

Annual Accounts and Management Report

as at 31 March 2016

Auditor's Report

GESCO AG
Wuppertal

GESCO AG, Wuppertal

Balance sheet as at 31 March 2016

ASSETS

	Note	31.03.2016 €	Previous year €000
A. NON-CURRENT ASSETS			
I. Intangible assets			
IT software		<u>13.659,00</u>	<u>17</u>
II. Tangible assets			
Other plant, fixtures and fittings		<u>334.161,12</u>	<u>351</u>
III. Financial investments			
1. Shares in affiliated companies	(1)	77.355.028,42	77.755
2. Investments		<u>5.000,00</u>	<u>5</u>
		<u>77.360.028,42</u>	<u>77.760</u>
		<u>77.707.848,54</u>	<u>78.128</u>
B. CURRENT ASSETS			
I. Receivables and other assets			
1. Amounts owed by affiliated companies	(2)	44.269.974,88	44.120
of which with a residual term of more than one year:			
€ 28,166,289.03 (€ 24,500 thousand)			
2. Other assets	(3)	7.249.430,81	8.652
of which with a residual term of more than one year:			
€ 1,670,030.60 (€ 2,116 thousand)			
		<u>51.519.405,69</u>	<u>52.772</u>
II. Cash, credit with financial institutions		<u>14.971.799,49</u>	<u>13.512</u>
		<u>66.491.205,18</u>	<u>66.284</u>
C. ACCOUNTS RECEIVABLE AND PAYABLE			
		<u>170.199,16</u>	<u>36</u>
		<u>144.369.252,88</u>	<u>144.448</u>

EQUITY AND LIABILITIES

	Note	31.03.2016 €	Previous year €000
A. EQUITY			
I. Issued capital			
1. Subscribed capital	(4)	8.645.000,00	8.645
2. Acquired own shares	(5)	<u>-179,40</u>	<u>-1</u>
		<u>8.644.820,60</u>	<u>8.644</u>
II. Capital reserves	(6)	55.366.557,92	55.367
III. Revenue reserves	(6)		
1. Statutory reserves		58.717,27	59
2. Other revenue reserves		<u>46.634.655,10</u>	<u>46.295</u>
		<u>46.693.372,37</u>	<u>46.354</u>
IV. Retained profit		<u>6.649.862,00</u>	<u>5.818</u>
		<u>117.354.612,89</u>	<u>116.183</u>
B. PROVISIONS			
1. Provisions for pensions and similar obligations	(7)	1.812.393,00	1.738
2. Other provisions	(8)	<u>4.582.505,40</u>	<u>3.554</u>
		<u>6.394.898,40</u>	<u>5.292</u>
C. LIABILITIES			
1. Liabilities to financial institutions	(9)	20.169.285,81	22.640
of which with a residual term of more than one year:			
€ 2,120,000.00 (€ 2,471 thousand)			
2. Trade creditors		80.753,73	55
of which with a residual term of more than one year:			
€ 80,753.73 (€ 55 thousand)			
3. Liabilities to affiliated companies		183.749,85	183
of which with a residual term of more than one year:			
€ 183,749.85 (€ 183 thousand)			
4. Other liabilities		185.952,20	95
of which from taxes: € 139,402.11 (€ 56 thousand)			
of which related to social security: € 5,477.03			
(€ 5 thousand)			
of which with a residual term of more than one year:			
€ 185,952.20 (€ 95 thousand)			
		<u>20.619.741,59</u>	<u>22.973</u>
		<u>144.369.252,88</u>	<u>144.448</u>

GESCO AG

Income statement for the period from 1 April 2015 to 31 March 2016

	<u>Note</u>	<u>2015/2016</u>	<u>Previous</u>
		€	year €000
1. Earnings from investments		13.403.206,13	16.925
of which from affiliated companies:			
€ 13,403,206.13 (€ 16,925 thousand)			
of which from profit and loss transfer agreements:			
€ 2,414,671.75 (€ 0 thousand)			
2. Other operating income	(10)	1.717.294,55	3.118
3. Personnel expenditure			
a) Wages and salaries		-3.190.206,08	-2.831
b) Social security contributions and expenditure on pensions and benefits		-264.201,43	-324
of which for pensions and benefits:			
€ 84,529.36 (€ 145 thousand)			
		-3.454.407,51	-3.155
4. Depreciation and amortisation			
a) tangible and intangible assets		-145.657,31	-141
b) on current assets in as far as such exceed the usual depreciations in the corporation		<u>0,00</u>	<u>-1.200</u>
		-145.657,31	-1.341
5. Other operating expenses	(11)	<u>-3.023.203,21</u>	<u>-3.021</u>
		8.497.232,65	12.526
6. Other interest and similar income		472.782,34	672
of which from affiliated companies:			
€ 413,471.38 (€ 574 thousand)			
7. Depreciation of financial assets and of securities held as current assets		-400.000,00	-3.900
8. Expenditure from the assumption of losses		-925.029,89	-3.110
9. Interest and similar expenditure		-623.222,33	-840
of which to affiliated companies:			
€ 960.49 (€ 1 thousand)			
of which expenditure from interest:			
€ 106,458.00 (€ 108 thousand)			
10. Earnings from ordinary business activities		7.021.762,77	5.348
11. Taxes on income and earnings	(12)	-14.490,53	600
12. Other taxes		<u>-2.953,00</u>	<u>-3</u>
13. Net income		7.004.319,24	5.945
14. Transfer to revenue reserves		<u>-354.457,24</u>	<u>-127</u>
15. Retained profit		<u>6.649.862,00</u>	<u>5.818</u>

GESCO AG
Annual Financial Statements as at 31 March 2016

Notes

1. Accounting and valuation methods

The annual financial statements as at 31 March 2016 were prepared in accordance with the regulations regarding the balance sheet structure of large corporations under German commercial law and take into account the legal principles of accounting and measurement as well as the regulations of the Articles of Association.

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

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

Financial assets are reported at cost, taking into account any 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 a purchase price annuity obligation are stated at the value of the actual liability. They are measured using the "projected unit credit method" (PUC method). The calculations are based on the 2005 G tables of Prof. Dr. K. Heubeck. The interest rate was recognised on the basis of an assumed remaining term of 15 years and Section 253 para. 2 sentence 2 of the German Commercial Code (HGB) was applied.

Other provisions account for all discernible risks at the actual value of the expected liability.

Liabilities are recognised at their actual settlement values.

