

Arctic Paper S.A. Capital Group
disclosure on non-financial information

Corporate Social Responsibility Report

2017



ARCTIC PAPER

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Management foreword

We believe paper is a material for the future, both as a medium for communication but also as a natural material based on a renewable resource. Arctic Paper's mission is to offer a huge variety of reliable and eco-friendly paper products and services which turn creative ideas into distinctive experiences and cater for the latest printing technologies.

The management of Arctic Paper has defined six strategic initiatives - growth, innovation, branding, efficiency, performance culture and sustainability – to show the way to a growing and profitable business. This confirms our strong commitment to sustainability. It will also ensure that our future performance will be continuously measured.

Our paper is renewable and degradable, circular economy is therefore embedded within our industry. We are determined to develop our products with sustainability as a guiding principle. This means actively caring for the environment, the people working with us and for us, and maintaining the integrity of our operations. We make regular investments to make sure that the global and local environment is not negatively impacted by our operations. We actively monitor risks and opportunities associated with the sustainability of our business. We also have policies and procedures in place to actively manage and improve them.

Our commitment to sustainability also involves caring for the people working with us and for us. We are determined to offer our employees good employment conditions and a safe workplace. We encourage dialogue and listen to our employees' concerns. At the same time, we know that our responsibility extends also to those working within the value chain of our products. This is why we are developing measures to ensure that our suppliers share our ethical commitments. This is important to us, as we want our customers to be able to rely on the ethics of our business practices.

Transparency is a way to create trust. We have a long-standing tradition of transparently communicating the environmental performance of our products and operations, and we believe we have a high degree of trust among our customers, suppliers and authorities.

This is our first sustainability report in accordance with the new requirements, but sustainability is not a new commitment for us – it is part of Arctic Paper's heritage. As we want our sustainability report to be a useful document for the future, we find it important to develop it further. In order to promote this development, we need to continue the dialogue on sustainable development priorities and we are therefore open to all suggestions any of our stakeholders may have.

Per Skoglund
CEO of Arctic Paper S.A.



Our business model

Our business model

Arctic Paper S.A. is a leading European producer of high-quality graphic paper listed on the stock exchanges in Warsaw (Giełda Papierów Wartościowych – GPW) and Stockholm (NASDAQ). The Group produces numerous types of uncoated and coated wood-free paper, as well as wood-containing uncoated paper for printing houses, paper distributors, book and magazine publishing houses, and the advertising industry.

As of 31 December 2017, Arctic Paper S.A. employs about 1,250 people. Our business activities are based on the operations of three mills:

Arctic Paper Kostrzyn Poland

The mill has a production capacity of about 280,000 tonnes of paper per year and mainly produces uncoated wood-free paper for general use such as printing books, brochures and forms, and for producing envelopes and other paper products.

Arctic Paper Munkedals Sweden

The mill has a production capacity of about 160,000 tonnes per year and mainly produces fine uncoated wood-free paper, used primarily for printing books and high quality brochures.

Arctic Paper Grycksbo Sweden

The mill has a production capacity of about 265,000 tonnes per year and produces coated wood-free paper used for printing maps, books, magazines, posters and advertising materials.

We manage 14 sales organisations across Europe, which support our activities and contacts with customers. Our head office is situated in Poznań (Poland) with a branch in Gothenburg (Sweden).

Arctic Paper S.A is also a majority owner (in possession of 51.3 % of the shares by the 31 December 2017) of the Rottneros group. Rottneros is a pulp producing company, registered on the Nasdaq stock exchange in Stockholm. The Pulp mills owned and operated by Rottneros are located in Sweden and have aggregate production capacities of over 400,000 tonnes of pulp annually. Arctic Paper has financial control over Rottneros, as it holds the majority of shares,

yet operational control belongs to Rottneros including responsibility for the company's performance and sustainability matters. For 2017, the data for Rottneros is not available in the format reported by AP, but sustainability impact and performance will be reported in the subsidiary's separate report. We will be working towards establishing a reporting line between the companies to present this data in the future.



○ Head offices

- Arctic Paper S.A. Poznan, Poland
- Arctic Paper S.A. (Filial) Gothenburg, Sweden

● Mills

- Arctic Paper Grycksbo AB, Sweden
- Arctic Paper Kostrzyn S.A., Poland
- Arctic Paper Munkedals AB, Sweden

● Sales Offices

- Arctic Paper Papierhandels GmbH, Austria
- Arctic Paper Benelux N.V., Belgium
- Arctic Paper Danmark A/S, Denmark
- Arctic Paper France SAS, France
- Arctic Paper East sp. Zo.o Representative office, Ukraine
- Arctic Paper Deutschland GmbH, Germany
- Arctic Paper Italia Srl, Italy
- Arctic Paper Baltic States, Latvia
- Arctic Paper Norge AS, Norway
- Arctic Paper Polska Sp.z o.o., Poland
- Arctic Paper Espana S.L., Spain
- Arctic Paper Sverige AB, Sweden
- Arctic Paper Schweiz AG, Switzerland
- Arctic Paper UK Ltd., United Kingdom

Below we present information about our business model – key inputs and outputs, as well as business activities and results.

Inputs

- | | | | |
|--|---|--|---|
| <p>— Human capital:</p> <ul style="list-style-type: none"> › 1,250 employees around Europe (excluding employees of Rottneros AB) | <p>— Manufacturing capital:</p> <ul style="list-style-type: none"> › One mill in Poland and two mills in Sweden › Total production capacity of over 700,000 tonnes of paper per year | <p>— Natural capital:</p> <ul style="list-style-type: none"> › Pulp › Pigments › Chemical additives › Water › Energy | <p>— Financial capital:</p> <ul style="list-style-type: none"> › Cash |
|--|---|--|---|

Business activities

- | | | | |
|--|---|--|--|
| <p>— Purchasing:</p> <ul style="list-style-type: none"> › Sustainability in sourcing › Compliance with the Code of Conduct <p>— Innovation:</p> <ul style="list-style-type: none"> › Products and processes | <p>— Production:</p> <ul style="list-style-type: none"> › Responsibility for employees, the environment and product quality | <p>— Sales:</p> <ul style="list-style-type: none"> › Compliance with the Code of Conduct | <p>— Transportation and logistics:</p> <ul style="list-style-type: none"> › Sustainability in delivery |
|--|---|--|--|

