

An aerial photograph of a vast, dense evergreen forest, likely a spruce or fir forest, covering a hillside. The trees are a vibrant green, and the perspective is from a high angle, looking down on the forest canopy.

KOTKAMILLS

SUSTAINABILITY REPORT

2018

INTRODUCTION

“We do our best to let everyone know that one can recycle the biodegradable package made out of our board easily for example with the publication paper waste. We also utilize the packaging waste at our own mill integrate, which is quite exceptional anywhere in the world. This is where the word ‘recyclable’ comes alive. Effective use of recycled raw materials saves the nature. We are leading the development from the front.”



Markku Hämäläinen
CEO

At the moment we are living in the middle of single-use plastic waste turmoil, a topic which has hit the fan just recently. Yet Kotkamills as an agile and customer oriented company has been in the forefront of innovation years ago when deciding on the 200 million euro investment in the production of plastic-free packaging boards before even the words plastic waste were heard at all. The brand new Board Machine 2 started two and a half years ago and offers a solution to the environmentally orientated and responsible customers who are concerned about the amount of plastics piling up in the nature. The cutting edge technology enables the production of easily recyclable and biodegradable barrier boards at competitive costs, unlike many other environmentally friendly alternatives items around us.

We understand the confusion of the general public who try to understand the difference between all the great many recyclable and biodegradable products that are being offered these days. Words beginning with “bio” or “recycle” are used lightly and they are badly inflated, aren’t they? Plastic is plastic no matter how much flowers you put around it. We do our best to let everyone know that one can recycle the biodegradable package made out of our board easily for example with the publication paper waste. We also utilize the packaging waste at our own mill integrate, which is quite exceptional anywhere in the world. This is where the word “recyclable” comes alive. Effective use of recycled raw materials saves the nature. We are leading the development from the front.

Our Saturating Base Kraft Absorbex® assists us in the sustainability challenge by offering laminating base paper grades that act as effective carbon sink for great many years in long lasting end products. We don’t want the valuable raw materials like sawdust to disappear to the sky as smoke fumes, a fact which we wish had more advocates.

Therefore both of the main businesses of Kotkamills enjoy the raw material deliveries by our own sawmill when both sawdust and chips, the by-products of the sawn timber, can be used efficiently in our paper and board production. Every part of the log is used for the production of sustainable paper and board grades.

To ensure the continuous improvements in energy efficiency we are in the middle of an investment process where especially the heat energy is under a close watch.

Our production lines operate at top world class efficiency, which is the end result of

good team spirit and high motivation of our personnel. Our employee safety and wellbeing is an important cornerstone of our way of operating. We encourage the open discussion, and speaking up anywhere and everywhere when any defects or improvement opportunities arise. We encourage the open and honest dialogue at all times, and we also conduct the employee satisfaction surveys to ensure several ways to feedback all of the emotions and ideas to the teams. We respect each other and support open discussion between all the employees. Upstairs/Downstairs culture is not our way of working, and respect for each other is in our operating DNA. The positive attitude towards work is also leading to improved occupational safety at the mill.

As a relative newcomer into the board market, combined with established long term business in laminating papers and sawn goods, the voice of our diverse customers are of utmost importance for continued improvement in all we do. It is also not only customers, but customer’s customers and consumers that drive our business. We have established several ways of listening to all of the participants in the value chain. We make sure to be able to sustainably, efficiently and safely answer to all of the demand in the value chain, all the way from the log in the forest to the plastic free alternatives for the consumer. Circularity as a concept is of high importance in all we do.

It is important to us to have close contacts to our society and to support many well-being activities in our home country, especially in the town of Kotka. We think that good business results can be best achieved when all the stakeholders are satisfied and supportive towards the company. Alone we can do very little, but together we can climb mountains.



COMPANY

COMPANY

Kotkamills Group specialises in the production of consumer board, laminating paper and wood products.



Kotkamills Group Oyj is a Finnish limited liability company established on 5 February 2015. Kotkamills Group Oyj and its subsidiaries form the Kotkamills Group (hereinafter, the “Group” or the “company”). In addition to the parent company, the Group comprises Kotkamills Oy and its subsidiaries Kotkamills Absorbex Oy and Kotkamills Wood Oy.

Kotkamills Oy was established in 2010. Multinational equity investment company OpenGate Capital owned the operations of Kotkamills Oy until 2015 when MB Funds purchased a majority of the company’s shares. State-owned Finnish Industry Investment Ltd, Elo Mutual Pension Insurance Company, and investment company Nordic Mezzanine Oy became the other new owners along with the company’s senior management.

Kotkamills Oy operates as an independent limited liability company, which has its domicile in Helsinki. The CEO of the company is Markku Hämäläinen while the Board of Directors is chaired by Hannu Puhakka.

The company employs around 500 people. Most of the employees work in Finland, but around 2% of them are employed in the foreign units in Germany and Spain.

The company’s key stakeholders include employees, customers, suppliers and sub-

contractors, interest groups, the authorities and the media. The company actively maintains open and constructive cooperation with all the stakeholders.

The Group specialises in the production of consumer board, laminating paper and wood products. Its operations are divided into two business segments: Consumer Boards and Industrial Products. The Group’s main brand names are ISLA® and AEGLE®, the consumer board brands, and ABSORBEX®, the laminating paper brand. The Group’s production plants are located in Kotka (also in the Tainionkoski district of Imatra in Finland as late as 2018). In addition, the company has foreign units in Germany and Spain.

The Group’s key business risks are related to changes in the general competitive situation, demand and supply in the paper, paperboard and wood product markets, the economic cycles and the geopolitical situation. The Group’s business operations are dependent on the reliability of materials management, production plants, logistics and information systems and the cost development of energy, fibre and other raw materials, transport and labour. Risk management is discussed in more detail in the financial statements and Board of Directors’ report for 2018.

KOTKAMILLS MANAGEMENT POLICY

In its operations, the company seeks to be a professional, responsible and active player in its industry.

We know our customers, we keep our promises and we are a flexible supplier.

We care about people, the environment and results. We perform our work with quality in mind, and we are committed to continuously reducing the environmental impacts caused by our operations and to preventing the contamination of the environment.

In all our operations, we take into account the principles of continuous improvement and sustainable development, environmental aspects, safety and effective laws and regulations. We require the same of our stakeholder groups as well.

We are initiators and innovators. We continuously carry out systematic development work to find new solutions and to meet customer requirements. We accept challenges and continuously develop our work methods. We reform and renew together.

