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# ARCTIC PAPER S.A. CAPITAL GROUP
## Consolidated Annual Report
## for the year ended 31st December 2013



ARCTIC PAPER

# Table of Contents

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

*Dear Sirs,*

*We now present to you the annual report on the operations of the Arctic Paper S.A. Group in 2013. It was a difficult year for our industry, offering great challenges, and we, Arctic Paper, rose to meet those challenges. As a result, despite the weakening demand on the European paper market, Arctic Paper increased its market share, due to a determined and active sales force and some new product initiatives. The market on which Arctic Paper operates suffered a decline in deliveries of paper of 5.1 %. Arctic Paper observed a decline in sales volume of 4.1 % year on year. Thereby we increased our share of the market.*

*Our priorities are financial stability and reliability as well as operating mobility – including an appropriate response to evolving market conditions and product innovation. I believe that these are the keys to success on a demanding market undergoing great changes, and the European paper market is one such market.*

*We closed out the difficult year of 2013 with revenue of PLN 3.1 billion, which was 18 % higher than the year before. At the level of the operating result and net result, we recorded losses (of PLN 151.6 million and PLN 152.2 million respectively). Primarily this was due to the continued weakening of demand for high-quality graphic paper in Europe, especially in the 2nd quarter of 2013. The weak market translated into decline in prices for our products, which was combined with high pulp prices and unfavorable exchange-rate differences, emphasized by the strength of the Swedish Krona against the Euro and the US Dollar.*

*In addition, the results reflect write-downs in the value of non-financial assets related to Arctic Paper Grycksbo in the amount of PLN 102.98 million. These were in the nature of an accounting operation, which did not affect the cash flow of Arctic Paper or the operations of the group. Without considering these write-downs, the operating loss would have been PLN 48.7 million and the net loss PLN 77.9 million.*

*The utilization of our capacity remained at the high level of 93 %, demonstrating the ability to achieve high market access even in shrinking markets.*

*It should also be stressed that in the 4th quarter of 2013 we observed an improvement in market trends. Pulp prices came to a level somewhat more favorable to us, and at the end of the year there was a weakening of the Swedish Krona, which meant that in the case of our Swedish paper mills the currency exchange result was slightly more positive. This year 2014 has also begun well for us, which enables us to take a positive outlook on 2014 as a whole.*

*We are undertaking a number of initiatives seeking on the one hand to improve the effectiveness of the group and on the other hand to develop the product line to include new innovative and higher-margin products. In the 2nd half of 2013 we implemented a recovery plan including a reduction in costs, with the objective of improving results by PLN 75 million. The first effects of the cost reductions were already visible in 2013, while we anticipate significant* *improvements in this respect during 2014. In October 2013 we expanded our product line to include papers designed for the packaging industry – AP Tec.*

*This year we will also introduce new products to the markets from all of the group's paper mills. I would like to stress, however, that the launch of new products in the paper industry, including sales success, is a time-consuming process.*

*As to the Rottneros investment, we foresee a positive market change for our products, so we are confident that the investment in Rottneros will show good development.*

*To summarize the past year, it was a difficult period for the industry and for Arctic Paper, but we are emerging from it in a better position. We have increased our share of the European market, we are in a stable condition, and we have begun offering new products. There are two main challenges in front of us: further improvement in the financial results due to enhanced effectiveness of our units and, second, continuing development of our product portfolio. I'm confident that the current year 2014 will be better for our group, as a result of measures taken by us.*

*Yours faithfully*

*Wolfgang Lübbert*

*CEO of Arctic Paper S.A.*

# Introduction

## Information on the report

The hereby Consolidated Annual Report for 2013 was prepared in accordance with the Minister of Finance Regulation of 19 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, 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);<br>Arctic Paper Benelux SA seated in Oud-Haverlee (Belgium);<br>Arctic Paper Danmark A/S seated in Vallensbaek (Denmark);<br>Arctic Paper France SAS seated in Paris (France);<br>Arctic Paper Deutschland GmbH seated in Hamburg (Germany);<br>Arctic Paper Ireland Ltd seated in Dublin (Ireland);<br>Arctic Paper Italia Srl seated in Milan (Italy);<br>Arctic Paper Baltic States SIA seated in Riga (Latvia);<br>Arctic Paper Norge AS seated in Trollåsen (Norway);<br>Arctic Paper Polska Sp. z o.o. seated in Warsaw (Poland);<br>Arctic Paper España SL seated in Barcelona (Spain);<br>Arctic Paper Sverige AB seated in Uddevalla (Sweden);<br>Arctic Paper Schweiz AG seated in Zurich (Switzerland);<br>Arctic Paper UK Ltd seated in Caterham (UK);<br>Arctic Paper East Sp. z o.o. seated in Kostrzyn nad Odrą (Poland);<br>Grycksbo Paper Deutschland GmbH (liquidated in 2012). |
| Rottneros, Rottneros AB | Rottneros AB seated in Stockholm, Sweden |
| Rottneros Group, Rottneros AB Group | Rottneros AB seated in Vallvik, Sweden; Rottneros Bruk AB seated in Sunne, Sweden; Utansjo Bruk AB seated in Sweden, Vallviks Bruk AB seated in Vallvik, 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 Vallvik, 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 | Extraordinary Shareholders Meeting of Arctic Paper S.A. |

| | |
|---|---|
| Shareholders Meeting, Company's Extraordinary Shareholders Meeting | |
| 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 |
| EURO-GRAPH | The European Association of Graphic Paper Producers |
| Eurostat | European Statistical Office |
| GUS | Polish Central Statistical Office |
| NBSK | Northern Bleached Softwood Kraft |
| BHKP | Bleached Hardwood Kraft Pulp |

Definitions of selected terms and financial indicators and abbreviations of currencies

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

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

## Other definitions and abbreviations

| | |
|---|---|
| Series A Shares | 50,000 Arctic Paper S.A. Series A Shares with a par value of 1 PLN each |
| Series B Shares | 44,253,500 Arctic Paper S.A. Series B Shares with a par value of 1 PLN each |
| Series C Shares | 8,100,000 Arctic Paper S.A. Series C Shares with a par value of 1 PLN each |
| Series E Shares | 3,000,000 Arctic Paper S.A. Series E Shares with a par value of 1 PLN each |
| Series F Shares | 13,884,283 Arctic Paper S.A. Series F shares as on 31st December 2013 (10,740,983, Arctic Paper S.A. Series F shares as on 31st December 2012) with a par value of 1 PLN each |
| Shares, Stock, Issuer's Shares, Issuer's Stock | Series A, Series B, Series C, Series E and Series F Shares jointly |

## Forward-looking statements

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

## Statements concerning risk factors

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

Please analyze carefully the information contained in the "Risk factors" section of the hereby report which describes the risks and uncertainties related to Arctic Paper Group's operations.

Management Board Report
on the operations of Arctic Paper S.A. Capital Group
to the report for year 2013

# Arctic Paper Group profile

## General information

The Arctic Paper Group is the second-largest European producer of bulky book paper in terms of production volume, offering the largest product assortment in this segment, and one of Europe's leading producers of fine graphic paper. The Group produces numerous types of uncoated and coated wood-free paper, as well as wood-containing uncoated paper for printing houses, paper distributors, book and magazine publishing houses and the advertising industry. Because of the acquisition of Rottneros Group in December 2012, our assortment broadened with pulp production. As on the day of publishing of the hereby report, Arctic Paper Group employs app. 1,830 people in four paper mills, two pulp mills, fifteen companies dealing in paper distribution and sales, and a company which purchases timber for pulp production. The Group's paper mills are located in Poland, Sweden and Germany and have total production capacity of more than 800,000 metric tonnes of paper per year. The pulp mills are located in Sweden and have total production capacity of 410,000 tons per year. The Group has three Distribution Companies which handle sales, distribution and marketing of products offered by the Group in Scandinavia and twelve Sales Offices providing access to all European markets, including Central and Eastern Europe. The Group's consolidated sales revenue in 2013 totaled PLN 3,105 million.

Arctic Paper S.A. is a holding company established in April 2008. The Parent Company is entered in the commercial register of the Polish Court Register maintained by the District Court – 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 2013, as well as on the day of publishing of the hereby report, the Group has owned the following paper mills:

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

As on 31st December 2013, as well as on the day of publishing of the hereby report, the Group has owned the following pulp mills:

- the pulp mill in Rottneros (Sweden) has the annual production capacities of app. 170.000 tons and mainly produces two types of fibrous mechanical pulp: groundwood and. CTMP;
- the pulp mill in Vallvik (Sweden) has the annual production capacities of app. 240.000 tons and produces two types of long-fibre sulphate pulp: fully bleached sulphate pulp and unbleached sulphate pulp. The most of Vallvik pulp mill production is known as NBSK pulp. The unbleached sulphate pulp produced by the mill is characteristic of high levels of purity 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 2013 no material changes in capital structure of Arctic Paper Group occurred.

Until 26th February 2013, Arctic Paper S.A. continued to purchase shares of Rottneros AB either under the calling, whose principles were described in the annual consolidated financial statements for 2012, or through direct purchases in NASDAQ OMX stock exchange.

The Company purchased 82,726,339 of Rottneros AB shares in the aggregate which represented 54.2% shares in share capital and in the total number of votes.

Since a portion of Rottneros AB shares was purchased as exchange of newly issued AP S.A. shares for Rottneros AB shares, in December 2012 and in 2013, until the date of the hereby report, the Company issued 13,884,283 series F shares in the aggregate. All issued shares has been registered in National Court Register until the day of publishing of the hereby report.

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

## Changes in basic management principles

There were no important changes in basic management principles in 2013.

## 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 21.03.2014 | | | | as at 14.11.2013 | | | |
|---|---|---|---|---|---|---|---|---|
| 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 (previously Arctic Paper AB) | 41 360 449 | 59,69% | 41 360 449 | 59,69% | 41 450 065 | 59,82% | 41 450 065 | 59,82% |
| Nemus Holding AB | 5 857 286 | 8,45% | 5 857 286 | 8,45% | 5 857 286 | 8,45% | 5 857 286 | 8,45% |
| Others | 22 070 048 | 31,85% | 22 070 048 | 31,85% | 21 980 432 | 31,72% | 21 980 432 | 31,72% |
| Total | 69 287 783 | 100,00% | 69 287 783 | 100,00% | 69 287 783 | 100,00% | 69 287 783 | 100,00% |
| Own shares | - | 0,00% | - | 0,00% | - | 0,00% | - | 0,00% |
| **Total** | **69 287 783** | **100,00%** | **69 287 783** | **100,00%** | **69 287 783** | **100,00%** | **69 287 783** | **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 3Q 2013.

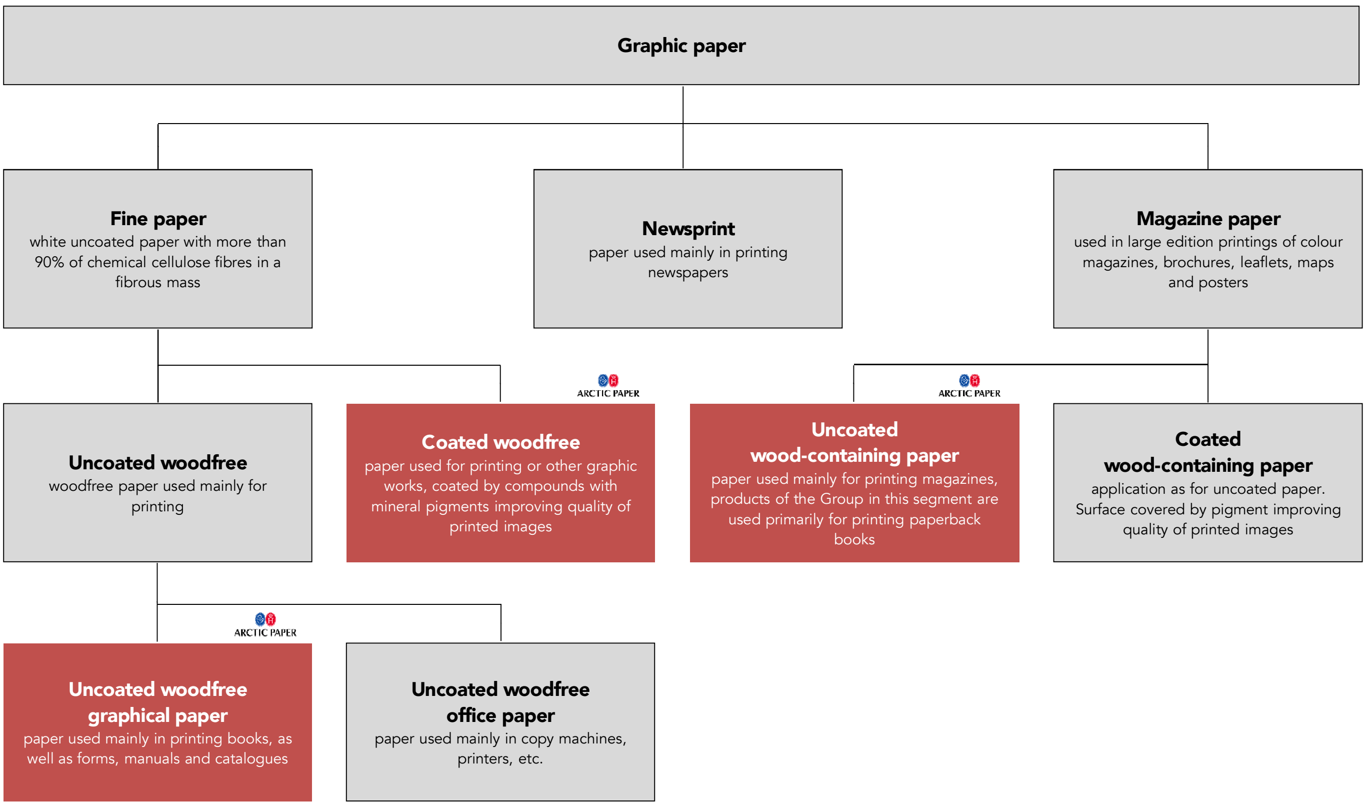
# Market environment

## Segments of the graphic paper market

Graphic paper market can be divided into three main categories:

- fine paper,
- newsprint,
- magazine paper.

The Group conducts its business in fine graphic paper market. Only. We do not operate in segment of newsprint and magazine paper, as well as photocopy and office paper.




Below is the description of particular segments of graphic paper market :

- 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

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

  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;

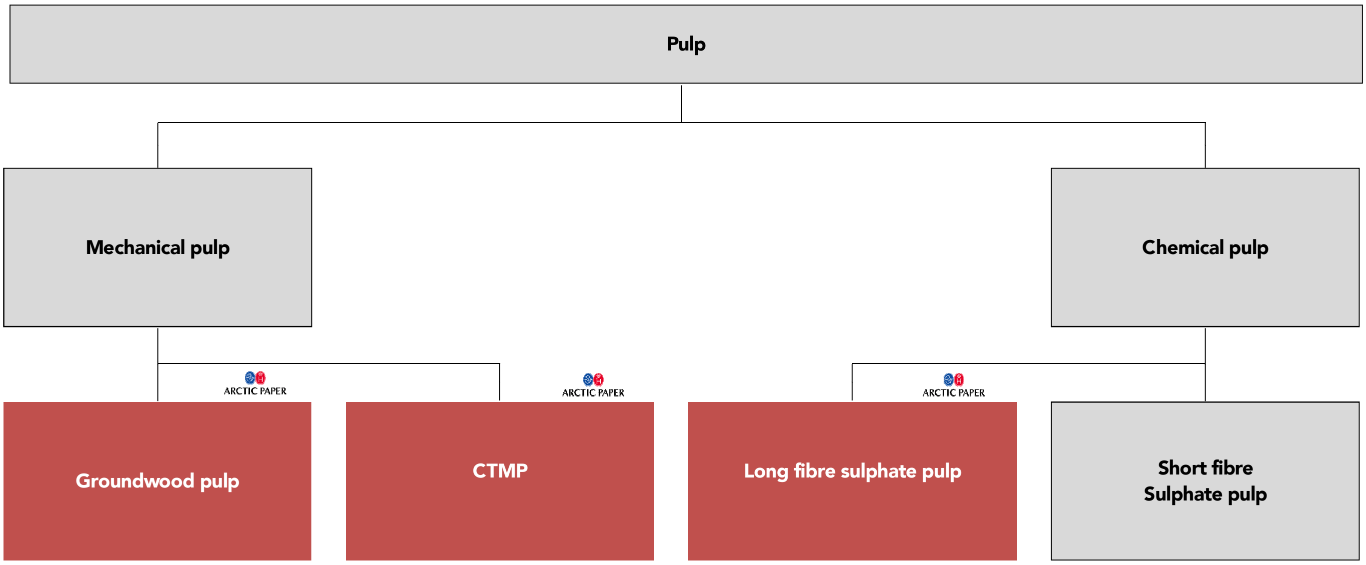
  Newsprint is paper primarily used to print newspapers, produced mainly from mechanical pulp or waste paper pulp, without or with low filler content. Grammage usually ranges from 40 g/m² to 52 g/m². Newsprint is machine-pressed or slightly calandered, white or slightly dyed. This paper is used in reels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

- 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:

### Development 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 of 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.

## Continuous improvement of production and distribution efficiency

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

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

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## Sales structure

In 2013 and 2012 the sales structure divided to main production lines presented as follows:

### Sales structure by products

| *tonnes thousands* | 2013 | share % | 2012 | share % |
|---|---|---|---|---|
| *Paper* | *757* | *68%* | *789* | *100%* |
| Amber | 327 | 30% | 319 | 40% |
| G-Print | 156 | 14% | 165 | 21% |
| Munken | 102 | 9% | 106 | 13% |
| Pamo | 59 | 5% | 76 | 10% |
| Arctic | 87 | 8% | 89 | 11% |
| L-Print | 19 | 2% | 26 | 3% |
| AP Tech | 8 | 1% | 8 | 1% |
| Other | - | 0% | - | 0% |
| *Pulp* | *349* | *32%* | *na* | *na* |
| NBSK | 208 | 19% | *na* | *na* |
| Groundwood | 52 | 5% | *na* | *na* |
| CTMP | 73 | 7% | *na* | *na* |
| Other | 16 | 1% | *na* | *na* |
| **Total** | **1 106** | **100%** | **789** | **100%** |

## Sales structure by products

| *PLN thousands* | 2013 | share % | 2012 | share % |
|---|---|---|---|---|
| *Paper* | *2 439 043* | *79%* | *2 631 717* | *100%* |
| Amber | 999 592 | 32% | 1 004 801 | 38% |
| G-Print | 478 378 | 15% | 534 018 | 20% |
| Munken | 422 243 | 14% | 442 149 | 17% |
| Arctic | 166 283 | 5% | 315 762 | 12% |
| Pamo | 300 486 | 10% | 215 174 | 8% |
| L-Print | 45 618 | 1% | 61 462 | 2% |
| AP Tech | 25 419 | 1% | 26 328 | 1% |
| Other | 1 024 | 0% | 32 025 | 1% |
| *Pulp* | *665 858* | *21%* | *na* | *na* |
| NBSK | 329 606 | 11% | *na* | *na* |
| Groundwood | 88 895 | 3% | *na* | *na* |
| CTMP | 114 675 | 4% | *na* | *na* |
| Other | 132 681 | 4% | *na* | *na* |
| **Total** | **3 104 901** | **100%** | **2 631 717** | **100%** |

In 2013 there were no significant changes in the Group's sales structure by products or in the Group's income structure by products. The main change in 2013 resulted from the acquisition of Rottneros Group in December 2012 and broadening the assosrtment of Arctic Paper Group with pulp production and sales.

### Output markets

In 2013 the market share of sales outside Poland in metric tonnes was 89% and did not significantly change compared to 2012 (88%). The acquisition of Rottneros did not materially influence changes of the structure apart from the increase of sales outside Europe in 2013. Moreover, share of sales to France and Great Britain decreased. This year, as in previous years, sales focused on European markets. The share of those markets in total sales volume was app. 93% in 2013 (99% in 2012).

The geographical structure of sales revenues from the most important sales markets in 2013, as compared to 2012, 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 of materials such as annual reports, catalogues, and advertisements.

The main customers of our pulp mills are printing paper producers and producers of paper hygienic materials, cardboard, 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 2013, 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,
- timber 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 delivered to Paper Mills from Pulp Mills of Rottneros.

### TImber

The main raw material for pulp production in Pulp Mills is timber. Rottneros Group has its purchases department, who places orders to Swedish sawmills, as well as a subsidiary - SIA Rottneros Baltic, who orders timber 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 2013, 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 and Pulp Mills carried out R&D work to streamline the production process, particularly by shortening machine idle time, and to improve paper/pulp quality along with expanding the assortment range as well as the increase of rpoducts' qualities.

A material purpose of R&D work in 2013 was 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 and pulp 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 14 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 and

112,141 allowances for 2013, 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

Our pulp mills mind that the timber used for pulp production comes from reliable and certified sources. Our 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* | 2013 | 2012 | Change 2013/2012 - % |
|---|---|---|---|
| **Revenues** | **3 104 901** | **2 631 717** | **18,0** |
| *including:* | | | |
| *Sales of paper* | *2 439 043* | *2 600 700* | *(6,2)* |
| *Sales of pulp* | *665 858* | *31 017* | *2 046,8* |
| Gross profit on sales | 190 886 | 157 010 | 21,6 |
| *Gross profit on sales margin %* | *6,15* | *5,97* | *0,2 p.p.* |
| Sales costs | (298 091) | (307 759) | (3,1) |
| Administrative expenses | (76 177) | (86 534) | (12,0) |
| Other operating income | 63 173 | 243 487 | (74,1) |
| Other operating cost | (31 432) | (26 202) | 20,0 |
| **EBIT** | **(151 641)** | **(19 998)** | **658,3** |
| *EBIT margin %* | *(4,88)* | *(0,76)* | *(4,1) p.p.* |
| **EBITDA** | **72 862** | **352 162** | **(79,3)** |
| *EBITDA margin %* | *2,35* | *13,38* | *(11,0) p.p.* |
| Financial income | 1 255 | 1 484 | (15,4) |
| Financial cost | (32 333) | (41 394) | (21,9) |
| **EBT** | **(182 719)** | **(59 908)** | **205,0** |
| Corporate income tax | 30 566 | 83 606 | (63,4) |
| **Net profit/ (loss)** | **(152 153)** | **23 699** | **(742,0)** |
| *Net profit/ (loss)margin %* | *(4,90)* | *0,90* | *(5,8) p.p.* |
| Profit/(Loss) attributable to equity holders of the parent | (132 266) | (102 353) | 29,2 |
| Earnings per share (in PLN) attributable to equity holders of the parent | (1,92) | (1,84) | n.a. |

#### Revenue

In 2013 consolidated sales revenue amounted to PLN 3,104,901 thousand compared to PLN 2,631,717 thousand in the previous year. Consolidated sales revenue were higher by 18.0% compared to sales realized in 2012.

Because of the acquisition of Rottneros Group in December 2012, revenue and cost of Rottneros Group have been recognized in consolidated income statement of Arctic Paper Group. Sales revenue of Arctic Paper Group excluding Rottneros Group revenue amounted in

2013 to PLN 2,475,182 thousand and were lower than in 2012 by PLN 156,535 thousand.

The sales volume in 2013 amounted to 757 thousand tonnes and was lower by 32 thousand tonnes than in the previous year. This change represents a decrease of sales volume by 4.1%.

Pulp sales volume in 2013 amounted to 349 thousand tonnes.

### Profit on sales, own cost of sales, selling expenses and administrative expenses

Profit on sales in 2013 was 21.6% higher than in the previous year. Sales profit margin in the current year stood at 6.15% compared to 5.97% (+0.18 p.p.) in the previous year.

The main reason for the increase of profit on sales in 2013, compared to the previous year, was the decrease of impairment of non-financial assets (2013: PLN 102,981 thousand; 2012: PLN 248,874 thousand). On the other hand, sales loss of Rottneros Group in 2013 resulted in decrease of profit on sales for 2013.

Profit on sales corrected with aforementioned changes amounted to PLN 355,540 thousand in 2013 and PLN 405,884 in 2012.

Decrease of corrected profit on sales in 2013, compared to the previous year, was due to decrease of paper sales revenue, main reasons of which were lesser sales volume and decrease of unit sales price expressed in PLN.

In 2013 selling expenses amounted to PLN 298,091 thousand which represents a decrease by 3.1% compared to costs incurred in 2012. The main reason for the decrease in selling expenses in the analyzed period was the decrease of variable sales costs dependent on sales volume. The dynamics of variable sales cost decrease was lesser than the dynamics of sales volume decrease and as a result the total sales cost per tonne of paper sold increased by 1.0% compared to 2012.

In 2013 administrative expenses amounted to PLN 76,177 thousand compared to PLN 86,354 thousand in 2012, which represents a decrease by 12.0%. The main reason for decrease of these expenses in 2013 was lower cost related to consulting service rendered to the Group by external parties.

### Other operating income and cost

Other operating income in 2013 amounted to PLN 63,173 tys. PLN which means a decrease compared to the previous year by PLN 180,314 thousand.

Relatively high other operating income in 2012 resulted from recognition of profit on occasional acquisition of Rottneros AB in the amount of PLN 204,203 thousand. Corrected other operating income amounted in 2012 to PLN 39,284 thousand.

Increase of other operating income in 2013 compared to corrected other operating income in 2012 results mainly from other operating income recorded by companies of Rottneros Group.

Other operating income comprises mostly heat and electricity sales income as well as income from sales of other materials.

