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# Arctic Paper Group

## 3rd quarter 2010 results

Michał Jarczyński, CEO  
Michał Bartkowiak, CFO

Warsaw, 15 November 2010

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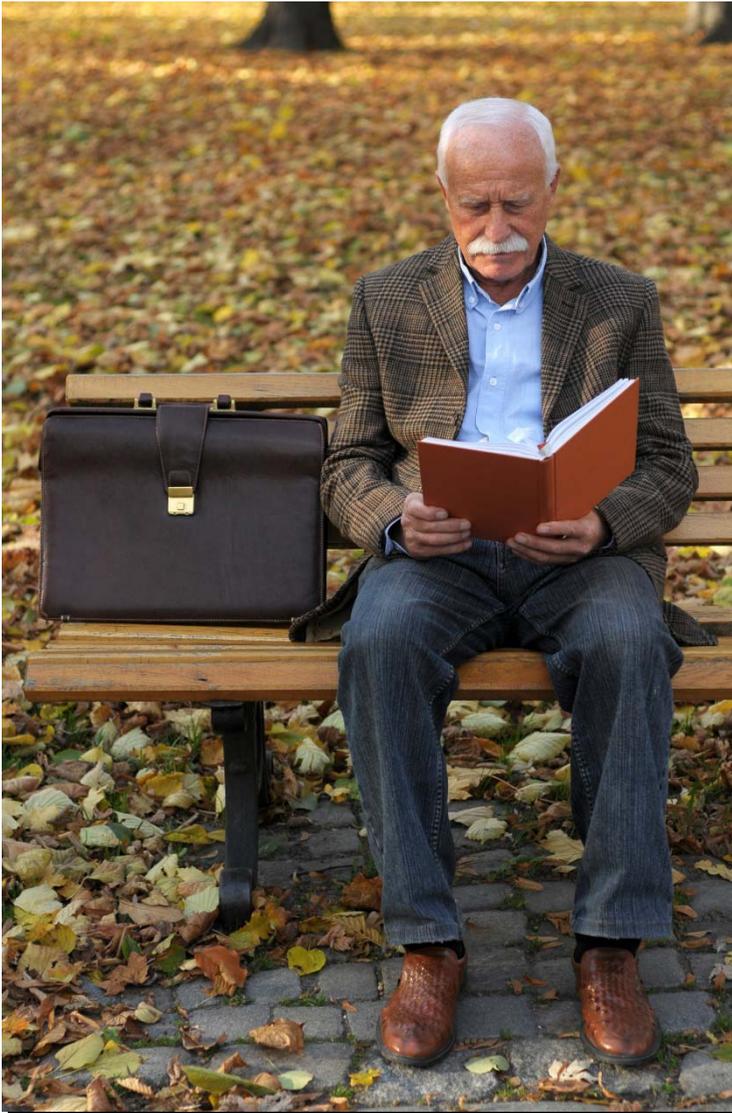
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## Agenda

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- Market environment
- Financial results
- Summary

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**market environment**

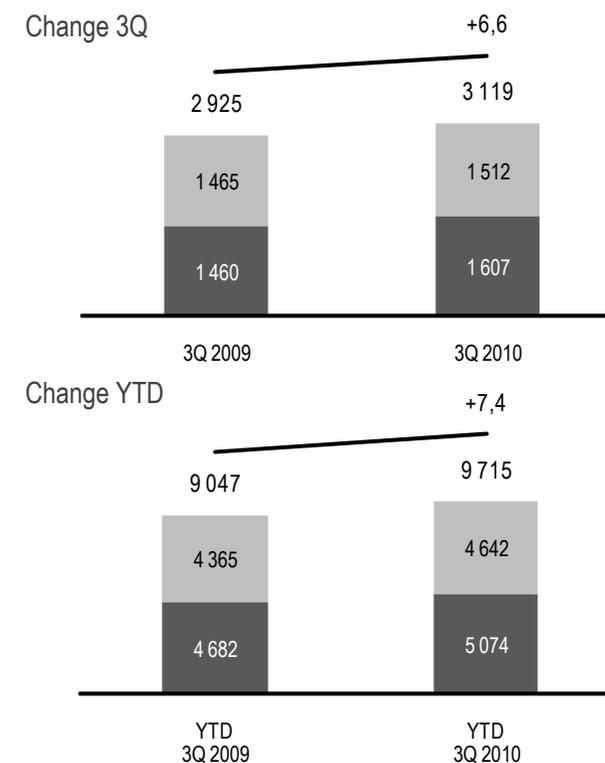
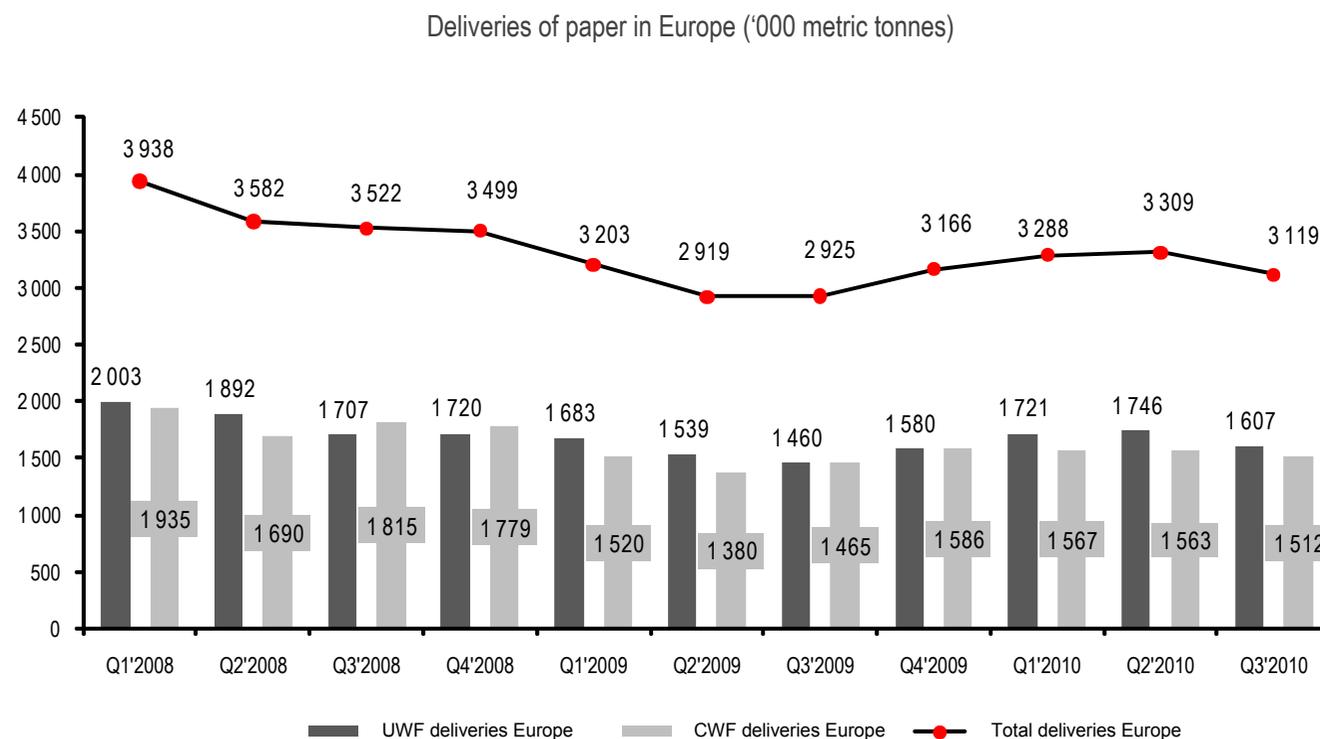
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# Market environment

