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ARCTIC PAPER S.A. CAPITAL GROUP  
Consolidated quarterly report  
first quarter of the year 2013

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.

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; Utansjö 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 (former 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	Extraordinary Shareholders Meeting of Arctic Paper S.A.
Articles of Association, Issuer's Articles	Articles of Association of Arctic Paper S.A.

of Association, Company's Articles of Association

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
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	10,740,983, as on 31st December 2012 Arctic Paper S.A. Series F Shares with a par value of 1 PLN each

## 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.

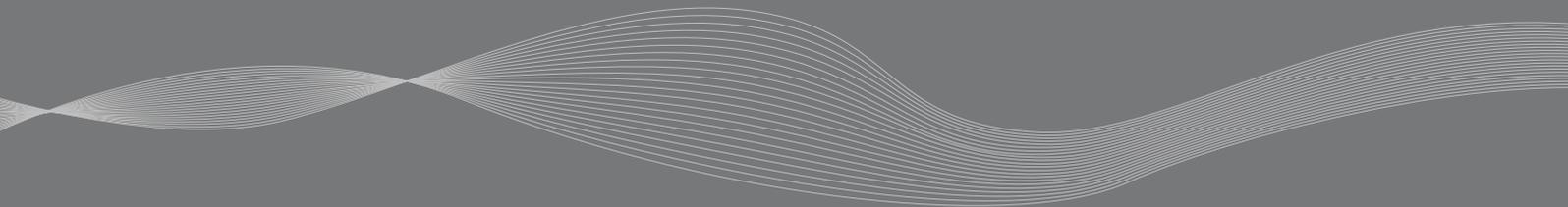
## Statements concerning risk factors

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 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 quarter 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 quarter of 2013 totaled PLN 814 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 31st March 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 31st March 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-fibre sulphate pulp: fully bleached sulphate pulp and unbleached sulphate

pulp. The most of Vallvik pulp mill production is known as NBSK pulp. The unbleached sulphate pulp produced by the mill is 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 the hereby quarterly report, in note 2 to the interim condensed consolidated financial statements.

## Changes in the capital structure of the Arctic Paper Group

In the first quarter 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 31st March 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.

Nemus Holding 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

Shareholder	as at 15.05.2013				as at 30.04.2013			
	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%
<b>Total</b>	<b>69 287 783</b>	<b>100,00%</b>	<b>69 287 783</b>	<b>100,00%</b>	<b>69 287 783</b>	<b>100,00%</b>	<b>69 287 783</b>	<b>100,00%</b>
Own shares	-	0,00%	-	0,00%	-	0,00%	-	0,00%
<b>Total</b>	<b>69 287 783</b>	<b>100,00%</b>	<b>69 287 783</b>	<b>100,00%</b>	<b>69 287 783</b>	<b>100,00%</b>	<b>69 287 783</b>	<b>100,00%</b>

Data in the above table are given as on the date of publishing of the hereby report and as on the date of signing of the annual report for 2012.

## Summary of consolidated financial results

### Consolidated income statement

#### Selected items of the consolidated income statement

PLN thousands	1Q	4Q	1Q	YTD 1Q	YTD 1Q	Change %	Change %	Change %
	2013	2012	2012	2013	2012	1Q'2013/ 4Q'2012	1Q'2013/ 1Q'2012	YTD1Q'2013/ YTD1Q'2012
<b>Revenues</b>	<b>814 405</b>	<b>615 106</b>	<b>680 420</b>	<b>814 405</b>	<b>680 420</b>	<b>32,4</b>	<b>19,7</b>	<b>19,7</b>
<i>including:</i>								
Sales of paper	656 968	615 106	680 420	656 968	680 420	6,8	(3,4)	(3,4)
Sales of pulp	157 438	-	0	157 438	0	n.d.	n.d.	n.d.
Gross profit on sales	89 421	(167 858)	114 553	89 421	114 553	(153,3)	(21,9)	(21,9)
Gross profit on sales margin %	10,98	(27,29)	16,84	10,98	16,84	38,3 p.p.	(5,9) p.p.	(5,9) p.p.
Sales costs	(79 616)	(76 338)	(77 807)	(79 616)	(77 807)	4,3	2,3	2,3
Administrative expenses	(21 099)	(32 645)	(17 757)	(21 099)	(17 757)	(35,4)	18,8	18,8
Other operating income	26 585	222 678	19 344	26 585	19 344	(88,1)	37,4	37,4
Other operating cost	(14 979)	(13 892)	(15 023)	(14 979)	(15 023)	7,8	(0,3)	(0,3)
<b>EBIT</b>	<b>312</b>	<b>(68 054)</b>	<b>23 311</b>	<b>312</b>	<b>23 311</b>	<b>(100,5)</b>	<b>(98,7)</b>	<b>(98,7)</b>
EBIT margin %	0,04	(11,06)	3,43	0,04	3,43	11,1 p.p.	(3,4) p.p.	(3,4) p.p.
<b>EBITDA</b>	<b>32 368</b>	<b>212 050</b>	<b>53 734</b>	<b>32 368</b>	<b>53 734</b>	<b>(84,7)</b>	<b>(39,8)</b>	<b>(39,8)</b>
EBITDA margin %	3,97	34,47	7,90	3,97	7,90	(30,5) p.p.	(3,9) p.p.	(3,9) p.p.
Financial income	2 590	488	266	2 590	266	431,2	873,0	873,0
Financial cost	(8 374)	(9 088)	(13 796)	(8 374)	(13 796)	(7,9)	(39,3)	(39,3)
<b>EBT</b>	<b>(5 471)</b>	<b>(76 654)</b>	<b>9 781</b>	<b>(5 471)</b>	<b>9 781</b>	<b>(92,9)</b>	<b>(155,9)</b>	<b>(155,9)</b>
Corporate income tax	(609)	79 161	(170)	(609)	(170)	(100,8)	258,0	258,0
<b>Net profit</b>	<b>(6 080)</b>	<b>2 507</b>	<b>9 611</b>	<b>(6 080)</b>	<b>9 611</b>	<b>(342,5)</b>	<b>(163,3)</b>	<b>(163,3)</b>
Net profit margin %	(0,75)	0,41	1,41	(0,75)	1,41	(1,2) p.p.	(2,2) p.p.	(2,2) p.p.

#### Commentary of the President of the Management Board Michał Jarczyński to the results for the first quarter of the year 2013.

The first quarter of 2013 was characteristic of demand for fine papers decrease, both in the segment of coated papers and of uncoated papers. After profound decline of sales in December 2012, sales in January 2013 allowed for partial recovery of the market position. Based on January's rejuvenation we announced paper prices increase. The second half of the quarter brought significant drop of demand and, consequently, pressure on sales prices. As a result, paper prices, compared to the fourth quarter of 2012, decreased by app. 1% in local currencies. In Swedish mills the decrease amounted to 2-3%

due to continuing depreciation of Euro toward Swedish crown. The company managed to maintain sales volume and achieve high use of production capacities. The prices of main raw material – pulp – during the first quarter of 2013 increased by app. USD 25 per ton. These adverse factors caused the decrease of EBITDA to PLN 32 million, which is app. 40% drop compared to the first quarter of 2012. In the first quarter of 2013, the Group recorded net loss in the amount of PLN 6 million. A decision was made to speed up restructuring of Grycksbo mill. It will comprise, among others, decrease of

employment by 45 people. In the end of February, Arctic Paper

Group repaid liabilities on bonds issued in 2010 and 2011.

## Revenue

In the first quarter of 2013 consolidated sales revenue amounted to PLN 814,405 thousand compared to PLN 680,420 thousand in the same period of the previous year. This represents an increase by PLN 133,985 thousand and accordingly by 19.7%.

In the first quarter of 2013 sales revenues less of Rottneros Group (acquired in December 2012) sales amounted to

PLN 656,968 thousand which means a decrease of PLN 23,452 thousand and respectively 3.4%.

Sales volume in the first quarter of 2013 amounted to 204 thousand tons compared to 203 thousand tons in the same period of the previous year. The change represents an increase of 1 thousand tons and 0.5%.

## Profit on sales, sales costs and administrative expenses

Profit on sales in the first quarter of year 2013 amounted to PLN 89,421 thousand and was 21.9% lower compared to the same period of the previous year. The gross profit on sales margin in the current quarter stood at 11.0% compared to 16.8% (-5.9 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 quarter of 2013, compared to the analogous period of the previous year, was the decrease of sales prices of paper and NBSK pulp, unfavorable EUR/SEK exchange rates levels

and the increase of BHKP pulp prices, which had a negative impact on the mills' results.

In the first quarter of 2013, sales costs amounted to PLN 79,616 thousand, which represents an increase by 2.3% compared to the costs incurred in the first quarter of 2012.

In the first quarter of 2013 the administrative expenses amounted to PLN 21,099 thousand compared to PLN 17,757 thousand in analogous period of 2012. It results mainly from costs of the acquisition of Rottneros AB incurred in 2013.

## Other operating income and cost

Other operating income in the first quarter of 2013 amounted to PLN 26,585 thousand, which means an increase compared to the same period of the previous year by PLN 7,241 thousand.

The increase of other operating income results from income of Rottneros Group in the amount of PLN 8,500 thousand. The other operating income consists mainly of revenue from heat

and electricity sales as well as revenue from sales of other materials in AP Kostrzyn.

In the first quarter of 2013 other operating expenses amounted to PLN 14,979 thousand compared to PLN 15,023 thousand in the first quarter of 2012. Other operating expenses comprise mainly costs of electricity and heat sold as well as the costs of other materials sold.

## Financial income and financial cost

In the first quarter of 2013 financial income amounted to PLN 2,590 thousand and was higher than the income in the same period of 2012 by PLN 2,324 thousand. Higher financial income in the first quarter of 2013 resulted mainly from the excess of positive exchange differences over negative exchange differences which was presented net as financial income. The positive exchange differences excess recognized in the first quarter of 2013 amounted to PLN 2,199 thousand.

Financial cost in the first quarter of 2013 amounted to PLN 8,374 thousand compared to PLN 13,796 thousand incurred in the first quarter of 2012. Higher financial costs in the first quarter of 2012 resulted mainly from the excess of negative exchange differences over positive exchange differences in the amount of PLN 3,819 thousand.

## Income tax

Income tax in the first quarter of 2013 amounted to PLN -609 thousand, while in analogous period of 2012 amounted to PLN -170 thousand.

Current income tax in the analyzed period amounted to PLN

-141 thousand, while the deferred part amounted to PLN -468 thousand. In the first quarter of the previous year it was accordingly PLN -788 thousand and PLN +618 thousand.

## Profitability analysis

Result on operating activities in the first quarter of 2013 amounted to PLN +312 thousand compared to PLN +23,311 thousand in analogous period of the previous year. These changes mean there was a decrease of operating profit margin from 3.43% in the first quarter of 2012 to 0.04% in the corresponding period of the current year.

EBITDA for the first quarter of 2013 amounted to PLN 32,368 thousand while in the same period of 2012 it amounted to PLN 53,734 thousand. In the reporting period EBITDA margin amounted to 3.97% compared to 7.90% in the analogous period of 2012.

Net loss in the current quarter of 2013 amounted to PLN 6,080 thousand compared to net profit of PLN 9,611 thousand in the first quarter of 2012. The net loss recorded in the first quarter of 2013 was a consequence of the decrease of sales profit margin due to the decrease of sales prices of paper and NBSK pulp, unfavorable EUR/SEK exchange rates levels and the increase of BHKP pulp prices, which had a negative impact on the mills' results.

