

Communication on Progress

of



FABER-CASTELL

since 1761



Stein / Germany

July 04th, 2014

Member of the United Nations Global Compact

This CoP report 2014 is only valid together with our Sustainability Report 2011,
the Update to the Sustainability Report 2014 &
Faber-Castell's corporate Website
(www.faber-castell.com)

CONTENTS

1. OUR CONCERN IS GLOBAL RESPONSIBILITY	2
2. THE 10 GUIDING PRINCIPLES OF FABER-CASTELL – THE SUPREME VALUES FOR ALL ASPECTS OF THE COMPANY	3
3. THE BRAND ESSENTIALS – CORE VALUES OF AN UNMISTAKABLE BRAND	5
4. THE FABER-CASTELL SOCIAL CHARTER – PRACTICAL CORPORATE CULTURE	6
5. INCREASING THE FSC CERTIFICATION FOR WOOD-CASED PENCILS	8
6. BIODIVERSITY PROJECT IN BRAZIL.....	8
7. NEW SUSTAINABLE FORESTATION PROJECT IN COLOMBIA	9
8. CO ₂ -NEUTRAL PROJECT & CERTIFICATION	10
9. LOCAL CONTROL OF ENVIRONMENTAL IMPACT	13
10. SUMMARY OF THE COMMUNICATION OF PROGRESS	13

1. OUR CONCERN IS GLOBAL RESPONSIBILITY

The values of any well-managed family business must include sustainability, social and environmental responsibility, and human virtues such as tolerance, humbleness and honesty.

My great-great-grandfather, Lothar von Faber, was a businessman of great social dedication, and his descendants have followed his example as a matter of duty. The Social Charter signed in 2000 prohibits discrimination and child labour and protects our employees against exploitation. The agreements of the International Labour Organization (ILO), to which the Charter commits us, are for me no more than natural standards for anyone engaged in business.

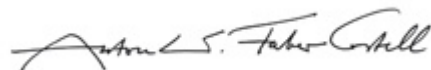
In order to achieve long-term success, you have to think in terms of the future. For me as a businessman it is extremely important not to make profit at the cost of future generations. Amongst other things, I am creating sustainable sources of wood, our most valuable raw material, which do not have a negative impact on either people or the environment. It was for the same reason that, some 30 years ago, Faber-Castell set up a forestry project in Brazil which was certified by the Forest Stewardship Council® (FSC®) as being „environmentally sound, socially responsible and economically sustainable“.

I am not interested in short-term profit-seeking. For a business that wants to be successful in the long term, the ability to generate sustained profit is absolutely vital. For me, business and integrity go hand in hand. The kind of integrity that embodies values such as social and ecological responsibility, trust, honesty and fairness is fully compatible with profitability. After all, only profitable businesses can devote themselves to social and ecological issues. Our healthy financial situation and the respect of our business partners gives me all the assurance I need that our chosen path is the right one.



Count Anton-Wolfgang von Faber-Castell

Chairman and CEO of Faber-Castell AG



2. THE 10 GUIDING PRINCIPLES OF FABER-CASTELL – THE SUPREME VALUES FOR ALL ASPECTS OF THE COMPANY

Faber-Castell's core strategies are defined by its board of directors and implemented by all worldwide subsidiaries. The values by which all decisions and targets are ultimately governed are the "10 GUIDING PRINCIPLES". These guidelines are designed to make the company an innovative, competitive and profitable brand in the global writing, drawing and creative design market.

The "10 GUIDING PRINCIPLES" are the following:

1. Tradition & Heritage

Faber-Castell was founded in 1761 and is in the hands of the 8th generation successors to the founder of the firm. Therefore Faber-Castell is the oldest manufacturer of writing instruments in the world. The company is also set to be managed as an independent family firm in the future.

2. Staff

Our employees and our brand are our most important assets. We encourage and demand innovative and enterprising thought and action as well as international expertise. We deal openly with one another and resolve conflicts in a manner which is practical and appropriate in an organisation of trust. We feel duty bound to our traditions and our social responsibility. Faber-Castell had already established Germany's second oldest company health insurance fund and Bavaria's oldest kindergarten by 1844.

