

United Nations Global Compact COMMUNICATION ON PROGRESS 2014

1 CEO STATEMENT

As a signatory of the United Nations Global Compact, Austrian Federal Forests plc. (Österreichische Bundesforste AG, hereafter abbreviated to ÖBf) is committed without reservation to compliance with the ten principles of the UN Initiative. There are two reasons why our company has made this pledge. Firstly, the shares of the company are under the sole ownership of the Republic of Austria, so making ÖBf a public-sector organisation. It undertakes the cultivation and management of land in Austria against payment of a usufruct fee, is subject to review by the Austrian Court of Audit and serves as a model to the companies in the private sector, for example in terms of procurement and corporate governance. Secondly, ÖBf is obliged under the Austrian Forestry Act to preserve the substance of the forests with which it has been entrusted. In 1996 a special law governing Austria's federal forests was passed, opening up new business opportunities for ÖBf, but simultaneously extending the duty of maintenance to include the company's entire assets and incorporating prohibitions on the sale of certain basic areas of land.

At a national level we rank as one of the leading forestry companies, a sector that is so important to Austria. From this role alone we bear special responsibility in economic, social and ecological terms. We ensure that ecosystems remain intact, in particular the lakes and forests and – something that presents an ever-greater challenge in the face of global warming – their multifunctional purpose is guaranteed. The forest offers us a source of renewable raw material, affords protection from natural hazards, supplies us with fresh air and clean water and serves as a place of rest and recreation with virtually unlimited access for everyone. With the pioneering project "Values of Nature" launched in 2014, we intend, in line with the TEEB process (The Economics of Ecosystems and Biodiversity), to map the services offered by Nature in economic terms so as to raise awareness in this regard among politicians and society.

At an international level we work as consultants and service providers to communicate our principles and values while simultaneously setting store by compliance with sustainability criteria when purchasing services and products. We refuse any involvement in the violation of human rights, the destruction of Nature or the exploitation of resources. Even though Austria is already characterised by high legal standards and a strong collective awareness for social and environmental issues, we still see opportunities for improvement and further development and take advantage of these options.

The benchmark for internal evaluation of our progress takes the form of the Sustainability Balanced Scorecard, which specifies targets to be fulfilled by 2020 and is also published in the framework of our corporate reporting. We supply external evidence for the sustainability of our forestry management methods with certification to the global PEFC Standard (Programme for the Endorsement of Forest Certification Schemes). The third system audit process, which commenced in 2014 and is currently in its final phase, has resulted in important additions here as well as the resolution to develop a certification system for use by forestry service providers in PEFC-certified forests.

Work on our management culture has continued in the reporting period. In the framework of the "berufundfamilie" (career and family) programme we underwent for the first time in 2014 external auditing of our efforts aimed at ensuring equal opportunity for men and women, and were awarded – following the quality label for our company health campaign (BGF) – a further recognised seal of approval. At the end of the year we additionally received an "Ethics Quality Seal in Gold", which following a comprehensive audit certifies that our company combines responsible corporate management and ethical operations with economic success. This seal of approval is awarded by a religious institution, the St. Georgen Foundation Institute for Business Ethics (WEISS).

In accordance with the Austrian Public Corporate Governance Code we submitted a report to the state authorities regarding our governance for a second time in 2014. At the beginning of this year we also drew up a "Code of conduct for proper business practices and against corruption", which was then published internally at the start of 2015. We took this step following introduction of the Austrian act amending the criminal law on corruption in 2013 and in recognition of its interpretation whereby employees of ÖBf are now also deemed to be public officials and must therefore act with special prudence.

In April of this year I left the management board of Bayerische Staatsforsten (Bavarian state forestry commission) to assume responsibility for the Management Board. I am convinced that the UN Global Compact will offer the United Nations a high level of support with attainment of its development goals and play an important role in their achievement for industry. I therefore intend to further pursue the course taken by my predecessor Georg Erlacher in relation to participation in UNGC. We state this intention in our media presence and play an active part in the respACT network set up by Austria. I will ensure that the ten principles of the Global Compact have the greatest possible impact both inside and outside the company and raise awareness for the global dimension of our business operations.

