



GESCO AG

Wuppertal

Non-financial report / CSR report

**Summarised non-financial report for the abbreviated financial year 2019
for GESCO AG and GESCO Group
pursuant to the CSR Directive Implementation Act (CSR-RLUG)**

Since its founding 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, customers, employees and other stakeholders as well as the principles of good corporate governance and compliance. It is also duly bound to conduct business in an environmentally friendly manner. In this **non-financial statement**, GESCO AG 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. 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 non-financial statement, we are not applying an existing framework for the time being and are following 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. Initial cross-functional workshops also took place in this regard. The first workshop involved addressing issues linked to the group of subsidiaries. In the second workshop, discussions centred on 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 concerns

- Reducing energy consumption
- Saving resources

Employee matters

- Occupational health and safety
- Corporate culture

Social concerns

- 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 GESCO Group. Social matters and respecting human rights have been summarised.

In 2020/2021, GESCO AG will develop a new concept for its sustainability management and CSR reporting.

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. Excluding Dörrenberg Edelstahl GmbH and its subsidiaries, which is the largest company in the Group by a considerable margin, the companies generate an average sales volume of some € 20 million with an average workforce of 125 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 the products 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 GESCO Group is presented in the corresponding management reports in the financial statements for abbreviated financial year 2019. 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. Matters such as finances, human resources and purchasing are therefore 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
- ongoing reporting
- approving annual budgets
- approving larger investments
- NEXT LEVEL strategy
- project-related consulting and support on all company-relevant issues
- establishing Group-wide standards (such as a code of conduct)
- Group-wide management meetings with opportunities to share knowledge and experience and draw on external expertise
- Group-wide training and information events for managing directors and, depending on the topic, also for technical and management personnel

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, investment managers and representatives from Legal, M&A, Finance and Investor Relations.

We pushed for more intensive dialogue between the subsidiaries in the reporting year and established methodological expertise at GESCO AG level. CSR issues that are already considered significant as part of the current process will also be included in the central expansion of expertise in the long term.

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 that 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 CO₂. 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 decentralized 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. 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. 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 within GESCO Group have all conducted an energy audit in which they identified potential for energy savings.

When reviewing company acquisitions 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.

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.

As a manufacturer of paper sticks for the hygiene and confectionery industry, the Setter Group operates in a market that is currently highly dynamic in nature. To cut down on plastic waste, the EU agreed on a ban on plastics in March 2019, according to which it will no longer be permissible to sell cotton buds made of plastic from 2021. Setter is currently the only European manufacturer of paper sticks and sees good prospects of benefiting from this growing market.

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.

EMPLOYEE MATTERS

In our workshops, we identified occupational health and safety and corporate culture 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.

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

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.

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.

We believe the issue of **corporate culture** to be material to securing 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. LEADDEX programmes are planned as part of the NEXT LEVEL strategy to promote and develop executives, showcase specific prospects at GESCO Group and sharpen leadership skills in a dynamic environment.

In 2015, GESCO AG joined forces with an external partner and began to conduct systematic **employee surveys** at certain companies. One of the goals is to authentically gauge sentiment on aspects such as job satisfaction and stress levels while identifying potential room for improvement. In addition, the surveys also give companies specific and credible arguments for their status as an employer. In the abbreviated financial year 2019, one survey was concluded and one further survey begun.

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 abbreviated financial year 2019, the participation rate stood at approximately 42 %, compared to 45 % in the previous year.

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.

GESCO Group companies position themselves as **attractive employers** in their respective sectors and regions. Dörrenberg Edelstahl GmbH has given out its Dörrenberg Award for several years now. This award is a highly acclaimed prize for up-and-coming materials technology talents. Other company activities include participation in 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 goes for the potential impact of products and their use by customers on the safety of people, health and the environment. 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 therefore 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 therefore also in markets subject to 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”). We have so far not implemented any further dedicated concept in relation to the issues of social matters and human rights as we believe GESCO Group companies have a limited influence in this regard.

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.

Supporting Wuppertal's Junior Uni

GESCO AG's focus in living up to its social responsibility in the field of education is on STEM subjects. In May 2019, GESCO AG agreed to provide funding for Junior Uni Wuppertaler Kinder- und Jugend-Universität für das Bergische Land gGmbH, or Junior Uni. For an initial period of three years, GESCO is helping to pay the salary of a scientific coordinator by providing € 60 thousand in annual funding. Founded in 2008, Junior Uni is a unique educational and research institution in Wuppertal, Germany, that provides young people between the ages of four and 20 with courses designed to spark their interest in science and research. With more than 65,000 students in over 5,500 courses since its founding, Junior Uni has earned a reputation as a place of extracurricular learning for hands-on, scientific education. All year round, instructors from the worlds of business, science and education convey practical, hands-on knowledge in a variety of subjects to groups of no more than 15 participants. Guided by its mission to leave no talent behind, Junior Uni is preparing young people for further education and professional life. Junior Uni is financed entirely by private donations and the broad support of society.

Special issue: enabling succession

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

Since its founding, GESCO AG has aimed to acquire further industrial companies in the SME segment. 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 potential 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 structure, occupational health and safety and the corporate culture. GESCO AG uses both internal resources and external expertise as part of the due diligence process.

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.

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 maintain the existing location, workforce and corporate identity of the company concerned so that the existing network and stakeholders such as customers, suppliers, municipalities, neighbours and banks can continue to rely on a proven partner. There is no plan to sell off the company at a later date. However, doing so makes 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.

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 the nine-month abbreviated financial year 2019. In this period, GESCO Group generated sales of € 439.6 million. Wages and salaries, social security contributions and expenses for pensions amounted to € 118.9 million. A total of € 9.8 million was paid out to company shareholders in the form of dividends, while € 2.1 million in interest was also paid. Taxes in the amount of € 12.7 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 fell by 17.1 % in the reporting year, with the total return including the dividend paid in the reporting year amounting to -13.1 %.

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. The managing directors' 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.

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. We did not record any such incidents or violations in abbreviated financial year 2019.

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.