

REPORT ON THE ACTIVITIES OF THE SUPERVISORY BOARD

of ARCTIC PAPER S.A. IN 2019

The Supervisory Board presents a report on its activities in the financial year 2019, including in particular the results of the assessment of the Management Board's report on the Company's operations in the financial year 2019, the Company's financial statements for 2019, 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 2019, 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);
- Dorota Raben – Member of the Supervisory Board appointed on May 28, 2019(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 2019, 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 2019 to 31 December 2019, five meetings of the Supervisory Board of Arctic Paper S.A. were held on the following dates:

1. 4th January 2019;
2. 4th -5th March 2019;
3. 8th – 9th May 2019;
4. 25th June 2019;
5. 21st – 22nd August 2019;
6. 22nd - 23rd October 2019;
7. 10th – 11th December 2019.

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

On 31st of December 2019 the Management Board was composed of:

- Mr Michał Jarczyński – Member of the Management Board, President of the Management Board (appointed as of 1st of February 2019);
- Mr Göran Eklund – Member of the Management Board.

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 19th of July 2019 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;
- Dorota Raben - a member meeting the independence criteria, Supervisory Board member appointed on 28th of May 2019 by the Annual General Meeting.

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.

On 23rd of October 2019 the Supervisory Board in connection with Audit Committee recommendation appointed KPMG Audyty Spółka z ograniczoną odpowiedzialnością sp.k., as auditor for the Company to conduct the audit of financial statement for years 2020-2022. The Audit Committee positively assessed the work carried out by KPMG Audyty Spółka z ograniczoną odpowiedzialnością sp.k. The Audit Committee's recommendation was free from the influence of third parties and has been prepared on the basis of the provisions of the “Policy and procedures for the selection of an audit company to conduct statutory and voluntary audit of consolidated and separate financial statements of Arctic Paper S.A.”

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 2019.

In accordance with the statements made, Mr Mariusz Grendowicz and Mrs Dorota Raben 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 2019.

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 2019 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 2019, the Company's financial statements for the financial year 2019 and the Management's proposal regarding the distribution of profit generated by the Company in the financial year 2019.

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 2019 to 31 December 2019 prepared by the Management Board and reviewed by the Company's auditor, consisting of:

- Consolidated balance sheet as at 31 December 2019, with assets and liabilities amounting to PLN thousand 2,035,753 and standalone balance sheet as at 31 December 2019, with assets and liabilities amounting to PLN thousand 926,486;
- Consolidated profit and loss account for the period from 01 January 2019 to 31 December 2019, showing a net profit of PLN thousand 124,681 and standalone profit and loss account for the same period showing a net profit of PLN thousand 33,035;
- Consolidated statement of changes in equity for the period from 01 January 2019 to 31 December 2019 showing an increase in equity of PLN thousand 9,335 and standalone statement of changes in equity for the period from 01 January 2019 to 31 December 2019 showing an increase in equity of PLN thousand 32,954;
- Consolidated cash flow statement for the period from 01 January 2019 to 31 December 2019, showing an increase in net cash of PLN thousand 67,517 and standalone cash flow statement for the period from 01 January 2019 to 31 December 2019, showing an increase in net cash of PLN thousand 12,334;
- 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 Drzymała and Dominik Walawender, 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 2019 to 31 December 2019 as well as the economic and financial condition of the audited Company as at 31 December 2019,
- 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 2019.

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

- the financial statements of Arctic Paper S.A. for the financial year ended December 31, 2019, as well as with the report of an independent certified auditor on the audit of the Company's annual standalone financial statements for the financial year ended December 31, 2019, prepared by KPMG Audyt spółka z ograniczoną odpowiedzialnością spółka komandytowa;
- the consolidated financial statements of the Arctic Paper Group for the financial year ended December 31, 2019, as well as with the report of an independent auditor on the audit of the annual consolidated financial statements for the financial year ended December 31, 2019, prepared by KPMG Audyt spółka z ograniczoną odpowiedzialnością spółka komandytowa

have been prepared correctly in terms of substance and form, in accordance with the books and documents, as well as with the facts, and accurately reflects the financial result and assets of the Company and Arctic Paper Group in the financial year 2019.

The Supervisory Board of Arctic Paper S.A., after review of the reports of the Management Board of Arctic Paper S.A. on the activities of the Arctic Paper Group and the Company for 2019, states that reports have been prepared in accordance with the relevant applicable regulations regarding the reports on the activities and is in accordance with the books, documents and the actual state.

The Supervisory Board expresses its positive opinion as to the Management's proposal on non-payment of dividend from the net profit of 2019 as a result of decreased demand on the products of Arctic Paper's group companies as an effect of the ongoing COVID-19 pandemic, as well as limited possibility to assess the impact of the pandemic on the economic situation in the 2nd and 3rd quarters of 2020.

The Supervisory Board adopts the report, expresses its approval for the activities of the Management Board in 2019 and recommends that the Annual General Meeting discharges the Members of the Management Board for the performance of their duties in the financial year 2019:

- Mr Michał Jarczyński for a period from February 1st 2019 until December 31st 2019;
- Mr Göran Eklund for a period from January 1st 2019 until December 31st 2019;
- Mr Per Skoglund for a period from January 1st 2019 until January 31st 2019.

7. Assessment of the Company's condition

In the opinion of the Supervisory Board 2019 was a challenging year for the Company and other companies active in the Graphical Paper sector. The graphical paper segment continued with a negative growth over the year but was offset by falling raw material costs for the paper segments

which improved the financial results considerably in the paper sector. However the Pulp sector showed a declining profit mainly due to falling pulp prices.

During the year, the impact of decreasing pulp prices decreased the company's Paper sector's variable costs improving the margins and profits.

The Pulp sector, Rottneros AB, were on the other side affected from the decreased pulp prices through the year, with reduced gross margins.

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. During 2019 the new developed paper products for this sector was successfully marketed with new volumes and a very much increased customer base. Another strategical action was to close the smallest and the least efficient paper machine in the Group. A strategic initiative is to increase the Group's activities in the energy sector. The Supervisory Board is convinced that this will strengthen the company going forward.

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