## Deliveries of fine paper in Europe



- ▶ Deliveries of fine paper on the European market in the first 9 months of 2010 were about 7.4% higher than for the same period of 2009. During the period in question, deliveries in the uncoated wood-free (UWF) segment were 8.4% higher, and in the coated wood-free (CWF) segment were 6.3% higher.
- ▶ The rate of change in the first nine months of 2010 in the fine paper segment in Europe indicates a revival in demand, but deliveries in the 3rd quarter were down 5.7% from those in the 2nd quarter. The group noted slide decline in orders received compared to the high levels in 1st and 2nd quarters of this year.
- ▶ Deliveries through the first nine months of 2010 were still significantly lower than during the same period of 2008, with a drop of 12%.

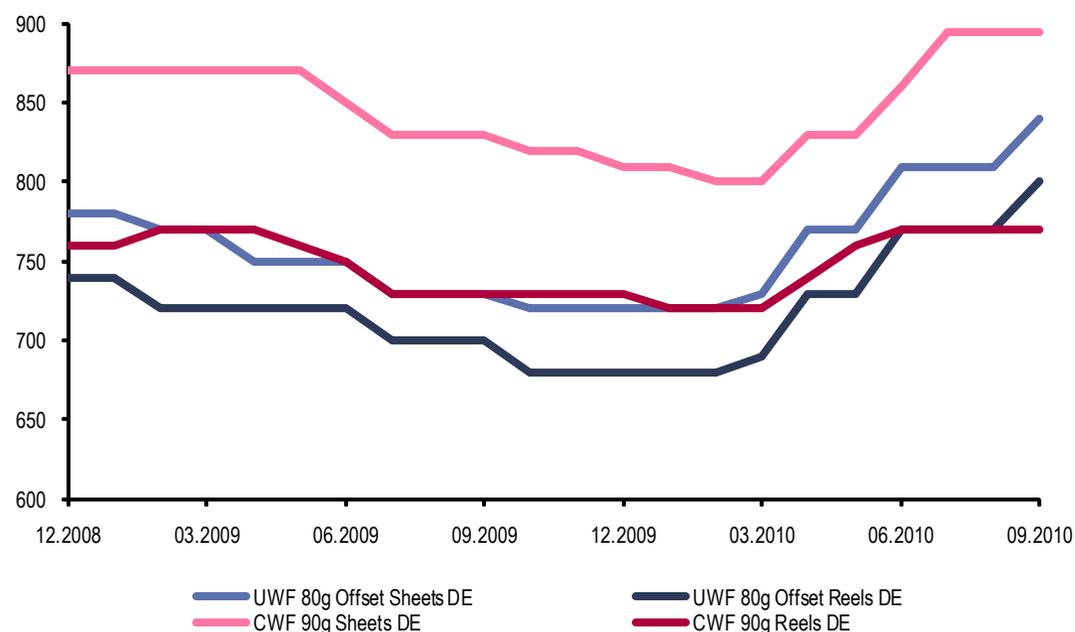


# Market environment

## Fine paper prices

- ▶ In 3Q 2010 prices of fine paper continued to rise, but some paper producers decided to introduce seasonal price reductions in July and August.
- ▶ Most major paper producers announced further price increases starting from September.
- ▶ From March through September 2010 the prices declared by producers for uncoated wood-free paper (UWF) for selected markets (France, Germany, Italy, Spain and the UK), expressed in EUR or GGP, rose by an average of 15 to 16%.
- ▶ During the same period prices for coated wood-free paper (CWF) rose by an average of 9 to 10%.
- ▶ Arctic Paper Group announced and implemented planned increases in paper prices for the UWF segment throughout Europe, and for CWF in selected countries where market situation allowed.
- ▶ The prices invoiced by Arctic Paper in EUR for comparable products in the UWF segment rose from March through September 2010 by an average of 17%, and in the CWF segment by an average of 10 – 15%.
- ▶ In 4Q 2010 greater price pressure is expected in both the UWF and CWF segments.

