

The Group identifies four business segments:

- **Uncoated paper** – paper for printing or other graphic purposes, including wood-free and wood-containing. Uncoated wood-free paper can be produced from various types of pulp, with different filler content, and can undergo various finishing enhancing processes, such as surface sizing and calendering. Two main categories of this type of paper are graphic paper (used for example for printing books and catalogues) and office papers (for instance, photocopy paper), however the Group currently does not produce office papers. Uncoated paper from mechanical pulp intended for printing or other graphic purposes. This type of paper is used for printing magazines with the use of rotogravure or offset printing techniques. The Group's products in this segment are usually used for printing paperbacks.
- **Coated paper** - wood-free paper for printing or other graphic purposes, one-side or two-side coated with mixtures containing mineral pigments, such as china clay, calcium carbonate, etc. The coating process can involve different methods, both online and offline, and can be supplemented by super-calandering to ensure a smooth surface. Coating improves the printing quality of photographs and illustrations.
- **Other** – this segment contains results of Arctic Paper S.A. activities.

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

- Demand for products and its supply, as well as the products prices sold on the market are shaped by factors characteristic for each segment, including i.e. level of the production capacity in each segment,

- Key operational factors such as e.g. orders inflow or production costs level are determined by factors which are close to each other within each paper segment,
- Products produced in the Group's paper mills can be, with some exceptions, allocated to production in different subsidiaries within the same paper segment, which to some extent disturbs the financial results of each paper mill,
- Arctic Paper Group results are dominated by global market trends in terms of fluctuations of prices of paper and basic raw materials, particularly pulp, and depend on individual conditions of production subsidiaries to lesser extent.

Because of the acquisition of Rottneros Group dealing mainly in production and sales of pulp, Arctic Paper Group separated as on 31st March 2013 a new segment 'Pulp'.

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

The results of particular segments of business activity are monthly analyzed by the Group's key management personnel based on internal reporting provided by the companies. Performance is measured based on the EBITDA level. Transfer prices in transactions between segments are set on an arm's length basis as if it concerned non related parties.

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

Six months' period ended 30th June 2013 and as on 30th June 2013

	Continuing Operations						
	Uncoated	Coated	Pulp	Other	Total	Eliminations	Total Group
Revenues							
Sales to external customers	904 218	342 071	339 719	-	1 586 007	-	1 586 007
Inter-segment sales	79 761	80 000	30 853	23 845	214 459	(214 459)	-
Total segment revenues	983 979	422 071	370 572	23 845	1 800 467	(214 459)	1 586 007
Segment's Result							
EBITDA	37 107	(11 261)	3 626	6 931	36 403	(689)	35 714
Interest Income	8 454	82	0	11 296	19 832	(19 116)	715
Interest Costs	(12 926)	(12 840)	(1 469)	(6 834)	(34 069)	19 089	(14 980)
Depreciation	(25 364)	(19 311)	(19 171)	(54)	(63 900)	-	(63 900)
Impairment of non-financial assets	-	(66 650)	-	-	(66 650)	-	(66 650)
Positive FX and other financial income	1 562	-	490	75 406	77 458	(75 432)	2 026
Negative FX and other financial costs	(2 053)	(71)	-	(29)	(2 153)	291	(1 862)
Profit before tax	6 779	(110 050)	(16 524)	86 716	(33 079)	(75 857)	(108 936)
Segment assets	1 283 849	419 827	488 490	425 820	2 617 986	(728 924)	1 889 062
Segment liabilities	953 839	632 662	182 669	185 193	1 954 363	(776 832)	1 177 530
Capital expenditures	(35 244)	(5 293)	(2 939)	(46)	(43 522)	-	(43 522)

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

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

Three months' period ended on 30th June 2013 and as on 30th June 2013

	Continuing Operations						
	Uncoated	Coated	Pulp	Other	Total	Eliminations	Total Group
Revenues							
Sales to external customers	428 926	160 395	174 347	-	763 668	-	763 668
Inter-segment sales	38 700	37 128	15 107	13 844	104 780	(104 780)	-
Total segment revenues	467 626	197 524	189 454	13 844	678 994	(104 780)	763 668
Segment's Result							
EBITDA	9 855	(11 148)	(1 266)	5 335	2 776	570	3 347
Interest Income	4 779	41	0	5 330	10 150	(9 817)	333
Interest Costs	(6 640)	(6 134)	(980)	(2 789)	(16 543)	9 182	(7 361)
Depreciation	(12 804)	(9 665)	(9 352)	(24)	(31 845)	-	(31 845)
Impairment of non-financial assets	-	(66 650)	-	-	(66 650)	-	(66 650)
Positive FX and other financial income	1 112	-	(978)	74 896	75 030	(75 211)	(181)
Negative FX and other financial costs	(1 134)	(30)	-	(13)	(1 178)	70	(1 107)
Profit before tax	(4 832)	(93 586)	(12 575)	82 735	(28 259)	(75 206)	(103 464)
Segment assets	1 283 849	419 827	488 490	425 820	2 617 986	(728 924)	1 889 062
Segment liabilities	953 839	632 662	182 669	185 193	1 954 363	(776 832)	1 177 530
Capital expenditures	(20 750)	(1 699)	(1 960)	(37)	(24 446)	-	(24 446)

- Revenues from inter-segment transactions are excluded on consolidation.
- Segment result does not include financial income (PLN 152 thousand of which PL 333 thousand is interest income) and financial costs (PLN 8,496 thousand of which PLN 7,361 thousand is interest costs), amortization depreciation (PLN 31,845 thousand), the impairment of non-financial assets (PLN 66,650 thousand) as well as income tax liability (PLN -1,050 thousand). However, segment result includes inter-segment sales loss (PLN 570 thousand).
- Segment assets and liabilities do not include deferred tax asset and liability (deferred tax asset of PLN 65,606 thousand, deferred tax liability of PLN 46,355 thousand) as these positions are managed in the Group level.

In the table below presented is the data concerning revenues and profits as well as some of the assets and liabilities. The data is divided to particular segments of the Group and refers to the six months' period ended on 30th June 2012 and represents the situation as on 31st December 2012.

Six months' period ended on 30th June 2012 and as on 31st December 2012

	Continuing Operations					
	Uncoated	Coated	Other	Total	Eliminations	Total Group
Revenues						
Sales to external customers	957 810	371 032	-	1 328 842	-	1 328 842
Inter-segment sales	83 543	91 570	12 775	187 888	(187 888)	-
Total segment revenues	1 041 353	462 602	12 775	1 516 730	(187 888)	1 328 842
Segment's Result						
EBITDA	66 933	21 384	-27	88 290	3 482	91 772
Interest Income	1 680	59	13 834	15 574	(15 081)	492
Interest Costs	(8 671)	(15 286)	(9 845)	(33 801)	15 093	(18 708)
Depreciation	(31 043)	(29 615)	(54)	(60 712)	-	(60 712)
Positive FX and other financial income	131	99	47 852	48 082	(48 015)	67
Negative FX and other financial costs	347	19	(1 989)	(1 623)	105	(1 518)
Profit/(loss) before tax	29 377	(23 340)	49 772	55 809	(44 417)	11 392
Segment assets	1 290 613	512 574	899 340	2 702 528	(725 133)	1 977 395
Segment liabilities	901 208	619 241	407 931	1 928 381	(767 836)	1 160 545
Capital expenditures	(18 439)	(2 444)	(38)	(20 921)	-	(20 921)

- Revenues from inter-segment transactions are excluded on consolidation.
- Segment result does not include financial income (PLN 559 thousand of which 492 PLN is interest income) and financial costs (PLN 20,226 thousand of which PLN 18,708 thousand is interest costs), amortization and depreciation (PLN 60,712 thousand), as well as income tax liability (PLN +6,258 thousand). However, segment result includes inter-segment sales loss (PLN 3,482 thousand).
- Segment assets and liabilities do not include deferred tax asset and liability (deferred tax asset of PLN 63,148 thousand, deferred tax liability of PLN 55,569 thousand) as these positions are managed in the Group level.

In the table below presented is the data concerning revenues and profits as well as some of the assets and liabilities. The data is divided to particular segments of the Group and refers to the three months' period ended on 30th June 2012 and represents the situation as on 31st December 2012.

Three months' period ended on 30th June 2012 and as on 31st December 2012

	Continuing Operations					
	Uncoated	Coated	Other	Total	Eliminations	Total Group
Revenues						
Sales to external customers	452 633	187 654	-	640 287	-	640 287
Inter-segment sales	39 202	43 505	7 315	90 022	(90 022)	-
Total segment revenues	491 835	231 159	7 315	730 310	(90 022)	640 287
Segment's Result						
EBITDA	31 385	2 936	614	34 934	3 104	38 038
Interest Income	798	24	6 893	7 715	(7 490)	225
Interest Costs	78	(11 495)	(4 815)	(16 232)	7 491	(8 741)
Depreciation	(15 432)	(14 829)	(28)	(30 289)	-	(30 289)
Positive FX and other financial income	(12 763)	(4 988)	47 633	29 881	(29 814)	68
Negative FX and other financial costs	15 025	4 077	1 338	20 439	(18 129)	2 311
Profit/(loss) before tax	19 090	(24 276)	51 635	46 449	(44 838)	1 611
Segment assets	1 290 613	512 574	899 340	2 702 528	(725 133)	1 977 395
Segment liabilities	901 208	619 241	407 931	1 928 381	(767 836)	1 160 545
Capital expenditures	(9 762)	(1 912)	220	(11 453)	-	(11 453)

- Revenues from inter-segment transactions are excluded on consolidation.
- Segment result does not include financial income (PLN 293 thousand of which 225 PLN is interest income) and financial costs (PLN 6,430 thousand of which PLN 8,741 thousand is interest costs), amortization and depreciation (PLN 30,289 thousand), as well as income tax liability (PLN +6,428 thousand). However, segment result includes inter-segment sales loss (PLN 3,104 thousand).
- Segment assets and liabilities do not include deferred tax asset and liability (deferred tax asset of PLN 63,148 thousand, deferred tax liability of PLN 55,569 thousand) as these positions are managed in the Group level.

9. Revenue and expenses

9.1. Income from sales of products

Income from sales of products amounted in the first half of 2013 to PLN 1,586,007 thousand, which means an increase compared to the corresponding period of the previous year by PLN 257,165 thousand. Because of the acquisition of Rottneros Group in December 2012, income and costs of this Group since 1st January 2013 are recognized in consolidated income statement of Arctic Paper Group. Income from sales of products of Arctic Paper Group less of Rottneros Group income amounted to PLN 1,262,766 thousand were lower than income in the first half of 2012 by PLN 66,076 thousand.

The decrease was due to decline of paper sold as well as to drop of unit price expressed in PLN.

9.2. Own cost of sales

In the first half-year of 2013 own cost of sales amounted to PLN 1,503,951 thousand, which is an increase compared to the corresponding period of the previous year by PLN 388,211 thousand. Own cost of sales of Arctic Paper Group less of Rottneros Group cost amounted to PLN 1,121,872 thousand and was higher than own cost of sales in the first half of 2012 by PLN 6,132 thousand.

In the first half of 2013, the Group created an allowance on the grounds of impairment of non-financial assets in the amount of PLN 66,650 thousand (first half of 2012: PLN 0 thousand).

9.3. Administrative expenses

In the first half-year of 2013 administrative expenses amounted to PLN 40,269 thousand, which is an increase compared to the corresponding period of the previous year by PLN 4,105 thousand.

The increase of administrative expenses in the first half of 2013 resulted from further expenses related to purchase of Rottneros AB shares from non-controlling shareholders in 2013, and from severance pays for leaving members of the Company's organs.

9.4. Other operating income

Other operating income in the first half of 2013 amounted to PLN 32,638 thousand which means an increase compared to the corresponding period of the previous year by PLN 13,367 thousand (including other operating income achieved by Rottneros Group in the amount of PLN 13,223 thousand).

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

Other operating income for the first half of year 2013 less of Rottneros Group income have not significantly changed compared to income achieved in the analogous period of the previous year.

