

Communication on Progress

Of



FABER-CASTELL

since 1761



Stein / Germany

November 15th, 2017

Member of the United Nations Global Compact

(This CoP report 2017 is only valid together with our Sustainability Report 2017
and the Faber-Castell's corporate Website www.faber-castell.de)

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1. THE 10 GUIDING PRINCIPLES OF FABER-CASTELL

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 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. A unique, 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 9 countries and market our products through 22 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 and quality 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.

2. THE BRAND ESSENTIALS – CORE VALUES OF A UNIQUE 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 behaviour 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.

3. 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

In 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 seventeen 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.

The Key Performance Indicators for social aspects of the Faber-Castell Group:

GRI	Employees	FY 2013 / 14	FY 2014 / 15	FY 2015 / 16
	Number of employees worldwide	7,840	8,076	8,285
	Percentage of female employees	43 %	44 %	45 %
LA12	Percentage of employees with a disability	1.7 %	1.6 %	1.7 %
	Percentage of employees in administration	31 %	28 %	27 %
	Percentage of employees in production	69 %	72 %	73 %

Employee fluctuation				
	Fluctuation rate, including fixed-term employment contracts	21 %	22 %	19 %

GRI	Social Charter			
HR4	Participation of the production and sales sites	100 %	100 %	100 %
	Production sites with collective wage agreements	86 %	Not asked	93 %

GRI	Illnesses, injuries, deaths			
	Number of trained first-aid staff	627	580	623
LA5 LA6	Number of reportable work-related accidents	109	121	114
	Number of fatal work-related accidents	0	0	0

GRI	Human rights			
HR3	Number of reported discrimination cases	0	0	0

4. STAKEHOLDER ENGAGEMENT

Faber-Castell views innovation as an ongoing process of improvement. Our focus is on intelligent Customer solutions and incorporating sustainability into our daily business. Creating dialogue with our stakeholders plays an important role in identifying the topics we should address.

It not only helps us recognize customers' wishes and market trends, but also sheds light on how the company and the brand are perceived externally, which helps Faber-Castell to sharpen its corporate image.

Between June 2016 and February 2017, a total of 137 stakeholders were asked on how relevant sustainability topics are for Faber-Castell. The survey had been designed based on the guidelines of the Global Reporting Initiative (GRI G4), forming the basis for globally uniform sustainability Reporting.

Participants were asked to rate the importance of the following 13 topics:

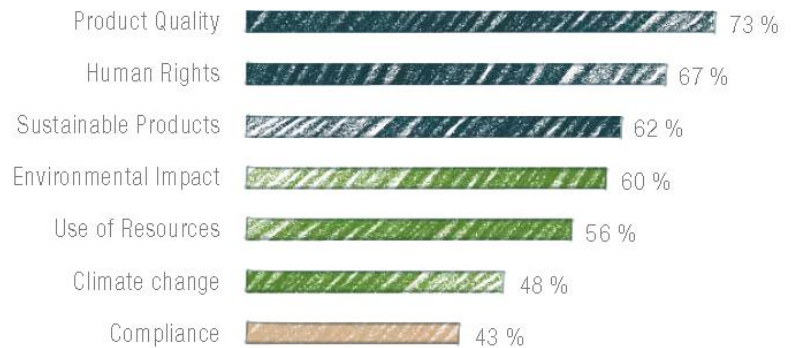
1	How important do you think the following topics are for Faber-Castell currently ?	Very important	Important	Don't know	Not important	Not important at all
a	Financial performance (Impact on Faber-Castell stakeholders)					
b	Resource consumption (e.g. materials, energy, water)					
c	Environmental impact (e.g. emissions, effluent, waste)					
d	Climate change					
e	Sustainable products (e.g. Product lifecycle based on quality, environmentally-friendly materials, consideration of environmental impact during development)					
f	Employee diversity and equal opportunities (e.g. equality)					
g	Attractive employer (e.g. social benefits, further training and education)					
h	Health and safety					
i	Human rights (e.g. No child labour, protection of minorities)					
j	Transparency in the supply chain (with regard to ecology, social responsibility)					
k	Compliance (e.g. with regard to environmental guidelines, anticorruption laws)					
l	Product quality					
m	Stakeholder dialogue					

