

# Non-financial aspects of business activities

## Compliance

### Management approach

The reputation of Rheinmetall, the success of the business and the trust of customers, investors, employees and the general public depend not only on the quality of our products and services, but also to a large degree on good corporate governance and, in particular, on effective compliance processes. In line with our values and rules, we are committed to impeccable conduct characterized by responsibility, integrity, respect and fairness. We are an honest, loyal and reliable partner to our stakeholders.

Rheinmetall stands for clean business. We would rather not do business than breach the law. Compliance serves to safeguard our business success on a lasting basis. The members of the Executive Board and managers, executives and employees naturally have an obligation to comply at all times with all the applicable laws, guidelines and regulations, to conduct themselves correctly in business dealings, to preserve the company's tangible and intangible assets and to avoid anything that can result in operational or financial disadvantages or damage to the image of individual companies or the Rheinmetall Group. The Executive Board takes a zero-tolerance approach to illegal and/or unethical behavior and to corrupt business practices, no matter what the circumstances.

### International business activities

In the day-to-day business of an international company, the different national political and legal systems as well as cultural values, customs and societal norms of different cultural groups have to be taken into account. In addition to the applicable legislation of the countries of exportation, European Union regulations as well as anti-corruption laws such as the US Foreign Corrupt Practices Act, the UK Bribery Act and the French Sapin II Anti-Corruption Act must be strictly observed. The requirements that our companies have to fulfill are therefore many and varied. More than ever, management and employees need guidance when it comes to national and international business and in relations with business partners, office holders, authorities and other state bodies in order to avoid potential errors and any resulting reputational, business or liability risks.

According to the 2017 Corruption Perceptions Index from Transparency International, which ranks 180 (previous year: 176) countries in terms of the degree of perceived corruption in the public sector, in the year under review (as in the previous year) we generated around 70% of our sales in countries with a very low or low corruption risk.

### Compliance organization

Illegal conduct can cause many different types of damage and can have serious consequences, such as the discontinuation of business relationships, exclusion from orders, negative assessments on capital markets, imposition of fines, the absorption of profits, claims for damages as well as civil or criminal proceedings. There is also the risk of significant and lasting damage to the Group's reputation and thus a detrimental effect on its market position. Compliance at Rheinmetall is therefore taken very seriously and has for a long time been an integral part of the corporate culture.

To provide its employees with guidance and allow them to conduct business with confidence, the company took a holistic approach and set up a compliance organization very early on providing standardized general conditions and clear guidelines for legal and rule-compliant, ethically correct and fair conduct in day-to-day business.

In addition to his direct employees at holding level, the two Compliance Officers for Automotive and Defence and the Compliance Officers from the six divisions are assigned on a technical level to the Chief Compliance Officer, who reports directly to the CEO of Rheinmetall AG. In addition, Compliance Officers from the sales regions Europe, Brazil, India, China, Japan and the NAFTA region (Rheinmetall Automotive) or from the management companies (Rheinmetall Defence) undertake preliminary work for the six aforementioned Compliance Officers.

We have gradually increased the number of staff in the compliance organization in subsequent years since it was restructured in 2014. In the year under review, additional staff were appointed to the Compliance organization of the Defence sector in addition to the Corporate Compliance Office of Rheinmetall Holding. This makes it even more certain that employees have a direct point of contact in their immediate work environment for all matters concerning compliance and can seek support and guidance.

The scope and level of detail in the reporting on compliance were expanded in the past fiscal year. The target audience was also expanded: the Heads of the six Automotive and Defence divisions will now be kept informed monthly by Corporate Compliance of current developments in the area of compliance, new rules, planned training measures or of possible compliance infringements and the status of possible investigations.

The Chief Compliance Officer, who regularly reports to Executive Board meetings on compliance issues, keeps the Executive Board and Supervisory Board's Audit Committee constantly informed of the status and effectiveness of the compliance management system and of the latest developments. In serious cases, the committees are informed immediately.

