



Management Board Report on the operations of Arctic Paper S.A. to report for the year 2012

TRANSLATORS' EXPLANATORY NOTE

The following document is a free translation of the report of
the above-mentioned Company.

In the event of any discrepancy in interpreting the
terminology, the Polish version is binding.



ARCTIC PAPER

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Arctic Paper profile

General information

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

Since December 2012, Arctic Paper S.A. holds also shares in Rottneros AB, a company listed on NASDAQ OMX stock exchange in Stockholm, in Sweden, holding 100% of shares in two Pulp Mills, a Purchase Office and a company producing food packaging (for details see note 23 in the consolidated financial statements).

Business activities

The main area of Arctic Paper Group's business is holding activity.

Subsidiaries

Since 23rd October 2009 Arctic Paper S.A. has been listed on the primary market of the Warsaw Stock Exchange and since 20th December 2012 on NASDAQ OMX stock exchange in Stockholm, Sweden. The Group carries out business through its Paper Mills and Pulp Mills, Distribution Companies and Sales Offices. Current shareholding structure of the Group was established in September and October 2008 when the Issuer acquired paper mills in Poland and Sweden and distribution companies and sales offices dealing with distribution and sales of paper produced in Europe.

The main area of the Company's business is holding activity including management of the entities belonging to the controlled Capital Group. Operating activity is conducted by paper mills, distribution companies and sales offices. Detailed information regarding business activities of the Arctic Paper Capital Group is included in annual consolidated report for the year ended 31st December 2012.

The Company is entered in the Register of Entrepreneurs kept by the District Court Poznań- Nowe Miasto i Wilda in Poznań, VIII Commercial Department of the National Court Register, Entry No. KRS 0000306944. The Parent Company was granted statistical REGON number 080262255.

Three distribution companies – in Sweden, Norway and Denmark – are engaged in distribution activity offering our products and, to a limited extent, products of other paper producers.

Arctic Paper S.A. acquired shares in Arctic Paper Kostrzyn, Arctic Paper Munkedals, Distribution Companies and Sales Offices from Trebruk AB (former Arctic Paper AB), currently the Issuer's majority shareholder and from Nemus Holding AB, parent company of Trebruk AB. As part of its expansion, the

Group also acquired in December 2008 paper mill Arctic Paper Mochenwangen (Germany) and in March 2010 paper mill Grycksbo (Sweden).

In December 2012, Arctic Paper S.A. acquired 39.66% of shares in Rottneros AB, a company listed on NASDAQ OMX in Stockholm, Sweden. Rottneros AB owns 100% in two pulp companies, one purchasing office and one company which produces food

packaging. The acquisition of Rottneros shares was performed mainly in the form of exchange of Arctic Paper S.A. shares to Rottneros AB shares. Because of the free-float of Rottneros AB and the lack of legal limitations, Arctic Paper S.A. took over the control of Rottneros Group on 20th December 2012. From that day the Arctic Paper S.A. shares have been listed on NASDAQ OMX stock exchange in Stockholm.

As on 31st December 2012 Arctic Paper S.A. had investments in the following subsidiaries:

- Arctic Paper Kostrzyn S.A. – paper mill in Kostrzyn nad Odrą (Poland);
- Arctic Paper Munkedals AB – paper mill in Munkedal (Sweden);
- Arctic Paper Sverige AB – distribution company operating on Swedish market;
- Arctic Paper Norge AS – distribution company operating on Norwegian market;
- Arctic Paper Danmark A/S – distribution company operating on Danish market;
- Arctic Paper UK Limited – sales office in United Kingdom;
- Arctic Paper Baltic States SIA – sales office in Baltic states;
- Arctic Paper Benelux S.A. – sales office in Benelux;
- Arctic Paper Schweiz AG – sales office in Switzerland;
- Arctic Paper Italia srl – sales office in Italy;
- Arctic Paper Ireland Limited – sales office in Ireland;
- Arctic Paper France SAS – sales office in France;
- Arctic Paper Espana SL – sales office in Spain;
- Arctic Paper Papierhandels GmbH – sales office in Austria;
- Arctic Paper Polska Sp. z o.o. – sales office in Poland;
- Arctic Paper East Sp. z o.o. – sales office in Ukrainian market;
- Arctic Paper Investment GmbH – holding company formed for the purpose of acquisition of paper mill in Mochenwangen;
- Arctic Paper Investment AB – holding company formed for the purpose of acquisition of Grycksbo Paper Holding AB.
- Rottneros AB – holding company with shares in pulp mills Rottneros Bruk AB and Vallvik AB, in a purchasing office and a company producing food packaging

Information about share in capital of particular subsidiaries is included in note 5 of the financial statements of the Company.

Changes in the capital structure of the Arctic Paper Group

In December 2012, as aforementioned, Arctic Paper acquired shares in Rottneros AB.

Moreover, in October 2012, a subsidiary of Arctic Paper – Arctic Paper Munkedals purchased 50% of shares in a joint arrangement Kalltorp Kraft Handelsbolaget seated

in Trolhattan, Sweden. Kalltorp Kraft deals in energy production in its own hydro-power plant.

In June 2012 a sales office Grycksbo Paper GmbH closed its business.

Services provided by the Company

As a holding company Arctic Paper S.A. receives only dividends and income from management services provided for related entities operating within the Arctic Paper S.A. Capital Group.

Moreover, in July 2012 the Company started to provide agency services for pulp procurement to the entities of the Group. The services are provided in the following two manners:

- by negotiating pulp supplies conditions for the Group and particular mills
- by direct purchases of pulp by Arctic Paper S.A. and resale to mills

Detailed information about the range of products produced by paper mills of Arctic Paper Group was included in the consolidated annual report for the year 2012.

Changes in basic management principles

There were no important changes in basic management principles in 2012.

Shareholder structure

Arctic Paper S.A.'s main shareholder is a Swedish company Trebruk AB (former Arctic Paper AB) which as on 31st December 2012 held shares of our Company representing 74.96% of its share capital corresponding to 74.96% of the total number of votes in the Shareholders Meeting.

As on the day of publishing of the hereby report, Trebruk AB holds 41,450,065 shares in our Company representing 59.82% of its share capital corresponding to 59.82% of the total number of votes in the Shareholders Meeting.

Thus Trebruk AB is the Issuer's parent company.

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

as at 30.04.2013

as at 28.02.2013

Shareholder	Number of shares	Share capital [%]	Of total number		Number of shares	Share capital [%]	Of total number	
			Number of votes	of votes [%]			Number of votes	of votes [%]
Trebruk AB (previous	41 450 065	59,82%	41 450 065	59,82%	40 860 624	61,51%	40 860 624	61,51%
Nemus Holding AB	5 857 286	8,45%	5 857 286	8,45%	5 857 286	8,82%	5 857 286	8,82%
Others	21 980 432	31,72%	21 980 432	31,72%	19 710 520	29,67%	19 710 520	29,67%
Total	69 287 783	100,00%	69 287 783	100,00%	66 428 430	100,00%	66 428 430	100,00%
Own shares	-	0,00%	-	0,00%	-	0,00%	-	0,00%
Total	69 287 783	100,00%	69 287 783	100,00%	66 428 430	100,00%	66 428 430	100,00%

Data on the table are given as on the date of this report and as on the date of publication of the quarterly report for 4Q 2012.

Market environment

The Company does not provide services directly to external parties. Its financial situation and ability to pay dividend is influenced mainly by the market environment in which paper mills and pulp mills controlled by the Company are operating.

The information about the main products offered by the Group with description regarding the value, the

quantities, sales revenue structure, the information about the markets divided to domestic and foreign markets, as well as information about sources of supply of raw materials and services is included in the Consolidated Annual Report.

