

ARCTIC PAPER S.A.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2013

TOGETHER WITH INDEPENDENT AUDITORS' REPORT

Poznań, 21st March 2014

Content

Income statement	5
Statement of comprehensive income	6
Statement of balance sheet	7
Statement of cash flows.....	8
Statement of changes in equity	10
Accounting policies and additional notes	12
1. Corporate information.....	12
2. Identification of consolidated financial statements.....	12
3. Composition of the Management Board.....	12
4. Approval of the financial statements	13
5. Company's investments.....	13
6. Significant professional judgment and estimates	14
7. Basis of preparation of financial statements	15
7.1. Statement of compliance	16
7.2. Functional currency and presentation currency	16
8. Changes in accounting policies	16
9. Amendments to existing standards and new regulations.....	18
10. Summary of significant accounting policies	19
10.1. Foreign currency translation.....	19
10.2. Property, plant and equipment.....	20
10.3. Intangible assets.....	20
10.4. Impairment of non-financial assets	21
10.5. Borrowing costs.....	22
10.6. Shares in subsidiaries, affiliated entities and joint ventures.....	22
10.7. Financial assets	22
10.8. Impairment of financial assets	24
10.9. Embedded derivatives	25
10.10. Derivative financial instruments and hedges.....	25
10.11. Inventories	27
10.12. Trade and other receivables	27
10.13. Cash and cash equivalents	27
10.14. Interest-bearing loans, borrowings and bonds	28
10.15. Trade and other payables.....	28
10.16. Provisions	29
10.17. Revenue.....	29
10.18. Income tax	29
10.19. Earnings per share	31
11. Operating segments	31
12. Revenues and expenses	31
12.1. Other operating income	31
12.2. Other operating expenses	32
12.3. Financial income.....	32
12.4. Financial costs.....	32
12.5. Costs by nature	32

12.6. Depreciation / amortization and impairment losses included in income statement	34
12.7. Employee benefits expenses	34
13. Income tax.....	34
13.1. Tax burdens.....	34
13.2. Reconciliation of the effective income tax rate	34
13.3. Deferred income tax	35
14. Earnings per share	36
15. Dividend paid and proposed.....	37
16. Property, plant and equipment.....	37
17. Intangible assets	39
18. Other assets.....	40
18.1. Investments in subsidiaries	40
18.2. Other financial assets.....	41
18.3. Other non-financial assets.....	43
19. Inventories.....	43
20. Trade and other receivables.....	44
21. Cash and cash equivalents	44
22. Share capital, share premium and other reserve capital	45
22.1. Share capital.....	45
22.2. Foreign branch operations currency translation.....	47
22.3. Share premium.....	47
22.4. Other reserves.....	48
22.5. Retained earnings (losses) and limits to its distribution	48
23. Conditional increase in share capital and change in assumptions of motivational program .	48
23.1. Change in assumptions of incentive program	48
23.2. Calling for purchase of Rottneros AB shares	49
24. Acquisition of subsidiaries	50
25. Interest-bearing loans and borrowings	51
25.1. Interest-bearing loans and borrowings	51
25.2. Bonds issue and repayment.....	52
26. Provisions.....	52
27. Trade and other payables, other liabilities and accruals.....	53
27.1. Trade and other payables, other liabilities (short – term)	53
27.2. Accruals.....	54
28. Contingent liabilities.....	54
28.1. Tax settlements.....	55
29. Reasons for discrepancies between changes resulting from statement of financial position and changes resulting from cash flow statement	55
30. Related party disclosures	56
30.1. The ultimate parent.....	58
30.2. Terms and conditions of transactions with related parties	58
30.3. Loans granted to members of the Management Board	58
30.4. Remuneration of the Company's key management personnel.....	58
31. Information about the contract and remuneration of auditor or audit company.....	59
32. Financial risk management objectives and policies.....	59
32.1. Interest rate risk	59
32.2. Foreign currency risk.....	60

32.3. Credit risk.....	60
32.4. Liquidity risk.....	61
32.5. Financial instruments.....	61
32.6. Fair value.....	61
32.7. Derivatives.....	61
32.8. Fair values of each class of financial instruments.....	62
32.9. Interest rate risk.....	62
33. Capital management.....	63
34. Employment structure.....	64
35. Events after the reporting period.....	64
35.1. Acquisition of Arctic Paper Deutschland GmbH shares.....	64
35.2. Appointment of a Member of the Management Board.....	64
35.3. Annex to the credit facility agreement of Arctic Paper Grycksbo.....	64

INCOME STATEMENT

for year ended 31st December 2013

	<i>Note</i>	Year ended 31 December 2013	Year ended 31 December 2012
Continuing operations			
Sales of services	30	40 668	37 209
Interest income	30	1 134	25 841
Dividend income	30	75 155	47 852
Revenues	11	116 956	110 902
Cost of interest to subsidiaries		(9 784)	-
Gross profit (loss)		107 172	110 902
Other operating income	12.1	284	262
Selling costs	12.5	(2 861)	(1 387)
Administrative expenses	12.5	(28 546)	(26 931)
Other operating costs	12.2	(255 548)	(47 062)
Operating profit (loss)		(179 498)	35 784
Financial income	12.3	3 194	1 021
Financial costs	12.4	(3 607)	(23 277)
Profit (loss) before tax		(179 910)	13 528
Income tax	13.1	-	1
Profit (loss) from continuing operations		(179 910)	13 529
Discontinued operation		-	-
Profit (loss) from discontinued operation		-	-
Profit (loss) for the period		(179 910)	13 529
Earnings per share (in PLN):			
- basic from the profit (loss) for the period	14	(2,61)	0,24
- basic from the profit (loss) from continuing operations		(2,61)	0,24
- diluted from the profit (loss) for the period	14	(2,61)	0,24
- diluted from the profit (loss) from continuing operations		(2,61)	0,24

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31st December 2013

	<i>Note</i>	Year ended 31 December 2013	Year ended 31 December 2012
Profit (loss) for the period		(179 910)	13 529
Items to recognise in profit/loss in future periods:			
Foreign currency translation differences for foreign operations	22.2	152	(46)
Other comprehensive income		152	(46)
Total comprehensive income for the period		(179 758)	13 574

STATEMENT OF BALANCE SHEET

as on 31st December 2013

	<i>Note</i>	As at 31 December 2013	As at 31 December 2012
ASSETS			
Non - current assets			
Fixed assets	<i>16</i>	263	316
Intangible fixed assets	<i>17</i>	1 321	1 327
Investments in subsidiaries	<i>18.1</i>	822 189	1 021 820
Other non-financial assets	<i>18.3</i>	5 745	846
		829 519	1 024 309
Current assets			
Trade and other receivables	<i>20</i>	44 489	29 790
Income tax receivables		811	1 822
Other current financial assets	<i>18.2</i>	21 142	26 476
Other current non-financial assets	<i>18.3</i>	609	764
Cash and cash equivalents	<i>21</i>	9 018	30 356
		76 069	89 208
TOTAL ASSETS		905 588	1 113 517
EQUITY			
Share capital	<i>22.1</i>	69 288	55 404
Share premium account	<i>22.3</i>	652 662	580 878
Other reserve capital	<i>22.4</i>	147 871	200 407
Translation reserve	<i>22.2</i>	192	40
Retained earnings		(179 968)	13 471
Total equity		690 044	850 198
Non-current liabilities			
Borrowings, loans and bonds	<i>25</i>	175 428	128 300
Provisions	<i>26</i>	733	827
Deferred tax liabilities	<i>13.3</i>	1	1
Accrued expenses and prepaid income	<i>27.2</i>	2 026	1 974
		178 188	131 102
Current liabilities			
Borrowings, loans and bonds	<i>25</i>	114	98 260
Trade payables	<i>27.1</i>	33 523	29 037
Other current liabilities	<i>27.1</i>	1 170	1 680
Accrued expenses and prepaid income	<i>27.2</i>	2 548	3 239
		37 356	132 216
TOTAL LIABILITIES		215 544	263 318
TOTAL EQUITY AND LIABILITIES		905 588	1 113 516

STATEMENT OF CASH FLOWS

for the year ended 31st December 2013

	<i>Note</i>	Year ended 31 December 2013 (audited)	Year ended 31 December 2012 (audited)
Cash flows from operating activities			
Profit (loss) before tax		(179 910)	13 528
<u>Adjustments for:</u>			
Depreciation	12.6	99	111
Net foreign exchange differences		154	51)
Impairment of non-current assets		250 628	
Net interests and dividends		1 647	17 935
Gain (loss) from investing activities		1 860	-
Change in trade and other receivables	29	(15 726)	(13 861)
Change in trade and other payables (except for borrowings, loans and bonds)		10 562	25 199
Change in accruals and prepayments		(483)	2 603
Change in provisions		(94)	(1 065)
Income tax		1 011	(1 456)
Loans granted to subsidiaries		6 439	156 309
Net cash used in operating activities		76 185	209 353
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(40)	(56)
Increase of shares in subsidiaries		(37 234)	(27 922)
Proceeds from sales of shares to non-controlling interest		3 979)	-
Acquisition of shares in a subsidiary		(4 977)	(15 063)
Net cash from investing activities		(38 272)	(43 040)

STATEMENT OF CASH FLOWS
for the year ended 31st December 2013 – continued

	<i>Note</i>	Year ended 31 December 2013 (audited)	Year ended 31 December 2012 (audited)
Cash flow from financing activities			
Repayment of bonds		(71 900)	(128 100)
Loans received		16 690	-
Dividends paid		-	(9 973)
Interest paid		(4 041)	(21 645)
Net cash from financing activities		(59 251)	(159 718)
<hr/>			
Cash and cash equivalents at the beginning of the period	<i>21</i>	30 356	23 760
Net increase (decrease) in cash and cash equivalents		(21 338)	6 596
<hr/>			
Cash and cash equivalents at the end of the period	<i>21</i>	9 017	30 356

ARCTIC PAPER S.A.
 Financial statements for the year ended 31st December 2013
 (in PLN thousands)

STATEMENT OF CHANGES IN EQUITY

for the year ended 31st December 2013

	<i>Note</i>	Share capital	Share premium	Translation reserve	Other reserve capital	Retained earnings	Total equity
As at 1 January 2013		55 404	580 878	40	200 407	13 471	850 198
Profit (loss) for the period		-	-	-	-	(179 910)	(179 910)
Other comprehensive income for the period	22.2	-	-	152	-	-	152
Total comprehensive income		-	-	152	-	(179 910)	(179 758)
Issue of shares	22.1	13 884	70 702	-	(64 983)	-	19 603
Profit distribution		-	1 082	-	12 447	(13 529)	-
As at 31 December 2013		69 288	652 662	192	147 871	(179 968)	690 044

Accounting policies and additional notes included on pages from 12 to 66 are an integral part of these financial statements

ARCTIC PAPER S.A.
 Financial statements for the year ended 31st December 2013
 (in PLN thousands)

For the year ended 31st December 2012

	<i>Note</i>	Share capital	Share premium	Translation reserve	Other reserve capital	Retained earnings	Total equity
As at 1 January 2012		554 035	80 062	(6)	120 276)	25 820	780 188
Profit (loss) for the period		-	-	-	-	13 529	13 529
Other comprehensive income for the period		-	-	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)
Payments within the tax group in Sweden		-	-	-	-	1 427	1 427
As at 31 December 2012		55 404	580 878	40	200 407	13 471	850 198

Accounting policies and additional notes included on pages from 12 to 66 are an integral part of these financial statements

ACCOUNTING POLICIES AND ADDITIONAL NOTES

1. Corporate information

The financial statements of the Arctic Paper S.A cover the year ended 31st December 2013 and contain comparative data for the year ended 31st December 2012.

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

The seat of the Company is located in Poznań, ul. Jana Henryka Dąbrowskiego 334A.

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

The Company was granted statistical REGON number 080262255.

The Company has an unlimited period of operation.

The main area of the Company’s business activity is holding activity for the benefit of Arctic Paper Capital Group.

The direct parent company of Arctic Paper S.A. is Trebruk AB (formerly Arctic Paper AB). The ultimate parent company of Arctic Paper Group is Cassandrax Financials S.A.

2. Identification of consolidated financial statements

The Company prepared consolidated financial statements for the year ended 31st December 2013, which has been approved for publishing on 21st March 2014.

3. Composition of the Management Board

As on 31st December 2013, the Management Board of the Company consisted of:

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

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

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

On 12th February 2014 the Supervisory Board of the Company appointed Mr. Michał Sawka as a Member of the Management Board of Arctic Paper S.A. (current report 1/2014).

From 31st December 2013 until the day of publishing of financial statements no other changes in the composition of the Management Board of the Company occurred.

4. Approval of the financial statements

These financial statements were approved for publishing by the Management Board on 21st March 2014.

5. Company's investments

The Company has investments in the following subsidiaries:

Entity	Registered office	Business activities	Share in capital	
			31.12.2013	31.12.2012
Arctic Paper Kostrzyn S.A.	Poland, Kostrzyn nad Odrą, Fabryczna 1	Paper production	100%	100%
Arctic Paper Munkedals AB	Sweden, SE 455 81 Munkedal	Paper production	100%	100%
Arctic Paper UK Limited	Great Britain, Quadrant House, 47 Croydon Road, Caterham, Surrey	Trading services	100%	100%
SIA Arctic Paper Baltic States	Latvia, K. Vardemara iela 33-20, Riga LV-1010	Trading services	100%	100%
Arctic Paper Benelux S.A.	Belgium, Ophemstraat 24, B-3050 Oud-Heverlee	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%
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, Warsaw	Trading services	100%	100%
Arctic Paper Norge AS	Norway, Rosenholmsveien 25, NO-1414 Trollasen	Trading services	100%	100%
Arctic Paper Sverige AB	Sweden, Kurodsvagen 9, 451 55 Uddevalla	Trading services	100%	100%
Arctic Paper East Sp. z o.o.	Poland, Kostrzyn nad Odrą, Fabryczna 1	Trading services	100%	100%
Arctic Paper Investment GmbH	Germany, Fabrikstrasse 62, DE-882, 84 Wolpertswende	Holding company	99,80%	100%
Arctic Paper Investment AB	Sweden, Box 383, 401 26 Göteborg	Holding company	100%	100%
Rottneros AB	Sweden, Vallvik	Pulp production	51,27%	39,66%

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

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 consolidated financial statements for 2012, or through direct purchases in NASDAQ OMX stock exchange.