9.5. Other operating cost

In the first half-year of 2013 other operating expenses amounted to PLN 15,668 thousand, which means an increase compared to the corresponding period of the previous year by PLN 2,806 thousand (including other operating cost related to Rottneros Group in the amount of PLN 782 thousand).

Other operating expenses comprise mainly own costs of sales of heat and electricity as well as other materials. The higher other operating expenses in the first half of 2013 resulted mainly from higher own cost of sales of electricity and heat.

9.6. Financial income and cost

In the first half-year of 2013 financial income and expenses amounted to respectively PLN 2,742 thousand and PLN 16,842 thousand, which means, compared to the corresponding period of the previous year, an increase of income of PLN 2,183 thousand and decrease of cost by PLN 3,384 thousand.

Changes in financial income and cost result primarily from net presentation of foreign exchange differences. In the first half of 2013 the Group recorded an excess of positive exchange differences over negative exchange differences in the amount of PLN 2,019 thousand, while in the analogous period of the previous year the net result was PLN 840 thousand of financial cost. Moreover, financial cost comprise interest cost whose value decreased in the first half of 2013 by PLN 3,728 thousand compared to the corresponding period of the previous year as a result of indebtedness refinancing.

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10. Cash and cash equivalents

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

	As at 30 June 2013 (unaudited)	As at 30 June 2012 (unaudited)
Cash at bank and in hand	132 280	143 349
Short-term deposits	2 000	3 129
Cash in transit	298	-
Total	134 578	146 478

11. Dividend paid and proposed

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

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

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

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

On 28th June 2013, Ordinary Shareholders Meeting adopted resolution no 6 regarding distribution of profit for financial year 2012 in which a part of profit for financial year 2012 in the amount of PLN 1,082 thousand was assigned, in compliance with Commercial Companies Code, to reserve capital, while in the amount of PLN 12,447 thousand to reserve capital, with the possibility of future use of this amount for dividend payment or other legally permissible purpose.

The Shareholders Meeting did not decide for dividend payment.

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12. Income tax

12.1. Tax expenses

Major components of income tax expense for the 3- and 6-months' periods ended 30th June 2012 and the same period of the previous year are as follows:

	3 months period ended 30 June 2013 (unaudited)	6 months period ended 30 June 2013 (unaudited)	3 months period ended 30 June 2012 (unaudited)	6 months period ended 30 June 2012 (unaudited)
Consolidated income statement				
Current income tax				
Current income tax charge	(899)	(1 040)	(1 528)	(2 316)
Adjustments in respect of current income tax of previous years	-	-	-	-
Deferred income tax				
Relating to origination and reversal of temporary differences	12 512	12 044	7 956	8 574
Income tax expense reported in consolidated income statement	11 613	11 004	6 428	6 258
Consolidated statement of changes in equity				
Current income tax				
Tax effect of costs related to increase in share capital	-	-	-	-
Income tax benefit/ (income tax expense) reported in equity	-	-	-	-
Consolidated statement of other comprehensive income				
Deffered income tax				
Deffered tax in respect of valuation in hedging intruments (exchange	2 897	1 745	(43)	686
Derecognition of deffered tax asset originally recognised in equity	-	-	-	-
Income tax benefit / (income tax expense) reported in other comprehensive income	2 897	1 745	(43)	686

12.2. Asset/liability of deferred income tax

The deferred tax asset as on 30th June 2013 and 31st December 2012 amounted respectively to PLN 65,606 thousand and PLN 63,148 thousand. The deferred tax asset is recognized mainly on tax losses carried forward to use in future and in connection with acquisition of Rottneros Group.

The deferred tax liability as on 30th June 2013 and 31st December 2012 amounted respectively to PLN 46,355 thousand and PLN 55,569 thousand. The deferred tax liability is recognized mainly on evaluation difference of non-current assets, which arose on acquisition of AP Grycksbo and different useful lives applied for accounting and tax purposes.

13. Earnings and book value per share

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

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

	3 months period ended 30 June 2013 (unaudited)	6 months period ended 30 June 2013 (unaudited)	3 months period ended 30 June 2012 (unaudited)	6 months period ended 30 June 2012 (unaudited)
Net profit (loss) for the period from continuing operations attributable to equity holders of the parent	(86 371)	(90 504)	8 039	17 650
Profit (loss) for the period from discontinued operations attributable to equity holders of the parent	-	-	-	-
Net profit (loss) for the period	(86 371)	(90 504)	8 039	17 650
Number of share - serie A	50 000	50 000	50 000	50 000
Number of share - serie B	44 253 500	44 253 500	44 253 500	44 253 500
Number of share - serie C	8 100 000	8 100 000	8 100 000	8 100 000
Number of share - serie E	3 000 000	3 000 000	3 000 000	3 000 000
Number of share - serie F	13 884 283	13 884 283	-	-
Total number of shares (in thousand)	69 287 783	69 287 783	55 403 500	55 403 500
Weighted average number of shares	69 287 783	68 512 027	55 403 500	55 403 500
Weighted average diluted number of shares	69 287 783	68 512 027	55 768 500	55 768 500
Profit/(Loss) per share (in PLN)	(1,25)	(1,32)	0,15	0,32
Diluted profit/(loss) per share (in PLN)	(1,25)	(1,32)	0,14	0,32

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

14.1. Property, plant & equipment and intangibles

Net value of property, plant & equipment as on 30th June 2013 amounted to PLN 857,964 thousand and was lower by PLN 38,090 thousand comparing to 31st December 2012. The value of acquired property, plant & equipment in the analyzed period amounted to PLN 43,350 thousand (for the 6-months' period ended 30th June 2012 amounted to PLN 20,565 thousand). The net amount of property, plant & equipment sold or disposed of for the 6-months' period ended 30th June 2013 amounted to PLN 638 thousand (for the 6-months' period ended 30th June 2012 amounted to PLN 314 thousand). Depreciation charge for the 6-months' period ended 30th June 2013 amounted to PLN 62,516 thousand (for the 6-months' period ended 30th June 2012 amounted to PLN 58,486 thousand). The impairment allowance on property, plant & equipment for the six months' period ended 30th June 2013 amounted to PLN -37,699 thousand (for the six months' period ended 30th June 2012: PLN 0 thousand). Exchange rate differences for the six months' period ended 30th June 2013 amounted to PLN +19,413 thousand (for the 6-months' period ended 30th June 2012 amounted to PLN -12,443 thousand).

Net value of intangible assets as at 30th June 2013 amounted to PLN 62,400 thousand and was lower by PLN 31,526 thousand compared to 31st December 2012. The value of acquired intangible assets in this period amounted to PLN 648 thousand, including received certificates of cogeneration of PLN 0 thousand (for the six months' period ended 30th June 2012 it amounted to PLN 12,482 thousand, including received certificates of cogeneration of PLN 12,482 thousand). The net result on sales or disposal of intangible assets for the 6-months' period ended 30th June 2013 amounted to PLN 5,066 thousand, including PLN 2,862 thousand for certificates of cogeneration (for the 6-month period ended 30th June 2012 amounted to PLN 11,355 thousand, including certificates of cogeneration of PLN 5,624 thousand). Depreciation charge for the 6-months' period ended 30th June 2013 amounted to PLN 1,384 thousand (for the 6-months' period ended 30th June 2012 it amounted to PLN 2,226 thousand). The impairment allowance on intangibles for the six months' period ended 30th June 2013 amounted to PLN -28,951 thousand (for the six months' period ended 30th June 2012: PLN 0 thousand). Exchange rate differences recorded for the 6-months' period ended 30th June 2013 amounted to PLN +3,227 thousand (for the 6-months' period ended 30th June 2012 amounted to PLN -2,256 thousand).

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The revenue from sales of property, plant & equipment and intangible assets in the first half of 2013 amounted to PLN 40 thousand (in the first half of 2012: PLN 321 thousand).

14.2. Impairment of non-financial assets

The value of allowance of property, plant & equipment as well as of intangible assets, as on 30th June 2013 amounted to PLN 352,413 thousand while as on 30th June 2012 amounted to PLN 26,250 thousand. The increase of allowance of property, plant & equipment as well as of intangible assets resulted from impairment of non-current assets in Arctic Paper Mochenwangen and Arctic Paper Grycksbo in the amount of PLN 248,864 thousand created on 31st December 2012, and from impairment of non-current assets in Arctic Paper Grycksbo in the amount of PLN 66,650 thousand created on 30th June 2012. The rest of the change results from exchange differences for the period of 1st January 2013 - 30th June 2013.

As on 30th June 2013, there was an impairment test performed in Arctic Paper Grycksbo regarding property, plant & equipment as well as intangibles. The performance of the test was related to achievement of results lower than expected by the Management Board of the Group. This was influenced by such market conditions as increase of prices of raw materials and strengthening of competition in segment of papers produced by Grycksbo mill.

Because of the aforementioned, a decision was made to perform an impairment test using discounted cash flows method. The methodology of the test was described in details in the annual consolidated financial statements (note 25.2). The performed impairment test resulted in an allowance in the amount of PLN 66,650 thousand as on 30th June 2013.

The table below presents main assumptions adopted for the assessment of use value.

General assumption	30.06.2013	31.12.2012
Prognosis based on year	2H 2013-2017	2013-2017
Income tax rate	22,00%	22,00%
Pre-tax discount rate	7,80%	7,80%
Weighted average cost of capital	7,40%	7,40%
Growth in residual period	2,00%	2,00%

The table below presents the impairment allowance as on 30th June 2013.

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	Balance vaue as at 30.06.2013	Vaule in use by 30.06.2013
Tangible assets, therein:	242 916	205 217
- land	8 647	8 647
- buildings	74 521	49 152
- machinery and equipment	153 231	140 902
- assets under construction	6 516	6 516
Intangible assets with undetermined useful life	25 582	8 231
Intangible assets with determined useful life	19 206	7 606
Working capital	8 059	8 059
Cash and equivalents	17 817	17 817
Total value	313 579	246 930
Impairment recognized in 2013		66 650

The impairment allowance in the amount of PLN 66,650 thousand was included in consolidated income statements as on 30th June 2013 in the position of own cost of sales.

15. Inventories

	As at 30 June 2013 (unaudited)	As at 31 December 2012 (audited)
Raw materials (at cost)	196 925	196 603
Work-in-progress (at cost of development)	8 159	8 682
Finished goods and goods for resale, of which:		
At cost / cost of development	183 906	187 819
At net realisable value	30 684	18 612
Prepayments for supplies	59	-
Total inventories, at the lower of cost (or costs of development) and net realisable value	419 734	411 716
Inventory write-down	8 555	8 153
Inventory before write-down	428 289	419 869

In the 6-months' period ended 30th June 2013, the Group increased the value of inventories by PLN 8,018 thousand. As on 30th June 2013 the value of impairment of inventories amounted to PLN 8,555 thousand (as on 31st December 2012: PLN 8,153 thousand). As on 30th June 2013 the stock of finished products worth PLN 30,684 thousand were valued at net sales price (as on 31st December 2012 amounted to PLN 18,612 thousand).

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16. Trade receivables and other receivables

	As at 30 June 2013 (unaudited)	As at 31 December 2012 (audited)
Trade receivables	331 650	275 588
Budget receivables - VAT receivables	17 212	24 902
Other receivables from third parties	5 690	23 290
Other receivables from related parties	6 318	6 108
Total receivables, net	360 870	329 888
Doubtful debts allowance	22 959	20 722
Total receivables, gross	383 830	350 610

Trade receivables and other receivables increased from PLN 329,888 thousand as on 31st December 2012 to PLN 360,870 thousand as at the end of June 2013. The increase was due mainly to rise of trade receivables reported by paper and pulp mills.

17. Other non-financial and financial assets

Other short-term non-financial assets as on 30th June 2013 and as on 31st December 2012 amounted to respectively PLN 24,171 thousand and PLN 14,515 thousand. This position includes mainly costs accounted in time and its changes result from adjustment of value of these costs.
Other long-term non-financial assets as on 30th June 2013 and 31st December 2012 have not significantly changed.

