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ARCTIC PAPER S.A. CAPITAL GROUP  
Consolidated quarterly report  
third quarter of the year 2014

**TRANSLATORS' EXPLANATORY NOTE**

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



**ARCTIC PAPER**

## Table of Contents

Introduction .....	3	<b>Condensed quarterly consolidated financial statements for the nine months' period ended 30th September 2014</b>	<b>38</b>
Information on report .....	3	Consolidated financial statements and selected financial data .....	40
Definitions and abbreviations.....	3	Selected consolidated financial data.....	40
Forward looking statements.....	7	Consolidated income statement .....	41
<b>Management's Board report on the operations of Arctic Paper S.A. Capital Group to the report for the third quarter of the year 2014</b>	<b>8</b>	Consolidated statement of comprehensive income.....	42
Arctic Paper Group profile.....	9	Consolidated balance sheet .....	43
General information.....	9	Consolidated cash flow statement.....	44
Summary of consolidated financial results.....	13	Consolidated statement of changes in equity.....	45
Consolidated income statement.....	13	<b>Standalone financial statements and selected financial data</b> .....	<b>48</b>
Report on financial situation .....	18	Selected standalone financial data.....	48
Consolidated cash flow statement .....	21	Standalone income statement .....	49
Summary of standalone financial results.....	23	Standalone statement of comprehensive income.....	50
Standalone income statement.....	23	Standalone balance sheet .....	51
Statement of financial position.....	26	Standalone cash flow statement.....	52
Cash flows.....	28	Standalone statement of changes in equity .....	53
Relevant information and factors influencing financial results and evaluation of financial standing.....	29	<b>Additional explanatory notes.....</b>	<b>55</b>
Key factors affecting the performance results .....	29	1. General information .....	55
Unusual events and factors.....	30	2. Composition of the Group .....	56
Impact of changes in Arctic Paper Group's structure on the financial result .....	30	3. Management and supervisory bodies.....	58
Other material information.....	30	4. Approval of the financial statements.....	59
Factors influencing Arctic Paper Group development .....	32	5. Basis of preparation of consolidated financial statements.....	59
Information on market tendencies .....	32	6. Significant accounting policies .....	59
Factors influencing the financial results in the perspective of the next quarter .....	34	7. Seasonality .....	61
Risk factors.....	34	8. Information on business segments.....	61
<b>Supplementary information</b> .....	<b>35</b>	9. Dividend paid and proposed.....	67
Management Board position on the possibility to achieve the projected financial results published earlier .....	35	10. Earnings per share.....	67
Changes in Issuer's shareholding or rights to shares of persons managing and supervising Arctic Paper S.A.....	35	11. Interest-bearing loans and borrowings .....	68
Information on guarantees .....	35	12. Equity securities.....	69
Significant off-balance sheet items .....	37	13. Financial instruments .....	70
Information on court and arbitration proceedings and proceedings pending before public administrative authorities.....	37	14. Financial risk management objectives and policies .....	74
Information on transactions with related parties executed on non-market terms and conditions.....	37	15. Capital management.....	74
		16. Contingent liabilities and contingent assets .....	74
		17. Legal claims .....	75
		18. CO2 emission rights .....	75
		19. Government grants and operations in Special Economic Zone.....	76
		20. Significant events after balance sheet date.....	77

## Introduction

### Information on report

The hereby Consolidated Quarterly Report for the third quarter of 2014 was prepared in accordance with the Minister of Finance Regulation of 19th February 2009 concerning current and periodical information submitted by issuers of securities and terms and conditions of classifying as equivalent information required by the law of a non-member state (Journal of Laws of 2009 no. 33, item 259, as amended) and the part of condensed consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), in particular in accordance with International Accounting Standard no 34 and IFRS approved by the EU. IFRS comprise standards and interpretations accepted by the International Accounting Standards Board ("IASB") and the International

Financial Reporting Interpretations Committee ("IFRIC"). Condensed consolidated financial statements do not comprise all information and disclosures required in the annual consolidated financial statements which are subject to obligatory audit and therefore they should be read in conjunction with the consolidated financial statements of the Group for the year ended 31st December 2013.

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

The hereby consolidated quarterly report presents data in PLN, and all figures, unless otherwise indicated, 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 Paper Mills	Arctic Paper Grycksbo AB seated in Kungsvägen, Grycksbo, Sweden 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	Until August 2014: Arctic Paper Grycksbo AB, Grycksbo Paper Holding AB; in August 2014 Grycksbo Paper Holding AB was merged with AP Investment AB and then liquidated,
Distribution Companies	Arctic Paper Sverige AB, Arctic Paper Danmark A/S and Arctic Paper Norge AS
Sales Offices	Arctic Paper Papierhandels GmbH seated in Vienna (Austria); Arctic Paper Benelux SA seated in Oud-Haverlee (Belgium); Arctic Paper Danmark A/S seated in Vallensbaek (Denmark); Arctic Paper France SA seated in Paris (France); Arctic Paper Deutschland GmbH seated in Hamburg (Germany); Arctic Paper Ireland Ltd seated in Dublin (Ireland); Arctic Paper Italia Srl seated in Milan (Italy); Arctic Paper Baltic States SIA seated in Riga (Latvia); Arctic Paper Norge AS seated in Trollåsen (Norway); Arctic Paper Polska Sp. z o.o. seated in Warsaw (Poland); Arctic Paper España SL seated in Barcelona (Spain); Arctic Paper Sverige AB seated in Uddevalla (Sweden); Arctic Paper Schweiz AG seated in Zurich (Switzerland); Arctic Paper UK Ltd seated in Caterham (UK); Arctic Paper East Sp. z o.o. seated in Kostrzyn nad Odrą (Poland).
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
Rottneros Purchasing Office	SIA Rottneros Baltic seated in Latvia
Kalltorp	Kalltorp Kraft Handelsbolaget seated in Trollhattan, Sweden
Trebruk AB	Trebruk AB (formerly Arctic Paper AB) seated in Göteborg Municipality, Västra Götaland County, Sweden
Nemus Holding AB	Nemus Holding AB seated in Göteborg Municipality, Västra Götaland County, Sweden
Management Board, Issuer's Management Board, Company's Management Board, Group's Management Board	Management Board of Arctic Paper S.A.
Supervisory Board, Issuer's Supervisory Board, Company's Supervisory Board, Group's Supervisory Board, SB	Supervisory Board of Arctic Paper S.A.
SM, Shareholders Meeting, Issuer's Shareholders Meeting, Company's Shareholders Meeting	Shareholders Meeting of Arctic Paper S.A.
ESM, Extraordinary Shareholders Meeting, Issuer's Extraordinary Shareholders Meeting, Company's Extraordinary Shareholders Meeting	Extraordinary Shareholders Meeting of Arctic Paper S.A.
Articles of Association, Issuer's Articles of	Articles of Association of Arctic Paper S.A.

Association, Company's Articles of Association

SEZ	Kostrzyńsko-Słubicka Special Economic Zone
Court of Registration	District Court Poznań-Nowe Miasto i Wilda in Poznań
Warsaw Stock Exchange, WSE	Giełda Papierów Wartościowych w Warszawie Spółka Akcyjna
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 with a par value of 1 PLN each

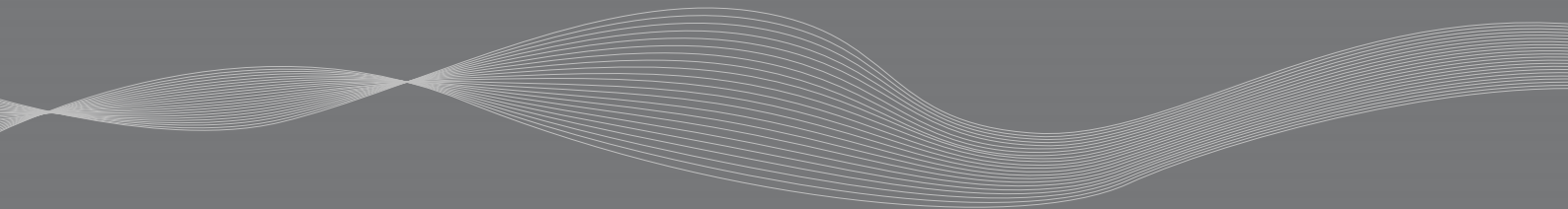
## Forward looking statements

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.



Management's Board report on the operations of  
Arctic Paper S.A. Capital Group  
to the report for the third quarter of the year 2014





## 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. In connection with acquisition of Rottneros Group in December 2012, our assortment was broadened with production of pulp. As on the day of publishing of this report, the Arctic Paper Group employs app. 1,800 people in four paper mills, two pulp mills, fifteen companies dealing in paper distribution and sales, and a company dealing in timber procurement 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 tons 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 for the three quarters of 2014 totaled PLN 2,344 million.

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

### Group Profile

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

The Group's additional business, partly subordinate to paper production, covers:

- Production and sales of pulp,
- Generation of electricity,
- Transmission of electricity,
- Distribution of electricity,
- Production of heat,
- Distribution of heat,
- Logistic services,
- Distribution of paper.

### Our production units

As on 30th September 2014, 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 the 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 the production capacity of about 160,000 metric tons per year and mainly produces fine uncoated wood-free paper used primarily for printing books and high-quality brochures;
- the paper mill in Mochenwangen (Germany) has the 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 the 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 30th September 2014, 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 capacity 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 capacity of app. 240,000 tons and produces two types of long-fiber 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. The high quality of this pulp, which has been achieved over the years, made Vallvik the global leader in deliveries of this type of pulp, which 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

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 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 Purchasing Office.

Detailed information about the organization of Arctic Paper S.A. Capital Group with indication of the entities under consolidation can be found in latter section of the hereby quarterly report, in note 2 to the condensed consolidated financial statements.

### Changes in the capital structure of the Arctic Paper Group

On 1st January 2014, a sales agreement concluded on 29th October 2013 came into force. Under the agreement Arctic Paper S.A. acquired 100% shares in Arctic Paper Deutschland GmbH from Arctic Paper Investment GmbH.

On 3rd September 2014, a sales agreement between Arctic Paper S.A. and Arctic Paper Investment AB was concluded and came into force. Under the agreement, the Company acquired 100% shares in Arctic Paper Finance AB (formerly Arctic Energy Sverige AB).

In August 2014, in Swedish commercial register of entrepreneurs a merger of Grycksbo Paper Holding AB (a holding company and the acquired party) with Arctic Paper Investment AB (the acquirer) was registered, as the result of which Arctic Paper Holding AB terminated its business operations.

In the third quarter of 2014, no other changes in capital structure of Arctic Paper Group occurred.

### Shareholding structure

On 5th September 2014, the hitherto parent entity of the Issuer, Trebruk AB sold 41,360,449 Shares to Nemus Holding AB, therefore Nemus Holding AB is currently the majority shareholder of Arctic Paper S.A., holding 41,375,449 shares of the Company, which constitute 59.72% of its share capital and representing 59.72% of total number of votes in the

Shareholders Meeting. Thus Nemus Holding AB became the parent entity of the Issuer. Moreover, Mr. Thomas Onstad, an indirect shareholder of Nemus Holding AB, holds 5,848,658 Shares constituting 8.44% of total number of the Company's shares.

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

Shareholder	as at 14.11.2014				as at 1.09.2014			
	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 [%]
Nemus Holding AB	41 375 449	59,72%	41 375 449	59,72%	15 000	0,02%	15 000	0,02%
Trebruk AB (formerly Arctic Paper AB)	-	0,00%	-	0,00%	41 360 449	59,69%	41 360 449	59,69%
Thomas Onstad	5 848 658	8,44%	5 848 658	8,44%	5 848 658	8,44%	5 848 658	8,44%
Others	22 063 676	31,84%	22 063 676	31,84%	22 063 676	31,84%	22 063 676	31,84%
<b>Total</b>	<b>69 287 783</b>	<b>100,00%</b>	<b>69 287 783</b>	<b>100,00%</b>	<b>69 287 783</b>	<b>100,00%</b>	<b>69 287 783</b>	<b>100,00%</b>
Treasury shares	-	0,00%	-	0,00%	-	0,00%	-	0,00%
<b>Total</b>	<b>69 287 783</b>	<b>100,00%</b>	<b>69 287 783</b>	<b>100,00%</b>	<b>69 287 783</b>	<b>100,00%</b>	<b>69 287 783</b>	<b>100,00%</b>

Data in the above table is given as on the date of publishing of the hereby report and as on the date of publishing of the half-yearly report for the first half of 2014. Data in the above table presented as on 14th November 2014 prevailed also on 30th September 2014.

## Summary of consolidated financial results

### Consolidated income statement

#### Selected items of the consolidated income statement

PLN thousands	3Q	2Q	3Q	YTD	YTD	Change %	Change %	Change %
	2014	2014	2013	2014	2013	3Q2014/ 2Q2014	3Q2014/ 3Q2013	YTD2014/ YTD2013
<b>Revenues</b>	<b>785 219</b>	<b>753 883</b>	<b>784 000</b>	<b>2 343 594</b>	<b>2 370 007</b>	<b>4,2</b>	<b>0,2</b>	<b>(1,1)</b>
<i>including:</i>								
Sales of paper	603 802	575 987	613 193	1 806 005	1 859 482	4,8	(1,5)	(2,9)
Sales of pulp	181 417	177 896	170 807	537 589	510 526	2,0	6,2	5,3
Gross profit/ (loss) on sales	132 487	100 759	79 910	336 891	161 965	31,5	65,8	108,0
Gross profit on sales margin %	16,87	13,37	10,19	14,37	6,83	3,5 p.p.	6,7 p.p.	7,5 p.p.
Sales costs	(71 655)	(72 008)	(74 166)	(217 843)	(227 759)	(0,5)	(3,4)	(4,4)
Administrative expenses	(15 687)	(16 803)	(16 130)	(52 546)	(56 399)	(6,6)	(2,7)	(6,8)
Other operating income	14 570	17 843	8 955	49 062	41 593	(18,3)	62,7	18,0
Other operating cost	(6 008)	(5 573)	(5 614)	(18 312)	(21 282)	7,8	7,0	(14,0)
<b>EBIT</b>	<b>53 708</b>	<b>24 218</b>	<b>(7 046)</b>	<b>97 251</b>	<b>(101 881)</b>	<b>121,8</b>	<b>(862,3)</b>	<b>(195,5)</b>
EBIT margin %	6,84	3,21	(0,90)	4,15	(4,30)	3,6 p.p.	7,7 p.p.	8,4 p.p.
<b>EBITDA</b>	<b>82 552</b>	<b>52 820</b>	<b>23 549</b>	<b>183 761</b>	<b>59 263</b>	<b>56,3</b>	<b>250,6</b>	<b>210,1</b>
EBITDA margin %	10,51	7,01	3,00	7,84	2,50	3,5 p.p.	7,5 p.p.	5,3 p.p.
Financial income	(133)	312	(1 856)	876	886	(142,5)	(92,9)	(1,2)
Financial cost	(11 183)	(8 037)	(7 181)	(27 774)	(24 023)	39,1	55,7	15,6
<b>EBT</b>	<b>42 393</b>	<b>16 492</b>	<b>(16 082)</b>	<b>70 353</b>	<b>(125 018)</b>	<b>157,0</b>	<b>(363,6)</b>	<b>(156,3)</b>
Corporate income tax	(8 011)	(3 017)	791	(13 588)	11 795	165,5	(1 112,5)	(215,2)
<b>Net profit / (loss)</b>	<b>34 382</b>	<b>13 475</b>	<b>(15 291)</b>	<b>56 765</b>	<b>(113 223)</b>	<b>155,1</b>	<b>(324,8)</b>	<b>(150,1)</b>
Net profit margin %	4,38	1,79	(1,95)	2,42	(4,78)	2,6 p.p.	6,3 p.p.	7,2 p.p.

#### Commentary of the President of the Management Board Wolfgang Lübbert to the results for the third quarter of 2014

The financial results of Arctic Paper Group for the 3rd quarter of 2014 kept the pace established during 2014, with a net result of PLN 34,4 m, EBITDA of PLN 82,6 m and revenues of PLN 785,2 m.

Through the year to date Arctic Paper S.A. has generated a total net profit of PLN 56,8 m compared to a loss of PLN - 113,2 m for the same period in 2013\*. The Group's YTD EBITDA of PLN 183,8 m was an increase of PLN 124,5 m (+ 210 %) compared to the figures of the first three first quarters of 2013. The total sales revenues for the year to date reached

PLN 2.343,6, which compares to the 2013 YTD revenues of PLN 2.370,0 m.

The steady, constructive and daily internal improvements made by the Group continue to show effects. Besides these, external factors such as pulp prices and exchange rates have had continued impact on the result of the third quarter.

Excluding Rottneros, Arctic Paper continued to show profitable and growing figures such as EBITDA of PLN 51,6 m during the third quarter compared to PLN 19,9 m for the same period of 2013. Net profit for the third quarter amounted to PLN 16,3 m

(compared to a loss of PLN -8,3 m 3Q 2013). The sales revenue for the third quarter of 2014 reached PLN 591,7 m compared to PLN 603,1 m in the same period of 2013. The revenues YTD accumulated to PLN 1.772,8 m.

The market decline in paper prices continued – but at a slower rate – during the third quarter 2014. End of September 2014 saw the average prices down -0,9% for coated and no change for uncoated paper compared to end of June of 2014. Compared to end of September 2013 the prices declined by -2,8% and – 4,3% respectively (all data based on RISI).

