

Sustainability Report
of Maschinenfabrik Berthold Hermle AG and the Group 2019
(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 2019, 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 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 generally 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. A new sales and service company was established in Mexico in 2019. 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 manufacture mineral casting beds and components, is located in the district neighbouring our headquarters and is close to both suppliers and the motorway, which also helps to minimise transport routes and 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. Preparations for expansion of the new installation location in Zimmern commenced at the end of 2019. A new production facility for sheet metal production and an office development are set to be constructed there in 2020. Further plans include establishing a connection to the existing heating network and using a second highly efficient heat pump, systems for heat recovery from exhaust air in processes and rooms, and implementing an internal 20kV network to reduce cable paths and losses. Moreover, we will prepare everything for the installation of a photovoltaic system. On the one hand, rooms will be cooled partly through process cooling and, on the other hand, external blinds will help to reduce the amount of solar heat passing through windows on sunny days. Additionally, the relocation should have a positive impact on CO₂ emissions, as the new production facility for sheet metal is much closer to our supplier, thereby reducing the net transport routes for delivery of the ready-to-install sheet metal to our assembly workshop.

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

The findings from the legally required **energy audit** in 2018 were incorporated into the development of a new energy concept. Based on this information, additional measures were implemented throughout the year under review to further reduce our level of consumption in the future and to smooth out peaks of demand. At the installation location in Gosheim, for example, we either renewed or modernised three transformer stations in 2019 to improve efficiency and at the same time reduce CO₂ emissions by using vegetable oil instead of mineral oil for their operation. Other measures included the installation of high-speed doors to reduce heat loss, the replacement of older heating pumps with highly efficient state-of-the-art systems and the transition to LED lighting.

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 2019, we completed a new access road to the largest employee car park at the site in Gosheim. This road only leads through the industrial estate, thus helping to reduce the amount of traffic in the town and residential areas.

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 1,300 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 occupational health service 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. Together with an external specialist, we examined the assembly workshop areas with regard to their ergonomic design and potentials for improvement in the year under review. To ensure the derived measures and individually suitable practical exercises for the prevention of musculoskeletal disorders are implemented sustainably, so-called ergo-scouts were specifically trained to support and motivate their colleagues.

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 20 notifiable accidents at Hermle AG (previous year 36), most of which were classified as minor.

Through the use of various measures, we are continuously increasing the attractiveness of jobs at Hermle. Construction of the new sheet metal production facility at our installation location in Zimmern ob Rottweil will help to significantly improve working conditions in this area. The new, state-of-the-art production facility will be significantly higher and better ventilated, thereby providing our employees with a quieter and cooler working environment.

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 2019, our employees completed around 775 days of training with mainly technical learning (previous year 670). By expanding the workforce, especially in the service sector, much of the focus in the year under review was on product technology events. In addition, there were IT security and data protection training sessions, road safety seminars for our apprentices and driver safety training for our service and outside sales 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 80% of the many suggestions made by our employees were implemented and rewarded with gifts in kind or cash bonuses of up to €2,500 in 2019.

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. In previous busy years, a high number of overtime hours were worked. Due to the hours accumulated in the working time accounts, we are able to compensate for the current period of weak demand through reduced weekly working hours and production-free days with unchanged payment.

Information on the current status of the working time accounts and the 2019 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 roughly 1,300 people working for the Hermle Group on 31 December 2019, we employed the vast majority of them (over 1,100) 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 around 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 2019, 100 young people were completing vocational training courses at Hermle AG (previous year 89), this corresponds to a rate of 9.5% (previous year 8.9%). 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. Since September 2019, two young people have been training to become IT technicians, an apprenticeship course first introduced in 2018. In return, the IT Specialist course has been removed from the list of apprenticeships available at Hermle. Students can complete their internships with us in six different technical and business administration subjects. In the year under review, the range of courses was expanded to include the industrial study programme Mechatronics and Digital Production with integrated training as a mechatronics technician. The young people are supervised by seven full-time trainers. In addition, there are around 140 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 recruiting trade fairs, careers days and information events in schools. Our apprentices present the company and its training opportunities during these events. In 2019, we decided to expand our activities and presented Hermle at three major regional recruiting trade fairs. Students can come into contact with Hermle at employer recruitment days and other university careers events. Thanks to the new industrial study programme, we have been able to increase our contact with universities in the local region.

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 2019, the organisation spent a total of more than €3.1 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.

The two most significant individual donations of €1 million each were made to the St. Franziskus Heiligenbronn Foundation, whose new sports hall for young people with visual and hearing impairment or multiple disabilities continued to receive the support it needs, and to the Katharinenhöhe aftercare facility in Schönwald for children with heart disease and cancer for the construction of a new physiotherapy centre. The Spaichingen social welfare centre also received a major donation of €400,000 for the construction of a new day care centre.

In addition, the foundation supported Fachstelle Sucht and Kinderschutzbund in Tuttlingen, the convent of the congregation of St. Michael in Denkingen, which provides nursing services in the local region, as well as Refugio in Villingen-Schwenningen, a psychosocial centre for traumatised refugees, the "Sternschnuppe" hospice for children and young people 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.

In 2019, our employees once again showed a particularly high level of commitment to a good cause. As in previous years, 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. In total, approximately €100,000 was handed over to the clinic. Another Hermle team took part in a 24-hour climbing event, where the amount donated by sponsors to social causes is based on the number of metres climbed. Hermle paid the entry fee for the climbers.

Further, many Hermle employees also actively **volunteer** in various roles, for example as volunteer fire fighters. Hermle supports and promotes these activities and has been recognised by the Baden-Württemberg Ministry of the Interior as a volunteer-friendly employer in 2019.

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 2019, random checks of individual transactions were once again carried out due to special features such as high discounts or commissions. This has been conducted annually since the year under review. In doing so, we add weight to the vital importance we attach to compliant behaviour. No misconduct was uncovered during the 2019 reviews.

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. The three-year refresher course was held at the start of 2019.

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.