We pay special attention to the work atmosphere and to occupational and product safety and aim at open interaction and communication, taking our employees and our stakeholders into account.



SUSTAINABILITY PRINCIPLES

The company is committed to managing and developing its business operations with responsibility for the economy, the environment, people and society. The Group meets and, if necessary, exceeds the requirements set by customers and national laws and regulations. The Group adheres to its values and principles in all the countries where it operates. Kotkamills proves its commitment by means of written corporate responsibility principles that incorporate principles concerning ethics, the environment, social responsibility, safety, product safety and the management of the origin of wood and fibre.

The Group's key principles include responsibility in all operations and continuous improvement. The Group sets targets for its business operations, environmental and product safety, corporate security and employee well-being and monitors their achievement. Stakeholders are provided with information about the Group's corporate responsibility targets and their achievement. Subcontractors and partners are required to comply with Kotkamills' values and corporate responsibility principles. The Group's systems have been verified by third parties (ISO, OHSAS and CoC certification).





A CIRCULAR ECONOMY FORERUNNER

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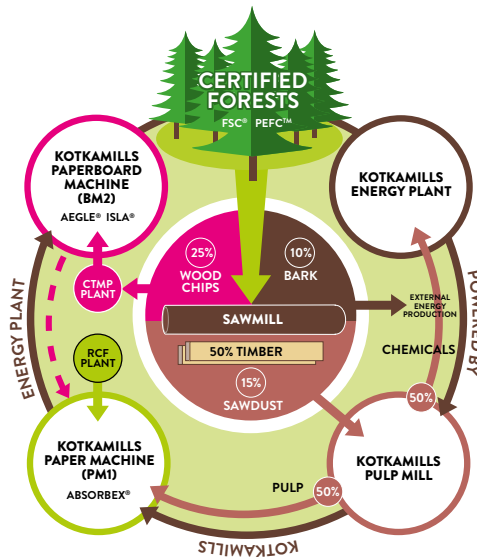
Kotkamills continuously develops both its operations and its cooperation with various stakeholders towards greater resource efficiency and as little environmental impact as possible. The business models of circular economy provide an excellent framework for developing the internal functions of the integrated unit and building new kinds of models of cooperation.

RESOURCE EFFICIENT INTEGRATED MILL SITE

Our integrated mill is capable of efficiently utilising wood raw material in the various stages of the production chain. Paper and board production utilise the sawdust and woodchips created when sawing spruce timber into planks. Refining sawmill by-products into raw materials that are suitable for our other production processes while minimising things like logistical impacts is both economical and beneficial to the environment.

Our pulp mill cooks the sawdust into cellulose pulp, which is then used without bleaching as raw material for Absorbex®. In turn, our chemi-thermo-mechanical pulp (CTMP) mill grinds the woodchips into semi-chemical pulp, which is then used as raw material for the middle layer of paperboard.

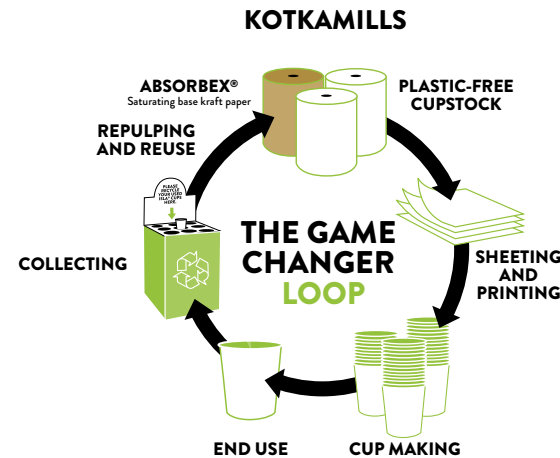
Currently, the black liqueur created as a by-product of cellulose pulp production is utilised in the energy production of the mill. We are exploring the potential to refine the tall soap to crude tall oil. We could then get greater value added from black liqueur and better utilise its capacity to bind carbon.



THE GAME CHANGER LOOP

High-quality northern wood fibre can be recycled numerous times to a variety of products. Recycled fibre can replace virgin fibre in end-use objects, which do not demand virgin fibre due to food safety reasons, for example.

Together with our local cooperation partners, we built a closed cycle we call the Game Changer Loop, which now serves as a reference in planning various circular economy models for other operational environments.



- Kotkamills Produces Cupstock
- The cup maker moulds cups out of cupstock
- Cafés and restaurants use the cups as serving dishes
- Consumers drink from the cups and place them in recycling boxes
- A recycling business delivers the boxes of used cups to Kotkamills
- The used cups are utilised as raw material for Absorbex® Eco laminating paper



ECONOMIC EFFECTS

ECONOMIC EFFECTS

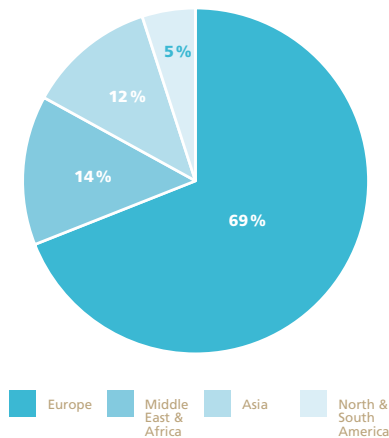
Kotkamills' responsibility is founded on the notion of profitable business. The company's economic measures have far-reaching effects, for example, in terms of job preservation and contributing to the creation of social well-being. Kotkamills wishes to be a reliable employee, supplier and partner.

Kotkamills' economic responsibility means paying special attention to the company's profitability and competitiveness. In a broader sense, it means focusing on the economic effects of the operations on stakeholder groups outside the company on a local scale and even further.

ECONOMIC VALUE ADDED

Kotkamills operations create direct economic value added mainly through its product sales. Kotkamills' revenue was EUR 353 million in 2018. More than 90% of this consisted of deliveries to countries other than Finland. The proportional origins of the revenue were as follows: 69% in Europe, 14% in the Middle East and Africa, 12% in Asia and 5% in North and South America.