3. Our Brand

Our main focus is on a stringent brand management from product design to adequate communication. An unmistakable, timeless design is a constituent part of our brand philosophy. We are fully focused on strengthening our brand, as this substantially contributes to securing Faber-Castell's profitability in the long term.

4. Products

In 1839 Faber-Castell created the first brand lead pencil in the world and did so with outstanding quality. Pencil writing also remains a core area of expertise of the company today. In clearly defined fields of competence Faber-Castell develops, produces and markets products of excellent quality for writing, drawing, painting and the creative arts as well as decorative cosmetic products. We set ourselves the benchmark of providing a product which is the "best of its class" for all products offered. Our products should be a lifelong companion for people, and in this regard we feel we have a special duty to children as a target group.

5. Innovation

Faber-Castell innovation is not pursued for innovation's sake, but as the means to securing our own future and providing added value for our customers. We stimulate creativity through an open working atmosphere and we attain synergies by means of interdisciplinary, international creative teams. It is Faber-Castell's objective to also apply its innovative power and existing know-how to new areas of business. This applies particularly to the Faber-Castell Cosmetics and Eberhard Faber brands.

6. Globalisation

Faber-Castell opened its first branch office in New York in 1849 and thus laid the foundation for a worldwide business. Today we manufacture in 14 plants and market our products through 25 sales organisations in over 120 countries. We regard the world as our global market, while taking into consideration the different needs in the regions. Our objective is to utilise the opportunities of globalisation to develop Faber-Castell into a global brand.

7. Customer Benefits

Faber-Castell products perfectly meet the needs of our customers. The opinion of the users of our products is the focal point of our approach. It is our primary objective to increase the benefits for our customers by constantly improving existing products and developing new ones, and at the same time to set ourselves apart from the competition through a “point of difference” in order to offer our customers noticeable added value in terms of product performance.

8. Environment & Social Responsibility

Faber-Castell feels a particular obligation and commitment towards our environment. Our products are produced from ecologically sound raw materials, some even cultivated by ourselves, and by using environmentally friendly processes. Faber-Castell is also committed to traditional social and ethical values. The Faber-Castell Social Charter applies to all our employees and regular independent audits are carried out to ensure that it is put into practice.

9. Organisation

To assure strict customer focus, Faber-Castell is a company which has been decentralised according to regional responsibility with a non-hierarchic, non-bureaucratic structure and short decision-making processes based on confidence in the expertise of its responsible regional and local management. Faber-Castell is a company for entrepreneurs, in which a cooperative management style and teamwork are both promoted and demanded in the interest of overall performance.

10. Future

As a medium-sized company active worldwide, we wish to strengthen our profitability and retain our independence by the following success factors, to which we are committed:

- global action, but decentralised entrepreneurial management;
- employees who act efficiently and responsibly;
- stringent brand management;
- innovative quality products responsive to market needs;
- aim towards cost leadership within defined quality parameters;
- purposefully conducted, consistent market orientations and customer focus;
- international growth through a presence in all significant markets.

3. THE BRAND ESSENTIALS – CORE VALUES OF AN UNMISTAKABLE BRAND

On the basis of the “10 GUIDING PRINCIPLES”, four core values were identified for the consistent management of the Faber-Castell brand, values that give the brand and thus the company its identity.

These core values are known as the “BRAND ESSENTIALS”, and they set out clear guidelines as to how things are done both within the company and in our dealings with customers, business partners, the wider community and environment.

However, simply defining and publicising a set of values is not enough to ensure that these values are implemented. Instead, they must be rooted in our everyday activities and actively encouraged.

Employees at all levels throughout the Group therefore receive training in the core brand values. For each aspect there are DO’s and DON’T’s that govern how employees should act both within and between different areas of the company (e.g. the behavior towards business partners and how you can avoid corruption).

