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Independent Auditor's Report

To the General Shareholders' Meeting and Supervisory Board of Arctic Paper S.A.

Report on the Audit of the Annual Separate Financial Statements

Opinion

We have audited the accompanying annual separate financial statements of Arctic Paper S.A. (the "Entity"), which comprise:

- the separate statement of financial position as at 31 December 2018,

and, for the period from 1 January to 31 December 2018:

- the separate statement of profit or loss;
- the separate statement of comprehensive income;
- the separate statement of changes in equity;
- the separate statement of cash flows;

and

- notes comprising a summary of significant accounting policies and additional explanatory information

(the "separate financial statements").

In our opinion, the accompanying separate financial statements of the Entity:

- give a true and fair view of the unconsolidated financial position of the Entity as at 31 December 2018 and of its unconsolidated financial performance and its unconsolidated cash flows for the financial year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union ("IFRS EU") and the adopted accounting policy;
- comply, in all material respects, with regard to form and content, with applicable laws and the provisions of the Entity's articles of association;
- have been prepared, in all material respects, on the basis of properly maintained accounting records in accordance with chapter 2 of the accounting act dated 29 September 1994 (Official Journal from 2019, item 351) (the "Accounting Act").

Our audit opinion on the separate financial statements is consistent with our report to the Audit Committee dated 4 March 2019.



Basis for Opinion

We conducted our audit in accordance with:

- International Standards on Auditing as adopted by the National Council of Certified Auditors as National Standards on Auditing (the “NSA”); and
- the act on certified auditors, audit firms and public oversight dated 11 May 2017 (Official Journal from 2017, item 1089 with amendments) (the “Act on certified auditors”); and
- regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-listed entities and repealing Commission

Decision 2005/909/EC (Official Journal of the European Union L 158 from 27 May 2014, page 77 and Official Journal of the European Union L 170 from 11 June 2014, page 66) (the “EU Regulation”); and

- other applicable laws.

Our responsibilities under those standards are further described in the Auditor’s Responsibility for the audit of the separate financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Ethics

We are independent of the Entity in accordance with the Code of Ethics for Professional Accountants (“IFAC Code”) issued by the International Ethics Standards Board for Accountants as adopted by the resolutions of the National Council of Certified Auditors, as well as other independence and ethical requirements, applicable to audit

engagement in Poland. We have fulfilled all ethical responsibilities resulting from those requirements and IFAC Code. During our audit the key certified auditors and the audit firm remained independent of the Entity in accordance with requirements of the Act on certified auditors and the EU Regulation.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. They are the most significant assessed risks of material misstatements, including those due to fraud, described below and we performed appropriate audit procedures to address these matters. Key audit matters were addressed in

the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon we have summarised our response to those risks. We do not provide a separate opinion on these matters. We have determined the following key audit matters:

Impairment of investments in subsidiaries

The carrying value of investments in subsidiaries (including loans) presented in the separate financial statements of the Company amounted to PLN 751 million at 31 December 2018, of which the investment in Arctic Paper Grycksbo AB and the loan granted to the entity amounted to PLN 88 million.

As a consequence of the impairment test performed in relation to shares and loans granted to Arctic Paper Grycksbo AB, the Company recognized additional impairment allowance of PLN 7.8 million in the separate financial statements as at and for the year ended 31 December 2018.

Refer to Note 6 Material values based on professional judgements and estimates, Note 10 Significant accounting policies, Note 18.2 Impairment test.

<i>Key audit matter</i>	<i>Our response</i>
<p>The financial results realized by subsidiary Arctic Paper Grycksbo AB were worse than budgeted for 2018. Furthermore, the Company decided to withdraw one of the production machines from the manufacturing process in the pulp mill of Arctic Paper Grycksbo AB in Sweden.</p> <p>As a result, as at 31 December 2018 the Company performed the impairment test in respect of the investment in Arctic Paper Grycksbo AB using the discounted cash flow model.</p> <p>The assessment of future cash flows requires from management to apply a number of assumptions including a discount rate, exchange rates, projected prices of paper and pulp as well as the assumptions in respect of projected production volume, sales and operating expenses. These assumptions require from management significant subjective judgments and estimates which have a significant impact on the financial statements.</p> <p>Based on the above, we considered the impairment of the investment in the subsidiaries to be a key audit matter.</p>	<p>Our procedures in this area included, among others:</p> <ul style="list-style-type: none"> — understanding of the process related to impairment testing of investment in subsidiaries as well as related internal controls, — evaluation of the quality of the Company's budgeting process by comparing the budgets prepared in previous years with their subsequent realization, — with support of our valuation specialists: <ul style="list-style-type: none"> • assessment of the macroeconomic assumptions including the discount rate applied in the model by comparing them to publicity available data, • assessment whether the discounted cash flows model complies with the requirements of the relevant financial reporting standards, — assessment of significant assumptions applied in the impairment model, in particular related to sales, production levels and operating costs by comparison to historical data of the Company and with respect to projected pulp prices to publicly available external forecasts, — challenging significant assumptions by analysing sensitivity of the model to changes in significant assumptions and considering whether the level of significant assumptions applied in the model indicates management bias.

