

Non-Financial (Group) Report 2019

START OF A NEW ERA.

SECURE.
INNOVATIVE.
AT YOUR SIDE.

QSC AG



Dear Reader,

Digitalisation is the topic looking ahead, and not just for QSC and its customers. It will revolutionise our economic and social life, enormously enhance efficiency and, by opening up entirely new markets, act as a key growth driver. It will speed up virtually all processes and have a marked impact on our day-to-day lives. Because of this, people often see digitalisation as synonymous with acceleration and therefore view it as an additional source of stress, or even as a threat.

It has, however, come as a pleasant surprise for many to see and feel the extent to which digitalisation has created a sense of deceleration during the corona crisis, how it can enhance their quality of life, protect and improve their health, and raise their awareness of their own personal surroundings.

QSC acted early to digitalise all its workplaces, which meant that when the pandemic arrived, our employees could simply switch to their home offices and – with virtually no hitches – continue working with our customers, partners, suppliers and colleagues, and maintain stable operations. The digital solutions in place at our customers proved similarly effective.

More than anything, this situation shows that digitalisation and sustainability need not contradict each other. On the contrary, when sensibly deployed, digitalisation can promote sustainability.

2019 was the year in which sustainability gained greater significance than ever before, and QSC took an active part in this development. Alongside all our efforts to generate growth, we have assumed responsibility and are committed to making our contribution to social justice and securing an existential basis for future generations. We see digitalisation as offering very specific opportunities in this regard. By drawing on digital solutions, companies can work in far more resource-effective and less carbon-intensive ways than ever before. Video conferences, to name one example, eliminate the need for business trips, while digital merchandising systems help to curb excess production and digital control of production activities can lead to substantial resource savings. We believe these potential savings outweigh the potential increase in electricity consumption at data centres and resultant rise in CO₂ emissions – especially when companies rely entirely on renewable energies, as QSC already does.

Possibilities such as these only strengthen our determination to channel all our energy into promoting digitalisation in the German SME sector and to place sustainability at the heart of our brand.

Since January 2020, our newly appointed Sustainability Officer has been responsible for the coordination of all relevant sustainability efforts. She is supported in her work by a CSR work-group that includes representatives of different company departments. One key focus in the current financial year is on compiling an independent sustainability strategy, formulating relevant targets and establishing DNK-conformant reporting.

This report provides you with extensive information about the sustainability focuses we set in 2019, the measures we are currently implementing and our plans for the future. As QSC's first separate non-financial report, it marks the beginning of a new era in terms of sustainability as well.

Enjoy your read!

Cologne, April 2020



Jürgen Hermann
CEO

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COMPANY AND NOTES ON REPORT

QSC is the digitaliser to the German SME sector. The Company enables its customers to digitalise their business processes and business models with the utmost flexibility and efficiency. To this end, QSC has longstanding technological and application expertise in the fields of Cloud, Colocation, SAP and Internet of Things (IoT). Our portfolio of services provides exactly what SME players need as they move into the digital age: from standardised pay-as-you-use services through to individualised full-range solutions for the retail, manufacturing and energy sectors. Until 30 June 2019, our portfolio also included telecommunication services. Since selling the subsidiary responsible for these activities, Plusnet GmbH, QSC has withdrawn from this business segment. The relevant contract was concluded with EnBW Telekommunikation GmbH, a subsidiary of EnBW Energie Baden-Württemberg AG, on 6 May 2019. The Plusnet sale also marked a milestone on QSC's path towards a new era of growth. Since then, the Company has focused on its growing Cloud, SAP and IoT business with SME companies. QSC has a total of around 900 employees at its main location in Cologne and at further locations throughout Germany.

First separate non-financial report. The following separate Non-Financial (Group) Report provides information about QSC's sustainable business activities. It includes the topics called for by § 289b et seq., § 315b and § 315c of the German Commercial Code (HGB) and has been audited by the Supervisory Board. Its structure is guided by the reporting standards set out in the German Sustainability Code (DNK). For the 2020 financial year, we will for the first time provide information on all 20 of the criteria listed in the DNK. This report already takes account of the guidelines on non-financial reporting issued by the European Commission. Terms such as "employee" always refer to members of all genders.

STRATEGY

A responsible approach towards society and the environment is inherent in our business model. As the digitaliser to the German SME sector, we make it easier for our customers to move into what is in many ways a more resource-efficient new age. The creation of sustainable value is part of our corporate strategy and directly results from our core business.

New position for Corporate Social Responsibility (CSR). For QSC, selling its telecommunications business as of 30 June 2019 marked the beginning of a new era, not only of growth, but also of sustainability. Since January 2020, our newly appointed Sustainability Officer has been responsible for and coordinated all relevant sustainability topics. She is supported in her work by a CSR workgroup that includes representatives of different company departments. One key focus in the current financial year is on compiling an independent sustainability strategy, formulating relevant targets and establishing DNK-conformant reporting.

The interdisciplinary team already reached an initial milestone in the current financial year by looking closely at the contribution QSC makes to the 17 "Sustainable Development Goals" (SDGs) aimed at implementing the "2030 Agenda" of the United Nations. This way, we reached a uniform basic understanding of the economic, ecological and social dimensions of sustainability and performed an extensive materiality analysis.



The "Sustainable Development Goals" of the United Nations

Contribution to meeting the 17 “Sustainable Development Goals” (SDGs)

The following overview shows the contribution QSC is already making to the implementation of relevant SDGs:

