
C . 5

Non-financial Group Report

c.5.1 About this Report

This report is the non-financial report for the OSRAM Licht Group for fiscal year 2018, produced in accordance with sections 315b and 315c in conjunction with sections 289c to 289e of the *Handelsgesetzbuch* (HGB—German Commercial Code).

Whereas the annual sustainability report for the OSRAM Licht Group follows the standards of the Global Reporting Initiative (GRI), no framework is used for this non-financial Group report. This is due to the different definitions of materiality presented in the *CSR-Richtlinie-Umsetzungsgesetz* (CSR-RUG—CSR Directive Implementation Act) and the GRI.

The non-financial Group report covers key topics that are required to understand the development of business, business performance, and the position of the Company as well as the impact of its operational activities on non-financial aspects. A materiality analysis was used to help define the topics. Internal experts from all business units and relevant corporate functions evaluated the possible topics with regard to their business relevance and potential impacts, particularly when these impacts would be negative. The results were then consolidated in a workshop, validated, and approved by the Managing Board. The following key topics were identified: greenhouse gases and climate change, energy efficiency, raw materials and substances, human rights, fair working conditions, occupational health and safety, employee satisfaction and employer attractiveness, people development, product safety, privacy and data security, customer relations, and combating corruption and bribery.

Unless otherwise indicated, all figures refer to the continuing operations of the OSRAM Group and encompass all consolidated companies¹⁾.

In March 2018, OSRAM GmbH and Continental Automotive GmbH agreed to establish OSRAM CONTINENTAL GmbH to pool their activities in the area of automotive lighting. This took effect on July 1, 2018. The contractual agreements with Continental give OSRAM control over OSRAM CONTINENTAL GmbH. The company and its subsidiaries have been included in the consolidated financial statements of OSRAM Licht AG since July 1, 2018. Where the management approaches relevant to non-financial reporting do not yet exist at the OSRAM CONTINENTAL companies, the aim is to establish or implement them during fiscal year 2019.

The non-financial report for the OSRAM Licht Group for fiscal year 2018 is subject to review by the Supervisory Board of OSRAM Licht AG. It has also been audited by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft on behalf of the Supervisory Board in order to obtain limited assurance in accordance with the International Standard on Assurance Engagement (ISAE) 3000 (revised).

1) Associates are not included.

c.5.2 Business Model

The OSRAM Licht Group and its business model are described in sections [> A.1.1.1 Business Model](#) and [> A.1.1.3 Organization and Reporting Structure](#) in the combined management report.

 Page 3
 Page 7

c.5.3 Non-financial Risks

Our business activities and the relationships connected to those activities have the potential to impact negatively on the environment, employees, and society. When examining the business relevance of the possible key topics as part of our materiality analysis, we also evaluated their risk exposure—in terms of business activities, products, services, and business relationships—on a scale of one (very low) to seven (very high). A comparison was also made with topics identified by OSRAM's risk management system, and no risk was identified that is very likely to have a serious negative impact on non-financial aspects.

c.5.4 Environmental Aspects

As a manufacturing company, we are aware of our responsibility toward nature, the environment, and climate protection, and are committed to environmental management practices that conserve resources and to developing progressive, energy-efficient products.

Overall responsibility for environmental protection and occupational health and safety lies with the Chief Technology Officer (CTO), who delegates tasks and managerial authority to the head of the corporate Environment, Health, and Safety department (EHS). At regular intervals, the EHS department reports directly to the Managing Board on significant developments.

The EHS department coordinates environmental rules and guidelines, monitors performance, and continuously improves the environmental management system. In addition to the Group's overarching EHS policy, it issues guidelines that apply across the Company and cover industrial and product-related environmental protection, occupational health and safety, and the transportation of hazardous goods and fire safety. These guidelines clearly state that compliance with environmental laws and regulations at local, regional, and global level is mandatory.

All production facilities and the Group headquarters maintain environmental and energy management systems that are certified to the international standard ISO 14001, while all European locations are also certified to ISO 50001.

As part of its environmental reporting, OSRAM collects data on indicators such as energy consumption and CO₂ emissions²⁾.

c.5.4.1 Energy Efficiency

Relevance

OSRAM's production activities use both primary and secondary energy. All OSRAM products also draw on energy resources when they are being used. The energy efficiency of our products is a key criterion in our customers' purchasing decision and satisfaction.

2) The data covers all relevant production facilities (including Regensburg-West, Germany), the two head office buildings in Munich (Germany), and the R&D locations in Augsburg (Germany), Shenzhen (China), and Beverly and Wilmington (both in the U.S.A.). OSRAM CONTINENTAL's manufacturing facilities in Kunshan (China), Hendersonville (U.S.A.), and Treviso (Italy) have been included since the fourth quarter. The location in Panyu (China), which was closed in the first quarter, the luminaire production site in St. Quentin (France), which is disregarded due to its size, and the companies acquired in the Philippines and the U.S.A. during the fiscal year are all excluded from the data. The OSRAM CONTINENTAL R&D locations in Guadalajara (Mexico), Iasi (Romania), and Vienna (Austria) are also excluded.

Guidelines, Responsibilities & Structures, Processes

To operate our production facilities, we utilize an energy mix that is both economical and environmentally friendly³⁾. Group headquarters as well as all production and development sites that consume more than 1,400 MWh a year are pursuing energy efficiency programs in order to reduce their impact on the environment and to keep production costs competitive. The worldwide EHS management system controls energy use in our production processes. An energy management system is mandatory for the relevant OSRAM locations.