Graphic paper prices in EUR – German market



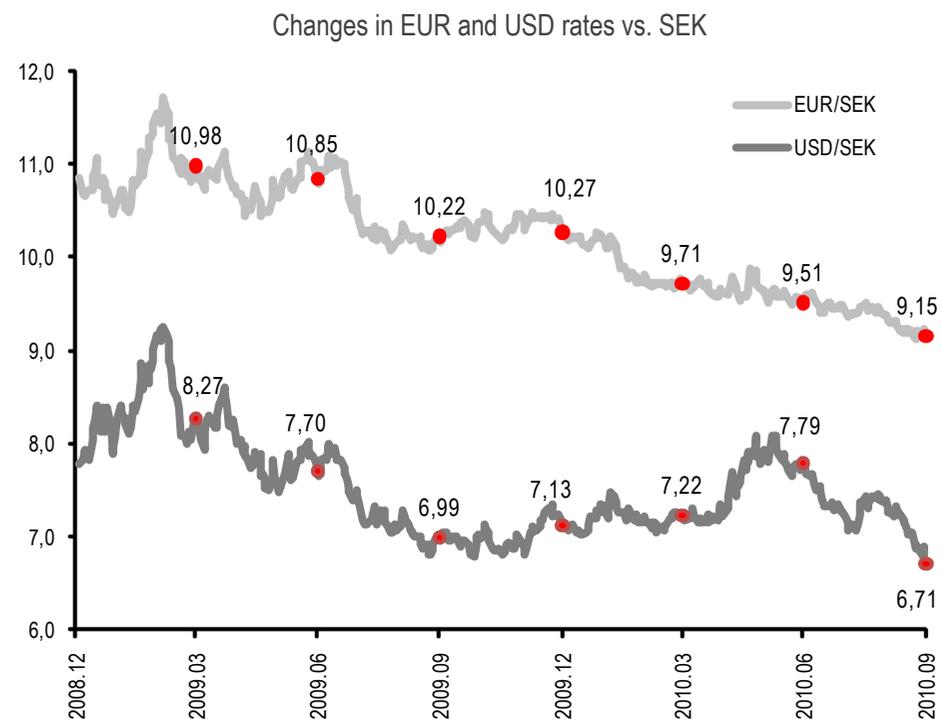
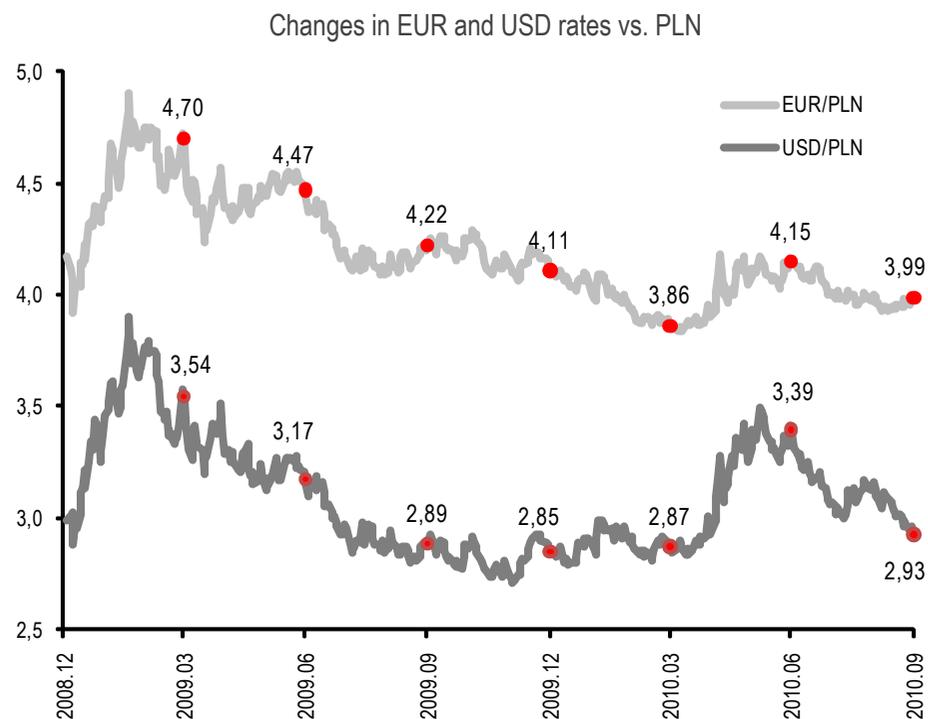
- ▶ The chart above presents changes in prices for fine paper for the German market, which illustrate trends visible on key markets and segments in which the Arctic Paper Group operates.

*Source: For market information - RISI, changes in maximum prices for German market in EUR for graphic papers similar to the product portfolio of the Arctic Paper Group. Prices are quoted before customer-specific discounts and do not reflect any types of supplements or reductions from publicly available list prices. Price estimates for a given month reflect orders placed in that month. Shipment may occur in a future month. Thus, for a given month, price estimates by RISI reflect the orders placed in that month, not necessarily the shipments in that month. For Arctic Paper products, average invoiced paper prices for all markets in EUR.*



