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Introduction

The 2018 Sustainability Report's content and key performance indicators related to the years 2015 to 2017. Yet measures and projects from the first half of 2018 were also included in order to ensure that the report is up to date. The current update provides additional information on 2018 facts, figures, measures and projects. Our next full-size sustainability report will be prepared for the year 2019 and is planned to be published in the first half of 2020.

Update on key facts and figures



OUR EMPLOYEES

We strive to have the best employees in the sector and want to offer them jobs with a long-term perspective. In 2018, the Schweighofer Group had 3,200 employees, 85% employed at the our plants in Romania. The vast majority of our staff are employed on permanent, full-time contracts. As a fringe benefit we offer private top-up health insurance for our employees in Romania. By the end of 2018, 89% of the workforce in Romania was covered by this insurance. During 2018 we spent approximately € 165,000 for insurance premiums.

LOG PROCUREMENT

In 2018, the Schweighofer Group purchased 3.217 million m³ of saw logs from 14 countries. The saw logs were purchased from 11 European Union countries and less than 3% of input came from non-EU countries. The Romanian sawmills sourced 54% of their input from the Romanian market while 46% was imported.¹ The logs sourced from Romania represented:

- about 2% of the annual increment of forest stock (all species) in Romania,²
- about 6% of the annual harvested volume (all species) in Romania,
- about 17% of the annual harvested volume for resinous species in Romania.³

In order to increase transparency in the implementation of its timber sourcing policy, Holzindustrie Schweighofer published in May 2019 its first supply chain control report, which gives a good overview on the company's procurement activities.⁴

¹ The Romanian sawmills purchased 1,197,816 m³ from the Romanian market and imported 1,008,766 m³.

² According to the National Forest Inventory the annual increment is 58.6 million m³.

³ National Statistical Institute, data for 2018: total wood harvest 19.4615 million cubic metres, of which 71274 million cubic metres of resinous wood.

⁴ Supply Chain Report 2018: https://www.schweighofer.at/fileadmin/files/Responsibility/HS_Supply_Chain_Report_2018_final.pdf



SAWN TIMBER PROCUREMENT

In 2018 the HS Group purchased 241,760 m³ of sawn timber from 8 countries, three of which non-EU.

CERTIFIED WOOD

The HS Group is committed to the target to supply only from certified forests by 2025. The Group was able to make progress towards this target. However, in order to reach the 2025 target the company will need to focus more intensely on certified input in purchasing decisions. Certified Input in 2018 (FSC 100% and 100% PEFC) represented 49% of saw logs and 52% of sawn timber.

Holzindustrie Schweighofer holds PEFC Chain of Custody (CoC) single site certificates for all of its factories. In its timber sourcing policy, Holzindustrie Schweighofer states that sourcing from sustainably managed forests is of highest priority for the company: "We are committed to ensuring that all our timber is responsibly sourced from sustainably managed forests." Certification is an important tool to ensure that a given company applies sustainable

forest management and wood trading. Holzindustrie Schweighofer decided to go beyond the requirements of certification standards and applies a system whereby all its input is subject to the verification rules described in the PEFC CoC standard and all output is sold applying the claim "PEFC Controlled Sources" (or 100% PEFC).

FSC REASSOCIATION PROCESS

Holzindustrie Schweighofer lost its FSC certification and was disassociated in 2017, based on a decision by the FSC board, after having been set on probation for possible disassociation in 2016. FSC and Holzindustrie Schweighofer are in an ongoing dialogue process where Holzindustrie Schweighofer shall demonstrate tangible and significant improvements in its forest management and timber trade operations, as required by FSC, to be eligible to regain FSC certification in the future.

SUPPLIERS AND VERIFICATION PROGRAM OVERVIEW

In 2018, we had 797 suppliers at Group level, out of which 700 delivered only in Romania. We conducted a total of 630 audits of our supply chain, out of which 602 for suppliers delivering to the Romanian mills. The Romanian mills conducted 447 chain of custody audits, 60 forest management audits and 120 harvest site audits. The German mill conducted 28 chain of custody audits.

COMPLAINTS MANAGEMENT

The primary goal of the complaints management system is to acknowledge complaints, provide a framework for investigation of all complaints and integrate the learnings



from the investigations in the improvement of the due diligence system (DDS) in order to prevent future incidents. The Schweighofer Group's complaint management system is designed to receive complaints from all possible sources, including

- direct information from stakeholders or published reports;
- indirect sources of information from media monitoring;
- internal complaints.

Findings from the regular supply chain verification process, especially from audits, but also irregularities in Timflow, the wood traceability system, are handled as non-compliances and they may also result in corrective actions up to supplier suspension.

In 2018, the HS Group handled altogether 35 complaints, 20 of which were reported internally. All in all, 12 cases turned out to be substantiated, of which 8 resulted in the temporary suspension of the supplier (3 months to 3 years). Out of the external complaints one resulted in a suspension. Most of the complaints filed concerned Romania, while three complaints were filed in Ukraine and one in Slovakia.

