Annual Accounts and Management Report

as at 31 March 2019

Auditor’s Report

GESCO AG

Wuppertal

GESCO AG, Wuppertal

Balance sheet as at 31 March 2019

A S S E T S

	Note	31.03.2019 €	Previous year €'000
A. NON-CURRENT ASSETS			
I. Intangible assets			
IT software		38,737.50	8
II. Tangible assets			
Other plant, fixtures and fittings		265,191.12	443
III. Financial investments			
1. Shares in affiliated companies	(1)	133,181,980.46	117,703
2. Investments		5,000	5
		133,186,980.46	117,708
		133,490,909.08	118,159
B. CURRENT ASSETS			
I. Receivables and other assets			
1. Amounts owed by affiliated companies	(2)	69,635,666.63	52,619
of which with a residual term of more than one year: € 34.419.933,02 (€ 30.443 thousand)			
2. Other assets	(3)	13,239,786.37	9,465
of which with a residual term of more than one year: € 850.698,98 (€1.154 thousand)			
		82,875,453.00	62,084
II. Cash, credit with financial institutions		8,330,073.49	19,189
		91,205,526.49	81,273
C. ACCOUNTS RECEIVABLE AND PAYABLE		171,370.64	165
		224,867,806.21	199,597

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

	Note	31.03.2019 €	Previous year €'000
A. EQUITY			
I. Issued capital			
1. Subscribed capital	(4)	10,839,499.00	10,839
2. Acquired own shares	(5)	0,00	-4
		10,839,499.00	10,835
II. Capital reserves	(6)	73,487,785.42	73,488
III. Revenue reserves	(6)		
1. Statutory reserves		58,717.27	59
2. Other revenue reserves		85,670,646.77	62,180
		85,729,364.04	62,239
IV. Retained profit		17,716,674.89	12,185
		187,773,323.35	158,747
B. PROVISIONS			
1. Provisions for pensions and similar obligations	(7)	2,231,716.00	2,051
2. Provisions for taxes		27,015.45	80
3. Other provisions	(8)	3,514,107.00	4,056
		5,772,838.45	6,187
C. LIABILITIES	(9)		
1. Liabilities to financial institutions		29,770,465.81	33,951
2. Trade creditors		166,405.17	170
3. Liabilities to affiliated companies		183,654.13	184
4. Other liabilities		583,624.30	121
of which from taxes: € 64,644.98 (€ 75 thousand)			
of which related to social security: € 5,957.31 (€ 10 thousand)			
		30,704,149.41	34,426
D. DEFERRED TAX LIABILITIES	(10)	617,495.00	237
		224,867,806.21	199,597

GESCO AG

Income statement
for the period from 1 April 2018 to 31 March 2019

	Note	2018/2019 €	Previous year €'000
1. Sales reveneus		518,903.71	312
2. Other operating income	(11)	544,768.75	2,348
3. Personnel expenditure			
a) Wages and salaries		-3,804,555.38	-3,446
b) Social security contributions and expenditure on pensions and benefits		-488,051.08	-268
of which for pensions and benefits: € 272,142.27 (€ 43 thousand)			
		-4,292,606.46	-3,714
4. Depreciation and amortisation			
a) on tangible and intangible assets		-175,139.65	-179
5. Other operating expenses	(12)	-4,319,300.92	-4,720
		-7,723,374.57	-5,953
6. Earnings from investments		45,236,841.25	27,836
of which from affiliated companies: € 45,236,841.25 (€ 27,836 thousand)			
7. Earnings from profit and loss transfer agreements		3,372,516.01	2,685
8. Other interest and similar income	(13)	622,371.13	724
of which to affiliated companies: € 586,002.22 (€ 405 thousand)			
9. Depreciation on financial assets and on securities help as current assets	(14)	-4,000,000.00	0
10. Interest and similar expenditure		-489,087.14	-593
of which to affiliated companies: € 679.98(€ 1 thousand)			
of which expenditure from interest: € 90,794.00 (€ 99 thousand)			
11. Taxes on income and earnings		-1,582,762.91	-322
12. Earnings afer taxes		35,436,503.77	24,377
13. Other taxes		-3,154.00	-7
14. Net income		35,433,349.77	24,370
15. Transfer to revenue reserves		-17,716,674.88	-12,185
16. Retained profit		17,716,674.89	12,185

GESCO AG

Annual financial statements as at 31 March 2019

Notes

1. General information

GESCO AG has its headquarters in Wuppertal, Germany. It is registered in the Commercial Register of the District Court of Wuppertal, Germany, under HRB 7847.

2. Accounting and valuation methods

The annual financial statements as at 31 March 2019 were prepared in accordance with the regulations regarding the balance sheet structure of large corporations under German commercial law and take into account the legal principles of accounting and measurement.

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

Assets are recognised at cost. Straight-line depreciation during the expected useful life is applied to movable items of property, plant and equipment. Low-value assets costing less than € 800 are written off in full in the year of acquisition; their immediate disposal is assumed in the asset history sheet.

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

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

In accordance with actuarial principles, provisions for pensions and similar obligations, and the purchase price annuity obligation are stated at the value of the actual liability. They are measured using the “projected unit credit method” (PUC method). The calculations are based on the 2018 G tables of Prof. Dr K. Heubeck. The interest rate was recognised on the basis of an assumed remaining term of 15 years, and Section 253 para. 2 sentences 1 and 2 of the German Commercial Code (HGB) was applied.

Non-cash expenditure under the company's stock option programme is determined using a common binomial model, recorded in earnings on a pro rata basis and recognised in other provisions.

Other provisions account for all discernible risks at the actual value of the expected liability at the time of the preparation of the annual financial statements.

Liabilities are recognised at their actual settlement values.

3. Information on the balance sheet

Information on the structure and development of assets is attached to these notes.

Shares in affiliated companies (1)
The shareholder structure has been attached to these notes in accordance with Section 285 sentence 1 no. 11 of the German Commercial Code (HGB).

Amounts owed by affiliated companies (2)
Some of the items included here are unpaid pro-rata profit distributions, loans and receivables from the tax consolidation of affiliated companies for trade and corporation tax purposes.

Other assets (3)
Other assets primarily pertain to deductible taxes and tax prepayments as well as issued loans.

Subscribed capital (4)
The company's subscribed capital amounts to € 10,839,499, divided into 10,839,499 no-par value registered shares with a mathematical share in equity of € 1.00 each.

The Annual General Meeting on 31 August 2017 authorised the company to increase the company's share capital on one or several occasions by a total of € 1,083,949.00 until 30 August 2020 with the consent of the Supervisory Board by issuing up to 1,083,949 new no-par value registered shares in exchange for cash or contributions in kind. Subscription rights may be excluded in certain cases. No use of this authorisation was made during the reporting period.

The Annual General Meeting on 18 August 2015 authorised the company to acquire up to ten out of every hundred shares of the share capital until 17 August 2020 under consideration of own shares already held. No use of this authorisation was made during the reporting period.

Own shares (5)

As part of a share acquisition pursuant to Section 71 para. 1 No. 2 AktG, the company acquired 29,589 shares in the reporting period and sold 33,161 of them at a nominal value totalling € 33 thousand (0.31 % of share capital) and a sale price of € 730 thousand to employees of GESCO Group as part of an employee share scheme. The proceeds from the sale were used to pay off liabilities.

Capital reserves/revenue reserves (6)

In addition to the amounts resulting from own shares, the Executive Board added € 17,716,674.88 to revenue reserves from net earnings for the year 2018/2019 in accordance with Section 58 para. 2 of the German Stock Corporation Act (AktG). Moreover, the Annual General Meeting of 30 August 2018 resolved to transfer € 5,683,200.99 from net income for 2017/2018 to revenue reserves.

Reserves developed as follows:

	Capital reserves € '000	Statutory reserves k€ '000	Other retained profits € '000
As at 31 March 2018	73,488	59	62,180
Acquisition/sale of own shares	0	0	91
Addition	0	0	23,400
As at 3 \March 2019	73,488	59	85,671

Provisions for pensions and similar obligations (7)

€'000	2018/2019	2017/2018
As at 1 April	2,051	2,040
interest expense	74	79
change	107	-68
As at 31 March	**2,232**	**2,051**

%	2018/2019	2017/2018
interest rate	3.21	3.68
salary growth	2.75	2.75
Indexation	1.60	1.40

The difference pursuant to Section 253 para. 6 HGB is € 288 thousand (previous year: € 267 thousand).
The provisions relate to pension obligations to three former Executive Board members.

Other provisions (8)

Other provisions primarily include obligations to employees and executive bodies (including the stock option programme), a purchase price annuity obligation, outstanding invoices and any non-deductible advance tax payments and interest on tax arrears. The purchase price annuity obligation was calculated in accordance with actuarial principles on the basis of a 2.32 % interest rate (previous year: 2.80 %).

GESCO AG offers the Executive Board and a small circle of management employees at GESCO AG the opportunity to participate in a stock option programme as a remuneration component with long-term incentives. A new tranche was initiated in September 2018. As part of the programme, a total of 85,100 options were issued to entitled participants. Non-cash expenditure under this programme is determined using a common binomial model, recorded in earnings on a pro rata basis and recognised in other provisions. The model assumes volatility of 23.94 % (previous year: 20.25 %) and a risk-free interest rate of -0.06 % (previous year: -0.17 %); the exercise price of the options issued in September 2018 is € 29.45. The vesting period is four years and two months after the date of the Annual General Meeting. The fair value per option on the issue date is € 1.84. These annual financial statements are the first to include the expenditure resulting from the stock option programme initiated in the reporting year for a seven-month period (€ 22 thousand). Taking into account the change in value, total expenditure for the eighth to twelfth tranche amounted to € 78 thousand in the reporting year;

in the previous year, total expenditure was € 529 thousand. Provisions as at the reporting date came to € 411 thousand.

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

Liabilities (9)

€'000	31.03.2019 (31.03.2018)	Residual term up to 1 year	Residual term up to 5 years	Residual term > 5 years
Liabilities to financial institutions	29,770 (33,951)	8,930 (4,180)	14,780 (21,201)	6,060 (8,570)
Trade liabilities	166 (170)	166 (170)	0 (0)	0 (0)
Liabilities to affiliated companies	184 (184)	184 (184)	0 (0)	0 (0)
Other liabilities	584 (121)	584 (121)	0 (0)	0 (0)
	30,704 (34,426)	**9,864 (4,655)**	**14,780 (21,201)**	**6,060 (8,570)**

The company pledged investments to secure liabilities to financial institutions.

