Getting closer 1/05 DANZERGROUP

## Dear Readers,

Owing to the structural changes going on in the wood and wood processing industries, we have discovered that service and the provision of services are coming to the foreground of customer interests alongside product quality. Optimizing services for customers, thereby enhancing their benefit, is thus increasingly the focal point of our efforts.

One important aspect of these efforts is continual improvement of our quality management system.

To this end, we are planning far-reaching steps toward guaranteeing customers the highest possible level of product quality.

The benefits for our customers are complemented by the expectations and demands of society as a whole. Danzer Group has always included the principles of sustainability, environmental protection and social responsibility in its commercial activities. Ongoing improvement in these areas is a central theme of our corporate policy.

You will find more on these topics in this customer newsletter. At regular intervals in the future, we would like in this way to inform you informed of new developments and innovations in our company.

Enjoy reading this newsletter!
Sincerely,

Hans-Joachim Danzer

## Constantly optimizing product quality

In the past five years, Danzer Group has invested heavily in ongoing improvement of its technical equipment for manufacturing sawn timber and veneer. A large number of initiatives in this area are creating the conditions necessary for ever more accurate adherence to customer specifications, for the highest possible measure of quality, and for optimal utilization of the valuable resource of wood.

At its lumber factories in North America, Danzer Group has introduced new sorting lines for optimal sorting of lumber. These lines have the advantage of enabling graders to evaluate the boards better than do conventional, standard lines. Thus the sorting process is sure to be more reliable.

Danzer has also developed its own slicing machine for producing veneer, which guarantees considerably improved cutting quality and thickness consistency. All veneer factories of Danzer Group around the world are currently being outfitted with this machine. These large investments are necessary for enabling adherence to more and more precise tolerances in the future. Improvements in measuring techniques and quality control are also in the pipeline and will supplement the investments in machinery.

Danzer is also using new technologies for the drying phase and thereby making the drying process less stressful on the wood. The result: less buckel, a constant moisture content and more elasticity. Since conventional moisture measuring instruments are not laid out for the high demands of measuring veneer and thus do not function precisely, Danzer jointly developed new measuring devices which ensure that the residual moisture is just right for subsequent processing. In addition, the possibility of measuring the roughness is also currently under investigation.

*Hans-Joachim Danzer (34) as the third generation Danzer, took over full responsibility for the Danzer Group in 2002.*

# New head of European Sales

Since January 1, 2005 Michael Engel has been Danzer Group's head of sales in Europe. Engel has been employed by Danzer Group since May of 2004, where he first worked in product development. Before this, he spent twelve years with Ikea, where he headed the Veneer Trade Department.

# Did you know ...

... that ten percent of today's forest areas would be enough to meet the worldwide demand for timber sustainably (including paper production)?

... that more than half of the wood harvested in the world is burned to generate energy?

... that the forested area in most industrial countries is growing, especially in the hardwood forests of North America and Europe, and that less timber is cut than grows back?

... that each tree absorbs an average of six kilograms of $CO_2$ from the atmosphere each day and thus makes a decisive contribution to protecting the climate?

... that every cubic meter of lumber has drawn a quarter of a metric ton of $CO_2$ out of the atmosphere?

... that managed forests, thanks to their high proportion of young, strong, growing trees, enable $CO_2$ to be extracted?

... that an old, unmanaged forest produces as much $CO_2$ through processes of decomposition and decay as it stores, and that therefore an unmanaged forest contributes nothing to reducing global $CO_2$?

... that wood retains its ability to bind $CO_2$ even after being used in homes and buildings?

... that processing wood requires smaller amounts of fossil fuels than processing other materials, such as steel and concrete, and thus releases far less $CO_2$?

... that making one cubic meter of aluminum releases 22 metric tons of $CO_2$, compared to 0.015 metric tons for sawn timber?

... that processing wood produces no waste, but rather reusable by-products?

# New director at Danzer Forestland

Troy Harris has been working as Director of Danzer Forestland since November 2004. In this position he is responsible for evaluating and acquiring timberlands and for attending to contacts with their current owners. A graduate in forest management, he has already gained a wealth of experience in forest survey and management working for various companies in this field in the U.S.A.

# New sawmill in New Hampshire

Bradford Forest, a company of Danzer Group, acquired a new sawmill in Claremont, New Hampshire last year. Thus Danzer Group was able to expand its production capacity and open up a new area for acquiring high-quality wood in the Claremont region. The main species of wood found here are red oak, birch and hard and soft maple.

# Joint efforts against poaching

The Danzer subsidiary IFO is working together with the Wildlife Conservation Society (WCS) and the Congolese Forest Ministry to combat poaching. An agreement between these partners, which IFO has been striving toward for years, aims at having game wardens watch over the company's own forest concessions in the Republic of Congo. This will combat the urgent problem of poaching endangered animal species such as gorillas, elephants and chimpanzees.

*Olof von Gagern on Sustainability, Environmental Management and Social Commitment in Africa*

# "We readily acknowledge our commitment to the principles of sustainability"

*Mr. von Gagern, where does the wood used by Danzer Group come from?*

On the one hand from the forests we manage ourselves, and on the other from timber suppliers. We adhere to the principles of sustainable forest management both in our own concessions and in choosing our suppliers. Wood is one of the most significant raw materials and demand for it is rising all over the world. Sustainable forest management and awareness of the responsibility involved in the wood business are therefore increasing in importance.