NO WOOD FROM NATIONAL PARKS

Romanian legislation allows for logging in so-called national park buffer zones and in the case of sanitary cuttings. Nevertheless, Holzindustrie Schweighofer introduced a strict purchasing principle at the beginning of 2015: "No wood from national parks" in Romania. A complex system is being used to enforce this commitment.

In July 2018 two transports coming from the Neamt area were identified as originating from the Ceahlău National Park when checked at our gates for their GPS coordinates in Timflow. This procedure is part of the regular DDS at the gate checks level. The transports were set "under investigation" and unloaded at the designated area inside the mill. After cross-checking the origin with the coordinates, the national park origin was confirmed and the two transports were rejected. The reason for this was a human error

of an own employee during participation at a forest road auction.

CORPORATE SOCIAL RESPONSIBILITY

What corporate social responsibility means to us is that we look first at what we can improve internally in order to reduce our environmental footprint, waste no wood, add most value to it and act as a responsible employer, securing safe and meaningful jobs. With the help of our stakeholders, we run a continuous process to improve our procedures, the way we do things to make sure the wood we process is legal and harvested from forests managed in a sustainable manner. With that, we strive to be an industry leader, driving systemic change in wood traceability, for example. We are aware of the social and economic realities communities are facing around our sawmills and panel factories and we sponsor a variety of projects to improve their access to adequate social, education and healthcare services. In 2010-2018 Holzindustrie Schweighofer sponsorships amounted to approximately EUR 6.26 million.

CSR HIGHLIGHTS

The university scholarship programme, initiated in 2014, is designed to contribute to the development of future forestry and wood engineering professionals. Scholarships are equally distributed at the forestry faculties in Braşov, Suceava and Cluj-Napoca and the wood engineering faculty in Braşov. The programme is part of our direction of support for education, research, development and innovation in forestry and the wood industry, which consists of scholarship programmes, laboratory endowment, support for various projects and events.

The technical school scholarship programme, initiated in 2016, supports the development of future specialists at the Grigore Cobalcescu technical college in Moinesti. The programme included the refurbishment of school facilities, scholarships and practical training on factory premises.

The Reci afterschool programme celebrated its 5 years anniversary in

2018. The programme benefits around 50 children in Reci, Covasna County, who have lunch together and then do their homework and also have time to play in a safe environment.

The reforestation programme, launched in 2017, added six reforestation sites in 2018 (Borsa, Romuli, Dorna Candrenilor, Meresti, Dumbravita and Belin). At the end of 2018, the progress report includes 8 reforestation sites in 6 counties, 163,880 seedlings planted on 44.3 hectares, around a thousand volunteers involved. In December 2018, the Tomorrow's Forest Foundation was established.

TOMORROW'S FOREST FOUNDATION

Holzindustrie Schweighofer and the Tomorrow's Forest Foundation started discussions towards concluding a strategic partnership in order to jointly work on the implementation of environmental and social projects promoting responsible development of Romanian forests and benefiting forest based communities in Romania. The Foundation's mission is to contribute to the protection and the responsible management of forests and the development of a sustainable forest economy in Romania. Holzindustrie Schweighofer seeks with this strategic partnership to get a more targeted and better implementation of the company's CSR engagement.

EVERGREEN INNOVATION CAMP

After the successful 8th Schweighofer Award ceremony in 2017, it was decided to break new ground in the idea of promoting innovations in the forestry and timber sector. With the new project, the Evergreen Innovation Camp, realized in the format of a „Hackathon“, we want to get closer to students and their creativity. Therefore we will organize an international Hackathon in November 2019 with students from various backgrounds and different fields of study. For 48 hours they will focus on the topic of „Traceability“ to find new and pioneering solutions in the field of timber tracking. The students, who work together in interdisciplinary teams, will be supported by mentors from various disciplines during this 2-day event in Vienna/Austria – the application process started in August 2019 on www.evergreen-innovationcamp.io The last part is the presentation of the developed approaches to an expert jury, which awards the best ideas. The winning team will be supported with EUR 10.000. It is planned to run an Evergreen Innovation Camp every year with a different topic to explore and support innovation in the timber sector.



NEW TRACEABILITY PROJECTS

In 2018 Holzindustrie Schweighofer started a pilot project in order to facilitate the physical tracking of single logs. This could be a future means to track and trace timber even in complex (i.e. broken) supply chains. In order to track and trace individual logs through a supply chain, the single pieces have to be identifiable at each stage. Holzindustrie Schweighofer investigated a number of possible marking technologies – but came back to a well-established method: plastic tags. They have unique numbers and can be safely hammered onto the top-ends of the logs. The polymer itself is unproblematic for further processing, even in case of pulp and paper utilization of the by-products. The pilot project was discontinued ahead of schedule, because of ongoing problems with the mobile application. Due to an unresolved error in the database structure, the phone's processing time increased potentially with the number of logs for a given set of origin after entering the dimensional data of one log.

