

A. Introduction

VAC Group (hereinafter “VAC”) is committed to respecting human rights and protecting the environment. It is the declared goal of the management to respect, protect and promote human rights and the environment along the entire value chain. We do not tolerate violations of internationally anchored human rights or of national and international environmental protection regulations.

For us, respecting human rights and protecting the environment is an integral part of responsible corporate management both domestically and abroad. The following international regulatory frameworks form the basis for the due diligence obligations relating to human rights and the environment which VAC is committed to:

- International Bill of Human Rights
- Guiding Principles of the United Nations for Business and Human Rights
- UN Global Compact
- OECD Guidelines for Multinational Enterprises
- Core Labor Standards of the International Labor Organization (ILO)
- United Nations Convention on the Rights of the Child.

VAC complies with the laws applicable to it domestically and abroad and acts according to international human rights standards.

The principles of human rights and environmental strategy set out in this declaration apply all throughout the VAC Group's own business unit (section 2 para. 6 of The Act on Corporate Due Diligence Obligations in Supply Chains (hereinafter “LkSG” [*Lieferkettensorgfaltspflichtengesetz*]), including in its own business area of Vacuumschmelze GmbH & Co. KG, and must be observed daily by the management and employees when performing the tasks assigned to them. VAC expects all business partners to comply with human rights and environmental obligations. Respecting and protecting human rights and environmental obligations is the basic prerequisite for working with VAC.

B. VAC Group

VAC Group is a leading manufacturer of magnetic alloys and solutions produced from them. The group companies develop, produce and distribute products ranging from nanocrystalline/amorphous materials to crystalline materials to current sensors, permanent magnets and shielding cabins for external magnetic interference fields. Due to their material expertise and manufacturing know-how, VAC Group companies have a unique understanding of applications, which they convert into innovative application solutions for customers.

C. The Supply Chain Due Diligence Act

The LkSG aims to ensure human rights and environmental standards throughout the entire supply chain. It defines a number of protected legal positions for this purpose whose violation should be prevented by extensive due diligence obligations.

According to section 6 para. 2 LkSG, each company falling within the scope of the LkSG must adopt a Statement on Human Rights Strategy. It must describe the process by which a company fulfills its due diligence obligations in its own business unit and throughout the entire supply chain. The risks related to human rights and the environment determined as a priority based on the risk analysis must be specified. Finally, the Statement on Human Rights Strategy defines the human rights and environmental expectations that a company places on its employees and suppliers in the supply chain.

D. Respecting human rights and the environment throughout the entire supply chain

VAC takes appropriate and effective measures to identify, verify and prevent the realization of risks in its own business unit and throughout the entire supply chain. If it is determined that the violation of human rights or environmental obligation has occurred or is imminent, a targeted corrective process takes effect as part of individual measures to stop a breach and minimize its consequences.

All measures taken within the scope of our responsibility for human rights and the environment follow the principle of “empowerment before disengagement”: We are committed to supporting our business partners in preventing and stopping human rights or environmental violations before abandoning business relationships or switching to alternative sources of supply.

We see the implementation of human rights and environmental protection in the supply chain as the shared responsibility of VAC and its suppliers.

1. Human rights and environmental expectations

We expect all our employees, our business partners and suppliers to comply with the following protected legal positions:

- **Prohibition of child labor and forced child labor:** Child labor within the meaning of ILO Convention No. 138 and No. 182 is prohibited.
- **Prohibition of slavery, debt bondage, forced labor and slavery-like practices:** Any form of slavery, forced labor, debt bondage and slavery-like practices is prohibited. ILO Convention No. 29 (including its protocol) and No. 105 shall be observed.
- **Compliance with the basic occupational safety regulations:** Safety and health protection in business operations are guaranteed through suitable measures. Suitable measures include, among other things, providing suitable protective clothing free of charge, training on work equipment (e.g. machines) and regular checks to ensure compliance with occupational safety regulations.
- **Prohibition of discrimination:** Discrimination on the basis of national or ethnic origin, social origin, health status, disability, sexual orientation, age, gender, political opinion, religion or ideology is prohibited, unless this is justified in the requirements of employment. This also includes the prohibition of wage discrimination.
- **Working hours and rest periods:** Statutory regulations on working hours and rest periods are complied with. Suitable measures are taken to verify compliance with regulations on working hours and rest periods.
- **Appropriate wages:** Employees shall receive at least the minimum wage stipulated by applicable law. If the applicable national law does not stipulate a statutory minimum wage, employees shall receive an appropriate wage.
- **Freedom of coalition, freedom of association, right to strike:** According to ILO Convention No. 98, employees have the right to join a labor organization or to join an existing organization for the purpose of collective bargaining. If national law stipulates restrictions on freedom of association, employees are given the right to freely establish alternative proxies to conduct collective bargaining negotiations.

