

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

Corporate Social Responsibility Report

2020



ARCTIC PAPER

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MANAGEMENT FOREWORD

Persistent sustainability work in a time of uncertainty

Arctic Paper has a longstanding commitment to sustainability. We are committed to creating products and processes that are safe for people, healthy for the environment and successful for our business.

When dealing with uncertainty and volatility, an agile business and strong culture are key factors. Since the outbreak of the pandemic, we have closely monitored the Public Health challenges and set up several measures in place to ensure safety of our staff, our partners and customers.

Even though COVID-19 has challenged us, our efforts for the environment have not stopped. This year, the factory in Munkedal - as the first in the world - received the Cradle to Cradle Certified™ certificate for all types of paper produced. This certification is an internationally recognized standard for safe, recyclable and circular economy products, and we are taking further steps to obtain this certification for all our plants.

Renewable energy is the foundation for sustainable paper production. In 2020, Arctic Paper Munkedals completed an investment to increase the capacity of a hydroelectric power plant from 2 to 6 MW and obtained a permit to build a biomass heating plant, which will meet up to 80 percent of the plant's energy needs. In Arctic Paper Kostrzyn, Poland, a pilot investment in photovoltaic cells is underway, while the mill in Grycksbo is already supplied with renewable energy from the existing pellet heating plant.

The paper industry is undergoing rapid change and the role of pulp and paper is broadened, especially in the global trend of replacing plastic packaging. The pandemic has made health a priority and to meet changing needs, Arctic Paper continuously strives to develop new and innovative grades and products.

Thanks to extensive efforts, 2020 turned out better than expected and I am proud of the steps Arctic Paper has taken to a sustainable economy during the year. Together, we will continue to develop our business and create value with customer-driven innovation that drives the transition to a circular economy.

Michał Jarczyński
CEO, 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). We produce 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, advertising industry and packaging producers.

As of 31 December 2020, Arctic Paper employs about 1,200 people. Our business activities are based on the operations of three mills:

The Paper Mill in Kostrzyn nad Odrą (Poland)

The mill has a production capacity of about 315,000 tonnes of paper per year and mainly produces uncoated wood-free paper for printing books, brochures and forms, and for producing envelopes and other paper products.

The Paper Mill in Munkedal (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.

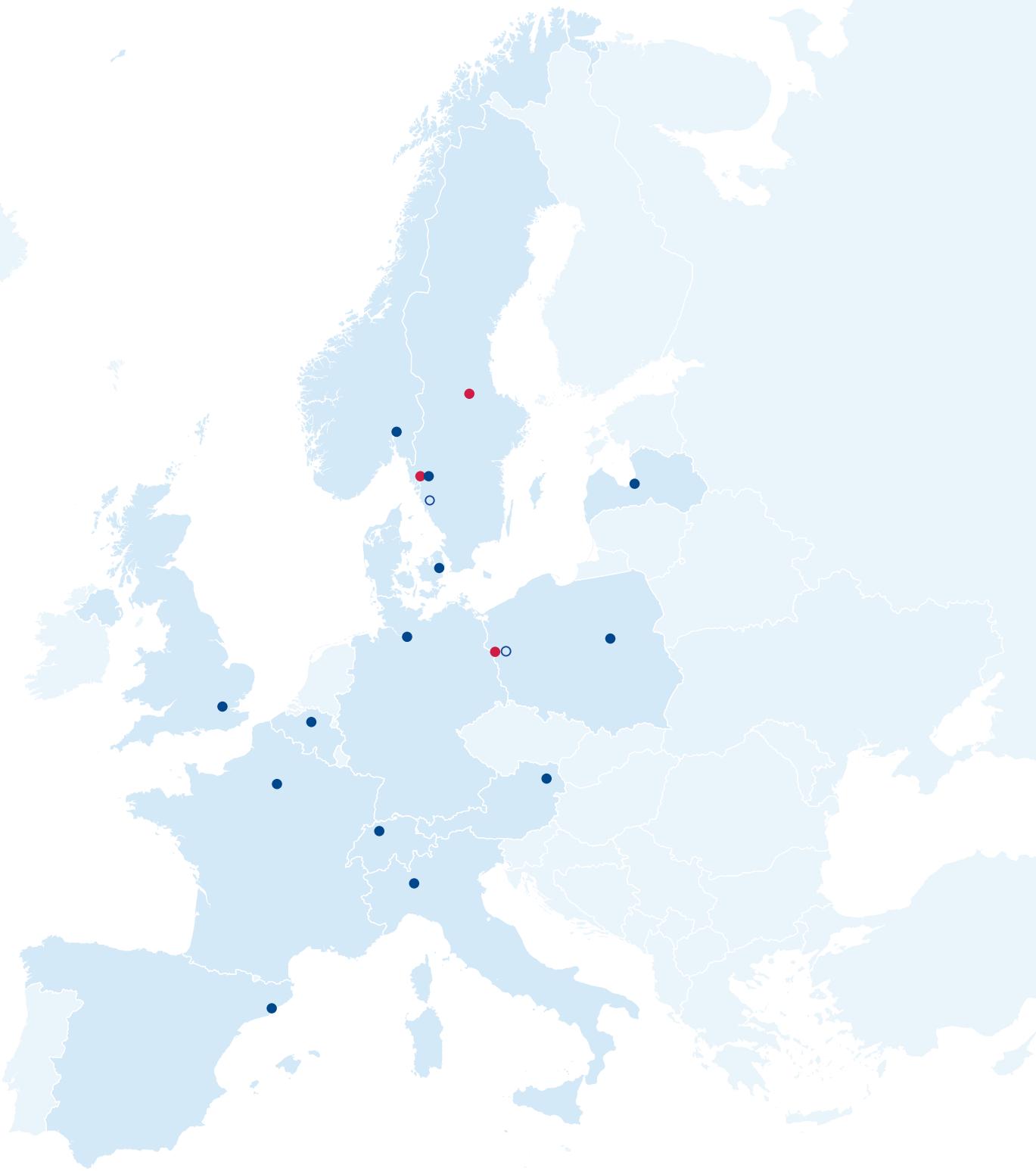
The Paper Mill in Grycksbo (Sweden)

The mill has a production capacity of about 220,000 tonnes per year and produces coated wood-free paper used for printing maps, books, magazines, posters and advertising materials.

We manage sales organisations across Europe, which support our activities and contacts with customers. The company is registered in Kostrzyn nad Odra (Poland) with a branch in Gothenburg (Sweden).

