

Annual Accounts and Management Report

as at 31 December 2020

Auditor's Report

GESCO AG

Wuppertal

GESCO AG, Wuppertal
Balance sheet as at 31.12.2020

ASSETS

| | Note | 31.12.2020 € | Previous year € '000 |
|---|------|-----------------------|-------------------------|
| A. Non-current assets | | | |
| I. Intangible assets | | | |
| IT software | | 50,732.00 | 52 |
| II. Tangible assets | | | |
| Other plant, fixtures and fittings | | 187,793.62 | 338 |
| III. Financial investments | | | |
| 1. Shares in affiliated companies | (1) | 104,380,719.35 | 138,534 |
| 2. Investments | | 5,000.00 | 5 |
| 3. Other loans | (2) | 9,860,849.32 | 0 |
| | | <u>114,246,568.67</u> | <u>138,539</u> |
| | | <u>114,485,094.29</u> | <u>138,929</u> |
| B. Current assets | | | |
| I. Receivables and other assets | | | |
| 1. Trade receivables | | 152,057.83 | 0 |
| 2. Amounts owed by affiliated companies | (3) | 65,109,644.32 | 77,503 |
| of which with a residual term of more than one year: € 29,772,489.01 (€ 36,558 thousand) | | | |
| 3. Other assets | (4) | 6,359,331.65 | 11,949 |
| of which with a residual term of more than one year: € 424,281.34 (€ 643 thousand) | | | |
| | | <u>71,621,033.80</u> | <u>89,452</u> |
| II. Cash, credit with financial institutions | | 27,582,255.82 | 6,494 |
| | | <u>99,203,289.62</u> | <u>95,946</u> |
| C. Accounts receivable and payable | | | |
| | | <u>110,653.31</u> | <u>76</u> |
| | | <u>213,799,037.22</u> | <u>234,951</u> |

EQUITY AND LIABILITIES

| | Note | 31.12.2020 € | Previous year € '000 |
|---|------|-----------------------|-------------------------|
| A. Equity | | | |
| I. Subscribed capital | (5) | 10,839,499.00 | 10,839 |
| II. Capital reserves | (6) | 73,487,785.42 | 73,488 |
| III. Revenue reserves | (6) | | |
| 1. Statutory reserves | | 58,717.27 | 59 |
| 2. Other revenue reserves | | 107,966,677.64 | 104,919 |
| | | <u>108,025,394.91</u> | <u>104,978</u> |
| IV. Retained profit | | 0.00 | 11,309 |
| | | <u>192,352,679.33</u> | <u>200,614</u> |
| B. Provisions | | | |
| I. Provisions for pensions and similar obligations | (7) | 2,443,556.00 | 2,394 |
| II. Provisions for taxes | | 180,000.00 | 0 |
| III. Other provisions | (8) | 2,820,415.00 | 3,066 |
| | | <u>5,443,971.00</u> | <u>5,460</u> |
| C. Liabilities | | | |
| I. Liabilities to financial institutions | (9) | 15,111,827.51 | 26,755 |
| II. Trade payables | | 164,043.37 | 118 |
| III. Liabilities to affiliated companies | | 314,453.72 | 184 |
| IV. Other liabilities | | 412,062.29 | 655 |
| of which from taxes: € 364,014.12 (€ 560 thousand) | | | |
| of which related to social security: € 9,370.64 (€ 7 thousand) | | | |
| | | <u>16,002,386.89</u> | <u>27,712</u> |
| D. Deferred tax liabilities | | | |
| | (10) | 0.00 | 1,164 |
| | | <u>213,799,037.22</u> | <u>234,951</u> |

GESCO AG, Wuppertal
Income statement
for the period from 1 January to 31 December 2020

| | Note | 2020 € | Abbreviated financial year Previous year € '000 |
|--|------|----------------|--|
| 1. Sales revenues | | 1,868,764.07 | 801 |
| 2. Other operating income | (11) | 11,823,820.06 | 281 |
| 3. Personnel expenditure | | | |
| a) Wages and salaries | | -3,826,021.57 | -3,236 |
| b) Social security contributions and expenditure on pensions and benefits of which for pensions and benefits: € 152,216.48 (€ 195 thousand) | | -408,483.79 | -383 |
| | | -4,234,505.36 | -3,619 |
| 4. Depreciation and amortisation on tangible and intangible assets | | -165,924.04 | -140 |
| 5. Other operating expenses | (12) | -36,341,886.49 | -3,035 |
| | | -27,049,731.76 | -5,712 |
| 6. Earnings from investments of which from affiliated companies: € 27,526,266.09 (€ 26,667 thousand) | | 27,526,266.09 | 26,666 |
| 7. Earnings from profit and loss transfer agreements | | 0.00 | 2,927 |
| 8. Earnings from other securities and loan receivables | | 10,849.32 | 0 |
| 9. Other interest and similar income of which from affiliated companies: € 378,992.49 (€ 528 thousand) | | 402,384.73 | 550 |
| 10. Amortisation of financial assets | (13) | -2,400,000.00 | 0 |
| 11. Expenses from loss transfer | | -5,398,612.71 | 0 |
| 12. Interest and similar expenditure of which from affiliated companies: € 1,193.01 (€ 1 thousand) of which expenditure from interest: € 71,731.00 (€ 62 thousand) | | -386,915.27 | -308 |
| 13. Taxes on income and earnings | | 1,529,093.32 | -1,502 |
| 14. Earnings after taxes | | -5,766,666.28 | 22,621 |
| 15. Other taxes | | -2,034.00 | -3 |
| 16. Net income/loss | | -5,768,700.28 | 22,618 |
| 17. Transfer to revenue reserves | | 0.00 | -11,309 |
| 18. Withdrawals from revenue reserves | | 5,768,700.28 | 0 |
| 19. Retained profit/loss | | 0.00 | 11,309 |

GESCO AG, Wuppertal
Annual financial statements as at 31 December 2020

Notes to the annual financial statements

1. General information

GESCO AG has its headquarters in Wuppertal, Germany. It is registered in the Commercial Register of the district court (Amtsgericht) of Wuppertal, Germany, under HRB 7847.

2. Change in financial year

The Annual General Meeting at GESCO AG on 29 August 2019 voted to change the financial year of GESCO AG, and therefore that of GESCO Group, to the calendar year with effect from 1 January 2020. This resulted in a nine-month abbreviated financial year for GESCO AG in the previous year from 1 April to 31 December 2019. The figures for the reporting year covering the twelve-month period are therefore only comparable with the previous year's figures to a limited extent.

3. Accounting and valuation methods

The annual financial statements as at 31 December 2020 were prepared in accordance with the regulations regarding the balance sheet structure of large corporations under German commercial law and take into account the legal principles of accounting and measurement.

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

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

Financial assets are reported at cost less impairments necessary to reduce the value of the asset if the reduction in value is likely to be permanent.

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

In accordance with actuarial principles, provisions for pensions and similar obligations, and the purchase price annuity obligation are stated at the value of the actual liability. They are measured using the "projected unit credit method" (PUC method). The calculations are based on

the 2018 G tables of Prof. Dr K. Heubeck. The interest rate was recognised on the basis of an assumed remaining term of 15 years, and Section 253 para. 2 sentences 1 and 2 of the German Commercial Code (HGB) was applied.

Non-cash expenditure under the company's stock option programme is determined using a common binomial model is recognised through profit or loss in other provisions.

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

Liabilities are recognised at their actual settlement values.

4. Information on the balance sheet

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

Shares in affiliated companies (1)

In December 2020, GESCO AG sold all of its shares in the following companies:

- Mobility Technology segment
 - Paul Beier GmbH & Co. KG, Kassel, Germany, and Paul Beier Verwaltungs GmbH
 - Dömer GmbH & Co. KG Stanz- und Umformtechnologie, Lennestadt, and Dömer GmbH
 - Modell Technik Formenbau GmbH, Sömmerda, Germany,
 - WBL Holding GmbH, Laichingen, Germany; including its subsidiaries Werkzeugbau Laichingen GmbH, Laichingen, Germany; Werkzeugbau Leipzig GmbH, Leipzig, Germany; and TM Erste Grundstücksgesellschaft mbH, Wuppertal, Germany.

- Production Process Technology
 - C.F.K. CNC Fertigungstechnik Kriftel GmbH, Kriftel, Germany

- Healthcare and Infrastructure Technology segment
 - Frank Walz- und Schmiedetechnik GmbH, Hatzfeld, Germany; including its subsidiaries Frank-Hungaria Kft., Ózd, Hungary; Frank Lemeks Tow, Ternopil, Ukraine; and OOO Frank RUS, Orjol, Russia

The disposal was concluded effective as at 22 and 23 December 2020, with the exception of the disposal of Paul Beier GmbH & Co. KG, which is subject to approval from the Federal Ministry for Economic Affairs and Energy. The disposal has already been recognised because it is highly likely that approval will be given and GESCO AG is contractually obliged to dispose of its shares subject to the approval.

With this sale, GESCO has discontinued its Mobility Technology segment and also implemented the largest portfolio restructuring in company history. The transaction was carried out within the scope of the NEXT LEVEL strategy and aims at making the portfolio more profitable, robust and future-proof. The companies' sales prices amounted to € 27 million with immediate cash inflow of € 18 million.

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

Other loans (2)

Loans with a term of more than one year are recognised as other loans. This item includes a seller loan as part of the aforementioned transaction of € 9 million due as at 21 December 2025 at the latest, plus capitalised interest. It also includes liquidity support for a former investment holding company worth € 850 thousand, limited to 31 December 2022, with a maximum repayment of € 2,850 thousand.

Amounts owed by affiliated companies (3)

This item includes prorated profit distributions and loans that have not yet been disbursed.

Other assets (4)

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

Subscribed capital (5)

The company's subscribed capital amounts to € 10,839,499.00 divided into 10,839,499 no-par value registered shares with a mathematical share in equity of € 1.00 each.

The Annual General Meeting on 18 June 2020 authorised the company to increase the company's share capital on one or several occasions by a total of € 1,083,949.00 until 17 June 2023 with the consent of the Supervisory Board by issuing up to 1,083,949 new no-par value registered shares in exchange for cash or contributions in kind (Authorised Capital 2020). Subscription rights may be excluded in certain cases. No use of this authorisation has been made during the reporting period.

The Annual General Meeting on 18 June 2020 authorised the company to acquire up to ten out of every hundred shares of the share capital until 17 June 2025 under consideration of own shares already held. No use of this authorisation has been made during the reporting period.

Capital reserves/revenue reserves (6)

The Annual General Meeting of 18 June 2020 resolved to transfer € 8,816,204.40 from retained profit as at 31 December 2019 to other revenue reserves. The Executive Board and Supervisory Board withdrew an amount of € 5,768,700.28 from other revenue reserves to compensate for the net loss for the year.

Reserves developed as follows:

| € '000 | Capital reserves | Statutory reserves | Other retained profits |
|-------------------------|-------------------------|---------------------------|-------------------------------|
| As at 31.12.2019 | 73,488 | 59 | 104,919 |
| Addition | 0 | 0 | 8,816 |
| Withdrawals | 0 | 0 | -5,769 |
| As at 31.12.2020 | 73,488 | 59 | 107,966 |

Provisions for pensions and similar obligations (7)

| € '000 | 01.01.2020- 31.12.2020 | 01.03.2019- 31.12.2019 |
|------------------------------------|---------------------------|---------------------------|
| As at 01.01. | 2,394 | 2,232 |
| Interest expense | 61 | 51 |
| Change | -11 | 111 |
| As at end of financial year | 2,444 | 2,394 |

| % | 01.01.2020- 31.12.2020 | 01.03.2019- 31.12.2019 |
|---------------|---------------------------|---------------------------|
| Interest rate | 2.30 | 2.71 |
| Salary growth | 0.00 | 0.00 |
| Indexation | 1.30 | 1.60 |

The difference pursuant to Section 253 para. 6 HGB is € 233 thousand (previous year: € 251 thousand).

The provisions relate to pension obligations to three former Executive Board members.

Other provisions (8)

Other provisions primarily include obligations to employees and executive bodies (including the stock option programme), a purchase price annuity obligation, warranty risks, transaction costs, outstanding invoices and any non-deductible advance tax payments. The purchase price annuity obligation was calculated in accordance with actuarial principles on the basis of a 1.60 % interest rate (previous year: 1.97 %).

GESCO AG offers the Executive Board and a small circle of management employees at GESCO AG the opportunity to participate in a stock option programme as a remuneration component with long-term incentives. A fourteenth tranche was initiated in June 2020 in the form of a virtual share-option programme. A total of 50,400 options were issued to members of the Executive Board and management employees of GESCO AG.

Non-cash expenditure under this programme is determined using a common binomial model, recorded in earnings on a pro rata basis and recognised in other provisions. The model assumes volatility of 28.75 % (previous year: 26.40 %) and a risk-free interest rate of -0.59 % (previous year: -0.86 %); the exercise price of the options issued in June 2020 is € 16.58. The vesting period is four years and two months after the date of the Annual General Meeting. The fair value per option on the issue date is € 0.98. These annual financial statements are the first to include the expenditure resulting from the stock option programme initiated in the reporting

year (€ 8 thousand). Taking into account the change in value, total expenditure for the ninth to fourteenth tranche amounted to € 97 thousand in the reporting year; in the previous year, total expenditure was € 80 thousand.

The fair value per option as at the reporting date may differ from the fair value at the time the options are issued. This year's fair value adjustment led to a reversal of provisions (€ 178 thousand). Provisions as at the reporting date came to € 162 thousand.