2. Information on the balance sheet

The following table shows the structure and development of assets:

	Cost of acquisition or manufacture				Depreciation				Book values	
	01.04.2015	Additions	Disposals	31.03.2016	01.04.2015	Additions	Disposals	31.03.2016	31.03.2016	31.03.2015
	€	€	€	€	€	€	€	€	€	€
NON-CURRENT ASSETS										
I. Intangible assets										
IT software	210,839.71	8,870.00	0,00	219,709.71	193,378.21	12,672.50	0,00	206,050.71	13,659.00	17,461.50
II. Tangible assets										
Other plant, fixtures and fittings	821,721.40	116,517.31	35,238.92	902,999.79	471,091.78	132,984.81	35,237.92	568,838.67	334,161.12	350,629.62
III. Financial investments										
1. Shares in affiliated companies	88,437,374.97	0.00	0.00	88,437,374.97	10,682,346.55	400,000.00	0.00	11,082,346.55	77,355,028.42	77,755,028.42
2. Investments	5,000.00	0.00	0.00	5,000.00	0.00	0.00	0.00	0.00	5,000.00	5,000.00
	<u>88,442,374.97</u>	<u>0.00</u>	<u>0.00</u>	<u>88,442,374.97</u>	<u>10,682,346.55</u>	<u>400,000.00</u>	<u>0.00</u>	<u>11,082,346.55</u>	<u>77,360,028.42</u>	<u>77,760,028.42</u>
	<u>89,474,936.08</u>	<u>125,387.31</u>	<u>35,238.92</u>	<u>89,565,084.47</u>	<u>11,346,816.54</u>	<u>545,657.31</u>	<u>35,237.92</u>	<u>11,857,235.93</u>	<u>77,707,848.54</u>	<u>78,128,119.54</u>

Shares in affiliated companies (1)

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

Amounts owed by affiliated companies (2)

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

Other assets (3)

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

Subscribed capital (4)

The company's subscribed capital amounts to € 8,645,000, divided into 3,325,000 no-par value registered shares with a mathematical share in equity of € 2.60 each. The company holds 69 own shares. The mathematical value of these shares is openly deducted from subscribed capital in accordance with Section 272 para. 1a of the German Commercial Code (HGB).

The ordinary General Meeting on 18 August 2015 authorised the company to acquire up to 10 out of every 100 shares of the share capital until 17 August 2020 under consideration of own shares already held.

The Annual General Meeting of GESCO AG authorised the company to acquire own shares according to Section 71 para. 1 No. 8 of the German Stock Corporation Act (AktG) subject to the approval of the Supervisory Board and excluding shareholders' subscription rights and to use these shares for the purpose of a stock option programme. Beneficiaries include the Executive Board and a small group of management employees of GESCO AG. The stock option programme is designed so that the beneficiaries have to contribute shares they have acquired themselves. Certain success criteria have to be met in order to participate and potential gains are limited. In September 2007 and September 2010, the Supervisory Board of GESCO AG implemented corresponding stock option programmes, during which 24,000 options were issued each year to the members of the Executive Board and managers of GESCO AG between 2007 and 2012. In September 2013, the Supervisory Board of GESCO AG implemented a stock option programme, during which up to a total of 21,600 options can be issued each year to the members of the Executive Board and managers of GESCO AG between 2013 and 2015. One option entitles the holder to acquire one GESCO share. GESCO AG

reserves the right to provide partial or full cash compensation for gains under the programme instead of issuing some or all of the shares. Non-cash expenditure under this programme is determined using a common binomial model. The model assumes volatility of 25.93 % for the 2015 tranche (previous year: 25.68 %) plus a risk-free interest rate of 0.17 % (previous year: 0.40 %). The waiting period is four years and two months after the option is issued; after the end of the waiting period, the options may be exercised at any time up to 15 March of the year after next.

The key terms and conditions of the stock option programme are summarised in the following table:

		2015	2014	Tranche		
				2013	2012	2011
End of waiting period		18.10.2019	28.10.2018	25.09.2017	31.10.2016	22.09.2015
End of term		15.03.2021	15.03.2020	15.03.2019	15.03.2018	15.03.2017
Exercise price	€	69.37	73.57	71.93	65.10	67.64
No. of options issued		20,200	20,200	20,200	24,000	24,000
Profit limit per option	€	34.69	36.79	35.97	32.55	33.82
Fair value per option as at the reporting date 31.03.2016	€	7.01	6.97	7.01	9.64	7.22
Fair value per option as at the time of issue	€	6.74	7.59	8.94	8.15	9.49

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

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

	2015/2016		2014/2015	
	No. of options	Weighted average exercise price € €	No. of options	Weighted average exercise price € €
Outstanding options 01.04.	88,400	69.28	92,200	61.41
In the financial year				
granted	20,200	69.37	20,200	73,57
returned	0		0	
exercised	0	0	-24,000	42.65
expired	0		0	
Outstanding options 31.03.	108,600	69.30	88,400	69.28
Options that can be exercised 31.03.	24,000		0	

The company settled any profits for options already exercised in cash. Total expenditure from the stock option programmes implemented so far was reported at € 154 thousand (€ 319 thousand) in the annual financial statements as at 31 March 2016.

The Annual General Meeting on 18 August 2015 authorised the Executive Board to increase the company's share capital on one or several occasions by a total of up to € 864,500.00 until 17 August 2018 with the consent of the Supervisory Board by issuing up to 332,500 new no-par value registered shares in exchange for cash. Subscription rights may be excluded in certain cases.

Own shares (5)

In the reporting year, the company utilised the authorisation to acquire own shares and afterwards sold 12,422 of them at a nominal value totalling € 32 thousand (0.37 % of share capital following the capital increase) and a sales price of € 531 thousand to employees of the GESCO Group as part of an employee share scheme. The proceeds from the sale were used to pay off liabilities. On the reporting date, 69 own shares designated for the 2016 employee share scheme with a total nominal value of € 179 (0.002 % of share capital) were recognised. The mathematical value corresponding to the nominal value of the company's own shares of € 179 was openly deducted from subscribed capital in accordance with Section 272 para. 1a of the German Commercial Code (HGB).

Capital reserves / revenue reserves (6)

In addition to the amounts resulting from own shares, the Executive Board added € 354,457.24 to revenue reserves from net earnings for the year in 2015/2016 in accordance with Section 58 para. 2 of the German Stock Corporation Act (AktG).

Reserves developed as follows:

	Capital reserves €000	Statutory reserves €000	Other revenue reserves €000
As at 31.03.2015	55,366	59	46,295
Acquisition/sale of own shares	0	0	-14
Additions	0	0	354
As at 31.03.2016	<u>55,366</u>	<u>59</u>	<u>46,635</u>

Provisions for pensions and similar obligations (7)Development of provisions for pensions:

As at 31.03.2015 € 1,738 thousand

Interest expenditure € 77 thousand

Change € -3 thousand

As at 31.03.2016 € 1,812 thousand

The difference pursuant to Section 253 para. 6 HGB is € 110 thousand.

