



Management Board Report on the operations  
of Arctic Paper S.A.  
to report for 2010



**ARCTIC PAPER**

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## Arctic Paper profile

### General information

Arctic Paper SA is a holding company established in April 2008. As a result of capital restructuring carried out in 2008, the paper mills Arctic Paper Kostrzyn (Poland) and Arctic Paper Munkedals (Sweden), Distribution Companies and Sales Offices have become the properties of Arctic Paper SA. Previously they were owned by Arctic Paper AB, the parent company of the Issuer. In addition, under the expansion, the Group acquired in November 2008 paper mill Arctic Paper Mochenwangen (Germany) and in March 2010 paper mill Grycksbo (Sweden).

The main area of the Company's business is holding activity including management of the entities belonging

to the controlled Capital Group. Operating activity is conducted by paper mills, distribution companies and sales offices. Detailed information regarding business activities of the Arctic Paper Capital Group is included in annual consolidated report for the year ended 31 December 2010.

The Company is entered in the Register of Entrepreneurs kept by the District Court in Poznan "Nowe Miasto I Wilda", VIII Economic Department of the National Court Register, Entry No. KRS 0000306944. The Parent Company was granted statistical REGON number 080262255.

### Business activities

The main area of Arctic Paper Group's business is holding activity.

### Subsidiaries

Since 23 October 2009 Arctic Paper S.A. has been listed on the primary market of the Warsaw Stock Exchange. The Group carries out business through its Paper Mills, Distribution Companies and Sales Offices. Current shareholding structure of the Group was established in September and October 2008 when the Issuer acquired paper mills in Poland and Sweden and distribution companies and sales offices dealing with distribution and sales of paper manufactured in Europe. Three distribution companies – in Sweden, Norway and Denmark – are engaged in distribution activity offering

our products and, to a limited extent, products of other paper producers.

Arctic Paper S.A. acquired shares in Arctic Paper Kostrzyn, Arctic Paper Munkedals, Distribution Companies and Sales Offices from Arctic Paper AB, currently the Issuer's majority shareholder and from Nemus Holding AB, parent company of Arctic Paper AB. As part of its expansion, the Group also acquired in November 2008 paper mill Arctic Paper Mochenwangen (Germany) and in March 2010 paper mill Grycksbo (Sweden).

As at 31 December 2010 Arctic Paper S.A. had investments in the following subsidiaries:

- Arctic Paper Kostrzyn S.A. – paper mill in Kostrzyn nad Odrą (Poland);
- Arctic Paper Munkedals AB – paper mill in Munkedal (Sweden);
- Arctic Paper Sverige AB – distribution company operating on Swedish market;
- Arctic Paper Norge AS – distribution company operating on Norwegian market;
- Arctic Paper Danmark A/S – distribution company operating on Danish market;
- Arctic Paper UK Limited – sales office in United Kingdom;
- Arctic Paper Baltic States SIA – sales office in Baltic states;
- Arctic Paper Benelux S.A. – sales office in Benelux;
- Arctic Paper Schweiz AG – sales office in Switzerland;
- Arctic Paper Italia srl – sales office in Italy;
- Arctic Paper Ireland Limited – sales office in Ireland;
- Arctic Paper France SAS – sales office in France;
- Arctic Paper Espana SL – sales office in Spain;
- Arctic Paper Papierhandels GmbH – sales office in Austria;
- Arctic Paper Polska Sp. z o.o. – sales office in Poland;
- Arctic Paper East Sp. z o.o. – sales office in Ukraine;
- Arctic Paper Investment GmbH – holding company formed for the purpose of acquisition of paper mill in Mochenwangen;
- Arctic Paper Investment AB – holding company formed for the purpose of acquisition of Grycksbo Paper Holding AB.

Information about share in capital of particular subsidiaries is included in note 5 of the financial statements of the Company.

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

In 2010 there were significant changes in the capital structure of the Arctic Paper Group.

### Establishment of Arctic Paper Investment AB

On 12 February 2010 a new entity was registered under the name Arctic Paper Investment AB, with its registered office in Göteborg, Sweden. The entity's share capital is divided into 100,000 shares of a nominal value of SEK 1 each. All the shares were paid up by Arctic Paper S.A. on 27 January 2010. Arctic Paper Investment AB was formed for the purpose of acquisition of Grycksbo Paper Holding AB.

### Taking control over Grycksbo Paper Holding AB

On 1 March 2010 the acquisition process of Grycksbo Paper Holding AB has been finalized and thus a transfer of legal title to 100% of this company's shares to Arctic

Paper S.A. and its subsidiary Arctic Paper Investments AB took place.

As a result of shares' sale agreement concluded on 7 December 2009 and subsequent agreements concluded between the Arctic Paper S.A. and Accent Equity 2003 LP, Accent Equity 2003 KB, and minority investors, and as a result of meeting the conditions precedent specified in the contract, on 1 March 2010 Arctic Paper S.A. acquired 7,978,007 shares of Grycksbo, representing 26.6% of the total number of shares, while the Arctic Paper AB Investment acquired 22,021,993 shares of Grycksbo, representing 73.4% of the total number of shares of the Company. The acquired shares represent 100% of the total share capital of Grycksbo Paper Holding AB and entitle to 100% of the votes at the general shareholders' meeting of that Company.

## Establishment of Arctic Paper Investment II AB

On 21 December 2010 a new entity was registered under the name Arctic Paper Investment II AB with its

registered office in Göteborg. The entity's share capital is divided into 50,000 shares of a nominal value of SEK 1 each. Arctic Paper Investment II AB is not a subject to consolidation.

## Services provided by the Company

As a holding company Arctic Paper S.A. receives only dividends and income from management services provided for related entities operating within the Arctic Paper S.A. Capital Group.

Detailed information about the range of products manufactured by paper mills of Arctic Paper Group was included in the consolidated annual report for the year 2010.

## Changes in basic management principles

There were no important changes in basic management principles in 2010.

## Shareholder structure

Arctic Paper S.A.'s main shareholder is Swedish company Arctic Paper AB which as at 31 December 2010 held 41,553,500 shares in our Company representing 75.0% of its share capital and giving 75.0% of the total number of votes at the General Meeting.

As at the date of this report Arctic Paper AB holds 41,441,500 of the Company's shares representing 74,8% of the Company's share capital and giving 74,8% of the total number of votes at the General Meeting. Thus Arctic Paper AB is the Issuer's parent company.

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

Shareholder	as at 27.04.2011				as at 01.03.2011			
	Number of shares	Share capital [%]	Number of votes	Of total number of votes [%]	Number of shares	Share capital [%]	Number of votes	Of total number of votes [%]
Arctic Paper AB	41 441 500	74,80%	41 441 500	74,80%	41 553 500	74,80%	41 441 500	74,80%
Others	13 962 000	25,20%	13 962 000	25,20%	13 850 000	25,20%	13 962 000	25,20%
Total	55 403 500	100,00%	55 403 500	100,00%	55 403 500	100,00%	55 403 500	100,00%
Own shares	-	0,00%	-	0,00%	-	0,00%	-	0,00%
<b>Total</b>	<b>55 403 500</b>	<b>100,00%</b>	<b>55 403 500</b>	<b>100,00%</b>	<b>55 403 500</b>	<b>100,00%</b>	<b>55 403 500</b>	<b>100,00%</b>

Data on the table are given as at the date of this report and as at the date of publication of the quarterly report for Q4 2010.

## Market environment

The Company does not provide services directly to external parties. Its financial situation and ability to pay dividend is influenced mainly by the market environment in which paper mills controlled by the Company are operating.

Information about the main products offered by the Group together with sales volume and sales revenue

structure, information about the market with details about share of domestic and foreign market and information about sources of supply of raw materials and services are included in the Consolidated Annual Report.

