ARCTIC PAPER S.A.

FINANCIAL STATEMENTS
FOR YEAR ENDED 31 DECEMBER 2010
TOGETHER WITH INDEPENDENT AUDITORS' REPORT

Poznań, 27 April 2011

Content

(in PLN thousands)

INCOME STATEMENT

for year period ended 31 December 2010

	Note	Year ended 31 December 2010	Year ended 31 December 2009
Continuing operations			
Rendering of services	*29*	21 212	19 433
Interest income on loans	*29*	18 963	494
Dividends	*29*	91 157	129 636
Revenues	*11, 29*	**131 332**	**149 563**
Cost of sales		-	-
Gross profit (loss) on sales		**131 332**	**149 563**
Other operating income	*12.1*	68	1 596
Selling and distribution expenses		-	-
Administrative expenses	*12.5*	(21 210)	(28 211)
Other operating expenses	*12.2*	(28)	(1)
Operating profit (loss)		**110 162**	**122 947**
Finance income	*12.3*	704	578
Finance costs	*12.4*	(13 731)	(14 098)
Profit (loss) before tax		**97 135**	**109 427**
Income tax expense	*13.1*	-	(256)
Net profit (loss) for the period from continuing operations		**97 135**	**109 171**
Discontinued operations		-	-
Profit (loss) for the period from discontinued operations		-	-
Net profit (loss) for the period		**97 135**	**109 171**
Earnings per share in PLN (PLN):			
- basic from the profit for the period	*14*	1,77	2,41
- basic from the continuing operations for the period		1,77	2,41
- diluted from the profit for the period	*14*	1,77	2,41
- diluted from the profit with continuing operations for the period		1,77	2,41

(in PLN thousands)

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2010

	Note	Year ended 31 December 2010	Year ended 31 December 2009
Net profit (loss) for the period		97 135	109 171
Exchange differences on translation of foreign operations	*22.2*	17	(12)
Other comprehensive income		17	(12)
Total comprehensive income		**97 152**	**109 159**

(in PLN thousands)

STATEMENT OF BALANCE SHEET

as at 31 December 2010

	Note	As at 31 December 2010	As at 31 December 2009
ASSETS			
Non-current assets			
Tangible fixed assets	*16*	529	173
Intangible assets	*17*	1 336	1 361
Shares in subsidiaries	*18.1*	587 065	554 253
Other financial assets	*18.3*	179 000	-
Other non-financial assets	*18.4*	203	184
		768 133	**555 971**
Current assets			
Inventories	*19*	51	53
Trade and other receivables	*20*	26 798	52 020
Income tax receivables		196	-
Other financial assets	*18.3*	130 081	27 656
Other non-financial assets	*18.4*	345	2 148
Cash and cash equivalents	*21*	25 368	50 276
		182 839	**132 153**
TOTAL ASSETS		**950 972**	**688 124**
EQUITY AND LIABILITIES			
Equity			
Share capital	*22.1*	554 035	524 035
Share premium	*22.3*	72 289	35 985
Other reserves	*22.4*	30 914	-
Foreign currency translation	*22.2*	5	(12)
Retained earnings / (Accumulated losses)		97 135	88 957
		754 378	**648 965**
Non-current liabilities			
Interest-bearing loans and borrowings	*25*	119 571	-
Deferred tax liabilities	*13.3*	1	1
		119 572	**1**
Current Liabilities			
Provisions	*26*	625	-
Interest-bearing loans and borrowings	*25*	68 722	19 743
Trade payables	*27.1*	3 550	8 748
Other short-term payables	*27.1*	1 623	1 923
Income tax liabilities		-	205
Accruals	*27.2*	2 502	8 539
		77 022	**39 158**
Total Liabilities		**196 594**	**39 159**
TOTAL EQUITY AND LIABILITIES		**950 972**	**688 124**

(in PLN thousands)

STATEMENT OF CASH FLOWS

for the year ended 31 December 2010

	Note	Year ended 31 December 2010	Year ended 31 December 2009
Cash flows from operating activities			
Profit (loss) before taxation		**97 135**	**109 427**
Adjustments for:			
Depreciation	*12.6*	89	33
Gain/ (loss) from exchange differences		-	5 340
Net interest and dividends		21 635	(37 119)
Gain/(loss) from investing activities		-	(149)
(Increase) / decrease in receivables and other non-financial assets		(27 651)	(8 887)
(Increase) / decrease in inventories		2	(53)
Increase / (decrease) in payables except for loans and borrowings		(12 609)	1 315
Change in accruals and prepayments		(5 412)	8 309
Income tax paid		(400)	(50)
Acquisation of subsidiary		(212 367)	-
Loans granted		8 112	(28 413)
Other		16	153
Net cash flow from operating activities		**(131 450)**	**49 907**
Cash flows from investing activities			
Proceeds from sale of shares in a subsidiary		-	760
Purchase of tangible fixed assets and intangibles		(420)	(1 567)
Equity contributions in subsidiaries		-	(6 495)
Other investing activities		-	-
Net cash flow from investing activities		**(420)**	**(7 302)**

(in PLN thousands)

STATEMENT OF CASH FLOW

for the year ended 31 December 2010 - continuation

	Note	Year ended 31 December 2010	Year ended 31 December 2009
Cash flow from financing activities			
Proceeds from loans and borrowings		180 917	16 299
Proceeds from issue of shares	*14*	-	116 985
Repayment of loans and borrowings		(19 743)	(124 489)
Interest and dividends paid		(54 212)	(5 366)
Other		-	(153)
Net cash flow from financing activities		**106 962**	**3 276**
Cash and cash equivalents at the beginning of the period	*21*	**50 276**	**3 490**
Net increase (decrease) in cash and cash equivalents		(24 908)	45 881
Exchange rate differences (net)		-	905
Cash and cash equivalents at the end of the period	*21*	**25 368**	**50 276**

(in PLN thousands)

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2010

	Note	*Share capital*	*Share premium*	*Foreign currency translation*	Other reserves	*Retained earnings/ (Accumulated losses)*	***Total***
As at 1 January 2010		524 035	35 985	(12)	-	88 957	**648 965**
Profit/loss for the period						97 135	**97 135**
Other comprehensive income				17			**17**
Total comprehensive income				**17**		**97 135**	**97 152**
Issue of shares	*22*	30 000	27 570	-	-	-	**57 570**
Distribution of financial result		-	8 734	-	30 914	(39 648)	-
Dividends paid		-	-	-	-	(49 309)	**(49 309)**
As at 31 December 2010		**554 035**	**72 289**	**5**	**30 914**	**97 135**	**754 378**

For the year ended 31 December 2009

	Note	*Share capital*	*Share premium*	*Foreign currency translation*	*Retained earnings/ (Accumulated losses)*	***Total***
As at 1 January 2009		443 035	-	-	(20 214)	**422 821**
Profit/loss for the period					109 171	**109 171**
Other comprehensive income				(12)		**(12)**
Total comprehensive income				**(12)**	**109 171**	**109 159**
Issue of shares		81 000	35 985			**116 985**
As at 31 December 2009		**524 035**	**35 985**	**(12)**	**88 957**	**648 965**

ACCOUNTING POLICIES AND ADDITIONAL NOTES

1. Corporate information

The financial statements of the Arctic Paper S.A cover the year ended 31 December 2010 and contain comparative data for the year ended 31 December 2009.

Arctic Paper S.A. („Company" „Entity") was incorporated on the basis of a Notarial Deed dated 30 April 2008, that has publicly traded shares.

On 8 June 2010, by the power of the resolution of the Ordinary Shareholders' Meeting, the seat of the Company was changed from Kostrzyn nad Odrą to Poznań, ul. Jana Henryka Dąbrowskiego 334A. The change was registered by the Polish Register Court on 14 July 2010.

The Company is entered in the Register of Entrepreneurs kept by the District Court in Poznań – Nowe Miasto Wilda, 8th Commercial Department of the National Court Register, Entry No. KRS0000306944.

The Company was granted statistical REGON number 080262255.

The Company has an unlimited period of operation.

The main area of the Company's business activity is holding company's activity.

The direct parent company of Arctic Paper S.A. is Arctic Paper AB. The ultimate parent company of the whole Arctic Paper Group is Casandrax Financials S.A.

2. Identification of consolidated financial statements

The Company prepared consolidated financial statements for the year ended 31 December 2010, which has been approved for publishing at 27 April 2011.

3. Composition of the Management Board

At as 31 December 2010, the Management Board of the Company consisted of:

- Michał Jarczyński – President of the Management Board appointed on 30 April 2008;
- Hans Karlander – Member of the Management Board appointed on 4 December 2008;
- Bjarne Björk – Member of the Management Board appointed on 4 December 2008;
- Michał Bartkowiak – Member of the Management Board appointed on 17 September 2009.

On 14th December 2010 the Supervisory Board decided to dismiss Mr Kent Bjarne Björk from the Management Board of the Company. The dismissal takes effect from 31 December 2010.

From 31 December 2010 to the date of the approval of the financial statements, there were no changes in the composition of the Management Board.

4. Approval of the financial statements

These financial statements were approved for publishing by the Management Board at 27 April 2011.