Liabilities (9)

| € '000 | Residual term | | | |
|---------------------------------------|----------------------------------|---------------------------------|---------------------------------|--------------------------------|
| | 31.12.2020 (31.12.2019) | up to 1 year | up to 5 years | Residual term > 5 years |
| Liabilities to financial institutions | 15,112 (26,755) | 3,563 (11,680) | 9,835 (10,961) | 1,714 (4,114) |
| Trade creditors | 164 (118) | 164 (118) | 0 (0) | 0 (0) |
| Liabilities to affiliated companies | 314 (184) | 314 (184) | 0 (0) | 0 (0) |
| Other liabilities | 412 (655) | 412 (655) | 0 (0) | 0 (0) |
| | 16,002 (27,712) | 4,453 (12,637) | 9,835 (10,961) | 1,714 (4,114) |

The company pledged investments to secure liabilities to financial institutions.

Deferred tax liabilities (10)

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

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

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

The overall analysis of deferred taxes resulted in surplus deferred tax assets as at 31 December 2020. The option to capitalise these deferred tax assets was not exercised. In the previous year, deferred tax assets of € 5,160 thousand compared to deferred tax liabilities of € 6,324 thousand, resulting in a surplus of deferred tax liabilities of € 1,164 thousand.

Contingent liabilities and other financial obligations

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

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

In order to secure the loan granted from a bank to a managing director to acquire shares in the company they manage, GESCO AG pledged fixed deposits in the same amount (€ 1,230 thousand) to the lending bank. The fixed deposits will be released in parallel with the respective loan repayments. In the case of utilisation, GESCO AG is entitled to use the shares that have been sold and pledged to GESCO. The pledging of these shares is to be removed in the first quarter of 2021 as part of changes to the collateral structure.

The purchase price of a company acquisition may have to be adjusted until 31 December 2021. No utilisation is currently expected on the basis of current planning.

5. Information on the income statement

Other operating income (11)

The sale of investments in December resulted in individual companies generating income of € 11,207 thousand.

Of the other operating income, € 434 thousand is attributable to different reporting periods, € 427 thousand from income from the reversal of provisions (previous year: € 136 thousand).

Other operating expenditure (12)

The sale of investments in December resulted in individual companies generating losses from the sale of financial assets and the disposal of receivables from these investment holding companies in the amount of € 32,011 thousand. Other operating expenditure concerns legal and consulting costs, external corporate consulting costs, additions to provisions for guarantees, expenditure for investor relations, financial reporting and auditing costs and insurance policies and, in the previous year, the employee share scheme.

Impairment of financial assets (13)

Impairments concern the reduction in value of one other loan to its fair value (see note (2)) and the impairment of shares in an inactive affiliated company following the distribution of the corresponding cash and cash equivalents.

6. Events after the balance sheet date

On 4 February 2021, GESCO AG concluded a contract regarding the sale of its majority stake in VWH GmbH within the scope of a management buy-out. The deal calls for the disposal of the majority shareholding of 80 % in VWH GmbH. Based in Herschbach, Germany, the company provides products and services in the field of special machines and tool manufacturing (injection moulding forms, laser technology, automation and testing technology), primarily for customers in the automotive industry. VWH was a member of the GESCO Group from 2007 and part of the Production Process Technology segment. The sale has no significant impact on the assets, financial position and earnings.

7. Other information

Corporate governance

The Executive Board and Supervisory Board of GESCO AG comply with the German Corporate Governance Code and have made the current as well as previous declarations of compliance available to shareholders and interested parties on the website of GESCO AG. Members of the Executive Board hold a total of 0.07 % of company shares. Members of the Supervisory Board hold a total of 14.20 % of company shares.

Disclosures regarding notifications pursuant to Sections 33 et seq. German Securities Trading Act (WpHG)

Stefan Heimöller, Germany, informed us on 11 January 2011 pursuant to Section 21 para. 1 of the German Securities Trading Act (WpHG), previous version (now Section 33 para. 1 WpHG), that his voting rights in GESCO AG exceeded the 10 % threshold on 10 January 2011 and amounted to 10.01 % (equivalent to 302,648 voting rights) on 10 January 2011. These voting rights refer to the number of shares prior to the share split at a ratio of 1:3 in December 2016.

Crown Sigma UCITS plc informed us on 28 December 2019 (correcting a notification dated 20 December 2018) that, pursuant to Section 33 para. 1 WpHG, its share of voting rights in GESCO AG exceeded the threshold of 3 % on 14 December 2018 and amounted to 3.04 % (equivalent to 330,000 voting rights) on this date.

LGT Capital Partners (Ireland) Ltd. informed us on 16 January 2019 that, pursuant to Section 33 (1) WpHG, its share of voting rights in GESCO AG exceeded the threshold of 3 % on 14 December 2018 and amounted to 3.04 % (equivalent to 330,000 voting rights) on this date. Of that, 3.04 % (equivalent to 330,000 voting rights) are attributable to it under Section 34 WpHG.

LBBW Asset Management Investmentgesellschaft mbH informed us on 25 April 2019 that, pursuant to Section 33 para. 1 WpHG, its share of voting rights in GESCO AG exceeded the threshold of 3 % on 17 April 2019 and amounted to 3.11 % (equivalent to 337,400 voting rights) on this date. Of that, 2.82 % (equivalent to 305,400 voting rights) are attributable to it under Section 34 WpHG.

Baden-Württembergische Versorgungsanstalt für Ärzte, Zahnärzte und Tierärzte informed us on 8 October 2020 that, pursuant to Section 33 para. 1 WpHG, its share of voting rights in GESCO AG exceeded the threshold of 3 % on 6 October 2020 and amounted to 3.34 % (equivalent to 361,500 voting rights) on this date.

Investmentaktiengesellschaft für langfristige Investoren TGV, Bonn, informed us on 23 December 2020 that, pursuant to Section 33 para. 1 WpHG, its share of the voting rights in GESCO AG had exceeded the 15 % threshold on 22 December 2020 and amounted to 15.05 % (equivalent to 1,631,009 voting rights) on that day.

Norman Rentrop, Germany, informed us on 23 December 2020 that, pursuant to Section 33 para. 1 WpHG, his share of voting rights in GESCO AG exceeded the threshold of 15 % on 22 December 2020 and amounted to 15.05 % (equivalent to 1,631,009 voting rights) on this date. Of that, 15.05 % (equivalent to 1,631,009 voting rights) are attributable to him under Section 34 WpHG.

Staff

The company employed an average of 19 people during the financial year (previous year: 18).

Auditor

The fee charged by the auditor attributable to the financial year is € 160 thousand for auditing services and € 18 thousand for tax consulting.

Executive bodies of the company

Executive Board

Ralph Rumberg, Witten, Germany
CEO / Spokesman of the Executive Board

Kerstin Müller-Kirchhofs, Düsseldorf, Germany
CFO / Chief Financial Officer

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

As at 31 December 2020, provisions for pensions in the amount of € 2,444 thousand (previous year: € 2,394 thousand) existed for former Executive Board members. A former member of the Executive Board was granted payments of € 70 thousand (previous year: € 53 thousand) on the basis of his pension commitment in the financial year.

Supervisory Board

Klaus Möllerfriedrich, Düsseldorf, Germany
Chairman,
Wirtschaftsprüfer (German Public Auditor)

Deputy Chairman of the Supervisory Board:
- TopAgers AG, Langenfeld, Germany
- HINKEL & CIE. Vermögensverwaltung AG, Düsseldorf (until 21.01.2020)

Stefan Heimöller, Neuenrade, Germany
Deputy Chairman,
Managing partner at Plate Stahl Umformtechnik GmbH, Lüdenscheid, Germany
and at Helios GmbH, Neuenrade, Germany

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

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

Member of the Supervisory Board:
- Washtec AG, Augsburg

Dr Nanna Rapp, Düsseldorf, Germany
Member of the management team of E.ON Inhouse Consulting GmbH, Essen, Germany, until
30.06.2020

Chairwoman of the Supervisory Board:
- E.ON Energie AG, Düsseldorf, Germany (until 29.02.2020)

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

| € '000 | 01.01.2020-31.12.2020 (01.04.2019-31.12.2019) | Fixed remuneration | Variable remuneration | Total |
|-----------------------|--|-----------------------|--------------------------|------------------|
| Klaus Möllerfriedrich | | 75 (16) | 0 (44) | 75 (60) |
| Stefan Heimöller | | 55 (14) | 0 (44) | 55 (58) |
| Jens Große-Allermann | | 50 (11) | 0 (44) | 50 (55) |
| Dr Nanna Rapp | | 50 (12) | 0 (44) | 50 (56) |
| | | 230 (53) | 0 (176) | 230 (229) |

Wuppertal, 26 March 2021

Ralph Rumberg
CEO / Spokesman of the Executive Board

Kerstin Müller-Kirchhofs
CFO / Chief Financial Officer

| | Cost of acquisition or manufacture | | | | Depreciation and amortisation | | | | Book values | |
|------------------------------------|------------------------------------|----------------------|----------------------|-----------------------|-------------------------------|---------------------|---------------------|---------------------|-----------------------|-----------------------|
| | 1.1.2020 | Additions | Disposals | 31.12.2020 | 1.1.2020 | Additions | Disposals | 31.12.2020 | 31.12.2020 | 31.12.2019 |
| | € | € | € | € | € | € | € | € | € | € |
| NON-CURRENT ASSETS | | | | | | | | | | |
| I. Intangible assets | | | | | | | | | | |
| IT software | 309,043.36 | 30,337.00 | 0.00 | 339,380.36 | 256,586.36 | 32,062.00 | 0.00 | 288,648.36 | 50,732.00 | 52,457.00 |
| II. Tangible assets | | | | | | | | | | |
| Other plant, fixtures and fittings | 1,069,251.84 | 56,385.54 | 138,349.74 | 987,287.64 | 731,497.72 | 133,862.04 | 65,865.74 | 799,494.02 | 187,793.62 | 337,754.12 |
| III. Financial assets | | | | | | | | | | |
| 1. Shares in affiliated companies | 149,416,495.35 | 600,000.00 | 39,305,687.82 | 110,710,807.53 | 10,882,346.55 | 250,000.00 | 4,802,258.37 | 6,330,088.18 | 104,380,719.35 | 138,534,148.80 |
| 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 |
| 3. Loans | 0.00 | 12,010,849.32 | 0.00 | 12,010,849.32 | 0.00 | 2,150,000.00 | 0.00 | 2,150,000.00 | 9,860,849.32 | 0.00 |
| | <u>149,421,495.35</u> | <u>12,610,849.32</u> | <u>39,305,687.82</u> | <u>122,726,656.85</u> | <u>10,882,346.55</u> | <u>2,400,000.00</u> | <u>4,802,258.37</u> | <u>8,480,088.18</u> | <u>114,246,568.67</u> | <u>138,539,148.80</u> |
| | <u>150,799,790.55</u> | <u>12,697,571.86</u> | <u>39,444,037.56</u> | <u>124,053,324.85</u> | <u>11,870,430.63</u> | <u>2,565,924.04</u> | <u>4,868,124.11</u> | <u>9,568,230.56</u> | <u>114,485,094.29</u> | <u>138,929,359.92</u> |

