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Arctic Paper Group 1st half 2010 results

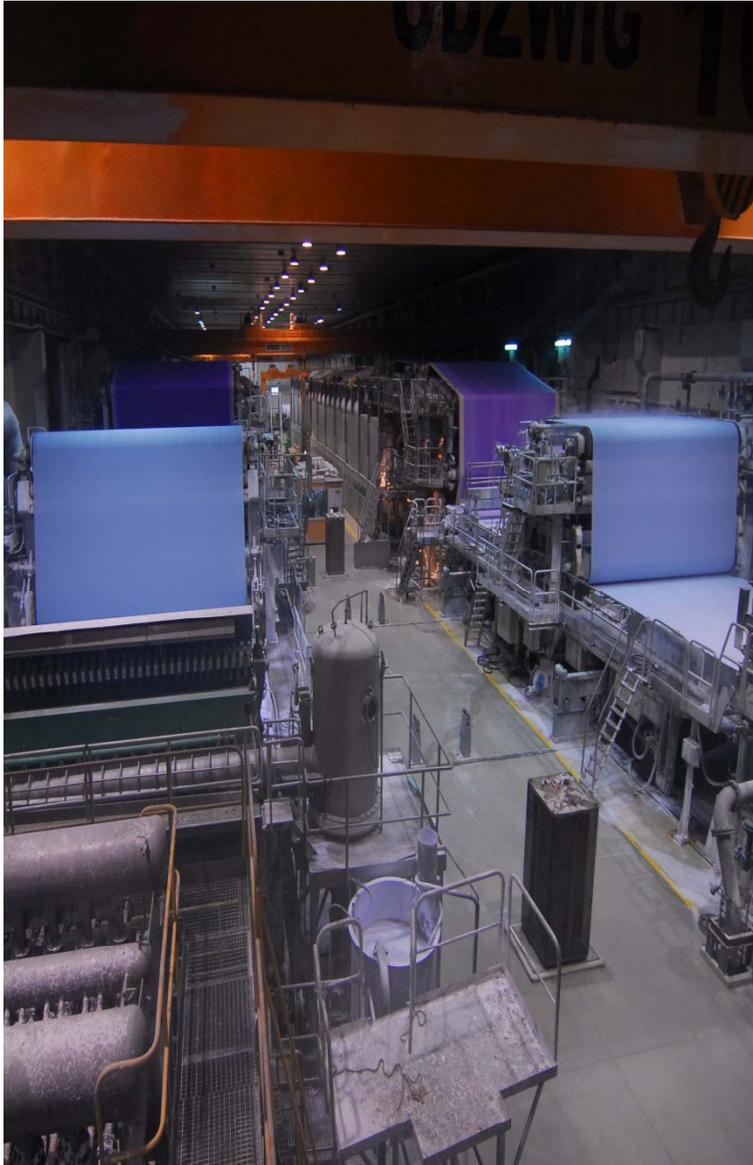
Michał Jarczyński, CEO
Michał Bartkowiak, CFO

Warsaw, 1 September 2010



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Agenda



- Key information on Arctic Paper Group
- Paper market
- Operational and financial results for 1st half of 2010
- Strategy and plans

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Description of the Arctic Paper Group

Key competitive advantages and information about Arctic Paper Group

Strong brands with leading position in European book paper market

- 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-responsible production processes

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

Experienced management team

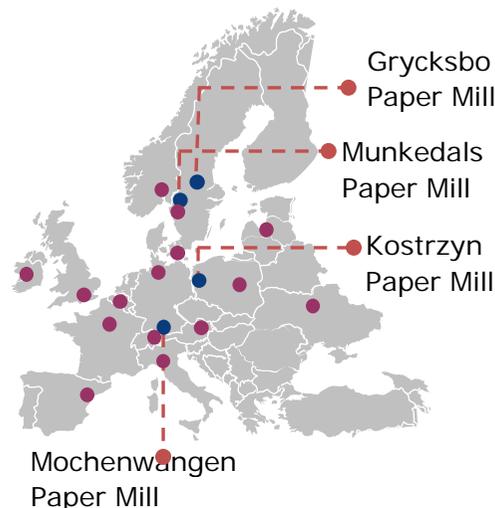
- Expert knowledge of the industry supported by many years of experience

Widely developed sales network

- Optimal geographical spread of revenues from sales network covering almost every country in Europe
- Platform for expansion into Central & Eastern Europe, including Ukraine and Russia
- Close customer relations and high share of direct sales