Arctic Paper grew its total deliveries of paper with 3,9% compared to Q2, while the total market saw a decline of -2,2%. Compared to Q3 2013 Arctic Paper was up 2,5% while the total market was down by -0,4% (all market data based on EuroGraph).

## Revenue

In the third quarter of 2014, consolidated sales revenue amounted to PLN 758,219 thousand compared to PLN 784,000 thousand in the same period of the previous year, which represents an increase by PLN 1,219 thousand and accordingly by 0.2%.

In nine months of 2014, sales revenue amounted to PLN 2,343,594 thousand compared to PLN 2,370,007 thousand achieved in the analogous period of the previous year, which represents a decrease of revenue by PLN 26,413 thousand and approximately 1.1%.

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

Profit on sales in the third quarter of 2014 amounted to PLN 132,487 thousand and was 65.8% higher compared to the same period of the previous year. Profit on sales margin in the current quarter stood at 16.9% compared to 10.2% (+6.7 p.p.) in the same period of the previous year. The main reason for the increase of profit on sales margin in the third quarter of 2014, compared to the analogous period of the previous year, were lower variable production cost, particularly of raw materials for paper production: pulp, chemical agents and energy.

Profit on sales in three quarters of 2014 amounted to PLN 336,891 thousand and was 108.0% higher compared to the

Arctic Paper shows a raise to 94% in the utilization of its production capacity for the third quarter of 2014.

The accumulated pulp prices were stable, but the third quarter of 2014 showed a decrease (-3,0%) of BHKP, favourable for Arctic Paper S.A., and an increase (+0,5%) of NBSK, favourable for Rottneros, compared to 2Q 2014. Together with the more advantageous exchange rates during 2014 the effect was favourable for the result of Arctic Paper Group (all data based on FOEX).

The restructuring process is running as planned, with a unified Scandinavian sales operation and concentrated logistics as main milestones of the Q3. Reduction of costs remains a primary target and progress was achieved during the quarter.

Paper sales volume in the third quarter of 2014 amounted to 192 thousand tons compared to 188 thousand tons in the same period of the previous year. The change represents an increase of 4 thousand tons and respectively 2.1%.

Paper sales volume in three quarters of 2014 amounted to 574 thousand tons compared to 575 thousand tons in the same period of the previous year.

same period of the previous year. Profit on sales margin in this period stood at 14.4% compared to 6.8% (+7.5 p.p.) in the same period of the previous year. The main reasons for the increase of profit on sales and profit on sales margin in this period of 2014, compared to the analogous period of the previous year, were lower variable production cost, particularly of raw materials for paper production: pulp, chemical agents and energy. Moreover, relatively lower profit on sales for three quarters of 2013 was influenced by impairment allowance of non-financial assets in AP Grycksbo recorded as on 30th June 2013 in the amount of PLN 66,650 thousand.

In the third quarter of 2014, selling expenses amounted to PLN 71,655 thousand, which represents a decrease by 3.4% compared to the costs incurred in the corresponding period of 2013.

In three quarters of 2014, selling expenses amounted to PLN 217,843 thousand, which represents a decrease by 4.4% compared to the costs incurred in the corresponding period of 2013. The main reason for the decrease of selling expenses in the analyzed period was decrease of transportation costs which are the main item of selling expenses.

### Other operating income and cost

Other operating income in the third quarter of 2014 amounted to PLN 14,570 thousand, which means an increase compared to the same period of the previous year (by PLN 5,615 thousand).

Other operating income in three quarters of 2014 amounted to PLN 49,062 thousand, which means an increase compared to the same period of the previous year (by PLN 7,469 thousand). It resulted mainly from income from sales of other materials and profit on sales of investment property.

Other operating income consisted mainly of income from heat and electricity sales as well as income from sales of other materials.

### Financial income and financial cost

Financial income in nine months of 2014 amounted to PLN 876 thousand while in the analogous period of the previous year it amounted to PLN 886 thousand. Negative financial income in the third quarter of 2014 and 2013 resulted from net presentation of exchange differences, i.e. as the excess of positive exchange differences over negative exchange differences (financial income) or the excess of negative exchange differences over positive differences (financial cost).

Financial cost in the third quarter of 2014 amounted to PLN 11,183 thousand compared to PLN 7,181 thousand incurred in the third quarter of 2013. Higher financial cost in the third

quarter of 2014, administrative expenses amounted to PLN 15,687 thousand compared to PLN 16,130 thousand in the analogous period of 2013 (a decrease by 2.7%).

In three quarters of 2014, administrative expenses amounted to PLN 52,546 thousand compared to PLN 56,399 thousand in the analogous period of 2013, which represents a decrease by 6.8%. The main reason of the decrease was cost related to consulting services rendered to the Group by third parties.

In the third quarter of 2014, other operating cost amounted to PLN 6,008 thousand compared to PLN 5,614 thousand in the third quarter of 2013.

In three quarters of 2014, other operating cost amounted to PLN 18,312 thousand which represents a decrease compared to the corresponding period of 2013 (by PLN 2,970 thousand).

Other operating expenses comprise mainly cost of electricity and heat sales as well as cost of other materials sold.

quarter of 2014 resulted primarily from the excess of negative exchange differences over positive exchange differences recorded in this period.

Financial cost in three quarters of 2014 amounted to PLN 27,774 thousand compared to PLN 24,023 thousand incurred in three quarters of 2013. Higher financial cost in three quarters of 2014 resulted primarily from the aforementioned excess of negative exchange differences over positive exchange differences recorded in this period.

## Income tax

Income tax in the third quarter of 2014 amounted to PLN -8,011 thousand, while in the analogous period of 2013 it amounted to PLN +791 thousand.

Current income tax in the analyzed period of 2014 amounted to PLN -10,414 thousand while the deferred part amounted to PLN +2,403 thousand. In the third quarter of the previous year it was respectively PLN +143 thousand and +648 thousand.

## Profitability analysis

Operating result in the third quarter of 2014 amounted to PLN 53,708 thousand compared to PLN -7,046 thousand in the analogous period of the previous year. These changes mean there was an increase of operating profit margin from -0.9% in the third quarter of 2013 to +6.8% in the third quarter of the current year.

Operating result in three quarters of 2014 amounted to PLN 97,251 thousand compared to PLN -101,881 thousand in the analogous period of the previous year. These changes mean there was an increase of operating profit margin from -4.3% in three quarters of 2013 to +4.6% in three quarters of the current year.

EBITDA for the third quarter of 2014 amounted to PLN 82,552 thousand, while in the same period of 2013 it amounted to PLN 23,549 thousand. In the reporting period EBITDA margin amounted to 10.5% compared to 3.0% in the analogous period of 2013.

Income tax in three quarters of 2014 amounted to PLN -13,588 thousand, while in the analogous period of 2013 it amounted to PLN +11,795 thousand.

Current income tax in the analyzed three quarters of 2014 amounted to PLN -10,608 thousand while the deferred part amounted to PLN -2,980 thousand. In the analogous period of the previous year it was respectively PLN -897 thousand and +12,962 thousand.

EBITDA for three quarters of 2014 amounted to PLN 183,761 thousand while in the same period of 2013 it amounted to PLN 59,263 thousand. In this period EBITDA margin amounted to 7.8% compared to 2.5% in the analogous period of 2013.

Net profit in the third quarter of 2014 amounted to PLN 34,382 thousand compared to net loss of PLN 15,291 thousand in the third quarter of 2013. Profit recorded in the third quarter of 2014 was primarily due to lower production cost.

Net profit in three quarters of 2014 amounted to PLN 56,765 thousand compared to net loss of PLN 113,223 thousand in three quarters of 2013. Profit recorded in three quarters of 2014 was primarily due to lower production cost. Moreover, net loss for three quarters of 2013 was influenced by impairment allowance in AP Grycksbo recorded as on 30th June 2013.



## Profitability analysis

	3Q	2Q	3Q	YTD	YTD	Change %	Change %	Change %
<i>PLN thousand</i>	2014	2014	2013	2014	2013	3Q2014/ 2Q2014	3Q2014/ 3Q2013	YTD2014/ YTD2013
Gross profit/ (loss) on sales	132 487	100 759	79 910	336 891	161 965	31,5	65,8	108,0
Sales revenue %	16,87	13,37	10,19	14,37	6,83	3,5 p.p.	6,7 p.p.	7,5 p.p.
<b>EBITDA</b>	<b>82 552</b>	<b>52 820</b>	<b>23 549</b>	<b>183 761</b>	<b>59 263</b>	<b>56,3</b>	<b>250,6</b>	<b>210,1</b>
Sales revenue %	10,51	7,01	3,00	7,84	2,50	3,5 p.p.	7,5 p.p.	5,3 p.p.
<b>EBIT</b>	<b>53 708</b>	<b>24 218</b>	<b>(7 046)</b>	<b>97 251</b>	<b>(101 881)</b>	<b>121,8</b>	<b>(862,3)</b>	<b>(195,5)</b>
Sales revenue %	6,84	3,21	(0,90)	4,15	(4,30)	3,6 p.p.	7,7 p.p.	8,4 p.p.
<b>Net profit / (loss)</b>	<b>34 382</b>	<b>13 475</b>	<b>(15 291)</b>	<b>56 765</b>	<b>(113 223)</b>	<b>155,1</b>	<b>(324,8)</b>	<b>(150,1)</b>
Sales revenue %	4,38	1,79	(1,95)	2,42	(4,78)	2,6 p.p.	6,3 p.p.	7,2 p.p.
ROE - Return on equity (%)	4,8	2,0	(2,1)	7,9	(15,6)	2,8 p.p.	6,9 p.p.	23,5 p.p.
ROA - Return on assets (%)	1,9	0,8	(0,8)	3,2	(6,1)	1,2 p.p.	2,8 p.p.	9,3 p.p.

In the third quarter of 2014 return on equity amounted to 4.8% (7.9% in three quarters of 2014), while in the third quarter of 2013 it amounted to -2.1% (-15.6% for three

quarters of 2013). In the same period, return on assets increased from -0.8% (-6.1% in three quarters of 2013) to +1.9% (+3.2% for three quarters of 2014).

## Report on financial situation

### Selected items of the consolidated balance sheet

PLN thousand	30/09/2014	31/12/2013	30/09/2013	Change	Change
				30/09/2014	30/09/2014
				-31/12/2013	-30/09/2013
<b>Non-current assets</b>	<b>848 441</b>	<b>924 650</b>	<b>990 433</b>	<b>(76 209)</b>	<b>(141 992)</b>
Inventory	358 809	397 373	368 436	(38 565)	(9 627)
Receivables	403 065	328 848	372 566	74 217	30 499
<i>trade and other receivables</i>	<i>389 970</i>	<i>319 784</i>	<i>355 744</i>	<i>70 186</i>	<i>34 227</i>
Other current assets	18 241	15 553	33 944	2 688	(15 703)
Cash and equivalents	137 908	118 033	103 884	19 875	34 024
<b>Total assets</b>	<b>1 766 464</b>	<b>1 784 458</b>	<b>1 869 263</b>	<b>(17 994)</b>	<b>(102 799)</b>
<b>Equity</b>	<b>719 740</b>	<b>671 532</b>	<b>724 333</b>	<b>48 208</b>	<b>(4 593)</b>
<b>Short-term liabilities</b>	<b>658 648</b>	<b>684 774</b>	<b>916 708</b>	<b>(26 126)</b>	<b>(258 060)</b>
<i>including:</i>					
<i>trade liabilities and other</i>	<i>429 506</i>	<i>367 267</i>	<i>334 239</i>	<i>62 239</i>	<i>95 267</i>
<i>interest-bearing liabilities</i>	<i>145 621</i>	<i>219 932</i>	<i>451 631</i>	<i>(74 310)</i>	<i>(306 009)</i>
<i>other non-financial liabilities</i>	<i>83 521</i>	<i>97 575</i>	<i>130 838</i>	<i>(14 055)</i>	<i>(47 318)</i>
<b>Long-term liabilities</b>	<b>388 076</b>	<b>428 151</b>	<b>228 221</b>	<b>(40 075)</b>	<b>159 854</b>
<i>including:</i>					
<i>interest-bearing liabilities</i>	<i>257 924</i>	<i>290 377</i>	<i>60 275</i>	<i>(32 453)</i>	<i>197 649</i>
<i>other non-financial liabilities</i>	<i>130 152</i>	<i>137 775</i>	<i>167 947</i>	<i>(7 623)</i>	<i>(37 795)</i>
<b>Total equity and liabilities</b>	<b>1 766 464</b>	<b>1 784 458</b>	<b>1 869 263</b>	<b>(17 994)</b>	<b>(102 799)</b>

As on 30th September 2014, total assets amounted to PLN 1,766,464 thousand compared to PLN 1,784,458 thousand as at the end of 2013, which means a decrease of PLN 17,994 thousand.

### Non-current assets

As at the end of September 2014 non-current assets amounted to PLN 848,441 thousand and represented 48.0% of total assets compared to PLN 924,650 thousand and 51.8% as at the end of 2013. The carrying value of non-

current assets decreased in three quarters of 2014, mainly due to sales of investment property, as well as to amortization and depreciation allowances partially balanced with expenditures for property, plant and equipment.

### Current assets

Current assets reached the level of PLN 918,023 thousand as at the end of September 2014 compared to PLN 859,808 thousand as at the end of December 2013. Within current assets inventories decreased by PLN 38,565 thousand, receivables increased by PLN 74,217 thousand, other current assets increased by PLN 2,688 thousand, and cash and cash equivalents increased by PLN 19,875 thousand. Current

assets represented 52.0% of total assets as at the end of September 2014 (48.2% as at the end of 2013) and included inventories 20.3% (22.3% as at the end of 2013), receivables 22.8% (18.4% as at the end of 2013), other current assets 1.0% (0.9% as at the end of 2013) and cash and cash equivalents 7.9% (6.6% as at the end of 2013).

## Equity

Equity amounted to PLN 719,740 thousand as at the end of the third quarter of 2014 compared to PLN 671,532 thousand as at the end of 2013. Equity represented 40.7% of total equity

and liabilities as at the end of September 2014 compared to 37.6% of total equity and liabilities as at the end of December 2013.

## Short-term liabilities

As at the end of September 2014 short-term liabilities amounted to PLN 658,648 thousand (37.3% of total equity and liabilities) compared to PLN 684,774 thousand (38.4% of total equity and liabilities) as at the end of 2013. In three

quarters of 2014, a decrease of short-term liabilities occurred by PLN 26,126 thousand. This change resulted particularly from repayment of overdraft debts.

## Long-term liabilities

As at the end of September 2014 long-term liabilities amounted to PLN 388,076 thousand (22.0% of total equity and liabilities) compared to PLN 428,151 thousand (24.0% of total equity and liabilities) as at the end of 2013. In the

analyzed period, a decrease of long-term liabilities occurred by PLN 40,075 thousand, mainly due to debt repayment under bank loan agreements.

## Debt analysis

### Debt analysis

	3Q 2014	2Q 2014	3Q 2013	Change % 3Q2014/ 2Q2014	Change % 3Q2014/ 3Q2013
Debt-to-equity ratio (%)	145,4	154,2	158,1	(8,8) p.p.	(12,6) p.p.
Equity-to-non-current assets ratio (%)	84,8	78,0	73,1	6,9 p.p.	11,7 p.p.
Interest-bearing debt-to-equity ratio (%)	56,1	69,4	70,7	(13,3) p.p.	(14,6) p.p.
Net borrowings-to-EBITDA (times)	1,35x	2,71x	1,47x	(1,37)	(0,12)
EBITDA-to-interest (times)	7,3x	5,1x	9,8x	2,2	(2,5)

As at the end of September 2014 debt to equity ratio amounted to 145.4% and was lower by 8.8 p.p. compared to the end of June 2014 and lower by 12.6 p.p. compared to the end of September 2013.

Equity to non-current assets amounted to 84.8% as at the end of the third quarter of 2014 and was higher by 6.9 p.p. than as at the end of June 2014 and higher by 11.7 p.p. than as at the end of September 2013.

Interest bearing debt to equity ratio amounted to 56.1% as at the end of the third quarter of 2014 and was lower by 13.3 p.p. compared to the end of June 2014 and by 14.6 p.p.

compared to the level of this factor calculated at the end of September 2013.

Net borrowings to EBITDA calculated for the last 12 months ended 30th September 2014 amounted to 1.35x compared to 2.71x as for the analogous period ended 30th June 2014 and 1.47x for the twelve months period ended 30th September 2013.

EBITDA to interest coverage ratio amounted to 7.3x for the twelve months ended 30th September 2014, 5.1x for the twelve months' period ended 30th June 2014 and 9.8x for the twelve months' period ended 30th September 2013.

## Liquidity analysis

### Liquidity ratios

	3Q 2014	2Q 2014	3Q 2013	Change % 3Q2014/ 2Q2014	Change % 3Q2014/ 3Q2013
<b>Current liquidity ratio</b>	<b>1,4x</b>	<b>1,3x</b>	<b>1,0x</b>	<b>0,1</b>	<b>0,4</b>
<b>Quick liquidity ratio</b>	<b>0,8x</b>	<b>0,7x</b>	<b>0,5x</b>	<b>0,1</b>	<b>0,3</b>
<b>Acid test ratio (cash liquidity)</b>	<b>0,2x</b>	<b>0,1x</b>	<b>0,1x</b>	<b>0,1</b>	<b>0,1</b>
Inventory turnover DSI (days)	49,5	48,4	47,1	1,1	2,4
Receivables turnover DSO (days)	44,7	45,3	40,8	(0,6)	3,9
Liabilities turnover DPO (days)	59,1	50,1	42,7	9,0	16,4
Operating cycle (days)	94,2	93,7	87,9	0,5	6,2
<b>Cash conversion cycle (days)</b>	<b>35,1</b>	<b>43,6</b>	<b>45,2</b>	<b>(8,5)</b>	<b>(10,2)</b>

Current liquidity ratio amounted to 1.4x as at the end of September 2014 and increased compared to the end of June 2014 (1.3x) and the end of September 2013 (1.0x).

