Mondi Świecie Group

Consolidated financial statements for the year 2011

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM 1 JANUARY 2011 TO 31 DECEMBER 2011

	Note	2011 PLN'000	2010 PLN'000
Continued activities			
Revenues from sales			
Revenues from sales of products		2 725 784	2 251 013
Revenues from sales of goods and materials		45 938	12 661
	3	**2 771 722**	**2 263 674**
Cost of products, goods and materials sold	4	(1 923 422)	(1 595 811)
Gross profit on sales		**848 300**	**667 863**
Other operating revenues	6	2 626	1 078
Cost of sales and distribution		(249 026)	(222 242)
General and administrative costs		(142 514)	(113 653)
Other operating costs	7	(2 043)	(2 322)
Profit on operating activity		**457 343**	**330 724**
Financial expenses	8	(51 105)	(69 264)
Financial revenues	9	13 629	2 194
Share in profit of associated entity		101	36
Gross profit		**419 968**	**263 690**
Income tax	10	(23 974)	(14 373)
Net profit from continued activities		**395 994**	**249 317**
Discontinued activities		-	-
Net profit for the financial year		**395 994**	**249 317**
Attributable to: controlling shareholders		395 994	249 317
minority shareholders		-	-
Net profit (loss) per share		**7.92**	**4.99**
From continued activities Ordinary profit	12	7.92	4.99
Diluted profit	12	7.92	4.99
From continued and discontinued activities			
Ordinary profit	12	-	-
Diluted profit	12	-	-

	2011 PLN'000	2010 PLN'000
Profit (loss) on revaluation of fixed assets	-	-
Profit (loss) on revaluation of assets available-for-sale	-	-
Profit (loss) on cash flows hedging	-	-
Exchange differences from converting financial statements of foreign entities	-	-
Actuarial profits/(losses) on specific employee benefit programs	-	-
Tax on amounts charged directly to capitals	-	-
Net profit charged directly to capitals	-	-
Reclassifications		
Reclassification to profit or loss from sales of assets available-for-sale	-	-
Reclassification to profit or loss from cash flow hedge	-	-
Reclassification to opening balance of items hedged on cash flow	-	-
Tax on items reclassified from capitals	-	-
Net profit (loss)	**395 994**	**249 317**
Total – profits and losses recognised	**395 994**	**249 317**
Attributable to:		
controlling shareholders	395 994	249 317
minority shareholders	-	-
	395 994	249 317

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011

	Note	Balance as at 31.12.2011	Balance as at 31.12.2010
		PLN'000	PLN'000
ASSETS			
Fixed assets (long-term)			
Tangible assets	15	1 588 783	1 708 439
Intangible assets	14	2 334	2 904
Investments in associated entities valued with equity method	17	1 126	1 025
Financial assets available for sale		175	175
Other financial assets	18	168	495
Deferred tax assets	19	18 492	15 348
		1 611 078	1 728 386
Current assets (short-term)			
Inventory	20	265 679	227 596
Trade receivables and other receivables	21	360 346	339 003
Foreign currency forward contracts	21	2 130	1 410
Cash and cash equivalents	21	489 333	23 303
Income tax		25	-
		1 117 513	591 312
Long-term assets held for sale valued at fair value		-	-
		1 117 513	591 312
TOTAL ASSETS		**2 728 591**	**2 319 698**
LIABILITIES AND EQUITY			
Equity			
Share capital	28	333 734	333 734
Supplementary capital		1 098 820	848 648
Realised net profit		395 994	249 317
Retained earnings		1 217	2 072
Revaluation reserve capital		-	-
		1 829 765	1 433 771
Equity attributable to equity holders of the parent			
Minority shareholders' interest		1 829 765	1 433 771
Long-term liabilities			
Interest bearing bank credits and loans		341 530	416 366
Provisions	27	3 991	4 064
Deferred tax provision	24	38 450	57 041
		384 450	477 471
Short-term liabilities			
Trade liabilities and other liabilities		418 514	291 904
Current portion of interest bearing bank credits and loans	22	77 707	100 553
Foreign currency forward contracts		1 365	199
Income tax		3 780	3 828
Short-term provisions	27	13 010	11 972
		514 376	408 456
Liabilities directly related to fixed assets classified as held for sale		-	-
TOTAL LIABILITIES		898 826	885 927
TOTAL LIABILITIES AND EQUITY		**2 728 591**	**2 319 698**

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY FOR THE PERIOD FROM 1 JANUARY 2011 TO 31 DECEMBER 2011

	Balance as at 31.12.2011	Balance as at 31.12.2010
	PLN'000	PLN'000
Opening balance of equity	**1 433 771**	**1 184 453**
Changes in adopted accounting principles	-	-
Opening balance of equity after adjustments to comparable data	**1 433 771**	**1 184 453**
1. Opening balance of share capital, including:	333 734	333 734
- authorised share capital	50 000	50 000
- hyperinflation adjustment	283 734	283 734
1.1. Changes in share capital	-	-
1.2. Closing balance of share capital	333 734	333 734
2. Realised net profit	395 994	249 317
3. Retained earnings opening balance	251 389	72 248
3.1. Changes in retained earnings	(250 172)	(70 177)
a) increases (due to)	-	-
- profit distribution	-	-
b) decreases (due to)	250 172	70 177
- profit distribution	-	-
- contributions to the supplementary capital	250 172	70 177
3.2. Retained earnings closing balance	1 217	2 072
4. Opening balance of supplementary capital	848 648	778 471
4.1. Changes in supplementary capital	250 172	70 177
a) increases (due to)	250 172	70 177
- profit distribution	250 172	70 177
b) decreases (due to)	-	-
- dividends	-	-
4.2. Closing balance of supplementary capital	1 098 820	848 648
5. Opening balance of revaluation reserve	-	-
5.1. Changes in revaluation reserve	-	-
a) increases (due to)	-	-
- hedging revaluation	-	-
b) decreases (due to)	-	-
- hedging revaluation	-	-
5.2. Closing balance of revaluation reserve	-	-
Closing balance of equity	**1 829 765**	**1 433 771**

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD FROM 1 JANUARY 2011 TO 31 DECEMBER 2011

	2011	2010
	PLN'000	PLN'000
CASH FLOWS FROM OPERATING ACTIVITIES		
GROSS PROFIT	**419 968**	**263 690**
Share in net profits (losses) of subsidiaries valued with equity method	(101)	(36)
Amortisation and depreciation	153 118	157 360
Exchange gains (losses)	(529)	(2 666)
Interest and profit sharing (dividend)	24 019	53 665
Profit (loss) on investment activities	21 616	6 838
Change in provisions	964	7 648
Change in inventory	(38 083)	(53 158)
Change in receivables	(66 722)	(133 657)
Change in short-term liabilities excluding credits and loans	132 514	50 955
Other adjustments	436	(2 609)
CASH FLOWS FROM OPERATING ACTIVITIES	647 200	348 030
Interest paid	(1)	-
Income tax paid	11	(204)
NET CASH FLOWS FROM OPERATING ACTIVITIES	**647 210**	**347 826**
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Inflows	23 156	27 475
Disposal of intangible and tangible fixed assets	554	2 612
From financial assets, including:	105	140
In related parties	105	140
▪ dividend and profit sharing	105	140
▪ sales of financial assets	-	-
In other entities	-	-
▪ sales of financial assets	-	-
▪ interest	-	-
Other inflows from investment activities	22 497	24 722
Outflows	82 429	139 351
Purchase of intangible assets and tangible fixed assets	38 991	109 427
For financial assets, including:	-	-
In related parties	-	-
In other entities	-	-
▪ purchase of financial assets	-	-
Advance payments for fixed assets in construction	-	-
Other outflows from investment activities	43 438	29 924
NET CASH FLOWS FROM INVESTMENT ACTIVITIES	**(59 273)**	**(111 877)**

	2011 PLN'000	2010 PLN'000
CASH FLOWS FROM FINANCIAL ACTIVITIES		
Inflows	29 743	634
Credits and loans	29 738	613
Other inflows from financial activities	5	20
Outflows	151 659	244 519
Dividend and other payments to shareholders	-	-
Repayment of credits and loans	126 471	188 870
Payment of liabilities arising from financial leases	-	-
Loans granted	100	-
Interest	17 532	29 362
Other outflows from financial activities	7 556	26 286
NET CASH FLOWS FROM FINANCIAL ACTIVITIES	**(121 916)**	**(243 885)**
TOTAL NET CASH FLOWS	466 021	(7 936)
BALANCE CHANGE IN CASH	466 031	(7 070)
Change in cash due to exchange differences	10	865
CASH OPENING BALANCE	23 313	30 383
CLOSING BALANCE OF CASH	**489 333**	**23 313**

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS PREPARED AS AT 31 DECEMBER 2011

1. GENERAL INFORMATION

The Group parent company's name has been Mondi Świecie Spółka Akcyjna since the court decided to register on 16 May 2008 a new name of the Company. The Extraordinary General Meeting of Shareholders of the Company adopted a resolution regarding rebranding of the Company from Mondi Packaging Paper Świecie Spółka Akcyjna to Mondi Świecie Spółka Akcyjna on 21 March 2008. The registered office of the parent company is Świecie, ul. Bydgoska 1.
The Company was established on the basis of the notarised deed, Repertory A no. 1887/90 dd. 17 December 1990, in the Individual Notary Public Office No. 18 in Warsaw run by a notary public, Paweł Błaszczak as a result of the transformation of the state owned company "Zakłady Celulozy i Papieru" with its registered office in Świecie into a sole shareholder company of the State Treasury.
Presently, the Company is registered in the National Court Register of Companies (KRS) in the District Court in Bydgoszcz, 13th Economic Division under KRS No. 25742,
Pursuant to the Polish Statistical Classification of Economic Activities the Company is classified under no. 17.12 – manufacture of paper and board, whereas according to the Warsaw Stock Exchange the Company is presented in the wood industry sector.

The structure of the Mondi Świecie Group

As at the balance sheet date the Mondi Świecie Group comprises:

- Parent company - Mondi Świecie S.A., and
- Subsidiary - Świecie Recykling Sp. z o.o.,
- Associated company - Polski System Recyklingu – Organizacja Odzysku S.A.

The consolidated financial statements prepared as at 31 December 2011 cover the following entities:

a) Parent company - Mondi Świecie S.A.

b) Company valued with the full method:
 - Świecie Recykling Sp. z o.o.,

c) Companies valued with the equity method:
 - Polski System Recyklingu – Organizacja Odzysku S.A.

The financial statements of the subsidiary are prepared for the same reporting period as the financial statements of the parent company and using the same rules of accounting.

All balances and transactions between the Group companies have been fully eliminated.

The consolidated financial statements have been prepared in PLN. PLN is a functional and presentation currency for the Group.

Duration of the Group's business

The duration of activities for each company of the Group is indefinite.

The balance sheet date and the period of time covered by the financial statements

Financial statements consist of:

- the data of the year from 1 January to 31 December 2011,
- the comparative data of the year from 1 January to 31 December 2010.