Rudolf Freidhager

Spokesman of the Management Board

Purkersdorf, August 2015

2 DESCRIPTION OF PRACTICAL ACTIONS

As ÖBf has opted to utilise the option of harmonising appearance of this Communication on Progress based on the UNGC with publication of the annual report (adjustment request), the following information covers the calendar year which is identical to the 2014 financial year. It also deals with the latest developments until the annual general meeting, which, as customary, was held in May 2015, and takes account of the financial statements of the company.

2.1 Ensuring legal compliance

In May 2014 the first report according to the Austrian Public Corporate Governance Code (B-PCGK) was put before the ÖBf annual general meeting and published on the ÖBf website. This was followed in May 2015 by publication of the B-PCGK report for 2014. All requirements were fulfilled here, with two exceptions: the extent of insurance cover for managerial and supervisory boards (mandatory rule) and the quota for the share of women on the supervisory board. An explanation was provided for the failure to comply with these two provisions.

The development of a database was completed during the reporting period. This database is designed to ensure legal compliance in the field of environmental law and in the overlap between regulations governing ecological and employee protection, above all legislation relating to plant and chemicals. Over 11,000 individual tests and inspections were carried out for the first company-wide collection of data and corresponding data records created. Work has also commenced on the elimination of non-conformities, with updating and further development of the database scheduled to start in the autumn of 2015. This will be followed by the next compliance review.

Compared with other organisations, ÖBf can only very rarely be accused of non-compliance with the Austrian forestry regulations, for example timber harvesting work which was not registered or approved in the proper manner, failure to combat forest pests or to perform afforestation. According to the data collected by the Austria's Federal Ministry of Agriculture, Forestry, Environment and Water Management for 2014, in total some 1560 proceedings were instituted by the authorities against owners of forests in Austria, with only 14 involving ÖBf, i.e. less than 0.01%.

2.2 Issue Area Human Rights (Principles 1 and 2)

During the reporting period no violation of human rights was committed or tolerated by ÖBf either at an individual or a collective level. The protection of such rights is a matter of course at the company where this is within the control of ÖBf. The company has no corporate guidelines or procedural instructions that explicitly relate to human rights as this issue is not relevant to its business operations. It however rigorously safeguards the personal and civil rights of employees and counteracts any possible encroachment – for instance, in terms of data protection – through cooperation with the works council. One example of this was the employee survey carried out in 2014, when anonymity was ensured by entrusting performance to an outside company.

ÖBf also indirectly contributes to the protection of international human rights through its procurement policy. It does not purchase any goods that were produced under inhumane conditions or originate from dubious sources, and merchandising articles must comply with sustainability criteria. Where foodstuffs are concerned, items bearing the Fair Trade label or similar certification are purchased on a regular basis. During the reporting period there was an increase in the number of activities organised by ÖBf which are certified according to the Austrian eco-label for "Green Events and Green Meetings" (*also see section 2.4*). On such occasions the company avoids as far as possible food and drink produced outside Austria or stipulates Fair Trade products.

2.3 Issue Area Labour (Principles 3 to 6)

The elimination of all forms of forced or child labour, as addressed under Principles 4 and 5, is only relevant for ÖBf as a primary-sector producer in conjunction with the purchase of products and services and is covered under section 2.2. The following section therefore only deals with Principles 3 and 6 where ÖBf is able to take direct action to ensure compliance.

2.3.1 Statutory framework

Despite the country's high standards Austrian legislation continuously undergoes further development in the area of labour and social welfare law. For example, the Anti-Wage and Social Dumping Act (LSDB-G) introduced in 2011 was tightened up on 1.1.2015. Instruments designed to impose wage standards and sanctions including foreign employers have been improved. Previously, for example, Austria's wage standards and statutory provisions only applied where foreign employers sent staff to work in Austria for continuous periods. Today they are always subject to Austrian law, except in the case of short-term assignments.