Quick liquidity ratio increased from 0.5x as at the end of September 2013 and 0.7x as at the end of June 2014 to 0.8x as at the end of September 2014.

Acid test ratio amounted to 0.2x as at the end of September 2014 (0.1x as at the end of June 2014 and September 2013).

Cash conversion cycle in the third quarter of 2014 (35.1 days) shortened compared to the second quarter of 2014 (by 8.5 days) and compared to the third quarter of 2013 (by 10.2 days).

## Consolidated cash flow statement

### Selected items of the consolidated cash flow statement

PLN thousand	3Q	2Q	3Q	YTD	YTD	Change %	Change %	Change %
	2014	2014	2013	2014	2013	3Q'14/ 2Q'14	3Q'14/ 3Q'13	YTD'14/ YTD'13
<b>Cash flow from operations</b>	<b>117 661</b>	<b>29 936</b>	<b>28 167</b>	<b>178 983</b>	<b>(24 478)</b>	<b>293,0</b>	<b>317,7</b>	<b>(831,2)</b>
<i>including:</i>								
EBT	42 393	16 492	(16 082)	70 353	(125 018)	157,0	(363,6)	(156,3)
Amortization/depreciation and impairment	28 844	28 602	30 595	86 510	161 145	0,8	(5,7)	(46,3)
Δ in working capital	47 936	(26 198)	(4 406)	4 935	(78 951)	(283,0)	(1 188,1)	(106,3)
Other corrections	(1 512)	11 039	18 060	17 184	18 347	(113,7)	(108,4)	(6,3)
<b>Cash flow investing activities</b>	<b>(5 550)</b>	<b>(21 466)</b>	<b>(26 913)</b>	<b>(38 267)</b>	<b>(76 521)</b>	<b>(74,1)</b>	<b>(79,4)</b>	<b>(50,0)</b>
<b>Cash flow financing activities</b>	<b>(69 137)</b>	<b>(9 423)</b>	<b>(19 031)</b>	<b>(119 901)</b>	<b>16 744</b>	<b>633,7</b>	<b>263,3</b>	<b>(816,1)</b>
<b>Total Cash Flow</b>	<b>42 974</b>	<b>(954)</b>	<b>(17 776)</b>	<b>20 814</b>	<b>(84 255)</b>	<b>(4 606,9)</b>	<b>(341,8)</b>	<b>(124,7)</b>

### Cash flows from operating activities

In the third quarter of 2014, net cash flows from operating activities amounted to PLN +117,661 thousand compared to PLN +28,167 thousand in the corresponding period of 2013. Positive cash flows in the third quarter of 2014 resulted primarily from EBITDA achieved in this period and the decrease of working capital.

In the third quarter of 2014, net cash flows from operating activities amounted to PLN +178,983 thousand compared to PLN -24,478 thousand in the corresponding period of 2013. Positive cash flows from January to September 2014 resulted primarily from EBITDA and changes of working capital.

### Cash flows from investing activities

In the third quarter of 2014, net cash flows from investing activities amounted to PLN -5,550 thousand compared to PLN -26,913 thousand in 2013. Lower net investing expenditures in the third quarter of 2014 were mainly related to sales of investment property. The inflow from this transaction balanced expenditures for purchase of property, plant & equipment. In three quarters of 2014, cash flows from investing activities

amounted to PLN -38,267 thousand compared to PLN -76,521 thousand in three quarters of 2013. Investing expenditures in three quarters of 2013 included acquisition of non-controlling shares in Rottneros AB. Moreover, as mentioned before, inflows from sales of investment property caused decrease of net expenditures in three quarters of 2014.

### Cash flows from financing activities

Cash flows from financing activities in the third quarter of 2014 amounted to PLN -69,137 thousand compared to PLN -19,031 thousand in the third quarter of 2013. Negative cash flows from financing activities in the third quarter of 2014 related mainly to repayment of indebtedness on the grounds of bank loans and overdrafts, repayment of liabilities from

factoring agreements and payment of interest. Cash flows from financing activities in three quarters of 2014 amounted to PLN -119,901 thousand compared to PLN +16,744 thousand in the same period of 2013. Positive cash flows from financing activities in three quarters of 2013 related to taking overdraft

loans, inflows on the grounds of factoring agreements and a loan granted by a majority shareholder of Arctic Paper S.A.

## Summary of standalone financial results

### Standalone income statement

#### Selected items of the standalone income statement

	3Q	2Q	3Q	YTD	YTD	Change %	Change %	Change %
PLN thousands	2014	2014	2013	2014	2013	3Q2014/ 2Q2014	3Q2014/ 3Q2013	YTD2014/ YTD2013
<b>Revenues:</b>	<b>5 184</b>	<b>10 601</b>	<b>13 333</b>	<b>25 347</b>	<b>112 861</b>	<b>(51)</b>	<b>(61)</b>	<b>(78)</b>
<i>including:</i>								
Sales of services	4 935	10 200	8 071	24 437	31 916	(52)	(39)	(23)
Loans interest	250	262	5 222	770	5 790	(5)	(95)	(87)
Income from dividends	-	140	40	140	75 155	(100)	-	(100)
<b>Gross profit on sales</b>	<b>2 782</b>	<b>8 213</b>	<b>11 348</b>	<b>18 199</b>	<b>105 044</b>	<b>(66)</b>	<b>(75)</b>	<b>(83)</b>
<i>Gross profit on sales margin %</i>	<i>53,67</i>	<i>77,47</i>	<i>85,11</i>	<i>71,80</i>	<i>93,07</i>	<i>(23,8) p.p.</i>	<i>(31,4) p.p.</i>	<i>(21,3) p.p.</i>
Sales costs	(805)	(924)	(710)	(2 657)	(2 171)	(13)	13	22
Administrative expenses	(5 857)	(5 604)	(5 222)	(17 207)	(21 752)	5	12	(21)
Other operating income	12	23	1	203	144	(50)	701	41
Other operating cost	(2 102)	(4 220)	(856)	(7 165)	(187 167)	(50)	146	(96)
<b>EBIT</b>	<b>(5 970)</b>	<b>(2 512)</b>	<b>4 561</b>	<b>(8 628)</b>	<b>(105 902)</b>	<b>138</b>	<b>(231)</b>	<b>(92)</b>
<i>EBIT margin %</i>	<i>(115,16)</i>	<i>(23,70)</i>	<i>34,21</i>	<i>(34,04)</i>	<i>(93,83)</i>	<i>(91,5) p.p.</i>	<i>(149,4) p.p.</i>	<i>59,8 p.p.</i>
<b>EBITDA</b>	<b>(5 184)</b>	<b>(2 483)</b>	<b>4 585</b>	<b>(6 197)</b>	<b>(105 819)</b>	<b>109</b>	<b>(213)</b>	<b>(94)</b>
<i>EBITDA margin %</i>	<i>(100,00)</i>	<i>(23,42)</i>	<i>34,39</i>	<i>(24,45)</i>	<i>(93,76)</i>	<i>(76,6) p.p.</i>	<i>(134,4) p.p.</i>	<i>69,3 p.p.</i>
Financial income	223	619	19	673	1 450	(64)	1 074	(54)
Financial cost	(307)	(1 402)	(558)	(1 691)	(1 374)	(78)	(45)	23
<b>EBT</b>	<b>(6 055)</b>	<b>(3 295)</b>	<b>4 022</b>	<b>(9 645)</b>	<b>(105 826)</b>	<b>84</b>	<b>(251)</b>	<b>(91)</b>
Corporate income tax	-	-	-	-	-	-	-	-
<b>Net profit/(loss)</b>	<b>(6 055)</b>	<b>(3 295)</b>	<b>4 022</b>	<b>(9 645)</b>	<b>(105 826)</b>	<b>84</b>	<b>(251)</b>	<b>(91)</b>
<i>Net profit margin %</i>	<i>(116,79)</i>	<i>(31,08)</i>	<i>30,16</i>	<i>(38,05)</i>	<i>(93,77)</i>	<i>(85,7) p.p.</i>	<i>(147,0) p.p.</i>	<i>55,7 p.p.</i>

### Revenue, profit on sales

The main statutory activity of the Company is holding activity consisting in managing of entities belonging to the controlled Capital Group. Operating activity of Arctic Paper Group is conducted through Paper Mills and Pulp Mills, Distribution Companies and Sales Offices.

Sales revenue for the third quarter of 2014 amounted to PLN 5,184 thousand and comprised services rendered for entities belonging to the Group (PLN 4,935 thousand) and interest on loans (PLN 250 thousand). In the same period of the previous year, standalone sales revenue amounted to PLN 13,333

thousand and comprised services rendered to the Group entities (PLN 8,071 thousand), interest on loans (PLN 5,222 thousand) as well as dividends (PLN 40 thousand).

Standalone sales revenue for three quarters of 2014 amounted to PLN 25,347 thousand and comprised services rendered for entities belonging to the Group (PLN 24,437 thousand), interest on loans granted (PLN 770 thousand) and dividends (PLN 140 thousand).

Standalone sales revenue for three quarters of 2013 amounted to PLN 112,861 thousand and comprised services rendered

for entities belonging to the Group (PLN 31,916 thousand), interest on loans granted (PLN 5,790 thousand) and dividends (PLN 75,155 thousand).

Decrease of sales revenue in three quarters of 2014, compared to the analogous period of 2013, results mainly from decrease of revenue from services related to agency for procurement and sales of pulp, and from decrease of dividends received. Lower interest on granted loans results from conversion of a loan granted by the Company to Arctic Paper Investment AB to shares. In connection with the

### Selling expenses

In the third quarter of 2014, the Company recognized PLN 805 thousand of selling expenses (PLN 710 thousand in the third quarter of 2013).

In three quarters of 2014, the Company recognized PLN 2,657 thousand of selling expenses (PLN 2,171 thousand in three quarters of 2013).

### Administrative expenses

In the third quarter of 2014, administrative expenses amounted to PLN 5,857 thousand and were higher compared to the analogous period of the previous year by PLN 635 thousand. Administrative expenses for three quarters of 2014 amounted to PLN 17,207 thousand, compared to PLN 21,752 thousand for the analogous period of 2013.

Administrative expenses of the company include costs of the administration of the Company operation, costs of services provided to companies in the Group and all costs incurred by

### Other operating income and cost

Other operating income amounted to PLN 12 thousand in the third quarter of 2014 which represents an increase by PLN 11 thousand compared to analogous period of 2013. Other operating cost totaled PLN 2,102 thousand in the third quarter of 2014 (PLN 856 thousand in the analogous period of 2013).

In three quarters of 2014, other operating income and cost amounted respectively to PLN +203 thousand and PLN -7,165 thousand, while in the analogous period of 2013 it amounted

conversion, starting from December 2013, interest on this loan has not been calculated.

Interest cost on loans taken in the Group has been presented as operating cost and decreased profit on sales.

In the third quarter of 2014, profit on sales amounted to PLN 2,782 thousand (PLN 11,348 thousand in the third quarter of 2013). Profit on sales for three quarters of 2014 amounted to PLN 18,199 thousand (PLN 105,044 thousand for three quarters of 2013).

Selling expenses are solely related to costs of pulp procurement agency services.

the Company for the purpose of holding company activities. Among them, a significant group of costs can be distinguished that applies only to statutory activities and includes, among others: costs of tax, legal and accounting services, as well as the costs of the Supervisory Board and the Management Board.

respectively to PLN +144 thousand and PLN -187,167 thousand.

High other operating cost in three quarters of 2013 resulted mainly from impairment of loans in Arctic Paper Investment AB, impairment of shares in Arctic Paper Investment GmbH, and impairment of trade receivables in Arctic Paper Investment GmbH and Arctic Paper Moichenwangen GmbH, recorded in this period.



## Financial income and cost

In the third quarter of 2014, financial income amounted to PLN 223 thousand and was higher compared to financial income achieved in the third quarter of 2013 by PLN 204 thousand.

Financial cost in the third quarter of 2014 amounted to PLN 307 thousand. In the analogous period of 2013 financial cost amounted to PLN 558 thousand.

In three quarters of 2014, financial income and cost amounted respectively PLN +673 thousand and PLN -1,691 thousand, while in the analogous period of 2013 it amounted respectively to PLN +1,450 thousand and PLN -1,374 thousand.

## Statement of financial position

### Selected items of the standalone balance sheet

PLN thousands	30/09/2014	31/12/2013	30/09/2013	Change	Change
				30/09/2014	30/09/2013
Non-current assets	829 581	829 519	886 581	62	(57 000)
Receivables	52 247	45 300	43 401	6 946	8 845
Other current assets	21 090	21 751	21 542	(661)	(452)
Cash and equivalents	10 778	9 018	4 053	1 760	6 726
<b>Total assets</b>	<b>913 696</b>	<b>905 588</b>	<b>955 577</b>	<b>8 108</b>	<b>(41 881)</b>
Equity	680 318	690 044	763 789	(9 726)	(83 470)
Short-term liabilities	56 011	37 356	21 643	18 656	34 368
Long-term liabilities	177 366	178 188	170 145	(822)	7 221
<b>Total equity and liabilities</b>	<b>913 696</b>	<b>905 588</b>	<b>955 577</b>	<b>8 108</b>	<b>(41 881)</b>

As on 30th September 2014 total assets amounted to PLN 913,696 thousand compared to PLN 905,588 thousand as at the end of 2013.

#### Non-current assets

As at the end of September 2014 non-current assets represented nearly 90.8% of total assets which means this share slightly decreased (by 0.8 p.p.) compared to the end of 2013. The main item of non-current assets is shares in subsidiaries. Total value of this item as at the end of the third

quarter of 2014 was PLN 827,189 thousand compared to PLN 822,189 thousand at the end of 2013. The increase of value of shares in subsidiaries resulted from acquisition of 100% shares in Arctic Paper Deutschland GmbH (PLN 4,977 thousand) and in Arctic Paper Finance AB (PLN 23 thousand).

#### Current assets

Current assets as at the end of September 2014 amounted to PLN 84,114 thousand compared to PLN 76,069 thousand as at the end of 2013. Current assets increased in three quarters

of 2014, particularly in receivables. As at the end of the third quarter of 2014 current assets represented 9.2% of total assets compared to 8.4% as at the end of the previous year.

#### Equity

Equity amounted to PLN 680,318 thousand as at the end of the third quarter of 2014 compared to PLN 690,044 thousand as at the end of 2013. Equity amounted to 74.5% of total

equity and liabilities as at the end of September 2014 compared to 76.2% at the end of 2013. Decrease of equity results mainly from net loss in three quarters of 2014.

#### Short-term liabilities

As at the end of September 2014 short-term liabilities amounted to PLN 56,011 thousand (6.1% of total equity and

liabilities) compared to PLN 37,356 thousand as at the end of 2013 (4.1% of total equity and liabilities).

Increase of short-term liabilities resulted primarily from increase of pulp orders realized as at the end of the third quarter of 2014 compared to the end of 2013.

### Long-term liabilities

Long-term liabilities as at the end of September 2014 amounted to PLN 177,366 thousand (19.4% of total equity and liabilities) compared to PLN 178,188 thousand (19.7% of total equity and liabilities) as at the end of 2013. Long-term liabilities changed due to decrease of accruals.

## Cash flows

### Selected items of the standalone cash flow statement

PLN thousand	3Q	2Q	YTD	YTD	Change %	Change %
	2014	2014	2014	2013	3Q'14/ 2Q'14	YTD'14/ YTD'13
<b>Cash flow from operations</b>	<b>2 617</b>	<b>(4 056)</b>	<b>2 761</b>	<b>54 780</b>	<b>(164,5)</b>	<b>(95,0)</b>
<i>including:</i>						
<i>EBT</i>	(6 055)	(3 295)	(9 645)	(105 826)	83,7	(90,9)
<i>Amortization/depreciation and impairment of non-current assets</i>	786	1 622	2 430	194 352	(51,5)	(98,7)
<i>Δ in working capital</i>	7 757	(337)	7 958	(31 152)	(2 402,5)	(125,5)
<i>Interest and dividend (net)</i>	225	(1 425)	933	1 332	(115,8)	(30,0)
<i>Other corrections</i>	(96)	(620)	1 084	(3 926)	(84,5)	(127,6)
<b>Cash flow investing activities</b>	<b>(3)</b>	<b>141</b>	<b>(3)</b>	<b>(22 525)</b>	<b>(102,2)</b>	<b>(100,0)</b>
<b>Cash flow financing activities</b>	<b>(293)</b>	<b>(353)</b>	<b>(998)</b>	<b>(58 559)</b>	<b>(16,9)</b>	<b>(98,3)</b>
<b>Total Cash Flow</b>	<b>2 321</b>	<b>(4 267)</b>	<b>1 760</b>	<b>(26 303)</b>	<b>(154,4)</b>	<b>(106,7)</b>

Cash flows statement presents an increase in cash and cash equivalents in three quarters of 2014 by PLN +1,760 thousand which includes:

- positive cash flows from operating activities in the amount of PLN +2,761 thousand,
- negative cash flows from investing activities in the amount of PLN -3 thousand,
- negative cash flows from financing activities in the amount of PLN -998 thousand.

