

# Nichtfinanzielle Konzernerklärung

## Non-financial statement of the Group

### Introduction

With this non-financial statement of the Group, SHW AG fulfils the requirements of Section 315c HGB in conjunction with Section 289c et seq. HGB. This law requires large capital market-oriented corporations as defined by Section 267 HGB with more than 500 employees to disclose non-financial and diversity-related information. At a minimum, this includes matters related to the environment, employees, social concerns, human rights and efforts to combat corruption and bribery.

The non-financial statement relates to the reporting period from 1 January to 31 December 2018 and the SHW Group's scope of consolidation defined in the notes to the consolidated financial statements.

In order to identify the relevant non-financial aspects and matters, SHW AG carried out a hotspot analysis in 2017 already that was specific to the Company. In this regard, relevant industry studies and standards were analysed. This resulted in a "long-list" of nonfinancial issues. Finally, at a workshop including the respective line managers and the Management Board of SHW AG, a shortlist of the significant issues was drawn up. These issues meet the materiality criteria of Section 289c HGB.

### Aspects and matters identified

A non-financial statement framework was not used to draw up the non-financial statement of the Group as the material information could be suitably presented without the use of such a framework.

Reference is made to the section "Background of the SHW Group" in the annual report for more on the business model of SHW AG.

The identification and assessment of non-financial risks is integrated in the risk management system (RMS) of SHW AG. No material non-financial risks as defined by Section 289c HGB were identified in the reporting period. Reference is made to the "Risk report" in the annual report for more on the risks identified by SHW AG.

### Environmental matters

Global climate change and the growing scarcity of resources represent a major challenge, particularly for the customers of the SHW Group in the automobile industry. This is underscored by the joint proposal of the European Commission, the European Parliament and of the Council of the European Union to regulate the CO<sub>2</sub> emissions of new cars and vans for the period after 2021. Consequently, by 2030 the fleet consumption of passenger cars should be reduced by 37.5 per cent in comparison to the benchmark year of 2021. The challenge lies in continuing to improve vehicles in terms of emissions and the consumption of resources. The SHW Group intends to help our customers reach their goals to reduce fuel consumption and, as a result, CO<sub>2</sub> emissions. To this end, we refine existing products and develop new innovative solutions.

### Management approach and due diligence

The SHW Group is fully committed to environmentally friendly mobility. At the same time we are committed to satisfying the expectations of our customers, the lawmakers, society and our employees, including those who do not fit into any specific gender role (referred to collectively below as "employees"). In this regard, dialogue with our customers has very special significance. We can consider their wishes when developing new products and refining existing ones and respond immediately to new challenges arising from the foreseeable introduction of disruptive technologies in the automobile industry.

	Environmental matters	Human capital	Social concerns	Human rights	Anti-corruption
Matter	Climate protection/ energy management/ Other emissions and environmental protection	Qualified and motivated personnel	Regional commitment	Human rights at SHW and in the supply chain	Combating corruption and bribery
		Occupational safety and health protection	Data protection		

The due diligence process for environmental matters at SHW AG generally focuses on internal production, as the main drivers of environmental matters, such as energy consumption, can be steered directly. We see it as our duty to ensure that any burden on the environment originating from our business activity is avoided wherever possible. Due to the fact that the SHW Group is a manufacturing company, it is not possible to fully rule out an impact on the environment and biodiversity. The specific impact depends on the respective production characteristics of the various locations. For example, there are emissions of particulates and gases as well as noise from our iron foundry in Tuttlingen-Ludwigstal and the aluminium foundry in Neuhausen ob Eck. Moreover, hazardous substances and chemicals are used. Specific procedures for each location have been defined to address the resulting burdens on the environment. These include the careful selection and substitution of raw materials, the correct sorting of waste and implementation of needs-oriented environmental protection measures.

Production-related environmental protection extends to the responsible handling of waste, chemicals, wastewater, and hazardous substances as well as the avoidance of particulate and gas emissions in the Brake Disc business segment. SHW AG applies extensive environmental monitoring to steer the strategic and operating aspects of its environmental performance. At local level, all environmental indicators are measured that are relevant for a manufacturing operation, such as energy and water consumption, waste water volumes and production-related emissions, such as volatile organic compounds (VOC), dust and particulates. In the event that the statutory or internal limits are breached, corresponding due diligence processes are initiated to restore compliance with the permitted thresholds.

Each German location has its own management manual that records how the specific environmental and energy-related issues are to be treated. The management approaches and reporting channels for environmental protection are more or less identical. The locations apply ABC analysis to identify the relevance of environmental matters, any need for action, set objectives and derive measures. This form of analysis allocates the matters to three different priorities. Relevant developments are reported by the management representative to the respective Plant Managers and the Management Board. Moreover, at least once a year or on an ad hoc basis checks are made whether the actions taken to reach the locations' environmental and energy goals are effective.