United Nations goal		QSC's contribution
	Ensure healthy lives and promote wellbeing for all at all ages.	As an employer, we feel responsible for the health and wellbeing of our employees. We create a trusting and healthy working environment for them with appropriate preventative measures to safeguard their health and work safety.
	Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.	We accord the utmost priority to the professional qualification of our specialists and executives. Our QSC Academy offers a range of opportunities for staff to receive specialist and personal training. Vocational training programmes, work-study programmes and special (graduate) entry programmes offer a variety of entry opportunities for the next generation of employees.
	Achieve gender equality and empower all women and girls.	We are committed to offering targeted support to women in STEM careers and women in management positions.
	Ensure access to affordable, reliable, sustainable and modern energy for all.	We operate proprietary data centres to provide our products and services. These are exclusively powered with electricity that comes from regenerative energy sources.
	Promote sustained, inclusive and sustainable economic growth , full and productive employment and decent work for all.	As the digitaliser to the German SME sector, we make a major contribution towards building a resource-efficient, sustainable economy. We ensure good working conditions and support our employees by making it easier for them to combine their work and private lives.
	Build resilient infrastructure , promote inclusive and sustainable industrialisation and foster innovation .	We support SME companies in digitalising their businesses and moving into the Industry 4.0 age. We develop innovations, often together with customers, and thus promote the advance of digital services.
	Ensure sustainable consumption and production patterns.	We ensure that natural resources are put to effective use. Our portfolio of services enables customers to implement sustainable patterns of production.
	Take urgent action to combat climate change and its impacts.	Since 2018, we have powered our data centres exclusively with electricity from regenerative energy sources and are continually enhancing their energy efficiency. We are also focusing on sustainable mobility, modernising our vehicle pool and offering alternatives to car journeys.
	Promote peaceful and inclusive societies for sustainable development.	The protection and security of customer data is absolutely essential for our business model and a prerequisite for a peaceful society. By upholding ethical business practices and ensuring rigorous compliance, we are promoting sustainable development.

Materiality analysis

Material sustainability aspects from the perspective of QSC and its stakeholders. The analysis began by defining which factors have the greatest impact on QSC's revenue performance, innovative capacity and reputation. In view of this, alongside our own perspective we also included the perspective of our most important stakeholders in our materiality analysis. By consistently remaining in dialogue with all key groups of stakeholders, we are familiar with the expectations of our customers, shareholders, suppliers, partners and employees. We gain additional insights from the stakeholder analyses we perform once a year.

The current version of our materiality analysis is based on the materiality analysis performed for the information and communications technology sector by the "Global e-Sustainability Initiative" (GeSI), as well as the catalogue of criteria set out in the German Sustainability Code (DNK). From these, our CSR team selected the topics most relevant to our business in terms of promoting achievement of the UN's sustainability goals. These were assessed in terms of their economic, ecological and social impact on our business activities (x axis) and presented in terms of their relevance to stakeholder decisions and assessments (y axis). The results of the materiality analysis are presented in the following chart:



We identified seven strategic sustainability-related areas of action which, based on our analysis, count as material:

Information security and data protection. For us as an IT service provider, one of our core competencies involves ensuring absolutely consistent protection for the personal and business data of our customers, partners, employees, shareholders and suppliers. Furthermore, guaranteeing secure infrastructures and systems for our customers is a matter of the utmost importance. This materiality aspect therefore has economic implications both for us and for our stakeholders.

SDG NO. 16

Business resilience is the prerequisite for our profitable and sustainable growth. By offering digital innovations, we add fresh momentum to our customers' business models and are pioneering tomorrow's world. We make necessary adaptations to our portfolio of services at innovation workshops held together with our customers. This process is further promoted by ideas competitions held within our own workforce. This materiality aspect therefore has great economic implications both for us and for our customers.

SDG NO. 8, 9, 12

Customer satisfaction and retention. Both of these factors are the product of high service quality and mutual trust. We gain trust by basing our corporate culture on customer focus, reliability, team spirit and pragmatism. This materiality aspect therefore has great economic implications.

SDG NO. 8, 9, 12

Ethical business practices and compliance. These are key determinants of how QSC is viewed as a company and within society. Our customers and business partners expect us not only to abide by all relevant laws but also to guarantee compliance and act with integrity. The training we provide to our employees on compliance ensures great awareness of these topics. This materiality aspect has great social implications.

SDG NO. 8, 16

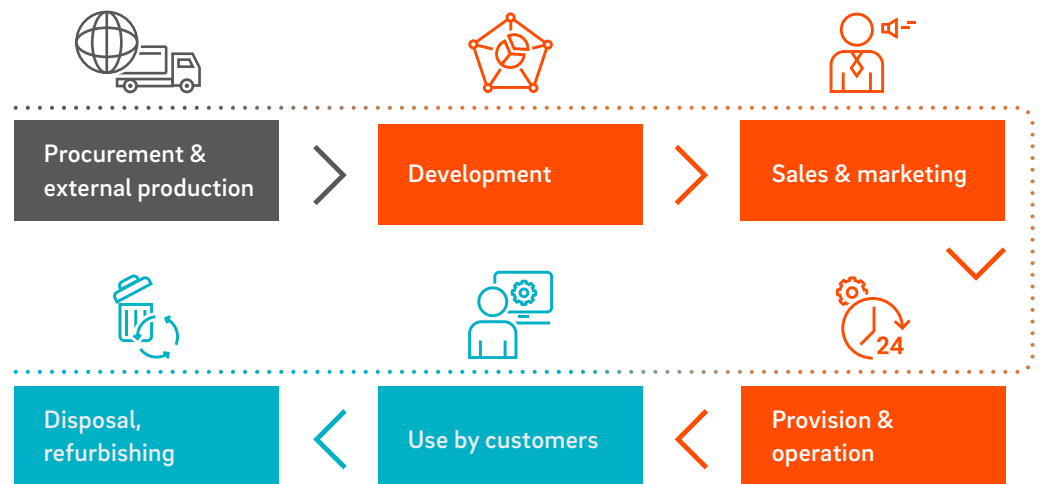
Training and securing the next generation of employees, staff retention and development. This way, we create the basis for our entrepreneurial success. In the "war for talent", we have to compete with other market players to recruit and retain specialists and executives. As a result, these materiality aspects have great economic implications for us as a company. Our employer brand addresses all social aspects that make our company an attractive place to work. Core factors here are work-life balance, a trust-based corporate culture and health protection.

SDG NO. 3, 4, 5, 8

Energy efficiency at our data centres. Operating proprietary data centres involves a high volume of energy consumed by servers, network components, infrastructure provision and air conditioning. The ecological efforts we make here focus on reducing consumption factors, and especially the volume of electricity we consume. This aspect therefore also has great economic implications for our Company. At the same time, increasing virtualisation and working with energy-efficient air conditioning technology also enables us to shrink our ecological footprint.

