ARCTIC PAPER S.A.

FINANCIAL STATEMENTS
FOR YEAR ENDED 31ST DECEMBER 2012
TOGETHER WITH INDEPENDENT AUDITORS' REPORT

Poznań, 30th April 2013

Content

(in PLN thousands)

INCOME STATEMENT

for year ended 31st December 2012

	Note	Year ended 31st December 2012	Year ended 31st December 2011
Continuing operations			
Sales of services	*29*	37 209	26 032
Interest income	*29*	25 841	27 639
Dividend income	*29*	47 852	13 527
Revenues	*11*	110 902	67 198
Cost of sales		-	-
Gross profit (loss)		**110 902**	**67 198**
Other operating income	*12.1*	262	235
Selling costs	*12.5*	(1 387)	-
Administrative expenses	*12.5*	(26 931)	(28 948)
Other operating costs	*12.2*	(47 062)	(425)
Operating profit (loss)		**35 784**	**38 060**
Financial income	*12.3*	1 021	8 128
Financial costs	*12.4*	(23 277)	(18 882)
Profit (loss) before tax		**13 528**	**27 305**
Income tax	*13.1*	1)	-
Profit (loss) from continuing operations		**13 529**	**27 305**
Discontinued operation		-	-
Profit (loss) from discontinued operation		-	-
Profit (loss) for the period		**13 529**	**27 305**
Earnings per share (in PLN):			
- basic from the profit (loss) for the period	*14*	0,24	0,49
- basic from the profit (loss) from continuing operations		0,24	0,49
- diluted from the profit (loss) for the period	*14*	0,24	0,49
- diluted from the profit (loss) from continuing operations		0,24	0,49

(in PLN thousands)

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31st December 2012

	Note	Year ended 31st December 2012	Year ended 31st December 2011
Profit (loss) for the period		13 529	27 305
Foreign currency translation differences for foreign operations	*22.2*	(46)	(11)
Other comprehensive income		(46)	(11)
Total comprehensive income for the period		**13 574**	**27 294**

(in PLN thousands)

STATEMENT OF BALANCE SHEET

as on 31st December 2012

	Note	As at 31st December 2012	As at 31st December 2011
ASSETS			
Non - current assets			
Fixed assets	*16*	316	376
Intangible fixed assets	*17*	1 327	1 328
Investments in subsidiaries	*18.1*	1 021 820	615 310
Other financial assets	*18.2*	0	289 108
Other non-financial assets	*18.3*	846	1 711
		1 024 309	**907 832**
Current assets			
Trade and other receivables	*20*	29 790	17 095
Income tax receivables		1 822	364
Other current financial assets	*18.2*	26 476	68 941
Other current non-financial assets	*18.3*	764	882
Cash and cash equivalents	*21*	30 356	23 760
		89 208	**111 042**
TOTAL ASSETS		**1 113 517**	**1 018 874**
EQUITY			
Share capital	*22.1*	55 404	554 035
Share premium account	*22.3*	580 878	80 062
Other reserve capital	*22.4*	200 407	120 276
Translation reserve	*22.2*	40	-6
Retained earnings		13 471	25 820
Total equity		**850 198**	**780 188**
Non-current liabilities			
Borrowings, loans and bonds	*25*	128 300	199 814
Provisions	*26*	827	1 892
Deferred tax liabilities	*13.3*	1	1
Accrued expenses and prepaid income	*27.2*	1 974	0
		131 102	**201 707**
Current liabilities			
Borrowings, loans and bonds	*25*	98 260	28 735
Trade payables	*27.1*	29 037	1 918
Other current liabilities	*27.1*	1 680	3 600
Accrued expenses and prepaid income	*27.2*	3 239	2 727
		132 216	**36 980**
TOTAL LIABILITIES		**263 318**	**238 687**
TOTAL EQUITY AND LIABILITIES		**1 113 516**	**1 018 874**

(in PLN thousands)

STATEMENT OF CASH FLOWS

for the year ended 31st December 2012

	Note	Year ended 31st December 2012 (audited)	Year ended 31st December 2011 (audited)
Cash flows from operating activities			
Profit (loss) before tax		**13 528**	**27 305**
Adjustments for:			
Depreciation	*12.6*	111	137
Net foreign exchange differences		51	(27)
Impairment of non-current assets		10 000	
Net interests and dividends		17 935	13 383
Gain (loss) from investing activities		-	(19)
Change in trade and other receivables		(13 861)	7 659
Change in inventory		-	51
Change in trade and other payables (except for borrowings, loans and bonds)		25 199	345
Change in accruals and prepayments		2 603	225
Change in provisions		(1 065)	1 267
Income tax		(1 456)	(169)
Loans granted		156 309	(51 601)
Net cash used in operating activities		**209 353**	**(1 443)**
Cash flows from investing activities			
Proceeds from sales of property, plant and equipment and intangible assets			102
Purchase of property, plant and equipment and intangible assets		(56)	(42)
Increse of shares in subsidiaries		(27 922)	
Acquisation of sahes in subsidiary		(15 063)	
Net cash from investing activities		**(43 040)**	**59**

(in PLN thousands)

STATEMENT OF CASH FLOWS
for the year ended 31st December 2012 – continued

	Note	Year ended 31st December 2012 (audited)	Year ended 31st December 2011 (audited)
Cash flow from financing activities			
Repayment of loans		(128 100)	(66 000)
Issue of bonds		-	80 000
Dividends paid		(9 973)	-
Interest paid		(21 645)	(13 383)
Other		-	(842)
Net cash from financing activities		**(159 718)**	**(225)**
Cash and cash equivalents at the beginning of the period	*21*	**23 760**	**25 368**
Net increase (decrease) in cash and cash equivalents		6 596	(1 608)
Cash and cash equivalents at the end of the period	*21*	**30 356**	**23 760**

(in PLN thousands)

STATEMENT OF CHANGES IN EQUITY

for the year ended 31st December 2012

	Note	Share capital	Share premium	Translation reserve	Other reserve capital	Retained earnings	Total equity
As on 1st 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	*22.2*	-	-	46	-	-	46
Total comprehensive income		-	-	46	-	13 529	13 574
Issue of shares		-	-	-	64 983	-	64 983
Change of shares nominal value	*22.1.1*	(498 632)	498 632	-	-	-	-
Profit distribution		-	2 184	-	15 148	(27 305)	(9 973)
Payments within the tax group		-	-	-	-	1 427	1 427
As on 31st December 2012		55 404	580 878	40	200 407	13 471	850 198

(in PLN thousands)

For the year ended 31st December 2011

	Note	Share capital	Share premium	Translation reserve	Other reserve capital	Retained earnings	Total equity
As on 1st January 2011		554 035	72 289	5	30 914)	97 135	754 378
Profit (loss) for the period		-	-	-	-	27 305	27 305
Other comprehensive income for the period		-	2	(11)	(2)	-	(11)
Total comprehensive income		-	2	(11)	(2)	27 305	27 293
Profit distribution		-	7 771	-	89 364	(97 135)	-
Payments within the tax group		-	-	-	-	(1 485)	(1 485)
As on 31st December 2011		554 035	80 062	(6)	120 276	25 820	780 188

ACCOUNTING POLICIES AND ADDITIONAL NOTES

1. Corporate information

The financial statements of the Arctic Paper S.A cover the year ended 31st December 2012 and contain comparative data for the year ended 31st December 2011.

