Annual Accounts and Management Report

as at 31 March 2017

Auditor’s Report

GESCO AG

Wuppertal

GESCO AG, Wuppertal

Balance sheet as at 31 March 2017

A S S E T S

	Note	31.3.2017 €	Previous year €'000
A. NON-CURRENT ASSETS			
I. Intangible assets			
IT software		11,460.00	14
II. Tangible assets			
Other plant, fixtures and fittings		466,373.62	334
III. Financial assets			
1. Shares in affiliated companies	(1)	115,022,545.18	77,355
2. Investments		5,000.00	5
		115,027,545.18	77,360
		115,505,378,80	77,708
B. CURRENT ASSETS			
I. Receivables and other assets			
1. Amounts owed by affiliated companies of which with a residual term of more than one year: € 28,869,153.80 (€ 28,166 thousand)	(2)	49,917,043.06	44,270
2. Other assets of which with a residual term of more than one year: € 1,335,854.57 (€ 1,670 thousand)	(3)	7,307,511.89	7,249
		57,224,554.95	51,519
II. Cash, credit with financial institutions		10,817,108.83	14,972
		68,041,663.78	66,491
C. ACCOUNTS RECEIVABLE AND PAYABLE		160,624.20	170
		183,707,666.78	144,369

E Q U I T Y A N D L I A B I L I T I E S

	Note	31.3.2017 €	Previous year €'000
A. EQUITY			
I. Issued capital			
1. Subscribed capital	(4)	10,839,499.00	8,645
2. Acquired own shares	(5)	0.00	0
		10,839,499.00	8,645
II. Capital reserves	(6)	73,487,785.42	55,367
III. Revenue reserves	(6)		
1. Statutory reserves		58,717.27	59
2. Other revenue reserves		50,100,022.79	46,634
		50,158,740.06	46,693
IV. Retained profit		3,793,824.65	6,650
		138,279,849.13	117,355
B. PROVISIONS			
1. Provisions for pensions and similar obligations	(7)	2,040,123.00	1,812
2. Other provisions	(8)	6,555,547.94	4,582
		8,595,670.94	6,394
C. LIABILITIES	(9)		
1. Liabilities to financial institutions		36,422,785.81	20,169
2. Trade creditors		113,951.88	81
3. Liabilities to affiliated companies		183,653.59	184
4. Other liabilities of which from taxes: € 67.708,90 (€ 139 thousand) of which related to social security: € 8.779,65 (€ 5 thousand)		111,755.43	186
		36,832,146.71	20,620
		183,707,666.78	144,369

GESCO AG

Income statement
for the period from 1 April 2016 to 31 March 2017

	Note		2016/2017 €	Previous year €'000
1. Sales revenues			521,754.24	1,482
2. Other operating income	(10)		447,053.71	235
3. Personnel expenditure				
a) Wages and salaries		-3,312,129.19		-3,190
b) Social security contributions and expenditure on pensions and benefits of which for pensions and benefits: € 264,442.85 (€ 85 thousand)		-460,815.99		-264
			-3,772,945.18	-3,454
4. Depreciation and amortisation				
a) on tangible and intangible assets			-175,350.45	-146
b) on current assets in as far as such exceed the usual depreciations in the corporation		-3,687,000.00		0
			-3,862,350.45	-146
5. Other operating expenses	(11)		-5,513,704.04	-3,023
			-12,180,191.72	-4,906
6. Earnings from investments of which from affiliated companies: € 17,923,356.52 (€ 10,988 thousand)			17,923,356.52	10,988
7. Earnings from profit and loss transfer agreements			3,668,670.11	2,415
8. Other interest and similar income of which from affiliated companies: € 435,753.81 (€ 413 thousand)			476,094.34	473
9. Depreciation on financial assets and on securities held as current assets			-1,895,228.00	-400
10. Expenditure from the assumption of losses			0.00	-925
11. Interest and similar expenditure of which to affiliated companies: € 701.48 (€ 1 thousand) of which expenditure from interest: € 105,776.00 (€ 106 thousand)			-512,801.30	-623
12. Taxes on income and earnings			-99,778.20	-15
13. Earnings after taxes			7,380,121.75	7,007
14. Other taxes			-76,679.00	-3
15. Net income			7,303,442.75	7,004
16. Transfer to revenue reserves			-3,509,618.10	-354
17. Retained profit			3,793,824.65	6,650

GESCO AG

Annual Financial Statements as at
31 March 2017

Notes

1. General information

GESCO AG has its headquarters in Wuppertal, Germany. It is registered in the Commercial Register of the District Court of Wuppertal, Germany, under HRB 7847.
The annual financial statements have been prepared for the first time in accordance with the provisions of the Accounting Directive Implementation Act (BilRUG).
In order to permit comparability, the provisions of the BilRUG were also applied to the previous year's annual financial statements.

2. Accounting and valuation methods

The annual financial statements as at 31 March 2017 were prepared in accordance with the regulations regarding the balance sheet structure of large corporations under German commercial law and take into account the legal principles of accounting and measurement as well as the regulations of the Articles of Association.

The partial appropriation of net earnings was accounted for when preparing the annual financial statements.

Assets are recognised at cost. Straight-line depreciation during the expected useful life is applied to movable items of property, plant and equipment. Low-value assets costing less than € 410 are written off in the year of acquisition; their immediate disposal is assumed in the asset history sheet.

Financial assets are reported at cost, taking into account any impairment losses in the case of the value of the asset having to be reduced because of the impairment being potentially permanent.

Receivables and other assets are recognised at the lower of either their nominal or fair value.

In accordance with actuarial principles, provisions for pensions and similar obligations, and a purchase price annuity obligation are stated at the value of the actual liability. They are measured using the “projected unit credit method” (PUC method). The calculations are based on the 2005 G tables of Prof Dr K. Heubeck. The interest rate was recognised on the basis of an assumed remaining term of 15 years and Section 253 para. 2 sentence 2 of the German Commercial Code (HGB) was applied.

Other provisions account for all discernible risks at the actual value of the expected liability when the annual financial statements were being prepared.

Liabilities are recognised at their actual settlement values.

3. Information on the balance sheet

The following table shows the structure and development of assets:

	Cost of acquisition or manufacture				Depreciation				Book values	
	01.04.2016	Additions	Disposals	31.3.2017	01.04.2016	Additions	Disposals	31.3.2017	31.3.2017	31.3.2016
	€	€	€	€	€	€	€	€	€	€
NON-CURRENT ASSETS										
I. Intangible assets										
IT software	219,709.71	7,824.55	0.00	227,534.26	206,050.71	10,023.55	0.00	216,074.26	11,460.00	13,659.00
II. Tangible assets										
Other plant, fixtures and fittings	902,999.79	327,334.40	201,739.68	1,028,594.51	568,838.67	165,326.90	171,944.68	562,220.89	466,373.62	334,161.12
III. Financial investments										
1. Shares in affiliated companies	88,437,374.97	39,562,744.76	0.00	128,000,119.73	11,082,346.55	1,895,228.00	0.00	12,977,574.55	115,022,545.18	77,355,028.42
2. Investments	5,000.00	0.00	0.00	5,000.00	0.00	0.00	0.00	0.00	5,000.00	5,000.00
	88,442,374.97	39,562,744.76	0.00	128,005,119.73	11,082,346.55	1,895,228.00	0.00	12,977,574.55	115,027,545.18	77,360,028.42
	89,565,084.47	39,897,903.71	201,739.68	129,261,248.50	11,857,235.93	2,070,578.45	171,944.68	13,755,869.70	115,505,378.80	77,707,848.54

Shares in affiliated companies (1)

The shareholder structure has been attached to these notes in accordance with Section 285 sentence 1 no. 11 HGB. The shares in PROTOMASTER GmbH (€ 1,795 thousand) and in MV Anlagen GmbH & Co. KG (€ 100 thousand) were fully written down to fair value.

Amounts owed by affiliated companies (2)

Some of the items included here are unpaid pro-rata profit distributions, loans and receivables from the tax consolidation of affiliated companies for trade and corporation tax purposes. Amounts owed by PROTOMASTER GmbH and MV Anlagen GmbH & Co. KG totalling € 3,687 thousand were written down to fair value.

Other assets (3)

Other assets primarily pertain to deductible taxes and tax prepayments as well as issued loans.

Subscribed capital (4)

The company's subscribed capital amounts to € 10,839,499, divided into 10,839,499 no-par value registered shares with a mathematical share in equity of € 1.00 each. The company does not hold any own shares.

