

Sustainability Report
of Maschinenfabrik Berthold Hermle AG and the Group 2018
(summarised non-financial statement pursuant to Sections 289b and 315b of the German Commercial Code (HGB))

This Sustainability Report presents the summarised non-financial statement pursuant to Sections 289b and 315b of the German Commercial Code (HGB) of the Hermle Group and Maschinenfabrik Berthold Hermle AG. It supplements the Group Management Report and Management Report of Maschinenfabrik Berthold Hermle AG 2018, which is part of the Annual Report and can be accessed at www.hermle.de.

The non-financial statement provides information on essential factors in the five areas concerning environmental, employee, social, human rights and anti-corruption issues. It describes for each area the concept pursued, the corresponding measures and results as well as the possible risks involved.

Essential sustainability criteria

The essential aspects for reporting on sustainability (Corporate Social Responsibility, CSR) at Hermle are determined primarily by their importance for ensuring customer satisfaction and the long-term and sustainable success of the company. The main focus is on the direct impact of our activities on business partners, employees and the immediate business environment, as well as ensuring efficient and sustainable business operations. As such, we pursue our own concept for reporting on CSR that is suitable for small and medium-sized enterprises. We do not follow a framework of external factors, as its implementation in companies of our size would demand unreasonably high and economically unjustifiable effort.

Management and Compliance System and involvement of the Management Board

The Management Board of Hermle AG continuously addresses the key sustainability issues related to the operational business, for example during regular Management Board meetings. Our Management and Compliance System for sustainability, which was further developed in 2018, includes the annual review by the Management Board of the various aspects included in the reporting on CSR. If key figures are set for specific targets, they can be adjusted annually should this prove beneficial for overall business. Further, it is monitored whether the level achieved in one aspect (performance level) is at least maintained - according to the specific area, annually, monthly or by means of random checks. If targets are not met, we identify the causes and try to remove the obstacles that prevent their achievement. For measures that are integrated into our Internal Control System (ICS), random checks are carried out once a year and staff refresher courses take place every two to three years. In our view, this type of Management and Compliance System is currently sufficient from a cost/benefit standpoint.

Business model

Maschinenfabrik Berthold Hermle AG is one of the world's leading manufacturers of high-quality milling machines and machining centres, as well as the industry supplier operating at the highest quality and productivity standards. We supply customers from hi-tech industries at home and abroad, for example companies from tool and mould making, medical technology, the optics industry, aviation, power engineering, the automotive industry and motor racing, as well as their suppliers.

The Hermle Group consists of the parent company Hermle AG and various domestic and international subsidiaries, support centres and representative offices. With effect from 1 January 2018, Hermle AG acquired the remaining 51% of shares in the automation solution specialist Hermle-Leibinger Systemtechnik GmbH, in which it already held a 49% stake, from its former co-shareholders. Since then, the company has been a fully-fledged member of the group of consolidated companies of the Hermle Group. Furthermore, the corporate structure did not change during the reporting period.

Environmental issues

Concept:

As an internationally active manufacturer of machine tools, we provide society and our customers with safe products that are not harmful to their health and ensure the efficient use of resources. Both in terms of our machines and our production processes, we traditionally pay attention to high energy efficiency and resource conservation. Our customers benefit from this approach just as much as we do.

Specific measures and results:

At Hermle, both the **products and the manufacturing processes** as well as the installed components are generally CE compliant, a minor source of emissions and risks, and environmentally compatible. By ensuring the use of materials that are as recyclable as possible, storing hazardous materials safely and disposing of them properly in accordance with the relevant regulations and manufacturing highly durable products, we help to conserve resources. Hermle machines are equipped with extremely powerful and efficient drives, systems for energy recovery and a low-power stand-by mode, and are designed to be as light as possible in terms of moving masses, thus saving energy wherever possible.

To reduce **CO₂ emissions**, we work predominantly with local suppliers, manufacture in just one region and rely, as far as possible, on CO₂ neutral transport logistics companies for shipping our products. Our second production site in Zimmern ob Rottweil, where we now manufacture previously procured mineral casting beds and components, in the neighbouring district to our headquarters and close to both suppliers and the motorway helps to reduce transport routes and cut CO₂ emissions. Moreover, our entire fleet of vehicles is equipped with modern, low-emission technology. Fork lift and industrial trucks run solely on electricity, and internal transport orders are processed in a route-optimised manner.

