

palero

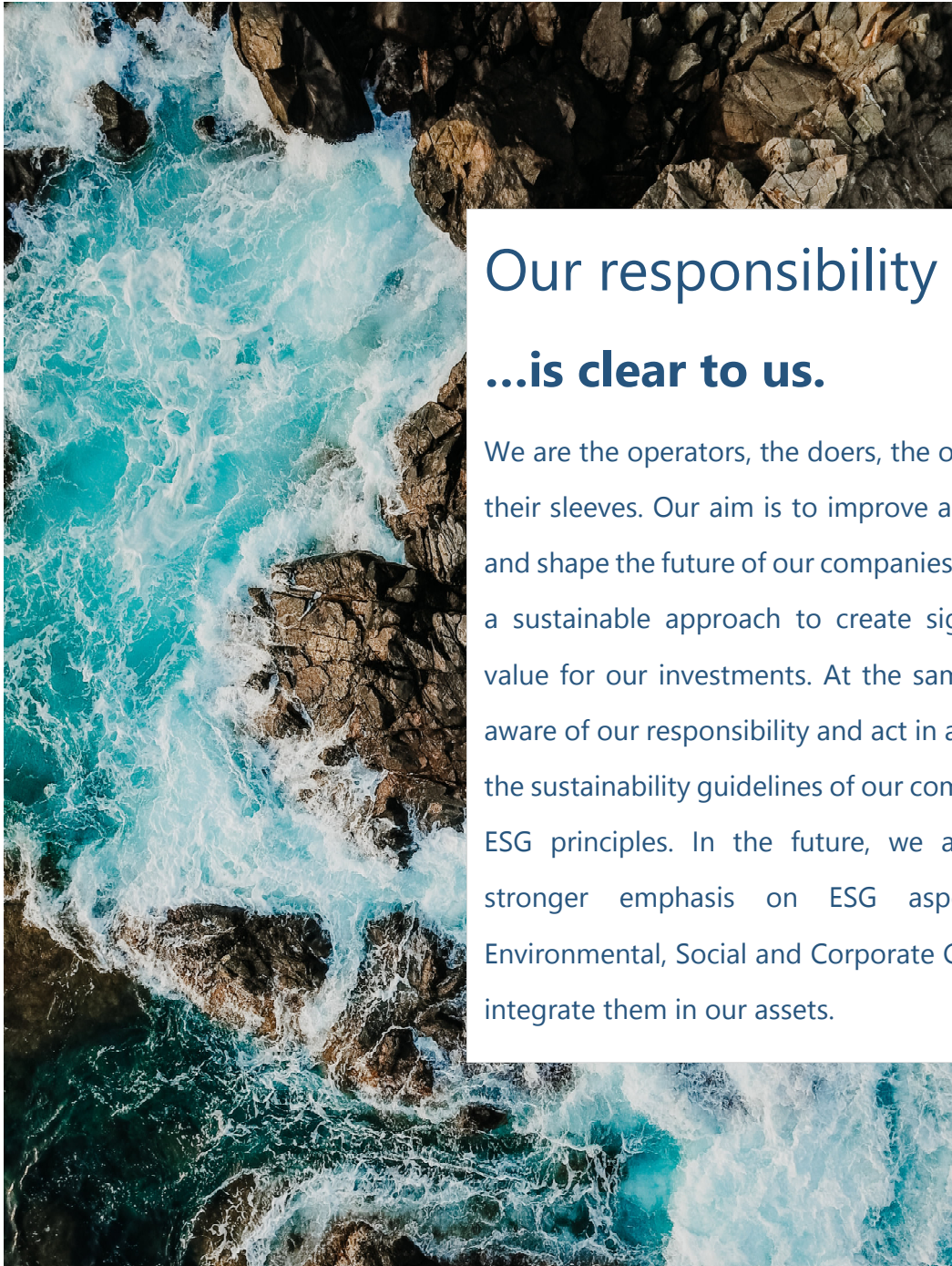


# ESG Report 2018

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## Our responsibility

### **...is clear to us.**

We are the operators, the doers, the ones who roll up their sleeves. Our aim is to improve a little every day and shape the future of our companies. We implement a sustainable approach to create significant added value for our investments. At the same time, we are aware of our responsibility and act in accordance with the sustainability guidelines of our companies and our ESG principles. In the future, we aim to place a stronger emphasis on ESG aspects such as Environmental, Social and Corporate Governance and integrate them in our assets.

