

UNITED NATIONS GLOBAL COMPACT COMMUNICATION ON PROGRESS 2013

1 CEO STATEMENT

As a signatory of the Global Compact, Austrian Federal Forests plc. (Österreichische Bundesforste AG, hereafter abbreviated as ÖBf) is committed without reservation to compliance with the ten principles of the UN Initiative. ÖBf is a public sector organisation under the sole ownership of the Republic of Austria and, as such, is not only subject to review by the Austrian Court of Audit. It also serves as a role model for companies in the private sector, for example in the areas of procurement and corporate governance. In addition, ÖBf is mandated by the ÖBf Act of 1996 to maintain the substance of the natural assets entrusted to its care.

At the national level, we are one of the leading companies in the forestry sector. Alone this role creates a special economic, social and ecological responsibility. We make sure the forestry ecosystem remains intact and can fulfil its legally intended functions: to supply renewable raw materials, to offer protection against natural hazards, to provide fresh air and clean water and to serve as a place of rest and recreation with virtually unlimited access for all people.

The Central European forestry sector drew public attention to these services on the occasion of a special anniversary in 2013: in 1713 the Saxon mining administrator Hans Carl von Carlowitz published a forestry digest in which he – given the dramatic shortage of wood – called for the sustainable use of the raw material timber in the interest of future generations and provided exact instructions for meeting this goal. This set the foundation for the farsighted use of resources. ÖBf also organised a number of anniversary programs during 2013 that focused on the future-oriented handling of nature and its resources.

At the international level, we are active as consultants and service providers and actively live our values and principles in dealings with our customers. We also place high importance on compliance with the principles of sustainable development when we purchase services or products that originate outside Austria. Our stated intention is to never be involved in human rights violations or the destruction of nature and the exploitation of resources. Climate change also requires us to think in global dimensions because our dual function as a manager and user of natural areas and natural resources

global climate, their maintenance is also an important factor for mediating the effects of climate change. This underscores the importance of our consulting work on projects in the Balcan and Black Sea region, in Africa, Central America and South-East Asia. In spite of the generally high legal standards and strong collective awareness for social and environmental issues in Austria, we still see opportunities for improvement and further development. The past months have brought an increased perception of undesirable trends and greater sensitivity on the part of the general public. We are well aware, as initially mentioned, of the position of public sector companies as a role model and the increasing demands of legislators to adequately fill this role.

The benchmark for evaluating our progress from an economic, social and ecological standpoint is defined in our Sustainability Balanced Scorecard, which was developed in 2003 and covers 15 core indicators that are published as part of our corporate reporting. The external proof for the sustainability of our forestry management is demonstrated through our certification by the Programme for the Endorsement of Forest Certification Schemes (PEFC).

Our management culture is the subject of continuous development at several levels. In 2013 the related activities included the creation of a "management compass" to define the principles of strategic and operational actions for the second management level as well as the introduction of feedback instruments, the advancement of young people and the development of future talents. We also made good progress on improving equal opportunity between men and women. All these elements together create an optimal foundation for legal compliance and good corporate governance. In addition to the internal effects that demonstrate the importance of the Global Compact principles for our company, we also support the external application of these principles by declaring our support through our media presence and playing an active role in the Austrian network.



Georg Erlacher

Speaker of the Management Board

Purkersdorf, May 2014

2 DESCRIPTION OF PRACTICAL ACTIONS

ÖBf elected to utilise the option of harmonising the publication of this Communication on Progress based on the UNGC with the publication of the annual report. Accordingly, the following information covers the period from October 2012 to December 2013 as well as the latest developments up to May 2014. The financial year is identical to the calendar year. The annual general meeting, which also approves the financial statements, is held annually in May.