Consumption targets are set annually at global, regional, and site level and are aggregated into a specific global target for energy consumption using the budgeted figures for production and revenue. At Group level, progress toward the targets is monitored and reviewed as part of the quarterly reporting cycle and the energy efficiency reviews conducted with the operational heads of the business units.

Objectives

The target for energy consumption per unit of production in fiscal year 2018 was higher than in the previous fiscal year (see the table below). The increase compared with the previous year's target and level of target achievement as well as the increase in absolute energy consumption are attributable to the expansion of our environmental reporting system and the ramp-up of our new LED factory in Kulim, Malaysia. Expansion of the sites in Regensburg, Germany, and Wuxi, China, is another factor. This trend is expected to continue in the years ahead. Production at these locations requires controlled climatic conditions, but we are also seeing a clear shift toward the use of secondary energy due to the manufacturing technology that is needed. Whereas the consumption of energy from primary sources, especially natural gas, is holding more or less constant, we are increasingly drawing electricity from local grids.

Action Taken, Results

Energy savings were achieved in the reporting period by means of a large number of individual projects at the different sites. In Penang, Malaysia, for example, older air-cooled compressors were replaced by more efficient water-cooled models. An older chiller was replaced in Herbrechtingen, Germany, as well. In addition, modern LED-based lighting systems were installed in office and production areas in Penang and at Clay Paky, Italy.

The global scaled target for the reporting period was missed by 2%. This was mainly because production capacities were utilized to a lesser extent than planned, which had a negative impact on energy efficiency.

Key Performance Indicators

Energy Efficiency

	Fiscal year	
	2018	2017
Absolute energy consumption in MWh (sum of primary and secondary energy) ¹⁾	739,300	658,600
Specific energy consumption target in MWh per €1 million revenue	176	167
Specific energy consumption in MWh per €1 million revenue	180	160

1) Incl. 300 MWh self-generated electricity.

3) OSRAM does not yet distinguish between renewable and non-renewable energy for measurement and reporting purposes. In Germany, however, we can report the amount of electricity that we obtain from renewable energy sources.

OSRAM conducts lifecycle assessments (LCAs) on selected products that are representative of product families and makes the results of these assessments, which are based on the ISO 14040 and 14044 standards, available to our customers and the public online at [» www.osram.com/lca](http://www.osram.com/lca). The LCAs cover the majority of our product portfolio. Across all product families, it is evident that the phase of the lifecycle in which the product is being used by the customer has the greatest impact on the environment.

c.5.4.2 Greenhouse Gases and Climate Change

Relevance

The direct and indirect emissions that result from our use of energy contribute to climate change and mainly take the form of CO₂. Every year, in order to mitigate this impact, OSRAM sets itself targets for reducing its Scope 1- and Scope 2-emissions.

Greenhouse gas emissions also occur in our upstream supply chain and when our products are being used.

Objectives

In absolute terms, CO₂ emissions (Scope 1 and 2, market-based method) rose in fiscal year 2018. Because of the changes that our industry and also our Group are undergoing, OSRAM does not look at absolute emissions but instead at the amount of emissions relative to the revenue generated. Although we fell just short of the relative energy target, the CO₂ target was achieved, because the emission intensity of local power grids was better than had been assumed when the targets were set.

Action Taken and Results

As well as lowering energy consumption by raising efficiency at the individual locations [» C.5.4.1 Energy Efficiency](#), the measures taken to reduce our impact on the environment again included the targeted purchasing of energy obtained from renewable sources.

 Page 188

Key Performance Indicators

Greenhouse gases and climate change

	Fiscal year	
	2018	2017
CO ₂ emissions in metric tons (sum of greenhouse gas emissions (GHG) Scope 1- and 2-emissions, market-based)	271,400	240,000
Target specific CO ₂ emissions in metric tons per €1 million revenue	67	64
Specific CO ₂ emissions in metric tons per €1 million revenue	66	58

c.5.4.3 Raw Materials and Substances

Relevance

OSRAM focuses on monitoring and reducing the hazardous, critical, and valuable substances used in parts of the portfolio. However, it is also important generally for OSRAM that it uses materials in a way that conserves resources. This has a positive impact on the environment, saves costs, and makes our products more acceptable to customers.

Guidelines, Responsibilities & Structures, Processes

With regard to the substances contained in OSRAM products, we work on the basis that it should be possible to market our products anywhere in the world. For this reason, the world's strictest regulations apply as a global standard. We deviate from this approach in local markets in only a handful of cases but always still comply with local law. We are also able to declare critical substances contained in our products. The status of the availability of the necessary information and declarations can be included in the quarterly reporting and the management review.

In line with the OSRAM EHS policy and our Group guideline on product-related environmental protection, we are committed to responsible environmental management and the efficient use of resources and energy, and to the development of eco-friendly processes and advanced products. The relevant rules and guidelines are issued by the corporate EHS department; our business model dictates that responsibility for operational implementation lies with the business units themselves. Each business unit is responsible for ensuring that its products are designed in an environmentally compatible way and that resources are used efficiently in both production and use. At the product development stage, mechanisms are built into the processes to improve products continuously and meet legal requirements and customer specifications. The EHS department advises the units on legal requirements and monitors compliance.

Our suppliers are required to promptly provide the necessary declarations and information for the qualification of new parts as well as for changes in relevant laws. Against a backdrop of ever stricter requirements, we use a special IT application that allows us to monitor the use of critical substances at component level and to achieve legal compliance of our electrical and electronic devices. We refine the application continually.