## ESG Report 2018

This ESG Report provides information about our commitment to “Responsible Investing” and the application of ESG factors for 2018. We explain the challenges, implementations, plans and goals of our activities and illustrate this with the help of practical examples. This report covers the entire palero Group (see “About palero”). If you have any questions, feedback or suggestions regarding this report, please do not hesitate to contact Mrs Livia Eichhorn (le@palero.de).



## "RESPONSIBILITY | VALUATION | SUSTAINABILITY"

Our company principles

## About palero

### Our focus

palero is a private equity company with a focus on investing in sustainable positioning of medium-sized businesses through the spin-offs from previous group structures and potential restructuring. We refrain from focusing on any specific industry and instead concentrate on the particular situations and challenges of the companies. The target companies have a revenue between EUR 30 million and EUR 300 million, are important market

players within their business sectors and are based in the DACH region.

Through our operational approach at palero, we continuously endeavour to develop improvement processes with the help of our in-house employees and implement the required processes on a permanent basis. Our goal is to work with the management to successfully align the investment on a sustainable basis - we want to secure the companies and the jobs.



## Our investments

- VPC Group | Engineering services
- Melle Gallhöfer Dach GmbH | Building materials
- ipm|gruppe | Advertising media full service
- Dornier Consulting International GmbH | Technology consulting

Note: All investments sold up to the date of publication of this report are not taken into account.

## Fact & figures for the palero Group

Employees

over 1,900

Revenue

about  
€ 350 M

Countries in which we  
operate

9

Invested capital

€ 51.3 M





**We stand for sustainable investments  
and are committed to them.**

## Added value for our investments

### ESG as an opportunity

For almost 10 years, palero has successfully invested in more than 20 companies. During that time, we have made it our duty to better understand how ESG principles can be used and implemented not despite, but with the aim of increasing the value of our companies.

The implementation of ESG criteria offers us and our investments a decisive potential to minimise operational risks at an early stage, to improve our corporate governance and to exert a positive influence on our employees, customers, external partners or other interest groups. The positive momentum

associated directly or indirectly with this for the company's development and operating results can lead to a higher company valuation and ultimately yield higher returns. In addition, we place an emphasis on our contribution to environmental and climate protection and on meeting the ever-increasing demand from our stakeholders and shareholders to act and report in accordance with ESG principles. We will also knowingly forego returns in the future if they allow us to achieve the desired ESG targets.

## Member of the PRI Initiative

Our operational approach gives us the incentive to act on our ideas and intentions. We have therefore committed ourselves to sustainability in the private equity investment sector by signing the United Nations "Principles for Responsible Investment Initiative (PRI)" in 2010. Founded in 2006, this initiative aims to raise investors' awareness of the investment implications of ESG factors and at the same time assist them in implementing these measures. The PRI comprises the following 6 principles, which palero implements in its daily work:



1. We will integrate Environment Social Governance (ESG) criteria in investment analysis and decision making processes.
2. We will be active owners and integrate ESG criteria into our ownership policies and practices.
3. We will ensure appropriate disclosure of ESG criteria by the companies in which we invest.
4. We will promote the acceptance and implementation of the principles in the investment industry.
5. We will work together to increase our effectiveness in implementing the principles.
6. We will report on our activities and progress in implementing the principles.