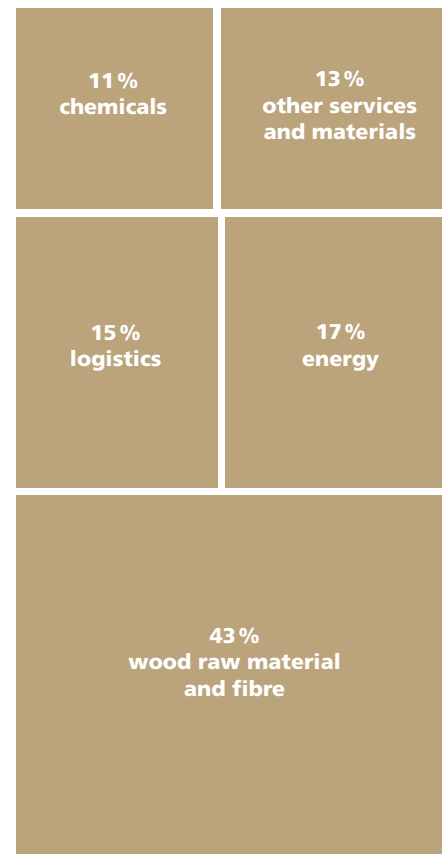
Revenue: 353 M€



In 2018, Kotkamills distributed economic value added outside the company particularly in the form of various costs related to operations. These costs consisted of wood

and fibre-based materials, such as cellulose pulp and recycled fibre, chemicals and extenders, electricity and natural gas, as well as a variety of services, such as logistics and servicing.

A breakdown of the raw material and service costs directly related to production activity in 2018 is shown in the chart below.



PROCUREMENT

Kotkamills seeks to mobilise local and regional suppliers in its purchases whenever possible. In particular, Kotkamills acquires servicing, contracting and logistics services from local suppliers.

The choice of suppliers is influenced by a number of factors, such as the price of the commodity and its operating and capital cost, the delivery time, the term of payment and other commercial terms and conditions, quality certifications, environmental aspects and certification, occupational safety performance and certification, product safety requirements, the management of wood fibre origin traceability (Chain of Custody), the supplier's desire and capacity to commit to Kotkamills' supplier specifications, as well as the level of the performance and decision-making guidelines (Code of Conduct) provided by the supplier to the personnel and suppliers of its own.

LOCAL EFFECTS AND ANTI-CORRUPTION

Kotkamills is a significant employer locally. In 2018, Kotkamills paid its employees EUR 33 million in salaries and remunerations; 96% of which went to employees in the Kymenlaakso region.

In all of its operations, Kotkamills complies with national laws and generally accepted ethical standards. The Group is regularly audited by customers, and these audits also often cover its ethical values and modus operandi. No deviation from any ethical principle regarded good or valuable has been detected during such audits.

All forms of corruption or bribery are strictly prohibited. Kotkamills seeks to ensure that its suppliers and partners comply with similar principles.

CLIMATE CHANGE MITIGATION



CLIMATE CHANGE MITIGATION

Environmental impact management, environmentally friendly products and climate change prevention are the corner stones of our operations, defining our success in environmental management and guiding our operations.

The location of the mills in Kotka next to the town centre, the increasingly stringent environmental and energy requirements, as well as growing environmental awareness, create challenges of their own for environmental management. Due to these causes, continuous development is rising to a role of increasing importance. Our environmentally friendly product portfolio and energy efficiency development, as well as our activities to promote circular economy, give us some brilliant ways of rising to the occasion.

RAW MATERIALS

The main raw materials used at the mills in Kotka consist of logs, sawdust and woodchips, purchased cellulose pulp and recycled fibre. The total volume of wood used in 2018 was around 1.5 million cubic metres, most of which (94%) had been procured from Finland.



94%
Of the wood used, was procured from Finland.

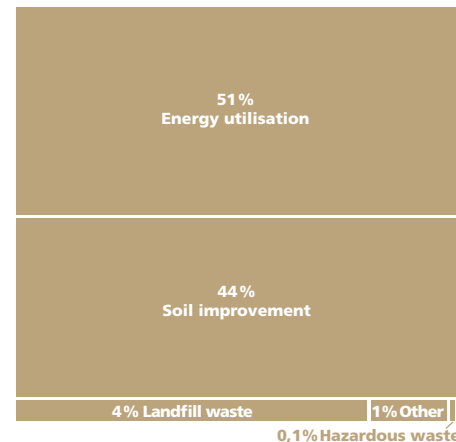
We seek to utilise the side flows and fractions of the mills in Kotka as efficiently as possible. At the integrated sawmill, we utilise logs thoroughly and use the by-products of the process, such as woodchips and sawdust, to manufacture cellulose and semi-chemical pulp. We get around 10% of the sawdust used to manufacture cellulose pulp from our sawmill, as well as around 35% of the semi-chemical pulp, or woodchips, used to manufacture paperboard. Our company production focuses on products that are recyclable and long-lived. The long useful life of our industrial products (timber and Absorbex®) guarantees long

carbon sequestration and thus helps to combat climate change.

One important raw material in the manufacture of Absorbex® is recycled fibre. We used more than 24,000 tonnes of recycled fibre in 2018. Using recycled fibre reduces the use of virgin fibre and is a welcome and more environmentally friendly alternative (See page 9).

We seek to utilise the waste and side flows generated during the various processing stages at the mills in Kotka in the best way possible. The mill utilisation rate was 96% in 2018. The greater part of the waste and side flows consists of bark and purification plant sludge. We utilise the bark for energy and the sludge for soil improvement. In 2018, the proportion of hazardous waste in relation to the total

Waste and side flows by application



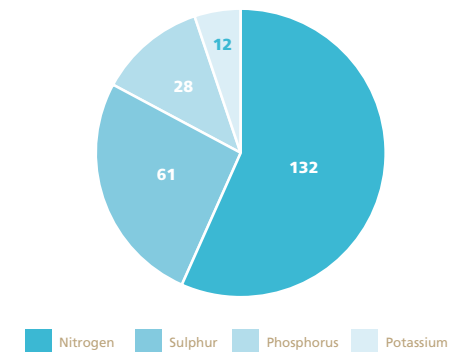
volume of waste was only 0.1%. The volume of landfill waste was 3,095 tonnes, mainly consisting of green liqueur sludge created in the manufacturing of cellulose pulp.

A good example of an environmentally friendly selection of products is our fully recyclable, plastic-free paperboard and its recyclability back to products instead of incineration. Plastic-free paperboard cups and plates are used at the mills in Kotka and are then collected into collection containers of their own. After this, the containers are taken directly to the mill's own recycled fibre treatment plant, where the cups and plates are made into recycled fibre. Paper machines use this fibre along with cellulose pulp as raw material for making laminating paper. Laminating paper is used to manufacture products, such as trays, tables, kitchen counters and other long-lived products. Cups and plates, which are conventionally incinerated, can thus be brought back as products to retain carbon for years to come (See page 9).