Other operating expenses in 2013 amounted to PLN 31,432 thousand compared to PLN 26,202 thousand in 2012. The major share in other operating expenses was the own sales cost of energy and other materials.

### Financial income and cost

In 2013 financial income amounted to PLN 1,255 thousand and were lower comparing to financial income recorded in 2012 by PLN 229 thousand.

Financial cost in 2013 amounted to PLN 32,332 thousand PLN compared to PLN 41,394 thousand in 2012. The decrease in financial cost in 2013 results from lesser interest costs on bank loans and bonds as well as other financial instruments, and from lesser negative exchange differences.

## Income tax

Income tax in 2013 amounted to PLN +30,566 thousand while in 2012 it amounted to PLN +83,606 thousand.

Positive effect of the income tax resulted from the decrease of deferred tax liability due to Swedish tax rate decrease.

## Profitability analysis

EBITDA in 2013 amounted to PLN 72,862 thousand while in 2012 it amounted to PLN 352,162 thousand. Relatively high EBITDA in 2012 resulted mainly from profit on occasional acquisition of Rottneros AB shares. In the reporting period EBITDA margin amounted to 2.35% compared to 13.38% in 2012.

Loss on operating activities in 2013 amounted to PLN 151,641 thousand compared to PLN 19,998 thousand in the previous year. Operating profit margin in 2013 amounted to -4.88%, while in 2012 it amounted to -0.76%.

Net loss in 2013 amounted to PLN 152,153 thousand compared to profit of PLN 23,699 thousand in 2012. Net profit margin amounted to -4.90% compared to 0.90% in 2012.

## Profitability analysis

| *PLN thousands* | 2013 | 2012 | Change 2013/2012 - % |
|---|---|---|---|
| Gross profit on sales | 190 886 | 157 010 | 21,6 |
| *Gross profit on sales margin %* | *6,15* | *5,97* | *0,2 p.p.* |
| **EBITDA** | **72 862** | **352 162** | **(79,3)** |
| *EBITDA margin %* | *2,35* | *13,38* | *(11,0) p.p.* |
| **EBIT** | **(151 641)** | **(19 998)** | **658,3** |
| *EBIT margin %* | *(4,88)* | *(0,76)* | *(4,1) p.p.* |
| **Net profit/ (loss)** | **(152 153)** | **23 699** | **(742,0)** |
| *Net profit/ (loss)margin %* | *(4,90)* | *0,90* | *(5,8) p.p.* |
| ROE - Return on equity (%) | (22,7) | 2,9 | (25,5) p.p. |
| ROA - Return on assets (%) | (8,5) | 1,2 | (9,7) p.p. |

In 2013 return on equity amounted to -22.7%, while in 2012 it reached a level of +2.9%. In the same period return on assets fell from 1.2% in 2012 to -8.5% in 2013.

## Report on financial situation

# Selected items of the consolidated balance sheet

| *PLN thousands* | 31/12/2013 | 31/12/2012 | Change 31/12/2013 -31/12/2012 |
|---|---|---|---|
| Non-current assets | 924 650 | 1 070 697 | (146 047) |
| Inventory | 397 373 | 411 716 | (14 343) |
| Receivables, therein: | 328 848 | 342 155 | (13 307) |
| *Trade and other receivables* | *319 784* | *329 888* | *(10 104)* |
| Other current assets | 15 553 | 18 320 | (2 767) |
| Cash and equivalents | 118 033 | 202 710 | (84 677) |
| **Total assets** | **1 784 458** | **2 045 599** | **(261 142)** |
| | | | |
| Equity | 671 532 | 829 487 | (157 954) |
| Short-term liabilities | 684 774 | 782 681 | (97 907) |
| *therein:* | | | |
| *Trade and other payables* | *367 267* | *408 987* | *(41 719)* |
| *Interest-bearing loans and borrowings* | *219 932* | *249 527* | *(29 595)* |
| *Other non-financial liabilities* | *97 575* | *124 167* | *(26 592)* |
| Long-term liabilities | 428 151 | 433 432 | (5 281) |
| *therein:* | | | |
| *Interest-bearing loans and borrowings* | *290 377* | *246 869* | *43 507* |
| *Other non-financial liabilities* | *137 775* | *186 563* | *(48 789)* |
| **Total equity and liabilities** | **1 784 458** | **2 045 599** | **(261 142)** |

As on 31st December 2013 total assets amounted to PLN 1,784,458 thousand compared to PLN 2,045,599 thousand at the end of 2012.

### Non-current assets

As at the end of December 2013 non-current assets amounted to PLN 924,650 thousand and represented 51.8% of total assets, while as at the end of 2012 it amounted to PLN 1,070,697 thousand (52.3% of total assets).

Decrease of fixed assets was mainly due to amortization not fully covered by investment expenses and to impairment allowances.

### Current assets

At the end of December 2013 current assets amounted to PLN 859,808 thousand compared to PLN 974,902 thousand as at the end of December 2012. Within the position of current assets there was a decrease in inventories by PLN 14,343 thousand, a decrease in receivables by PLN 13,307 thousand, a decrease in other current assets by PLN 2,767 thousand and a decrease in cash and cash equivalents by PLN 84,677 thousand.

As at the end of December 2013 current assets represented 48.2% of total assets (47.7% at the end of 2012), therein inventories 22.3% (20.2% at the end of 2012), receivables 18.4% (16.7% at the end of 2012), other current assets 0.9% (0.9% at the end of 2012) and cash and cash equivalents 6.6% (9.9% at the end of 2012).

### Equity

As at the end of 2013 equity amounted to PLN 671,532 thousand compared to PLN 829,487 thousand as at the end of 2012. As at the end of 2013, equity represented 37.6% of the total equity and liabilities (40.5% as on 31st December 2012).

Decrease of equity was mainly due to net loss In the amount of PLN 152,153 thousand.

### Current liabilities

As at the end of December 2013 current liabilities amounted to PLN 684,774 thousand (38.4% of the total balance sheet amount) compared to PLN 782,681 thousand (38.3% of the total balance sheet amount) at the end of 2012. In 2013 there was a decrease in current liabilities by PLN 97,907 thousand. The change was primarily due to repayment of short-term bonds performed by taking a long-term loan and to decrease of trade liabilities as well as accruals and/or provisions.

### Non-current liabilities

As at the end of December 2013 long-term liabilities amounted to PLN 428,151 thousand (24.0% of the total balance sheet amount) compared to PLN 433,432 thousand at the end of 2012 (accordingly 21.2% of the balance sheet amount). In the analyzed period, there was a decrease of long-term liabilities by PLN 5,281 thousand.

The increase of long-term loans and borrowings due to taking a loan for repayment of bonds and a loan from Mr Thomas Onstad, the largest indirect shareholder of the Company and a member of the Supervisory Board, was balanced with decrease of provisions and deferred tax liability.

## Debt analysis

### Debt analysis

| | 2013 | 2012 | Change 2013/2012 - % |
|---|---|---|---|
| Debt-to-equity ratio (%) | 165,7 | 146,6 | 19,1 p.p. |
| Equity-to-non-current assets ratio (%) | 72,6 | 77,5 | (4,8) p.p. |
| Interest-bearing debt-to-equity ratio (%) | 76,0 | 59,8 | 16,1 p.p. |
| Net borrowings-to-EBITDA (times) | 5,38x | 0,83x | 4,55 |
| EBITDA-to-interest (times) | 2,6x | 10,4x | (7,8) |

As at the end of December 2013 debt to equity ratio was 165.7% and was by 19.1 p.p. higher than at the end of December 2012. The increase of this ratio resulted mainly from decrease of equity due to net loss in 2013.

Equity to non-current assets ratio at the end of 2013 stood at 72.6% and was lower by 4.8 p.p than at the end of December 2012, as a result of equity decrease dynamics exceeding non-current assets decrease dynamics.

The interest-bearing debt to equity ratio at the end of 2013 stood at 76.0% and was by 16.1 p.p. higher than at the end of December 2012, mainly due to decrease of equity.

Net borrowings to EBITDA ratio for the last 12 months amounted to 5.38x compared to 0.83x for 2012. At the same time, EBITDA to interest ratio for the last 12 months decreased from 10.4x for 2012 to 2.6x in 2013. Relatively low level of net borrowings to EBITDA and high level of EBITDA to interest ratio for 2012 was caused by relatively high EBITDA in that year, mainly due to profit on occasional acquisition of Rottneros.

## Liquidity analysis

### Liquidity analysis

| | 2013 | 2012 | Change 2013/2012 |
|---|---|---|---|
| **Current liquidity ratio** | **1,3x** | **1,2x** | **0,0** |
| **Quick liquidity ratio** | **0,7x** | **0,7x** | **(0,0)** |
| **Acid test ratio (cash liquidity)** | **0,2x** | **0,3x** | **(0,1)** |
| Inventory turnover DSI (days) | 49,1 | 59,9 | (10,8) |
| Receivables turnover DSO (days) | 37,1 | 45,1 | (8,0) |
| Liabilities turnover DPO (days) | 45,4 | 59,5 | (14,1) |
| Operating cycle (days) | 86,2 | 105,0 | (18,8) |
| **Cash conversion cycle (days)** | **40,8** | **45,5** | **(4,7)** |

At the end of December 2013 current ratio stood at 1.3x and had barely changed since December 2012. The quick ratio reached 0.7x as at the end of 2013 and 2012. Acid test ratio amounted to 0.2x as on 31st December 2013 and decreased compared to 31st December 2012. Cash conversion cycle for 2013 was shorter compared to 2012 by 4.7 days.

## Consolidated cash flow statement

### Selected items of the consolidated cash flow

| *PLN thousands* | 2013 | 2012 | Change 2013/2012 - % |
|---|---|---|---|
| Cash flow from operations | 14 857 | 167 054 | (91,1) |
| *including:* | | | |
| *EBT* | *(182 719)* | *(59 908)* | *205,0* |
| *Depreciation and impairment of non-current assets* | *224 503* | *372 160* | *(39,7)* |
| *∆ in working capital* | *(58 441)* | *27 543* | *(312,2)* |
| *Other corrections* | *31 514* | *(172 741)* | *(118,2)* |
| Cash flow investing activities | (85 797) | (54 967) | 56,1 |
| Cash flow financing activities | (8 705) | (73 391) | (88,1) |
| **Total Cash Flow** | **(79 645)** | **38 696** | **(305,8)** |

## Cash flow from operating activities

In 2013 net cash flow from operating activities amounted to PLN 14,857 thousand compared to PLN 167,054 thousand in 2012. Lower cash flow from operating activities in 2013 resulted primarily from greater gross loss in 2012, compared to the result achieved in 2012 as well as from changes in working capital.

### Cash flow from investment activities

In 2013 cash flow from investment activities amounted to PLN -85,797 thousand compared to PLN -54,967 thousand in 2012 and were mainly related to expenses for purchasing of property, plant and equipment.

### Cash flow from financial activities

In 2013 cash flow from financial activities amounted to PLN -8,705 thousand compared to PLN -73,391 thousand in 2012. In twelve months of 2013 cash flow from financial activities related mostly to repayment of bonds, loans and interest. Financial inflows were mostly connected with loan taken, increased overdrafts and factoring.

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

## Key factors affecting the performance results

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

- macroeconomic and other economic factors;
- paper prices;
- prices of pulp for Paper Mills, timber for Pulp Mills and energy;
- 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 fine papers, and they may also influence the demand for the Group products and our operating results. Those factors include:

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

### Paper prices

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

### Costs of raw materials, energy and transportation

The main elements of the Group's operating expenses are costs of raw materials, energy and transportation. The costs of raw materials include mainly the costs of pulp for Paper Mills, timber for Paper and Pulp Mills and chemical agents used for paper and pulp production. Our energy costs, historically, include mostly costs of electricity, natural gas, coal and fuel oil. Costs of transportation include the costs of transportation services rendered to the Group by external service providers only.

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

Part of pulp supplies to our Paper Mills is realized from Rottneros Pulp Mills. The rest of pulp produced in Pulp Mills is sold to external customers.

### 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

As on 30th June 2013 and 30th September 2013, the Group did not keep the levels of selected financial ratios as defined in loan agreements concluded with the consortium of banks (Pekao S.A., Bank Zachodni WBK S.A. and BRE Bank S.A.) and with Svenska Handelsbanken. The breach of financial ratios concerned net debt-to-EBITDA ratio for the whole Group as well as solidity ratio and interest coverage ratio for one of the paper mills.

Failure to keep the level of financial ratios defined in the loan agreement and leasing agreements, may give rise to breaches of the agreement. 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, loss of other collateralized assets, 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.

On 4th October 2013, the Issuer and its subsidiary, Arctic Paper Grycksbo AB, finalized the first stage of negotiations with banks which finance the Group entities. As a result, Svenska Handelsbanken AB set the payment term of Arctic Paper Grycksbo AB overdraft on 30th March 2014 and granted Arctic Paper Grycksbo AB a covenant waiver concerning solidity ratio and interest coverage ratio as set in the Loan Agreement until 30th March 2014.

On 20th December 2013 an annex was cocluded to the agreement dated 6th November 2012 between a consortium of banks (Pekao S.A., Bank Zachodni WBK S.A and BRE Bank S.A.) and Arctic Paper Kostrzyn S.A., Arctic Paper Investment GmbH and Artic Paper Mochenwangen GmbH. By the power of the annex, new covenents were determined which are more favorable for the Group. Moreover, the payment date of short-term part of the loan in the amount of PLN 59,000 thousand ("Loan B") was prolonged until 30th September 2014 and new case of bank agreement breach was established if Svenska Handelsbanken would have not prolonged the short-term loan and factoring agreements (for more information see note 32.1 of additional information to consolidated financial statements).

In connection with failure to keep covenants set in loan agreements and occurrences of infringement of the agreements' provisions, the Company has received information regarding losing insurance limits of particular suppliers for selected Paper Mills of Arctic Paper Group in the third quarter of 2013. It resulted in shortening of payment terms offered to the Companies by the suppliers. Currently, once the conclusion of the annex dated 20 December 2013, which set new covenenats and prolonged the payment date of the short-term part of the loan ("Loan B") until the end of September 2014, as well as the prolongation of payment date of overdraft until 30th March 2014 as it has been negotaiated with Svenska Handelsbanken AB, have been announced, the majority of suppliers is offering payment terms on original basis.

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

In connection with taking the control over Rottneros Group in December 2012, the consolidated income statement of Arctic Paper Capital Group for the period of 1st January 2013 until 31st December 2013 includes income statement of Rottneros Group for the analogous period. Net result and other comprehensive income of Rottneros Group were divided between shareholders of the parent entity and non-controlling shares proportionally to the share in the share capital of Rottneros AB.

## Other material information

On 25th February 2013 Arctic Paper S.A. performed a repayment of bonds: series A and series B for the total amount of PLN 71,900 thousand together with interest. The bonds were issued by the Company in compliance with bonds issue agreement dated 11th February 2010 (as amended). Therefore the Company performed a full repayment of bonds series A and B and was released from any liability under the bonds issue agreement.

In July 2013 Arctic Paper S.A. received a long-term loan from Mr Thomas Onstad, the largest indirect shareholder and a Member of the Supervisory Board, in the amount of EUR 4,000 thousand.

# Factors influencing Arctic Paper Group development

## Information on market tendencies

### Supplies, demand and capacity

In 2013 supplies of fine papers to the European market were approximately 5.1% lower compared to 2012. During this period, supplies in the segment of uncoated wood-free paper (UWF) were 4.0% lower, while those in the segment of coated wood-free paper (CWF) 6.3% lower.

Sales volume of Arctic Paper Group in 2013 was 4.1% lower than in 2012.

Data source: EuroGraph, an analysis of Arctic Paper.

### Paper prices

In 2013 fine paper prices in Europe experienced decrease compared to the prices as at the end of 2012. The decrease of average prices amounted to 3.9% for UWF papers and to 2.4% for CWF.

Between January and December 2013 average UWF prices declared by producers for the selected markets of Germany, France, Spain, Italy and United Kingdom, expressed in EUR and GBP, decreased within the range of -3.4% to -4.3%. In the same period, the average CWF prices decreased within the range of -2.0% to -2.7%.

Prices invoiced by Arctic Paper in EUR of comparable products in the segment of uncoated wood-free paper changed as at the end of 2013 by from -3.5% to -2.0%, and in the segment of coated wood-free paper by from -4.4% to -4.2%, compared to the previous year.

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 cost

At the end of 2013 pulp prices reached a level of USD 906 per ton for NBSK and USD 770 per ton for BHKP. The average pulp price in 2013 was higher by 5.3% for NBSK and by 5.4% for BHKP, compared to the previous year.

The average cost of pulp per ton as calculated for the AP Group, expressed in PLN, in 2013 increased by 1.6% compared to 2012. The share of pulp costs in sales costs in 2013 amounted to 47% and was lower than in 2012 (48%).

Arctic Paper Group uses the pulp in the production process according to the following structure: BHKP 68%, NBSK 19% and other 13%.

Source: www.foex.fi, Arctic Paper analysis

Because of the acquisition of Rottneros Group, a part of the delivieries of pulp to our Paper Mills is realized from our own Pulp Mills. It reduces the exposure of Pulp Mills' revenue and Paper Mills' cost to fluctuations of pulp market prices.

### Currency exchange rates

The EUR/PLN exchange rate at the end of 2013 amounted to 4.1472 and was higher by 1.4% than at the end of 2012. The average exchange rate EUR/PLN in 2013 was higher by 0.3% compared to 2012 and amounted to 4.1976 compared to 4.1852 in 2012.

At the end of 2013 EUR/SEK rate increased from 8.5941 as at the end of 2012 to 8.8351 (+2.8%) at the end of 2013. For this pairing, the average rate in 2013 was lower by 0.7% than in 2012.

At the end of 2013 USD/PLN exchange rate was lower by 2.8% than at the end of the previous year and amounted to 3.0120. In 2013 the average USD/PLN rate amounted to 3.1615 compared to 3.2581 in the previous year which represents an appreciation of PLN by 3.0%.

At the end of 2013 USD/SEK rate amounted to 6.4167 and was 1.5% lower than as at the end of 2012. The average exchange rate in 2013 amounted to 6.5127 and was lower by 3.9% compared to the average exchange rate from the previous year.

At the end of December 2013 EUR/USD rate amounted to 1.3769 compared to 1.3189 (+4.4%) at the end of December 2012. In 2013, the average exchange rate equaled 1.3283 compared to 1,2855 (+3.3%) in the previous year.

Compared to 2012, EUR/PLN exchange rate slightly increased levels of sales revenue in Arctic Paper Kostrzyn. Throughout the almost whole year SEK appreciated towards EUR and 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 new year

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

- Demand for fine papers in Europe. In 2013 there was a decrease of demand for fine papers in Europe (levels of orders realized) compared to 2012. Further infavorable development of the market situation will have an adverse impact on levels of orders filed at our Paper Mills and, as a result, on financial results of the Group.
- The levels of high quality paper prices, in particular, being able to raise the prices of Arctic Paper products from the current levels in local currencies, in reference to diminishing deliveries/demand in Europe and in connection with exchange rates fluctuations may have an influence on financial results. Paper prices will have particular importance

for mills in Grycksbo and Mochenwangen, who greatly suffer the market changes – changes of sales volume, prices, and (in case of Grycksbo) of exchange rates fluctuations.

- Pricing of raw materials, including pulp for Paper Mills and electricity for all operating units; in particular, negative impact on Paper Mills' financial results may be due to increasing pulp prices, particularly BHKP. On the other hand, increasing NBSK pulp prices should positively influence financial results of Pulp Mills. A material impact on results achieved by the Group may be caused by fluctuations of electricity prices in Sweden. In future, such market changes may translate to changes of sales profitability in Paper Mills of AP Munkedals and AP Grycksbo as well as in Pulp Mills of Rottneros and Vallvik.
- Currency rates 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 appreciation of USD towards SEK may have a positive impact on the results of our Pulp Mills.

## Risk factors

### Significant changes in risk factors

In 2013 there were significant changes regarding risk factors related to business operation of the Group, especially risk concerning the Group's indebtedness and risk concerning insurance limits.

### 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, 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. Continuation of these trends may adversely affect the results, financial situation and prospects of the Group .

### 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. Paper Mills buy pulp under framework agreements or one-time transaction and does not hedge against pulp price fluctuations. A part of pulp deliveries for our paper mills is realized from Pulp Mills of Rottneros Group. 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 loans in Svenska Handelsbanken and Danske Bank as well as of leasing agreements.

Failure to keep the level of financial ratios (covenants) defined in the loan agreement and leasing agreements, or lack of prolongation by Svenska Handelsbanken of short-term loan agreements and factoring agreements, may give rise to breaches of the agreement. 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, loss of other collateralized assets, 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.

More information about risk connected with the Group's debt is included in the note 6 of additional information to consolidated financial statements.

### Risk connected with insurance limits

In connection with the declining situation in paper industry and the worsening Arctic Paper Group financial results, our suppliers, particularly of such raw materials as pulp, may not fulfill the insurance limits (credited sales), and, as a result, lose the ability to offer favorable payment terms to Arctic Paper Group. Such situation may lead to worsening of financial situation and losing of financial liquidity by particular operating entities and, consequently, have an adverse influence on the situation in the whole Group.

### 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. Moreover, in connection with the worsening situation in polygraphy industry, our customers such as paper distributors, printing houses or publishers may not reach insurance limits (credit sales) or have problems with financial liquidity, which can result in their bankruptcy and might have an adverse impact on our financial results. 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. 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.

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

# 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 2013, and has not published and does not plan to publish forecast of financial results for 2014.

## Information on dividend

In 2013 the Company did not pay dividend.

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

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

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

On 27th November 2013, the Supervisory Board of the Company appointed Ms Małgorzata Majewska-Śliwa as the Member of the Management Board and Mr Wolfgang Lübbert as the President of the Management Board (current report 41/2013)

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

On 18th June 2013, Mr Jan Ohlsson resigned from being a Member of the Supervisory Board (current report 28/2013).

On 26th July 2013, Mr Fredrik Plyhr resigned from being a Member of the Supervisory Board (current report 33/2013).

On 24th October 2013, an Extraordinary Shareholders Meeting appointed Mr Kjell Olsson and Mr Dariusz Witkowski as Members of the Supervisiory Board (current report 39/2013).

As on the day of publishing of the hereby financial statements, the Management Board of the Parent Company comprises the following persons:

- Wolfgang Lübbert – President of the Management Board

- Małgorzata Majewska - Śliwa – Member of the Management Board

- Jacek Łoś – Member of the Management Board

- Per Skoglund – Member of the Management Board

- Michał Sawka - Member of the Management Board

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

In connection with the acquisition of Rottneros AB shares performed from December 2012 until February 2013, mainly in the form of exchange of newly issued AP S.A shares for Rottneros AB shares, from December 2012 until February 2013 the Company issued subscription warrants in the total number of 13,884,283, which were exchanged for 13,884,283 series F shares. All shares issued were registered in National Court Register until 31st December 2013 (see additional explanatory note 30.1 in consolidated financial statements).

## Purchase of treasury shares

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

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

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

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

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

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

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

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

b) refrain from purchase in part or in whole.

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

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

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

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

Until the day of the hereby report, the Management Board of the Company has not performed any purchase of treasury shares by the Company for the purpose of its redemption and decrease of the share capital or for the purpose of further relocation or resale on conditions and in the course determined as mentioned above.

## Loan agreements and bonds

In February 2013, Arctic Paper S.A. performed a full repayment of indebtedness on the grounds of bonds in the amount of PLN 71,900 thousand together with interest. The funds to repay bonds were obtained from a long-term loan granted by a consortium of banks: Bank Pekao S.A., Bank Zachodni WBK S.A. and BRE Bank

S.A., in compliance with agreement dated 6th November 2012 (current report 19/2012).

In connection with the Company's failure to keep the covenants, on 20th December 2013 the Company and its subsidiaries, that is Arctic Paper Kostrzyn S.A., Arctic Paper Investment GmbH and Arctic Paper Mochenwangen GmbH concluded the Annex no 3 (hereinafter "Annex") to a loan agreement dated 6th November 2012 (current report 44/2013).

The Annex came into force on 23rd December 2013.

The Annex concluded as follows:

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

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

Collaterals set in the Loan Agreement has not been changed.

In July 2013 Arctic Paper S.A. received a long-term loan from Mr Thomas Onstad, the largest indirect shareholder and a Member of the Supervisory Board, in the amount of EUR 4,000 thousand.

On 19th March 2013 Arctic Paper Grycksbo AB concluded an annex to an agreement with Svenska Handelsbanken regarding prolongation of the payment term of Arctic Paper Grycksbo AB overdraft indebtedness until 30th September 2014, keeping the hitherto prevailing conditions. Under the annex it was also decided to lower the particular covenants, which Arctic Paper Grycksbo AB will have to meet as on 30th September 2014 and after repayment of overdraft indebtedness.

## 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 2013 to 31st December 2013 (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 | 37 500 | - | 1 355 322 | 1 392 822 |
| Michał Jan Bartkowiak | 594 720 | - | 16 472 | 611 192 |
| Wolfgang Lübbert | 1 919 379 | - | - | 1 919 379 |
| Per Skoglund | 789 965 | 313 384 | 164 022 | 1 267 371 |
| Jacek Łoś | 931 260 | - | 5 223 | 936 483 |
| Małgorzata Majewska-Śliwa | 160 000 | - | - | 160 000 |
| **Supervisory Board**** | | | | |
| Rolf Olof Grundberg | - | - | - | - |
| Rune Roger Ingvarsson | 12 581 | - | - | 12 581 |
| Thomas Onstad | 59 564 | - | - | 59 564 |
| Mariusz Grendowicz | 180 000 | - | - | 180 000 |
| Fredrik Lars Plyhr | - | - | - | - |
| Jan Ohlsson | 82 500 | - | - | 82 500 |
| Kjell Olsson | 12 581 | - | - | 12 581 |
| Dariusz Witkowski | 12 581 | - | - | 12 581 |

* according to aforementioned changes of the Management Board membership, the remuneration of Mr Michał Jarczyński is given for the period of 01.01.2013 until 15.07.2013, of Mr Michał Bartkowiak for the period of: 01.01.2013r until 30.11.2013 r., Mrs Małgorzata Majewska-Śliwa for the period of 01.11.2013r until 31.12.2013 r..