Development directions and strategy

Main strategies of the Group for which the Company is the parent company include:

Expansion on Central and Eastern European markets while maintaining leading position on key markets

Our strategic priority over the next few years is to maintain our present leading position in the field of fine paper intended for Western European markets and also to take advantage of the expected growth on the paper market in Central and Eastern Europe. Given their size, the Western European markets will remain our strategic target although we believe that the paper market in Central and Eastern Europe will grow faster than in Western Europe. We expect this growth to be founded

on the long-term rise in paper use per citizen, comparably low at present, and on the expected move of printing houses' production capacity from Western Europe to Central and Eastern Europe. The key elements of this strategy are to take advantage of the competitive edge which we gained thanks to the location and efficient operation of our paper mill in Kostrzyn nad Odrą and our well-developed sales network in Central and Eastern Europe.

Maximization of production capacity and distribution

One of the key elements for the success of our business will be the ability to sustain cost efficiency. Therefore, we have been taking initiatives to:

- maximize energy efficiency,
- carefully manage human resources,
- take advantage of our strong bargaining position to negotiate lower prices of pulp for paper mills and of other raw materials,
- maximize the capacity of our production lines and the efficiency of the logistics systems.

Sales structure

In 2012 the sales structure by main sources of income was as follows:

Sales structure by income sources

PLN thousands	2012 share %		2011 share %	
Services	37 209	34%	26 032	39%
Dividends	47 852	43%	13 527	20%
Loan interest	25 841	23%	27 639	41%
Total	110 902	100%	67 198	100%

The Company provides management services to its subsidiaries in accordance with the agreements signed with these entities.

Sales structure by related parties

<i>PLN thousands</i>	2012 share %		2011 share %	
Arctic Paper Investment AB	61 708	21%	17 685	26%
Arctic Paper Kostrzyn S.A.	23 809	56%	23 134	34%
Arctic Paper Munkedals AB	12 186	11%	10 800	16%
Arctic Paper Mochenwangen GmbH	11 514	0%	8 040	12%
Arctic Paper Grycksbo AB	11 514	10%	3 480	5%
Arctic Paper Investment GmbH	176	0%	1 943	3%
Arctic Paper Investment GmbH	-	1%	2 116	3%
Total	110 902	100%	67 198	100%

Explanations regarding business seasonality and cycles

Demand for the Group's products fluctuates slightly during the year. A lower demand for paper is reported each year during the summer holidays and at Christmas when a number of printing houses, particularly those in Western Europe, are closed for business. The changes

in the demand for paper are not significant compared to the demand in other periods of the year.

Fluctuations of paper demand are to great extent reflected in fluctuations of pulp demand.

Research & Development

The Company does not bear directly any costs related to the research and development.

R&D in the Arctic Paper Group is primarily intended to advance and upgrade production processes and to improve product quality and increase product

assortment. R&D is carried out at subsidiaries – mills in Kostrzyn and Munkedals. In the period covered by this report, both companies carried out R&D work to streamline the production process, particularly by shortening machine idle time, and to improve paper quality along with expanding the assortment range.

Natural environment

Information about the impact of regulations related to the environment protection on the operations of paper mills and pulp mills controlled by the Company was included in the Consolidated Annual Report.

Summary of financial results

Income statement

Selected items of the standalone income statement

PLN thousands	2012	2011	Change % 2021/2011
Revenues:	110 902	67 198	65,0
including:			
Sales of services	37 209	26 032	42,9
Loans interest	25 841	27 639	(6,5)
Income from dividends	47 852	13 527	253,7
Gross profit on sales	110 902	67 198	65,0
Gross profit on sales margin %	100,00	100,00	- p.p.
Sales costs	(1 387)	-	-
Administrative expenses	(26 931)	(28 948)	(7,0)
Other operating income	262	235	11,8
Other operating cost	(47 062)	(425)	10 964,3
EBIT	35 784	38 060	(6,0)
EBIT margin %	32,27	56,64	(24,4) p.p.
EBITDA	35 895	38 196	(6,0)
EBITDA margin %	32,37	56,84	(24,5) p.p.
Financial income	1 021	8 128	(87,4)
Financial cost	(23 277)	(18 882)	23,3
EBT	13 528	27 305	(50,5)
Corporate income tax	1	-	-
Net profit	13 529	27 305	(50,5)
Net profit margin %	12,20	40,63	(28,4) p.p.

Sales revenue and costs

Main area of statutory activity of the Company is holding activity including management of the entities belonging to the controlled Capital Group. Operating activity is conducted by paper mills nad pulp mills, distribution companies and sales offices. In 2012 standalone sales revenue amounted to PLN 110,902 thousand and comprised dividend income (PLN 47,852 thousand), income from services rendered to entities of the Group

(PLN 37,209 thousand) and interest income from loans granted (PLN 25,841 thousand). In 2011 standalone sales revenue of the Company amounted to PLN 67,198 thousand and comprised dividend income (PLN 13,527 thousand), management services provided to entities in the Group (PLN 26,032 thousand) and interest income (PLN 27,639 thousand).

In 2012 and 2011 the Company did not render services to pulp mills of Rottneros Group.

Administrative expenses

In 2012 administrative expenses amounted to PLN 26,931 thousand. They include administrative expenses related to the operations of the Company, costs of services provided to the Group entities and other costs incurred by the Company for the purpose of holding activity. Among above costs the following group of costs

can be distinguished which are connected solely to statutory activity and comprise auditing costs, costs related to the activity of Supervisory Board, costs of periodical controls conducted by the owner of the Company, and other.

Cost of sales

In 2012 the Company reported cost of sales in the amount of PLN 1,387 thousand, solely related to cost

connected with pulp procurement agency for Arctic Paper Kostrzyn S.A.

Other operating income and expenses

Other operating income amounted to PLN 262 thousand in 2012 which represents an increase by PLN 27 thousand compared to the previous year. At the same time, other operating expenses increased and amounted to PLN 47,062 thousand (2011: PLN 425 thousand).

Such a material increase of other operating expenses results from recognition of the amount of PLN 46,758 thousand on the grounds of impairment write-off of investment in Arctic Paper Investment GmbH.

Financial income and financial expenses

In 2012 financial income amounted to PLN 1,021 thousand and was significantly lower compared to income generated in the previous year by PLN 7,108 thousand. On the other hand, an increase of financial expenses occurred from PLN 18,882 thousand in 2011 to PLN 23,277 thousand in 2012.

Changes in financial income and financial expenses result primarily from foreign exchange differences which are presented net, that is as a difference between

positive and negative foreign exchange differences recognized as financial income, in case of the excess of positive exchange differences, or as financial expenses in case of the excess of negative exchange differences. In 2011 the Company recorded the excess of positive exchange differences recognized as financial income, in 2012 the situation reversed and the Company recognized the excess of negative exchange differences in financial expenses.

Profitability analysis

EBITDA in 2012 amounted to PLN 35,895 thousand, whereas in 2011 it was equal to PLN 38,196 thousand.

EBIT in 2012 amounted to PLN 35,784 thousand compared to PLN 38,060 thousand in prior year.

Net profit in 2012 amounted to PLN 13,529 thousand compared to PLN 27,305 thousand in 2011.

Profitability analysis

<i>PLN thousands</i>	2012	2011	Change 2012/2011 - %
Gross profit on sales	110 902	67 198	65,0
<i>Gross profit on sales margin %</i>	<i>100,00</i>	<i>100,00</i>	<i>- p.p.</i>
EBITDA	35 895	38 196	(6,0)
<i>EBITDA margin %</i>	<i>32,37</i>	<i>56,84</i>	<i>(24,5) p.p.</i>
EBIT	35 784	38 060	(6,0)
<i>EBIT margin %</i>	<i>32,27</i>	<i>56,64</i>	<i>(24,4) p.p.</i>
Net profit	13 529	27 305	(50,5)
<i>Net profit margin %</i>	<i>12,20</i>	<i>40,63</i>	<i>(28,4) p.p.</i>
ROE - Return on equity (%)	1,6	3,5	(1,9) p.p.
ROA - Return on assets (%)	1,2	2,7	(1,5) p.p.

