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Arctic Paper results
for 2nd quarter of 2011

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ARCTIC PAPER

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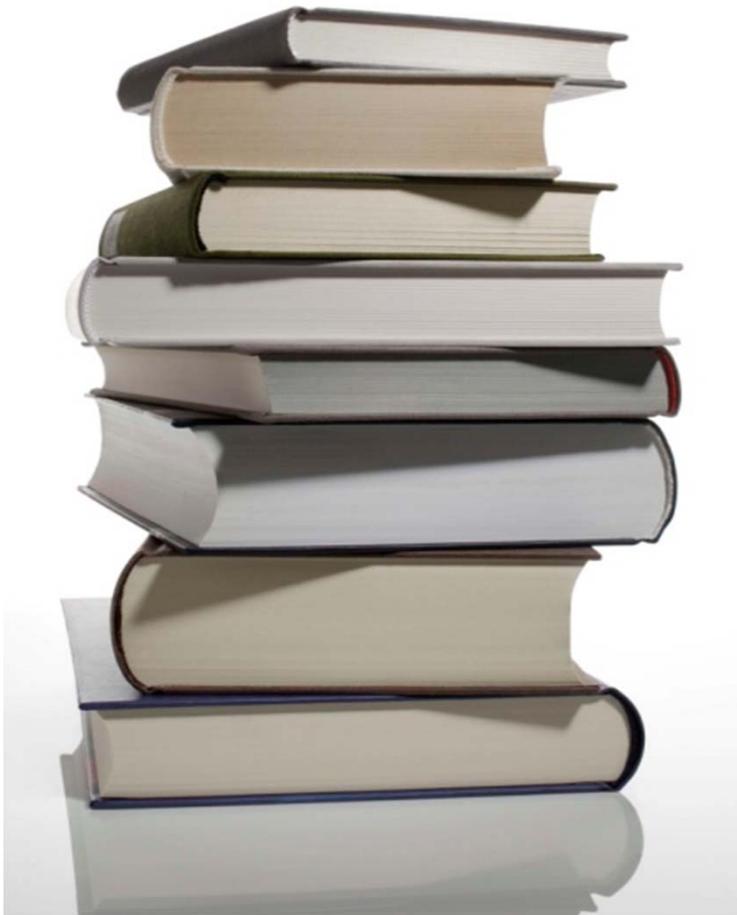
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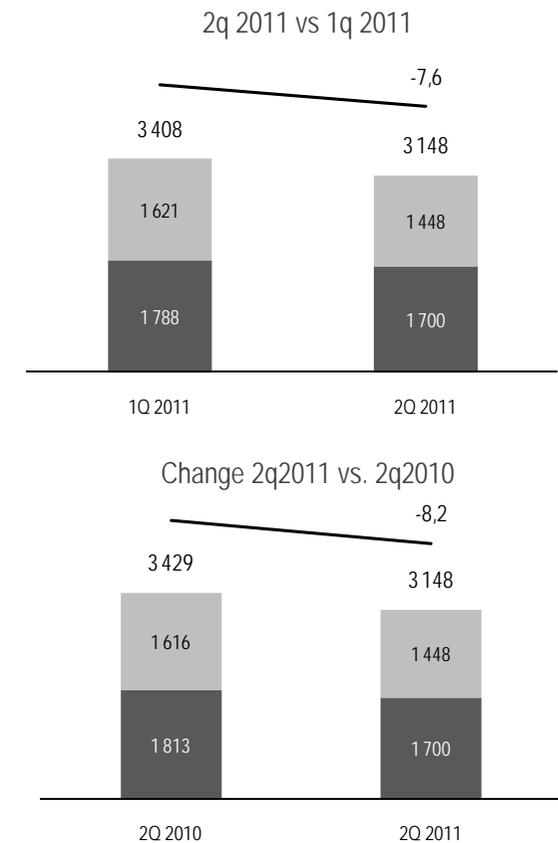
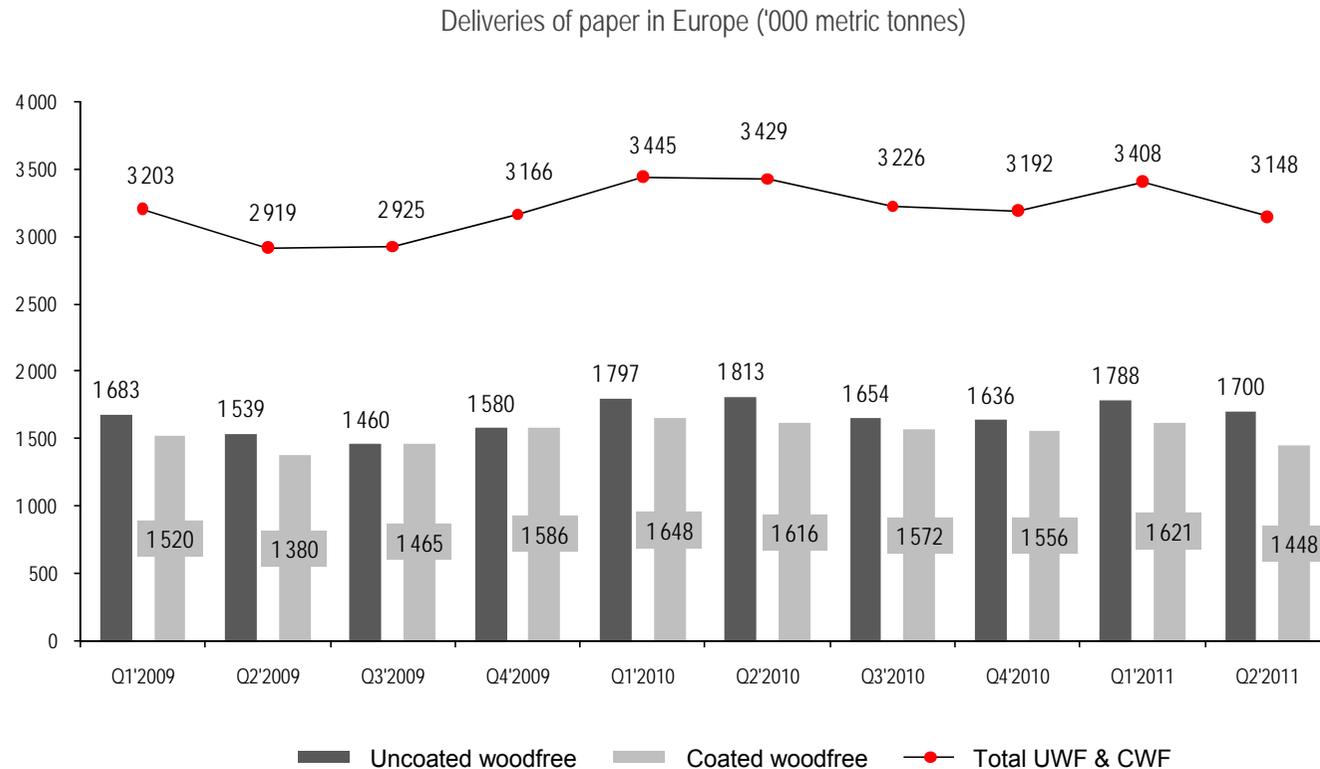
Agenda