GESCO AG holdings as at 31.12.2020

| No. No. | Company | Location | Share in capital in % | Equity 2020 EUR '000 | Year's result 2020 EUR '000 | Assignment of shares to no. |
|---------|---|-----------------------------|-----------------------|----------------------|-----------------------------|-----------------------------|
| 1 | GESCO AG (parent company) | Wuppertal | | | | |
| | <u>a) fully consolidated companies</u> | | | | | |
| 2 | Alro GmbH | Wuppertal | 100 | 57 | -1 | 1 |
| 3 | AstroPlast Kunststofftechnik GmbH & Co. KG | Meschede | 100 | 249 | -577 | 1 |
| 4 | AstroPlast Verwaltungs GmbH | Meschede | 100 | 93 | 2 | 1 |
| 5 | Dörrenberg Edelstahl GmbH | Engelskirchen | 90 | 58,217 | 2,743 | 1 |
| 6 | Dörrenberg Tratamientos Térmicos SL | Alasua, Navarra, Spain | 60 | 2,536 | 297 | 5 |
| 7 | Dörrenberg Special Steels PTE. LTD. | Singapore | 90 | 2,442 | 211 | 5 |
| 8 | Dörrenberg International PTE. LTD. | Singapore | 90 | 610 | -16 | 5 |
| 9 | Dörrenberg Specialty Steel Corp. | Macedonia, OH/USA | 100 | 58 | 15 | 5 |
| 10 | Dörrenberg Special Steels Taiwan LTD. | Tainan City, Taiwan | 100 | 1,619 | 252 | 8 |
| 11 | Middle Kingdom Special Steels Pte. Ltd. | Singapore | 60 | 651 | -11 | 8 |
| 12 | Jiashan Dörrenberg Mould & Die Trading Co. | Jiashan, China | 100 | 4,117 | 563 | 11 |
| 13 | Franz Funke Zerspanungstechnik GmbH & Co. KG | Sundern | 100 | 1,175 | 375 | 1 |
| 14 | Franz Funke Verwaltungs GmbH | Sundern | 100 | 90 | 3 | 1 |
| 15 | Haseke GmbH & Co. KG | Porta Westfalica | 80 | 1,035 | 626 | 1 |
| 16 | Haseke Beteiligungs-GmbH | Porta Westfalica | 100 | 84 | 3 | 1 |
| 17 | Hubl GmbH | Vaihingen/Enz | 80 | 3,537 | 1,219 | 1 |
| 18 | Georg Kesel GmbH & Co. KG | Kempton | 90 | 439 | 285 | 1 |
| 19 | Kesel & Probst Verwaltungs-GmbH | Kempton | 100 | 42 | 2 | 18 |
| 20 | Kesel International GmbH | Kempton | 100 | 66 | -3 | 18 |
| 21 | Georg Kesel Machinery (Jiashan) Co., Ltd. | Jiashan, China | 100 | 346 | -21 | 20 |
| 22 | Georg Kesel Machinery (Beijing) Co., Ltd. | Beijing, China | 100 | 242 | 0 | 20 |
| 23 | Kesel North America LLC | Janesville, WI/USA | 100 | 241 | 165 | 20 |
| 24 | MAE Maschinen- und Apparatebau Götzen GmbH | Erkrath | 100 | 5,444 | 0 | 1 |
| 25 | MAE International GmbH | Erkrath | 100 | 62 | -2 | 24 |
| 26 | MAE Machines (Beijing) Co., Ltd. | Beijing, China | 100 | 322 | 3 | 25 |
| 27 | MAE Amerika GmbH | Erkrath | 100 | 1,770 | -2 | 24 |
| 28 | MAE-EITEL INC. | Orwigsburg, PA/USA | 90 | 2,749 | 389 | 27 |
| 29 | Modell Technik Beteiligungsgesellschaft mbH | Sömmerda | 100 | 129 | -2 | 1 |
| 30 | Molineus & Co. GmbH + Co. KG | Wuppertal | 100 | 240 | -16 | 1 |
| 31 | GRAFIC Beteiligungs-GmbH | Wuppertal | 100 | 49 | 0 | 30 |
| 32 | MV Anlagen GmbH & Co. KG | Wuppertal | 100 | 55 | -2 | 1 |
| 33 | Pickhardt & Gerlach GmbH & Co. KG | Finnentrop | 100 | 7,334 | 3,267 | 1 |
| 34 | Hekhorn Verwaltungs-GmbH | Finnentrop | 100 | 101 | 12 | 33 |
| 35 | Hekhorn Immobilien GmbH | Finnentrop | 100 | 3,201 | 340 | 1 |
| 36 | Sommer & Strassburger GmbH & Co. KG | Bretten | 100 | 4,417 | 2,813 | 1 |
| 37 | So-Stra Verwaltungs GmbH | Bretten | 100 | 35 | 0 | 1 |
| 38 | Q-Plast GmbH & Co. Kunststoffverarbeitung | Emmerich | 100 | 114 | 12 | 40 |
| 39 | Q-Plast Beteiligungs-GmbH | Emmerich | 100 | 90 | 3 | 40 |
| 40 | Setter GmbH & Co. Papierverarbeitung | Emmerich | 100 | 4,965 | 4,837 | 1 |
| 41 | Setter GmbH | Emmerich | 100 | 7,552 | 1,466 | 1 |
| 42 | HRP-Leasing GmbH | Emmerich | 100 | 734 | 0 | 41 |
| 43 | Setter International GmbH | Emmerich | 100 | 4,292 | 446 | 40 |
| 44 | Setterstix Inc. | Cattaraugus, NY/USA | 100 | 7,083 | 1,665 | 43 |
| 45 | SQG Verwaltungs GmbH | Emmerich | 100 | 112 | -4 | 40 |
| 46 | Setterstix de México, S.A. DE C.V. | San Luis Potosí, Mexico | 100 | -250 | -288 | 45 |
| 47 | SVT GmbH | Schwelm | 100 | 7,877 | 2,144 | 1 |
| 48 | IV Industrierwaltungs GmbH & Co. KG | Wuppertal | 100 | 115 | -2 | 1 |
| 49 | IMV Verwaltungs GmbH | Wuppertal | 100 | 82 | 3 | 1 |
| 50 | VWH GmbH | Herschbach | 80 | 6,020 | 48 | 1 |
| | <u>b) associated companies *)</u> | | | | | |
| 51 | Saglam Metal San. Tic.A.S. | Istanbul, Turkey | 20 | - | - | 5 |
| 52 | Dörrenberg Special Steels Korea Co. Ltd. | Jeongwang-dong, South Korea | 50 | - | - | 8 |
| 53 | Fine Metal S.R.L. | Bucharest, Romania | 40 | - | - | 8 |
| | <u>c) companies which are not consolidated</u> | | | | | |
| 54 | Connex SVT Inc. | Houston, TX/USA | 100 | 850 | 101 | 47 |

*) 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, Wuppertal
Management report for financial year 2020
(1 January to 31 December 2020)

1. Changing the financial year

The Annual General Meeting at GESCO AG on 29 August 2019 voted to change the financial year of GESCO AG, and therefore that of GESCO Group, to the calendar year with effect from 1 January 2020. This resulted in a nine-month abbreviated financial year for GESCO AG in the previous year from 1 April to 31 December 2019. The figures for the reporting year covering the twelve-month period are therefore only comparable with the previous year's figures to a limited extent.

2. General economic development

Gross domestic product in Germany was 5.0 % lower in 2020 than in the previous year. After ten consecutive years of growth, the German economy entered a deep recession in 2020 due to the coronavirus crisis. In particular, private consumer spending saw an unprecedented decline of 6.0 %, while government spending climbed by 3.4 %, partly due to the procurement of personal protective equipment and hospital services. Enormous disruption to supply and logistics chains has a substantial impact on foreign trade. Imports and exports of goods and services fell for the first time since 2009 (exports -9.9 %, imports -8.6 %). The consistent rise in employment for more than 14 years now came to an end in 2020 due to the coronavirus pandemic, although additional job losses are likely to have been prevented by the extension of short-time work regulations.

Production in the German mechanical engineering industry shrunk by 2.8 % in 2019, leading the Verband Deutscher Maschinen- und Anlagenbau e. V. (VDMA) to forecast stagnation in global plant and machine sales for 2020 at the start of the year. At the time, the VDMA expected no further declines, in particular due to the increasing importance of China. VDMA economists would have expected a further 2 % decline in production in Germany even though there were no signs of any deep recession at the time.

Faced by the heady mix of trade conflicts, weak global economic development, structural change in the automotive industry and the coronavirus pandemic at the beginning of 2020, the German mechanical and plant engineering industry was set back even more significantly than expected in early 2020, leading the VDMA to lower its 2020 forecast for production in the industry to -5 % in March. For the second half of the year, VMDA forecast at least pent-up global demand but not at a level that would compensate for the losses experienced.

The widespread impact of the coronavirus pandemic and the first wave of lockdowns was presenting an increasing number of new challenges to businesses. Large swathes of production in Germany and abroad were brought to a standstill on account of the pandemic. The first signs of bottlenecks in the supply of international pre-products began to appear. Global economic recovery in the industry was brought to an abrupt stop by coronavirus. With significant order declines and cancellations and disruption to supply chains, the escalating situation also caused increased capacity adjustments in the German mechanical and plant engineering industry. Employees were put on short-time work, production activities halted and jobs axed.

The mechanical and plant engineering industry saw a moderate decline in orders totalling 2 % in the first quarter of 2020 (domestic orders +1 %, international orders -4 %). The first far-reaching effects of the coronavirus pandemic started to be felt in March, with incoming orders down 9 % year on year, domestic orders declining by 2 % and international orders declining by 12 %. The order situation took a significant turn for the worse up to the halfway point of the year.

Recovery effects began to emerge in the summer months as borders were reopened and disruption to supply chains subsided. The German government's stimulus plan also bolstered recovery. Prospects for economic development across the EU gradually brightened again in June. In July, incoming orders in the German mechanical and plant engineering industry declined less sharply compared to previous months by only 19 % year on year, raising VDMA economists' hopes of having passed the low point. In September, the association then corrected its full-year guidance for 2020 to a decline in production of 17 %, coupled with a slightly confident outlook for 2021 (+2 %).

At the end of the third quarter, a renewed rise in infection rates spread uncertainty and had an adverse effect on investment propensity in the mechanical and plant engineering industry. Hopes of rapid economic recovery visibly dissipated under the spectre of further nationwide lockdowns. The ongoing slump in order volume presented many companies with additional challenges. Mechanical and plant engineering companies focused on recruitment freezes and job-cut strategies as they began to adjust to the fact that recovery would take a significant amount of time.

The second wave of the pandemic and the resulting restrictions and uncertainty had a less significant effect on order books in the fourth quarter than originally feared. Incoming orders in October provided the first signs of easing tensions, which led the VDMA to slightly raise its production forecast for 2020 in December to a decline of 14 %. According to preliminary figures of the Federal Statistical Office (Destatis), price-adjusted production in the German mechanical and plant engineering industry declined by 13.8 % in 2020.

The M&A market in 2020 was also dominated by the COVID-19 pandemic. A number of sale projects in the SME sector were put on hold by sellers or postponed indefinitely, particularly in the spring of 2020. There remains a situation where extremely high demand is meeting a limited supply. Strategic buyers, financial investors and, increasingly, entrepreneurial families are looking to make direct investments in industrial SMEs. In this environment, GESCO is pushing to contact entrepreneurs and business owners directly while continuing to participate in selected auctions. In addition, GESCO is stepping up its search for supplementary acquisitions for existing portfolio companies.

3. Changes to the scope of consolidation

In December 2020, GESCO AG sold all of its shares in the following companies:

- Mobility Technology segment
 - Paul Beier GmbH & Co. KG, Kassel, Germany, and Paul Beier Verwaltungs GmbH
 - Dömer GmbH & Co. KG Stanz- und Umformtechnologie, Lennestadt, and Dömer GmbH
 - Modell Technik Formenbau GmbH, Sömmerda, Germany,
 - WBL Holding GmbH, Laichingen, Germany; including its subsidiaries Werkzeugbau Laichingen GmbH, Laichingen, Germany; Werkzeugbau Leipzig GmbH, Leipzig, Germany; and TM Erste Grundstücksgesellschaft mbH, Wuppertal, Germany.
- Production Process Technology
 - C.F.K. CNC Fertigungstechnik Kriftel GmbH, Kriftel, Germany
- Healthcare and Infrastructure Technology segment
 - Frank Walz- und Schmiedetechnik GmbH, Hatzfeld, Germany; including its subsidiaries Frank-Hungaria Kft., Ózd, Hungary; Frank Lemeks Tow, Ternopil, Ukraine; and OOO Frank RUS, Orjol, Russia

The disposal was concluded effective as at 22 and 23 December 2020, with the exception of the disposal of Paul Beier GmbH & Co. KG, which was subject to approval from the Federal Ministry for Economic Affairs and Energy. The disposal has already been recognised because it was highly likely that approval would be given and GESCO AG is contractually obliged to dispose of its shares subject to the approval. The transaction was concluded following a letter from the ministry in March 2021.

With this sale, GESCO has discontinued its Mobility Technology segment and also implemented the largest portfolio restructuring in company history. The transaction was carried out within the scope of the NEXT LEVEL strategy and aims at making the portfolio more balanced and therefore also more profitable. The companies' sales prices amounted to € 27 million with immediate cash inflow of € 18 million.

After the reporting date, GESCO AG also signed a contract concerning the sale of its majority stake in VWH GmbH on 4 February 2021 as part of a management buy-out. The deal calls for the disposal of the majority shareholding of 80 % in VWH GmbH. Based in Herschbach, Germany, the company provides products and services in the field of special machines and tool manufacturing (injection moulding forms, laser technology, automation and testing technology), primarily for customers in the automotive industry. VWH was a member of the GESCO Group from 2007 and part of the Production Process Technology segment. The successful sale of the automotive-related VWH business complemented the transaction from December 2020 and balanced out GESCO's direct automotive business share.

In the previous year, GESCO AG acquired the minority shareholding of 10 % held by the then managing director of SVT GmbH, Schwelm, Germany, effective as at 7 August 2019. Since then, GESCO AG has held 100 % of the shares in the company.

4. Business performance

GESCO Group's companies operate primarily in the capital goods industry. Following initial production losses due to the pandemic, the industry was put under increasing pressure as the year progressed. Correspondingly, the VDMA (as the relevant association) reported a 13.8 % drop in price-adjusted production in mechanical engineering year on year. In this environment, sales were down in total and margins were under substantial pressure at GESCO Group as well.

Another factor is that 2020 was an unprecedented year that was dominated by the coronavirus pandemic. After a satisfactory start to the year, subsidiary business was drastically disrupted by the pandemic in March. The pandemic is affecting GESCO Group companies in a variety of different ways. Coronavirus has exacerbated the situation for companies already suffering from a reluctance to invest in the automotive industry on account of technological change. Companies across all segments felt the effects of closures at customer factories on a selective basis, particularly in the spring, while travel restrictions had an impact on sales and service throughout the year. The general uncertainty led to a reluctance to invest among customers and a decline in incoming orders. The Healthcare and Infrastructure Technology segment proved stable. Positive developments were noted in particular in the production of paper sticks and in the area of stainless steel products. Incoming orders for loading technology also increased.

Sale of investments

The company's earnings position was characterised by the effects of the sale of six direct subsidiaries plus administrative companies and sub-subsidiaries as described in Section 3. The sale of this "bundle" resulted in the following earnings effects:

| Earnings effects: | € '000 | Income statement item |
|---|----------------|------------------------------------|
| Income from the sale of investments | 11,207 | Other operating income |
| Loss from the disposal of financial assets and amounts owed by these investments | -32,011 | Other operating expenditure |
| Expenditure for other risks and consulting and similar services in the context of the transaction | -801 | Other operating expenditure |
| Total | -32,812 | Other operating expenditure |
| Impairment of financial assets (receivables) in the context of the transaction | -2,150 | Impairment of financial assets |

The transaction involved the sale of the investments as well as any existing clearing accounts. In addition, supporting liquidity was also provided to a former investment holding company, which is limited to 31 December 2022 and was valued at € 850 thousand as at the balance sheet date and resulted in impairment of financial assets of € 2,150 thousand.

