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ARCTIC PAPER S.A. CAPITAL GROUP
Consolidated Annual Report
for the year ended 31st December 2012

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

ARCTIC PAPER

Table of Contents

Letter from the President of Management Board of Arctic Paper S.A.

Dear Sirs,

It was a year full of challenges – this might be, in short, the summary of 2012.

The market situation did not significantly changed, economic slowdown continued to be reflected in demand for graphic papers. The market in which Arctic Paper operates recorded significant decline of paper supplies by 3.6% for coated papers and 3.7% for uncoated papers, which deepens the imbalance between supply and demand. Production capacities in Europe did not materially changed, which resulted in greater competition and pressure on paper prices. Despite the unfavorable situation, sales of papers produced by Arctic Paper Group increased in quantity by 2.9%. We also managed to sustain at high level – app. 95% - the use of production capacities of our paper mills. Price pressure influenced our sales results mainly because the prices of papers dropped by averagely 2%. Our Swedish mills continue to suffer from appreciation of Swedish crown in relation to Euro, which means lesser profitability.

Throughout the year pulp prices – of our main raw material – had a tendency to rise.

The actions taken towards restructuring and costs reduction give noticeable results. We develop sales of new products seeking for new markets. Investment expenditures are focused on development of new paper types production, intended for segments other than polygraphy, for example, packaging or technical purposes papers.

Despite the unfavorable conditions of the business environment, Arctic Paper Group achieves good results and has a strong financial position. Strong balance sheet allowed us to obtain in November 2012 a refinancing in the amount of PLN 359 million and prolongation of loans repayment terms by another 5 years. The Company therefore prepared itself to repay the bonds issued in 2010 and 2011 – the complete repayment of bondholders occurred in the end of February.

The strategy of developing the values chain and of enhancing integration with capital connections with pulp producers was reflected in the calling announced in November 2012 and closed in February 2013, for shares of Rottneros AB, as a result of which Arctic Paper Group acquired two pulp mills belonging to Rottneros Group. Capital connection of the two companies constitutes a possibility to achieve significant savings and reduce fluctuation of results of the both *companies. Thus we entered with Arctic Paper shares in NASDAQ OMX stock exchange in Stockholm, which facilitated the access to Scandinavian capital market.*

We enter into 2013 as a stronger company, better prepared for the challenges awaiting us.

Yours sincerely,

Michał Jarczyński

President of the Management Board
Arctic Paper S.A.

Introduction

Information on the report

The hereby Consolidated Annual Report for 2012 was prepared in accordance with the Minister of Finance Regulation of 19th February 2009 concerning current and periodical information submitted by issuers of securities and terms and conditions of classifying as equivalent information required by the law of a non-member state (Journal of Laws of 2009 no. 33, item 259, as amended), and consolidated financial statements in accordance with International Financial Reporting Standards (IFRS, especially with IFRS standards approved by the European Union.

At the date of authorization of these consolidated financial statements for publishing, in light of the current process of IFRS endorsement in the European Union and the nature of the Group's activities, there is no difference between the IFRSs applied by the Group 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").

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

The hereby Consolidated Annual Report presents data in PLN, and all figures, unless otherwise stated, are given in thousand PLN.

Definitions and abbreviations

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

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

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

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

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

Definitions of selected terms and financial indicators and abbreviations of currencies

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

Net debt-to-EBITDA ratio	Ratio of interest-bearing debt minus cash to EBITDA
EBITDA-to-interest coverage ratio	Ratio of EBITDA to interest cost
Current ratio	Ratio of current assets to current liabilities
Quick ratio	Ratio of current assets minus inventory and short-term prepayments and deferred costs to current liabilities
Acid test ratio	Ratio of total cash assets and other cash assets to current liabilities
Days inventory outstanding, DSI, DIO	Days Sales of Inventory or Days Inventory Outstanding, ratio of inventory to cost of sales multiplied by the number of days in the period
Days sales outstanding, DSO	Days Sales Outstanding, ratio of trade receivables to sales income multiplied by the number of days in the period
Days payable outstanding, DPO	Days Payable Outstanding, ratio of trade payables to cost of sales multiplied by the number of days in the period
Operating cycle	DSI + DSO
Cash conversion cycle	Operating cycle – DPO
FY	Financial year
Q1	1st quarter of the financial year
Q2	2nd quarter of the financial year
Q3	3rd quarter of the financial year
Q4	4th quarter of the financial year
H1	First half of the financial year
H2	Second half of the financial year
YTD	Year-to-date
Like-for-like, LFL	Analogous, with respect to operating result – in the meaning of this report excluding the effect of the purchase of Arctic Paper Grycksbo in March 2010
p.p.	Percentage point – difference between two amounts of one item given in percentage
PLN, zł, złoty	Monetary unit of the Republic of Poland
gr	grosz – 1/100 of one zloty (the monetary unit of the Republic of Poland)
Euro, EUR	Monetary unit of the European Union
GBP	Pound sterling – monetary unit of the Great Britain
SEK	Swedish Krona - Monetary unit of the Kingdom of Sweden
USD	United States dollar, the currency being legal tender in the United States of America
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
GDP	Gross Domestic Product

Other definitions and abbreviations

Series A Shares	50,000 Arctic Paper S.A. Series A Shares with a par value of 1 PLN each
Series B Shares	44,253,500 Arctic Paper S.A. Series B Shares with a par value of 1 PLN each

Series C Shares	8,100,000 Arctic Paper S.A. Series C Shares with a par value of 1 PLN each
Series E Shares	3,000,000 Arctic Paper S.A. Series E Shares with a par value of 1 PLN each
Series F Shares	10,740,983, as on 31st December 2012 Arctic Paper S.A. Series F Shares with a par value of 1 PLN each
Shares, Stock, Issuer's Shares, Issuer's Stock	Series A, Series B, Series C and Series E Shares jointly (excluding series F shares)

Forward-looking statements

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

Statements concerning risk factors

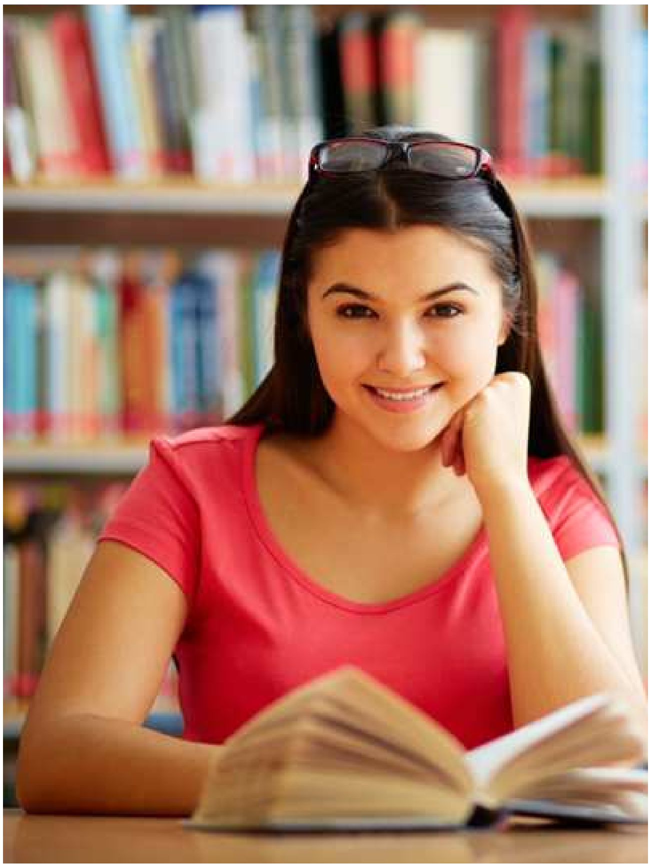
In this report, we have described the risk factors that the Management Board or our Group finds typical for our industry; however, this list may not be complete. It may happen that other factors exist which we have not identified and which could have a material adverse impact on the operations, financial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

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

Arctic Paper Group profile

General information

The Arctic Paper Group is the second-largest European producer of bulky book paper in terms of production volume, offering the largest product assortment in this segment, and one of Europe's leading producers of fine graphic paper. The Group produces numerous types of uncoated and coated wood-free paper, as well as wood-containing uncoated paper for printing houses, paper distributors, book publishing houses and the advertising industry. As at the day of this report, the Arctic Paper Group (without Rottneros Group) employs app. 1,600 people in four paper mills and fifteen companies dealing in paper distribution and sales. The Group's paper mills are located in Poland, Sweden and Germany and have total production capacity of more than 800,000 metric tonnes of paper per year. The Group has three Distribution Companies which handle sales, distribution and marketing of products offered by the Group in Scandinavia and twelve Sales Offices providing access to all European markets, including Central and Eastern Europe. The Group's consolidated sales revenues for 2012 totaled PLN 2,600 million.



In December 2012, Arctic Paper S.A. acquired 39.66% of shares in Rottneros AB, a company listed on NASDAQ OMX in Stockholm, Sweden. Rottneros AB owns 100% shares in two pulp companies, one purchasing office and one company which produces food packaging. The Rottneros Group employs app. 275 people. The acquisition of Rottneros shares was performed mainly in the form of exchange of Rottneros AB shares to Arctic Paper S.A. shares. Based on the judgment of the Management Board, Arctic Paper S.A. took over the actual control of Rottneros Group on 20th December 2012, the details of the judgment are presented in note 23 to the financial statements. From that day the Arctic Paper S.A. shares have been listed on NASDAQ OMX stock exchange in Stockholm.

Arctic Paper S.A. is a holding company established in April 2008. The Parent Company is entered in the commercial register of the Polish Court Register maintained by the District Court – Nowe Miasto i Wilda in Poznań, 8th Commercial Department of the Polish Court Register, under KRS number 0000306944. The Parent Company holds statistical number REGON 080262255.

Group Profile

The principal business of the Arctic Paper Group is paper production and sales.

Additional businesses of the Group, subsidiary to paper production, cover:

- Generation of electric energy,
- Transmission of electric energy,
- Distribution of electric energy,
- Production of heat,
- Distribution of heat,
- Logistic services.
- Distribution of paper.

Because of the takeover of the control of Rottneros AB Group, since 20th December 2012 the Arctic Paper Group's business covers also production and sales of pulp.

Our production units

As on 31st December 2012, as well as on the day of publishing of the hereby report, the Group has owned the following paper mills:

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

As on 31st December 2012, as well as on the day of publishing of the hereby report, the Group has owned the following pulp mills:

- the pulp mill in Rottneros (Sweden) has the annual production capacities of app. 170.000 tons and mainly produces two types of fibrous mechanical pulp: groundwood and. CTMP;
- the pulp mill in Vallvik (Sweden) has the annual production capacities of app. 240.000 tons and produces two types of. long-fibre sulphate pulp: fully bleached sulphate pulp ang. unbleached sulphate pulp. The most of Vallvik pulp mill production is known as NBSK pulp. The unbleached sulphate pulp produced by the mill is characteristic of high levels of purity.and is used,

among other, in production of power transformers and cable industry.

Our products

The assortment of products of Arctic Paper Group includes:

Uncoated wood-free paper, in particular:

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

Coated wood-free paper, in particular:

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

Uncoated wood-containing paper, in particular:

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

Sulphate pulp:

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

Fibrous mechanical pulp:

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

Capital Group structure

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

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

Changes in the capital structure of the Arctic Paper Group

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

On 1st October 2012, Arctic Paper Munkedals AB purchased 50% of shares in Kalltorp Kraft Handelsbolaget seated in Trolhattan, Sweden, in realization of the strategy of increasing own and the Arctic Paper Group's energy capacities. Kalltorp Kraft deals in energy production in the owned hydro-power plant, whose powers amount to 2.5 MW and the annual production reached 5 GWh. This means a 40% increase of hydro-power plants' powers belonging to Arctic Paper Group. As on 31st December 2012 the shares in Kalltorp Kraft have been recognized as joint arrangement and evaluated in compliance with ownership rights in consolidated financial data.

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 and lack of legal limitations, Arctic Paper S.A. took over the control of Rottneros AB.

The acquisition of Rottneros has the following purposes:

- Synergies in operating activities

The joint activity of companies belonging to Arctic Paper Group and Rottneros Group should lead to material cost synergies in the areas of purchases, logistics and fixed costs. Main synergies in purchases and logistics are expected as the result of increase of pulp deliveries from companies of Rottneros Group to Arctic Paper Group companies. It will reduce, on one hand, the external sales of pulp for Rottneros Group companies and ensure pulp deliveries directly within the Group for the companies of Arctic Paper Group. The geographic proximity of Arctic Paper paper mills and Rottneros pulp mills will ensure competitive advantage, due to decrease of transportation and logistics costs.

- Limiting the risk of pulp prices volatility

Cooperation between companies within the Group will serve as natural hedge for fluctuations of prices that occur in pulp market. The companies of the Rottneros Group will have stable sales ensured, while on the other hand the companies of Arctic Paper Group will have a stable source of purchases of the main raw material for paper production, that is pulp. The Combined Group will be able to limit currency risk to a greater extent, due to lesser exposure to non-European currencies, particularly USD.

- Capital market aspects

The transaction allows Arctic Paper for a greater access to capital market and gives the potential for increase of market capitalization, and ensures access to potential investors.

Changes in basic management principles

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

Shareholder structure

Arctic Paper S.A.'s main shareholder is a Swedish company Trebruk AB (previously Arctic Paper AB) who is the Issuer's parent company. Nemus Holding is a parent company of Trebruk AB.

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

	as at 30.04.2013				as at 28.02.2013			
Shareholder	Number of shares	Share capital [%]	Number of votes	Of total number of votes [%]	Number of shares	Share capital [%]	Number of votes	Of total number of votes [%]
Trebruk AB (previous	41 450 065	59,82%	41 450 065	59,82%	40 860 624	61,51%	40 860 624	61,51%
Nemus Holding AB	5 857 286	8,45%	5 857 286	8,45%	5 857 286	8,82%	5 857 286	8,82%
Others	21 980 432	31,72%	21 980 432	31,72%	19 710 520	29,67%	19 710 520	29,67%
Total	69 287 783	100,00%	69 287 783	100,00%	66 428 430	100,00%	66 428 430	100,00%
Own shares	-	0,00%	-	0,00%	-	0,00%	-	0,00%
Total	**69 287 783**	**100,00%**	**69 287 783**	**100,00%**	**66 428 430**	**100,00%**	**66 428 430**	**100,00%**

Data in the above table are given as on the date of approval of the hereby report and as on the date of publication of the quarterly report for 4Q 2012.

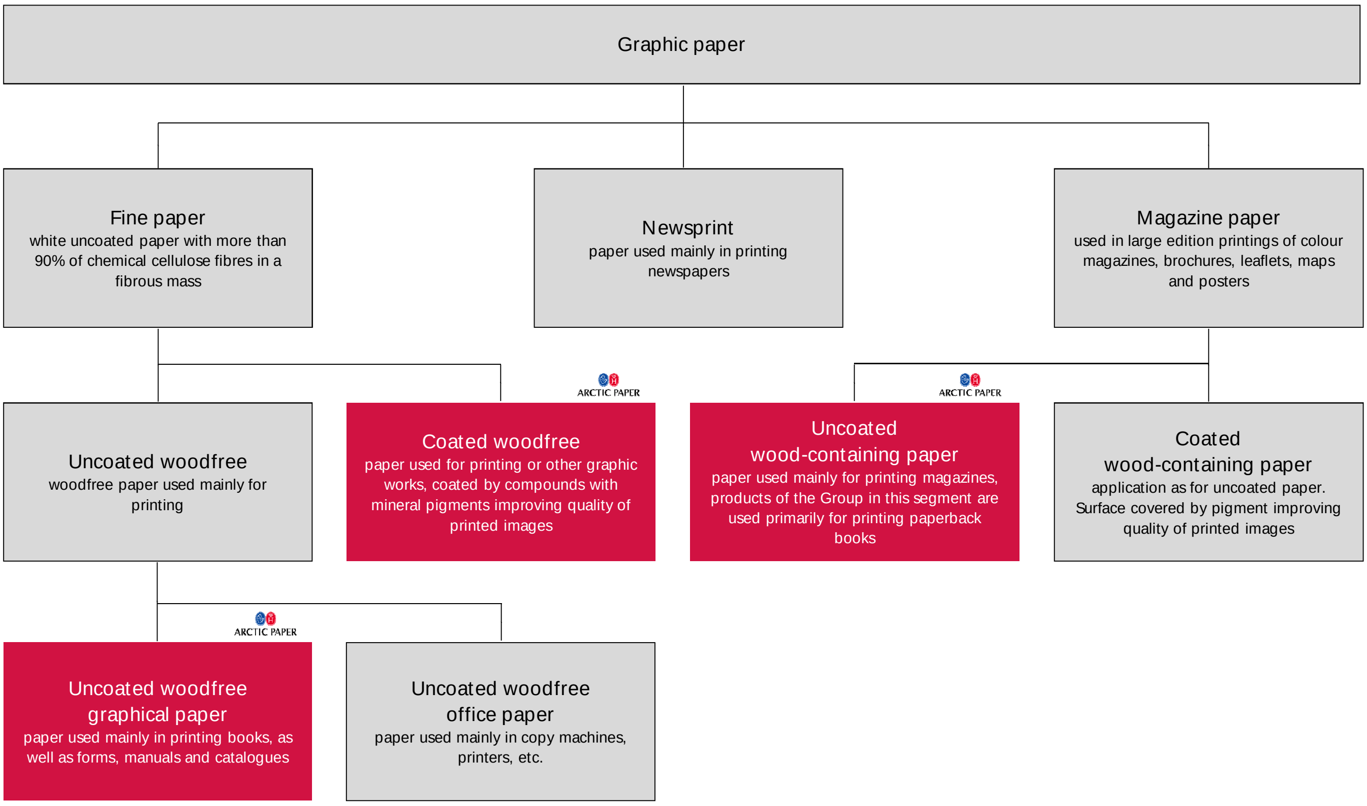
Market environment

Segments of the graphic paper market

Graphic paper market is divided into three main segments:

- fine paper,
- newsprint,
- magazine paper.

The Group conducts its business exclusively in the segment of graphic fine papers. We are not present in newsprint segment and magazine paper segment, as well as xero papers and office papers.



Below presented is the description of partucular graphic papers segments:

- Fine paper is white wood-free paper in which pulp fibers extracted using a chemical method constitute at least 90% of pulp:
  - Uncoated wood-free paper is a wood-free paper for printing. Uncoated wood-free paper can be produced from various types of pulp, with different filler content, and can undergo various finishing enhancing processes, such as surface sizing and calandering. Two main categories of this type of paper are graphic paper (used for example for printing books and catalogues) and office papers (for instance, photocopy paper),
  - Coated wood-free paper is a wood-free paper for printing or other graphic purposes, one-side or two-side coated with mixtures containing mineral pigments, such as china clay, calcium carbonate, etc. The coating process can involve different methods, both online and offline, and can be supplemented by super-calandering to ensure a smooth surface. Coating improves the printing quality of photographs and illustrations;

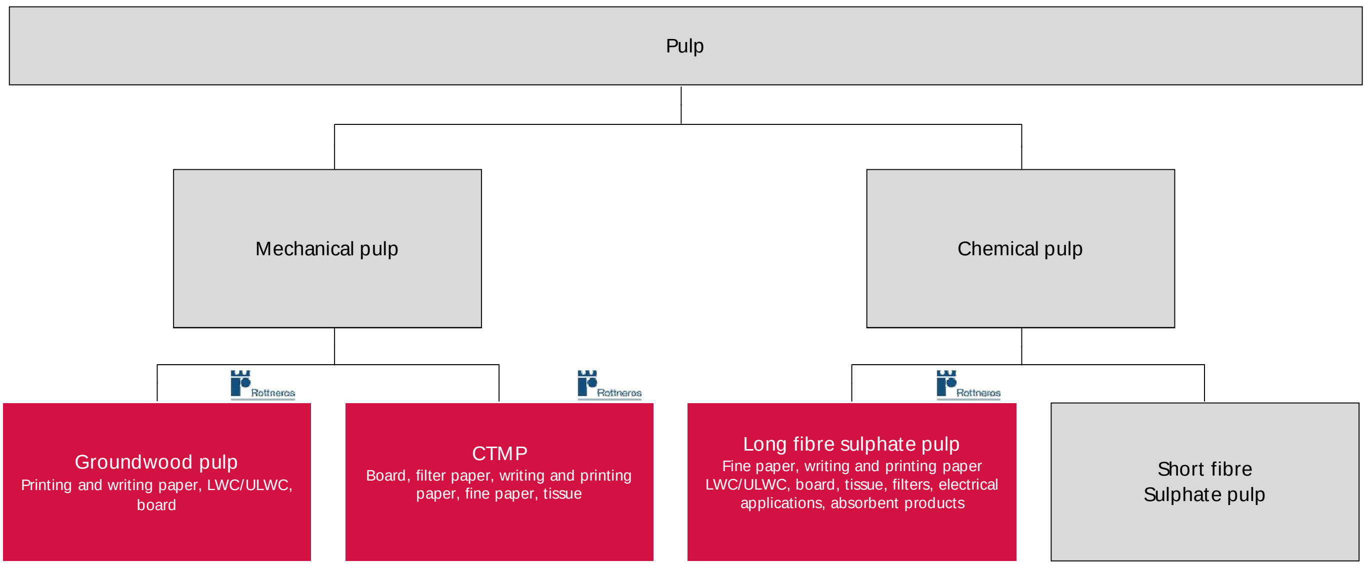
- Newsprint is paper primarily used to print newspapers, produced mainly from mechanical pulp or waste paper pulp, without or with low filler content. Grammage usually ranges from 40 g/m² to 52 g/m². Newsprint is machine-pressed or slightly calandered, white or slightly dyed. This paper is used in reels for letterpress, offset or flexographic printing.

- Magazine paper is wood-containing paper in which pulp fibers extracted using a chemical method constitute less than 90% of pulp, used for printing color magazines with high circulation, brochures, catalogues, flyers, direct mail, maps and posters:

- Uncoated wood-containing paper is a paper from mechanical pulp intended for printing or other graphic purposes. This type of paper is used for printing magazines with the use of rotogravure or offset printing techniques. The Group's products in this segment are usually used for printing paperbacks.
- Coated wood-containing paper is a coated paper produced from pulp produced by mechanical methods. This paper is also known as ground-wood coated paper. Its use is similar to the use of uncoated wood-containing paper.

Additional information about the market environment is provided further on in this report in the section Information on market tendencies.

Segments of pulp market



Since December 2012, together with acquisition of Rottneros AB, our assortment of products widened by:

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

Development directions and strategy

The Group's main strategies' aims include:

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

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

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

Maximization of production capacity and distribution

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

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

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Sales structure

In 2012 the sales structure divided to main production lines presented as follows:

Sales structure by products

PLN thousands	2012	share %	2011	share %
Amber	319	40%	301	39%
G-Print	165	21%	169	22%
Munken	106	13%	109	14%
Pamo	76	10%	66	9%
Arctic	89	11%	80	10%
L-Print	26	3%	25	3%
AP Tech	8	1%	12	2%
Other	0	0%	2	0%
Total	**789**	**100%**	**765**	**100%**

Sales revenues structure by products

PLN thousands	2012	share %	2011	share %
Amber	1 004 801	39%	947 107	37%
G-Print	534 018	21%	549 091	22%
Munken	442 149	17%	446 637	18%
Arctic	315 762	12%	287 644	11%
Pamo	215 174	8%	187 159	7%
L-Print	61 462	2%	62 577	2%
AP Tech	26 328	1%	36 351	1%
Other	1 008	0%	10 623	0%
Total	**2 600 700**	**100%**	**2 527 189**	**100%**

In 2012 there were no significant changes in the Group's sales structure by products or in the Group's income structure by products.

Output markets

In 2012 the market share of sales outside Poland in metric tonnes was 89% and did not change compared to 2011. This year, as in previous years, sales focused on European markets. The share of those markets in total sales volume was app. 99% in 2012 and similar to 2011.

The geographical structure of sales revenues from the most important sales markets in 2012, as compared to 2011, is shown in note 10.1 to the consolidated financial statements.

Customers

Our customer base includes both direct and indirect customers. Direct customers purchase the Group's products in our paper mills. Indirect customers do not purchase the Group's products themselves but use the agency services of advertising companies or paper distributors. They are, however, an important target group for Arctic Paper's advertising campaigns since it is these indirect customers that recommend or request direct customers use the Group's products. Direct and indirect customer groups include:

- printing houses – direct customers that purchase paper produced by the Group directly from the paper mills;
- distributors – direct customers that purchase paper produced by the Group in order to resell it;
- publishing houses – direct and indirect customers that purchase paper produced by the Group directly from the Group in order to use it in their publishing activity and order or recommend the use of our paper in printing houses in which they order printing of books or other publishings;
- advertising agencies – mainly indirect customers that do not purchase our products directly yet play an important role in ordering and recommending that printing houses use our products, particularly

fine paper to print company annual reports, brochures, flyers and packaging;

- end users – direct and indirect customers that purchase our products directly and play an important role in recommending the use of our products in printing houses in which they have commissioned the printing.

The main customers of pulp mills' products are printing paper and paper hygienic materials producers, and cardboard, as well as electric devices and filters. Our pulp mills supply the entities who do not have the possibility to produce pulp on their own as well as the customers producing the particular type of pulp and seeking for a supplier of other types of pulp.

In our opinion, we do not depend to a significant extent on any specific customer. Based on the Group's consolidated revenues for 2012, the share of our largest customer was not higher than 10% of total sales revenues.

Suppliers

The Group uses the following goods and services in its business:

- pulp for paper mills,
- wood for pulp mills
- chemicals,
- electricity,
- transportation services.

Pulp

The basic raw material used by the Group to produce paper is pulp. Except for the paper mill in Mochenwangen, all the Group's paper mills are so-called non-integrated producers, i.e. they purchase all their pulp from external producers. The paper mill in Mochenwangen is partly integrated and has its own pulp mill with production capacity of approximately 62,100 metric tonnes per year, which accounts for about 62% of the paper mill's total requirements. The Group purchases pulp on the basis of renewable annual contracts executed under framework agreements or in one-off transactions.

In connection with acquisition of Rottneros Group in December 2012, part of pulp is going to be delivered to paper mills from pulp mills of Rottneros. Tis will result in lesser exposure of both paper and pulp mills to market pulp prices fluctuations.

Wood

The main raw material for pulp production in pulp mills is wood. Rottneros Group has its purchases department who place orders in Swedish sawmills as well as a subsidiary - SIA Rottneros Baltic, who purchases wood for the pulp mill in Vallvik in Eastern Europe, particularly in Latvia and Russia.

Chemicals

The basic chemicals used in paper production are fillers (mainly calcium carbonate), starch (corn, potato, tapioca), optical bleaching agents and other chemicals. Chemicals are also used for pulp production, particularly NBSK.

Electric power

The Group uses heat and power in the production process. The Kostrzyn paper mill's total demand for heat and power is satisfied from the mill's combined heat and power plant fuelled by natural gas. Gas is supplied under an agreement with a Polish supplier (PGNiG) at prices adjusted annually to reflect changes in the industry indexes published by the Main Statistics Office (GUS); however, the index formula may be renegotiated if the changes exceed the level set out in the agreement. The gas is mined from gas deposits near Kostrzyn nad Odrą and transmitted to the paper mill through local gas pipes.

In the analyzed period, electricity for the paper mill in Munkedal was mainly purchased from external suppliers. The Group also purchased fuel oil in order to satisfy part of the Group's demand for heat.

The paper mill in Mochenwangen satisfies the total demand for heat and about a half the electricity demand by using mineral coal. The remaining part of the demand for electricity is satisfied by purchasing from external suppliers.

The energy source In Arctic Paper Grycksbo AB paper mill is biomass and electricity partly purchased from outside suppliers.

Rottneros mill satisfies fully its demand for electricity with purchases from external suppliers.

Vallvik mill satisfies app. 75% of its electricity demand with their own powers. The rest demand for electricity is satisfied with purchases from external suppliers.

Transportation services

The Group does not have its own trucks and uses professional outsourcing services to distribute products from paper mills and warehouses to its customers.

The Group entities are not dependent on their suppliers. Based on the Group's consolidated revenues for 2012, the share of the largest supplier was not more than 10% of total sales revenues.

Business seasonality and cycles

Demand for the Group's products fluctuates slightly during the year. Lower demand for paper is reported each year during summer holidays and in Christmas season when a number of printing houses, particularly those in Western Europe, are closed for business. The changes in the demand for paper are not significant compared to the demand in the rest of year.

R&D

R&D in the Arctic Paper Group is primarily intended to advance and innovate production processes and to improve products' quality and increase product assortment. In the period covered by this report, paper mills carried out R&D work to streamline the production process, particularly by shortening machine idle time, and to improve paper quality along with expanding the assortment range as well as the increase of paper qualities.

The material purpose of R&D proceedings in 2012 was the development of new products.