Arctic Paper S.A. („Company" „Entity") was incorporated on the basis of a Notarial Deed dated 30th April 2008, that 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 the whole 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 2012, which has been approved for publishing on 30th April 2013.

3. Composition of the Management Board

As on 31st December 2012, the Management Board of the Company consisted of:

- 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 April 2012

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.

From 31st December 2012 to the date of publishing of the hereby standalone financial statements no changes in composition of the Management Board occurred.

(in PLN thousands)

4. Approval of the financial statements

These financial statements were approved for publishing by the Management Board on 30th April 2013.

5. Company's investments

The Company has investments in the following subsidiaries:

Entity	Registered office	Busines activities	Share in capital	
			31.12.2012	**31.12.2011**
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, Dreve des Marroniers 28, 1410 Waterloo	Trading services	100%	100%
Arctic Paper Schweiz AG	Switzerland, Technoparkstrasse 1, 8005 Zurich	Trading services	100%	100%
Arctic Paper Italia srl	Italy, Milano – Via R. Boscovich 14	Trading services	100%	100%
Arctic Paper Ireland Limited	Ireland, 4 Rosemount Park Road, Dublin 11	Trading services	100%	100%
Arctic Paper Danmark A/S	Denmark, Jydekrogen 18, DK-2625 Vallensbaek	Trading services	100%	100%
Arctic Paper France SAS	France, 43 rue de la Breche aux Loups, 75012 Paris	Trading services	100%	100%
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, Per Kroghsvei 4, Oslo	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, 107 24 Stockholm	Pulp production	39,66%	-

As on 31st December 2012 and 31st December 2011, the percentage of voting rights held by the Company in subsidiaries corresponds to the percentage held in the share capital of those entities.

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

On 20th December 2012, Arctic Paper S.A. purchased 39.66% of shares in Rottneros AB, a company listed on NASDAQ OMX stock exchange in Stockholm, Sweden. Rottneros AB owns 100% of shares in two pulp mills located in Sweden: Rottneros Bruk AB and Vallviks Bruk AB, as well as in an office dealing in pulp purchases, SIA Rottneros Baltic, seated in Latvia, and in a company producing food packaging – Rottneros Packaging AB, seated in Sweden.

Due to free float of the rest Rottneros AB shareholding and the lack of legal limitations, Arctic Paper S.A. is actually able to appoint management staff of Rottneros AB and influence the operating and financial activities of Rottneros Group, as well as conducting the business activities which have impact on the return on the involvement in Rottneros Group. Thereby, applying IFRS 10 Consolidated financial statements, together with IFRS 11 Joint arrangements and IFRS Disclosures of Interests in Other Entities, Arctic Paper S.A. on 20th December 2012 took actual control over Rottneros Group and settled the acquisition using fair values of assets and liabilities of Rottneros Group as on 31st December 2012 assuming it does not materially differ from the data as on 20th December 2012. More information regarding preliminary settlement of Rottneros AB shares acquisition and further purchases of shares in 2013 is presented respectively in notes 23 and 46 to the hereby interim condensed consolidated financial statements

6. Significant professional judgment and estimates

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

Deferred tax asset

Due to the uncertainty regarding utilization in future periods of tax losses recorded in years 2008-2012, the Management Board decided not to create deferred tax asset for this purpose. Furthermore, the Management Board decided not to create deferred tax asset for other temporary differences.

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 partial impairment of fixed assets in subsidiary Arctic Paper Mochenwangen GmbH were identified.

As on 31st December 2012 the Group performed impairment test 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.

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 value loss of the Company's assets invested in Arctic Paper Mochenwangen GmbH and in creating an allowance on the grounds of impairment to the amount of PLN 37,058 thousand. The allowance value was recognized in the amount of PLN 1,300 thousand as a decrease of interest income and in the amount of PLN 35,758 thousand as other operating costs.

Impairment of intangible assets

In accordance with IAS 36 the Company, on a regular basis, performs analysis of indications of impairment in acquired from Trebruk AB in 2009 trademarks and once a 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 2013.

The Company also performed an impairment test for the trademark obtained with the acquisition of Arctic Paper Grycksbo as on 31 December 2012. This analysis revealed the necessity to perform an impairment allowance in the amount of PLN 22,834 thousand. The test for impairment of trademark was performed at Arctic Paper Grycksbo level, while treating the company as a single cash flows generating unit.

The next impairment test is planned for 31st December 2013.

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 financial statements have been prepared on the assumption that the Company will continue as going concerns in the foreseeable future.

As at the date of approval of these financial statements, the Company's Management Board is not aware of any facts or circumstances that would indicate a threat to the continued activity of the Company.

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 interim condensed half-yearly financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31st December 2011, except for application of changes in standards and new interpretations binding for yearly periods beginning on 1st January 2012:

- Changes to IFRS 7 Financial Instruments: Disclosures: transfers of financial assets - applicable for yearly periods beginning on 1st July 2011 or later. The adoption of these changes did not have an impact on the financial position or performance of the Group, or on the scope of information presented in the Company's financial statements.

Moreover, the Group decided to early (starting on 1st January 2012) adopt the following standards in compliance with transition guidance:

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

Pursuant to IFRS 10 the Group applies the amended definition of control over entity, consisting in the ability or the ownership of rights to influence the returns on the involvement in the entity and the possibilities of exercising these rights to influence the return on the involvement. The adoption of IFRS 10 did not cause any changes in comparative data of the consolidated financial statements for the year ended 31st December 2012.

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

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

The adoption of IFRS 11 did not cause any changes in comparative data in comparative data of the consolidated financial statements for the year ended 31st December 2012.

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

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

- IAS 27 Separate Financial Statements - effective for financial years beginning on or after 1 January 2013 - in EU effective at the latest for financial years beginning on or after 1 January 2014,

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

The adoption of IAS 27 did not cause any changes in comparative data of the consolidated financial statements for the year ended 31st December 2012.

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

Pursuant to IAS 28, the Group applied it for the joint arrangements described in the latter part of the report.

The adoption of IAS 28 did not cause any changes in comparative data of the consolidated financial statements for the year ended 31st December 2012.

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

Pursuant to transition guidance, the Group applied jointly IFRS 10, IFRS 11, IFRS 12, IAS 27 *Separate Financial Statements* and IAS 28 (updated in 2011).

