

Our Second Sustainability Report

AUGUST 2020



**HS TIMBER
GROUP**

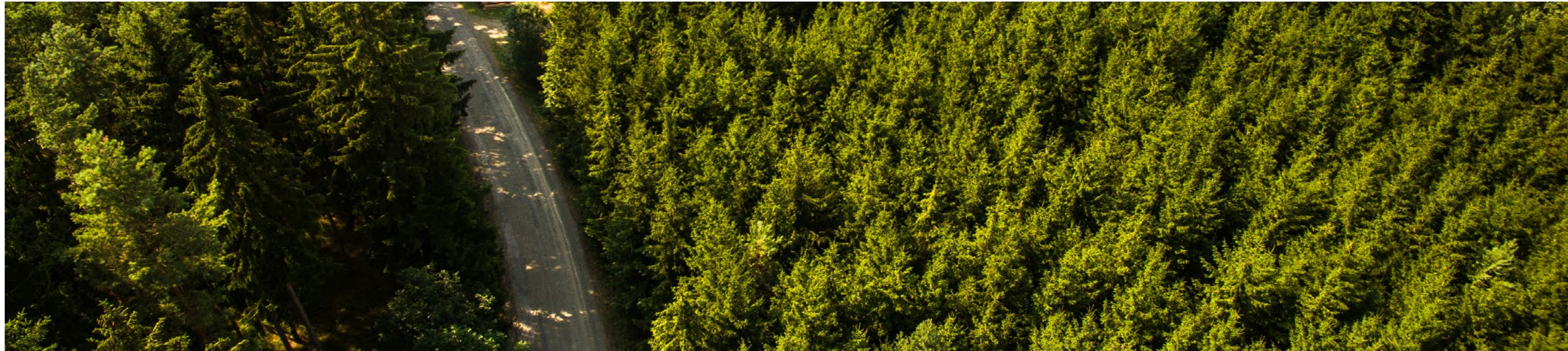


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Introduction

Three years ago, HS Timber Group (previously named Holzindustrie Schweighofer) decided to implement an Action Plan for a Sustainable and Secure Wood Supply Chain in Romania. Since then, we invested a lot of effort into learning and improving our operations - especially our security systems - and respecting stakeholder concerns in the discussion about how we source our raw material, how we inform stakeholders and the broad public, but also how we listen to our internal stakeholders, mainly our employees. Now, three years later, we can say that the company somehow reinvented itself and is different, but at the same time still recognizable, and the process has not yet finished, true to the motto: *Perfection in timber – Getting better every day.*

Our company goes back a long way and has enjoyed considerable success in the timber industry. Today, we are active in a global market and in different industries, supplying customers in over 70 countries. Naturally, we intend to continue to grow and expand internationally, which is why we are keen on harmonising and streamlining our international brand image and appearance - for the Group and its subsidiaries. When deciding on a new name, we looked for one that would be understandable worldwide and that could also be pronounced easily by speakers of any language. Please note that our focus on internationalisation does not mean that we will be curtailing our activities in Romania or Germany. Going forward, we also intend to strengthen our existing production sites, in line with our corporate strategy. Sustainability at all levels will remain a strong focus for our company. It makes us pleased to work in an industry which is key in addressing the recent societal challenges, such as climate change, and thereby making a private sector contribution to the achievement of the sustainable development goals.

We are proud to be able to present to you our second Sustainability Report. We have learned that external experts can support us improve our performance. For this reason, we have also subjected this report to an external review by the Austrian Federal Environment Agency, which has reviewed the Sustainability Report and, in particular, the greenhouse gas accounting.

We hope you will enjoy reading this report, give us feedback and engage with us in the future.

Jürgen Bergner, Christian Hörburger, Martin Louda, Gerald Schweighofer
Management Board



Our second Sustainability Report



This report contains information about our principles, our mission statement and our approach to sustainability and discusses 2019 achievements and developments.

Our goal is to get better every day – especially when it comes to sustainability. However, significant changes can only be achieved with the help of our employees and stakeholders. Mutual trust is crucial here and requires, in particular, information and transparency – something which HS Timber Group aims to provide with this Sustainability Report as well.

2.1. GRI Standards

The content, information and figures are selected and presented in compliance with the standards of the Global Reporting Initiative (GRI Standards). GRI, the international stakeholder initiative, has developed accepted guidelines for sustainability reporting that ensure transparency and comparability. This report meets the requirements of the "Core option". GRI indicators discussed in the report are presented in chapter 10. A review of the Sustainability Report was performed by Umweltbundesamt GmbH.

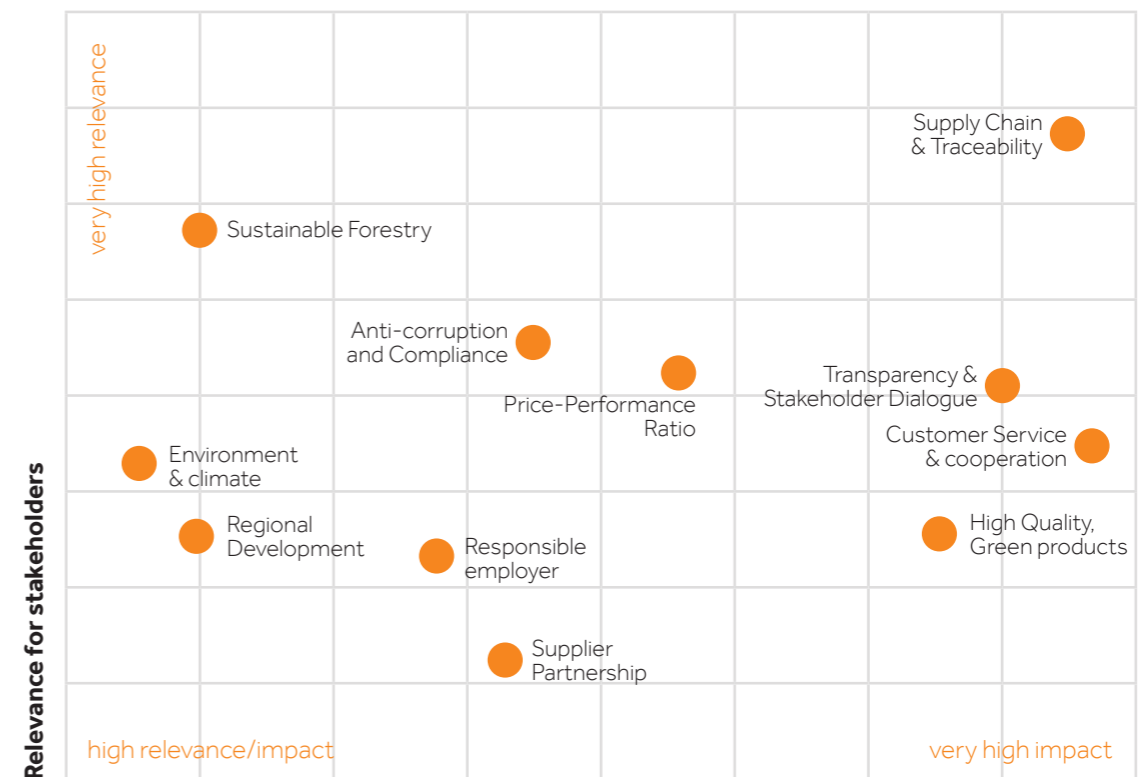
2.2. Report boundary

The content and Key Performance Indicators (KPIs) presented relate to the year 2019. The main subject of the report is the timber-processing arm of HS Timber Group. Changes in the delimitation of data, or KPIs, for example when the entire Group is considered, are indicated at the appropriate point, especially when it comes to the energy production facilities. Besides this Sustainability Report, HS Timber Group also provides information about its corporate responsibility on its website (www.hs.at).

2.3. Our sustainability process

The relevant fields of action of HS Timber Group in the area of sustainability are shown in the materiality matrix. Based on our mission statement, this is regularly updated in a multi-stage process. In December 2019, a total of 78 stakeholders took part in an online survey to evaluate the current activities of HS Timber Group and to identify important topics in the field of sustainability. To complete the survey, several personal interviews were conducted, with selected stakeholders that included customers, business partners and suppliers, NGOs, interest groups and representatives from political and (regional) administration.

In the next step, based on the results of the stakeholder survey, the relevant topics were discussed and prioritised, together with managers and different company experts. Special attention was paid to the environmental and social impact of the company's activities, in each field of action. This led to the revision of the materiality matrix that provides the basis for the contents of this report, the GRI topics and indicators described and the sustainability program for the coming years.



Current impact of HS Timber

The materiality matrix shows - for each topic covered - on the one hand, the importance for the stakeholders (vertical axis) and, on the other hand, the extent of the impact in environmental and social dimensions (horizontal axis). In short: how important is the topic from the perspective of the stakeholders? And where does HS Timber Group have a major impact in terms of environmental protection or social development? The more relevant an issue is in relation to these two factors, the more sustainability management must focus on it, taking into account economic impacts. Based on the materiality matrix, 11 topics were defined as significant for HS Timber Group. On the following pages, you will find out more about these issues, especially about our approach, our objectives and specific measures.



Introducing HS Timber Group



3.1. Sustainability, passion, partnership

HS Timber Group is a long-established wood processing company of Austrian origin, with very strong roots in Central and Eastern Europe, especially Romania. With around 3,200 employees in Austria, Germany and Romania, we produce high-quality wood products and supply - via wholesalers - primarily industrial customers all over the world.

We develop individualised, tailor-made solutions for our customers, from customised laminated products

for Japanese housing, construction, light wooden panels for American caravans and mobile homes, to timber products sold in DIY stores all over Europe.

HS Timber Group relies on a global presence with a strong regional foothold. We take our responsibility to society seriously and support sustainable forestry. Our goal is to continue to grow in a sustainable manner and expand with the best employees in the industry. We are continuously investing, in particular in the expansion of our core competences - sawmilling and industrial timber processing - and in the diversification of our business.



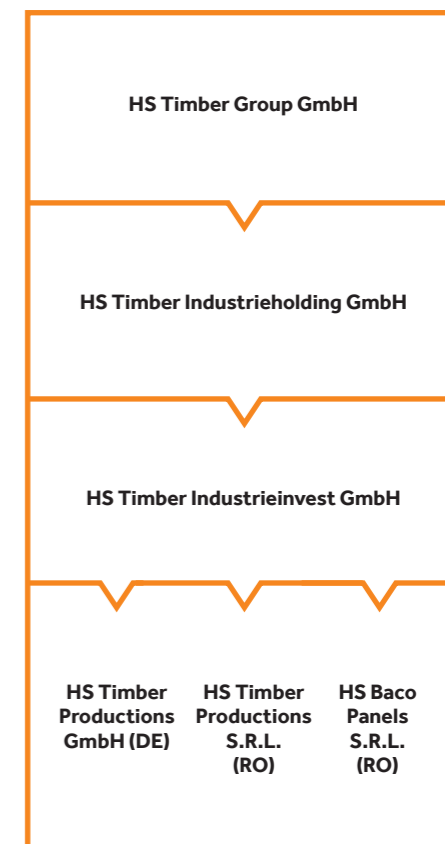
3.2. History of HS Timber Group

HS Timber Group has its origins in a traditional Austrian company. We have more than 400 years of experience in wood processing. The foundations for the company's current size were laid in the 20th century. The company was then already striking out in new directions and setting standards in the wood processing industry. Today, HS Timber Group, with its head office in Vienna, is a strong company with five production sites in Romania and one in Germany.

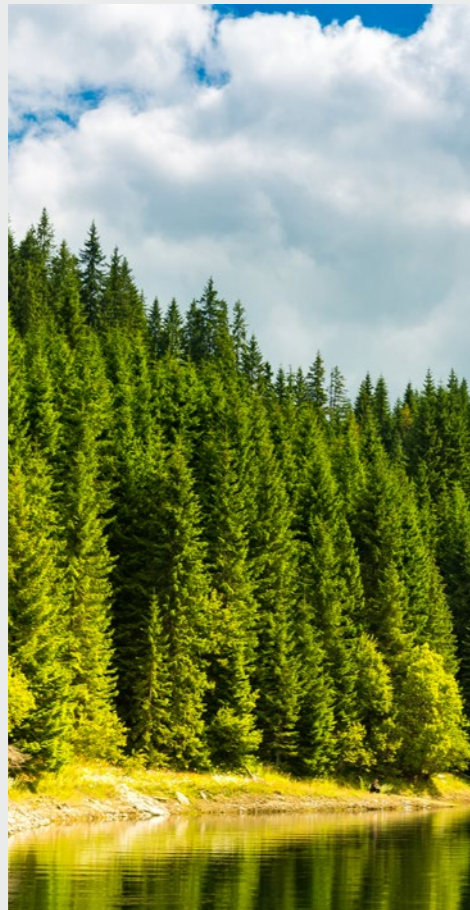
3.3. Corporate structure and production sites

Today, HS Timber Group GmbH is organised as a holding company, headquartered in Vienna. Most of its 3,200 employees work in the wood processing industry, but also in lumber trading, forestry and bioenergy production¹. The Group has had a strong presence in Romania for many years. In 2003, we opened our first sawmill in Sebeş, Alba county. HS Timber Group now operates three sawmills with secondary processing in Reci, Rădăuți and Sebeş, a blockboard factory in Comănești and a factory for the production of edge-glued panels in Siret. In October 2015, a sawmill in Kodersdorf, Saxony/Germany, was added to the Group. Some of the Group's energy production facilities are part of another Group entity (Bio Electrica Transilvania S.R.L.). Our products are sold to around 70 countries across the world. The regions where we work are the basis for our success. We therefore respect and value them. HS Timber Group has demonstrated social commitment for many years and supports charitable projects in education, social services and health care. Our state-of-the-art plants generate 3,200 jobs, many of which are based in economically disadvantaged rural regions. In Romania alone, another 4,000 or so jobs have been created in upstream and downstream industries². For more information please see chapter 8, "Regional responsibility".

¹ The area reported on solely comprises the wood processing arm of HS Timber Group.
² Economic impact of the wood industry in Romania, PwC, 2016



Location-based value chain



Forest

Even though we do not harvest any trees ourselves, we support conservation of natural forests and the fight against illegal logging. With our action plan for a sustainable wood supply chain, we have drawn up a range of measures that by far surpass all legal requirements, such as raising awareness of our suppliers on low impact forestry.



Logs

A strict Due Diligence system ensures that the purchased wood material exclusively originates from sustainably managed forests and that the origin of the wood can be traced back to the forest.

In 2019, a total of 3.2 million m³ of logs were processed in the sawmills in Reci, Rădăuți, Sebeș and Kodersdorf. The plant in Comănești is the world's largest blockboard plant at a single location. At the Siret panels factory, sawn timber is processed into edge-glued panels. Pellets and briquettes are also produced at the plants in Romania.

The state-of-the-art combined heat and power plants (CHP) at the sawmills in Reci, Rădăuți and Sebeș generate renewable energy (capacity of electricity production: 41 MW) from biomass and bark.

While all of the heat generated is used for the plants' own production processes (especially kiln drying), the excess green power is fed into the national power grid.



