

REPORT ON THE ACTIVITIES OF THE SUPERVISORY BOARD

of ARCTIC PAPER S.A. IN 2016

The Supervisory Board presents a report on its activities in the financial year 2016, including in particular the results of the assessment of the Management Board's report on the Company's operations in the financial year 2016, the Company's financial statements for 2016, 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 January the 1st 2016, 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 - an independent Member of the Supervisory Board;
- Mr Dariusz Witkowski - an independent Member of the Supervisory Board;
- Mr Roger Mattsson - Member of the Supervisory Board.

On June 30, 2016 Mr Dariusz Witkowski resigned from his position in Supervisory Board with an immediate effect.

On August 8, 2016 Mr Rolf Olof Grundberg resigned from his position in Supervisory Board effective from 14th September 2016.

On August 16, 2016 Mr Rune Roger Ingvarsson resigned from his position in Supervisory Board effective from 14th September 2016.

On September 14, 2016 Extraordinary Shareholders Meeting has appointed Mr Per Lundeen and Mr Maciej Georg as Members of the Supervisory Board.

On September 22, 2016 the Supervisory Board appointed, among its members, Mr Per Lundeen as the Company's Chairman of the Supervisory Board.

In connection with above changes from September 22, 2016 the Supervisory Board is 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 roku (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 2016, 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 2016 to 31 December 2016, five meetings of the Supervisory Board of Arctic Paper S.A. were held on the following dates:

1. 3 February 2016;
2. 27 April 2016;
3. 23 June 2016;
4. 22 September 2016;
5. 24 November 2016.

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

- Mr Wolfgang Lübbert - Member of the Management Board, acting as President of the Management Board until April 27, 2016;
- Mr Per Skoglund - Member of the Management Board, acting as President of the Management Board since April 27, 2016;
- Ms Małgorzata Majewska-Śliwa - Member of the Management Board;
- Mr Jacek Łoś - 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

Since September 22, 2016 the Audit Committee was composed of:

- Per Lundeen;
- Roger Mattsson;

- Mariusz Grendowicz;
- Maciej Georg.

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.

Remuneration Committee

Since September 22, 2016 the Remuneration Committee was composed of:

- Per Lundeen;
- Thomas Onstad.

On February 9, 2017 the Supervisory Board appointed, among its members Mr. Roger Mattsson as the member of the Remuneration Committee.

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

Since September 22, 2016 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 2016.

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 2016.

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 companies issuing the shares.

Since January 1, 2016 a set of corporate governance rules are 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 and recommendations of the Best Practice:

Rule 1.Z.1.10

Rule I.Z.1.15

Rule 1.Z.1.16

Rule I.Z.1.20

Recommendation II.R.2

Recommendation III.R.1.

Rule III.Z.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.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 2016 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 2016, the Company's financial statements for the financial year 2016 and the Management's proposal regarding the distribution of profit generated by the Company in the financial year 2016.

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 2016 to 31 December 2016 prepared by the Management Board and reviewed by an auditor, consisting of:

- Consolidated balance sheet as at 31 December 2016, with assets and liabilities amounting to PLN thousand 1,770,081 and standalone balance sheet as at 31 December 2016, with assets and liabilities amounting to PLN thousand 1,042,184;
- Consolidated profit and loss account for the period from 01 January 2016 to 31 December 2016, showing a net profit of PLN thousand 61,026 and standalone profit and loss account for the same period showing a net loss of PLN thousand 32,644;
- Consolidated statement of changes in equity for the period from 01 January 2016 to 31 December 2016 showing an increase in equity of PLN thousand 66,046 and standalone statement of changes in equity for the period from 01 January 2016 to 31 December 2016 showing a decrease in equity of PLN thousand 37,925,
- Consolidated cash flow statement for the period from 01 January 2016 to 31 December 2016, showing a decrease in net cash of PLN thousand 56,536 and standalone cash flow statement for the period from 01 January 2016 to 31 December 2016, showing an increase in net cash of PLN thousand 1,428,
- Accounting principles (policies) and additional explanatory notes.

The Supervisory Board reviewed the report and the opinion of Ernst & Young Audyt 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 2016 to 31 December 2016 as well as the economic and financial condition of the audited Company as at 31 December 2016,
- 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 2016 and the Management's proposal regarding the coverage of the net loss for the financial year 2016.

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 2016 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 2016 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 2016.

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

7. Assessment of the Company's condition

In the opinion of the Supervisory Board 2016 was an important year for the Company.

The Company delivered very good results - financial and also in the aspects of market presence, production efficiency and product development.

From the beginning of the year, we could see the effects of the Profitability Improvement Programme initiated in 2015, proving that there are possibilities even in the complicating graphical paper market.

In September 2016 the Company has entered into a term and revolving credit facilities agreement with a consortium of banks composed of: Bank BGŻ BNP Paribas S.A., Bank Zachodni WBK S.A. and the European Bank for Construction and Development. Additionally, the Company issued the bonds up to a total of PLN 100 million.

The aforesaid agreements represent a major change to the structure of the financing of the Company's Group. Centralised financing will enable more efficient management of financial liquidity and flexible adjustment of the level of financing of individual companies to the current economical demands.

Part of the new financing structure, the investment facility will enable a financing investments into resource and operating efficiency improvements, as well as capacity expansion in Poland. With the planned investments, the Company is seeking to significantly increase its competitiveness, expand its capacity and improve its energy and resource efficiency. The Company's mill at Kostrzyn will be upgraded with investments under the EBRD's Green Economy Transition (GET) approach to improve energy and waste efficiency.

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