

**ROYAL**

NUNATSINNI  
ATTAVEQALERSITSISUUVIGUT



**ARCTIC**

CONNECTING GREENLAND

# Communication on Progress 2014





## CORPORATE SOCIAL RESPONSIBILITY (CSR)

Royal Arctic Line forms an important part of Greenland's infrastructure and has a special responsibility for ensuring Greenland's security of supply. So, it is the Royal Arctic Line A/S' ambition to add financial and social value by offering effective logistics solutions.

### A difficult task

This heading applies to many fields.

It is a major challenge to ensure effective logistics solutions in Arctic regions and security must always be the highest of priorities. This is why I am pleased that the members of the International Maritime Organization (IMO) have agreed on a Polar Code for Ships Operating in Polar Waters. The Code is not directly related to Royal Arctic Line's CSR efforts. But then again it is. Together with the authorities of Greenland and Denmark and the Danish Shipowners' Association, Royal Arctic Line has helped to make the Polar Code set high standards and to ensure its practicality. To me this shows that we assume responsibility for the society of which we form part. The results are likely to be criticised. Some will probably find the Code not to be restrictive enough. Others might see it as a limitation of the development potential. Time will tell whether changes are required, but I consider the Polar Code a good starting point.

Another challenge has been to prepare the Group for the new sulphur emission rules, which are being tightened worldwide, affecting us when operating in the North Sea. This poses a challenge to the Greenlandic economy as the new rules come with a price. The environment must be protected. This is beyond any doubt and we obey the rules

without a murmur. Undoubtedly, the next question will be: Are those areas to be extended? Are the sulphur emission rules to be tightened for Greenland? Technically this is not a problem, however, economically it is a challenge. And does a tightening of the rules ensure protection of the vulnerable environment in the Arctic, or would other – and possibly less expensive – measures be more useful? This last question is definitely one we need to look into before we embark on new rules. Finding the best solutions will be an aim of Royal Arctic Line for 2015 onwards.

This leads me to the last challenge that I will be mentioning here. We must continue to focus on our CSR efforts. Even though we are facing certain financial challenges as are other businesses in Greenland. Through our commitment to and reporting under the UN Global Compact we get a clearer picture of our business' contribution to society. And contributing to society is an important element of our corporate mission.

Happy reading!

Jens Andersen – CEO



*Nuka Arctica arrives in Nuuk in March - with extra cargo of 600 tonnes of ice on deck and container. One of many challenges one faces when navigating the Arctic regions. Which is why it is a good thing that the Polar Codes will set a standard for preparation.*



## General performance, 2012-2014

	2012	2013	2014
Employees	784	762	748
Trainees	60	65	54
Ships	11	11	11
Harbour terminals	14	14	14
Nautical miles sailed	464.217	378.531	358.111
M3 shipped	830.000	747.000	741.000

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

## Consumption and emissions of container vessels

	2012	2013	2014
MGO	3.591	3.407	3.112
HFO LS	6.432	6.448	6.045
HFO HS	18.537	18.969	18.221
Kilo fuel/nautical mile	75	67	67,6
EEOI			3,28

The EEOI (Energy Efficiency Operational Indicator) is a voluntary index formerly known as the operational CO2 index. The EEOI was developed by IMO, and in 2013 Royal Arctic Line started reporting to the EEOI through the Danish Shipowners' Association. So, 2014 is the first year for which a total EEOI figure has been calculated: 3.28 g of CO2 per tonne of cargo per nautical mile. It may still be difficult to compare this figure to those of other shipping companies as it remains subject to some uncertainty, particularly due to factors of converting cubic metres of cargo into tonnes. So it may take some time before this figure can be benchmarked against the figures of other shipping companies, however, the EEOI provides a rather exact picture of the ships' developments and performance and so the EEOI figure is an effective target figure, strategically speaking.

Royal Arctic Line's general CSR policy and latest update of its CSR efforts are available at the Company's homepage, [www.ral.gl](http://www.ral.gl). The CSR policy also serves as the Company's climate policy and human rights policy, and the other areas are supported by underlying policies such as the staff policy, the anti-corruption policy, etc.

## Risk suppliers

	2012	2013	2014
Number of risk suppliers identified	120	134	137
Percentage of risk suppliers having signed the terms	67%	75%	85%

The objective for 2015 is that 88% of the identified risk suppliers will have signed the CSR purchasing terms and conditions by the end of the year.