## Development directions and strategy

Main strategies of the Group for which the Company is the parent company include:

### Expansion on Central and Eastern European markets while maintaining leading position on key markets

Our strategic priority over the next few years is to maintain our present leading position in the field of fine paper intended for Western European markets and also to take advantage of the expected growth on the paper market in Central and Eastern Europe. Given their size, the Western European markets will remain our strategic target although we believe that the paper market in Central and Eastern Europe will grow faster than in Western Europe. We expect this growth to be founded

on the long-term rise in paper use per citizen, comparably low at present, and on the expected move of printing houses' production capacity from Western Europe to Central and Eastern Europe. The key elements of this strategy are to take advantage of the competitive edge which we gained thanks to the location and efficient operation of our paper mill in Kostrzyn nad Odrą and our well-developed sales network in Central and Eastern Europe.

## Maximization of production capacity and distribution

One of the key elements for the success of our business will be the ability to sustain cost efficiency. Therefore, we have been taking initiatives to:

- maximize energy efficiency,
- carefully manage human resources,
- take advantage of our strong bargaining position to negotiate lower prices of pulp and other raw materials,
- maximize the capacity of our production lines and the efficiency of the logistics systems.

## Sales structure

In 2010 the sales structure by main sources of income was as follows:

## Sales structure divided into sources of income

<i>thousands</i>	2010	share %	2009	share %
Services	21 212	16%	19 433	13%
Dividends	91 157	69%	129 636	87%
Interest income	18 963	14%	494	0%
<b>Total</b>	<b>131 332</b>	<b>100%</b>	<b>149 563</b>	<b>100%</b>

The Company provides management services to its subsidiaries in accordance with the agreements signed with these entities.

## Sales structure divided into subsidiaries

<i>thousand</i>	2010	share %	2009	share %
Arctic Paper Kostrzyn S.A.	69 245	53%	103 391	69%
Arctic Paper Munkedals AB	35 339	27%	39 714	27%
Arctic Paper Mochenwangen GmbH	4 645	4%	4 696	3%
Arctic Paper Grycksbo AB	3 763	3%	-	0%
Other	18 340	14%	1 762	1%
<b>Total</b>	<b>131 332</b>	<b>100%</b>	<b>149 563</b>	<b>100%</b>

## Explanations regarding business seasonality and cycles

Demand for the Group's products fluctuates slightly during the year. A lower demand for paper is reported each year during the summer holidays and at Christmas when a number of printing houses, particularly those in

Western Europe, are closed for business. The changes in the demand for paper are not significant compared to the demand in other periods of the year.

## R&D

The Company does not bear directly any costs related to the research and development.

R&D in the Arctic Paper Group is primarily intended to advance and innovate production processes and to improve product quality and increase product

assortment. R&D is carried out at Kostrzyn and Munkedals. In the period covered by this report, both companies carried out R&D work to streamline the production process, particularly by shortening machine idle time, and to improve paper quality along with expanding the assortment range.

## Natural environment

Information about the impact of regulations related to the environment protection on the operations of paper mills controlled by the Company was included in the Consolidated Annual Report.

# Summary of financial results

## Income statement

### Selected items of income statement

<i>PLN thousand</i>	2010	2009	Change %	2010/2009
<b>Sales revenue</b>	<b>131 332</b>	<b>149 563</b>		<b>(12,2)</b>
<i>including:</i>				
<i>Sales revenue from services</i>	21 212	19 433		9,2
<i>Interest income</i>	18 963	494		3 738,7
<i>Dividend income</i>	91 157	129 636		(29,7)
Gross profit on sales	131 332	149 563		(12,2)
% of sales revenue	100,00	100,00		- p.p.
Sales expenses	-	-		-
Administrative expenses	(21 210)	(28 211)		(24,8)
Other operating income	68	1 596		(95,7)
Other operating expenses	(28)	(1)		2 659,2
<b>EBIT</b>	<b>110 162</b>	<b>122 947</b>		<b>(10,4)</b>
% of sales revenue	83,88	82,20		1,7 p.p.
<b>EBITDA</b>	<b>110 251</b>	<b>123 036</b>		<b>(10,4)</b>
% of sales revenue	83,95	82,26		1,7 p.p.
Financial income	704	578		21,8
Financial expenses	(13 731)	(14 098)		(2,6)
<b>Profit before tax</b>	<b>97 135</b>	<b>109 427</b>		<b>(11,2)</b>
Income tax	-	(256)		(100,0)
<b>Net profit</b>	<b>97 135</b>	<b>109 171</b>		<b>(11,0)</b>
% of sales revenue	73,96	72,99		1,0 p.p.

## Sales revenue and costs

Main area of statutory activity of the Company is holding activity including management of the entities belonging to the controlled Capital Group. Operating activity is conducted by paper mills, distribution companies and sales offices. In 2010 sales revenue of the Company

amounted to PLN 131,332 thousand and comprised dividend income (PLN 91,157 thousand), management services provided to entities in Group (PLN 21,212 thousand) and interest income (PLN 18,963 thousand). In 2009 standalone sales revenue amounted to PLN



149,563 thousand and comprised dividend income (PLN 129,636 thousand), income from services (PLN 19,433 thousand) and interest income from loans granted (PLN 494 thousand).

### **Administrative expenses**

In 2010 administrative expenses amounted to PLN 21,210 thousand. They include administrative expenses related to the operations of the Company, costs of services provided to the Group entities and other costs incurred by the Company for the purpose of holding

activity. Among above costs the following group of costs can be distinguished: costs which are connected solely to statutory activity and comprise auditing costs, costs related to the activity of Supervisory Board, costs of periodical controls conducted by the owner of the Company, costs related to the public offering and other.

### **Other operating income and expenses**

Other operating income amounted to PLN 68 thousand in 2010 which represents decrease by PLN 1,528 thousand compared to the previous year. At the same

time, other operating expenses increased by PLN 28 thousand.

### **Financial income and financial expenses**

In 2010 financial income was equal to PLN 704 thousand and was lower compared to income generated in the previous year by PLN 126 thousand.

exchange rate losses in the amount of PLN 146 thousand.

Financial expenses in 2010 amounted to PLN 13,731 thousand, including interest on bonds in the amount of PLN 12,708 thousand, interest on loans and other liabilities in the amount of PLN 877 thousand and

Financial expenses in 2010 were lower by PLN 367 thousand compared to the prior year.

### **Profitability analysis**

EBITDA in 2010 amounted to PLN 110,251 thousand, whereas in 2009 it was equal to PLN 123,036 thousand.

Net profit in 2010 amounted to PLN 97,135 thousand compared to PLN 109,171 thousand in 2009.

EBIT in 2010 amounted to PLN 110,162 thousand compared to PLN 122,947 thousand in prior year.

## Profitability analysis

<i>PLN thousand</i>	2010	2009	Change % 2010/2009
Gross profit on sales	131 332	149 563	(12,2)
<i>% of sales revenue</i>	100,00	100,00	- p.p.
<b>EBITDA</b>	<b>110 251</b>	<b>123 036</b>	<b>(10,4)</b>
<i>% of sales revenue</i>	83,95	82,26	1,7 p.p.
<b>EBIT</b>	<b>110 162</b>	<b>122 947</b>	<b>(10,4)</b>
<i>% of sales revenue</i>	83,88	82,20	1,7 p.p.
<b>Net profit</b>	<b>97 135</b>	<b>109 171</b>	<b>(11,0)</b>
<i>% of sales revenue</i>	73,96	72,99	1,0 p.p.
Return on equity / ROE (%)	12,9	16,8	(3,9) p.p.
Return on assets/ ROA (%)	10,2	15,9	(5,7) p.p.

In 2010 return on equity increased to 12.9% whereas in 2009 it was equal to 16.8% Return on assets fell from 15.9% in 2009 to 10.2% in 2010.

## Report on financial situation

### Selected items of balance sheet

<i>PLN thousand</i>	31/12/2010	31/12/2009	Change 31/12/2010 - 31/12/2009
Non-current assets	768 133	555 971	212 162
Inventories	51	53	(1)
Receivables	26 994	52 020	(25 026)
Other current assets	130 426	29 804	100 622
Cash & cash equivalents	25 368	50 276	(24 908)
<b>Total assets</b>	<b>950 972</b>	<b>688 124</b>	<b>262 848</b>
Equity	754 378	648 965	105 414
Short-term liabilities	77 022	39 158	37 864
Long-term liabilities	119 572	1	119 571
<b>Total equity &amp; liabilities</b>	<b>950 972</b>	<b>688 124</b>	<b>262 848</b>

As at 31 December 2010 total assets amounted to PLN 950,972 thousand compared to PLN 688,124 thousand as at the end of year 2009.