## Profitability analysis

	1Q	4Q	1Q	YTD 1Q	YTD 1Q	Change %	Change %	Change %
<i>PLN thousands</i>	2013	2012	2012	2013	2012	1Q'2013/ 4Q'2012	1Q'2013/ 1Q'2012	YTD1Q'2013/ YTD1Q'2012
<b>Gross profit on sales</b>	89 421	(167 858)	114 553	89 421	114 553	(153,3)	(21,9)	(21,9)
<i>Gross profit on sales margin %</i>	10,98	(27,29)	16,84	10,98	16,84	38,3 p.p.	(5,9) p.p.	(5,9) p.p.
<b>EBITDA</b>	<b>32 368</b>	<b>212 050</b>	<b>53 734</b>	<b>32 368</b>	<b>53 734</b>	<b>(84,7)</b>	<b>(39,8)</b>	<b>(39,8)</b>
<i>EBITDA margin %</i>	3,97	34,47	7,90	3,97	7,90	(30,5) p.p.	(3,9) p.p.	(3,9) p.p.
<b>EBIT</b>	<b>312</b>	<b>(68 054)</b>	<b>23 311</b>	<b>312</b>	<b>23 311</b>	<b>(100,5)</b>	<b>(98,7)</b>	<b>(98,7)</b>
<i>EBIT margin %</i>	0,04	(11,06)	3,43	0,04	3,43	11,1 p.p.	(3,4) p.p.	(3,4) p.p.
<b>Net profit</b>	<b>(6 080)</b>	<b>2 507</b>	<b>9 611</b>	<b>(6 080)</b>	<b>9 611</b>	<b>(342,5)</b>	<b>(163,3)</b>	<b>(163,3)</b>
<i>Net profit margin %</i>	(0,75)	0,41	1,41	(0,75)	1,41	(1,2) p.p.	(2,2) p.p.	(2,2) p.p.
ROE - Return on equity (%)	(0,7)	0,3	1,5	(0,7)	1,5	(1,0) p.p.	(2,2) p.p.	(2,2) p.p.
ROA - Return on assets (%)	(0,3)	0,1	0,5	(0,3)	0,5	(0,4) p.p.	(0,8) p.p.	(0,8) p.p.

In the first quarter of 2013 return on equity amounted to -0.7% while in the first quarter of 2012 it amounted to +1.5%. Return on assets decreased in the discussed periods from +0.5% to -0.3%.

## Report on financial situation

### Selected items of the consolidated balance sheet

PLN thousands	31/03/2013	31/12/2012	31/03/2012	Change	Change
				31/03/2013	31/03/2013
				-31/12/2012	-31/03/2012
<b>Non-current assets</b>	<b>1 087 627</b>	<b>1 070 697</b>	<b>1 072 643</b>	<b>16 930</b>	<b>14 984</b>
Inventory	417 160	411 716	271 979	5 444	145 181
Receivables	393 296	342 155	317 974	51 141	75 322
<i>including trade receivables</i>	376 983	329 888	310 555	47 095	66 429
Other current assets	21 415	18 320	12 566	3 095	8 849
Cash and equivalents	138 048	202 710	155 350	(64 662)	(17 301)
<b>Total assets</b>	<b>2 057 547</b>	<b>2 045 599</b>	<b>1 830 513</b>	<b>11 948</b>	<b>227 034</b>
<b>Equity</b>	<b>845 767</b>	<b>829 654</b>	<b>659 953</b>	<b>16 113</b>	<b>185 814</b>
<b>Short-term liabilities</b>	<b>719 328</b>	<b>787 051</b>	<b>642 445</b>	<b>(67 723)</b>	<b>76 883</b>
<i>including:</i>					
Trade payables	364 264	413 357	352 863	(49 092)	11 401
Interest-bearing loans, borrowings and bonds	159 592	197 986	146 062	(38 394)	13 530
Other financial liabilities	63 763	51 541	55 220	12 222	8 543
Other non-financial liabilities	131 708	124 167	88 300	7 541	43 409
<b>Long-term liabilities</b>	<b>492 453</b>	<b>428 894</b>	<b>528 116</b>	<b>63 558</b>	<b>(35 663)</b>
<i>including:</i>					
Interest-bearing loans, borrowings and bonds	256 135	198 519	222 380	57 616	33 755
Other financial liabilities	49 432	48 350	42 368	1 082	7 064
Other non-financial liabilities	186 885	182 025	263 368	4 860	(76 483)
<b>Total equity and liabilities</b>	<b>2 057 547</b>	<b>2 045 599</b>	<b>1 830 513</b>	<b>11 948</b>	<b>227 034</b>

As on 31st March 2013 total assets amounted to PLN 2,057,547 thousand compared to PLN 2,045,599 thousand as at the end of 2012, which represents an increase of PLN 11,948 thousand.

#### Non-current assets

As at the end of March 2013 non-current assets amounted to PLN 1,087,627 thousand and represented 52.9% of total assets compared to PLN 1,072,697 thousand and 52.3% as

at the end of 2012. The carrying value of non-current assets increased in the three months of 2013, mainly due to investment expenses exceeding amortization.

#### Current assets

Current assets reached the level of PLN 969,920 thousand as at the end of March 2013 compared to PLN 974,902 thousand as at the end of December 2012.

Within the current assets inventories increased by PLN 5,444 thousand, receivables increased by PLN 51,141 thousand, other current assets increased by PLN 3,095 thousand, and

cash and cash equivalents decreased by PLN 64,662 thousand.

Current assets represented 47.1% of total assets as at the end of March 2013 (47.3% as at the end of 2012) and included inventories 20.3% (20.1% as at the end of 2012), receivables 19.1% (16.7% as at the end of 2012), other current assets

1.0% (0.9% as at the end of 2012) and cash and cash

equivalents 6.7% (9.9% as at the end of 2012).

## Equity

Equity amounted to PLN 845,767 thousand as at the end of the first quarter of 2013 compared to PLN 829,654 thousand as at the end of 2012. Equity represented 41.1% of total equity

and liabilities as at the end of March 2013 compared to 40.6% of total equity and liabilities as at the end of December 2012.

## Short-term liabilities

As at the end of March 2013 short-term liabilities amounted to PLN 719,328 thousand (35.0% of total equity and liabilities) compared to PLN 787,051 thousand (38.5% of total equity and liabilities) as at the end of 2012. In the current quarter a decrease of short-term liabilities occurred by PLN 67,723 thousand.

The change resulted mainly from decrease of trade receivables, the repayment of outstanding short-term bond liability, and the increase of long-term debt under bank loan from consortium of banks (bank agreement concluded in November 2012).

## Long-term liabilities

As at the end of March 2013 long-term liabilities amounted to PLN 492,453 thousand (23.9% of total equity and liabilities) compared to PLN 428,894 thousand (21.0% of total equity and liabilities) as at the end of 2012. In the analyzed period, an

increase of long-term liabilities occurred by PLN 63,558 thousand, which resulted mainly from the aforementioned repayment of short-term bonds financed with a long-term bank loan.

## Debt analysis

### Debt analysis

	1Q 2013	4Q 2012	1Q 2012	Change % 1Q'2013/ 4Q'2012	Change % 1Q'2013/ 1Q'2012
Debt-to-equity ratio (%)	143,3	146,6	177,4	(3,3) p.p.	(34,1) p.p.
Equity-to-non-current assets ratio (%)	77,8	77,5	61,5	0,3 p.p.	16,2 p.p.
Interest-bearing debt-to-equity ratio (%)	49,2	47,8	55,8	1,4 p.p.	(6,7) p.p.
Net borrowings-to-EBITDA (times)	1,21	0,85	1,86	0,36	(0,66)
EBITDA-to-interest (times)	10,3x	10,3x	4,1x	0,1	6,3

As at the end of March 2013 debt to equity ratio amounted to 143.3% and was lower by 3.3 p.p. compared to as at the end of 2012 and lower by 34.1 p.p. compared to the end of March 2012.

Equity to non-current assets amounted to 77.8% as at the end of the first quarter of 2013 and was higher by 0.3 p.p. than as at the end of 2012 and higher by 16.2 p.p. than as at the end of March 2012.

Interest bearing debt to equity ratio amounted to 49.2% as at the end of the first quarter of 2013 and was higher by 1.4 p.p. compared to the end of December 2012 and lower by 6.7 p.p. compared to the level of this factor calculated at the end of March 2012.

Net borrowings to EBITDA calculated for the last 12 months ended 31st March 2013 amounted to 1.21x compared to

0.85x as for the analogous period ended on 31st December 2012 and 1.86x as for the period ended 31st March 2012.

At the same time EBITDA to interest amounted to 10.3x as for the twelve months period ended 31st March 2013 and for the

twelve months period ended 31st December 2012 and amounted to 4.1x for the twelve months period ended 31st March 2012.

## Liquidity analysis

### Liquidity ratios

	1Q 2013	4Q 2012	1Q 2012	Change % 1Q'2013/ 4Q'2012	Change % 1Q'2013/ 1Q'2012
<b>Current liquidity ratio</b>	<b>1,3x</b>	<b>1,2x</b>	<b>1,2x</b>	<b>0,1</b>	<b>0,2</b>
<b>Quick liquidity ratio</b>	<b>0,7x</b>	<b>0,7x</b>	<b>0,7x</b>	<b>0,0</b>	<b>0,0</b>
Acid test ratio (cash liquidity)	0,2x	0,3x	0,2x	(0,1)	(0,0)
Inventory turnover DSI (days)	51,8	47,3	43,3	4,5	8,5
Receivables turnover DSO (days)	41,7	48,3	41,1	(6,6)	0,6
Liabilities turnover DPO (days)	45,2	47,5	56,1	(2,3)	(10,9)
Operating cycle (days)	93,4	95,6	84,3	(2,1)	9,1
<b>Cash conversion cycle (days)</b>	<b>48,2</b>	<b>48,1</b>	<b>28,2</b>	<b>0,1</b>	<b>20,0</b>

Current liquidity ratio amounted to 1.3x as at the end of March 2013 and was higher than at the end of 2012 and at the end of March 2012.

Quick liquidity ratio did not change in the analyzed periods and amounted to 0.7.

Cash conversion cycle as at the end of March 2013 was on similar level than as at the end of 2012 and amounted to 48.2 days.

## Consolidated cash flow statement

### Selected items of the consolidated cash flow

	1Q	4Q	1Q	YTD 1Q	YTD 1Q	Change %	Change %	Change %
<i>PLN thousands</i>	2013	2012	2012	2013	2012	1Q'2013/ 4Q'2012	1Q'2013/ 1Q'2012	YTD1Q'2013/ YTD1Q'2012
Cash flow from operations	(75 053)	95 555	21 564	(75 053)	21 564	(178,5)	(448,1)	(448,1)
<i>including:</i>								
<i>EBT</i>	(5 471)	(76 654)	9 781	(5 471)	9 781	(92,9)	(155,9)	(155,9)
<i>Depreciation and impairment</i>	32 055	280 104	30 424	32 055	30 424	(88,6)	5,4	5,4
<i>Δ in working capital</i>	(88 984)	80 743	(21 094)	(88 984)	(21 094)	(210,2)	321,8	321,8
<i>Other corrections</i>	(12 653)	(188 638)	2 453	(12 653)	2 453	(93,3)	(615,8)	(615,8)
Cash flow investing activities	(25 203)	(19 736)	(9 285)	(25 203)	(9 285)	27,7	171,4	171,4
Cash flow financing activities	19 007	(7 892)	(23 433)	19 007	(23 433)	(340,8)	(181,1)	(181,1)
<b>Total Cash Flow</b>	<b>(81 249)</b>	<b>67 927</b>	<b>(11 154)</b>	<b>(81 249)</b>	<b>(11 154)</b>	<b>(219,6)</b>	<b>628,4</b>	<b>628,4</b>

### Cash flows from operating activities

In the first quarter of 2013 net cash flows from operating activities amounted to PLN -75,053 thousand compared to PLN +21,564 thousand in the corresponding period of 2012 and PLN +95,555 thousand in the fourth quarter of 2012. Increase of trade receivables and decrease of payables had

the biggest influence on the negative cash flow from operating activities in the first quarter of 2013. The generated loss had also an impact of that level.