SDG NO. 7, 12, 13

Sustainability along the value chain



We endeavour to make a contribution towards sustainable development on all stages of our value chain. Our Central Procurement Policy requires due consideration to be given to the careful use of natural resources. We procure the electricity for our data centres exclusively from regenerative sources and purchase hardware that meets the latest energy efficiency standards. We pool purchases and chiefly rely on German suppliers to shorten transport routes and reduce packaging. Adherence to national laws provides additional assurance of compliance with social standards.

In operating our data centres, we enhance our energy efficiency by deploying cutting-edge technology and reducing water consumption by working with closed cooling circuits. Virtual infrastructures and applications facilitate higher utilisation rates in physical systems while simultaneously saving (natural) resources.

Using our products and services makes it easier for customers to precisely manage their resource consumption or, by fully digitalising their value chains, to avoid such consumption entirely. Cloud-based workplaces and the use of collaboration tools enable customers to shorten work-related journeys, reduce the number of business trips and thus cut their CO₂ emissions. We of course also ensure that our customers' IT systems meet the latest energy efficiency standards. Used devices are reprocessed in a certified process and marketed by third parties.

REGULATIONS, PROCESSES AND CONTROLS

Management systems safeguard sustainable operations. To be sustainable, business activities require functional management systems such as the following:

- Quality management system
- Process management, IT service management, risk and emergency management and internal control systems to avert damages
- Management systems for data protection and information security
- Compliance management system
- Energy efficiency management
- Personnel development
- Work safety management system

Where expedient, we also have external audits performed at regular intervals on the management systems established in accordance with internationally recognised norms. The performance and effectiveness of management systems are reviewed on an annual basis. These reviews focus on their reliability, comparability and data consistency. An overview of the current certificates (in German) can be found here: www.qsc.de/az.



[WWW.QSC.DE/AZ](http://www.qsc.de/az)

Topic-based nonmonetary incentives boost motivation. To date, the compensation system in place at our Company has not included any sustainability targets. Due to the complexity involved, there are also no plans to change this in the years ahead. We rather rely on nonmonetary incentives, such as topic-based ideas competitions on sustainability matters. In 2019, for example, the Company organised an internal competition called “Energiewende@QSC”. This looked into innovations and business ideas relating to the energy turnaround, a clean energy supply and e-mobility. Similarly, ideas were also compiled for the retail and manufacturing sectors, in some cases together with customers. Some of these ideas later gave rise to customer projects.

MATERIAL ECONOMIC SUSTAINABILITY TOPICS

Customer satisfaction and retention

Sustainable success is based on high levels of customer satisfaction. We attach the greatest priority to maintaining a close dialogue with our customers, offering excellent service and ensuring that our products and services meet consistently high quality standards. Flat hierarchies promote dialogue: Our advisors are in close contact with customers and able to respond flexibly to their needs. This proximity and uncomplicated approach are exactly what our customers appreciate. From their perspective, it is these factors which mark us out from our larger competitors. Further competitive advantages highlighted by our customers include our comprehensive range of digitalisation services, our great advisory expertise, our consistently high quality of service and operations and our compliance with the highest security standards.

We communicate with our customers via numerous different contacts – from sales to service management and support through to our complaints and product management. The tools used to remain directly in dialogue range from our website, blogs and mailings to various customer events, our attendance at trade fairs, telephone hotlines and all relevant social media channels.

Day-to-day contacts backed up with regular customer surveys performed by an independent institute. The institute conducts telephone interviews with key customers from across all business units. Based on a questionnaire, the surveys address all stations on the customer journey. Analysis of these surveys then gives rise to suggested actions. Quality targets are formulated and implemented within the organisation. These measures all aim to help QSC achieve its key customer management objective – to permanently increase customer satisfaction.

Satisfied customers expect high quality. Our quality policy is the promise we make to our customers: We work together with our customers in partnerships of equals and closely address their needs. This quality policy is mandatory for all employees and is regularly reviewed.

As the digitaliser to the German SME segment, we can directly affect our customers' service quality and business processes. In view of this, information security and compliance with the legal framework form part of our quality standards and our customer commitment. We are continually training and developing our employees, thus honing their ability to think and act along customer-focused and quality-driven lines. The Management Board regularly lays down quality targets consistent with the Company's quality policy and its corporate strategy. These targets also account for the findings of the annual management review, customer satisfaction study and risk report. A superordinate quality management process safeguards implementation of the quality targets thereby set. All processes are visualised in our "QSC Process Web" portal. In keeping with the requirements of ISO 9001:2015, the required inputs, expected results, performance indicators, responsibilities, authorisations and risks are clearly defined for each business process. Numerous sets of guidelines provide our employees with orientation in their day-to-day work.

Business resilience driven by innovations

“New work” – QSC creates modern working worlds. In these times of digital transformation, the creativity needed to solve complex tasks generally comes from groups. Virtual teams are the main players in this process. For this, employees require state-of-the-art tools enabling them to network across locations and company boundaries. Above all, these have to be easy-to-use, mobile and secure. With our cloud-based workplaces and extensive service portfolio, we are paving the way towards modern working worlds. Our “Digital Workplace” enables employees to work together wherever they are, reduces the number of work-related journeys and helps people better combine their family and work commitments.

Our business model protects (natural) resources. Our innovations offer substantial assistance to our customers when it comes to making their operations more environmentally compatible. After all, digital processes and services often remove the need for certain goods to be manufactured, transported and consumed. Resource-efficient digitalisation ranges from doing without print media to remote maintenance and control through to substituting virtual meetings for business trips. Not only that, our innovations also enable our customers to manage their resource use in a targeted manner. Some examples are presented later in this report.

Innovations for efficient energy management. Our IoT solutions provide the foundation for a metering platform for heating energy, gas and electricity. The aim here is to enhance efficiency by way of benchmarking and fine-grained monitoring of energy consumption, as well as by developing new digital services for customers. Factoring in weather forecast data, for example, makes it possible to optimise the management of a heating system.

Extending tool durability by way of continuous operating data collection. A further IoT solution provides information about the condition of tools and can automatically trigger maintenance work. This way, the lifetime of the tools can be significantly extended.