In 2012 return on equity amounted to 1.6% whereas in 2011 it was equal to 3.5%. Return on assets fell from 2.7% in 2011 to 1.2% in 2012.

Report on financial situation

Selected items of the condensed balance sheet

<i>PLN thousands</i>	31/12/2012	31/12/2011	Change % 2012/2011
Non-current assets	1 024 309	907 832	116 476
Inventory	-	-	-
Receivables	31 612	17 095	14 517
Other current assets	27 240	70 187	(42 947)
Cash and equivalents	30 356	23 760	6 596
Total assets	1 113 516	1 018 874	94 642
Equity	850 198	780 188	70 011
Short-term liabilities	132 216	36 980	95 237
Long-term liabilities	131 102	201 707	(70 605)
Total equity and liabilities	1 113 516	1 018 874	94 642

As on 31st December 2012 total assets amounted to PLN 1,113,516 thousand compared to PLN 1,018,874 thousand as at the end of year 2011.

Non-current assets

As at the end of December 2012 non-current assets represented about 92% of total assets and so their share in total assets, compared to the end of 2011 (89%), increased. The increase of non-current assets

was mostly influenced by the increase of shares in subsidiaries, particularly Arctic Paper Investment GmbH and by the acquisition of shares in Rottneros AB (note 24).

Current assets

Current assets amounted to PLN 89,208 thousand as at the end of 2012 compared to PLN 111,042 thousand as at the end of 2011. Value loss of other current assets had a major impact on level of current assets, including recognition of impairment write-off, comprising

receivables from a loan granted to Arctic Paper Investment GmbH in the amount of PLN 31,618 thousand and trade receivables in the amount of PLN 1,000 thousand.

Equity

Equity amounted to PLN 850,198 thousand as at the end of 2012 compared to PLN 780,188 thousand as at the end of 2011. Increase in equity resulted from net

profit achieved in 2012 as well as from the issue of shares from which the Company financed the purchase of shares in Rottneros AB.

Short-term liabilities

As at the end of December 2012 short-term liabilities amounted to PLN 132,216 thousand (11.8% of total equity & liabilities) compared to PLN 36,980 thousand as at the end of 2011 (3.6% of total equity & liabilities).

Increase in short-term liabilities resulted primarily from reclassification of bonds liabilities from long-term liabilities and from increase of trade liabilities related to pulp procurement.

Long-term liabilities

As at the end of December 2012 long-term liabilities amounted to PLN 131,102 thousand (11.6% of total equity & liabilities) compared to PLN 201,707 thousand as at the end of 2011 (19.8% of total equity & liabilities). Decrease in long-term liabilities resulted on one hand from significant decrease of bond liabilities (partial

repayment and partial reclassification to short-term liabilities) and on the other hand from increase of liabilities to related entities – taking a loan from Arctic Paper Kostrzyn in the amount of PLN 128,300 thousand.

Debt analysis

Debt analysis

	2012	2011	Change % 2012/2011
Debt-to-equity ratio (%)	31,0	30,6	0,4 p.p.
Equity-to-non-current assets ratio (%)	83,0	85,9	(2,9) p.p.
Interest-bearing debt-to-equity ratio (%)	26,6	29,3	(2,6) p.p.

As at the end of December 2012 debt to equity ratio amounted to 31.0% and was higher by 0.4 p.p. compared to the end of December 2011.

Equity to non-current assets fell from 85.9% as at the end of 2011 to 83.0% as at the end of 2012. Interest-

bearing debt to equity ratio as at the end of 2012 amounted to 26.6% and was lower by 2.6 p.p. compared to the end of 2011.

Liquidity analysis

Liquidity ratios

	2012	2011	Change % 2012/2011
Current liquidity ratio	0,7x	3,0x	(2,3)
Quick liquidity ratio	0,7x	3,0x	(2,3)
Acid test ratio (cash liquidity)	0,2x	0,6x	(0,4)

Current and quick ratio amounted as at the end of 2012 to 0.7x and were lower by 2.3x compared to the end of December 2011. Cash liquidity ratio amounted to 0.2x as at the end of December 2012 and was lower by 0.4x compared to the end of December 2011.

Statement of cash flows

Selected items of the standalone cash flow

<i>PLN thousands</i>	2012	2011	Change % 2012/2011
Cash flow from operations	209 353	(1 443)	(14 611,5)
including:			
EBT	13 528	27 305	(50,5)
Depreciation	111	137	(18,6)
Δ in working capital	13 942	8 281	68,4
Interest and dividend (net)	17 935	17 469	2,7
Other corrections	163 838	(54 634)	(399,9)
Cash flow investing activities	(43 040)	59	(72 466,7)
Cash flow financing activities	(159 718)	(225)	71 043,7
Total Cash Flow	6 596	(1 608)	(510,3)

Cash flows from operating activities

In 2012 net cash flows from operating activities amounted to PLN +209,353 thousand compared to PLN -1,443 thousand in 2011. The greatest influence on

cash flows from operating activity came from taking a loan from Arctic Paper Kostrzyn in the amount of PLN 128,300 thousand.

Cash flows from investing activities

In four quarters of 2012 cash flows from investing activities amounted to PLN -43,040 thousand compared to PLN 59 thousand in 2011.

Cash flows from investing activities in 2012 were related mainly to increase of shares in Arctic Paper Investment

GmbH, a company holding direct shares in Arctic Paper Mochenwangen mill, as well as to acquisition of Rottneros AB shares.

Cash flows from financing activities

In 2012 cash flows from financing activities reached a level of PLN -159,718 thousand compared to PLN -225 thousand in 2011. In 2012 cash flows from financing

activities were mostly connected with partial repayment of bonds together with interest.

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

Key factors affecting the performance results

The operating activity of the Company is affected indirectly by the factors which have direct influence on the activity of the main entities of the Group – paper mills, and these factors include:

- macroeconomic and other economic factors;
- high quality paper prices;
- pulp, wood and energy prices;
- currency exchange rate fluctuations.

Information about the impact of the above factors on the Group's business activity has been described in detail in the Consolidated Annual Report for the year 2012.

Unusual events and factors

On 20th December 2012, Arctic Paper S.A. took over the control of Rottneros AB Group. The control takeover was performed mainly in the form of exchange of Rottneros AB shares to Arctic Paper S.A. shares listed on NASDAQ OMX stock exchange in Stockholm.

During the reported period there were no other unusual events and/or factors.

Other material information

In current report 1/2012 the Management Board of Arctic Paper S.A. informed that on 16th January 2012 the payment term of total loan granted by Arctic Paper S.A. to a subsidiary Arctic Paper Investment AB together with interest was prolonged until 31th December 2016.

In 2012 Arctic Paper S.A. performed several increases of supplementary capital in Arctic Paper Investment GmbH in the total amount of EUR 6,465 thousand. As a result, the value of investment in Arctic Paper Investment GmbH increased by PLN 27,307 thousand while decreased by PLN 10,000 thousand because of the

impairment write-off and amounted as on 31st December 2012 to PLN 44,287 thousand.

On 18th October 2012, Arctic Paper S.A. sold to Arctic Paper Kostrzyn S.A. one share in Arctic Paper investment GmbH, and thus decreased its involvement in the company by 0.2%.

During the reported period there were no other material events which would affect the evaluation of the HR, property, financial situation or the financial result and their changes, or would be material from the point of view of the Company's ability to perform its obligations.