- **Harmful soil changes, water or air pollution, harmful noise emissions and excessive water consumption:** Business activities do not cause harmful soil changes, water or air pollution or excessive water consumption that impair people's natural livelihoods, access to drinking water or sanitation facilities or people's health. National regulations on noise protection are complied with.
- **Unlawful eviction and the protection of entrepreneurial projects:** As part of the acquisition, development or other use of land, forests and bodies of water, the prohibition of unlawful eviction and unlawful revocation of land, forests and bodies of water is observed. Safety tasks for the protection of entrepreneurial projects are not delegated to public or private security personnel if human rights violations are committed or are imminent due to a lack of instruction or control.
- **Mercury and persistent organic pollutants:** Regulations on the prohibition and use of products containing mercury are always complied with in accordance with the Minamata Convention. The prohibition of production and use of persistent organic pollutants according to the Stockholm Convention is observed.
- **Hazardous waste:** Applicable laws on environmental protection are complied with when handling, collecting, storing and disposing of waste. The import and export of hazardous waste always takes place in accordance with the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal.
- **Conflict minerals:** All raw materials and products used do not contain conflict minerals. VAC shall act in accordance with all relevant regulations on conflict minerals, in particular Art. 1502 Dodd-Frank Act, Regulation (EU) 2017/821 and the OECD guideline for the fulfillment of due diligence obligations to promote responsible supply chains for minerals from conflict and high-risk areas.

2. Measures for effective risk management

To protect the above-mentioned legal positions in the supply chain, VAC implements a series of due diligence obligations in its own business unit and with its direct suppliers. We also expect our business partners to implement the due diligence obligations and to pass on the obligation to implement human rights and environmental due diligence obligations in the supply chain.

Due diligence obligations are implemented for the individual business unit and the entire supply chain as part of a risk management system. By integrating due diligence obligations into all relevant business processes, VAC ensures that risks are identified as best as possible, and preventive and corrective measures are implemented in a targeted manner.

2.1 Effective risk management and effectiveness checks

The risk management system establishes processes for the implementation of due diligence obligations and defines areas of responsibility, responsibilities and reporting lines.

The due diligence obligations are anchored horizontally within VAC. All relevant departments – Global Supply Chain (GSC), Human Resources (HR), Legal/Compliance, Environment, Health and Safety (EHS), Quality Management (QM) – are involved in the implementation steps as a project group. The implementation of due diligence obligations is operationally controlled at the level of the individual departments in terms of the business processes relevant to them. For example, GSC manages due diligence obligations for suppliers, while HR ensures the enforcement of employee-related human rights in its own business unit. The project group under the direction of Legal/Compliance coordinates the implementation of due diligence obligations, sets priorities and leads VAC's overriding efforts to protect human rights and environmental obligations. The people responsible for the operational implementation of due diligence obligations receive training on the LkSG and its implementation. A handbook that can be viewed centrally by all employees also clarifies all questions regarding the LkSG.

Due diligence obligations are vertical anchored by determining supervisory and coordination responsibilities. The management is responsible for the implementation of due diligence obligations relating to human rights and the environment.

VAC has transferred the responsibility for monitoring risk management to the Legal/Compliance department. The Chief Compliance Officer (CCO) is the point of contact for the management for all questions about the LkSG and reports directly to them. The CCO monitors risk management for its own business unit and for the entire supply chain.

2.2 Recognizing, weighing and prioritizing risks

VAC carries out full risk analyses with regard to compliance with human rights and environmental obligations within its own business unit and with its direct suppliers. We rely on both internal and external expertise for this. The complexity and scope of our international supply chain requires the use of technical solutions to help identify, verify, weigh and prioritize risks.

Our risk analysis system enables the determination of the human rights and environmental risks of each business partner. Based on the general supplier information - especially the country of origin - an abstract risk analysis is carried out based on a variety of recognized indices and studies by external experts. In our risk analysis, we take into account, among other things, the official indices of the organizations listed below:

UNICEF, Save the Children, Walk Free Foundation, IGB, WEF, OECD, GLWC, Yale University, WWF, FAO, World Bank, FFP, UNEP, WITS, Eurostat, CEIP, Sensoneo, ILO.

The results of indices from these organizations will be updated twice a year. It will also be researched in the course of the update whether new regulations/conventions have entered into force and whether new indices must be included.

Based on self-assessments by suppliers, proven certifications, our own findings from audits and findings from our complaints procedure, we then check business partners for concrete risks related to human rights or the environment. Not only the business partner's country of origin and industry are taken into account for this. We also analyze product risks, in particular environmental aspects, as well as a variety of other data (e.g. CSR report) to limit, localize and detect risks early.