**according to Shareholders Meeting's resolution dated 24.10.2013 a change in the manner of granting remuneration to members of the Supervisory Board occurred starting on that day; remuneration of Mr Kjell Olsson and Mr Dariusz Witkowski is given for the period of 24.10.2013 until 31.12.2013, of Mr Jan Ohlsson for the period of 01.01.2013 until 18.06.2013 and of Mr Fredrik Plyhr for the period of 01.01.2013 until 26.07.2013.

## Agreements with Management Board Members on financial compensation

As on 31st December 2013 and as on the date this annual report is approved, no agreements were 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 severance pay corresponds to 6-24 months' salary.

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

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

| Managing and supervising personnel | Number of shares or rights thereto as at 21/03/2014 | Number of shares or rights thereto as at 31/12/2013 | Number of shares or rights thereto as at 14/11/2013 |
|---|---|---|---|
| **Management Board** | | | |
| Wolfgang Lübbert | - | - | - |
| Jacek Łoś | - | - | - |
| Per Skoglund | - | - | - |
| Małgorzata Majewska-Śliwa | - | - | N/A |
| Michał Sawka | - | N/A | N/A |
| **Supervisory Board** | | | |
| Rolf Olof Grundberg | 12 102 | 12 102 | 12 102 |
| Rune Roger Ingvarsson | - | - | - |
| Thomas Onstad | - | - | - |
| Kjell Olsson | - | - | - |
| Dariusz Witkowski | - | - | - |
| Mariusz Grendowicz | - | - | - |

## Information on system of control over employees' shares

On 30th July 2009 the Company's Extraordinary Shareholders Meeting adopted the Resolution no 4 regarding assumptions of incentive program for key management officers providing a possibility of gratuitous acquisition of subscription warrants entitling to claim shares of D series excluding pre-emptive rights. As on 31st December 2011 there were contracts concluded to dispense 365 thousand of warrants.

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

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## Information on material agreements

Apart from the agreements described elsewhere in the hereby Management Board report on the operations of Arctic Paper S.A., the following key agreements were concluded:

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 2013 the Group took loans and borrowings as described above in section 'Loans, borrowings and bonds' and fully 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 2013 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 financial investment in 2013 apart from further purchase of Rottneros AB shares until February 2013.

## Information on guarantees and pledges

As on 31st December 2013 the Group reported:

- 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 of movables of Arctic Paper Grycksbo AB resulting from a factoring contract with Svenska
- Handelsbanken AB amounting to SEK 85,000 thousand;
- a pledge of real estates of Arctic Paper Grycksbo AB resulting from a factoring contract with Svenska Handelsbanken AB amounting to SEK 20,000 thousand
- a pledge of shares of Arctic Paper Grycksbo AB resulting from a factoring contract with Svenska Handelsbanken AB amounting to SEK 174,057 thousand;
- a pledge of shares of Arctic Paper Grycksbo AB to FPG in favor of mutual life insurance company PRI in the amount of SEK 50,000 thousand;
- a contingent liability on the grounds of a guarantee for FPG in favor of mutual life insurance company FRI in the amount of SEK 1,476 thousand in Arctic Paper Grycksbo AB and in the amount of SEK 711 thousand in Arctic Paper Munkedals AB;
- a pledge of real estates of Arctic Paper Munkedals AB on the grounds of a guarantee for FPG in favor of mutual life insurance company FRI in the amount of SEK 50,000 thousand;
- a limit of liabilities under factoring contract in Arctic Paper Munkedals set to SEK 109,898 thousand;
- a contingent liability of Arctic Paper Munkedals AB on the grounds of guarantee for Kalltorp Kraft HB liabilities in the amount of SEK 2,722 thousand;

- a 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;
- a guarantee on the bank account of Arctic Paper Mochenwangen GmbH on the grounds of employee benefits in the amount of EUR 257 thousand;
- on 15th March 2012 AP S.A. granted a collateral in favor of Cartiere del Garda S.P.A - paper supplier to the Distribution Companies (Arctic Paper Sweden AB, Arctic Paper Denmark A/S, Arctic Paper Norge AS). The guarantee stands for EUR 1,000 thousand and is valid until 28th March 2014,
- guarantees granted by the companies of Rottneros Group in the total amount of SEK 3 million;
- a guarantee in favor of Södra Cell International AB, the supplier of pulp, in the total amount of SEK 12,000 thousand;
- a pledge of 39,900,000 Rottneros AB shares resulting from a loan agreement for the amount of EUR 4,000 thousand, concluded by and between Arctic Paper S.A. and Mr. Thomas Onstad.

Moreover, the following collaterals securing the loan agreement (Arctic Paper Kostrzyn S.A. as the Borrower, Arctic Paper S.A. who acceded, by way of cumulative accession, to the Borrower's debt, as well as Arctic Paper Investment GmbH and Arctic Paper Mochenwangen GmbH as Guarantors, concluded a loan agreement with Bank Polska Kasa Opieki S.A., Bank Zachodni WBK S.A. and BRE Bank S.A. as Lenders) dated 6th November 2012 were established:

- pledges on shares of Arctic Paper Kostrzyn S.A., shares of Arctic Paper Investment GmbH, Arctic Paper Mochenwangen 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 from the aforementioned guarantees, Arctic Paper Mochenwangen GmbH has a contingent liability in the amount of EUR 7,489 thousand connected with exercising the benefit of lowered electricity costs in 2012 and 2013. Lower charges for electricity had been offered by German state authorities on the grounds of support granted to companies which used renewable sources of energy. Currently the European Union considers if such help is compliant with EU law.

German government claims that no infringement of EU law occurred regarding state relief to entrepreneurs. Actions of the government were aimed mostly at supporting pro-environmental proceedings, including encouraging companies to use renewable sources of energy.

The Management Board of Arctic Paper Mochenwangen GmbH and Arctic Paper S.A. is of opinion that the EU is likely to decide for the favorable decision for German state authorities and the companies who benefit from the support. Therefore there has been no provision recorded in consolidated income statement for the year ended 31st December 2013.

## 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 2013 compared to 2012, the investments planned for 2013 have been reduced. The main purpose of investments realized in 2014 will be to develop new products, minimize production costs, including electricity costs, and to improve the efficiency of production process. The decreased investments plan for 2014 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 entity'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 and 2013 the Parent Company did not acquire any treasury shares. Both in 2012 and 2013, the Company borrowed treasury shares from Trebruk AB the purpose of Rottneros AB shares purchasing. The Company returned the borrowed shares once the newly issued shares had been registered.

## 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 42 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

Arctic Paper S.A. has been doing its very best to apply corporate governance rules contained in the document – "Best practices of companies listed on the SE". In 2013 Arctic Paper S.A. did not comply to the following rules:

### Recommendations concerning best practices

Recommendation no I.5:

A company should have a remuneration policy and rules of defining the policy. The remuneration policy should in particular determine the form, structure, and level of remuneration of members of supervisory and management bodies. Commission Recommendation of 14 December 2004 fostering an appropriate regime for the remuneration of directors of listed companies (2004/913/EC) and Commission Recommendation of 30 April 2009 complementing that Recommendation (2009/385/EC) should apply in defining the remuneration policy for members of supervisory and management bodies of the company.

Explanation: The principles of granting remuneration to members of the Management Board as well as its level are determined by the Supervisory Board. Remuneration of the Management Board members is subject to negotiations, while remuneration of the Supervisory Board is decided by Shareholders Meeting (General Meeting). The amount of remuneration should be dependent on scope of duties and responsibilities entrusted to particular members of supervisory and management bodies of the Company. Information regarding remuneration of members of the Company's organs are presented in annual reports.

Recommendation no I.9:

The WSE recommends to public companies and their shareholders that they ensure a balanced proportion of women and men in management and supervisory functions in companies, thus reinforcing the creativity and innovation of the companies' economic business.

Explanation: This recommendation is not being applied in the Company at the moment. It results from the fact that the functions of supervisory and management bodies' members have been entrusted to particular persons regardless of their gender and based on qualifications and professional experience. Nevertheless, the composition of the Company's bodies depends to a great extent on the Company's shareholders, therefore it cannot be excluded that this recommendation will be applied in the future.

Recommendation no I.12:

A company should enable its shareholders to exercise the voting right during a General Meeting either in person or through a plenipotentiary, outside the venue of the General Meeting, using electronic communication means.

Explanation: Taking into account the necessity of conducting of many actions of technical and organizational nature, the costs and risk related, as well as little experience of the market in this subject, the Company has not yet decided to ensure shareholders with the possibility of participation in Shareholders Meetings via means of electronic communication. When the application of this solution is widespread and the security is assured, the Company will consider to apply it.

### Best practice for Management Boards of Listed Companies

Principle no 1.9 a).

A company should operate a corporate website and publish on it, in addition to information required by legal regulations, a record of the General Meeting in audio or video format.

Explanation: Publishing of full minutes of Shareholders Meeting in audio or video format could infringe best interests of particular shareholders. When the application of this solution is widespread and the security is assured, the Company will consider to apply it.

### Best practices of Shareholders

Principle no IV.10:

A company should enable its shareholders to participate in a General Meeting using electronic communication means through:

- real-life broadcast of General Meetings,
- real-time bilateral communication where shareholders may take the floor during a General Meeting from a location other than the General Meeting.

Explanation: In 2013 Arctic Paper S.A. did not apply this principle, as introduction of the possibility of electronic participation in Shareholders Meeting would in the present situation translate to high cost of Shareholders Meeting organization. Because of the actual threats of technical and legal nature to proper and effective execution of Shareholders Meeting, it is not possible for the Management Board to ensure shareholders with participation in Shareholders Meeting via means of electronic communication.

The Management Board does not exclude the possibility of execution of Shareholders Meetings with the use of means of electronic communication.

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

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

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

The Company's Management Board systematically evaluates the internal control and risk management system quality in reference to the process of preparing consolidated financial statements. Based on the evaluation the Company's Management Board states that as on 31st December 2013 there were no weaknesses which could materially impact the effectiveness of internal control in financial reporting.

## Shareholders holding directly or indirectly significant blocks of shares

Information regarding shareholders holding directly or indirectly significant blocks of shares is given in the table below – the table presents the situation as on the day of publishing of the annual report (21st March 2014).

| Shareholder | Number of shares | Share capital [%] | Number of votes | Of total number of votes |
|---|---|---|---|---|
| Trebruk AB (formerly Arctic Paper AB | 41 360 449 | 59,69% | 41 360 449 | 59,69% |
| Nemus Holding AB | 5 857 286 | 8,45% | 5 857 286 | 8,45% |
| Others | 22 070 048 | 31,85% | 22 070 048 | 31,85% |
| Total | 69 287 783 | 100,00% | 69 287 783 | 100,00% |
| Own shares | - | 0,00% | - | 0,00% |
| **Total** | **69 287 783** | **100,00%** | **69 287 783** | **100,00%** |

## Securities carrying special control rights

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

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

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

139/2004 of 20th January 2004 on control of concentrations between undertakings.

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

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

## Principles of amending the Issuer's Articles of Association

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

If the Code of Commercial Companies or the Company's Articles of Association do not provide otherwise, Shareholders Meeting resolutions are adopted by a simple majority of votes cast. Only if a resolution regarding redemption of the Company's shares is voted on, the Company's Articles of Association request for the adoption by majority of 2/3 of Shareholders Meeting's votes.

## Description of the action manner of the Shareholders Meeting

The operating procedure of a Shareholders 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/

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

- Shareholders Meetings are held in the Company's registered office or in Warsaw.
- A Shareholders Meeting may be annual or extraordinary.
- An annual Shareholders Meeting should be held within six months of the end of reach financial year.
- A Shareholders Meeting is opened by the Supervisory Board Chairman or a person designated by him, followed by the election of the Chairman of the Shareholders 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, Shareholders 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 Shareholders Meeting's exclusive powers:
  - considering and approving the Management Board report on the Company's operations and the Company's financial statements for the previous financial year;
  - acknowledging fulfillment of duties by Management Board members and Supervisory Board members;
  - decisions on allocation or profits or absorption of losses;
  - amending the Company's objects;
  - amending the Company's Articles of Association;
  - increasing or reducing the Company's equity;
  - merging the Company with another company or companies, or transforming the Company;
  - dissolving and liquidating the Company;
  - issuing senior convertible bonds and subscription warrants;
  - acquiring and selling real estate;
  - selling and leasing an enterprise or an organized part thereof and establishing a limited property right thereon;
  - any other issues which under the Articles of Association or the Code of Commercial Companies require a Shareholders Meeting resolution.

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

A Shareholders 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 Shareholders 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 Shareholders Meeting and the Supervisory Board.
- The Management Board of the Company is not authorized to decide about issue of shares.
- 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 Shareholders 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.

As on the day of publishing of the hereby report, the following constitute the Company's Management Board:

- Wolfgang Lübbert – President of the Management Board appointed on 27th November 2013 (appointed as a Member of the Management Board on 5th June 2012);
- Małgorzata Majewska - Śliwa – Member of the Management Board appointed on 27th November 2013;
- Jacek Łoś – Member of the Management Board appointed on 27th April 2011;
- Per Skoglund – Member of the Management Board appointed on 27th April 2011.
- Michał Sawka – Member of the Management Board appointed on 12th February 2014.

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

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

## 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 Shareholders 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 Shareholders 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 Shareholders 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 Shareholders 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 Shareholders 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 Shareholders 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 Shareholders 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/

As on the day of publishing of the hereby report, the Supervisory Board was comp[osed of the following persons:

- 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;
- Kjell Olsson – Member of the Supervisory Board appointed on 24th October 2013);
- Mariusz Grendowicz – Member of the Supervisory Board appointed on 28th June 2012 (independent member);
- Dariusz Witkowski – Member of the Supervisory Board appointed on 24th October 2013 (independent member).

On 18th June 2013, Mr Jan Ohlsson resigned from being a Member of the Supervisory Board (current report 28/2013).

On 26th July 2013, Mr Fredrik Plyhr resigned from being a Member of the Supervisory Board (current report 33/2013).

## 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.

Since 27th November 2013, the following persons constitute the Audit Committee:

- Rolf Olof Grundberg

- 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.

Since 27th November 2013, the following persons constitute the Remuneration Committee:

- Rolf Olof Grundberg;
- Kjell Olsson.

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

### Risk Committee

#### Risk Committee composition and organization

- The Risk Committee is composed of no less than three Members of Supervisory Board, including the Committee Chairman. Members of the Risk Committee are appointed by Supervisory Board from among its members. At least one Member of the Risk Committee needs to be an independent member who is qualified and experienced in the financial field;
- Members of the Risk Committee are appointed from three-year terms of office, not longer, however, than until the end of the Supervisory Board term of office;
- The Risk Committee Chairman is elected by a majority vote from among Committee members;
- The Risk Committee operates based on the commonly accepted models of corporate risk management (for example, COSO-ERM);
- The Risk Committee performs advisory and opinion-giving functions, acts collectively as part of the Company's Supervisory Board;
- The Risk Committee implements its tasks by presenting to the Supervisory Board, in the form of resolutions, motions, opinions, and reports on issues which are within its powers;

#### Risk Committee powers

- The basic tasks of the Risk Committee is advisory to the Supervisory Board on issues related to proper identification, assessment and control of potential risks, i.e. opportunities and threats of the Company strategy goals' realization, with particular consideration for financial risk, related to both external factors (such as volatility of exchange rates, interest rates, general international economic condition) and internal factors (such as cash flows, liquidity management, variation of budget and financial forecasts);
- The tasks of the Risk Committee arising from supervision of the Company's risk management policy are, in particular:
  - Supervision of proper identification, analysis and classification based on importance of risk categories, resulting from strategy of operation and nature of business activities of the Company;
  - Decision regarding correctness of determining the acceptable risk levels for the Company;
  - Assessment if the actions implemented for the risk reduction purposes have been planned and implemented so that the risk levels are acceptable for the Company;
  - Periodic verification of the Management Board risk assessment propriety and the effectiveness of risk control instruments;

- Supervision over proper information provided to stakeholders regarding the risk, its strategies and the instruments of risk control.

- The Risk Committee may also rely on advice and assistance of external advisors if it deems necessary to perform its duties;

Risk Committee meetings are held at least twice a year.

Since 27th November 2013, the following persons constitute the Risk Committee:

- Rolf Olof Grundberg;
- Mariusz Grendowicz;
- Dariusz Witkowski.

# 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 2013 and the comparative information 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 2013,
- Management Board report on the activity of the Arctic Paper S.A. Capital Group to the report for 2013 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 Audyt Polska Spółka z ograniczoną odpowiedzialnością sp.k. - 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<br>Chief Executive Officer | Wolfgang Lübbert | 21 March 2014 | |
| Member of the Management Board<br>Chief Financial Officer | Malgorzata Majewska-Śliwa | 21 March 2014 | |
| Member of the Management Board<br>Chief Procurement Officer | Jacek Łoś | 21 March 2014 | |
| Member of the Management Board<br>Chief Operating Officer | Per Skoglund | 21 March 2014 | |
| Member of the Management Board<br>Sales Director | Michał Sawka | 21 March 2014 | |

Consolidated Financial Statements
for the year ended 31st December 2013
to the Annual Report for 2013

# Table of Contents

Consolidated Financial Statements for the year ended 31st December 2013 PLN thousand

# Consolidated financial statements and selected financial data

## Selected consolidated financial data

| | For the period from 01.01.2013 to 31.12.2013 000'PLN | For the period from 01.01.2012 to 31.12.2012 000'PLN | For the period from 01.01.2013 to 31.12.2013 000'EUR | For the period from 01.01.2012 to 31.12.2012 000'EUR |
|---|---|---|---|---|
| Revenues | 3 104 901 | 2 631 717 | 739 685 | 628 812 |
| Operating profit (loss) | (151 641) | (19 998) | (36 126) | (4 778) |
| Profit (loss) before tax | (182 719) | (59 908) | (43 529) | (14 314) |
| Profit (loss) from continuing operations | (152 153) | 23 699 | (36 248) | 5 663 |
| Profit (loss) for the period | (152 153) | 23 699 | (36 248) | 5 663 |
| Profit (loss) for the period attributable to equity holders of the parent | (132 266) | (102 353) | (31 510) | (24 456) |
| Net operating cash flow | 14 857 | 167 054 | 3 539 | 39 915 |
| Net investment cash flow | (85 797) | (54 967) | (20 439) | (13 133) |
| Net financial cash flow | (8 705) | (73 391) | (2 074) | (17 536) |
| Net change in cash and cash equivalents | (79 645) | 38 696 | (18 974) | 9 246 |
| Weighted average number of shares | 68 905 218 | 55 727 201 | 68 905 218 | 55 727 201 |
| Weighted average diluted number of shares | 68 905 218 | 55 727 201 | 68 905 218 | 55 727 201 |
| EPS (in PLN/EUR) | (1,92) | (1,84) | (0,46) | (0,44) |
| Diluted EPS (in PLN/EUR) | (1,92) | (1,84) | (0,46) | (0,44) |
| Average PLN/EUR rate* | | | 4,1976 | 4,1852 |

| | As at 31 December 2013 000'PLN | As at 31 December 2012 000'PLN | As at 31 December 2013 000'EUR | As at 31 December 2012 000'EUR |
|---|---|---|---|---|
| Assets | 1 784 458 | 2 045 599 | 430 280 | 500 367 |
| Long-term liabilities | 428 151 | 433 432 | 103 239 | 106 020 |
| Short-term liabilities | 684 774 | 782 681 | 165 117 | 191 449 |
| Equity | 671 532 | 829 487 | 161 924 | 202 898 |
| Share capital | 69 288 | 55 404 | 16 707 | 13 552 |
| Number of shares | 69 287 783 | 66 144 483 | 69 287 783 | 66 144 483 |
| Diluted number of shares | 69 287 783 | 66 144 483 | 69 287 783 | 66 144 483 |
| Book value per share (in PLN/EUR) | 9,69 | 12,54 | 2,34 | 3,07 |
| Diluted book value per share (in PLN/EUR) | 9,69 | 12,54 | 2,34 | 3,07 |
| Declared or paid dividend (in PLN/EUR) | | 9 972 630 | - | 2 439 369 |
| Declared or paid dividend per share (in PLN/EUR) | - | 0,18 | - | 0,04 |
| PLN/EUR rate at the end of the period** | - | - | 4,1472 | 4,0882 |

* - Income statements 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 2013 PLN thousand

## Consolidated income statement

| | Note | Year ended 31 December 2013 (audited) | Year ended 31 December 2012 (revised) |
|---|---|---|---|
| Continuing operations | | | |
| Sales of paper and pulp | 10.1 | 3 104 901 | 2 631 717 |
| Sales of services | | - | - |
| Revenues | | 3 104 901 | 2 631 717 |
| Cost of sales | 11.5 | (2 914 015) | (2 474 707) |
| Gross profit (loss) on sales | | 190 886 | 157 010 |
| Selling and distribution expenses | 11.5 | (298 091) | (307 759) |
| Administrative expenses | 11.5 | (76 177) | (86 534) |
| Other operating income | 11.1 | 63 173 | 243 487 |
| Other operating expenses | 11.2 | (31 432) | (26 202) |
| Operating profit / (loss) | | (151 641) | (19 998) |
| Finance income | 11.3 | 1 255 | 1 484 |
| Finance costs | 11.4 | (32 333) | (41 394) |
| Profit / (loss) before tax | | (182 719) | (59 908) |
| Income tax | 13 | 30 566 | 83 606 |
| Net profit (loss) for the year from continuing operations | | (152 153) | 23 698 |
| Discontinued operations | | | |
| Profit (loss) for the period from discontinued operations | | - | - |
| Net profit (loss) for the year | | (152 153) | 23 698 |
| Attributable to: | | | |
| Equity holders of the parent | | (132 266) | (102 353) |
| Non-controlling interest | | (19 887) | 126 052 |
| | | (152 153) | 23 699 |
| Earnings per share: | | | |
| – basic from the profit (loss) for the period attributable to equity holders of the parent | | (1,92) | (1,84) |
| – basic from the profit (loss) from continuing operations attributable to equity holders of the parent | | (1,92) | (1,84) |
| – diluted from the profit (loss) for the period attributable to equity holders of the parent | | (1,92) | (1,84) |
| – diluted from the profit (loss) from the continuing operations attributable to equity holders of the parent | | (1,92) | (1,84) |


Summary of the main accounting policies and other explanatory notes included on pages 76 to 183 are an integral part of these consolidated financial statements

Consolidated Financial Statements for the year ended 31st December 2013 PLN thousand

## Consolidated statement of comprehensive income

| | Note | Year ended 31 December 2013 (audited) | Year ended 31 December 2012 (revised) |
|---|---|---|---|
| Net profit / (loss) for the year | | (152 153) | 23 699 |
| Item Items to recognise in profit/loss in future periods: | | | |
| Exchange difference on translation of foreign operations | 30.2 | (8 059) | (10 340) |
| Defered tax on derivatives | 13.1 | 2 067 | 238 |
| Valutation of derivatives | 30.4 | (8 952) | (1 530) |
| Items not to recognise in profit/loss in future periods: | | | |
| Actuarial gains/ losses on defined benefits programs | 11.7 | 12 103 | (7 708) |
| Defered tax on actuarial gain/losses on defined benefits programs | 13.1 | (658) | 1 716 |
| Other comprehensive income | | (3 499) | (17 624) |
| Total comprehensive income | | (155 651) | 6 075 |
| Attributable to: | | | |
| Equity holders of the parent | | (133 456) | (119 977) |
| Non-controlling interest | | (22 196) | 126 052 |



Summary of the main accounting policies and other explanatory notes
included on pages 76 to 183 are an integral part of these consolidated financial statements

Consolidated Financial Statements for the year ended 31st December 2013 PLN thousand