Productivity and optimal cost structure

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



- Paper mills
- Distribution Companies and Sales Offices

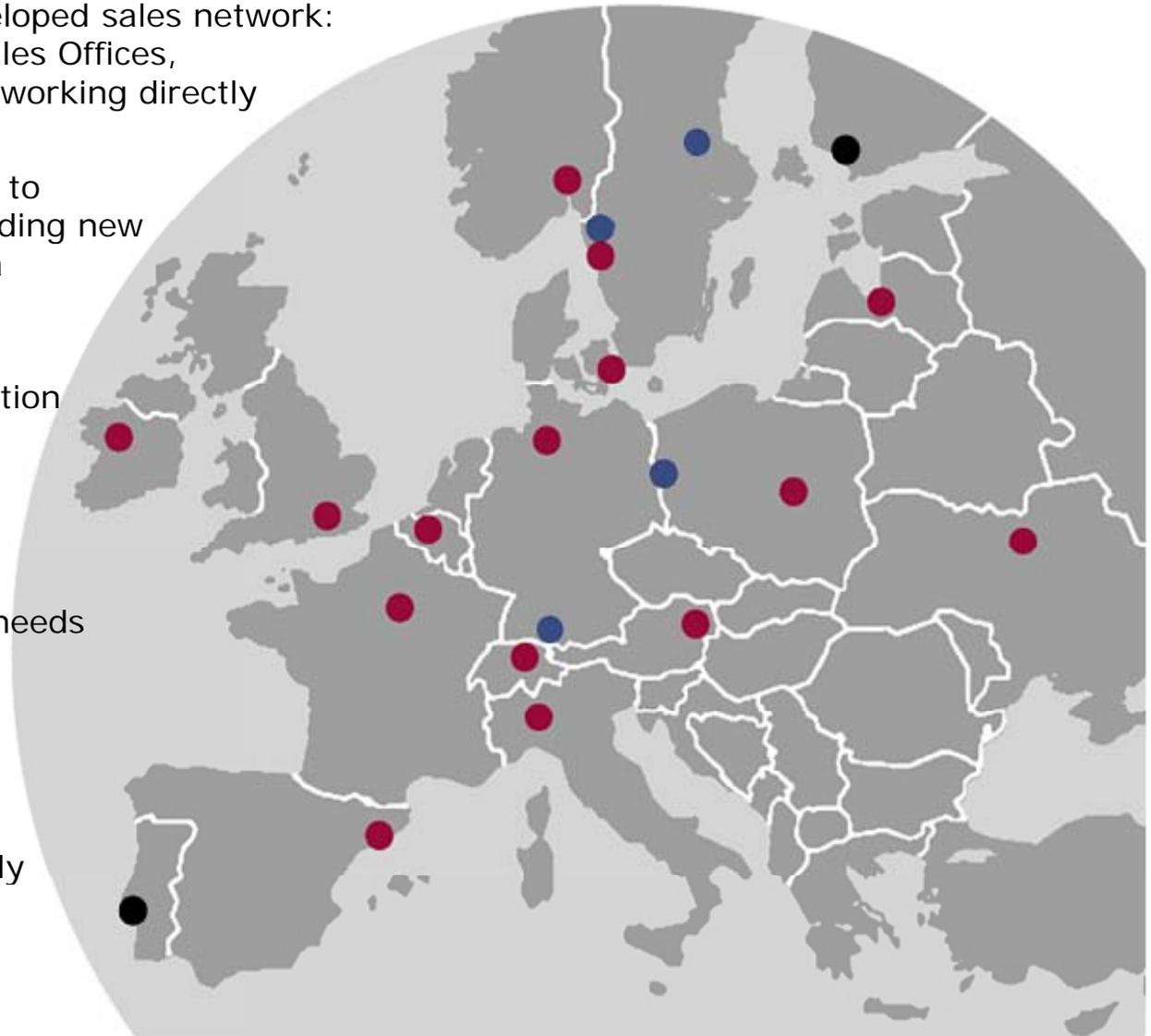


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Developed sales network

Close customer relationships and a better understanding of local market changes

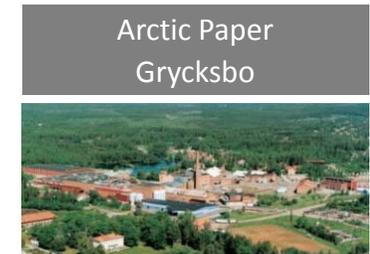
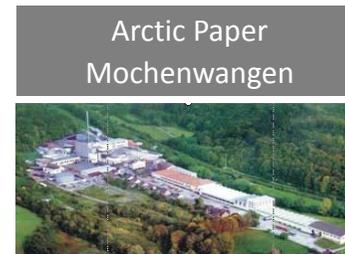
- Arctic Paper has its own highly developed sales network: 3 Distribution Companies and 15 Sales Offices, including more than 130 sales staff working directly with customers
- Wide sales network provides access to almost all countries in Europe, including new markets such as Ukraine and Russia
- Effective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