The OSRAM Index List Environment (ILE) contains information on prohibited, restricted, and declarable substances. Our own developers and the suppliers of materials employed in our products use this information to help avoid, reduce, and declare the use of hazardous substances. All suppliers are required to comply and keep up to date with the regulations that are relevant to our markets.

Mechanisms are built into the development processes to comply with legal regulations on the use of substances in products and with customer and market requirements that go beyond the legal minimum [C.5.7 Respect for Human Rights—Conflict Minerals](#).

 Page 199

Action Taken and Results

Further efforts were made during the reporting period to increase the quantity and quality of data. We were thus able to significantly improve the completeness of the information, data, and declarations provided electronically by our suppliers. This will enable us to assess risks and product conformity more quickly in the future and react promptly and appropriately.

c.5.5 Social Aspects

As a global brand manufacturer with a long tradition, OSRAM sees itself as a part of society and accepts a level of responsibility that extends beyond the Company's own operations. We always want to offer our customers quality, including when it comes to product safety and data security.

c.5.5.1 Product Safety

Relevance

The lighting market is undergoing a constant technological shift and is not globally homogenous. Regulations regarding product safety are often specific to individual countries. In order to bring our products to market quickly while also complying with all rules and regulations, we need to coordinate these requirements at global level and integrate them into product development at an early stage.

Guidelines, Responsibilities & Structures, Processes

We are committed to complying with all legal requirements, standards, and norms relating to products and their safety, including labelling, that apply in the individual regions and countries in which we operate, and to implementing changes in good time. The objective is to avoid product safety violations.

At Managing Board level, responsibility for product safety and quality lies with the Chief Technology Officer (CTO). The CTO appoints the head of the corporate Quality Management department to act as a Group-wide control function who is responsible for setting up and maintaining the quality management system and has the authority to issue policies and instructions in this context. Operational responsibility for implementing statutory and internal rules regarding product safety and quality lies with the individual CEOs of the business units.

The corporate Quality Management department draws up rules that are applicable to all units. Our core practices are described in the quality manual and quality guideline. Quality-related guidelines and processes cover, for example, product safety, product development, and the handling of defective products as well as the corresponding escalation steps.

Methods designed to safeguard quality are rigorously applied during the product design stage to meet the development milestones. We follow standardized checklists when approving products and take remedial action if relevant risks are identified. In addition, we regularly check our products regarding their impact on health and safety.

Customers can return defective products at any time and will find the relevant information online. Employees can also report potential incidents. When a matter relevant to product safety is reported, we immediately check and assess risks using a risk assessment matrix. The EU General Product Safety Directive (GPSD, 2001/95/EC), which sets out a structured framework for risk assessment, provides the global basis within the Company for the evaluation of potential product safety violations and of action plans to remedy such violations. As soon as any product safety risks are identified, appropriate processes are triggered to contain and eliminate these risks as quickly as possible. Relevant internal and customer-oriented measures have been specified and may result in information being provided to customers or even a product recall.

Our processes and management systems are regularly certified to ISO 9001 and, for automotive customers, also to IATF 16949. In addition, OSRAM conducts regular internal audits of its factories, processes, and suppliers in line with its continuous improvement approach.

Regular reports are submitted to the Chief Technology Officer (CTO), who is informed immediately of any incident that has been classified as a critical quality issue by the responsible business unit.

Objectives

We achieved our goal of implementing new legal requirements, standards, and norms on schedule in fiscal year 2018.

Action Taken and Results

In the reporting period, we had our processes and management systems recertified to ISO 9001. We also succeeded in transforming the certification of all locations supplying automotive customers from ISO TS to IATF 16949. Individual measures were also taken at business unit level.

Key Performance Indicators

During fiscal year 2018, the Quality department received no reports of potential violations concerning the impact of our products on the health or safety of our customers.

c.5.5.2 Privacy and Data Security

Relevance

The ongoing digitalization of business processes also entails risks for the protection of privacy and security of data of our employees, customers, and business partners. To mitigate these risks, we take extensive preventive measures designed to comply with legal regulations regarding data privacy.

Guidelines, Responsibilities & Structures, Processes

OSRAM has embedded data privacy in its business principles and internal policies. It achieved its goal by introducing a data privacy management system (DPMS) on schedule in the reporting period. Our actions in this regard are guided by the requirements of national and international data privacy laws.

Data protection encompasses the privacy of personal data pertaining to employees and customers, but also to business partners and their customers. Our aim is to protect the privacy of these individuals in all our products and processes. Numerous technical and organizational measures are in place to help us achieve this objective.

In addition to the internal data privacy officers appointed in the German Group companies, who monitor compliance with the data privacy principles, the Group Privacy department analyzes the data privacy requirements and initiates appropriate measures for the Group and its subsidiaries. In each local entity a Data Privacy Coordinator (DPC) is responsible for implementing these measures and adapting them to local requirements.

OSRAM has IT tools at its disposal for dealing with data privacy risks. For example, we maintain a record of all processes and procedures involved in the processing of data ('Processing Register'), which enables us to carry out, across the Group, the data privacy impact assessment required for certain procedures and to document it in a legally compliant manner.

The Chief Compliance Officer and the head of Group Data Privacy report regularly to the Managing Board on current developments. Data privacy is also routinely covered by compliance reporting to the Audit Committee of the Supervisory Board.