## Consolidated balance sheet

| | Note | As at 31 December 2013 (audited) | As at 31 December 2012 (revised) |
|---|---|---|---|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 18 | 790 779 | 896 054 |
| Investment properties | 20 | 11 181 | 10 542 |
| Intangible assets | 21 | 49 379 | 93 926 |
| Shares in joint ventures | 22 | 5 093 | 5 056 |
| Other financial assets | 24.1 | 1 155 | 733 |
| Other non-financial assets | 24.2 | 1 174 | 1 238 |
| Deferred tax asset | 13.3 | 65 891 | 63 148 |
| | | 924 650 | 1 070 697 |
| Current assets | | | |
| Inventories | 27 | 397 373 | 411 716 |
| Trade and other receivables | 28 | 319 784 | 329 888 |
| Income tax receivables | | 9 064 | 12 268 |
| Other non-financial assets | 24.2 | 13 868 | 14 515 |
| Other financial assets | 24.1 | 1 685 | 3 805 |
| Cash and cash equivalents | 29 | 118 033 | 202 710 |
| | | 859 808 | 974 902 |
| TOTAL ASSETS | | 1 784 458 | 2 045 599 |
| LIABILITIES | | | |
| Equity and liabilities | | | |
| Equity attributable to equity holders of the parent company | | | |
| Share capital | 30.1 | 69 288 | 55 404 |
| Share premium | 30.3 | 652 659 | 580 875 |
| Other reserves | 30.4 | 132 697 | 189 688 |
| Foreign currency translation | 30.2 | 18 132 | 26 312 |
| Retained earnings / Accumulated (unabsorbed) losses | 30.5 | (357 015) | (245 859) |
| Non-controlling interest | 30.6 | 155 772 | 223 067 |
| Total equity | | 671 532 | 829 487 |
| Non-current liabilities | | | |
| Interest-bearing loans, borrowings and bonds | 32 | 245 438 | 198 519 |
| Provisions | 33 | 79 455 | 98 923 |
| Other financial liabilities | 32 | 44 939 | 48 350 |
| Deferred tax liabilities | 13.3 | 28 979 | 55 569 |
| Accruals and deferred income | 34.2 | 29 340 | 32 072 |
| | | 428 151 | 433 432 |
| Current liabilities | | | |
| Interest-bearing loans, borrowings and bonds | 32 | 142 430 | 197 986 |
| Provisions | 33 | 3 086 | 8 415 |
| Other financial liabilities | 32 | 77 502 | 51 541 |
| Trade and other payables | 34 | 365 932 | 408 201 |
| Income tax payable | | 1 335 | 786 |
| Accruals and deferred income | 34.2 | 94 489 | 115 752 |
| | | 684 774 | 782 681 |
| TOTAL LIABILITIES | | 1 112 925 | 1 216 113 |
| TOTAL EQUITY AND LIABILITIES | | 1 784 458 | 2 045 600 |



Summary of the main accounting policies and other explanatory notes included on pages 76 to 183 are an integral part of these consolidated financial statements

Consolidated Financial Statements for the year ended 31st December 2013 PLN thousand

## Consolidated cash flow statement

| | Note | 12 months period ended 31 December 2013 (audited) | 12 months period ended 31 December 2012 (revised) |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Profit (loss) before taxation | | (182 719) | (59 908) |
| Adjustments for: | | | |
| Depreciation | 11.6 | 121 521 | 123 286 |
| Foreign exchange differences | | (275) | 4 754 |
| Imapirment of non-current assets | | 102 981 | 248 874 |
| Net interest and dividends | | 29 249 | 32 412 |
| Gain/loss from investing activities | | (362) | 178 |
| Increase / decrease in receivables and other non-financial assets | | 13 927 | 46 121 |
| Increase / decrease in inventories | | 11 302 | 7 766 |
| Increase / decrease in payables except for loans and borrowings | | (60 110) | (21 386) |
| Change in accruals and prepayments | | (23 560) | (4 959) |
| Change in provisions | | (4 234) | (179) |
| Income tax paid | | 1 111 | (18 368) |
| Bargain purchase of Rottneros AB | | - | (204 203) |
| Derecognition of emission rigths to CO2 identified in a business combination | | 2 758 | 9 202 |
| Energy certificates | | 2 968 | 2 479 |
| Other | | 299 | 984 |
| Net cash flow from operating activities | | 14 857 | 167 054 |
| **Cash flow from investing activities** | | | |
| Proceeds from sale of property, plant and equipment and intangibles | | 1 541 | 715 |
| Purchase of property, plant and equipment and intangible assets | | (87 337) | (59 627) |
| Purchase of shares in joint venture | | - | (5 110) |
| Acquisition of subsidiaries, net of cash acquired | 23.1 | - | 9 056 |
| Net cash flow from investing activities | | (85 797) | (54 967) |
| **Cash flow from financing activities** | | | |
| Change in bank overdrafts | | 34 906 | 7 283 |
| Repayment of finance lease liabilities | | (5 706) | (8 015) |
| Proceeeds from other finance liabilities | | 23 961 | 1 613 |
| Repayment of other finance liabilities | | - | (11 155) |
| Proceeds from loans, borrowings and bonds | | 16 589 | 2 971 |
| Repayment of loans, borrowings and bonds | | (35 083) | (19 992) |
| Interest paid | | (41 224) | (36 121) |
| Dividends paid | | - | (9 973) |
| Acqusition of non-controlling interest | | (6 126) | - |
| Proceeds from sale of non-controlling interest | | 3 979 | - |
| Net cash flow from financing activities | | (8 705) | (73 391) |
| Net increase/(decrease) in cash and cash equivalents | | (79 645) | 38 696 |
| Net foreign exchange differences | | (5 032) | (2 285) |
| Cash and cash equivalents at the beginning of the period | 30 | 202 710 | 166 299 |
| Cash and cash equivalents at the end of the period | 30 | 118 033 | 202 710 |



Summary of the main accounting policies and other explanatory notes
included on pages 76 to 183 are an integral part of these consolidated financial statements

Consolidated Financial Statements for the year ended 31st December 2013 PLN thousand

## Consolidated statement of changes in equity

| | | Attributable to equity holders of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Note | Share capital | Share premium | Translation reserve | Other reserves | Retained earnings (losses) | Total | Non-controlling interest | Total equity |
| As at 1 January 2013 (przekształcone) | | 55 404 | 580 875 | 26 312 | 189 688 | (245 859) | 606 419 | 223 067 | 829 487 |
| Net profit (loss) for the year | | - | - | - | - | (132 266) | (132 266) | (19 887) | (152 153) |
| Other comprehensive income | | - | - | (8 180) | (4 455) | 11 445 | (1 190) | (2 309) | (3 499) |
| Total comprehensive income | | - | - | (8 180) | (4 455) | (120 820) | (133 456) | (22 196) | (155 651) |
| Registration of shares issued in 2012 | 30.1 | 10 741 | 54 242 | - | (64 983) | - | - | - | - |
| Acqusition of non-controlling interest | 23.2 | 3 143 | 16 460 | - | - | 29 353 | 48 956 | (55 084) | (6 128) |
| Profit distribution | 30.5 | - | 1 082 | - | 12 447 | (13 529) | - | - | - |
| Sales of non-controlling interest | 23.2 | - | - | - | - | (6 160) | (6 160) | 9 985 | 3 825 |
| As at 31 December 2013 (audited) | | 69 288 | 652 659 | 18 132 | 132 697 | (357 015) | 515 760 | 155 772 | 671 532 |

Consolidated Financial Statements for the year ended 31st December 2013 PLN thousand

| | | Attributable to equity holders of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Note | Share capital | Share premium | Translation reserve | Other reserves | Retained earnings (losses) | Total | Non-controlling interest | Total equity |
| As at 1 January 2012 (audited) | | 554 035 | 80 060 | 36 652 | 110 849 | (106 259) | 675 336 | 225 | 675 561 |
| Impact of change in accounting policy | | - | - | - | - | (3 939) | (3 939) | - | (3 939) |
| As at 1 January 2012 (revised) | | 554 035 | 80 060 | 36 652 | 110 849 | (110 198) | 671 397 | 225 | 671 622 |
| Net profit (loss) for the year | | - | - | - | - | (102 353) | (102 353) | 126 052 | 23 699 |
| Other comprehensive income | | - | - | (10 340) | (1 292) | (5 992) | (17 624) | - | (17 624) |
| Total comprehensive income | | - | - | (10 340) | (1 292) | (108 345) | (119 977) | 126 052 | 6 075 |
| Issue of shares not registered at 31 December 2012 | 30.1 | - | - | - | 64 983 | - | 64 983 | - | 64 983 |
| Decrease of nominal value of share | 30.1.1. | (498 632) | 498 632 | - | - | - | - | - | - |
| Profit distribution/ Dividend payment | 30.5 | - | 2 184 | - | 15 148 | (27 305) | (9 973) | - | (9 973) |
| Other | | - | | - | - | (10) | (10) | - | (10) |
| Acquisition of Rottneros AB (non-controlling interest) | 23.1 | - | - | - | - | - | - | 96 790 | 96 790 |
| As at 31 December 2012 (revised) | | 55 404 | 580 875 | 26 312 | 189 688 | (245 859) | 606 419 | 223 067 | 829 487 |

# 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 (exluding Rottneros Group) employs over 1,830 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. Pulp Mills are located in Sweden and have a combined capacity of more than 410,000 tonnes of pulp anually. 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 2013 amounted to PLN 3,105 million.

Arctic Paper S.A. is a holding company established in April 2008. As a result of capital restructuring carried out in 2008, the paper mills Arctic Paper Kostrzyn (Poland) and Arctic Paper Munkedals (Sweden), Distribution Companies and Sales Offices have become the properties of Arctic Paper SA. Previously they were owned by Arctic Paper AB (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 controlling share over Rottneros AB, a company listed on NASDAQ OMX in Stockholm, and holding shares in two pulp companies in Sweden.

The Parent Company is entered in the Register of Entrepreneurs kept by the District Court Poznań - Nowe Miasto i Wilda in Poznań, VIII Economic Department of the National Court Register, Entry No. KRS 0000306944.

The Parent Company was granted statistical REGON number 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 and sales of pulp,
- 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 2013 PLN thousand

## Shareholding structure

| | as at 31.12.2013 | | | | 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 votes | Number of shares | Share capital [%] | Number of votes | Of total number of |
| Trebruk AB | 41 360 449 | 59,69% | 41 360 449 | 59,69% | 41 532 979 | 62,79% | 41 532 979 | 62,79% | 41 532 979 | 74,96% | 41 532 979 | 74,96% |
| Nemus Holding AB | 5 857 286 | 8,45% | 5 857 286 | 8,45% | 5 832 671 | 8,82% | 5 832 671 | 8,82% | - | | | |
| Others | 22 070 048 | 31,85% | 22 070 048 | 31,85% | 18 778 833 | 28,39% | 18 778 833 | 28,39% | 13 870 521 | 25,04% | 13 870 521 | 25,04% |
| Total | 69 287 783 | 100,00% | 69 287 783 | 100,00% | 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% | - | 0,00% | - | 0,00% |
| **Total** | **69 287 783** | **100,00%** | **69 287 783** | **100,00%** | **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 by the resolution of Extraordinary Shareholders Meeting dated 3rd December 2012 (for details see note 16.1. to the hereby consolidated financial statements) and registered by National Court Register on 10th January 2013.

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

Until the day of publishing of the hereby report, the share of the main shareholder Trebruk AB in Arctic Paper S.A. has not changed compared to as on 31st December 2013, and as on 21st March 2014 amounts to 59.69%.

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 Arctic Paper S.A. 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 2013 PLN thousand

| Entity | Registered office | Business activities | Share in capital of subsidiaries entities as at | | |
|---|---|---|---|---|---|
| | | | 24 March 2014 | 31 December 2013 | 31 December 2012 |
| 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% |
| 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% |
| Arctic Paper Verwaltungs GmbH * | Germany, Fabrikstrasse 62, DE-882 84 Wolpertswende | Holding company | 100% | 100% | 100% |

Consolidated financial statements for the year ended 31st December 2013 PLN thousand

| Entity | Registered office | Business activities | Share in capital of subsidiaries entities as at 24 March 2014 | 31 December 2013 | 31 December 2012 |
|---|---|---|---|---|---|
| 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 | Sweden, Vallvik | Holding company | 51,27% | 51,27% | 39,66% |
| Rottneros Bruk AB | Sweden, Sunne | Pulp production | 51,27% | 51,27% | 39,66% |
| Utansjo Bruk AB | Sweden, Harnosand | Pulp production | 51,27% | 51,27% | 39,66% |
| Vallviks Bruk AB | Sweden, Vallvik | Pulp production | 51,27% | 51,27% | 39,66% |
| Rottneros Packaging AB | Sweden, Stockholm | Food packaging production | 51,27% | 51,27% | 39,66% |
| SIA Rottneros Baltic | Latvia | Company for purchase of timber | 51,27% | 51,27% | 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 2013 and as well as on the day of publishing of this report, the percentage of voting rights held by the Group in subsidiaries corresponds to the percentage held in the share capital of those entities. All subsidiaries within the Group, are consolidated under the full method from the day of obtaining control by the Group and cease to be consolidated from the day of losing control.

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

From 1st January 2013 until 26th February 2013, Arctic Paper S.A. performed further purchases of shares in Rottneros AB, increasing the number of shares in its possession up to 82,726,339 and increasing its share in share capital of Rottneros AB from 39.66% as on 31st December 2012 to 54.20% as on 26th February 2013. On 11th November 2013, Arctic Paper S.A. sold 4,495,456 shares of Rottneros AB, therefore decreasing its share in share capital of Rottneros Groupto 51.27%. Until now, this share has not changed.

# 3. Management and supervisory bodies

## 3.1. Management Board of the Parent Company

As on 31th December 2013, the following constitute the Company's Management Board:

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

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

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

On 27th November 2013, the Supervisory Board of the Company appointed Ms Małgorzata Majewska-Śliwa as the Member of the Management Board and Mr Wolfgang Lübbert as the President of the Management Board (current report 41/2013)

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

From 31st December 2013 until the day of publishing of the hereby report, no other changes in the composition of the Management Board of the Parent Company occurred.

## 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;
- Mariusz Grendowicz – Member of the Supervisory Board appointed on 28th June 2012;
- Kjell Olsson – Member of the Supervisory Board appointed on 24th October 2013
- Dariusz Witkowski – Member of the Supervisory Board appointed on 24th October 2013;

On 18th June 2013, Mr Jan Ohlsson resigned from being a Member of the Supervisory Board (current report 28/2013).

On 26th July 2013, Mr Fredrik Plyhr resigned from being a Member of the Supervisory Board (current report 33/2013).

On 24th October 2013, an Extraordinary Shareholders Meeting appointed Mr Kjell Olsson and Mr Dariusz Witkowski as Members of the Supervisory Board (current report 39/2013.

Until the day of publishing of the hereby report, no other changes in the composition of the Supervisory Board of the Parent Company occurred.

### 3.3. Audit Committee of the Parent Company

As on 31st December 2013 the Parent Company's Audit Committee consisted of the following members:

- Rolf Olof Grundberg – President of the Audit Committee appointed on 3rd December 2009;
- Mariusz Grendowicz – Member of the Audit Committee appointed on 27th November 2013;
- Rune Roger 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.

As a consequence of resignation from being a Member of the Supervisory Board dated 26th July 2013, Mr Fredrik Plyhr ceased to be a Member of the Audit Committee of the Parent Company.

Until the day of publishing of the hereby report, no other changes in the composition of the Audit Committee of the Parent Company occurred.

## 4. Approval of the financial statements

These consolidated financial statements were authorized for issue by the Management Board on 21st March 2014.

## 5. Significant Professional judgment and estimates

### 5.1. Professional judgment

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 judgment 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 judgment, 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.

Control identification over acquired entities

In case of acquisition of shares in other entities, the Management Board of the Parent Company uses professional judgment as for the method of recognition of such transaction in consolidated financial statements based on guidelines included in IFRS 10 and IFRS 11.

Deferred tax asset

Application of professional judgment 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 and Arctic Paper Grycksbo

On 31st December 2012 impairment test was conducted in the production company Arctic Paper Mochenwangen in respect of fixed assets and intangible assets. As a result of the test, an allowance was recorded in the amount of net value of fixed assets and intangible assets as on 31st December 2012. On 31st December 2013 an allowance was recorded in the amount of investment expenditures made in 2013.

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

### 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 date of authorization of these consolidated financial statements, 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

### 7.1. Changes in existing 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 2012, except for application of changes in standards and new interpretations binding for yearly periods beginning on 1st January 2013:

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

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

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

The Group has retrospectively applied the amendments to IAS 19 Employee Benefits.

The Group has disclosed the impact of introducing the amendments to IAS 19 on comparable data (see note 7.2 to the hereby consolidated financial statement)

Simultaneously, the Group updated accounting policy regarding employees benefits (see note 9.21 to the hereby consolidated financial statement).

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

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

The Group has retrospectively amended presentation of other comprehensive income in the Group's financial statements. The adoption of these changes did not influence the financial situation or the value of the Company's comprehensive income.

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

- IAS 1 Clarification concerning comparative information requirements (amendment)

The changes clarify the difference between voluntary additional comparative information and minimum requirements for comparative information. The Group is required to disclose comparative information in additional explanatory notes, when it voluntarily presents comparative information for an additional period compared to the requirement of minimum one comparative period. The changes specify that the consolidated balance sheet as at the beginning of the comparative period (in case of the Group, as on 1st January 2012), disclosed because of retrospective modifications or reclassifications of positions in consolidated balance sheet, does not have to be accompanied with comparative information in additional explanatory notes. As a result, the Group did not present comparative information as on 1st January 2012 in additional explanatory notes. This change concerns only presentation of data and does not influence the financial standing or the results of the Group's operations.

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

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

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

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

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

IFRS 13 defines fair value as the output price. As the result of IFRS 13 guidelines, the Group reconsidered its policies concerning fair value measurement, particularly foe such input data, as the risk of default at measurement of fair value of liabilities. Adoption of IFRS 13 does not have a material influence the results of the

Group's measurement of fair value. Additional disclosures, if required, are included in particular explanatory notes concerning assets and liabilities whose fair value was measured.

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

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

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

The amendments had no impact on the Group's financial position or performance.

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

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

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

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

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

The interpretation is not applicable for the Group.

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*
- IFRS 11 *Joint arrangements*.
- IFRS 12 *Disclosure of Interests in Other Entities*
- IAS 27 *Separate Financial Statements*
- IAS 28 *Investments in Associates and Joint Ventures*
- Changes to IFRS 10, IFRS 11 and IFRS 12 *Transition Guidance*

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

## 7.2. Comparability of data

Because the amendments to IAS 19 Employee benefits have taken effect from 1st January 2013 with the necessity for retrospective recognition, the Group performed the following changes of comparative data compared to approved financial statements for the year ended 31st December 2012:

Consolidated financial statements for the year ended 31st December 2013 PLN thousand

- increase of long-term provisions by the amount of PLN 15,062 thousand (as on 1st January 2012: PLN 7,652 thousand),
- increase of deferred tax asset and decrease of deferred tax liability, respectively in the amounts of PLN 2,190 thousand and PLN 567 thousand (as on 1st January 2012 respectively PLN 79 thousand and PLN 974 thousand);
- decrease of trade liabilities and other liabilities by the amount of PLN 2,660 thousand (as on 1st January 2012 by PLN 2,660 thousand);
- increase of accumulated loss as on 31st December 2012 by the amount of PLN 9,645 thousand, whereas increase of net profit for the year ended 31st December 2012 by PLN 286 thousand (decrease of own cost by PLN 298 thousand and increase of income tax by PLN 12 thousand) and decrease of other comprehensive income for the year ended 31st December 2012 by the amount of PLN 5,992 thousand and increase of accumulated loss as on 1st January 2012 by the amount of PLN 3,939 thousand.

Influence of the changes on profit/(loss) per share attributed to shareholder of Parent Entity is presented in the table below:

| | *Year ened 31 December 2013* |
|---|---|
| Earnings per share basic attributable to equity holders of the parent from the profit (loss) before change in accounting principles | (1,84) |
| Earnings per share basic attributable to equity holders of the parent from the profit (loss) after change in accounting principles | (1,84) |
| Earnings per share diluted attributable to equity holders of the parent from the profit (loss) before change in accounting principles | (1,84) |
| Earnings per share diluted attributable to equity holders of the parent from the profit (loss) after change in accounting principles | (1,84) |

Since 1st January 2013, the Group changed presentation of basic materials sales. Basic materials sales income was presented as “Income from sales of products” (previously ‘Other operating income”) and own cost of basic materials sales was presented as “Own cost of sales” (previously “Other operating cost”). Because of that, the Group changed presentation in consolidated income statement for 2012 transferring the amount of PLN 31,017 thousand from “Other operating income” to “Income from sales of products” and the amount of PLN 28,542 thousand from “Other operating cost” to “Own cost of sales”.

## 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 and subsequent amendments – effective date postponed by IASB without proposing potential deadline for endorsement,
- Amendments to IAS 32 Financial Instruments – Presentation: Offsetting Financial Assets and

Financial Liabilities- effective for financial years beginning on or after 1st January 2014,

- Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities (issued on 31st October 2012) – effective for financial years beginning on or after 1st January 2014,
- IFRIC 21 Levies – effective for financial years beginning on or after 1st January 2014 – not endorsed by EU till the date of approval of these financial statements,
- Amendments to IAS 36 Recoverable Amounts Disclosures for Non-Financial Assets (issued on 29 May 2013) – effective for financial years beginning on or after 1st January 2014,
- Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting (issued on 27th June 2013) – effective for financial years beginning on or after 1st January 2014,
- Amendments to IAS 19 Defined Benefit Plans: Employee Contributions (issued on 21st November 2013) – effective for financial years beginning on or after 1st July 2014 – not yet endorsed by EU till the date of approval of these financial statements,
- Annual Improvements to IFRSs 2010-2012 – some amendments effective for financial years beginning on or after 1st July 2014 and some effective prospectively for transactions occurring on or after 1st July 2014 – not yet endorsed by EU till the date of approval of these financial statements,
- Annual Improvements to IFRSs 2011-2013 – effective for financial years beginning on or after 1st July 2014 – not yet endorsed by EU till the date of approval of these financial statements,
- IFRS 14 Regulatory Deferral Accounts – effective for financial years beginning on or after 1st January 2016 – not yet endorsed by EU till the date of approval of these financial statements.

The Management Board does not expect the introduction of the above-mentioned amendments and interpretations to have a significant effect on the accounting policies applied by the Group.

## 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 unrealized gains arising from intra-group transactions, have been eliminated in full. Unrealized 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 holds, directly or indirectly through its subsidiaries, rights or exposures which give the parent company a current facility of managing the entity's business operations influencing the return achieved by the investor.

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.

## 9.2. Share in joint enterprises

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.

Assessment 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 evaluation of shares in joint enterprises are recognized as other operating income/costs.

## 9.3. Fair value measurement

The Group evaluates financial instruments such as derivatives and non-financial assets (for example, investment properties) at fair value on each balance sheet day. Moreover, fair value of financial instruments measured at amortized cost was disclosed in note 40.1.

Fair value is defined as the realizable sales price of a component of assets or payable for the purpose of transferring the liability in a transaction executed in standard conditions of assets component disposal between market players as on evaluation day in current market conditions. Measurement of fair value is based on the assumption that the transaction of assets component disposal or of liability transfer occur:

- in the main market for the particular asset component or liability,
- in case there is no main market, in the most favorable market for the particular asset component or liability.

Both the main and the most favorable markets have to be available to the Group.

Fair value of an asset component or liability is measured based on the assumption that market players act in their best economic interest while determining the price of the asset component or liability.

Fair value measurement of a component of non-financial assets takes into account the ability of a market player to create economic benefits through the best and full use of the asset component or its disposal to another market player who would ensure the best and full use of this asset component.

The Group applies measurement patterns which are appropriate to circumstances and for which there is sufficient data for fair value measurement while maximum use of proper noticeable input data and minimum use of unnoticeable output data is exercised.

All assets and liabilities which are measured at fair value or their fair value is disclosed in the financial statements are categorized in fair value framework as described below based on the least input data level relevant for measurement of fair value treated as a whole:

- Level 1 – quoted (unadjusted) market prices in an active market for identical assets or liabilities,
- Level 2 – Measurement patterns for which the least input data level relevant for measurement of fair

value treated as a whole is directly or indirectly noticeable,

- Level 3 – Measurement patterns for which the least input data level relevant for measurement of fair value treated as a whole is not noticeable.

On each balance sheet date, for the assets and liabilities occurring on particular balance sheet days in the financial statements the Group decides if there were transfers between the framework levels through another assessment of particular framework levels categorization, managing the input data relevance starting from the least level relevant for measurement of fair value treated as a whole.

Adoption of IFRS 13 did not have any impact on financial standing, results or the scope of information disclosed by the Group in the financial statements.

*Summary of significant accounting policies concerning fair value measurement*

The Management Boards of subsidiaries or the Management Board of Arctic Paper S.A. set the principles and procedures concerning both regular valuation at fair value of, for example, investment properties or non-listed financial assets, as well as one-off valuations.

Independent appraisers are commissioned to perform valuations of material assets such as real estates at the end of each financial year.

Fair value measurement of financial instruments is performed by independent financial institutions with expertise in valuation of such instruments.

For the purpose of disclosure of fair value valuation results, the Group determined classes of assets and liabilities based on kind, characteristics and risk related to particular assets components and liabilities, as well as on the level of fair value framework, as described above.

## 9.4. 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 average exchange rates for the given reporting period. The exchange differences arising on the translation are taken directly to other operating income 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.

Consolidated financial statements for the year ended 31st December 2013 PLN thousand

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:

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

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

| | 01/01 - 31/12/2013 | 01/01 - 31/12/2012 |
|---|---|---|
| USD | 3,1615 | 3,2581 |
| EUR | 4,1976 | 4,1852 |
| SEK | 0,4855 | 0,4808 |
| LVL | 5,9841 | 6,0023 |
| DKK | 0,5628 | 0,5623 |
| NOK | 0,5385 | 0,5597 |
| GBP | 4,9426 | 5,1605 |
| CHF | 3,4101 | 3,4724 |

## 9.5. 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.

## 9.6. 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 9.5) 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.

## 9.7. 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.

### 9.7.1. Goodwill

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

- 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,
- 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 amortized.

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
- not be 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.

### 9.7.2. 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).

### 9.7.3. 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.

## 9.8. 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.

## 9.9. 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. When 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.

### 9.10. 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.

### 9.11. 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 2013 the Group designated the hedging instruments as measured at fair value through profit and loss, further described in the note 40 to the consolidated annual report for year 2013.

#### 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.

## 9.12. 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.

### 9.12.1. Assets carried at amortized cost

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

The 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 amortized cost on the reversal date.

