GESCO AG
Annual Report
2018 / 2019

N E X T

L E V E L

NEXT LEVEL strategy

"The NEXT LEVEL strategy marks the start of a new chapter in GESCO's 30-year history. Our goal is to strengthen competitiveness and future viability by advancing GESCO to the next level – each individual company and GESCO AG as the holding company, and therefore the Group as a whole."

Ralph Rumberg, CEO

—— NEXT LEVEL strategy interview: p. 12

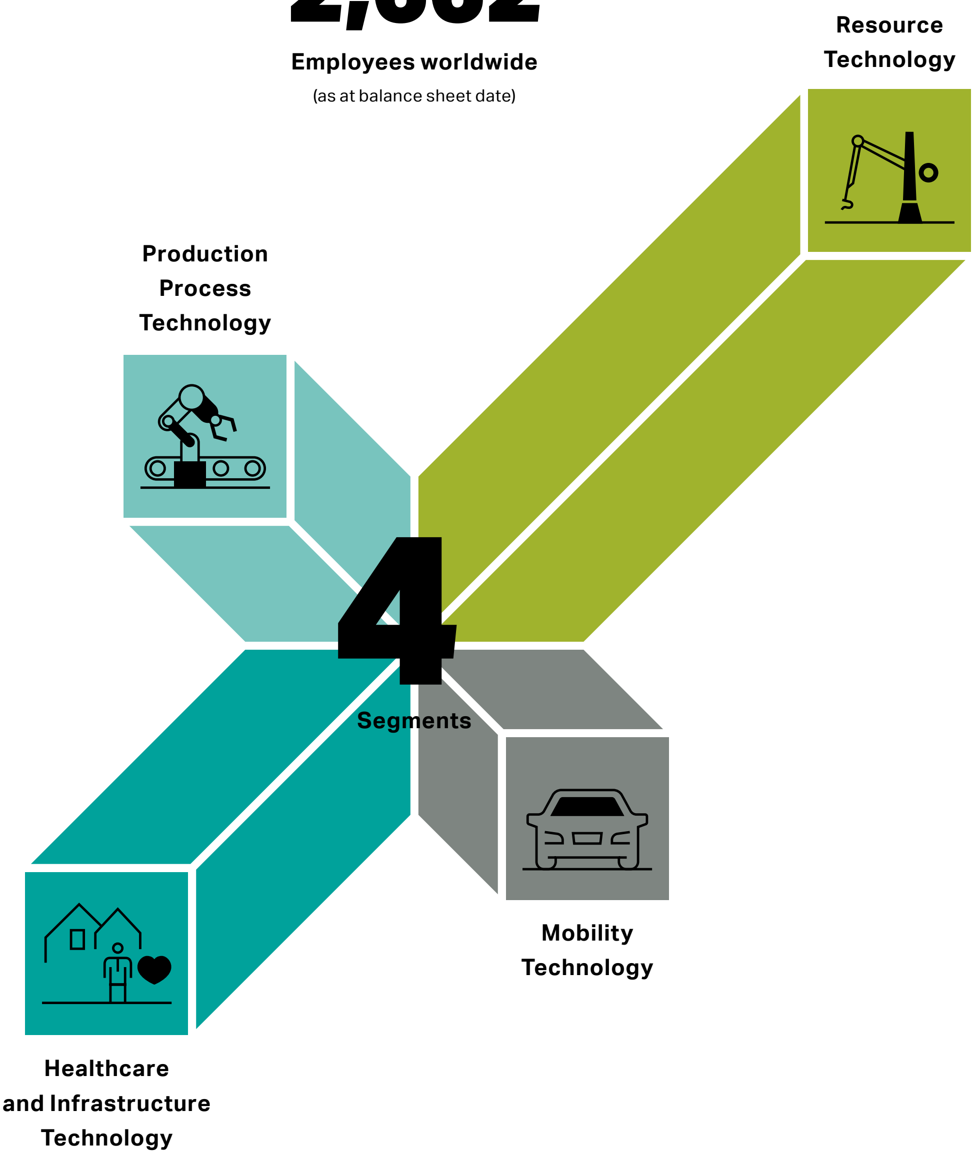
Profile

GESCO Group pools the power of the technology-driven German SME segment into one single share. The industries range from steel production to 3D printing, with products from ploughs to suspension arms for medical technology. Many of the companies are niche providers. Some are market leaders. And all are recognised players with established markets. The 18 companies are allocated to four segments that are geared towards customer markets.

2,662

Employees worldwide

(as at balance sheet date)



39

Locations worldwide

GESCO at a Glance

Key figures GESCO Group (IFRS)

Financial year 01.04. – 31.03.		2009 / 2010	2010 / 2011	2011 / 2012	2012 / 2013	
Sales	€'000	277,664	335,237	415,426	440,417	
of which domestic	€'000	183,536	219,981	270,888	286,609	
of which foreign	€'000	94,128	115,256	144,538	153,808	
EBITDA	€'000	27,156	38,180	51,186	51,763	
EBIT	€'000	16,470	26,958	39,116	37,341	
Earnings before tax	€'000	13,965	24,091	35,672	33,825	
Taxes on income and earnings	€'000	- 4,389	- 7,651	- 11,087	- 11,088	
Taxation rate	%	31.4	31.8	31.1	32.8	
Group net income after minority interest	€'000	8,896	15,251	22,531	20,916	
Earnings per share pursuant to IFRS[1]	€	0.98	1.68	2.47	2.10	
Investment in Property, Plant and Equipment[2]	€'000	8,417	9,915	14,937	21,609	
Depreciation on Property, Plant and Equipment	€'000	8,758	9,058	9,850	12,190	
Equity	€'000	105,173	114,678	154,988	166,500	
Total assets	€'000	246,356	260,246	321,138	357,547	
Equity ratio	%	42.7	44.1	48.3	46.6	
Employees (as at balance sheet date)	No.	1,733	1,775	1,899	2,292	
of which trainees	No.	99	92	97	120	
Year-end share price as at 31.03.[1]	€	13.33	19.63	21.80	25.18	
Dividend per share[1]	€	0.43	0.67	0.97	0.83	

[1] Financial years 2009 / 2010 to 2015 / 2016 adjusted to share split 1:3 from Dec. 2016.
[2] Without additions from changes to the scope of consolidation.
[3] Dividend proposal to the AGM on 29.08.2019.

574.5
€ million sales

47.6
€ million EBIT

2.46
€ earnings per share

	2013 / 2014	2014 / 2015	2015 / 2016	2016 / 2017	2017 / 2018	2018 / 2019	Change
	453,336	451,434	494,014	482,480	547,193	574,532	5.0 %
	300,263	303,597	323,862	302,419	335,981	351,272	4.6 %
	153,073	147,837	170,152	180,061	211,212	223,260	5.7 %
	48,719	46,171	53,261	49,745	57,404	73,498	28.0 %
	32,010	27,300	31,457	22,137	33,789	47,646	41.0 %
	29,018	24,553	28,828	19,187	31,861	45,420	42.6 %
	- 9,261	- 10,401	- 10,307	- 9,458	- 13,690	- 15,443	12.8 %
	31.9	42.4	35.8	49.3	43.0	34.0	-
	18,121	12,350	16,127	7,890	16,099	26,598	65.2 %
	1.82	1.24	1.62	0.79	1.49	2.46	65.2 %
	27,164	29,525	23,974	19,788	24,638	23,838	- 3.2 %
	14,136	15,475	16,940	24,009	17,989	19,081	6.1 %
	176,604	182,803	195,773	214,095	224,265	244,261	8.9 %
	379,950	403,739	410,175	439,915	456,256	509,513	11.7 %
	46.5	45.3	47.7	48.7	49.2	47.9	-
	2,360	2,465	2,537	2,535	2,489	2,662	7.0 %
	144	156	153	138	134	134	0.0 %
	25.38	25.46	24.71	24.96	28.50	22.75	- 20.2 %
	0.73	0.58	0.67	0.35	0.60	0.90[3)]	50.0 %

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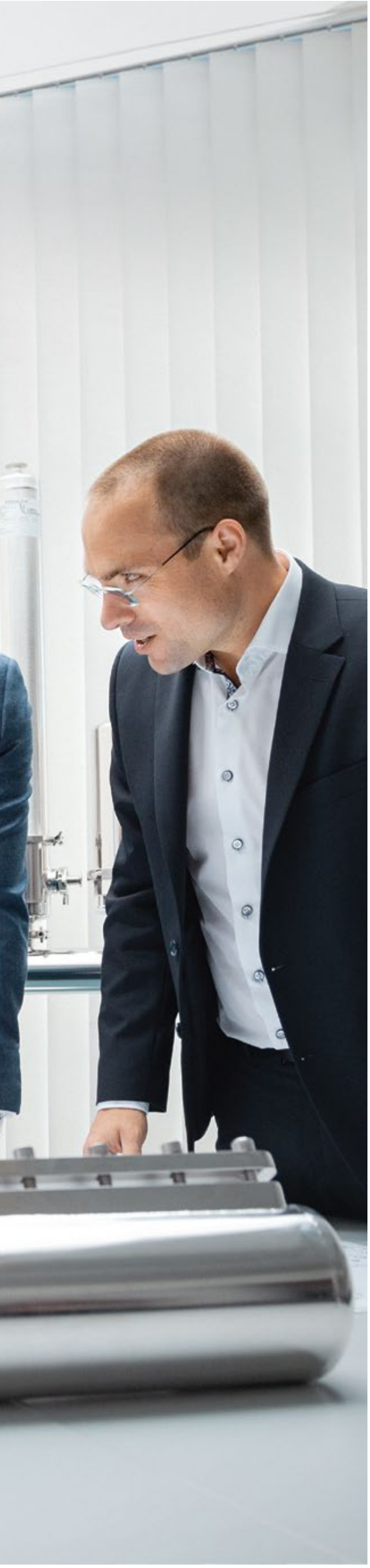
NEXT LEVEL



NEXT LEVEL

GESCO is charting a course for growth, a leading market position and resilience. An interview with CEO Ralph Rumberg about balanced portfolios, agile organisations, systematic development and what future hidden champions can learn from motorsports.

Interview with Ralph Rumberg

- degree in mechanical engineering and industrial engineering
- 9 years as a technical director in motorsports
- 15 years at Bosch Rexroth
- 5 years as managing director of an automotive supplier in the SME sector
- CEO of GESCO AG since 1 July 2018

The name of the new GESCO strategy is NEXT LEVEL. What is the vision behind it, and what goals are you pursuing?

RR At its core, we want to advance GESCO to the NEXT LEVEL – each individual company and GESCO AG as the holding company, and therefore the Group as a whole. We are pursuing two main goals: First, we want to make our portfolio more balanced and therefore more resilient to economic cycles. As doing so necessarily affects our acquisition activity, we have realigned our M&A approach. Second, we also want to make GESCO a group of true hidden champions. With that aim in mind, we have launched a series of excellence programmes.

The term "hidden champion" was originally coined by Prof Simon, who used it to refer to global market leaders, some of them with billions in sales. What do you understand the term to mean?

RR We may not generate billions in sales, as anyone can see, but we do have global leaders. Traits such as a proximity to the market and customers, as well as innovative strength, are important to us. This basis makes it possible for companies to anticipate their customers' needs. It's not a question of size. Companies that maintain a leading position in a niche market have usually created high barriers to entry, and that should be reflected in performance.

Are all of the Group's companies hidden champions?

RR No, of course not. That was not the motivation behind each and every one of GESCO's acquisitions. But in the medium term, all of our companies should either be hidden champions or clearly on their way there.

Your plan is to make the portfolio more balanced and resilient. What do you mean by that?

RR In our portfolio, we have one company – the Dörrenberg Group – that is clearly and significantly larger than the others. Since taking it over in 1996, GESCO AG has acquired a whole host of further SMEs. Yet Dörrenberg has developed fantastically and has grown very dynamically, meaning that its weighting in the portfolio is still high. That's why we are looking to establish two further major companies with different target markets in addition to Dörrenberg. We call these three subsidiaries anchor investments.

Does that mean you want to buy larger companies?

RR That's one possibility. We could also expand an existing company into a new size category through acquisitions. We are pursuing both paths through targeted search processes. The two new anchor investments should be active in different markets than Dörrenberg, helping us achieve a better balance and strengthening our resilience to severe economic downturns across the business cycle.

And in addition to these three anchor investments?

RR That's where we see a circle of companies we call base investments. They form the broad base of GESCO and make substantial sales and earnings contributions. At the same time, they round off the portfolio and are active in a variety of markets, thereby contributing to diversification, which remains an important aspect.

Will GESCO remain an owner with a focus on the long term?

RR Definitely. We buy companies with the intent of owning them for a long time, yet we value clear development potential.

But you don't fundamentally rule out selling them?

RR Even in the past, GESCO has sold individual companies – not to make a profit, but for strategic reasons. We need to retain this freedom, even more so in an environment that is developing dramatically faster than ten or twenty years ago.

When will the portfolio have achieved its target structure?

RR We're talking about a project that is going to take several years. In M&A terms, we have already adjusted our criteria and started the search process. But approaching the right business owner at the right time also takes a bit of luck. It's the quality of the acquisitions that matters.

What are your plans for the individual companies? How do you plan to take them to their respective next levels?

RR Our excellence programmes are the main tool for achieving that. I've found actively managing corporate processes – systematically, consciously and consistently – to be very beneficial. We transfer methods, tools and expertise that are often commonplace at major corporations to the SME sector in an appropriate form. Major corporations and SMEs each have their specific strengths and weaknesses. We want to get as close as possible to combining the best of both worlds. Our first step is to launch market, product and operative excellence programmes, or MAPEX and OPEX for short.

What is the timing of these excellence programmes?

RR These programmes are preceded by CANVAS workshops where the companies' management teams take a detailed look at their business models. We have already begun the implementation process. The first kick-off workshops in the series have been completed, and more are scheduled. They build the foundation for the excellence programmes. It's going to take a while for all subsidiaries to have completed the programmes, and it will be some time before they anchor the ideas firmly in their DNA. That also depends on where each company stands at the start of the process, of course.

In your opinion, how good are the chances of your plans succeeding?

RR We have comparatively small organisations with extremely short decision-making paths. They are close to the market and their customers, and they are run with an entrepreneurial mindset. Who but these companies should be agile, flexible and capable of learning? We will definitely be on the right track if we succeed now in permanently anchoring methodological expertise and systematic development.

You've spoken of a strong corporate culture with "high-performance teams". What do you mean by that?

RR I'm influenced by my time in motorsports in that respect. Just watch a team change tyres during a Formula 1 pit stop. The fastest ones need less than two seconds, which is unbelievably fast. A team has to be absolutely in sync for that to work. Everyone knows what to do. Every move is perfectly executed. Each person can rely on the next. They either win as a team – or lose as a team.

The parallels to everyday life at a company are clearly apparent.

RR Indeed. A combination of focusing on performance and teamwork creates a strong corporate culture. The lack of one component will bring you to your limits at some point. Ultimately, the path to being a hidden champion starts with the will to be a hidden champion. As so often in life, it's a question of mindset and attitude, which makes the path to becoming a hidden champion a leadership task. This kind of corporate culture also attracts talents. Who doesn't want to work at a successful company with a strong team spirit?

When will GESCO reap the rewards of NEXT LEVEL?

RR By balancing the portfolio and implementing the programmes, we are aiming for substantial advancements that are implicitly planned for the medium term. But some the steps we're taking will also deliver quick wins. And don't forget: every workshop and every encounter brings us closer to the companies, allowing us to do a better job of understanding their processes, markets and individual support needs. I believe doing so will allow us to get closer and closer to a stronger, future-oriented relationship with our subsidiaries. GESCO AG, the holding company, is also busy advancing to the next level. Ultimately, our NEXT LEVEL strategy is aimed at achieving above-average growth, margins and cash flow in the long term – allowing us to inspire and excite our shareholders as well.

3 questions for Kerstin Müller-Kirchhofs

- Degree in economics
- 15 years in auditing
- 7 years as CFO of Air Liquide in Germany
- 4 years as CFO of an international industrial SME group
- CFO of GESCO AG since 1 May 2019

You have extensive experience in auditing as well as in industry. In your view, what sets the business of making investments and acquiring shares apart?

KMK GESCO Group's companies are typical SMEs that largely have different business models. For me, the business of making investments and acquiring shares is about finding the right additions to this group while doing justice to the diversity of the German SME sector. I find the mix of professionalism, short decision-making paths and hands-on support of the subsidiaries to be fascinating.

What do you find particularly appealing about GESCO's model?

KMK I like the long-term, sustainable approach. The GESCO model offers the companies and their employees long-term prospects. The business owners who sell to GESCO can be sure that their companies are in good hands. That's because GESCO stands for investment, growth and development. My aim is to contribute to the positive development of the portfolio companies through profitable growth that is based on an entrepreneurial strategy rather than short-term effects.

How is this long-term approach compatible with a capital market orientation?

KMK I don't believe those two things necessarily constitute a contradiction. After all, GESCO has demonstrated that attracting shareholders with long-term models and being successful on the stock market is actually a quite viable approach. The GESCO share allows investors to engage with an asset class that they would normally be unable to invest in: smaller, ambitious SMEs – in other words, the heart of the German economy. And despite all the ups and downs on the stock market, this approach has resulted in appealing returns over the years. The stock market also offers us access to fresh capital for further growth as needed, of course.

A shining partnership

Text: Heimo Fischer
Photography: Konstantin Eckert

From beverages and chemicals through to pharmaceuticals, major manufacturers depend on filter technology made of stainless steel. Sommer & Strassburger, an SME, builds such systems in the south-west German town of Bretten. The specialised manufacturing company recently joined GESCO Group.

The lustre of stainless steel meets your eye wherever you look, from the unfinished sheets high up on a crane to the many pipes and tubes lying stacked on racks throughout the production halls. At one workstation, a shining silver container awaits the next processing step, soon to take pride of place at a Latin American brewery – as part of a filter system designed to remove impurities from fresh beer. “This is one of the many products that are typical for our company,” says Michael Hilpp, Managing Director of Sommer & Strassburger.

Headquartered in south-west Germany, the company specialises in stainless steel processing. The new subsidiary of GESCO Group converts the material into containers, apparatus or complete systems based on customer specifications. In most cases, Sommer & Strassburger produces components for filter technology that play an important role in the food and pharmaceutical industries. Its customers also include chemical companies and water utilities.

Stainless steel – pure, not just clean

Stainless steel is the material of choice wherever hygiene plays a role. Its hard, polished surface is a breeze to keep absolutely clean. Liquids run off rather than settling and leaving residues. Demand is rising, especially in Asia and Africa, where food and pharmaceutical companies are building new factories. However, only a few suppliers are capable of processing stainless steel safely and in outstanding quality. Sommer & Strassburger is one of them – another reason why the number of orders has risen so sharply that the company can barely keep up.

For GESCO CEO Ralph Rumberg, the booming SME is an ideal partner: “The company operates in a niche in which we have so far not been active. That’s why it’s a real gain for us.” Together with Hilpp, he now aims to significantly expand Sommer & Strassburger’s market position and tap into international markets. With 140 employees, the company currently generates some € 20 million in sales. Thanks to GESCO’s support, that figure is set to rise substantially in the years ahead. Experts from headquarters in Wuppertal are already busy sharing their expertise and experience with the new subsidiary at regular meetings with the management team.

Partnership right from the start

GESCO helped optimise the flow of materials and work in process shortly after acquiring the company in autumn 2018, improving reliability and quality. A lawyer reviewed contracts and improved purchasing conditions. Now a joint working group is planning the long-term development of Sommer & Strassburger going forward. New markets? New machinery? An additional building? “We’ll be making a decision together soon,” Rumberg says.

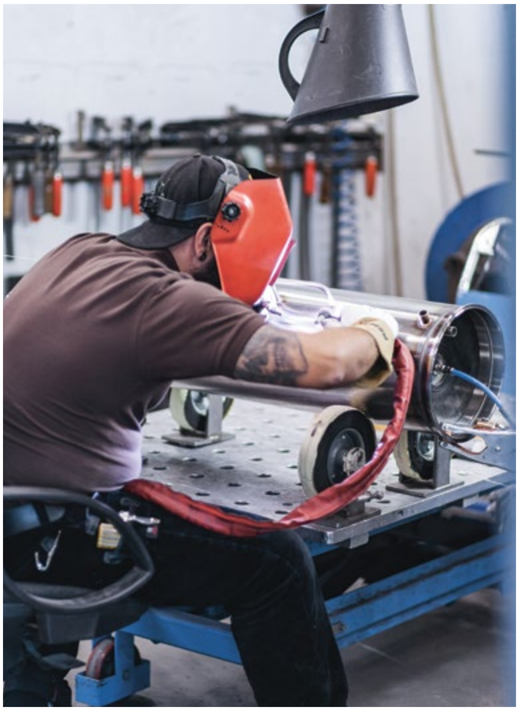
On the shop floor, the distance between machinery, tools and material is short so as to keep up with the flood of orders. Work often has to be performed by hand, as the order volume of the individually produced products tends to be low. At their workbenches, workers grind, clean and polish stainless steel surfaces. Welding pressure tanks and membrane housings is a particularly demanding task. Even the smallest dents or gaps, known as dead spaces, could later attract germs during use – something customers from the pharmaceutical, chemical or food processing industries must avoid at all costs.

“I liked the GESCO philosophy right off the bat.”

Michael Hilpp, Managing Director
Sommer & Strassburger

"The company operates in a niche in which we have so far not been active. That's why it's a real gain for us."