Business performance

GESCO AG's investment income came to € 27.5 million in 2020 and was on a par with the previous abbreviated financial year (€ 26.7 million). Distributions are determined individually in consideration of the earnings position, assets and liquidity position of the subsidiaries as well as against the backdrop of optimising liquidity within GESCO Group.

Income from profit and loss transfer agreements stood at € 2.9 million in the previous year, however in the reporting year GESCO AG reported expenses from loss transfer of € 5.4 million. Both companies with which a profit and loss transfer agreement existed were significantly affected by the development of the automotive sector. Expenses include expenses for redundancy plans to adjust capacities. Modelltechnik Formenbau GmbH was sold in December within the scope of the aforementioned transaction.

Impairments of financial assets totalling € 2.4 million concern firstly the aforementioned item and secondly, in the amount of € 250 thousand, an inactive management company as a result of the payment of corresponding liquidity.

Sales revenues result from consulting services and the charging of expenses in favour of investment holding companies. Other operating income excluding the transaction stood at € 0.6 million (abbreviated previous financial year: € 0.3 million), which was due in particular to the reversal of provisions for past tranches of the stock option programme. Other operating expenditure excluding transaction effects was € 3.7 million (abbreviated previous financial year: € 3.0 million).

The net income from the abbreviated previous financial year of € 22.6 million compares to a net loss of € 5.8 million in the reporting year due to the transaction. Excluding the transaction effects and net expenses of € 23.8 million, GESCO AG would have generated net income of € 18.0 million.

Faced by the initial impact of the coronavirus pandemic, GESCO AG had expected investment income and net income to be roughly on a par with or slightly lower than the abbreviated financial year 2019 in 2020, without being able to assess the effects of the pandemic at that time. The significant deviations from that forecast were due to the divestment transaction, which was important for strategic reasons, and the obligation to assume losses generated by subsidiaries that were significantly affected by the adverse development of the automotive industry exacerbated by the coronavirus pandemic.

GESCO AG's total assets amounted to € 213.8 million as at the reporting date of 31 December 2020 (previous year: € 235.0 million).

On the assets side, financial assets declined by € 24.3 million due to the transaction, although the decline in investments is offset by newly added other loans, € 9.0 million of which concerns a seller loan due in five years' time at the latest. In addition, amounts owed by affiliated companies also declined by € 12.4 million. The decline in other assets of € 5.6 million was due to the year-on-year decline in tax return claims.

Liquid assets stood at € 27.6 million as at the reporting date (previous year's reporting date: € 6.5 million). Net cash and cash equivalents of € 15 million were received as part of the transaction. A dividend of € 2.5 million was distributed to the company's shareholders in the reporting period.

On the equity and liabilities side, equity declined on account of the net loss and distributions to € 192.4 million (previous year: € 200.6 million), while the equity ratio increased from 85.4 % to 90.0 %. The decrease in liabilities from € 27.7 million to € 16.0 million was primarily due to the repayment of bank loans.

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

In the management report for abbreviated financial year 2019, GESCO AG forecast an equity ratio of roughly 80 % in the new financial year; due to the changes in the investment structure, the equity ratio was ultimately higher than the forecast figure.

At the end of the financial year, GESCO AG had access to approved but unused credit lines totalling approximately € 1.0 million.

5. Opportunity and risk management

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

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

Managing opportunities

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

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

Risk management at GESCO Group

GESCO Group has a comprehensive internal controlling and risk management system. It uses a software system that assesses risks but not opportunities. Risks and the classification thereof are assessed by estimating the effects on earnings before interest and taxes (EBIT) and their probability of occurrence. Risks are weighted depending on

the specific company and in consideration of its sales volume and profitability. Risks are classified as follows at Group level:

| | |
|---------------------------|----------|
| Risk impact: | |
| up to € 2 million | low |
| € 2 million – € 5 million | moderate |
| Over € 5 million | high |

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

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

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

Risks in acquiring companies

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

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

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

Risks relating to operating business

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

Besides the general economic situation, subsidiaries' strategic orientation in an environment shaped by technological change poses risks but also presents opportunities, including the addition of different drive types to the combustion engine,

digitalisation, the emergence of new competitors, political and economic development of regional markets, changes in social values and principles, the political push towards reducing carbon emissions and regulatory frameworks. GESCO Group has taken a variety of steps to rise to these challenges, including the implementation of excellence programmes at the subsidiaries. In addition, the GESCO AG Executive Board, investment managers and the subsidiaries' managing directors and teams meet on a regular basis for the purpose of analysis and to share information and expertise on strategic issues.

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

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

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

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

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

Compliance risks

Compliance risks include those relating to corruption, breaches of antitrust regulations and criminal acts, and the resulting financial penalties and compensation claims. These risks can lead to significant financial damage as well as major reputation damage. GESCO Group mitigates these risks through its compliance management system, which includes a Group-wide Code of Conduct, accompanying guidelines and work instructions, an online information system (Rulebook) for GESCO Group employees, accompanying training courses, random case-by-case assessments and a whistleblower system for both employees and external parties. It is the job of the subsidiaries' managing directors to anchor these requirements and principles in their companies' corporate cultures.

Risks relating to personnel

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

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

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

The GESCO AG employee share scheme regularly offers GESCO Group employees in Germany the chance to invest in the company by acquiring GESCO shares at a reduced cost and thus make a personal contribution to their pension plans. GESCO AG considers this scheme to be an important part of its personnel retention efforts. Unfortunately, it was not possible to arrange the scheme in 2020 for regulatory reasons.

Risks relating to IT

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

external IT security officer. Within GESCO Group, GESCO AG also regularly checks on the status of the subsidiaries' IT security management systems.

Risks relating to data protection

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

Risks relating to financing

Risks relating to financing can include the inability to supply the holding company with sufficient equity capital and/or borrowed capital. Access to borrowed capital at adequate terms and conditions is significantly linked to the operating success of GESCO Group and therefore to the associated ability to make interest and principal payments in accordance with the agreed terms. Subsidiaries can directly influence such matters, whereas the holding company can exert indirect influence as part of its acquisition decisions, reporting activities and its support and assistance of subsidiaries. Subsidiaries can be exposed to the risk of shortfalls in terms of borrowed capital if they experience negative financial performance. In addition, there is also the risk that this negative performance impacts the reputation of GESCO AG and, potentially, other subsidiaries as debtors. Companies conclude interest rate swaps to limit the risks of changes in variable rates. These swaps involve swapping the variable rate for a fixed rate. We do not expect to see any material changes in interest rates in financial year 2021, either in the eurozone or in the US.

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

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

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

Risks relating to accounting

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

Environmental risks

Environmental damage can lead to significant financial and reputation-related risks and, in a worst-case scenario, threaten the continued existence of the company concerned. Subsidiaries pursue different approaches here depending on the relevant business

model. Dörrenberg Edelstahl GmbH, for instance, introduced an environmental management system in 1997 that continues to be developed and is regularly audited. Due to its classification as a hazardous site, regular environmental audits are carried out at the Pickhardt & Gerlach Group. GESCO AG ensures that its subsidiaries obtain the correct authorisations and licences.

Insurance cover

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

Legal risks

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

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

Reputation risks

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

Final risk assessment

Beyond the scope of normal fluctuations in economic development and the other operative risks referred to above, we currently see the high level of political uncertainty as the greatest risk to operating business. In addition, the ongoing spread of the coronavirus pandemic continues to pose a significant risk to global supply chains and financial development in various countries and industries, the final implications of which cannot be evaluated at the current time.

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

6. 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 figures on at least a monthly basis 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 on-site meetings held at each company on at least a monthly basis or video meetings, the GESCO AG investment manager and the respective subsidiary managers analyse the findings from subsidiary reporting and determine which objectives have been achieved. Options related to opportunities and risks alike are discussed jointly so as to be able to respond promptly to changes in the market situation.

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

7. Declaration of corporate governance

The declaration of corporate governance in accordance with Section 289f HGB is available on the company website at www.gesco.de/en/investor-relations/financial-reports.

8. Other information

Disclosures under Section 289a para. 1 HGB

No. 1: Composition of subscribed capital

As at the reporting date, the share capital of GESCO AG is € 10,839,499.00 and is divided into 10,839,499 registered shares. The shares are fully paid up. The same rights and obligations are associated with all shares. The rights and obligations of the shareholders are defined specifically under the terms of the German Stock Corporation Act (AktG), and in particular Sections 12, 53a et seq., 118 et seq. and 186 AktG

No. 2: Restrictions relating to voting rights or the transfer of shares

Each share is granted one vote in the Annual General Meeting and is the relevant parameter in calculating the shareholder's share in the company's profit. Treasury shares held by the company are an exception right, as they do not confer any rights to the company. Voting rights are suspended by law in the cases described in Section 136 AktG.

No. 3: Capital investments exceeding 10 % of the voting rights

The disclosures regarding capital investments exceeding 10 % of the voting rights are included in the notes.

No. 4: Holders of shares with special rights conferring controlling powers

No shares in the company have special rights conferring controlling powers.

No. 5: Control of voting rights in the case of employee investment in capital

There is no control of voting rights in the event that employees invest in GESCO AG capital and do not exercise their control rights directly.

No. 6: Appointing and dismissing members of the Executive Board; amendments to the Articles of Association

Members of the Executive Board are appointed and dismissed on the basis of Sections 84 and 85 AktG. In accordance with these provisions, members of the Executive Board

are appointed by the Supervisory Board for a maximum term of five years. Executive Board members can be re-appointed or their terms extended for one further term of five years. The Supervisory Board can revoke an appointment for good cause. Pursuant to Section 6 para. 1 of the GESCO AG Articles of Association, the Executive Board consists of one or more persons. According to Section 6 para. 2 of the Articles of Association, the Supervisory Board appoints Executive Board members and determines their number and is also entitled to appoint deputy members of the Executive Board.

Amendments to the Articles of Association are subject to Sections 179 and 133 AktG and Section 17 of the Articles of Association of GESCO AG. Pursuant to Section 179 para. 1 sentence 1 AktG, each amendment to the Articles of Association requires a resolution of the Annual General Meeting. Pursuant to Section 179 para. 1 sentence 2 AktG in conjunction with Section 17 para. 2 of the Articles of Association, the Supervisory Board is entitled to amend only the wording of the Articles of Association. According to Section 17 para. 1 of the Articles of Association, resolutions concerning amendments to the Articles of Association pursuant to Section 179 para. 2 sentence 2 AktG 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.

No. 7: Authority of the Executive Board to issue or redeem shares

The Annual General Meeting on 18 June 2020 authorised the company's Executive Board to increase the company's share capital on one or several occasions by a total of € 1,083,949.00 until 17 June 2023 with the consent of the Supervisory Board by issuing up to 1,083,949 new no-par value registered shares in exchange for cash or contributions in kind (Authorised Capital 2020). Shareholders generally have subscription rights; indirect subscription rights as defined in Section 186 para. 5 AktG are also sufficient in this case. However, the Executive Board is entitled, upon approval by the Supervisory Board, to exclude shareholders' statutory subscription rights under the conditions defined in the authorisation for up to 10 % of the share capital (a) in order to compensate for residual amounts, (b) with respect to a capital increase against cash contributions in accordance with Section 186 para. 3 sentence 4 AktG and (c) with respect to a capital increase against contributions in kind used to acquire a company, parts of a company or a participating interest in a company. The authorisation to increase the share capital was not utilised in the reporting period.

The company may only redeem treasury shares on the basis of an authorisation granted by the Annual General Meeting or in the handful of cases specifically defined in the German Stock Corporation Act. The Annual General Meeting on 18 June 2020 authorised the company, with the approval of the Supervisory Board, to acquire up to ten out of every hundred treasury shares of the share capital until 17 June 2025 under consideration of own shares already held. The authorisation may be exercised for any purpose permitted under law; trade in treasury shares is not permitted. The acquisition of treasury shares takes place at the discretion of the Executive Board under the terms and conditions of the authorisation resolution via the stock exchange or by means of a public purchase offer directed at all shareholders. Furthermore, the Executive Board is authorised to dispose of the acquired treasury shares, with the consent of the Supervisory Board, via the stock exchange or by means of a public offer directed at all shareholders. Shareholders are not granted any subscription rights in the case of shares disposed of via the stock exchange. For disposals through public offers, the Executive Board is authorised to exclude subscription rights for residual amounts. In addition, the Executive Board is authorised to utilise treasury shares it acquires with the approval of the Supervisory Board under the terms and conditions of the authorisation resolution and the exclusion of shareholder subscription rights as follows:

- sale to third parties in return for cash payment at a price that is not significantly lower than the company's share price on the date of the sale (exclusion of subscription rights limited to 10 % of the share capital in accordance with Section 186 para. 3 sentence 4 AktG);
- sale to third parties for the purposes of acquiring companies, parts of companies and/or investments in companies or of servicing convertible bonds or warrant bonds;
- in the case of an offer to all shareholders, for the purpose of granting all holders of convertible bonds and/or warrant bonds issued by the company or a Group company subscription rights to the shares to the extent they would be entitled to following the exercising of their warrants or conversion rights or following the fulfilment of their conversion obligation.

Lastly, the Executive Board is authorised, with the approval of the Supervisory Board, to redeem acquired treasury shares, either in full or in part, without any further Annual General Meeting resolution.

These authorisations can be exercised on one or several occasions and either in part or in full, either separately or altogether by the company, by an affiliated company, by a third party on behalf of the company or by companies affiliated to third parties.

GESCO AG held no treasury shares as of the reporting date. No treasury shares were acquired or sold in the financial year.

No. 8: Significant company agreements that are subject to a change of control resulting from a takeover bid

There are no company agreements that are subject to a change of control resulting from a takeover bid.

No. 9: Compensation agreements between the company and members of the Executive Board or employees in the event of a takeover bid

No compensation agreements exist between the company and members of the Executive Board or employees in the event of a takeover bid.

