

Annual Accounts and Management Report

as at 31 December 2019

Auditor's Report

GESCO AG

Wuppertal

GESCO AG, Wuppertal

Balance sheet as at 31 December 2019

ASSETS

	Note	31.12.2019 €	Previous year €000
A. NON-CURRENT ASSETS			
I. Intangible assets			
IT software		52,457.00	39
II. Tangible assets			
Other plant, fixtures and fittings		337,754.12	265
III. Financial investments			
1. Shares in affiliated companies	(1)	138,534,148.80	133,182
2. Investments		5,000.00	5
		<u>138,539,148.80</u>	<u>133,187</u>
		<u>138,929,359.92</u>	<u>133,491</u>
B. CURRENT ASSETS			
I. Receivables and other assets			
1. Amounts owed by affiliated companies			
of which with a residual term of more than one year: € 36,558,121.94 (€ 34,420 thousand)	(2)	77,503,043.17	69,636
2. Other assets			
of which with a residual term of more than one year: € 642,918.09 (€ 851 thousand)	(3)	11,949,607.93	13,240
		<u>89,452,651.10</u>	<u>82,876</u>
II. Cash, credit with financial institutions			
		<u>6,493,534.89</u>	<u>8,330</u>
		<u>95,946,185.99</u>	<u>91,206</u>
C. ACCOUNTS RECEIVABLE AND PAYABLE			
		<u>75,721.19</u>	<u>171</u>
		<u>234,951,267.10</u>	<u>224,868</u>

EQUITY AND LIABILITIES

	Note	31.12.2019 €	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	0
		<u>10,839,499.00</u>	<u>10,839</u>
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		<u>104,919,173.52</u>	<u>85,671</u>
		<u>104,977,890.79</u>	<u>85,730</u>
IV. Retained profit			
		<u>11,309,289.17</u>	<u>17,716</u>
		<u>200,614,464.38</u>	<u>187,773</u>
B. PROVISIONS			
1. Provisions for pensions and similar obligations			
	(7)	2,393,854.00	2,232
2. Provisions for taxes			
		0.00	27
3. Other provisions			
	(8)	<u>3,066,384.00</u>	<u>3,514</u>
		<u>5,460,238.00</u>	<u>5,773</u>
C. LIABILITIES			
1. Liabilities to financial institutions			
		26,755,225.81	29,770
2. Trade creditors			
		118,410.60	166
3. Liabilities to affiliated companies			
		183,993.41	184
4. Other liabilities			
of which from taxes: € 560,341.94 (€ 65 thousand)		654,723.90	584
of which related to social security: € 6,719.79 (€ 6 thousand)			
		<u>27,712,353.72</u>	<u>30,704</u>
D. DEFERRED TAX LIABILITIES			
	(10)	<u>1,164,211.00</u>	<u>618</u>
		<u>234,951,267.10</u>	<u>224,868</u>

GESCO AG

Income statement
for the period from 1 April 2019 to 31 December 2019

	<u>Note</u>	<u>Abbreviated FY</u> <u>1 Apr. - 31 Dec. 2019</u>	<u>Previous</u> <u>year</u>
		€	€000
1. Sales revenue		801,097.33	519
2. Other operating income	(11)	282,219.44	546
3. Personnel expenditure			
a) Wages and salaries		-3,236,216.47	-3,805
b) Social security contributions and expenditure on pensions and benefits		-382,790.21	-494
of which for pensions and benefits: € 194,564.69 (€ 272 thousand)			
		-3,619,006.68	-4,299
4. Depreciation and amortisation			
a) on tangible and intangible assets		-140,422.28	-175
5. Other operating expenses	(12)	<u>-3,036,826.16</u>	<u>-4,315</u>
		-5,712,938.35	-7,724
6. Earnings from investments		26,666,642.52	45,237
of which from affiliated companies: € 26,666,642.52 (€ 45,237 thousand)			
7. Earnings from profit and loss transfer agreements		2,927,178.51	3,372
8. Other interest and similar income	(13)	550,165.14	622
of which to affiliated companies: € 527,764.58 (€ 586 thousand)			
9. Depreciation on financial assets and on securities held as current assets	(14)	0.00	-4,000
10. Interest and similar expenditure		-307,603.69	-489
of which to affiliated companies: € 509.56 (€ 1 thousand)			
of which expenditure from interest: € 61,681.00 (€ 91 thousand)			
11. Taxes on income and earnings		<u>-1,501,908.79</u>	<u>-1,582</u>
12. Earnings after taxes		22,621,535.34	35,436
13. Other taxes		<u>-2,957.00</u>	<u>-3</u>
14. Net income		22,618,578.34	35,433
15. Transfer to revenue reserves		<u>-11,309,289.17</u>	<u>-17,716</u>
16. Retained profit		<u>11,309,289.17</u>	<u>17,717</u>

GESCO AG
Annual Financial Statements as at 31 December 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. Changing the financial year

