



**GESCO AG**  
**Wuppertal**

## **Declaration of Compliance and Corporate Governance Report**

### **Financial year 2016/2017**

In this report, the Executive Board – on its own behalf and that of the Supervisory Board – provides information on its corporate governance (Corporate Governance Report) in accordance with Section 3.10 of the German Corporate Governance Code (hereafter also referred to as “GCGC” or “Code”) and Section 298A of the German Commercial Code (HGB).

The Executive Board and Supervisory Board of GESCO AG govern the Company with a view to sustainability. The business model is of a long-term nature and all measures are aimed at sustainable positive development. The Executive Board and Supervisory Board of GESCO AG agree with the aims of the Code; to promote good, trustworthy company management for the benefit of shareholders, employees and customers. Section 161 of the German Stock Corporation Act (AktG) requires an annual declaration of compliance with the recommendations of the Code. The preamble to the Code expressly provides for deviations from its recommendations, thereby allowing companies to take into account industry or company-specific factors and enhancing flexibility and self-regulation with regard to the corporate legal structure of German companies. This means that deviations are not negative per se, but can actually contribute to good management, at smaller companies in particular. The Executive Board and Supervisory Board submitted a declaration of compliance on schedule and as required by law in December 2016 and made it permanently available to shareholders on the company’s website ([www.gesco.de](http://www.gesco.de)). That declaration is based on the version of the Code dated 5 May 2015. The declaration of compliance issued in December 2016 is included in this corporate governance report. Previous declarations of compliance are also available to our shareholders and other interested parties on our website

#### **Shareholders and Annual General Meeting**

Shareholders exercise their voting rights at the Annual General Meeting. Each share in GESCO AG grants one vote. GESCO AG publishes all documents relevant to points on the agenda on the company website in due time before the Annual General Meeting. In the course of the invitation to the Annual General Meeting, the company explicitly requests that shareholders exercise their voting rights. To make it easier for shareholders to vote, the company appoints a voting rights representative who can vote at the Annual General Meeting on behalf of shareholders and according to their instructions. The company enables shareholders to order tickets, complete their postal vote and appoint a proxy via an online tool. The company feels that a high Annual General Meeting attendance rate is important in order to maintain democracy amongst shareholders and to ensure that decisions of the Annual General Meeting reflect the wishes of the majority of shareholders. GESCO AG publishes the invitation to the Annual General Meeting and any reports and information required to pass a resolution in accordance with the regulations of the German Stock Corporation Act (AktG). This information is also available on the company website. Since its IPO in 1998, the company publishes the voting results on its website on the day of the Annual General Meeting.

## **Executive Board and Supervisory Board**

At GESCO AG responsibilities are distributed as follows: The Executive Board is responsible for managing the company. The Supervisory Board is responsible for monitoring corporate governance and advising the Executive Board. Both boards maintain a close and trusting working relationship within the scope of their legally defined responsibilities. The Executive Board provides the Supervisory Board with regular, prompt and comprehensive information on company planning, earnings and financial position, risk management, strategic development and intended acquisitions. A list of business activities defines those Executive Board decisions that require approval by the Supervisory Board.

Supervisory Board members did not receive any remuneration or benefits in kind for personal activities such as consultancy or agency services in the reporting year or the year before. Neither Executive Board members nor Supervisory Board members had any conflicts of interest.

## **Executive Board**

The Executive Board is responsible for the management of GESCO AG. The members of the Executive Board manage the company's activities in compliance with the law, the Articles of Association and the rules for management of the company approved by the Supervisory Board. The Executive Board works out the strategic development of the company, asks the Supervisory Board for approval and implements it. The Executive Board also defines the company's goals, makes plans and manages the internal control and risk management system, as well as controlling. In addition, the Executive Board prepares the quarterly reports and quarterly statements, the half-year interim report, the individual financial statements of GESCO AG and the consolidated financial statements. Its actions and decisions are aligned with the interests of the company.

The rules for the management of the company approved by the Supervisory Board define responsibilities within the Executive Board, and include detailed instructions regarding the work of the Executive Board and the specifics of reporting to the Supervisory Board by the Executive Board, as well as setting out the Executive Board decisions that require the approval of the Supervisory Board.