Natural environment

Our Group observes the environmental standards laid down in numerous legal regulations and administrative decisions. These standards are intended to protect soil, air and water against pollution, noise and the impact of electromagnetic fields. We describe below how the environmental regulations affect the operations of our paper mills.

Kostrzyn Paper Mill

Based on the decision of the Lubuskie Voivode of 8th December 2005, Kostrzyn obtained an integrated permit for a paper production installation combined with a fuel combustion installation located in the mill in Kostrzyn nad Odrą. For Kostrzyn, the requirement to obtain this permit was due to the mill's paper production capacity of over 20 metric tonnes a day. In order to meet the requirements set out in the permit and other environmental waste management standards, Kostrzyn executed a number of agreements for industrial waste collection and utilization.

In May 2008 a new sewage treatment plant was opened in the paper mill in Kostrzyn nad Odrą. Based on the decision of the Lubuskie Voivode of 14th August 2007, Kostrzyn obtained a water permit to discharge rainwater and run-off water and to build a water structure in the form of a dock discharging waters to the Warta River (permit valid until 1st August 2017).

AP Kostrzyn participates in the EU Greenhouse Gas Emissions Trading Scheme (EU Emission Allowances Trading Scheme) based on a permit granted in the decision of the Lubuskie Voivode of 17th February 2006 (amended by the decisions of 28th March 2006, 1st June 2006, 13th December 2006, 4th May 2007 and 6th January 2009) for the paper production installation with production capacity of over 20 metric tonnes a day located in the mill in Kostrzyn nad Odrą. The permit was granted until 31st December 2015. Under the permit, Kostrzyn has to monitor carbon dioxide emissions and submit annual emission reports.

In view of the environmental protection policy, Kostrzyn made significant investments, including an investment in a new gas-fuelled heat and power plant which was opened in 2007 (first stage) and 2009 (second stage). The paper mill in Kostrzyn nad Odrą holds environmental compliance certificates: OHSAS 18001, ISO 14001, ISO 9001 and EMAS. Moreover, the paper produced in this mill is FSC and PEFC certified. These certificates are granted to certify that the pulp used to produce paper comes from forests managed in a balanced manner. The FSC certificate (Forest Stewardship Council) is one of the most important certificates granted to paper companies. The first FSC certificate for the paper produced by the Kostrzyn mill was granted in 2006. At present, the Amber paper from the paper mill in Kostrzyn nad Odrą is produced from FSC certified pulp – 85%, and from PEFC (Programme for the

Endorsement of Forest Certification) certified pulp - 15%.

Munkedals Paper Mill

The Munkedals business complies with environmental management systems EMAS and ISO 14001. EMAS (Eco- Management and Audit Scheme) is a voluntary system applied in the EU to distinguish businesses that constantly improve environmental protection levels as part of their operations. Businesses registered in EMAS observe environmental regulations, maintain an environmental management system and inform the public about environmental protection as part of the activity carried out in the form of an independent audited statement on environmental protection compliance. The ISO (International Organization for Standardization) has developed various standards, among them ISO 14000, some of the most recognized standards for environmental protection (i.e. actions taken by business to (i) limit their negative impact on the environment; and (ii) ensure constant improvement of environmental protection levels).

Some of the real properties owned by Munkedals are located in Natura 2000 areas. These Natura 2000 areas are wild nature reserves established on the basis of a decision issued by the Munkedal District Council (Sweden) in 2005 Natura 2000 areas were established to preserve the most endangered natural habitats and fauna and flora in Europe. The scope of protection and the restriction on business activities are laid down in Council Directive 92/43/EEC on the conservation of natural habitats and of wild fauna and flora (the Habitats Directive) and Council Directive 79/409/EEC of 2nd April 1979 on the conservation of wild birds (the Birds Directive) and relevant domestic regulations. The level of habitat and bird conservation in the Natura 2000 areas depends on the species and/or habitats in those areas under conservation.

Mochenwangen Paper Mill

Mochenwangen obtained a permit to produce a daily maximum of approximately 475 metric tonnes gross of paper.

Wood used to produce book and specialty papers obtained certificates of FSC and PEFC. The FSC certificate is issued after independent agencies have assessed whether forest production complies with international standards of balanced management, environmental and social welfare protection.

Mochenwangen participates in the EU Emission Allowances Trading Scheme when producing paper and generating power in coal-fuelled power plants. For the years 2008-2012 Mochenwangen was allocated free of charge 118,991 emission allowances per year, which corresponds to the average number of allowances per year required by Mochenwangen over that period. Mochenwangen has to monitor carbon dioxide emissions and submit annual emission reports to the German Emission Allowances Trading Authority.

Grycksbo Paper Mill

Paper production In the Arctic Paper AB Grycksbo is performed In accordance with the environmental permit in March 2007. The permit is issued by the Swedish Environmental Court and allows production up to 310,000 tonnes per year. In addition, the mill has also a permit to emit carbon dioxide released by authorities of the regional province of Dalarna.

Since 1997, Arctic Paper Grycksbo AB has had certificate ISO 14001 and our environmental activities are reported in accordance with EMAS. The primary objective of EMAS is to encourage member organizations to improve environmental protection in a systematic and consistent way, even in excess of legislative requirements. This is done by setting up a program consisting of specific action programs and evaluate all significant environmental impacts associated with the business. Companies are required to prepare annual reports on the results of their pro-environmental activities. Independent auditors ensure that firms keep their commitments.

Arctic Paper AB Grycksbo takes part In the European Union Emissions Trading Scheme for greenhouse gas pollutant, although the 2010 is a milestone for the factory because it was the first year in which reported zero carbon dioxide emissions from fossil fuels. This was possible by a substantial reconstruction of the boiler in conjunction with investment in equipment to handle biofuels, electric exhaust particulate filters and conversion turbines to produce electricity from renewable sources.

In numbers, a shift to biofuels is an annual reduction of carbon dioxide emissions from fossil fuels by about 70,000 tonnes. Rebuilt turbo allows to meet 20% of our electricity needs through renewable sources of energy, which is produced by the mill itself, which in turn leads to an annual reduction in carbon dioxide emissions by a further 4,000 tonnes.

The mill has implemented energy management system in accordance with SS 62 77 50 (Swedish standard for energy management) and participates in PFE (Swedish Energy Efficiency Programme). In 2012, the company introduced ISO 50001 standard (Energy Management System). Our products are reviewed under the „Chain of Custody" under FSC (Forest Stewardship Council) and in accordance with PEFC (Programme for the Support of the Principles for Sustainable Forest Management).

Pulp mills

Pulp mills mind that the wood used for pulp production comes from reliable and certified sources. Pulp is marked with "FSC" and "PEFC" symbols, representing two systems functioning in Europe and guarding the sources of pulp to be compliant with law principles.

Summary of consolidated financial results

Consolidated income statement

Selected items of the consolidated income statement

PLN thousands	2012	2011	Change2012/2011 - %
Revenues	**2 600 700**	**2 527 189**	**2,9**
including:			
Sales of paper	*2 600 700*	*2 527 189*	*2,9*
Sales of services	*0*	*0*	*-*
Gross profit on sales	154 237	353 943	(56,4)
Gross profit on sales margin %	*5,93*	*14,01*	*(12,1) p.p.*
Sales costs	(307 759)	(294 405)	4,5
Administrative expenses	(86 534)	(71 509)	21,0
Other operating income	274 504	72 578	278,2
Other operating cost	(54 744)	(57 492)	(4,8)
EBIT	**(20 296)**	**3 115**	**(751,5)**
EBIT margin %	*(0,78)*	*0,12*	*(6,9) p.p.*
EBITDA	**351 864**	**141 762**	**148,2**
EBITDA margin %	*13,53*	*5,61*	*(7,1) p.p.*
Financial income	1 484	42 682	(96,5)
Financial cost	(41 394)	(45 668)	(9,4)
EBT	**(60 206)**	**128**	**(47 007,7)**
Corporate income tax	83 618	11 937	600,5
Net profit	**23 412**	**12 066**	**94,0**
Net profit margin %	*0,90*	*0,48*	*(8,3) p.p.*
Profit/(Loss) attributable to equity holders of the parent	(102 640)	12 066	(950,7)
Earnings per share (in PLN) attributable to equity holders of the parent	(1,84)	0,22	n.a.

Revenue

In 2012 consolidated sales revenue amounted to PLN 2,600,700 thousand compared to PLN 2,527,189 thousand in the previous year. Consolidated sales revenue was higher by 2.9% compared to sales realized in 2011.

The sales volume in 2012 amounted to 789 thousand tonnes and was higher by 24 thousand tonnes than in the previous year. This change represents an increase of sales volume by 3.1%.

Cost of sales, selling and distribution expenses and administrative expenses

Profit on sales in 2012 was 56.4% lower than in the previous year. The sales profit margin in the current year stood at 5.93% compared to 14.01% (-8.1 p.p.) in the previous year.

The main reasons for the derease of profit on sales in 2012, compared to the previous year, were impairment allowances in AP Mochenwangen and AP Grycksbo recognized in cost of sales for the total amount of PLN 247,913 thousand. Profit on sales less of impairment allowances would amount to PLN 402,150 thousand.

In 2012 selling expenses amounted to PLN 307,759 thousand which represents an increase by 4,5% compared to costs incurred in 2011. The main position in selling expenses is transportation costs, whose changes directly affect selling expenses.

In 2012 administrative expenses amounted to PLN 86,354 thousand compared to PLN 71,509 thousand in 2011, which represents an increase by 21.0%. The main reason for increase of these expenses in 2012 was the costs incurred in connection with entering by AP S.A. into NASDAQ OMX stock exchange in Stockholm and with acquisition of Rottneros AB Group.

Other operating income and expenses

Other operating income in 2012 amounted to PLN 274,504 tys. PLN which means an increase compared to the same period of previous year by PLN 201,926 thousand.

The increase of other operating income results from recognition of profit on occasional purchase of Rottneros AB shares in the amount of PLN 204,203 thousand. Other operating income comprise mostly heat and electricity sales income in AP Kostrzyn as well as income from sales of other materials.

Other operating expenses in 2012 amounted to PLN 57,744 thousand compared to PLN 57,492 thousand in 2011. The major share in other operating expenses was the cost of sales of energy and other materials.

Financial income and cost

In 2012 financial income amounted to PLN 1,484 thousand and were lower comparing to financial income recorded in 2011 by PLN 41,198 thousand. The significantly lower financial income in 2012 was caused mostly by the excess of negative exchange differences over positive foreign exchange differences recognized net in financial cost. Positive exchange differences amounted in 2011 to PLN 40,944 thousand.

Financial cost in 2012 amounted to PLN 41,394 thousand PLN compared to PLN 45,668 thousand in 2011. This decrease in financial cost in 2012 results from lesser interest costs on loans and borrowings, bonds and other financial instruments.

Income tax

Income tax in 2012 amounted to PLN +83,618 thousand while in 2011 it amounted to PLN +11,937 thousand.

Positive effect of the income tax resulted from the recognition of deferred income tax asset on temporary differences and tax losses workable in future.

Profitability analysis

EBITDA in 2012 amounted to PLN 351,864 thousand while in 2011 it amounted to PLN 141,762 thousand. The increase of EBITDA in 2012 resulted mainly from above described profit on occasional purchase of Rottneros AB shares. In the reporting period EBITDA margin amounted to 13.53% compared to 5.61% in 2011.

Loss on operating activities in 2012 amounted to PLN 20,296 thousand compared to profit of PLN 3,115 thousand in the previous year. Operating profit margin in 2012 amounted to -0.78%, while in 2011 it amounted to +0.12%. The loss on operating activities in 2012 resulted from aforementioned impairment allowances.

Net profit in 2012 amounted to PLN 23,412 thousand compared to PLN 12,066 thousand in 2011. Net profit margin amounted to 0.90% compared to 0.48% in 2011.

Profitability analysis

PLN thousands	2012	2011	Change2012/2011 - %
Gross profit on sales	154 237	353 943	(56,4)
Gross profit on sales margin %	*5,93*	*14,01*	*(8,1) p.p.*
EBITDA	**351 864**	**141 762**	**148,2**
EBITDA margin %	*13,53*	*5,61*	*7,9 p.p.*
EBIT	**(20 296)**	**3 115**	**(751,5)**
EBIT margin %	*(0,78)*	*0,12*	*(0,9) p.p.*
Net profit	**23 412**	**12 066**	**94,0**
Net profit margin %	*0,90*	*0,48*	*0,4 p.p.*
ROE - Return on equity (%)	2,8	1,8	1,0 p.p.
ROA - Return on assets (%)	1,1	0,6	0,5 p.p.

In 2012 return on equity amounted to 2.8%, while in 2011 it reached a level of 1.8%. In the same period return on assets rose from 0.6% in 2011 to 1.1% in 2012.

Report on financial situation

Selected items of the consolidated balance sheet

PLN thousands	31/12/2012	31/12/2011	Change 31/12/2012 -31/12/2011
Non-current assets	1 068 507	1 132 429	(63 921)
Inventory	411 716	315 142	96 574
Receivables, therein:	342 155	300 262	41 894
Trade and other receivables	*329 888*	*294 452*	*35 436*
Other current assets	18 320	10 400	7 920
Cash and equivalents	202 710	166 299	36 411
Total assets	**2 043 409**	**1 924 531**	**118 878**
Equity	839 131	675 561	163 570
Short-term liabilities	785 341	612 273	173 068
therein:			
Trade and other payables	*410 861*	*403 057*	*7 804*
Interest-bearing loans and borrowings	*197 986*	*67 242*	*130 744*
Other financial liabilities	*51 541*	*60 383*	*(8 842)*
Long-term liabilities	418 937	636 697	(217 760)
therein:			
Interest-bearing loans and borrowings	*198 519*	*317 262*	*(118 743)*
Other financial liabilities	*48 350*	*44 277*	*4 073*
Total equity and liabilities	**2 043 409**	**1 924 531**	**118 878**

As on 31st December 2012 total assets amounted to PLN 2,043,409 thousand compared to PLN 1,924,531 thousand at the end of 2011.

Non-current assets

As at the end of December 2012 non-current assets amounted to PLN 1,068,507 thousand and represented 52.3% of total assets, while as at the end of 2011 it amounted to PLN 1,132,429 thousand (58.8% of total assets).

The value of acquired non-current assets of Rottneros Group partly balanced impairment allowances. Decrease of non-current assets was caused mostly by amortization allowances exceeding investment purchases and impairment allowances in the part which exceeded the value of non-current assets of Rottneros Group.

Current assets

At the end of December 2012 current assets amounted to PLN 974,902 thousand compared to PLN 792,102 thousand as at the end of December 2011. Within the position of current assets there was an increase in inventories by PLN 96,574 thousand (in which PLN 114,168 thousand of Rottneros Group acquired inventories), increase in receivables by PLN 41,894 thousand (in which PLN 81,364 thousand of Rottneros Group acquired receivables), increase in other current assets by PLN 7,920 thousand (in which PLN 12,844 thousand of Rottneros Group acquired other assets) and increase in cash and cash equivalents by PLN 36,411 thousand (in which PLN 12,368 thousand of Rottneros Group acquired cash and cash equivalents). As at the end of December 2012 current assets represented 47.7% of total assets (41.2% at the end of 2011), therein inventories 20.2% (16.3% at the end of 2011), receivables 16.7% (15.6% at the end of 2011), other current assets 0.9% (0.5% at the end of 2011) and cash and cash equivalents 9.9% (8.6% at the end of 2011).

Equity

As at the end of 2012 equity amounted to PLN 839,131 thousand compared to PLN 675,561 thousand as at the end of 2011. As at the end of 2012, equity represented 41.1% of the total equity and liabilities (35.0% as on 31st December 2011).

The increase of equity was mainly due to net proft of PLN 23,412 thousand, issue of series F shares in the amount of PLN 64,983 thousand and the value of non-controlling shares in net assets of Rottneros Group in the amount of PLN 96,790 thousand. Payment of dividend of PLN 9,973 thousand incluenced the decrease of equity.

Current liabilities

As at the end of December 2012 current liabilities amounted to PLN 785,341 thousand (38.4% of total equity and liabilities) compared to PLN 612,273 thousand (31.8% of total equity and liabilities) at the end of 2011. In 2012 there was an increase in current liabilities by PLN 173,068 thousand (in which PLN 136,050 of acquired Rottneros Group current liabilities). The rest of the increase in current liabilities was due to reclassification of loans and bonds to current liabilities.

Non-current liabilities

As at the end of December 2012 long-term liabilities amounted to PLN 418,937 thousand (20.5% of total equity and liabilities) compared to PLN 636,697 thousand at the end of 2011 (33.1% of total equity and liabilities). In the analyzed period, there was a decrease of long-term liabilities by PLN 217,760 thousand which resulted mainly from partial repayment of long-term bonds and the reclassification of the other part to current liabilities.

Debt analysis

Debt analysis

	2012	2011	Change2012/2011 - %
Debt-to-equity ratio (%)	143,5	184,9	(41,4) p.p.
Equity-to-non-current assets ratio (%)	78,5	59,7	18,9 p.p.
Interest-bearing debt-to-equity ratio (%)	47,3	56,9	(9,7) p.p.
Net borrowings-to-EBITDA (times)	0,83x	2,26x	(1,42)
EBITDA-to-interest (times)	10,4x	3,5x	7,0

As at the end of December 2012 debt to equity ratio was 143.5% and was by 41.4 p.p. lower than at the end of December 2011. The decrease of this index resulted mainly from the increase of equity due to issue of new shares and the acquisition of Rottneros Group

Equity to non-current assets ratio at the end of 2012 stood at 78.5% and was higher by 18.9 p.p than at the end of December 2011, mainly due to increase of equity and simultaneous decrease of non-current assets.

The interest-bearing debt to equity ratio at the end of 2012 stood at 47.3% and was by 9.7 p.p. lower than at the end of December 2011, mainly due to increase of equity.

Net borrowings to EBITDA ratio for the last 12 months amounted to 0.83x compared to 2.26x for 2011. At the same time, EBITDA to interest ratio for the last 12 months increased from 3.5x for 2011 to 10.4x in 2012. Changes of both indexes were influenced by relatively high EBITDA, mainly due to profit on occasional purchase of Rottneros.

Liquidity analysis

Liquidity ratios

	2012	2011	Change2012/2011 - %
Current liquidity ratio	**1,2x**	**1,3x**	**(0,1)**
Quick liquidity ratio	**0,7x**	**0,8x**	**(0,1)**
Acid test ratio (cash liquidity)	0,3x	0,3x	(0,0)
Inventory turnover DSI (days)	60,6	52,2	8,4
Receivables turnover DSO (days)	45,7	41,9	3,7
Liabilities turnover DPO (days)	60,5	66,8	(6,3)
Operating cycle (days)	106,2	94,1	12,1
Cash conversion cycle (days)	**45,8**	**27,4**	**18,4**

At the end of December 2012 current ratio stood at 1.2x and barely changed compared to the end of 2011. The quick ratio reached 0.7x as at the end of December 2012 and was lower by 0.1x compared to the end of the previous year. Cash conversion cycle for 2012 was longer compared to 2011 by 18.4 days, mostly because of the inventories, receivables and liabilities of Rottneros Group.

Consolidated cash flow statement

Selected items of the consolidated cash flow

PLN thousands	2012	2011	Change2012/2011 - %
Cash flow from operations	167 054	162 247	3,0
including:			
EBT	*(60 206)*	*128*	*(47 007,7)*
Depreciation and impairment of non-current assets	*372 160*	*138 647*	*168,4*
∆ in working capital	*27 543*	*(1 721)*	*(1 700,0)*
Other corrections	*(172 443)*	*25 193*	*(784,5)*
Cash flow investing activities	(54 967)	(56 375)	(2,5)
Cash flow financing activities	(73 391)	(121 615)	(39,7)
Total Cash Flow	**38 696**	**(15 743)**	**(345,8)**

Cash flows from operating activities

In 2012 net cash flows from operating activities amounted to PLN 167,054 thousand compared to PLN 162,247 thousand in 2011. Higher cash flows from operating activities in 2012 resulted primarily from the changes within working capital.

Cash flow from investment activities

In 2012 cash flows from investment activities amounted to PLN -54,967 thousand compared to PLN -54,375 thousand in 2011. Because purchasing of Rottneros AB shares occurred mostly thorugh exchange of Rottneros AB shares to AP S.A. shares, it did not have a material impact on cash flows.

Cash flow from financial activities

In 2012 cash flows from financial activities amounted to PLN -73,391 thousand compared to PLN -121,615 thousand in 2011. In twelve months of 2012 cash flows from financial activities related mostly to the partial repayment of bonds and to refinancing of a loan in Pekao S.A. bank.

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

Key factors affecting the performance results

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

- macroeconomic and other economic factors;
- paper prices;
- prices of pulp for paper mills and of wood for pulp mills as well as energy prices;
- currency exchange rates fluctuations.

Macroeconomic and other economic factors

We believe that a number of macro-economic and other economic factors have a material impact on the demand for high-quality paper, and they may also influence the demand for the Group products and our operating results. Those factors include:

- GDP growth;
- net income – as a measure of income and prosperity of the population;
- production capacities – oversupply lingering in the segment of high quality paper and decline of margins on paper sales;
- paper consumption;
- technological development.

Paper prices

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

Costs of raw materials, energy and transportation

The main elements of the Group's operating expenses are costs of raw materials, energy and transportation.

The costs of raw materials include mainly the costs of pulp for paper mills, timber for paper and pulp mills and chemical agents used for paper and pulp production. Our energy costs, historically, include mostly costs of electricity, natural gas, coal and fuel oil. Costs of transportation include the costs of transportation services rendered to the Group by external service providers only.

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

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

Currency exchange fluctuations

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

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

Unusual developments and factors

On 20th December 2012 Arctic Paper S.A. took the control over Rottneros AB Group. The take over was performed mostly through exchange of Rottneros AB shares to Arctic Paper S.A. shares, listed on NASDAQ OMX stock exchange in Stockholm, Sweden. Please see note 23 in the consolidated financial statements.

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

In connection with acquisition and settlement of purchase of shares of Rottneros AB Group, AP Group recognized profit on occasional purchase in the amount of PLN 204,203 thousand reported as other operating income (Note 23 in the consolidated financial statements).

The purchase of 50% shares in Kalltorp and liquidation of Grycksbo Deutschland GmbH sales office did not have a material impact on the financial result of Arctic Paper Group.

Other material information

In the current report no 1/2012 the Management Board of Arctic Paper S.A. informed that on 16th January 2012 the final repayment date of the total loan (with interest) granted by Arctic Paper S.A. to a subsidiary Arctic Paper Investment AB was prolonged until 31st December 2016. The loan is denominated in PLN which results in exchange differences on Borrower's side. In compliance with IAS 21, since 16th January 2012 this loan is treated as an investment of Arctic Paper S.A. in subsidiary. As a result, exchange differences on total loan with interest are recognized in other comprehensive income, that is in other reserve capitals. The negative exchange differences for the period of 16th January 2012 until 31st December 2012 amounted to PLN 11,684 thousand.

In 2012, the Company Arctic Paper S.A. performed several increases of supplementary capital in Arctic Paper Investment GmbH in the total amount of EUR 6,465 thousand. The value of investment in Arctic Paper Investment GmbH increased as a result of these transactions by PLN 27,921 thousand to the amount of PLN 54,901 thousand.

On 1st October 2012, Arctic Paper Munkedals AB purchased 50% of shares in Kalltorp Kraft Handelsbolaget seated in Trolhättan, Sweden, in realization of the strategy of increasing own energy powers of Arctic Paper Group. Kalltorp Kratf deals in electricity production in its own hydro-power plant whose power amounts to 2.5 MW and the annual energy production reaches 5 GWh. It means that the powers of hydro-power plants belonging to Arctic Paper Group increased by 40%.

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 of the company by 0.2%.

Factors influencing Arctic Paper Group development

Information on market tendencies

Supplies, demand and capacity

In 2012 supplies of high quality paper to the European market were approximately 3.7% lower compared to 2011. During this period, supplies in the segment of uncoated wood-free paper (UWF) were 3.7% lower, while those in the segment of coated wood-free paper (CWF) 3.6% lower.

Sales volume of Arctic Paper Group in 2012 was 3.1% higher than in 2011. In 2012, levels of orders received stayed similar to 2011.

Data source: Cepifine, RISI, an analysis of Arctic Paper

Paper prices

In 2012 fine paper prices in Europe experienced decrease compared to the prices as at the end of 2011. The decrease of average prices amounted for UWF papers 2.7% and 3.8% for CWF.

Between January and December 2012 average UWF prices declared by producers for the selected markets of Germany, France, Spain, Italy and United Kingdom, expressed in EUR and GBP, slightly decreased within the range of -2.6% to -2.8%. In the same period, the average CWF prices decreased within the range of -4.0% to -3.8%.

Prices invoiced by Arctic Paper in EUR of comparable products in the segment of uncoated wood-free paper changed at the end of 2012 by from +0.3% to +0.8%, and in the segment of coated wood-free paper by from -3.7% to +0.1%.

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

Pulp prices

At the end of 2012 pulp prices reached a level of USD 810 per ton for NBSK and USD 775 per ton for BHKP. The average pulp price in 2012 was lower by 15.2% for NBSK and by 7.4% for BHKP, compared to the previous year.

The average cost of pulp per ton as calculated for the AP Group, expressed in PLN, in 2012 decreased by 3.2% compared to 2011. The share of pulp costs in sales costs in 2012 amounted to 45% and was lower than in 2011 (47%).

Arctic Paper Group uses the pulp in the production process according to the following structure: BHKP 65%, NBSK 20% and other 15%.

Source: www.foex.fi, Arctic Paper analysis

Because of acquisition of Rottneros Group, a part of pulp supplies for our paper mills will be realized from our pulp mills. It will cause a decrease of sensitivity of pulp mills' revenues and paper mills costs to market pulp prices fluctuations.

Currency exchange rates

The EUR/PLN exchange rate at the end of 2012 amounted to 4.0882 and was lower by 7.4% than at the end of 2011. The average exchange rate EUR/PLN in 2012 was higher by 1.6% compared to 2011 and amounted to 4.1852 compared to 4.1196 in 2011.

At the end of 2012 EUR/SEK rate decreased from 8.9228 as at the end of 2011 to 8.5941 (-3.7%) at the end of 2012. For this pairing, the average rate in 2012 was lower by as much as 3.5% than in 2011.

At the end of 2012 USD/PLN exchange rate was lower by 9.3% than at the end of the previous year and amounted to 3.0996. In 2012 the average USD/PLN rate amounted to 3.2581 compared to 2.9636 in the previous year which represents a depreciation of PLN by 9.9%.

At the end of 2012 USD/SEK rate amounted to 6.5159 and was 5.6% lower than as at the end of 2011. The average exchange rate in 2012 amounted to 6.7754 and was higher by 4.5% compared to the average exchange rate from he previous year.

At the end of December 2012 EUR/USD rate amounted to 1.3189 compared to 1.2924 (+2.1%) at the end of December 2011. In 2012, the average exchange rate equaled 1.2855 compared to 1,3929 (-7.7%) in the previous year.

Compared to 2011, EUR/PLN exchange rate increased levels of sales revenues in Arctic Paper Kostrzyn. Appreciating SEK towards EUR had a negative impact on the levels of revenues invoiced in Swedish mills (AP Munkedals and AP Grycksbo).

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

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

- The levels of high quality paper prices, in particular, being able to keep the prices of Arctic Paper products at the current levels in local currencies, in reference to diminishing deliveries/demand in Europe, growing imbalance of supply and demand, and in connection with exchange rates fluctuations may have an influence on financial results.
- Pricing of raw materials, including pulp for paper mills and electricity; in particular, positive impact on paper mills' financial results may be due to decreasing pulp prices. On the other hand, high pulp prices may positively influence financial results of pulp mills. A material impact on results achieved by the Group may be caused by fluctuations of electricity prices in Sweden. In future, such market changes may translate to changes of sales profitability in paper mills of AP Munkedals and AP Grycksbo as well as in pulp mills of Rottneros and Vallvik.
- Currency rates fluctuations; in particular, the strengthening of PLN and SEK in relation to EUR and GBP, the strengthening of PLN in relation to SEK, and depreciation of PLN and SEK in relation to USD, can have an adverse effect on the financial

results, while for the pulp mills appreciation of USD towards SEK may have a positive impact.

Risk factors

Significant changes in risk factors

In the fourth quarter of 2012 there were no significant changes regarding risk factors. The acquisition of Rottneros Group did not increase the number of risk factors but only changed the influence directions of some of them, particularly of pulp prices changes and USD/SEK exchange rate fluctuations. The influence of risk factors on Arctic Paper Group, having taken Rottneros Group into consideration, has been described in detail below. Moreover, the Management Board of Arctic Paper concluded that the risk of taxation of capital contribution in Arctic Paper Munkedals AB, described also in the annual report for 2011, is minor and therefore it was cancelled from the hereby list.