Information concerning management board and supervisory board of the parent entity as at 31 December 2011.

<u>Management Board</u>

President of the Board:	Maciej Kunda
Members of the Board:	Bogusław Bielecki
	Tomasz Katewicz
	Florian Stockert
	Jan Żukowski

<u>Supervisory Board</u> **Chairman of the Supervisory Board:** Peter Oswald

Members of the Supervisory Board:	Peter Machacek
	Ryszard Gackowski
	Karol Mergler
	Franz J. Hiesinger
	Jarosław Kurznik
	Klaus Peller
	Ladimir Enore Pellizzaro
	Walter Seyser

Shareholders' structure of the parent company

- Framondi N.V. (S.A. located in Amsterdam, Fort Willemweg 1, 6219 PC Maastricht) - 33 000 000 shares, 66.00% in share capital,
- ING OFE – 4 998 750 shares, 10.00% in share capital,
- Aviva OFE Aviva BZ WBK – 3 655 965 shares, 7.31% in share capital,
- others – 8 345 285 shares, 16.69%.

The final owner of the whole Mondi Group is Mondi plc.

Statements

Pursuant to § 92 subsection 1 paragraphs 5 and 6 of the Regulation of the Minister of Finance dated as at 19 February 2009 regarding information to be published by issuers of securities on a current and periodic basis and conditions for information required by law of a non-member state to be recognised as equivalent, the Management Board of Mondi Świecie S.A. declares as follows:

- **true and fair view of reported financial statements**

The Management Board of Mondi Świecie S.A. composed of the following Members:

Maciej Kunda – President of the Management Board,
Bogusław Bielecki – Member of Management Board, Financial Director,
Tomasz Katewicz – Member of the Management Board, Production Director,
Florian Stockert – Member of the Management Board, Sales Director,
Jan Żukowski – Member of the Management Board, Investment and Development Director

declares that the consolidated financial statements for the year 2011 and comparative data have been prepared in accordance with the accounting rules in force and reflect in a true, reliable and clear manner the financial position and assets-related condition of the Group and the Group's financial result. The statements present the Group's real development, achievements and the review of the Company's situation including the description of key risks and hazards.

- **the appointment of the entity entitled to audit the financial statements**

Pursuant to the Statute of Mondi Świecie S.A., the Management Board of the Company entrusted the Supervisory Board with the appointment of the authorised entity to audit the financial statements. The Supervisory Board, by virtue of the Resolution of 9 June 2011, at a request of the Management Board, appointed an entity authorised to audit the separate financial statements and the consolidated financial statements for the year 2011 and to review the separate financial statements and the consolidated financial statements for the first half-year 2011. Deloitte Audyt Sp. z o.o., 00-549 Warszawa, ul. Jana Pawła II 19 was appointed.

The Management Board of Mondi Świecie S.A. declares that Deloitte Audyt Sp. z o.o., the entity authorised to audit the financial statements that will audit the separate financial statements and the consolidated financial statements for 2011 was appointed in compliance with the legal provisions in force. Further, this company and expert auditors who are involved in auditing the financial statements fulfil the conditions for issuing an impartial and independent opinion on the audit, in pursuance with relevant national law.

Modification of comparative data

In the reporting period, no changes were made to the presentation of financial statements.

2. ACCOUNTING PRINCIPLES APPLIED BY THE GROUP

Accounting principles

The consolidated financial statements were prepared in compliance with the International Financial Reporting Standards (IFRS) in the form approved by the European Union.

The International Financial Reporting Standards in the form approved by the European Union do not differ significantly from the regulations adopted by the International Accounting Standards Board, excluding the standards, amendments to standards and interpretations specified below, which have not been adopted for application yet as per 13 February 2012:

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2015),
- IFRS 10 "Consolidated Financial Statements" (effective for annual periods beginning on or after 1 January 2013),
- IFRS 11 "Joint Arrangements" (effective for annual periods beginning on or after 1 January 2013),
- IFRS 12 "Disclosures of Involvement with Other Entities" (effective for annual periods beginning on or after 1 January 2013)
- IFRS 13 "Fair Value Measurement" (effective for annual periods beginning on or after 1 January 2013),
- IAS 27 (revised in 2011) "Separate Financial Statements" (effective for annual periods beginning on or after 1 January 2013),

- IAS 28 (revised in 2011) "Investments in Associates and Joint Ventures" (effective for annual periods beginning on or after 1 January 2013),
- Amendments to IFRS 1 "First-time Adoption of IFRS" - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after 1 July 2011),
- Amendments to IFRS 9 "Financial Instruments" and IFRS 7 "Financial Instruments: Disclosures" – Mandatory Effective Date and Transition Disclosures,
- Amendments to IAS 1 "Presentation of financial statements" -Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012),
- Amendments to IAS 12 "Income Taxes" - Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012),
- Amendments to IAS 19 "Employee Benefits" - Improvements to the Accounting for Post-employment Benefits (effective for annual periods beginning on or after 1 January 2013),
- IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine" (effective for annual periods beginning on or after 1 January 2013).

As estimated by the Company, the above-mentioned standards, interpretations and amendments to standards would not have any significant impacts on the financial statements if they were used by the entity as at the balance-sheet date.

Hedge accounting for financial assets and liabilities the rules of which have not been approved for use by the European Union is still beyond the regulations adopted by the European Union.

As estimated by the Company, the application of hedge accounting for financial assets or liabilities according to IAS 39 "Financial Instruments: Recognition and Measurement" would not have any significant impacts of the financial statements if they were adopted for use as at the balance-sheet date.

When preparing these financial statements the Company did not apply the following standards, amendments to standards and interpretations, which had been published and approved for use in the European Union, but which have not become effective yet:

- Amendments to IFRS 7 "Financial Instruments: Disclosures" - Transfers of Financial Assets, adopted by the EU on 22 November 2011 (effective for annual periods beginning on or after 1 July 2011).

The Company decided not to apply these standards, amendments to standards and interpretations earlier. As estimated by the entity, the above-mentioned standards, amendments to standards and interpretations would not have any significant impacts on the financial statements if they were used by the entity as at the balance-sheet date.

When preparing these financial statements the Company applied the following amendments to the existing standards published by the International Accounting Standards Committee and approved by the European Union which became effective in 2011:

- Amendments to IAS 24 "Related Party Disclosures" - Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party, adopted by the EU on 19 July 2010 (effective for annual periods beginning on or after 1 January 2011),
- Amendments to IAS 32 "Financial Instruments: Presentation" – Accounting for rights issues, adopted by the EU on 23 December 2009 (effective for annual periods beginning on or after 1 February 2010),
- Amendments to IFRS 1 "First-time Adoption of IFRS"- Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters, adopted by the EU on 30 June 2010 (effective for annual periods beginning on or after 1 July 2010),
- Amendments to various standards and interpretations "Improvements to IFRSs (2010)" resulting from the annual improvement project of IFRS published on 6 May 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording, adopted by the EU on 18 February 2011 (amendments are to be applied for annual periods beginning on or after 1 July 2010 or 1 January 2011 depending on standard/interpretation),
- Amendments to IFRIC 14 "IAS 19 — The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction" - Prepayments of a Minimum Funding Requirement, adopted by the EU on 19 July 2010 (effective for annual periods beginning on or after 1 January 2011),

- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments", adopted by the EU on 23 July 2010 (effective for annual periods beginning on or after 1 July 2010).

Main accounting principles used by the Group are presented below.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the parent company and financial statements of its controlled companies (or subsidiaries) as at the balance sheet date. An entity is controlled when the parent company has a possibility of impacting financial and operating policies of the controlled entity to benefit from its business.

As at the date of acquisition assets and liabilities of the acquired unit are valued according to their fair value. In case the acquisition price exceeds the fair value of identifiable net assets acquired, such an excess of price is shown as the goodwill. In case the acquisition price is lower than the fair value of identifiable net assets of the acquired company, such a difference is shown as a profit in the profit and loss account for the period of time when acquisition was finalised.

Financial results of acquired or sold companies in the year under review are shown in the consolidated financial statements from/ until their acquisition or sale respectively.

Investments in associates

An associate is an entity over which the Company has significant influence. The Company participates in the financial and operating policy decisions of the associate but does not control those policies. Associates that compose the Group are Polski System Recyklingu – Organizacja Odzysku S.A. Financial participation in associates is valued with equity method, except for the situation where investment is classified as for sale.
Reporting periods of associates and the Group are identical and all entities use the same accounting principles.

Investments in associates are presented in note no. 17.

Non-current assets held for sale

Non-current assets classified as held for sale are measured at the lower of carried values (purchase price) and fair value less sale costs. Non-current assets are classified as held for sale if it is expected that such sale will be completed within one year after the date of classification change.

Shares in associates classified as held for sale, pursuant to IFRS 5, are not recognised in the consolidated financial statements according to equity method.

Revenue recognition

Revenues from sales of products, goods and services are included in the fair value of receivables or outstanding payments and they represent liabilities under normal business operations, less discounts, VAT and other sales taxes.

Revenues from sales of products and goods are shown after all conditions below have been fulfilled:

- Significant risk and benefits from products and goods' property rights are transferred from the Group to a purchaser;
- Managerial functions are ceded by the Group to the extent related to the property right and effective control over products and goods sold;
- It is possible to reliably valuate the revenues amount;
- There is a likelihood that the Company is granted economic benefits related to the transaction;
- It is possible to reliably valuate incurred or expected costs of transaction.

Interest income is accrued on a time basis, in relation to the amount due, according to the effective interest rate method.

Dividend income is recognised when the shareholders' rights to receive payment have been established.

Subsidies

Governmental subsidies are recognised as revenue if it is reasonably certain that such subsidy will be received and all subsidy related conditions will be fulfilled. If a subsidy concerns a specific cost item, then it is recognised as revenue that is commensurate / proportional to costs the subsidy is intended to offset. If a subsidy relates to the asset item, then the subsidy fair value is recognised on the account of future periods' revenues and then it is gradually written off, by way of equal annual write-offs, to the statement of comprehensive income for the estimated service life of a related asset item.

Foreign currencies

Transactions made in a currency other than the Polish zloty (PLN) are valued at the average National Bank of Poland exchange rate as at the last business day prior to the date of transaction. Payments to and from foreign currency bank accounts are recorded using purchasing or selling exchange rates used by the bank where the transaction is made. As at the balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are converted using the average National Bank of Poland exchange rate as per the same day.

In order to hedge its exposure to certain foreign exchange risks, the Group enters into foreign currency forward contracts. See below for details of the Group's accounting policies in respect of such derivative financial instruments.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs that do not meet the above-mentioned criteria are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

Retirement benefit costs provision is recorded equal to the valuation being carried out using actuarial method. The basis for the provision calculation is the Company's collective employment agreement. Unregulated issues are solved based on the Polish Labour Code.