Factors influencing development of the Company

Information on market tendencies and factors having impact on the financial results of the Group in the perspective of the next year are provided in the Consolidated Annual Report. Below are presented risk

factors which have direct impact on the Company's operations. Other risk factors which have impact on the Company through the activity of its subsidiaries were described in detail in the Consolidated Annual Report.

Risk factors

Risk factors connected with the Company's environment

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

Risk of changes in law

The Company operates in a legal environment characterized by a high level of uncertainty. Regulations concerning our activities are often amended and there is no uniform interpretation, which involves a risk of a breach of applicable regulations and related consequences, even if the breach of law is inadvertent.

Risk connected with the unfavorable economic situation

The global economic situation is influenced by the results of the recent financial crisis, in particular lingering deterioration of consumer's and entrepreneur's trust, fears regarding availability and increase of loans costs, decrease in consumer spending and investments, variability and strength of capital markets. We expect that harsh global economic conditions may still lead to reduction in demand for paper and reduction in average prices of paper which in turn may have an adverse influence on dividends received from subsidiaries.

Foreign exchange rates risk

The Company's revenues, costs and results are exposed to the risk of a change of currency exchange rates, in particular PLN to EUR, SEK and other currencies, because the Company receives dividends partially in EUR and in SEK. Currency exchange rates may have an adverse effect on the Group's results, financial standing and outlook.

The risk of changes in interest rate

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

Risk factors connected with the Company's activities

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

Risk connected with maintaining and recruiting management and qualified staff

The achievement of strategic goals by the Company depends on the expertise and experience of the professional management and the ability to employ and maintain qualified professionals. The Company may not be able to keep the existing management or other key employees or recruit new specialists. If the Group is not able to recruit and maintain management and staff, this may have an adverse effect on our business, operating results and financial standing.

Risk connected with the Company's ability to pay dividend

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

Supplementary information

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

The Management Board of Arctic Paper S.A. did not publish projections of financial results for 2012, and has not published projections of financial results for 2013 and does not plan to publish forecast for 2013.

Information on dividend

On 28th June 2012, the Company's Shareholders Meeting adopted a resolution regarding payment of dividend in the amount of PLN 9,972,630, which is PLN 0.18 per share. The number of shares covered by the dividend is 55,403,500. Shareholders Meeting set the dividend day to 31st July 2012 and the dividend payment date to 21st August 2012 (current report 13/2012).

The dividend was paid according to schedule.

On 11th March 2013 (current report 17/2013), the Management Board recommended payment of dividend from net profit of Arctic Paper S.A. for 2012 in the amount of PLN 0.15 per share.

Changes in Arctic Paper S.A. company governing and supervising bodies

On 20th January 2012 Mr. Hans Karlander filed a resignation from being a Member of the Management Board effective on 31st March 2012. On 5th June 2012, the Company's Supervisory Board appointed Mr. Wolfgang Lübbert as a Member of the Management Board of Arctic Paper S.A. starting from 5th June 2012.

On 28th June 2012, the Company's Ordinary Shareholders Meeting dismissed Mr. Wiktorian Tarnawski from being a Member of the Supervisory Board. On 28th June 2012, the Company's Ordinary Shareholders Meeting appointed Mr. Mariusz Grendowicz as a Member of the Supervisory Board.

Changes of the 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 shall be 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, the conditional decrease of share capital was registered in National Court Register. Consolidated and standalone financial data as on 31st December 2012 included in the hereby report consider the results of the aforementioned resolution.

By the power of a resolution of Extraordinary Shareholders Meeting dated 3rd December 2012 (current report 30/2012), regarding conditional increase of share capital of the Company through issue of series F shares, depriving the hitherto shareholders of subscription rights, issue of subscription warrants, granting the permit to conduct the transaction and amend the Company's articles of association, the Management Board of Arctic Paper S.A. concluded on 14th December 2012 a loan agreement for Arctic Paper S.A. shares with Trebruk AB, issuing in return subscription warrants (1 warrant = 1 share) (current report 38/2012). The borrowed shares were then exchanged to Rottneros AB shares with the exchange parity of 0.1872 Arctic Paper S.A share for 1 Rottneros

AB share. On 19th December 2012, 10,740,983 warrants were exchanged to 10,740,983 series F shares of Arctic Paper S.A. with nominal value of PLN 1 each and then fully claimed by Trebruk AB. The value of newly issued shares amounted to PLN 64,983 thousand and was fully paid. The increase of share capital was registered in National Court Register on 10th January 2013. Because of that, financial statements of Arctic Paper S.A. for the year ended 31st December 2012 do not take into account, in the position of "Share capital", the results of the aforementioned increase of share capital. The value of newly issued shares in the amount PLN 64,983 thousand was presented in the position of "Other reserve capitals".

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:

- a) The total amount of purchased shares shall not exceed 5,500,000 (five million five hundred thousand) shares;
- b) 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;
- c) 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;

- d) the authorization for purchase of the Company's treasury shares is valid for 60 (sixty) months since the day the resolution has been resolved;
- e) 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:

- a) 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,
- b) 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 own 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.

Issue, redemption and repayment of non-stock and capital securities

On 27th November 2012, the Company concluded a loan agreement with Arctic Paper Kostrzyn S.A. for the amount of PLN 200,000 thousand, intended fully for the repayment of bonds series 1/2012 and 1/2011 issued by the Company. The loan agreement do not provide for another guarantees and was concluded for a specified period of time – until 31st December 2017, however, the lender may in any time request the earlier payment, in such case the payment term is set for 3 months since the request was filed. The loan bears interest of WIBOR 3M plus the margin.

On 21st December 2012, Arctic Paper SA, with the use of aforementioned funds performed an early and partial repayment of bonds series 1/2010 and 1/2011. The nominal value of bonds repaid amounts respectively to PLN 70,400 thousand and PLN 57,700 thousand. The aggregate value of interest on coupon bonds paid in 2012 amounts to PLN 21,645 thousand. The outstanding amount of bonds was repaid in the agreed term of 25th February 2013.

Besides the aforementioned changes in the reported period Arctic Paper did not issue, redeem or repay non-stock and capital securities.

Remuneration paid to Management Board and Supervisory Board Members

Table below presents the information on total remuneration and other benefits paid or to be paid to members of the Management Board and Supervisory Board of the parent entity for the period from 1st January 2012 to 31st December 2012 (in PLN).

Remuneration of the Management Board and Supervisory Board Members

Managing and supervising personnel	Remuneration (including other contributions paid by the employer) for working in Arctic Paper S.A.	Pension plan	Other	Total
Management Board*				
Michał Piotr Jarczyński	506 753	-	719 602	1 226 354
Michał Jan Bartkowiak	649 920	-	3 762	653 682
Hans Olof Karlander	634 271	192 022	16 888	843 181
Wolfgang Lübbert	745 202	-	-	745 202
Per Skoglund	1 131 298	266 291	33 175	1 430 764
Jacek Łoś	894 956	-	6 267	901 223
Supervisory Board**				
Rolf Olof Grundberg	110 400	-	-	110 400
Rune Roger Ingvarsson	75 900	-	-	75 900
Thomas Onstad	58 650	-	-	58 650
Fredrik Lars Plyhr	93 150	-	-	93 150
Jan Ohlsson	134 900	-	-	134 900
Mariusz Grendowicz***	91 500	-	-	91 500
Wiktorian Zbigniew Tarnawski***	59 500	-	-	59 500

* according to aforementioned changes of the Management Board membership, the remuneration of Mr Hans Karlander is given for the period of 01.01.2012 until 31.05.2012, and of Mr Wolfgang Lübbert for the period of 05.06.2012 until 31.12.2012.

**according to Shareholders Meeting's resolution dated 28.06.2012 a change in the manner of granting remuneration to members of the Supervisory Board occurred starting on that day;

***Mr Wiktorian Tarnawski served his function until 05.06.2012 while Mr Mariusz Grendowicz received remuneration for the period of 05.06.2012 until 31.12.2012.