Risk factors connected with the Group's environment

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

Risk of growing competition in the paper market in Europe

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

Risk of changes in law

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

Foreign exchange rates risk

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

The risk of changes of interest rates

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

Risk of the growing importance of alternative media

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

Risk factors connected with the Group's activities

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

Risk connected with relative low operating margins

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

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

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

Risk of disturbance in production process

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

Risk connected with our investment projects

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

Risk connected with the Group's debt

Our Group has indebtedness on account of a loan agreement with a consortium of banks (Bank Pekao S.A., Bank Zachodni WBK S.A. and BRE Bank S.A.) dated 6th November 2012, of bonds issued in February 2010 and February 2011 as well as of leasing agreements. It is possible that we will not be able to make timely repayments or refinance our debt on account of loan and/or bonds and/or leasing agreements, and also to keep the level of financial ratios that depend on the results generated by the Group accounts, as defined in the loan agreement and the terms of the bond issue and of leasing agreements, which may give rise to breaches of a loan agreement or the terms of the bond issue and the loss of collateralized assets. If an event of default occurs, it could lead in particular to bring in a state of maturity of our debt, the bank can take over control over critical assets such as the paper mills and/or pulp mills, credibility reduction and a loss of access to external sources of finance, and consequently, a loss of financial liquidity, which may have an adverse effect on our business and outlook, and our stock prices.

Risk of limitations on natural gas supplies

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

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

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

Risk connected with consolidation and liquidity of the key customers

Consolidation tendencies among our present and potential customers may result in the emergence of a more concentrated customer base consisting of several large customers. Those customers may take advantage of a more favorable negotiating position when negotiating conditions of paper purchase or make a decision regarding change of a supplier and buy products of our competitors. Each of the above factors can have an adverse effect on the Group's operating results and financial standing.

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

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

Risk connected with CO2 emission limits

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

Risk connected with the Company's ability to pay dividend

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

Supplementary information

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

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

Information on dividend

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

The dividend was paid according to the schedule.

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

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

On 20th January 2012 Mr. Hans Karlander filed a resignation from being a Member of the Management Board effective on 31st March 2012 (current report 2/2012). On 5th June 2012, the Company's Supervisory Board appointed Mr. Wolfgang Lübbert as a Member of the Management Board of Arctic Paper S.A. starting from 5th June 2012 (current report 10/2012).

On 28th June 2012, the Company's Ordinary Shareholders Meeting dismissed Mr. Wiktorian Tarnawski from being a Member of the Supervisory Board (current report 14/2012). On 28th June 2012, the Company's Ordinary Shareholders Meeting appointed Mr. Mariusz Grendowicz as a Member of the Supervisory Board (current report 15/2012).

Changes of the share capital of Arctic Paper S.A.

On 28th June 2012, the Company's Ordinary Shareholders Meeting adopted a resolution regarding decreasing the share capital of the Company by the amount of PLN 498,631,500 that is from the amount of PLN 554,035,000 to the amount of PLN 55,403,500 by decreasing the face value of each share by the amount PLN 9.00 that is from the amount of PLN 10.00 to the amount of PLN 1.00. The amount of the decrease shall be assigned to the Company's supplementary capital without payment to shareholders. The decrease of the share capital is purposed to adjust the face value of shares to the one that would allow for increase of the capital and issue of new shares (current report 12/2012). On 9th November 2012, the conditional decrease of share capital was registered in National Court Register..

By the power of a resolution of Extraordinary Shareholders Meeting dated 3rd December 2012 (current report 30/2012), regarding conditional increase of share capital of the Company through issue of series F shares, depriving the hitherto shareholders of rights issue, issue of subscription warrants, granting the permit to conduct the transaction and amend the Company's articles of association, the Management Board of Arctic Paper S.A. concluded on 14th December 2012 a loan agreement for Arctic Paper S.A. shares with Trebruk AB, issuing in return subscription warrants (1 warrant = 1 share) (current report 38/2012). The borrowed shares were then exchanged to Rottneros AB shares with the exchange parity of 0.1872 Arctic Paper S.A share for 1 Rottneros AB share. On 19th December 2012, 10,740,983 warrants were exchanged to 10,740,983 series F shares of Arctic Paper S.A. with nominal value of PLN 1 each and then fully claimed by Trebruk AB. The value of newly issued shares amounted to PLN 64,983 thousand and was fully paid. The increase of share capital was registered in National Court Register on 10th January 2013. Because of that, the consolidated financial data included in the hereby report do not take into account, in the position of "Share capital", the results of the aforementioned increase of share capital. The value of newly issued shares in the amount PLN 64,983 thousand was presented in the position of "Other reserve capitals" in consolidated financial data.

In connetion with purchase of Rottneros AB shares in 2013 also, mainly in the form of exchange of newly issued AP S.A. shares to Rottneros AB shares, in December 2012 and anuary 2013, until the day of the hereby report, the Company issued total 13,884,283 subscription warrants, which were exchanged to 13,884,283 series F shares. All shares issued hace been, until the date of the hereby report, registered in National Court Register.

Purchase of own 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 own shares for the purpose of its redemption and decrease of the share capital or for the purpose of further relocation or resale of the own shares on conditions and in the course determined as below:

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

b) the total amount assigned by the Company for purchase of own shares shall not exceed the amount of the reserve capital established for this purpose, that is PLN 27,500,000 comprising the price of purchased shares together with the costs of purchase;

c) the price for which the Company will purchase its own shares shall not be lower than PLN 1.00 nor higher than PLN 10.00 per share;

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

e) purchase of own shares may occur with the mediation of investment company, in stock and non-stock transactions.

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

a) stop the purchase of shares before 60 days starting from the day the resolution was resolved or before the funds assigned for the purchase have been fully utilized,

b) refrain from purchase in part or in whole.

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

The conditions of purchase of own 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 own 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 own 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 own shares. Redemption of the Company's own shares and adequate decrease of share capital is acceptable also before the end of the process of purchase of the Company's own 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 own shares on conditions and within confines of the authorization granted by the resolution, decides to establish a reserve capital under the name of „Fundusz Programu Odkupu" for the purchase of own shares. The amount of "Fundusz Programu Odkupu" is set to PLN 27,500,000. "Fundusz Programu Odkupu" is assigned to purchase of own shares together with the cost of the purchase. The Ordinary Shareholders Meeting decides to distinguish the "Fundusz Programu Odkupu" from the reserve capital.

Loan agreements and bonds

On 6th November 2012, the following companies: Arctic Paper Kostrzyn S.A. as the Borrower, Arctic Paper S.A. who acceded, by way of cumulative accession, to the Borrower's debt, as well as Arctic Paper Investment GmbH and Arctic Paper Mochenwangen GmbH as Guarantors, concluded a loan agreement with Bank Polska Kasa Opieki S.A., Bank Zachodni WBK S.A. and BRE Bank S.A. (hereinafter „Banks") as Lenders, consisting of two tranches:

- PLN 300,000 thousand; to be repaid in even installments within 5 years, with a bullet repayment at the end of the period,
- PLN 59,000 thousand; to be repaid until 7th November 2013 („Loan Agreement").

The reason for taking the loan is to grant a loan from Arctic Paper Kostrzyn to Arctic Paper S.A. in the amount of PLN 200,000 thousand to repay bonds issued by Arctic Paper S.A., while the outstanding amount of PLN 159,000 thousand is assigned to refinance the existing debt of Arctic Paper Group and to assure Arctic Paper Kostrzyn S.A. with working capital for conducting of current business activity. The Company reported regarding conclusion of the Loan Agreement in current report no 19/2012.

The bank loan taken based on the agreement with Banks, shall bear interest at WIBOR or EURIBOR reference interest rate plus the Banks' margin which is determined by net debt-to-EBITDA ratio for the given period, depending on the tranche and the currency of loan.

As the collateral for repayment of the loan to the Banks, Arctic Paper Kostrzyn S.A. set pledges on all its bank accounts, as well as on the owned real estates and assets' components. Moreover, to guarantee the loan, pledges were established on shares of Arctic Paper Kostrzyn S.A., shares of Arctic Paper Investment GmbH, shares of Arctic Paper Mochenwangen GmbH, as well as on components of assets of Arctic Paper Mochenwangen GmbH. The company reported regarding establishing of the collateral in connection with the Loan Agreement in current reports no 27/2012 and 29/2012.

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

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

As on 31st December 2012 the use of Arctic Paper Group loan amounted to PLN 248 million – tranche 'Kredyt A' and PLN 37 million – tranche 'Kredyt B' and the funds were allocated to:

(i) Full repayment of the Borrower's liabilities on the grounds of the loan taken in Bank Polska Kasa Opieki S.A.,

(ii) granting the loans to companies from Arctic Paper Group, and repayment of:

- part of Arctic Paper S.A. liabilities on bonds in the total nominal amount PLN 128,100,000.00 together with interest;

- all liabilities of Arctic Paper Investment GmbH and Arctic Paper Mochenwangen GmbH on the grounds of existing financing;

(iii) cover the Borrower's need for working capital.

Remuneration paid to Management Board and Supervisory Board Members

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

Remuneraton of the Management Board and Supervisory Board Members

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

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

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

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

Agreements with Management Board Members on financial compensation

As on 31st December 2012 and as on the date this annual report is approved, there were agreements executed between the Issuer and managers providing for compensation in the event of their resignation or removal from their position without good cause, or if their removal or resignation is due to the Issuer's merger through acquisition. The level of this compensation equals to salary for the period from 6 to 24 months.

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

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

Managing and supervising personnel	Number of shares or rights thereto as at 30/04/2013	Number of shares or rights thereto as at 28/02/2013	Number of shares or rights thereto as at 31/12/2012
Management Board			
Michał Piotr Jarczyński	86 450	86 450	86 450
Wolfgang Lübbert	-	-	-
Jacek Łoś	-	-	-
Per Skoglund	-	-	-
Wolfgang Lübbert	-	-	-
Supervisory Board			
Rolf Olof Grundberg	12 102	12 102	12 102
Rune Roger Ingvarsson	-	-	-
Thomas Onstad	-	-	-
Fredrik Lars Plyhr	19 000	19 000	19 000
Wiktorian Zbigniew Tarnawski	-	-	-

Information on system of control over employees' shares

On 30th July 2009 the Company's Extraordinary Shareholders Meeting adopted the Resolution no 4 regarding assumptions of incentive program for key management officers providing a possibility of gratuitous acquisition of subscription warrants entitling to claim shares of D series excluding pre-emptive rights. As on 31st December 2011 there contracts concluded to dispense 365 thousand of warrants. Until the day of preparing of the hereby report none of the entitled persons exercised the right to exchange warrants for Company's shares.

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

The conditional increase of share capital was performed for the purpose of execution of the rights to claim series D shares by the holders of warrants. The term of execution of the rights to claim series D shares by the holders of warrants expires on 31st December 2013.

On 28th June 2012 the Ordinary Shareholders Meeting also adopted a resolution regarding change of the resolution no 4 dated 30th July 2009 regarding assumptions of incentive program for key managers of the Company, in reference to the value of shares' issue price for which the entitled persons may claim the shares. Until the day of publishing of the hereby report the re were no amendments to the agreements concluded with the entitled persons.

Information on material agreements

Apart from the agreements described elsewhere in the hereby Management Board Report on Arctic Paper Capital Group activities, the following material agreements were concluded:

Agreement on pulp supplies

The Management Board of Arctic Paper S.A. („Company") informs that on 19th December 2012 the Company received an agrement dated 17th December 2012 concluded by and between the Company and Södra Cell International AB seated in Växjö/Sweden („Supplier"). The object of the agreement is supplies of pulp by the Supplier („Supplies Agreement").

The Supplies Agreement were concluded for the period of 1st January 2013 until 31st December 2013. Within the scope of the Supplies Agreement, the Supplier is obliged to supply and the Company is obliged to accept 85 thousand metric tons of pulp, whereas the parties of the Supplies Agreement allowed for the possibility of increasing or decreasing of the total supplies quantity by 10%. Within the scope of the Supplies Agreement the Supplier is obliged to supply and the Company is obliged to akcept pulp with estimated value of PLN app. 200 million.

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

The agrement does not include penalties nor provides for stipulation of terms and conditions.

Agreement with liquidity provider

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

Financial resources management

In 2012 the Group took loans as described above in section 'Loan agreements and bonds' and partly repaid bonds.

As on the date of preparing of the hereby consolidated annual report the Company had sufficient cash and credibility to ensure liquidity of Arctic Paper Group.

Capital investment and investment

In 2012 the Arctic Paper Group entities used their cash resources only to the standard short-term investments, including overnight deposits. The Group did not make any investment in 2012 apart from purchasing of Rottneros AB shares and 50% of shares in Kalltorp Kraft Handelsbolaget seated in .

Loans granted to related parties

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

Borrowings to related parties in the financial year

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

The conditions of loan contracts with related entities do not significantly differ from market conditions.

Information on guarantees

As on 31st December 2012 the Group reported:

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

Moreover, the following collateral securing the aforementioned loan agreement dated 6th November 2012 was established:

- pledges on shares of Arctic Paper Kostrzyn S.A., shares of Arctic Paper Investment GmbH and on shares of holding companies in Germany;

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

Significant off-balance sheet items

Information regarding off-balance sheet items is given in the supplementary note 36 to the Consolidated Financial Statements.

Evaluation of the possibility to implement investment plans

In connection with negative changes occurring in the market environment and lack of material improvement of the Group's financial results in 2012 compared to 2011, the investments planned for 2013 have been reduced. The main purpose of investments realised in 2013 will be to minimize production costs, including electricity costs, and to improve the efficiency of production process. The decreased investments plan for 2013 is intended to be realized from the Group's own funds.

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

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

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

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

Information on agreements resulting in shareholding changes

The Issuer is not aware of any agreements which may in the future lead to changes in the present shareholding of shareholders and bondholders, except for the ones that have been described in the hereby report.

Information on acquisition of treasury shares

In 2012 the Company did not acquire any treasury shares, except for a borrowing of treasury shares from Trebruk AB and issue of subscription warrants exchangeable for newly issued series F shares for the purpose of Rottneros AB shares purchasing.

Information on entity authorized to audit the financial statements

Information on the entity authorized to audit the financial statements is given in the additional information in note 37 of the consolidated financial statements.

Employment

Information regarding employment is given in the additional information in note 41 of the consolidated financial statements.

Statement on application of corporate governance rules

Corporate governance rules

Pursuant to § 29 item 2 of the Warsaw Stock Exchange Rules adopted by Resolution no. 19/1307/2012 by the Stock Exchange Board on 21st November 2012, Arctic Paper S.A. is obliged to apply corporate governance rules contained in the document – "Best practices of companies listed on the SE", available on the website www.corp-gov.SE.pl

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

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

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

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

The Group carries out an annual review of its strategies and growth perspectives. The process of establishing the budget is supported by medium-level and senior management of the Group companies. The budget for the following year is adopted by the Company's Management Board and approved by its Supervisory Board. During the year, the Company's Management Board compares the financial results achieved with the budget projections.

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

Shareholders holding directly or indirectly significant blocks of shares

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

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

Securities carrying special control rights

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

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

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

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

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

Principles of amending the Issuer's Articles of Association

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

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

Description of the action manner of the General Meeting

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

The Company's Articles of Association are available at:

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

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

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

- selling and leasing an enterprise or an organized part thereof and establishing a limited property right thereon;
- all other issues which under the Articles of Association or the Code of Commercial Companies require a General Meeting resolution.

A General Meeting may adopt resolutions in the presence of shareholders representing at least half of the Company's share capital.
A General Meeting adopts resolutions by an absolute majority of votes cast unless the Articles of Association or legal regulations require a qualified majority of votes.
Shareholders' rights and the way in which they are exercised basically arise directly from the legal regulations which have been partly incorporated into the Company's Articles of Association.

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

Management Board

Management Board composition

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

Basic powers of the Management Board

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

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

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

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

The special Management Board procedure is set out in the Management Board By-laws which are available at:
http://www.arcticpaper.com/pl/PL-Local-Site/Relacje-inwestorskie2/Dokumenty-korporacyjne/
The composition of the Company's Management Board and any changes thereto are described in the consolidated financial statements.

The following constitute the Company's Management Board:

- Michał Jarczyński – President of the Management Board appointed on 30th April 2008;
- Michał Bartkowiak – Member of the Management Board appointed on 17th September 2009;
- Jacek Łoś – Member of the Management Board appointed on 27th April 2011;
- Per Skoglund – Member of the Management Board appointed on 27th April 2011.
- Wolfgang Lübbert – Member of the Management Board appointed on 5th June 201

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

Supervisory Board

Composition and organization of Supervisory Board composition and organization

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

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

Supervisory Board powers

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

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

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

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

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

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

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

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

The following persons are Supervisory Board members:

- Rolf Olof Grundberg – President of the Supervisory Board appointed on 30th April 2008;
- Rune Roger Ingvarsson – Member of the Supervisory Board appointed on 22nd October 2008;

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

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

Audit Committee

Audit Committee composition and organization

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

Audit Committee powers

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

- strategic and operating plans of internal audit and significant corrections to those plans,
- internal audit policy, strategy and procedures prepared in accordance with the adopted internal audit standards,
- inspecting specific aspects of the Company's operations.

- The tasks of the Audit Committee arising from monitoring the independence of a certified auditor and the entity authorized to audit financial statements include in particular:
  - giving recommendations to the Supervisory Board on issues concerning, election, appointment and re-appointment and removal of the entity performing the function of a certified auditor,
  - inspection of independence and objectiveness of the entity performing the function of a certified auditor, especially with regard to a change of the certified auditor, remuneration received, and other relation with the Company,
  - verifying the effectiveness of the entity performing the function of a certified auditor,
  - examining the reasons for resignation of an entity performing the function of a certified auditor.
- The Audit Committee may rely on the advice and assistance of external legal, accounting or other advisors if it deems necessary to perform its duties.
- The Audit Committee is obliged to submit annual reports on its operations to the Supervisory Board, by 30 September of each calendar year.

Audit Committee meetings are held at least twice a year.

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

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

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

Remuneration Committee

Remuneration Committee composition and organization

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

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

Remuneration Committee powers

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

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

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

- Rolf Olof Grundberg
- Fredrik Plyhr

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

Information pursuant to the Swedish Code of Corporate Governance

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

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

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

Shareholders' meeting

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

Appointment of the board and statutory auditor

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

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

The tasks of the board

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

Pursuant to Polish law, the members of the Management Board, including the chief executive officer who is the chairman of the Management Board, are prohibited from engaging in competitive activities outside the Company.

Other activities are not regulated by the Best Practices or other applicable Polish regulations, but restrictions are generally included in the individual employment agreements.

The size and composition of the board

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

The chairman of the board

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

Board procedures

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

Remuneration of the board and executive management

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

Information on corporate governance

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

Management Board's representations

Accuracy and reliability of presented reports

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

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

Appointment of the Licensed Auditor of the Consolidated Financial Statements

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

Signatures of the Management Board Members

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

Consolidated Financial Statements
for the year ended 31st December 2012
to the Annual Report for 2012

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Consolidated Financial Statements for the year ended 31st December 2012 PLN thousand

Consolidated financial statements and selected financial data

Selected consolidated financial data

	For the period from 01.01.2012 to 31.12.2012 tys. PLN	For the period from 01.01.2011 to 31.12.2011 tys. PLN	For the period from 01.01.2012 to 31.12.2012 tys. EUR	For the period from 01.01.2011 to 31.12.2011 tys. EUR
Revenues	2 600 700	2 527 189	621 401	613 456
Operating profit (loss)	(20 296)	3 115	(4 850)	756
Profit (loss) before tax	(60 206)	128	(14 385)	31
Profit (loss) from continuing operations	23 412	12 066	5 594	2 929
Profit (loss) for the period	23 412	12 066	5 594	2 929
Profit (loss) for the period attributable to equity holders of the parent	(102 640)	12 066	(24 524)	2 929
Net operating cash flow	167 054	162 247	39 915	39 384
Net investment cash flow	(54 967)	(56 375)	(13 133)	(13 684)
Net financial cash flow	(73 391)	(121 615)	(17 536)	(29 521)
Net change in cash and cash equivalents	38 696	(15 743)	9 246	(3 822)
Weighted average number of shares	55 727 201	55 403 500	55 727 201	55 403 500
Weighted average diluted number of shares	55 727 201	55 403 500	55 727 201	55 403 500
EPS (in PLN/EUR)	(1,84)	0,22	(0,44)	0,05
Diluted EPS (in PLN/EUR)	(1,84)	0,22	(0,44)	0,05
Average PLN/EUR rate*			4,1852	4,1196

	As at 31 December 2012 tys. PLN	As at 31 December 2011 tys. PLN	As at 31 December 2012 tys. EUR	As at 31 December 2011 tys. EUR
Assets	2 043 409	1 924 531	499 831	435 730
Long-term liabilities	418 937	636 697	102 475	144 153
Short-term liabilities	785 341	612 273	192 099	138 624
Equity	839 131	675 561	205 257	152 953
Share capital	55 404	554 035	13 552	125 438
Number of shares	66 144 483	55 403 500	66 144 483	55 403 500
Diluted number of shares	66 144 483	55 403 500	66 144 483	55 403 500
Book value per share (in PLN/EUR)	12,69	12,19	3,10	2,76
Diluted book value per share (in PLN/EUR)	12,69	12,19	3,10	2,76
Declared or paid dividend (in PLN/EUR)	9 972 630	-	2 439 369	-
Declared or paid dividend per share (in PLN/EUR)	0,18	-	0,04	-
PLN/EUR rate at the end of the period**	-	-	4,0882	4,4168

* - Income statement's items as well as cash flow statement's items were converted using the rate calculated as arithmetical mean of the average exchange rates announced by the National Bank of Poland in the period being reported.
** - Balance sheet items and book value per share were converted using the average exchange rate announced by the National Bank of Poland on the balance sheet date.

Consolidated Financial Statements for the year ended 31st December 2012 PLN thousand

Consolidated income statement

	Note	Year ended 31 December 2012 (audited)	Year ended 31 December 2011 (audited)
Continuing operations			
Sales of paper	10.1	2 600 700	2 527 189
Sales of services		-	-
Revenues		2 600 700	2 527 189
Cost of sales	11.5	(2 446 463)	(2 173 246)
Gross profit (loss) on sales		154 237	353 943
Selling and distribution expenses	11.5	(307 759)	(294 405)
Administrative expenses	11.5	(86 534)	(71 509)
Other operating income	11.1	274 504	72 578
Other operating expenses	11.2	(54 744)	(57 492)
Operating profit / (loss)		(20 296)	3 115
Finance income	11.3	1 484	42 682
Finance costs	11.4	(41 394)	(45 668)
Profit / (loss) before tax		(60 206)	128
Income tax	13	83 618	11 937
Net profit (loss) for the year from continuing operations		23 412	12 065
Discontinued operations			
Profit (loss) for the period from discontinued operations		-	-
Net profit (loss) for the year		23 412	12 065
Attributable to:			
Equity holders of the parent		(102 640)	12 066
Non-controlling interest		126 052	-
		23 412	12 066
Earnings per share:			
– basic from the profit (loss) for the period attributable to equity holders of the parent		(1,84)	0,22
– basic from the profit (loss) from continuing operations attributable to equity holders of the parent		(1,84)	0,22
– diluted from the profit (loss) for the period attributable to equity holders of the parent		(1,84)	0,22
– diluted from the profit (loss) from the continuing operations attributable to equity holders of the parent		(1,84)	0,22

Consolidated Financial Statements for the year ended 31st December 2012 PLN thousand

Consolidated statement of comprehensive income

	Note	Year ended 31 December 2012 (audited)	Year ended 31 December 2011 (audited)
Net profit / (loss) for the year		23 412	12 066
Exchange difference on translation of foreign operations	30.2	(10 340)	14 198
Defered tax on derivatives	13.1	238	6 868
Valutation of derivatives	30.4	(1 530)	(25 515)
Other comprehensive income		(11 632)	(4 449)
Total comprehensive income		11 781	7 617
Attributable to:			
Equity holders of the parent		(114 271)	7 617
Non-controlling interest		126 052	-

Summary of the main accounting policies and other explanatory notes
included on pages 75 to 174 are an integral part of these consolidated financial statements

Consolidated Financial Statements for the year ended 31st December 2012 PLN thousand

Consolidated balance sheet

	Note	As at 31 December 2012 (audited)	As at 31 December 2011 (audited)
ASSETS			
Non-current assets			
Property, plant and equipment	18	896 054	992 174
Investment properties	20	10 542	10 542
Intangible assets	21	93 926	120 410
Shares in joint ventures	22	5 056	-
Other financial assets	24.1	733	791
Other non-financial assets	24.2	1 238	2 151
Deferred tax asset	13.3	60 958	6 362
		1 068 507	1 132 429
Current assets			
Inventories	27	411 716	315 142
Trade and other receivables	28	329 888	294 452
Income tax receivables		12 268	5 810
Other non-financial assets	24.2	14 515	8 708
Other financial assets	24.1	3 805	1 692
Cash and cash equivalents	29	202 710	166 299
		974 902	792 102
TOTAL ASSETS		2 043 409	1 924 531
LIABILITIES			
Equity and liabilities			
Equity attributable to equity holders of the parent company			
Share capital	30.1	55 404	554 035
Share premium	30.3	580 875	80 060
Other reserves	30.4	189 688	110 849
Foreign currency translation	30.2	26 312	36 652
Retained earnings / Accumulated (unabsorbed) losses	30.5	(236 214)	(106 259)
Non-controlling interest	30.6	223 067	225
Total equity		839 131	675 561
Non-current liabilities			
Interest-bearing loans, borrowings and bonds	32	198 519	317 262
Provisions	33	83 861	83 827
Other financial liabilities	32	48 350	44 277
Deferred tax liabilities	14.3	56 136	156 520
Accruals and deferred income	34.2	32 072	34 810
		418 937	636 697
Current liabilities			
Interest-bearing loans, borrowings and bonds	32	197 986	67 242
Provisions	33	8 415	10 398
Other financial liabilities	32	51 541	60 383
Trade and other payables	34	410 861	403 057
Income tax payable		786	1 286
Accruals and deferred income	34.2	115 752	69 907
		785 341	612 273
TOTAL LIABILITIES		1 204 278	1 248 970
TOTAL EQUITY AND LIABILITIES		2 043 409	1 924 531

Summary of the main accounting policies and other explanatory notes
included on pages 75 to 174 are an integral part of these consolidated financial statements

Consolidated Financial Statements for the year ended 31st December 2012 PLN thousand

Consolidated Cash flow statement

	Note	12 months period ended 31 December 2012 (audited)	12 months period ended 31 December 2011 (audited)
Cash flow from operating activities			
Profit (loss) before taxation		(60 206)	128
Adjustments for:			
Depreciation	11.6	123 286	127 625
Foreign exchange differences		4 754	(23 020)
Imapirment of non-current assets		248 874	11 021
Net interest and dividends		32 412	38 945
Gain/loss from investing activities		178	1 333
Increase / decrease in receivables and other non-financial assets		46 121	(8 029)
Increase / decrease in inventories		7 766	(1 408)
Increase / decrease in payables except for loans and borrowings		(21 386)	9 569
Change in accruals and prepayments		(4 959)	(1 853)
Change in provisions		119	(1 488)
Income tax paid		(18 368)	(6 667)
Bargain purchase of Rottneros AB		(204 203)	-
Derecognition of emission rigths to CO2 identified in a business combination		9 202	15 483
Energy certificates		2 479	(5 225)
Other		984	5 831
Net cash flow from operating activities		167 054	162 247
Cash flow from investing activities			
Proceeds from sale of property, plant and equipment and intangibles		715	213
Purchase of property, plant and equipment and intangible assets		(59 627)	(56 591)
Purchase of shares in joint venture		(5 110)	-
Acquisition of subsidiaries, net of cash acquired	23.1	9 056	-
Other investing inflows and outflows		-	3
Net cash flow from investing activities		(54 967)	(56 375)
Cash flow from financing activities			
Change in bank overdrafts		7 283	(9 164)
Repayment of finance lease liabilities		(8 015)	(8 007)
Proceeeds from other finance liabilities		1 613	15 405
Repayment of other finance liabilities		(11 155)	-
Proceeds from loans, borrowings and bonds		2 971	110 318
Repayment of loans, borrowings and bonds		(19 992)	(192 336)
Interest paid		(36 121)	(38 945)
Dividends paid		(9 973)	-
Other		-	1 115
Net cash flow from financing activities		(73 391)	(121 615)
Net increase/(decrease) in cash and cash equivalents		38 696	(15 743)
Net foreign exchange differences		(2 285)	2 640
Cash and cash equivalents at the beginning of the period	30	166 299	179 402
Cash and cash equivalents at the end of the period	30	202 710	166 299

Summary of the main accounting policies and other explanatory notes
included on pages 75 to 174 are an integral part of these consolidated financial statements

Consolidated Financial Statements for the year ended 31st December 2012 PLN thousand

Consolidated statement on changes in equity and net assets attributable to owners

	Attributable to equity holders of the Company							
	Share capital	Share premium	Translation reserve	Other reserves	Retained earnings (losses)	Total	Non-controlling interest	Total equity
As at 1 January 2012	554 035	80 060	36 652	110 849	(106 259)	675 335	225	675 561
Net profit (loss) for the year	-	-	-	-	(102 640)	(102 640)	126 052	23 412
Other comprehensive income	-	-	(10 340)	(1 292)	-	(11 632)	-	(11 632)
Total comprehensive income	-	-	(10 340)	(1 292)	(102 640)	(114 271)	126 052	11 781
Issue of shares not registered at 31 December 2012	-	-	-	64 983	-	64 983	-	64 983
Decrease of nominal value of share	(498 632)	498 632	-	-	-	-	-	-
Profit distribution/ Dividend payment	-	2 184	-	15 148	(27 305)	(9 973)	-	(9 973)
Other	-	-	-	-	(10)	(10)	-	(10)
Acquisition of Rottneros AB (non-controlling interest)	-	-	-	-	-	-	96 790	96 790
As at 31 December 2012 (audited)	55 404	580 875	26 312	189 688	(236 214)	616 064	223 067	839 131

Summary of the main accounting policies and other explanatory notes

Included on pages from 75 to 174 are an integral part of these consolidated financial statements

Consolidated Financial Statements for the year ended 31st December 2012 PLN thousand

	Attributable to equity holders of the Company							
	Share capital	Share premium	Translation reserve	Other reserves	Retained earnings (losses)	Total	Non-controlling interest	Total equity
As at 1 January 2011	554 035	72 289	22 454	40 131	(21 190)	667 717	225	667 942
Net profit (loss) for the year	-	-	-	-	12 066	12 066		12 066
Other comprehensive income	-	-	14 198	(18 646)	-	(4 449)		(4 449)
Total comprehensive income	-	-	14 198	(18 646)	12 066	7 617	-	7 617
Profit distribution	-	7 771	-	89 364	(97 135)	-	-	-
As at 31 December 2011 (audited)	554 035	80 060	36 652	110 849	(106 259)	675 335	225	675 561

Accounting policies and additional explanatory notes

1. General information

Arctic Paper Group is the second largest, in terms of production volume, European producer of bulky book paper, offering the widest range of products in this segment and one of the leading producers of high-quality graphic paper in Europe. We produce many types of wood-free coated and uncoated paper, wood uncoated paper for printing houses, paper distributors, publishers of books and periodicals and advertising industry. At the day of publication of this report, Arctic Paper Group (without Rottneros Group) employs over 1,600 people in four paper mills and fifteen companies involved in the distribution and sale of paper. Our paper mills are located in Poland, Sweden and Germany and have a combined capacity of more than 800,000 tons of paper annually. The Group has three distribution companies engaged in sales, distribution and marketing of the products offered by the Group in Nordic countries and 12 Sales Offices to ensure access for all European markets, including Central and Eastern Europe. Our consolidated sales revenues for twelve months of 2012 amounted to PLN 2,600 million.

