

**NON-FINANCIAL STATEMENT /
CSR REPORT**

Summarised non-financial report 2017/2018 for GESCO AG and the GESCO Group pursuant to the CSR Directive Implementation Act (CSR-RLUG)

Since its foundation in 1989, GESCO AG has pursued a business policy focused on the principles of long-term entrepreneurship and sustainability that is aligned with the interests of shareholders, employees, customers and other stakeholders as well as the principles of good corporate governance and compliance. It is also duty bound to conduct business in an environmentally friendly manner. In accordance with the CSR Directive Implementation Act (CSR-RLUG), GESCO AG submits a **non-financial statement** in which it reports on the primary aspects of its sustainability activities. We have established a systematic reporting process and are currently setting up a corresponding sustainability management concept. In the first year of the report, financial year 2017/2018, the focal point is on activities at GESCO AG and the controlling function it performs for the Group. In subsequent years, the scope of reporting will be expanded to include subsidiaries to an extent that is sensible and appropriate. Looking further forward, we intend to implement sustainability reporting in accordance with an established standard such as the Global Reporting Initiative (GRI) or the German Sustainability

Code (GSC). In our first non-financial statement, we are not applying an existing framework and follow the requirements of the CSR Directive Implementation Act (CSR-RLUG). We consider CSR (corporate social responsibility) to be all issues relating to our responsibility towards the environment, employee-related and social issues, including human rights, compliance and principles of sound corporate governance.

Our CSR report is **aimed** at providing internal and external stakeholders with transparent insight into the strategies and processes at GESCO AG and GESCO Group and, at the same time, raising our own awareness of these issues, analysing opportunities and risks in a more differentiated manner, questioning strategies and, last but not least, strengthening the Group's future. CSR reporting helps to analyse and assess the consequences of our entrepreneurial activities and to improve the way we do business.

In **establishing its systematic CSR reporting process**, GESCO AG joined forces with an external partner and opted for a roadmap involving several different stages and running across multiple years. After a number of preliminary meetings, two externally moderated workshops were held for the Executive Board, technical and commercial investment managers and representatives of M&A and Investor Relations. The first workshop involved addressing issues linked to the group of subsidiaries. In the second workshop, discussions centred around the holding company and included looking into internationally recognised regulatory frameworks such as GRI, ISO 26000 and the UN Global Compact, performing a relevance review of key issues and taking into account the provisions of CSR-RLUG. In particular, the role of the holding company and its effects on the five CSR aspects was analysed. This resulted in the five issues outlined in CSR-RLUG being defined in precise terms and

specifically attributed to GESCO AG. The following issues are focused on in the report:

Environmental matters

- Reducing energy consumption
- Saving resources

Employee matters

- Occupational health and safety
- Robust organisation

Social matters

- Corporate social responsibility in the value chain
- Enabling succession

Respecting human rights

- Preventing human rights violations in the value chain

Fighting corruption and anti-competitive conduct

- Ensuring compliant conduct

In this report, we present the GESCO business model and explain the basic strategy when dealing with relevant CSR matters. The risks, concepts pursued, measures and outcomes, as well as targets and performance indicators, are described for each CSR matter. More information on risks from these matters can be found in the opportunity and risk reports of GESCO AG and the GESCO Group. Social matters and respecting human rights have been summarised.

THE BUSINESS MODEL

GESCO Group is an association of small and medium-sized enterprises operating independently from one another with a decentralised organisational structure under the umbrella of GESCO AG, which functions as a holding company. GESCO strives to generate profitable growth on the basis of its existing portfolio and external growth by acquiring further industrial SMEs, particularly in the case of succession situations. The holding company's management of the Group is based on this target. The subsidiaries are small industrial companies. Putting Dörrenberg Edelstahl GmbH, which is the largest company in the Group by a considerable margin, to one side for a moment, the subsidiaries generate an average sales volume of roughly € 20 million with an average workforce of 120 employees. Each subsidiary is allocated to one of four segments: Production Process Technology, Resource Technology, Healthcare and Infrastructure Technology and Mobility Technology. The individual business models vary greatly and range from mechanical and plant engineering to components for agricultural engineering and manufacturing paper sticks for the hygiene and confectionery industries.

