

UN Global Compact CSR report 2017

SOCIAL RESPONSIBILITY AT ROYAL ARCTIC LINE



This document is an unofficial translation of the Danish original.
In the event of any inconsistencies the Danish version shall apply.



About Royal Arctic Line A/S

The Government of Greenland has granted Royal Arctic Line A/S an exclusive concession for the marine transport of cargo to and from Greenland and between towns and villages in Greenland. The Company is therefore vital to Greenland. Royal Arctic Line also operates 13 ports and harbours in Greenland and has a branch in Aalborg.

All concession marine cargo to and from Greenland is sent via Aalborg, and via Reykjavik for cargo to Iceland, USA and Canada.

Royal Arctic Line A/S was formerly part of Den Kongelige Grønlandske Handel - KGH (Royal Greenland Trading Company) which started sailing to Greenland in 1774. The Company has had its present name since 1993. The Company is wholly owned by the Government of Greenland

We future-proof transport to and from Greenland

This report has been prepared as part of the Company's efforts to support the UN Global Compact.

Royal Arctic Line has a very important mission. We want to make it easy to trade with Greenland. We want to ensure the most value for Greenlandic products and the best chain of supply. We will ensure transport to and from Greenland by creating open and flexible solutions.

This is a huge transition. Before, it was about Royal Arctic Line's own profits and its own role in transportation and logistics. "Making it easy to trade with Greenland" is about increased focus on contributing to the opportunities we can create with growth and trade in Greenland.

Our success will be measured by the growth potential we are able to achieve in Greenland. Some would call this true CSR, in harmony with the cultural values we have in Greenland. Old and outdated principles must be changed, new contracts made, new roles found for everyone in the

Company. Investments must be made. It is a huge task and we do not have much time, because everything we started out with is becoming outdated. We have a busy time ahead.

Making it easy to trade with Greenland is an honest and noble objective, based on a clear role in the infrastructure. This is a very suitable objective for the new Royal Arctic Line we have created.

As a company, we are committed to supporting the UN Global Compact. We are naturally therefore also working with CSR within the more traditional definitions based on the 10 principles regarding human rights, the workforce, the environment and anti-corruption.

This report concerns developments within these areas in 2017 and the results we have achieved.

We hope you enjoy reading this report



Royal Arctic Line
Verner Hammeken
CEO

CSR at Royal Arctic Line

Environment and climate

At Royal Arctic Line, we focus our work on systematically reducing our negative impact on the environment by, among other things, reducing our energy and fuel consumption. We look for ways to use more environmentally friendly technology without compromising security of supply or reliability. This means that, where possible, we are continually seeking to optimize our operations and processes based on tested technology.

We seek to find the best possible solutions for the environmental challenges that face our industry, e.g. ballast water, antifouling measures and waste and pollution of the air, water and land, together with our partners.

Working environment and safety

The safety, health and well-being of our employees are decisive for the success of our Company. We work constantly to ensure compliance and to improve the working environment. Our employees always have the appropriate training, knowledge and equipment to work safely and securely and we work to promote a company culture where safety, health and job satisfaction are always the right choices.

Development of skills and training

We focus on developing the skills of our employees on all levels and on training trainees and apprentices. We are particularly interested in elevating the level of education in Greenland and thereby helping to support a positive development for the country.

Conditions for employees

We respect international human rights and labour rights and we work consistently to ensure our employees are given good, safe conditions with equal opportunities during their employment

Involvement in the local community

We have a special obligation to ensure a positive development of the community we serve. Therefore, we seek to support relevant partnerships and projects by making available our skills, services, time and/or funds. We focus especially upon children and young people, culture and sports, those who are socially vulnerable and on education.

Anti corruption

Royal Arctic Line does not accept bribery, greasing palms (facilitation payments) or any form of unethical practice. We are therefore tightening our internal rules, controls and auditing to ensure that Royal Arctic Line and its activities always comply with applicable legislation and the principles of ethical business practices.

Suppliers and partners

We want to influence our suppliers and partners to also work systematically and in a structured manner with environmental, social and ethical issues. We therefore work with dialog and demands to promote sustainability – also beyond our own company.

General performance 2015-2017

	2015	2016	2017
Employees	722	706	744
Trainees	50	38	38
Ships	11	11	13
Port terminals	14	14	14
Nautical miles sailed	328,053	374,065	418,343
Cubic metres carried	757,000	845,000	892,237

The Company's ships and ports comply with the International Ship and Port Facility Security Code (ISPS).

