

Sustainability Report
of Maschinenfabrik Berthold Hermle AG and the Group 2021
(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 2021, 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.

EU taxonomy

The EU Taxonomy Regulation 2020/852 Article 8 adopted by the European Commission is only conditionally applicable to Hermle. So far, the machine tool manufacturing sector has not been directly included in the EU Commission's list of environmentally sustainable economic activities. Classification under "Manufacture of low carbon technologies" would be conceivable. The machine tool manufacturing sector provides products that are often at the beginning of the value chain in an array of industries and contribute significantly to making production processes more efficient as well as generally preparing for the new challenges of sustainability. As such, our company could be classified as a so-called "enabler", since we enable our customers to contribute to the achievement of EU environmental targets through the use of our machines. Due to our extensive customer base from a wide range of technological sectors (see chapter Business model), it is not possible for us to assess the extent to which our customers use this option. It is therefore not possible to determine a percentage of sales achieved with environmentally sustainable economic activities pursuant to the EU Taxonomy Regulation. That is the reason why we stated 0%. The percentage of investments and operating expenses to be classified as environmentally sustainable was negligible in 2021, i.e. close to zero.

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, machining centres and associated automation components, as well as the industry supplier operating at the highest quality and productivity standards. We supply national and international customers from high-tech sectors such as toolmaking and mould construction, medical technology, the electronics and chip industries, packing technology, the optical industry, the aerospace industry, energy technology as well as the automotive industry, including their subcontractors.

The Hermle Group consists of the parent company Hermle AG and various domestic and international subsidiaries, support centres and representative offices. The corporate structure has not changed during the period under review. An application for the establishment of a subsidiary in China was made in December 2021.

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. Further, we permanently monitor our products after delivery to customers with regard to potential hazards that could arise from their operation.

To reduce **CO₂emissions**, 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 and also sheet metal parts, 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. Especially with the new buildings constructed at the installation location in Zimmern in recent years, we have been able to meet these requirements without any restrictions due to the existing basic fabric. The new buildings were connected to the existing heating network, which we enhanced with a second, highly efficient heat pump that is used for both cooling and heating the production facilities. We also installed a heat exchanger to be able to recycle the waste heat generated and reduce cable paths and losses by extending the internal 20kV network. Furthermore, the buildings have been prepared for the installation of a photovoltaic system. External blinds also help to regulate the temperature inside the building. The relocation of sheet metal production from Gosheim to Zimmern ob Rottweil has had a positive impact on CO₂ emissions, as the new location is much closer to our main supplier, thereby reducing the net transport routes for delivery of the painted, 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 headquarters in Gosheim, we also employ energy-efficient combined heat and power plants and absorption refrigeration systems and plan to replace them with new, more efficient plants and systems in the coming years.

The findings from previous **energy audits** were incorporated into the development of a new energy concept. Further, we have also derived measures 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 various transformer stations in previous years to enhance efficiency and at the same time reduce CO₂ emissions by using vegetable oil instead of mineral oil for their operation. Other measures include the use of high-speed doors to reduce heat loss, the replacement of older heating pumps with highly efficient state-of-the-art systems, the ongoing transition of more areas to LED lighting and the installation of new, more energy-efficient ventilation technology planned for next year as part of the refurbishment of existing production areas.

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. Since 2020, we have been using a new access road to our 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.

To **avoid waste and to save raw materials**, we dispose of and recycle chips and sheet metal waste produced during operations through specialist companies and use old cardboard packaging to repackage parts. Moreover, we are planning to introduce a transport container recycling system together with parts suppliers to avoid disposable packaging when procuring suitable series parts.

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. A focus of the activities in 2021 was also on preventive measures to protect against Covid-19 infections. We implemented a number of ingenious hygiene and protection concepts to avoid secondary infections at our com-

pany. At times of high infection rates in the areas where we operate sites, this included setting up separate working groups and shifts within departments and functions to support social distancing, staggering working hours, and reducing presence in the company by working from home whenever possible, even if this affected efficiency and effectiveness in some cases. In addition, just a few days after compulsory testing was introduced, we set up a test facility for the daily testing of unvaccinated employees and tested all other employees, who had been vaccinated twice, two times a week to avoid secondary infections at the company. Anyone with a positive test result was dealt with discreetly and in the strictest of confidence. The company spent roughly €70,000 on test kits in 2021.

To fundamentally guarantee occupational health and safety at Hermle, we employ our own safety engineer as well as an 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 main production areas with regard to their ergonomic design and potentials for improvement. 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. The majority of activities to promote the health of our employees, such as organised fruit, tea or water days and discounts for gym and pool memberships, were limited throughout the year due to the Covid-19 pandemic.

The number of occupational accidents at Hermle has remained at a low level for many years. Last year there were 22 notifiable accidents at Hermle AG (previous year 20), 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 site in Zimmern ob Rottweil has significantly improved the environmental conditions in this area. The state-of-the-art production hall is significantly higher and better ventilated, thereby providing our employees with a quieter and cooler working environment. We plan to completely renovate the vacated rooms in Gosheim by the end of 2021, meaning the spindle assembly facility can also relocate to spacious, bright and air-conditioned rooms at the leading edge of technology in the foreseeable future.

