

# MERITOR SUSTAINABILITY REPORT

## About Us

Meritor is a leading global supplier of drivetrain, mobility, braking and aftermarket solutions for commercial vehicle and industrial markets. With more than a 100-year legacy of providing innovative products that offer superior performance, efficiency and reliability, the company serves commercial truck, trailer, bus and coach, construction, specialty and aftermarket customers around the world. Meritor is committed to sustainability and we have embedded this commitment in our company culture.

## Electrification – Meritor Leading an Industry Revolution

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As technology has advanced, we have worked hard to become an innovation partner for our customers. From concept to launch, we work closely together to ensure we are designing reliable and high quality products that meet or exceed their expectations now and in the future. As our customers have responded to air quality and fuel efficiency legislation and regulations, so our portfolio has evolved to include products that are more fuel efficient, lighter weight, safer, more durable and more reliable. A few technologies that we are currently working on include:

- Superfast ratios to get engine RPMs to 1,000 or lower on cruising speeds to optimize fuel efficiency
- Engageable tandem axles that provide significant fuel economy benefits particularly when additional torque is not required
- Single-piston air disc brakes and industry leading dual-piston brakes with active and positive pad retraction to reduce rolling friction at cruising speeds
- Active lubrication management, which removes lubrication from the gearing and the axle at cruising speeds, thereby reducing parasitic losses, and increasing fuel economy
- Composite drivelines made of carbon fiber that significantly increase fuel economy, reduce weight, and increase payload capability
- Advanced data collection and analysis to evaluate metrics such as lube health, maintenance timing, automatic tire inflation on truck and trailer, and pad sensing on brakes

In the next 10 years, we see changes coming that will revolutionize our industry and completely change the way a vehicle looks, runs and is manufactured. We see momentum building in the shift towards new, advanced technologies in electrification and alternative energy drivetrains and we are positioning ourselves to provide a full suite of solutions for our customers in an electrified future.

### *Blue Horizon*

Blue Horizon was created by Meritor to revolutionize commercial vehicle transportation. It represents the company's emerging platform of advanced technologies centered on electric drivetrain, efficiency and connectivity systems. Products offered under the new brand will include integrated electrified solutions for Class 4-8 commercial vehicles across multiple vocations, including pickup and delivery, drayage/terminal tractors, transit and school buses, as well as line-haul and other heavy-duty applications.

Backed by our years of experience as a leading manufacturer and innovator, Blue Horizon is uniquely positioned to deliver the efficiency, connectivity and electric solutions to meet the needs of companies today with a commitment to being the leader in developing the advanced technologies of tomorrow.

As a result of this strategic focus, we have researched and developed a number of innovative products that support the trend toward electrification.

- eAxle Solutions
  - o Integrate the electric motor into differential or wheel ends
  - o Reduce weight, cost and space required
- eBrakes
  - o Optimize electric vehicles with regenerative braking
  - o Lower weight, cost and improve packaging for air and hydraulic brake platforms
- Precision Gearing
  - o Improves efficiency through greater power density gear design
- Suspensions
  - o eCarrier or in-wheel motor solutions for independent suspension electric vehicles

These innovations have resulted from our significant research, development, engineering and product design capabilities. We employ professional engineers and scientists globally. We have advanced technical centers in North America, South America, Europe and Asia Pacific (primarily in India and China). The table below shows the amounts spent on research, development and engineering.

(in \$ millions)	2016	2017	2018
Research, Development and Engineering spend	68	69	73

In addition to investing in the organic growth of our clean technology expertise, we are pursuing opportunities for industry collaboration and partnerships. At the end of 2017, we made a strategic investment in TransPower, a leader in electrification technologies for large commercial vehicles, to help us accelerate introduction of our flexible electric axle platform and enable large-scale manufacturing of electric drive components and systems. We seek to leverage core competencies of TransPower such as software/controls, electric and hybrid products, and on-road electrification experience while building on our own core capabilities such as commercial relationships, product manufacturing and a worldwide sales/service network.