Ralph Rumberg, CEO GESCO AG



“The entrepreneur’s personal life planning and GESCO’s prospecting approach were a perfect match.”

Christoph Borges, Head of M&A
GESCO AG (Picture above, left)

Stainless steel is available in some 50 alloys. Some are resistant to seawater, while others can withstand lemon juice or hydrochloric acid. Welders need TÜV certification for each individual alloy. The requirements are strict. Even the insides of weld joints have to be inspected, if need be using a tiny camera to get a closer look inside the tubes and pipes. The images are part of the documentation that must be created for every product, making it possible to prove that the manufacturing process went smoothly, even decades later.

Family matters

Michael Hilpp and his family know the company like the backs of their hands. His father Gerhard joined as a partner in 1992. He and his son ultimately ended up buying the entire firm. Later, Michael Hilpp took over the reins along with a majority stake. "Long-term planning has always been important to us," says Michael Hilpp. For that reason, and because his two adult sons are busy charting their own courses in life, he wanted to make sure that his succession plans were firmly in place. At the age of 47, he was not thinking of selling the company, despite a wide range of offers. And there was no way in his mind that he was going to leave the company to a financial investor looking to make some quick money.

In early 2018, he received a presentation from GESCO that piqued his interest. A holding company that buys and supports SMEs? Not a corporate raider, but a long-term partner? Could they be the solution? "I liked the GESCO philosophy right off the bat," Hilpp says.

Hilpp and GESCO met for the first time in Düsseldorf in a non-binding atmosphere. "That very first meeting helped create a basis of trust," says Christoph Borges, Head of M&A at GESCO. Prior to the meeting, Borges did a little research into the stainless steel sector. He knew that there were only a few competitors in the market and that the margins were solid and sustainable. When it came to Sommer & Strassburger, he appreciated the good growth prospects in particular. A few meetings later, an acquisition appeared possible. And half a year later, the papers had been signed. "In this case, our prospecting approach was a perfect match for the owner's personal life planning," Borges says.

More opportunities through new technology

Hilpp saw clear added value, even beyond succession planning. For a while now, he had been wanting to take his company – including its organisation and processes – to the next level. Finding a partner with experience in the industrial sector was a stroke of luck.

Pressure tanks for use in pharmaceutical production that feature sight glass are one of Hilpp's inventions. He came up with the idea for a manufacturing method to help prevent the occurrence of dead spaces during installation of the corresponding seals. Hilpp says he could convince even more customers to choose the container with the longitudinal sight glass – if he had the capacities to do so: "There could be two more zeroes behind the sales figures for this product." He plans to work together with GESCO to advance projects like this.

In addition to the pharmaceutical, chemical and food industries, water treatment also offers opportunities. Every year, millions of people around the world gain access to drinking water for the first time. Stainless steel can be used to make the required filtration systems. The company also hopes to play a role in the field of hydrogen. The gas has the potential to become a highly sought-after fuel should engines with fuel cells continue to make inroads. Hydrogen needs to be purified during production. Sommer & Strassburger is involved in key development projects. "The breakthrough isn't going to happen tomorrow, of course," Hilpp says. But because five years could be enough time to bring about a paradigm shift, he plans to seize the new opportunities and work with GESCO Group to guide his company towards the future.

Strengthening our strengths

GESCO companies have what it takes to be champions in their respective markets. Within the scope of an excellence programme, they are working to further strengthen their position. This allows them to create lasting value for companies, customers and shareholders alike.

Text: Heimo Fischer
Photography: Konstantin Eckert

Pictures often say more than words, which is why GESCO CEO Ralph Rumberg starts his intro with a short film. It shows a pit stop in a Formula One race. The driver brakes with millimetre precision, all 15 mechanics know their jobs. After an unbelievable 1.8 seconds, four new wheels have been mounted. The driver continues the race and has just increased his chances of winning. The video's message is clear: "Added value is created when everyone works towards the same goal," says Rumberg. This applies as much to car racing as it does to the business world. Both areas, however, require everyone involved to know their strengths and exercise them to their fullest. This is precisely what the excellence programmes offered by GESCO to the management personnel of the affiliated companies are all about. Over the course of several workshops, they will acquire the tools needed to expand their position amongst the international competition.

In a seminar room in Vaihingen an der Enz, Rumberg is having a discussion with six managers of Hubl GmbH. The stainless steel specialist is the first GESCO company to take part in the excellence programmes. The day sees the managers jointly examining their company's business model and developing it further. Hubl Managing Director Rainer Kiefer looks forward to the results of the workshop. "We're always looking for new ways of creating value and continuing to grow."

GESCO Group supports its companies in identifying abilities, optimising processes and gaining market shares. This objective is enshrined in the NEXT LEVEL strategy, which aims to strengthen the subsidiaries so as to elevate them to new levels of success.

The knowledge acquired in the workshops should benefit all GESCO companies as much as possible. This is why Rumberg has not hired a management trainer, but rather conducts the workshops himself. "I want to better understand your company and I want you to be able to come away from this workshop with something tangible," he tells the participants. At the same time he is also able to bring his own experiences to the table. While occupying previous positions throughout the industry, Rumberg was able to observe the obstacles to growth even ambitious SMEs have to face. "Anyone who ends up doing the same thing for longer periods of time ends up losing sight of the big picture," he says. This can result in the developer no longer knowing what the customers need, sales managers keeping their know-how to themselves and production managers giving the okay to products that cannot be produced at a profit.

These types of issues are addressed by the excellence programmes, which GESCO has designed on a multi-stage basis. The OPEX workshop focuses on improving the efficiency of operational processes, while the MAPEX module concentrates on expanding market shares and LEADEX aims at preparing managers for the challenges of the future.

The acquired know-how is immediately put into practice. The goals are above-market growth and a measurable increase in efficiency.

Rumberg starts off the individual programme events by laying the foundations for the following series of workshops together with the managers. They implement the CANVAS method to develop and optimise their own business model. A canvas as a work surface or vehicle for creativity is a fairly apt label for the method. The aim for the day is to draw a map of the company, listing its strengths and highlighting potential for improvement.

“Added value is created when everyone works towards the same goal.”

Ralph Rumberg, CEO GESCO AG

CANVAS initially provides for the analysis of nine strategic pillars. For example, the company should identify which customer segments it serves. Which needs are being met. What the customers are paying for. Or what constitutes their relationship to the company. What resources are needed, who the key partners are and what cost structures look like.

The management team at Hubl now has to work out the answers to each of these questions. “What is the most important customer segment for Hubl?” Rumberg asks the room. “Companies from the biotechnology sector,” replies one participant. “Which companies?” Rumberg asks. He writes the names on a flip chart, adding the corresponding products and sales contribution as provided by the participants. Then he continues with the customer list. Semiconductors, the automotive sector and pharmaceuticals are other important segments.

Following the lunch break, the participants continue to take a deeper look into companies and markets. Step by step they work their way through the Canvas structure, drawing a detailed picture of the company. “This overview alone is extremely valuable,” says Hubl boss Kiefer. While it may be true that each piece of information is available to a member of the management team at any given moment, we rarely get to look at the overall picture together and really see it in context. “This allows for new ideas to emerge,” says one of the participants. These are then picked up and further elaborated in the ensuing workshops.

Know your strengths and exercise them to their fullest: Managing Director Rainer Kiefer and management staff at Hubl GmbH are working with Ralph Rumberg to evaluate and advance their company's business model.

STRATEGY — NEXT LEVEL

STEP 1

OPEX – Operative Excellence
This programme communicates approaches for increasing efficiency. The focus is on value creation processes, particularly quality, lead time and delivery performance, as well as cost structures.
Goals: increasing efficieny and margins.

STEP 2

MAPEX – Market and Product Excellence
This programme focuses on expanding business volume. The participants work with analyses regarding customer segments, product offerings, customer channels and relationships. They use this basis to generate new ideas for the product portfolio and the market position.
Goals: expand market shares, tackle new market segments, develop product innovations.

STEP 3

LEADEX – Leadership Excellence
This programme focuses on sharpening leadership skills in a dynamic environment.
Goals: promote and develop executives, strengthen corporate culture.

EXCELLENCE PROGRAMS — STEP BY STEP

Riding the wave

Why are we destined for stronger international growth in the future? Because of four global trends that are key drivers of growth for our business model. What are they? See for yourself.

Text: Tobias Rohe
Images: GESCO Group

0
is the number of plastic straws, balloon sticks, cotton bud sticks and stirrers that may be manufactured or sold in the EU from 2021. Around the world, more and more countries are stepping up the fight against plastic waste.[3]

9.8 billion
will be the world's population in 2050 – compared to 7.7 billion today.[1] Agricultural production will need to increase by around 65 % to feed everyone.[2]

€ 17.4 billion
is the volume of machine tool production expected in Germany in 2019,[5] corresponding to growth of 2 %. The Chinese market is expected to grow by 5 %, with the US market gaining 7 %. The global automation trend is boosting demand.

0.1 %
is the share of the global steel market accounted for by tool steel – a niche that is subject to different laws and standards than ordinary steel. The industrialisation and automation trend is driving demand.[4]

1 – 5: see references in the imprint on page 241

12,000

that is how many parts and products Frank Group supplies for agriculture worldwide. Europe's leading manufacturer of wear parts and components for the agricultural engineering market sells its products internationally through subsidiaries in countries such as Hungary, Ukraine and Russia.

100%

is the percentage of natural ingredients used in Setter Group's paper sticks. The world's leading manufacturer of biodegradable sticks for the confectionery and hygiene industries produces sticks for lollipops, cotton buds and much more. Its subsidiaries in the US and Mexico help ensure that the company's market share keeps growing.

Some

3,000

customers worldwide source products from Dörrenberg Group. With its Special Steels, Steel Foundry, Casting Products and Coating & Hardening business divisions, the company provides unique metallurgical expertise when it comes to tool steel, with customers in the machine and plant construction, tool manufacturing and automotive industries. Dörrenberg continues to expand the international sale of its high-alloyed tool steel through subsidiaries in Singapore, Korea, China, Taiwan and the US.

25

utility models and patents granted over the past 20 years demonstrate the innovative power of MAE Group. The manufacturer of straightening presses and special machines for joining, assembling, testing and reforming is the global market leader in automatic straightening machines and wheel set presses for rolling stock, thanks in no small part to subsidiaries in the US and China.

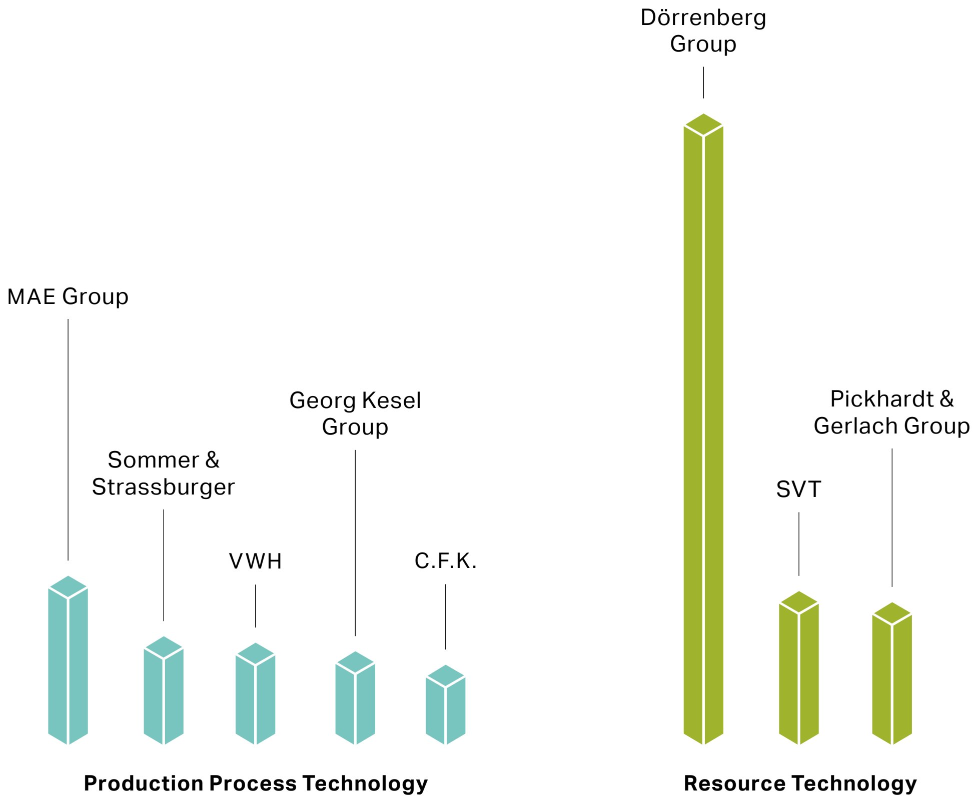
Leading the pack

The subsidiaries in profile

Eighteen leading industrial SMEs in one group: GESCO unites established niche providers with a focus on the four segments Production Process Technology, Resource Technology, Healthcare and Infrastructure Technology and Mobility Technology. Increasingly, the trend is towards internationalisation.

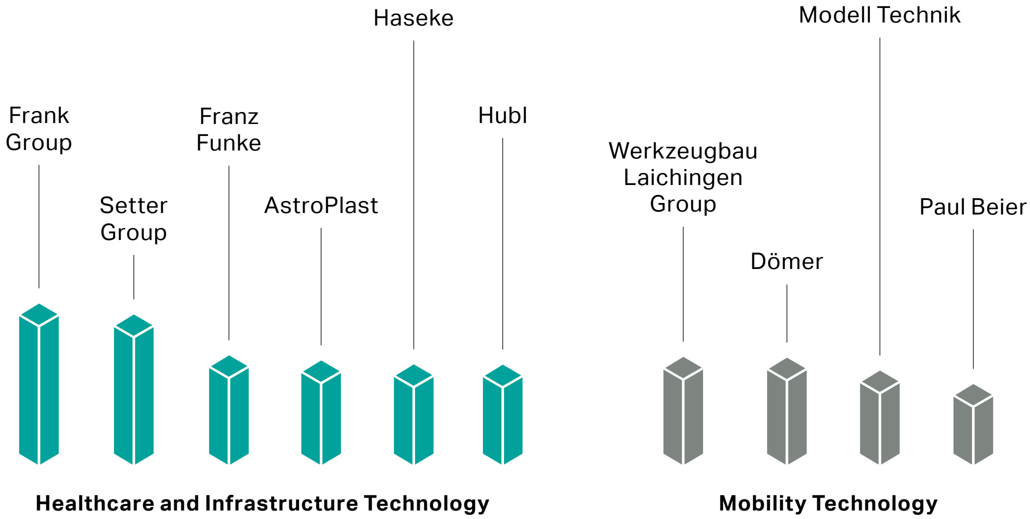
GESCO Group at a glance

Significant subsidiaries by sales



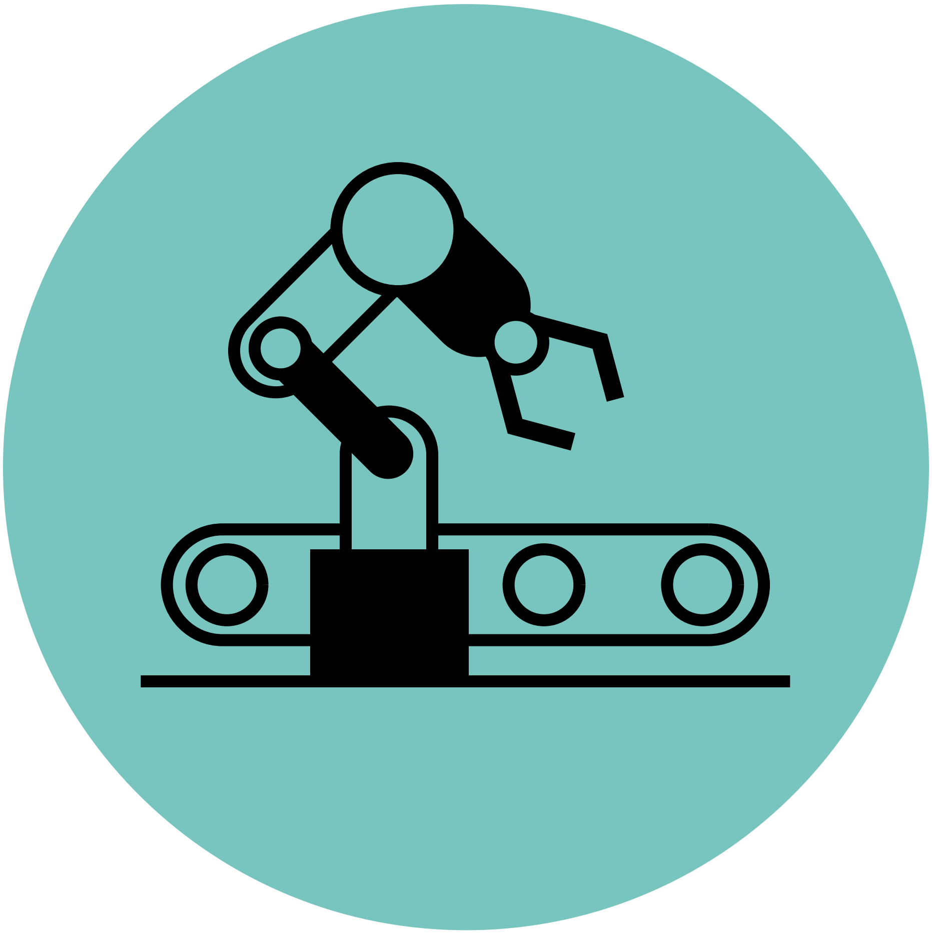
Company	Sales 2018 €'000	Staff 31.12.2018	GESCO AG shareholding in %
Production Process Technology			
MAE Group	41,972	221	100
Sommer & Strassburger GmbH & Co. KG[1)]	19,001	137	100
VWH GmbH	16,599	131	80
Georg Kesel Group	13,303	61	90
C.F.K. CNC-Fertigungstechnik Kriftel GmbH	8,123	65	80
Resource Technology			
Dörrenberg Group	219,973	538	90
SVT GmbH	36,428	168	90
Pickhardt & Gerlach Group	32,158	45	100

[1)] Included pro rata temporis for four months in financial year 2018 / 2019.



Company	Sales 2018 €'000	Staff 31.12.2018	GESCO AG shareholding in %
Healthcare and Infrastructure Technology			
Frank Group	39,062	325	90
Setter Group	34,864	134	100
Franz Funke Zerspanungstechnik GmbH & Co. KG	19,152	89	100
AstroPlast Kunststofftechnik GmbH & Co. KG	17,164	88	100
Haseke GmbH & Co. KG	15,678	79	80
Hubl GmbH	15,577	110	80
Mobility Technology			
Werkzeugbau Laichingen Group	18,832	178	100
Dömer GmbH & Co. KG Stanz- und Umformtechnologie	18,524	105	100
Modell Technik Formenbau GmbH	13,556	105	100
Paul Beier GmbH & Co. KG	8,386	67	100

Production Process Technology



The companies in the Production Process Technology segment target dynamically growing markets being shaped by automation with a high degree of innovation. In doing so, the subsidiaries usually occupy themselves with creating solutions for the automation of machine and plant engineering and with technology-intensive manufacturing services. With their products and services, they primarily assist series manufacturers with their production processes.

5

Companies

86.0

€ million sales
(previous year 77.6 € million)

15 %
share of
GESCO Group
sales

615

Employees
31.12.2018
(previous year 468)

MAE Group

Erkrath

The MAE Group is a global leader in automatic straightening machines and wheel set presses for rolling stock. MAE has underpinned its global market positioning in both segments with its trailblazing innovations. Its product range is rounded off by a standard line of manual straightening presses and special machines for joining, assembling, testing and reforming. Major customer segments include the automotive and automotive supply industries, railway vehicle manufacturers and maintenance work-shops, and the machine tools and steel industries. With MAE Eitel Inc., MAE has a subsidiary for development, production, sales, service and training in the US, and it also has a subsidiary for sales and service in China.

221

Employees
31.12.2018
(previous year 217)

1931
Founding year

1997
Acquisition by GESCO

42.0

€ million sales
(previous year 44.6 € million)

Rüdiger Schury (left)
Manfred Stöhr (right)
Managing Directors

100 %
Shareholding
GESCO

MAE Group

Erkrath

72 %

international sales
(previous year 65 %)

MAE has been present in its most important foreign market, China, with a subsidiary for sales, service and training since 2012. In 2014, MAE took over the US competitor Eitel Presses Inc. Today’s MAE Eitel Inc. serves the US market with machines for the automotive, steel and rail industries.

Sommer & Strassburger GmbH & Co. KG

Bretten

Sommer & Strassburger develops and produces processing equipment, with a focus on the pharmaceutical, food, water technology and chemical industries. The high-end processor of stainless steel has positioned itself as a leading-edge provider with its own range of products. Sommer & Strassburger has decades of experience, extensive materials expertise and its own system development team. The company has the process technology know-how to understand its customers' methods and develop solutions that function reliably. An outstanding vertical depth of production, including in-house surface treatment, provides high-end quality for the respective customer sectors.

137

Employees
31.12.2018
(previous year 125)

1973
Founding year

19.0

€ million sales[1)]
(previous year 18.0 € million)

2018
Acquisition by GESCO

Michael Hilpp
Managing Director

100 %
Shareholding
GESCO

[1)] In Financial Year 2018 / 2019 included pro rata temporis for four months.