#### Compliance management system

Compliance is taken into account as an aspect of risk in decision-making processes, not only when it comes to considerations regarding the strategic and operational alignment of the Rheinmetall Group, but also in day-to-day business. The central compliance management system, which focuses on the protection of fair competition, corruption prevention and export control, is firmly anchored in Group-wide management and control structures and includes all instruments, processes, guidelines, instructions and extensive measures intended to ensure that procedures in the companies of the Rheinmetall Group comply with the applicable country-specific legislation, general legal conditions, regulatory provisions and the company's own guidelines. It also creates an organizational structure that allows the applicable standards to be publicized across the divisions. If binding legal regulations in individual countries deviate from the rules set out in the compliance management system, the stricter regulation shall apply.

The compliance management system is updated at regular intervals, not only in line with the applicable legal requirements but also in the light of new findings from reporting, comparisons with other compliance systems and the assessment of external specialists. It is also reviewed on an ad-hoc basis if any breach of compliance regulations is suspected or discovered. Implementation of the compliance management system is monitored by monthly reports prepared by the Compliance Officer for the Corporate Compliance Office and by routine and special audits conducted by Internal Audit and the compliance organization.

Compliance Officers also monitor important transactions in the companies, such as mergers and acquisitions, the establishment of joint ventures, pre-employment checks and the integration of sales brokers, thereby supporting the respective departments in their work. In addition, Compliance Officers advise the people responsible in the operational units on how to take compliance into account in operational business processes.

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In the area of sales support, there is a platform containing information on over 90 countries and regions. Moreover, the tender process in the Defence sector is structured to the effect that in the course of the bid/no bid decision a compliance audit using defined criteria is obligatory for projects over a certain value threshold.

The preparation of a compliance management system manual to provide a full description of the Group-wide compliance structures and compliance activities began in 2017. This is based on the seven-pillar model of the audit standard IDW PS 980 promulgated by the Institut Deutscher Wirtschaftsprüfer (Institute of Public Auditors in Germany).

To establish uniform compliance and corporate social responsibility standards along the entire value-added chain, the existing Business Partner Code of Conduct was updated accordingly, taking into account the Supplier Code of Conduct applicable from January 1, 2018.

Rheinmetall supports certain institutions and projects through donations and sponsorship. To avoid conflicts of interest and to guarantee a transparent and uniform presence on the market for the Rheinmetall Group, uniform guidelines for dealing with donations and sponsorship, which are applicable Group-wide, are essential. A new Group-wide donation and sponsorship directive was enacted in May 2017, which defines binding instructions for benefits in the form of donations and sponsorship.

As frequent criminal offenses after the fact of bribery and fraud, combating money laundering and the financing of terrorism is a key component of our compliance program and a material factor for the success of our comprehensive anti-corruption strategy. Specifically, the ban on money laundering covers the concealment of the origin of illicit funds (placement), the distribution of illicit funds, which mainly takes place abroad (layering) and the integration of illicit funds in the legal economic cycle. The new Anti-Money Laundering Guideline was adopted by the Executive Board for the Rheinmetall Group in April 2017. As part of the development of this guideline, a money laundering threat analysis was also carried out throughout the Group.

In addition, a center of expertise for business partner audits was established in the year under review at the level of the Rheinmetall Group, which will carry out all compliance due diligence checks for new and existing business partners from February 2018. The focus will be concentrated on determining whether the commitment is legally permissible, whether all attributable people can be identified and excluding conflicts of interest, and determining the general capacity and integrity of the business partner. The local Compliance organization will continue concentrating on assessing the transaction-specific compliance risk associated with the commitment of a business partner at company level. The center of expertise will be integrated in day-to-day operational business through various technical and procedural interfaces. The selection, management and supervision of sales partners, in particular, will be fundamentally improved through the implementation of a business partner database, which started at the same time.

A new Code of Conduct governing compliance and social standards across the Group, which contains requirements for the behavior of Rheinmetall employees, will be adopted in the first quarter of 2018.