2.1 Ensuring legal compliance

A database has been under development by ÖBf since autumn 2013, which will cover environmental law as well as the interrelated subject areas between environmental and employee protection laws, above all plant-related and chemicals legislation. In addition, the internal control system (ICS) includes documentation on the processes used by the responsible corporate departments and their legal advisors to ensure that all changes in legal regulations are communicated internally and incorporated into training programmes. Another important standardisation instrument is the company's contract manual, which provides sample texts and explanations for all major legal matters and business transactions

As a stock corporation wholly owned by the Republic of Austria, ÖBf AG is subject to the rules of the Public Corporate Governance Code (B-PCGK). This code was approved by the Austrian federal government in October 2012 and incorporated into the ÖBf articles of association in May 2013 based on a resolution of the company's annual general meeting. The goal of the B-PCGK, as stated in chapter two, is to "make the management and monitoring of companies more transparent and understandable and to more clearly define the role of the federal government and its corporate investments as shareholders". The first report prepared in accordance with the B-PCGK was presented to the annual general meeting in May 2014 and published on the ÖBf website. With three exceptions – the scope of insurance coverage for managerial and control bodies (mandatory rule), a quota for the share of women on control bodies and more than six seats on control bodies (recommendation) – all requirements were met during the 2013 reporting year. All variances from the rules were explained. At the annual general meeting in May 2014, the new Federal Minister for Agriculture, Forestry, Environment and Water Management, Andrä Rupprechter, who was appointed in connection with the government reorganisation in December 2013, took a first step toward meeting the quota for the share of women on supervisory boards – 25% by 31.12.2014 and 35% by 31.12.2018 – and appointed the first woman in the history of ÖBf to this six-member body.

2.2 Implementation measures in the Issue Area Human Rights (Principles 1 and 2)

The facts show that ÖBf did not commit or tolerate any human rights violations at the individual or collective level during the reporting period. ÖBf has not issued guidelines or procedural instructions that explicitly relate to human rights because this issue is not

relevant for its business activities. The protection of employees' personal and civil rights and the prevention of possible intrusion – for example in the area of data protection – through cooperation with the works council are a matter of course for ÖBf. This also applies to support for human rights in ÖBf's sphere of influence.

The protection of international human rights was indirectly addressed in 2013 with the issue of guidelines for sustainable procurement, the publication of a manual and internal training as well as the standardisation of procurement processes. ÖBf does not purchase any products that were produced under inhumane conditions or originate from uncertain sources. Employee branding was expanded in 2013 in connection with the anniversary "300 years of sustainable forestry". Outdoor jackets and T-shirts that give the company's employees a standardised appearance in public were produced in Central Europe with certified materials after an extensive tender process. In the procurement of foodstuffs, items with fair trade or similar certification are purchased on a regular basis. Fair trade production is also a focus for non-Austrian food and beverages served at events organised by management that are certified according to the Austrian eco-label for "Green Events and Green Meetings" (*also see section 2.4*).

2.3 Implementation measures in the Issue Area Labour (Principles 3 to 6)

The elimination of all forms of forced labour and child labour, as discussed under Principles 4 and 5, is only relevant for ÖBf as a primary sector producer in connection with the purchase of products and services and is included under section 2.2. Therefore, the following section only deals with Principles 3 and 6, where ÖBf is able to take direct action.

2.3.1 Employees

Approximately 96% of the Austrian employees are covered by collective agreements, which guarantee minimum standards and legal security in employment relationships. Austria is an international leader with respect to employees' coverage under collective agreements.

ÖBf is a collective agreement partner and negotiates each year – in advance for 2013 and 2014 – directly with the representatives of two unions, one for wage employees and one for salaried employees, over issues involving wage and salary increases and other related regulations. As indicated in the first progress report, this process supports the continuous improvement of working conditions in agreement between the employer and employees. Additional regulations and benefits, e.g. concerning working time models and opportunities for reduced-cost holidays in an ÖBf property, are defined in agreements between the company's management and the works council.

The focal points of the collective agreements and company agreements as of 1.1.2013 are as follows:

- Remuneration is no longer determined primarily by automatic factors, e.g. seniority and education, but is also based on qualifications and the readiness to obtain the necessary credentials for the respective position. This represents an important step towards disengaging compensation from age and tying compensation to performance.
- The remuneration scheme for internal sales and field sales was modernised. These measures apply, above all, to office positions, which are filled primarily by women.
- Flexible working time options were expanded, and will provide advantages for both the employer and employees through improvements in the work-life balance, the reconciliation of work and family life and capacity orientation.
- Early parental leave for fathers was anchored in the collective agreement.

As reported in 2011, the measures to eliminate discrimination are concentrated primarily on equal opportunities for men and women as well as the integration of persons with special needs into the workforce. No additional efforts have been made to date, above and beyond legal requirements, to increase the number of disabled employees working in ÖBf. In contrast, the advancement of women remains a core issue for human resources management.