In the reporting year, Dr Eric Bernhard (Chairman of the Executive Board since 1 July 2016), Dr Hans-Gert Mayrose (until 31 December 2016) and Mr Robert Spartmann were Executive Board members.

Within the Executive Board, Dr Bernhard is responsible for the portfolio strategy, the strategic and operating development of the subsidiaries and for investor relations. Mr Spartmann is responsible for Finance, M&A, IT, Legal, HR and Compliance.

In the past, the Executive Board of GESCO AG consisted of members with equal rights; no Chairman or Spokesman had been appointed. This therefore deviated from the recommendations of Section 4.2.1, sentence 1 GCGC. By Supervisory Board resolution of 25 May 2016, Dr Bernhard was appointed Chairman of the Executive Board effective as at 1 July 2016, meaning that this deviation no longer applies.

## **Relevant details regarding management practices**

The members of the Executive Board manage the company with the care required of an orderly and conscientious manager, while observing the applicable laws, Articles of Association and the rules for the management of the company. GESCO AG does not pursue any relevant management practices that go beyond these standards

## **Supervisory Board**

The Supervisory Board appoints Executive Board members, monitors their corporate governance and advises them on issues of company management. The report from the Supervisory Board contains detailed information on its work in the reporting year.

The Supervisory Board of GESCO AG has been deliberately kept small. This has proven to be extremely effective, as strategic issues and detailed questions can be discussed in depth from an overall perspective within the entire Supervisory Board. It is obviously not practical to form committees from a Supervisory Board consisting of just three people, so no committees are formed at GESCO AG. The company feels that a strong point of the Supervisory Board derives from the fact that its members are equally involved in all issues.

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

In the interests of the company, nominees for election to the Supervisory Board are primarily chosen on the basis of the required knowledge, abilities and professional experience of the candidates. When making suggestions, the Supervisory Board appropriately takes into account – in the context of the specific situation of the company – its international activities, potential conflicts of interest, the number of independent Supervisory Board members pursuant to Section 5.4.2 GCGC, the age limit and diversity while also aiming to complete the expertise profile for the entire body. That includes the long-term aim of a suitable proportion of female members.

Details regarding the selection and term of office of the Supervisory Board members, on the constitution of the Supervisory Board, its meetings and decisions and the rights and responsibilities of its members are defined by the Articles of Association of GESCO AG. They are available from the company's website ([www.gesco.de](http://www.gesco.de)).

Pursuant to the recommendation in Section 5.1.3 GCGC, the Supervisory Board has created rules for the management of the company and for the application of the law and the Articles of Association. The Chairman coordinates the work of the Supervisory Board, chairs its meetings and represents its interests externally.

The Supervisory Board members in the reporting year were Mr Klaus Möllerfriedrich (Chairman), Mr Stefan Heimöller (Deputy Chairman) and Dr Nanna Rapp. The Supervisory Board believes it is appropriate for at least two members of the company's Supervisory

Board to be independent within the meaning of the Code. All members of the Supervisory Board currently meet the independence criteria. All members of the Supervisory Board also have the appropriate expertise and personal skills to act as financial experts in accordance with Section 100 para. 5 AktG. In their entirety, the members of the Supervisory Board are familiar with the sector in which GESCO AG operates.

### **Diversity among managers, the Executive Board and the Supervisory Board**

The Executive Board and Supervisory Board have previously deliberated on the requirements of the Code that call for companies to increase diversity among managers, the Executive Board and Supervisory Board, and to pay special attention to appropriately considering women for such positions.

According to Section 5.4.1, the Supervisory Board shall specify concrete objectives regarding its composition and develop an expertise profile for the entire body. Within the context of the enterprise's specifics, it shall appropriately take into account in its composition the international activities of the enterprise, potential conflicts of interest of Supervisory Board members, the number of independent Supervisory Board members pursuant to Section 5.4.2 GCGC, an age limit to be specified, a regular limit of length of Supervisory Board membership and diversity. In particular, there should be a suitable share of female members. In the eyes of the GESCO AG Supervisory Board, diversity is not merely defined by gender and nationality, but also, and specifically, by professional diversity and a well-balanced mix of expertise from various professional fields. The areas of competence required by the Supervisory Board of GESCO AG include accounting, auditing and monitoring of the effectiveness of internal controls ("Financial Expert"), entrepreneurial expertise and experience and broad knowledge of the strategic, operational and financial functioning of companies. The Supervisory Board believes that these skills are sufficiently represented on the Supervisory Board.