We utilise sludge from the wastewater purification plant for soil improvement. Incineration or fertiliser use is often the only option for sludge disposal. We seek to do our part in slowing down climate change by searching for alternative solutions. One good solution is to use purification plant sludge as nutrient fibre, which is used for soil improvement on farm fields. With the help of nutrient fibre, we can increase the yield from these fields, taking pro-environmental action by retaining carbon in the fields instead of incinerating it. In 2018, we were able to use lime-stabilised sludge to retain 8,824 tonnes of CO₂ in the soil,

corresponding to around 50% of the total fossil carbon dioxide emissions of pulp production.

Nutrient recycling [t]



In addition to reducing our carbon footprint, we were able to replace 132 tonnes of nitrogen and 28 tonnes of phosphorus by recycling nutrients back to the fields. Without nutrient recycling from sludge, we would have had to produce these nutrients by less ecological means.

AIR PROTECTION

Most of the emissions to air from the mills in Kotka originate in energy production. Of these emissions, the most significant ones are sulfur dioxide (SO₂), nitrogen oxides (NO_x), particulate matter (PM) and carbon dioxide (CO₂). The management of sulfur and nitrogen oxide emissions to air is important especially in terms of comfort and air quality in the nearby area since the emissions weaken air quality through acid rain and soil acidification. In turn, particulate emissions can be seen above all as aesthetic detriment. Carbon dioxide does not cause any downright local harm, but it is a significant greenhouse gas causing global climate change. The company is actively working to improve air quality. Making the existing processes and cleaning methods more efficient and developing energy efficiency are an important part of our daily operations.

Continuous improvement can be seen in terms of air protection. With regard to nitrogen oxides, the particulate matter of the mills in Kotka stood at 9.7 tonnes in 2018 (11.6 in 2017). For nitrogen oxides (Nox), the figure was 353 (399) tonnes and for sulfur dioxide (SO₂) 25.6 (13.3) tonnes. Fossil carbon dioxide (CO₂) emissions were at a lower level than in the previous year, being 237,768 (238,655) tonnes. However, the nitrogen oxides (Nox) and carbon dioxide

(CO₂) emissions depended on the manufacturing level in particular and thereby on the energy demand.

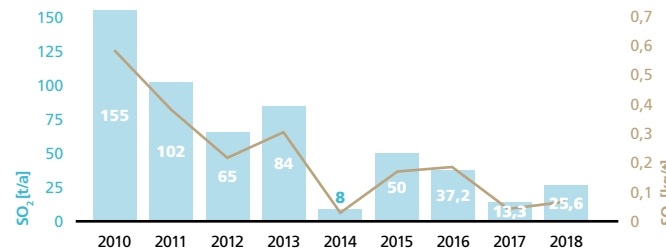
The revision of the gas turbine, completed in the summer of 2018, is significantly reducing emissions of nitrogen oxides (NO_x) from the mill. Along with carbon dioxide, nitrogen oxides are the most significant air emission from energy generated from natural gas. Thanks to the modernisation of the gas turbine, the emission of nitrogen oxides (NO_x) from energy generated by fossil fuels is expected to drop by 50%.

Emissions of nitrogen oxides and carbon dioxide were at a lower level than in the previous year. By comparison with 2010, the development was favourable for both in relation to our production level.

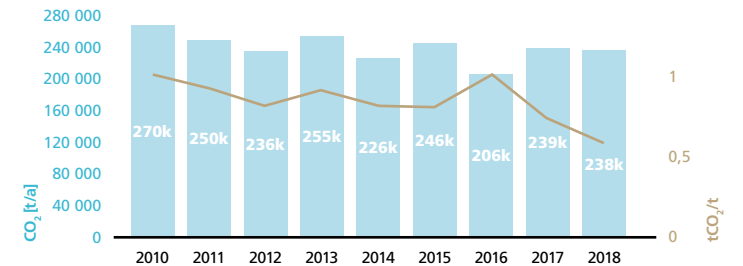
The company's level of air protection has improved markedly in recent years. Since 2010, sulfur dioxide emissions to air have decreased by 83% and particulate matter emissions by 70%. There has also been some favourable development for carbon dioxide emissions and the fight against climate change. Since 2010, we have been

able to raise the production level and lower carbon dioxide emissions. All in all, carbon dioxide emissions have decreased by 12% and in relation to our production volumes by 40%.

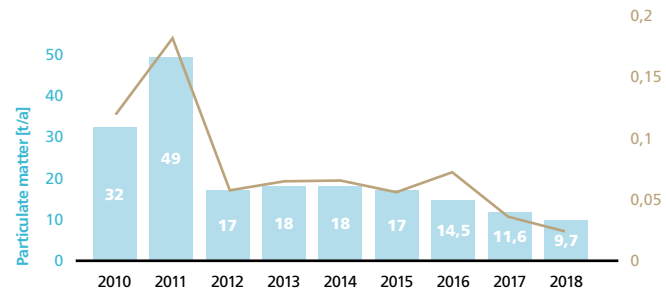
Sulfur dioxide (SO₂)



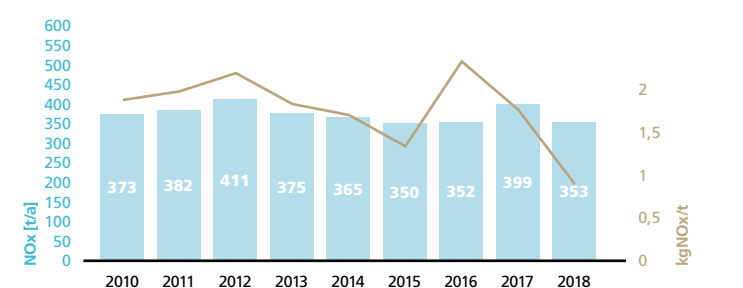
Carbon dioxide (CO₂)



Particulate matter



Nitrogen oxides (NO_x)



WATER PROTECTION

One of the company's key environmental indicators is wastewater treatment performance. The various processes at the mill create process water that has to be treated by purification before it can be discharged into the waterway. The production of paper, paperboard and pulp at the mill is a water-intensive process. Water is used for cooling, producing steam and manufacturing pulp and paper.