The Company purchased 82,726,339 of Rottneros AB shares in the aggregate which represented 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, the Company issued 13,884,283 series F shares in the aggregate. All issued shares has been registered in National Court Register until 31st December 2013.

On 11th November 2013, the Company sold 4,495,456 shares of Rottneros AB and as a result decreased its share in Rottneros AB share capital by 2.9 p.p. Currently Arctic Paper S.A. holds 51.3% of Rottneros Group shares.

On 29th October 2013 the Company concluded an agreement with Arctic Paper Investment GmbH concerning purchase of 100% of shares in Arctic Paper Deutschland GmbH. The agreement entered into force on 1st January 2014.

6. Significant professional judgment and estimates

In the process of applying the Group's accounting policies regarding areas presented below, professional judgment of the management staff had the most significant effect, apart from accounting estimations,.

Deferred tax asset

Due to the uncertainty regarding utilization in future periods of tax losses recorded in years 2009-2013, the Management Board decided not to create deferred tax asset for this purpose. Furthermore, the Management Board decided to create deferred tax asset up to the amount of the deferred tax liability.

Impairment of assets in subsidiaries

The Management Board of Arctic Paper S.A. conducted detailed analysis of the impact of global economic crisis on the Company's operating results and results of the companies within the capital group. During this analysis indicators of impairment of the Company's assets invested in subsidiary Arctic Paper Mochenwangen GmbH were identified.

As on 31st December 2013 an impairment test was performed of tangible and intangible assets in the paper mill Arctic Paper Mochenwangen, of which 94.9% of shares belongs to Arctic Paper Investment GmbH.

The performance of the test in Arctic Paper Mochenwangen was connected with achieving by the mill a lower result than expected by the management of the Group. This was influenced by market conditions such as increase of raw materials prices, strengthening of competition in the segment of paper produced by Mochenwangen mill, mostly decline of demand for newsprint.

In respect of the above, a decision had been made to perform a test on impairment using discounted cash flows method. The performed test resulted in impairment of the Company's assets invested in Arctic Paper Investment GmbH and an allowance in the amount of PLN 77,853 thousand. The allowance value was recognized in the amount of PLN 1,203 thousand as a decrease of interest income and in the amount of PLN 76,650 thousand as other operating costs.

As on 30th June 2013 and 31st December 2013 an impairment test was performed of tangible and intangible assets in the paper mill Arctic Paper Grycksbo AB, of which 100% of shares belongs to Arctic Paper Investment AB.

The performance of the test in Arctic Paper Grycksbo AB was connected with achieving by the mill a lower result than expected by the management of the Group. This was influenced by market conditions such as increase of raw materials prices, strengthening of competition in the segment of paper produced by Grycksbo mill.

In respect of the above, a decision had been made to perform a test on impairment using discounted cash flows method. The performed test resulted in impairment allowances as on 30th June 2013 in the amount of PLN 134,700 thousand (including PLN 9,846 thousand as decrease of interest income and PLN 124,854 thousand as other operating cost) and as on 31st December 2013 in the amount of PLN 48,320 thousand (including PLN 8,594 thousand as decrease of interest income and PLN 39,726 thousand as other operating cost).

As on 31st December 2013 an impairment test was performed of tangible and intangible assets in a distribution company Arctic Paper Sverige AB. The performance of the impairment test was connected with achieving by the company a lower result than expected by the management of the Group. This was influenced by market conditions, particularly strengthening of competition in the segment of paper produced by Arctic Paper Grycksbo, a paper mill of which Arctic Paper Sverige AB is a main distributor. The performed test resulted in impairment allowance as on 31st December 2013 in the amount of PLN 11,721 thousand.

Impairment of intangible assets' components

In accordance with IAS 36 the Company, on a regular basis, performs analysis of indications of impairment in trademarks acquired from Trebruk AB in 2009. Every year the Company performs impairment test with regards to the trademarks. In this case no amortization charges are made as required by IAS 38 which does not allow to amortize the intangibles with indefinite useful life. As on the balance sheet date the Company performed impairment test of the corporate Arctic Paper trademark. This analysis revealed that the trademark is not impaired. The next impairment test is planned for 31st December 2014.

The Company also performed an impairment test for the trademark obtained with the acquisition of Arctic Paper Grycksbo as on 30th June 2013 and 31st December 2013. This analysis revealed the necessity to perform an impairment allowance in the amount of PLN 25,177 thousand. The allowance has been recognized in consolidated financial statements for the year ended 31st December 2013. The test for impairment of trademark was performed at Arctic Paper Grycksbo level, while treating the company as a single cash-generating unit.

The next impairment test is scheduled for 31st December 2014.

7. Basis of preparation of financial statements

The financial statements have been prepared on a historical cost basis.

These financial statements are presented in Polish zloty ("PLN") and all values are rounded to the nearest thousand (PLN '000) except when otherwise indicated.

The hereby financial statements have been prepared on the assumption that the Company will continue as going concerns in the foreseeable future. As described in note 25.1 'Bank loans and borrowings' on 20th December 2013 the Company together with its subsidiaries concluded an annex to a loan agreement with a consortium of banks: Bank Pekao S.A., Bank Zachodni WBK S.A. and BRE Bank S.A. The detailed provisions of the annex have been provided in the note 32.1. The annex concluded, among others, to establish new ratios of financial covenants determined for Arctic Paper Kostrzyn S.A. and for the Issuer's Capital Group, which were met as on 31st December 2013. The Management Board prepared financial forecasts for all Group entities, which have shown that the covenants will have been met also as at the end of each quarter of 2014. The Annex also introduced a new case of breach of the agreement if Svenska Handelsbanken does not prolong the short-term loan agreements and factoring agreements concluded by Arctic Paper Grycksbo AB. On 19th March 2013 Arctic Paper Grycksbo AB concluded an annex to an agreement with Svenska Handelsbanken regarding prolongation of the payment term of Arctic Paper Grycksbo AB overdraft indebtedness until 30th September 2014, keeping the hitherto prevailing conditions. Under the annex it was also decided to lower the particular covenants, which Arctic Paper Grycksbo AB will have to meet as on 30th September 2014 and after repayment of overdraft indebtedness. Failure to meet the conditions precedent may result in bringing the loans to maturity which can have a major impact on liquidity of the Group and continuation of its business operations. In the Management Board's opinion, the risk related to repayment of indebtedness in Svenska Handelsbanken is postponed not only until 30th September 2014. The Management Board prepared financial forecasts for 2014, which have shown that the covenants requested from Arctic Paper Grycksbo will have been met both as on 30th September 2014 and on 31st December 2014. Therefore, no additional breach of the principles of the loan agreement concluded between Arctic Paper Kostrzyn SA and a consortium of banks (Bank Pekao SA, Bank Zachodni WBK and BRE Bank SA) is going to occur. With regard to

the above, the Management Board is of the opinion that, despite the existing risk, the adoption of the assumption that the Company and the Group will continue as going concerns is reasonable.

7.1. Statement of compliance

These financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”), as well as with IFRSs endorsed by the European Union. At the balance sheet date, in light of the current process of IFRS endorsement in the European Union and the nature of the Company’s activities, there is no difference between the IFRSs applied by the Company and the IFRSs endorsed by the European Union.

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

7.2. Functional currency and presentation currency

Functional currency and presentation currency of the Company in these financial statements is Polish zloty (PLN).

8. Changes in accounting policies

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

- Amendments to IAS 1 Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income - effective for financial years beginning on or after 1st July 2013,

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

Moreover, from 1st January 2013 the Company has adopted for the first time other new standards/amendments to existing standards, which did not cause changes in current financial statements and comparable data, as follows:

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

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

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

Adoption of the amendments had no impact on the Company’s financial position, performance and the scope of information presented in the Company’s financial statements.

- IAS 1 Clarification concerning comparative information requirements (amendment)

The changes clarify the difference between voluntary additional comparative information and minimum requirements for comparative information. The Company is required to disclose comparative information in additional explanatory notes, when it voluntarily presents comparative information for an additional period compared to the requirement of minimum one comparative period.

Adoption of the amendments had no impact on the Company's financial position, performance and the scope of information presented in the Company's financial statements.

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

Adoption of the amendments had no impact on the Company's financial position, performance and the scope of information presented in the Company's financial statements.

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

IFRS 13 establishes a single set of principles on how to determine fair value of financial and non-financial assets and liabilities, when required or permitted under IFRS. IFRS 13 does not influence on the obligation of the situation when the measurement at fair value is required. Regulations of IFRS 13 are applicable both to the initial measurement and after the initial recognition.

IFRS 13 requires new disclosures on valuation techniques and inputs used to determine fair values and the effect of certain inputs on fair value measurement.

IFRS 13 defines fair value as the output price. As the result of IFRS 13 guidelines, the Company reconsidered its policies concerning fair value measurement, particularly for such input data, as the risk of default at measurement of fair value of liabilities. Adoption of IFRS 13 does not have a material influence the results of the Company's measurement of fair value. Additional disclosures, if required, are included in particular explanatory notes concerning assets and liabilities whose fair value was measured.

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

The amendments introduce additional quantitative and qualitative disclosures relating to transfers of financial assets when:

- financial assets are derecognised in their entirety, but there is a continuing involvement in them (e.g., options or guarantees on the transferred assets),
- financial assets are not derecognised in their entirety.

Adoption of the amendments had no impact on the Company's financial position and performance presented in the Company's financial statements.

- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards: Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – effective for financial years beginning on or after 1st July 2011 – in EU effective at the latest for financial years beginning on or after 1 January 2013
Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards: Government grants – effective for financial years beginning on or after 1st January 2012.

The amendments to IFRS 1 are not applicable for the Company.

- Amendments resulting from review of IFRS (published in May 2012) – effective for financial years beginning on or after 1st January 2013 and concerning IAS 16 and IAS 32.

Adoption of the amendments had no impact on the Company's financial position, performance and the scope of information presented in the Company's financial statements.

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

The interpretation is not applicable for the Company.

Pursuant to transition guidance, starting from 1st January 2012 the Company applied jointly IFRS 10, IFRS 11, IFRS 12, IAS 27 Separate Financial Statements and IAS 28 (updated in 2011).

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

9. Amendments to existing standards and new regulations

The following standards and interpretations were issued by the IASB or IFRIC but are not yet effective:

- The first phase of IFRS 9 Financial Instruments: Classification and Measurement and subsequent amendments - effective date postponed by IASB without proposing potential deadline for endorsement,
- Amendments to IAS 32 Financial Instruments - Presentation: Offsetting Financial Assets and Financial Liabilities- effective for financial years beginning on or after 1st January 2014,
- Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities (issued on 31st October 2012) - effective for financial years beginning on or after 1st January 2014,
- IFRIC 21 Levies - effective for financial years beginning on or after 1st January 2014 - not endorsed by EU till the date of approval of these financial statements,
- Amendments to IAS 36 Recoverable Amounts Disclosures for Non-Financial Assets (issued on 29th May 2013) - effective for financial years beginning on or after 1st January 2014,
- Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting (issued on 27th June 2013) - effective for financial years beginning on or after 1st January 2014,
- Amendments to IAS 19 Defined Benefit Plans: Employee Contributions (issued on 21st November 2013) - effective for financial years beginning on or after 1st July 2014 - not yet endorsed by EU till the date of approval of these financial statements,
- Annual Improvements to IFRSs 2010-2012 - some amendments effective for financial years beginning on or after 1st July 2014 and some effective prospectively for transactions occurring on or after 1st July 2014 - not yet endorsed by EU till the date of approval of these financial statements,

- Annual Improvements to IFRSs 2011-2013 - effective for financial years beginning on or after 1st July 2014 - not yet endorsed by EU till the date of approval of these financial statements,
- IFRS 14 Regulatory Deferral Accounts - effective for financial years beginning on or after 1st January 2016 - not yet endorsed by EU till the date of approval of these financial statements.

The Management Board does not expect that the introduction of the above-mentioned amendments and interpretations will have a significant impact on the accounting policies applied by the Company.

10. Summary of significant accounting policies

10.1. Foreign currency translation

The functional currency of the Company is Polish zloty, however for foreign branch functional currency is Swedish crown. As on the balance sheet date, assets and liabilities of foreign branch are translated into functional currency of the Company using the foreign exchange rate prevailing for the given currency on the balance sheet date and its statement of comprehensive income is translated to functional currency using weighted average for particular period.

The exchange differences arising on the translation are placed in other comprehensive income and accumulated in a separate line of equity – translation differences.

Transactions denominated in currencies other than Polish zloty are translated into Polish zloty at the foreign exchange rate prevailing on the transaction date.

At the balance sheet date, assets and liabilities expressed in currencies other than Polish zloty are translated into Polish zloty using the average NBP rate prevailing for the given currency at the end of the reported period.

