GESCO AG · GESCO GROUP

ANNUAL REPORT 2005/2006

Tradition
Innovation
Vision

The topic of this year's annual report

In last year's annual report, we highlighted the issue of entrepreneurship, focusing on the contribution of SMEs to economic development in Germany.

Total enthusiasm and commitment cannot do away with the need for business owners at some point to think about the future of their company after they leave it. This year's report therefore focuses on corporate succession.

Business owners who have spent years investing their heart and soul into a company want to make sure that it remains in goods hands. They consider themselves to have a responsibility towards their employees and hope that the company will continue to be successful in the long term and that the entrepreneurial spirit will live on.

We specialise in this type of solution to succession issues. We acquire SMEs in the industrial sector with a long term view and no intention of selling them on again. The new management has a significant shareholding in its company, so as one entrepreneurial era draws to a close, another immediately begins. The advantages of this include identification with the company, above-average commitment levels and long term thinking.

CONTENTS

This Annual Report is also available in German.

GESCO – SUBSTANCE WITH VISION

THE BUSINESS MODEL...

- GESCO AG acquires industrial SMEs on a long-term basis, i.e. without intending to exit, and develops them further.
- We seek out the "hidden champions" of the SME sector: proven success record, strategically attractive market and technological leaders.
- We focus on companies in the tool manufacture and mechanical engineering and plastics technology segments based in Germany and with sales of around EUR 10 million and above.
- We specialise in succession issues and always acquire majority holdings, mostly 100 %.
- When companies are acquired, the new management generally have a 10-20 % share in their company.
- The subsidiaries are operationally independent and receive active support from GESCO AG in the form of coaching, consulting and financial controlling.
- Regular investment is made in the subsidiaries to ensure that the high standard of their technological equipment is maintained.
- Our aim is to increase the value of the individual companies on a sustained basis, thus increasing the value of the Group as a whole while achieving good operating results.
- The model optimises opportunities and limits risks.

...WITH SUBSTANCE...

- The operating subsidiaries have technical expertise gained over many years and a sound market position.
- All operating subsidiaries have adequate equity at their disposal.
- The GESCO Group provides a healthy balance sheet structure and growing earnings power.
- We operate under a low risk policy and the Group balance sheet demonstrates low risks.

...AND VISION

- We generate internal growth based on a healthy portfolio.
- The abundance of unresolved succession issues in the German SME sector also provides scope for external growth through further acquisitions.
- We stay true to the spirit of a family company while shaping companies to cope with globalisation.

GESCO SHARES

- Listed on the official market in the Prime Standard
- The key to ambitious SMEs
- Attractive dividend returns
- Potential for further price gains through internal and external growth
- Active investor relations, highly transparent reporting

THE GESCO GROUP AT A GLANCE

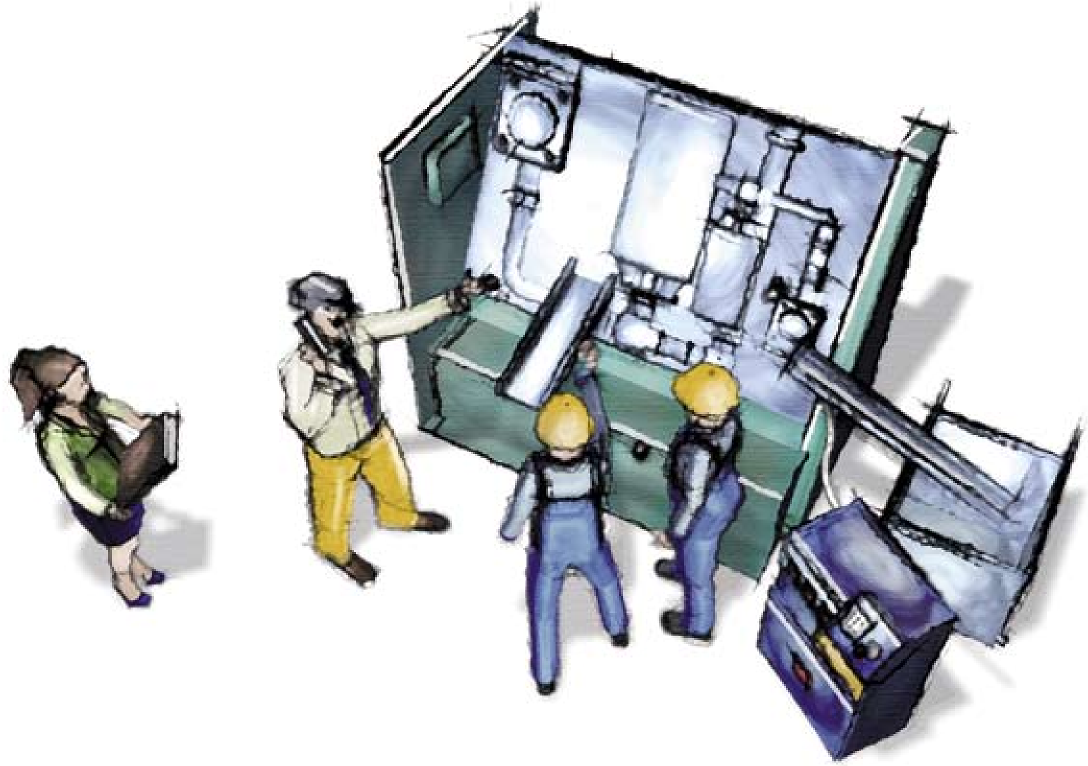
Financial year 01.04.-31.03.		HGB 1996/1997	1997/1998	1998/1999	1999/2000	2000/2001 *	IFRS 2001/2002	2002/2003	2003/2004	2004/2005	2005/2006	Change
Sales	EUR'000	109,704	128,908	173,521	200,274	146,481	158,627	153,835	171,234	192,264	234,327	21.9 %
of which domestic	EUR'000	92,253	104,721	133,911	167,229	118,206	124,411	124,165	133,220	140,768	172,464	22.5 %
foreign	EUR'000	17,451	24,187	39,610	33,045	28,275	34,216	29,670	38,014	51,496	61,863	20.1 %
EBITDA [1]	EUR'000	8,221	12,555	14,566	17,514	14,710	15,638	14,580	17,947	20,114	26,792	33.2 %
EBIT [1]	EUR'000	4,717	8,669	9,643	10,587	9,774	10,088	8,063	10,711	12,512	18,792	50.2 %
Earnings before tax	EUR'000	2,504	6,883	8,902	10,098	8,532	4,348	-1,600 **	8,782	11,850	17,113	44.4 %
Taxes on income and earnings	EUR'000	-765	-1,331	-2,899	-4,286	-3,567	-548	-758	-3,985	-4,868	-7,100	45.9 %
Taxation rate	%	30.5	26.4	32.6	42.4	41.8	12.6	–	45.4	41.1	41.5	1.0 %
Group net income for the year	EUR'000	1,602	3,166	5,463	5,149	4,102	2,939	-3,177 **	4,198	6,228	9,325	49.7 %
Group net income per share	EUR	0.64	1.27	2.18	2.06	1.64	1.19	-1.29 **	1.73	2.49	3.39	36.1 %
Investment	EUR'000	8,885	5,816	11,374	14,472	14,519	27,258	20,432	5,558	11,117	13,478	21.2 %
of which in tangible assets	EUR'000	7,966	4,547	10,933	11,368	8,360	10,348	5,292	5,258	6,404	8,961	39.9 %
Depreciation	EUR'000	4,010	3,937	4,948	7,027	5,796	8,304	14,126	7,236	7,602	8,000	5.2 %
of which on tangible assets	EUR'000	3,220	3,525	4,489	6,699	4,686	4,754	5,330	6,039	6,318	6,718	6.3 %
Equity	EUR'000	11,432	32,090	37,079	35,252	38,276	36,107	29,444	36,333	41,878	56,306	34.5 %
Total assets	EUR'000	75,107	93,857	122,946	97,781	104,912	134,204	138,515	138,370	145,070	174,430	20.2 %
Equity ratio	%	15.2	34.2	30.2	36.1	36.5	26.9	21.3	26.3	28.9	32.3	11.8 %
Employees												
(as at 31.12.)	No.	780	897	1,471	1,816	1,015	1,157	1,203	1,192	1,215	1,329	9.4 %
of which trainees	No.	26	32	45	50	52	61	69	63	60	75	25.0 %
Year-end share prices as at 31.03.	EUR	–	21.47	17.10	14.92	16.00	12.70	9.10	16.70	23.61	38.90	64.8 %
Dividend	EUR	0.23	0.38	0.56	0.66	0.72	0.75	0.50	0.70	0.90	1.25	38.9 %

* The downturn in the indicators in financial year 2000/2001 compared to the two previous years is due to the disposal of Elba Bürosysteme GmbH on 01.01.2000. Elba was included for the full 12 months in financial year 1999/2000 and five months of financial year 1998/1999. This participation was always intended to be a short term investment.

** The losses in financial year 2002/2003 were attributable to the New Technologies division, which has been discontinued by 31.03.2003.

1 See Group Profit and Loss Account for calculation.

2 Based on 2.749.000 shares (FY 2005/2006) and 2.500.000 shares (FY 2004/2005).



Entrepreneurs

Founding a company is an individual's freedom of choice. At the beginning, there is a sense of zest and optimism, the desire to perform and willingness to take risks. As sales rise and the workforce grows, the levels of responsibility and pressure also increase. There are a number of questions to be answered and decisions with uncertain outcome to be taken. The amount of personal freedom of a business owner reduces and their private life often takes second place.

FOREWORD

FOREWORD BY THE EXECUTIVE BOARD

EXECUTIVE BOARD – ROBERT SPARTMANN AND DR. HANS-GERT MAYROSE

DEAR SHAREHOLDERS,

The present annual accounts confirm that this has been the most successful financial year since the GESCO Group was established in 1989. Buoyant business activity resulted in a sales increase of 22 % from EUR 192 million to EUR 234 million. The growth rate in EBIT was more than twice as high and with a rise of 50 %, it climbed to EUR 18.8 million (previous year EUR 12.5 million). Group net income for the year also increased by 50 % from EUR 6.2 million to EUR 9.3 million, significantly exceeding the record figure for the previous year. All our operating subsidiaries have a sound financial basis and were in the black in the financial year just ended.

The strong growth in sales and earnings is mainly of an organic nature and not due to changes in the scope of consolidation. A rise of 22 % in sales and 50 % in Group earnings represent impressive growth rates for a group like ours. Unlike for young start-up companies, such figures are not typical for well-established companies which operate in mature markets and a competitive environment such as those in our Group. In view of this, financial year 2005/2006 should be seen as a very successful year in which increases in the prices of materials contributed to sales growth and some Group companies benefited from special economic factors. Our original budget assumed weaker demand in the second half of the year, which did not, however, materialise to the extent expected. We therefore revised our target upward in November and then once more in December.

At the end of August 2005, we increased the number of our holding companies following the acquisition of the Dömer Group. The Group's activities focus on stamping and bending technology and the associated tool manufacture. With 80 employees, the Group generates more than EUR 10 million. We acquired the company as part of a typical succession arrangement and see Dömer as an attractive addition to the GESCO Group. Dömer was included in the financial year for four months.

GESCO AG also recorded extraordinary success in the capital market. With EUR 40.00, GESCO shares reached a record high on XETRA on 22 February 2006. The GESCO share price rose by 59 % in calendar year 2005, outperforming all the relevant indices. In relation to the Group's 2005/2006 reporting year, the share price increase amounted to as much as 65 %. Recently share prices have decreased across the board and GESCO shares were not immune to this development. Shareholders will participate in the Group's success during the reporting year by means of a significantly higher dividend. For financial year 2005/2006, the Supervisory and Executive Boards propose an increase in the pay-out of around 40 % to EUR 1.25 per share, which corresponded to a 3.8 % return on the date of the resolution.

In September 2005, we carried out the first capital increase since our IPO. We issued 249,000 new shares, growing shareholders' capital by almost 10 %. This resulted in an inflow of funds into the company of around EUR 6.7 million. Shareholders' subscription rights were excluded. The issue process was very efficient and completed within a few days. The heavily oversubscribed issue was placed with renowned institutional investors, mainly in Germany and Switzerland. Together with the Supervisory Board, we carefully considered the various options for capital increases beforehand and explained our considerations in detail at the Annual General Meetings in 2004 and 2005. "Small" capital increases excluding shareholders' subscription rights can be implemented much more quickly and at lower risk than a rights issue, which is more complex in financial and organisational terms and takes longer. In our view, these advantages outweigh the disadvantages to shareholders, which are associated with the exclusion of subscription rights. Ultimately, shareholders also benefit from the fact that the company has more leeway thanks to the new capital acquired. The new funds were partly used to acquire the Dömer Group and will partly go towards future acquisitions. The newly acquired companies contribute a sufficiently high amount to Group earnings so that earnings per share remain stable despite the higher number of shares. The GESCO share price has not suffered as a result of the capital increase. On the contrary, since the placement, which happened soon after the share price had reached its previous record high, the share price has gone up again significantly.

Our delight about the positive capital market situation has only been marred by the excess regulatory activity on issuers emanating from Brussels and the government in Berlin in recent years. We do not believe that the majority of the new laws are helpful. They barely offer investors benefits, but consume a growing amount of resources in terms of time and financing on the part of companies. This ultimately affects earnings and accordingly the profit distribution.

Issuer obligations are taken to pointless extremes when their fulfilment jeopardises actual business. IFRS prescribes that purchase prices of acquisitions must be published. This may make sense for listed companies. However, as a rule we acquire companies from private individuals who have a genuine interest in not making the proceeds of the sale public knowledge. So as not to limit our opportunities in terms of acquiring companies, we do not therefore publish purchase prices and accordingly have to accept the corresponding qualification in the auditors' report to the annual accounts. This makes it clear that it is not always possible to adopt standards from the English-speaking capital markets in the local market as they are. More differentiation is required in this respect. In addition, the auditors' report to the company accounts prepared in accordance with HGB is qualified, because we do not publish the results of our subsidiaries. Facing the choice of jeopardising the competitive advantage of our subsidiaries or infringing against HGB, we have opted for the latter in order to protect the assets of the company and shareholders. The response from the capital market to our treatment of this data is consistently positive. Accounting is designed to provide an adequate view of corporate processes, enabling external parties to assess the financial development of the company concerned. If such view is taken to the extreme and jeopardises the continued existence of its object, developments are clearly wrong.

The analysis of figures and the discussion of regulatory provisions should not detract from those responsible for the company's performance in the year under review, the Managing Directors and employees of the GESCO Group. We would like to take this opportunity to thank them for their great commitment in the record year just ended. We would also like to thank all business partners, such as customers, suppliers, banks and service providers, whose constructive cooperation with the GESCO Group is based on trust. Despite all economic pressure and the need to optimise costs, we are confident that business relationships which are based on the spirit of partnership provide more benefits in the medium and long term.

We would like to thank you, the shareholders of our company for the trust you have placed in us. From numerous meetings, letters and e-mails we know that many of you have chosen our shares because you value our unique business model. We will continue to pursue this tried and tested model with entrepreneurial courage and good judgement. Everything points towards a positive future trend: the current financial year has got underway well and we see good opportunities for repeating the strong sales and earnings figures of 2005/2006. In addition, the number of attractive industrial SMEs up for sale is growing and we should be able to expand the GESCO Group once again in the new financial year. With sufficient liquid funds and an excellent balance sheet structure we are very well equipped for further growth.

Yours sincerely

Dr. Hans-Gert Mayrose

Robert Spartmann

Companies

Looking at what they have achieved makes every business owner proud, yet the responsibility can be hard to bear. This sense of responsibility is not only towards employees, but also towards owners' families, since their assets are often tied up in the company. Business owners also feel a sense of responsibility towards their clients, suppliers and location, which is often a small town. The fact that the company is dependent upon its owner is considered a risk. "What if something were to happen to me?" is a question which is asked increasingly, often with age.

SHARE

GESCO SHARES / CORPORATE GOVERNANCE

GESCO SHARES

Financial year 2005/2006 was very successful for GESCO shares, with a further sharp rise in the share price and the capital increase carried out in September 2005.

As in the previous year, the capital markets saw share prices rise across the board with the DAX recording growth of 26.0 %, the MDAX up 34.8 % and the SDAX up 35.6 %. GESCO shares performed even better, rising 59.0 % in the 2005 calendar year. As the industry sector and size of our company make GESCO shares a potential SDAX candidate, we see this as the benchmark index for the performance of our stock. At EUR 39.95, GESCO shares recorded an all-time high on the Frankfurt stock exchange on 21 February 2006 and a few days later the stock closed on XETRA at EUR 40.00. Investors holding GESCO shares at the beginning of the year recorded a 64.8 % rise in the share price by the end of the financial year.

Turnover in GESCO shares also rose, reaching an average daily rate of around 8,400 shares in the twelve months of the financial year. Overall, around 2.2 million GESCO shares with a value of EUR 65 million changed hands on the stock exchange during the reporting period. In terms of the weighted number of shares, around 82 % of the share capital changed hands.