Agreements with Management Board Members on financial compensation

As on 31st December 2012 and as on the date this annual report is approved, Members of the Management Board were entitled to severance pay in the event of their resignation or removal from their positions without

good cause, or if their removal or resignation is due to the Issuer's merger through acquisition.

The severance pay corresponds to 6-24 months' salary.

Statement of changes in the issuer's shareholding or rights to shares of persons managing and supervising Arctic Paper S.A.

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

Managing and supervising personnel	Number of shares or rights thereto as at 30/04/2013	Number of shares or rights thereto as at 28/02/2013	Change
Management Board			
Michał Piotr Jarczyński	86 450	86 450	-
Wolfgang Lübbert	-	-	-
Jacek Łoś	-	-	-
Per Skoglund	-	-	-
Wolfgang Lübbert	-	-	-
Supervisory Board			
Rolf Olof Grundberg	12 102	12 102	-
Rune Roger Ingvarsson	-	-	-
Thomas Onstad	-	-	-
Fredrik Lars Plyhr	19 000	19 000	-
Mariusz Grendowicz	-	-	-

Information on system of control over employees' shares

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 contracts concluded to dispense 365 thousand of warrants. Until the day of preparing of the hereby report none of the entitled persons exercised the right to exchange warrants for Company's shares.

Because of the change in face value of shares, there was also a change of conditional increase of share capital as provided in the Company's Articles of Association which shall amount to PLN 1,500 thousand.

The conditional increase of share capital was performed for the purpose of execution of the rights to claim series

D shares by the holders of warrants. The term of execution of the rights to claim series D shares by the holders of warrants expires on 31st December 2013.

On 28th June 2012 the Ordinary Shareholders Meeting also adopted a resolution regarding change of the resolution no 4 dated 30th July 2009 regarding assumptions of incentive program for key managers of the Company, in reference to the value of shares' issue price for which the entitled persons may claim the shares. Until the day of publishing of the hereby report there were no amendments to the agreements concluded with the entitled persons, therefore, based on the legal opinion held by the Company, these persons are not entitled to exchange warrants for Company's shares.

Information on key agreements

On 17th December 2012, the Company concluded an agreement with Södra Cell International AB seated in Växjö/Sweden for supplies of pulp.

The Supplies Agreement was concluded for the period of 1st January 2013 until 31st December 2013. Within the scope of the Supplies Agreement, the Supplier is obliged to supply and the Company is obliged to accept 85 thousand metric tons of pulp, whereas the parties of the Supplies Agreement allowed for the possibility of increasing or decreasing of the total supplies quantity by 10%. Within the scope of the Supplies Agreement the Supplier is obliged to supply and the Company is

obliged to accept pulp with estimated value of PLN app. 200 million.

The price of a metric ton of pulp was agreed based on FOEX PIX index in USD (American dollar) for Europe and the discounts agreed by the parties of the Supplies Agreement.

The Company also concluded an agreement with Erik Penser Bankaktiebolag, a company who, starting from 14th January 2013, serves the function of liquidity provider for the Company's shares traded on NASDAQ OMX stock exchange in Stockholm.

Financial resources management

On 27th November 2012, the Company concluded a loan agreement with Arctic Paper Kostrzyn S.A. for the amount of PLN 200,000 thousand, intended fully for the repayment of bonds series 1/2012 and 1/2011 issued by the Company. The loan agreement does not provide for another guarantee and was concluded for a specified

period of time – until 31st December 2017, however, the lender may in any time request the earlier payment. In such case the payment term is set for 3 months since the request was filed. The loan bears interest of WIBOR 3M plus the margin.

Capital investment and investment

In 2012 the Company used its cash resources only to the standard short-term investments, including overnight deposits. The Company did not make any investments in 2012, except for acquisition of Rottneros AB shares

and the increase of shares in Arctic Paper Investment GmbH, who directly holds shares in Arctic Paper Mochenwangen.

Bank and other loan agreements

Information on bank and other loan agreements is presented in the additional information in explanatory note 25 of the standalone financial statements for year 2012.

Table below presents information about loans granted by Arctic Paper S.A. to its related parties in 2012.

Borrowings to related parties in the financial year

Related party	Maturity date	Interest	Amount of the borrowing in currency (in thousand)	Borrowing currency	As at 31 December 2012 (in PLN thousand)
Arctic Paper Investment GmbH	31-12-2015	Euribor 3M + marża	34	EUR	139
TOTAL					139

The borrowings to related parties are performed on the arms-length basis.

Information on guarantees and contingent liabilities

On 6th November 2012 the following companies: Arctic Paper Kostrzyn S.A. and Arctic Paper S.A. concluded an agreement regarding guarantee of debt of a bank loan, under which Arctic Paper S.A. acceded, by way of cumulative accession, to a loan agreement dated 6th November 2012 concluded by and between Arctic Paper Kostrzyn S.A. and Bank Polska Kasa Opieki S.A., Bank Zachodni WBK S.A. and BRE Bank S.A., for the total amount of PLN 359,000 thousand.

During the period covered by this report, Arctic Paper S.A. and its subsidiaries did not give or receive other guarantee for a loan or borrowing and did not receive or give guarantees jointly to one entity or subsidiary of such entity, the total value of which represented the equivalent of at least 10% of the Company's equity.

Significant off-balance sheet items

Information regarding off-balance sheet items is given in the standalone financial statements for 2012 in note 28.

Evaluation of the possibility to implement investment plans

Arctic Paper S.A. does not plan significant investments for realization in 2013. Major investments are conducted by subsidiaries of the Issuer, in particular paper mills, which was disclosed in the Consolidated Annual Report.

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

During the period covered by this report, Arctic Paper S.A. and its subsidiaries were not a party to any proceedings pending before a court, arbitration or public

administrative authority, the unit or joint value of which would equal to or exceed 10% of the Company's equity.

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

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

Information on agreements resulting in shareholding changes

The Issuer is not aware of any agreements which may in the future lead to changes in the present shareholding of shareholders and bondholders.

Information on acquisition of treasury shares

In 2012 the Company did not acquire any treasury shares.

Information on entity authorized to audit the financial statements

Information on the entity authorized to audit the financial statements is given in the additional information in note 30 of the standalone financial statements for 2012.

Employment

Information regarding employment is given in the additional information in note 34 of the standalone financial statements for 2012.

Statement on application of corporate governance rules

Corporate governance rules

Pursuant to § 29 item 2 of the Warsaw Stock Exchange Rules adopted by Resolution no. 19/1307/2012 by the Stock Exchange Board on 21st November 2012, Arctic Paper S.A. is obliged to apply corporate governance

rules contained in the document – “Best practices of companies listed on the SE”, available on the website www.corp-gov.SE.pl.

Information on the extent to which the Issuer does not apply corporate governance rules

In 2012 the Issuer abided by all corporate governance rules contained in the Best Practices.

Internal control and risk management system with regard to the process of preparing financial statements

The Management Board of Arctic Paper S.A. is responsible for the Group's internal control system and its effectiveness in the process of preparing consolidated financial statements and periodical reports prepared and published in accordance with the Regulation of Minister of Finance dated 19th February 2009 on current and periodical information submitted by issuers of securities and terms and conditions of classifying as equivalent information required by the law of a non-member state. The Group's consolidated financial statements and periodical reports are the responsibility of the Company's financial department managed by the Director of Finance. Financial data constituting the basis for preparing the Group's consolidated financial statements come from monthly reporting blocks and extended quarterly blocks sent to the Issuer by the Group companies. After the accounts of each calendar month are closed, senior management of the Group companies analyzes the financial results of the companies in the light of the budget projections and results achieved in the previous financial year.