Exchange differences resulting from translation are recorded under finance revenue or finance costs, or – in cases defined in accounting policies – are capitalized in the cost of the assets. 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 at the date of re-measurement to fair value.

The following exchange rates were used for valuation purposes:

	31 December 2013	31 December 2012
USD	3,0120	3,0996
EUR	4,1472	4,0882
SEK	0,4694	0,4757
LVL	5,9009	5,8595
DKK	0,5560	0,5480
NOK	0,4953	0,5552
GBP	4,9828	5,0119
CHF	3,3816	3,3868

For valuation of assets and liabilities of branch as on 31st December 2013 the exchange rate SEK/PLN was used amounting to 0.4694 (31st December 2012: 0.4757). For valuation of the positions of comprehensive income for the year ended 31st December 2013 the exchange rate SEK/PLN was used amounting to 0.4855 (for the year ended 31st December 2012: 0.4808) which is an arithmetic mean of NBP average exchange rates announced in 2013 (2012).

10.2. Property, plant and equipment

Property, plant and equipment are measured at purchase price or construction cost less accumulated depreciation and impairment losses.

The initial cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to working condition for its intended use. Cost also comprises the cost of replacement of fixed asset components when incurred, if the recognition criteria are met. Subsequent expenditures, such as repair or maintenance costs, are expensed in the reporting period in which they were incurred.

Purchase price of property, plant & equipment from the clients is determined in its fair value as on the day the control started.

Upon purchase, fixed assets are divided into components, which represent items with a significant value that can be allocated a separate useful life. Overhauls also represent asset component.

Property, plant and equipment are depreciated using the straight-line method over their estimated useful lives as follows:

Type	Period
Buildings and constructions	25 - 50 years
Plant and machinery	5 - 20 years
Office equipment	3 - 10 years
Motor vehicles	5 - 10 years
Computers	1 - 10 years

Residual values, useful lives and depreciation methods of assets' components are reviewed annually and, if necessary, adjusted retrospectively i.e. with effect from the beginning of the financial year that has just ended.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its further use. Any gain or loss arising on derecognition of an asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in the income statement for the period in which derecognition took place.

Assets under construction (construction in progress) include assets in the course of construction or assembly and are recognized at purchase price or cost of construction less any impairment losses. Assets under construction are not depreciated until completed and brought into use.

10.3. Intangible assets

Intangible assets acquired separately or constructed (if they meet the recognition criteria for development costs) are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of combination. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Expenditures incurred for internally generated intangible assets, excluding capitalized development costs, are not capitalized and are charged against profits in the year in which they are incurred.

The useful lives of intangible assets are assessed by the Company to be either finite or indefinite.

Intangible assets with finite lives are amortized over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the income statement in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives and those that are not in use are tested for impairment annually either individually or at the cash generating unit level.

Useful lives are reviewed on an annual basis and, if necessary, are adjusted with effect from the beginning of the financial year that has just ended.

Research and development costs

Research costs are expensed in the profit and loss account as incurred.

Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. Following the initial recognition, the historical cost model is applied, which requires the asset to be carried at cost less any accumulated amortization and accumulated impairment losses.

Any expenditure carried forward is amortized over the period of expected future sales from the related project.

A summary of the policies applied to the Company's intangible assets is as follows:

	License and Software	Trademarks
Useful lives	2 - 5 years	Indefinite
Method of amortization	2 - 5 years on a straight-line basis	Not amortized
Internally generated or acquired	Acquired	Acquired
Impairment testing	Annual assessment to determine whether there is any indication that an asset may be impaired.	Annually and where an indication of impairment exists.

After analyzing the relevant factors, for trademarks the Company does not define the limit of its useful life. The intention of the Company is to operate for an indefinite period under the same trademark and it is believed that it will not become impaired. Consequently, and in accordance with IAS 38, the Company does not amortize intangible assets with indefinite useful lives.

Useful life of such resources should be reviewed in each reporting period, in order to determine whether events and circumstances continue to confirm the assumption of the indefinite useful life of this asset.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds, if any, and the carrying amount of the asset and are recognized in the income statement when the asset is derecognized.

10.4. Impairment of non-financial assets

An assessment is made at each reporting date to determine whether there is any indication that an asset may be impaired. If such indication exists, or in case an annual impairment testing is required, the Company makes an estimate of the recoverable amount of that asset or the cash generating unit that the asset is a part of.

The recoverable amount of an asset or a cash-generating unit is the higher of the asset's or cash-generating unit's fair value less costs to sell and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups

of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses of continuing operations are recognized in the income statement in the expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss been recognized for the asset in prior years.

Such reversal is recognized immediately in the income statement. After a reversal of an impairment loss is recognized, the depreciation (amortization) charge for the asset is adjusted in future periods to allocate the asset's carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life..

10.5. Borrowing costs

Borrowing costs are capitalized as part of the cost of fixed assets and intangible assets.

Borrowing costs include interest calculated using the effective interest rate method, finance charges in respect of finance leases and foreign exchange differences incurred in connection with the external financing to the extent that they are regarded as an adjustment to interest costs.

10.6. Shares in subsidiaries, affiliated entities and joint ventures

Shares in subsidiaries, affiliated entities and joint ventures are presented at historical cost basis including impairment allowances.

10.7. Financial assets

Financial assets are classified into one of the following categories:

- financial assets held to maturity,
- financial assets at fair value through profit or loss,
- loans and receivables,
- financial assets available for sale

Financial assets held to maturity are non-derivative financial assets quoted in active market with fixed or determinable payments and fixed maturities, which the Company has the positive intention and ability to hold until maturity, other than:

- those that upon initial recognition are designated as at fair value through profit or loss;
- those that are designated as available for sale; and
- those that meet the definition of loans and receivables.

Financial assets held to maturity are measured at amortized cost using the effective interest rate. Financial assets held to maturity are classified as non-current assets if they are falling due within more than 12 months from the balance sheet date.

A financial asset at fair value through profit or loss is a financial asset that meets either of the following conditions:

- a) It is classified as held for trading. A financial asset is classified as held for trading if it is:
- acquired principally for the purpose of selling it in the near term;
 - part of a portfolio of identified financial instruments that are managed together and for which there is probability of short-term profit-taking; or
 - a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument),
- b) According to IAS 39 upon initial recognition it is designated as at fair value through profit or loss.

Financial assets at fair value through profit or loss are measured at fair value, which takes into account their market value as at the balance sheet date less of sales transaction expenses. Any change of these instruments is taken to income statement/statement of comprehensive income at financial income (favorable changes of fair value) or financial cost (unfavorable changes of fair value). When a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear without profound analysis that if the hybrid instrument were primarily recognized the separation of the embedded derivative would be prohibited.

Financial assets may be designated at initial recognition as at fair value through profit or loss if the following criteria are met:

- (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on a different basis; or
- (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with the documented risk management strategy; or
- (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

As on 31st December 2012 and as on 31st December 2011, no financial assets have been designated as at fair value through profit and loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are classified as current assets, provided their maturity does not exceed 12 months after the balance sheet date. Loans and receivables with maturities exceeding 12 months from the balance sheet date are classified under non-current assets.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. Available-for-sale financial assets are measured at fair value, without deducting transaction costs, and taking into account their market value at the balance sheet date. Where no quoted market price is available and there is no possibility to determine their fair value using alternative methods, available-for-sale financial assets are measured at cost, adjusted for any impairment losses. Positive and negative differences between the fair value and acquisition cost, net of deferred tax, of financial assets available for sale (if quoted market price determined on the regulated market is available or if the fair value can be determined using other reliable method), are taken to the revaluation reserve. Any decrease in the value of financial assets available for sale resulting from impairment losses is taken to the income statement and recorded under finance cost.

Purchase and sale of financial assets is recognized at the transaction date. Initially, financial assets are recognized at acquisition cost, i.e. at fair value plus, for financial assets other than classified as financial assets as at fair value through profit and loss, transaction costs.

Financial assets are derecognized if the Company loses its control over contractual rights attached to those assets, which usually takes place upon sale of the asset or where all cash flows attributed to the given asset are transferred to an independent third party.

10.8. Impairment of financial assets

The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

10.8.1 Assets carried at amortized cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced directly. The amount of the loss shall be recognized in profit or loss.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included on a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying amount of the asset does not exceed its amortized cost at the reversal date.

10.8.2 Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and has to be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

10.8.3 Available-for-sale financial assets

If there is objective evidence that an impairment loss has been incurred on an available-for-sale asset, then the amount of the difference between the acquisition cost (net of any principal payment and interest) and current fair value, less any impairment loss on that financial asset previously recognized in the profit or loss, is removed from equity and recognized in the income statement. Reversals of impairment losses on equity instruments classified as available for sale cannot be recognized in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed, with the amount of the reversal recognized in the income statement.

10.9. Embedded derivatives

Embedded derivatives are bifurcated from host contracts and treated as derivative financial instruments if all of the following conditions are met:

- the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract,
- a separate instrument with the same terms as embedded derivative would meet the definition of a derivative,
- the hybrid instrument is not recorded at fair value with gains and losses taken to profit or loss.

Embedded derivatives are recognized in a similar manner to that of separate instruments, which have not been designated as hedging instruments.

The extent to which, in accordance with IAS 39, the economic characteristics and risks of foreign currency embedded derivatives are closely related to those of the host contract covers circumstances where the currency of the host contract is also the common currency of purchase or sale of non-financial items on the market of a given transaction.

The Company assesses whether embedded derivatives are required to be separated from host contracts when the instrument is originally recognized.

10.10. Derivative financial instruments and hedges

The Company uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge against the risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives that do not qualify for hedge accounting are taken directly to the net profit or loss for the period.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values of similar instruments.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges, when hedging the exposure to changes in the fair value of a recognized asset or liability, or
- cash flow hedges, when hedging exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a forecast transaction, or
- hedges of a net investment in a foreign operation.

Hedges of foreign currency risk in an unrecognized firm commitment are accounted for as cash flow hedges.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship, the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Hedges are expected to be highly effective in offsetting the exposure to changes in the fair value or cash flows attributable to the hedged risk. Hedge effectiveness is assessed

on a regular basis to check if the hedge is highly effective throughout all financial reporting periods for which it was designated.

10.10.1 Fair value hedges

Fair value hedge is a hedge of the exposure to changes in fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. In the case of a fair value hedge, any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item, the hedging instrument is re-measured to fair value and the gains and losses on the hedging instrument and hedged item are recognized in profit or loss.

For fair value hedges relating to items carried at amortized cost, the adjustment to carrying amount is amortized through the income statement over the remaining term to maturity.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in profit or loss. The changes in the fair value of the hedging instrument are also recognized in profit or loss.

The Company discontinues hedge accounting prospectively if the hedging instrument expires, or is sold, terminated or exercised, or the hedge no longer qualifies for hedge accounting, or the Company revokes the designation. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortized to profit or loss. Amortization may begin as soon as an adjustment is made, however no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

10.10.2 Cash flow hedges

Cash flow hedges are hedges securing for danger of cash flows fluctuations which can be attributed to a particular kind of risk connected with the given item of assets or a liability or with a planned investment of high probability, and which could influence profit or loss. The part of profit or loss connected with the hedging instrument which constitutes effective hedge is recognized directly in other comprehensive income and the non-effective part is recognized in profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or financial liability, the associated gains or losses that were recognized directly in equity shall be reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, or a forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, then gains and losses that were recognized directly in equity are reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of non-financial asset or non-financial liability, or a forecast transaction for a non-financial asset or financial liability becomes a firm commitment, which will apply fair value hedge, then the gains or losses that were recognized in other comprehensive income are reclassified from equity to profit or loss in the same period or periods during which the non-financial asset acquired or liability assumed affects profit or loss.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to net profit or loss for the period.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or the hedge no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument that has been recognized directly in other comprehensive income and accumulated in equity remains recognized in equity until the forecast transaction occurs. If the forecast transaction is no longer expected to occur, the net cumulative gain or loss recognized in equity is taken to net profit or loss for the period.

10.10.3 Hedges of a net investment in a foreign operation

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for similarly to cash flow hedges. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized directly in other comprehensive income and the ineffective portion is recognized in profit or loss. On disposal of the foreign operation, the net cumulative gain or loss that has been recognized directly in other comprehensive income is taken to profit or loss as a correction resulting from reclassification.

10.11. Inventories

Inventories are valued at the lower of cost and net realizable value.

Purchase price or cost of formation of every item of inventories includes all purchase expenses, transformation expenses and other costs incurred in bringing each inventory item to its present location and conditions are accounted for as follows for both the current and previous year:

Goods for resale - purchase cost determined on an average-weighted price method

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to finalize the sale.

10.12. Trade and other receivables

Trade receivables are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable.

If the effect of the time value of money is material, the value of receivables is determined by discounting the estimated future cash flows to present value using a pre-tax discount rate that reflects current market assessments of the time value of money. Where discounting is used, any increase in the balance due to the passage of time is recognized as financial income.

Other receivables include particularly receivables on the grounds of input VAT.

Receivables from public authorities are presented within trade receivables and other receivables, except for income tax receivables that constitute a separate item in the balance sheet.

10.13. Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

10.14. Interest-bearing loans, borrowings and bonds

All loans, borrowings and bonds are initially recognized at the fair value net of transaction costs associated with the obtaining the loan or borrowing.

After initial recognition, interest-bearing loans, borrowings and bonds are subsequently measured at amortized cost using the effective interest rate method.

Amortized cost is calculated by taking into account any transaction costs, and any discount or premium on settlement.

Gains and losses are recognized in net profit or loss when the liabilities are derecognized from balance sheet as well as through the effective interest rate method.