The financial years of GESCO AG and GESCO Group have run from 1 April to 31 March of the following year ever since the company was founded in 1989, while the financial years of the subsidiaries coincide with the calendar year. The German Financial Reporting Enforcement Panel (FREP) conducted a random audit of the consolidated financial statements as at 31 March 2018 and submitted an error finding for the first time in relation to the different financial years. The reason given for this error finding was that the use of different financial years is a violation of IFRS 10.B92, as there are no valid reasons that preclude the practical implementation of the same reporting dates. The Annual General Meeting of GESCO AG on 29 August 2019 resolved that the financial year of GESCO AG be adjusted to match the calendar year so as to synchronise the reporting dates of GESCO AG with those of the subsidiaries. This resulted in a nine-month abbreviated financial year from 1 April to 31 December 2019 for GESCO AG. The financial years of the subsidiaries continue to coincide with the calendar year.

3. Accounting and valuation methods

The annual financial statements as at 31 December 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.

4. Information on the balance sheet

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

Shares in affiliated companies (1)

The addition concerns the acquisition of shares (10 %) in SVT GmbH from the outgoing managing director in accordance with the contract dated 7 August 2019. A portion of the purchase price in relation to the acquisition of shares in Pickhardt & Gerlach GmbH & Co. KG is reported as a reclassification from amounts owed by affiliated companies. This amount concerns the company’s reserves.

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 €10,839,499.00 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 39,969 shares in the reporting period and sold 39,969 of them at a nominal value totalling €40 thousand (0.37 % of share capital) and a sale price of €520 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 withdrawals from revenue reserves resulting from own shares, the Executive Board added €11,309,289.17 to revenue reserves from net earnings for the abbreviated financial year from 1 April to 31 December 2019 in accordance with Section 58 para. 2 of the German Stock Corporation Act (AktG). Moreover, the Annual General Meeting of 29 August 2019 resolved to transfer €7,961,125.79 from retained profit as at 31 March 2019 to other revenue reserves.

Reserves developed as follows:

	Capital reserves	Statutory reserves	Other retained profits
	€000	€000	€000
As at 31 March 2019	73,488	59	85,671
Acquisition/sale of own shares	0	0	-22
Addition	0	0	19,270
As at end of financial year	<u>73,488</u>	<u>59</u>	<u>104,919</u>

Provisions for pensions and similar obligations (7)

€000	1 Apr. 2019 - 31 Dec. 2019	1 Apr. 2018 - 31 Mar. 2019
As at 1 April	2,232	2,051
interest expense	51	74
change	111	107
As at end of financial year	2,394	2,232

%	1 Apr. 2019 - 31 Dec. 2019	1 Apr. 2018 - 31 Mar. 2019
interest rate	2.71	3.21
salary growth	0.00	2.75
Indexation	1.60	1.60

The difference pursuant to Section 253 para. 6 HGB is €251 thousand (previous year: €288 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, annual reporting costs, outstanding invoices and any non-deductible advance tax payments. The purchase price annuity obligation was calculated in accordance with actuarial principles on the basis of a 1.97 % interest rate (previous year: 2.32 %).

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 thirteenth tranche was initiated in September 2019 in the form of a virtual share-option programme. A total of 68,800 options were issued to members of the Executive Board and management employees of GESCO AG.

Non-cash expenditure under this programme is determined using a common binomial model, recorded in earnings on a pro rata basis and recognised in other provisions. The model assumes volatility of 26.40 % (previous year: 23.94 %) and a risk-free interest rate of -0.86 % (previous year: -0.06 %); the exercise price of the options issued in September 2019 is €23.92. 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 €1.28. These annual financial statements are the first to include the expenditure resulting from the stock option programme initiated in the reporting year for a four-month period (€7 thousand). Taking into account the change in value, total expenditure for the eighth to thirteenth tranche amounted to €80 thousand in the reporting year; in the previous year, total expenditure was €78 thousand. Provisions as at the reporting date came to €491 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	31.12.2019 (31.03.2019)	Residual term up to 1 year	Residual term up to 5 years	Residual term > 5 years
Liabilities to financial institutions	26,755 (29,770)	11,680 (8,930)	10,961 (14,780)	4,114 (6,060)
Trade liabilities	118 (166)	118 (166)	0 (0)	0 (0)
Liabilities to affiliated companies	184 (184)	184 (184)	0 (0)	0 (0)
Other liabilities	655 (584)	655 (584)	0 (0)	0 (0)
	27,712 (30,704)	12,637 (9,864)	10,961 (14,780)	4,114 (6,060)

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 2018/2019, the calculation of deferred taxes resulted in a tax obligation. In the abbreviated financial year, the calculation of deferred taxes led once again to a tax obligation of € 1,164 thousand as reported in the balance sheet under deferred tax liabilities.

€000	31.03.2019	Change	31.12.2019
deferred tax assets	4,935	225	5,160
deferred tax liabilities	-5,552	-772	-6,324
	-617	-547	-1,164

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. It is not expected that this insurance will be utilised as at the balance sheet date 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 subsidiaries 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 (€ 1,260 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.