- Market environment
- Financial results
- Summary

Market environment

Supply of fine paper in Europe



- ▶ In 2q 2011 deliveries of fine paper in Europe were approx. 7,6% lower than in 1q 2011 and 8,2% lower than in 2q 2010. During 2q 2011, deliveries in the uncoated woodfree (UWF) segment were down 4,9% vs. 1q 2011 and 6,2% vs. 2q 2010, and in the coated woodfree (CWF) segment down 10,7% and 10,4%.
- ▶ In the 1st half of 2011 deliveries of fine paper were 4,6% lower than in the same period of last year. The UWF paper deliveries were 3,4% lower and the CWF 6% lower.
- ▶ In 2q 2011 Arctic Paper Group noted lower order intake. In the quarter sales volume was 8,6% below 1q 2011 and 6,5% below 2q 2010.

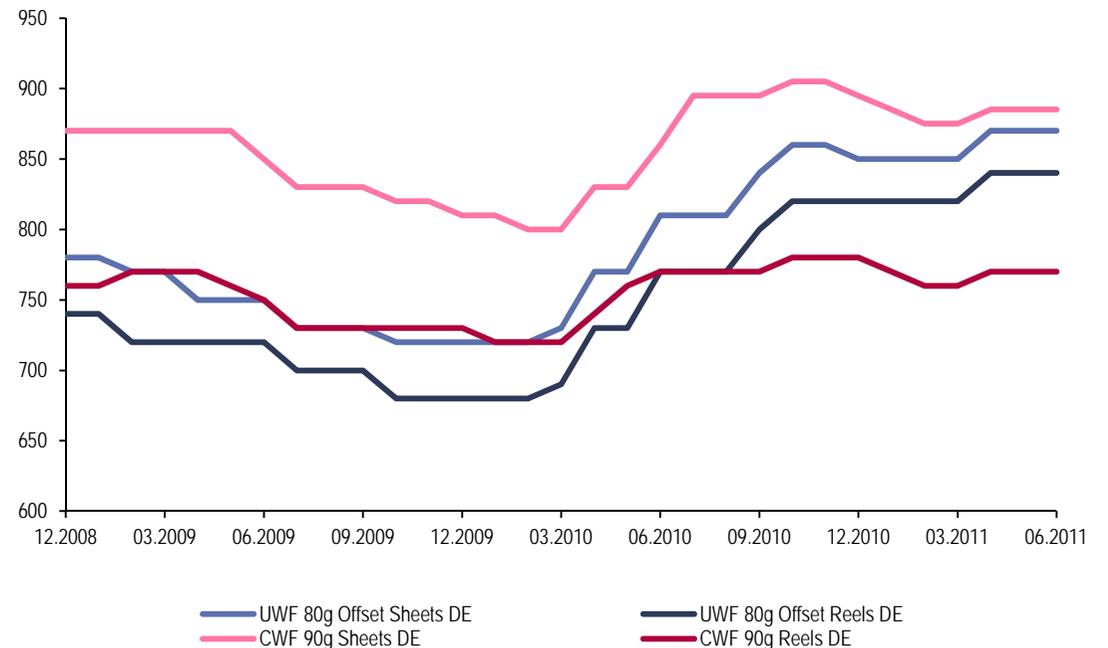


Market environment

Fine paper prices

- ▶ In the beginning of 2q 2011 prices of fine paper slightly increased, but due to increasing pressure from declining demand side in the end of May and June paper prices started to decline.
- ▶ From December 2010 through June 2011 prices declared by producers of uncoated woodfree paper (UWF) for selected paper grades and markets – France, Germany, Italy, Spain and the UK – expressed in EUR and GBP, changed in the range between -1% and +3%.
- ▶ During the same period prices of coated woodfree paper (CWF) fell by from -3% to -6%
- ▶ The prices invoiced by Arctic Paper in EUR for comparable products in the UWF segment changed between December 2010 and June 2011 within the range from -1% to +2,4%, and in the CWF segment from -1% to -6%.