AI makes individual production scalable. QSC acquired a 25.1% share in aiXbrain GmbH in 2019, a move which has opened up very great potential for combining AI and IoT solutions in manufacturing and industrial environments. The self-learning software developed by aiXbrain helps to make industrial processes digitally manageable in all of their complexity and thus enhances production flexibility.

Subsidised projects in cooperation with ministries and research organisations. In cooperation with ministries and research organisations, we are involved in subsidised projects within the overall “Decarbonisation, Decentralisation and Digitalisation” project. These too give rise to innovations such as “virtual power plants” or IT solutions aimed at optimising e-mobility.

MATERIAL SOCIAL SUSTAINABILITY TOPICS

Information security and data protection

Data protection is a material sustainability topic. The advance of digitalisation is accompanied by new threats, such as hacker attacks on sensitive data. People will only actually use new IT solutions if they have faith in the security of their personal data. We therefore see compliance with all legal requirements concerning data protection and data security as an absolute prerequisite for our sustainable business success. QSC's location in itself shows the absolute priority accorded to data protection. As a German company, it is subject to European data protection requirements, which are probably the strictest in the world.

Manifold measures to protect data. Our Data Protection Policy sets out applicable regulations for collecting, processing and using the personal data of natural persons. These particularly apply for the data of customers, shareholders and other third parties, as well as of contractual and business partners, especially with regard to the statutory requirements of the General Data Protection Requirement (GDPR), the German Federal Data Protection Act (BDSG) and the German Telecommunications Act (TKG). The processing of personal data in systems which enable the conduct or performance of QSC employees to be monitored or which record, store, process or use personal data of employees is governed by the "Framework Agreement for the Introduction and Operation of Information and Communications Systems". A separate "IT and Data Protection" body, comprising members of the Works Council, regularly discusses topics relating to data protection.

All personal data is protected against the threat of unauthorised access. To this end, we have implemented technical, organisational and employee-related measures which ensure that personal data is protected against unauthorised access, unlawful processing or dissemination and against accidental loss, unintended amendment and destruction. These measures address the security of that data requiring protection both when it is processed electronically and also in paper form. They form part of an integrated information security management system pursuant to ISO 27001 and are continually updated to account for the latest technical advances and organisational changes. Our information security management system is annually reviewed by an independent certifier.

Compliance with the Data Protection Policy and applicable data protection legislation is reviewed in regular data protection audits. Customers also perform regular audits to check compliance with the high standard of data protection at QSC. Furthermore, external data protection audits are conducted at regular intervals by the German Federal Officer for Data Protection and Freedom of Information (BfDI).

Group officer responsible for data protection. The Group Data Protection Officer appointed by the Management Board monitors compliance with data protection requirements. In this capacity, the officer acts as the inhouse authority and exercises his powers independently of instruction. He coordinates cooperation and agreement processes for all key data protection matters and is supported by data protection coordinators at the group companies. Specialist departments are obliged to inform the data protection coordinators of any new processing of personal data. The Group Data Protection Officer is involved at an early stage in the development of new products and services to ensure that these conform to the principles of data protection law. This advance review enables QSC to avoid virtually all costly subsequent amendments.

Regular training for all employees. All employees receive basic training on the requirements of data protection law when they join the Company and are required to take part in mandatory data protection training at least once a year thereafter. Furthermore, employees are regularly informed about specific data protection topics relating to customer and employee data. All employees are also obliged to comply with the regulations governing data, telecommunications and social data secrecy.

Ethical business practices and compliance

QSC's success is built on integrity, ethics and personal responsibility. All of QSC's employees are therefore obliged to uphold ethical business practices. QSC strictly ensures that all its employees and corporate bodies always comply with applicable laws and the Company's own internal guidelines and codes of conduct. Compliance defines the conduct shown by all employees towards customers, other employees and colleagues, investors, executives and the social environment in which QSC operates. The Company prohibits all actions, whenever and wherever they may occur, which breach applicable laws or its own internal guidelines and codes of conduct. This approach naturally also includes measures taken to combat bribery and corruption. As compliance aims to prevent any unlawful or inappropriate business decisions, suitable considerations are integrated into the relevant business processes in advance. This reduces QSC's liability risks and enhances our standing as a reliable partner, particularly with small and medium-sized customers.

Compliance management system ensures integrity and lawful actions. In agreement with the Supervisory Board, the Management Board has implemented a compliance management system (CMS) to ensure integrity and legally correct conduct throughout the Company and at its business partners. Responsibility for the CMS is incumbent on the Management Board. The head of the internal audit and compliance department acts as the Compliance Officer and is responsible for structuring, further developing and implementing the CMS across the Group. He reports not only to the Management Board and management team but, following agreement with the Management Board, also regularly reports to the Supervisory Board and its Audit Committee. In the

event of material compliance problems in which the Management Board is directly involved, the Compliance Officer is entitled and obliged to inform the Supervisory Board Chairman or the Audit Committee Chairman directly. The Compliance Officer liaises regularly with the heads of the legal, personnel and IT security departments. As well as fostering a culture of compliance and promoting communications appropriate to the respective addresses, the Compliance Officer is also responsible for regularly reviewing the effectiveness of the CMS, monitoring compliance targets and continually improving the CMS. Due account is also taken of improvements suggested by employees. The risks which could prevent QSC from achieving its compliance targets are identified and assessed at least once a year. This risk inventory also assists the Company in prioritising suitable measures intended to prevent unlawful actions. The compliance programme includes requirements and recommended actions in the form of policies, work instructions and process descriptions that are applicable either on a uniform basis throughout the Company or to specific business units and departments.

Training raises employees' awareness of compliance topics. The Compliance Officer regularly provides information on the intranet about relevant topics and explains reporting duties and the channels to be used to report compliance-related matters. If necessary, separate mails are also sent to all employees. These communications are backed up by a training programme which raises awareness for the topic among all of the Company's employees.

Despite all preventative measures, the possibility of legal infringements and severe breaches of duty arising at the Company cannot be completely excluded. All infringements detected must be reported by the manager of the employee in question and the head of department, generally to the head of personnel, as well as to the head of the respective business unit in the case of severe infringements. Material compliance-related infringements are additionally reported to the Compliance Officer, who is also kept regularly informed, for example, about the scope of and reason for any disciplinary measures taken by the personnel department in this regard. No fines or nonmonetary sanctions were imposed due to noncompliance with laws and/or regulations in the past financial year.