The Annual General Meeting on 25 August 2016 resolved to increase share capital from € 8,645,000.00 to € 9,975,000.00 by converting a total of € 1,330,000.00 from capital reserves to share capital pursuant to Section 207 para. 2 sentence 2 of the German Stock Corporation Act (AktG) without issuing new shares. Following the conversion, the proportional amount of the share capital attributable to each individual share amounts to € 3.00. The Annual General Meeting also resolved to redistribute the share capital into 9,975,000 registered shares at a ratio of 1:3 by means of a share split, with each share accounting for € 1.00 of share capital.

Furthermore, the Annual General Meeting on 25 August 2016 authorised the Executive Board to increase the company's share capital once or several times by a total of up to € 997,500.00 until 24 August 2019 with the consent of the Supervisory Board by issuing up to 997,500 new registered shares in exchange for cash and/or contributions in kind. Subscription rights may be excluded in certain cases.

In March 2017, share capital was increased by € 864,499 to € 10,839,499 by means of a capital increase in exchange for cash. The new shares were placed with institutional investors in Germany and abroad subject to the exclusion of the shareholders' subscription rights. Authorised capital therefore amounts to € 133,001.

The General Meeting on 18 August 2015 authorised the company to acquire up to 10 out of every 100 shares of the share capital until 17 August 2020 under consideration of own shares already held. The Annual General Meeting of GESCO AG authorised the company to acquire own shares according to Section 71 para. 1 No. 8 AktG subject to the approval of the Supervisory Board and excluding shareholders' subscription rights and to use these shares for the purpose of a stock option programme. Beneficiaries include the Executive Board and a small group of management employees of GESCO AG. GESCO AG reserves the right to provide partial or full cash compensation for gains under the programme instead of issuing some or all of the shares. A tenth tranche was initiated in September 2016. A total of 80,100 options (number after the share split) were issued to members of the Executive Board and management employees of GESCO AG. The gains under the programme can either be paid out half in cash and half in GESCO shares, or the full amount in cash. However, in the event that the full amount is paid out in cash, beneficiaries are required to purchase GESCO shares valued at at least half of the amount paid.

Non-cash expenditure under this programme is determined using a common binomial model, recorded in earnings on a pro rata basis and recognised in other provisions. The model assumes volatility of 22.7 % (previous year: 25.93 %) and a risk-free interest rate of -0.45 % (previous year: 0.17 %); the exercise price of the options issued in September 2016 is € 22.99. The waiting period is four years and two months after the option is issued; after the end of the waiting period, the options may be exercised at any time up to 15 March of the year after next. The fair value per option as at the issue date was € 1.78. These annual financial statements are the first to include the expenditure (€ 20 thousand) resulting from the stock option programme initiated in the reporting year for a seven-month period. Taking into account the change in value, total expenditure for the sixth to tenth tranche amounted to € 143 thousand in the reporting year; in the previous year, total expenditure was € 154 thousand. Provisions came to € 526 thousand as at the reporting date.

The key terms and conditions of the stock option programme are summarised in the following table – the previous year's tranches were adjusted in line with the share split:

		Tranche				
		2016	**2015**	**2014**	**2013**	**2012**
End of waiting period		25.10.2020	18.10.2019	28.10.2018	25.09.2017	31.10.2016
End of term		15.03.2022	15.03.2021	15.03.2020	15.03.2019	15.03.2018
Exercise price	€	22.99	23.12	24.52	23.98	21.70
No. of options issued		80,100	60,600	60,600	60,600	72,000
Profit limit per option	€	11.50	11.56	12.26	11.99	10.85
Fair value per option as at the reporting date 31.03.2017	€	1.88	1.79	1.83	1.83	2.92
Fair value per option as at the time of issue	€	1.78	2.25	2.53	2.98	2.72

The fair value per option as at the reporting date may differ from the fair value at the time the options are issued.

The development of claims arising from the stock option plan is as follows:

	2016/2017		**2015/2016**	
	No. of options	Weighted average exercise price €	No. of options	Weighted average exercise price €
Outstanding options 01.04.	325,800	23.10	265,200	23.09
In the financial year				
granted	80,100	22.99	60,600	23.12
returned	- 1,920	23.12	0	
exercised	- 57,000	22.50	0	
expired	- 19,000	22.50	0	
Outstanding options 31.03.	327,980	23.21	325,800	23.10
Options that can be exercised 31.03.	68,000	21.70	72,000	22.55

Own shares (5)

In the reporting year, the company utilised the authorisation to acquire own shares and afterwards sold 13,158 of them at a nominal value totalling € 34 thousand (0.40 % of share capital) and a sales price of € 566 thousand to employees of the GESCO Group as part of an employee share scheme. The proceeds from the sale were used to pay off liabilities.

Capital reserves / revenue reserves (6)

In addition to the amounts resulting from own shares, the Executive Board added € 3,509,618.10 to revenue reserves from net earnings for the year in 2016/2017 in accordance with Section 58 para. 2 AktG. Capital reserves declined by € 1,330,00.00 as a result of the capital increase through own funds. However, these reserves increased by € 19,451,227.50 due to the capital increase through authorised capital.

Reserves developed as follows:

	Capital reserves €'000	Statutory reserves €'000	Other revenue reserves €'000
As at 31.03.2016	55,367	59	46,634
Acquisition/sale of own shares	0	0	-44
Withdrawals	-1,330	0	0
Additions	19,451	0	3,510
As at 31.03.2017	73,488	59	50,100

Provisions for pensions and similar obligations (7)

Development of provisions for pensions:

As at 31.03.2016 € 1,812 thousand

Interest expenditure € 80 thousand

Change € 148 thousand

As at 31.03.2017 € 2,040 thousand

Actuarial basis:

Interest rate 4.01 %

Increase in salaries 2.75 %

Increase in pensions 1.75 %

The difference pursuant to Section 253 para. 6 HGB is € 231 thousand.

The provisions relate to pension obligations to a current Executive Board member and two former Executive Board members.

Other provisions (8)

Other provisions mainly include a purchase price annuity obligation, obligations to employees and executive bodies, expenditure from the stock option programmes, litigation costs, possible non-deductible input taxes and interest on taxes. The purchase price annuity obligation was calculated in accordance with actuarial principles on the basis of a 3.24 % interest rate. A total of € 1,594 thousand was recognised as a provision for possible risks and expenditure from and associated with the agreed sale of PROTOMASTER GmbH.

Liabilities (9)

	As at 31.03.2017 (31.03.2016) €'000	Residual term up to 1 year €'000	Residual term up to 5 years €'000	Residual term > 5 years €'000
Liabilities to financial institutions	36,423 (20,169)	2,466 (2,120)	22,841 (15,500)	11,116 (2,549)
Trade creditors	114 (81)	114 (81)	0 (0)	0 (0)
Liabilities to affiliated companies	184 (184)	184 (184)	0 (0)	0 (0)
Other liabilities	112 (186)	112 (186)	0 (0)	0 (0)
	36,833 (20,620)	2,876 (2,571)	22,841 (15,500)	11,116 (2,549)

The company pledged investments to secure liabilities to financial institutions.

Deferred tax liabilities

Deferred taxes arising from different valuations under commercial and tax law were calculated for financial assets, pension provisions and other provisions. Tax loss carryforwards under commercial and corporation law resulted in deferred tax assets.

The sum of all deferred taxes resulted in an asset surplus. The capitalisation option was not utilised. It is not considered likely that these will be offset against taxable income within a period of five years.

Contingent liabilities and other financial obligations

The purchase price of a company acquisition may have to be adjusted until 30 April 2017, depending on the development and successful launch of a new product. No claims are expected, as the product has not yet been launched.

The management of one subsidiary is entitled to transfer its shares to GESCO AG at a later date and at a fixed price. In return for this right, management has forfeited part of its profit shares so far.

GESCO AG reached an agreement with Dr Mayrose whereby GESCO AG will exempt Dr Mayrose from liability claims of up to € 20 million arising from certain breaches of duty, plus any legal fees, or those arising in connection with his activities as managing director of PROTOMASTER GmbH. This exemption from liability is subordinate to the insurance coverage on the grounds of D&O insurance. Dr Mayrose left GESCO AG effective 31 December 2016.

GESCO AG is obliged to observe covenants as part of financing agreements from an affiliated company.

In order to secure a loan granted to a managing director to acquire shares in the company he manages, GESCO AG pledged a fixed deposit in the same amount (€ 1,375 thousand) to the lending bank. The fixed deposit will be released in parallel with the loan repayment. In the event of any recourse, GESCO AG is entitled to liquidate the shares sold and pledged to GESCO; there is, therefore, no risk.

4. Information on the income statement

The first-time application of the BilRUG resulted in changes being made to the recognition of sales revenues and other operating income. The recognition of these items in the previous year’s income statement was adjusted accordingly to enable comparability. Consulting income as well as recharged insurance of € 1,482 thousand was reclassified. Earnings from investments, including earnings from profit and loss transfer agreements, which are now reported under the financial result, which were reported instead of sales revenues in the previous year were also reclassified.