### Cash flows from operating activities

In three quarters of 2014, net cash flows from operating activities amounted to PLN +2,671 thousand compared to PLN +54,780 thousand in the corresponding period of 2013. Receiving the last installment of the loan taken from Arctic

Paper Kostrzyn, purposed for repayment of the last portion of bonds, was the main reason for positive cash flows in three quarters of the previous year.

### Cash flows from investing activities

In nine months of 2014, cash flows from investing activities amounted to PLN -3 thousand compared to PLN -22,525 thousand in the analogous period of the previous year. The main item of cash flows from investing activities in

2013 was expenses related to further acquisition of Rottneros AB shares in cash and to the increase of shares in Arctic Paper Investment GmbH.

### Cash flows from financing activities

Cash flows from financing activities in 2014 amounted to PLN -998 thousand compared to PLN -58,559 thousand in 2013.

Cash flows from financing activities in 2013 were influenced by repayment of the last portion of bonds together with interest.

## 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 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 prices;
- currency exchange rates fluctuations.

#### Macroeconomic and other economic factors

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

- GDP growth;
- net income – as a measure of income and prosperity of the population;
- production capacities – oversupply lingering in the segment of 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. Prices of paper are also influenced by a number of factors connected with the supply, primarily changes in production capacities at the worldwide 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 mainly by external service providers.

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

Part of pulp supplies to our Paper Mills is realized from Pulp Mills of Rottneros. 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 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 Odra) 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 events and factors

In the third quarter of 2014 there were no unusual events or factors.

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

In the third quarter of 2014 there were no relevant changes in Arctic Paper Group's structure that would have material influence on the financial result achieved.

## Other material information

### Negotiations with Swedish banks

On 19th March 2014, Arctic Paper S.A. and its subsidiary, Arctic Paper Grycksbo AB, finalized the next stage of negotiations with banks which finance the Issuer's group entities.

As a result of the negotiations, Svenska Handelsbanken AB set the payment term of Arctic Paper Grycksbo AB overdraft on 30th September 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 September 2014.

In connection with the fact that as on 30th September 2014 APG kept covenants, i.e. solidity ratio and interest coverage ratio, determined in a loan agreement with Svenska Handelsbanken AB ("Bank"), the Parties agreed for the original wording of the agreement to be binding. Therefore, APG is obliged to keep the hitherto covenants. The loan agreement provides for an unspecified repayment date of overdraft in APG account with the possibility to give notice regarding termination of the loan agreement in case covenants have not been met on verification date. The next verification date has been scheduled to 31st December 2014.

### Supplies agreement

On 17th June 2014, the Company received an agreement dated 12th June 2014, concluded by and between Arctic Paper S.A. and Fibria International Trade GmbH seated in

Lustenau, Austria ("Supplier"). The subject of the agreement is pulp supplies realized by the Supplier ("Supplies Agreement").

The Supplies Agreement has been concluded for the period of 1st January 2014 – 31st December 2014. Under the Supplies Agreement, the Supplier is obliged to deliver and the Company to receive 90 thousand metric tons of pulp, whereas the parties of the Supplies Agreement allowed the possibility of both increase and decrease of the total deliveries' volume by 10%. Under the Supplies Agreement, the Supplier is obliged to deliver and the Company to receive pulp of total estimated value of PLN 170 million. The price for a metric ton was calculated based on FOEX PIX USD (U.S. dollar) index for Europe and the discounts agreed by the parties of the Supplies Agreement. The Agreement does not provide for penalties and does not include any stipulations of terms and conditions.

### Annex to the loan agreement

On 15th October 2014, 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 ("Financing Banks") consisting of: Bank Pekao S.A., Bank Zachodni WBK S.A. and mBank S.A. concluded the Annex no 5 ("Annex") to the Loan Agreement dated 6th November 2012 ("Loan Agreement").

The Company reported the conclusion of the Loan Agreement and its amendments in annual reports for 2012 and 2013.

By the power of the Annex:

- Financing Banks waived the condition to increase the Issuer's share capital by no less than PLN 50,000,000 and agreed for the Issuer to take a subordinate loan in the amount of app. PLN 42,000,000 (EUR 10,000,000) from the indirect majority shareholder Mr. Thomas Onstad (through a subsidiary of the Issuer) ("Subordinate Loan"). The parties agreed that the funds from the Subordinate Loan shall be transferred to the Issuer no later than 30th October 2014;
- A commitment to assign funds from the Subordinate Loan and from sale of assets to be reinvested in the Issuer's group in the amount up to PLN 60,000,000 was reinforced;
- A commitment of the Issuer to assign funds from the Subordinate Loan and from sale of assets (in the amount of the excess over PLN 60,000,000) for prepayments of liabilities resulting from the Loan Agreement was reinforced;
- Financing Banks agreed for the payment of dividend from Arctic Paper Kostrzyn S.A. to the Issuer, in the amount of 75% of net profit achieved by Arctic Paper Kostrzyn S.A. in the financial year preceding the dividend payment, on

condition the funds thus received by the Issuer shall be assigned for repayments of liabilities on the grounds of a loan agreement concerning the loan taken by the Issuer from Arctic Paper Kostrzyn S.A.

Other material financing conditions specified in the Loan Agreement remained unchanged.

Collaterals established in the Loan Agreement remained unchanged.

#### **Subordinated loan**

On 27th October 2014, by the agency of Arctic Paper Finance AB, the Company concluded a subordinate loan agreement with Mr. Thomas Onstad, an indirect majority shareholder of the Company. The loan agreement was concluded in connection with the Annex to the loan agreement concluded by and between the Company together with its subsidiaries and a consortium of banks consisting of Bank Pekao S.A., Bank Zachodni WBK S.A. and mBank S.A. dated 15th October 2014 (current report 24/2014 dated 16th October 2014). The amount of the loan totaled EUR 10,000 thousand. The loan was concluded on market conditions and its purpose is financing of the Group's operations. According to the agreement, the loan shall be repaid until 30th September 2019. The funds were transferred to the Issuer immediately after the agreement was concluded.

## Factors influencing Arctic Paper Group development

### Information on market tendencies

#### Supplies of fine papers

Supplies of fine papers to the European market in the third quarter of 2014 were slightly lower compared to the analogous period of 2013 by app. 0.4%. Supplies in the segment of uncoated wood-free paper (UWF) were lower by 0.8%, while those in the segment of coated wood-free paper (CWF) remained unchanged.

Compared to the second quarter of 2014, the supplies of fine papers were approximately 2.2% lower. In the analyzed period, supplies in the segment of uncoated wood-free paper (UWF) were 7.3% lower, while those in the segment of coated wood-free paper (CWF) were 3.8% higher.

Supplies of fine papers to the European market in nine months of 2014 were 0.4% higher than in the corresponding period of 2013. Supplies in the segment of uncoated wood-free paper (UWF) were 1.0% higher, while those in the segment of coated wood-free paper (CWF) were 0.4% lower.

In 3Q 2014 Arctic Paper Group paper sales volume was 3.9% higher than in 2Q 2014 and 2.5% higher than in the corresponding period of 2013.

Data source: EuroGraph, RISI, Arctic Paper analysis

#### Paper prices

In the third quarter of 2014, fine papers prices in Europe remained unchanged or experienced a slight decrease compared to prices at the end of the second quarter of 2014. Average UWF prices remained unchanged, while CWF prices decreased by 0.9%.

Between July and September 2014, UWF prices declared by producers for the selected products and markets of Germany, France, Spain, Italy and United Kingdom, expressed in EUR and GBP remained unchanged. CWF prices in the same period changed from -1.0% to -0.8%.

At the end of the quarter, average prices decreased by app. 2.8% for UWF and 4.3% for CWF, compared to the end of the corresponding period of the previous year.

Prices invoiced by Arctic Paper in EUR of comparable products in the segment of uncoated wood-free paper

changed from July to September 2014 by from -1.3% to +0.5%, while in the segment of coated wood-free paper by from -5.6% to +2.2%.

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 but only express ordering prices. For Arctic Paper products the average invoiced sales prices for all served markets in EUR.



## Pulp prices

At the end of the third quarter of 2014, pulp prices reached a level of USD 931 per ton for NBSK and USD 725 per ton for BHKP. The average pulp price in 3Q 2014 was higher by 7.9% for NBSK while lower by 8.3% for BHKP, compared to the corresponding period of the previous year. In the third quarter of 2014, average pulp price was higher by 0.5% for NBSK and lower by 3.0% for BHKP, compared to the second quarter of 2014.

The average cost of pulp per ton as calculated for AP Group, expressed in PLN, in 3Q 2014 increased by 1.06% compared to 2Q 2014 and decreased by 7.2% compared to 3Q 2013.

## Currency exchange rates

The EUR/PLN exchange rate at the end of the third quarter of 2014 amounted to 4.1755 and was higher by 0.4% than at the end of the second quarter of 2014 and lower by 1.0% than at the end of the third quarter of 2013. The average exchange rate in the third quarter of 2014 was slightly higher than in the second quarter of 2014 and amounted to 4.1748, compared to 4.1672 (0.2%). The average exchange rate in the third quarter of 2014, compared to the corresponding period of the previous year, was 1.7% lower.

EUR/SEK exchange rate at the end of the third quarter of 2014 amounting to 9.1769 stayed nearly identical with the rate at the end of the second quarter of 2014 (9.1812). However, for this pairing, the average rate in the third quarter of 2014 was 1.7% higher compared to the second quarter of 2014. The average exchange rate in the third quarter of 2014 was 6.1% higher than in the corresponding period of 2013.

These changes mean that in the third quarter of 2014 a depreciation of SEK towards EUR occurred, which has a positive impact on financial results of the Group, particularly concerning sales income generated by Swedish mills that are dependent on prices expressed in EUR.

At the end of the third quarter of 2014, USD/PLN rate was 8.2% higher than at the end of the second quarter of 2014 and amounted to 3.2973. In the third quarter of 2014, the average

The share of pulp costs in cost of paper sales in the third quarter of 2014 amounted to 49% and was higher compared to the level recorded in 3Q 2014 (47%).

Arctic Paper Group uses the pulp in the production process according to the following structure: BHKP 64%, NBSK 18% and other 18%.

Source: [www.foex.fi](http://www.foex.fi), Arctic Paper analysis

USD/PLN exchange rate amounted to 3.1498 compared to 3.0382 in the second quarter of 2014, which means a depreciation of PLN by 3.7%.

At the end of the third quarter of 2014, USD/SEK rate amounted to 7.2468 and was 7.8% higher than at the end of the second quarter of 2014. The average exchange rate in the third quarter of 2014 amounted to 6.9454 which means an increase by 5.2% compared to the second quarter of 2014.

Changes of USD/PLN and USD/SEK exchange rates caused the price for a ton of pulp, expressed in PLN and SEK, to increase. It reduced the favorable effect of BHKP pulp price decrease, compared to the price of this material in 2Q 2014.

At the end of September 2014, EUR/USD rate amounted to 1.2663 compared to 1.3654 (-7.3%) at the end of the second quarter of 2014 and to 1.3502 (-6.2%) at the end of September 2013. In the third quarter of 2014, the average exchange rate amounted to 1.3262 compared to 1.3716 (-3.3%) in the second quarter of 2014.

Further depreciation of SEK towards EUR had a positive influence of the Group's financial results, mainly due to increase of sales revenue generated in EUR and expressed in SEK. USD appreciating towards PLN and SEK caused higher cost of main raw material in Swedish paper mills and in the paper mill in Kostrzyn.

## Factors influencing the financial results in the perspective of the next quarter

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

- Demand for fine papers in Europe have an influence on our financial results. Decline of demand for fine papers in Europe (level of orders realized) will unfavorably influence levels of orders to our Paper Mills and, as a result, will have an adverse impact on financial results of the Group.
- The levels of fine papers prices. In particular, the ability to raise the prices of Arctic Paper products in local currencies, in reference to changing supplies/demand in Europe and in connection with exchange rates fluctuations, will have a material influence on the financial results. Paper prices are going to be of particular importance for paper mills of Grycksbo and Mochenwangen, which, in connection with market changes, experience the greatest adverse impact of changes of sales volume, prices, as well as, in case of AP Grycksbo, of exchange rates fluctuations.
- Prices fluctuations of raw materials, including pulp for Paper Mills and electricity for all operational entities. In particular, financial results of Paper Mills may be adversely influenced by increasing pulp prices, particularly BHKP. On the other hand, increasing NBSK prices should positively influence financial results of Pulp Mills. Fluctuations of electricity prices in Sweden may also have a material impact on the results achieved by the Group. 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; in particular, the appreciation of PLN and SEK in relation to EUR and GBP, the appreciation of PLN in relation to SEK, and depreciation of PLN and SEK in relation to USD, may have an adverse effect on the financial results. However, our Pulp Mills may benefit from appreciation of USD in relation to SEK.

## Risk factors

In the third quarter of 2014, there were no material changes regarding risk factors, which have been described in details in the half-yearly report for the first half of 2014.

## Supplementary information

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

The Management Board of Arctic Paper S.A. has not published projections of financial results for 2014.

### Changes in 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 14/11/2014	Number of shares or rights thereto as at 1/09/2014	Change
<b>Management Board</b>			
Wolfgang Lübbert	-	-	-
Jacek Łoś	-	-	-
Per Skoglund	-	-	-
Małgorzata Majewska-Śliwa	-	-	-
Michał Sawka	-	-	-
<b>Supervisory Board</b>			
Rolf Olof Grundberg	12 102	12 102	-
Rune Roger Ingvansson	-	-	-
Thomas Onstad	5 848 658	5 848 658	-
Kjell Olsson	N/A	-	-
Roger Mattsson	-	N/A	-
Dariusz Witkowski	-	-	-
Mariusz Grendowicz	-	-	-

### Information on guarantees

As on 30th September 2014, 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 on movables of Arctic Paper Grycksbo AB resulting from a factoring contract with Svenska Handelsbanken AB amounting to SEK 85,000 thousand;
- a pledge on real estate of Arctic Paper Grycksbo AB resulting from a factoring contract with Svenska Handelsbanken AB amounting to SEK 20,000 thousand;
- a pledge on shares of Arctic Paper Grycksbo AB resulting from a factoring contract with Svenska Handelsbanken AB amounting to SEK 163,528 thousand;
- a pledge on shares of Arctic Paper Grycksbo AB resulting from an agreement with 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 1,483 thousand in Arctic Paper Grycksbo AB and of SEK 711 thousand in Arctic Paper Munkedals AB;
- a pledge on real estate of Arctic Paper Munkedals AB resulting from an agreement with FPG in favor of mutual life insurance company PRI in the amount of SEK 50,000 thousand;
- a limit of liabilities under factoring contract in Arctic Paper Munkedals set to SEK 134,482 thousand;
- a contingent liability of Arctic Paper Munkedals AB on the grounds of a guarantee for Kalltorp Kraft HB liabilities in the amount of SEK 2,722 thousand;
- mortgages on Kalltorp Kraft HB real estate 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;
- a guarantee in favor of Cartiere del Garda S.P.A - paper supplier for Distribution Companies (Arctic Paper Sweden AB, Arctic Paper Denmark A/S, Arctic Paper Norge AS) in the total amount of EUR 900 thousand;
- a guarantee in favor of WBW GmbH & Co.KG – a supplier of machines for Arctic Paper Mochenwangen GmbH in the amount of EUR 300 thousand;
- guarantees granted by the companies of Rottneros Group in the total amount of SEK 3,000 thousand,
- pledges on shares of Rottneros Group subsidiaries in the amount of SEK 245,000 thousand;
- a guarantee in favor of Södra Cell International AB, the supplier of pulp, in the amount of SEK 12,000 thousand,
- a pledge on 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 Pekao 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 estate of Arctic Paper Kostrzyn S.A.;
- land debt on real estate 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.

As on 30th June 2014, 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. The European Union considered if such help is compliant with EU law. On 1st August 2014 the legality of German Government actions was approved by EU organs, therefore the contingent liability of Arctic Paper Mochenwangen GmbH expired.

## Significant off-balance sheet items

Information regarding off-balance sheet items is included in consolidated financial statements.

## 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 or exceed 10% of the Company's equity.

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

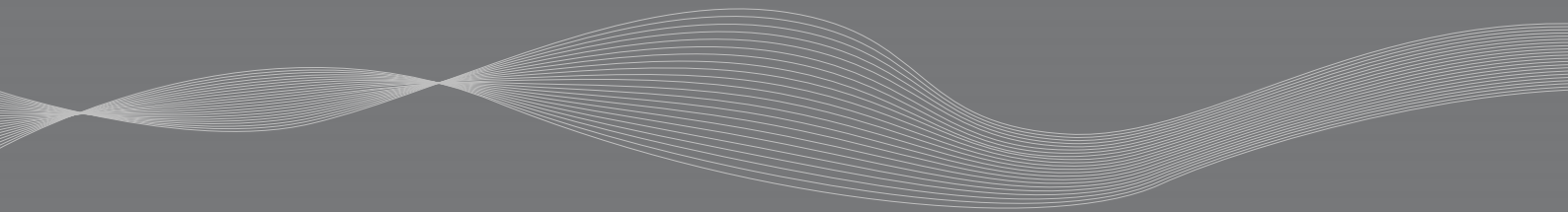
During the period covered by this report, Arctic Paper S.A. and its subsidiaries did not execute any significant transactions with related entities on non-market terms and conditions.