Energy performance has been assigned a higher-level strategic relevance at SHW AG. In light of the fact that production within the SHW Group is energy-intensive, it is important for both environmental as well as financial reasons to minimise the consumption of energy in production where commercially feasible. The objectives and measures with regard to the environment and energy are defined, measured and assessed for each location. Since 31 December 2018, the method for calculating the most important indicator, CO<sub>2</sub> emissions, for the period from 1 January to 31 December 2018 has been harmonised.

Furthermore, the SHW Group has established its own "Supplier Code of Conduct" for its direct suppliers. This explicitly demands the following with regard to environmental protection:

- Complying with the law and international standards on environmental protection

- Minimising burdens on the environment and steadily improving environmental protection
- Establishing and applying an appropriate environmental management system
- Fostering compliance with the Code of Conduct among their own suppliers

### Cross-corporate systems – site-specific implementation

Generally, the production conditions at the various locations of the SHW Group vary considerably to some extent, due to different depths in the production chain. The locations that have a significant impact on the environment are subject to independent certification of their environmental and energy management systems. These include the specific automobile industry standard, IATF 16949, the energy management standard, ISO 50001 and the environmental standard, 14001. The corresponding certificates can be viewed on the website of SHW under the pages for each location, which can be found at <https://www.shw.de/unternehmen/standorte/uebersicht/>.

The locations outside of Europe will be successively integrated in the reporting of CO<sub>2</sub> emissions and water consumption taking account of the materiality threshold. In addition, an indicator for measuring the intensity of emissions across the group is nearing agreement prior to introduction.

There are environmental officers and energy officers at each location who are responsible for the local implementation of due diligence processes. This involves drawing up lists of the specific legal requirements and day-to-day obligations for the Bad Schussenried, Aalen-Wasseralfingen and Tuttlingen/Neuhausen ob Eck locations. These are similar to a large extent, with differences in the infrastructure and plant and machinery. The register of applicable laws and current obligations is reviewed by the respective officers on site and kept up-to-date by them. Implementation is defined in internal processes, whereby the relevant laws and regulations and the register of applicable laws are tracked constantly.

The locations proceed similarly when observing industrial norms. For example, they use the same system for identifying any needed action and drawing up the associated measures. All German and foreign locations pursue the same high quality standards.

### Goals, results and performance indicators

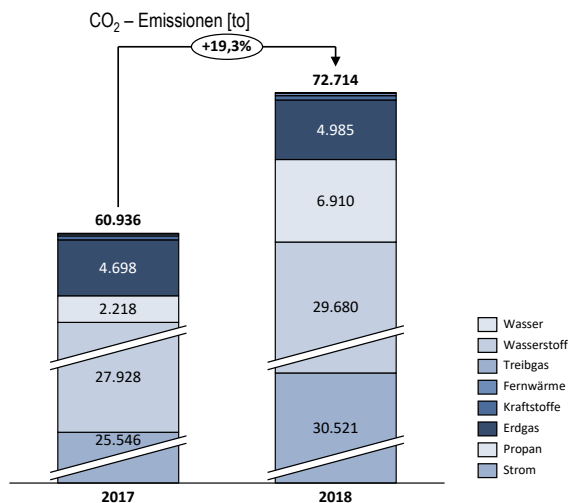
The product portfolio of the SHW Group is consistently aligned towards vehicle components that reduce CO<sub>2</sub> emissions. For example, SHW is among the world's leading manufacturers of composite brake discs. The two-piece construction with an aluminium pot is not only long-lived but also reduces the weight of each brake disc by up to two kilograms. A weight reduction of ten kilograms results in a reduction of CO<sub>2</sub> emissions of roughly one gramme CO<sub>2</sub> per kilometre driven. With about 1.5 million composite brake discs planned for 2020, and assuming an annual mileage of 14,000 kilometres per vehicle, the CO<sub>2</sub> savings in comparison to grey-cast brake discs amount to a total of roughly 4,150 tons.

In addition, we pay particular attention to conserving resources in the production process. The primary goal is to monitor and improve the

performance of the locations in terms of raising energy efficiency and reducing the impact on the environment. This objective is also fixed in the corporate policy of SHW Automotive GmbH. In addition, focus is placed on compliance with local environmental laws. There were no cases of non-compliance with material environmental laws and regulations in the reporting year.

During an internal CSR workshop in September 2018, new environmental management indicators were discussed and defined. For example, for the first time, SHW determined its CO<sub>2</sub> emissions for all of its locations (scope 1 & 2) and its water consumption for the reporting period from 1 January to 31 December 2018. The emission categories (scopes) are based on the Greenhouse Gas (GHG) protocol, which arose from a scientifically supported collaboration of a number of non-governmental organisations with the goal of providing companies and organisations a standard for their greenhouse gas reporting.