Increase in total assets was caused primarily by increase in other current assets resulting from granting loan to

Arctic Paper Investment AB and Arctic Paper Munkedals AB.

As at 31 December 2010 cash and cash equivalents decreased by PLN 24,908 thousand compared to the

previous year. Total increase in equity and liabilities

resulted primarily from the issue of shares and bonds.

### **Non-current assets**

As at the end of December 2010 non-current assets represented about 81% of total assets and represented the same proportion of total assets as at the end of December 2009. Major position of non-current assets was shares in subsidiaries. Value of shares in subsidiaries as at the end of December 2010 amounted to PLN 587,065 thousand.

Non-current assets increased compared to the previous year by PLN 212,162 thousand mainly due to increase in other financial assets resulting from granting loan to AP Investment AB in the amount of PLN 179,000 thousand.

### **Current assets**

Current assets amounted to PLN 182,840 thousand as at the end of 2010 compared to PLN 132,153 thousand as at the end of 2009. Increase in current assets was caused by change of other current assets which increased by PLN 100,622 thousand, mainly due to

granting loan to Arctic Paper Investment AB and Arctic Paper Munkedals. Change in current assets resulted also from decline in cash and cash equivalents PLN 24,908 thousand and decrease in receivables by PLN 25,026 thousand.

### **Equity**

Equity amounted to PLN 754,378 thousand as at the end of 2010 compared to PLN 648,965 thousand as at the end of 2009. Change in equity by PLN 105,414 thousand was caused by increase in share capital by PLN 30,000 thousand resulting from issue of 3 million shares, distribution of net profit to the share premium capital in the amount of PLN 8,734 thousand and issue

of E series shares in the amount of PLN 27,570 thousand representing the excess of issue price above the nominal price of the shares which was described in detail in note 22.1 of the standalone financial statements. Increase in other reserve capital was caused by distribution of net profit in the amount of PLN 30,914 thousand.

### **Short-term liabilities**

As at 31 December 2010 short-term liabilities amounted to PLN 77,022 thousand (8,1% of total equity & liabilities) compared to PLN 39,158 thousand as at the end of 2009 (5,7% of total equity & liabilities).

Increase in short-term liabilities (PLN +37.864 thousand) resulted primarily from the issue of bonds for the purpose of financing the acquisition of AP Grycksbo which is described in detail in note 31.2 of the consolidated annual financial statements for 2010.

### **Long-term liabilities**

As at 31 December 2010 long-term liabilities amounted to PLN 119,572 thousand (12,6% of total equity & liabilities) compared to PLN 1 thousand in 2009.

Increase in long-term liabilities by PLN 119,571 thousand resulted from issue of bonds for the purpose of financing acquisition of AP Grycksbo which is

described in detail in notes to the consolidated annual financial statements for 2010.

## Debt analysis

### Debt analysis

	2010	2009	Change %	2010/2009
Debt to equity ratio (%)	26,1	6,0		20,0 p.p.
Equity to non-current assets ratio (%)	98,2	116,7		(18,5) p.p.
Interest-bearing debt to equity ratio (%)	25,0	3,0		21,9 p.p.

As at 31 December 2010 debt to equity ratio amounted to 26,1% and was higher by 20,0 p.p. compared to the end of December 2009. Interest-bearing debt to equity ratio as at 31 December 2010 amounted to 25,0% and

was higher by 21,9 p.p. compared to the end of 2009. Equity to non-current assets fell from 116,7% as at the end of 2009 to 98,2% as at the end of 2010.

## Liquidity analysis

### Liquidity analysis

	2010	2009	Change	2010/2009
Current ratio	2,4x	3,4x		(1,0)
Quick ratio	2,4x	3,3x		(0,9)
Cash liquidity ratio	0,3x	1,3x		(1,0)

Current and quick ratio amounted as at the end of 2010 to 2,4x and were lower by 1,0x and by 0,9x respectively compared to the end of 2009. Cash liquidity ratio amounted to 0,3x as at the end of 2010 and was lower by 1,0x compared to the end of 2009.

## Statement of cash flows

### Selected items of statement of cash flows

<i>PLN thousand</i>	2010	2009	Change % 2010/2009
Cash flows from operating activities	(131 450)	49 907	(363,4)
<i>including:</i>			
<i>Profit before tax</i>	97 135	109 427	(11,2)
<i>Depreciation</i>	89	33	167,1
<i>Change in working capital</i>	(45 670)	684	(6 777,9)
<i>Net interest and dividends</i>	21 635	(37 119)	(158,3)
<i>Other adjustments</i>	(204 639)	(23 119)	785,2
Cash flows from investing activities	(420)	(7 302)	(94,2)
Cash flows from financing activities	106 962	3 276	3 165,0
<b>Total cash flows</b>	<b>(24 908)</b>	<b>45 881</b>	<b>(154,3)</b>

### Cash flows from operating activities

In 2010 net cash flows from operating activities amounted to PLN -131,450 thousand compared to PLN 49,907 thousand in 2009. Lower cash flows from operating activities resulted from payment for acquisition of AP Grycksbo in the amount of PLN -212,367

thousand which took place in March 2010. Change in operating cash flows resulted also from cash inflow from dividends and interest in the amount of PLN 21,635 thousand.

### Cash flows from investing activities

In 2010 cash flows from investing activities amounted to PLN -420 thousand compared to PLN -7,302 thousand in 2009.

Cash flows from investing activities in 2010 were connected mainly with purchases of fixed assets and intangibles.

### Cash flows from financing activities

In 2010 cash flows from financing activities reached a level of PLN 106,962 thousand compared to PLN 3,276 thousand in 2009. In 2010 cash flows from financing

activities were connected with the issue of bonds for the purpose of financing acquisition of AP Grycksbo as well as with payment of dividend and interest.

## Relevant information and factors influencing financial results and evaluation of financial standing

### Key factors affecting the performance results

The operating activity of the Company is affected indirectly by the factors which have direct influence on the activity of the main entities of the Group – paper mills, and these factors include:

- macroeconomic and other economic factors;
- high quality paper prices;
- pulp and energy prices;
- currency exchange rate fluctuations.

Information about the impact of the above factors on the Group was described in detail in the Consolidated Annual Report for the year 2010.

### Unusual developments and factors

During the reported period there were no unusual events and/or factors.

### Other material information

During the reported period there were no material events which would affect the evaluation of the HR, property, financial situation or the financial result and their

changes, or would be material from the point of view of the Company's ability to perform its obligations.

## Factors influencing development of the Company

Information on market tendencies and factors having impact on the financial results of the Group in the perspective of the next year are provided in the Consolidated Annual Report. Below are presented risk

factors which have direct impact on the Company's operations. Other risk factors which have impact on the Company through the activity of its subsidiaries were described in detail in the Consolidated Annual Report.

### Risk factors

#### Risk factors connected with the Company's environment

The order in which the following risk factors are presented does not reflect the likelihood of their occurrence, scope or significance of the risks.

##### Risk of changes in law

The Company operates in a legal environment characterized by a high level of uncertainty. Regulations concerning our activities are often amended and there is no uniform interpretation, which involves a risk of a breach of applicable regulations and related consequences, even if the breach of law is inadvertent.

##### Risk connected with the unfavourable economic situation

The global economic situation is influenced by latest financial crisis, in particular lingering deterioration of consumer's and entrepreneur's trust, fears regarding availability and increase of loan's costs, decrease in consumer spending and investments, variability and strength of capital markets. We expect that harsh global economic conditions may still lead to reduction in demand for paper and reduction in average prices of paper which in turn may have an adverse influence on dividends received from subsidiaries.

##### Foreign exchange rates risk

The Company's revenues, costs and results are exposed to the risk of a change of currency exchange rates, in particular PLN to EUR, SEK and other currencies, because the Company receives dividends partially in EUR and in SEK. Currency exchange rates may have an adverse effect on the Group's results, financial standing and outlook.