Signatures of the Members of the Management Board

Position	Name and surname	Date	Signature
President of the Management Board Chief Executive Officer	Wolfgang Lübbert	14 November 2014	
Member of the Management Board Chief Financial Officer	Małgorzata Majewska-Śliwa	14 November 2014	



Condensed quarterly consolidated  
financial statements  
for the nine months' period  
ended 30th September 2014



## Table of contents

<b>Condensed quarterly consolidated financial statements for the nine months' period ended 30th September 2014</b>	<b>38</b>
Consolidated financial statements and selected financial data	40
Selected consolidated financial data	40
Consolidated income statement	41
Consolidated statement of comprehensive income	42
Consolidated balance sheet	43
Consolidated cash flow statement	44
Consolidated statement of changes in equity	45
Standalone financial statements and selected financial data	48
Selected standalone financial data	48
Standalone income statement	49
Standalone statement of comprehensive income	50
Standalone balance sheet	51
Standalone cash flow statement	52
Standalone statement of changes in equity	53
Additional explanatory notes	55
1. General information	55
2. Composition of the Group	56
3. Management and supervisory bodies	58
4. Approval of the financial statements	59
5. Basis of preparation of consolidated financial statements	59
6. Significant accounting policies	59
7. Seasonality	61
8. Information on business segments	61
9. Dividend paid and proposed	67
10. Earnings per share	67
11. Interest-bearing loans and borrowings	68
12. Equity securities	69
13. Financial instruments	70
14. Financial risk management objectives and policies	74
15. Capital management	74
16. Contingent liabilities and contingent assets	74
17. Legal claims	75
18. CO2 emission rights	75
19. Government grants and operations in Special Economic Zone	76
20. Significant events after balance sheet date	77

## Consolidated financial statements and selected financial data

### Selected consolidated financial data

	For the period from 01.01.2014 to 30.09.2014 PLN'000s	For the period from 01.01.2013 to 30.09.2013 PLN'000s	For the period from 01.01.2014 to 30.09.2014 EUR'000s	For the period from 01.01.2013 to 30.09.2013 EUR'000s
Revenues	2 343 594	2 370 007	561 216	564 103
Operating profit (loss)	97 251	(101 881)	23 288	(24 250)
Profit (loss) before tax	70 353	(125 018)	16 847	(29 756)
Profit (loss) from continuing operations	56 765	(113 223)	13 593	(26 949)
Profit (loss) for the period	56 765	(113 223)	13 593	(26 949)
Profit (loss) for the period attributable to equity holders of the parent	39 684	(102 695)	9 503	(24 443)
Net operating cash flow	178 983	(24 478)	42 861	(5 826)
Net investing cash flow	(38 267)	(76 521)	(9 164)	(18 213)
Net financing cash flow	(119 901)	16 744	(28 713)	3 985
Net change in cash and cash equivalents	20 814	(84 255)	4 984	(20 054)
Weighted average number of shares	69 287 783	68 776 295	69 287 783	68 776 295
Weighted average diluted number of shares	69 287 783	68 776 295	69 287 783	68 776 295
EPS (in PLN/EUR)	0,57	(1,49)	0,14	(0,36)
Diluted EPS (in PLN/EUR)	0,57	(1,49)	0,14	(0,36)
Average PLN/EUR rate*			4,1759	4,2014
	As at 30 September 2014 PLN'000s	As at 31 December 2013 PLN'000s	As at 30 September 2014 EUR'000s	As at 31 December 2013 EUR'000s
Assets	1 766 464	1 784 458	423 055	430 280
Long-term liabilities	388 076	428 151	92 941	103 239
Short-term liabilities	658 648	684 774	157 741	165 117
Equity	719 740	671 532	172 372	161 924
Share capital	69 288	69 288	16 594	16 707
Number of shares	69 287 783	69 287 783	69 287 783	69 287 783
Diluted number of shares	69 287 783	69 287 783	69 287 783	69 287 783
Book value per share (in PLN/EUR)	10,39	9,69	2,49	2,34
Diluted book value per share (in PLN/EUR)	10,39	9,69	2,49	2,34
Declared or paid dividend (in PLN/EUR)	-	-	-	-
Declared or paid dividend per share (in PLN/EUR)	-	-	-	-
PLN/EUR rate at the end of the period**	-	-	4,1755	4,1472

\* - Items of the income statement and the cash flow statement are converted at the exchange rate, which is the arithmetic mean of average rates announced by the NBP during the period to which presented data relates.

\*\* - Items of balance sheet and book value per share were converted at the average exchange rate announced by the NBP and prevailing at the balance sheet date.



## Consolidated income statement

	3 months period ended 30 September 2014 (unaudited)	9 months period ended 30 September 2014 (unaudited)	3 months period ended 30 September 2013 (unaudited)	9 months period ended 30 September 2013 (unaudited)
Continuing operations				
Sales of products	785 219	2 343 594	784 000	2 370 007
Revenues	785 219	2 343 594	784 000	2 370 007
Cost of sales	(652 732)	(2 006 703)	(704 091)	(2 208 042)
Gross profit (loss) on sales	132 487	336 891	79 910	161 965
Selling and distribution expenses	(71 655)	(217 843)	(74 166)	(227 759)
Administrative expenses	(15 687)	(52 546)	(16 130)	(56 399)
Other operating income	14 570	49 062	8 955	41 593
Other operating expenses	(6 008)	(18 312)	(5 614)	(21 282)
Operating profit / (loss)	53 708	97 251	(7 046)	(101 881)
Financial income	(133)	876	(1 856)	886
Financial costs	(11 183)	(27 774)	(7 181)	(24 023)
Profit / (loss) before tax	42 393	70 353	(16 082)	(125 018)
Income tax	(8 011)	(13 588)	791	11 795
Net profit (loss) for the period from continuing operations	34 382	56 765	(15 291)	(113 223)
Discontinued operations				
Profit (loss) for the period from discontinued operations	-	-	-	-
Net profit (loss) for the period	34 382	56 765	(15 291)	(113 223)
Attributable to:				
Equity holders of the parent	25 587	39 684	(12 191)	(102 695)
Non-controlling interest	8 794	17 080	(3 100)	(10 528)
	34 382	56 765	(15 291)	(113 223)
Earnings per share:				
- basic from the profit (loss) for the period attributable to equity holders of the parent	0,37	0,57	(0,18)	(1,49)
- basic from the profit (loss) from continuing operations attributable to equity holders of the parent	0,37	0,57	(0,18)	(1,49)
- diluted from the profit (loss) for the period attributable to equity holders of the parent	0,37	0,57	(0,18)	(1,49)
- diluted from the profit (loss) from the continuing operations attributable to equity holders of the parent	0,37	0,57	(0,18)	(1,49)

## Consolidated statement of comprehensive income

	3 months period ended 30 September 2014 (unaudited)	9 months period ended 30 September 2014 (unaudited)	3 months period ended 30 September 2013 (unaudited)	9 months period ended 30 September 2013 (unaudited)
Net profit / (loss) for the period	34 382	56 765	(15 291)	(113 223)
Items to be recognized in profit/loss in future periods:				
Exchange difference on translation of foreign operations	1 531	(13 570)	(8 121)	9 996
Deferred tax on items recognized directly in equity	(1 387)	(1 570)	(2 804)	(1 059)
Valuation of derivatives	6 550	7 620	14 519	5 594
Items not to be recognized in profit/loss in future periods:				
Actuarial gains/ losses	-	(1 037)	-	(334)
Other comprehensive income	6 694	(8 556)	3 594	14 198
Total comprehensive income	41 076	48 209	(11 696)	(99 025)
Total comprehensive income attributable to:				
Equity holders of the parent	30 595	33 943	(8 320)	(94 164)
Non-controlling interest	10 480	14 266	(3 377)	(4 861)

## Consolidated balance sheet

	As at 30 September 2014 (unaudited)	As at 30 June 2014 (unaudited)	As at 31 December 2013 (audited)	As at 30 September 2013 (unaudited)
<b>ASSETS</b>				
Non-current assets				
Property, plant and equipment	742 194	753 921	790 779	847 254
Investment property	3 559	11 181	11 181	10 542
Intangible assets	51 360	48 419	49 379	61 885
Shares in joint arrangements	4 936	4 917	5 093	5 168
Other financial assets	1 160	1 156	1 155	1 168
Other non-financial assets	1 107	2 462	1 174	1 276
Deferred tax asset	44 125	48 359	65 891	63 141
	848 441	870 414	924 650	990 433
Current assets				
Inventories	358 809	351 228	397 373	368 436
Trade and other receivables	389 970	379 552	319 784	355 744
Corporate income tax receivables	13 095	11 050	9 064	16 822
Other non-financial assets	18 241	17 613	13 868	32 171
Other financial assets	-	-	1 685	1 773
Cash and cash equivalents	137 908	95 216	118 033	103 884
	918 023	854 658	859 808	878 830
<b>TOTAL ASSETS</b>	<b>1 766 464</b>	<b>1 725 072</b>	<b>1 784 458</b>	<b>1 869 263</b>
<b>LIABILITIES</b>				
Equity and liabilities				
Equity attributable to equity holders of the parent company				
Share capital	69 288	69 288	69 288	69 288
Share premium	472 748	472 748	652 659	652 659
Other reserves	136 532	132 481	132 697	141 654
Foreign currency translation	9 592	8 635	18 132	30 673
Retained earnings / Accumulated (unabsorbed) losses	(138 457)	(164 044)	(357 015)	(333 062)
Non-controlling interest	170 038	159 558	155 772	163 122
Total equity	719 740	678 665	671 532	724 334
Non-current liabilities				
Interest-bearing loans, borrowings and bonds	220 177	228 347	245 438	16 865
Provisions	80 081	78 782	79 455	91 201
Other financial liabilities	37 747	41 267	44 939	43 409
Deferred tax liabilities	22 751	19 309	28 979	46 722
Accruals and deferred income	27 320	27 994	29 340	30 023
	388 076	395 698	428 151	228 221
Current liabilities				
Interest-bearing loans, borrowings and bonds	71 393	132 267	142 430	380 529
Provisions	3 521	6 193	3 086	6 611
Other financial liabilities	74 228	68 791	77 502	71 101
Trade and other payables	428 536	363 548	365 932	333 941
Income tax payable	970	888	1 335	298
Accruals and deferred income	80 000	79 021	94 489	124 227
	658 648	650 708	684 774	916 708
<b>TOTAL LIABILITIES</b>	<b>1 046 724</b>	<b>1 046 406</b>	<b>1 112 925</b>	<b>1 144 929</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>1 766 464</b>	<b>1 725 072</b>	<b>1 784 458</b>	<b>1 869 263</b>

## Consolidated cash flow statement

	3 months period ended 30 September 2014 (unaudited)	9 months period ended 30 September 2014 (unaudited)	3 months period ended 30 September 2013 (unaudited)	9 months period ended 30 September 2013 (unaudited)
<b>Cash flow from operating activities</b>				
Profit (loss) before taxation	42 393	70 353	(16 082)	(125 018)
Adjustments for:				
Amortization/depreciation	28 844	86 510	30 595	94 495
Impairment of non-financial assets	-	-	-	66 650
Foreign exchange differences	1 313	4 752	7 669	2 031
Net interest and dividends	7 185	22 653	7 345	22 845
Gain/loss from investing activities	(2 232)	(4 148)	66	216
Increase / decrease in receivables and other non-financial assets	(8 587)	(78 530)	7 016	(14 820)
Increase / decrease in inventories	(6 920)	30 935	45 979	50 526
Increase / decrease in payables except for loans, borrowings and bonds	64 052	72 159	(40 775)	(100 855)
Change in accruals and prepayments	(609)	(19 629)	(16 625)	(13 802)
Change in provisions	(1 753)	2 948	1 460	(4 937)
Income tax paid	(3 121)	(4 649)	1 135	(7 366)
Derecognition of emission rights to CO2 identified in a business combination	195	(190)	(643)	771
Certificates of cogeneration	(3 096)	(3 224)	1 011	4 672
Other	(3)	(958)	17	115
<b>Net cash flow from operating activities</b>	<b>117 661</b>	<b>178 983</b>	<b>28 167</b>	<b>(24 478)</b>
<b>Cash flow from investing activities</b>				
Proceeds from sale of property, plant and equipment and intangibles	9 827	11 765	3	43
Purchase of property, plant and equipment and intangible assets	(15 377)	(50 033)	(26 916)	(70 438)
Acquisition of non-controlling interest	-	-	-	(6 126)
<b>Net cash flow from investing activities</b>	<b>(5 550)</b>	<b>(38 267)</b>	<b>(26 913)</b>	<b>(76 521)</b>
<b>Cash flow from financing activities</b>				
Change in bank overdrafts	(61 518)	(68 904)	(8 087)	31 277
Repayment of finance lease liabilities	(674)	(2 083)	(692)	(5 054)
Proceeds from other financial liabilities	(3 492)	5 021	(10 851)	26 656
Repayment of other finance liabilities	12 478	(5 072)	(256)	(1 603)
Proceeds from loans, borrowings	(0)	(0)	16 865	16 865
Repayment of loans, borrowings and bonds	(8 746)	(26 208)	(8 776)	(26 360)
Interest paid	(7 185)	(22 655)	(7 233)	(25 037)
<b>Net cash flow from financing activities</b>	<b>(69 137)</b>	<b>(119 901)</b>	<b>(19 031)</b>	<b>16 744</b>
Net increase/(decrease) in cash and cash equivalents	42 974	20 814	(17 776)	(84 255)
Net foreign exchange differences	(283)	(939)	(12 917)	(14 571)
Cash and cash equivalents at the beginning of the period	95 216	118 033	134 578	202 710
Cash and cash equivalents at the end of the period	137 908	137 908	103 884	103 884

## Consolidated statement of changes in equity

### Attributable to equity holders of the parent company

	Share capital	Share premium	Translation reserve	Other reserves	Retained earnings (losses)	Total	Non-controlling interest	Total equity
As at 1 January 2014	69 288	652 659	18 132	132 697	(357 015)	515 760	155 772	671 532
Net profit (loss) for the period	-	-	-	-	39 684	39 684	17 080	56 765
Other comprehensive income	-	-	(8 539)	3 835	(1 037)	(5 741)	(2 815)	(8 556)
Total comprehensive income	-	-	(8 539)	3 835	38 647	33 943	14 266	48 208
Profit distribution	-	(179 911)	-	-	179 911	-	-	-
As at 30 September 2014 (unaudited)	69 288	472 748	9 592	136 532	(138 457)	549 703	170 038	719 740

Attributable to equity holders of the parent company

	Share capital	Share premium	Translation reserve	Other reserves	Retained earnings (losses)	Total	Non-controlling interest	Total equity
As at 1 January 2013	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	10 741	54 242	-	(64 983)	-	-	-	-
Acquisition of non-controlling interest	3 143	16 460	-	-	29 353	48 956	(55 084)	(6 128)
Profit distribution	-	1 082	-	12 447	(13 529)	-	-	-
Sales of non-controlling interest	-	-	-	-	(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

Attributable to equity holders of the parent company								
	Share capital	Share premium	Translation reserve	Other reserves	Retained earnings (losses)	Total	Non-controlling interest	Total equity
As at 1 January 2013	55 404	580 875	26 312	189 688	(245 859)	606 419	223 067	829 487
Net profit (loss) for the period	-	-	-	-	(102 695)	(102 695)	(10 528)	(113 223)
Other comprehensive income	-	-	4 361	4 502	(332)	8 531	5 667	14 198
Total comprehensive income	-	-	4 361	4 502	(103 027)	(94 164)	(4 861)	(99 025)
Registration of shares issued in 2012	10 741	54 242	-	(64 983)	-	-	-	-
Acquisition of non-controlling interest	3 143	16 460	-	-	29 353	48 956	(55 084)	(6 128)
Profit distribution/ Dividend payment	-	1 082	-	12 447	(13 529)	-	-	-
As at 30 September 2013 (unaudited)	69 288	652 659	30 673	141 654	(333 062)	561 212	163 122	724 333

## Standalone financial statements and selected financial data

### Selected standalone financial data

	For the period from 01.01.2014 to 30.09.2014 PLN 000's	For the period from 01.01.2013 to 30.09.2013 PLN 000's	For the period from 01.01.2014 to 30.09.2014 EUR 000's	For the period from 01.01.2013 to 30.09.2013 EUR 000's
Revenues	25 347	112 861	6 070	26 863
Operating profit (loss)	(8 628)	(105 902)	(2 066)	(25 207)
Profit (loss) before tax	(9 645)	(105 826)	(2 310)	(25 188)
Profit (loss) from continuing operations	(9 645)	(105 826)	(2 310)	(25 188)
Profit (loss) for the period	(9 645)	(105 826)	(2 310)	(25 188)
Net operating cash flow	2 761	54 780	661	13 039
Net investment cash flow	(3)	(22 525)	(1)	(5 361)
Net financial cash flow	(998)	(58 559)	(239)	(13 938)
Net change in cash and cash equivalents	1 760	(26 303)	421	(6 261)
Weighted average number of shares	69 287 783	68 776 295	69 287 783	68 776 295
Weighted average diluted number of shares	69 287 783	68 776 295	69 287 783	68 776 295
EPS (in PLN/EUR)	(0,14)	(1,54)	(0,03)	(0,37)
Diluted EPS (in PLN/EUR)	(0,14)	(1,54)	(0,03)	(0,37)
Average PLN/EUR rate*			4,1759	4,2014
	As at 30 September 2014 PLN 000's	As at 31 December 2013 PLN 000's	As at 30 September 2014 EUR 000's	As at 31 December 2013 EUR 000's
Assets	913 696	905 588	218 823	218 361
Long-term liabilities	177 366	178 188	42 478	42 966
Short-term liabilities	56 011	37 356	13 414	9 007
Equity	680 318	690 044	162 931	166 388
Share capital	69 288	69 288	16 594	16 707
Number of shares	69 287 783	69 287 783	69 287 783	69 287 783
Diluted number of shares	69 287 783	69 287 783	69 287 783	69 287 783
Book value per share (in PLN/EUR)	9,82	9,96	2,35	2,40
Diluted book value per share (in PLN/EUR)	9,82	9,96	2,35	2,40
Declared or paid dividend (in PLN/EUR)	-	-	-	-
Declared or paid dividend per share (in PLN/EUR)	-	-	-	-
PLN/EUR rate at the end of the period**			4,1755	4,1472

\* - Items of the income statement and the cash flow statement are converted at the exchange rate, which is the arithmetic mean of average rates announced by the NBP during the period to which presented data relates.