When completing **expansion and construction projects**, we always pay attention to reduced land use through vertical construction measures, high energy efficiency, e.g. through the consistent use of LED technology for lighting, as well as heat and noise protection through excellent insulation. The existing buildings are also being successively equipped with the latest lighting and insulation technology. For the heating and air conditioning of various production facilities at the installation location in

Gosheim, we also employ energy-efficient combined heat and power plants and absorption refrigeration systems.

When expanding the machining capacities at our headquarters in 2018, we installed a new **transformer station** directly next to the building, thus saving electricity by ensuring shorter cable routes. This already resulted in initial energy savings last year. At the end of the reporting period, work was already underway to renovate the existing transformer station at the installation location in Gosheim. The aim is to further increase energy efficiency and fire safety.

We design access routes to our sites as directly as possible in order to reduce traffic congestion in the local area and always encourage delivery drivers to use bypasses and relief routes. In 2018, we came to an agreement with the municipality of Gosheim to link the largest **employee car park** at our site to the public road network via a new access road that only leads through the industrial estate. This will help to reduce the amount of traffic in the town and residential areas. The planning criteria were finalised in close cooperation with the municipal authorities and the necessary resolutions were passed in the year under review. We have already started drawing up the detailed plans for the section of road on our premises. The official construction project started in the late autumn of 2018 before the onset of winter with earthmoving work. Completion of the new access road is planned for 2019.

The legally required **energy audit** was carried out for the first time in the year under review. We utilised the subsequent results to develop a new energy concept to further reduce our level of consumption in the future and to smooth out peaks of demand.

Risks:

To avoid environmental risks, we have embraced a preventive approach. Overall compliance is monitored by, among others, the Technical Law Department. This enables us to ensure, for example, compliance with protection standards, EMC tests to determine the effects of electromagnetic radiation and technical risk analyses.

Environmental risks and the resulting rights of recourse and damage to the company's image are, therefore, negligible at Hermle.

Employee issues

Concept:

The more than 1,200 highly qualified workers of the Hermle Group are key to the company's level of success. It is for this reason that we attach great importance to the concerns and interests of our employees. Attractive, safe workplaces and conditions, a high level of individual responsibility in performance-oriented teams as well as regular upskilling opportunities are, in our view, important prerequisites for a motivated, loyal, experienced and productive workforce, as well as the success of our company on the labour market. Our human resources concept is designed for the long term with the aim of retaining jobs even during difficult phases. In order to recruit the best employees out there for the Hermle team and to bring as many different skills and experiences as possible into the company, we promote diversity and tolerance with regard to gender, nationality and age, as well as towards people with disabilities.

Specific measures and results:

By making tasks as interesting and responsible as possible and working in efficient, self-organising teams, Hermle helps to ensure that employees are highly motivated and **identify** fully with the company. Flat hierarchies and a culture of open communication ensure a lively exchange among staff and with the management team throughout the Group. Roughly 75% of the employees in the Group are represented by the works council, which works constructively and shares a relationship of trust with the management team.

Workplace safety and preventive **health measures** to avoid accidents are also a top priority at Hermle. We therefore employ our own safety engineer and medical officer and comply with all relevant workplace regulations. Noise protection, excellent ventilation, cleanliness and ergonomics, for example through the use of manipulators, lifting equipment or pre-assembly activities, are also part and parcel of a healthy and safe workplace at Hermle. Since 2018, the majority of office spaces have been furnished in accordance with a new furniture concept, which includes height-adjustable desks. In the year under review, we once again focused on the aspect of ergonomics. Together with external specialists, we examined conditions in the warehouse and machine dispatch areas, in addition to the computer workstations, to derive individually suitable practical exercises for the prevention of musculoskeletal disorders among

employees. Further, we helped to promote the health of our employees through a wide variety of activities, such as organised fruit, tea or water days and discounts for gym and pool memberships. The number of occupational accidents at Hermle has remained at a low level for many years. Last year there were 36 notifiable accidents at Hermle AG (previous year 17), most of which were classified as minor.