Outputs

- | | | | |
|--|---|---|---|
| <p>— Recyclable and degradable products:</p> <ul style="list-style-type: none"> › Sheets and reels › Coated and uncoated, wood-free and wood-containing paper | <p>— Service offer:</p> <ul style="list-style-type: none"> › Availability of standard products › Printing on demand (adjustable time frame, quality, quantity) › Delivery | <p>— Emissions and waste:</p> <ul style="list-style-type: none"> › Affecting air, water, and land | <p>— Energy:</p> <ul style="list-style-type: none"> › The mill in Kostrzyn sells heat and electricity › The mill in Grycksbo sells electricity |
|--|---|---|---|

Results

- | | | | |
|---|--|---|--|
| <p>— Customer:</p> <ul style="list-style-type: none"> › Customer satisfaction › Brand loyalty › Few customer complaints | <p>— Employees:</p> <ul style="list-style-type: none"> › Stable employment and working conditions › Few accidents › Good relationship with trade unions › Small employee turnover | <p>— Society:</p> <ul style="list-style-type: none"> › Taxes from employees and company › Provision of local employment › Other contributions | <p>— Financers and shareholders:</p> <ul style="list-style-type: none"> › Interest and dividends |
|---|--|---|--|

Our market

The graphic paper market is split into three core segments: high-quality paper, newsprint paper and magazine paper. Arctic Paper operates solely in the segment of high quality

graphic papers. Europe is our main marketplace, although small volumes of our products are sold on all continents.

Key Products:

Uncoated wood-free paper, in particular:

- High quality graphic paper with a very smooth surface, used for various kinds of advertising and marketing materials. It is produced under the Munken brand;
- Bulky book paper, produced under the Munken brand, used primarily for printing books;
- White offset paper, produced and distributed primarily under the Amber brand. It is one of the most versatile types of paper.

Uncoated wood-containing paper, in particular:

- Premium bulky book paper, produced and distributed under the Munken brand, developed specially for colour and monochrome printing of books.

Coated wood-free paper, in particular:

- Manufactured under the G-Print and Arctic brands, used primarily for printing books, magazines, catalogues, maps and personalised direct mail correspondence.



An aerial photograph of a dense forest, likely a coniferous forest, with a central path or road running vertically through the middle. The trees are mostly green, with some bare, greyish trees visible in the lower-left quadrant. The text "Materiality assessment" is overlaid in white, centered on the path.

Materiality assessment

Materiality assessment

Arctic Paper’s key focus is sustainable development in all areas where our business activities have a significant impact. This means that we aim to create value for shareholders, but not at the expense of opportunities for future generations.

When preparing this report, we analysed the environment in which we are operating and concluded that our most important stakeholders are our customers, employees, suppliers, authorities and shareholders. We then reached out to them, in order to better understand their priorities.

We use various communication channels to better understand the expectations of our stakeholders. When communicating with our employees, we created a dedicated survey and distributed it in electronic and paper form. We also conducted targeted interview sessions with our external and internal stakeholders, during which we discussed their expectations with regards to Arctic Paper’s impact, risks and opportunities related to sustainability issues.

The summarised results of this exercise were presented to the management board and other key individuals within the company. We found that our material aspects can be categorised into three broad themes: the Environment, People and Business Operations. These themes will also guide the rest of this report.

The list of material aspects was also reviewed and validated during a dedicated workshop. Based on the assessment, we created our materiality matrix. The rest of this report will explain our management approach, actions taken in 2016 and 2017, and plans for the future with regards to aspects selected as material.

Key aspects

Environment

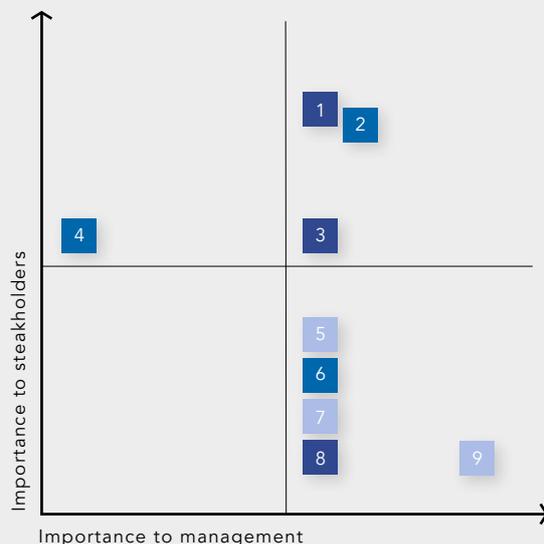
- 2 – Energy and climate change
- 4 – Waste
- 6 – Water

People

- 1 – Health and safety
- 3 – Employee well-being
- 8 – Diversity and integration

Business operations

- 5 – Transportation and logistics
- 7 – Responsible supply chain
- 9 – Business ethics

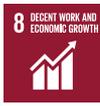


The results of the stakeholder survey and management’s valuation of sustainability factors is shown in a condensed form in the materiality matrix below.

	Basis for selection	Approach to stakeholders engagement	Key Topics	Arctic Paper response
Customers	Main source of value creation	<ul style="list-style-type: none"> › Direct contact through sales organisations › Direct contact through trial printing of new products › Indirect contact through merchants 	<ul style="list-style-type: none"> › Product functionality and development › Environmental impact from production and ways of improving its efficiency › Product certification › Compliance with laws and regulations › Meeting sustainability goals while offering competitive prices 	<ul style="list-style-type: none"> › Transparent presentation of environmental performance, such as in the EMAS-report › Using pulp manufactured from suppliers certified by FSC® or PEFC™
Employees	Key capital for our ability to produce and sell our products	<ul style="list-style-type: none"> › Appraisals › Employee surveys › Regular contact with labour unions 	<ul style="list-style-type: none"> › Environmental impact from production and ways of improving its efficiency › Initiatives to improve the well-being of employees › Health and safety 	<ul style="list-style-type: none"> › Mill-specific action plans for health and safety › Training programmes › Remuneration routines
Suppliers	Significant impact on our production capabilities	<ul style="list-style-type: none"> › Close contact with major suppliers in order to keep them informed about our needs and demands › If needed, corrective actions 	<ul style="list-style-type: none"> › Responsible approach towards our supply chain › Business ethics 	<ul style="list-style-type: none"> › Audit of a major pulp supplier using a detailed form › Preparations for an Arctic Paper Suppliers Code of Conduct under way
Authorities	Compliance with legal obligations	<ul style="list-style-type: none"> › Direct contact through reporting › Cooperation within sectoral organisations 	<ul style="list-style-type: none"> › Compliance with legal requirements › Minimising the negative impact of business operations 	<ul style="list-style-type: none"> › Transparent reporting, both for financial and non-financial performance › Active participation in sectoral initiatives
Shareholders	Expectations of return on investments	<ul style="list-style-type: none"> › Shareholder meeting › Capital market day meetings 	<ul style="list-style-type: none"> › Support for Arctic Paper’s sustainability work › Potential business risks related to sustainability issues 	<ul style="list-style-type: none"> › Transparent reporting, both for financial and non-financial performance

Our contribution to sustainable development goals

In 2015, the United Nations published a comprehensive list of 17 Sustainable Development Goals (SDGs). As sustainability is deeply integrated into the daily operations of Arctic Paper, we decided to match the material themes described above with SDGs. We have identified which of the UN’s goals are most relevant to our activities, and which goals Arctic Paper can best contribute to.