We require our employees to treat personal data and information confidentially. The specific rules are described in our data privacy guideline. We also provide a web-based training on data privacy to all employees who have access to an email account. By the end of fiscal year 2018, all such employees in the EMEA region (except temporary student employees) had been invited to complete this training. Invitations to staff in the Americas and APAC regions will follow in due course. All our business partners that handle sensitive data are required to train their employees accordingly. This applies in particular to service providers and suppliers. Should we become aware that a business partner is not complying with its data privacy obligations, we will take the necessary remedial action.

Despite the high technical and organizational security standards that we have in place, data breaches cannot be completely ruled out. Our Company is required by law to promptly notify the relevant regulatory authorities if it is believed that a personal data breach has occurred. In order to meet this requirement, a channel of reporting suspected data breaches was added to the existing whistleblowing system 'Tell OSRAM' during the fiscal year.

Objectives

Our objective is to avoid breaches of data privacy.

Action Taken and Results

In the period under review, the Group guideline on data privacy was drawn up and published, the processing register was updated and automated, and a Group-wide training concept was developed. Privacy policies and consent forms for employees, customers, and shareholders were also updated. At the same time, data privacy requirements were integrated into the product development processes.

Key Performance Indicators

During the fiscal year, we did not receive any complaints from customers or other inquiries related to data privacy from competent supervisory authorities.

c.5.5.2 Customer Relationships

Relevance

As technology shifts toward LED-based lighting systems, so customer requirements are also changing, and this is accompanied by a change from a pure product-related to a more solutions- and project-oriented business. Therefore, an efficient, target group-oriented management of our customer relations, which utilizes the various opportunities of digitalization, is of utmost importance for us.

Guidelines, Responsibilities & Structures, Processes

The OSRAM business units are the interface to our customers, and as such have operational responsibility for sales. They are specifically geared to the requirements of their customers and markets. To meet these requirements as effectively as possible, each business unit has its own individual sales structures and types of business.

Action Taken and Results

In the second half of the fiscal year, we established the new Global Sales Excellence function, which reports directly to the Managing Board. The new function is intended to help further increase sales efficiency and strengthen customer loyalty and to support and coordinate projects across all business units. The structures and processes have been designed not only to improve customer focus and customer satisfaction but also to identify and reap synergies between the business units. For example, we analyzed the customer structure and evaluated the degree of sales automation so that we can provide more specific support for each customer group.

A centralized e-business project was also launched during the reporting period. This is helping to open up further sales channels and to optimize and expand existing customer interfaces.

In addition, OSRAM conducts a worldwide survey of selected representative customers approximately every two years. We measure the same key performance indicators for all business units. Previously, the results were summarized as a Net Promoter Score (NPS). Since fiscal year 2017, they have been aggregated in a Customer Loyalty Index (CLI). Both key figures express the degree of customer loyalty to OSRAM. The customer satisfaction surveys are submitted to the OSRAM Managing Board for approval, which is informed on a case-by-case basis of the results and the measures taken by the business units. Once the survey has been completed and the results analyzed, the business units

define measures specific both to particular customers and customers generally and monitor their implementation.

Key Performance Indicators

The NPS can be between -100% and +100%. In the last survey in 2017, the NPS was again at the high level of 35% (previous survey: 35%). This result corresponds to the target, which was also 35%. In the new CLI ratio, OSRAM scored a very high 82% out of a possible 100%, which is well above the average of its competitors of 67%⁴⁾.

c.5.6 Employee Aspects

Human Resources (HR) is responsible for the key topics covered by treatment of employees, with the exception of occupational health and safety > [C.5.6.1 Occupational Health and Safety](#). HR is organized globally at OSRAM. Overall responsibility for HR matters and HR organization lies with the Chief Human Resources Officer (CHRO), who reports to the Chairman of the Managing Board (CEO). OSRAM's global HR guideline aims to establish worldwide standards in the area of HR. It contains firm rules for employees and managers on the hiring process, talent acquisition, diversity, people development, training, remuneration, and benefits.

 Page 195

c.5.6.1 Occupational Health and Safety

Relevance

OSRAM endeavors to offer its employees a safe and healthy working environment. Minimizing the risk of occupational illnesses and accidents at work forms part of this. In this way, we not only fulfill our responsibility to society as a whole but also reduce economic losses.

Guidelines, Responsibilities & Structures, Processes

Overall responsibility for occupational health and safety lies with the Chief Technology Officer (CTO), who has delegated tasks and managerial authority to the head of the corporate EHS department > [C.5.4 Environmental Aspects](#). The occupational health and safety guideline applies across the Company, and appropriate monitoring processes and training have been implemented for its compliance.

 Page 188

The locations in Wuxi, Kunshan, and Foshan, all China, Chennai, India, Penang and Kulim, both Malaysia, Bergamo, Italy, and the headquarters in Munich, Germany, have been externally certified according to OHSAS 18001. Our internal guidelines require the other production facilities to also maintain a management system for occupational health and safety in accordance with the OHSAS 18001 standard. Compliance is monitored by internal audits. Larger development and sales locations operate a reduced management system and contribute data to the health and safety indicators⁵⁾. The plant in Chennai, India, is additionally certified to SA8000, an internationally recognized standard for social accountability.

4) In each customer interview conducted as part of the survey, a value for OSRAM's best competitor is also recorded. Once the survey has been completed, the results of the individual 'best competitors per customer' are aggregated to a competitor value that is then compared with the OSRAM value (CLI).