# Market environment

## Exchange rates



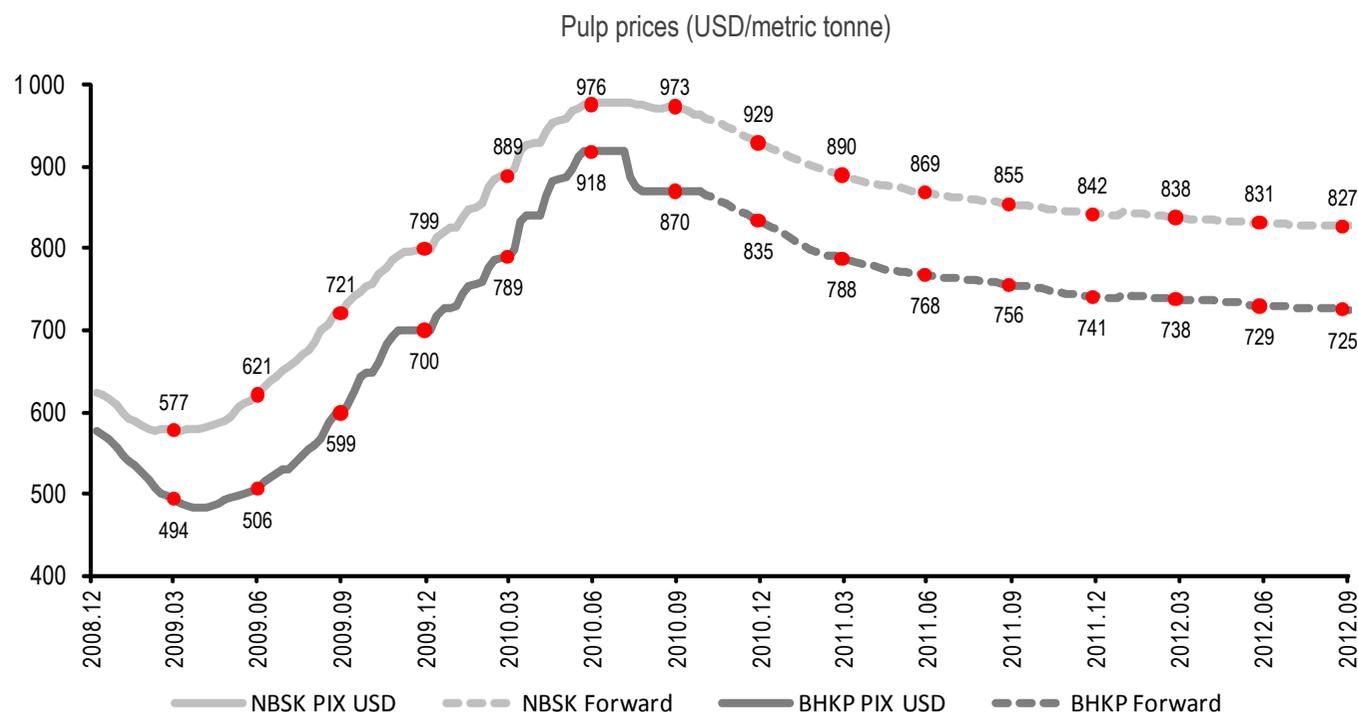
- ▶ YTD through the 3rd quarter, the EUR/PLN exchange rate was 8.6% lower than in the same period of 2009. This had a decidedly negative effect on revenues generated by the mill in Kostrzyn and conversion into PLN of revenues generated by other companies in the Group.
- ▶ During the same period, the average USD/PLN exchange rate was 5.2% lower than for the same period of 2009, which had a positive effect on the level of costs valued in USD, particularly the costs of pulp at the mill in Kostrzyn.

- ▶ The average EUR/SEK exchange rate in the first 3 quarters of 2010 was 9.3836, which represents a strengthening of SEK against EUR by 9.9% compared to the same period in 2009. This means a decline in revenues generated in EUR, converted into SEK, at the mills in Sweden.
- ▶ The average USD/SEK exchange rate in the first 9 months of 2010 was 6.6% less than in 2009. This had a positive impact on costs of pulp, converted into SEK, at the mills in Munkedal and Grycksbo, Sweden.

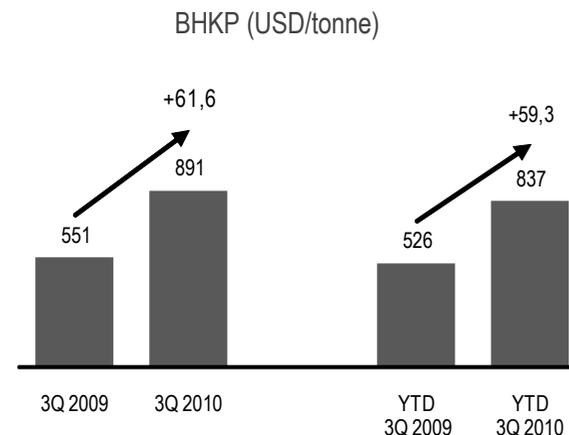
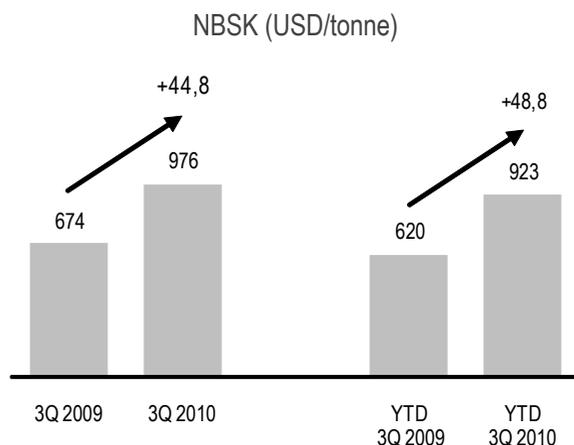