Extraordinary expenditure

In February 2017, it was resolved to sell the majority interest in PROTOMASTER GmbH. MV Anlagen GmbH & Co. KG is also impacted by this resolution. Expenditure associated with the planned disposal was taken into account when preparing these annual financial statements. Depreciation and amortisation on current assets includes € 3,687 thousand for unusual losses on receivables. Other operating expenses comprise € 1,594 thousand for possible risks and expenditure from and associated with the agreed sale of PROTOMASTER GmbH. Depreciation of € 1,895 thousand was recognised on financial assets.

Other operating income (10)

Other operating income includes income resulting from the reversal of provisions and the disposal of fixed assets; € 278 thousand of this amount is for different reporting periods.

Other operating expenditure (11)

Other operating expenditure pertains to, among other things, possible non-deductible input taxes, investor relations expenditure, legal and consultancy fees, costs of the capital increase, insurance, expenditure from and associated with the agreed sale of PROTOMASTER GmbH and the employee share scheme.

5. Other information

Corporate governance

The Executive Board and Supervisory Board of GESCO AG comply with the German Corporate Governance Code and have made the current as well as previous declarations of compliance available to shareholders and interested parties on the website of GESCO AG. Members of the Executive Board hold a total of 0.5 % of company shares. Members of the Supervisory Board hold a total of 13.7 % of company shares.

Disclosures pursuant to the German Securities Trading Act (WpHG)

Stefan Heimöller, Germany, informed us on 11 January 2011 that his voting rights in GESCO AG exceeded the 10 % threshold on 10 January 2011 and amounted to 10.01 % on 10 January 2011 (302,648).

Investmentaktiengesellschaft für langfristige Investoren TGV, Bonn, informed us on 14 December 2015, and issued a correction on 15 December 2015, pursuant to Section 21 para. 1 of the German Securities Trading Act (WpHG) that its share of the voting rights in GESCO AG had exceeded the 10 % threshold on 9 December 2015 and amounted to 10.51 % (corresponding to 349,537 voting rights) on that day.

Norman Rentrop, Germany, informed us on 14 December 2015, and issued a correction on 15 December 2015, pursuant to Section 21 para. 1 WpHG that his share of the voting rights in GESCO AG had exceeded the 10 % threshold on 9 December 2015 and amounted to 10.51 % (corresponding to 349,537 voting rights) on that day. Of that, 10.51 % (corresponding to 349,537 voting rights) of the voting rights under Section 22 WpHG are allocated to him.

The disclosed voting rights pertain to the number of shares held prior to the share split implemented at the end of December 2016.

Employees

The company employed an average of 17 people (pursuant to Section 267 para. 5 HGB) during the financial year (previous year: 16).

Auditorr

The auditor's fee for the financial year amounted to € 150 thousand for the audit of the annual and consolidated financial statements, € 29 thousand for other audit services and € 4 thousand for tax consulting services.

Executive bodies of the company

Executive Board

Dr Eric Bernhard, Langenfeld,
Chairman of the Executive Board (since 01.07.2016)

Dr-Ing Hans-Gert Mayrose, Mettmann,
Member of the Executive Board (until 31.12.2016)

Robert Spartmann, Gevelsberg,
Member of the Executive Board

The remuneration system for and the remuneration received by the Executive Board are described individually in the management report.

By the reporting date, one current member and one former member of the Executive Board achieved an entitlement to the following percentages of their pensions commitments based on their assessment value (most recent fixed salary):

Dr-Ing Hans-Gert Mayrose	16.0 %
Robert Spartmann	15.5 %

On the reporting date, pension commitments and provisions for 2016/2017 came to:

	Pension provisions €'000	Additions €'000
Robert Spartmann	662	105
Dr-Ing Hans-Gert Mayrose	672	91

Remuneration received by a former member of the Executive Board amounted to € 62 thousand in the financial year (€ 62 thousand). To cover this, the company's pension provisions amounted to € 658 thousand (€ 674 thousand) on 31 March 2017. The transitional payments for Dr-Ing Mayrose, who left the Executive Board as at 31 December 2016, amounted to € 10 thousand in the financial year (previous year: € 0 thousand). The transitional payments for Dr-Ing Mayrose are limited to a period of 18 months. To cover this, the company had obligations recognised as liabilities amounting to € 49 thousand (€ 0 thousand) as at 31 March 2017.

Supervisory Board

Klaus Möllerfriedrich, Düsseldorf
Chairman, Auditor

Deputy Chairman of the Supervisory Board:
- TopAgers AG, Langenfeld

Member of the Supervisory Board:
- Dr Ing Thomas Schmidt AG, Köln
- HINKEL & CIE. Vermögensverwaltung AG, Düsseldorf

Stefan Heimöller, Neuenrade
Deputy Chairman,
Managing partner at Platestahl Umformtechnik GmbH, Lüdenscheid
and at Helios GmbH, Neuenrade

Dr Nanna Rapp, Düsseldorf
Chief Executive Officer of E.ON Inhouse Consulting GmbH, Essen

Chairwoman of the Supervisory Board:
- E.ON Energie AG, Düsseldorf

Member of the Supervisory Board:
- E.ON Kernkraft GmbH, Hannover (until 31.12.2016)

Remuneration received by the Supervisory Board – distributed among its members – is as follows:

	Fixed remuneration €'000	Variable remuneration €'000	Total €'000
Klaus Möllerfriedrich	19 (24)	23 (58)	42 (82)
Stefan Heimöller	17 (20)	23 (58)	40 (78)
Dr Nanna Rapp	14 (8)	23 (36)	37 (44)
Rolf-Peter Rosenthal	0 (12)	0 (22)	0 (34)
	50 (64)	69 (174)	119 (238)

Proposed appropriation of retained profit

Retained profit consists of the following:

	2016/2017 €	2015/2016 €
Net income	7,303,442.75	7,004,319.24
Transfer to other revenue reserves	3,509,618.10	354,457.24
Retained profit	3,793,824.65	6,649,862.00

At the time of the proposal for the appropriation of net income, the company held no own shares.

For the 2016/2017 financial year, the Executive Board is proposing the following appropriation of retained profit for the year to the Annual General Meeting:

Payment of a dividend in the amount of € 0.35 per share on the current share capital entitled to dividends (10,839,499 shares)	€ 3,793,824.65

Wuppertal, 24 May 2017

The Executive Board

Dr Eric Bernhard
(Chairman)