Overview of HS Timber Group's products and by-products

- ◆ Sawn timber
- ◆ Planed timber
- ◆ Glued timber
- ◆ Profiled timber
- ◆ Pellets, briquettes
- ◆ Blockboards
- ◆ Big size shuttering panels
- ◆ Edge-glued panels
- ◆ Renewable energy (power and heat)
- ◆ Wood chips, shavings and sawdust
- ◆ Bark



Examples of blockboards

3.4. Products and value chain

100% of our raw material is utilised. All by-products are processed, sold to other industries or used to generate renewable energy. In addition to high-quality sawn timber, we manufacture high value-added products at our processing facilities, such as our glued wood products that are exported to Japan for use in housing construction. Our light-weight, yet sturdy, blockboards are used for high-end furniture. We produce shuttering panels for prefabricated concrete construction. Do-It-Yourself enthusiasts will find our tongue and groove boards and edge-glued panels in home improvement stores. Pellets and briquettes made from our sawdust and shavings are a high-quality, eco-friendly source of energy for heating family homes.

We select our raw materials according to the strictest environmental criteria, develop solutions for the most demanding customers and manufacture our products with the greatest precision. Our wood products can be found all over the world, directly or indirectly. Perfection in the production chain starts with selecting logs from sustainable forestry, continues in a strictly controlled supply chain and culminates in high-tech manufacturing and processing. Highly automated, innovative production facilities ensure extremely precise manufacturing. Each year, over 60 million boards are produced, sorted and individually assessed at each of our sawmills, allowing us to cater minutely to the needs of our customers. Continuous checks during the process safeguard the highest levels of quality.

In 2019 the turnover of HS Timber Group amounted to 620 million Euro. From 2010 to 2019 we provided sponsorship in Romania to the tune of approximately 6.82 million Euro, for social, educational and environmental charities.



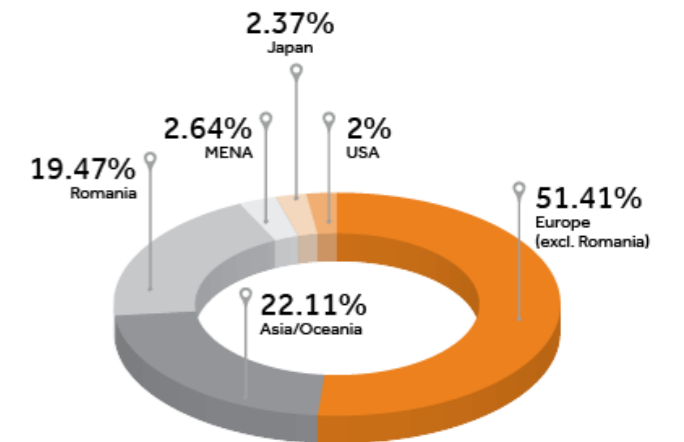
3.5. Customers

From large construction companies, to mid-sized furniture factories and Do-It-Yourself enthusiasts – our goal is clear: to fulfil customer requirements down to the last detail. We consider this the task of the entire team. HS Timber Group supplies customers around the globe and sells its products to around 70 countries. The majority of our customers, over 70%, are based in Europe. However, the distribution by volumes sold is different (see chart). Japan in particular is a key export market for our company. Our main customers are distributors and Do-It-Yourself stores. Industrial companies, from the construction and furniture industries represents 37% of HS portfolio. We are particularly proud of the fact that many of our customers have remained loyal to HS Timber Group for many years. We have a long-standing partnership with around half of our customers. This, too, is proof of our professionalism and tailor-made approach to our customers, in order to meet their demands in product quality - be it the product as such or the assurance of its sustainable and legal origin.



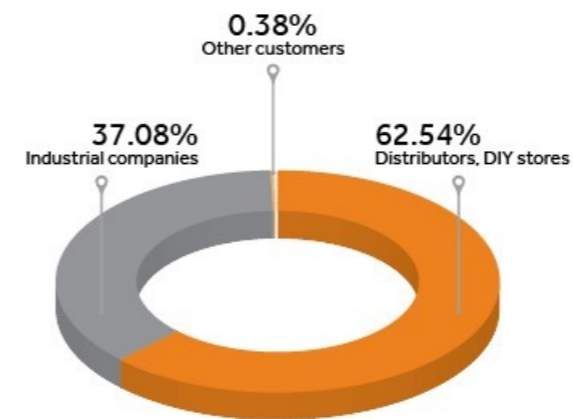
Customers by region

(by number in 2019)



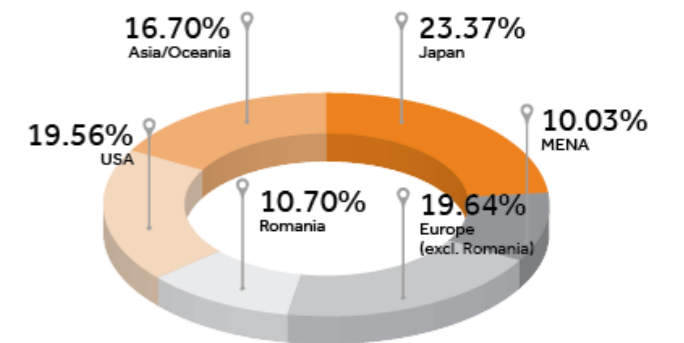
Customers of HS Timber Group

(categories by number in 2019)



Most important markets* of HS Timber Group

(volumes in 2019)



* Market distribution is calculated as the percentage of solid wood products of all HS Timber Group sawmills plus panels factories measured in terms of volumes





Responsible corporate governance



At HS Timber Group, responsibility means that our entrepreneurial thinking is geared towards sustainability principles on a long-term basis. To make that a reality, we need clear guiding principles and internal guidelines, effective management and supervisory mechanisms, a powerful mission statement, properly functioning compliance management and a clear Code of Conduct for both employees and suppliers. The only way to deal fairly with external stakeholders – including customers and the local community in the region – is to guarantee that our own internal corporate culture is responsible and transparent.

As an international company with strong ties to Romania, we operate in a difficult environment. Nevertheless, we firmly believe that transparency and proper training of staff is the best way to tackle corruption. We, therefore, set standards which go far beyond the statutory requirements, and we intend to play a pioneering role in ensuring that our suppliers and business partners adopt a similar approach. We place particular emphasis on a transparent wood supply chain and support for sustainable forestry. To find out more about our approach to supplier management, our exemplary Due Diligence system and our action plan for a sustainable and secure wood supply chain in Romania, please see chapter 5.

4.1. Our mission statement:

Perfection in timber.



HS Timber Group's mission statement reflects our philosophy, strategy and values and is guided by the principles of sustainability, partnership and passion.

Our mission statement also constitutes our vision for the company's future and forms the basis for all our corporate principles and all managerial decision-

making. It covers the following areas: customers, employees, business partners and suppliers, regions, internal organisation and sustainability.

The mission statement was developed by the Management Board in 2017 and has been widely disseminated. It is available at: <https://hs.at/en/company/our-model.html>

4.2. Compliance and sustainability

The main pillars of the Group's corporate philosophy are fair competition, ethical conduct and mutual respect. At HS Timber Group, compliance involves more than just adhering to applicable legislation and internal guidelines. It means treating business partners and colleagues fairly and includes appropriate conduct in interaction with relevant authorities. To meet those goals, HS Timber Group has introduced clear internal guidelines, which apply to everyone at the company.

The Chief Compliance Officer (CCO) is in charge of compliance within the Group. His core tasks include monitoring compliance with all relevant legislation and internal rules, with particular emphasis on anti-corruption and sustainable, transparent wood procurement. The CCO engages in dialogue with employees, representatives from civil society organisations and

other external stakeholders, evaluates internal standards and activities on an ongoing basis and develops methods for improvement. Challenges which relate to the international context play an important role. The CCO reports directly to the Management Board of the Group. He oversees and works closely with the Supply Chain Control & Certification Department and collaborates in the fulfilment of his tasks with the Legal Department and other relevant departments. Internal and external sustainability management is also closely linked to our compliance agenda and is coordinated by the CCO.

He receives support from an assistant and a part-time CSR manager. In addition, since April 2018, an internal auditor has been working with the compliance team in Romania; his main task is to improve, fine-tune and monitor internal processes.

4.3. Code of Conduct for employees

Our Group-wide, binding Code of Conduct sets forth basic rules for all employees and managers. Alongside the mission statement, the Code of Conduct is one of the most important internal sets of rules, providing clear instructions to all employees about ethical business practices. The Code of Conduct focuses on anti-corruption and compliance (adherence to regulations), internal interpersonal interaction and mutual respect.

Once completed, the Code of Conduct was introduced throughout the group via a campaign at all mills. It was also integrated into a mandatory on-boarding process for new employees.

The Code of Conduct is audited internally on a regular basis. The document is available at <https://hs.at/en/responsibility/how-we-do-business/code-of-conduct-for-employees.html>

In addition to the internal Code of Conduct, in 2019 HS Timber Group issued a Supplier Code of Conduct. It sets forth ethical business practices with which all raw material suppliers must comply with and was incorporated by reference into all HS Timber Group purchasing agreements. For more information about the Supplier Code of Conduct, see section 5.2.8.

The document is available at <https://hs.at/en/responsibility/how-we-do-business/supplier-code-of-conduct.html>



4.4. Cooperation with IACA

In 2017, HS Timber Group began a collaboration with the International Anti-Corruption Academy (IACA). The Academy is the first global institution of its kind to focus on ways to tackle shortcomings in expertise and practice in the field of anti-corruption. The IACA has the observer status in the UN General Assembly, the Council of Europe's Group of States against Corruption, the United Nations Economic and Social Council and the International Organisation for Migration and has been explicitly mentioned via various international resolutions.

For HS Timber Group in 2019, the IACA has run tailored training courses for the entire Management Board, as well as selected staff from the second level management and, thereby, helped to roll out the new Code of Conduct. In total, 64 employees, among them the entire top management and senior management, have undergone such training.

4.5. Anti-trust training

One of the basic attitudes of the company is to comply with all rules and regulations. HS stands for fair competition. For this reason, the company has also clearly committed itself to market principles in its Code of Conduct and has stated that it does not enter into any agreements with competitors, suppliers or customers, that could hinder trade - such as price fixing or agreements on sales conditions, market sharing, restriction of competition or influencing the outcome of tenders.

In order to raise awareness on these issues among the company's employees, seminars were organized for personnel in the wood procurement, sales and logistics departments. The interactive training sessions focused on general provisions, as well as on the correct and compliant behaviour in various situations. The training sessions are a fixed component of the company's compliance program. All in all, 61 employees were personally addressed with the training sessions.

4.6. Leadership training

From January to September 2019, with the support of external consultants from the Integrated Consulting Group (ICG), HS Timber Group implemented a five-stage organisational development and leadership development programme for the Group's top leaders. Within this framework, improvement measures were defined for the organisational structure, internal organisational processes were optimised and change management projects were launched. In addition, managers were introduced to various management tools and methods, in order to continue to successfully lead the company and its employees into the future. Particular attention was paid to a responsible management style, in line with the corporate mission statement. During this time, relationships at the personal level were also significantly strengthened.

A total of 31 managers and junior managers from the Austrian holding company and the Romanian subsidiaries participated in the Leadership Programme. An extension to the next management levels is planned for 2020.

4.7. Stakeholder dialogue

We are well aware that our corporate decision-making has a significant impact on various interest groups. They include our customers, employees and business partners, as well as the regions in which our production sites are located.

It is important for us to acknowledge and understand the needs and requirements of our stakeholders through regular mutual interaction with them. Open, ongoing dialogue is



key to aligning our expectations and relative positions and successfully developing joint solutions. The input we receive from these stakeholders is very valuable to us. It can help to bring facts and concerns to light, and it can also encourage the development of ideas of which our company might not otherwise have become aware. HS Timber Group is convinced that constructive dialogue with stakeholders and the willingness to address their concerns will help improve performance in sustainability.

As a major player in the international wood market, HS Timber Group maintains a broad network of stakeholders and service providers. We are in regular contact with customers, suppliers and business partners, authorities, NGOs and representatives of interest groups and, of course, our own employees. Depending on the stakeholder group, different forms of communication are used.

To communicate with local stakeholders in particular, HS Timber Group organises regular meetings. At these meetings, information is provided via in-person conversations, industry topics are discussed and input and feedback about measures taken by HS Timber Group are provided.

With international stakeholders, HS Timber Group interacts via structured dialogue. This takes place via regular in-person meetings or via exchanges of information involving other interest groups.

We also emphatically support multilateral initiatives, e.g. the Romanian NGO/Industry Roundtable. Formats of this kind improve communication between HS Timber Group and individual stakeholders;

they are also a means of building trust and relationships and of encouraging mutual understanding of general problems in the industry as a whole.

Stakeholders play an important role in, for example, the certification of standards, e.g. for sustainable forest management. We consider external input to be an integral part of our risk management activities.

Our wood tracking system Timflow is designed specifically for interaction with stakeholders. On www.timflow.com, HS Timber Group publishes all details regarding shipments of logs which have been delivered by truck in Romania, e.g. images of loaded trucks and GPS-based information about the origin of the wood. Any stakeholder or any user among the general public can contact us via the website if there are any perceived irregularities or if anything is unclear. Timflow was implemented in all of the Group's Romanian sawmills in April 2017 and, one month later, its scope was broadened to include all wood collection points owned by the company. For more information about Timflow, see section 5.2.7.

4.8. Open door policy for NGOs

In line with its commitment to transparent communication, HS Timber Group has implemented an open door policy for NGOs. After registering with the company's Compliance Department and signing a standard non-disclosure agreement regarding the technologies used, representatives of recognised NGOs can visit our mills unannounced.

Our goal is to transparently demonstrate our efforts to ensure a secure supply chain.



Sustainable supply chain

At HS Timber Group, a sustainable supply chain means honesty, long-term partnerships and rigorous controls. Wood is a unique, versatile raw material and, at the same time, a renewable resource. As trees grow, wood absorbs the carbon dioxide (CO₂) responsible for climate change. Through its activities, the company has been closely associated with this valuable material for generations.

Then, as now, the availability of high-quality wood is essential. Only a forest that is managed sustainably can meet industry demand and also supply future generations. Preserving and fostering this natural resource is one of our uppermost concerns. This is why we rely on sophisticated supplier management and rigorous Due Diligence. We only purchase coniferous wood from verified, non-controversial sources. In addition, we undergo regular voluntary checks by international expert organisations. We insist on careful use of environmental resources and effective environmental management as integral parts of our economic activity. This fosters innovation and success while ensuring the protection of forests.

In 2019, HS Timber Group purchased approximately 3.35 million m³ of sawlogs and around 163,700 m³ of sawn timber to manufacture high-quality wood products. This was coniferous wood from spruce, fir or pine trees. We use hardwood only in very small quantities for blockboard production, e.g. veneers.

We have a diverse supplier structure. In 2019, the three sawmills in Romania purchased wood from 679 merchants and forestry companies. Around 47% of these vendors are small businesses that supply no more than 500 m³ of logs per year. We have been in partnership with 178 suppliers for at least nine years (suppliers that made deliveries each year in 2011-2019).