## Working environment on board

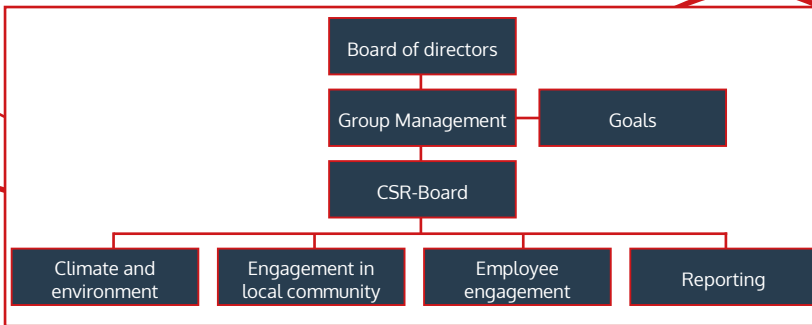
	2012	2013	2014
Near-misses on board	53	110	98
LTA (Lost Time Accidents)	7	4	3

Near misses are unforeseen incidents that do not result in an accident, sickness or injury, but which might as well could have. Therefore, it is important to collect data about near-misses in order to improve work processes and change dangerous environments to avoid occupational accidents

In 2014 there were no Lost Time Accidents on board the container ships. All LTA's were on the passengershship Sarfaq Ittuk

### Number of days since latest LTA per 31 December 2014

Naja Arctica	931
Mary Arctica	736
Nuka Arctica	709
Irena Arctica	634
Arina Arctica	540



## GOVERNANCE

Royal Arctic Line's CSR strategy is formulated on the basis of the CSR policy and managed by our CSR Board. The CSR Board is made up of five members of Group Management as well as the chief buyer. As a main rule, the Board convenes once every three months to discuss new measures taken and to reconsider the importance of ongoing initiatives. Once a year, the CSR strategy is co-ordinated together with the Board of Directors, and reports are submitted regularly to the entire management group.

The responsibilities are structured under the UN's ten CSR principles. Add to this the responsibility for achieving the set

objectives, which lies with Group Management and the Board of Directors.

Royal Arctic Line's CSR policy focuses on areas that support the Company's business objectives, areas that are important to its stakeholders and areas in which the Company may 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 by getting involved in Greenlandic communities. This will add value to society and to the Company.

## Human rights

Royal Arctic Line respects international human and labour rights and makes a continued effort to offer their employees equal terms, conditions and opportunities in this respect. Applicants having the same qualifications must be given the same opportunity to become an employee, which is why Royal Arctic Line calls on any interested party to apply for the 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 intends to address equality issues and combat discrimination, victimisation, harassment and violence at the workplace.

## Working environment and safety

The employees' safety, health and job satisfaction are key to Royal Arctic Line's success. This is why regular measures are taken to improve the working conditions, and a strong corporate culture 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 to allow them to perform tasks 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. They are audited every year – both internally and externally – and workplace evaluations are made regularly.

In order to retain focus on the effort to minimise the risk of accidents, all ISM-certified ships must report at least one near-miss a month.

No Lost Time Accidents were recorded in 2014 for the Group's cargo ships, however, three were recorded for the passenger ship, Sarfaq Ittuk, which of course will be of major concern in 2015. The long-term statistics for Sarfaq Ittuk, however, are quite impressive, and the ship is considered a very safe place to work.

### On shore

For 2014, 43 onshore work-related injuries were reported.

Five of those 14 harbours run by Royal Arctic Line are certified under OHSAS 18001 (occupational health and safety management systems).

Work processes are planned and evaluated to ensure a safe and secure

environment for the employees and to allow for the Company's offices to share their experience.

The Group's action plan for 2014, Groupwide Safety, has been updated. The ultimate target of the plan is 0 accidents.

To maintain such focus, an HSEQ (Health, Safety, Environment & Quality) function has been set up to form part of the Assurance Department. The work of this new function will relate to personal safety and operational reliability as regards our harbours and offices. One of the first activities planned for 2015 is the security and safety day to be held once every year for the entire Group. During this event all employees will be dealing with issues of security and safety. In 2015, the near-miss reporting system will be implemented at our harbours and offices in order to strengthen our corporate culture in this respect.

## Employees, skills development and training

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

## Job satisfaction and sickness absence

The average level of job satisfaction for 2014 was 72 points on a scale from 1 to 100. For 2013, the score was 74. This decline falls within statistical uncertainty, however, we will continue to focus on increasing employee satisfaction and are not satisfied with the score.

Sickness absence for 2014 was 4%, which is normal for the shipping sector, but the absence rate is still somewhat lower than our target of 2.7%. Royal Arctic Line did not manage to reduce the rate of sickness absence for 2014. Consequently, reducing this rate will be given high priority in 2015.