In September 2005, we increased the share capital by almost 10 % from EUR 6,500,000 to EUR 7,147,400 and the number of shares rose from 2,500,000 to 2,749,000. The new shares are fully dividend bearing and entitled to vote from financial year 2005/2006.

The corresponding authorised capital was created by the General Meeting on 9 September 2004. At the General Meetings on 9 September 2004 and on 1 September 2005, we explained the purpose of such a capital measure in detail. The capital increase was carried out in September 2005 in relation to the acquisition of the Dömer Group at the end of August 2005; the funds raised by the capital measure were used partly to finance the Dömer acquisition and partly for further acquisitions.

The capital increase was placed with renowned institutional investors during a four-day roadshow in Germany and Switzerland as well as to a lesser extent in the UK and the issue was several times oversubscribed. This was the first capital increase since the IPO on 24 March 1998 and we see its rapid placement as an indication of investor confidence in the business model and management expertise of GESCO AG. In addition, our long-standing tradition of transparency and continuity in our Investor Relations is bearing fruit.

In addition to increasing the capital, another aim of the capital measure was to increase the number of GESCO shares and therefore the daily stock market turnover of the shares and to expand the share of institutional investors. This proportion should now be around 25 %, while 75 % of the shares are held by around 5,500 private investors. At the moment, no shareholder has reached or exceeded the notifiable 5 % threshold.

In view of the extremely successful financial year 2005/2006, at the General Meeting on 24 August 2006 the Executive Board and Supervisory Board will propose a dividend of EUR 1.25 per share which represents an increased distribution of around 40 % compared to the previous year's figure of EUR 0.90. In terms of the share price at the time of the resolution, this equates to a dividend yield of 3.8 %.

We continued to pursue our proactive approach to Investor Relations and PR in financial year 2005/2006. This included answering enquiries from shareholders and meetings with investors, analysts and intermediaries as well as presentations at industry and general events. During the financial year we attended the following events to present our company:

- 8 to 10 April 2005: Invest - investor trade fair in Stuttgart
- 30 August 2005: Small Cap Conference organised by the DVFA in Frankfurt/Main
- 20 October 2005: UBJ Investor Conference in Hamburg
- 25 October 2005: Munich Investment Forum, organised by Baader Bank and Kayenburg AG
- 22 November 2005: German Equity Forum organised by Deutsche Börse AG and KfW-Bank
- 31 March to 2 April 2006: Invest - investor trade fair in Stuttgart

At the end of the period under review, GESCO carried out an investors' meeting at GSC Research in Düsseldorf.

In terms of content, we further enhanced the position of GESCO shares as an attractive investment with comparatively low risk. In addition to our strong internal growth during the year under review and company acquisitions, we focused on our risk-averse accounting policies, especially the reporting of goodwill in accordance with IFRS 3. We also regularly highlight value drivers and strategic approaches with regard to our subsidiaries.

As a member of the Deutscher Investor Relations Verband e. V. (DIRK, German Investor Relations Association) we have adopted an active, open and continuous communication policy. Our reporting is transparent and enables investors to make comparisons with other (listed) companies.

STOCK EXCHANGES

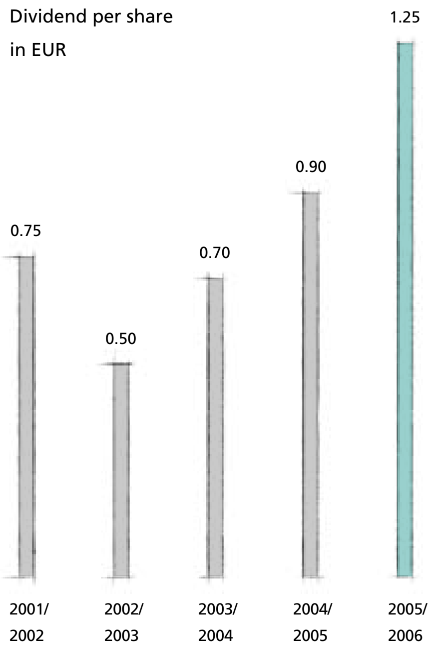
Frankfurt (official market)
Stuttgart (regulated market), Gate-M segment
Berlin-Bremen, Düsseldorf, Hamburg, München (over the counter)
XETRA

KEY INDICATORS PER GESCO SHARE FOR 2005/2006

(previous year's figures in brackets)

Dividend per share	1.25 EUR (0.90 EUR)
Group net income per share	3.39 EUR (2.49 EUR)
IFRS earnings per share	3.54 EUR (2.50 EUR)

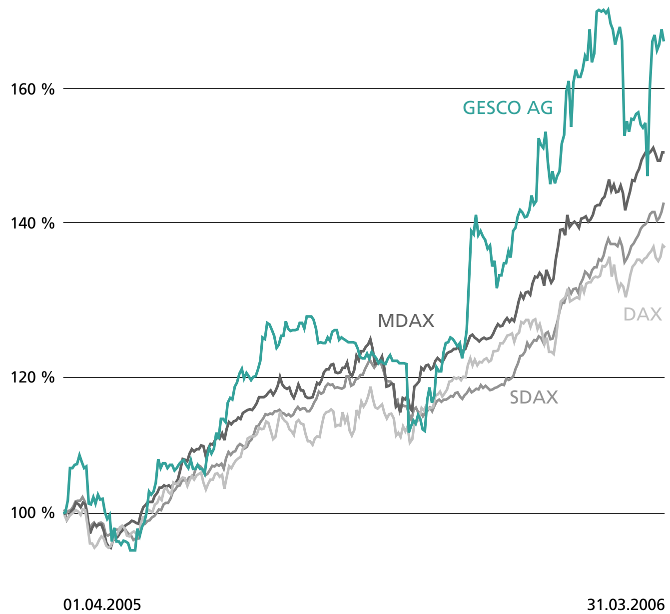
Dividend per share in EUR



GOOD REASONS TO BUY GESCO SHARES

- GESCO shares provide entry to the ambitious SME segment
- Stable and proven business model over many years
- Sustained, sound value with low level of financial risk
- Attractive dividend yield and potential for growth in share price
- High level of management expertise with industry experience
- Growth potential due to lack of succession arrangements for many companies
- Active Investor Relations, high level of transparency in reporting

GESCO share price against DAX, MDAX and SDAX



GESCO SHARE DATA[1]

International Securities Identification Number ISIN	DE0005875900
Securities identification number	587 590
Stock market abbreviation	GSC
Share capital	7,147,400 EUR
Number of unit bearer shares	2,749,000
IPO	24 March 1998
Issue price	42 DM/21.47 EUR
Year-end price previous year (31.03.2005)	23.61 EUR
Year-end price reporting year (31.03.2006)	38.90 EUR
High (21.02.2006)	39.95 EUR
Low (12.05.2005)	21.70 EUR
Market capitalisation as at 31.03.2006	106,936,100 EUR
Free Float	100 %
Shares held by members of the Supervisory Board (31.03.2006)	0.9 %
Shares held by members of the Executive Board (31.03.2006)	0.4 %
Stock exchange segment	Official Market, Prime Standard
Indices	CDAX overall index
	Prime All Share
	Prime Industrial
	Classic All Share
	Prime Industrial Diversified

[1] all share prices reflect the closing price on the Frankfurt stock exchange

The **Financial calendar** at the end of this Annual Report provides a list of key dates up until the end of 2007.

CORPORATE GOVERNANCE REPORT

We started to look at the subject of Corporate Governance at an early stage. In our interim report of November 2001, we adopted the Corporate Governance Code produced by the Frankfurter Grundsatzkommission (Frankfurt Policy Commission) and explained any deviation from the recommendations on our website, in line with the principle of "Comply or Explain".

In February 2002, the Corporate Governance government commission published its Code for the first time. The version published in July 2005 is the currently valid version. The requirement for an annual declaration of compliance with the Code is stated in § 161 of the German Stock Corporation Act (AktG), which is included as part of the Transparency and Publication Act (TransPuG). The current declaration and all earlier declarations of compliance can be viewed on our website by shareholders and interested parties.

The Executive Board and Supervisory Board of GESCO AG support the aim of the Code to promote sound, confident management in the interests of shareholders, employees and customers. Our business policy aims to increase the value of the company on a sustained basis.

The current version of the Code published in July 2005 calls for an extension of the Corporate Governance report and in particular for explanations to deviations from the recommendations in the Code. In principle, the preamble to the Code expressly provides for deviations from its guidelines, which are aimed at "enhancing flexibility and self-regulation with regard to the corporate legal structure of German companies". To this extent, deviations are not negative per se and in fact quite sensible for smaller companies in particular. For example, in the case of a Supervisory Board comprising three people, the creation of committees is obviously not practical. We also see no compelling reason to nominate a Chairman or spokesman for the Executive Board, since the Executive Board of GESCO AG comprises two equal members with clearly regulated responsibilities. We do not find the definition of upper age limits for the Executive Board and Supervisory Board to be expedient, as the decisive criterion for such a position should not be age but the benefit to the company. We consider the publication of the remuneration of the Executive and Supervisory Boards on an individual basis to be inappropriate as, given the size and structure of GESCO AG, it does not provide any decision-relevant information to the investor and it impinges too greatly on the privacy of the parties involved.

However, we do support the recommendation of the Code to disclose remuneration or advantages granted to members of the Supervisory Board for personally rendered services such as advice and brokerage. There was no such remuneration to the Supervisory Board of GESCO AG during either the year under review or the previous year.

The shareholdings of the Executive Board and Supervisory Board remained unchanged in terms of numbers, but the proportions changed as a result of the capital increase carried out in September 2005, changing from 1.0 % to 0.9 % for the Supervisory Board. The proportion for the Management Board remained unchanged at 0.4 %. No purchases or sales of shares in the company or financial instruments relating thereto were carried out by the members of the Boards or other persons subject to reporting requirements (directors' dealings) in the year under review or the previous year.

Contrary to the recommendations of the Code, we do not publish the results of our subsidiaries, as such a publication could jeopardise the competitive position of these SMEs.

DECLARATION OF COMPLIANCE IN ACCORDANCE WITH § 161 AKTG

The Executive Board and the Supervisory Board of GESCO AG declare that the company has complied with, and will continue to comply with, the recommendations of the Government Commission German Corporate Governance Code published by the Federal Ministry of Justice in the official section of the online Bundesanzeiger (Federal Gazette) on 20 July 2005 and that GESCO AG's policy differs from those guidelines in the following points only:

- **4.2.1. – Executive Board:** the Executive Board of GESCO AG comprises two people; no Chairman or Spokesman has been appointed.

- **4.2.3., 4.2.4., 5.4.7. – Remuneration:** the breakdown of remuneration for the Executive Board is disclosed and explained in the Annual Report which is published on the GESCO AG website. A list of the remuneration per individual member of the Executive Board and Supervisory Board will not be published.

- **5.1.2., 5.4.7. – Executive Board and Supervisory Board:** no age limit is set for members of the Executive Board or Supervisory Board.

- **5.3.1, 5.3.2 – Supervisory Board:** the Supervisory Board of GESCO AG has deliberately remained small to enable efficient work and intensive discussions on strategies and details. As a result, we believe there would be little point in forming Supervisory Board committees.

- **5.4.3. – Election** to the Supervisory Board: by resolution of the General Meeting on 1 September 2005 the election to the Supervisory Board took place as a list election.

- **7.1.4 – List of third party companies:** the Code provides for the annual financial statements to include an indication of the material holdings and the results from the previous financial year for the respective companies; we deviate from this in that we do not publish the results of subsidiaries. Our subsidiaries are SMEs whose competitive position could be jeopardised by publication of results.

GESCO AG
Supervisory Board and Executive Board

Wuppertal, December 2005

Open succession

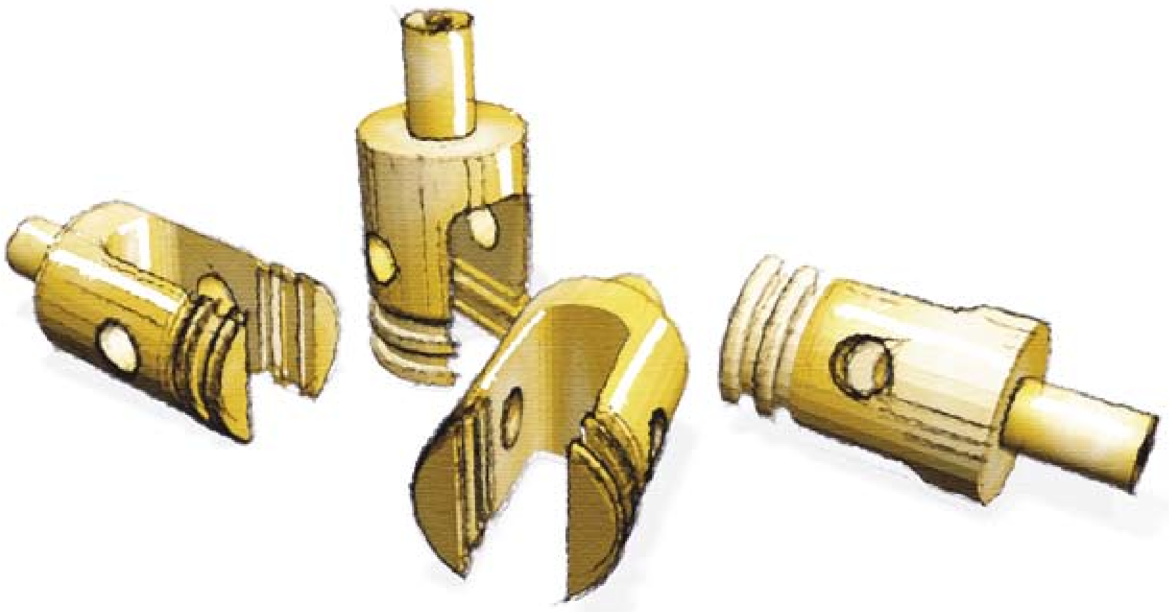
One problem which many business owners face is identifying a potential successor in their family or their company. For many business owners who are entrepreneurs at heart this is also very difficult emotionally. Some arrange for a successor to be appointed as they approach retirement age, while others do so much earlier in order to secure both their company and their family's futures. There are others, however, who leave the decision far too late.

STRATEGY

THE GESCO STRATEGY

IT BEGAN WITH AN IDEA

In 1989, a group of private individuals involved in SMEs, including entrepreneurs, accountants and tax consultants identified the extensive unresolved succession issues among German SMEs as an urgent economic problem. Why not work towards finding a solution to this problem? And why not make use of the investment opportunities presented by this situation at the same time? The vision emerged of building up a portfolio of financially sound small and medium-sized industrial firms, acquired, overseen and controlled by a streamlined, efficient holding company. The aim was to achieve a combination of internal growth from within the group and external growth through further acquisitions. This group of innovators contributed personal capital and founded GESCO on 22 May 1989.



CORE CONCEPT MAINTAINED, FINER DETAILS OPTIMISED

The heart of the business model, the long term acquisition and development of industrial SMEs, has always remained the same. However, the specific form of the model has been further refined and optimised over the years. Today, GESCO has a well-crafted strategy, proven over many years, that makes it unique among German stock market listed holding companies.

It enjoys this unique position thanks to a combination of the following factors:

- Long term acquisition of affiliated companies, no exit strategy
- Focus on succession solutions
- New managing directors become stakeholders
- Clear industry focus with a wide variety of customer segments
- Investments in the "Hidden Champions" among SMEs, no companies that need restructuring
- Intensive support of the subsidiaries
- Internal growth from within the existing portfolio plus external growth through between one and three acquisitions per year

In the creation and development of the portfolio of affiliated companies, two guiding principles have remained at the forefront since inception: maximising opportunities and minimising risk.

MAXIMISING OPPORTUNITIES

GESCO acquires financially sound, successful companies with the aim of making them even more successful. The typical strengths of SMEs (short decision-making processes, speed, close customer and market relations, staff loyalty) are maintained and promoted by the GESCO Group, while the typical weaknesses of SMEs (financial structure, too little time for strategic issues) are eliminated. In other words: within our Group we maintain the spirit of a family business while making the company fit for globalisation. In addition, since in traditional succession solutions the new managers acquire a stake in their company, the end of one entrepreneurial existence creates the beginning of another. In turn, entrepreneurship is a guarantee of the highest level of application, loyalty and long term personal commitment.

MINIMISING RISKS

Entrepreneurial activity is always accompanied by risks and subject to fluctuation. The distribution of the capital invested between a large number of affiliated companies diversifies these risks and fluctuations. GESCO's portfolio is concentrated on both the tool manufacture and mechanical engineering industry and the plastics technology sector. On the one hand, these represent traditional German industrial sectors that present a large number of succession issues. On the other hand, these industries have a sufficiently broad basis to allow diversification. GESCO believes the most important step towards diversifying risk is having a wide variety of customer segments, in order to reduce dependency on individual industries with their specific cycles and trends. Downturns or phases of weakness in individual economic fields can thus be offset by positive developments in other industries. A company's dependence on a small number of major customers is an exclusion criterion during the acquisition phase. Today, none of the GESCO Group's customers is consistently responsible for more than 3 % of Group sales.