The adoption of transition guidance did not cause any changes in comparative data of the consolidated financial statements for the year ended 31st December 2012.

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 – effective for financial years beginning on or after 1st January 2015 – not endorsed by EU till the date of approval of these financial statements. In subsequent phases, the IASB will address hedge accounting and impairment. The application of the first phase of IFRS 9 will have impact on classification and measurement of the financial assets of the Group. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture,
- Amendments to IAS 19 Employee Benefits - effective for financial years beginning on or after 1st January 2013,
- Amendments to IAS 12 Income Tax: Deferred Tax: Recovery of Underlying Assets – effective for financial years beginning on or after 1st January 2012 – in EU effective at the latest for financial years beginning on or after 1st January 2013,
- Amendments to IFRS 1 First–time Adoption of International Financial Reporting Standards: Severe Hyperinflation and Removal of Fixed Dates for First–time Adopters – effective for financial years beginning on or after 1st July 2011 – in EU effective at the latest for financial years beginning on or after 1st January 2013,
- IFRS 13 Fair Value Measurement - effective for financial years beginning on or after 1st January 2013,
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine - effective for financial years beginning on or after 1st January 2013,
- Amendments to IFRS 7 Financial Instruments – Disclosures: Offsetting Financial Assets and Financial Liabilities - effective for financial years beginning on or after 1st January 2013,
- MSR 32 Instrumenty finansowe: prezentacja: Kompensowanie aktywów finansowych i zobowiązań finansowych - mające zastosowanie dla okresów rocznych rozpoczynających się dnia 1 stycznia 2014 roku lub później,
- Amendments to IFRS 1 First–time Adoption of International Financial Reporting Standards: Government Loans – effective for financial years beginning on or after 1st July 2013,
- Improvements to IFRSs (issued in May 2012) – effective for financial years beginning on or after 1st January 2013 – not endorsed by EU till the date of approval of these financial statements,
- Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities (issued on 31 October 2012) – effective for financial years beginning on or after 1st January 2014 – not endorsed by EU till the date of approval of these financial statements,

(in PLN thousands)

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:

	31st December 2012	31st December 2011
USD	3,0996	3,4174
EUR	4,0882	4,4168
SEK	0,4757	0,4950
LVL	5,8595	6,3120
DKK	0,5480	0,5941
NOK	0,5552	0,5676
GBP	5,0119	5,2691
CHF	3,3868	3,6333

For valuation of assets and liabilities of branch as on 31st December 2012 the exchange rate SEK/PLN was used amounting to 0.4757 (31st December 2011: 0.4950). For valuation of the positions of comprehensive income for the year ended 31st December 2012 the exchange rate SEK/PLN was used amounting to 0.4808 (for the year ended 31st December 2011: 0.4561) which is an arithmetic mean of NBP average exchange rates announced in 2012 (2011).

10.2. Property, plant and equipment

Property, plant and equipment are measured at 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.
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 property, plant and equipment 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 acquisition. 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 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 venture

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	• purchased cost determined on an average-weighted 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 2012 and 31st December 2011 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.

(in PLN thousands)

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 and income from dividends and interest in the years 2011-2012

	Year ended 31st December 2012	*Year ended 31st December 2011*
Poland	62 478	17 682
Foreign countries, including:		
- Sweden	47 509	41 926
- Norway	-	1 330
- Germany	176	4 059
- Spain	-	200
- UK	-	2 001
- France	638	
- other	100	-
	110 903	**67 198**

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

	Year ended 31st December 2012	*Year ended 31st December 2011*
Income from marketing activities	66	52
Civil activities tax refund	-	136
Sales of fixed assets	-	33
Reinvoiced costs of salaries	196	-
Reinvoiced costs of insurance	0	-
Other	-	14
	262	**235**

(in PLN thousands)

12.2. Other operating expenses

	Year ended 31st December 2012	*Year ended 31st December 2011*
Loss on sales of fixed assets	-	14
Non-deductible VAT	290	390
Insurance costs (reinvoiced)	0	-
Impaiment of non-current assets	46 758	-
Other	14	21
	47 062	**425**

12.3. Financial income

	Year ended 31st December 2012	*Year ended 31st December 2011*
Interest income	403	614
Foreign exchange gains	-	7 514
Other financial income	618	-
	1 021	**8 128**

12.4. Financial costs

	Year ended 31st December 2012	*Year ended 31st December 2011*
Interest on bonds	17 935	17 469
Interest on loans and other liabilities	1 740	999
Foreign exchange losses	3 505	-
Other financial costs	97	414
	23 277	**18 881**

(in PLN thousands)

12.5. Costs by nature

	Year ended 31st December 2012	*Year ended 31st December 2011*
Depreciation	111	137
Material	92	
External services	17 134	13 236
Taxes and charges	177	29
Salaries and wages	7 708	7 932
Employee benefits expense	2 633	4 900
Other	463	2 635
Total expenses by kind	**28 318**	**28 869**

Expenses by kind:		
whereof:		
Items recognized in cost of sales	1 387	-
Items recognized in administrative expenses	26 931	28 948

(in PLN thousands)

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

	Year ended 31st December 2012	*Year ended 31st December 2011*
Depreciation on tangible assets	102	124
Depreciation on intangible assets	9	13
	111	**137**
Related to:		
- continuing operations	111	137
- discontinued operations\	-	-
	111	**137**

12.7. Employee benefits expenses

	Year ended 31st December 2012	*Year ended 31st December 2011*
Salaries	7 708	7 932
Social securities	1 477	1 715
Pension plans	1 156	3 185
Total employee benefits expense:	**10 341**	**12 832**

13. Income tax

13.1. Tax burdens

Major components of income tax expense for the years ended 31st December 2012 and 31st December 2011 are as follows:

	Year ended 31st December 2012	*Year ended 31st December 2011*
Income statement		
Current income tax		
Current tax expense	-	-
Deferred tax	*1*	-
Allowance for deferred tax asset	-	-
Income tax presented in income statement	**1**	**-**

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 2012 and 31st December 2011 is as follows:

(in PLN thousands)

	Year ended 31st December 2012	*Year ended 31st December 2011*
Accounting profit/(loss) before tax from continuing operations	13 528	27 305
Profit/ (loss) before tax from discontinued operations	-	-
Accounting profit/(loss) before income tax	13 528	27 305
At statutory income tax rate applicable in Poland of 19% (2011: 19%)	**2 570**	**5 188**
Corrections related to current income tax from previous years	(2 193)	-
Unutilized tax losses from previous years	(1 498)	-
Dividend income	(9 092)	(2 570)
Calculated interest and other other financial services income	(2 934)	(4 990)
Fixed costs non-deductible	12 412	51
Tax deductible costs that were not accounted in the precious year	-	-
Taxable costs on interest paid	(374)	-
Unrecognized tax losses	1 076	3 004
Foreign exchange unreal dfferences	855	-
Other unrecognized temporary inocme/tak	(916)	(702)
Differences on different tax rates in different coutries	95	19
At the effective tax rateof 0% (2011: 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:

Year of expiration of tax losses	*Year ended 31st December 2012*	*Year ended 31st December 2011*
ended 31st December 2013	15 768	-
ended 31st December 2014	15 178	19 022
ended 31st December 2015	15 504	12 336
ended 31st December 2016 and later	23 581	28 055
Razem	**70 030**	**59 414**

In 2012 the Company performed corrections of Company Income Tax declarations for the years 2008-2010. As the result of these changes the total amount of tax losses was increased by PLN 11,543 thousand. Moreover, at the end of 2012 the 5-year period of possible use of 50% tax loss of 2008 (PLN 7,884 thousand) expired.