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

Actuarial basis:

Interest rate 4.31 %

Increase in salaries 2.75 %

Increase in pensions 1.75 %

Other provisions (8)

Other provisions mainly include a purchase price annuity obligation, obligations to employees and executive bodies, expenditure from the stock option programmes, litigation costs, possible non-deductible input taxes and interest on taxes. The purchase price annuity obligation was calculated in accordance with actuarial principles on the basis of a 4.31 % interest rate. The difference pursuant to Section 253 para. 6 HGB is € 17 thousand.

Liabilities (9)

	As at 31.03.2016 €000	Residual term up to 1 year €000	Residual term up to 5 years €000	Residual term > 5 years €000
Liabilities to financial institutions	20,169	2,120	15,500	2,549
Trade creditors	81	81	0	0
Liabilities to affiliated companies	184	184	0	0
Other liabilities	186	186	0	0
	<u>20,620</u>	<u>2,571</u>	<u>15,500</u>	<u>2,549</u>

The company pledged investments to secure liabilities to financial institutions.

Deferred tax liabilities

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

The sum of all deferred taxes resulted in an asset surplus. The capitalisation option was not utilised.

Derivative financial instruments

An interest rate swap was used as derivative financial instruments for hedging interest rate risk until 31 December 2015.

Contingent liabilities and other financial obligations

The purchase price of a company acquisition may have to be adjusted, depending on the development and successful launch of a new product.

The managements of two subsidiaries are entitled to transfer their shares to GESCO AG at a later date and at a fixed price. In return for this right, the managements have forfeited parts of their profit shares so far.

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

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

In order to secure a loan granted to two managing directors to acquire shares in the company they manage, GESCO AG pledged fixed deposits in the same amount (€ 1,457 thousand) to the lending bank. The fixed deposits will be released in parallel with the respective loan repayments.

3. Information on the income statement

Other operating income (10)

Other operating income includes items such as income from consultancy services and costs that are passed on, income resulting from the reversal of provisions as well as income in the previous year from the disposal of financial investments and write-ups on financial investments; €96 thousand of this amount is for different reporting periods.

Other operating expenditure (11)

Other operating expenditure primarily pertains to expenditure from the stock option programmes, investor relations expenditure, legal and consultancy fees and the employee share scheme.

Taxes on income and earnings (12)

€ 15 thousand in tax expenses for different reporting periods are recognised in this item.

4. 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 0.7 % of company shares. Members of the Supervisory Board hold a total of 14.6 % of company shares.

Disclosures pursuant to the German Securities Trading Act (WpHG)

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

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

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

Employees

The company employed an average of 16 people (pursuant to Section 267 para. 5 of the German Commercial Code (HGB)) during the financial year (previous year: 15).

Auditor

The auditor's fee for the financial year amounted to € 150 thousand for the audit of the annual and consolidated financial statements, € 17 thousand for other audit services, € 3 thousand for tax consulting services and € 14 thousand for other services.

Executive bodies of the company

Executive Board

Robert Spartmann, Gevelsberg,
Member of the Executive Board

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

Dr Eric Bernhard, Langenfeld, (from 01.01.2016)
Member of the Executive Board, Chairman of the Executive Board from 01.07.2016

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

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

Dr-Ing Hans-Gert Mayrose	15.5 %
Robert Spartmann	15.0 %

On the reporting date, pension commitments and provisions for 2015/2016 came to:

	Pension provisions €000	Additions €000
Dr-Ing Hans-Gert Mayrose	581	49
Robert Spartmann	557	50

Remuneration received by a former member of the Executive Board amounted to € 62 thousand in the financial year (€ 62 thousand). To cover this, the company's pension provisions amounted to € 674 thousand (€ 699 thousand) on 31 March 2016.

Supervisory Board

Klaus Möllerfriedrich, Düsseldorf
Chairman,
Auditor

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

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

Rolf-Peter Rosenthal, Wuppertal (until 18.08.2015)
Deputy Chairman (until 18.08.2015),
Retired bank director

Member of the Advisory Board:
- Jackstädt Holding GmbH, Wuppertal
- Coroplast Fritz Müller GmbH & Co. KG, Wuppertal
- Siegfried Leithäuser GmbH & Co. KG, Hamm

Deputy Chairman of the Supervisory Board:
- ETRIS Bank GmbH, Wuppertal

Stefan Heimöller, Neuenrade
Deputy Chairman (from 18.08.2015),
Managing partner at Platestahl Umformtechnik GmbH, Lüdenscheid and at Helios GmbH,
Neuenrade

Dr Nanna Rapp, Düsseldorf (from 18.08.2015)
Chief Executive Officer of E.ON Inhouse Consulting GmbH, Essen

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

Member of the Supervisory Board:
- E.ON Kernkraft GmbH, Hannover
- E.ON Kraftwerk GmbH, Düsseldorf (until 31.12.2015)
- E.ON Generation GmbH, Hannover (until 31.12.2015)

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

	<u>Fixed remuneration</u> €000	<u>Variable remuneration</u> €000	<u>Total</u> €000
Klaus Möllerfriedrich	24 (23)	58 (43)	82 (66)
Rolf-Peter Rosenthal (until 18.08.2015)	12 (21)	22 (43)	34 (64)
Stefan Heimöller	20 (18)	58 (43)	78 (61)
Dr Nanna Rapp (from 18.08.2015)	<u>8 (0)</u>	<u>36 (0)</u>	<u>44 (0)</u>
	<u>64 (62)</u>	<u>174 (129)</u>	<u>238 (191)</u>

Proposed appropriation of retained profit

Retained profit consists of the following:

	<u>2015/2016</u> €	<u>2014/2015</u> €
Net profit	7,004,319.24	5,944,857.66
Transfer to revenue reserves	<u>354,457.24</u>	<u>126,529.41</u>
Retained profit	<u>6,649,862.00</u>	<u>5,818,328.25</u>

At the time of the proposal for the appropriation of net income, the company held 69 own shares.