Through the use of various measures, we are continuously increasing the attractiveness of jobs at Hermle. In the 2018 business year, for example, we completed two **new parking areas** at the installation location in Gosheim that offer an additional 90 parking spaces. This obviously helps reduce the amount of time our employees and local residents spend searching for parking spaces. Moreover, employees were asked about what they would like to see in a new **company canteen**. The results are to be incorporated into the corresponding plans.

The extensive know-how of the Hermle team, which is often based on training completed at the company, is continuously expanded through regular **training and further education measures**. In 2018, our employees completed around 670 days of training with mainly technical learning (previous year 450). In addition, there were IT security and data protection events, road safety seminars for our apprentices and driver safety training for our service staff. There are also training sessions focussing on electrical safety and the handling of hazardous substances.

The **financial incentive systems** applied at Hermle include a profit-sharing scheme for Hermle AG employees, provided the company performs well, and performance bonuses on top of the basic wage. There is also a reward system for suggestions that lead to improvements. Roughly 70% of the suggestions made by our employees are implemented and rewarded with gifts in kind or cash bonuses of up to €2,500.

In order to secure jobs even during less than favourable periods and at the same time be able to react flexibly to peaks in demand, Hermle installed an innovative working time system back in 2002, which is known as the "**breathing company concept**" and incorporates a very efficient flexible working hours system.

Information on the current status of the working time accounts and the 2018 bonus can be found in the Employee chapter of the Group Management Report. This chapter also describes our activities to enhance **diversity** within the workforce.

Risks:

In theory, the risks in the area of employee issues result from the wilful disregard of regulations and the corresponding penalties or claims for damages. Further, there is a risk of no longer being seen as an attractive employer and thus no longer being able to fill vacancies ideally. Due to the extensive expertise and high motivation of our employees, as well as our intensive efforts to secure Hermle's attractiveness as an employer, such risks can be classified as low overall.

Social issues

Concept:

Hermle is a key employer and taxpayer in the Schwarzwald-Baar-Heuberg region and is committed to investing in Germany as a business location. We make our contribution by securing the company's long-term success and earning power, training a large number of young people, collaborating with local training institutions and supporting various social initiatives through the Hildegard and Katharina Hermle Foundation.

Measures and results:

Of the 1,251 working for the Hermle Group on 31 December 2018, we employed the vast majority (1,007) at the company headquarters in Gosheim or at the new installation location in Zimmern ob Rottweil. As in the previous year, roughly 89% of the employees

were employed in Germany and 11% abroad. Through our business policy, which is designed to secure the company's long-term future, and our clear commitment to investing in Germany as a business location, we want to secure as many **jobs** as possible **in Germany** and especially in our local region.

Hermle also contributes indirectly to securing the location by participating in various **trade and industry associations**. For example, we are a member of VDMA (German Mechanical Engineering Industry Association), VDW (German Machine Tool Builders' Association) and WVIB (Trade Association of Industrial Companies in Baden).

Hermle's commitment to supporting junior staff is above average. We meet our responsibility to the local region by offering young people interesting **training opportunities**, thereby also helping to prevent an increasing shortage of skilled workers in Germany. At the end of 2018, 89 young people were completing vocational training courses at Hermle AG (previous year 96), this corresponds to a rate of 8.9% (previous year 10.2%). Our junior staff either learn a modern, future-oriented profession as part of a traditional apprenticeship or complete an internship within the company as cooperative university students. From the start of their training, they are encouraged to work on selected projects independently in teams and to think outside the box. We currently offer seven different training courses in the industrial and commercial fields. The IT Technician apprenticeship course was first introduced at Hermle in 2018. Two young people now plan to commence this three-year dual training programme in 2019. Students can complete their internships with us in six different technical and business administration subjects. The young people are supervised by seven full-time trainers. In addition, there are around 130 training supervisors available throughout the various departments.

We work closely with all secondary schools, vocational training colleges and various universities in the local region. Several **vocational training colleges and universities** use Hermle machines in their workshops. Pupils and students can get to know Hermle as a potential future employer by completing technical assignments and term papers. For school pupils, we also offer guided tours of the company and the TechDays exhibition. They can also discover more about Hermle at careers days, recruiting trade fairs and information events in schools. Our apprentices present the company and its

training opportunities during these events. Students can come into contact with the company at employer recruitment days and other university careers events.