Graphic paper prices in EUR - German market



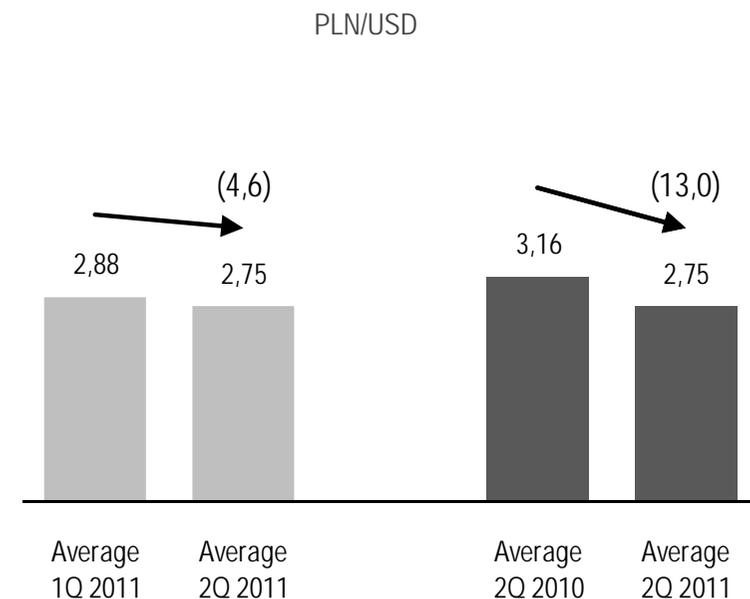
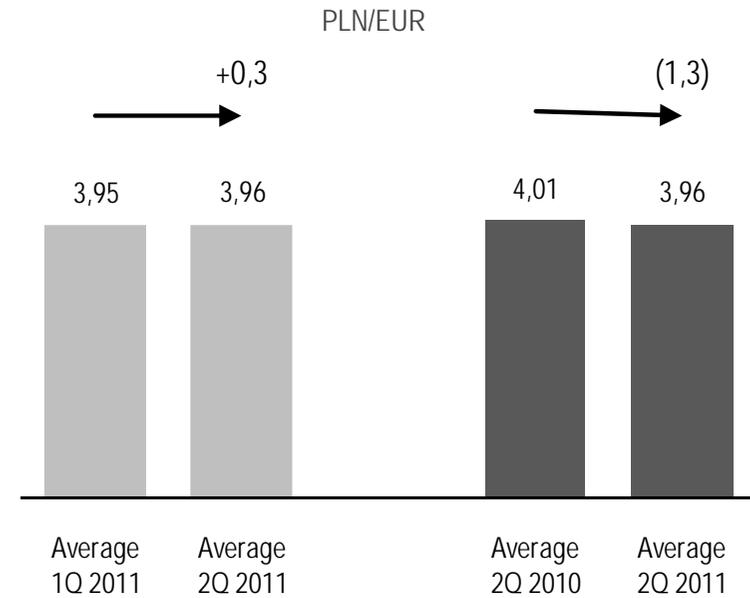
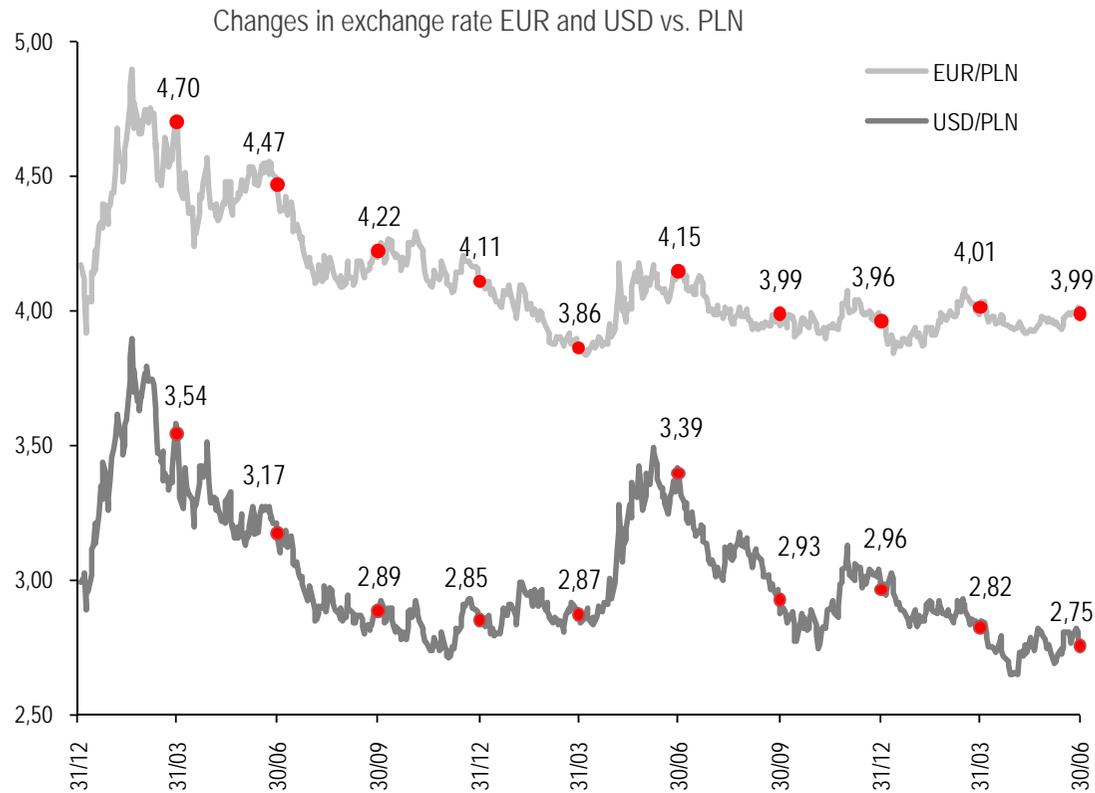
- ▶ The chart above presents changes in prices for fine paper for the German market, which illustrate trends visible on key markets and segments in which the Arctic Paper Group operates.