# Market environment

## Pulp prices



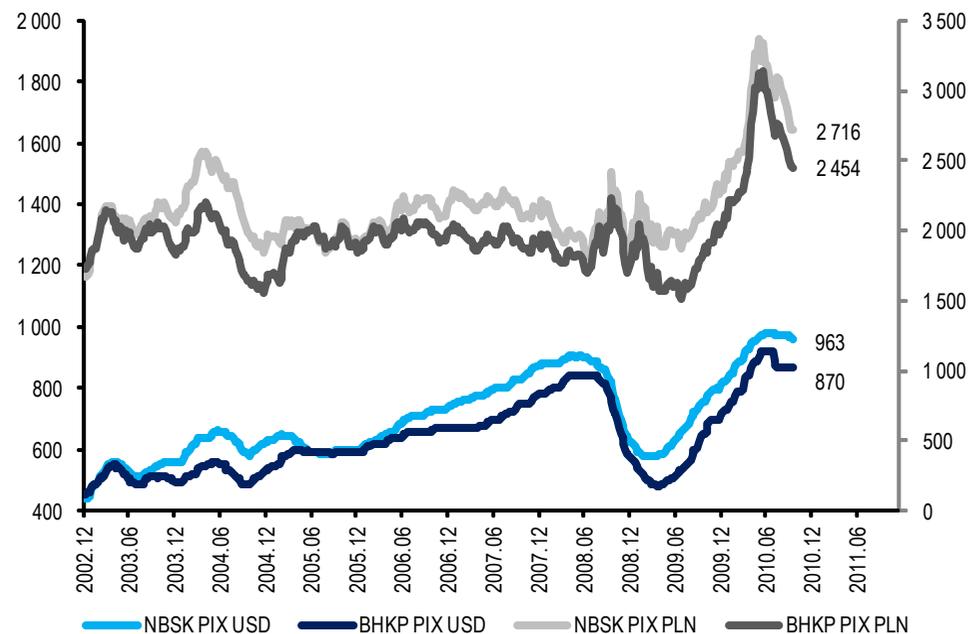
- ▶ As of the end of 3Q 2010, pulp prices were at USD 973/tonne for NBSK and USD 870/tonne for BHKP. The average price for NBSK in 3Q 2010 was 44,8% higher than in the same period of 2009, while BHKP was over 61,6% higher. YTD through the 3rd quarter, the average price of pulp was 48,8% higher for NBSK and 59,3% higher for BHKP.
- ▶ The forward curve continues to indicate an expected decline in pulp prices.



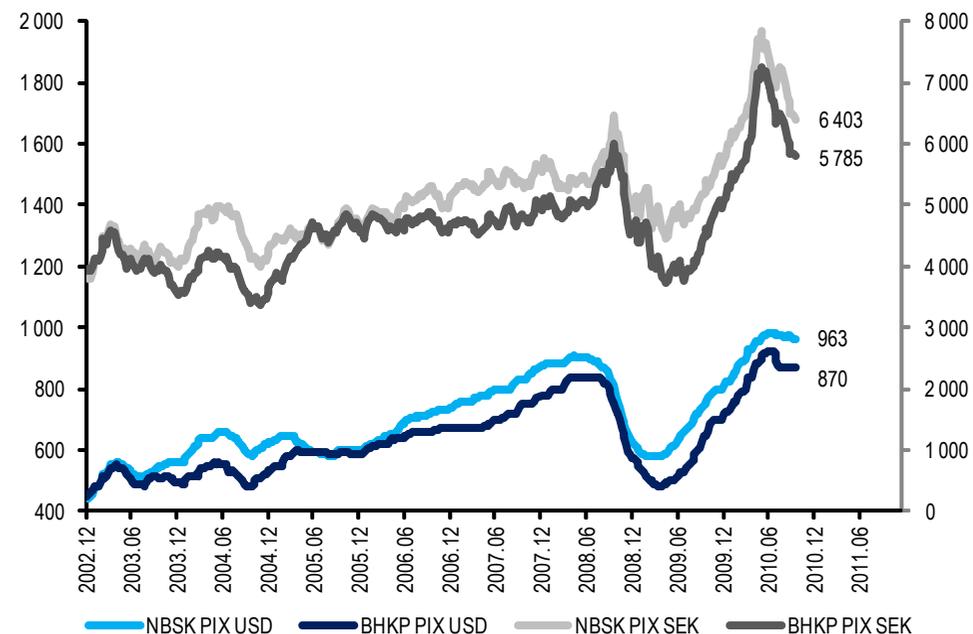
# Market environment

## Pulp prices

NBSK & BHKP PIX in USD and PLN per metric tonne



NBSK & BHKP PIX in USD and SEK per metric tonne



- ▶ The costs of pulp, as the main element of variable costs, expressed in the local currencies of the mills, are to a large extent determined by the level of exchange rates, primarily in the USD/PLN (AP Kostrzyn) and USD/SEK (AP Munkedals, AP Grycksbo) pairs, and to a lesser extent EUR/USD (AP Mochenwangen). The price of pulp expressed in PLN rose during the first 9 months of 2010 by 42.1% for NBSK (48.8% in USD) and 51.9% (59.3% in USD) for BHKP, and expressed in SEK rose by 39.8% (48.8% in USD) for NBSK and 49.4% (59.3% in USD) for BHKP.



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# financial results 3Q2010

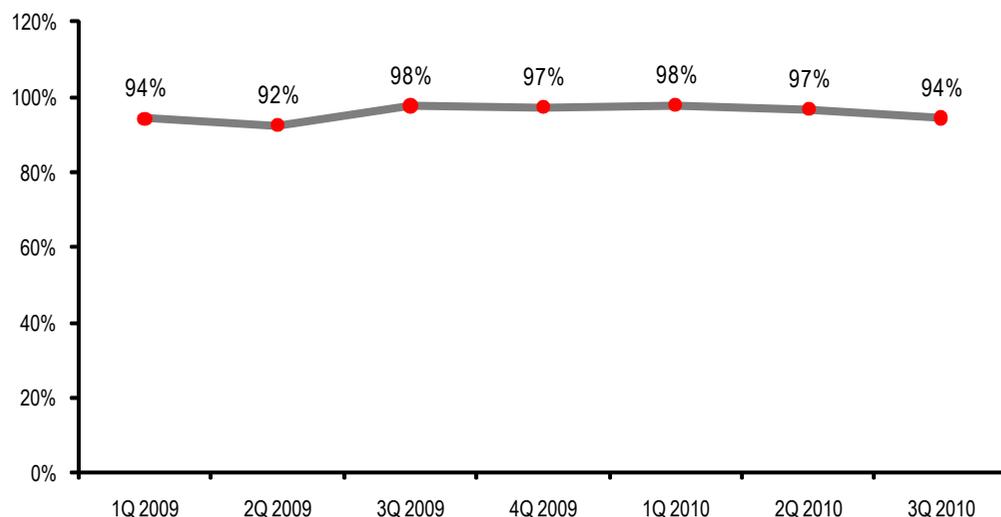
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# Financial results