Arctic Paper S.A is also a majority owner (in possession of 51.0 % of the shares by the 31 December 2020) 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 about 440,000 tonnes of pulp annually. Arctic Paper S.A. 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 2020, the data for Rottneros is not available in the format reported by Arctic Paper S.A., but sustainability impact and performance will be reported in the separate report of the subsidiary.



○ Head Offices

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

● Mills

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

Our Heritage and Values

Arctic Paper is a company based on Swedish roots.

We have been manufacturing paper with craft and dedication since 1740. Today we run some of the most eco-friendly mills worldwide and are constantly improving our sourcing, production, sale and energy management.

Our reputation in the high-quality graphic paper market is built on a long tradition of outstanding works with the help of our brands executed by the most demanding customers who value the proven quality of our products.

We are clear, open-minded and follow a long-term plan in the way we act, think and appear. We are sensitive towards nature and positive towards the future. We protect natural resources and constantly create a sound balance between people, production and regions. We run our business in a stable, long-term and trustworthy manner. We are a forerunner in the protection of nature and the development of new products for core markets as well as for new markets and segments. We offer distinctive products and services built on inventiveness and reliable quality, crafted for the most demanding creative ideas and new technologies.

Our brands

We are one of the leading European producers of premium graphic paper products and services for the most demanding creatives and technologies valuing freshness as well as the superior, reliable and eco-friendly quality of our paper brands.

We are known for new solutions and products and the continuous extension of our product ranges in-step with the latest developments within printing technology.

Key Brands:

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's 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, specially developed for colour- and monochrome-printing of books.

The graphical paper market consists of two segments: wood-free fine paper and wood-based paper, both divided into the sub-segments uncoated and coated paper.

Our mills in Munkedal and Kostrzyn produce uncoated wood-free and wood-based paper, while the mill in Grycksbo produces coated wood-free paper.

Coated wood-free paper, in particular:

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

Kraft paper:

- During 2020 kraft paper portfolio manufactured in Munkedal and Kostrzyn has established on chosen markets and segments. The combined offer from the two mills is covering a grammage range from 38 g/m² to 150 g/m² in two shades. Kraft paper is also offered in wet strength version which is more suitable for production of shopping bags and other applications where there is a risk that the paper will be exposed to water.



Our brands and circular economy

Full product range of Munken papers produced by Arctic Paper Munkedal and Amber Graphic and Munken Kraft produced by Arctic Paper Kostrzyn were awarded a Silver Material Health Certificate by the Cradle to Cradle Products Innovation Institute

The Cradle to Cradle Certified™ Material Health Assessment Methodology is a contextual assessment based on chemical hazard identification and qualitative exposure considerations during a product's manufacture, use, and end-of-use. It means that products are made using chemicals that are as safe as possible for humans and the environment by leading designers and product developers.

Our brands and art industry

At Arctic Paper, we learn from students and students learn from working with us. The Munken Agenda is an annual unique design project, that started in 1996. For over a decade, Arctic Paper has collaborated with different European Design Universities creating an artistic platform for exchanging our passion for providing high-quality products with an eco-friendly and sustainable footprint with creativity and conceptual ideas of artists and designers. For 2019, the creative idea and concept for the Agenda were created by five graphic design students from NABA (Nuova Accademia Belle Arti) in Milan, Italy. Munken Agenda is perceived as an interesting design reference by art directors, designers and agencies around Europe and the world. In 2019, the concept was created by graphic design students from École Estienne in Paris, France followed by Universities in London, England in 2020.

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

Inputs

- | | | | |
|---------------------------------|--|----------------------|----------------------|
| — Human capital: | — Manufacturing capital: | — Natural capital: | — Financial capital: |
| › 1,200 employees around Europe | › One mill in Poland and two mills in Sweden | › Pulp | › Cash |
| | › Total production capacity of over 700,000 tons of paper per year | › Pigments | |
| | | › Chemical additives | |
| | | › Water | |
| | | › Energy | |

Business activities

- | | | | | |
|---|---|--|---------------------------------------|---------------------------------|
| — Purchasing: | — Innovation: | — Production: | — Sales: | — Transportation and logistics: |
| › Sustainable and ethical sourcing | › Eco-friendly products and efficient processes | › Responsibility for the health and safety of employees, the environment and product quality | › Compliance with the Code of Conduct | › Sustainability in delivery |
| › Compliance with the Code of Conduct for Suppliers | | | | |

Outputs

- | | | | |
|---|--|----------------------------------|---|
| — Recyclable and degradable products: | — Service offer: | — Emissions and waste: | — Energy: |
| › Sheets and reels | › Availability of standard products | › Affecting air, water, and land | › The mill in Kostrzyn sells heat and electricity |
| › Coated and uncoated, wood-free and wood-based paper | › Producing on demand (adjustable time frame, quality, quantity) | | |
| | › Delivery | | |
| | › Product specific training for customers and suppliers | | |

Results

- | | | | |
|---------------------------|---|--|-------------------------------|
| — Customer: | — Employees: | — Society: | — Financers and shareholders: |
| › Customer satisfaction | › Stable employment and safe working conditions | › Taxes from employees and company | › Interest and dividends |
| › Brand loyalty | › Few accidents | › Provision of local employment | |
| › Few customer complaints | › Good relationship with trade unions | › Participation in and support for local initiatives | |
| | › Low employee turnover | | |

A photograph of a forest scene. In the foreground, there are branches of a tree with bright yellow, star-shaped flowers or leaves. Behind them, several tall evergreen trees stand in a dense line. The sky is overcast and grey.

Materiality assessment

Key Aspects

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.

Our three key sustainability aspects – the Environment, People and Business Operations – have been chosen based on a materiality assessment that was carried out in 2017. To identify areas where Arctic Paper can have a significant impact, we engaged with both external and internal stakeholders, making use of both survey data and interviews. We constantly review and validate internally the list of material aspects, from which we arrived at our materiality mix. The materiality mix conti-

nues to be the basis of Arctic Paper's sustainability work and reporting structure.

At the end of 2020, we have invited our main stakeholders including our employees, customers, suppliers and other external partners to participate in CSR Survey and to share their opinion and recommendations regarding our future CSR activities and areas of engagement. Their opinions help us to decide which aspects of our responsibility should be our priority for the future. We will deeply investigate and analyze the results of the survey and feedback from our stakeholders.