The Group's strict purchasing policy applies to all wood suppliers, from international timber merchants to forestry professionals. However, the large number of suppliers also makes one thing clear: only a far-reaching, effective Due Diligence system, using cutting-edge technology, can ensure a sustainable supply chain.

5.1. Timber sourcing policy

Sustainably managed forests have the highest priority for HS Timber Group. We are committed to ensuring that all our timber is responsibly sourced, from sustainably managed forests. We will purchase timber only from non-controversial sources and in full compliance with our timber sourcing policy. We require all suppliers and vendors to demonstrate compliance with all legal requirements for forest management, timber harvesting and related trade, as a basis for long-term partnership.

We operate a robust security system. As a responsible business, we verify the origin of the timber we use, in order to exclude controversial sources. We are explicitly committed to excluding material sourced from virgin forests and non-intervention areas, as well as material originating from forest land whose ownership title is effectively disputed in court and when courts or authorities have ordered the suspension of operations. Moreover, we voluntarily refrain from buying material originating from National Parks in Romania.

We do business only with partners whom we have reason to trust as acting with Due Diligence and professional prudence. Where executive managers

or staff in similar positions have been convicted by a final binding court decision for illegal wood harvesting or corruption, we will, as a rule, exclude their companies from our supply chain for three years. In severe and justified cases, we reserve the right to delist suppliers at any time appropriate. To re-enter the supply chain thereafter requires a comprehensive audit demonstrating full compliance with all requirements of this timber sourcing policy.

We believe forest certification to be an instrument that helps to promote sustainable forest management. We encourage our suppliers to seek certification for sustainable forest management and Chain of Custody, and we want to take this path collectively. Our target is to source 100% wood from certified forests by 2025.

We invite stakeholders to an open and constructive dialogue to help us continuously improve our business and our performance in regard to a responsible wood industry. The Timber Sourcing Policy is reviewed and a public statement on its implementation is issued annually (Supply Chain Report).

The document is available at <https://hs.at/en/responsibility/what-we-do/timber-sourcing-policy.html>

5.2. Our Due Diligence system in Romania

In 2019, HS Timber Group's sawmills in Romania purchased around 50% of their sawlogs from the domestic market. There, they operate in a challenging business environment. In the past, the media reported on irregularities in the Romanian supply chain, one of the main criticisms being that HS Timber Group relied excessively on document control and failed to communicate adequately with stakeholders.

We introduced a targeted comprehensive range of measures – the action plan for a sustainable and secure wood supply chain in Romania. This plan, which is unique in Europe, by far surpasses the strict legal requirements in Romania.

To ensure that the softwood we purchase comes from sustainable forestry, we implemented an innovative supplier management system and improved our Due Diligence system. In addition to rigorous controls and high standards, cooperation and the development of long-term partnerships, especially with our suppliers and customers, are paramount. Our goal is to do everything in our power to fight illegal logging from the starting point of the supply chain.

We audit each new supplier to ensure compliance with our timber sourcing policy. We run an annual on site audit programme in which suppliers are audited on a random basis. If suppliers deliver via collection points, they undergo at least one annual audit, larger suppliers more regularly.

After all these direct checks of suppliers, the wood delivered undergoes careful controls with respect to quality and origin. Every truck delivering logs is screened at the gates of our sawmills on the basis of the freight papers and database queries. If we encounter illegalities in the supply chain, we take immediate action and contact the authorities. We do not do business with suppliers convicted of illegal logging or corruption.

The GPS-based wood tracking system Timflow shows the origin of each truckload³. This is something that is unique in the European timber industry. All data on all Romanian truck deliveries is available to the general public at www.timflow.com. An electronic 3D measurement system also ensures that the delivery volume stated in the consignment note is not exceeded. This impedes "laundering" of illegal surpluses.

³ Timflow covers all logs delivered by truck in Romania, which represent around 34% of all logs processed in the Group.



5.2.1. Thorough check of all suppliers

Our suppliers are contractually required to design the supply chain in a transparent and traceable manner. Prior to conclusion of a new timber delivery contract or renewal of an existing one, suppliers receive a questionnaire, known as the supplier declaration. This enables us to collect information about the company, the origin of the wood sold and the supply chain. HS Timber Group performs a risk analysis based on the data collected. If we discover that certain requirements are not met, or the origin of the deliveries cannot be clearly traced, we take further steps, such as carrying out on-site inspections. We suspend the business relationship until the inconsistencies have been cleared up. The results of ongoing media coverage are also factored into the risk assessment on a country-specific basis.

In addition to direct contact with the suppliers, HS Timber Group engages in regular dialogue with stakeholders. This takes place on multiple levels so as to receive input from all sides and identify grievances at an early stage. The channels for stakeholder communication include biannual public consultations, direct correspondence and regular meetings, as well as targeted discussions with NGOs, relevant market participants, municipalities and authorities and other interested stakeholders.

5.2.2. Hundreds of site inspections

Our control and Due Diligence system is based on much more than just documents. It requires an audit for each new supplier. Due to the large number of suppliers (we purchased wood from 679 merchants and forestry companies in Romania in 2019), this means hundreds of inspections each quarter. We focus on the local forestry companies in order to get a picture of where the wood delivered actually comes from. Site visits are, of course, carried out in all risk countries from which we source wood.

Suppliers with logyards have an increased risk along the supply chain and are therefore also audited on site, annually.

Audits are performed with the iAuditor application with elaborate pre-defined checklists. The application runs on a tablet which also registers the GPS coordinates of the audit location and a time stamp of the audit.

In Romania alone, we conducted 487 Chain of Custody audits, 32 Forest Management Unit audits and 90 harvesting plot audits.

5.2.3. External reviews by experts

Since the EUTR entered into force in 2013, HS Timber Group's Due Diligence system has been audited by the competent authorities a total of 17 times. All official EUTR audits to date have confirmed the observance of statutory duties of care (Due Diligence) and took place without any objections.

A recent expert opinion issued by the independent consulting firm SGS, consulted by HS Timber Group to benchmark especially the supplier countries of Ukraine and Belarus, confirms conformity of the Group's security system to EUTR requirements for these countries. The report acknowledged especially the strength of the system, when the company relies on its own specialists, rather than third party assessments. In the past, independent expert organisations, such as INDUFOR from Finland and KPMG Canada, also carefully examined the company's security systems, confirming the efficiency of the steps taken and helping to advance a continuous improvement process at the same time.

"The Lacey Act is a 1900 United States law that bans trafficking in illegal wildlife. In 2008, the Act was amended to include plants and plant products, such as timber and paper. This landmark legislation is the world's first ban on trade in illegally sourced wood products. There are two major components to the plant amendments: a ban on trading plants or plant products harvested in violation of the law; and a requirement

to declare the scientific name, value, quantity, and country of harvest origin for some products.

*The Lacey Act is a fact-based statute with strict liability, which means that only actual legality counts (no third-party certification or verification schemes can be used to 'prove' legality under the Act) and that violators of the law can face criminal and civil sanctions, even if they did not know that they were dealing with an illegally-harvested product."*⁴

Companies are required to run a so-called "due care" system, which is similar to the Due Diligence concept of EUTR or certification systems. In any of these systems, companies are required to mitigate risks of potential controversial inflow, down to negligible levels and to do everything possible to determine that products are legal. In 2017, the company cooperated with the renowned US-based law firm Quinn Emanuel to assess and improve its security architecture concerning supply chain issues. All recommendations were implemented at that point. Although HS Timber Group is not an importer on the US market, the company sees this exercise as a very important measure to help US customers comply with the Lacey Act's requirements.

Additionally, in 2019, the company was subject of 4 extensive external on-site audits by customers which were successfully completed.

⁴ <https://forestlegality.org/policy/us-lacey-act> (3.4.2020)

5.2.4. Programme for the Endorsement of Forest Certification – PEFC™



HS Timber Group holds PEFC Chain of Custody single site certificates for all its production facilities. A PEFC CoC certificate safeguards the integrity of the supply chain, from forest to product. The certification from this internationally-recognised organisation demonstrates that HS Timber Group purchases and processes wood from certified, controlled, undisputed sources. In order to ensure this consistently, the company is audited externally once per year. For certification to be successful, all stages of the value chain must follow these rules, from the forest to the sawmill and all the way to the final product. Concerning legality, all certified material undergoes the same security measures as non-certified material.

5.2.5. Forest Stewardship Council® – FSC®

The FSC (Forest Stewardship Council) was established in 1993 as a result of the Rio de Janeiro Environmental Summit. The FSC is a non-governmental, non-profit organisation committed to the environmentally sound, socially responsible and economically viable use of the world's forests.

FSC and HS Timber Group are in an ongoing dialogue process, where the company shall demonstrate tangible and significant improvements in its timber trade operations, as required by FSC, to be eligible to regain FSC certification in the future.

FSC told the company that it "acknowledges commitment shown by HS in acting on the conditions. At this moment, FSC is reviewing its dispute management system, which means some fundamental support processes need to be in place before FSC can take HS further. FSC looks forward to working with HS to end disassociation."⁵

⁵ More information is available in our first sustainability report, page 32, <https://bit.ly/2AlgLn>

5.2.6. Action Plan for a Sustainable and Secure Wood Supply Chain in Romania

The company continuously evaluates its environmental standards and actions and develops methods for improvement. The measures HS Timber Group has implemented in Romania by far surpass the legal requirements there. Since 2017, the company has invested more than one million Euro in its Action Plan for a Sustainable and Secure Wood Supply Chain in Romania. This plan consists of many measures that together build a strong and state-of-the-art security architecture, which, to the best extent possible, excludes the inflow of controversial material, strengthens the reliability of the supply chain and supports sustainable forest management in Romania. The action plan includes measures such as a strong and up to date Due Diligence System - the GPS tracking System Timflow being part of it - but also actions like the *Zero Timber from National Parks Policy*, which intends to voluntarily support efforts to have a better protection of National Parks in Romania. Transparency and openness are not just catchphrases for the company; they became part of the company's profile and are extensively applied throughout the operations, especially when it comes to sustainable sourcing of wood. An overview of all actions implemented can be found at <https://hs.at/en/responsibility/a-responsible-supply-chain/measures-of-the-action-plan.html>.



5.2.7. GPS tracking for complete transparency in the supply chain

As a private company, we cannot and do not wish to assume any government's function, but we will do everything in our power within our sphere of influence to support the fight against illegal logging. The core measure is the publicly accessible GPS system Timflow, which was developed and

implemented by HS Timber Group, together with a Romanian mobile network operator.

Timflow allows us to track the precise origins of the roundwood that trucks deliver to the sawmills. It consists of:

a GPS tracker integrated into the truck's circuit (trucks delivering logs without a Timflow GPS tracker are turned back at the factory gate);

an internal portal for goods receipt at the sawmills;

a website on which all data is published transparently and can be viewed by anybody.

an application (app) for the truck driver's mobile phone;

Timflow video

<https://youtu.be/409TD4OCZIo>

The procedure is simple. After the truck is loaded, the load is registered with the mobile Timflow application, photographed, and the data uploaded to the cloud server. During the trip to the sawmill, the GPS tracker sends the truck's position to the same server. When the truck arrives at the mill, the digital data can then be used to check whether the truck's origin matches the transport documents, whether the truck took a comprehensible route and (based on the photographs) whether the load that arrived is the same as the one that left the forest.

HS Timber Group publishes all Timflow data transparently on www.timflow.com. Interested parties can study the origin and the photos of all loads and request additional information. We published data on over 28,000 consignments in 2019.

The Timflow system has been continuously updated and improved - for example by adding an automatic check as to whether trucks come from exclusion zones (National Parks and forests that are World Heritage) or from potential tracts of virgin forests⁶. Timflow is also attracting attention internationally and was presented to an international audience at the FOR-MEC Forest Symposium in Braşov (Romania) in September 2017 and at the PEFC™ Stakeholder Dialogue in Helsinki in November 2017.

In 2020, it is planned to offer Timflow also to logyard suppliers in order to enable them to trace their input as well.

⁶ I.-A. Biris & P. Veen, 2005. Inventory and strategy for sustainable management and protection of virgin forests in Romania, 61 pp.

5.2.8. Code of Conduct for employees and suppliers

Promoting ethical conduct among employees and business partners is particularly important in a challenging business environment. After rolling out a Code of Conduct for its employees two years ago, HS Timber Group introduced a Code of Conduct for suppliers in 2019, as a reference system for ethical business conduct along the supply chain. Encouraging our suppliers to follow this path together with us is one of the goals of HS Timber Group's mission statement. All log purchasing agreements reference this Supplier Code of Conduct.

The Code of Conduct is not just a set of rules, but also a guide for employees that should give advice on how to deal with critical situations. Violations of the Code of Conduct are dealt with in accordance with the specifications of the compliance management system. A case management system that collects internal and external input enables the head of the company's Supply Chain Control & Certification Department and the Compliance Office to deal with and document violations in a structured manner. In addition, provisions in the Code of Conduct are incorporated into an internal audit program.

5.2.9. Tracking of individual logs

Our GPS system Timflow tracks every truck that delivers roundwood to the sawmills. Even more precise, however, would be the tracking of every single log from harvesting to processing. This development direction prompted HS Timber to launch a pilot project in 2017, to examine the possibility of implementing a system for tracking individual trunks. Due to the large number of tree trunks processed (in Romania alone, it is estimated that over 100 million

are processed each year), identification of a single tree trunk is a major challenge. The system must be scalable, cost-effective, robust and transparent.

A pilot project called Timflow ID was launched early 2019, to increase security in the supply chain. Timflow ID is a new system for timber tracking through wood collection points. It is based on a traceability system for each log and consists of the following elements:

a mobile application – Timflow ID

plastic plates with a unique number on each log

an internal online portal with all necessary information about each log

The system was tested with two suppliers in the second quarter of 2019, to determine its practical applicability. The experience gained from a previous project provided the basis for this project. The project

was successful, we were able to ensure full traceability of the logs during the testing period, but there are still further developments to be considered in order to make it industry relevant in an economy of scale.

5.2.10. Zero wood from National Parks

Romanian legislation allows for logging in so-called national park buffer zones and in the case of sanitary cuttings. Nevertheless, HS Timber Group voluntarily introduced a strict purchasing principle at the beginning of 2015: Zero wood from National Parks in Romania.

To ensure compliance with this principle, we stipulate in purchase agreements that no wood from Romanian National Parks will be accepted. Consequently, every wood consignment arriving at HS Timber Group sawmills in Romania is checked for these aspects. This is performed using the GPS tracking system Timflow,

through on-site visits and audits of suppliers, as well as based on the legally required documentation of origin.

In December 2019, one of our Supply Chain Control Officers at the Sebeş mill identified a transport from Vâlcea county as originating in the Cozia National Park. The transport was put "under investigation" and unloaded at the designated area inside the mill.

After further checks, the origin from the national park was confirmed and the transport was rejected. The reason for this was an error on the supplier's part, who didn't comply with HS's policy regarding National Parks.