- 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 center 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 to 70,000 t/a	Planned increase in production capacity 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	Planned closure of one production line while maintaining current production volume Optimization of sales structure for Pamo / L-Print	Integration of the mill within Arctic Paper Group structures, including sales and marketing

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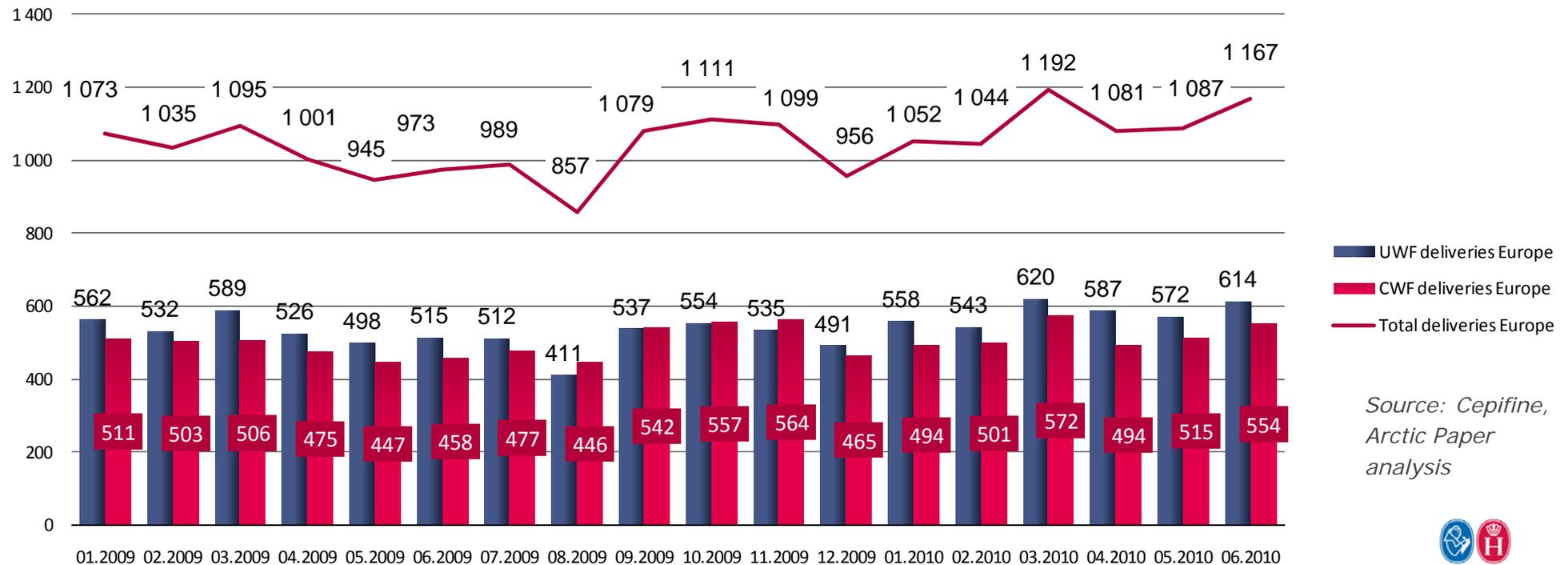
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Paper market in Europe

Delivery volumes in paper segments where Arctic Paper operates

- Deliveries of fine paper on the European market during the first 6 months of 2010 were 8.3% higher than in the same period in 2009.
- Deliveries in the uncoated wood-free paper segment were up 8.4%, and in the coated wood-free segment up 8.2%.
- The rates of change during the first six months of 2010 in Europe's fine paper segments indicates a revival in demand. However, this is growth measured against 2009's relatively low base level, when supplies and estimated demand were materially lower than in 2008.