Division into long and short-term provisions is made according to the proportion established using statistic methods used by an actuarial.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable (CIT) is based on the taxable profit for the year established in accordance to corporate income tax law. The taxable profit is calculated based on a gross result that is next adjusted by non-taxable revenues, expenses that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The liability for current tax is calculated using tax rates that are valid in a specific tax year.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax provision is generally recognised for all positive taxable temporary differences and deferred tax assets are recognised with regard to all negative taxable temporary differences in

such an amount that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.
Value of deferred tax assets is verified as at each balance sheet day and is reduced appropriately if future tax profits sufficient to realise a portion or all of a given deferred tax asset cease to be expected.

Deferred tax is calculated using the tax rates that are expected to be in force in the period where the constituent of assets will be completed or the provision will be consumed, disregarding tax exemptions the application of which is not certain.

Deferred tax is recognised in the statement of comprehensive income, except when it relates to deferred tax provision from hedged deals that are charged or credited directly to equity. Assets and deferred tax provisions are separately presented in the statement of financial position and are not offset.

Presentation of the corporate income tax exemption due to running economic activities in Special Economic Zone

Due to the execution of the investment project (PM7 machine), Mondi Świecie S.A. was granted, on 20 December 2007, a permit to run economic activities in the Pomorska Special Economic Zone. Thus, the Company was granted the entitlement to be exempt from income tax for some part of its income. The existing enterprise of Mondi Świecie S.A., as well as the areas acquired from State Forest Enterprise were included into the area of the Pomorska Special Economic Zone in pursuance with the Regulation of the Council of Ministers of 2 November 2007 amending the Regulation regarding the Pomorska Special Economic Zone (Journal of Laws 2007 no. 211 item 1545).

The above-mentioned permit authorised Mondi Świecie S.A. to obtain public aid, which comprises the exemption from corporate income tax starting from the following month after the month when conditions of bearing capital expenditures and reaching the specific employment level have been fulfilled. Mondi Świecie S.A. fulfilled the above-mentioned conditions in July 2009 and was granted the entitlement to be exempt from the tax for the part of its income since August 2009 till the time for which the Pomorska Special Economic Zone was established, which is till 30 November 2017. Thus, the incomes from basic activities, i.e. sale of finished products were exempt. The permit is now being examined by the European Commission for compliance of the public aid granted with the common market under Regulation (EC) No. 659/1999 laying down detailed rules for the application of Article 93 of the EC Treaty. The Group expects that this process will end in 2012.

In the event the process prolongs beyond 2012, the total domestic limit for public aid (EUR 37.5 million) that may be granted to the Group with no necessity of obtaining the consent of the European Commission will be exhausted this year. Then, the entitlement of Mondi Świecie S.A. to be exempt from corporate income tax under the permit as referred above, would be suspended till the European Commission procedure is closed. In this situation, the Group would pay monthly advance payments for corporate income tax in the amount that disregards the exemption, starting from the month when the allowed domestic limit was exceeded. Since the Group does not expect that the European Commission procedure will extend beyond 2012, the full amount of corporate income tax as covered by the exemption under the permit to run business activities in the Pomorska Special Economic Zone should be settled within the corporate income tax for 2012.

New investment project related expenditures are the basis for calculating the public aid pursuant to the rules specified in § 4 Clause 3 of the Regulation of the Council of Ministers of 5 December 2006 on the Pomorska Special Economic Zone (Journal of Laws 2006, no. 228 item 1667). Based on discounted expenditures incurred until 31 December 2011, Mondi Świecie S.A. was authorised to receive public aid that is not higher than PLN 247 853 thousand. The public aid comprising the exemption of the part of income from the corporate income tax may be consumed in the period of time over which Mondi Świecie S.A. shows the income from the activities covered by the exemption, which is that the total income of Mondi Świecie S.A. less taxed income, not covered by the exemption, is positive. The calculated amount of public aid consumed till 31 December 2011 was PLN 91 802 thousand (this includes discounted amounts of corporate income tax exemption, real property tax exemption and the amounts of refunding the costs of equipment and providing equipment to workplaces). Out of this amount, the discounted value of exemption from corporate income tax was PLN 83 928 thousand (nominal value of exemption was PLN 104 119 thousand).

Tangible assets

Fixed assets used for production, delivery of goods and services as well as for administrative purposes are shown in the statement of financial position according to their purchasing prices or manufacturing costs, less depreciation deduction in future periods and deduction due to a permanent loss of value.

Depreciation of fixed assets is presented in the statement of comprehensive income.
Fixed assets under construction are measured in the statement of financial position at manufactured costs less impairment write-offs. The manufactured cost is increased by fees and for a specific group of assets – borrowing cost capitalised according to principles described in the accounting principles. Depreciation of these fixed assets starts in the month following their commissioning.

Depreciation is calculated for all fixed assets, excluding land and fixed assets under construction, using the straight-line method over the estimated duration of their economic usefulness.

For particular groups of fixed assets, the following operation life periods were used:

Buildings and structures	- from 20 to 60 years
Machines and technical equipment	- from 5 to 20 years
Means of transport	- from 4 to 6 years
Other fixed assets	- from 3 to 10 years

Depreciation rates are established based on assets and intangible assets' estimated economic useful life. The Company verifies, on an annual basis, the economic useful life periods based on current estimations.

All incomes or losses resulting from sale/liquidation or discontinued use of fixed assets are determined as the difference between revenues from the sale of fixed assets and the net value of those fixed assets, and are shown in the statement of comprehensive income in the period, when a specific item of fixed assets was removed from the statement of financial position.

Intangible assets

Intangible assets were measured at the purchase cost, or the cost of manufacture if they were manufactured by the Company.
Intangible assets are amortised on a straight-line basis over their estimated useful lives.

Licences

Licences are measured in the statement of financial position at the purchase cost less depreciation on a straight-line basis over their estimated useful lives.

Impairment of assets

At each balance sheet date, the Group reviews the net amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment write-off. If the item of fixed assets does not generate cash flows that to a great extent are independent from flows generated by other assets, the analysis is made for a group of assets generating cash flows to which the item of assets belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the value of money in time and the risks specific to the asset.
If the recoverable amount of an asset (or group of assets) is estimated to be less than its assets net book value, the value is reduced to its recoverable amount. An impairment loss is recognised immediately in cost of the period when it occurred, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.
Where an impairment loss subsequently reverses, the net value of asset (or group of assets) is increased to the revised estimate of its recoverable amount, but so that the increased net value does not exceed the net value that would have been determined if no impairment loss had been recognised for the asset in prior years. A reversal of an impairment loss is recognised in revenues,

unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation reserve.

Inventory

Inventories of finished goods, semi-products are measured at actual cost of manufacture, not higher than their net sale prices. Manufacturing costs comprise direct materials and direct labour costs and those overheads that correspond to the level of such costs under normal use of production capacities.

The Group adopts a principle of accounting of underutilisation costs of departments manufacturing finished and semi-finished goods. Underutilisation cost affects the financial result of the period and is not taken into consideration in finished and semi-finished goods inventories valuation. In the case of semi-finished and finished products, the period of underutilisation of production capacities is a shutdown of a manufacturing department due to a lack of raw material, lack of orders or other events for longer than 30 calendar days, irrespective of the cause. If such situations occur, shutdown costs are calculated as the product of hours of shutdown and unit machine-hour cost of a shutdown department. In the months of annual maintenance shutdown, finished and semi-finished products are valued at the manufacturing cost of the previous month.

The net sale price corresponds to the estimated sale prices minus all necessary costs to complete the production and necessary costs to effect a sale.
Stocks of materials and goods are shown according to the purchasing prices that are not higher than the net sale price.

Certificates of green energy origin as goods are valued according to the fair value, which shall mean the market price at the property market less costs of sales.

Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Trade receivables and other receivables

Trade receivables as of the date of origin are measured at the current expected amount due, and are recognised in later periods according to the depreciated cost fixed using the effective interest rate. Default interest is accounted in the amount resulting from agreements and is covered by a 100% write off.

Also, prepaid expenses – mainly insurances costs are presented as trade receivables.
Trade receivables, excluding insured receivables and inter-company receivables, are adjusted by write offs in the amount of 2% of receivables.
Further,
Overdue receivables > 1 month: 10% of the value less VAT,
Overdue receivables > 3 months: 50% of the value less VAT,
Overdue receivables > 4 months: 100% of the value less VAT.

Additionally, not overdue receivables falling due more than 90 days are discounted.
Bad receivables are charged to cost when their irrecoverability is stated.
Receivables denominated in the foreign currencies are revaluated using the average exchange rate of the National Bank of Poland as at the balance sheet day.

Investments in securities

All investments are initially measured at the purchased value equal to fair value of amounts paid less transaction costs. All standard transactions like purchase and sale of financial assets are booked as at the purchase or sale day.

After the initial measurement, the investments are classified as held for trading, available for sale and measured at the fair value as at balance sheet date.

If securities were classified as held for trading, gains and losses resulting from the change of fair values are presented in the statement of comprehensive income for a given period. In the case of available for sale assets, gains and losses resulted from the change of their fair value affect directly the equity till the sale of the assets or impairment identification. Then the accumulated gains or losses, that previously affected the equity, are moved to the statement of comprehensive income for the given period.

Bank borrowings

Interest-bearing bank loans (also overdrafts) are accounted at the amount of received withdrawn less the direct costs incurred in connection with the borrowing of founds.
Financial costs, including provisions paid at a moment of repayment or credit write-off and direct costs of incurring the credit, are shown in the statement of comprehensive income using the nominal interest rate method and they increase the book value of a financial instrument with respect to payments made in the current period.
Non-current liabilities in books are valuated at nominal value, i.e. including default interest or valorisation of the payables – at the value regulated in the agreement.

Trade liabilities and other liabilities

Liabilities denominated in foreign currencies are valuated at the average rate of exchange applicable set by the National Bank of Poland as at the balance sheet day.

Financial risk management

Business and financial activities of the Group are exposed to a number of financial risks. If these risks were not managed, they could adversely impact current and future results of the Group. The Group distinguishes the following kinds of financial risks: market risk (interest rate risk and foreign currency risk), credit risk, liquidity risk and capital risk.

The principles and procedures used by the Group are presented in "the financial risk management policy" approved by the Management Board, in compliance with the policy that is binding in the entire Mondi plc Group.
Based on powers of attorney granted by the Management Board, chosen specialists from the Group contract hedge transactions. The risk identification, evaluation and hedging in the Group is strictly supervised by the Group Finance Director and Treasury Director of Mondi plc Group.

The main purpose of derivatives used by the Group is to hedge against financial risks arising from the Company's business operations. The Group's instruments include foreign currency forward contracts (in case of foreign currency risk hedging).

The main risks arising from the Group's operations are:

- ***Market risk***

The Group's activities are primarily exposed to interest rate risk and foreign currency risk. Both risks are actively monitored on a continuous basis and may be hedged by hedging (currency forward contracts and interest rate swaps). Although cash flows of the Group are exposed to a risk for changes in prices of key raw materials and finished products, such changes reflect rather economical risk than financial. Therefore, the Group is of the opinion that it is not significantly exposed to another price risk as specified in IFRS 7.

a) Foreign currency risk

Due to the fact that approximately 67% of sales transactions are performed in foreign currency, while the most of the costs are borne in the reporting currency, the Group is exposed to the currency exchange risk. The foreign currency transactional exposure comprises mainly denominated transactions in EUR, USD and GBP.