For the 2015/2016 financial year, the Executive Board is proposing the following appropriation of retained profit for the year to the Annual General Meeting:

Payment of a dividend in the amount of € 2.00 per share on the current share capital entitled to dividends (3,325,000 shares less 69 own shares)	€ 6,649,862.00
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Wuppertal, 25 May 2016

The Executive Board

Dr E. Bernhard

Dr-Ing H.-G. Mayrose

R. Spartmann

GESCO AG holdings as at 31.03.2016

No.	Company	Location	Share in capital in %	Equity 2015 EUR'000	Year's result 2015 EUR'000	Assignment of shares to no.
1	GESCO AG (parent company)	Wuppertal				
	<u>a) fully consolidated companies</u>					
2	Alro GmbH	Wuppertal	100	314	108	1
3	AstroPlast Kunststofftechnik GmbH & Co. KG	Sundern	80	1,882	382	1
4	AstroPlast Verwaltungs GmbH	Sundern	100	78	3	1
5	C.F.K. CNC-Fertigungstechnik Kriftel GmbH	Kriftel	80	4,311	1,501	1
6	Dömer GmbH & Co. KG Stanz- und Umformtechnologie	Lennestadt	100	1,525	175	1
7	Dömer GmbH	Lennestadt	100	47	1	1
8	Dörrenberg Edelstahl GmbH	Engelskirchen	90	71,955	11,189	1
9	Dörrenberg Tratamientos Térmicos SL	Alasua, Navarra, Spain	60	1,152	230	8
10	Dörrenberg Special Steels PTE. LTD.	Singapore	90	1,736	257	8
11	Dörrenberg International PTE. LTD.	Singapore	90	593	7	8
12	Dörrenberg Special Steels Taiwan LTD.	Tainan City, Taiwan	100	529	91	11
13	Middle Kingdom Special Steels Pte. Ltd.	Singapore	60	657	-1	11
14	Jiashan Dörrenberg Mould & Die Trading Co.	Jiashan, China	100	1,764	226	11
15	Frank Walz- und Schmiedetechnik GmbH	Hatzfeld	90	11,161	181	1
16	Frank-Hungaria Kft.	Ózd, Hungary	100	1,724	143	15
17	Franz Funke Zerspanungstechnik GmbH & Co. KG	Sundern	80	1,249	449	1
18	Franz Funke Verwaltungs GmbH	Sundern	100	74	3	1
19	Haseke GmbH & Co. KG	Porta Westfalica	80	1,442	1,033	1
20	Haseke Beteiligungs-GmbH	Porta Westfalica	100	69	3	1
21	Hubl GmbH	Vaihingen/Enz	80	2,877	668	1
22	Georg Kesel GmbH & Co. KG	Kempen	90	469	316	1
23	Kesel & Probst Verwaltungs-GmbH	Kempen	100	37	1	22
24	Kesel International GmbH	Kempen	100	38	-3	22
25	Georg Kesel Machinery (Beijing) Co., Ltd.	Beijing, China	100	123	9	24
26	Kesel North America LLC	Beloit, USA	100	0	0	24
27	MAE Maschinen- und Apparatebau Götzen GmbH	Erkrath	100	5,444	0	1
28	MAE International GmbH	Erkrath	100	71	-2	27
29	MAE Machines (Beijing) Co., Ltd.	Beijing, China	100	137	21	28
30	MAE Amerika GmbH	Erkrath	100	1,688	24	27
31	MAE-EITEL INC.	Orwigsburg, USA	90	1,716	662	30
32	Modell Technik Formenbau GmbH	Sömmerda	100	641	0	1
33	Modell Technik Beteiligungsgesellschaft mbH	Sömmerda	100	137	-1	1
34	Molineus & Co. GmbH + Co. KG	Wuppertal	100	415	209	1
35	GRAFIC Beteiligungs-GmbH	Wuppertal	100	45	4	34
36	MV Anlagen GmbH & Co. KG	Wuppertal	100	89	-4	1
37	Paul Beier GmbH Werkzeug- und Maschinenbau & Co. KG	Kassel	100	1,027	443	1
38	WM Werkzeug- und Maschinenbau Verwaltungs-GmbH	Kassel	100	73	2	1
39	PROTOMASTER GmbH	Wilkau-Haßlau	82,2	461	-1,434	1
40	Q-Plast GmbH & Co. Kunststoffverarbeitung	Emmerich	100	206	104	42
41	Q-Plast Beteiligungs-GmbH	Emmerich	100	74	3	42
42	Setter GmbH & Co. Papierverarbeitung	Emmerich	100	2,256	2,129	1
43	Setter GmbH	Emmerich	100	4,466	1,189	1
44	HRP-Leasing GmbH	Emmerich	100	734	0	43
45	Setter International GmbH	Emmerich	100	4,191	478	42
46	Setterstix Inc.	Cattaraugus, USA	100	5,322	940	45
47	SQG Verwaltungs GmbH	Emmerich	100	10	-12	42
48	SVT GmbH	Schwelm	90	11,870	752	1
49	IV Industrieverwaltungs GmbH & Co. KG	Wuppertal	100	127	-2	1
50	IMV Verwaltungs GmbH	Wuppertal	100	67	3	1
51	VWH Vorrichtungs- und Werkzeugbau Herschbach GmbH	Herschbach	80	2,590	496	1
52	WBL Holding GmbH	Laichingen	85	10,642	1,099	1
53	Werkzeugbau Laichingen GmbH	Laichingen	100	3,351	0	52
54	Werkzeugbau Leipzig GmbH	Leipzig	100	3,214	466	52
55	TM Erste Grundstücksgesellschaft mbH	Wuppertal	100	1,300	338	52
	<u>b) associated companies *)</u>					
56	Saglam Metal San. Tic.A.S.	Istanbul, Turkey	20	-	-	8
57	Dörrenberg Special Steels Korea Co. Ltd.	Jeongwang-dong, South Korea	50	-	-	11
58	Tiangong South East Asia Pte Ltd	Singapore	50	-	-	11
	<u>c) companies which are not consolidated</u>					
59	Connex SVT Inc.	Houston, USA	100	173	9	48
60	MAE.ch GmbH i. L.	Unterstammheim, Switzerland	100	74	23	27
61	FRANK Lemeks Tow	Ternopil, Ukraine	75	464	492	15
62	Papersticks S.A. Ltd.	Durban, South Africa	100	36	4	42

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

GESCO AG
Management report for financial year 2015/2016
(from 1 April 2015 to 31 March 2016)

1. General economic development

Germany's economic development was in stable shape at the beginning of 2015. The economy grew consistently through to the end of the year, resulting in an average increase of 1.7 % in gross domestic product in real terms over the course of the year. As in the previous year, the strongest impetus came from consumption in 2015. The low oil price was initially considered to be a driver of growth, but over the course of the year it became apparent that, although low oil prices were bolstering consumption, they were also leading to a somewhat drastic decline in investment in the oil industry and related sectors, which still prevails today. The chemical industry was also reticent in terms of investment on the back of the decline in economic growth in China and subdued global economic development overall. These factors had a negative impact on the capital goods industry. In the automotive sector, the United States and China set new records in terms of newly registered vehicles, while the Western Europe market also grew considerably. By contrast, Brazil and Russia recorded double-digit declines in new vehicle registrations and the Japanese market also performed poorly.