Paper deliveries in Europe 2007 – 2010 ('000 tonnes)



Source: Cepifine, Arctic Paper analysis



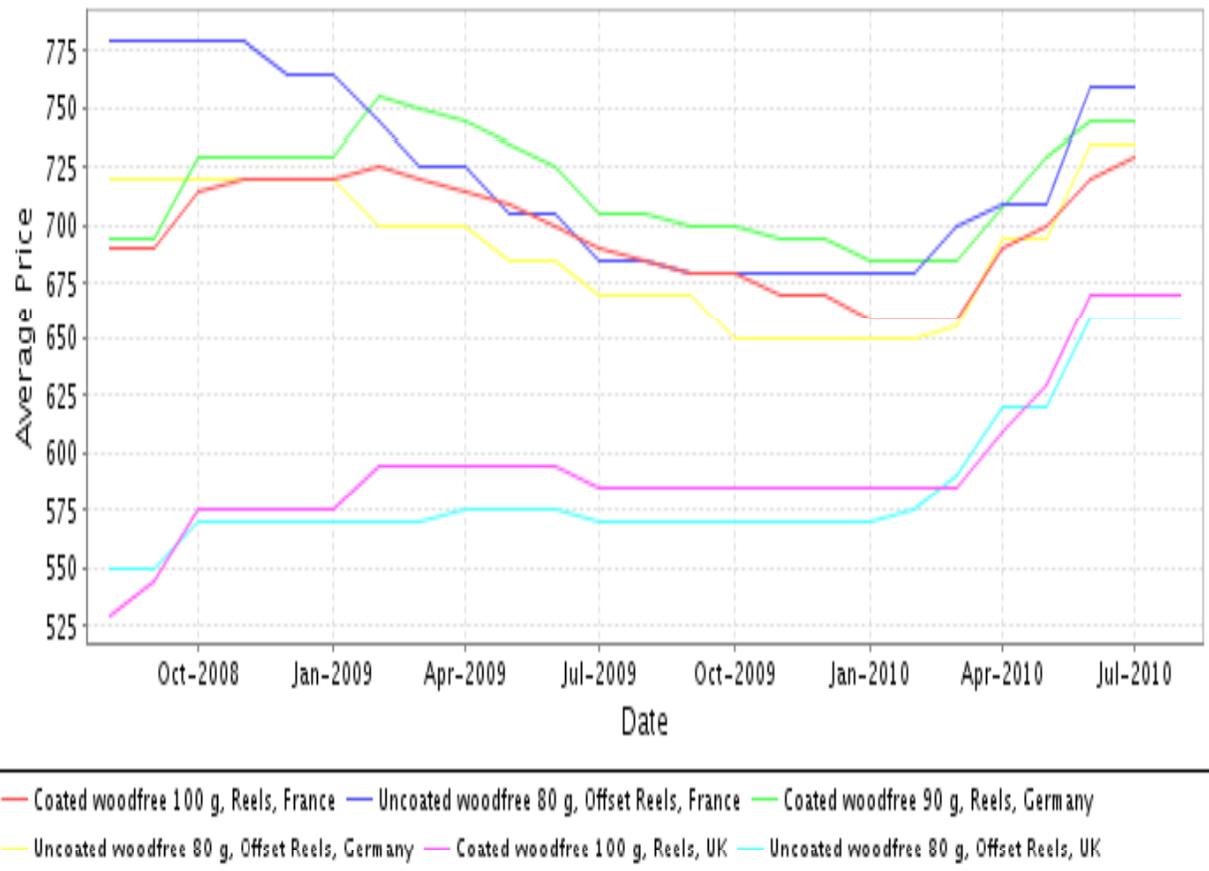
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Paper market in Europe

Market trends in paper prices

- From March to June 2010 declared prices of uncoated wood-free paper on markets in France, Germany, Italy, Spain and UK (expressed in EUR/GBP) rose on average by 9 to 12%.
- During the same period declared prices for coated wood-free paper rose by 5-15%.
- For comparable products invoiced by Arctic Paper, prices of uncoated wood-free paper increased by an average of 7.6 to 8,1%, while prices of coated wood-free paper increased in the range of 6 to 11,1%.

Prices of graphic papers in EUR and GBP (Sept. 2008 – July 2010)



Source: For market information - RISI, price changes for selected markets of Germany, France, Spain, Italy and United Kingdom in local currencies for graphic papers similar to the product portfolio of the Arctic Paper Group. Prices are quoted before customer-specific discounts. Prices quoted are net of market-wide competitive allowances or reductions from announced 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.



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Paper market in Europe

Market trends in exchange rates

- In the 2nd quarter of 2010, the average **EUR/PLN** exchange rate was at a similar level (+0.6%) compared to the 1st quarter of 2010, but the average exchange rate **during the first 6 months of 2010 was 10.6% lower than in the previous year**. The average **EUR/SEK** exchange rate in the 2nd quarter was 3.1% lower than in the 1st quarter of 2010. **In the first half of 2010** the EUR/SEK exchange rate, similar to the EUR/PLN rate, **was 9.9% below the same period of the prior year**.