Theme	SDG focus area	Impact on Arctic Paper core operations	Impact on Arctic Paper value chain	What Arctic Paper is doing?
People		✓	✓	<ul style="list-style-type: none"> › Systematic approach to health and safety in each mill › Annually approved action plans for health and safety › Occupational healthcare service at all sites › Rehabilitation services on offer › Keeping a register to analyse and prevention of accidents
		✓	✓	
Environment		✓		<ul style="list-style-type: none"> › State of the art water treatment facilities at all sites › Plans in place to improve water efficiency › Measurement and monitoring of indicators of water inflow and outflow › Employee education with regards to environmental behaviours › Improvements in energy efficiency › Measurement and monitoring of emission indicators › Mills are ISO14001 certified and fulfil EU EMAS regulations › Measurement and monitoring of waste management indicators
		✓	✓	
		✓	✓	
Business operations		✓		<ul style="list-style-type: none"> › Freely-available paper profiles of all our products › Responsible supply chain practices › Strong focus on measuring and minimising the environmental impact of our business operations

An aerial photograph of a vast forest with trees in various shades of green, yellow, and orange, indicating autumn. A large, calm lake is visible in the lower right portion of the image, reflecting the sky. The text "Key business performance indicators" is overlaid in white, sans-serif font across the center of the image.

Key business
performance
indicators

Key business performance indicators

Arctic Paper's approach to corporate responsibility is centred on the sustainability of operations, in particular with regards to the mills. We therefore established a set of key business performance indicators, which we periodically measure and report to management. These indicators allow us to better understand our impact on the environment and our employees, as well as better understand our business operations. Following this assessment, we can react accordingly.

Environment

Energy consumption: Total net energy consumption (MWh/tonne of paper)

We are committed to improving the energy efficiency of our operations. Investments in this area will have a positive effect on the environment, due to decreased emissions of pollutants, and on our financial performance.

Business performance indicator	Target 2022	2017	2016
Total net energy consumption (MWh/tonnes of paper)	1.9	2.0	2.2
Tonnes of paper produced	695,000	658,645	654,821

Environment & Business operations

Value chain: % of pulp suppliers who are FSC and/or PEFC certified

We are aware of the fact that the environmental integrity of our business relies in part on our suppliers. As we source pulp for our production from a number of suppliers, we expect them to share our values with respect to environmental sustainability. We aim to maximise the percentage of pulp suppliers who possess FSC and/or PEFC certifications.

Business performance indicator	Target 2022	2017	2016
Share of pulp suppliers who are FSC and/or PEFC certified	100%	100%	100%

People

Injuries per million work hours

We have a systematic approach to safety. We train our employees on an annual basis and ensure that our management is well-equipped to handle safety emergencies. When systematic problems are spotted during the production process, targeted continuous action plans are put into place. In addition, we have trained rescue teams at all of our mills. We are committed to minimising the number of light and heavy accidents at our workplaces.

Business performance indicator	Target 2022	2017	2016
Accidents per million work hours	<4	8.0	8.4

Business operations

Value of complaints as share of annual turnover

We want our customers to be satisfied with our approach to sustainability and products. All complaints are carefully categorised and evaluated by our sales team and management. We aim to minimise their value, keeping in mind that not all complaints may be substantiated.

Business performance indicator	Target 2022	2017	2016
Value of complaints as share of sales revenue	0.50	0.61	0.58%
Sales revenue (in PLN)	-	2,247,973	2,296,869

A misty forest landscape with tall evergreen trees and a dense fog or low cloud layer. The text is centered over the image.

Principal risks and their management

Principal risks and their management

In order to sustainably create value in the short and long-term, we need to periodically identify, analyse and mitigate the risks facing our organisation. Our principal risks are explained in the table below, and accompanied by an overview of actions taken to mitigate them. More detailed information with regards to specific mitigation plans can be found in later sections of the report, categorised by theme.

	Risk	Implications	Mitigating actions taken
Environment	Not meeting national or EU-wide legal requirements with regards to environmental standards	<ul style="list-style-type: none"> › Fines from authorities › Reputational damage › Possible personal responsibility › Disruptions in operations 	<ul style="list-style-type: none"> › Careful monitoring of environmental standards and indicators › Early reaction system to changes in regulation › Introducing efficiency-improving technologies
	Unintentional damage to the environment		<ul style="list-style-type: none"> › Careful monitoring of environmental standards and indicators › Compliance with regulations and procedures
People	Lack of competent employees (e.g., due to competition or difficulties in finding new employees to replace an aging workforce)	<ul style="list-style-type: none"> › Disruptions in operations (insufficient quantity or quality of products) › Financial loss – money invested in training is lost 	<ul style="list-style-type: none"> › Creating an attractive workplace to attract and retain employees
	Accidents at work	<ul style="list-style-type: none"> › Disruptions in operations › Departure of qualified personnel › Need for new investments at production sites if damage is extensive › Fines from authorities 	<ul style="list-style-type: none"> › Health and safety training performed on a regular basis › Detailed analysis of all incidents – from risk observation to injuries › Improvement plans in place for all our mills › Dedication to a zero-injury environment
People & Business operations	Limited visibility over suppliers and their human rights practices	<ul style="list-style-type: none"> › Disruptions in operations › Reputational damage 	<ul style="list-style-type: none"> › Scrutiny over actions of suppliers in the form of signed declarations › Plans to introduce a Code of Conduct for Suppliers
Environment & Business operations	Shortage of pulp on the market, inability to buy certified pulp	<ul style="list-style-type: none"> › Disruptions in operations › Financial loss 	<ul style="list-style-type: none"> › Careful monitoring of the market
	Disruptions in the energy market (e.g., lack of energy access or poor fuel quality)		<ul style="list-style-type: none"> › Diversification of sources of energy
	Poor weather conditions (e.g. flooding)		<ul style="list-style-type: none"> › Continuity plans developed for mills
Business operations	Country-specific risks – linked to the supply chain, production, and distribution	<ul style="list-style-type: none"> › Disruptions in operations › Financial loss › Increased regulatory burden 	<ul style="list-style-type: none"> › Careful monitoring of world affairs

A high-angle, vertical photograph of a rocky stream in a winter forest. The water flows from the top of the frame down through a series of large, light-colored rocks. The surrounding trees are bare and their branches are heavily laden with snow, creating a dense, textured background. The overall color palette is a mix of dark blues, greys, and whites, giving it a cold, serene atmosphere. The word "Environment" is centered in the middle of the image in a clean, white, sans-serif font.