\*\* - Items of balance sheet and book value per share were converted at the average exchange rate announced by the NBP and prevailing at the balance sheet date.



## Standalone income statement

	3 months period ended 30 September 2014 (unaudited)	9 months period ended 30 September 2014 (unaudited)	3 months period ended 30 September 2013 (unaudited)	9 months period ended 30 September 2013 (unaudited)
Continuing operations				
Sales of services	4 935	24 437	8 071	31 916
Interest income	250	770	5 222	5 790
Dividends	-	140	40	75 155
Revenues	5 184	25 347	13 333	112 861
Cost of interest to subsidiaries	(2 402)	(7 148)	(1 986)	(7 817)
Gross profit on sales	2 782	18 199	11 348	105 044
Other operating income	12	203	1	144
Selling and distribution costs	(805)	(2 657)	(710)	(2 171)
Administrative expenses	(5 857)	(17 207)	(5 222)	(21 752)
Other operating expenses	(2 102)	(7 165)	(856)	(187 167)
Operating profit / (loss)	(5 970)	(8 628)	4 561	(105 902)
Finance income	223	673	19	1 450
Finance costs	(307)	(1 691)	(558)	(1 374)
Profit / (loss) before tax	(6 055)	(9 645)	4 022	(105 826)
Income tax	-	-	-	-
Net profit (loss) for the period from continuing operations	(6 055)	(9 645)	4 022	(105 826)
Discontinued operations				
Profit (loss) for the period from discontinued operations	-	-	-	-
Net profit (loss) for the period	(6 055)	(9 645)	4 022	(105 826)
Earnings per share:				
- basic from the profit (loss) for the period	(0,09)	(0,14)	0,06	(1,54)
- basic from the profit (loss) from continuing operations for the period	(0,09)	(0,14)	0,06	(1,54)

## Standalone statement of comprehensive income

	3 months period ended 30 September 2014 (unaudited)	9 months period ended 30 September 2014 (unaudited)	3 months period ended 30 September 2013 (unaudited)	9 months period ended 30 September 2013 (unaudited)
Net profit (loss) for the period	(6 055)	(9 645)	4 022	(105 826)
Other comprehensive income				
Items to be recognized in profit/loss in future periods:				
Exchange difference on translation of foreign operations	(44)	284	149	(188)
Total net other comprehensive income	(44)	284	149	(188)
Total comprehensive income for the period	(6 099)	(9 361)	4 171	(106 013)

## Standalone balance sheet

	As at 30 September 2014 (unaudited)	As at 30 June 2014 (reviewed)	As at 31 December 2013 (audited)	As at 30 September 2013 (unaudited)
<b>ASSETS</b>				
Non-current assets				
Property, plant and equipment	327	353	263	291
Intangible assets	1 319	1 320	1 321	1 322
Investment in subsidiaries, associates and joint ventures	827 189	827 166	822 189	884 103
Other non-financial assets (non-current)	745	742	5 745	865
	829 581	829 580	829 519	886 581
Current assets				
Trade and other receivables	51 966	37 528	44 489	41 917
Income tax receivables	281	235	811	1 484
Other financial assets	20 425	20 865	21 142	20 609
Other non-financial assets	665	741	609	932
Cash and cash equivalents	10 778	8 458	9 018	4 053
	84 115	67 826	76 069	68 996
<b>TOTAL ASSETS</b>	<b>913 696</b>	<b>897 406</b>	<b>905 588</b>	<b>955 577</b>
<b>EQUITY AND LIABILITIES</b>				
Equity attributable to equity holders of the parent company				
Share capital	69 288	69 288	69 288	69 288
Share premium	472 752	472 752	652 662	652 662
Other reserves	147 871	147 871	147 871	147 871
Foreign currency translation	476	520	192	(148)
Retained earnings / Accumulated (unabsorbed) losses	(10 069)	(3 648)	(179 968)	(105 884)
Total equity	680 318	686 783	690 044	763 789
Non-current liabilities				
Interest-bearing loans, borrowings and bonds	175 541	175 483	175 428	167 795
Provisions	710	707	733	845
Deferred tax liabilities	1	1	1	1
Other non-current liabilities	62	62	-	-
Accruals and deferred income	1 051	1 212	2 026	1 504
	177 366	177 466	178 188	170 145
Current liabilities				
Interest-bearing loans, borrowings and bonds	7 259	4 857	114	6 055
Trade payables	45 622	25 256	33 523	12 191
Other current liabilities	1 159	1 245	1 170	814
Accruals and deferred income	1 971	1 799	2 548	2 584
	56 011	33 157	37 356	21 643
<b>TOTAL LIABILITIES</b>	<b>233 378</b>	<b>210 623</b>	<b>215 544</b>	<b>191 788</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>913 696</b>	<b>897 406</b>	<b>905 588</b>	<b>955 577</b>

## Standalone cash flow statement

	3 months period ended 30 September 2014 (unaudited)	9 months period ended 30 September 2014 (unaudited)	3 months period ended 30 September 2013 (unaudited)	9 months period ended 30 September 2013 (unaudited)
<b>Cash flow from operating activities</b>				
Profit (loss) before taxation	(6 055)	(9 645)	4 022	(105 826)
Adjustments for:				
Depreciation	29	82	24	78
Gain / (loss) from foreign exchange differences	(35)	292	150	(192)
Impairment of non-current assets	756	2 348	-	194 274
Net interest and dividends	225	933	331	1 332
Gain/loss from investing activities	-	-	2	2
Increase / decrease in receivables and other non-financial assets	(7 869)	(2 499)	(8 667)	(12 128)
Increase / decrease in payables except for loans, borrowings and bonds	15 563	12 088	(12 132)	(17 712)
Change in accruals and prepayments	60	(1 608)	(763)	(1 312)
Change in provisions	3	(22)	(13)	18
Income tax paid	(46)	530	(351)	338
Increase / decrease in loans to subsidiaries	359	636	(2 338)	(4 092)
Payments within the tax group	(374)	(374)	-	-
Net cash flow from operating activities	2 617	2 761	(19 736)	54 780
<b>Cash flow from investing activities</b>				
Proceeds from sales of property, plant and equipment and intangibles	20	20	3	3
Purchase of property, plant and equipment and intangible assets	-	-	(5)	(51)
Acquisition of shares in subsidiary	(23)	(23)	-	(7 804)
Increase of shares in subsidiaries	-	-	-	(14 673)
Net cash flow from investing activities	(3)	(3)	(2)	(22 525)
<b>Cash flow from financing activities</b>				
Repayment of bonds	-	-	-	(71 900)
Repayment of finance lease liabilities	(41)	(41)	-	-
Proceeds from loans and borrowings	-	-	16 865	16 865
Interest paid	(190)	(957)	(218)	(3 524)
Other	(62)	-	-	-
Net cash flow from financing activities	(293)	(998)	16 647	(58 559)
Net increase/(decrease) in cash and cash equivalents	2 321	1 760	(3 090)	(26 303)
Cash and cash equivalents at the beginning of the period	8 458	9 018	7 142	30 356
Cash and cash equivalents at the end of the period	10 778	10 778	4 053	4 053

## Standalone statement of changes in equity

	Share capital	Share premium	Translation reserve	Other reserves	Retained earnings (losses)	Total equity
As at 1 January 2013	69 288	652 662	192	147 871	(179 968)	690 044
Profit for the period	-	-	-	-	(9 645)	(9 645)
Other comprehensive income	-	-	284	-	-	284
Total comprehensive income	-	-	284	-	(9 645)	(9 361)
Profit distribution	-	(179 910)	-	-	179 910	-
Payments within the tax group	-	-	-	-	(366)	(366)
As at 30 September 2014 (unaudited)	69 288	472 752	476	147 871	(10 069)	680 318

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

	Share capital	Share premium	Translation reserve	Other reserves	Retained earnings (losses)	Total equity
As at 1 January 2013	55 404	580 878	40	200 407	13 471	850 198
Profit for the period	-	-	-	-	(105 826)	(105 826)
Other comprehensive income	-	-	(188)	-	-	(188)
Total comprehensive income	-	-	(188)	-	(105 826)	(106 013)
Issuance of shares	13 884	70 702	-	(64 983)	-	19 603
Profit distribution	-	1 082	-	12 447	(13 529)	-
As at 30 September 2013 (unaudited)	69 288	652 662	(148)	147 871	(105 884)	763 789

## 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, as well as wood-containing 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 employs app. 1,800 people in four paper mills and fifteen companies involved in the distribution and sale of paper as well as in two pulp companies, a purchasing office and a company dealing in production of food packaging. Our paper mills are located in Poland, Sweden and Germany and have a combined capacity of more than 800,000 tons of paper annually. Our pulp mills are located in Sweden and have aggregated production capacities of 410,000 tons of pulp annually. The Group has three distribution companies engaged in sales, distribution and marketing of the products offered by the Group in Nordic countries and 12 Sales Offices to ensure access for all European markets, including Central and Eastern Europe.

Our consolidated sales revenues for nine months of 2014 amounted to PLN 2,344 million.

Arctic Paper SA is a holding company established in April 2008. As a result of capital restructuring carried out in 2008, the paper mills Arctic Paper Kostrzyn (Poland) and Arctic Paper Munkedals (Sweden), Distribution Companies and Sales Offices have become the properties of Arctic Paper SA. Previously they were owned by Arctic Paper AB (current name

Trebruk AB), the parent company of the Issuer. In addition, under the expansion, the Group acquired paper mill Arctic Paper Mochenwangen (Germany) in November 2008 and paper mill Grycksbo (Sweden) in March 2010. In 2012, Arctic Paper S.A. acquired shares in Rottneros AB, a company listed on NASDAQ OMX in Stockholm, Sweden, and owning two pulp companies (Sweden).

The Parent Company is entered in the register of entrepreneurs of the National Court Register maintained by the District Court in Poznań – Nowe Miasto i Wilda, 8th Commercial Department of the National Court Register, under KRS number 0000306944. The Parent Company holds statistical number REGON 080262255.

Condensed quarterly consolidated financial statements of the Company comprise income statement, statement of comprehensive income and cash flow statement for the period of three and nine months ended 30th September 2014 and includes comparative data for analogous periods ended 30th September 2013. Condensed quarterly consolidated financial statements of the Company comprise statement of changes in equity for the period of nine months ended 30th September 2014 and includes comparative data for analogous period ended 30th September 2013 as well as for the twelve months' period ended 31st December 2014.

Condensed quarterly consolidated financial statements of the Company comprise also balance sheet as on 30th September 2014 and includes comparative data as on 30th June 2014, 31st December 2013 and 30th September 2013.

### Business activities

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

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

- Production and sales of pulp,
- Generation of electricity,
- Transmission of electricity,
- Electricity distribution,
- Heat production,
- Heat distribution,
- Logistics services,
- Paper distribution.

## Shareholding structure

On 5th September 2014, the hitherto parent entity of the Issuer, Trebruk AB sold 41,360,449 Shares to Nemus Holding AB, therefore Nemus Holding AB is currently the majority shareholder of Arctic Paper S.A., holding 41,375,449 shares of the Company, which constitute 59.72% of its share capital and representing 59.72% of total number of votes in the Shareholders Meeting. Thus Nemus Holding AB became the parent entity of the Issuer.

Moreover, Mr. Thomas Onstad, an indirect shareholder of Nemus Holding AB, holds 5,848,658 Shares constituting 8.44% of total number of the Company's shares.

The ultimate parent of Arctic Paper Group is Cassandrax Financial S.A.

The company has unlimited period of operation.

## 2. Composition of the Group

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

Entity	Registered office	Business activities	Share in capital of subsidiaries entities as at			
			14 November 2014	30 September 2014	1 September 2014	31 December 2013
Arctic Paper Kostrzyn S.A.	Poland, Fabryczna 1, 66-470 Kostrzyn nad Odrą	Paper production	100%	100%	100%	100%
Arctic Paper Munkedals AB	Sweden, SE 455 81 Munkedal	Paper production	100%	100%	100%	100%
Arctic Paper Mochenwangen GmbH	Germany, Fabrikstrasse 62, DE-882, 84 Wolpertswende	Paper production	99,74%	99,74%	99,74%	99,74%
Arctic Paper Grycksbo AB	Sweden, Box 1, SE 790 20 Grycksbo	Paper production	100%	100%	100%	100%
Arctic Paper UK Limited	Great Britain, Quadrant House, 47 Croydon Road, Caterham, Surrey	Trading services	100%	100%	100%	100%
Arctic Paper Baltic States SIA	Latvia, K. Vardemara iela 33-20, Riga LV-1010	Trading services	100%	100%	100%	100%
Arctic Paper Deutschland GmbH	Germany, Raboisen 3, 20095 Hamburg	Trading services	100%	100%	100%	100%
Arctic Paper Benelux S.A.	Belgium, Ophemstraat 24 B-3050 Oud-Havertee	Trading services	100%	100%	100%	100%
Arctic Paper Schweiz AG	Switzerland, Technoparkstrasse 1, 8005 Zurich	Trading services	100%	100%	100%	100%
Arctic Paper Italia srl	Italy, Milano – Via R. Boscovich 14	Trading services	100%	100%	100%	100%



Entity	Registered office	Business activities	Share in equity of subsidiaries as at			
			14 November 2014	30 September 2014	1 September 2014	31 December 2013
Arctic Paper Ireland Limited	Ireland, 4 Rosemount Park Road, Dublin 11	Trading services	100%	100%	100%	100%
Arctic Paper Danmark A/S	Denmark, Jydekrogen 18, DK-2625 Vallensbaek	Trading services	100%	100%	100%	100%
Arctic Paper France SAS	France, 43 rue de la Breche aux Loups, 75012 Paris	Trading services	100%	100%	100%	100%
Arctic Paper Espana SL	Spain, Avenida Diagonal 472-474, 9-1 Barcelona	Trading services	100%	100%	100%	100%
Arctic Paper Papierhandels GmbH	Austria, Hainburgerstrasse 34A, A-1030 Wien	Trading services	100%	100%	100%	100%
Arctic Paper Polska Sp. z o.o.	Poland, Biskupia 39, 04-216 Warszawa	Trading services	100%	100%	100%	100%
Arctic Paper Norge AS	Norway, Rosenholmsveien 25, NO-1414 Trollasen	Trading services	100%	100%	100%	100%
Arctic Paper Sverige AB	Sweden, Kurodsvagen 9, 451 55 Uddevalla	Trading services	100%	100%	100%	100%
Arctic Paper East Sp. z o.o.	Poland, Fabryczna 1, 66-470 Kostrzyn nad Odra	Trading services	100%	100%	100%	100%
Arctic Paper Investment GmbH *	Germany, Fabrikstrasse 62, DE-882, 84 Wolpertswende	Holding company	100%	100%	100%	100%
Arctic Paper Finance AB (previous Arctic Energy Sverige AB)	Sweden, Box 383, 401 26 Göteborg	Holding company (previously hydro energy production)	100%	100%	100%	100%
Arctic Paper Verwaltungs GmbH *	Germany, Fabrikstrasse 62, DE-882 84 Wolpertswende	Holding company	100%	100%	100%	100%
Arctic Paper Immobilienverwaltung GmbH&Co. KG*	Germany, Fabrikstrasse 62, DE-882 84 Wolpertswende	Holding company	94,90%	94,90%	94,90%	94,90%
Arctic Paper Investment AB **	Sweden, Box 383, 401 26 Göteborg	Holding company	100%	100%	100%	100%
Grycksbo Paper Holding AB	Sweden, Box 1, SE 790 20 Grycksbo	Holding company	-	-	100%	100%
EC Kostrzyn Sp. z o.o.	Poland, Fabryczna 1, 66-470 Kostrzyn nad Odra	Property and machinery rental	100%	100%	100%	100%
Arctic Paper Munkedals Kraft AB	Sweden, 455 81 Munkedal	Hydro energy production	100%	100%	100%	100%
Rottneros AB	Sweden, 107 24 Sztokholm	Holding company	51,27%	51,27%	51,27%	51,27%
Rottneros Bruk AB	Sweden, Sunne	Pulp production	51,27%	51,27%	51,27%	51,27%
Utansjo Bruk AB	Sweden, Harnosand	Pulp production	51,27%	51,27%	51,27%	51,27%
Vallviks Bruk AB	Sweden, Vallvik	Pulp production	51,27%	51,27%	51,27%	51,27%
Rottneros Packaging AB	Sweden, Stockholm	Food packaging production	51,27%	51,27%	51,27%	51,27%
SIA Rottneros Baltic	Latvia	Timber procurement	51,27%	51,27%	51,27%	51,27%

\* - formed for the purpose of acquisition of Arctic Paper Mochenwangen GmbH

\*\* - formed for the purpose of acquisition of Grycksbo Paper Holding AB

As on 30th September 2014 and as well as on the day of publishing of the hereby 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 the control has been transferred out of the Group.