The Austrian equal opportunity act requires companies with more than 1,000 employees to produce a report every two years on the income structure of male and female employees. ÖBf met this requirement by issuing a report in 2012. The results were analysed by the staff department responsible for personnel development and discussed with the central works council. Conclusions were then developed in agreement with the Management Board. These conclusions were incorporated, among others as indicated in the above commentary on the collective agreements, in ongoing measures to improve equal opportunity and, above all, in measures to reduce the remuneration differences within the individual functional groups. The focal points in 2013 included:

- the creation of opportunities for men and women on parental leave to participate in training programmes and to work on specific projects;
- the introduction of a "parental leave dialogue" in which the manager and employee together design an optimal basis for re-integration in the company;
- continued close cooperation with training facilities and participation in programmes like the international "Girls' Day" to encourage young women to pursue forestry-related education and thereby increase the currently very low number of female graduates and pool of potential ÖBf employees.

The very low number of female foresters is also one of the reasons for the significantly higher number of men in the Austrian forestry sector and, consequently, also in ÖBf. The ÖBf workforce comprised 184 women and 963 men as of 31.12.2013, which represents a share of women slightly over 16% (+2.6 percentage points versus 31.12.2012). The ratio of female to male wage employees was 43:506, while the ratio of female to male

salaried employees was 141:457. The share of women in salaried positions equalled 23.6% in 2013, which is 0.4 percentage points lower than year-end 2012. In contrast, the share of female wage employees rose by 0.9 percentage points to 7.8%. Women are still underrepresented in higher and, above all, upper level management functions. At the present time, none of the company's key managers is a woman. However, the share of women in middle management is increasing. Four of the 119 forestry district directors are women, and 10 men and two women are currently employed as timber harvest managers.

With respect to the distribution of income between men and women, the total income of women remains lower than their male counterparts in practically all functional groups for structural reasons – mainly due to the high number of women with entry-level salaries and the aftereffects of earlier compensation systems. The course corrections in the remuneration schemes will only become noticeable at a much later date because of the low employee turnover and the necessity of waiting for old contracts and transition rules to expire.

2.3.2 Suppliers and contractors

As indicated in the first progress report, ÖBf specifically requires compliance with all social, insurance and tax regulations as well as safety directives and standards in the agreements concluded with major suppliers and contractors, above all service contracts for timber harvesting and transport. This requirement was underscored by the introduction of an evaluation system for timber harvesting services in 2013.

Since summer 2013 every assignment is evaluated soon after completion by the timber harvest manager and the forestry district manager to verify compliance with forestry goals, the quality of work based on the harvested timber and the observance of ÖBf standards. The 11 criteria include the following:

- compliance with social and safety standards – the availability and use of personal protective equipment, adherence to safety standards and the correct registration and remuneration of all employees;
- proof in the form of a safety check tag to certify that all machines and other equipment have passed a technical safety evaluation. If this tag is not available, the service agreement is cancelled immediately.

A favourable evaluation is required for future contract assignments.

2.4 Implementation measures in the Issue Area Environment (Principles 7 to 9)

The analysis in this section excludes the positive environmental effects arising from the company's business operations, above all:

- the provision of the renewable resource wood, which can be used both as a material and for energy generation and, in this way, makes a contribution to reducing the consequences of climate change,
- the positive influence of healthy forests on the quality of the soil, water and air,
- investments in small hydroelectric, wind energy and photovoltaic projects that lead to the substitution of fossil energy sources and help to reduce CO₂ emissions.

The following section deals with environmental protection activities in the narrower sense of the term, which serve to prevent and reduce environmental problems and to increase environmental awareness among the company's employees and various stakeholder groups.

Climate protection remains one of the focal points of environmental protection activities. ÖBf has been working for many years to implement a company-wide climate protection strategy. These efforts were acknowledged in 2013 with a nomination for the Austrian climate protection prize awarded by the Federal Minister for Agriculture, Forestry, Environment and Water Management and ORF (Austrian Broadcasting Corporation) as well as recognition by high-ranking experts. The company's strategy calls for an increased focus on the reduction of CO₂ emissions through the promotion of forestry growth and the use of timber as a climate-friendly raw material. It also includes a 16% reduction in CO₂ emissions from ÖBf operations, with the goal to save 16,800 tonnes of CO₂ emissions by 2020 in comparison with the 2010 reference year. In 2013 the measures to reach these goals included the following:

- optimisation of the motor vehicle pool, travel and mobility habits of employees – most recently, company reimbursement for the costs of travel with public transportation, drivers' training to reduce petrol consumption and a car-sharing pilot project
- minimisation of timber harvesting and transport routes, and
- the energetic renovation of selected buildings.