The results of the stakeholder survey and management valua-

Key aspects

Environment

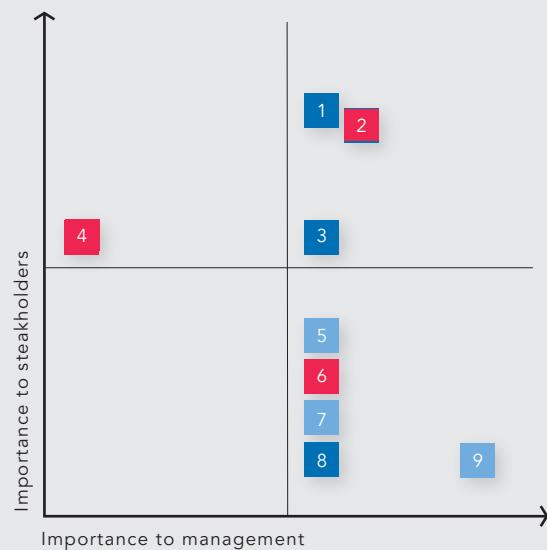
- 2 – Energy and climate change
- 4 – Waste
- 6 – Water

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

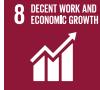


tion of sustainability factors is shown in condensed form in the materiality matrix below.

	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 wellbeing 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 › Following the Arctic Paper Code of Conduct for suppliers
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 	<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 the 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 six SDGs that we find are the most relevant to our operations and to which Arctic Paper can best contribute.

Theme	SDG focus area	Impact on Arctic Paper core operations	Impact on Arctic Paper value chain	What Arctic Paper is doing?
People	 3 GOOD HEALTH AND WELL-BEING	✓	✓	<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
	 8 DECENT WORK AND ECONOMIC GROWTH	✓	✓	
Environment	 6 CLEAN WATER AND SANITATION	✓		<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 › All mills are ISO14001 certified and fulfil EU EMAS regulations › Measurement and monitoring of waste management indicators
	 13 CLIMATE ACTION	✓	✓	
	 15 LIFE ON LAND	✓	✓	
Business operations	 12 RESPONSIBLE CONSUMPTION AND PRODUCTION	✓		<ul style="list-style-type: none"> › Responsible supply chain practices › Strong focus on measuring and minimising the environmental impact of our business operations



Key business performance indicators

Key business performance indicators

Arctic Paper's approach to corporate responsibility is centred on the sustainability of operations, in particular concerning the mills. We have therefore established a set of key business performance indicators, which are periodically measured and reported 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.

In 2021, Arctic Paper is going to review main key business performance and set new targets for longer time perspective.

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	2020	2019	2018	2017	2016
Total net energy consumption (MWh/tonne of paper)	1.9	2.2	2.0	2.1	2.0	2.2
Whereof from internal energy production based on renewable sources* (MWh/tonne of paper)	0.8	0.16	0.4			
Tonnes of paper produced	695,000	587,364	601,564	639,073	658,645	654,821

*Energy sold to external partners not included. Target of 2022 and figures for 2016 - 2020 are recalculated by including purchased heat.

**Biomass and hydropower

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. Our aim is to be sourced by responsible and sustainable pulp suppliers who possess FSC® and/or PEFC™ certifications

Business performance indicator	Target 2022	2020	2019	2018	2017	2016
Share of pulp suppliers who are FSC and/or PEFC certified	100%	100%	100%	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 identified 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. There was a small decrease of accidents during 2020 and compared to previous year.

Business performance indicator	Target 2022	2020	2019	2018	2017	2016
Lost time injuries per million work hours	<4	6.3	7.8	8.5	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 our products. All complaints are carefully categorised and evaluated by our sales team and management. We aim to minimise the cost of claims, keeping in mind that not all complaints may be substantiated. The high increase in sales revenues is mainly due to price increases triggered by the fast and big price increases on the major raw material, pulp.

Business performance indicator	Target 2022	2020	2019	2018	2017	2016
Value of complaints as share (%) of sales revenue	0.50	0.48	0.47	0.58	0.61	0.58
Sales revenue (in MPLN)	-	2,016	2,309	2,293	2,247	2,296

Principal risks and their management

Principal risks and their management

In order to sustainably create value over the short and long-term, we need to periodically identify, analyse and mitigate the risks facing our organisation. In our business model we have to take into consideration a number of risks, dependencies and opportunities in the whole value chain from raw material to transportation of our products to the customers. Increasingly important is to value the risks and opportunities related to climate. Since 2019 we have expanded our report by reporting CO₂ emissions not only from our own mills but also from our major suppliers of raw materials, energy and transportation companies. We have also described the potential risks connected to climate change. Climate change also offers an opportunity for our company in that we can be part of the solution by offering products manufactured from renewable sources that can substitute for products based on fossil-fuel sources.

In 2020 COVID-19 pandemic became a major public health emergency and creates a new kind of global risk factor for the business environment around the world. Everyone needs to assess and manage the risks of COVID-19, and in particular, businesses should consider the risks to their employees and contractors. As an employer, Arctic Paper also has a legal responsibility to protect our employees from risk to their health and safety. We also need to make the effort to assess and manage the risks of COVID-19 as a possible serious threat to our daily business operations which may have a significant impact on the financial condition of the Arctic Paper Group currently and in the future.

Our principal risks are explained in the table below, together with 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 and climate	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
	Climate change can have an impact on the physical conditions for production	<ul style="list-style-type: none"> › Disruptions in operations due to: › Drought › Flooding › Landslide › Malfunction in electrical equipment › Reputational damage › Raw material sourcing › Energy sourcing 	<ul style="list-style-type: none"> › Reducing water consumption › Increasing water by-pass capacity › Improving drainage › Plans for supply allocation › Increasing of cooling capacity for sensitive electric equipment › Allocation of raw materials to core products and markets › Reducing specific energy consumption › Investing in renewable energy sources
People	Lack of competent employees (e.g., due to competition or difficulties in finding new employees to replace an ageing 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 and ethical 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 the 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 and Business operations	Limited visibility over suppliers and their human rights practices	<ul style="list-style-type: none"> › Disruptions in operations › Reputational damage › Financial loss 	<ul style="list-style-type: none"> › Scrutiny over actions of suppliers in the form of signed declarations › Implementation Code of Conduct for Suppliers
	Global pandemic		<ul style="list-style-type: none"> › Implementation of policies, building an awareness and routines among the entire organization in order to protect our employees and the operations
Environment and Business Operations	Shortage of pulp on the market, inability to buy certified pulp	<ul style="list-style-type: none"> › Disruptions in operations › Financial loss › Loss of customer credibility 	<ul style="list-style-type: none"> › Careful monitoring of the market › Building long-term relationships with qualified suppliers
	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, seeking new energy investments
	Poor weather conditions (e.g. flooding) (see also "climate")		<ul style="list-style-type: none"> › Continuity plans developed for mills
	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 › Reputational damage › Raw material sourcing › Energy sourcing 	<ul style="list-style-type: none"> › Careful monitoring of world affairs of the global business environment › Building long-term relationships with qualified suppliers
	Risk due to climate change		