According to the Verband Deutscher Maschinen- und Anlagenbau e.V. (VDMA – German machinery and plant manufacturers association), which is relevant to our largest segment, tool manufacture and mechanical engineering, Germany's machinery and plant manufacturing industry failed to meet expectations in 2015. Instead of the real production growth of roughly 2 % forecast by VDMA economists in autumn 2014, production remained on a par with the previous year, in line with the forecast revised in summer 2015.

The Gesamtverband Kunststoffverarbeitende Industrie e. V. (GKV – Association of Plastics Converters) is the relevant association for our second, much smaller segment, namely plastics technology. It reported moderate sales growth of 1.3 % in 2015; domestic sales stagnated while international sales increased by 3.6 %.

When analysing the figures provided by these associations, it must be noted that both sectors are extremely diverse and the data originates from a vast number of different companies. As most GESCO Group companies are specialised SMEs operating in niche markets, these figures only serve as a rough guide and are of limited value when used as benchmarks for evaluating the actual development of GESCO Group.

In the corporate transactions market, a renewed increase in demand was met by scarcity in supply. Against the backdrop of a low-interest environment, an increasing number of investors are seeking direct investments in industrial SMEs, while family offices are also emerging as potential investors alongside traditional financial investors. Among strategic investors, Chinese companies have become increasingly active investors over the past few years. As a long-term investor with no exit strategy, GESCO AG is facing an increasingly difficult acquisition climate. We have strengthened our M&A activities further in the wake of these developments.

2. Changes in the scope of investments

There were no major changes to GESCO Group's scope of investments in the reporting period. Setter GmbH & Co. Papierverarbeitung, Emmerich/Germany, a wholly owned subsidiary of GESCO AG, acquired the business operations of US paper sticks market leader Setterstix Corp., Cattaraugus/New York, via a subsidiary at the start of 2015. This company was included in the GESCO Group income statement for the first time in financial year 2015/2016.

3. Business performance

GESCO Group achieved sales and earnings growth in a subdued macroeconomic environment in 2015. In addition, it also made progress in restructuring measures at two subsidiaries.

At GESCO AG, income from investments in financial year 2015/2016 stood at €13.4 million, down from €16.9 million in the previous year. Income from investments included profit allocations from partnership subsidiaries amounting to €4.3 million (previous year: €6.2 million) as well as profit distributions from incorporate subsidiaries (including earnings contributions from profit and loss transfer agreements) of €9.1 million (previous year: €10.7 million). Modell Technik GmbH & Co. Formenbau KG was renamed Modell Technik Formenbau GmbH in the reporting period in accordance with the regulations of the Transformation Act (Umwandlungsgesetz – UmwG); a profit and loss transfer agreement was concluded with Modell Technik Formenbau GmbH with the approval of the Annual General Meeting on 18 August 2015.

Other operating income stood at €1.7 million (previous year: €3.1 million), while other operating expenses remained stable at €3.0 million.

The financial result improved significantly and came to €-1.5 million following the €-7.2 million recorded in the previous year. The previous year's figure included much higher unscheduled amortisation of financial assets. In addition, the loss transfer from a subsidiary as part of a profit and loss transfer agreement in the reporting year was much lower than in the previous year, which was due to progress made in restructuring this subsidiary. As a result of the further fall in interest rates, both interest income and interest costs fell; the overall balance came to €-150 thousand after €-167 thousand in the previous year.

Earnings from ordinary business activities rose by 31 % year on year from €5.3 million to €7.0 million. Tax income in the previous year of €600 thousand turned into minor tax expenses of €15 thousand in the reporting year. As a result, net income amounted to €7.0 million (€5.9 million).

For GESCO AG, we had forecast a slight year-on-year decline in income from investments for financial year 2015/2016 and a slight year-on-year rise in net income. The reason why income from investments fell more significantly than originally expected was the dividend policy. Dividends to the parent company are determined annually in view of the growth plans and capital structure of the respective subsidiaries. By contrast, net income increased more considerably than originally expected, which was primarily due to the removal of negative effects and a

considerable fall in the volume of the loss transfer as part of a profit and loss transfer agreement.

GESCO AG's total assets remained practically unchanged year on year at € 144.4 million as at the balance sheet date, 31 March 2016.

On the assets side, fixed assets remained on a par with the previous year. In terms of current assets, receivables and other assets decreased marginally, while liquid assets were increased from €13.5 million to €15.0 million. A dividend of €5.8 million was distributed to shareholders in the reporting year.

GESCO AG pledged fixed deposits of € 1.5 million (previous year: € 1.8 million) as collateral for a loan granted by a credit institution to two managing directors for the purposes of acquiring shares in the companies they manage. The fixed deposits are released in line with the repayments on the respective loans.

On the liabilities side, equity increased to €117.4 million (previous year: €116.2 million), which resulted in a slight rise in the equity ratio from 80.4 % to 81.3 % against the backdrop of unchanged total assets. Liabilities fell by some 10 % as a result of the repayment of bank loans.

The GESCO AG balance sheet remains in good shape with a high equity ratio, moderate debt and sufficient liquid assets as at the balance sheet date. Against this backdrop, GESCO AG continues to maintain sufficient access to borrowed capital at favourable conditions. The Company is as such fully operational in view of equity and debt.

At the end of the financial year, GESCO AG had access to approved but unused credit lines totalling € 1.3 million (previous year: € 0.9 million).

4. Management system

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

GESCO AG draws up a Group 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, earnings after tax and the equity ratio, as well as Group net income after minority interest at Group level.

5. Opportunity and risk management

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

Analysing opportunities and risks is especially important when acquiring companies. GESCO AG generally acquires companies in the tool manufacture/mechanical engineering and plastics technology segments. In order to reduce its dependency on the cycles of individual segments and markets, GESCO AG attaches great importance to a diversified customer base. Accordingly, new companies that help broaden the spectrum of the customer base are of particular interest.

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

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

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

Accounting risks are mitigated through detailed Group guidelines defined in a manual, which represent a binding standard for all Group companies and all auditors. In addition, the regular mid-year analysis of subsidiaries' business figures also includes an analysis and assessment of accounting risks. The responsible GESCO AG employees are available to advise the subsidiaries' managers and financial officers on all accounting matters and provide support.

The company's overall situation is analysed in the annual meeting, but also in monthly meetings and strategy sessions. The meetings involve analysing entrepreneurial opportunities and courses of action for expanding business volume in Germany and abroad as well as for increasing efficiency. Associated risks are also evaluated as part of the meetings.

In order to mitigate procurement risks, subsidiaries attempt to enter into framework agreements with suppliers so as to obtain security for their planning or to conclude

flexible price agreements with customers and suppliers. Companies within GESCO Group and wide sections of German industry alike are faced with uncertainties concerning the future development of the energy transition. This concerns both security of supply as well as costs.

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

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

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

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

Overall insurance coverage for GESCO Group is regularly evaluated so that sufficient protection under adequate terms and conditions is possible.