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 measured at ownership rights.

In August 2014, in Swedish commercial register of entrepreneurs a merger of Grycksbo Paper Holding AB (a holding company and the acquired party) with Arctic Paper Investment AB (the acquirer) was registered, as the result of which Arctic Paper Holding AB terminated its business operations.

### 3. Management and supervisory bodies

#### 3.1. Management Board of the Parent Company

As on 30th September 2014, the following persons constituted the Parent 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;
- Michał Sawka – Member of the Management Board appointed on 12th February 2014.

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

From 30th September 2014 until the date of publishing of the hereby interim condensed consolidated financial statements, there were no changes in the composition of the Management Board of the Parent Company.

#### 3.2. Supervisory Board of the Parent Company

As on 30th September 2014, the following persons constituted the Parent Company's Supervisory Board:

- 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;
- Dariusz Witkowski – Member of the Supervisory Board appointed on 24th October 2013.
- Roger Mattsson – Member of the Supervisory Board appointed on 16th September 2014.

On 16th September 2014, Mr. Kjell Olsson was dismissed from being a Member of the Supervisory Board (current report 20/2014).

At the same time, the Extraordinary Shareholders Meeting appointed Mr. Roger Mattsson as a Member of the Supervisory Board from 16th September 2014 (current report 21/2014).

From 30th September 2014 until the date of publishing of the hereby interim condensed consolidated financial statements, there were no changes in the composition of the Supervisory Board of the Parent Company.

### 3.3. Audit Committee of the Parent Company

As on 30th September 2014, the following persons constituted the Parent Company's Audit Committee:

- Rolf Olof Grundberg – President of the Audit Committee appointed on 20th February 2013;
- Rune Ingvarsson – Member of the Audit Committee appointed on 20th February 2013;
- Mariusz Grendowicz – Member of the Audit Committee appointed on 20th February 2013

Until the date of publishing of the hereby report, there were no changes in the composition of the Audit Committee of the Parent Company.

## 4. Approval of the financial statements

The hereby interim quarterly condensed consolidated financial statements were approved for publishing by the Management Board on 14th November 2014.

## 5. Basis of preparation of consolidated financial statements

The hereby condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), in particular in accordance with IAS 34 and IFRS endorsed by the European Union.

The hereby condensed consolidated financial statements have been presented in Polish zloty ("PLN") and all values are rounded to the nearest thousand (PLN '000) except when otherwise indicated.

Interim condensed consolidated financial statements do not include all the information and disclosures required in annual

consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31st December 2013.

The hereby condensed consolidated financial statements have been prepared based on the assumption that the Group's companies will continue as going concern in the foreseeable future. As on the day of authorization of the hereby financial statements, no premises have been found to indicate any threat to continuation of business operations of the Group's companies.

## 6. Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31st December 2013, except for the following application of

changes in standards and new interpretations binding for yearly periods beginning on 1st January 2014.

- 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,
- Amendments to IAS 36 *Recoverable Amounts Disclosures for Non-Financial Assets* (issued on 29th May 2013) – effective for financial years beginning on or after 1st January 2014,
- Amendments to IAS 39 *Novation of Derivatives and Continuation of Hedge Accounting* (issued on 27th June 2013) – effective for financial years beginning on or after 1st January 2014.

The adoption of the aforementioned changes to standards did not cause changes of the comparative data.

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

## 6.1. 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 reporting period. Exchange differences resulting from translation are recorded under financial income or financial 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 on the date of re-measurement to fair value.

The functional currencies of the foreign subsidiaries are EUR, SEK, LVL, DKK, NOK, GBP and CHF. As on the reporting 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 on the balance sheet date and their income statements are translated using the average weighted exchange rate for the given reporting period. The exchange differences arising from the translation are taken directly to equity and recognized in a separate line. On disposal of a foreign operation, the cumulative amount of the deferred exchange differences recognized in equity and relating to that particular foreign operation shall be recognized in the income statement.

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

The following exchange rates were used for valuation purposes:

	As at 30 September 2014	As at 31 December 2013
USD	3,2973	3,0120
EUR	4,1755	4,1472
SEK	0,4550	0,4694
LVL	n/a	5,9009
DKK	0,5610	0,5560
NOK	0,5144	0,4953
GBP	5,3549	4,9828
CHF	3,4600	3,3816

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

	01/01 - 30/09/2014	01/01 - 30/09/2013
USD	3,0821	3,1901
EUR	4,1759	4,2014
SEK	0,4620	0,4897
LVL	n/a	5,9931
DKK	0,5598	0,5634
NOK	0,5045	0,5486
GBP	5,1445	4,9307
CHF	3,4285	3,4117

## 6.2. Data comparability

In three quarters of 2014, no changes in accounting policies occurred which would have caused changes of the comparative data.

## 7. Seasonality

The Group's activities are not of seasonal or cyclical nature. Therefore the results presented by the Group do not fluctuate significantly during the year.

## 8. Information on business segments

The principal business of the Group is paper production, which is conducted in four paper mills belonging to the Group.

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 Arctic Paper S.A. business operations.

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

- Demand for products and its supply, as well as the products prices sold on the market are shaped by factors characteristic for each segment, including i.e. level of the production capacity in each segment,

- Key operational factors such as e.g. orders inflow or production costs level are determined by factors which are close to each other within each paper segment,
- Products produced in the Group's Paper Mills can be, with some exceptions, allocated to production in different subsidiaries within the same paper segment, which to some extent disturbs the financial results of each Paper Mill,
- Arctic Paper Group results are dominated by global market trends in terms of fluctuations of prices of paper and basic raw materials, particularly pulp, and depend on individual conditions of production subsidiaries to lesser extent.

The results of particular segments of business activity are monthly analyzed by the Group's key management personnel based on internal reporting provided by the companies (excluding companies of Rottneros Group). Results of Rottneros Group are analyzed mainly based on reports published on NASDAQ OMX Stockholm stock exchange. 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.

In the table below presented is the data concerning revenues and profits as well as some of the assets and liabilities. The data is divided to particular segments of the Group and refers to nine months' period ended 30th September 2014 and represents the situation as on 30th September 2014.

#### Nine months' period ended 30th September 2014 and as on 30th September 2014

	Continuing Operations					Eliminations	Total Group
	Uncoated	Coated	Pulp	Other	Total		
<b>Revenues</b>							
Sales to external customers	1 303 718	502 287	537 589	-	2 343 594	-	2 343 594
Inter-segment sales	103 361	110 728	33 129	24 437	271 655	(271 655)	-
<b>Total segment revenues</b>	<b>1 404 656</b>	<b>613 014</b>	<b>570 718</b>	<b>24 437</b>	<b>2 615 249</b>	<b>(271 655)</b>	<b>2 343 594</b>
<b>Segment's Result</b>							
EBITDA	89 364	18 628	70 540	4 811	183 343	418	183 761
Interest Income	8 949	96	0	1 804	10 849	(10 306)	543
Interest Costs	(18 524)	(5 361)	(1 386)	(8 223)	(33 494)	12 335	(21 159)
Amortization/depreciation	(43 982)	(20 173)	(22 274)	(82)	(86 510)	-	(86 510)
Impairment of non-current assets	-	0	-	-	0	-	0
Positive FX and other financial income	371	-	-	676	1 047	(714)	333
Negative FX and other financial costs	(5 283)	(578)	(462)	(616)	(6 939)	324	(6 614)
<b>Profit before tax</b>	<b>30 895</b>	<b>(7 388)</b>	<b>46 419</b>	<b>(1 629)</b>	<b>68 296</b>	<b>2 057</b>	<b>70 353</b>
Segment assets	1 238 901	339 189	451 898	215 322	2 245 310	(527 908)	1 717 402
Segment liabilities	851 821	362 940	146 055	233 377	1 594 193	(570 219)	1 023 973
Capital expenditures	25 656	4 953	19 404	19	50 033	-	50 033

- Revenues from inter-segment transactions are excluded on consolidation.
- Segment result does not include financial income (PLN 876 thousand of which PLN 543 thousand is interest income) and financial costs (PLN 27,774 thousand of which PLN 21,159 thousand is interest costs), amortization and depreciation (PLN 86,510 thousand), as well as income tax charges (PLN 13,588 thousand). However, segment result includes inter-segment sales loss (PLN 418 thousand).
- Segment assets and liabilities do not include deferred tax asset and liability (deferred tax asset of PLN 44,125 thousand, deferred tax liability of PLN 22,751 thousand) as these positions are managed in the Group level. Segment assets do not also include investments in companies from within the Group.

In the table below presented is the data concerning revenues and profits as well as some of the assets and liabilities. The data is divided to particular segments of the Group and refers to three months' period ended 30th September 2014 and represents the situation as on 30th September 2014.

### Three months' period ended 30th September 2014 and as on 30th September 2014

	Continuing Operations						Total Group
	Uncoated	Coated	Pulp	Other	Total	Eliminations	
<b>Revenues</b>							
Sales to external customers	439 960	163 842	181 417	-	785 219	-	785 219
Inter-segment sales	44 115	46 565	12 129	4 518	107 327	(107 327)	-
<b>Total segment revenues</b>	<b>484 075</b>	<b>210 407</b>	<b>193 546</b>	<b>4 518</b>	<b>892 546</b>	<b>(107 327)</b>	<b>785 219</b>
<b>Segment's Result</b>							
EBITDA	37 269	11 436	32 646	126	81 477	1 075	82 552
Interest Income	2 985	30	-	593	3 608	(3 444)	163
Interest Costs	(5 868)	(1 706)	(453)	(2 764)	(10 791)	4 097	(6 694)
Depreciation	(15 213)	(6 477)	(7 125)	(29)	(28 844)	-	(28 844)
Impairment of non-current assets	-	0	-	6 006	6 006	(6 006)	0
Positive FX and other financial income	(1 028)	(509)	-	176	(1 361)	1 066	(296)
Negative FX and other financial costs	(2 570)	(512)	(462)	55	(3 489)	(1 000)	(4 489)
<b>Profit before tax</b>	<b>15 576</b>	<b>2 262</b>	<b>24 605</b>	<b>4 162</b>	<b>46 605</b>	<b>(4 212)</b>	<b>42 393</b>
Segment assets	1 238 901	339 189	451 898	215 322	2 245 310	(527 908)	1 717 402
Segment liabilities	851 821	362 940	146 055	233 377	1 594 193	(570 219)	1 023 973
Capital expenditures	9 950	481	4 943	3	15 377	-	15 377

- Revenues from inter-segment transactions are excluded on consolidation.
- Segment result does not include financial income (PLN -133 thousand of which PLN 163 thousand is interest income) and financial costs (PLN 11,183 thousand of which PLN 6,694 thousand is interest costs), amortization and depreciation (PLN 28,844 thousand), as well as income tax charges (PLN -8,011 thousand). However, segment result includes inter-segment sales loss (PLN 1,075 thousand).
- Segment assets and liabilities do not include deferred tax asset and liability (deferred tax asset of PLN 44,125 thousand, deferred tax liability of PLN 22,751 thousand) as these positions are managed in the Group level. Segment assets do not also include investments in companies from within the Group.



In the table below presented is the data concerning revenues and profits as well as some of the assets and liabilities. The data is divided to particular segments of the Group and refers to nine months' period ended 30th September 2013 and represents the situation as on 31st December 2013.

### Nine months' period ended 30th September 2013 and as on 31st December 2013

	Continuing Operations						Total Group
	Uncoated	Coated	Pulp	Other	Total	Eliminations	
<b>Revenues</b>							
Sales to external customers	1 344 696	514 785	510 526	-	2 370 007	-	2 370 007
Inter-segment sales	117 693	121 216	40 964	31 916	311 788	(311 788)	-
<b>Total segment revenues</b>	<b>1 462 389</b>	<b>636 001</b>	<b>551 489</b>	<b>31 916</b>	<b>2 681 796</b>	<b>(311 788)</b>	<b>2 370 007</b>
<b>Segment's Result</b>							
EBITDA	49 863	(8 220)	8 990	9 030	59 662	(399)	59 263
Interest Income	9 771	101	-	16 536	26 408	(25 527)	881
Interest Costs	(19 190)	(18 916)	(1 959)	(9 148)	(49 214)	27 444	(21 770)
Amortization/depreciation	(38 354)	(27 065)	(28 999)	(78)	(94 495)	-	(94 495)
Impairment of non-current assets	-	(66 650)	-	-	(66 650)	-	(66 650)
Positive FX and other financial income	464	-	-	75 613	76 077	(76 072)	5
Negative FX and other financial costs	(1 862)	(806)	-	(42)	(2 710)	458	(2 252)
<b>Profit before tax</b>	<b>691</b>	<b>(121 556)</b>	<b>(21 968)</b>	<b>91 910</b>	<b>(50 922)</b>	<b>(74 096)</b>	<b>(125 018)</b>
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	55 151	5 932	9 305	70	70 458	-	70 458

- Revenues from inter-segment transactions are excluded on consolidation.
- Segment result does not include financial income (PLN 886 thousand of which 881 PLN is interest income) and financial costs (PLN 24,023 thousand of which PLN 21,770 thousand is interest costs), amortization and depreciation (PLN 94,495 thousand), impairment of non-financial assets (PLN 66,650 thousand), as well as income tax charges (PLN +11,795 thousand). However, segment result includes inter-segment sales profit (PLN 399 thousand).
- Segment assets and liabilities do not include deferred tax asset and liability (deferred tax asset of PLN 65,891 thousand, deferred tax liability of PLN 28,979 thousand) as these positions are managed in the Group level. Segment assets do not also include investments in companies from within the Group

In the table below presented is the data concerning revenues and profits as well as some of the assets and liabilities. The data is divided to particular segments of the Group and refers to three months' period ended 30th September 2013 and represents the situation as on 31st December 2013.

### Three months' period ended 30th September 2013 and as on 31st December 2013

	Continuing Operations						Total Group
	Uncoated	Coated		Other	Total	Eliminations	
<b>Revenues</b>							
Sales to external customers	440 479	172 715	170 807	-	784 000	-	784 000
Inter-segment sales	37 932	41 215	10 110	8 071	97 329	(97 329)	-
<b>Total segment revenues</b>	<b>478 410</b>	<b>213 930</b>	<b>180 918</b>	<b>8 071</b>	<b>881 329</b>	<b>(97 329)</b>	<b>784 000</b>
<b>Segment's Result</b>							
EBITDA	12 756	3 041	5 364	2 099	23 259	290	23 549
Interest Income	1 316	19	-	5 240	6 576	(6 410)	166
Interest Costs	(6 264)	(6 077)	(490)	(2 314)	(15 144)	8 354	(6 790)
Depreciation	(12 990)	(7 753)	(9 828)	(24)	(30 595)	-	(30 595)
Impairments of non-current assets	-	-	-	-	-	-	-
Positive FX and other financial income	(1 099)	-	(490)	207	(1 382)	(640)	(2 022)
Negative FX and other financial costs	192	(736)	-	(13)	(557)	167	(390)
<b>Profit before tax</b>	<b>(6 088)</b>	<b>(11 506)</b>	<b>(5 444)</b>	<b>5 195</b>	<b>(17 843)</b>	<b>1 761</b>	<b>(16 082)</b>
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	19 906	639	6 366	5	26 916	-	26 916

- Revenues from inter-segment transactions are excluded on consolidation.
- Segment result does not include financial income (PLN -1,856 thousand of which 166 PLN is interest income) and financial costs (PLN 7,181 thousand of which PLN 6,790 thousand is interest costs), amortization and depreciation (PLN 30,595 thousand), as well as income tax charges (PLN +791 thousand). However, segment result includes inter-segment sales loss (PLN 290 thousand).
- Segment assets and liabilities do not include deferred tax asset and liability (deferred tax asset of PLN 65,891 thousand, deferred tax liability of PLN 28,979 thousand) as these positions are managed in the Group level. Segment assets do not also include investments in companies from within the Group

## 9. Dividend paid and proposed

Dividend is paid based on the net profit presented in standalone annual financial statements of Arctic Paper SA after covering losses carried forward from the previous years.

In accordance with provisions of the Code of Commercial Companies, the parent company is obliged to establish a share premium to finance possible losses. At least 8% of the profit for the financial year shown in the standalone financial statements of the parent company should be transferred to this category of capital until this capital has reached the amount of at least one third of the share capital of the parent company. The use of share premium and reserve capital is determined by the Shareholders Meeting; however, the part of share premium equal to one third of the share capital can be used only to finance the losses shown in the standalone financial statements of the parent company and cannot be distributed to other purposes.

As on the date of the hereby financial statements, the Company had no preferred shares.

## 10. Earnings per share

Earnings per share ratio is established by dividing the net profit for the reporting period attributable to the Company's ordinary shareholders by weighted average number of issued ordinary shares existing in the reporting period.

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 the annual report for 2013.

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.

The Annex no 5 (for details see note 11) concluded on 15th October 2014 did not change the provisions related to dividend payment from the Company.