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

In December 2012, Arctic Paper S.A. acquired 39.66% of shares in Rottneros AB, a company listed on NASDAQ OMX in Stockholm, Sweden. Rottneros AB owns 100% in two pulp companies, a purchasing office and a company which produces food packaging. Rottneros Group employs app. 275 people. For more information on the subject please see note 23 to the hereby consolidated financial statements

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

The Parent Company holds statistical number REGON 080262255.

Business activities

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

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

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

Consolidated financial statements for the year ended 31st December 2012 PLN thousand

Because of the takeover of the control of Rottneros AB Group since 20th December 2012 the Arctic Paper Group's business covers also production and sales of pulp.

Shareholding structure

	as at 31.12.2012*				as at 31.12.2012			
Shareholder	Number of shares	Share capital [%]	Number of votes	Of total number of votes	Number of shares	Share capital [%]	Number of votes	Of total number of
Trebruk AB (previous Arctic Paper AB)	41 532 979	62,79%	41 532 979	62,79%	41 532 979	74,96%	41 532 979	74,96%
Nemus Holding AB	5 832 671	8,82%	5 832 671	8,82%	-			
Others	18 778 833	28,39%	18 778 833	28,39%	13 870 521	25,04%	13 870 521	25,04%
Total	66 144 483	100,00%	66 144 483	100,00%	55 403 500	100,00%	55 403 500	100,00%
Own shares	-	0,00%	-	0,00%	-	0,00%	-	0,00%
Total	**66 144 483**	**100,00%**	**66 144 483**	**100,00%**	**55 403 500**	**100,00%**	**55 403 500**	**100,00%**

* the number of Arctic Paper S.A. shares including the increase of capital of 10.740,983 series F shares, covered in the resolution of Extraordinary Shareholders Meeting dated 3rd December 2012 (for details see note 13.2. to the hereby interim condensed consolidated financial statements) and registered by National Court Register on 10th January 2013

The main shareholder of Arctic Paper S.A. is Trebruk AB (former under the name of Arctic Paper AB), a company under Swedish law. Nemus Holding is a parent company of Trebruk AB.

Until the day of publishing of the hereby report, the share of the main shareholder Trebruk AB has changed compared to as on 31st December 2012, and as on 30th April 2013 amounts to 59.82%.

Trebruk AB is the parent company in relation to the Arctic Paper S.A.

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

The duration of the Company is unlimited.

2. Composition of the Group

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

Consolidated financial statements for the year ended 31st December 2012 PLN thousand

Entity	Registered office	Business activities	Share in capital of subsidiaries entities as at		
			30 April 2013	31 December 2012	31 December 2011
Arctic Paper Kostrzyn S.A.	Poland, Fabryczna 1, 66-470 Kostrzyn nad Odrą	Paper production	100%	100%	100%
Arctic Paper Munkedals AB	Sweden, SE 455 81 Munkedal	Paper production	100%	100%	100%
Arctic Paper Mochenwangen GmbH	Germany, Fabrikstrasse 62, DE-882, 84 Wolpertswende	Paper production	99,74%	99,74%	99,74%
Arctic Paper Grycksbo AB	Sweden, Box 1, SE 790 20 Grycksbo	Paper production	100%	100%	100%
Grycksbo Paper (Deutschland) GmbH	Germany, Max-Brauer-Allee 52, 22765 Hamburg	Trading services	-	-	100%
Arctic Paper UK Limited	Great Britain, Quadrant House, 47 Croydon Road, Caterham, Surrey	Trading services	100%	100%	100%
Arctic Paper Baltic States SIA	Latvia, K. Vardemara iela 33-20, Riga LV-1010	Trading services	100%	100%	100%
Arctic Paper Deutschland GmbH	Germany, Raboisen 3, 20095 Hamburg	Trading services	100%	100%	100%
Arctic Paper Benelux S.A.	Belgium, Dreve des Marroniers 28, 1410 Waterloo	Trading services	100%	100%	100%
Arctic Paper Schweiz AG	Switzerland, Technoparkstrasse 1, 8005 Zurich	Trading services	100%	100%	100%
Arctic Paper Italia srl	Italy, Milano – Via R. Boscovich 14	Trading services	100%	100%	100%
Arctic Paper Ireland Limited	Ireland, 4 Rosemount Park Road, Dublin 11	Trading services	100%	100%	100%
Arctic Paper Danmark A/S	Denmark, Jydekrogen 18, DK-2625 Vallensbaek	Trading services	100%	100%	100%
Arctic Paper France SAS	France, 43 rue de la Breche aux Loups, 75012 Paris	Trading services	100%	100%	100%
Arctic Paper Espana SL	Spain, Avenida Diagonal 472-474, 9-1 Barcelona	Trading services	100%	100%	100%
Arctic Paper Papierhandels GmbH	Austria, Hainborgerstrasse 34A, A-1030 Wien	Trading services	100%	100%	100%
Arctic Paper Polska Sp. z o.o.	Poland, Biskupia 39, 04-216 Warszawa	Trading services	100%	100%	100%
Arctic Paper Norge AS	Norway, Per Kroghsvei 4, Oslo	Trading services	100%	100%	100%
Arctic Paper Sverige AB	Szweden, Kurodsvagen 9, 451 55 Uddevalla	Trading services	100%	100%	100%
Arctic Paper East Sp. z o.o.	Poland, Fabryczna 1, 66-470 Kostrzyn nad Odrą	Trading services	100%	100%	100%
Arctic Paper Investment GmbH *	Germany, Fabrikstrasse 62, DE-882, 84 Wolpertswende	Holding company	100%	100%	100%
Arctic Energy Sverige AB (previous Arctic Paper Investment II AB)	Sweden, Box 383, 401 26 Göteborg	Hydro energy production	100%	100%	100%

Consolidated financial statements for the year ended 31st December 2012 PLN thousand

Entity	Registered office	Business activities	Share in capital of subsidiaries entities as at		
			30 April 2013	31 December 2012	31 December 2011
Arctic Paper Verwaltungs GmbH *	Germany, Fabrikstrasse 62, DE-882 84 Wolpertswende	Holding company	100%	100%	100%
Arctic Paper Immobilienverwaltung GmbH&Co. KG*	Germany, Fabrikstrasse 62, DE-882 84 Wolpertswende	Holding company	94,90%	94,90%	94,90%
Arctic Paper Investment AB **	Sweden, Box 383, 401 26 Göteborg	Holding company	100%	100%	100%
Grycksbo Paper Holding AB	Sweden, Box 1, SE 790 20 Grycksbo	Holding company	100%	100%	100%
EC Kostrzyn Sp. z o.o.	Poland, ul. Fabryczna 1, 66-470 Kostrzyn nad Odrą	Property and machinery rental	100%	100%	100%
Arctic Paper Munkedals Kraft AB	Sweden, 455 81 Munkedal	Hydro energy production	100%	100%	100%
Rottneros AB	Szwecja, 107 24 Sztokholm	Holding company	54,20%	39,66%	-
Rottneros Bruk AB	Sweden, Sunne	Pulp production	54,20%	39,66%	-
Utansjo Bruk AB	Sweden, Harnosand	Pulp production	54,20%	39,66%	-
Vallviks Bruk AB	Sweden, Vallvik	Pulp production	54,20%	39,66%	-
Rottneros Packaging AB	Sweden, Stockholm	Food packaging production	54,20%	39,66%	-
SIA Rottneros Baltic	Łotwa	Company for purchase of timber	54,20%	39,66%	-

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

As on 31st December 2012 and as well as on the day of publishing of this report, the percentage of voting rights held by the Group in subsidiaries corresponds to the percentage held in the share capital of those entities. All subsidiaries within the Group, excluding Kalltorp, are consolidated under the full method from the day of obtaining control by the Group and cease to be consolidated from the day of losing control.

In June 2012 a sales office Grycksbo Paper GmbH was closed.

On 1st October 2012, Arctic Paper Munkedals AB purchased 50% of shares in Kalltorp Kraft Handelsbolaget seated in Trolhattan, Sweden. Kalltorp Kraft deals in energy production in the owned hydro-power plant, the purpose of the purchase was realization of the strategy of increasing own energy capacities. The shares in Kalltorp Kraft have been recognized as joint arrangement and evaluated in compliance with ownership rights in consolidated financial data as on 31st December 2012.

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 in respectively in notes 23 and 46 to the hereby interim condensed consolidated financial statements.

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3. Management and supervisory bodies

3.1. Management Board of the Parent Company

As on 31st December 2012, the following constituted the Parent Company's Management Board:

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

On 20th January 2012 Mr. Hans Karlander resigned from being a Member of the Management Board effective on 31st March 2012 (current report 2/2012). On 5th June 2012 the Supervisory Board of the Company appointed Mr. Wolfgang Luebbert as a Member of the Management Board of Arctic Paper S.A starting from 5th June 2012 (current report 10/2012).
Until the date of publishing of the hereby report there were no changes in the composition of the parent company Management Board.

3.2. Supervisory Board of the Parent Company

As on 31st December 2012 the Company's Supervisory Board consisted of the following members:

- Rolf Olof Grundberg – President of the Supervisory Board appointed on 30th April 2008;
- Rune Roger Ingvarsson – Member of the Supervisory Board appointed on 22nd October 2008;
- Thomas Onstad – Member of the Supervisory Board appointed on 22nd October 2008;
- Fredrik Lars Plyhr – Member of the Supervisory Board appointed on 22nd October 2008;
- Jan Ohlsson – Member of the Supervisory Board appointed on 8th June 2010.

- Mariusz Grendowicz - Member of the Supervisory Board appointed on 28th June 2012;

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

Until the date of publishing of the hereby report there were no changes in the composition of the parent company Supervisory Board.

3.3. Audit Committee of the Parent Company

As on 31st December 2012 the Parent Company's Audit Committee consisted of the following members:

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

On 20th February 2013 the Supervisory Board prolonged the term of office of the current Audit Committee and appointed Mr Mariusz Grendowicz as a new member.

Until the date of publishing of the hereby report there were no changes in the composition of the parent company Audit Committee.

4. Approval of the financial statements

These consolidated financial statements were authorized for issue by the Management Board on 30th April 2013.

5. Significant Professional judgement and estimates

5.1. Professional judgement

In the process of applying the Group's accounting policies to the topics listed below, the most significance is attributed to, apart from those involving accounting estimations, the professional judgement of the management officers.

Obligation under operating and finance leases – the Group as a lessee

The Group has leasing agreements which, in the Management Board's judgement, meet the criteria of operating leases and agreements which meet the criteria of finance leases. The Group classifies its lease agreements as finance leases or operating leases based on the assessment of the extent to which substantially all the risks and benefits incidental to ownership have been transferred from the lessor to the lessee. The assessment is based on economic substance of each agreement.

Deferred tax asset

Application of professional judgement allowed to determine the value of the deferred tax asset which the Group may recognize using the forecasted date and amount of future profits and basing on the future tax strategies.

Gas Agreement

The Group enters into „take or pay" transactions in respect of receipt of supplies of gas to Arctic Paper Kostrzyn S.A. for own use purposes. For these transactions, on each balance sheet date, the Management Board, using its professional judgment, assesses the probability of use of outstanding amounts within the granted limits, after considering the production plans for the ensuing periods and the optimum possibilities of utilization of alternative sources of materials for production. Where no real possibility of future use of outstanding amounts of gas are ascertained, the asset arising from paid for but uncollected amounts of gas is subject to the write-down.

5.2. Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty on the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are being discussed below.

Impairment of Fixed Assets In Arctic Paper Mochenwangen

On 31st December 2012 impairment tests were conducted in the production companies Arctic Paper Mochenwangen and Arctic Paper Grycksbo in respect of fixed assets and intangible assets. A detailed description of the impairment test is included in Note 25 of these financial statements.

Retirement benefits and other post-employment benefits

The cost of the pogramme for retirement benefits is determined using actuarial valuations. The assumptions made are presented in note 26. In making the actuarial valuation, certain assumptions must be made concerning discounting rates, forecasted rate of salary increases, mortality ratio or forecasted growth in retirement benefits. Due to the long-term nature of such programs, actuarial valuations are burdened with a degree of uncertainty.

Deferred tax assets

The Group recognizes deferred tax assets based on the assumption that taxable profits will be available against which the deferred tax asset can be utilized. Deterioration of future taxable profits might render this assumption unreasonable.

Depreciation and amortization rates

Depreciation and amortization rates are determined based on the anticipated economic useful lives of property, plant and equipment and intangible assets. The economic useful lives are reviewed annually by the Group based on current estimates.

6. Basis of preparation of consolidated financial statements

The hereby consolidated financial statements have been prepared in accordance with historical cost method with the exception of investment properties and derivative financial instruments which have been valued at fair value. To financial instruments measured at fair value through profit or loss the Company includes foreign exchange forward contract, the contract for purchase of electric energy and SWAP contract in case they do not follow the hedging principles (note 39).

The hereby consolidated financial statements are being presented in Polish zloty ("PLN") and all values are given in PLN thousand (PLN '000) except indicated otherwise.

The hereby consolidated financial statements have been prepared on the assumption that the Group companies will continue as going concerns in the foreseeable future. As on the date of authorization of these consolidated financial statements, the Company is not aware of any facts or circumstances that would indicate a threat to continuation of the Group's companies activities.

6.1. Statement of compliance

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), in particular in accordance with IFRSs endorsed by the European Union. On the balance sheet date, in light of the current process of IFRS endorsement in the European Union and the nature of the Group's activities, there is no difference between the IFRSs applied by the Group 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").

Some of the Group entities keep books of accounts in accordance with accounting policies specified in the Accounting Act dated 29th September 1994 ("the Accounting Act") with subsequent amendments and the regulations issued based on that Act ("Polish Accounting Standards") or in accordance with other local accounting policies applicable for foreign entities. The consolidated financial statements includes a number of adjustments not included in the books of account of the Group entities, which were made in order to bring the financial statements of those entities to conformity with IFRS.

6.2. Functional currency and presentation currency

Functional currencies of the parent company and other entities included in these consolidated financial statements are: Polish zloty (PLN), Swedish crown (SEK), Euro (EUR), Norway crown (NOK), Latvian lats (LVL), Danish crown (DKK), Pound sterling (GBP), Swiss franc (CHF).

Presentation currency of the consolidated financial statements is Polish zloty (PLN).

7. 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.

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

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

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

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

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

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

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

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

The adoption of IAS 27 did not cause any changes in comparative data.

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

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

The adoption of IAS 28 did not cause any changes in comparative data.

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

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

The adoption of transition guidance did not cause any changes in comparative data.

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

8. New standards and interpretations issued and not yet effective

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 – not endorsed by EU till the date of approval of these financial statements,
- Amendments to IFRS 1 First–time Adoption of International Financial Reporting Standards: Government Loans – effective for financial years beginning on or after 1st July 2013,
- Amendments to 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
- 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,

The Management Board does not expect the introduction of the above-mentioned amendments and interpretations to have a significant effect on the accounting policies applied by the Group, apart from changes in IAS 19 *Employee benefits*. The introduction of amended IAS 19 *Employee benefits* starting from 1st January 2012 would have caused the increase of net loss for 2012 by PLN 4,617 thousand, the increase of provision for retirement benefits and alike as on 31st December 2012 by PLN 10,477 thousand, decrease of the provision for deferred income tax as on 31st December 2012 by PLN 2,668 thousand and decrease of retained profit and loss as on 31st December 2012 by PLN 3,192 thousand of which PLN 220 thousand would concern decrease of other comprehensive income for 2012.

9. Summary of significant accounting policies

9.1. Basis of consolidation

These consolidated financial statements comprise the financial statements of Arctic Paper S.A. and its subsidiaries for the each year ended 31st December. The financial statements of the subsidiaries are prepared for the same reporting period as those of the parent company, using consistent accounting policies, and based on the same accounting policies applied to similar business transactions and events. Adjustments are made to bring into line any dissimilar accounting policies that may exist. All significant intercompany balances and transactions, including unrealised gains arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless they indicate impairment.

Subsidiaries are consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which such control is transferred out of the Group. An entity is controlled by the parent company when the parent has, directly or indirectly through its subsidiaries, more than half of the votes at the shareholders meeting of that entity, unless it is possible to prove that such holding does not represent control. Control is also exercised if the company has the power to govern the financial or operating policy of an enterprise.

Changes in the parent's ownership interest that do not result in loss of control of the subsidiary are accounted for as equity transactions. In such cases, to reflect changes in the relative shares in the subsidiary the Group revises the carrying value of controlling and non-controlling shares. Any difference between the amount of correction of non-controlling interests and the fair value of the price paid or received are recognized in equity and attributed to the owners of the parent.

Shares in joint enterprises over which the Group shares the control are measured at ownership rights. Before calculation of the share in net assets of the joint enterprise appropriate corrections are performed in order to adjust the financial data of these entities to compliance with IFRS adopted by the Group.

Assesment of investments in subsidiaries related to impairment occurs if there are premises indicating a value loss occurred or impairment allowance performed in previous years is no longer necessary.

Income/costs on eveluation of shares in joint enterprises are recognized as other operating income/costs.

9.2. Interest in joint arrangement

Interests in joint arrangements, whre the Group shares the control, are accounted at ownership rights. Before evaluating the share in net assets of the joint arrangement, proper adjustments are performed in order to bring the entities' financial data to compliance with IFRS applied by the Group. The assessment of investment in subsidiaries on value loss occurs when there are premises indicating a loss of value occurred or the impairment write-off conducted in the previous years is no longer necessary.

9.3. Foreign currency translation

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

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

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

Exchange differences on loans treated in compliance with IAS 21 as investments in subsidiaries are recognized in consolidated financial statements in other comprehensive income.

The following exchange rates were used for valuation purposes:

Consolidated financial statements for the year ended 31st December 2012 PLN thousand

	As at 31 December 2012	As at 31 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

Weighted average foreign exchange rates for the reporting periods are as follows:

	01/01 - 31/12/2012	01/01 - 31/12/2011
USD	3,2581	2,9636
EUR	4,1852	4,1196
SEK	0,4808	0,4561
LVL	6,0023	5,8339
DKK	0,5623	0,5529
NOK	0,5597	0,5284
GBP	5,1605	4,7470
CHF	3,4724	3,3481

9.4. Property, plant and equipment

Property, plant and equipment are measured at cost (price of purchase or construction cost) less accumulated depreciation and impairment losses. The initial value 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 have been met.

Subsequent expenditures, such as repair or maintenance costs, are expensed as presented in the income statement 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, presented as below:

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 reporting period 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.

9.5. Investment properties

Investment properties are initially measured at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time the cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property.

Subsequent to initial recognition, the value of investment properties is presented according to fair value. Any gains or losses resulting from changes of fair value of the investment properties are recognized in gain or loss of the period in which it occurred.

Investment property is derecognized when disposed of or permanently withdrawn from use and no future benefits are expected from its disposal. Any gains or losses on derecognition of investment property are recognized in the income statement for the year in which such derecognition took place.

Transfers of assets are made to investment properties when, and only when, there is a change in use, evidenced by ending of owner occupation, commencement of an operating lease, and the Group accounts for such property in accordance with the policy stated under Property, Plant and Equipment (note 9.3) up to the date of change in use. For a transfer of assets from inventories to investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognized in profit or loss.

For a transfer from investment property to owner-occupied property or inventories, the deemed cost of property for subsequent accounting is its fair value on the date of change in use.

9.6. 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 on the date of combination. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment write-offs. 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 Group 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 presented 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 amortised over the period of expected future sales from the related project.

The carrying amount of development costs is reviewed for impairment annually when the asset is not yet in use, or more frequently when an indication of impairment is identified during the reporting period, which may suggest that the carrying amount may not be recoverable.

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

	Customer relationship	Trademarks	Licences and Software
Useful lives	10 years	Indefinite	2-5 years
Method of amortisation	10 years on a straight-line basis	Not amortised	2-5 years on a straight-line basis
Internally generated or acquired	Acquired	Acquired	Acquired
Impairment testing	Annual assesment to determine whether there is any indication that an assets may be impaired	Annualy and where an indication of impairment exists	Annual assesment to determine whether there is any indication that an assets may be impaired

After analyzing the relevant factors, for trademarks Group does not define the limit of its useful life. The intention of the Group 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 Group does not amortise 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 and the carrying amount of the asset and are recognized in the income statement when the asset is derecognized.

9.6.1. Goodwill

Goodwill on acquisition is initially measured at cost being the excess of:

- The sum of:
  - payment transferred,
  - the amount of all non-controlling shares in the entity being acquired and
  - in case of combination of entities performed in stages, the fair value of shares being acquired which previously belonged to the acquired entity, as on the date of acquisition,
- over the net amount set as on the day of acquisition of the identifiable value of assets and liabilities acquired.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. Goodwill is not amortised.

As on the acquisition date, any goodwill acquired is allocated to each of the cash-generating units that are expected to benefit from the combination. Each unit, or set of units, to which the goodwill has been allocated should:

- represent the lowest level within the Group at which the goodwill is monitored for internal management purposes, and
- be not greater than a single operating segment, on the basis of IFRS 8 “Operating segments”.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit to which the goodwill has been allocated. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognized. If goodwill represents part of a cash-generating unit and part of the operations within that unit is disposed of, the goodwill associated with the operations disposed of is included in the carrying amount of the operations when determining gain or loss on disposal of the operation. Goodwill disposed of in such circumstances is measured on the basis of the relative value of the operations disposed of and the value of the portion of the cash-generating unit retained.

9.6.2. Emission rights

The Group operating as a business entity owns power plants and for this reason it holds emission rights which are used during the course of its business operations. The group applies the net liability method to recognize emission rights in its books. This means that the rights originally acquired free of charge are recognized in the balance sheet at the "zero" acquisition cost and the provision for the Group obligation to redeem an appropriate number of emission rights is created when the deficit in the emission rights held is ascertained. In the case of emission rights acquired to cover future deficit, such rights are initially recognized at acquisition cost among other intangible assets. Provision for the deficit of emission rights is measured then in accordance with the value of intangibles acquired. Provision is recognized based on the annual limit of emission rights.

Policy for CER/EUA swap transactions

The Group enters into forward swap agreements ("EUA/CER swaps") with third parties to exchange the rights to emit CO_2 within European Union Emission Allowances ("EUA") at a future date (prior to the date at which the utility needs to satisfy its obligation for that period) for the same quantity of Certified Emission Reductions ("CER"). If the EUA/CER swap is entered into and will continue to be held to use CER for covering own liabilities for write-off of the emission rights (i.e., to satisfy obligations resulting from the emission of CO_2), it is outside the scope of IAS 39.

Accounting when cash is received

If the cash is received before the EUA/CER swap matures deferred income is recognized in respect of that amount as the EUA has not been delivered on that date.

Accounting for the EUA/CER exchange at maturity

The CER are recognized at their fair value. Any difference between (i) the total of the cash received and the fair value of the CER received and (ii) the historical value of the EUA given up is recognized as a gain (or loss). Any deferred income is recognized in the income statement, as part of this gain (or loss).

9.6.3. Cogeneration certificates

The Group as an entity producing electric energy in cogeneration receives "yellow certificates" of origin. Revenues from these certificates are recognized as decrease of cost in the moment of production and valued at current market prices provided the market for such certificates is active. Otherwise, revenues are recognized upon sale of certificates. The value of certificates is recognized under intangible assets. Details concerning the certificates received in the current year were presented in note 44.

9.7. Leases

Group as lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the income statement.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease and subsequent lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

Group as a lessor

Leases where the Group retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the item being the object of the lease and recognized over the lease term on the same basis as lease income. Conditional lease fees are recognized as income in the period in which they become payable.

9.8. Impairment of non-financial assets

An assessment is made on each reporting date to determine whether there is any indication that a non-financial non-current asset may be impaired. If such indication exists, or in case an annual impairment testing is required, the Group 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 recognised in the income statement in the expense categories consistent with the function of the impaired asset.

An assessment is made on each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of recoverable amount. A previously recognised 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 recognised. 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 amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised immediately in the income statement. After a reversal of an impairment loss is recognised, the depreciation (amortisation) 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.

9.9. Borrowing costs

Borrowing costs are capitalized as part of the cost of property, plant and equipment, investment properties, intangible assets and finished goods. 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.

9.10. 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

Financial assets held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Group 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 amortised 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.

Financial assets at fair value through profit or loss

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 evidence of a recent actual pattern 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 on the balance sheet date. Any change in the fair value of these instruments is taken to finance costs or finance income. 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 that separation of the embedded derivative is prohibited.

Financial assets 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 assets or recognizing gains or losses on them on a different basis; or
- 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 a document risk management strategy, or
- the financial asset contains an embedded derivative that would need to be separately recorded.

As on 31st December 2012 the Group designated the hedging instruments as measured at fair value through profit and loss, further described in the note 39 to the consolidated annual report for year 2012.

Loans and receivables

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

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 as on 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 other comprehensive income. 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 that are able to be attributed directly to the acquisition.

Financial assets are derecognized if the Group 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.

9.11. Impairment of financial assets

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

9.11.1. Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised 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 Group 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 amortised cost on the reversal date.

9.11.2. 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.

9.11.3. 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.

9.12. 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 Group assesses whether embedded derivatives are required to be separated from host contracts at its initial recognition. In case of embedded derivatives acquired as part of business combination, the Group does not re-assess the embedded derivatives as on the combination date (they are assessed upon initial recognition by the acquired company).

9.13. Derivative financial instruments and hedges

The Group uses derivative financial instruments to hedge against the risks associated with interest rate and foreign currency fluctuations such as forward currency contracts and interest rate swap contracts. Such derivative financial instruments are measured at fair value. Derivatives are carried as assets when its value is positive and as liabilities when its 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 on the basis of evaluation model taking into account the perceivable market data, particularly current interest rates with fixed term.

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 Group 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.

9.13.1. 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 amortised cost, the adjustment to carrying amount is amortised 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 Group 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 Group revokes the designation. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised 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.

9.13.2. 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.

9.14. Inventories

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

Raw materials	purchased cost determined on a first-in, first-out basis
Finished goods and work-in-progres	cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity, excluding borrowing costs
Goods for resale	purchased cost determined on a first-in, first-out basis

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

9.15. 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 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 finance income.

Other receivables include prepayments for future purchases of property, plant and equipment, intangible assets and inventories. Prepayments are recognized in accordance with the character of underlying assets, i.e. under non-current or current assets. As non-monetary assets, advances are not discounted.