Container ships' fuel consumption and emissions

	2015	2016	2017
MGO	3,183	4,797	5,393
HFO LS	4,636	4,383	5,103
HFO HS	18,447	17,894	18,414
Kilo fuel/nautical mile	67.6	72.4	69.1
EEOI	3,804	3,230	2,908

The EEOI (Energy Efficiency Operational Indicator) is a voluntary index formerly known as the operational CO₂ index. EEOI was developed by the IMO and since 2013 Royal Arctic Line has reported these figures to The Danish Ship-owners Association.

EEOI figure: 2.91 gram CO₂/ton cargo/per nautical mile sailed.

Risk suppliers

	2015	2016	2017
Number identified	137	135	N/A
% that have signed purchase terms	85.0 %	88.8 %	N/A

The target for 2015 was to have the Terms of Purchase with regard to CSR signed by 88 per cent of the identified risk suppliers before the end of the year. We achieved this target in 2016. Since our supplier base is in Denmark and has remained mainly unchanged we have chosen not to include this as a target for 2017.

Work environment on board

	2015	2016	2017
Near-misses on ships	80	76	72
LTA Lost Time Accidents	4	3	3

Near-misses are unforeseen incidents that do not result in an accident, sickness or injury, but which have a risk of doing so. It is therefore important to collect data concerning near-misses, in order to improve work processes and to change dangerous environments to avoid work accidents.

In 2017, 4 LTA (Lost Time Accidents) were recorded on 3 of the Company's container ships: 2 on Naja Arctica, 1 on Mary Arctica and 1 on Pajuttaat.

Number of days since the latest LTA as at 31st December 2017

Pajuttaat	8 days
Naja Arctica	136 days
Mary Arctica	276 days
Nuka Arctica	1.804 days
Irena Arctica	540 days
Ivalo Arctica	642 days (from take-over)
Minik Arctica	486 days (from take-over)
Malik Arctica	317 days (from take-over)

Governance

Royal Arctic Line's CSR strategy is based on the Company's CSR policies. Once each year, the strategy is coordinated with the board and regular reports are sent to the management group.

Areas of responsibility are based upon the formulation of UN's ten principles for corporate social responsibility. In addition, there is the responsibility which lies with the group management in cooperation with the board. Royal Arctic Line's CSR policy focuses on areas that support its business objectives, areas that are important to its stakeholders and to the public and on areas where Royal Arctic Line can make a difference. This may be achieved in particular by reducing the environmental effects of the Company's operations, improving safety and health at work, promoting human rights and ethical operations and through involvement in Greenlandic communities. This will add value to society and to the Company.

Human rights

Royal Arctic Line respects international human rights and labour rights and makes a continued effort to offer employees equal terms, conditions and opportunities in this respect. Applicants having the same qualifications must be given the same opportunity for employment, which is why Royal Arctic Line encourages any interested parties to apply for vacant positions regardless of their background. Royal Arctic Line's efforts to safeguard human rights are supported by guidelines established through the staff policy on how the Company addresses equality issues and combats discrimination, victimisation, harassment or violence at the workplace.

Working environment and safety

The safety, health and welfare of the employees are pivotal to Royal Arctic Line's success. This is why regular measures are taken to improve working conditions. There is a strong corporate culture that forms a natural part of Royal Arctic Line's objectives. It is Company policy to always make adequate training, knowledge and equipment available to the employees so they can carry out their work in a safe and secure environment.

At sea

Safety and security measures are based on the International Maritime Organization's (IMO) International Safety Management (ISM) Code and the Safety of Life at Sea (SOLAS) Convention. Internal audits are performed every year and external audits are performed every 30 months. Work-place evaluations take place regularly. To maintain focus on the work of minimizing risks of accidents, all ISM certified vessels are encouraged to report at least one near miss per month. In 2017, there were four Lost Time Accidents on the Company's cargo ships.

On shore

In shore in Greenland, 15 work-related injuries were reported in 2017 compared to 25 in 2016. During 2017/2018, ISO certification will be phased out in the five ports where it has been implemented and we are introducing the RAL quality standard in all ports; the HSEQ Department will carry out auditing. In 2017 and 2018, increased focus is on building broader skills in ISPS (International Ship and Port Facility Security) activities, so that our responsibilities as port authority can be met with higher quality and safety, primarily with regard to port calls by cruise ships.

Employees, development of skills and training

Royal Arctic Line is privileged to have skilled and committed employees, and continued access to qualified labour is vital to our business. We aim to give our employees a meaningful work life with focus on quality, dedication and motivation.

Job satisfaction and sick-leave

The average level of job satisfaction in 2017 was rated at 66 on a scale of 1-100, compared to 69 in 2016. In 2017 sick-leave was 5.1 per cent, which is higher than last year and some way from our goal of 2.7 per cent. Royal Arctic Line has not succeeded in further reducing sick-leave in 2017.