The extensive know-how of the Hermle team, which is often based on vocational training completed at the company, is continuously expanded through regular **training and further education measures**. In 2021, despite the Covid-19 restrictions and reduced working hours, our employees still completed around 220 days of training with mainly technical learning (previous year 323). In the year under review, various events dealt with the topics of combating corruption and bribery, liability and contract law as well as product technology, especially for new member of service staff. Further training courses focussed on IT security, with most of them being conducted online. There were also regular training sessions in the areas of electrical safety and handling 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. More than 75% of the many suggestions made by our employees were implemented in 2021 (previous year 80%). Suggestions for improvement are rewarded with gifts in kind or cash bonuses of up to 10% of the savings achieved in that year.

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. It 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. By reducing the hours accumulated in the working time accounts, we were able to cope with the significant economic downturn, which had already begun in 2019 and was massively exacerbated by the Covid-19 outbreak between March 2020 and the end of April 2020, through reduced weekly working hours and production-free days with unchanged payment of the same basic wages. Starting in May 2020, only about 50% of the workforce had to participate in short-time work. However, in the following period, over 90% temporarily worked reduced hours until the first quarter of 2021. Short-time work ceased in the company as a whole in August 2021 due to increasing orders.

Thanks to the breathing company concept, we were able to cope with the significant economic downturn that lasted almost two years and the Covid-19 crisis, which is still with us, without any compulsory redundancies, and we continued to retain apprentices who have passed their exams and to recruit new ones. In order to adjust the number of jobs gradually and based on demand, while at the same time opening up professional development opportunities for our employees by assigning them new activities, we make use of "natural fluctuation". In the third quarter of 2021, we began recruiting new workers for specific roles again.

Information on the current status of the working time accounts and the 2021 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 outstanding reputation 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 and collaborating with local training institutions.

Measures and results:

Of the 1,338 employees actively working for the Hermle Group on 31 December 2021, we employed the vast majority (986) at the company headquarters in Gosheim or at the new installation location in Zimmern ob Rottweil. Similar to the previous year, roughly 86% of the workforce are employed in Germany and 14% 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 2021, 99 young people were completing vocational training courses at Hermle AG (previous year 112), this corresponds to a rate of 9.8% (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. At an early stage of their training, they are taught 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. Moreover, since the start of last year there has been the possibility for our industrial mechanics to acquire an additional qualification in the field of electrical engineering with a Chamber of Industry and Commerce (IHK) qualification. Students can complete their internships with us in six different technical and business administration subjects. In the previous year, the range of courses was further 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.

To increase the attractiveness of completing an apprenticeship at Hermle, we have further expanded our offerings for junior staff in 2021 as part of a new apprenticeship marketing strategy. In recognition of excellent performance, apprentices with good grades are entitled to further promotion that consists of further training offers, financial support and bonuses. EMMA, which stands for Electronics, Mechatronics, Mechanics and Automation, was launched as a support project for female apprentices, since it is tailored to the specific needs of young women, providing them with individual support during their training in supposedly male domains. Moreover, to draw attention to Hermle as an attractive employer, we are continuing to expand our social media reach.

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 Tech-Days exhibition. Due to the ongoing Covid-19 restrictions, these events were once again carried out online in 2021 using state-of-the-art techniques and were met with interest by young people and their parents. They can also find out more about Hermle at training fairs, which were also held online last year. Some of our junior staff and specialist trainers presented the company and its career opportunities in short videos and concise presentations.

In 2021, our employees once again showed a particularly high level of commitment to a good cause. As in previous years, a 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. Many Hermle employees also actively **volunteer** in various roles, for example as volunteer fire fighters or as members of the German Federal Agency for Technical Relief (THW) and local mountain rescue teams. 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. The same applies to compliance with legal requirements - for example with regard to conflict materials. Our business activities are aligned accordingly.

Measures and results:

The Hermle Group selects its suppliers very carefully and only procures material 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 buy parts from companies known to use dubious subcontractors. However, due to our relatively low purchasing power, we have no direct 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. We have assessed our supplier materials with regard to the associated risk of human rights violations. In the event of supplier parts with a suspected increased level of risk, e.g. from a significant admixture or a significant proportion of conflict material, we enquire whether suppliers import raw minerals directly from non-European countries and in this case request a declaration of commitment to comply with all the relevant legal regulations. We also strive to agree on a special right to terminate supply contracts if laws are violated and always seek alternatives in the event of violations.

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 - our exclusive direct purchasing regions. We do not source conflict minerals such as gold, tantalum, tungsten or zinc in their pure form or directly from outside Europe. However, these substances may be present in the form of small admixtures and minute quantities in processed parts and preliminary products sourced by us from EU countries and Switzerland. Due to the multi-level and, in the case of these materials, global supply chains, it cannot be ruled out with absolute certainty that such substances originate from conflict regions. Systematic, multi-level traceability of our entire supply chain with regard to reliable compliance with human rights is not feasible due to our capabilities and 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 includes 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 2021, 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 2019. In doing so, we add weight to the vital importance we attach to compliant behaviour. No misconduct was uncovered during the 2021 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. A compulsory refresher course took place at the end of 2021. It has also been designed as an online training course to make it more easily and widely available to new or remote employees in the future.

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.