These changes mean that in the first half of 2010, **PLN and SEK grew considerably stronger against EUR**, which has an unfavourable effect on the financial results of the Arctic Paper Group, primarily with respect to sales revenues in PLN.

- The average **USD/PLN** exchange rate in the 2nd quarter was 3.1605, compared to 2.8815 in the 1st quarter. This represents a **weakening of PLN by 9.7%**. Despite such significant changes in the 2nd quarter of 2010, **in the 1st half of 2010** the average USD/PLN exchange rate **fell by 10.2%**. **The average USD/SEK exchange rate in the 2nd quarter was 5.5% higher** than in the 1st quarter of 2010. **In the 1st half of 2010 the average USD/SEK exchange rate fell by 9.6%**.

Changes in USD/PLN and USD/SEK rates had a clearly unfavourable effect on the results for the 2nd quarter compared to the 1st quarter of 2010.

- The EUR/USD exchange rate at the end of the 1st half of 2010 was 1.2213, compared to 1.3448 at the end of the 1st quarter of 2010 (-9.2%) and 1.4085 at the end of the first half of 2009 (-13.3%). **In the 2nd quarter of 2010 USD appreciated strongly against EUR**, and the average EUR/USD rate in the 2nd quarter 2010 was 1.2731, compared to 1.3840 in the first quarter (-8%). **In the 1st half of 2010** the average was 1.3290, compared to 1.3328 during the 1st half of 2009, which represents **strengthening of USD against EUR of less than 0.3%**.