Other financial assets amounted to PLN 94 thousand as on 30th June 2013 and PLN 3,805 thousand as on 31st December 2012. This position includes value of future contracts' positive assessment.
Other long-term financial assets as on 30th June 2013 and 31st December 2012 have not significantly changed.

18. Interest-bearing loans, borrowings and bonds

As on 30th June 2013 the amount of current and non-current interest bearing loans, borrowing and bonds increased by PLN 3,924 thousand compared to 31st December 2012.
In the six months of 2013, the Group performed an exchange of current financing by bonds in BRE Bank for extension of non-current indebtedness in consortium of three banks in the amount of PLN 71,900 thousand together with interest and a partial repayment of this debt in the amount of PLN 17,584 thousand (tranches in PLN and EUR). On the other hand, the Group performed an increase of overdraft indebtedness in the consortium of three banks and in Svenska Handelsbanken as well as in Danske Bank.
Other changes in value of loans and borrowings as on 30th June 2013 compared to 31st December 2012 result mostly from balance sheet evaluation and from the amount of calculated interest on loans, borrowings and bonds which interest has not been paid yet.
As on 30th June 2013, the Group did not keep the levels of selected financial ratios as defined in loan agreements concluded with the consortium of banks (Pekao S.A., Bank Zachodni WBK S.A. and BRE Bank S.A.) and with Svenska Handelsbanken. The breach of financial ratios concerned net debt-to-EBITDA ratio for the whole Group as well as solidity ratio and interest coverage ratio for one of the paper mills.

Failure to keep the level of financial ratios defined in the loan agreement and leasing agreements, may give rise to breaches of the agreement and the loss of collateralized assets. The key issue for the possibility of continuation of the Company's business activities is financial liquidity. The Management Board has prepared financial forecasts comprising the second half of

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2013 and the following years, including forecasted cash flows, based on key assumptions related to sustaining external sources of financing in the form of the existing bank loans. There are key forecasts risks connected with the adopted assumptions. Realization of these risks may cause substancial uncertainty regarding the possibility of the Company to continue its business activities. Therefore, the Management Board of the Company has initiated negotiations with banks aimed at receiving covenant waiver.

Until the day of publishing of the hereby report, the Group has not received covenant waiver but has not received any information confirming breach of the agreement, either. The Group has not received any notice for the dissolution of loan agreements or lease agreements. The Management Board expects to receive a proper covenant waiver within next three months.

19. Other financial liabilities

As on 30th June 2013, other financial liabilities amounted to PLN 140,034 thousand (of which long-term PLN 50,815 thousand and short-term PLN 89,219 thousand) and increased by PLN 40,143 thousand, compared to 31st December 2012. Increase of other financial liabilities was related mostly to the factoring agreement of AP Munkedals and AP Grycksbo with Svenska Handelsbanken, where as on 30th June 2013 other financial liabilities on the grounds thereof amounted to PLN 71,626 thousand (31st December 2012: PLN 34,412 thousand).

During the reporting period the Group repaid a part of financial leasing liabilities in the amount of PLN 2,595 thousand.

Other differences in value of other financial liabilities as on 30th June 2013, compared to 31st December 2012, result mainly from valuation of hedging instruments of future currency sale/purchase transactions as well as transactions of electricity purchases, sales of pulp and SWAP transactions.

20. Trade liabilities and other liabilities

The value of trade and other liabilities as on 30th June 2013 amounted to PLN 375,748 thousand (as on 31st December 2012: PLN 412,785 thousand). The decrease of the amount of this position compared to the amount as at the end of the previous year by PLN 37,037 thousand was caused by the decrease of trade liabilities in paper mills.

21. Changes in provisions

	As at 30 June 2013 (unaudited)	As at 31 December 2012 (revised)
Long-term provision		
Pension provision	91 166	91 130
Other provision	3 368	3 208
	94 534	94 339
Short-term provision	2 347	8 415
Long-term provision	94 534	94 339

As on 30th June 2013 the retirement provision increased by PLN 36 thousand.

Decline in short-term provisions as on 30th June 2013 in the amount of PLN 6,068 thousand in relation to 31st December 2012, resulted from utilization of the provision on CO_2 emission rights and the provision on bonuses.

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22. Accruals

The main items of accruals are grants from state institutions, amounting to PLN 33,438 thousand, including long-term PLN 30,707 thousand (31st December 2012: PLN 34,803 thousand, including long-term PLN 32,072 thousand) as well as liabilities towards employees, mainly holiday benefits, which as on 30th June 2013 amounted to PLN 80,181 thousand (PLN 66,080 thousand as on 31st December 2012).

23. Equity securities

	As at 30 June 2013 (unaudited)	As at 31 December 2012 (audited)
'A' class ordinary shares of PLN 1 each	50	50
'B' class ordinary shares of PLN 1 each	44 254	44 254
'C' class ordinary shares of PLN 1 each	8 100	8 100
'E' class ordinary shares of PLN 1 each	3 000	3 000
'F' class ordinary shares of PLN 1 each	13 884	-
	69 288	55 404

	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 2013 (unaudited)		69 287 783	69 287 783

24. Acquisition of non-controlling shares

Between 1st January 2013 and 26th February 2013, Arctic Paper S.A. performed further acquisition of Rottneros AB shares under calling to hitherto shareholders of Rottneros AB shares in order to exchange Rottneros AB shares for Arctic Paper S.A. shares or for cash equivalent (detailed description of the principles of the calling can be found in consolidated financial statements for the period ended 31st December 2012, note 31.2). In 2013, Arctic Paper S.A. purchased 22,221,849 Rottneros AB shares and increased the number of shares in possession to 82,726,339 and increased its share in Rottneros AB share capital from 39.66% as on 31st December 2012 to 54.20% as on 26th February 2013 and until the day of approving of these financial statements. The purchase price of the share acquired in 2013 amounted to PLN 25,731 thousand while the value of minority interests acquired amounted to PLN 55,084 thousand. The result if this transaction of PLN 29,353 thousand increased "Retained/earnings/losses carried forward" in Arctic Paper Group equity.

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25. Financial instruments

The Company has the following financial instruments: cash at hand and in bank accounts, bank credits, receivables, liabilities of financial leases, SWAP interest contract, forward foreign exchange contract, forward contract for the purchase of electricity, forward contract for the sales of pulp.

25.1. Fair values of each class of financial instruments

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

		Book value		Fair value	
	Category complaint with IAS 39	As at 30 June 2013	As at 31 December 2012	As at 30 June 2013	As at 31 December 2012
Financial Assets					
Granted loans	*L&R*	-	-	-	-
Trade and other receivables	*L&R*	343 658	304 986	343 658	304 986
Hedging instruments		94	3 805	94	3 805
Other financial assets (excluding loans and hedging intruments)	*L&R*	947	733	947	733
Cash and cash equivalents	*FVTPL*	134 578	202 710	134 578	202 710
Financial Liabilities					
Interest bearing bank loans and borrowings therein:	*OFL*	400 429	322 301	400 429	322 301
- long-term	*OFL*	-	198 519	-	198 519
- short-term	*OFL*	400 429	123 782	400 429	123 782
Liabilities form financial leasing title and lease agreement with purchase option, therein:		40 176	42 771	40 176	42 771
- long-term		37 343	37 210	37 343	37 210
- short-term		2 832	5 561	2 832	5 561
Trade and other financial payables		334 188	393 708	334 188	393 708
Hedging instruments	*OFL*	27 277	20 919	27 277	20 919
Debt securities, therein:	*OFL*	-	74 204	-	74 204
- long-term Coupon bonds	*OFL*	-	-	-	-
- short-term bonds	*OFL*	-	74 204	-	74 204

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Used abbreviations:

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

25.2. Interest rate risk

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

30 June 2013

Floating rate	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Other financial liabilities							
Obligations under finance lease and hire purchase contracts	2 832	1 455	2 935	3 006	3 079	26 869	40 176
Loans, borrowings:							
PLN bank loan in Bank Polska Kasa Opieki S.A.	97 328	-	-	-	-	-	97 328
EUR bank loan in Bank Polska Kasa Opieki S.A.	35 379	-	-	-	-	-	35 379
PLN bank loan in BRE Bank S.A.	66 782	-	-	-	-	-	66 782
EUR bank loan in BRE Bank S.A.	26 266	-	-	-	-	-	26 266
PLN bank loan in BZ WBK	79 826	-	-	-	-	-	79 826
EUR bank loan in BZ WBK	30 822	-	-	-	-	-	30 822
SEK bank loan in SHB	19 101	-	-	-	-	-	19 101
SEK bank loan in Danske Bank	44 927	-	-	-	-	-	44 927
Sum loans, borrowings	400 429	-	-	-	-	-	400 429
TOTAL	403 261	1 455	2 935	3 006	3 079	26 869	440 605

31 December 2012

Floating rate	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Other financial liabilities							
Obligations under finance lease and hire purchase contracts	5 561	2 772	2 824	2 879	2 940	25 794	42 771
Loans, borrowings and bonds:							
Bonds in Bank BRE	74 204	-	-	-	-	-	74 204
PLN bank loan in Bank Polska Kasa Opieki S.A.	35 227	11 612	11 752	11 902	12 065	-	82 558
EUR bank loan in Bank Polska Kasa Opieki S.A.	7 035	7 003	7 003	7 003	7 002	-	35 046
PLN bank loan in BRE Bank S.A.	14 463	8 583	8 686	8 797	8 917	-	49 446
EUR bank loan in BRE Bank S.A.	6 117	6 089	6 089	6 089	6 091	-	30 475
PLN bank loan in BZ WBK	18 501	10 591	10 713	10 843	10 986	-	61 633
EUR bank loan in BZ WBK	5 203	5 176	5 176	5 176	5 176	-	25 907
SEK bank loan in SHB	34 250	-	-	-	-	-	34 250
SEK bank loan in Danske Bank	2 986	-	-	-	-	-	2 986
Sum loans, borrowings and bonds	197 986	49 054	49 419	49 810	50 237	-	396 505
TOTAL	203 547	51 826	52 242	52 689	53 177	25 794	439 276

25.3. Hedge accounting

As on 30th June 2013, the Group used cash flow hedge accounting for the following hedging relations:

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

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

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

Hedge type	Hedging the cash flow variations related to the planned purchases of electricity in foreign currencies
Hedge item	Hedged item is part of the future highly probably cash flows resulting from purchases of electricity denominated in EURO
Hedging instruments	Hedging instruments are FX forward transactions in which the Company commits to purchase EUR for SEK
Forward contract parameters	
Trade date	2012 and 2013
Delivery date	depending on the contract, untill 31.12.2016
Hedged amount	13.0 mln EUR
Forward ratio	9.16 SEK/EUR

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

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Hedge type	Hedging the cash flow variations related to the planned sales in foreign currencies
Hedge item	Hedged item is part of the future highly probably cash flows resulting from export sales
Hedging instruments	Hedging instruments are FX forward transactions in which the Company commits to sell EUR for USD
Forward contract parameters	
Trade date	14.01.2013
Delivery date	depending on the contract, since 29.07.2013 till 27.12.2013
Hedged amount	9.0 mln EUR
Forward ratio	from 1,3320 to 1,3327

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

Hedge type	Hedging the cash flow variations related to the planned sales in foreign currencies
Hedge item	Hedged item is part of the future highly probably cash flows resulting from export sales
Hedging instruments	Hedging instruments are FX forward transactions in which the Company commits to sell EUR for PLN
Forward contract parameters	
Trade date	from 29.05.20913 to 28.06.2013
Delivery date	depending on the contract, since 29.07.2013 till 27.06.2014
Hedged amount	15.0 mln EUR
Forward ratio	from 4,2375 to 4,4150

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

Interim condensed consolidated financial statements for the six months' period ended 30th June 2013 PLN thousand