The financial situation and business performance of GESCO AG and the GESCO Group is presented in the corresponding management reports in the financial statements for financial year 2017/2018. The Annual Report of GESCO AG and the websites of GESCO Group companies provide more information on the business models and areas of activity of each subsidiary.

GESCO AG'S ROLE AS A SHAREHOLDER

GESCO Group has a decentralised organisational structure with individual companies managed independently from one another by separate managing directors or managing partners, respectively. The holding company does not perform any central functions, and so matters such as finances, human resources and purchasing are left to the subsidiaries themselves.

GESCO AG performs its activities as a shareholder primarily at the following levels:

- general decisions on the acquisition of companies and therefore on the composition of the portfolio
- appointing the management teams of subsidiaries
- approving annual budgets
- approving larger investments
- involvement in subsidiaries' strategic consultations
- ongoing controlling
- establishing Group-wide standards (such as a code of conduct)
- master agreements and service level agreements (IT security, insurance cover)
- project-related consulting and commercial and technical support
- annual, Group-wide management meetings with opportunities to share knowledge and experience and draw on external expertise
- circulars to management teams providing information, asking for feedback or raising awareness on specific issues
- Group-wide training and information events for managing directors as well as, depending on the topic, also for technical and management personnel

Most manufacturing sites are located in Germany and are therefore subject to extremely high standards and strict legal requirements.

GESCO AG is in continuous dialogue with the management teams and management personnel at subsidiaries and has fixed processes and reporting structures on all aspects of entrepreneurial activities. The holding company has a variety of different competencies in place to offer a range of perspectives on the subsidiaries' tasks; these include Executive Board members, technical and commercial investment managers and representatives from Legal, M&A and Investor Relations.

The plan is to intensify liaison between the subsidiaries moving forward and expand GESCO AG's function as a central knowledge platform for issues of primary importance. These include CSR issues that have already been considered significant.

ENVIRONMENTAL MATTERS

The majority of the operating subsidiaries operate in the areas of mechanical and tool engineering, mechanical manufacturing and assembly and therefore have less of a direct impact on the environment compared to other areas of the manufacturing industry. Two subsidiaries are of greater relevance when it comes to environmental issues due to their business operations in the metallurgy and electroplating industries. These subsidiaries use environmental management systems or operate under strict manufacturing conditions.

Most manufacturing sites are located in Germany and are therefore subject to extremely high standards and strict legal requirements. By complying with legal requirements and standards, and exercising a great deal of care in their business processes, the companies consider themselves to be well equipped to minimise their impact on the environment to the greatest extent possible. As a result, we believe that the risks posed by the business operations of GESCO Group on the environment are comparatively low.

Nevertheless, we consider **energy and resource efficiency at subsidiaries and their customers** to be a material issue and include it in our CSR reporting process. This is due to the fact that saving energy and resources can give subsidiaries a competitive advantage and that issues such as these are fundamentally relevant from the perspective of competition for raw materials and the potential tightening of legal requirements. Energy and resource efficiency is a matter that directly concerns companies' own manufacturing operations and, in the case of our mechanical and plant engineering companies, the manner in which their products are used in their customers' manufacturing operations. As an administrative company, the business operations of GESCO AG itself only have negligible effects in this regard.

Besides the risks of GESCO Group's business operations having a negative impact on the environment and risks resulting from damage to the environment and their associated financial and reputational effects, the long-term strategic risks GESCO Group is exposed to include technological change, which itself is strongly affected by environmental issues such as climate change and the resulting political aim to reduce the carbon footprint of the economy. Specifically, this change manifests itself in the development of alternatives to the internal combustion engine and the use of alternative resources. Subsidiaries take these risks into account by duly adjusting their strategies and business models in line with these changes. This process of transformation can give rise to risks but also to opportunities for new products and services.