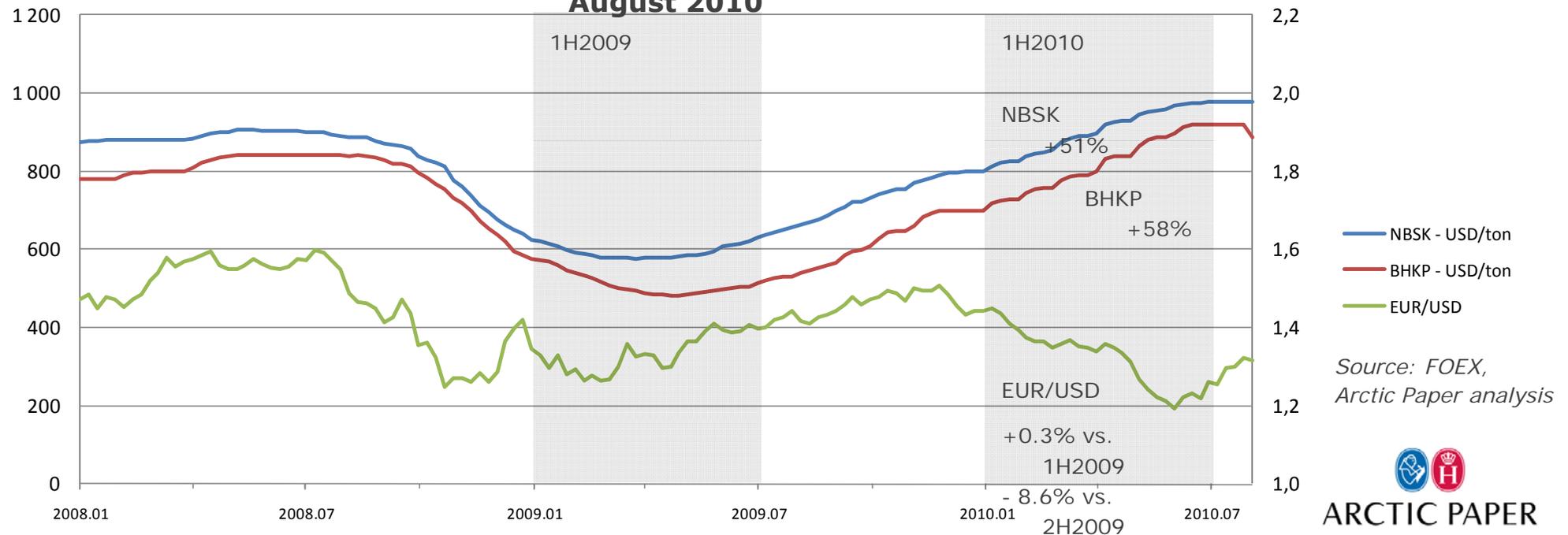
Paper market in Europe

Market trends for pulp

- At the end of the 2nd quarter of 2010, pulp prices were USD 975.80 per tonne for NBSK and USD 918.30 per tonne for BHKP—**up 57.0% and 81.6% respectively from the end of June 2009.**
- The average prices of pulp in the 2nd quarter of 2010 were up 59.6% for NBSK and 77.0% for BHKP from the 2nd quarter of 2009, and up 11.7% and 16.0% respectively from the 1st quarter of 2010. **The average prices of pulp during the first six months of 2010 were up 51.1% for NBSK and 58.0% for BHKP compared to the first half of 2009.**
- Pulp prices are subject to great fluctuation. The increase in pulp prices is currently causing a significant loss of profitability for the Group. **The share of pulp costs in the Group's own cost of sales was about 48% in the 1st half of 2010, compared to 37% in the same period of 2009.**

Source: www.foex.fi, Arctic Paper analysis

Pulp prices and USD/EUR exchange-rate changes, Jan. 2008 – August 2010



Paper market in Europe

Market trends for pulp

Factors that may affect the development of the pulp market

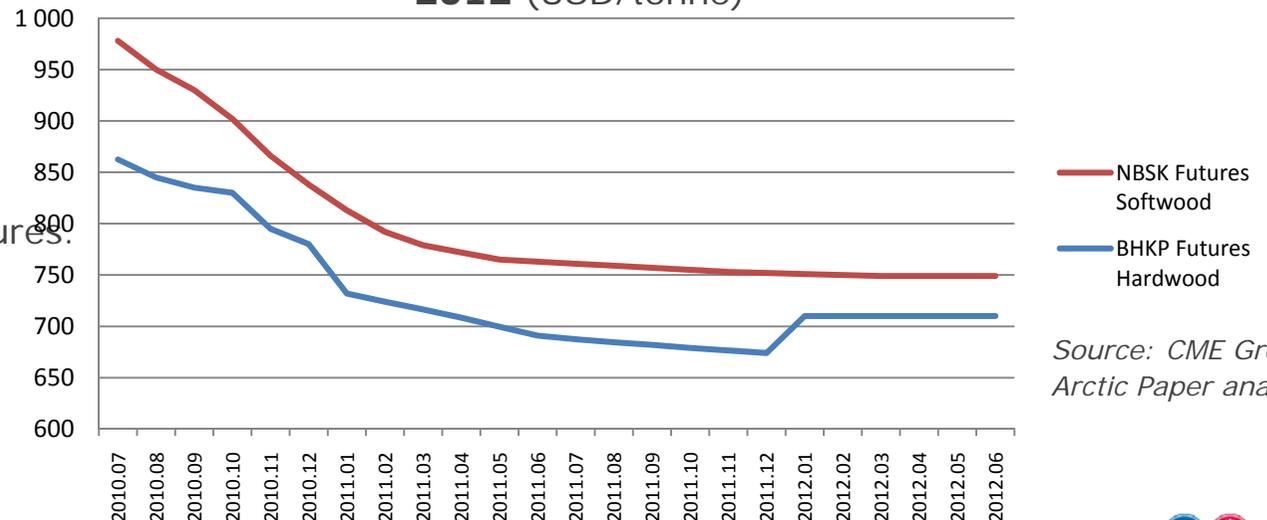
- Most of the deliveries of pulp delayed by the Chilean earthquake in February 2010 are already on the market.
- Pulp producers are reopening previously closed pulp plants: Stora Enso (about 1 million tonnes), April (950,000 tonnes), Catalyst Paper (165,000 tonnes), and potentially others of about 800,000 tonnes capacity, giving a total of nearly 3 million tonnes.

Source: Terrachoice Market Services Inc.

- Possible further slowdown of pulp imports to China and possible declines in pulp prices on that market.

- Low level of pulp inventories at paper producers and significant shortages and delays in pulp deliveries.
- Promising valuation of pulp futures.

Softwood & hardwood pulp futures, July 2010 – June 2012 (USD/tonne)