Scopes 1 & 2 have replaced the location-specific indicators previously used to report on output per unit of energy. Scope 1 emissions arise from burning fossil fuels for heating and transportation or from refrigerants. Scope 2 emissions arise from the generating energy that is purchased from external sources. It primarily takes the form of electricity, district heat/cooling and steam. On account of the volatility of business, the SHW Group had opted not to set defined targets for CO<sub>2</sub> emissions and water consumption.



## Human capital

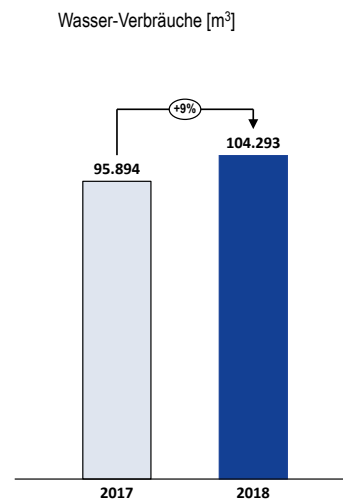
Our employees make a substantial contribution to the commercial success of the SHW Group. A major prerequisite for sustainable commercial success is a healthy workforce that identifies with its employer. For this reason, the issues of qualified and motivated personnel and occupational safety and healthcare are vital for our business activities, our results, and the position of the Company. Every year we invest approximately € 300,000 in training our staff. Many measures are conducted on-the-job. These investments pay off all the more the longer our employees serve the Company. The majority of

## Selection of measures undertaken

The use of low-emission raw materials for the cores and moulds in the casting operation is reviewed regularly and additional actions taken as needed. In the year 2018 a new coating plant with thermal treatment of exhaust air was put into operation. This new facility will enable a reduction in gas emissions, volatile organic compounds (VOC) in particular. In the aluminium foundry a crucible furnace was replaced by a more efficient shaft melting furnace. Likewise, smaller environmental measures will be carried out continuously at our production locations.

We drove forward the process of successively replacing the lighting in our buildings with energy-efficient LED lighting. Technical measures are being implemented to improve the efficiency and the supply of compressed air for hydraulic equipment and compressed air guns used to clean parts and equipment.

To a great extent we use reusable containers for transporting parts and raw materials internally at each location. For example, the raw brake discs are transported from the Tuttlingen location to Neuhausen ob Eck, solely by means of reusable containers. In this way we save substantial amounts of packaging material and the associated costs. Chemicals and powdered goods for use in the iron foundry are generally delivered by the suppliers in recyclable "Intermediate Bulk Containers" and reused or recycled. Our own products are packed in accordance with customer specifications. Here too, multiple use packaging is often used.



the workforce of the SHW Group is employed in Germany. For this reason, the nonfinancial reporting relates to management systems and measures related to the German locations.

## Qualified and motivated personnel

Positioning itself as an employer-of-choice is relevant for the SHW Group. There is a battle for the best talent throughout the entire automobile and supplier industry. The issue is to win qualified and committed junior talents by offering them a comprehensive and attractive package.

We therefore face the challenge of creating the best possible environment for our employees and offering them sustainable training models for the future. Only in this way can we ensure a high level of employee satisfaction and bind our employees to the firm for the long-term.

The automobile industry is currently undergoing a structural change that is very likely to impact the workforce. Some job profiles will not be needed in future. Other occupations will arise with other profiles. The move towards electromobility and production automation as well as digitalisation and the optimisation of administrative processes are all factors driving this trend.

### Management approach and due diligence

The due diligence approach of SHW AG involves pursuing forward-looking human capital management that is in line with requirements. This is reflected in a range of different measures that have the goal of furthering employee qualifications and motivation. Within the SHW Group, the management of human capital lies with the Head of Human Resources. He reports to the Management Board and is responsible for implementing due diligence processes relating to the availability of qualified and motivated employees. There are competent HR teams at each of the locations of the SHW Group to address any employee concerns. These comprise a personal counsellor, an HR clerk and a payroll clerk who provide comprehensive HR support to the employees on-site. The HR teams are supported by an officer for company pensions.

In guidelines, such as our “Corporate social responsibility principles”, we make a commitment towards observing core employee rights – such as the right to form trade unions, respect for equal opportunity, through to the principle of equal pay for equal work.

In keeping with the principle of life-long learning, we enable our employees to develop over the entire course of their career, both professionally as well as personally and to obtain qualifications. Generally, managers sit with employees once a year to talk about qualifications and make an agreement on suitable training measures. Vocational training is governed by the collective agreement on qualifications. This also allows employees to leave the Company for up to five years to pursue their education under their own resources and we guarantee them the opportunity to re-join the firm. In addition, employee training can be supported and fostered by accrued time credits and funding from the Company.