5) In addition to the locations that are already covered by the environmental reporting, these include the sites in Shanghai (China), Traxon (Hong Kong), Alphaville (Brazil), Markham (Canada), Tultitlan (Mexico), Sunnyside (U.S.A.), Gurgaon (India), Yokohama (Japan), GSS Penang (Malaysia), Taipei (Taiwan), Seoul (Korea), Paderborn/Cologne (Germany), Molsheim (France), Langley (United Kingdom), Milan (Italy), and Poznan/Warsaw (Poland). The location in Panyu (China), which was closed in the first quarter, the luminaire production site in St. Quentin (France), which is disregarded due to its size, and the companies acquired in the Philippines and the U.S.A. during the fiscal year are all excluded from the data. The OSRAM CONTINENTAL R&D locations in Guadalajara (Mexico), Iasi (Romania), and Vienna (Austria) are also excluded.

At the aforementioned locations, the responsible managers must carry out a risk assessment for each area of activity in accordance with internal guidelines and with the support of trained safety officers. We have also established occupational health and safety committees in accordance with local legal requirements or on a voluntary basis. Furthermore, all OSRAM employees have an obligation and responsibility to be mindful of safety at all times, wherever they are.

Objectives

The Lost Time Injury Frequency Rate (LTIFR) and Severity Rate (SR) are the internationally recognized key metrics for our occupational health and safety management system. We attained our global target for LTIFR (see table below). The rate achieved was below that of the previous year. This is consistent with the absolute number of accidents at work resulting in lost days. We were unable to maintain the severity rate at the previous year’s level, however, and missed our target. The rate also increased compared with the prior year.

Action Taken and Results

In the fiscal year under review, we carried out a special project with the European locations, as the situation here was identified as being more critical than in the other regions. The corporate department helped to analyze the challenges in occupational health and safety at each specific location, and local programs were developed on this basis. These included special work safety days and video demonstrations aimed at raising safety awareness, as well as optimization of personal safety equipment. Although we made progress in terms of accident frequency, in all regions we did have to register some accidents resulting in long-term absences. Since we cannot directly influence medically justified absences, we will continue to work on reducing the overall accident rate.

Key Performance Indicators

Health and safety¹⁾

	Fiscal year		Target 2018
	2018	2017	
Global rate of occupational accidents with days of absence ²⁾ (LTIFR ³⁾)	0.27	0.34	0.34
Occupational accidents severity rate global ²⁾ (SR ⁴⁾)	9.62	5.31	4.45
Occupational accidents with lost days	76	87	

- 1) Without commuting accidents.
- 2) Scaled to 200,000 working hours.
- 3) Lost Time Injury Frequency Rate.
- 4) Severity Rate.

c.5.6.2 Fair Working Conditions

Relevance

We aim to offer our employees a working environment in which each person is respected as an individual and that is conducive to good and fair working relationships. This includes the right to freedom of association and fair, non-discriminatory pay. When restructuring, we endeavor to strike an appropriate balance between the interests of employees and employer.

Guidelines, Responsibilities & Structures, Processes

We are committed to giving our employees the right to freedom of association and the possibility of concluding collective agreements. These principles are set out in our Business Conduct Guidelines.

Collective agreements are in place at our largest European companies in terms of number of employees⁶⁾. We work closely with these companies' employee representatives (whether works councils or trade unions). In Germany, for example, this has resulted in a large number of works agreements.

Around the world, we make use of international frameworks such as those provided by the International Labour Organization (ILO) and the UN Global Compact. Our commitment to these frameworks and our understanding of the values they uphold are set out in our Business Conduct Guidelines, which every new employee must sign at the start of a contract: We respect the personal dignity, privacy, and personal rights of each individual and do not tolerate any discrimination. These principles apply both to internal working relationships and to conduct toward external partners such as suppliers. In Germany, our Company-wide agreement on partnership in the workplace expressly states that all employees should be valued and treated with respect, regardless of their gender, ethnic origin, religion or beliefs, physical limitations, or sexual identity.

Violations of the values set out in the Business Conduct Guidelines can be reported to the HR organization, the whistleblowing system 'Tell OSRAM' or, where available, the employee representatives. Reported incidents are dealt with on a case-by-case basis. The Compliance department is immediately called in if there is a suspicion of activity that may constitute a crime and/or may incur a fine; other matters are initially dealt with locally and then escalated if necessary until a solution is found.

Our remuneration system is designed so that pay is commensurate with performance and does not discriminate on the basis of gender or other characteristics. It is our responsibility to comply with local legal requirements, for example in relation to pay. In Germany, the collectively agreed remuneration system forms the basis for equal pay among workers covered by this scheme.

Restructuring is an essential step in OSRAM's transformation into a high-tech company. Where job cuts are unavoidable, OSRAM makes every effort to minimize the social impact and to consult its employees at the earliest stage possible.

Action Taken and Results

With regard to the transformation of the Company, we succeeded in agreeing a future concept for the German locations with the employee representatives in Germany during fiscal year 2018. The primary goal is to preserve these locations and to focus the Company on high-tech products and solutions. Over the coming years, OSRAM will invest a sum in the triple-digit millions of euros in research and development and in the further development of the plants in Berlin, Herbrechtingen, Regensburg, and Schwabmünchen, all Germany. The transformation will also mean that some job roles will be eliminated. A redundancy scheme and a social compensation plan were agreed for these. The agreed elimination of around 600 jobs by 2020 will be achieved by means of pre-retirement part-time employment, voluntary redundancies, and a retraining program. The latter is intended to equip employees affected by the job losses with skills that will allow them to fill new roles within the Company.