Focusing on two industries has two main advantages: it allows GESCO to build up know how, from which the group benefits both in the assessment of new acquisitions and the support of its existing companies; and it offers investors in GESCO a stake in a clearly defined portfolio. Accusations of under specialising, which are often directed at holding companies, certainly do not apply to GESCO.

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THE SUBSIDIARIES: OPERATIONALLY INDEPENDENT, ACTIVELY SUPPORTED

Operationally, GESCO subsidiaries are managed independently by their respective managing directors. However, they are actively supported by the parent company with coaching, consulting and (financial) control. A jointly established annual budget provides the framework for the company's economic development; throughout the year, GESCO receives up to date figures and risk management reports from each subsidiary on a monthly basis. The figures are assessed and the relevant GESCO business administration executive visits the respective subsidiary each month to discuss this assessment with the relevant employee. In addition to measuring the achievement of the targets set in the annual budget, the overall current and future situation of the company is also taken into account: customers and suppliers, employees, technology, markets and investments. In addition to this intensive monthly monitoring, a member of GESCO's Executive Board visits each subsidiary at least once a quarter. These visits provide the opportunity to regularly focus on the strategic orientation of the company, as well as the figures achieved. Annual management meetings provide information on general issues, facilitate the exchange of knowledge and allow the participants to become acquainted with each other. This, too, helps us to create a constructive partnership environment within the GESCO Group.

STRATEGY WITH REGARD TO SUBSIDIARIES

Ultimately, all of our subsidiaries must be able to answer the question of how to operate profitably in Germany. For every different response, the companies present strategic similarities, which are promoted by GESCO. In general, we believe that highly technical products have greater potential for success than mass-produced items that do not have unique characteristics and have to deal with global price competition. As a rule, the core of the business model is based on a high level of technical expertise, often built up over decades. However, since this expertise alone is now increasingly less effective as a barrier to market entry, our subsidiaries build services around their existing core competencies, providing added value and solutions to customers and therefore generating greater loyalty. Our subsidiaries' customers are increasingly involving them in the development phase of new products, in order to have the benefit of their expertise with regard to materials and processes.

THE GESCO MODEL: AN IDEAL SOLUTION FOR ALL PARTIES

A significant advantage of the GESCO model is that it offers an ideal solution for all parties. The **former owners** are confident that their company will continue and be further developed in one piece; they know that they have left their life's work in good hands. The **employees** are happy that they will keep their jobs in the same location. The new **managing directors** have the opportunity to fully develop their professional potential, participate in the company's success as a co-partner and benefit from the expert support of GESCO and the Group as a whole. With GESCO stock, the **shareholders** have invested in a group of economically sound, ambitious SMEs, a particularly dynamic and attractive market segment, which generally does not allow direct investments. The quality of the individual companies and the diversification of the portfolio mitigate risk, while careful monitoring and the development of the companies increase opportunities. The success of our concept has been clearly demonstrated by share price developments and dividend yields.

WHAT ABOUT THE FUTURE?

With our mature, proven business model, comfortable liquidity levels and an excellent balance sheet structure, we are perfectly poised for further growth. We believe that with our existing structures we are able to manage around 20 subsidiaries, with our customary level of intensity. By making between one and three acquisitions per year, this target will be reached in three to five years and, depending on the size of the companies acquired, we will achieve Group sales of approximately EUR 400 to 450 million. Simulations and initial scenarios for the subsequent strategic steps to be taken exist, but there is still a good way to go yet.

Clarification

Business owners spend their lives making decisions and taking on challenges, yet selling their company is something that most will only have to do once. They need to achieve clarity and come to terms with their aims: is it about obtaining the maximum purchase price or safeguarding my life's work? What are my responsibilities towards my employees? What are my priorities? Only those who can provide clear answers to these questions will find a solution with which they are happy in the long term. Professional advice can be useful, but needs to come from a source of expertise with an excellent track record. Not to be underestimated is the impact of this process not only on the owner, but also on the company.

PROFILE

A PROFILE OF SVT GMBH

Each year we include a detailed profile of one of our subsidiaries in our Annual Report. This year, the focus is on SVT GmbH, which joined the GESCO Group in 2002.

Previous Annual Reports have featured:
- MAE Maschinen- und Apparatebau Götzen GmbH & Co. KG (Annual Report 1999/2000)
- Dörrenberg Edelstahl GmbH (Annual Report 2000/2001)
- AstroPlast Kunststofftechnik GmbH & Co. KG und Franz Funke Zerspanungstechnik GmbH & Co. KG (Annual Report 2001/2002)
- Haseke GmbH & Co. KG (Annual Report 2002/2003)
- Ackermann Fahrzeugbau GmbH (Annual Report 2003/2004)
- Hubl GmbH (Annual Report 2004/2005)

Whether the load is Campari or yogurt, bitumen or heavy heating oil, there is scarcely any type of material that the loading systems made by SVT GmbH have not handled. With expertise built up over 40 years, the Schwelm-based company develops, produces and markets high-quality equipment to load and unload liquids and gaseous materials on and off ships, tankers and containers. Marine loading systems generate the most sales followed by land loading systems for tankers and containers. Swivel joints, platforms, stairways and control systems complete the offering.

FROM SCHWELM TO THE REST OF THE WORLD

SVT supplies customers primarily in the chemical and petrochemical industry as well as the oil and gas sectors. Its systems are used across all continents with exports accounting for around 80 % of sales. The focus is on the USA, Taiwan, Egypt, Spain, Turkey, Benelux and Australia, as well as China, Singapore and India. Activities in the US market are handled by a sales and service office in Houston/Texas.

The particular strengths of SVT come to the fore when loading problem goods. The products offered by the Schwelm-based company are able to withstand both aggressive and viscous substances such as chlorine, liquid sulphur, ethylene, pitch and bitumen. The temperature range is also extensive, covering -193° C to + 300° C.

GROWTH MARKET LNG

One of the coldest substances is LNG – natural gas cooled to -165°C and liquefied. Cooling reduces the volume of the gas to one six hundredth of its original size so that the gas is transportable.

LNG is transported in special, very large tankers, of which there are around 180 in use around the world; a further 20 are built each year. Loading arms of up to 30 m high with a pipe diameter of up to 500 mm are used to load the LNG from land-based storage facilities on to such tankers. Through its superior technology, SVT is the world's second biggest supplier of such equipment.

Experts forecast that gas will quickly become the most important energy source in the world over the next 20 years; at today's rate of consumption, global reserves should last another 150 years. The main suppliers are Algeria, Egypt, Russia, Australia, Indonesia, Malaysia, Iran and Qatar. Currently most of the natural gas is transported by pipeline which inevitably leads to economic and political dependencies. To reduce this level of dependency in the future, there has been increased talk of transporting more gas by ship as LNG, thereby reducing dependency on pipelines. In Europe, these efforts have been given new impetus by the Russian/ Ukrainian dispute over gas prices. Eon is currently planning to build an LNG terminal in Wilhelmshaven.

SIMPLY BETTER BUILT

The loading arms supplied by SVT offer customers a range of innovative and technical advantages. As all components, including the safety system, have been developed by SVT and are therefore part of the same family, there is consistent quality and optimum compatibility between all the elements. The components transporting the fluids are separate from the static structures and are often made of stainless steel or coated with Teflon. Consequently any unavoidable frictional wear does not extend to the supporting structures and is confined to the transporting components which can be replaced if required. This modular design reduces the number of spares and the lighter sub-structure saves weight. Faster installation times are also an important argument for customers. The leaner, lighter design of the arms also offers advantages in seismically-sensitive areas and has proven its worth on many occasions, such as during earthquakes in Taiwan. The safety cut-off systems also designed by SVT ensure the required safety.

KLAUS MERTENS,
MANAGING DIRECTOR

All products feature a low-maintenance design. For the first installation, SVT generally sends two specialists, who work together with the local personnel to set up the arms. Major maintenance work is managed by SVT, while smaller maintenance tasks can be performed autonomously by local personnel after the appropriate training. This results in time and cost-savings for the customer.

As SVT supplies customers in many different countries, the company faces a wide range of regional standards and safety requirements. SVT is not only familiar with the various regulations, but also in a position to adapt its products to the respective local standards.

Today, SVT is itself setting the standard. For the US American market, the company used safety couplings which automatically close the valves to prevent any gas leaks if the LNG tanker moves too much and there is possibility that the connection to the land-based facility will break. The system is designed to cope with the worst case scenario, which can take place as incidents in Portugal and the USA have shown; here LNG tankers slipped their moorings due to severe wave movement and the SVT system closed-off the special valves and separated the connection, thereby preventing a gas leak. The loading arms and the installation on the ship were undamaged. This system is now mandatory in the USA and state-of-the-art.

The systems are also used in the chemical industry, where a wide range of goods are loaded on to ships, tankers and freight containers. In general, the emerging markets in Asia and their growing industrial sectors are very important markets for SVT. Around 180 loading arms from Schwelm were set up at Formosa Chemicals in Taiwan and China alone.

SVT loading arms are in great demand in Russia and China where they are used to equip liquefied gas stations where gases are transhipped. Liquefied gas is also commonly used as a source of energy in rural areas of Germany.

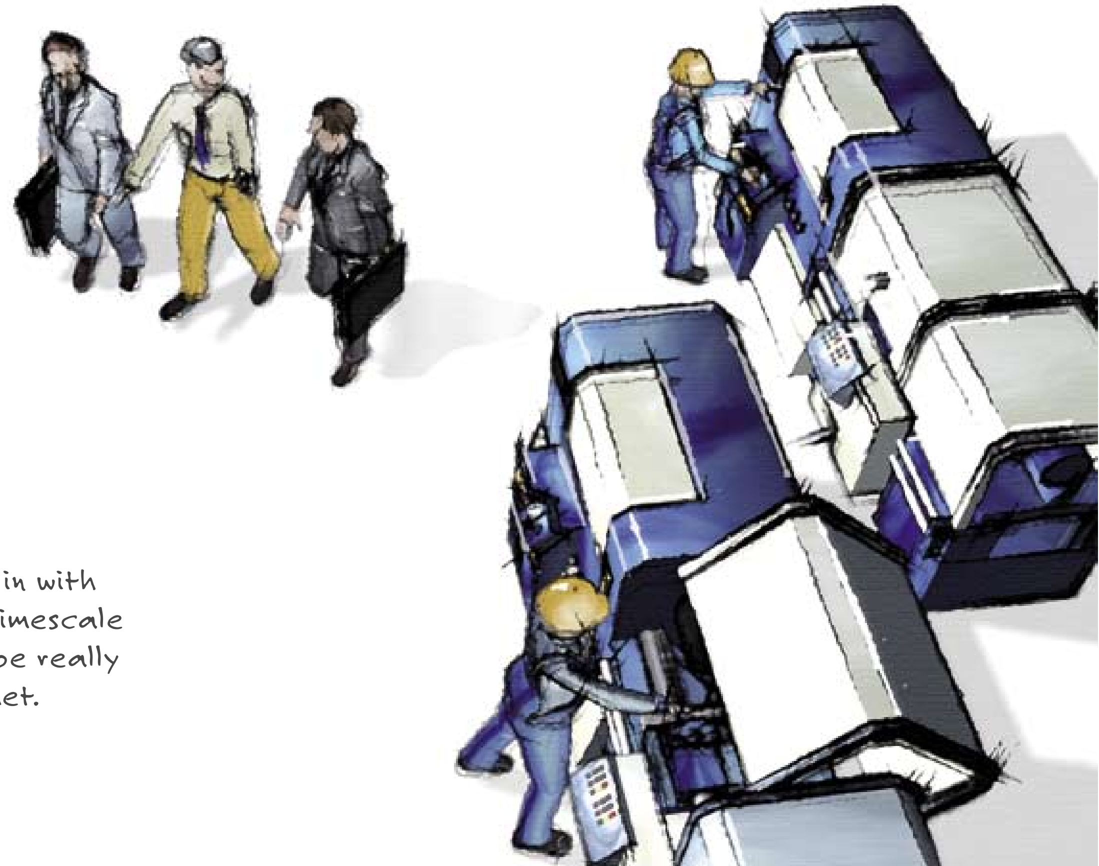
WORLD CLASS TECHNOLOGY FROM A DOWN-TO-EARTH COMPANY

The company's work dates back to the late sixties. Today it is one of the world's leading manufacturers of loading systems with a top brand and a reputation for reliability. SVT joined the GESCO Group in 2002 and GESCO holds 90 % of the shares in the company, with the remaining 10 % held by the managing director.

The Schwelm-based company has around 140 employees and generates sales of over EUR 26 million. In the last ten years alone, sales have increased almost four-fold. Despite such rapid growth, the company has retained its character of a medium-sized company. For managing director, Klaus Mertens, this is one of its core strengths: "We are fast and flexible". Another advantage according to Mertens is the workforce. "Our employees are totally dedicated and believe in the products," comments the managing director. "The healthy mix of long-serving, experienced employees with young talent is another factor, and our efficient personnel development system ensures a constant transfer of expertise."

A strong design, reliable production and decades of experience coupled with all the required certificates certainly constitute convincing arguments. If a customer is still a little sceptical despite the proven expertise and first class references, then "we set up a 40 m loading arm on our test site and simulate all the required applications right through to extreme cooling," explains Klaus Mertens. This test in Schwelm has convinced every customer so far.

Partners



Who is the right partner to buy my company? Which type of investor will fit in with my aims and meet my requirements? Purchasers differ according to the timescale of their investment, interests and approach. A successor solution can only be really satisfactory and sustainable if the interests of all parties involved are met.

DIRECTORS' REPORT

GENERAL CONDITIONS

In 2005, German gross domestic product increased 0.9 % on the previous year. The economic upturn experienced in 2004 therefore slowed somewhat. As in the previous year, growth was driven by exports, while domestic demand remained moderate and private consumption saw no change on the previous year. During the last quarter of 2005, the slight growth turned into stagnation.

The Verband deutscher Maschinen- und Anlagenbauer e. V. (VDMA – German Machinery and Plant Manufacturers Association) which is the relevant body for our tool manufacture and mechanical engineering division recorded 5.7 % growth in sales during 2005, with domestic sales rising 1.1 % and foreign sales up 9.8 %. The Gesamtverband kunststoffverarbeitende Industrie e. V. (GKV – Association of Plastic Goods Producers), which represents the sectors relevant to our plastics technology segment, recorded 2.9 % growth in sales for 2005. This growth was also generated primarily by exports.

Both the Plant Construction and Mechanical Engineering and Plastic Goods Production industries are very broadly positioned sectors, whose figures represent a large number of diverse companies. Since GESCO Group companies are essentially specialist niche-market SMEs, the sector data presents a general framework, but is ultimately only meaningful for the development of the GESCO Group to a limited extent.

With regard to the market for company acquisitions, we noted a particular increase in the number of interesting companies on offer in our key investment segment of industrial SMEs supplying a niche product, during the fourth quarter of 2005/2006.

IMPORTANT CHANGES TO THE SCOPE OF CONSOLIDATION

The **Setter Group** in Emmerich, which was acquired in 2004, was included in the previous year's consolidated financial statements for an eight-month year and was included on a full-year basis for the first time in the present reporting period.

On 30 August 2005, the GESCO AG acquired full ownership of the **Dömer Group** in Lennestadt, as part of a succession arrangement. The group is made up of the Press- und Stanzwerk Dömer GmbH + Co. KG and the Josef Dömer Werkzeugbau GmbH, and generates sales of more than EUR 10 million, with around 80 employees. The group was established in 1969 and has long-standing expertise in stamping, bending and forming, as well as the related tool manufacture. Dömer produces highly technical parts and supplies the automotive, metal fittings and railway industries, among others. In the 2005/2006 financial year, the Dömer Group was included in the consolidated financial statements for a four-month year.

Dörrenberg Tratamientos Térmicos S. L., Alasua/Navarra (Spain), in which Dörrenberg Edelstahl GmbH took a 60 % stake in June 2004, commenced operations in the first quarter of 2005.

After the end of the reporting period, in April 2006, MAE Maschinen- und Apparatebau Götzen GmbH & Co. KG established a sales and services subsidiary in Switzerland, **MAE.ch GmbH** in Unterstammheim, in order to more intensively develop the market in Switzerland and Austria, as well as Southern and Eastern Europe.

In line with the GESCO philosophy of the managing directors of the operational subsidiaries acquiring a stake in their companies, GESCO AG sold shares to managing directors during the 2005/2006 financial year. In September 2005, the managing director of Paul Beier GmbH Werkzeug- und Maschinenbau & Co. KG acquired a further 10 % of the company's capital, bringing his stake to 20 %. In January 2006, the two managing directors of Dörrenberg Edelstahl GmbH each acquired a 5 % stake in the company.