For over fifteen years we have run a company suggestion scheme. This provides the employees with incentives to work towards the development of the Company. Each suggestion for improving products and processes is evaluated. Those suggestions which get implemented are awarded. Recognition is also given to those ideas that are not realised.

### Goals, results and performance indicators

We have set two goals for personnel development: we always want to employ the right people for the right job and, beyond that, identify future managers and specialists and train them accordingly. To this end we continued to expand the central management of the Group’s personal development in 2017 and created an office that has been

assigned explicit responsibility for this issue. The employee concerned took up his office at the beginning of 2018.

In 2018 we designed a modular management development programme and rolled out its implementation. The primary goal is to pass on the latest findings about modern management techniques with the aid of an external service provider and train managers accordingly so as to further improve the existing management standards.

A concept was developed in 2018 for annual performance reviews and a pilot project initiated. Currently the concept is being refined by integrating the feedback from the pilot project. Roll-out is scheduled for 2019.

The goal is to keep employee churn within the SHW Group at a steadily low level. In spite of the regional unemployment rate of below 3 per cent and the competition from major players at the various locations of SHW, we have managed to win employees and bind them to our company. Employee churn among the permanent workforce is forecast at 10.4 per cent for 2018 using the Schlüter formula customary in the industry (previous year 7.8 per cent).

Furthermore, we intend to consolidate our succession planning for specialists and managers and expand our group-wide talent management. This includes the equal participation of women. Binding targets have been set for the Supervisory Board, the Management Board and the top two management levels below the Management Board of SHW AG.

A quota of 16.6 per cent female representation was set for the Supervisory Board and 33.3 per cent for the Management Board. The Supervisory Board of SHW AG was made up of six, and earlier nine, men in the reporting period. As a result, the targeted quota of 16.6 per cent was not attained in 2018. At present, there are still no women present on the Management Board of SHW AG. Consequently, female representation on the Management Board currently stands at 0 per cent. There were no suitable female candidates for the appointment to fill the vacant positions of CEO and CFO at SHW AG. For this reason the Supervisory Board has not yet had the opportunity to realise the desired goal. The Supervisory Board assumes that the related profile of requirements, which demands many years of experience in management, the automotive field and in commerce, will continue to appeal primarily to male candidates. As at 31 December 2018, one woman was represented on the two highest management levels below the Management Board for the first time. **Effective 1 January 2019 one woman will take up a position in the top management level underneath the Management Board.** The Management Board initially set a goal of 0 per cent on the basis of German stock corporation law.

However, it is agreed that SHW AG will promote women in management positions to the best of its ability. SHW AG believes in the positive effect of mixed management teams and promotes women and men in their career paths equally.

### Selection of measures undertaken

During the recruiting process we orient ourselves ever more towards the changing communication patterns of potential candidates. Among other channels, we make use of online job exchanges to actively address applicants. Due to the fact that candidates are making more frequent

use of mobile devices like smart phones to find jobs we have designed our new website to be responsive and have optimised it for mobile use.

Another focus of SHW is on the stronger use of social media such as LinkedIn, XING, Facebook and Instagram for activities related to recruiting new hires and retaining them.

In 2017 agreements with terms of six years were made to secure the future existence of the locations in Tuttlingen and Neuhausen ob Eck as well as Bad Schussenried. These agreements serve to secure and enhance competitiveness and were jointly agreed with SÜDWESTMETALL, Baden-Wuerttemberg Employers' Association of the Metal and Electrical Industry and IG Metall. Among other items on the agenda of its strategy for the future, SHW AG will make additional investments to expand the Bad Schussenried location as a competence centre for electric transmission oil pumps.

By means of complaint boxes, our employees can leave us notes, comments and ideas relating to personnel issues. These are then regularly evaluated by the works council and plant management. Where needed, countermeasures are taken accordingly.

## Occupational safety and health protection

Our employees are exposed to a risk of industrial accidents, particularly those in production. By means of occupational safety and health protection concepts, SHW AG addresses the standard it has set itself of making working conditions and the work environment as safe and healthy for its employees as possible.

## Management approach and due diligence

Industrial safety at SHW AG includes all measures to prevent industrial accidents, work-related sickness and occupational diseases. We have standardised key occupational safety and health protection processes in order to establish and advance our integrated processes and systems. These are based on our occupational safety and health protection principles, our occupational safety strategy as well as the results of audits and reviews. The organisational units are supported by the occupational safety officer to address higher-level issues, such as machine safety or handling hazardous substances

Effective reporting contributes towards ensuring that the goals set are monitored and attained. Our managers are responsible for compliance with all internal guidelines, e.g. workplace rules and the transfer of statutory duties relating to occupational safety and health protection. The responsibilities and duties are governed for each location, taking account of the local conditions. Internal experts for occupational safety and health protection support the managers concerned.

