

REPORT ON THE ACTIVITIES OF THE SUPERVISORY BOARD

of ARCTIC PAPER S.A. IN 2018

The Supervisory Board presents a report on its activities in the financial year 2018, including in particular the results of the assessment of the Management Board's report on the Company's operations in the financial year 2018, the Company's financial statements for 2018, and the evaluation of the Supervisory Board, including the internal control system, the management of material risks for the Company and the internal audit function.

1. Composition of the Supervisory Board

As of December 31st 2018, the Supervisory Board was composed of:

- Per Lundeen – Chairman of the Supervisory Board appointed on September 14, 2016;
- Roger Mattsson – Vice-Chairman of the Supervisory Board appointed on September 16, 2014;
- Thomas Onstad – Member of the Supervisory Board appointed on October 22, 2008;
- Mariusz Grendowicz – Member of the Supervisory Board appointed June 28, 2012 (an independent member);
- Maciej Georg – Member of the Supervisory Board appointed on September 14, 2016(an independent member).

2. Activities of the Supervisory Board

The Supervisory Board operates under the provisions of the Code of Commercial Companies as well as on the basis of the Company's Articles of Association and Rules of the Supervisory Board dated 24 November 2016. In 2018, the Supervisory Board exercised permanent supervision over the Company's activities in all areas. The Supervisory Board paid special attention to the analysis of the financial results, activities aimed at improving the efficiency of the Company and changes in its sales policy.

During the reporting period, the Supervisory Board conducted its activities in the course of meetings convened by the Chairman. All meetings were minuted and decisions were taken by the Supervisory Board either in the form of resolutions or stated in the minutes.

In the reporting period, i.e. from 01 January 2018 to 31 December 2018, five meetings of the Supervisory Board of Arctic Paper S.A. were held on the following dates:

1. 21-22 February 2018;
2. 19-20 April 2018;
3. 28-29 June 2018;
4. 12-13 September 2018;
5. 10 December 2018;

All Supervisory Board meetings were convened properly. The Supervisory Board meetings were also attended by Members of the Management Board.

On 31st of December 2018 the Management Board was composed of:

- Mr Per Skoglund – Member of the Management Board, President of the Management Board;
- Mr Göran Eklund – Member of the Management Board

On 10th of December 2018 a Supervisory Board has decided to revoke Mr. Per Skoglund from the position of the President of the Management Board and Chief Executive Officer of the Company effective from January 31st 2019. At the same time a Supervisory Board has appointed, effective as at 1st of February 2019, Mr. Michał Jarczyński as President of the Management Board of the Company.

The Supervisory Board performed its duties collectively, as well as with the support of the Audit Committee, the Remuneration Committee and the Risk Committee.

Audit Committee

On 18th of October 2017 the Supervisory Board has made changes in the composition of the Audit Committee, which is now composed of:

- Mariusz Grendowicz - a member meeting the independence criteria. Mr Mariusz Grendowicz being a member of the Supervisory Board for over five years, including being a member of the Audit Committee, has experience and qualifications relating to the scope of the industry in which the Company operates;
- Roger Mattsson - due to his long-term experience as the financial controller at the Arctic Paper Group and over three years in the Audit Committee, Mr Roger Mattsson meets the requirement of knowledge and know-how of the Company's business as required of members of the Audit Committee. Additionally, he has knowledge and skills in the sphere of accounting or auditing financial statements;
- Maciej Georg - a member meeting the independence criteria.

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

In reference to the new regulations on the selection of the auditor, in particular the provisions of:

- (i) the Act of 11 May 2017 on statutory auditors, audit firms and public supervision (the "Act on Statutory Auditors"),
- (ii) Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements on the statutory audits of annual financial statements of public interest entities ("Regulation 537/2014"),

Audit Committee implemented the "Policy and procedure for the selection of the audit firm to carry out the statutory and voluntary audit of consolidated and separate financial statements of Arctic Paper S.A."

Furthermore Audit Committee prepared the "Policy on provision of allowed services by an audit firm that carries out an audit, by entities related to such audit firm, and by a network member of an

audit firm which are not audit services of statutory consolidated and separate financial statements of Arctic Paper S.A.”

According to the regulations applicable to the Company, the Company's Supervisory Board shall select – by way of a resolution and acting under a recommendation of the Audit Committee – the auditor authorised to carry out the audit.

Remuneration Committee

Since February 9th, 2017 the Remuneration Committee was composed of:

- Per Lundeen;
- Thomas Onstad;
- Roger Mattsson.