GESCO AG granted an affiliated company a loan of € 1,000 thousand, which had not yet been disbursed as at the reporting date.

5. Information on the income statement

Other operating income (11)

Other operating income includes income from the reversal of provisions (€ 136 thousand; previous year: € 377 thousand), of which € 81 thousand (previous year: € 282 thousand) is attributable to all obligations to repay already reimbursed advanced tax payments that are no longer anticipated due to the results of past external tax audits. Of this other operating income, € 158 thousand is attributable to other periods.

Other operating expenditure (12)

Other operating expenditure concerns legal and consulting costs, external business services costs, expenditure for investor relations, year-end and auditing costs, insurance and the employee share scheme.

6. Events after the reporting date

The spread of the corona virus accelerated rapidly after the reporting date, 31 December 2019. On 30 January 2020 the World Health Organisation (WHO) declared a public health emergency of international concern, and on 11 March 2020 it classed the spread of COVID-19 as a pandemic. Many countries have imposed severe restrictions on public life, economic activity and the private lives of their citizens. In light of the dynamic development of the situation, the financial impact of the pandemic on GESCO AG and the GESCO Group cannot be estimated at present.

7. 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 0.06 % 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 18 people (pursuant to Section 267 para. 5 of the German Commercial Code (HGB)) during the financial year (previous year: 17).

Auditor

The fee in the financial year for auditing services amounted to €249 thousand and for tax consulting €7 thousand.

Executive bodies of the company

Executive Board

Ralph Rumberg, Witten, Germany
Spokesman of the Executive Board

Kerstin Müller-Kirchhofs, Düsseldorf, Germany (since 1 May 2019)
Member of the Executive Board

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

As at 31 December 2019, provisions for pensions in the amount of €2,394 thousand (previous year: €2,232 thousand) existed for former Executive Board members. A former member of the Executive Board was granted payments of €53 thousand (previous year: €71 thousand) on the basis of his pension commitment in the financial year.

Supervisory Board

Klaus Möllerfriedrich, Düsseldorf, Germany
Chairman,
Auditor

Deputy Chairman of the Supervisory Board:

- TopAgers AG, Langenfeld, Germany
- HINKEL & CIE. Vermögensverwaltungs AG, Düsseldorf, Germany (until 21 January 2020)

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

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

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

Member of the Supervisory Board:
 – Washtec AG, Augsburg, Germany
 – Sparta AG, Hamburg, Germany (until 15 May 2019)

Dr Nanna Rapp, Düsseldorf, Germany
 Chief Executive Officer of E.ON Inhouse Consulting GmbH, Essen (Managing Director until
 31 January 2020)

Chairwoman of the Supervisory Board:
 – E.ON Energie AG, Düsseldorf, Germany (until 29 February 2020)

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

€000	1.4.2019-31.12.2019 (1.4.2018-31.3.2019)	fixed remuneration	variable remuneration	total
	Klaus Möllerfriedrich	16 (20)	44 (94)	60 (114)
	Stefan Heimöller	14 (17)	44 (94)	58 (111)
	Jens Große-Allermann	11 (15)	44 (94)	55 (109)
	Dr Nanna Rapp	12 (14)	44 (94)	56 (108)
		53 (66)	176 (376)	229 (442)

Proposed appropriation of retained profit

Retained profit consists of the following:

€	1.4.2019- 31.12.2019	1.4.2018- 31.03.2019
Net income for the period	22,618,578.34	35,433,349.77
Transfer to other revenue reserves	11,309,289.17	17,716,674.88
Retained profit	11,309,289.17	17,716,674.89

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

On the financial statement preparation date, the Executive Board is proposing the following appropriation of retained profit for the abbreviated financial year from 1 April to 31 December 2019:

Payment of a dividend of €0.23 per share on the current share capital entitled to dividends (10,839,499 shares)	€2,493,084.77
Transfer to other revenue reserves	<u>€8,816,204.40</u>
	<u>€11,309,289.17</u>

Wuppertal, Germany, 30 March 2020

Ralph Rumberg
Spokesman of the Executive Board (CEO)