## Skills development

Skills development forms a natural part of the opportunities existing for the individual employee. As a wholly owned Greenlandic enterprise, Royal Arctic Line is particularly responsible for contributing to the creation of jobs in Greenland, and the Company works to increase the share of Greenlandic managers with Royal Arctic Line – for example, by giving the employees access to supplementary training and by playing an active role in the development of maritime training programmes in Greenland.

The 2014 job satisfaction survey shows that the score for the employees' degree of satisfaction with access to skills development is 67 points out of 100, meaning a 1 point increase compared to 2013. A score of 67 points is high compared to the EEI for the transport industry (57) and on a par with the average cross-industry score of 67 (average generated by Ennova from among the results of the survey of their customers in Greenland).

*\*(EEI – European Employee Index – a common European database of comparable data).*

Royal Arctic Line offers the following training opportunities:

- NI2 – Academic bachelor of commerce
- Construction equipment mechanic
- IT administrator
- IT supporter
- Boilermaker
- TNI – Office assistant
- Transport/Warehouse and terminal assistant manager
- Warehouse and transport worker
- Shipping assistant
- Ship's mechanic
- Ship's officer
- Terminal worker





## Trainees

Royal Arctic Line has a long tradition for being committed to increasing the educational level of Greenlanders. The comprehensive trainee and supplementary training programmes form an important part of the Company's HR strategy and its responsibility for training local labour.

Royal Arctic Line offers 12 different training programmes, and in 2014 54 trainees had enrolled in a programme. Training with Royal Arctic Line must qualify the candidate for a career with the shipping company and also provide a sound basis for favourable career opportunities with other companies.

## Diversity

Pursuant to the Guidelines on Corporate Governance for Public Limited Companies Owned by the Government of Greenland, Royal Arctic Line is continuously focusing on its efforts to ensure diversity.

A statement specifying the gender distribution and the rate of local labour has been made for every management level. Guidelines on recruitment procedures supporting the desire for increased diversity have been drawn up. The Company considered setting specific targets but decided not to as experience shows that sometimes specific targets may overshadow the process of producing results

The employee turnover rate at the management levels of Royal Arctic Line is very low, hence changing the composition of labour is a very protracted task. The share of women is far below the Company's overall gender distribution statistics, particularly at the second management level (including port managers, captains, chief engineer officers, etc), and the employee turnover rate is very low at this management level as well. In 2014, Royal Arctic Line has managed, through its recruitment procedures, to recruit a female port manager from the local area.

At non-management levels, the Company has been co-operating with Kommuneqarfik Sermersooq in particular on securing jobs for people having a hard time entering the labour market. Preparatory work in this respect saw some difficulty, particularly in relation to the matching of candidates with Royal Arctic Line's possibilities of creating special positions. Such co-operation will continue in 2015.

through guidelines. Finally, the Company believes that competence is the most important parameter when recruiting managers.

## Climate and environment

Maritime transport is the most economic and environmentally friendly form of commercial transport, requiring less fuel per tonne of goods shipped than transport by train, highway or air. Despite those advantages, it is Royal Arctic Line's policy to reduce the negative environmental effects of the ships and the Company's activities.

### At sea

The shipping industry is subject to extensive climate and environmental law. Royal Arctic Line would like to go even further than the minimum legal requirements in this respect as long as it makes sense in terms of business, and efforts are made to reduce the ships' fuel consumption and optimise the Company's general consumption of resources.

Overall, such initiatives are of benefit to both the environment in the form of reduced environmental effects and particulate emissions and to the Company's bottom line through lower expenses.

New legislation challenges the

correlation between particulate emissions and bottom line as the UN International Maritime Organization (IMO) has decided – and the EU has endorsed this – that, at 1 January 2015, any ship regardless of flag or nationality may only use bunker oil containing 0.1% of sulphur when sailing the Emission Control Area (ECA), ie a particular area in the Kattegat, the North Sea, the Baltic Sea and the English Channel, as opposed to 1% effective in this area up until 2014. This also applies to Royal Arctic Line's ships when sailing the sea north of Scotland. This will increase bunker oil costs for 2015 considerably as compared to a situation where this legislative change had not come into effect. However, Royal Arctic Line is compensated for this cost through the oil and exchange rate margins, and so far the customers do not feel the effect of increased costs as those margins are very low due to the low price of oil.

IMO also adopted a ballast water management convention stipulating that, in future, ballast water must be purified before discharging it back into the sea. As a consequence, Royal Arctic Line must install ballast water treatment plants at its ships. The effective date of the ballast water management convention remains to be set, but the decision

of principle was made as a global measure.