The basic task of the Remuneration Committee is advisory to the Supervisory Board on issues related to remuneration policy, bonus policy and other issues related to the remuneration of the employees, members of the Company's authorities and the authorities of Capital Group companies.

Risk Committee

The Risk Committee was composed of:

- Per Lundeen;
- Mariusz Grendowicz;
- Roger Mattsson.

The basic task of the Risk Committee is advisory to the Supervisory Board on issues related to the proper identification, assessment and control of potential risks, i.e. opportunities and threats to realization of the Company's strategic goals, with particular consideration for financial risk, related to both external factors (such as volatility of exchange rates, interest rates, general international economic condition) and internal factors (such as cash flows, liquidity management, variation of budget and financial forecasts).

The Supervisory Board positively assessed the operations of Supervisory Board in 2018.

In accordance with the statements made, Mr Mariusz Grendowicz and Mr Maciej Georg meet the conditions specified in Appendix no 2 to the Recommendation of the European Commission dated 15 February 2005 concerning the role of non-executive directors or members of supervisory boards of listed companies and committees of the (supervisory) board (2005/162/EC) and the additional requirements specified in the Best Practice of GPW Listed Companies 2016, attached to Resolution No. 26/1413/2015 of the Supervisory Board of the Warsaw Stock Exchange (GPW) dated 13 October 2015 approving the “Best Practice of GPW Listed Companies 2016”.

3. Assessment of the internal control, risk management, compliance systems and the internal audit function.

The Company has not established dedicated units to be involved in risk management, internal audit and compliance. However, the Company states that managers of each division of the Company report directly to the relevant members of the Management Board. The external entities

that provide consultancy services, including legal consulting and performing audits, have regular and direct contact with the Company's Management Board.

The Company's Supervisory Board and Management Board monitor the internal processes of the Company's operations at joint meetings. The Supervisory Board assesses the operational processes of the Company and formulates recommendations relating to current and planned processes of the Company's operations.

4 . Assessment of compliance by the Company with its disclosure duties in 2018.

Pursuant to Art. 29.2 of the Warsaw Stock Exchange Rules, as approved by Resolution No. 19/1307/2012 of the Council of the Stock Exchange dated 21 November 2012, Arctic Paper S.A. is obliged to comply with the corporate governance rules for the joint-stock share issuers .

Since January 1, 2016 a set of corporate governance rules are effective under the name of "Best Practice of WSE Listed Companies 2016", attached to Resolution No. 26/1413/2015 of the Supervisory Board of the Warsaw Stock Exchange dated 13 October 2015.

Pursuant to Art. 29.3 of the Warsaw Stock Exchange Rules, the Management Board of ARCTIC PAPER S.A. on 8th January 2019 published an EBI report concerning the exclusion of certain rules and recommendations of the Best Practice:

Recommendation I.R.2

Rule 1.Z.1.10

Rule I.Z.1.15

Rule 1.Z.1.16

Rule I.Z.1.20

Recommendation III.R.1.

Rule III.Z.2

Rule III.Z.3

Rule III.Z.4

Recommendation IV.R.2

Rule IV.Z.2

Recommendation VI.R.1

Recommendation VI.R.2

Rule VI.Z.1

Rule VI.Z.2

Rule VI.Z.4.

In the opinion of the Supervisory Board, Arctic Paper S.A. has made all reasonable efforts to apply the corporate governance rules as specified in the document "Best Practice of GPW Listed Companies 2016" to the greatest possible extent subject to the size and nature of the Company's operations.

5 . Assessment of the rationality of the Company's policy with respect to its sponsorship, charity or similar activities.

In 2018 Arctic Paper S.A. was not involved in any sponsorship, charity or similar activity.

6. Assessment of the Management Board's report on the Company's operations in the financial year 2018, the Company's financial statements for the financial year 2018 and the Management's proposal regarding the distribution of profit generated by the Company in the financial year 2018.