13.3. Deferred income tax

Deferred income tax relates to the following:

(in PLN thousands)

	Balance sheet		*Income statement*	
	As at 31st December 2012	*As at 31st December 2011*	*Year ended 31st December 2012*	*Year ended 31st December 2011*
Deferred tax liability				
Accelerated depreciation	1	1	-	-
Interest income	11 301	8 443	2 858	4 990
Foreign exchange gains		793	(793)	793
Deferred tax liability	**11 302**	**9 237**		

	Balance sheet		*Income statement*	
	As at 31st December 2012	*As at 31st December 2011*	*Year ended 31st December 2012*	*Year ended 31st December 2011*
Deferred tax asset				
Accruals and prepayments	1 148	717	(431)	(566)
Interest on loans	804	1 178	374	121
Foreign exchange losses	61	-	(61)	-
Losses available for offset against future taxable income	14 035	10 066	(3 970)	(3 004)
Deferred tax asset gross	**16 048**	**11 961**		
Deferred tax charge			(2 023)	2 334
Allowance for deferred tax asset	4 746	2 724	2 023	(2 334)
			-	-
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 2012 to PLN 9,131 thousand (as on 31st December 2011: PLN 0).

14. Earnings per share

Basic earnings per share amounts are calculated by dividing the net profit for the year attributable to ordinary equity holders 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:

	Year ended 31st December 2012	*Year ended 31st December 2011*
Profit (loss) from continuing operations	13 529	27 305
Profit (loss) from discontinued operation	-	-
Profit (loss) for the period	13 529	27 305
Number of share - serie A	50 000	50 000
Number of share - serie B	44 253 500	44 253 500
Number of share - serie C	8 100 000	8 100 000
Number of share - serie E	3 000 000	3 000 000
Number of share - serie F (not registered as at 31 December 2012)		
Total number of shares (in thousand)	55 403 500	55 403 500
Weighted average number of shares	55 727 201	55 403 500
Weighted diluted number of shares	55 727 201	55 403 500
Profit per share (in PLN)	**0,24**	**0,49**
Diluted profit per share (in PLN)	**0,24**	**0,49**

14.1. Transactions related to ordinary shares which occurred between balance sheet date and the date of the hereby standalone financial statements

In connection with purchase of Rottneros AB shares, on 20th December 2012 Arctic Paper S.A. issued 10,740,983 ordinary series F shares (PLN 64,983 thousand), which have been exchanged for Rottneros AB shares held by hitherto Rottneros Ab shareholders who responded to the Company's calling for purchase of Rottneros AB shares, mainly by exchange of these shares to newly issued shares of the Company. On 10th January 2013, the aforementioned series F shares were registered in National Court Register. In compliance with accounting policies, the increase of capital is recognized in sharecapital/reserve capitals the moment it was registered in the National Court Register. Therefore, the increase of share capital of Arctic Paper S.A. in the amount of PLN 64,983 thousand was presented as Other reserve capitals as on 31st December 2012.

Moreover, until the day of the hereby consolidated financial statements the Company has performed a prolongation of calling term, jointly to 26th February 2013. In this period, Artcic Paper S.A. issued additional 3,143,300 series F shares (jointly 13,884,283 series F shares) that until the day of the hereby report has been registered in the National Court Register.

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 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 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.

On 28th June 2012, the Company's Shareholders Meeting adopted a resolution regarding payment of dividend in the amount of PLN 9,972,630, that is PLN 0.18 per share. The number of shares covered by the dividend is

(in PLN thousands)

55,403,500. Shareholders Meeting set the dividend day to 31st July 2012 and the dividend payment date to 21st August 2012. The dividend was paid according to schedule.

On 11th March 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.

16. Property, plant and equipment

As on 31st December 2012	*Land and buildings*	*Plant and equipment*	*Assets under construction*	*Total*
Gross carrying amount on 1st January 2012	-	501	-	501
Additions	-	48	-	48
Disposals	-	(5)	-	(5)
Gross carrying amount on 31st December 2012	0	543	0	543
Accumulated depreciation and impairment on 1st January 2012	-	125	-	125
Depreciation charge for the period		102		102
Decrease of depreciation	-	-	-	-
Accumulated depreciation and impairment on 31st December 2012	0	228	0	228
Net carrying amount on 1st January 2012	-	375	-	375
Net carrying amount on 31st December 2012	0	316	0	316

As on 31st December 2011	*Land and buildings*	*Plant and equipment*	*Assets under construction*	*Total*
Gross carrying amount on 1st January 2011	-	604	-	604
Additions	-	41	-	41
Disposals	-	(144)	-	(144)
Gross carrying amount on 31st December 2011	0	501	0	501
Accumulated depreciation and impairment on 1st January 2011	-	75	-	75
Depreciation charge for the period	-	124	-	124
Decrease of depreciation		(73)		
Accumulated depreciation and impairment on 31st December 2011	0	125	0	125
Net carrying amount on 1st January 2011	-	529	-	529
Net carrying amount on 31st December 2011	0	375	0	375

(in PLN thousands)

17. Intangible assets

As on 31st December 2012	*Trademarks*	*Other **	*Total*
Gross carrying amount on 1st January 2012	1 319	16	1 335
Additions	-	8	8
Disposals	-	-	-
Gross carrying amount on 31st December 2012	1 319	24	1 343
Accumulated depreciation and impairment on 1st January 2012	-	7	7
Depreciation charge for the period	-	9	9
Decrease of depreciation	-	-	-
Accumulated depreciation and impairment on 31st December	0	16	16
Net carrying amount on 1st January 2012	1 319	9	1 328
Net carrying amount on 31st December 2012	1 319	8	1 327

As on 31st December 2011	*Trademarks*	*Other **	*Total*
Gross carrying amount on 1st January 2011	1 307	77	1 384
Additions	12	7	19
Disposals	-	(68)	(68)
Gross carrying amount on 31st December 2011	1 319	16	1 335
Accumulated depreciation and impairment on 1st January 2011	-	48	48
Depreciation charge for the period			
Decrease of depreciation	-	(54)	(54)
Accumulated depreciation and impairment on 31st December	0	7	7
Net carrying amount on 1st January 2011	1 307	29	1 336
Net carrying amount on 31st December 2011	1 319	9	1 328

The carrying amount of acquired rights to trademarks as on 31st December 2012 is PLN 1,319 thousand.