The LSDB-G also concerns timber harvesting companies. They also employ foreign labour and are now also governed by these standards. The main objective of the statutory provisions is to create wage and labour conditions as homogeneous as possible for workers who are employed in Austria respectively sent to the country, and thus ensure fair competition on a European level.

2.3.2 Employees

ÖBf has the legal capacity to conclude collective agreements with the trade unions representing waged and salaried employees. Arrangements relating to pay increases and other changes to collective agreements are introduced on an annual basis – including at the end of 2014 for the year 2015. This results in continuous further development of company working conditions based on consensus reached between the employer and employees. Further provisions relating to employment and labour law, for example, the numerous working time models and the *Soziale Ferienaktion* programme (reduced-cost holidays in an ÖBf property) are included in agreements reached between the company manage-

ment and the works council in the form of works agreements. Bilateral agreements concluded between the employer and employees served as the basis for introduction of the Jobticket scheme for commuters in 2014. Here the employer bears the cost of public transport for the journey to and from the workplace, with around 30 employees currently availing themselves of this benefit.

Where the measures aimed at eliminating discrimination are concerned, the main focus has for years been directed at ensuring equal opportunities for women and men and at the integration of people with disabilities in the workforce. To date no additional efforts have been made to increase the number of disabled staff over and above the statutory requirements. The advancement of women on the other hand remains a key issue for the on the agenda of the Human Resources department.

According to the Austrian Equal Opportunity Act companies with more than 1000 employees must produce a report detailing the pay of male and female staff every two years. ÖBF complied with this requirement by issuing a report in 2014. The legislation first and foremost aims to improve transparency of pay and reduce unfair differences in levels of pay between men and women. Employer and employee representatives continue their efforts here, recently also reporting about the most important results on the ÖBF Intranet.

With their modern, requirements-oriented remuneration schemes, the collective agreements concluded by ÖBF provide an excellent basis for equal treatment of staff. In contrast to the pay structure found in sectoral collective agreements, actual pay levels are largely in line with the approaches of the collective agreements. In detail, the following aspects have been observed here:

- Women continue to be underrepresented in higher and above all in executive level functions; indeed, all key management posts at the company are held by men.
- There is a similar picture for skilled female forestry workers and where hunting and fishing are concerned.
- It is gratifying to note that, in relation to the report published in 2012, there has been a marked rise in the number of women occupying qualified higher-level salaried positions such as forestry specialist, forestry district manager or office manager.
- There has been no change in the large number of women employed in office-based positions, a level that is typical of the forestry sector.
- The circumstance that overall pay for women still sometimes lags behind that of their male counterparts can be partly attributed to the fact that there has been a significant rise in the share of women in middle management. The pay offered to women in these functional groups tends to take the form of entry-level salaries. In contrast, the salaries of their male colleagues (who are generally considerably older) are still influenced by salary schemes with distinct seniority structures. As they are phased out in coming years, this will make a significant contribution to further reducing the gender pay gap.

2.3.3 Suppliers and contractors

As in the 2013 reporting year, 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, in particular in the case of contracts for timber harvesting and transport services. According to the evaluation system introduced in 2013 ratings are given to every contract as regards the attainment of forestry goals, work quality and adherence to standards, based on a points system. A satisfactory rating is the prerequisite for the award of subsequent orders. In the event of serious shortcomings or defects the service agreement is terminated at once.

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

This section deals with activities involving environmental protection in the stricter sense of the term. These measures are designed to avoid and reduce ecological problems and to raise environmental awareness among the workforce and various stakeholder groups.