SALES AND PROFITS

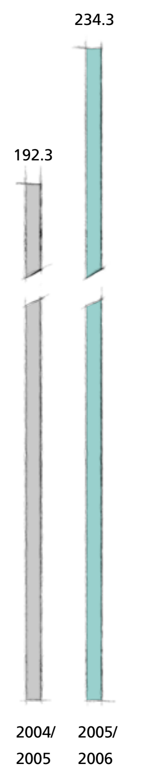
During the 2005/2006 financial year, the GESCO Group was again able to exceed the previous year's record figures and register the most successful year in the company's history, in terms of sales and profits.

The initial projections revealed at the balance sheet press conference, on 28 June 2005, forecast Group sales of EUR 205 million and Group profit of EUR 6.2 million. In November and then again in December 2005 we upgraded our forecasts, finally predicting sales of EUR 229 million and Group profit of EUR 8.9 million. Ultimately, even these figures were beaten. In our initial projections, we assumed a decline in demand during the second half of the year, which did not materialise.

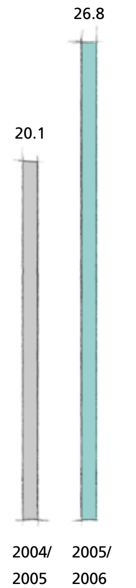
The GESCO Group posted substantial sales growth during the reporting period and increased revenues from EUR 192.3 million to EUR 234.3 million. Around 3.6 % of this 21.9 % increase is attributable to changes in the scope of consolidation, with the vast majority of 18.3 % down to organic growth generated from within the existing Group. Overall, sales revenue growth was fed by both increased sales and higher material prices.

The increased material prices naturally led to higher expenditure on materials, but this was offset by lower personnel expenditure, since the higher sales did not generate a significant long term increase in the workforce. In this way, earnings before interest, tax, depreciation and amortisation (EBITDA) grew disproportionately, surging 33.2 % to EUR 26.8 million. In view of the only slight increase in depreciation, earnings before interest and tax (EBIT) rose even more sharply, up 50.2 % to EUR 18.8 million. The financial result deteriorated as expected, since the previous year included the one-off effect of selling a holding. Pre-tax profit reached EUR 17.1 million, up 44.4 % on the previous year. With a largely unchanged tax ratio and few changes to third-party shares, consolidated net income was up 49.7 % on the previous year, at EUR 9.3 million.

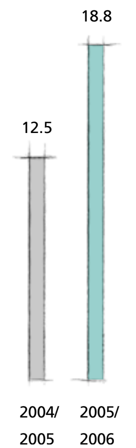
Group sales
in EUR million



Group EBITDA
in EUR million



Group EBIT
in EUR million



Share of EBITDA (EUR'000)

- **A** Tool manufacture/ mechanical engineering segment
  81 % 23,966
  80 % 16,809
- **B** Plastics technology segment
  19 % 5,611
  20 % 4,201

Share of sales (EUR'000)

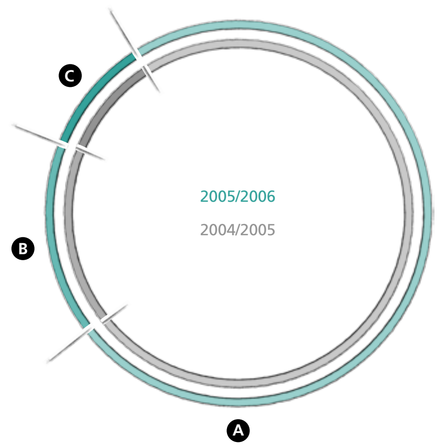
- **A** Tool manufacture/mechanical engineering segment
  85 % 198,756
  85 % 162,762
- **B** Plastics technology segment
  15 % 35,052
  15 % 28,952

SALES AND PROFIT BY SEGMENT

The segment reporting reproduced in detail in the consolidated financial statements is separated into the segments tool manufacture and mechanical engineering, plastics technology, GESCO AG and other/consolidation.

Segment reporting facilitates a comparison of the different segments' operating situations and, in particular, their earning power. As there are no notable sales or operating income to be reported under GESCO AG or other/consolidation, the comparison is only meaningful for the tool manufacture/mechanical engineering segment and plastics technology. Sales and EBITDA for these two segments are therefore shown together with the proportional contribution to total sales and EBITDA from the two segments.

Accounting for 85 % of group sales, as in the previous year, and 81 % of EBITDA (previous year: 80 %), tool manufacture and mechanical engineering is still the most important segment. Both segments increased sales by around 22 %, thereby registering much stronger growth than their respective industries, and generated above-average growth in key earnings figures.



Sales by region

A Germany
73.6 %
73.2 %

B Europe
16.4 %
17.0 %

C Outside Europe
10.0 %
9.8 %

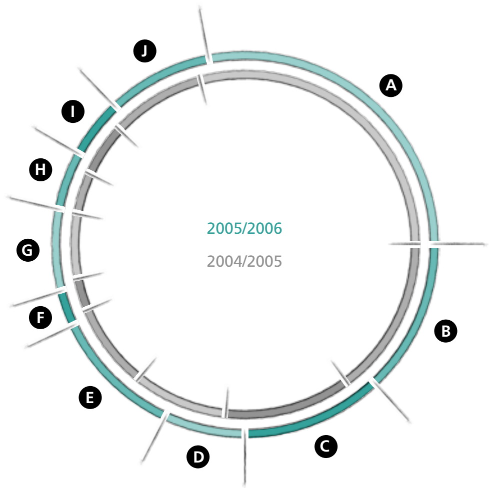
SALES BY REGION

The share of GESCO Group sales contributed by exports remained more or less constant compared to the previous year at 26.4 % (previous year: 26.8 %). As the companies of the GESCO Group largely supply the capital goods industry, which in turn is highly export-orientated, indirect exports are also likely to be of a significant volume. However, by their nature, the exact figures for these indirect exports cannot be determined.

Companies with a particularly high proportion of export sales include SVT (78 %), the Setter Group (75 %), MAE (40 %), AstroPlast (27 %) and Dörrenberg (17 %).

SALES BY CUSTOMER SECTOR

In the diversification of our portfolio, significant emphasis is placed on the broad distribution of customer sectors. The GESCO Group supplies a wide range of industries and is therefore less sensitive to the effects of the business cycles of individual industries. The sector allocation has changed little compared to the previous year.



Sales by customer sector

A Plant construction and mechanical engineering
28 %
29 %

B Car and commercial vehicle construction
13 %
15 %

C Iron, sheet metal and metal processing, tool manufacture
12 %
12 %

D Electrical, domestic appliances and medical technology
7 %
9 %

E Foundries and rolling mills
11 %
8 %

F Construction, air conditioning, sanitation
3 %
3 %

G Chemical and petrochemical industries
7 %
6 %

H Consumer goods industry
5 %
4 %

I Energy/supply
5 %
5 %

J Other customer groups
9 %
9 %

INVESTMENT AND DEPRECIATION

At EUR 9.2 million, Group investment in tangible and intangible assets (excluding additions due to changes in scope of consolidation) exceeded the previous year's investment of EUR 6.5 million by around EUR 2.7 million. One key investment was the acquisition of a property by our subsidiary Dörrenberg for its stainless steel division, which amounted to just under EUR 3 million. GESCO Group companies regularly invest in their technical equipment and keep their machinery up to date, so that investment backlogs do not build up.

At EUR 8.0 million, depreciation on tangible and intangible assets was up by around 5 % on the previous year's figure of EUR 7.6 million.

RESEARCH AND DEVELOPMENT

Since our subsidiaries are mainly small and medium-sized businesses, their research and development activities are overwhelmingly determined by market and customer requirements. Technical innovations and new applications are usually developed in close cooperation with clients, within the framework of specific projects. An exception to this is our largest subsidiary Dörrenberg Edelstahl GmbH, which is also involved in intensive research activities. The company has in-depth expertise in metallurgy, built up over decades, and continuously works towards the development of new, usually high-alloy, steels with improved properties.

PROCUREMENT

2005 saw continued rises in the cost of raw materials, especially oil, and steel. These price increases were able to be passed on to clients in line with market prices. Delivery bottlenecks were avoided during the year under review. The companies in our Group maintain long-lasting relationships with their suppliers based on trust and avoid dependence on individual sources.

GROUP BALANCE SHEET

Against the backdrop of the acquisition of the Dömer Group at the end of August 2005, and with the approval of the General Meeting of 9 September 2004, we carried out a capital increase with the exclusion of shareholders' subscription rights in September 2005, issuing 249,000 new shares and thus increasing equity from EUR 6,500,000 to EUR 7,147,400. The new shares, which have full voting and dividend entitlements in the 2005/2006 financial year, were placed with institutional investors in Germany, Switzerland and, to a lesser extent, the UK. Through this capital increase, GESCO AG generated a net EUR 6.7 million, which went partly to finance the Dömer acquisition and partly to finance further purchases.

At 31 March 2006, the balance sheet total was up by around 20 % on the previous year's reporting date, at EUR 174 million. This was primarily due to the expansion of the operating business during the reporting period, as well as the acquisition of the Dömer Group in August 2005.

Largely through this acquisition, but also due to the investments of subsidiaries, the Group's tangible fixed assets increased by around EUR 6 million. In the midst of the lively business activity, the general price increases and the acquisition, inventories grew by around EUR 10 million. The EUR 7 million increase in liquid funds, to EUR 17.5 million, is largely attributable to the capital increase carried out in September 2005.

On the liabilities side, there was a rise in equity of 34.5 % to EUR 56.3 million (including third-party shares), owing to the capital increase and the improvement in annual result. The GESCO Group therefore has an equity ratio of 32.3 %, which can be viewed very positively, not least in comparison to the consolidated financial statements of other holding companies. It needs to be taken into account here that each time a company is acquired, the stake of the parent company in the shareholders' capital of the subsidiary is accounted for and the remaining asset and liability positions are added together. Consequently the Group equity ratio tends to fall each time a company is acquired. At EUR 5.5 million, goodwill represents less than 10 % of the equity, which represents a very healthy ratio. Although long term bank liabilities have hardly changed, short term liabilities have increased, owing to the lively operating business.

Given the previously mentioned sound balance sheet structure, the GESCO Group is perfectly poised for future growth. Liquid funds have climbed considerably, the equity ratio is higher than average and with net financial liabilities at one and a half times EBITDA, its debt/equity ratio is very low. Further investments in the existing companies using a combination of own resources and borrowed funds is therefore perfectly possible.

RISK REPORT AND RISK MANAGEMENT

Within the GESCO Group, risk and opportunity management is a top priority. The starting point for limiting risk is the careful appraisal of companies to be acquired. Any potential acquisition is subject to a due diligence process. In particular, the company's projected figures are carefully analysed. New acquisitions also contribute to distributing risk within the GESCO Group, in particular if the business activities of the various companies are largely unrelated and the range of customer sectors is expanded. This means that slowdowns or crises in individual customer sectors or difficulties in individual subsidiaries do not jeopardise the group as a whole. We believe that the extensive avoidance of guarantees and other liabilities and cash pooling also contributes to individual adverse developments not threatening the group as a whole in the worst case scenario. Overall, the balanced portfolio and the wide range of customer sectors make the GESCO Group less vulnerable to economic fluctuations.

When a company is acquired, it is integrated into the Group's reporting and risk management systems. This also comprises the systematic logging of IT risks. A GESCO AG business administration executive analyses and interprets the data together with the respective employee of the relevant subsidiary during monthly meetings on site. This close supervision provides a solid basis for identifying adverse developments at an early stage and initiating appropriate countermeasures. These meetings also allow the identification of economic opportunities, arising from new products and market conditions, potential rationalisation measures or new procurement possibilities. A member of the Executive Board visits each company on a quarterly basis, in order to discuss strategic issues, in particular.

Even the most elaborate risk management system cannot hide the fact that entrepreneurial activity is intrinsically risky. In their operating business, the companies are subject to normal opportunities and risks stemming from their particular business fields as well as the opportunities and risks arising from the development of the economy.

Even though energy and raw material prices represent a substantial uncertainty factor for planning purposes, there are currently no notable risks in **procurement**.

A major portion of the **trade debtors** within the Group is covered by credit insurance. The GESCO Group's **insurance cover** is regularly checked to ensure adequate insurance cover is provided at appropriate terms.

The GESCO Group is only exposed to **exchange rate risks** to a limited extent. As both GESCO AG and many of its subsidiaries are financed in Swiss francs because of the attractive interest rate, there is a certain level of risk relating to movements of the Swiss franc against the euro. The resultant gains or losses are, however, generally related to the reporting date and are only book entries, as the financing agreements provide for mandatory repayment obligations to only a comparatively limited extent. The exchange rate fluctuations of the Swiss franc against the euro are monitored each working day.

We currently foresee no risks associated with the provision of **financing**. For financial year 2006/2007 we expect interest rates to increase slightly.

As far as the **legal and fiscal conditions** are concerned, we are not aware of any developments which could have a significant impact on the Group.

Overall, no risks have been identified that could jeopardise or significantly impede the continued existence of GESCO AG and of the Group.

The analysis of risks should not shift the focus away from the fact that entrepreneurial activity is primarily characterised through the identification and seizing of opportunities. For our subsidiaries, opportunity management is a fundamental entrepreneurial function, which is cultivated and promoted by GESCO AG as part of its support policy. These opportunities are found in the competitive environment, in innovations and new technologies, the opening of new markets, new sales channels and through business cooperation. Opportunities affect not just sales and procurement, but also financing. As the parent company, GESCO AG is also able to provide specific support to its subsidiaries in these general areas.

ENVIRONMENTAL PROTECTION

The duty to protect the environment above and beyond compliance with statutory obligations and directives is an integral part of the corporate philosophy of the GESCO Group. This applies to production, as well as the life cycle of individual products up to their material recovery.

Our largest subsidiary, Dörrenberg Edelstahl GmbH, was the first German manufacturer of stainless steel to have an environmental management system certified by the Technical Inspection Authority (TÜV). This system has been assessed and validated by regular follow-up audits.

EMPLOYEES

The number of GESCO Group employees increased from 1,215 on last year's reporting date to 1,329 this year, essentially due to the integration of the Dömer Group.

Our subsidiaries believe that a skilled and motivated workforce is a key to success. We are convinced that this is an essential strength of a well-run SME. Against this backdrop, training and further development are afforded high priority within the Group.

In autumn 2005, GESCO AG offered all Group employees the opportunity to buy shares in the company at favourable terms under an employee share scheme for the eighth time in a row. As in previous years, around one third of all employees took advantage of this offer of private asset accumulation. Employees that have taken advantage of each of these opportunities since the Group's IPO and acquired the maximum number of shares, have since been able to see their invested capital more than quadruple through share price rises (GESCO share price at financial year end) and dividend payments.

At management level, various remuneration and incentive schemes apply. In typical succession arrangements, GESCO AG acquires 100 % of a company and appoints a new managing director. After a probationary period of around two years, the managing directors acquire a stake in the company they run. Usually a stake of between 10 % and 20 % is acquired; for larger subsidiaries with several managing directors, the share per person is correspondingly lower. Through this investment, the managing directors participate directly in the profits of the respective subsidiary, as co-partners. In addition, the remuneration of the managing directors comprises a variable component related to the performance of the company they manage. The remuneration of GESCO AG's Executive Board also comprises a fixed and a variable, performance related component, which accounts for a significant proportion of the remuneration. A breakdown of the Executive Board's remuneration is provided in the Notes to the consolidated financial statements. There is no stock option scheme, since the Executive Board and Supervisory Board have concluded that such a scheme would not offer an acceptable cost/performance ratio for a company of our size and structure.

Employees by segment

A Tool manufacture and mechanical engineering
81.3 % 1,080
80.5 % 978

B Plastics technology
18.0 % 239
18.8 % 228

C GESCO AG
0.8 % 10
0.7 % 9

OUTLOOK/FUTURE PERSPECTIVES

Economic institutes predict GDP growth of around 2 % in 2006 and anticipate a slowdown to about 1.2 to 1.3 % in 2007. The German Machinery and Plant Manufacturers Association (VDMA) forecasts sales growth of approximately 2 % for companies in its sector in 2006, and therefore assumes an upturn in domestic demand. The Association of Plastic Goods Producers (GKV) anticipates growth of between roughly 2.5 and 3 %.

Following the extremely successful and profitable 2005/2006 financial year, we expect the 2006/2007 financial year to see the GESCO Group's sales and earnings consolidate.

A picture of the 2007/2008 financial year is still difficult to ascertain; however, we expect the GESCO Group to continue to develop successfully, although the specific course taken will largely depend on whether there is a revival of domestic demand, following years of stagnation. The impact of exceptional items, such as the impending VAT increase, makes planning all the more difficult. Moreover, it should not be forgotten that there are still a number of serious geopolitical risks, which could drive up oil prices, in particular, and which could soon lead to a slowdown in economic growth.