The Group may separately hedge future probable sales transactions and future probable significant capital expenditures as well as resulting balance exposure.

The forward contracts that hedge probable future sales transactions and probable future significant capital expenditures are classified as the cash flow hedging and hedging accounting rules are used for them. In accordance with the Mondi Group Policy, in 2011 the Company did not hedge probable sales (excluding CO_2) transactions.

The hedge accounting rules are not used for forward contracts hedging the balance exposure.

b) Interest rate risk

The Group's exposure to the interest rate risk is primarily related to financial liabilities on interest. According to Group's policy, interest costs may be managed through the use of fixed and variable interest rates as well as interest rate hedging using instruments that replace variable rates with fixed ones (interest rate swaps). However, as decided by the Management Board of the Group, all available credit facilities as at the balance sheet date were based on variable interest rate (WIBOR). Furthermore, in the reporting period the Group did not use any interest rate hedging instruments.

- ***Credit risk***

The Group contracts hedging and located deposits only in recognised, creditworthy financial institutions. The list of such entities is up-dated on an annual basis by the Director of the Treasury of the Mondi plc Group.
Credit risk related to receivables is significantly limited thanks to the fact that the only trade receivables from exports include receivables from Mondi Packaging Paper Sales GmbH – a distributor being a member of the Mondi plc Group.
In turn, domestic receivables related to paper sales (excluding receivables in relation to Polish entities of Mondi plc Group) are hedged. Customers that are not members of Mondi plc Group are subject to the credit rating verification procedure using reports from business intelligence agencies. Each limit has a maximum credit limit and open receivables are monitored on a current basis in the Group.

- ***Liquidity risk***

The Group's objective is to maintain flexibility of funding through the use of bank credits and bank overdrafts. The Group's policy is to reduce liquidity risk through maintaining the floating assets provision which constitutes minimum 5% of annual turn-over of the Group. The floating assets provision comprises cash and cash equivalents, financial investments that can be liquidated within 7 days and not used credit facilities.

The derivatives used by the Group are valued according to the fair value. The fair value of currency forward contracts is determined in relation to the current forward rates for the contracts with a similar effective date. The value of contracts for changing interest rates is determined in relation to the fair value of similar instruments.

In the case of cash flow hedge for the future probable sales contracts or future probable significant capital expenditures that fulfil the criteria of hedging accounting, a portion of the profit or loss on the hedging instrument which is found to be an effective hedging is shown directly in the equity. The portion that is found to be an ineffective hedge is shown in financial costs or revenues of the current period. In the case of cash flow hedge for future probable sales transactions hedging, profits or losses shown in the equity are transferred to the profit and loss statement in the same period of time when the hedged probable future sales contract impacts the financial result.

In the case of cash flow hedge for future probable significant capital expenditures, profits or losses from the valuation are initially shown in the equity. When the transaction is settled they will be referred to the statement of financial position thus adjusting the investment project commenced or the initial value of fixed assets.

Profits and losses resulting from changes in the fair values of the transactions, for which the hedge accounting is not used, are directly shown in financial incomes or costs of the current period.

The Group discontinues to use the hedge accounting rules when the hedging instrument expired or was sold, completed or realised or when hedge does not fulfill the conditions that allow using the hedging accounting rules for such an instrument. In such a case, the total profit or loss on the hedging instrument, which has been shown in the equity to date, is still shown in the equity until the expected transaction is performed. If such a transaction is unlikely to occur, then the total net profit or loss as shown in the equity is transferred to the financial result of the current period.

Derivatives embedded in other financial instruments or contracts that are not financial instruments are considered to be separate derivatives if the nature of the embedded instrument and instrument related risks are not directly related to the nature of the basic contract and contract resulting risks. If the basic contracts are not valuated according to the fair value, the changes to them are reflected in the statement of comprehensive income.

- Capital risk

The Group manages the capital to ensure that the Group's companies will be able to continue their business with maximising profitability for shareholders thanks to optimisation of the debt to equity ratio. The Group's capital structure includes debt that comprises credits, cash and cash equivalents and capital for parent company shareholders, including issued shares, reserve capitals and retained profit.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and when it is probable that due to fulfilment of such an obligation the Group will be required to outflow the funds representing economical benefits and if the amount of obligation may be reliably valued.
The value of the provisions is determined based on the estimations, excluding the provisions for the retirement benefits to which the actuarial method is applied.

Emission rights

Granted emission rights are shown off balance.

The Group creates provisions for pollution cost, when the amount of possessed emission allowances does not cover the actual pollution emission. The provision is calculated based on the current market price plus expected penalty fee and is presented in the statement of comprehensive income.
Sale of excessive emission allowances is recognised in the financial period, when the sale of the emission allowances was performed.

Net profit per share

The net profit per share for each period is calculated by dividing the net profit for a specific period of time by the average weighted number of shares in the reporting period.
The diluted profit per one share is calculated by dividing the net profit for a specific period for Shareholders by the average weighted number of shares in a specific period.

In the reporting period and in 2010 no factors occurred that would result in profit dilution.

Conditional liabilities and receivables

Conditional liabilities mean the obligation to provide performance/ benefits the occurrence of which depends on defined events. Conditional liabilities are not shown in the statement of financial position; however, information on the conditional liability is disclosed unless the likelihood of outflow of means representing economic benefits is minor.

Conditional receivables are not shown in the statement of financial position; however, information on the conditional receivables is disclosed if inflow of means representing economic benefits is probable to occur.

Management Board estimation

Preparing the financial statements in accordance to IFRS requires some assumptions and estimates to be made. They impact the amounts shown in the financial statements and in the notes to the financial statements. Assumptions and estimations are based on the best knowledge of the Management Board of present and future events and actions; however, the actual results may differ from the forecasted performance. The areas where the Management Board made estimations are provisions. The assumptions used for estimation are described in the accounting policy and relevant notes.

3. REVENUES FROM OPERATING ACTIVITIES

Revenues from sales are as follows:

Continued activities	2011	2010
	PLN' 000	PLN' 000
Revenues from sales of products	2 725 784	2 251 013
Revenues from sales of goods and materials	45 938	12 661
	2 771 722	**2 263 674**
Discontinued activities	-	-
Other revenues from operating activities	2 626	1 078
Total	**2 774 348**	**2 264 752**

Revenues from sales of products – by type

	2011	2010
	PLN' 000	PLN' 000
Products, including:	2 570 938	2 092 006
▪ Paper	2 556 955	2 080 952
▪ Others	13 983	11 054
Services	154 846	159 007
Net revenues from sales of products	**2 725 784**	**2 251 013**

Revenues from sales of products – by territorial structure

	2011	2010
	PLN' 000	PLN' 000
Domestic	948 873	813 816
Export	1 776 911	1 437 197
Net revenues from sales of products	**2 725 784**	**2 251 013**

Revenues from sales of goods and materials – by territorial structure

	2011	2010
	PLN' 000	PLN' 000
Domestic	4 652	2 248
Export	41 286	10 413
Net revenues from sales of goods and materials	**45 938**	**12 661**

Due to the fact that the Group's activity, as far as types of goods and products and geography sectors are concerned, is uniform; financial data concerning business segments are not presented in the consolidated statements.

4. OPERATING COSTS

Profit on operating activities resulted excluding following costs:

	2011 PLN'000	**2010** PLN'000
Depreciation	153 084	157 324
Consumption of materials and energy	1 534 581	1 252 142
External services	446 215	374 943
Taxes and charges	27 184	25 793
▪ Excise	326	988
Payroll	76 176	69 885
Social security and other benefits	16 052	14 689
Other costs by type	75 045	48 343
Goods and materials sold	4 712	3 206
Exchange rates gains/losses net	(1 637)	(1 823)
	2 331 412	1 944 502
Change in the balance of products	(16 450)	(12 796)
Manufacturing cost of products for internal purposes	-	-
Selling and distribution costs	(249 026)	(222 242)
General and administrative costs	(142 514)	(113 653)
Manufacturing cost of products sold	**1 923 422**	**1 595 811**
Other operating costs	(2 043)	(2 322)

5. EMPLOYMENT COSTS

Below information presents average employment (including management):

	2011 Number of employees	**2010** Number of employees
Production employment	697	703
Administration and general employment	326	319
▪ Management	5	4
▪ Supervisory	3	3
Total employment	**1 023**	**1 022**

The Group's employment costs are following:	**2011** PLN'000	**2010** PLN'000
Payroll	76 176	69 885
Social security and other benefits	12 288	11 303
Other employees benefits	3 764	3 385
Total	**92 228**	**84 573**

6. OTHER OPERATING REVENUES

	2011	2010
	PLN'000	PLN'000
Profit from liquidation of non-financial fixed assets	219	172
Compensation	67	340
Other	2 340	566
Total	**2 626**	**1 078**

7. OTHER OPERATING COSTS

	2011	2010
	PLN'000	PLN'000
Loss due to disposal of non-financial fixed assets	1 026	2 207
Donations	296	115
Other	721	-
Total	**2 043**	**2 322**

8. FINANCIAL REVENUES

	2011	2010
	PLN'000	PLN'000
Revenue from interest on bank loans	9 391	501
Revenue from other interest	227	337
Dividends	105	140
Valuation of forward currency contracts	-	1 211
Positive differences on exchange	3 805	-
Other	101	5
Total	**13 629**	**2 194**

9. FINANCIAL EXPENSES

	2011	2010
	PLN'000	PLN'000
Interest costs – credits and loans	28 886	57 016
Other	192	254
Total of external costs of financing the activity	29 078	57 270
Valuation of forward currency contracts	(765)	-
Costs on transactions of derivatives	21 581	2 410
Other	-	10 967
Recalculation of last year's valuation of derivative instruments	1 211	(1 383)

Total	**51 105**	**69 264**

10. INCOME TAX

	2011	**2010**
	PLN'000	PLN'000
Income tax for the current year:	45 230	29 152
Corporate income tax for current year	45 123	29 189
Corporate income tax for last year	98	(37)
Tax on dividends	9	15
Deferred tax:	(21 256)	(14 794)
Total	**23 974**	**14 373**

Changes in assets and reserves due to deferred tax are presented in notes no. 19 and 24.

Corporate income tax was calculated by the rate of 19%.