Kerstin Müller-Kirchhofs
Member of the Executive Board

	Cost of acquisition or manufacture					Depreciation				Book values	
	1.4.2019	Additions	Disposals	Transfers	31.12.2019	1.4.2019	Additions	Disposals	31.12.2019	31.12.2019	31.3.2019
	€	€	€	€	€	€	€	€	€	€	€
NON-CURRENT ASSETS											
I. Intangible assets											
IT software	275,121.36	33,922.00	0.00	0.00	309,043.36	236,383.86	20,202.50	0.00	256,586.36	52,457.00	38,737.50
	275,121.36	33,922.00	0.00	0.00	309,043.36	236,383.86	20,202.50	0.00	256,586.36	52,457.00	38,737.50
II. Tangible assets											
Other plant, fixtures and fittings	984,938.34	212,377.28	128,063.78	0.00	1,069,251.84	719,747.22	120,219.78	108,469.28	731,497.72	337,754.12	265,191.12
	984,938.34	212,377.28	128,063.78	0.00	1,069,251.84	719,747.22	120,219.78	108,469.28	731,497.72	337,754.12	265,191.12
III. Financial investments											
1. Shares in affiliated companies	144,064,327.01	1,685,014.30	0.00	3,667,154.04	149,416,495.35	10,882,346.55	0.00	0.00	10,882,346.55	138,534,148.80	133,181,980.46
2. Investments	5,000.00	0.00	0.00	0.00	5,000.00	0.00	0.00	0.00	0.00	5,000.00	5,000.00
	144,069,327.01	1,685,014.30	0.00	3,667,154.04	149,421,495.35	10,882,346.55	0.00	0.00	10,882,346.55	138,539,148.80	133,186,980.46
	145,329,386.71	1,931,313.58	128,063.78	3,667,154.04	150,799,790.55	11,838,477.63	140,422.28	108,469.28	11,870,430.63	138,929,359.92	133,490,909.08

GESCO AG holdings as at 31.12.2019

No.	Company	Location	Share in capital in %	Equity 2019 EUR'000	Year's result 2019 EUR'000	Assignment of shares to no.
1	GESCO AG (parent company)	Wuppertal				
	<u>a) fully consolidated companies</u>					
2	Alro GmbH	Wuppertal	100	308	-1	1
3	AstroPlast Kunststofftechnik GmbH & Co. KG	Meschede	100	826	-613	1
4	AstroPlast Verwaltungs GmbH	Meschede	100	91	3	1
5	C.F.K. CNC-Fertigungstechnik Kriftel GmbH	Kriftel	80	3,818	9	1
6	Dömer GmbH & Co. KG Stanz- und Umformtechnologie	Lennestadt	100	1,532	7	1
7	Dömer GmbH	Lennestadt	100	52	1	1
8	Dörrenberg Edelstahl GmbH	Engelskirchen	90	60,475	10,523	1
9	Dörrenberg Tratamientos Térmicos SL	Alasua, Navarra, Spain	60	2,239	400	8
10	Dörrenberg Special Steels PTE. LTD.	Singapore	90	2,437	113	8
11	Dörrenberg International PTE. LTD.	Singapore	90	626	-2	8
12	Dörrenberg Specialty Steel Corp.	Macedonia/ OH, USA	100	48	45	8
13	Dörrenberg Special Steels Taiwan LTD.	Tainan City, Taiwan	100	1,401	148	11
14	Middle Kingdom Special Steels Pte. Ltd.	Singapore	60	662	-9	11
15	Jiashan Dörrenberg Mould & Die Trading Co.	Jiashan, China	100	3,646	565	14
16	Frank Walz- und Schmiedetechnik GmbH	Hatzfeld	90	11,913	144	1
17	Frank-Hungaria Kft.	Özd, Hungary	100	3,894	742	16
18	FRANK Lemeks Tow	Ternopil, Ukraine	100	1,148	226	16
19	Frank RUS OOO	Russia	100	155	99	16
20	Franz Funke Zerspanungstechnik GmbH & Co. KG	Sundern	100	1,320	520	1
21	Franz Funke Verwaltungs GmbH	Sundern	100	87	3	1
22	Haseke GmbH & Co. KG	Porta Westfalica	80	1,273	864	1
23	Haseke Beteiligungs-GmbH	Porta Westfalica	100	81	3	1
24	Hubl GmbH	Vaihingen/Enz	80	3,518	988	1
25	Georg Kesel GmbH & Co. KG	Kempten	90	727	574	1
26	Kesel & Probst Verwaltungs-GmbH	Kempten	100	40	0	25
27	Kesel International GmbH	Kempten	100	69	-6	25
28	Georg Kesel Machinery (Jiashan) Co., Ltd.	Jiashan, China	100	377	151	27
29	Georg Kesel Machinery (Beijing) Co., Ltd.	Peking, China	100	249	-18	27
30	Kesel North America LLC	Beloit, USA	100	83	125	27
31	MAE Maschinen- und Apparatebau Götzen GmbH	Erkrath	100	5,444	0	1
32	MAE International GmbH	Erkrath	100	64	-2	31
33	MAE Machines (Beijing) Co., Ltd.	Peking, China	100	328	67	32
34	MAE Amerika GmbH	Erkrath	100	1,772	24	31
35	MAE-EITEL INC.	Orwigsburg, USA	90	2,571	173	34
36	Modell Technik Formenbau GmbH	Sömmerda	100	641	0	1
37	Modell Technik Beteiligungsgesellschaft mbH	Sömmerda	100	132	-2	1
38	Molineus & Co. GmbH + Co. KG	Wuppertal	100	265	10	1
39	GRAFIC Beteiligungs-GmbH	Wuppertal	100	49	2	38
40	MV Anlagen GmbH & Co. KG	Wuppertal	100	57	-3	1
41	Paul Beier GmbH & Co. KG	Kassel	100	1,794	310	1
42	Paul Beier Verwaltungs-GmbH	Kassel	100	78	0	1
43	Pickhardt & Gerlach GmbH & Co. KG	Finnentrop	100	7,624	3,557	1
44	Hekhorn Verwaltungs-GmbH	Finnentrop	100	89	11	43
45	Hekhorn Immobilien GmbH	Finnentrop	100	2,861	343	1
46	Sommer & Strassburger GmbH & Co. KG	Bretten	100	3,975	2,371	1
47	So-Str Verwaltungs GmbH	Bretten	100	34	-1	1
48	Q-Plast GmbH & Co. Kunststoffverarbeitung	Emmerich	100	154	52	50
49	Q-Plast Beteiligungs-GmbH	Emmerich	100	87	3	50
50	Setter GmbH & Co. Papierverarbeitung	Emmerich	100	3,697	3,569	1
51	Setter GmbH	Emmerich	100	7,086	1,459	1
52	HRP-Leasing GmbH	Emmerich	100	734	0	51
53	Setter International GmbH	Emmerich	100	4,297	483	50
54	Setterstix Inc.	Cattaraugus, USA	100	7,029	1,394	53
55	SQG Verwaltungs GmbH	Emmerich	100	117	10	50
56	Setterstix de Mexico. S.A. DE C.V.	San Luis Potosi, Mexico	100	48	-294	55
57	SVT GmbH	Schwelm	100	9,883	1,008	1
58	IV Industrierwaltung GmbH & Co. KG	Wuppertal	100	117	-3	1
59	IMV Verwaltungs GmbH	Wuppertal	100	79	3	1
60	VWH GmbH	Herschbach	80	5,972	1,070	1
61	WBL Holding GmbH	Laichingen	100	6,277	-2,801	1
62	Werkzeugbau Laichingen GmbH	Laichingen	100	3,351	0	61
63	Werkzeugbau Leipzig GmbH	Leipzig	100	2,034	-807	61
64	TM Erste Grundstücksgesellschaft mbH	Wuppertal	100	2,709	405	61
	<u>b) associated companies *)</u>					
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
	<u>c) companies which are not consolidated</u>					
68	Connex SVT Inc.	Houston, USA	100	773	643	57