Hedge type	Hedging the cash flow variations related to the planned sales in foreign currencies
Hedge item	Hedged item is part of the future highly probably cash flows resulting from export sales
Hedging instruments	Hedging instruments are FX forward transactions in which the Company commits to sell USD for SEK
Forward contract parameters	
Trade date	2012 and 2013
Delivery date	depending on the contract, untill 31.12.2013
Hedged amount	15.0 mln USD
Forward ratio	6.62 SEK/USD

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

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

Hedge type	Hedging the cash flow variations related to electricity purchases
Hedge item	Hedged item is part of the future highly probably cash flows resulting from electricity purchases
Hedging instruments	Hedging instruments are forward transactions for electricity purchases on the Nord Pool Stock Exchange
Forward contract parameters	
Trade date	depending on the contract, since 01.05.2009
Delivery date	depending on the contract, untill 31.12.2017
Hedged amount	759.000 MWh
Forward price	from 32.35 to 48.80 EUR/MWh

Cash flow hedge accounting related to pulp sales with the use of forward transactions

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

Interim condensed consolidated financial statements for the six months' period ended 30th June 2013 PLN thousand

Hedge type	Hedging the cash flow variations related to sales of pulp
Hedge item	Hedged item is part of the future highly probably cash flows resulting from sales of pulp
Hedging instruments	Hedging instruments are forward transactions for sales of pulp in SEK
Forward contract parameters	
Trade date	2 012
Delivery date	depending on the contract, untill 31.12.2013
Hedged amount	6.000 ton
Forward price	5 700 SEK/tonne

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

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

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

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

Interim condensed consolidated financial statements for the six months' period ended 30th June 2013 PLN thousand

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

The table below presents fair value of hedging instruments in cash flow hedge accounting as on 30th June 2013 and the comparative data:

	As at 30 June 2013		As at 31 December 2012	
	(unaudited)	(unaudited)	(audited)	(audited)
	Assets	Liabilities	Assets	Liabilities
FX forward	94	2 469	-	2 854
Pulp forward	-	494	3 805	-
SWAP	-	343	-	141
Electricity forward	-	23 972	-	17 924
Total hedging derivatives	94	27 277	3 805	20 919

26. Financial risk management objectives and policies

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

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

The Group has various other financial instruments such as trade receivables and liabilities, which arise directly from operations, as well as short-term deposits. The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk. The Management Board reviews and agrees policies for managing each of these risks.

In the opinion of the Management Board – in comparison to the Annual Consolidated Financial Statements for the period ended 31st December 2012 there have been no significant changes of the financial risk. There have been also no changes in the objectives and policies of the management of this risk.

27. Capital management

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

In the Management Board's opinion – in comparison to the annual consolidated financial statements for the year ended 31st December 2012 there were no significant changes in the objectives and policies of capital management.

28. Contingent liabilities and contingent assets

As on 30th June 2013, the Capital Group reported the following:

- a bill of exchange guarantee issued by AP Kostrzyn S.A. in favor of the National Fund for Environment Protection and Water Management for the purpose of securing the payment of the amount granted to the company within the confines of the project of the extension to wastewater treatment farm as the pre-requisite for balanced development of Arctic Paper Kostrzyn. The financial support granted to the Company within the confines of this project amounts to PLN 2,100 thousand;
- a pledge on movables of Arctic Paper Munkedals AB resulting from a factoring contract with Svenska Handelsbanken AB amounting to SEK 160,000 thousand;
- a pledge on movables of Arctic Paper Grycksbo AB resulting from a factoring contract with Svenska Handelsbanken AB amounting to SEK 85,000 thousand;
- a pledge on real estates of Arctic Paper Grycksbo AB resulting from a factoring contract with Svenska Handelsbanken AB amounting to SEK 20,000 thousand
- a pledge on shares of Arctic Paper Grycksbo AB resulting from a factoring contract with Svenska Handelsbanken AB amounting to SEK 181,475 thousand;
- a guarantee commitment to FPG in favor of mutual life insurance company PRI in the amount of SEK 50,000 thousand;
- a contingent liability of Arctic Paper Munkedals AB on the grounds of guarantee for Kalltorp Kraft HB liabilities in the amount of SEK 5,862 thousand;
- mortgages on Kalltorp Kraft HB in the amount of SEK 8,650 thousand;
- a bank guarantee in favor of Skatteverket Ludvika in the amount of SEK 135 thousand;
- on 15th March 2012 AP S.A. granted a collateral in favor of Cartiere del Garda S.P.A - paper supplier to the Distribution Companies (Arctic Paper Sweden AB, Arctic Paper Denmark A/S, Arctic Paper Norge AS). The guarantee stands for EUR 1,000 thousand and is valid until 28th March 2014,
- guarantees granted by the companies of Rottneros Group in the total amount of SEK 3,000 thousand,
- a guarantee in favor of Södra Cell International AB, the supplier of pulp, in the total amount of SEK 12,000 thousand.

Moreover, the following collateral securing the loan agreement (as earlier described) dated 6th 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 companies;
- mortgages on real estates of Arctic Paper Kostrzyn S.A.;
- land debt on real estates of Arctic Paper Mochenwangen GmbH;
- pledge on components of assets of Arctic Paper Kostrzyn S.A.;
- lien of property as security in Arctic Paper Mochenwangen GmbH;
- cession of rights under insurance policy;
- cession of receivables under loan agreements within the Group (Arctic Paper Kostrzyn S.A. and Arctic Paper Investment GmbH);

- submission to enforcement on the basis of art. 97 banking law (separate in favor of each bank) - Arctic Paper Kostrzyn S.A and Arctic Paper S.A.

The Group reported the following as on 31st December 2012:

- a bill of exchange guarantee issued by AP Kostrzyn S.A. in favor of the National Fund for Environment Protection and Water Management for the purpose of securing the payment of the amount granted to the company within the confines of the project of the extension to wastewater treatment farm as the pre-requisite for balanced development of Arctic Paper Kostrzyn. The financial support granted to the Company within the confines of this project amounts to PLN 2,100 thousand;
- a pledge on movables of Arctic Paper Munkedals AB resulting from a factoring contract with Svenska Handelsbanken AB amounting to SEK 160,000 thousand;
- a pledge on movables of Arctic Paper Grycksbo AB resulting from a factoring contract with Svenska Handelsbanken AB amounting to SEK 85,000 thousand;
- a pledge on real estates of Arctic Paper Grycksbo AB resulting from a factoring contract with Svenska Handelsbanken AB amounting to SEK 20,000 thousand;
- a pledge on shares of Arctic Paper Grycksbo AB resulting from a factoring contract with Svenska Handelsbanken AB amounting to SEK 239,066 thousand;
- a guarantee commitment to FPG in favor of mutual life insurance company PRI in the amount of SEK 50,743 thousand;
- mortgages on real estates of Kalltorp Kraft HB in the amount of SEK 8,650 thousand;
- a bank guarantee in favor of Skatteverket Ludvika in the amount of SEK 135 thousand;
- on 15th March 2012 AP S.A. granted a collateral in favor of Cartiere del Garda S.P.A - paper supplier to the Distribution Companies (Arctic Paper Sweden AB, Arctic Paper Denmark A/S, Arctic Paper Norge AS). The guarantee stands for EUR 1,000 thousand and is valid until 28th March 2014,
- a bank guarantee in favor of UPM GmbH amounting to EUR 1,000 thousand,
- guarantees granted by the companies of Rottneros Group in the total amount of SEK 3,000 thousand.

As on 31st December 2012 the Capital Group reported the collateral for securing execution of the loan agreement dated 6th November 2012- same as on 30th June 2013.

29. Legal claims

Case against Cezex Sp. z o.o.

The lawsuit against CEZEX Spółka z o.o. for payment of PLN 11,240 thousand (main debt) was filed on 08th October 2009. The District Court did not give a verdict. On 21st December 2009 bankruptcy of the company was announced with a possibility of settlement. On 23 March the District Court in Szczecin made a decision in favor of Arctic Paper S.A. for the full amount of the debt.

The law suit against CEZEX Spółka z o.o. for payment of PLN 174 thousand (main debt) was filed on 27th November 2009. On 04th February 2010 the District Court gave a verdict in absentia. On 21st December 2009 bankruptcy of the company was announced with a possibility of settlement. In May 2011 the settlement was not concluded and liquidation insolvency was announced. The whole debt of APK S.A. is listed in debtor's list. Pursuant of the decision of Board of Debtors the Bankruptcy Trustee is authorized to conduct business activity until 31st October 2011. On 21st December 2011 the Regional Court cancelled the statement of the District Court regarding change of the bankruptcy option to liquidation. On 07th February 2012 the Regional Court announced liquidation bankruptcy as filed by Arctic Paper Kostrzyn S.A. The complaint of the bankrupt has been examined by District Court, the decision regarding bankruptcy is legally binding. The bankruptcy is in progress. As on 4th September 2013 a new date of tender for sales of the bankrupt's enterprise CEZEX as a whole. The previous tender dated 10th April 2013 did not come into effect as there were no offerors.

Case against Jakon S.A. in liquidation

On 7th February 2011 bankruptcy of the company was announced with liquidation of the property. The debt in the amount of PLN 2,000 thousand is guaranteed by mortgage on guarantor's real estate. There was a warrant of payment issued by the court. The guarantor filed a complaint, the next court hearing was scheduled to 19th January 2012. On 29th February the District Court denied the claim of Arctic Paper Kostrzyn S.A. There was a complaint file on time. A hearing to discuss the appeal was scheduled to 25th July 2012 but did not take place on that day – a new date of hearing was appointed to 19th September 2012. The Court of Appeal cancelled the decision of primary court and requested it to investigate the case. The District Court has not set the hearing date yet.

Case against Skolwin Paper International Sp. z o.o.

The law suit against Skolwin Paper International spółka z o.o. for total payment of PLN 1,539 thousand, a warrant of payment was issued on 04th January 2008. On 10th January 2008 the District Court in Szczecin announced bankruptcy with liquidation of the property, it was published in Monitor Sądowy i Gospodarczy no 17/2008 item 1063. For the time being, it is difficult to judge whether the company will receive funds and in what amount from the bankruptcy estate. The debt was submitted. The liquidation is in process, the final term is not known because of the complex legal status of the bankruptcy estate. It cannot be determined now when the case is going to be closed. On 22nd July 2011 the Company received a portion of debt from partial distribution plan for the amount of PLN 47 thousand. The bankruptcy is in progress.

As on 30th June 2013 as well as on the day of approving of the hereby financial statements, the companies of the Group are not parties to any other legal case.

30. Tax settlements

Arctic Paper Kostrzyn S.A.

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

Tax settlements, together with other areas of legal compliance (e.g. customs or foreign exchange law) are subject to review and investigation by a number of authorities, which are entitled to impose severe fines, penalties and interest charges. The lack of reference to well established regulations in Poland results in a lack of clarity and integrity in the regulations. Frequent contradictions in legal interpretations both within government bodies and between companies and government bodies create uncertainties and conflicts. These facts create tax risks in Poland that are substantially more significant than those typically found in countries with more developed tax systems.

Tax authorities may examine the accounting records within up to five years after the end of the year in which the final tax payments were to be made. Consequently, the Group may be subject to additional tax liabilities, which may arise as a result of additional tax audits. In Group's opinion as on 30th June 2013 there is no need to create additional provisions to cover recognized and countable tax risk.

31. Investment commitments

As on 30th June 2013 the Group bound itself to make expenditures of no less than PLN 5,000 thousand for property, plant & equipment (as on 31st December 2012: PLN 10,000 thousand). The amount will be distributed for purchase of new machinery and technical devices.

32. Related parties disclosures

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

- Arctic Paper AB – parent company of Arctic Paper S.A. Group,
- Arctic Paper Håfreströms – paper mill (within the process of liquidation), subsidiary of Trebruk AB,
- Rottneros AB – group of entities, operating in pulp-paper industry. On 20th December 2013, Arctic Paper S.A. took actual control over Rottneros AB; earlier related by capital to Nemus Holding AB.
- Nemus Holding AB – parent company of Trebruk AB.
- Galileus Sp.z o.o. Sp.k. – related to a Member of the Management Board.
- IPM Sp. z o.o. Sp.k. - related to a Member of the Management Board.