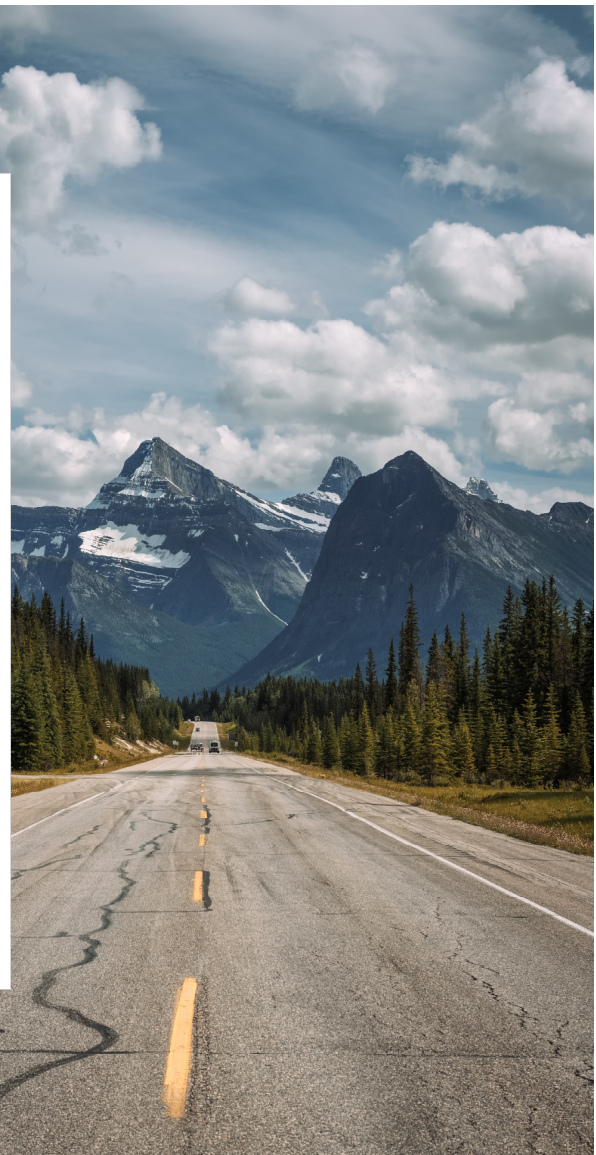
As a signatory to the "PRI", we are required to manage ESG criteria strategically. This serves the environment, our stakeholders and our return on investment. Respect, social responsibility and the environment are therefore also decision drivers in our investment and management work, with which we stand for sustainable investments.



# Our value creation approach

## Responsible investing

In recent years, "Responsible Investment" (RI for short) has becoming increasingly popular in our industry and is now considered a "key issue" at palero. We are convinced that RI will continue to gain traction in the future, and we are working hard to strengthen and develop this area in our corporate culture. Every day that we venture on our responsible investment journey, we sharpen our awareness of the need to achieve the right balance between sustainability and the hard facts and figures.



From day one, when evaluating investment opportunities, we have actively decided against ethically unacceptable industries (weapons industry, addictive substances such as tobacco or alcohol, industries with human rights violations such as sex industry or corruption).

In the future, we will focus our targeting even more strongly on companies whose business models, products or service solutions are subject to critical ESG problems or are themselves facing major ESG-related challenges. We aim to support the latter in recognising their value creation potential, developing ESG strategies and achieving added value for the company through operational implementation.

