



**GESCO AG
Wuppertal**

Declaration of Compliance and Corporate Governance Report

Financial Year 2015/2016

In this report, the Executive Board – on its own behalf and that of the Supervisory Board – provides information on its corporate governance (Corporate Governance Report) in accordance with Section 3.10 of the German Corporate Governance Code (hereafter also referred to as “GCGC” or “Code”) and Section 298a of the German Commercial Code (HGB).

The Executive Board and Supervisory Board of GESCO AG govern the Company with a view to sustainability. The business model is of a long-term nature and all measures are aimed at sustainable positive development. The Executive Board and Supervisory Board of GESCO AG agree with the aims of the Code; to promote good, trustworthy company management for the benefit of shareholders, employees and customers. Section 161 of the German Stock Corporation Act (AktG) requires an annual declaration of compliance with the recommendations of the Code. The preamble to the Code expressly provides for deviations from its recommendations, thereby allowing companies to take into account industry or company-specific factors and enhancing “flexibility and self-regulation with regard to the corporate legal structure of German companies”. This means that deviations are not negative per se, but can actually contribute to good management, at smaller companies in particular. The Executive Board and Supervisory Board submitted a declaration of compliance on schedule and as required by law in December 2015 and made it permanently available to shareholders on the company’s website (www.gesco.de). That declaration is based on the versions of the Code dated 24 June 2014 and 5 May 2015. In May 2016, the Executive Board and the Supervisory Board updated the declaration of compliance from December 2015; this update was also made permanently available to shareholders on the company’s website (www.gesco.de). Both the declaration of compliance issued in December 2015 and the updated version issued in May 2016 are included in this corporate governance report. Previous declarations of compliance are also available to our shareholders and other interested parties on our website.

Shareholders and Annual General Meeting

Shareholders exercise their voting rights at the Annual General Meeting. Each share in GESCO AG grants one vote. GESCO AG publishes all documents relevant to points on the agenda on the company website in due time before the Annual General Meeting. In the course of the invitation to the Annual General Meeting, the company explicitly requests that shareholders exercise their voting rights. To make it easier for shareholders to vote, the company appoints a voting rights representative who can vote at the Annual General Meeting on behalf of shareholders and according to their instructions. The company enables shareholders to order tickets,

complete their postal vote and appoint a proxy via an online tool. The company feels that a high attendance rate is important in order to maintain democracy amongst shareholders and to ensure that decisions of the Annual General Meeting reflect the wishes of the majority of shareholders. GESCO AG publishes the invitation to the Annual General Meeting and any reports and information required to pass a resolution in accordance with the regulations of the German Stock Corporation Act (AktG). This information is also available on the company website. Since its IPO in 1998, the company publishes the voting results on its website on the day of the Annual General Meeting.

Executive Board and Supervisory Board

At GESCO AG responsibilities are distributed as follows: The Executive Board is responsible for managing the company. The Supervisory Board is responsible for monitoring corporate governance and advising the Executive Board. Both boards maintain a close and trusting working relationship within the scope of their legally defined responsibilities. The Executive Board provides the Supervisory Board with regular, prompt and comprehensive information on company planning, earnings and financial position, risk management, strategic development and intended acquisitions. A list of business activities defines those Executive Board decisions that require approval by the Supervisory Board.

Supervisory Board members did not receive any remuneration or benefits in kind for personal activities such as consultancy or agency services in the reporting year or the year before. Neither Executive Board members nor Supervisory Board members had any conflicts of interest.

Executive Board

The Executive Board is responsible for the management of GESCO AG. The members of the Executive Board manage the company's activities in compliance with the law, the Articles of Association and the rules for management of the company approved by the Supervisory Board. The Executive Board works out the strategic development of the company, asks the Supervisory Board for approval and implements it. The Executive Board also defines the company's goals, makes plans and manages the internal control and risk management system, as well as controlling. In addition, the Executive Board prepares the quarterly reports and quarterly statements, the half-year interim report, the individual financial statements of GESCO AG and the consolidated financial statements. Its actions and decisions are aligned with the interests of the company.

The rules for the management of the company approved by the Supervisory Board define responsibilities within the Executive Board, and include detailed instructions regarding the work of the Executive Board and the specifics of reporting to the Supervisory Board by the Executive Board, as well as setting out the Executive Board decisions that require the approval of the Supervisory Board.

In the reporting year, Dr Eric Bernhard (since 1 January 2016), Dr Hans-Gert Mayrose and Mr Robert Spartmann were Executive Board members.