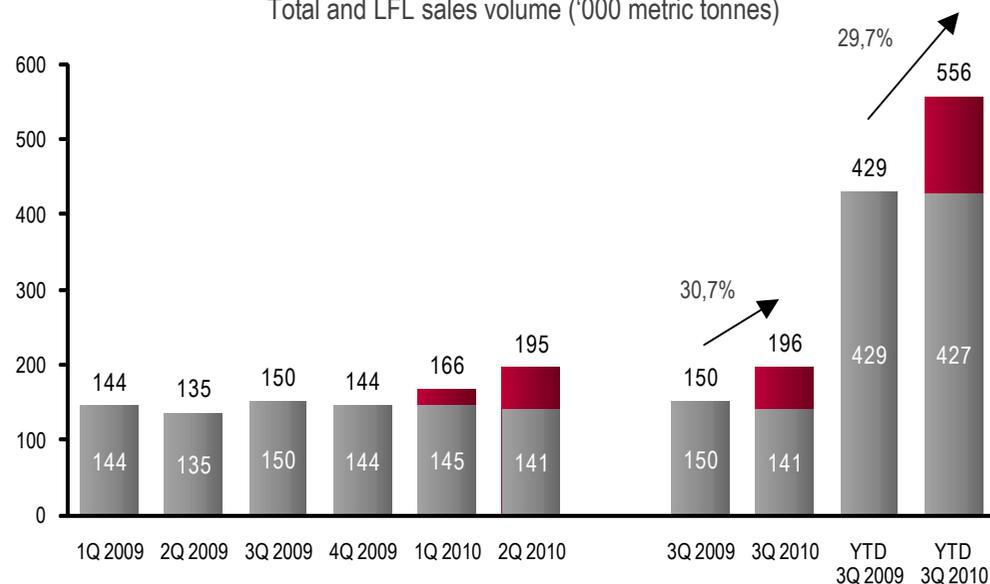
## Use of production capacity and sales volume

Use of production capacity for all mills



- ▶ In 3Q 2010 use of production capacity calculated for all mills in the group was over 94%. Average use of production capacity over the last 7 quarters was 96%.

Total and LFL sales volume ('000 metric tonnes)

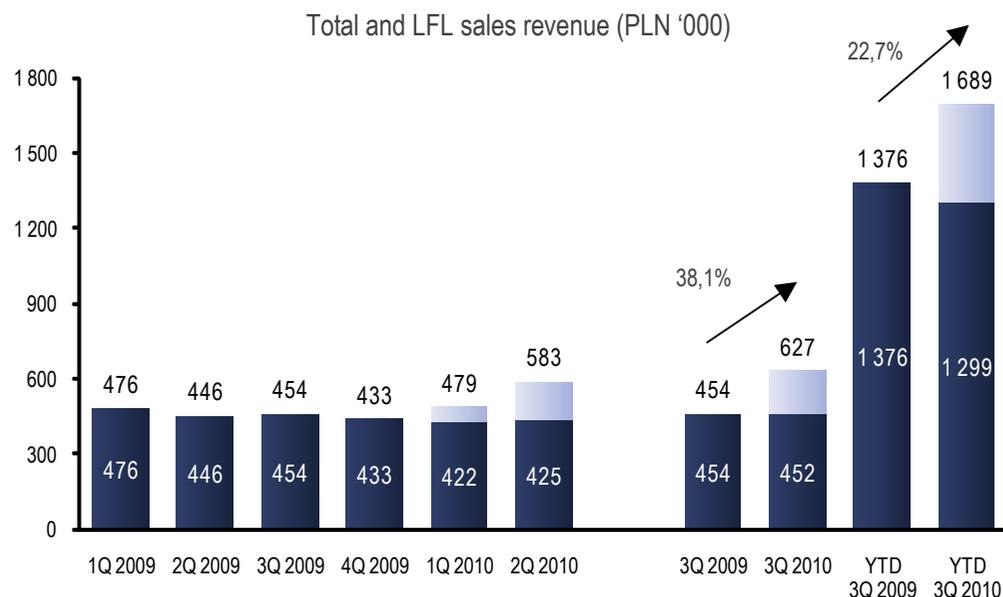


- ▶ In 3Q 2010 the AP Group noted growth in sales volume compared to 2009 of over 30%, and YTD over 29%. Sales volume in 3Q 2010 was 196,000 tonnes, somewhat higher than in 2Q 2010.
- ▶ During the same period there was a decline in LFL sales volume (i.e. excluding AP Grycksbo), by 6.1% in the quarter and 0.5% YTD. Excluding Grycksbo, in 3Q 2010 the Group sold about 141,000 tonnes, nearly the same as in 2Q 2010.



# Financial results

## Sales revenue



- ▶ The AP Group's sales revenue in 3Q 2010 was PLN 627 mln, which represents growth of 38.1% compared to 3Q 2009, and cumulatively PLN 1,689 mln, representing growth of 22.7%. Revenues in 3Q 2010 were up 7.6% from 2Q 2010.
- ▶ LFL sales in 3Q 2010 were PLN 452 mln, a decline from 3Q 2009 by 0.6%. YTD LFL sales fell by 5.6%.