Environment and Climate

Environment and Climate

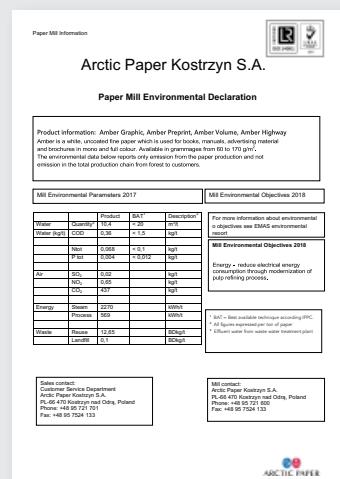
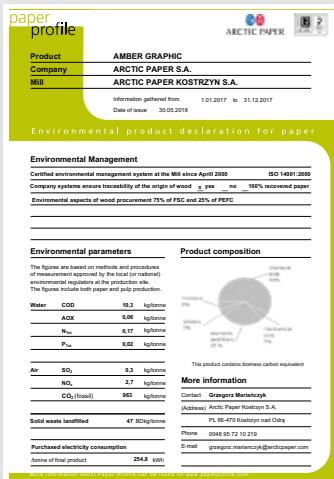
Management approach

Arctic Paper has a long-standing and pioneering commitment to environmental and social 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 at each stage of the paper production cycle. In addition to complying with environmental laws and regulations, we want to make sure that we work together with our major stakeholders to understand the forces driving sustainability within our industry. 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". Importantly, each Paper Profile documents the environmental impact across the whole supply chain, as our business operations are highly reliant on our suppliers.

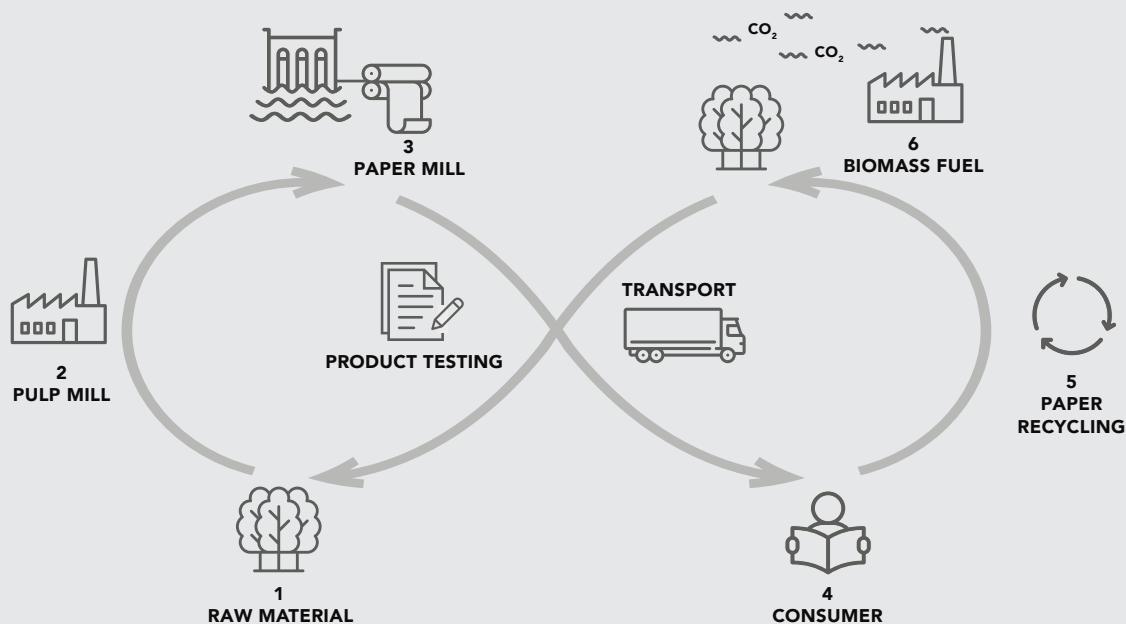


A sustainable circular production system

Arctic Paper is part of an industry that is to a large extent based on renewable wood from rationally managed forest. We are proud of being part of a sustainable circular production system. This means that resources are used, reused and recycled with little or no waste. In our case, the circular system starts with a renewable wood raw material.

A circular sustainable system

The base in the circular system is the ever growing forest and the renewable raw material that is fetched therefrom.



1 RAW MATERIAL Arctic Paper only buys pulp based on raw material from sustainably managed forests. This is ensured by the FSC and PFSC certifications. Pulp wood is a renewable raw material that comes from thinning and felling.

2 PULP MILL Arctic Paper purchases pulp from various suppliers and owns 51% of the Swedish pulp manufacturer Rottneros AB, with two ISO 14001 certified mills. Rottneros has its own sustainability report at www.rottneros.com

3 PAPER MILL Arctic Paper's three paper mills are ISO 14000 and EMAS certified. To minimize CO₂ emissions, Arctic Paper invests in sustainable energy. Grycksbo has a completely fossil-free energy solution. In Munkedal, similar investments are being made in a biomass boiler, and hydropower is expanded from 12 to 24 GWh.

4 CONSUMER Arctic Paper is a premium manufacturer of graphic paper and kraft paper. For customers, renewable, circular and recyclable raw material as well as sustainable production are important factors in the choice of supplier.

5 PAPER RECYCLING All Arctic Paper's products are recyclable and part of a circular system. A large part of all packaging as well as graphic paper is recycled and reused, for example, for the production of newsprint and tissue.

6 BIOMASS FUEL The by products from the pulp and paper mills, such as logging residue, tall oil and bark, are further refined into biomass fuels. The combustion of biomass fuel emits carbon dioxide, which the growing forests reabsorbs from the air as a step of the photosynthesis cycle.

Policies and procedures

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.

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 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-registered, which means that they fulfil additional requirements, beyond ISO 14001. Among others, these include stricter rules on how to measure and

evaluate environmental performance. The certification also means that we need to present detailed information on our environmental performance in EMAS reports, 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 a 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.



We extensively train our employees on PEFC™ and FSC® product origin control systems. Our training is based on NEPCon materials (NEPCon is a non-profit organisation that supports better land management and business practices that benefit people, nature and the climate). We assess specific risks including unclear ownership structures and risk of bribery.

Arctic Paper is aware of the environmental regulations affecting our industry, and we carefully monitor the regulatory environment in Poland and Sweden, as well as at the European Union level. Apart from legal requirements, we are also interested in best practices within 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 within the industry.

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

Energy

Climate change requires a revision of the entire industry's social and economic attitude. As a company which is committed to environmental and social sustainability, we are focused on seeking new possibilities to improve our business activities and production processes by implementing new energy sources and increasing our energy efficiency.