Beyond growth generated from within the existing portfolio, we are also striving to achieve external growth through the acquisition of further strategically attractive medium-sized industrial companies. The presence of such potential acquisition targets has increased in recent months, such that we see a realistic chance of making at least one acquisition in the 2006/2007 financial year. However, definite projections of company acquisitions cannot be made, given the sometimes emotional nature of transactions; when entrepreneurs decide to sell their life's work rational considerations and economic perspectives are not the only factors at play. We believe that the present organisational structure of the GESCO AG and the GESCO Group will allow us to hold and supervise around 20 subsidiaries, with our customary level of intensity. Given that there are currently twelve operating subsidiaries there is still scope for further growth, without having to alter the Group's structure.

No events of particular significance occurred after the end of the period under review.

Transition

There must be a clean break. The transition will only be successful if the initial phase is approved and a determined decision is made. A brief, concentrated induction of the new management team is preferable to a drawn-out joint arrangement. The more convincing the agreed solution, the easier it is to move forward and nothing is left standing in the way of the entrepreneur being able to enjoy the next stage of his life. And there is nothing to feel awkward about when a company is sold knowing that everyone involved is happy with the decision.

RESULTS

GESCO AG

ABRIDGED VERSION OF ANNUAL FINANCIAL STATEMENTS AS AT 31.03.2006

PROPOSED PROFIT APPROPRIATION

BALANCE SHEET

Assets	31.03.2006 EUR'000	31.03.2005 EUR'000
Intangible assets	1	1
Tangible assets	180	167
Financial assets	45,363	44,640
Non-current assets	**45,544**	**44,808**
Receivables and other assets	28,526	19,979
Securities and liquid funds	14,600	7,226
Current assets	**43,126**	**27,205**
Total assets	**88,670**	**72,013**

Equity and liabilities		
Equity	53,339	38,605
Provisions	4,705	3,217
Liabilities	30,626	30,191
Total equity and liabilities	**88,670**	**72,013**

INCOME STATEMENT

	01.04.2005 -31.03.2006 EUR'000	01.04.2004 -31.03.2005 EUR'000
Earnings from investments	18,394	12,623
Other operating income and expenditure	-905	287
Personnel expenditure	-1,577	-1,385
Depreciation on tangible and intangible assets	-61	-85
Financial result	-1,492	-1,077
Earnings from ordinary business activity	**14,359**	**10,363**
Taxes on income and earnings	-4,200	-2,407
Net income	**10,159**	**7,956**
Transfer to revenue reserves	-5,079	-3,978
Retained profit	**5,080**	**3,978**

GESCO AG – PROPOSED PROFIT APPROPRIATION

The Executive Board and Supervisory Board of GESCO AG propose using the reported retained profit for financial year 2005/2006 of EUR 5,079,446.73 (net income for the year of EUR 10,158,893.45 less transfer to other revenue reserves of EUR 5,079,446.72) as follows:

a) Payment of a dividend of EUR 1.25 per unit share on the current dividend bearing share capital (2,749,000 shares less 1,030 own shares)	3,434,962.50 EUR
b) Transfer to other revenue reserves	1,644,484.23 EUR
Retained profit	**5,079,446.73 EUR**

The full financial statements of GESCO AG compiled in accordance with the provisions of the German Commercial Code (HGB) and the German Stock Corporation Act and audited by Dr. Breidenbach, Dr. Güldenagel & Partner KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Wuppertal, and attested with a qualified auditors report is published in the Bundesanzeiger (Federal Gazette) and lodged with the district court of Wuppertal under HRB 7847. They can be requested from GESCO AG. The qualification refers to the non-publication of the results of the subsidiaries. Please see the foreword by the Executive Board for further details.

GESCO GROUP

CONSOLIDATED FINANCIAL STATEMENTS AS AT 31. MARCH 2006

GESCO GROUP – BALANCE SHEET

Assets

			31.03.2006	31.03.2005
A.	Non-current assets		EUR'000	EUR'000
I.	Intangible assets			
1.	Industrial property rights and similar rights and assets as well as licences to such rights and assets	(1)	6,957	8,038
2.	Goodwill	(2)	5,510	4,240
3.	Prepayments made	(3)	51	10
			12,518	**12,288**
II.	Tangible assets			
1.	Land and buildings	(4)	25,972	22,444
2.	Technical plant and machinery	(5)	16,232	14,095
3.	Other plant, fixtures and fittings	(6)	10,022	9,523
4.	Prepayments made and plant under construction	(7)	1,020	530
5.	Property held as financial investments	(8)	3,962	4,722
			57,208	**51,314**
III.	Financial assets			
1.	Shares in affiliated companies		1	1
2.	Shares in associated companies	(9)	1,365	1,119
3.	Investments	(10)	27	46
4.	Securities held as fixed assets	(11)	2,775	3,342
			4,168	**4,508**
IV.	Other assets	(12)	1,524	1,091
V.	Deferred tax assets	(13)	1,338	1,783
			76,756	**70,984**
B.	Current assets			
I.	Inventories	(14)		
1.	Raw materials and supplies		9,738	9,307
2.	Unfinished products and services		9,697	8,501
3.	Finished products and goods		22,383	14,428
4.	Prepayments made		409	205
			42,227	**32,441**
II.	Receivables and other assets	(12)		
1.	Trade receivables		32,980	27,508
2.	Amounts owed by affiliated companies		1,181	867
3.	Other assets		3,504	2,674
			37,665	**31,049**
III.	Securities	(15)	27	27
IV.	Cash assets, Bundesbank balances, credit with financial institutions and cheques	(16)	17,526	10,491
V.	Pre-paid expenses		229	78
			97,674	**74,086**
			174,430	**145,070**

Equity and liabilities

		31.03.2006 EUR'000	31.03.2005 EUR'000
A. Equity			
I. Share capital	(17)	7,147	6,500
II. Capital reserves		27,180	21,142
III. Revenue reserves		17,784	10,668
IV. Own shares		-30	-21
V. Revaluation IAS 39		-97	400
VI. Minority interests	(18)	4,322	3,189
		56,306	**41,878**
B. Non-current liabilities			
I. Provisions for pensions	(19)	8,917	8,310
II. Other long-term provisions	(19)	2,164	667
III. Liabilities to financial institutions	(20)	43,911	42,924
IV. Other liabilities	(20)	3,393	3,017
V. Deferred tax liabilities	(13)	4,139	3,860
		62,524	**58,778**
C. Current liabilities			
I. Other provisions	(19)	**8,283**	**6,626**
II. Liabilities	(20)		
1. Liabilities to financial institutions		12,511	9,707
2. Trade creditors		10,334	7,778
3. Prepayments received on orders		5,314	4,092
4. Liabilities from accepting bills drawn		1,108	1,721
5. Liabilities to companies with which a shareholding relationship exist		5	5
6. Other liabilities		18,045	14,485
		47,317	**37,788**
		55,600	**44,414**
		174,430	**145,070**

GESCO GROUP – INCOME STATEMENT

		01.04.2005 -31.03.2006 EUR'000	01.04.2004 -31.03.2005 EUR'000
1. Sales revenues	(21)	**234,327**	**192,264**
2. Change in stock of finished and unfinished products		1,357	1,706
3. Other company produced additions to assets	(22)	135	122
4. Other operating income	(23)	3,228	3,268
5. Total performance		**239,047**	**197,360**
6. Expenditure on raw materials	(24)	-122,733	-96,716
7. Personnel expenditure	(25)	-61,631	-57,626
8. Other operating expenditure	(26)	-27,891	-22,904
9. Earnings before interest, tax, depreciation and amortisation (EBITDA)		**26,792**	**20,114**
10. Depreciation on tangible and intangible assets	(27)	-8,000	-7,602
11. Earnings before interest and tax (EBIT)		**18,792**	**12,512**
12. Earnings from securities		124	1
13. Earnings from investments in associated companies		246	828
14. Other interest and similar income		554	536
15. Interest and similar expenditure		-2,603	-2,027
16. Financial result		**-1,679**	**-662**
17. Earnings before tax (EBT)		**17,113**	**11,850**
18. Taxes on income and earnings	(28)	-7,100	-4,868
19. Earnings after tax		**10,013**	**6,982**
20. Share of profit attributable to minority interests		-688	-754
21. Group net income for the year		**9,325**	**6,228**
Earnings per share (EUR) according to IFRS	(29)	3.54	2.50
Earnings per share (EUR) based on 2,749,000 (reporting year) and 2,500,000 shares (previous year)		3.39	2.49

CASH FLOW STATEMENT

	01.04.2005 -31.03.2006 EUR'000	01.04.2004 -31.03.2005 EUR'000
Group net income for the period (including share of income attributable to minority interests)	**10,013**	**6,982**
Depreciation on fixed assets	8,000	7,602
Profit on investments in associated companies	-246	-83
Increase in long-term provisions	604	64
Other non-cash income	-744	-712
Cash flow for the period	**17,627**	**13,853**
Earnings/losses from the disposal of fixed assets	61	-751
Earnings from changes in the scope of consolidation	-56	0
Increase in inventories, trade receivables and other assets	-13,542	-4,892
Increase in trade creditors and other liabilities	6,506	3,698
Cash flow from ongoing business activity	**10,596**	**11,908**
Incoming payments from the disposal of tangible assets/intangible assets	615	217
Disbursements for investments in tangible assets	-8,961	-6,404
Disbursements for investments in intangible assets	-235	-102
Incoming payments from the disposal of financial assets	88	824
Incoming payment from the sale of consolidated companies	756	0
Disbursements for the acquisition of consolidated companies	-3,588	-4,235
Cash flow from investment activities	**-11,325**	**-9,700**
Net capital increase	6,685	0
Disbursements to shareholders (dividend)	-2,248	-1,743
Disbursements for the acquisition of own shares	-87	0
Incoming payment from the sale of own shares	117	124
Disbursements to minority shareholders	-808	-453
Incoming payments from minority shareholders	0	235
Incoming payments from raising loans and disbursements for repayment of loans	4,104	-3,988
Cash flow from funding activities	**7,763**	**-5,825**
Cash increase in financial means	**7,034**	**-3,617**
Financial means on 01.04.	10,518	14,135
Financial means on 31.03.	**17,552**	**10,518**

GESCO GROUP STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

EUR'000	Subscribed capital EUR'000	Capital reserves EUR'000	Revenue reserves EUR'000	Own shares EUR'000	Revaluation IAS 39 EUR'000	Total EUR'000	Minority interests EUR'000	Shareholders' equity
As at 01.04.2004	6,500	21,142	6,123	-85	0	33,680	2,653	36,333
Revaluation of securities not impacting on income					400	400		400
Disposal of own shares			60	64		124		124
Dividends			-1,743			-1,743		-1,743
Other neutral changes						0	-218	-218
Result for the period			6,228			6,228	754	6,982
As at 31.03.2005	6,500	21,142	10,668	-21	400	38,689	3,189	41,878
Revaluation of securities not impacting on income					-509	-509		-509
Disposal of securities recognised as income in the result for the period					12	12		12
Acquisition of own shares				-87		-87		-87
Disposal of own shares			39	78		117		117
Dividends			-2,248			-2,248		-2,248
Capital increase	647	6,175				6,822		6,822
Transaction costs - capital increase		-137				-137		-137
Other neutral changes						0	445	445
Result for the period			9,325			9,325	688	10,013
As at 31.03.2006	7,147	27,180	17,784	-30	-97	51,984	4,322	56,306

SEGMENT REPORT

	Tool manufacture and mechanical engineering		Plastics technology		GESCO AG		Other/Consolidation		Group	
	2005/2006 EUR'000	2004/2005 EUR'000	2005/2006 EUR'000	2004/2005 EUR'000	2005/2006 EUR'000	2004/2005 EUR'000	2005/2006 EUR'000	2004/2005 EUR'000	2005/2006 EUR'000	2004/2005 EUR'000
Sales revenues	198,756	162,762	35,052	28,952	0	0	519	550	234,327	192,264
of which with other segments	0	0	0	0	0	0	0	0	0	0
EBIT	18,484	11,550	3,866	2,616	-3,014	-1,274	-544	-380	18,792	12,512
EBITDA	23,966	16,809	5,611	4,201	-2,953	-1,189	168	293	26,792	20,114
Financial result	-1,194	-896	-247	548	-630	-435	392	121	-1,679	-662
of which income from associated companies	0	0	0	744	0	0	246	84	246	828
Depreciation	5,482	5,259	1,745	1,585	61	85	712	673	8,000	7,602
of which unscheduled	258	488	0	0	0	0	536	486	794	974
Segment assets	125,331	102,155	25,416	24,553	11,693	5,474	11,990	12,888	174,430	145,070
of which shares in associated companies	0	0	0	0	0	0	1,365	1,119	1,365	1,119
Segment liabilities	45,058	37,590	4,086	3,328	7,577	6,292	61,403	55,982	118,124	103,192
Investments	8,233	4,784	835	1,629	124	83	4	10	9,196	6,506
Employees (No./reporting date)	1,080	978	239	228	10	9	0	0	1,329	1,215

NOTES

GENERAL INFORMATION

The consolidated financial statements as at 31 March 2006 of GESCO AG have been prepared taking account of § 315a para. 1 of the German Commercial Code (HGB) in accordance with International Financial Reporting Standards (IFRS) pursuant to the statements by the International Accounting Standards Board (IASB) as applicable in the EU. Any deviating applications are explained in the Notes to the financial statements. The consolidated financial statements for previous years were also prepared in accordance with IFRS and utilised the exemption provisions of § 292a HGB.

DIFFERENCES COMPARED WITH HGB

Material differences compared with the accounting and valuation methods under the German Commercial Code are described in detail as follows:

Capital consolidation is effected by offsetting the book value of the investment with the equity of the subsidiaries valued in accordance with IFRS principles. Unlike the accounting treatment under HGB, first-time consolidation is carried out as at the date of acquisition of the relevant investment.

In consolidated financial statements prepared in accordance with HGB, the goodwill resulting from capital consolidation was offset against reserves. Under IFRS, differences arising on consolidation are allocated as far as possible to asset line items; any remaining goodwill is reported under assets and subjected to an impairment test at regular intervals. Negative differences arising from capital consolidation are charged to the income statement. Under IFRS, the obligation resulting from a debtor warrant also is to be taken into account for the capital consolidation.

Contrary to HGB regulations, a property leasing company is recorded in the consolidated financial statements in line with the principles of full consolidation.

In the HGB consolidated financial statements, the calculation of depreciation for intangible and tangible assets is based on the depreciation periods allowed under tax legislation. In the IFRS accounts, it is the economic useful life that forms the basis for the calculation of depreciation. Special tax depreciation allowances have been eliminated.

The pension provisions and similar obligations accounted for in accordance with the fiscal partial value procedure pursuant to § 6a EStG (Income Tax Act) under HGB are calculated using the projected unit credit method, taking into account future salary and pension increases and current market interest rates.

Provisions for expenditure, in particular provisions for omitted maintenance are not permitted in accordance with IFRS.

Deferred taxes are accounted for using the balance sheet based liabilities method. Deferred taxes on losses carried forward are posted on the assets side where there is sufficient certainty on the reporting date that it will be possible to achieve tax mitigation potential.

In accordance with IFRS, own shares bought back are offset openly against shareholders' capital.

In addition to the general differences listed above, there are also the following differences between IFRS and HGB accounting regulations for the consolidated financial statements as at 31 March 2006:

- Capitalisation of assets and reporting of liabilities relating to finance leasing agreements under liabilities in accordance with IAS 17.
- Available for sale securities reported at fair value. Gains and losses on revaluation are reported under equity with no effect on income until the investment is sold or a permanent reduction in value is to be charged to the income statement.

CONSOLIDATED FINANCIAL STATEMENTS – REPORTING DATE

The reporting date for the consolidated financial statements is the same as that for the parent company (31 March 2006). In principle, the financial years of the subsidiaries included in the consolidated financial statements are the same as the calendar year and they therefore do not differ from the financial year of the parent company by more than three months. It was therefore decided to dispense with compiling intermediate accounts as at 31 March 2006. Where there have been events of particular importance up until the Group reporting date, these have been taken into account in the consolidated financial statements.

SCOPE OF CONSOLIDATION

In addition to GESCO AG, all subsidiaries in which GESCO AG directly or indirectly holds the majority of the voting rights are included in the consolidated financial statements. Material associated companies are included at equity. In principle, the first-time consolidation or deconsolidation is carried out at the date of acquisition or disposal of the shareholding. A property leasing company has been included in the scope of consolidation in accordance with SIC 12, as the economic benefit of the property held by it is attributable to the Group.

At the end of August 2005, GESCO AG acquired all of the shares in the Dömer Group, Lennestadt, comprising the Press- und Stanzwerk Dömer GmbH & Co. KG and its wholly-owned subsidiary Josef Dömer Werkzeugbau GmbH. The Group is active in the stamping, bending and forming technology segment as well as the associated tooling. The Dörmer Group has been included in the consolidated financial statements since 1 September 2005.