### 9.12.2. 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.

### 9.12.3. 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.

## 9.13. 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).

## 9.14. 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.

### 9.14.1. Fair value hedges

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

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

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

The 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 amortized to profit or loss. Amortization may begin as soon as an adjustment is made, however no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

### 9.14.2. 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.

## 9.15. Inventories

Inventories are valued at the lower of purchase price/production cost and net realizable value. Purchase price or production cost of each inventories item includes all purchasing expenses, transformation expenses and other costs incurred in bringing each inventories 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 an average cost |
| 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 realizable 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.

## 9.16. 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.

### 9.17. 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.

### 9.18. 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 amortized cost using the effective interest rate method.

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

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

### 9.19. Trade and other payables

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

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial liabilities may be designated at initial recognition as at fair value through profit or loss if the following criteria are met:

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

As on 31st December 2013 no financial liabilities were classified to fair value through profit and loss category (as on 31st December 2012: 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 amortized 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 de-recognition 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.

## 9.20. 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.

## 9.21. 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.

Revaluation of liabilities arising from employee benefits related to programs of particular benefits, which includes actuarial profit and loss, is recognized in other comprehensive income and is not reclassified later to profit or loss.

The Group recognizes the following changes in net liabilities on the grounds of particular benefits under, respectively, own cost of sales, administrative expenses and sales cost, which include:

- employment cots (including current employment cost, past employment cost)
- net interest on net liabilities on the grounds of particular benefits.

## 9.22. Shares payments

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

### 9.22.1. Transactions settled in capital instruments

Cost of transactions with employees settled in capital instruments is evaluated in relation 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.

## 9.23. 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.

#### 9.23.1. 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.

#### 9.23.2. 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.

#### 9.23.3. 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.

#### 9.23.4. Dividends

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

#### 9.23.5. 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.

#### 9.23.6. 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.

### 9.24. Income tax

#### 9.24.1. 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.

#### 9.24.2. 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 realized 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.

### 9.24.3. 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 (in the amount the use of which is highly probable) against the discounted excess of the investment expenditure over revenue earned, 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.

### 9.24.4. 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.

### 9.24.5. 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.

## 9.25. 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 produced 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.

In connection with acquisition of Rottneros Group, who owns two companies which produce pulp , in December 2012, starting from 1st January 2013, Arctic Paper Group identifies new operational segment "Pulp".

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-calendering to ensure a smooth surface. Coating improves the printing quality of photographs and illustrations.
- 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 as well as chemithermomechanical pulp and groundwood which are used mainly for production of printing and writing papers
- Other – this segment contains results of distribution and sales companies as well as business of Arctic Paper S.A.

The division of business segments to uncoated and coated paper, and pulp 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 of paper and pulp,
- 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 of paper and pulp,
- Products produced in the Group's paper mills can be, with some exceptions, allocated to production in different subsidiaries within the same paper segment, which to some extent disturbs the financial results of each paper mill,
- Arctic Paper Group results are dominated by global market trends in terms of fluctuations of prices of paper and pulp, and depend on individual conditions of production subsidiaries to lesser extent.

The results of paper mills and other entities (excluding Rottneros Group companies) are monthly analyzed by the Group's key management personnel based on internal reporting. The analysis of financial data of

Rottneros Group companies is performed based on quarterly financial reports published in Rottneros AB websites. 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 2013 and as on 31st December 2013.

12-month period ended 31st December 2013 and as on 31st December 2013

| | Continuing Operations | | | | | | |
|---|---|---|---|---|---|---|---|
| | Uncoated | Coated | Pulp | Other | Total | Eliminations | Total Group |
| **Revenues** | | | | | | | |
| Sales to external customers | 1 757 955 | 681 088 | 665 858 | - | 3 104 901 | | 3 104 901 |
| Inter-segment sales | 21 132 | 48 087 | 44 582 | 40 476 | 154 276 | (154 276) | - |
| Total segment revenues | 1 779 087 | 729 175 | 710 440 | 40 476 | 3 259 177 | (154 276) | 3 104 901 |
| **Segment's Result** | | | | | | | |
| EBITDA | 73 492 | (3 802) | (8 341) | 11 648 | 72 997 | (135) | 72 862 |
| Interest Income | 12 426 | 140 | 0 | 21 099 | 33 665 | (32 526) | 1 139 |
| Interest Costs | (25 439) | (24 465) | (1 456) | (11 475) | (62 836) | 35 011 | (27 825) |
| Depreciation | (52 112) | (34 823) | (34 487) | (99) | (121 521) | - | (121 521) |
| Impairments of non-current assets | (1 122) | (101 855) | - | (274 752) | (377 728) | 274 747 | (102 981) |
| Positive FX and other financial income | 4 219 | - | - | 78 753 | 82 971 | (82 855) | 117 |
| Negative FX and other financial costs | (6 283) | (1 293) | (485) | (1 931) | (9 992) | 5 484 | (4 509) |
| Profit / (loss) before tax | 5 181 | (166 098) | (44 770) | (176 757) | (382 444) | 199 725 | (182 719) |
| Segment assets | 1 246 372 | 334 510 | 423 597 | 209 866 | 2 214 345 | (500 870) | 1 713 474 |
| Segment liabilities | 906 176 | 351 758 | 159 127 | 215 543 | 1 632 603 | (548 657) | 1 083 946 |
| Capital expenditures | (63 858) | (6 418) | (16 991) | (70) | (87 337) | - | (87 337) |

- Inter-segment sales are eliminated on consolidation.
- Segment result does not include financial income (PLN 1,255 thousand of which PLN 1,139 thousand constitute interest income) and financial costs (PLN 32,333 thousand of which PLN 27,825 thousand constitute interest expense), amortization and depreciation (PLN 121,521 thousand), impairment of non-financial assets (PLN 102,981 thousand) as well as income tax credit (PLN +30,566 thousand). Segment result includes inter-segment profit (PLN 135 thousand).

- Segment assets and liabilities do not include deferred tax asset and liability (deferred tax asset of PLN 65,891 thousand and deferred tax liability of PLN 28,979 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 2012 and as at 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 | 1 891 651 | 740 066 | - | 2 631 717 | - | 2 631 717 |
| Inter-segment sales | 19 574 | 55 779 | 37 209 | 112 563 | (112 563) | - |
| Total segment revenues | 1 911 225 | 795 846 | 37 209 | 2 744 280 | (112 563) | 2 631 717 |
| **Segment's Result** | | | | | | |
| EBITDA | 134 837 | 19 031 | 198 253 | 352 122 | 40 | 352 162 |
| 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 | (2 129) | (260 162) | 223 229 | (39 062) | (20 847) | (59 908) |
| Segment assets | 1 290 613 | 512 574 | 899 340 | 2 702 528 | (725 133) | 1 977 395 |
| Segment liabilities | 901 208 | 619 241 | 407 931 | 1 928 381 | (767 836) | 1 160 544 |
| 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 (PLN 248,874 thousand) as well as income tax credit (PLN +83,606 thousand). Segment result includes, however, inter-segment loss (PLN 40 thousand).
- Segment assets and liabilities do not include deferred tax asset and liability (deferred tax asset of PLN 63,148 thousand and deferred tax liability of PLN 55,569 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 2013 PLN thousand

## 10.1. Revenues and non-current assets by countries and region

The following table presents revenues of the Group from external customers divided by countries and regions in the years 2012-2013 as well as non-current assets of the Group less of deferred tax asset divided by countries and regions as on 31st December 2013 and 31st December 2012:

| **Geographic information**<br>Revenues from external customers: | Year ended<br>31 December 2013 | Year ended<br>31 December 2012 |
|---|---|---|
| Germany | 700 125 | 580 566 |
| France | 249 587 | 272 236 |
| UK | 214 470 | 250 654 |
| Scandinavia | 424 021 | 372 906 |
| Western Europe (other than above) | 431 623 | 314 287 |
| Poland | 331 405 | 316 208 |
| Central and Eastern Europe (other than Poland) | 540 304 | 489 561 |
| Oversease | 213 366 | 35 299 |
| Total Sales | 3 104 901 | 2 631 717 |

| **Geographic information**<br>Non-current assets: | Year ended<br>31 December 2013 | Year ended<br>31 December 2012 |
|---|---|---|
| Germany | 2 185 | 914 |
| France | 328 | 327 |
| Scandinavia | 275 340 | 606 960 |
| Western Europe (other than above) | 333 | 387 |
| Poland | 580 359 | 398 949 |
| Central and Eastern Europe (other than Poland) | 216 | 12 |
| Total non-current assets | 858 760 | 1 007 549 |

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. Sales revenues of the position “Outside Europe” relate mainly to sales in USA and China. No single customer sales exceed 10% of revenues.

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

Consolidated financial statements for the year ended 31st December 2013 PLN thousand

## 11. Revenues and expenses

### 11.1. Other operating income

| | Year ended 31 December 2013 (audited) | Year ended 31 December 2012 (revised) |
|---|---|---|
| Relase of provisions | - | 481 |
| Compensation received | 1 531 | 1 035 |
| Rental income | 2 526 | 2 504 |
| Sales of services | 860 | 1 177 |
| Government grants | 220 | 3 020 |
| Sales of energy and water | 28 243 | 23 853 |
| Sales of materials | 16 216 | 3 043 |
| Profit on shares in joint venture | 107 | 302 |
| Bargain purchase | - | 204 203 |
| Profit of sales on tangible assets | 841 | 623 |
| Employee conribution company cars | 2 732 | 2 727 |
| Profit on sales of CO2 emission rights | 2 646 | - |
| Other | 7 252 | 518 |
| Total | 63 173 | 243 487 |

### 11.2. Other operating expenses

| | Year ended 31 December 2013 (audited) | Year ended 31 December 2012 (revised) |
|---|---|---|
| Property tax | (2 155) | (1 871) |
| Cost of sales of energy and water | (20 156) | (20 488) |
| Cost of slaes of materials | (3) | - |
| Redundancy costs | (2 219) | - |
| Loss on sale of disposal of fiexed assets | (3 820) | (1 140) |
| Other | (3 079) | (2 703) |
| Total | (31 432) | (26 202) |

Consolidated financial statements for the year ended 31st December 2013 PLN thousand

## 11.3. Financial income

| | Year ended 31 December 2013 (audited) | Year ended 31 December 2012 (audited) |
|---|---|---|
| Interest income on cash and cash equivalents | 555 | 668 |
| interest income on receivables | 220 | 743 |
| Other interest income | 363 | - |
| Other finance income | 116 | 73 |
| Total | 1 255 | 1 484 |

## 11.4. Financial costs

| | Year ended 31 December 2013 (audited) | Year ended 31 December 2012 (audited) |
|---|---|---|
| Interest on bank loans and bonds valued at amortized cost | (22 207) | (28 288) |
| Interest on other financial liablities | (779) | (307) |
| Interest on post-employments provisions | (2 884) | (2 920) |
| Finance charges payable under finance leases | (1 956) | (2 206) |
| Foreign exchange losses | (284) | (4 794) |
| Other finance costs | (4 224) | (2 879) |
| Total | (32 333) | (41 394) |

Consolidated financial statements for the year ended 31st December 2013 PLN thousand

## 11.5. Cost by nature

| | Year ended 31 December 2013 (audited) | Year ended 31 December 2012 (revised) |
|---|---|---|
| Depreciation / Amortisation | (121 521) | (123 286) |
| Impairment losses | (102 981) | (248 874) |
| Change in inventory of finished goods | 5 445 | (6 136) |
| Reversed inventory write-down | 509 | 615 |
| Materials and energy | (1 979 243) | (1 633 568) |
| External services | (483 621) | (393 597) |
| Taxes and charges | (11 315) | (11 084) |
| Employee benefits expense | (457 895) | (361 896) |
| Other | (82 087) | (33 870) |
| Cost of goods for resale | (55 572) | (57 304) |
| Total costs by type, of which: | (3 288 283) | (2 869 000) |
| Items included in cost of sales | (2 914 015) | (2 474 707) |
| Items included in selling and distribution expenses | (298 091) | (307 759) |
| Items included in administrative expenses | (76 177) | (86 534) |

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

| | Year ended 31 December 2013 (audited) | Year ended 31 December 2012 (audited) |
|---|---|---|
| Included in cost of sales: | | |
| Depreciation / Amortisation | (118 740) | (120 106) |
| Impairment of property, plant and equipment | (65 629) | (203 316) |
| Impairment of intangible assets | (37 347) | (45 559) |
| Inventory write-downs | - | - |
| Included in selling and distribution expenses: | | |
| Depreciation / Amortisation | (1 209) | (1 338) |
| Impairment of property, plant and equipment | (5) | - |
| Impairment of intangible assets | - | - |
| Included in administrative expenses | | |
| Depreciation / Amortisation | (1 573) | (1 842) |
| Impairment of property, plant and equipment | - | - |
| Impairment of intangible assets | - | - |

Consolidated financial statements for the year ended 31st December 2013 PLN thousand

## 11.7. Employee benefits expenses

| | | Year ended 31 December 2013 (audited) | Year ended 31 December 2012 (revised) |
|---|---|---|---|
| Wages and salaries | | (339 186) | (275 975) |
| Social security costs | | (112 828) | (79 136) |
| Retirement benefits | 26.2 | 6 221 | (14 493) |
| Total employee benefits expenses, of which: | | (445 793) | (369 604) |
| Items included in cost of sales | | (359 485) | (262 318) |
| Items included in selling and distribution expenses | | (21 438) | (23 445) |
| Items included in administrative expenses | | (76 973) | (76 133) |
| Items included in other comprehensive income | | 12 103 | (7 708) |

# 12. Components of other comprehensive income

Components of other comprehensive income for the year ended 31st December 2013 and the year ended 31st December 2012 are as follows:

| | Year ended 31 December 2013 (audited) | Year ended 31 December 2012 (revised) |
|---|---|---|
| Exchange difference on translation of foreign operations | (8 059) | (10 340) |
| Defered tax on derivatives | 2 067 | 238 |
| Valutation of derivatives | (8 952) | (1 530) |
| Actuarial gains/ losses | 12 103 | (7 708) |
| Defered tax on actuarial gain/losses | (658) | 1 716 |
| Total other comprehensive income | (3 499) | (17 624) |

Consolidated financial statements for the year ended 31st December 2013 PLN thousand

# 13. Income tax

## 13.1. Tax burdens

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

| | Year ended 31 December 2013 (audited) | Year ended 31 December 2012 (revised) |
|---|---|---|
| **Consolidated income statement** | | |
| Current income tax | | |
| Current income tax charge | (2 739) | (6 023) |
| Adjustments in respect of current income tax of previous years | (179) | (232) |
| Deferred income tax | | |
| Relating to origination and reversal of temporary differences | 33 484 | 89 861 |
| Income tax benefit /(expense) reported in consolidated income statement | 30 566 | 83 606 |
| **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) | 2 067 | 238 |
| Deffered tax in respect of acturial gain/losses | (658) | 1 716 |
| Income tax benefit / (income tax expense) reported in other comprehensive income | 1 409 | 1 954 |

## 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 2013 and the year ended 31st December 2012 is as follows:

Consolidated financial statements for the year ended 31st December 2013 PLN thousand

| | Year ended 31 December 2013 (audited) | Year ended 31 December 2012 (revised) |
|---|---|---|
| Accounting profit before tax from continuing operations | (182 719) | (59 908) |
| Profit before tax from discontinued operations | - | - |
| Accounting profit before income tax | (182 719) | (59 908) |
| At statutory income tax rate in 2008-2013 of 19% | 34 717 | 11 439 |
| Adjustments in respect of current income tax from previous years | 179 | (232) |
| Difference resulting from different tax rates if different countries | 11 468 | (7 630) |
| Tax losses on which no deferred tax asset has been recognized | (30 417) | 790 |
| Tax credits in KSSSE | 82 | 6 225 |
| Business combination (Purchase of Rottneros) | - | 50 615 |
| Utilisation of previously unrecognised tax losses | 92 | 322 |
| Reversal of previously recognized tax losses | - | 11 338 |
| Non-taxable income | 5 305 | 4 217 |
| Poolling of tax | 0 | 8 270 |
| Non-taxable costs | (2 301) | (2 754) |
| Derecognized deffered tax asset on temporary diffrences | (7 538) | - |
| Change in tax rates | 18 978 | 1 007 |
| At the effective income tax rate of 17% (2012: 140% ) | 30 566 | 83 606 |
| **Income tax expense reported in consolidated income statement** | 30 566 | 83 606 |
| Income tax attributable to discontinued operations | - | - |

Unrecognized deferred tax asset relates mainly to those tax losses, which are expected to expire rather than to be realized, 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 realization 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 2013 PLN thousand

| Year of expiration of tax losses | Year ended 31 December 2013 (audited) | Year ended 31 December 2012 (audited) |
|---|---|---|
| With an indefinite life | 303 011 | 34 938 |
| ended 31 December 2014 | 15 341 | 15 178 |
| ended 31 December 2015 | 15 657 | 15 504 |
| ended 31 December 2016 | 7 905 | 21 470 |
| ended 31 December 2017 and later | 3 455 | - |
| Razem | 345 368 | 87 090 |

## 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 2013 (audited) | 31 December 2012 (revised) | 31 December 2013 (audited) | 31 December 2012 (revised) |
| **Deffered income tax liabilities** | | | | |
| Tangible fixed assets | 57 920 | 57 947 | 27 | 14 073 |
| Inventories | - | - | - | 493 |
| Trade receivables | - | 37 | 37 | (55) |
| Accruals and provisions | - | (567) | (567) | (2 942) |
| Cogeneration certificates | - | 922 | 922 | 886 |
| Untaxed reserves (Swedish tax regulation) | - | - | - | 7 818 |
| Fair value adjustments on acquisition of subsidiary | - | 81 014 | 81 014 | 7 134 |
| Losses utilized on the level of separate financial statements, unrecognized in consolidated financial statements | - | - | - | 19 759 |
| Hedging instruments | - | - | - | 321 |
| Gross deffered income tax liabilities | 57 920 | 139 352 | 81 432 | 47 487 |

Consolidated financial statements for the year ended 31st December 2013 PLN thousand

| | Consolidated balance sheet as at | | Consolidated income statement for the year ended | |
|---|---|---|---|---|
| | 31 December 2013 (audited) | 31 December 2012 (revised) | 31 December 2013 (audited) | 31 December 2012 (revised) |
| **Deferred income tax assets** | | | | |
| Post-employment benefits | 984 | 4 981 | (3 997) | 1 751 |
| Accruals and provisions | 2 259 | 3 237 | (979) | 370 |
| Fair value adjustments on imairment of non-current assets | 37 546 | 54 004 | (16 458) | 53 832 |
| Inventories | 974 | 922 | 52 | 252 |
| Trade receivables | 4 278 | 3 641 | 637 | (399) |
| Tax credits in Kostrzynsko - Kostrzynsko Słubicka Special Economic Zone | 18 457 | 24 786 | (6 329) | (854) |
| Accruals and provisions | 2 468 | - | 2 468 | - |
| Fair value adjustments on acquisition of subsidiary | - | 29 074 | (29 074) | 29 074 |
| Hedging instruments | 3 149 | 3 303 | (154) | 3 303 |
| Loss available for offset against future taxable income | 24 718 | 22 983 | 1 735 | 21 869 |
| Gross deferred income income tax assets | 94 832 | 146 932 | (52 100) | 109 198 |
| Foreign exchange differences | | | 5 561 | (12 011) |
| Total, including | | | 34 894 | 144 674 |
| Changes in deferred tax recognised in other compresensive income | | | 1 409 | |
| Changes in deferred tax recognised in profit and loss | | | 33 484 | |
| **Net deferred tax assets / liability** | | | | |
| **therein:** | | | | |
| - Presenation adjustment | (28 941) | (83 784) | | |
| - Deferred tax assets | 65 891 | 63 148 | | |
| - Deferred tax liability | 28 979 | 55 569 | | |

## 14. Non-current assets held for sale

As on 31st December 2013 and as on 31st December 2012 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 the Group. In relation to the fact mentioned above, the net balance of Social Fund amounted to PLN 5 thousand on 31st December 2013 (on 31st December 2012: PLN 15 thousand).

Consolidated financial statements for the year ended 31st December 2013 PLN thousand

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

| | Year ended 31 December 2013 (audited) | Year ended 31 December 2012 (audited) |
|---|---|---|
| Cash | 36 | 49 |
| Social Fund liability | (31) | (34) |
| Expenditure of Fund are covered by own funds | | |
| Net balance | 5 | 15 |

| | Year ended 31 December 2013 (audited) | Year ended 31 December 2012 (audited) |
|---|---|---|
| Transfers made to the Social Fund during the period | 609 | 597 |

## 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 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:

| | Year ended 31 December 2013 (revised) | Year ended 31 December 2012 (revised) | |
|---|---|---|---|
| Net profit (loss) for the year from continuing operations attributable to equity holders of the parent | (132 266) | (102 353) | |
| 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 | (132 266) | (102 353) | |
| 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 | 13 884 283 | 10 740 983 | * |
| Total number of shares | 69 287 783 | 66 144 483 | |
| Weighted average number of shares | 68 905 218 | 55 727 201 | |
| Weighted average diluted number of shares | 68 905 218 | 55 727 201 | |
| Profit/(Loss) per share (in PLN) | (1,92) | (1,84) | |
| Diluted profit/(loss) per share (in PLN) | (1,92) | (1,84) | |

*not registered at 31 December 2012

Between balance sheet day and the day of the hereby financial statements no other transactions occurred concerning ordinary shares or potential ordinary shares.

Weighted average diluted number of shares for 2012 was calculated as the number of shares registered as on 31st December 2011 (55,403,500 shares) plus:

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

Weighted average diluted number of shares for 2013 was calculated as the number of shares registered as on 31st December 2012 (66,144,483 shares) plus:

- 2,760,735 shares constituting weighted average in time out of 3,143,300 series F shares issued in 2013 for the purpose of Rottneros AB acquisition and registered in National Court Register in 2013 (for details see note 30.1 to the hereby consolidated financial statements).

## 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 Shareholders Meeting; however, the reserve capital in the amount of one third of the share capital may be used solely for the absorption of losses reported in the standalone financial statements of the parent company and shall not be used for any other purpose.

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 2013, the Ordinary Shareholders Meeting adopted resolution no 6 regarding distribution of profit for year 2012, in which a part of profit for year 2012 in the amount of PLN 1,082 thousand was assigned in compliance with provisions of Code of Commercial Companies to supplementary capital, while the amount of PLN 12,447 thousand to reserve capital, with future possibility of using this amount for payment of dividend or other legally permissible purpose.

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

Consolidated financial statements for the year ended 31st December 2013 PLN thousand

## 18. Property, plant and equipment

| | Land and buildings | Plant and equipment | Assets under construction | Total |
|---|---|---|---|---|
| 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) |
| Increase due to purchase of subsidiary | 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 |
| Net carrying amount at 1 January 2013 | 235 391 | 607 704 | 52 959 | 896 054 |
| Additions | 504 | 24 007 | 62 324 | 86 835 |
| Other additions | 11 231 | 60 278 | (73 910) | (2 401) |
| Disposals | (4) | (126) | (399) | (529) |
| Liquidations | - | (200) | (424) | (624) |
| Depreciation charge for the period | (14 578) | (105 036) | - | (119 613) |
| Impairment losses (Note 25) | (32 496) | (33 876) | 738 | (65 634) |
| Foreign exchange differences | (148) | (2 707) | (456) | (3 310) |
| Net carrying amount at 31 December 2013 (audited) | 199 901 | 550 045 | 40 832 | 790 779 |
| At 1 January 2012 | | | | |
| Gross carrying amount | 382 073 | 1 467 312 | 50 207 | 1 899 590 |
| Accumulated depreciation and impairment | (85 872) | (821 545) | - | (907 417) |
| 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) | 235 390 | 607 704 | 52 959 | 896 054 |
| At 1 January 2013 | | | | |
| Gross carrying amount | 400 835 | 1 630 391 | 55 048 | 2 086 274 |
| Accumulated depreciation and impairment | (165 445) | (1 022 687) | (2 089) | (1 190 221) |
| Net carrying amount | 235 390 | 607 704 | 52 959 | 896 054 |
| At 31 December 2013 | | | | |
| Gross carrying amount | 409 691 | 1 693 856 | 42 214 | 2 145 761 |
| Accumulated depreciation and impairment | (209 791) | (1 143 810) | (1 382) | (1 354 983) |
| Net carrying amount (audited) | 199 901 | 550 045 | 40 832 | 790 779 |

Consolidated financial statements for the year ended 31st December 2013 PLN thousand

Impairment of property, plant & equipment was included in consolidated income statement as on 31st December 2013 in the amount of PLN 65,629 thousand in own cost of sales and in the amount of PLN 5 thousand in sales cost (2012: PLN 202,089 thousand in own cost of sales).

The carrying amount of property, plant and equipment held under finance lease agreements or hire purchase contracts on 31st December 2013 totaled PLN 35,933 thousand (on 31st December 2012: PLN 39,041 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 PLN 617,226 thousand (on 31st December 2012: PLN 271,117 thousand) in respect of bank loans taken by the Company (note 32).