Developing employee skills

Development of skills is a natural part of the individual employee's opportunities. As a wholly owned Greenlandic enterprise, Royal Arctic Line has a special responsibility to contribute to the creation of jobs in Greenland and the Company is working to increase the proportion of Greenlandic managers at Royal Arctic Line by e.g. giving employees access to supplementary training and by playing an active role in the development of maritime training programmes in Greenland.

Trainees

Royal Arctic Line has a long tradition of being committed to raising the level of education in Greenland. The Company's comprehensive trainee and apprentice programmes play an important role in the Company's personnel strategy as well as in its responsibility to train the local workforce.

Royal Arctic Line offers the following training opportunities

- Terminal work
- Terminal assistant manager (*a higher-level course following on after terminal worker training and which may only be taken once an employee attains the position of foreman*)
- Warehouse and transport worker
- Boilermaker
- Construction equipment mechanic
- IT supporter
- IT administrator
- TNI Office assistant – academic education specializing in transport and logistics (*also called shipping/forwarding*)
- International trade and marketing
- Economy and resource management
- Navigator
- Marine engineer
- Ship's mechanic
- Able seaman

Royal Arctic Line offers 15 different training programmes. Training with Royal Arctic Line is aimed at qualifying the candidate for a career with the company and also providing a sound foundation for seeking careers in other companies.

Diversity

In line with the Guidelines on Corporate Governance for Public Limited Companies owned by the Government of Greenland, Royal Arctic Line is continually focusing its efforts on ensuring diversity. A report on the gender composition and the participation of local employees in management has been prepared. Guidelines have been laid out regarding employment procedures that support the desire for diversity. The Company has considered setting concrete objectives, but has decided against this because experience shows that concrete objectives can

overshadow the process of achieving results through guidelines. Finally, it is the Company's position that professional competences are of paramount importance when selecting management staff.

The turnover of personnel at management levels at Royal Arctic Line is quite limited and it is therefore a drawn-out process to change the composition. Especially at the second management level (port manager, ship's captain, chief engineer, etc.) the number of women is far below the Company's overall statistics for gender composition and at



this level of management, personnel turnover is very low. In 2017, using guidelines for recruitment procedures, we succeeded in recruiting a local female as harbour master. At non-management levels, cooperation has been ongoing, especially with the Municipality of Sermersooq, to create jobs for people who have difficulty finding their place on the labour market. This preparatory work has run into some difficulty, especially with regard to matching potential candidates to the special positions the Company is able to create. Cooperation continues in 2018.

Climate and environment

Marine transport is the most economic and environmentally friendly form for commercial transport and it consumes less fuel per ton cargo moved than rail, road or air transport.

Despite these advantages, it is Royal Arctic Line's policy to limit the negative impact of its ships and its activities.



At sea

The shipping industry is subject to extensive climate and environmental regulations. Royal Arctic Line is continually working to comply with present and future requirements in the field, by e.g. encouraging its employees to have a culture that surpasses the general requirements. We can mention our waste disposal handbook. We are also working at optimizing the ships' fuel consumption by coordinating voyages in the Master Sailing Schedule.

In 2017, the EU transport industry presented a series of reporting requirements; see EU Regulation 2015/757 of 29 April 2015 applicable from 1 January 2018.

The purpose of this is to collect information about all cargo to and from EU ports. Royal Arctic Line is included in this regulation on all north and south bound Atlantic voyages. The MRV regulation requires the ship's crew to report once a day the number of nautical miles sailed and the fuel consumption. The method of reporting complies with applicable standards and has been approved by the classification company DNV-GL

It is expected that over time it will provide a holistic picture of the CO₂ foot print of the cargo that is transported to and from the EU. The reports are also used to evaluate the performance of the ships according to fuel and distance parameters. The oil prices have gone up from index 46 to index 63 and this increase has provided an incentive for increased focus on fuel-saving initiatives.

In 2017, Royal Arctic Line accepted delivery of the new ship Malik Arctica, the replacement for Arina Arctica which, at an age of 33 years, was sold for recycling to Jatob, Frederikshavn. Recycling of ships with focus on reducing the environmental impact has attracted a great deal of attention in recent years. This has resulted in the IMO convention (Hong Kong convention concerning responsible scrapping of ships) which Denmark ratified and implemented on 1st July 2017. In consideration of the environment, Royal Arctic Line chose to sell Arina Arctica to Jatob, as the company complies with present environmental legislation and has the required environmental permits for handling materials and waste from scrapped ships

The continued renewal of Royal Arctic Line's fleet allows for implementation of new technology and takes into account new legislation and new methods which all help to reduce the Company's impact on the environment.