10.15. Trade and other payables

Short-term trade payables are carried at the amount due and payable.

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Financial liabilities may be designated at initial recognition as at fair value through profit or loss if the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognizing gains or losses on them on a different basis; or
- the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a document risk management strategy; or
- financial liability contains an embedded derivative that would need to be separately recorded

As on 31st December 2013 and 31st December 2012 no financial liabilities have been designated as at fair value through profit and loss.

Financial liabilities at fair value through profit or loss are measured at fair value, reflecting their market value at the balance sheet date less directly attributable transaction costs. Gains or losses on these liabilities are recognized in the income statement as finance income or cost.

Financial liabilities other than financial instruments at fair value through profit or loss, are measured at amortized cost, using the effective interest rate method.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement.

Other non-financial liabilities include, in particular, liabilities to the tax office in respect of personal income tax and social security liabilities.

Other non-financial liabilities are recognized at the amount due.

10.16. Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of the provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the estimated future cash flows to present value using a pre-tax discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as finance cost.

10.17. Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenues are recognized at the fair value of the consideration received or receivable, net of Value Added Tax and discounts. The following specific recognition criteria must also be met before revenue is recognized.

10.17.1 Rendering of services

Revenue is recognized when material risk and benefits resulting from rendered services has been passed to the buyer and when the revenue amount can be credibly evaluated.

10.17.2 Interest

Revenue is recognized as interest accrues (using the effective interest method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

10.17.3 Dividends

Revenue is recognized when the shareholders' rights to receive the payment are established.

10.18. Income tax

10.18.1 Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted at the balance sheet date.

10.18.2 Deferred tax

For financial reporting purposes deferred income tax is recognized, using the liability method, regarding temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts.

Deferred tax liability is recognized for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of goodwill, an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax asset is recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilized:

- except where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will be available that will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred income tax assets and deferred income tax liabilities are offset, if legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

10.18.3 Value added tax

Revenues, expenses, assets and liabilities are recognized net of the amount of value added tax except:

- Where the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case value added tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables, which are stated with the amount of value added tax included.

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

10.19. Earnings per share

Earnings per share are calculated by dividing the net profit for the period by the weighted average number of shares during the reporting period. Diluted earnings per share are calculated by dividing the net profit for the period by the diluted weighted average number of shares during the reporting period

11. Operating segments

Arctic Paper S.A. is a holding company, which provides services mainly for companies from the Group. The Company's activity represents one operating segment.

The table below presents geographical split of revenue from selling services as well as income from dividends and interest in the years 2012-2013

	<i>Year ended</i> <i>31 December 2013</i>	<i>Year ended</i> <i>31 December 2012</i>
Poland	94 840	62 478
Foreign countries, including:		
- Sweden	22 052	47 509
- Germany	-	176
- France	-	638
- other	64	100
	<u>116 956</u>	<u>110 902</u>

Above information about revenue is based on data regarding registered seats of Arctic Paper S.A. subsidiaries.

12. Revenues and expenses

12.1. Other operating income

	<i>Year ended</i> <i>31 December 2013</i>	<i>Year ended</i> <i>31 December 2012</i>
Income from marketing activities	111	66
Reinvoiced costs of salaries	-	196
Return of payments	36	-
Other	137	-
	<u>284</u>	<u>262</u>

12.2. Other operating expenses

	<i>Year ended</i> 31 December 2013	<i>Year ended</i> 31 December 2012
Non-deductible VAT	235	290
Impairment of non-current assets	254 584	46 758
Other	728	14
	255 547	47 062

12.3. Financial income

	<i>Year ended</i> 31 December 2013	<i>Year ended</i> 31 December 2012
Interest income	320	403
Foreign exchange gains	2 872	-
Other financial income	2	618
	3 194	1 021

12.4. Financial costs

	<i>Year ended</i> 31 December 2013	<i>Year ended</i> 31 December 2012
Interest on bonds	1 002	17 935
Interest on loans and other liabilities	688	1 740
Foreign exchange losses	-	3 505
Loss on sales of shares	1 860	
Other financial costs	56	97
	3 607	23 277

A significant decrease of financing costs results from a change of external financing (bonds) to financing from a loan granted by Arctic Paper Kostrzyn S.A. Interest on loan granted by a related party is recognized as own cost of sales, according to accounting policies.

12.5. Costs by nature

	<i>Year ended</i> <i>31 December 2013</i>	<i>Year ended</i> <i>31 December 2012</i>
Depreciation	99	111
Materials	144	92
External services	17 816	17 134
Taxes and charges	14	177
Salaries and wages	9 721	7 708
Employee benefits expenses	2 459	2 633
Other	1 154	463
Total expenses by nature	31 407	28 318

Expenses by nature

whereof:

Included in selling costs	2 861	1 387
Included in administrative expenses	28 546	26 931

12.6. Depreciation / amortization and impairment losses included in income statement

	<i>Year ended</i> 31 December 2013	<i>Year ended</i> 31 December 2012
Depreciation on tangible assets	93	102
Depreciation on intangible assets	6	9
	99	111
Related to:		
- continuing operations	99	111
- discontinued operations\	-	-
	99	111

12.7. Employee benefits expenses

	<i>Year ended</i> 31 December 2013	<i>Year ended</i> 31 December 2012
Salaries	9 721	7 708
Social securities	1 494	1 477
Pension plans	965	1 156
Total employee benefits expenses:	12 180	10 341

13. Income tax

13.1. Tax burdens

Major components of income tax burdens for the years ended 31st December 2013 and 31st December 2012 are as follows:

	<i>Year ended</i> 31 December 2013	<i>Year ended</i> 31 December 2012
Income statement		
<i>Current income tax</i>	-	-
Current tax expense	-	-
<i>Deferred tax</i>	-	1
Allowance for deferred tax asset	-	-
Income tax presented in income statement	-	-

13.2. Reconciliation of the effective income tax rate

A reconciliation of income tax expense applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at the Company's effective income tax rate for the years ended 31st December 2013 and 31st December 2012 is as follows:

ARCTIC PAPER S.A.
 Financial statements for the year ended 31st December 2013
 Accounting policies and additional explanatory notes
 (in PLN thousands)

	<i>Year ended 31st December 2013</i>	<i>Year ended 31st December 2012</i>
Accounting profit/(loss) before tax from continuing operations	(179 910)	13 528
Profit/ (loss) before tax from discontinued operations	-	-
Accounting profit/(loss) before income tax	(179 910)	13 528
At statutory income tax rate applicable in Poland of 19% (2012: 19%)	(34 183)	2 570
Corrections related to current income tax from previous years	-	(2 193)
Unutilized tax losses from previous years	656	(1 498)
Dividend income	(14 415)	(9 092)
Adjustments on calculated and paid interest	(4 248)	(2 934)
Costs permanently non-deductible	63	12 412
Taxable costs that were not accounted in the current year	(92)	-
Taxable costs on interest paid	-	(374)
Unrecognized tax losses	-	1 076
Unrealized foreign exchange differences	(79)	855
Other unrecognized temporary income or costs	-	(916)
Impairment allowances	52 298	-
Differences on different tax rates in different countries	-	95
At the effective tax rate of 0% (2012: 0%)	-	-
Income tax liability recognized in income statement	-	-
Income tax attributable to discontinued operations	-	-

Deferred tax asset is recognized for tax losses carried forward to the extent that realization of the related tax benefit through future taxable profits is probable.

The amounts and expiry dates of unused tax losses are as follows:

<i>Year of expiration of tax losses</i>	<i>Year ended 31st December 2013</i>	<i>Year ended 31st December 2012</i>
ended 31st December 2014	15 341	15 178
ended 31st December 2015	15 657	15 504
ended 31st December 2016 and later	7 905	23 581
ended 31st December 2017 and later	3 455	-
Total	42 357	54 263

At the end of 2013 the 5-year period of possible use of 50% tax loss of 2008 and 50% tax loss of 2009 (PLN 15,624 thousand) expired.

13.3. Deferred income tax

Deferred income tax relates to the following:

ARCTIC PAPER S.A.
 Financial statements for the year ended 31st December 2013
 Accounting policies and additional explanatory notes
 (in PLN thousands)

	<i>Balance sheet</i>		<i>Income statement</i>	
	<i>As at</i> <i>31st December</i> <i>2013</i>	<i>As at</i> <i>31st December</i> <i>2012</i>	<i>Year ended</i> <i>31st December</i> <i>2013</i>	<i>Year ended</i> <i>31st December</i> <i>2012</i>
<i>Deferred tax liability</i>				
Accelerated depreciation	1	1	-	-
Interest income	7 582	11 301	(3 719)	2 858
Foreign exchange gains	18	-	18	(793)
Deferred tax liability	7 601	11 302		
	<i>Bilans</i>		<i>Rachunek zysków i strat</i>	
	<i>As at</i> <i>31st December</i> <i>2013</i>	<i>As at</i> <i>31st December</i> <i>2012</i>	<i>Year ended</i> <i>31st December</i> <i>2013</i>	<i>Year ended</i> <i>31st December</i> <i>2012</i>
<i>Deferred tax asset</i>				
Accruals and prepayments	1 008	1 148	139	(431)
Interest on loans and bonds	2 260	804	(1 456)	374
Foreign exchange losses	-	61	61	(61)
Impairment allowances	34 774	-	(34 774)	-
Losses available for offset against future taxable income	8 048	14 035	5 988	(3 970)
Deferred tax asset gross	46 090	16 048		
Deferred tax charge			(33 742)	(2 023)
Asset on deferred tax unrecognized in balance sheet	38 489	4 746	33 742	2 023
			-	-
Deferred tax asset net, including:	1	1		
Deferred tax asset - continuing operations	1	1		

The Company did not recognize the deferred tax asset on receivables, loans and shares write-off in AP Investment GmbH. A potential asset thereof would amount as on 31st December 2013 to PLN 17,524 thousand (as on 31st December 2012: PLN 9,131 thousand).

14. Earnings per share

Basic earnings per share amounts are calculated by dividing the net profit for the year attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the reporting period.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary shareholders (after deducting interest on the convertible redeemable preference shares) by the weighted average number of ordinary shares outstanding during the year adjusted by the weighted average number of ordinary shares that would be issued as a result of conversion of all dilutive equity instruments into ordinary shares.

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

ARCTIC PAPER S.A.
 Financial statements for the year ended 31st December 2013
 Accounting policies and additional explanatory notes
 (in PLN thousands)

	<i>Year ended</i> <i>31 December 2013</i>	<i>Year ended</i> <i>31 December 2012</i>
Profit (loss) from continuing operations	(179 910)	13 529
Profit (loss) from discontinued operation	-	-
Profit (loss) for the period	(179 910)	13 529
Number of shares - series A	50 000	50 000
Number of shares - series B	44 253 500	44 253 500
Number of shares - series C	8 100 000	8 100 000
Number of shares - series E	3 000 000	3 000 000
Number of shares - series F	13 884 283	10 740 983
Total number of shares (in thousands)	69 287 783	55 403 500
Weighted average number of shares	68 905 218	55 727 201
Weighted diluted number of shares	68 905 218	55 727 201
Profit per share (in PLN)	(2,61)	0,24
Diluted profit per share (in PLN)	(2,61)	0,24

15. Dividend paid and proposed

Dividends are paid out based on the net profit shown in the standalone annual financial statements of Arctic Paper S.A. prepared for statutory purposes, after covering losses carried forward from the previous years.

In accordance with the provisions of the Code of Commercial Companies, the company is required to create reserve capital for possible losses. Transferred to this capital category is 8% of profit for the given financial year recognized in the standalone financial statements of the company until such time as the balance of the reserve capital reaches at least one third of the share capital of the company. Appropriation of the reserve capital and other reserves depends on the decision of the Shareholders Meeting; however, the reserve capital in the amount of one third of the share capital may be used solely for the absorption of losses reported in the standalone financial statements of the parent company and shall not be used for any other purpose.

At the date of this statement, 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 Supplementary information to the Management Board report on Arctic Paper S.A. operations.

By the power of the Annex no 3 dated 20th December 2013 to the Loan Agreement dated 6th November 2012 concluded by Arctic Paper S.A. together with its subsidiaries, i.e. Arctic Paper Kostrzyn S.A., Arctic Paper Investment GmbH and Arctic Paper Mochenwangen GmbH and the consortium of banks (Bank Pekao S.A., Bank Zachodni WBK S.A. and BRE Bank S.A.), Arctic Paper S.A. bound itself not to declare or pay dividend when a breach of the agreement occurred or in case declaration or payment of dividend would have caused a breach of the agreement.

In 2013 the Company did not pay out dividend. In 2012 the Company paid dividend of PLN 9,972,630, which means PLN 0.18 per share.