Robert Spartmann

GESCO AG holdings as at 31.03.2017

No.	Company	Location	Share in capital in %	Equity 2016 EUR'000	Year's result 2016 EUR'000	Assignment of shares to no.
1	GESCO AG (parent company)	Wuppertal				
	a) fully consolidated companies					
2	Alro GmbH	Wuppertal	100	311	-3	1
3	AstroPlast Kunststofftechnik GmbH & Co. KG	Sundern	100	1,237	-263	1
4	AstroPlast Verwaltungs GmbH	Sundern	100	82	3	1
5	C.F.K. CNC-Fertigungstechnik Kriftel GmbH	Kriftel	80	4,453	642	1
6	Dömer GmbH & Co. KG Stanz- und Umformtechnologie	Lennestadt	100	1,525	390	1
7	Dömer GmbH	Lennestadt	100	48	1	1
8	Dörrenberg Edelstahl GmbH	Engelskirchen	90	78,128	9,973	1
9	Dörrenberg Tratamientos Térmicos SL	Alasua, Navarra, Spain	60	1,352	200	8
10	Dörrenberg Special Steels PTE. LTD.	Singapore	90	2,008	198	8
11	Dörrenberg International PTE. LTD.	Singapore	90	632	40	8
12	Dörrenberg Special Steels Taiwan LTD.	Tainan City, Taiwan	100	815	248	11
13	Middle Kingdom Special Steels Pte. Ltd.	Singapore	60	657	0	11
14	Jiashan Dörrenberg Mould & Die Trading Co.	Jiashan, China	100	2,029	326	13
15	Frank Walz- und Schmiedetechnik GmbH	Hatzfeld	90	11,625	814	1
16	Frank-Hungaria Kft.	Òzd, Hungary	100	2,013	289	15
17	Franz Funke Zerspanungstechnik GmbH & Co. KG	Sundern	80	1,058	258	1
18	Franz Funke Verwaltungs GmbH	Sundern	100	77	3	1
19	Haseke GmbH & Co. KG	Porta Westfalica	80	1,485	1,076	1
20	Haseke Beteiligungs-GmbH	Porta Westfalica	100	72	3	1
21	Hubl GmbH	Vaihingen/Enz	80	3,221	794	1
22	Georg Kesel GmbH & Co. KG	Kempten	90	435	282	1
23	Kesel & Probst Verwaltungs-GmbH	Kempten	100	39	2	22
24	Kesel International GmbH	Kempten	100	85	-3	22
25	Georg Kesel Machinery (Beijing) Co., Ltd.	Beijing, China	100	69	-51	24
26	Kesel North America LLC	Beloit, USA	100	-22	-70	24
27	MAE Maschinen- und Apparatebau Götzen GmbH	Erkrath	100	5,444	0	1
28	MAE International GmbH	Erkrath	100	68	-2	27
29	MAE Machines (Beijing) Co., Ltd.	Beijing, China	100	167	35	28
30	MAE Amerika GmbH	Erkrath	100	1,712	24	27
31	MAE-EITEL INC.	Orwigsburg, USA	90	1,778	5	30
32	Modell Technik Formenbau GmbH	Sömmerda	100	641	0	1
33	Modell Technik Beteiligungsgesellschaft mbH	Sömmerda	100	136	-1	1
34	Molineus & Co. GmbH + Co. KG	Wuppertal	100	254	-2	1
35	GRAFIC Beteiligungs-GmbH	Wuppertal	100	46	0	34
36	MV Anlagen GmbH & Co. KG	Wuppertal	100	79	-10	1
37	Paul Beier GmbH Werkzeug-und Maschinenbau & Co. KG	Kassel	100	468	-1,391	1
38	WM Werkzeug-und Maschinenbau Verwaltungs-GmbH	Kassel	100	74	1	1
39	Pickhardt & Gerlach GmbH & Co. KG	Finnentrop	100	4,067	6,129	1
40	Hekhorn Verwaltungs-GmbH	Finnentrop	100	0	0	39
41	Hekhorn Immobilien GmbH	Finnentrop	100	5,147	336	1
42	PROTOMASTER GmbH	Wilkau-Haßlau	82.2	589	-623	1
43	Q-Plast GmbH & Co. Kunststoffverarbeitung	Emmerich	100	317	215	45
44	Q-Plast Beteiligungs-GmbH	Emmerich	100	77	3	45
45	Setter GmbH & Co. Papierverarbeitung	Emmerich	100	2,498	2,370	1
46	Setter GmbH	Emmerich	100	5,775	1,309	1
47	HRP-Leasing GmbH	Emmerich	100	734	0	46
48	Setter International GmbH	Emmerich	100	4,255	514	45
49	Setterstix Inc.	Cattaraugus, USA	100	5,591	1,084	48
50	SQG Verwaltungs GmbH	Emmerich	100	9	-1	45
51	SVT GmbH	Schwelm	90	13,371	2,002	1
52	IV Industrieverwaltungs GmbH & Co. KG	Wuppertal	100	125	-2	1
53	IMV Verwaltungs GmbH	Wuppertal	100	70	3	1
54	VWH GmbH	Herschbach	80	3,327	937	1
55	WBL Holding GmbH	Laichingen	100	11,210	1,168	1
56	Werkzeugbau Laichingen GmbH	Laichingen	100	3,351	0	55
57	Werkzeugbau Leipzig GmbH	Leipzig	100	3,275	61	55
58	TM Erste Grundstücksgesellschaft mbH	Wuppertal	94	1,657	357	55
	b) associated companies *)					
59	Saglam Metal San. Tic.A.S.	Istanbul, Turkey	20	-	-	8
60	Dörrenberg Special Steels Korea Co. Ltd.	Jeongwang-dong, South Korea	50	-	-	11
	c) companies which are not consolidated					
61	Connex SVT Inc.	Houston, USA	100	677	312	51
62	MAE.ch GmbH i.L.	Unterstammheim, Switzerland	100	0	0	27
63	FRANK Lemeks Tow	Ternopil, Ukraine	75	340	333	15
64	Papersticks S.A. Ltd.	Durban, South Africa	100	46	3	45

*) the associated companies make use oft he exemption rule according to section 286 para 3 sentence 2 of the German Commercial Code (HGB).

GESCO AG
Management report for financial year 2016/2017
(from 1 April 2016 to 31 March 2017)

1. General economic development

The **German economy** generated solid growth in 2016. All in all, gross domestic product rose by an average of 1.9 % over the course of the year, marking a continuation of the increase observed in previous years. Domestic demand played a key role here, with private households increasing their consumer spending by 2.0 % and public spending rising even further by 4.0 %. Investment was another pillar of growth in Germany. Investments in equipment were up 1.1 % on the previous year, while construction investments rose by 3.0 %.

However, this positive demand-driven economic performance was contrasted by a year of zero growth in the capital goods industry, which is key to the development of the GESCO Group. The **Verband Deutscher Maschinen- und Anlagenbau e.V. (VDMA – German Machinery and Plant Manufacturers Association)** reports that German machinery manufacturing stagnated in 2016. According to provisional figures from the Federal Statistical Office (Statistisches Bundesamt), price-adjusted production development came to around 0 %. Exports of plants and machinery were able to match the previous year's figure. Growth was recorded in exports to EU partner countries (+4.1 %), to other European countries (+0.4 %), to Central and South Asia (+5.0 %), to South-East Asia (+3.9 %), to Africa (+15.8 %) and to Australia/Oceania (+4.8 %). Machinery exports to the US (-5.1 %), the Middle East (-10.1 %) and East Asia (-7.6 %), on the other hand, declined. The level of incoming orders 2016 also failed to match the previous year's figures by 2 % in real terms according to the VDMA. Domestic incoming orders declined by 1 % while orders from abroad declined by 3 % year on year. There was a slight regional difference here, with orders from EU partner countries declined by 8 % year on year and orders from non-EU countries falling by 1 %.

The **SME corporate transactions market** continued to feature brisk demand and limited supply. Given the ongoing low-interest environment, a variety of investor groups are on the lookout for direct investments in industrial SMEs, which has pushed up valuations. Against this backdrop, we have applied a moderate adjustment to our valuation, but continue to maintain discipline and avoid transactions purely aimed at raising purchase prices, such as tender processes.

2. Changes to the scope of investments

In December 2016, GESCO AG acquired a 100 % stake in the Pickhardt & Gerlach Group (PGW), Finnentrop, a leading strip steel processor, as part of its succession planning process. The transaction was completed in January 2017 following approval from antitrust authorities. The company generates annual sales of roughly € 30 million and has approximately 40 employees.

On 2 February 2017, the Executive Board and Supervisory Board of GESCO AG resolved to place the majority stake in Protomaster GmbH, Wilkau-Haßlau, up for sale as it had had a major negative impact on GESCO AG results over the past few years due to its need for restructuring. The sale process began immediately and negotiations are currently ongoing with a number of potential buyers.

During financial year 2016/2017, GESCO AG assumed majority shares from managing directors of two subsidiaries as part of retirement agreements. These concern AstroPlast Kunststofftechnik GmbH & Co. KG, where the managing director held a 20 % share, and Werkzeugbau Laichingen Group, where the managing director held a 15 % share. GESCO AG has held a 100 % share in both subsidiaries since then.

3. Business performance

As explained at the beginning of this management report, 2016 was a sluggish year for the capital goods industry. Against this backdrop, the GESCO Group recorded a slight decline in sales and a disproportionately high decline in earnings. The decision to place Protomaster up for sale also resulted in a negative one-off effect that had a major impact on earnings.

The first-time application of the **German Accounting Implementation Directive (BilRUG)** led to changes in the recording of revenue and other operating income. The figures in the previous year's income statement were adjusted accordingly.

GESCO AG's income from investments rose year on year from € 11.0 million to € 17.9 million in financial year 2016/2017. Income from profit and loss transfer agreements rose from € 2.4 million to € 3.7 million in the same period. Earnings in the previous year were also impacted by the assumption of losses of € 0.9 million from one particular profit and loss transfer agreement.

Given the negative economic development of Protomaster GmbH, the review of the recoverability of GESCO AG's investment in this subsidiary and all associated assets resulted in a significant negative effect. Depreciation on current assets, provided it exceeds the normal level of depreciation at a stock corporation increased, as did other operating expenses and amortisation on financial assets and securities classified as current assets. Overall, the negative one-off effect came to approximately € 7.0 million. GESCO AG's net income for the year came to € 7.3 million, up from € 7.0 million in the previous year.

We had forecast that GESCO AG's income from investments, which last year included income from profit and loss transfer agreements which is now reported separately, and net profit for the year in the financial year 2016/2017 to roughly match the figures generated in the financial year 2015/2016. Total income from investments and income from profit and loss transfer agreements was ultimately significantly higher year on year. This is due to the dividend policy: dividends to the parent company are determined annually in view of the growth plans and capital structure of the respective subsidiaries. Net profit for the year rose by a disproportionately low margin compared to income from investments and income from profit and loss transfer agreements, which was due to the negative one-off effects relating to the performance of Protomaster.