Environment

Environment

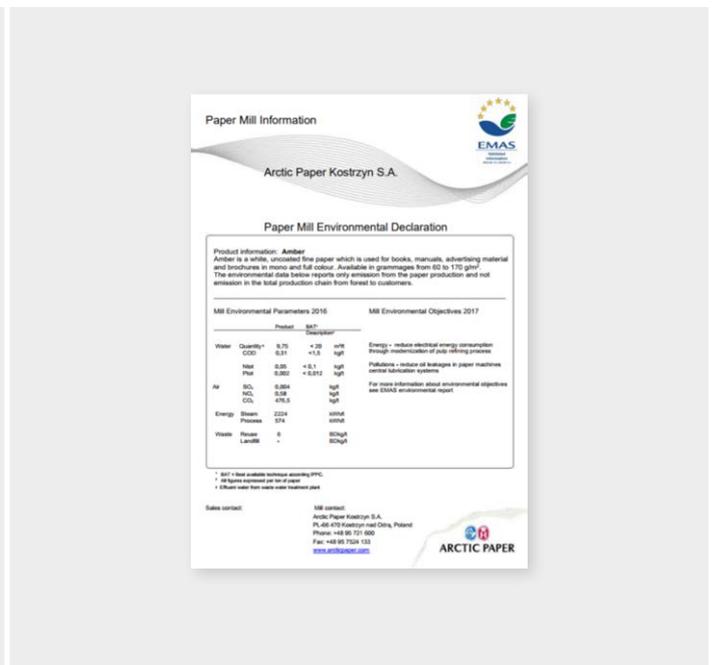
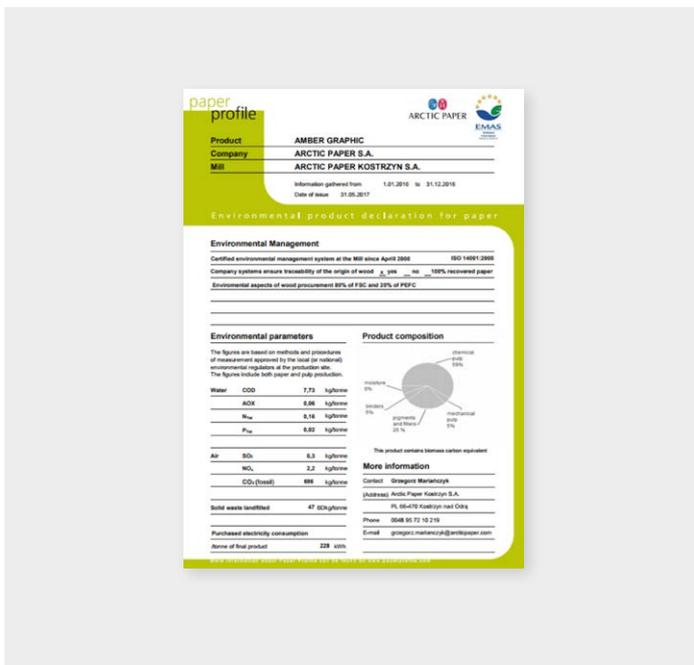
Management approach

Arctic Paper S.A. has a long-standing commitment to environmental sustainability. We are proud of creating positive value by enabling and encouraging customers to use and recycle products made mainly using renewable resources. At the same time, we try to minimise the negative impact of our production and transportation services by engaging in sustainable practices. In addition to complying with environmental laws and regulations, we want to make sure that we work together with our major stakeholders on understanding the forces driving the sustainability of our business. This, together with our internal follow-up work, is the basis for the development and evaluation of our products, processes and routines.

The ISO 14001 management system is in place at all of our mills. It guides the way we manage our environmental responsibilities at the mills, and how we work on continuously improving them. All certificates are widely available on our website.

In this report, we present the consolidated environmental performance of our three mills. The mills publish separate EMAS-reports, where more information on individual environmental performance is available. In addition, more environmental data regarding our products can be found on our website, in the form of product-specific environmental declarations called "Paper Profiles", demonstrated on the left-hand side. Importantly, each Paper Profile documents the environmental impact across the whole supply chain, as our Business operations are highly reliant on our suppliers.

Taking into account our production process, we focus our environmental efforts on four main topics selected during our materiality analysis. These topics will guide the next sections of this chapter: energy consumption, CO₂ emissions, water consumption and waste management. We are dedicated to improving the efficiency of our operations in these areas. We believe that our targets, defined in relation to production volumes, clearly demonstrate our commitment to progress in the area of environmental sustainability.



Policies and procedures

Environmental policies are present at the group and mill level. The environmental management system at all three mills is guided by ISO 14001. Arctic Paper S.A. is proud not only to have introduced routines and procedures to improve the environmental performance of our mills, but also to have efficiently integrated these routines and procedures into our daily operations.

Our mills are also EMAS-certified, which means that they fulfil additional requirements, beyond ISO 14001. Among others, these include stricter rules on how to measure and evaluate environmental performance. We are also obliged to make our detailed environmental performance publically available in the form of EMAS reports; these reports are freely available on our website.

Additionally, our mill in Grycksbo has a certified system of energy management, ISO 50001. This means that the energy system implemented at the mill follows a systematic approach, aimed at continuously improving energy consumption and energy efficiency.

Our mills in Grycksbo, Kostrzyn, and Munkedal have chain of custody certificates for FSC (Forest Stewardship Council) and the corresponding for PEFC (Programme for the Endorsement

of Forest Certification). This means that we can guarantee our customers that our products come from responsible sources. Below we present the logos and certificate numbers for our mill at Munkedal.

Arctic Paper S.A. is aware of the environmental regulations affecting our industry, and we carefully monitor the regulatory environment in Poland and Sweden, and at European Union level. Apart from legal requirements, we are also interested in the best practices in our business, and carefully follow developments in these areas. As an example, in the EMAS reports we benchmark our environmental figures on emissions to water to the Best Available Techniques (BAT) reference figures prepared by the European Commission in collaboration with industry experts. These lead us to conclude that our environmental performance is aligned with the best practices in the industry.