# "We've always done it this way"

## Our chance to make a difference

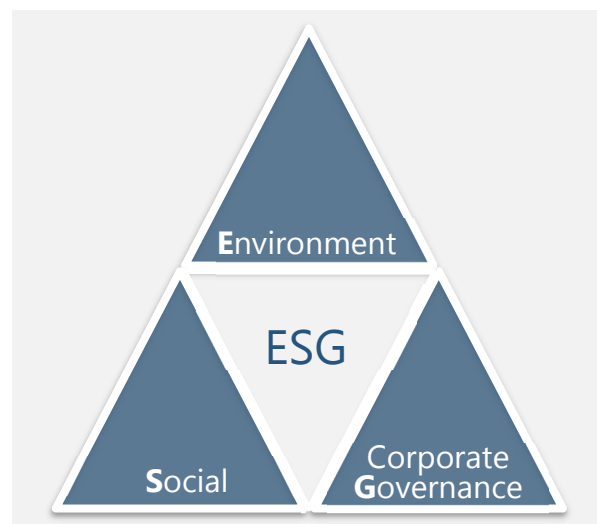
### Our commitment

palero stands for active management. We question existing structures, improve processes and develop companies together with its employees. We consider statements such as "We've always done it this way" as an opportunity to take a closer look and check where improvements can be made - in every entrepreneurial respect.

When we think of restructuring, the implementation of ESG criteria is not exactly the first thing that springs to mind. But this is exactly where we see our chance. The breaking down of structures offers the perfect potential for us to firmly integrate ESG criteria in our investments and give them the necessary status in "daily business".

The concrete commitment of the entire palero Group regarding Environment, Social and Corporate Governance is explained in

more detail below using **practical examples**. They show our commitment to climate change mitigation, our human capital efforts and our corporate governance initiatives.

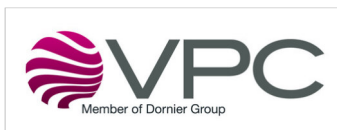






## VPC Group

The VPC Group is an international service provider in the energy sector. The company provides engineering, consulting and technical services as well as system integration for power and heat generation plants, and transmission and distribution networks. The group consists of VPC GmbH (engineering for energy plants), conwico GmbH (plant construction), VPC International GmbH (with international subsidiaries) and Renewables (renewable energies sector), and combines its engineering know-how with its experience as an operator and developer.



- Engineering services
- EUR 39 million revenue
- approx. 1000 employees
- 7 locations worldwide
- Acquired: 01/2014

A life without electricity and heat is unimaginable today. We consume energy in almost all aspect of our everyday life, often without thinking about it. In order to ensure a responsible and environmentally conscious approach to our immense energy consumption, Germany is pursuing the goal of covering around 60 per cent of gross final consumption of energy and 80 percent of gross electricity consumption with renewable energies by 2050 through its energy transition initiative. We are also carrying out this development with VPC, which as an engineering service provider historically involved in the field of conventional energy, but now actively engaged worldwide in the field of renewable energy generation and transport of electricity.

In addition to providing solutions in the areas of **wind and solar energy and biomass**, VPC Renewables also offers in-depth consulting services for **electricity storage** and **complete**



**energy self-sufficiency.** The complete transition to clean energy production from renewable energies will take some time and effort. VPC is also involved in the safe **dismantling of nuclear facilities**, from dismantling planning to highly complex final disposal, and secures energy generation in the transition period through the responsible construction of conventional energy facilities.

VPC is a member of “**Virtual Heat and Power Ready**” (**VHP Ready**) - an open industry standard for the central control of decentralised power plants, consumers and energy storage systems. The industry forum is committed to climate change by promoting intelligent power grids. These so-called "smart grids" support a balance between energy consumption and generation, ensure a more effective integration of renewable energies and bundle decentralised plants into a virtual power plant.

S

**Occupational safety** is ensured by a designated safety officer who advises VPC employees on all safety-related issues to create a working environment with the highest safety standards. This also includes, for example, a flawless protective environment and fully functional employee protection equipment and its proper use. In addition, detailed risk assessments of the office locations are compiled by an occupational safety specialist. VPC places high priority on the implementation of the respective safety recommendations and annual safety training courses.

G

VPC prides itself on providing consulting services of the **highest quality**. In order to live up to this claim, defined standards are needed. The Group is therefore certified according to ISO 9001, ISO 14001, OHSAS 18001 and KTA 1401. To maintain its high standards, all requirements are continuously analysed and appropriate measures are initiated as required.