Dr Bernhard is responsible for the strategic portfolio management, Dr Mayrose for M&A, IT and Investor Relations and Mr Spartmann for Finance, Legal, HR and Compliance. Each Executive Board member is also

allocated to a particular subsidiary and is responsible for the operative management of this subsidiary.

The Executive Board of GESCO AG previously consisted of two people; no Chairman or Spokesman had been appointed. This deviated from the recommendations of Section 4.2.1, sentence 1 GCGC. By Supervisory Board resolution of 25 May 2016, Dr Bernhard was appointed Chairman of the Executive Board effective as at 1 July 2016, meaning that this deviation no longer applies.

Relevant details regarding management practices

The members of the Executive Board manage the company with the care required of an orderly and conscientious manager, while observing the applicable laws, Articles of Association and the rules for the management of the company. GESCO AG does not pursue any relevant management practices that go beyond these standards.

Supervisory Board

The Supervisory Board appoints Executive Board members, monitors their corporate governance and advises them on issues of company management. The report from the Supervisory Board contains detailed information on its work in the reporting year.

The Supervisory Board of GESCO AG comprises three members. This number has proven to be extremely effective, as strategic issues and detailed questions can be discussed in depth from an overall perspective within the entire Supervisory Board. It is obviously not practical to form committees from a Supervisory Board consisting of just three people, so no committees are formed at GESCO AG. The company feels that a strong point of the Supervisory Board derives from the fact that its members are equally involved in all issues.

In the interests of the company, nominees for election to the Supervisory Board are primarily chosen on the basis of the required knowledge, abilities and professional experience of the candidates. When making suggestions, the Supervisory Board takes into account the specific situation of the company, its international activities, potential conflicts of interest, the number of independent Supervisory Board members pursuant to Section 5.4.2 GCGC, the age limit and diversity. That includes the long-term aim of a suitable proportion of female members.

Details regarding the selection and term of office of the Supervisory Board members, on the constitution of the Supervisory Board, its meetings and decisions and the rights and responsibilities of its members are defined by the Articles of Association of GESCO AG. They are available from the company's website (www.gesco.de).

Pursuant to the recommendation in Section 5.1.3 GCGC, the Supervisory Board has created rules for the management of the company and for the application of the law and the Articles of Association. The Chairman coordinates the work of the Supervisory Board, chairs its meetings and represents its interests externally.

Until the Annual General Meeting on 18 August 2015, Supervisory Board members in the reporting year were Mr Klaus Möllerfriedrich (Chairman),

Mr Rolf-Peter Rosenthal (Deputy Chairman) and Mr Stefan Heimöller. The terms of office of all Supervisory Board members ended at the close of the Annual General Meeting. Mr Möllerfriedrich and Mr Heimöller stood for re-election to the Supervisory Board and were duly elected by the Annual General Meeting. After 25 years on the Supervisory Board, Mr Rosenthal did not stand for re-election on account of reaching the age limit. Dr Nanna Rapp was proposed as his successor and was duly elected. The candidate was chosen with the support of an executive search firm using a structured search and selection process and under consideration of whether the candidates had time to take on the responsibilities. The recommendations on diversity of Supervisory Board members defined in the Code were followed, in consideration of GESCO AG's specific requirements. The candidate was presented in the Supervisory Board report for the financial year 2014/2015 and the selection process explained. Following the Annual General Meeting, the Supervisory Board appointed Mr Möllerfriedrich as its Chairman and Mr Heimöller as its Deputy Chairman.

All members of the Supervisory Board have the appropriate expertise and personal skills to act as financial experts in accordance with Section 100 para. 5 AktG. All members also meet the requirement of independence pursuant to Section 100 para. 5 AktG.

Diversity among managers, the Executive Board and the Supervisory Board

The Executive Board and Supervisory Board have previously deliberated on the requirements of the Corporate Governance Code that call for companies to increase diversity among managers, the Executive Board and Supervisory Board, and to pay special attention to appropriately considering women for such positions.

According to Section 5.4.1, the Supervisory Board shall specify concrete objectives regarding its composition which, considering the specifics of the enterprise, take into account the international activities of the enterprise, potential conflicts of interest of Supervisory Board members, an age limit to be specified and diversity. In particular, there should be a suitable share of female members. In the eyes of the Supervisory Board, diversity is not merely defined by gender and nationality, but also, and specifically, by professional diversity and a well-balanced mix of expertise from various professional fields. The areas of competence required by the Supervisory Board of GESCO AG include accounting, auditing and monitoring of the effectiveness of internal controls ("Financial Expert"), entrepreneurial expertise and experience and broad knowledge of the strategic, operational and financial functioning of companies. The Supervisory Board believes that these skills are sufficiently represented on the Supervisory Board. One-third of the Supervisory Board is currently made up of female members, in line with the internal target.