GESCO AG's total assets came to € 183.7 million as of the reporting date of 31 March 2017. The significant year-on-year rise (previous year: € 144.4 million) was largely due to the acquisition of the PGW Group and the capital increase performed in March 2017.

On the assets side, fixed assets increased considerably due to the PGW acquisition while current assets only slightly exceeded the previous year's figure. Liquid assets amounted to € 10.8 million (previous year: € 15.0 million). A dividend of € 6.7 million was distributed to the company's shareholders in the reporting year.

On the liabilities side, share capital was increased by € 1,330,000 to € 9,975,000 in December 2016 through the conversion of capital reserves. The share capital was then redistributed in a share split at a ratio of 1:3 into 9,975,000 registered shares, each accounting for € 1.00 of share capital. In March 2017, the share capital was increased by € 864,499 to € 10,839,499 through a capital increase in return for cash contributions. The new shares were placed with institutional investors in Germany and abroad under exclusion of shareholders' subscription rights. This provided the company with liquid assets of roughly € 20 million, which were used to finance the acquisition of the PGW Group. As at the reporting date of 31 March 2017, equity stood at € 138.3 million (previous year: € 117.4 million). Due to the significant increase in total assets, the equity ratio decreased from 81.3 % to 75.3 %. Liabilities to financial institutions rose from € 20.2 million to € 36.4 million in relation to the acquisition of the PGW Group and the repurchase of minority stakes held by managing directors.

The GESCO AG balance sheet remains in good shape with a high equity ratio, moderate debt and sufficient liquid assets. Against this backdrop, GESCO AG continues to maintain appropriate access to borrowed capital at favourable conditions. The company therefore has leeway in its business transactions in terms of equity and borrowed capital alike.

At the end of the financial year, GESCO AG had access to approved but unused credit lines totalling approximately € 1.6 million (previous year: € 1.3 million).

4. Management system

Planning and management at GESCO Group is conducted at the levels of the individual subsidiaries and GESCO AG. An annual budget created by the management of the respective company and jointly approved by the Executive Board of GESCO AG establishes the framework for operating development, personnel measures and subsidiary investments. GESCO AG receives monthly figures from the subsidiaries throughout the year as part of regular reporting. GESCO AG records and assesses this information, adds its own financial and accounting figures and consolidates the information. In monthly on-site meetings at each company, the GESCO AG commercial investment manager and the respective subsidiary managers promptly analyse, interpret and evaluate these figures to determine the degree to which objectives have been met.

GESCO AG draws up a Group business plan on the basis of the subsidiaries' individual business plans. The Executive Board of GESCO AG presents its outlook for Group sales and Group net income after minority interest for the new financial year at the annual accounts press conference; this outlook is adjusted in the course of the quarterly reports. The key performance indicators are incoming orders, sales, EBIT and equity ratio, as well as Group net income after minority interest on Group level.

5. Opportunity and risk management

GESCO Group’s concept is designed to recognise, evaluate and seize opportunities on the national and international markets on the one hand while identifying and limiting risks on the other. Managing risks and opportunities is ultimately an ongoing business process. GESCO Group is structured in a way that ensures negative developments for specific companies do not place the entire Group at risk. This is why we largely forego the use of instruments such as cash pooling or guarantees and contingencies.

The analysis of opportunities and risks is especially important when acquiring companies. Essentially, GESCO AG only acquires companies in its four segments: Production Process Technology, Resource Technology, Healthcare and Infrastructure Technology as well as Mobility Technology.

Since information asymmetry between buyer and seller is unavoidable in the course of company acquisitions, every purchase involves risks. The retirement of the existing owner-manager and the appointment of a new managing director are some of the critical aspects of succession planning. The risk lies in finding a suitable new managing director who can live up to expectations. On the other hand, replacing the management is also an opportunity to give new momentum to the company.

Prior to a purchase, companies are subjected to a due diligence assessment in order to identify the risks associated with any company acquisition to the extent that these are recognisable. In particular, the level of earnings used to establish a purchase price and respective company budgets are critically evaluated. When the expectations of buyer and seller regarding the future earnings potential of the acquisition target diverge, an earn-out agreement is an appropriate method for sharing the risks and opportunities of future developments.

Following acquisition, companies are rapidly integrated into GESCO Group’s planning, reporting and financial controlling system, as described in the “Management system” section. In addition, the companies are integrated into GESCO Group’s software-assisted risk management system. Risks and classification thereof are assessed by estimating the effects on a subsidiary's earnings and their probability of occurrence. Risks are reported monthly by the subsidiaries, while high risks are reported to GESCO AG on an ad hoc basis.

Accounting risks are mitigated through detailed Group guidelines defined in a manual, which represent a legally binding standard for all Group companies. The regular analyses of the subsidiaries' figures carried out during the year also include an analysis and assessment of accounting risks. The responsible employees at GESCO AG are available to offer advice and answer any questions on the subject of accounting by the subsidiaries' managers and financial officers.

The annual meeting, monthly meetings and annual strategy sessions all examine the company’s situation as a whole. The meetings involve analysing entrepreneurial opportunities and courses of action for expanding business volume in Germany and abroad as well as for increasing efficiency. Risks are also evaluated as part of the meetings.

In order to mitigate procurement risks, subsidiaries attempt to enter into framework agreements with suppliers so as to obtain security for their planning or to conclude flexible price agreements with customers and suppliers. Just like broad sections of German industry, GESCO Group companies are facing significant uncertainty regarding the future shape of Germany's energy transition. This concerns both security of supply as well as costs.

If required and suitable, GESCO Group companies use trade credit insurance to hedge trade receivables. Subsidiaries analyse the situation of relevant uninsurable customers and define further action to be taken, usually in direct discussion with customers. Significant, uninsured risks must always be discussed with GESCO AG. This is of course always a balancing act between attempting to limit risks and the need to take advantage of entrepreneurial opportunities and retain customers. This balancing act is also made difficult by the use of insolvency proceedings.

Currency risks from the operating business are generally hedged for significant orders.

GESCO AG mitigates IT risks by means of an IT security management system, which is reviewed on a regular basis. Through training courses, employees are given a fundamental awareness of IT risks as well as specific requirements in dealing with them. IT security guidelines govern the use of in-house hardware and software and cover data protection issues. In addition, we also ensure that our external IT service providers meet defined security standards. The IT security management system is regularly developed and tested in collaboration with an external IT security officer. Within GESCO Group, GESCO AG also regularly checks on the status of subsidiaries' IT security management systems.

GESCO AG works together with an external data protection officer in relation to its data protection issues.

Overall insurance coverage for GESCO Group is regularly evaluated in order to ensure sufficient protection under adequate terms and conditions.

Based on current knowledge, we are not aware of any financing and/or equity bottlenecks for our Group. In order to limit the interest rate risk, certain subsidiaries have concluded interest rate swaps for part of the variable-interest financing and thus replaced each floating rate with a fixed rate. We expect interest rates to remain low in financial year 2017/2018. GESCO Group works with around two dozen different banks and is therefore not dependent on any one institution. We currently see no need to increase our equity base further.

There were no material changes to the tax situation in financial year 2016/2017. We are also not aware of any developments with regard to legal conditions that would have a significant impact on the Group.

Risks can be limited but not ruled out. Ultimately, all entrepreneurial activity is associated with risk. In their operating business, all GESCO AG subsidiaries are subject to the opportunities and risks typical for their respective industries as well as general economic risks. As an industrial Group whose business is based to a notable extent on direct and indirect exports, we are significantly affected by economic fluctuations in Germany and abroad. Our diversification strategy, particularly in the customer sectors, is aimed at offsetting economic fluctuations in individual branches of industry and therefore reducing the risks arising from economic cycles. Beyond typical economic fluctuations, we believe that the greatest risk to operating business is posed by the general increase in uncertainty that is linked in particular to political factors such as Brexit, the situation in Turkey, protectionist tendencies in the US and ongoing structural problems in the eurozone.

There is a fundamental risk of write-downs on the investment book value and, if applicable, defaults on receivables, in the event of a deterioration in subsidiaries' earnings.

There are risks typically associated with the business model, particularly relating to construction of special machinery, tool manufacturing and plant construction. In this regard, Group companies are continually confronted with customer requirements, which can only be calculated to a limited extent in advance in terms of the time and costs involved to fulfil them from a technical standpoint. As a consequence, there is a risk of making losses on contracts. On the other hand, these can be regarded as opportunities, since challenging customer projects frequently result in innovative approaches that can lead to marketable product innovations.

As in many parts of German industry, there continues to be a risk of uncertainty in the ability of companies to find and retain sufficient qualified employees moving forward. This situation will continue to worsen on account of demographic change. GESCO Group companies deploy a number of different measures to rise to this challenge and position themselves as an attractive employer in their respective region.