In line with the GESCO philosophy of the managing directors of our subsidiaries having a capital interest in the companies they manage, the two managing directors of Dörrenberg Edelstahl GmbH, Engelskirchen, each acquired 5 % of the shares in the company with effect from 1 January 2006.

In September 2005, we sold a further 10 % of our shares in Paul Beier GmbH Werkzeug- und Maschinenbau & Co. KG, Kassel to the managing director who has now increased his holding to 20 %.

The impact of the additions and disposals on the fully consolidated companies is as follows:

	31.03.2006 EUR'000	31.03.2005 EUR'000
Intangible assets	18	2,935
Tangible assets	4,264	1,676
Current assets (excluding liquid funds)	1,987	3,688
Liquid funds	980	128
Provisions	765	47
Liabilities	4,279	4,158

First-time consolidation contributed EUR 296 thousand to the Group result. The first-time consolidation and deconsolidation in the previous year affected the Group result in the amount of EUR 744 thousand.

A total of 28 companies were fully consolidated and one associated company included in the consolidated financial statements using the equity method.

One subsidiary (foreign sales company) whose influence on the assets, financial position and earnings is of minor importance was not consolidated but valued at the cost of acquisition. The influence on sales, results and total assets amounts to less than 0.5 %. Two other companies, which are also of minor importance, were also valued at the cost of acquisition. The effect on the results and total assets was less than 0.5 %.

The significant Group companies are listed in a table at the end of these Notes.

CONSOLIDATION METHODS/EQUITY METHOD

The capital was consolidated by carrying out a new full valuation as at the date of acquisition in each case. The costs of acquisition were thereby offset against the new value or, in the case of the equity method, against the pro rata revalued equity of the subsidiaries as at the date of acquisition. Assets and liabilities are reported at fair value.

Subsequent changes to the equity of associated companies are recorded as a change in the level of holding reported for the relevant associated company.

Income and expenditure and receivables and liabilities between consolidated companies are eliminated.

Where there are temporary differences resulting from consolidation measures which impact on earnings but do not affect goodwill, these are taken into account for income tax purposes and reported under deferred taxes (IAS 12).

Accounting and valuation methods

In principle, the accounts included in the consolidated financial statements as at 31 March 2006 are drawn up in accordance with standardised accounting and valuation methods.

Intangible assets acquired against payment are valued at the cost of acquisition or manufacture less scheduled depreciation. Any negative difference arising from capital consolidation is recognised in the income statement.

Tangible assets are valued at the cost of acquisition or manufacture. Public sector subsidies are deducted from the original cost of acquisition when the asset is capitalised. The cost of external capital is recorded directly as expenditure. Tangible assets are depreciated on a straight-line basis over their economic useful life.

Tangible assets rented under finance leases are capitalised at the attributable fair value or the lower present value of the lease instalments. Depreciation is carried out in the same way as for tangible assets owned by the Group (IAS 17). The company is entitled to purchase the leased items for an agreed price at the end of the leasing agreement.

Property held as financial investments is reported at the net book value or fair value if lower.

Investments reported under financial assets are reported at the cost of acquisition or fair value if lower. Shares in associated companies are valued at equity.

Securities held as fixed assets are valued at the stock exchange prices on the reporting date. Changes in value are openly deducted from equity without any impact on income. Changes in value are recorded in the results for the relevant accounting period if the securities are sold or if there is a permanent reduction in value.

Raw materials and supplies are valued at the average cost of acquisition and **unfinished and finished products** are valued at the cost of manufacture including the necessary portions of the overhead costs of materials and production. The costs of external capital are not capitalised as part of the cost of acquisition or manufacture. Realisation risks are taken into account through depreciation on the lower net sales price.

In principle, **receivables and other assets** are carried at fair value. Appropriate provisions have been created to take account of any receivables risks. Receivables denominated in foreign currencies were reported at the exchange rate on the reporting date. Exchange gains and losses are taken to the income statement.

Contrary to IAS 32, **shares held by third parties** in our partnerships are still reported as a separate item under equity in the present consolidated financial statements. These shares refer to the participations of managing directors in the companies they manage as well as their share of the company results. The regulations of IAS 32 state that for partnerships these shares should be reported as borrowings. However, given the long-term nature of our investment this is not appropriate and would lead to a misleading presentation. The principles of IFRS accounting, which call for a reliable view of the assets, financial position and earnings of the company, therefore contradict the application of IAS 32 in this instance.

Repurchased **own shares** are reported openly as an adjustment to equity.

Provisions for pensions and similar obligations are calculated in accordance with actuarial methods pursuant to IAS 19, whereby not only the known pensions and projected benefits, but also expected future increases in salaries and pensions and the trend in interest rates are taken into account. In financial year 2005/2006, for the first time actuarial losses were incurred which exceeded 10 % of the scope of obligations of the relevant pension plan; these were recognised in full as expenditure. The service costs are reported under personnel expenditure and the interest portion of the allocation to provisions is reported under the financial result.

Other provisions take into account all discernible liabilities as at the reporting date which are based on past business transactions and whose amount or due date is uncertain. The provisions have been created for the amount which is most likely and have not been netted off against positive income balances. Provisions are only created if there is a legal or actual obligation to third parties. Provisions which have a residual term of more than one year are discounted at the usual market rate for that term for the Group on the reporting date, taking account of future inflation.

In principle, **liabilities** are reported at the relevant present value. Liabilities under finance leasing agreements are reported under liabilities at the present value of the leasing instalments. Liabilities denominated in foreign currencies are reported at the exchange rate prevailing on the balance sheet reporting date. Exchange gains and losses are taken to income in the income statement. Discounts are deducted from liabilities to financial institutions and added back to the relevant loan on a scheduled basis over the life of the loan.

Deferred taxes arising from temporary differences in the value reported in the commercial and tax balance sheets are determined in accordance with the balance sheet based liability method and reported separately. Deferred tax assets comprise claims to tax reductions arising from the utilisation, which can be expected with sufficient certainty, of existing loss carryforwards. Deferred taxes are determined on the basis of current tax legislation. Deferred tax assets are netted off against deferred tax liabilities where the creditor and debtor are the same and the maturities are matching.

Contingent liabilities are possible or existing obligations which refer to past events and for which an outflow of funds is unlikely. Such obligations are therefore not reported in the balance sheet. The level of obligations reported for contingent liabilities corresponds to the extent of the liability as at the reporting date.

INFORMATION ON THE GROUP BALANCE SHEET

(1) Industrial property rights and similar rights and assets as well as licences to such rights and assets

The assets summarised under this item are subject to straight-line depreciation over a period of 3 to 13 years.

(2) Goodwill

In accordance with IFRS 3, goodwill is no longer written down on a scheduled basis, but subject to an annual impairment test. For the next three years, the cash flows from the current budget are used for this. For the following periods, the calculation is based on a continuous growth rate of 1 %. The figures calculated in this way are discounted at a capital cost rate of 10 %. The resultant present value is compared with the reported goodwill. As at the reporting date, the impairment test did not indicate a requirement for a write-down.

This method of calculating the present value is based on the provisions of the relevant IFRS standards. It does not comply with our method of company valuation when acquiring companies.

The access refers to the likely obligations under a debtor warrant.

(3) Prepayments made

The amount reported refers to the acquisition of software.

(4) Land and buildings

In principle, buildings are depreciated on a straight-line basis over a period of 40 to 50 years.

(5) Technical plant and machinery

In principle, technical plant and machinery are subject to scheduled depreciation on a straight-line basis over a period of 5 to 15 years. This item also included equipment leased under a financing lease with a book value (present value under leasing obligations less scheduled depreciation) as at the Group reporting date of EUR 143 thousand (previous year EUR 163 thousand). Depreciation is carried out over the anticipated useful life of the assets.

(6) Other plant, fixtures and fittings

In principle, other plant, fixtures and fittings are depreciated on a straight-line basis over a period of 3 to 15 years.

(7) Prepayments made and plant under construction

The amount reported refers mainly to a high-bay warehouse.

(8) Property held as financial investments

The company still has four properties held as investments, which generate rental income. Part of one property was sold in the year under review.

The properties are valued at the cost of acquisition less the straight-line depreciation calculated on an economic useful life of 40 years as well as extraordinary depreciation. Extraordinary depreciation was carried out to adjust the book value to the lower fair value as at the reporting date. The fair value of the properties held as financial investments amounted to EUR 3,962 thousand (previous year EUR 5,001 thousand). The fair values of the individual properties were calculated according to the gross rental method. The calculations are based on usual market rates of approx. 8.0 %. Surveys were not obtained on the attributable fair values.

The properties held as financial investments generated rental income of EUR 519 thousand (previous year EUR 549 thousand) compared with directly attributable calculable operating expenditure of EUR 181 thousand (previous year EUR 169 thousand) and depreciation of EUR 706 thousand (previous year EUR 690 thousand). Depreciation includes write-downs to lower fair values of EUR 536 thousand (previous year EUR 486 thousand).

(9) Shares in associated companies

The positive results of those companies valued at equity are reported in the Group statement of fixed assets as an addition. Shares in losses are reported as an addition under depreciation. Distributions and sales of shareholdings are reported under disposals.

Depreciation, losses and the share of income from companies valued at equity are included in the income statement under net income from shares in associated companies.

(10) Investments

This position includes holdings in two (previous year three) companies which are of minor importance.

GROUP STATEMENT OF FIXED ASSETS AS AT 31.03.2006

	Cost of acquisition or manufacture					
	As at 01.04.2005 EUR'000	Additions Scope of consolidation EUR'000	Additions EUR'000	Reclassifications EUR'000	Disposals EUR'000	As at 31.03.2006 EUR'000
I. Intangible assets						
1. Industrial property rights and similar rights and assets as well as licences to such rights and assets	14,323	87	185	0	42	14,553
2. Goodwill	4,240	0	1,500	0	230	5,510
3. Prepayments made	10	0	51	0	10	51
	18,573	**87**	**1,736**	**0**	**282**	**20,114**
II. Tangible assets						
1. Land and buildings	29,839	1,487	3,605	62	80	34,913
2. Technical plant and machinery	35,904	8,138	1,731	381	551	45,603
3. Other plant, fixtures and fittings	36,962	1,722	2,642	65	2,057	39,334
4. Prepayments made and plant under construction	530	16	1,032	-508	50	1,020
5. Property held as a financial investment	8,007	0	4	0	70	7,941
	111,242	**11,363**	**9,014**	**0**	**2,808**	**128,811**
III. Financial assets						
1. Shares in affiliated companies	1	0	0	0	0	1
2. Shares in associated companies	1,119	0	246	0	0	1,365
3. Investments	3,673	0	0	0	19	3,654
4. Securities held as fixed assets	9,716	0	0	0	99	9,617
	14,509	**0**	**246**	**0**	**118**	**14,637**
	144,324	**11,450**	**10,996**	**0**	**3,208**	**163,562**

Including:	2005/2006	2004/2005
[1] unscheduled depreciation acc. to IAS 36:	303	182
[2] unscheduled depreciation acc.to IAS 36:	0	306
[3] unscheduled depreciation acc. to IAS 36:	491	486
[4] Revaluation IAS 39 (no impact on income):	509	-400

Depreciation					Residual book values	
As at 01.04.2005 EUR'000	Additions Scope of consolidation EUR'000	Additions EUR'000	Disposals EUR'000	As at 31.03.2006 EUR'000	As at 31.03.2006 EUR'000	As at 31.03.2005 EUR'000
6,285	70	1,282	41	7,596	6,957	8,038
0	0	0	0	0	5,510	4,240
0	0	0	0	0	51	10
6,285	**70**	**1,282**	**41**	**7,596**	**12,518**	**12,288**
7,395	457	1,169 [1]	80	8,941	25,972	22,444
21,809	5,423	2,380	241	29,371	16,232	14,095
27,439	1,219	2,458 [2]	1,804	29,312	10,022	9,523
0	0	0	0	0	1,020	530
3,285	0	711 [3]	17	3,979	3,962	4,722
59,928	**7,099**	**6,718**	**2,142**	**71,603**	**57,208**	**51,314**
0	0	0	0	0	1	1
0	0	0	0	0	1,365	1,119
3,627	0	0	0	3,627	27	46
6,374	0	509 [4]	41	6,842	2,775	3,342
10,001	**0**	**509**	**41**	**10,469**	**4,168**	**4,508**
76,214	**7,169**	**8,509**	**2,224**	**89,668**	**73,894**	**68,110**

(11) Securities held as fixed assets

All securities are available-for-sale and are valued at the stock exchange price on the reporting date as the attributable fair value. The book values reported in the Group statement of fixed assets correspond to the relevant fair value as at the reporting date. The historic cost of acquisition is reported in the statement of fixed assets.

The changes in fair value in accordance with IAS 39 as at 31 March 2006 are reported under equity with no impact on income.

In the reporting year, securities were sold. The change in value of EUR 12 thousand, which was previously reported under equity with no impact on income was recognised in the income statement.

(12) Receivables and other assets

Charges have been made on receivables and other assets to account for the expected level of losses. The book values determined correspond to the fair values. Other assets comprise the following:

Long-term	31.03.2006 EUR'000	31.03.2005 EUR'000
Loan receivables	1,212	718
Other	312	373
Total	**1,524**	**1,091**

Short-term	31.03.2006 EUR'000	31.03.2005 EUR'000
Loan receivables	557	1,147
Income tax refund claims	676	290
Tax prepayments	900	744
Other	1,372	493
Total	**3,505**	**2,674**

Loan receivables result mainly from the sale of minority holdings to the managing directors of the relevant subsidiaries and are secured by pledging the shares sold. The loans have a term of up to ten years and bear interest at market rates.

Trade receivables are due within 12 months and do not bear interest.

(13) Deferred tax assets and liabilities

Deferred taxes are determined and reported using an unchanged rate of 40 % on the basis of temporary differences in the values carried for assets and liabilities in the commercial balance sheet under IFRS and the tax balance sheet, as well as on realisable loss carryforwards. The reported deferred taxes result from the following balance sheet items and loss carryforwards:

Deferred taxes from loss carryforwards are capitalised to the extent that as at the reporting date it can be assumed with sufficient certainty within a planning period of five years that their tax reducing potential can be realised. Deferred tax assets of around EUR 861 thousand from tax loss carryforwards were not reported, as under § 9 No. 1 Clause 2 ff. GewStG (Trade Tax Act) (exemption option for property companies) the application of trade tax is deemed to be highly unlikely.

Deferred taxes	**31.03.2006 Assets EUR'000**	**31.03.2006 Liabilities EUR'000**	**31.03.2005 Assets EUR'000**	**31.03.2005 Liabilities EUR'000**
Intangible assets	1,407	381	1,141	441
Tangible assets	403	4,214	371	4,023
Stocks	0	157	0	0
Pension provisions	865	0	687	0
Other provisions	57	288	55	242
Liabilities	165	447	158	317
Tax loss carryforwards	15	0	714	0
Other	14	240	58	238
	2,926	5,727	3,184	5,261
Net figure[1]	-1,588	-1,588	-1,401	-1,401
Total	**1,338**	**4,139**	**1,783**	**3,860**

[1] Deferred tax assets and liabilities are netted off where the creditor and debtor are the same and the maturities match.

(14) Inventories

The write-downs carried out refer to the individual items as follows:

in EUR'000	Raw materials and supplies		Unfinished goods, unfinished services		Finished products and goods		Prepayments made		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Cost of acquisition or manufacture	10,989	10,336	10,209	9,006	23,138	15,108	409	205	44,745	34,655
Write-downs	1,251	1,029	512	505	755	680	0	0	2,518	2,214
As at 31.03.	**9,738**	**9,307**	**9,697**	**8,501**	**22,383**	**14,428**	**409**	**205**	**42,227**	**32,441**

(15) Securities

The securities held as current assets are highly liquid and are subject to insignificant risk in terms of change in value.

(16) Credit balances with financial institutions

Essentially, this item contains short term fixed deposits and current account credit balances held in Euros at different banks.

(17) Equity

The **subscribed capital** of the Group corresponds to the subscribed capital of GESCO AG and amounts to EUR 7,147 thousand, divided into 2,749,000 bearer shares which carry full voting and dividend entitlements.

The ordinary General Meeting on 9 September 2004 authorised the Executive Board with the consent of the Supervisory Board to increase the share capital of the company by a total of up to EUR 3,250,000 by issuing new shares against cash contributions and/or contributions in kind up until 8 September 2009. The shareholders shall be granted a subscription right. The new shares can be underwritten by one or more financial institutions appointed by the Executive Board with the obligation to offer them to the shareholders (indirect subscription right). The Executive Board was also authorised with the consent of the Supervisory Board to exclude the subscription right of shareholders in order to realise fractions or in certain suitable cases to acquire companies or parts of companies or investments against the transfer of shares or to issue shares for a capital increase against cash contribution at an issue price which does not fall significantly short of the stock exchange price and the number of shares issued under the authorisation does not exceed ten per cent of the shareholders' capital at the time of issue. The authorisation was entered in the commercial register in Wuppertal on 20 September 2004.