Receivables from public authorities are presented within other non-financial assets, except for company income tax receivables that constitute a separate item in the balance sheet.

9.16. 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 consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

9.17. Interest-bearing loans, borrowings and bonds

All loans, borrowings and bonds are initially recognized at the fair value less transaction costs associated with the borrowing.

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

Amortised 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 as well as through the effective interest rate method.

9.18. 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 no financial liabilities were classified to fair value through profit and loss category (as on 31st December 2011: zero).

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 amortised cost, using the effective interest rate method.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. 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 value added tax, advance payment liabilities which will be settled by way of delivery of goods or services, or fixed assets. Other non-financial liabilities are recognized at the amount due.

9.19. Provisions

Provisions are recognized when the Group 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 Group 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 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.

9.20. Retirement benefits

In accordance with internal remuneration regulations, employees of Group companies are entitled to retirement benefits. Retirement benefits are paid out as one-off benefit upon retirement. The amount of those benefits depends on the number of years of employment and the employee’s average salary. The Group makes a provision for retirement benefits in order to allocate the costs of those allowances to the periods to which they relate. In accordance with IAS 19 retirement benefits are post-employment defined benefits. The carrying amount of the Group’s liabilities resulting from those benefits is calculated at each balance sheet date by an independent actuary. The balance of these liabilities equals discounted payments which will be made in the future and accounts for staff turnover, and relates to the period to the balance sheet date. Demographic information and information on staff turnover are based on historical information.

On the basis of valuations carried out by professional actuarial companies, the Group creates a provision for future benefits according to the concept of the “corridor”. If the net value of accumulated unrecognized actuarial gains or losses at the end of prior reporting period exceeds 10% of the present value of the liability from defined benefit plans at that date, then a part of actuarial gains or losses is recorded by the Group in the income statement.

9.21. Shares payments

Employees (including members of the Management Board) of the Group receive bonuses in the form of shares.

9.21.1. Transactions settled in capital instruments

Cost of transactions with employees settled in capital instruments is evaluated in realtion with fair value at the date of granting rights. Fair value is determined by an independent assessor based on binomial pricing model. On assessment of transactions settled in capital instruments, considered are market conditions of rights acquisition (related to share price of the parent company) and the conditions other than of rights acquisition.

Cost of transactions settled in capital instruments is accounted together with related increase of equity in the period when conditions concerning effectiveness of results and work or service rendered were met, ending on the day on which particular employees achieve full rights to benefits ("day of rights acquisition"). Accumulated costs accounted on the grounds of transactions settled in capital instruments on each balance day until the rights acquisition day reflect the level of rights acquisition period lapse as well as the number of bonuses, the rights for which – in the opinion of the Management Board of the parent company as on this day, based on possibly best evaluations of capital instruments numbers – will be eventually acquired.

No costs are accounted on the grounds of bonuses, the rights for which will not be fully acquired, except for the bonuses regarding which the acquisition of rights depends on market conditions or conditions other than rights acquisition conditions, which are treated as acquired regardless of the fact whether market conditions or conditions other that rights acquisition conditions were met, on condition all other conditions were met regarding effectiveness of results and work or service rendered.

In case the conditions of granting bonuses settled in capital instruments are modified, under fulfilling the minimum requirement costs are accounted the same as if these conditions would not have changed. Moreover, accounted are the costs on the grounds of every increase of transaction value in a result of a modification, evaluated as on the modification day.

In case the bonus settled in capital instrument is cancelled, it is treated as if the rights to this bonus were acquired on the day of cancellation, and all the costs on the grounds of the bonus, that had not yet been accounted, are immediately accounted. It concerns also the bonuses for which the conditions other than rights acquisition conditions under the control of the parent company or the employee have not been met. However, in case the cancelled bonus is replaced with another bonus – described as replacement bonus on the day of granting, the cancelled bonus and the new bonus are treated as if they were modification to the original bonus, that is in the manner as described in the paragraph above.

9.22. Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group 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, excise duty and discounts. The following specific recognition criteria must also be met before revenue is recognized.

9.22.1. Sale of goods

Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be reliably measured.

9.22.2. Rendering of sales services

The trading companies within the group are rendering sales services to the paper mills. For these services they receive a commission income based on the actual sales of products on each particular market. This means that the income for rendering of services is recognized at the same time as the sales of goods. Only income from paper mills outside the group is presented as sales revenues.

9.22.3. 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.

9.22.4. Dividends

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

9.22.5. Rental income (operating lease)

Rental income arising on investment properties is accounted for on a straight-line basis over the lease term on ongoing leases.

9.22.6. Government grants

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

When the grant relates to an expense item, it is recognized as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, its fair value is credited to a deferred income account and is released systematically to the income statement over the estimated useful life of the relevant asset by way of equal annual installments.

9.23. Income tax

9.23.1. 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.

9.23.2. Deferred tax

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

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 on 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 realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as on the balance sheet date.

Deferred income tax relating to items recognized out of profit or loss is recorded out of income statement: in other comprehensive income it related to positions recognized in other comprehensive income. Deferred income tax relating to items recognized directly in equity is recognized in equity.

Deferred income tax assets and deferred income tax liabilities are offset by the Group only 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.

9.23.3. Deferred tax relating to operations in the Special Economic Zone

The Group operates in the Kostrzynsko – Slubicka Special Economic Zone and due to this fact it benefits from a tax relief to the amount of the investment expenditure made.

Where the investment expenditure is not covered by the revenue earned in the given fiscal year, then the Group recognizes a deferred tax asset against the discounted excess of the investment expenditure over revenue earned, up to the amount whose workability is highly probable, in accordance with the Decree of the Council of Ministers dated 14th September 2004 concerning the Kostrzynsko – Slubicka Special Economic Zone (Official Journal no.222 item 2252 dated 13th October 2004).

The created deferred tax asset is utilized in the subsequent fiscal year when the appropriate amount of taxable income has been earned

9.23.4. Value added tax

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

- when 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.

9.23.5. Excise tax

The amount of excise tax due in respect of the electric energy produced is recognized in income statement in the period to which it relates and in the balance sheet under liabilities.

The excise tax on the energy used for own needs is recognized among costs of sales in the income statement.

9.24. 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 in the particular reporting period.

10. Operating segments

The principal business of the Group is paper production, which is conducted in four paper mills:

- Arctic Paper Kostrzyn S.A. (Poland) – production of high-quality uncoated fine paper under the brand Amber, with a production capacity of about 275,000 tons per year;
- Arctic Paper Munkedals AB (Sweden) – produces high-quality uncoated fine paper under the brand Munken, with a production capacity of about 160,000 tons per year;
- Arctic Paper Mochenwangen GmbH (Germany) – produces uncoated wood containing offset papers

under brands Pamo, & L-Print, with a production capacity of about 115,000 tons per year;

- Arctic Paper Grycksbo (Sweden) – production of coated wood-free paper under brands G-Print and Arctic, annual production capacity of 265,000 tons.

The Group identifies the following business segments:

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

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

- Demand for products and its supply, as well as the products prices sold on the market are shaped by factors characteristic for each segment, including i.e. level of the production capacity in each segment,
- Key operational factors such as e.g. orders inflow or production costs level are determined by factors which are close to each other within each paper segment,
- Products produced in the Group's paper mills can be, with some exceptions, allocated to production in different subsidiaries within the same paper segment, which to some extent disturbs the financial results of each paper mill,
- Arctic Paper Group results are determined by global market trends in terms of fluctuations of prices of paper and basic raw materials, particularly pulp, and depend on individual conditions of production subsidiaries to lesser extent,
- The presented business segments division will allow better comparability of Arctic Paper Group results to other companies of paper industry.

The results of paper mills and other entities are monthly analyzed by the Group's key management personnel based on internal reporting. Performance is measured based on the EBITDA level.

Transfer prices in transactions between segments are set on an arm's length basis as if it concerned non related parties.

The following table presents revenue and profit information and certain assets and liabilities information divided into individual Group segments for the period ended 31st December 2012 and as on 31st December 2012.

12-month period ended 31st December 2012 and as on 31st December 2012

	Continuing Operations					
	Uncoated	Coated	Other	Total	Eliminations	Total Group
Revenues						
Sales to external customers	1 860 634	740 066	-	2 600 700	-	2 600 700
Inter-segment sales	161 488	165 911	37 209	364 608	(364 608)	-
Total segment revenues	2 022 122	905 977	37 209	2 965 308	(364 608)	2 600 700
Segment's Result						
EBITDA	134 539	19 031	198 253	351 824	40	351 864
Interest Income	3 781	82	27 544	31 407	(29 997)	1 410
Interest Costs	(32 368)	(11 670)	(19 687)	(63 725)	30 004	(33 721)
Depreciation	(63 611)	(59 563)	(111)	(123 286)	-	(123 286)
Impairments of non-current assets	(39 566)	(209 308)	(27 035)	(275 910)	27 035	(248 874)
Positive FX and other financial income	399	1 403	48 470	50 272	(50 198)	74
Negative FX and other financial costs	(5 600)	(137)	(4 205)	(9 943)	2 269	(7 674)
Profit / (loss) before tax	(2 427)	(260 162)	223 229	(39 360)	(20 847)	(60 206)
Segment assets	1 290 613	512 574	899 340	2 702 528	(725 133)	1 977 395
Segment liabilities	889 899	618 148	407 931	1 915 979	(767 836)	1 148 143
Capital expenditures	(50 668)	(8 903)	(56)	(59 627)	-	(59 627)

- Inter-segment sales are eliminated on consolidation.
- Segment result does not include financial income (PLN 1,484 thousand of which PLN 1,410 thousand constitute interest income) and financial costs (PLN 41,394 thousand of which PLN 33,721 thousand constitute interest expense), amortization and depreciation (PLN 123,286 thousand), impairment of non-financial assets (PLN 248,874 thousand) as well as income tax charges (PLN +83,816 thousand). Segment result includes inter-segment loss (PLN 40 thousand).
- Segment assets and liabilities do not include deferred tax asset and liability (deferred tax asset of PLN 60,958 thousand and deferred tax liability of PLN 56,136 thousand) as these items are managed on the Group level. Segment assets do not include investments in the entities operating within the Group.

The following table presents revenue and profit information and certain assets and liabilities information divided into individual Group segments for the 12-month period ended 31st December 2011 and as on 31st December 2011.

12-month period ended 31st December 2011 and as on 31st December 2011

	Continuing Operations					
	Uncoated	Coated	Other	Total	Eliminations	Total Group
Revenues						
Sales to external customers	1 798 698	728 491	-	2 527 189	-	2 527 189
Inter-segment sales	166 474	186 877	26 032	379 384	(379 384)	-
Total segment revenues	1 965 172	915 368	26 032	2 906 572	(379 384)	2 527 189
Segment's Result						
EBITDA	105 574	35 860	-2 970	138 463	3 299	141 762
Interest Income	4 281	156	28 253	32 690	(30 983)	1 707
Interest Costs	(37 777)	(15 390)	(18 468)	(71 635)	30 807	(40 829)
Depreciation	(71 283)	(56 206)	(137)	(127 625)	-	(127 625)
Impairments of non-current assets	(11 021)	-	-	(11 021)	-	(11 021)
Positive FX and other financial income	33 104	-	21 040	54 144	(13 169)	40 975
Negative FX and other financial costs	(3 052)	(708)	(414)	(4 174)	(667)	(4 840)
Profit / (loss) before tax	19 826	(36 289)	27 305	10 842	(10 714)	128
Segment assets	1 098 841	414 449	403 564	1 916 854	1 316	1 918 169
Segment liabilities	1 007 763	433 631	238 685	1 680 080	(587 630)	1 092 450
Capital expenditures	51 971	7 417	42	59 430	(1 836)	57 594

- Inter-segment sales are eliminated on consolidation.
- Segment result does not include financial income (PLN 42,682 thousand of which PLN 1,707 thousand constitute interest income) and financial costs (PLN 45,669 thousand of which PLN 40,829 thousand constitute interest expense), amortization and depreciation (PLN 127,625 thousand), impairment of non-financial assets (PLN 11,021 thousand) as well as income tax charges (PLN +11,937 thousand). Segment result includes, however, inter-segment loss (PLN 3,299 thousand).
- Segment assets and liabilities do not include deferred tax asset and liability (deferred tax asset of PLN 6,362 thousand and deferred tax liability of PLN 156,520 thousand) as these items are managed on the Group level. Segment assets do not include investments in the entities operating within the Group.

Consolidated financial statements for the year ended 31st December 2012 PLN thousand

10.1. Revenues by countries and region

The following table presents revenues of the Group from external customers divided by countries and regions in the years 2011-2012 as well as non-current assets of the Group less of deferred tax asset divided by countries and regions as on 31st December 2012 and 31st December 2011:

Geographic information Revenues from external customers:	Year ended 31 December 2012	Year ended 31 December 2011
Germany	580 566	573 808
France	272 236	260 057
UK	250 654	229 275
Scandinavia	372 906	386 878
Western Europe (other than above)	314 287	315 679
Poland	285 191	259 009
Central and Eastern Europe (other than Poland)	489 561	478 392
Oversease	35 299	24 091
Total Sales	2 600 700	2 527 189

Geographic information Non-current assets:	Year ended 31 December 2012	Year ended 31 December 2011
Germany	914	57 876
France	327	367
Scandinavia	606 960	653 387
Western Europe (other than above)	387	341
Poland	398 949	414 012
Central and Eastern Europe (other than Poland)	12	86
Total non-current assets	1 007 549	1 126 068

Sales revenues of the position 'Western Europe' relate mostly to sales in Belgium, Netherlands, Austria, Switzerland, Italy and Spain. Sales revenues of the position 'Central-Eastern Europe' relate to sales in Ukraine, Czech Republic, Slovakia, Hungary and Bulgaria. Sale to any of the customers does not exceed 10% of total revenues.

The above mentioned non-current assets comprise property, plant and equipment, intangibles, investment real estates as well as other financial and non-financial assets.

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11. Revenues and expenses

11.1. Other operating income

	Year ended 31 December 2012 (audited)	Year ended 31 December 2011 (audited)
Relase of provisions	481	129
Compensation received	1 035	3 750
Rental income	2 504	2 426
Sales of services	1 177	660
Government grants	3 020	3 080
Sales of energy and water	23 853	24 255
Sales of materials	34 060	35 678
Profit on shares in joint venture	302	-
Bargain purchase	204 203	-
Profit of sales on tangible assets	623	139
Employee conribution company cars	175	172
Profit on sales of CO2 emission rights	-	724
Other	3 070	1 565
Total	274 504	72 578

11.2. Other operating expenses

	Year ended 31 December 2012 (audited)	Year ended 31 December 2011 (audited)
Property tax	(1 871)	(3 229)
Cost of sales of energy and water	(20 488)	(20 071)
Cost of slaes of materials	(28 542)	(28 904)
Redundancy costs	-	(3 241)
Loss on sale of disposal of fiexed assets	(1 140)	(17)
Other	(2 703)	(2 031)
Total	(54 744)	(57 492)

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11.3. Financial income

	Year ended 31 December 2012 (audited)	Year ended 31 December 2011 (audited)
Interest income on cash and cash equivalents	668	1 163
interest income on receivables	743	528
Other interest income	-	16
Foreign exchange gains	-	40 944
Other finance income	73	31
Total	1 484	42 682

11.4. Financial costs

	Year ended 31 December 2012 (audited)	Year ended 31 December 2011 (audited)
Interest on bank loans and bonds valued at amortized cost	(28 288)	(35 129)
Interest on other financial liablities	(307)	(144)
Interest on post-employments provisions	(2 920)	(3 143)
Finance charges payable under finance leases	(2 206)	(2 411)
Foreign exchange losses	(4 794)	(4 411)
Other finance costs	(2 879)	(429)
Total	(41 394)	(45 668)

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11.5. Cost by nature

	Year ended 31 December 2012 (audited)	Year ended 31 December 2011 (audited)
Depreciation / Amortisation	(123 286)	(127 626)
Impairment losses	(248 874)	(11 021)
Change in inventory of finished goods	(6 136)	(1 393)
Inventory write-downs	-	(3 756)
Reversed inventory write-down	615	-
Materials and energy	(1 633 568)	(1 634 744)
External services	#ADR!	(376 495)
Taxes and charges	(11 084)	(11 513)
Employee benefits expense	#ADR!	(319 421)
Other	(33 870)	(29 320)
Cost of goods for resale	(28 762)	(23 870)
Total costs by type, of which:	#ADR!	(2 539 159)
Items included in cost of sales	(2 446 463)	(2 173 245)
Items included in selling and distribution expenses	(307 759)	(294 405)
Items included in administrative expenses	(86 534)	(71 509)

11.6. Depreciation/ amortization and impairment losses included in the consolidated income statement

	Year ended 31 December 2012 (audited)	Year ended 31 December 2011 (audited)
Included in cost of sales:		
Depreciation / Amortisation	(120 106)	(121 784)
Impairment of property, plant and equipment	(248 874)	(11 021)
Impairment of intangible assets	-	-
Inventory write-downs	-	(3 756)
Included in selling and distribution expenses:		
Depreciation / Amortisation	(1 338)	(2 996)
Impairment of property, plant and equipment	-	-
Impairment of intangible assets	-	-
Included in administrative expenses		
Depreciation / Amortisation	(1 842)	(2 846)
Impairment of property, plant and equipment	-	-
Impairment of intangible assets	-	-

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11.7. Employee benefits expenses

		Year ended 31 December 2012 (audited)	Year ended 31 December 2011 (audited)
Wages and salaries		(275 975)	(241 567)
Social security costs		(79 136)	(72 017)
Retirement benefits	26.2	(7 083)	(5 837)
Total employee benefits expenses, of which:		(362 194)	(319 421)
Items included in cost of sales		(262 616)	(225 537)
Items included in selling and distribution expenses		(23 445)	(25 073)
Items included in administrative expenses		(76 133)	(68 810)

12. Components of other comprehensive income

Components of other comprehensive income for the year ended 31st December 2012 and the year ended 31st December 2011 are as follows:

	Year ended 31 December 2012 (audited)	Year ended 31 December 2011 (audited)
Exchange difference on translation of foreign operations	(10 340)	14 198
Defered tax on derivatives	238	6 868
Valutation of derivatives	(1 530)	(25 515)
Total other comprehensive income	(11 632)	(4 449)

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13. Income tax

13.1. Tax burdens

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

	Year ended 31 December 2012 (audited)	Year ended 31 December 2011 (audited)
Consolidated income statement		
Current income tax		
Current income tax charge	(6 023)	(6 318)
Adjustments in respect of current income tax of previous years	(232)	(84)
Deferred income tax		
Relating to origination and reversal of temporary differences	89 873	18 339
Income tax expense reported in consolidated income statement	83 618	11 937
Consolidated statement of changes in equity		
Current income tax		
Tax effect of costs related to increase in share capital	-	-
Income tax benefit/ (income tax expense) reported in equity	-	-
Consolidated statement of other comprehensive income		
Deffered income tax		
Deffered tax in respect of valuation in hedging intruments (exchange differences)	238	6 868
Derecognition of deffered tax asset originally recognised in equity	-	-
Income tax benefit / (income tax expense) reported in other comprehensive income	238	6 868

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 Group's effective income tax rate for the year ended 31st December 2012 and the year ended 31st December 2011 is as follows:

Consolidated financial statements for the year ended 31st December 2012 PLN thousand

	Year ended 31 December 2012 (audited)	Year ended 31 December 2011 (audited)
Accounting profit before tax from continuing operations	(60 206)	128
Profit before tax from discontinued operations	-	-
Accounting profit before income tax	(60 206)	128
At statutory income tax rate in 2008-2012 of 19%	11 439	(24)
Adjustments in respect of current income tax from previous years	(232)	(84)
Difference resulting from different tax rates if different countries	(7 630)	7 801
Tax losses on which no deferred tax asset has been recognized	790	1 982
Tax credits in KSSSE	6 225	8 457
Business combination (Purchase of Rottneros)	50 615	-
Utilisation of previously unrecognised tax losses	322	580
Reversal of previously recognized tax losses	11 338	-
Non-taxable income	4 217	7 526
Poolling of tax	8 270	(10 975)
Non-taxable costs	(2 742)	(3 325)
Change in tax rates	1 007	-
At the effective income tax rate of 139% (2011: -9300%)	83 618	11 937
Income tax expense reported in consolidated income statement	83 618	11 937
Income tax attributable to discontinued operations	-	-

Unrecognized deferred tax asset relates mainly to the tax losses which are expected to expire rather than to be realised and temporary differences which, based on the Group's management assessment, could not be utilized for tax purposes.

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

The Polish tax system has restrictive provisions for grouping of tax losses for multiple legal entities under common control, such as those of the Group. Thus, each of the Group's subsidiaries may only utilize its own tax losses to offset taxable income in subsequent years.

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

Consolidated financial statements for the year ended 31st December 2012 PLN thousand

Year of expiration of tax losses	Year ended 31 December 2012 (audited)	Year ended 31 December 2011 (audited)
With an indefinite life	34 938	41 374
ended 31 December 2013	15 768	19 022
ended 31 December 2014	15 178	12 336
ended 31 December 2015	15 504	3 654
ended 31 December 2016 and later	21 470	-
Razem	102 858	76 387

13.3. Deferred income tax

Deferred income tax relates to the following:

	Consolidated balance sheet as at		Consolidated income statement for the year ended	
	31 December 2012 (audited)	31 December 2011 (audited)	31 December 2012 (audited)	31 December 2011 (audited)
Deffered income tax liabilities				
Tangible fixed assets	57 947	72 020	14 073	(1 007)
Inventories	-	493	493	92
Trade receivables	37	(18)	(55)	117
Accruals and provisions	-	(2 535)	(2 535)	2 617
Cogeneration certificates	922	1 808	886	(992)
Untaxed reserves (Swedish tax regulation)	-	7 818	7 818	(1 013)
Fair value adjustments on acquisition of subsidiary	81 014	88 148	7 134	9 345
Losses utilized on the level of separate financial statements, unrecognized in consolidated financial statements	-	19 759	19 759	(2 135)
Hedging instruments	-	321	321	(321)
Gross deffered income tax liabilities	139 919	187 813	47 894	6 702

Consolidated financial statements for the year ended 31st December 2012 PLN thousand

	Consolidated balance sheet as at		Consolidated income statement for the year ended	
	31 December 2012 (audited)	31 December 2011 (audited)	31 December 2012 (audited)	31 December 2011 (audited)
Deferred income tax assets				
Post-employment benefits	2 791	3 151	(360)	(939)
Accruals and provisions	3 237	2 868	370	(1 788)
Fair value adjustments on imairment of non-current assets	54 004	172	53 832	(4 345)
Inventories	922	670	252	(572)
Trade receivables	3 641	4 040	(399)	273
Tax credits in Kostrzynsko - Kostrzynsko Słubicka Special Economic Zone	24 786	25 640	(854)	636
Fair value adjustments on acquisition of subsidiary	29 074	-	29 074	-
Hedging instruments	3 303	-	3 303	(321)
Loss available for offset against future taxable income	22 983	1 114	21 869	(221)
Gross deferred income income tax assets	144 742	37 655	107 087	(7 277)
Foreign exchange differences			(12 011)	18 594
Total, including			142 970	18 018
Deferred tax asset from acqusition of subsidiaries			23 785	
Fair value adjustments of net assets on acquisition of subsidiary (recognised as profit on bargain purchase)			29 074	
Changes in deferred tax recognised in other compresensive income			238	
Changes in deferred tax recognised in profit and loss			89 873	
Net deferred tax assets / liability				
therein:				
- Deferred tax assets	60 958	6 362		
- Deferred tax liability	56 136	156 520		

14. Non-current assets held for sale

As on 31st December 2012 and as on 31st December 2011 the Group did not report any non-current assets held for sale.

15. Social assets and social fund liabilities

The Social Fund Act dated 4th March 1994, with subsequent amendments, requires the companies whose full-time employees' number exceeds 20 to establish and run a Social Fund. Arctic Paper Kostrzyn S.A. creates such a Fund and makes periodical transfers in the basic amounts. The Funds purpose is to subsidize social activities of Arctic Paper Kostrzyn, loans granted to employees and cover social cost.

Arctic Paper Kostrzyn has compensated the assets and liabilities related to the Social Fund, because the assets are not a separate asset of this company. In relation to the fact mentioned above, the net balance of Social Fund amounted to PLN 15 thousand on 31st December 2012 (on 31st December 2011: PLN 3 thousand).

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The composition and nature of assets, liabilities and costs related to the Social Fund are presented in the following table.

	Year ended 31 December 2012 (audited)	Year ended 31 December 2011 (audited)
Cash	49	25
Social Fund liability	(34)	(22)
Expenditure of Fund are covered by own funds		
Net balance	15	3

	Year ended 31 December 2012 (audited)	Year ended 31 December 2011 (audited)
Transfers made to the Social Fund during the period	597	563

16. Earnings per share

Earnings per share ratio is calculating by dividing the net profit for the year attributable to the Company's' shareholders by weighted average number of ordinary shares during the reporting period. Information regarding net profit and number of shares, which was the base for calculation of earnings per share and diluted earnings per share are presented below:

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	Year ended 31 December 2012 (audited)	Year ended 31 December 2011 (audited)
Net profit (loss) for the year from continuing operations attributable to equity holders of the parent	(102 640)	12 066
Profit (loss) for the period from discontinued operations attributable to equity holders of the parent	-	-
Net profit (loss) for the year from continuing operations attributable to equity holders of the parent	(102 640)	12 066
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 at 31 December 2012)	10 740 983	-
Total number of shares	66 144 483	55 403 500
Weighted average number of shares	55 727 201	55 403 500
Weighted average diluted number of shares	55 727 201	55 403 500
Profit/(Loss) per share (in PLN)	(1,84)	0,22
Diluted profit/(loss) per share (in PLN)	(1,84)	0,22

Dilluted average weighted numer of shares for 2012 has been calculated as the number of shares registered as on 31st December 2012 (55,403,500 shares), increased by

-323,701 shares constituting average weighted in time number out of 10,740,983 series F shares issued on 20th December 2012 for the purpose of acquisition of Rottneros AB; the increase of share capital on the grounds of the issue was been recognized in reserve capitals because of the fact that its registration in National Court Register occurred after 31st December 2012, that is on 10th January 2013.

16.1. Transactions on ordinary shares, which had taken place between the balance sheet date and the date of authorization of these Consolidated 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 (current report 20/2013).

17. 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 parent 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 parent company until such time as the balance of the reserve capital reaches at least one third of the share capital of the parent 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.

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

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

On 28th June 2012, the Ordinary Shareholders Meeting adopted resolution no 8 regarding distribution of profit or year 2011, in which a part of profit for year 2011 in the amount of PLN 2,184,399.57 assigned in compliance with provisions of Code of Commercial Companies to supplementary capital, in the amount of PLN 9,972,630.00 for payment of dividend (PLN 0.18 per share), while the amount of PLN 15,147,964.96 to reserve capital, with future possibility of using this amount for payment of dividend or other legally permissible purpose.

The Shareholders Meeting set the dividend day to 31st July 2012 and the dividend payment day to 21st August 2012 (current report no 13/2012) – the dividend was paid according to schedule.

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

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18. Property, plant and equipment

	Land and buildings	Plant and equipment	Assets under construction	Total
Net carrying amount at 1 January 2011	286 219	671 305	43 230	1 000 753
Additions	899	6 850	47 563	55 313
Other additions	4 360	37 275	(41 635)	0
Disposals	-	(114)	-	(114)
Liquidations	(116)	(162)	-	(278)
Depreciation charge for the period	(15 344)	(107 402)	-	(122 746)
Impairment losses (Note 25)	(310)	(10 711)	-	(11 021)
Foreign exchange differences	20 493	48 725	1 049	70 268
Net carrying amount at 31 December 2011 (audited)	296 201	645 767	50 207	992 174
Net carrying amount at 1 January 2012	296 201	645 767	50 207	992 174
Additions	2 016	11 098	44 726	57 840
Other additions	8 890	42 257	(51 373)	(226)
Acquisition through business combination (Note 23)	18 219	161 286	12 368	191 873
Disposals	(39)	(94)	(197)	(330)
Liquidations	(158)	(105)	(142)	(405)
Depreciation charge for the period	(15 952)	(102 822)	-	(118 774)
Impairment losses (Note 25)	(65 995)	(134 005)	(2 089)	(202 089)
Foreign exchange differences	(7 790)	(15 678)	(540)	(24 009)
Net carrying amount at 31 December 2012 (audited)	235 391	607 704	52 959	896 054
At 1 January 2011				
Gross carrying amount	351 106	1 305 258	43 230	1 699 594
Accumulated depreciation and impairment	(64 887)	(633 953)	-	(698 840)
Net carrying amount	286 219	671 305	43 230	1 000 753
At 31 December 2011				
Gross carrying amount	382 072	1 467 312	50 207	1 899 590
Accumulated depreciation and impairment	(85 871)	(821 545)	-	(907 416)
Net carrying amount (audited)	296 201	645 767	50 207	992 174
At 1 January 2012				
Gross carrying amount	382 072	1 467 312	50 207	1 899 590
Accumulated depreciation and impairment	(85 872)	(821 545)	-	(907 418)
Net carrying amount	296 201	645 767	50 207	992 174
At 31 December 2012				
Gross carrying amount	400 835	1 630 391	55 048	2 086 274
Accumulated depreciation and impairment	(165 445)	(1 022 687)	(2 089)	(1 190 220)
Net carrying amount (audited)	235 391	607 704	52 959	896 054

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Impairment loss in amount of PLN 202,089 thousand was included in consolidated income statement for the period ended 31st December 2012 in cost of sales (2011: PLN 11,021 thousand).