##### The risk of changes in interest rate

The Company is exposed to the risk of changes in interest rates, mainly due to an existing coupon debt. This risk results from fluctuation in the benchmark interest rate such as WIBOR for debt in PLN. Negative changes in interest rates may adversely affect the results, financial situation and prospects of the Company.

## Risk factors connected with the Company's activities

The order in which the following risk factors are presented does not reflect the likelihood of their occurrence, scope or significance of the risks.

Risk connected with maintaining and recruiting management and qualified staff

The achievement of strategic goals by the Company depends on the expertise and experience of the professional management and the ability to employ and maintain specialists such as engineers and qualified workers. The Company may not be able to keep the existing management or other key employees or recruit new specialists. If the Group is not able to recruit and maintain management and staff, this may have an adverse effect on our business, operating results and financial standing.

Risk connected with the Company's ability to pay dividend

The Issuer is a holding company, thus its ability to pay dividend depends on the level of distributions it receives from operational subsidiaries and the level of its cash balances. Some of the subsidiaries conducting operating activity may in certain periods be subject to limitations concerning distributions to the Issuer. It is not certain that such limitations will not have a material adverse effect on the Issuer's activities, operating results and ability to pay dividend.

## Supplementary information

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

The Management Board of Arctic Paper S.A. has not published projections of financial results for 2010, and has not published projections of financial results for 2011 and do not plan to publish forecast for 2011.

### Information on dividend

Dividend is paid based on net profit disclosed in the standalone annual financial statements of Arctic Paper S.A. prepared for statutory purposes, taking into account absorption of losses from prior years.

In accordance with provisions of the Code of Commercial Companies, the parent company is obliged to establish a reserve capital to finance possible losses. At least 8% of the profit for the financial year shown in standalone financial statements of parent company should be transferred to this category of capital until this capital has reached the amount of at least one third of

the share capital of the parent company. The use of the reserve and supplementary capital is determined by the General Meeting; however the part of the reserve capital equal to one third of the share capital can be used only to finance the losses shown in the standalone financial statements of the parent company and cannot be distributed to other purposes.

As at the date of this report, the Company does not have preferred shares.

The possibility of payment of potential dividend by the Company to shareholders depends on the level of



payments received from subsidiaries. Risks associated with the Company's ability to pay dividends have been described in the part "Risk factors" of this report.

On 12 May 2010, the Management Board of Arctic Paper SA adopted a resolution recommending the General Meeting of Shareholders a payment of dividend for the year 2009 in the amount of PLN 0.80 per share.

On 8 June 2010 Regular General Meeting of Shareholders adopted Resolution No. 7 on the distribution of profit for the year 2009, in which part of the profit for the fiscal year 2009 was allocated for

distribution among the shareholders in the amount of PLN 49,309 thousand, i.e., it was decided to pay a dividend of PLN 0.89 per share. The number of shares covered by the dividend amounted to 55,403,500.

The dividend on ordinary shares for the year 2009 was paid on 6 July 2010 and amounted to PLN 49,309 thousand.

### **Issue, buy-out and repayment of non-equity and equity securities**

- On 1 March 2010, the Extraordinary General Meeting adopted resolutions to increase the share capital. Company's share capital was increased from the amount of PLN 524,035,000.00 to PLN 554,035,000.00, that is, the amount of PLN 30,000,000. Increasing the share capital by way of issuing 3,000,000 (three million) shares of Series E, of a nominal value of PLN 10.00 (ten zloty) each. Series E shares, issued pursuant to this resolution of the Board are ordinary bearer shares. Series E shares, issued pursuant to this resolution of the Board, participate in the dividend from the profit-sharing payments for the year 2009, ie. for the year ended 31 December 2009. Pursuant to Art. 447 § 1 in conjunction with. 433 § 2 of the Commercial Companies Code, the consent of the Supervisory Board to deprive existing shareholders pre-emptive rights in full shares of series E as expressed in Management Board Resolution No. 01/02/2010 dated 04 February, 2010 and upon the written opinion of the Management Board justifying the deprivation of preemptive rights of series E and the issue price of those shares, in the interest of the Company,

the existing shareholders are deprived of the Company's preemptive rights of Series E shares issued pursuant to this resolution of the Management Board. Series E shares were offered by the Company in a private subscription. Issue price of each share of Series E issued pursuant to this resolution of the Management Board is PLN 17.43 (seventeen zloty and 43 / 100). On 9 March 2010 the increase in share capital resulting from issue of E series shares which was paid in cash, was registered.

- On June 8 2010 Annual General Meeting of the Company adopted Resolution No. 19 concerning amendments to the resolution of the General Assembly of 30 July 2009 on the adoption of assumptions - Incentive Program. Broadly described in this report under the item on the control of information shares.
- On 11 February 2010 a contract was concluded between Arctic Paper SA and BRE Bank SA, by which Bonds issue programme has been established. The Bonds issue programme shall provide the possibility to issue ordinary bearer

bonds, in a dematerialised form with planned period of maturity from 7 days to 364 days for zero-coupon bonds and from 365 days for bearer bonds. Bonds issued under Bonds Issue Programme shall be unsecured. The total nominal value of Bonds issued under the Issue programme shall not exceed PLN 200 million.

- Within the confines of the Bonds Issue Programme on 25 February 2010, series

1/2010 coupon bonds and series 2/2010 zero-coupon bonds were issued. The total nominal value of issued bonds of the series 1/2010 and 2/2010 amounted to PLN 186 million.

Apart from the above changes, in the period covered by this report, Arctic Paper S.A. did not issue, buy out or repay any non-equity or equity securities.

### Use of proceeds from issue of shares

Use of proceeds from share issue was described in detail in note 23.1 of the consolidated financial statements.

### Remuneration paid to Management Board and Supervisory Board Members

Table below presents the information on total remuneration, bonuses for 2009 and bonuses and other benefits paid or to be paid to members of the Management Board and Supervisory Board of the parent entity for the period from 1 January 2010 to 31 December 2010 (in PLN).

#### Remuneration of the Management Board and Supervisory Board Members

Managing and supervising personnel	Remuneration (including other contributions paid by the employer) for working in :		Bonus for 2009	Other benefits	Total
	Arctic Paper S.A.	Related parties			
<b>Management Board</b>					
Michał Piotr Jarczyński	856 000	730 718	420 000	58 672	2 065 390
Kent Bjarne Björk	1 058 467	-	199 016	5 998	1 263 481
Hans Olof Karlander	960 612	-	36 032	32 565	1 029 209
Michał Jan Bartkowiak	517 505	-	90 000	4 000	611 505
<b>Supervisory Board</b>					
Rolf Olof Grundberg	143 000	-	-	-	143 000
Rune Roger Ingvarsson	97 000	-	-	-	97 000
Thomas Onstad	84 500	-	-	-	84 500
Fredrik Lars Plyhr	109 500	-	-	-	109 500
Jan Ohlsson	47 100	-	-	-	47 100
Wiktorian Zbigniew Tarnawski	84 500	-	-	-	84 500

## Agreements with Management Board Members on financial compensation

As at 31 December 2010 and as at the date this annual report is approved, no agreements were executed between the Issuer and managers providing for compensation in the event of their resignation or removal

from their position without good cause, or if their removal or resignation is due to the Issuer's merger through acquisition.

## Statement of changes in the issuer's shareholding or rights to shares of persons managing and supervising Arctic Paper S.A.

Statement of changes to the holdings of the Company's shares and rights thereto by managing and supervising personnel

	Number of shares or rights thereto as at 27/04/2011	Number of shares or rights thereto as at 01/03/2011	Change
<b>Managing and supervising personnel</b>			
<b>Management Board</b>			
Michał Piotr Jarczyński	76 500	76 500	-
Hans Olof Karlander	19 124	19 124	-
Michał Jan Bartkowiak	-	-	-
<b>Supervisory Board</b>			
Rolf Olof Grundberg	312	312	-
Rune Roger Ingvarsson	-	-	-
Thomas Onstad	-	-	-
Fredrik Lars Plyhr	19 000	19 000	-
Jan Ohlsson	-	-	-
Wiktorian Zbigniew Tarnawski	-	-	-

## Information on system of control over employees' shares

The Company has not issued any convertible or exchangeable securities. On 30 July 2009, the Company's Extraordinary General Meeting adopted Resolution no. 4 to adopt assumptions for an incentive plan for key managers, issue subscription warrants, conditionally increase the share capital through the issue of new shares, deprive the existing shareholders of the preemptive right to subscription warrants and shares and to amend the Articles of Association – see the Company's Issue Prospectus.