Climate protection remains one of the key issues of the company's ongoing environmental protection activities, and ÖBf has consistently worked on the implementation of an internal climate protection strategy since 2010. It firstly aims to step up the use of CO₂ sinks by fostering forest growth and the harvesting of timber as a renewable, carbon-neutral raw material. Secondly, it plans a 16% reduction in the CO₂ emissions resulting from ÖBf operations, with the aim of saving some 16,800 tonnes here by 2020 in comparison with the 2010 reference year. During the reporting period the measures undertaken with these objectives in mind included the following:

- optimisation of the company motor vehicle pool as well as the travel and mobility habits of the workforce: reimbursement for commuters of the cost of public transport to/from work by the firm (see section 2.3.2, *Jobticket*), yearly driver training programmes to reduce petrol consumption with finance from the Climate and Energy Fund, assessment and continuation of a car-sharing pilot project, organisation of a competition to save petrol, in addition to tendering for a second competition,
- launch of a company-wide project to optimise logistics during the transport of timber. Routes are to be kept as short as possible, and use is to be made of the option of shipment by rail,
- renovation of several buildings with the aim of saving energy.

Evaluation of the achievement of targets is based on the climate protection balance sheet, which has been drawn up according to international standards since 2009 and is audited externally by the Swiss foundation myclimate.

Information about ÖBf's climate protection activities regularly appears in its annual report, which has a circulation of some 10,400 copies and is distributed both inside and outside the company. It is also included as a supplement to two large Austrian daily

newspapers, which have a combined circulation of 310,000 copies. Whenever a measure aimed at the attainment of a climate protection goal is announced on the Intranet –for example, a journey by train to attend a large-scale company event, as was recently the case – reference is always made to the climate protection strategy behind it. This practice helps to promote greater environmental responsibility and awareness, as defined by UNGC Principle 8. In the best-case scenario, it encourages employees to change their habits both at work and at home.

A company-wide project, which commenced in the middle of 2013 to introduce an environmental management system, has now been completed on schedule. Its objective was to systematise and structure the firm's environmental protection measures – from the separation of waste through the conservation of resources involving equipment to ensuring proper procedures for the handling of hazardous materials –with a view to establishing a continuous improvement process at the company. The annual review of legal compliance (*see section 2.1.*) was transferred to the line organisation as well as the preparation and internal publication of an environmental report on a yearly basis. This contains a clear summary of the environmental data for all organisational units, from the consumption of electricity through heat energy and water to oil and fuel, from office supplies to the level of residual waste, shown in the form of graphs and tables and also listing measures to bring about improvement. 2014 saw the introduction of environmental protection meetings, which were held at all forestry operations for the first time and discussed the results of the environmental data survey and measures for improvement

The energy data have proved to be especially relevant here. Following introduction of the European Union's Energy Efficiency Directive in 2012, the Federal Energy Efficiency Act came into force in Austria at the beginning of 2014, aimed at reducing final energy consumption. The new law is incumbent on the Republic of Austria itself, as well as all energy supply companies and some 1200 corporations in all sectors of industry, including ÖBf. By the end of November ÖBf will have organised performance of the 2015 energy audit by an external consultant, so allowing it to tap into potential for further savings, building on its previous activities.

Another environmental aspect addressed in 2014/15 was soil protection – a topical issue given that 2015 is the International Year of Soils. Training was organised at all ÖBf forestry operations, focusing on soil protection during forest management, in particular when using heavy machinery for timber harvesting.

The evaluation system for timber harvesting contracts described in *item 2.3.3* does not just take account of social but also of environmental criteria. This additionally complies with the requirements of the international PEFC certification system (Programme for the Endorsement of Forest Certification Schemes). It is currently undergoing its third revision and is to be extended to include timber harvesting businesses. They will then for example have to switch to rapidly biodegradable hydraulic oils, as used by the forestry operations in the case of their own machines.

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

ÖBf does not tolerate either active or passive bribery. This area is subject to continuous monitoring, which takes place through the internal control system (ICS) implemented in all organisational units. No incidents were registered during the reporting period. Nevertheless, following introduction of the Austrian act amending the criminal law on corruption in 2013, a "Code of conduct for proper business practices and against corruption" was drawn up by ÖBf and published internally at the beginning of 2015. Numerous examples inform employees about the correct procedure to be followed when dealing with customers and suppliers. As employees of ÖBf are also deemed by the law to be public officials, they are required to act with special prudence and apply the proper procedures at all times.