The “brand essentials” of Faber-Castell are based on the following four pillars:

COMPETENCE & TRADITION



We use our competence based on our roots, our history, our experience and constant learning to shape our own future with entrepreneurial spirit. This guarantees a sound know-how to maintain or build a solid leadership, high degree of credibility and a strong global communication and distribution network based on fair partnership.

OUTSTANDING QUALITY



We are determined to be the best in all product categories and services. We respect the needs of regional, always considering global requirements. We understand quality as ensuring:

- clear point of difference,
- perceived and relevant added value;
- outstanding performance;
- characteristic and timeless design.

INNOVATION & CREATIVITY



We strive to continuously improve our products and processes and are always open to new and creative ideas. We surprise our customers with unique and innovative solutions.

Acting in the best interests of our customers, we see mistakes as an opportunity for further improvement.

We promote creativity and personal dedication on the part of our employees through an open working atmosphere and international interdisciplinary project groups.

SOCIAL & ENVIRONMENTAL RESPONSIBILITY



We feel a consistent obligation and commitment towards people and environment. We practice our social responsibility within the company, with business partners and in the community.

We are particularly committed to environmental responsibility as a contribution to our long-term success. We aim to play a leading role in the development of sustainable technologies.

4. THE FABER-CASTELL SOCIAL CHARTER – PRACTICAL CORPORATE CULTURE

In March 2000, Faber-Castell and the German trade union IG Metall signed the Faber-Castell Social Charter. This internationally binding agreement is one of the first of its kind in terms of scope. By signing it, Faber-Castell undertakes to guarantee conditions of employment and labour in all companies of the Faber-Castell group, as recommended by the International Labour Organization (ILO).

The Social Charter contains the following agreements:

- No forced labour
- No child labour
- Payment of minimum wages
- No excessive working hours
- Equal opportunities and equal treatment of the employees
- The right of association and the right of collective bargaining are respected
- Safe working conditions and decent payment
- Definition of employment conditions

An independent committee monitors the implementation of the Social Charter at regular intervals in all plants. For this purpose, the corporate processes are examined by both internal and external boards. The monitoring mechanism is divided into three levels:

- 1st Level: Self-information of all plants in Social Checklists
- 2nd Level: Regular audits of the plants by internal auditors
- 3rd Level: Verification audits by an external monitoring committee every 2 years

On October 2008, the point “Contractors, subcontractors and suppliers” was integrated into the Social Charter:

It is the objective of Faber-Castell to only co-operate with contractors, sub-contractors and suppliers who themselves recognise and implement the standards and recommendations. When drawing up a contract with a supplier, Faber-Castell shall include a self-assessment made up by the supplier in the supplier rating. In addition, the responsible staff of the purchasing department shall undergo further advanced training in this respect. On a long-term basis, it is our intention to also apply our internal, multistage monitoring procedure to the suppliers.

Since the implementation of the Social Charter thirteen years ago, numerous positive impacts could be observed:

- the Social Charter provides legal security that social, health and safety requirements are met within the company as well as within the supply chain
- the collaboration with labour unions on the national and international level has been intensified.
- the Social Charter enables the employees to organize unions in all sites of Faber-Castell and, if possible, to conclude collective wage agreements
- positive impact on suppliers regarding the acceptance of the ILO criteria
- strengthening of communication and collaboration between employee representative committees and the management
- continuous improvement and exposure of weaknesses due to frequent internal and external social audits
- realization of noise reduction measures at the sites of Faber-Castell; employees have been equipped with modern personal protective equipment and ergonomic measures like lifting assistances

5. INCREASING THE FSC CERTIFICATION FOR WOOD-CASED PENCILS

In 2008, the company joined the Global Forest & Trade Network (GFTN), an organisation within the World Wide Fund for Nature (WWF). GFTN offers a platform for innovative companies which feel a responsibility to encourage environmentally and socially compatible forestry. GFTN members are committed to traceability in the procurement of timber and paper, and an increasing proportion of FSC¹-certified products in their range.