As of February 2019, we have more than 20 electric programs with global OEM's. These programs are expected to be applied to fully electric medium and heavy-duty commercial trucks on the road through 2020. Meritor's e-axle programs have recorded over 150,000 miles to-date. In the first half of 2019, we expect a major fleet customer will begin operating the first of six medium-duty Peterbilt Model 220EV Class 6 pick-up and delivery trucks equipped with Meritor's 14Xe electric drive systems and fully integrated subsystems from TransPower. Many of the commercial vehicles expected to be placed into service by 2020 have received funding from the California Air Resources Board as part of a broader effort to reduce carbon emissions.

## Environment, Health and Safety

Environment, Health and Safety (“EH&S”) risk management is a core value, a prerequisite for our continued commercial success and forms an integral part of our business strategy.

Our EH&S commitments are guided by our EH&S Policy, which is global in scope and covers all company entities, affiliates and consolidated joint ventures. Responsibility for the policy lies with our Senior Vice President, Human Resources.

As per our [EH&S Policy](#), we are committed to complying with all applicable environmental, health and safety laws and regulations and are committed to building a performance-based culture that encourages our employees to strive for best practices in EH&S performance. We include EH&S responsibility and performance as relevant factors in employment, retention, compensation and business decisions. We provide our employees regular training on EH&S issues.

At Meritor, we demonstrate an ongoing commitment to EH&S management by maintaining open and constructive relationships with regulatory agencies, community organizations and other interested parties.

### *Health and Safety*

The safety of our employees is our top priority. We strive to achieve incident-free operations through continuous improvement processes, guided by our EH&S Policy, and managed through our Health and Safety Management Systems, which are certified as ISO 45001 compliant.

Plant managers globally have responsibility for H&S management system compliance, implementing safety procedures and tracking safety metrics at their site. Plant safety reports are published at the end of each month and shared with our CEO and Chief Safety Officer, Jay Craig.

At Meritor, we track the Lost Time Incidence Rate as well as the Overall Case Rate on a company-wide basis. These statistics provide important safety information and are tracked per 200,000 labor hours worked.

	2016	2017	2018
Lost Time Incidence Rate	0.15	0.15	0.20
Overall Case Rate	0.76	0.48	0.72

In fiscal year 2017, we achieved an overall case rate of 0.48 injuries per 200,000 hours, which we believe is world class for an industrial company like Meritor. During 2018, we achieved an overall case rate of 0.72 injuries per 200,000 hours, slightly above our M2019 target of 0.65. Our safety rate in fiscal year 2018 was slightly unfavorable to fiscal year 2017. This was due in large part to the 15-percent increase in hours worked in our manufacturing facilities due to peak markets in North America and high production demand globally. This high production rate required the onboarding of a significant number of new employees in a short period of time.

Even with the significant increase in hours, sixteen of our 40 measured facilities had no recordable incidents in the entire fiscal year. We attribute this to the diligence of our employees and the safety programs and equipment we have instituted throughout our global operations to protect them. In an effort to continually improve our safety rate, we will maintain our diligence through

training and education of our employees, reducing certain behaviors that are known to create safety issues and continue to maximize risk identification and hazard assessment.

Reiterating our commitment to safety, we have further improved on our safety target for our M2022 planning period. The overall case rate target for 2022 is 0.55 per 200,000 hours worked, an improvement from the 0.65 target in 2019.

### *Environmental Management*

As per our EH&S Policy, Meritor is committed to the protection of the environment. We have developed a framework for setting and reviewing our EH&S objectives and targets, and for driving continual improvement in EH&S management and performance including the conservation of natural resources.

We have a centralized environmental department that sits within our core Global Truck business unit and reports up to our executive leadership team through the President of our Global Truck business. We have an EH&S coordinator at each plant that reports to a plant manager. Each of the plant managers rolls up under the President of Global Truck's organization. This team works closely with our environmental compliance experts in our legal and compliance group to ensure we are aware of the latest trends in environmental compliance and sustainability.

Over 70% of our manufacturing and distribution facilities are in compliance with the ISO 14001 certification. In addition to systematic management of environmental risks under normal operations, ISO certification also requires the adoption and regular verification of emergency plans and procedures, and related staff training. These procedures define roles, responsibilities, and responses when tackling emergency situations, to protect both people and the environment.