Due to the differing framework conditions, production processes and requirements, all of which can vary widely, occupational safety is coordinated at plant level at SHW AG. In some cases we pursue different management approaches and measures. However, the general principle applies: compliance with national occupational safety law is absolutely vital.

To ensure due diligence, recognised frameworks are applied at the German locations in Aalen-Wasseralfingen, Bad Schussenried, Hermsdorf, Tuttlingen-Ludwigstal and Neuhausen. These include the specific automobile standard, IATF 16949, the quality management

standard ISO 9001, the energy management standard ISO 50001, the occupational health and safety standard, ISO 45001:2018 and the environmental standard, ISO 14001. Each of these set requirements on the implementation of occupational safety measures. The facilities in Aalen-Wasseralfingen, Bad Schussenried, Tuttlingen and Neuhausen ob Eck use an integrated management system which draws on all five of the standards. The international locations of the SHW Group in North and South America as well as China orient themselves towards the systems and measures of the German plants with regard to occupational safety.

Each of the German plants has its own occupational safety officer. They are responsible for recording all occupational safety data, including any industrial and commuting accidents and coordinate the implementation of preventive measures. These experts report regularly to the respective plant manager, who in turn reports to the respective board member at management meetings. The management manuals for each location record how occupational safety is to be treated at the location.

We place particular value on protecting the health of our employees. In production many jobs involve one-sided movements and in the administration most jobs are performed in front of a computer display. It is important to consider ergonomic designs and equipment in both of these work environments. Newly created workstations in production and in the offices are designed in keeping with the technical rules for workstations (ASR) in relationship to the particular circumstances.

The works and emergency healthcare includes all measures taken to prevent work-related illnesses or occupational diseases, to promote good health at work and the diagnosis and treatment of accidents and acute illnesses. Responsibility for this lies with our works' doctors. We offer all employees comprehensive works-related medical care. In addition, there are campaigns and optional packages to foster good health and provide welfare advice. Any suspected cases of occupational diseases are recorded during health checks by the works' doctor and external doctors and reported to the applicable workers' compensation fund. The managers and line departments are responsible for implementing preventive health measures. A risk assessment systematically records potential hazards. This is followed by doctors' inspections in keeping with the Regulation on the Provision of Industrial Health Care (Verordnung zur arbeitsmedizinischen Vorsorge – ArbMedVV).

Furthermore, the SHW Group has established its own "Supplier Code of Conduct" for its direct suppliers. This explicitly demands the following with regard to industrial health and safety:

- Accepting responsibility for the health and safety of employees
- Limiting risks and ensuring the best-possible precautionary rules and regulations to avoid accidents and occupational diseases
- Offering training and ensuring that all employees are knowledgeable of the issue of industrial safety
- Establishing and applying an appropriate occupational safety management system
- Fostering compliance with the Code of Conduct among their own suppliers

## Goals, results and performance indicators

We have set ourselves the goal of having zero workplace or commuting accidents. Our management approaches and systems and our continuous measures are geared towards this goal. Protecting employees and fostering good health on the job are part of the human resources management in the SHW Group.

The number of workplace and commuting accidents is measured in the SHW Group for each location. In 2018 there were 15.39 industrial accidents per million working hours at the Aalen-Wasserfallingen plant. In 2017 it was 16.81. At Bad Schussenried the accident rate was 23.81 (previous year 18.46). The increase of over 29 per cent is due to a cluster of accidents while in transit, i.e. while on the way to work or on the way home. The Tuttlingen-Ludwigstal location (including Neuhausen ob Eck) had an accident rate of 62.86 (previous year 55.51). The comparatively high accident rate at the Tuttlingen-Ludwigstal location is due to the fact that casting processes are performed here with the associated risk from heat and dust emissions. A company-wide accident rate is not currently measured due to the specific production conditions at each location.

In addition, the SHW Group continually tracks compliance with national industrial safety laws. There were no events in the reporting year relating to non-compliance with national safety laws at the locations of the SHW Group.

### Selection of measures undertaken

We regularly conduct work-related and activity-related risk assessments and raise employee awareness by means of occupational safety campaigns, special trainings and instructions. Our regular measures include medical checks by the works' doctors and providing top-quality personalised safety clothing and equipment. In addition, employees are trained in first aid as a preventive measure.

Possible work-related stress factors are examined by means of the psychological stress assessment. Each location has a team of analysts composed of experts in occupational safety, works councils and the works' doctors.

### Structural data relating to the workforce

#### *Headcount on the rise*

Over the past year the number of employees (excluding apprentices and hired temps) in the SHW Group rose from 1,347 to 1,538 employees as an annual average.