Source: CME Group, Arctic Paper analysis



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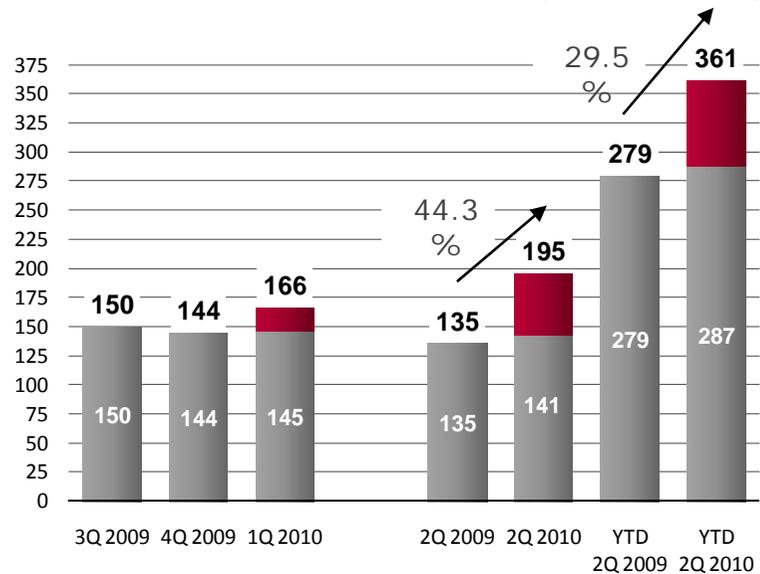
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Sales volume and revenue

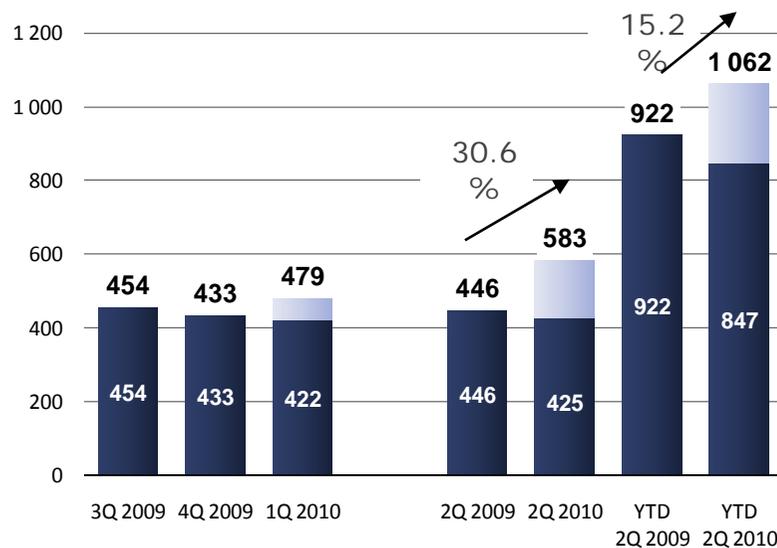
Growth in sales volume and total revenue with a decline in LFL revenue

Total and LFL sales volume ('000 tonnes)

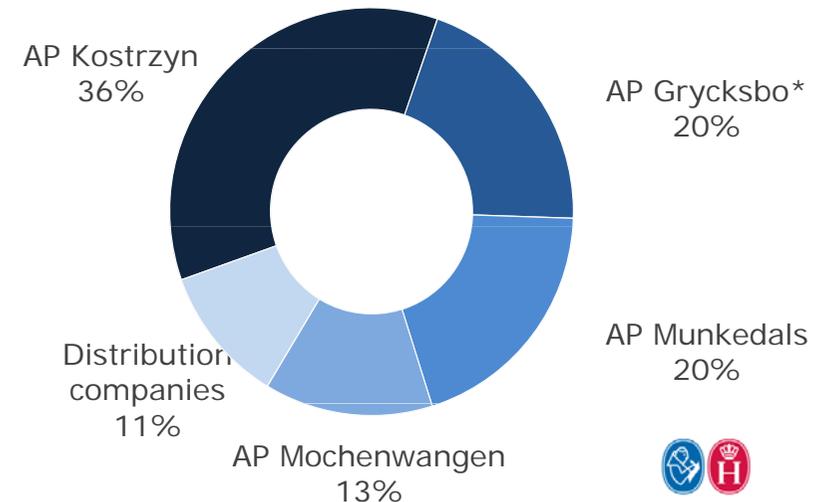


- In Q2 2010, AP Group achieved growth in sales volume versus 2009 of 44%, and year-to-date over 29%. During the same period, growth in LFL sales volume (excluding AP Grycksbo) was 4.4% and 2.8% respectively.
- Sales revenue of the AP Group in Q2 2010 was PLN 582 m, 30.6% more than in Q2 2009 and 15.2% YTD. LFL sales fell during the same period by 4.8% and 8.1% YTD, respectively.