### Training and advice

To make employees at all hierarchical levels aware of compliance risks, numerous seminars and workshops are held, some of which are tailored to specific functions such as management, buyers or sales staff. Legislation and important regulations are explained, further content is provided. Attention is also drawn to internal compliance requirements, risks and possible sanctions and, based on case studies, practical advice is given on correct conduct in specific situations during everyday work. These classroom training sessions, which also serve as a practical forum for discussions, are accompanied by interactive online programs. Each year, as part of Compliance Awareness training, employees at sites in Germany and abroad not only receive training in general compliance topics but also in the prevention of corruption, money laundering and CEO fraud, export control and antitrust and competition law. The content of the training is adjusted in accordance with the needs of the participants or supplemented with country-specific or regional peculiarities.

In fiscal 2017, 1,770 people and 839 people respectively participated in face-to-face training on compliance awareness and on the War Weapons Control Act and the Foreign Trade and Payments Act respectively as well as on weapons law. In addition, 3,418 employees completed compliance training via e-learning platforms in the year under review.

### Handling information

If employees have information on questionable activities that have been observed, specific breaches of regulations or business practices that may be prohibited, they can contact their line managers or various other offices within the company directly or they can contact an independent, external ombudsman who is a lawyer by profession and consequently avert losses for the company. Whistleblower systems have also been established in different formats at various Rheinmetall Group sites (including in the US, Brazil, China and South Africa). The introduction of a uniform whistleblower platform for all companies in the Rheinmetall Group is currently under consideration.

Protection is guaranteed for all whistleblowers, who need not fear discrimination. Employees involved in investigations into possible breaches of compliance will be assumed to be innocent until proven otherwise. Any information that is received will be systematically analyzed. Systematic follow-up checks will be carried out on the basis of established schedules and appropriate measures will be taken to properly clarify the facts that have been reported, with the involvement of external specialists if necessary. Confidentiality and discretion take top priority here. If necessary, we will involve the relevant authorities and cooperate with them to resolve the matter. Proven misconduct is sanctioned and entails organizational measures and, for the employees who committed the offense(s), consequences under labor law, civil law and criminal law.

Work on the introduction of an investigation directive for dealing with compliance cases in a standardized manner is also currently ongoing. This aims to guarantee that the handling of information is also independent, transparent and fair as well as being subject to high standards that are comparable across the Group. It also offers legal certainty when carrying out investigations, meaning that appropriate account can be taken of the interests of employees and employers.

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#### Conflicts of interest

Each employee is committed to the best interests of the company. Personal interests and company interests must be kept strictly separate. In accordance with the compliance guidelines, employees of the Rheinmetall Group are required to avoid conflicts of interest between their personal and business relationships at all costs. Only objective criteria shall count in business relationships and HR-related decisions. In the event of suspected or actual conflicts of interest, employees are obligated to inform their line managers.

We report on the duties of members of the Executive Board and Supervisory Board on page 127.

#### Insider information

As a listed company, Rheinmetall AG is subject to particular obligations in dealing with information about circumstances that are not known publicly and are capable of having a considerable influence, if announced, on the market price of the Rheinmetall share or the share of a (potential) business partner. Insider information may neither be disclosed to unauthorized third parties outside Rheinmetall nor used to obtain an unfair personal advantage when buying or selling shares. The existing Insider Directive, which is updated annually, clarifies the legal requirements and prohibitions, sets specific rules of conduct, regulates processes and nominates points of contact to provide clarification in the event of doubt.

The Clearing Office decides on behalf of the Executive Board whether information is classified as insider information for which disclosure is required or not. If so, the disclosure procedure is initiated in accordance with the rules of the EU's Market Abuse Regulation and the Securities Trading Act.

Rheinmetall AG maintains an insider directory in accordance with the requirements of Article 18 of the Market Abuse Regulation and the Federal Financial Supervisory Authority of such people, who work for it and have access to insider information. They are instructed by Rheinmetall AG on their rights and obligations in accordance with Article 18(2) of the Market Abuse Regulation and about the duties arising from the laws and regulations. Breaches of insider laws may be punished with fines or custodial sentences.

#### National and international discussion of compliance issues

In the past fiscal year, the exchange with non-governmental organizations such as Transparency International was continued. We also play a part at a national and international level in associations and networks, such as the German Institute for Compliance, in the Professional Association of German Compliance Managers, TRACE International or attend meetings of the Aerospace and Defence Industries Association of Europe (ASD).

#### Risks

Information on reducing or avoiding compliance risks is provided on page 79.