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

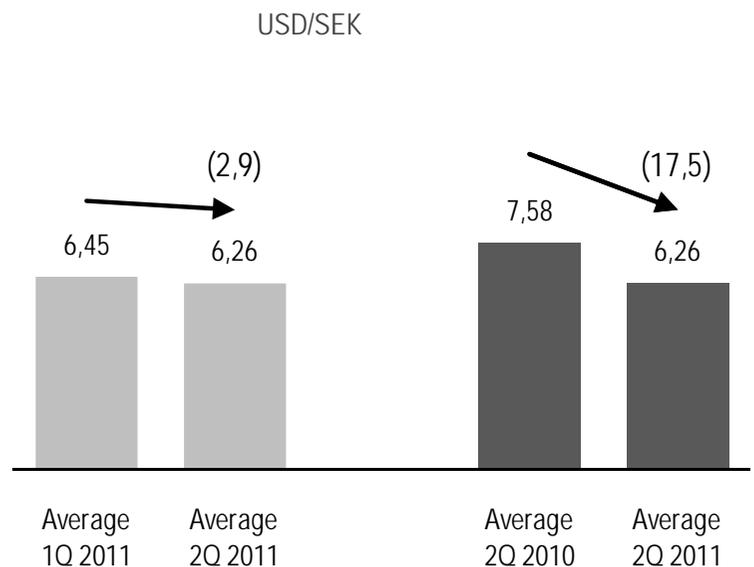
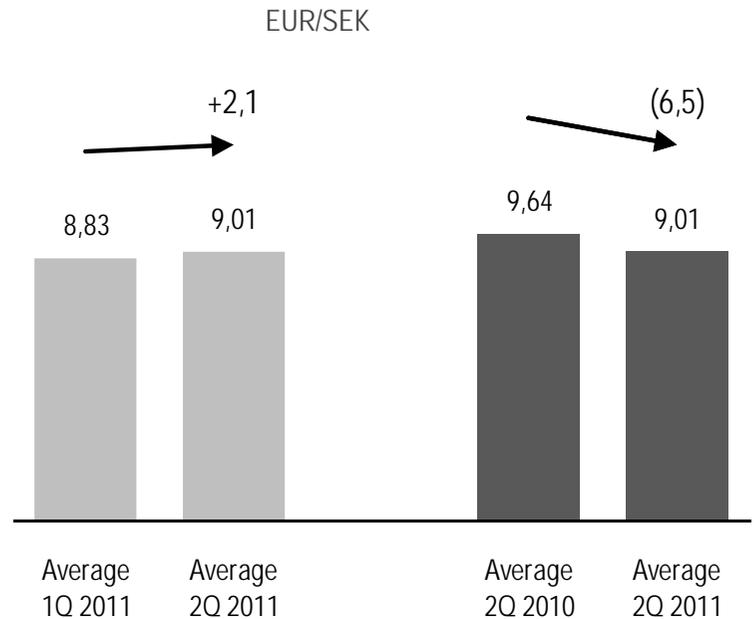
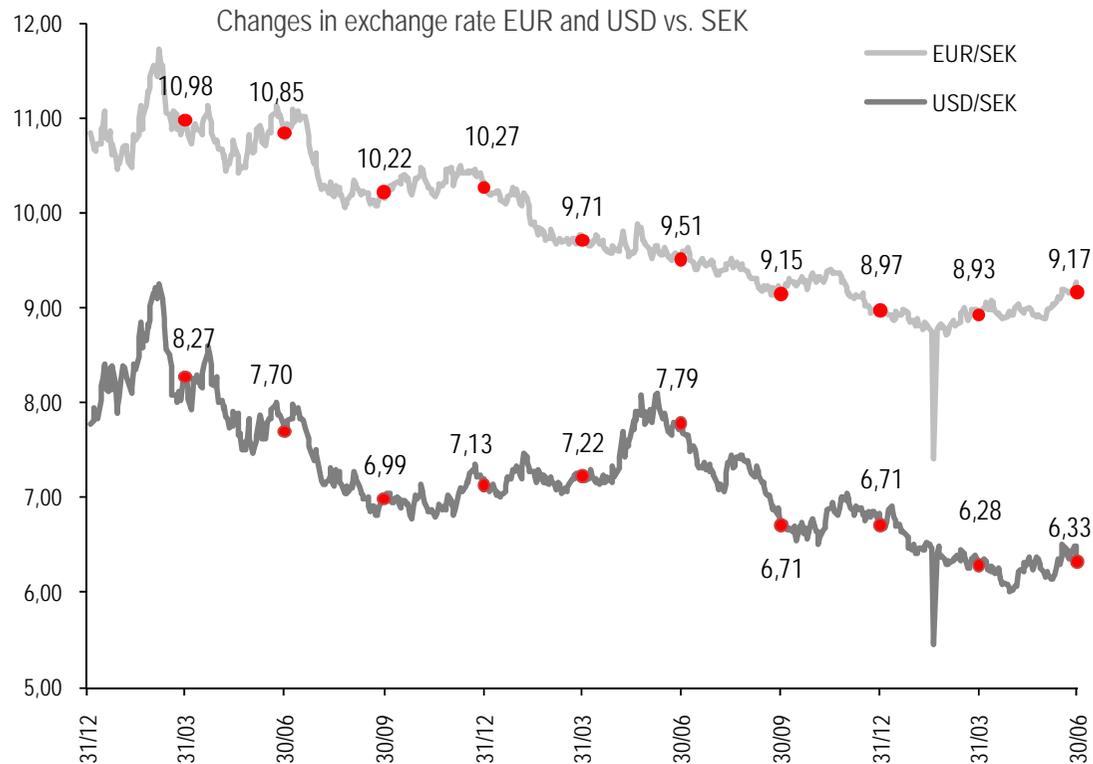
Exchange rates



- ▶ In 2q 2011 the average EUR/PLN exchange rate was 3,96 and was higher by 0,3% than in 1q 2011 and lower by 1,3% than in 2q 2010
- ▶ In 2q 2011 the average USD/PLN exchange rate was 2,75 and 4,6% lower than in 1q 2011 and 13% than in 2q 2010
- ▶ The above changes had moderate positive impact on the Kostrzyn mill performance in 2q 2011