Based on current knowledge, we are not aware of any financing and/or equity bottlenecks for our Group. In order to limit the interest rate risk, we have used interest rate swaps for part of the variable interest rate financing and thus exchanged each floating rate with a fixed rate. We expect interest rates to remain low in financial year 2016/2017. GESCO Group works with around two dozen different banks and is therefore not dependent on any one institution. We currently see no need to increase our equity base further.

There were no material changes to the tax situation in financial year 2015/2016. We are also not aware of any developments with regard to legal conditions that would have a significant impact on the Group. There is a chance that a positive earnings contribution may result from a tax-related issue, in relation to which the final assessment from the responsible authorities is still pending.

It is possible to limit risks. However, it is not possible to rule them out. Ultimately, all entrepreneurial activity is associated with risk. In their operating business, all GESCO AG subsidiaries are subject to the typical opportunities and risks for their respective industries as well as general economic risks. As an industrial group whose business is based to a notable extent on direct and indirect exports, we are significantly affected by economic fluctuations in Germany and abroad. Our diversification strategy, particularly in the customer sectors, is aimed at offsetting economic fluctuations in individual branches of industry and therefore reducing the risks arising from economic cycles. Alongside the typical economic fluctuations, we

currently see the greatest risks for our operating business, not only within GESCO Group, but also in broad sections of German industry, to be those resulting from the structural problems still present in the eurozone as well as the risks of political developments, particularly with an eye to Ukraine and Russia, but also to other political hotspots. A further risk is the development of the price of oil, which has a significant influence on investing activities in the oil industry and other sectors. GESCO Group is also exposed to a specific risk in relation to further restructuring and the market situation of Protomaster GmbH; the total risk for GESCO AG, which encompasses amortisation on the carrying amount of investments and receivables, amounts to roughly €6 million.

There is a fundamental risk of amortisation on the carrying amount of investments and, if applicable, defaults on receivables, in the event of a deterioration in subsidiaries' earnings.

There are risks typically associated with the business model, particularly relating to construction of special machinery, tool manufacturing and plant construction. In this regard, Group companies are continually 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. As a consequence, there is a risk of making losses on contracts. On the other hand, these can be regarded as opportunities, since challenging customer projects frequently result in innovative approaches that can lead to marketable product innovations.

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

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

6. Declaration of compliance

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

7. Other information

Disclosures under Section 289 para. 4 of the German Commercial Code (HGB): The share capital of GESCO AG is €8,645,000 and is divided into 3,325,000 registered shares. Each share is granted one vote in the Annual General Meeting.

Disclosures pursuant to Section 289 para. 4 No. 3 are included in the notes to the financial statements.

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.

The Annual General Meeting on 18 August 2015 authorised the Executive Board to increase the company's share capital once or several times by a total of € 864,500.00 until 17 August 2018 with the consent of the Supervisory Board by issuing new registered shares in exchange for cash. Subscription rights may be excluded in certain cases. No use of this authorisation has been made to date.

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. GESCO AG held 69 treasury shares as at the reporting date.

Changes to the executive bodies of the Company: The term of the Supervisory Board elapsed at the close of the Annual General Meeting on 18 August 2015. Dr Nanna Rapp, Managing Director of E.ON Inhouse Consulting GmbH, was elected to the Supervisory Board to succeed Rolf-Peter Rosenthal, who has been a part of the Supervisory Board for some 25 years and did not stand for re-election due to having reached the permitted age limit. Klaus Möllerfriedrich and Stefan Heimöller were re-elected to the Supervisory Board. As announced in the 2015 Annual General Meeting, the Executive Board of GESCO AG was expanded and Dr Eric Bernhard was appointed as a further Executive Board member as at 1 January 2016. Please refer to the declaration of compliance for further information of the executive bodies of GESCO AG.

8. Remuneration report

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 granted in the form of a performance-related bonus, which is geared towards the Group's net income after minority interest. 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.

The remuneration components with long-term incentives constitute stock options issued to Executive Board members on the basis of the approved stock option programme. The stock options are issued in annual tranches 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 are issued. The options are issued within one month of the Annual General Meeting taking place. 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 may be exercised at any time up to 15 March of the year after next. If and how many options can be exercised depends on the achievement of an absolute and relative performance target. The absolute performance target is met when the price of the GESCO share has developed positively at the time 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 target is met, but not the relative target, the Executive Board members can exercise only 75 % of their options while the remaining 25 % expire completely without recourse. One option entitles the holder to acquire one GESCO share. If neither target is met at the point at which the options may be exercised, all options of the corresponding tranche expire completely without recourse. The maximum profit of the Executive Board members is capped at 50 % of the exercise price.

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

The Supervisory Board of GESCO AG initiated another tranche in August 2015. A total of 20,200 options were issued to members of the Executive Board and management employees of GESCO AG. Non-cash expenditure under this programme is determined using a common binomial model, recorded in earnings and recognised in other provisions. The model assumes volatility of 25.93 % and a risk-free interest rate of 0.17 %; the exercise price of the options issued in August 2015 is €69.37. The vesting period lasts for four years and two months after the option is issued; after the end of the vesting period, the options may be exercised at any time up to 15 March of the year after next. The fair value per option as at the issue date was €6.74.

The Supervisory Board is currently reviewing the structure of long-term remuneration components.

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

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

Executive Board remuneration: Compensation

Compensation (€'000)	Dr Eric Bernhard Member of the Executive Board			Dr-Ing Hans-Gert Mayrose Member of the Executive Board				Robert Spartmann Member of the Executive Board			
	31.03. 2016	31.03. 2016 (min)	31.03. 2016 (max)	31.03. 2015	31.03. 2016	31.03. 2016 (min)	31.03. 2016 (max)	31.03. 2015	31.03. 2016	31.03. 2016 (min)	31.03. 2016 (max)
	Fixed remuneration	63	63	63	240	240	240	240	252	252	252
Additional benefits	3	3	3	16	19	19	19	16	19	19	19
Total	66	66	66	256	259	259	259	268	271	271	271
One-year variable remuneration	88	88	88	185	242	0	480	185	242	0	504
Multi-year variable remuneration											
2014 tranche	0	0	0	46	0	0	0	46	0	0	0
2015 tranche	0	0	0		40	0	208	0	40	0	208
Total	88	88	88	231	282	0	688	231	282	0	712
Pension-related expenses	13	13	13	43	55	55	55	40	53	53	53
Total remuneration	167	167	167	530	596	314	1002	539	606	324	1036

Executive Board remuneration: Payments

Payments (€'000)	Dr Eric Bernhard Member of the Executive Board	Dr-Ing Hans-Gert Mayrose Member of the Executive Board		Robert Spartmann Member of the Executive Board	
	31.03. 2016	31.03. 2015	31.03. 2016	31.03. 2015	31.03. 2016
Fixed remuneration	63	240	240	252	252
Additional benefits	3	16	19	16	19
Total	66	256	259	268	271
One-year variable remuneration (annual bonus)	0	272	148	272	148
Multi-year variable remuneration	0				
2010 tranche	0	160	0	160	0
Total	0	432	148	432	148
Pension-related expenses	0	0	0	0	0
Total remuneration	66	688	407	700	419

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.