*) 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 abbreviated financial year 2019
(1 April to 31 December 2019)

1. Changing the financial year

The financial years of GESCO AG and GESCO Group have run from 1 April to 31 March of the following year ever since the company was founded in 1989, while the financial years of the subsidiaries coincide with the calendar year. The German Financial Reporting Enforcement Panel (FREP) conducted a random audit of the consolidated financial statements as at 31 March 2018 and submitted an error finding for the first time in relation to the different financial years. The reason given for this error finding was that the use of different financial years is a violation of IFRS 10.B92, as there are no valid reasons that preclude the practical implementation of the same reporting dates. The Annual General Meeting of GESCO AG on 29 August 2019 resolved that the financial year of GESCO AG be adjusted to match the calendar year so as to synchronise the reporting dates of GESCO AG with those of the subsidiaries. This resulted in a nine-month abbreviated financial year from 1 April to 31 December 2019 for GESCO AG. The financial years of the subsidiaries continue to coincide with the calendar year.

2. General economic development

The **German gross domestic product** increased by 0.6 % in 2019. This means that the German economy grew for the tenth year in succession, albeit at a lower rate of growth below the average recorded over the past ten years. Consumption was particularly responsible for growth momentum.

The **Verband Deutscher Maschinen- und Anlagenbau e. V. (VDMA)** had initially forecast a 2 % increase in production in 2019, but reduced its outlook to 1 % in March 2019 at Hannover Messe and subsequently forecast a decline in production of 2 % in July 2019. According to figures published by the VDMA, production fell by 2.4 % year on year. Exports to industrialised economies are expected to have been positive, according to VDMA figures, whereas exports to developing and emerging economies, which account for more than one-third of all machinery exports, were negative.

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.

3. Changes to the scope of consolidation

GESCO AG acquired the minority shareholding of 10 % held by the former managing director of **SVT GmbH**, Schwelm, Germany, with effect from 7 August 2019. Since then, GESCO AG has held 100 % of the shares in the company.

4. Business performance

GESCO Group's companies are mainly active in the capital goods industry. After two years of growth, the sector saw a broad decline in business in 2019. Correspondingly, the VDMA (the relevant association) reported a 2.4 % drop in production year on year. In this environment, sales were down in total and margins were under substantial pressure at GESCO Group as well.

At €45.2 million, GESCO AG's income from investments was unusually high in the previous financial year (2018/2019) due to above-average dividend distributions that were undertaken to optimise liquidity within GESCO Group. In abbreviated financial year 2019, income from investments was once again at a normal level of €26.7 million.

Income from profit and loss transfer agreements decreased from €3.4 million to €2.9 million, as the subsidiaries in question recorded a decline in earnings in an increasingly challenging environment.