### Cash flows from investment activities

In the first quarter of 2013 cash flows from investment activities amounted to PLN -25,203 thousand compared to PLN -9,285 thousand in the first quarter of 2012 and PLN -19,736 thousand in the corresponding period of 2012. Cash flows from investment activities in the first quarter of 2013

related mostly to acquisition of property, plant and equipment as well as intangibles in the amount of PLN -19,076 thousand as well as expenditures on further purchase of Rottneros AB shares in the amount of PLN -6,127 thousand.

### Cash flows from financial activities

Cash flows from financial activities in the first quarter of 2013 amounted to PLN +19,007 thousand compared to PLN -23,433 thousand in the first quarter of 2012 and to PLN -7,892 thousand in the fourth quarter of 2012. In the first

quarter of 2013, cash flow from financial activities related mainly to increase of overdraft debt partly compensated with repayment of bonds and interest.

## Summary of standalone financial results

### Standalone income statement

#### Selected items of the standalone income statement

PLN thousands	1Q	4Q	1Q	YTD 1Q	YTD 1Q	Change %	Change %	Change %
	2013	2012	2012	2013	2012	1Q'2013/ 4Q'2012	1Q'2013/ 1Q'2012	YTD1Q'2013/ YTD1Q'2012
<b>Revenues:</b>	<b>15 755</b>	<b>17 476</b>	<b>12 334</b>	<b>15 755</b>	<b>12 334</b>	<b>(9,8)</b>	<b>27,7</b>	<b>27,7</b>
<i>including:</i>								
Sales of services	10 000	11 484	5 459	10 000	5 459	(12,9)	83,2	83,2
Loans interest	5 754	5 992	6 875	5 754	6 875	(4,0)	(16,3)	(16,3)
Income from dividends	-	-	-	-	-	-	-	-
Gross profit on sales	15 755	17 476	12 334	15 755	12 334	(9,8)	27,7	27,7
Gross profit on sales margin %	100,00	100,00	100,00	100,00	100,00	0,0 p.p.	(0,0) p.p.	- p.p.
Sales costs	(741)	(702)	-	(741)	-	5,5	-	-
Administrative expenses	(6 656)	(6 805)	(6 045)	(6 656)	(6 045)	(2,2)	10,1	10,1
Other operating income	56	73	22	56	22	(24,2)	149,5	149,5
Other operating cost	(69)	(20 622)	(104)	(69)	(104)	(99,7)	(33,7)	(33,7)
<b>EBIT</b>	<b>8 344</b>	<b>(10 581)</b>	<b>6 208</b>	<b>8 344</b>	<b>6 208</b>	<b>(178,9)</b>	<b>34,4</b>	<b>34,4</b>
EBIT margin %	52,96	(60,54)	50,33	52,96	50,33	113,5 p.p.	2,6 p.p.	2,6 p.p.
<b>EBITDA</b>	<b>8 374</b>	<b>(10 552)</b>	<b>6 234</b>	<b>8 374</b>	<b>6 234</b>	<b>(179,4)</b>	<b>34,3</b>	<b>34,3</b>
EBITDA margin %	53,15	(60,38)	50,55	53,15	50,55	113,5 p.p.	2,6 p.p.	2,6 p.p.
Financial income	2 260	828	66	2 260	66	172,8	3 310,0	3 310,0
Financial cost	(4 060)	(4 655)	(8 137)	(4 060)	(8 137)	(12,8)	(50,1)	(50,1)
<b>EBT</b>	<b>6 544</b>	<b>(14 407)</b>	<b>(1 863)</b>	<b>6 544</b>	<b>(1 863)</b>	<b>(145,4)</b>	<b>(451,2)</b>	<b>(451,2)</b>
Corporate income tax	-	1	-	-	-	-	-	-
<b>Net profit</b>	<b>6 544</b>	<b>(14 406)</b>	<b>(1 863)</b>	<b>6 544</b>	<b>(1 863)</b>	<b>(145,4)</b>	<b>(451,2)</b>	<b>(451,2)</b>
Net profit margin %	41,54	(82,43)	(15,10)	41,54	(15,10)	124,0 p.p.	56,6 p.p.	56,6 p.p.

### Revenue

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 first quarter of 2013 amounted to PLN 15,755 thousand and comprised services rendered for entities belonging to the Group (PLN 10,000 thousand) and interest from loans (PLN 5,754). In the same period of the previous

year standalone sales revenue amounted to PLN 12,334 thousand and comprised services rendered to the Group entities (PLN 5,459 thousand) and interest from loans (PLN 6,875 thousand).

Standalone sales revenue for the fourth quarter of 2012 amounted to PLN 17,476 thousand and comprised services rendered for entities belonging to the Group (PLN 11,484 thousand) and interest from loans granted (PLN 5,992 thousand).

## Cost of sales

In the first quarter of 2013 the Company recognized cost of sales in the amount of PLN 741 thousand (PLN 702 thousand in the fourth quarter of 2012) solely related to pulp

procurement agency for Arctic Paper Kostrzyn S.A. Sales of pulp to Arctic Paper Kostrzyn started in July 2012.

## Administrative expenses

In the first quarter of 2013 administrative expenses amounted to PLN 6,656 thousand and were higher compared to the analogous period of the previous year (by PLN 611 thousand) and lower than the costs recorded in the fourth quarter of 2012 (by PLN 150 thousand).

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 56 thousand in the first quarter of 2013 which represents an increase by PLN 34 thousand compared to analogous period of 2012. Other operating cost amounted in the first quarter of 2013 to PLN 69

thousand. High other operating costs in the fourth quarter of 2012 resulted mainly from impairment of investment in Arctic Paper Investment GmbH holding direct shares in Arctic Paper Mochenwangen.

## Financial income and cost

In the first quarter of 2013 financial income amounted to PLN 2,260 thousand and was higher by PLN 2,194 thousand compared to financial income achieved in the first quarter of 2012 and by PLN 1,432 thousand compared to the fourth quarter of 2012. The increase of financial income in the first quarter of 2013 resulted mainly from positive exchange differences and its presentation, that is after net balancing with negative exchange differences. Financial cost in the first

quarter of 2013 amounted to PLN 4,060 thousand, including costs of interest on bonds in the amount of 1,002 thousand. In the analogous period of 2012 financial cost amounted to PLN 8,137 while in the fourth quarter of 2012 it amounted to PLN 4,655 thousand. Higher financial costs in the first quarter of 2012 resulted from excess of negative exchange differences over positive exchange differences.

## Statement of financial position

### Selected items of the standalone balance sheet

PLN thousands	31/03/2013	31/12/2012	31/03/2012	Change	Change
				31/03/2013	31/03/2013
				-31/12/2012	-31/03/2012
<b>Non-current assets</b>	<b>1 067 183</b>	<b>1 024 309</b>	<b>935 595</b>	<b>42 875</b>	<b>131 588</b>
Inventory	-	-	-	-	-
Receivables	37 297	31 612	11 559	5 686	25 738
Other current assets	22 802	27 240	57 676	(4 438)	(34 874)
Cash and equivalents	10 047	30 356	6 180	(20 308)	3 867
<b>Total assets</b>	<b>1 137 330</b>	<b>1 113 516</b>	<b>1 011 011</b>	<b>23 814</b>	<b>126 320</b>
<b>Equity</b>	<b>875 894</b>	<b>850 198</b>	<b>778 380</b>	<b>25 695</b>	<b>97 514</b>
Short-term liabilities	58 816	132 216	31 016	(73 400)	27 799
Long-term liabilities	202 621	131 102	201 615	71 519	1 006
<b>Total equity and liabilities</b>	<b>1 137 330</b>	<b>1 113 516</b>	<b>1 011 011</b>	<b>23 814</b>	<b>126 319</b>

As on 31st March 2013 total assets amounted to PLN 1,137,330 thousand compared to PLN 1,113,516 thousand as at the end of 2012.

### Non-current assets

As at the end of March 2013 non-current assets represented nearly 93.8% of total assets which represents a slight increase of 1.8 p.p. compared to the end of 2012. The main position in non-current assets is shares in subsidiaries. Total value of this position as at the end of the first quarter of 2013 was PLN 1,064,482 thousand compared to PLN 1,021,820 thousand at the end of 2012. The increase of value of shares in subsidiaries

results from the further purchase of Rottneros AB shares, from the increase of the Company's investment in Arctic Paper Investment GmbH by transferring money to its reserve capital and on the grounds of interest calculated on the loan granted to AP investment AB, the only owner of AP Grycksbo. The loan has been presented as investment in subsidiaries from January 2012.

### Current assets

Current assets as at the end of March 2012 amounted to PLN 70,147 thousand compared to PLN 89,208 thousand as at the end of 2012. The level of current assets decreased in the first

quarter of 2013, particularly in cash. As at the end of the first quarter of 2013 current assets represented 6.2% of total assets compared to 8.0% as at the end of the previous year.

### Equity

Equity amounted to PLN 875,894 thousand as at the end of the first quarter of 2013 compared to PLN 850,198 thousand as at the end of 2012. Equity amounted to 77.0% of total

equity and liabilities as at the end of March 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 March 2013 short-term liabilities amounted to PLN 58,816 thousand (5.3% 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 (PLN 73,400 thousand) resulted primarily from repayment of bonds in the end of February 2013.

## Long-term liabilities

Long-term liabilities as at the end of March 2013 amounted to PLN 202,621 thousand (17.8% of total equity and liabilities) compared to PLN 131,102 thousand (11.7% of total equity and liabilities) as at the end of 2012. The level of long-term

liabilities changed by the value of a loan granted by AP Kostrzyn to the Company in 2013 for the purpose of repayment of aforementioned bonds in February 2013.

## Cash flows

### Selected items of the standalone cash flow

PLN thousands	1Q 2013	4Q 2012	1Q 2012	YTD 1Q 2013	YTD 1Q 2012	Change %	Change %	Change %
						1Q'2013/ 4Q'2012	1Q'2013/ 1Q'2012	YTD1Q'2013/ YTD1Q'2012
Cash flow from operations	72 821	167 848	(8 665)	72 821	(8 665)	(56,6)	(940,4)	(940,4)
<i>including:</i>	-	-	-	-	-			
EBT	6 544	(14 407)	(1 863,0)	6 544	(1 863)	(145,4)	(451,2)	(451,2)
Depreciation	30	28	26,3	30	26	5,0	12,9	12,9
Δ in working capital	(6 557)	32 119	5 428,1	(6 557)	5 428	(120,4)	(220,8)	(220,8)
Interest and dividend (net)	(1 921)	4 185	4 267,9	(1 921)	4 268	(145,9)	(145,0)	(145,0)
Other corrections	74 725	145 923	(16 523,8)	74 725	(16 524)	(48,8)	(552,2)	(552,2)
Cash flow investing activities	(17 923)	(15 720)	(3)	(17 923)	(3)	14,0	648 668,6	648 668,6
Cash flow financing activities	(75 206)	(131 872)	(8 913)	(75 206)	(8 913)	(43,0)	743,8	743,8
<b>Total Cash Flow</b>	<b>(20 308)</b>	<b>20 256</b>	<b>(17 580)</b>	<b>(20 308)</b>	<b>(17 580)</b>	<b>(200,3)</b>	<b>15,5</b>	<b>15,5</b>

Cash flows statement presents a decrease in cash and cash equivalents in three months of 2013 by PLN -20,308 thousand which includes:

- positive cash flows from operating activities in the amount of PLN +72,821 thousand,

- negative cash flows from investment activities in the amount of PLN -17,923 thousand,
- negative cash flows from financial activities in the amount of PLN -75,206 thousand.