Environmental issues are generally managed on a decentralised basis within the individual companies. GESCO Group companies aim to exceed legal requirements and standards when it comes to resource efficiency and saving energy where possible and where it makes economic sense.

GESCO AG actively engages in the best practice of conveying environmental issues to the rest of the Group as a way to share expertise.

The companies also strive to implement new, resource-efficient materials and procedures in place of those that have a negative impact on the environment. GESCO AG is fully behind these efforts and is generally supportive when it comes to environmentally friendly technologies. This mindset is defined in the Group's Code of Conduct. GESCO AG actively shares environmental issues with the rest of the Group as a best practice and as a way to share expertise. As a long-term investor, GESCO AG also supports companies' efforts to modernise technical equipment and promotes the use of automation where appropriate.

The domestic companies in GESCO Group have all conducted an energy audit in which they identified potential for energy savings and, if appropriate, implemented corresponding measures.

When reviewing M&A projects and investments in land and buildings, GESCO also reviews environmental aspects such as potential land contamination. When drawing up construction projects, GESCO AG also supports investments in measures to promote the protection of the environment and conserve resources.

Hubl has
invested
around
10%
of the sum
required to
construct
a building
extension in
environmental
measures.



Example: As part of its new extension opened in May 2018, Hubl GmbH invested around 10 % of the total construction amount in environmental measures; these included an extensive green roof, a planting plan for native trees, a flower garden featuring plants grown from local seeds and an insect house. In addition, employees will be planting a vegetable garden. As part of the construction measures, the site has also been connected to the district heating network.

The general trend towards conserving energy and resources can lead to opportunities arising. This particularly applies to subsidiaries operating in the areas of mechanical and plant engineering that are able to offer their customers innovative solutions to conserve energy in their own production facilities.

Example: The current generation of MAE Maschinen- und Apparatebau Götzen GmbH wheel presses saves 90 % more energy compared to the previous generation and almost completely eliminates noise pollution.

In automotive construction, some subsidiaries are benefiting from the trend towards lightweight construction, which is also a means of saving energy. This applies to the construction and manufacture of forming dies for high-strength panels at the Werkzeugbau Laichingen Group and to aluminium injection moulding at Modell Technik GmbH. 3D printing technology, as used by C.F.K. CNC-Fertigungstechnik Kriftel GmbH, enables significant weight savings for metal parts thanks to the high level of constructive freedom permitted by this form of technology. As a manufacturer of paper sticks for the hygiene and confectionery industry, the Setter Group is benefiting from a trend in some markets towards banning plastic sticks with the aim of cutting down on plastic waste.



Energy consumption has been reduced by 90 % and noise emissions have been almost completely eliminated by current generation of wheel set presses.

Environmental aspects, and particularly resource and energy efficiency, are to be taken into greater consideration on a more systematic basis in future investment requests from subsidiaries. In addition, environment issues affecting production but also products and services themselves are to be covered in a more in-depth manner in the annual strategic consultations. We see potential for development in this area and consider it to be a significant means of leveraging our key environmental issues, against which the performance of the holding company will be able to be measured moving forward.

EMPLOYEE MATTERS

In our workshops, we identified occupational health and safety and robust organisation as two significant aspects of employee matters. We consider employee health problems and challenges in attracting and retaining suitable employees to be relevant risks. Each individual company is responsible for human resources management.

GESCO Group companies consider **occupational health and safety** to be key management tasks.

They place great value on properly organised, ergonomic workspaces and regular training. As a long-term investor, GESCO AG is keen to implement modern technology and ensure that adequate safety equipment is in place. These guidelines are defined in the GESCO Group Code of Conduct. As a shareholder, GESCO AG sent out a circular to the subsidiaries' managing directors in February 2018 to highlight the importance of occupational health and safety and corresponding measures such as employee training.



Frank has realised extensive automation projects that replace tasks that involve excessive physical effort.

GESCO AG has collected data on employee absences on a monthly basis since 2016, which it also communicates in anonymous form to the rest of the GESCO Group. Any significant discrepancies or increases in employee absences are discussed in monthly meetings with the subsidiaries.