Until discontinuation, a volume of 1,500 m³ of logs were tagged and registered in the system (corresponds to more than 10,000 tags). More info about the project can be consulted on our website. The Schweighofer Group will continue testing new projects and explore new ideas to ensure physical traceability of single logs through log yards

PROTECTION OF VIRGIN FORESTS

In Romania, virgin forests are protected by law.

However, many of the valuable natural treasures have not yet been recorded or included in a legally binding map (the national catalogue).

Some studies conducted in the past – particularly the Pin Matra study⁵ – provide a good indication of where these tracts of land could be. However, until the official mapping has been completed, it is difficult to exclude such areas from timber harvesting.

Therefore, we launched a pilot project with GRAS (Global Risk Assessment Services, www.gras-system.org) to find a methodology for identifying potential tracts of virgin forest in Romania. State-of-the-art

satellite analysis tools are able to detect, evaluate and localise changes in the vegetation canopy. The methodology was developed with the involvement of stakeholders and is based on validation of the system with verified ground data. The algorithm mainly takes account of land cover changes over the last 30 years, including different types of satellite data. The project was discontinued after consultation with stakeholders, as national catalogue developments followed a different path.

⁵ /I.-A. Biris & P. Veen, 2005. Inventory and strategy for sustainable management and protection of virgin forests in Romania.

TABLE 1. KEY ENVIRONMENTAL FIGURES OF HOLZINDUSTRIE SCHWEIGHOFER IN ROMANIA AND GERMANY

Input	Unit	2015	2016	2017	2018
Materials					
Purchased logs	m ³	2.814.944	3.125.887	3.325.157	3.174.350
Cut logs	m ³	2.473.759	2.923.508	3.044.228	2.948.858
Purchased sawn timber	m ³	43.887	54.256	91.737	241.814
Sawn timber from intra-group sources	m ³	208.336	334.805	378.119	165.219
Purchased cover material for Comanesti (veneers)	m ³	37.733	28.898	32.602	36.734
Burned biomass (infeed)	BDMT	220.111	210.348	211.099	187.247
Biomass from external sources	BDMT	143.909	108.932	129.884	125.998
Biomass from intra-group sources	BDMT	14.195	3.151	3.573	3.566
Purchased starch	t	2.563	3.210	3.967	2.194
Purchased lubricating oil	t	543	465	499	449
Purchased hydraulic oil	t	292	298	333	62
Purchased glue (free of formaldehyde)	t	1.880	2.097	1.911	1.547
Purchased glue (with formaldehyde)	t	2.572	2.413	2.615	2.854

Energy					
Consumed electricity from own CHP	MWh	138.573	114.239	121.009	118.066
Purchased electricity	MWh	34.182	55.122	74.725	59.626

Thermal energy consumed	MWh	613.544	610.706	624.319	567.673
Thermal energy produced	MWh	697.156	647.970	669.591	598.151
Thermal energy produced from purchased natural gas	MWh	2.241	2.522	2.745	2.412
Purchased natural gas	m ³	280.684	315.947	352.332	302.074

Mobility					
Petrol purchased for internal use	l	747	939	1.292	1.775
Diesel purchased for internal use	l	4.033.961	4.493.903	4.833.221	4.367.020
Petrol purchased for vehicles outside the mill	l	64.644	47.041	23.873	64.836
Diesel purchased for vehicles outside the mill	l	134.992	155.656	240.633	206.611
Employee air travel	km	1.045.887	1.399.181	1.129.774	1.101.141
Water consumption (from main supply)	m ³	152.839	165.282	154.380	141.247

Output	Unit	2015	2016	2017	2018
Products					
Timber sold (timber which left our mills)	m ³	1.302.294	1.492.428	1.722.165	1.673.774
Quantity of panels from Siret sold	m ³	80.046	68.050	65.759	56.186
Quantity of main products/boards from Comanesti sold	m ³	111.801	107.639	108.162	111.173
Sales core (Comanesti)	m ³	1.250	366	7.058	477

Sawdust and wood chips sold (waste timber)	BDMT	262.058	367.855	296.762	364.879
Pellets and briquettes sold	t	380.959	341.559	395.485	338.457
Logs sold	m ³	64.150	50.058	81.197	33.427
Electricity sold	MWh	54.067	40.045	31.012	24.888

Waste					
Wooden waste¹	BDMT	1.128	1.071	826	2.501
Non-hazardous waste	t	1.588	1.069	1.713	684
Recycled waste²	t	833	752	813	713
Hazardous waste³	t	278	270	305	279
Landfilled ash	t	19.288	21.574	19.539	12.282
Recycled ash	t	-	-	2.224	10.432

1 Further used as biomass within the Schweighofer Group or sold for further processing (e.g. for chipboards)

2 Plastic wrap, PET, paper, cardboard etc.

3 Oil filters, used oil, sludge from oil separators, adhesive waste, contaminated packaging



Holzindustrie **Schweighofer**

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