Proprietary whistleblowing system. In accordance with the recommendations made in the German Corporate Governance Code, QSC has implemented a whistleblowing system, known as "SAFE CHANNEL". This way, our Company enables all external parties, as well as its own employees, to provide tip-offs of any suspected unlawful conduct. Confidentiality is guaranteed and tip-offs may also be submitted anonymously. Specially trained individuals who are obliged to maintain confidentiality thoroughly investigate every tip-off received that is legitimate and sufficiently specific. No material breaches of compliance were reported in 2019.

Employee retention and development, training and securing the next generation of staff

EMPLOYEE RIGHTS

Core labour conventions fully complied with. Taking a responsible approach as an employer naturally also involves ensuring compliance with all legal requirements and core conventions of the International Labour Organization (ILO). The ILO lists four fundamental conventions: freedom of association and protection of the right to organise collective bargaining, the abolition of forced labour, the abolition of child labour and the prohibition of discrimination in employment and occupation. In Germany, all four conventions are governed by clear legal requirements and we unreservedly comply with these. We are also obliged to do so by our own code of conduct (www.qsc.de/en/code-of-conduct).

Works Council involved at an early stage in all personnel-related topics. Since the beginning of the 2018 term, our Company has had a 13-member Works Council, which it involves at an early stage of discussions of any personnel and welfare topics. These discussions are conducted on a basis of trust. The Management Board is regularly invited by the Works Council to attend staff meetings, to present its ideas and answer questions. Over and above legal requirements and inhouse agreements, our Company also makes efforts to promote the health and wellbeing of its employees. It does so by regularly sharing and agreeing ideas with the Works Council. Any organisational changes under consideration are discussed with the Works Council in good time, as are one-off projects, such as the activities relating to the spinoff of Plusnet in 2019. Moreover, representatives of young employees, trainees and severely disabled employees ensure that the interests of all employees are adequately accounted for, as does the presence of employee representatives in the Supervisory Board.

In liaison with the Works Council, our Company regularly involves the workforce in strategic projects. To date, these have included information about the status quo, specific proposals for improvements and cooperation on forward-looking topics, such as, most recently, the further development of our employer brand. Ideas are currently being factored into a new uniform set of guidelines that are due to be adopted in the current financial year.

Compensation system. The compensation system is geared to individual and company-specific needs, as well as to market standards. As well as their fixed salaries, all employees also receive variable compensation based on the achievement of corporate targets. The share of total salaries attributable to variable compensation rises with increasing responsibility. Furthermore, all employees can participate in a company pension scheme that is supported by QSC with an annual sum. The compensation paid to the Management Board is presented in detail on Pages 40 to 43 of the 2019 Annual Report. Its annual compensation in the year under report corresponded to 10.8 times the (median) average compensation of all other employees (including additional benefits and variable salary components based on the median).



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CODE-OF-CONDUCT



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IR-PUBLICATIONS

Flexible working hours help employees to balance family and work commitments. Our Company does not stipulate any core working times. Following suitable agreement, employees are free to perform part of their work from home. Generous home office provisions are well used, with a current total of around 15%¹ of employees, and here young parents in particular, mainly working from their home offices. We welcome every new-born child with a one-off gross allowance of € 1,000 and a QSC bobby-car. Not only that, employees also have the option of setting up a sabbatical account and "saving up" additional fully paid free time (up to 3 months) to spend with their families or traveling. In 2019, 108 of our 983 employees (including trainees and temporary employees) drew on our part-time working options. Managers are also allowed to work on a part-time basis, with this option currently being exercised by eight employees, of which five women. Moreover, employees are able to move flexibly between part-time and full-time employment. Nearly all employees have permanent contracts, which accounted for 95.2% of all employment contracts in 2019 (excluding trainees and temporary employees). All limitations on the terms of contracts with employees and senior employees relate to temporary customer projects.



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CODE-OF-CONDUCT

EQUALITY OF OPPORTUNITY

Diversity is lived at our Company. The great value we accord to our employees excludes any form of discrimination. Our code of conduct is very clear: "We do not tolerate any discrimination." We are committed to ensuring that the dignity of all employees is always respected and to making sure they can work in an environment that is free of physical impairment and sexual, psychological or verbal harassment. QSC does not tolerate workplace bullying or intimidation. There were no cases of discrimination in 2019.

Promoting people with a background of migration. The diversity of QSC's workforce speaks for itself: Employees with foreign passports only account for around 5.5% of the workforce, but the number of employees with international roots is many times higher. QSC promotes the language skills of employees originating from other countries by organising German courses, taking due account of individual needs. In 2019, one of our trainees, a Syrian refugee, made it to the final round of the special prize offered by the Chamber of Commerce in Hamburg for young people with a background of migration.

Women make up a comparatively low share of around 23% of the workforce. This low share is due above all to the different career choices made by men and women. These preferences are already apparent among our trainees, where only 12 percent are women. We have participated in numerous measures aimed at arousing women's interest in technical careers for many years now, but it is not easy to overcome traditional preferences. We have reported separately on the diversity concepts for our Management and Supervisory Boards on Page 39 of our 2019 Annual Report.



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IR-PUBLICATIONS

¹ Note: Due to the corona pandemic, all employees apart from security staff have been working from their home offices since 17 March 2020. No end to this special measure was yet in sight upon publication of this report.

Active diversity also involves inclusion. Around 3% of our current workforce counts as severely disabled according to the legal definition. We therefore do not meet the 5% quota called for by law. This is due in part to the necessary job profiles and lack of suitably qualified applications. On the other hand, it also reflects the fact that employees do not always officially notify the Company of any disability they may have.