On June 8, 2010 Annual General Meeting of the Company adopted Resolution No. 19 concerning amendments to the resolution of the General Assembly of 30 July 2009 on the adoption of assumptions -

Incentive Program, and yes: change to § 3 and give it the following: „After entering the the register of entrepreneurs of the conditional capital increase carried out under point III of this Resolution, the Company will issue A series subscription warrants, hereinafter called "Warrants" in the number of 1,500,000, entitling the bearer shares of series D with a nominal value PLN 10 (ten zloty) each.

Changes in § 4. 1 and gives the following: "entitled to subscribe for the Warrants will be indicated by the Supervisory Board by persons belonging to key executives of the Company and its subsidiaries, including members of the Supervisory Board, regardless of the form and legal basis to perform the duties of these

positions (" Participants Incentive Program "), provided that the eligible to purchase the Warrants will be no more than 30 people."

On June 8, 2010 Annual General Meeting of the Company adopted Resolution No. 20 concerning amendments to the Articles of Association in such a way that changes to Article 5.7.1 and 5.7.2, and gives them the following:

„5.7.1 The nominal value of the conditional increase in share capital is 15,000,000.00 zł (fifteen million)

### Information on key agreements

On 11 February 2010 a contract was concluded between Arctic Paper SA and BRE Bank SA, by which Bonds issue programme has been established. The Bonds issue programme shall provide the possibility to issue ordinary bearer bonds, in a dematerialised form with planned period of maturity from 7 days to 364 days for zero-coupon bonds and from 365 days for bearer bonds. Bonds issued under Bonds Issue Programme shall be unsecured. The total nominal value of Bonds issued under the Issue programme shall not exceed PLN 200 million.

Within the confines of the Bonds Issue Programme on 25 February 2010, series 1/2010 coupon bonds and series 2/2010 zero-coupon bonds were issued. The total nominal value of issued bonds of the series 1/2010 and 2/2010 amounted to PLN 186 million.

On March 1, 2010, an agreement was signed for a loan with a subsidiary Arctic Paper Investment AB ("Borrower"). The loan was granted to a subsidiary in connection with the completion of the acquisition by a Arctic Paper Group of 100% of shares of Grycksbo Paper Holding AB. According to the agreement Arctic Paper Investment AB was granted with a loan for the period from 01.03.2010 to 10.02.2013 in the amount of PLN 195 million for the purpose of purchase of shares of Grycksbo Paper Holding AB.

and is divided into ordinary bearer shares of series D with a nominal value PLN 10.00 (ten zloty) each. "

„5.7.2 The purpose of the conditional capital increase is to grant rights to subscribe for shares of series D warrants to holders of series A, issued by the Company pursuant to resolution No. 4 of the Extraordinary General Meeting of 30 July 2009 and resolution of the Annual General Meeting of 8 June 2010. "

On 17 June 2010 Arctic Paper SA and its subsidiaries, such as Arctic Paper Kostrzyn, Arctic Paper AB Munkedals, Arctic Paper Investment GmbH and Arctic Paper Mochenwangen GmbH concluded with the Bank Polska Kasa Opieki SA Amendment to the facility agreement dated 23 October 2008. Pursuant to Amendment No. 4, Bank Polska Kasa Opieki SA agreed to additionally grant to Arctic Paper Kostrzyn S.A. an overdraft facility ("facility C") up to the amount of PLN 50,000,00. The loan will be used to finance current operations of Arctic Paper Kostrzyn. On 30 March 2011, the Company and its subsidiaries, that is Arctic Paper Kostrzyn, Arctic Paper Investment GmbH and Arctic Paper Mochenwangen GmbH concluded with the Bank Polska Kasa Opieki SA another amendment (the "Amendment "). Pursuant to the Amendment Bank Polska Kasa Opieki SA agreed to postpone until 30 March 2012 the final repayment date of the current account credit of up to PLN 50,000,000 ("the facility C") granted to Arctic Paper Kostrzyn S.A. The above information was disclosed in Note 45.4 of these consolidated annual report.

On 23 December 2010, Arctic Paper SA and its subsidiaries, i.e. Arctic Paper Kostrzyn, Arctic Paper AB Munkedals, Arctic Paper Investment GmbH and Arctic Paper Mochenwangen GmbH concluded Amendment to the facility agreement with Bank Polska Kasa Opieki SA,

Poland dated October 23, 2008. Under Amendment No. 5 Bank Polska Kasa Opieki SA Poland agreed that:

1. Net borrowings to EBITDA ratio calculated based on the consolidated financial statements for the annual periods ending on 30 September 2010 and on 31 December 2010 may exceed 3.5, provided however, that in respect to any such relevant period, the Net Borrowings will not at any time exceed 5.0 times EBITDA.

2. EBITDA to Interest Expense ratio calculated based on consolidated financial statements for the year ended 31 December 2010 may be less than 3:1, provided however, that the ratio of EBITDA to Interest Expense for

the relevant period ending on 31 December 2010 will not be less than 1.4:1.

On 12 April 2011 the Company signed annex to the loan agreement between Arctic Paper S.A. and its subsidiary Arctic Paper Investment AB seated in Göteborg (Sweden). 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. Detailed information about the agreement is included in current reports no. 14/2009 dated 8 December 2009 and 08/2010 dated 1 March 2010 and 10/2010 dated 2 March 2010.

### **Financial resources management**

In 2010 the Group established Bond Issue Programme which resulted in bonds issue in total nominal value of PLN 186 million. The funds were obtained in order to finance part of the acquisition price of 100% of Grycksbo Paper Holding AB shares as well as to reduce

the amount of planned funding of statutory activities from the bank loan.

As at the date of this consolidated annual report, the Company had sufficient cash and creditworthiness to ensure financial liquidity of the Arctic Paper S.A. Group.

### **Capital investment and investment**

In 2010 the Arctic Paper Group entities used their cash resources only to the standard short-term investments, including overnight deposits. The Group did not make any investments in 2010.

### **Bank and other loan agreements**

Information on bank and other loan agreements is presented in the additional information in notes 18.3 and 25 of the standalone financial statements for year 2010.

Table below presents information about loans granted by Arctic Paper S.A. to its related parties in 2010.

## Borrowings to related parties in the financial year

Related party	Maturity date	Interest	Amount of the borrowing in currency (in thousand)	Borrowing currency	As at 31 December 2010 (in PLN thousand)
Arctic Paper Munkedals	31-03-2011	Wibor 3M+ marża	27 658	PLN	27 658
Arctic Paper Mochenwangen	31-12-2011	Euribor 3M + marża	1 500	EUR	5 940
Arctic Paper Investment GmbH	31-12-2011	Wibor 3M + marża	19	PLN	19
Arctic Paper Investment GmbH	31-12-2011	Euribor 3M + marża	3 437	EUR	13 610
Arctic Paper Investment AB	10-02-2013	Wibor 6M + marża	244 275	PLN	244 275
Arctic Paper East	31-12-2011	Wibor 3M + marża	250	PLN	250
Arctic Paper Ireland Ltd.	31-12-2011	Euribor 3M + marża	1	EUR	4
<b>TOTAL</b>					<b>291 756</b>

The borrowings to related parties are performed on the arms-length basis.

### Information on guarantees and contingent liabilities

During the period covered by this report, Arctic Paper S.A. and its subsidiaries did not give or receive guarantee for a loan or borrowing and did not receive or give guarantees jointly to one entity or subsidiary of such entity, the total value of which represented the equivalent of at least 10% of the Company's equity.