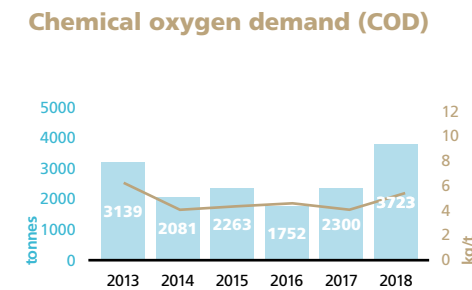
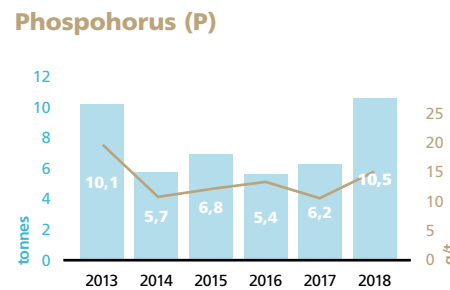
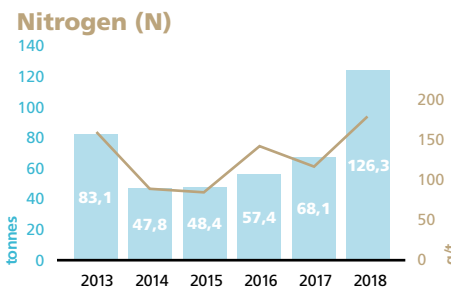
99,8%
of all the water used consists of surface water.

Mostly, the mill uses river water or seawater, so only a small portion of service water is obtained elsewhere. Of all the water used by the mill, 99% consists of surface water—in practice, river water or seawater. For the mills in Kotka, the most significant source of raw water is the Kymijoki flowing into the Gulf of Finland.

In terms of water protection, 2018 was a challenging year. The production level, which had grown from the previous year, posed challenges at the wastewater purification plant, and so the wastewater treatment performance failed to reach the previous year's level. This was seen in higher load values and references by various sources. During the challenging early part of the year, we took a large number of measures for developing our wastewater purification plant performance. These measures were successful and the performance of the wastewater purification plant progressed markedly during the latter part of the year. Chemical oxygen demand (COD) stood at 3,723 tonnes, phosphorus (P) at 10.5 tonnes and nitrogen (N) at 126 tonnes in 2018.



Wastewater demanding purification mainly consists of chemical oxygen demand (COD), nitrogen (N) and phosphorus (P). The purpose of wastewater treatment is to purify process water with sufficient effectiveness so that it can be safely discharged into the waterway. The company's wastewater purification plant treated 10,947,561 m3 of wastewater in 2018.

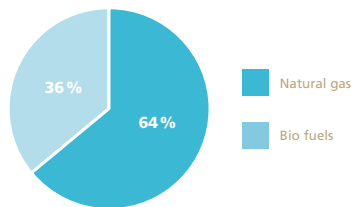


Includes the manufacturing of paper, paperboard and pulp

ENERGY

Energy efficiency and its development are among our most important operational focus areas. Most of the energy produced at the mills in Kotka is generated at a combined cycle power plant. The proportion of biofuels in relation to our total energy production is 36% and mainly consists of black liqueur burned in the recovery boiler.

Energy consumption



Our investments and focuses on improving energy efficiency have mainly been related to reducing the need for primary energy, as well as recovering waste heat and making use of it in internal processes. The development of existing processes and increasingly energy-efficient process plans have helped us achieve our energy efficiency goals. The integrated mill in Kotka is energy self-sufficient in terms of heat and electricity. Its electricity self-sufficiency rate was 115% in 2018.

In the same year, the most significant investments and measures affecting energy

efficiency included the modernisation of the gas turbine and the expansion of the internal district heating network.

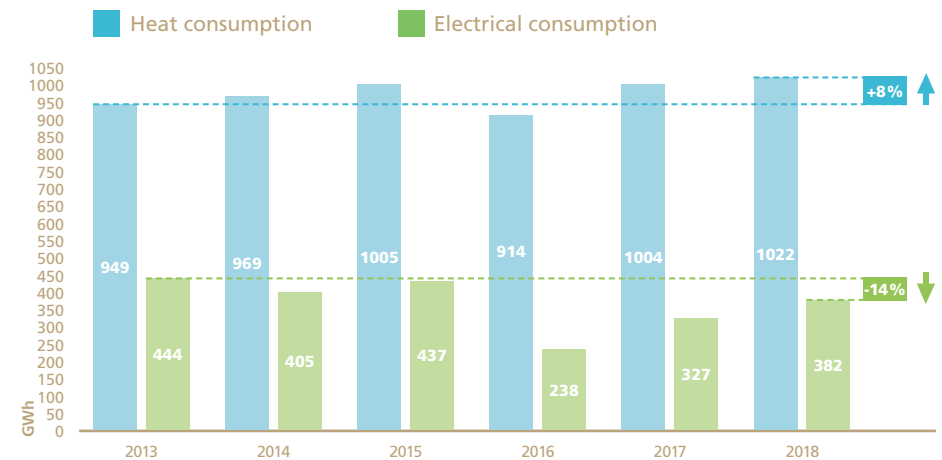
The new network takes waste energy from the flue gases of the power plant more extensively and uses the obtained heat to replace direct steam applications, reducing the need for primary energy.

The modernisation of the gas turbine, aiming to improve the energy efficiency of heat and electricity production, as well as to reduce environmental impacts, was completed during 2018. Due to this revision, the useful efficiency of the gas turbine improved by more than 5% and emissions of nitrogen oxides (Nox) are expected to fall by 50% from their current level.

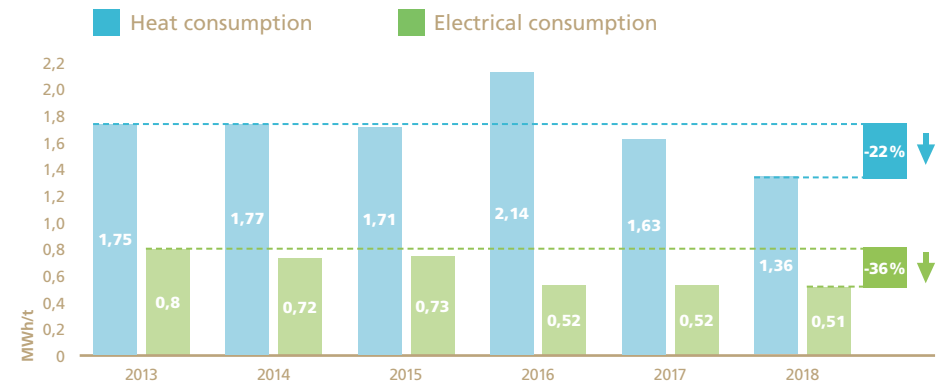
The continuous development of energy efficiency is important for slowing down climate change and it reduces our need for primary energy. Carbon dioxide (CO₂) emissions per tonne of paper or board have fallen by 40% since 2010. Reduced energy consumption, gained by using energy efficiently, and reduced emissions make financial and environmental sense. This is why energy efficiency has also featured prominently in the annual target programmes of the mill.