Deferred tax liabilities (10)

Deferred taxes arising from different valuations under commercial and tax law were calculated for financial assets, pension provisions and other provisions. Differences in the valuation of financial assets resulted in deferred tax assets and deferred tax liabilities. The differences relating to provisions for pensions and other provisions also result in deferred tax assets, as do trade tax and corporation tax loss carryforwards.

Deferred taxes are calculated on the basis of a current tax rate of approximately 31 %. This tax rate covers corporation tax and the solidarity surcharge as well as trade tax.

The calculation of deferred taxes from different valuation approaches for partnerships was based solely on the tax rate for corporation tax and the solidarity surcharge (approximately 16 %).

In financial year 2017/2018, the calculation of deferred taxes resulted in tax obligation. In the current financial year, the calculation of deferred taxes led once again to a tax obligation of € 617 thousand as reported in the balance sheet under deferred tax liabilities.

€'	**31.03.2018**	**Chance**	**31.03.2019**
deferred tax assets	5,062	-127	4,935
deferred tax liabilities	-5,299	-253	-5,552
	-237	**-380**	**-617**

Contingent liabilities and other financial obligations

GESCO AG has reached an agreement with a former Executive Board member whereby GESCO AG will exempt said former Executive Board member from liability claims of up to € 20 million arising from certain breaches of duty, plus any legal fees, or those arising in connection with his activities as managing director of a former subsidiary. This exemption from liability is subordinate to the insurance coverage on the grounds of D&O insurance. As at the balance sheet date, it was not expected that this insurance will be utilised given the lack of discernible breaches of duty or claims made by the company or third parties.

GESCO AG is obliged to observe covenants as part of financing agreements from an affiliated company. The company complied with these covenants as at the balance sheet date; therefore, no claims are expected at the current time.

In order to secure the loan granted from a bank to a managing director to acquire shares in the company they manage, GESCO AG pledged fixed deposits in the same amount (€ 1,345 thousand) to the lending bank. The fixed deposits will be released in parallel with the respective loan repayments. In the case of utilisation, GESCO AG is entitled to use the shares that have been sold and pledged to GESCO. As at the balance sheet date and according to our current assessment, no utilisation is expected at the current time due to the planned settlement of the loan.

The purchase price of a company acquisition may have to be adjusted until 31 December 2021. No claims are expected at the present time.

4. Information on the income statement

Other operating income (11)

Other operating income includes income from the reversal of provisions (€ 377 thousand; previous year: € 1,562 thousand), of which € 282 thousand (previous year: € 995 thousand) is attributable to all obligations to repay already reimbursed advanced tax payments and associated interest on arrears (€ 12 thousand; previous year: € 188 thousand), which are no longer anticipated due to the results of the previous external tax audit. Of this income, € 397 thousand is attributable to other periods.

Other operating expenditure (12)

Among other things, other operating expenditure concerns legal and consulting costs, expenses for investor relations, insurance and the employee share scheme; in the previous year, it also concerned increases in value relating to the stock option programme.

Other interest and similar income (13)

In the previous year, this item included interest attributable to other periods in the amount of € 270 thousand.

Write-downs on financial assets (14)

The write-downs concern the impairment of shares in an affiliated company at fair value.

5. Other information

Corporate governance

The Executive Board and Supervisory Board of GESCO AG comply with the German Corporate Governance Code and have made the current as well as previous declarations of compliance available to shareholders and interested parties on the website of GESCO AG. Members of the Executive Board hold a total of 0.02 % of company shares. Members of the Supervisory Board hold a total of 13.73 % of company shares.

Disclosures pursuant to the German Securities Trading Act (WpHG)

Stefan Heimöller, Germany, informed us on 11 January 2011 that his voting rights in GESCO AG exceeded the 10 % threshold on 10 January 2011 and amounted to 10.01 % on 10 January 2011 (302,648). These voting rights refer to the number of shares prior to the share split at a ratio of 1:3 in December 2016.

Investmentaktiengesellschaft für langfristige Investoren TGV, Bonn, informed us on 14 December 2015, and issued a correction on 15 December 2015, pursuant to Section 21 para. 1 of the German Securities Trading Act (WpHG; previous version) that its share of the voting rights in GESCO AG had exceeded the 10 % threshold on 9 December 2015 and amounted to 10.51 % (corresponding to 349,537 voting rights) on that day. These voting rights refer to the number of shares prior to the share split at a ratio of 1:3 in December 2016.

Norman Rentrop, Germany, informed us on 14 December 2015, and issued a correction on 15 December 2015, pursuant to Section 21 para. 1 of the German Securities Trading Act (WpHG, previous version) that his share of the voting rights in GESCO AG had exceeded the 10 % threshold on 9 December 2015 and amounted to 10.51 % (corresponding to 349,537 voting rights) on that day. Of that, 10.51 % (corresponding to 349,537 voting rights) of the voting rights under Section 22 of the German Securities Trade Act (WpHG, previous version) are allocated to him. These voting rights refer to the number of shares prior to the share split at a ratio of 1:3 in December 2016.

Employees

The company employed an average of 17 people (pursuant to Section 267 para. 5 of the German Commercial Code (HGB)) during the financial year (previous year: 18).

Auditor

The fee in the financial year for auditing services amounted to € 175 thousand, € 129 thousand for other audit services (mainly due diligence reviews) and € 20 thousand for tax consulting. Other audit services include a fee charged by an affiliated company of the auditor of € 19 thousand.

Executive bodies of the company

Executive Board

Dr Eric Bernhard, Langenfeld (until 15 June 2018)
Chairman of the Executive Board

Ralph Rumberg, Witten (since 1 July 2018)
Spokesman of the Executive Board

Robert Spartmann, Gevelsberg (until 30 November 2018)
Member of the Executive Board

On 31 January 2019, the company issued notification that Kerstin Müller-Kirchhofs would be appointed to the Executive Board with effect from 1 May 2019.

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

Outgoing Executive Board member Robert Spartmann is entitled to a pension in the amount of 16 % of the calculation base (last fixed annual salary) on the basis of his pension commitment. As at 31 March 2019, a provision for pensions in the amount of € 712 thousand (previous year: € 723 thousand) existed for this amount.

As at 31 March 2019, further provisions for pensions in the amount of € 1,520 thousand (previous year: € 1,328 thousand) existed for former Executive Board members. A former member of the Executive Board was granted payments of € 71 thousand (previous year: € 62 thousand) on the basis of his pension commitment in the financial year.

Supervisory Board

Klaus Möllerfriedrich, Düsseldorf
Chairman,
Auditor

Deputy Chairman of the Supervisory Board:
- TopAgers AG, Langenfeld
- HINKEL & CIE. Vermögensverwaltung AG, Düsseldorf (since 27 March 2019)

Member of the Supervisory Board:
- Dr. Ing. Thomas Schmidt AG, Cologne (until 17 September 2018)
- HINKEL & CIE. Vermögensverwaltung AG, Düsseldorf (until 26 March 2019)

Stefan Heimöller, Neuenrade
Deputy Chairman,
Managing Director of Platestahl Umformtechnik GmbH, Lüdenscheid, and of Helios GmbH, Neuenrade

Jens Große-Allermann, Cologne
Member of the Executive Board of Investmentaktiengesellschaft für langfristige Investoren TGV, Bonn, and the Executive Board of Fiducia Treuhand AG, Bonn

Deputy Chairman of the Supervisory Board:
- KROMI Logistik AG, Hamburg

Member of the Supervisory Board:
- Washtec AG, Augsburg
- Sparta AG, Hamburg
- FPM Deutsche Investmentgesellschaft mit Teilgesellschaftsvermögen i. L., Frankfurt am Main (until 4 February 2019)

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

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

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

€'000	**31.03.2019 (31.03.2018)**	**fixed remuneration**	**variable remuneration**	**total**
Klaus Möllerfriedrich		20 (22)	94 (57)	114 (79)
Stefan Heimöller		17 (19)	94 (57)	111 (76)
Jens Große-Allermann		15 (9)	94 (28)	109 (37)
Dr Nanna Rapp		14 (16)	94 (57)	108 (73)
		66 (66)	**376 (199)**	**442 (265)**

Proposed appropriation of retained profit

Retained profit consists of the following:

€	2018/2019	2017/2018
Net income for the period	35,433,349.77	24,369,514.37
Transfer to other revenue reserves	17,716,674.88	12,184,757.18
Retained profit	**17,716,674.89**	**12,184,757.19**

At the time of the proposal for the appropriation of retained profit, the company held no own shares.

For financial year 2018/2019, the Executive Board is proposing the following appropriation of retained profit for the year to the Annual General Meeting:

Payment of a dividend in the amount of € 0.90 per share on the current share capital entitled to dividends (10,839,499 shares) € 9,755,549.10	
Transfer to other revenue reserves	€ 7,961,125.79
	€ 17,716,674.89

Wuppertal, 14 May 2019

The Executive Board

Ralph Rumberg
(Spokesman)

Kerstin Müller-Kirchhofs

		Cost of acquisition or manufacture				Depreciation				Book values	
		01.04.2018	Additions	Disposals	31.03.2019	01.04.2018	Additions	Disposals	31.03.2019	31.03.2019	31.03.2018
		€	€	€	€	€	€	€	€	€	€
	NON-CURRENT ASSETS										
I.	**Intangible assets**										
	IT software	230,215.60	44,905.76	0.00	275,121.36	222,587.10	13,796.76	0.00	236,383.86	38,737.50	7,628.50
		230,215.60	44,905.76	0.00	275,121.36	222,587.10	13,796.76	0.00	236,383.86	38,737.50	7,628.50
II.	**Tangible assets**										
	Other plant, fixtures and fittings	1,107,541.35	55,230.39	177,833.40	984,938.34	664,311.23	161,342.89	105,906.90	719,747.22	265,191.12	443,230.12
		1,107,541.35	55,230.39	177,833.40	984,938.34	664,311.23	161,342.89	105,906.90	719,747.22	265,191.12	443,230.12
III.	**Financial investments**										
	1. Shares in affiliated companies	124,585,821.87	19,478,505.14	0.00	144,064,327.01	6,882,346.55	4,000,000.00	0.00	10,882,346.55	133,181,980.46	117,703,475.32
	2. Investments	5,000.00	0.00	0.00	5,000.00	0.00	0.00	0.00	0.00	5,000.00	5,000.00
		124,590,821.87	19,478,505.14	0.00	144,069,327.01	6,882,346.55	4,000,000.00	0.00	10,882,346.55	133,186,960.46	117,708,475.32
		125,928,578.82	19,578,641.29	177,833.40	145,329,386.71	7,769,244.88	4,175,139.65	105,906.90	11,838,477.63	133,490,909.08	118,159,333.94

