

SUSTAINABILITY REPORT 2017
CIMOS GROUP

CONTENTS

1. LETTER FROM THE CHIEF EXECUTIVE DIRECTOR	3
2. ORGANIZATIONAL STRUCTURE OF CIMOS GROUP	4
3. CODE OF CONDUCT	5
4. BUSINESS CONDUCT AND COMPLIANCE	6
4.1 Communication	6
5. SOCIAL SUSTAINABILITY	7
5.1 Employees	7
5.2 Health and safety management system	8
6. ENVIROMENTAL ASPECTS	9
6.1 Selection of input materials.....	9
6.2 Production of castings	9
6.3 Final products.....	9
6.4 Recycling.....	10
6.5 Recognized environmental aspects	10
6.6 Protection of natural resources.....	11

1. LETTER FROM THE CHIEF EXECUTIVE DIRECTOR

The acquisition of 100% ownership of Cimos d.d. was finalized on May 17, 2017, with the transaction effective date being the 29th May 2017, which represents the restructuring effective date under the signed Master Restructuring Agreement with all banks which were formerly owners of Cimos Group. Cimos d.d. is the parent company of the Cimos Group, a European leader in the production of turbochargers and powertrain components for the automotive industry, with an extensive industrial footprint in the Balkan region.

The strategic reasons for the acquisition of Cimos Group and the creation of one industrial group are essentially the following:

- A higher critical mass and increased market share in the turbocharging segment, and the extension of the product range and market penetration with the existing as well as new potential customers
- A lower degree of customer concentration, compatibly with the existing market structure
- A higher degree of vertical integration in order to complement the distinctive Cogeme's know how in high precision machining with Cimos' technologies in the production of grey iron, steel and aluminium semi-finished components
- The enlargement of the industrial footprint in European low cost countries and a closer geographic proximity to the customers' plants
- Industrial synergies deriving from the reorganization of Cimos' industrial footprint

The complex financial restructuring of Cimos was finalized on closing date, through the acquisition of 100% of the share capital of Cimos d.d. for a consideration of € 0,1 million and share capital increase for € 20 million, coupled with the injection of additional funds by way of a shareholders loan for € 14 million. Through this transaction Cimos' financial debts underwent a total haircut in the order of € 127,4 million and terms and conditions of residual debt positions were substantially renegotiated. Majority of these effects were recognized directly as part of our capital reserves (EUR 102 million out of which 1.7 million came from operating liabilities), while the remaining EUR 24 million was recognized through the income statement following agreements with banks which were not part of the previous ownership structure.

The initial total financial liabilities before the acquisition amounted to € 197 million.

The key adjustments in costs that brought an improvement in EBITDA in 2017 were a further reduction in labour costs at all Cimos plants and departments, consolidation of technological processes and reduction in quality failure costs. A great contribution was also made by the introduction of the expert groups with a particular focus on cost-cutting, which was very successful. The aforementioned cross-functional groups analyzed the main reasons for anomalies in costs, drew up programmes to cut costs, and in conjunction with the plant managers were responsible for carrying out numerous successful improvement programmes.

The successful completion of the privatization process, with the completion of the transaction in May 2017, is a great step into the future for Cimos. We are convinced that Cimos will be an excellent fit for the new group. With its excellent engineering capacity, competitive production locations and highly motivated staff, it will continue to play an important role.