- ▶ In the period April through September 2010, the Group introduced two more major increases in paper prices in local currencies (chiefly EUR). In the 3Q 2010 results there is visible improvement in sales in PLN per tonne of paper.
- ▶ Revenue per tonne of paper sold expressed in PLN noted growth of 6.9% compared to the figure for 2Q 2010 and 11% compared to 1Q 2010. This result was achieved with nearly neutral influence of the EUR/PLN currency pair (the average exchange rate 3Q vs. 1Q 2010 was +0.5%) and negative influence of the EUR/SEK pair (average rate 3Q vs. 1Q 2010 of -5.7%).



# Financial results

## Main items on profit and loss statement

PLN'000	3Q 2010	2Q 2010	3Q 2009	3Q 2010 vs. 2Q 2010 Change %	3Q 2010 vs. 3Q 2009 Change %	YTD 3Q 2010	YTD 3Q 2009	YTD 3Q'2010 vs. YTD 3Q'2009 Change %
<b>Revenues</b>	<b>627 122</b>	<b>582 948</b>	<b>454 211</b>	<b>7,6%</b>	<b>38,1%</b>	<b>1 689 429</b>	<b>1 376 317</b>	<b>22,8%</b>
Gross profit on sales <i>% of sales</i>	77 281 12,3%	63 051 10,8%	124 499 27,4%	22,6% 2 p.p.	-37,9% -15 p.p.	222 745 13,2%	362 862 26,4%	-38,6% -13 p.p.
<b>EBITDA</b> <i>% of sales</i>	<b>25 405</b> 4,1%	<b>1 443</b> 0,2%	<b>67 378</b> 14,8%	<b>18 x</b> 4 p.p.	<b>-62,3%</b> -11 p.p.	<b>59 221</b> 3,5%	<b>198 380</b> 14,4%	<b>-70,1%</b> -11 p.p.
EBIT <i>% of sales</i>	1 326 0,2%	-22 247 -3,8%	49 180 10,8%	-106,0% 4 p.p.	-97,3% -11 p.p.	-8 196 -0,5%	148 401 10,8%	-105,5% -11 p.p.
<b>Net profit / loss</b> <i>% of sales</i>	<b>-6 929</b> -1,1%	<b>85</b> 0,0%	<b>31 945</b> 7,0%	<b>(82) x</b> -1 p.p.	<b>-121,7%</b> -8 p.p.	<b>-6 174</b> -0,4%	<b>101 252</b> 7,4%	<b>-106,1%</b> -8 p.p.
<b>Earnings per share [PLN]</b>	<b>-0,13</b>	<b>0,00</b>	<b>0,72</b>	<b>n.a.</b>	<b>n.a.</b>	<b>-0,11</b>	<b>2,29</b>	<b>n.a.</b>

- ▶ Sales revenues achieved in 3Q 2010 rose by 7.6% from 2Q 2010, with slightly decreasing LFL sales volume and significant growth in revenue per tonne.
- ▶ Growth in profit on sales in 3Q 2010 vs. 2Q 2010 by 22.6%, thanks to changes in revenue and reductions in costs, among other factors.
- ▶ Positive operating result achieved in 3Q 2010, compared to significant loss generated in 2Q 2010.
- ▶ Net loss in 3Q 2010 and YTD, resulting primarily from the unfavourable effect of exchange rate differences, which in the 1st half of the year had a decisively positive impact on the net result, partially reversed in 3Q 2010.

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## **summary of quarter**

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## Summary of 3rd quarter of 2010

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- ▶ Better market results in 3Q 2010 compared to the 2nd quarter, particular with respect to paper prices.
- ▶ Full use of production capacity, with a noticeably lower inflow of orders in the 3rd quarter from the very high level noted in the previous two quarters.
- ▶ Higher revenue per tonne for sales expressed in PLN, with lower LFL sales volume recorded in 3Q 2010.
- ▶ Improved profit on sales thanks to introduction of increases in paper prices and cost reductions, among other factors.
- ▶ Significantly better result from operating activity compared to the 2nd quarter, but still clearly below expectations.
- ▶ A net loss resulting from the low level of operating profit and reversal of exchange-rate differences which in the 1st half of the year enabled the Group to maintain a positive net result despite an operating loss.
- ▶ A positive conclusion for the Group of the dispute with the tax authorities concerning Arctic Paper Kostrzyn S.A.'s operating in a special economic zone—discussed in more detail in the quarterly report.



Thank you for your attention



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HAPPINESS**



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Additional slides

# Description of the Arctic Paper Group

Key competitive advantages and information about Arctic Paper Group

## Strong brand and leading position on the book paper market in Europe

- One of the leading manufacturers of high grade graphic paper in Europe
- Second largest European manufacturer of uncoated bulky book paper
- Strong and recognisable brands synonymous with quality and environmentally friendly production processes

## Developed sales network

- Optimal geographical structure of revenues from the sales network covering almost every country in Europe
- Platform for expansion into Central & Eastern European countries, as well as Ukraine and Russia
- High share of direct sales



## Large product range, flexible production process

- The largest product range in the book paper segment in Europe
- Non-integrated business model enabling rapid adjustment of the production process

## Productivity and optimal cost structure

- Good locations of our paper mills
- Investments in energy independence
- Location of the paper mill in Kostrzyn in a Special Economic Zone
- Growth potential through a gradual increase in production capacity
- Increase in mechanical pulp production at the paper mill in Mochenwangen