During the reporting period, an initiative was launched to develop OSRAM's new cultural values and leadership principles and roll-out was commenced. This initiative encompasses OSRAM's cultural values and leadership principles and focuses on how employees should work together and how leadership at OSRAM should be structured. It also encourages employees to treat each other with respect.

6) These are Germany, Italy, Slovakia, and the Czech Republic; Bulgaria is excluded.

In the reporting period, we also created a mechanism that in the future will allow violations of fair working conditions to be reported via the whistleblowing system 'Tell OSRAM'. The mechanism's integration into the existing system is scheduled to be completed by the end of calendar year 2018

› **C.5.8 Combating Corruption and Bribery.**

 Page 201

c.5.6.3 Employee Satisfaction and Employer Attractiveness

Relevance

Our employer attractiveness, i.e. how we are perceived internally and externally as an employer, is a key determinant of the long-term success of the organization, particularly in light of our transformation into a high-tech company.

Guidelines, Responsibilities & Structures, Processes

We have defined an employer positioning that is aligned with our corporate goals and that provides a strategic framework for our HR work. This is set out in an employer branding guide in order to maintain uniform standards across the Group.

Employee satisfaction in the form of engagement is usually measured every two years by means of a global survey conducted by Willis Towers Watson on behalf of HR. To obtain further feedback from employees, we use dialog events such as town hall meetings, 'Meet the CEO/CTO/CFO' sessions, and webcasts with the Managing Board.

Objectives, Action Taken, Results und Key Performance Indicators

The results of the most recent employee survey showed an improvement: Engagement⁷⁾ has improved from 79% since the last survey in 2014 to 83% in 2017. Retention was also examined⁸⁾: 66% of OSRAM employees felt that they were committed to the Company in 2014; the most recent survey, for 2017, showed that 73% of employees now feel this way.

The fiscal year was used to implement measures and to continuously monitor the progress of implementation. These are not global measures, but individual measures at divisional, departmental, and team level, or for individual locations.

We achieved our goal for the fiscal year of being awarded Top Employer Germany certification.

c.5.6.4 People Development

Relevance

We firmly believe that nurturing and developing our employees is key to improving their long-term engagement and therefore also driving the success of our Company. This is why we offer all employees opportunities for personal and professional development.

7) By engagement we mean not only the willingness of employees to dedicate themselves to the Company's mission, but also whether they think that their working conditions and working environment are productive and inspiring enough for them to be able to carry out their tasks successfully. The results are not completely comparable as two questions were dropped from the 2017 survey.

8) Retention is a measure of how likely an employee is to recommend OSRAM as an employer and to what extent the employee is considering leaving the Company. The results are not completely comparable as the 2017 survey included an additional question.

Guidelines, Responsibilities & Structures, Processes

We provide both employees and managers with development opportunities such as general further training courses (for all employees), schemes for high-potential individuals, and defined career paths with dedicated development programs⁹⁾. The many courses and activities offered as part of the general training program are available across all locations and can be tailored to individual needs. The program is reviewed once a year and modified if necessary. Employees are nominated for our high-potential programs and for the career paths and accompanying development programs via a performance management process. The high-potential programs are used to develop our most talented individuals at global and local level. The emphasis is on specific development plans and regular dialog with experienced mentors. A standardized global approach was developed in fiscal year 2018 and will be rolled out in the next fiscal year.

We offer our employees a range of development opportunities under the Leadership, Key Expert, and Project Management global career paths. The employees who follow these paths are thus able to focus on tasks that correspond to their individual skills profile. Under the Leadership scheme, OSRAM offers a career path for managers. Key Experts focus on core technology fields and functions that are based on the technology roadmap. The global Project Management career path provides employees with a development opportunity that is similar to the Leadership career.

The Managing Board is regularly informed about the programs and progress of our talent management system and also meets with high-potential individuals from around the world several times a year.

Objectives

OSRAM wants to focus even more on the strengths and potential of its employees, which is why we set ourselves the goal for fiscal year 2018 of establishing a new process for performance management and potential development.

Action Taken and Results

In line with the objectives, the new development process mentioned above—called GROW—was launched on schedule at the start of fiscal year 2019. It places greater emphasis on dialog between managers and employees and on greater freedom and personal responsibility.

During the reporting period, the recruitment process was changed in order that high-potential individuals from around the world are considered both in succession planning and in the filling of vacant positions. The changes will be implemented in the next fiscal year.

We also successfully launched our global trainee program LightUp! during fiscal year 2018, which will provide training to new recruits and make us even more appealing to graduates.

c.5.7 Respect for Human Rights

Relevance

In terms of human rights, it is important to OSRAM that it fulfills its duty of care toward its own employees and toward suppliers. As an international company with diverse products and complex global value chains, we know that our business relationships present the risk of human rights violations, especially for potentially more vulnerable groups such as migrant and temporary workers.

9) Participants in the development programs who transferred to OSRAM CONTINENTAL on July 1, 2018, will complete the program that has already been started.

Guidelines, Responsibilities & Structures, Processes

We are committed to the principles of the United Nations (UN) Human Rights Charter and, as a member of the UN Global Compact, we support its principles.

Human rights with regard to our employees are embedded internally through our Business Conduct Guidelines and with regard to our suppliers through our Code of Conduct [› C.5.6.2 Fair Working Conditions](#). HR coordinates our duty of care with regard to human rights.