9. Remuneration report

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

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

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

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

component is based on a multi-year calculation base. Two-thirds of the respective bonus are based on the Group's net income after minority interest for the financial year and one-third on the average Group net income after minority interest for the financial year and the two financial years preceding it.

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

The **remuneration components with long-term incentives** constitute stock options issued to Executive Board members on the basis of the approved stock option programme. The stock option programme is designed so that Executive Board members have to contribute GESCO shares acquired with their own private funds, which may not be resold for the duration of the vesting period. Ten options can be purchased for each share. The vesting period is four years and two months after the option is issued; after the end of the vesting period, the options for the tranches issued in 2015 to 2016 may be exercised at any time up to 15 March of the year after next, while the options for the tranches issued between 2017 and 2020 are exercised on a defined issue date.

The stock options for the tranches 2015 to 2016 were issued at an exercise price equating to the average XETRA closing price of the GESCO share on the ten consecutive trading days following the Annual General Meeting in the year the options were issued. The average XETRA closing price of the GESCO share in the six months prior to the Annual General Meeting is the key factor in determining the issue price for the tranches issued between 2017 and 2020. The average closing price of the SDAX price index over the same period serves as a benchmark. The profit from the programme is determined once the vesting period of four years and two months is over, with the average closing price of the GESCO share and the average closing price of the SDAX price index of the six months prior to the end of the vesting period being the deciding factor. The options were issued within one month of the Annual General Meeting taking place.

If and how many options can be exercised depends on the achievement of an absolute and relative performance target. The absolute performance target is met when the price of the GESCO share has developed positively at the time the option is exercised. The relative performance target is met when the price of the GESCO share has outperformed the SDAX at the time the option is exercised. If both targets are met, the Executive Board members are able to exercise all of their options. If the absolute performance target is met but not the relative performance target, members of the Executive Board may only exercise 75 % of their options for tranches 2015 to 2016 and 50 % of their options for the tranches issued between 2017 and 2020, with the remaining 25 % and 50 % respectively expiring completely without recourse. If neither target is met at the point at which the options may be exercised, all options of the corresponding tranche expire completely without recourse. The maximum profit of the Executive Board members is capped at 50 % of the exercise price. The profit from the programme is paid out in cash.

The tranche set up by the Supervisory Board in June 2020 resulted in 50,400 options being issued to members of the Executive Board and managers of GESCO AG. Non-cash expenditure under this programme is determined using a common binomial model, recorded in earnings and recognised in other provisions. The model assumes volatility

of 28.75 % and a risk-free interest rate of -0.59 %; the options' exercise price is € 16.58. The vesting period is four years and two months after the date of the Annual General Meeting. The fair value per option on the issue date is € 0.98.

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

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

Executive Board remuneration: compensation

| Compensation in € '000 | Ralph Rumberg Spokesman (since 1 July 2018) | | | | Kerstin Müller-Kirchhofs Chief Financial Officer (since 1 May 2019) | | | |
|--|---|------------------------|---------------------------------|---------------------------------|---|------------------------|---------------------------------|---------------------------------|
| | 01.04. – 31.12.2019 | 01.01. – 31.12.2020 | 01.01. – 31.12.2020 (min) | 01.01. – 31.12.2020 (max) | 01.04. – 31.12.2019 | 01.01. – 31.12.2020 | 01.01. – 31.12.2020 (min) | 01.01. – 31.12.2020 (max) |
| Fixed remuneration | 244 | 325 | 325 | 325 | 187 | 280 | 280 | 280 |
| Additional benefits | 18 | 25 | 25 | 25 | 9 | 13 | 13 | 13 |
| Total | 262 | 350 | 350 | 350 | 196 | 293 | 293 | 293 |
| One-year variable remuneration | 207 | 152 | 0 | 650 | 176 | 175 | 0 | 560 |
| Multi-year variable remuneration (AOP) | | | | | | | | |
| Tranche 2019 | 23 | 0 | 0 | 0 | 23 | 0 | 0 | 0 |
| Tranche 2020 | 0 | 18 | 0 | 149 | 0 | 18 | 0 | 149 |
| Total | 230 | 170 | 0 | 799 | 199 | 193 | 0 | 709 |
| Pension-related expenses | 49 | 65 | 65 | 65 | 37 | 56 | 56 | 56 |
| Total remuneration | 541 | 585 | 415 | 1,214 | 432 | 542 | 349 | 1,058 |

Executive Board remuneration: payments

| Payments (€ '000) | Ralph Rumberg Spokesman (since 1 July 2018) | | Kerstin Müller-Kirchhofs Chief Financial Officer (since 1 May 2019) | |
|--|---|------------------------|---|------------------------|
| | 01.04. – 31.12.2019 | 01.01. – 31.12.2020 | 01.04. – 31.12.2019 | 01.01. – 31.12.2020 |
| Fixed remuneration | 244 | 325 | 187 | 280 |
| Additional benefits | 18 | 25 | 9 | 13 |
| Total | 262 | 350 | 196 | 293 |
| One-year variable remuneration | 276 | 249 | 0 | 211 |
| Multi-year variable remuneration (AOP) | 0 | 0 | 0 | 0 |
| Total | 276 | 249 | 0 | 211 |
| Pension-related expenses | 32 | 65 | 37 | 56 |
| Total remuneration | 570 | 664 | 233 | 560 |

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

The Annual General Meeting of GESCO AG of 18 June 2020 approved the system of **Supervisory Board remuneration** detailed below with a majority of 93.26 % effective from financial year 2020.

- (1) From financial year 2020, members of the Supervisory Board receive **fixed annual remuneration** payable at the end of the respective financial year. This fixed remuneration amounts to € 50,000.00 per member. The Chair receives fixed remuneration of € 75,000.00 and the Deputy Chair receives € 55,000.00. In addition, each member of the Supervisory Board receives a **performance-based remuneration** component following the approval of the annual and consolidated financial statements amounting to 0.15 % of the calculation base per financial year. The calculation base is Group net income after minority interest prior to the deduction of performance-related remuneration for the Supervisory Board. If the calculation base is negative, it is carried forward to the next year and offset against positive amounts. Total annual remuneration for each individual member is limited to two times the fixed annual remuneration payable pursuant to sentences 2 and 3 and para. 2.
- (2) If the Supervisory Board forms committees, the members of the Supervisory Board receive further fixed annual remuneration of € 3,000.00 for each additional position on a committee that meets at least once per year. Committee chairs receive remuneration of € 5,000.00.
- (3) Supervisory Board members who were only members of the Supervisory Board or a committee for part of the financial year receive remuneration on a pro rata basis for each month commenced in their role. The company reimburses members of the Supervisory Board for all expenses incurred in relation to their position on the Supervisory Board, including training costs and any VAT charged on their remuneration and expenses compensation.
- (4) The company includes the activities of the members of the Supervisory Board in its directors' and officers' liability insurance. The company is responsible for paying the premiums for this insurance.

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

| € '000 | Fixed remuneration | | Variable remuneration | | Total remuneration | |
|---------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| | 01.04. – 31.12.2019 | 01.01. – 31.12.2020 | 01.04. – 31.12.2019 | 01.01. – 31.12.2020 | 01.04. – 31.12.2019 | 01.01. – 31.12.2020 |
| Klaus Möllerfriedrich | 16 | 75 | 44 | 0 | 60 | 75 |
| Stefan Heimöller | 14 | 55 | 44 | 0 | 58 | 55 |
| Jens Große-Allermann | 11 | 50 | 44 | 0 | 55 | 50 |
| Dr Nanna Rapp | 12 | 50 | 44 | 0 | 56 | 50 |
| Total remuneration | 53 | 230 | 176 | 0 | 229 | 230 |

10. Outlook/forecast report

The German government expects the country's gross domestic product to increase by 3.0 % in 2021. This forecast is lower than the guidance published by the German Council of Economic Experts in November 2020, which anticipates GDP growth of 3.7 %. According to the German government's assumptions, the coronavirus pandemic will continue to leave a significant mark on the economy in the first quarter of 2021. The situation is only expected to stabilise, and the economy begin to recover, over the course of the year as a result of widespread vaccination and the easing of restrictions on public life. The service sector, which has a comparatively high reliance on social contact, will only gradually be able to recover once the pandemic has been eliminated. By contrast, the industrial sector is performing robustly. Growth is bolstered by private consumer spending and fuelled by rising employment, increasing wages and a marginally positive trade balance. The projection for 2021 is based on current underlying conditions and is subject to a high level of uncertainty on account of the risks resulting from the future course of the pandemic.

The Verband Deutscher Maschinen- und Anlagenbau e. V. (VDMA) believes that the level of sales in the mechanical and plant engineering sector will not return to pre-crisis levels even in the second year of the pandemic. Besides the adverse effects of the pandemic itself, another reason for this trend is that many companies were already reporting significant losses before the crisis took hold due to the process of structural change in the automotive industry, which will not be over even when the pandemic is. Even though the VDMA is not yet giving the all-clear, companies are beginning to regain some confidence. Thanks to the marked economic recovery recently, capacity adjustments are on the decline. The recently concluded trade and cooperation deal between the EU and the UK, the EU coronavirus recovery plan and easing of tensions in relations with the US should also have a positive impact. VDMA economists currently anticipate production growth of 4 % in 2021 and believe that this growth heralds the start of a low-level recovery phase following the significant slump in 2020.

Some GESCO Group companies operate in the capital goods industry, which, according to the expectations of the VDMA, will remain problematic in 2021. GESCO AG expects income from investments and net income in financial year 2021 to be roughly on par with the level seen in 2020 ignoring the transaction effects reported in 2020. Barring any material changes to the scope of consolidation, GESCO AG's equity ratio should remain at or around the current level of over 80 % in the new financial year.

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

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

Wuppertal, 26 March 2021

| | |
|--|--------------------------|
| Ralph Rumberg | Kerstin Müller-Kirchhofs |
| CEO / Spokesman of the Executive Board | CFO / Chief |
| Financial Officer | |

Statement of the legal representatives

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

Wuppertal, 26 March 2021

The Executive Board

Ralph Rumberg

CEO / Spokesman of the Executive Board

Kerstin Müller-Kirchhofs

CFO / Chief Financial Officer



INDEPENDENT AUDITOR'S REPORT

To GESCO AG

REPORT ON THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND THE MANAGEMENT REPORT

Audit opinions

We have audited the annual financial statements of GESCO AG, comprising the balance sheet as at 31 December 2020, income statement for the financial year from 1 January 2020 to 31 December 2020 and the notes to the financial statements, together with the presentation of the recognition and measurement methods. In addition, we also audited the management report of GESCO AG for the financial year from 1 January 2020 to 31 December 2020. We did not audit the declaration of corporate governance, which was referred to in the management report, in accordance with German legal requirements.

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

- the annual financial statements comply with German commercial law provisions applying to corporations and presents a true and fair view of the company's assets and financial position as at 31 December 2020 and its earnings for the financial year from 1 January 2020 to 31 December 2020 in accordance with the German principles of proper accounting, and
- the management report provides a true and fair view of the company's position. This management report corresponds to the annual financial statements in all material aspects, complies with German commercial law provisions and provides a true reflection of the opportunities and risks of future development. Our audit opinion concerning the management does not extend to the content of the aforementioned declaration of corporate governance.

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

Basis for the audit opinions

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



Key audit matters in the audit of the annual financial statements

Key audit matters are matters that we consider, in applying due discretion, to be the most significant in our audit of the annual financial statements for the financial year from 1 January 2020 to 31 December 2020. These matters were taken into consideration in relation to our audit of the annual financial statements as a whole and in forming our audit opinion; we do not issue any separate audit opinion concerning these matters.

We consider the following to be key audit matters:

- Presentation of the sale of investments in the annual financial statements
- Recoverability of shares in affiliated companies and amounts owed by affiliated companies

Presentation of the sale of investments in the annual financial statements

Reason for classifying this matter as a key audit matter

On 21 December 2020, GESCO AG concluded a contract concerning the sale of a group of six subsidiaries. This sale resulted in the discontinuation of the Mobility Technology segment and the largest portfolio restructuring in the company's history. The disposal of investments and the disposal of amounts owed by these investment holding companies resulted in a net loss of € 23.8 million. The presentation of the sale in the annual financial statements and the calculation of the sale proceeds are complex tasks subject to a degree of discretionary judgement. Against this backdrop and given the impact on earnings, this matter is considered to be one of the most significant in the audit of the financial statements.

The company's disclosures on the sale of investments are included on pages 2 et seq. and 8 of the notes to the financial statements.

Treatment in auditing the financial statements

First of all, we assessed whether the criteria for disposal had been met. We assessed the contractual agreements and determined which investments and amounts owed by investment holding companies must be accounted for in relation to the sale. We checked the calculated purchase price against the underlying contractual terms and verified the methodology and arithmetic applied in calculating the sale proceeds. We verified that the disposals had been recognised correctly and in full and that the sale proceeds were accurate. We also assessed whether the disclosures in the notes to the financial statements concerning the sale of investments were complete and correct.

We verified that the presentation of the sale of investments and the calculation of the sale proceeds were appropriate and correct. We found no indications of incomplete or inaccurate disclosures in the notes to the financial statements with regard to the sale of investments.