Market environment

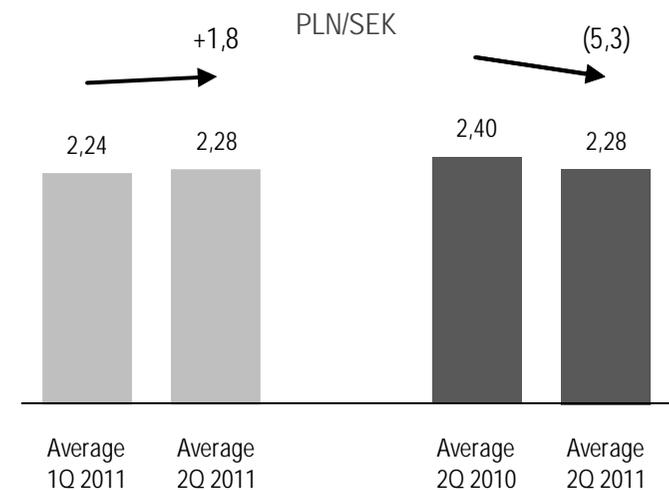
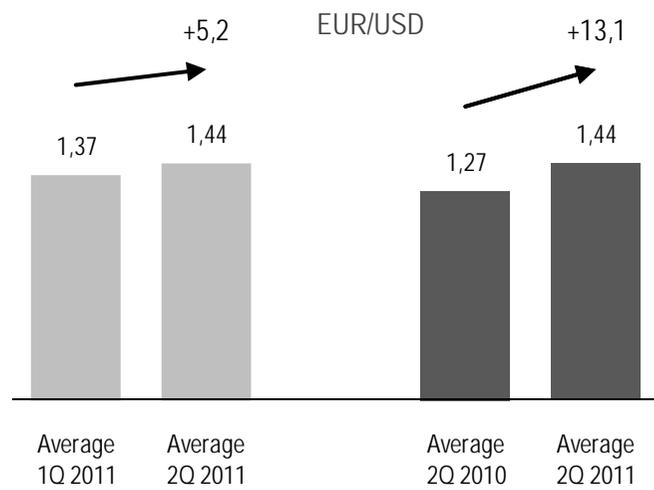
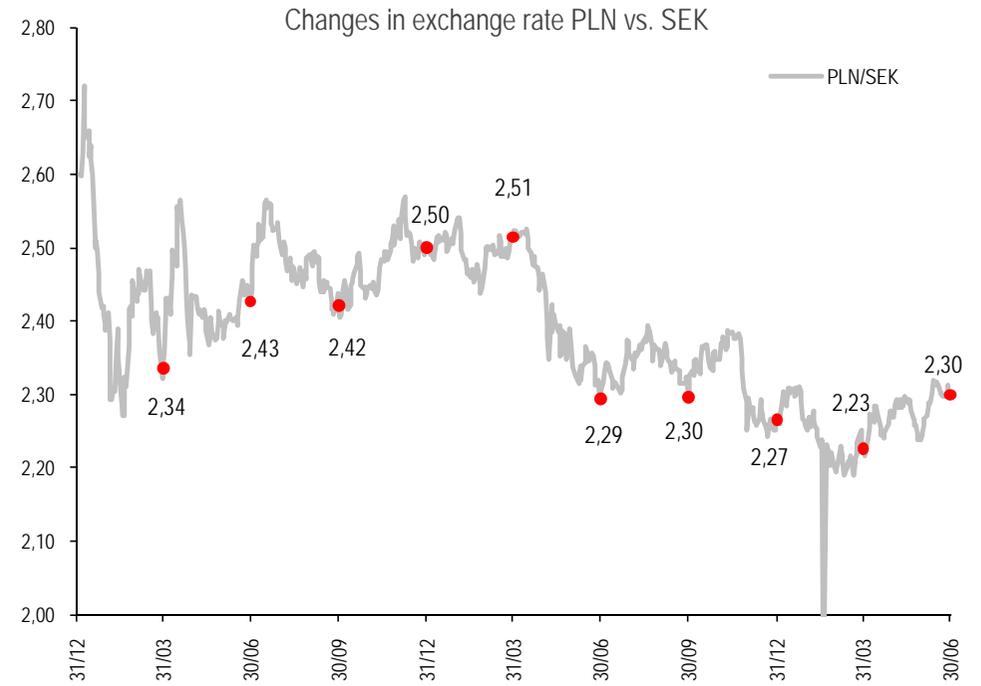
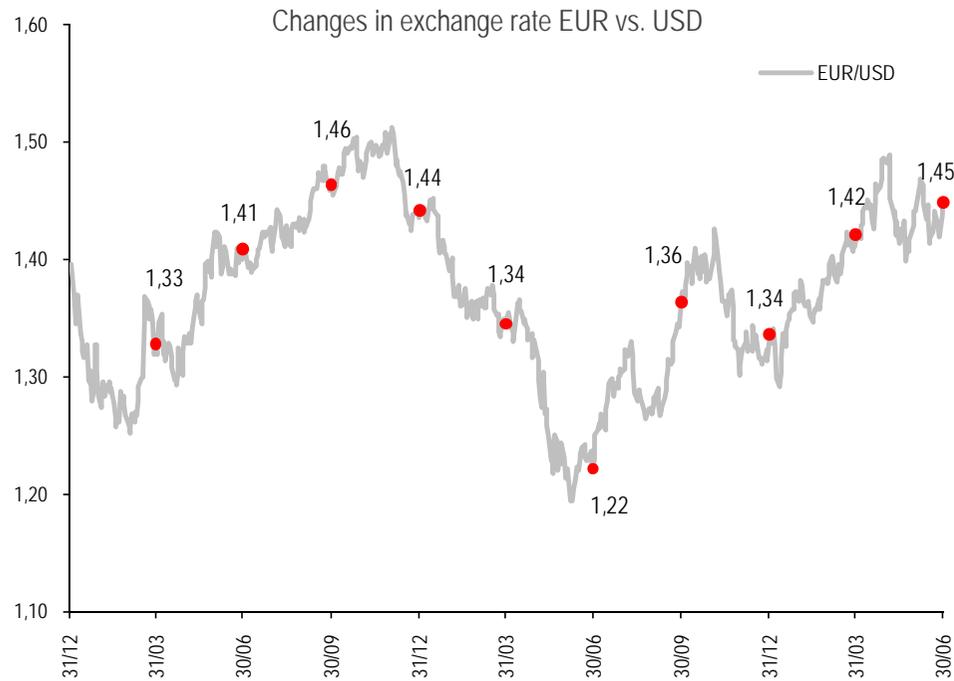
Exchange rates



- ▶ In 2q 2011 the EUR/SEK exchange rate was 2,1% higher than in 1q 2011 and 6,5% lower than in 2q 2010. Although we see now positive trend in EUR/SEK relation, still when we compare 2q with the same period of 2010 we notice significantly lower levels. This had a major negative impact on EUR revenues generated by the mills in Sweden (AP Munkedals and AP Grycksbo).
- ▶ In 2q 2011 the USD/SEK exchange rate was 2,9% lower than in 1q 2011 and 17,5% lower than in 2q 2010. This change had a favourable impact on costs incurred in USD by AP Munkedals and AP Grycksbo, particularly pulp costs.

