

Sustainability

01 _ Non-Financial Statement / CSR Report	124
The business model	126
Environmental matters	128
Employee matters	130
Social matters / respecting human rights	132
Fighting corruption and anti-competitive conduct	136
02 _ Researching talent / Wuppertal's Junior Uni	138

Non-Financial Statement / CSR Report

Summarised non-financial report 2018 / 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. After a number of preliminary meetings, two externally moderated workshops were held in the previous financial year for the members of the Executive Board at the time, 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 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 matters

- Reducing energy consumption
- Saving resources

Employee matters

- Occupational health and safety
- Corporate culture

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 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. 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 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 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 financial year 2018/2019. 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
- approving annual budgets
- approving larger investments
- involvement in subsidiaries' strategic consultations
- ongoing reporting
- establishing Group-wide standards (such as a code of conduct)
- project-related consulting and support on all company-relevant issues
- 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.

In the reporting year, we began intensifying the exchange of information and knowledge between the subsidiaries and systematically expanding GESCO AG's function as a platform for method-related expertise. 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.

**GESCO Group
is an association
of small and
medium-sized
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pendently from
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under the
umbrella of
GESCO AG.**

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

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

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.

Since its IPO, GESCO AG has offered the opportunity to participate in an annual employee share scheme.

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, environmental issues affecting production as well as the 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 means of leveraging our key environmental issues.

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.

The holding company GESCO AG has increased its level of transparency, particularly in the area of occupational safety, and collects information concerning the number of reportable accidents from the subsidiaries.

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.

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. One survey was completed in financial year 2018/2019, with further projects currently being planned.

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 2018/2019, the participation rate stood at approximately 48%, 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 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.

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.

With a variety of activities, GESCO Group companies position themselves as attractive employers in their respective sectors and regions.

In May 2019, GESCO AG launched a support programme for the Junior Uni Wuppertal, a unique educational and research institution in Germany, which offers young people courses in science and research.

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. 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. Sommer & Strassburger Edeltstahlanlagen GmbH & Co. KG, which was acquired in August 2018, was integrated into the reporting structure and processes of GESCO Group in the reporting period. As at the reporting date, 6 of GESCO AG's 18 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 2018/2019. In this period, GESCO Group generated sales of € 574.5 million. Wages and salaries, social security contributions and expenses for pensions amounted to € 150.3 million. A total of € 6.5 million was paid out to company shareholders in the form of dividends, while € 2.0 million in interest was also paid. Taxes in the amount of € 14.0 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 20.2% in the reporting year, with the total return including the dividend paid in the reporting year amounting to -18.1%.

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. All told, the lion's share of employees have been made familiar with the Code of Conduct.

Our aim is to guarantee compliant conduct at all levels of the company.

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 one instance, antitrust proceedings were completed in financial year 2018 / 2019, as reported in detail in the previous year.

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.

RESEARCHING TALENT

Text: André Boße

Photography: Junior Uni Wuppertal



The Wuppertal Junior Uni offers children and young people a space to research, learn and discuss ideas. The privately financed institution is supported by donors from the region's business community – including GESCO.



Musicians are attracted to Mozart, young Lego engineers steer towards Copernicus, and those who want to learn more about the great challenges of humanity find themselves at Bertha and Carl Benz. The rooms at the Wuppertal Junior Uni don't have any numbers. Instead, they are dedicated to women and men who achieved great things in their lives. The young students enjoy not having to orientate themselves by abstract numbers when looking for their rooms, but rather letting the portraits of geniuses guide them. This morning, a kindergarten group is visiting to learn how a cello and a violin make sound, and it is clear how much fun the children are having searching for Mozart's face in the building. "Funny hairstyle," giggles six-year-old Luisa when she discovers the composer's portrait. "That's what fancy gentlemen used to look like back then," the teacher explains.



Research, question, discuss

There is nothing else in Germany like the Junior Uni. The building situated directly by the Wupper River and the suspension monorail can be seen from afar. Round and colourful, the architectural design mirrors the diversity of the teaching offered inside. Whether it is physics or chemistry, biology or medicine, art or music: at Junior Uni, children and young people between the ages of four and 20 are allowed to research, ask questions and discuss ideas – all guided by lecturers who are passionate about their subjects and well-versed in sparking enthusiasm in their young students. "We deliberately describe the young people who take our courses as students," says Dr Ariane Staab, managing director of Junior Uni. "That's because

we take them seriously and therefore attach great importance to the quality of our teaching.”

The Junior Uni was founded more than eleven years ago by the journalist Professor Dr h c Ernst-Andreas Ziegler. It all started in some provisional rooms in a disused factory. As the concept was an instant success and demand was huge, the idea of finding a home base of its own for the project quickly became a topic of interest. Five years ago, Junior Uni moved into their € 5 million campus in the Unterbarmen district of Wuppertal. Anyone entering the building immediately notices that the Junior Uni may be made for children, but it’s not just about having fun for fun’s sake. The whole idea behind the institution is to introduce young people to scholarship and learning – and to do so with a passion for research, without any grade-related pressure, and at an excellent level. Around 8,000 girls and boys visit the Junior Uni every year, with many courses boasting long waiting lists. “There is undoubtedly a great need for out-of-school education,” says Ariane Staab. That message also reached Chancellor Angela Merkel, who visited the Junior Uni in May and was visibly impressed.

One hundred percent private financing

The institution is organised as a non-profit limited liability company and is financed entirely by private donations. “We are supported by citizens, foundations and companies from the region who are all committed to the common good of our community,” says the managing director. “There wouldn’t be a Junior Uni without these donors.” The institution’s motto of “No talent left behind” highlights an approach that also benefits companies in the region, as they will be needing skilled workers more than ever

in the future. “However, we definitely do not see ourselves as some kind of elite training academy,” Ariane Staab explains. There are high-level courses on offer that prepare young researchers for international competitions. “Still, we attach great importance to the fact that our offer remains open to everyone and also appeals to families who would normally not have access to these kinds of educational offers.” Around half of the young people come from low-income families, and course fees are very low.

It is now afternoon, and the screen displays which courses are about to start. A group of children is heading out to the football pitch to find out how knowledge of physics can help in a game of footy. The well-equipped workshop hosts girls and boys who have met up with a student from the University of Wuppertal to construct self-programmed LED cubes. In the room next door, a head physician from the Wuppertal Hospital explains how ultrasound technology works and why it is important for modern medicine. During a short break the young students meet in the quiet room. “It really is great that schoolchildren and students have access to a long-term opportunity for acquiring knowledge, educating themselves and allowing them to become more self-confident,” says Patricia, 16 years old. Sitting next to her on one of the beanbags is 12-year-old Felix, discussing what he just learned about honeybees with a fellow student. Yeah, this place makes you smarter, he says. “But the courses at the Junior Uni are also cool because I’ve been able to make new friends here.”



**“There is undoubtedly
a great need for out-of-
school education.”**

Dr Ariane Staab, managing director and academic
coordinator at the Junior Uni Wuppertal.

The Executive Committee of
Junior Uni Wuppertal (from left to right):
Prof Dr h c Ernst-Andreas Ziegler
(Chairman of the Executive Committee),
Dr Ariane Staab (Managing Director)
and Dr Annika Spathmann
(Authorised Signatory).

