

Sustainability Report
of Maschinenfabrik Berthold Hermle AG and the Group 2017
(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 2017, 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 is currently under construction, 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. The Group 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. 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. We design access routes to our company headquarters as directly as possible in order to reduce traffic congestion in the town and always encourage delivery drivers to use bypasses and relief routes.

When **expanding the machining capacities** at the installation location in Gosheim, a project that was generally completed in 2017, we refurbished and modernised existing buildings in a way that ensured no additional land was required. The use of a large combined heat and power plant that generates electricity and waste heat not only heats

the entire assembly workshop area, but also ensures the emergency power supply for safety-relevant areas such as the computer systems, lifts, doors and gates. In addition, there is a state-of-the-art absorption refrigeration system with which the waste heat can be used to cool the building, if required. This technology consumes around 25% less energy than a conventional compression refrigeration system. A new transformer station installed directly next to the building will also help to save energy in the future, as longer cable routes would ultimately lead to electricity losses.

Another production facility at the installation location in Gosheim is also equipped with a combined heat and power plant and a scalable absorption refrigeration system. All buildings are being successively equipped with the latest lighting and insulation technology.

Due to the limited amount of space available at the company headquarters, we started **building a second production site** in 2016. By choosing to build in Zimmern ob Rottweil, a town in the district neighbouring our headquarters and close to the motorway, we have been able to minimise transport routes and to ensure the lowest possible CO₂ emissions. The production facility completed last year in Zimmern was also built with energy efficiency in mind. In general, the mineral casting technology employed at the site for manufacturing our machine beds is very low energy in production compared to conventional cast steel and easy to dispose of, as no hazardous waste is produced. The raw material hoppers required for this process are located inside the building and are filled from the outside using highly efficient compressors. This helps to avoid temperature losses at the production facility and to achieve a faultless temperature-controlled casting process, which, in addition to consistently high quality, also delivers high energy efficiency. A heat pump in combination with an industrial panel heating system guarantees complete, energy-reduced heating of the production facility and offices at temperatures as low as minus 5 degrees Celsius. Additional sources of heating are only required at colder temperatures.

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 1,000 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. Last year, we introduced a new furniture concept for our offices spaces, which included height-adjustable desks. The number of occupational accidents at Hermle has remained at a low level for many years. In 2017, there were 17

notifiable accidents at Hermle AG (previous year 18), most of which were classified as minor.

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 2017, our employees completed, similar to the previous year, around 450 days of training with mainly technical learning. In addition, there were IT security events for all employees at the installation location in Gosheim, 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 as well as a reward system for suggestions that lead to improvements. Roughly 90% 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 2017 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 1,086 working for the Hermle Group on 31 December 2017, we employed the vast majority (931) at the company headquarters in Gosheim or at the new installation location in Zimmern ob Rottweil. As in the previous year, roughly 88% of the employees were employed in Germany and 12% 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 2017, 96 young people were completing vocational training courses at Hermle AG (previous year 95), this corresponds to a rate of 10.2% (previous year 10.7%). 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 six different training courses in the industrial and commercial fields. 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 2017, the organisation spent more than €800,000 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.

The largest individual project saw €500,000 being put towards a new build project for the Family Relief Service (FED) in Tuttlingen. Further donations were made to a theatre-based addiction prevention project run by Fachstelle Sucht, a specialist unit for addiction prevention in the Tuttlingen region, to Refugio, a psychosocial centre for traumatised refugees, to AWO nursery school for children with speech and physical disabilities in Villingen-Schwenningen and to Bunte Kreis, a family-oriented aftercare service for chronically ill children, young people and their families. Welfare and social institutions such as the Psychosoziale Förderkreis Tuttlingen, Phoenix, Kinderschutzbund, Bündnis für Arbeit with its project "Paten auf Zeit" (temporary sponsors) or the women's refuge as well as numerous school associations from the Schwarzwald-Baar-Heuberg region also received financial assistance.

In 2017, numerous Hermle employees, along with the Hermle Foundation, were involved in the Black Forest Bike Marathon, which donates part of the entry fee to the Katharinenhöhe rehabilitation clinic under the motto "Biking for children with cancer". For every kilometre completed by the Hermle team, the Hermle Foundation donated a fixed sum – approximately €84,000 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 already implements the new EU money laundering directives.

In order to sensitise our employees with customer and supplier contact to the topic of corruption, 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.