16. Property, plant and equipment

ARCTIC PAPER S.A.
 Financial statements for the year ended 31st December 2013
 Accounting policies and additional explanatory notes
 (in PLN thousands)

As at 31 December 2013	Land and buildings	Plant and equipment	Assets under construction	Total
Gross carrying amount at 1 January 2013	-	543	-	543
Additions	-	70	-	70
Disposals	-	(41)	-	(41)
Gross carrying amount at 31 December 2013	-	573	-	573
Accumulated depreciation and impairment at 1 January 2013	-	228	-	228
Depreciation charge for the period	-	93	-	93
Decrease of depreciation	-	(10)	-	(10)
Accumulated depreciation and impairment at 31 December 2013	-	310	-	310
Net carrying amount at 1 January 2013	-	316	-	316
Net carrying amount at 31 December 2013	-	263	-	263

As at 31 December 2012	Land and buildings	Plant and equipment	Assets under construction	Total
Gross carrying amount at 1 January 2012	-	501	-	501
Additions	-	48	-	48
Disposals	-	(5)	-	(5)
Gross carrying amount at 31 December 2012	-	543	-	543
Accumulated depreciation and impairment at 1 January 2012	-	125	-	125
Depreciation charge for the period	-	102	-	102
Decrease of depreciation	-	-	-	-
Accumulated depreciation and impairment at 31 December 2012	-	228	-	228
Net carrying amount at 1 January 2012	-	375	-	375
Net carrying amount at 31 December 2012	-	316	-	316

17. Intangible assets

As at 31 December 2013	Trademarks	Other	Total
Gross carrying amount at 1 January 2013	1 319	24	1 343
Additions	-	-	-
Disposals	-	-	-
Gross carrying amount at 31 December 2013	<u>1 319</u>	<u>24</u>	<u>1 343</u>
Accumulated depreciation and impairment at 1 January 2013	-	16	16
Depreciation charge for the period	-	6	6
Depreciation decrease	-	-	-
Accumulated depreciation and impairment at 31 December 2013	<u>-</u>	<u>22</u>	<u>22</u>
Net carrying amount at 1 January 2013	<u>1 319</u>	<u>8</u>	<u>1 327</u>
Net carrying amount at 31 December 2013	<u>1 319</u>	<u>2</u>	<u>1 321</u>

As at 31 December 2012	Trademarks	Other	Total
Gross carrying amount at 1 January 2012	1 319	16	1 384
Additions	-	8	19
Disposals	-	-	(68)
Gross carrying amount at 31 December 2012	<u>1 319</u>	<u>24</u>	<u>1 343</u>
Accumulated depreciation and impairment at 1 January 2012	-	7	7
Depreciation charge for the period	-	9	9
Depreciation decrease	-	-	-
Accumulated depreciation and impairment at 31 December 2012	<u>-</u>	<u>16</u>	<u>16</u>
Net carrying amount at 1 January 2012	<u>1 319</u>	<u>9</u>	<u>1 328</u>
Net carrying amount at 31 December 2012	<u>1 319</u>	<u>8</u>	<u>1 327</u>

The carrying amount of acquired rights to trademarks as on 31st December 2013 is PLN 1,319 thousand.

The Company performed an impairment test on the corporate trademark Arctic Paper as of 31st December 2013. The analysis confirmed that no impairment allowance is necessary.

The next impairment test is scheduled for 31st December 2014.

18. Other assets

18.1. Investments in subsidiaries

	<i>As at</i> 31 December 2013	<i>As at</i> 31 December 2012
Arctic Paper Kostrzyn S.A.	442 535	442 535
Arctic Paper Munkedals AB	88 175	88 175
Rottneros AB	101 616	80 046
Arctic Paper Investment AB, whereof:	178 132	342 712
<i>Arctic Paper Investment AB (shares)</i>	278 443	34 168
<i>Arctic Paper Investment AB (loans)</i>	82 709	308 544
<i>Arctic Paper Investment AB (impairment)</i>	(183 020)	-
Arctic Paper Investment GmbH	0	44 901
<i>Arctic Paper Investment GmbH (shares)</i>	84 305	54 901
<i>Arctic Paper Investment GmbH (impairment)</i>	(84 305)	(10 000)
Arctic Paper Sverige AB	0	11 721
<i>Arctic Paper Sverige AB (shares)</i>	11 721	11 721
<i>Arctic Paper Sverige AB (impairment)</i>	(11 721)	-
Arctic Paper Danmark A/S	5 539	5 539
Arctic Paper Norge AS	3 194	3 194
Arctic Paper Italy srl	738	738
Arctic Paper UK Ltd.	522	522
Arctic Paper Polska Sp. z o.o.	406	406
Arctic Paper Benelux S.A.	387	387
Arctic Paper France SAS	326	326
Arctic Paper Espana SL	196	196
Arctic Paper Papierhandels GmbH	194	194
Arctic Paper East Sp. z o.o.	102	102
Arctic Paper Baltic States SIA	64	64
Arctic Paper Schweiz AG	61	61
Arctic Paper Ireland Ltd.	3	3
Total	822 189	1 021 820

The value of shares in subsidiaries was based on historical cost.

From 1st January 2013 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 consolidated financial statements for 2012, or through direct purchases in NASDAQ OMX stock exchange.

The Company purchased 82,726,339 of Rottneros AB shares in the aggregate which represented 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 13,884,283 series F shares in the aggregate. All issued shares has been registered in National Court Register until the day of publishing of the hereby report.

On 11th November 2013, the Company sold 4,495,456 shares of Rottneros AB and as a result decreased its share in Rottneros AB share capital by 2.9 p.p. Currently Arctic Paper S.A. holds 51.3% of Rottneros Group shares.

The Company informed in current report 43/2013 that on 19th December 2013 an agreement with Arctic Paper Investment AB was concluded regarding increase of reserve capitals in Arctic Paper Investment AB by the Issuer in the amount of PLN 244,275 thousand. According to the agreement, a conversion of loans liabilities to reserve capitals of Arctic Paper Investment AB occurred. Moreover, according to the agreement the liabilities on the grounds of calculated interest on settled loans will be repaid by the borrower on 31st December 2016.

The loan to Arctic Paper Investment AB has been recognized in financial statements as shares in subsidiaries and together with the shares it was subjected to impairment test (allowance in the amount of PLN 174,426 thousand).

On 29th October 2013, the Company concluded an agreement with Arctic Paper Investment GmbH regarding purchase of 100% shares in Arctic Paper Deutschland GmbH. The agreement entered into force on 1st January 2014.

18.2. Other financial assets

	<i>Effective percentage rate %</i>	<i>Maturity date</i>	<i>Value as at 31 December 2013</i>
Current			
Loan granted to Arctic Paper Munkedals AB			
- amount: 27.658 tys. PLN			
- interest rate: Wibor 3M + 2,3%	5,01%	31.12.2014	20 715
Loan granted to Arctic Paper Investment GmbH			
- amount: 4.603 tys. EUR			
- interest rate: Euribor 3M + 2%	2,29%	31.12.2015*	23 599
Loan granted to Arctic Paper Investment GmbH			
- amount: 1.843 tys. EUR			
- interest rate: Euribor 3M + 5%	5,29%	31.12.2015*	10 821
Loan granted to Arctic Paper Italy srl			
- amount: 100 tys. EUR			
- interest rate: Euribor 3M + 2%		31.12.2014	423
Loan granted to Arctic Paper Ireland Ltd.			
- amount: 1 tys. EUR			
- interest rate: Euribor 3M + 2%	2,29%	31.12.2014	11
Impairment of assets			(34 428)
- of Arctic Paper Investment GmbH			(34 428)
			21 142

ARCTIC PAPER S.A.
 Financial statements for the year ended 31st December 2013
 Accounting policies and additional explanatory notes
 (in PLN thousands)

Non-current

Loan granted to Arctic Paper Investment AB (interest)			
- interest rate: Wibor 6M + 4,8%	7,52%	31.12.2016	82 709
Loan granted to Arctic Paper Investment GmbH	2,29%	30.06.2014	6 025
- amount: 990 tys. EUR			
- interest rate: Wibor 3M + 2%			
Impairment of assets			
- of Arctic Paper Investment GmbH			(6 025)
Loan treated as investment in subsidiary			(82 709)
			<u>0</u>
			<u>21 142</u>

The situation of other financial assets in 2012 presented as below:

	<i>Effective percentage rate %</i>	<i>Maturity date</i>	<i>Value as on 31st December 2012</i>
Current			
Loan granted to Arctic Paper Munkedals AB			
- amount: 27.658 tys. PLN			
- interest rate: Wibor 3M + 2,3%	6,43%	31.12.2013	26 465
Loan granted to Arctic Paper Investment GmbH			
- amount: 4.603 tys. EUR			
- interest rate: Euribor 3M + 2%	3,87%	31.12.2015*	21 659
Loan granted to Arctic Paper Investment GmbH			
- amount: 1.843 tys. EUR			
- interest rate: Euribor 3M + 5%	6,87%	31.12.2015*	9 959
Loan granted to Arctic Paper Ireland Ltd.			
- amount: 1 tys. EUR			
- interest rate: Euribor 3M + 2%	3,87%	31.12.2013	11
Impairment of assets			(31 618)
(related to Arctic Paper Investment GmbH)			<u>26 476</u>

ARCTIC PAPER S.A.
 Financial statements for the year ended 31st December 2013
 Accounting policies and additional explanatory notes
 (in PLN thousands)

Non-current

Loan granted to Arctic Paper Investment AB			
- amount: 194.275 tys. PLN	8,89%	31.12.2016	308 544
- amount: 50.000 tys. PLN			
- interest rate: Wibor 6M + 4,8%			
Loan granted to Arctic Paper Investment GmbH	6,13%	30.06.2014	5 440
- amount: 990 tys. EUR			
- interest rate: Wibor 3M + 2%			
Impairment of assets (related to Arctic Paper Investment GmbH)			(5 440)
Loan treated as investment in subsidiary			(308 544)
			<u>0</u>
			<u>26 476</u>

* loan presented as current as repayment can be requested

18.3. Other non-financial assets

	<i>As at</i> <i>31 December 2013</i>	<i>As at</i> <i>31 December 2012</i>
Insurance fees	114	32
Rental charges and deposits	294	306
Pension reserve	590	665
Prepayment for share purchase in Arctic Paper Deutschland GmbH	4 977	-
VAT refundable	284	-
Project Winter	-	506
Other	95	102
Total	<u>6 354</u>	<u>1 611</u>
- long-term	5 745	846
- short-term	609	764
	<u>6 354</u>	<u>1 610</u>

19. Inventories

	<i>As at</i> <i>31 December 2013</i>	<i>As at</i> <i>31 December 2012</i>
Goods for resale	0	0
	<u>0</u>	<u>0</u>

In the year ended 31st December 2013 and 31st December 2012 the Company did not make any write-downs of inventory value, which resulted from lack of indications of the impairment of inventories.

20. Trade and other receivables

	<i>Note</i>	<i>As at</i> <i>31 grudnia 2013</i>	<i>As at</i> <i>31 grudnia 2012</i>
Trade receivables from related parties	30	47 656	23 820
Trade receivables from non-related entities		138	70
Other receivables from related parties	30	-	6 876
Other receivables from non-related parties		-	24
Total receivables gross		47 794	30 790
Impairment		(3 305)	(1 000)
Total receivables net		44 489	29 790

As on 31st December 2013, the Company performed a write-off on Arctic Paper Investment GmbH receivables in the amount of PLN 3,305 thousand.

Terms of transaction with related parties are presented in note 30.

21. Cash and cash equivalents

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Short-term deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the Company and earned interest at the respective short-term deposit rates.

The fair value of cash and cash equivalents as at 31st December 2013 is PLN 9,018 thousand (31st December 2012: PLN 30,356 thousand).

Balance of cash and cash equivalents presented in statement of cash flows consisted of the following items:

	<i>As at</i> <i>31 December 2013</i>	<i>As at</i> <i>31 December 2012</i>
Cash at bank and in hand	9 018	20 356
Short-term deposits	-	10 000
	9 018	30 356

22. Share capital, share premium and other reserve capital

22.1. Share capital

<i>Issued capital</i>	<i>As at 31 December 2013</i>	<i>As at 31 December 2012</i>
Ordinary shares series A	50	50
Ordinary shares series B	44 253	44 253
Ordinary shares series C	8 100	8 100
Ordinary shares series E	3 000	3 000
Ordinary shares series F	13 884	-
	<u>69 287</u>	<u>55 403</u>

<i>Ordinary shares issued and fully covered</i>	<i>Date of registration of capital increase</i>	<i>Volume</i>	<i>Value</i>
Issued on 30 April 2008	2008-05-28	50 000	50
Issued on 12 September 2008	2008-09-12	44 253 468	44 253
Issued on 20 April 2009	2009-06-01	32	0
Issued on 30 July 2009	2009-11-12	8 100 000	8 100
Issued on 1 March 2010	2010-03-17	3 000 000	3 000
Issued on 20 December 2012	2013-01-09	10 740 983	10 741
Issued on 10 January 2013	2013-01-29	283 947	284
Issued on 11 February 2013	2013-03-18	2 133 100	2 133
Issued on 6 March 2013	2013-03-22	726 253	726
As at 31 December 2013		<u>69 287 783</u>	<u>69 288</u>

22.1.1 Decrease of share capital of Arctic Paper S.A.

On 28th June 2012, the Company's Ordinary Shareholders Meeting adopted a resolution regarding decreasing the share capital of the Company by the amount of PLN 498,631,500 that is from the amount of PLN 554,035,000 to the amount of PLN 55,403,500 by decreasing the face value of each share by the amount PLN 9.00 that is from the amount of PLN 10.00 to the amount of PLN 1.00. The amount of the decrease was assigned to the Company's supplementary capital without payment to shareholders. The decrease of the share capital is purposed to adjust the face value of shares to the one that would allow for increase of the capital and issue of new shares (current report 12/2012).

On 9th November 2012 (information in current report 23/3012), the decrease of share capital was registered in National Court Register.

22.1.2 Nominal value of shares

Because of the aforementioned decrease of share capital, all issued shares currently have a nominal value of PLN 1 and have been fully paid.