The Company performed an impairment test on the corporate trademark Arctic Paper as of 31st December 2012. The analysis confirmed that no impairment allowance is necessary.

The next impairment test is scheduled for 31st December 2013.

(in PLN thousands)

18. Other assets

18.1. Investments in subsidiaries

	As on 31st December 2012	*As on 31st December 2011*
Arctic Paper Kostrzyn S.A.	442 535	442 535
Arctic Paper Munkedals AB	88 175	88 175
Rottneros AB	80 046	-
Arctic Paper Investment AB, whereof:	342 712	34 168
Arctic Paper Investment AB (shares)	*34 168*	*34 168*
Arctic Paper Investment AB (loans)	*308 544*	-
Arctic Paper Investment GmbH	44 901	26 980
Arctic Paper Investment GmbH (shares)	54 901	26 980
Arctic Paper Investment GmbH (impairment)	(10 000)	-
Arctic Paper Sverige AB	11 721	11 721
Arctic Paper Danmark A/S	5 539	5 539
Arctic Paper Norge AS	3 194	3 193
Arctic Paper Italy srl	738	738
Arctic Paper UK Ltd.	522	522
Arctic Paper Polska Sp. z o.o.	406	406
Arctic Paper Benelux S.A.	387	387
Arctic Paper France SAS	326	326
Arctic Paper Espana SL	196	196
Arctic Paper Papierhandels GmbH	194	194
Arctic Paper East Sp. z o.o.	102	102
Arctic Paper Baltic States SIA	64	64
Arctic Paper Schweiz AG	61	61
Arctic Paper Ireland Ltd.	3	3
Total	**1 021 820**	**615 310**

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

On 16th January 2012, Arctic Paper S.A. concluded an annex to a loan agreement with Arctic Paper Investment AB under which the final repayment date of the total loan (with interest) was prolonged until 31st December 2016 together with reservation that the payment term may be further prolonged. The current intention of the Management Board of the Company is to further prolong this payment term. On this basis, the value of investment in Arctic Paper Investment AB was increased by the value of the long-term loan, that is, as on 31st December 2012, PLN 244,275 thousand more of calculated interest in the amount of PLN 64,269 thousand. The Management Board finds no premises to recognize an impairment allowance on this investment.

As on 31st December 2012, loans granted to Arctic Paper Investment AB together with calculated interest amounted to PLN 284,275 thousand and were presented as other financial assets in non-current assets.

The value of shares in Arctic Paper Investment GmbH was increased by cash contributions to supplementary capital performed in 2012 in the total amount of PLN 27,922 thousand (EUR 6,465 thousand). These funds were utilized to repay tranches of a loan granted by Bank Pekao S.A. as well as to repay liabilities to Arctic Paper Mochenwangen GmbH. As on 31st December 2012, the Company performed a write-off of shares value in Arctic Paper Investment GmbH in the amount of PLN 10,000 thousand.

On 18th October 2012, Arctic Paper S.A. sold to Arctic Paper Kostrzyn S.A. one share in Arctic Paper Investment GmbH of nominal value EUR 50, decreasing its involvement of the company by 0.2%.

(in PLN thousands)

On 20th December 2012, the Company purchased 39,66% of Rottneros AB shares, a company listed on NASDAQ OMX stock exchange in Stockholm, Sweden. The transaction was described in details in notes 5 and 23.2 of the hereby financial statements.

18.2. Other financial assets

	Effective percentage rate %	*Maturity date*	*Value as on 31st December 2012*
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 (related to Arctic Paper Investment GmbH)			(31 618)
			26 476
Non-current			
Loan granted to Arctic Paper Investment AB - amount: 194.275 tys. PLN - amount: 50.000 tys. PLN - interest rate: Wibor 6M + 4,8%	8,89%	31.12.2016	308 544
Loan granted to Arctic Paper Investment GmbH - amount: 990 tys. EUR - interest rate: Wibor 3M + 2%	6,13%	30.06.2014	5 440
Impairment of assets (related to Arctic Paper Investment GmbH)			(5 440)
Loan treated as investment in subsidiary			(308 544)
			0
			26 476

* the loan presented as short-term because of the possibility of payment on request

The situation of other financial assets in 2011 presented as below:

(in PLN thousands)

	Effective percentage rate %	*Maturity date*	*Value as on 31st December 2011*
Current			
Loan granted to Arctic Paper Munkedals AB - amount: 27.658 tys. PLN - interest rate: Wibor 3M + 2,3%	7,29%	31.12.2012	27 658
Loan granted to Arctic Paper Investment GmbH - amount: 4.603 tys. EUR - interest rate: Euribor 3M + 2%	3,36%	31.12.2012	20 330
Loan granted to Arctic Paper Investment GmbH - amount: 1.843 tys. EUR - interest rate: Euribor 3M + 5%	6,36%	31.12.2012	8 140
Loan granted to Arctic Paper Mochenwangen GmbH - amount: 1.500 tys. EUR - interest rate: Euribor 3M + 3%	4,36%	31.12.2012	6 625
Loan granted to Arctic Paper Mochenwangen GmbH - amount: 1.400 tys. EUR - interest rate: Euribor 3M + 5%	6,36%	31.12.2012	6 184
Loan granted to Arctic Paper Ireland Ltd. - amount: 1 tys. EUR - interest rate: Euribor 3M + 2%	3,36%	31.12.2012	4
			68 941
Non-current			
Loan granted to Arctic Paper Investment AB - amount: 194.275 tys. PLN - amount: 50.000 tys. PLN - interest rate: Wibor 6M + 4,8%	9,80%	10.02.2013 31.12.2015	226 453 58 282
Loan granted to Arctic Paper Investment GmbH - amount: 990 tys. EUR - interest rate: Wibor 3M + 2%	6,99%	31.12.2013	4 373
			289 108
			358 048

(in PLN thousands)

18.3. Other non-financial assets

	As on 31st December 2012	*As on 31st December 2011*
Insurance fees	32	191
Rental charges and deposits	306	298
Pension reserve	665	1 523
Project Winter	506	506
Other	102	75
Total	**1 610**	**2 593**
- long-term	846	1 711
- short-term	764	882
	1 610	**2 593**

19. Inventories

	As on 31st December 2012	*As on 31st December 2011*
Goods for resale	0	0
	0	**0**

In the year ended 31st December 2012 and 31st December 2011 the Company did not make any write-downs of inventory value, which resulted from lack of indications of the impairment of inventories.