Accounting policies and additional notes (in PLN thousands)

5. Company's investments

The Company has investments in the following subsidiaries:

Entity	**Registered office**	**Business activities**	**Share in capital**	
			31.12.2010	31.12.2009
Arctic Paper Kostrzyn S.A.	Poland, Fabryczna 1, 66-470 Kostrzyn nad Odrą	Paper production	100%	100%
Arctic Paper Munkedals AB	Sweden, SE 455 81 Munkedal	Paper production	100%	100%
Arctic Paper Investment GmbH	Germany, Fabrikstrasse 62, DE-882 84 Wolpertswende	Holding company	100%	100%
Arctic Paper Investment AB	Sweden, Box 383, 401 26 Göteborg	Holding company	100%	-
Arctic Paper UK Limited	United Kingdom, Quadrant House, 47 Croydon Road, Caterham, Surrey	Trading services	100%	100%
Arctic Paper Baltic States SIA	Lativia, K. Vardemara iela 33-20, Riga LV-1010	Trading services	100%	100%
Arctic Paper Benelux S.A.	Belgium, Dreve des Marroniers 28, 1410 Waterloo	Trading services	100%	100%
Arctic Paper Schweiz AG	Switzerland, Technoparkstrasse 1, 8005 Zurich	Trading services	100%	100%
Arctic Paper Italia srl	Italy, Via R. Boscovich 14, Milano	Trading services	100%	100%
Arctic Paper Ireland Limited	Ireland, 4 Rosemount Park Road, Dublin 11	Trading services	100%	100%
Arctic Paper Danmark A/S	Denmark, Jydekrogen 18, DK-2625 Vallensbaek	Trading services	100%	100%
Arctic Paper France SAS	France, 43 rue de la Breche aux Loups, 75012 Paris	Trading services	100%	100%
Arctic Paper Espana SL	Spain, Avenida Diagonal 472-474, 9-1 Barcelona	Trading services	100%	100%
Arctic Paper Papierhandels GmbH	Austria, Hainborgerstrasse 34A, A-1030 Wien	Trading services	100%	100%
Arctic Paper Polska Sp. z o.o.	Poland, Biskupia 39, 04-216 Warszawa	Trading services	100%	100%
Arctic Paper Norge AS	Norway, Per Kroghsvei 4, Oslo	Trading services	100%	100%
Arctic Paper Sverige AB	Sweden, Kurodsvagen 9, 451 55 Uddevalla	Trading services	100%	100%
Arctic Paper East Sp. z o.o.	Poland, Fabryczna 1, 66-470 Kostrzyn nad Odrą	Trading services	100%	100%

As at 31 December 2010 and 31 December 2009, the percentage of voting rights held by the Company in subsidiaries corresponds to the percentage held in the share capital of those entities.

6. Significant professional judgment and estimates

In the process of applying the Group's accounting policies regarding areas presented below, the most significant effect, apart from accounting estimations, had the professional judgement of the management.

Deferred tax asset

Due to the uncertainty regarding utilization in future periods of tax losses recorded in years 2008-2010, the Management Board decided not to create deferred tax asset for this purpose. Furthermore, the Management Board decided not to create deferred tax asset for other temporary differences.

Impairment of assets in subsidiaries

The Management Board of Arctic Paper S.A. conducted detailed analysis of the impact of global economic crisis on the Company's operating results and results of the companies within the capital group. During this analysis no indicators of impairment of fixed assets in subsidiaries were identified. As a result of this analysis there was no need to perform an impairment test and no impairment loss was recognized.

Impairment of intangible assets

In accordance with IAS 36 the Company, on a regular basis, performs analysis of indications of impairment in acquired from Arctic Paper AB in 2009 trademarks and once a year the Company performs impairment test with regards to the trademarks. In this case no amortisation charges are made as required by IAS 38 which does not allow to amortise the intangibles with indefinite useful life. As at the balance sheet date the Company performed impairment test of the corporate Arctic Paper trademark. This analysis revealed that the trademark is not impaired. The next impairment test is planned for 31 December 2011.

7. Basis of preparation of financial statements

The financial statements have been prepared on a historical cost basis.

These financial statements are presented in Polish zloty ("PLN") and all values are rounded to the nearest thousand (PLN '000) except when otherwise indicated.

The financial statements have been prepared on the assumption that the Company will continue as going concerns in the foreseeable future.

As at the date of approval of these financial statements, the Company's Management Board is not aware of any facts or circumstances that would indicate a threat to the continued activity of the Company.

7.1. Statement of compliance

These financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), as well as with IFRSs endorsed by the European Union. At the date of approval of these financial statements, in light of the current process of IFRS endorsement in the European Union and the nature of the Company's activities, there is no difference between the IFRSs applied by the Company and the IFRSs endorsed by the European Union.

IFRSs comprise standards and interpretations accepted by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC").

7.2. Functional currency and presentation currency

Functional currency and presentation currency of the Company in these financial statements is Polish zloty (PLN).

8. Changes in accounting policies

The accounting policies applied to prepare these financial statement are consistent with those of the financial statements of the Company for the year ended 31 December 2009, except for the following amendments to the standards and new interpretations applicable to annual reporting periods beginning on or after 1 January 2010:

- IFRS 2 Share-based payment: Group Cash-settled Share-based Payment Transactions – applicable to annual reporting periods beginning on or after 1 January 2010. The standard has been amended to clarify the accounting for group cash-settled share-based payment transactions. This amendment supersedes IFRIC 8 and IFRIC 11. The adoption of this amendment did not have any impact on the financial position or performance of the Company.
- IFRS 3 Business Combinations (revised) and IAS 27 Consolidated and Separate Financial Statements (amended) – applicable to annual reporting periods beginning on or after 1 July 2009. IFRS 3 (revised) introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration, and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. The adoption of this amendment did not have an impact on the financial position or performance of the Company.
- IAS 39 Financial Instruments: Recognition and Measurement: Eligible Hedged Items – applicable to annual reporting periods beginning on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The adoption of this amendment did not have an impact on the financial position or performance of the Company.
- IFRIC 17 Distribution of Non-cash Assets to Owners – applicable to annual reporting periods beginning on or after 1 July 2009. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation did not have any effect on the financial position or performance of the Company.

Adoption of new and changed standards and interpretations has neither resulted in significant changes in accounting policies of the Company nor in presentation of accounts in financial statements.

The changes in IFRS (published in April 2009) did not have any impact on the accounting policies, the financial position or performance of the Company:

- IFRS 2 *Share-based Payment*
- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*
- IFRS 8 *Operating segments*
- IAS 1 *Presentation of Financial Statements*
- IAS 17 *Leases*
- IAS 36 *Impairment of Assets*
- IAS 38 *Intangible Assets*
- IAS 39 *Financial Instruments: Recognition and Measurement*
- IFRIC 9 *Reassessment of Embedded Derivatives*

- IFRIC 16 *Hedge of a Net Investment in a Foreign Operations*

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

The Management Board did not introduce any changes to the policy (principles) during the reporting period for which the financial statements are prepared, apart from those resulting from changes in standards.

9. Amendments to existing standards and new regulations

The following standards and interpretations were issued by the IASB or IFRIC but are not yet effective:

- Amendments to IAS 32 *Financial instruments: presentation: Classification of Rights Issues* – effective for financial years beginning on or after 1 February 2010,
- IAS 24 *Related Party Disclosures* (revised in November 2009) – effective for financial years beginning on or after 1 January 2011,
- The first phase of IFRS 9 *Financial Instruments: Classification and Measurement* – effective for financial years beginning on or after 1 January 2013 – not endorsed by EU till the date of approval of these financial statements. In subsequent phases, the IASB will address hedge accounting and impairment. The completion of this project is expected in the first half of 2011. The application of the first phase of IFRS 9 will have impact on classification and measurement of the financial assets of the Company / Group. The Company / Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.
- Amendments to IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirments and their Interaction: Prepayments of a Minimum Funding Requirements* – effective for financial years beginning on or after 1 January 2011,
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* – effective for financial years beginning on or after 1 July 2010,
- Amendment to IFRS 1 *First–time Adoption of International Financial Reporting Standards: Limited Exemption from Comparative IFRS 7 Disclosures for First–time Adopters* – effective for financial years beginning on or after 1 July 2010,
- *Improvements to IFRSs* (issued in May 2010) – some improvements are effective for annual periods beginning on or after 1 July 2010, the rest is effective for annual periods beginning on or after 1 January 2011,
- Amendment to IFRS 7 *Financial Instruments – Disclosures: Transfer of Financial Assets* – effective for financial years beginning on or after 1 July 2011 – not endorsed by EU till the date of approval of these financial statements,
- Amendments to IAS 12 *Income Taxe: Deferred Tax: Recovery of Underlying Assets* – effective for financial years beginning on or after 1 January 2012 – not endorsed by EU till the date of approval of these financial statements,
- Amendments to IFRS 1 *First–time Adoption of International Financial Reporting Standards: Severe Hyperinflation and Removal of Fixed Dates for First–time Adopters* – effective for financial years beginning on or after 1 July 2011 – not endorsed by EU till the date of approval of these financial statements.

The Management Board does not expect that the introduction of the above-mentioned amendments and interpretations will have a significant impact on the accounting policies applied by the Company.

Accounting policies and additional notes (in PLN thousands)

10. Summary of significant accounting policies

10.1. Foreign currency translation

The functional currency of the Company is Polish zloty, however for foreign branch functional currency is Swedish crown. As at the balance sheet date, assets and liabilities of foreign branch are translated into functional currency of the Company using the foreign exchange rate prevailing for the given currency at the year-end and its statement of comprehensive income is translated to functional currency using weighted average for particular period.

The exchange differences arising on the translation are placed in other comprehensive income and accumulated in a separate line of equity.

Transactions denominated in currencies other than Polish zloty are translated into Polish zloty at the foreign exchange rate prevailing on the transaction date.

At the balance sheet date, assets and liabilities expressed in currencies other than Polish zloty are translated into Polish zloty using the average NBP rate prevailing for the given currency at the year-end.

Exchange differences resulting from translation are recorded under finance revenue or finance costs, or – in cases defined in accounting policies – are capitalized in the cost of the assets. Non-monetary foreign currency assets and liabilities recognized at historical cost are translated at the historical foreign exchange rate prevailing on the transaction date. Non-monetary foreign currency assets and liabilities recognized at fair value are translated into Polish zloty using the rate of exchange binding as at the date of re-measurement to fair value.

The following exchange rates were used for valuation purposes:

	31 December 2010	*31 December 2009*
USD	2,9641	2,8503
EUR	3,9603	4,1082
SEK	0,4415	0,4000
DKK	0,5313	0,5520
GBP	4,5938	4,5986

10.2. Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.
The initial cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to working condition for its intended use. Cost also comprises the cost of replacement of fixed asset components when incurred, if the recognition criteria are met. Subsequent expenditures, such as repair or maintenance costs, are expensed in the reporting period in which they were incurred.
Upon purchase, fixed assets are divided into components, which represent items with a significant value that can be allocated a separate useful life. Overhauls also represent asset component.

Property, plant and equipment are depreciated using the straight-line method over their estimated useful lives.