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

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

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

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

The table below presents the total values of transactions with related parties entered into during the 6-months' periods ended 30th June 2012 and as on 31st December 2012:

	Data for the period from 1 January 2012 to 30 June 2012 and as at 31 December 2012 (PLN thousands)						
Related party	Sales to related parties	Purchases from related parties	Interest – financial income	Interest – financial costs	Receivables from related parties	Loans granted	Payables to related parties
Trebruk AB (Arctic Paper AB)	-	-	-	-	3 824	-	-
Arctic Paper Håfreström	-	906	-	-	2 284	-	-
Rottneros AB Group	-	16 400	-	-	na	na	na
IPM Sp. z o.o. Sp.k.	-	438	-	-	-	-	-
Galileus Sp.z o.o.Sp.k.	-	71	-	-	-	-	4
Total	-	17 377	-	-	6 108	-	4

33. CO2 emission rights

Arctic Paper Kostrzyn S.A., Arctic Paper Munkedals AB, Arctic Paper Mochenwangen GmbH, Arctic Paper Grycksbo AB and the companies of Rottneros Group are all part of the European Union Emission Trading Scheme. The current trading period lasts from 1st January 2008 to 31st December 2012.

Until the date of publishing of the hereby report, the allocation for 2013 for all mills has not been known.

34. Government grants and operations in Special Economic Zone

34.1. Government grants

In the current quarter the Group companies have not received any subsidies.

34.2. Operations in Special Economic Zone

Arctic Paper Kostrzyn S.A. operates in the Kostrzyńsko-Słubicka Specjalna Special Economic Zone (the „KSSSE") and based on the permission issued by the Kostrzyńsko – Słubicka Special Economic Zone S.A. benefits from the 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 Arctic Paper Kostrzyn S.A. loses its tax relief if at least one of the following occurs:

- Arctic Paper Kostrzyn S.A. ceases to conduct business operations in the KSSSE for which it obtained the permission,
- it violates the conditions of the permission, or
- it does not remove errors/ irregularities identified during the course of control within the period of time specified in the order issued by appropriate minister for economic affairs,
- it transfers, in any form, the ownership right to assets to which the investment tax relief related within the period

Interim condensed consolidated financial statements for the six months' period ended 30th June 2013 PLN thousand

shorter than 5 years of introducing those assets to the fixed assets register,

- if the machines and equipment is transferred to conduct business activities outside the SEZ,
- if Arctic Paper Kostrzyn S.A. receive compensation, in any form, of the investment expenditure incurred,
- if Arctic Paper Kostrzyn S.A. goes into liquidation or if it petitioned for bankruptcy.

Based on the permit issued on 25th August 2006, Arctic Paper Kostrzyn S.A. may benefit from exemption to 15th November 2017. The pre-requisite condition for this tax relief is that appropriate investment expenditure is made in the Special Economic Zone within the meaning of § 6 of the Decree of the Council of Minister dated 14th September 2004 concerning Kostrzyńsko – Słubicka Special Economic Zone, being the basis for the calculation of public assistance in accordance with § 3 Decree with a value exceeding EUR 40,000,000 to 31st December 2013 calculated using the average EUR announced by the President of the National Bank of Poland as prevailing on the date the expenditure is made. Creation in the territory of the KSSSE of at least 5 new workplaces within the meaning of § 3 paragraph 3 and paragraph 6 of the Decree by 31st December 2011 and maintaining the employment level at 453 people during the period from 1st January 2012 to 31st December 2013.

The conditions of the exemption have not changed in the reporting period. The Group was not a subject to any inspection by the authorized authorities.

During the period from 25th August 2006 to 30th June 2013 Arctic Paper Kostrzyn S.A. incurred investment expenditure classified as expenditure of the SEZ in the amount of PLN 197,864 thousand. During this period, the discounted amount of public assistance used was PLN 44,163 thousand.

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

The amount of deferred tax asset on the expenditures incurred in SEZ as on 30th June 2013 stood at PLN 22,245 thousand.

35. Significant events after balance sheet date

After the balance sheet date, no material events occurred which would have to be disclosed in the hereby report except for those occurrences which have been disclosed earlier in the hereby report..

Signatures of Members of the Management Board

Position	Name and surname	Date	Signature
President of the Management Board Chief Executive Officer	Wolfgang Lübbert	30 August 2013	
Member of the Management Board Chief Operating Officer	Per Skoglund	30 August 2013	
Member of the Management Board Chief Procurement Officer	Jacek Łoś	30 August 2013	

Interim condensed half-yearly standalone financial statements for the six months' period ended 30th June 2012 together with the report of independent auditor

Contents

Standalone financial statements and selected financial data

Selected standalone financial data

	For the period from 01.01.2013 to 30.06.2013 PLN thousand	For the period from 01.01.2012 to 30.06.2012 PLN thousand	For the period from 01.01.2013 to 30.06.2013 EUR thousand	For the period from 01.01.2012 to 30.06.2012 EUR thousand
Revenues	99 527	73 580	23 830	17 334
Operating profit (loss)	(110 463)	34 458	(26 448)	8 118
Profit (loss) before tax	(109 848)	22 736	(26 301)	5 356
Profit (loss) from continuing operations	(109 848)	22 736	(26 301)	5 356
Profit (loss) for the period	(109 848)	22 736	(26 301)	5 356
Net operating cash flow	72 212	18 419	17 290	4 339
Net investment cash flow	(22 523)	(27 260)	(5 393)	(6 422)
Net financial cash flow	(72 902)	(8 913)	(17 455)	(2 100)
Net change in cash and cash equivalents	(23 214)	(17 754)	(5 558)	(4 183)
Weighted average number of shares	68 512 027	55 403 500	68 512 027	55 403 500
Weighted average diluted number of shares	68 512 027	55 768 500	68 512 027	55 768 500
EPS (in PLN/EUR)	(1,60)	0,41	(0,38)	0,10
Diluted EPS (in PLN/EUR)	(1,60)	0,41	(0,38)	0,10
Average PLN/EUR rate*			4,1766	4,2449

	As at 30 June 2013 PLN thousand	As at 31 December 2012 PLN thousand	As at 30 June 2013 EUR thousand	As at 31 December 2012 EUR thousand
Assets	944 812	1 113 516	218 242	272 373
Long-term liabilities	153 460	131 102	35 448	32 068
Short-term liabilities	31 734	132 216	7 330	32 341
Equity	759 618	850 198	175 464	207 964
Share capital	69 288	55 404	16 005	13 552
Number of shares	69 287 783	66 144 483	69 287 783	66 144 483
Diluted number of shares	69 287 783	66 144 483	69 287 783	66 144 483
Book value per share (in PLN/EUR)	10,96	12,85	2,53	3,14
Diluted book value per share (in PLN/EUR)	10,96	12,85	2,53	3,14
Declared or paid dividend (in PLN/EUR)	-	9 972 630	-	2 439 369
Declared or paid dividend per share (in PLN/EUR)	-	0,18	-	0,04
PLN/EUR rate at the end of the period**	-	-	4,3292	4,0882

* - Items of the income statement and the cash flow statement are converted at the exchange rate, which is the arithmetic mean of average rates announced by the NBP during the period to which presented data relates.
** - Items of balance sheet and book value per share were converted at the average exchange rate announced by the NBP and prevailing at the balance sheet date.

Interim condensed half-yearly standalone financial statements for the six months' period ended 30th June 2013 PLN thousand

Standalone income statement

	Note	3 months period ended 30 June 2013 (unaudited)	6 months period ended 30 June 2013 (unaudited)	3 months period ended 30 June 2012 (unaudited)	6 months period ended 30 June 2012 (unaudited)
Continuing operations					
Sales of good		13 844	23 845	7 315	12 775
Interest income from subsidiaries	11.1	(5 187)	568	6 078	12 953
Dividends	15	75 115	75 115	47 852	47 852
Revenues		83 773	99 527	61 245	73 580
Cost of interest to subsidiaries	11.1	(2 789)	(5 831)	-	-
Gross profit on sales		80 984	93 696	61 245	73 580
Other operating income		87	142	279	301
Selling and distribution costs		(720)	(1 461)	-	-
Administrative expenses		(9 874)	(16 530)	(6 809)	(12 854)
Other operating expenses	11.2	(186 242)	(186 311)	(26 464)	(26 568)
Operating profit / (loss)		(115 765)	(110 463)	28 250	34 458
Finance income		61	1 646	45	111
Finance costs		(688)	(1 031)	(3 696)	(11 833)
Profit / (loss) before tax		(116 392)	(109 848)	24 599	22 736
Income tax		-	-	-	-
Net profit (loss) from continuing operations		(116 392)	(109 848)	24 599	22 736
Discontinued operations					
Profit (loss) for the period from discontinued operations		-	-	-	-
Net profit (loss) for the period		(116 392)	(109 848)	24 599	22 736
Earnings per share:					
– basic from the profit (loss) for the period		(1,68)	(1,60)	0,44	0,41
– basic from the profit (loss) from continuing operations for the period		(1,68)	(1,60)	0,44	0,41

Additional explanatory notes to the interim condensed quarterly consolidated financial statements, included on pages from 96 to 114 are its integral part.

Interim condensed half-yearly standalone financial statements for the six months' period ended 30th June 2013 PLN thousand

Standalone statement of comprehensive income

	Note	3 months period ended 30 June 2013 (unaudited)	6 months period ended 30 June 2013 (unaudited)	3 months period ended 30 June 2012 (unaudited)	6 months period ended 30 June 2012 (unaudited)
Net profit (loss) for the period		(116 392)	(109 848)	24 599	22 736
Other comprehensive income					
Items to recognise in profit/loss in future periods:					
Exchange difference on translation of foreign operations	21.3	(391)	(337)	(46)	9
Other comprehensive income		(391)	(337)	(46)	9
Total comprehensive income		(116 783)	(110 184)	24 554	22 746

Interim condensed consolidated financial statements for the six months' period ended 30th June 2013 PLN thousand

Standalone balance sheet

	Note	As at 30 June 2013 (unaudited)	As at 31 December 2012 (audited)
ASSETS			
Non-current assets			
Property, plant and equipment	18	317	316
Intangible assets		1 324	1 327
Investment in subsidiaries, associates and joint ventures	12	879 475	1 021 820
Other non-financial assets (non-current0		878	846
		881 994	1 024 309
Current assets			
Trade and other receivables	16	33 218	29 790
Income tax receivables		1 133	1 822
Other financial assets	19	20 915	26 476
Other non-financial assets		409	764
Cash and cash equivalents	13	7 142	30 356
		62 818	89 208
TOTAL ASSETS		944 812	1 113 516
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent company			
Share capital	21.1	69 288	55 404
Share premium	21.4	652 662	580 878
Other reserves	21.5	147 871	200 407
Foreign currency translation	21.3	(297)	40
Retained earnings / Accumulated (unabsorbed) losses	21.6	(109 906)	13 471
Total equity		759 618	850 198
Non-current liabilities			
Borrowings, loans and bonds	20	150 930	128 300
Provisions		858	827
Deferred tax liabilities		1	1
Accruals and deferred income		1 671	1 974
		153 460	131 102
Current liabilities			
Borrowings, loans and bonds	19	3 960	98 260
Trade payables	22	21 870	29 037
Other current liabilities		3 267	1 680
Accruals and deferred income		2 637	3 239
		31 734	132 216
TOTAL LIABILITIES		185 194	263 318
TOTAL EQUITY AND LIABILITIES		944 812	1 113 516

Additional explanatory notes to the interim condensed quarterly consolidated financial statements, included on pages from 96 to 114 are its integral part.