The basis for the evaluation of goal attainment is formed by the climate protection balance sheet, which has been prepared in accordance with international standards since 2009 and is audited by the external organisation myclimate. For 2012 the net carbon sink of 907,600 tonnes resulting from forestry management is contrasted by 23,860 tonnes of CO₂ emissions. This statistic shows that the net sink is 38-times greater than the volume of emissions, which were reduced further in 2012 in line with the long-term trend. More than 82% of the total emissions result from timber harvesting and transport. The mobility of employees and energy requirements in company buildings are responsible for 14% and 4%, respectively. The climate protection balance sheet for 2013 is currently in preparation.

ÖBf's communications on its climate protection activities are integrated in the annual report, which has a circulation of 10,400 copies and is distributed internally and externally, and also included as a supplement to two large Austrian daily newspapers,

which have a combined circulation of 310,000 copies. When a measure to support the attainment of a climate protection goal is published in the Intranet, reference to the underlying climate protection strategy is always included. This practice helps to create a greater awareness among employees for the environment, in the sense of UNGC-Principle 8. In the best case, it can lead to a change in behaviour in both professional and private life.

A company-wide, 18-month project was started in mid-2013 to implement an environmental management system. Its goal is to systematise and structure environmental protection activities with a view toward establishing a continuous improvement process. The project is focused on energy efficiency and waste management, while individual sub-projects involve data management and compliance with legal regulations.

In May 2013 ÖBf held its first event certified under the Austrian eco-label UZ62 for "Green Meetings and Green Events". The criteria for presentation of this eco-label include, among others, the separation of waste, the minimisation of paper consumption, the use of recycled toilet paper, the use of energy-efficient equipment and travel to the event with public transportation. ÖBf also offers ÖBf Green Meetings and Green Events for customers who would like to organise events in the company's areas and properties.

The evaluation system for timber harvesting assignments, which is described in section 2.3.2, includes not only social, but also environmental criteria. It covers the use of quickly biodegradable hydraulic oils as well as the collection of information on exhaust emission standards (Euro classification for lorries and level classification for tractors and towing vehicles). The volume of pollutant emissions, in particular CO₂, increases with the age of a vehicle or machine, and leads to a lower valuation in this report. Repeated low overall valuations result in the exclusion of the particular contractor from future assignments.

2.5 Implementation measures in the Issue Area Anti-Corruption (Principle 10)

ÖBf does not tolerate active or passive bribery. Monitoring in this area is continuous and takes place through the internal control system (ICS) that has been implemented in all organisational units. There were no incidents during the reporting period. In accordance with the special transparency law ("*Medienkooperations- und -förderungs-Transparenzgesetz*", MedKF-TG) that took effect in Austria during July 2012, ÖBf is required to disclose subsidies to media owners, expenses for advertising and informational publicity. The only relevant activity mentioned in this report is the cooperation with a newspaper publisher for production of the company's magazine "Wald". Four issues of this magazine are produced each year, while the "Sustainability Report on the Financial Year" appears as a special issue.

3 MEASUREMENT OF OUTCOMES

Similar to the previous reporting period, the progress made in implementing the principles of the Global Compact is recorded and evaluated within the context of existing structures.

With reference to the labour standards discussed under Principles 3 and 6, ÖBf can rely on the sustainability balanced scorecard (SBSC) mentioned in the CEO Statement. As one of 15 indicators, it includes a value for employee satisfaction. This so-called engagement index is based on a survey of employees that is carried out every two years in line with an international standard and should reach a value of 2 or better – on a scale of 1=very positive to 5=very negative. The value for 2011 equalled 2.15. The employee survey scheduled for 2013 was cancelled due to the implementation of a management feedback instrument.

ÖBf's membership in the UN-GC and the related goals and principles have received prominent mention on ÖBf's German language website since September 2012. A re-launch of the website is currently in progress and will also include space for the UN-GC.