Type	Period
Buildings and constructions	25 - 50 years
Plant and machinery	5 - 20 years
Office equipment	3 - 10 years
Motor vehicles	5 - 10 years
Computers	1 - 10 years

Residual values, useful lives and depreciation methods of property, plant and equipment are reviewed annually and, if necessary, adjusted retrospectively i.e. with effect from the beginning of the financial year that has just ended.
An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its further use. Any gain or loss arising on derecognition of an asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the income statement for the period in which derecognition took place.

Assets under construction (construction in progress) include assets in the course of construction or assembly and are recognized at purchase price or cost of construction less any impairment losses. Assets under construction are not depreciated until completed and brought into use.

10.3. Intangible assets

Intangible assets acquired separately or constructed (if they meet the recognition criteria for development costs) are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Expenditures incurred for internally generated intangible assets, excluding capitalised development costs, are not capitalised and are charged against profits in the year in which they are incurred.

The useful lives of intangible assets are assessed by the Company to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.
Intangible assets with indefinite useful lives and those that are not in use are tested for impairment annually either individually or at the cash generating unit level.

Useful lives are reviewed on an annual basis and, if necessary, are adjusted with effect from the beginning of the financial year that has just ended.

Research and development costs

Research costs are expensed in the profit and loss account as incurred.
Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. Following the initial recognition, the historical cost model is applied, which requires the asset to be carried at cost less any accumulated amortisation and

accumulated impairment losses. Any expenditure carried forward is amortised over the period of expected future sales from the related project.
The carrying amount of development costs is reviewed for impairment annually when the asset is not yet in use, or more frequently when an indication of impairment is identified during the reporting period, which may suggest that the carrying amount may not be recoverable.

A summary of the policies applied to the Company 's intangible assets is as follows:

	License and Software	**Trademarks**
Useful lives	2 - 5 years	Indefinite
Method of amortisation	2 - 5 years on a straight-line basis	Not amortised
Internally generated or acquired	Acquired	Acquired
Impairment testing	Annual assessment to determine whether there is any indication that an asset may be impaired.	Annually and where an indication of impairment exists.

After analyzing the relevant factors, for trademarks the Company does not define the limit of its useful life. The intention of the Company is to operate for an indefinite period under the same trademark and it is believed that it will not become impaired. Consequently, and in accordance with IAS 38, the Company does not amortise intangible assets with indefinite useful lives.

Useful life of such resources should be reviewed in each reporting period, in order to determine whether events and circumstances continue to confirm the assumption of the indefinite useful life of this asset.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds, if any, and the carrying amount of the asset and are recognized in the income statement when the asset is derecognized.

10.4. Impairment of non-financial assets

An assessment is made at each reporting date to determine whether there is any indication that an asset may be impaired. If such indication exists, or in case an annual impairment testing is required, the Company makes an estimate of the recoverable amount of that asset or the cash generating unit that the asset is a part of.

The recoverable amount of an asset or a cash-generating unit is the higher of the asset’s or cash-generating unit’s fair value less costs to sell and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses of continuing operations are recognised in the income statement in the expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised immediately in the income statement, unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the asset is adjusted in future periods to allocate the asset's carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life..

10.5. Borrowing costs

Borrowing costs are capitalised as part of the cost of property, plant and equipment, investment properties, intangible assets and finished goods.

Borrowing costs include interest calculated using the effective interest method, finance charges in respect of finance leases and foreign exchange differences incurred in connection with the external financing to the extent that they are regarded as an adjustment to interest costs.

10.6. Shares in subsidiaries, affiliated entities and joint venture

Shares in subsidiaries, affiliated entities and joint ventures are presented at historical cost basis.

10.7. Financial assets

Financial assets are classified into one of the following categories:

- financial assets held to maturity,
- financial assets at fair value through profit or loss,
- loans and receivables,
- financial assets available for sale

Financial assets held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Company has the positive intention and ability to hold until maturity, other than:

- those that upon initial recognition are designated as at fair value through profit or loss;
- those that are designated as available for sale; and
- those that meet the definition of loans and receivables.

Financial assets held to maturity are measured at amortized cost using the effective interest rate. Financial assets held to maturity are classified as non-current assets if they are falling due within more than 12 months from the balance sheet date.

A financial asset at fair value through profit or loss is a financial asset that meets either of the following conditions:

a) It is classified as held for trading. A financial asset is classified as held for trading if it is:

- acquired principally for the purpose of selling it in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument),

b) According to IAS 39 upon initial recognition it is designated as at fair value through profit or loss.

Financial assets at fair value through profit or loss are measured at fair value, which takes into account their market value as at the balance sheet date. Any change in the fair value of these instruments is taken to finance costs or finance income. When a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets may be designated at initial recognition as at fair value through profit or loss if the following criteria are met:

(i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on a different basis; or

(ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a document risk management strategy; or

(iii) the financial asset contains an embedded derivative that would need to be separately recorded.

As at 31 December 2010 and as at 31 December 2009, no financial assets have been designated as at fair value through profit and loss.

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are classified as current assets, provided their maturity does not exceed 12 months after the balance sheet date. Loans and receivables with maturities exceeding 12 months from the balance sheet date are classified under non-current assets.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. Available-for-sale financial assets are measured at fair value, without deducting transaction costs, and taking into account their market value at the balance sheet date. Where no quoted market price is available and there is no possibility to determine their fair value using alternative methods, available-for-sale financial assets are measured at cost, adjusted for any impairment losses. Positive and negative differences between the fair value and acquisition cost, net of deferred tax, of financial assets available for sale (if quoted market price determined on the regulated market is available or if the fair value can be determined using other reliable method), are taken to the revaluation reserve. Any decrease in the value of financial assets available for sale resulting from impairment losses is taken to the income statement and recorded under finance cost.

Purchase and sale of financial assets is recognized at the transaction date. Initially, financial assets are recognized at acquisition cost, i.e. at fair value plus, for financial assets other than classified as financial assets as at fair value through profit and loss, transaction costs.

Financial assets are derecognized if the Company loses its control over contractual rights attached to those assets, which usually takes place upon sale of the asset or where all cash flows attributed to the given asset are transferred to an independent third party.

10.8. Impairment of financial assets

The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

10.8.1 Assets carried at amortised cost

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

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included on a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date.

10.8.2 Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and has to be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

10.8.3 Available-for-sale financial assets

If there is objective evidence that an impairment loss has been incurred on an available-for-sale asset, then the amount of the difference between the acquisition cost (net of any principal payment and interest) and current fair value, less any impairment loss on that financial asset previously recognised in the profit or loss, is removed from equity and recognised in the income statement. Reversals of impairment losses on equity instruments classified as available for sale cannot be recognised in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed, with the amount of the reversal recognised in the income statement.

10.9. Embedded derivatives

Embedded derivatives are bifurcated from host contracts and treated as derivative financial instruments if all of the following conditions are met:

- the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract,
- a separate instrument with the same terms as embedded derivative would meet the definition of a derivative,
- the hybrid instrument is not recorded at fair value with gains and losses taken to profit or loss.

Embedded derivatives are recognized in a similar manner to that of separate instruments, which have not been designated as hedging instruments.
The extent to which, in accordance with IAS 39, the economic characteristics and risks of foreign currency embedded derivatives are closely related to those of the host contract covers circumstances where the currency of the host contract is also the common currency of purchase or sale of non-financial items on the market of a given transaction.

The Company assesses whether embedded derivatives are required to be separated from host contracts when the Company first becomes party to the contract.

10.10. Derivative financial instruments and hedges

The Company uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge against the risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.
Any gains or losses arising from changes in the fair value of derivatives that do not qualify for hedge accounting are taken directly to the net profit or loss for the period.
The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values of similar instruments.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges, when hedging the exposure to changes in the fair value of a recognised asset or liability, or
- cash flow hedges, when hedging exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a forecast transaction, or
- hedges of a net investment in a foreign operation.

Hedges of foreign currency risk in an unrecognised firm commitment are accounted for as cash flow hedges.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship, the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument’s effectiveness in offsetting the exposure to changes in the hedged item’s fair value or cash flows attributable to the hedged risk. Hedges are expected to be highly effective in offsetting the exposure to changes in the fair value or cash flows attributable to the hedged risk. Hedge effectiveness is assessed on a regular basis to check if the hedge is highly effective throughout all financial reporting periods for which it was designated.

10.10.1 Fair value hedges

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

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

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

The Company discontinues hedge accounting prospectively if the hedging instrument expires, or is sold, terminated or exercised, or the hedge no longer qualifies for hedge accounting, or the Company revokes the designation. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised to profit or loss. Amortisation may begin as soon as an adjustment is made, however no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

10.10.2 Cash flow hedges

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction and that could affect profit or loss. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognized in profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or financial liability, the associated gains or losses that were recognized directly in equity shall be reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, or a forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, then gains and losses that were recognized directly in equity are reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to net profit or loss for the period.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or the hedge no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument that has been recognised directly in equity remains recognised in equity until the forecast transaction occurs. If the forecast transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is taken to net profit or loss for the period.

10.10.3 Hedges of a net investment in a foreign operation

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for similarly to cash flow hedges. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognized in profit or loss. On disposal of the foreign operation, the net cumulative gain or loss that has been recognized directly in equity is taken to profit or loss.

10.11. Inventories

Inventories are valued at the lower of cost and net realizable value.

Costs incurred in bringing each inventory item to its present location and conditions are accounted for as follows for both the current and previous year:

Goods for resale	• purchased cost determined on a average-weighted method

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

10.12. Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable.

If the effect of the time value of money is material, the value of receivables is determined by discounting the estimated future cash flows to present value using a pre-tax discount rate that reflects current market assessments of the time value of money. Where discounting is used, any increase in the balance due to the passage of time is recognized as finance income.
Other receivables include in prepayments for future purchases of property, plant and equipment and intangible assets. Prepayments are recognized in accordance with the character of underlying assets, i.e. under non-current or current assets. As non-monetary assets, advances are not discounted.

Receivables from public authorities are presented within other non-financial assets, except for income tax receivables that constitute a separate item in the balance sheet.

10.13. Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

10.14. Interest-bearing loans and borrowings

All loans and borrowings are initially recognized at the fair value net of transaction costs associated with the borrowing.
After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method.
Amortised cost is calculated by taking into account any transaction costs, and any discount or premium on settlement.