Recoverability of shares in affiliated companies and amounts owed by affiliated companies

Reason for classifying this matter as a key audit matter

The annual financial statements include shares in affiliated companies amounting to € 104.4 million (= 49 % of total assets) and amounts owed by affiliated companies of € 65.1 million (= 30 % of total assets). Shares in affiliated companies are recognised at cost or at the lower fair value if a permanent impairment is assumed to be likely. The recoverability of these shares is assessed on an ad hoc basis by the company. No impairment losses were necessary in the financial year from 1 January 2020 to 31 December 2020, with the exception of a distribution-related partial value im-



pairment. The fair values were calculated according to the DCF method. In this method, the market value of the equity under the weighted average cost of capital approach (WACC) is indirectly calculated as the difference between the total value of the equity and the market value of borrowed capital (including liabilities to shareholders). This calculation is based on available cash flows for the next three years (detailed planning phase) as derived from subsidiaries' budgets. The financial surpluses for the subsequent years are forecast as perpetual annuities on the basis of the detailed planning; growth is accounted for by means of a discount applied to the discounting rate. Receivables from affiliated companies are recognised when calculating the fair values of shares in affiliated companies. This method is exposed to uncertainty linked to estimation and discretion, particularly with regard to forecasting financial surpluses and deriving a discounting rate. Against this backdrop and due to the complexity of the valuation procedure, this matter was considered to be one of the most significant in the auditing of the financial statements.

The company's disclosures regarding shares in affiliated companies and receivables from affiliated companies are included on pages 2 and 3 of the notes to the financial statements.

Treatment in auditing the financial statements

We assessed the calculation of fair values using a selection of samples chosen in accordance with the risk and volume involved. We verified the appropriateness of the method and the consistent application of the process using this sample. We assessed whether the assumptions underpinning the company budgets included in the calculations are plausible, in other words verifiable, consistent and not contradictory. As part of this process, we also analysed the accuracy of the budgets by comparing actual figures with last year's budgeted figures and assessing development in 2021. We verified the calculation of the discounting rate and the parameters underpinning the WACC and the appropriateness of these figures on the basis of publicly available information. Given the importance of the discounting rate and the perpetual annuity to the calculation, we also performed sensitivity analyses in relation to these parameters. We verified the mathematical accuracy of the calculated fair values and the inclusion of receivables from affiliated companies.

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



Other information

The legal representatives or rather the Supervisory Board are responsible for other information. Other information includes the following:

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

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

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

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

If we conclude, on the basis of the work we perform, that there is a material misstatement regarding this other information, we are obliged to report about said conclusion. We have nothing to report in this regard.

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

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

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

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



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

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

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

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

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

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



looking statements or on the underlying assumptions. There is a material and unavoidable risk that future events will significantly deviate from the forward-looking statements.

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

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

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



OTHER LEGAL REQUIREMENTS

Report on the audit of the electronic copies of the annual financial statements and the management report pursuant to Section 317 para. 3b HGB prepared for the purposes of publication

Audit opinion

In accordance with Section 317 para. 3b HGB, we reviewed with a sufficient level of certainty whether the copies of the annual financial statements and the management report prepared for the purposes of publication and included in the attached file GESCO_AG_JA+LB_ESEF-2020-12-31.zip (hereinafter referred to as the "ESEF documents") comply with the requirements of Section 328 para. 1 HGB concerning the electronic reporting format ("ESEF format") in all material aspects. In accordance with German legal requirements, this audit only covers the transfer of the information in the annual financial statements and the management report into ESEF format and therefore does not extend to the information included in these copies or in the aforementioned file.

According to our assessment, the copies of the annual financial statements and the management report prepared for the purposes of publication and included in the aforementioned file comply in all material aspects with the requirements of Section 328 para. 1 HGB concerning the electronic reporting format. We do not provide any audit opinion on the information included in these copies or on any other information included in the aforementioned file beyond the scope of this audit opinion and our audit opinions on the attached annual financial statements and attached management report for the financial year from 1 January 2020 to 31 December 2020 included in the above "Report on the audit of the annual financial statements and the management report".

Basis for the audit opinion

We conducted our audit of the copies of the annual financial statements and the management report included in the aforementioned file in accordance with Section 317 para. 3b HGB in consideration of the draft IDW audit standard: Prüfung der für Zwecke der Offenlegung erstellten elektronischen Wiedergaben von Abschlüssen und Lageberichten nach § 317 Abs. 3b HGB (auditing electronic copies of financial statements and management reports prepared for the purposes of publication in accordance with Section 317 para. 3b HGB – IDW EPS 410). Our responsibility under this standard is described in further detail in the "Responsibility of the auditor of the financial statements for the audit of the ESEF documents". Our German public auditor's office complied with the requirements of the quality assurance system described in the IDW quality assurance standard: Anforderungen an die Qualitätssicherung in der Wirtschaftsprüferpraxis (quality assurance requirements in German public auditor's offices – IDW QS 1).

Responsibility of the legal representatives and the Supervisory Board for the ESEF documents

The legal representatives of the company are responsible for preparing the ESEF documents containing the electronic copies of the annual financial statements and the management report in accordance with Section 328 para. 1 sentence 4 no. 1 HGB.

Furthermore, the legal representatives of the company are also responsible for the internal controls they deem necessary to enable the preparation of the ESEF documents that are free from any intentional or unintentional material violations of the requirements of Section 328 para. 1 HGB regarding the electronic reporting format.



The legal representatives of the company are also responsible for submitting the ESEF documents together with the independent auditor's report and the attached audited annual financial statements and the audited management report as well as other documents requiring publication to the operator of the German Federal Gazette.

The Supervisory Board is responsible for monitoring the process of preparing the ESEF documents as part of the accounting process.

Responsibility of the auditor of the financial statements for the auditing of the ESEF documents

Our aim is to determine with a sufficient level of certainty whether the ESEF documents are free of material violations – both intentional and unintentional – of the requirements of Section 328 para. 1 HGB. We exercise our duty of discretion during this audit and maintain a critical approach. Furthermore,

- we identify and assess the risks of material – intentional or unintentional – violations of the requirements of Section 328 para. 1 HGB, plan and conduct audit activities in response to these risks and obtain audit evidence that is sufficient and suitable to serve as a basis for our audit opinion.
- we gain an understanding of the internal controls relevant to the audit of the ESEF documents in order to plan audit activities that are appropriate under the given circumstances but without the aim of issuing an audit opinion on the effectiveness of these controls.
- we assess the technical validity of the ESEF documents, in other words whether the file containing the ESEF documents meets the requirement of Commission Delegated Regulation (EU) 2019/815 as amended as at the reporting date regarding the technical specifications of said file.
- we assess whether the ESEF documents enable identical copies of the audited annual financial statements and the audited management report to be provided in XHTML format.

Other disclosures pursuant to Article 10 EU AR

We were appointed as the auditor of the financial statements at the Annual General Meeting held on 18 June 2020. We were engaged by the Supervisory Board on 26 June 2020. We have been the appointed auditor of the GESCO AG financial statements since financial year 1997/1998.

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

RESPONSIBLE AUDITOR

The auditor responsible for this audit is Alexander Koch.

Wuppertal, 26 March 2021

Breidenbach und Partner PartG mbB
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

(Straube)
Wirtschaftsprüfer
German Public Auditor

(Koch)
Wirtschaftsprüfer
German Public Auditor



GESCO AG, Wuppertal

Securities Identification Number (SIN) 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) on 24 April 2017 were followed pursuant to the version of the Code dated 7 February 2017 since the last declaration of compliance was issued in December 2019 and until the entry into force of the new version of the Code dated 16 December 2019 on 20 March 2020 with the following exceptions:

- **Section 5.3: Establishment of supervisory board committees**

The Supervisory Board of GESCO AG comprises four members. The small size of the committee allows overarching strategic issues, as well as detailed questions, to 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 2: Regular limit on the length of membership for Supervisory Board members**

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.

- **Section 7.1.2 sentence 3 GCGC: Publishing financial information**

The change in the financial year of GESCO AG to match the calendar year in the abbreviated financial year 2019 and the associated accounting adjustments resulted in the Group financial statements and the Group management report for the abbreviated financial year 2019 (1 April 2019 to 31 December 2019) not being able to be published within 90 days of the end of the financial year.

The Executive Board and Supervisory Board of GESCO AG also declare in accordance with Section 161 AktG that the recommendations of the Government Commission German Corporate Governance Code in the version dated 16 December 2019, published by the Federal Ministry of Justice and Consumer Protection in the official section of the Bundesanzeiger (Federal Gazette) on 20 March 2020, have been followed and will continue to be followed in the future, with the following exceptions:

- **D.2 sentence 1, D.3, D.5: Establishment of supervisory board committees**

The Supervisory Board of GESCO AG comprises four members. The small size of the committee allows overarching strategic issues, as well as detailed questions, to 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.

- **F.2: Publishing financial information**

The change in the financial year of GESCO AG to match the calendar year in the abbreviated financial year 2019 and the associated accounting adjustments resulted in the Group financial statements and the Group management report for the abbreviated financial year 2019 (1 April 2019 to 31 December 2019) not being able to be published within 90 days of the end of the financial year and the mandatory interim financial information for financial year 2020 (1 January 2020 to 31 December 2020) not being able to be published within 45 days of the end of the reporting period. In financial year 2021, GESCO AG aims to publish its interim financial information within 45 days of the end of the reporting period. However, due to accounting adjustments, it will not be possible to publish the Group financial statements and the Group management board for financial year 2020 (1 January 2020 to 31 December 2020) within 90 days of the end of the financial year.

- **G. 1 to G.11: Executive Board remuneration**

The new version of the Code published on 20 March 2020 contains new recommendations on Executive Board remuneration (G.1.). The current Executive Board remuneration system, most recently approved by the Annual General Meeting on 30 August 2018 granted with 98.9 % of the votes does not comply in every aspect with the new recommendations. This is due to the fact that it takes a certain amount of time to adjust the Executive Board remuneration system. The Supervisory Board will present a revised remuneration system for approval at the Annual General Meeting 2021.

- **G.18: Supervisory Board remuneration**

The GESCO AG Supervisory Board remuneration system approved by the Annual General Meeting on 18 June 2020 includes a fixed component 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.

Wuppertal, December 2020

GESCO AG

On behalf of the Supervisory Board

Klaus Möllerfriedrich
(Chairman of the Supervisory Board)

On behalf of the Executive Board

Ralph Rumberg
(Spokesman for the Executive Board)

Report from the Supervisory Board for financial year 2020



Klaus Möllerfriedrich, Chairman



Stefan Heimöller, Deputy Chairman



Jens Große-Allermann



Dr Nanna Rapp

The work of the Supervisory Board in 2020 primarily focused on the challenges posed by the coronavirus pandemic, not only in relation to topics and issues that needed to be dealt with, but also in terms of the nature of communication and collaboration. The Executive Board and the team at GESCO AG and the subsidiaries successfully continued their work towards implementing the NEXT LEVEL strategy, irrespective of the pressures of the coronavirus crisis and weak economic development. The first milestone was reached with the sale of a group of six subsidiaries and the resulting discontinuation of the Mobility Technology segment. The Executive Board and the subsidiaries will continue to systematically pursue NEXT LEVEL implementation in the current financial year. One new feature in financial year 2020 was that the reporting period of GESCO AG and therefore also of the Group is now fully synchronised with the financial years of the subsidiaries. The preceding financial statements for the abbreviated financial year 2019 comprise the months April to December 2019 due to the change in the financial year. All Supervisory Board members were re-elected for the next five years by the Annual General Meeting on 18 June 2020.

Due to the ongoing coronavirus pandemic, the outlook for the current financial year remains subject to extreme uncertainty. Direct automotive business in the portfolio has been balanced out by the sale of a total of seven subsidiaries and the resulting increase in Group profitability gives the Executive Board and the Supervisory Board the necessary support to steer the GESCO Group through this crisis proactively and in the best possible way.

In this report, the Supervisory Board provides information about its activities during financial year 2020. 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

The Supervisory Board re-elected by the Annual General Meeting on 18 June 2020 and the Executive Board were able to ensure an intensive and trusting working relationship from the outset. Throughout the reporting year, the Supervisory Board observed the control and advisory tasks incumbent upon it in accordance with German law 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 was discussed on an ongoing basis and in detail. As in previous years, the Supervisory Board also focused on recruiting new management personnel for subsidiaries. It also concentrated on providing assistance with sales activities in 2020.

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 management. Between meetings, the Supervisory Board was also informed in detail and on an ongoing basis, both through written reports and verbally, about all projects and plans that were of particular significance to the company. In addition, a suitable electronic information system was set up to meet the requirements of the coronavirus pandemic. The Supervisory Board used the system to keep up to date with the impact of the pandemic, including at the subsidiaries. The Supervisory Board received detailed reports from the compliance management system and the internal control and risk management system from the GESCO AG employee responsible for these areas at its regular quarterly meetings. The Supervisory Board engaged with the structure, content and functionality of these systems, as planned. In all cases, the members of the Supervisory Board dealt closely and critically with the reports presented to them and contributed their own recommendations. This enables the scope and nature of the reporting process to be updated continuously.

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

Significant strategic investments at subsidiaries were discussed in depth on the basis of detailed investment plans. The Supervisory Board focused particularly on companies under threat from the general economic situation (particularly automotive business) or the coronavirus. These included a tool manufacturer within the Group, for which the Executive Board drew up a special recovery and restructuring plan.

No management meetings with the involvement of the Supervisory Board were possible in 2020 due to the coronavirus pandemic. As a result, the Supervisory Board was unable to exchange ideas directly with the individual Managing Directors of GESCO AG subsidiaries, as has been the case in previous years. Individual Supervisory Board members paid visits to subsidiaries. A Supervisory Board meeting was combined with an on-site visit in compliance with all necessary measures to combat the pandemic at MAE Maschinen und Apparatebau Götzen GmbH in Erkrath, Germany.

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

Organisation of the Supervisory Board

The Supervisory Board of GESCO AG consists solely of shareholder representatives. The Supervisory Board members in the reporting year were Mr Klaus Möllerfriedrich (Chairman), Mr Stefan Heimöller (Deputy Chairman), Dr Nanna Rapp and Mr Jens Große-Allermann.