The previous year had seen write-downs on financial assets of €4.0 million related to the recoverability of the investment in WBL Holding GmbH as the parent company of the Werkzeugbau Laichingen Group. By contrast, no write-downs on financial assets were necessary in the reporting year.

Other operating income stood at €0.3 million (previous year's period: €0.5 million), with other operating expenses of €3.0 million (€4.3 million). Net income totalled €22.6 million (€35.4 million).

Assuming a full twelve-month financial year in 2019/2020, GESCO AG would have expected a normalisation of income from investments and net income approximately on a par with financial year 2017/2018. All in all, the actual values were in line with these expectations.

GESCO AG's total assets amounted to €235.0 million as at the reporting date of 31 December 2019. The balance sheet items remained largely stable.

On the assets side, financial investments increased due to the acquisition of a minority share and reclassification from receivables. Furthermore, receivables and other assets increased. Liquid assets stood at €6.5 million as at the reporting date (previous year's reporting date: €8.3 million). A dividend of €9.8 million was distributed to the company's shareholders in the reporting period.

On the liabilities side, equity continued to rise to €200.6 million (€187.8 million); the equity ratio stood at 85.4 % (83.5 %). The decrease in liabilities from €30.7 million to €27.7 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, low 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.

In the management report for financial year 2018/2019, we had forecast an equity ratio of around 80 % for the new financial year; this expectation was met.

At the end of the financial year, GESCO AG had access to approved but unused credit lines totalling approximately € 1.7 million.

5. 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.

6. 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 that has been significantly expanded within the scope of the NEXT LEVEL strategy.

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. 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 CO₂ emissions and regulatory frameworks. GESCO Group has taken a variety of steps to rise to these challenges, including the implementation of excellence programmes at the subsidiaries. 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 whistleblower system for both employees and external parties. The job of the subsidiaries' managing directors 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 know-how and skills within the company are only passed on insufficiently from older employees to younger employees. Measures to achieve a targeted transfer 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 programme 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 do not expect to see any material changes in interest rates in financial year 2020, either in the eurozone or in the US.

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

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 and the other operative risks referred to above, we currently see the high level of political uncertainty as a great risk to operating business.

The coronavirus pandemic constitutes the greatest risk at the present time. Its impact on economic development in various countries and industries cannot be evaluated at the current time, but will be dramatic. We are not currently aware of any specific risks that could endanger or significantly affect survival of GESCO AG and the Group.

7. 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/en/investor-relations/financial-reports/.

8. 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

Kerstin Müller-Kirchhofs was appointed to the Executive Board with effect from 1 May 2019.

9. 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.

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 to 2019 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 for 2017 to 2019. 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 to 2019 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 2019 resulted in 68,800 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 26.40 % and a risk-free interest rate of -0.86 %; the options' exercise price is €23.92. 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 €1.28.

Executive Board members receive contributions in the amount of a certain percentage of their base salary for the purpose of **pension planning**.

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

Compensation in €'000	Dr Eric Bernhard CEO (until 15 June 2018)	Robert Spartmann (until 30 November 2018)	Ralph Rumberg Spokesman of the Executive Board (CEO) (since 1 July 2018)				Kerstin Müller-Kirchhofs (since 1 May 2019)		
	2018/ 2019	2018/ 2019	2018/ 2019	1 Apr– 31 Dec 2019	1 Apr– 31 Dec 2019 (min)	1 Apr– 31 Dec 2019 (max)	1 Apr– 31 Dec 2019	1 Apr– 31 Dec 2019 (min)	1 Apr– 31 Dec 2019 (max)
Fixed remuneration	234	217	244	244	244	244	187	187	187
Additional benefits	7	11	18	18	18	18	9	9	9
Total	241	228	262	262	262	262	196	196	196
One-year variable remuneration	262	298	298	207	84	488	176	0	373
Multi-year variable remuneration (SOP)									
2018 tranche	33	33	33	0	0	0	0	0	0
2019 tranche	0	0	0	23	0	215	23	0	215
Total	295	331	230	230	84	703	199	0	588
Pension-related expenses	62	57	49	49	49	49	37	37	37
Total remuneration	598	616	642	541	395	1,014	432	233	821

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 (until 30 November 2018)	Ralph Rumberg Spokesman of the Executive Board (CEO) (since 1 July 2018)		Kerstin Müller-Kirchhofs (since 1 May 2019)
	2018/ 2019	2018/ 2019	2018/ 2019	1 Apr– 31 Dec 2019	1 Apr– 31 Dec 2019
Fixed remuneration	234	217	244	244	187
Additional benefits	7	11	18	18	9
Total	241	228	262	262	196
One-year variable remuneration	221	242	0	276	0
Multi-year variable remuneration (SOP)	0	0	0	0	0
Total	221	242	0	276	0
Pension-related expenses	62	57	65	32	37
Total remuneration	524	527	327	570	233

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.