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

10.15. Trade and other payables

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

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Financial liabilities may be designated at initial recognition as at fair value through profit or loss if the following criteria are met:

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

As at 31 December 2010 no financial liabilities have been designated as at fair value through profit and loss (as at 31 December 2009 PLN 0).

Financial liabilities at fair value through profit or loss are measured at fair value, reflecting their market value at the balance sheet date less directly attributable transaction costs. Gains or losses on these liabilities are recognised in the income statement as finance income or cost.

Financial liabilities other than financial instruments at fair value through profit or loss, are measured at amortised cost, using the effective interest rate method.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

Other non-financial liabilities include, in particular, liabilities to the tax office in respect of income tax, social security liabilities.

Other non-financial liabilities are recognized at the amount due.

10.16. Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of the provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the estimated future cash flows to present value using a pre-tax discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance cost.

10.17. Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenues are recognised at the fair value of the consideration received or receivable, net of Value Added Tax, excise duty and discounts. The following specific recognition criteria must also be met before revenue is recognised.

10.17.1 Rendering of services

Revenue from provision of services is recognised by reference to the stage of completion.

Stage of completion is measured as percentage of costs incurred to date in relation to the total estimated costs necessary to complete the contract.

10.17.2 Interest

Revenue is recognised as interest accrues (using the effective interest method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

10.17.3 Dividends

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

10.18. Income tax

10.18.1 Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted at the balance sheet date.

10.18.2 Deferred tax

For financial reporting purposes deferred income tax is recognised, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts.

Deferred tax liability is recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of goodwill, an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax asset is recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilized:

- except where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will be available that will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

(in PLN thousands)

Deferred income tax assets and deferred income tax liabilities are offset, if legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

10.18.3 Value added tax

Revenues, expenses and assets are recognised net of the amount of value added tax except:

- Where the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables, which are stated with the amount of value added tax included.

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

10.19. Earnings per share

Earnings per share are calculated by dividing the net profit for the period by the weighted average number of shares during the reporting period.

11. Operating segments

Arctic Paper S.A. is a holding company, which provides services mainly for companies from the Group. The Company's activity represents one operating segment.

The table below presents geographical split of revenue from selling services and income from dividends and interest in the years 2009-2010.

Geographical information	*Year ended 31 December 2010*	*Year ended 31 December 2009*
Poland	69 703	104 241
Foreign countries:		
- Sweden	56 713	40 008
- Germany	4 916	4 896
- Spain	-	418
	131 332	**149 563**

Above information about revenue is attributed to the clients' – Arctic Paper S.A. subsidiaries' – countries of domicile.

Accounting policies and additional notes (in PLN thousands)

12. Revenues and expenses

12.1. Other operating income

	Year ended 31 December 2010	*Year ended 31 December 2009*
Income on marketing activities	20	611
Return of tax on civil law transactions	-	975
Sales of fixed assets	48	-
Other	-	10
	68	**1 596**

12.2. Other operating expenses

	Year ended 31 December 2010	*Year ended 31 December 2009*
Other	28	1
	28	**1**

12.3. Finance income

	Year ended 31 December 2010	*Year ended 31 December 2009*
Interest income on cash in bank	704	423
Other finance income	-	155
	704	**578**

12.4. Finance costs

	Year ended 31 December 2010	*Year ended 31 December 2009*
Interest on bank loans	-	5 296
Interest on bonds	12 708	-
Interest on loans and other payables	876	1 128
Foreign exchange losses	146	7 515
Other finance costs	-	159
	13 731	**14 098**

(in PLN thousands)

12.5. Costs by nature

	Year ended 31 December 2010	*Year ended 31 December 2009*
Deprecation / Amortisation	89	33
External services	11 365	17 074
Taxes and charges	599	28
Wages and salaries	4 740	9 291
Employee benefits expense	2 623	1 754
Other	1 794	30
	21 210	**28 211**

12.6. Depreciation / amortisation and impairment losses included in income statement

	Year ended 31 December 2010	*Year ended 31 December 2009*
Depreciation of property, plant and equipment	55	19
Amortisation of intangible assets	34	14
	89	**33**
Allocated at:		
- continuing activity	89	33
- discontinued activity	-	-
	89	**33**

12.7. Employee benefits expenses

	Year ended 31 December 2010	*Year ended 31 December 2009*
Salaries	2 355	9 291
Social security costs	1 830	1 208
Retirement benefit costs	2 554	546
Other post-employment benefits	625	-
Total employee benefit expenses:	**7 363**	**11 045**

13. Income tax

13.1. Tax burdens

Major components of income tax expense for the year ended 31 December 20010 and 31 December 2009 are as follows::

Accounting policies and additional notes (in PLN thousands)

	Year ended 31 December 2010	*Year ended 31 December 2009*
Income statement		
Current income tax		
Current income tax charge	-	255
Deferred income tax		
Tax charge due to deferred tax	-	1
Income tax expense reported in income statement	**-**	**256**

13.2. Reconciliation of the effective income tax rate

A reconciliation of income tax expense applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at the Company's effective income tax rate for the years ended 31 December 2010 and 31 December 2009 is as follows:

	Year ended 31 December 2010	*Year ended 31 December 2009*
Accounting profit/(loss) before tax from continuing operations	97 135	109 427
Profit/ (loss) before tax from discontinued operations	-	-
Accounting profit/(loss) before income tax	97 135	109 427
At statutory income tax rate applicable in Poland in 2010-2009 of 19%	**18 456**	**20 791**
Income from dividends	(17 320)	(24 593)
Income from accrued interest	(3 453)	(38)
Non taxable costs	76	419
Unrecognised tax losses	756	2 343
Unrecognised deferred tax asset on temporary differences	1 450	1 261
Difference resulting from different tax rates in different countries	35	71
At the effective income tax rate of 0% (2009: 0%)	**0**	**256**
Income tax expense reported in income statement	**0**	**256**
Income tax attributable to discontinued operations	-	-

Deferred tax asset is recognised for tax losses carried forward to the extent that realisation of the related tax benefit through future taxable profits is probable.

The amounts and expiry dates of unused tax losses are as follows:

Year of expiration of tax losses	*Year ended 31 December 2010*	*Year ended 31 December 2009*
ended 31 December 2011	-	-
ended 31 December 2012	-	-
ended 31 December 2013	19 022	19 022
ended 31 December 2014	12 336	12 336
ended 31 December 2015 and later	4 758	-
Total	**36 116**	**31 358**

(in PLN thousands)

13.3. Deferred income tax

Deferred income tax relates to the following:

	Balance sheet		*Income statement*	
	31 December 2010	*31 December 2009*	*Year ended 31 December 2010*	*Year ended 31 December 2009*
Deferred tax liability				
Accelerated taxable depreciation	1	1	1	1
Income from accrued interest	3 453	38	3 453	38
Exchange rate gains	-	-	(2)	(2)
Deferred tax liability gross	**3 454**	**39**		

	Balance sheet		*Income statement*	
	31 December 2010	*31 December 2009*	*Year ended 31 December 2010*	*Year ended 31 December 2009*
Deferred tax asset				
Provisions and accruals	151	1 094	943	(870)
Accrued interest on loans and bonds	1 299	201	(1 098)	(201)
Remunerations and social security	-	5	5	(5)
Tax losses carried forward	7 062	5 958	(1 104)	(2 343)
Deferred tax asset gross	**8 512**	**7 258**		
Deferred income tax charge			2 198	(3 382)
Deferred tax asset not recognised in balance sheet	5 058	7 220	(2 197)	3 383
			1	1
Net deferred tax liability including:	1	1		
Deferred tax liability - from continued operations	1	1		

14. Earnings per share

Basic earnings per share amounts are calculated by dividing the net profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the reporting period.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary shareholders (after deducting interest on the convertible redeemable preference shares) by the weighted average number of ordinary shares outstanding during the year adjusted by the weighted average number of ordinary shares that would be issued as a result of conversion of all dilutive equity instruments into ordinary shares.

Accounting policies and additional notes (in PLN thousands)

There were no dilutive instruments in the Company in any of the reporting periods.

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

	Year ended 31 December 2010	*Year ended 31 December 2009*
Net profit (loss) from continuing operations	97 135	109 171
Profit (loss) from discontinued operations	-	-
Net (loss) profit	97 135	109 171
Number of ordinary shares – A series	50 000	50 000
Number of ordinary shares – B series	44 253 500	44 253 500
Number of ordinary shares – C series	8 100 000	8 100 000
Number of ordinary shares – E series	3 000 000	-
Total number of shares	55 403 500	52 403 500
Weighted average number of shares	54 778 842	45 390 884
Earnings per share (in PLN)	**1,77**	**2,41**

By the power of resolution number 1 of the Management Board of Arctic Paper S.A. adopted on 1 March 2010 and in conjunction with resolution number 01/02/2010 of the Supervisory Board dated 4 February 2010 approving deprivation of the existing shareholders of the Company of preemptive rights of Series E shares, an increase in share capital of PLN 30,000,000 by means of issue of 3,000,000 ordinary Series E shares with a nominal value of PLN 10 each was made. Thus, the share capital of the Company was increased from the amount of PLN 524,035,000 to PLN 554,035,000. By means of the issue of 3,000,000 shares the Company made a non-cash settlement of part of the consideration for acquisition of Grycksbo Paper Holding AB.

On 1 March 2010, pursuant to Resolution No. 1 of the Management Board of Arctic Paper S.A. adopted on 1 March 2010, the Company offered under private offering all new shares of series E with the issue price of PLN 17.43 per share. All Series E shares were acquired on 1 March 2010 under relevant contracts by 16 investors. These changes were registered by Registry Court on 9 March 2010.

14.1. Transactions on ordinary shares, which had taken place between the balance sheet date and the date of authorization of these financial statements

In the period between the balance sheet date and the date of preparing of these financial statements, there were no transactions involving ordinary shares.

15. Dividend paid and proposed

Dividends are paid out based on the net profit shown in the standalone annual financial statements of Arctic Paper S.A. prepared for statutory purposes, after covering losses carried forward from the previous years. In accordance with the provisions of the Code of Commercial Companies, the company is required to create reserve capital for possible losses. Transferred to this capital category is 8% of profit for the given financial year recognised in the standalone financial statements of the company until such time as the balance of the reserve capital reaches at least one third of the share capital of the company. Appropriation of the reserve capital and other reserves depends on the decision of the General Meeting of Shareholders; however, the reserve capital in the amount of one third of the share capital may be used solely for the absorption of losses reported in the standalone financial statements of the company ad shall not be used for any other purpose.