GESCO AG advises and supports subsidiaries in their automation projects.

Example: Over the past few years, Frank Walz- und Schmiedetechnik GmbH has been implementing an extensive automation project with the help of GESCO AG's technical and commercial investment management team which eliminates tasks involving excessive physical effort.

At some subsidiaries, employee matters also concern their products and the manner in which their products are used by customers. Through their products, subsidiaries can help their customers improve the workplace for their employees. This gives our companies additional selling points for their products and an advantage over the competition.

As an example, the suspension systems manufactured by Haseke play a major role in improving ergonomics in industrial and medical applications. The new generation of wheel presses manufactured by MAE Maschinen- und Apparatebau Götzen GmbH has almost completely eliminated noise emissions compared to the previous generation, which significantly improves the situation in the workplace accordingly.

Subsidiaries operating in the mechanical and plant engineering sectors have implemented a range of measures to ensure that their customers' employees can use products safely and appropriately. Training, induction and commissioning periods are just as important as comprehensive product documentation and after-sales service and assistance.

The suspension systems manufactured by Haseke play a major role in improving ergonomics.



The holding company GESCO AG will be looking to increase its level of transparency moving forward, particularly in the area of occupational safety. To do so, subsidiaries are to report to GESCO AG on occupational accidents resulting in days of employee absence as well as reportable accidents as part of their regular reporting processes. The performance indicator in this case will be based on consolidated figures gathered from all subsidiaries, which will then be compared against total working hours of all employees. The holding company will also increase its level of transparency with regard to companies and sites abroad.

We consider the **robust organisation** concept to be a way to secure the company's future from an employee-related perspective. In particular, the concept covers issues relating to the organisational structure of the company, its status as an employer and training and further education. For GESCO AG, it is vital that all positions throughout the company are held by the most suitably qualified, loyal and motivated employees that are willing to perform. This applies to the personnel structure of the holding company itself, but also to the managing directors in place at subsidiaries, which are appointed by the holding company, and the first level of management at the subsidiaries, the recruitment of which also involves the holding company.

In 2015, GESCO AG joined forces with an external partner and began to conduct systematic **employee surveys** at certain companies. These surveys are aimed at obtaining an authentic insight into employee sentiment through aspects such as employee satisfaction and stress levels and, if necessary, identifying potential for improvement. In addition, the surveys also give companies specific and credible arguments for their status as an employer. Surveys were carried out at three other subsidiaries in financial year 2017/2018.

Since its IPO in 1998, GESCO AG has offered GESCO Group employees in Germany the opportunity to participate in an **employee share scheme**. This scheme allows participants to acquire GESCO shares at a reduced price using tax-free allowances. This way, GESCO AG helps its employees make personal contributions to their pension plans, promotes employee investment in productive capital, enables employees to own a stake in the company and fosters a shareholder culture. We use the level of participation among eligible employees in the annual employee share scheme as a performance indicator. In financial year 2017/2018, the participation rate was roughly on a par with the previous years at approximately 45 %.

The companies also value **sustainable training** and offer courses in both commercial and technical areas as and when possible and required as a result of their business operations. Furthermore, many companies also offer dual study programmes in partnership with universities.

We gather data on the training ratio at Group level, although we focus on employees in Germany for the purposes of comparability. The training ratio stood at 5.8 % at the end of financial year 2017/2018 and therefore on a par with the previous year's figure of 5.6 %.

GESCO Group companies position themselves as **attractive employers** in their respective sectors and regions. Dörrenberg Edelstahl GmbH has given out its Dörrenberg Award every year for ten years now. This award is a highly acclaimed prize for up-and-coming materials technology talents. Other company activities include participation in



Dörrenberg
Edelstahl
GmbH is now
in its tenth
year of
presenting
the
Dörrenberg
Studien
AWARD.

initiatives such as Girls' Day and other partnerships with schools, guided tours for visitors as part of the Night of Industrial Culture event or company events for employees and their families.