As at 31 December 2010 the Capital Group reported:

- a bill of exchange guarantee issued by the Group to the amount of loan and lease agreement in favour of the National Fund for Environment Protection and Water Management in the amount of PLN 20,352 thousand;
- a bill of exchange guarantee in favour of Siemens Finance in the amount of PLN 819 thousand;

- a bill of exchange guarantee in favour of Bankowy Leasing in the amount of PLN 9,848 thousand;
- a bill of exchange guarantee in favour of Bankowy Fundusz Leasingowy in the amount of PLN 15,023 thousand;
- a guarantee commitment to FPG in favour of mutual life insurance company PRI in the amount of SEK 500 thousand;
- a bank guarantee in favour of Skatteverket Ludvika in the amount of SEK 66 thousand.

Contingent liabilities are disclosed in detail in audited standalone financial statements for the year 2010 (Note 28).

### Significant off-balance sheet items

Information regarding off-balance sheet items is given in the standalone financial statements for 2010 in note 35.

## **Evaluation of the possibility to implement investment plans**

Arctic Paper S.A. does not plan significant investments for realization in 2011. Major investments are conducted by subsidiaries of the Issuer, in particular paper mills, which was disclosed in the Consolidated Annual Report.

## **Information on court and arbitration proceedings and proceedings pending before public administrative authorities**

During the period covered by this report, Arctic Paper S.A. and its subsidiaries were not a party to any proceedings pending before a court, arbitration or public administrative authority, the unit or joint value of which would equal to or exceed 10% of the Company's equity.

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

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

## **Information on agreements resulting in shareholding changes**

The Issuer is not aware of any agreements which may in the future lead to changes in the present shareholding of shareholders and bondholders.

## **Information on acquisition of treasury shares**

In 2010 the Company did not acquire any treasury shares.

## **Information on entity authorized to audit the financial statements**

Information on the entity authorized to audit the financial statements is given in the additional information in note 30 of the standalone financial statements for 2010.

## **Employment**

Information regarding employment is given in the additional information in note 34 of the standalone financial statements for 2010.

## Statement on application of corporate governance rules

### Corporate governance rules

Pursuant to § 29 item 2 of the Warsaw Stock Exchange Rules adopted by Resolution no. 1/1110/2006 by the Stock Exchange Board on 4 January 2006, as amended, Arctic Paper S.A. is obliged to apply corporate governance rules contained in the document

– “Best practices of companies listed on the SE”, attached as a schedule to Resolution no. 12/1170/2007 of the Stock Exchange Board of 4 July 2007 (“Best Practices”), available on the website [www.corp.gov.gpw.pl](http://www.corp.gov.gpw.pl).

### Information on the extent to which the Issuer does not apply corporate governance rules

In 2010 the Issuer abided by all corporate governance rules contained in the Best Practices.

### Internal control and risk management system with regard to the process of preparing financial statements

The Management Board of Arctic Paper S.A. is responsible for the Group’s internal control system and its effectiveness in the process of preparing consolidated financial statements and periodical reports prepared and published in accordance with the Regulation of 19 February 2009 on current and periodical information submitted by issuers of securities and terms and conditions of classifying as equivalent information required by the law of a non-member state. The Group’s consolidated financial statements and periodical reports are the responsibility of the Company’s financial department managed by the Director of Finance. Financial data constituting the basis for preparing the Group’s consolidated financial statements come from monthly reporting blocks and extended quarterly blocks set to the Issuer by the Group companies. After the accounts of each calendar month are closed, senior management of the Group companies analyzes the financial results of the companies in the light of the budget projections and results achieved in the previous financial year.

the budget is supported by medium-level and senior management of the Group companies. The budget for the following year is adopted by the Company’s Management Board and approved by its Supervisory Board. During the year, the Company’s Management Board compares the financial results achieved with the budget projections.

The Company’s Management Board systematically evaluates the internal control and risk management system quality in reference to the process of preparing consolidated financial statements. Based on the evaluation the Company’s Management Board states that as at 31 December 2010 there were no weaknesses which could materially impact the effectiveness of internal control in financial reporting.

The Group carries out an annual review of its strategies and growth perspectives. The process of establishing



## Shareholders holding directly or indirectly significant blocks of shares

Information regarding shareholders holding directly or indirectly significant blocks of shares is given in the part of the Management Board Report on the operations of Arctic Paper S.A. Capital Group – Description of Arctic Paper Group's operations.

## Securities carrying special control rights

The Company does not have any securities which carry special control rights, and the Company's shares are non-preferred.

## Restrictions on transfer of ownership of the Issuer's securities any restrictions on exercise of the voting right

The Company's Articles of Association do not provide for any restrictions on the transfer of the ownership of the Issuer's securities. Such restrictions follow from legal regulations, including Chapter 4 of the Act on Offering, articles 11 and 19 and Section VI of the Act on Trading in Financial Instruments of 29 July 2005, the Act on Protection of Competition and Consumers of 16 February 2007, and the (EC) Council Regulation no. 139/2004 of 20 January 2004 on control of concentrations between undertakings. The Company committed that, without the Underwriter's and the Offeror's consent, for a period of 6 (six) months from the day on which the Public Offering ends, it would not issue shares or make public the intent to issue shares (or any securities convertible to or exchangeable for Shares or which carry the right to take up or purchase Shares), execute a transaction (including derivative transactions) with a similar Share market effect as sale, or make public the intent to take any of the above activities - see the Company's Prospectus.

Further, along with the signing of the underwriting agreement, Arctic Paper AB committed to the Underwriter and the Offeror that, without their consent, for a period of 12 (twelve) months from the day on which the Public Offering ends, it would not offer, sell, commit to sell, or give any put option or take any other actions aimed at selling the Shares (or any securities convertible

to or exchangeable for Shares or which carry the right to take up or purchase Shares), execute a transaction (including derivative transactions) with a similar Share market effect as sale, or make public the intent to take any of the above activities - see the Company's Prospectus.

Each Arctic Paper S.A. share carries one vote at the General Meeting. The Company's Articles of Association do not provide for any restrictions on the exercise of a vote from Arctic Paper S.A. shares, e.g. restriction on vote by holders of a certain part or number of votes, time restrictions on exercising the voting right, or provisions under which, with the Company's cooperation, equity rights related to securities are separated from possession of securities.

A prohibition on a shareholder to vote may arise from article 89 of the Act on Public Offering and on Terms and Conditions of Introducing Financial Instruments to Organized Trading System and on Public Companies of 29 July 2005 (the "Act on Offering") if the shareholder violates certain regulations contained in Chapter 4 of the Act on Offering. On the other hand, according article 6 § 1 of the Code of Commercial Companies, if a parent company does not inform a capital subsidiary company that a controlling relationship has arisen within two weeks of such relationship arising, the voting right

attached to the shares of the parent company capital is suspended.  
representing more than 33% of the subsidiary's share

## Principles of amending the Issuer's Articles of Association

The Company's Articles of Association may be amended by the General Meeting only.

If the Code of Commercial Companies or the Company's Articles of Association do not provide otherwise, General Meeting resolutions are adopted by a simple majority of votes cast.

## Description of the action manner of the General Meeting

The operating procedure of a General Meeting and its basic rights arise directly from legal regulations which are partly included in the Company's Articles of Association.

The Company's Articles of Association are available at:

<http://www.arcticpaper.com/pl/PL-Local-Site/Relacje-inwestorskie2/Dokumenty-korporacyjne/>

General Meetings are held in accordance with the following basic rules:

- General Meetings are held in the Company's registered office or in Warsaw.
- A General Meeting may be annual or extraordinary.
- An annual General Meeting should be held within six months of the end of each financial year.
- A General Meeting is opened by the Supervisory Board Chairman or a person designated by him, followed by the election of the Chairman of the General Meeting.
- Voting is open unless any Shareholder demands secret ballot or secret ballot is required by the Code of Commercial Companies.
- If the Code of Commercial Companies or the Company's Articles of Association do not provide otherwise, General Meeting resolutions are adopted by a simple majority of votes cast.
- According to the Company's Articles of Association, the following issues are within the General Meeting's exclusive powers:
  - considering and approving the Management Board report on the Company's operations and the Company's financial statements for the previous financial year;
  - acknowledging fulfillment of duties by Management Board members and Supervisory Board members;
  - decisions on allocation or profits or absorption of losses;
  - amending the Company's objects;
  - amending the Company's Articles of Association;
  - increasing or reducing the Company's equity;
  - merging the Company with another company or companies, or transforming the Company;
  - dissolving and liquidating the Company;
  - issuing senior convertible bonds and subscription warrants;
  - acquiring and selling real estate;

- selling and leasing an enterprise or an organized part thereof and establishing a limited property right thereon;
- any other issues which under the Articles of Association or the Code of Commercial Companies require a General Meeting resolution.