The introduction of and compliance with IMO's ballast water convention ensures that Royal Arctic Line handles ballast water in such a way that movement of invasive species between oceans is minimized.

On shore

In 2013, the headquarters became part of Clean Greenland – Green Companies, a three-year collaboration between WWF, CSR Greenland and six Greenlandic companies. The project aims to reduce the environmental impact of administration facilities over time. The project has focused on reducing food waste, reducing energy consumption and focusing on paper and toner consumption in printers. The results are not yet available, since there is not a complete year for comparison. Looking forward, the Company will continue to make the environment and quality active parts of the employees' workdays. Advantages at the ISO certified ports will be shared with the rest of the Company and the same applies to experiences from Clean Greenland–Green Companies.

Suppliers and partners

Royal Arctic Line is interested in influencing its suppliers and business partners to deal with environmental, social and ethical issues in a systematic and structured manner. This is why the Company is involved in dialogue and requires its suppliers to promote sustainability – also beyond our own business. Previously, we asked our suppliers to sign the Company's Terms and Conditions of Supply committing them to complying with the UN conventions on child labour, human rights, labour rights, anti-corruption and the Rio Convention on sustainability and environmental protection. In 2016, Royal Arctic Line had identified 134 risk suppliers. The target for 2015 was that 88 % of these should sign the Terms of Purchase. This target was achieved in 2016. Since almost all purchases are undertaken in Greenland and Denmark, where transparency regarding environmental, social and ethical conditions for the individual supplier is high, we have chosen not to require documentation in 2017.

Because of the high degree of transparency of our suppliers' social and ethical standards in Denmark and Greenland, Royal Arctic Line prefers to focus future relationships with suppliers and business partners on joint measurement of the environmental impact of the purchases the Company undertakes. This is an area we will take a closer look at in 2018.

Who are critical suppliers?

Suppliers are considered critical if they have one or more of the following characteristics:

- They are strategic suppliers from which the Company purchases essential services/goods or upon which the Company depends in some way
- They operate in critical countries or industries – for example the oil industry
- They supply products that may affect the environment or safety at work – e.g. bunkers, pallets, chemicals or work clothing
- They supply products carrying the Company logo – e.g. merchandise – that could affect the Company's reputation. Suppliers that have one or more of the abovementioned characteristics are included in the gross list of suppliers that, based on the risk evaluation, should sign the Terms and Conditions of Supply.

Anti-corruption

Royal Arctic Line aims to operate in a transparent and incorruptible market, both nationally and internationally. Therefore, the Company does not accept bribery, greasing palms or any other type of unethical business conduct. Although the Company's domestic markets in Greenland and Denmark do not experience serious problems in this respect, the development strategy also extends to new markets and new partnerships with players in industries where corruption may occur. Royal Arctic Line has adopted an anti-corruption policy to tighten in-house rules and control mechanisms and audits to ensure that the Company's activities are always ethical. Through the Group's intranet, all employees have access to these policies and to a form for reporting gifts given and received. The policy is based on a best practice policy which has been adjusted for Company use after a series of employee-workshops.

Involvement in the local community

Royal Arctic Line has a sponsor committee that meets once a month in Nuuk to process applications. For this reason, the Company makes services, skills and sponsorships available to initiatives that benefit Greenland. The Shipping Company's sponsor committee provides support for children and young people, culture and sports and those who are socially vulnerable in Greenland. Royal Arctic Line provides sponsorships for freight charges and financial support for events or projects that are relevant for Greenland.

The Company and the Association for Children's Rights, MIO, signed an agreement in December 2017 regarding sponsoring a book about good family life. Royal Arctic Line is pleased and proud of this sponsorship. We all have a responsibility concerning this important and necessary work for the whole of Greenland. As a socially responsible company, it is a great honour to help making it possible for MIO to publish this book and there is no doubt that it will be of great benefit to the public. The agreement includes the sum of DKK 130,000 for writing, illustrating and printing and also for the transport of the books.

Future CSR efforts

Royal Arctic Line has a clear social role which in itself involves a high level of benefit for the public and thus major social responsibility. However, we will continue to measure our work with human rights, the workforce, the environment and anti-corruption. Even in Greenland and Denmark, where the standards are generally high, it is important that Royal Arctic Line promotes a basis for necessary internationalization by considering its position with regard to these central issues in a global perspective. In this context, the continued work for the UN Global Compact is important.

Objectives for Royal Arctic Line will continue to involve support of social relationships in family life through a healthy, evolving and active working life. The stability that we can contribute to society is of great value to children's living conditions as they grow.

Furthermore, we consider climatic and environmental impacts to be an increasingly crucial element of our future CSR.



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