Interim condensed consolidated financial statements for the six months' period ended 30th June 2013 PLN thousand

Standalone cash flow statement

	Note	6 months period ended 30 June 2013 (unaudited)	6 months period ended 30 June 2012 (unaudited)
Cash flow from operating activities			
Profit (loss) before taxation		(109 848)	22 736
Adjustments for:			
Depreciation		54	54
Gain / (loss) from foreign exchange differences		(342)	12
Impairment of non-current assets		194 274	-
Net interest and dividends		(3 223)	9 082
Increase / decrease in receivables and other non-financial assetsother non-financial assets		(3 461)	(34 014)
Increase / decrease in payables except for loans, borrowings and bonds		(5 580)	(1 826)
Change in accruals and prepayments		(549)	(1 744)
Change in provisions		31	(36)
Income tax paid		689	(304)
Increase / decrease in loans to subsidiaries		166	24 458
Net cash flow from operating activities		72 212	18 419
Cash flow from investing activities			
Purchase of property, plant and equipment and intangible assets		(46)	(38)
Increse of shares in subsidiaries	11	(14 673)	(27 222)
Acquisation of shares in subsidiary		(7 804)	-
Net cash flow from investing activities		(22 523)	(27 260)
Cash flow from financing activities			
Repayment of loans		(71 900)	-
Interest paid		(1 002)	(8 913)
Net cash flow from financing activities	13	(72 902)	(8 913)
Net increase/(decrease) in cash and cash equivalents		(23 214)	(17 754)
Cash and cash equivalents at the beginning of the period		30 356	23 760
Cash and cash equivalents at the end of the period	13	7 142	6 006

Interim condensed consolidated financial statements for the six months' period ended 30th June 2013 PLN thousand

Standalone statement of changes in equity

	Attributable to equity holders of the Company					
	Share capital	Share premium	Translation reserve	Other reserves	Retained earnings (losses)	Total equity
As at 1 January 2013	55 404	580 878	40	200 407	13 471	850 198
Foreign currency translation	-		(337)	-	-	(337)
Net profit/(loss) for the period	-	-	-	-	(109 848)	(109 848)
Total comprehensive income	-	-	(337)	-	(109 848)	(110 184)
Profit distribution	-	1 082	-	12 447	(13 529)	-
Issue of shares	13 884	70 702	-	(64 983)	-	19 603
As at 30 June 2013 (unaudited)	69 288	652 662	(297)	147 871	(109 906)	759 618

Additional explanatory notes to the interim condensed quarterly consolidated financial statements, included on pages from 96 to 114 are its integral part.

Interim condensed consolidated financial statements for the six months' period ended 30th June 2013 PLN thousand

	Attributable to equityholders of the Company					
	Share capital	Share premium	Translation reserve	Other reserves	Retained earnings (losses)	Total equity
As at 1 January 2012	554 035	80 062	(6)	120 276	25 820	780 188
Other comprehensive income for the period	-	-	9	-	-	9
Net profit for the period	-	-	-	-	22 736	22 736
Total comprehensive income	-	-	9	-	22 736	22 746
Profit distribution/ Decleared dividend	-	2 184	-	15 148	(27 305)	(9 973)
As at 30 June 2012 (unaudited)	554 035	82 247	3	135 424	21 252	792 961

Additional explanatory notes

1. General information

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

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

The interim condensed financial statements of the Company cover the 6-month period ended 30th June 2013 and contains comparative data for the 6-months' period ended 30th June 2012 and as on 31st December 2012.

Statement of comprehensive income, income statement and respective notes cover also the 3-months' period ended 30th June 2013 and contain comparative data for the 3-months' period ended 30th June 2012 – these data was not subject to review or audit by an independent auditor.

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

The Company was granted statistical REGON number 080262255.

The Company has an unlimited period of operation.

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

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

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

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

As on the date of authorization of these financial statements, in light of the current process of IFRS endorsement in the European Union and the nature of the Company activities, there is no difference between the IFRS applied by the Company and the IFRS endorsed by the European Union.

IFRS contain standards and interpretations approved by International Accounting Standards Board (IASB) and Standing Interpretation Committee (SIC).

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

The hereby interim half-yearly condensed consolidated financial statements have been prepared based on the assumption that the Company will continue as going concern in the foreseeable future.

As on 30th June 2013, the Group did not keep the levels of selected financial ratios as defined in loan agreements concluded with the consortium of banks (Pekao S.A., Bank Zachodni WBK S.A. and BRE Bank S.A.) and with Svenska Handelsbanken. The breach of financial ratios concerned net debt-to-EBITDA ratio for the whole Group as well as solidity ratio and interest coverage ratio for one of the paper mills.

Failure to keep the level of financial ratios defined in the loan agreement and leasing agreements, may give rise to breaches of the agreement and the loss of collateralized assets. The key issue for the possibility of continuation of the Company's business activities is financial liquidity. The Management Board has prepared financial forecasts comprising the second half of 2013 and the following years, including forecasted cash flows, based on key assumptions related to sustaining external sources of financing in the form of the existing bank loans. There are key forecasts risks connected with the adopted assumptions. Realization of these risks may cause substancial uncertainty regarding the possibility of the Company to continue its business activities. Therefore, the Management Board of the Company has initiated negotiations with banks aimed at receiving covenant waiver.

Until the day of publishing of the hereby report, the Group has not received covenant waiver but has not received any information confirming breach of the agreement, either. The Group has not received any notice for the dissolution of loan agreements or lease agreements. The Management Board expects to receive a proper covenant waiver within next three months.

Tu sum up, the key feature influencing the prosperity of the Management Board's proceedings is continuation of the currently existing loan agreements and lease agreements. Based on the financial forecasts prepared for the Group, which include assumption of continuation of the current sources of external financing, the Management Board has prepared the enclosed financial statements based on the assumption of business activities continuation.

In the same time, the Management Board of the Company has carried out an analysis, conclusion of which is that in case the bank loans have been brought in the state of maturity, the current cash flows from the operating activities supported by the current surplus of working capital will enable the Group to settle the liabilities until an alternative source of financing is obtained.

The interim half-yearly condensed consolidated financial statements do not include all the information and disclosures required in annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for year ended 31st December 2012, approved for publishing by the Management Board on 30th April 2013. The half-yearly financial result may not fully reflect the financial result possible in the financial year.

3. Identification of consolidated financial statements

The Company prepared interim condensed consolidated financial statements for the 6-months' period ended 30th June 2013, which has been approved for publishing by the Management Board on 30th August 2013.

4. Composition of the Management Board of The Company

As on 30th June 2013, the following constituted the Company's Management Board:

- Michał Jarczyński – President of the Management Board appointed on 30th April 2008;
- Michał Bartkowiak – Member of the Management Board appointed on 17th September 2009;
- Jacek Łoś – Member of the Management Board appointed on 27th April 2011;
- Per Skoglund – Member of the Management Board appointed on 27th April 2011.
- Wolfgang Lübbert – Member of the Management Board appointed on 5th June 2012;

On 18th June 2013, Mr Michał Jarczyński resigned from being the President of the Management Board effective on 15th July 2013 (current report 27/2013). On 18th June 2013, the Supervisory Board of the Company appointed Mr Wolfgang Lübbert as the President of the Management Board of Arctic Paper S.A. (current report 27/2013).

On 26th July 2013, Mr Michał Bartkowiak resigned from being a Member of the Management Board with immediate effect (current report 32/2013).

Since 30th June 2013 until the date of publishing of the hereby half-yearly interim condensed consolidated financial statements, there were no other changes in composition of the Management Board of the Company.

5. Composition of the Supervisory Board of the Company

As on 30th June 2013 the Company's Supervisory Board consisted of the following members:

- Rolf Olof Grundberg – President of the Supervisory Board appointed on 30th April 2008;
- Rune Roger Ingvarsson – Member of the Supervisory Board appointed on 22nd October 2008;
- Thomas Onstad – Member of the Supervisory Board appointed on 22nd October 2008;
- Fredrik Lars Plyhr – Member of the Supervisory Board appointed on 22nd October 2008;
- Mariusz Grendowicz - Member of the Supervisory Board appointed on 28th June 2012;

On 18th June 2013, Mr Jan Ohlsson resigned from being a Member of the Supervisory Board (current report 28/2012).

On 26th July 2013, Mr Fredrik Plyhr resigned from being a Member of the Supervisory Board (current report 33/2013).

Since 30th June 2013 until the date of publishing of the hereby re half-yearly interim condensed consolidated financial statements port, there were no other changes in composition of the Supervisory Board of the Company.

6. Approval of the financial statements

On 30th August 2013 the hereby interim condensed half-yearly financial statements of the Company for the six months' period ended 30th June 2013 was approved for publishing by the Management Board.

Interim condensed half-yearly standalone financial statements for the six months' period ended 30th June 2013 PLN thousand

7. Investments of the Company

The Company has investments in the following subsidiaries:

Entity	Registered office	Business activities	Share in capital of subsidiaries 30 August 2013	30 June 2013	31 December 2012
Arctic Paper Kostrzyn S.A.	Poland, Fabryczna 1, 66-470 Kostrzyn nad Odrą	Paper production	100%	100%	100%
Arctic Paper Munkedals AB	Sweden, SE 455 81 Munkedal	Paper production	100%	100%	100%
Arctic Paper Investment AB	Szwecja, Box 383, 401 26 Göteborg	Działalność spółek holdingowych	100%	100%	100%
Arctic Paper UK Limited	Great Britain, Quadrant House, 47 Croydon Road, Caterham, Surrey	Trading services	100%	100%	100%
Arctic Paper Baltic States SIA	Latvia, K. Vardemara iela 33-20, Riga LV-1010	Trading services	100%	100%	100%
Arctic Paper Benelux S.A.	Belgium, Dreve des Marroniers 28, 1410 Waterloo	Trading services	100%	100%	100%
Arctic Paper Schweiz AG	Switzerland, Technoparkstrasse 1, 8005 Zurich	Trading services	100%	100%	100%
Arctic Paper Italia srl	Italy, Milano – Via R. Boscovich 14	Trading services	100%	100%	100%
Arctic Paper Ireland Limited	Ireland, 4 Rosemount Park Road, Dublin 11	Trading services	100%	100%	100%
Arctic Paper Danmark A/S	Denmark, Jydekrogen 18, DK-2625 Vallensbaek	Trading services	100%	100%	100%
Arctic Paper France SAS	France, 43 rue de la Breche aux Loups,	Trading services	100%	100%	100%
Arctic Paper Espana SL	Spain, Avenida Diagonal 472-474, 9-1 Barcelona	Trading services	100%	100%	100%
Arctic Paper Papierhandels GmbH	Austria, Hainborgerstrasse 34A, A-1030 Wien	Trading services	100%	100%	100%
Arctic Paper Polska Sp. z o.o.	Poland, Biskupia 39, 04-216 Warszawa	Trading services	100%	100%	100%
Arctic Paper Norge AS	Norway, Per Kroghsvei 4, Oslo	Trading services	100%	100%	100%
Arctic Paper Sverige AB	Szweden, Kurodsvagen 9, 451 55 Uddevalla	Trading services	100%	100%	100%
Arctic Paper East Sp. z o.o.	Poland, Fabryczna 1, 66-470 Kostrzyn nad Odrą	Trading services	100%	100%	100%
Arctic Paper Investment GmbH	Germany, Fabrikstrasse 62, DE-882, 84 Wolpertswende	Holding company	100%	100%	100%
Rottneros AB	Sweden, 107 24 Stockholm	Holding company	54,20%	54,20%	39,66%

As on 30th June 2013 and 31st December 2012, the percentage of voting rights held by the Company in subsidiaries corresponds to the percentage held in the share capital of those entities.

8. Significant accounting principles

The accounting policies adopted in the preparation of the interim condensed half-yearly financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31st December 2012, except for application of changes in standards and new interpretations binding for yearly periods beginning on 1st January 2013.

The Company has adopted for the first time, starting from 1st January 2013, other new standards/amendments to existing standards, which did not influence changes of the current interim condensed financial statements and comparative data.

New standards/amendments to existing standards, introduced from 1st January 2013, are as following:

- Changes to IAS 19 *Employee Benefits* – applicable for annual periods beginning on 1st January 2013 or later,

The adoption of these changes did not influence the financial situation nor the value of the Company's comprehensive income.