Gino Berti

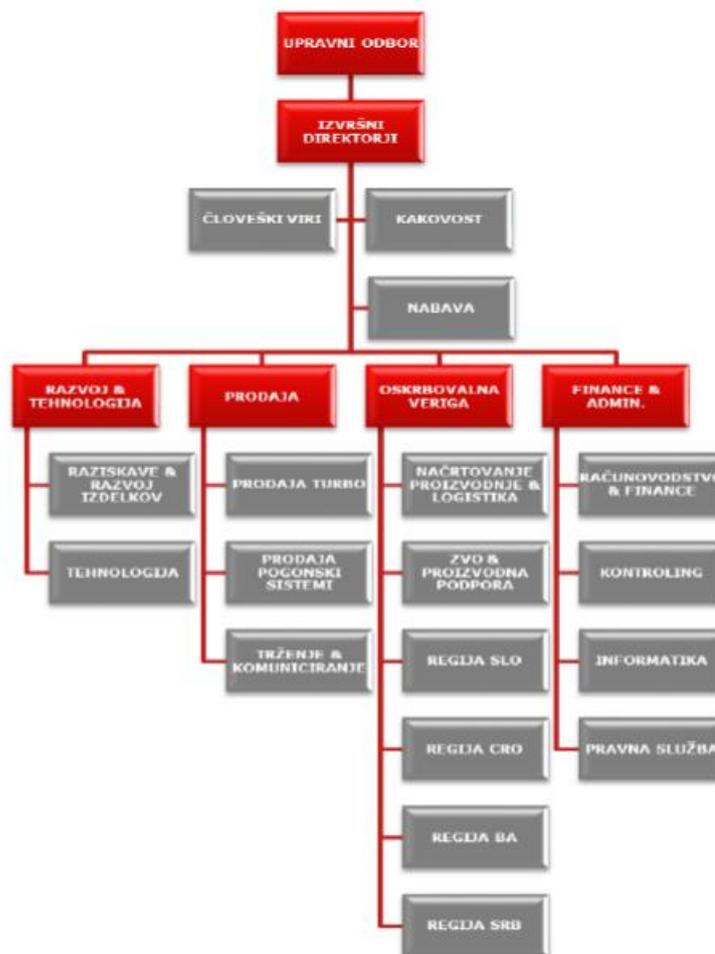
Chief Executive Director



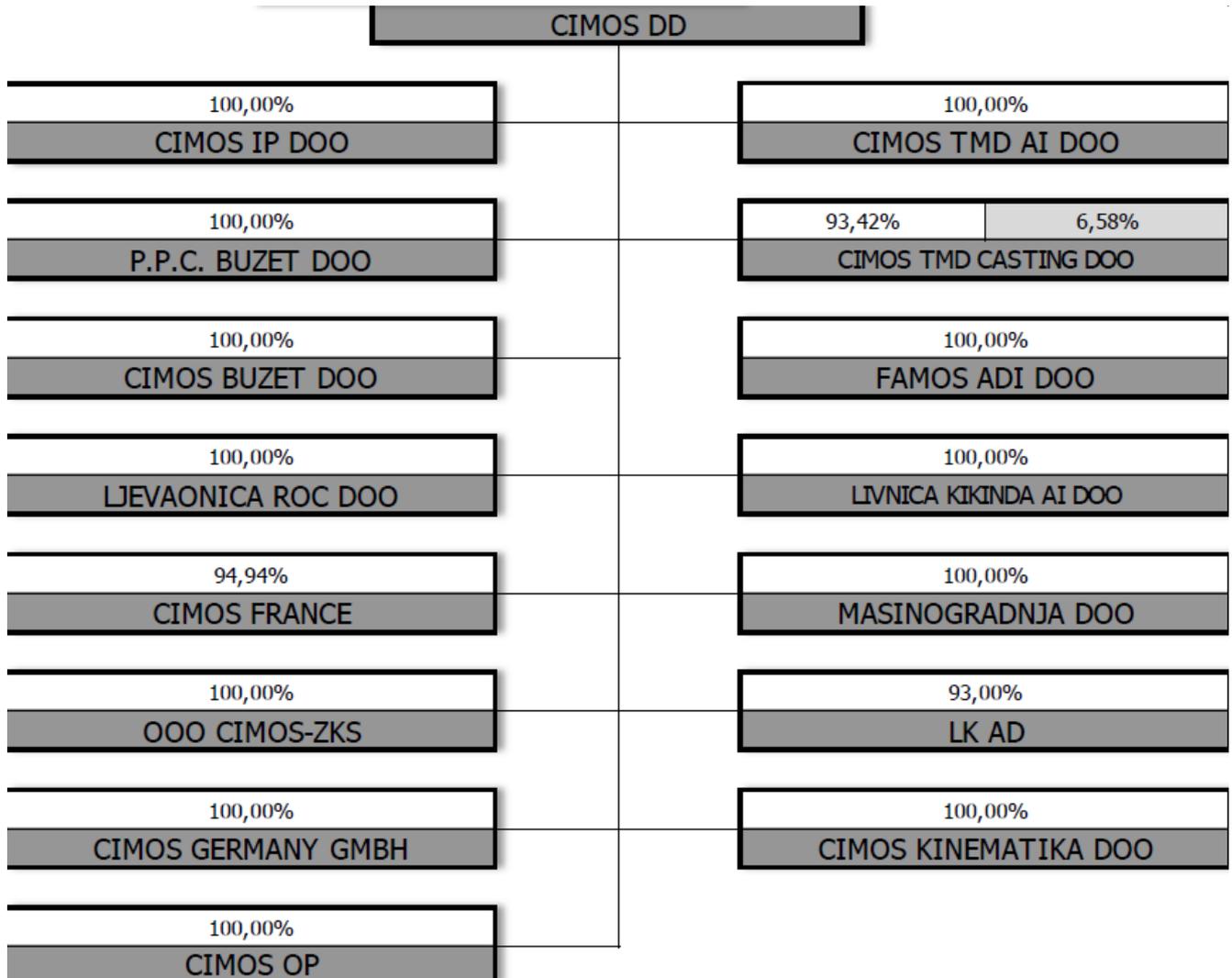
2. ORGANIZATIONAL STRUCTURE OF CIMOS GROUP