A General Meeting may adopt resolutions in the presence of shareholders representing at least half of the Company's share capital. A General Meeting adopts resolutions by an absolute majority of votes cast unless the Articles of Association or legal regulations require a qualified majority of votes.

Shareholders' rights and the way in which they are exercised basically arise directly from the legal regulations which have been partly incorporated into the Company's Articles of Association.

## **Activities of the Issuer's managing and supervisory authorities and their committees, and information on the composition of those authorities**

### **Management Board**

Management Board composition

- The Management Board is composed of one to five members, including the Management Board President.
- The Management Board is appointed and removed by the Supervisory Board for a common term of office.
- The term of office of Management Board members is 3 (three) years.
- If the Management Board is composed of more than one member, the Supervisory Board may, at the President's request, appointed up to three Vice Presidents from among Management Board members. A Vice President is removed under a Supervisory Board resolution.
- A Management Board member may be removed at any time by the Supervisory Board.
- A Management Board member may be removed or suspended at any time also by the General Meeting.

Basic powers of the Management Board

- The Management Board runs the Company's affairs and represents it before third parties.
- If the Management Board is composed of more than one member, declarations of intent may be made and documents may be signed on the Company's behalf by the Management Board President individually, or by two Management Board members acting jointly, or one Management Board member acting jointly with a commercial proxy.
- The Management Board is obliged to perform its duties with due care and to abide by the law, the Company's Articles of Association, by-laws and resolutions of the Company's authorities, and to take decisions within reasonable business risk, bearing in mind the interest of the Company and its shareholders.
- The Management Board is obliged to manage the Company's assets and affairs and to perform its duties with due care required in business transactions, in accordance with all legal regulations, the Articles of Association, by-laws, and resolutions adopted by the General Meeting and the Supervisory Board.

- Each Management Board member is liable for damage caused to the Company by his actions or omissions in breach of the law or the Company's Articles of Association.
- According to the Code of Commercial Companies, the powers of the Management Board include all issues of the Company which are not reserved for the General Meeting and the Supervisory Board.
- Guided by the Company's interest, the Management Board sets forth the Company's strategy and main operating goals.
- The Management Board is obliged to abide by the legal regulations on confidential information within the meaning of the Act on Trading and to perform all duties arising from those regulations.

To all other extent, particular Management Board members are liable individually for running the Company's affairs in accordance with the internal allocation of duties and functions set out in a Management Board decision.

The Management Board may adopt resolutions at meetings or without holding a meeting in writing or with the use of distance communication. The Management Board adopts resolutions by a majority of votes cast. Resolutions are valid if at least half the Management Board members are present at the meeting. In the case of a voting deadlock, the Management Board President has the casting vote.

#### Additional Management Board rights arising from the Company's Articles of Association

Under the Company's Articles of Association, the Management Board is authorized to carry out one or several share capital increases by an amount not higher than PLN 120,000,000 (one hundred twenty million) through the issue of not more than 12,000,000 (twelve million) ordinary bearer shares (Authorized Capital), on the following terms and conditions:

- the Management Board may exercise its authority by effecting one or several share capital increases within the Authorized Capital;
- this authorization was granted for 3 years from the date the amendment to article 5.6 of Articles of Association is registered in the register;
- shares issued as part of Authorized Capital may be taken up in exchange for cash or non-cash contributions;
- the issue price of the shares issued as part of the Authorized Capital will be set by the Management Board in a resolution to increase the share capital as part of this authorization; in this case, Supervisory Board consent is not required, subject to item 5.6 g) of the Company's Articles of Association;
- a Management Board resolution adopted as part of the authorization granted under the Articles of Association in this article supersedes a General Meeting resolution to increase the share capital;
- the Management Board decides on all issues related to share capital increase as part of the Authorized Capital, subject to article 5.6 of the Articles of Association;
- the Management Board is authorized, with the Supervisory Board's consent, to issue the shares in exchange for a non-cash contribution; an issue price of shares by the Management Board for shares issued in exchange for a non-cash contribution requires Supervisory Board consent;
- the Management Board is authorized, with the Supervisory Board's consent, to deprive the existing shareholders of the preemptive right in whole or in part.

The special Management Board procedure is set out in the Management Board By-laws which are available at:

<http://www.arcticpaper.com/pl/PL-Local-Site/Relacje-inwestorskie2/Dokumenty-korporacyjne/>

The composition of the Company's Management Board and any changes thereto are described in the consolidated financial statements.

## Supervisory Board

Composition and organization of Supervisory Board composition and organization

- The Supervisory Board is composed of 5 (five) to 7 (seven) members elected by the General Meeting for a common three-year term of office. A Supervisory Board member may be removed at any time.
- The Supervisory Board is composed of a Chairman, Deputy Chairman, and other members. The Supervisory Board Chairman and Deputy Chairman are elected by the Supervisory Board from among its members at the first meeting or – if needed – during the term of office, in supplementary elections.
- From the moment the General Meeting adopts resolutions constituting grounds for the first public share issue and for introducing the shares to stock exchange trading, two Supervisory Board members should be independent members.
- If an independent Supervisory Board member has been appointed, without the consent of at least one independent Supervisory Board member, the following resolutions cannot be adopted:
  - any performances by the Company or any related entity to Management Board members;
  - consent for the Company or its subsidiary to execute a key agreement with an entity related to the Company, Supervisory Board member or Management Board member and their related entities, other than agreements executed during the normal course of the Company's business on regular terms applied by the Company;
  - election of a certified auditor to audit the Company's financial statements.
- In order to avoid doubts, it is assumed that the loss of independence by a Supervisory Board member, or failure to appoint an independent Supervisory Board member do not result in the invalidity of decisions taken by the Supervisory Board. The loss of independence by an Independent Member during the term of being a Supervisory Board member does not invalidate or extinguish his mandate.
- The Supervisory Board Chairman and Deputy Chairman:
  - maintain contact with the Company's Management Board;
  - manage the Supervisory Board's work;
  - represent the Supervisory Board before third parties and the Company's authorities, including particular Management Board members,
  - implement initiatives and motions addressed to the Supervisory Board,
  - take other activities arising from the By-laws and the Company's Articles of Association.
- A Supervisory Board member should not resign from his position during the term of office if this could prevent the Supervisory Board operations, or preclude the timely adoption of a significant resolution.

- Supervisory Board members should be loyal to the Company. If there is a conflict of interest, a Supervisory Board member is obliged to inform the remaining Board members thereof and to refrain from speaking and voting on the resolution on the matter of conflict of interest.
- Supervisory Board members are obliged to abide by the law, the Company's Articles of Association and the Supervisory Board By-laws.

#### Supervisory Board powers

- The Supervisory Board exercises permanent supervision over the Company's operations in all areas of its operations.
- The Supervisory Board adopts resolutions, gives instructions and issues opinions and submits motions to the General Meeting.
- The Supervisory Board may not give the Management Board binding instructions regarding the running of the Company's affairs.
- Disputes between Supervisory Board and Management Board are resolved by the General Meeting.
- In order to exercise its rights, the Supervisory Board may review any aspect of the Company's operations, demand presentation of any documents, reports, and explanations from the Management Board and issue opinions on matters concerning the Company, and submit conclusions and initiatives to the Management Board.
- Apart from other issues set out by law of the Company's Articles of Association, the powers of the Supervisory Board include:
  - evaluating the Company's financial statements;
  - evaluating the Management Board report on the Company's operations and Management Board motions regarding allocation of profit or absorption of losses;
  - submitting to the General Meeting an annual written report on the results of the evaluations;
  - appointing and removing Management Board members, including the President and Vice Presidents, and setting remuneration for Management Board members;
  - electing a certified auditor for the Company.
- Each year the Supervisory Board submits to the General Meeting a brief report of the Company's situation, and renders access to this report for all shareholders in a period which allows them to become acquainted with it before the Annual General Meeting.
- The Supervisory Board executes, on the Company's behalf, agreements with Management Board members and represents the Company in disputes with Management Board members. The Supervisory Board may, in a resolution, authorize one or more members to carry out such legal transactions.