Shareholders Meeting which took place on 26th June 2014 did not decide for distribution of profit and dividend payment.

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

	3 months period ended 30 September 2014 (unaudited)	9 months period ended 30 September 2014 (unaudited)	3 months period ended 30 September 2013 (unaudited)	9 months period ended 30 September 2013 (unaudited)
Net profit (loss) for the period from continuing operations attributable to equity holders of the parent	25 587	39 684	(12 191)	(102 695)
Profit (loss) for the period from discontinued operations attributable to equity holders of the parent	-	-	-	-
Net profit (loss) for the period from continuing operations	25 587	39 684	(12 191)	(102 695)
Number of shares - A series	50 000	50 000	50 000	50 000
Number of shares - B series	44 253 500	44 253 500	44 253 500	44 253 500
Number of shares - C series	8 100 000	8 100 000	8 100 000	8 100 000
Number of shares - E series	3 000 000	3 000 000	3 000 000	3 000 000
Number of shares - F series	13 884 283	13 884 283	13 884 283	13 884 283
Total number of shares (in thousand)	69 287 783	69 287 783	69 287 783	69 287 783
Weighted average number of shares	69 287 783	69 287 783	69 287 783	68 776 295
Weighted average diluted number of shares	69 287 783	69 287 783	69 287 783	68 776 295
Profit per share (in PLN)	0,37	0,57	(0,18)	(1,49)
Diluted profit/(loss) per share (in PLN)	0,37	0,57	(0,18)	(1,49)

## 11. Interest-bearing loans and borrowings

In the period covered by the hereby financial statements, the Group performed partial payment of its debt under temporary credit resulting from the loan agreement concluded in November 2012 with a consortium of banks (Bank Polska Kasa Opieki S.A., Bank Zachodni WBK S.A. and mBank S.A) in the amount of PLN 26,208 thousand and reduced its debt under overdrafts towards the aforementioned consortium of banks and Svenska Handelsbanken in the amount of PLN 61,518 thousand.

Other changes in the amount of loans and borrowings as on 30th September 2014 compared to 31st December 2013 result mainly from the changes of balance sheet evaluation.

On 15th October 2014, 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 ("Financing Banks") consisting of: Bank Pekao S.A., Bank Zachodni WBK S.A. and mBank S.A. concluded the Annex no 5 ("Annex") to the Loan Agreement dated 6th November 2012 ("Loan Agreement").

The Company reported the conclusion of the Loan Agreement and its amendments in annual report for 2012 and 2013.

By the power of the Annex:

- Financing Banks waived the condition to increase the Issuer's share capital by no less than PLN 50,000,000 and agreed for the Issuer to take a subordinate loan in the amount of app. PLN 42,000,000 (EUR 10,000,000) from the indirect majority shareholder Mr. Thomas Onstad (through a subsidiary of the Issuer) ("Subordinate Loan"). The parties agreed that the funds from the Subordinate Loan shall be transferred to the Issuer no later than 30th October 2014;
- A commitment to assign funds from the Subordinate Loan and from sale of assets to be reinvested in the Issuer's group in the amount up to PLN 60,000,000 was reinforced;
- A commitment of the Issuer to assign funds from the Subordinate Loan and from sale of assets (in the amount of the excess over PLN 60,000,000) for prepayments of

liabilities resulting from the Loan Agreement was reinforced;

- Financing Banks agreed for the payment of dividend from Arctic Paper Kostrzyn S.A. to the Issuer, in the amount of 75% of net profit achieved by Arctic Paper Kostrzyn S.A. in the financial year preceding the dividend payment, on condition the funds thus received by the Issuer shall be assigned for repayments of liabilities on the grounds of a loan agreement concerning the loan taken by the Issuer from Arctic Paper Kostrzyn S.A.

Other material financing conditions specified in the Loan Agreement remained unchanged.

Collaterals established in the Loan Agreement remained unchanged.

In connection with the information passed by the Company in current report no 3/2014 dated 20th March 2014, concerning specification of debt repayment date and obtainment of covenant waiver by the subsidiary Arctic Paper Grycksbo AB ("APG"), and in connection with the fact that as on 30th September 2014 APG kept covenants, i.e. solidity ratio and interest coverage ratio, determined in a loan agreement with Svenska Handelsbanken AB ("Bank"), the Parties agreed for the original wording of the agreement to be binding. Therefore, APG is obliged to keep the hitherto covenants. The loan agreement provides for an unspecified repayment date of overdraft in APG account with the possibility to give notice regarding termination of the loan agreement in case covenants have not been met on verification date. The next verification date has been scheduled to 31st December 2014.

## 12. Equity securities

	As at 30 September 2014 (unaudited)	As at 31 December 2013 (audited)
Share capital		
'A' series ordinary shares of PLN 1 each	50	50
'B' series ordinary shares of PLN 1 each	44 254	44 254
'C' series ordinary shares of PLN 1 each	8 100	8 100
'E' series ordinary shares of PLN 1 each	3 000	3 000
'F' series ordinary shares of PLN 1 each	13 884	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 30 September 2014 (unaudited)		69 287 783	69 287 783

## 13. Financial instruments

The Company has the following financial instruments: cash at hand and in bank accounts, bank loans, receivables, liabilities of financial leases, SWAP interest contracts, forward foreign

exchange contracts, forward contracts for the purchase of electricity, as well as forward contracts for the sales of pulp.

### 13.1. Hedge accounting

In order to reduce the volatility of the projected cash flows related to foreign exchange risk, the Group companies use currency hedging based on the use of derivatives related to foreign exchange market. They include, in particular, forward contracts, contracts for electricity purchases and SWAP interest contracts.

As on 30th September 2014, 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 derivative in order to hedge repayments of interest in EUR on the bank loan in EUR and 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.
- The Companies of Rottneros Group designated for cash flow hedge accounting the FX forward derivatives in order to hedge a part of currency intakes in EUR related to export sales.
- The Companies of Rottneros Group designated for cash flow hedge accounting the forward derivatives in order to hedge pulp sales price in SEK.

### Cash flow hedge accounting related to foreign currency trading using FX forward transactions

The table below presents detailed information concerning the hedging relationship in the cash flow hedge accounting regarding the purchase 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	2013 and 2014
Delivery date	depending on the contract, until 31.12.2016
Hedged amount	7.0 mln EUR
Forward ratio	9.11 SEK/EUR

The table below presents detailed information concerning the hedging relationship in the cash flow hedge accounting regarding the sale of EUR for SEK:

Hedge type	Hedging the cash flow variations related to the planned sales in foreign currencies
Hedge item	Hedged item is part of the future highly probably cash flows resulting from export sales
Hedging instruments	Hedging instruments are FX forward transactions in which the Company commits to sale EUR for SEK
Forward contract parameters	
Trade date	2012 and 2013
Delivery date	depending on the contract, until 31.12.2016
Hedged amount	1.0 mln EUR
Forward ratio	8.84 SEK/EUR

### Cash flow hedge accounting related to electricity purchases with the use of forward transactions

The table below presents detailed information concerning the hedging relationship in the cash flow hedge accounting related to electricity purchases:

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 01.05.2009
Delivery date	depending on the contract, until 31.12.2017
Hedged amount	550.000 MWh
Forward price	from 31.45 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 sales of pulp:

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	2013 and 2014
Delivery date	depending on the contract, until 31.12.2014
Hedged amount	6,000 tones
Forward price	5 720 SEK/tonne

### Cash flow volatility hedge accounting related to changeable interest rate of a 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 a bank loan denominated in EURO
Hedge item	Hedged item is future cash flows resulting from interest (in EURO) based on 3M EURIBOR on a bank loan denominated in EURO
Hedging instruments	Hedging instruments are SWAP transactions in which the Company commits to pay interest in EURO on a bank loan denominated in EURO based on a fixed interest rate
Forward contract parameters	
Trade date	28.12.2012 and 04.03.2013
Delivery date	depending on interest payment date based on schedule in the bank loan agreement, until 7.11.2017
Hedged amount	interest in accordance with the bank loan agreement on a 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 a bank loan denominated in PLN
Hedge item	Hedged item is future cash flows resulting from interest (in PLN) based on 3M WIBOR on a bank loan denominated in PLN
Hedging instruments	Hedging instruments are SWAP transactions in which the Company commits to pay interest in PLN on a bank loan denominated in PLN based on a fixed interest rate
Forward contract parameters	
Trade date	07.03.2013
Delivery date	depending on interest payment date based on schedule in the bank loan agreement, until 7.11.2017
Hedged amount	interest in accordance with the bank loan agreement on a bank loan of 38.8 mln PLN
SWAP interest rate	3,71%

The table below presents fair value of hedging instruments in cash flow hedge accounting as on 30th September 2014 and the comparative data:

	As at 30 September 2014		As at 31 December 2013	
	(unaudited)		(audited)	
	Assets	Liabilities	Assets	Liabilities
FX forward	-	-	1 685	1 125
Pulp forward	-	2 490	-	1 661
SWAP	-	2 856	-	794
Electricity forward	-	11 577	-	23 945
Total hedging derivatives	-	16 923	1 685	27 525

## 14. Financial risk management objectives and policies

The Group's principal financial instruments comprise bank loans, financial leases and hire purchase contracts, cash and short-term deposits. The main purpose of these financial instruments is to raise finance for Group's operations.

The Group also uses factoring with regression for trade receivables. The main purpose for using this financial instrument is to quickly raise finance.

The Group has various other financial instruments such as trade receivables and liabilities, which arise directly from

operations, as well as 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.

In the opinion of the Management Board – in comparison to the annual consolidated financial statements prepared as on 31st December 2013 there have been no significant changes of the financial risk. There have been also no changes in the objectives and policies of the management of the risk.

## 15. 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 operations and maximize shareholder value.

In the Management Board's opinion – in comparison to the annual consolidated financial statements prepared as on 31st December 2013 there have been no significant changes in the objectives and policies of capital management.

## 16. Contingent liabilities and contingent assets

As on 30th September 2014, the Capital Group reported:

- a contingent liability on the grounds of a guarantee for FPG in favor of mutual life insurance company FRI in the amount of SEK 1,483 thousand (PLN 675 thousand) in Arctic Paper Grycksbo AB and of SEK 711 thousand (PLN 319 thousand) in Arctic Paper Munkedals AB;
- a contingent liability of Arctic Paper Munkedals AB on the grounds of a guarantee for Kalltorp Kraft HB liabilities in the amount of SEK 2,722 thousand (PLN 1,239 thousand);
- a bank guarantee in favor of Skatteverket Ludvika in the amount of SEK 135 thousand (PLN 61 thousand);
- guarantees granted by the companies of Rottneros Group in the total amount of SEK 3,000 thousand (PLN 1,365 thousand),
- a guarantee in favor of Södra Cell International AB, the supplier of pulp, in the amount of SEK 12,000 thousand (PLN 5,460 thousand),
- a guarantee in favor of Cartiere del Garda S.P.A - paper supplier for Distribution Companies (Arctic Paper Sweden

AB, Arctic Paper Denmark A/S, Arctic Paper Norge AS) in the total amount of EUR 900 thousand (PLN 3,758 thousand);

- a guarantee in favor of WBW GmbH & Co.KG – a supplier of machines for Arctic Paper Mochenwangen GmbH in the amount of EUR 300 thousand (PLN 1,253 thousand);

As on 30th June 2014, 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. The European Union considered if such help is compliant with EU law. On 1st August 2014 the legality of German Government actions was approved by EU organs, therefore the contingent liability of Arctic Paper Mochenwangen GmbH expired.

## 17. Legal claims

Arctic Paper S.A. and its subsidiaries are not a party to any legal case filed in court against them.

## 18. CO2 emission rights

Arctic Paper Kostrzyn S.A., Arctic Paper Munkedals AB, Arctic Paper Grycksbo AB and Arctic Paper Mochenwangen GmbH, as well as the companies of Rottneros Group, 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.

The tables below specify the allocation for 2013 and 2014 approved by the EU and the usage of emission rights by each of the five entities.

(in tonnes) for Arctic Paper Kostrzyn S.A.	2013	2014
Amount granted	108 535	105 434
Amount unused from previous years	348 490	306 448
Amount used	(150 577)	106 996
Amount purchased	-	-
Amount sold	-	-
Amount unused	306 448	518 878

(in tonnes) for Arctic Paper Munkedals AB	2013	2014
Amount granted	44 238	43 470
Amount unused from previous years	24 305	67 262
Amount used	(1 281)	(699)
Amount purchased	-	-
Amount sold	-	-
Amount unused	67 262	110 033

(in tonnes) for Arctic Paper Mochenwangen GmbH	2013	2014
Amount granted	112 141	76 733
Amount unused from previous years	(78 861)	1 398
Amount used	(110 743)	(100 325)
Amount purchased	78 861	128 700
Amount sold	-	(105 105)
Amount unused	1 398	1 401

(in tonnes) for Arctic Paper Grycksbo AB	2013	2014
Amount granted	77 037	75 689
Amount unused from previous years	69 411	111 448
Amount used	-	-
Amount purchased	-	-
Amount sold	(35 000)	-
Amount unused	111 448	187 137

(in tonnes) for Rottneros' subsidiaries	2013	2014
Amount granted	30 681	30 681
Amount not used in previous years	72 888	90 522
Amount used	(13 047)	(13 301)
Amount purchased	-	-
Amount sold	-	-
Amount unused	90 522	107 902

## 19. Government grants and operations in Special Economic Zone

### 19.1. Government grants

In the current quarter the Group companies have not received any subsidies.

### 19.2. Operations in Special Economic Zone

Arctic Paper Kostrzyn S.A. operates in the Kostrzyńsko-Słubicka Specjalna Special Economic Zone (the „KSSSE”) and based on the permission issued by the Kostrzyńsko – Słubicka Special Economic Zone S.A. benefits from the investment tax relief as regards the activities carried out under the permission.

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 ceases to conduct business operations in the KSSSE for which it obtained the permission,
- Arctic Paper Kostrzyn violates the conditions of the permission,
- Arctic Paper Kostrzyn 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,

- Arctic Paper Kostrzyn 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 SEZ,
- Arctic Paper Kostrzyn receives compensation, in any form, of the investment expenditure incurred,
- Arctic Paper Kostrzyn goes into liquidation or if it petitioned for bankruptcy.

Based on the permit issued on 25th August 2006, Arctic Paper Kostrzyn S.A. may benefit from exemption to 15th November 2017. The pre-requisite condition for this tax relief is that appropriate investment expenditure is made in the Special Economic Zone within the meaning of § 6 of the Decree of the Council of Minister dated 14th September 2004 concerning Kostrzyńsko – Słubicka Special Economic Zone, being the basis for the calculation of public assistance in

accordance with § 3 Decree with a value exceeding EUR 40,000,000 to 31st December 2013 calculated using the average EUR announced by the President of the National Bank of Poland as prevailing on the date the expenditure is made. Creation in the territory of the KSSSE of at least 5 new workplaces within the meaning of § 3 paragraph 3 and paragraph 6 of the Decree by 31st December 2011 and maintaining the employment level at 453 people during the period from 1st January 2012 to 31st December 2013.

The conditions of the exemption have not changed in the reporting period. The Group is a subject to an inspection by the authorized authorities. The inspection concerns checking of all conditions explained in the permission.

During the period from 25th August 2006 to 30th September 2014, Arctic Paper Kostrzyn incurred investment expenditure classified as expenditure of the SEZ in the amount of PLN 197,917 thousand. During this period, the discounted amount of public assistance used was PLN 50,030 thousand.

If the qualified investment expenditures incurred are not covered by income of the current year, Arctic Paper Kostrzyn S.A. creates a deferred tax asset on the excess.

The amount of deferred tax asset recognized on the expenditures incurred in SEZ as on 30th September 2014 amounted to PLN 14,103 thousand (unrecognized asset: PLN 2,225 thousand).

## 20. Significant events after balance sheet date

On 27th October 2014, by the agency of Arctic Paper Finance AB, the Company concluded a subordinate loan agreement with Mr. Thomas Onstad, an indirect majority shareholder of the Company. The loan agreement was concluded in connection with the Annex to the loan agreement concluded by and between the Company together with its subsidiaries and a consortium of banks consisting of Bank Pekao S.A., Bank Zachodni WBK S.A. and mBank S.A. dated 15th October 2014 (current report 24/2014 dated 16th October 2014). The amount of the loan totaled EUR 10,000 thousand.

The loan was concluded on market conditions and its purpose is financing of the Group's operations. According to the agreement, the loan shall be repaid until 30th September 2019. The funds were transferred to the Issuer immediately after the agreement was concluded.

After 30th September 2014 until the day of the hereby report, there were no other significant events, which should have been disclosed in this report, except for the occurrences reported earlier in the hereby report (particularly in note 11 concerning interest-bearing bank loans).

### Signatures of Members of the Management Board

Position	Name and surname	Date	Signature
President of the Management Board Chief Executive Officer	Wolfgang Lübbert	14 November 2014	
Member of the Management Board Chief Financial Officer	Małgorzata Majewska-Śliwa	14 November 2014	

Headquarters

**Arctic Paper S.A.**

J.H. Dąbrowskiego 334 A,  
PL-60406, Poznań, Poland  
Tel. +48 61 6262 000  
Fax.+48 61 6262 001

**Investor relations:**

[ir@arcticpaper.com](mailto:ir@arcticpaper.com)

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Branch in Sweden:

Box 383  
SE-401 26 Göteborg, Sweden  
Tel. +46 770 110 120  
Fax. +46 31 631 725



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