The measures taken and the investments made with energy and process efficiency in mind are clearly visible in the use of energy at the mills in Kotka. The total heat consumption has increased from the level in 2013 mainly due to the rising level of production, but the specific electrical and heat consumption indicates great progress. Specific electrical and heat consumption in proportion to production has decreased by 36% and 22% respectively since 2013.

Total consumption



Specific energy consumption



Includes the manufacturing of paper, paperboard and pulp

Raw ingredients	t
Log	440 994
Woodchips	128 057
Sawdust	273 304
Cellulose pulp	76 727
Recycled fibre	24 449
Fuels and electricity	MWh
Natural Gas	1 194 031
Biofuels	670 303
Water intake	m ³
Surface water	14 005 138
Municipal water	258 980
Share of surface water	99,8 %



Air emissions	[t]
Fossil CO ₂	237 768
Bio CO ₂	261 830
SO ₂	25,6
TRS (S)	1,8
NOx (NO ₂)	353
Particles	9,7

Products	
Pulp production	301 270 t
Paper and board products	415 875 t
Timber	199 807 m ³
By-products	
Tall oil soup	6 520 t
Turpentine	254 t

Waste according to application	[t]
Energy utilisation	39 845
Soil improvement	34 652
Landfill waste	3 095
Hazardous waste	63
Other	605

Emissions to the sea	
Volume of wastewater	10 947 561 m ³
Suspended solids	1 679 t
BOD	777,45 t
COD	3 723 t
Nitrogen	126 327 kg
Phosphorus	10 512 kg

SINGLE-USE PLASTICS REPLACEMENT: CASE CONSUMER BOARDS

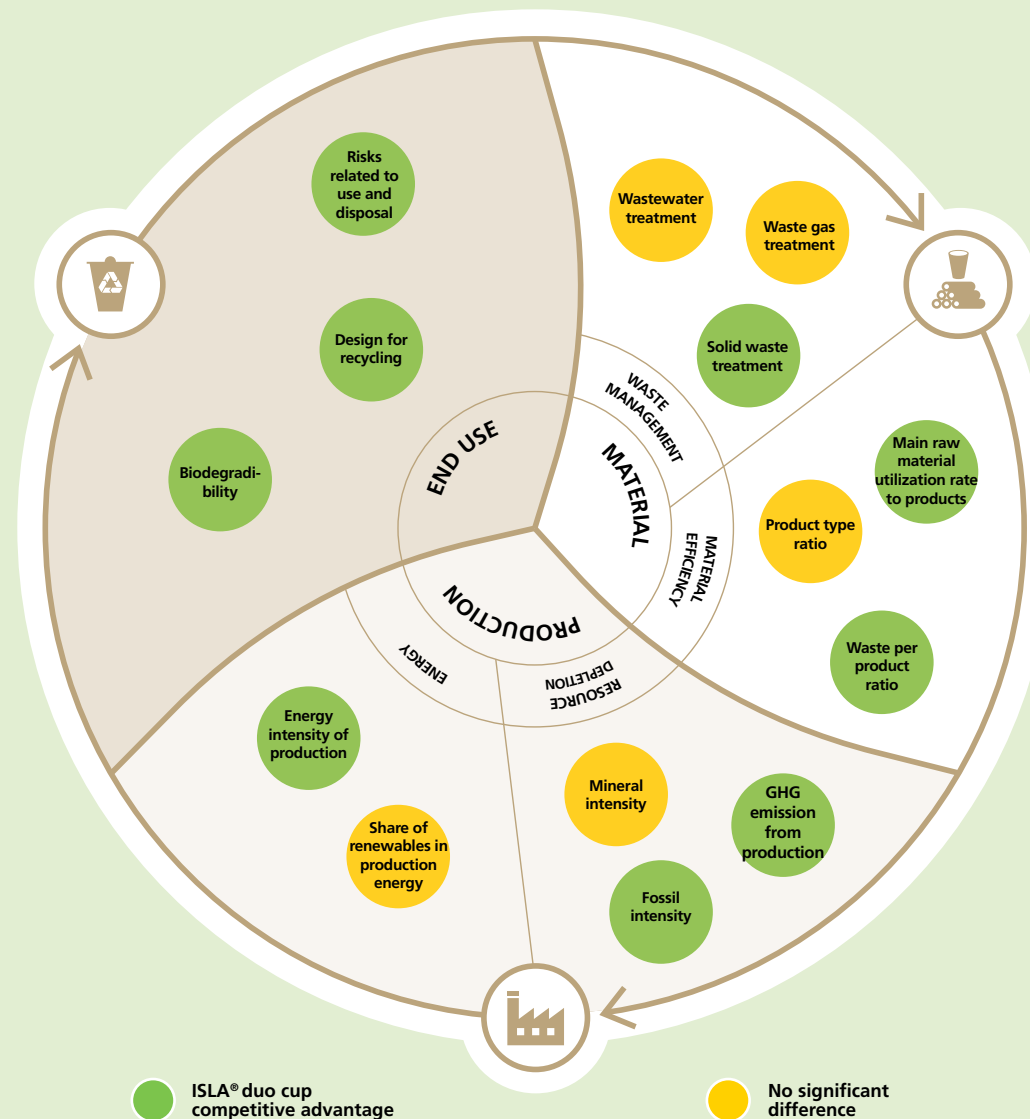
Kotkamills consumer boards can replace many end uses of plastic or plastic coated single-use products.

To make ISLA® and AEGLE® consumer boards, launched in 2018, Kotkamills utilises the newest technological innovations, which allow coating the board with a water-based dispersion barrier layer. This layer prevents fluids, moisture or grease from being absorbed through the board, which is why it can replace many commonly used plastic solutions.

ISLA® products are mainly designed for various end uses of cups while AEGLE® folding box boards are suitable for a wide range of packaging needs, such as packaging greasy or frozen foods, medicines or cosmetic products. These products do not contain any fluorochemicals, which may have potentially adverse health effects.

All of our products are plastic-free, so they can be recycled with other board or paper. The use of wood fibres is of great importance to us. Together with our waste management operators, we are seeking to promote better paperboard product recycling. However, if a coffee cup or some other product made of our paperboard is left outdoors instead of being recycled, it helps to know that the product is biodegradable.