10. Outlook/forecast report

In its November 2019 forecast for the coming year, the German Council of Economic Experts initially anticipated gross domestic product growth of 0.9 % in Germany in 2020. Due to the corona pandemic, the Kiel Institute for the World Economy (IfW Kiel) subsequently predicted a 0.1 % decline in GDP in its spring forecast, which it released on 12 March 2020. Just one week later, on 19 March 2020, IfW Kiel released a revised

forecast on account of the significant deterioration in the outlook that predicted a decline of between 4.5 % and 9 % depending on the duration of the lockdown imposed on the German economy.

With incoming orders in the mechanical engineering sector down by 9 % in 2019, the sector is expecting to see a further decline in production in 2020. In mid-March 2020, the VDMA adjusted its forecast for the decline in production from 2 % to 5 % in light of the anticipated effects of the pandemic, among other factors, and pointed out the high degree of uncertainty involved in this outlook.

GESCO AG expects income from investments and net income in financial year 2020 to be roughly on par with, or slightly below, the level seen in abbreviated financial year 2019. However, we would like to explicitly note that the full impact of the pandemic cannot be foreseen at the current time. As a result, expectations for financial year 2020 may change significantly at short notice.

Barring any material changes to the scope of consolidation, GESCO AG's equity ratio should remain at or around the 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, 30 March 2020

Ralph Rumberg
Spokesman of the Executive Board (CEO)

Kerstin Müller-Kirchhofs
Member of the Executive Board

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, 30 March 2020

The Executive Board

Ralph Rumberg

Spokesman of the Executive Board (CEO)

Kerstin Müller-Kirchhofs

Member of the Executive Board

[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 December 2019, income statement for the abbreviated financial year from 1 April 2019 to 31 December 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 abbreviated financial year from 1 April 2019 to 31 December 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 December 2019 and its earnings for the abbreviated financial year from 1 April 2019 to 31 December 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 Regulation (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 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 abbreviated financial year from 1 April 2019 to 31 December 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 € 138.5 million (= 59 % of total assets) and receivables from affiliated companies amounting to € 77.5 million (= 33 % 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. No impairment losses were necessary in the abbreviated financial year from 1 April 2019 to 31 December 2019. The 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 2 and 3 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 as well as 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 2020. 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 € 3.1 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) 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 29 August 2019. We were engaged by the Supervisory Board on 14 October 2019. 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 Alexander Koch.

Wuppertal, 30 March 2020

Breidenbach und Partner PartG mbB
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

(Straube)
Wirtschaftsprüfer
German Public Auditor

(Koch)
Wirtschaftsprüfer
German Public Auditor

Report from the Supervisory Board for the abbreviated financial year 2019

Following two financial years with economic tailwind, demand in the capital goods industry and the automotive sector weakened in 2019. Regardless of fluctuations in economic development, the Executive Board continued to implement the NEXT LEVEL strategy with the GESCO AG team and the subsidiaries and will continue to do so in the current financial year. The financial year of GESCO AG, and therefore that of GESCO Group, was changed to coincide with the calendar year so that GESCO AG and GESCO Group both had a nine-month abbreviated financial year 2019.

Due to the ongoing corona pandemic, any outlook for the current financial year is subject to extreme uncertainty. The Executive Board and Supervisory Board will work together to do their utmost to steer GESCO Group through this crisis in the best possible way.

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

Change in financial year

As announced in the Supervisory Board report for the previous financial year, the Executive Board and Supervisory Board proposed to the Annual General Meeting on 29 August 2019 that the financial year of GESCO AG be adjusted to match the calendar year. This resolution was passed by the Annual General Meeting, resulting in an abbreviated financial year from 1 April to 31 December 2019. The change was initiated as a result of an error determined by the German Financial Reporting Enforcement Panel (FREP) with regard to the consolidated financial

statements as at 31 March 2018. Detailed information on this issue can be found in the Annual Report of GESCO AG for the abbreviated financial year 2019.

Cooperation between the Executive Board and the Supervisory Board

The Supervisory Board and the newly restaffed Executive Board were able to ensure an intensive and trusting working relationship from the outset. Throughout the reporting year, the Supervisory Board observed the control and advisory tasks incumbent upon it in accordance with German law, the Articles of Association and the Rules of Procedure with the required due diligence. These tasks included the regular exchange of information with the Executive Board and the supervision of the company's management with regard to its legality, regularity, appropriateness and economic viability.

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

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 and on an ongoing basis, 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 on the internal control and risk management system from the GESCO AG employee responsible for these areas at its regular quarterly meetings. The Supervisory Board engaged with the structure, 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 of the 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 2019. It was within this context that the Supervisory Board visited two subsidiaries near the meeting venue.

Changes to the management of subsidiaries were discussed in detail by the Supervisory Board and the Executive Board. Newly recruited members of management teams were invited for an interview with the Supervisory Board before the approval resolution was tabled.

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 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 the abbreviated financial year 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. The competency matrix constitutes a part of the declaration of corporate governance.