During the reporting year, with the consent of the Supervisory Board, the Executive Board made use of this authorisation by carrying out a capital increase in September 2005 and excluding shareholder subscription rights amounting to almost ten per cent of shareholders' capital through the issue of 249,000 new shares which were placed with institutional investors in Germany, Switzerland and the UK. This produced a net funds inflow to the corporate group of around EUR 6.7 million.

The ordinary General Meeting on 1 September 2005 authorised the company to acquire its own shares up to ten per cent of the current equity including the shares already held up until 28 February 2007.

The movement in **shares in circulation** and **own shares** is as follows:

	Shares in circulation	Own shares held	
	No.	No.	Share of equity in %
As at 01.04.2004	**2,491,140**	**8,860**	**0.35**
Purchases	0	0	0.00
Employee share scheme	6,700	-6,700	0.26
As at 31.03.2005	**2,497,840**	**2,160**	**0.09**
Capital increase	249,000	0	0.00
Purchases	-3,000	3,000	0.10
Employee share scheme	4,130	-4,130	0.15
As at 31.03.2006	**2,747,970**	**1,030**	**0.04**

In the past, after each General Meeting the company has carried out an employee share scheme in the second half of the calendar year, which is limited in time to around two months, during which employees are given the opportunity to buy shares in GESCO AG at a price which is discounted compared to the stock exchange price. The shares worth EUR 78 thousand (previous year EUR 64 thousand) sold under the employee share scheme were sold to employees for a total price of EUR 65 thousand (previous year EUR 70 thousand). The reduction granted to employees is recorded under other operating expenditure. The proceeds from the sale were used to repay liabilities.

There are no stock option plans.

The **capital reserves** result primarily from premiums on the issue of shares and amount to EUR 27,180 thousand (previous year EUR 21,142 thousand).

During the year under review, the **revenue reserves** were increased by the net profit for the year of EUR 9,325 thousand as well as the sale of own shares amounting to EUR 39 thousand, which was not taken to the income statement. They were reduced by the dividend of EUR 2,248 thousand for the previous year.

As at the time of preparing the consolidated financial statements, the **proposed dividend** per share stood at EUR 1.25. With 2,747,970 shares currently in circulation, this produces a proposed dividend of EUR 3,435 thousand.

(18) Minority interests

Minority interests refer to the share of capital and results in Ackermann Fahrzeugbau GmbH, AstroPlast Kunststofftechnik GmbH & Co. KG, Dörrenberg Edelstahl GmbH, Franz Funke Zerspanungstechnik GmbH & Co. KG, Paul Beier GmbH Werkzeug- und Maschinenbau & Co. KG, SVT GmbH, Haseke GmbH & Co. KG, Dörrenberg Tratamientos Térmicos. S.L. and the property leasing company.

(19) Provisions

In addition to direct commitments relating to the final salaries for senior managers and members of the Executive Board, the **provisions for pensions** are based on fixed amount pension commitments for some of the employees. Increases under some of the pension plans for senior managers are based on the benefit plans of the Essener Verband. Provisions for pensions refer exclusively to the defined benefit plans and are calculated according to the projected unit credit method under IAS 19.

The movement in the **projected benefit obligation** was as follows:

	2005/2006 EUR'000	2004/2005 EUR'000
As at 01.04.	8,349	7,915
Change in the scope of consolidation	0	0
Service costs	130	129
Interest costs	381	434
Pension annuities paid	-496	-499
Actuarial gains/losses[1]	1,488	370
As at 31.03.	9,852	8,349

[1] The figure reported for the previous year was adjusted in line with the figure for the reporting year.

The movement in the **projected benefit obligation** was as follows:

	2006 EUR'000	2005 EUR'000
Projected benefit obligation	9,852	8,349
Actuarial gains/losses not recorded[1]	-935	-39
As at 31.03.	**8,917**	**8,310**

[1] The figure reported for the previous year was adjusted in line with the figure for the reporting year.

The **provisions for pensions** are calculated as follows:

	2005/2006 EUR'000	2004/2005 EUR'000
Service costs	130	129
Interest accruing on expected benefit obligation	381	434
Actual gains/losses recorded	592	0
Total	**1,103**	**563**

The calculations are based on the basic biometric values published by Prof. Dr. Klaus Heubeck (2005 G) as well as the following **actuarial assumptions**:

	2005/2006	2004/2005
Interest rate	3.75 %	5.00 %
Increase in salaries	3.00 %	3.00 %
Increase in pension annuities	1.50 %	1.50 %
Staff turnover	1.00 %	1.00 %

The movement in and composition of **other provisions** are shown in the following table.

	As at 01.04.2005 EUR'000	Utilisation EUR'000	Addition/ New creation EUR'000	Release EUR'000	As at 31.03.2006 EUR'000
Long term					
Purchase price annuity obligation	667	-3		0	664
Purchase price obligation			1,500		1,500
Total	**667**	**-3**	**1,500**	**0**	**2,164**
Short term					
Recultivation obligation	2,480	0	48	0	2,528
Guarantees and warranties	2,094	-339	1,261	-265	2,751
Purchase price annuity obligation	67	-67	66	0	66
Legal costs	580	0	0	0	580
Costs of annual financial statements	447	-441	505	-20	491
Follow-up costs	334	-309	503	0	528
Other	624	-35	750	0	1,339
Total	**6,626**	**-1,191**	**3,133**	**-285**	**8,283**

The recultivation obligation refers to official requirements and conditions which have to be fulfilled regarding the operation of a landfill site of a subsidiary as well as the cleaning up of waste water channels. Provisions have been set up for the expenditure determined as probable by an expert survey.

The purchase price annuity obligation arose in relation to the purchase of shares in a subsidiary and has been posted in the balance sheet at the level of the projected benefit value in accordance with IAS 19.

The purchase price obligation of EUR 1,500 thousand results from the probable utilisation of a debtor warrant.

The legal costs include the best possible estimated expenditure from various claims pursued and defended by individual subsidiaries. Each individual lawsuit is of minor importance in terms of the assessment of the assets, liabilities, financial situation and earnings of the Group.

Miscellaneous provisions refer in particular to possible obligations arising from pledged credit balances with financial institutions (EUR 200 thousand) as well as non-deductible expenditure (EUR 550 thousand).

(20) Liabilities

	As at 31.03.2006 (31.03.2005) EUR'000	Residual term up to 1 year EUR'000	Residual term up to 5 years EUR'000	Residual term > 5 years EUR'000
Liabilities to financial institutions	56,422	12,511	28,228	15,683
	(52,631)	(9,707)	(24,832)	(18,092)
Trade creditors	10,334	10,334	0	0
	(7,778)	(7,778)	(0)	(0)
Prepayments received on orders	5,314	5,314	0	0
	(4,092)	(4,092)	(0)	(0)
Liabilities on bills	1,108	1,108	0	0
	(1,721)	(1,721)	(0)	(0)
Liabilities to companies with which a shareholding relationship exists	5	5	0	0
	(5)	(5)	(0)	(0)
Other liabilities	21,438	18,045	3,347	46
	(17,502)	(14,485)	(2,964)	(53)
Total	**94,621**	**47,317**	**31,575**	**15,729**
	(83,729)	**(37,788)**	**(27,796)**	**(18,145)**

The liabilities to financial institutions are mainly secured by:

	31.03.2006 EUR'000	31.03.2005 EUR'000
Land charges	24,325	20,583
of which on property held as financial investments	4,090	4,090
Book value of property	22,722	18,459
Assignment of movable fixed assets as security	7,016	7,238
Inventories	6,585	6,872
Assignment of receivables	7,085	5,560

The parent company has also pledged shares in subsidiaries with a total book value of EUR 37,505 thousand (previous year EUR 38,679 thousand).

Of the liabilities to financial institutions, around EUR 42,632 thousand (previous year EUR 40,478 thousand) refer to long term credit facilities in Swiss francs with short term fixed rates (in principle three months). As at the reporting date, the interest rates for these loans ranged from 1.6 % to 2.26 %. These rates correspond to the usual market interest rates for Swiss franc loans. Fixed redemption payments have been agreed for individual loans.

The Swiss franc loans have been granted by German financial institutions and therefore constitute hybrid financing instruments in accordance with IAS 39. Given the short term nature of the fixed rates, the book values of the loans correspond to their fair value. Any changes in value as at the reporting date are taken to the income statement.

Of the remaining obligations to financial institutions, EUR 11,703 thousand (previous year EUR 9,054 thousand) refer to long term loans with fixed redemption payments and residual maturities between 1 and 12 years (previous year between 1 and 12 years). The interest rates range from 2.86 % to 6.25 %. These interest rates represent the usual market rates for the relevant loans and companies. The other liabilities to financial institutions relate to current accounts.

Other liabilities comprise the following:

	31.03.2006 EUR'000	31.03.2005 EUR'000
Wages, salaries, social security	10,545	8,773
Other taxes	1,839	1,603
Income taxes	2,304	1,430
Outstanding incoming invoices	903	753
Finance leases	86	133
Miscellaneous liabilities	5,761	4,810
Total	**21,438**	**17,502**

Miscellaneous liabilities refer primarily to subsequent purchase price payments as well as short term liabilities to third parties. The subsequent purchase price payments amounting to a total or EUR 2,260 thousand (previous year EUR 2,260 thousand) are not due for over a year. The liabilities arising from wages, salaries and social security include obligations for age-related part time working, of which EUR 849 thousand (previous year EUR 632 thousand) are not due for over a year.

INFORMATION ON THE GROUP INCOME STATEMENT

The income statement includes the Dömer Group with figures for four months for the first time.

(21) Sales revenues

In principle, sales revenues are recorded when the benefit and liability from the assets sold are transferred. Further explanations are given in the segment report.

(22) Other company produced additions to assets

The item essentially comprises the costs of production equipment built by the Group.

(23) Other operating income

Other operating income comprises the following:	2005/2006 EUR'000	2004/2005 EUR'000
Income from writing back/utilising provisions	993	917
Price gains	706	818
Income from the disposal of fixed assets	124	85
Miscellaneous	1,405	1,448
Total	**3,228**	**3,268**

(24) Expenditure on raw materials

Expenditure on raw materials includes:	2005/2006 EUR'000	2004/2005 EUR'000
Expenditure on raw materials and supplies and goods purchased	112,437	87,048
Expenditure on services purchased	10,296	9,668
Total	**122,733**	**96,716**

(25) Personnel expenditure

Personnel expenditure includes:	2005/2006 EUR'000	2004/2005 EUR'000
Wages and salaries	51,252	47,703
Social security contributions	10,131	9,714
Expenditure on pensions and benefits	248	209
Total	**61,631**	**57,626**

The expenditure on pensions and benefits includes additions to pension provisions excluding accrued interest which is reported under interest and similar expenditure.

(26) Other operating expenditure

Other operating expenditure breaks down as follows:

	2005/2006 EUR'000	2004/2005 EUR'000
Operating expenditure	11,142	8,458
Administrative expenditure	2,623	2,390
Expenditure on distribution	9,117	7,457
Miscellaneous expenditure	5,009	4,599
of which allowances on receivables and other assets	1,102	722
Total	**27,891**	**22,904**

(27) Depreciation on tangible and intangible assets

Depreciation on tangible and intangible assets is shown in the Group statement of fixed assets. During the financial year, unscheduled depreciation was carried out on property held as financial investments as well as on buildings and fixtures and fittings (EUR 794 thousand). Further explanations are given in the notes on the corresponding balance sheet items.

(28) Taxes on income and earnings

The actual taxes on income and earnings and deferred taxes are reported as income tax. Income tax comprises the following:

	2005/2006 EUR'000	2004/2005 EUR'000
Actual taxes	6,377	4,296
Deferred taxes	723	572
Total	**7,100**	**4,868**

The anticipated expenditure on income taxes is reconciled to the tax expenditure reported in the income statement as follows:

	2005/2006 EUR'000	2004/2005 EUR'000
Group income before tax	17,113	11,850
Anticipated income tax income/expenditure	-6,845	-4,740
Permanent differences arising on expenditure which is not tax deductible	-219	-47
Income tax for different reporting periods	62	-262
Consolidation effects	83	70
Temporary differences for losses, for which no deferred taxes have been capitalised	-385	0
Differences in tax rates	134	124
Miscellaneous	70	-13
Total	**-7,100**	**-4,868**

As in the previous year, the anticipated expenditure on tax is based on a Group tax rate of 40 %. This comprises corporation tax (25.0 %) plus the solidarity surcharge (5.5 %) as well as trade tax (based on the average municipal levy rate 454 %).

(29) Earnings per share

In accordance with IAS 33 (Earnings per Share), earnings per share are derived by dividing the Group net income for the year attributable to shareholders by the weighted average number of shares in circulation:

	2005/2006	2004/2005
Group net income/loss (EUR'000)	9,325	6,228
Weighted number of shares (number)	2,632,170	2,492,815
Earnings per share in accordance with IAS 33 (EUR)	**3.54**	**2.50**

There are no circumstances which could lead to a dilution effect.

INFORMATION ON THE CASH FLOW STATEMENT

In accordance with IAS 7 (Cashflow Statement), the **cash flow statement** shows the movement in the inflows and outflows of funds in the Group during the year under review. The financial means continues to contain securities held as current assets which are highly liquid and not subject to any significant risk of change in value, as well as the item cash in hand, credit balances with the Bundesbank, credit balances with financial institutions and cheques. The financial means includes credit balances with banks totalling EUR 200 thousand (previous year EUR 200 thousand), which are pledged as security for liabilities on the part of third parties.

During the financial year, the company made and received the following payments:

	2005/2006 EUR'000	2004/2005 EUR'000
Interest paid	1,367	1,319
Interest received	478	352
Taxes paid	7,816	2,635

The cash flow statement does not include investments in intangible assets of EUR 1,500 thousand which do not yet affect the liquidity.

INFORMATION ON THE SEGMENT REPORT

The **segment report** has been drawn up in accordance with IAS 14 (Segment Reporting). Segmentation has been structured according to primary business activity.

The companies are allocated to the segments in accordance with their area of activity. The companies in the **tool manufacture and mechanical engineering segment** are mainly active in the production of tools and machinery and related services. The plastics processing companies are allocated to the **plastics technology segment** and manufacture, in particular, injection moulded plastics, foamed sheet and plastic and paper sticks.

The **GESCO AG** segment comprises the activities of GESCO AG as a holding company. Those companies that cannot be allocated to another segment are reported in the **Other/consolidation** segment along with the consolidation effects and other assets and liabilities that are not allocated to any of the other segments. This item therefore includes property held as financial investments as well as the loan debts of the other segments.

There are no material **business links** between the segments.

Segment investment refers to tangible and intangible assets.

Depreciation refers to the assets allocated to the individual segments.

The **operating assets of the segments** contain all the assets of the companies allocated to the segments with the exception of tax refund claims.

Segment liabilities comprise all liabilities and provisions of the companies allocated to the segments with the exception of income tax liabilities and loans.

Group EBIT and EBITDA can be reconciled to the Group net income for the year using the Group income statement.

Sales revenue is attributable to the **regions** as follows:

	2005/2006		2004/2005	
	EUR'000	%	EUR'000	%
Germany	172,464	73.6	140,768	73.2
Europe (excluding Germany)	38,430	16.4	32,719	17.0
Rest of the world	23,433	10.0	18,777	9.8
Total	234,327	100.0	192,264	100.0

The secondary reporting format for segment reporting comprises segmentation by region. As most of the Group assets are in Germany, the Group represents the region of Germany overall and the information in the secondary reporting format is identical to that in the Group balance sheet and income statement.

OTHER INFORMATION ON THE CONSOLIDATED FINANCIAL STATEMENTS

Research and development costs

In principle, research and development costs are treated as current expenditure. No capitalisation was necessary. The research and development costs amounted to around 2 % of sales in both financial years.

Information on financial instruments

Due to clear interest-rate advantages, the Group is largely financed in Swiss francs with a short term fixed interest rate. Due to their short term maturity or fixed interest rates, the market values of receivables, credit balances with financial institutions and currency liabilities to financial institutions reported in the balance sheet correspond to the book values. In the case of longer term claims arising from loan agreements, liabilities to financial institutions in Euro and other liabilities, the interest rates correspond to the usual market interest rates so that here too, the market values correspond to the book values.

There are only limited currency risks within the GESCO Group from the supply of goods and services. For goods supplied by the subsidiaries outside the Euro-zone, larger orders are hedged virtually in full via forward transactions.

Contingent liabilities

	2005/2006 EUR'000	2004/2005 EUR'000
Liabilities from the issue and assignment of bills	349	219
Liabilities under guarantees	266	1,252

Order obligations amounting to EUR 2,077 thousand (previous year: EUR 14 thousand) have arisen in connection with investment projects which started in the reporting year. The investments will be completed in financial year 2006/2007.