The carrying amount of machines and devices used, held under finance lease agreements or hire purchase contracts, on 31st December 2012 totaled PLN 39,041 thousand (on 31st December 2011: PLN 3,348 thousand).

Leased assets and assets under hire purchase contracts are pledged as security for the related finance lease and hire purchase liabilities.

A mortgage security was established on land and buildings with a carrying amount of 271,117 thousand (on 31st December 2011: PLN 296,201 thousand) in respect of bank loans taken out by the Company (note 32).

The value of capitalized external borrowing costs and foreign exchange differences in the financial year ended 31st December 2012 amounted to PLN 1,758 thousand (year ended 31st December 2011: PLN -204 thousand).

19. Leases

19.1. Operating lease commitments – Group as the lessee

The Group entered into operating lease agreements on certain vehicles and technical equipment. Entering into these contracts does not result in any restrictions for the lessee.

Future minimum rentals payable under non-cancellable operating leases as on 31st December 2012 and 31st December 2011 are as follows:

	Year ended 31 December 2012 (audited)	Year ended 31 December 2011 (audited)
Within 1 year	5 689	5 089
Within 1 to 5 years	10 394	9 423
More than 5 years	412	-
Total	16 495	14 512

19.2. Finance lease and hire purchase commitments

As on 31st December 2012 and 31st December 2011 future minimum rentals payable under finance leases and hire purchase contracts and the present value of the net minimum lease payments are as follows:

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	Year ended 31 December 2012		Year ended 31 December 2011	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
Within 1 year	5 699	5 561	8 293	7 987
Within 1 to 5 years	12 869	11 415	12 484	11 243
More than 5 years	33 425	25 795	36 044	30 298
Minimum lease payments, total	51 992	42 771	56 821	49 528
Less amounts representing finance charges	(9 221)		(7 292)	
Present value of minimum lease payments, of which:	42 771	42 771	49 528	49 528
- short-term		5 561		7 987
- long-term		37 210		41 541

20. Investment properties

	2012 (audtied)	2011 (audited)
Opening balance at 1 January	10 542	10 542
Addititons (subsequent expenditure)	-	-
Net loss from a fair value adjustment	-	-
Closing balance at 31 December	10 542	10 542

Investment properties are recognized at fair value determined by a valuation performed by accredited appraiser "DWN" Doradztwo i Wycena Nieruchomości Karina Drzazgowska. In relation to year 2011 no factors affecting the valuation have been changed. The valuation used a comparative approach, the adjusted average method.

DWN – Doradztwo i Wycena Nieruchomości Karina Drzazgowska is an expert in Real estate, holding a professional certification in the field of property valuation awarded by the President of the Housing and Urban Development.

The market value of property constitutes the price that is most likely to obtain in the market, determined taking into account transaction prices for adoption of the following assumptions:

- parties of the contract were independent of each other, did not act under constraint and had a firm intention to conclude a contract,
- the time necessary to display a property in the market and to negotiate contract terms elapsed.

The market value for valid method of use (WRU0) was estimated taking into account:

- purpose of the valuation,
- the nature and location of the property,
- function in land development plan,
- level of equipment in the technical infrastructure,
- condition of property,

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- available data on prices of similar properties.

In 2012 revenues received from investment properties amounted to PLN 2 thousand (2011: PLN 23 thousand).

Costs incurred in 2012 consist of cost of property tax amounting to PLN 21 thousand (2011: PLN 20 thousand).

21. Intangible assets

As at 31 December 2012 (audited)

	Customer relationship	Trademarks	CER Certificate	CO2 emission rights	Other *	Total
Net carrying amount at 1 January 2012	33 315	62 574	9 518	13 926	1 077	120 410
Additions	-	-	20 583	1 742	3 118	25 443
Disposals	-	-	(24 808)	(14 000)	4 072	(34 736)
Acquisition of subsidiaries (Note 23)	-	34 606	-	1 946	1 903	38 455
Depreciation charge for the period	(4 157)	-	-	-	(355)	(4 512)
Impairment losses (Note 25)	(11 537)	(34 250)	-	(982)	(16)	(46 786)
Foreign exchange differences	(1 270)	(2 357)	-	-	(720)	(4 347)
Net carrying amount at 31 December 2012	16 351	60 573	5 293	2 632	9 078	93 927
At 1 January 2012						
Gross carrying amount	41 507	62 574	9 518	13 926	30 438	157 964
Accumulated depreciation and impairment	(8 193)	-	-	-	(29 361)	(37 554)
Net carrying amount	33 315	62 574	9 518	13 926	1 077	120 410
At 31 December 2012						
Gross carrying amount	39 841	94 824	5 293	3 614	38 729	182 300
Accumulated depreciation and impairment	(23 491)	(34 250)	-	(982)	(29 651)	(88 374)
Net carrying amount	16 351	60 573	5 293	2 632	9 078	93 927

* - 'Other' position includes computer software

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As at 31 December 2011 (audited)

	Customer relationship	Trademarks	CER Certificate	CO2 emission rights	Other *	Total
Net carrying amount at 1 January 2011	33 540	55 977	4 293	18 768	14 540	127 118
Additions	-	-	25 133	653	69	25 855
Disposals	-	-	(19 908)	(7 364)	(12 879)	(40 151)
Depreciation charge for the period	(3 952)	-	-	-	(927)	(4 879)
Foreign exchange differences	3 726	6 598	-	1 869	274	12 467
Net carrying amount at 31 December 2011 (aud	33 315	62 574	9 518	13 926	1 077	120 410
At 1 January 2011						-
Gross carrying amount	37 028	55 977	4 293	18 768	42 789	158 854
Accumulated depreciation and impairment	(3 487)	-	-	-	(28 248)	(31 736)
Net carrying amount	33 540	55 977	4 293	18 768	14 540	127 118
At 31 December 2011						-
Gross carrying amount	41 507	62 574	9 518	13 926	30 438	157 964
Accumulated depreciation and impairment	(8 193)	-	-	-	(29 361)	(37 554)
Net carrying amount	33 315	62 574	9 518	13 926	1 077	120 410

* - ‘Other’ position includes computer software

In the financial year ended 31st December 2011, emission rights with a carrying amount of PLN 653 thousand were used as guarantee in respect of bank loans drawn by the Group.

Imapairment of intangible assets was recognized in consolidated income statement as on 31st December 2012 in cost of sales in the amount of 46,786 thousand (2011: PLN 0 thousand).

The Company performed a test on impairment of the value of Arctic Paper corporate trademark as on 31st December 2012. As a result of an analysis performed, no need for impairment allowance was confirmed.

Another test has been scheduled to 31st December 2013.

The Company performed a test on impairment of the value of corporate trademarks purchased at acquisition of AP Grycksbo as on 31st December 2012. As a result of an analysis performed, an impairment write-off was performed in the amount of 34,250 thousand as on 31st December 2012 (PLN 0 thousand as on 31st December 2011). The impairment test of the value of corporate trademarks was performed at Arctic Paper Grycksbo level, as the company was considered one unit generating cash flows. The details of the test have been presented in note 25.

Another test has been scheduled to 31st December 2013 or earlier if there are premises for impairment.

22. Investment in related parties valued using the equity method

During the years ended 31st December 2012 and 31st December 2011 the Group did not have any associates.

On 1st October 2012, Arctic Paper Munkedals AB purchased 50% of shares in Kalltorp Kraft Handelsbolaget seated in Trolhattan, Sweden. Kalltorp Kraft deals in energy production in the owned hydro-power plant, and the purchase was performed in realization of the strategy of increasing own energy capacities. As on 31st December 2012 the shares in Kalltorp Kraft have been recognized as joint arrangement and evaluated in compliance with ownership rights in consolidated financial data as on 31st December 2012.

The value of shares in joint arrangement amounted to PLN 5,056 thousand as on 31st December 2012. Profit from the shares held in the joint arrangement amounted to PLN 302 thousand in 2012 and was recognized as other operating income.

23. Business combinations and acquisition of minority interests

23.1. Acquisition of Rottneros AB

On 20th December 2012, Arctic Paper S.A. purchased 39.44% 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.

Purchasing of Rottneros AB shares occurred under the Ocalling announced on 7th November 2012 and aimed at hitherto shareholders of Rottneros AB, to exchange Rottnero AB shares to Arctic Paper S.A. shares with the exchange parity of 0.1872 Arctic Paper S.A. share for 1 Rottneros AB share. The shareholders of Rottneros holding 2000 shares or less were allowed to sell under the calling the shares for SEK 2.30 per share. The calling was valid from 22nd November 2012 until 12th December 2012, and then it was prolonged jointly unil 26th February 2013. On 20th December 2012 Arctic Paper S.A. issued 10,740, 983 series F shares and exchanged it for 57,377,048 Rottneros AB shares. Thus series F shares of Arctic Paper S.A. were listed on NASDAQ OMX stock exchange in Stockholm. The fair value of issued shares of Arctic Paper S.A. was evaluated based on the closing rate listed on Warsaw Stock Exchange as on 19th December 2012, that is PLN 6.05 per share. Moreover, the Company purchased, under the calling, in cash, 1,713,294 Rottneros AB shares and purchased 1,414,148 Rottneros AB shares in the free market. As on 20th December 2012, the Company held total 60,504,490 Rottneros AB shares which entitled the Company to 39.66% of votes in the Shareholders Meeting.

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, Arctic Paper S.A. on 20th December 2012 took actual control over Rottneros Group and included in consolidation under full method the financial data of Rottneros Group as on 31st December 2012 assuming it does not materially differ from the data as on 20th December 2012.

Non-controlling capitals totaling 92,067,435 Rottneros AB shares were evaluated according to closing rate of these shares listed in NASDAQ OMX stock exchange in

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Stockholm as on 19th December 2012, that is in the amount of SEK 2.21 per share. The total value of minority capitals before the settlement of Arctic Paper S.A. purchasing of shares amounted to PLN 96,790 thousand.

Therefore, the Group has performed the final settlement of value of assets and liabilities. The effect of the final settlement of the entities merger is presented in the table below.

Fair value adopted for the final settlement as well as goodwill that arose from the temporary settlement disclosed in the quarterly report for the fourth quarter of 2012, as well as carrying amount just before the acquisition present as follows:

	Fair Vaule taking to final settlement as at 31 December 2012	Carrying amount taking to interim settlement as at 31 December 2012
Property, plant and equipment	191 873	359 154
Intangible assets	38 455	1 903
Deferred tax asset	52 859	23 785
Cash and cash equivalents	12 368	12 368
Trade and other receivables	104 178	104 178
- of which receivables from Arctic Paper Group	(9 971)	(9 971)
Inventories	114 168	114 168
	513 901	605 585
Trade payables and other current liabilities	48 046	48 046
- of which payables to Arctic Paper Group	-	-
Interest-bearing loans and borrowings and other financial liabilities	42 337	42 337
Provision and accruals	52 803	52 803
Contingent liabilities	1 427	-
	144 613	143 186
Carrying value of identifiable assets, liabilities and contingent liabilities	359 318	462 399
Non-controlling interest	(96 790)	-
Goodwill arosen from business combination/ (Negative goodwill/ Bargain purchase)	(204 203)	(404 075)
Total consideration	58 324	58 324
Allocation of negative goodwill		
Negative goodwill arosen from business combination (Bargain purchase)	204 203	
Dereffed tax asset	-	
Impact on net profit	204 203	
including		
– attributable to equity holders of the parent	78 151	
– attributable to non-controlling interest	126 052	
Total value of non-controlling interest	222 842	

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	Fair Vaule taking to final settlement as at 31 December 2012	Carrying amount taking to interim settlement as at 31 December 2012
Consideration:		
Shares issued (10.740.983 shares), at fair value (share price as at 19 December 2012)	64 983	64 983
Cash paid	3 312	3 312
Receivables and liabilities against Rottneros, directly before acquisation	(9 971)	(9 971)
Total payment	58 324	58 324
The cash outflow on acquisation:		
Net cash acquired with the subsidiary	12 368	12 368
Cash paid	(3 312)	(3 312)
Net cash outflow	9 056	9 056

If the merger occurred in the beginning of the year, the net loss for the Group would increase by PLN 2,479 thousand and the revenues from continued activity would increase by PLN 690,915 thousand.

As a result of the final settlement as on 31st December 2012 the Group noted profit on occasional purchase in the amount of PLN 204,203 thousand. The recognized profit on occasional purchase does not constitute taxable income.

The profit on occasional purchase was recognized in consolidated income statement in the position of other operating income.

Transaction costs in the amount of PLN 11,751 thousand were recognized as administrative costs In the income statement and as an element of cash flow from operating activity in cash flow statement.

The total value of non-controlling shares together with the profit on purchase of Rottneros AB shares amounted to PLN 222,842 thousand as on 31st December 2012.

Arising of profit on occasional purchase

The current difficult economic situation worldwide is a reason for increase of investor doubts regarding possible return on realized investments. Financial markets are sensitive to economic and political tribulations, especially in Euro zone, which translates into greater caution of the investors on decision making, including the decisions concerning investments in shares of companies present at capital markets. Consequently, a major number of companies listed in world stock exchanges is evaluated below the real market value measured with ability to generate cash flows in foreseeable future.

In such circumstances, Rottneros AB as an entity of relatively small capitalization, compared to other companies listed in NASDAQ OMX in Stockholm, is in our opinion evaluated incommensurate to its real value. The factors that add to stock exchange underpricing is lack of presence in the shareholding of a strategic industry investor as well as stable free-float. It is worthwhile to notice the restructuring activities undertaken in recent years by the Board of Rottneros Group whose result was closing of the three from five functioning mills, and consequently the necessity of increasing the costs and performing impairment write-offs on value loss of the assets. These proceedings caused worsening of financial results in recent years.

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The above factors make the stock exchange evaluation of the company as on the acquisition day, that was the basis to set the shares purchase price for Arctic Paper, is in our opinion far from actual ability of Rottneros AB to generate cash flows.

24. Other assets

24.1. Other financial assets

	Note	Year ended 31 December 2012 (audited)	Year ended 31 December 2011 (audited)
Derivatives	39.3	3 806	1 692
Guarantee deposits		733	791
Other		-	-
Total		4 538	2 482
- current		3 805	1 692
- non-current		733	791

24.2. Other non - financial assets

	Year ended 31 December 2012 (audited)	Year ended 31 December 2011 (audited)
Insurance costs	2 235	698
Leasing charges	159	103
Cogenaration certificates	-	1 133
Prepayments for services	8 852	3 980
Rental charges	2 021	1 462
Receivables due from pension fund	665	1 711
Other	1 821	1 772
Total	15 753	10 859
- current	14 515	8 708
- non-current	1 238	2 151

25. Impairment test of tangible and intangible assets

25.1. Arctic Paper Mochenwangen

As on 31st December 2012 the Group performed impairment test of tangible and intangible assets in the paper mill Arctic Paper Mochenwangen.

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 creating an allowance on the grounds of impairment to the amount of PLN 38,605 thousand (PLN 11,021 thousand in 2011). The description of the process as well as key assumptions have been presented as below.

The recoverable amount of the cash-generating unit selling AP Tech, L-Print and Pamo paper has been determined based on the value in use calculation using cash flow projections from financial budgets approved by the key management covering a five-year period from 2013 – 2017. The pre-tax discount rate applied to the cash flow projections is 9.80% and the cash flows beyond the five-year period are extrapolated using a 1.6% growth rate.

Key Assumptions used in value in use calculations

The calculation of value in use for Arctic Paper Mochenwangen cash-generating unit is most sensitive to the following factors:

- Discount rates
- Increase in sales prices
- Increase in energy prices
- Currency risk

Discount rate represents the assessment made by the management of the risks specific to the cash-generating unit. The discount rate is used by the management to assess the operating efficiency (results) and future investment propositions. In the budgeted period the discount rate amounts to 8.40%. The discount rate was determined using the weighted average cost of capital (WACC).

Increase in raw material prices (primarily prices of pulp) - assessments of change in raw materials prices are made using the ratios published based on the data regarding pulp prices. The main source of data used as a base for assumptions is Internet site: www.foex.fi. It should be mentioned that pulp prices are featured with high volatility.

Increase in energy prices - increase in energy prices, in particular coal which is a basic source of the energy, results from the assumptions used in the projections approved by the local management of Arctic Paper Mochenwangen.

Currency risk - the risk relates to the purchase cost of raw materials used for production of paper, in particular to the purchase of pulp where costs are incurred mainly in USD. In projected period the USD/EUR exchange rate was set at the level of 0.7794.

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Below table presents main assumptions used in calculation of value in use

General assumption	2012	2011
Prognosis based on year	2013-2017	2012-2016
Income tax rate	27,40%	27,40%
Pre-tax discount rate	9,80%	9,80%
Weighted average cost of capital	8,40%	8,40%
Growth in residual period	1,60%	1,00%

The following table presents the impairment loss recognized as on 31st December 2012:

	Balance vaue as at 31.12.2012	Vaule in used by 31.12.2012
Tangible assets, therein:	37 376	-
- land	14 141	-
- buildings	702	-
- machinery and equipment	20 445	-
- assets under construction	2 088	-
Intangible assets	1 230	-
Working capital	4 406	4 406
Cash and equivalents	7 311	7 311
Total value	50 322	11 717
Impairment recognized in Profit and loss in 2012		38 605

The table below present the changes in impairment loss dependent on changes of particular parameters adopted for testing.

Parameters	Increase in basis points	Effect on impairment
Weighted average cost of capital	+0,1 p.p.	na
Growth in residual period	+0,1 p.p.	164
Sales volume in first year	+ 0,1%	895
Sales prices in first year	+ 0,1%	3 438
Weighted average cost of capital	-0,1 p.p.	388
Growth in residual period	-0,1 p.p.	na
Sales volume in first year	- 0,1%	na
Sales prices in first year	- 0,1%	na

Because of the maximum value of write-off on the impairment of non-current, non-financial assets, the increase of weighted average cost of capital, lowering of growth rate in the final period, decrease of sales volume in the first year of the forecast or decrease of sales price in the first year of the forecast will not affect the amount of value loss.

The impairment allowance amounting to PLN 38,605 thousand was recognized in consolidated income statement for the year ended 31st December 2012 in the position cost of sales.

The impairment allowance amounting to PLN 11,021 thousand was recognized in consolidated income statement for the year ended 31st December 2011 in the position cost of sales.

25.2. Arctic Paper Grycksbo

As on 31st December 2012 the Group performed impairment test of property, plant & equipment and intangible assets in the paper mill Arctic Paper Grycksbo.

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

In respect of the above, a decision had been made to perform a test on impairment using discounted cash flows method. The performed test resulted in creating an allowance on the grounds of impairment to the amount of PLN 209,308 thousand (PLN 0 thousand in 2011). The description of the process as well as key assumptions have been presented as below.

The recoverable amount of the cash-generating unit selling G-Print and Arctic paper has been determined based on the value in use calculation using cash flow projections from financial budgets approved by the key management covering a five-year period from 2013 – 2017. The pre-tax discount rate applied to the cash flow projections is 7.80% and the cash flows beyond the five-year period are extrapolated using a 2.0% growth rate.

Key Assumptions used in value in use calculations

The calculation of value in use for Arctic Paper Grycksbo cash-generating unit is most sensitive to the following factors:

- Discount rates
- Increase in raw materials prices
- Increase in energy prices
- Currency risk

Discount rate represents the assessment made by the management of the risks specific to the cash-generating unit. The discount rate is used by the management to assess the operating efficiency (results) and future investment propositions. In the budgeted period the discount rate amounts to 7.40%. The discount rate was determined using the weighted average cost of capital (WACC).

Increase in raw material prices (primarily prices of pulp) - assessments of change in raw materials prices are made using the ratios published based on the data regarding pulp prices. The main source of data used as a base for assumptions is Internet site: www.foex.fi. It should be mentioned that pulp prices are featured with high volatility.

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Changes of energy prices - increase in energy prices, mainly electricity listed on Nordpool, commodities stock exchange in Sweden, as well as the energy from biomass, results from the assumptions used in the projections approved by the local management of Arctic Paper Grycksbo.

Currency risk - the risk relates to the purchase cost of raw materials used for production of paper, in particular to the purchase of pulp where costs are incurred mainly in USD. In projected period the USD/SEK exchange rate was set at the level of 6.7944.

The table below presents main assumptions used in calculation of value in use:

General assumption	2012	2011
Prognosis based on year	2013-2017	2012-2016
Income tax rate	22,00%	26,30%
Pre-tax discount rate	7,80%	8,40%
Weighted average cost of capital	7,40%	8,00%
Growth in residual period	2,00%	1,00%

The following table presents the impairment loss recognized as on 31st December 2012:

	Balance vaue as at 31.12.2012	Vaule in used by 31.12.2012
Tangible assets, therein:	410 495	246 745
- land	8 560	8 560
- buildings	125 100	73 949
- machinery and equipment	275 380	162 782
- assets under construction	1 455	1 455
Intangible assets with undetermined useful life	58 900	24 649
Intangible assets with determined useful life	31 549	20 240
Working capital	28 151	28 151
Cash and equivalents	31 016	31 016
Total value	560 110	350 802
Impairment recognized in 2011		209 308

The impairment loss amounting to PLN 209,308 thousand (in 2011: PLN 0 thousand) was recognized in consolidated income statement for the year ended 31st December 2012 in the position cost of sales.

The below table presents sensitivity of value in use dependent on changes of particular parameters adopted for testing:

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Parameters	Increase in basis points	Effect on value in use
Weighted average cost of capital	+0,1 p.p.	(6 263)
Growth in residual period	+0,1 p.p.	4 957
Sales volume in first year	+ 0,1%	3 420
Sales prices in first year	+ 0,1%	11 187
Weighted average cost of capital	-0,1 p.p.	6 496
Growth in residual period	-0,1 p.p.	(4 777)
Sales volume in first year	- 0,1%	(3 420)
Sales prices in first year	- 0,1%	(11 187)

26. Employees benefits

26.1. Employee share incentive plan

On 30th July 2009 the Extraordinary General Shareholders' Meeting adopted Resolution Number 4 on approving the assumptions of an incentive programme for key managers, issuing subscription warrants, entitling them to take up D Series shares excluding the 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.

26.2. Retirement and other post-employment benefits

The Group companies provide retirement benefits to retiring employees in accordance with the Labor Code in Poland applicable to Arctic Paper Kostrzyn S.A. and agreements with labor unions applicable to Arctic Paper Munkedals AB and Arctic Paper Mochenwangen GmbH. Arctic Paper Kostrzyn S.A. and Arctic Paper Grycksbo AB also operate Social Funds for future retirees.

As a result, based on the valuation made by professional actuarial companies in each country, the Group have created a provision for these future commitments.

The Group recognizes these provisions in accordance with the corridor method. According to this method, actuarial gains or losses are only recognized if, at the end of the previous reporting period, they exceed 10% of the present value of the obligation.

Net pension costs for the defined benefit plans are summarized in the following table:

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	Year ended 31 December 2012 (badane)	Year ended 31 December 2011 (badane)
Current service cost	3 261	2 212
Interest on obligation	3 523	3 336
Recognized actuarial gain or loss	299	289
Total pension cost for defined benefit plans	7 083	5 837

The table below summarizes the changes of provisions over the years ending 31st December 2012 and 31st December 2011. The table also includes information about unrecognized actuarial losses and total pension obligations.

	Benefit plan in Sweden (AP SA branch office)	Benefit plan in Sweden (Munkedals)	Benefit plan in Sweden (Grycksbo)	Benefit plan in Poland (Kostrzyn)	Benefit plan in Germany (Mochenwangen)	Total
Pension provison at 1 January 2012	1 892	16 812	51 472	4 750	6 406	81 332
Cost of employment during current period	827	946	1 136	227	126	3 261
Interest costs	-	907	1 991	278	347	3 523
Actuarial gains or losses	-	287	-	-	11	299
Pensions paid	(1 892)	(276)	(2 016)	(228)	(172)	(4 585)
Foreign exchange diffrences	-	(675)	(2 019)	-	(485)	(3 178)
Pension provision at 31 December 2012	827	18 000	50 564	5 027	6 234	80 652
Unrecognized actuarial losses (+) and gains (-)	-	7 047	880	1 382	1 169	10 477
Pension obligation at 31 December 2012	827	25 047	51 443	6 409	7 403	91 129

The value of unrecognized actuarial losses in 2012 in Sweden was influenced mainly by the change of discount rate value used in calculation of the provision.

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	Benefit plan in Sweden (AP SA branch office)	Benefit plan in Sweden (Munkedals)	Benefit plan in Sweden (Grycksbo)	Benefit plan in Poland (Kostrzyn)	Benefit plan in Germany (Mochenwangen)	Total
Pension provison at 1 January 2011	-	13 520	45 147	4 514	5 445	68 626
Cost of employment during current period	1 892	661	1 170	236	146	4 104
Interest costs	-	870	1 860	253	353	3 336
Actuarial gains or losses	-	306	(8)	-	(9)	289
Pensions paid	-	(183)	(2 168)	(253)	(155)	(2 758)
Foreign exchange diffrences	-	1 638	5 471	-	625	7 735
Pension provision at 31 December 2011	1 892	16 812	51 472	4 750	6 406	81 332
Unrecognized actuarial losses (+) and gains (-)	-	6 863	(2 713)	413	(579)	3 984
Pension obligation at 31 December 2011	1 892	23 674	48 759	5 163	5 827	85 316

The principal assumptions used by the actuaries, in the particular balance sheet dates, in determining the retirement benefit obligations are presented below:

	Year ended 31 December 2012 (audited)	Year ended 31 December 2011 (audited)
Discount rate (%)		
Plan in Sweden	3,8%	3,8%
Plan in Poland	3,8%	5,5%
Plan in Germany	3,7%	5,0%
Future salary increases (%)		
Plan in Sweden	3,0%	3,0%
Plan in Poland	3,0%	3,0%
Plan in Germany	-	-
Remaining time of duty (in years)		
Plan in Sweden	15,1	15,3
Plan in Poland	17,4	15,5
Plan in Germany	10,9	13,6

26.3. Redundancy payments

As on 31st December 2012 as well as on 31st December 2012, the Group has not recognized a provision on redundancy payments.

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27. Inventories

	Year ended 31 December 2012 (audited)	Year ended 31 December 2011 (audited)
Raw materials (at cost)	196 603	151 683
Work-in-progress (at cost of development)	8 682	9 017
Finished goods and goods for resale, of which:		
At cost / cost of development	187 819	147 279
At net realisable value	18 612	7 128
Prepayments for supplies	-	34
Total inventories, at the lower of cost (or costs of development) and net realisable value	411 716	315 142
Inventory write-down	8 153	8 767
Inventory before write-down	419 869	323 909

In the year ended 31st December 2012, the Group did not made an additional write-down of inventory (in 2011: PLN 3,756 thousand. In 2012 write-offs were released in the amount of PLN 615 thousand (2011: PLN 0 thousand). The change of write-downs of inventories is recognized in cost of sales in the income statement. The write-down is related to finished goods and raw materials, slow-moving and burdened with the risk of being impaired, unsold or unusable for own needs.

In the financial years ended 31st December 2012, the Group had a pledge on all movable property amounting to SEK 538,500 thousand, PLN 171,600 thousand, EUR 20,000 thousand, and PLN 221,200 thousand, part of which was inventory.

In the financial year ended 31st December 2011, the Group had a pledge on all tangible assets amounting to SEK 600,000 thousand, PLN 171,600 thousand, EUR 20,000 thousand, and PLN 221,200 thousand, part of which was inventory.

As on 31st December 2012 inventories of finished goods in the amount of PLN 18,612 thousand were stated at net realisable value (as on 31st December 2011: PLN 7,128 thousand).

28. Trade and other receivables

	Year ended 31 December 2012 (audtied)	Year ended 31 December 2011 (audtied)
Trade receivables	275 588	254 331
Budget receivables - VAT receivables	24 902	23 342
Other receivables from third parties	23 290	5 127
Other receivables from related parties	6 108	11 652
Total receivables, net	329 888	294 452
Doubtful debts allowance	20 722	21 653
Total receivables, gross	350 610	316 105

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For terms and conditions relating to related party transactions, refer to note 36.

Trade receivables are non-interest bearing and are usually due within 30-90 days.