(in PLN thousands)

In 2010, dividend per share from 2009 amounted to PLN 0,89.

The dividend on ordinary shares for the year 2009 was paid on 6 July 2010 and amounted to PLN 49,309 thousand (for 2008: no dividend payment was made due to the generated loss).

Until the date of this report there were no financial arrangements on the distribution of the Company's financial results for 2010 and has not been paid an advance on the dividend.

At the date of this statement , the company had no preferred shares.

16. Property, plant and equipment

Year ended 31 December 2010	*Land and buildings*	*Plant and equipment*	*Assets under construction*	*Total*
Gross carrying amount at 1 January 2010	-	192	-	192
Additions	-	412	-	412
Disposals	-	-	-	-
Gross carrying amount at 31 December 2010	**0**	**604**	**0**	**604**
Accumulated depreciation and impairment as at 1 January 2010	-	19	-	19
Depreciation charge for the year	-	55	-	55
Accumulated depreciation and impairment as at 31 December 2010	0	75	0	75
Net carrying amount as at 1 January 2010	-	173	-	173
Net carrying amount as at 31 December 2010	**0**	**529**	**0**	**529**

Year ended 31 December 2009	*Land and buildings*	*Plant and equipment*	*Assets under construction*	*Total*
Gross carrying amount at 1 January 2009	-	-	-	-
Additions	-	192	7	199
Disposals	-	-	(7)	(7)
Gross carrying amount at 31 December 2009	**0**	**192**	**0**	**192**
Accumulated depreciation and impairment as at 1 January 2009	-	-	-	-
Depreciation charge for the year	-	19	-	19
Accumulated depreciation and impairment as at 31 December 2009	0	19	0	19
Net carrying amount as at 1 January 2009	-	-	-	-
Net carrying amount as at 31 December 2009	**0**	**173**	**0**	**173**

Accounting policies and additional notes (in PLN thousands)

17. Intangible assets

Year ended 31 December 2010	*Trademarks*	*Software*	*Total*
Gross carrying amount as at 1 January 2010	1 307	68	1 375
Additions	-	9	9
Disposals	-	-	-
Gross carrying amount as at 31 December 2010	**1 307**	**77**	**1 384**
Accumulated amortization and impairment as at 1 January 2010	-	14	14
Amortization charge for the year	-	34	34
Accumulated amortization and impairment as at 31 December 2010	0	48	48
Net carrying amount as at 1 January 2010	1 307	54	1 361
Net carrying amount as at 31 December 2010	**1 307**	**29**	**1 336**

Year ended 31 December 2009	*Trademarks*	*Software*	*Total*
Gross carrying amount at 1 January 2009	-	-	-
Additions	1 307	68	1 375
Disposals	-	-	-
Gross carrying amount at 31 December 2009	**1 307**	**68**	**1 375**
Accumulated amortization and impairment as at 1 January 2009	-	-	-
Amortization charge for the year	-	14	14
Accumulated amortization and impairment as at 31 December 2009	0	14	14
Net carrying amount as at 1 January 2009	-	-	-
Net carrying amount as at 31 December 2009	**1 307**	**54**	**1 361**

The carrying amount of acquired rights to trademarks is PLN 1,307 thousand.

For the purpose of valuation of Arctic Paper trademark (as corporate brand) the Company used income method based on the value of economic profit (EVA – Economic Value Added) and indicators reflecting share of the brand in the creation of the economic profit (RBI – Role of Brand Index) and strength of the brand (Brand Strength Score). Analyzing the essence of the value of the brand in the context of the valuation method adopted, it was assumed that potential negative value of EVA in 2010-2014 should not affect the reduction in brand value, since even in this situation, the brand recognition and its other characteristics will not deteriorate.

After analyzing the relevant factors the Company did not determine useful life of that trademark. The Company's intention is to operate for the indefinite period of time under the same trademark and it is assessed that trademark will not be impaired. As a result and in accordance with IAS 38 the Company does not amortise the intangible assets with indefinite useful life. In the case of such assets their useful life shall be verified in each reporting period in order to confirm, whether events and circumstances still justify the assumption about the indefinite useful life of these assets.

(in PLN thousands)

The Company performed an impairment test on the corporate trademark Arctic Paper as of 31 December 2010. The analysis confirmed that the trademark is not impaired. The next impairment test is scheduled for 31 December 2011.

18. Other assets

18.1. Investments in subsidiaries

	As at 31 December 2010	*As at 31 December 2009*
Arctic Paper Kostrzyn S.A.	442 535	442 535
Arctic Paper Munkedals AB	88 175	88 175
Arctic Paper Investment AB	32 812	-
Arctic Paper Sverige AB	11 721	11 721
Arctic Paper Danmark A/S	5 539	5 539
Arctic Paper Norge AS	3 193	3 193
Arctic Paper Italy srl	738	738
Arctic Paper UK Ltd.	522	522
Arctic Paper Polska Sp. z o.o.	406	406
Arctic Paper Benelux S.A.	387	387
Arctic Paper France SAS	326	326
Arctic Paper Espana SL	196	196
Arctic Paper Papierhandels GmbH	194	194
Arctic Paper East Sp. z o.o.	102	102
Arctic Paper Investment GmbH	91	91
Arctic Paper Baltic States SIA	64	64
Arctic Paper Schweiz AG	61	61
Arctic Paper Ireland Ltd.	3	3
Total	**587 065**	**554 253**

The value of shares in subsidiaries was based on historical cost.

18.2. Incorporation of Arctic Paper Investment AB

Arctic Paper Investment AB seated in Göteborg, Sweden, was registered on 12 February 2010. The share capital of this company consists of 100 thousand shares with a nominal value of SEK 1 each. All the shares were paid for on 27 January 2010 by Arctic Paper S.A. Arctic Paper Investment AB was established for the purpose of acquisition of Grycksbo Paper Holding AB.

Accounting policies and additional notes (in PLN thousands)

18.3. Other financial assets

	Effective interest rate %	*Maturity*	*As at 31 December 2010*
Current			
Loan granted to Arctic Paper Investment AB - amount: PLN 65,275 thousand - interest: Wibor 6M + 4,8%	8,83%	10.02.2011*	79 637
Loan granted to Arctic Paper Investment AB - amount: PLN: 50,000 thousand - interest: Wibor 6M + 4,8%	8,83%	31.12.2015	2 963
Loan granted to Arctic Paper Munkedals AB - amount: PLN: 27,658 thousand - interest: Wibor 3M + 2,3%	6.45%	31.03.2011	27 658
Loan granted to Arctic Paper Investment GmbH - amount: EUR: 3,437 thousand - interest: Euribor 3M + 2%	2,90%	31.12.2011	13 610
Loan granted to Arctic Paper Investment GmbH - amount: PLN 19 thousand - interest: Wibor 3M + 2%	5.96%	31.12.2011	19
Loan granted to Arctic Paper Mochenwangen GmbH - amount: EUR 1,500 thousand - interest: Euribor 3M + 3%	3.97%	31.12.2011	5 940
Loan granted to Arctic Paper East Sp. z o.o. - amount: PLN 250 thousand - interest: Wibor 3M + 2%	5.91%	31.12.2011	250
Loan granted to Arctic Paper Ireland Ltd. - amount: EUR 1 thousand - interest: Euribor 3M + 2%	2.89%	31.12.2011	4
			130 081
Non-current			
Loan granted to Arctic Paper Investment AB - amount: PLN 129,000 thousand - amount: PLN 50,000 thousand - interest: Wibor 6M + 4,8%	8.83%	10.02.2013 31.12.2015	129 000 50 000
			179 000

* - On 12 April 2011 the Company signed annex to the loan agreement between Arctic Paper S.A. and its subsidiary Arctic Paper Investment AB. In accordance with the annex the repayment date of first installment of loan and interest was postponed to 10 February 2013 which means that this date is the repayment date of total loan with interest. Other provisions of the loan agreement did not change.

(in PLN thousands)

18.4. Other non-financial assets

	As at 31 December 2010	*As at 31 December 2009*
Insurance	220	118
Rents and deposits	298	269
Capitalized transaction costs of Grycksbo acquisition	-	1 919
Other	30	26
Total	**548**	**2 332**
- non-current	203	184
- current	345	2 148
	548	**2 332**

19. Inventories

	As at 31 December 2010	*As at 31 December 2009*
Goods for resale	51	53
	51	**53**

In the year ended 31 December 2010 and 31 December 2009 the Company did not make any write-downs of inventory value, which resulted from lack of indications of the impairment of inventories.

20. Trade and other receivables

	Note	*As at 31 December 2010*	*As at 31 December 2009*
Tax receivables		2 035	1 864
Trade receivables from related parties	*29*	21 137	48 526
Trade receivables from third parties		-	454
Other receivables from related parties	*29*	3 554	1 176
Other receivables from third parties	*29*	72	-
Total receivables, net		**26 798**	**52 020**
Allowance for doubtful debts		-	-
Total receivables, gross		**26 798**	**52 020**

Terms of transaction with related parties are presented in note 29.

Accounting policies and additional notes (in PLN thousands)

21. Cash and cash equivalents

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Short-term deposits are made for varying periods of between one day and three month depending on the immediate cash requirements of the Company and earned interest at the respective short-term deposit rates. The fair value of cash and cash equivalents as at 31 December 2010 is PLN 25,368 thousand (31 December 2009: PLN 50,276 thousand).

Balance of cash and cash equivalents presented in statement of cash flows consisted of the following items:

	As at 31 December 2010	*As at 31 December 2009*
Cash at bank and in hand	25 368	50 276
	25 368	**50 276**

22. Share capital and reserve/other capital

22.1. Share capital

Share capital	*As at 31 December 2010*	*As at 31 December 2009*
A series ordinary shares of nominal value of PLN 10 each	500	500
B series ordinary shares of nominal value of PLN 10 each	442 535	442 535
C series ordinary shares of nominal value of PLN 10 each	81 000	81 000
E series ordinary shares of nominal value of PLN 10 each	30 000	-
	554 035	**524 035**

During the financial year ended 31 December 2010 share capital was increased by PLN 30,000 thousand by the means of issue of new ordinary shares with nominal value of PLN 10 each. By the issue of 3,000,000 shares the Company made a non-cash settlement of part of the consideration for acquisition of Grycksbo Paper Holding AB.