22.1.3 Purchase of treasury shares

On 28th June 2012, the Company's Ordinary Shareholders Meeting adopted a resolution (current report 12/2012), in which it authorizes the Management Board of the Company to purchase the Company's treasury shares for the purpose of its redemption and decrease of the share capital or for the purpose of further relocation or resale of the treasury shares on conditions and in the course determined as below:

- The total amount of purchased shares shall not exceed 5,500,000 (five million five hundred thousand) shares;
- the total amount assigned by the Company for purchase of treasury shares shall not exceed the amount of the reserve capital established for this purpose, that is PLN 27,500,000 comprising the price of purchased shares together with the costs of purchase;
- the price for which the Company will purchase its treasury shares shall not be lower than PLN 1.00 nor higher than PLN 10.00 per share;
- the authorization for purchase of the Company's treasury shares is valid for 60 (sixty) months since the day the resolution has been resolved;
- purchase of treasury shares may occur with the mediation of investment company, in stock and non-stock transactions.

The Management Board, acting for the benefit of the Company, upon the opinion of the Supervisory Board, may:

- stop the purchase of shares before 60 days starting from the day the resolution was resolved or before the funds assigned for the purchase have been fully utilized,
- refrain from purchase in part or in whole.

In case of a decision being made as mentioned above, the Management Board is bound to submit the information regarding the decision for public knowledge in a manner determined in the Public Offering Act.

The conditions of purchase of treasury shares for the purpose of its redemption or further relocation or resale shall be in compliance with the principles of Commission Regulation (EC) No 2273/2003 dated 22 December 2003.

After the process of purchase of the Company's treasury shares, in compliance with conditions determined by the Shareholders Meeting, has ended, the Management Board will call a Shareholders Meeting for the purpose of adopting resolution regarding redemption of the Company's treasury shares and adequate decrease of share capital, or – in case of assignment of the purchased shares to further relocation or resale – the Management Board will make a decision regarding further relocation or resale of treasury shares. Redemption of the Company's treasury shares and adequate decrease of share capital is acceptable also before the end of the process of purchase of the Company's treasury shares.

The Ordinary Shareholders Meeting, acting by virtue of article 362 § 2 item 3 of the Code of Commercial Codes, 348 § 1 in connection with article 396 § 4 and 5 of the Code of Commercial Companies, for the purpose of financing of the purchase of the Company's treasury shares on conditions and within confines of the authorization granted by the resolution, decides to establish a reserve capital under the name of „Fundusz Programu Odkupu” for the purchase of treasury shares. The amount of “Fundusz Programu Odkupu” is set to PLN 27,500,000. “Fundusz Programu Odkupu” is assigned to purchase of treasury shares together with the cost of the purchase. The Ordinary Shareholders Meeting decides to distinguish the “Fundusz Programu Odkupu” from the reserve capital.

Until the day of the hereby financial statements the Management Board of Arctic Paper S.A. has not purchased any treasury shares of the Company.

22.1.4 Shareholders with significant shareholding

	<i>As at 31 December 2013</i>	<i>As at 31 December 2012*</i>	<i>As at 31 December 2012</i>
Trebruk AB (previous Arctic Paper AB)			
Share in capital	59,69%	62,79%	74,96%
Share of votes	59,69%	62,79%	74,96%
Nemus Holding AB			
Share in capital	8,45%	8,82%	
Share of votes	8,45%	8,82%	
Others			
Share in capital	31,85%	28,39%	25,04%
Share of votes	31,85%	28,39%	25,04%

*number of Arctic Paper S.A. shares include increase of share capital by 10,740,983 series F shares, adopted by resolution of Extraordinary Shareholders Meeting dated 3rd December 2012 (for details see note 23.2 to the hereby financial statements) and registered in National Court Register on 10th January 2013.

22.2. Foreign branch operations currency translation

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

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

On 31st December 2013, foreign exchange differences from translation of foreign branch recognized in equity amounted to PLN 192 thousand (as on 31st December 2012 PLN 40 thousand). Exchange rate differences arising from translation of foreign branch recognized in statement of comprehensive income amounted to PLN +152 thousand in 2013 and PLN +46 thousand in 2012.

22.3. Share premium

Share Premium was created from the excess of emission value above the nominal value in 2009 in the amount of PLN 40,500 thousand, less cost of issue recognized as a reduction of share premium in the amount of PLN 4,515 thousand PLN.

In 2010 the share premium capital was increased by PLN 27,570 thousand resulting from the excess of emission value above the nominal value of Series E shares issued.

In 2010, share premium was created from the statutory distributions of the profits generated in previous years amounting to PLN 8,734 thousand, as a result of distribution of Arctic Paper S.A. financial result, pursuant to article 396 of the Code of Commercial Companies (8% of profit for the given financial year).

In 2011 a share premium was founded to cover loss in the amount of PLN 7,771 thousand as a result of distribution of Arctic Paper S.A. financial result, pursuant to article 396 of the Code of Commercial Companies (8% of profit for the given financial year).

In 2012 a share premium was founded to cover loss in the amount of PLN 2,184 thousand as a result of distribution of Arctic Paper S.A. financial result, pursuant to article 396 of the Code of Commercial Companies (8% of profit for the given financial year).

On 28th June 2012, the Company's Ordinary Shareholders Meeting adopted a resolution regarding decreasing the share capital of the Company by the amount of PLN 498,631,500 that is from the amount of PLN 554,035,000 to the amount of PLN 55,403,500 by decreasing the face value of each share by the amount PLN 9.00 that is from the amount of PLN 10.00 to the amount of PLN 1.00. The amount of the decrease shall be assigned to the Company's supplementary capital without payment to shareholders.

In 2013 share premium increased by the amount of PLN 70,702 thousand resulting from issue of shares (the excess of issue price over face value) and by the amount of PLN 1,082 thousand resulting from distribution of financial result for 2012.

As on 31st December 2013 the total value of the Company's share premium is PLN 652,662 thousand (31st December 2012: PLN 580,878 thousand).

22.4. Other reserves

As on 31st December 2013 the total value of other supplementary capitals of the Company amounts to PLN 147,871 thousand (31st December 2012: PLN 200,407 thousand).

Changes in supplementary capitals resulted from issue of series F shares (PLN 64,983 thousand), registered in National Court Register after balance sheet date 31st December 2012 and from the distribution of financial result for 2012 (PLN 12,447 thousand).

22.5. Retained earnings (losses) and limits to its distribution

In accordance with the provisions of the Code of Commercial Companies, the company is required to create reserve capital for possible losses. Transferred to this capital category is 8% of profit for the given financial year recognized in the standalone financial statements of the company until the reserve capital reaches at least one third of the share capital of the company. Appropriation of the reserve capital and other reserves depends on the decision of the General Meeting of Shareholders; however, the reserve capital in the amount of one third of the share capital may be used solely for the absorption of losses reported in the standalone financial statements of the company and shall not be used for any other purpose.

By the power of the Annex no 3 dated 20th December 2013 to the Loan Agreement dated 6th November 2012 concluded by Arctic Paper S.A. together with its subsidiaries, i.e. Arctic Paper Kostrzyn S.A., Arctic Paper Investment GmbH and Arctic Paper Mochenwangen GmbH and the consortium of banks (Bank Pekao S.A., Bank Zachodni WBK S.A. and BRE Bank S.A.), Arctic Paper S.A. bound itself not to declare or pay dividend when a breach of the agreement occurred or in case declaration or payment of dividend would have caused a breach of the agreement.

As on 31st December 2013 there are no other limitation concerning the payout of the dividend.

23. Conditional increase in share capital and change in assumptions of motivational program

23.1. Change in assumptions of incentive program

On 30th July 2009 the Company's Extraordinary Shareholders Meeting adopted the Resolution no 4 regarding assumptions of incentive program for key management officers providing a possibility of gratuitous acquisition of

subscription warrants entitling to claim shares of D series excluding pre-emptive rights. As on 31st December 2011 there were contracts concluded to dispense 365 thousand of warrants.

In 2012 and 2013 none of the entitled persons exercised the right to exchange warrants for Company's shares. The term of execution of the rights to claim series D shares by the holders of warrants expired on 31st December 2013.

23.2. Calling for purchase of Rottneros AB shares

On 3rd December 2012, by the power of resolution ("Resolution"), the Extraordinary Shareholders Meeting approved Arctic Paper S.A. for the purchase of shares of a Swedish law company Rottneros AB, through conditional calling for applying to sell or exchange the shares. The amount of conditional increase of share capital, in connection with exchange of Rottneros AB shares for the Company's shares, has been set to no more than PLN 30,061,464.00.

The conditional increase of share capital had had to be performed through issue of no more than 28,561,464 series F ordinary bearer shares with nominal value of PLN 1 each (hereinafter: "Series F shares").

The conditional increase of share capital had had to be performed for the purpose of granting the holders of subscription warrant series B (which shall be issued under the Resolution) with the right to claim Series F shares. The right to claim Series F shares could have been exercised until 30th June 2013 by the holders of subscription warrants series B on the conditions set in the aforementioned Resolution.

The solely entitled to claim Series F shares were the holders of subscription warrants series B.

All Series F shares could be paid only with cash contribution, in the contractual compensation performed by the holders of subscription warrants series B of the debt the holder has in the Company on the grounds of the loan granted to the Company (by the holder) of the Company's shares for the purpose of the Company's execution of the commitment to release the Company's shares to the shareholders of the Swedish law company Rottneros, in connection with the calling announced by the Company for applying to sell or exchange Rottneros shares for the Company's shares. The release of the Company's shares was to be made for cash contribution, resulting from the compensation of a cash exchangeable liability with a material liability of the return of the Company's shares.

Series F shares had had to be issued in the form of documents and will be personal bearer securities. The Management Board of the Company was authorized to conclude with the chosen entity, entitled to maintain a depository of securities, an agreement on Series F shares deposit, until their dematerialization and start of trading on a regulated market. Series F shares had had to be issued in portions.

Series F shares had had to take part in dividend and any other distribution of the possessions, conducted by the Company, equally with any other shares in the Company, since the day of issue, which means that if the day of settling the right for dividend, the right for prepayment towards future dividend, the subscription right, the right for bonus shares, or any other right or benefit from the Company related to the shares held on the particular day, will be set to a day that will not be earlier than the day of release of the Series F shares, then Series F shares will be entitled to participate in the right equally with any other shares in the Company.

On condition that the conditional increase of share capital of the Company, had been registered, the Shareholders Meeting decided to issue no more than 28,561,464 personal subscription warrants series B, each of which entitles to claim 1 Series F share (hereinafter "Subscription Warrants").

Subscription Warrants were offered to Trebruk AB (a Swedish law company, previously Arctic Paper AB) (hereinafter "Trebruk"), in the number equal to the number of the Company's shares lend to the Company by Trebruk for the purpose of execution of the Company of the commitment to transfer the shares to the shareholders of Rottneros as a result and in settlement of the announced by the Company the calling for applying to sell or exchange of all Rottneros shares.

Subscription Warrants had had to be issued free of charge in the form of documents and shall be personal securities. Subscription Warrants could be issued in portions, in one series, in the number that shall not exceed 28,561,464, each entitling to claim one Series F share, with the term until 30th June 2013.

Exercise of Subscription Warrants, coverage of Series F shares and release of Series F shares in the execution of the commitment resulting from use of Subscription Warrants should have occurred simultaneously with the transfer of shares in the Company to the shareholders of Rottneros in the execution of the commitment resulting from the loan agreement of the Company's shares. The Management Board was authorized by the resolution to release the Subscription Warrants to the entitled persons after the registration of the conditional increase of share capital of the Company.

For more details see current report 30/2012.

Until 31st December 2012, the Company released 10,740,983 subscription warrants series F, which were exchanged for 10,740,983 series F shares of Arctic Paper S.A. The respective registration of share capital increase in National Court Register occurred on 10th January 2013.

From 1st January 2013 until 26th February 2013 the Company released 3,143,300 series F subscription warrants, which were exchanged for 3,143,300 series F Arctic Paper S.A. shares. Registration of respective share capital increase in National Court Register was performed in portions, the last of which occurred on 22nd March 2013 (for details see note 30.1 of consolidated financial statements for 2013).

24. Acquisition of subsidiaries

From 1st January 2013 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 consolidated financial statements for 2012, or through direct purchases in NASDAQ OMX stock exchange.

The Company purchased 82,726,339 of Rottneros AB shares in the aggregate which represented 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 13,884,283 series F shares in the aggregate. All issued shares has been registered in National Court Register until the day of publishing of the hereby report.

On 11th November 2013, the Company sold 4,495,456 shares of Rottneros AB and as a result decreased its share in Rottneros AB share capital by 2.9 p.p. Currently Arctic Paper S.A. holds 51.3% of Rottneros Group shares.

On 29th October 2013 the Company concluded an agreement with Arctic Paper Investment GmbH concerning purchase of 100% of shares in Arctic Paper Deutschland GmbH. The agreement entered into force on 1st January 2014.

25. Interest-bearing loans and borrowings

	<i>Effective percentage rate %</i>	<i>Maturity date</i>	<i>As at 31 December 2013</i>	<i>As at 31 December 2012</i>
Current				
Bonds 1/2010 series (three-years) in PLN, interest rate Wibor + 4% - current part (accrued interest)	8,88%	25.02.2013	-	51 189
Bonds 1/2011 series (two-years) in PLN, interest rate: Wibor + 4% - current part (accrued interest)	9,45%	25.02.2013	-	23 015
Loan from Arctic Paper Kostrzyn S.A. in PLN, interest rate: Wibor + 2%	4,71%	30.06.2014	-	23 782
Loan from Arctic Paper Kostrzyn S.A. in PLN, interest rate: Wibor + 2,5% (interest)		31.03.2013	-	248
Loan from Thomas onstad of 4.000 kEUR, interest rate: 8% (interest)		09.07.2016	114	-
			114	98 260
Non-current				
Loan from Arctic Paper Kostrzyn S.A. in PLN, interest rate: Wibor 3M + 3,3%	5,21%	31.12.2017	158 839	128 300
Loan from Thomas onstad of 4.000 kEUR, interest rate: 8%	8,00%	09.07.2016	16 589	-
			175 428	128 300

*loan recognized as current because of the possibility of payment on request

25.1. Interest-bearing loans and borrowings

As reported in current report 44/2013, on 20th December 2013 the Company and its subsidiaries, that is Arctic Paper Kostrzyn S.A., Arctic Paper Investment GmbH and Arctic Paper Mochenwangen GmbH concluded the annex no 3 (hereinafter "Annex") to a loan agreement with a consortium of banks (Bank Polska Kasa Opieki S.A., BRE Bank S.A. and Bank Zachodni WBK S.A.) dated 6th November 2012. The Annex came into force on 23rd December 2014.