5.2.11. Sourcing from Ukraine

In 2015, log exports were banned in Ukraine for ten years. This ban was extended to pine saw logs in 2017. HS Timber Group only purchases sawn timber from Ukraine and the suppliers are large and medium-sized sawmills, as well as small, family-owned rural sawmills. The sawn material input from Ukraine was roughly 91,600 m³ in 2019. Approximately 60% of the purchased wood is certified, and the rest of the input comes mostly from certified forests with a broken Chain of Custody.

Ukraine has been in a controversial political and economic situation for more than a decade. The country is in a difficult financial situation, with significant loans and problems of state budget. Under these circumstances, the Ukrainian forestry and wood industry has been subject to several allegations regarding a significant level of corruption and an improper forest governance performance, especially in the field of sanitary fellings.

A part of HS Timber Group's risk mitigation policy is to fully exclude areas with uncertain governance (conflict timber). Risks regarding high biodiversity value are considered and most of the input comes from plantation forests.

High risk areas and controversial sources (conflict timber) are excluded. Auditing activities in 2018 covered all non-certified suppliers and FMUs and the auditing programme in 2019 also integrated all certified sawmills.

In order to mitigate the risk in the Ukrainian supply chain, HS Timber Group's verification and risk mitigation programme includes:

- Employment of local staff responsible for supply chain control;
- Regular training of staff on supply chain control and compliance issues;
- Legal check of all suppliers (bi-annually);
- Forest checks and plot visits;
- Chain of Custody (CoC) verification audits (100% coverage);
- Use of the iAuditor app for all types of audits;
- Checking the obligatory roundwood tag codes on the official platform, part of the auditing procedure;
- Media monitoring and stakeholder communication;
- Due Diligence system checks by third parties.
- HS Due Dilligence system does have the same level of assurance for certified and non certified forests.

5.2.12. Our Due Diligence system in detail

HS Timber Group's Due Diligence system was designed and implemented to mitigate the risk of having raw material from uncontrolled or controversial sources in its supply chain, as well as to meet the requirements of the different governmental regulations (e.g. EUTR or Lacey Act) and certification schemes. It also covers our commitment not to accept wood from National Parks (even in cases where this has been legally harvested).

Gathering information – supplier declaration

Before HS Timber Group enters into a contract with a wood supplier, it requires the latter to submit a "supplier declaration". The supplier declaration explicitly specifies the Forest Management Units (in low-risk countries we ask that only the country of origin be declared, whereas in high-risk countries we map the entire supply chain and reach the FMU level) or other intermediaries from which the wood is sourced. The supplier declaration gives HS Timber Group the right to conduct supplier audits, and with it the supplier confirms that the origin of the wood is known, it is legal and its traceability is documented. If the origin of wood changes, the supplier declaration is updated.

Risk assessment

Using different sources of information, we assess the risk associated with the wood supply – for example, the mixing of wood from different sources – so that this can be addressed at the level of the wood's origin and in the supply chain. The risk assessment is performed prior to delivery and, in the event of continuous collaboration, once per year. The most important reference here is the country of origin and the corruption perception index as provided by Transparency International (<https://www.transparency.org/en/cpi/2019>). HS maintains country specific risk assessments for high-risk countries. These risk assessments are updated on an annual basis.



Risk management

Where the risk assessment indicates a low risk, a desk audit is performed, which entails a document review. This covers material originating from certified forests and material coming directly from the forest to the mills, in those cases when the Forest Management Unit has already been audited.

For cases where the wood supplied has been identified as "high risk", based on its origin, or on the supply chain, HS Timber Group has defined a number of different control measures to mitigate the risk and allow the material to be delivered to the mills as "controlled material".

On-site auditing of suppliers and forests

The on-site audit is designed to obtain more detailed information about the supply chain and the risk of mixing wood from different sources. It is one of HS Timber Group's most important risk mitigation measures. Its purpose is also to check the plausibility of the data provided on the supplier declaration, to verify the legality of required documents and to get a picture of the supplier's operations. It reveals whether there is any controversial activity on the part of the supplier. In the case of high-risk countries, the on-site audit extends to the level of Forest Management Units (exceptions are only possible if the supplying forest holds a valid forest certificate) prior to delivery. All supplying Forest Management Units (FMUs) are included in an annual audit programme; in high-risk countries, a sample of FMUs from the total number of FMUs needs to be chosen and audited. Our Supply Chain Control staff checks, for example, management plans and compliance with harvesting permits issued. These checks also cover health and safety measures, as well as other issues related to proper forest management.

Stakeholder consultation

HS Timber Group has implemented a stakeholder consultation process to request and collect external information about the planned supply. The opinion of relevant stakeholders is taken into account in sourcing activities and risk mitigation measures. A stakeholder engagement protocol is published on HS' website.



Timflow wood tracking

While a Due Diligence system requirement is to perform an initial check of suppliers and sampling of deliveries, HS Timber Group's Due Diligence system investigates in detail all incoming deliveries in high-risk countries, with a special focus on Romanian supplies.

In Romania, HS Timber Group tracks the transport routes of log trucks using GPS technology. Delivery by truck is the main transport method for wood sourced in Romania. The system was introduced for all log deliveries by truck in Romania. We know exactly where the logs were loaded and what the truck load looked like at origin and we check the route of the truck to the mill. All system entries are timestamped. Not all deliveries come directly from the forest; they also come from local logyards. With Timflow, we have the certainty that the material comes from legally authorised logyards, which are strictly regulated in Romania. In cases where irregularities are identified after the material's arrival at the mill, this material is stored separately in a designated area and labelled "under investigation".

The material can only be used for production if the case is clarified by the local Supply Chain Control Officer. Based on the written self-declaration, the officer asks the supplier to provide additional legal documentation on the delivery, which allows the organisation to either classify the material supplied as of negligible risk, or conduct a third-party supplier audit. Deliveries which obviously infringe legal and internal requirements are immediately rejected at the mill gate (e.g. deficient documents, no Timflow system installed, etc.)

Exclusion of "high risk" suppliers

Suppliers which are unable to comply with our strict standards and whose risk cannot be mitigated down to negligible are excluded from our supply chain. This applies specifically to suppliers which were convicted through a binding court decision for corruption or crimes in connection with forestry, or which are not able to prove the legal origin of the material. Suppliers which breach certification rules or are engaged in a scam are also (temporarily) excluded.

Our Due Diligence system for logyards

Logyards are an important part of Romania's timber industry and are heavily regulated by Romanian forest legislation. At the logyards, wood is sorted, cut into assortments and delivered to various customers, with numerous benefits for the environment, workforce, infrastructure and the overall economy. Most of them are linked to small sawmills. Operations along forest roads mostly make it impractical or impossible to sort, section wood and build up truck loads that reach customers directly from the forest. This is due either to spatial limitations on forest roads, or to precipitation that makes the road impassable for large trucks. In addition, logyard operations make construction material and firewood available to the local communities and enterprises.

At the logyards, the harvested wood is sorted by species, quality, type of usage (furniture, construction material, pulpwood) and diameter and cut into segments, in line with customer requirements. Some of the wood is processed at logyards and the rest is sold to various customers for different uses, at different prices. This enables

the operator to derive the highest added value from the incoming material. Under Romanian law, wood that enters the logyard has to show proof of origin from harvesting activity (be it by companies or individuals) and is only allowed to leave the logyard with the right papers, all recorded in a regulated registry and in the national wood tracking platform (SUMAL). Some PEFC™- or FSC®-certified logyards would also physically separate several wood categories, to ensure an unbroken Chain of Custody (which also applies to our condition to ensure that wood from National Parks is not mixed with deliveries to our sawmills).

HS Timber Group's Timflow platform safeguards wood traceability and also ensures that wood coming directly from the forest to our mills is legally destined for harvesting and does not originate from National Parks. For HS Timber Group it is also important that no wood from National Parks be mixed with wood that our company accepts for processing from logyards, which is why we have a well-designed Due Diligence system for logyards in place:

Every supplier must disclose all sources of wood procurement, including the harvesting permit. This means that every supplier has to prove exactly from which forest its incoming loads originate. As soon as HS Timber Group's Supply Chain Control & Certification Officers learn that wood from National Parks is traded on a logyard (which is perfectly legal for certain zones of National Parks), the company rejects deliveries from the respective logyard, unless physical separation is ensured and clearly identified.

If physical separation is not ensured, the logyard operator is blocked and can only supply HS Timber Group during this blocking

period if it has other harvesting locations outside of National Parks and delivers directly from the primary platforms of these sites.

All the deliveries of logs from a logyard to HS Timber Group's sawmills are also tracked using Timflow. This ensures that the load is coming from a legally-authorized logyard, subject to strict legal requirements.

The company's suppliers are notified that HS Timber Group does not accept wood from National Parks. This is clearly stipulated in our timber sourcing policy and in the relevant contracts. Suppliers are constantly checked to ensure compliance with this requirement.

5.2.13. Due Diligence scrutiny by KPMG experts

HS Timber Group contracted KPMG LLP to support its continuous improvement initiatives for timber sourcing at its Romanian sawmills. KPMG LLP (KPMG) examined HS's current Chain of Custody processes and provided findings and recommendations on areas where further improvements may be possible to mitigate the risk of receiving timber from illegal sources.

KPMG's forest practices group consists of foresters, biologists and forest carbon and Chain of Custody specialists with international experience in sustainable forestry and Chain of Custody processes, including SFI, PEFC and FSC certification systems.

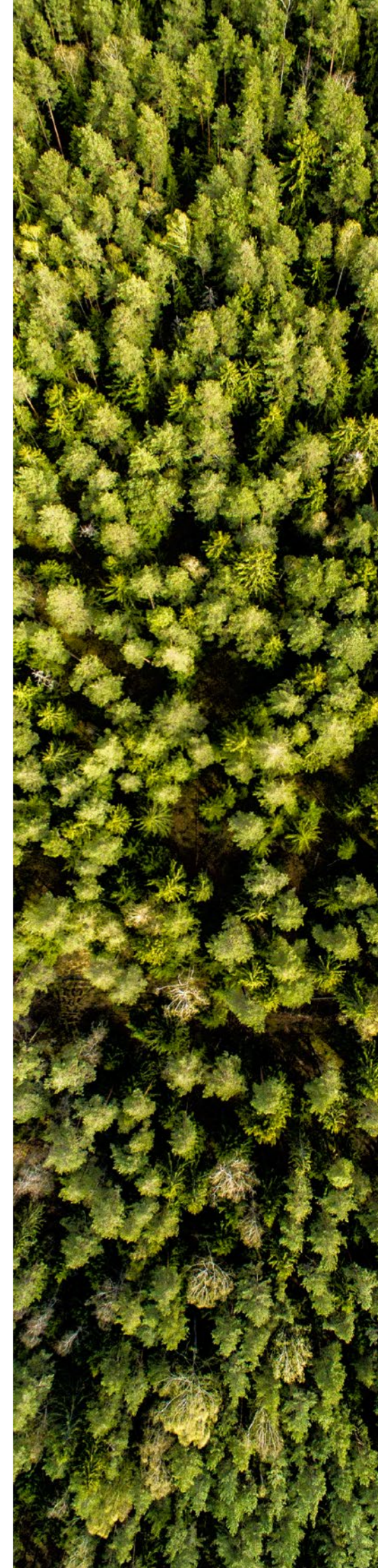
KPMG visited HS Timber Group's head offices, its sawmills in Sebeș and Reci, as well as a sample of logyards, active harvest areas and Forest Management Units' administration offices. Site visits included field observations, interviews with company staff, wood suppliers and other stakeholders and a review of internal Chain of Custody information maintained by the company and its suppliers.

In addition to that, processes for managing the risk of sourcing timber from illegal logging were also assessed. Both traditional Chain of Custody controls as well as incremental processes required to focus on and mitigate risks in jurisdictions where there is a higher risk of illegal logging were checked.

All identified opportunities to improve processes, controls and communication, focusing on building on existing controls developed by HS Timber Group to further reduce the risk of receiving logs from illegal sources were addressed and worked out by HS Timber Group throughout 2019.

KPMG's report noted that significant enhancements had been made to timber sourcing programmes by the company in the last two years and that these included the development of controls to mitigate specific risks identified in historic NGOs reports, alleging receipt by the company of illegal logs.

In June and December 2019, KPMG conducted follow-up assessment and field work to assess HS Timber Group's progress in implementing the recommendations. High and moderate priority actions and recommendations were found to have been implemented. The agreed actions were completed and, where applicable, led to a longer-term continuous improvement programme which is intended to yield additional improvements over time, that will include benefits for forest management and log traceability across suppliers.





Our employees



Around 3,200 people worked for HS Timber Group in 2019, with the majority – around 85% – employed at our plants in Romania. We have a special responsibility for our employees, both economically and socially. After all, it is they who contribute to our success – with their expertise, their hard work, experience, commitment and dedication.

Due to the shortage of skilled workers throughout Europe, highly qualified and well-trained personnel are in high demand. Consequently, in Romania – but also in Germany and Austria – it is important to be an attractive employer in order to secure top talent, because only a fair, responsible company can pick up points with potential employees. Occupational safety and health protection is one

example: we finance private health insurance for our employees in Romania. Another example is fair, yet, performance-based remuneration, whereby we give our employees a share in the company's success with customised bonus schemes.

Strong values and clear rules such as our mission statement or the internal Code of Conduct are intended to motivate and guide our employees. In addition, we are seeking to establish a corporate culture in the long term that is characterised by mutual respect and appreciation. At the same time, however, we also want to give our employees the freedom to be creative and take initiative, because new ideas and imaginative solutions usually arise in a non-bureaucratic environment.

Key employee figures of HS Timber Group				
	Unit	2017	2018	2019
Total number of employees	Number	3,127	3,084	3,205
Number of female employees	Number	751	784	811
Share of female employees	%	24	25	25
Number of male employees	Number	2,376	2,300	2,394
Share of male employees	%	76	75	75
Total number of employees in management positions*	Number	N/A	N/A	145
Number of female employees in management positions	Number	N/A	N/A	22
Number of male employees in management positions	Number	N/A	N/A	123
Permanent labour contract	Number	3,070	2,975	3,130
Temporary labour contract	Number	57	93	73
Full time	Number	3,093	3,045	3,160
Part time	Number	34	39	43
Average hours of training per employee**	Number	N/A	N/A	31
Employees covered by collective agreements or company agreements	%	100	100	100
Senior management hired from the local community (country)	%	100	100	100
Work-related accidents	Number	N/A	N/A	75
Lost day rate***	Rate	N/A	N/A	8

* Head of department, Mill Manager, Director, CEO, Board Member

** Introductory and periodic training on Health and Safety, emergency situations, fire prevention, Code of Conduct, external and internal training on various topics

*** Total lost days/employee caused by diseases or injuries



6.1. Health and Safety

Maintaining employees' good health and productivity is a key concern for us. The paramount goal of our occupational safety and health management activities at HS Timber Group is the prevention of accidents and illnesses related to operations. We have implemented high safety standards at our state-of-the-art production facilities, which are regularly monitored in internal and external inspections and audits.

In November 2019, HS Timber Group launched its Health & Safety Policy, a set of guidelines meant to highlight the importance of upholding everyday rules that concern us all. Health & Safety is not just a catchphrase, it is meant to become a way of constantly putting in place solutions to prevent bad things from happening, rather than regretting afterwards. It is a means of building a culture where we think not only about ourselves and our lives, but also about taking care of the ones around us, be they work colleagues or visitors to our workplace.