The Group carries out an annual review of its strategies and growth perspectives. The process of establishing

the budget is supported by medium-level and senior management of the Group companies. The budget for the following year is adopted by the Company's Management Board and approved by its Supervisory Board. During the year, the Company's Management Board compares the financial results achieved with the budget projections.

The Company's Management Board systematically evaluates the internal control and risk management system quality in reference to the process of preparing consolidated financial statements. Based on the evaluation the Company's Management Board states that as on 31st December 2012 there were no weaknesses which could materially impact the effectiveness of internal control in financial reporting.

Shareholders holding directly or indirectly significant blocks of shares

Information regarding shareholders holding directly or indirectly significant blocks of shares is given in the table below – the table shows situation as on the day of publishing of the annual report (30th April 2013).

Shareholder	Number of shares	Share capital [%]	Of total number	
			Number of votes	of votes [%]
Trebruk AB (previous	41 450 065	59,82%	41 450 065	59,82%
Nemus Holding AB	5 857 286	8,45%	5 857 286	8,45%
Others	21 980 432	31,72%	21 980 432	31,72%
Total	69 287 783	100,00%	69 287 783	100,00%
Own shares	-	0,00%	-	0,00%
Total	69 287 783	100,00%	69 287 783	100,00%

Securities carrying special control rights

The Company does not have any securities which carry special control rights, and the Company's shares are non-preferred.

Restrictions on transfer of ownership of the Issuer's securities any restrictions on exercise of the voting right

The Company's Articles of Association do not provide for any restrictions on the transfer of the ownership of the Issuer's securities. Such restrictions follow from legal regulations, including Chapter 4 of the Act on Offering, articles 11 and 19 and Section VI of the Act on Trading in Financial Instruments of 29th July 2005, the Act on Protection of Competition and Consumers of 16th February 2007, and the (EC) Council Regulation no. 139/2004 of 20th January 2004 on control of concentrations between undertakings.

Each Arctic Paper S.A. share carries one vote at the General Meeting. The Company's Articles of Association do not provide for any restrictions on the exercise of a vote from Arctic Paper S.A. shares, e.g. restriction on vote by holders of a certain part or number of votes, time restrictions on exercising the voting right, or provisions under which, with the Company's

cooperation, equity rights related to securities are separated from possession of securities.

A prohibition on a shareholder to vote may arise from article 89 of the Act on Public Offering and on Terms and Conditions of Introducing Financial Instruments to Organized Trading System and on Public Companies of 29th July 2005 (the "Act on Offering") if the shareholder violates certain regulations contained in Chapter 4 of the Act on Offering. Furthermore, according to article 6 § 1 of the Code of Commercial Companies, if a parent company does not inform a capital subsidiary company that a controlling relationship has arisen within two weeks of such relationship arising, the voting right attached to the shares of the parent company representing more than 33% of the subsidiary's share capital is suspended.

Principles of amending the Issuer's Articles of Association

The Company's Articles of Association may be amended by the General Meeting only.

If the Code of Commercial Companies or the Company's Articles of Association do not provide otherwise, General Meeting resolutions are adopted by a simple majority of votes cast.

Description of the action manner of the General Meeting

The operating procedure of a General Meeting and its basic rights arise directly from legal regulations which are partly included in the Company's Articles of Association.

The Company's Articles of Association are available at:

<http://www.arcticpaper.com/pl/PL-Local-Site/Relacje-inwestorskie2/Dokumenty-korporacyjne/>

General Meetings are held in accordance with the following basic rules:

- General Meetings are held in the Company's registered office or in Warsaw.
- A General Meeting may be annual or extraordinary.
- An annual General Meeting should be held within six months of the end of each financial year.
- A General Meeting is opened by the Supervisory Board Chairman or a person designated by him, followed by the election of the Chairman of the General Meeting.
- Voting is open unless any Shareholder demands secret ballot or secret ballot is required by the Code of Commercial Companies.
- If the Code of Commercial Companies or the Company's Articles of Association do not provide otherwise, General Meeting resolutions are adopted by a simple majority of votes cast.
- According to the Company's Articles of Association, the following issues are within the General Meeting's exclusive powers:
 - considering and approving the Management Board report on the Company's operations and the Company's financial statements for the previous financial year;
 - acknowledging fulfillment of duties by Management Board members and Supervisory Board members;
 - decisions on allocation or profits or absorption of losses;
 - amending the Company's objects;
 - amending the Company's Articles of Association;
 - increasing or reducing the Company's equity;
 - merging the Company with another company or companies, or transforming the Company;
 - dissolving and liquidating the Company;
 - issuing senior convertible bonds and subscription warrants;
 - acquiring and selling real estate;
 - selling and leasing an enterprise or an organized part thereof and establishing a limited property right thereon;

- any other issues which under the Articles of Association or the Code of Commercial Companies require a General Meeting resolution.

A General Meeting may adopt resolutions in the presence of shareholders representing at least half of the Company's share capital.

A General Meeting adopts resolutions by an absolute majority of votes cast unless the Articles of Association or legal regulations require a qualified majority of votes.

Shareholders' rights and the way in which they are exercised basically arise directly from the legal regulations which have been partly incorporated into the Company's Articles of Association.

Activities of the Issuer's managing and supervisory authorities and their committees, and information on the composition of those authorities

Management Board

Management Board composition

- The Management Board is composed of one to five members, including the President of the Management Board.
- The Management Board is appointed and removed by the Supervisory Board for a common term of office.
- The term of office of Management Board members is 3 (three) years.
- If the Management Board is composed of more than one member, the Supervisory Board may, at the President's request, appointed up to three Vice Presidents from among Management Board members. A Vice President is removed under a Supervisory Board resolution.
- A Management Board member may be removed at any time by the Supervisory Board.
- A Management Board member may be removed or suspended at any time also by the General Meeting.

Basic powers of the Management Board

- The Management Board runs the Company's affairs and represents it before third parties.
- If the Management Board is composed of more than one member, declarations of intent may be made and documents may be signed on the Company's behalf by the Management Board President individually, or by two Management Board members acting jointly, or one Management Board member acting jointly with a commercial proxy.
- The Management Board is obliged to perform its duties with due care and to abide by the law, the Company's Articles of Association, by-laws and resolutions of the Company's authorities, and to take decisions within reasonable business risk, bearing in mind the interest of the Company and its shareholders.
- The Management Board is obliged to manage the Company's assets and affairs and to perform its duties with due care required in business transactions, in accordance with all legal regulations, the Articles of Association, by-laws, and resolutions adopted by the General Meeting and the Supervisory Board.

- Each Management Board member is liable for damage caused to the Company by his actions or omissions in breach of the law or the Company's Articles of Association.
- According to the Code of Commercial Companies, the powers of the Management Board include all issues of the Company which are not reserved for the General Meeting and the Supervisory Board.
- Guided by the Company's interest, the Management Board sets forth the Company's strategy and main operating goals.
- The Management Board is obliged to abide by the legal regulations on confidential information within the meaning of the Act on Trading and to perform all duties arising from those regulations.

To all other extent, particular Management Board members are liable individually for running the Company's affairs in accordance with the internal allocation of duties and functions set out in a Management Board decision.

The Management Board may adopt resolutions at meetings or without holding a meeting in writing or with the use of distance communication. The Management Board adopts resolutions by a majority of votes cast. Resolutions are valid if at least half the Management Board members are present at the meeting. In the case of a voting deadlock, the President of the Management Board has the casting vote.

The special Management Board procedure is set out in the Management Board By-laws which are available at:

<http://www.arcticpaper.com/pl/PL-Local-Site/Relacje-inwestorskie2/Dokumenty-korporacyjne/>

The composition of the Company's Management Board and any changes thereto are described in the consolidated financial statements.