We are not currently aware of any risks that could endanger or significantly affect survival of GESCO AG and the Group.

6. Declaration of compliance

The declaration of compliance in accordance with Section 289a HGB is available on the company website at www.gesco.de.

7. Other information

Disclosures under Section 289 para. 4 of the German Commercial Code (HGB): The share capital of GESCO AG is € 10,839,499 and is divided into 10,839,499 registered shares. Each share is granted one vote in the Annual General Meeting.

Disclosures under Section 289 para. 4 no. 3 HGB are included in the notes.

According to Sections 76 and 84 of the Stock Corporation Act (AktG) and Section 6 para. 1 of the GESCO AG Articles of Association, the Executive Board consists of one or more persons. Pursuant to Section 6 para. 2 of the Articles of Association and in accordance with legal regulations, the Supervisory Board appoints and dismisses the Executive Board and establishes the term of service and the number of members. The Supervisory Board may also appoint substitute members. According to Section 17 para. 1 of the Articles of Association, resolutions are passed by the Annual General Meeting with a simple majority of the votes cast, unless binding regulations state otherwise; where the law requires a capital majority in addition to a majority of votes cast, resolutions are passed with a simple majority of the share capital represented when the resolution is voted on. According to Section 17 para. 2 of the Articles of Association, the Supervisory Board has the right to make amendments to the Articles of Association that affect only the wording.

The Annual General Meeting on 25 August 2016 authorised the Executive Board to increase the company's share capital once or several times by a total of € 997,500.00 until 24 August 2019 with the consent of the Supervisory Board by issuing new bearer shares in exchange for cash. Subscription rights may be excluded in certain cases. The Executive Board utilised this authorisation in March 2017 to the extent that the share capital was increased by € 864,499.00 to € 10,839,499.00. Authorised capital now stands at € 133,001.00. This remaining authorised capital was not able to be utilised in the capital increase in March 2017, as the share capital at the time of the resolution of the Annual General Meeting on 25 August 2016 was the relevant metric in this regard.

The Annual General Meeting on 18 August 2015 authorised the company to acquire up to ten out of every hundred shares of the share capital until 17 August 2020 under consideration of own shares already held. Subject to the approval of the Supervisory Board and under certain conditions, the Executive Board is also authorised to dispose of the acquired shares in a manner other than via the stock exchange or by offering them to all shareholders, to use them for the purpose of acquiring companies or investments, or to retract some or all of them. The Executive Board has not made use of this authorisation to date. As part of a share acquisition pursuant to Section 71 para. 1 sentence 2 AktG, the company acquired a small number of treasury shares for the annual employee share scheme and subsequently issued these shares to GESCO Group employees in this scheme. GESCO AG did not hold any treasury shares as of the reporting date.

Changes to the executive bodies of the Company: Effective as of 1 July 2016, Dr Eric Bernhard was appointed as Chairman of the Executive Board of GESCO AG. As explained in the Supervisory Board report for the financial year 2015/2016, Dr-Ing Hans-Gert Mayrose left the Executive Board at the end of 2016. Please refer to the declaration of compliance for further information of the executive bodies of GESCO AG.

8. Remuneration report

Remuneration for Executive Board members comprises three components: a fixed component, a variable, performance-related component and a component linked to long-term incentives. This remuneration structure remained unchanged during the reporting year.

The fixed component comprises annual base salary, additional benefits and pension commitments. The additional benefits consist mainly of the private use of company vehicles as well as regular preventive medical examinations.

The variable component is calculated as a performance-related bonus, which is geared towards the Group's net profit after minority interest. This component has since been adjusted to include a longer-term calculation basis for future financial years. This does not apply to existing contracts that were extended prior to 15 June 2015. For financial year 2017/2018, two-thirds of bonuses are based on the Group's net profit after minority interest for the financial year and the remaining one-third on the median of Group net profit after minority interest for the financial year and the directly preceding financial year. From financial year 2018/2019, two-thirds of bonuses are based on the Group's net profit after minority interest for the financial year and the remaining one-third on the median of Group net profit after minority interests for the financial years 2016/2017 and 2015/2016.

The variable remuneration is capped at twice the annual fixed salary without exception. As the bonus is linked to Group earnings, it may not be paid out at all in certain cases. If Group earnings after minority interest are negative, in other words the company has made a loss for the year, this loss is carried forward to the next year and reduces the basis for calculating the bonus. If Group earnings after minority interest are negative in the expired financial year prior to the Executive Board member leaving or in the same year that the member leaves, the Executive Board member shares in the loss. The bonus is paid on a pro rata basis in the year of departure. The Chairman of the Executive Board, Dr Eric Bernhard, was granted a guaranteed minimum bonus for the reporting year.

The remuneration components with long-term incentives constitute stock options issued to Executive Board members on the basis of the approved stock option programme. The stock options are issued in yearly tranches at an exercise price corresponding with the average XETRA closing price of the GESCO share on the ten consecutive stock exchange trading days after the Annual General Meeting in the year the options are issued. The options are issued within one month after the Annual General Meeting. The stock option programme is designed so that Executive Board members have to contribute GESCO shares acquired with their own private funds, which may not be resold for the duration of the vesting period. Ten options can be purchased for each share. The waiting period is four years and two months after the option is issued; after the end of the waiting period, the options may be exercised at any time up to 15 March of the year after next. If and how many options can be exercised depends on the achievement of an absolute and relative performance target. The absolute performance target is met when the price of the GESCO share has developed positively at the time of execution. The relative performance target is met when the price of the GESCO share has outperformed the SDAX at the time of execution. If both targets are met, the Executive Board members are able to exercise all of their options. If the absolute but not the relative target is reached, the Executive Board members can exercise 75 % of their options while the remaining 25 % expire completely without recourse. One option entitles the holder to acquire one GESCO share. If neither target is met at the point at which the options may be exercised, all options of the corresponding tranche expire completely without recourse. The maximum gain of the Executive Board members is capped at 50 % of the exercise price.

In 2013, the Supervisory Board decided that the existing stock option programme will be continued in the form of a virtual stock option programme. Up until then, GESCO shares could be acquired through the issue of options or the calculated profit from the programme could be paid out in cash. Now, it is possible to have half of the profits paid out in cash and half in GESCO shares, or the full amount paid out in cash. However, in the event that the full amount is paid out in cash, Executive Board members are required to purchase GESCO shares valued at at least half of the amount paid.

The Supervisory Board of GESCO AG initiated another tranche in September 2016. A total of 80,100 options were issued to members of the Executive Board and management employees of GESCO AG. Non-cash expenditure under this programme is determined using a common binomial model, recorded in earnings and recognised in other provisions. The model assumes volatility of 22.7 % and a risk-free interest rate of -0.45 %; the exercise price of the options issued in September 2016 is € 22.99 (adjusted in line with the increased number of shares as of 22 December 2016). The waiting period is four years and two months after the option is issued; after the end of the waiting period, the options may be exercised at any time up to 15 March of the year after next. The fair value per option on the issue date is € 1.78.

The Supervisory Board is currently revising the stock option programme.

For Executive Board member Robert Spartmann and former Executive Board member Dr Hans-Gert Mayrose, the pension commitment (including widow and orphan benefits of 60 % and 30 %) equates to a certain percentage of the annual base salary paid prior to retirement. The actual percentage determined individually for each Executive Board member comprises two components: the base percentage, which corresponds to 10 % of the annual base salary paid prior to retirement after a waiting period of five years, and an annual increase in the base percentage of 0.5 percentage points after each further year of service. A defined benefit contribution plan has been set up for Dr Eric Bernhard, in which contributions are made at a certain percentage of his base salary.

The remuneration of the Executive Board was recognised for the reporting year and the previous year on the basis of the model tables recommended in the German Corporate Governance Code. These tables record compensation and actual payments separately in order to improve the transparency of Executive Board remuneration. The payments include the achievable minimum and maximum values of the respective remuneration components.

