

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 in their working environment with all the applicable country-specific 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 may 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. With deliveries made to 143 countries around the globe in 2019, management and employees now more than ever 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 2019 Corruption Perceptions Index from Transparency International, which ranks 180 (previous year: 180) countries in terms of the degree of perceived corruption in the public sector, we generated 71.6% of our sales in countries with a very low or low corruption risk in the year under review (previous year: 70.0%).

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.

At the holding level, the four areas Prevention, Regulation Management, Investigation and Data Protection each have their own staff and are assigned to the Chief Compliance Officer (CCO), who reports directly to the Chairman of the Executive Board. Also serving as the Sector Compliance Officer, the CCO is simultaneously responsible for the Defence and Automotive sectors and in this function manages the compliance officers of the six divisions within the matrix organization. Compliance officers from the sales regions of Europe, Brazil, India, China, Japan and the USMCA region (Rheinmetall Automotive) or from the management companies of the Defence sector undertake preliminary work for the division compliance officers.

In the year under review, the area structure introduced in 2018 became more clearly defined. It now comprises Prevention, Regulation Management, Investigation and Data Protection, although Prevention has since been incorporated in the Due Diligence, Awareness and Risk task areas. The Compliance departments in the six divisions have started to mirror this area structure at an organizational level and adjust their team structures accordingly. Additionally in the year under review, not only was the integration of our foreign locations and companies strengthened through, for example, full-time positions in China, Australia and Great Britain, but Data Protection saw its workforce increase and was defined much more clearly at an organizational level.

The Chief Compliance Officer, who regularly reports to Executive Board meetings, 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. In addition to the Executive Board members of the Automotive and Defence sectors, the heads of the divisions will also be kept informed monthly by Corporate Compliance of current developments in the area of compliance, new rules, planned training measures or possible compliance infringements and the status of possible investigations.

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, with its integrated and dynamic focus on constantly updated key risk aspects, such as corruption, anti-trust and breaches of export controls, is firmly anchored in the 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 (benchmarking). 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 the internal audit team and the compliance organization.

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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.

In the area of sales support, there is a platform containing information on around 150 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 and in some cases supported by IT tools.

A new compliance risk prevention guideline was implemented in the past fiscal year with the aim of ensuring a standardized procedure for systematic risk prevention and creating the structural and organizational preconditions required for this at all levels in the company. Procedures for the first-time performance of risk inventory recording measures to determine the compliance risk situation, derive response measures and plan regular repeat measures are defined for different applications. On this basis, a compliance risk assessment was performed for 100 operational subsidiaries; this assessment additionally contained questions relating to data protection, money laundering and Corporate Social Responsibility.

As a shared service center, the central Compliance Assessment & Monitoring center of expertise conducts not only pre-employment checks on applicants for key positions, but also all compliance due diligence checks on new and existing business partners (e.g. purchasing, cooperation, and sales partners) on a Group-wide basis. The focus lies here on determining whether the commitment is legally permissible, whether all attributable people can be identified and whether conflicts of interest are excluded, 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. In the year under review, the existing guideline for selecting, checking and monitoring business partners was completely revised and now includes, for example, risk-based elements. In this connection, new check criteria from the area of Corporate Social Responsibility have also been included to reflect the growing importance of sustainability. 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. Around 870 business partners and people who applied for key positions at the Rheinmetall Group were subjected to a check in the past fiscal year (previous year: around 800 people).

The Group-wide rollout of the new Code of Conduct, which was published in 2018 and contains not only rules governing compliance and social standards but also requirements regarding the behavior of Rheinmetall employees, was continued in the year under review. An accompanying e-learning program was launched at the start of the current fiscal year.

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 and 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 2019, around 7,300 Group employees attended classroom training programs on compliance (e.g. introductory or specialist training or events on the War Weapons Control Act / Foreign Trade and Payments Act / weapons law). In addition, around 1,000 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 not only their line manager but also – and in full confidence – various internal offices as well as an independent, external ombudsman (lawyer) and so avert losses for the company. Following the examination in 2018 of all the technical requirements for the introduction of a whistleblower platform for all companies in the Rheinmetall Group, “incident management” will from 2020 be supported by a Group-wide electronic whistleblower platform. In addition, employees can contact the Compliance organization if the suspect or know of breaches of regulations or business practices. In addition to employees, external third parties can contact the ombudsman by telephone or e-mail, send an e-mail to speakup@rheinmetall.com or contact a specialist compliance officer by telephone.

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. A new management guideline on how to deal with suspected cases and on the standardized processing of compliance cases aims to ensure 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 the employer. Systematic follow-up checks are performed on the basis of this incident management guideline and appropriate measures are taken to properly clarify the facts that have been reported, if necessary with the involvement of external specialists. 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. The 18 Incident Response Committees (a total of 22 are planned) established in the year under review to conduct rapid, interdisciplinary initial evaluations of reports help to ensure that suspected cases can be identified and clarified without delay.

RISKS

Information on reducing or avoiding compliance risks is provided on page 86 et seq.