The "Act on the Equal Participation of Women and Men in leadership positions in the Private Sector and Public Bodies", which came into effect on 1 May 2015, calls for the creation of targets with regard to the inclusion of women in Supervisory Boards, Executive Boards and the top two levels of management, and the setting of deadlines by which those targets must be met. The Executive Board and Supervisory Board defined corresponding

targets on 13 August 2015 and set the maximum possible time limit, 30 June 2017, to achieve these targets.

GESCO Group companies pursue a clear and absolute policy of equal opportunities in their day-to-day business. This is a matter of course, irrespective of any legal obligations. The companies make a conscious effort to attract job applications from female candidates, support interested candidates in their applications, take part in campaigns such as “Girls’ Days” and actively seek dialogue with schools and universities. This is not based on the desire to fulfil a quota, but rather derives from the conviction and necessity to recruit highly qualified individuals for vacant roles. GESCO Group companies have a great interest in positioning themselves as attractive employers.

The Supervisory Board of GESCO AG set a target of a 30 % share of women on the **Supervisory Board** on 13 August 2015. This target was achieved with the election of Dr Nanna Rapp at the Annual General Meeting on 18 August 2015.

At the current time, the **Executive Board** of GESCO AG consists solely of male members. The Executive Board was expanded from two members to three on 1 January 2016. Candidates were selected in a structured search and selection process with the support of an executive search firm. After conducting a multi-stage selection process and weighing up all the factors, the Supervisory Board opted for Dr Eric Bernhard. The target of a 30 % share of women, which the Supervisory Board also defined for the Executive Board, will therefore continue to apply for future changes to the Executive Board.

At the holding company, GESCO AG, there is only one **level of management** (authorised representatives) below the Executive Board, meaning that the legal obligation only applies to this level. No women are currently employed at this level. At present, it is not foreseeable that any jobs will become vacant or be newly created at this level of GESCO AG’s management. As it is not realistic that a target greater than 0 % will be able to be achieved by 30 June 2017, the Executive Board set the target at 0 %.

Comprehensive and transparent communication

GESCO AG promptly and truthfully informs shareholders, the capital market, media and general public about all relevant events and the financial development of the company. Financial reports, press releases and ad hoc notifications, the financial calendar, documents relating to the Annual General Meeting and a host of other information are available on the company website.

Shareholdings and members of executive bodies

Pursuant to Section 6.2 GCGC, members of the Executive Board and Supervisory Board are required to disclose holdings of shares in the company, or of financial instruments based on those shares, if such holdings directly or indirectly exceed 1 % of the shares issued by the company. Mr Stefan Heimöller, member of the Supervisory Board, owns 14.6 % of the shares issued by the company as at the reporting date.

The members of the Executive Board and Supervisory Board of GESCO AG own a total of 15.3 % of the shares issued by the company as at the reporting date. Members of the Supervisory Board own a total of 14.6 % of the shares in the company. Members of the Executive Board own a total of 0.7 % of the shares in the company. In the future, if certain targets are met, the current tranches of the company's share option programme could give each member of the Executive Board a further 24,000 share options, each for the purchase of one GESCO share.

The company received reports on directors' dealings from Mr Heimöller concerning 31,147 shares and from Dr Rapp concerning 100 shares in the reporting year. GESCO AG has published this information in accordance with the requirements of the German Securities Trading Act (WpHG).

Remuneration Report

The remuneration report is part of the Group management report.

Accounting and audit of financial statements

The individual financial statements of GESCO AG are prepared in accordance with the German Commercial Code (HGB). Since the financial year 2002/2003, the consolidated financial statements of GESCO AG have been prepared according to International Financial Reporting Standards (IFRS). The individual and consolidated financial statements were audited by RSM Breidenbach und Partner PartG mbB, Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Wuppertal. The responsible auditor is Mr Nils-Christian Wendlandt, the fourth time he has held this role.

The following auditing firms were responsible for auditing the individual financial statements of the subsidiaries: RSM Breidenbach und Partner PartG mbB, Wirtschaftsprüfungsgesellschaft - Steuerberatungsgesellschaft, Wuppertal, Baker Tilly Roelfs AG Wirtschaftsprüfungsgesellschaft, Düsseldorf, and RSM Altavis GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Hamburg, Düsseldorf office. Foreign subsidiaries of subsidiaries are primarily audited by international associated partners of our domestic auditors.