PE plastic coated cup vs. ISLA® cup



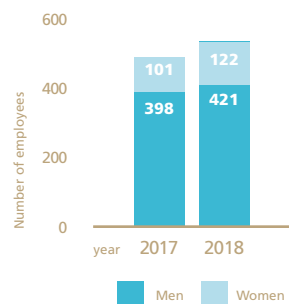


SOCIAL EFFECTS

SOCIAL EFFECTS

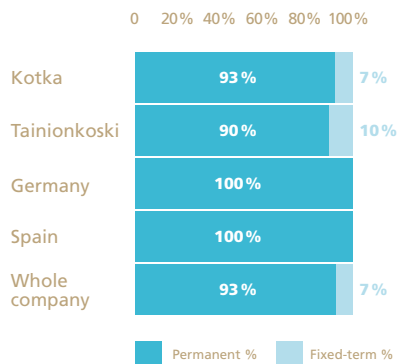
EMPLOYEES

Number of employees by gender



At the end of 2018, Kotkamills Group Oyj had 542 employees, of whom 421 (around 78%) were men and 121 (around 22%) were women. The number of employees rose by around 9% from the previous year.

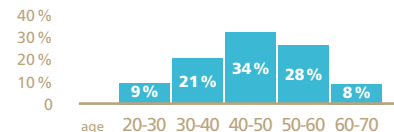
Form of employment



At the end of 2018, the foreign units in Germany and Spain had a total of 10 employees while the units in Finland had 532 employees: 493 in Kotka and 39 in Imatra.

Most of the employees (93%) have permanent employment contracts. Fixed-term employment relationships are used, for instance, when hiring substitutes for employees on sick leave and social leave, such as parental leave.

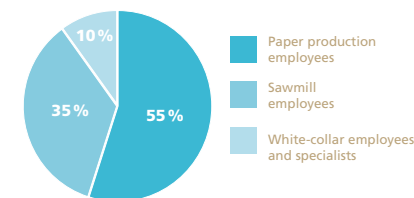
Age structure



The age structure of the Group's employees is on a sustainable foundation, taking into account employee retirement and turnover. The employees' average age was 44 at the end of 2018. The average age for men was around 46 years, and for women around 44 years.

The age structure follows the same distribution throughout the various business operations and categories of employees.

Number of employees per division

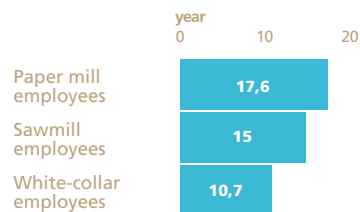


At the end of 2018, the proportion of paper production employees in relation to the total number of personnel was 55% while the proportion of sawmill employees was 10% and that of specialists and white-collar workers was 35%.

EMPLOYEE RELATIONSHIPS

Employment relationships have traditionally been long in the Finnish paper industry. The Group's employees' average duration of employment was around 15 years at the end of 2018. The average duration of the paper mill employees' employment relationships was nearly 18 years, and the average duration of sawmill workers' and white-collar employees' employment relationships was around 11 years.

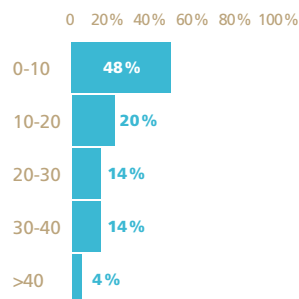
Duration of employment



At the end of 2018, the average duration of employment for women was around 10 years, with the average duration for men being around 16 years.

In relation to the total number of Group personnel, the proportion of employees whose employment relationships had lasted at least 30 years was 20% while the share of those whose employment relationships had lasted less than 10 years was 50%.

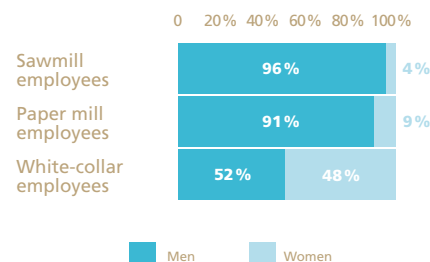
Duration of employment grouped by years



The proportion of women's fixed-term employment relationships in relation to the total number of personnel was 1%, and that of men was 3%.

The proportion of women was smaller than the proportion of men in all categories of employees. The proportion of women of all paper and board production employees was 9%, and their proportion of sawmill workers was 4%. The proportion of women of all white-collar employees was 48%.

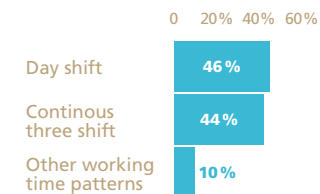
Gender distribution by function



The proportion of women is relatively small particularly in production work because the number of women pursuing a vocational qualification in process engineering is smaller than that of men, and such a qualification is required for working in the production positions of the Group.

Most of our production plants usually run continuously every day of the year, so 44% of the Group's employees work in continuous three shifts. Almost the same proportion of employees has daytime jobs while around 10% has other working time arrangements.

Working time patterns



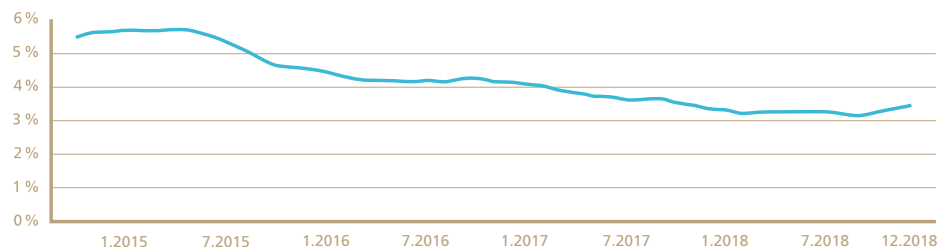
The number of employees in the continuing business operations increased in 2014–2018, with the net change being around 80 people. During that time, the Group recruited around 160 employees. Around 80 employees left the organisation, mostly due to retirement.

In 2018, the overall employee turnover rate was relatively low at around 5%.

WELL-BEING AT WORK

Employee working capacity can be measured, for example, by means of the sickness absence rate. With sickness absences decreasing, the working capacity of the Group's employees has improved over the past five years. The sickness absence rate was 6.5% in 2014 and 3.5% at the end of 2018.

Sickness absence



TRAINING AND DEVELOPMENT

The company encourages its employees to actively develop themselves. The Group enables its employees to update their professional skills and complete new qualifications, even during working hours. Around 10 people either completed a vocational qualification or a higher education degree or started to study towards one during 2018. According to the company's personnel policy, all new employees must have at least a vocational qualification. The company cooperates closely with vocational institutions in Kotka and Imatra in particular.