The average headcount at the locations of the Pumps and Engine Components business segment came to 1,052. An annual average of 444 staff were employed at the two locations of the Brake Discs business segment.

Wages and salaries at the German locations, with the exception of Bad Schussenried, increased by 4.3 per cent from 1 April 2018. At Bad Schussenried the wage and salary increase took effect on 1 December 2018 due to a supplemental agreement.

As at 31 December 2018, the SHW Group had 34 apprentices spread across all of its plants. New hirings were focused on apprenticeships for industrial mechanics.

In the year 2018 one employee celebrated his 50th year of service, four employees their 40th year of service, two employees their 25th year of service and 30 employees their 10th year of service.

## Social concerns

SHW AG strives not only to avoid exercising any negative influences on its wider environment but to actually make a contribution to society. In this regard our regional commitment to our locations and data protection are of key significance.

### Regional commitment

As good citizens we are actively engaged in the local society and are perceived as partners of the community, particularly for the universities and clubs based in the towns where we maintain production facilities.

### Management approach and due diligence

Regional commitment is steered by the respective member of the Management Board at plant level in each case. At the beginning of the year employees or externals can propose projects for donations. The Management Board then decides on the allocation of the budget of € 10,000 per location.

## Goals, results and performance indicators

It is our goal to foster constant exchange with our employees, universities and the regional interest groups. We realised this in the 2018 reporting year by means of various meetings and factory tours for students of the Technical University of Aachen and the Technical School of Aalen.

The objective of an annual donations programme per facility was realised in the second year of being established by a factor of 34.7 per cent in 2017.

### Selection of measures undertaken

The focus of our social engagement is on projects that are in some way connected to our employees or our business activity or on educational projects in the wider environment of our locations. Not only the projects and initiatives that we sponsor benefit from this engagement, but we do too. For example, our donations to clubs and associations in which our employees or their children are members raises motivation levels and fosters loyalty to the firm.

Education-related projects, such as the cooperation with technical universities in our surroundings are one avenue for making junior talent aware of the SHW Group. In the course of these shared projects, we transfer our practical knowledge to the students and, in return, are open to new economic and engineering findings.

At the level of its respective locations, SHW AG is engaged regionally. A point of focus of our social engagement lies on cooperation with local universities near our plants and particularly in the field of automotive engineering. We support the universities both financially as well as with

contributions in kind and act as a sparring partner for students. In this regard, we support the Formula Student Team of the University of Ravensburg-Weingarten and the EMotion racing team of the University of Aalen. In addition, as a partner, we offer production facility tours for students in related subjects (e.g. students of material technology and mechanical engineering at the University of Aalen). Moreover, we are engaged in the “KarMen” career mentoring programme for women of the Aalen University.

## Data protection

The increasing threats worldwide to the security of corporate data also constitute risks for the SHW Group. A failure of our information systems or damage to them, could result in confidential corporate data being released and also lead to a disruption of our value chain. All of this can result in a financial loss. For this reason, the SHW Group has set itself the goal of protecting its own IT systems from outages, damage and unauthorised access.

## Management approach and due diligence

According to the applicable laws and regulations, the Management Board bears the overall responsibility for the issue of data security. The Data Protection Officer has a supporting function and is responsible for implementation, advising and training the employees. This officer initiates due diligence processes as needed in cooperation with the works council and the Management Board. Any indication of an infringement of the Code of Conduct can be reported to the Chief Compliance Officer or SHW Ombudsman within the framework of our compliance management system. In addition, we have installed an IT protection guideline and an IT contingency manual that is reviewed regularly and updated as needed. The core elements of this include such things as network security, a guideline on mobile devices, access controls and authorisations, a code of conduct and lists of the telephone numbers of the officers to contact in an emergency. The ISO/IEC 27001 standard on information security management serves as an orientation for steering these issues. Our IT Protection Officer is responsible for the technical and organisational measures, such as the risk assessment of incoming emails. Data protection and data security are components of the SHW Code of Conduct.

The SHW Group captures, stores and uses personal data where necessary for its purposes. Each employee has a duty to keep all business secrets and other confidential information of the SHW Group, personal data of the workforce and other confidential information of third parties, which the SHW Group has access to, protected from abuse and unauthorised use either internally or externally.

When joining the Company, each employee is handed out a declaration on data secrecy and a general non-disclosure agreement to sign. We raise the awareness of employees who handle personal data by means of specific training.

## Goals, results and performance indicators

The SHW Group has set itself the permanent goal of protecting its own IT infrastructure from outages, damage and unauthorised access. An internal guideline was drawn up and put into effect for the start of the EU General Data Protection Regulation (GDPR). In future the employees in production will be able to access this and other corporate

specific information via the intranet at stationary screens situated in the production.