The Annex concluded as follows:

- establishment of new ratios of financial covenants determined for Arctic Paper Kostrzyn S.A. and for the Capital Group, which had been agreed on with the Management Board of the Issuer;
- obligation to perform the share capital increase by no less than PLN 50,000 thousand;
- obligation of the Capital Group to allot the funds obtained from capital increase and sales of assets to reinvestments up to PLN 60,000 thousand;
- allocation of the excess of the funds obtained from share capital increase and sales of assets over PLN 60,000 thousand to prepayment of obligations under the Loan Agreement;
- limitation of the management fee paid by Arctic Paper Kostrzyn S.A. to the Company to PLN 3,500 thousand annually;
- obligation of Arctic Paper Kostrzyn S.A. not to declare and not to pay out dividend as well as not to grant related parties with financing without creditors' consent;
- obligation of Arctic Paper Kostrzyn S.A. not to perform changes in its share capital;
- AP S.A. obligation not to declare or pay dividend as well as not to make similar payments to shareholders when a breach of the agreement occurred or in case declaration or payment of dividend would have caused a breach of the agreement;
- establishment of a new case of breach of the agreement if Svenska Handelsbanken does not prolong the short-term loan agreements and factoring agreements.

Moreover, under the Annex, the parties prolonged the repayment date of the short-term part of the loan in the amount of PLN 59,000 thousand ("Loan B") until 30th September 2014.

Collaterals set in the Loan Agreement has not been changed.

In July 2013 Arctic Paper S.A. received a long-term loan from Mr Thomas Onstad, the largest indirect shareholder and a Member of the Supervisory Board, in the amount of EUR 4,000 thousand. The loan amount is a pledged with 39,900,000 shares in Rottneros AB.

In the year ended 31st December 2013 and 31st December 2012 the Company did not take any other bank loans or borrowings.

25.2. Bonds issue and repayment

On 25th February 2013 Arctic Paper S.A. performed a repayment of bonds: series A in the total amount together with interest of PLN 51,880 thousand and series B in the total amount together with interest of PLN 23,325 thousand. The bonds were issued by the Company in compliance with bonds issue agreement dated 11th February 2010 (as amended).

Therefore the Company performed a full repayment of bonds series A and B and was released from any liability under the bonds issue agreement.

26. Provisions

As on 31st December 2013, the Company made provisions in the amount of PLN 733 thousand (2012: PLN 827 thousand) and were presented as long-term liabilities. This amount includes a total provision for post-employment employee benefits.

27. Trade and other payables, other liabilities and accruals

27.1. Trade and other payables, other liabilities (short – term)

	<i>Note</i>	<i>As at 31 December 2013</i>	<i>As at 31 December 2012</i>
Trade payables			
Due to related parties	29	1 274	-
Due to non-related parties		32 250	29 037
		33 523	29 037
Other current liabilities			
Due to related parties	29	-	22
Due to employees		462	708
Due to state budget		582	718
Other liabilities		125	232
		1 169	1 680

Terms and conditions of financial liabilities presented above:

- for terms and conditions of transactions with related parties, refer to note 29.
- trade payables are non-interest bearing and are normally settled within 30 days.

27.2. Accruals

	<i>As at</i> 31 December 2013	<i>As at</i> 31 December 2012
<i>Accrued expenses for:</i>		
Vacation liability to employees	890	858
Bonuses to employees of the Group	1 000	53
Audit, legal and consulting services	186	747
Marketing costs	-	344
Accrued commissions to external agents	227	193
Other	10	46
Total	2 313	2 241
- long-term	-	1 974
- short-term	2 313	2 241
	2 313	4 215
<i>Prepaid income for:</i>		
Remuneration for guarantee of the Arctic Paper Kostrzyn credit facility	2 261	2 972
Total	2 261	2 972
- long-term	2 026	1 974
- short-term	235	998
	2 261	2 972

Prepaid income relates to remuneration of Arctic Paper S.A. on the grounds of commission on guarantee of a loan granted to Arctic Paper Kostrzyn S.A. The total amount of commission, according to concluded agreement, equals 1% of the granted loan amount, that is PLN 3,590 thousand.

28. Contingent liabilities

As of 31st of December 2013, the Company had contingent liabilities of PLN 368,779 thousand.

These were:

- Contingent liabilities of the Company related to the guarantee of the bank loan in the amount of PLN 359,000 thousand granted to Arctic Paper Kostrzyn S.A. on 6th November 2012 by a consortium of banks: Polska Kasa Opieki S.A., Bank Zachodni WBK S.A. and BRE Bank S.A. (the loan agreement was described in details in note 32.1 to annual consolidated financial statements for 2012).
- 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 (PLN 4.147 thousand) and is valid until 28th March 2014,

- a guarantee in favor of Södra Cell International AB, the supplier of pulp, in the total amount of SEK 12,000 thousand (PLN 5,632 thousand),

28.1. Tax settlements

Tax settlements, together with other areas of legal compliance (e.g. customs or foreign exchange law) are subject to review and investigation by a number of authorities, which are entitled to impose severe fines, penalties and interest charges.

The lack of reference to well established regulations in Poland results in a lack of clarity and integrity in the regulations. Frequent contradictions in legal interpretations both within government bodies and between companies and government bodies create uncertainties and conflicts. These facts create tax risks in Poland that are substantially more significant than those typically found in countries with more developed tax systems.

Tax authorities may examine the accounting records within up to five years after the end of the year in which the final tax payments were to be made. Consequently, the Company may be subject to additional tax liabilities, which may arise as a result of additional tax audits.

The Company believes that adequate provisions have been recorded for known and quantifiable risks in this regard as on 31st December 2013.

29. Reasons for discrepancies between changes resulting from statement of financial position and changes resulting from cash flow statement

The discrepancies between changes resulting from statement of financial position and changes resulting from cash flow statement are presented in the table below:

	<i>Year ended</i> <i>31 December 2013</i>	<i>Year ended</i> <i>31 December 2012</i>
Change in trade and other receivables resulting from the report on financial situation	(20 703)	(13 861)
Change in trade and other receivables resulting from the statement of cash flows	(15 726)	(13 861)
	<u>(4 977)</u>	<u>-</u>

The discrepancy of PLN 4,977 thousand results from a prepayment performed for the purpose of purchase of shares in Arctic Paper Deutschland GmbH. This amount has been presented in the balance sheet as on 31st December 2013 in long-term receivables, and in cash flow statement as acquisition of shares in a subsidiary.

ARCTIC PAPER S.A.
 Financial statements for the year ended 31st December 2013
 Accounting policies and additional explanatory notes
 (in PLN thousands)

30. Related party disclosures

The table below presents the total values of transactions with related parties entered into during current and prior year:

<i>Related party</i>		<i>Sales to related parties</i>	<i>Sales to related parties</i>	<i>Interest – financial income</i>	<i>Interest – financial costs</i>	<i>Receivables</i>	<i>including overdue</i>	<i>Payables</i>	<i>including in arrears</i>	<i>Loan liabilities</i>
<u>Parent company:</u>										
Trebruk AB	2013	-	-	-	-	3 613	-	-	-	-
	2012	-	-	-	-	3 824	-	-	-	-
Nemus Holding AB	2013	-	166	-	-	-	-	-	-	-
	2012	-	-	-	-	-	-	-	-	-
<u>Subsidiaries:</u>										
Arctic Paper Kostrzyn S.A.	2013	20 446	9 818	74 974	-	34 504	-	-	374	158 839
	2012	15 364	71	46 343	1 740	21 645	-	-	18	152 330
Arctic Paper Munkedals AB	2013	10 489	30	1 109	-	2 114	-	20 716	460	-
	2012	10 225	29	1 960	-	1 540	-	26 465	-	-
Arctic Paper Mochenwangen GmbH	2013	524	-	-	-	2 191	2 191	-	-	-
	2012	105	-	71	-	582	-	-	-	-
Arctic Paper Grycksbo AB	2013	10 469	239	-	-	3 540	-	-	279	-
	2012	11 514	261	-	-	1 696	-	-	-	-
Arctic Paper Investment GmbH	2013	-	-	1 203	-	6 128	6 128	40 453	-	-
	2012	-	-	1 300	-	1 152	-	37 058	-	-
Arctic Paper Investment AB	2013	-	-	18 440	-	23	-	82 709	-	-
	2012	-	-	23 809	-	24	-	308 543	-	-
Arctic Paper Deutschland GmbH	2013	21	183	-	-	-	-	-	46	-
	2012	26	-	-	-	-	-	-	-	-
Arctic Paper Sverige AB	2013	21	16	-	-	1	-	-	-	-
	2012	35	1	-	-	-	-	-	-	-
Arctic Paper Danmark A/S	2013	13	-	-	-	-	-	-	-	-
	2012	13	-	-	-	-	-	-	-	-
Arctic Paper Italia srl	2013	6	-	25	-	-	-	423	-	-
	2012	6	-	-	-	-	-	-	-	-
Arctic Paper Espana SL	2013	4	-	-	-	-	-	-	-	-
	2012	5	-	-	-	-	-	-	-	-
Arctic Paper Norge AS	2013	14	-	-	-	-	-	-	-	-
	2012	12	-	-	-	-	-	-	-	-

Accounting policies and additional notes included on pages from 12 to 66 are an integral part of these financial statements

ARCTIC PAPER S.A.
Financial statements for the year ended 31st December 2013
Accounting policies and additional explanatory notes
(in PLN thousands)

<i>Related party</i>		<i>Sales to related parties</i>	<i>Sales to related parties</i>	<i>Interest – financial income</i>	<i>Interest – financial costs</i>	<i>Receivables including overdue</i>	<i>Payables including in arrears</i>	<i>Loan liabilities</i>			
Arctic Paper Benelux S.A.	2013	13	-	-	-	-	-	-	-	-	
	2012	16	-	-	-	-	-	-	-	-	
SIA Arctic Paper Baltic States	2013	3	-	-	-	-	-	-	-	-	
	2012	4	-	-	-	-	-	-	-	-	
Arctic Paper France SAS	2013	17	-	-	-	-	-	-	-	-	
	2012	21	-	638	-	-	-	-	-	-	
Arctic Paper Papierhandels GmbH	2013	11	-	-	-	-	-	-	-	-	
	2012	-	-	-	-	-	-	-	-	-	
Arctic Paper UK Limited	2013	15	-	-	-	-	-	-	-	-	
	2012	15	1	-	-	-	-	-	-	-	
Arctic Paper Schweiz AG	2013	9	-	-	-	-	-	-	-	-	
	2012	9	-	-	-	-	-	-	-	-	
Arctic Paper Polska Sp. z o.o.	2013	12	-	141	-	-	-	-	-	-	
	2012	14	2	770	-	-	-	-	-	-	
Arctic Paper East Sp. z o.o.	2013	5	-	40	-	16	-	-	-	-	
	2012	3	1	100	-	16	-	-	-	-	
Arctic Energy Sverige AB	2013	249	-	-	-	491	-	-	-	-	
	2012	196	-	-	-	254	-	-	-	-	
<u>Other:</u>											
IPM Sp.z o.o. Sp.k.	2013	28	4 313	-	-	4	-	-	-	-	
	2012	-	1 313	-	-	-	-	-	-	-	
Galileus Sp.z o.o. Sp.k.	2013	-	291	-	-	-	-	4	-	-	
	2012	-	108	-	-	-	-	4	-	-	
Thomas Onstad	2013	-	-	-	448	-	-	16 703	-	-	
	2012	-	-	-	-	-	-	-	-	-	
Total	2013	42 340	15 056	95 932	448	52 626	8 319	144 301	17 866	-	158 839
	impairment	(519)	-	(19 643)	-	(3 305)	-	(40 453)	-	-	-
	presented as shares in subsidiaries	-	-	-	-	-	-	(82 709)	-	-	-
	2013 after impairment and presentation as shares in subsidiaries	41 849	15 056	76 289	448	49 321	8 319	21 150	17 866	-	158 839
	2012	37 583	367	74 992	1 740	30 733	-	372 066	18	-	152 330
	impairment	-	-	(1 300)	-	(1 000)	-	(37 058)	-	-	-
	presented as shares in subsidiaries	-	-	-	-	-	-	(308 543)	-	-	-
	2012 after impairment and presentation as shares in subsidiaries	37 583	1 788	73 692	1 740	29 733	-	26 476	22	-	152 330

Accounting policies and additional notes included on pages from 12 to 63 are an integral part of these financial statements

30.1. The ultimate parent

The direct parent of the Group is Trebruk AB (formerly Arctic Paper AB). The parent company of Trebruk AB is Casandrax Financials S.A.

There were no transactions between the Company and its ultimate parent during the years ended 31st December 2013 and 31st December 2012, apart for the transactions with Trebruk AB as shown in note 30.