The environmental certification maintenance process entails a series of external third-party audits, carried out by accredited bodies. The audit process involves annual surveillance monitoring with certification renewal every 3 years. Furthermore, plants are required to perform an internal audit annually to verify the performance of their environmental management systems and to document their processes of contributing to the environmental pillar of sustainability. Ensuring compliance with environmental regulation is a core component of our environmental management system. We're proud that as part of our business waste management program, five of our manufacturing facilities around the globe are landfill-free, eliminating 2,356 metric tons from the waste stream through recycling.

At Meritor, we also have an extensive brake remanufacturing program that reduces our carbon footprint. In 2018, our North America operations remanufactured 7.3 million brake shoes, of which only 1.1 million were made with new steel. This operation led to recycling 6,500 tons of steel. In addition to the steel recycled, the remanufacturing operation led to recycling 623 tons of other waste (cardboard, shrink wrap, paper, plastic and aluminum cans).

At our European brake remanufacturing operation, we typically remanufacture over 50,000 calipers and 1,200 differentials every year. Since the start of the program in Europe, we have remanufactured over 370,000 calipers and over 50,000 differentials. Through our European operations, we typically recycle 1,700 tons of iron and steel each year and thereby save over 3,300 tons in carbon emissions.

Meritor continues to invest to help improve the local environment through various community engagement programs. In 2017, a

contribution from Meritor and its joint venture partner, the Kalyani Group, transformed the polluted 9.5-acre Thippayana Lake in Mysore, India into a clean oasis for the local community. We're also a supporter of Choose Outdoors, a US-based nonprofit organization created to promote and preserve access, use and the future of outdoor recreation on public lands.

## Human Capital

We believe that our strength to compete in the global market is dependent upon the engagement of every Meritor employee and that a high-performing team is critical to the level of performance we want to achieve. We have partnered with leading world-class universities to identify and drive top talent to the company. We provide jobs that include:

- Financial and non-financial benefits
- Health and wellness benefits
- Personal development opportunities
- Employee engagement initiatives

We have established various development and training programs to help our employees grow as we grow. Additionally, we executed leadership development programs for managers, directors and senior leaders around the world.

- For managers, we initiated E-Learning modules and two new courses that address important areas for advancement including accountability, delegation, and providing and receiving feedback.
- For certain director-level employees, we sponsor the Leadership Edge program— a 10-month program whose objective is to develop advanced leadership skills, prepare high-potential leaders for senior level positions and strengthen business acumen.
- For certain senior-level leaders, we continued the Summit, which provides executive coaching, the opportunity to attend executive training sessions tailored to each individual's background and career goals, participation in a MBA-level finance course, if needed, and engagement in mentorship opportunities with a member of Meritor's Board of Directors.

To ensure we provide a rich experience for our employees, we will continue to measure employee engagement to build on the competencies that are important to our future. We routinely engage an independent third party to conduct an employee engagement survey. Results for 2018 improved on the 2016 results and were significantly better than results for 2014. Results for the 2018 survey show top quartile performance across categories such as Involvement, Consistency, Mission and Adaptability. These results are indicative of high employee engagement driving strong business performance.

### *Diversity and Inclusion*

We will also continue to diversify our workforce because we recognize the value of different opinions and backgrounds in a company as global as Meritor. We are committed to recruiting, developing and retaining a high-performing and diverse workforce. At Meritor, employee resource groups such as African American, Women and Veterans take part in activities that promote an engaged and diverse work environment, and they also promote a culture of diversity, inclusion and continuous learning of new concepts, skills and behaviors. Meritor was named a Veteran Friendly employer by the Michigan Veterans Affairs agency for positive military veteran recruitment, training and retention practices, with veterans comprising approximately 5 percent of Meritor's US workforce.

As an employer, Meritor treats all employees and applicants for employment without discrimination. We reject all forms of discrimination, and specifically discrimination based on race, gender, sexual orientation, personal and social status, health, physical condition, disability, age, nationality, religious or personal beliefs, or against other protected groups. Meritor is represented by a diverse board of directors and women comprise nearly 40 percent of the executive team. Additionally, almost 20 percent of the organization based in the United States comes from ethnically diverse backgrounds. The following tables show the diversity statistics for our global and US locations.