In addition to commenting on the future:

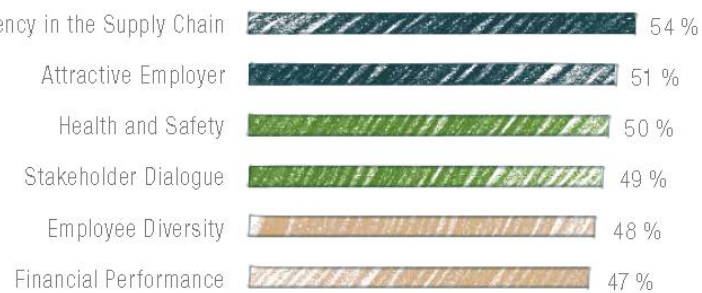
2	Which three sustainability fields are likely to become the most important for Faber-Castell in the next ten years?
Topic 1:	
Topic 2:	
Topic 3:	

On-going results from July 2017 – January 2017

More than 60 % of the respondents were of the opinion that product quality, human rights and sustainable products are “very important”.



More than 50 % of the participants find the transparency of the supply chain and Faber-Castell as an attractive employer as “important”.



Number of responses:

The majority of the participants described sustainable products and resource consumption as the most important aspects for the future.



5. MAINTAINING FSC CERTIFICATION AND EXPANDING SCOPE

Faber-Castell has long been committed to reaching targets for its proportion of FSC-certified timber resources. Progress is demonstrated from about 80% in 2008 to 90% by mid-2010. Since then, 93% of all the wood used by the entire Faber-Castell group is now certified according to the stringent FSC criteria. The remainder is procured through other sustainable forestry certified sources. That guarantees environmentally compatible, economically viable, and socially responsible conditions of forestry.

To offer a larger range of sustainably-certified products, Faber-Castell has increased the product list during the recertification in 2017 and now includes FSC-certified paper products.

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 (1941- 2016†), chairman and CEO from 1978 to January, 2016. 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 km²) 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 full transparency.

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 stringent selection criteria 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, but also, for biodiversity conservation. 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 on-going 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. Faber-Castell cooperates closely with local universities to monitor the species diversity on the plantation, and since the beginning of these projects the number of animal species have grown steadily. During the first 15 years of this project which started in 1992, of conducting the inventory, a total of 372 species of mammals, birds, amphibians, reptiles and ants were identified. As of the last inventory conducted between 2012 – 2017, a total of 624 species were recorded within the 10.000 hectares of land. Some of these species observed in the latest survey are considered endangered, such as the elusive maned wolf *Chrysocyon brachyurus*, which attracts national scientific attention for the project.

So far, Project Arboris has seeded 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, in addition to sequestering CO₂ from the atmosphere.

Data on species development and other analyses are continuously updated and have been published in the 2015 Sustainability Report.

7. KEY PERFORMANCE INDICATORS

The world-wide development of Key Performance Indicators (KPI's) is used to measure our progress in resource-efficiency and environmental performance. The defined KPI's include:

- Effluent (m³) / Million pieces of produced products
- Non-renewable energy + Purchased Energy (Mwh) / Million pieces of produced products
- CO₂ Emissions (t CO₂e) / Million pieces of produced products
- Waste (t) / Million pieces of produced products

Between the Fiscal Years 2013/14 to 2015/16, there has been significant improvement of the intensity of our waste water, non-renewable energy consumption and waste:

Intensity of Environmental KPI's (per 1 million pieces of products)	FY 2013/14	FY 2013/14	FY 2013/14	Change from FY 2013/14 to 2015/16
Effluent (m ³)	58,3	51,5	53,7	-9%
Non-renewable energy + Purchased Energy (Mwh)	22,8	20,1	20,1	-12%
CO ₂ Emissions (t CO ₂ e)	14,1	12,9	14,9	+6%
Waste (t)	1,5	1,6	1,1	-23%

The volume of waste water has been reduced by more than 22,000 m³ in the past three years due to ongoing improvement programs, notably in Germany.