TRAINING AND QUALIFICATION

QSC's success is driven by the commitment and willingness to perform shown by all its employees. Not least for that reason, we attach great priority to employee concerns. Our personnel strategy aims to retain and further develop existing specialists and executives and to recruit sufficient numbers of next-generation staff and specialists. This strategy aims to meet the two priorities, which are not always congruent, of satisfying ever new requirements on the part of our customers and of addressing these challenges chiefly by qualifying our own employees. The shortage of specialists is one of the key risks faced by our Company. Against this backdrop, we are repositioning QSC's brand as an employer in the current financial year. On an internal basis, we reward employees with a bonus system for recommendations which lead to the recruitment of new colleagues.

Our Company had 902 employees as of 31 December 2019, compared with 1,286 as of 30 June 2019. This reduction was chiefly due to the sale of the TC business as of 30 June 2019.

Training and work-study programmes provide entry opportunities. A sustainable approach to personnel management involves a clear commitment to providing training. Supporting young people at the outset of their careers also helps QSC to secure its own next generation of employees. Our Company offers two ways to enter the world of work: On the one hand, we provide vocational training for budding IT specialists majoring in system integration and application development and for IT business specialists, IT systems electricians and office management specialists. On the other hand, we enable young people to participate in work-study programmes in applied IT, business IT or business administration. Here, we cooperate with Nordakademie in Elmshorn and the FOM University of Economics & Management in Cologne. At the end of 2019, we employed 37 trainees and 13 work-study programme students. In the past financial year, we offered positions to 18 young people (3 work-study programme students and 15 vocational trainees) upon the completion of their studies or training and plan to hire 34 new career starters in 2020 (of which 22 work-study programme students and 12 vocational trainees). We actively market the opportunities involved in vocational training. Opportunities for making contact at an early stage include pupil internships, school partnerships and participation in nationwide career days ("Girls' Day" and "Boys' Day"). Not only that, people retraining for new careers have the opportunity to perform the practical part of their retraining at our Company.

Targeted recruitment of fresh talent. In-house vocational training and work-study programmes cover only part of QSC's need for specialist staff. In view of this, our Company additionally recruits university graduates and experienced specialists and executives. In the competition for the best candidates, we benefit from our nationwide presence at attractive locations, as well as from cooperations with universities and other organisations, such as retraining providers and job centres. Kununu, the leading employer assessment portal, for example, lists QSC as an "open company" and a "top company". New employees are supported by mentors in the relevant departments. We also hold regular "on-boarding" events.

QSC Academy as centrepiece of employee development. Ongoing further training is the only way to help employees fully develop their potential. We therefore provide a wide range of training opportunities, with the QSC Academy acting as the centre-piece. This offers high-quality learning solutions for developing the specialist, methodological and social skills of each employee. A mix of on-site events, webinars and online training units takes due account of the different potential and preferences of individual employees. The total of around 6,140 training hours held in the past year was supplemented by numerous further on-the-job training sessions, mandatory training sessions and regular exchanges of information between our experts and third parties at events, congresses and fairs. Furthermore, we also promote and subsidise employees who study and train alongside their work, whether in bachelors' and masters' degree courses or in obtaining Chamber of Industry and Commerce qualifications as business administrators.

Diverse measures to boost employee satisfaction. Ongoing training and qualification are just one component of our extensive package of measures aimed at boosting employee satisfaction. Our Company provides interactive ways for our employees to deal with each other, expects them to show initiative and identify new approaches and supports them in doing so. It has established numerous networking formats to boost its employees' sense of affiliation. These range from teambuilding measures and breakfasts with the Management Board to the summer party. Moreover, we offer all employees positions with good future prospects at attractive locations throughout Germany. These are characterised by a pleasant working environment, flat hierarchies and modern and flexible working conditions.

Employee satisfaction is recorded in surveys performed at regular intervals. These involve questioning all employees anonymously about various aspects of their working conditions and sense of affiliation. The most recent detailed survey, conducted in 2018, provided tips for improving the organisation of work, the organisational climate and employees' sense of identification with the Company. This led to the identification of specific actions and approaches that are now being swiftly implemented in two major projects covering all departments.

Shared values form the foundation of any good corporate culture. A high level of employee satisfaction requires a strong corporate culture. Our culture is based on trust, as is our success. We gain the trust of our customers with our customer focus, reliability, team spirit and pragmatism. We accord the highest priority to lawful conduct and prioritise proper business dealings over short-term business success. We believe that true competitive strength results not only from outstanding products and services, but also from the nature of the cooperation within our Company and with our customers, suppliers and other stakeholders. This being so, we consistently uphold our shared values:

- We examine our customers' needs closely and offer solutions that are in their best interests.
- We reliably keep to any agreements we reach together.
- Within and outside their teams, all QSC employees contribute their own strengths and interests to help achieve the shared targets. We do this with great dedication and self-confidence.
- We always take the shortest and easiest route to the desired result, without this producing consequences that do more harm than benefit in the long term.

QSC team strengthened by development dialogue held on a basis of equals. Our corporate culture should enable each employee to develop their skills further and flourish to the maximum extent possible. To achieve this, we are launching a new format this year – the development dialogue. This meeting, which does not involve an evaluation, ends with the conclusion of a shared agreement setting out targets for personal development, customer relationships, company values and own initiative. Responsibility is shared within the dialogue. During the preparation phase, responsibility lies more clearly with the employee, while between meetings the manager is called on to act as a coach and thus enable his or her team to achieve the targets set out in the shared agreement, and that where possible at their own initiative. Two meetings are held a year. In parallel, the HR department is starting to record the skills required for individual positions and gradually compiling job descriptions. A separate, upstream format for managers is intended to help them to act as role models even more clearly than before. Workshops on agile working methods and coaching practices will make them even more effective in encouraging their teams, providing meaning, accompanying change and acting as coaches.

Advice on professional, personal and health-related topics. We have offered support to our employees for years now in solving any professional, personal and health-related issues they may have. The advice ranges from matters of childcare, caring for relatives through to debt counselling and health issues. To this end, our Company cooperates with the Fürstenberg Institut. The advice provided by the specialists to QSC employees and their relatives in person or telephone is free of charge. The Institut is obliged to maintain absolute confidentiality. Managers can also approach the Fürstenberg Institut for personal coaching. The advice provided by the Fürstenberg Institut is just one component of the measures QSC takes to promote its employees' health. Together with external partners, we regularly hold "health days". Offerings which remain popular here include free influenza vaccinations and eye tests. In cooperation with a large optician's chain, we support our employees in acquiring glasses suitable for screen work. Joint sports activities also play a major role. Running events are regularly held at all of QSC's locations and large numbers of employees take part in regional company runs and relay races. Not only that,

employees are able to join gyms and fitness clubs on preferential terms. Finally, our Company supports its employees with occupational integration management (OIM) and assists them in restoring and maintaining their ability to work.