## Cash flows from operating activities

In the first quarter of 2013 net cash flows from operating activities amounted to PLN +72,821 thousand compared to PLN -8,665 thousand in the same period of 2012. Compared

to the first quarter of 2012, cash flows from operating activities were mostly influenced by loan taken from AP Kostrzyn.

### Cash flows from investment activities

In the three months of 2013 cash flows from investment activities amounted to PLN -17,923 thousand compared to PLN -3 thousand in the analogous period of the previous year. Cash flows from investment activities for the three months of

2013 include expenses related to further purchase of Rottneros AB shares in cash as well as increase of shares in Arctic Paper Investment GmbH.

### Cash flows from financial activities

Cash flows from financial activities in the first quarter of 2013 amounted to PLN -75,206 thousand compared to PLN -8,913 thousand in the analogous period of 2012. Cash flows from financial activities were influenced by repayment of bonds

together with interest. Repayment of nominal value of bonds in the first quarter of 2013 and in the fourth quarter of 2012 caused a material increase of expenses within these activities.

## 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 those costs by the Company, the fluctuations of the costs may have a significant impact on Group's profitability.

Because of the acquisition of Rottneros Group, part of pulp supplies to our paper mills will be realized from Rottneros pulp mills. The rest of pulp produced in pulp mills will be sold to external customers. This will result in decrease of pulp mills revenues' and paper mills costs' dependence on market pulp prices fluctuations.

#### 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 quarter 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% until the end of February), the consolidated income statement of Arctic Paper Capital Group for the period of 1st January 2013 until 31st March 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 quarter of 2012 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 quarter of 2013, Arctic Paper S.A. performed increase of reserve capital in Arctic Paper Investment GmbH in the amount of EUR 2,500 thousand. The value of shares in

Arctic Paper Investment increase under these transactions by PLN 10,762 thousand up to PLN 65,664 thousand. In its accounting books Arctic Paper S.A. reports value of shares in Arctic Paper Investment GmbH in the amount of PLN 55,664 thousand because of the impairment allowance performed in 2012 in the amount of PLN 10,000 thousand.

## Factors influencing Arctic Paper Group development

### Information on market tendencies

#### Supplies of fine papers

Supplies of fine papers to the European market in the first quarter of 2013 were lower than in the analogous period of 2012 by app. 6.1%. Supplies in the segment of uncoated wood-free paper (UWF) were lower by 5.0%, while those in the segment of coated wood-free paper (CWF) were lower by 7.4%.

Compared to the fourth quarter of 2012 the supplies of fine papers were approximately 4.9% higher. In the analyzed

period supplies in the segment of uncoated wood-free paper (UWF) were 8.1% higher, while those in the segment of coated wood-free paper (CWF) were 1.5% higher.

The sales volume of Arctic Paper Group in 1Q 2013 was 7.7% higher than in 4Q 2012 and 0.5% higher than in the corresponding period of 2012. In the second half of the 1Q 2013 the number of orders significantly decreased.

Data source: EuroGraph, RISI, Arctic Paper analysis

#### Paper prices

In the first quarter of 2013 fine papers prices in Europe experienced very slight decrease or remained unchanged compared to the prices as at the end of 2012. The decrease of average prices amounted for UWF papers -0.2%, CWF prices stayed the same.

Between December 2012 and March 2013, average UWF prices declared by producers for the selected markets of Germany, France, Spain, Italy and United Kingdom, expressed in EUR and GBP, slightly decreased within the range of -0.3% to -0.1%. In the same period, the average CWF prices changed within the range of -0.1% to +0.1%.

At the end of the first quarter, average UWF prices dropped by app. -0.8% and CWF prices by -1.2%, compared to analogous period of the previous year

Prices invoiced by Arctic Paper in EUR of comparable products in the segment of uncoated wood-free paper

changed from December 2012 to March 2013 by from -1.1% to +0.6%, and in the segment of coated wood-free paper by from -2.3% to +0.8%.

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 first quarter of 2013 pulp prices reached a level of USD 837 per ton for NBSK and USD 801 per ton for BHKP. The average pulp price in 1Q 2013 was lower by 1.2% for NBSK and higher by 12.7% for BHKP, compared to the

same period of the previous year. In the first quarter of 2013 the average pulp price was higher by 4.0% for BHKP and by 3.1% for NBSK, compared to the fourth quarter of 2012.

The average cost of pulp per ton as calculated for the AP Group, expressed in PLN, in 1Q 2013 increased by 2.0% compared to 4Q 2012 and increased by 3.5% compared to 1Q 2012. The share of pulp costs in paper sales costs in the first quarter of 2013 amounted to 47% and was higher than in 1Q of 2012 (44%).

Arctic Paper Group uses the pulp in the production process according to the following structure: BHKP 63%, NBSK 17% and other 20%.

## Currency exchange rates

The EUR/PLN exchange rate at the end of the first quarter of 2013 amounted to 4.1774 and was higher by 2.2% than at the end of the end of 2012 and by 0.4% than at the end of the first quarter of 2012. The average exchange rate in the first quarter of 2013 was higher compared to the fourth quarter of the previous year and amounted to 4.1550 compared to 4.1136 (1.0%). The average exchange rate in the first quarter of 2013 was lower by 1.8% compared to the first quarter of 2012.

EUR/SEK exchange rate decreased from the level of 8.5941 at the end of the fourth quarter of 2012 to 8.3565 (-2.8%) at the end of the first quarter of 2013. For this pairing, the average rate in the first quarter of 2013 was lower by 1.5% than in the fourth quarter of the previous year. The average exchange rate in the first quarter of 2013 was lower by 4.0% compared to the same period of the previous year.

These changes mean depreciation of PLN towards EUR in the first quarter of 2013 compared to the fourth quarter of 2012 and appreciation of SEK towards EUR. The continuing appreciation of SEK towards EUR has an adverse impact on the Group's financial result, mainly in relation to sales income generated by Swedish mills which are dependent on prices in EUR.

At the end of the first quarter of 2013 USD/PLN rate was higher by 5.1% than at the end of the fourth quarter of 2012 and amounted to 3.2590. In the first quarter of 2013 the average USD/PLN exchange rate amounted to 3.1469 compared to 3.1734 in the fourth quarter of 2012. This means a slight appreciation of PLN by 0.8%.

Source: [www.foex.fi](http://www.foex.fi), Arctic Paper analysis

Because of the acquisition of Rottneros Group, part of the supplies of pulp to our paper mills is performed from Rottneros pulp mills. It causes the pulp mills income and paper mills costs to be less determined by pulp market prices fluctuations.

At the end of the first quarter of 2013, USD/SEK rate amounted to 6.5193 and was by 0.1% higher compared to the end of the fourth quarter of 2012. The average exchange rate in the first quarter of 2013 amounted to 6.4330 which represents a decrease of 3.3% compared to the fourth quarter of 2012.

Fluctuations of USD/PLN and to a greater extent of USD/SEK exchange rates caused slightly slower increase of the price per ton of pulp in PLN and SEK, narrowly reducing the significant increase of pulp prices in 1Q 2013.

At the end of March 2013, EUR/USD rate amounted to 1.2818 compared to 1.3189 (-2.8%) at the end of the fourth quarter of 2012 and 1.3342 (-3.9%) at the end of March 2012. In the first quarter of 2013, the average exchange rate equaled 1.3207 compared to 1.2965 (+1.9%) in the fourth quarter of 2012.

Depreciation of PLN towards EUR and SEK should have a positive impact on the financial result of the Group, mostly due to sales revenue generated in these latter currencies and expressed in PLN. Meanwhile, further appreciation of SEK towards EUR has an adverse influence on the financial result of the Group, mainly because of lower sales revenue of Swedish mills which are dependent on prices expressed in EUR.

## 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:

- The levels of fine papers prices, in particular, being able to keep the prices of Arctic Paper products at the current levels in local currencies, in reference to diminishing deliveries/demand in Europe and in connection with exchange rates fluctuations may have an influence on financial results. 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 changes 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 quarter of 2013 there were no significant changes regarding risk factors as described in annual report for 2012.

The acquisition of Rottneros Group in 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 of 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, and of lease agreements. It is possible that we will not be able to make timely repayments or refinance our debt on account of loan and/or bonds and/or leasing agreements, and also to keep the level of financial ratios that depend on the results generated by the Group accounts, as defined in the loan agreement and the terms of the bond issue and of leasing

agreements, which may give rise to breaches of a loan agreement or the terms of the bond issue and the loss of collateralized assets. 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, 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.

#### **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-Stubicka 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. Each of 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 CO<sub>2</sub> 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.

#### 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 15/05/2013	Number of shares or rights thereto as at 30/04/2013	Change
<b>Management Board</b>			
Michał Piotr Jarczyński	86 450	86 450	-
Wolfgang Lübbert	-	-	-
Michał Jan Bartkowiak	-	-	-
Jacek Łoś	-	-	-
Per Skoglund	-	-	-
<b>Supervisory Board</b>			
Rolf Olof Grundberg	12 102	12 102	-
Rune Roger Ingvarsson	-	-	-
Thomas Onstad	-	-	-
Fredrik Lars Plyhr	19 000	19 000	-
Jan Ohlsson	-	-	-
Mariusz Grendowicz	-	-	-

### Information on guarantees

As on 31st March 2012 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 219,680 thousand;
- a guarantee commitment to FPG in favor of mutual life insurance company PRI in the amount of SEK 50,000 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.

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 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

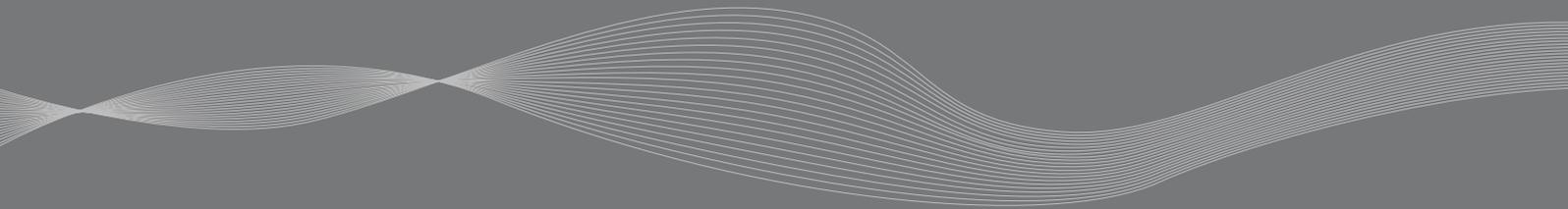
During the period covered by this report, Arctic Paper S.A. and its subsidiaries did not execute any significant transactions with related entities on non-market terms and conditions.