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

Our goal is to reduce the amount of energy required at every stage of our production process. Energy efficiency is of the highest importance for the paper production cycle. We run projects for increasing the fraction of renewable energy sources used for our plants. Our energetic projects and programmes can help us to reduce greenhouse gas emissions, decrease demand for energy imports and drive down production costs.

Each year we initiate various types of energy efficiency programme at all three of our mills with the aim of reducing their environmental impact. We optimize and trim all installations and machinery and continuously evaluate our processes to identify future investments.

From an energy perspective 2020 year was difficult as the market, due to the COVID-19 pandemic, has been unpredictable giving a high frequency of market related stops in our production process. During starts and stops of the machines an energy consumption level increase significantly without any saleable production. Beside the frequent starts and stops, shorter orders flow also meant that produced grades of paper

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	2020	2019	2018	2017	2016
Total net specific energy consumption (MWh/tonne of paper)	2.2	2.2	2.3	2.4	2.3	2.4
Total production of paper (in tonnes)	695,000	587,364	601,564	639,073	658,645	654,000

Emissions

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. Emissions carry an environmental cost, and they can also be associated with considerable financial, legal and commercial costs for our business.

We have been dedicated to reducing emissions for several years. Historically, the most important step in reducing CO₂ emissions was made in Kostrzyn in 2007, when the coal boiler was replaced by modern natural gas boiler equipped with gas turbines and counter-pressure steam turbines, and in Grycksbo in 2008, when a significant investment in a biomass boiler was made, making the steam generation process at the mill fossil-free.

Below we present our greenhouse gas emissions levels based on Greenhouse Gas Protocol (GHG Protocol) accounting and reporting standards to measure, quantify and manage greenhouse gas emissions.

The GHG Protocol Corporate Standard classifies a company's GHG emissions into three 'scopes'.

Scope 1: direct emissions from sources owned or controlled by the company.

Scope 2: indirect emissions from the generation of purchased electricity consumed by the company.

Scope 3: all other indirect emissions (not included in scope 2). This includes emissions that occur in the value chain of the reporting company, including both upstream and downstream emissions, which occur from sources not owned or controlled by the company. We have divided this group into two sections, in relation to the most relevant participants of our supply chain – suppliers of raw materials (including pulp, filler coating pigment totally covering >90% of purchased raw material value) and transportation companies.

Figures of direct CO₂ emissions of 2016-2020 has been recalculated and the contribution from externally sold energy has been deducted. CO₂ contribution from externally sold energy is presented in next table.

Key performance indicator (kg CO ₂ /tonne of paper)	Target 2022	2020	2019	2018	2017	2016
Direct CO ₂ emissions	240	221	253	255	244	236
Indirect specific CO ₂ emissions from external electricity suppliers ¹	-	10	9			
Indirect specific CO ₂ emissions from our major supplier of raw material ²	70	73	73			
Indirect specific CO ₂ emissions from our transporters ³	35	35	36			
Total Indirect specific CO ₂ emissions	115	118	118			
Total specific CO ₂ emissions	-	385	415			
Total production of paper (in tonnes)	695,000	587,364	601,564	639,073	658,645	654,821

1. Figures describing the average CO₂ load for the national grid in Poland and Sweden .

2. Covering >90% of the purchased raw materials (calculated as purchase value).

3. Figure based on average delivery points in Europe.

CO_2 contribution from energy sold (heat and electricity) to external consumers.

	2020	2019	2018	2017	2016
Exported energy (GWh/year)	118	109	104	109	176
Tonne CO_2 per GWh	228	228	228	228	228
Tonne CO_2 per year	26,809	24,948	23,800	24,948	40,161

During 2020 the availability of electricity in Sweden was on a high level due to good conditions in the water reservoirs, hence a significant portion of natural gas was substituted by electricity in the Munkedal mill giving significant reduction of direct CO_2 emissions. On the other hand, for the same reason, there is a small increase of an indirect emissions from electricity suppliers.

It should be noted that the CO_2 figures from our external sources are based on the most recent available data. In most cases, we used data from 2019 as not all of our external partners were able to provide us with 2020 data at the date of publication of this report.

CASE:

Products produced at Arctic Paper Munkedals AB awarded by Cradle to Cradle Certified™ Products Program

On June 24th 2020 the entire range of products produced by our mill in Munkedal has been certified by the Cradle to Cradle Products Innovation Institute (C2CPII) with an overall certification at the Bronze level.

The Cradle to Cradle Certified™ Product Standard is a globally recognized standard for safe, circular and sustainable products made for the circular economy. Achieving a C2C Certified™ certification means not only to minimise negative impacts influences but to leave a positive footprint. This creates products and processes that are safe for people, healthy for the environment and successful for business.

During 2020, the entire production process of the mill in Munkedal was inspected by EPEA GmbH, innovation partner and C2C Certified™ Assessment Body, and certified according to the C2C Certified™ Products Standard. Development opportunities were outlined and now will be implemented in the medium and long term perspective so we can thrive on even better results in the future.

To receive certification, products are assessed for environmental and social performance across five critical sustainability categories: material health, material reutilization, renewable energy and carbon management, water stewardship, and social fairness.

The certification requires a renewal every two years.

Additionally, a full product range of Munken papers produced by Arctic Paper Munkedal and Amber Graphic and Munken Kraft produced by Arctic Paper Kostrzyn was awarded a Silver Material Health Certificate by the C2CPII.

The C2C Certified™ Product Standard corresponds also to UN Sustainable Development Goals (SDGs) which constitute our core values of sustainable and environmentally and socially committed operations of Arctic Paper. For more information about our contribution to the Sustainable Development Goals please check page no.10 of this report.



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 a soil improver or raw material for coverage of historically polluted areas such as old deposits.

We carefully monitor the quality of our water outputs; most notably we focus on Chemical Oxygen Demand (COD). Most "COD" indicates the effect the discharge water will have on the receiving environment; in our case the three rivers Warta, Munkedalsälven and Grycken. It measures organic compounds which consume oxygen during decompositions; very high levels of oxidizable organic material may be detrimental to aquatic life forms. As good practise, we also monitor the quality of our water inputs, exceeding the requirements set by regulators.

We have implemented a programme to reduce our emissions to water at our mill in Munkedal. Part of the programme was

the installation of a separate water purification system for the power supply station in 2017, in order to improve our opportunities for water recycling.

The decrease of COD level is mainly a consequence of better operation conditions in our Kostrzyn mill. In 2018, a modernisation of the vacuum system was conducted, replacing old water ring vacuum pumps with turbofans, which have had important water-saving properties.