We weight and prioritize risks by placing the typically expected severity of a possible violation of rights and its irreversibility in relation to the probability of occurrence. We also take into account the degree of our influential capacity to prioritize risks and act in a targeted manner where the realization of risks is imminent. We differentiate between 5 risk levels (1 = no risk, 5 = very high risk). We have defined specific measures for each risk category, so that preventive and corrective measures are initiated where they are necessary.

2.3 Taking preventive action

The comprehensive risk analysis is supplemented by appropriate and effective preventive measures.

In our own business unit, an internal company code of conduct applies that summarizes the expectations and rights of employees clearly and comprehensibly. Our Policy Statement is publicly accessible on our website.

VAC conducts training and continuing education for its employees. The employees entrusted with implementing human rights and environmental due diligence obligations regularly participate in further training measures in order to be able to implement the international requirements for human rights and environmental protection throughout the entire supply chain. In suitable cases, we offer our business partners training and further training opportunities so that they are also able to help with human rights and environmental protection in their business unit.

We carry out regular event-related checks in our own business unit in order to identify and minimize risks early on.

All business partners at increased risk will receive a self-disclosure questionnaire from us. We

monitor business partners on an ad hoc basis as part of audits as well as random checks with the help of self-disclosure questionnaires. If necessary, we have audits and controls carried out by an independent auditing company.

We require business partners to pass on our human rights and environmental expectations in the supply chain and to continuously check their compliance. For this purpose, our SCoC (Supplier Code of Conduct) forms the basis for entering into a new business relationship.

2.4 Performing corrective measures

Effective corrective measures must be taken if the violation of a human rights or environmental obligation occurs or is imminent.

VAC will initiate situational corrective measures immediately after identification of a relevant breach.

2.5 Following up on tips

An important role in identifying risks and violations in the supply chain is a functioning complaint process that is accessible to all those affected in the supply chain – from employees and suppliers to third parties who may be affected by our activities or those of our suppliers. It is important that tips can be submitted confidentially.

Our web-based whistleblower system is multilingual, considers the complexity of our supply chain, and is easily accessible to make it as easy to submit tips as possible.

Tips are handled confidentially and quickly. Employees involved in the processing of tips are not subject to any instructions as part of complaints management; their neutrality is guaranteed. Each complaint triggers an assessment and action process, following which the reported breach is stopped or the recognized risk is minimized. Each complaint is reviewed by the responsible employees after it is received. After clarifying the facts, a targeted solution is developed, if necessary in consultation with the person providing the tip. After implementing corrective measures, a success review of the measure is carried out. The entire system is subjected to regular effectiveness checks.

Submitted tips and complaints are taken into account in the risk analysis.

2.6 Responsibility throughout the entire supply chain

VAC takes its responsibility for the entire supply chain very seriously. Accordingly, we also extend our risk analysis as needed to suppliers who do not have direct business relationships with us but are part of our supply chain. For the event-related involvement of indirect suppliers, we rely on close cooperation with our direct business partners in order to increase transparency in the supply chain cooperatively and for the benefit of everyone.

2.7 Documentation and reporting

The implementation of all due diligence obligations is continuously documented. Through our risk analysis tool, we collect all information accessible to us about identified risks and implemented preventive and corrective measures.

We are also committed to transparent communication about the human rights and environmental challenges that VAC is exposed to. Through our public reporting, we communicate identified risks, measures taken and progress achieved at least annually.

2.8 Effectiveness checks

The effectiveness and validity of all human rights and environmental due diligence obligations must always be guaranteed. Effectiveness checks of all measures are carried out as needed and at least annually by Quality Management. Existing performance indicators are used and new indicators are developed for the effectiveness analysis.

3. Focus on: Human rights and the environment

Our corporate due diligence obligation begins with identifying possible industry-related and country-specific violations of human rights and environmental risks in a timely manner. We weigh up in the process how likely a human rights violation is, how severe the impact could be, and how easy and likely it would be to prevent it through VAC's influence.

Industry-specific risks arise in particular from the purchase of a wide variety of globally procured materials that are used and further processed within VAC for a diversified product portfolio. Sources of supply are in Europe, China and Southeast Asia, among other areas, so we place a special focus on risks for freedom of association, child labor and appropriate working conditions.

We respond to these identified special risks in our supply chain with the staggered measures described above. In doing so, we prioritize those areas where VAC can have the most influence and where the effects on people are the greatest.

E. Outlook

VAC undertakes to continuously review, further develop and improve its own measures. It is in communication with all relevant stakeholders in order to ensure respect for human rights and the protection of the environment throughout the entire value chain.