Signatures of the Members of the Management Board

Position	Name and surname	Date	Signature
President of the Management Board Chief Executive Officer	Michał Jarczyński	15 May 2013	
Member of the Management Board Chief Financial Officer	Michał Bartkowiak	15 May 2013	



Interim condensed quarterly consolidated financial  
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## Consolidated financial statements and selected financial data

### Selected consolidated financial data

	For the period from 01.01.2013 to 31.03.2013 thousand PLN	For the period from 01.01.2012 to 31.03.2012 thousand PLN	For the period from 01.01.2013 to 31.03.2013 thousand EUR	For the period from 01.01.2012 to 31.03.2012 thousand EUR
Revenues	814 405	680 420	196 004	160 863
Operating profit (loss)	312	23 311	75	5 511
Profit (loss) before tax	(5 471)	9 781	(1 317)	2 312
Profit (loss) from continuing operations	(6 080)	9 611	(1 463)	2 272
Profit (loss) for the period	(6 080)	9 611	(1 463)	2 272
Profit (loss) for the period attributable to equity holders of the parent	(4 132)	9 611	(994)	2 272
Net operating cash flow	(75 053)	21 564	(18 063)	5 098
Net investment cash flow	(25 203)	(9 285)	(6 066)	(2 195)
Net financial cash flow	19 007	(23 433)	4 574	(5 540)
Net change in cash and cash equivalents	(81 249)	(11 154)	(19 554)	(2 637)
Weighted average number of shares	67 736 271	55 403 500	67 736 271	55 403 500
Weighted average diluted number of shares	67 736 271	55 403 500	67 736 271	55 403 500
EPS (in PLN/EUR)	(0,06)	0,17	(0,01)	0,04
Diluted EPS (in PLN/EUR)	(0,06)	0,17	(0,01)	0,04
Average PLN/EUR rate*			4,1550	4,2298
	As at 31 March 2013 thousand PLN	As at 31 December 2012 thousand PLN	As at 31 March 2013 thousand EUR	As at 31 December 2012 thousand EUR
Assets	2 057 547	2 045 599	492 543	500 367
Long-term liabilities	492 453	428 894	117 885	104 910
Short-term liabilities	719 328	787 051	172 195	192 518
Equity	845 767	829 654	202 463	202 939
Share capital	69 288	55 404	16 586	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)	12,21	12,54	2,92	3,07
Diluted book value per share (in PLN/EUR)	12,21	12,54	2,92	3,07
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**	-	-	4,1774	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.

## Consolidated income statement

	3 months period ended 31 March 2013 (unaudited)	3 months period ended 31 March 2012 (unaudited)	Year ended 31 December 2012 (revised)
Continuing operations			
Sales of products	814 405	680 420	2 600 700
Revenues	814 405	680 420	2 600 700
Cost of sales	(724 984)	(565 866)	(2 452 659)
Gross profit (loss) on sales	89 421	114 553	148 041
Selling and distribution expenses	(79 616)	(77 807)	(307 759)
Administrative expenses	(21 099)	(17 757)	(86 534)
Other operating income	26 585	19 344	274 504
Other operating expenses	(14 979)	(15 023)	(54 744)
Operating profit / (loss)	312	23 311	(26 492)
Finance income	2 590	266	1 484
Finance costs	(8 374)	(13 796)	(41 394)
Profit / (loss) before tax	(5 471)	9 781	(66 402)
Income tax	(609)	(170)	85 076
Net profit (loss) for the year from continuing operations	(6 080)	9 611	18 674
Discontinued operations	-	-	-
Profit (loss) for the period from discontinued operations	-	-	-
Net profit (loss) for the year	(6 080)	9 611	18 674
Attributable to:			
Equity holders of the parent	(4 132)	9 611	(107 378)
Non-controlling interest	(1 948)	-	126 052
	(6 080)	9 611	18 674
Earnings per share:			
- basic from the profit (loss) for the period attributable to equity holders of the parent	(0,06)	0,17	(1,93)
- basic from the profit (loss) from continuing operations attributable to equity holders of the parent	(0,06)	0,17	(1,93)
- diluted from the profit (loss) for the period attributable to equity holders of the parent	(0,06)	0,17	(1,93)
- diluted from the profit (loss) from the continuing operations attributable to equity holders of the parent	(0,06)	0,17	(1,93)

## Consolidated statement of comprehensive income

	3 months period ended 31 March 2013 (unaudited)	3 months period ended 31 March 2012 (unaudited)	Year ended 31 December 2012 (restated)
Net profit / (loss) for the period	(6 080)	9 611	18 674
Exchange difference on translation of foreign operations	26 613	(18 874)	(10 340)
Deferred tax on derivatives (exchange differences)	(1 152)	729	238
Valuation of derivatives	2 862	(2 621)	(1 530)
Actuarial gains/(losses)	-	-	(298)
Deferred tax on actuarial gains/(losses)	-	-	12
Other comprehensive income	28 322	(20 766)	(11 918)
Total comprehensive income	22 242	(11 155)	6 757
Total comprehensive income by:			
Holders of the parent	14 902	(11 155)	-114 271
Holders of the non-controlling interest	7 340	-	126 052
Other comprehensive income:			
- amount that may be transferred to income statement	28 322	(20 766)	(11 632)
- amount that will not be transferred to income statement	-	-	(286)

## Consolidated balance sheet

	As at 31 March 2013 (unaudited)	As at 31 December 2012 (restated)	As at 31 March 2012 (unaudited)	As at 1 January 2012 (presented for comparative purposes)
<b>ASSETS</b>				
Non-current assets				
Property, plant and equipment	909 938	896 054	942 424	992 174
Investment properties	10 542	10 542	10 542	10 542
Intangible assets	94 698	93 926	112 869	120 410
Shares in joint ventures	5 313	5 056	-	-
Other financial assets	918	733	745	791
Other non-financial assets	1 297	1 238	2 044	2 151
Deferred tax asset	64 921	63 148	4 019	6 441
	1 087 627	1 070 697	1 072 643	1 132 508
Current assets				
Inventories	417 160	411 716	271 979	315 142
Trade and other receivables	376 983	329 888	310 555	294 452
Income tax receivables	16 313	12 268	7 419	5 810
Other non-financial assets	3 161	3 805	10 323	1 692
Other financial assets	18 254	14 515	2 243	8 708
Cash and cash equivalents	138 048	202 710	155 350	166 299
	969 920	974 902	757 870	792 102
<b>TOTAL ASSETS</b>	<b>2 057 547</b>	<b>2 045 599</b>	<b>1 830 513</b>	<b>1 924 610</b>
<b>LIABILITIES</b>				
Equity and liabilities				
Share capital	69 288	55 404	554 035	554 035
Share premium	651 577	580 875	80 060	80 060
Other reserves	127 524	189 688	94 560	110 849
Foreign currency translation	42 526	26 312	32 174	36 652
Retained earnings / Accumulated (unabsorbed) losses	(220 471)	(245 691)	(101 102)	(110 712)
Non-controlling interest	175 323	223 067	225	225
<b>Total equity</b>	<b>845 767</b>	<b>829 654</b>	<b>659 953</b>	<b>671 108</b>
Non-current liabilities				
Interest-bearing loans, borrowings and bonds	256 135	198 519	222 380	317 262
Provisions	94 188	94 339	84 583	87 811
Other financial liabilities	49 432	48 350	42 368	44 277
Deferred tax liabilities	61 319	55 615	144 654	155 403
Accruals and deferred income	31 378	32 072	34 131	34 810
	492 453	428 894	528 116	639 564
Current liabilities				
Interest-bearing loans, borrowings and bonds	159 592	197 986	146 062	67 242
Provisions	7 766	8 415	7 967	10 398
Other financial liabilities	63 763	51 541	55 220	60 383
Trade and other payables	364 185	412 571	351 620	404 722
Income tax payable	79	786	1 243	1 286
Accruals and deferred income	123 942	115 752	80 332	69 907
	719 328	787 051	642 445	613 938
<b>TOTAL LIABILITIES</b>	<b>1 211 780</b>	<b>1 215 945</b>	<b>1 170 560</b>	<b>1 253 502</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>2 057 547</b>	<b>2 045 599</b>	<b>1 830 513</b>	<b>1 924 610</b>

## Consolidated cash flow statement

	3 months period ended 31 March 2013	3 months period ended 31 March 2012	Period ended 31 December 2012
	(unaudited)	(unaudited)	(restated)
<b>Cash flow from operating activities</b>			
Profit (loss) before taxation	(5 471)	9 781	(66 402)
Adjustments for:			
Depreciation	32 055	30 424	123 286
Foreign exchange differences	(12 202)	(4 360)	4 754
Impairment of non financial assets	-	-	248 874
Net interest and dividends	7 855	9 711	32 412
Gain/loss from investing activities	277	748	178
Increase / decrease in receivables and other non-financial assets	(35 671)	(24 298)	46 121
Increase / decrease in inventories	9 039	32 558	7 766
Increase / decrease in payables except for loans and borrowings	(61 199)	(39 942)	(21 386)
Change in accruals and prepayments	(1 153)	10 587	(4 959)
Change in provisions	(4 462)	(545)	6 315
Income tax paid	(6 568)	(2 791)	(18 368)
Bargain purchase of Rottneros AB	-	-	(204 203)
Derecognition of emission rights to CO2 identified in a business combination	275	2 440	9 202
Sales of energy certificates	2 719	(2 739)	2 479
Other	(548)	(11)	984
Net cash flow from operating activities	(75 053)	21 564	167 054
<b>Cash flow from investing activities</b>			
Proceeds from sale of property, plant and equipment and intangible assets	-	92	715
Purchase of property, plant and equipment and intangible assets	(19 076)	(9 468)	(59 627)
Purchase of shares in joint venture	-	-	(5 110)
Acquisition of subsidiaries, net of cash acquired	-	-	9 056
Acquisition of non-controlling interest	(6 127)	-	-
Other investing inflows and outflows	-	92	-
Net cash flow from investing activities	(25 203)	(9 285)	(54 967)
<b>Cash flow from financing activities</b>			
Change in bank overdrafts	97 598	585	7 283
Repayment of finance lease liabilities	(3 625)	(2 063)	(8 015)
Proceeds from other financial liabilities	17 179	8 107	1 613
Repayment of other finance liabilities	(1 343)	(14 707)	(11 155)
Proceeds from loans, borrowings and bonds	-	-	2 971
Repayment of loans, borrowings and bonds	(80 642)	(5 645)	(19 992)
Interest paid	(10 159)	(9 711)	(36 121)
Dividends paid	-	-	(9 973)
Other	-	-	-
Net cash flow from financing activities	19 007	(23 433)	(73 391)
Net increase/(decrease) in cash and cash equivalents	(81 249)	(11 154)	38 696
Net foreign exchange differences	16 586	205	(2 285)
Cash and cash equivalents at the beginning of the period	202 710	166 299	166 299
Cash and cash equivalents at the end of the period	138 048	155 350	202 710

## Consolidated statement of changes in equity

Attributable to parent 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	55 404	580 875	26 312	189 688	(245 691)	606 587	223 067	829 654
Net profit for the period	-	-	-	-	(4 132)	(4 132)	(1 948)	(6 080)
Other comprehensive income	-	-	16 215	2 819	-	19 034	9 288	28 322
Total comprehensive income	-	-	16 215	2 819	(4 132)	14 902	7 340	22 242
Issue of shares	13 884	70 702	-	(64 983)	-	19 603	-	19 603
Acquisition of non-controlling interest	-	-	-	-	29 353	29 353	(55 084)	(25 731)
As at 31 March 2013 (unaudited)	69 288	651 577	42 526	127 524	(220 471)	670 444	175 323	845 767