VWH GmbH

Herschbach

VWH specialises in automation technology and mould design. Its core competencies are the development and manufacture of complex, automated production systems, in-line systems for the manufacture of hybrid components and sophisticated injection moulding forms. The company's extensive experience in the networking of intelligent production systems in line with Industry 4.0 creates decisive potential for the future development of the company. The main customer base includes the consumer goods sector, the automotive industry and its suppliers, the electrical engineering sector and the medical technology industry.

131

Employees
31.12.2018
(previous year 123)

1960
Founding year

2007
Acquisition by GESCO

Thomas Sturm
Managing Partner

20 %
Shareholding
Management

80 %
Shareholding
GESCO

16.6

€ million sales
(previous year 12.6 € million)

Georg Kesel Group

Kempten

The Kesel Group develops and manufactures machine tools with a focus on highly specialised milling machines for linear tooth profiles. Machines for the manufacture of bandsaws – which are used in particular in industries such as metal processing and in milling tooth profiles for steering systems and drive components in automotive manufacturing – are among its special products. The company also develops and produces clamping systems with a wide range of specifications, sizes and clamping forces. The Kesel Group’s customers are mainly companies from the steel, gear-cutting and automotive industries. Kesel is present in China with a subsidiary for sales and service.

61

Employees
31.12.2018
(previous year 61)

13.3

€ million sales
(previous year 12.4 € million)

1889
Founding year

2009
Acquisition by GESCO

Martin K. Klug
Managing Partner

10 %
Shareholding
Management

90 %
Shareholding
GESCO

C.F.K. CNC-Fertigungstechnik Kriftel GmbH

Kriftel am Taunus

CFK is one of the leading names in Germany when it comes to technology for high-precision wire erosion and die sinking. The company is also a pioneer in the field of selective laser melting and additive manufacturing (3D printing). Unlike conventional methods, this production process provides a lot of design freedom and also allows small batches and one-off items to be manufactured economically. In the erosion segment, CFK deploys high-precision technology to produce parts for its domestic and foreign customers, many of which are used in advanced safety and security systems. The weight of the items produced ranges from a few micrograms to several tonnes. CFK is a partner for a wide range of sectors, including the aviation industry, the medical industry and the micro-technology sector.

1986
Founding year

2012
Acquisition by GESCO

Dr-Ing Christoph Over
Managing Partner

20 %
Shareholding
Management

80 %
Shareholding
GESCO

65

Employees
31.12.2018
(previous year 67)

8.1

€ million sales
(previous year 8.0 € million)

Resource Technology

The subsidiaries in the Resource Technology segment supply products to material-intensive industrial companies with a focus on niches and customer service. The companies supply the markets with primary materials according to customer specifications, for example in the material supply or loading technology sectors.

3

Companies

50 %
share of
GESCO Group
sales

← **288.5**

€ million sales
(previous year 275.1 € million)

751

Employees
31.12.2018
(previous year 761)

Dörrenberg Group

Engelskirchen

The Dörrenberg Group operates globally in the fields of special steels, steel foundry, casting products, and coating and hardening. The company provides its customers from a wide variety of industries with expert technical consulting, often as early as in the design stage. The customer industries are widely spread, with the main industries being machine and plant construction, tool manufacturing and the automotive industry. The company has developed in-depth knowledge of metallurgy over decades, conducts research and development activities with universities and institutes and owns numerous patents on steels that have been developed in-house.

538

Employees
31.12.2018
(previous year 533)

1860
Founding year

1996
Acquisition by GESCO

220.0

€ million sales
(previous year 199.1 € million)

Gerd Böhner (left)
Dr-Ing Frank Stahl (right)
Managing Partner

10 %
Shareholding
Management

90 %
Shareholding
GESCO

Dörrenberg Group

Engelskirchen

31 %

international sales
(previous year 31 %)

Dörrenberg Edelstahl GmbH has a majority shareholding in a joint venture in Spain that focuses on surface treatments and a minority shareholding in a renowned tool steel specialist in Turkey. The company has also had subsidiaries in Singapore, Taiwan, China and South Korea for many years now. In 2018, Dörrenberg founded a subsidiary in the US in order to intensify its efforts to serve the local market with high-alloyed tool steel.

SVT GmbH

Schwelm

SVT is a globally operating provider that develops and manufactures complex machinery of high technological quality and sophisticated safety equipment for loading and unloading liquid and gaseous materials on and off ships and tankers. One of the important product groups that the company manufactures is loading equipment for liquefied natural gas (LNG), which is natural gas that is cooled to minus 165°C in order to liquefy it. The company has the technical expertise to design equipment and control units according to the standards in each respective country while also providing global service. SVT supplies the chemical and petrochemical industries as well as the oil and gas industries on all continents, and is considered to be a leading global provider.

1968
Founding year

2002
Acquisition by GESCO

Harm Stöver
Managing Partner

10 %
Shareholding
Management

90 %
Shareholding
GESCO

168

Employees
31.12.2018
(previous year 186)

36.4

€ million sales
(previous year 43.0 € million)

Pickhardt & Gerlach Group

Finnentrop

The Pickhardt & Gerlach Group is one of Europe's leading strip steel processors. The company utilises a state-of-the-art and fully automated galvanic production process to apply brass, copper, nickel, zinc and partial stainless steel coatings to steel strips. Customers appreciate the excellent quality tailored to meet their individual needs as well as the company's uncompromising service. This niche product has an extremely wide range of applications. Components made from processed strip steel are used, for example, in the electrical engineering industry, in household appliances, in decorative items, in the furniture industry, for office materials and in the manufacturing of sporting items.

45

Employees
31.12.2018
(previous year 42)

1902
Founding year

2017
Acquisition by GESCO

32.2

€ million sales
(previous year 33.0 € million)

Guido Müller-Späth
Managing Director (left)
Dr-Ing Paul Braun
Technical Managing Director (right)

100 %
Shareholding
GESCO

Healthcare and Infrastructure Technology

The Healthcare and Infrastructure Technology segment unites companies that supply products to providers in mass consumer markets such as the medical, hygiene, food and sanitary sectors. These markets have proven that they are not particularly cyclical and that they are relatively robust in the face of economic fluctuations. Most of the companies supply components, modules and precursors.

6

Companies

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25 %
share of
GESCO Group
sales

←

141.5

€ million sales
(previous year 123.7 € million)

825

Employees
31.12.2018
(previous year 759)

Frank Group

Hatzfeld

The Frank Group is Europe's leading supplier of wear parts and components for the agricultural engineering market. The company produces rolled and forged parts made from special steel alloys. The FRANK ORIGINAL brand has been well established amongst the relevant target groups for decades and stands for first-class quality, both nationally and internationally. Frank is an original equipment manufacturer for agricultural machinery manufacturers, focussing on soil cultivation, feed technology and harvesting technology for root crops and special cultures. In addition, Frank supplies spare parts to international specialist wholesalers and cooperatives.

1836
Founding year

2006
Acquisition by GESCO

Dr Frank Grote
Managing Partner

10 %
Shareholding Management

90 %
Shareholding GESCO

325

Employees
31.12.2018
(previous year 298)

39.1

€ million sales
(previous year 31.5 € million)

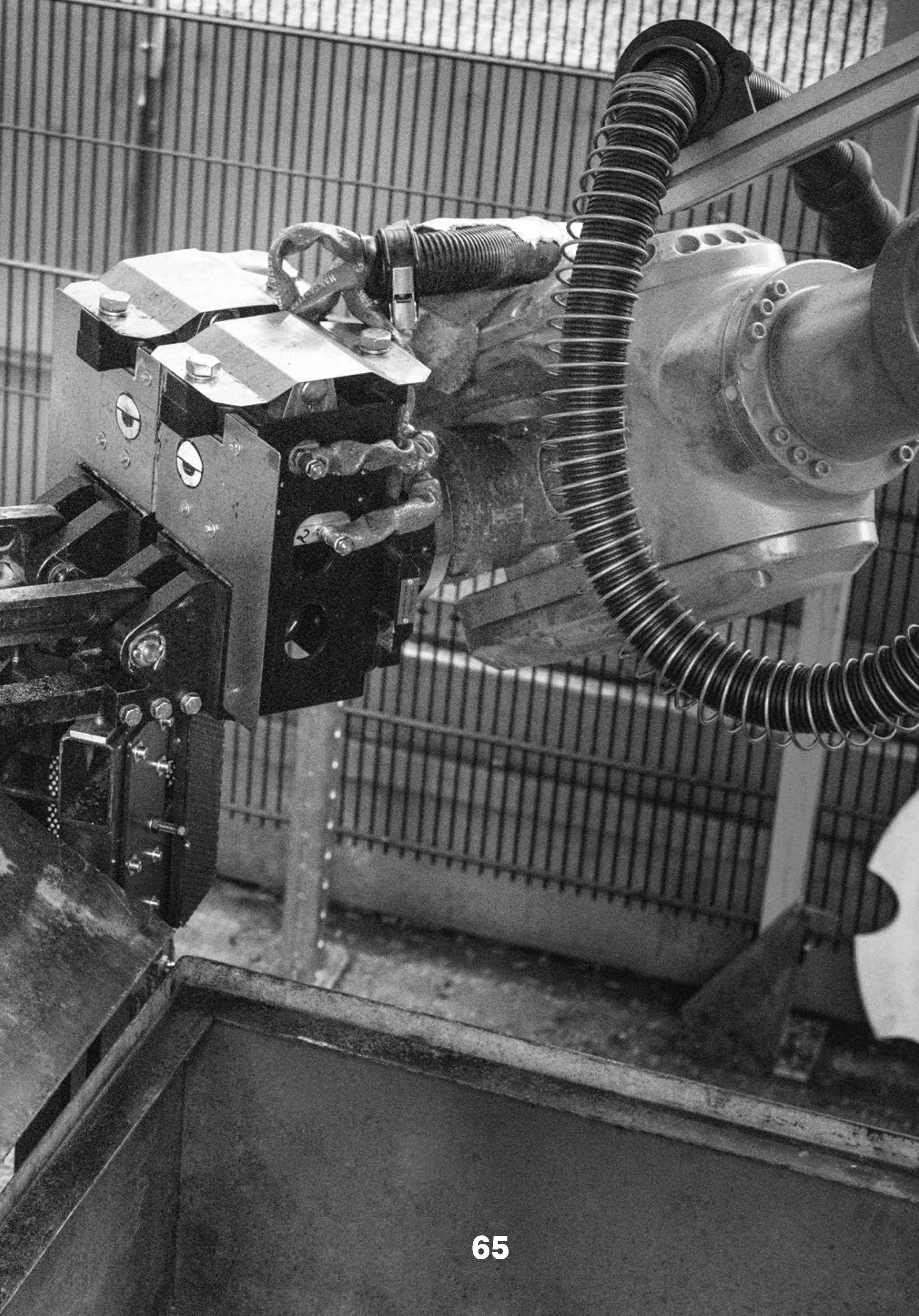
Frank Group

Hatzfeld

43 %

international sales (previous year 43 %)

The company's production is mainly located at its headquarters in Hatzfeld / Hessen as well as at its Hungarian subsidiary Frank Hungária Kft. / Ozd. After having a presence in the Ukraine for many years with sales offices in several locations, Frank also founded a sales office in Russia.



Setter Group

Emmerich

Setter Group is one of the world's leading manufacturers of paper sticks, which it develops and produces for sale to customers from the confectionery and hygiene industries. The sticks are used in products such as lollipops, cake pops, cotton buds or medical products. There are hardly any limits to the possible individual customer specifications. The options range from various diameters, colours and lengths to printing – either for decorative purposes or for labelling with an EAN code, for example. Setter Group owes its quality leadership, and therefore its international success, to production systems developed in-house. The German company markets its products across all continents.

134

Employees
31.12.2018
(previous year 113)

1964
Founding year

34.9

€ million sales
(previous year 30.6 € million)

2004
Acquisition by GESCO

Steffen Grasse
Managing Director

100 %
Shareholding
GESCO

Setter Group

Emmerich

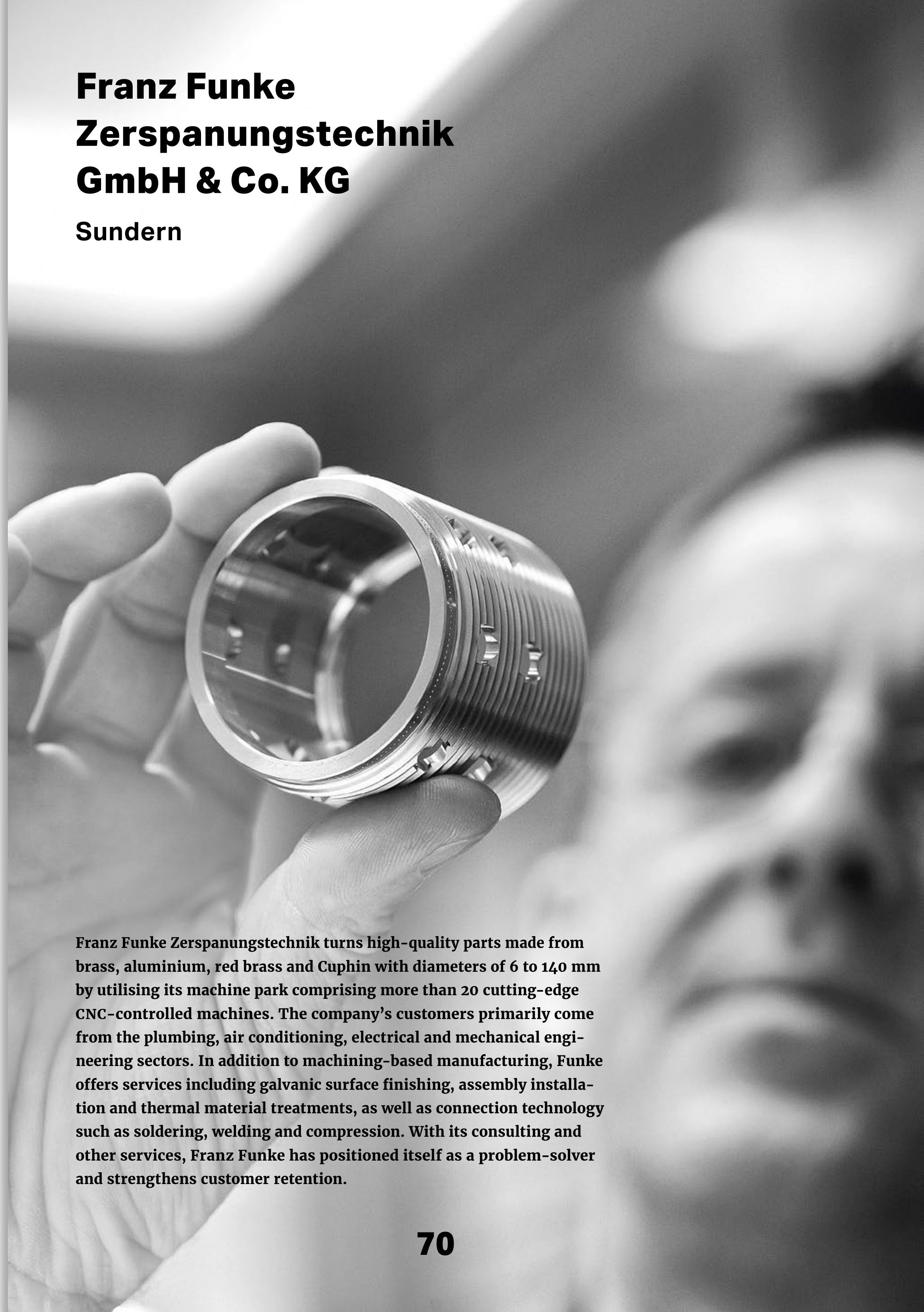
91 %

international sales
(previous year 95 %)

Setter supplies its products to the world from its headquarters in Emmerich and has always had a focus on international business. The company took over Setterstix Corp. in early 2015 after working in partnership for many years to manufacture paper sticks using Setter's own technology in the US by way of a licensing model. In 2018, the company also founded a subsidiary in Mexico.

Franz Funke Zerspanungstechnik GmbH & Co. KG

Sundern



Franz Funke Zerspanungstechnik turns high-quality parts made from brass, aluminium, red brass and Cuphin with diameters of 6 to 140 mm by utilising its machine park comprising more than 20 cutting-edge CNC-controlled machines. The company's customers primarily come from the plumbing, air conditioning, electrical and mechanical engineering sectors. In addition to machining-based manufacturing, Funke offers services including galvanic surface finishing, assembly installation and thermal material treatments, as well as connection technology such as soldering, welding and compression. With its consulting and other services, Franz Funke has positioned itself as a problem-solver and strengthens customer retention.

89

Employees
31.12.2018
(previous year 86)

1919
Founding year

1995
Acquisition by GESCO

Till Wasner
Managing Director

19.2

€ million sales
(previous year 18.0 € million)

100 %
Shareholding
GESCO

AstroPlast Kunststofftechnik GmbH & Co. KG

Meschede

AstroPlast is a specialist in high precision injection-moulded technical plastics. The company develops and markets its own range of special plastic spools, which are sold to manufacturers of wires, cables, tapes and optical fibres. AstroPlast also manufactures technical injection-moulded parts of various kinds. One speciality is the manufacture of large components made from crystal-clear thermoplastics. On the basis of its outstanding expertise in process engineering, its state-of-the-art machine park with clamping forces of 50 to 2,300 tonnes and its tool manufacturing capabilities, AstroPlast supplies a wide range of customer sectors, with a focus on companies from the electrical engineering and household appliance industries, the construction industry, the medical technology sector, and the logistics and waste disposal sectors.

88

Employees
31.12.2018
(previous year 82)

1972
Founding year

1995
Acquisition by GESCO

Rouven Steffens
Managing Director

17.2

€ million sales
(previous year 14.4 € million)

100 %
Shareholding
GESCO

Haseke GmbH & Co. KG

Porta Westfalica

Haseke is a leading name in the development and manufacture of ergonomic, technically sophisticated suspension systems and enclosure technology. Its product range features suspension arms, including height-adjustable swivel arm systems, and control units and monitor brackets. The company's sophisticated, innovative modular system allows it to quickly implement individual customer requirements and use them to create new products. In its role as a systems supplier, Haseke offers its customers extensive services and advice, both before and after sales. Its products are used in medical technology, mechanical engineering, plant construction and automation technology. Simply put, Haseke products are required everywhere that people move around control units and displays – true to the Haseke concept: "Intelligent Movement".

79

Employees
31.12.2018
(previous year 75)

15.7

€ million sales
(previous year 15.1 € million)

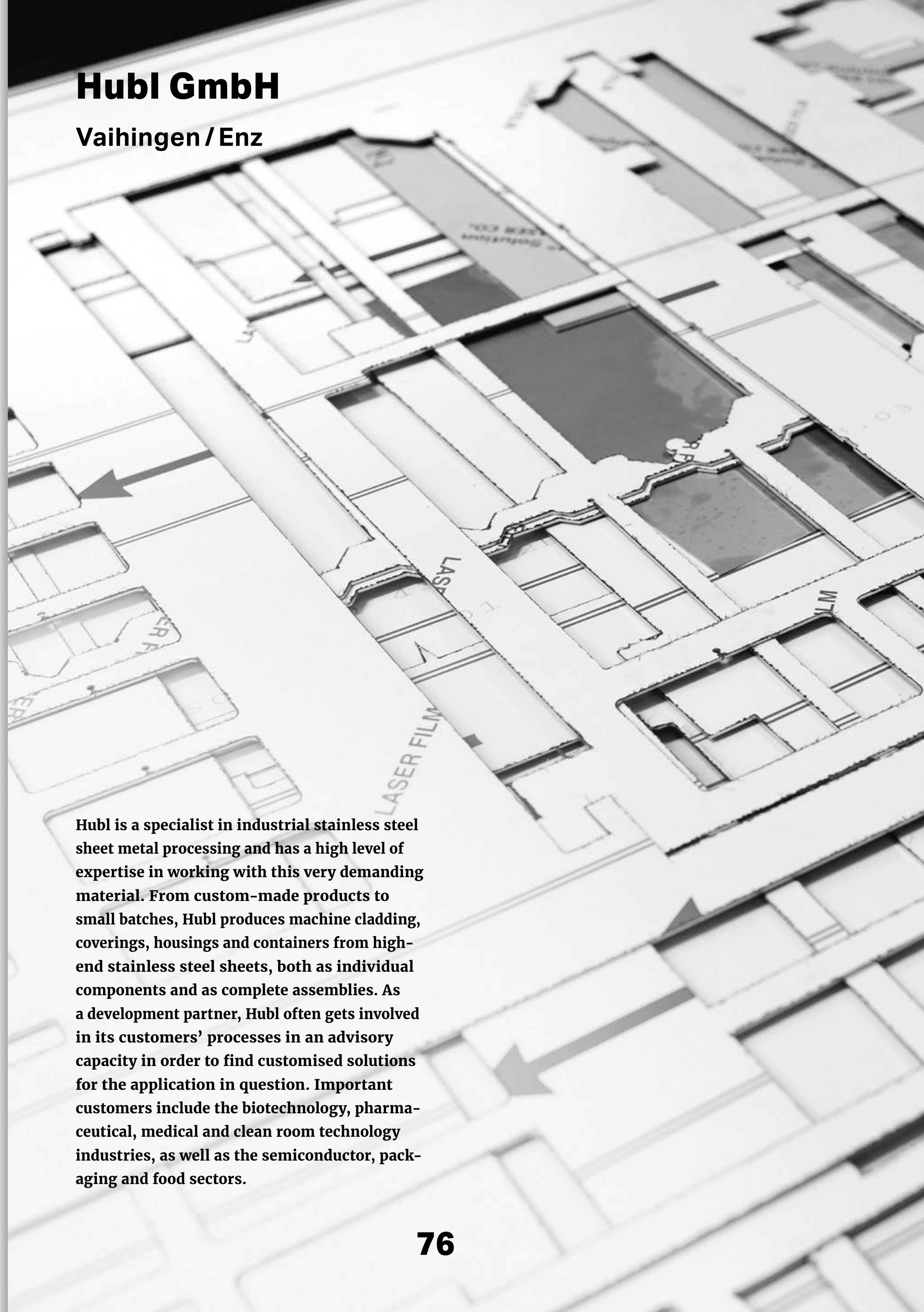
1983
Founding year

1990
Acquisition by GESCO

Uwe Kunitschke
Managing Partner

20 %
Shareholding
Management

80 %
Shareholding
GESCO



Hubl GmbH

Vaihingen / Enz

Hubl is a specialist in industrial stainless steel sheet metal processing and has a high level of expertise in working with this very demanding material. From custom-made products to small batches, Hubl produces machine cladding, coverings, housings and containers from high-end stainless steel sheets, both as individual components and as complete assemblies. As a development partner, Hubl often gets involved in its customers' processes in an advisory capacity in order to find customised solutions for the application in question. Important customers include the biotechnology, pharmaceutical, medical and clean room technology industries, as well as the semiconductor, packaging and food sectors.