GESCO AG holdings as at 31.03.2019

No.	Company	Location	Share in capital in %	Equity 2018 EUR'000	Year's result 2018 EUR'000	Assignment of shares to no.
1	GESCO AG (parent company)	Wuppertal				
	a) fully consolidated companies					
2	Alro GmbH	Wuppertal	100	309	-1	1
3	AstroPlast Kunststofftechnik GmbH & Co. KG	Meschede	100	1,439	198	1
4	AstroPlast Verwaltungs GmbH	Meschede	100	88	3	1
5	C.F.K. CNC-Fertigungstechnik Kriftel GmbH	Kriftel	80	4,559	564	1
6	Dömer GmbH & Co. KG Stanz- und Umformtechnologie	Lennestadt	100	2,243	718	1
7	Dömer GmbH	Lennestadt	100	51	1	1
8	Dörrenberg Edelstahl GmbH	Engelskirchen	90	53,952	16,951	1
9	Dörrenberg Tratamientos Térmicos SL	Alasua, Navarra, Spain	60	1,839	250	8
10	Dörrenberg Special Steels PTE. LTD.	Singapore	90	2,281	106	8
11	Dörrenberg International PTE. LTD.	Singapure	90	628	0	8
12	Dörrenberg Specialty Steel Corp.	Macedonia/ OH, USA	100	3	-6	8
13	Dörrenberg Special Steels Taiwan LTD.	Tainan City, Taiwan	100	1,196	180	11
14	Middle Kingdom Special Steels Pte. Ltd.	Singapore	60	671	13	11
15	Jiashan Dörrenberg Mould & Die Trading Co.	Jiashan, China	100	3,066	715	14
16	Frank Walz- und Schmiedetechnik GmbH	Hatzfeld	90	12,518	861	1
17	Frank-Hungaria Kft.	Òzd, Hungary	100	3,151	465	16
19	FRANK Lemeks Tow	Ternopil, Ukraine	100	758	277	16
18	Frank RUS OOO	Russia	100	46	26	16
20	Franz Funke Zerspanungstechnik GmbH & Co. KG	Sundern	80	1,634	834	1
21	Franz Funke Verwaltungs GmbH	Sundern	100	84	3	1
22	Haseke GmbH & Co. KG	Porta Westfalica	80	1,827	1,418	1
23	Haseke Beteiligungs-GmbH	Porta Westfalica	100	78	3	1
24	Hubl GmbH	Vaihingen/Enz	80	4,030	1,213	1
25	Georg Kesel GmbH & Co. KG	Kempten	90	1,098	945	1
26	Kesel & Probst Verwaltungs-GmbH	Kempten	100	40	0	25
27	Kesel International GmbH	Kempten	100	75	-2	25
28	Georg Kesel Machinery (Jiashan) Co., Ltd.	Jiashan, China	100	236	177	27
28	Georg Kesel Machinery (Beijing) Co., Ltd.	Peking, China	100	253	82	27
30	Kesel North America LLC	Beloit, USA	100	-41	-66	27
31	MAE Maschinen- und Apparatebau Götzen GmbH *	Erkrath	100	5,444	0	1
32	MAE International GmbH	Erkrath	100	65	-2	31
33	MAE Machines (Beijing) Co., Ltd.	Peking, China	100	260	55	32
34	MAE Amerika GmbH	Erkrath	100	1,749	19	31
35	MAE-EITEL INC.	Orwigsburg, USA	90	2,353	525	34
36	Modell Technik Formenbau GmbH *	Sömmerda	100	641	0	1
37	Modell Technik Beteiligungsgesellschaft mbH	Sömmerda	100	133	-1	1
38	Molineus & Co. GmbH + Co. KG	Wuppertal	100	266	16	1
39	GRAFIC Beteiligungs-GmbH	Wuppertal	100	47	1	38
40	MV Anlagen GmbH & Co. KG	Wuppertal	100	59	-6	1
41	Paul Beier GmbH & Co. KG	Kassel	100	1,484	1,255	1
42	Paul Beier Verwaltungs-GmbH	Kassel	100	78	2	1
43	Pickhardt & Gerlach GmbH & Co. KG	Finnentrop	100	8,783	4,716	1
44	Hekhorn Verwaltungs-GmbH	Finnentrop	100	78	14	43
45	Hekhorn Immobilien GmbH	Finnentrop	100	2,517	337	1
47	Sommer & Strassburger GmbH & Co. KG	Bretten	100	3,461	1,857	1
46	So-Str Verwaltungs GmbH	Bretten	100	36	-1	1
48	Q-Plast GmbH & Co. Kunststoffverarbeitung	Emmerich	100	181	78	50
49	Q-Plast Beteiligungs-GmbH	Emmerich	100	83	3	50
50	Setter GmbH & Co. Papierverarbeitung	Emmerich	100	3,365	3,237	1
51	Setter GmbH	Emmerich	100	6,627	1,388	1
52	HRP-Leasing GmbH *	Emmerich	100	734	0	51
53	Setter International GmbH	Emmerich	100	4,264	472	50
54	Setterstix Inc.	Cattaraugus, USA	100	6,009	925	53
56	SQG Verwaltungs GmbH	Emmerich	100	107	-1	50
55	Setterstix de Mexico. S.A. DE C.V.	San Luis Potosi, Mexico	100	-124	-218	55
57	SVT GmbH	Schwelm	90	11,875	2,129	1
58	IV Industrieverwaltungs GmbH & Co. KG	Wuppertal	100	120	-3	1
59	IMV Verwaltungs GmbH	Wuppertal	100	75	3	1
60	VWH GmbH	Herschbach	80	5,402	1,717	1
61	WBL Holding GmbH	Laichingen	100	9,078	-1,376	1
62	Werkzeugbau Laichingen GmbH *	Laichingen	100	3,351	0	61
63	Werkzeugbau Leipzig GmbH	Leipzig	100	2,841	8	61
64	TM Erste Grundstücksgesellschaft mbH	Wuppertal	94	2,304	322	61
	b) associated companies **)					
65	Saglam Metal San. Tic.A.S.	Istanbul, Turkey	20	-	-	8
66	Dörrenberg Special Steels Korea Co. Ltd.	Jeongwang-dong, South Korea	50	-	-	11
67	Fine Metal S.R.L.	Bukarest, Romania	40			11
	c) companies which are not consolidated					
68	Connex SVT Inc.	Houston, USA	100	953	354	57
69	Papersticks S.A. Ltd.	Durban, South Africa	100	39	-6	50

*) There are profit and loss transfer agreements

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

GESCO AG
Management report for financial year 2018/2019
(1 April 2018 to 31 March 2019)

1. General economic development

The **German economy** grew for the ninth year in 2018, with gross domestic product up 1.4 %. Growth momentum attributable to private consumption (+1.0 %) and government spending (+1.0 %) was weaker than in previous years. By contrast, gross investment was stronger (+5.4 %). In particular, investment in equipment sent a positive signal (+4.2%), with construction investment (+2.4 %) and other investment (+0.4 %), including investments in research and development, both rising year on year.

The **Verband Deutscher Maschinen- und Anlagenbau e.V. (VDMA – German machinery and plant manufacturers association)** had initially forecast a 5 % increase in production for 2018 but reduced its outlook to 2 % in December 2018, in line with the preliminary calculations of the Federal Statistical Office (Destatis) for 2018. The VDMA explains the shortfall with a wide range of production restrictions. According to the VDMA, one-tenth of companies complained last October about machine parks being too small. A shortage of labour had an even more significant impact, with 27 % of mechanical engineering companies saying they could have produced more if they had had more workers. A shortage of materials also stifled production, with 28 % of companies unable to get the material needed for production quickly enough.

Whereas growth in 2017 was attributable almost exclusively to exports, domestic demand took over as the driving force in 2018. Growth in the mechanical and plant engineering sector was therefore driven by two factors in 2018: the 6 % increase in domestic orders and the 4 % increase in foreign demand. The strongest growth momentum came from the US, China and the EU’s partner countries.

The corporate transactions market in the SME sector was once again characterised by very strong demand and limited supply. A variety of groups of strategic buyers as well as financial investors are targeting direct investments in the industrial SME sector. Against this backdrop, we have moderately adjusted our valuations but continue to follow a disciplined approach and avoid transaction processes designed purely to maximise purchase prices, such as bidding processes. We also continue to directly approach business owners.

2. Changes to the scope of consolidation

In August 2018, GESCO AG acquired 100 % of the shares in **Sommer & Strassburger Edelstahlanlagenbau GmbH & Co. KG**, Bretten, Germany, as part of a succession planning process. The company develops and manufactures its own range of processing equipment for the pharmaceutical, food, water technology and chemical industries. With its staff of around 140 employees, Sommer & Strassburger generates sales of roughly € 20 million.

GESCO AG acquired the minority shareholding of 20 % held by the former managing director of **Franz Funke Zerspanungstechnik GmbH & Co. KG**, Sundern, Germany, with effect from 1 July 2018. Since then, GESCO AG has held 100 % of the shares in the company.

3. Business performance

With growth of 2 %, the capital goods industry, in which the majority of GESCO Group companies operate, exhibited less momentum than initially expected in 2018. However, it still provided a rather brisk environment in which GESCO Group generated rising sales and disproportionately high profit growth.

GESCO AG's income from investments increased from € 27.8 million to € 45.2 million in financial year 2018/2019. This significant growth is due to the above-average dividend distributions undertaken to optimise liquidity within GESCO Group.

Income from profit and loss transfer agreements increased from € 2.7 million to € 3.4 million, as the subsidiaries in question recorded brisk business activity along with rising earnings.

The previous year's other operating income of € 2.3 million contained a one-off effect of € 1.7 million resulting from the settlement with financial authorities regarding a tax issue that had been unresolved for several years. At € 0.5 million, other operating income was at a normal level in the reporting year.