The following constitute the Company's Management Board:

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

On 20th January 2012 Mr. Hans Karlander resigned from being a Member of the Management Board effective on 31st March 2012 (current report 2/2012). On 5th June 2012 the Supervisory Board of the Company appointed Mr. Wolfgang Luebbert as a Member of the Management Board of Arctic Paper S.A starting from 5th June 2012.

Supervisory Board

Composition and organization of Supervisory Board composition and organization

- The Supervisory Board is composed of 5 (five) to 7 (seven) members elected by the General Meeting for a common three-year term of office. A Supervisory Board member may be removed at any time.

- The Supervisory Board is composed of a Chairman, Deputy Chairman, and other members. The Supervisory Board Chairman and Deputy Chairman are elected by the Supervisory Board from among its members at the first meeting or – if needed – during the term of office, in supplementary elections.
- From the moment the General Meeting adopts resolutions constituting grounds for the first public share issue and for introducing the shares to stock exchange trading, two Supervisory Board members should be independent members.
- If an independent Supervisory Board member has been appointed, without the consent of at least one independent Supervisory Board member, the following resolutions cannot be adopted:
 - any performances by the Company or any related entity to Management Board members;
 - consent for the Company or its subsidiary to execute a key agreement with an entity related to the Company, Supervisory Board member or Management Board member and their related entities, other than agreements executed during the normal course of the Company's business on regular terms applied by the Company;
 - election of a certified auditor to audit the Company's financial statements.
- In order to avoid doubts, it is assumed that the loss of independence by a Supervisory Board member, or failure to appoint an independent Supervisory Board member do not result in the invalidity of decisions taken by the Supervisory Board. The loss of independence by an Independent Member during the term of being a Supervisory Board member does not invalidate or extinguish his mandate.
- The Supervisory Board Chairman and Deputy Chairman:
 - maintain contact with the Company's Management Board;
 - manage the Supervisory Board's work;
 - represent the Supervisory Board before third parties and the Company's authorities, including particular Management Board members,
 - implement initiatives and motions addressed to the Supervisory Board,
 - take other activities arising from the By-laws and the Company's Articles of Association.
- A Supervisory Board member should not resign from his position during the term of office if this could prevent the Supervisory Board operations, or preclude the timely adoption of a significant resolution.
- Supervisory Board members should be loyal to the Company. If there is a conflict of interest, a Supervisory Board member is obliged to inform the remaining Board members thereof and to refrain from speaking and voting on the resolution on the matter of conflict of interest.
- Supervisory Board members are obliged to abide by the law, the Company's Articles of Association and the Supervisory Board By-laws.

Supervisory Board powers

- The Supervisory Board exercises permanent supervision over the Company's operations in all areas of its operations.
- The Supervisory Board adopts resolutions, gives instructions and issues opinions and submits motions to the General Meeting.

- The Supervisory Board may not give the Management Board binding instructions regarding the running of the Company's affairs.
- Disputes between Supervisory Board and Management Board are resolved by the General Meeting.
- In order to exercise its rights, the Supervisory Board may review any aspect of the Company's operations, demand presentation of any documents, reports, and explanations from the Management Board and issue opinions on matters concerning the Company, and submit conclusions and initiatives to the Management Board.
- Apart from other issues set out by law of the Company's Articles of Association, the powers of the Supervisory Board include:
 - evaluating the Company's financial statements;
 - evaluating the Management Board report on the Company's operations and Management Board motions regarding allocation of profit or absorption of losses;
 - submitting to the General Meeting an annual written report on the results of the evaluations;
 - appointing and removing Management Board members, including the President and Vice Presidents, and setting remuneration for Management Board members;
 - electing a certified auditor for the Company.
- Each year the Supervisory Board submits to the General Meeting a brief report of the Company's situation, and renders access to this report for all shareholders in a period which allows them to become acquainted with it before the Annual General Meeting.
- The Supervisory Board executes, on the Company's behalf, agreements with Management Board members and represents the Company in disputes with Management Board members. The Supervisory Board may, in a resolution, authorize one or more members to carry out such legal transactions.

The Supervisory Board may adopt resolutions in writing or with the use of direct distance communication. A resolution so adopted is valid if all Board members have been informed of the wording of the draft resolution. The date on which such a resolution is adopted is the date on which the last Supervisory Board member signs it.

Supervisory Board resolutions may be adopted if all members have been notified by registered mail, fax or e-mail, sent at least 15 days in advance and most of the Board members are present at the meeting.

Resolutions may be adopted without a formal convening of a meeting if all Board members consent to a vote on a given issue or to the wording of the resolution which is to be adopted.

Supervisory Board resolutions are adopted by a simple majority of votes cast; in the case of a voting deadlock, the Supervisory Board Chairman has the casting vote.

The detailed operations of the Supervisory Board are laid down in the Supervisory Board By-laws which are available at:

<http://www.arcticpaper.com/pl/PL-Local-Site/Relacje-inwestorskie2/Dokumenty-korporacyjne/>

The following persons are Supervisory Board members:

- Rolf Olof Grundberg – President of the Supervisory Board appointed on 30th April 2008;

- Rune Roger Ingvarsson – Member of the Supervisory Board appointed on 22nd October 2008 (independent member);
- Thomas Onstad – Member of the Supervisory Board appointed on 22nd October 2008;
- Fredrik Lars Plyhr – Member of the Supervisory Board appointed on 22nd October 2008 (independent member);
- Jan Ohlsson – Member of the Supervisory Board appointed on 8th June 2010 (independent member);
- Mariusz Grendowicz - Member of the Supervisory Board appointed on 28th June 2012 (independent member).

During the Ordinary Shareholders Meeting on 28th June 2012, Mr. Wiktorian Tarnawski was dismissed from being a Member of the Supervisory Board, while Mr. Mariusz Grendowicz was appointed to serve this function

Audit Committee

Audit Committee composition and organization

- The Audit Committee is composed of at least three Supervisory Board members, including the Committee Chairman, appointed by the Supervisory Board from among its members, in accordance with the Articles of Association and the Supervisory Board By-laws. At least one Audit Committee member is an independent member and has qualifications and experience in accounting and finance.
- Audit Committee members are appointed for a three-year term of office; no longer, however, than the Supervisory Board term of office.
- The Audit Committee Chairman elected by a majority of votes from among its members must be an independent member.
- The Audit Committee operates based on the Act on Certified Auditors, Best Practices, Supervisory Board By-laws and Audit Committee By-laws.
- The Audit Committee performs advisory and opinion-giving functions, operates collectively as part of the Company's Supervisory Board.
- The Audit Committee implements its tasks by presenting to the Supervisory Board, in the form of resolutions, motions, opinions, and reports on its tasks.

Audit Committee powers

- The basic task of the Audit Committee is advisory to the Supervisory Board on issues or proper implementation and control of the financial reporting processes in the Company, effectiveness of internal control and risk management systems and cooperating with certified auditors.
- The Audit Committee tasks arising from supervision over the Company's financial reporting process, ensuring effective internal control systems and monitoring financial audit activities include in particular:
 - control of the correctness of financial information delivered by the Company, including the correctness and cohesion of the accounting principles applied in the Company and its Capital Group, and criteria of consolidation of those financial statements,
 - evaluation, at least once a year, the internal control and management system in the Company and its Capital Group in order to ensure proper recognition and management of the Company,

- ensuring effective functioning of internal control, especially by issuing recommendations to the Supervisory Board with regard to:
 - strategic and operating plans of internal audit and significant corrections to those plans,
 - internal audit policy, strategy and procedures prepared in accordance with the adopted internal audit standards,
 - inspecting specific aspects of the Company's operations.
- The tasks of the Audit Committee arising from monitoring the independence of a certified auditor and the entity authorized to audit financial statements include in particular:
 - giving recommendations to the Supervisory Board on issues concerning, election, appointment and re-appointment and removal of the entity performing the function of a certified auditor,
 - inspection of independence and objectiveness of the entity performing the function of a certified auditor, especially with regard to a change of the certified auditor, remuneration received, and other relation with the Company,
 - verifying the effectiveness of the entity performing the function of a certified auditor,
 - examining the reasons for resignation of an entity performing the function of a certified auditor.
- The Audit Committee may rely on the advice and assistance of external legal, accounting or other advisors if it deems necessary to perform its duties.
- The Audit Committee is obliged to submit annual reports on its operations to the Supervisory Board, by 30 September of each calendar year.