SOCIAL MATTERS / RESPECTING HUMAN RIGHTS

In the areas of social matters and human rights, we have identified "corporate social responsibility in the value chain" and "preventing human rights violations in supply chains and by customers" to be key issues. As a result, we report on these two issues together. In addition, we consider "enabling succession" to be a key contribution from GESCO AG to the issue of social matters and we therefore report on it separately.

Risks relating to corporate social responsibility in the value chain concern relationships with suppliers and customers alike. The production of raw materials as well as the local conditions, working conditions and environmental conditions at suppliers may have negative consequences that could be attributed to us. The same applies to the potential impact on people, health and safety and the environment caused by products and the manner in which they are used by customers. Severe problems relating to social matters and human rights violations could put the company at risk of reputation damage and financial losses.

GESCO AG companies are mostly based in Germany, and so operate in a highly regulated environment. As small and medium-sized enterprises, they mainly procure raw materials, preliminary materials and components from established German suppliers. Over 80 % of sales are generated in Germany and the rest of Europe, and so also in markets subject to strict regulation. By using conventional supply chains mostly involving established and often large suppliers and customers, we believe that we have met our responsibilities in terms of the supply chain to a sufficient extent, although this is based on the assumption that suppliers and customers operate in accordance with the law and regulatory requirements. Given that the majority of our subsidiaries are small and medium-sized enterprises, we also consider the potential to influence other levels of the value chain to be limited.

The GESCO Group Code of Conduct governs general questions concerning customers and suppliers (see “fighting corruption and anti-competitive conduct”). So far, no other dedicated concept has been put in place in relation to the issues of social matters and human rights given what we consider to be a limited influence of GESCO Group companies. However, we will be looking into these issues in greater detail moving forward considering their growing importance and the increasing internationalisation of the Group. We will be raising awareness among the subsidiaries about responsibility in the supply chain, particularly in terms of critical raw materials and regions, in order to increase transparency within the Group. We will be placing particular focus on international companies and sites. Here, we will take into consideration established standards, requirements and recommendations from relevant industrial associations

As SMEs, the GESCO AG companies primarily procure their raw materials, primary materials and components from established, predominantly German providers.

and also draw on the NAP (German National Action Plan for the Implementation of the UN Guiding Principles on Business and Human Rights). Further measures can then be planned on the basis of these results.

It must continue to be checked whether this area can be developed in line with the GRI 414 Supplier Social Assessment standard in areas in which subsidiaries can exert particular influence due to their market position or the particular nature of their relationships with business partners.

Special issue:
Enabling succession

We have identified this issue as having particular relevance as a separate issue. The founding principle and business model of GESCO is based on enabling succession and developing companies in line with our long-term investment approach. This goes hand in hand with fostering prosperity and generating income for employees, shareholders, business partners and the public sector.

Acquisition strategy

GESCO AG strives to acquire up to three companies per year. In this process, GESCO analyses potential takeover candidates that GESCO becomes aware of through its established network but that may also be identified and contacted directly.

Due diligence is then conducted, in which the acquisition target is analysed and assessed in terms of its risks, opportunities and future viability. This process covers financial, legal and tax-related criteria as well as technology and market-related aspects. CSR issues are also taken into consideration. Environmental aspects of due diligence checks include assessing potential land contamination and checking a company's certifications and approvals. From a social and employee perspective, the investment decision is also made on the basis of the personnel – and in particular the age – structure, occupational health and safety and the corporate culture. The due diligence process involves employees at the holding company and external experts.

Finding and developing entrepreneurs

If an existing owner-manager retires and a successor is sought, GESCO AG installs a new management team which is offered the possibility to acquire shares of between 5 % and 20 % in the company they are managing, depending on the size of the company. This creates a basis on which interests can be aligned. The management team then thinks and acts long-term, just like GESCO AG as the majority shareholder.