110

Employees
31.12.2018
(previous year 105)

15.6

€ million sales
(previous year 14.1 € million)

1976
Founding year

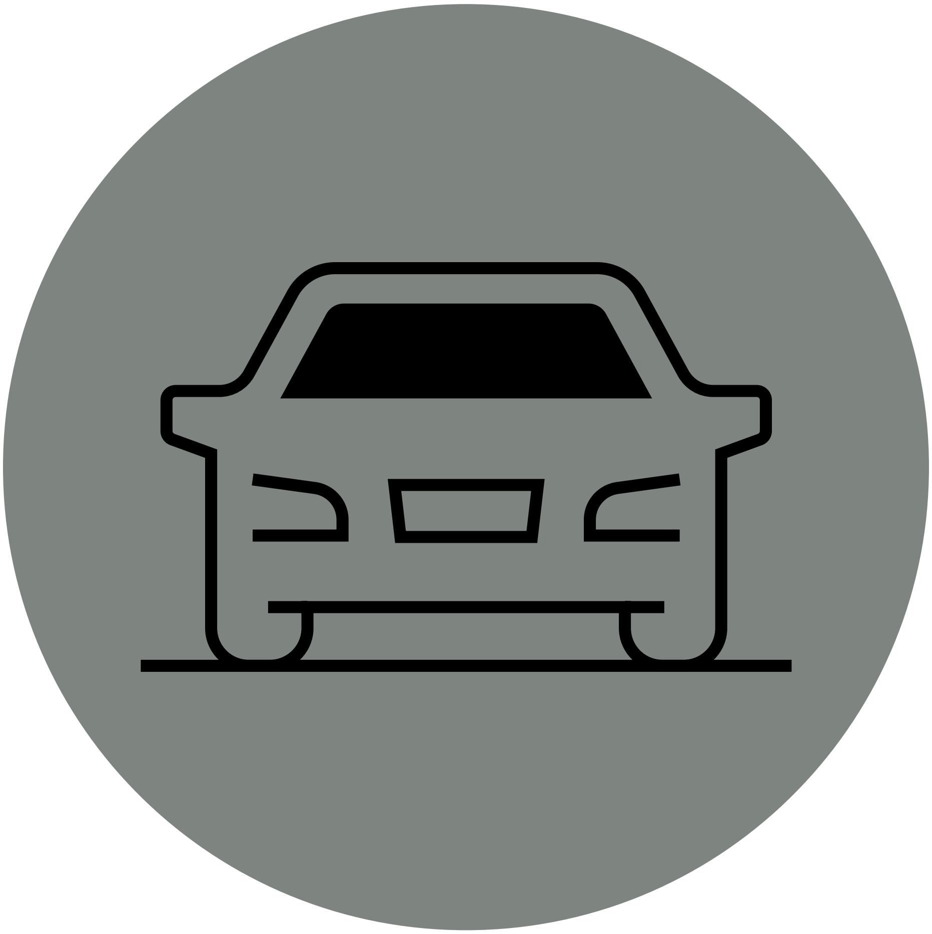
2002
Acquisition by GESCO

Rainer Kiefer
Managing Partner

20 %
Shareholding
Management

80 %
Shareholding
GESCO

Mobility Technology



The Mobility Technology segment is home to companies that supply the automotive, commercial vehicle and rail industries. The automotive market is currently being characterized through radical changes such as electromobility and the autonomous driving. Some companies operate in the fields of tool and mould making, while others manufacture construction parts and components.

4

Companies

10 %
share of
GESCO Group
sales

←

59.3

€ million sales
(previous year 71.4 € million)

455

Employees
31.12.2018
(previous year 482)

Werkzeugbau Laichingen Group

Laichingen and Leipzig

The Werkzeugbau Laichingen Group manufactures high-performance tools for the automotive and auto-motive supplier industries at its locations in Laichingen and Leipzig. The Group's specialisation in large, complex sheet-metal forming tools has made it a top player in the automotive industry. The company group has a sophisticated service concept that includes the continuous provision of services at its customers' production plants. This is what sets it apart from the competition. Moreover, Werkzeugbau Laichingen Group uses its own large presses to produce series start-ups and small batches for its customers. Its highly skilled employees also enable it to provide comprehensive services such as tool optimisation, performance testing and revisions of third-party tools.

178

Employees
31.12.2018
(previous year 173)

1891
Founding year

18.8

€ million sales
(previous year 21.2 € million)

2011
Acquisition by GESCO

Uwe Born
Managing Director

100 %
Shareholding
GESCO

Dömer GmbH & Co. KG
Stanz- und Umformtechnologie

Lennestadt

Dömer has long-standing expertise in metal stamping, bending and forming, as well as in the manufacturing of related tools. There is particular demand for its expertise in machining technology from companies that deal with advanced special components with complex structures and exacting material specifications. The company makes complex technical parts and patents process developments for areas such as the automotive, metal fittings and railway industries, as well as for use in building technology and in agricultural machinery. Dömer is also a leading expert in the production of absorber and cushioning elements, which are used around the world in wheel sets on high-speed trains and in regional railway transportation.

105

Employees
31.12.2018
(previous year 100)

1969
Founding year

2005
Acquisition by GESCO

18.5

€ million sales
(previous year 17.8 € million)

Dr-Ing Michael Dammer
Managing Director

100 %
Shareholding
GESCO

Modell Technik Formenbau GmbH

Sömmerda

Modell Technik develops and manufactures moulds for aluminium and magnesium die casting. The company specialises in tools weighing between approx. 1.8 and 48 tonnes for the manufacture of complex, large components that are mainly used in the automotive industry. Modell Technik has a full-service product range, ranging from development to tool repairs. At its efficient foundry, the company tests tools and optimises prototypes, while also manufacturing series start-ups and small batches for customers. The company can draw on its special expertise when it comes to components such as gear boxes, valve bodies, steering gear housing, cylinder valve covers, oil pans and structural components such as vehicle doors. By combining its machine park and full range of services, Modell Technik covers the entire process chain, setting benchmarks throughout Europe.

105

Employees
31.12.2018
(previous year 116)

13.6

€ million sales
(previous year 11.5 € million)

1993
Founding year

2012
Acquisition by GESCO

Matthias Huke
Managing Director

100 %
Shareholding
GESCO

Paul Beier GmbH & Co. KG

Kassel

Paul Beier manufactures single- and small-batch parts and components for mechanical engineering. The company has specialised in the high-precision machining of high-strength steels. It provides a wide range of applications, which comprise, for example, components and custom-made products for heat exchangers, worm gears and pump shafts. Paul Beier supplies customers from areas such as the mechanical engineering, chemical, food and railway engineering industries. The company also works for the aviation industry and is certified according to their highest safety levels.

1924
Founding year

1999
Acquisition by GESCO

Bernhard Keller
Managing Director

100 %
Shareholding
GESCO

67

Employees
31.12.2018
(previous year 93)

8.4

€ million sales
(previous year 10.4 € million)

02

To our shareholders

Foreword by the Executive Board

Ralph Rumberg, CEO

Kerstin Müller-Kirchhofs, CFO

Dear Shareholders,

The Supervisory Board has entrusted us with a proven business model with a 30-year history, and has brought us on board to start a new chapter in GESCO's history. Our goal is to actively advance the model and to strengthen the competitiveness and future viability of GESCO. The NEXT LEVEL strategy, which will allow us to make important decisions for the years ahead, is geared towards achieving these aims.

From an operating point of view, we can look back on a very successful financial year 2018 / 2019. Due to more challenging overall conditions, however, the record earnings we saw are unlikely to repeat themselves in financial year 2019 / 2020. When it comes to M&A, the acquisition of Sommer & Strassburger allowed us to make an attractive addition that strengthens GESCO Group and expands the range of customer sectors to include further attractive target markets.

Recap: record figures in a favourable environment

2018 / 2019 was a particularly good financial year. GESCO Group felt economic tailwind for the second year in a row, and the vast majority of the companies succeeded in translating that tailwind into profitable growth with the help of the right products and qualified, motivated employees. Incoming orders, sales and earnings rose in three out of four segments. Only in the Mobility Technology segment did incoming orders and sales decrease year on year. Thanks to the commitment of everyone involved, incoming orders and sales reached the record values of € 595.2 million and € 574.5 respectively. At € 26.6 million, Group net income after minority interest also set a record, thanks in part to above-average margins in the Resource Technology segment on account of the unusually strong demand in the first half of the year. The dividend is also set to rise in light of the increased earnings, with the proposed dividend up 50 % year on year to € 0.90.

Outlook: less strong margins

What will the new financial year be like? Economic sentiment has deteriorated since last autumn. The "trade war" is making headlines on almost a daily basis and is fuelling uncertainty. As a result, the VDMA halved its growth forecast for 2019 from 2 % to 1 % in March. Specifically, all activities in the automotive sector are characterised by nervousness and a reluctance to invest. While the diversification of our portfolio works to our advantage, margins are weaker than in the past financial year in many areas. All told, we expect to be able to once again increase our sales slightly in the new financial year. But because we will be lacking the aforementioned above-average margins in Resource Technology from the previous reporting year, and because the Mobility Technology segment in particular is feeling the impact of the restraint among automotive customers, earnings will be down year on year.

Expansion: acquisition of Sommer & Strassburger

We are particularly delighted about one new addition to the portfolio: We were able to convince Michael Hilpp to transfer his company, Sommer & Strassburger GmbH & Co. KG, to GESCO Group. With its own range of products, Sommer & Strassburger offers appealing stainless steel solutions for customers from attractive industries such as pharmaceuticals and food technology. Mr Hilpp was looking for a succession planning solution and a partner with industrial expertise to provide specific support for further growth. GESCO offered him both. With its 140 employees, the company generates sales of roughly € 20 million. A report on this most recent addition to the GESCO family can be found in this Annual Report.

Disappointment: GESCO on the stock market

Unfortunately, the GESCO share was a clear underperformer in financial year 2018/2019. Including the dividend, the share delivered a performance of -18.1%, whereas our benchmark, the SDAX, achieved - 8.3%. We see the disappointing performance of the share price as a source of motivation to deliver added value through strategic decisions and operating improvements that should have an effect on the share price moving forward. Since its IPO over 20 years ago, GESCO has proved that it is possible to be successful on the capital market with an SME-based business model that focuses on the long term. That is something we intend to build on.

Ambition: NEXT LEVEL strategy

The name of our new strategy is NEXT LEVEL. The slogan speaks for itself. Our goal is to take everyone to the next level: GESCO AG in its role as a holding company and every single subsidiary – in short, the whole Group. GESCO Group has a strong foundation on which we are building. At the same time, we believe that we all need to move forward and continue to evolve. After all, one of the hallmarks of successful companies is that they are constantly changing. We see change not as an end in itself or as mere action for action's sake, but rather as a state of constant awareness of the world around us and continuous improvement within our proverbial four walls that is an established feature of the company.

With NEXT LEVEL, we are pursuing two main goals. First, we want to achieve greater balance within the portfolio and establish two further anchor investments in addition to our largest shareholding, Dörrenberg Edelstahl. These new investments will be active in different markets than Dörrenberg, helping us to improve our portfolio's resilience to economic volatility. Second, we plan to anchor certain methods, tools and expertise at our SME-sector subsidiaries that are often commonplace at major industrial companies today. Our first step is to launch market,

“2018 / 2019 was a particularly good financial year. GESCO Group felt economic tailwind for the second year in a row.”

Kerstin Müller-Kirchhofs, CFO

“The name of our new strategy is NEXT LEVEL. The slogan speaks for itself. Our goal is to take everyone to the NEXT LEVEL: GESCO AG in its role as a holding company and every single subsidiary – in short, the whole Group.”

Ralph Rumberg, CEO

product and operative excellence programmes, which will allow us to make GESCO a group of true hidden champions. We understand hidden champions to be niche providers that are leaders in their markets, have the skills to anticipate their customers' needs thanks to their innovative strength and proximity to customers, have created high barriers to market entry and manufacture their products with outstanding efficiency. The goal of the new strategy is clear: added value at all levels, growth that outpaces the market, above-average efficiency and sustainably attractive margins. For more information on NEXT LEVEL, see the strategy interview and the report entitled "Strengthening our strengths" in this Annual Report.

Responsibility: supporting Wuppertal's Junior Uni

Our job is to strengthen GESCO Group's future viability. Education is crucial for a person's ability to shape his or her individual future. To make a contribution to equal opportunities and the promotion of education, GESCO AG has agreed to provide funding for Wuppertal's Junior Uni for an initial period of three years by helping to pay the salary of an academic coordinator.

Founded in 2008, Junior Uni Wuppertaler Kinder- und Jugend-Universität für das Bergische Land gGmbH helps to prepare young people between the ages of four and 20 for further education and their careers by providing a wide range of courses with a focus on STEM subjects. The educational and research institution is funded entirely through private donations and has developed into a shining example of excellence for Wuppertal and the entire region. Continue reading this Annual Report for a profile of this unique institution.

History: 30 years of GESCO

GESCO will be celebrating the 30th anniversary of its founding this year. Klaus Möllerfriedrich, GESCO co-founder and Chairman of the Supervisory Board to this day, talks about the founding idea, values and ambitions in an interview in this Annual Report.

Adaptation: changing the financial year

The German Financial Reporting Enforcement Panel (FREP) has conducted a random audit of the consolidated financial statements and the Group management report of GESCO AG for financial year 2017/2018. In late May, we received news that the FREP had found the consolidated financial statements to be deficient. In short, the reporting dates of GESCO AG deviate from the reporting dates of the subsidiaries by three months. The reporting dates of the Group therefore also deviate by three months. Furthermore, no interim financial statements are prepared. These circumstances have existed since GESCO AG's founding 30 years ago. They are presented transparently in the financial statements, are well-known facts by all parties and have not been objected to by the FREP in previous ad hoc and random audits. For more information on this subject, see the Report from the Supervisory Board in this Annual Report. The Executive and Supervisory Boards will propose to the Annual General Meeting on 29 August 2019 that the financial year of GESCO AG, and therefore the financial year of GESCO Group, be adjusted to match the calendar year so as to synchronise the reporting dates of GESCO AG with those of the subsidiaries.

Thanks: to our employees and owners

Upswings are typically more enjoyable than downswings, yet they too place high demands on employees. The Managing Directors and employees of GESCO Group have shown tremendous commitment in this environment. Their dedication has made the record values achieved in financial year 2018/2019 possible. For this, we thank them most sincerely.

Our warmest thanks also go out to you, the shareholders of GESCO AG, for your – in many cases – long-standing trust. We look forward to continuing down the ambitious path that lies ahead of us with you.

Yours faithfully,

Ralph Rumberg (CEO) Kerstin Müller-Kirchhofs (CFO)

Report from the Supervisory Board 2018 / 2019

Klaus Möllerfriedrich, Chairman

Stefan Heimöller, Deputy Chairman

Jens Große-Allermann

Dr Nanna Rapp

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

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

Cooperation between the Executive Board and the Supervisory Board

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

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

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

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

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

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

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

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

Organisation of the Supervisory Board

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

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

Meetings and resolutions of the Supervisory Board

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

- Discussion of the annual financial statements and consolidated financial statements of GESCO AG as at 31 March 2018; adoption of the annual financial statements and the consolidated financial statements as at 31 March 2018
- Annual budget for 2019 / 2020
- Agenda at the Annual General Meeting on 30 August 2018
- Strategic development of GESCO AG and the GESCO Group
- Matters relating to the Supervisory Board, Executive Board and personnel

- Declaration of compliance and corporate governance
- Internal controlling, risk management and compliance system
- Investments at subsidiaries
- Implementation of the CSR directive
- Acquisition of Sommer & Strassburger Edelstahlanlagenbau GmbH & Co. KG
- Antitrust proceedings against Dörrenberg Edelstahl GmbH
- Interviews for CEO positions at subsidiaries
- Interviews relating to changes in the Executive Board
- Rules of management / distribution of business for the Executive Board

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

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

Corporate Governance

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

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

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

Executive Board remuneration

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

Audit of the annual and consolidated financial statements

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

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

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

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

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

Changes to the Executive Board

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

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

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

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

Adjustment to the financial year

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

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

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

Thanks for all the effort

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

Wuppertal, 29 May 2019

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

30 years of GESCO

Three decades ago, GESCO started down its path as an investment holding company dedicated to the heart of the German economy: the industrial SME sector. Klaus Möllerfriedrich, Chairman of the Supervisory Board and co-founder, on the history and future of the company.

GESCO was founded in May 1989. Who were the founders, and what was the idea behind the company?

KM GESCO was founded by five private individuals who felt a sense of connection with the SME sector. I myself had gained experience in the business of making investments and acquiring shares, and had been involved in the due diligence process as part of M&A transactions in my role as a public auditor. We were seeing an increase in unresolved succession issues in our environment. Most business owners wanted their companies to remain in the hands of their families, of course, but it didn't always work out. So they sold their companies. That led us to develop a business model: why not resolve some of these succession problems – while also seizing the investment opportunities that result from them?

How did the name GESCO come to be?

KM We hired an agency to develop a brand name that was short, memorable and would work in various languages. The name was inspired by the fact that one of the founders came from Sweden. That's how we arrived at **GE**rman and **SC**andinavian **O**rganisation.

Was GESCO designed as a stock corporation from the start?

KM Yes. We financed the first company acquisitions with private money and thought that a stock corporation, or AG (Aktiengesellschaft), would be the ideal legal form for gradually expanding the circle of shareholders. From the start, we also aimed for an IPO so as to be able to even more dynamically scale the model. Shares also offer a way of enabling employee co-ownership through an employee share scheme – something we have practised since our IPO in 1998.

Has the business model changed over all these years?

KM The core is unchanged, although we have shifted our focus on several occasions over the years. That is something we are facing yet again, as yesterday's success is less of a guarantee for future success than ever before. Today's established business model could be obsolete tomorrow. This rule for analysing company acquisitions also holds just as true with regard to the existing portfolio. In this dynamic environment, we also need to grow and evolve, and that is what the Supervisory Board has aimed to achieve in reshuffling the Executive Board. We want to support our subsidiaries even more specifically in actively shaping their futures by focusing more intensely on their business models. There are many sides to GESCO's history. And now it is time to start a new chapter.

Are their values or mindsets that you associate personally with GESCO that you would like to see upheld moving forward?

KM We have a long-term horizon. We have never allowed ourselves to be driven by quarterly figures, instead basing all decisions on the long-term interest of the respective company, GESCO Group and the shareholders. Another component is our close relationship with the SME sector. I see that as a crucial strength that we should uphold. GESCO stands for values such as reliability, credibility and commitment in our dealings with each other and with the public. That is something we will stand by.

GESCO shares

GESCO has been building a bridge between SMEs and the capital market for over 20 years now. GESCO AG offers companies a home for the long term and enables investors to access a portfolio of entrepreneurial, technology-driven, industrial companies through the GESCO share.

Share price development in financial year 2018 / 2019

The stock markets were on a high for much of 2018, through until the late summer, before losing significant ground in the fourth quarter of the year. Recovery began in the first quarter of 2019. At the beginning of the financial year, the GESCO share was unable to match the performance of the SDAX, which we regard as our benchmark. However, after the annual accounts press conference at the end of June 2018, the GESCO share began to outperform the SDAX. The share was unable to escape the general downturn in the final quarter of 2018 and declined by a disproportionately high margin as the year came to a close. The GESCO share rose to match the SDAX as markets began to recover in the first quarter of 2019, before declining again in March 2019 and ending the financial year down 20.2 %. Considering the dividend paid in the financial year of € 0.60 per share, the overall performance stood at -18.1 %. The SDAX, which also includes dividend payments as a performance index, performed with - 8.3 % in the same period.

Shareholder structure

The GESCO share remains widely diversified, with share capital in the hands of some 8,000 investors. To our knowledge, Investmentaktiengesellschaft für langfristige Investoren TGV, Bonn, Germany, whose Executive Board member Jens Große-Allermann joined the Supervisory Board of GESCO AG in October 2017, and the entrepreneur Stefan Heimöller, who has been a member of the Supervisory Board since the 2013 Annual General Meeting, hold the largest shares of the share capital. Investmentaktiengesellschaft für langfristige Investoren TGV holds around 14.4 % of the shares; Mr Heimöller holds around 13.7 %. According to the regulations of Deutsche Börse AG, Stefan Heimöller's shareholding is to be deducted from free float, resulting in a remaining free float of approximately 86.3 %.