The Supervisory Board of GESCO AG has been deliberately kept small in order to facilitate efficient work and in-depth discussions on both strategic and detailed issues. The Supervisory Board therefore believes that it is not sensible or appropriate to create Supervisory Board committees. This also applies to an audit committee, whose tasks continue to be carried out by the entire Supervisory Board. Supervisory Board committees were therefore not created in financial year 2020. However, the Supervisory Board has delegated individual tasks to its members, who deal with particular issues and propose decisions to the board for final discussion and decision-making, particularly concerning acquisitions, personnel decisions and auditing. The four members of the Supervisory Board have different areas of competency that complement each other and, from GESCO AG's perspective, therefore ensure that the Supervisory Board offers sufficient professional diversity. The Supervisory Board has summarised these areas of competency into a competency matrix, which is published as part of the Declaration of Corporate Governance.

Meetings and resolutions of the Supervisory Board

There were a total of 14 Supervisory Board meetings in financial year 2020, of which one took place internally without the involvement of the Executive Board. Supervisory Board meetings were predominantly held in the form of video conferences. All members of the Supervisory Board attended each of these meetings. The financial development of the GESCO Group, the development of certain subsidiaries, personnel-related matters relating to subsidiaries, target achievement with regard to the annual budget and ongoing transaction projects were all matters discussed by the Supervisory Board on a continuous basis. A GESCO AG employee reported to the Supervisory Board on a quarterly basis on the compliance management system and the internal control system and risk management system. In addition, the Supervisory Board sought advice and, if necessary, passed resolutions on the following issues:

- Discussion of the annual financial statements and consolidated financial statements of GESCO AG as at 31 December 2019; adoption of the annual financial statements and the consolidated financial statements as at 31 December 2019
- Annual budget for 2020
- Agenda of the Annual General Meeting 2020
- NEXT LEVEL strategy implementation at GESCO AG and GESCO Group
- Matters relating to the Supervisory Board, Executive Board and personnel
- Declaration of Compliance and corporate governance
- Internal control, risk management and compliance management system
- Investment at subsidiaries
- New arrangement regarding remuneration of the Executive Board
- Sale of subsidiaries
- Appointment of a new auditor for the financial statements of GESCO AG and GESCO Group

Between meetings, the Supervisory Board was also informed in detail through written reports about all projects and plans that were of particular significance to the company.

Corporate governance

The Supervisory Board continuously monitored the development of corporate governance standards. The Executive Board and the Supervisory Board report on corporate governance at GESCO AG in their joint Declaration of Corporate Governance, which is also contained in the Annual Report.

The Executive Board and Supervisory Board submitted a declaration of compliance with the German Corporate Governance Code on schedule and as required by law in December 2020. In accordance with this declaration, GESCO AG complies with the recommendations of the Government Committee on the German Corporate Governance Code, with the exception of the deviations given and explained in the Declaration of Compliance.

The members of the Supervisory Board did not participate in any external training measures in the reporting year due to the coronavirus pandemic. Instead, they looked into relevant Supervisory Board issues in newspapers, articles and publications by supervisory board associations.

The most recent efficiency audit of the Supervisory Board was conducted in 2019. There were no changes in the selection of Supervisory Board members in 2020, so no efficiency audit was carried out. Furthermore, the coronavirus restrictions have resulted in temporary changes to how the Supervisory Board operates.

Executive Board remuneration

The Management Reports and notes to the financial statements of GESCO AG and the consolidated financial statements provide more extensive information on the Executive Board remuneration system. The structure of Executive Board remuneration was not changed in the reporting year and was also taken into consideration in the contracts of current members of the Executive Board. It corresponds to the Executive Board remuneration system approved with a majority of 98.9% of all votes cast by the Annual General Meeting on 30 August 2018 as part of the Say-on-Pay resolution. A modified remuneration system will be presented to the Annual General Meeting 2021 for approval that takes into consideration the changes effected by the Act Implementing the Second Shareholders' Rights Directive (ARUG II) and the latest recommendations of the German Corporate Governance Code.

Change to the Supervisory Board remuneration system

The Supervisory Board concerned itself with the remuneration of Supervisory Board members, including the underlying system, in financial year 2020 and presented a revised Supervisory Board remuneration system to the Annual General Meeting on 18 June 2020 for approval. The modified remuneration system was approved by the Annual General Meeting by a majority of 93.26% and amended in the articles of association.

Audit of the annual and consolidated financial statements

Corresponding to the legal provisions, the auditor selected by the Annual General Meeting on 18 June 2020, Breidenbach und Partner PartG mbB, Wirtschaftsprüfungsgesellschaft – Steuerberatungsgesellschaft, Wuppertal, Germany, was commissioned by the Supervisory Board on 26 June 2020 to audit the annual financial statements and consolidated financial statements. The auditor confirmed its independence to us in a letter dated 30 March 2020. 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 January to 31 December 2020 in accordance with the regulations of the German Commercial Code (HGB) and the Management Report of GESCO AG were audited by the auditor. The auditor issued an unqualified audit report on 26 March 2021.

The consolidated financial statements and Group Management Report of GESCO Group for the financial year from 1 January to 31 December 2020 were drawn up by the Executive Board and audited by the auditor on the basis of the International Financial Reporting Standards (IFRS), taking into account Section 315e of the German Commercial Code (HGB). The auditor furnished the consolidated financial statements and Group Management Report with an unqualified audit report on 26 March 2021.

This year, the focal points of the audit for the individual financial statements of GESCO AG were the disclosure of the sale of investments in the annual financial statements, the recognition and valuation of investments, the accrual and recoverable amount of receivables from associated companies and completeness and valuation of other provisions. The focal points of the audit of the consolidated financial statements were the presentation of the deconsolidation and calculation of sale proceeds and the recoverability of goodwill (impairment testing). The focal points of the audit are agreed with the auditor before the audit takes place. The Supervisory Board did not place any special demands on the auditor this year. The focal points of the audit identified by the auditor already included the Supervisory Board's desired scope. The Supervisory Board and the auditor were in contact during the ongoing audit activities with regard to exchanging information about the audit. In the final phase of the audit, the Supervisory Board liaised intensively with the auditor on the progress of the audit for the purpose of preparing for the committee's decision.

The complete financial statements as well as the auditor's accompanying audit reports were sent to all members of the Supervisory Board in good time before the accounts meeting and included in the Supervisory Board's audit. They were the subject of intensive discussions in the

meeting of the Supervisory Board on 26 March 2021. 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 unanimously approved the result of the audit by the auditor and accepted the annual financial statements and the consolidated financial statements in the meeting on 1 April 2021. The annual financial statements of GESCO AG have thereby been adopted. No resolution on the appropriation of retained profit was necessary. The individual financial statements of GESCO AG for financial year 2020 do not report any retained profit, and so there is no need for a resolution on its appropriation at the Annual General Meeting 2021.

Election to the Supervisory Board

The GESCO AG Annual General Meeting on 18 June 2020 re-elected the four members of the Supervisory Board, Dr Nanna Rapp, Jens Große-Allermann, Stefan Heimöller and Klaus Möllerfriedrich. In its constituent meeting on 18 June 2020, the Supervisory Board elected Klaus Möllerfriedrich as its Chairman and Stefan Heimöller as its Deputy Chairman.

Thanks for all the effort

People are a key factor in the success of the GESCO Group. The Supervisory Board would like to thank the Executive Board, the Managing Directors of the subsidiaries and all GESCO Group employees for their outstanding loyalty and great commitment in the past financial year, particularly in the face of the restrictions and additional strains caused by the coronavirus pandemic. The subsidiaries' Managing Directors and employees managed to maintain business activities while complying with the necessary protective measures.

Wuppertal, Germany, 1 April 2021

On behalf of the Supervisory Board
Klaus Möllerfriedrich,
Chairman of the Supervisory Board

Non-Financial Statement / CSR Report

Summarised non-financial report for the abbreviated financial year 2020 for GESCO AG and GESCO Group pursuant to the CSR Directive Implementation Act (CSR-RLUG)

Since its founding in 1989, GESCO AG has pursued a business policy focused on the principles of long-term entrepreneurship and sustainability that is aligned with the interests of shareholders, customers, employees and other stakeholders as well as the principles of good corporate governance and compliance. It is also duly bound to conduct business in an environmentally friendly manner. In this **non-financial statement**, GESCO AG reports on the primary aspects of its sustainability activities. We have established a systematic reporting process and are currently setting up a corresponding sustainability management concept. Looking further forward, we intend to implement sustainability reporting in accordance with an established standard such as the Global Reporting Initiative (GRI) or the German Sustainability Code (GSC). In our non-financial statement, we are not applying an existing framework for the time being and are following the requirements of the CSR Directive Implementation Act (CSR-RLUG). We consider CSR (corporate social responsibility) to include all issues relating to our responsibility towards the environment, employee-related and social issues, including human rights, compliance and principles of sound corporate governance.

Our CSR Report is **aimed** at providing internal and external stakeholders with transparent insight into the strategies and processes at GESCO AG and GESCO Group and, at the same time, raising our own awareness of these issues, analysing opportunities and risks in a more differentiated manner, questioning strategies and, last but not least, strengthening the Group's future. CSR reporting helps to analyse

and assess the consequences of our entrepreneurial activities and to improve the way we do business.

In **establishing its systematic CSR reporting process**, GESCO AG joined forces with an external partner and opted for a roadmap involving several different stages and running across multiple years. Initial cross-functional workshops also took place in this regard. The first workshop involved addressing issues linked to the group of subsidiaries. In the second workshop, discussions centred on the holding company and included looking into internationally recognised regulatory frameworks such as GRI, ISO 26000 and the UN Global Compact, performing a relevance review of key issues and taking into account the provisions of CSR-RLUG. In particular, the role of the holding company and its effects on the five CSR aspects was analysed. This resulted in the five issues outlined in CSR-RLUG being defined in precise terms and specifically attributed to GESCO AG. The report focuses on the following issues:

Environmental concerns

- Reducing energy consumption
- Saving resources

Employee matters

- Occupational health and safety
- Corporate culture

Social concerns

- Corporate social responsibility in the value chain
- Enabling succession

Respecting human rights

- Preventing human rights violations in the value chain

Fighting corruption and anti-competitive conduct

- Ensuring compliant conduct

A comprehensive stakeholder matrix was recently established, which serves as a basis for the materiality matrix and the associated aspects and fields of action. Taking into account the results of the competition and best-practice analysis for CSR reporting, which is ongoing, further workshops are planned for 2021 with the Executive Board and GESCO AG employees together with integration workshops with the subsidiaries to finalise the GESCO AG and GESCO Group sustainability strategy. In reporting year 2021, GESCO aims to publish its first sustainability report in accordance with established standards and frameworks.

In this report, we present the GESCO business model and explain the basic strategy when dealing with relevant CSR matters. The risks, concepts pursued, measures and outcomes, as well as targets and performance indicators, are described for each CSR matter. More information on risks from these matters can be found in the Opportunity and Risk Reports of GESCO AG and GESCO Group. Social matters and respecting human rights have been summarised.

The business model

GESCO Group is an association of small and medium-sized enterprises operating independently from one another with a decentralised organisational structure under the umbrella of GESCO AG, which functions as a holding company. GESCO strives to generate profitable growth on the basis of its existing portfolio and external growth by acquiring further industrial SMEs, particularly in the case of succession situations. The holding company's management of the Group is based on this target. The subsidiaries are small industrial companies. Excluding Dörrenberg Edelstahl GmbH and its subsidiaries, which is the largest company in the Group by a considerable margin, the companies in continuing business operations generate an average sales volume of some € 25 million with an average workforce of 120 employees. Each subsidiary is allocated to one of three segments: Production Process Technology, Resource Technology and Healthcare and Infrastructure Technology. The individual business models vary greatly, and the products range from mechanical and plant engineering to components for agricultural engineering and manufacturing paper sticks for the hygiene and confectionery industries.

The financial situation and business performance of GESCO AG and GESCO Group is presented in the corresponding Management Reports in the financial statements for financial year 2020. The Annual Report of GESCO AG and the websites of GESCO Group companies provide more information on the business models and areas of activity of each subsidiary.

GESCO AG's role as a shareholder

GESCO Group has a decentralised organisational structure, with individual companies managed independently from one another by separate Managing Directors or Managing Partners respectively. The holding company does not perform any central functions. Matters such as finances, human resources and purchasing are therefore left to the subsidiaries.

GESCO AG performs its activities as a shareholder primarily at the following levels:

- General decisions on the acquisition of companies and therefore on the composition of the portfolio
- Appointing the management teams of subsidiaries
- Approving annual budgets
- Approving larger investments
- Involvement in subsidiaries' strategic consultations
- Ongoing reporting
- Establishing Group-wide standards (such as a code of conduct)
- Project-related consulting and support on all company-relevant issues
- Group-wide management meetings with opportunities to share knowledge and experience and draw on external expertise
- Group-wide training and information events for Managing Directors and, depending on the topic, also for technical and management personnel

GESCO AG is in continuous dialogue with the management teams and management personnel at subsidiaries and has fixed processes and reporting structures on all aspects of entrepreneurial activities. The holding company has a variety of different competencies in place to offer a range of perspectives on the subsidiaries' tasks; these include Executive Board members, investment managers and representatives from Legal, M&A, Finance and Investor Relations.

We pushed for more and established intensive dialogue between the subsidiaries in the reporting year and established further methodological expertise at the GESCO AG level. CSR issues that are already considered significant as part of the current process will also be included in the central expansion of expertise in the long term.