Acting pursuant to Art. 382 § 3 of the Code of Commercial Companies and in conjunction with the provisions of Art. 18.2 of the Company's Articles of Association, the Supervisory Board has analysed the consolidated and the Company's standalone financial statements for the period from 01 January 2018 to 31 December 2018 prepared by the Management Board and reviewed by the Company's auditor, consisting of:

- Consolidated balance sheet as at 31 December 2018, with assets and liabilities amounting to PLN thousand 2,156,174 and standalone balance sheet as at 31 December 2018, with assets and liabilities amounting to PLN thousand 992,611;
- Consolidated profit and loss account for the period from 01 January 2018 to 31 December 2018, showing a net profit of PLN thousand 55,889 and standalone profit and loss account for the same period showing a net profit of PLN thousand 19,523;
- Consolidated statement of changes in equity for the period from 01 January 2018 to 31 December 2018 showing an increase in equity of PLN thousand 80,200 and standalone statement of changes in equity for the period from 01 January 2018 to 31 December 2018 showing an increase in equity of PLN thousand 4,092;
- Consolidated cash flow statement for the period from 01 January 2018 to 31 December 2018, showing a decrease in net cash of PLN thousand 39,583 and standalone cash flow statement for the period from 01 January 2018 to 31 December 2018, showing a decrease in net cash of PLN thousand 17,337;
- Accounting principles (policies) and additional explanatory notes.

The Supervisory Board reviewed the report and the opinion of KPMG Audyt spółka z ograniczoną odpowiedzialnością spółka komandytowa signed by a certified auditors Wojciech Drzymala and Ewa Skrzypczak, who confirmed that both consolidated and standalone financial statements in all material respects:

- give a true and fair view of all the information essential for the assessment of the financial result of the business operations for the period from 01 January 2018 to 31 December 2018 as well as the economic and financial condition of the audited Company as at 31 December 2018,
- have been prepared correctly, i.e. in accordance with the International Financial Reporting Standards as adopted by the EU and based on properly maintained accounting records,
- are consistent with (i) the regulations governing the preparation of financial statements and (ii) the provisions of the Company's Articles of Association relevant to the form and contents of the financial statement.

The Supervisory Board has examined the Management Board's report on the Company's operations in the financial year 2018.

The Supervisory Board expresses its positive opinion as to the Management's proposal on non-payment of dividend from the net profit of 2018 taking into consideration lower financial result of the Group than the one achieved in previous years, currently implemented investments aiming to

retain competitiveness and stability of energy costs, as well as the current level of the Company's indebtedness.

Pursuant to Article 71.1.12 of the Regulation of the Minister of Finance of 29 March 2018 on current and periodic information provided by issuers of securities and on conditions under which information required by legal regulations of a third country may be recognised as equivalent, the Supervisory Board of Arctic Paper S.A. evaluates that the attached annual consolidated report from operations and the financial statements of the Arctic Paper Group and the separate report on operations and the financial statements of the Company for the financial year ended on 31 December 2018 comply with the books of account, documents and facts.

The Supervisory Board has positively evaluated the consolidated report from operations and the financial statements of the Arctic Paper Group and the separate report from operations and the financial statements of the Company for the financial year ended on 31 December 2018 on the basis of:

- content of the above-mentioned reports and the financial statements submitted by the Company's Management Board,
- the books of account and report from the audit of the consolidated financial statements of the Arctic Paper Group and the separate financial statements of the Group prepared by KPMG Audyt spółka z ograniczoną odpowiedzialnością spółka komandytowa, and the additional report by the above-mentioned audit firm referred to in Article 131 of the Act on Statutory Auditors,
- meetings with representatives of the above-mentioned audit firm, including the key statutory auditor,
- information of the Audit Committee on the course, outcome, and importance of the audit for the reliability of financial reporting in the Company and the role of the Committee during the audit process of the financial statements,
- outcome of additional checks performed in the selected financial and operational areas.

The Supervisory Board adopts the report, expresses its approval for the activities of the Management Board in 2018 and recommends that the Annual General Meeting discharges the Members of the Management Board: Mr Per Skoglund Mr Göran Eklund for the performance of their duties in the financial year 2018.

7. Assessment of the Company's condition

In the opinion of the Supervisory Board 2018 was a very challenging year for the Company and other companies active in the graphical paper sector. Despite an increasing negative growth in the paper market segments, and a strong impact on rising raw materials costs for the paper segments, the decline in financial results could partly be mitigated by increased gross income on the paper. The pulp sector showed a very positive development and increased its financial results.

From the beginning of the year, we could see how the impact of rising pulp prices increased the company's paper sector's variable costs. The company managed throughout the year to offset some of the cost increases by improved gross income.

The pulp sector, Rottneros AB, were on the other side benefitting from the increased pulp prices.

The company have during 2018 implemented certain strategies to improve the paper sector. One of these is to develop products for the growing paper packaging segment. Another strategic action was to decide to close the smallest and the least efficient paper machine in the Group. The Supervisory Board is convinced that this will strengthen the company going forward and improve profitability with time.

[Per Lundeen, Chairman; on behalf of the Supervisory Board of Arctic Paper S.A.]