9. Outlook

Leading German economic research institutes lowered their growth forecasts for 2016 from 1.8 % to 1.6 % in their spring report. The robust employment market and low-interest environment may be bolstering consumption, but barely any growth impetus is coming from international trade. The German government continues to forecast growth of 1.7 % in 2016.

Economists from the VDMA expect production levels in 2016 to match those of the previous year, despite an array of negative influences in terms of global demand. In other words, they do not anticipate any growth, but rather see stagnation as the best-case scenario. Tumbling prices for many raw materials may be boosting economic development in import-driven countries, but prices have now fallen so low that many producer nations have faced huge challenges and demand for capital goods from these countries has shrunk significantly. The initial effect of the major loss in the value of the euro on the eurozone was similar to that of an economic stimulus programme, according to the economists. But the strength of the US dollar was a major issue for the US manufacturing industry, and this affected investment propensity. In addition, a number of major developing and emerging economies, which have spurred on significant export growth in the German machine and plant

construction sector in past years, ran out of steam. Further negative growth is expected moving forward.

The GKV does not publish specific forecasts for the current year, but does release figures on its members' current sentiment. Of the companies surveyed, 57 % anticipate sales growth, 34 % expect sales to remain stable and only 9 % are planning for a decline in sales.

All in all, we expect income from investments and net income to remain roughly stable year on year in financial year 2016/2017. The GESCO AG equity ratio should be significantly higher than 70 % in the new financial year.

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.

No significant events occurred after the end of the reporting period.

Wuppertal, 25 May 2016

The Executive Board

.....
(Dr E. Bernhard)

.....
(Dr H.-G. Mayrose)

.....
(R. Spartmann)

AUDITOR'S OPINION

We audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system and the management report of GESCO AG for the financial year from 1 April 2015 to 31 March 2016. The maintenance of the books and records and the preparation of the annual financial statements and the management report in accordance with German commercial law are the responsibility of the company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system and the management report, based on our audit.

We conducted our audit of the annual financial statements in accordance with Section 317 of the German Commercial Code (HGB) and generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW – Institute of Public Auditors in Germany). Those standards require that we plan and perform the audit so that material misstatements and infringements affecting the presentation of the assets, financial position and earnings in the annual financial statements in accordance with generally accepted accounting standards and in the management report are detected with reasonable assurance. Knowledge of the business activities and economic and legal environment of the company as well as expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the bookkeeping, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and the management report. We believe that our audit provides a reasonable basis for our assessment.

Our audit did not lead to any reservations.

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

Wuppertal, 25 May 2016

RSM Breidenbach und Partner PartG mbB
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

(Straube)
Wirtschaftsprüfer
[German Public Auditor]

(Wendlandt)
Wirtschaftsprüfer
[German Public Auditor]

Report from the Supervisory Board 2015/2016

During financial year 2015/2016, the GESCO Group succeeded in increasing sales and achieving disproportionately high earnings growth within a subdued economic climate. Significant progress was made with the two cases of restructuring.

In this report, the Supervisory Board provides information about its activities during financial year 2015/2016. The main topics are its continuous dialogue with the Executive Board and the audit of the annual financial statements and consolidated financial statements.

Cooperation between the Executive Board and the Supervisory Board

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

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

The Executive Board regularly briefed the Supervisory Board both in writing and verbally, promptly and comprehensively on all relevant issues of corporate planning and its strategic development, on the course of transactions, the position of the Group and the individual subsidiaries, including the risk situation, as well as on risk management and compliance. The Supervisory Board was also briefed in detail between meetings in the form of written reports on all projects and plans which were of particular importance to the company. The Supervisory

Board received detailed reports of the internal control and risk management system from the GESCO AG employee responsible for these areas at its four regular quarterly meetings. The Supervisory Board engaged with the structure and content of this system, as planned. In all cases, the members of the Supervisory Board dealt closely and critically with the reports presented to them and contributed their own recommendations.

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

In order to gain a better understanding of the individual subsidiaries, the Supervisory Board visits one or two subsidiaries per year together with the Executive Board. Major, strategic investments at subsidiaries are also associated with on-site visits and in-depth discussions. The Supervisory Board 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 September 2015.

The Supervisory Board discussed GESCO AG's acquisition plans at length with the Executive Board and the employee responsible for acquisitions. In the run-up to an acquisition, target companies are also subjected to an on-site appraisal by a Supervisory Board member.

In financial year 2015/2016, the Supervisory and Executive Boards discussed the acquisition strategy, which is a key issue, at one of their meetings, and they once again worked together to address GESCO Group's strategic objectives and their realisation.

Organisation of the Supervisory Board

The Supervisory Board of GESCO AG consists solely of shareholder representatives who are elected by the Annual General Meeting. Supervisory Board members in the reporting year until the conclusion of the Annual General Meeting on 18 August 2015 were Klaus Möllerfriedrich (Chairman), Rolf-Peter Rosenthal (Deputy Chairman) and Stefan Heimöller. After reaching the specified age limit, Mr Rosenthal was no longer included as an eligible candidate for election to the Supervisory Board. He stepped down from his position on the Supervisory Board at the conclusion of the Annual General Meeting on 18 August 2015 after having served as a member for 25 years. Mr Möllerfriedrich, Mr Heimöller and a new member – Dr Nanna Rapp – were elected to the Supervisory Board at the Annual General Meeting. At the inaugural meeting of the newly elected Supervisory Board, Mr Möllerfriedrich was elected to serve as Chairman and Stefan Heimöller as Deputy Chairman. We provided detailed information about the selection of Dr Rapp as a candidate in the report of the Supervisory Board for financial year 2014/2015.

The size of the Supervisory Board of GESCO AG has not changed; it has been deliberately kept small with three members in order to facilitate efficient work and in-depth discussions on both strategic and detailed issues. The Supervisory Board therefore believes that it is not sensible or appropriate to create Supervisory Board committees. This also applies to an audit committee, whose

tasks continue to be carried out by the entire Supervisory Board. Supervisory Board committees were therefore not created in financial year 2015/2016.