The use of renewable energy had increased by more than 25 % in comparison to 2013/14. This was mainly due to the increased use of biomass at Faber-Castell Brazil, where a production boost resulted in 30 % more biomass (in the form of wood chips) being used for wood-drying in comparison to 2014/15. A part of the wood residue from production in the German and Brazilian wood-cased pencil plants are pressed into pellets, which are then used as fuel or sold on the market. The significant increase in hydroelectric energy resulted from extensive renovation of the hydroelectric turbines in Stein, which came back to full operation in 2015. Bioethanol is used in Brazil and biodiesel in Indonesia as fuel for vehicles. The increase in the consumption of biodiesel resulted from higher production and sales volumes.

The higher CO₂ emissions resulted from increased production volumes of wood-cased pencils and the associated energy requirements as well as increased transport, with goods often being sent by air cargo due to customer's requests.

The volume of waste was significantly reduced, as nearly every production site has introduced waste reduction programs.

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 continues to measure its overall carbon footprint annually ever since.

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. For Scope 3 emissions, the company has currently included transport and business travel into the total calculation, with further plans to incorporate more upstream emissions in the data collection. 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 hydraulic energy.

To compensate for Faber-Castell's CO₂ emissions, a scientific study of the Faber-Castell pine plantations in Prata, Brazil was conducted. 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 t CO₂e. which 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: C01-2017-03-21239499, 31 March 2017

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:

01.04.2015 - 31.03.2016

Offsetting Methodology:

Direct Compensation

Certificate valid until:

31.03.2018

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
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Carbon Services



Florian Griesl
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Carbon Neutral
Regular
Surveillance
Corporate Carbon
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9. SUSTAINABILITY TARGETS

Every year, a group-wide data collection takes place for environmental, social, health and safety, quality and energy topics. This process is referred to as the “FIS-Report”, meaning “FABIQUS Information System”. FABIQUS is an abbreviation for the “Faber-Castell Integrated Management System for Quality, Environment and Social aspects” in German.

All production sites were invited to participate in an online survey for setting group-wide targets on the topic of sustainability. The categories include waste management, resource-efficiency, sustainably-certified materials, reduction of CO₂ emissions, etc. The targets are communicated internally and discussed during “cluster meetings”, which are expertise group for certain materials (e.g. wood and plastic) as well as topics (e.g. quality and environment). These sessions take place online to improve global communication and avoid unnecessary business travel.

Taking energy targets as an example: at the global level, the total amount of energy from renewable sources account for more than 60% of our total total energy consumption, with an increase from 61% in FY 2013/14 to 69% in FY 2015/16.

10. SUMMARY OF THE COMMUNICATION IN PROGRESS

	Principle	Practical example
Human Rights	1. Businesses should support and respect the protection of internationally proclaimed human rights; and	<ul style="list-style-type: none"> • Social Charter including annual internal/external audits • 10 Guiding Principles • Brand Essentials
	2. make sure that they are not complicit in human rights abuses.	
Labour	3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining,	<ul style="list-style-type: none"> • Social Supplier Survey Social Charter incl. regular monitoring • Regular training for employees • Supplier Audits • Indirectly: the Policy for the Association with FSC forbids the ILO Core Conventions
	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"> • Brand Essentials • Environmental Management System and annual audits • Climate Protection (e.g. Corporate Carbon Footprint & neutralization, Product Life Cycle Analysis) • Certification according to ISO 14001, ISO 50001, FSC® and PEFC • Environmental projects (e.g. Forestry project in Brazil and Colombia, “Animalis” & “Arboris”, CDM forestry project Colombia)
	8. undertake initiatives to promote greater environmental responsibility; and	<ul style="list-style-type: none"> • Sustainable certification (FSC®) • Participation in different work groups and initiatives
	9. encourage the development and diffusion of environmentally friendly technologies.	<ul style="list-style-type: none"> • Sustainable products (e.g. water-based coating, refillable designs) • Renewable energy (heating with wood chips, hydro-energy) • Alternative materials (recycled plastics)
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, internal, external and supplier audits