The Hildegard and Katharina Hermle Foundation, which is financed by dividend distributions from Hermle AG, supports a **large number of social projects** in the local region. In 2018, the organisation spent more than €1.1 million on promoting facilities for the young and the elderly as well as on welfare work in the Schwarzwald-Baar-Heuberg region in accordance with the mission of the Foundation.

Two major individual projects received support last year: €500,000 was presented to the Lebenshaus association in Trossingen for the acquisition of a historic railway building in which a business enterprise for people with mental health and social care needs is to be established. Further, the St. Franziskus Heiligenbronn Foundation received €300,000 to build a new sports hall for young people with visual and hearing impairment or multiple disabilities. The Hermle Foundation additionally donated to the Bündnis für Arbeit project "Paten auf Zeit" (temporary sponsors) as well as to an addiction prevention and awareness campaign within the framework of the Southside Festival and to a care project for children from families with addiction problems run by Fachstelle Sucht, a specialist unit for addiction prevention.

Other welfare and social institutions that received financial support included Refugio, a psychosocial centre for traumatised refugees, a nursery school for children with speech and physical disabilities in Villingen-Schwenningen, Kinderschutzbund, Phoenix, the women's refuge, a psychosocial support group in Tuttlingen and Bunte Kreis, a family-oriented aftercare service for chronically ill children, young people and their families. Numerous school associations from the Schwarzwald-Baar-Heuberg region also received financial assistance.

Hermle employees once again teamed up with the Hermle foundation for a good cause: Not for the first time, a large Hermle team took part in the Black Forest Bike Marathon - part of the entry fee is donated to the Katharinenhöhe rehabilitation clinic for children with cancer. In addition, the Hermle Foundation again donated a fixed sum to the clinic for every kilometre completed by the Hermle team. More than €87,000 were handed over in total.

Risks:

There are no direct risks for Hermle in the area of social issues. Our commitment rather strengthens the company's positive image as a responsible employer, an exemplary training company and an important company for the local region.

Human rights issues

Concept:

Compliance with human rights standards is a matter of course for Hermle – both in our company and in our influenceable environment. Our business activities are aligned accordingly.

Measures and results:

The Hermle Group selects its suppliers very carefully and only procures components from reputable companies in the European Union and Switzerland; in other words, from countries where compliance with human rights is required by law and monitored fully. We do not purchase parts from companies known to use dubious subcontractors. However, due to our relatively low purchasing power, we have no influence on the production stages upstream of our suppliers, such as the mining of raw materials in developing countries, and cannot realistically check the actual situation on the ground.

Risks:

The risk of human rights violations by Hermle employees or our suppliers is practically irrelevant due to the relevant legal requirements and standards in Germany and Europe. Systematic traceability of our entire supply chain with regard to compliance with human rights is not feasible due to our relatively low purchasing power.

Anti-corruption issues

Concept:

Hermle requires and expects all its employees to act in accordance with relevant rules and regulations and promotes anti-corruption measures. We categorically reject bribery and all forms of corrupt behaviour, as they are not compatible with our corporate culture and cause lasting damage to foundations of trust, cooperation and the reputation of all the parties involved.

Measures and results:

To ensure compliance with legal and company-specific regulations, corresponding compliance rules and audit processes have been included in our Internal Control System, which is integrated into order processing measures. Further, we ensure the subsequent examination of individual cases. The compliance system comprises the monitoring of offers, incoming and outgoing invoices, discounts, commissions and credit notes with regard to their appropriateness in terms of reason and amount. As a matter of principle, we have adopted a principle of dual control. Hermle continues to implement all EU money laundering directives.

In 2018, we introduced random checks on individual transactions due to special features such as high discounts or commissions. In doing so, we add weight to the vital importance we attach to compliant behaviour. The random checks, which will take place annually in the future, did not uncover any misconduct in 2018.

In order to sensitise our employees with customer and supplier contact to the topics of corruption and money laundering, we offer training sessions composed of both company-specific and relevant legal regulations and sanctions and have them sign their name to confirm participation. Refresher courses take place every three years.

Risks:

The violation of legal standards and corruption entail the risk of claims for damages, fiscal sanctions and exclusion from tender procedures. Further, bribery has a lasting negative impact on the relationship with a potentially wronged business partner besides damaging the company's image and reputation among peers and the public. We prevent these risks through the corporate culture embedded in the Hermle Group and the measures described.