

## **REPORT ON THE ACTIVITIES OF THE SUPERVISORY BOARD**

### **of ARCTIC PAPER S.A. IN 2015**

The Supervisory Board presents a report on its activities in the financial year 2015, including in particular the results of the assessment of the Management Board's report on the Company's operations in the financial year 2015, the Company's financial statements for 2015, 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**

In 2015, the Supervisory Board was composed of:

- Mr Rolf Olof Grundberg - Chairman of the Supervisory Board;
- Mr Rune Roger Ingvarsson - Member of the Supervisory Board;
- Mr Thomas Onstad - Member of the Supervisory Board;
- Mr Mariusz Grendowicz - Member of the Supervisory Board;
- Mr Dariusz Witkowski - Member of the Supervisory Board;
- Mr Roger Mattsson - Member of the Supervisory Board;

In the period from 01 January 2015 to 31 December 2015, the Chairman of the Supervisory Board was Mr Rolf Olof Grundberg.

On 21 December 2015 the Extraordinary General Meeting appointed the Supervisory Board composed as specified above for the next term of office (current report 17/2015).

#### **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 22 October 2008. In 2015, 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 2015 to 31 December 2015, five meetings of the Supervisory Board of Arctic Paper S.A. were held on the following dates:

1. 17 February 2015;
2. 4-5 May 2015;
3. 10 June 2015;
4. 15 September 2015;
5. 26 November 2015.

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

- Mr Wolfgang Lübbert - President of the Management Board;
- Ms Małgorzata Majewska-Śliwa - Member of the Management Board;
- Mr Jacek Łoś - Member of the Management Board;
- Mr Per Skoglund - Member of the Management Board;
- Mr Michał Sawka - 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**

The Audit Committee was composed of:

- Mr Rolf Olof Grundberg;
- Mr Rune Ingvarsson;
- Mr Mariusz Grendowicz.

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.

As a result of the election by the Extraordinary General Meeting dated 21 December 2015 of the Supervisory Board for the next term of office, at its first meeting the Supervisory Board of the new term of office held on 3 February 2016 appointed the Audit Committee composed as follows:

- Mr Rolf Olof Grundberg;
- Mr Roger Mattsson;
- Mr Mariusz Grendowicz.

## **Remuneration Committee**

The Remuneration Committee was composed of:

- Mr Rolf Olof Grundberg;
- Mr 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.

As a result of the election by the Extraordinary General Meeting dated 21 December 2015 of the Supervisory Board for the next term of office, at its first meeting the Supervisory Board of the new term of office held on 3 February 2016 appointed the Remuneration Committee composed as follows:

- Mr Rolf Olof Grundberg;
- Mr Rune Ingvarsson.

## **Risk Committee**

The Risk Committee was composed of:

- Mr Rolf Olof Grundberg;
- Mr Mariusz Grendowicz;
- Mr Dariusz Witkowski.

As a result of the election by the Extraordinary General Meeting dated 21 December 2015 of the Supervisory Board for the next term of office, at its first meeting the Supervisory Board of the new term of office held on 3 February 2016 appointed the Risk Remuneration Committee in the same composition.

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 2015.

In accordance with the statements made, Mr Mariusz Grendowicz and Mr Dariusz Witkowski meet the premises 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 2015.**

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 published in the document "Best Practice of GPW Listed Companies". In 2015 Arctic Paper S.A. did not apply the following rules:

Recommendation No. I.5;

Recommendation No. I.9;

Recommendation No. I.12;

Rule No. 1.9 a)

Rule No. IV.10

On 1 January 2016 the new set of corporate governance rules became effective under the name of "Best Practice of GPW 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 25 January 2016 published an EBI report concerning the exclusion of certain rules of the Best Practice.

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" to the broadest possible extent subject to the dimension 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 2015 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 2015, the Company's financial statements for the financial year 2015 and the Management's proposal regarding the distribution of profit generated by the Company in the financial year 2015.**

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 2015 to 31 December 2015 prepared by the Management Board and reviewed by an auditor, consisting of:

- Consolidated balance sheet as at 31 December 2015, with assets and liabilities amounting to PLN thousand 1,813,235 and standalone balance sheet as at 31 December 2015, with assets and liabilities amounting to PLN thousand 950,202;
- Consolidated profit and loss account for the period from 01 January 2015 to 31 December 2015, showing a net loss of PLN thousand 26,570 and standalone profit and loss account for the same period showing a net profit of PLN thousand 4,909;

- Consolidated statement of changes in equity for the period from 01 January 2015 to 31 December 2015 showing a decrease in equity of PLN thousand 48,215 and standalone statement of changes in equity for the period from 01 January 2015 to 31 December 2015 showing an increase in equity of PLN thousand 4,066,
- Consolidated cash flow statement for the period from 01 January 2015 to 31 December 2015, showing an increase in net cash of PLN thousand 28,742 and standalone cash flow statement for the period from 01 January 2015 to 31 December 2015, showing a decrease in net cash of PLN thousand 9,172,
- Accounting principles (policies) and additional explanatory notes.

The Supervisory Board reviewed the report and the opinion of Ernst & Young Audit Spółka z ograniczoną odpowiedzialnością Spółka komandytowa signed by a certified auditor Robert Klimacki, 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 2015 to 31 December 2015 as well as the economic and financial condition of the audited Company as at 31 December 2015,
- 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 2015 and the Management's proposal regarding the coverage of the net loss for the financial year 2015.

Following the evaluation of the results contained in the Company's financial statements and the Management Board's report on the Company's operations and the Management's proposal regarding the coverage of the net loss, having regard to the opinion of the auditor, the Supervisory Board assesses that the financial statements for the financial year 2015 and the Management Board's Report for the financial year 2015 are in line with the books and documents of the Company as well as the facts.

The Supervisory Board adopts the report, expresses its approval for the activities of the Management Board in 2015 and recommends that the Annual General Meeting discharges the Members of the Management Board: Mr Wolfgang Lübbert, Mrs Małgorzata Majewska-Śliwa, Mr Jacek Łoś, Mr

Per Skoglund and Mr Michał Sawka for the performance of their duties in the financial year 2015.

Having examined the Management's proposal regarding the allocation of the net profit to the Company's reserve capital, the Supervisory Board accepts the proposal and recommends that the Annual General Meeting adopts a relevant resolution on the allocation of the net profit as proposed by the Management Board.

## **7. Assessment of the Company's condition**

In the opinion of the Supervisory Board, 2015 was a difficult year for the Company. The appreciation of the US Dollar to European currencies (EUR, SEK, PLN) resulted in weakening of the global paper market. The bankruptcy of Paperlinx Limited, one of largest paper trading companies in Europe, was another negative factor for the Company.

Additionally, the year may be treated as a breakthrough year - in July 2015 the Company initiated a comprehensive Profitability Improvement Programme 2015/2016, aimed at cost reduction and improving its flexibility of operations and effectiveness of the paper mills in the Arctic Paper S.A. Group.

The most important element of the programme was the decision to discontinue production at Arctic Paper Mochenwangen GmbH.

The Company has been active in innovation activities and has been developing production of high quality paper types for the premium segment. Launch of new products to production: Amber Highway and Munken Kristall will contribute to consolidating the position of the Arctic Paper S.A. Group and extending the market.

[Rune Roger Ingvarsson, Thomas Onstad, Roger Mattsson, Mariusz Grendowicz, Dariusz Witkowski - Members of the Supervisory Board of Arctic Paper S.A.]