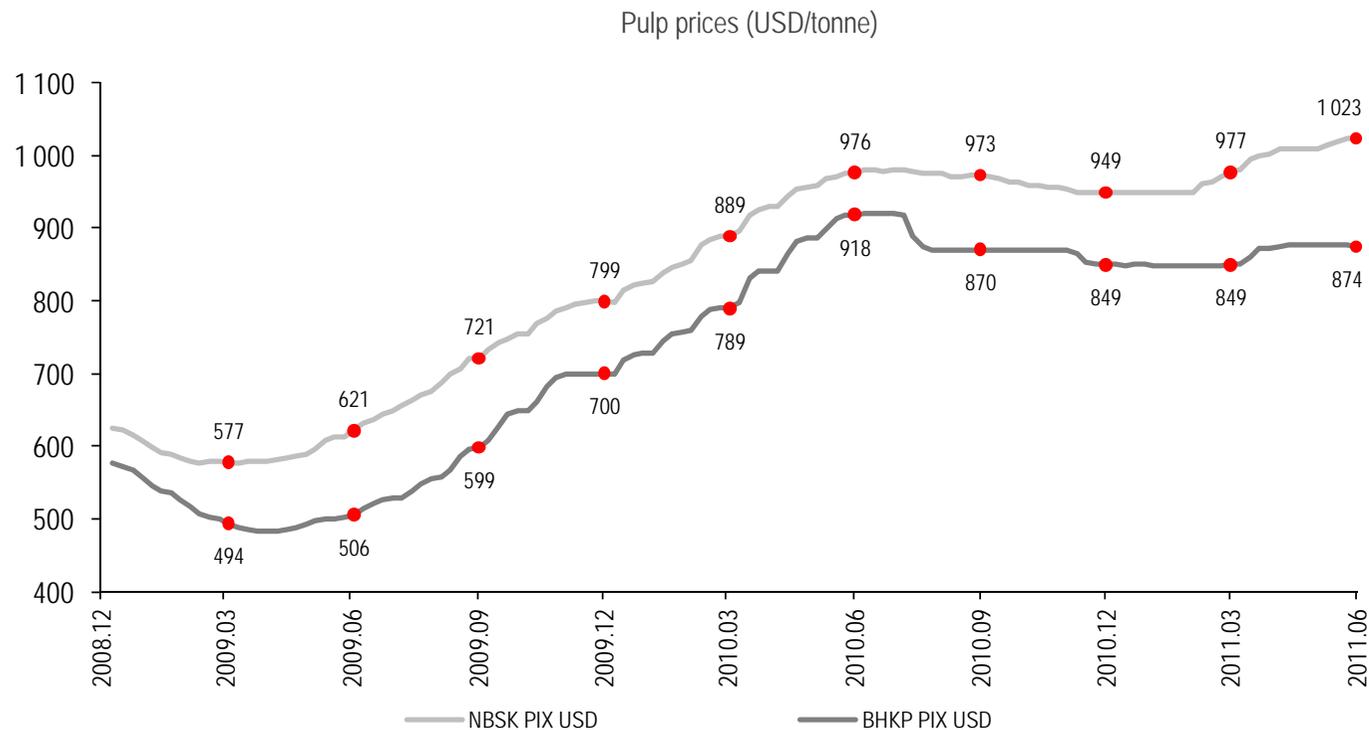
Market environment

Exchange rates



Market environment

Pulp prices

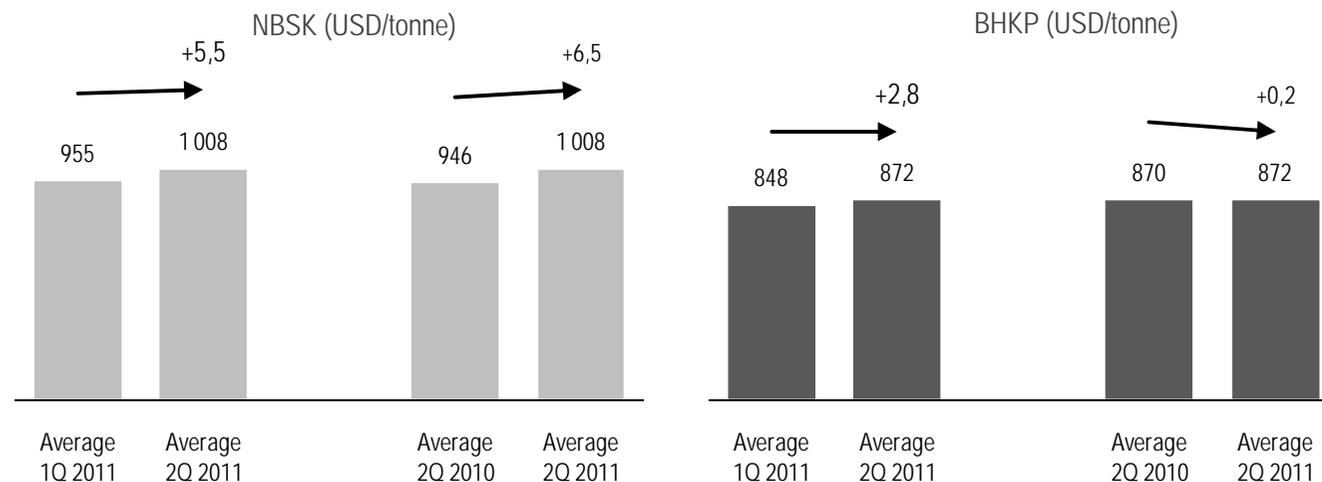


▶ As of the end of 2q 2011 pulp prices were at USD 1.023 per tonne for NBSK and USD 874 per tonne for BHKP. The average price for NBSK in 2q 2011 was 6,5% higher than in 2q 2010, and BHKP price was up 0,2%. In 2q 2011 average NBSK price was 5,5% higher and BHKP price was 2,8% higher than in 1q 2011.

▶ The average cost of pulp per tonne for AP Group in 2q 2011, expressed in PLN was up 3,6% compared to 2q 2010 and was down by almost 3% compared to 1q 2011.

▶ The share of pulp costs in total costs of sales for 1SEM 2011 was nearly 50% - similar to 1SEM 2010.

▶ Pulp usage for AP Group production was BHKP 58%, NBSK 19%, and other 23%.



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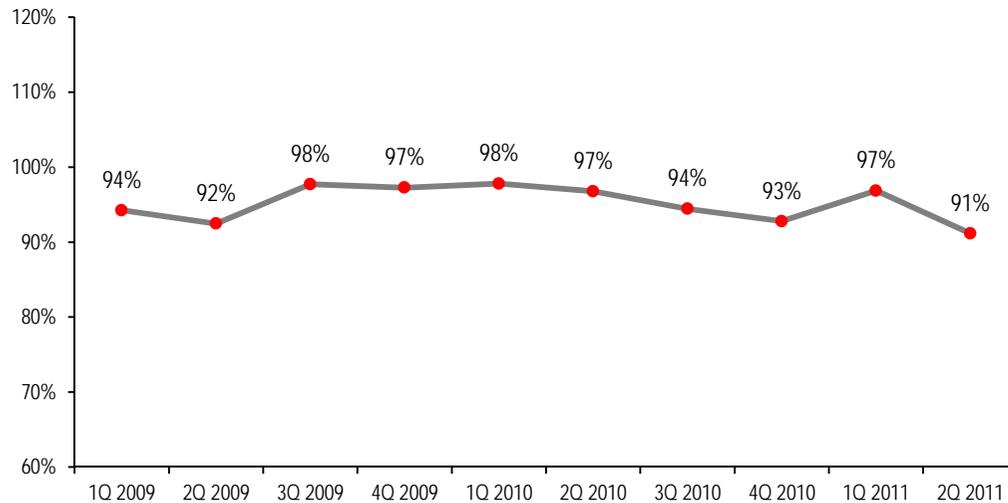
Financial results