Female % (Global)	FY16	FY17	FY18
Board	30%	25%	22%
Executive committee	25%	33%	38%
Total Company (Global)	24%	24%	24%

Ethnicity % (US Only)	FY16	FY17	FY18
Board	20%	13%	11%
Executive committee	25%	22%	25%
Total Company (US Only)	16%	17%	18%

Meritor has taken actions to step-up its diversity recruiting. Initiatives include targeting universities with significant populations of racial minorities, building relationships with women and minority student led organizations, and attending diversity conferences.

### How We Operate - Corporate Governance

At Meritor, we are committed to good corporate governance and believe that operating in an ethical manner, in compliance with the laws of the countries in which we operate, is crucial to our stability and long-term success. We believe that operating in an ethical manner, in compliance with the laws of the countries in which we operate, is crucial to our stability and long-term success. All of our employees, including our chief executive officer, chief financial officer and controller, and members of our Board of Directors, are required to comply with our corporate policies regarding standards of business conduct and conflicts of interest. These policies have been in place since the company's inception. The purpose of these corporate policies is to insure that our business is conducted in a legal and ethical manner.

These corporate policies form the basis of a comprehensive process that includes compliance with all Meritor policies and procedures; training and certification; and procedures for reporting violations. The policies include such areas as conflicts of interest, protecting sensitive information, gifts and payments, export controls, environmental compliance, and adherence to other laws and regulations applicable to the conduct of our business. All employees undergo training at the time of hire to familiarize them with our Standards of Business Conduct and Conflicts of Interest policies, and participate in periodic refresher courses to keep their knowledge up to date. Also, all salaried employees must certify annually as to their awareness of any conflicts of interest.

Employees are obligated to report any conduct that they believe in good faith to be an actual or apparent violation of Meritor's Standards of Business Conduct and Conflicts of Interest policies. Procedures are in place for the reporting of each such complaint to either the complainant's supervisor, the employee Helpline, the office of the general counsel or the Business Standards Compliance Committee (composed of representatives of Internal Audit, Human Resources and Legal), and for subsequent investigation and resolution of each complaint. Reports through the Helpline can be made anonymously.

Code of ethics: [Policy document](#)

## Quality Management

At Meritor, quality is a top priority. Our quality policy states:

We are passionate about quality and integrity in all that we do, and we strive to exceed customer expectations by:

- Placing product safety first
- Listening to the voice of our customers in all aspects of our business
- Practicing continuous improvement to achieve zero defects
- Partnering with suppliers to maximize value

Meritor is focused on establishing a zero-defect culture. Although a zero-defect quality culture has been part of the automotive space for some time, the level of performance expectation is a growing trend within the trucking industry – and our customers demand it. By building quality into our processes and delivering consistently lower PPMs at a competitive cost, we set ourselves apart from competitors.

From a footprint perspective, 28 of Meritor's facilities are certified to quality management systems standards. Eight sites hold ISO 9001 certification, 19 sites hold IATF 16949 certification and 1 facility holds both certifications.

## Supply Chain

Meritor's EH&S policy confirms our commitment to consider EH&S impacts in our work with our suppliers, to mutually address safety and sustainability concerns.

We have adopted a [formal policy](#) requiring all suppliers to certify their compliance with all applicable laws against human trafficking and slavery. As part of this policy, our buyers are required to be trained to comply with laws against human trafficking and slavery, including the steps to be taken to ensure that our suppliers are aware of, and agree to comply with, this policy.

We will audit any supplier which we have reason to believe may be engaged in any activity that would violate applicable laws against human trafficking and slavery to ensure compliance with these laws.

Furthermore, we have implemented a conflict minerals [compliance program and policy](#) intended to promote responsible sourcing of tin, tantalum, tungsten, and gold (3TG) from the Democratic Republic of Congo (DRC) and surrounding region, where revenues from the extraction of natural resources have historically funded armed conflict and human rights abuses.

The conflict mineral policy ensures that all materials and products provided to us meet or exceed all applicable environmental laws and regulations of the jurisdictions in which the supplier does business. Suppliers must meet the same requirements that our customers demand of us. Suppliers are strongly encouraged to install environmental systems in their facilities that are compliant to ISO 14001.

We consider our suppliers an extension of our team and recognize the following certified diverse classifications: Minority, Woman, Veteran-Owned and Small Business.