30.2. Terms and conditions of transactions with related parties

Related party transactions are made at an arm's length.

30.3. Loans granted to members of the Management Board

During the period covered by these financial statements, Company did not grant any loans to key management and did not grant any loans in the comparative period.

30.4. Remuneration of the Company's key management personnel

30.4.1 *Remuneration paid or due to the members of the Management Board and the members of the Supervisory Board*

Key management personnel as on 31st December 2013 comprised four persons: President of the Management Board and three Members of the Management Board.

The table below presents the total value of remuneration to the members of the Management Board and the members of the Supervisory Board for current and prior year:

	<i>As at</i> <i>31 December 2013</i>	<i>As at</i> <i>31 December 2012</i>
Management Board		
Employee benefits (salaries and social securities)	4 433	4 562
Supervisory Board		
Employee benefits (salaries and social securities)	360	624
Total	<u>4 793</u>	<u>5 186</u>

30.4.2 *Directors' interests (including members of Management and Supervisory Boards) in employee share incentive plan*

On 30th July 2009 the Extraordinary General Shareholders' Meeting adopted the resolutions number 4 on approving the assumptions of an incentive program for key managers, consisting of the opportunity to acquire free-of-charge subscription warrants that will enable the holders to take up series D shares with excluded pre-emptive rights.

In 2012 and 2013 there were no further agreements concerning distribution of warrants. Until 31st December 2013 none of the entitled persons exercised the right to exchange warrants for Company's shares. The term of execution of the rights to claim series D shares by the holders of warrants expired on 31st December 2013.

31. Information about the contract and remuneration of auditor or audit company

The table below presents the remuneration of the audit company, paid or payable for the year ended 31st December 2013 and 31st December 2012 by category of services:

<i>Type of service</i>	<i>As at 31 December 2013</i>	<i>As at 31 December 2012</i>
Year-end audit	305 *	279
Year-end audit (branch office)	28	48
Tax consultancy	-	-
Other services	93	827
Razem	426	1 154

* relates to Ernst&Young Audyt Polska Spółka z ograniczoną odpowiedzialnością Sp.k (formerly Ernst & Young Audit Sp. z o.o.)

32. Financial risk management objectives and policies

The Company's principal financial instruments comprise cash at bank and loans granted and received within the Group. The main purpose of these financial instruments is to raise finance for the Company's operations. The Company has various other financial instruments such as trade receivables and trade payables, which arise directly from operations.

The principle used by Company currently and throughout the whole period covered by these financial statements is not to put financial instruments on market.

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

The Management Board reviews and agrees policies for managing each of these risks and they are summarized below. The Company has also been monitoring risk of market prices of holding financial instruments.

32.1. Interest rate risk

The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's long-term debt obligations and granted loans with variable interest.

Interest rate risk – sensitivity to changes

The following table demonstrates the sensitivity of profit before tax to a reasonably possible change in interest rates, with all other variables held constant (through the impact on floating rate borrowings). Impact on equity or total comprehensive income has not been presented.

	<i>Increase / Decrease in percentage points</i>	<i>Impact on gross result for 2013</i>
As at 31 December 2013		
PLN	+1%	(1 387)
EUR	+1%	350
SEK	+1%	0
PLN	-1%	1 387
EUR	-1%	(350)
SEK	-1%	0

	<i>Increase / Decrease in percentage points</i>	<i>Impact on gross result for 2012</i>
As at 31 December 2012		
PLN	+1%	486
EUR	+1%	326
SEK	+1%	0
PLN	-1%	(486)
EUR	-1%	(326)
SEK	-1%	0

32.2. Foreign currency risk

The Company is exposed to transactional foreign currency risk. The risk mainly arises as a result of receiving by the Company dividends from subsidiaries - and to a lower extent – as a result of purchase transactions made in currencies other than its functional currency.

The following table demonstrates the sensitivity of profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Company's equity on reasonably possible change of exchange rate of foreign currencies with all other variables held constant.

	<i>Increase/ decrease of currency rate</i>	<i>Impact on gross result</i>	<i>Impact on total comprehensive income</i>
31 December 2013 – SEK	+1%	132	(92)
	-1%	(132)	92
31 December 2013 – EUR	+1%	473	-
	-1%	(473)	-
31 December 2013 – USD	+1%	43	-
	-1%	(43)	-
31 December 2012 – SEK	+1%	56	(2)
	-1%	(56)	2
31 December 2012 – EUR	+1%	371	-
	-1%	(371)	-
31 December 2012 – USD	+1%	5	-
	-1%	(5)	-

32.3. Credit risk

With respect to credit risk arising from other financial assets of the Company, which comprise cash and cash equivalents and receivables, the Company's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

There are no significant concentrations of credit risk within the Company, except for the related parties.

32.4. Liquidity risk

The Company monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g. accounts receivables, other financial assets) and projected cash flows from guaranteed bank loans.

The table below summarizes the maturity profile of the Company's financial liabilities at 31st December 2013 and 31st December 2012 based on contractual undiscounted payments.

<i>31 December 2013</i>	<i>On demand</i>	<i>< 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>> 5 years</i>	<i>Total</i>
Borrowings and loans	-	114	-	211 848	-	211 962
Other liabilities	-	34 693	-	-	-	34 693
	-	34 807	-	211 848	-	246 655

<i>31 December 2012</i>	<i>On demand</i>	<i>< 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>> 5 years</i>	<i>Total</i>
Borrowings and loans	-	74 204	22 535	188 334	-	285 073
Other liabilities	-	30 717	-	-	-	30 717
	-	104 921	22 535	188 334	-	315 790

32.5. Financial instruments

The Company has material financial instruments of bank agreements related to cash deposits and loan agreements with related parties.

32.6. Fair value

Fair value is the amount at which an asset could be bought or sold, and a liability settled in a current transaction between willing and well informed parties.

32.7. Derivatives

Derivative is a financial instrument or other contract covered by IAS 39 compliant with the following three conditions:

- Its value changes alongside with the change of specified interest rate, price of financial instrument, price of commodity, currency exchange rate, price index or ratio index, credit rating or credit index, or other variable, assuming that in case of non-financial variable, that variable is not specific for a counterparty (sometimes called the underlying);
- It does not require primary net investment or requires primary net investment lesser than for other sorts of contracts that are expected to have similar reactions to market fluctuations, and
- Its realization is going to take place in the future.

Fair value of derivative financial instruments is recognized within assets in the balance sheet when the fair value is positive or within liabilities, when the fair value is negative. Profit or loss on change in the fair value of derivatives is recognized in the income statement under finance income or finance costs.

The Company is entitled to designate selected derivatives as a hedge under hedge accounting.

32.8. Fair values of each class of financial instruments

The table below presents a comparison by category of assets and liabilities of carrying amounts and fair values of all of the Company's financial instruments.

	Category complaint with IAS 39	Book value		Fair value		Level of fair value compliant with IFRS 13
		As at 31 December 2013	As at 31 December 2012	As at 31 December 2013	As at 31 December 2012	
Financial Assets						
Other financial assets (long-term)	L&R	4 977	-	4 977	-	3
Trade and other receivables	L&R	47 794	29 790	47 794	29 790	3
Other financial assets (short-term)		21 142	26 476	21 142	26 476	3
Financial liabilities						
Interest bearing bank loans and borrowings	OFL	175 542	152 356	175 542	152 356	3
Debt securities, therein:						
- short-term bonds	OFL	-	74 204	-	74 204	3
Trade and other financial payables	OFL	33 523	29 037	33 523	29 037	3

Abbreviations used:

- HtM* – Financial assets held to maturity,
FVTPL – Financial assets/ financial liabilities at fair value through profit or loss,
L&R – Loans and receivables,
AFS – Available-for-sale assets,
OFL – Other financial liabilities measured at amortized cost.

Financial instruments recognized at level 3 of fair value framework, according to IFRS 13, are valued with the use of discounted cash flows method, taking into account the market interest rate.

32.9. Interest rate risk

The following table sets out the carrying amount, by maturity, of the Company's financial instruments that are exposed to interest rate risk:

ARCTIC PAPER S.A.
 Financial statements for the year ended 31st December 2013
 Accounting policies and additional explanatory notes
 (in PLN thousands)

<i>31 December 2013</i>	<i><1 year</i>	<i>1–2 years</i>	<i>2-3 years</i>	<i>3-4 years</i>	<i>4-5 years</i>	<i>>5 years</i>	<i>total</i>
<i>Variable interest</i>							
Loans granted to related parties	21 149	-	-	-	-	-	21 149
Loans received from related parties	-	-	-	-	158 839	-	158 839
	21 149	-	-	-	158 839	-	179 988

<i>31 December 2013</i>	<i><1 year</i>	<i>1–2 years</i>	<i>2-3 years</i>	<i>3-4 years</i>	<i>4-5 years</i>	<i>>5 years</i>	<i>total</i>
<i>Fixed rate</i>							
	-	-	-	16 589	-	-	16 589
	-	-	-	16 589	-	-	16 589

In connection with recognized complete write-off the Company concluded that loans granted to Arctic Paper Investment GmbH (together with interest) are not burdened with interest rate risk.

<i>31 December 2012</i>	<i><1 year</i>	<i>1–2 years</i>	<i>2-3 years</i>	<i>3-4 years</i>	<i>4-5 years</i>	<i>>5 years</i>	<i>total</i>
<i>Variable interest</i>							
Cash assets	10 000	-	-	-	-	-	10 000
Loans granted to related parties	26 465	11	-	308 544	-	-	335 020
Loans received from related parties	23 782	-	-	-	128 300	-	152 082
Bonds 2/2010 series (three-years)	51 189	-	-	-	-	-	51 189
Bonds 1/2011 series (two-years)	23 015	-	-	-	-	-	23 015
	134 451	11	-	308 544	128 300	-	571 306

<i>31 December 2012</i>	<i><1 year</i>	<i>1–2 years</i>	<i>2-3 years</i>	<i>3-4 years</i>	<i>4-5 years</i>	<i>>5 years</i>	<i>total</i>
<i>Fixed rate</i>							
	-	-	-	-	-	-	-
	-	-	-	-	-	-	-

33. Capital management

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

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31st December 2013 and 31st December 2012.

The Company monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Company's policy is to keep the gearing ratio between 10% and 30%. The Company includes within net debt, interest bearing loans and borrowings, trade and other payables, less cash and cash equivalents.

ARCTIC PAPER S.A.
 Financial statements for the year ended 31st December 2013
 Accounting policies and additional explanatory notes
 (in PLN thousands)

	<i>As at</i> <i>31 December 2013</i>	<i>As at</i> <i>31 December 2012</i>
Borrowings and loans	175 542	226 560
Trade payables and other liabilities	34 693	30 717
Less cash at bank and in hand	(9 018)	(30 356)
Net debt	201 218	226 922
Equity	690 044	850 198
	-	-
Equity and debt	891 262	1 077 120
Leverage ratio	0,23	0,21

34. Employment structure

The average employment in the Company in the years ended 31st December 2013 and 31st December 2012 was as follows:

	<i>As at</i> <i>31 December 2013</i>	<i>As at</i> <i>31 December 2012</i>
Management Board	4	4
Finance	4	4
Sales and marketing	6	7
Administration	3	2
IT	1	1
Total	18	18

35. Events after the reporting period

35.1. Acquisition of Arctic Paper Deutschland GmbH shares

On 1st January 2014 the agreement with Arctic Paper Investment GmbH concerning purchase of 100% of shares in Arctic Paper Deutschland GmbH entered into force.

35.2. Appointment of a Member of the Management Board

On 12th February 2014, the Supervisory Board of the Company appointed Mr. Michał Sawka as the Member of the Management Board (current report 1/2014).

35.3. Annex to the credit facility agreement of Arctic Paper Grycksbo

On 19th March 2013 Arctic Paper Grycksbo AB concluded an annex to an agreement with Svenska Handelsbanken regarding prolongation of the payment term of Arctic Paper Grycksbo AB overdraft indebtedness until 30th September 2014, keeping the hitherto prevailing conditions. Under the annex it was also decided to lower the particular covenants, which Arctic Paper Grycksbo AB will have to meet as on 30th September 2014 and after repayment of overdraft indebtedness. Failure to meet the conditions precedent may result in bringing the loans to maturity which can have a major impact on liquidity of the Group and continuation of its business operations. In the Management Board's opinion, the risk related to repayment of indebtedness in Svenska Handelsbanken is postponed not only until 30th September 2014. The Management Board prepared financial forecasts for 2014, which have shown that the covenants requested from Arctic Paper Grycksbo will have been met both as on 30th September 2014 and on 31st December 2014. Therefore, no additional breach of the principles of the loan

agreement concluded between the Company and its subsidiaries, that is Arctic Paper Kostrzyn S.A., Arctic Paper Investment GmbH and Arctic Paper Mochenwangen GmbH and a consortium of banks (Bank Pekao SA, Bank Zachodni WBK and BRE Bank SA) is going to occur (see more about credit facility agreement in note 25.1 of the hereby financial statements).

ARCTIC PAPER S.A.
Financial statements for the year ended 31st December 2013
Accounting policies and additional explanatory notes
(in PLN thousands)

Signatures of the Management Board Members

Position	Name and surname	Date	Signature
President of the Management Board Chief Executive Officer	Wolfgang Lübbert	21 March 2014	
Member of the Management Board Chief Financial Officer	Malgorzata Majewska-Śliwa	21 March 2014	
Member of the Management Board Chief Procurement Officer	Jacek Łoś	21 March 2014	
Member of the Management Board Chief Operating Officer	Per Skoglund	21 March 2014	
Member of the Management Board Sales Director	Michał Sawka	21 March 2014	