An impairment test of the investment in the companies of the Werkzeugbau Laichingen Group led to a write-down on financial assets in the amount of € 4.0 million in total.

GESCO AG generated total net income of € 35.4 million in financial year 2018/2019 (previous year: € 24.4 million).

We had expected income from investments and net income at GESCO AG in financial year 2018/2019 to be roughly on par with the level seen in financial year 2017/2018. The significantly higher than expected net income was attributable to the aforementioned above-average dividend distributions. We had also forecast an equity ratio of more than 70 % in the new financial year; this expectation has been met.

GESCO AG's total assets amounted to € 224.9 million as at the reporting date of 31 March 2019. On the assets side, financial investments increased due to the corporate acquisitions and the repurchase of minority shares. Receivables from affiliated companies and other assets also increased significantly. The latter contains tax assets on withheld capital gains tax. Liquid assets stood at € 8.3 million as at the reporting date, having reached an above-average value of € 19.2 million in the previous year. A dividend of € 6.5 million was distributed to the company's shareholders in the reporting period. On the liabilities side, equity rose from € 158.7 million to

€ 187.8 million. The equity ratio increased further from 79.5 % to 83.5 %. The decrease in liabilities from € 34.4 million to € 30.7 million was primarily due to the repayment of bank loans.

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

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

4. Management system

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

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

5. Opportunity and risk management

The GESCO AG business model is entrepreneurially driven. Entrepreneurial activities are inherently linked to risk. Risks cannot be eliminated, but they can be treated with appropriate risk management strategies. GESCO Group's concept is designed to recognise, evaluate and seize opportunities on national and international markets on the one hand while identifying and limiting risks on the other. Managing risks and opportunities is an ongoing business process. GESCO Group is structured in a way that ensures negative developments for specific companies do not place the entire Group at risk.

The annual planning meeting, monthly meetings and annual strategy sessions all examine the company's situation as a whole. The meetings analyse entrepreneurial opportunities and the courses of action for expanding business volume in Germany and abroad as well as for increasing profitability. They also evaluate the respective risks.

Managing opportunities

GESCO AG has significant opportunities when it comes to acquiring additional industrial SMEs. By maintaining our network, increasing the awareness of GESCO AG as an investor and approaching interesting companies directly, we generate a deal flow that is assessed and processed in step-by-step analyses. In addition, GESCO AG can also benefit from positive operating business performance for its portfolio companies and the associated income from investments as well as dividends. The holding company offers its subsidiaries extensive assistance and support in this regard.

For the operating subsidiaries, it is important to constantly identify opportunities on national and international markets and convert these opportunities into successful business activities. Strategic development, sales and marketing, and product development, as well as quality and innovation management, are decisive factors here.

Risk management at GESCO Group

GESCO Group has a comprehensive internal controlling and risk management system. It uses a software system that assesses risks but not opportunities. Risks and the classification thereof are assessed by estimating the effects on earnings before interest and taxes (EBIT) and their probability of occurrence. Risks are weighted depending on the specific company and in consideration of its sales volume and profitability. Risks are classified as follows at Group level:

Risk impact:	
Up to € 2 million	low
€ 2 million – € 5 million	moderate
Over € 5 million	high

Probability of occurrence:	
0 % to 10 %	very low
10 % to 30 %	low
30 % to 70 %	moderate
70 % to 100 %	high

Risks are reported monthly by the subsidiaries, while high risks are reported to GESCO AG ad hoc.

The Executive Board is responsible for conducting risk management, and the Supervisory Board is responsible for oversight. The GESCO AG employee responsible for risk management reports to the Supervisory Board on the development of risks in quarterly meetings. The Supervisory Board is notified on an ad hoc basis in the event of larger risks.

Risks in acquiring companies

GESCO AG strives for internal growth on the basis of its existing portfolio as well as external growth through the acquisition of additional industrial SMEs in its four segments Production Process Technology, Resource Technology, Healthcare and Infrastructure Technology and Mobility Technology. The search for new companies is a continuous process in which analysing risks and opportunities is naturally of great importance. Prior to a purchase, companies are subjected to a due diligence assessment in order to identify the risks associated with any company acquisition to the extent that these are recognisable. Key aspects include financial risks and risks relating to tax, technology, markets and the environment, but also the company's corporate culture and the age structure of the workforce. GESCO AG uses both internal and external expertise for this.

Each acquisition carries the inherent risk that newly acquired companies will not develop according to plan and expectations. The appointment of a new managing director following the withdrawal of the existing owner-manager is a particularly critical aspect of succession planning.

Following acquisition, companies are rapidly integrated into GESCO Group's planning and reporting system, as described in the "Management system" section. In addition, the companies are integrated into GESCO Group's software-assisted risk management system.

Risks relating to operating business

In their operating business, all GESCO AG subsidiaries are subject to the typical opportunities and risks of their respective industries as well as general economic risks. As an industrial group whose business is based to a notable extent on direct and indirect exports, we are affected by economic fluctuation in Germany and abroad. Our diversification strategy, particularly with regard to the customer sectors, is aimed at offsetting economic fluctuation in individual branches of industry to a certain extent and therefore reducing the risks arising from economic cycles.

Besides the overall economic situation, subsidiaries are also exposed to both opportunities and risks in their strategic orientation in consideration of technological changes, particularly the addition of different drive types to the combustion engine, digitalisation, the emergence of new competitors, the political and economic development of regional markets, changes in social values and principles, the political push towards reducing CO_2 emissions and regulatory frameworks. GESCO Group mitigates these risks by organising annual strategic consultations at its subsidiaries, in which issues such as these are analysed and discussed. In addition, investment managers, the GESCO AG Executive Board and the subsidiaries' managing directors and teams meet on a regular basis for the purpose of analysis and to share information and expertise on strategic issues.

In general terms, the Group is exposed to the risk of customer complaints and claims due to poor quality, non-fulfilment of contractual commitments or missed deadlines. The companies mitigate this risk by exercising a duty of care in their process as well as through their quality management systems and close cooperation with customers.

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

In order to mitigate procurement risks, subsidiaries attempt to enter into framework agreements with suppliers so as to obtain security for their planning or to conclude flexible price agreements with customers and suppliers. Cordial and long-term relationships with key suppliers help guarantee supply security.

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

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

Compliance risks

Compliance risks include those relating to corruption, breaches of antitrust regulations and criminal acts, and the resulting financial penalties and compensation claims. These risks can lead to significant financial damage as well as major reputation damage. GESCO Group mitigates these risks through its compliance management system, which includes a Group-wide Code of Conduct, accompanying guidelines and work instructions, an online information system (Rulebook) for GESCO Group employees, accompanying training courses, random case-by-case assessments and a whistle-blower system for both employees and external parties. Training courses were held in March and April 2018 for managing directors and key employees at subsidiaries and at GESCO AG to familiarise them with the rules of the Code of Conduct and to enhance their knowledge of anti-trust laws and anti-corruption laws. The managing directors' job is to anchor these requirements and principles in their company's corporate culture.

Risks relating to personnel

Qualified personnel is vital to the current and future performance of subsidiaries. For the German manufacturing industry, there generally continues to be a risk of uncertainty in the ability of companies to find and retain sufficiently qualified employees in the future. Demographic change will continue to exacerbate this situation. GESCO Group companies meet this challenge with various measures in order to position themselves as attractive employers in their respective regions. The loss of expertise also poses a risk and may arise if existing expertise within the company is only passed on insufficiently from older employees to younger employees. Measures to achieve a targeted transfer of expertise and appropriately document expertise are designed to help mitigate this risk.

Acquiring and retaining suitable managing directors for GESCO AG companies is also particularly important. Managers unable to meet what is required of them, as well as frequent changes in these key functions, represent a significant risk with negative consequences both within the Group and externally. GESCO AG mitigates this risk by taking particular care when selecting personnel and following a multi-stage selection process with the involvement of the Supervisory Board. Following an induction phase, GESCO AG generally offers its new management personnel the opportunity to personally invest in the company they are managing. This is aimed at fostering a long-term commitment to the company.

GESCO AG can also experience difficulties in recruiting and retaining qualified employees and see its performance suffer as a result. Building up expertise and maintaining consistency are key when it comes to establishing a resilient working environment based on trust within the holding company and, in particular, to the subsidiaries.

The GESCO AG employee share scheme offers GESCO Group employees in Germany the chance to invest in the company by acquiring GESCO shares at a reduced cost and thus make a personal contribution to their pension plans. GESCO AG considers this initiative to be an important part of its personnel retention efforts.

Risks relating to IT

IT risks particularly concern the failure of IT systems at GESCO Group companies and resulting downtime, industrial espionage and loss of expertise, misuse of data and unauthorised access to data. GESCO AG mitigates IT risks through high-tech hardware and software solutions and an IT security management system that is regularly reviewed. Through training courses, employees are given a fundamental awareness of IT risks as well as specific requirements in dealing with them. IT security guidelines govern the use of in-house hardware and software and cover data protection issues. In addition, we also ensure that our external IT service providers meet defined security standards. The IT security management system is regularly developed and tested in collaboration with an external IT security officer. Within GESCO Group, GESCO AG also regularly checks on the status of the subsidiaries' IT security management systems.

Risks relating to data protection

Data protection risks include the risk of losing or unintentionally disclosing confidential internal information and the risk of financial penalties or legal action due to the unintentional disclosure of personal data or other sensitive data belonging to third parties. GESCO AG works together with an external data protection officer in relation to its data protection issues.

Risks relating to financing

Risks relating to financing can include the inability to supply the holding company with sufficient equity capital and/or borrowed capital. Access to borrowed capital at adequate terms and conditions is significantly linked to the operating success of GESCO Group and therefore to the associated ability to make interest and principal payments in accordance with the agreed terms. Subsidiaries can directly influence such matters, whereas the holding company can exert indirect influence as part of its acquisition decisions, reporting activities and its support and assistance of subsidiaries. Subsidiaries can be exposed to the risk of shortfalls in terms of borrowed capital if they experience negative financial performance. In addition, there is also the risk that this negative performance impacts the reputation of GESCO AG and, potentially, other subsidiaries as debtors. Companies conclude interest rate swaps to limit the risks of changes in variable rates. These swaps involve swapping the variable rate for a fixed rate. We expect interest rates to remain low in the eurozone and increase slightly at the most in the US in financial year 2019/2020.