In 2018 nine training seminars were carried out at five locations attended by 193 employees (74 in Bad Schussenried, 42 in Powder Metallurgy, 34 in Tuttlingen, 21 in Hermsdorf and 22 at the headquarters). At-risk groups were selected, such as hired temps, members of the works’ council, employees in HR, purchase officers, sales staff and managers. In addition, we will put more effort into raising the awareness of our employees with regard to data protection and information security.

## Selection of measures undertaken

The SHW Group has undertaken a number of measures to reduce its IT risks to the greatest extent possible. Important corporate data is mirrored in the Company’s own computer centre. In addition, we protect ourselves against the risk of data loss using back-up systems. We also make use of contingency plans that ensure the temporary functionality of production and logistics, even without any IT connections. We steadily invest in security software to protect our IT systems from unauthorised external access. Internally, employee access to confidential corporate data is ensured by scalable access rights. In addition we exploit our firewall systems against attacks to our IT security systems

The GDPR came into force on 25 May 2018. Internally, a project was set up at SHW under the leadership of the Data Protection Officer in 2017 to adjust the existing data protection structures to the new requirements. After determining the status quo, this multidisciplinary task force identified possible fields of action and drew up an action plan taking a risk-oriented approach. Specific actions were worked out in close consultation with the line departments affected and implemented accordingly.

## Human rights at SHW and in the supply chain

For all companies, observing human rights is essential to obtaining an operating license. Various regulations and international frameworks demand that companies ensure the protection of human rights in their value chains. This includes the “2030 Agenda for Sustainable Development”, the “UN Guiding Principles on Business and Human Rights”, the German “National Action Plan for the Economy and Human Rights” and the “EU Regulation laying down supply chain due diligence obligations for Union importers of certain minerals and metals originating from conflict-affected and high-risk areas”. In addition, it is foreseeable that customers will also increasingly demand transparency with regard to the supply chain and that human rights requirements will become relevant in contracts, such as a confirmation of compliance with a supplier code of conduct. The SHW Group therefore proactively works on the protection of human rights, also to preclude any negative consequences from either a legal or a commercial perspective.

## Management approach and due diligence

From an organisational point of view, responsibility for implementing the issue of human rights in the supply chain lies with the SHW Group’s purchasing, which reports directly to management at regular intervals.



The SHW AG Code of Conduct constitutes the framework for compliance with human rights for all of our employees and suppliers. We expect it of our suppliers that they share the core values of the SHW Group. The Code of Conduct explicitly requires that our suppliers respect the human rights of their employees, the laws prohibiting child labour and accept responsibility for the health and safety of their employees. Moreover, suppliers are called upon to implement and observe these core values in their own supply chains. The Code of Conduct is oriented towards international and generally accepted treaties on human rights and the applicable laws and regulations.

Furthermore, the SHW Group has established its own “Supplier Code of Conduct” for its direct suppliers. This sets an explicit requirement for suppliers to observe the basic rights of its employees as follows:

- Promoting equal opportunity and equal treatment of employees, regardless of their skin colour, race, nationality, social background, disabilities, sexual orientation, political or religious convictions, gender or age
- Respecting personal dignity, privacy, and the personal rights of each and every individual
- Not employing anybody against their will or forcing them to work
- Not tolerating any unacceptable treatment of workers, such as physical duress, sexual or personal abuse or discrimination
- Not tolerating behaviour (such as gestures, language or physical contact) of a sexual, coercive, threatening, abusive or exploitive nature
- Ensuring appropriate compensation for the work performed and ensuring that the local minimum wage requirements are met
- Observing the maximum permitted working hours in the respective country
- Where legally permissible, acknowledging the right of employees to form unions
- Not treating members of employee associations or unions preferentially or disadvantageously

In addition, a minimum age is set for the employees of suppliers.

Compliance among own suppliers with the contents of the Supplier Code of Conduct is suitably encouraged. The Supplier Code of Conduct is an integral component of the selection process. It was also translated into Mandarin and introduced at the Chinese location. The principles of non-discrimination are applied when selecting suppliers and doing business with them.

### Goals, results and performance indicators

The following principle applies to our direct suppliers and also within the SHW Group: no violations of human rights. In the reporting period no cases of violations of human rights were reported, neither at our direct suppliers nor within the SHW Group.

### Selection of measures undertaken

For the future, it is planned to expand the due diligence process related to honouring human rights. At present, various alternatives are being evaluated, such as reviewing how compliance with the Supplier Code of Conduct can be better monitored.

### Combating corruption and bribery

As an international player with a number of business partners, it is of particular importance to protect ourselves from corruption and bribery within a diverse range of legal and cultural frameworks. In this way we can avoid financial losses, reputational damage and keep the trust of our stakeholders. We do not tolerate any form of corruption or bribery.