Total and LFL revenues (PLN '000)



Structure of external revenues by company



* Grycksbo revenue included from March 2010

Main financial information

Results for 2nd quarter and first half of 2010

PLN'000	2Q 2010	1Q 2010	2Q 2009	YTD 2Q 2010	YTD 2Q 2009	2Q 2010 vs. 2Q 2009 Change %	YTD 2Q '10 vs. YTD 2Q '09 Change %
Revenues	582 948	479 360	446 482	1 062 308	922 106	30,6%	15,2%
Gross profit on sales <i>% of sales</i>	63 051 <i>10,8%</i>	82 413 <i>17,2%</i>	115 445 <i>25,9%</i>	145 464 <i>13,7%</i>	238 363 <i>25,8%</i>	-45,4% <i>-15 p.p.</i>	-39,0% <i>-12 p.p.</i>
EBITDA <i>% of sales</i>	1 443 <i>0,2%</i>	32 373 <i>6,8%</i>	64 536 <i>14,5%</i>	33 816 <i>3,2%</i>	131 002 <i>14,2%</i>	-97,8% <i>-14 p.p.</i>	-74,2% <i>-11 p.p.</i>
EBIT <i>% of sales</i>	-22 247 <i>-3,8%</i>	12 724 <i>2,7%</i>	48 924 <i>11,0%</i>	-9 522 <i>-0,9%</i>	99 221 <i>10,8%</i>	-145,5% <i>-15 p.p.</i>	-109,6% <i>-12 p.p.</i>
Net profit <i>% of sales</i>	85 <i>0,0%</i>	670 <i>0,1%</i>	29 917 <i>6,7%</i>	755 <i>0,1%</i>	69 306 <i>7,5%</i>	-99,7% <i>-7 p.p.</i>	-98,9% <i>-7 p.p.</i>
Earning per share [PLN]	0,00	0,01	0,68	0,01	1,56	-99,8%	-99,1%

- 30.6% growth in sales revenue in Q2 2010 compared to Q2 2009 and 15.2% up for 1H 2010, with declining LFL revenue.
- Operating loss in Q2 and 1st half year 2010. EBITDA in 1H 2010 about 25% of 2009.
- Consolidated net profit in Q2 2010 was PLN 85,000, and PLN 755,000 for 1H.
- Earnings per share in Q2 2010 were almost zero, compared to PLN 0.68 in Q2 2009.



Summary of 2nd quarter 2010

- Almost maximum use of production capacity, with slight decline in orders received.
- First increase in paper prices completed, second increase in the course of being implemented.
- Continued dynamic growth in pulp prices on world markets.
- Exchange rate changes unfavourable to Arctic Paper Group.
- Integration of Grycksbo paper mill.
- Despite the high level of orders and full use of production capacity, weak financial results achieved in Q2 and 1H of 2010.



Measures taken and planned to improve results

- Continuing optimization of product sales structure, market and customer mix.
- Introduction of further price increases in the upcoming months.
- Implementation of plans for improved profitability at all mills and cost-cutting actions at all other units—including reduction in costs of marketing and sales operations.
- Short-term restriction of investments to minimum level.
- Restrictions of hiring staff to minimum level.



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The Arctic Paper Group's strategy

Key premises of corporate strategy

Expansion into the markets of Central & Eastern Europe while maintaining our leadership position in main markets

- The markets of Western Europe will remain important to us because of their size...
- ...however, the paper market in the Central & Eastern European countries will grow faster because of the currently low level of paper consumption per person and the expected increase in production capacity of printing plants in Central & Eastern European countries
- The main elements of our strategy include exploiting advantages of the Group's production locations and operational efficiencies

Increasing production capacity through modernisation and acquisitions

- We are investing in the continuous modernisation of our paper machines and increasing the production capacity of our mills
- We also actively monitor the market for potential opportunities to acquire companies in the sector

Maximising efficiency of production and distribution

- Maximisation of energy efficiency and self-sufficiency
- Effective resource management
- Taking advantage of our strong bargaining power to negotiate lower raw material prices
- Maximising efficiency of our production lines and distribution logistics

Building strong brands and close customer relations

- Strong brand positioning of our products
- Extensive recognition of our brands on the market
- Cohesive and integrated communications with the market
- Rising share of direct sales



Plans for 2010

Key areas of activity planned to the end of the current year

- Integration of Grycksbo Paper Holding AB into the Arctic Paper Group's organisational structure, particularly in the area of sales and marketing.
- Taking advantage of the opportunities to further increase paper prices.
- Further improvement in the efficiency of production processes, including an evolutionary increase in production capacity.
- Optimisation of working capital.
- Consistent activities to minimise risks, including forex risk.
- Searching for new organizational, capital and commercial solutions which will reduce exposure to the volatility of pulp prices.



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Thank you for your
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