Income tax calculation in the statement of comprehensive income in correspondence with the financial result:

	2011	**2010**
	PLN'000	PLN'000
Gross profit (loss)	**419 968**	**263 690**
Differences between gross profit (loss) and the taxable income	(182 426)	(109 874)
▪ Prepayments and accruals	11 480	10 315
▪ Receivables write-offs	324	(108)
▪ Depreciation of fixed assets under tax allowance	524	524
▪ Costs that are not income costs applicable to prior years	5 010	5 205
▪ Assets revaluation	5 489	2 880
▪ Valuation of financial instruments	446	(2 594)
▪ Difference between balance-sheet amortization and tax amortization	79 004	80 136
▪ Valuation of property rights – certificates of origin of green energy	17 521	(25 963)
▪ Provisions for discounts	(2 197)	10 541
▪ Other fixed differences	6 275	5 185
▪ Other temporary differences	(619)	2 229
▪ Income exempt from corporate income tax due to running business activities in Special Economic Zone	(305 683)	(198 336)
Income tax base	237 542	153 704
Income tax calculated by the rate 19%	45 132	29 204
Increases, allowances, deductions and decreases of income tax	(9)	(15)
Income tax declared to the tax authorities	45 123	29 189
Corporate income tax for last year	98	(37)
Tax on dividends	9	15
Change in the status of assets and deferred tax provision	(21 256)	(14 794)
Income tax shown in the profit and loss account	**45 230**	**14 373**

The table below shows the calculation of effective interest rate for corporate income tax:

	2011	2010
	PLN'000	PLN'000
Gross profit (loss)	**419 968**	**263 690**
Corporate income tax calculated in 2010 and 2009 respectively according to interest rate of 19% in Poland	79 794	50 101
▪ Tax from fixed difference	2 153	1 956
- Costs that are not income costs applicable to prior years	952	990
- Dividends received	(26)	(27)
- National Disabled Persons Rehabilitation Fund contribution	161	146
- Representation	22	121
- Consumption	67	47
- Depreciation write-offs for cars	29	21
- Subsidies received	(2)	170
- Donations	50	15
- Provision for environmental fees	(259)	259
- Other	1 159	219
▪ Tax on dividends	9	15
▪ Corporate income tax for last year	98	(20)
Corporate income tax	**82 054**	**52 057**
Effective tax rate	19.54%	19.74%
Tax exemption due to running business activities in Special Economic Zone	(58 080)	(37 684)
Corporate income tax after taking into account the exempted income	23 974	14 373
Effective tax rate including the exempted tax	5.71%	5.45%

11. DIVIDENDS

The Parent company's net profit for 2010 amounting to PLN 249 317 thousand was wholly distributed to the supplementary capital.

The decision on distribution of net profit for 2011 will be taken by the General Meeting of the Shareholders during the meeting held after the date of preparation of these financial statements.

12. PROFIT PER SHARE

The calculation of the profit per share and of the diluted profit per share was based on the following information:

Profits

	2011	2010
	PLN'000	PLN'000
Profit calculated as the base of value per share	395 994	249 317
Profit per share	**7.92**	**4.99**

Number of shares issued

	2011	2010
	pieces in thousand	pieces in thousand
Weighted average number of shares to calculate the value of profit per share	50 000	50 000

In the reporting period there were no financial instruments the Group that would result in profit dilution.

13. OPERATING LEASE AGREEMENTS

The Group as a leaseholder

	2011	2010
	PLN'000	PLN'000
Operating leasing charges presented at the current profit and loss account	**75 023**	**60 690**

The operating leasing is a lease of electric power and heat (steam) generating fixed assets, including electric energy from renewable sources to Saturn Management ("SM"). The signed contracts will remain in force till the year 2022.

The General Agreement signed with Polish Energy Partners (PEP – 100% SM shareholder) provides that in the event specified conditions occur, each Party shall be entitled to use the option to purchase or sell all rights and obligations of PEP, being SM limited partner and to purchase 100% shares in Saturn Management Sp. z o.o.

In current report no. 3/2011 as of 4 February 2011, the Management Board of the Group notified about the intention of exercising the Voluntary Call Option toward Saturn Management provided that the Arbitration Court of the Polish Chamber of Commerce in Warsaw renders a favourable award for the Company in the proceedings initiated by the suit brought by the Company against PEP (information about the dispute is provided in Note no 31 of these financial statements and Note no. 4.15 to the Report on Business Activities of the Group for the year 2011).

As at the balance sheet date the current Group's operating leasing liabilities with the use of the discount rate of 4.99% and the EUR exchange rate of 4.4168 EUR/ PLN amounted to (by date of payment):

	2011	2010
	PLN'000	PLN'000
Leasing fees due to operating leasing		
up to one year	79 642	68 993
from 2-5 years	312 579	306 657
above 5 years	93 067	93 695
Total	**485 288**	**469 345**

14. INTANGIBLE ASSETS

	Intangible assets
	PLN'000
GROSS VALUE	
As at 31 December 2010	20 302
Increases	816
Decreases due to liquidation	250
As at 31 December 2011	20 868
DEPRECIATION	
As at 31 December 2010	17 398
Depreciation for the year 2011	1 386
Decreases due to liquidation	250
As at 31 December 2011	18 534
NET VALUE	
As at 31 December 2010	2 904
As at 31 December 2011	**2 334**

Patents, licenses and trademarks are depreciated by their useful life which is approximately from 3 to 4 years.

* "Fixed assets under construction" include also advance payments for fixed assets under construction.

As at the date of implementation of the IFRS standards the Group decided to use IFRS 1 points 16-19 to valuation of fixed assets. The fixed assets are valued at the fair-value and it is settled as the cost value from this moment. The revaluation of fair-value was performed as at 1 January 2004.

In 2011, the net value of fixed assets was reviewed and no prerequisites were found for executing the value loss test.

As at the balance sheet date, the Group did not hold any liabilities to acquire fixed assets.

15. TANGIBLE ASSETS

	Land, buildings and structures	Fixed assets under construction*	Machinery, equipment and other fixed assets	Total
	PLN'000	PLN'000	PLN'000	PLN'000
OPENING BALANCE OR VALUATION				
As at 31 December 2010	716 088	34 578	1 732 228	2 482 894
Increases due to settlements of fixed assets under construction	3 210	33 818	37 347	74 375
Decreases	959	41 549	5 073	47 581
As at 31 December 2011	718 339	26 847	1 764 502	2 509 688

DEPRECIATION				
As at 31 December 2010	82 204	-	692 251	774 455
Depreciation for the year 2011	22 429	-	129 236	151 665
Decreases due to liquidation and sales	892	-	4 323	5 215
As at 31 December 2011	103 741	-	817 164	920 905
NET VALUE				
As at 31 December 2010	**633 884**	**34 578**	**1 039 977**	**1 708 439**
As at 31 December 2011	**614 598**	**26 847**	**947 338**	**1 588 783**

16. EMISSION RIGHTS

Pursuant to Article 57 item 2 and 3 of the Law of 22 December 2004 on greenhouse gas and other substance emissions trading and pursuant to the Regulation of the Council of Ministers of 1 July 2008 on adoption of the Carbon Dioxide National Allocation Plan for 2008-2012 for the European Union Emission Trading Scheme in the period of time from 1 January 2008 till 31 December 2012 Mondi Świecie S.A. received emission allowances that is equivalent to CO_2 emissions amount of 318 335 tonnes per year.

In January 2011, the additional allocation of allowances of 604 608 tonnes for 2009-2010 (additional CO_2 emission allowance of 83 213 for 2009 and 83 213 for 2010 from the national reserve – due to modernisations and changes to the plants completed in 2007-2008 and of 89 662 for 2009 and 348 520 for 2010 due to paper machine erection – PM7) were booked on the Mondi Świecie account.

CO_2 emission allowances, the use, and surplus of allowances for the last two years are presented in the table below:

Year	Average annual number of emission allowances	Estimated use of emission allowances	Surplus (+)/ Deficiency (-)
2010	750 068	365 582	384 486
2011	750 068	365 618	384 450

The 2011 annual report will be reviewed in the first quarter 2012.

17. INVESTMENTS IN ASSOCIATES VALUED WITH EQUITY METHOD

Associated entities

Name of the associated company	Location	% of ownership	% at voting	The value of shares/stocks	Consolidation method
		%	%	PLN'000	
Polski System Recyklingu – Organizacja Odzysku S.A.	Warsaw	24.88	24.88	1 126	Equity method

Name of the related company	Equity	Net profit (loss)	Liabilities	Assets	Revenue from sales
	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000
Polski System Recyklingu – Organizacja Odzysku S.A.	4 527	524	1 410	5 937	9 108

18. OTHER FINANCIAL ASSETS

	Balance as at 31.12.2011 PLN'000	Balance as at 31.12.2010 PLN'000
Other financial assets	168	495
	168	**495**

19. DEFERRED TAX ASSETS

	Write-offs to update the shares' value	Write-offs to update receivables	Write-offs to update interests	Prepay-ments and accruals	Provisions for discounts	Other provisions	Valuation of forward financial instru-ments	Write-downs of inventory	Total
Balance as at 1.01.2010	**108**	**121**	**26**	**6 481**	**998**	**391**	**263**	**2 316**	**10 704**
Increase	-	-	5	1 904	2 002	473	-	535	4 919
Decrease	-	12	-	-	-	-	263	-	275
Balance as at 31.12.2010, including:	**108**	**109**	**31**	**8 385**	**3 000**	**864**	**-**	**2 851**	**15 348**
Shown in the result for the period	-	(12)	5	1 904	2 002	473	(263)	535	4 644
Shown in the equity	-	-	-	-	-	-	-	-	-
Balance as at 1.01.2011	**108**	**109**	**31**	**8 385**	**3 000**	**864**	**-**	**2 851**	**15 348**
Increase	-	70	-	2 181	-	285	-	1 035	3 571
Decrease	-	-	10	-	417	-	-	-	427
Balance as at 31.12.2011, including:	**108**	**179**	**21**	**10 566**	**2 583**	**1 149**	**-**	**3 886**	**18 492**
Shown in the result for the period	-	70	(10)	2 181	(417)	285	-	1 035	3 144
Shown in the equity	-	-	-	-	-	-	-	-	-

The Group did not identify any interim differences that should be included in deferred tax assets.

20. INVENTORY

	Balance as at 31.12.2011 PLN'000	Balance as at 31.12.2010 PLN'000
Materials	117 369	79 030
Semi-products and production in progress	24 616	16 491
Finished goods	95 474	86 334
▪ by production costs	95 474	86 334
Certificates of ecological energy*	28 220	45 741
Total	**265 679**	**227 596**

*Certificates of origin of green energy were valuated according to fair value. The fair value shall mean the market price for such assets at the right to assets market reduced by costs of transaction.

Costs of materials consumption as recognized in the statement of comprehensive income in the reporting period amounted to PLN 1 429 882 thousand.

Costs of consumption were increased by inventory write-offs amounting to PLN 3 516 thousand.