At the end of December 2018, LGT Capital Partners AG (Ireland) Ltd. notified us that it had reached the 3 % threshold. In April 2019, LBBW Asset Management Investmentgesellschaft mbH, Stuttgart, informed us that it had risen above the 3 % threshold and reported a share of voting rights of 3.1 %. Both notifications regarding voting rights concern institutional investors who have held a stake in GESCO for a considerable time and had reached and exceeded the reporting threshold respectively by increasing their respective shareholdings.

To our knowledge, private investors and institutional investors each account for around half of the remaining shares. The percentage of shares held by German investors remains unchanged at roughly 81 %. Other regional focal points are in Luxembourg and the United Kingdom.

In financial year 2018 / 2019, Mr Ralph Rumberg, Spokesman of the Executive Board (CEO) of GESCO AG, informed the company of the acquisition of GESCO shares. The company immediately initiated the corresponding statutory releases.

Active investor relations

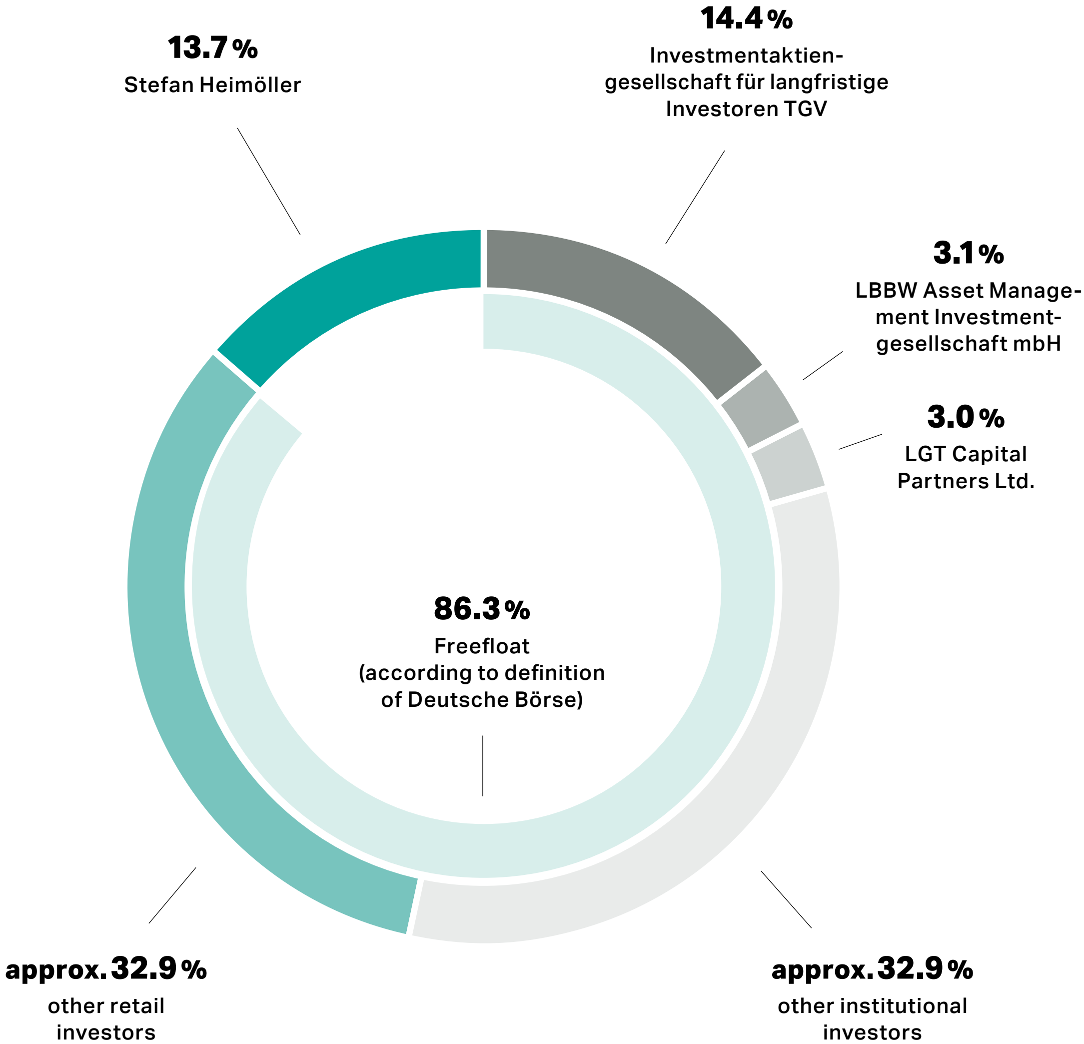
Since the IPO on 24 March 1998, GESCO AG has maintained an active, open approach to investor relations and seeks dialogue with its owners. It interacts with institutional investors at capital market events and conferences, roadshows, one-on-one meetings and conference calls. We not only engage in personal dialogue with private investors at the Annual General Meeting, but also at conventions and events hosted by organisations that represent the interests of private investors, as well as at various opportunities during the year by e-mails, letters and phone calls.

We have been a member of the **Deutsches Aktieninstitut e. V. (DAI)** since 1999 and support the development of share culture in Germany.

Since 2000, GESCO AG has been a member of the **Deutscher Investor Relations Verband e. V. (DIRK)** and stands by its principles of open and continuous communication.

Shareholder Structure

As at 30.04.2019



Research

Pareto Securities AS, Frankfurt Branch (formerly: equinet Bank AG), Oddo Seydler Bank AG, Bankhaus Lampe, GSC Research and SMC Research compiled regular research into the GESCO share in the reporting year. All analysts rated the share with "buy" as at the reporting date. Oddo Seydler prepared research in the reporting year but ended its coverage in March 2019.

Dividend policy

GESCO AG has for years pursued a sustainable, calculable dividend policy with a distribution ratio of roughly 40 % of Group net income after minority interests. We feel that this dividend policy strikes an appropriate balance between investors' desire for distributions and GESCO Group's need to retain sufficient liquid assets in order to secure future growth. Following the Annual General Meeting on 30 August 2018, a dividend for financial year 2017 / 2018 amounting to € 0.60 per share was paid out, corresponding to a total volume of around € 6.5 million.

In view of the significant rise in earnings, the Executive Board and the Supervisory Board will propose to the Annual General Meeting on 29 August 2019 a 50 % increase in the dividend to € 0.90 per share for financial year 2018 / 2019. At the time this decision was made, the dividend return, based on the proposed dividend, amounted to 3.9 %.

Employee share scheme

Since its IPO in 1998, GESCO AG has offered domestic GESCO Group employees the chance to buy shares in the company at favourable terms within the scope of an annual employee share scheme. The percentage of employees who act on this opportunity to make a personal investment increased from approximately 45 % in the prior year to roughly 48 % in the reporting year.

In return for a moderate annual financial commitment, the programme offers employees the chance to build a considerable investment over time, which combines share price development and dividend payments, thereby making a contribution to their own pension plans. In addition, employees own a stake in the company, helping to foster a shareholder culture. Last but not least, this programme allows us to support the development of share culture in Germany.

Stock exchanges

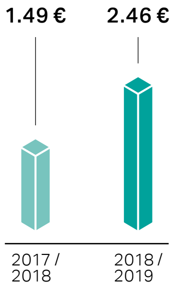
XETRA
Frankfurt (regulated market)
Berlin (open market)
Düsseldorf (open market)
Hamburg-Hanover (open market)
Munich (open market)
Stuttgart (open market)

Information on the GESCO share[1)]

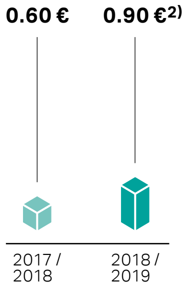
International Securities Identification Number (ISIN)	DE000A1K0201
Securities Identification Number (SIN)	A1K020
Stock market abbreviation	GSC1
Share capital (31.03.2019)	€ 10,839,499
Number of shares (31.03.2019)	10,839,499
IPO	24 March 1998
Year-end price, previous year (31.03.2018)	€ 28.50
Year-end price, reporting year (31.03.2019)	€ 22.75
Reporting year high (27.08.2018)	€ 33.20
Reporting year low (18.12.2018)	€ 20.95
Market capitalisation (31.03.2019)	approx. € 246.6 million
Free float (31.03.2019)	approx. 86.3 %
Market capitalisation of free float (31.03.2019)	approx. € 212.8 million
Transparency standard	Prime Standard
Indices	CDAX overall index Prime All Share Prime Industrial Classic All Share Prime Industrial Diversified

Key figures per GESCO share for 2018 / 2019[1)]

Earnings per share
pursuant to IFRS



Dividend per share

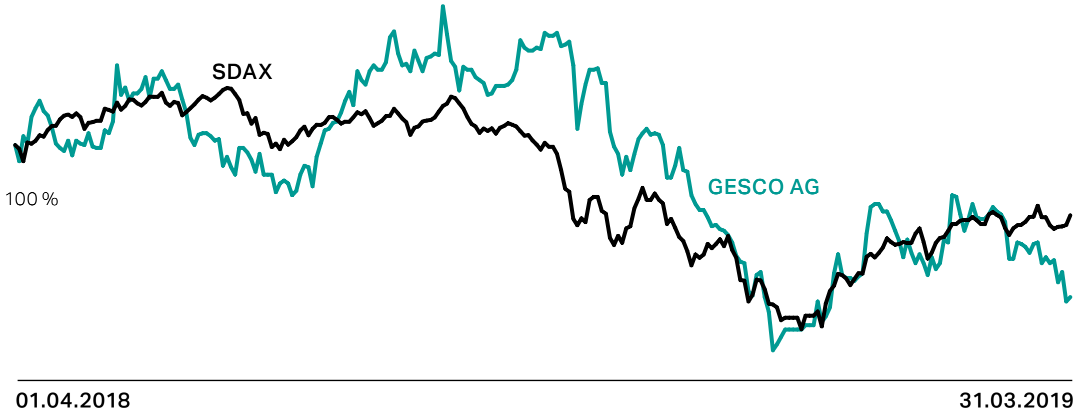


(based on the weighted average number of shares)

[1)] All share prices reflect the XETRA closing price.
[2)] Dividend proposal to the AGM on 29 August 2019.

GESCO AG (incl. dividends) vs. SDAX

Financial Year 2018 / 2019



Declaration of Compliance and Corporate Governance Report Financial year 2018 / 2019

In this report, the Executive Board – on its own behalf and that of the Supervisory Board – provides information on its corporate governance (Corporate Governance Report) in accordance with Section 3.10 of the German Corporate Governance Code (hereafter also referred to as "GCGC" or "Code") and Sections 289f and 315d of the German Commercial Code (HGB).

The Executive Board and Supervisory Board of GESCO AG govern the company with a view to sustainability. The business model is of a long-term nature and all measures are aimed at sustainable positive development. The Executive Board and Supervisory Board of GESCO AG agree with the aims of the Code: to promote good, trustworthy company management for the benefit of shareholders, employees and customers. Section 161 of the German Stock Corporation Act (AktG) requires an annual declaration of compliance with the recommendations of the Code. The preamble to the Code expressly provides for deviations from its recommendations, thereby allowing companies to take into account industry or company-specific factors and enhancing flexibility and self-regulation with regard to the corporate legal structure of German companies. This means that deviations are not negative per se, but can actually contribute to good management, at smaller companies in particular. The Executive Board and Supervisory Board submitted a declaration of compliance on schedule and as required by law in December 2018 and made it permanently available to shareholders on the company's website (www.gesco.de). That declaration is based on the version of the Code dated 7 February 2017. In May 2018, November 2018 and February 2019, the company published updates to the respective applicable declarations of compliance relating to temporary discrepancies from Section 4.2.1, sentence 1 GCGC. The reason in each case was that the Executive Board of GESCO AG temporarily consisted of a single individual as a result of personnel changes.
The declaration of compliance issued in December 2018 and the update from February 2019

are included in this corporate governance report. Previous declarations of compliance are also available to our shareholders and other interested parties on our website.

Shareholders and Annual General Meeting

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

Executive Board and Supervisory Board

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

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

Executive Board

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

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

In the reporting year, the Executive Board consisted of Dr Eric Bernhard (Chairman of the Executive Board; until 15 June 2018), Mr Ralph Rumberg (Spokesman of the Executive Board; from 1 July 2018) and Mr Robert Spartmann (until 30 November 2018). Effective as at 1 May 2019, the Supervisory Board appointed Ms Kerstin Müller-Kirchhofs as a member of the Executive Board.

Relevant details regarding management practices

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

Supervisory Board

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

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

In the interests of the company, nominees for election to the Supervisory Board are primarily chosen on the basis of the required knowledge, abilities and professional experience of the candidates. When making suggestions, the Supervisory Board takes into suitable account the specific situation of the company, its international activities, potential conflicts of interest, the number of independent Supervisory Board members pursuant to Section 5.4.2 GCGC, the age limit and diversity. It will also aim to ensure that the committee as a whole fulfils the required level of competence. That includes the long-term aim of a suitable proportion of female members.

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

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

The Supervisory Board members in the reporting year were Mr Klaus Möllerfriedrich (Chairman), Mr Stefan Heimöller (Deputy Chairman), Dr Nanna Rapp and Mr Jens Große-Allermann. The Supervisory Board believes it is appropriate for at least two members of the company's Supervisory Board to be independent within the meaning of the Code. All members of the Supervisory Board currently meet the independence criteria. All members of the Supervisory Board also have the appropriate expertise to act as financial experts in accordance with Section 100 para. 5 AktG. In their entirety, the members of the Supervisory Board are familiar with the sector in which GESCO AG operates.

Composition of the Supervisory Board and diversity of the Supervisory Board, Executive Board and executives

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

The "Act on the Equal Participation of Women and Men in leadership positions in the Private Sector and Public Bodies," which came into effect on 1 May 2015, calls for the creation of targets with regard to the inclusion of women in Supervisory Boards, Executive Boards and the top two levels of management, and the setting of deadlines by which those targets must be met. The Executive Board and Supervisory Board defined corresponding targets on 13 August 2015 and since then have published an annual Corporate Governance Report on the status of target achievement as well as on target adjustments.

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

In 2017, the Supervisory Board of GESCO AG set a target of a 25 % share of women on the **Supervisory Board**. This target is currently met.

In 2015, the Supervisory Board of GESCO AG set a target of a 30 % share of women on the **Executive Board**. In the reporting year, the Executive Board consisted solely of men. The target was met following the appointment of Ms Müller-Kirchhofs as a member of the Executive Board on 1 May 2019.

The Executive Board is tasked with setting targets for the percentage of women on the **first two levels of management below the Executive Board**. The holding company, GESCO AG, has no distinct hierarchy within its organisational structure as envisaged by lawmakers. All employees report directly to the Executive Board. There is currently no first or second level of management. The Executive Board therefore decided not to define a target.

We maintain 30 June 2022 as the deadline for the next review of target achievement.

Comprehensive and transparent communication

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

Shareholdings and members of executive bodies

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

Remuneration report

The remuneration report is part of the Group management report.

Accounting and audit of financial statements

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

The following auditing firms were responsible for auditing the individual financial statements of the subsidiaries: Breidenbach und Partner PartG mbB, Wirtschaftsprüfungsgesellschaft – Steuerberatungsgesellschaft, Wuppertal; Baker Tilly GmbH & Co. KG Wirtschaftsprüfungsgesellschaft, Düsseldorf; and Ebner Stolz GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Düsseldorf. Audits of the foreign sub-subsidiaries are largely conducted by international cooperation partners of our German auditors.

The Chairman of the Supervisory Board obtained the auditor's statement of independence in accordance with Section 7.2.1 of the GCGC. In line with the resolution passed by the Annual General meeting on 30 August 2018, the Chairman of the Supervisory Board appointed the auditor for the individual and consolidated financial statements. The interim report and first- and third-quarter statement were not audited in the reporting year.

GESCO AG, Wuppertal

Securities Identification Number A1K020
ISIN DE000A1K0201

Declaration of compliance in accordance with Section 161 of the German Stock Corporation Act (AktG)

The Executive Board and Supervisory Board of GESCO AG declare, in accordance with Section 161 AktG, that the recommendations of the Government Commission of the 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 have been followed pursuant to the version of the Code dated 7 February 2017 since the last declaration of compliance was issued in December 2017, with the following exceptions:

Section 5.3: Forming Supervisory Board committees

The Supervisory Board of GESCO AG comprises four members. Due to the small size of the board, overarching strategic issues and detailed questions can be discussed in depth and without any loss of efficiency and decided upon by the entire Supervisory Board. We therefore believe that it is not appropriate to create Supervisory Board committees. Rather, the company 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, paragraph 2, sentence 2: Regular limit on the length of membership for members of the Supervisory Board

The Supervisory Board of GESCO AG is convinced that long periods of service on the Supervisory Board correspond with the business model of GESCO AG, which is long-term in nature and aimed at sustainability. Based on this fact, we believe that the introduction of limits on the length of membership for members of the Supervisory Board is neither appropriate nor useful.

Section 5.4.6, paragraph 2, sentence 2: Performance-related remuneration of the Supervisory Board

In addition to a fixed element and attendance fees, the remuneration of the members of the Supervisory Board of GESCO AG includes a performance-related element, which is measured on the basis of consolidated net income after minority interest. Where applicable, Group losses are carried forward into the following year and offset against profits. We believe that this arrangement represents a sustainable and entrepreneurial attitude, and should meet the requirement for an orientation towards a sustainable company development set out in the Code. However, as it cannot be excluded that alternate points of view may be held, we hereby take the precaution of noting this departure from the recommendations of the Code.

Section 4.2.1, sentence 1 German Corporate Governance Code (GCGC): Executive Board consisting of several members, as well as a Chair or Spokesperson

As a result of personnel changes, the Executive Board of GESCO AG comprised only one person for the period from 16 June 2018 to 30 June 2018 and therefore did not have a chair or spokesperson.

As a result of the departure of the company's Chief Financial Officer with effect from 30 November 2018, the Executive Board of GESCO AG has comprised only one person since 1 December 2018 and will continue to do so until the appointment of a successor.

The Executive Board and Supervisory Board of GESCO AG also declare, in accordance with Section 161 AktG, that the recommendations of the Government Commission of the German Corporate Governance Code in the version of the Code dated 7 February 2017, published by the Federal Ministry of Justice and Consumer Protection in the official section of the Bundesanzeiger (Federal Gazette) on 24 April 2017, have been followed and will continue to be followed with the exceptions of Section 5.3, Section 5.4.1 paragraph 2 sentence 2, Section 5.4.6 paragraph 2 sentence 2 and Section 4.2.1 sentence 1 (alternatively: 1) GCGC, as justified above. The deviation from the recommendation in Section 4.2.1 sentence 1 (alternatively: 1) GCGC is temporary in nature.

Wuppertal, December 2018
GESCO AG

For the Supervisory Board
Klaus Möllerfriedrich
(Chairman of the Supervisory Board)

For the Executive Board
Ralph Rumberg
(Spokesman of the Executive Board)

GESCO AG, Wuppertal

Securities Identification Number A1K020
ISIN DE000A1K0201

Update to the declaration of compliance issued in December 2018

As a result of the previously communicated appointment of Ms Kerstin Müller-Kirchhofs as the company's Chief Financial Officer, effective 1 May 2019, the Executive Board of GESCO AG will again consist of two people as of that date. From 1 May 2019 the company will therefore comply with the recommendations of Section 4.2.1, sentence 1 GCGC.

The declaration of compliance issued in December 2018 continues to apply in all other respects.

Wuppertal, February 2019
GESCO AG

For the Supervisory Board
Klaus Möllerfriedrich
(Chairman of the Supervisory Board)

For the Executive Board
Ralph Rumberg
(Spokesman of the Executive Board)

03

Sustainability

Non-Financial Statement / CSR Report

Summarised non-financial report 2018 / 2019 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 be 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. After a number of preliminary meetings, two externally moderated workshops were held in the previous financial year for the members of the Executive Board at the time, investment managers and representatives of M&A and Investor Relations. 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 following issues are focused on in the report:

Environmental matters
- Reducing energy consumption
- Saving resources

Employee matters
- Occupational health and safety
- Corporate culture

Social matters
- 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

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 generate an average sales volume of roughly € 20 million with an average workforce of 120 employees. Each subsidiary is allocated to one of four segments: Production Process Technology, Resource Technology, Healthcare and Infrastructure Technology and Mobility 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 2018 / 2019. 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 themselves.

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.

In the reporting year, we began intensifying the exchange of information and knowledge between the subsidiaries and systematically expanding GESCO AG's function as a platform for method-related expertise. 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.

GESCO Group is an association of small and medium-sized enterprises operating independently from one another under the umbrella of GESCO AG.

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 of

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

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 CO_2. 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.

Since its IPO, GESCO AG has offered the opportunity to participate in an annual employee share scheme.

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. In addition, environmental issues affecting production as well as the products and services themselves are to be covered in a more in-depth manner in the annual strategic consultations. We see potential for development in this area and consider it to be a means of leveraging our key environmental issues.

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 suitable 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 value 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.

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.

The holding company GESCO AG has increased its level of transparency, particularly in the area of occupational safety, and collects information concerning the number of reportable accidents from the subsidiaries.

We believe the issue of **corporate culture** to be material to securing the company's 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.

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. One survey was completed in financial year 2018/2019, with further projects currently being planned.

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. In financial year 2018/2019, the participation rate stood at approximately 48%, compared to 45% in the previous year.