Cimos Group is a high-profile international supplier, and one of the larger corporate groups in Slovenia. With its four decades of tradition and its export focus, it is also one of largest groups in central Europe. As at 31 December 2017, the Cimos Group comprised the controlling company, Cimos d.d., and 15 subsidiaries with headquarters in seven different countries.

Organizational structure of the Cimos Group as at 31 December 2017



Schematic presentation of companies in the Cimos Group as at 31 December 2017



3. CODE OF CONDUCT

CIMOS Group conducts its business in compliance with all applicable laws and regulations, and in accordance with the highest standards of integrity and ethical behavior as reflected in Cimos management policy and business conduct. Respecting prescribed regulation and legislation, valid standards and with care for health and safety at work, Cimos ensures protection of employees, communities and environment and in this way ensures sustainable growth and development. Cimos expects from its supply chain partners to comply as well with applicable laws and regulations and adhere with the indications set out in this Code.

4. BUSINESS CONDUCT AND COMPLIANCE

The mission of Cimos is to ensure progressive and reliable solutions, which comply with the customers' expectations. We are aware that we are a link in a chain and that our mission can only be implemented in co-operation with our customers, suppliers and the environment in which we operate. The modes of implementation of our mission are equally important to us as the mission itself; therefore, we respect and uphold the following values:

- commitment – we think comprehensively and respect what has been agreed upon,
- integrity – we do what we say,
- mastery – we master our work,
- openness – we act transparently and build up trust,
- striving for better – we seek for better solution.

Cimos's management policy principles includes the following:

- health and safety at work,
- environment orientation,
- protection of human dignity and rights,
- employee engagement,
- anti-corruption and bribery policy,
- protecting business secrets,
- (internal and external) customer orientation and exceeding their expectations,
- process approach,
- ensuring the quality of the product and services.

4.1 Communication

We are aware that regular communication is very important, so we developed a Code of Communication where we defined in detail the importance and the role of corporate communication. When designing corporate communication activities, we take into account all the public that are related to the Cimos group, namely:

- employees (including trade unions),
- local community and media,
- business public (buyers and suppliers),
- professional public, decision makers (at local and national level),
- financial public (investors, banks, financial analysts),
- social environment (general public, non-governmental organizations).

We pay special attention to internal communication with our employees, as we regularly inform them about company's activities through the internal media (intranet, regular communication through leaders, internal magazine, bulletin and info boards, weekly newsletters and annual interview).

