

REPORT ON THE ACTIVITIES OF THE SUPERVISORY BOARD

of ARCTIC PAPER S.A. IN 2020

The Supervisory Board presents a report on its activities in the financial year 2020, including in particular the results of the assessment of the Management Board's report on the Company's operations in the financial year 2020, the Company's financial statements for 2020, 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 2020, 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 2020, 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. Due to COVID-19 pandemic travel restrictions all Supervisory Meetings from 2nd of April 2020 were held by means of distance communication as on-line meetings. 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 2020 to 31 December 2020, ten meetings of the Supervisory Board of Arctic Paper S.A. were held on the following dates:

1. 20th February 2020;
2. 2nd April 2020;
3. 16th April 2020;
4. 30th April 2020;
5. 14th May 2020;
6. 28th May 2020;
7. 17th June 2020;

8. 18th August 2020;
9. 10th November 2020;
10. 17th December 2020.

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

On 31st of December 2020 the Management Board was composed of:

- Mr Michał Jarczyński – Member of the Management Board, President of the Management Board;
- 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

Since 19th of July 2019 the Audit Committee is 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.

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 is 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.

On August 31st, 2020, the Annual General Meeting of the Company, bearing in mind art. 90d.1 in connection with art. 90c.2.1 of the Act of 29 July 2005 on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading and Public Companies (i.e. Journal of Laws of 2019, item 623 as amended amended) adopted the "Remuneration Policy for Members of the Management Board and Members of the Supervisory Board of Arctic Paper S.A". Under the above-mentioned Acts, all public companies, including the Company, were obliged to adopt, by resolution of Annual General Meeting, the Remuneration Policy of Management Board and Supervisory Board Members, which is the rules for determining the remuneration of Members of the Management Board and Supervisory Board and to publish a remuneration report. The Company shall pay remuneration to the Members of the Management Board and the Supervisory Board solely in compliance with the adopted policy. The policy prepared by the Company was drawn up in accordance with the principles set out in the above-mentioned Act and refers to the required elements related to remuneration and other terms of employment for Members of the Management Board and Members of the Supervisory Board. The policy received an opinion from the Remuneration Committee operating at the Supervisory Board, as well as by the Supervisory Board.

In accordance with Art. 7.1 of the Policy, the Supervisory Board shall annually prepare a Remuneration Report in order to provide the Annual General Meeting with information on the remuneration received in the preceding financial year by the Management Board and the Supervisory Board of the Company. The report is reviewed by the auditor.

The Supervisory Board shall prepare a remuneration report for the first time for 2019 and 2020 combined. On 29th April, 2021 the Supervisory Board has adopted “Remuneration Report of Members of the Management Board and Supervisory Board of Arctic Paper S.A. for the years 2019-2020” and recommends its submission to the Annual General Meeting of the Company.

“Remuneration Report of Members of the Management Board and Supervisory Board of Arctic Paper S.A. for the years 2019-2020” was assessed by Grant Thornton Polska spółka z ograniczoną odpowiedzialnością sp. k.. On 29th April, 2021 the auditor has report with an opinion on the Remuneration Report which is enclosed to the draft of the resolution of the Annual General Meeting.

The Annual General Meeting shall adopt a resolution with an opinion on the remuneration report. The nature of such resolution is advisory.

Risk Committee

The Risk Committee is 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 2020.

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 2020.

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 19th January 2021 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

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 2020 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 2020, the Company's financial statements for the financial year 2020 and the Management's proposal regarding the distribution of profit generated by the Company in the financial year 2020.

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 2020 to 31 December 2020 prepared by the Management Board and reviewed by the Company's auditor by KPMG Audyt spółka z ograniczoną odpowiedzialnością spółka komandytowa, consisting of:

- Consolidated balance sheet as at 31 December 2020, with assets and liabilities amounting to PLN thousand 2,136,646 and standalone balance sheet as at 31 December 2020, with assets and liabilities amounting to PLN thousand 882,117;
- Consolidated profit and loss account for the period from 01 January 2020 to 31 December 2020, showing a net profit of PLN thousand 103,586 and standalone profit and loss account for the same period showing a net profit of PLN thousand 3,387;
- Consolidated statement of changes in equity for the period from 01 January 2020 to 31 December 2020 showing an increase in equity of PLN thousand 162,505 and standalone statement of changes in equity for the period from 01 January 2020 to 31 December 2020 showing an increase in equity of PLN thousand 2,516;
- Consolidated cash flow statement for the period from 01 January 2020 to 31 December 2020, showing a decrease in net cash of PLN thousand of 30,725 and standalone cash flow statement for the period from 01 January 2020 to 31 December 2020, showing an increase in net cash of PLN thousand 8,208;
- Accounting principles (policies) and additional explanatory notes.

The Supervisory Board has examined the Management Board's report on the Company's operations in the financial year 2020.

Pursuant to article 70.1.14 and 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 financial statements of Arctic Paper S.A. for the financial year ended December 31, 2020, 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, 2020, 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, 2020, 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, 2020, 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 2020.

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 2020, 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 statutory auditor KPMG Audyt spółka z ograniczoną odpowiedzialnością spółka komandytowa has formulated a qualified opinion in the report on the audit of the consolidated financial statements in the ESEF format of the Arctic Paper S.A. Capital Group for the year 2020.

The Supervisory Board shares the position of the Management Board of the Company, according to which the qualified opinion formulated by the statutory auditor does not affect the financial result and the economic and financial position of the Group in the financial statements and in its essence refers only to the technical standards of the systems validating financial statements prepared in the Xhtml format, tagged using the XBRL markup language.

The Management Board position together with the opinion of the Supervisory Board has been published as an addendum to the consolidated annual report by current report no. 09/2021 dated 19th March 2021.

The Supervisory Board adopts the report, expresses its approval for the activities of the Management Board in 2020 and recommends that the Annual General Meeting discharges the Members of the Management Board for the performance of their duties in the financial year 2020:

- Mr Michał Jarczyński for a period from January 1st 2020 until December 31st 2020;
- Mr Göran Eklund for a period from January 1st 2020 until December 31st 2020;

Proposal regarding the distribution of profit generated by the Company in the financial year 2020

On March 25th 2021 the Supervisory Board of the Company adopted a resolution approving the submission to the Annual General Meeting of the recommendation of the Management's Board regarding payment of dividend to the shareholders from the Company's net profit of the financial year 2020 and from net profits from previous years accumulated on the Company's reserve capital, in the total amount of PLN 20,786,334.90 - 0.30 PLN gross per share.

The Management Board's recommendation and the Supervisory Board's opinion will be presented as a subject of the resolution of the Annual General Meeting.

7. Assessment of the Company's condition

A 2020 year was a difficult time for all industries all over the world dominated by two major factors: global COVID-19 pandemic and Brexit of United Kingdom from the European Union.

The Supervisory Board has expressed its appreciation for the Management Board efforts and its commitment to the Company during challenging 2020 year. Despite the difficult and turbulent times and unpredictable future the Company was managed in a good and stable way. Arctic Paper Group despite a significant decrease of paper demand was able to deliver outstanding financial results.

During 2020 the Company has developed new paper brands and launched new projects with an aim of an expansion on packaging and kraft papers markets.

The Company uses all market possibilities to maximize share value for the shareholders and continues to develop a sustainable paper production.

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