Furthermore, we assessed the appropriateness and completeness of the disclosures in the financial statements in relation to impairment of investments in subsidiaries.

Other matter

The separate financial statements of the Entity as at and for the year ended 31 December 2017 were audited by another auditor, who

expressed an unqualified opinion on those financial statements on 9 April 2018.

Responsibility of the Management Board and Supervisory Board of the Entity for the separate financial statements

The Management Board of the Entity is responsible for the preparation, on the basis of properly maintained accounting records, of separate financial statements that give a true and fair view of the unconsolidated financial position of the Entity and of its unconsolidated financial performance in accordance with International Financial Reporting Standards, as adopted by the European Union, the adopted accounting policy, the applicable laws and the provisions of the Entity's articles of association and for such internal control as the Management Board of the Entity determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, the Management Board of the Entity is

responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management Board of the Entity either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

According to the Accounting Act, the Management Board and members of the Supervisory Board of the Entity are required to ensure that the separate financial statements are in compliance with the requirements set forth in the Accounting Act. Members of the Supervisory Board of the Entity are responsible for overseeing the Entity's financial reporting process.

Auditor's Responsibility for the audit of the separate financial statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with NSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

The scope of audit does not include assurance on the future viability of the Entity or on the

efficiency or effectiveness with which the Management Board of the Entity has conducted or will conduct the affairs of the Entity.

As part of an audit in accordance with NSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve

collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board of the Entity;
- conclude on the appropriateness of the Management Board of the Entity's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report on the audit of the separate financial statements to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report on the audit of the separate financial statements. However, future events or conditions may cause the Entity to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Audit Committee of the Entity regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide the Audit Committee of the Entity with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee of the Entity, we determine those matters that were of most significance in the audit of the separate financial statements of the current reporting period and are therefore the key audit matters. We describe these matters in our auditors' report on the audit of the separate financial statements unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other information, including the report on activities

Other Information

The other information comprise the information included in the annual report of the Entity, but does not include the separate financial

statements and our auditor's report thereon (the "Other information").

Responsibility of the Management Board and Supervisory Board

The Management Board of the Entity is responsible for the Other information in accordance with applicable laws.

The Management Board and members of the Supervisory Board of the Entity are required to ensure that the report on activities of the Entity

for the year ended 31 December 2018 (the "Report on activities"), including the corporate governance statement which is a separate part of the Report on activities, are in compliance with the requirements set forth in the Accounting Act.



Auditor's Responsibility

Our opinion on the separate financial statements does not cover the Other information.

In connection with our audit of the separate financial statements, our responsibility was to read the Other information and, in doing so, consider whether the Other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we performed, we conclude that there is a material misstatement in the Other information, we are required to report that fact.

In accordance with the Act on certified auditors our responsibility was to report if the Report on

Opinion on the Report on activities

Based on the work undertaken in the course of our audit of the separate financial statements, in our opinion, the accompanying Report on activities, in all material respects:

- has been prepared in accordance with applicable laws, and
- is consistent with the separate financial statements.

Opinion on the statement on corporate governance

In our opinion, the corporate governance statement, which is a separate part of the Report on activities, includes the information required by paragraph 70 subparagraph 6 point 5 of the Decree of the Ministry of Finance dated 29 March 2018 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent of information required by the laws of a non-member state (Official Journal from 2018, item 757) (the "decree").

activities was prepared in accordance with applicable laws and the information given in the Report on activities is consistent with the separate financial statements.

Moreover, in accordance with the requirements of the Act on certified auditors our responsibility was to report whether the Entity included in the statement on corporate governance information required by the applicable laws and regulations, and in relation to specific information indicated in these laws or regulations, to determine whether it complies with the applicable laws and whether it is consistent with the separate financial statements .

Furthermore, based on our knowledge about the Entity and its environment obtained in the audit of the separate financial statements, we have not identified material misstatements in the Report on activities.

Furthermore, in our opinion, the information identified in paragraph 70 subparagraph 6 point 5 letter c-f, h and letter i of the decree, included in the corporate governance statement, in all material respects:

- has been prepared in accordance with applicable laws; and
- is consistent with the separate financial statements.

Report on other legal and regulatory requirements

Statement on services other than audit of the financial statements

To the best of our knowledge and belief, we did not provide prohibited non-audit services referred to in art. 5 paragraph 1 second

subparagraph of the EU Regulation and art. 136 of the act on certified auditors.



Appointment of the audit firm

We have been appointed for the first time to audit the annual separate financial statements of the Entity by resolution of Supervisory Board

dated 22 February 2018. Our period of total uninterrupted engagement is 1 year.

On behalf of audit firm

KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.

Registration No. 3546

Signed on the Polish original

Signed on the Polish original

Wojciech Drzymała

Ewa Skrzypczak

Key Certified Auditor
Registration No. 90095
Limited Partner, Proxy

Key Certified Auditor
Registration No. 12897

Poznań, 18 March 2019