Safety is everyone's responsibility and personal safety starts with each of us. Irrespective of their position in the company, each employee is an integral part of this overall plan for greater safety at the workplace. The continuous improvement of working conditions, with regards to safety, is part of our mission statement.

6.2. Fair wages

Equal opportunity and fair wages are a matter of course at HS Timber Group. Throughout the Group, country-specific works agreements or internal regulations ensure that women and men in the same positions receive the same pay, for the same work. Due to the at times physically strenuous work in the wood processing industry, the share of women in some areas of production is low. Around one-quarter of HS Timber Group's workforce is female.

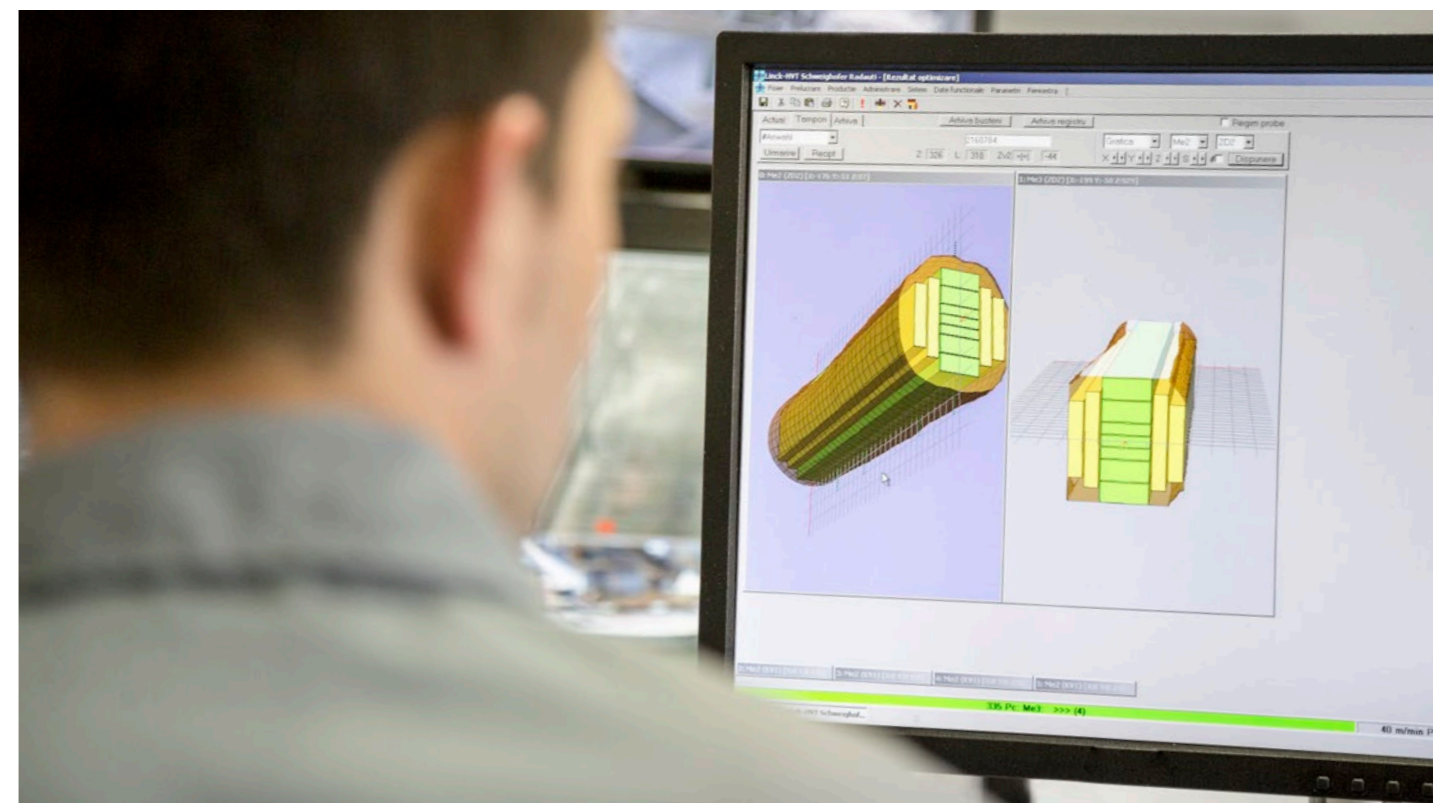
6.3. Training and education

Our working world is changing. Globalisation, digitalisation and technology development are advancing rapidly and leading to new markets, customer requirements and product solutions. Highly-qualified and specialised workers need to keep pace with these changes and continuously upskill in order to stay abreast of the latest developments.

For this reason, HS Timber Group seeks not only to find the best employees and hire them for suitable positions, but also to harness the potential of talented staff who are already part of the workforce and help them expand their capabilities. This is the only way we can remain one of the top players in the industry and be prepared for the challenges of the future.

In addition to ongoing and regular training of our specialists, for example when new machines or production processes are introduced, we develop customised training programmes for our executives and managers, in particular.

As part of the largest training initiative in the company's history, for several years all managers in Romania, Germany and Austria have been participating in an individualised programme of tailor-made training courses. Besides industry know-how, areas of emphasis include communication skills and personal development. Seminars and training courses are also provided in the areas of anti-corruption and business ethics in particular. In this connection, a partnership with the International Anti-Corruption Academy (IACA), based in Laxenburg, near Vienna, was started in 2017. The customised training courses have been imparted to the entire senior management of HS Timber Group, as well as to senior executives at country and plant level. In addition, the Romanian and Austrian Sales and Purchasing staff, staff from the Legal Departments and employees from the Supply Chain Control Department have received training at events held by high-profile speakers. The collaboration with IACA will continue in 2020 and will become a permanent fixture of the Group's compliance management system.





Environmental protection and climate change



Environmental protection and climate change are among the biggest challenges of our time. At the United Nations Climate Change Conference held in Paris in December 2015, 195 nations signed a worldwide agreement on climate change for the first time. This aims to limit the global average temperature rise to well below 2°C, in order to mitigate climate change. All countries, regions, companies and individuals are asked to make a contribution within the scope of their capabilities. The fight against climate change is essential for our future.

As a wood processing company, HS Timber Group has a head start when it comes to tackling climate

change: wood is a renewable raw material that extracts CO₂ from the atmosphere. It is crucial that the forest from which the wood is harvested is managed sustainably. Only intact forest ecosystems can rejuvenate and thus close the natural CO₂ cycle. For this reason, HS Timber Group places strong emphasis on a sustainable and secure wood supply chain.

The technology used in our sawmills ensures 100% utilisation of the logs delivered. By-products such as sawdust, wood chips and wood shavings are processed into pellets and briquettes for green energy production, or are processed further into pulp, paper, or particle boards by our customers.

7.1. Environmental performance

We are currently implementing a company-wide environmental management system to record in detail and continuously reduce the impact our activity has on the environment, nature and the climate. This will enable us not only to ensure that all legal requirements relating to environmental protection are met or even exceeded, but also to continuously improve our ecological performance.

The first step involved certification of the Reci sawmill site to the international ISO 14001 standard in 2018. It is planned that the system will be rolled out across the entire Group. We are striving for certification of all sites by 2022 at the latest.

As an international production company, HS Timber Group uses large quantities of energy and resources. In 2019, approximately 3.35 million solid m³ of logs passed through the gates of HS Timber Group's plants. Around 203 GWh of electricity and 580 GWh of heat were needed to produce the high-quality wood

* Construction of a new CHP started in 2019.

products. This energy is mainly generated by means of combined heat and power (CHP) in the state-of-the-art biomass power plants at the sawmills in Romania. These plants primarily use by-products and waste products from production (e.g. bark) or other biomass products, for generation purposes. Some of the Group's energy production facilities are part of another Group entity (Bio Electrica Transilvania S.R.L.).

Only around 36% of the company's total electricity requirements are purchased externally. Most of this is destined for factories that do not have electrical power plants of their own (Kodersdorf*, Comănești, Siret). In 2019, HS Timber Group's self-sufficiency rate with green electricity therefore stood at 64%.

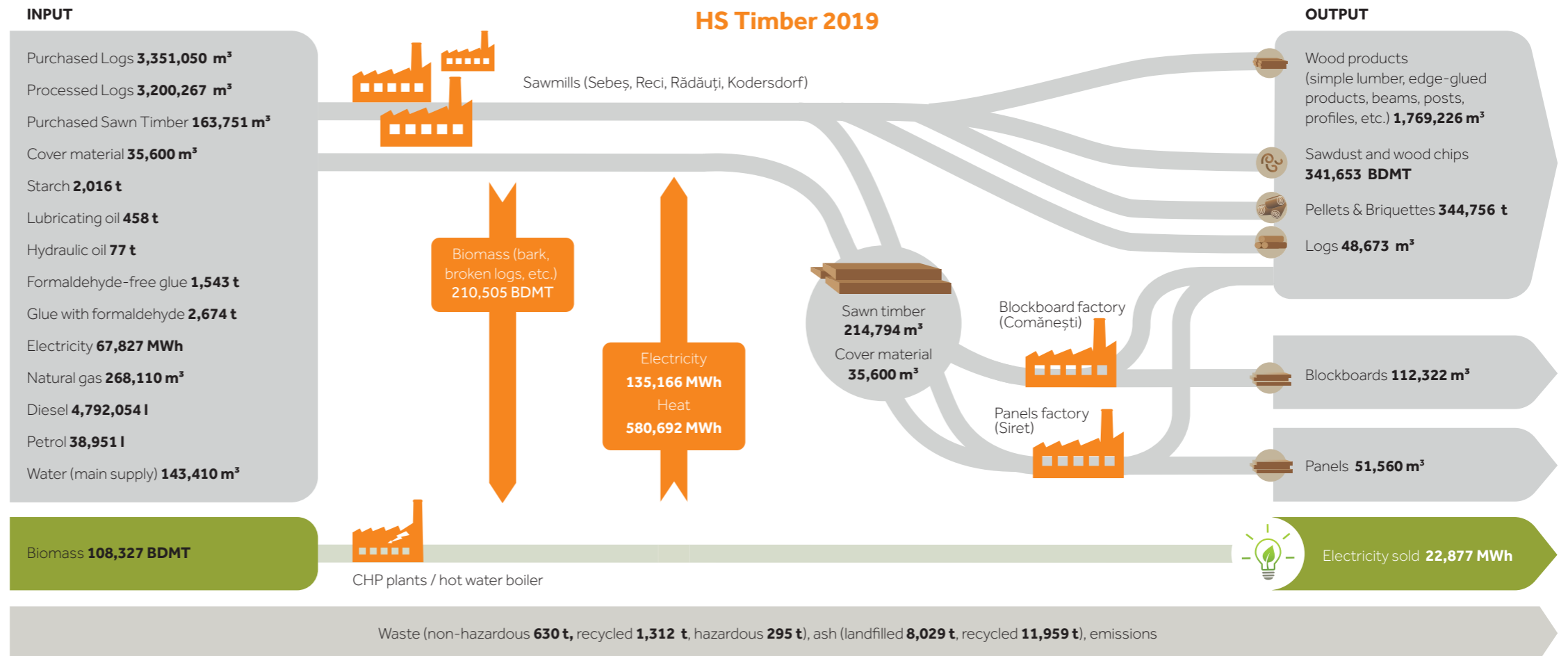
The company consumes 99% of the thermal energy it produces from renewable raw materials.

HS Timber Group has set itself ambitious goals, especially in relation to climate change and energy

efficiency. By 2025, we intend to lower company-wide GHG emissions by 25% per produced unit and reduce our energy consumption per produced unit also by 30%. Thus, our aim is to be a role model in the wood processing industry and make a significant contribution to tackling climate change. These goals have been enshrined in our current environmental policy.

Since these goals were established, a set of measures was implemented along with a monitoring system. Also, we are in the process of reshaping our action plan in order to make sure we make progress towards these targets. One of the next steps consists of a benchmarking exercise regarding our environmental performance.

In 2019, capital expenditures for the reduction of electricity consumption were on the level of roughly 1 million Euro.



7.2. Focus on energy efficiency

Efficient use of energy and resources is primordial for HS Timber Group's production chain. We aim at using only state-of-the-art machines and vehicles at our plants. This guarantees compliance with high environmental standards and low emissions.

Our capacity management ensures that devices, machines or lighting that are not in use are switched off for the duration. A lot of energy can also be lost if the extensive compressed air system at the plants leaks – even in the case of a minor leak. Here, too, clear internal processes ensure regular controls and rapid resolution of the issue.

The lighting at all plants is continuously updated to the state-of-the-art. Currently, we are progressively replacing conventional lights with LED lights, which brings significant energy reductions, especially on our outdoor light pillars.

7.3. Mobility

The vehicles used by HS Timber Group consumed approximately 4.79 million litres of diesel and 38,900 litres of petrol in 2019. Most of the fuel (95%) is consumed on the factory premises, mainly for logistics purposes, in the large log and sawn timber yards at the sawmills.⁷

Fuel consumption and emissions are important criteria when purchasing new vehicles. HS Timber Group only buys vehicles that are rated "best in class" in these categories. In order to further reduce fuel consumption, regular fuel-saving driver training is also provided at all plants.

Using the vehicle data in connection with GPS Timber and Abisol⁸, vehicle-specific fuel consumption is analysed and optimised with a

focus on the vehicle drivers. Avoiding empty runs, or wasted trips, prevent unnecessary fuel consumption.

In the future, electric vehicles will be increasingly used for secondary processing (indoors). We are also taking steps to reduce our oil consumption. At the logyard, we partially use biodegradable lubricants. Through the replacement of conventional oils in vehicles with special long-life oils, the oil change intervals have been extended many times over. Not only does this reduce oil consumption, but it also reduces the cost of disposing of waste oil. Disposal is performed exclusively by state-accredited companies.

⁷ The vehicle fleet includes a variety of forklifts, excavators, logs and container-handling machinery.

⁸ Technologies for improving logistics at the logyards and on the sites.

Input	Unit	2017	2018	2019
Materials				
Purchased logs	m ³	3,325,157	3,174,350	3,351,050
Processed logs ¹	m ³	3,044,228	2,948,858	3,200,267
Purchased sawn timber	m ³	91,737	241,814	163,751
Sawn timber from intra-group sources	m ³	378,119	165,219	283,275
Purchased cover material for Comănești (veneers)	m ³	32,602	36,734	35,600
Burned biomass (infeed)	BDMT	211,099	187,247	210,505
Biomass from external sources	BDMT	129,884	125,998	108,327
Biomass from intra-group sources	BDMT	3,573	3,566	2,907
Purchased starch	t	3,967	2,194	2,016
Purchased lubricating oil	t	499	449	458
Purchased hydraulic oil	t	333	62	77
Purchased glue (free of formaldehyde)	t	1,911	1,547	1,543
Purchased glue (with formaldehyde)	t	2,615	2,854	2,674
Energy				
Consumed electricity from own CHP	MWh	121,009	118,066	135,166
Purchased electricity	MWh	74,725	59,626	67,827
Thermal energy consumed	MWh	624,319	567,673	580,692
Thermal energy produced	MWh	669,591	598,151	588,252
Thermal energy produced from purchased natural gas ²	MWh	3,450	3,212	2,869
Purchased natural gas	m ³	352,332	302,074	268,110
Mobility				
Petrol purchased for internal use	l	1,292	1,775	1,458
Diesel purchased for internal use	l	4,833,221	4,367,020	4,552,442
Petrol purchased for vehicles outside the mill	l	23,873	64,836	37,494
Diesel purchased for vehicles outside the mill	l	240,633	206,611	239,611
Employee air travel	km	1,129,774	1,101,141	1,330,194
Water consumption (from main supply)	m ³	154,380	141,247	143,410

¹ Volumes for Romania are reported according to SUMAL, volumes for Germany are reported according to HUBER (ONORM L 1021) measurement standards. The systemic difference between HUBER and the Romanian measurement standard is 7%.
² Figures for 2017 and 2018 have been updated as a consequence of data consolidation.