## Melle Gallhöfer Dach GmbH

Melle Gallhöfer specialises in roof and façade products for the building trade. In addition to sales, it offers expert advice and first-class service. It was formed by merger between Melle and Gallhöfer and is now a leader in the roof and facade segment of the construction industry.



- Building material supplier
- EUR 277 million revenue
- approx. 680 employees
- 46 locations throughout Germany
- Acquired:
  - >Gallhöfer 12/2015
  - >Joint Venture since 02/2017

Environmental and climate protection do not stop at the construction industry – quite the opposite: Energy-efficient construction and refurbishment of existing buildings are becoming more and more important and are increasingly in demand by building owners, partly due to state subsidies and potential savings.

As a supplier of building materials Melle Gallhöfer, recognises its obligation to act and therefore offers an ever-growing **portfolio of environmentally friendly products** in its effort to create ecological added value through a variety of measures:

Melle Gallhöfer sites generate large amounts of packaging waste every day, which must be disposed of in accordance with the strictest waste disposal regulations. The company has therefore joined forces with a recycling specialist to guarantee the **proper separation, disposal and recycling of waste**.

By conducting **energy audits at the prescribed intervals**, it was revealed that there was an increase in energy values within the company. As a result, the company was able to implement countermeasures such as switching to energy-saving LED lighting quickly and easily. In cases where excessively high energy consumption values were found, the main energy drivers were identified and eliminated with the aid of smart meters.

For all environmental initiatives, the company offers **online training in resource conservation** (such as energy, water, waste separation, etc.) in order to raise employee awareness of this issue.

Melle Gallhöfer places great emphasis on the health of its employees. **B·A·D Gesundheitsvorsorge und Sicherheitstechnik GmbH** conducts periodical **medical check-ups** at all company locations in order to ensure the wellbeing of employees and to prevent harmful influences from working life. In addition, employees who require workplace glasses receive them at a subsidised rate.

As a **Chamber of Industry and Commerce (IHK) apprenticeship company**, Melle Gallhöfer aims to give young people a good start to their careers. In 2018, a total of 25 apprentices were employed for training as wholesale and foreign trade clerks, warehouse clerks and office management clerks, under the supervision of 30 certified trainers. Combined with their school education, the theoretical and practical knowledge received, give our junior staff at Melle Gallhöfer the basis for a successful career.

The recent introduction of the General Data Protection Regulation (GDPR) gave Melle Gallhöfer an opportunity to examine the current **data protection standards** in detail. The company has now improved its data protection department, updated data protection-relevant processes and provided extensive GDPR training for regional and branch managers. All relevant information is now permanently available for employees to read in an e-learning model.





## ipm|gruppe

The ipm|gruppe has established itself as a professional and reliable partner in advertising media and promotional products. The company was formed by merger between three companies: Inter Werbung GmbH, PräSENTA Promotion International GmbH and mansard werbemittel gmbh. The group offers a wide range of services including full service, project business and bonus systems, and is now one of the largest promotional products dealers in Germany.

ipm|gruppe



- Advertising media full service
- EUR 22 million revenue
- 54 employees
- 3 locations throughout Germany
- Acquired:
  - >Inter Werbung 9/2016
  - >PräSENTA 7/2017
  - >mansard 10/2017

More and more companies are using merchandising articles to underpin their commitment to environmental and climate protection. As a result, there is an increase in demand for environmentally friendly, climate-neutral produced promotional products.

The ipm|gruppe has reacted accordingly, offering a versatile spectrum of **eco-friendly advertising media**. These include, for example, products that are either recyclable and reusable, or contain recycled materials or renewable raw materials, which have been finished with an environmentally conscious printing process or whose producers ensure that the logistics are as environmentally friendly as possible.