When it comes to accessing equity by means of capital increases at GESCO AG, the situation on the capital market at the relevant time, the financial development of GESCO Group, the reputation of GESCO AG and consistent, credible investor relations are core elements. We do not consider there to be any need to raise any additional equity at the current time.

GESCO Group's financing structure is designed in a way that ensures negative developments for specific companies do not put the entire Group at risk. This is why we largely forego the use of instruments such as cash pooling or guarantees and contingencies. GESCO AG also does not use speculative instruments when investing unused capital or procuring financing in the interests of financial stability. GESCO Group works with around two dozen different banks in order to limit its reliance on particular financial institutions.

At the level of GESCO AG, there are risks of impairment losses on investments or rather the lack of recoverability of investments and receivables from affiliated companies. This is usually due to operating development at the respective subsidiaries falling short of the assumed and expected development on which the original purchase price calculation or current interest recognition approach is based. In its efforts to support and assist subsidiaries, GESCO AG strives to mitigate negative developments.

Accounting risks are mitigated by detailed Group guidelines that are documented in a manual and a binding standard for all Group companies and all auditors.

Environmental risks

Environmental damage can lead to significant financial and reputation-related risks and, in a worst-case scenario, threaten the continued existence of the company concerned. Subsidiaries pursue different approaches here depending on the relevant business model. Dörrenberg Edelstahl GmbH, for instance, introduced an environmental management system in 1997 that continues to be developed and is regularly audited. Due to its classification as a hazardous site, regular environmental audits are carried out at Pickhardt & Gerlach Group. GESCO AG ensures that its subsidiaries obtain the correct authorisations and licences.

Insurance cover

Insurance cover for GESCO Group is regularly evaluated so that sufficient protection under adequate terms and conditions is possible.

Legal risks

GESCO Group companies are confronted by a number of potential legal risks. In terms of operating companies, these particularly include product liability and warranty claims as well as risks linked to customs and export law as well as sanctions imposed on target export countries. There are also risks linked to antitrust and competition law, personnel and the environment. GESCO Group companies mitigate legal risks from their operating business through careful project management activities, including appropriate documentation and sufficient quality management. Contract management is particularly important in this regard; here, GESCO AG supports its subsidiaries by providing internal consulting services or arranging for external legal consultants to become involved. In addition, a large number of risks are mitigated through the instruments described in the Compliance section.

We are not aware of any developments with regard to legal conditions that would have a significant impact on the Group.

Reputation risks

Reputation risks can hamper GESCO AG in its ability to acquire industrial SMEs and in its capital market activities. They can also limit the company's chances of recruiting qualified personnel. Subsidiaries can also be limited in terms of their operating business and personnel work. The GESCO Group mitigates these risks by exercising a great deal of care in structuring its business processes, by maintaining a compliance system and by pursuing open, trust-based communication both internally and externally.

Final risk assessment

Beyond the scope of normal fluctuations in economic development, we currently see the enhanced political uncertainty to be the greatest risk to operating business.

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

6. Declaration of corporate governance

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

7. Other information

Disclosures under Section 289a para. 1 of the German Commercial Code (HGB)

No. 1:
The share capital of GESCO AG is € 10,839,499.00 and is divided into 10,839,499 registered shares. Each share is granted one vote in the Annual General Meeting.

No. 3:
The disclosures regarding capital investments exceeding 10 % of the voting rights are included in the notes.

No. 6:
According to Sections 76 and 84 of the Stock Corporation Act (AktG) and Section 6 para. 1 of the GESCO AG Articles of Association, the Executive Board consists of one or more persons. Pursuant to Section 6 para. 2 of the Articles of Association, and in accordance with legal regulations, the Supervisory Board appoints and dismisses the Executive Board and establishes the term of service and the number of members. The Supervisory Board may also appoint substitute members. According to Section 17 para. 1 of the Articles of Association, resolutions are passed by the Annual General Meeting with a simple majority of the votes cast, unless legally binding regulations state otherwise; where the law requires a capital majority in addition to a majority of votes cast, resolutions are passed with a simple majority of the share capital represented

when the resolution is voted on. In accordance with Section 17 para. 2 of the Articles of Association, the Supervisory Board has the right to make amendments to the Articles of Association that affect only the wording.

No. 7:
The Annual General Meeting of 31 August 2017 authorised the company to increase the company's share capital on one or several occasions by a total of € 1,083,949.00 until 30 August 2020 with the consent of the Supervisory Board by issuing up to 1,083,949 new no-par value registered shares in exchange for cash or contributions in kind. Subscription rights may be excluded in certain cases. No use of this authorisation was made during the reporting period.

The Annual General Meeting on 18 August 2015 authorised the company to acquire up to ten out of every hundred shares of the share capital until 17 August 2020 under consideration of own shares already held. Subject to the approval of the Supervisory Board and under certain conditions, the Executive Board is also authorised to dispose of the acquired shares in a manner other than via the stock exchange or by offering them to all shareholders, to use them for the purpose of acquiring companies or investments, or to retract some or all of them. The Executive Board has not made use of this authorisation to date. The company acquired a small number of treasury shares for the annual employee share scheme within the scope of a share acquisition pursuant to Section 71 para. 1 sentence 2 AktG and subsequently issued them to GESCO Group employees within the scope of this scheme. GESCO AG held no treasury shares as of the reporting date. Disclosures under Section 160 para. 1 no.2 AktG are included in the notes.

Changes to the executive bodies of the company

Dr Eric Bernhard stepped down from the company's Executive Board with effect from 15 June 2018, with Robert Spartmann also leaving the Executive Board with effect from 30 November 2018. Ralph Rumberg was appointed Spokesman of the Executive Board with effect from 1 July 2018. Kerstin Müller-Kirchhofs was appointed to the Executive Board with effect from 1 May 2019.

8. Remuneration report

GESCO AG's remuneration system was presented to the Annual General Meeting on 30 August 2018 as part of a say-on-pay ruling. Approval was granted with 98.9 % of the votes.

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

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

The **variable component** is generally granted in the form of a performance-related bonus, which is geared towards the Group's net income after minority interest. This component is based on a multi-year calculation base. Two-thirds of the respective bonus are based on the Group's net income after minority interest for the financial year and one-third on the average Group net income after minority interest for the financial year and the two financial years preceding it. This did not apply to existing agreements extended prior to 15 June 2015.

The total amount is capped at twice the annual base salary. As the bonus is linked to Group earnings, it may not be paid out at all in certain cases. If Group net income after minority interest is negative, in other words the company has made a loss for the year, this loss is carried forward to the next year and reduces the basis for calculating the bonus. If Group net income after minority interest is negative in the financial year prior to an Executive Board member leaving or in the same year that a member leaves, this particular Executive Board member shares in the loss. If Executive Board members leave the company during the year, the bonus is paid on a pro rata basis.

The **remuneration components with long-term incentives** constitute stock options issued to Executive Board members on the basis of the approved stock option programme. The stock option programme is designed so that Executive Board members have to contribute GESCO shares acquired with their own private funds, which may not be resold for the duration of the vesting period. Ten options can be purchased for each share. The vesting period is four years and two months after the option is issued; after the end of the vesting period, the options for the tranches issued in 2014 to 2016 may be exercised at any time up to 15 March of the year after next, while the options for the tranches issued in 2017 and 2018 are exercised on a defined issue date.

The stock options for the tranches 2014 to 2016 were issued at an exercise price equating to the average XETRA closing price of the GESCO share on the ten consecutive trading days following the Annual General Meeting in the year the options were issued. The average XETRA closing price of the GESCO share in the six months prior to the Annual General Meeting is the key factor in determining the issue price for the tranches issued in 2017 and 2018. The average closing price of the SDAX price index over the same period serves as a benchmark. The profit from the programme is determined once the vesting period of four years and two months is over, with the average closing price of the GESCO share and the average closing price of the SDAX price index of the six months prior to the end of the vesting period being the deciding factor. The options were issued within one month after the Annual General Meeting taking place.

If and how many options can be exercised depends on the achievement of an absolute and relative performance target. The absolute performance target is met when the price of the GESCO share has developed positively at the time the option is exercised. The relative performance target is met when the price of the GESCO share has outperformed the SDAX at the time the option is exercised. If both targets are met, the Executive Board members are able to exercise all of their options. If the absolute performance target is met but not the relative performance target, members of the Executive Board may only exercise 75 % of their options for tranches 2014 to 2016 and 50 % of their options for the 2017 and 2018 tranches, with the remaining 25 % and 50 % respectively expiring completely without recourse. If neither target is met at the point at which the options may be exercised, all options of the corresponding tranche expire completely without recourse. The maximum profit of the Executive Board members is capped at 50 % of the exercise price. The profit from the programme is paid out in cash.

The tranche set up by the Supervisory Board in September 2018 resulted in 85,100 options being issued to members of the Executive Board and managers of GESCO AG. Non-cash expenditure under this programme is determined using a common binomial model, recorded in earnings and recognised in other provisions. The model assumes volatility of 23.94 % and a risk-free interest rate of -0.06 %; the options' exercise price is € 29.45. The vesting period is four years and two months after the date of the Annual General Meeting. The fair value per option on the issue date is € 1.84.

Executive Board members receive contributions in the amount of a certain percentage of their base salary for the purpose of **pension planning**. Robert Spartmann, who left the Executive Board over the course of the year, is entitled to a pension commitment on account of the provisions under existing contracts.