The value of capitalized borrowing costs and foreign exchange differences in the financial year ended 31st December 2013 amounted to PLN 1,257 thousand (year ended 31st December 2012: PLN 1,758 thousand 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 2013 and 31st December 2012 are as follows:

| | Year ended 31 December 2013 (audited) | Year ended 31 December 2012 (audited) |
|---|---|---|
| Within 1 year | 4 990 | 5 689 |
| Within 1 to 5 years | 8 530 | 10 394 |
| More than 5 years | 12 | 412 |
| Total | 13 531 | 16 495 |

### 19.2. Finance lease and hire purchase commitments

As on 31st December 2013 and 31st December 2012 future minimum rentals payable under finance leases and hire purchase contracts and the present value of the net minimum lease payments are as follows:

Consolidated financial statements for the year ended 31st December 2013 PLN thousand

| | Year ended 31 December 2013 | | Year ended 31 December 2012 | |
|---|---|---|---|---|
| | Minimum payments | Present value of payments | Minimum payments | Present value of payments |
| Within 1 year | 2 928 | 2 775 | 5 699 | 5 561 |
| Within 1 to 5 years | 14 029 | 11 587 | 12 869 | 11 415 |
| More than 5 years | 33 990 | 22 479 | 33 425 | 25 795 |
| Minimum lease payments, total | 50 947 | 36 841 | 51 992 | 42 771 |
| Less amounts representing finance charges | (14 107) | | (9 221) | |
| Present value of minimum lease payments, of which: | 36 841 | 36 841 | 42 771 | 42 771 |
| - short-term | | 2 775 | | 5 561 |
| - long-term | | 34 066 | | 37 210 |

## 20. Investment properties

| | 2013 (audtied) | 2012 (audited) |
|---|---|---|
| Opening balance at 1 January | 10 542 | 10 542 |
| Additons (subsequent expenditure) | - | - |
| Profit on a fair value adjustment | 639 | - |
| Closing balance at 31 December | 11 181 | 10 542 |

Investment properties are recognized at fair value determined by a valuation performed by accredited appraiser "DWN" Doradztwo i Wycena Nieruchomości Karina Drzazgowska. 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,
- available data on prices of similar properties.

For the evaluation purposes, the comparative approach and the adjusted average price method was applied. The average price for comparative transactions amounted to PLN 483 per square meter.

Consolidated financial statements for the year ended 31st December 2013 PLN thousand

According to fair value framework, the method and the approach applied for the evaluation of investment properties put the evaluation on level 3.

In 2013 revenues received from investment properties amounted to PLN 0 thousand (2012: PLN 2 thousand).

Costs incurred in 2013 consist of cost of property tax amounting to PLN 22 thousand (2012: PLN 21 thousand).

## 21. Intangible assets

As at 31 December 2013 (audited)

| | Customer relationship | Trademarks | CER Certificate | CO2 emission rights | Other * | Total |
|---|---|---|---|---|---|---|
| Net carrying amount at 1 January 2013 | 16 351 | 60 573 | 5 293 | 2 632 | 9 078 | 93 926 |
| Additions | - | - | - | - | 2 984 | 2 984 |
| Disposals | - | - | (5 043) | (2 164) | (1 442) | (8 649) |
| Depreciation charge for the period | (1 472) | - | - | - | (435) | (1 908) |
| Impairment losses (Note 25) | (12 170) | (25 177) | - | - | - | (37 347) |
| Foreign exchange differences | 403 | 69 | - | - | (101) | 371 |
| Net carrying amount at 31 December 2013 | 3 111 | 35 466 | 250 | 468 | 10 083 | 49 377 |
| | | | | | | |
| At 1 January 2013 | | | | | | |
| 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 | 93 926 |
| | | | | | | |
| At 31 December 2013 | | | | | | |
| Gross carrying amount | 39 348 | 93 591 | 250 | 468 | 41 135 | 174 792 |
| Accumulated depreciation and impairment | (36 237) | (58 124) | - | - | (31 050) | (125 412) |
| Net carrying amount | 3 111 | 35 467 | 250 | 468 | 10 085 | 49 379 |

* - 'Other' position includes computer software

Consolidated financial statements for the year ended 31st December 2013 PLN thousand

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 | 93 926 |
| 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 | 93 926 |

* - 'Other' position includes computer software

Impairment of non-financial assets was recognized in consolidated income statement as on 31st December 2013 in the position of own cost of sales in the amount of PLN 37,347 thousand (2012: PLN 46,786 thousand).

The Company performed a test on impairment of Arctic Paper corporate trademark as on 31st December 2013. As a result of an analysis performed, no need for impairment write-off was confirmed.

Another test has been scheduled to 31st December 2014.

The Company performed a test on impairment of corporate trademarks used at AP Grycksbo as on 30th June 2013 and 31st December 2013. As a result of an analysis performed, an impairment write-off was performed in the amount of 17,351 thousand as on 30th June 2013 and PLN 7,826 thousand as on 31st December 2013 (PLN 34,250 thousand as on 31st December 2012). The impairment test was performed at Arctic Paper Grycksbo level and the company was considered a single cash-generating unit. The details of the test have been presented in note 25.

Another test shall be performed once premises for reversal of a part or the whole impairment write-off will have been established.

Rottneros AB performed a test on impairment of non-current assets of Rottneros Group for the carrying amounts resulting from consolidated financial statements of Rottneros Group as on 31st December 2013. As a result of the test, no impairment of assets was found. The value of non-current assets of Rottneros Group adopted for consolidation of Arctic Paper Group is measured below the amounts presented in consolidated financial statements of Rottneros Group. Therefore no impairment of non-current assets (including corporate trademark) recognized in the hereby consolidated financial statements was found.

Another test has been scheduled to 31st December 2014.

## 22. Investment in related parties and joint-arrangements valued using the ownership rights method

During the years ended 31st December 2013 and 31st December 2012 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. 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 2013 and 31st December 2012.

The value of shares in joint arrangement amounted to PLN 5,093 thousand as on 31st December 2013 (PLN 5,056 thousand as on 31st December 2012). Profit from the shares held in the joint arrangement amounted to PLN 107 thousand in 2013 and was recognized as other operating income (2012: PLN 302 thousand).

## 23. Business combinations and acquisition of minority interests

### 23.1. Acquisition of Rottneros AB as on 20th 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.

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 2,000 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, Arctic Paper S.A. is 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

Consolidated financial statements for the year ended 31st December 2013 PLN thousand

IFRS 10 Consolidated financial statements, Arctic Paper S.A. on 20th December 2012 took 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.

Minority capital totaling 92,067,435 Rottneros AB shares were evaluated according to closing rate of these shares listed in NASDAQ OMX stock exchange in 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 as on 31st December 2012 is presented in the table below.

Fair value adopted for the final settlement as well as goodwill that arose from the temporary settlement, as well as carrying amount just before the acquisition present as follows:

| | Fair Vaule taking to final settlement as at 31 December 2012 |
|---|---|
| Property, plant and equipment | 191 873 |
| Intangible assets | 38 455 |
| Deferred tax asset | 52 859 |
| Cash and cash equivalents | 12 368 |
| Trade and other receivables | 104 178 |
| - of which receivables from Arctic Paper Group | (9 971) |
| Inventories | 114 168 |
| | 513 901 |
| Trade payables and other current liabilities | 48 046 |
| - of which payables to Arctic Paper Group | - |
| Interest-bearing loans and borrowings and other financial liabilities | 42 337 |
| Provision and accruals | 52 803 |
| Contingent liabilities | 1 427 |
| | 144 613 |

Consolidated financial statements for the year ended 31st December 2013 PLN thousand

| | Fair Vaule taking to final settlement as at 31 December 2012 |
|---|---|
| Carrying value of identifiable assets, liabilities and contingent liabilities | 359 318 |
| Non-controlling interest | (96 790) |
| Goodwill arosen from business combination/ (Negative goodwill/ Bargain purchase) | (204 203) |
| Total consideration | 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 |
| | |
| **Consideration:** | |
| Shares issued (10.740.983 shares), at fair value (share price as at 19 December 2012) | 64 983 |
| Cash paid | 3 312 |
| Receivables and liabilities against Rottneros, directly before acquisation | (9 971) |
| Total payment | 58 324 |
| | |
| **The cash outflow on acquisation:** | |
| Net cash acquired with the subsidiary | 12 368 |
| Cash paid | (3 312) |
| Net cash outflow | 9 056 |

If the merger occurred in the beginning of the year 2012, 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 for 2012 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 for 2012 and as an element of cash flow from operating activity in cash flow statement for 2012.

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 ears 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.

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.

## 23.2. Purchase and sale of non-controlling shares in 2013

From 1st January 2013 until 26th February 2013, Arctic Paper S.A. continued to purchase shares of Rottneros AB under the calling to hitherto shareholders of Rottneros AB and aimed at exchange of Rottneros AB shares for Arctic Paper S.A. shares or in cash purchases. Until 26 February 2013 the Company purchased 22,221,849 Rottneros AB shares and increased the total number of shares to 82,726,339 shares of Rottneros AB in the aggregate and increased its share in Rottneros AB share capital from 39.66% as on 31st December 2012 to 54.20% as on 26th February 2013. The price of shares purchased in 2013 amounted to PLN 25,731 thousand while the value of purchased minority shares amounted to PLN 55,084 thousand. The result of the transaction in the amount of PLN 29,353 thousand increased the position of "Retained earnings/accumulated losses" in equity of Arctic Paper Group.

On 11th November 2013, the Company sold 4,495,456 shares of Rottneros AB and as a result decreased its share in Rottneros AB share capital by 2.9 p.p. Currently Arctic Paper S.A. holds 51.3% of Rottneros Group shares. Revenue from sales of Rottneros shares amounted to PLN 3,979 thousand and the loss on sales in the amount of PLN 6,160 thousand was recorded in the position of "Retained earnings/accumulated losses" in equity of Arctic Paper Group. The sale of Rottneros AB shares did not result in losing control over Rottneros Group.

Consolidated financial statements for the year ended 31st December 2013 PLN thousand

# 24. Other assets

## 24.1. Other financial assets

| | Note | Year ended 31 December 2013 (audited) | Year ended 31 December 2012 (audited) |
|---|---|---|---|
| Derivatives | 39.3 | 1 685 | 3 806 |
| Guarantee deposits | | 1 067 | 733 |
| Other | | 88 | - |
| Total | | 2 840 | 4 538 |
| - current | | 1 685 | 3 805 |
| - non-current | | 1 155 | 733 |

## 24.2. Other non - financial assets

| | Year ended 31 December 2013 (audited) | Year ended 31 December 2012 (audited) |
|---|---|---|
| Insurance costs | 3 883 | 2 235 |
| Leasing charges | 142 | 159 |
| Prepayments for services | 5 885 | 8 852 |
| Rental charges | 2 173 | 2 021 |
| Receivables due from pension fund | 590 | 665 |
| Other | 2 368 | 1 821 |
| Total | 15 042 | 15 753 |
| - current | 13 868 | 14 515 |
| - non-current | 1 174 | 1 238 |

# 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.

The performed test resulted in creating an allowance on the grounds of impairment in the amount of PLN 38,605 thousand (PLN 11,021 thousand in 2011). As a result of the allowance the net value of property, plant & equipment and intangibles at Arctic Paper Mochenwangen GmbH amounted to PLN 0 thousand as on 31st December 2012.

Because no significant improvement of Arctic Paper Mochenwangen financial results occurred in 2013, the Management Board decided to make further allowance of investment expenditures incurred in this mill in 2013. The allowance amounted to PLN 1,122 thousand and was recognized at own cost of sales.

## 25.2. Arctic Paper Grycksbo

As on 30th June 2013 and 31st December 2013 the Group performed impairment tests of property, plant & equipment and intangible assets in the paper mill Arctic Paper Grycksbo.

The performance of the tests 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 and strengthening of competition in the segment of paper produced in 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 in the amount of PLN 66,650 thousand as on 30th June 2013 and in the amount of PLN 35,205 thousand as on 31st December 2013 (PLN 209,308 thousand in 2012).

### 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 of 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.

Increase in energy prices - increase in energy prices, in particular electricity listed on Nordpool – Swedish commodity exchange, as well as energy from biomass which is a basic source of the energy, results from the assumptions used in the projections approved by the local management of Arctic Paper Grycksbo.

Consolidated financial statements for the year ended 31st December 2013 PLN thousand

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 6.48.

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

| General assumption | second half of 2013 | first half of 2013 | 2012 |
|---|---|---|---|
| Prognosis based on year | 2014-2018 | 2H 2013-2017 | 2013-2017 |
| Income tax rate | 22,00% | 22,00% | 22,00% |
| Pre-tax discount rate | 7,80% | 7,80% | 7,80% |
| Weighted average cost of capital | 7,40% | 7,40% | 7,40% |
| Growth in residual period | 2,00% | 2,00% | 2,00% |

The following table presents the impairment loss recognized as on 30th June 2013:

| | Balance vaue as at 30.06.2013 | Vaule in used by 30.06.2013 |
|---|---|---|
| Tangible assets, therein: | 242 916 | 205 217 |
| - land | 8 647 | 8 647 |
| - buildings | 74 521 | 49 152 |
| - machinery and equipment | 153 231 | 140 902 |
| - assets under construction | 6 516 | 6 516 |
| Intangible assets with undetermined useful life | 25 582 | 8 231 |
| Intangible assets with determined useful life | 19 206 | 7 606 |
| Working capital | 8 059 | 8 059 |
| Cash and equivalents | 17 817 | 17 817 |
| Total value | 313 579 | 246 930 |
| Impairment recognized in first half of 2013 | | 66 650 |

The following table presents the impairment loss recognized as on 31st December 2013:

Consolidated financial statements for the year ended 31st December 2013 PLN thousand

| | Balance vaue as at 31.12.2013 | Vaule in used by 31.12.2013 |
|---|---|---|
| Tangible assets, therein: | 181 637 | 154 828 |
| - land | 7 998 | 7 998 |
| - buildings | 45 784 | 38 688 |
| - machinery and equipment | 127 184 | 107 472 |
| - assets under construction | 671 | 671 |
| Intangible assets with undetermined useful life | 7 826 | - |
| Intangible assets with determined useful life | 4 668 | 4 098 |
| Working capital | 27 530 | 27 530 |
| Cash and equivalents | 5 033 | 5 033 |
| Total value | 226 694 | 191 489 |
| Impairment recognized in secon half of 2013 | | 35 205 |

The total impairment allowance amounting to PLN 101,855 thousand (in 2012: PLN 209,308 thousand) was recognized in consolidated income statement as on 31st December 2013 in the position own cost of sales.

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

| Parameters | Increase in basis points | Effect on value in use |
|---|---|---|
| Weighted average cost of capital | +0,1 p.p. | (3 123) |
| Growth in residual period | +0,1 p.p. | 2 566 |
| Sales volume in first year | + 0,1% | 7 655 |
| Sales prices in first year | + 0,1% | 10 500 |
| Weighted average cost of capital | -0,1 p.p. | 3 239 |
| Growth in residual period | -0,1 p.p. | (2 472) |
| Sales volume in first year | - 0,1% | (7 655) |
| Sales prices in first year | - 0,1% | (10 500) |

## 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 program for key managers, issuing subscription warrants, entitling them to take up D Series shares excluding the pre-emptive rights.

Until 31st December 2011 there were agreements regarding distribution of 365 thousand warrants. In 2012 and 2013 no further agreements concerning distribution of warrants were concluded. Until 31st December 2013 none of the entitled persons has exercised the right to payable conversion of the warrants to the Company's shares.

Consolidated financial statements for the year ended 31st December 2013 PLN thousand

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

## 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.

Revaluation of liabilities arising from employee benefits related to programs of particular benefits, which includes actuarial profit and loss, is recognized in other comprehensive income and is not reclassified later to profit or loss.

The Group recognizes the following changes in net liabilities on the grounds of particular commitments under, respectively, own cost of sales, administrative expenses and sales cost, which include:

- employment costs (including current employment cost, past employment cost)
- net interest on net liabilities on the grounds of particular commitments

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

| | Year ended 31 December 2013 (audited) | Year ended 31 December 2012 (revised) |
|---|---|---|
| Current service cost | 2 627 | 3 261 |
| Interest on obligation | 3 255 | 3 523 |
| Recognized actuarial gain or loss | (12 103) | 7 708 |
| Total pension cost for defined benefit plans, of which: | (6 221) | 14 493 |
| recognised in income statement | 5 882 | 6 785 |
| recognised in other comprehansive income | (12 103) | 7 708 |

The table below settles the changes of provisions over the years ending 31st December 2013 and 31st December 2012.

Consolidated financial statements for the year ended 31st December 2013 PLN thousand

| | 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 2013 | 827 | 26 757 | 54 318 | 6 409 | 7 403 | 95 714 |
| Cost of employment during current period | - | 898 | 1 199 | 346 | 185 | 2 627 |
| Interest costs | - | 890 | 1 801 | 232 | 332 | 3 255 |
| Actuarial gains or losses | - | (3 625) | (6 759) | (1 534) | (185) | (12 103) |
| Pensions paid | (94) | (3 581) | (8 755) | (298) | (193) | (12 921) |
| Foreign exchange diffrences | - | (176) | (306) | - | 106 | (375) |
| Pension provision at 31 December 2013 | 733 | 21 162 | 41 498 | 5 155 | 7 648 | 76 196 |

| | 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 | 25 340 | 50 762 | 5 163 | 5 827 | 87 092 |
| 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 | - | 516 | 4 464 | 969 | 1 759 | 7 708 |
| Pensions paid | (1 892) | (276) | (2 016) | (228) | (172) | (2 693) |
| Foreign exchange diffrences | - | (675) | (2 019) | - | (485) | (3 178) |
| Pension provision at 31 December 2012 | 827 | 26 757 | 54 318 | 6 409 | 7 403 | 95 714 |

The key assumptions adopted by the actuary as on particular balance sheet days to calculate the liability amounts are as follows:

| | Year ended 31 December 2013 (audited) | Year ended 31 December 2012 (audited) |
|---|---|---|
| Discount rate (% ) | | |
| Plan in Sweden | 3,4% | 3,8% |
| Plan in Poland | 4,5% | 3,8% |
| Plan in Germany | 3,7% | 3,7% |
| 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 | 14,8 | 15,1 |
| Plan in Poland | 16,7 | 17,4 |
| Plan in Germany | 18,7 | 10,9 |

In the below table presented is the analysis of sensitivity of provisions on retirement benefits:

| Change in discount rate by +(-) 1p.p. | | |
|---|---|---|
| | Increase by 1 p.p. | Dcrease by 1 p.p. |
| 31 December 2013 | in thousands PLN | in thousands PLN |
| Impact on pension provision | (12 492) | 10 835 |
| 31 December 2012 | | |
| Impact on pension provision | (17 857) | 11 921 |

| Change in future salary increase by +(-) 1 p.p. | | |
|---|---|---|
| | Increase by 1 p.p. | Dcrease by 1 p.p. |
| 31 December 2013 | in thousands PLN | in thousands PLN |
| Impact on pension provision | 2 744 | (4 934) |
| 31 December 2012 | | |
| Impact on pension provision | 3 391 | (10 057) |

### 26.3. Redundancy payments

As on 31st December 2013 as well as on 31st December 2012, the Group has not recognized a provision on redundancy payments.

## 27. Inventories

| | Year ended 31 December 2013 (audited) | Year ended 31 December 2012 (audited) |
|---|---|---|
| Raw materials (at cost) | 179 573 | 196 603 |
| Work-in-progress (at cost of development) | 9 347 | 8 682 |
| Finished goods and goods for resale, of which: | | |
| At cost / cost of development | 145 643 | 187 819 |
| At net realisable value | 62 470 | 18 612 |
| Prepayments for supplies | 340 | - |
| Total inventories, at the lower of cost (or costs of development) and net realisable value | 397 373 | 411 716 |
| Inventory write-down | 7 643 | 8 153 |
| Inventory before write-down | 405 017 | 419 869 |

In the year ended 31st December 2013, the Group did not made a write-down of inventory (in 2012: PLN 0 thousand). In 2013 write-offs were released in the amount of PLN 510 thousand (2012: PLN 615 thousand). The change of write-downs of inventories is recognized in own cost of sales in the income statement. The write-down recognized related to finished goods and raw materials, slow-moving and burdened with the risk of being impaired, unsold or unusable for own need.

In the financial years ended 31st December 2012 the Group had a pledge on all tangible assets amounting to SEK 295,000 thousand, PLN 538,500 thousand, EUR 9,851 thousand, part of which were inventories.

Consolidated financial statements for the year ended 31st December 2013 PLN thousand

As on 31st December 2013 inventories of finished goods in the amount of PLN 62,470 thousand were stated at net realizable value (as on 31st December 2012: PLN 18,612 thousand).

## 28. Trade and other receivables

| | Year ended 31 December 2013 (audtied) | Year ended 31 December 2012 (audtied) |
|---|---|---|
| Trade receivables | 269 854 | 275 588 |
| Budget receivables - VAT receivables | 28 531 | 24 902 |
| Other receivables from third parties | 15 533 | 23 290 |
| Other receivables from related parties | 5 867 | 6 108 |
| Total receivables, net | 319 784 | 329 888 |
| Doubtful debts allowance | 20 446 | 20 722 |
| Total receivables, gross | 340 230 | 350 610 |

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 2013 trade receivables amounting to PLN 20,446 thousand (as on 31st December 2012: PLN 20,722) were considered irrecoverable and impaired.

Movements in the provision for impairment of receivables were as follows:

| | Year ended 31 December 2013 (audtied) | Year ended 31 December 2012 (audtied) |
|---|---|---|
| Provision for bad debts as at 1 January | 20 722 | 21 653 |
| Charge for the year | 3 119 | 3 202 |
| Utilisation | (1 983) | (5 798) |
| Unused amounts reversed | (1 412) | (3 076) |
| Result on translation of foreign entities | (0) | 4 741 |
| Provision for bad debts as at 31 December | 20 446 | 20 722 |

The table below presents the analysis of trade receivables which as on 31st December 2013 and 31st December 2012 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 2013 | 269 854 | 221 728 | 42 891 | 4 208 | 354 | 373 | 299 |
| As at 31 December 2012 | 275 588 | 216 320 | 35 854 | 17 810 | 2 351 | 53 | 3 200 |

Consolidated financial statements for the year ended 31st December 2013 PLN thousand

In long-term perspective's assessment of the Management, the receivables in section of '>120 days' are recoverable and therefore they were not impaired.

## 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 one 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 2013 amounted to PLN 118,033 thousand (31st December 2012: PLN 202,710 thousand).

As on 31st December 2013, the Group had un-drawn committed borrowing facilities in the amount of PLN 63,535 thousand (as on 31st December 2012: PLN 75,171 thousand).

As on 31st December 2013 the Group had an overdraft in the amount of PLN 107,704 thousand (as on 31st December 2012: PLN 74,220 thousand).

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

| | Year ended 31 December 2013 (audited) | Year ended 31 December 2012 (audited) |
|---|---|---|
| Cash at bank and in hand | 116 291 | 192 710 |
| Short-term deposits | - | 10 000 |
| Cash in transit | 1 742 | - |
| | 118 033 | 202 710 |

Consolidated financial statements for the year ended 31st December 2013 PLN thousand

# 30. Share capital and reserve/other capital

## 30.1. Share capital

| | As at 31 December 2013 (audited) | As at 31 December 2012 (audited) |
|---|---|---|
| 'A' class ordinary shares of PLN 1 each | 50 | 50 |
| 'B' class ordinary shares of PLN 1 each | 44 254 | 44 254 |
| 'C' class ordinary shares of PLN 1 each | 8 100 | 8 100 |
| 'E' class ordinary shares of PLN 1 each | 3 000 | 3 000 |
| 'F' class ordinary shares of PLN 1 each | 13 884 | - |
| | 69 288 | 55 404 |

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

### 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 (current report 23/2012).

### 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 treasury shares

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

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

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

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

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

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

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

a) stop the purchase of shares before 60 days starting from the day the resolution was 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 treasury shares for the purpose of its redemption or further relocation or resale shall be in compliance with the principles of Commission Regulation (EC) No 2273/2003 dated 22 December 2003.

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

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

Consolidated financial statements for the year ended 31st December 2013 PLN thousand

Until the date of the hereby report, the Management Board of Arctic Paper S.A. has not purchased any Company's treasury 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 2013 (audited) | As at 31 December 2012* (audited) | As at 31 December 2012 (audited) |
|---|---|---|---|
| Trebruk AB | | | |
| Share in equity | 59,69% | 62,79% | 74,96% |
| Share in votes | 59,69% | 62,79% | 74,96% |
| Nemus Holding AB | | | |
| Share in equity | 8,45% | 8,82% | - |
| Share in votes | 8,45% | 8,82% | - |
| Other shareholders | | | |
| Share in equity | 31,85% | 28,39% | 25,04% |
| Share in votes | 31,85% | 28,39% | 25,04% |

*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.

On 9th January 2013 a partial issue of series F shares, related to acquisition of Rottneros AB shares in December 2012, was registered in National Court Register. Therefore the excess from issue of 10,740,983 shares with face value of PLN 1 each over the face value of shares in the amount of PLN 54,242 thousand was recognized in supplementary capital.

From 1st January 2013 until 26 February 2013, in connection with further purchases of Rottneros AB shares, Arctic Paper S.A. performed further partial issue of series F shares in total number of 3,143,000 shares. The aggregated difference between the value of issued shares and their face value less of issue cost was recognized in supplementary capital in total amount of PLN 16,460 thousand.

On 28th June 2013, the Ordinary Shareholders Meeting adopted resolution no 6 regarding distribution of profit for year 2012, in which a part of profit for year 2012 in the amount of PLN 1,082 thousand was assigned in compliance with provisions of Code of Commercial Companies to supplementary capital.

As on 31st December 2013 the total value of the Group's supplementary capital is PLN 652,659 thousand (31st December 2012: PLN 580,875 thousand).

## 30.4. Other reserve capital

Other reserve capital consists of a portion of retained profit and accumulated 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 National Court Register, this amount was respectively accounted to share capital (PLN 10,741 thousand) and supplementary capital (PLN 54,242 thousand).