Our mill in Grycksbo has participated in a project organised by the Swedish Forest Industries Federation regarding environmental impact of old sediments. The main objective of this project was to improve the current monitoring programs in order to be able to evaluate the impact and ecological significance of sludge emissions. In order to assess the degree of environmental impact, a selected group of fish - perches - was tested. Using fish for environmental impact studies is a method that has been used for decades by the Swedish environmental monitoring system. One of the goals of the project was also to collect historical data and compare it with current data. In addition, the harvested fish were used to assess their health and reproductive capacity, and to develop a standardized procedure for this that could be included as part of future environmental monitoring programs.

Key performance indicator	Target 2022	2020	2019	2018	2017	2016
Specific water consumption (m ³ /tonne of paper)	7.0	8.6	8.3	7.9	7.5	7.6
COD (kg/tonne of paper)	0.42	0.48	0.46	0.48	0.45	0.43
Total production of paper (in tonnes)	695,000	587,364	601,564	639,073	658,645	654,821

Due to the COVID-19 pandemic the production stops frequency and change of the grades produced has been much higher than usual. Unfavorable production conditions caused by the changing market situation had a large impact on the unit level of water consumption. As the central functions in our effluent treatment plants are based on biological degradation of pollutants, even operation conditions are important for optimal function. Due to many starts and stops of production and grade changes, working conditions for the effluent treatment plants has been less favourable during 2020.

The specific water consumption in Munkedal since 2019 has increased as a consequence of the ongoing construction of a new hydropower plant in Munkedal. During the construction, a recirculation pipe for effluent water to in-going fresh water has been dismantled. The new hydropower plant was taken in to operation by the end of December 2020 and since then the situation, from this perspective, is normalised.

Waste

Most of the waste emanating from our plants is sorted and sent to 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 reported 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	2020	2019	2018	2017	2016
Recycling or energy extraction (kg/tonne of paper)	11	11.3	9.7	8.7	12.8	11.5
Hazardous (kg/tonne of paper)	0.2	0.46	0.2	0.3	0.2	0.4
Landfill (kg/tonne of paper)	0.4	0.2	0.2	0.2	0.4	0.4
Total production of paper (in tonnes)	695,000	587,364	601,564	639,073	658,645	654,821

People



People

Arctic Paper COVID-19 health and safety commitment

Arctic Paper having regard to the safety of its employees, as well as contractors and suppliers, is carefully monitoring the COVID-19 situation on an ongoing basis in all countries where it has operations.

There is a continuous collaboration among the entire organization, weekly follow up meetings, sharing ideas and safety policy meetings in order to minimize the risk and to build awareness.

Arctic Paper takes a number of preventive actions that deal with the guidelines of the World Health Organization (WHO) and each countries governments guidelines and restrictions.

At the same time, we run the business as usual, so that the preventive actions do not interfere with the current operating activities of the company.

In March 2020, Arctic Paper has decided that both foreign and domestic business trips, including participation in trainings and conferences, are suspended until further notice. In the areas where it is necessary, office workers have been able to work remotely using modern means of remote communication. Operational workers work in a rotational system to reduce the number of people in cloakrooms, canteens and strategic places such as e.g. control desks.

We have implemented the basic hygiene rules. All bathrooms were provided by hand sanitiser and standard soaps were replaced with antibacterial ones.

All employees are informed about the current epidemiological situation and all actions taken by the units. We use all available means of communication, such as: video conferences, company newsletter, information boards, intranet, and e-mails in order to create safe work places for our employees.

Despite the ongoing pandemic, Arctic Paper maintains stable financial liquidity and the second quarter of 2020 most affected by the pandemic has shown that Arctic Paper has coped relatively well with the related challenges.

- We are fully aware of it is still a challenging and not secure environment to manoeuvre in;
- We follow the rules and recommendations in each state where we operate;
- We have been successful in protecting our employees and our operations during 2020;
- We have used the opportunity for short-term allowance in the countries where it has been offered;

We continuously monitor the market development and adapt our operations accordingly to the current situation and regulatory restrictions.

Management approach

Arctic Paper aims to take responsibility for our employees, other people working for us and the societies in which we operate.

We consider our employees as our most valuable resource. 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 units 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, and thus what should be important to us.

We believe in taking our social responsibility and being a partner in the development of the society where we are located. By doing this we create an environment which is attractive to live and work in.

Our Mills support with different activities in the local community, in which our employees and their families are able to participate. For instance, we are supporting local sport clubs and culture events, donating paper to schools and kindergartens.

Health and safety

Health and safety are top prioritized issues for us. We are creating a work environment which prevents and minimises the risk of injuries. We have a systematic approach to safety at our mills. In 2019 we implemented a common Health and safety policy and started cooperation between the mills in H&S issues. Each mill has also implemented its own site-specific health and safety policy, complemented by appropriate routines and procedures.

Our mills have an occupational health service, as well as rescue teams trained to react in case of emergency. Some of our employees are also part of the local fire brigade, trained to respond to both internal and external incidents and accidents.

We carefully analyse all health and safety incidents raised by our employees, and take actions to avoid serious consequences in the future.

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

Key performance indicator	Target 2022	2020	2019	2018	2017	2016
Number of lost time injuries (LTIR) per million working hours	<4	6.3	7.8	8.5	8.0	8.4

We continued to decrease accidents during 2020 compared to previous year.

Employee well-being

The wellbeing of our employees is of crucial importance to our company. Well-being is strongly associated with engagement.

In 2019 an Employee Engagement Survey was conducted. Compared to 2017, we had a very high response rate which indicates a higher interest among our employees to be engaged in the development of the company. Overall, the results show that our employees feel well treated, understand their tasks, and have adequate resources to do their daily work. It also

shows that the activities we started in 2018 to minimize weak areas have given results. As an outcome of employees surveys we have started to implement new initiatives which help us to keep our employees motivated and engaged in our mills' activities with the purpose to further increase the well-being of our employees. At Arctic Paper Munkedals, we have introduced a weekly newsletter in which employees will find up-to-date information about the mill's activities and production results. Next employee survey is planned for 2021/Q4.

Key performance indicator	Target 2022	2020	2019	2018	2017	2016
Employee survey response rate	65%	n/a	74%	n/a	52%	-
Overall engagement capital	55%	n/a	46%	n/a	42%	-

We encourage good habits and healthy lifestyles. We organise and support different health programs such as non-smoking and to eat healthy food. We also provide medical examinations to our employees.

We aim that every employee should have a yearly performance conversation. This will help them to understand how they can contribute towards the company goals and to develop their skills and abilities. We believe that this will create a synergy

effect which will positively impact the work environment and bring tangible benefits to our business.