21. OTHER FINANCIAL ASSETS

Short-term receivables

	Balance as at 31.12.2011 PLN'000	Balance as at 31.12.2010 PLN'000
1. Receivables from related parties	255 278	263 978
a) trade receivables, due less than 12 months	255 278	263 978
b) other	-	-
2. Receivables from other entities	105 068	75 025
a) trade receivables, due less than 12 months	59 434	37 856
b) due to taxes, subsidies, customs duties, social security charges and other obligations	45 597	37 121
c) other	37	48
Short-term trade receivables and other receivables	**360 346**	**339 003**
Income tax	25	-
Net short-term receivables, total	**360 371**	**339 003**
Receivables write-offs	1 052	724
Gross short-term receivables, total	361 423	339 727

Average period of due dates for trade customers was 45 days. The Group calculated the penalty interest after the due dates.

The Management Board assumes that the net receivables book value is close to the fair-value of receivables.

Changes in receivables write-offs

	Balance as at 31.12.2011 PLN'000	Balance as at 31.12.2010 PLN'000
Receivables write-offs opening balance	724	1 146
Increase	658	388
▪ Creation of write-offs	658	388
Decrease	330	810
▪ Closing write-offs	260	384
▪ Use of write-offs (connecting receivables and write-off)	70	426
Receivables write-offs closing balance	**1 052**	**724**

Foreign currency forward contracts

Although all forward contracts have been bought by the Group to hedge against foreign exchange risk, the Group does not apply hedge accounting, required by IAS 39, to all transactions. Hedge accounting principles do not apply to fair value hedge (non-hedge) for assets and liabilities denominated in foreign currency.

Hedge accounting principles are applied to some transactions qualified as hedging transactions according to IAS 39. These transactions are used by the Group to hedge cash flow arising from confirmed planned sales transactions in foreign currency.

Details of marketable contracts are presented below ("cash flow hedge" and "non- hedge"):

	Balance as at 31.12.2011 PLN'000	Balance at 31.12.2010 PLN'000
Forward contracts (positive valuation)	2 130	1 410
Forward contracts (negative valuation)	(1 365)	(199)
Total	**765**	**1 211**

The fair-value of foreign currency derivatives owned by the Group amounts approximately to PLN 1 211 thousand /2010: PLN 765 thousand/ as at 31 December 2011. The value has been estimated based on the marketable value of similar financial instruments valued as at the balance sheet date.

As at 31 December 2011, the Group did not hold any open currency forward contracts to hedge future sales transactions or future significant capital expenditures.

The table below presents fair values and settlement dates as well as information on amounts used as a basis for calculation of future payments and realisation price of forward contracts hedging the change of balance sheet measurement of assets and liabilities denominated in foreign currencies (non- hedge).

Nr	Contract currency	Contract value in foreign currency	Bid/Offer	Date of beginning	Date of completion	Forward exchange rate for contract	Contract fair value in PLN
1	EUR	5 000 000	Bid	2011-11-17	2012-01-25	4,4555	142
2	EUR	5 000 000	Bid	2011-11-23	2012-01-25	4,4978	354
3	EUR	6 000 000	Bid	2011-12-07	2012-01-25	4,4886	369
4	EUR	1 800 000	Bid	2011-12-14	2012-01-25	4,5835	281
5	USD	250 000	Bid	2011-12-14	2012-01-25	3,5212	24
6	EUR	3 000 000	Bid	2011-12-14	2012-02-24	4,5948	460
7	USD	2 000 000	Bid	2011-12-14	2012-02-24	3,5376	157
8	EUR	1 200 000	Bid	2011-12-19	2012-02-24	4,5187	92
9	EUR	3 000 000	Bid	2011-12-19	2012-02-24	4,5152	220
10	USD	1 000 000	Bid	2011-12-19	2012-02-24	3,4664	31
Total							**2 130**

Nr	Contract currency	Contract value in foreign currency	Bid/Offer	Date of beginning	Date of completion	Forward exchange rate for contract	Contract fair value in PLN
1	USD	1 500 000	Bid	2011-11-23	2012-01-25	3,3548	-104
2	EUR	1 500 000	Bid	2011-12-07	2012-01-25	3,3545	-106
3	USD	650 000	Bid	2011-12-21	2012-01-25	3,4042	-13
4	EUR	800 000	Bid	2011-12-27	2012-01-25	4,4219	-4
5	USD	1 000 000	Bid	2011-12-27	2012-01-25	3,3826	-42
6	EUR	4 484 200	Offer	2011-12-14	2012-01-25	4,5792	-680
7	EUR	13 125 000	Offer	2011-12-21	2012-01-25	4,4587	-416
Total							**-1 365**

The following risks are related to currency forward contracts: interest rate risk, exchange rate risk and risk of insolvency of the other party to a transaction. However, credit risk is limited due to the fact that the other party to the transaction is usually a first class bank. In addition, in order to minimize risk concentration, the transaction portfolio is diversified.

Result on "cash flow hedge"

	"cash flow hedge"	
	2011	**2010**
Valuation of transactions shown in opening balance of equity: *		
- currency sales transactions ("Bid")	-	-
- currency purchase transactions ("Offer")	-	-
Profit on purchase transactions ("Offer") adjusting the value of investment began in the balance sheet	-	-
Profit (loss) on sales transactions ("Bid") / ("Offer") increasing(decreasing) revenues from sales in the income statement	379	110
Valuation of transactions in the closing balance of equity:		
- currency sales transactions ("Bid")	-	-
- currency purchase transactions ("Offer")	-	-

Fair values of open hedges are valued at the balance sheet date based on their valuations from banks with that such hedge was contracted.

As per the reporting date, there are no planned hedges to which hedge accounting was earlier applied; however they are not expected to be realised.

Cash, cash equivalents and bank deposits

Cash at bank, cash and cash equivalents comprise of cash on current bank accounts and bank deposits with their maturity of up to 3 months. A book value of such assets is equal to their fair value.

	Balance as at 31.12.2011	Balance as at 31.12.2010
	PLN'000	PLN'000
Cash in hand and at bank	50	5 839
Other short-term financial assets	489 283	17 464
Total	**489 333**	**23 303**

The balance of short-term deposits as at 31 December 2011 comprised deposits at Mondi Finance plc for the total amount of PLN 488 940 thousand with the maturity dates from 3 January to 26 January 2012. The balance of deposits was increased with the interests charged for December 2011 of PLN 323 thousand. The average interest rate for the opened short-term deposits was 5.52%.

Financial assets available for sale

	Balance as at 31.12.2011	Balance as at 31.12.2010
	PLN'000	PLN'000
Shares at non-public companies	175	175
Total	**175**	**175**

Credit risk

Main financial assets held by Mondi Świecie Group: cash on bank accounts, short-term deposit, trade receivables and other receivables, representing the maximum credit risk of the Group due to financial assets.

Amounts presented in the statement of financial position are net amounts decreased by revaluation write-offs, estimated by the Company's management based on past experience and assessment of current economic conditions.

Credit risk related to liquid financial assets and derivative instruments is limited due to the fact that the other party to the transaction is represented by banks of high credit rating assigned by international rating agencies.

Credit risk related to receivables is limited due to the fact that a distribution company of Mondi group is the major customer dealing with export sales. Further, domestic receivables from customers that are not members of Mondi are insured. The value of trade receivables insured amounted to PLN 24.5 million as per 31 December 2011.

In the opinion of the Management Board of the Group, the maximum amount exposed to the credit risk as per 31 December 2011 amounts to PLN 3.5 million and applies to trade receivables in relation to non-related entities that are not covered by the receivables insurance.

Security

In accordance with current report no. 4/2011 as of 11 February 2011, the Company signed a new Three-Year Guarantee Facility Agreement that covers the nine-year credit from the European Investment Bank.

At the time the afore-said Facility Agreement became effective, the existing Three-Year Guarantee Facility Agreement as of 30 June 2008 (annexed on 30 October 2009, 30 June 2010 and 30 September 2010) was terminated. As a consequence of the above changes, the security of the bank guarantee comprising the corporate guarantee that was issued by Mondi Group plc, a major shareholder of the Company, for the benefit of financing banks expired. The Corporate Guarantee Agreement entered into and between the Company and Mondi plc was terminated accordingly.

Overdue financial assets

As per the reporting date, the Group owned neither overdue financial assets nor items for which the loss of value has been recognised.

22. BANK CREDITS AND LOANS

	Balance as at 31.12.2011	Balance as at 31.12.2010
	PLN'000	PLN'000
Debt under the cash pooling agreement to related companies	-	19 302
Overdrafts	990	-
Long-term bank credits	418 247	472 617
Loans	-	25 000
Total	**419 237**	**516 919**
Maturity:		
Payable on demand or less than 1 year	77 707	100 553
More than 12 months – up to 2 years	75 896	75 360
Between 3 – 5 years	227 686	227 017
More than 5 years	37 948	113 989
Minus: due amounts in 12 months (presented at short-term payables)	**77 707**	**100 553**
Amounts due more than 12 months	**341 530**	**416 366**

Bank credits and loans by currency:

	Balance as at 31.12.2011	Balance as at 31.12.2010
	PLN'000	PLN'000
Debt under the cash pooling agreement to related companies	-	19 302
Overdrafts	990	-
Bank credits	418 247	472 617
Loans	-	25 000
	419 237	**516 919**

As at the balance sheet date, the Company owned neither credits nor loans denominated in foreign currencies.

Weighted average interest on bank credits and loans of Mondi Świecie Group:

	Balance as at 31.12.2011	Balance as at 31.12.2010
	%	%
Overdrafts, bank credits and loans	**5.48**	**8.31**

Valuation of the balance value of credits and loans drawn by Mondi Świecie Group

The interest on current account credits is classified as floating rate. The value of flows related to such credits may change depending on interest rates. The remaining credits are launched based on fixed interest tranches for a specific drawing period.

As of 31 December 2011, the Group valued the credit from the European Investment Bank at the nominal value (increased by the reserve for interests) to be PLN 418 247 thousand (including charged interests of PLN 822 thousand).

As of 31 December 2011, the Group had unused credit facilities of PLN 259 million.

In the reporting period, no events took place that resulted in the Group's non-performance of loan liabilities. Furthermore, no violations took place in the period till the date of the financial statements approval.

BANK	Currency	% + bank's margin	Balance as at 31.12.2011	Balance as at 31.12.2010	Due dates
Debt under the cash pooling agreement to associated companies	PLN	WIBID	-	19 098	The agreement was terminated in 2011.
Overdraft facility in RBS Bank (Polska) S.A. BANK PEKAO S.A. RAIFFEISEN BANK POLSKA S.A.	PLN	WIBOR	990	-	2010-09-30
Mondi Finance plc	PLN	WIBOR	-	25 000	2011-11-01
European Investment Bank	PLN	WIBOR	418 247	472 617	2017-06-30
Total			**419 237**	**516 715**	

23. FINANCIAL INSTRUMENTS

Evaluation of exchange risk and interest rates

For risk assessment purposes, the analysis of impacts of interest rates and changes in exchange rates of foreign currencies on the statement of comprehensive income and equity (revaluation reserve) was presented. The analysis covers financial components of the Group's balance sheet (table below).

Comments on methodology and assumptions

The Group owns assets and liabilities nominated in foreign currencies.
The present significant variability of exchange rates as well as market expectations and forecasts indicate that fluctuations of +/- 10% in PLN exchange rate to foreign currencies and a change of interest rate by +/-50 pb is possible.