Consolidated financial statements for the year ended 31st December 2013 PLN thousand

The following table shows changes in other reserve capital in the year ended 31st December 2013, as well as comparatives:

| | As at 31 December 2013 (audited) | As at 31 December 2012 (audited) |
|---|---|---|
| Other reserves at the beginning of the reporting period | 189 688 | 110 849 |
| Changes in cash flow hedges | | |
| **Valuation of financial instruments, therein:** | **(5 751)** | **(1 530)** |
| - FX forward | 2 246 | (2 152) |
| - Forward for electricity | (4 853) | 763 |
| - SWAP on interest | (653) | (141) |
| - Forward on pulp | (2 491) | - |
| **Deferred tax, therein:** | **1 296** | **238** |
| - FX forward | (444) | 408 |
| - Forward for electricity | 1 068 | (197) |
| - SWAP on interest | 124 | 27 |
| - Forward on pulp | 548 | - |
| Other changes | | |
| Distribution of profits | 12 447 | 15 148 |
| Issue of shares not registered at 31 December 2012 | (64 983) | 64 983 |
| Other reserves at the end of the reporting period | 132 697 | 189 688 |

## 30.5. Retained earnings and limits to dividend payment

The position of retained profit/accumulated loss comprises profit/loss from previous years that have not yet been distributed, profit/loss of the current financial year as well as actuarial profit/loss resulting from actuarial evaluation of the retirement benefits provision.

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.

Consolidated financial statements for the year ended 31st December 2013 PLN thousand

Appropriation of the reserve capital and other reserves depends on the decision of the Shareholders Meeting; however, the reserve capital in the amount of one third of the share capital may be used solely for the absorption of losses reported in the standalone financial statements of the parent company ad shall not be used for any other purpose.

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

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

Retained earnings/Accumulated losses presented in the balance sheet as on 31st December 2013 consist of the following items:

a) Accumulated consolidated losses/profits for the years 2008-2012 in the amount of PLN -111,487 thousand; and distribution of standalone profit of Arctic Paper S.A. for 2010-2011 in the amount of PLN -124,440 thousand;.

b) Division of standalone profit of Arctic Paper S.A. for 2012 in the amount of PLN -13,529 thousand,

c) Consolidated loss attributed to shareholders of the Parent Company, for 2013 in the amount of PLN 132,266 thousand,

d) Actuarial profit/loss as on 31st December 2013 in the amount of PLN +1,514 thousand,

e) Profit on acquisition of Rottneros AB shares from non-controlling shareholders in the amount of PLN 29,353 thousand and the loss on sales of Rottneros AB shares to non-controlling shareholders in the amount of PLN -6,160 thousand.

## 30.6. Non-controlling interests

| | As at 31 December 2013 (audited) | As at 31 December 2012 (audited) |
|---|---|---|
| At the beginning of the period | 223 067 | 225 |
| Dividends paid by subsidiaries | - | - |
| Acquisition of a company | - | 96 790 |
| Changes in the shareholding structure of subsidiaries | (45 099) | - |
| Shares in profit on bargain purchase | - | 126 052 |
| Shares in subsidiaries' net profit or loss | (22 196) | |
| At the end of the period | 155 772 | 223 067 |

Non-controlling interests comprise part of the Group’s equity attributable mainly to non-controlling shareholders of Rottneros AB. In the table below presented is general financial data of Rottneros Group:

Consolidated financial statements for the year ended 31st December 2013 PLN thousand

| Consolidated income statement | Year ended 31 December 2013 | Year ended 31 December 2012 |
|---|---|---|
| Sales of products | 698 149 | |
| Cost of sales | (772 916) | |
| Operating profit / (loss) | (74 767) | |
| Financial income/(costs) | (1 942) | |
| Profit / (loss) before tax | (76 709) | |
| Income tax | - | |
| Net profit (loss) for the year | (76 709) | |

| Consolidated balance sheet | As at 31 December 2013 | As at 31 December 2012 |
|---|---|---|
| Non-current assets | 331 396 | 384 841 |
| Current assets, including | 213 577 | 230 715 |
| Inventories | 115 472 | 114 168 |
| Trade and other receivables | 81 676 | 104 178 |
| Cash and cash equivalents | 16 429 | 12 368 |
| TOTAL ASSETS | 544 973 | 615 556 |
| Equity | 387 255 | 472 370 |
| Non-current liabilities | 6 102 | 7 136 |
| Current liabilities | 151 616 | 136 050 |
| TOTAL EQUITY AND LIABILITIES | 544 973 | 615 556 |

| Consolidated casf flow statement | Year ended 31 December 2013 |
|---|---|
| Net cash flow from operating activities | 30 101 |
| Net cash flow from investing activities | (16 993) |
| Net cash flow from financing activities | (8 739) |
| Net increase/(decrease) in cash and cash equivalents | 4 370 |
| Cash and cash equivalents at the beginning of the period | 12 368 |
| Net foreign exchange differences | (309) |
| Cash and cash equivalents at the end of the period | 16 429 |

For more information on acquisition and sale of Rottneros AB shares to non-controlling shareholders see note 23.2 to the hereby consolidated financial statements.

## 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 were contracts concluded to dispense 365 thousand of warrants.

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

### 31.2. 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 was 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 was performed for the purpose of granting the holders of subscription warrant series B (which were issued under the Resolution) with the right to claim Series F shares. The right to claim Series F shares was exercised until 30th June 2013 by the holders of subscription warrants series B on the conditions set in the aforementioned Resolution.

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

All Series F shares could be paid only with cash contribution, in the contractual compensation performed by the holders of subscription warrants series B of the debt the holder has in the Company on the grounds of the loan granted to the Company (by the holder) of the Company's shares for the purpose of the Company's execution of the commitment to release the Company's shares to the shareholders of the Swedish law company Rottneros, in connection with the calling announced by the Company for applying to sell or exchange Rottneros shares for the Company's shares. The release of the Company's shares was 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 were issued in the form of documents and will be personal bearer securities. The Management Board of the Company was authorized to conclude with the chosen entity, entitled to maintain a depository of securities, an agreement on Series F shares deposit, until their dematerialization and start of trading on a regulated market. Series F shares were issued in portions.

Series F shares 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 decided to issue no more than 28,561,464 personal subscription warrants series B, each of which entitled to claim 1 Series F share (hereinafter “Subscription Warrants”).

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

Subscription Warrants were issued free of charge in the form of documents and were 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 occurred simultaneously with the transfer of shares in the Company to the shareholders of Rottneros in the execution of the commitment resulting from the loan agreement of the Company’s shares. The Management Board was authorized 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.

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

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

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

Consolidated financial statements for the year ended 31st December 2013 PLN thousand

| Current liabilities | Maturity | As at 31 December 2013 (audited) | As at 31 December 2012 (audited) |
|---|---|---|---|
| **Other financial liabilities** | | | |
| Obligations under finance leases and hire purchase contracts | 31-12-2014 | 2 774 | 5 561 |
| Factoring in SEK in SHB | | 56 623 | 34 411 |
| Factoring in EUR in GE capital | | 1 250 | 1 247 |
| Derivatives | | 16 652 | 9 779 |
| Other liabilities | 31-12-2014 | 203 | 543 |
| **Interest-bearing loans, borrowings and bonds:** | | | |
| BRE Bank bonds | 25-02-2013 | - | 74 204 |
| PLN bank overdraft in Bank Polska Kasa Opieki S.A. | 30-09-2014 | 19 247 | 22 649 |
| PLN bank overdraft in BRE Bank S.A. | 30-09-2014 | 12 040 | 5 891 |
| PLN bank overdraft in BZ WBK | 30-09-2014 | 12 736 | 8 444 |
| PLN bank loan in Bank Polska Kasa Opieki S.A. (current part) | 07-11-2017 | 8 516 | 12 578 |
| EUR bank loan in Bank Polska Kasa Opieki S.A. (current part) | 07-11-2017 | 4 152 | 7 035 |
| PLN bank loan in BRE Bank S.A. (current part) | 07-11-2017 | 7 012 | 8 572 |
| EUR bank loan in BRE Bank S.A. (current part) | 07-11-2017 | 3 079 | 6 117 |
| PLN bank loan in BZ WBK (current part) | 07-11-2017 | 8 237 | 10 057 |
| EUR bank loan in BZ WBK (current part) | 07-11-2017 | 3 616 | 5 203 |
| SEK bank overdraft in Danske Bank | 31-12-2014 | 28 164 | 34 250 |
| SEK bank overdraft in SHB | 31-03-2014 | 35 517 | 2 986 |
| Loan from the owner of the main shareholder (interest) | 31-12-2014 | 114 | - |
| Total current financial liabilities | | 219 932 | 249 527 |

| Non-current | Maturity | As at 31 December 2013 (audited) | As at 31 December 2012 (audited) |
|---|---|---|---|
| **Other financial liabilities** | | | |
| Obligations under finance leases and hire purchase contracts | 21-01-2021 | 34 066 | 37 210 |
| Derivatives | 31-12-2017 | 10 873 | 11 140 |
| **Interest-bearing loans, borrowings and bonds:** | | | |
| Loan from the owner of the main shareholder | 31-07-2016 | 16 589 | - |
| PLN bank loan in Bank Polska Kasa Opieki S.A. (long term part) | 07-11-2017 | 59 983 | 49 305 |
| EUR bank loan in Bank Polska Kasa Opieki S.A. (long term part) | 07-11-2017 | 27 632 | 28 011 |
| PLN bank loan in BRE Bank S.A. (long term part) | 07-11-2017 | 44 442 | 34 983 |
| EUR bank loan in BRE Bank S.A. (long term part) | 07-11-2017 | 20 512 | 24 358 |
| PLN bank loan in BZ WBK (long term part) | 07-11-2017 | 52 211 | 41 157 |
| EUR bank loan in BZ WBK (long term part) | 07-11-2017 | 24 071 | 20 704 |
| Total non-current financial liabilities | | 290 377 | 246 869 |

## 32.1. Loans and borrowings

The amount of long-term and short-term interest-bearing loans, borrowings and bonds as on 31st December 2013 decreased by PLN 8,637 thousand compared to 31st December 2012.

In 2013, the Group converted short-term financing in BRE Bank S.A. on the grounds of bonds to increase of long-term loan indebtedness in consortium of three banks in the amount of PLN 71,900 thousand together with interest and performed a partial repayment of the loan taken in this consortium in the amount of PLN 35,083 thousand (tranches in PLN and EUR). The Group also performed an increase in overdraft indebtedness in the consortium of three banks as well as in Svenska Handelsbanken and Danske Bank in the amount of PLN 34,906 thousand. The Group also received a loan in the amount of EUR 4,000 thousand (PLN 16,703 thousand together with interest as on 31st December 2013) from the major shareholder of Arctic Paper S.A.

Other changes in loans and borrowings as on 31st December 2013 compared to as on 31st December 2012 result mainly from balance sheet evaluation and the amount of calculated but not cleared interest on loans, borrowings and bonds.

As on 30th June 2013 and 30th September 2013, the Group did not keep the levels of selected financial ratios as defined in loan agreements concluded with the consortium of banks (Pekao S.A., Bank Zachodni WBK S.A. and BRE Bank S.A.) and with Svenska Handelsbanken. The breach of financial ratios concerned net debt-to-EBITDA ratio for the whole Group as well as solidity ratio and interest coverage ratio for one of the paper mills.

On 4th October 2013, the Issuer and its subsidiary, Arctic Paper Grycksbo AB, finalized the first stage of negotiations with banks which finance the Group entities. As a result, Svenska Handelsbanken AB set the payment term of Arctic Paper Grycksbo AB overdraft on 30th March 2014 and granted Arctic Paper Grycksbo AB a covenant waiver concerning solidity ratio and interest coverage ratio as set in the Loan Agreement until 30th March 2014.

On 5th November 2013 the annex no 1 was concluded to the agreement dated 6th November 2012 between a consortium of banks (Pekao S.A., Bank Zachodni WBK S.A and BRE Bank S.A.) and Arctic Paper Kostrzyn S.A. By the power of the annex, the payment date of short-term part of the loan in the amount of PLN 59,000 thousand ("Loan B") was prolonged until 6th December 2013.

On 20th December 2013 the Company and its subsidiaries, that is Arctic Paper Kostrzyn S.A., Arctic Paper Investment GmbH and Arctic Paper Mochenwangen GmbH concluded the annex no 3 (hereinafter "Annex") to a loan agreement dated 6th November 2012 (current report 44/2013).

The Annex came into force on 23rd December 2014.

The Annex concluded as follows:

- establishment of new ratios of financial covenants determined for Arctic Paper Kostrzyn S.A. and for the Capital Group, which had been agreed on with the Management Board of the Issuer;
- obligation to perform the share capital increase by no less than PLN 50,000 thousand;
- obligation of the Capital Group to allot the funds obtained from capital increase and sales of assets to reinvestments up to PLN 60,000 thousand;
- allocation of the excess of the funds obtained from share capital increase and sales of assets over PLN 60,000 thousand to prepayment of obligations under the Loan Agreement;
- limitation of the management fee paid by Arctic Paper Kostrzyn S.A. to the Company to PLN 3,500 thousand annually;
- obligation of Arctic Paper Kostrzyn S.A. not to declare and not to pay out dividend as well as not to

grant related parties with financing without creditors' consent;

- obligation of Arctic Paper Kostrzyn S.A. not to perform changes in its share capital;
- AP S.A. obligation not to declare or pay dividend as well as not to make similar payments to shareholders when a breach of the agreement occurred or in case declaration or payment of dividend would have caused a breach of the agreement;
- prolongation of the repayment date of the short-term part of the loan in the amount of PLN 59,000 thousand ("Loan B") until 30th September 2014
- establishment of a new case of breach of the agreement if Svenska Handelsbanken does not prolong the short-term loan agreements and factoring agreements

As on 31st December 2013, the Group and APK reached the required covenants resulting from loan agreements.

Collaterals set in the Loan Agreement has not been changed.

On 19th March 2013 Arctic Paper Grycksbo AB concluded an annex to an agreement with Svenska Handelsbanken regarding prolongation of the payment term of Arctic Paper Grycksbo AB overdraft indebtedness until 30th September 2014, keeping the hitherto prevailing conditions. Under the annex it was also decided to lower the particular covenants, which Arctic Paper Grycksbo AB will have to meet as on 30th September 2014 and after repayment of overdraft indebtedness.

### 32.2. Bonds

On 25th February 2013 Arctic Paper S.A. performed a repayment of bonds: series A in the total amount together with interest of PLN 51,880,350.08 and series B in the total amount together with interest of PLN 23,325,238,04. The bonds were issued by the Company in compliance with bonds issue agreement dated 11th February 2010 (as amended).

The Company informed about the issue and partial repayment of bonds series A and series B in current reports no 6/2010, 7/2010, 3/2011, 4/2011 and 41/2012.

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

### 32.3. Collaterals

2013

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 of shares of Arctic Paper Kostrzyn S.A., shares of Arctic Paper Investment GmbH and on shares of holding companies in Germany;
- pledges of 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 of 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 2013:

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

- a pledge of assets amounting to SEK 85,000 thousand (PLN 39,899 thousand);
- a mortgage on real estates amounting to SEK 20,000 thousand (PLN 9,388 thousand);
- a pledge of shares of Grycksbo Paper Holding AB amounting to SEK 174,057 thousand (PLN 81,702 thousand);

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

- a pledge of assets in the amount of SEK 109,898 thousand (PLN 51,586 thousand);
- a pledge of movables in the amount of SEK 160,000 thousand (PLN 75,104 thousand).

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

- a pledge of assets amounting to SEK 245,000 thousand;

4) collaterals on assets on the grounds of loan agreement in the amount of EUR 4,000 thousand concluded by Arctic Paper S.A. with Mr. Thomas Onstad.

- a pledge of 39,900,000 Rottneros AB shares.

Apart from the aforementioned collaterals, the Group also reports:

- a pledge of shares of Arctic Paper Grycksbo AB to FPG in favor of mutual life insurance company PRI in the amount of SEK 50,000 thousand (PLN 23,470 thousand);
- a pledge of real estates of Arctic Paper Munkedals AB on the grounds of a guarantee for FPG in favor of mutual life insurance company FRI in the amount of SEK 50,000 thousand (PLN 23,470 thousand);
- a mortgages on real estates of Kalltorp Kraft HB in the amount of SEK 8,650 thousand (PLN 4,060 thousand);
- a guarantee on the bank account of Arctic Paper Mochenwangen GmbH on the grounds of employee benefits in the amount of EUR 257 thousand (PLN 1,065 thousand).

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 32.1. are submitted to the following collaterals :

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

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 of assets amounting to SEK 85,000 thousand;
- a pledge of real estates amounting to SEK 20,000 thousand
- a pledge of shares of Grycksbo Paper Holding AB amounting to SEK 239,066 thousand;
- submission to enforcement on the basis of art. 97 banking law (separately in favor of each bank) - Arctic Paper Kostrzyn S.A and Arctic Paper S.A.

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

- a pledge of assets in the amount of SEK 106,730 thousand;
- a pledge of 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 of assets amounting to SEK 324,000 thousand.

Consolidated financial statements for the year ended 31st December 2013 PLN thousand

# 33. Provisions

## 33.1. Movements in provisions

The table below presents movements in provisions in the years 2012-2013.

| | Post-employment benefits | Other provisions | Total |
|---|---|---|---|
| At 1 January 2013 | 95 714 | 11 623 | 107 337 |
| Recognised during the year | (6 221) | 3 459 | (2 763) |
| Utilised | (12 921) | (8 682) | (21 603) |
| Unused amounts reserved | - | (164) | (164) |
| Foreign exchange adjustment | (375) | 109 | (267) |
| At 31 December 2013, therein: | 76 196 | 6 345 | 82 541 |
| - current | - | 3 086 | 3 086 |
| - non-current | 76 196 | 3 260 | 79 455 |
| | | | |
| At 1 January 2012 | 87 092 | 14 786 | 101 878 |
| Recognised during the year | 16 385 | 5 499 | 21 883 |
| 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: | 95 714 | 11 623 | 107 337 |
| - current | - | 8 415 | 8 415 |
| - non-current | 95 714 | 3 208 | 98 922 |

The single largest item among other provisions is the provision on redemption of emission rights with a carrying amount of PLN 1,223 thousand as well as future claims, return and loss provision in the amount of PLN 1,256 thousand and a warranty provision in the amount of PLN 1,408 thousand in the financial statements for the year ended 31st December 2013 and respectively PLN 2,007 thousand, PLN 2,150 thousand and PLN 1,427 thousand in the financial statements for the year ended 31st December 2012.

## 33.2. Claims and returns provisions

A provision is recognized for expected warranty claims and returns of products, based on past experience of the level of claims and returns. Claims and returns provision at the end of 2013 amounted to PLN 1,256 thousand (as on 31st December 2012: PLN 2,150 thousand), and related only to Arctic Paper Mochenwangen.

Consolidated financial statements for the year ended 31st December 2013 PLN thousand

# 34. Trade and other payables, other liabilities, accruals and deferred income

## 34.1. Trade and other payables (short-term)

| | As at 31 December 2013 (audited) | As at 31 December 2012 (audited) |
|---|---|---|
| **Trade payables:** | | |
| To related parties | - | 4 |
| To third parties | 324 134 | 372 280 |
| | 324 134 | 372 284 |
| **Taxations, customs duty, social security and other payables** | | |
| VAT | 2 977 | 2 454 |
| Excise tax | 1 099 | 536 |
| Personnel withholding tax (Personnel income tax) | 5 220 | 5 099 |
| Property taxes | 1 649 | 649 |
| Dividend tax | 930 | - |
| Liabilities for social security contributions | 13 188 | 8 358 |
| Customs liabilities | 47 | 56 |
| | 25 110 | 17 152 |
| **Other liabilities** | | |
| Renumeration payable to employees | 4 264 | 4 435 |
| Pension liabilities | 2 576 | 2 649 |
| Investment liabilities | 6 673 | 3 949 |
| Environmental liabilities | 456 | 238 |
| Prepayments | 2 059 | 1 714 |
| Other liabilities | 661 | 5 779 |
| | 16 688 | 18 764 |
| **TOTAL** | 365 932 | 408 201 |

Terms and conditions of financial liabilities presented above:

- for terms and conditions of transactions with related parties, refer to note 37.3;
- 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.

Consolidated financial statements for the year ended 31st December 2013 PLN thousand

## 34.2. Accruals and deferred income

| | As at 31 December 2013 (audited) | As at 31 December 2012 (audited) |
|---|---|---|
| **Accruals** | | |
| Employee costs | 58 898 | 66 080 |
| Audit and legal services | 833 | 1 414 |
| Freight costs | 2 641 | 2 226 |
| Claims | 2 464 | 747 |
| Costs of energy | 3 567 | 4 699 |
| Other | 19 598 | 36 265 |
| | 88 001 | 111 433 |
| **Deferred income** | | |
| Grant from Ekofundusz | 18 124 | 19 526 |
| Grant from NFOŚiGW | 13 949 | 15 277 |
| Accrued income | - | 1 589 |
| Other | 3 755 | - |
| | 35 828 | 36 392 |
| TOTAL | 123 829 | 147 824 |
| - short-term | 94 489 | 115 752 |
| - long-term | 29 340 | 32 072 |

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 2013, the Group has commitments of no less than PLN 10 million for capital expenditures related to property, plant & equipment in 2014. These expenditures will be incurred for acquisition of new plant and equipment.

As on 31st December 2012, the Group planned to bear expenditures for the purchase of property, plant & equipment of no less than PLN 10 million.

## 36. Contingent liabilities

As on 31st December 2013 the Group reported the following contingent liabilities:

- a contingent liability on the grounds of a guarantee for FPG in favor of mutual life insurance company FRI in the amount of SEK 1,476 thousand (PLN 693 thousand) in Arctic Paper Grycksbo AB and in the amount of SEK 711 thousand (PLN 334 thousand) in Arctic Paper Munkedals AB;
- a contingent liability of Arctic Paper Munkedals AB on the grounds of guarantee for Kalltorp Kraft HB liabilities in the amount of SEK 2,722 thousand (PLN 1,278 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 (PLN 4,147 thousand) and is valid until 28th March 2014,
- guarantees granted by the companies of Rottneros Group in the total amount of SEK 3,000 thousand (PLN 1,408 thousand);
- a guarantee in favor of Södra Cell International AB, the supplier of pulp, in the total amount of SEK 12,000 thousand (PLN 5,632 thousand).

Apart from the aforementioned guarantees, Arctic Paper Mochenwangen GmbH has a contingent liability in the amount of EUR 7,489 thousand (PLN 31,058 thousand) connected with exercising the benefit of lowered electricity costs in 2012 and 2013. Lower charges for electricity had been offered by German state authorities on the grounds of support granted to companies which used renewable sources of energy. Currently the European Union considers if such help is compliant with EU law.

German government claims that no infringement of EU law occurred regarding state relief to entrepreneurs. Actions of the government were aimed mostly at supporting pro-environmental proceedings, including encouraging companies to use renewable sources of energy. The Management Board of Arctic Paper Mochenwangen GmbH and Arctic Paper S.A. is of opinion that the EU is likely to decide for the more favorable decision for German state authorities and the companies who benefit from the support. Therefore there has been no provision recorded in consolidated income statement for the year ended 31st December 2013.

### 36.1. Legal claims

Currently, there is no material legal case filed in the court against Arctic Paper S.A. or any of the companies of the Group.

### 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 2013 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 – until 20th December 2012; 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. – until 26th July 2013 a company related to the Member of the Management Board.
- IPM Sp. z o.o. Sp.k. – until 15th July 2013 a company related to the Member of the Management Board.

The key management staff comprises the President and the Members of the Management Board of the Parent Entity as well as the Chairman and the Members of the Supervisory Board of the Parent Entity within their terms of office.

The table below presents the total values of transactions with related parties entered into during the years 2013-2012:

Data for the period from 1 January 2013 to 31 December 2013 and as at 31 December 2013 (PLN thousands)

| Related party | Sales to related parties | Purchases from related parties | Interest – financial income | Interest – financial costs | Receivables from related parties | Loans granted | Loans received |
|---|---|---|---|---|---|---|---|
| Trebruk AB (Arctic Paper AB) | - | - | - | - | 3 613 | - | - |
| Arctic Paper Håfreström AB | - | - | - | - | 2 253 | - | - |
| Thomas Onstad | - | - | - | 689 | na | na | na |
| IPM Sp. z o.o. Sp.k. | - | 4 219 | - | - | na | na | na |
| Galileus Sp.z o.o.Sp.k. | - | 251 | - | - | na | na | na |
| Total | - | 4 470 | - | 689 | 5 867 | - | 16 703 |

As on 31st December 2013, the receivables of Trebruk AB and Arctic Paper Håfreströms AB are overdue. However, since the debtors are Arctic Paper S.A. main shareholder and a company owned by Trebruk AB, Arctic Paper S.A. expects no difficulty in collecting the receivables.

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 |
|---|---|---|---|---|---|---|---|
| Arctic Paper AB | - | - | - | - | 3 824 | - | - |
| Arctic Paper Håfreström AB | - | - | - | - | 2 284 | - | - |
| Rottneros AB | - | 54 796 | - | - | nd | nd | nd |
| IPM Sp. z o.o. Sp.k. | | | | | | | |
| Galileus Sp.z o.o.Sp.k. | - | 108 | - | - | - | - | 4 |
| Total | - | 56 217 | - | - | 6 108 | - | 4 |

## 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 2013 and 31st December 2012.

## 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 2013 holds 59,69% of ordinary shares in Arctic Paper S.A.

## 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.

## 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 of the Group

Key management personnel as on 31st December 2013 comprise four people: President of the Management Board and three Members of the Management Board. The financial data for the reporting period include remuneration of the people who served function in the Management Board of Arctic Paper starting from the later of the two moments: the day of appointment or 1st January 2013 until the earlier of the two moments: 31st December 2013 or the day of dismissal/resignation.