Attributable to parent 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 (restated)	554 035	80 060	36 652	110 849	(110 712)	670 883	225	671 108
Foreign currency translation	-	-	(4 477)	-	-	(4 477)	-	(4 477)
Net profit for the period	-	-	-	-	9 611	9 611	-	9 611
Other comprehensive income	-	-	-	(16 288)	-	(16 288)	-	(16 288)
Total comprehensive income	-	-	(4 477)	(16 288)	9 611	(11 155)	-	(11 155)
As at 31 March 2012 (unaudited)	554 035	80 060	32 174	94 560	(101 102)	659 728	225	659 953

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 (restated)	554 035	80 060	36 652	110 849	(110 712)	670 883	225	671 108
Net profit for the period	-	-	-	-	(107 378)	(107 378)	126 052	18 674
Other comprehensive income	-	-	(10 340)	(1 292)	(286)	(11 918)	-	(11 918)
Total comprehensive income	-	-	(10 340)	(1 292)	(107 664)	(119 295)	126 052	6 757
Issue of shares not registered at 31 December 2012	-	-	-	64 983	-	64 983	-	64 983
Decrease of nominal value of share	(498 632)	498 632	-	-	-	-	-	-
Profit distribution/ Dividend payment	-	2 184	-	15 148	(27 305)	(9 973)	-	(9 973)
Other	-	-	-	-	(10)	(10)	-	(10)
Acquisition of Rotneros AB (non-controlling interest)	-	-	-	-	-	-	96 790	96 790
As at 31 December 2012 (restated)	55 404	580 875	26 312	189 688	(245 691)	606 587	223 067	829 654

## Standalone financial statements and selected financial data

### Selected standalone financial data

	For the period from 01.01.2013 to 31.03.2013 tys. PLN	For the period from 01.01.2012 to 31.03.2012 tys. PLN	For the period from 01.01.2013 to 31.03.2013 tys. EUR	For the period from 01.01.2012 to 31.03.2012 tys. EUR
Revenues	15 755	12 334	3 792	2 916
Operating profit (loss)	8 344	6 208	2 008	1 468
Profit (loss) before tax	6 544	(1 863)	1 575	(440)
Profit (loss) from continuing operations	6 544	(1 863)	1 575	(440)
Profit (loss) for the period	6 544	(1 863)	1 575	(440)
Net operating cash flow	72 821	(8 665)	17 526	(2 048)
Net investment cash flow	(17 923)	(3)	(4 314)	(1)
Net financial cash flow	(75 206)	(8 913)	(18 100)	(2 107)
Net change in cash and cash equivalents	(20 308)	(17 580)	(4 888)	(4 156)
Weighted average number of shares	67 736 271	55 403 500	67 736 271	55 403 500
Weighted average diluted number of shares	67 736 271	55 403 500	67 736 271	55 403 500
EPS (in PLN/EUR)	0,10	(0,03)	0,02	(0,01)
Diluted EPS (in PLN/EUR)	0,10	(0,03)	0,02	(0,01)
Average PLN/EUR rate*			4,1550	4,2298
	As at 31 March 2013 tys. PLN	As at 31 December 2012 tys. PLN	As at 31 March 2013 tys. EUR	As at 31 December 2012 tys. EUR
Assets	1 137 330	1 113 516	272 258	272 373
Long-term liabilities	202 621	131 102	48 504	32 068
Short-term liabilities	58 816	132 216	14 080	32 341
Equity	875 894	850 198	209 674	207 964
Share capital	69 288	55 404	16 586	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)	12,64	12,85	3,03	3,14
Diluted book value per share (in PLN/EUR)	12,64	12,85	3,03	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**	-	-	4,1774	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.

## Standalone income statement

	3 months period ended 31 March 2013 (unaudited)	3 months period ended 31 March 2012 (unaudited)	Year ended 31 December 2012 (audited)
Continuing operations			
Sales of good	10 000	5 459	37 209
Interest income	5 754	6 875	25 841
Dividends	-	-	47 852
Revenues	15 755	12 334	110 902
Cost of sales	-	-	-
Gross profit on sales	15 755	12 334	110 902
Other operating income	56	22	262
Selling and distribution costs	(741)	-	(1 387)
Administrative expenses	(6 656)	(6 045)	(26 931)
Other operating expenses	(69)	(104)	(47 062)
Operating profit / (loss)	8 344	6 208	35 784
Finance income	2 260	66	1 021
Finance costs	(4 060)	(8 137)	(23 277)
Profit / (loss) before tax	6 544	(1 863)	13 528
Income tax	-	-	1
Net profit (loss) for the year from continuing operations	6 544	(1 863)	13 529
Discontinued operations			
Profit (loss) for the period from discontinued operations	-	-	-
Net profit (loss) for the year	6 544	(1 863)	13 529
Earnings per share:			
- basic from the profit (loss) for the period	0,10	(0,03)	0,52
- basic from the profit (loss) from continuing operations for the period	0,10	(0,03)	0,52
- diluted from the profit (loss) for the period	0,10	(0,03)	0,52
- diluted from the profit (loss) from the continuing operations for the period	0,10	(0,03)	0,52

## Standalone statement of comprehensive income

	3 months period ended 31 March 2013 (unaudited)	3 months period ended 31 March 2012 (unaudited)	Year ended 31 December 2012 (audited)
Net profit (loss) for the period	6 544	(1 863)	13 529
Exchange difference on translation of foreign operations	(452)	55	46
Total net other comprehensive income	(452)	55	46
Total comprehensive income for the period	6 092	(1 808)	13 574
Other comprehensive income:			
- amount that may be transferred to income statement	(452)	55	46
- amount that will not be transferred to income statement	-	-	-

## Standalone balance sheet

	As at 31 March 2013 (unaudited)	As at 31 December 2012 (audited)	As at 31 March 2012 (unaudited)
<b>ASSETS</b>			
Non-current assets			
Property, plant and equipment	304	316	347
Intangible assets	1 325	1 327	1 326
Investment in subsidiaries, associates and joint ventures	1 064 482	1 021 820	636 269
Other financial assets (non-current)	182	-	296 026
Other non-financial assets (non-current)	889	846	1 627
	1 067 183	1 024 309	935 595
Current assets			
Trade and other receivables	36 133	29 790	11 043
Income tax receivables	1 164	1 822	515
Other financial assets	21 836	26 476	56 767
Other non-financial assets	966	764	910
Cash and cash equivalents	10 047	30 356	6 180
	70 147	89 208	75 415
<b>TOTAL ASSETS</b>	<b>1 137 330</b>	<b>1 113 517</b>	<b>1 011 011</b>
<b>EQUITY AND LIABILITIES</b>			
Equity attributable to equity holders of the parent company			
Share capital	69 288	55 404	554 035
Share premium	651 580	580 878	80 062
Other reserves	135 424	200 407	120 276
Foreign currency translation	(412)	40	49
Retained earnings / Accumulated (unabsorbed) losses	20 014	13 471	23 957
<b>Total equity</b>	<b>875 894</b>	<b>850 198</b>	<b>778 380</b>
Non-current liabilities			
Interest-bearing loans, borrowings and bonds	200 000	128 300	199 814
Provisions	869	827	1 800
Deferred tax liabilities	1	1	1
Accruals and deferred income	1 750	1 974	-
	202 621	131 102	201 615
Current liabilities			
Interest-bearing loans, borrowings and bonds	24 561	98 260	23 451
Trade payables	30 231	29 037	957
Other current liabilities	1 258	1 680	4 477
Accruals and deferred income	2 765	3 239	2 132
	58 816	132 216	31 016
<b>TOTAL LIABILITIES</b>	<b>261 436</b>	<b>263 318</b>	<b>232 631</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>1 137 330</b>	<b>1 113 516</b>	<b>1 011 011</b>

## Standalone cash flow statement

	3 months period ended 31 March 2013 (unaudited)	3 months period ended 31 March 2012 (unaudited)	Year ended 31 December 2012 (audited)
<b>Cash flow from operating activities</b>			
Profit (loss) before taxation	6 544	(1 863)	13 528
Adjustments for:			
Depreciation	30	26	111
Gain / (loss) from foreign exchange differences	(459)	62	51
Impairment of non-current assets	-	-	10 000
Net interest and dividends	(1 921)	4 268	17 935
Increase / decrease in receivables and other non-financial assets <sup>other non-financi</sup>	(6 631)	6 108	(13 861)
Increase / decrease in payables except for loans and borrowings	772	(84)	25 199
Change in accruals and prepayments	(697)	(596)	2 603
Change in provisions	42	(92)	(1 065)
Income tax paid	658	(151)	(1 456)
Loans granted	74 484	(16 342)	156 309
Net cash flow from operating activities	72 821	(8 665)	209 353
<b>Cash flow from investing activities</b>			
Purchase of property, plant and equipment and intangible assets	(9)	(3)	(56)
Increase of shares in subsidiaries	(10 763)	-	(27 922)
Acquisition of shares in subsidiary	(7 151)	-	(15 063)
Net cash flow from investing activities	(17 923)	(3)	(43 040)
<b>Cash flow from financing activities</b>			
Repayment of loans	(71 900)	-	(128 100)
Dividends paid	-	-	(9 973)
Interest paid	(3 306)	(8 913)	(21 645)
Net cash flow from financing activities	(75 206)	(8 913)	(159 718)
Net increase/(decrease) in cash and cash equivalents	(20 308)	(17 580)	6 596
Cash and cash equivalents at the beginning of the period	30 356	23 760	23 760
Cash and cash equivalents at the end of the period	10 047	6 180	30 356

## Standalone statement of changes in equity

	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	-	-	(452)	-	-	(452)
Net profit/(loss) for the period	-	-	-	-	6 544	6 544
Total comprehensive income	-	-	(452)	-	6 544	6 092
Issue of shares	13 884	70 702	-	(64 983)	-	19 603
As at 31 March 2013 (unaudited)	69 288	651 580	(412)	135 424	20 014	875 894

	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
Foreign currency translation	-	-	55	-	-	55
Net profit for the period	-	-	-	-	(1 863)	(1 863)
Total comprehensive income	-	-	55	-	(1 863)	(1 808)
As at 31 March 2012 (unaudited)	554 035	80 062	49	120 276	23 957	778 380

	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
Net profit for the period	-	-	-	-	13 529	13 529
Other comprehensive income	-	-	46	-	-	46
Total comprehensive income	-	-	46	-	13 529	13 574
Issue of shares	-	-	-	64 983	-	64 983
Reallocation of equity	(498 632)	498 632	-	-	-	-
Profit distribution	-	2 184	-	15 148	(27 305)	(9 973)
Tax pooling	-	-	-	-	1 427	1 427
As at 31 December 2012 (audited)	55 404	580 878	40	200 407	13 471	850 198

## 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 three months of 2013 amounted to PLN 814 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,

### 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:

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 quarterly interim condensed financial statements of the Group and the Company comprise income statement, comprehensive income statement, cash flow statement and statement of changes in equity for the periods of initial three ended 31st March 2012 and includes comparative data for the period of initial three months ended 31st March 2012 and twelve months period ended 31st December 2012.