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

Executive Board remuneration: compensation

Compen-sation in € '000	Dr Eric Bernhard CEO (until 15 June 2018)				Robert Spartmann Member of the Executive Board (until 30 November 2018)				Ralph Rumberg Spokesman of the Executive Board (CEO) (since 1 July 2018)		
	31 Mar 2018	31 Mar 2019	31 Mar 2019 (min)	31 Mar 2019 (max)	31 Mar 2018	31 Mar 2019	31 Mar 2019 (min)	31 Mar 2019 (max)	31 Mar 2019	31 Mar 2019 (min)	31 Mar 2019 (max)
Fixed remuneration	300	234	234	234	264	217	217	217	244	244	244
Additional benefits	11	7	7	7	17	11	11	11	18	18	18
Total	**311**	**241**	**241**	**241**	**281**	**228**	**228**	**228**	**262**	**262**	**262**
One-year variable remuneration	221	262	0	524	242	298	0	434	298	251	488
Multi-year variable remuneration (SOP)											
2017 tranche	26	0	0	0	26	0	0	0	0	0	0
2018 tranche	0	33	0	265	0	33	0	265	33	0	265
Total	**247**	**295**		**789**	**268**	**331**	**0**	**699**	**331**	**251**	**753**
Pension-related expenses	60	62	62	62	57	57	57	57	49	49	49
Total remuneratio n	**618**	**598**	**303**	**1,092**	**606**	**616**	**285**	**984**	**642**	**562**	**1,064**

The following compensation was included in financial year 2018/2019 in connection with the departure of members from the Executive Board:

Dr Bernhard received fixed remuneration of € 169 thousand and one-year variable remuneration of € 189 thousand for the period from his resignation as at 15 June 2018 until the end of his contract on 31 December 2018. He also received stock options in the amount of € 33 thousand as part of the 2018 tranche. Mr Spartmann received compensation for annual leave in the amount of € 33 thousand; this compensation was included in fixed remuneration.

Executive Board remuneration: payments

Payments in € '000	Dr Eric Bernhard CEO (until 15 June 2018)		Robert Spartmann Member of the Executive Board (until 30 November 2018)		Ralph Rumberg Spokesman of the Executive Board (CEO) (since 1 July 2018)
	31 Mar 2018	31 Mar 2019	31 Mar 2018	31 Mar 2019	31 Mar 2019
Fixed remuneration	300	234	264	217	244
Additional benefits	11	7	17	11	18
Total	**311**	**241**	**281**	**228**	**262**
One-year variable remuneration	300	221	118	242	0
Multi-year variable remuneration (SOP)					
2012 tranche	0	0	88	0	0
2013 tranche	0	0	117	0	0
2014 tranche	0	0	0	0	0
Total	**300**	**221**	**323**	**242**	**0**
Pension-related expenses	60	62	57	57	65
Total remuneration	**671**	**524**	**661**	**527**	**327**

The following payments were included in financial year 2018/2019 in connection with the departure of members from the Executive Board:

Dr Bernhard received fixed remuneration of € 169 thousand for the period from his resignation as at 15 June 2018 until the end of his contract on 31 December 2018. Mr Spartmann received compensation for annual leave in the amount of € 33 thousand; this compensation was included in fixed remuneration.

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

9. Outlook/forecast report

In its spring forecast for 2019, the German government expects the gross domestic product to grow by 0.5 %. Although it stresses that the German economy is on track to growth for the tenth year in a row, it was forced to lower its estimate compared to previous forecasts.

The VDMA reduced its production growth forecast for 2019 from 2 % to 1 % at Hannover Messe, citing the trade war involving the US, China and the EU as the main reason for this less exuberant outlook.

The GESCO Group companies operate primarily in the capital goods industry. 2017's significant economic tailwind in the industry waned in 2018 and will probably continue to decrease in 2019. All told, neither strong growth momentum nor signs of a massive, widespread decline can be seen at the moment. Because the above-average dividend distributions undertaken in financial year 2018/2019 are unlikely to reoccur, we expect income from investments and net income for financial year 2019/2020 to normalise at roughly the level seen in financial year 2017/2018. Barring any material changes to the scope of consolidation, GESCO AG's equity ratio should remain at or around the current level of roughly 80 % in the new financial year.

GESCO AG continues to aim to generate external growth by acquiring further industrial companies in the SME segment. We have raised the sales criteria of target companies to between € 20 million and € 100 million as part of the Next Level strategy. Strategically motivated supplementary acquisitions of subsidiaries may also be subject to lower sales criteria. We continue to generate a consistent flow of deals through our existing network and by directly approaching business owners.

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

Wuppertal, 14 May 2019

The Executive Board

....
(Ralph Rumberg, Spokesman)

....
(Kerstin Müller-Kirchhofs)

Statement of the legal representatives

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

Wuppertal, 14 May 2019

The Executive Board

Ralph Rumberg (Spokesman)	Kerstin Müller-Kirchhofs

[INDEPENDENT] AUDITOR'S REPORT

To GESCO AG

Report on the audit of the annual financial statements and the management report

Audit opinions

We have audited the annual financial statements of GESCO AG, comprising the balance sheet as at 31 March 2019, income statement for the period ended 31 March 2019 and the notes to the financial statements, together with the presentation of the recognition and measurement methods. In addition, we audited the management report of GESCO AG for the period ended 31 March 2019. We did not audit the content of the corporate governance report, which was referred to in the management report, in accordance with German legal requirements.

According to our assessment and on the basis of the findings gathered within the scope of our audit,

- the annual financial statements comply with German commercial law provisions applying to corporations and presents a true and fair view of the company's assets and financial position as at 31 March 2019 and its earnings for the financial year from 1 April 2018 to 31 March 2019 in accordance with the German principles of proper accounting, and
- the management report provides a suitable presentation of the company's position. This management report corresponds to the annual financial statements in all material aspects, complies with German commercial law provisions and provides a true reflection of the opportunities and risks of future development. Our audit opinion concerning the management does not extend to the content of the aforementioned corporate governance report.

We declare pursuant to Section 322 para. 3 sentence 1 HGB that our audit did not lead to any objections against the orderliness of the annual financial statements and the management report.

Basis for the audit opinions

We performed our audit of the annual financial statements and the management report in accordance with Section 317 HGB and the EU Audit Directive (No. 537/2014; hereinafter referred to as EU AR) in consideration of the German principles of property auditing of financial statements as promulgated by the by the Institut der Wirtschaftsprüfer (IDW – Institute of Public Auditors in Germany). Our responsibility under these requirements and principles is described in further detail in the "Responsibility of the audit for auditing the annual financial statements and the management report" of our [independent] auditor's report. We are independent from the company in accordance with European law, German commercial law and professional standards and also meet other professional obligations in Germany in accordance with these requirements. Furthermore, we declare pursuant to Article 10 paragraph 2 (f) EU AR that we did not perform any prohibited non-audit services pursuant to Article 5 paragraph 1 EU AR. We believe that the audit evidence we obtained are sufficient and suitable to serve as a basis for our audit findings concerning the annual financial statements and the management report.

Key audit matters in the audit of the annual financial statements

Key audit matters are matters that we consider, in applying due discretion, to be the most significant in our audit of the annual financial statements for the financial year from 1 April 2018 to 31 March 2019. These matters were taken into consideration in relation to our audit of the annual financial statements as a whole and in forming our audit opinion; we do not issue any separate audit opinion concerning these matters.

We consider the following to be key audit matters:

- Recoverability of shares in affiliated companies and receivables from affiliated companies
- Measurement of other provisions with discretionary judgement.

Recoverability of shares in affiliated companies and receivables from affiliated companies

Reason for classifying this matter as a key audit matter

The annual financial statements include shares in affiliated companies amounting to € 133.2 million (= 59 % of total assets) and receivables from affiliated companies amounting to € 69.6 million (= 31 % of total assets). Shares in affiliated companies are recognised at cost or at the lower fair value if a permanent impairment is assumed to be likely. The recoverability of these shares is assessed on an ad hoc basis by the company. In financial year 2018/2019, an impairment loss of € 4.0 million was necessary. The lower fair values were calculated according to the DCF method. In this method, the market value of the equity under the weighted average cost of capital approach (WACC) is indirectly calculated as the difference between the total value of the equity and the market value of borrowed capital (including liabilities to shareholders). This calculation is based on available cash flows for the next three years (detailed planning phase) as derived from subsidiaries' budgets. The financial surpluses for the subsequent years are forecast as perpetual annuities on the basis of the detailed plan; growth is accounted for by means of a discount applied to the discounting rate. Receivables from affiliated companies are recognised accordingly when calculating the fair values of shares in affiliated companies. This method is exposed to uncertainty linked to estimation and discretion, particularly with regard to forecasting financial surpluses and deriving a discounting rate. Against this backdrop and due to the complexity of the valuation procedure, this matter was considered to be one of the most significant in the auditing of the annual financial statements.

The company's disclosures regarding shares in affiliated companies and receivables from affiliated companies are included on pages 1 and 2 of the notes to the financial statements.

Treatment in auditing the financial statements

We assessed the calculation of fair values using a selection of samples chosen in accordance with the risk and volume involved. We verified the appropriateness of the method and the consistent application of the process, using this sample. We assessed whether the assumptions underpinning the company budgets included in the calculations are plausible, in other words verifiable, consistent and not contradictory. As part of this process, we also analysed the accuracy of the budgets by comparing actual figures with last year's budgeted figures and assessing development in 2019. We verified the calculation of the discounting rate and the parameters underpinning the WACC and the appropriateness of these figures on the basis of publicly available information. Given the importance of the discounting rate and the perpetual annuity to the calculation, we also performed sensitivity analyses in relation to these parameters. We verified the mathematical accuracy of the calculated fair values and the inclusion of receivables from affiliated companies.

The measurement models applied to the calculation of the recoverable amounts, the underlying measurement parameters and assumptions and the presented calculations are appropriate. We do not have any objections to the manner in which the recoverability of shares in affiliated companies receivables from affiliated companies is assessed.

Measurement of other provisions with discretionary judgement.

Reason for classifying this matter as a key audit matter

The annual financial statements include other provisions amounting to € 3.5 million. The recognition and measurement of provisions (including the purchase price annuity obligation, obligations to employees and executive bodies, expenses for the stock option programmes, any non-deductible advance tax payments and interest on tax arrears) are based to a not insignificant extent on estimates and assumptions subject to discretionary judgement, both of which are linked to uncertainty. Against this backdrop and due to the volume of the individual provisions, this matter was considered to be one of the most significant in the auditing of the consolidated financial statements.

The company's disclosures on other provisions are included on pages 2 and 4 et seqq. of the notes to the financial statements.

Treatment in auditing the financial statements

We assessed the plausibility and appropriate explanation of the figures using calculations and documents submitted by the company as well as by comparing figures with those from the past. We also assessed the consideration of events after the reporting data that have a positive effect on valuations. We inspected contractual documentation and assessed the underlying assumptions and factors affecting valuations.

All in all, we verified that the estimations and assumptions are suitable and justified. We did not determine any indications of discretionary judgement being applied in a biased manner.