- Changes to IAS 1 *Presentation of items of other comprehensive income* - applicable for annual periods beginning on 1st July 2012 or later,

The adoption of these changes did not influence the financial situation nor the value of the Company's comprehensive income.

- Amendments to IAS 12 *Income Tax: Deferred Tax: Recovery of Underlying Assets* – effective for financial years beginning on or after 1st January 2012 – in EU effective at the latest for financial years beginning on or after 1st January 2013,

The adoption of these changes did not influence the financial situation, the Company's financial results nor the scope of information presented in the Company's financial statements.

- Amendments to IFRS 1 First–time Adoption of International Financial Reporting Standards: *Severe Hyperinflation and Removal of Fixed Dates for First–time Adopters* – effective for financial years beginning on or after 1st July 2011 – in EU effective at the latest for financial years beginning on or after 1st January 2013,

Amendments to IFRS 1 did not concern the Company.

- IFRS 13 *Fair Value Measurement* - effective for financial years beginning on or after 1st January 2013,

The adoption of IFRS 13 did not influence the financial situation, the Company's financial results nor the scope of information presented in the Company's financial statements.

- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* - effective for financial years beginning on or after 1st January 2013,

The interpretation does not concern the Company.

- Amendments to IFRS 7 *Financial Instruments – Disclosures: Offsetting Financial Assets and Financial Liabilities* - effective for financial years beginning on or after 1st January 2013,

The amendments introduce additional disclosures of quantity and quality related to transfers of financial assets, if:

- financial assets are fully removed from balance sheet but the entity keeps involvement in these assets (for example, by options or guarantees concerning transferred assets),
- financial assets are not fully removed from balance sheet.

The adoption of these changes did not influence the financial situation nor the Company's financial results.

- Amendments to IFRS 1 *First–time Adoption of International Financial Reporting Standards: Government Loans* – effective for financial years beginning on or after 1st July 2013,

Amendments to IFRS 1 did not concern the Company.

- Improvements to IFRS (issued in May 2012) – effective for financial years beginning on or after 1st January 2013,

IAS 1 – The amendment explains the difference between the voluntarily presented additional comparative data and the required minimum of comparative data, IAS 16 – The amendment explains that main service parts and service equipment which fulfills the criteria of property, plant & equipment definition are not inventories,

IAS 32 – The amendment removes the hitherto existing requirements concerning recognition of tax from IAS 12 and requests for application of IAS 12 in relation to income tax resulting from distribution to owners of financial instruments.

IAS 34 – The amendment explains the requirements of IAS 34 concerning information regarding total value of assets and liabilities of each reporting segment for the purpose of enhancing cohesion with requirements of IFRS 8 Operating segments. Pursuant to the amendment, the total value of assets and liabilities of the particular operating segment has to be disclosed only if: the values are being regularly reported to main operating decision-maker of the entity and a material change occurred of the total value of assets and liabilities disclosed in the previous annual financial statements for this segment.

The adoption of these changes did not influence the financial situation, the Company's financial results nor the scope of information presented in the Company's financial statements.

Moreover, as described in annual consolidated financial statements for 2012 (note 7), the Group decided to early (starting on 1st January 2012) adopt, in compliance with transition guidance, the following standards:

- IFRS 10 Consolidated financial statements applicable to annual periods beginning on or after 1st January 2013 – in EU applicable to annual periods beginning no later than 1st January 2014 or later.
- IFRS 11 Joint arrangements – applicable to annual periods beginning on or after 1st January 2013 – in EU applicable to annual periods beginning no later than 1st January 2014 or later.
- IFRS 12 Disclosure of Interests in Other Entities – effective for financial years beginning on or after 1st January 2013 – in EU effective at the latest for financial years beginning on or after 1st January 2014,
- IAS 27 Separate Financial Statements – effective for financial years beginning on or after 1st January 2013 – in EU effective at the latest for financial years beginning on or after 1st January 2014,
- IAS 28 Investments in Associates and Joint Ventures – effective for financial years beginning on or after 1st January 2013 – in EU effective at the latest for financial years beginning on or after 1st January 2014,
- Changes to IFRS 10, IFRS 11 and IFRS 12 Transition Guidance - effective for financial years beginning on or after 1st January 2013.

The adoption of these changes did not influence the financial situation nor the Company's financial results.
The Group has not early adopted any other standard, interpretation or amendment that was issued but is not yet effective.

9. Seasonality

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

10. Business segments information

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

The table below presents geographical split of revenue from services sales, interest on borrowings and income from dividends for the 6-months' periods ended 30th June 2013 and 30th June 2012.

Interim condensed half-yearly standalone financial statements for the six months' period ended 30th June 2013 PLN thousand

	Continuing operations	
	6 months period ended 30 June 2013 (unaudited)	6 months period ended 30 June 2012 (unaudited)
Segment information		
Poland	85 308	51 234
Foreign countries:		
- Sweden	14 194	21 682
- Germany	14	24
- Other	11	639
Total	99 527	73 580

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

The greatest influence on the increase of revenue on service rendered by the Company in the first half of 2013, compared to analogous period of the previous year, was due to revenue on agency services concerning pulp procurement for the Group companies. The Company started to render agency services concerning pulp procurement in the beginning of the second half of 2012.

11. Income and cost

11.1. Interest income and interest cost

Interest income comprises income arising from interest on loans granted to other companies of the Group. Decline of this income in the first half of 2013, compared to the analogous period of the previous year, results from allowances on the loan to Arctic Paper Investment AB recognized in the amount of PLN 9,846 thousand as a decrease of interest income and allowances on loans and shares in Arctic Paper Investment GmbH and Arctic Paper Mochenwangen GmbH recognized in the amount of PLN 610 thousand, also as a decrease of interest income.

Interest cost comprises cost arising from interest on loans received from other companies of the Group.

11.2. Other operating cost

Other operating cost totaled PLN 186,311 thousand in the first half of 2013. They result mainly from impairment of loans granted to Arctic Paper Investment AB in the amount of PLN 124,854 thousand and from impairment of shares in Arctic Paper Investment GmbH for the total amount of PLN 59,574 thousand (allowance for loans granted to Arctic Paper Investment GmbH and Arctic Paper Mochenwangen GmbH, recognized in other operating costs, amounted in the first half of 2012 to PLN 26,265 thousand), as well as from allowance for trade receivables from Arctic Paper Investment GmbH (PLN 192 thousand) and Arctic Paper Mochenwangen GmbH (PLN 1,091 thousand).

Interim condensed half-yearly standalone financial statements for the six months' period ended 30th June 2013 PLN thousand

12. Investments in subsidiaries

The value of investments in subsidiaries as on 30th June 2013 and 31st December 2012 presented as below:

	As at 30 June 2013 (unaudited)	As at 30 June 2012 (audited)
Arctic Paper Kostrzyn S.A.	442 535	442 535
Arctic Paper Munkedals AB	88 175	88 175
Arctic Paper Investment AB, whereof:	217 858	342 712
Arctic Paper Investment AB (shares)	*34 169*	*34 168*
Arctic Paper Investment AB (loans)	*318 390*	*308 544*
Arctic Paper Investment AB (impairment)	*(134 700)*	-
Arctic Paper Investment GmbH	0	44 901
Arctic Paper Investment GmbH (shares)	*69 574*	*54 202*
Arctic Paper Investment GmbH (impairment)	*(69 574)*	*54 202*
Arctic Paper Sverige AB	11 721	11 721
Arctic Paper Danmark A/S	5 539	5 539
Arctic Paper Norge AS	3 194	3 193
Arctic Paper Italy srl	738	738
Arctic Paper UK Ltd.	522	522
Arctic Paper Polska Sp. z o.o.	406	406
Arctic Paper Benelux S.A.	387	387
Arctic Paper France SAS	326	326
Arctic Paper Espana SL	196	196
Arctic Paper Papierhandels GmbH	194	194
Arctic Paper East Sp. z o.o.	102	102
Arctic Paper Baltic States SIA	64	64
Arctic Paper Schweiz AG	61	61
Arctic Paper Ireland Ltd.	3	3
Rottneros AB	107 455	80 046
Total	**879 475**	**1 021 820**

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

In the first half of 2013, Arctic Paper S.A. performed increase of reserve capital in Arctic Paper Investment GmbH in the amount of EUR 3,400 thousand. The value of shares in Arctic Paper Investment increase under these transactions by PLN 14,672 thousand up to PLN 69,574 thousand. However, in its accounting books Arctic Paper S.A. reports value of shares in Arctic Paper Investment GmbH in the amount of PLN 0 thousand because of the impairment allowance performed in 2013 in the amount of PLN 59,574 thousand (the amount of PLN 10,000 was written off in 2012).

Moreover, the Company performed an allowance of loans treated as shares in Arctic Paper Investment AB in the amount of PLN 134,700 thousand. The allowance is a result of an impairment test performed, as described in details in note 14.2 to the interim condensed consolidated financial statements.

Interim condensed half-yearly standalone financial statements for the six months' period ended 30th June 2013 PLN thousand

13. Cash and cash equivalents

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

	As at 30 June 2013 (unaudited)	As at 30 June 2012 (unaudited)
Cash at bank and in hand	5 142	2 877
Short-term deposits	2 000	3 129
Total	7 142	6 006

14. Dividend paid and proposed

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

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

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

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

On 28th June 2013, Ordinary Shareholders Meeting adopted resolution no 6 regarding distribution of profit for financial year 2012 in which a part of profit for financial year 2012 in the amount of PLN 1,082 thousand was assigned, in compliance with Commercial Companies Code, to reserve capital, while in the amount of PLN 12,447 thousand to reserve capital, with the possibility of future use of this amount for dividend payment or other legally permissible purpose.

The Shareholders Meeting did not decide for dividend payment.

15. Dividends received

Until 30th June 2013 there were resolutions adopted by subsidiaries regarding payment of dividend in the amount of PLN 60,115 thousand. Until the day of approving of the hereby report in the account of the Company there were credits from dividends of PLN 141 thousand. Dividend proposed by Arctic Paper Kostrzyn S.A. in the amount of PLN 59,974 thousand was, based on the agreement date 20th June 2013 for the compensation of mutual debts, compensated with the following debts:

- Capital on the grounds of the agreement of debt repayment dated 22nd June 2011 in the amount of PLN 6,519 thousand,
- Interest on the grounds of the agreement of debt repayment dated 22nd June 2011 in the amount of PLN 2,434 thousand,

- Capital on the grounds of the loan agreement dated 27th November 2012 in the amount of PLN 49,071 thousand,
- Interest on the grounds of the loan agreement dated 27th November 2012 for the amount of capital set to PLN 1,950 thousand.

Moreover, in the dividend amount recognized in the financial statements included was the income on the grounds of a redeemed loan taken from Arctic Paper Kostrzyn S.A. in the amount of PLN 15,000 thousand.

16. Trade receivables and other receivables

The increase of trade receivables and other receivables reported as on 30th June 2013, compared to the corresponding period of the previous year (increase of PLN 4,712 thousand), results mainly from the invoices issued for pulp sales to Arctic Paper Kostrzyn S.A. and for agency services in negotiating pulp procurement to paper mills of the Group. This position was on the other hand decreased by the amount of PLN 1,283 thousand – allowance for trade receivables of Arctic Paper Investment GmbH and Arctic Paper Mochenwangen GmbH.

17. Income tax

Due to the uncertainty regarding the possible utilization in the next years of tax losses incurred in years 2008-2012 the Management decided that no deferred tax asset will be recognized for that purpose. Additionally, for the same reason as above, the Management Board decided that it will not recognize deferred tax asset for other temporary differences.

Because of the tax losses from previous years the Company did not pay corporate income tax in six months of 2013.

18. Property, plant & equipment

18.1. Purchase and sales

During the 6-months' period ended 30th June 2013, the Company acquired items of property, plant and equipment with a value of PLN 46 thousand. During the 6-months period ended 30th June 2012, the Company acquired items of property, plant and equipment with a value of PLN 38 thousand. Both during the 6-months period ended 30th June 2013 as well as during the 6-months period ended 30th June 2012, the Company did not sale any items of property, plant & equipment.