5. SOCIAL SUSTAINABILITY

Cimos's Collective Agreement, The Act of Organization and Systematization, The Act of workers's dignity protection, Cimos Integrated Management System Manual and related documentation and manuals are in accordance with labor law and include components such as prohibited behaviors, rights, and dispute procedures for the following issues:

- respect for human rights (protection of older workers and people with disabilities, prohibition of sexual and other harassment and maltreatment on the workplace, protection of personal data);
- working conditions (right to part time in the case of parenting, mandatory days off, extraordinary vacation, information security);
- wages & benefits (addition to salary for illness, jubilee awards, solidarity assistance, addition to pay for adverse effects at the workplace, night work allowance),
- no forced or compulsory labor;
- no human trafficking;
- no child labor;
- non-discrimination (age, gender, religion, race);
- freedom of association and collective bargaining.

5.1 Employees

Creative employees are one of the company's basic values and a key factor in achieving strategic business goals. Based on job requirements together with the managers and employees we define and develop the necessary knowledge and competences.

The development of human resources, their knowledge and competences are ensured through procedures of employee selection, induction at the workplace, continuous education and training, orientation and mentoring, assessing performance and competences.

Trainings for health and safety at work, environmental management, incorporating and assuring quality in processes and products, realization of customer requirements and information security are given a priority role.

We motivate our employees with regular communication, by setting and assessing objectives, through orientation, mentoring, performance assessment and career planning. In doing this we respect their diversity and personal goals. Ensuring and verifying employee's satisfaction is based on:

- regular communication,
- annual interviews with all employees,
- tier meetings,
- periodical surveys and immediate response through corrective measure in case of deviations.

All jobs regulated by the Act of organization and systematization (defining structure, job title, job description, requirements, key competencies and knowledge). All employee are informed about their responsibilities on their job by detailed job description and specific job instructions where are needed:

- required education,
- work experiences,
- job assignments and responsibilities,
- key competences and knowledge.

All employee has assigned during the annual review individual targets. Continuous monitoring and evaluation of work effectiveness are important to motivate employee and provide continuous improvement on their jobs.

Cimos is aware of the importance of older workers that have a lot of experience and practical knowledge. Internal trainings are very common for knowledge expansion but our company is open also for external collaboration with other educational institutions:

- external trainings to assure deficient knowledge,
- scholarships,
- mandatory student practice and work,
- excursions and surveys.

5.2 Health and safety management system

Cimos has organised efforts and procedures for identifying workplace's hazards and reducing accidents and exposure to harmful situations and substances:

- workplace risk assessment,
- ensuring ergonomics and healthy at the workplace,
- periodical medical control,
- training of company's health & safety policy,
- training of safety work with hazardous materials and use of protective clothing and equipment,
- work environment inspections,
- provide a healthy meal during working time with the possibility with a diet nutrition,
- participation in different projects to ensure a healthy workplace,
- integrated continuous improvement of working conditions.

It includes the training of all personnel about accident prevention, accident responses, emergency procedures, and use of protective clothing and equipment. Health and safety management system is regularly conducted by social audits/assessments (internal and external).

6. ENVIRONMENTAL ASPECTS

The CIMOS d.d. management has committed to environmental responsibility and effective management of natural resources and energy efficiency. The management system in place ensures that our products, together with the continuous optimization in terms of costs, improving quality, and taking into account the requirements in the field of safety and health at work, environmental protection requirements and energy efficiency improvements, to meet the needs and expectations of customers and the interested public.

For the implementation of activities in the field of environmental protection and energy management within the CIMOS d.d. at each location designated representatives of the environmental management system are designated. The function of the representative is to hold in the management consulting, control, development and operational role.

Management recognizes that each employee has a significant impact on the effectiveness of environmental management system; therefore, it places great emphasis on training and awareness of all employees in these areas.

The Management once a year during the management review verifies the effective functioning of environmental management system.

CIMOS d.d. demonstrates its environmental responsibility and energy efficiency in particular by reducing the environmental impact and analysis of energy efficiency indicators.