GESCO AG has undertaken to maintain certain equity ratios and balance sheet indicators with regard to two affiliated companies.

There are currently no legal disputes which would involve any anticipated impact on results other than the amounts which are being provided for as legal costs. The guarantees received are standard for the industry; in so far as a claim is expected, provisions have been set up for the most likely amount.

Rental and lease agreements

The following payment obligations exist for finance lease arrangements:

	Total EUR'000	2006/07 EUR'000	2007/08 -2008/09 EUR'000	2009/10 and later years EUR'000
Min. lease payments	89	50	39	0
Discounts	4	3	1	0
Cash values	**85**	**47**	**38**	**0**

The lease agreements contain purchase options for the acquisition of the leased items at the end of the lease period.

For other plant, fixtures and fittings, there are short term lease agreements (operating leases) in place. The lease payments due on these amounted to EUR 1,952 thousand in the reporting year (previous year EUR 1,510 thousand).

The minimum lease payments due on the operating leases are as follows:

	2005/2006 EUR'000	2004/2005 EUR'000
Up to one year	1,889	1,286
One to five years	3,865	2,020
Over five years	3,144	224
Total	**8,898**	**3,530**

The lease agreements contain purchase options for the acquisition of the leased items at the end of the lease period.

Information on relationships with affiliated companies

The business relationships between fully consolidated Group companies and companies which are not fully consolidated are concluded under third party terms and conditions. The claims on affiliated companies mainly apply to Connex SVT Inc., USA.

Employees

On average the following number of employees were employed:

	2005/2006	2004/2005
Factory staff	786	755
Office staff	421	409
Trainees	62	52
Total	**1,269**	**1,216**

Part time positions were aggregated to full time positions.

Exemption requirements for Group companies

By being consolidated in the Group financial statements of GESCO AG, under the further requirements of § 264b HGB, the companies AstroPlast Kunststofftechnik GmbH & Co. KG, Franz Funke Zerspanungstechnik GmbH & Co. KG, Haseke GmbH & Co. KG, MAE Maschinen- und Apparatebau Götzen GmbH & Co. KG and Paul Beier GmbH Werkzeug- und Maschinenbau & Co. KG, Q-Plast GmbH & Co. Kunststoffverarbeitung, Setter GmbH & Co. Papierverarbeitung and Press- und Stanzwerk Dömer GmbH & Co. KG are exempt from the obligation of compiling, having audited and publishing annual financial statements and a Directors' Report in accordance with the regulations applying to joint stock companies.

Under the further requirements of § 264 Para. 3 HGB, Dörrenberg Edelstahl GmbH and Hubl GmbH are exempt from the obligation of compiling, having audited and publishing annual financial statements and a Directors' Report in accordance with § 264ff. HGB.

Corporate Governance

In principle, the Executive Board and Supervisory Board of GESCO AG observe the German Corporate Governance Code and have made their declaration of compliance available to shareholders.

In total, the Executive Board holds 0.4 % of the shares in the company. The members of the Supervisory Board hold a total of 0.9 % of the shares in the company.

Auditors

The fee reported as expenditure in the financial year under review amounted to EUR 93 thousand for auditing the annual and consolidated financial statements of GESCO AG and EUR 14 thousand for other services. In addition, the fee for auditing the financial statements of the subsidiaries included in the accounts amounted to EUR 185 thousand, with EUR 13 thousand for tax consultancy services and EUR 15 thousand for other services.

EXECUTIVE BODIES

Executive Board

- Robert Spartmann, Gevelsberg
  Member of the Executive Board

- Dr.-Ing. Hans-Gert Mayrose, Mettmann,
  Member of the Executive Board

In the financial year, the total remuneration of the Executive Board amounted to EUR 669 thousand (previous year EUR 597 thousand). Of the total emoluments, EUR 353 thousand (previous year EUR 351 thousand) relates to fixed elements and EUR 316 thousand (previous year EUR 246 thousand) to variable elements.

Emoluments for a former member of the Executive Board amounted to EUR 51 thousand (previous year EUR 51 thousand) during the financial year.

As at 31 March 2006, pension provisions for the current members of the Executive Board and a former member of the Executive Board amounted to EUR 1,095 thousand (previous year EUR 840 thousand).

Supervisory Board

- Klaus Möllerfriedrich, Wuppertal
  Chairman, Chartered Accountant

  Member of the Supervisory Board:
  - Asys Holdings AG, Oberhausen
  - Hoff Industries AG, München

- Rolf-Peter Rosenthal, Wuppertal
  Deputy Chairman
  Bank Director (ret'd)

  Chairman of the Supervisory Board:
  - Frowein & Co Beteiligungs AG, Wuppertal (since 07.06.2005)

  Deputy Chairman of the Supervisory Board:
  - Rheinische Textilfabriken AG, Wuppertal

- Willi Back, Neckargemünd
  Chairman of the Executive Board (ret'd) of GESCO AG, Wuppertal

  Chairman of the Supervisory Board:
  - Frowein & Co Beteiligungs AG, Wuppertal (seit 07.06.2005)

  Member of the Advisory Board:
  - K. A. Schmersal Holding KG, Wuppertal
  - Metall-Chemie Holding GmbH, Hamburg

In the financial year, the total remuneration for the members of the Supervisory Board amounted to EUR 137 thousand (previous year EUR 106 thousand). Of this figure, EUR 97 thousand (previous year EUR 64 thousand) relates to variable elements.

GESCO AG has taken out a Directors' and Officers' Liability Insurance (D&O) as a group policy for members of the Group's management. The insured persons are the members of the Executive Board and the Supervisory Board of GESCO AG and the Managing Directors of the subsidiaries. Insurance premiums of EUR 41 thousand (previous year EUR 46 thousand) have been paid in financial year 2005/2006.

Wuppertal, 23 May 2006

The Executive Board

R. Spartmann Dr.-Ing. H.-G. Mayrose

SIGNIFICANT GROUP SHAREHOLDINGS

Fully consolidated companies	share of capital held[1] in %
Ackermann Fahrzeugbau GmbH, Wolfhagen	80
Alro GmbH, Wuppertal	100
AstroPlast Kunststofftechnik GmbH & Co. KG, Sundern	80
AstroPlast Verwaltungs GmbH, Sundern [2]	100
Degedenar Grundstückverwaltungsgesellschaft mbH & Co. Immobilien-Vermietungs KG, Eschborn [3]	100
Press- und Stanzwerk Dömer GmbH & Co. KG, Lennestadt	100
Dömer GmbH, Lennestadt [2]	100
Josef Dömer Werkzeugbau GmbH, Lennestadt	100
Dörrenberg Edelstahl GmbH, Engelskirchen-Ründeroth	90
Dörrenberg Tratamientos Térmicos SL, Alasua, Navarra, Spanien	60
Franz Funke Zerspanungstechnik GmbH & Co. KG, Sundern	80
Franz Funke Verwaltungs GmbH, Sundern [2]	100
Haseke GmbH & Co. KG, Porta Westfalica	80
Haseke Beteiligungs-GmbH, Porta Westfalica [2]	100
Hubl GmbH, Vaihingen/Enz	100
MAE Maschinen- und Apparatebau Götzen GmbH & Co. KG, Erkrath	100
Maschinen- und Apparatebau Götzen GmbH, Erkrath [2]	100
Molineus & Co. GmbH + Co. KG, Wuppertal	100
Grafic Beteiligungs-GmbH, Wuppertal [2]	100
Paul Beier GmbH Werkzeug- und Maschinenbau & Co. KG, Kassel	80
WM Werkzeug- und Maschinenbau Verwaltungs-GmbH, Kassel [2]	100
Q-Plast GmbH & Co. Kunststoffverarbeitung, Emmerich	100
Q-Plast Beteiligungs-GmbH, Emmerich [2]	100
Setter GmbH & Co. Papierverarbeitung, Emmerich	100
Setter GmbH, Emmerich [2]	100
SVT GmbH, Schwelm	90
Tomfohrde GmbH & Co. Industrieverwaltungen, Wuppertal	100
Tomfohrde GmbH, Wuppertal [2]	100
Companies valued at equity	
Gewerbepark Wilthener Straße GmbH, Bautzen	40
Significant companies valued at cost of acquisition	
GIS Gewerbe- + Immobilien-Service GmbH, Bautzen	40
Connex SVT Inc., Houston, USA	100

[1] Shares in the capital held directly or via a majority holding
[2] General partner
[3] Special Purpose Entity pursuant to SIC 12

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by GESCO AG comprising the balance sheet, profit and loss account, statement of changes in shareholders' capital, cash flow account and the notes to the consolidated financial statements, together with the Group management report for the financial year from 1 April 2005 to 31 March 2006. The preparation of the consolidated financial statements and the Group management report in accordance with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a para. 1 HGB are the responsibility of the legal representatives of the company. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statement in accordance with § 317 HGB (German Commercial Code) and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (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 consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group 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 consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in the consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit prepares a reasonable basis for our opinion.

With the exception of the following qualification, our audit has not led to any reservations: contrary to IFRS 3.66-73 and IAS 7.40, the Notes do not include any details on company acquisitions (particularly information on purchase prices and the results of the companies acquired).

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a para. 1 HGB and give a true and fair view of the net assets, financial position and results of the operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable presentation of the Group's position and the opportunities and risks of future development.

Wuppertal, 24 May 2006

Dr. Breidenbach, Dr. Güldenagel und Partner KG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

(Straube)	(Eisenberg)
Auditor	Auditor

REPORT OF THE SUPERVISORY BOARD

In this report the Supervisory Board provides an account of its activities in financial year 2005/2006. The focus of the report is on the continuous dialogue with the Executive Board as well as the audit of the annual and consolidated financial statements.

ACTIVITIES OF THE SUPERVISORY BOARD

During the reporting year, the Supervisory Board fulfilled the duties incumbent upon it under law and in accordance with the articles of association. This includes the regular exchange of information with the Executive Board and the supervision of the management of the company. The Supervisory Board was directly involved in all decisions of fundamental importance to the company. The Executive Board informed Supervisory Board promptly and comprehensively, both in writing and verbally, about all relevant issues of corporate planning and strategic further development, the course of business as well as the position of the Group and of the individual affiliated companies on a regular basis. The annual budgets of the affiliated companies were submitted to the Supervisory Board and discussed with the Executive Board. Deviations in the course of business from the respective budgets and targets were explained in detail to the Supervisory Board. The members of the Supervisory Board, especially the Chairman, were also in regular contact with the Executive Board outside of the Supervisory Board meetings and have kept themselves informed of the current business position and material business events. Where reports and proposed resolutions require the consent of the Supervisory Board by law or in accordance with the provisions of the articles of association, the Supervisory Board examined these and gave its recommendation.

SUPERVISORY BOARD –
ROLF-PETER ROSENTHAL (DEPUTY CHAIRMAN),
KLAUS MÖLLERFRIEDRICH (CHAIRMAN),
WILLI BACK (L. TO R.)

The Supervisory Board discussed proposed acquisitions in detail with the Executive Board. Ahead of a company acquisition, the target company is assessed on site by at least one member of the Supervisory Board.

With three members, GESCO AG's Supervisory Board has deliberately remained small to enable efficient work and intensive discussions on strategies and details. It is therefore the opinion of the Supervisory Board that forming Supervisory Board committees would serve no purpose. Accordingly, no committees were formed in financial year 2005/2006.

A total of eight Supervisory Board meetings were held in financial year 2005/2006, of which one was a constitutive meeting after the General Meeting. All members of the Supervisory Board attended all the meetings. In between meetings, the Supervisory Board was informed in detail about all projects and proposals of particular importance to the company through written reports.

An extensive debate was held between the Executive Board and the Supervisory Board ahead of the capital increase carried out in September 2005. The Supervisory Board endorsed the opinion of the Executive Board that in the given situation, a capital increase of a maximum of 10 % of the share capital excluding the subscription rights of shareholders was preferable to one with shareholder subscription rights. The reasons for this were the speed, greater efficiency and lower costs associated with a capital increase excluding shareholder subscription rights as well as the opportunity to gain new institutional investors for GESCO shares.

DECLARATION OF COMPLIANCE HIGHLIGHTS GOOD CORPORATE GOVERNANCE

The Supervisory Board has continuously monitored the further development of the Corporate Governance standard. The Executive Board also reports on corporate governance at GESCO AG for the Supervisory Board in accordance with point 3.10 of the German Corporate Governance Code. In December 2005, the Executive Board and Supervisory Board issued an updated declaration of compliance in accordance with § 161 AktG (German Stock Corporation Act) and have made this permanently available to shareholders on the company's website. Under the new version of the Code dated 2 June 2005, GESCO AG continues to comply with the recommendations of the Government Commission German Corporate Governance Code, with the exception of the deviations indicated in the declaration of compliance.

AUDIT OF ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

In accordance with legal regulations, Dr Breidenbach, Dr Güldenagel und Partner KG, auditors and tax consultants, Wuppertal, the auditors appointed by the General Meeting on 1 September 2005, were commissioned by the Supervisory Board to audit the annual financial statements and consolidated financial statements. The auditors declared their impartiality in a statement dated 19 May 2005 and provided us with evidence, through a peer review set by the Chamber of Auditors, that they are qualified to audit listed companies.

The auditors audited the annual financial statements for the financial year from 1 April 2005 to 31 March 2006 and the Directors' Report drawn up by the Executive Board. Due to the omission of information about the results of affiliated companies, the auditors issued a qualified auditors' report. The consolidated financial statements and Group management report of the GESCO Group were prepared by the Executive Board and audited by the auditors in accordance with the International Financial Reporting Standards (IFRS) taking account of § 315a HGB (German Commercial Code). The auditors also gave the consolidated financial statements a qualified auditors' report due to the omission of information on company acquisitions, particularly details of purchase prices and the results of the companies acquired. After considering the advantages and disadvantages, the Supervisory Board expressly supports the opinion of the Executive Board that it is appropriate in the interests of the competitive position of the GESCO Group to accept this qualification of the auditors' report.

The focus of the auditors' examination this year was the valuation of affiliated companies, additions to and disposals from financial assets, the receipt of profit shares, the recoverable amount on loan receivables and income tax calculations. The report relating to this and other audit reports were submitted to all members of the Supervisory Board in good time before the accounts meeting. They were discussed in detail at the meeting of the Supervisory Board on 23 May 2006, which was attended by the auditors. At the meeting, they reported on the material findings of the audit, answered questions from the Supervisory Board and provided additional information. All of the Supervisory Board's questions were fully answered by the auditors. In light of the conclusive examination, the Supervisory Board has no objections to the annual financial statements, the consolidated financial statements, the management report or the Group management report. In the meeting of 30 May 2006, the Supervisory Board therefore agreed the findings of the auditors' report and approved the annual financial statements and the consolidated financial statements. The annual financial statements of GESCO AG are therefore adopted. The Supervisory Board supports the Executive Board's proposals for the allocation of profits.

REMUNERATION OF THE EXECUTIVE BOARD MEMBERS

As in previous years, the remuneration of the Executive Board members was established at Supervisory Board meetings. Where necessary, changes and addenda were resolved in accordance with Corporate Governance regulations. Any bonuses in addition to the fixed remuneration were established in accordance with contractual provisions and the business performance of the company. A new regulation stipulates that from financial year 2006/2007, the variable component will be aligned with the Group results rather than the parent company results as before. This switch takes account of the fact that the Group results are material to assessing the earnings position of the group.

COMPOSITION OF THE SUPERVISORY BOARD

The Supervisory Board was newly elected by rotation at the last General Meeting of the company. The previous members of the Supervisory Board standing for re-election, Rolf-Peter Rosenthal, Willi Back and Klaus Möllerfriedrich, were re-elected. At the constitutive Supervisory Board meeting after the General Meeting, Mr Möllerfriedrich was elected Chairman and Mr Rosenthal Deputy Chairman.

The Supervisory Board would like to thank the Management Board, the Managing Directors of the affiliated companies and all the staff of the GESCO Group for their commitment in the past financial year as well as for the particularly good results achieved.

The Supervisory Board

Wuppertal, 30 May 2006

Klaus Möllerfriedrich
Supervisory Board Chairman

FINANCIAL CALENDAR

29 June 2006
Annual Accounts Press Conference and Analysts' Meeting

August 2006
Announcement of figures for the first quarter (01.04.-30.06.2006)

24 August 2006
Annual General Meeting in the Stadthalle, Wuppertal

November 2006
Announcement f figures for the first half year (01.04.-30.09.2006) and despatch of the interim report

February 2007
Announcement of figures for the first nine months (01.04.-31.12.2006)

28 June 2007
Annual Accounts Press Conference and Analysts' Meeting

August 2007
Announcement of figures for the first quarter (01.04.-30.06.2007)

23 August 2007
Annual General Meeting

November 2007
Announcement of figures for the first half year (01.04.-30.09.2007) and despatch of the interim report

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