As a member of the "**ClimatePartner**" initiative, the ipm|gruppe distributes the advertising material climate neutrally on request. Customers are given the opportunity to fully offset the CO<sup>2</sup> emissions generated in the production and delivery process by supporting selected ClimatePartners environmental protection projects in developing countries, depending on the degree of environmental impact.

S The corporate culture at the ipm|gruppe is characterised by openness and honesty. Employees are regularly informed about current projects and latest results of the company. The company also conducts regular employee surveys in order to better understand **employee satisfaction** and the development of satisfaction in various assessment areas (salary, leadership, culture, etc.), with countermeasures implemented when required. The ipm|gruppe also has a **Code of Conduct** which governs communication and interaction with employees. This includes the principles of good corporate governance, such as working hours, safety, violence, child labour, health, freedom of association and discrimination. In the latter respect, it should be mentioned that the ipm|gruppe is proud of its female quota of 54% in 2018.

G As a member of the **Business Social Compliance Initiative (BSCI)** of the Foreign Trade Association, the ipm|gruppe is committed to socially acceptable and humane conditions in its production facilities. The non-profit organisation requires its members to integrate two thirds of their suppliers' production sites in defined risk countries into the BSCI process within a certain period of time. The overarching goal is to be able to offer products that are manufactured without harming people or the environment.

By implementing an **ISO 9001-certified quality management system (QMS)**, the ipm|gruppe guarantees to provide products and services that meet the requirements of customers as well as those of legislators and authorities. The primary goal is to increase transparency and improve customer satisfaction through optimised processes.



## Dornier Consulting International GmbH

Dornier Consulting International is a leading project consulting and engineering service provider. The company advises clients worldwide on complex projects and implements innovative technologies in the fields of water and resource management, transport and traffic, real estate and infrastructure as well as in the energy and automotive sectors.



- Technology consulting
- EUR 23 million revenue
- 152 employees
- 11 locations worldwide
- Acquired: 01/2018

Developments in energy, water, mobility and infrastructure have already significantly changed our lives in the past and will continue to require our full attention in the future. The current challenge is to drive these issues forward in order to further improve our standard of living while protecting our environment. As the saying goes: **Lay the foundation for tomorrow today.**

This is exactly what motivates the experts at Dornier Consulting International (DCI) every day. Whether it's an urban water supply, e-mobility or intelligent transport system, DCI's **consulting services** help clients find the best solution for a sustainable, environmentally friendly operation.

DCI also implements measures to conserve resources internally, for example by focusing on renewable energies in **energy purchasing** or by reusing **packaging materials** in shipping.



In addition to the positive contribution to climate protection, it also achieves cost savings. DCI also pays attention to **waste prevention, separation and recycling**.

**S** DCI's corporate values offer every employee the opportunity for professional and **personal development**. Discrimination on the grounds of race, ethnic origin, sex, religion, belief, disability, age or sexual orientation is strictly prohibited. DCI condemns unlawful discrimination or harassment of any kind. These standards of conduct are based on the provisions of the Gender Equality Act and the Anti-Discrimination Act, the principles of the United Nations Universal Declaration of Human Rights, the United Nations Global Compact, the OECD Guidelines for Multinational Enterprises, core labour standards of the International Labour Organisation, the UN Convention on the Rights of the Child and the UN Convention on the Elimination of All Forms of Discrimination against Women.

**G** Compliance with rules and laws is essential for every company. Serious infringements often lead to high penalties, fines or immense damage to the company's image. DCI's strict **compliance culture** therefore aims to prevent white-collar crime and encourage employees and external partners or suppliers to behave in accordance with the rules. The contents of the DCI Compliance Management System include the Compliance Questionnaire, which assesses business partners for possible compliance risks, and special contractual arrangements that oblige subcontractors to comply with international legal standards, such as the payment of minimum wages and the prohibition of child labour. In addition, DCI employees undertake to comply with the **"5 Golden Rules of Compliance"**.