Output	Unit	2017	2018	2019
Products				
Timber sold (timber which left our mills)	m ³	1,722,165	1,673,774	1,769,226
Quantity of panels from Siret sold	m ³	65,759	56,186	51,560
Quantity of main products/boards from Comănești sold	m ³	108,162	111,173	108,688
Sales core (Comănești)	m ³	7,058	477	3,634
Sawdust and wood chips sold (waste timber)	BDMT	296,762	364,879	341,653
Pellets and briquettes sold	t	395,485	338,457	344,756
Logs sold	m ³	81,197	33,427	48,673
Electricity sold	MWh	31,012	24,888	22,877
Waste				
Wooden waste ¹	BDMT	826	2,501	731
Non-hazardous waste	t	1,713	684	630
Recycled waste ²	t	813	713	1,312
Hazardous waste ³	t	305	279	295
Landfilled ash	t	19,539	12,282	8,029
Recycled ash	t	2,224	10,432	11,959

¹ Further used as biomass within the HS Timber 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

7.4. Exhaust gas purification

At HS Timber Group, direct air emissions are primarily caused by the exhaust gases from biomass power plants and gas boilers, as well as internal combustion engines of vehicles. These are mainly carbon dioxide (CO₂), nitrogen oxides (NO_x), dust and fine dust.

With regard to its biomass CHP units - which generate both green electricity and heat - the company relies on state-of-the-art technology and exhaust gas purification systems to minimise air pollutants. Effective control of the multi-stage combustion process not only maximises energy conversion, but also reduces carbon monoxide (CO) and NO_x

emissions. Dust emissions are almost completely eliminated by means of an electrostatic precipitator.

In Reci, a selective non-catalytic reduction (SNCR) system is also used. The technology is based on the reduction of NO_x to nitrogen through a reaction with urea at high temperature. This reduces the NO_x concentration in the exhaust air.

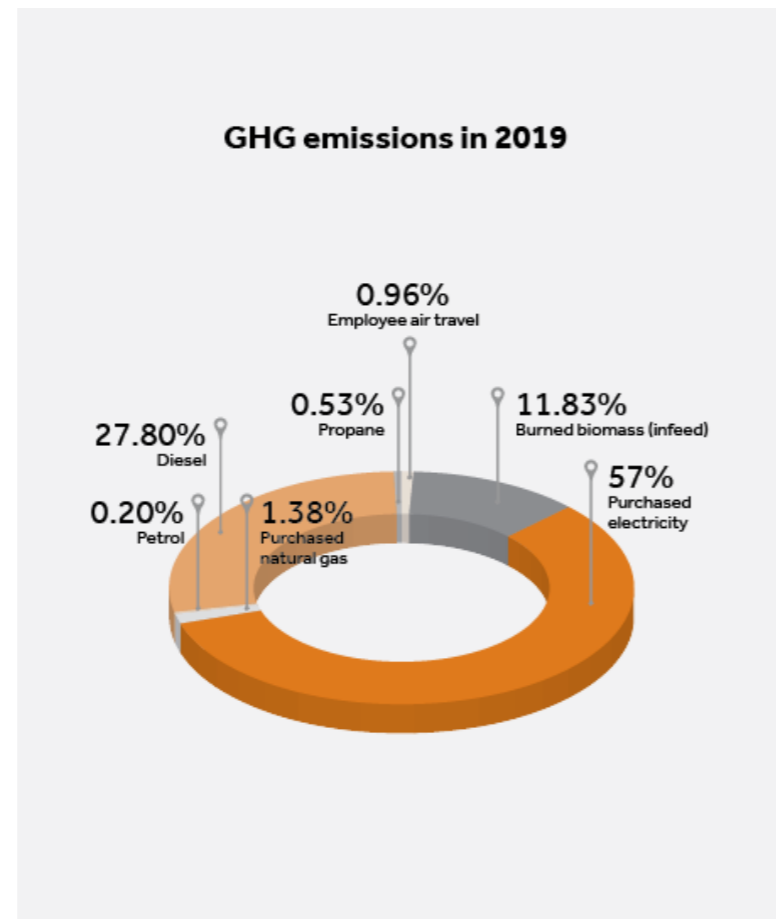
A continuous emissions monitoring system monitors the relevant emissions of the CHP units. Emission monitoring is carried out annually by an accredited laboratory, to ensure that the air quality complies with European and national environmental legislation.

7.5. Greenhouse gas balance

The greenhouse gas balance covers all of the company's principal sites and activities in Romania, Germany and Austria (production sites in Reci, Rădăuți, Sebeș and Comănești in Romania and Kodersdorf in Germany; the head offices in Vienna and Bucharest are also included). The emission sources included are differentiated according to the three scopes of the Greenhouse Gas Protocol.

Greenhouse gas emissions from purchased electricity (57%), the company's diesel fleet (28%) and biomass combustion (12%) make up 97% of the balance. Further GHG emissions arose from purchased natural gas, the petrol and propane fleet, and air travel.

The emission factors for direct emissions from electricity reported under Scope 2 are taken from IEA (2019), CO₂ Emissions from Fuel Combustion. These conversion factors include the greenhouse gases CO₂, CH₄ and N₂O.



All other emission factors, including the supply chain for electricity reported under Scope 3, are taken from the Ecoinvent database (version 3.6) and include all seven Kyoto gases.

In Scope 3, the fuel- and energy-related activities and the emissions from air travel are considered. Fuel and energy-related activities include the supply chain of fuels for process heat and transport, as well as the supply chain (including transmission losses) of electricity. These emissions are closely connected to the company's energy use. Therefore, the influence of the company on these emissions is considered as strong. Also, the amount of air travel is considered to be under direct control of the company and therefore reported.

HS Timber Group's Greenhouse Gas Balance

Carbon emissions of HS Timber Group in 2019

Scope 1 (Direct emissions from own operations)		
Energy from biomass	t CO ₂ eq	6,315.14
Energy from gas	t CO ₂ eq	542.92
Petrol fleet	t CO ₂ eq	83.01
Diesel fleet	t CO ₂ eq	11,778.87
Propane	t CO ₂ eq	206.72
Scope 2 (Indirect emissions from purchased energy)		
Electricity consumption	t CO ₂ eq	24,924.03
Scope 3 (Other indirect emissions from operations)		
Fuels	t CO ₂ eq	3,357.1
Electricity	t CO ₂ eq	5,671.29
Employee air travel	t CO ₂ eq	514.79
Total	t CO₂ eq	53,393.85

(Source of emission factors: IEA, UBA 2020 Ecoinvent 3.6 Länderdaten)

7.6. Reuse and recycling

While our most important raw material – wood – is utilised 100%, different types of waste are generated during production. These are professionally separated and reused or recycled, where possible.

In 2019, 630 tonnes of non-hazardous and 295 tonnes of hazardous waste (such as waste oils) were generated, in addition to wood ash, which produced the largest quantities of waste. All waste is disposed of professionally by the appropriate companies. In

particular, we ensure that hazardous waste is disposed of safely at suitable facilities, as stipulated by contract.

Our biomass power plants produce large quantities of ash as a product of combustion – 20,000 tonnes in 2019. A large volume of this ash is currently still deposited in landfills, but 60% is already recycled. Further applications for the reuse of this ash are constantly explored.

7.7. Water and wastewater management

In the state-of-the-art CHP units, water is used in the steam cycle to operate the turbine. Only a small quantity of fresh water needs to be fed back into the system.

Wastewater management aims to ensure that no contaminated wastewater can enter water bodies or receiving water. If necessary, wastewater is pre-treated by an oil separator system and

either treated in the company's own sewage treatment plants or discharged into the public sewer system, where it is then treated in the local water treatment plant. It goes without saying that the wastewater quality is regularly monitored by accredited laboratories. This way, we ensure that our wastewater is environmentally safe and meets all legal requirements.



Regional responsibility

At HS Timber Group, taking regional responsibility means showing respect for the community and people. We are committed to our employees, as well as to their communities and the surrounding regions. After all, it is not only our employees, but also our regional suppliers and business partners who make our economic success possible.

HS Timber Group sees itself as a responsible employer and as an economic driving force, particularly in economically disadvantaged areas. In Romania, we are one of the largest and most competitive companies in the forestry and wood processing industries.

We buy around 6% (2019) of the harvested wood available on the market in Romania. Through our activities in Romania alone, we have created approximately 4,000 more jobs in upstream and downstream sectors⁹ in addition to our own 2700 employees.

For HS Timber Group, complying with all legal requirements and contributing to the community with our taxes and duties is a given.

We are also keen on actively promoting the sustainable development of the communities and regions in which we operate. Providing support for social and healthcare facilities, as well as for schools and education programmes, is especially important to us.

We are keen on making sure that the softwood we work with comes from sustainable forestry. What that means to us, as we are not doing any harvesting ourselves, is that we need to actively maintain and improve a system that ensures that our input comes from responsibly managed forests and legal harvest sites. We screen our supply chain to exclude wood from National Parks and virgin forests and, as a next step in terms of biodiversity protection, we are looking into setting up additional screening measures when it comes to old growth forests (even though we do not process large diameter logs).

By supporting the Tomorrow's Forest Foundation (www.padureademaine.ro), we also engage in extensive reforestation projects supporting local communities.

⁹ Economic impact of the wood industry in Romania, PwC, 2016.

8.1. Contribution to economic development

HS Timber Group's presence in Romania alone generated total gross wages of 35.4 million Euro in 2019 – through payments and social security contribution to our direct employees.

In 2019, HS Timber Group also contributed 20 million Euro for Corporate Income Tax, Social Contributions and Employees' Income Tax, through directly paid

taxes, as well as indirect and induced taxes. Since 2003, the total contribution amounts to 248 million Euro.

HS Timber Group continuously invests in its Romania assets. The Group invested in Romania more than four million Euro in 2019. Since its entry on the Romanian market in 2002, the company's total capital expenditure has exceeded 800 million Euro.

8.2. Commitment to society

Corporate social responsibility at HS Timber Group means looking first at what we can improve internally, so as not to waste any wood, add the most value to it, reduce our environmental footprint and act as a responsible employer, thereby creating safe and meaningful jobs. With the help of our stakeholders, we implement a continuous process to improve our procedures, i.e., the way we do things to make sure the wood we process is legal and harvested from sustainably-managed forests.

In doing so, we strive to be an industry leader, driving systemic change in wood traceability, for instance. We are aware of the social and economic realities in the communities around our sawmills and panels factories and sponsor a variety of projects to improve their access to adequate social, education and healthcare services. From 2010 to 2019, HS Timber provided sponsorship in Romania to the tune of approximately 6.82 million Euro.

Our areas of CSR intervention are social, environmental and forward-looking.

Social

We support projects and initiatives that improve community services in the communities and regions in which we operate – in kindergartens, schools, housing for disadvantaged people, facilities for the poor and elderly, emergency services, public buildings, as well as community events.

Environmental

We support and develop projects and initiatives that contribute to sustainable forest management (including forest certification), wood traceability, reforestation and protection of biodiversity-rich areas.

Forward-looking

We support education, research, development and innovation in forestry and the wood industry by means of scholarships (at universities and technical colleges), endowment of laboratories, projects and events.

8.3. CSR highlights

HS Timber Group's CSR contributions in 2019 were on the level of approximately 560,000 Euro. Some details on our programme's highlights are provided below.

8.3.1. Scholarships for forestry and wood engineering students

Since 2015, HS Timber Group's scholarship programme has provided financial aid to forestry and wood engineering students, to encourage the development of future experts in the timber industry.

The company is a partner of several Romanian educational institutions and, in the 2018–2019 academic year, granted 20 scholarships to students from faculties in three universities: Braşov, Suceava and Cluj-Napoca. The total value of each scholarship was 8,000 lei for the entire academic year. The winners of the scholarships

are selected following a competition that includes a theoretical exam and a practical test.

HS Timber Group has also been supporting a vocational class at the Grigore Cobălcescu Technical College in Moineşti, Bacău county, since the 2016/2017 school year. In this class, 14 students were trained to be locksmiths and other 14 students were trained to be electricians. Students received a monthly grant from the company and also had the opportunity to carry out paid internships at HS Timber Group's Romanian factories. In addition, we have sponsored state-of-the-art laboratory equipment at the college and the renovation of its facilities.

8.3.2. Funding of the Maria Ward Social Centre in Rădăuţi

Children of disadvantaged families often do not have access to education, yet this is an important basis for social advancement. The Maria Ward Social Centre in Rădăuţi, in the historical region of Bukovina in north-east Romania, addresses this issue.

The centre, which belongs to NGO I.S.E.A. (Asociația Informare, Suport, Educație și Ajutor) and is run by the Sisters of the Sacred Heart, accommodates around 50 children. The children can take part in creative and social activities and receive psychological support, speech therapy and homework assistance, but also regular meals and hygiene education. Employment advice and other services are provided to their parents. The Maria Ward Centre has been in operation since 1994. However, the facilities were no longer adequate, so the building was rebuilt and modernised in autumn 2014 with funding from HS Timber Group. The centre regularly receives support from HS Timber Group for various improvements and initiatives.



8.3.3. The afterschool programme in Reci

Since 2013, HS Timber Group has funded an afterschool programme for children in Reci. Around 50 children from socially disadvantaged families receive homework assistance at the facility, a hot meal and leisure time activities, under the supervision of trained professionals.

The afterschool programme is housed in a historic building, next to the school, that was renovated by HS Timber Group in 2013 with the support of the local community. HS Timber Group co-finances the cost of the meals and salaries for staff.





8.3.4. The 2019 Evergreen Innovation Camp Hackathon

The Evergreen Innovation Camp (EIC) is an initiative of the Evergreen Foundation, which is the owner of HS Timber Group, set out to let multidisciplinary students and alumni work together on a real-life challenge.

The 2019 Innovation Camp took place at the BOKU University of Natural Resources and Life Sciences in Vienna, as part of an international hackathon. This hackathon is a 48-hour, collaborative event, in which interdisciplinary teams focus on the challenge of tracing timber from its harvesting point in the forest to its arrival at the sawmill. The hackathon is also a celebration of team spirit, creative exchange and pleasure in tackling the task at hand.