### Management approach and due diligence

Compliance covers all measures to ensure lawful conduct within the Company. The compliance management system of the SHW Group creates the organisational foundation for ensuring that our internal rules and regulations are known throughout the Group and that our business practices are legally compliant at all times. It lays down the framework of how we interact with our wider environment. The higher level responsibility for compliance management lies with the Chief Compliance Officer, who reports directly to the CFO. In our dynamic competitive environment, the continuous development of our compliance management system is of great importance. We constantly optimise our existing processes, particularly with regard to the regular evaluation of the existing guidelines or as a reaction to new risks (e.g. the phenomenon of the “fake president fraud”). When new regulatory requirements necessitate it, we implement new codes of conduct to address such matters as insider law.

Our group-wide code of conduct contains principles and rules for conduct within our organisation and also in dealings with our external partners and the public. It sets clear requirements on offering and extending benefits and gratuities, as well as receiving them. Not only the applicable laws but also international treaties on combating corruption, such as the “Global Compact” of the United Nations serve as an orientation. The code sets the framework within which we as a company and as employees make decisions. Each employee must know the principles and rules and observe them worldwide. Management has the task of anchoring these in the organisation and being role models for others. Our Management Board, supported by the legal department and the Chief Compliance Officer make sure that the SHW Code of Conduct is implemented throughout the Group (e.g. as part of harmonising the codes of procedure of all Group entities during fiscal year 2018).

The Code of Conduct is communicated to all employees of the SHW Group by email and is accessible in the intranet. New recruits are given the code on their first day for them to acknowledge during their onboarding by the HR department.

Compliance with the laws and observing the SHW Code of Conduct is of special significance in all group entities. Compliance is effected by the entities concerned in agreement with the respective local

procedures and legal requirements, supported by the proactive involvement of the legal department and constant observation of the group-wide approval matrix. Circumstances that indicate a violation of the Code of Conduct can be reported to the Chief Compliance Officer, the SHW Ombudsman, the corresponding managers or one of the employee representatives by email or telephone. It is also possible to lodge a confidential and anonymous complaint. All reports are duly processed. Where necessary, the corresponding action is then taken.

All documents are archived confidentially as required by the law. No reprisals of any kind are tolerated against individuals who lodge complaints.

In addition, our Supplier Code of Conduct obliges our suppliers to pursue a policy of zero tolerance for corruption or bribery and not to accept it in any form. This extends to any kind of illegal pecuniary benefit or similar gratuity extended to officials in an effort to influence their decisions.

The SHW Code of Conduct is supplemented by the group-wide Fraud Guideline, which fleshes out the details of the code in this regard. Fraud is the conscious violation of laws or accounting principles that leads directly or indirectly to misrepresentation in the financial statements. Prior to the external audit of the financial statements, the Management Board is obliged to take suitable measures on the basis of an intensive risk assessment to avoid any irregularities in the external financial reporting. The first and latest version of the Fraud Guideline came into force in 2011. The guideline serves to explain the matter to management and employees and raise their awareness of the issues. The guideline serves the Management Board as a basic concept on which the various members can install control mechanisms in a risk-oriented and targeted manner in their own sphere of responsibility.

Furthermore, our Gratuities Guideline came into force in 2017. It lays out the rules and regulations for accepting or granting material or immaterial gratuities in dealings with business partners of the SHW Group and public officials. It serves as a practical tool for decision-making when it comes to avoiding corruption. Furthermore, a code of conduct has been drawn up of how employees should respond to investigations by the German Cartel Office, other German authorities and the EU commission.

### Goals, results and performance indicators

All employees of the SHW Group are expressly prohibited from participating in any form of corruption or bribery. Moreover, we expect our suppliers to refrain from any attempted act of corruption or bribery. To the best of our knowledge we once again reached our goal of no incidents of corruption or bribery in the organisation in 2018. We see this as confirmation that our management system and the processes we have implemented effectively steer these issues.

### Selection of measures undertaken

To ensure that our principles are applied in practice we communicate them to employees in a range of training formats. Our internal training is being constantly refined and adjusted to the tasks performed by the staff. For example, the case studies used in training are tailored to the corresponding business segments in order to address risks as specifically as possible and make them understandable.

In the reporting year the legal department trained 50 employees in purchases and sales on current issues of contract law. Moreover, the Chief Compliance Officer and the Data Protection Officer trained more than 190 staff from all departments within the framework of the project to implement the GDPR. Training was conducted at our locations in Bad Schussenried, Tuttlingen, Neuhausen ob Eck and Aalen. In addition, the members of the work's council were informed of current issues associated with the protection of personal data at a special event conducted by the Chief Compliance Officer.