Executive Board remuneration: Compensation

Compen-sation (€'000)	Dr Eric Bernhard Chairman of the Executive Board				Dr-Ing Hans-Gert Mayrose Member oft the Executive Board				Robert Spartmann Member oft the Executive Board			
	31.03. 2016	31.03. 2017	31.03. 2017 (min)	31.03. 2017 (max)	31.03. 2016	31.03. 2017	31.03. 2017 (min)	31.03. 2017 (max)	31.03. 2016	31.03. 2017	31.03. 2017 (min)	31.03. 2017 (max)
Fixed remuneration	63	300	300	300	240	189	189	189	252	264	264	264
Additional benefits	3	13	13	13	19	11	11	11	19	17	17	17
Total	**66**	**313**	**313**	**313**	**259**	**200**	**200**	**200**	**271**	**281**	**281**	**281**
One-year variable remuneration	88	300	300	600	242	88	0	378	242	117	0	528
Multi-year variable remuneration (SOP)												
2015 tranche	0	0	0	0	40	0	0	0	40	0	0	0
2016 tranche	0	32	0	207	0	32	0	207	0	32	0	207
Total	**88**	**332**	**300**	**807**	**282**	**120**	**0**	**585**	**282**	**149**	**0**	**735**
Pension-related expenses	13	60	60	60	55	43	43	43	53	60	60	60
Total remuneration	**167**	**705**	**673**	**1,180**	**596**	**363**	**243**	**828**	**606**	**490**	**341**	**1,076**

Executive Board remuneration:Payments

Payments (€'000)	Dr Eric Bernhard Chairman of the Executive Board		Dr-Ing Hans-Gert Mayrose Member oft the Executive Board		Robert Spartmann Member oft the Executive Board	
	31.03. 2016	31.03. 2017	31.03. 2016	31.03. 2017	31.03. 2016	31.03. 2017
Fixed remuneration	63	300	240	189	252	264
Additional benefits	3	13	19	11	19	17
Total	**66**	**313**	**259**	**200**	**271**	**281**
One-year variable remuneration	0	88	148	279	148	279
Multi-year variable remuneration (SOP)						
2011 tranche	0	0	0	14	0	14
Total	**0**	**88**	**148**	**293**	**148**	**293**
Pension-related expenses	13	60	55	43	53	60
Total remuneration	**79**	**461**	**462**	**536**	**472**	**634**

Remuneration for the Supervisory Board consists of a fixed salary plus a fixed payment for each Supervisory Board meeting. The Chairman of the Supervisory Board receives twice the amount and the Deputy Chairman of the Supervisory Board receives one and a half times the amount of fixed remuneration. In addition, each member of the Supervisory Board receives performance-based remuneration calculated as a fixed percentage of Group net income for the year after minority interest.

9. Outlook

The German economy is expected to generate slight growth in 2017. The German Council of Economic Experts forecasts a price-adjusted rise in gross domestic product of 1.3 %. A large share of this rise will be due to strong private consumption and residential construction. Gross asset investment continues to experience only moderate growth. Following a 2.5 % increase in 2016, this is expected to rise by just 2.0 % in 2017. No significant rise in expected in investments in equipment in particular.

The VDMA expects machinery production in Germany to rise by 1 % in real terms in 2017. This is largely due to the fact that declines in exports in many developing and emerging economies are abating and even rising again in some markets. This has been caused by a number of factors, including the recovery of crude oil and gas prices and also specific national aspects. In Russia, the ongoing relatively undervalued rouble is increasing the Russian economy's competitiveness on prices, while, in Brazil, recession may be overcome this year thanks in no small part to the country's reforms. However, VDMA economists are not ruling out a decline in exports to China.

GESCO Group is expected to perform well overall in financial year 2017/2018. We have strengthened the GESCO portfolio by acquiring the Pickhardt & Gerlach Group and deciding to place Protomaster up for sale. In addition, we also anticipate organic revenue and earnings growth. Against this backdrop, we expect income from investments in financial year 2017/2018 to be slightly down year on year and net income for the year to significantly exceed the previous year's figure. The GESCO AG equity ratio should stand at around 70 % in the new financial year.

In terms of external growth, we have reinforced our target as part of our portfolio strategy to acquire up to three companies per financial year. In addition, we have also added a new facet to our M&A strategy by actively seeking dialogue with companies. Although the environment remains difficult due to strong demand for industrial SMEs, we still have a consistent flow of deals in the pipeline. Thanks to a high equity ratio and sufficient liquid assets, we also have the necessary balance sheet ratios to make further acquisitions. That being said, it is impossible to make any specific forecasts concerning future company acquisitions. We will continue to only acquire companies if we believe they fit with the GESCO Group and if the purchase prices are appropriate.

The statements on future development made in the outlook refer to assumptions and estimates made on the basis of information that was available to GESCO AG at the time this report was created. These statements are subject to risks and uncertainties, meaning that the actual results may differ from those originally expected. Therefore, we assume no liability for the information presented.

Wuppertal, Germany, 24 May 2017

The Executive Board

....
(Dr Eric Bernhard,
Chairman)

....
(Robert Spartmann)

Statement of the legal representatives

“To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the group management report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group.“

Wuppertal, 24 May 2017

The Executive Board

Dr Eric Bernhard (Chairman)	Robert Spartmann

[INDEPENDENT] AUDITORS' REPORT

We have audited the annual financial statements, comprising the balance sheet, income statement and the notes to the financial statements, together with the bookkeeping system and the management report of GESCO AG for the period ended 31 March 2017. The maintenance of the books and records and the preparation of the annual financial statements and the management report in accordance with German commercial law provisions are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with Section 317 German Commercial Code (HGB) and German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with the applicable principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the bookkeeping, annual financial statements and the management report are examined primarily on a sample basis within the framework of the audit. The audit includes assessing the applied principles of accounting and the significant estimates made by management, as well as evaluating the overall presentation of the [annual] financial statements and the management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements. The annual financial statements give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements, complies with the legal requirements, and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Wuppertal, 24 May 2017

RSM Breidenbach und Partner PartG mbB
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

(Straube)
Auditor

(Wendlandt)
Auditor

Report from the Supervisory Board 2016/2017

Financial year 2016/2017 was marked by moderate operating business and a negative one-off effect. At the same time, crucial strategic steps were taken for a return to profitable growth. In addition, the portfolio was optimised by acquiring an attractive company and putting Protomaster, which required restructuring, up for sale. Our outlook therefore offers cause for optimism.

In this report, the Supervisory Board provides information about its activities during financial year 2016/2017. The main topics are its continuous dialogue with the Executive Board and the audit of the annual financial statements and consolidated financial statements.

Cooperation between the Executive Board and the Supervisory Board

Throughout the reporting year, the Supervisory Board observed the control and advisory tasks incumbent upon it in accordance with German law and the Articles of Association. These tasks included the regular exchange of information with the Executive Board and the supervision of the company's management with regard to its legality, regularity, appropriateness and economic viability.

The Supervisory Board was directly involved in all decision-making of fundamental importance to the company. The financial position of GESCO AG and the subsidiaries as well as the strategic development of the Group were discussed in detail. The financial position of Protomaster GmbH was a key focus of discussion between the Executive Board and the Supervisory Board.

The Executive Board regularly briefed the Supervisory Board, both in writing and verbally, promptly and comprehensively on all relevant issues of corporate planning and its strategic development, on the course of transactions, the position of the Group and the individual subsidiaries, including the risk situation, as well as on risk management and compliance. The Supervisory Board was also briefed in detail between meetings in the form of written reports on all projects and plans which were of particular importance to the company. The Supervisory Board received detailed reports of the internal control and risk management system from the GESCO AG employee responsible for these areas at its regular quarterly meetings. The Supervisory Board engaged with the structure and content of this system, as planned. In all cases, the members of the Supervisory Board dealt closely and critically with the reports presented to them and contributed their own recommendations.

Detailed annual plans of the significant subsidiaries were submitted to the Supervisory Board and discussed with the Executive Board. For the current financial year, they were also discussed with the respective responsible managers in four cases. Deviations in the course of business from the respective annual plans and objectives were explained to the Supervisory Board in detail and collectively analysed by both the Executive Board and Supervisory Board. The members of the Supervisory Board and the Chairman in particular were also in regular contact with the Executive Board outside Supervisory Board meetings and stayed informed on current trends in the business situation and any significant business transactions. The Supervisory Board thoroughly considered the reports and proposals for resolutions from the Executive Board and, as far as this was required in accordance with legal and statutory provisions, cast its vote.

In order to gain a better understanding of the individual subsidiaries, the Supervisory Board visits one or two subsidiaries per year together with the Executive Board. Major, strategic investments at subsidiaries are also associated with on-site visits and in-depth discussions. The Supervisory Board again used the opportunity to exchange ideas directly with the individual managing directors of GESCO AG subsidiaries during the management meeting of GESCO Group in September 2016.

The Supervisory Board discussed GESCO AG's acquisition plans at length with the Executive Board and the employee responsible for acquisitions. In the run-up to an acquisition, target companies are also subjected to an on-site appraisal by a Supervisory Board member. The Supervisory Board had access to all due diligence reports during the acquisition of the Pickhardt & Gerlach Group, which was announced in December 2016, allowing it to approve the acquisition following a balanced analysis of opportunities and risks.

In financial year 2016/2017, the Supervisory Board and the Executive Board discussed Portfolio Strategy 2022 at a meeting. The Supervisory Board supports this new strategy and once again addressed GESCO Group's strategic objectives and their realisation on an ongoing basis, as in every financial year.