Other information

The legal representatives are responsible for other information Other information includes the following

- the declaration of compliance referred to in the management report
- the other parts of the annual report, with the exception of the audited financial statements, the management report and our [independent] auditor's report
- the corporate governance report pursuant to Section 3.10 German Corporate Governance Code, and
- the statement of assurance pursuant to Section 264 paragraph 2 sentence 3 HGB concerning the financial statements and the statement of assurance pursuant to Section 289 paragraph 1 sentence 5 HGB concerning the management report.

Our audit opinions concerning the financial statements and the management report do not extend to other information and, as a consequence, we do not issue an audit opinion or any other form of audit conclusion in this regard.

In relation to our audit, it is our responsibility to read other information and assess whether the other information

- contains material discrepancies to the financial statements, the management report or our findings gathered within the scope of our audit or
- otherwise appears to be incorrectly presented.

Responsibility of the legal representatives and the Supervisory Board for the financial statements and the management report

The legal representatives are responsible for preparing annual financial statements that comply in all material aspects with German commercial law provisions applying to corporations and also for ensuring that the annual financial statements provides a true and fair view of the company's assets, financial position and earnings in accordance with the German principles of proper accounting. In addition, the legal representatives are also responsible for implementing the internal controls they deem necessary in accordance with the German principles of proper account to prepare consolidated financial statements that do not contain – either intentionally or unintentionally – any material misstatements.

In preparing the annual financial statements, the legal representatives are responsible for assessing the ability of the company to continue operating as a going concern. Furthermore, they are also responsible for disclosing matters relating to the continuation of the company as a going concern, if relevant. They are also responsible for accounting according to the going concern principle unless prevented from doing so by physical or legal matters.

In addition, the legal representatives are also responsible for preparing a management report that provides a true and fair view of the company's position and corresponds in all material aspects to the annual financial statements, complies with German legal requirements and suitably presents the risks and opportunities of future development. Furthermore, the legal representatives are also responsible for taking precautions and introducing measures (systems) that they deem necessary to enable the preparation a management report in accordance with applicable German legal regulations and to ensure that sufficient and appropriate evidence can be provided for the statements in the management report.

The Supervisory Board is responsible for monitoring the company's accounting process that is used to prepare the annual financial statements and the management report.

Responsibility of the auditor for auditing the annual financial statements and the management report

Our aim is to determine with a sufficient level of certainty whether the annual financial statements as a whole are free of material misstatements – both intentional and unintentional – and whether the management report as a whole provides a true and fair view of the company's position and corresponds in all material aspects with the annual financial statements and the audit findings, complies with German legal requirements and correctly presents the opportunities and risks associated with future development, as well as issue an [independent] auditor's report that contains our audit opinions on the annual financial statements and the management report.

A sufficient level of certainty is a high level of certainty but not a guarantee that a proper audit conducted in accordance with Section 317 HGB and the EU AR in consideration of the German principles of proper accounting as promulgated by the Institut der Wirtschaftsprüfer (IDW – Institute of Public Auditors in Germany) will always detect a material misstatement. Misstatements can result from breaches of requirements or errors and are considered to be material they could be reasonably expected, either individually or taken as a whole, to influence financial decisions made by recipients of the annual financial statements and the management on the basis of these documents.

We exercise our duty of discretion during this audit and maintain a critical approach. Furthermore,

- we identify and assess the risks of material – intentional or unintentional – misstatements in the annual financial statements in the management report, plan and conduct audit activities in response to these risks and obtain audit evidence that is sufficient and suitable to serve as a basis for our audit opinions. The risk that material misstatements are not uncovered is higher in the case of breaches of regulations than it is in the case of errors, as legal violations can include fraudulent conduct, forgery, intentionally incomplete information, misleading statements and the circumvention of internal controls.
- we gain an understanding of the internal control system relevant for the audit of the annual financial statements and the precautions and measures relevant to the audit of the management report in order to plan audit activities that are appropriate under the given circumstances but without the aim of issuing an audit opinion on the effectiveness of these systems.
- we assess the appropriateness of the accounting methods applied by the legal representatives and the feasibility of the figures estimated by the legal representatives as well as related disclosures.
- we draw conclusions on the appropriateness of the going concern principle applied by the legal representatives and, on the basis of the audit evidence, on whether there is any material uncertainty regarding events or circumstances that could cast significant doubt on the ability of the company to continue operating as a going concern. If we concluded that there is material uncertainty in this context, we are obliged to refer to the relevant disclosures in the financial statements and in the management report in our [independent] auditor's report or, if these disclosures are inappropriate, modify our respective audit opinion. We draw conclusions on the basis of the audit evidence obtained until the date of our [independent] auditor's report. Future events or circumstances can, however, result in the company being unable to continue operating as a going concern.
- we assess the overall presentation, structure and content of the annual financial statements, including the notes to the financial statements, and whether the annual financial statements present the underlying business transactions and events in such a manner that provides a true and fair view of the assets, financial position and earnings of the company in accordance with the German principles of proper accounting.
- we assess the consistency of the management report with the annual financial statements, its compliance with the law and the presented position of the company.
- we conduct audit activities on the forward-looking statements in the management report made by the legal representatives. On the basis of sufficient audit evidence, we verify in particular the material assumptions underpinning the forward-looking statements made by the legal representatives and assess that the forward-looking statements have been correctly derived from these statements. We do not provide a separate audit opinion on the forward-looking statements or on the underlying assumptions. There is a material and unavoidable risk that future events will significantly deviate from the forward-looking statements.

We discuss with the individuals responsible for monitoring the planned scope and schedule of the audit as well as material audit findings, including any deficiencies in the internal control system, that we determine during our audit.

We submit a declaration to the individuals responsible for monitoring that we have complied with the relevant requirements concerning independence and discuss with them all relationships and other circumstances that can reasonably be expected to have an impact on our independence and the precautions taken as a result.

Of the matters we discuss with the individuals responsible for monitoring, we discuss the matters that were of greatest significance to the audit of the annual financial statements for the current reporting period and therefore are considered key audit matters. We describe these matters in the [independent] auditor's opinion unless we are unable to disclose them by law or due to other regulations.

Other legal requirements

Other disclosures pursuant to Article 10 EU AR

We were appointed as the auditor of the annual financial statements at the Annual General Meeting on 30 August 2018. We were engaged by the Supervisory Board on 19 November 2018. We have been the appointed auditor of the GESCO AG annual financial statements since financial year 1997/1998.

We hereby declare that the audit opinions contained in this [independent] auditor's report correspond to the additional report to the audit committee pursuant to Article 11 EU AR (audit report).

Responsible auditor

The auditor responsible for this audit is Nils-Christian Wendlandt.

Wuppertal, Germany, 14 May 2019

Breidenbach und Partner PartG mbB
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

(Straube)
Wirtschaftsprüfer

(Wendlandt)
Wirtschaftsprüfer

Report from the Supervisory Board 2018/2019

The GESCO Group was able to successfully continue its positive operating development in financial year 2018/2019, reporting record sales and earnings in the process. From a strategic perspective, the Executive Board and the Supervisory Board have defined key guidelines for the coming years. Thanks to the recruitment of new Executive Board members, we believe that the company's management team is well positioned to lead future development. GESCO AG is celebrating its 30th anniversary in 2019. Over the past three decades, the company has proven that a medium-sized enterprise with a long-term business model can enjoy success on the capital market. We are of the conviction that we have begun writing a new chapter of success in the history of GESCO AG with the new Executive Board team and the strategic agenda.

In this report, the Supervisory Board provides information about its activities during financial year 2018/2019. The main topics are its continuous dialogue with the Executive Board and the audit of the annual financial statements and consolidated financial statements.

Cooperation between the Executive Board and the Supervisory Board

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

The Supervisory Board was directly involved in all decision-making of fundamental importance to the company. The financial positions of GESCO AG and the subsidiaries were discussed on an ongoing basis and in detail. The Supervisory Board also focused on recruiting new management personnel for subsidiaries and managing the changes to the GESCO AG Executive Board.

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

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

Significant strategic investments at subsidiaries are discussed in depth on the basis of detailed investment plans and, if required, on-site visits are also organised. The Supervisory Board also used the opportunity to exchange ideas directly with the individual managing directors of GESCO AG subsidiaries during the management meeting of GESCO Group in the summer of 2018.

Changes to the management of subsidiaries were discussed in detail by the Supervisory Board and the Executive Board. As part of the recruitment process for new members of management teams, candidates were invited for an interview with the Supervisory Board before the approval resolution was tabled.

The Supervisory Board discussed GESCO AG's acquisition plans at length with the Executive Board and the employee responsible for acquisitions. In the run-up to an acquisition, target companies are also subjected to an on-site appraisal by a Supervisory Board member. The Supervisory Board unanimously agreed to the acquisition of Sommer & Strassburger Edelstahlanlagenbau GmbH & Co. KG following a comprehensive review.

The Supervisory Board conducted in-depth analysis of the antitrust proceedings against Dörrenberg Edelstahl GmbH that were concluded in the reporting year and contributed to the conclusion of the proceedings together with the Executive Board and the company's management. The Supervisory Board also received assistance from its own external legal advisors in this regard, who also conducted a review of the GESCO AG compliance management system in addition to the audit of the Supervisory Board. No deficiencies were found in the compliance management system, nor was any misconduct discovered on the part of the Executive Board.

Organisation of the Supervisory Board

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

The size of the Supervisory Board of GESCO AG has been deliberately kept small in order to facilitate efficient work and in-depth discussions on both strategic and detailed issues. The Supervisory Board therefore believes that it is not sensible or appropriate to create Supervisory Board committees. This also applies to an audit committee, whose tasks continue to be carried out by the entire Supervisory Board. Supervisory Board committees were therefore not created in financial year 2018/2019. However, the Supervisory Board has delegated individual tasks to its members, who deal with particular issues and propose decisions to the board for final discussion and decision-making, particularly concerning acquisitions, personnel decisions and auditing. The four members of the Supervisory Board have different areas of competency that complement each other and, from GESCO AG’s perspective, therefore ensure that the Supervisory Board offers sufficient professional diversity.