The overarching goal of our environmental policy is to mitigate the adverse impact of our mills' processes on the environment. We are committed to doing so both by introducing new solutions and improvements to the operations of our mills and by educating our employees about ways to protect the natural environment.



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Sustainable Forest
Management
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Energy and climate change

Arctic Paper S.A. purchases energy both as fuel (biomass and natural gas) and as electricity (from the local grid). We also produce electricity at our mills using hydropower plants (Arctic Paper Munkedals), counterpressure steam turbines (Arctic Paper Grycksbo and Arctic Paper Kostrzyn) and gas turbines (Arctic Paper Kostrzyn), which we also put on the market, when appropriate. The most energy-intensive processes in paper production are the generation of steam, which is used in the process of drying paper, and the operation of motors, used in paper machines, refiners and pumps.

Various types of energy efficiency programmes are in place at all three of our mills. One recent example of a large project implemented to improve heat energy consumption is the intro

duction of new heat recovery systems at our mill in Grycksbo 2015, in Munkedal in 2016 and in Kostrzyn in 2017, replacing old, less efficient systems. At the same time, we put in place smaller-scale programmes, such as replacing old lamps with LED lamps in the car park at the Munkedal mill and in warehouses in Grycksbo.

Our plans for 2018 include a major project at the Kostrzyn mill, involving the modernisation of the vacuum system. The system will be more efficient in vacuum generation; it will also improve heat recovery in the drying process, hence decreasing consumption of both electricity and steam. In addition, we plan to expand the flash steam system at the Munkedal mill to lower steam consumption.

Below you can find the latest figures on our energy consumption, one of our key performance indicators regarding environmental sustainability.

Key performance indicator	Target 2022	2017	2016
Total net specific energy consumption (MWh/tonne paper)	1.9	2.0	2.2
Total production of paper (in tonnes)	695,000	658,645	654,000

In late 2016, an old heat recovery tower in PM 8 was replaced by a modern one at the Munkedal mill. A similar operation combined with the replacement of an old drying hood on PM 1 was made at the Kostrzyn mill during the summer of 2017. Those two investments have contributed significantly to the decreased specific energy consumption between 2016 and 2017.

Pollutants created during the energy production process leave our mills through chimneys as air pollutants, and as biomass ash. Air pollutants, in particular CO₂, accumulate in the atmosphere, contributing to climate change. Emission levels are

monitored by management. They carry an environmental cost, and they can also be associated with considerable financial, legal and commercial costs for our business. The above-described actions to improve energy efficiency are crucial in scaling down our relative CO₂ emissions.

We have been dedicated to making investments in this area for a number of years now. In 2008, we made a significant investment in a biomass boiler at our mill in Grycksbo, which enables our steam generation process at the mill to be fossil free.

Key performance indicator	Target 2022	2017	2016
CO ₂ emissions (kg/tonne paper)	270	282	297
Total production of paper (in tonnes)	695,000	658,645	654,821

The total and specific CO₂ emissions from the mills in Arctic Paper decreased in 2017 compared to 2016. This is a consequence of higher energy efficiency, particularly in the Kostrzyn mill, but also an effect of lower sales of heat and electricity to external consumers. CO₂ emissions increased in the Munkedal mill between 2016 and 2017 due to a change in the way steam is produced at the Munkedal mill: electricity consumed is to

a large extent replaced by a natural gas boiler. This means that CO₂ emissions were moved from the electricity supplier to the mill. At the same time, overall energy consumption has decreased as described above giving a net decrease in CO₂ emissions. The target for CO₂ is based on the potential for further energy savings.

Water

Water is an indispensable resource in the paper production process. It is used to slush the pulp into a fibre stock, and then to transport fibres to the paper machine headbox. Since the stock is dewatered once it is placed in the paper machine, most of the water can be reutilised in the mill. Water which is not recirculated is purified on site, before being released back to the rivers from which it came – Warta, Munkedalsälven and Grycken. Internal effluent treatment plants conduct mechanical, biological and chemical treatments. At the same time, the separated deposit from the effluent treatment is mixed and dewatered, and then recycled as soil improver.

We carefully monitor the quality of our water outputs; most notably we focus on Chemical Oxygen Demand (COD). COD indicates the effect the discharge water will have on the receiving environment; in our case the three rivers. It measures organic compounds which consume oxygen during decompositions; very high levels of oxidisable organic material may

be detrimental to aquatic life forms. As good practice, we also monitor the quality of our water inputs; not something required from us by regulators.

Recently we put in a place a programme to reduce our emissions to water at our mill in Munkedal. One involved the installation of a separate water purification system for the power supply station, in order to improve our opportunities for water recycling. In addition, the modernisation of the vacuum system in Kostrzyn, described previously in the context of energy efficiency, will also have important water-saving properties. In Grycksbo we made an important re-build of the waste water treatment plant during 2014, when pre-flotation before the biological treatment was installed. This, together with other measures falling within the scope of continuous improvements have, during the last three years, resulted in a 20% decrease in the amount of organic substances in emissions to water from the mill.

Key performance indicator	Target 2022	2017	2016
Specific water consumption (m ³ /tonne of paper)	7.0	7.5	7.6
COD (kg/tonne paper)	0.42	0.45	0.43
Total production of paper (in tonnes)	695,000	658,645	654,821

The specific emissions of COD decreased in Grycksbo as the new cleaning equipment mentioned above was trimmed (ongoing process). In Munkedal and Kostrzyn, however, specific COD emissions increased slightly as a consequence of high frequent trial productions with new products, with accordingly, unstable production conditions.

Waste

Most of the waste emanating from our plants is sorted and sent for external recycling. Comparably smaller volumes of waste are used for energy recovery or are sent to landfills, and even smaller volumes of dangerous waste are sent for controlled destruction by third party contractors.

All our mills use certified handlers of waste. The volumes of different kinds of waste are appropriately communicated to the handlers and the authorities. We closely monitor these values to ensure we maintain our waste management balance year-on-year and constantly improve waste recycling efficiency.

Key performance indicator	Target 2022	2017	2016
Recycling or energy extraction (kg/tonne of paper)	11	12.8	11.5
Hazardous (kg/tonne of paper)	0.2	0.2	0.4
Landfill (kg/tonne of paper)	0.4	0.4	0.4
Total production of paper (in tonnes)	695,000	658,645	654,821

The major difference between 2016 and 2017 regarding waste to recycling or energy extraction is scrapped construction material. One example is scrapped metal from press section PM 8 in Munkedal, where the framework of the press section was scrapped and replaced as the old was severely damaged by corrosion.