The Group has a policy to sell only to customers who have undergone an appropriate credit verification procedure. Thanks to that, as Management believes, there is no additional credit risk that would exceed the doubtful debts allowance recognised for trade receivables of the Group.

As on 31st December 2012 trade receivables amounting to PLN 20,722 thousand (as on 31st December 2011: PLN 21,653) were considered irrecoverable, impaired and fully provided for.

Movements in impairment of receivables were as follows:

	Year ended 31 grudnia 2012 (audtied)	Year ended 31 grudnia 2011 (audtied)
Provision for bad debts as at 1 January	21 653	22 122
Charge for the year	3 202	1 497
Utilisation	(5 798)	(633)
Unused amounts reversed	(3 076)	(1 807)
Result on translation of foreign entities	4 741	474
Provision for bad debts as at 31 December	20 722	21 653

The table below presents the analysis of trade receivables which as on 31st December 2012 and 31st December 2011 were past due but not considered irrecoverable:

	Total	Neither past due nor impaired	Past due but nor impaired				
			< 30 days	30 - 60 days	60 - 90 days	90 - 120 days	>120 days
As at 31 December 2012	275 588	216 320	35 854	17 810	2 351	53	3 200
As at 31 December 2011	254 331	213 802	32 280	3 591	569	524	3 564

In the section of '>120 days' the vast majority is constituted by receivables of Arctic Paper Kostrzyn amounting to PLN 2,709 thousand. Those receivables have not been impaired because, in long-term perspective's assessment of the Management, the receivables are recoverable.

29. 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 three month depending on the immediate cash requirements of the Group and earned interest at the respective short-term deposit rates. The fair value of cash and cash equivalents as on 31st December 2012 amounted to PLN 202,710 thousand (31st December 2011: PLN 166,299 thousand).

As on 31st December 2012, the Group had un-drawn committed borrowing facilities in the amount of PLN 75,171 thousand (as on 31st December 2011: PLN 36,735 thousand).

As on 31st December 2012 the Group had an overdraft in the amount of PLN 74,220 thousand (as on 31st December 2011: PLN 33,069 thousand).

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Balance of cash and cash equivalents disclosed in the cash flow statement consisted of the following:

	Year ended 31 December 2012 (audited)	Year ended 31 December 2011 (audited)
Cash at bank and in hand	192 710	166 299
Short-term deposits	10 000	-
	202 710	166 299

30. Share capital and reserve/other capital

30.1. Share capital

	As at 31 December 2012 (audited)	As at 31 December 2011 (audited)
'A' class ordinary shares of PLN 1 each at 31/12/2012 and PLN 10 each at 31/12/2011	50	500
'B' class ordinary shares of PLN 1 each at 31/12/2012 and PLN 10 each at 31/12/2011	44 254	442 535
'C' class ordinary shares of PLN 1 each at 31/12/2012 and PLN 10 each at 31/12/2011	8 100	81 000
'E' class ordinary shares of PLN 1 each at 31/12/2012 and PLN 10 each at 31/12/2011	3 000	30 000
	55 404	554 035

	Date of registration of capital increase	Volume	Value in PLN
Ordinary shares issued and fully covered			
Issued on 30 April 2008	2008-05-28	50 000	50 000
Issued on 12 September 2008	2008-09-12	44 253 468	44 253 468
Issued on 20 April 2009	2009-06-01	32	32
Issued on 30 July 2009	2009-11-12	8 100 000	8 100 000
Issued on 01 March 2010	2010-03-17	3 000 000	3 000 000
As at 31 December 2012 (audited)		55 403 500	55 403 500

30.1.1. Decrease of the share capital of Arctic Paper S.A

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

On 9th November 2012, the decrease of share capital was recorded in National Court Register.

30.1.2. Nominal value of shares

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

30.1.3. Purchase of own 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 own shares for the purpose of its redemption and decrease of the share capital or for the purpose of further relocation or resale of the own shares on conditions and in the course determined as below:

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

b) the total amount assigned by the Company for purchase of own shares shall not exceed the amount of the reserve capital established for this purpose, that is PLN 27,500,000 comprising the price of purchased shares together with the costs of purchase;

c) the price for which the Company will purchase its own shares shall not be lower than PLN 1.00 nor higher than PLN 10.00 per share;

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

e) purchase of own shares may occur with the mediation of investment company, in stock and non-stock transactions.

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

a) stop the purchase of shares before 60 days starting from the day the resolution was adopted or before the funds assigned for the purchase have been fully utilized,

b) refrain from purchase in part or in whole.

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

The conditions of purchase of own 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 own 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 own 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 own shares. Redemption of the Company's own shares and adequate decrease of share capital is acceptable also before the end of the process of purchase of the Company's own shares.

The Ordinary Shareholders Meeting, acting by virtue of article 362 § 2 item 3 of the Code of Commercial

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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 own shares on conditions and within confines of the authorization granted by the resolution, decides to establish a reserve capital under the name of „Fundusz Programu Odkupu" for the purchase of own shares. The amount of "Fundusz Programu Odkupu" is set to PLN 27,500,000. "Fundusz Programu Odkupu" is assigned to purchase of own shares together with the cost of the purchase. The Ordinary Shareholders Meeting decides to distinguish the "Fundusz Programu Odkupu" from the reserve capital.

Unti the date of the hereby report, the Management Board of Arctic Paper S.A. has not purchased any Company's own shares.

30.1.4. Shareholders rights

All series shares give right to one vote per share. There are no shares with preferences relating to distribution of dividends or repayment of capital.

30.1.5. Shareholders with significant shareholding

	As at 31 December 2012* (audited)	As at 31 December 2012 (audited)	As at 31 December 2011 (audited)
Trebruk AB			
Share in equity	62,79%	74,96%	74,80%
Share in votes	62,79%	74,96%	74,80%
Nemus Holding AB			
Share in equity	8,82%	-	-
Share in votes	8,82%	-	-
Other shareholders			
Share in equity	28,39%	25,04%	25,20%
Share in votes	28,39%	25,04%	25,20%

*AP SA filed in December 2012 an application to the Court to register the increase of share capital – until 31th December 2012 the change had not been registered – the columns present the situation taking into account the unregistered increase of share capital; the registration occurred on 9th January 2013.

30.2. Foreign currency translation reserve

The foreign currency translation reserve is adjusted with the exchange differences arising from translation of the financial statements of foreign subsidiaries.

30.3. Supplementary capital

Supplementary capital (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 supplementary capital, and has been changing throughout following years as a result of another shares issue and profit write-offs.

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

In 2010 a supplementary capital was created to cover loss in the amount of PLN 8,734 thousand as a result of dividing the financial result of Arctic Paper S.A. in compliance with Code of Commercial Companies article 396 (8% of profit for the given financial year).

In 2011 a supplementary capital was created to cover loss in the amount of PLN 7,771 thousand as a result of dividing the financial result of Arctic Paper S.A. in compliance with Code of Commercial Companies article 396 (8% of profit for the given financial year).

In 2012 a supplementary capita was created to cover loss in the amount of PLN 2,184 thousand as a result of dividing the financial result of Arctic Paper S.A. in compliance with Code of Commercial Companies article 396 (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 was assigned to the Company's reserve capital without payment to shareholders.

As on 31st December 2012 the total value of the Group's supplementary capital is PLN 580,875 thousand (31st December 2011: PLN 80,060 thousand).

30.4. Other reserve capital

Other reserve capital consists foreign exchange differences resulting from evaluation of a loan deemed investment in subsidiaries, a portion of retained profit and loss resulting from distribution of Arctic Paper S.A. financial result, and the capital from the valuation of hedges. The Group started using hedging transactions in the year 2009. Moreover, as on 31st December 2012 in other reserve capitals, the unregistered increase of share capital was recognized in the amount of PLN 64,983 thousand. On 10th January 2013, the day of registration of share capital increase in Natioanl Court Register, this amount was respectively accounted to share capital (PLN 10,741 thousand) and reserve capital (PLN 54,242 thousand).

The following table shows changes in other reserve capital in the year ended 31st December 2012, as well as comparatives:

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	As at 31 December 2012 (audited)	As at 31 December 2011 (audited)
Other reserves at the beginning of the reporting period	110 849	40 131
Changes in cash flow hedges		
Valuation of financial instruments, therein:	**(1 530)**	**(25 515)**
- FX forward	(2 152)	2 152
- Forward for electricity	763	(27 667)
- SWAP on interest	(141)	-
Deferred tax, therein:	**238**	**6 868**
- FX forward	408	(408)
- Forward for electricity	(197)	7 276
- SWAP on interest	27	-
Other changes		
Distribution of profits	15 148	89 364
Issue of shares not registered at 31 December 2012	64 983	-
Other reserves at the end of the reporting period	189 688	110 849

30.5. Retained earnings and limits to its distribution

Retained earnings in consolidated financial statements may include amounts that are not subject to distribution i.e. cannot be distributed in the form of dividend. Statutory financial statements of Group subsidiaries are prepared in accordance with local national accounting standards (except of Arctic Paper Kostrzyn S.A.) and companies' articles of association. Dividends may be distributed to the parent company based on the net profits in the local financial statements prepared for statutory purposes. Such local definition of retained earnings available for distribution are very often different from the definition of retained earnings in accordance with IFRS, which can be one factor of limitation of profit distribution. For example, local legal regulations often require certain reserve capital to be created of profits for possible future losses. Different accounting policies might also create different results between statutory local accounts and accounts for consolidation purposes.

Dividends may be distributed based on the net profit reported in the standalone annual financial statements of Arctic Paper S.A. prepared for statutory purposes.

In accordance with the provisions of the Code of Commercial Companies, the parent 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 parent company until such time as the balance of the reserve capital reaches at least one third of the share capital of the parent 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 ad shall not be used for any other purpose.

Retained earnings/Accumulated losses presented in the balance sheet as on 31st December 2012 consist mostly of the following items:

a) Accumulated consolidated losses/profits for the years 2008-2011 in the amount of PLN -9,124 thousand; and distribution of standalone profit of Arctic Paper S.A. for 2011 in the amount of PLN 97,135 thousand;.

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b) Division of standalone profit of Arctic Paper S.A. for 2011 in the amount of PLN 27,305 thousand,

c) Consolidated loss attributed to shareholders of the Parent Company, for 2012 in the amount of PLN 102,640 thousand.

As on 31st December 2012 there are no other limitations concerning the payout of the dividend.

30.6. Non-controlling interests

	As at 31 December 2012 (audited)	As at 31 December 2011 (audited)
At the beginning of the period	225	225
Dividends paid by subsidiaries	-	-
Acquisition of a company	96 790	-
Changes in the shareholding structure of subsidiaries	-	-
Shares in subsidiaries' net profit or loss (profit on bargain purchase)	126 052	-
At the end of the period	223 067	225

31. Conditional increase of share capital

31.1. Change of 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.

31.2. 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 shall 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 is 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 can be 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 shall be the holders of subscription warrants series B.

All Series F shares can 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 is 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 will be issued in the form of documents and will be personal bearer securities. The Management Board of the Company is 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 will be issued in portions.

Series F shares will 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, which was decided under the hereby Resolution, has been registered, the Shareholders Meeting decides to issue no more than 28,561,464 personal subscription warrants series B, each of which entitles to claim 1 Series F share (hereinafter "Subscription Warrants").

Subscription Warrants shall be 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.

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Subscription Warrants will be issued free of charge in the form of documents and shall be personal securities. Subscription Warrants can 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 shall occur 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 is authorized to release the Subscription Warrants to the entitled persons after the registration of the conditional increase of share capital of the Company, which is mentioned in the hereby Resolution.

For more details see current report 30/2012.

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

32. Interest-bearing loans, borrowings and bonds

Current liabilities	Maturity	As at 31 December 2012 (audited)	As at 31 December 2011 (audited)
Other financial liabilities			
Obligations under finance leases and hire purchase contracts	31-12-2013	5 561	7 987
Factoring in SEK in SHB		34 411	46 507
Factoring in EUR in GE capital		1 247	1 378
Derivatives		9 779	4 292
Other liabilities	31-12-2013	543	219
Interest-bearing loans, borrowings and bonds:			
BRE Bank bonds	25-02-2013	74 204	6 200
PLN bank overdraft in Bank Polska Kasa Opieki S.A.	07-11-2013	22 649	20 749
PLN bank overdraft in BRE Bank S.A.	07-11-2013	5 891	-
PLN bank overdraft in BZ WBK	07-11-2013	8 444	-
PLN bank loan in Bank Polska Kasa Opieki S.A. (current part)	07-11-2017	12 578	13 711
EUR bank loan in Bank Polska Kasa Opieki S.A. (current part)	07-11-2017	7 035	14 263
PLN bank loan in BRE Bank S.A. (current part)	07-11-2017	8 572	-
EUR bank loan in BRE Bank S.A. (current part)	07-11-2017	6 117	-
PLN bank loan in BZ WBK (current part)	07-11-2017	10 057	-
EUR bank loan in BZ WBK (current part)	07-11-2017	5 203	-
SEK bank overdraft in Danske Bank	31-12-2013	34 250	-
SEK bank overdraft in SHB	31-12-2013	2 986	12 320
Total current financial liabilities		249 527	127 625

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Non-current	Maturity	As at 31 December 2012 (audited)	As at 31 December 2011 (audited)
Other financial liabilities			
Obligations under finance leases and hire purchase contracts	31-12-2017	37 210	41 541
Derivatives		11 140	2 736
Interest-bearing loans, borrowings and bonds:			
BRE Bank bonds	25-02-2013	-	199 814
PLN bank loan in Bank Polska Kasa Opieki S.A. (long term part)	07-11-2017	49 305	17 754
EUR bank loan in Bank Polska Kasa Opieki S.A. (long term part)	07-11-2017	28 011	99 694
PLN bank loan in BRE Bank S.A. (long term part)	07-11-2017	34 983	-
EUR bank loan in BRE Bank S.A. (long term part)	07-11-2017	24 358	-
PLN bank loan in BZ WBK (long term part)	07-11-2017	41 157	-
EUR bank loan in BZ WBK (long term part)	07-11-2017	20 704	-
Total non-current financial liabilities		246 869	361 540

32.1. Loans and borrowings

During the reporting period the Group fully repaid the bank loan taken in Pekao S.A. bank (tranches in PLN and EUR) and took a new loan as described below, PLN 128,100 thousand of which was assigned to early repayment of bonds. In twelve months of 2012 the Capital Group made the payments of interest in the amount of PLN 36,121 thousand, of which interest on coupon bonds series 1/2010 and 1/2011 in the amount of PLN 21,645 thousand. As on 31st December 2012, the debt of Arctic Paper Group on the grounds of the new loan described below amounted to PLN 285 million and on the grounds of coupon bonds series 1/2010 and 1/2011 amounted to PLN 74 million (together with interest). The Group has a renewable overdraft in Svenska Handelsbanken in the amount of SEK 40 million, which was used in the amount of SEK 6.2 million (PLN 3 million) as on 31st December 2012. Moreover, with the acquisition of Rottneros Group, Arctic Paper Group claimed the overdraft of SEK 150 million used in SEK 72 million (PLN 34 million) as on 31st December 2012.

On 6th November 2012 the following companies: Arctic Paper Kostrzyn S.A. as the Borrower, Arctic Paper S.A. who acceded, by way of cumulative accession, to the Borrower's debt, as well as Arctic Paper Investment GmbH and Arctic Paper Mochenwangen GmbH as Guarantors, concluded a loan agreement with Bank Polska Kasa Opieki S.A., Bank Zachodni WBK S.A. and BRE Bank S.A. (hereinafter „Banks") as Lenders, consisting of two tranches:

- PLN 300,000 thousand; to be repaid in even installments within 5 years,
- PLN 59,000 thousand; to be repaid until 7th November 2013 („Loan Agreement").

The reason for taking the loan is to grant a loan from Arctic Paper Kostrzyn to Arctic Paper S.A. in the amount of PLN 200,000 thousand to repay bonds issued by Arctic Paper S.A., while the outstanding amount of PLN 159,000 thousand is assigned to refinance the existing debt of Arctic Paper Group and to assure Arctic Paper Kostrzyn S.A. with working capital for conducting of current business activity. The Company reported regarding conclusion of the Loan Agreement in current report no 19/2012.

The bank loan taken based on the agreement with Banks, shall bear interest at WIBOR or EURIBOR reference interest rate plus the Banks' margin which is determined by net debt-to-EBITDA ratio for the given period, depending on the tranche and the currency of loan.

As the collateral for repayment of the loan to the Banks, Arctic Paper Kostrzyn S.A. set guarantees on all its bank accounts, as well as on the owned real estates and assets' components. Moreover, to guarantee the loan pledges were established on shares of Arctic Paper Kostrzyn S.A., shares of Arctic Paper Investment GmbH, shares of Arctic Paper Mochenwangen GmbH, as well as on components of assets of Arctic Paper Mochenwangen GmbH. The company reported regarding establishing of the collateral in connection with the Loan Agreement in current reports no 27/2012 and 29/2012.

As a consequence of the aforementioned loan agreement, the Company concluded on 27th November 2012 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.

32.2. Bonds

On 21st December 2012, Arctic Paper SA, with the use of aforementioned funds performed an early and partial repayment of bonds series 1/2010 and 1/2011. The nominal value of bonds repaid amounts respectively to PLN 70,400 thousand and PLN 57,700 thousand. The aggregate value of interest on coupon bonds paid in 2012 amounts to PLN 21,645 thousand. The outstanding amount of bonds in the amount of PLN 71,900 thousand was repaid together with interest in the agreed term of 25th February 2013.

32.3. Collaterals

2012

All tranches of the loan taken in the consortium of banks (Bank Polska Kasa Opieki S.A., Bank Zachodni WBK S.A. and BRE Bank S.A.), described in details in note 31.1. are submitted to the following collaterals:

pledges on shares of Arctic Paper Kostrzyn S.A., shares of Arctic Paper Investment GmbH and on shares of holding companies in Germany;

pledges on bank accounts of all companies;

mortgages on real estates of Arctic Paper Kostrzyn S.A.,

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

Apart of the above, the Group reported the following as on 31st December 2012:

1) collaterals on assets on the grounds of liabilities of Arctic Paper Grycksbo in bank Svenska Handelsbanken, that is:

- a pledge on assets amounting to SEK 85,000 thousand;
- a pledge on real estates amounting to SEK 20,000 thousand
- a pledge on shares of Grycksbo Paper Holding AB amounting to SEK 239,066 thousand;

2) collaterals on assets on the grounds of liabilities of Arctic Paper Munkedals in bank Svenska Handelsbanken, that is:

- a pledge on assets in the amount of SEK 106,730 thousand;
- a pledge on movables in the amount of SEK 160,000 thousand

3) collaterals on assets on the grounds of liabilities of Rottneros AB in bank Danske Bank, that is

- a pledge on assets amounting to SEK 324,000 thousand;

2011

In connection with loans taken in Polska Kasa Opieki S.A. bank the Group had:

- pledge on shares of Arctic Paper Kostrzyn, Arctic Paper Munkedals, Arctic Paper Mochenwangen for the benefit of Polska Kasa Opieki S.A. bank;
- pledge on bank accounts of Arctic Paper S.A., Arctic Paper Kostrzyn, Arctic Paper Munkedals, Arctic Paper Mochenwangen for the benefit of Polska Kasa Opieki S.A. bank;
- assignments of rights from Insurance Policies of Arctic Paper Kostrzyn, and Arctic Paper Munkedals in favor of Bank Polska Kasa Opieki
- mortgages amounting to the following: SEK 600,000 thousand, PLN 171,600 thousand, PLN 221,200 thousand, EUR 20,000 thousand, for Arctic Paper Kostrzyn, Arctic Paper Munkedals, and Arctic Paper Mochenwangen in favor of Bank Polska Opieki S.A.
- registered pledges over the total assets of value: SEK 600,000 thousand, PLN 171,600 thousand, PLN 221,200 thousand, EUR 20,000 thousand, for Arctic Paper Kostrzyn, Arctic Paper Munkedals, Arctic Paper Mochenwangen in favor of Bank Polska Opieki S.A.
- joint capped mortgage as collateral for the loan B to a maximum amount of PLN 221,000 thousand over the property held in perpetual usufruct of Arctic Paper Kostrzyn S.A., as disclosed in land registers no. GW1S/00025123/4,

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GW1S/00027787/3, GW1S/00005360/1 and GW1S/00025698/5,

- joint capped mortgage as collateral for the loan C to a maximum amount of PLN 100,000 thousand over the property held in perpetual usufruct of Arctic Paper Kostrzyn S.A., as disclosed in land registers no. GW1S/00025123/4, GW1S/00027787/3, GW1S/00005360/1 and GW1S/00025698/5.

Arctic Paper Kostrzyn S.A. had also in 2011 blank bills of exchange as collateral for the lease agreement concluded with Bankowy Leasing S.A. and with Bankowy Fundusz Leasingowy S.A.

Apart from the mentioned above, the Group reports collaterals on assets on the grounds of loan taken in Arctic Paper Grycksbo in Svenska Handelsbanken bank, that is:

- pledge on assets in the amount of SEK 65,000 thousand,
- mortgage on real estates in the amount of SEK 20,000 thousand,
- pledge on assets of Grycksbo Paper Holding AB in the amount of SEK 254,743 thousand.

33. Provisions

33.1. Movements in provisions

The table below presents movements In provisions in the years 2011-2012.

	Post-employment benefits	Other provisions	Total
At 1 January 2012	81 332	12 894	94 226
Recognised during the year	7 083	7 391	14 473
Utilised	(4 585)	(6 735)	(11 320)
Unused amounts reserved	-	(2 923)	(2 923)
Foreign exchange adjustment	(3 178)	(906)	(4 084)
Acquisition of Rottneros AB	-	1 903	1 903
At 31 December 2012, therein:	80 652	11 623	92 275
- current	-	8 415	8 415
- non-current	80 652	3 208	83 861
At 1 January 2011	68 626	16 965	85 591
Recognised during the year	7 729	5 437	13 167
Utilised	(2 758)	(10 335)	(13 094)
Unused amounts reserved	-	-	-
Foreign exchange adjustment	7 735	827	8 561
At 31 December 2011, therein:	81 332	12 894	94 226
- current	-	10 398	10 398
- non-current	81 332	2 495	83 827

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* - value as on the date of acquisition (the acquisition of the company occurred in 1st March 2010)

The single largest item among other provisions are liabilities on remission of emission rights with a carrying amount of PLN 2,007 thousand as well as warranty provisions and losses in the amount of PLN 2,150 thousand in the financial statements for the year ended 31st December 2012 and respectively PLN 7,858 thousand and PLN 1,025 thousand in the financial statements for the year ended 31st December 2011.

33.2. Warranty provisions

A provision is recognized for expected warranty claims and returns of products, based on past experience of the level of repairs and returns. Warranty provision at the end of 2012 amounted to PLN 2,007 thousand (as on 31st December 2011: PLN 1,025 thousand), and related only to Arctic Paper Mochenwangen.

34. Trade and other payables, other liabilities, accruals and deferred income

34.1. Trade and other payables (short-term)

	As at 31 December 2012 (audited)	As at 31 December 2011 (audited)
Trade payables:		
To related parties	4	9 429
To third parties	372 280	351 727
	372 284	361 156
Taxations, customs duty, social security and other payables		
VAT	2 454	3 832
Excise tax	536	510
Personnel withholding tax (Personnel income tax)	5 099	5 424
Property taxes	649	678
Liabilities for social security contributions	8 358	8 116
Customs liabilities	56	34
	17 152	18 593
Other liabilities		
Renumeration payable to employees	4 435	4 530
Pension liabilities	5 309	6 541
Investment liabilities	3 949	8 978
Environmental liabilities	238	232
Liabilities due to Golzern	-	13
Prepayments	1 714	1 931
Other liabilities	5 779	1 083
	21 424	23 308
TOTAL	410 861	403 057

Terms and conditions of financial liabilities presented above:

- for terms and conditions of transactions with related parties, refer to note 37.3;

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- trade payables are non-interest bearing and are normally settled within 60 days;
- other payables are non-interest bearing and have an average payment term of 1 month.
- the amount which results from the difference between liabilities and VAT receivables is paid to appropriate tax authorities on a monthly basis.

34.2. Accruals and deferred income

	As at 31 December 2012 (audited)	As at 31 December 2011 (audited)
Accruals		
Employee costs	66 080	51 335
Audit and legal services	1 414	530
Freight costs	2 226	2 256
Claims	747	1 014
Costs of energy certificates	-	5 705
Costs of energy	4 699	4 315
Other	36 265	2 031
	111 433	67 186
Deferred income		
Grant from Ekofundusz	19 526	20 930
Grant from NFOŚiGW	15 277	16 601
Accrued income	1 589	-
Other	-	-
	36 392	37 531
TOTAL	147 824	104 717
- short-term	115 752	69 907
- long-term	32 072	34 810

The main items included in accruals for employee costs are vacation pay liabilities, bonuses to employees and redundancy payments.

35. Capital commitments (unaudited)

As on 31st December 2012, the Group has commitments of no less than PLN 10 million for capital expenditures related to property, plant & equipment in 2013. These expenditures will be incurred for acquisition of new plant and equipment.

As on 31st December 2011, the Group planned to bear expenditures for the purchase of property, plant & equipment of no less than PLN 9 million.

36. Contingent liabilities

As on 31st December 2012, the Capital Group reported the following contingent liabilities:

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

36.1. Legal claims

Case against Cezex Sp. z o.o.

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

The law suit against CEZEX Spółka z o.o. for payment of PLN 174 thousand (main debt) was filed on 27th November 2009. On 04th February 2010 the District Court gave a verdict in absentia. On 21st December 2009 bankruptcy of the company was announced with a possibility of settlement. In May 2011 the settlement was not concluded and liquidation insolvency was announced. The whole debt of APK S.A. is listed in debtor's list. Pursuant of the decision of Board of Debtors the Bankruptcy Trustee is authorized to conduct business activity until 31st October 2011. On 21st December 2011 the Regional Court cancelled the statement of the District Court regarding change of the bankruptcy option to liquidation. On 07th February 2012 the Regional Court announced liquidation bankruptcy as filed by Arctic Paper Kostrzyn S.A. The complaint of the bankrupt has not yet been examined. The bankruptcy is in progress.

Case against Jakon S.A. in liquidation

On 07th February 2011 bankruptcy of the company was announced with liquidation of the property. The debt in the amount of PLN 2,000 thousand is guaranteed by mortgage on guarantor's real estate. There was a warrant of payment issued by the court. The guarantor filed a complaint, the next court hearing was scheduled to 19th January 2012. On 29th February the District Court denied the claim of Arctic Paper Kostrzyn S.A. There was a complaint file on time. A hearing to discuss the appeal was scheduled to 25th July 2012 but did not take place on that day – a new date of hearing was appointed to 19th September 2012. The Court of Appeal cancelled the decision of primary court and requested it to investigate the case. The District Court has not set the hearing date yet.

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

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

As on 31st December 2012, the companies of the Group are not parties to any other legal case.

36.2. 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 Group may be subject to additional tax liabilities, which may arise as a result of additional tax audits. In Group's opinion as on 31st December 2012 proper provision was created to cover recognized and countable tax risk.

37. Related party disclosures

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

- Trebruk AB (previously Arctic Paper AB) – parent company of Arctic Paper S.A. Group,
- Arctic Paper Håfreströms – paper mill (within the process of liquidation), subsidiary of Trebruk AB.
- Rottneros AB – a group of companies operating in pulp and paper industry, on 20th December 2012 Arctic Paper S.A. took the actual control over Rottneros AB, previously related by capital with Nemus Holding AB.
- Nemus Holding AB – parent company of Trebruk AB,

- Galileus Sp.z o.o. Sp.k. – company related to the Member of the Management Board.
- IPM Sp. z o.o. Sp.k. – company related to the Member of the Management Board.

The table below presents the total values of transactions with related parties entered into during the years 2010-2011:

Data for the period from 1 January 2012 to 31 December 2012 and as at 31 December 2012 (PLN thousands)

Related party	Sales to related parties	Purchases from related parties	Interest – financial income	Interest – financial costs	Receivables from related parties	Loans granted	Payables to related parties
Trebruk AB (Arctic Paper AB)	-	-	-	-	3 824	-	-
Arctic Paper Håfreström AB	-	-	-	-	2 284	-	-
Rottneros AB	-	54 796	-	-	na	na	na
IPM Sp. z o.o. Sp.k.	-	1 313	-	-	-	-	-
Galileus Sp.z o.o.Sp.k.	-	108	-	-	-	-	4
Total	-	56 217	-	-	6 108	-	4

Data for the period from 1 January 2011 to 31 December 2011 and as at 31 December 2011 (PLN thousands)

Related party	Sales to related parties	Purchases from related parties	Interest – financial income	Interest – financial costs	Receivables from related parties	Loans granted	Payables to related parties
Arctic Paper AB	-	-	-	-	3 957	-	-
Arctic Paper Håfreström AB	-	1 552	-	-	7 696	-	-
Rottneros AB	-	54 400	-	-	-	-	9 425
Galileus Sp.z o.o.Sp.k.	-	116	-	-	-	-	4
Total	-	56 068	-	-	11 652	-	9 429

37.1. The ultimate parent

The ultimate parent of the Group is Casandrax Financials S.A. There were no transactions between the Group and Casandrax Financials S.A. during the years ended 31st December 2012 and 31st December 2011.