From 2020, upon concluding a relevant insurance contract QSC employees will also receive a grant worth up to € 400 a year for individual health services ("IGeL" services). To this end, we have concluded a group insurance contract with R+V Krankenversicherung AG (R+V). This provides all employees – and family members as well if they so desire – with the opportunity to draw on individual medical care services over and above the statutory minimum benefits.

Prophylactic health protection. Ensuring that our employees are safe at work is a matter of course for us. This goes beyond measures to avert potential dangers or eliminate safety risks and also includes prophylactic steps to help employees stay healthy and enjoy a people-friendly working environment. We have our own in-house work safety specialist and fire protection officer. Furthermore, we have the required number of first aiders and fire protection assistants at all of our locations. We ensure that our employees are suitably supported by company medical officers and occupational medical experts. The Work Safety Committee meets four times a year and covers all of our locations. It discusses matters relating to safety at work and accident prevention. One work-related injury was recorded in the past financial year.

MATERIAL ECOLOGICAL SUSTAINABILITY TOPICS

Energy-efficient data centres as focus of resource management

Energy as key focus of (natural) resource use. The obligation to make as sparing use as possible of all (natural) resources is laid down in our code of conduct and our Central Procurement Policy. As an IT service provider and operator of proprietary data centres with the highest possible levels of availability, the main resource we use is electricity. Around 95% of our total electricity needs relate to server operations and to cooling our data centres. Due to materiality considerations, we therefore focus on efficient energy management at our data centres and on continuously enhancing their energy efficiency. Other (natural) resources only play a subordinate role. Data centres also require water, but our locations have closed circuits for this purpose. Fossil fuel use is mainly limited to test operations with emergency electricity generators at the data centres and to the vehicle pool, which currently comprises 8 pool vehicles, 66 company cars and 5 long-term vehicle rentals. Our business activities do not involve the use of any materials whose quantities can be termed material.

The overview of consumption data below presents the energy resources used by our Company. As not all bills for 2019 were available upon completion of this report, the overview is based on 2018 figures. The resultant CO₂ equivalents are also stated:

Energy resource in 2018	Consumption (in MWh)	CO ₂ -equivalents (in tonnes) ¹
Electricity (from fossil fuels: 6%)	3,241.88	1,740.89
Electricity (from regenerative sources: 94%)	54,038.52	10,915.78
Heating energy (heating oil)	2,442.80	649.79
Heating energy (natural gas)	2,775.50	560.65
Fuel (diesel) for emergency electricity ²	220.91	58.75
Fuel (diesel) for leased vehicles, car allowance ³	3,772.98	1,003.62
Fuel (petrol) for leased vehicles, car allowance ³	479.41	126.56
Energy consumption and CO₂ equivalents (total)	66,972.01	15,056.04

¹ Calculation of CO₂ equivalents based on specific CO₂ emission factors (source: "Information Sheet on CO₂ Factors", Federal Office of Economics and Export Control, status: 1 January 2019).

² Estimated volume of diesel (in litres) consumed per machine, extrapolated for annual consumption based on test plans, then conversion of annual consumption into MWh based on the calorific value for the diesel fuel type (9.96 kWh/litre) (source: "Information Sheet for Calculating Total Energy Consumption", Federal Office of Economics and Export Control, status: 26 November 2019).

³ Calculation of annual consumption of diesel and petrol based on tank card billing, then conversion of annual consumption into MWh based on the calorific values of the fuels types of diesel (9.96 kWh/litre) and petrol (9.02 kWh/litre) (source: "Information Sheet for Calculating Total Energy Consumption", Federal Office of Economics and Export Control, status: 26 November 2019).



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Energy efficiency enhancement targets. Our data centres have an average power usage effectiveness (PUE) ratio of < 1.5, which means they are already among the most energy efficient of their kind in Germany. Despite this, our experts are working on further optimising their electricity consumption. Systematic analysis of energy use and consumption is regularly performed in effective maintenance management and energy audits pursuant to DIN EN 16247-1. Based on these audits and continuous resource consumption monitoring, we derive targets and measures aimed at increasing our resource efficiency. Our Company is currently pursuing the following energy efficiency enhancement targets:

- Reducing the electrical energy used to cool the data centres by 60% by the end of 2019.
This target was adopted in Q4/2018 and achieved on schedule in 2019.
- Enhancing the energy efficiency of the plants used to ensure an interruption-free supply of electricity at the Hamburg, Grasweg data centre location. This target was adopted in Q2/2019 and is to be implemented by the end of Q2/2020.
- Reducing the volume of heating energy consumption at the Hamburg, Grasweg location.
This target was adopted in 2019 and is to be implemented by the end of Q2/2020.
- Reducing the volume of energy used for lighting at the Cologne location. This target was adopted in 2019 and is to be implemented by the end of 2021.

Heading for paperless offices. Even though our key focus within the "Environment" topic is clearly on electricity consumption, our Company is also taking further initiatives to minimise its resource consumption. Our internal processes are now largely handled on a paperless basis. We have electronic filing systems. Not only that, print orders at all company locations are stored centrally on a print server until the employee goes to a printer to call up his or her orders. The printing process then has to be initiated at the printer. Over the course of a year, this process saves substantial volumes of paper and toner.

It goes without saying that we also separate our waste at all of our major locations. Within our business operations, packaging is only used to deliver hardware components to customers in connection with client rollouts. The manufacturers' cardboard packaging is stored following delivery of hardware components and then reused to forward the components to customers. In cooperation with the AfB Group (a not-for-profit company employing people with disabilities), hardware components that are no longer required have their data deleted in a certified process and are then refurbished and subsequently marketed.