## palero capital GmbH & palero experts GmbH



palero capital / palero experts

- Private Equity / Consulting
- EUR 2 million / 5 million revenue
- 6 employees / 12 employees
- 1 location / 1 location throughout Germany

palero capital exclusively advises palero invest S.á r.l., an independent investment company based in Luxembourg. palero invest is backed by a select group of institutional investors who provide up to EUR 20 million in equity per transaction. palero bundles its "operational performance" in its 100% subsidiary palero experts. It supports the portfolio companies in all business management issues.

palero employees tend to travel quite a lot due to the nature of their jobs. In order to reduce the negative environmental impact of our employees' travel behaviour, all conference rooms in our office are equipped with a modern **telephone and video conferencing system**. In addition, our internal IT system enables **wireless presentation sharing** and **separate chatrooms** for quick and easy employee communication. All this should help to reduce the travel activities of our employees and thus protect the environment.

Furthermore, the "**palero Bike**", as well as the changing and shower facilities at our Munich office, encourages our employees to do without a car or train for shorter distances. It promotes daily exercise and keeps us fit.

Our employees are the key to our success. We therefore pay particular attention to our human capital. Showing appreciation, good communication and trust for high responsibilities motivate our team to perform at its best. In addition, we organise regular **employee events**, such as the annual team building or conduct a joint end-of-year review. All this strengthens the "**palero Spirit**" and promotes employee interaction.

S

Healthy employees are one of the most important resources of our company. In order to promote and maintain the health of our team, we offer **free drinks and fresh fruit**, and we provide **large screens and standing desks** at fixed workplaces for a pleasant and optimal working environment.

Standing still is a step backwards - this also applies to the career ladder. For this reason, we always try to show our employees interesting internal development paths and expand their skills through "learning on the job" programmes or specific **further training measures**. We respond individually to the needs of each individual, compensate for deficits and promote strengths.

G

**Transparency** is a core component of our corporate principles and is intended to uncover corruption, bribery and fraud as quickly as possible or, at best, to completely prevent them. All of the important company decisions by the palero Group are made on the basis of clearly communicated decision criteria. The periodical audits conducted by external auditors also serve to strengthen our internal control system and prevent criminal fraud.

In today's data world, cybercrime poses an enormous threat. In order to be optimally protected against such illegal attacks, palero has invested in a modern IT system. When selecting this system, the main focus was on a high and yet user-friendly **IT security**.



# Yesterday a trend, today a priority and tomorrow?

**An absolute must-have.**



In view of the increasing importance of Responsible Investment, the continued expansion of the ESG commitment is a high priority within the palero Group. The concept of sustainability is already firmly anchored in our corporate values and many initiatives are currently being successfully implemented to this end. Now it is a matter of reaching new milestones, in order to "improve a little every day":

Our aim is to further professionalise the idea of "responsible investing" by, for example,

formalising a standardised ESG analysis within the due diligence or investment process. Other ESG efforts include raising awareness among our employees about sustainable economic measures through training courses and workshops. We also aim to guarantee transparent reporting to our shareholders and stakeholders through regular reporting by our portfolio companies on the development of ESG practices.



## Work 4.0

Globalisation and digitalisation have already caused a complete change in our working world and will continue to influence our companies and employees in the future. No matter what our day-to-day work will look like in a few years' time - it is essential to act today and lay the foundations for a healthy future.

We at palero stand for change. We therefore accept this challenge and will work even harder to implement ESG practices in the future.

Work 4.0 in smart companies with a sustainable approach - that is our goal and we are committed to it.

This ESG Report 2018 has been prepared with the utmost care and accuracy. Nevertheless, palero capital GmbH does not assume any liability for the topicality, correctness and completeness of the contents. Any use of this report requires the written consent of palero capital GmbH. palero capital GmbH accepts no liability whatsoever for any damage or loss arising directly or indirectly from the distribution or use of this document or its contents.

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