In accordance with the media cooperation and funding transparency law, Medienkooperations- and -förderungs-Transparenzgesetz (MedKF-TG) which came into force in Austria in July 2012, ÖBf is subject to a duty of disclosure. All institutions under the control of the Austrian Court of Audit – from ministries to public companies – are obliged to report advertising and other publicity contracts and funding which they offer to newspapers, other periodicals and radio and TV broadcasters. The only relevant activity mentioned in this report is cooperation with the newspaper publisher used to produce the company magazine "Wald". This magazine regularly appears four times a year, while the "Sustainability Report on the Financial Year" is published as a special issue.

3 MEASUREMENT OF OUTCOMES

In relation to the previous reporting period there has been no change in the procedure used by the individual departments responsible for registration and evaluation of the progress in implementing the principles of the Global Compact in the context of existing structures. This first and foremost involves the departments Finance/Legal Affairs/Controlling, Process Assurance/Auditing and HR Management/Organisational Development. In addition, the Steering Group Sustainability has been in existence since 2009. Consisting of six members, this body, which normally meets once a quarter, sees its role as being to drive forward further development of ÖBf as a sustainability company. It reviews ongoing national and international developments in all areas of sustainability, checking for a need for action and implementation, and initiates any measures necessary. For example, in the course of the current year an environmental indicator is to be included in the Sustainability Balanced Scorecard.

Where the labour standards addressed under Principles 3 and 6 are concerned, they are covered in the framework of the Sustainability Balanced Scorecard (SBSC) mentioned in the CEO Statement. This includes a value for employee satisfaction as one of the 15 indicators listed there. It is determined every two years in line with an international standard and should attain a value of at least 2 on a scale of 1 to 5, with 1 being very positive and 5 highly negative. The present value dates from 2012 and is 2.1.

ÖBf also maintains a media presence to communicate and foster the ten Global Compact principles and its membership of UN GC. The goals and principles of the initiative thus receive prominent mention on ÖBf's German-language website, which was relaunched in 2014 and also includes a link to the UN GC website.



The screenshot shows the website of ÖBf (Österreichische Bundesforste). The header includes the logo and name 'ÖSTERREICHISCHE BUNDESFORSTE' on the left, and navigation links: 'UNTERNEHMEN & NACHHALTIGKEIT', 'PRODUKTE & LEISTUNGEN', 'NATUR & ERLEBNIS', and 'SERVICE & PRESSE' on the right. Below the header is a secondary navigation bar with 'NACHHALTIGKEIT', 'Leitbild', 'Strategiematrix', 'Waldbau', 'Umwelt- und Klimaschutz', and 'Partner'. The main content area is titled 'PARTNER' and contains the following text:

Unsere Mitgliedschaft in unterschiedlichen Netzwerken und Organisationen bestätigt den hohen Stellenwert, den nachhaltiges Handeln bei den Bundesforsten einnimmt.

United Nations Global Compact

Seit 2011 sind die Österreichischen Bundesforste Mitglied beim UN Global Compact, einer UN-Initiative, die sich einer nachhaltigen globalen Entwicklung verschrieben hat. Damit bekennen wir uns zu **zehn Prinzipien**, die die Bereiche Menschenrechte, Arbeitsnormen, Umweltschutz sowie Korruptionsbekämpfung betreffen und arbeiten an deren Umsetzung. Dazu wird jährlich eine **Fortschrittsmitteilung** veröffentlicht.

The logo for 'THE GLOBAL COMPACT' is shown, featuring a globe with the text 'Network Austria WE SUPPORT' below it.

Translation of the website:

PARTNER

Our membership in various networks and organisations confirms the great importance attached to sustainability at Österreichische Bundesforste AG.

United Nations Global Compact

*Since 2011 Österreichische Bundesforste AG has been a member of UN Global Compact, a UN initiative, which is committed to sustainable global development. We thus pledge to uphold **ten principles** relating to the areas of Human Rights, Labour Standards, Environment and Anti-Corruption and strive towards their implementation. A progress report dealing with these aspects is issued on an annual basis.*