Ordinary shares issued and fully covered	*Volume*	*Value in PLN*
Issued on 30 April 2008	50 000	500 000
Issued on 12 September 2008	44 253 468	442 534 679
Issued on 20 April 2009	32	321
Issued on 30 July 2009	8 100 000	81 000 000
Issued on 1 March 2010	3 000 000	30 000 000
As at 31 December 2010	**55 403 500**	**554 035 000**

By the power of resolution number 1 of the Management Board of Arctic Paper S.A. adopted on 1 March 2010 and in conjunction with resolution number 01/02/2010 of the Supervisory Board dated 4 February 2010 approving deprivation of the existing shareholders of the Company of preemptive rights of Series E shares, an increase in share capital of PLN 30,000,000 by means of issue of 3,000,000 ordinary Series E shares with a nominal value of PLN 10 each was made. Thus, the share capital of the Company was increased from the amount of PLN 524,035,000 to PLN 554,035,000.

(in PLN thousands)

On 1 March 2010, pursuant to Resolution No. 1 of the Management Board of Arctic Paper S.A. adopted on 1 March 2010, the Company offered under private offering all new shares of series E with the issue price of PLN 17.43 per share. All Series E shares were acquired on 1 March 2010 under relevant contracts by 16 investors. These changes were registered by Registry Court on 9 March 2010.

22.1.1 Nominal value of shares

All issued shares have a nominal value of PLN 10 and have been fully paid..

22.1.2 Shareholders with significant shareholding

	As at 31 December 2010	*As at 31 December 2009*
Arctic Paper AB		
Share in equity	75%	79,30%
Share in votes	75%	79,30%
Other shareholders		
Share in equity	25%	20,70%
Share in votes	25%	20,70%

22.2. Foreign operations currency translation

Functional currency of the Company’s foreign branch is Swedish crown.

As at the balance sheet date, assets and liabilities of foreign branch are translated into functional currency using the foreign exchange rate prevailing for the given currency at the year-end and its statement of comprehensive income is translated to functional currency using weighted average for particular period. The exchange differences arising on the translation are placed in other comprehensive income and accumulated in equity and recognised in a separate line.

At 31 December 2010, foreign exchange differences from translation of foreign branch recognised in equity amounted to PLN 5 thousand (as at 31 December 2009 PLN -12 thousand). Exchange rate differences arising from translation of foreign branch recognised in statement of comprehensive income amounted to PLN 17 thousand in 2010 and PLN -12 thousand in 2009.

22.3. Share premium

Share Premium was created from the excess of emission value above the nominal value in 2009 in the amount of PLN 40,500 thousand, less cost of issue recognized as a reduction of share premium in the amount of PLN 4,515 thousand PLN.

In 2010 the share premium capital was increased by PLN 27,570 thousand resulting from the excess of emission value above the nominal value of Series E shares issued described in note 22.1.

In addition, share premium was created from the statutory distributions of the profits generated in previous years amounting to PLN 8,734 thousand.

As at 31 December 2010 the total value of the Company's share premium is PLN 72,289 thousand (31 December 2009: PLN 35,985 thousand).

22.4. Other reserves

Other reserve capital was created as a result of distribution of the Company's financial result for 2009 in the amount of PLN 30,914 thousand (as at 31 December 2009: PLN 0).

22.5. Retained earnings and limits to its distribution

In accordance with the provisions of the Code of Commercial Companies, the company is required to create reserve capital for possible losses. Transferred to this capital category is 8% of profit for the given financial year recognised in the standalone financial statements of the company until such time as the balance of the reserve capital reaches at least one third of the share capital of the company. Appropriation of the reserve capital and other reserves depends on the decision of the General Meeting of Shareholders; however, the reserve capital in the amount of one third of the share capital may be used solely for the absorption of losses reported in the standalone financial statements of the company ad shall not be used for any other purpose.

As at 31 December 2010 there are no other limitation concerning the payout of the dividend.

23. Conditional increase in share capital and change in assumptions of motivational program

On 8 June 2010, the Ordinary Shareholders' Meeting adopted a resolution about conditional increase of share capital of the Company through issue of 300,000 additional subscription 'A' class warrants which will give right to take up 'D' class ordinary shares of PLN 10 par value each. Par value of the conditional increase in share capital represents the increase by PLN 3,000 thousand and in total PLN 15,000 thousand. As at the date of the preparation of these interim condensed financial statements the number of warrants allocated to particular holders is not known. The incentive program has not yet been approved by the entitled persons.

The conditional increase in share capital is made with the purpose of enabling warrant-holders to take up 'D' class ordinary shares. Deadline for execution of this right is set on 31 December 2013. The foregoing changes were registered by the Register Court on 14 July 2010.

At the same time, on 8 June 2010 the Ordinary Shareholders' Meeting adopted a resolution changing the resolution no 4 dated 30 July 2009 regarding the assumptions of incentive program for key management personnel of the Company, in the following scope:

- the entitlement to obtain warrants was extended to members of the Supervisory Board of the Company and the management board members of subsidiaries,
- the entitlement to obtain warrants was extended to maximum of 30 people.

24. Acquisition of subsidiaries

On 1 March 2010, the Group acquired 100% of the voting shares of Grycksbo Paper Holding AB seated in Grycksbo, Sweden, a non-listed company.

Grycksbo Paper Holding AB is the owner of 100% of the voting shares of paper mill Grycksbo Paper AB, the parent company of Grycksbo Paper Deutschland GmbH, Grycksbo Paper UK Ltd and Grycksbo Paper

(in PLN thousands)

France EURL which business activities is trading services. Those entities, together with Arctic Paper Investment AB, form the Grycksbo Group.

As a result of the acquisition of Grycksbo Paper Holding AB, Arctic Paper S.A. took up 26,6% of shares and Arctic Paper Investment AB – the Company established to acquire Grycksbo - took up 73,4% of shares.

Total price paid for Grycksbo's shares, based on the actual price of the Company's stock at 1 March 2010, amounts to PLN 269,936 thousand, of which PLN 194,275 thousand falls to shares owned by Arctic Paper Investment AB and PLN 75,661 thousand to shares bought by Arctic Paper S.A.

On 30 April 2010 the Company sold parcel of shares valued at PLN 50,000 thousand (which corresponds to 17,57% shares of Grycksbo Paper Holding AB) to Arctic Paper Investment AB. The rest, i.e. 9,02% of Grycksbo's shares valued at PLN 25,661 thousand, was taken up in exchange for non-monetary contribution in kind by Arctic Paper Investment AB, which became the only shareholder of Grycksbo Paper Holding AB.

Transaction costs related to this acquisition in the amount of PLN 7,111 thousand were capitalized on the carrying amount of the shares in Arctic Paper Investment AB.

25. Interest-bearing loans and borrowings

	Effective interest rate %	*Maturity*	*As at 31 December 2010*	*As at 31 December 2009*
Current				
Bonds series 1/2010 (one-year-old) in PLN, interest Wibor + 3%	7,53%	24.02.2010	65 720	-
Bonds series 2/2010 (three-year-old) in PLN Interest Wibor +3% -short-term part	8,37%	25.02.2013	3 002	-
Loan from Arctic Paper Kostrzyn S.A. in PLN, interest Wibor + 2%	6,27%	31.12.2010	-	19 615
Loan from Arctic Paper Kostrzyn S.A. in EUR, fixed interest 7%	7,00%	31.12.2010	-	128
			68 722	**19 743**
Non-current				
Bonds series 2/2010 (three-year-old) in PLN, interest Wibor + 4%	8,37%	25.02.2013	119 571	-
			119 571	**0**

25.1. Interest-bearing loans and borrowings

During year ended 31 December 2010 and 31 December 2009 the Company did not raise any additional loans and borrowings. In 2010 the Company issued bonds.

On October 23, 2008 Arctic Paper S.A., Arctic Paper Kostrzyn S.A., Arctic Paper Munkedals AB and Arctic Paper Investment GmbH entered into a facility agreement with Bank Polska Opieki consisting of three tranches:

- SEK 300,000 thousand; repayment in 2009 as a result of an Initial Public Offering,
- EUR 10,000 thousand to be repaid in equal installments over 5 years;
- PLN 196,400 thousand of which PLN 85,800 are to be repaid by installments over 6 years and PLN 110,600 thousand to be repaid on termination in 3 years.

The purpose of the loans has been to: repay SEK 300,000 thousand promissory notes for the acquisition of Arctic Paper Munkedals AB and Arctic Paper sales offices; EUR 10,000 thousand to partly finance the acquisition of mill in Mochenwangen; PLN 196,400 thousand for refinancing of existing debt and providing working capital for the Arctic Paper S.A. further activities.

As a collateral for the repayment of the loan to Bank Polska Kasa Opieki S.A. the Company has pledge on all bank accounts as well as pledge on shares of Arctic Paper Kostrzyn, Arctic Paper Munkedals and Arctic Paper Investment GmbH.

After finalization of IPO process, on 30 November 2009 the Company repaid tranche A1 of loan facility granted by Bank Polska Kasa Opieki S.A. in the amount of SEK 300,000 thousand

On 15 February 2011 Arctic Paper Munkedals AB has made debt repayment to the Bank Polska Kasa Opieki S.A. due to loan agreement dated 23 October 2008 (with further amendments).

In connection with the repayment of debt made by Arctic Paper Munkedals AB to Bank Polska Kasa Opieki S.A., Arctic Paper AB Munkedals was released from any obligations resulting from the loan agreement and ceased to be its party. Funds for repayment of the debt by Arctic Paper Munkedals AB to Bank Polska Kasa Opieki S.A. were obtained by Arctic Paper Munkedals AB from Svenska Handelsbanken AB.

25.2. Bonds issue

On 11 February 2010 a contract was concluded between Arctic Paper SA and BRE Bank SA (as an organizer of the issue dealer and payment and custodian agent), by which a Issue Programme of Arctic Paper SA Shares has been established.

On 25 February 2010, series 1/2010 coupon bonds and series 2/2010 zero-coupon bonds were issued.