Organisation of the Supervisory Board

The Supervisory Board of GESCO AG consists solely of shareholder representatives who are elected by the Annual General Meeting. The Supervisory Board members in the reporting year were Mr Klaus Möllerfriedrich (Chairman), Mr Stefan Heimöller (Deputy Chairman) and Dr Nanna Rapp.

In October 2016, a company shareholder initiated status proceedings (Statusverfahren) with the intent of reviewing whether the composition of the GESCO AG Supervisory Board is in compliance with the law. The Supervisory Board of GESCO AG believes that the board's current composition is compliant. Please refer to the declaration of compliance for more information about the composition of the Supervisory Board.

The Supervisory Board of GESCO AG has been deliberately kept small in order to facilitate efficient work and in-depth discussions on both strategic and detailed issues. The Supervisory Board therefore believes that it is not sensible or appropriate to create Supervisory Board committees. This also applies to an audit committee, whose tasks continue to be carried out by the entire Supervisory Board. Supervisory Board committees were therefore not created in financial year 2016/2017.

Pursuant to the provisions of the company's Articles of Association, the Supervisory Board of GESCO AG currently comprises three members in total. The German Stock Corporation Act (AktG) was amended with effect from 31 December 2015, eliminating the previous provision stipulating that the number of supervisory board members fundamentally had to be divisible by three. As a result, plans are in place to increase the number of members of the GESCO AG Supervisory Board from three to four. We see decisive advantages in expanding the Supervisory Board to four members, as doing so will allow the board to cover new and appropriate areas of competence while also remaining capable of making decisions even if one of its members becomes temporarily unable to fulfil his or her duties. The company's Executive and Supervisory Boards will therefore propose to the Annual General Meeting on 31 August 2017 changing the Articles of Association of GESCO AG to increase the number of Supervisory Board members from three to four. Mr Jens Große-Allermann will be nominated for election. Mr Große-Allemann is member of the executive board of Investmentaktiengesellschaft für langfristige Investoren TGV, our largest institutional investor. He brings many years of experience as an investor and in operational management to the board, and rounds out our Supervisory Board's capital market expertise. Mr Große-Allermann also has experience as a member of supervisory boards at listed companies.

Meetings and resolutions of the Supervisory Board

A total of twelve Supervisory Board meetings took place in financial year 2016/2017. All members of the Supervisory Board attended each of these meetings. The Supervisory Board discussed and, if required, passed resolutions on the following key issues:

Meeting of 25 April 2016:
Portfolio Strategy 2022, acquisition matters, current situation of individual subsidiaries, Executive Board matters

Meeting of 25 May 2016:
Internal control system and risk management, current economic performance of GESCO Group, discussion and audit of the preliminary annual financial statements and consolidated financial statements as at 31 March 2016, Executive Board matters

Meeting of 31 May 2016:
Adoption of the annual financial statements as at 31 March 2016, approval of the consolidated financial statements as at 31 March 2016, Executive Board matters

Meeting of 27 June 2016:
Acquisition matters, current situation of individual subsidiaries, presentation of a management candidate

Meeting of 22 August 2016:

Internal control system and risk management, current economic performance of GESCO Group, preparations for the Annual General Meeting, acquisition matters, Executive Board matters

Meeting of 3 November 2016:
Internal control system and risk management, acquisition matters, current economic performance of GESCO Group, Supervisory Board appointment

Meeting of 21 November 2016:
Acquisition matters, current economic performance of a subsidiary, Executive Board matters, composition of the Supervisory Board and status proceedings

Meeting of 12 December 2016:
Acquisition matters, capital structure of the Group, situation of a subsidiary

Meeting of 30 January 2017:
Visit to a subsidiary, current economic performance of GESCO Group, capital structure of the Group

Meeting of 27 February 2017:
Internal control system and risk management, current economic performance of GESCO Group, composition of the Supervisory Board and status proceedings

Meeting of 20 March 2017: Capital increase

Meeting of 21 March 2017: Capital increase

The Supervisory Board was also briefed in detail between meetings in the form of written reports on all projects and plans which were of particular importance to the company.

Corporate governance

The Supervisory Board continuously monitored the development of corporate governance standards. The Executive Board and the Supervisory Board report on corporate governance at GESCO AG in their joint Corporate Governance Report, which is also contained in the Annual Report. The Executive Board and Supervisory Board duly submitted the Declaration of Compliance as required by law in December 2016 and made it permanently accessible to the shareholders on the company's website. GESCO AG complies with the recommendations of the Government Committee on the German Corporate Governance Code, with the exception of the deviations given and explained in the Declaration of Compliance.

The members of the Supervisory Board took part in training measures in the reporting year and were supported appropriately by the company in compliance with the corresponding recommendation of the Corporate Governance Code.

An efficiency audit based on a structured questionnaire was again performed on the Supervisory Board in May 2017. The audit confirmed that the Supervisory Board was working efficiently. The insights into potential improvements resulting from the audit will be taken into consideration over the course of the Supervisory Board's future work.

Executive Board remuneration

The management report and notes to the consolidated and individual financial statements include detailed information on the structure of Executive Board remuneration. The Annual General Meeting most recently approved the remuneration system on 2 September 2010 as part of a say-on-pay ruling. Since then, the Executive Board remuneration has been revised in part. Further adjustments are slated for discussion in the current financial year. Plans call for presenting the new Executive Board remuneration system to the Annual General Meeting 2018 as part of another say-on-pay ruling.

Audit of annual financial statements and consolidated financial statements

Corresponding to the legal provisions, the auditor selected by the Annual General Meeting on 25 August 2016, RSM Breidenbach und Partner PartG mbB, Wirtschaftsprüfungsgesellschaft – Steuerberatungsgesellschaft, Wuppertal, was commissioned by the Supervisory Board on 26 October 2016 to audit the annual financial statements and consolidated financial statements. The auditor confirmed its independence to us in a letter dated 18 May 2016. Furthermore, the auditor provided evidence that it is qualified to audit listed companies.

The annual financial statements drawn up by the Executive Board for the financial year from 1 April 2016 to 31 March 2017 in accordance with the regulations of the German Commercial Code (HGB) and the management report of GESCO AG were audited by the auditor. The auditor issued an unqualified audit report.

The consolidated financial statements and Group management report of GESCO Group for the financial year from 1 April 2016 to 31 March 2017 were drawn up by the Executive Board and audited by the auditor on the basis of the International Financial Reporting Standards (IFRS), taking into account Section 315a of the German Commercial Code (HGB). The auditor furnished the consolidated financial statements and Group management report with an unqualified audit report.

This year, the focal points of the audit for the individual financial statements of GESCO AG were the recoverable amount of investments, the accrual and recoverable amount of receivables from associated companies and the valuation of other provisions with discretionary powers. The focal points of the audit of the consolidated financial statements were the recoverable amount of assets including goodwill (impairment test), the balance-sheet treatment of the planned sale of Protomaster GmbH pursuant to IFRS 5 and the first-time consolidation of the Pickhardt & Gerlach Group. Following in-depth discussions with the auditor prior to the audit, the Supervisory Board did not place any special demands on the auditor this year. The focal points of the audit identified by the auditor already included the Supervisory Board’s desired scope. The Supervisory Board and the auditor were in contact during the ongoing audit activities with regard to exchanging information about the audit.

The complete financial statements as well as the auditor’s accompanying audit reports were sent to all members of the Supervisory Board in good time before the accounts meeting to allow them to review and acknowledge the audit findings. They were the subject of intensive discussions in the meeting of the Supervisory Board on 24 May 2017. The auditors were in attendance at this meeting, reported in detail on the main results of the audits and were available to the Supervisory Board for questions and additional information. The auditor also reported on the audit of the risk management and controlling system at GESCO AG and determined that a suitable system had been set up and was in use. The auditors gave comprehensive answers to all questions from the Supervisory Board. No objections were raised to the annual financial statements, the management report, the consolidated financial statements or the Group management report after the final result of the audit carried out by the Supervisory Board. After its own audit of the annual financial statements, the consolidated financial statements, the management report and the Group management report, the Supervisory Board approved the result of the audit by the auditor and accepted the annual financial statements and the consolidated financial statements in the meeting on 30 May 2017. The annual financial statements of GESCO AG have thereby been adopted. Taking into account the company’s earnings and financial position as well as the shareholders’ interests, the Supervisory Board endorsed the proposal of the Executive Board to appropriate the retained profit.

Thanks for all the effort

The Supervisory Board would like to thank the Executive Board, the managing directors of the subsidiaries and all GESCO Group employees for their outstanding loyalty and great commitment in the past financial year.

Wuppertal, 30 May 2017
Klaus Möllerfriedrich
Chairman of the Supervisory Board