 Page 196

We use various instruments and processes to help our suppliers implement our Code of Conduct and to monitor compliance with it. Based on the analysis of our procurement volume with regard to social risks, each year a selection of suppliers are requested either to submit an up-to-date corporate responsibility audit or to have it carried out, or to prove compliance with corporate responsibility requirements by means of equivalent certifications. In the period under review, one of the main critical issues of non-compliance was that maximum working hours were being exceeded, particularly in Asia. Several audits also identified defective protective equipment. An action plan agreed with the suppliers is being used to rectify the identified defects.

Our portfolio of products also requires the use of materials that are classified as conflict minerals due to their potential origin. In order to fulfill our responsibility in terms of human rights here, we have put due diligence processes for procurement in place. Responsibility for the issue of conflict minerals lies with the Purchasing department, which is assigned to the Chief Technology Officer (CTO) and reports directly to him. OSRAM has been a member of the Responsible Minerals Initiative (RMI) since 2017. The sharing of information and insights within the RMI is helping us to continuously improve our due diligence on conflict minerals. RMI training documents are available to our suppliers free of charge via an online training portal. When purchasing raw materials, OSRAM makes sure that it uses qualified sources. For example, all our directly commissioned smelters for conflict minerals are RMI certified.

Objectives

OSRAM strives for full transparency with regard to conflict minerals for its entire purchasing volume and is committed to dealing with the issue in accordance with OECD guidelines. For a number of years, we have been working on investigations into country of origin and on due diligence checks of the smelters in our supply chains. To date, we have not yet fully succeeded in establishing, together with our suppliers, the conflict-free status of all products within the portfolio.

Action Taken and Results

In the fiscal year, HR formalized our duty of care in terms of human rights at organizational level. We also worked on a comprehensive human rights policy that is set to provide the overarching framework for our human rights engagement in the future. Internally, this was fleshed out into a Group-wide human rights guideline that is to be adopted by the end of 2018. The integration of human rights risks into OSRAM's risk management system was also initiated.

To further strengthen our human rights due diligence processes in the supply chain, we published a revised Code of Conduct for Suppliers in April 2018. The scope of validity was extended from suppliers' own employees to employees of third parties, such as service providers. In addition, the Code now contains an explicit ban on all forms of modern slavery, forced labor, and human trafficking. Suppliers must also ensure that no internal or external employee is affected by unethical practices in the recruitment of new workers.

In this fiscal year, we analyzed our entire procurement volume with regard to social risks. On the basis of the identified risk areas, we will initiate appropriate risk mitigation measures in the future.

c.5.8 Combating Corruption and Bribery

Relevance

OSRAM is committed to prevent corruption and bribery as well as to fair competition.

Guidelines, Responsibilities & Structures, Processes

OSRAM's compliance management system is designed to prevent possible breaches of the applicable anticorruption and antitrust laws. To this end, a compliance guideline supplements, and defines in more detail, the conduct rules on tackling corruption and dealing with competitors that are set out in the Business Conduct Guidelines. The compliance management system follows the management system methodology described in IDW AsS 980.

OSRAM has several IT tools at its disposal for dealing with corruption-related risks. For example, we classify our business partners according to particular criteria, such as the prevalence of corruption in the country in which the partner operates.

Our suppliers must sign the Code of Conduct for Suppliers (CoC), which prohibits corruption and bribery.

Compliance risk assessments focused on anticorruption and antitrust law are regularly carried out in selected entities and areas of the business in order to identify compliance risks and make continuous improvements to the Group-wide compliance management system. As part of the internal control system, management and the Compliance Organization conducts half-yearly respective yearly controls of the tool-based processes for dealing with business partners and entertainment.

Another element of OSRAM's compliance management system is the whistleblowing system 'Tell OSRAM', which employees and third parties can use to report violations of compliance rules. All reports are followed up. Internal compliance investigations are carried out if there are concrete indications of wrongdoing. Once an investigation is complete, the Compliance department recommends measures to address any identified deficiencies and monitors their implementation. In the event of misconduct on the part of our employees, OSRAM may take disciplinary action in accordance with labor law.

From an organizational perspective, the compliance management system consists of employees at the headquarters and in the regions. The Chief Compliance Officer reports to the Chairman of the Managing Board. As part of its remit to supervise management functions, the Supervisory Board monitors the effectiveness and appropriateness of the compliance management system. At OSRAM, this task is assigned to the Supervisory Board's Audit Committee, to which the Chief Compliance Officer reports on a quarterly basis and, if needed, incident-driven.

To achieve our compliance objectives, we conduct classroom-based and online training sessions focused on anticorruption and antitrust law. The training courses are mandatory for all employees at certain functional levels and in certain sensitive functions (particularly sales, purchasing, and marketing).

Action Taken and Results

As part of the ongoing restructuring of the Group in recent years, our compliance management system has also undergone changes to its organization and function. In fiscal year 2018, we therefore engaged an auditor to audit our compliance management system pertaining to anticorruption and antitrust law in accordance with the IDW AsS 980 audit standard. A significant part of the audit took place in the reporting period (January 1 to June 30, 2018) and initially focused on OSRAM GmbH as the largest operating company and home of the corporate functions. OSRAM GmbH was certified without qualification in October 2018. The audit will resume in the period May to November 2019 so that audit certification can be obtained for the OSRAM Group as a whole.

Key Performance Indicators

Compliance incidents (in total)¹⁾

	Fiscal year	
	2018	2017
Reports on possible compliance violations	42	64
Compliance investigations (substantial)	20	16
Disciplinary consequences	3	4
Closed incidents from previous reportings	44	65

1) Compliance incidents encompass especially all plausible allegations of a violation of criminal or administrative law related to OSRAM's business activities.