The total nominal value of the issued series 1/2010 and 2/2010 bonds is PLN 186 million. Net proceeds from the issue of PLN 150 million were used to finance part of the price paid for the acquisition of the 100% stake in Grycksbo Paper Holding AB. The remaining part of the net funds raised in the course of the issue allowed the Company to reduce the planned funding of its statutory business activity with bank loans.

Bonds Series 1 / 2010 is a coupon bonds with a nominal value of one bond 100 thousand. PLN, in the number of 1,200 and the total nominal value of PLN 120 million series. The issue price of bonds is fixed at 100 thousand. PLN. Funds from the bond issue were used to acquire 100% of Grycksbo Paper Holding AB. Interest on coupon bonds is made up of six months Wibor plus nominal margin. The maturity date falls to 25 February 2013.

Series 2/2010 bonds are the zero-coupon bonds with the nominal value of PLN 100,000 per bond and amount of 660 bonds issued for the total nominal value of the series of PLN 66,000,000. The issue price of the bonds was set at PLN 92,994.90. No purpose of the issue has been specified for Series 2/2010 Bonds. Interest on zero-coupon bonds is made up of annual Wibor plus nominal margin. The redemption date is 24 February 2011.

Issued bonds of both series are bearer bonds, secured neither with pledge nor with mortgages on assets and rights.

(in PLN thousands)

26. Provisions

At 31 December 2010, the Company made provisions in the amount of PLN 625 thousand. This amount includes a total provision for post-employment employee benefits.

At 31 December 2009 the provisions on the books of the Company amounted to PLN 0.

27. Trade and other payables, other liabilities, accruals and deferred income

27.1. Trade and other payables, other liabilities (short – term)

	Note	*As at 31 December 2010*	*As at 31 December 2009*
Trade payables			
To related parties	*29*	242	6 606
To third parties		3 308	2 142
		3 550	**8 748**
Other payables			
Payables to related parties	*29*	-	1 139
Payables to employees		886	37
Tax payables		737	747
		1 623	**1 923**

Terms and conditions of financial liabilities presented above:

- for terms and conditions of transactions with related parties, refer to note 29.
- trade payables are non-interest bearing and are normally settled within 30 days.

27.2. Accruals and deferred income

	Year ended 31 December 2010	*Year ended 31 December 2009*
Accruals		
Holiday accrual	1 300	1 008
Bonuses for employees of the Group	798	5 843
Audit, legal and consulting services	351	289
Marketing costs	47	1 299
Other	7	100
Total	**2 502**	**8 539**
- non-current	-	-
- current	2 502	8 539
	2 502	**8 539**

28. Contingent liabilities

Contingent liabilities of the Company related to the bank loan granted by Bank Polska Kasa Opieki S.A. are presented in note 25.

All tranches of loan are covered with the same collaterals, which are on 31 December 2010:

- Pledge on shares of Arctic Paper Kostrzyn S.A., Arctic Paper Munkedals AB, Arctic Paper Mochenwangen GmbH and on shares of German holding companies;
- Pledge on bank accounts of all entities;
- Registered mortgages on Arctic Paper Kostrzyn S.A. and Arctic Paper Mochenwangen GmbH's real estate;
- Pledge on Arctic Paper Kostrzyn S.A.'s enterprise;
- Pledge on assets of Arctic Paper Mochenwangen GmbH;
- Assignments of rights from insurance policies in favor of Bank Polska Kasa Opieki S.A..

Additionally, each tranche of loan, except of A1 is secured as follows.

- Registered mortgages on Arctic Paper Munkedals AB's real estate (secondary);
- Pledge on Arctic Paper Munkedals AB's enterprise;
- Assignments of rights from insurance policies of Arctic Paper Munkedals AB;
- Pledge on bank accounts of Arctic Paper Munkedals AB..

All debtors, ie. Arctic Paper S.A., Arctic Paper Kostrzyn S.A., Arctic Paper Munkedals AB, Arctic Paper Mochenwangen GmbH and Arctic Paper Investment GmbH, mutually guarantee for their liabilities to bank (jointly and separate are responsible for the debt).

On 15 February 2011 Arctic Paper Munkedals AB has made debt repayment to the Bank Polska Kasa Opieki S.A. due to loan agreement dated 23 October 2008 (with further amendments).

In connection with the repayment of debt made by Arctic Paper Munkedals AB to Bank Polska Kasa Opieki S.A., Arctic Paper AB Munkedals was released from any obligations resulting from the loan agreement and ceased to be its party. Funds for repayment of the debt by Arctic Paper Munkedals AB to Bank Polska Kasa Opieki S.A. were obtained by Arctic Paper Munkedals AB from Svenska Handelsbanken AB.

On 25 March 2010 Company issued a guarantee for Cartiere del Garda S.P.A. – supply of paper distribution companies (Arctic Paper Sweden AB, Arctic Paper Danmark A/S, Arctic Paper Norge AS). The guarantee amounted to EUR 900 thousand and is valid until 31 December 2012.

28.1. Tax settlements

Tax settlements, together with other areas of legal compliance (e.g. customs or foreign exchange law) are subject to review and investigation by a number of authorities, which are entitled to impose severe fines, penalties and interest charges.

The lack of reference to well established regulations in Poland results in a lack of clarity and integrity in the regulations. Frequent contradictions in legal interpretations both within government bodies and between companies and government bodies create uncertainties and conflicts. These facts create tax risks in Poland that are substantially more significant than those typically found in countries with more developed tax systems.

Tax authorities may examine the accounting records within up to five years after the end of the year in which the final tax payments were to be made. Consequently, the Company may be subject to additional tax liabilities, which may arise as a result of additional tax audits. The Company believes that adequate provisions have been recorded for known and quantifiable risks in this regard as at 31 December 2010.

Accounting policies and additional notes (in PLN thousands)

29. Related party disclosures

The table below presents the total values of transactions with related parties entered into during current and prior year:

Related party		*Sales to related parties*	*Purchases from related paries*	*Interest and dividends*	*Interest– financial costs*	*Receivables from related parties*	*Overdue*	*Receivables from loans*	*Payables to related parties*	*Overdue*	*Payables from loans*
<u>Parent company</u>											
Arctic Paper AB	2010			313		3 555					
	2009		5 583	294		289		20 000			
<u>Related parties:</u>											
Arctic Paper Kostrzyn S.A.	2010	6 562	270	62 683	876	14 116			15		
	2009	6 958	73	96 434	1 058	27 819			7 390	7 171	19 743
Arctic Paper Munkedals AB	2010	6 416	78	28 923		1 471		27 658	57		
	2009	7 780		31 934		17 934					
Arctic Paper Mochenwangen GmbH	2010	4 498		147		2 900		5 940			
	2009	4 696		24		1 475	1				
Arctic Paper Grycksbo AB	2010	3 763	12			361					
	2009										
Arctic Paper Investment GmbH	2010			271		2 276		13 629			
	2009	760		183		2 021	1 967	7 652			
Arctic Paper Investment AB	2010			17 325				261 600			
	2009										
Arctic Paper Deutschland GmbH	2010	28									
	2009				68						
Arctic Paper Sverige AB	2010	109	13						4		
	2009										
Arctic Paper Danmark A/S	2010	18	1 392						166		
	2009		1 478						355	248	
Arctic Paper Italia srl	2010	7									

(in PLN thousands)

	2009										
Arctic Paper Espana SL	2010	5									
	2009			418		164					
Arctic Paper Norge AS	2010	16									
	2009										
Arctic Paper Benelux S.A.	2010	12									
	2009										
SIA Arctic Paper Baltic States	2010	2									
	2009										
Arctic Paper France SAS	2010	16									
	2009										
Arctic Paper Papierhandels GmbH	2010	1									
	2009										
Arctic Paper UK Limited	2010	12									
	2009										
Arctic Paper Schweiz AG	2010	11									
	2009										
Arctic Paper Polska Sp. z o.o.	2010	12	4	460							
	2009		33	850							
Arctic Paper East Sp. z o.o.	2010	2		13		13		250			
	2009										
Arctic Paper Ireland Ltd.	2010	0						4			
	2009							4			
Razem	**2010**	**21 489**	**1 769**	**110 134**	**876**	**24 692**	**-**	**309 081**	**242**	**-**	**-**
	2009	**20 194**	**7 167**	**130 137**	**1 126**	**49 702**	**1 968**	**27 656**	**7 745**	**7 419**	**19 743**

Accounting policies and additional notes (in PLN thousands)

29.1. The ultimate parent

The ultimate parent of the Company is Casandrax Financials S.A. and Intercarta Development SA.

There were no transactions between the Company and its ultimate parent during the years ended 31 December 2010 and 31 December 2009.

29.2. Terms and conditions of transactions with related parties

Related party transactions are made at an arm's length.

29.3. Director's loan

During the period covered by these financial statements, Company did not grant any loans to members of the Management Board and no such receivables were reported in any of the periods presented.

29.4. Remuneration of the Company's key management personnel

29.4.1 Remuneration paid or due to the members of the Management Board and the members of the Supervisory Board

Key management personnel as at 31 December 2010 comprise four persons: President of the Management Board and three Members of the Management Board. On 14th December 2010 the Supervisory Board decided to dismiss Mr Kent Bjarne Björk from the Management Board of the Company.

The financial data for the reporting period include remuneration of the aforesaid four persons.

The table below presents the total value of remunerations to the members of the Management Board and the members of the Supervisory Board for current and the prior year:

	Year ended 31 December 2010	*Year ended 31 December 2009*
Management Board		
Short-term employee benefits (salaries and surcharges)	3 706	3 194
Supervisory board		
Short-term employee benefits (salaries and surcharges)	566	396
Total	**4 272**	**3 590**

30. Information about the contract and remuneration of auditor or audit company

The table below presents the remuneration of the audit company, paid or payable for the year ended 31 December 2010 and 31 December 2009 by category of services:

Category of services	*As at 31 December 2010**	*As at 31 December 2009**
Statutory audit of financial statements	190	209
Other services	43	87
Tax advisory services	-	-
Other services	65	689
Total	**298**	**985**

(in PLN thousands)

** relates to Ernst & Young Audit Sp. z o.o.*

31. Financial risk management objectives and policies

The Company's principal financial instruments comprise bank loans, cash at bank and loans granted and received within the Group. The main purpose of these financial instruments is to raise finance for the Company's operations. The Company has various other financial instruments such as trade receivables and trade payables, which arise directly from operations.