Regional responsibility

Beyond simply disclosing information that is then publicly available, GESCO AG seeks dialogue with the regional policymakers and financing banks relevant to the acquired company to introduce itself as the new owner of the business. Following an acquisition, GESCO always aims to retain an established partner by keeping the existing location, workforce and corporate identity of the company concerned

After a takeover, the location, workforce and corporate identity are maintained.

while maintaining the existing network and stakeholders such as customers, suppliers, municipalities, neighbours and banks. There is no plan to sell off the company at a later date, also this can make sense for strategic reasons if GESCO no longer considers itself to be the best possible owner of the company. When selling a company, GESCO seeks to achieve an entrepreneurial, socially acceptable solution. If certain business areas are discontinued, GESCO AG checks whether the employees affected by a closure can be offered jobs elsewhere within GESCO Group.

These processes are long established and are continuously being developed; no fundamental changes are planned. The Pickhardt & Gerlach Group, which was acquired in the previous year, was integrated into the reporting structure and processes of GESCO Group in the reporting period. As at the reporting date, 5 of GESCO AG's 17 direct subsidiaries have been part of GESCO Group for more than 20 years and a further 7 for between 10 and 19 years.

We calculate our performance based on GRI Standard 201 (Economic Performance), indicator GRI 201-1 "Direct economic value generated and distributed". Figures are based on the consolidated financial statements for financial year 2017/2018. In this period, GESCO Group generated sales of € 547.2 million. Wages and salaries, social security contributions and expenses for pensions amounted to € 148.1 million. A total of € 3.8 million was paid out to company shareholders in the form of dividends, while € 2.3 million in interest was also paid. Taxes in the amount of € 11.4 million were paid to the public sector.

We present value development as a combination of the share price performance and the dividend payment. The GESCO share price rose by 14.2 % in the reporting year, with the total return including the dividend paid in the reporting year amounting to 15.6 %. GESCO Group employees were also able to participate in this value growth provided they participated in the employee share scheme described in the section on employee matters and held their shares during the reporting period.

FIGHTING CORRUPTION AND ANTI-COMPETITIVE CONDUCT

Damages from corruption, violations of antitrust law, criminal activities and other offences can escalate to an extent that threatens a company's existence as a going concern and lead to long-term reputation damage. As a result, our aim and a key area of focus is to guarantee compliant conduct at all levels of the company and counteract the risk of supporting corruption or profiting from corruption in the supply chain.

GESCO Group has set up a compliance management system, which includes a Group-wide Code of Conduct, accompanying guidelines and work instructions, an online information system (Rulebook) for GESCO Group employees, accompanying training courses, random case-by-case assessments and a whistle-blower system for both employees and external parties. Further training events in March and April 2018 introduced managing directors and key management personnel at subsidiaries and at GESCO AG to the requirements of the Code of Conduct and also offered background information on issues such as antitrust law and corruption. The managing directors'



The GESCO share price rose by 14.2 % in the reporting year, with total returns including the dividends paid in the reporting year coming to 15.6 %.

job is to anchor these requirements and principles in their company's corporate culture. To do so, they implement further measures such as internal training, review existing business on a case-by-case basis and scrutinise existing business processes. In addition, these external partners are also familiarised with issues such as corruption and cartels in sales partner meetings.

Subsidiaries are responsible for monitoring and for ensuring compliance of their own operations with legal requirements and terms of embargoes against countries, organisations or individuals, with the holding company also on hand to provide recommendations or draw attention to any serious changes.

We measure our performance in accordance with the GRI 419 standard and indicator 419-1 by the number of incidents and violations of the law and regulations in the social and economic area. In reporting year 2017/2018, proceedings such as these were pending against Dörrenberg Edelmetalle GmbH. We have reported extensively on these proceedings in the management report in GESCO AG's consolidated financial statements for financial year 2017/2018. The report includes direct and specific references to amounts in the financial statements.

Over the course of its workshop and while assessing the relevance of various issues, GESCO AG has identified a number of fields of action in which it will be creating additional transparency and, if necessary, providing subsidiaries with additional assistance. These issues include the remuneration models of sales representatives. In addition, the holding company intends to determine whether it makes sense to expand its reviews to include Group companies based abroad.