C . 6

Independent Auditor's Limited Assurance Report

The assurance engagement performed by Ernst & Young (EY) relates exclusively to the German PDF version of the non-financial group report 2018 of OSRAM Licht AG. The following text is a translation of the original German Independent Assurance Report.

To OSRAM Licht AG, Munich

We have performed a limited assurance engagement on the separate non-financial group report of OSRAM Licht AG according to § 315b HGB ("Handelsgesetzbuch": German Commercial Code), consisting of the disclosures in chapter C.5 "Non-financial Group Report" as well as the sections A.1.1.1 "Business Model" as well as section A.1.1.3 "Organization and Reporting Structure" in the combined management report being incorporated by reference (hereafter non-financial group report), for the reporting period from 1 October 2017 to 30 September 2018. Our engagement did not include any disclosures for prior years.

A. Management's responsibility

The legal representatives of the Company are responsible for the preparation of the non-financial group report in accordance with §§ 315c in conjunction with 289c to 289e HGB.

This responsibility includes the selection and application of appropriate methods to prepare the non-financial group report as well as making assumptions and estimates related to individual disclosures, which are reasonable in the circumstances. Furthermore, the legal representatives are responsible for such internal controls that they have considered necessary to enable the preparation of a non-financial group report that is free from material misstatement, whether due to fraud or error.

B. Auditor's declaration relating to independence and quality control

We are independent from the entity in accordance with the provisions under German commercial law and professional requirements, and we have fulfilled our other professional responsibilities in accordance with these requirements.

Our audit firm applies the national statutory regulations and professional pronouncements for quality control, in particular the by-laws regulating the rights and duties of Wirtschaftsprüfer and vereidigte Buchprüfer in the exercise of their profession [Berufssatzung für Wirtschaftsprüfer und vereidigte Buchprüfer] as well as the IDW Standard on Quality Control: Requirements for Quality Control in audit firms [IDW Qualitätssicherungsstandard: Anforderungen an die Qualitätssicherung in der Wirtschaftsprüferpraxis (IDW QS 1)].

c. Auditor's responsibility

Our responsibility is to express a limited assurance conclusion on the non-financial group report based on the assurance engagement we have performed.

We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the International Auditing and Assurance Standards Board (IAASB). This Standard requires that we plan and perform the assurance engagement to obtain limited assurance about whether the non-financial group report of the Company has been prepared, in all material respects, in accordance with §§ 315c in conjunction with 289c to 289e HGB. In a limited assurance engagement the assurance procedures are less in extent than for a reasonable assurance engagement and therefore a substantially lower level of assurance is obtained. The assurance procedures selected depend on the auditor's professional judgment.

Within the scope of our assurance engagement, which has been conducted between September and November 2018, we performed amongst others the following assurance and other procedures:

- Inquiries of employees regarding the selection of topics for the non-financial group report, the risk assessment and the concepts of OSRAM for the topics that have been identified as material,
- Inquiries of employees responsible for data capture and consolidation as well as the preparation of the non-financial group report, to evaluate the reporting processes, the data capture and compilation methods as well as internal controls to the extent relevant for the assurance of the non-financial group report,
- Inspection of relevant documentation of the systems and processes for compiling, analyzing and aggregating data in the relevant areas, e.g. Environmental Protection, Health and Safety in the reporting period and testing such documentation on a sample basis,
- Inquiries and inspection of documents on a sample basis relating to the collection and reporting of selected data,
- Analytical procedures at group level regarding the quality of the reported data,
- Evaluation of the presentation of disclosures in the non-financial group report.

D. Assurance conclusion

Based on our assurance procedures performed and assurance evidence obtained, nothing has come to our attention that causes us to believe that the non-financial group report of OSRAM Licht AG for the period from 1 October 2017 to 30 September 2018 has not been prepared, in all material respects, in accordance with §§ 315c in conjunction with 289c to 289e HGB.

E. Intended use of the assurance report

We issue this report on the basis of the engagement agreed with OSRAM Licht AG. The assurance engagement has been performed for the purposes of the Company and the report is solely intended to inform the Company as to the results of the assurance engagement and must not be used for purposes other than those intended. The report is not intended to provide third parties with support in making (financial) decisions.

F. Engagement terms and liability

The "General Engagement Terms for Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften [German Public Auditors and Public Audit Firms]" dated 1 January 2017 are applicable to this engagement and also govern our relations with third parties in the context of this engagement ([https://www.ey.com/Publication/vwLUAssets/EY-idw-aab-2017-en/\\$FILE/EY-idw-aab-2017-en.pdf](https://www.ey.com/Publication/vwLUAssets/EY-idw-aab-2017-en/$FILE/EY-idw-aab-2017-en.pdf)). In addition, please refer to the liability provisions contained there in no. 9 and to the exclusion of liability towards third parties. We assume no responsibility, liability or other obligations towards third parties unless we have concluded a written agreement to the contrary with the respective third party or liability cannot effectively be precluded.

We make express reference to the fact that we do not update the assurance report to reflect events or circumstances arising after it was issued unless required to do so by law. It is the sole responsibility of anyone taking note of the result of our assurance engagement summarized in this assurance report to decide whether and in what way this result is useful or suitable for their purposes and to supplement, verify or update it by means of their own review procedures.

Munich, November 19, 2018

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft



Nicole Richter
Wirtschaftsprüferin
(German Public Auditor)



ppa. Dr. Patrick Albrecht