Audit Committee meetings are held at least twice a year.

On 20th February 2013, the following persons were appointed to the Audit Committee:

- Rolf Olof Grundberg
- Fredrik Plyhr
- Rune Ingvarsson
- Mariusz Grendowicz

The detailed operations of the Audit Committee are laid down in the Audit Committee By-laws.

Remuneration Committee

Remuneration Committee composition and organization

- The Remuneration Committee is composed of at least two Supervisory Board members, including the Committee Chairman, appointed by the Supervisory Board from among its members, in accordance with the Articles of Association and the Supervisory Board By-laws.
- Remuneration Committee members are appointed from three-year terms of office, not longer, however, than until the end of the Supervisory Board term of office.
- The Remuneration Committee Chairman is elected by a majority vote from among Committee members.

- The Remuneration Committee operates based on the Supervisory Board By-laws and the Remuneration Committee By-laws.
- The Remuneration Committee performs advisory and opinion-giving functions, acts collectively as part of the Company's Supervisory Board.
- The Remuneration Committee implements its tasks by presenting to the Supervisory Board, in the form of resolutions motions, opinions, recommendations, and reports on issues which are within its powers.

Remuneration Committee powers

- The basic tasks of the Remuneration Committee is advisory to the Supervisory Board on issues related to remuneration policy, bonus policy, and other issues related to the remuneration of the employees, members of the Company's authorities and the authorities of Capital Group companies.
- The tasks of the Remuneration Committee arising from supervision of the Company's remuneration policy and ensuring effective functioning of the Company's remuneration policy including giving the Supervisory Board recommendations in particular on:
 - approving and changing the principles of remuneration for members of the Company's authorities,
 - the total remuneration for the Company's Management Board members,
 - legal disputes between the Company and Management Board members on the Committee's tasks,
 - proposal of remuneration and granting additional benefits to particular members of the Company's authorities, especially, as part of management option plan (convertible into Company's shares),
 - remuneration and bonus policy strategy and staff policy.
- The Remuneration Committee may also rely on advice and assistance of external legal or other advisors if it deems necessary to perform its duties.
- The Audit Committee is obliged to submit annual reports on its operations to the Supervisory Board by 30th September of each calendar year.

Remuneration Committee meetings are held at least twice a year, on a date set by the Chairman.

On 20th February 2013, the following persons were appointed to the Remuneration Committee:

- Rolf Olof Grundberg
- Fredrik Plyhr

The detailed operating procedure of the Remuneration Committee is laid down in the Remuneration Committee By-laws.

Information pursuant to the Swedish Code of Corporate Governance

Arctic Paper S.A. is a Polish company whose shares are admitted to trading on Warsaw Stock Exchange as well as on NASDAQ OMX Stockholm. The primary listing is on Warsaw Stock Exchange, and the Company is secondary listed on NASDAQ OMX Stockholm. Non-Swedish companies whose shares are admitted to trading on NASDAQ OMX Stockholm are required to apply

- the corporate governance code in force in the country where the company has its registered office, or
- the code applicable in the country in which its shares have their primary listing, or
- the Swedish Code of Corporate Governance (the “Swedish Code”).

Arctic Paper S.A. applies the Code of Best Practice for WSE Listed Companies (the “Best Practices”) applicable for companies listed on Warsaw Stock Exchange, and not the Swedish Code. As a consequence thereof, Arctic Paper S.A.’s conduct deviates from what is stipulated in the Swedish Code in the following material aspects.

Shareholders’ meeting

The main documentation in relation to a shareholders’ meeting, such as notices, minutes and adopted resolutions, are prepared in Polish as well as in English, but not in Swedish.

Appointment of the board and statutory auditor

The Polish corporate governance model provides for a two-tier board system, comprising the Management Board, an executive body which is appointed by the Supervisory Board, which in turn is supervising the company’s activities and is appointed by the shareholders’ meeting. The statutory auditor is elected by the Supervisory Board.

Neither the Best Practices nor other applicable Polish rules require a company to establish a nomination committee, and therefore Arctic Paper S.A. does not have such committee. Each shareholder in the Company is entitled to propose a candidate for the Supervisory Board. Relevant information about proposed Supervisory Board members is published on the Company’s website within a timeframe sufficiently long to enable the shareholders to make an informed decision in relation to a resolution.

The tasks of the board

In accordance with the principles of the Polish two-tier board system, the tasks typically performed by the board of a Swedish company are performed either by the Company’s Supervisory Board or its Management Board.

Pursuant to Polish law, the members of the Management Board, including the chief executive officer who is the chairman of the Management Board, are prohibited from engaging in competitive activities outside the Company. Other activities are not regulated by the Best Practices or other applicable Polish regulations, but restrictions are generally included in the individual employment agreements.

The size and composition of the board

The composition of the Supervisory Board complies with the independence criteria set out in the Swedish Code. However, as the Management Board – being the executive corporate body – consists of persons holding executive positions within Arctic Paper S.A., such persons cannot be considered independent of the Company. The term of office for Management Board members as well as Supervisory Board members is three years.

The chairman of the board

The Supervisory Board, and not the shareholders' meeting, elects the chairman and vice chairman of the Supervisory Board.

Board procedures

The rules of procedure for the Management Board are adopted by the Supervisory Board, and the Supervisory Board's rules of procedure are adopted by the shareholders' meeting. The rules of procedure are not reviewed annually, but are reviewed and changed when appropriate. The same applies for rules of procedure for committees within the Supervisory Board, which are adopted by the Supervisory Board. There is no separate instruction for the chief executive officer, as the chief executive officer is the chairman of the Management Board.

Remuneration of the board and executive management

Polish corporate governance rules do not restrict share and share-price related incentive schemes for the executive management. In the Company, such schemes are resolved upon by the Supervisory Board. Supervisory Board members are entitled to take part in incentive schemes designed for the executive management. There are no limitations as to the size of salary during an employment notice period or the size of severance pay.

Information on corporate governance

Polish corporate governance rules do not require the same level of detail of the information to be published as is required in the Swedish Code. However, information about board members, articles of association, internal bylaws and a summary of relevant differences between Swedish and Polish corporate governance and shareholder rights are published on the Company's website.

Management Board's representations

Accuracy and reliability of presented reports

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

- Financial Statements of Arctic Paper S.A. for the year ended 31st December 2012 and the comparable data were prepared in accordance with applicable accounting principles and reflect the true, reliable and fair situation of assets and financial position of the Company and its financial results for 2012,
- Management Board report on the activity of the Arctic Paper S.A. for 2012 contains a true picture of development, achievements and situation of Arctic Paper S.A., including a description of major threats and risks.

Appointment of the Licensed Auditor of the Financial Statements

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

Signatures of the Management Board Members

Position	Name and surname	Date	Signature
President of the Management Board Chief Executive Officer	Michał Jarczyński	30 April 2013	
Member of the Management Board Chief Financial Officer	Michał Bartkowiak	30 April 2013	
Member of the Management Board Chief Procurement Officer	Jacek Łoś	30 April 2013	
Member of the Management Board Chief Operating Officer	Per Skoglund	30 April 2013	
Member of the Management Board Chief of Sales and Marketing	Wolfgang Lübbert	30 April 2013	