The "Act on the Equal Participation of Women and Men in leadership positions in the Private Sector and Public Bodies", which came into effect on 1 May 2015, calls for the creation of targets with regard to the inclusion of women in Supervisory Boards, Executive Boards and the top two levels of management, and the setting of deadlines by which those targets must be met. The Executive Board and Supervisory Board defined corresponding targets on 13 August 2015 and set the maximum possible time limit, 30 June 2017, to achieve these targets.

GESCO Group companies pursue a clear and absolute policy of equal opportunities in their day-to-day business. This is a matter of course, irrespective of any legal obligations. The companies make a conscious effort to attract job applications from female candidates, support interested candidates in their applications, take part in campaigns such as "Girls' Days" and actively seek dialogue with schools and universities. This is not based on the desire to fulfil a quota, but rather derives from the conviction and necessity to recruit highly qualified individuals for vacant roles. GESCO Group companies have a great interest in positioning themselves as attractive employers.

The Supervisory Board of GESCO AG set a target of a 30 % share of women on the Supervisory Board on 13 August 2015. This target was achieved with the election of Dr Nanna Rapp at the Annual General Meeting on 18 August 2015. As mentioned above, plans are in place to increase the number of members of the GESCO AG Supervisory Board from three to four by resolution of the Annual General Meeting on 31 August 2017 and to nominate Mr Große-Allermann for election to the additional seat. The election of Mr Große-Allermann would reduce the figure to below the current target of 30 %. In this event, the target for future changes to the Supervisory Board is to be set at 25 % in agreement with the resulting composition of the Supervisory Board.

At the current time, the **Executive Board** of GESCO AG consists solely of male members. The target of a 30 % share of women, which the Supervisory Board also defined for the Executive Board, is therefore currently not met. No new appointments to the Executive Board were made in the reporting year. The Supervisory Board does not believe it prudent to consider changing the current composition of the Executive Board solely to meet the target set by the Supervisory Board. The target of a 30 % share of women will continue to apply for future changes to the Executive Board.

The Executive Board is tasked with setting targets for the percentage of women on the **first two levels of management below the Executive Board**. The holding company GESCO AG has no distinct hierarchy within its operating organisational structure as envisaged by lawmakers. All employees now report directly to the Executive Board. First and second levels of management as envisaged by lawmakers do not currently exist at GESCO AG, nor are there plans to introduce such levels of management in the foreseeable future. The Executive Board is therefore of the opinion that it is not possible to define a target for GESCO AG. As a result, the target of 0 % set on 13 August 2015 is no longer applicable. The Executive Board has resolved instead not to set any corresponding target. Women currently account for approximately 44 % of the total headcount at GESCO AG.

We have set the deadline for the next review of target achievement for 30 June 2022.

### **Comprehensive and transparent communication**

GESCO AG promptly and truthfully informs shareholders, the capital market, media and general public about all relevant events and the financial development of the company. Financial reports, press releases and ad hoc notifications, the financial calendar, documents relating to the Annual General Meeting and a host of other information are available on the company website.

### **Shareholdings and members of executive bodies**

In accordance with the legal provisions, GESCO publishes without delay transactions by the persons referred to in Article 19 of the Market Abuse Regulation – particularly by members of executive bodies, and by persons closely associated with them, involving equities and debt instruments of the company or financial instruments related thereto – that require notification under the regulation. The transactions reported to GESCO AG in the past financial year are available from the company's website.

### **Remuneration report**

The remuneration report is part of the Group management report.

### **Accounting and audit of financial statements**

The individual financial statements of GESCO AG are prepared in accordance with the German Commercial Code (HGB). Since the financial year 2002/2003, the consolidated financial statements of GESCO AG have been prepared according to International Financial Reporting Standards (IFRS). The individual and consolidated financial statements were audited by RSM Breidenbach und Partner PartG mbB, Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Wuppertal. The responsible auditor is Mr Nils-Christian Wendlandt, the fifth time he has held this role.