	Balance sheet value	Interest rate risk		Exchange risk			
		+/-50 pb SP PLN/EUR		+10% (PLN strengthening)		-10% (PLN weakening)	
		Profit/ (Loss)	**Profit/ (Loss)**	**Profit/ (Loss)**	**Changes in equity**	**Profit/ (Loss)**	**Changes in equity**
Financial assets							
Cash and cash equivalents	489 333	2 447	(2 447)	(3)	-	3	-
Trade receivables and other receivables	360 346	-	-	(22 844)	-	22 844	-
Derivatives classified for valuation in the fair value by the profit and loss account	2 130	-	-	13 877	-	4 569	-
Derivatives to remain in hedging	-	-	-	-	-	-	-
Financial assets available for sale	516	-	-	-	-	-	-
Other financial assets	168	1	(1)	-	-	-	-
Impact on financial assets before taxation	**-**	**2 448**	**(2 448)**	**(8 970)**	**-**	**27 416**	**-**
Tax (19%)	-	(465)	465	1 704	-	(5 209)	-
Impact on financial assets after taxation	**-**	**1 983**	**(1 983)**	**(7 266)**	**-**	**22 207**	**-**
Financial liabilities							
Credits and loans	(419 237)	(2 096)	2 096	-	-	-	-
Trade liabilities and other liabilities	(418 514)	-	-	16 420	-	(16 420)	-
Derivatives classified for valuation in the fair value by the profit and loss account	(1 365)	-	-	(7 527)	-	(10 920)	-
Derivatives to remain in hedging	-	-	-	-	-	-	-
Impact on financial liabilities before taxation	**-**	**(2 096)**	**2 096**	**8 893**	**-**	**(27 340)**	**-**
Tax (19%)	-	398	(398)	(1 689)	-	5 195	-
Impact on financial liabilities after taxation	**-**	**(1 698)**	**1 698**	**7 204**	**-**	**(22 145)**	**-**
Total	**-**	**285**	**(285)**	**(62)**	**-**	**62**	**-**

Interest rate risk

As at 31 December 2011 the Group's net profit would increase by PLN 285 thousand if interest rates in PLN and EUR were higher by 50 base points, assuming that all other parameters remained unchanged. This is due to the fact that loans significantly exceed financial assets (cash and cash equivalents) owned. Loans are nominated primarily in PLN, so the impact of Polish interest rates is a determining factor.

Exchange rate risk

As at 31 December 2011 the Group's net profit would be lower by PLN 62 thousand if PLN strengthened by 10% in relation to foreign currencies (mainly EUR) and other factors remained unchanged. Such a minor influence (when compared to the Group's overall business) is related to our consistent hedging policy – losses caused by lower valuation of receivables would be compensated by valuation of forward transactions and liabilities nominated in foreign currencies and being a component of the balance sheet.

Management of foreign currency risk

The Group performs defined transactions nominated in foreign currencies (approx. 65% of total revenues from sales are in EUR and USD). For this reason, there is a risk of fluctuations in exchange rates for the above-mentioned currencies. The management of foreign currency risk is effected according to the Mondi Group Rules, using foreign currency forward contracts.

The balance value of the Group's forward contracts as well credits and deposits denominated in foreign currencies as per the balance sheet date is as follows:

		Liabilities		Assets	
		Balance as at 31.12.2011	**Balance as at 31.12.2010**	**Balance as at 31.12.2011**	**Balance as at 31.12.2010**
		PLN'000	PLN'000	PLN'000	PLN'000
	Forward transaction	1 206	154	1 917	1 046
EUR	Loans and deposits	-	-	5	2
	Total	**1 206**	**154**	**1 922**	**1 048**
	Forward transactions	-	-	-	-
GBP	Loans and deposits	-	-	10	-
	Total	**-**	**-**	**10**	**-**
	Forward transactions	159	45	213	364
USD	Loans and deposits	-	-	14	-
	Total	**159**	**45**	**227**	**364**

Liquidity of foreign currency instruments

The table below shows the volumes of all transactions in foreign currencies owned by the Group in maturity dates. The figures are shown in currencies of forward contracts. These are total amounts (excluding "bid/ offer" of the contract).

Forward contracts	below 1 month	1-3 months	3-6 months	6 months - 1 year
In thou. EUR	37 709	7 200	-	-
In thou. USD	3 400	3 000	-	-
In thou. GBP	-	-	-	-

Balance foreign currency exposure

The tables below show the levels of receivables and liabilities as of the balance sheet date structured by their maturity dates. The statement covers only the values nominated in EUR and USD and GBP, because only these have an actual impact on the Group's risk.

Receivables in foreign currencies	below 1 month	1-3 months	3-6 months	6 months - 1 year
In thou. EUR	29 969	15 980	-	-
In thou. USD	4 242	3 144	-	-
In thou. GBP	47	-	-	-

Liabilities in foreign currencies	below 1 month	1-3 months	3-6 months	6 months - 1 year
In thou. EUR	29 962	3 856	158	178
In thou. USD	1 948	-	-	-
In thou. GBP	2	-	-	-
In thou. CHF	9	-	-	-
In thou. SEK	2	-	-	-

Financial instruments by categories (balance values)

	Balance as at 31.12.2011	Balance as at 31.12.2010
	PLN'000	PLN'000
Financial assets valued at the fair values through financial results:	2 130	1 410
▪ For trade, of which:	2 130	1 410
- positive value of derivatives to which hedge accounting was not applied	2 130	1 410
- other financial assets valued at fair value	-	-
Positive value of derivatives to which hedge accounting is applied	-	-
Financial assets available for sale (shares and stocks not listed at the stock exchange)	516	516
Financial investments maintained until maturity	168	495
Receivables	360 371	339 003
Cash and cash equivalents	489 333	23 303
Financial liabilities valued at fair value through financial result	1 365	199
▪ For trade, of which:	1 365	199
- negative value of derivatives to which hedge accounting was not applied	1 365	199
Negative value of derivatives to which hedge accounting is applied	-	-
Financial liabilities (credit and loans)	419 237	516 919

The presented values of financial instruments do not differ or differ insignificantly from their fair values. Therefore, the values presented above may be deemed to be equal to fair values.

Revenues, costs, profits and losses as presented in the statement of comprehensive income by categories of financial instruments

	Balance as at 31.12.2011	Balance as at 31.12.2010
	PLN'000	PLN'000
Financial assets valued at fair value through financial result	-	-
Financial assets available for sale	-	-
Financial investment maintained until maturity	-	-
Receivables	1 700	(418)
- Receivables write-offs	368	(54)
- Currency valuation	1 332	(364)
Positive value of derivatives	720	392
Financial liabilities valued at depreciated cost	(647)	(988)
Negative value of derivatives	(1 165)	2 202
Total	**608**	**1 188**

FINANCIAL DERIVATIVES – HEDGING

As at 31 December 2010, the Group did not hold any foreign currency forward contracts to hedge future sales transactions ("Bid") and future significant capital expenditures ("Offer"), for which the Company would apply the hedge accounting (cash flow hedge).

24. DEFERRED TAX PROVISION

	Investment tax credit	Unpaid interests on liabilities	Valuation of forward financial instruments	Differences in fixed assets value acc. to IFRS and tax value	Valuation of property rights – certificates of origin of green energy	Valuation of associated companies using the equity method	Other	Total
Balance as at 1.01.2010	**1 262**	**88**	**-**	**61 951**	**3 758**	**133**	**-**	**67 192**
Increase	-	5	230	-	4 933	6	-	5 174
Decrease	100	-	-	15 225	-	-	-	15 325
Balance as at 31.12.2010, including:	**1 162**	**93**	**230**	**46 726**	**8 691**	**139**	**-**	**57 041**
Shown in the result for the period	(100)	5	230	(15 225)	4 933	6	-	(10 151)
Shown in the equity	-	-	-	-	-	-	-	
Balance as at 1.01.2011	**1 262**	**88**	**230**	**46 726**	**8 691**	**139**	**-**	**57 041**
Increase	-	5	-	-	-	19	401	420
Decrease	100	-	85	15 011	3 328	-	-	18 532
Balance as at 31.12.2011, including:	**1 162**	**93**	**145**	**31 715**	**5 363**	**158**	**401**	**38 929**
Shown in the result for the period	(100)	5	(85)	(15 011)	(3 328)	19	401	(18 112)
Shown in the equity	-	-	-	-	-	-		-

The Group has not identified any temporary differences that should be included in the deferred tax provision.

25. LIABILITIES

The balance of trade liabilities and other liabilities is primarily composed of: investment liabilities, trade liabilities and other current liabilities as well as accruals for trade discounts and commissions, social security and ecological energy deliveries. The average rotation period of trade liabilities is 87 days.

In the Management Board's opinion the book value of financial liabilities is similar to its fair-value.

	Balance as at 31.12.2011	Balance as at 31.12.2010
	PLN'000	PLN'000
Trade liabilities with payment term of up to 12 months	311 020	186 732
Accruals	63 691	56 413
Investment liabilities	29 968	34 405
Taxes, subsidies, customs duties, social and health insurance and other benefits excluding corporate income tax	10 359	10 859
Remuneration liabilities	3 991	3 391
Other	85	104
Trade liabilities and other liabilities	**418 514**	**291 904**

26. REMUNERATION IN THE GROUP'S CAPITAL INSTRUMENTS

Other capital instrument payment programmes

In 2007, following the demerger, the Mondi Group established the new bonus programme (Mondi Bonus Share Plan- BSP and Mondi Long Term Incentive Plan - MLTIP) for selected Mondi Group employees, including Mondi Świecie S.A. Management Board Members. Under such programmes, employees are granted bonus – shares. The bonus amount depends on performance by the Group and individual objectives (BS). In addition, for ensuring a continuous Group growth additional shares are given, that may be cashed after specified conditions, in particular those related to the EPS growth over next 3 years after their receipt are fulfilled (MLTIP).

In connection to the above-mentioned programmes, the amount of PLN 691 thousand was charged to Mondi Świecie S.A. in 2011. In case the right to shares expires or is lost by individual members of the programme, Mondi Świecie S.A. will be entitled to have the costs incurred reimbursed partially or wholly. Once the right to have shares available is received, the relevant income will be separately shown for each Member of the Management Board.

27. PROVISIONS

	Personal provisions	Restructurisation provision	Total
	PLN'000	PLN'000	PLN'000
Balance as at 31 December 2010	**15 900**	**136**	**16 036**
Increases	965	-	965
Decreases		-	-
Balance as at 31 December 2011	**16 865**	**136**	**17 001**
Provisions less than 1 year	12 874	136	13 010
Provisions over 1 year	3 991	-	3 991

Personal provisions

Personal provisions comprise disability and retirement allowances of PLN 4 512 thousand and provisions for salaries and bonuses of PLN 10 827 thousand, as well as provisions for equivalent payment for not taken vacation of PLN 1 526 thousand.