(in PLN thousands)

20. Trade and other receivables

	Note	*As on 31st December 2012*	*As on 31st December 2011*
State receivables		-	852
Trade receivables from related parties	*29*	23 820	12 151
Trade receivables from non-related entities		70	134
Other receivables from related parties	*29*	6 876	3 957
Other receivables from non-related parties		24	-
Total receivables net		**30 790**	**17 095**
Allowance for receivables		(1 000)	-
Total receivables gross		**29 790**	**17 095**

As on 31st December 2012, the Company performed a write-off on Arctic Paper Investment GmbH receivables in the amount of PLN 1,000 thousand.

Terms of transaction with related parties are presented in note 29.

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 balance as on 31st December 2012 amounts to PLN 10,000 thousand.

The fair value of cash and cash equivalents as at 31st December 2012 is PLN 20,356 thousand (31st December 2011: PLN 23,760 thousand).

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

	As on 31st December 2012	*As on 31st December 2011*
Cash at bank and in hand	20 356	23 760
	20 356	23 760

(in PLN thousands)

22. Share capital, share premium and other reserve capital

22.1. Share capital

Issued capital	*As on 31st December 2012*	*As on 31st December 2011*
‘A’ class ordinary shares	50	500
’B’ class ordinary shares	44 253	442 535
’C’ class ordinary shares	8 100	81 000
’E’ class ordinary shares	3 000	30 000
	55 403	**554 035**

Ordinary shares issued and fully covered	*Volume*	*Volume*
Issued on 30th April 2008	50 000	50
Issued on 12th September 2008	44 253 468	44 253
Issued on 20th April 2009	32	0
Issued on 30th July 2009	8 100 000	8 100
Issued on 1st March 2010	3 000 000	3 000
As on 31st December 2012	**55 403 500**	**55 404**

As on 31st December 2012, the Company recognized the amount of PLN 64,983 thousand corresponding to issue of 10,740,983 series F ordinary bearer shares. These shares were issued for the purpose of financing of Rottneros AB shares acquisition (described in notes 14.1 and 23.2 of the hereby financial statements). The issue and related increase of share capital were not registered in National Court Register as on the balance sheet date.

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.

On 9th November 2012, 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.

(in PLN thousands)

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

	*As on 31st December 2012**	*As on 31st December 2012*	*As on 31st December 2011*
Trebruk AB (former Arctic Paper AB)			
Share in capital	62,79%	74,96%	74,80%
Share of votes	62,79%	74,96%	74,80%
Nemus Holding AB			
Share in capital	8,82%		
Share of votes	8,82%		
Others			
Share in capital	28,39%	25,04%	25,20%
Share of votes	28,39%	25,04%	25,20%

*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 2012, foreign exchange differences from translation of foreign branch recognized in equity amounted to PLN 40 thousand (as on 31st December 2011 PLN -6 thousand). Exchange rate differences arising from translation of foreign branch recognized in statement of comprehensive income amounted to PLN +46 thousand in 2012 and PLN -11 thousand in 2011.

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.

As on 31st December 2012 the total value of the Company's share premium is PLN 580,878 thousand (31st December 2011: PLN 80,062 thousand).

22.4. Other reserves

As on 31st December 2012 the total value of other supplementary capitals of the Company amounts to PLN 200,407 thousand (31st December 2011: PLN 120,276 thousand).

Changes in supplementary capitals resulted from issue of series F shares (PLN 64,983 thousand), unregistered in National Court Register on the balance sheet date and from the distribution of financial result for 2011 (PLN 15,148 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 ad shall not be used for any other purpose.

As on 31st December 2012 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 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.

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").

(in PLN thousands)

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.

24. Acquisition of subsidiaries

On 20th December 2012, Arctic Paper S.A. purchased 39.66% of shares in Rottneros AB, a company listed on NASDAQ OMX stock exchange in Stockholm, Sweden. Rottneros AB owns 100% of shares in two pulp mills located in Sweden: Rottneros Bruk AB and Vallviks Bruk AB, as well as in an office dealing in pulp purchases, SIA Rottneros Baltic, seated in Latvia, and in a company producing food packaging – Rottneros Packaging AB, seated in Sweden.

25. Interest-bearing loans and borrowings

	Effective percentage rate %	*Maturity date*	*As on 31st December 2012*	*As on 31st December 2010*
Current				
Bonds 1/2010 series (three-years) in PLN, interest rate Wibor + 4% - current part (accrued interest)	8,88%	25.02.2013	51 189	4 080
Bonds 1/2011 series (two-years) in PLN, interest rate: Wibor + 4% - current part (accrued interest)	9,45%	25.02.2013	23 015	2 120
Loan from Arctic Paper Kostrzyn S.A. in PLN, interest rate: Wibor + 2%	6,13%	30.06.2014	23 782	22 535
Loan from Arctic Paper Kostrzyn S.A. in PLN, interest rate: Wibor + 2,5% (interest)		31.03.2013	248	
			98 260	**28 735**

(in PLN thousands)

Non-current				
Bonds 2/2010 series (three-years) in PLN, interest rate Wibor + 4% -non-current part	8,88%	25.02.2013	-	119 814
Bonds 1/2011 series (two-years) in PLN, interest rate: Wibor + 4% - non-current part	8,13%	25.02.2013	-	80 000
Loan from Arctic Paper Kostrzyn S.A. in PLN, interest rate: Wibor + 2,5%	6,63%	31.12.2017	128 300	-
			128 300	**119 814**

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

25.1. Interest-bearing loans and borrowings

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 set another guarantees and was concluded for a specified period of time – until 31st December 2017, however, the borrower 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.

In the years ended 31st December 2012 and 31st December 2011 the Company did not take any other bank loans and borrowings.

25.2. Bonds issue and repayment

On 21st December 2012, Arctic Paper SA, with the use of loan taken in Arctic Paper Kostrzyn S.A. 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.

26. Provisions

As on 31st December 2012, the Company made provisions in the amount of PLN 827 thousand (2011: PLN 1,892 thousand) and were presented as long-term liabilities. This amount includes a total provision for post-employment employee benefits.

(in PLN thousands)

27. Trade and other payables, other liabilities and accruals

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

	Note	*As on 31st December 2012*	*As on 31st December 2011*
Trade payables			
Due to related parties	*29*	-	
Due to non-related parties		29 037	1 918
		29 037	**1 918**
Other current liabilities			
Due to related parties	*29*	22	1 604
Due to employees		708	649
Due to state budget		718	1 342
Other liabilities		232	4
		1 680	**3 600**

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.

(in PLN thousands)

27.2. Accruals

	As on 31st December 2012	*As on 31st December 2011*
Accrued expenses for:		
Vacation liability to employees	858	1 731
Bonuses to employees of the Group	53	865
Audit, legal and consulting services	747	50
Marketing costs	344	48
Accrued commissions to external agents	193	-
Other	46	34
Total	**2 241**	**2 727**
- long-term	-	-
- short-term	2 241	2 727
	2 241	**2 727**

Prepaid income for:		
Remuneration for guarantee of the Arctic Apaper Kostrzyn credit facility	2 972	-
Total	**2 972**	**-**
- long-term	1 974	-
- short-term	998	-
	2 972	**0**

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

Contingent liabilities of the Company related to the guarantee of the bank loan granted to Arctic Paper Kostrzyn S.A. 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).