At the first Evergreen Innovation Camp Hackathon, 75 students and young professionals from a total of 18 universities in Austria, Germany and Switzerland teamed up for 48 hours to find innovative, financially-viable solutions for tracing timber. The ability to seamlessly and transparently trace each individual log is becoming increasingly important for our industry. For that reason, the Evergreen Innovation Camp is designed to come up with specific, creative solutions which guarantee traceability along the supply chain.

All 12 teams, supported by experienced mentors, developed innovative solutions, concepts and prototypes based partly on blockchain and artificial intelligence. At the end of the two-day event, each team had the chance to convince the high-profile jury of the value of their idea. The winning team received 10,000 Euro for their idea.

The winning team, "Tree ID", developed a concept based on comparing laser measurement data from the forest and at the sawmill. Before being harvested, the standing trees are measured using a mobile laser scanning device. The stem contour and the branch distribution along the stem surface are computed into a unique profile and can be matched with 3D-contour scanning of the logs in the mill.

The Evergreen Innovation Camp is planned as an annual event, focusing on a different topic each time. But it will always be concerned with generating and embracing innovations in forestry and the timber industry.

More information on the Evergreen Innovation Camp at: <https://www.evergreen-innovationcamp.io/>

8.3.5. Tomorrow's Forest

The Tomorrow's Forest reforestation project¹⁰ is an initiative of the Romanian Association of Forest Administrators (Asociația Administratorilor de Păduri, AAP) together with the Ștefan cel Mare University of Suceava (Faculty of Forestry) and HS Timber Group. This project was initiated in September 2017, after many stakeholders have expressed the need for such activities.

The initiative aims to plant one million trees in private and community-owned forest areas by 2027. This takes place primarily in areas which, owing to poor management, were affected by soil erosion and a lack of natural regeneration. Conservation and monitoring of reforested lands continues for five to seven years, to ensure that the next generation of forests grows well. Tomorrow's Forest supports private owners and local communities that lack the necessary funds for appropriate reforestation, in accordance with legal obligations. Applications are evaluated based on defined criteria and using a scorecard. Planting is carried out according to the natural tree species composition and is documented in detail. In addition to containing key information on the project, the methodology and the reforestation areas, the project website also has a section for potential beneficiaries and volunteers.

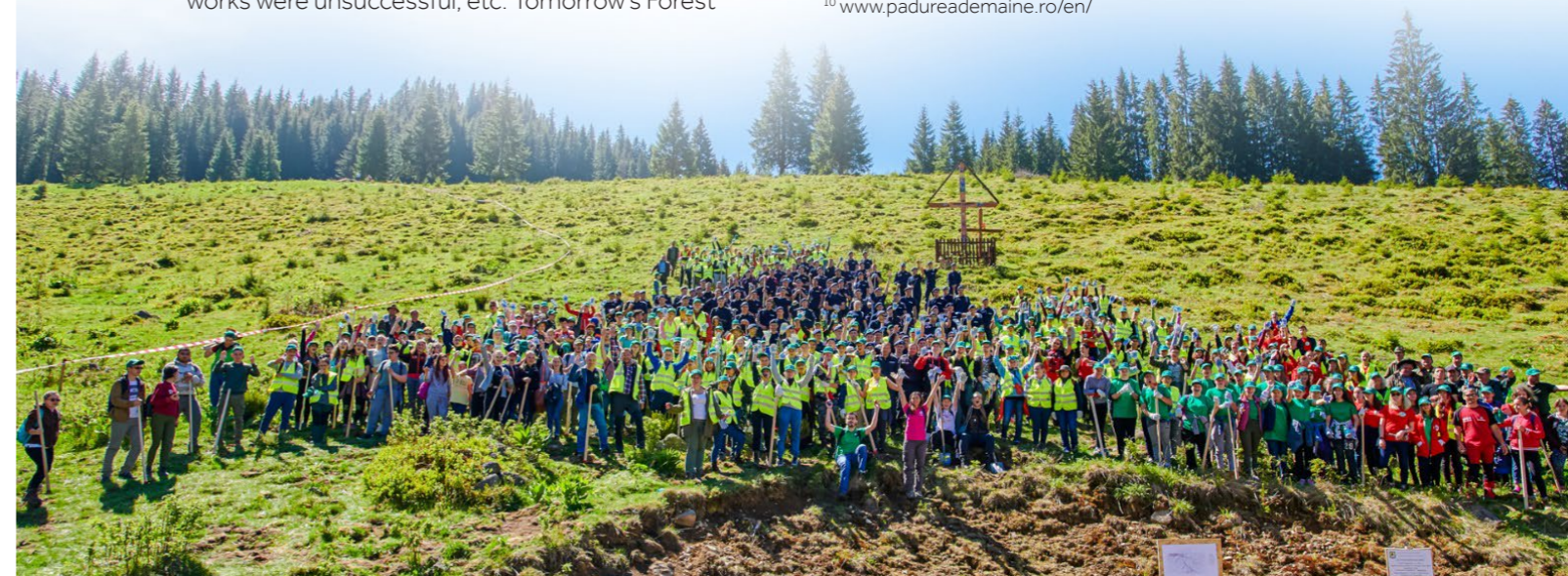
Forest regeneration usually takes place naturally, without the need for external interventions. When this is not possible, the land owner has the legal responsibility to plant the new forest. Sometimes, forest owners cannot afford the planting works, e.g. because they haven't harvested any wood, they were restituted areas with regeneration difficulties, their areas were affected by calamities and regeneration works were unsuccessful, etc. Tomorrow's Forest

answers this need, to help private owners and local administrations regenerate their forests. The project will be implemented between 2017 and 2027 (five years of planting and at least three years of maintenance works for each area), at a rate of approximately 200,000 seedlings planted per year (not counting the replacement seedlings).

By the end of 2019, 88.5 hectares have been reforested, with a total of 368,000 seedlings of different tree species, in coordination with the relevant forest administration. More than 400,000 Euro was committed for the regeneration of these areas, an average of 5,000 Euro per hectare (including the necessary follow-up costs for the next five to seven years). HS Timber Group has committed to spend over 1.3 million Euro for the period 2017 to 2027, which will enable a total of one million trees to be planted.

HS Timber Group and the Tomorrow's Forest Foundation concluded 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 Tomorrow's Forest Foundation was set up in 2019 with the strategic help of HS Timber Group. 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. HS Timber Group seeks with this strategic partnership to get a more targeted and better implementation of the company's CSR engagement.

¹⁰ www.padureademaine.ro/en/





Sustainability goals



We see sustainability as a continuous process, in which we develop and improve step by step. In our sustainability programme, we define binding goals and actions for the different areas of activity in the company:



RESPONSIBLE CORPORATE GOVERNANCE

Increase the performance of our compliance management

- 2022: Certification (ISO19600) of CMS
- Annual training of 100% of the top management (in Cooperation with the International Anti-Corruption Academy)

Indicator: confirmed incidents of corruption (GRI 205-3)

Play a pioneering role in transparency and open communication

- Open doors policy at all sites - 100% granted access on request
- Annual open doors events at each mill
- 2021: At least 2 local stakeholder events annually in Romania

Indicator: Feedback from Stakeholder survey



SUSTAINABLE SUPPLY CHAIN

Zero wood from virgin forests or National Parks

- 2021: Extend the existing policy to exclude wood originating from virgin forests or National Parks to Ukraine and Belarus
- 2022: Introduce a new biodiversity policy

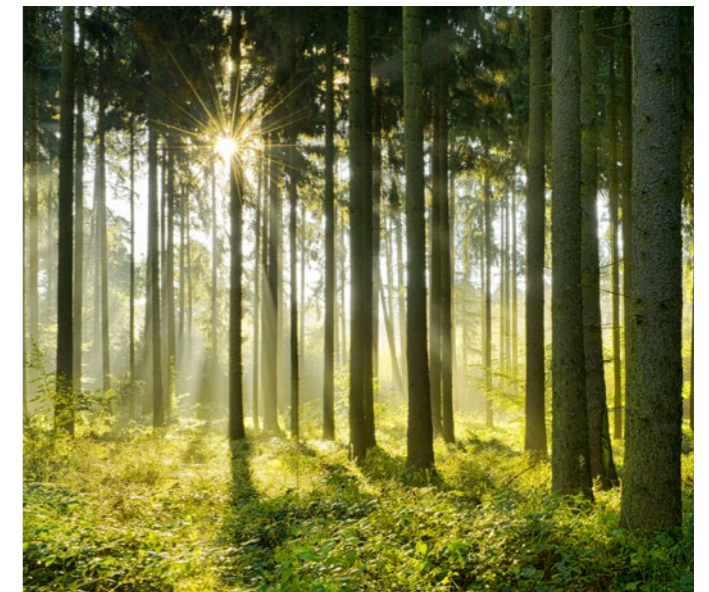
2025: purchase of 100% wood only from certified forests

- Renewed association with FSC®
- Continue certification with PEFC™
- 2020: Apply for SFI global certification

Constant Improvement of our Due Diligence system to ensure a sustainable supply chain

- Increase physical traceability of the origin of wood through research and implementation of new methods
- 2021: Extending Timflow to suppliers and other companies

Indicator: Percentage of logs that are physically tracked



ENVIRONMENTAL PROTECTION AND CLIMATE CHANGE

2025: Achieve a 25% reduction in GHG emissions (per unit)

- Continue the implementation of the environmental programme
- 2021: Benchmarking and revision of the programme (Benchmarking on energy efficiency and environmental performance in the sawmilling industry)

Indicator: GHG emissions/production unit

2025: Achieve a 30% reduction in energy consumption (per unit)

- Continue the implementation of the environmental programme
- 2021: Benchmarking and revision of the programme

Indicator: CO₂ emissions/product

Reduce the environmental impact of our activities

- 2022: Roll out the environmental management system across the entire group
- 2022: Increase the proportion of ash that is recycled rather than deposited in landfills to 100%
- Increase the number of recycled waste

Indicator: different KPIs from EMS



EMPLOYEES

Be a fair, responsible, attractive employer

- 2020: Revise the social package for workers in Romania
- Further development of employees' competencies; Creation of new training programmes and learning opportunities
- 2022: Introduction of a retention policy

Indicator: fluctuation rate (GRI 401-1)

Continuous improvement in Health & Safety

- Zero severe accidents in the entire group
- Implementation and Certification (OHSAS 18001) of a Health & Safety Management System in selected factories.

Indicator: injury rate GRI 403-2

10. HS Timber Group GRI content index

This GRI Index was compiled in accordance with the guidelines of the Global Reporting Initiative 2016 (GRI Standards, application level "in accordance with core option"). All data refers to the year 2019, respectively to the years 2018 and 2019 for certain indicators, unless otherwise stated.

In the course of the materiality process, HS Timber Group identified the main areas for action. These were assigned to the individual GRI topics. The following table provides an overview of the main topics and the corresponding GRI indicators according to the GRI Standards.

Areas for action	GRI topics (codes)
High quality, green products	302-5
Price-performance ratio	201-1
Customer service & cooperation	417-2
Supply chain & traceability (including Supplier partnerships)	308-2
Responsible employer	401-1, 401-2, 403-2, 404-3, 405-1, 406-1
Anti-corruption and compliance	205-1, 205-2, 205-3, 307-1, 419-1
Transparency & stakeholder dialogue	413-1
Regional development	203-1, 203-2
Sustainable forestry	413-1, 304-2, 308-2
Environment & climate action	301-1, 302-1, 302-2, 302-4, 305-1, 305-2, 305-3, 305-5, 306-1, 306-2



REGIONAL PARTNERSHIPS

We support low impact forestry in Romania

- Conduct a low impact forestry programme together with partners (Tomorrow's Forest Foundation)
- Continue strategic collaboration with the Tomorrow's Forest Foundation

Strengthen the regional development in the areas of our production sites

- Increase the amount invested in regional CSR programmes

Indicator: annual investment in regional CSR programmes



CUSTOMERS & PRODUCTS

Secure quality for customers

- Standardisation and unification of quality management (Database/Benchmarking)

Keep long-term partnerships

- Consequent continuation of customer support
- Market developments for new products

Indicator: Duration of Customer relation

General disclosures

Code	Content in accordance with GRI Standards (Core)	Reference/comments
Organisational profile		
102-1	Name of the organisation	Chapter 1
102-2	Activities, brands, products and services	Chapters 3.1, 3.2, 3.3, 3.4
102-3	Location of headquarters	Chapter 3.3
102-4	Location of operations	Chapter 3.3
102-5	Ownership and legal form	Chapter 3.3
102-6	Markets served	Chapter 3.5
102-7	Scale of the organisation	Chapters 3.3, 3.4
102-8	Information on employees and other workers	Chapter 6
102-9	Supply chain	Chapter 5
102-10	Significant changes to the organisation and its supply chain (since last report)	Chapters 1, 5.2.7, 5.2.8, 5.2.9, 5.2.13
102-11	Precautionary principle or approach	Chapter 4
102-12	External initiatives	Chapters 4.7, 5.2.4, 5.2.5, 8
102-13	Membership of associations	Chapter 4.7
Strategy		
102-14	Statement from senior decision-maker	Introduction
Ethics and integrity		
102-16	Values, principles, standards, and norms of behaviour	Chapters 1, 3.1, 4, 4.1, 4.2, 4.3, 4.7, 4.8
Governance		
102-18	Governance structure	Chapter 4
Stakeholder engagement		
102-40	List of stakeholder groups	Chapters 2.3, 4.7
102-41	Collective bargaining agreements	Chapter 6 (table)
102-42	Identifying and selecting stakeholders	Chapter 4.7
102-43	Approach to stakeholder engagement	Chapter 4.7
102-44	Key topics and concerns raised	Chapter 2.3
Reporting practice		
102-45	Entities included in the consolidated financial statements	Chapters 2.2, 3.3
102-46	Defining report content and topic boundaries	Chapters 2, 2.1, 2.2
102-47	List of material topics	Chapter 2.3
102-48	Restatements of information	No restatements
102-49	Changes in reporting	No changes
102-50	Reporting period	Chapter 2
102-51	Date of most recent report	Sustainability Report Update for 2018: November 2019
102-52	Reporting cycle	annual
102-53	Contact point for questions regarding the report	Editorial details
102-54	Claims of reporting in accordance with the GRI Standards	Chapter 2.1
102-55	GRI content index	Chapter 10
102-56	External assurance	Chapter 12

Management approaches and performance indicators

Area for action 1: High quality, green products

GRI Topic	Code	Content according to GRI Standards (core)	Reference/remarks
Management approach	103-1	Explanation of the material topic and its boundary	Chapters 3.1, 3.4
	103-2	The management approach and its components	Chapters 3.1, 3.4
	103-3	Evaluation of the management approach	Chapters 3.1, 3.4
Energy	302-5	Reductions in energy requirements of products and services	Chapters 7.1, 7.2, 7.3

Area for action 2: Price-performance ratio

GRI Topic	Code	Content according to GRI Standards (core)	Reference/remarks
Management approach	103-1	Explanation of the material topic and its boundary	Chapters 3.1, 3.3
	103-2	The management approach and its components	Chapters 3.3, 3.5
	103-3	Evaluation of the management approach	Chapter 3.5
Economic performance	201-1	Direct economic value generated and distributed	Chapters 3.3, 3.4

Area for action 3: Customer service & cooperation

GRI Topic	Code	Content according to GRI Standards (core)	Reference/remarks
Management approach	103-1	Explanation of the material topic and its boundary	Chapter 3.5
	103-2	The management approach and its components	Chapters 3.5, 9
	103-3	Evaluation of the management approach	Chapters 3.5, 9
Marketing and labelling	417-2	Incidents of non-compliance concerning product and service information and labelling	One incident of non-compliance with voluntary codes (minor non-conformity ¹¹)

¹¹ There was only one product on the invoice and on the packing list but two PEFC claims: 100% PEFC certified included in line with product description and, at the bottom of the invoice, PEFC controlled sources was stated.