Meetings and resolutions of the Supervisory Board

A total of 18 Supervisory Board meetings took place in financial year 2015/2016. All members of the Supervisory Board attended each of these meetings. The Supervisory Board discussed and, if required, passed resolutions on the following key issues:

Meeting of 2 April 2015:

Major investments at two subsidiaries, appointment of the Supervisory Board

Meeting of 24 April 2015:

Current situation of individual subsidiaries, major investments at two subsidiaries, expansion of the Executive Board

Meeting of 6 May 2015:

Appointment of the Supervisory Board, major investments at two subsidiaries, current situation of individual subsidiaries

Meeting of 20 May 2015:

Job interviews of management candidates

Meeting of 27 May 2015:

Internal control system and risk management, current economic performance of GESCO Group, discussion and audit of the preliminary annual financial statements and consolidated financial statements as at 31 March 2015, acquisition matters

Meeting of 29 May 2015:

Expansion of the Executive Board, efficiency audit, various items for the agenda of the 2015 Annual General Meeting

Meeting of 2 June 2015:

Discussion and audit of the annual financial statements and consolidated financial statements as at 31 March 2015

Meeting of 3 June 2015:

Adoption of the annual financial statements as at 31 March 2015, approval of the consolidated financial statements as at 31 March 2015, Executive Board matters

Meeting of 15 June 2015:

Current situation of a subsidiary, Executive Board matters

Meeting of 17 July 2015:

Current situation of individual subsidiaries, acquisition matters

Meeting of 13 August 2015:

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

Meeting of 18 August 2015:

Inaugural meeting of the Supervisory Board

Meeting of 2 September 2015:

Job interview of a management candidate, acquisition matters

Meeting of 19 October 2015:

Current situation of individual subsidiaries, job interview of a management candidate, acquisition matters

Meeting of 7 December 2015:

Visit to a subsidiary, internal control system and risk management, current economic performance of GESCO Group, Executive Board matters, follow-up on the 2015 management meeting

Meeting of 25 January 2016:

Situation of individual subsidiaries, acquisition matters, Executive Board matters

Meeting of 22 February 2016:

Acquisition strategy, current situation of individual subsidiaries, Executive Board matters

Meeting of 17 March 2016:

Internal control system and risk management, current economic performance of GESCO Group, job interview of a management candidate

Furthermore, the Supervisory Board conducted many job interviews in connection with the change in membership on the Supervisory Board and the expansion of the Executive Board.

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

As announced already at the Annual General Meeting on 18 August 2015, the Supervisory Board expanded the Executive Board and appointed a third member – Dr Eric Bernhard – to it with effect from 1 January 2016. As a member of the Executive Board of GESCO AG, Dr Bernhard is responsible for the strategic and operational development of the Group's portfolio of industrial companies. Dr-Ing. Hans-Gert Mayrose continues to be responsible for M&A, Investor Relations and IT, and Robert Spartmann retains responsibility for Finance, Legal, HR and

Compliance. All of the Executive Board members have also been assigned specific subsidiaries that they are responsible for supervising.

By Supervisory Board resolution of 25 May 2016, Dr Bernhard was appointed Chairman of the Executive Board with effect from 1 July 2016. Dr Mayrose informed the Supervisory Board on 30 May 2016 that he will not be available for an extension of his term on the Executive Board, which is set to end on 31 December 2016, due to his personal future plans. The Supervisory Board regrets this decision and would like to thank Dr Mayrose very much for his many successful years of work on behalf of GESCO Group.

The Supervisory Board continuously monitored the development of corporate governance standards. The Executive Board and the Supervisory Board report on corporate governance at GESCO AG in their joint Corporate Governance Report, which is also contained in the Annual Report. The Executive Board and Supervisory Board duly submitted the Declaration of Compliance as required by law in December 2015 and made it permanently accessible to the shareholders on the company's website. In May 2016, the Executive Board and the Supervisory Board updated the Declaration of Compliance from December 2015; this update was also made permanently available to shareholders on the company's website. 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.

An efficiency audit based on a structured questionnaire was performed on the Supervisory Board in May 2015. The audit confirmed that the Supervisory Board was working efficiently. The insights into potential improvements resulting from the audit will be taken into consideration over the course of the Supervisory Board's future work.

Remuneration of the Executive Board

The management report and notes to the consolidated and individual financial statements include detailed information on the structure of Executive Board remuneration. The Annual General Meeting approved the remuneration system on 2 September 2010 as part of a say-on-pay ruling. The remuneration structure for the Executive Board was reworked in financial year 2015/2016 in connection with the Executive Board's expansion. Plans call for presenting this modified remuneration structure to the Annual General Meeting on 25 August 2016 as part of another say-on-pay ruling.

Audit of annual financial statements and consolidated financial statements

Corresponding to the legal provisions, the auditor selected by the Annual General Meeting on 18 August 2015, RSM Breidenbach und Partner PartG mbB, Wirtschaftsprüfungsgesellschaft – Steuerberatungsgesellschaft, Wuppertal, was commissioned by the Supervisory Board on 19 October 2015 to audit the annual financial statements and consolidated financial statements. The auditor confirmed its independence to us in a letter dated 21 May 2015. 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 2015 to 31 March 2016 in accordance with the regulations of the German Commercial Code (HGB) and the management report of GESCO AG were audited by the auditor. The auditor issued an unqualified audit report.

The consolidated financial statements and Group management report of GESCO Group for the financial year from 1 April 2015 to 31 March 2016 were drawn up by the Executive Board and audited by the auditor on the basis of the International Financial Reporting Standards (IFRS), taking into account Section

315a of the German Commercial Code (HGB). The auditor furnished the consolidated financial statements and Group management report with an unqualified audit report.

This year, the focal points of the audit for the individual financial statements of GESCO AG were the valuation of investments (devaluation and value recovery), accrual and recoverable amount of receivables from associated companies and the completeness and valuation of other provisions. The focal points of the audit of the consolidated financial statements were the impairment of assets, including goodwill (impairment test), as well as the recognition and measurement of deferred tax assets. The Supervisory Board did not place any special demands on the auditor this year. The focal points of the audit identified by the auditor already included the Supervisory Board's desired scope. The Supervisory Board and the auditor were in contact during the ongoing audit activities with regard to exchanging information about the audit.

The complete financial statements as well as the auditor's accompanying audit reports were sent to all members of the Supervisory Board in good time before the accounts meeting. They were the subject of intensive discussions in the meeting of the Supervisory Board on 25 May 2016. 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 accepted the annual financial statements and the consolidated financial statements in the meeting on 31 May 2016. The annual financial statements of GESCO AG have thereby been adopted. Taking into account the company's earnings and financial position as well as the shareholders' interests,

the Supervisory Board endorsed the proposal of the Executive Board to appropriate the retained profit.

Thanks for all the effort

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

Wuppertal, 31 May 2016

Klaus Möllerfriedrich

Chairman of the Supervisory Board