The Supervisory Board may adopt resolutions in writing or with the use of direct distance communication. A resolution so adopted is valid if all Board members have been informed of the wording of the draft resolution. The date on which such a resolution is adopted is the date on which the last Supervisory Board member signs it.

Supervisory Board resolutions may be adopted if all members have been notified by registered mail, fax or e-mail, sent at least 15 days in advance and most of the Board members are present at the meeting.

Resolutions may be adopted without a formal convening of a meeting if all Board members consent to a vote on a given issue or to the wording of the resolution which is to be adopted.

Supervisory Board resolutions are adopted by a simple majority of votes cast; in the case of a voting deadlock, the Supervisory Board Chairman has the casting vote.

The detailed operations of the Supervisory Board are laid down in the Supervisory Board By-laws which are available at:

<http://www.arcticpaper.com/pl/PL-Local-Site/Relacje-inwestorskie2/Dokumenty-korporacyjne/>

The Supervisory Board composition and changes thereto are described in the consolidated financial statements.

The following persons are independent Supervisory Board members:

- Mr. Fredrik Lars Plyhr
- Mr. Wiktorian Zbigniew Tarnawski
- Rune Ingvarsson
- Jan Ohlsson

Thus, 4 of 6 Supervisory Board members are independent members.

## **Audit Committee**

Audit Committee composition and organization

- The Audit Committee is composed of at least three Supervisory Board members, including the Committee Chairman, appointed by the Supervisory Board from among its members, in accordance with the Articles of Association and the Supervisory Board By-laws. At least one Audit Committee member is an independent member and has qualifications and experience in accounting and finance.
- Audit Committee members are appointed for a three-year term of office; not longer, however, than the Supervisory Board term of office.
- The Audit Committee Chairman elected by a majority of votes from among its members must be an independent member.
- The Audit Committee operates based on the Act on Certified Auditors, Best Practices, Supervisory Board By-laws and Audit Committee By-laws.
- The Audit Committee performs advisory and opinion-giving functions, operates collectively as part of the Company's Supervisory Board.
- The Audit Committee implements its tasks by presenting to the Supervisory Board, in the form of resolutions, motions, opinions, and reports on its tasks.

Audit Committee powers

- The basic task of the Audit Committee is advisory to the Supervisory Board on issues or proper implementation and control of the financial reporting processes in the Company, effectiveness of internal control and risk management systems and cooperating with certified auditors.

- The Audit Committee tasks arising from supervision over the Company's financial reporting process, ensuring effective internal control systems and monitoring financial audit activities include in particular:
  - control of the correctness of financial information delivered by the Company, including the correctness and cohesion of the accounting principles applied in the Company and its Capital Group, and criteria of consolidation of those financial statements,
  - evaluation, at least once a year, the internal control and management system in the Company and its Capital Group in order to ensure proper recognition and management of the Company,
  - ensuring effective functioning of internal control, especially by issuing recommendations to the Supervisory Board with regard to:
    - strategic and operating plans of internal audit and significant corrections to those plans,
    - internal audit policy, strategy and procedures prepared in accordance with the adopted internal audit standards,
    - inspecting specific aspects of the Company's operations.
- The tasks of the Audit Committee arising from monitoring the independence of a certified auditor and the entity authorized to audit financial statements include in particular:
  - giving recommendations to the Supervisory Board on issues concerning, election, appointment and re-appointment and removal of the entity performing the function of a certified auditor,
  - inspection of independence and objectiveness of the entity performing the function of a certified auditor, especially with regard to a change of the certified auditor, remuneration received, and other relation with the Company,
  - verifying the effectiveness of the entity performing the function of a certified auditor,
  - examining the reasons for resignation of an entity performing the function of a certified auditor.
- The Audit Committee may rely on the advice and assistance of external legal, accounting or other advisors if it deems necessary to perform its duties.
- The Audit Committee is obliged to submit annual reports on its operations to the Supervisory Board, by 30 September of each calendar year.

Audit Committee meetings are held at least twice a year.

On 3 December 2009, the following persons were appointed to the Audit Committee:

- Rolf Olof Grundberg
- Fredrik Plyhr
- Rune Ingvarsson

The detailed operations of the Audit Committee are laid down in the Audit Committee By-laws which are available at:

<http://www.arcticpaper.com/pl/PL-Local-Site/Relacje-inwestorskie2/Dokumenty-korporacyjne/>



## Remuneration Committee

### Remuneration Committee composition and organization

- The Remuneration Committee is composed of at least two Supervisory Board members, including the Committee Chairman, appointed by the Supervisory Board from among its members, in accordance with the Articles of Association and the Supervisory Board By-laws.
- Remuneration Committee members are appointed from three-year terms of office, not longer, however, than until the end of the Supervisory Board term of office.
- The Remuneration Committee Chairman is elected by a majority vote from among Committee members.
- The Remuneration Committee operates based on the Supervisory Board By-laws and the Remuneration Committee By-laws.
- The Remuneration Committee performs advisory and opinion-giving functions, acts collectively as part of the Company's Supervisory Board.
- The Remuneration Committee implements its tasks by presenting to the Supervisory Board, in the form of resolutions motions, opinions, recommendations, and reports on issues which are within its powers.

### Remuneration Committee powers

- The basic tasks of the Remuneration Committee is advisory to the Supervisory Board on issues related to remuneration policy, bonus policy, and other issues related to the remuneration of the employees, members of the Company's authorities and Capital Group companies.
- The tasks of the Remuneration Committee arising from supervision of the Company's remuneration policy and ensuring effective functioning of the Company's remuneration policy including giving the Supervisory Board recommendations in particular on:
  - approving and changing the principles of remuneration for members of the Company's authorities,
  - the total remuneration for the Company's Management Board members,
  - legal disputes between the Company and Management Board members on the Committee's tasks,
  - proposal of remuneration and granting additional benefits to particular members of the Company's authorities, especially, as part of management option plan (convertible into Company's shares),
  - remuneration and bonus policy strategy and staff policy.
- The Remuneration Committee may also rely on advice and assistance of external legal or other advisors if it deems necessary to perform its duties.
- The Audit Committee is obliged to submit annual reports on its operations to the Supervisory Board by 30 September of each calendar year.

Remuneration Committee meetings are held at least twice a year, on a date set by the Chairman.

On 3 December 2010, the following persons were appointed to the Remuneration Committee:

- Rolf Olof Grundberg
- Fredrik Plyhr

The detailed operating procedure of the Remuneration Committee is laid down in the Remuneration Committee By-laws which are available at:

<http://www.arcticpaper.com/pl/PL-Local-Site/Relacje-inwestorskie2/Dokumenty-korporacyjne/>

## Management Board's representations

### Accuracy and reliability of presented reports

Members of the Management Board of Arctic Paper S.A. declare that according to their best knowledge:

- Financial Statements of Arctic Paper S.A. for the year ended 31 December 2010 and the comparables were prepared in accordance with applicable accounting principles and reflect the true, reliable and fair situation of assets and financial position of the Company and its financial results for 2010,
- Management Board report on the activity of the Arctic Paper S.A. for 2010 contains a true picture of development, achievements and situation of Arctic Paper S.A., including a description of major threats and risks.

### Appointment of the Licensed Auditor of the Financial Statements

The Management Board Members of Arctic Paper S.A. hereby declares that Ernst & Young Audit Sp. z o.o. - a company entitled to audit financial statements, the licensed auditor of the financial statements of Arctic Paper S.A., has been appointed in compliance with the relevant regulations and that both the auditor and the chartered accountants carrying out the audit meet the requirements to develop an impartial and independent opinion on the audited statements in compliance with the relevant regulations and professional standards.

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	