The Chairman of the Supervisory Board obtained the auditor's statement of independence in accordance with Section 7.2.1 of the GCGC. In line with the resolution passed by the Annual General meeting on 18 August 2015, the Chairman of the Supervisory Board appointed the auditor for the individual and consolidated financial statements. The interim, first-quarter and third-quarter reports were not audited in the reporting year.

Declaration of compliance in accordance with Section 161 AktG issued in December 2015

The Executive Board and the Supervisory Board issued the following declaration of compliance on schedule in December 2015 in accordance with Section 161 AktG:

“The Executive Board and Supervisory Board of GESCO AG declare in accordance with Section 161 AktG that the recommendations of the Government Commission German Corporate Governance Code published by the Federal Ministry of Justice in the official section of the Bundesanzeiger (Federal Gazette) 30 September 2014 were being followed pursuant to the version of the Code dated 24 June 2014 since the last declaration of compliance was issued in December 2014 until the effective date of the new version of the Code dated 5 May 2015 on 12 June 2015, with the following exceptions:

- **Section 4.2.1, sentence 1: Chairman of the Executive Board or Spokesman of the Executive Board**

The Executive Board of GESCO AG comprises two people; no Chairman or Spokesman has been appointed. Both Executive Board Members complement one another with their professional know-how, and their responsibilities are clearly defined. In view of their joint overall responsibility, the Executive Board Members maintain a close and trusting working relationship and hold equal rights.

- **Section 5.3: Forming Supervisory Board Committees**

The Supervisory Board of GESCO AG comprises three members. This number has proven to be extremely effective, as overarching strategic issues, as well as detailed questions, can be discussed in depth and without any loss of efficiency and decided upon by the entire Supervisory Board. We therefore believe that it is not appropriate to create Supervisory Board Committees. The company rather feels that a strong point of the Supervisory Board derives from the fact that its members are equally involved in all issues.

- **Section 5.4.6, para. 2, sentence 2: Performance-oriented Supervisory Board remuneration**

The remuneration of the members of the Supervisory Board of GESCO AG includes a fixed component, an attendance fee and a performance-oriented component based on Group net income for the year after minority interest. Any Group losses are carried forward to the subsequent year and offset against positive income. In our opinion, this rule is in keeping with a sustainable and entrepreneurial way of thinking and should be in compliance with the orientation towards sustainable corporate development called for in the Code. However, as it is not feasible to exclude the possibility that others may be of a different opinion, we therefore report a deviation from the recommendation of the Code as a precautionary measure.

The Executive Board and Supervisory Board of GESCO AG also declare in accordance with Section 161 AktG that the recommendations of the Government Commission German Corporate Governance Code in the version dated 5 May 2015 have been and will be followed since its publication in the official section of the Bundesanzeiger (Federal Gazette) on 12 June 2015, with the exceptions to Section 4.2.1 sentence 1, Section 5.3 and Section 5.4.6 para. 2 sentence 2, as well as the following exception, as justified above.

- **Section 5.4.1 para. 2 sentence 1: Regular limit of length of Supervisory Board membership**

The Supervisory Board of GESCO AG believes that a long term of service on the Supervisory Board goes hand in hand with the sustainable and long-term business model of GESCO AG. For this reason, we do not consider setting a regular limit of length of Supervisory Board membership to be appropriate or practical.

Wuppertal, December 2015

GESCO AG

For the Supervisory Board For the Executive Board

Klaus Möllerfriedrich Dr Hans-Gert Mayrose Robert Spartmann”

Update to the declaration of compliance issued in December 2015

In May 2016, the Executive Board and the Supervisory Board updated the declaration of compliance issued in December 2015 as follows:

“The Supervisory Board has appointed Dr Bernhard as Chairman of the Executive Board of GESCO AG effective as at 1 July 2016. As a result, the Executive Board and the Supervisory Board update their declaration of compliance issued in December 2015 pursuant to Section 161 AktG as follows:

GESCO AG now also complies with the recommendation detailed in Section 4.2.1 sentence 1 GCGC

The declaration of compliance issued in December 2015 continues to apply in all other respects.

Wuppertal, May 2016

GESCO AG

For the Supervisory Board

Klaus Möllerfriedrich

For the Executive Board

Dr Eric Bernhard Dr Hans-Gert Mayrose Robert Spartmann”