18.2. Impairment and other allowances

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

19. Other financial assets

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

In the first half of 2013, Arctic Paper Munkedals AB partially repaid a loan in the amount of PLN 5,820 thousand.

20. Interest bearing loans, borrowings and bonds

On 27th November 2012, the Company concluded a loan agreement with Arctic Paper Kostrzyn S.A., to borrow the amount of PLN 200,000 thousand fully purposed for repayment of bonds series 1/2012 and 1/2011 issued by the Company. In the first half of 2013, the Company received, under the agreement, the second tranche in the amount of PLN 71,700 thousand and this amount was fully utilized for the repayment of bonds.

On 25th February 2013, The Company fully cleared the liabilities on grounds of bonds (PLN 71,900 thousand together with PLN 3,305 thousand of interest).

On 20th June 2013 the Company concluded an agreement with Arctic Paper Kostrzyn S.A. for the compensation of mutual debts, based on which the amount of dividend proposed by Arctic Paper Kostrzyn of PLN 59,974 thousand was compensated with the following debts:

- Capital on the grounds of the agreement of debt repayment dated 22nd June 2011 in the amount of PLN 6,519 thousand,
- Interest on the grounds of the agreement of debt repayment dated 22nd June 2011 in the amount of PLN 2,434 thousand,
- Capital on the grounds of the loan agreement dated 27th November 2012 in the amount of PLN 49,071 thousand,
- Interest on the grounds of the loan agreement dated 27th November 2012 for the amount of capital set to PLN 1,950 thousand.

Interim condensed half-yearly standalone financial statements for the six months' period ended 30th June 2013 PLN thousand

21. Share capital and supplementary/reserve capitals

21.1. Share capital

	As at 30 June 2013 (unaudited)	As at 31 December 2012 (audited)
'A' class ordinary shares of PLN 1 each	50	50
'B' class ordinary shares of PLN 1 each	44 254	44 254
'C' class ordinary shares of PLN 1 each	8 100	8 100
'E' class ordinary shares of PLN 1 each	3 000	3 000
'F' class ordinary shares of PLN 1 each	13 884	-
	69 288	55 404

	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 2013 (unaudited)		69 287 783	69 287 783

21.2. Shareholders with significant shareholding

	As at 30 June 2013 (unaudited)	As at 31 December 2012* (audited)	As at 31 December 2012 (audited)
Trebruk AB (previously Arctic Paper AB)			
Share in equity	59,82%	62,79%	74,96%
Share in votes	59,82%	62,79%	74,96%
Nemus Holding AB			
Share in equity	8,45%	8,82%	-
Share in votes	8,45%	8,82%	-
Other shareholders			
Share in equity	31,72%	28,39%	25,04%
Share in votes	31,72%	28,39%	25,04%

*number of Arctic Paper S.A. shares including capital increase of 10,740,983 series F shares as mentioned in the Resolution of the Extraordinary Shareholders Meeting dated 3rd December 2012, and registered by National Court Register on 10th January 2013.

21.3. Exchange differences on translation of foreign operations

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

As on the balance sheet date assets and liabilities of foreign branch are translated into functional currency using the foreign exchange rate prevailing on the balance sheet date and its statement of comprehensive income is translated to functional currency using weighted average exchange rate for particular reporting period. The exchange differences arising on the translation are presented in other comprehensive income and accumulated in equity and recognized in a separate position.

21.4. Share premium

During the 6-months' period ended 30th June 2013 share premium increased by PLN 71,784 thousand and as on 30th June 2013 amounted to PLN 652,662 thousand.

The increase of share premium was influenced mostly by the issue of 13,884,283 series F shares in 2012 and 2013 (registration of all issues was performed in 2013) for the purpose of financing purchase of Rottneros AB shares. As a result of the issue share premium increased by the excess of the issue price over par value (agio) in the amount of PLN 70,702 thousand.

Additional increase of share premium by the amount of PLN 1,082 thousand results from distribution of standalone net profit for the year 2012, in compliance with Resolution no 6 of the Ordinary Shareholders Meeting dated 28th June 2013.

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21.5. Other reserve capitals

Other reserve capitals amounted to PLN 147,871 thousand as on 30th June 2013 and decreased by PLN 52,536 thousand compared to 31st December 2012. The changes of value of other reserve capitals resulted from settlement of partial issue of series F shares, which as on 31st December 2012 was not registered in National Court Register, in the amount of PLN 64,983 thousand, and from distribution of profit for 2012 in the amount of PLN 12,447 thousand.

21.6. Undistributed financial result and limitations in dividend payment

In accordance with the provisions of the Code of Commercial Companies the Company is required to create reserve capital to cover losses. At least 8% of net result for the financial year is transferred to this capital until the balance of the reserve capital reaches at least one third of the share capital of the company. Appropriation of the supplementary capital and reserve capital depends on the decision of the Shareholders' Meeting; however, a portion of the supplementary capital may be used solely to cover of losses reported in financial statements and shall not be distributed to any other purpose.

On 28th June 2013 the Ordinary Shareholders Meeting adopted resolution no 6 regarding distribution of profit for financial year 2012 in which a part of profit for financial year 2012 in the amount of PLN 1,082 thousand was assigned in accordance with Code of Commercial Companies to supplementary capital, while the rest of undistributed net profit in the amount of PLN 12,447 thousand was assigned to reserve capital with the possibility of future use of this amount to pay dividend or for other legally acceptable purpose.

Interim condensed half-yearly standalone financial statements for the six months' period ended 30th June 2013 PLN thousand

22. Trade liabilities

Significant decrease of trade liabilities of the Company, compared to as at the end 2012, results mainly from accumulation of invoices in the end of 2012, issued to the Company on the grounds of advisory services in the process of Rottneros AB acquisition and introduction to NASDAQ OMX stock exchange.

23. Financial instruments

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

23.1. Fair value of individual classes of financial instruments

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

	Category complaint with IAS 39	Book value As at 30 June 2013	Book value As at 31 December 2012	Fair value As at 30 June 2013	Fair value As at 31 December 2012
Financial Assets					
Other financial assets (long-term)	*L&R*	-	-	-	-
Trade and other receivables	*L&R*	33 198	30 790	33 198	30 790
Other financial assets (short-term)	*L&R*	20 915	26 476	20 915	26 476
Cash and cash equivalents	*FVTPL*	7 142	30 356	7 142	30 356
Financial Liabilities					
Interest bearing bank loans and borrowings	*OFL*	154 889	152 356	154 889	152 356
Bonds, therein:					
- long-term bonds with coupon	*OFL*	-	-	-	-
- short-term bonds with coupon	*OFL*	-	74 204	-	74 204
Trade and other financial payables	*OFL*	24 378	29 037	24 378	29 037

Used abbreviations:
HTM - Financial assets held to maturity
FVTPL - Financial assets/liabilities measured at fair value through profit & loss
L&R - Loans and receivables
AFS - Financial assets available for sale
OFL - Other financial liabilities measured at amortized cost

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

23.2. Interest rate risk

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

30 June 2013

Floating rate	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Cash assets	2 000	-	-	-	-	-	2 000
Loans granted to related parties	23 675	-	183 690	-	-	-	207 365
Loans received from related paries	-	-	-	154 889	-	-	154 889
Total	25 675	-	183 690	154 889	-	-	364 254

31 December 2012

Floating rate	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Cash assets	10 000	-	-	-	-	-	10 000
Loans granted to related parties	26 465	11	-	308 544	-	-	335 020
Loans received from related paries	23 782	-	-	-	128 300	-	152 082
Bonds 2/2010 series (three-years)	51 189	-	-	-	-	-	51 189
Bonds 1/2011 series (two-years)	23 015	-	-	-	-	-	23 015
Total	134 451	11	-	308 544	128 300		571 306

24. Financial risk management objectives and principles

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

The principle used by Company currently and throughout the whole period covered by these interim condensed half-yearly financial statements is not putting the financial instruments on the market.

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

The Management Board reviews and agrees policies for managing each of these risks – these principles are presented below. The Company is also monitoring the risk of market prices of its financial instruments.

25. Capital management

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

In the opinion of the Management Board there were no significant changes compared to annual statement for 2012 in objectives and principles of capital management.

26. Contingent liabilities and contingent assets

Contingent liabilities of the Company relate to the guarantee of a bank loan taken by Arctic Paper Kostrzyn S.A. on 6th November 2012 in consortium of banks: Polska Kasa Opieki S.A., Bank Zachodni WBK S.A. and BRE Bank S.A. (the loan agreement has been described in details in note 32.1 to annual consolidated financial statements for 2012).

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27. Related party transactions

The table below presents the total values of transactions with related parties conducted during the 6-months' periods ended 30th June 2013 and 30th June 2012 and as on 30th June 2013 and 31st December 2012:

Related party		*Sales to related parties*	*Purchases from related parties*	*Interest – financial revenues*	*Interest – financial costs*	*Receivables from releated parties*	*Borrowings receivables*	*Payables related parties*	*Borrowings payables*
Parent company:									
Arctic Paper AB	2013					3 948			
	2012					3 892			
Nemus Holding AB	2013								
	2012							47	
Subsidiaries:									
Arctic Paper Kostrzyn S.A.	2013	70 167	22		5 831	23 461		302	154 889
	2012	4 021	46		751	42 536			23 056
Arctic Paper Munkedals AB	2013	6 573		568		2 515	20 431		
	2012	4 415	14	987		1 561	27 658	1 466	
Arctic Paper Grycksbo AB	2013	7 053				2 662		513	
	2012	4 314	108			1 138			
Arctic Paper Mochenwangen GmbH	2013	25							
	2012	24		71		338	5 534		
Arctic Paper Investment GmbH	2013			598			39 851		
	2012			699		3 827	29 795		
Arctic Paper Investment AB	2013			9 846		25	318 390		
	2012			11 965		24	296 700		
Arctic Paper Deutschland GmbH	2013	20	33						
	2012	26							
Arctic Paper Papierhandels GmbH	2013	11							
	2012	-							
Arctic Paper Sverige AB	2013	20							
	2012	34	1					1	
Arctic Paper Danmark A/S	2013	13							
	2012	13							
Arctic Paper Norge AS	2013	14							
	2012	11							
Arctic Paper Italia srl	2013	6		11			440		
	2012	6							
Arctic Paper Espana SL	2013	4							
	2012	5							
Arctic Paper Benelux S.A.	2013	12							
	2012	16							
Arctic Paper France SAS	2013	17							
	2012	21							
Arctic Paper Baltic States SIA	2013	3							
	2012	4							
Arctic Paper Schweiz AG	2013	8							
	2012	9							
Arctic Paper UK Ltd.	2013	14							
	2012	15	1						
Arctic Paper Ireland Ltd.	2013						12		
	2012						12		
Arctic Paper Polska Sp. z o.o.	2013	153							
	2012	14	2						
Arctic Paper East Sp. z o.o.	2013	2				16			
	2012	3				66			
Arctic Energy Sverige AB	2012					392			
	2011					62			
Other entities									
IPM Sp.z o.o. Sp.k.	2013		4 312					2 500	
	2012		438						
Galileus Sp.z o.o. Sp.k.	2013		247					-	
	2012		71					2	
Total	**2013**	**84 245**	**4 614**	**11 024**	**5 831**	**33 020**	**379 123**	**3 315**	**154 889**
	2012	**13 028**	**681**	**13 722**	**751**	**53 521**	**359 698**	**1 516**	**23 056**

The allowance related to interest on loans granted to Arctic Paper Investment GmbH decreased revenue on interest calculated in 2013 referring to this company in the amount of PLN 610 thousand.

28. Events after the reporting period

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

Signatures of the Members of the Management Board

Position	Name and surname	Date	Signature
President of the Management Board Chief Executive Officer	Wolfgang Lübbert	30 August 2013	
Member of the Management Board Chief Operating Officer	Per Skoglund	30 August 2013	
Member of the Management Board Chief Procurement Officer	Jacek Łoś	30 August 2013	

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