The quarterly interim condensed financial statements of the Company comprise also the balance sheet as on 31st March 2013 and includes comparative data as on 31st December 2012 and 31st March 2012. Moreover, because of the changes of IAS 19 Employee Benefits applicable from 1st January 2013 in the hereby interim condensed financial statements a balance sheet as on 1st January 2012 has also been presented.

- Production and sales of pulp,
- 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 31st March 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 Arctic Paper S.A. Moreover, Nemus

Holding AB, holder of 5,857,286 shares 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:

Entity	Registered office	Business activities	Share in capital of subsidiaries entities as at	
			15 May 2013	31 December 2012
Arctic Paper Kostrzyn S.A.	Poland, Fabryczna 1, 66-470 Kostrzyn nad Odrą	Paper production	100%	100%
Arctic Paper Munkedals AB	Sweden, SE 455 81 Munkedal	Paper production	100%	100%
Arctic Paper Mochenwangen GmbH	Germany, Fabrikstrasse 62, DE-882, 84 Wolpertswende	Paper production	99,74%	99,74%
Arctic Paper Grycksbo AB	Sweden, Box 1, SE 790 20 Grycksbo	Paper production	100%	100%
Arctic Paper UK Limited	Great Britain, Quadrant House, 47 Croydon Road, Caterham, Surrey	Trading services	100%	100%
Arctic Paper Baltic States SIA	Latvia, K. Vardemara iela 33-20, Riga LV-1010	Trading services	100%	100%
Arctic Paper Deutschland GmbH	Germany, Raboisen 3, 20095 Hamburg	Trading services	100%	100%
Arctic Paper Benelux S.A.	Belgium, Dreve des Marroniers 28, 1410 Waterloo	Trading services	100%	100%
Arctic Paper Schweiz AG	Switzerland, Technoparkstrasse 1, 8005 Zurich	Trading services	100%	100%
Arctic Paper Italia srl	Italy, Milano – Via R. Boscovich 14	Trading services	100%	100%
Arctic Paper Ireland Limited	Ireland, 4 Rosemount Park Road, Dublin 11	Trading services	100%	100%
Arctic Paper Danmark A/S	Denmark, Jydekrogen 18, DK-2625 Vallensbaek	Trading services	100%	100%
Arctic Paper France SAS	France, 43 rue de la Breche aux Loups, 75012 Paris	Trading services	100%	100%

Entity	Registered office	Business activities	Share in capital of subsidiaries entities as at	
			15	31
			May 2013	December 2012
Arctic Paper Espana SL	Spain, Avenida Diagonal 472-474, 9-1 Barcelona	Trading services	100%	100%
Arctic Paper Papierhandels GmbH	Austria, Hainborgerstrasse 34A, A-1030 Wien	Trading services	100%	100%
Arctic Paper Polska Sp. z o.o.	Poland, Biskupia 39, 04-216 Warszawa	Trading services	100%	100%
Arctic Paper Norge AS	Norway, Per Kroghsvei 4, Oslo	Trading services	100%	100%
Arctic Paper Sverige AB	Szweden, Kurodsvagen 9, 451 55 Uddevalla	Trading services	100%	100%
Arctic Paper East Sp. z o.o.	Poland, Fabryczna 1, 66-470 Kostrzyn nad Odrą	Trading services	100%	100%
Arctic Paper Investment GmbH *	Germany, Fabrikstrasse 62, DE-882, 84 Wolpertswende	Holding company	100%	100%
Arctic Energy Sverige AB	Sweden, Box 383, 401 26 Göteborg	Hydro energy production	100%	100%
Arctic Paper Verwaltungs GmbH *	Germany, Fabrikstrasse 62, DE-882 84 Wolpertswende	Holding company	100%	100%
Arctic Paper Immobilienverwaltung GmbH&Co. KG*	Germany, Fabrikstrasse 62, DE-882 84 Wolpertswende	Holding company	94,90%	94,90%
Arctic Paper Investment AB **	Sweden, Box 383, 401 26 Göteborg	Holding company	100%	100%
Grycksbo Paper Holding AB	Sweden, Box 1, SE 790 20 Grycksbo	Holding company	100%	100%
EC Kostrzyn Sp. z o.o.	Poland, Fabryczna 1, 66-470 Kostrzyn nad Odrą	Property and machinery rental	100%	100%
Arctic Paper Munkedals Kraft AB	Sweden, 455 81 Munkedal	Hydro energy production	100%	100%
Rottneros AB	Sweden, 107 24 Stockholm	Holding company	54,20%	39,66%
Rottneros Bruk AB	Sweden, Sunne	Pulp production	54,20%	39,66%
Utansjo Bruk AB	Sweden, Harnosand	Pulp production	54,20%	39,66%
Vallviks Bruk AB	Sweden, Vallvik	Pulp production	54,20%	39,66%
Rottneros Packaging AB	Sweden, Stockholm	Food packaging production	54,20%	39,66%
SIA Rottneros Baltic	Latvia	Company for purchase of timber	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 31st March 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 31st March 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;

Until the date of publishing of the hereby report, there were no changes in composition of the Management Board of the Parent Company.

#### 3.2. Supervisory Board of the Parent Company

As on 31st March 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;
- Jan Ohlsson – Member of the Supervisory Board appointed on 8th June 2010.
- Mariusz Grendowicz - Member of the Supervisory Board appointed on 28th June 2012;

Until the date of publishing of the hereby report, there were no changes in composition of the Supervisory Board of the Parent Company.

#### 3.3. Audit Committee of the Parent Company

As on 31st March 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;
- Mariusz Grendowicz – Member of the Audit Committee appointed on 20th February 2013.

On 20th February 2013, the Supervisory Board appointed Mr Mariusz Grendowicz as a Member of the Audit Committee. Until the day of publishing of the hereby report no further changes in membership of the Audit Committee occurred.

#### 4. Approval of the financial statements

The hereby interim quarterly condensed consolidated financial statements were approved for publishing by the Management Board on 15th May 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 IFRSs endorsed by the European Union.

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 the date of the approval of these interim condensed consolidated financial statements, there is no awareness of any facts or circumstances that would indicate a threat to the continued activity of the Company.

The 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 2011, 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. Pursuant to IAS 34, in note 6.2 of the hereby report, the Group disclosed the scope and influence of introduction of these changes to IAS 19 on comparative data.

Moreover, the Group has adopted for the first time, starting from 1st January 2013, other new standards/amendments to existing standards, which did not influence changes of annual

financial statements and the current interim condensed financial statements.

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

- Changes to IAS 1 Presentation of items of other comprehensive income – introduces the obligation to present in statement of comprehensive income the items of other comprehensive income which may be recognized in income statement in future periods as well as the items of other comprehensive income which will not be included in income statement. The change to IAS 1 introduces changes in presentation in statement of comprehensive income and does not have influence on income statement or on balance sheet.
- Change to IAS 1 Clarification of the requirement for comparative information; it clarifies the differences between voluntary recognition of additional comparative data and the minimum obligatory scope of comparative

data. The change does not affect the hereby interim condensed financial statements.

- Change to IAS 32 – Tax effects of distributions to holders of equity instruments; IAS 32 Financial Instruments clarifies that the tax on distributions of equity instruments is recognized in compliance with IAS 12 Income tax. The change does not affect the hereby interim condensed financial statements.
- Change to IAS 34 – Interim financial reporting; it clarifies that the requirements of IAS 34 concerning disclosure of the information about segments are compliant with requirements of IFRS 8 Operating segments. The change does not affect the hereby interim condensed financial statements.
- Change to IFRS 7 Financial Instruments: Disclosures concerns offsetting financial assets and financial liabilities. The change does not affect the hereby interim condensed financial statements.
- IFRS 13 Fair Value Measurement provides guidance for fair value measurements under requirements of IAS/IFRS. The change does not affect the hereby interim condensed financial statements.
- Changes to IAS 19 Employee Benefits – applicable for annual periods beginning 1st January 2013 or later.
- The description of changes to IAS 19 and the influence of their application on comparative data have been described in note 6.2 to the hereby interim condensed financial statements.

Moreover, as described in the annual consolidated financial statements (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).

## 6.1. 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 following exchange rates were used for valuation purposes:

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.

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 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.

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).

	As at 31 March 2013	As at 31 December 2012
USD	3,2590	3,0996
EUR	4,1774	4,0882
SEK	0,4999	0,4757
LVL	5,9567	5,8595
DKK	0,5604	0,5480
NOK	0,5584	0,5552
GBP	4,9528	5,0119
CHF	3,4323	3,3868

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

	01/01 - 31/03/2013	01/01 - 31/03/2012
USD	3,1469	3,2249
EUR	4,1550	4,2298
SEK	0,4892	0,4778
LVL	5,9391	6,0561
DKK	0,5571	0,5689
NOK	0,5591	0,5574
GBP	4,8833	5,0664
CHF	3,3827	3,5011

## 6.2. 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 31st March 2013 and performed the change of comparative data as on 31st March 2012 and 31st December 2012. Moreover, pursuant to IAS 1 and IAS 8 the Group presented balanced sheet as on 1st January 2012. The amendments to IAS 19 applied by the Group consider mainly cancelling of corridor approach in recognition of provision on severance pay and recording actuarial profits and loss in other operating income.

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 10,748 thousand (as on 1st January 2012 and 31st March 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 521 thousand (as on 1st January 2012 and 31st March 2012 respectively PLN 79 thousand and PLN 1,117 thousand);
- increase of trade liabilities and other liabilities by the amount of PLN 1,710 thousand (as on 1st January 2012 and 31st March 2012: PLN 1,665 thousand);
- decrease of retained profit/loss as on 31st December 2012 by the amount of PLN 9,477 thousand, whereas decrease of net profit for the year ended 31st December 2012 by PLN 4,738 thousand (increase of own cost by PLN 6,196 thousand and decrease of income tax by

PLN 1,458 thousand) and decrease of other comprehensive income for the year ended 31st December 2012 by the amount of PLN 286 thousand

and decrease of retained profit/loss as on 1st January 2012 and 31st March 2012 by the amount of PLN 4,453 thousand.

## 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 three 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-calendering 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'.

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 three months period ended on 31st March 2013 and represents the situation as on 31st March 2013.

Three months' period ended 31st March 2013 and as on 31st March 2013

	Continuing Operations					Eliminations	Total Group
	Uncoated	Coated	Pulp	Other	Total		
<b>Revenues</b>							
Sales to external customers	475 292	181 676	157 438	-	814 405	-	814 405
Inter-segment sales	41 061	42 872	15 746	10 000	109 680	(109 680)	-
<b>Total segment revenues</b>	<b>516 353</b>	<b>224 548</b>	<b>173 184</b>	<b>10 000</b>	<b>924 085</b>	<b>(109 680)</b>	<b>814 405</b>
<b>Segment's Result</b>							
EBITDA	27 251	(113)	4 892	1 596	33 626	(1 259)	32 368
Interest Income	3 675	41	0	5 965	9 682	(9 299)	383
Interest Costs	(6 286)	(6 706)	(489)	(4 045)	(17 526)	9 907	(7 619)
Depreciation	(12 560)	(9 646)	(9 819)	(30)	(32 055)	-	(32 055)
Positive FX and other financial income	450	-	1 468	510	2 428	(221)	2 207
Negative FX and other financial costs	(919)	(40)	-	(16)	(975)	221	(754)
<b>Profit before tax</b>	<b>11 611</b>	<b>(16 464)</b>	<b>-3 949</b>	<b>3 981</b>	<b>(4 820)</b>	<b>(651)</b>	<b>(5 471)</b>
Segment assets	1 358 807	510 937	498 958	424 593	2 793 295	(805 982)	1 987 313
Segment liabilities	944 033	622 154	172 965	261 435	2 000 587	(850 126)	1 150 461
Capital expenditures	(14 495)	(3 594)	(978)	(9)	(19 076)	-	(19 076)

- Revenues from inter-segment transactions are excluded on consolidation.
- Segment result does not include financial income (PLN 2,589 thousand of which PLN 383 thousand is interest income) and financial costs (PLN 8,373 thousand of which PLN 7,619 thousand is interest costs), depreciation (PLN 32,055 thousand), as well as income tax liability (PLN -609 thousand). However, segment result includes inter-segment sales profit (PLN 1,259 thousand).
- Segment assets and liabilities do not include deferred tax asset and liability (deferred tax asset of PLN 64,921 thousand, deferred tax liability of PLN -61,319 thousand) as these positions are managed in the Group level. Segment assets do not also include investments in the entities operating within the Group.