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 2012.

(in PLN thousands)

29. Related party disclosures

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

Related party		*Sales to related parties*	*Sales to related parties*	*Interest – financial income*	*Interest – financial costs*	*Receivables*	*including overdue*		*Payables*	*including in arrears*	*Loan liabilities*
Subsidiaries:											
Arctic Paper Kostrzyn S.A.	2012	15 364	71	46 343	1 740	21 645	-	-	18	-	152 330
	2011	7 689	32	9 996	998	692	-	-	-	-	22 535
Arctic Paper Munkedals AB	2012	10 225	29	1 960	-	1 540	-	26 465	-	-	-
	2011	8 941	31	1 859	-	1 363	-	27 658	1 485	-	-
Arctic Paper Mochenwangen GmbH	2012	105	-	71	-	544	-	-	-	-	-
	2011	1 430	-	513	-	5 097	-	12 809	-	-	-
Arctic Paper Grycksbo AB	2012	11 514	261	-	-	1 696	-	-	-	-	-
	2011	8 040	147	-	-	337	-	-	119	-	-
Arctic Paper Investment GmbH	2012	-	-	1 300	-	1 152	-	37 058	-	-	-
	2011	-	-	2 116	-	4 556	-	32 843	-	-	-
Arctic Paper Investment AB	2012	-	-	23 809	-	24	-	308 543	-	-	-
	2011	-	-	23 134	-	24	-	284 736	-	-	-
Arctic Paper Deutschland GmbH	2012	26	-	-	-	-	-	-	-	-	-
	2011	42	-	-	-	-	-	-	-	-	-
Arctic Paper Sverige AB	2012	35	1	-	-	-	-	-	-	-	-
	2011	53	5	-	-	-	-	-	-	-	-
Arctic Paper Danmark A/S	2012	13	-	-	-	-	-	-	-	-	-
	2011	31	17	-	-	-	-	-	-	-	-
Arctic Paper Italia srl	2012	6	-	-	-	-	-	-	-	-	-
	2011	11	-	-	-	-	-	-	-	-	-
Arctic Paper Espana SL	2012	5	-	-	-	-	-	-	-	-	-
	2011	6	-	200	-	-	-	-	-	-	-

(in PLN thousands)

Related party		*Sales to related parties*	*Sales to related parties*	*Interest – financial income*	*Interest – financial costs*	*Receivables*	*including overdue*		*Payables*	*including in arrears*	*Loan liabilities*
Subsidiaries:											
Arctic Paper Norge AS	2012	12	-	-	-	-	-	-	-	-	-
	2011	27	9	1 330	-	-	-	-	-	-	-
Arctic Paper Benelux S.A.	2012	16	-	-	-	-	-	-	-	-	-
	2011	16	-	-	-	-	-	-	-	-	-
SIA Arctic Paper Baltic States	2012	4	-	-	-	-	-	-	-	-	-
	2011	4	-	-	-	-	-	-	-	-	-
Arctic Paper France SAS	2012	21	-	638	-	-	-	-	-	-	-
	2011	21	-	-	-	-	-	-	-	-	-
Arctic Paper Papierhandels GmbH	2012	-	-	-	-	-	-	-	-	-	-
	2011	1	-	-	-	-	-	-	-	-	-
Arctic Paper UK Limited	2012	15	1	-	-	-	-	-	-	-	-
	2011	24	5	2 001	-	-	-	-	-	-	-
Arctic Paper Schweiz AG	2012	9	-	-	-	-	-	-	-	-	-
	2011	8	-	-	-	-	-	-	-	-	-
Arctic Paper Polska Sp. z o.o.	2012	14	2	770	-	-	-	-	-	-	-
	2011	15	24	-	-	-	-	-	-	-	-
Arctic Paper East Sp. z o.o.	2012	3	1	100	-	16	-	-	-	-	-
	2011	3	-	16	-	20	-	-	-	-	-
Arctic Energy Sverige AB	2012	196	-	-	-	254	-	-	-	-	-
	2011	57	-	-	-	62	-	-	-	-	-
Other:											
IPM Sp.z o.o. Sp.k.	2012	-	1 313	-	-	-	-	-	-	-	-
	2011	-	-	-	-	-	-	-	-	-	-
Galileus Sp.z o.o. Sp.k.	2012	-	108	-	-	-	-	-	4	-	-
	2011	-	116	-	-	-	-	-	4	-	-
Total	**2012**	**37 583**	**1 788**	**74 992**	**1 740**	**30 696**	**-**	**372 066**	**22**	**-**	**152 330**
	2011	**26 419**	**270**	**41 165**	**998**	**16 108**	**-**	**358 046**	**1 604**	**-**	**22 535**

(in PLN thousands)

29.1. 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 2012 and 31st December 2011, apart for the transactions with Trebruk AB as shown in note 29.

29.2. Terms and conditions of transactions with related parties

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

29.3. 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.

29.4. Remuneration of the Company's key management personnel

29.4.1 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 2012 comprised five persons: President of the Management Board and four Members of the Management Board.

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

	As on 31st December 2012	*As on 31st December 2011*
Management Board		
Employee benefits (salaries and social securities)	4 562	4 604
Rada Nadzorcza		
Employee benefits (salaries and social securities)	624	792
Total	**5 186**	**5 396**

29.4.2 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.

Until 31st December 2012 there were agreements regarding acquiring these warrants executed to dispense 365 thousand warrants. Until the date of preparing of the consolidated financial statements none of the entitled persons has exercised the right to payable conversion of the warrants to the Company's shares. Based on the legal opinion held by the Company, because of the lack signing of changes to agreements with entitled persons, they cannot request exchange of warrants to the Company's shares.

(in PLN thousands)

30. 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 2012 and 31st December 2011 by category of services:

Type of service	*As on 31st December 2012*	*As on 31st December 2011*
Year-end audit	279*	265*
Year-end audit (branch office)	48	31
Tax consultancy	-	-
Other services	827	50
Razem	**1 154**	**346**

** relates to Ernst & Young Audit Sp. z o.o.*

31. Financial risk management objectives and policies

The Company's principal financial instruments comprise bonds issued, 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.

31.1. 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.

(in PLN thousands)

	Increase / Decrease in percentage points	*Impact on gross result for 2012*
As on 31st December 2012		
PLN	+1%	486
EUR	+1%	326
SEK	+1%	0
PLN	-1%	-486
EUR	-1%	-326
SEK	-1%	0

	Increase / Decrease in percentage points	*Impact on gross result for 2011*
As on 31st December 2011		
PLN	+1%	719
EUR	+1%	457
SEK	+1%	0
PLN	-1%	-719
EUR	-1%	-457
SEK	-1%	0

31.2. 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.