By joining GFTN, Faber-Castell committed itself to raising its proportion of FSC-certified timber resources from about 80% at that time to 90% by the year 2012. That target was in fact exceeded by mid-2010. 95% of all the wood used by the entire Faber-Castell group of companies is now certified to the stringent criteria of the FSC. The remainder also comes from monitored sustainable forests. That guarantees environmentally compatible, economically viable, and socially responsible conditions of forestry.

The significance of timber resources – not just for the company but also for the environment – has remained the concern of Count Anton Wolfgang von Faber-Castell, chairman and CEO ever since. Over two decades ago he started a unique afforestation programme in the south-east of Brazil. The forests have now grown to 10,000 hectares (100 sq.km) and were awarded the FSC-FM (Forest Management) seal of environmental quality in 1999. In addition, all production sites of the Faber-Castell group around the world and all Faber-Castell sales companies have received the FSC-CoC (Chain of Custody) certificate, so that the origin of all the wood, from felling the tree to packaging the pencils, can be traced with certainty.

Besides the use of FSC-certified timber and the active commitment to maintaining biodiversity, the entire life cycle of the products is based on ecological principles. Not just the application of environment-friendly water-based paint for the pencils, but also the choice of suppliers in accordance with their ecological commitment: those are examples of Faber-Castell's environmental management.

6. BIODIVERSITY PROJECT IN BRAZIL

The forests in Brazil are not used purely for timber production. Some 2,700 hectares of woodland are left in their natural state as a habitat for flora and fauna, including some species threatened with extinction. The Animalis and Arboris biodiversity programmes launched in 2001 analyse the ongoing progress of biological diversity in the Brazilian forests.

The Animalis project is arguably the most visible part of the environmental protection programme: in collaboration with recognised local universities, the local biodiversity has been recorded, the stocks controlled and the animals' habitat secured since 1992. To perform the annual survey, researchers record observations, footprints and droppings. Camera records from 2012 show that the number of bird and mammal species has grown steadily since records began in

¹ The Forest Stewardship Council (FSC) is an international organisation whose certification system guarantees that the materials for wood and paper products have come from responsibly managed forests: clearly defined environmental and social standards must be maintained in the forestry operations.

1992: where the 2,700 hectare natural area provided habitat for around 145 bird and 27 mammal species in 1992, today it hosts 232 bird and 61 mammal species. 13 of the 512 total species observed are considered endangered, like the elusive Lobo Guará maned wolf or the Giant Anteater, which garners national scientific attention for the project.

So far, Project Arboris has seen 40,000 local trees and other crops planted in the reserved areas of the plantation to establish and promote the natural flora. Arboris, however, is not just aimed at preserving native plant species, but also at ensuring natural pest control for the forests through the multitude of insect populations settling on the plants. It is also securing high levels of soil and water quality and providing protection against erosion.

Data on species development and other analyses are continuously updated and are to be published in future, too.

7. NEW SUSTAINABLE FORESTATION PROJECT IN COLOMBIA

In the north of Colombia, in the El Magdalena region where the land has been spoiled by excessive animal husbandry, 51 farmers are currently planting and looking after 1561 hectares of woodland as a source of timber for Faber-Castell. The species planted is *Gmelina arborea*, commonly known as “Gmelina”, a quick-growing deciduous tree that originally came from Asia and is particularly suitable for making pencils. The trunks attain a girth of 20 to 25 cm after seven years; after harvesting the farmers receive 30% of the proceeds from the timber. It is planned to extend the area of woodland to 3000 hectares (30 sq.km) by 2014.

The Faber-Castell forestry project is part of a large-scale restructuring programme in the municipalities along the Rio Magdalena and is expected to support the region in ecological terms, as well as to stabilize it economically and politically. Investor Faber-Castell offers the farmers a future whilst securing our own raw materials supply from ecologically sound sources. “The municipalities along the Rio Magdalena were looking for a way out of the traditionally predominant cattle raising and its associated soil erosion, that regularly lead to flooding and crop failures”, says Jean-Guénolé Cornet, a forest and climate expert at the Office Nationale des Forêts (ONF).