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 given out 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 may 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 strict 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, no other dedicated concept has been put in place in relation to the issues of social matters and human rights given what we consider to be a limited influence of GESCO Group companies.

It must continue to be checked 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.

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

In May 2019, GESCO AG launched a support programme for the Junior Uni Wuppertal, a unique educational and research institution in Germany, which offers young people courses in science and research.

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

The founding principle and business model of GESCO 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 GESCO 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 existing owner-manager retires and a successor is sought, GESCO AG installs a new management team which is offered the possibility 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 existing 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. If certain business areas are discontinued, GESCO AG checks whether the employees affected by a closure can be offered jobs elsewhere within GESCO Group.

These processes are long established and are continuously being developed; no fundamental changes are planned. Sommer & Strassburger Edelstahlanlagen GmbH & Co. KG, which was acquired in August 2018, was integrated into the reporting structure and processes of GESCO Group in the reporting period. As at the reporting date, 6 of GESCO AG's 18 direct subsidiaries have been part of GESCO Group for more than 20 years, and a further 7 for between 10 and 19 years.

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 2018/2019. In this period, GESCO Group generated sales of € 574.5 million. Wages and salaries, social security contributions and expenses for pensions amounted to € 150.3 million. A total of € 6.5 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 € 14.0 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 by 20.2% in the reporting year, with the total return including the dividend paid in the reporting year amounting to -18.1%.

Fighting corruption and anti-competitive conduct

Damages from corruption, violations of antitrust 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 (Rulebook) for GESCO Group employees, accompanying training courses, random case-by-case assessments and a whistle-blower 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 existing business processes. All told, the lion's share of employees have been made familiar with the Code of Conduct.

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

Subsidiaries are responsible for monitoring and for 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. In one instance, antitrust proceedings were completed in financial year 2018 / 2019, as reported in detail in the previous year.

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.

RESEARCHING TALENT

Text: André Boße
Photography: Junior Uni Wuppertal

The Wuppertal Junior Uni offers children and young people a space to research, learn and discuss ideas. The privately financed institution is supported by donors from the region's business community – including GESCO.

Musicians are attracted to Mozart, young Lego engineers steer towards Copernicus, and those who want to learn more about the great challenges of humanity find themselves at Bertha and Carl Benz. The rooms at the Wuppertal Junior Uni don't have any numbers. Instead, they are dedicated to women and men who achieved great things in their lives. The young students enjoy not having to orientate themselves by abstract numbers when looking for their rooms, but rather letting the portraits of geniuses guide them. This morning, a kindergarten group is visiting to learn how a cello and a violin make sound, and it is clear how much fun the children are having searching for Mozart's face in the building. "Funny hairstyle," giggles six-year-old Luisa when she discovers the composer's portrait. "That's what fancy gentlemen used to look like back then," the teacher explains.

Research, question, discuss

There is nothing else in Germany like the Junior Uni. The building situated directly by the Wupper River and the suspension monorail can be seen from afar. Round and colourful, the architectural design mirrors the diversity of the teaching offered inside. Whether it is physics or chemistry, biology or medicine, art or music: at Junior Uni, children and young people between the ages of four and 20 are allowed to research, ask questions and discuss ideas – all guided by lecturers who are passionate about their subjects and well-versed in sparking enthusiasm in their young students. "We deliberately describe the young people who take our courses as students," says Dr Ariane Staab, managing director of Junior Uni. "That's because we take them seriously and therefore attach great importance to the quality of our teaching."

The Junior Uni was founded more than elven years ago by the journalist Professor Dr h c Ernst-Andreas Ziegler. It all started in some provisional rooms in a disused factory. As the concept was an instant success and demand was huge, the idea of finding a home base of its own for the project quickly became a topic of interest. Five years ago, Junior Uni moved into their € 5 million campus in the Unterbarmen district of Wuppertal. Anyone entering the building immediately notices that the Junior Uni may be made for children, but it's not just about having fun for fun's sake. The whole idea behind the institution is to introduce young people to scholarship and learning – and to do so with a passion for research, without any grade-related pressure, and at an excellent level. Around 8,000 girls and boys visit the Junior Uni every year, with many courses boasting long waiting lists. "There is undoubtedly a great need for out-of-school education," says Ariane Staab. That message also reached Chancellor Angela Merkel, who visited the Junior Uni in May and was visibly impressed.

One hundred percent private financing

The institution is organised as a non-profit limited liability company and is financed entirely by private donations. "We are supported by citizens, foundations and companies from the region who are all committed to the common good of our community," says the managing director. "There wouldn't be a Junior Uni without these donors." The institution's motto of "No talent left behind" highlights an approach that also benefits companies in the region, as they will be needing skilled workers more than ever in the future. "However, we definitely do not see ourselves as some kind of elite training academy," Ariane Staab explains. There are high-level courses on offer that prepare young researchers for international competitions. "Still, we attach great importance to the fact that our offer remains open to everyone and also appeals to families who would normally not have access to these kinds of educational offers." Around half of the young people come from low-income families, and course fees are very low.

It is now afternoon, and the screen displays which courses are about to start. A group of children is heading out to the football pitch to find out how knowledge of physics can help in a game of footy. The well-equipped workshop hosts girls and boys who have met up with a student from the University of Wuppertal to construct self-programmed LED cubes. In the room next door, a head physician from the Wuppertal Hospital explains how ultrasound technology works and why it is important for modern medicine. During a short break the young students meet in the quiet room. "It really is great that schoolchildren and students have access to a long-term opportunity for acquiring knowledge, educating themselves and allowing them to become more self-confident," says Patricia, 16 years old. Sitting next to her on one of the beanbags is 12-year-old Felix, discussing what he just learned about honeybees with a fellow student. Yeah, this place makes you smarter, he says. "But the courses at the Junior Uni are also cool because I've been able to make new friends here."

"There is undoubtedly a great need for out-of-school education."

Dr Ariane Staab, managing director and academic coordinator at the Junior Uni Wuppertal.

The Executive Committee of Junior Uni Wuppertal (from left to right): Prof Dr h c Ernst-Andreas Ziegler (Chairman of the Executive Committee), Dr Ariane Staab (Managing Director) and Dr Annika Spathmann (Authorised Signatory).

04

Group Management Report

01 – Fundamentals of the Group

Business model

Since it was founded in 1989, GESCO AG has been acquiring stakes in financially sound companies in the German industrial SME sector for the purpose of maintaining and developing them over the long term. In most cases, these investments are conducted as part of succession arrangements in which GESCO AG acquires a majority interest, usually 100 %. To support the long-term, entrepreneurial nature of the business model, we offer new management personnel the chance to acquire a stake in the company they are managing. The shareholding ratio amounts to between 5 % and 20 %, depending on the size of the company. The subsidiaries are independent operating entities. They are taken into account in reporting and in the risk management system of GESCO Group.

As at the reporting date, GESCO Group comprised GESCO AG, its 18 direct material operating subsidiaries and their domestic and international subsidiaries.

GESCO AG has been a listed company since 24 March 1998, and GESCO shares are traded on the Prime Standard of the Frankfurt Stock Exchange.

NEXT LEVEL strategy

The Executive Board and the Supervisory Board of GESCO AG developed and adopted the NEXT LEVEL strategy in autumn 2018. Based on a shared vision of GESCO as a group of hidden champions, the strategy defines key measures and objectives for GESCO Group's strategic and operational development in the years ahead. The core elements include balancing out the portfolio and the further development of the operating subsidiaries.

To make the portfolio more balanced and resilient, plans are in place to provide the Dörrenberg Group with two further key anchor investments that have target markets with the lowest possible correlation to those served by Dörrenberg. These new anchor investments may be either acquired or developed on the basis of an existing subsidiary through strategic acquisitions. The portfolio is to be rounded off with multiple basic investments with relevant sales and earnings contributions that expand the spectrum of target markets. Our focus within the scope of the NEXT LEVEL strategy is on prospective acquisitions with sales of between € 20 million and € 100 million. Strategically motivated supplementary acquisitions of subsidiaries may also be subject to lower sales criteria.

GESCO AG plans to establish excellence programmes, which are common in the large-scale manufacturing industry, to take the Group's SMEs to the next level. The move will be associated with a new focus and a shift in GESCO AG's role as an owner. At Group level, we plan to take targeted steps to build methodology-related expertise and know-how so as to provide the subsidiaries with specific support for the upcoming activities. The measures planned at the subsidiaries over the course of the years ahead include MAPEX programmes for the analysis and development of target markets and the product portfolio with the aim of increasing business volume and gaining market share. OPEX programmes will serve to optimise processes in all corporate functions, thereby increasing efficiency. LEADEX programmes will ultimately strengthen leadership behaviour and corporate culture. The kick-off workshops have already begun, with the programmes slated to become firmly anchored at the company in the long term.

The goal of the strategy is to provide GESCO Group with a viable position for the future and create added value at all levels, thereby generating above-average sales growth, margins and cash flow.

Significant changes to the scope of consolidation

In August 2018, GESCO AG acquired 100 % of the shares in **Sommer & Strassburger Edelstahlanlagenbau GmbH & Co. KG**, Bretten, Germany, as part of a succession planning process. The company develops and manufactures its own range of processing equipment for the pharmaceutical, food, water technology and chemical industries. With its staff of around 140 employees, Sommer & Strassburger generates sales of roughly € 20 million and is part of the Production Process Technology segment. The company is included in the latest Group balance sheet and has been included in the consolidated income statement since 1 September 2018.

At the start of the financial year, **Frank Lemeks TOW**, Ternopil, Ukraine, a wholly owned subsidiary of Frank Walz- und Schmiedetechnik GmbH, was added to the financial statements as a fully consolidated company due to its growing economic importance.

In recent months, some GESCO Group companies have continued advancing their internationalisation. **Frank Walz- und Schmiedetechnik GmbH**, for example, expanded its presence in Russia. For several years now, the company has been very successful in marketing its agricultural wear parts in Ukraine through a subsidiary. Its Russian subsidiary, which was founded in 2017, commenced its operating business in 2018 and is now marketing its products ex warehouse to customers in Russia. The **Setter Group** continues expanding its market-leading position in the field of paper sticks for hygiene articles and confectionery. Having succeeded in significantly expanding its market share in the US through licensees and its own subsidiary over a period of several years, the Setter Group founded a company in Mexico in 2018 with the aim of tapping into the local region. **Dörrenberg Edelstahl GmbH** has been very active in Asia for many years now, and operates subsidiaries in Singapore, Korea, China, and Taiwan. In 2018, Dörrenberg founded a subsidiary in the US in order to expand the sale and distribution of its high-alloyed tool steel there as well. So far, Dörrenberg has relied on sales partners in the US. More information on the newly founded companies can be found in the notes to the consolidated financial statements.

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

The previous year's figures contained values attributable to **Protomaster GmbH**, Wilkau-Haßlau, Germany. GESCO AG sold its majority stake in the company to Protomaster's managing director and a co-investor with effect from 8 December 2017.

Management system

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

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

Research and development

Most of our subsidiaries are SMEs whose research and development activities are largely market- and customer-driven. Technical innovations as well as new products and applications are usually developed in the course of projects related to customer orders. Depending on the task at hand, companies also partner with universities and institutions and take part in publicly subsidised research projects.

02 – Economic report

Macroeconomic and industrial sector conditions

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

The **Verband Deutscher Maschinen- und Anlagenbau e. V. (VDMA – German machinery and plant manufacturers association)** had initially forecast a 5 % increase in production for 2018 but reduced its outlook to 2 % in December 2018, in line with the preliminary calculations of the Federal Statistical Office (Destatis) for 2018. The VDMA explains the shortfall with a wide range of production restrictions. According to the VDMA, one-tenth of companies complained last October about machine parks being too small. A shortage of labour had an even more significant impact, with 27 % of mechanical engineering companies saying they could have produced more if they had had more workers. A shortage of materials also stifled production, with 28 % of companies unable to get the material needed for production quickly enough. Whereas growth in 2017 was attributable almost exclusively to exports, domestic demand took over as the driving force in 2018. Growth in the mechanical and plant engineering sector was therefore driven by two factors in 2018: the 6 % increase in domestic orders and the 4 % increase in foreign demand. The strongest growth momentum came from the US, China and the EU's partner countries.

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

Business performance

The financial year of GESCO AG and GESCO Group runs from 1 April to 31 March of the following year, while the financial years of the subsidiaries coincide with the calendar year.

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

GESCO Group companies regard procurement as a strategic matter and, depending on the task at hand and supply needs, pursue international procurement strategies. Subsidiaries usually maintain long-term, constructive partnerships with their suppliers. They strive to avoid becoming reliant on individual suppliers and conclude framework agreements with suppliers to obtain planning security. On average, prices for raw materials and steel rose in the reporting period. There were no serious supply bottlenecks in the reporting year; however, there were some significant delays in supplies of components and primary materials due to the general improvement in economic development.

Situation of the Group

Earnings position

GESCO Group succeeded in generating brisk business activity and grew faster than the market in a market environment that remained favourable. As a result, incoming orders increased by 7.8 % from € 552.4 million to a record € 595.2 million. Group sales exceeded the previous-year figure of € 547.2 million by 5.0 % and reached € 574.5 million, which was also a new best. In organic terms – in other words, excluding the reporting year's figures attributable to Sommer & Strassburger and the previous year's figures relating to Protomaster – incoming orders would have increased by 9.0 %, and sales would have risen by 5.9 %.

The financial year ended with an order backlog of € 217.9 million, which was 13.7 % higher than the previous year's figure of € 191.6 million.

The ratio of material expenditure to total output increased in the reporting period, whereas the personnel expenditure ratio declined on the back of higher capacity utilisation. Other operating income remained virtually unchanged year on year. In the previous year, other operating expenditure contained a one-off effect in the amount of € 8.5 million for a fine in connection with antitrust proceedings that have since been completed. Earnings before interest, taxes, depreciation and amortisation (EBITDA) rose by 28.0 % in total to € 73.5 million (previous year: € 57.4 million).

At € 25.9 million, depreciation and amortisation were up 9.5 % on the previous year's figure of € 23.6 million. The reporting period included impairment losses in the amount of € 2.0 million on the goodwill of the Werkzeugbau Laichingen Group (WBL) companies. WBL designs and produces high-performance tools for vehicle body parts and is suffering from the automotive industry's continued reluctance to invest and from increasing international competitive pressure.

Earnings before interest and taxes (EBIT) rose more sharply than EBITDA, by 41.0 % from € 33.8 million to € 47.6 million. As a result, the EBIT margin stood at 8.3 % following 6.2 % the previous year.

The financial result stood at € -2.2 million. The previous year's figure of € -1.9 million included interest income of € 0.3 million on account of tax prepayments. At 34.0 %, the tax rate was roughly where it usually stands after coming in at 43.0 % in the previous year due to the non-tax-deductible financial penalty. Minority interest in incorporated companies increased from € 2.1 million to € 3.4 million in light of brisk business activity and rising earnings. All told, Group net income after minority interest amounted to € 26.6 million, which corresponds to an increase of 65.2 % compared to the previous year's value of € 16.1 million. Earnings per share pursuant to IFRS stood at € 2.46 (previous year: € 1.49).

Along with incoming orders and sales, Group net income after minority interest also reached a record level in the reporting year. Good capacity utilisation was one reason for the development, plus it is easier to demand higher prices in economically healthy times. As in the previous year, strong demand in the Resource Technology segments led to above-average margins, especially in the first six months.

At the annual accounts press conference on 28 June 2018, we forecast Group sales for financial year 2018 / 2019 of between € 550 million and € 560 million and Group net income after minority interest of between € 26 million and € 27 million. Taking into consideration the acquisition of Sommer & Strassburger, we most recently forecast Group sales of around € 570 million upon release of the quarterly statement for the first nine months, a target that was ultimately exceeded by a slight margin. For Group net income after minority interest, we had expected a figure of € 26 million or slightly less on an organic basis, less a negative effect of around € 0.5 million related to the acquisition of Sommer & Strassburger. The result exceeded this most recent forecast due to a series of individual effects.

Sales and earnings by segment

In the **Production Process Technology** segment, incoming orders grew by 26.6 % from € 72.1 million to € 91.3 million. The mechanical and plant engineering companies benefited from the automation trend. With growth of 10.7 % to € 86.0 million (€ 77.6 million), sales did not measure up to the rise in incoming orders. As a result, the segment started the new financial year with a positive order backlog. Accompanied by brisk demand and healthy capacity utilisation, segment EBIT saw disproportionately high growth of 53.7 % and stood at € 8.2 million (€ 5.4 million). Sommer & Strassburger GmbH & Co. KG, which was acquired in August 2018, is allocated to this segment. Four months of the company's business activities were included in the consolidated income statement for the first time in the reporting year. In organic terms – in other words, excluding the reporting year's figures relating to Sommer & Strassburger – incoming orders would have increased by 18.1 %, and sales would have risen by 3.0 %.

All told, the **Resource Technology** segment succeeded in further expanding its business volume overall in the reporting year following an unusually strong previous year in operating terms. Incoming orders in this segment increased by 7.0 % to € 289.9 million (€ 271.0 million), while sales rose by 4.9 % to € 288.5 million (€ 275.1 million). The previous year's EBIT of € 27.6 million was influenced by certain special effects as well as a fine in connection with antitrust proceedings in the amount of € 8.5 million. In the reporting year, the segment generated EBIT of € 36.4 million.

The second-largest segment, **Healthcare and Infrastructure Technology**, benefited from continued strong demand in consumer-centric markets following a dynamic previous year. The upswing continued on a broad scale, with all companies in the segment managing to increase their sales. All told, incoming orders increased by 18.7 % to € 154.1 million (€ 129.9 million), while sales rose by 14.4 % from € 123.7 million to € 141.5 million. EBIT grew by a disproportionately large margin of 19.8 % and reached € 14.1 million (€ 11.7 million).

Business development in the **Mobility Technology** segment was influenced by massive upheaval in the automotive market. In this environment, development in terms of parts for mass production continued to be positive, while tool manufacturing suffered from carmakers' reluctance to invest and saw declining business performance along with margin pressure. Eleven months of business at Protomaster GmbH, which was sold in December 2017, was included on a pro rata basis in the previous year's figures. In the previous year, one company in the segment also completed a strategic realignment process and discontinued a business segment. All told, incoming orders in this segment fell to € 59.9 million (€ 79.4 million), while sales declined to € 59.3 million (€ 71.4 million). By contrast, EBIT benefited significantly from the disposal of low-margin sales and rose from € 0.5 million to € 3.2 million.

Along with GESCO AG, a few companies of minor significance are included in the **GESCO AG and other companies** segment. Consolidation effects and reconciliations to the corresponding IFRS Group values are disclosed in the line item Reconciliation, which includes the aforementioned impairment losses in the amount of € 2.0 million.

Sales by region

At 39 %, Group sales attributable to international business remained unchanged year on year. Accounting for 23 % of sales, Europe (excluding Germany) remains the primary sales region for GESCO Group, with Italy, France, Austria and the Czech Republic remaining the most important individual markets.

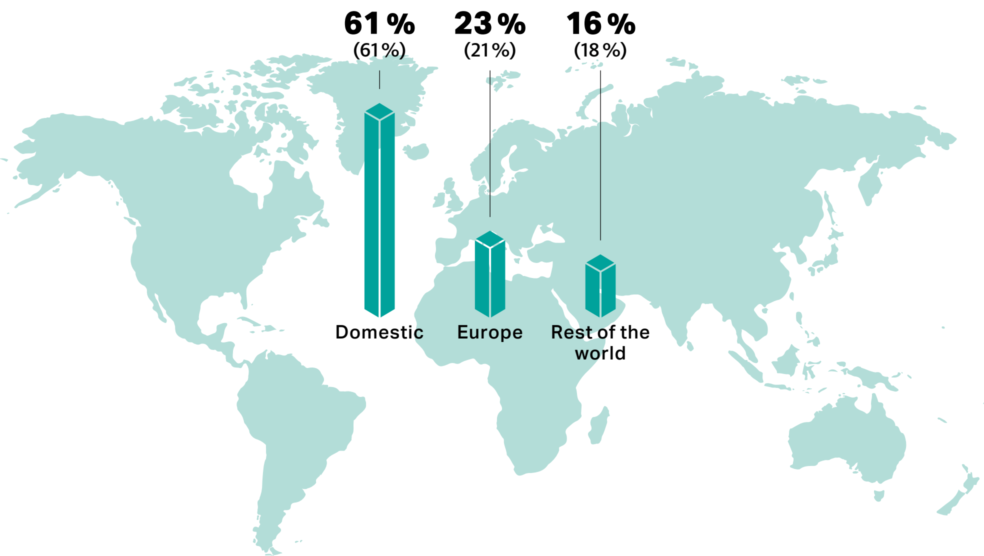
Asia accounts for 8.6 %, with 4 percentage points attributable to China. With a share of 5.8 %, the US is the most important market outside Germany.

Individual companies' international sales vary significantly depending on their respective business models. Some companies in the portfolio have export ratios of over 80 %.

When looking at this regional distribution of sales, it is worth bearing in mind that many of our companies' domestic customers are in turn export-oriented. It is therefore likely that GESCO Group has a notable level of indirect exports, which by their very nature cannot be determined precisely.

Sales by region

2018 / 2019 vs. previous financial year



Financial situation

Capital structure

The GESCO Group balance sheet is in healthy shape with a strong equity base and sufficient liquidity. The debt ratio, defined as the ratio of net bank debt to EBITDA, stands at 1.5 and allows the Group to borrow additional capital for further growth as and when required. At 11.0 % of equity, goodwill remains low despite the acquisitions made in the financial year. All in all, GESCO Group is on a solid financial footing for internal and external growth.