The principle used by Company currently and throughout the whole period covered by these financial statements is not to put financial instruments on market.

The main risks arising from the Company's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk.

The Management Board reviews and agrees policies for managing each of these risks and they are summarized below. The Company has also been monitoring risk of market prices of holding financial instruments.

31.1. Interest rate risk

The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's long-term debt obligations and granted loans with variable interest.

Interest rate risk – sensitivity to changes

The following table demonstrates the sensitivity of profit before tax to a reasonably possible change in interest rates, with all other variables held constant (through the impact on floating rate borrowings). Impact on equity or total comprehensive income has not been presented.

	Increase / decrease in basis points	*Effect on profit before tax for the year 2010*
Year ended 31 December 2010		
PLN	+1%	2 722
EUR	+1%	94
SEK	+1%	0
PLN	-1%	-2 722
EUR	-1%	-94
SEK	-1%	0

	Increase / decrease in basis points	*Effect on profit before tax the year 2009*
Year ended 31 December 2009		
PLN	+1%	-196
EUR	+1%	200
SEK	+1%	76
PLN	-1%	196
EUR	-1%	-200
SEK	-1%	-76

Accounting policies and additional notes (in PLN thousands)

31.2. Foreign currency risk

The Company is exposed to transactional foreign currency risk. The risk mainly arises as a result of receiving by the Company dividends from subsidiaries - and to a lower extent – as a result of purchase transactions made in currencies other than its functional currency.

The following table demonstrates the sensitivity of profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Company's equity on reasonably possible change of exchange rate of foreign currencies with all other variables held constant.

	Increase / decrease of currency rate	*Effect on profit before tax*	*Effect on total comprehensive income*
31 December 2010 – SEK	+1%	-45	-3
	-1%	45	3
31 December 2010 – EUR	+1%	206	-
	-1%	-206	-
31 December 2009 – SEK	+1%	425	7
	-1%	-425	-7
31 December 2009 – EUR	+1%	82	-
	-1%	-82	-
31 December 2008 – SEK	+1%	-1 200	-
	-1%	1 200	-

31.3. Credit risk

With respect to credit risk arising from other financial assets of the Company, which comprise cash and cash equivalents and receivables, the Company's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

There are no significant concentrations of credit risk within the Company, except of the related parties.

31.4. Liquidity risk

The Company monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g. accounts receivables, other financial assets) and projected cash flows from guaranteed bank loans.

The table below summarizes the maturity profile of the Company's financial liabilities at 31 December 2010 and 31 December 2009 based on contractual undiscounted payments.

(in PLN thousands)

31 December 2010	*On demand*	*Less than 3 months*	*3 - 12 months*	*1 - 5 years*	*Over 5 years*	*Total*
Interest loans and borrowings	-	70 958	4 876	134 818	-	210 652
Other payables	-	4 436	-	-	-	4 436
	0	**75 394**	**4 876**	**134 818**	**0**	**215 088**

31 December 2009	*On demand*	*Less than 3 months*	*3 - 12 months*	*1 - 5 years*	*Over 5 years*	*Total*
Interest loans and borrowings	-	-	20 881	-	-	20 881
Other payables	-	10 876	-	-	-	10 876
	0	**10 876**	**20 881**	**0**	**0**	**31 757**

32. Financial instruments

The Company does not have any material financial instruments, except of cash on hand and cash in bank, loans and borrowings, receivables and liabilities.

32.1. Fair value

Fair value is the amount at which an asset could be bought or sold, and a liability settled in a current transaction between willing and well informed parties.

32.2. Derivatives

Derivative is a financial instrument or other contract covered by IAS 39 compliant with the following three conditions:

- Its value changes alongside with the change of specified interest rate, price of financial instrument, price of commodity, currency exchange rate, price index or ratio index, credit rating or credit index, or other variable, assuming that in case of non financial variable, that variable is not specific for a counterparty (sometimes called the underlying);
- It does not require primary net investment or requires primary net investment lesser than for other sorts of contracts that are expected to have similar reactions to market fluctuations, and
- Its realization is going to take place in the future.

Fair value of derivative financial instruments is recognized within assets in the balance sheet when the fair value is positive or within liabilities, when the fair value is negative. Profit or loss on change in the fair value of derivatives is recognized in the income statement under finance income or finance costs.

The Company is entitled to designate selected derivatives as a hedge under hedge accounting.

32.3. Fair values of each class of financial instruments

The table below presents a comparison by category of assets and liabilities of carrying amounts and fair values of all of the Company's financial instruments.

Accounting policies and additional notes (in PLN thousands)

	Category in accordance with IAS 39	*Carrying amount*		*Fair value*	
		31 December 2010	*31 December 2009*	*31 December 2010*	*31 December 2009*
Financial assets					
Other financial assets (non-current)	*L&R*	179 000	-	179 000	-
Trade and other receivables	*L&R*	42 088	50 156	42 088	50 156
Other financial assets (current)	*L&R*	112 756	27 656	112 756	27 656
Cash and cash equivalents	*FVTPL*	25 368	50 276	25 368	50 276
Financial liabilities					
Interest-bearing loans and borrowings (current)	*OFL*	-	19 743	-	19 743
Debt securities:	*OFL*				
- Debt securities non-current		119 571	-	119 571	-
- Debt securities current		68 722	-	68 722	-
Trade and other payables	*OFL*	4 436	9 924	4 436	9 924

Abbreviations used:

HtM – *Financial assets held to maturity,*

FVTPL – *Financial assets/ financial liabilities at fair value through profit or loss,*

L&R – *Loans and receivables,*

AFS – *Available-for-sale assets,*

OFL – *Other financial liabilities measured at amortised cost.*

The Management Board believes, that carrying amounts of other financial instruments do not materially differ from their fair values.

32.4. Interest rate risk

The following table sets out the carrying amount, by maturity, of the Company's financial instruments that are exposed to interest rate risk:

31 December 2010 Floating rate	*<1year*	*1–2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	***Total***
Loans granted to related parties	130 081	-	129 000	-	50 000	-	**309 081**

(in PLN thousands)

31 December 2010 *Fixed rate*	*<1year*	*1–2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	***Total***
Bonds series 1/2010 (1 year)	65 721	-	-	-	-	-	**65 721**
Bonds series 2/2010 (3 years)	3 002	-	119 571	-	-	-	**122 573**

31 December 2009 *Floating rate*	*<1year*	*1–2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	***Total***
Loans granted to related parties	27 656	-	-	-	-	-	**27 656**
Loan amounting to PLN 19,615 thousand from Arctic Paper Kostrzyn S.A.	19 615	-	-	-	-	-	**19 615**

31 December 2009 *Fixed rate*	*<1year*	*1–2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	***Total***
Loan amounting to EUR 31 thousand from Arctic Paper Kostrzyn S.A.	128	-	-	-	-	-	**128**

33. Capital management

The primary objective of the Company’s capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.
The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2010 and 31 December 2009.

The Company monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Company’s policy is to keep the gearing ratio between 10% and 30%. The Company includes within net debt, interest bearing loans and borrowings, trade and other payables, less cash and cash equivalents.

Accounting policies and additional notes (in PLN thousands)

	Year ended 31 December 2010	*Year ended 31 December 2009*
Interest loans and borrowings	188 293	19 743
Trade and other payables	5 172	10 876
Less cash and cash equivalents	(25 368)	(50 276)
Net debt	168 098	(19 657)
Privileged shares	-	-
Equity	754 378	648 965
Reserve capital due to unrealized net profit	-	-
Total equity	754 378	648 965
Capital and net debt	922 476	629 308
Gearing ratio	**0,18**	**(0,03)**

34. Employment structure

The average employment in the Company in the years ended 31 December 2010 and 31 December 2009 was as follows:

	As at 31 December 2010	*As at 31 December 2009*
Management Board	4	3
Finance department	5	4
Sales and marketing department	5	5
Administration department	2	1
IT department	1	1
Total	**17**	**14**

35. Events after the reporting period

35.1. Bond issue program

On 7 February 2011 the annex has been executed to the contract dated 11 February 2010 between the Company and BRE Bank S.A. (managers of the bond issue). Under the annex the Issue Program was changed: the total face value of Bonds issued under the Program has been increased and will never exceed PLN 300,000,000 (“Maximum Program Value”).

According to the signed annex, the Company is permitted to make repeated issues of Bonds up to the Maximum Program Value. Should any bonds be redeemed, the Company may issue new bonds, provided that the combined face value of bonds to be issued and outstanding cannot exceed the Maximum Program Value.

35.2. Issue of bonds

On 10 February 2011 the coupon bonds of 1/2011 series were issued.

The bonds are unsecured bearer bonds with PLN 100,000 face value each. The total number of bonds issued under the 1/2011 series is 800 with combined face value of PLN 80 million. The issue price of each bond is PLN 100,000.

Net proceeds from the issue amounting to PLN 80 million will be used for re-financing of the Issuer's debt.

On 25 February 2013 („Redemption Date") the Issuer, acting through the Payment Agent, will pay the Principal Amount (face value) of each bond. Payments for the bonds will be made to bondholders entered in the Register as of the Rights Attribution Date. All redeemed bonds will be immediately remitted.

The bonds are bearing interest from the Issue Date (inclusive) until the Redemption Date at a variable rate comprising the base rate – WIBOR 6M – and a commission.

The bonds do not include any non-monetary rights to the Issuer.

35.3. Annex to the loan agreement

On 12 April 2011 the Company signed annex to the loan agreement between Arctic Paper S.A. and its subsidiary Arctic Paper Investment AB.

According to the annex the payment term of the first installment of loan and interest was postponed to 10 February 2013 which means that this date is the repayment date of total loan with interest.

Other provisions of the loan agreement remained unchanged.

Signatures of the Management Board Members

Position	Name and surname	Date	Signature
President of the Management Board Chief Executive Officer	Michał Jarczyński	27 April 2011	
Member of the Management Board Chief Operating Officer	Bjarne Björk	27 April 2011	
Member of the Management Board Marketing and Sales Director	Hans Karlander	27 April 2011	
Member of the Management Board Chief Financial Officer	Michał Bartkowiak	27 April 2011	