There is also a continuous collaboration with our employee representatives. Each month regularly meetings are held in the Mills and twice a year Europe Works council Meetings are held on a group level.

Arctic Paper intention is to offer employees a standard permanent unlimited employment agreements in our operations. Only substitutes for vacancies and project-hired persons have limited employment agreements.

	2020	2019	2018	2017	2016
Number of permanent unlimited contracts	1181	1183	1224	1229	1229
Number of temporary contracts	17	31	28	26	31

Diversity – among employees and within the Board

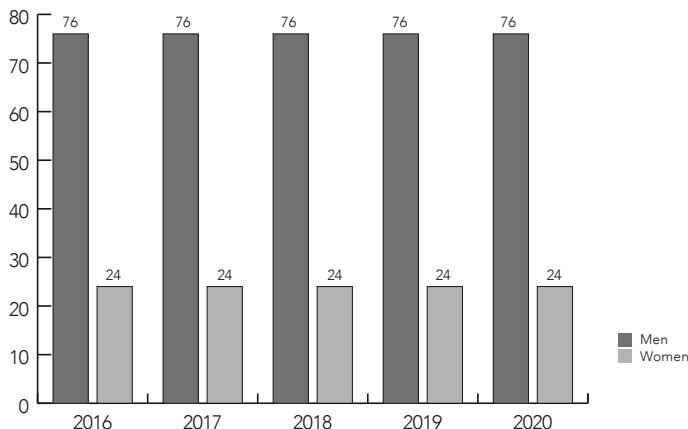
As explained in our Code of Conduct and our Corporate Social Responsibility policy, we do not accept any discrimination in our business operations. Arctic Paper Management Board has been striving to employ competent, creative people, holding appropriate qualifications, professional experience and education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

Arctic Paper sees diversity as a strength. It is a tool for new ideas and innovations. We want Arctic Paper to mirror the societies in which it operates, and we want to make sure we promote and integrate people of diverse backgrounds

Employment structure of Arctic Paper Group

		Total	men	women	Age <30	Age 30-50	Age >50
2016	Blue-collar	806	608	126	90	358	358
	White-collar	421	248	173	20	225	176
2017	Blue-collar	811	682	129	92	365	354
	White-collar	420	250	170	17	223	180
2018	Blue-collar	807	683	124	106	353	348
	White-collar	416	245	171	16	220	180
2019	Blue-collar	770	652	118	110	315	345
	White-collar	413	247	166	13	215	185
2020	Blue-collar	774	655	119	114	333	327
	White-collar	407	246	161	16	212	179

Gender employment structure in Arctic Paper Group



No major reorganisations have taken place during 2020, hence the overall workforce structure is unchanged.

Since 2018, 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, based on 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.

	2020	2019	2018	2017	2016
Total count of Management Board	2	2	2	2	5
% of women on the Management Board	0%	0%	0%	0%	20%
% of men on the Management Board	100%	100%	100%	100%	80%

The Supervisory Board of Arctic Paper S.A. consists of five members.

	2020	2019	2018	2017	2016
Total count of Supervisory Board	5	5	5	5	5
% of women on the Supervisory Board	20%	20%	0%	0%	0%
% of men on the Supervisory Board	80%	80%	100%	100%	80%

Human rights

We remunerate employees according to their qualifications and the value they create for the company. Adjustment to local conditions necessitates the use of slightly different systems between our mills. Our employees' remuneration depends on their results at work, the agreement between the trade unions and the economic situation of the company. All conditions are documented and communicated accordingly. We also have a separate remuneration policy for 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. For instance, we

annually make regular payroll overviews at all our mills.

All employee suggestions and concerns can be raised with mill managers. The Kostrzyn mill has a specific committee of internal and external stakeholders, tasked with evaluating complaints. Additionally, the mill in Kostrzyn has an anonymous system in place, whereby complaints and suggestions can be raised by phone call with the CEO directly.

Overall, we are committed to protecting the human rights of our employees. At the same time, we know that this issue also involves other, external actors in our value chain. This aspect is further explained in the Responsible supply chain section.

A photograph of a forest scene. The foreground is filled with numerous bare tree branches, heavily laden with a thick, white frost or snow. The trunks of the trees are thin and light-colored. In the background, there are darker, more solid-looking evergreen trees. The overall atmosphere is cold and wintry.

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 – from sustainable sourcing, 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. These suppliers provide us with raw materials, chemicals, energy, logistics and other services that enable us to serve our customers. Aside from 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. In 2018 we established a Code of Conduct for Suppliers of Arctic Paper.

In addition, we want to be transparent and ethical in everything 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 percent of the purchased value and are considered core suppliers.

In our paper mills, we have procedures to help us produce paper with the smallest possible direct impact in terms of pollutants to water, air and land (waste). As the environment has no borders, the impact of our suppliers is of high importance, hence we gather information regarding their environmental performance so that we may make informed purchase decisions based on product specifications and environmental performance. Today the supplier with an excess of 90 percent of purchased value provides us with environmental declarations, which helps us to perform a life-cycle analysis for our products.

To ensure that our core suppliers take 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. We wish to follow a similar approach with regard to the rest of our suppliers.

Arctic Paper expects its Suppliers to comply with the high standards and values represented by our organisation. Since 2019 we intend to have all our suppliers to comply with our Code of Conduct for Suppliers either by signing our Code or by the supplier providing us with an equivalent document.

However, at the end of the year 2020 we managed to achieve 83 percent.

Our Code of Conduct for Suppliers of Arctic Paper covers the most important areas: Laws and Regulations, Human and Labour Law, Corruption and Bribery, the Environment. This document is attached to each contract and is expected to be signed alongside the contract. Suppliers are also expected to follow the requirements set forth in this document. The Code of Conduct for Suppliers applies to all Arctic Paper suppliers as well as all third parties contracted by our suppliers.

Those suppliers who have their own Code of Conduct or CSR policy which are compatible with the Arctic Paper values described in our Code of Conduct for Suppliers, are asked to provide us with a copy of the appropriate documentation. This is equivalent to signing the Arctic Paper Code of Conduct for Suppliers.

Due to the nature of our business, we place 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.

If we believe that our partner does not comply with our ethical requirements, we aim to confront and challenge them to change their behaviour, where Arctic Paper may offer guidance specifying which issues need to be improved. The supplier is then expected to take corrective actions, within a reasonable time, in order to meet the requirements in question. In the event that we are unsuccessful, we are prepared to end the cooperation.