On the liabilities side, equity rose by 8.9 % from € 224.3 million to € 244.3 million over the course of the financial year. The equity ratio stood at 47.9 % following 49.2 % as of the previous year's reporting date. Current and non-current liabilities to financial institutions rose by 19.4 % overall to € 141.8 million (€ 118.8 million). Current liabilities to banks rose on account of the brisk operating business.

Investments

As a long-term investor, GESCO regularly supports its subsidiaries in their investments in technical equipment in order to strengthen their competitiveness. These include investments in property, plant and equipment as well as investments in the latest technology, and particularly in systems to ensure efficient production planning and management.

At € 24.9 million, investments in property, plant and equipment and intangible assets were roughly on par with the previous year's level of € 25.5 million. This total volume was spread across a series of small and medium-sized replacement and modernisation investments.

Commitments totalled € 1,139 thousand as at the reporting date, relating mainly to machinery and technical equipment ordered by numerous companies which had yet to be delivered. The investments are expected to be completed in financial year 2019 / 2020 and are financed by equity as well as borrowed capital.

Depreciation and amortisation on property, plant and equipment and intangible assets amounted to € 25.9 million in the reporting period (€ 23.6 million) and contained impairment losses in the amount of € 2.0 million.

Liquidity

Liquid assets stood at € 31.7 million (€ 38.3 million) as at the reporting date of 31 March 2019. A dividend of € 6.5 million was distributed to the company's shareholders for financial year 2017 / 2018 in the reporting period.

At the end of the year, the Group had access to approved but unused credit lines totalling € 51.1 million. The Group was able to meet its payment obligations at all times.

Cash flow for the year improved from € 41.2 million to € 55.1 million on the back of the significant rise in earnings and the slight increase in amortisation and depreciation. The expansion of the operating business led to an increase in inventories and trade receivables. Payments were also made in the reporting period relating to a fine in connection with antitrust proceedings for which provisions were established in the previous year. Cash flow from ongoing business activities stood at € 24.3 million in total (€ 38.5 million).

Assets

GESCO Group's total assets amounted to € 509.5 million as at the reporting date, 11.7 % higher than the previous year's figure of € 456.3 million.

The 11.1 % growth in non-current assets from € 193.7 million to € 215.3 million was primarily due to the addition of Sommer & Strassburger. Current assets, and inventories and trade receivables in particular, rose by 12.1 % to € 294.2 million (€ 262.5 million) over the course of the expansion of operating business.

The capitalisation ratio was down slightly year on year to 31.0 % (32.2 %). At 1.7, the ratio of long-term capital to non-current assets remained the same as in the previous year.

Non-financial performance indicators

Environmental protection

The obligation to protect the environment, even beyond legal regulations and requirements, is firmly anchored in the self-image of GESCO Group. This applies to production as well as the life cycle of products up to the point of recycling. Aligning development and production to comply with environmental issues opens up attractive market opportunities for the companies, as the sustainable use of resources and energy efficiency represent additional selling points. However, it is not only products that are relevant in terms of the environment; energy issues are also taken into account in construction projects and investments in machinery and equipment at GESCO Group to minimise follow-up costs and emissions.

The Group non-financial report pursuant to the CSR Directive Implementation Act (CSR-RLUG) provides further information on issues relating to environmental protection. It is published as a separate non-financial report as part of the annual report and disclosed together with the Group management report.

Employees

As at the reporting date, 2,662 people were employed by GESCO Group. The 7.0 % rise compared to the previous year's figure of 2,489 was primarily attributable to the addition of Sommer & Strassburger's 137 employees and Frank Lemek TOW's 24 employees. In organic terms, the Group's workforce remained almost unchanged.

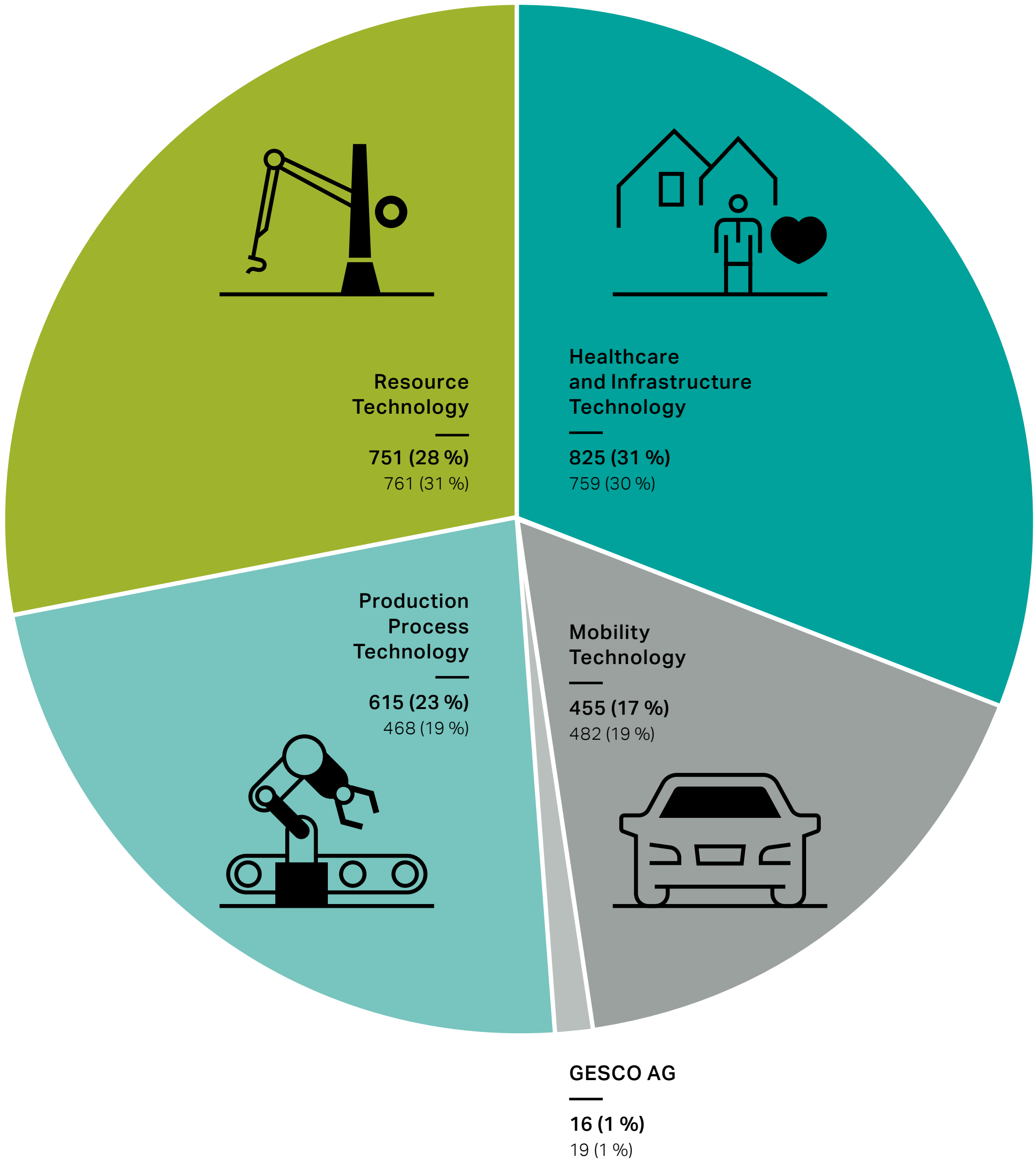
In autumn 2018, GESCO AG offered all GESCO Group employees in Germany the chance to buy shares in the company at favourable terms for the 20th year in succession. The participation rate increased once again. On the heels of a 45 % rate in the previous year, around 48 % of those employees acted on this opportunity to make a personal investment.

Attracting qualified, motivated employees and fostering their loyalty to the company is absolutely essential in guaranteeing the future of GESCO Group. That is why training and continuing education is extremely important within the Group. In addition, the subsidiaries use a variety of activities to position themselves as attractive long-term employers. These activities range from involvement in educational initiatives such as Girls' Day through to dual study programmes and partnerships with universities and other educational institutions. For many years now, Dörrenberg Edelstahl GmbH has been giving out its Dörrenberg Award, a highly acclaimed prize for students studying materials technology and engineering.

The Group non-financial report pursuant to the CSR Directive Implementation Act (CSR-RLUG) provides further information on employees.

Employees by segment (end of the financial year)

2018 / 2019 vs. previous financial year



Changes to the executive bodies of the company

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

Remuneration report

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

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

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

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

The total amount 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 2014 to 2016 may be exercised at any time up to 15 March of the year after next, while the options for the tranches issued in 2017 and 2018 are exercised on a defined issue date.

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

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

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

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

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

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

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

Executive Board remuneration: compensation

Compensation	Dr Eric Bernhard CEO (until 15.06.2018)			
€'000	31.03.2018	31.03.2019	31.03.2019 (min)	31.03.2019 (max)
Fixed remuneration	300	234	234	234
Additional benefits	11	7	7	7
Total	**311**	**241**	**241**	**241**
One-year variable remuneration	221	262	0	524
Multi-year variable remuneration				
2017 tranche	26	0	0	0
2018 tranche	0	33	0	265
Total	**247**	**295**	**0**	**789**
Pension-related expenses	60	62	62	62
Total remuneration	**618**	**598**	**303**	**1,092**

	Robert Spartmann Executive Board member (until 30.11.2018)				Ralph Rumberg Spokesman of the Executive Board (CEO) (since 01.07.2018)		
	31.03.2018	**31.03.2019**	**31.03.2019 (min)**	**31.03.2019 (max)**	**31.03.2019**	**31.03.2019 (min)**	**31.03.2019 (max)**
	264	217	217	217	244	244	244
	17	11	11	11	18	18	18
	281	**228**	**228**	**228**	**262**	**262**	**262**
	242	298	0	434	298	251	488
	26	0	0	0	0	0	0
	0	33	0	265	33	0	265
	268	**331**	**0**	**699**	**331**	**251**	**753**
	57	57	57	57	49	49	49
	606	**616**	**285**	**984**	**642**	**562**	**1,064**

Executive Board remuneration: payments

payments	Dr Eric Bernhard CEO (until 15.06.2018)		Robert Spartmann Executive Board member (until 30.11.2018)		Ralph Rumberg Spokesman of the Executive Board (CEO) (since 01.07.2018)
€'000	**31.03.2018**	**31.03.2019**	**31.03.2018**	**31.03.2019**	**31.03.2019**
Fixed remuneration	300	234	264	217	244
Additional benefits	11	7	17	11	18
Total	**311**	**241**	**281**	**228**	**262**
One-year variable remuneration	300	221	118	242	0
Multi-year variable remuneration					
2012 tranche	0	0	88	0	0
2013 tranche	0	0	117	0	0
2014 tranche	0	0	0	0	0
Total	**300**	**221**	**323**	**242**	**0**
Pension-related expenses	60	62	57	57	65
Total remuneration	**671**	**524**	**661**	**527**	**327**

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

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

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

04 – Outlook, opportunity and risk report

Outlook

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

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

2017's significant economic tailwind in the capital goods industry, in which GESCO Group primarily operates, waned in 2018 and will continue to decrease in 2019. Generally speaking, sentiment has deteriorated noticeably in recent months. Although we do not currently see any signs of a massive, widespread decline, we only see limited momentum for growth. What is more, the above-average margins in the Resource Technology segment, particularly in early 2018, will remain a one-off event. We are continuing to see a difficult environment with continued reluctance among customers to invest, along with rising margin pressure, especially in the Mobility Technology segment. All told, we expect a slight rise in Group sales and a slight decrease in Group net income after minority interest for GESCO Group in financial year 2019 / 2020.

Despite the change in accounting procedures for lease agreements under IFRS 16, we continue to consider the minimum equity ratio for GESCO Group to be 40 % in the current financial year.

GESCO AG continues to aim to generate external growth by acquiring further industrial companies in the SME segment. As stated earlier in this report, 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.

Managing opportunities and risks

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.

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

Risk management at GESCO Group

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

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

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

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

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

Risks in acquiring companies

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

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

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

Risks relating to operating business

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

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

In general terms, the Group is exposed to the risk of customer complaints and claims due to poor quality, non-fulfilment of contractual commitments or missed deadlines. The companies mitigate this risk by exercising a duty of care in their process as well as through their quality management systems and close co-operation 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. Training courses were held in March and April 2018 for managing directors and key employees at subsidiaries and at GESCO AG to familiarise them with the rules of the Code of Conduct and to enhance their knowledge of anti-trust laws and anti-corruption laws. The managing directors' job is to anchor these requirements and principles in their company's corporate culture.

Risks relating to personnel

Qualified personnel is vital to the current and future performance of subsidiaries. For 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 expertise within the company is only passed on insufficiently from older employees to younger employees. Measures to achieve a targeted transfer of expertise and appropriately document expertise are designed to help mitigate this risk.

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

GESCO AG can also experience difficulties in recruiting and retaining qualified employees and see its performance suffer as a result. Building up expertise and maintaining consistency 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 offers GESCO Group employees in Germany the chance to invest in the company by acquiring GESCO shares at a reduced cost and thus make a personal contribution to their pension plans. GESCO AG considers this initiative to be an important part of its personnel retention efforts.

Risks relating to IT

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

Risks relating to data protection

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

Risks relating to financing

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

When it comes to accessing equity by means of capital increases at GESCO AG, the situation on the capital market at the relevant time, the financial development of 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.

GESCO Group is exposed to the risk of impairment losses. These are usually caused by operating developments that fail to meet original expectations.

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 Pickhardt & Gerlach Group. GESCO AG puts emphasis on its subsidiaries obtaining the correct authorisations and licences.

Insurance cover

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

Legal risks

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

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

Reputation risks

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

Final risk assessment

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

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

05 – Internal controlling and risk management system in relation to the Group accounting process

The Executive Board structures and is responsible for the internal controlling and risk management system in relation to the Group accounting process; it is also monitored by the Supervisory Board. It encompasses principles, methods and measures serving to guarantee the orderliness of the internal and external accounting processes and compliance with legal requirements, as well as to identify risks linked to the accounting process promptly. The system is constantly being developed.

The subsidiaries are responsible for their own accounting processes. Employees at GESCO AG carry out the Group accounting process on the basis of reports submitted by subsidiaries. A manual detailing comprehensive Group guidelines constitutes a legally binding standard for all Group companies and auditors. Any changes to the law, accounting standards or other regulations are reviewed in respect of their relevance to the accounting process and, if necessary, are included in the internal guidelines. External service providers are engaged when necessary, such as in the valuation of pension obligations.

The responsible GESCO AG employees are available to advise the subsidiaries' managers, financial officers and relevant employees on all accounting matters and provide support. Employees receive regular training. IT-supported and manual plausibility checks, the principle of the separation of duties and the principle of dual control are some of the measures in place to eliminate risks in the accounting process. Auditors review the functionality and effectiveness of the internal controlling and risk management system in relation to the Group accounting process as part of the annual audit.

06 – Takeover-related disclosures

Disclosures under Section 315a para. 1 of the German Commercial Code (HGB)

The share capital of GESCO AG is € 10,839,499 and is divided into 10,839,499 registered shares. Each share is granted one vote in the Annual General Meeting. The Executive Board is not aware of any restrictions on voting rights or on the transfer of shares.

According to Sections 76 and 84 of the Stock Corporation Act (AktG) and Section 6 para. 1 of the GESCO AG Articles of Association, the Executive Board consists of one or more persons. According to Section 6 para. 2 of the Articles of Association, and in accordance with legal regulations, the Supervisory Board appoints and dismisses the Executive Board and establishes the term of service and the number of members. The Supervisory Board may also appoint substitute members. According to Section 17 para. 1 of the Articles of Association, resolutions are passed by the Annual General Meeting with a simple majority of the votes cast, unless legal binding regulations state otherwise; where the law requires a capital majority in addition to a majority of votes cast, resolutions are passed with a simple majority of the share capital represented when the resolution is voted on. In accordance with Section 17 para. 2 of the Articles of Association, the Supervisory Board has the right to make amendments to the Articles of Association that affect only the wording.

Share issue and repurchase

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

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

Shareholdings of more than 10 %

Investmentaktiengesellschaft für langfristige Investoren TGV, Bonn/Germany, held approximately 14.4 % of voting rights in GESCO AG as at the reporting date. Jens Große-Allermann, Executive Board member of Investmentaktiengesellschaft für langfristige Investoren TGV, has been a member of the GESCO AG Supervisory Board since 4 October 2017.

Entrepreneur Stefan Heimöller, Germany, member of the Supervisory Board of GESCO AG since 25 July 2013, held roughly 13.7 % of shares in GESCO AG as at the reporting date.

07 – Corporate governance and declaration of compliance

The Corporate Governance Report and Declaration of Compliance in accordance with Section 315d HGB in conjunction with Section 289f HGB are available on the company website at www.gesco.de.

Wuppertal, 14 May 2019

The Executive Board

(Ralph Rumberg, Spokesman)

(Kerstin Müller-Kirchhofs)

05

GESCO finances

GESCO AG
Summary of the Annual Financial Statements as at 31 March 2019

Balance sheet

€'000	31.03.2019	31.03.2018
Assets		
Intangible assets	39	8
Property, plant and equipment	265	443
Financial assets	133,187	117,708
Non-current assets	**133,491**	**118,159**
Receivables and other assets	82,876	62,084
Cash and credit with financial institutions	8,330	19,189
Current assets	**91,206**	**81,273**
Accounts receivable and payable	**171**	**165**
Total assets	**224,868**	**199,597**
Equity and liabilities		
Equity	187,773	158,747
Provisions	5,773	6,187
Liabilities	31,322	34,663
Total equity and liabilities	**224,868**	**199,597**

Income statement

€'000	01.04.2018 – 31.03.2019	01.04.2017 – 31.03.2018
Sales revenues	519	312
Other operating income	545	2,348
Personnel expenditure	- 4,293	- 3,714
Depreciation / amortisation	- 175	- 179
Other operating expenditure	- 4,319	- 4,720
Earnings from investments	45,237	27,836
Income from profit and loss transfer agreements	3,373	2,685
Write-downs on financial assets	- 4,000	0
Net interest income	133	131
Taxes	- 1,587	- 329
Net income	**35,433**	**24,370**
Transfer to revenue reserves	- 17,716	- 12,185
Retained profit	**17,717**	**12,185**

Proposed appropriation of retained profit

For financial year 2018/2019, the Executive Board and Supervisory Board of GESCO AG are proposing the following appropriation of retained profit for the year in the amount of € 17,716,674.89:

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

The complete financial statements of GESCO AG compiled in accordance with the regulations of the German Commercial Code (HGB) and the Stock Corporation Act (AktG) and audited by RSM Breidenbach und Partner PartG mbB, Wirtschaftsprüfungsgesellschaft – Steuerberatungsgesellschaft, Wuppertal, and attested with an unqualified audit opinion, are published in the Bundesanzeiger (German Federal Gazette) and submitted to the commercial registry under HRB (German Commercial Registry) number 7847. The financial statements are available from GESCO AG.