The forestry project has gained highest recognition: The UN has certified it for the ‘Clean Development Mechanisms’ programme. Due to this certification, Faber-Castell is the first private company in the world entitled to deal with emission certificates from forests, as foreseen by the Kyoto protocol to reduce world-wide emissions of carbon dioxide.

In order to monitor the effectiveness of the project, Faber-Castell has ascertained the CO₂ absorption of the Colombian forests in accordance with the CDM project analysis. In retrospect over the last three years, a continuous increase in absorption has been observed. Where the value was 33,578 tonnes in 2009, it rose to 103,122 in 2011. Faber-Castell has set itself the goal of achieving a CO₂ absorption rate of 1,159,680 tonnes by 2029 in accordance with the CDM project analysis through the Colombian forests.

8. CO₂-NEUTRAL PROJECT & CERTIFICATION

The Faber-Castell Group systematically records greenhouse gas emissions in order to identify potential areas of optimization. These records are especially important as a means of increasing the use of renewable energy and objectively measuring the positive impact of the company's tree plantations.

In 2010/11, Faber-Castell decided to engage the help of external experts to measure climate-relevant data at all its production sites worldwide. In collaboration with external institutes and in accordance with the standards GHG Protocol and ISO 14064, the company measured its overall carbon footprint for the years 2009/10, 2010/11 and 2012/2013.

The internationally recognized GHG Protocol includes three different Scopes of greenhouse gas emissions. Scope 1 covers all of the emissions which are directly linked to the company, such as CO₂ emissions *from production* or process emissions. Scope 2 includes indirect emissions related to a company's energy use from external energy providers. All other air pollutants which are related to a company's production activities in this context are ultimately recorded in Scope 3.

The total amount of greenhouse gases emitted (including Scopes 1-3) in the Faber-Castell Group for the FY of 2012/13 amounted to 32.867,52 tCO₂ equivalents, compared to 19.962 tCO₂ equivalents in the FY of 2010/11. The increase in emissions is partially justified by the increasing global product demand and the consequently higher production capacities and largely through the extension of the calculation methods used for measuring Scope 3 emissions – specifically passenger and goods transport.

The data conducted for Faber-Castell's CO₂ footprint shows that annually over one third of the total energy needs of the company are covered by the use of renewable energy sources such as wood pellets and water power.

To compensate for Faber-Castell's CO₂ emissions, a scientific study of the Faber-Castell pine plantations in Prata, Brazil was performed. The study included a detailed analysis of the carbon sequestration potential of the plantations and portrays the CO₂ neutrality of the Faber-Castell Group. The Greenhouse Gas Report concluded that the forests contribute to atmospheric greenhouse gas reductions with a total of 913.279 tCO₂e. The result of the mitigation calculation in contrast to the annual Corporate Carbon Footprint of 32.867,52 tCO₂e makes the Faber-Castell group a carbon-neutral company.

As a global concern, Faber-Castell will continue to work to prevent climate change not only by optimizing production and logistic processes but also by using sustainable energy. Although its wood plantations already capture a large amount of CO₂, Faber-Castell has set itself the goal of further optimizing its carbon footprint by expanding its own wood production capacity.

Certificate

Certificate ID and Date: C01-2014-04-21222398, 20 May 2014

Certificate Type: **Carbon Neutral Company**

Certified Entity:

Faber-Castell AG
Nürnberger Str. 2
90546 Stein
Germany



Test Mark:

Certipedia 0000040930

Applied Standards for CCF:

ISO 14064-1; GHG Protocol

Applied Standard for Offset Project:

ISO 14064-2; Basis: CarbonFix

Compensation Measure:

Carbon sequestration by sustainable afforestation
in Prata, Brazil

CCF Accounting Period:

01.04.2012 - 31.03.2013

Offsetting Methodology:

Direct Compensation

Certificate valid until:

31.03.2015

At its worldwide located production facilities the company **Faber-Castell AG** sustains a carbon neutral status. In this context all CO₂ emissions are considered which are accruing from direct energy consumption (Scope 1) and indirect energy consumption (Scope 2), as well as emissions caused by the transportation of persons and goods (Scope 3). All those accounted and verified CO₂ emissions are compensated by Faber-Castell through sustainable afforestation measures in Prata, Brazil. Herewith TÜV Rheinland ensures that through these afforestation measures the amount of enduringly sequestered carbon is equal or higher than the CO₂ emissions caused by the worldwide located production facilities of Faber-Castell AG.