The fact is that no raw material is superior to wood when it comes to the environment, because wood sequesters carbon, comparatively little energy is used to process wood, and wood can be disposed of with little environmental consequence. Further, by far the greatest portion of wood processed by Danzer Group comes from the hardwood forests of North America and Europe, where tree growth far exceeds harvest.

*So sustainability is given high priority by Danzer Group?*

Yes, absolutely. We readily acknowledge our commitment to the principles of sustainability. Our actions are determined by long-term planning, sensible use of natural resources and social responsibility. We do not measure our overall business success in terms of short-term profits, but by the farsighted establishment of the ecological and social principles that are necessary for any kind of long-term, profit-oriented commercial activity. Sustainable success requires sustainable business management.

*What does this mean in concrete terms for environmental protection?*

Environmental protection is the centerpiece of our sustainable management policy. We integrated goals related to environmental protection at an early date in our company, implementing an environmental management system in conformance with the international ISO 14001:2004 standard. This is an extensive, permanent and systematic management commitment to continual improvement. Independent experts assess our adherece to our specifications and provide comprehensive reports of their monitoring duties. Moreover, third-party audits are an integral part of our corporate governance. Without questions, our environmental management system obligates us to observe the principles of sustainable management of tropical forests.

*Speaking of tropical forests, timber companies are often accused of promoting illegal logging. What is Danzer Group's attitude to this?*

Illegal logging is indeed a problem with far-reaching consequences. It not only destroys important ecosystems, but also has catastrophic economic consequences. Illegal wood, especially from Southeast Asia, keeps the price of tropical wood on the world market so low that wood from sustainably managed forests often cannot be sold for enough to cover costs. Here is where governments must take responsibility. As timber companies we are vanguards and have to bear responsibility toward our customers. For this reason, we introduced binding guidelines for sustainable management and for purchasing round timber, sawn timber and veneers that come from Africa.

*Would it help solve the problem if imports of tropical wood were prohibited?*

No, because prohibiting tropical wood imports would block access to international markets and in this way hinder the development of sustainable forest management in the Third World. Development of sustainable forest management is necessary for sustainable social and economic development in such places as Africa, for instance. Eliminating illegal logging throughout the world is necessary and thus urgently needed if local companies are to establish competitive, sustainable businesses in Africa.

*Danzer Group has been doing business in Africa for more than forty years. What does the commitment to sustainability look like here?*

Sustainable forest management is not all that we promote in our forest concessions in the Congo Basin. We also support the development of an efficient indigenous wood business. Our investments there have not only helped establish local wood-processing operations, but also provide training and education for skilled workers. Danzer Group runs a veneer factory and two large sawmills in the Democratic Republic of Congo and the Republic of Congo that give jobs to approximately 1,800 employees. The jobs thus created will also provide the indigenous population with the basis for a sustainable livelihood. Our commitment to Africa underscores the philosophy of Danzer Group, since our principles of sustainability go far beyond issues of environmental protection to include economic and social responsibility, as well.

*Olof von Gagern (54), CEO Africa, working with the Danzer Group since 1996 and responsible for the company's Africa activities.*

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*Code of Conduct against Corruption and Bribery*

# Strict company rules for business dealings

Danzer Group has developed a Code of Conduct as part of its comprehensive compliance rules. This "Code of Conduct: Countering Bribery and Related Matters" is intended to ensure that business dealings remain untainted by corruption and bribery. Danzer Group developed its Code of Conduct in cooperation with the Swiss accrediting company Société Générale de Surveillance (SGS). Its rules apply to all Danzer Group companies that do business in countries where corruption is a problem. It sets down principles to which all employees must adhere. This Code reflects Danzer Group's goal of setting high ethical and legal standards of corporate behavior.

The Code of Conduct is based on international conventions, such as those established by the OECD, the Organization of American States and the African Union. Adherence to Danzer Group's anti-corruption guidelines is constantly monitored by an internal inspection system and will be audited by independent institutions beginning in 2006.

*Rules for Procuring African Wood*

# Danzer Group supports activities combating illegal logging

Danzer Group has introduced broad rules for the procurement of logs, lumbers and veneers from Africa. The rules of procurement define standards of sustainable management and procurement. This is intended to ensure that the wood procured by Danzer Group comes from legal sources. The guidelines are part of the environmental and safety management system of Danzer Group conforming to the international ISO 14001:2004 standard. It covers the entire supply chain, from forest management and raw materials procurement to production up to shipping finished products.

To forestall imports of illegally logged round timber, the European Union adopted the FLEGT Action Plan – short for Forest Law Enforcement, Governance and Trade – in 2003, which demands proof that any wood being imported is legal. Danzer Group is actively supporting these efforts by its voluntary commitment. The procurement guidelines of Danzer Group are drawn from internationally recognized standards of sustainable forest management which were developed in cooperation with non-governmental organizations (NGO's). Protecting high-quality wood resources by means of sustainable forest management, not only in its own concessions but also when third parties are involved, is the most important concern of Danzer Group. To this end, Danzer Group cooperated with official agencies, local communities and NGO's to introduce forest management plans to its own concessions in the Congo Basin, and also developed a specific package of measures for its suppliers. In addition, suppliers must submit declarations of their own and always provide documented proof that their wood is legal.

The implementation and observance of the new procurement rules is constantly monitored. A newly created department at Danzer Group, "Environment Coordinator for Trade and Production in Africa", checks and documents whether the wood supply is in fact legal and comes from sustainably managed forests. In addition, independent, specialized auditing companies will verify the adherence to these rules each year beginning in 2006.