With the environmental management system according to the ISO 14001 standards, we are certified on all locations.

6.1 Selection of input materials

For the production of castings, alloys are used with the standardized chemical composition according to the requirements of our customers. Most of the delivered material is made from secondary, recycled raw materials. All our products can be at the end of service life 100% recycled.

6.2 Production of castings

In production, processes auxiliary materials are used which do not contain prohibited substances (defined by law and by the customers). Within the selection process the main criteria is not only the price but also the environmental aspect and the aspect of safety and health at work. Since 2002, the use of auxiliary materials and energy is monitored systematically. The results are bound per unit - the weight of castings sold. Consumption unit also enables direct comparison between the use of specific locations.

6.3 Final products

Product development is carried out by our customers, so we do not have a direct impact on the form and functionality of the product. With the experience in casting and machining, the influence can be applied on lighter weight of the product, which is important in the overall weight of the vehicle and thus lower fuel consumption and thus less use of natural resources and reduction of emissions.

6.4 Recycling

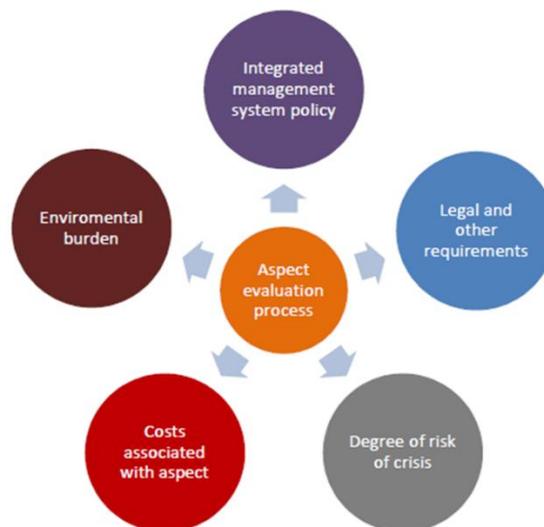
All castings can be fully recycled after the completion of the life cycle. During the production process generated waste material can be internally recycled (scrap parts). The focus within the process is on achieving the primary goal of highest quality. Fewer scrap pieces mean better energy efficiency and lower consumption of auxiliary agents on the unit.

6.5 Recognized environmental aspects

Recognized environmental aspects are elements of the activities, products and services that affect the environment, called environmental considerations. In determining environmental aspects, we take into account all stages of the production process, products and activities, both under normal conditions, in extreme conditions, as well as in the event of a crisis.

Every aspect of the influence on the environment is taken into consideration. To determine the importance of individual environmental aspects the following criteria was used:

- The degree of risk of crisis,
- Compliance with legislation and other requirements,
- Policy requirements
- Costs associated with the aspects
- Environmental burden.



Assessment of environmental aspects is carried out once a year or in case of changes in legislation or in case of other major changes in the scope of the environmental management system. According to the criteria of assessment significant environmental aspects are identified which determine the framework and implementing objectives of the

programs. Identified main environmental aspects in our scope of operation are presented.



6.6 Protection of natural resources

To satisfy the entire world's needs for natural resources, more than just one Earth, or more specifically 1.7 Earth, would be needed. However, since we have only our only planet available, we must aim to manage better what we have. Therefore, in our work, we focus all our efforts on taking advantage of all the opportunities offered by environmental technologies. Only in this way, can we preserve and protect natural resources, climate and the environment.

We are very successful because, with our re-use activities, we save a satisfactory amount of valuable primary resources every year and reduce the quantity and effects of greenhouse gases. This is confirmed by the independent research conducted by the Fraunhofer German Institute (Institute of Technology for Environment, Security and Energy - UMSICHT). We have received a certificate detailing the savings of primary sources and our contribution to reducing greenhouse gases.

CIMOS d.d. recycled the following secondary raw materials in 2017:

Material flow

Paper and cardboard packaging,

Wooden packaging,

Plastic packaging.

By recycling these material flows, they were calculated to be saved:

131 tonnes of material resources and

17,651 kilograms of greenhouse gases.