People



People

Management approach

Our employees are our most valuable capital. We take care of them by creating a work environment which prohibits injuries. We have a systematic approach to safety at our mills. Each of them has implemented its own site-specific health and safety policy, complemented by appropriate routines and procedures. In case of an accident, employees are to report to the nearest manager, supervisor or a safety officer present at all sites. After an accident is reported, it is added to the accident register and discussed with management. Every accident is followed up on; when appropriate, an action plan is put into place.

Arctic Paper S.A. feels responsible for our employees and other people working for us and we believe every employee should be treated with respect. This is also declared in our Corporate Social Responsibility policy and in our Code of Conduct. We strive to make our mills and sales offices safe workplaces, where employees have equal opportunities for development. We are aware of the fact that continuous dialogue with our employees is beneficial for both sides; for employees – by giving them an opportunity to express their needs and concerns, and for us – to understand what is important to them, hence what should be important to us.

Health and safety

The safety of our employees is our top priority. To provide a safe workplace, all of our mills have an occupational health service, as well as rescue teams, trained to react in case of emergencies. Some of our employees are also part of the local fire brigade, and are therefore trained to respond to both internal and external incidents and accidents.

become a serious accident. The progress of each action plan is periodically monitored and reported to management. We are planning to create even more detailed analyses of all incidents – from risk observations to injuries.

We carefully analyse all health and safety incidents raised by our employees, conscious that if we do not react, they may bring serious consequences in the future. We therefore maintain a register of “near misses” and accidents, where all incidents are recorded and analysed. As a next step, we propose action plans to mitigate the risk that a near-miss could

Arctic Paper S.A. also encourages good habits; for example, in the Kostrzyn mill we offer a premium to our non-smoking employees, while in the Grycksbo and the Munkedal mills we have gyms available to employees, hence actively encouraging a healthy lifestyle. Additionally, our mill in Kostrzyn provides private medical and dental care for its employees, to encourage regular medical check-ups and timely medical attention.

Our target in this area is to create a zero-injury environment.

Key performance indicator	Target 2022	2017	2016
Number of lost time injuries (LTIR) per million working hours	<4	8.0	8.4

Today very few accidents are caused by equipment malfunctions. A significant risk factor is human behaviour, hence the focus of safety work is presently more and more oriented on creating a safety culture based on the basic idea of “think first, then do”. Risk assessment before any new machinery is put into operation or working method implemented is the most important tool for increased safety.

Employee well-being

The physical and mental well-being of our employees is of crucial importance to our company. We encourage dialogue with different stakeholders; with our employees through one-to-one conversations, and with trade unions through appropriate meetings. As the needs of our employees are evolving, we have decided to actively monitor and react to them, rather than create fixed boundaries for our actions in respect to well-being.

We recently piloted an employee satisfaction survey initiative in our company. The results of the survey were analysed in December 2017. The responses were aggregated into Engagement Capital, a score designed to give an overall measure of the amount of commitment, discretionary effort and intent to stay that employees exhibit. Questions in the survey fell into the categories of past, present, and future; the average of the three was the overall Engagement Capital score.

The survey demonstrated to us the need for better communication about our future and our employees' place in it. At the same time, when planning our next steps, we know we cannot forget about issues raised by our employees that affect their past and present. We are therefore working on creating a new strategy for the company. The strategy will describe the direction in which we want our business to go, and outline how we are planning to get there. Given that our employees are our most important capital, the strategy will take into account their place at the firm, their dedication and their growth.

We want our employees to become involved and actively participate in the implementation of the strategy.

Our plans include improving the performance culture at Arctic Paper. This means applying a broader approach in structuring the practice of performance conversations, and encouraging employees to set and evaluate the goals they set for themselves. This will help them to develop their skills and abilities, while at the same time helping us achieve the goals defined in the strategy. We believe that the synergy effect will positively impact the work environment and will bring tangible benefits to our business. As we have observed notable differences in responses across the company, we also recognise our managers have an important role in facilitating dialogue and communicating future opportunities. We are aiming to formulate a more detailed plan of action over the course of 2018, which we hope will address the points raised by our employees in the survey.

We would be thrilled to see the effects of our plans reflected in greater engagement with the survey and in survey responses in the coming years, demonstrating that our employees feel well-treated, proud of working for us and content with their work-life balance. Performing the surveys is an opportunity to see changes affecting Arctic Paper; based on the results of the 2017 survey, we set specific targets in terms of the response rate and well-being indicators, and aim to monitor them as our key performance Indicators in this area.

Key performance indicator	Target 2022	2017	2016
Employee survey response rate	65	52%	-
Overall engagement capital	55	42%	-

Beside the employee satisfaction survey, we want our employees to have another well-defined channel through which they can express what is important to them. We have already seen in the past that ongoing dialogue can lead to improvements in the well-being of our employees. Recently, our employees at the Munkedal mill suggested a change in the shift schedule; a change that was then swiftly implemented.

In addition, we hold two annual meetings of our representatives at the European Works Council in order to get even more insight and perspective into the needs of our employees. We aim to continue this practice in the years to come,

just as we are committed to maintaining a good relationship with trade unions.

Another factor influencing our company's development is the level of competency among our employees. We aim to strengthen our relationships with employees by providing opportunities for professional and personal development. The need for training and education is crucial and is defined and communicated in yearly performance conversations. We aim to implement a common corporate methodology and tools for developing our employees' skills and expertise in 2018.

Diversity and human rights

As explained in our Code of Conduct and our Corporate Social Responsibility policy, we do not accept any discrimination in our Business operations. Arctic Paper has not drafted a diversity policy; however, our Management Board has been striving to employ competent, creative people, holding appropriate qualifications, professional experience and education, who respond to the company's needs.

Arctic Paper S.A. sees diversity as a strength. It is a tool for new ideas, innovations, and to gain. We want Arctic Paper S.A to mirror the society in which it is operating, and we want to make sure we promote and integrate people of diverse backgrounds. Arctic Paper S.A chooses not to report specific quantitative targets in terms of diversity; instead, our target in this area is to keep employing those most suited, regardless of gender, sexual preferences, ethnic background, etc., for the positions we have open.

Key performance indicator (excluding employees of Rottneros AB)	2017		2016	
	Blue-collar employees	White-collar employees	Blue-collar employees	White-collar employees
Number of employees	811	420	806	421
Women	129	170	126	173
Men	682	250	680	248
Age < 30	92	17	90	20
Age 30-50	365	223	358	225
Age > 50	354	180	358	176

No major reorganisations have taken place during 2017, hence the overall manning structure is unchanged.