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Financial results

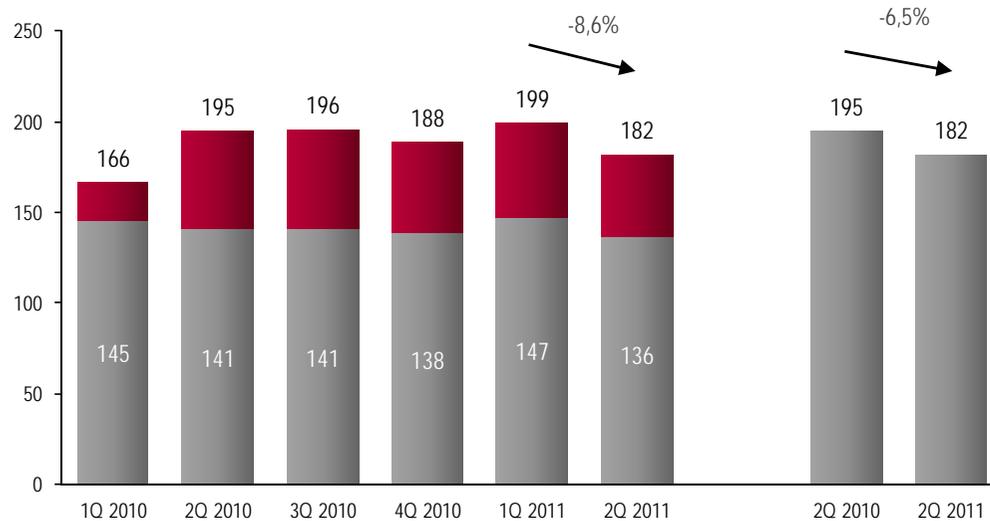
Use of production capacity and sales volume

Use of production capacity for all mills



- ▶ In 2q 2011 use of production capacity for all Group mills was 91% and 5,9% lower than in 1q 2011. Main reason of this decline was lower level of orders and production stops related to this.

Total and LFL sales volume ('000 tonnes)

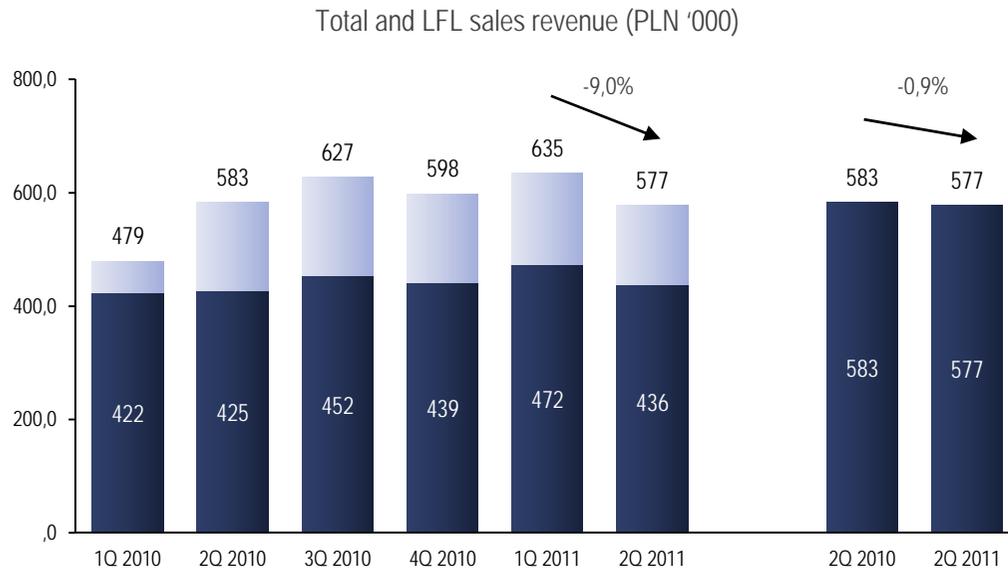


- ▶ In 2q 2011 the AP Group noted a decline in sales volume compared to 2q 2010 of about 6,5%. Sales volume in 2q 2011 was 182 thousands tonnes and down by 8,6% on 1q 2011.
- ▶ In the 1st half of 2011, sales volume reached 381 thousands tonnes and was higher by 5,6% than in the same period of the last year.

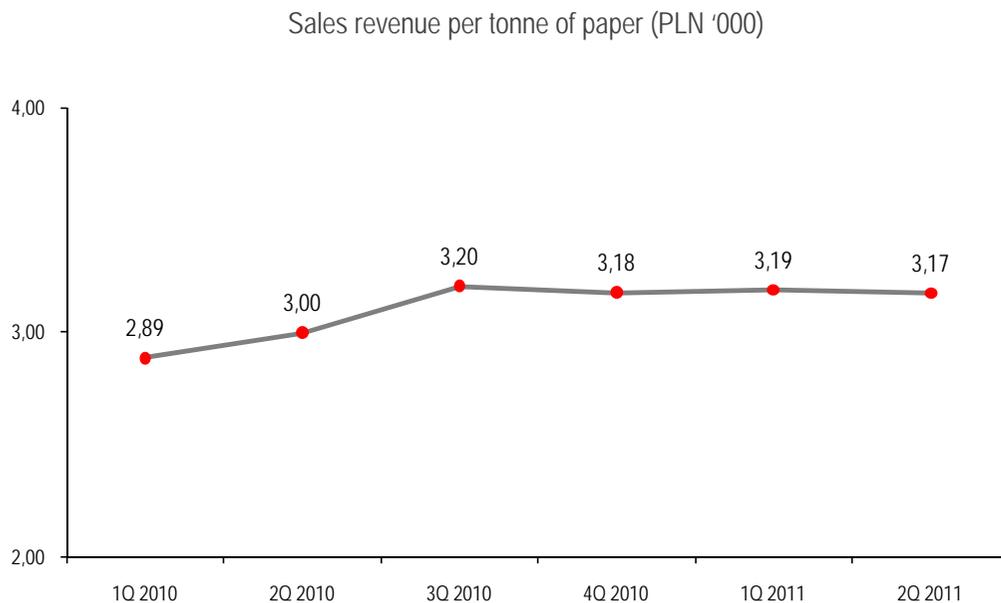


Financial results

Sales revenue



- ▶ AP Group sales revenues in 2q 2011 were PLN 577 mln, representing decrease of 9,0% compared to 1q 2011 and 0,9% on 2q 2010.