Meetings and resolutions of the Supervisory Board

There were a total of 11 Supervisory Board meetings in the abbreviated financial year 2019; one of these meetings took place internally without the involvement of the Executive Board. Nine of these meetings were attended by all members of the Supervisory Board; Mr. Große-Allermann did not attend two of these meetings for personal reasons. 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 key issues:

- Discussion of the annual financial statements and consolidated financial statements of GESCO AG as at 31 March 2019; adoption of the annual financial statements and the consolidated financial statements as at 31 March 2019
- Annual budget for 2020
- Agenda at the Annual General Meeting
- Strategy implementation at GESCO AG and 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
- Error Determination of DPR and change in financial year of GESCO AG to the calendar year
- Rules of management/distribution of business for the Executive Board
- Organisation of the Supervisory Board
- Rules for the management of the Supervisory Board
- New arrangement regarding remuneration of the Supervisory Board
- Nomination of candidates for the next Supervisory Board period

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 2019; an updated declaration was published in January 2020. 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. The focus of these measures was on the development of the regulatory framework.

In 2019, the Chairman of the Supervisory Board conducted an efficiency audit of the Supervisory Board 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 organisation of Supervisory Board meetings, cooperation with the Executive Board, the provision of information by 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 29 August 2019, Breidenbach und Partner PartG mbB, Wirtschaftsprüfungsgesellschaft – Steuerberatungsgesellschaft, Wuppertal, was commissioned by the Supervisory Board on 14 October 2019 to audit the annual financial statements and consolidated financial statements. The auditor confirmed its independence to us in a letter dated 15 May 2019. 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 to 31 December 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 30 March 2020.

The consolidated financial statements and Group management report of GESCO Group for the abbreviated financial year from 1 April to 31 December 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 30 March 2020.

This year, the focal points of the audit for the individual financial statements of GESCO AG were the recoverable amount of investments, the accrual and recoverable amount of receivables from associated companies and the valuation of other provisions with discretionary powers. The focal points of the audit of the consolidated financial statements were the recoverability of goodwill (impairment test), 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, represented by the Chairman of the Supervisory Board and an additional member of the 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 30 March 2020. 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 1 April 2020. 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 completed the recruitment of a new Executive Board member in the financial year 2019. As discussed in the Supervisory Board Report on the financial year 2018/2019, Ms Kerstin Müller-Kirchhofs took up her position as Chief Financial Officer of GESCO AG on 1 May 2019. With Mr Rumberg as CEO and Ms Müller-Kirchhofs as CFO, we believe that the GESCO AG Executive Board team is excellently positioned to actively bring the GESCO Group forward over the coming years.

Election to the Supervisory Board

The Supervisory Board analysed and discussed the appointment of members for the coming Supervisory Board period and its long-term focus. In past years, the Supervisory Board was successfully rejuvenated with the additions of Dr Rapp, Mr Heimöller and Mr Große-Allermann. The Chairman of the Supervisory Board and co-founder of GESCO AG, Mr Möllerfriedrich, is the only board member who still has in-depth knowledge of the history of GESCO AG and its affiliated companies. The Supervisory Board believes that the current Supervisory Board team comprehensively covers the necessary level of competency and considers its re-election to be both sensible and appropriate. That particularly applies to the position of the current Chairman of the Supervisory Board, whom the board wishes to retain in the new period on account of his extensive knowledge and competencies. Mr Möllerfriedrich has been a member of the company's Supervisory Board for more than 12 years. At the same time, the Supervisory Board considers Mr Möllerfriedrich to be independent within the meaning of section C.7 of the new German Corporate Governance Code, which came into force on 20 March 2020. In view of the performance of his duties to date, the Supervisory Board remains of the conviction that despite his many years on the Supervisory Board, Mr Möllerfriedrich continues to maintain the critical distance to the company and its Executive Board necessary for the performance of his duties. What's more, Mr Möllerfriedrich does not have any personal or business relationships with the company or its Executive Board that could give rise to a conflict of interest, nor does he hold any shares in the company. In the event of his re-appointment, the current Chairman of the Supervisory Board intends to stand for re-election as Chairman of the Supervisory Board, but to relinquish this office after three years. Current plans call for the current Deputy Chairman, Mr Heimöller, to subsequently run for the office of Chairman of the Supervisory Board. The Supervisory Board considers this approach to ensure the best-possible transfer of know-how within the board, which is in the interests of both the company and its shareholders.

Thanks for all the effort

People are a key factor in the success of the GESCO Group. The Supervisory Board would like to thank the Executive Board, the managing directors of the subsidiaries and all GESCO Group employees for their outstanding loyalty and great commitment in the past financial year. This year, a special thanks goes out to all the employees of GESCO AG and its subsidiaries who are active in accounting and who worked overtime in connection with the change in the financial year to ensure that the figures were prepared on time.

Wuppertal, 1 April 2020

On behalf of the Supervisory Board

Klaus Möllerfriedrich,
Chairman of the Supervisory Board