Numerous solutions encourage employees to save resources. These range from company bicycles, local transport passes and car sharing to video conference rooms and tools through to initiatives aimed at minimising the number of printouts. We regularly raise awareness for "Sustainability" at the Company and support relevant training measures.

Climate-relevant emissions

Systematic approach to recording emissions planned. We generate climate-relevant emissions in our business activities and are making efforts to continually reduce these in the years ahead. Over the next three years, we plan to implement a systematic approach to recording emissions on the various levels (Scopes 1 to 3). To date, our calculations of CO₂ emissions (Scopes 1 and 2) have been based on the energy consumption determined in energy audits and on tank card billing. The CO₂ equivalents thereby calculated are presented in the energy consumption table in the previous chapter.

Data centres now CO₂ neutral – electricity 100% from regenerative energy sources. The indirect GHG emissions (Scope 2) resulting from the operation of our proprietary data centres are primarily due to their intensive electricity consumption and arise when the energy suppliers generate electricity from fossil sources. The greatest lever for cutting our CO₂ emissions therefore lies in optimising electricity use at our data centres. Since 2018, all electricity supplied to the data centres has come from regenerative energy sources and is CO₂ neutral. The supplier is Stadtwerke Neumünster, which supplies electricity that is 100% attributable to carbon dioxide-free and environmentally-friendly hydroelectricity, as well as to combined heat and power plants working exclusively with biogenic fuels. In purely arithmetic terms, this saves a total of 18,102.91 tonnes of CO₂ equivalents a year. Furthermore, successful implementation of the energy efficiency measures outlined above is expected to lead to annual savings of 1,031 MWh of electricity, and thus of 208.26 tonnes of CO₂ equivalents. This will also improve our customers' energy footprints.

Gradually converting the vehicle park to e-mobility. Our direct GHG emissions (Scope 1) are attributable to trial operations with the emergency electricity generators supplying data centres, heating energy requirements at our office buildings and company mobility via the vehicle pool (pool and leased vehicles and car allowance). To reduce these GHG emissions, we therefore plan to convert our vehicle pool to e-mobility. In a first step, three hybrid vehicles have been included in the range of leased vehicles offered as company cars since the end of 2019.

Substituting modern communication for mobility. Our indirect GHG emissions (Scope 3) chiefly result from business trips and from employees commuting between their homes and workplaces. We are therefore endeavouring to limit work-related mobility by deploying modern communication media. The measures we are taking to achieve this goal include using video conference systems and generous home office provisions. Company bicycles, job tickets and car sharing offers also make it easier for employees to avoid using their own cars.

SOCIAL RESPONSIBILITY

Human rights

Respect for human rights clearly anchored in corporate culture. We are absolutely committed to the principles set out in the internationally recognised frameworks and standards for human rights as formulated by the United Nations and the Organisation for Economic Cooperation and Development (OECD). The obligation to respect human rights is also anchored in our principles of conduct. We make every effort necessary to avoid any breaches of human rights. These efforts relate above all to our suppliers. Our business partners and suppliers are pre-dominantly based in the EU. This means that the strict national requirements and laws already in place basically protect against any breaches of these fundamental rights. When it comes to our suppliers outside Europe, we also accord priority to compliance with all key human rights-related standards. This valuation aspect is factored into our half-yearly supplier assessments, which are based on a fixed catalogue of assessment criteria. For major suppliers, especially in China, we regularly form our own impression of working conditions at meetings on site. We terminate business relationships without delay if we receive any plausible indications of any breaches of these standards.

To date, we have not yet established any processes to identify potentially negative implications of our business activities for human rights. This is because the corresponding risks are currently not assessed as being of material relevance to our business activities. However, we plan to introduce a separate code of conduct for our suppliers in the near future. This will form part of our general procurement terms and will require acknowledgement by suppliers prior to any business relationship. The code of conduct should include ethical, social and ecological principles, as well as fundamental human rights. Compliance with the code will be reviewed in systematic supplier audits.

Social commitment

Responsibility for the region. In our commitment to society, we focus above all on promoting children and young people on location. These activities particularly include our partnership in the "Hamburger Weg" project. The HSV Foundation provides targeted support to existing and upcoming talent in the city of Hamburg, with key focuses on education, welfare and sports projects. Our Company makes donations in cash and kind to the Kita Nord crèche facility in Hamburg and to "Die Arche", an association supporting children from disadvantaged families. Not only that, in connection with our customer satisfaction survey we make a donation for each interview we hold, in this case to various charitable organisations supporting children in difficult situations. In our culture sponsorship activities, we have secured an attractive offering for our employees while simultaneously supporting museums in Cologne. Here, twelve QSC season tickets are available to our employees to obtain free entry to the "Ludwig" and "Wallraf-Richartz" museums.

"QSC Youngsters" actively involved in helping disadvantaged children and young people. In "QSC Youngsters", trainees and students at QSC acted at their own initiative to establish their own format for participating in and helping to shape developments at the Company. In close collaboration with the Personnel and Marketing departments, the cross-location team organises fairs and workshops and implements its own project ideas. It is "QSC Youngsters", for example, who organise and hold the annual "Girls' Day" and the welcome days for new trainees and work-study programme students, who see to planning the mentoring schemes for trainees, who act as contact partners in a variety of social media channels for young people potentially interested in QSC's vocational training and work-study programmes and who organise events such as the company run. One key focus of the work performed by "QSC Youngsters" involves supporting welfare projects for children and young people from disadvantaged families. Here, they also organise the collection of non-cash donations to the "Arche e. V." children's project.

Exercising political influence

Political activities limited to a small number of associations. Our Company does not exercise any direct political influence and also does not make any political donations. For that reason, we currently do not have any detailed sustainability concept, including a risk assessment, for the ways in which we exercise political influence. We also do not plan to compile any such concept in future. Furthermore, QSC is not registered in any lobbying lists. Our political activities are limited to our involvement in sector associations. These include Bitkom (Germany's digital association), the Cloud Ecosystem Community, the Germany Cyber Security Council, the German-speaking SAP User Group (DSAG), the International Association for SAP Partners, the Open Industry 4.0 Alliance, the Trusted Cloud competence network and the Association of Telecommunications and Value-Added Services Providers (VATM).

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sitzgruppe, Düsseldorf

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