The following auditing firms were responsible for auditing the individual financial statements of the subsidiaries: RSM Breidenbach und Partner PartG mbB, Wirtschaftsprüfungsgesellschaft – Steuerberatungsgesellschaft, Wuppertal, Baker Tilly

Roelfs AG Wirtschaftsprüfungsgesellschaft, Düsseldorf, and RSM Altavis GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Hamburg, Düsseldorf office. Foreign subsidiaries of subsidiaries are primarily audited by international associated partners of our domestic auditors.

The Chairman of the Supervisory Board obtained the auditor's statement of independence in accordance with Section 7.2.1 of the GCGC. In line with the resolution passed by the Annual General meeting on 25 August 2016, the Chairman of the Supervisory Board appointed the auditor for the individual and consolidated financial statements. The interim report and the quarterly statements for the first and third quarters were not audited in the reporting year.

## **GESCO AG, Wuppertal**

**Securities identification number A1K020  
ISIN DE000A1K0201**

### **Declaration of compliance in accordance with Section 161 AktG**

The Executive Board and Supervisory Board of GESCO AG declare in accordance with Section 161 AktG that the recommendations of the Government Commission German Corporate Governance Code published by the Federal Ministry of Justice and Consumer Protection in the official section of the Bundesanzeiger (Federal Gazette) 12 June 2015 were being followed pursuant to the version of the Code dated 5 May 2015 since the last declaration of compliance was issued in December 2015, with the following exceptions:

#### **Section 4.2.1, sentence 1: Chairman of the Executive Board or Spokesman of the Executive Board**

The Executive Board of GESCO AG comprised two people until 31 December 2015, and has comprised three people since 1 January 2016; no Chairman or Spokesman was appointed. Both Executive Board Members complemented one another with their professional expertise and their responsibilities were clearly defined. In view of their joint overall responsibility, the Executive Board Members maintained a close and trusting working relationship and held equal rights.

The Supervisory Board appointed Dr Bernhard as Chairman of the Executive Board of GESCO AG effective as at 1 July 2016. From the time of his appointment, GESCO AG complied with the recommendation detailed in Section 4.2.1 sentence 1 GCGC (see the update to the declaration of compliance from May 2016).

#### **Section 5.3: Forming Supervisory Board committees**

The Supervisory Board of GESCO AG comprises three members. This number has proven to be extremely effective, as overarching strategic issues, as well as detailed questions, can be discussed in depth and without any loss of efficiency and decided upon by the entire Supervisory Board. We therefore believe that it is not appropriate to create Supervisory Board Committees. The company rather feels that a strong point of the Supervisory Board derives from the fact that its members are equally involved in all issues.

#### **Section 5.4.1, para. 2, sentence 1: Regular limit on the length of membership for members of the Supervisory Board**

The Supervisory Board of GESCO AG believes that a long term of service on the Supervisory Board goes hand in hand with the sustainable and long-term business model of GESCO AG. For this reason, we do not consider setting a regular limit of length of Supervisory Board membership to be appropriate or practical.

**Section 5.4.6, para. 2, sentence 2: Performance-oriented Supervisory Board remuneration**

The remuneration of the members of the Supervisory Board of GESCO AG includes a fixed component, an attendance fee and a performance-oriented component based on Group net income for the year after minority interest. Any Group losses are carried forward to the subsequent year and offset against positive income. In our opinion, this rule is in keeping with a sustainable and entrepreneurial way of thinking and should be in compliance with the orientation towards sustainable corporate development called for in the Code. However, as it is not feasible to exclude the possibility that others may be of a different opinion, we therefore report a deviation from the recommendation of the Code as a precautionary measure.

The Executive Board and Supervisory Board of GESCO AG also declare, in accordance with Section 161 AktG, that the recommendations of the Government Commission of the German Corporate Governance Code in the version of the Code dated 5 May 2015, published by the Federal Ministry of Justice and Consumer Protection in the official section of the Bundesanzeiger (Federal Gazette) on 12 June 2015, have been followed and will continue to be followed with the exceptions of Section 5.3, Section 5.4.1 paragraph 2 sentence 1 and Section 5.4.6 paragraph 2 sentence 2, as justified above.

Wuppertal, December 2016  
GESCO AG

For the Supervisory Board

Klaus Möllerfriedrich  
(Chairman of the Supervisory Board)

For the Executive Board

Dr. Eric Bernhard  
(Chairman of the Executive Board)