Provision for disability and retirement allowances was calculated by the actuary based on the Company's Collective Labour Agreement for the Group's employees and in matters not regulated by the Agreement, the Labour Code applies.

Assumptions regarding death and illness rates were based on the Central Statistical Office publications (death data PTTŻ 2010, Statistical yearbook and other publications on status and changes to employment in the economy). The following assumptions were made: the future increase in salaries and wages of 3.0%, average inflation rate of 2.5%, and the discount rate for future liabilities of 5.75%.

28. EQUITY

The equity is established in accordance with the law, adequate acts and the statute. The equity consists of: share capital, supplementary capital, revaluation reserve and undistributed profits.

Share capital

The authorised share capital is presented in the amount of statute settlements and court registration in face value.

SHARE CAPITAL	1 share value = PLN 1							
Series/ issuance of shares	Type of shares	Type of prefe-rences	Type of limitations	No. of shares	Value of series/issue based on nominal value	Capital coverage method	Registration date	Right to the dividend (after the date)
A	bearer			50 000 000	50 000 000	Transformation from state entity	8.04.1997	After the year 1997
Total no. of shares				50 000 000				
SHARE CAPITAL					50 000 000			

All shares issued by the parent company are ordinary shares with no preference as to the participation in profit distribution.

Pursuant to clause 25 of IAS 29 "Financial reporting in hyperinflationary economies", equity components (except for undivided profit from previous years and surplus due to asset revaluation) were restated based on general price index starting from the equity contribution date, while the economy was hyperinflationary. The revaluation was made as per the day when the Company started to use the International Financial Reporting Standards, i.e. 1 January 2004.

	Balance as at 31.12.2011	**Balance as at 31.12.2010**
	PLN'000	PLN'000
Share capital:		
- authorised share capital	50 000	50 000
- hyperinflation adjustment	283 734	283 734
Total	**333 734**	**333 734**

Supplementary capital

The supplementary capital is cumulated from distribution of profits in accordance with regulations.

	Balance as at 31.12.2011	Balance as at 31.12.2010
	PLN'000	PLN'000
Established by law	16 667	16 667
Established by the statute, over the law (minimum) value	1 082 153	831 981
	1 098 820	**848 648**

29. EXPLANATORY NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

	2011	2010
	PLN'000	PLN'000
Balance sheet amortisation	153 118	157 360
Amortisation not planned	-	-
Amortisation	**153 118**	**157 360**
Balance sheet's change of short-term liabilities	105 920	58 547
Elimination of the change of the balance of investments liabilities	5 053	62 504
Change in income tax liabilities	149	164
Change of the balance of credits and loans	22 846	(67 564)
Valuation of forward contracts as at balance sheet date	(1 165)	2 202
Unrealised differences on exchange related to investment activities	749	2 497
Interest charged on credit activated for fixed assets under construction	-	-
Interest charged on long-term credits		
Change of the balance of short-term provisions	(1 038)	(7 395)
Change of the balance of short-term liabilities	**132 514**	**50 955**
Balance sheet's change of receivables	(21 343)	(104 368)
Compensation of receivables due to income tax	(45 302)	(29 112)
Change in receivables related to financial activities	(89)	(178)
Change in receivables related to investment activities	12	1
Change of the balance of receivables	**(66 722)**	**(133 657)**
Change of the balance of short-term provisions	1 037	7 396
Change of the balance of long-term provisions	(73)	252
Change of the balance of provisions	**964**	**7 648**
Differences on exchange related to investment activities	(529)	(1 801)
Valuation of cash	-	549
Non-realised exchange rate gains on credits and loans	-	(1 414)
Exchange rate gains/losses/	**(529)**	**(2 666)**
Dividends and shares in profits	105	140
Credits interest	23 964	20
Interest on loans granted	5	53
Interest on investment activities	37	53 452
Other interest	(92)	-
Interest and shares in profits	**24 019**	**53 665**
Profit on sales of fixed assets	(178)	415
Profit on sales of investments	20 978	5 255
Net value of liquidated intangible and tangible assets	816	1 168
Profit/loss/ on investment activity	**21 616**	**6 838**

Valuation of forward contracts as at balance sheet date	436	(2 609)
Commission on overdraft credit	-	-
Other adjustments	**436**	**(2 609)**

Information on inflows and outflows of investment activities

	2011 PLN'000	2010 PLN'000
Exchange rates gains - hedging	22 460	24 670
Interest	37	52
Other investment inflows	**22 497**	**24 722**
Outflows for fixed assets purchase	33 719	46 227
Change of the balance of investment liabilities	5 053	62 504
Interest	-	-
Realised differences on exchange related to investment activities	219	696
Outflows on intangible and tangible fixed assets	**38 991**	**109 427**
Exchange rates losses – hedging	43 438	29 924
Other investment outflows	**43 438**	**29 924**

Information on the structure of a change in cash

	2011 PLN'000	2010 PLN'000
Balance sheet's change in cash	483 474	1 725
Change in other short-term financial assets	(17 443)	(8 907)
Change in overdraft liabilities		112
Change in cash	**466 031**	**(7 070)**

Information on cash structure

	2011 PLN'000	2010 PLN'000
Cash	70	5 839
Other short-term financial assets	489 263	17 464
Overdraft credit liabilities	-	10
Cash at the end of the period	**489 333**	**23 313**

30. CONTINGENT LIABILITIES

Contingent liabilities as at 31 December 2011 accounted for PLN 17 780 thousand. A guarantee facility was granted as a security for liabilities of Saturn Management z ograniczoną odpowiedzialnością i Wspólnicy, Spółka Komandytowa for the benefit of BRE Bank S.A. and Bank Polska Kasa Opieki S.A.

31. POST BALANCE SHEET EVENTS

On 13 February 2012 the Company received a favourable ruling from the Arbitration Court of the Polish Chamber of Commerce, dated 10 February 2012, that the offer for sales of 100% shares of Saturn Management Sp. z o.o. with its registered office in Warsaw and of all rights and obligations of PEP as a limited partner in SM sp.k., which was submitted by PEP on 29 April 2002 in execution of the General Agreement, is binding for PEP on conditions laid down in the Company's suit that is the sales price is to be fixed on the formula provided in the General Agreement. Consequently, PEP's counter-claim was dismissed by the court. The court decision is final, however it may be appealed in the civil court, based on the Civil Procedure Code. The decision fulfils one of the conditions for realization of the Voluntary Call Option of 100% shares of Saturn Management Sp. z o.o. with its registered office in Warsaw and of all rights and obligations of PEP as a limited partner in SM sp.k., on which the Management Board informed in its current report issued 4 February 2011.

32. FINANCIAL INFORMATION COMPARABILITY

The Group did not make any changes to the presentation of figures.

33. TRANSACTIONS WITH RELATED PARTIES

The structure of the Capital Group is presented in General Information.

Transactions concluded between the parent company and its subsidiary were eliminated at the moment of consolidation and are not presented in this note. Transactions concluded between the Group and associates are shown below.

	Revenues		Costs		Liabilities to related parties		Receivables from related parties	
	2011	2010	2011	2010	2011	2010	2011	2010
	PLN'000							
Associated entities								
Polski System Recyklingu – Organizacja Odzysku S.A.	-	-	16	16	-	-	-	-

Transactions with related companies in the Mondi Group (in PLN thousand)

	Revenues	Costs	Liabilities	Receivables
Mondi Packaging Paper Sales GmbH	1 745 357	-	-	223 908
Mondi Corrugated Świecie Sp. z o.o.	93 039	106 056	-	10 231
Mondi Warszawa Sp. z o.o.	75 918	-	-	6 167
Mondi BZWP Sp. z o.o.	45 113	-	-	4 094
Mondi Packaging Szczecin S.A.	44 097	-	-	4 907
Mondi plc	39 425	3 574	-	-
Mondi Dorohusk Sp. z o.o.	31 525	-	-	2 636
Mondi Bags Świecie Sp. z o.o.	29 900	-	-	4 555
Mondi Bags Mielec Sp. z o.o.	14 028	-	-	29
Mondi Wierzbica Sp. z o. o.	7 167	-	-	537
Slovwood Ruzomberok, a.s.	1 349	-	-	-
Mondi AG	468	83 337	78 573	180
Mondi Coating GmbH	259	-	-	47
Mondi Packaging Solec Sp. z o. o	33	-	-	10
Mondi Coating Steti A.S.	17	30	-	-
Mondi Uncoated Fine & Kraft Paper GmbH	15	4 325	946	-
Mondi Corrugated Services GmbH	10	8 094	-	-
Mondi Gruenburg GmbH	10	-	-	-
Total	**2 127 730**	**205 416**	**79 519**	**257 301**

The above amounts do not include exchange differences.

Transactions with related parties are based on market value prices less quantity bonuses.

34. MANAGEMENT BOARD AND SUPERVISORY BOARD REMUNERATION

Management Board	Employment period	Remuneration paid or due for the employment position	Bonuses depending on realisation of expected duties	Remuneration gained from subsidiaries and associated companies	Benefits, income from other sources	Total remuneration in 2011
Maciej Kunda	01.01-31.12.11	983	339	-	-	1 322
Jan Żukowski	01.01-31.12.11	743	202	-	-	945
Florian Stockert	01.01-31.12.10	545	193	-	-	738
Tomasz Katewicz	01.01-31.12.11	743	209	-	-	952
Bogusław Bielecki	01.01-31.12.11	480	60	-	-	540

The table presents the remuneration paid in 2011 for months from January to December and bonuses for the year 2009 paid in 2011.

Supervisory Board	Employment period	Remuneration paid or due for the employment position	Bonuses depending on realisation of expected duties	Remuneration from employment contracts	Total remuneration in 2010
Karol Mergler	01.01-31.12.11	49	30	115	194
Ryszard Gackowski	01.01-31.12.11	49	7	105	161
Jarosław Kurznik	01.01-31.12.11	49	7	87	143

No remuneration is paid to other Supervisory Board Members.

The table presents the remuneration paid in 2011 for months from January to December and bonuses for the year 2010 paid in 2011.

Management Board Transactions

In the reporting period, no loans or credits were granted or other transactions entered into with the Management Board Members (and other managerial staff).

35. REMUNERATION OF AN AUDITOR OR ENTITY AUTHORISED TO AUDIT FINANCIAL STATEMENTS PAID OR DUE FOR THE FISCAL YEAR

	2011 PLN'000	**2010** PLN'000
Audit of financial statements	521	544
Tax consulting	-	-
Other services	-	-
Total	**521**	**544**

The consolidated financial statements consist of:

The consolidated financial statements were accepted by the Company's Management Board on 13 February 2012.

President of the Board	Maciej Kunda	....
Member of the Board	Jan Żukowski	....
Member of the Board	Florian Stockert	....
Member of the Board	Tomasz Katewicz	....
Member of the Board	Bogusław Bielecki	....

The person who has been assigned to keep the accounts.

Teresa Czuryło ....

Świecie, 13 February 2012