Norbert Heidelmann
TÜV Rheinland Group
Carbon Services


Andrea Nüsse
TÜV Rheinland Group
Carbon Services



Carbon Neutral
Regular
Surveillance
Corporate Carbon
Footprint

www.tuv.com
ID: 0000040930



www.tuv.com

 **TÜVRheinland®**
Precisely Right.

9. LOCAL CONTROL OF ENVIRONMENTAL IMPACT

At Faber-Castell's production plant Stein in Germany the company has its own pellet heating system in which wood waste (produced by production) is compressed, stored and thermally recycled. The recycling process begins with the use of wood chips which are stored in silos and compressed into pellets. The produced pellets are then stored in the company's former coal bunker in order to be used during the winter. During the summer the pellet oven can remain out of use for about 4 months after which the stored pellets are taken out of the bunker and burned during the cold winter times. The modern pellet heating system accounts for 25% of the total thermal energy produced being environmentally friendly.

Additionally at the production site in Stein, Germany Faber-Castell has been operating its own hydroelectric plant since 1956. This measure accounts for about 30% of the site's total energy needs being covered by environmentally friendly electricity.

One of the pioneer production sites of the Faber-Castell group in terms of energy efficiency and environmentally friendly production processes is the Faber-Castell subsidiary in Peru. The factory was founded in 1965 and it supplies the Faber-Castell group with about 400 million markers and pens annually. In the past 10 years the site has not only made significant investments in modern and new production facilities, but additionally in research and development as well as in social and environmental measures.

The new light-filled canteen is a meeting place for staff and guests. Next to it is a lily pond, which shows how pure the water is which is filtered and is derived from the tanks which are used for ink filling. The filtering process in the company's own ultra-modern reprocessing plant is done in three stages and the remaining waste is disposed in an environmentally friendly manner. In addition to the plant in Peru, production sites in Indonesia and Brazil have their own waste water treatment plants.

10. SUMMARY OF THE COMMUNICATION OF PROGRESS

	Principle	Practical example
Human Rights	1. Businesses should support and respect the protection of internationally proclaimed human rights; and 2. make sure that they are not complicit in human rights abuses.	<ul style="list-style-type: none"> • Social Charter incl. regular monitoring • 10 Guiding Principles • Brand Essentials • Social Supplier Survey • Regular training for employees
Labour	3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining,	
	4. the elimination of all forms of forced and compulsory labour,	
	5. the effective abolition of child labour; and 6. the elimination of discrimination in respect of employment and occupation.	
Environment	7. As a matter of precaution, companies should support a precautionary approach to environmental challenges;	<ul style="list-style-type: none"> • Certification acc. to ISO 14001, FSC and PEFC • 10 Guiding Principles • Brand Essentials • Environmental audits • Environmental analysis (e.g. Carbon Footprint, Carbon Neutrality, ecological balance sheets) • Environmental projects (e.g. Forestry project in Brazil and Colombia, “Animalis” & “Arboris” projects to protect the environment, forestry project Colombia)
	8. undertake initiatives to promote greater environmental responsibility; and	<ul style="list-style-type: none"> • Training for employees • Memberships in different work groups (e.g. Business & Biodiversity in Good Company)
	9. encourage the development and diffusion of environmentally friendly technologies.	<ul style="list-style-type: none"> • Environmental Products (e.g. water-based coating, natural raw materials) • Environmental processes (heating with wood chips and wood pellets, hydro energy, energy reuse)
Anti-Corruption	10. Businesses should work against corruption in all its forms, including extortion and bribery.	<ul style="list-style-type: none"> • Internal Compliance Principles, Risk Management System and Audits