## Experienced managerial staff

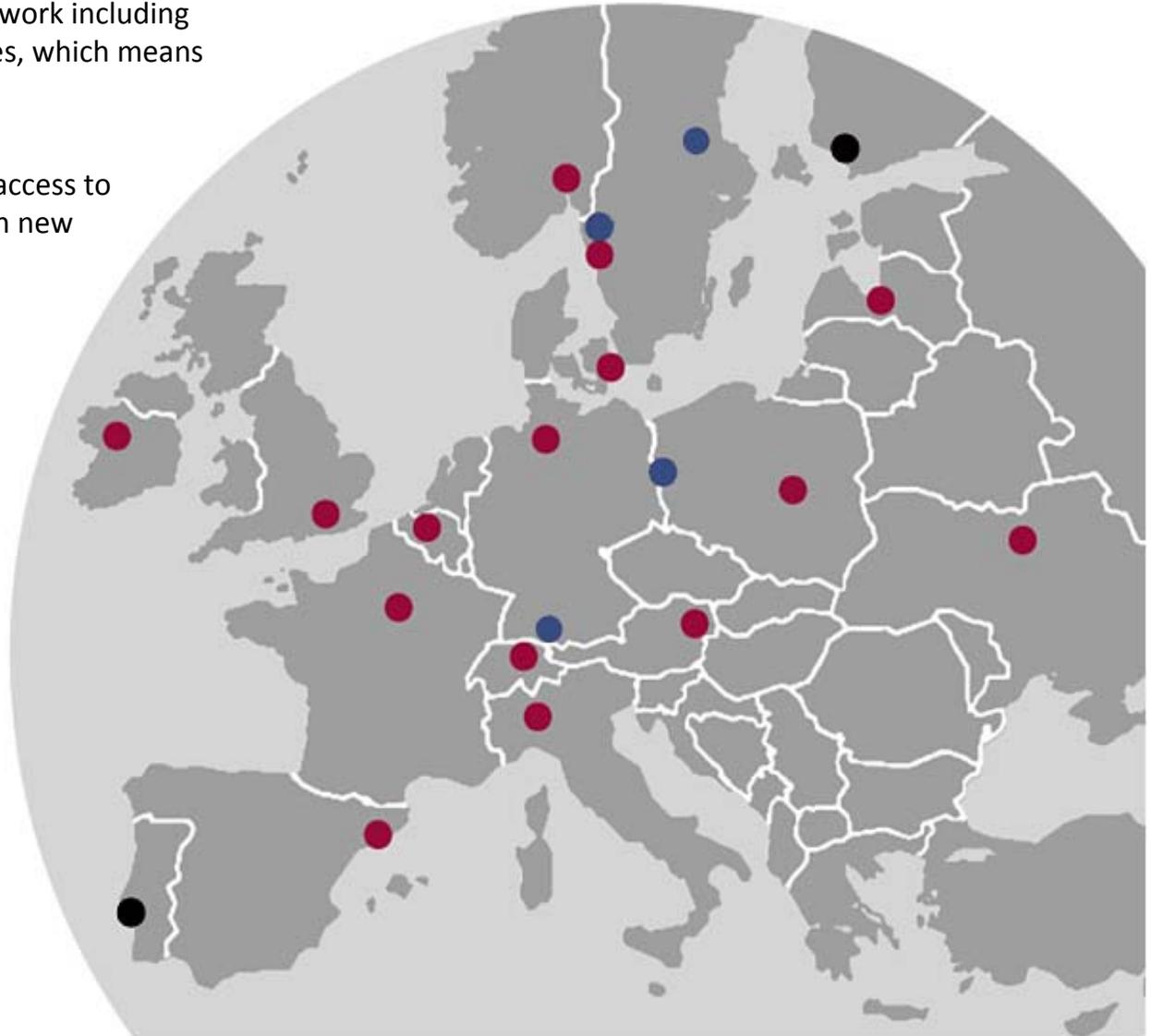
- Expert knowledge of the industry supported by many years of experience

- Paper mills
- Distribution Companies and Sales Offices

# Developed sales network

*Close customer relationships and a better understanding of the changes ensuing on the market*

- Arctic Paper has its own developed sales network including 3 Distribution Companies and 15 Sales Offices, which means more than 130 sales staff working directly with our customers
- The coverage of the sales network provides access to almost all countries of Europe, including such new markets as Ukraine and Russia
- Effective sales model in difficult times assuring stability of revenues and minimisation of the risk of sales concentration
- Benefits:
  - ✓ Closer relations with customers
  - ✓ Better understanding of market needs
  - ✓ Greater control over the marketing and sales policy of our products
  - ✓ Ability to develop our brands
  - ✓ Greater awareness of the managerial staff and ability to rapidly adapt to changes in demand on the market



- Paper mills
- Distribution Companies and Sales Offices
- Agents

# Our paper mills

Efficiency and flexibility of production processes



	Arctic Paper Kostrzyn	Arctic Paper Munkedals	Arctic Paper Mochenwangen	Arctic Paper Grycksbo
Production capacity	275,000 tonnes per annum	160,000 tonnes per annum	115,000 tonnes per annum	265,000 tonnes per annum
Products	Uncoated wood-free paper Brand: Amber	Uncoated wood-free paper Mainly premium paper Brands: Munken and Amber	Bulky wood-containing paper Brands: Pamo and L-print	Coated wood-free paper Brands: G-Print and Arctic
Sources of energy	Full energy self-sufficiency Cogeneration (combined heat & power) station supplied with gas from local sources	All electricity purchased from grid. Heat generated from electricity or oil. Hydro-electric plant	Heat generated from coal. Half of electricity generated on site	All heat and one third of electricity generated on site from biomass
Location	Proximity to the markets of Western Europe and CEE	Proximity to Scandinavian markets	In the centre of the European printing market	Proximity to Scandinavian markets
Growth potential	Planned increase in production capacity to 310,000 t/a	Planned increase in production capacity to 175,000 t/a	Increase in mechanical pulp production from 52,000 tonnes to 70,000 t/a	Planned increase in production capacity up to 300,000 t/a
Additional information	Possibility of further increase of production capacity to 380,000 t/a, based on the existing infrastructure	Possibility of building a cogeneration station fuelled with biomass Measures taken to reduce the mill's operating costs	Optimization of sales structure for Pamo / L-Print as well as technical papers	Integration of the mill within the Arctic Paper Group structures, including sales and marketing