Remuneration of the executives in the year ended 31st December 2013 amounted to PLN 5,300 thousand (PLN 5,071 thousand in the year ended 31st December 2012).

During years 2012 and 2013, no entities within the Group granted any loans to their executives.

The table below presents the remuneration of key executives of the Group:

Consolidated financial statements for the year ended 31st December 2013 PLN thousand

| Management Board | As at 31 December 2013 (audited) | As at 31 December 2012 (audited) |
|---|---|---|
| Short-term employee benefits | 5 974 | 5 071 |
| Post-employment pension and medical benefits | 313 | - |
| Termination benefits | - | - |
| Total compensation paid to key management personnel | 6 287 | 5 071 |
| | | |
| Supervisory Board | | |
| Short-term employee benefits | 360 | 624 |

#### 37.4.2. Directors' interests (including members of Management and Supervisory Boards) in employee share incentive plan

On 30th July 2009 the Company's Extraordinary Shareholders Meeting adopted the Resolution no 4 regarding assumptions of incentive program for key management officers providing a possibility of gratuitous acquisition of subscription warrants entitling to claim shares of D series excluding pre-emptive rights.

As on 31st December 2011 there were contracts concluded to dispense 365 thousand of warrants.

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

### 37.5. Loans granted to the Management Board members

In 2012-2013 either the Parent Entity or any of the subsidiaries did not grant any loans to members of the Management Board.

### 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 22nd August 2013 Arctic Paper S.A. concluded an agreement with Ernst & Young Audit Sp. z o.o. (currently Ernst&Young Audyt Polska Sp. z o.o. sp.k.) with registered office in Warsaw to audit the annual standalone financial statements of Arctic Paper S.A. and the annual consolidated financial statements of the Group for 2013.

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

Consolidated financial statements for the year ended 31st December 2013 PLN thousand

| | As at 31 December 2013 (audited) | As at 31 December 2012 (audited) |
|---|---|---|
| **Service** | | |
| Obligatory audit of annual financial statement | 305* | 279* |
| Obligatory audit of annual financial statement (AP S.A. branch) | 28 | 48 |
| Tax advisory | - | - |
| Other services | 93 | 827 |
| Total | 426 | 1 154 |

* - relates to Ernst&Young Audyt Polska Sp. z o.o Sp.k.

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 and borrowings, 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 and short-term deposits. The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk. The Management Board reviews and agrees policies for managing each of these risks and they are summarized below.

In the Management Board opinion – compared to consolidated financial statements prepared as on 31st December 2012 there were no significant changes of financial risk. Moreover, there were no changes of goals and principles of risk management.

### 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.

Consolidated financial statements for the year ended 31st December 2013 PLN thousand

| | Increase in basis points | Effect on profit before tax |
|---|---|---|
| Year ended 31 December 2013 | | |
| PLN | +1% | (999) |
| EUR | +1% | (126) |
| SEK | +1% | (723) |
| | | |
| Year ended 31 December 2012 | | |
| PLN | +1% | (1 254) |
| EUR | +1% | (178) |
| SEK | +1% | (781) |

## 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.

2013

| 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% | (1 241) | -5% | 1 241 |
| PLN – USD | +5% | (1 402) | -5% | 1 402 |
| PLN – GBP | +5% | 369 | -5% | (369) |
| PLN – SEK | +5% | (115) | -5% | 115 |
| SEK – EUR | +5% | (655) | -5% | 655 |
| SEK – USD | +5% | (610) | -5% | 610 |
| SEK – GPB | +5% | 317 | -5% | (317) |

| Impact on total comprehensive income (on foreign entities translation) | FX rate increase | Total financial impact | FX rate decrease | Total financial impact |
|---|---|---|---|---|
| PLN – SEK | +5% | 10 334 | -5% | (10 334) |
| PLN – EUR | +5% | 2 026 | -5% | (2 026) |

Consolidated financial statements for the year ended 31st December 2013 PLN thousand

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 – GBP | +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 |

## 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.

## 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.

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.

Consolidated financial statements for the year ended 31st December 2013 PLN thousand

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

| As at 31 December 2013 | On demand | Less than 3 months | 3-12 months | 1-5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| Interest bearing loans, borrowings and bonds | - | 36 988 | 119 931 | 271 044 | - | 427 964 |
| Financial leasing | - | 19 | 2 905 | 14 022 | 34 001 | 50 947 |
| Trade and other payables | 26 852 | 320 077 | 19 003 | - | - | 365 932 |
| Other financial liabilities | 1 459 | 32 953 | 40 315 | 10 873 | - | 85 600 |
| | 28 312 | 390 037 | 182 154 | 295 940 | 34 001 | 930 443 |

| 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 | 342 675 | 20 568 | - | - | 366 171 |
| Other financial liabilities | 1 246 | 19 989 | 24 745 | 11 140 | - | 57 120 |
| | 4 175 | 442 493 | 188 405 | 244 184 | 33 425 | 912 681 |

Moreover, as on 31st December 2013 the Group has contingent liabilities in the total amount of PLN 44,613 thousand.

## 40. Financial instruments

The Group has the following financial instruments: cash on hand and cash in bank, loans and borrowings, issued bonds, receivables, liabilities, financial leases, interest SWAP contracts, as well as currency forward contract, electricity purchase forward contract and pulp sales forward contract.

### 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.

Consolidated financial statements for the year ended 31st December 2013 PLN thousand

| | Category complaint with IAS 39 | Book value As at 31 December 2013 | Book value As at 31 December 2012 | Fair value As at 31 December 2013 | Fair value As at 31 December 2012 |
|---|---|---|---|---|---|
| **Financial Assets** | | | | | |
| Granted loans | *L&R* | - | - | - | - |
| Trade and other receivables | *L&R* | 291 253 | 304 986 | 291 253 | 304 986 |
| Hedging instruments* | | 1 685 | 3 806 | 1 685 | 3 806 |
| Other financial assets (excluding loans and hedging intruments) | *L&R* | 1 155 | 733 | 1 155 | 733 |
| Cash and cash equivalents | *FVTCI* | 118 033 | 202 710 | 118 033 | 202 710 |
| **Financial Liabilities** | | | | | |
| Interest bearing bank loans and borrowings therein: | *OFL* | 387 868 | 322 301 | 387 868 | 322 301 |
| - long-term interest-bearing | *OFL* | 245 438 | 198 519 | 245 438 | 198 519 |
| - short-term interest-bearing | *OFL* | 142 430 | 123 782 | 142 430 | 123 782 |
| Liabilities form financial leasing title and lease agreement with purchase option, therein: | | 36 840 | 42 771 | 36 840 | 42 771 |
| - long-term | | 34 066 | 37 210 | 34 066 | 37 210 |
| - short-term | | 2 774 | 5 561 | 2 774 | 5 561 |
| Trade and other financial payables | | 340 822 | 391 048 | 340 822 | 391 048 |
| Hedging instruments* | *OFL* | 27 525 | 20 919 | 27 525 | 20 919 |
| Debt securities, therein: | *OFL* | - | 74 204 | - | 74 204 |
| - long-term Coupon bonds | *OFL* | - | - | - | - |
| - short-term Zero-Coupon bonds | *OFL* | - | 74 204 | - | 74 204 |

* derivative hedging instruments complying to hedging principles

Abbreviations used:

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

Framework of fair value of financial instruments held by the Group, as on 31st December 2013 and as on 31st December 2012, is presented below:

Consolidated financial statements for the year ended 31st December 2013 PLN thousand

| | 31 December 2013 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Financial assets at fair value through comprehensive income | | | | |
| Hedging instruments | | - | 1 685 | - |
| Other financial assets | | | | |
| Trade and other receivables | | - | - | 291 253 |
| Other financial assets (excluding loans and hedging intruments) | | - | - | 1 155 |
| Cash and cash equivalents | | - | - | 118 033 |
| | | - | - | - |
| Financial liabilities valued through comprehensive income | | - | - | - |
| Hedging instruments | | - | 27 525 | - |
| Other financial liabilities | | | | |
| Interest bearing bank loans and borrowings | | - | - | 387 868 |
| Liabilities form financial leasing title and lease agreement | | - | - | 36 840 |
| Trade and other financial payables | | - | - | 340 822 |

| | 31 December 2012 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Financial assets at fair value through comprehensive income | | - | - | - |
| Hedging instruments | | - | 3 806 | - |
| Other financial assets | | | | |
| Trade and other receivables | | - | - | 304 986 |
| Other financial assets (excluding loans and hedging intruments) | | - | - | 733 |
| Cash and cash equivalents | | - | - | 202 710 |
| Financial liabilities valued through comprehensive | | | | |
| Hedging instruments | | - | 20 919 | - |
| Other financial liabilities | | | | |
| Interest bearing bank loans and borrowings | | - | - | 322 301 |
| Liabilities form financial leasing title and lease agreement | | - | - | 42 771 |
| Trade and other financial payables | | - | - | 391 048 |
| Debt securities | | - | - | 74 204 |

## 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:

Consolidated financial statements for the year ended 31st December 2013 PLN thousand

31 December 2013

| 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 | 2 774 | 2 830 | 2 871 | 2 914 | 2 972 | 22 479 | 36 840 |
| **Loans, borrowings and bonds:** | | | | | | | |
| PLN bank overdraft in Bank Polska Kasa Opieki S.A. | 19 247 | - | - | - | - | - | 19 247 |
| PLN bank overdraft in BRE Bank S.A. | 12 040 | - | - | - | - | - | 12 040 |
| PLN bank overdraft in BZ WBK | 12 736 | - | - | - | - | - | 12 736 |
| PLN bank loan in Bank Polska Kasa Opieki S.A. | 4 258 | 4 276 | 4 315 | 21 400 | - | - | 34 249 |
| EUR bank loan in Bank Polska Kasa Opieki S.A. | 1 252 | 1 232 | 1 232 | 5 879 | - | - | 9 595 |
| PLN bank loan in BRE Bank S.A. | 7 012 | 6 328 | 6 384 | 31 730 | - | - | 51 454 |
| EUR bank loan in BRE Bank S.A. | 3 079 | 3 040 | 3 040 | 14 432 | - | - | 23 591 |
| PLN bank loan in BZ WBK | 4 175 | 3 770 | 3 804 | 18 884 | - | - | 30 632 |
| EUR bank loan in BZ WBK | 1 195 | 1 175 | 1 175 | 5 618 | - | - | 9 163 |
| SEK bank loan in SHB | 28 164 | - | - | - | - | - | 28 164 |
| SEK bank loan in Danske Bank | 35 517 | - | - | - | - | - | 35 517 |
| Sum loans, borrowings and bonds | 128 673 | 19 821 | 19 950 | 97 943 | - | - | 266 387 |
| TOTAL | 131 448 | 22 651 | 22 821 | 100 856 | 2 972 | 22 479 | 303 227 |

31 December 2013

| Fixed rate | <1 year | 1-2 years | 2-3 years | 3-4 years | 4-5 years | >5 years | Total |
|---|---|---|---|---|---|---|---|
| **Loans, borrowings and bonds:** | | | | | | | |
| Loan from the owner of the main shareholder | 114 | - | 16 589 | - | - | - | 16 703 |
| PLN bank loan in Bank Polska Kasa Opieki S.A. | 4 259 | 4 276 | 4 314 | 21 401 | - | - | 34 250 |
| EUR bank loan in Bank Polska Kasa Opieki S.A. | 2 901 | 2 881 | 2 881 | 13 527 | - | - | 22 190 |
| PLN bank loan in BZ WBK | 4 063 | 3 669 | 3 702 | 18 382 | - | - | 29 815 |
| EUR bank loan in BZ WBK | 2 421 | 2 401 | 2 401 | 11 302 | - | - | 18 525 |
| TOTAL | 13 757 | 13 227 | 29 887 | 64 612 | - | - | 121 482 |

Consolidated financial statements for the year ended 31st December 2013 PLN thousand

| 31 December 2012<br>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 |

## 40.3. Hedge accounting

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

- Arctic Paper Kostrzyn S.A. designated for cash flow hedge accounting the SWAP forward derivative in order to hedge repayments of interest in EUR on the bank loan in EUR.
- Arctic Paper Kostrzyn S.A. designated for cash flow hedge accounting the SWAP forward derivative in order to hedge repayments of interest in PLN on the bank loan in PLN.
- Arctic Paper Munkedals AB, Arctic Paper Grycksbo AB and the companies of Rottneros Group designated for cash flow hedge accounting the forward derivatives in order to hedge the future purchases of electricity.
- The Companies of Rottneros Group designated for cash flow hedge accounting the FX forward derivatives in order to hedge a part of currency expenditures in EUR related to future purchases of electricity.
- Arctic Paper Kostrzyn S.A. designated for cash flow hedge accounting the FX forward derivatives in order to hedge a part of currency intakes in EUR related to export sales.
- Arctic Paper Kostrzyn S.A designated for cash flow hedge accounting the FX forward derivatives in order to hedge a part of currency expenditures in USD related to purchases of pulp.
- The Companies of Rottneros Group designated for cash flow hedge accounting the forward derivatives in order to hedge pulp sales price in SEK.

### 40.3.1. Cash flow hedge accounting

Consolidated financial statements for the year ended 31st December 2013 PLN thousand

As on 31st December 2013 as well as on 31st December 2012 the Group held currency forward contracts, forward contract for electricity purchases and forward contract for pulp sales, as well as interest SWAP forward 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 purchases of EUR for SEK:

| | |
|---|---|
| Hedge type | Hedging the cash flow variations related to the planned purchases of electricity in foreign currencies |
| Hedge item | Hedged item is part of the future highly probably cash flows resulting from purchases of electricity denominated in EURO |
| Hedging instruments | Hedging instruments are FX forward transactions in which the Company commits to purchase EUR for SEK |
| Forward contract parameters | |
| Trade date | 2 013 |
| Delivery date | depending on the contract, untill 31.12.2016 |
| Hedged amount | 8.8 mln EUR |
| Forward ratio | from 9.00 to 9.31 SEK/EUR |

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

| | |
|---|---|
| Hedge type | Hedging the cash flow variations related to the planned sales in foreign currencies |
| Hedge item | Hedged item is part of the future highly probably cash flows resulting from export sales |
| Hedging instruments | Hedging instruments are FX forward transactions in which the Company commits to sell EUR for USD |
| Forward contract parameters | |
| Trade date | 2 013 |
| Delivery date | depending on the contract, till 24.04.2014 |
| Hedged amount | 4.0 mln EUR |
| Forward ratio | from 1.3508 to 1.3512 |

The table below presents detailed information concerning the hedging relationship in the cash flow hedge accounting on the sales of EUR for PLN

Consolidated financial statements for the year ended 31st December 2013 PLN thousand

| | |
|---|---|
| Hedge type | Hedging the cash flow variations related to the planned sales in foreign currencies |
| Hedge item | Hedged item is part of the future highly probably cash flows resulting from export sales |
| Hedging instruments | Hedging instruments are FX forward transactions in which the Company commits to sell EUR for PLN |
| Forward contract parameters | |
| Trade date | 2 013 |
| Delivery date | depending on the contract, untill 27.06.2014 |
| Hedged amount | 9.0 mln EUR |
| Forward ratio | from 4.3810 to 4.4150 EUR/PLN |

## 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 01.02.2011 |
| Delivery date | depending on the contract, untill 31.12.2017 |
| Hedged amount | 578.400 MWh |
| Forward price | from 32.20 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:

Consolidated financial statements for the year ended 31st December 2013 PLN thousand

| | |
|---|---|
| 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 | 2 013 |
| Delivery date | depending on the contract, untill 31.12.2014 |
| Hedged amount | 18.000 ton |
| Forward price | 5 720 SEK/tonne |

## Cash flow volatility hedge accounting related to changeable interest rate of a long-term loan with the use of SWAP transactions

The table below presents detailed information concerning the hedging relationship in the cash flow hedge accounting related to repayment of interest in EUR on the loan in EUR:

| | |
|---|---|
| Hedge type | Hedging the cash flow variations related to flexible rate interest on bank loan denominated in EURO |
| Hedge item | Hedged item is future cash flows resulting from interest (in EURO) based on 3M EURIBOR on bank loan denominated in EURO |
| Hedging instruments | Hedging instruments are SWAP transaction for fixed rate interest in EURO on bank loan denominated in EURO |
| Forward contract parameters | |
| Trade date | 28.12.2012 and 04.03.2013 |
| Delivery date | depending on interest payment date based on schedule in bank loan agreement, untill 7.11.2017 |
| Hedged amount | interest in accordance with bank loan agreement on bank loan of 10.8 mln EURO |
| SWAP interest rate | 0,69% and 0,78% |

The table below presents detailed information concerning the hedging relationship in the cash flow hedge accounting related to repayment of interest in PLN on the loan in PLN

| | |
|---|---|
| Hedge type | Hedging the cash flow variations related to flexible rate interest on bank loan denominated in PLN |
| Hedge item | Hedged item is future cash flows resulting from interest (in PLN) based on 3M WIBOR on bank loan denominated in PLN |
| Hedging instruments | Hedging instruments are SWAP transaction for fixed rate interest in PLN on bank loan denominated in PLN |
| Forward contract parameters | |
| Trade date | 07.03.2013 |
| Delivery date | depending on interest payment date based on schedule in bank loan agreement, untill 7.11.2017 |
| Hedged amount | interest in accordance with bank loan agreement on bank loan of 38.8 mln PLN |
| SWAP interest rate | 3,71% |

The table below presents the fair value of hedging derivatives in the cash flow hedge accounting as on 31st December 2013 and the comparative data:

| | As at 31 December 2013 | | As at 31 December 2012 | |
|---|---|---|---|---|
| | (audited) | (audited) | (audited) | (audited) |
| | Assets | Liabilities | Assets | Liabilities |
| FX forward | 1 685 | 1 125 | - | 2 854 |
| Pulp forward | - | 1 661 | 3 806 | - |
| SWAP | - | 794 | - | 141 |
| Electricity forward | - | 23 945 | - | 17 924 |
| Total hedging derivatives | 1 685 | 27 525 | 3 806 | 20 919 |

The table below presents the nominal value of hedging derivatives as on 31st December 2013:

| | 3 months to 1 year | 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|
| FX forward: | | | | |
| Currency sold (in EUR thousand) | 13 000 | - | - | 13 000 |
| Currency purchased (in EUR thousand) | 4 100 | 4 700 | - | 8 800 |
| Electricity forward: | | | | |
| Electricity purchased (in PLN thousand) | 33 074 | 42 655 | - | 75 729 |
| Pulp forward | | | | |
| Sales of pulp (in tonnes) | 18 000 | - | - | 18 000 |
| SWAP on interest | | | | |
| instalment payments (in PLN thousand) | 13 757 | 107 725 | - | 121 482 |

Consolidated financial statements for the year ended 31st December 2013 PLN thousand

The table below presents cash flow hedge accounting amounts which were recognized by the Group in 2013 in the profit and loss account and in comprehensive income statement:

| | Year ended 31 December 2013 (audited) |
|---|---|
| Revaluation reserve capital as at 31 December 2013 - revaluation to fair value of hedging derivatives on account of the hedged risk, corresponding to the effective hedging | (11 041) |
| 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 2013 - 31 December 2017 |

The table below presents changes in the revaluation reserve capital on account of cash flow hedge accounting in 2013:

| | Year ended 31 December 2013 (audited) |
|---|---|
| Revaluation reserve capital as at 1 January 2013 | (8 691) |
| Deferral of revaluation to fair value of hedging derivatives on account of the hedged risk, corresponding to the effective hedge | (2 349) |
| 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 2013 | (11 041) |

## 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 2013 and 31st December 2012.

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 0.10-0.55. The Group includes within net debt the following positions: interest-bearing loans, borrowings and bonds, trade and other liabilities, less of cash and cash equivalents.

Compared to financial statements for year 2012, there was an increase of financial gearing ratio from 0.46 to 0.53.

Consolidated financial statements for the year ended 31st December 2013 PLN thousand

| Arctic Paper S.A. Group | As at 31 December 2013 (audited) | As at 31 December 2012 (revised) |
|---|---|---|
| Interest bearing loans, borrowings and bonds | 510 308 | 496 396 |
| Trade and other payables | 365 932 | 410 861 |
| Less cash and short term deposits | (118 033) | (202 710) |
| Net debts | 758 208 | 704 547 |
| Equity | 671 532 | 839 131 |
| Capital and net debt | 1 429 740 | 1 543 678 |
| Gearing ratio | 0,53 | 0,46 |

## 42. Employment structure

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

| | As at 31 December 2013 (audited) | As at 31 December 2012 (audited) |
|---|---|---|
| Management Board of the parent entity | 4 | 5 |
| Management Boards of subsidiary companies | 26 | 25 |
| Administration department | 156 | 140 |
| Sales department | 214 | 201 |
| Production department | 1 237 | 1 343 |
| Other | 203 | 140 |
| Total | 1 839 | 1 854 |

## 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.

New allocation covers the period of 1st January 2013 – 31st December 2017. Until the day of publishing of the hereby report, the European Union announced the allocation of CO2 emission rights to particular countries, however, some of the countries has not announced allocation to certain companies. Therefore the tables below cover provisional data for 2013.

The tables below specify the provisional allocation for 2013 and usage of emission rights by each of the five entities together with data for 2012.

Consolidated financial statements for the year ended 31st December 2013 PLN thousand

| (in tonnes) for Arctic Paper Kostrzyn S.A. | 2012 | 2013 |
|---|---|---|
| Amount granted | 208 448 | 108 535** |
| Amount unused from previous years | 261 812 | 348 490 |
| Amount used | (140 994) | (150 577) |
| Amount purchased | 21 424 | - |
| Amount sold | (2 200) | - |
| Amount unused | 348 490 | 306 448 |

| (in tonnes) for Arctic Paper Munkedals AB | 2012 | 2013 |
|---|---|---|
| Amount granted | 14 011 | 44 238 |
| Amount unused from previous years | (5 711) | 24 305 |
| Amount used | (3 155) | (1 281) |
| Amount purchased | 19 160 | - |
| Amount sold | - | - |
| Amount unused | 24 305 | 67 262 |

| (in tonnes) for Arctic Paper Mochenwangen GmbH | 2012 | 2013 |
|---|---|---|
| Amount granted | 118 991 | 112 141 |
| Amount unused from previous years | (110 424) | (78 861) |
| Amount used | (110 600) | (110 743) |
| Amount purchased | 23 172 | 78 861 |
| Amount sold | - | - |
| Amount unused | (78 861) | 1 398 |

| (in tonnes) dla Arctic Paper Grycksbo AB | 2012 | 2013 |
|---|---|---|
| Amount granted | 69 411 | 77 037 |
| Amount unused from previous years | 411 | 69 411 |
| Amount used | - | - |
| Amount purchased | - | - |
| Amount sold | (411) | (35 000) |
| Amount unused | 69 411 | 111 448 |

| (in tonnes) for Rottneros' subsidiaries | 2012 | 2013 |
|---|---|---|
| Amount granted | | 30 681 |
| Amount not used in previous years | | 72 888 |
| Amount used | | (13 047) |
| Amount purchased | | - |
| Amount sold | | - |
| Amount unused | 72 888* | 90 522 |

* - quantity as on the date of acquisition

## 44. Cogeneration certificates

In 2013 because there was no legal regulation concerning yellow and red certificates, Arctic Paper Kostrzyn did not recognize income on cogeneration certificates.

In 2012, based on the provisions of article 91 paragraph 1 point 1 of the act dated 10th April 1997, Energy Law, Arctic Paper Kostrzyn 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 2012, revenues from sale of cogeneration certificates amounted to PLN 25,397 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 2013 AP Grycksbo received rights in the amount of green certificates kWh 27,778 (2012: kWh 22,500). In 2013 revenue on sales of certificates amounted to PLN 1,772 thousand (2012: PLN 1,909 thousand).

On the grounds of electricity produced in cogeneration in 2013 the companies of Rottneros Group received 118,942 kWh of green certificates. In 2013 sales revenue on certificates amounted to PLN 1,718 thousand.

Revenues on certificates of cogeneration are recognized as reduction of own 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 2013 the Group did not receive any grants or subsidies.

### 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 thousand 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 2013, Arctic Paper Kostrzyn S.A. incurred capital expenditure classified as expenditure of the KSSSE in the amount of PLN 227,102 thousand. During this period, the discounted amount of public assistance used was PLN 45,843 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 recognized deffered tax asset on the expenditures in SEZ amounted to PLN 18,457 thousand as on 31st December 2013. The unrecognized asset as on 31st December 2013 amounted to PLN 2,225 thousand.

## 46. Events after the reporting period

### 46.1. Annex to the credit facility agreement of Arctic Paper Grycksbo

On 19th March 2013 Arctic Paper Grycksbo AB concluded an annex to an agreement with Svenska Handelsbanken regarding prolongation of the payment term of Arctic Paper Grycksbo AB overdraft indebtedness until 30th September 2014, keeping the hitherto prevailing conditions. Under the annex it was also decided to lower the particular covenants, which Arctic Paper Grycksbo AB will have to meet as on 30th September 2014 and after repayment of overdraft indebtedness.

Until the day of the hereby report, no other material events occurred, apart from those which have been disclosed in other sections of the hereby report.

Consolidated financial statements for the year ended 31st December 2013 PLN thousand

## Signatures of Members of the Management Board

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

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