37.2. The parent company

The parent company of the Arctic Paper S.A. Group is Trebruk AB (previously Arctic Paper AB), which as on 31st December 2012 holds 74,96% of ordinary shares in Arctic Paper S.A. (this figure does not take into account the unregistered series F shares).

37.3. Terms and conditions of transactions with related parties

Trade receivables and payables are normally settled within 60 days with related parties. Related party transactions are made at an arm’s length.

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37.4. Remuneration of the Group's key management personnel

37.4.1. 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 comprise five people: President of the Management Board and four Members of the Management Board. The financial data for the reporting period include remuneration of the aforesaid five people.

Remuneration of the executives in the year ended 31st December 2012 amounted to PLN 5,071 thousand (PLN 3,950 thousand in the year ended 31st December 2011).

During years 2011 and 2012, no entities within the Group granted any loans to their executives.

The table below presents the remuneration of key executives of the Group:

	As at 31 December 2012 (audited)	As at 31 December 2011 (audited)
Short-term employee benefits	5 071	3 950
Post-employment pension and medical benefits	-	655
Termination benefits	-	-
Total compensation paid to key management personnel	5 071	4 604
Supervisory Board		
Short-term employee benefits	624	792

37.4.2. 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 programme 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.

37.5. Loans granted to the Management Board members

In 2011-2012 subsidiaries did not grant any loans to members of the Management Board.

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37.6. Other transactions with the Management Board's members

During the period covered by these consolidated financial statements, there were no other transactions between subsidiaries and the Management Board members and no such transactions were reported in any of the periods presented.

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

On 6th August 2012 the Company concluded an agreement with Ernst & Young Audit Sp. z o.o. with registered office in Warsaw to audit the annual standalone financial statements of the Company and the annual consolidated financial statements of the Group for 2012.

The table below presents the audit company's fees, paid or payable for the year ended 31st December 2012 and 31st December 2011 by category of services:

	As at 31 December 2012 (audited)	As at 31 December 2011 (audited)
Service		
Obligatory audit of annual financial statement	279*	265*
Obligatory audit of annual financial statement (AP S.A. branch)	48	31
Tax advisory	-	-
Other services	827	50
Total	1 154	346

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

The fees do not include services provided to other Group companies.

39. Financial risk management objectives and policies

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

The Group also uses recourse factoring in scope of trade receivables. The main purpose of this financial instrument is quick obtaining of financial means.

The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from operations. The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk. The Management Board reviews and agrees policies for managing each of these risks and they are summarized below.

In the Management Board opinion – compared to consolidated financial statements prepared as on 31st December 2011 there were no significant changes of financial risk. Moreover, there were no changes of goals and principles of risk management.

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39.1. Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations.

Interest rate risk – sensitivity to changes

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings). Included in the calculation are foreign currency loans with variable interest rate. For each currency, the same increase in interest rate, i.e. by 1pp, was adopted. At the end of each reporting period, loans and borrowings were grouped by currency and on each total currency value and increase of 1pp was calculated. Change of interest rate does not have direct impact on the Group's equity.

	Increase in basis points	Effect on profit before tax
Year ended 31 December 2012		
PLN	+1%	(1 254)
EUR	+1%	(178)
SEK	+1%	(781)
Year ended 31 December 2011		
PLN	+1%	(2 176)
EUR	+1%	(226)
SEK	+1%	(838)

39.2. Foreign currency risk

The Group is exposed to transactional foreign currency risk. The risk arises from transactions run by an operating unit in currencies other than its functional currency.

The following table demonstrates the sensitivity of profit before tax and total comprehensive income on reasonably possible change of exchange rate of USD, EUR, GBP and SEK with all other variables held constant. In the estimation were taken every balance positions measured in foreign currencies, than for every currency was adopted an increase or decrease of 5% in exchange rate. At the end of each reporting period assets and liabilities were grouped in the same currencies and for every currency balance "assets deduct liabilities" an increase or decrease of 5% in exchange rate were counted. During the year assets and liabilities measured in foreign currencies remained at comparable level.

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2012

Impact of change in exchange rates on profit before tax	FX rate increase	Total financial impact	FX rate decrease	Total financial impact
PLN – EUR	+5%	(1 466)	-5%	1 466
PLN – USD	+5%	(1 181)	-5%	1 181
PLN – GBP	+5%	369	-5%	(369)
PLN – SEK	+5%	213	-5%	(213)
SEK – EUR	+5%	1 276	-5%	(1 276)
SEK – USD	+5%	(1 774)	-5%	1 774
SEK – GPB	+5%	600	-5%	(600)

Impact on total comprehensive income (on foreign entities translation)	FX rate increase	Total financial impact	FX rate decrease	Total financial impact
PLN – SEK	+5%	(8 375)	-5%	8 375
PLN – EUR	+5%	(349)	-5%	349

2011

Impact of change in exchange rates on profit before tax	FX rate increase	Total financial impact	FX rate decrease	Total financial impact
PLN – EUR	+5%	384	-5%	(384)
PLN – USD	+5%	(1 470)	-5%	1 470
PLN – GBP	+5%	311	-5%	(311)
PLN – SEK	+5%	357	-5%	(357)
PLN - CHF	+5%	47	-5%	(47)
SEK – EUR	+5%	1 016	-5%	(1 016)
SEK – USD	+5%	(3 769)	-5%	3 769
SEK – GBP	+5%	757	-5%	(757)
SEK - DKK	+5%	331	-5%	(331)

Impact on total comprehensive income (on foreign entities translation)	FX rate increase	Total financial impact	FX rate decrease	Total financial impact
PLN – SEK	+5%	2 166	-5%	(2 166)
PLN – EUR	+5%	(122)	-5%	122

39.3. Commodity prices risk

The Group is exposed to the risk of drop in selling price due to higher market competition and due to the risk of increase of raw materials prices because of restricted access to commodities on the market. The acquisition of Rottneros AB Group in December 2012 will lessen the exposure of paper and pulp mills to pulp market prices fluctuations.

39.4. Credit risk

The Group trades only with recognized, creditworthy third parties with good credibility. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The Group assesses and recognizes all receivables which are not overdue and which are not subject to impairment write-downs as recoverable.

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With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents and available-for-sale financial assets the Group'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 Group.

39.5. Liquidity risk

The Group 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 operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of various sources of financing, such as bank overdrafts, bank loans, finance leases and hire purchase contracts.

The table below summarizes the maturity profile of the Group’s financial liabilities as on 31st December 2012 and 31st December 2011 based on contractual undiscounted payments.

As at 31 December 2012	On demand	Less than 3 months	3-12 months	1-5 years	Over 5 years	Total
Interest bearing loans, borrowings and bonds	-	79 829	137 394	220 175	-	437 398
Financial leasing	-	-	5 699	12 869	33 425	51 992
Trade and other payables	2 929	362 675	45 258	-	-	410 861
	2 929	442 504	188 351	233 044	33 425	900 251

As at 31 December 2011	On demand	Less than 3 months	3-12 months	1-5 years	Over 5 years	Total
Interest bearing loans, borrowings and bonds	2 261	9 436	42 085	342 046	-	395 828
Financial leasing	-	1 505	6 688	11 243	30 092	49 528
Trade and other payables	2 652	394 884	30 268	3 774	2 682	434 261
	4 914	405 826	79 041	357 063	32 774	879 618

40. Financial instruments

The Group has the following financial instruments: cash on hand and cash in bank, loans and borrowings, issued bonds, receivables and liabilities, financial leases, SWAP interest contracts, as well as currency forward contract, electricity purchase forward contract and pulp sales forward contract.

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40.1. Fair values of each class of financial instruments

Due to the fact that the carrying amounts of financial instruments do not materially differ from their fair values, the table below shows all financial instruments in their balance sheet amounts, divided by class and category of financial assets and liabilities.

	Category complaint with IAS 39	Book value As at 31 December 2012	Book value As at 31 December 2011	Fair value As at 31 December 2012	Fair value As at 31 December 2011
Financial Assets					
Granted loans	L&R	-	-	-	-
Trade and other receivables	L&R	304 986	271 110	304 986	271 110
Hedging instruments		3 806	1 692	3 806	1 692
Other financial assets (excluding loans and hedging intruments)	L&R	733	791	733	791
Cash and cash equivalents	FVTPL	202 710	166 299	202 710	166 299
Financial Liabilities					
Interest bearing bank loans and borrowings therein:	OFL	322 301	384 504	322 301	384 504
- long-term interest-bearing with variable interest rate	OFL	198 519	317 262	198 519	317 262
- other short-term	OFL	123 782	67 242	123 782	67 242
Liabilities form financial leasing title and lease agreement with purchase option, therein:		42 771	49 528	42 771	49 528
- long-term		37 210	41 541	37 210	41 541
- short-term		5 561	7 987	5 561	7 987
Trade and other financial payables		393 708	384 468	393 708	384 468
Hedging instruments	OFL	20 919	8 189	20 919	8 189
Debt securities, therein:	OFL	74 204	206 014	74 204	206 014
- long-term Coupon bonds	OFL	-	199 814	-	199 814
- short-term Zero-Coupon bonds	OFL	74 204	6 200	74 204	6 200

* derivative hedging instruments complying to hedging principles

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 amortised cost.

As on 31st December 2012 and as on 31st December 2011, the Group had the following financial instruments evaluated at fair value:

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	31 December 2012	Level 1	Level 2	Level 3
Financial assets valued at fair value through financial result				
Derivatives		-	3 806	-
Financial liabilities valued at fair value through financial result				
Derivatives		-	20 919	-

	31 December 2011	Level 1	Level 2	Level 3
Financial assets valued at fair value through financial result				
Derivatives		-	1 692	-
Financial liabilities valued at fair value through financial result		-	8 189	-
Derivatives				

40.2. Interest rate risk

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

31 December 2012 Floating rate	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Other financial liabilities							
Obligations under finance lease and hire purchase contracts	5 561	2 772	2 824	2 879	2 940	25 794	42 771
Loans, borrowings and bonds:							
Bonds in Bank BRE	74 204	-	-	-	-	-	74 204
PLN bank loan in Bank Polska Kasa Opieki S.A.	35 227	11 612	11 752	11 902	12 065	-	82 558
EUR bank loan in Bank Polska Kasa Opieki S.A.	7 035	7 003	7 003	7 003	7 002	-	35 046
PLN bank loan in BRE Bank S.A.	14 463	8 583	8 686	8 797	8 917	-	49 446
EUR bank loan in BRE Bank S.A.	6 117	6 089	6 089	6 089	6 091	-	30 475
PLN bank loan in BZ WBK	18 501	10 591	10 713	10 843	10 986	-	61 633
EUR bank loan in BZ WBK	5 203	5 176	5 176	5 176	5 176	-	25 907
SEK bank loan in SHB	34 250	-	-	-	-	-	34 250
SEK bank loan in Danske Bank	2 986	-	-	-	-	-	2 986
Sum loans, borrowings and bonds	197 986	49 054	49 419	49 810	50 237	-	396 505
TOTAL	203 547	51 826	52 242	52 689	53 177	25 794	439 276

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31 December 2011 Floating rate	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Other financial liabilities							
Obligations under finance lease and hire purchase contracts	7 987	2 743	2 767	2 833	2 900	30 298	49 529
Loans, borrowings and bonds:							
Bonds in Bank BRE	6 200	199 814	-	-	-	-	206 014
PLN bank loan in Bank Polska Kasa Opieki S.A. (A2)	2 306	2 320	5 601	-	-	-	10 227
PLN bank loan in Bank Polska Kasa Opieki S.A. (B)	11 403	9 833	-	-	-	-	21 236
EUR bank loan in Bank Polska Kasa Opieki S.A. (A2)	3 362	3 361	7 185	-	-	-	13 908
EUR bank loan in Bank Polska Kasa Opieki S.A. (B)	-	48 539	31 973	-	-	-	80 512
EUR bank loan in Bank Polska Kasa Opieki S.A. (A3)	10 901	8 635	-	-	-	-	
EUR bank loan in Bank HypoVereinsbank	12 320	-	-	-	-	-	12 320
SEK bank loan in Accent Equity	20 751	-	-	-	-	-	20 751
Sum loans, borrowings and bonds	67 242	272 502	44 759	-	-	-	384 503
TOTAL	75 229	275 245	47 526	2 833	2 900	30 298	434 032

40.3. Hedge accounting

As on 31st December 2012 the Group used cash flow hedge accounting for the following hedging relations:

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

40.3.1. Cash flow hedge accounting

As on 31st December 2012 as well as on 31st December 2011 the Group held FX forward contract and forward contracts for electricity purchases and pulp sales as well as SWAP interest contract, as cash flow hedge instruments.

The hedging relationship in the cash flow hedge accounting on the currency trading with the use of FX forward

The table below presents detailed information concerning the hedging relationship in the cash flow hedge accounting on the sales EUR/SEK:

Hedge type	Hedging the cash flow variations related to the planned purchases of electricity in foreign currencies
Hedge item	Hedged item is part of the future highly probably cash flows resulting from purchases of electricity denominated in EURO
Hedging instruments	Hedging instruments are FX forward transactions in which the Company commits to purchase EUR for SEK
Forward contract parameters	
Trade date	2 012
Delivery date	depending on the contract, untill 31.12.2015
Hedged amount	12.0 mln EUR
Forward ratio	9.25 SEK/EUR

The table below presents detailed information concerning the hedging relationship in the cash flow hedge accounting on the sales USD/SEK:

Hedge type	Hedging the cash flow variations related to the planned sales in foreign currencies
Hedge item	Hedged item is part of the future highly probably cash flows resulting from export sales
Hedging instruments	Hedging instruments are FX forward transactions in which the Company commits to sell USD for SEK
Forward contract parameters	
Trade date	2 012
Delivery date	depending on the contract, untill 31.03.2013
Hedged amount	6.0 mln USD
Forward ratio	6.80 SEK/USD

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

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

Hedge type	Hedging the cash flow variations related to electricity purchases
Hedge item	Hedged item is part of the future highly probably cash flows resulting from electricity purchases
Hedging instruments	Hedging instruments are forward transactions for electricity purchases on the Nord Pool Stock Exchange
Forward contract parameters	
Trade date	depending on the contract, since 01.12.2006
Delivery date	depending on the contract, untill 31.12.2015
Hedged amount	657.000 MWh
Forward price	from 37.00 to 48.80 EUR/MWh

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

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

Hedge type	Hedging the cash flow variations related to sales of pulp
Hedge item	Hedged item is part of the future highly probably cash flows resulting from sales of pulp
Hedging instruments	Hedging instruments are forward transactions for sales of pulp in SEK
Forward contract parameters	
Trade date	2 012
Delivery date	depending on the contract, untill 31.12.2013
Hedged amount	18.000 ton
Forward price	5 700 SEK/tonne

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

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

Hedge type	Hedging the cash flow variations related to flexible rate interest on bank loan denominated in EURO
Hedge item	Hedged item is future cash flows resulting from interest (in EURO) based on 3M EURIBOR on bank loan denominated in EURO
Hedging instruments	Hedging instruments are SWAP transaction for fixed rate interest in EURO on bank loan denominated in EURO
Forward contract parameters	
Trade date	28.12.2012
Delivery date	depending on interest payment date based on schedule in bank loan agreement, untill 7.11.2017
Hedged amount	interest in accordance with bank loan agreement on bank loan of 5.000 k EURO
SWAP interest rate	0,69%

The table below presents the fair value of hedging derivatives in the cash flow hedge accounting as on 31st December 2012 and the comparative data:

	As at 31 December 2012		As at 31 December 2011	
	(audited)	(audited)	(audited)	(audited)
	Assets	Liabilities	Assets	Liabilities
FX forward	-	2 854	1 692	-
Pulp forward	3 806	-	-	-
SWAP	-	141	-	-
Electricity forward	-	17 924	-	8 189
Total hedging derivatives	3 806	20 919	1 692	8 189

The table below presents the nominal value of hedging derivatives as on 31st December 2012:

	3 months to 1 year	1 to 5 years	Over 5 years	Total
FX forward:				
Currency sold (in USD thousand)	6 000	-	-	6 000
Currency purchased (in EUR thousand)	6 000	6 000	-	12 000
Electricity forward:				
Electricity purchased (in PLN thousand)	56 426	65 453	-	121 880
Pulp forward				
Sales of pulp (in PLN thousand)	48 807	-	-	48 807
SWAP on interest				
instalment payments (in EUR thousand)	1 000	4 000	-	5 000

The table below presents cash flow hedge accounting amounts which were recognized by the Group in 2012 in the profit and loss account and in comprehensive income statement:

	Year ended 31 December 2012 (audited)
Revaluation reserve capital as at 31 December 2012 - revaluation to fair value of hedging derivatives on account of the hedged risk, corresponding to the effective hedging	(8 691)
Inefective part of the revaluation to fair value of hedging derrivatives on account of the hedged risk, captured in financial income or expenses	-
Period, in which the hedged cash flows are expected to occur	31 December 2012 - 31 December 2017

The table below presents changes in the revaluation reserve capital on account of cash flow hedge accounting in 2012:

	Year ended 31 December 2012 (audited)
Revaluation reserve capital as at 1 January 2012	(7 399)
Deferral of revaluation to fair value of hedging derivatives on account of the hedged risk, corresponding to the effective hedge	(1 293)
Amount of the deferred revaluation to fair value of hedging derivatives on account of the hedged risk, removed from revaluation reserve capital and transferred to financial income or expenses	-
Revaluation reserve capital as ast 31 December 2012	(8 691)

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41. Capital management

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group 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 Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group's policy is to keep the gearing ratio between 0.1-0.5. The Group includes within net debt, interest bearing loans and borrowings, trade and other payables, less cash and cash equivalents, excluding discontinued operations.

Compared to financial statements for year 2011, there was a decrease of financial gearing ratio from 0.52 to 0.45.

Arctic Paper S.A. Group	As at 31 December 2012 (audited)	As at 31 December 2011 (audited)
Interest bearing loans, borrowings and bonds	496 396	489 164
Trade and other payables	410 861	403 057
Less cash and short term deposits	(202 710)	(166 299)
Net debts	704 547	725 923
Equity	839 131	675 561
Capital and net debt	1 543 678	1 401 483
Gearing ratio	0,46	0,52

42. Employment structure

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

	As at 31 December 2012 (audited)	As at 31 December 2011 (audited)
Management Board of the parent entity	5	3
Management Boards of subsidiary companies	25	23
Administration department	140	148
Sales department	201	192
Production department	1 343	1 090
Other	140	141
Total	1 854	1 597

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43. CO2 Emission rights

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

Until the date of publishing of the hereby report, the allocation for 2013 has not been known. The tables below specify the allocation and usage of emission rights by each of the five entities.

(in tonnes) for Arctic Paper Kostrzyn S.A.	2008	2009	2010	2011	2012
Amount granted	208 448	208 448	208 448	208 448	208 448
Amount unused from previous years	-	98 511	115 865	183 411	261 812
Amount used	109 643	131 094	143 659	136 564	140 994
Amount purchased	-	14 000	47 800	21 000	21 424
Amount sold	-	74 000	45 043	14 483	2 200
Amount unused	98 511	115 865	183 411	261 812	348 490

(in tonnes) for Arctic Paper Munkedals AB	2008	2009	2010	2011	2012
Amount granted	14 011	14 011	14 011	14 011	14 011
Amount unused from previous years	-	(14 223)	(16 655)	(21 504)	(5 711)
Amount used	28 234	23 834	26 120	15 918	3 155
Amount purchased	-	7 400	19 200	17 700	19 160
Amount sold	-	-	11 940	-	-
Amount unused	(14 223)	(16 655)	(21 504)	(5 711)	24 305

(in tonnes) for Arctic Paper Mochenwangen GmbH	2008	2009	2010	2011	2012
Amount granted	118 991	118 991	118 991	118 991	118 991
Amount unused from previous years	-	6 448	-	9 152	(110 424)
Amount used	112 129	105 587	109 839	109 142	110 600
Amount purchased	100 000	-	-	9 142	23 172
Amount sold	100 180	19 500	-	138 567	-
Amount unused	6 448	-	9 152	(110 424)	(78 861)

(in tonnes) dla Arctic Paper Grycksbo AB	2010	2011	2012
Amount granted	69 411*	69 411	69 411
Amount unused from previous years	-	11	411
Amount used	-	-	-
Amount purchased	-	-	-
Amount sold	69 400	69 000	411
Amount unused	11	411	69 411

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(in tonnes) for Rottneros' subsidiaries	2012
Amount granted	
Amount not used in previous years	
Amount used	
Amount purchased	
Amount sold	
Amount unused	72 888*

* - quantity as on the date of acquisition

Arctic Paper Mochenwangen recognized provision for actual consumption of CO2 in the amount of PLN 2,007 thousand (as on 31st December 2011: PLN 7,858 thousand).

44. Cogeneration certificates

Based on the provisions of article 91 paragraph 1 point 1 of the act dated 10th April 1997, Energy Law, the Company obtained property rights to the Certificates of Origin being the confirmation of the amount of energy produced in the heavy duty (high performance) cogeneration unit using the gas fuels.

Due to producing electric energy in cogeneration, in 2012 the Group received the rights in the amount of: yellow certificates kWh 159,041,932 and red certificates kWh 64,682,213 (in 2011: yellow certificates kWh 154,604,654 and red certificates kWh 70,578,470). In 2012, revenues from sale of cogeneration certificates amounted to PLN 25,397 thousand (in 2011 PLN 19,143 thousand).

AP Grycksbo and companies from Rottneros AB Group also have property rights for Certificates of Origin being the confirmation of the energy produced in cogeneration.

On the grounds of electricity production in cogeneration in 2012 AP Grycksbo received rights in the amount of green certificates kWh 22,500,000 (2011: kWh 26,300,000). In 2012 revenue on sales of certificates amounted to PLN 1,909 thousand (2011: PLN 2,396 thousand).

Revenues on certificates of cogeneration are recognized as reduction of cost of sales in the income statement.

45. Government grants and subsidies and operations in the Special Economic Zone

45.1. Grants and subsidies

In 2012 the Group did not receive any grants or subsidies.

45.1.1. Grant from National Fund for Environmental Protection and Water Management

On 25 October 2005, the Group signed an agreement with the National Fund for Environmental Protection and Water Management concerning granting financial support as part of the Sectored Operating Program: Better Competitiveness, years 2004-2006, Priority 2: Direct support for enterprises, Activity 2.4: Support for enterprises with respect to adjusting them to the requirements of the environmental protection regulations. As part of this agreement, the Company received PLN 20,352 thousand for the Project called „Change in the technology of heath production as the pre-requisite condition for obtaining the integrated permit Arctic Paper". As at the date of the preparation of the financial statements, the construction of the new power station has been completed and the installations are currently used by the Group. The transfer of the funds to the Group's account was as follows: PLN 1,231 thousand on 1st November 2006, PLN 1,715 thousand on 27th December 2006, PLN 5,146 on 28th December 2006 and PLN 12,259 thousand on 29th June 2007. The financial support was granted to the Group and the Group committed to comply with the specific conditions, the realization of which may be subject to the control by appropriate authorities within 5 years of the project completion and bringing the underlying assets into use. The control authorities are authorized to issue a decision, under which the subsidy granted an received, may have to be returned together with interest, if the subsidy qualifying conditions are not met. As a result, the amounts recognized in the financial statements may change at a later date as a result of the final decision of the control authorities.

On 28 December 2006, the Group signed an agreement with the National Fund for Environmental Protection and Water Management concerning granting financial support as part of the Sectored Operating Program: Better Competitiveness, years 2004-2006, Priority 2: Direct support for enterprises, Activity 2.4: Support for enterprises with respect to adjusting them to the requirements of the environmental protection regulations. As part of this agreement, the Company received PLN 2,100 thousand for the Project called „Development of sewage treatment plant as the condition pre-requisite for a further balanced development of Arctic Paper Kostrzyn". The transfer of the funds to the Gropup's account was as follows: PLN 2,100 thousand on 28th November 2008. The financial support was granted to the Group and the Group committed to comply with the specific conditions, the realization of which may be subject to the control by appropriate authorities within 5 years of the project completion and bringing the underlying assets into use. The control authorities are authorized to issue a decision, under which the subsidy granted an received, may have to be returned together with interest, if the subsidy qualifying conditions are not met. As a result, the amounts recognized in the financial statements may change at a later date as a result of the final decision of the control authorities.

45.1.2. Subsidy from the Ekofundusz Foundation

On 6th July 2006 the Company signed an agreement with Ekofundusz Foundation for financial support in the scope of eco-conversion of Polish debt that is funds assigned for the projects in the field of natural environment protection realised as part of foreign debt conversion, in accordance with the agreement concerning reduction and restructuring of debt of the Republic of Poland. Out of this agreement, the Company received PLN 7,482 thousand for the project: „construction of natural gas combined heat and power plant in Arctic Paper Kostrzyn S.A.". As on the date of the preparation of these condensed consolidated financial statements, the construction of the new heat power plant has been completed and the Company uses the facility for its business operation.

The transfer of the funds to the Company's account was as follows: PLN 1,401 thousand on 1st August 2006, PLN 3,705 thousand on 3rd November 2006, PLN 2,375 thousand on 20th December 2006. The financial support was granted to the Company and the Company committed to comply with the specific conditions, the realisation of which may be subject to control, within 3 years of handing the Project over for use, by appropriate authorities authorized to issue a decision under which the subsidy granted and received may have to be returned together with interest.

On 2nd October 2008 the Company signed an agreement with Ekofundusz Foundation for financial support in the scope of eco-conversion of Polish debt that is funds assigned for the projects in the field of natural environment protection realised as part of foreign debt conversion, in accordance with the agreement concerning reduction and restructuring of debt of the Republic of Poland. By the power of the agreement, the Company received PLN 17,643 thousand for the project "construction of natural gas combined heat and power plant in Arctic Paper Kostrzyn S.A.". As on the date of the preparation of these consolidated financial statements, the construction of the new power plant has been completed and the Company uses the facility for its business operation.

The transfer of the funds to the Group's account was as follows: PLN 1,176 thousand on 15th October 2008, PLN 856 thousand on 13th November 2008, PLN 6,307 thousand on 30th December 2008, PLN 3,850 thousand on 25th March 2009 and PLN 4,383 thousand on 11th May 2009, PLN 1,072 thousand on 15th October 2009. The financial support was granted to the Company and the Company committed to comply with the specific conditions, the realisation of which may be subject to control, within 3 years of handing the Project over for use, by appropriate authorities authorized to issue a decision under which the subsidy granted and received may have to be returned together with interest.

45.2. Operations in the Special Economic Zone

Arctic Paper Kostrzyn S.A. operates in the Kostrzyńsko-Słubicka Special Economic Zone (the „KSSSE") and based on the permission issued by the Kostrzyńsko – Słubicka Special Economic Zone S.A. benefits from the corporate income tax relief as regards the activities carried out in the KSSSE.

The tax exemption is of conditional nature. The provisions of the act on special economic zones provide that Arctic Paper Kostrzyn S.A. loses its tax relief if at least one of the following occurs:

- Arctic Paper Kostrzyn S.A. ceases to conduct business operations in the KSSSE for which it obtained the permission,
- it violates the conditions of the permission,
- it does not remove errors/ irregularities identified during the course of control within the period of time specified in the order issued by appropriate minister for economic affairs,
- it transfers, in any form, the ownership right to assets to which the investment tax relief related within the period shorter than 5 years of introducing those assets to the fixed assets register,
- if the machines and equipment is transferred to conduct business activities outside the KSSSE,
- if Arctic Paper Kostrzyn S.A. receives compensation, in any form, of the investment expenditure incurred,
- if Arctic Paper Kostrzyn S.A. goes into liquidation or if it petitioned for bankruptcy.

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

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

During the period from 25th August 2006 to 31st December 2012, Arctic Paper Kostrzyn S.A. incurred capital expenditure classified as expenditure of the KSSSE in the amount of PLN 197,864 thousand. During this period, the discounted amount of public assistance used was PLN 41,621 thousand.

If there is insufficient tax income to utilize the qualified investment expenditure during the year, then Arctic Paper Kostrzyn S.A. recognizes a deferred tax asset for the difference ascertained.

The amount of recognized deffered tax asset on the expenditures in SEZ amounted to PLN 24,786 thousand as on 31st December 2012.

46. Events after the reporting period

46.1. Acquisition of Rottneros shares in 2013

Until 26th February 2013, Arctic Paper S.A. continued to purchase shares of Rottneros AB either under the calling, whose principles were described in note 23 to the hereby financial statements or through direct purchases in NASDAQ OMX stock.

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

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

46.2. 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,

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- 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 68,287,783 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 (current report 20/2013).

46.3. Agreement with liquidity provider

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

46.4. 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.

Signatures of Members of the Management Board

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

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