	Increase/ decrease of currency rate	*Impact on gross result*	*Impact on total comprehensive income*
31st December 2012 – SEK	+1%	56	-2
	-1%	-56	2
31st December 2012 – EUR	+1%	371	-
	-1%	-371	0
31st December 2012 – USD	+1%	5	-
	-1%	-5	-
31st December 2011 – SEK	+1%	-45	-3
	-1%	45	3
31st December 2011 – EUR	+1%	206	-
	-1%	-206	-

(in PLN thousands)

31.3. 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.

31.4. 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 2012 and 31st December 2011 based on contractual undiscounted payments.

31st December 2012	*On demand*	*< 3 months*	*3 to 12 months*	*1 to 5 years*	*> 5 years*	*Total*
Borrowings and loans	-	74 204	-	188 334	-	262 538
Other liabilities	-	30 717	-	-	-	30 717
	-	**104 921**	**-**	**188 334**	**-**	**293 255**

31st December 2011	*On demand*	*< 3 months*	*3 to 12 months*	*1 to 5 years*	*> 5 years*	*Total*
Borrowings and loans	-	6 200	22 535	200 000	-	228 735
Other liabilities	-	4 175	-	-	-	4 175
	-	**10 375**	**22 535**	**200 000**	**-**	**232 910**

32. Financial instruments

The Company does not have any material financial instruments, except of bank agreements related to cash deposits, loan agreements and agreements on the issue of bonds.

32.1. 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.

32.2. 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);

(in PLN thousands)

- 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.

32.3. 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 in accordance with IAS 39	*Carrying amount*		*Fair value*	
		31st December 2012	*31st December 2011*	*31st December 2012*	*31st December 2011*
Financial assets					
Other financial assets (non-current)	*L&R*	-	289 108	-	289 108
Trade and other receivables	*L&R*	30 790	16 242	30 790	16 242
Other financial assets (current)	*L&R*	26 476	112 756	26 476	112 756
Cash and cash equivalents	*FVTPL*	30 356	25 368	30 356	25 368
Financial liabilities					
Interest-bearing loans and borrowings (current)	*OFL*	152 356	28 735	152 356	28 735
Debt securities:	*OFL*				
- Debt securities non-current		-	199 814	-	119 571
- Debt securities current		74 204	68 722	74 204	68 722
Trade and other payables	*OFL*	29 037	4 175	29 037	4 175

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.*

The Management Board believes that carrying amounts of other financial instruments do not materially differ from their fair values.

(in PLN thousands)

32.4. 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:

31 December 2012 Variable interest	*<1 year*	*1–2 tears*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*total*
Cash assets	10 000	-	-	-	-	-	
Loans granted to related parties	26 465	11	-	308 544	-	-	335 020
Loans received from related paries	23 782	-	-	-	128 300	-	152 082
Bonds 2/2010 series (three-years)	51 189	-	-	-	-	-	51 189
Bonds 1/2011 series (two-years)	23 015	-	-	-	-	-	23 015
	134 451	**11**	**-**	**308 544**	**128 300**	**-**	**561 306**

31 December 2011 Fixed rate	*<1 year*	*1–2 tears*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*total*
	-	-	-	-	-	-	-
	-	-	-	-	-	-	-

In connection with recognized write-off the Company concluded that loans granted to Arctic Paper Investment GmbH in the amount of PLN 37,058 thousand (together with interest) are not burdened with interest rate risk.

31st December 2011 Variable interest	*<1 year*	*1–2 tears*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*total*
Loans granted to related parties	68 941	230 826	-	58 282	-	-	
Loans received from related paries	22 535	-	-	-	-	-	
Bonds 2/2010 series (three-years)	4 080	119 813	-	-	-	-	123 893
Bonds 1/2011 series (two-years)	2 120	80 001	-	-	-	-	82 121
	97 675	**430 640**	**-**	**58 282**	**-**	**-**	**586 597**

31st December 2011 Fixed rate	*<1 year*	*1–2 tears*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*total*
	-	-	-	-	-	-	-
	-	-	-	-	-	-	-

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.

(in PLN thousands)

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 2012 and 31st December 2011.

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.

	As on 31st December 2012	*As on 31st December 2011*
Borrowings and loans	226 560	228 548
Trade payables and other liabilities	30 717	5 518
Less cash at bank and in hand	(30 356)	(23 760)
Net debt	226 922	210 306
Equity	850 198	780 188
Total equity	850 198	780 188
	-	-
Equity and debt	1 077 120	990 494
Leverage ratio	**0,21**	**0,21**

34. Employment structure

The average employment in the Company in the years ended 31st December 2012 and 31st December 2011 was as follows:

	As on 31st December 2012	*As on 31st December 2011*
Management Board	4	5
Finance	4	3
Sales and marketing	7	6
Administration	2	2
IT	1	1
Total	**18**	**17**

35. Events after the reporting period

35.1. Acquisition of Rottneros shares in 2013

In 2013, Arctic Paper S.A. continued to purchase shares of Rottneros AB either under the calling, whose principles were described in note 23.2 to the hereby financial statements or through direct purchases in NASDAQ OMX stock.

In December 2012 and in 2013, the Company issued aggregate 13,884,283 Subscription Warrants and exchanged it to 13,884,283 series F shares. All issued shares has been until the date of publishing of the hereby report registered in National Court Register.

After settlement of all stages of the calling, the Company is entitled from – after acquisition of shares in Rottneros under the calling and beyond the calling – aggregate 82,726,339 of Rottneros AB shares which represents 54.2% shares in Rottneros.

35.2. Increase of share capital

The amount of share capital recorded in the register of entrepreneurs of National Court Register, after the registration in 2013 of series F shares issue for the purpose of financing of acquisition of Rottneros AB amounts to PLN 69,287,783 and is divided to:

- 50.000 series A shares,
- 44.253.500 series B shares,
- 8.100.000 series C shares,
- 3.000.000 series E shares,
- 13.884.283 series F shares

Total 69.287.783 ordinary bearer shares with nominal value of PLN 1 each.

The total number of votes resulting from all shares issued by Arctic Paper S.A. after recording of the changes in share capital amounts to 69,287,783 votes.

35.3. Agreement with liquidity provider

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

35.4. Repayment of bonds

On 25th February 2013, according to the provisions of agreements, Arctic Paper S.A. performed a repayment of the rest bonds, that is PLN 71,900 thousand together with interest. Therefore all liabilities of the Company towards bondholders and BRE Bank S.A. and related to issue of bonds ceased.

(in PLN thousands)

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 of Sales and Marketing	Wolfgang Lübbert	30 April 2013	
Member of the Management Board Chief Operating Officer	Per Skoglund	30 April 2013	