We remunerate employees according to their qualifications and the value they create for the company. The adjustment to local conditions necessitates the use of slightly different systems between our mills. Overall, our employees' remuneration depends on their results at work, the agreement between the Swedish Employers Association and the trade unions (applicable to Swedish operations), and the economic situation of the company (Polish operations). All conditions are documented and communicated accordingly. We also have a separate remuneration policy for the management at the group level.

We believe in equality of opportunity when it comes to development. Mill-level procedures are in place to guide our recruitment and remuneration processes. As an example, we make regular payroll overviews. Until now, these have been conducted every other year for the Swedish operations, yet as of 2017 they will be performed annually, as they are at our Polish operations.

Currently, all employee suggestions and concerns can be raised with mill managers. Particularly in the Kostrzyn mill, a committee made up of internal and external stakeholders is then used to evaluate the complaints. Additionally, the mill in Kostrzyn has an anonymous system in place, whereby

complaints and suggestions can be raised in a phone call directly with the CEO. The management is considering implementing a whistleblowing line that would be open to all employees, so that they can anonymously report deviations from the Code of Conduct and the Corporate Social Responsibility policy. We are proud that in 2017 none of our employees raised any concern over discrimination.

Overall, we are committed to protecting the human rights of our employees. At the same time, we know that this issue involves others involved in our Business Operations; this is better explained below in the "Responsible supply chain" section.

Diversity on the board

In our recruitment to the company board we do not apply gender and/or minority quotas. At any given moment, we search for the best professional know-how, respecting the principle of equal opportunity regardless of gender, age, nationality and sexual preference.

At present, since spring 2017 our Management Board is made up of a Chief Executive Officer and a Chief Financial Officer. These functions were entrusted to two specific persons, irrespective of their gender, on the basis of their professional background and experience. While we are interested in monitoring the diversity make-up of our management board as performance indicators, we do not plan to put in place a specific diversity policy regarding the board, as explained above.

Key performance indicator	2017	2016
Total count of Management Board	2	5
% of women on the Management Board	0%	20%
% of men on the Management Board	100%	80%



Business operations

Business operations

Management approach

Our business operations are based on well-established and trusted relationships with different stakeholders. Therefore, we need to ensure that all of our business operations are transparent – starting from sustainable sourcing, through the production and delivery of our products, to the communication of our results to external stakeholders.

Arctic Paper cooperates with a wide net of suppliers around the world. Those suppliers provide us with raw materials, chemicals, energy, logistics and other services that enable us to serve our customers. Aside from maintaining the sustainability of our own operations, it is crucial that we consider the

approach taken by our suppliers. We aim to choose suppliers who can and are willing to assure us that they respect our values with regards to People and the Environment. As we see this matter as material to our business, in 2017 we started preparation of our suppliers' code of conduct programme.

In addition, we want to be transparent and ethical in everything what we do. We established and follow a Code of Conduct and a Corporate Social Responsibility policy, however we are aware of the need to raise awareness of these topics among our employees.

Responsible supply chain

Arctic Paper is deeply integrated into the global value chain. We have over 200 suppliers of materials, 30 of whom cover more than 90% of the purchased value and are considered core suppliers.

To ensure that our core suppliers have a responsible approach to their business, we ask them to submit a specific written report. The report is meant to detail their environmental performance with regards to energy consumption, pollutants to air, water and raw materials – in particular wood. We also ask them for information as to whether a Code of Conduct and a Corporate Social Responsibility policy are in place. At the same time, we expect our suppliers to take note of our Code of Conduct and Corporate Social Responsibility policy. 75% of our core suppliers had signed the existing environmental declarations by the end of 2017.

If we believe that our partner does not comply with our ethical requirements, we aim to confront and challenge them to change their behaviour. In case we are not successful, we are prepared to stop the cooperation.

We want to follow a similar approach with regards to the rest of our suppliers. By the end of 2018, we aim to have established a Code of Conduct for Suppliers, extending both to

environmental and human rights matters. Such Code of Conduct would be attached to each contract above a certain threshold, and expected to be signed alongside the contract. Our aim for 2018 is to cover at least 60% of the purchased value with a signed Code of Conduct for Suppliers. Due to the nature of our business we put a lot of attention on our pulp suppliers, in particular. We additionally expect them to fulfil the demands of the FSC and PEFC certification, and hence be audited by a third party in relation to forest management.

We find it important to verify our pulp suppliers' statements, which is why products sent over by our suppliers are subject to a three-step verification procedure. First, we ask our suppliers to submit sheets with an environmental declaration, safety data sheets (following REACH) and technical parameters of their products. Second, we test small samples of the products in our laboratories, to see if they possess the stated properties. Third, we conduct mill trials to see how the products behave in the production environment. Similar procedures are used for other suppliers. We also perform yearly checks into the validity of certificates possessed by our suppliers. In this way, we are able to certify the quality of our products. In this spirit, we are also planning to perform audits of our suppliers, to confirm their compliance with the planned Code of Conduct for Suppliers.

Key performance indicator	Target 2022	2017	2016
Share of core suppliers providing existing signed environmental declarations	80	75	56
Share of core suppliers who signed the Code of Conduct for Suppliers	80	n.a.	n.a.
Numbers of suppliers who are subject to audits performed by Arctic Paper to confirm compliance with the Code of Conduct for Suppliers	10	n.a.	n.a.
Share of pulp suppliers who are PEFC and/or FSC certified	100%	100%	100%

The present system where environmental declarations are demanded from core suppliers will, during 2018, be complemented by demanding the signing of a code of conduct by the supplier.

Transportation

When deciding on which companies we can entrust with transporting our products, we announce bids for particular routes. Factors we take into consideration when deciding on transportation services are: the quality of the documentation provided, the price offered and the impact a given transport operator has on the Environment.

Transport operations cause noise, emissions to air and consumption of fuels (mainly fossil fuels). Truck engines are divided into various EURO classes, in which higher figures represent engines with lower emissions, especially of nitrogen oxides and carbon monoxide. We keep track of transportation statistics, which cover transport of ready goods from our mills to their places of destination. We are focused on increasing the percentage shares of operations of EURO 5 and EURO 6 classes.

Key performance indicator	Target 2022	2017	2016
Share of Euro 3 engine class	0%	3%	3%
Share of Euro 4 engine class	5%	11%	13%
Share of Euro 5 engine class	50%	53%	50%
Share of Euro 6 engine class	45%	34%	34%

The large transportation companies that are our main supplier of transportation services are focused on high transportation efficiency combined with an environmental profile, hence they are continuously renewing their vehicle fleet moving the density point towards the higher EURO classes.