The company invested EUR 216 480 € in training in 2018. The total duration of the training provided was 4034 hours, and the total number of participants was 310. In other words, around 63% of the employees participated in training of some sort provided during working hours.

The Group cooperates very closely with local educational institutions in particular. It secures a practical training placement for all students of process engineering at the local vocational institute to complete their mandatory training requirement in one of its production plants. In this way, the company ensures the availability of a competent workforce, engaging the students at an early stage and offering them the opportunity to work for the company after they complete their studies.

Each company employee has the opportunity to have annual performance and development appraisals with their immediate supervisor. The company management monitors the completion of the appraisals. Recognising the need for in this area, the company management actively encourages supervisors to have appraisals with their subordinates regularly.

SALARIES AND REMUNERATION

The company has achieved salary equality. In particular, its paper and board production employees are subject to the collective agreement for the paper industry, which contains detailed provisions on salaries. The company adheres to the principle of equal pay for equal work. In 2018, the average annual salary of a paper mill employee was around EUR 52,000.

White-collar employees' salaries are also equal and fair. The basic salary for identical jobs is the same, with any differences being based on experience gained through the duration of employment. The average annual salary of a white-collar employee and a senior salaried employee was around EUR 53,000. There are no differences between men's and women's basic salaries.

The company pays monthly or annual performance bonuses. The performance bonuses paid in 2018 totalled around EUR 700 per employee. All employees participate in the remuneration system.

Initiative bonuses were paid to 25 employees, totalling around EUR 5,000.

EQUALITY

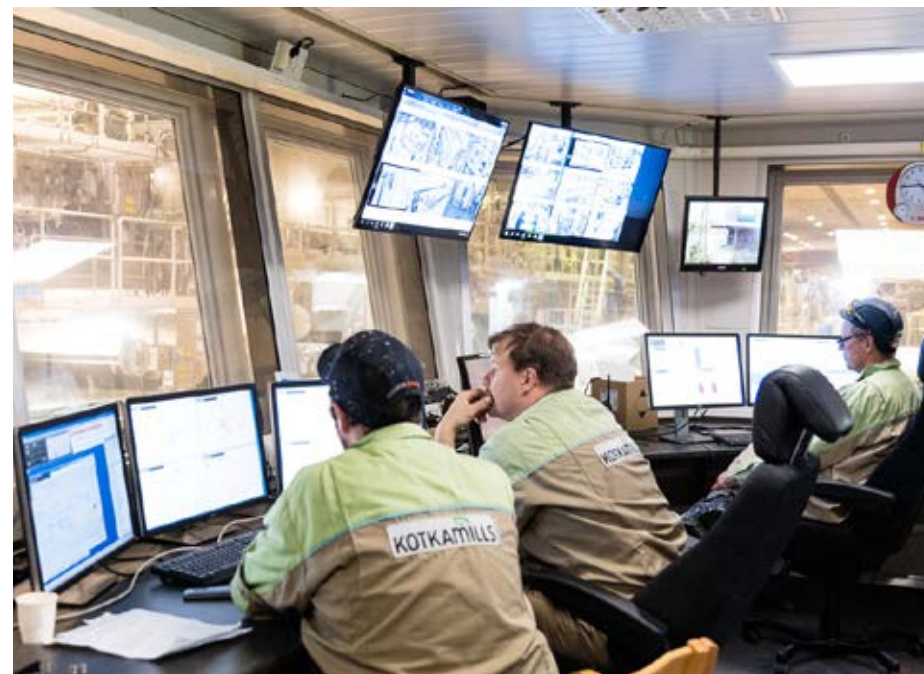
Kotkamills complies with the Act on Equality between Women and Men and the Non-discrimination Act. Each employee must address any discriminatory or inappropriate behaviour. Each employee must report any inappropriate behaviour or conduct to their supervisor or the shop steward.

The company integrates equality into induction training and training for supervisors. In addition, shop stewards and occupational health and safety (OHS) representatives play a key role in terms of equality. Their role in promoting equality is taken into account when organising trainings.

The company's recruitment practices are appropriate. Gender, age, religion, family relations or other non-work aspects play no role in terms of the availability of training or career development opportunities. The purpose of personnel planning is to anticipate future needs well in advance: mainly needs arising from changes in terms of retirement or competence demand.

Discrimination is not tolerated in any form and the company seeks to prevent all foreseeable forms of discrimination. Managers and supervisors play a key role in preventing discrimination. No discrimination cases were reported within the company in 2018.

An employee satisfaction survey is being supplemented with several questions concerning equality and the fulfilment of the plan. One of the overarching goals is to develop Kotkamills Oy into an even more equal workplace.



ETHICS AND THE SHOP STEWARD SYSTEM

The Group complies with national laws and generally accepted ethical standards. The Group is regularly audited by customers, and these audits also often cover its ethical values and modus operandi. No deviation from any ethical principle regarded good or valuable has been detected during such audits. The Group is committed to respecting human rights, which is also reflected in its internal guidelines. The management has committed to creating a Code of Conduct during 2019.

Freedom of association for all employees is of paramount importance. The company management engages in active dialogue with key trade unions. The company adheres to national collective agreements for the paper industry and seeks to have a positive effect on local agreements as well. The rate of organisation in the category of blue-collar employees is nearly 100%.

Each category of employees has a shop steward system, with the representatives being elected from among volunteers. Shop stewards enjoy legal protection in accordance with the Employment Contracts Act. A shop steward represents their category of employees and manages issues raised by the employees in cooperation with the employer's representatives.

The various categories of employees also have their OHS representatives, who represent the employees in matters related to occupational health and safety.

The Group has a Cooperation Negotiation Committee, which consists of representatives of the company management and representatives elected by the various categories of employees. The committee convenes four times a year to discuss matters in accordance with the Act on Cooperation within Undertakings.

For several years, the Group has cooperated with the Sotek Foundation, which promotes employment among young people by organising activities for people without an education and people recovering from illness or injury, as well as the long-term unemployed and partially disabled. For disabled young people, the foundation offers cooperation, participation and experiences of success in work and activities.

MARKET ABUSE REGULATION

The Group makes use of a whistle blowing system. This is an independent channel, which employees can use to send internal reports on suspected infringements of the provisions and regulations governing financial markets. Financial market regulations include all national laws, decrees and regulations and EU regulations monitored by the Financial Supervisory Authority.