Meetings and resolutions of the Supervisory Board

There were a total of 13 Supervisory Board meetings in financial year 2018/2019; one of these meetings took place internally without the involvement of the Executive Board. All members of the Supervisory Board attended each of these meetings. The financial development of the GESCO Group, the development of certain subsidiaries, personnel-related matters relating to subsidiaries, target achievement with regard to the annual budget and ongoing acquisition projects were all matters discussed by the Supervisory Board on a continuous basis. A GESCO AG employee reported to the Supervisory Board on a quarterly basis on the internal control system and risk management system. In addition, the Supervisory Board sought advice and, if necessary, passed resolutions on the following issues:

- Discussion of the annual financial statements and consolidated financial statements of GESCO AG as at 31 March 2018; adoption of the annual financial statements and the consolidated financial statements as at 31 March 2018
- Annual budget for 2019/2020
- Agenda at the Annual General Meeting on 30 August 2018
- Strategic development of GESCO AG and the GESCO Group
- Matters relating to the Supervisory Board, Executive Board and personnel
- Declaration of compliance and corporate governance
- Internal controlling, risk management and compliance system
- Investments at subsidiaries
- Implementation of the CSR directive
- Acquisition of Sommer & Strassburger Edelstahlanlagenbau GmbH & Co. KG
- Antitrust proceedings against Dörrenberg Edelstahl GmbH
- Interviews for CEO positions at subsidiaries
- Interviews relating to changes in the Executive Board
- Rules of management/distribution of business for the Executive Board

In October 2018 and January 2019, the Executive Board and the Supervisory Board held two strategy meetings, each lasting a day and a half, in which they analysed and discussed the future orientation of GESCO AG and the GESCO Group in depth. The Executive Board presented guidelines for the future development of the GESCO Group, which are aimed at achieving a greater balance in terms of the company portfolio and developing individual subsidiaries in consideration of global economic and technological shifts over the coming financial years. The proposals were discussed at length and reviewed, and were subsequently approved and supported by the Supervisory Board. The strategy has therefore been adopted and forms the framework for the future development of the GESCO Group.

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

Corporate Governance

The Supervisory Board continuously monitored the development of corporate governance standards. The Executive Board and the Supervisory Board report on corporate governance at GESCO AG in their joint Corporate Governance Report, which is also contained in the Annual Report. The Executive Board and Supervisory Board submitted a declaration of compliance on schedule and as required by law in December 2018; the declaration was updated in February 2019. Both declarations have been made permanently accessible to the shareholders on the company's website. GESCO AG complies with the recommendations of the Government Committee on the German Corporate Governance Code, with the exception of the deviations given and explained in the Declaration of Compliance.

The members of the Supervisory Board participated in various training measures in the reporting year in accordance with the recommendations of the German Corporate Governance Code.

In May 2019, the Chairman of the Supervisory Board conducted an efficiency audit of the Supervisory Board’s work in the form of a self-assessment. For this purpose, the Chairman of the Supervisory Board held meetings with all members of the Supervisory Board based on a structured questionnaire. Topics of discussion included the procedures of Supervisory Board meetings, cooperation with the Executive Board, the provision of information to the Supervisory Board and optimising and safeguarding communication. All in all, it was found that the Supervisory Board continues to operate efficiently after its expansion to four members. The insights into potential improvements resulting from the audit were taken into consideration with regard to the Supervisory Board’s future work.

Executive Board remuneration

The management reports and notes to the financial statements of GESCO AG and the consolidated financial statements provide more extensive information on the Executive Board remuneration system. The structure of Executive Board remuneration was not changed in the reporting year and was also taken into consideration in the contracts of current Executive Board members. It corresponds to the Executive Board remuneration system approved with a majority of 98.9% of all votes cast by the Annual General Meeting on 30 August 2018 as part of the Say-on-Pay resolution.

Audit of the annual and consolidated financial statements

Corresponding to the legal provisions, the auditor selected by the Annual General Meeting on 30 August 2018, Breidenbach und Partner PartG mbB, Wirtschaftsprüfungsgesellschaft - Steuerberatungsgesellschaft, Wuppertal, was commissioned by the Supervisory Board on 19 November 2018 to audit the annual financial statements and consolidated financial statements. The auditor confirmed its independence to us in a letter dated 25 May 2018. Furthermore, the auditor provided evidence that it is qualified to audit listed companies due to its successful participation in a quality control audit conducted by the German Chamber of Public Accountants.

The annual financial statements drawn up by the Executive Board for the financial year from 1 April 2018 to 31 March 2019 in accordance with the regulations of the German Commercial Code (HGB) and the management report of GESCO AG were audited by the auditor. The auditor issued an unqualified audit report on 14 May 2019.

The consolidated financial statements and Group management report of GESCO Group for the financial year from 1 April 2018 to 31 March 2019 were drawn up by the Executive Board and audited by the auditor on the basis of the International Financial Reporting Standards (IFRS), taking into account Section 315e of the German Commercial Code (HGB). The auditor furnished the consolidated financial statements and Group management report with an unqualified audit report on 14 May 2019.

This year, the focal points of the audit for the individual financial statements of GESCO AG were the recoverability of investments, the accrual and recoverability of receivables from affiliated companies and the valuation of other provisions with discretionary judgement. The focal points of the audit of the consolidated financial statements were the recoverability of goodwill (impairment test), the initial consolidation of Sommer & Strassburger Edelstahlanlagenbau GmbH & Co. KG as well as the recognition and measurement of deferred tax assets. The focal points of the audit are agreed with the auditor before the audit takes place. The Supervisory Board did not place any special demands on the auditor this year. The focal points of the audit identified by the auditor already included the Supervisory Board’s desired scope. The Supervisory Board and the auditor were in contact during the ongoing audit activities with regard to exchanging information about the audit. In the final phase of the audit, the Supervisory Board liaised intensively with the auditor on the progress of the audit for the purpose of preparing for the committee’s decision.

The complete financial statements as well as the auditor’s accompanying audit reports were sent to all members of the Supervisory Board in good time before the accounts meeting and included in the Supervisory Board’s audit. They were the subject of intensive discussions in the meeting of the Supervisory Board on 16 May 2019. The auditors were in attendance at this meeting, reported in detail on the main results of the audits and were available to the Supervisory Board for questions and additional information. The auditors gave comprehensive answers to all questions from the Supervisory Board. No objections were raised to the annual financial statements, the management report, the consolidated financial statements or the Group management report after the final result of the audit carried out by the Supervisory Board. After its own audit of the annual financial statements, the consolidated financial statements, the management report and the Group management report, the Supervisory Board approved the result of the audit by the auditor and unanimously accepted the annual financial statements and the consolidated financial statements in the meeting on 16 May 2019. The annual financial statements of GESCO AG have thereby been adopted. Taking into account the company’s earnings and financial position as well as the shareholders’ interests, the Supervisory Board endorsed the proposal of the Executive Board to appropriate the retained profit.

Changes to the Executive Board

The Supervisory Board continued to focus on recruiting new management personnel for the Executive Board in financial year 2018/2019 in order to ultimately implement the recruitment strategy developed in the previous year.

As discussed in the Supervisory Board Report on the previous financial year 2017/2018, the Supervisory Board appointed Mr Ralph Rumberg, an industrial manager with a technical background and a wealth of operative management experience, as the Spokesman for the Executive Board effective as at 1 July 2018. Mr Rumberg is the Executive Board member responsible for strategic development, the management and development of affiliated companies and the acquisition of new companies (M&A).

Mr Robert Spartmann, long-time CFO of GESCO AG, stopped working for the company on 30 November 2018. Mr Spartmann accompanied and helped shape the establishment and development of the GESCO Group for more than 20 years, firstly as an advisor and, since 2001, as a member of the Executive Board. We would like to express our deepest gratitude, also on behalf of our shareholders, to Mr Spartmann for his many years of service.

After an intensive search supported by recruitment advisors, the Supervisory Board identified a successor who fitted our comprehensive job profile in the person of Ms Kerstin Müller-Kirchhofs. Ms Müller-Kirchhofs worked as an auditor and tax advisor at one of the Big Four auditing firms for more than a decade and was subsequently able to gain extensive experience as a CFO at companies operating in the industrial sector. She will assume the responsibilities typical of a CFO at GESCO AG and also head up Investor Relations. Together with Mr Rumberg as CEO, we believe that the GESCO AG Executive Board team is excellently positioned to actively bring the GESCO Group forward over the next few years.

Adjustment to the financial year

In financial year 2018/2019, the German Financial Reporting Enforcement Panel (FREP) conducted a random audit of the consolidated financial statements and the Group management report, as well as of the annual financial statements and management report of GESCO AG, for financial year 2017/2018. After reviewing and adopting the financial statements for financial year 2018/2019, FREP submitted the following finding: "The consolidated financial statements as at 31 March 2018 of GESCO AG includes all 57 subsidiaries with reporting dates as at 31 December 2017, and so the consolidated financial statements as at 31 March 2018 as well as the associated Group management report actually present the assets, liabilities, financial position and profit or loss of the Group as at 31 December 2017 and not as at 31 March 2018. The use of different reporting dates goes against IFRS 10.B92, as there are no clear reasons why the same reporting dates cannot be used."

The financial year of GESCO AG has differed from those of its subsidiaries since the company's establishment in 1989. In 1989 we deliberately established this procedure so that we could base the consolidation process on audited financial statements of the subsidiaries and therefore reliable, verified figures. This also took into consideration the SME structure of the GESCO Group. As explained in the financial statements, we refrained from preparing interim financial statements for the subsidiaries as at 31 March pursuant to IFRS 10.B92 as preparing and auditing additional interim financial statements for all subsidiaries would lead to an unreasonably high workload and expenditure with no adequate informational benefit.

These circumstances are presented transparently in the financial statements, are well-known facts by all parties and have not previously been objected to by DPR in previous indication-based and random audits. In order to achieve parity in terms of the reporting dates of GESCO AG and the subsidiaries, GESCO AG will propose to the Annual General Meeting on 29 August 2019 that the financial year of GESCO AG and therefore that of the GESCO Group be adjusted to match the calendar year.

Thanks for all the effort

People are a key factor in the success of the GESCO Group. The Supervisory Board would therefore like to thank the Executive Board, the managing directors of the subsidiaries and all GESCO Group employees for their outstanding loyalty and great commitment in the past financial year and the contribution they have all made to significantly improving the Group's results.

Wuppertal, 29 May 2019

On behalf of the Supervisory Board

Klaus Möllerfriedrich,
Chairman of the Supervisory Board