In order to maintain regular liner service and security of supply, the 2014 sailing plan has been very reliable.

In 2014, Royal Arctic Line's fuel consumption rose slightly to 67.6 kg per nautical mile. In H2 in particular, fuel consumption was a bit higher than the target of 65 kg per nautical mile. Slow steaming is often set aside to avoid delays, particularly in times of bad weather in the Atlantic Ocean.

### On shore

The harbours of Qaqortoq, Sisimiut, Aasiaat and Nuuk are certified under ISO 14001 (environmental management) and ISO 9001 (quality management), as is the base harbour of Aalborg.

In 2013, the headquarters was combined with Clean Greenland – Green Companies. A three-year partnership of WWF, CSR Greenland and six Greenlandic enterprises. The purpose of the project is to reduce the environmental impact of the offices over time. So far the project has been focusing on reducing food waste, reducing the consumption of electricity for lighting and the consumption of paper and toners for



printers. The results of those efforts remain to be determined as there is no full comparable year available yet.

Going forward, the Company will continue its efforts to make the environment and quality an active element of the employees' day-to-day work. Any gains from the ISO-certified harbours must be allocated to the rest of the business, and the same goes for experience gained from Clean Greenland – Green Companies. This is ensured through, for example, the HSEQ function and the environmental committee set up by the headquarters.

### Suppliers and business 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 attaches importance to requirements in order to promote sustainability – also beyond our own business.

The suppliers that Royal Arctic Line asks to sign the Company's purchasing terms and conditions commit to complying with the UN conventions on child labour, human rights, workers' rights, anti-corruption and the Rio Convention on sustainability and

environmental protection. Royal Arctic Line has identified 137 critical suppliers. The target for 2014 was to have 80% of them accept the CSR purchasing terms and conditions. That target has been achieved and outperformed.

Who is to sign the purchasing terms and conditions?

Suppliers are considered risk suppliers if they hold one or more of the following characteristics:

- They are strategic suppliers from which the Company purchases essential services/goods, or on which the Company depends in some way;
- They operate in critical countries or industries – such as the oil industry;
- They supply products that may affect the environment or safety at work – such as bunker oil, pallets, chemicals or work clothes;
- They supply products carrying the company logo - such as merchandise - that may affect the Company's reputation.

Suppliers having one or more of those characteristics are included in the gross list of suppliers that, based on a risk assessment, should sign the purchasing terms.

The number of critical suppliers has increased in both 2013 and 2014.

### 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, grease 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, control mechanisms and audit work to ensure that the Company's activities are always ethical. All employees have access through the Group's intranet to the policy and a reporting schedule for eg the receipt and handing out of presents.

The anti-corruption policy is based on a best practice edition, which was then adapted to the Company after a series of employee workshops. Prior to the adoption of the Group's final anti-corruption policy, 11% of the employees participated in workshops.

The aim is for at least 90% of the employees to become aware of the policy and to have an understanding of corruption by 2015.

### Involvement in local community

Royal Arctic Line intends to help the local community of which the Company forms part to develop positively. Therefore, the Company offers services, competencies and sponsorships for initiatives that would be of benefit to Greenland.

Royal Arctic Line's sponsorships primarily comprise free freightage for the lines operated by the Company and, in exceptional cases, financial support. The Company sponsors both very small events and large events, and every application is considered by its Sponsorship Committee that convenes once a month. Moreover, the Company strives to increase the level of involvement in long-term partnerships because a targeted effort is expected to have more effect on the community as a whole.

In addition, Royal Arctic Line co-operates with a wide range of trade associations and interest groups to promote sustainability in the shipping industry and in society at large.

### CSR efforts for 2015 and in the long run

Royal Arctic Line expects to continue its strategic CSR efforts in 2015, however, the Company has realised that the recession in Greenland affects prioritisation. When interests in oil and mineral exploration peaked around 2010/2011, there was a heavy demand for improving data collection and CSR reporting. Today this pressure from the external environment is not as high as back then. This does not mean that the efforts to strengthen the society of which Royal Arctic Line forms part have been given up. However, when the external pressure decreases there is a considerable risk that attention does so too.

In 2013, Royal Arctic Line achieved a very important goal: participation in the UN Global Compact. With the participation, a new framework has been laid down and now strong efforts must be made to be even more compliant in this respect.

In areas in which the Group has performed very well, such as supplier management, work must focus on ensuring continued success. In areas in which efforts made were not as successful as originally hoped for, such as data collection, focus needs to be increased in 2015.