We find it important to verify the statements of our pulp suppliers, which is why products sent over by our suppliers are subject to a three-step verification procedure. First, we ask our suppliers to submit environmental declaration, safety data sheets (following REACH EU Regulation) and the 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 also perform audits of our suppliers, to confirm their compliance with the planned Code of Conduct for Suppliers. Due to Covid-19 pandemic global restrictions and in order to keep our employees and our suppliers' employees safe we have postponed planned audits for next year.

Key performance indicator	Target 2022	2020	2019	2018	2017	2016
Share of core suppliers providing existing signed environmental declarations	100	83	98	64	75	56
Share of core suppliers who signed the Code of Conduct for Suppliers or has their own code of conduct	90	83	85	n.a.	n.a.	n.a.
Number of suppliers who are subject to audits performed by Arctic Paper to confirm compliance with the Code of Conduct for Suppliers	10	3	4	n.a.	n.a.	n.a.
Share of pulp suppliers who are FSC®- and/or PEFC™-certified	100%	100%	100%	100%	100%	100%



Since 2019 in cooperation with the Book Chain Project, we evaluated Arctic Paper Kostrzyn's processes for responsible sourcing. The outcome of the evaluation helps us to improve our shared best practices and processes at the mill, and see the new opportunities and challenges which we face when managing responsible sourcing. We demonstrate a deep understanding for the sourcing countries of raw materials instead of forest material and the sustainability issues at forest level and have put strong, formal processes in place to stay up to date with new developments relating to forest issues/challenges. We regularly visit our supplier mills, to evaluate their environmental performance, forest plantations and nurseries. We follow industry analyses from the Brian McClay and Hawkins Wright agencies. We also work with NEPCon who share information and suggestions on sourcing countries. Each time we request a written report on environmental performance from our suppliers, and gather extensive data on energy, air and water pollutants and raw materials.

Our purchasing policy includes requirements to establish fibre traceability, to ensure no product contains controversial sources defined as:

- Illegally harvested forest, or harvest not approved by the authority in question;
- Wood harvested in opposition to traditional or citizen's rights;
- Wood from high conservation-value forests;
- Wood harvested in areas being changed from naturally occurring forest into plantations;
- Wood harvested in an area where genetically modified trees have been planted;
- Wood harvested in violation of ILO principles (International Labour Conference 1998 – ILO Declaration on Fundamental Principles and Rights at Work)

We believe that the strength of our supply chain is based on reliable, long-term relationships with our suppliers.

We make changes in our supplier portfolio to improve standards in all aspects – economic, ethical and environmental. If a correction is necessary, we are open to re-establishing relations with previous suppliers once the correction has taken place.

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 the 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	2020	2019	2018	2017	2016
Share of Euro 3 engine class	0%	0%	1%	1%	3%	3%
Share of Euro 4 engine class	5%	1%	3%	6%	11%	13%
Share of Euro 5 engine class	50%	44%	47%	54%	53%	50%
Share of Euro 6 engine class	45%	55%	49%	39%	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 which moves the density point towards the higher EURO classes.

Having regard to the huge environmental effect of transportation we want to increase the efficiency of our transport chain while reducing CO₂ emissions by implementing intermodal transport into our logistics process.

In 2020 20% of deliveries made from our mills to our customers were transported as intermodal transport.

Business ethics

We value transparency in internal and external relations, as any unethical behaviour may expose us to risks of reputational damage and financial loss. Our Code of Conduct contains clear guidelines regarding the business behaviour of our employees, including zero-tolerance for 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 risks of corruption and bribery exposure are 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 scope for unethical behaviour. First, we divide item purchases into sourcing groups. Then, we gather information about the sourcing groups and the market. Subsequently, 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 continuously monitor the procurement market to make sure our contracts remain competitive. As all decisions

made during this process are never dependent on one person, the risk of bribery or corruption is reduced. For large investment projects, decisions regarding investment purchases are made by a dedicated committee, and we are considering extending this practice to other large purchases. The logistics department has a similar purchasing system in place.

When it comes to sales, we have set price lists approved by our management which are 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 semi-annual and annual 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.

To us, business ethics is very much a question of awareness. A part of the induction programme for new employees includes topics such as laws and regulations, anti-bribery and anti-corruption measures, human rights and environmental responsibility. Since 2018, the programme covers all units within the

group. Thus, our key performance indicator in this respect is the number of our employees who attended such training.

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.

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 abuse to be the largest. More basic, yet comprehensive training would be offered to other employees.

Key performance indicator	Target 2022	2020	2019	2018	2017	2016
Number of employees who participated in the Business ethics training programme (per year)	100%	32 (544)	20 (553)	179 (578)	34 (419)	22 (419)

Figures within the brackets are the accumulated figures

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 submitted complaints.

Evaluation is primarily done by our sales teams and when necessary by management. We make sure that every complaint is addressed and resolved. Our target is to minimise the value of complaints, while remaining aware of the fact that not all complaints submitted to us are substantiated.

Key performance indicator	Target 2022	2020	2019	2018	2017	2016
Value of complaints as share of sales revenue (%)	0.5	0.48	0.47	0.58	0.61	0.58
Sales revenue (in MPLN)		2,016	2,309	2,293	2,248	2,297

Actions are continuously taken to diminish the risk of complaints. In 2019, our technical teams from three mills have drafted a new Complaint handling procedures and policy and issued the General Recommendations for Handling and Accepting complaints. These documents aim to create, from the perspective of the sales company and customers, a predictable, consistent, time and cost-efficient claim handling process.

Legal and regulatory compliance

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

We monitor the number of open legal cases where Arctic Paper was found guilty of a breach of law or regulation. 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		Business-related*		Non-business-related*	
2016	Fine bigger than 2 MPLN	0	0	0	0
	Fine smaller than 2MPLN	0	0	0	0
2017	Fine bigger than 2 MPLN	0	0	0	0
	Fine smaller than 2MPLN	0	0	0	0
2018	Fine bigger than 2 MPLN	0	0	0	0
	Fine smaller than 2MPLN	0	0	0	0
2019	Fine bigger than 2 MPLN	0	0	0	0
	Fine smaller than 2MPLN	0	0	0	0
2020	Fine bigger than 2 MPLN	0	0	0	0
	Fine smaller than 2MPLN	0	0	0	0

*Business related legal cases from customers. All others are defined as non-business.

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, but 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. This Sustainability Report serves as a base point for information regarding our work on sustainability issues and is as such an important channel of communication.

	Customers	Employees	Suppliers	Shareholders
Environment and Climate	<ul style="list-style-type: none"> › EMAS report › "Paper Profiles" › 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" 	<ul style="list-style-type: none"> › EMAS report › "Paper Profiles" › 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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