- ▶ Revenue per tonne of paper sold, expressed in PLN, was PLN 3,17 thousand in 2q 2011, a decrease of 0,4% on 1q 2011 and 6% increase on 2q 2010. This result was achieved with a slight positive influence of the EUR/PLN exchange rate (average exchange rate 2q 2011 vs. 1q 2011 of +0,3%) and with a moderate positive influence of the EUR/SEK rate (average exchange rate 2q 2011 vs. 1q 2011 of +2,1%).



Preliminary financial results

Main items on profit and loss statement

PLN'000	2Q 2011	1Q 2011	2Q 2010	2Q 2011 vs. 1Q 2011 Change %	2Q 2011 vs. 2Q 2010 Change %	YTD 2Q 2011	YTD 2Q 2010	YTD 2Q'2011 vs. YTD 2Q'2010 Change %
Revenues	577 487	634 632	582 948	-9,0%	-0,9%	1 212 119	1 062 308	14,1%
Gross profit on sales (w/h D&A)	99 941	113 839	84 447	-12,2%	18,3%	213 780	184 639	15,8%
<i>% of sales</i>	<i>17,3%</i>	<i>17,9%</i>	<i>14,5%</i>	<i>-1 p.p.</i>	<i>3 p.p.</i>	<i>17,6%</i>	<i>17,4%</i>	<i>0 p.p.</i>
Depreciation & Amortization	-30 256	-30 219	-21 396	0,1%	41,4%	-60 475	-39 175	54,4%
Gross profit on sales	69 685	83 620	63 051	-16,7%	10,5%	153 305	145 464	5,4%
<i>% of sales</i>	<i>12,1%</i>	<i>13,2%</i>	<i>10,8%</i>	<i>-1 p.p.</i>	<i>1 p.p.</i>	<i>12,6%</i>	<i>13,7%</i>	<i>-1 p.p.</i>
EBITDA	16 548	30 498	1 443	-45,7%	11 x	47 046	33 816	39,1%
<i>% of sales</i>	<i>2,9%</i>	<i>4,8%</i>	<i>0,2%</i>	<i>-2 p.p.</i>	<i>3 p.p.</i>	<i>3,9%</i>	<i>3,2%</i>	<i>1 p.p.</i>
EBIT	-15 190	-1 163	-22 247	13 x	-31,7%	-16 353	-9 522	71,7%
<i>% of sales</i>	<i>-2,6%</i>	<i>-0,2%</i>	<i>-3,8%</i>	<i>-2 p.p.</i>	<i>1 p.p.</i>	<i>-1,3%</i>	<i>-0,9%</i>	<i>-0 p.p.</i>
Net profit / loss	-41 647	-8 465	85	392,0%	(490) x	-50 113	755	(66) x
<i>% of sales</i>	<i>-7,2%</i>	<i>-1,3%</i>	<i>0,0%</i>	<i>-6 p.p.</i>	<i>-7 p.p.</i>	<i>-4,1%</i>	<i>0,1%</i>	<i>-4 p.p.</i>
Earnings per share [PLN]	-0,75	-0,15	0,00	n.a.	n.a.	-0,90	0,01	n.a.

- ▶ Lower sales revenue due to weaker than expected demand in the fine paper segment, mainly in June
- ▶ Gross profit margin (excluding amortization) on the level comparable to 1q 2011 and higher than level noted in 2q 2010. Also on the YTD basis Group recorded slightly higher gross profit margin compared to 2010.
- ▶ EBITDA margin in 2q 2011 of 2,9% compared to 4,8% in 1q 2011 and 0,2% in 2q 2010.
- ▶ Negative operating performance and net loss in the quarter and YTD, partly attributable to (compared to 2010) higher depreciation caused by revaluation of the acquired assets of Grycksbo in 2010 (PLN -7m in 2q and PLN -14,2m in 1h 2011) and negative unrealized exchange rates coming mainly from I/C loan valuation between holding company and Grycksbo acquisition SPV - Arctic Paper Investment AB (PLN -8,3m in 2q 2011 and PLN -3,9m in 1h 2011).



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Summary

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Summary of 2nd quarter of 2011

- ▶ Weaker than expected demand in the fine paper segment in Europe, particularly in June, that caused lower capacity utilisation in the AP Group mills (91% in 2q 2011, including 85% in June) and strong price pressure on the market. Temporary production stops in selected AP mills.
- ▶ In 2q 2011, slightly lower revenue per tonne expressed in PLN compared to previous quarter (-0,4%) and decline of total revenue in the quarter by -0,9% compared to 2q 2010 and by -9% compared to 1q 2011.
- ▶ Continued pulp price increase in the quarter. Quarterly average pulp price was higher compared to 1q 2011 for NBSK by 5,5% and for BHKP by 2,8%.
- ▶ Negative influence of the trend change for PLN/SEK pair. Negative unrealized exchange rates on intercompany loan of PLN -8,3m in 2q 2011 and PLN -3,9m in 1h 2011.
- ▶ Negative operating performance and net loss in 2q 2011 caused partly by additional depreciation of Grycksbo mill market value over its book value at acquisition date (March 2010) in the amount of PLN -7m in 2q and PLN -14,2m in 1h 2011 and negative exchange rates – total PLN -15,6m in 2q 2011 and PLN -12,2m in 1h 2011.



Actions taken

- ▶ Maximization of efforts to increase sales.
- ▶ Implementation of paper price increase starting from mid of September.
- ▶ Revision of sales policy in order to improve profitability.
- ▶ Implementation of the saving plans in all AP Group business units.
- ▶ Reduction of number of employees in Arctic Paper Munkedals.
- ▶ Suspension of the investment plans aiming at capacity increase, including Arctic Paper Kostrzyn, due to unsatisfying Group result.
- ▶ Production efficiency and energy consumption improvements in all mills.
- ▶ Production process modifications in order to use cheaper raw materials.
- ▶ Working capital management improvements.



Next quarter views

- ▶ Clearly seen trend change for pulp prices, particularly BHKP.
- ▶ Already noticed increasing demand for Arctic Paper products. Recovery after weak June.
- ▶ European economy and capital markets turbulence brings uncertainty regarding situation in the last quarter of the year.
- ▶ Political decisions regarding nuclear energy in Germany drives higher coal and generally electrical energy prices up.
- ▶ Heavy rains in Sweden and Norway gives positive indication of stable energy prices during autumn and winter.



Thank you for your
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