Area for action 4: Supply chain & traceability

GRI Topic	Code	Content according to GRI Standards (core)	Reference/remarks
Management approach	103-1	Explanation of the material topic and its boundary	Chapter 5
	103-2	The management approach and its components	Chapters 5.5.1, 5.2
	103-3	Evaluation of the management approach	Chapters 5.2.3, 5.2.4, 5.2.13
Supplier environmental assessment	308-2	Negative environmental impacts in the supply chain and actions taken	Chapter 5.2.10

Area for action 5: Responsible employer

GRI Topic	Code	Content according to GRI Standards (core)	Reference/remarks
Management approach	103-1	Explanation of the material topic and its boundary	Chapter 6
	103-2	The management approach and its components	Chapters 6, 6.1, 6.2, 6.3
	103-3	Evaluation of the management approach	Chapter 6
Employment	401-1	New employee hires and employee turnover	Chapter 6, table
	401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	Not the case.
	401-3	Parental leave	Data not consistently collected during the reporting period.
Occupational health and safety	403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	Chapter 6, table
Training and education	404-3	Percentage of employees receiving regular performance and career development reviews	Chapter 6, table
Diversity and equal opportunity	405-1	Diversity of governance bodies and employees	Chapter 6, table
Non-discrimination	406-1	Incidents of discrimination and corrective actions taken	No incidents

Area for action 6: Anti-corruption and compliance

GRI Topic	Code	Content according to GRI Standards (core)	Reference/remarks
Management approach	103-1	Explanation of the material topic and its boundary	Chapters 4, 4.2
	103-2	The management approach and its components	Chapter 4
	103-3	Evaluation of the management approach	Chapter 4
Anti-corruption	205-1	Operations assessed for risks related to corruption	Chapter 4.3
	205-2	Communication and training about anti-corruption policies and procedures	Chapters 4.3, 4.4
	205-3	Confirmed incidents of corruption and actions taken	No incidents
Environmental compliance	307-1	Non-compliance with environmental laws and regulations	Chapters 7, 7.1
Socio-economic compliance	419-1	Non-compliance with laws and regulations in the social and economic area	In December 2019 a lumber transport destined for export was confiscated ¹² .

Area for action 7: Transparency & stakeholder dialogue

GRI Topic	Code	Content according to GRI Standards (core)	Reference/remarks
Management approach	103-1	Explanation of the material topic and its boundary	Chapter 4
	103-2	The management approach and its components	Chapter 4.7
	103-3	Evaluation of the management approach	Chapter 4
Local communities	413-1	Operations with local community engagement, impact assessments and development programmes	Chapter 4

Area for action 8: Regional development

GRI Topic	Code	Content according to GRI Standards (core)	Reference/remarks
Management approach	103-1	Explanation of the material topic and its boundary	Chapter 8
	103-2	The management approach and its components	Chapters 8, 9
	103-3	Evaluation of the management approach	Chapters 8, 9
Indirect economic impacts	203-1	Infrastructure investments and services supported	Chapters 8.2, 8.3
	203-2	Significant indirect economic impacts	Chapter 8.1

Area for action 9: Sustainable forestry

GRI Topic	Code	Content according to GRI Standards (core)	Reference/remarks
Management approach	103-1	Explanation of the material topic and its boundary	Chapters 5, 8. In 2019, HS Timber Group sponsored a low impact forestry programme at the Tomorrow's Forest Foundation, to be developed in 2020.
	103-2	The management approach and its components	Chapters 5, 8
	103-3	Evaluation of the management approach	Chapters 5, 8, 9
Local communities	413-1	Operations with local community engagement, impact assessments and development programmes	Chapters 8.2, 8.3
Biodiversity	304-2	Significant impacts of activities, products, and services	Chapters 5.2.7, 5.2.10
Supplier environmental assessment	308-2	Negative environmental impacts in the supply chain and actions taken	Chapter 5.2

¹² Authorities state that the entire quantity of timber is of legal provenance and that the decision to confiscate the goods does not refer to the legality of the wood, but to the erroneous way in which the export document has been filled in and its interpretative discrepancy to the forestry law. HS Timber Productions has filed an appeal against this decision.

Area for action 10: Environment & climate action

GRI Topic	Code	Content according to GRI Standards (core)	Reference/remarks
Management approach	103-1	Explanation of the material topic and its boundary	Chapters 7, 7.1
	103-2	The management approach and its components	Chapter 7
	103-3	Evaluation of the management approach	Chapter 7
Materials	301-1	Materials used by weight or volume	Chapter 7.1, table
Energy	302-1	Energy consumption within the organisation (Scope 1 and 2)	Chapter 7.1, table
	302-2	Energy consumption outside of the organisation (Scope 3)	Chapter 7.1, table
	302-4	Reduction of energy consumption	Chapter 7.2
Emissions	305-1	Direct (Scope 1) greenhouse gas emissions	Chapter 7.5
	305-2	Energy indirect (Scope 2) greenhouse gas emissions	Chapter 7.5
	305-3	Other indirect (Scope 3) greenhouse gas emissions	Chapter 7.5
	305-5	Reduction of greenhouse gas emissions	Chapter 7.1
Effluents and waste	306-1	Water discharge by quality and destination	Chapters 7.1, 7.7
	306-2	Waste by type and disposal method	Chapters 7.1, 7.6

11. Overview of HS Timber Group

HS Timber Group has its roots in a traditional Austrian family-owned company, with more than 400 years of experience in wood processing. Today, the Group is organised as a holding company, based in Vienna. Employing around 3,200 people, the Group primarily operates in the timber industry, but is also involved in lumber trading and bioenergy production. Our products that are manufactured in our six production sites in Romania and Germany are exported to more than 70 countries worldwide.

In 2003, we opened our first sawmill in Sebeş, Romania, where the company now operates three sawmills, a blockboard factory and a panels factory. In October 2015, a sawmill in Kodersdorf, Germany, was added to the group.

Our sawmill in Rădăuți

Established	2008
Plant size	50 ha
Cutting	1.45 million m ³ of logs*
Planing	740,000 m ³ *
Kiln drying	880,000 m ³ *
Laminated timber (post)	115,000 m ³ *
Laminated timber (beam)	135,000 m ³ *
Pellets	186,000 t*
CHP plant** ¹ (BET#)	27.5 MW thermal*
	5 MW electric*
CHP plant** ²	28 MW thermal*
	10 MW electric*
Hot water boiler	20 MW*
Hot water boiler	20 MW*

* Production capacity
** Combined heat and power plant
Bio Electrica Transilvania S.R.L.

Our sawmill in Reci

Established	2015
Plant size	68 ha
Cutting	800,000 m ³ of logs*
Planing timber	300,000 m ³ * (raw)
Kiln drying	528,000 m ³ *
Pellets	186,000 t*
CHP plant** (BET#)	38 MW thermal*
	15 MW electric*
Hot water boiler	10 MW*

* Production capacity
** Combined heat and power plant
Bio Electrica Transilvania S.R.L.

Our panels factory in Siret

Acquisition	2009
Plant size	5 ha
Edge-glued panels & finger-jointed products	130,000 m ³ * lumber input
Briquettes	30,000 t*

* Production capacity

Our sawmill in Sebeş

Established	2003
Plant size	53 ha
Cutting	1.45 million m ³ of logs*
Planing	580,000 m ³ * (raw)
Kiln drying	880,000 m ³ *
Laminated products	52,000 m ³ * (raw)
Pellets	124,000 t*
Briquettes	30,000 t*
	8.6 MW thermal*
CHP plant** ¹	2.4 MW electric*
	27.5 MW thermal*
CHP plant** ²	8.5 MW electric*
	Hot water boiler

* Production capacity
** Combined heat and power plant

Our blockboard factory in Comănești

Acquisition	2010
Plant size	17 ha
Blockboards & shuttering panels	145,000 m ² output*
Pellets	31,000 t*

* Production capacity

Our sawmill in Kodersdorf

Acquisition	2015
Established	2004
Plant size	33.5 ha
Cutting	1.2 million m ³ of logs*
Planing	360,000 m ³ * (raw)
Kiln drying	560,000 m ³ *
Hot water boiler	20 MW*

* Production capacity

12. External assurance

Critical review on the sustainability report 2019 of HS Timber Group (draft versions from 05.05.2020 and 28.05.2020) and critical review of the accounting approach of HS Timber's GHG-emissions by Umweltbundesamt GmbH

Umweltbundesamt GmbH (Environment Agency Austria) was engaged by the management of HS Timber Group to perform a critical review of their sustainability report 2019 and a specific ex-post critical review following ISO 14071 on the GHG-accounting part of the reporting process.

The critical review of the sustainability report has been conducted on the basis of GRI Sustainability Reporting Standards and the International Standard ISO/FDIS 14016 "Environmental management – Guidelines on the assurance of environmental reports".

Subject of the review were two draft versions (05.05.2020 and 28.05.2020) of the sustainability report. In the course of the critical review, suggestions for improvement were noted to accompany the finalization of the report.

The content of the report was reviewed primarily on the basis of the defined criteria:

- materiality
- completeness
- reliability / accuracy / traceability
- transparency

The review of the communicative quality was based on the evaluation of:

- design / layout
- graphic design
- balance of texts and from texts to graphics
- intelligibility

The critical review of the sustainability report, conducted by Andreas Berthold and Anneliese Ritter, focused exclusively on the above mentioned criteria and not on the truthfulness or correctness of the text content and data.

The work did not include any physical inspections of HS Timber Group's operational facilities or the reviewing of other documents (included web-links) in addition to the sustainability report.

The service has not considered the interests of specific third parties, it therefore only serves the customer and only for his purposes.

Thus, the review was not an official validation of the report to confirm compliance with the GRI or ISO/FDIS 14016 criteria.

Our responsibility was to independently express conclusions and suggestions for improvement on the subject as defined with our client HS Timber Group, while the further handling of these comments is in the sole responsibility of HS Timber Group.

Evaluation by the review panel

The critical review panel found the overall quality of the sustainability report, especially regarding materiality, completeness, balance and design to be high and adequate for the purpose of the report. The data listed are comprehensible and comprehensive. The report includes positive aspects of the company's sustainability performance, but also addresses existing challenges and current or previous difficulties.

Regarding the Critical Review of GHG-Accounting detailed exchange took place regarding the system boundaries for the assessment, input data, applied emission factors and results of the GHG-emissions profile as well as the result presentation. The proposed changes made by the reviewer (DI Hanna Schreiber) have been taken into account in a comprehensive and inclusive manner.

Annex 1. Mission statement



Mission Statement

Perfection in Timber.
Getting better every day

Sustainability

Our resource is renewable and unique.

Our local engagement in the regions initiates and supports economic development and respects the environment.

Partnership

Close cooperation is our key to common success.

Our reliability ensures stability for our employees, customers and suppliers.

The HS Timber Group is a long-established wood processing company of Austrian origin with very strong roots in Central and Eastern Europe, especially Romania.

We are open to new approaches and realize opportunities courageously. We are committed to our responsibility for communities and a sustainable timber industry. Our employees are best in class and our greatest asset. As a company we strive to grow globally and sustainably while respecting the environment. We constantly invest in our core competences of sawmilling and industrial timber processing, as well as in diversifying our business. We do this by building a global presence with strong regional roots.

Passion

We are passionate about meeting new challenges and finding the best solutions.

Our ability to innovate products and services guarantees individual solutions.



We are customer oriented.

The pursuit of perfection and quality makes us different.

Perfection in servicing achieves best results for our customers. This is how we understand partnership.

Our customers' economic success is the basis for our own long-term success.

Our performance and capability of finding the best solutions for our customers distinguish us from others.

Our strengths: Flexibility, speed, openness and consequent implementation.

We respect our regions and value them.

The regions we work in are the basis for our successful value chain.

We offer high quality jobs and contribute to the long-term revival and attractiveness of the regions.

We understand and respect the concerns of our partners. We support them in the regions in solving problems to secure our sites.

Our employees are among the best in the industry.

We support our employees' development and seek their best performance in return.

Only qualified employees guarantee that all rules are respected. We are an attractive employer. We strive for satisfied employees and a close cooperation.

We value our employees as our most important resource and support them in taking over responsibility. We believe in their skills and dedication. In return, we expect their willingness to always strive for the best approach.

We care about health and safety.

We appreciate constant development and the ability to learn from mistakes. We are a strong unity, direct and hands-on.

Teamwork is the cornerstone for our success – we remain strong by closely working together.

Our organization is transparent.

Our internal organisation is well structured and understood by all of our employees.

Decisions are taken fast and at the right level. We strive for an appropriate level of involvement and personal responsibility.

Lean structures together with a strong awareness for communication throughout the group characterize our organisation.

We work closely with our partners.

Our suppliers as well as our customers are our economic basis. We offer them reliability and long-term partnerships.

We demand honesty in respecting our rules and legal provisions as well as the commitment towards continuous improvement – both, from ourselves and our partners.

Sustainability leads us in our daily business.

We are committed to sustainability and growth throughout our organisation.

Our economic success depends on our supply basis, a sustainably managed forest. Sustaining and fostering this natural heritage is crucial.

We are fully committed to protecting biodiversity and contribute to climate protection. Our resource's origin is transparently traceable, making our products one of the safest in the industry.

The responsible use of our resource and an effective environmental management are an integral part of our economic activities, supporting innovation and success.

A transparent and honest dialogue with our employees, stakeholders and the general public helps to implement and constantly improve our approach.



ABBREVIATIONS

CCO – Chief Compliance Officer

CoC – Chain of Custody

CHP – Combined Heat and Power plant

CMS – Compliance Management System

CSR – Corporate Social Responsibility

DIY - Do-It-Yourself

EMS – Environmental Management System

EUTR – European Union Timber Regulation

FMU – Forest Management Unit

FSC - Forest Stewardship Council

GHG – greenhouse gas

GPS – Global Positioning System

GRI - Global Reporting Initiative

IACA - International Anti-Corruption Academy

ICG - Integrated Consulting Group

IEA – International Energy Agency

KPI - Key Performance Indicators

LED – light-emitting diode

MENA – Middle East and North Africa

NGO – non-governmental organisation

PEFC - Programme for the Endorsement of Forest Certification

SFI – Sustainable Forestry Initiative

SNCR - selective non-catalytic reduction

SUMAL – Sistem Informațional Integrat de Urmărire a Materialelor Lemnoase (woodtracking system)

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