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 three months period ended on 31st March 2012 and represents the situation as on 31st March 2012.

### Three months' period ended on 31st March 2012 and as on 31st March 2012

	Continuing Operations					Eliminations	Total Group
	Uncoated	Coated	Other	Total			
<b>Revenues</b>							
Sales to external customers	489 109	191 311	-	680 420	-	-	680 420
Inter-segment sales	44 341	48 065	5 459	97 866	(97 866)	-	-
<b>Total segment revenues</b>	<b>533 450</b>	<b>239 376</b>	<b>5 459</b>	<b>778 285</b>	<b>(97 866)</b>		<b>680 420</b>
<b>Segment's Result</b>							
EBITDA	35 548	18 449	(640)	53 357	378		53 734
Interest Income	882	35	6 941	7 858	(7 591)		267
Interest Costs	(8 748)	(3 791)	(5 030)	(17 569)	7 602		(9 967)
Depreciation	(15 611)	(14 786)	(26)	(30 424)	-		(30 424)
Positive FX and other financial income	12 894	5 087	219	18 200	(18 201)		(1)
Negative FX and other financial costs	(14 678)	(4 058)	(3 327)	(22 063)	18 234		(3 829)
<b>Profit/(Loss) before tax</b>	<b>10 287</b>	<b>936</b>	<b>(1 863)</b>	<b>9 360</b>	<b>421</b>		<b>9 781</b>
Segment assets	1 398 813	513 358	480 776	2 392 947	(566 454)		1 826 494
Segment liabilities	859 560	364 883	341 787	1 566 230	(540 324)		1 025 906
Capital expenditures	8 677	532	259	9 468	-		9 468

- Revenues from inter-segment transactions are excluded on consolidation.
- Segment result does not include financial income (PLN 267 thousand – all is interest income) and financial costs (PLN 13,796 thousand of which PLN 9,967 thousand is interest costs), depreciation (PLN 30,424 thousand) as well as income tax liability (PLN -170 thousand). However, segment result includes inter-segment sales loss (PLN 378 thousand).
- Segment assets and liabilities do not include deferred tax asset and liability (deferred tax asset of PLN 4,019 thousand, deferred tax liability of PLN -144,654 thousand) as these positions are managed in the Group level. Segment assets do not also include investments in the entities operating within the Group.

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 twelve months period ended on 31st December 2012 and represents the situation as on 31st December 2012.

Twelve months' period ended on 31st December 2012 and as on 31st December 2012

	Continuing Operations					Eliminations	Total Group
	Uncoated	Coated	Other	Total			
<b>Revenues</b>							
Sales to external customers	1 860 634	740 066	-	2 600 700	-	-	2 600 700
Inter-segment sales	161 488	165 911	37 209	364 608	(364 608)	-	-
<b>Total segment revenues</b>	<b>2 022 122</b>	<b>905 977</b>	<b>37 209</b>	<b>2 965 308</b>	<b>(364 608)</b>		<b>2 600 700</b>
<b>Segment's Result</b>							
EBITDA	131 936	15 438	198 253	345 628	40		345 668
Interest Income	3 781	82	27 544	31 407	(29 997)		1 410
Interest Costs	(32 368)	(11 670)	(19 687)	(63 725)	30 004		(33 721)
Depreciation	(63 611)	(59 563)	(111)	(123 286)	-		(123 286)
Impairments of non-current assets	(39 566)	(209 308)	(27 035)	(275 910)	27 035		(248 874)
Positive FX and other financial income	399	1 403	48 470	50 272	(50 198)		74
Negative FX and other financial costs	(5 600)	(137)	(4 205)	(9 943)	2 269		(7 674)
<b>Profit before tax</b>	<b>(5 030)</b>	<b>(263 755)</b>	<b>223 229</b>	<b>(45 556)</b>	<b>(20 847)</b>		<b>(66 402)</b>
Segment assets	1 290 613	512 574	899 340	2 702 528	(725 133)		1 977 395
Segment liabilities	901 207	619 028	407 931	1 928 167	(767 836)		1 160 331
Capital expenditures	(50 668)	(8 903)	(56)	(59 627)	-		(59 627)

- Revenues from inter-segment transactions are excluded on consolidation.
- Segment result does not include financial income (PLN 1,484 thousand of which 1,410 PLN is interest income) and financial costs (PLN 41,394 thousand of which PLN 33,721 thousand is interest costs), depreciation (PLN 123,286 thousand), impairment (PLN 248,874 thousand) as well as income tax liability (PLN +85,076 thousand). However, segment result includes inter-segment sales loss (PLN 40 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 55,615 thousand) as these positions are managed in the Group level. Segment assets do not also include investments in the entities operating within the Group.

## 9. 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.

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.

In the first quarter of 2013, Shareholders Meeting did not decide regarding distribution of profit and dividend payment. However, on 11th March 2013, the Management Board recommended dividend payment from net profit of Arctic Paper S.A. for 2012 in the amount of PLN 0.15 per share..

## 10. 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 31 March 2013 (unaudited)	3 months period ended 31 March 2012 (unaudited)
Net profit (loss) for the year from continuing operations attributable to equity holders	(4 132)	9 611
Profit (loss) for the period from discontinued operations attributable to equity holders of the parent	-	-
Net profit (loss) for the year from continuing operations attributable to equity holders	(4 132)	9 611
Number of share - series A	50 000	50 000
Number of share - series B	44 253 500	44 253 500
Number of share - series C	8 100 000	8 100 000
Number of share - series E	3 000 000	3 000 000
Number of share - series F	13 884 283	-
Total number of shares (in thousand)	69 287 783	55 403 500
Weighted average number of shares	67 736 271	55 403 500
Weighted average diluted number of shares	67 736 271	55 403 500
Profit/(Loss) per share (in PLN)	(0,06)	0,17
Diluted profit/(loss) per share (in PLN)	(0,06)	0,17

## 11. Interest-bearing loans, borrowings and bonds

During the reporting period the Group fully repaid short-term bonds in the amount of PLN 71,900 thousand together with interest and increased its debt under loan agreement concluded in November 2012 with consortium of banks (Bank

Polska Kasa Opieki S.A., Bank Zachodni WBK S.A., and BRE Bank S.A.) by the amount of PLN 43,246 thousand.

Other changes in loans and borrowings as on 31st March 2013 compared to the situation as on 31st December 2012

result mainly from changes in overdraft debt and balance sheet evaluation.

## 12. Equity securities

	As at 31 March 2013 (unaudited)	As at 31 March 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 31 March 2013 (unaudited)		69 287 783	69 287 783

## 13. 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.

### 13.1. Hedge accounting

In order to reduce the volatility of the projected cash flows related to foreign exchange risk Group companies use currency hedging based on the use of derivatives related to foreign exchange market. They include, in particular, forward contracts, contracts for electricity purchases, forward contracts for pulp sales, and SWAP interest contracts.

As on 31st March 2013, the Group used cash flow hedge accounting for the following hedging relations:

- 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 the purchase of USD, as well as the 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 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 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 sales of EUR for USD:

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 27.06.2013 till 27.12.2013
Hedged amount	14.0 mln USD
Forward ratio	1.2810

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, until 31.12.2016
Hedged amount	13.0 mln EUR
Forward ratio	9.18 SEK/EUR

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

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, until 31.12.2013
Hedged amount	15.0 mln USD
Forward ratio	6.46 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, until 31.12.2016
Hedged amount	748.000 MWh
Forward price	from 34.65 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:

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, until 31.12.2013
Hedged amount	12.000 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, until 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:

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, until 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 31st March 2013 and the comparative data:

	As at 31 March 2013		As at 31 December 2012	
	(unaudited)	(unaudited)	(audited)	(audited)
	Assets	Liabilities	Assets	Liabilities
FX forward	1 661	4 999	-	2 854
Pulp forward	1 500	-	3 806	-
SWAP	-	1 391	-	141
Electricity forward	-	12 008	-	17 924
Total hedging derivatives	3 161	18 398	3 806	20 919

## 14. Financial risk management objectives and policies

The Group's principal financial instruments comprise bank loans, finance 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.

## 15. 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.

## 16. Contingent liabilities and contingent assets

The Group reported the following as on 31st March 2013:

- 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 219,680 thousand;
- a guarantee commitment to FPG in favor of mutual life insurance company PRI in the amount of SEK 50,000 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,
- guarantees granted by the companies of Rottneros Group in the total amount of SEK 3,000 thousand.

## 16.1. 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 not yet been examined. The bankruptcy is in progress.

### Case against Jakon S.A. in liquidation

On 07th 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 31st March 2013, the companies of the Group are not parties to any other legal case.

## 17. 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 has not been known.

## 18. Government grants and operations in Special Economic Zone

### 18.1. Government grants

In the current quarter the Group companies have not received any subsidies. The grants that had been received by the Group and the conditions of utilizing have been described in the annual consolidated financial statements for 2012 (note 45.1)

### 18.2. 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 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 31st March 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 43,741 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 31st March 2013 stood at PLN 22,667 thousand.

## 19. Significant events after balance sheet date

After the balance sheet date, no material events occurred which could have influenced the property and financial position of the Group.

Signatures of the Members of the Management Board

Position	Name and surname	Date	Signature
President of the Management Board Chief Executive Officer	Michał Jarczyński	15 May 2013	
Member of the Management Board Chief Financial Officer	Michał Bartkowiak	15 May 2013	

Headquarters

**Arctic Paper S.A.**

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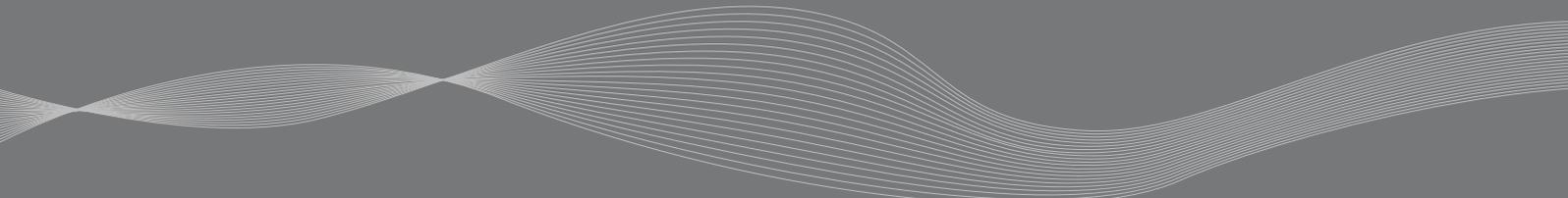
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