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Environmental matters

The majority of the operating subsidiaries operate in the areas of mechanical and tool engineering, mechanical manufacturing and assembly, and therefore have less of a direct impact on the environment compared to other areas of the manufacturing industry. Two subsidiaries are of greater relevance when it comes to environmental issues due to their business operations in the metallurgy and electroplating industries. These subsidiaries use environmental management systems or operate under strict manufacturing conditions.

Most manufacturing sites are located in Germany and are therefore subject to extremely high standards and strict legal requirements. By complying with legal requirements and standards, and exercising a great deal of care in their business processes, the companies consider themselves to be well equipped to minimise their impact on the environment to the greatest extent possible. As a result, we believe that the risks posed by the business operations of GESCO Group on the environment are comparatively low.

Nevertheless, we consider **energy and resource efficiency at subsidiaries and their customers** to be a material issue and include it in our CSR reporting process. This is due to the fact that saving energy and resources can give subsidiaries a competitive advantage and that issues such as these are fundamentally relevant from the perspective of competition for raw materials and the potential tightening of legal requirements. Energy and resource efficiency is a matter that directly concerns companies' own manufacturing operations and, in the case

Most manufacturing sites are located in Germany and are therefore subject to extremely high standards and strict legal requirements.

of our mechanical and plant engineering companies, the manner in which their products are used in their customers' manufacturing operations. As an administrative company, the business operations of GESCO AG itself only have negligible effects in this regard.

Besides the risks of GESCO Group's business operations having a negative impact on the environment and risks resulting from damage to the environment and their associated financial and reputational effects, the long-term strategic risks that GESCO Group is exposed to include technological change, which itself is strongly affected by environmental issues such as climate change and the resulting political aim to reduce CO₂. Specifically, this change manifests itself in the development of alternatives to the internal combustion engine and the use of alternative resources. Subsidiaries take these risks into account by duly adjusting their strategies and business models in line with these changes. This process of transformation can give rise to risks but also to opportunities for new products and services.

Environmental issues are generally managed on a decentralized basis within the individual companies. GESCO Group companies aim to exceed legal requirements and standards when it comes to resource efficiency and saving energy where possible and where it makes economic sense. The companies also strive to implement new, resource efficient materials and procedures in place of those that have a negative impact on the environment. GESCO AG is fully behind these efforts and is generally supportive when it comes to environmentally friendly technologies. This mindset is defined in the Group's Code of Conduct. As a long-term

investor, GESCO AG also supports companies' efforts to modernise technical equipment and promotes the use of automation where appropriate.

The domestic companies within GESCO Group have all conducted an energy audit in which they identified potential for energy savings.

When reviewing company acquisitions and investments in land and buildings, GESCO also reviews environmental aspects such as potential land contamination. When drawing up construction projects, GESCO AG also supports investments in measures to promote the protection of the environment and conserve resources.

The general trend towards conserving energy and resources can lead to opportunities arising. This particularly applies to subsidiaries operating in the areas of mechanical and plant engineering that are able to offer their customers innovative solutions to conserve energy in their own production facilities.

As a manufacturer of paper sticks for the hygiene and confectionery industry, the Setter Group operates in a market that is currently highly dynamic in nature. To cut down on plastic waste, the EU agreed on a ban on plastics in March 2019, according to which it will no longer be permissible to sell cotton buds made of plastic from 2021. Setter is currently the only European manufacturer of paper sticks and sees good prospects of benefiting from this growing market.

We believe the issue of corporate culture to be material to securing the companies' future from an employee-related perspective.

Environmental aspects, and particularly resource and energy efficiency, are to be taken into greater consideration on a more systematic basis in future investment requests from subsidiaries.

Employee matters

In our workshops, we identified occupational health and safety and corporate culture as two significant aspects of employee matters. We consider employee health problems and challenges in attracting and retaining qualified employees to be relevant risks. Each individual company is responsible for human resources management.

GESCO Group companies consider **occupational health and safety** to be key management tasks. They place great importance on properly organised, ergonomic workspaces and regular training. As a long-term investor, GESCO AG is keen to implement modern technology and ensure that adequate safety equipment is in place. These guidelines are defined in the GESCO Group Code of Conduct. In reporting year 2020, GESCO AG and the Managing Directors and employees of the subsidiaries focused particularly on maintaining business operations while complying with the necessary protective measures implemented against the backdrop of the coronavirus pandemic.

GESCO AG collects data on employee absences on a monthly basis, which it also communicates in anonymous form to the rest of GESCO Group. Any significant discrepancies or increases in employee absences are discussed in monthly meetings with the subsidiaries.

At some subsidiaries, employee matters also concern their products and the manner in which their products are used by customers. Through their products, subsidiaries can help their customers improve the workplace for their employees. This gives our companies additional selling points for their products and an advantage over the competition.

Subsidiaries operating in the mechanical and plant engineering sectors have implemented a range of measures to ensure that their customers' employees can use products safely and appropriately. Training, induction and commissioning periods are just as important as comprehensive product documentation and after-sales service and assistance.

We believe the issue of **corporate culture** to be material to securing the companies' future from an employee-related perspective. In particular, the concept covers issues relating to the organisational structure of the company, its status as an employer and training and further education. For GESCO AG, it is vital that all positions throughout the company are held by the most suitably qualified, loyal and motivated employees that are willing to perform. LEADEX programmes are planned as part of the NEXT LEVEL strategy to promote and develop executives, showcase specific prospects at GESCO

Group and sharpen leadership skills in a dynamic environment.

In 2015, GESCO AG joined forces with an external partner and began to conduct systematic **employee surveys** at certain companies. One of the goals is to authentically gauge sentiment on aspects such as job satisfaction and stress levels while identifying potential room for improvement. In addition, the surveys also give companies specific and credible arguments for their status as an employer.

Since its IPO in 1998, GESCO AG has offered GESCO Group employees in Germany the opportunity to participate in an **employee share scheme**. This scheme allows participants to acquire GESCO shares at a reduced price using tax-free allowances. This way, GESCO AG helps its employees make personal contributions to their pension plans, promotes employee investment in productive capital, enables employees to own a stake in the company and fosters a shareholder culture. We use the level of participation among eligible employees in the annual employee share scheme as a performance indicator. After GESCO AG offered all GESCO Group employees the chance to buy shares in the company at favourable terms for the twenty-first year in succession in autumn 2019, the programme was unable to be organised in 2020 for regulatory reasons. GESCO AG plans to continue this programme, as it considers it to be an important instrument in personnel retention.

The companies also value **sustainable training** and offer courses in both commercial and technical areas as and when possible and required as a result of their business operations. Furthermore, many companies also offer dual study programmes in partnership with universities.

GESCO Group companies position themselves as **attractive employers** in their respective sectors and regions. Dörrenberg Edelstahl GmbH has presented its Dörrenberg Award for several years now. This award is a highly acclaimed prize for up-and-coming materials technology talents. Other company activities include participation in initiatives such as Girls' Day and other partnerships with schools, guided tours for visitors as part of the Night of Industrial Culture event or company events for employees and their families.

Social matters / respecting human rights

In the areas of social matters and human rights, we have identified “corporate social responsibility in the value chain” and “preventing human rights violations in supply chains and by customers” to be key issues. As a result, we report on these two issues together. In addition, we consider “enabling succession” to be a key contribution from GESCO AG to the issue of social matters and we therefore report on it separately.

Risks relating to corporate social responsibility in the value chain concern relationships with suppliers and customers alike. The production of raw materials as well as the local conditions, working conditions and environmental conditions at suppliers can have negative consequences that could be attributed to us. The same goes for the potential impact of products and their use by customers on the safety of people, health and the environment. Severe problems relating to social matters and human rights violations could put the company at risk of reputation damage and financial losses.

GESCO AG companies are mostly based in Germany, and therefore operate in a highly regulated environment. As small and medium-sized enterprises, they mainly procure raw materials, preliminary materials and components from established German suppliers. Over 80% of sales are generated in Germany and the rest of Europe, and therefore also in markets subject to regulation. By using conventional supply chains mostly involving established and often large suppliers and customers, we believe that we have met our responsibilities in terms of the supply chain to a sufficient extent, although this is based on the assumption that suppliers and customers operate in accordance with the law and regulatory requirements. Given that the majority of our subsidiaries are small and medium-sized enterprises, we also consider the potential to influence other levels of the value chain to be limited.

The GESCO Group Code of Conduct governs general questions concerning customers and suppliers (see “fighting corruption and anti-competitive conduct”). So far we have not implemented any further dedicated concepts regarding the issues of social matters and human rights as we believe GESCO Group companies have a limited influence on such topics.

We must continue to check whether this area can be developed in line with the GRI 414 Supplier Social Assessment standard in areas in which subsidiaries can exert particular influence due to their market position or the particular nature of their relationships with business partners.

GESCO Group companies position themselves as attractive employers in their respective sectors and regions through a variety of activities.

Through a multi-year support programme, GESCO AG is supporting the Junior Uni Wuppertal, a unique educational and research institution for young people in Germany.

Supporting Wuppertal's Junior Uni

GESCO AG's focus in living up to its social responsibility in the field of education is on STEM subjects. In May 2019, GESCO AG agreed to provide funding for Junior Uni Wuppertaler Kinder- und Jugend-Universität für das Bergische Land gGmbH, or Junior Uni. For an initial period of three years, GESCO is helping to pay the salary of a scientific coordinator by providing € 60 thousand in annual funding. Founded in 2008, Junior Uni is a unique educational and research institution in Wuppertal, Germany, that provides young people between the ages of four and 20 with courses designed to spark their interest in science and research. With more than 65,000 students in over 5,500 courses since its founding, Junior Uni has earned a reputation as a place of extracurricular learning for hands-on, scientific education. All year round, instructors from the worlds of business, science and education convey practical, hands-on knowledge in a variety of subjects to groups of no more than 15 participants. Guided by its mission to leave no talent behind, Junior Uni is preparing young people for further education and professional life. Junior Uni is financed entirely by private donations and the broad support of society.

Special issue: enabling succession

GESCO's founding principle and business model is based on enabling succession and developing companies in line with our long-term investment approach. This goes hand in hand with fostering prosperity and generating income for employees, shareholders, business partners and the public sector.

Acquisition strategy

Since its founding, GESCO AG has aimed to acquire further industrial companies in the SME segment. In this process, GESCO analyses potential takeover candidates that the company becomes aware of through its established network but that may also be identified and contacted directly.

Due diligence is then conducted, in which the potential acquisition target is analysed and assessed in terms of its risks, opportunities and future viability. This process covers financial, legal and tax-related criteria as well as technology and market-related aspects. CSR issues are also taken into consideration. Environmental aspects of due diligence checks include assessing potential land contamination and checking a company's certifications and approvals. From a social and employee perspective, the investment decision is also made on the basis of the personnel structure, occupational health and safety and the corporate culture. GESCO AG uses both internal resources and external expertise as part of the due diligence process.

Finding and developing entrepreneurs

If an owner-manager retires and a successor is sought, GESCO AG installs a new management team that is offered the chance to acquire shares of between 5% and 20% in the company they are managing, depending on the size of the company.

Regional responsibility

Beyond simply disclosing information that is then publicly available, GESCO AG seeks dialogue with the regional policymakers and financing banks relevant to the acquired company to introduce itself as the new owner of the business. Following an acquisition, GESCO always aims to maintain the current location, workforce and corporate identity of the company concerned so that the existing network and stakeholders such as customers, suppliers, municipalities, neighbours and banks can continue to rely on a proven partner. There is no plan to sell off the company at a later date. However, doing so makes sense for strategic reasons if GESCO no longer considers itself to be the best possible owner of the company. When selling a company, GESCO seeks to achieve an entrepreneurial, socially acceptable solution.

We calculate our performance based on GRI Standard 201 (Economic Performance), indicator GRI 201-1 "Direct economic value generated and distributed." Figures are based on the consolidated financial statements for financial year 2020. In this period, GESCO Group's continuing

business operations generated sales of € 397.2 million. Wages and salaries, social security contributions and expenses for pensions amounted to € 104.0 million. A total of € 2.5 million was paid out to company shareholders in the form of dividends, while € 2.0 million in interest was also paid. Taxes in the amount of € 8.6 million were paid to the public sector.

We present value development as a combination of the share price performance and the dividend payment. The GESCO share price fell only slightly by - 2.7% in the reporting year, with the total return including the dividend paid in the reporting year amounting to - 1.5%.

Fighting corruption and anti-competitive conduct

Damages from corruption, violations of anti-trust law, criminal activities and other offences can escalate to an extent that threatens a company's existence as a going concern and lead to long-term reputation damage. As a result, our aim and a key area of focus is to guarantee **compliant conduct** at all levels of the company and counteract the risk of supporting corruption or profiting from corruption in the supply chain.

GESCO Group has set up a compliance management system, which includes a Group-wide Code of Conduct, accompanying guidelines and work instructions, an online information system (Rule book) for GESCO Group employees, accompanying training courses, random case-by-case assessments and a whistleblower system for both employees and external parties. The Managing Directors' job is to anchor these requirements and principles in their company's corporate culture. To do so, they implement further measures such as internal training, review existing business on a case-by-case basis and scrutinise current business processes.

Our aim is to guarantee compliant conduct at all levels of the company.

Subsidiaries are responsible for monitoring and ensuring compliance of their own operations with legal requirements and terms of embargoes against countries, organisations or individuals, with the holding company also on hand to provide recommendations or draw attention to any serious changes.

We measure our performance in accordance with the GRI 419 standard and indicator 419-1 by the number of incidents and violations of the law and regulations in the social and economic area. We did not record any such incidents or violations in financial year 2020.

GESCO AG has identified a number of fields of action in which it will be creating additional transparency and, if necessary, providing subsidiaries with additional assistance. These issues include the remuneration models of sales representatives. In addition, the holding company intends to determine whether it makes sense to expand its reviews to include Group companies based abroad.