Business ethics

We value transparency in internal and external relations, as any unethical behaviour may expose us to risk of reputational damage and financial loss. Our Code of Conduct contains clear guidelines regarding the business behaviour of our employees, including a no-tolerance approach towards bribes, corruption and other unethical acts.

We are aware of the fact that our sales offices, and purchasing and logistics departments are those where the risk of corruption and bribery exposure is most significant. Our approach to anti-corruption measures in these areas is structurally embedded in our processes.

We have a 7-step approach to procurement, which limits the space for abuse. First, we divide item purchases into sourcing groups. Then, we gather information about the sourcing groups and the market. In the next steps, we create a portfolio of potential suppliers and choose a strategy for each sourcing group. We then negotiate with a selection of suppliers, and integrate further with our chosen suppliers. Lastly, we perform continuous monitoring of the procurement market to make sure our contracts remain competitive. All decisions made during this process are never dependent on one person, which reduces the risk for bribery or corruption. For large investment projects, decisions regarding investment purchases are made by a dedicated committee, and we are debating extending this practice to other large purchases.

The matter of purchasing in the logistics department looks similar.

When it comes to sales, we have set price lists approved by our management, then communicated to members of our sales teams. Bonuses to members of the sales team are not tied exclusively to their individual sales performance, but also to the overall financial performance of the company. We offer bonuses to our clients on a half-yearly and yearly basis; however, these are linked to sales volumes, e.g., through sales volume brackets, which are strictly monitored. Arctic Paper does not offer other bonuses (for example in kind) to clients.

We understand that business ethics is very much a matter of awareness. A part of the induction programme for new employees at our mill in Kostrzyn covers the area of business ethics. This includes topics such as laws and regulations, anti-bribery and anti-corruption measures, human rights and environmental responsibility.

In 2018, Arctic Paper aims to expand the programme to cover all units within the group. In order for our programme to reach as many employees as possible, we are also planning to organise training for those already employed at the company. Hence, our key performance indicator in this respect is the number of our employees who attended such training. We also aim for our employees to sign declarations that they have familiarised themselves with our Code of Conduct. We are planning to have specialised training for those employed in procurement, logistics and sales, the three areas in which we consider the risk of abuses to be the largest; a more basic, yet comprehensive training would be offered to other employees.

Key performance indicator	Target 2022	2017	2016
Number of employees who participated in the Business ethics training programme (during the year and in total)	1000 ¹⁾	34 (419 ¹⁾)	22 (419 ¹⁾)

1) Accumulated figure

The difference between 2016 and 2017 is explained by a larger number of new employees.

The high target for 2022 will be reached by implementing a training programme for business ethics in all operations within Arctic Paper. In order to speed up the process the intention is to have a training programme in place not only for new employees, but also for co-workers who have been with the company for a long time.

Complaints

Another aspect of maintaining the integrity of our operations is ensuring that our customers are satisfied with the way we carry out business and with the products we provide them. For this reason, we carefully monitor all customer complaints.

We categorise and evaluate all complaints submitted. This is done by our sales teams and by management, when appropriate. We make sure that every complaint is addressed and resolved. Our target is to minimise the value of complaints, yet we are aware of the fact that not all complaints submitted to us are substantiated.

Key performance indicator	Target 2022	2017	2016
Value of complaints as share of sales revenue	0.5	0.61	0.58
Sales revenue (in PLN)		2,247,973	2,296,869

To meet the negative trend there are actions taken in order to diminishing the risk of complaints. For example, new web inspection systems (high speed, high resolution cameras) were installed during the second half of 2017 in the mills in Munkedal and Kostrzyn. These systems will be a helpful to tool in further improving the delivered quality.

Legal and regulatory compliance

Due to fact, that Arctic Paper S.A. is a stock listed company, we are obligated to follow the principles set forth in the "Good Practice of GPW Listed Companies 2016". Overall, we aim to comply with all applicable laws and regulations in the European Union countries where we operate. A large part of them is uniform across the Union, although we are vigilant about any differences. Legal and regulatory compliance is a business necessity, but also a way for us to ensure the sustainability of our operations.

We monitor the number of open legal cases where Arctic Paper was found guilty of a breach of law or regulations. We separate them into business and non-business related, as well as into fines bigger and smaller than 2 million PLN. With regards to legal and regulatory compliance, our target is to minimise our risk of being sued.

Key performance indicator	2017		2016	
	Fine bigger than 2 million PLN	Fine smaller than 2 million PLN	Fine bigger than 2 million PLN	Fine smaller than 2 million PLN
Total number of open legal cases				
Business-related	0	0	0	0
Non-business related	0	0	0	0

Transparency

Apart from transparency in internal and external relations, we value constant and transparent communication with our stakeholders, as explained in our Corporate Social Responsibility policy. We understand that different topics have varying degrees of importance to our stakeholders. This is why we use different channels to communicate our actions.

A commonly used communication channel is our Investors Relation mailbox. Upon receiving a query, the message is forwarded to the person most competent to answer it.

At the moment, this only covers the area of investor relations, yet we aim for there to be a centralised inbox for all queries.

Below we include a matrix explaining how different communication channels are used to communicate issues regarding our material themes to different stakeholders. In addition, we are also hoping to use this Sustainability Report to increase the transparency of our operations and inform our stakeholders about our sustainability approach.

	Customers	Employees	Suppliers	Shareholders
Environment	<ul style="list-style-type: none"> › EMAS report › “Paper Profiles” on our website › Environmental policy 	<ul style="list-style-type: none"> › EMAS report 	<ul style="list-style-type: none"> › EMAS report › Code of Conduct and Corporate Social Responsibility policy › “Paper Profiles” on our website 	<ul style="list-style-type: none"> › EMAS report › “Paper Profiles” on our website › Environmental policy
People	<ul style="list-style-type: none"> › Direct communication through sales offices › Code of Conduct and Corporate Social Responsibility policy 	<ul style="list-style-type: none"> › Intranet, widely accessible to all employees › Meetings, both one-on-one and in groups › Training and education 	<ul style="list-style-type: none"> › Direct communication through purchasing departments › Code of Conduct and Corporate Social Responsibility policy 	<ul style="list-style-type: none"> › Our Code of Conduct and Corporate Social Responsibility policy
Business operations	<ul style="list-style-type: none"> › Direct communication through sales offices › Press releases › Meetings 			<ul style="list-style-type: none"> › Periodical and annual reports › Annual meetings › Press releases › Code of Conduct and Corporate Social Responsibility policy

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