GESCO AG
Consolidated Financial Statements Dated 31 March 2019

GESCO Group balance sheet

€'000		31.03.2019	31.03.2018
Assets			
A. Non-current assets			
I. Intangible assets			
1. Industrial property rights and similar rights and assets as well as licences to such rights and assets	(1)	23,172	21,715
2. Goodwill	(2)	26,888	19,153
3. Prepayments	(3)	207	16
		50,267	**40,884**
II. Property, plant and equipment			
1. Land and buildings	(4)	71,972	66,175
2. Technical plant and machinery	(5)	57,764	52,045
3. Other plant, fixtures and fittings	(6)	21,581	21,568
4. Prepayments and assets under construction	(7)	6,734	6,908
		158,051	**146,696**
III. Financial assets			
1. Shares in affiliated companies	(8)	38	40
2. Shares in companies valued at equity	(9)	1,552	1,215
3. Investments	(10)	236	156
4. Other loans		181	190
		2,007	**1,601**
IV. Other assets	(11)	933	1,360
V. Deferred tax assets	(12)	4,030	3,166
		215,288	**193,707**
B. Current assets			
I. Inventories	(13)		
1. Raw materials and supplies		29,354	23,616
2. Unfinished products and services		49,805	40,938
3. Finished products and goods		81,937	70,514
4. Prepayments		733	845
		161,829	**135,913**
II. Receivables and other assets	(11)		
1. Trade receivables		82,313	73,190
2. Amounts owed by affiliated companies		1,453	1,782
3. Amounts owed by companies valued at equity		368	19
4. Other assets		15,463	12,247
		99,597	**87,238**
III. Cash and credit with financial institutions	(14)	31,701	38,295
IV. Accounts receivable and payable		1,098	1,103
		294,225	**262,549**
		509,513	**456,256**

€'000		31.03.2019	31.03.2018
Equity and liabilities			
A. Equity			
I. Subscribed capital	(15)	10,839	10,839
II. Capital reserves		72,364	72,364
III. Revenue reserves		150,791	130,774
IV. Own shares		0	- 119
V. Other income		- 4,251	- 4,398
VI. Minority interest (incorporated companies)	(16)	14,518	14,805
		244,261	**224,265**
B. Non-current liabilities			
I. Minority interest (partnerships)	(16)	1,159	1,868
II. Provisions for pensions	(17)	16,112	16,020
III. Other non-current provisions	(17)	575	589
IV. Liabilities to financial institutions	(18)	88,036	76,232
V. Lease liabilities	(18)	8,388	2,140
VI. Other liabilities	(18)	2,417	1,682
VII. Deferred tax liabilities	(12)	3,050	3,139
		119,737	**101,670**
C. Current liabilities			
I. Other provisions	(17)	10,391	21,077
II. Liabilities	(18)		
1. Liabilities to financial institutions		53,810	42,523
2. Lease liabilities		1,115	654
3. Trade payables		18,334	15,036
4. Prepayments received on orders		27,223	18,928
5. Liabilities to affiliated companies		566	316
6. Liabilities to companies valued at equity		1	0
7. Other liabilities		33,892	31,696
		134,941	**109,153**
III. Accounts receivable and payable		183	91
		145,515	**130,321**
		509,513	**456,256**

GESCO Group income statement

€'000		01.04.2018 – 31.03.2019	01.04.2017 – 31.03.2018
Sales revenues	**(19)**	**574,532**	**547,193**
Change in stocks of finished and unfinished products		8,876	2,832
Other company-produced additions to assets	(20)	1,940	854
Other operating income	(21)	7,056	6,762
Total income		**592,404**	**557,641**
Material expenditure	(22)	- 298,261	- 274,524
Personnel expenditure	(23)	- 150,310	- 147,093
Other operating expenditure	(24)	- 69,675	- 78,147
Impairment losses on financial assets		- 660	- 473
Earnings before interest, tax, depreciation and amortisation (EBITDA)		**73,498**	**57,404**
Amortisation of intangible assets and depreciation on property, plant and equipment	(25)	- 25,852	- 23,615
Earnings before interest and tax (EBIT)		**47,646**	**33,789**
Earnings from securities		0	0
Earnings from investments		56	315
Earnings from companies valued at equity		504	335
Other interest and similar income		109	403
Interest and similar expenditure		- 2,519	- 2,641
Third party profit share in incorporated companies		- 376	- 340
Financial result		**- 2,226**	**- 1,928**
Earnings before tax (EBT)		**45,420**	**31,861**
Taxes on income and earnings	(26)	- 15,443	- 13,690
Group net income		**29,977**	**18,171**
Minority interest in incorporated companies		- 3,379	- 2,072
Group net income after minority interest		**26,598**	**16,099**
Earnings per share (€) acc. to IFRS	(27)	2.46	1.49

GESCO Group statement of comprehensive income

€'000		01.04.2018 – 31.03.2019	01.04.2017 – 31.03.2018
1. Group net income		**29,977**	**18,171**
2. Revaluation of benefit obligations not impacting income		**- 306**	**540**
3. Items that cannot be transferred into the income statement		**- 306**	**540**
4. Difference from currency translation			
a) Reclassification into the income statement		0	0
b) Changes in value with no effect on income		699	- 2,162
5. Difference from currency translation from companies valued at equity			
a) Reclassification into the income statement		0	0
b) Changes in value with no effect on income		- 195	- 164
6. Market valuation of hedging Instruments			
a) Reclassification into the income statement		0	0
b) Changes in value with no effect on income		- 62	17
7. Items that can be reclassified into the income statement		**442**	**- 2,309**
8. Other income	**(31)**	**136**	**- 1,769**
9. Total result for the period		**30,113**	**16,402**
of which share attributable to minority interest		3,363	1,953
of which share attributable to GESCO shareholders		26,750	14,449

GESCO Group statement of changes in equity

€'000	Subscribed capital	Capital reserves	Revenue reserves	Own shares
As at 31.03.2017	**10,839**	**72,364**	**118,468**	**0**
Dividends			- 3,794	
Acquisition of own shares				- 1,051
Disposal of own shares			10	932
Acquisition of shares in subsidiaries			- 9	
Result for the period			16,099	
As at 31.03.2018	**10,839**	**72,364**	**130,774**	**- 119**
Dividends			- 6,502	
Acquisition of own shares				- 901
Disposal of own shares			- 24	1,020
Acquisition of shares in subsidiaries			- 55	
Result for the period			26,598	
As at 31.03.2019	**10,839**	**72,364**	**150,791**	**0**

	Exchange equalisation items	Revaluation of pensions	Hedging instruments	Total	Minority interest incorporated companies	Equity
	1,113	**-3,858**	**-3**	**198,923**	**15,172**	**214,095**
				-3,794	-2,320	-6,114
				-1,051	0	-1,051
				942	0	942
				-9	0	-9
	-2,174	509	15	14,449	1,953	16,402
	-1,061	**-3,349**	**12**	**209,460**	**14,805**	**224,265**
				-6,502	-3,650	-10,152
				-901	0	-901
				996	0	996
		-6		-61	0	-61
	484	-275	-56	26,751	3,363	30,114
	-577	**-3,630**	**-44**	**229,743**	**14,518**	**244,261**

GESCO Group cash flow statement

€'000	01.04.2018 – 31.03.2019	01.04.2017 – 31.03.2018
Group net income for the year (including share attributable to minority interest in incorporated companies)	**29,977**	**18,171**
Amortisation of intangible assets and depreciation on property, plant and equipment	25,852	23,615
Earnings from companies valued at equity	- 504	- 335
Share attributable to minority interest in partnerships	376	340
Decrease in non-current provisions	- 362	- 323
Other non-cash income	- 203	- 313
Cash flow for the year	**55,136**	**41,155**
Losses from the disposal of property, plant and equipment / intangible assets	93	114
Gains from the disposal of property, plant and equipment / intangible assets	- 336	- 459
Gains due to changes to the scope of consolidation	0	- 41
Increase in stocks, trade receivables and other assets	- 30,789	- 21,587
Increase in trade creditors and other liabilities	205	19,331
Cash flow from ongoing business activity	**24,309**	**38,513**
Incoming payments from disposals of property, plant and equipment / intangible assets	984	872
Disbursements for investments in property, plant and equipment	- 21,128	- 22,116
Disbursements for investments in intangible assets	- 1,024	- 848
Disbursements due to changes to the scope of consolidation	0	- 1,641
Incoming payments from disposals of financial assets	87	32
Disbursements for investments in financial assets	- 104	0
Disbursements for the acquisition of consolidated companies and other business units	- 20,374	0
Cash flow from investment activity	**- 41,559**	**- 23,701**
Disbursements to shareholders (dividends)	- 6,502	- 3,794
Incoming payments from the sale of own shares	996	942
Disbursement for the purchase of own shares	- 901	- 1,051
Disbursements to minority interests	- 4,039	- 2,583
Disbursements for the purchase of non-governing shares	- 750	0
Incoming payments from raising (financial) loans	44,937	17,053
Outflow for repayment of (financial) loans	- 23,140	- 22,442
Cash flow from funding activities	**10,601**	**- 11,875**
Changes in cash and cash equivalents	**- 6,649**	**2,937**
Exchange-rate related changes in cash and cash equivalents	**55**	**- 189**
Financial means on 01.04.	38,295	35,547
Financial means on 31.03	**31,701**	**38,295**

GESCO AG
Notes to the Consolidated Financial Statements as at 31 March 2019

General information

GESCO AG is a stock corporation with headquarters in Wuppertal, Germany. The Company is registered under commercial register number HRB 7847 at Wuppertal district court (Amtsgericht). The Company is dedicated to acquiring investments in SMEs and providing consulting and other services. The consolidated financial statements of GESCO AG, Wuppertal, dated 31 March 2019 were prepared based on the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) as they apply in the EU and under consideration of Section 315e para. 1 of the German Commercial Code (HGB).

Application and impact of new or amended standards

These consolidated financial statements of GESCO AG were prepared under consideration of all standards applicable to annual reporting years commencing prior to 1 April 2018 and which have been endorsed into EU law. The following new or amended standards had to be considered for the 2018 / 2019 financial year:

Standard
Amendments to IFRS 2: "Classification and measurement of share-based payment transactions"
Amendments to IFRS 4: "Application of IFRS 9 in conjunction with IFRS 4"
IFRS 9 "Financial Instruments"
IFRS 15: "Revenue from contracts with customers including new effective date"
Amendments to IAS 40: "Transfer of investment property"
IFRIC 22: "Foreign currency transactions and advance consideration"

The application of the above-mentioned regulations did not have any material effects on the consolidated financial statements of GESCO AG.

The following standards and interpretations are mandatory from financial year 2019 / 2020:

Standard	Adopted by the EU	Early application
Amendments to IFRS 9: "Prepayment features with negative compensation"	Yes	Yes
IFRS 16: "Leases"	Yes	Yes
Amendments to IAS 28: "Long-term interests in associates and joint ventures"	Yes	Yes
Amendments to IAS 19: "Plan amendment, curtailment or settlement"	Yes	Yes
IFRIC 23: "Uncertainty over income tax treatments"	Yes	Yes
Annual improvement of IFRS (2015 – 2017)	Yes	Yes

The following standards and interpretations are mandatory from financial year 2020 / 2021 or later:

Standard	Adopted by the EU	Early application
Amendments to references to the framework concept in IFRS standards	Pending	No
Amendments to IFRS 3 "Definition of business operations"	Pending	No
IFRS 17: "Insurance contracts"	Pending	Yes
Amendments to IAS 1 and IAS 8 – "Definition of materiality"	Pending	No

The first-time application of IFRS 9 led to a change in the recognition of impairment losses on financial assets as separate items in the income statement. Impairments were recorded under other expenses in the previous year's financial statements. This is why there was a reclassification of € 473 thousand in the previous year's income statement. The changes regarding the classification and measurement of financial assets and regarding the impairment regulations had no material effect on the consolidated financial statements.

The cumulative method was used in the application of IFRS 15. According to that method, adjustment amounts are generally recorded in equity at the start of financial year 2018 / 2019; adjustments were not made for reasons of materiality. The previous year's comparative information will not be adjusted. The disclosures to the notes for IFRS 15 will also not be made for the previous year's values. The impact of the application of the standard in financial year 2018 / 2019 is as follows:

€'000	2018 / 2019
Increase in trade receivables	401
Decrease in revenue	401
Decrease in provisions for follow-up costs	388
Decrease in net earnings for the year	9

IFRS 16 will be applied for the first time at the start of 2019 / 2020, in application of the modified retrospective method. This is why there is no adjustment to the previous-year period. The following accounting options will be used for the first-time application:

- Lease payments for short-term leases (agreements with a maximum rental term of 12 months as at the start date and which do not include options to purchase or extend) are recorded as an expense on a straight-line basis over the duration of the lease agreement.
- Lease payments for lease agreements for low-value assets (up to € 5 thousand) are recorded as an expense on a straight-line basis over the duration of the lease agreement.
- One single discount rate is used for a portfolio of similarly structured leases.
- For leases with extension or termination options, the term of the lease is determined with retroactive effect.

Assets and liabilities from financing leases that had previously been accounted according to IAS 17 are reported using the previous book values as at the time of the initial application of IFRS 16.

The expected effects on the assets, financial position and earnings caused by the leases not yet accounted for since the application of IFRS 16 are outlined below. Calculations are based on the agreements in place at present.

€'000	Rights of use	Lease obligations
Book value 31.03.2019	**17,059**	**17,059**
Expected repayments		- 3,026
Expected depreciation and amortization	- 3,032	
Book value 31.03.2020	**14,027**	**14,033**

€'000	2019 / 2020
Expected depreciation and amortization	3,032
Expected effect on EBIT	292
Expected interest costs	298
Expected effect on earnings before tax	- 6
Expected lease payments	3,324

The new accounting procedure will result in a decreasing equity ratio, but EBIT and EBITDA will rise. The exact level of impact cannot be calculated at present, since it depends on the conclusion of new agreements, among other things.

Other standards and interpretations that will become mandatory in future periods are not expected to have a material impact on the consolidated financial statements of GESCO AG.

Consolidated financial statements – reporting date

The reporting date for the consolidated financial statements is the reporting date of the parent company (31 March 2019). The financial years of the companies included in the consolidated financial statements match the calendar year, and therefore do not deviate from the parent company's financial year by more than three months. As a result, interim financial statements were not prepared for 31 March 2019 in accordance with IFRS 10.B92. There are only a few buying and selling relationships between the operating subsidiaries. Their products and services differ. Some loan relationships exist between the parent company and certain subsidiaries. Any significant events affecting included companies that occurred by the consolidated reporting date were considered in the preparation of the consolidated financial statements. Preparing and auditing additional interim financial statements for all subsidiaries would mean a disproportionately high expenditure of time and cost, with no corresponding gain of information.

Scope of consolidation

In addition to GESCO AG, the consolidated financial statements include all material subsidiaries for which GESCO AG satisfies the conditions of IFRS 10. Significant joint ventures and associated companies were included according to the equity method. In principle, first-time consolidation and deconsolidation takes place on the investment acquisition or disposal date.

In August 2018, GESCO AG acquired 100 % of the shares in Sommer & Strassburger Edelstahlanlagenbau GmbH & Co. KG, Bretten, Germany (S&S) and So-Stra Verwaltungs GmbH, Bretten, Germany. The company develops and manufactures processing equipment for the pharmaceutical, food, water technology and chemical industries. In doing so, Sommer & Strassburger has successfully positioned itself in attractive target markets as a niche provider with its own range of products and is therefore a typical target company for the GESCO Group that generates sales of roughly € 20 million and employs approximately 140 members of staff. The transaction was concluded in September following approval from antitrust authorities. The purchase price for the companies amounted to € 21.7 million. In addition, two purchase price supplements were agreed, and their utilisation depends on the future achievement of defined performance indicators. A liability in the amount of € 0.5 million was recognised for one of the purchase price supplements related to the company's financial year 2018. No liability has been recognised for the other purchase price supplement related to the following year because, based on current information, the requirements for utilisation have not been met. The company, along with its asset and liability items as at 31 December 2018, is included in the balance sheet as at 31 March 2019. The consolidated income statement covers four months on a pro rata basis. The companies belong to the Production Process Technology segment.

Since the start of the financial year, Frank Lemeks TOW, Ternopil, Ukraine, a wholly-owned subsidiary of Frank Walz- und Schmiedetechnik GmbH, has been included in the financial statements as a fully consolidated company due to its growing economic importance. Initial consolidation resulted in income of € 0.2 million.

The impact of the addition of the fully consolidated companies was as follows:

€'000	31.03.2019
Intangible assets	14,813
Property, plant and equipment	7,247
Financial assets	80
Inventories	5,154
Trade receivables	2,333
Liquid assets	1,388
Other assets	833
Provisions	211
Other liabilities	9,229

The gross amount of the trade receivables is € 2,531 thousand.

The fair value of the material assets was determined using the cost method (for property, plant and equipment), the multi-period excess earnings method (for intangible assets) and market comparison procedure (for inventories).

The goodwill primarily results from the abilities and experience of the workforce to be able to continuously guarantee a high level of product quality with a very low volume of defective goods.

These additions affected Group net income after minority interest by € -0.5 million. Group sales were affected by € 8.0 million. If the companies had been included in the consolidated financial statements of GESCO AG at the beginning of the financial year, earnings would have been affected by approx. € 0.1 million and sales by approx. € 21.0 million. The earnings effect includes the impact from the first consolidation.

In April 2018, Setterstix de México, S.A. de C.V., San Luis Potosi, Mexico, was founded as a joint subsidiary of SQG Verwaltungs GmbH (90 %) and Setter International GmbH (10 %). The company is included in the consolidated income statement.

In July 2018, Doerrenberg Specialty Steel Corp., Macedonia, Ohio, USA was founded as a wholly-owned subsidiary of Dörrenberg Edelstahl GmbH. The company is included in the Group balance sheet and the consolidated income statement.

In July 2018, Georg Kesel Machinery (Jiashan) Co., Ltd, Jiashan, China, was founded as a wholly-owned subsidiary of Kesel International GmbH. The company is included in the Group balance sheet and the consolidated income statement. The existing company Georg Kesel Machinery (Beijing) Co., Ltd., Beijing, China, is currently in liquidation.

In July 2018, Dörrenberg Edelstahl GmbH acquired a 40 % stake in Fine Metal S.R.L., Bucharest, Romania. The other 60 % is held by Saglam Metal Sanayi Ticaret A.S., Istanbul, Turkey, a 20 % subsidiary of Dörrenberg Edelstahl GmbH. Fine Metal S.R.L. is included in the consolidated financial statements as an associated company.

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

In addition to the parent company, a total of 63 companies are included in the consolidated financial statements according to the principle of full consolidation, and three other companies are included under the equity method.

Two subsidiaries with an immaterial effect on the assets, financial position and earnings were not consolidated but instead measured at fair value. The effect on sales, earnings and total assets is less than 2.0 %. Four other investments, which are also of immaterial significance, were measured at fair value. The maximum risk of losses from these investments amounts to € 0.9 million (previous year: € 1.5 million).

The significant financial information for the non-consolidated companies is shown in the following table:

€'000	31.03.2019	31.03.2018
Shares in affiliated companies	38	40
Current assets	1,453	1,782
Current liabilities	566	316

A list of investments is included at the end of these notes.

Consolidation methods / equity method

Capital consolidation is based on a full revaluation on the respective acquisition date. The cost of acquisition is offset against the revalued or, in case of the equity method, proportionately revalued equity of the subsidiary on the acquisition date. Assets and liabilities are recorded at fair value.

Subsequent changes in the equity of joint ventures and associated companies are recorded as changes in the level of investment of the respective company.

Income and expenditure as well as receivables and liabilities between fully consolidated companies are eliminated.

To the extent that temporary differences arise from consolidation processes that affect earnings but are not related to goodwill, income tax effects are considered and deferred taxes (IAS 12) are recorded.

Accounting and valuation methods

The financial statements, on which the consolidated financial statements dated 31 March 2019 are based, are consistently prepared according to uniform accounting and valuation methods. The financial statements are affected by the accounting and valuation methods as well as assumptions and estimates which affect the level and recognition of assets, liabilities and contingent liabilities on the balance sheet, as well as those of the income and expenditure items.

In the individual financial statements, **foreign currency transactions** are converted using the exchange rate in effect at the time of the respective transaction. On the reporting date, monetary items are adjusted to their fair value using the relevant conversion rate; differences are included in earnings. Exchange rate differences from intra-Group receivables are included in equity without affecting income provided that the receivables are to be regarded as part of the net investments in the foreign entity.

In principle, the companies outside the eurozone prepare their financial statements in the respective national currency according to the functional currency concept. Assets and liabilities in these financial statements are converted to euros using the exchange rate in effect on the reporting date. Equity is reported at the historical exchange rate, with the exception of items recorded directly in equity. Income statement items are converted at average exchange rates and the resulting exchange rate differences are recognised directly in equity.

The following table lists the exchange rates that were used:

	€ 1 =	Reporting date rate		Average rate	
		31.12.2018	31.12.2017	2018	2017
China	CNY	7.8751	7.8044	7.8080	7.6290
Mexico	MXN	22.4921	23.6612	22.8754	21.3286
Romania	RON	4.6635	4.6585	4.6723	4.5688
Russia	RUB	79.7153	69.3920	74.0572	68.7747
Singapore	SGD	1.5591	1.6024	1.5925	1.5588
South Africa	ZAR	16.4594	14.8054	15.6222	15.0490
South Korea	KRW	1,277.9300	1,279.6100	1,298.9612	1,276.7381
Taiwan	TWD	35.1000	35.5600	35.5721	34.4515
Turkey	TRY	6.0588	4.5464	5.7117	4.1206
Ukraine	UAH	31.6330	33.7400	32.2199	30.3825
Hungary	HUF	320.9800	310.3300	318.9221	309.1933
USA	USD	1.1450	1.1993	1.1807	1.1297

In the listing of changes to property, plant and equipment, provisions and equity, the opening and closing balances are converted using the exchange rates on the respective reporting dates while changes during the year are converted using the average rate. Exchange rate differences are reported separately and do not affect income.

Intangible assets acquired in exchange for payment are reported at their cost of acquisition less regular amortisation and impairment losses.

Property, plant and equipment is valued at the cost of acquisition or production. Public sector subsidies are deducted from the original cost of acquisition when the asset is recorded. Straight-line depreciation over the expected useful life is applied to property, plant and equipment.

Property, plant and equipment leased under financing lease contracts is recorded at the lower of fair value or cash value of the lease payments. Depreciation follows the principles of depreciation for property, plant and equipment owned by the Group (IAS 17) or under consideration of the shorter term of the leasing relationship.

Investments included under financial investments are reported at the lower of fair value or the cost of acquisition. Investments in joint ventures and associated companies are valued according to the equity method.

Raw materials, supplies and consumables are valued at the average cost of acquisition, while **unfinished and finished products** are valued at the cost of manufacture including the overhead costs of all essential materials and production. Realisation risks are taken into account through depreciation on the lower net sales price.

In principle, **receivables and other assets** are reported at fair value. Potential bad debts are covered by a commensurate allowance for doubtful accounts. Foreign currency receivables are converted using the exchange rates in effect on the reporting date.

Cash flow hedges are used to effectively hedge pending sales transactions in foreign currencies against exchange rate risks; these hedges are included in other comprehensive income without affecting income until such time as the hedged item occurs.

Minority interests in our incorporated companies and partnerships primarily pertain to the investments of managing directors in the companies they manage as well as the proportion of earnings to which they are entitled. Minority interests in our incorporated companies are reported as separate items in equity. In accordance with IAS 32, minority interests in our partnerships are reported as separate items in debt capital.

Reacquired **own shares** are openly reported as an adjustment to equity.

Provisions for pensions and similar obligations are calculated using the actuarial method according to IAS 19. In addition to pensions and entitlements known on the reporting date, expected future salary and pension increases as well as interest rate changes are also considered. Service expenditures are reported under personnel expenditures, and the interest portion of the provision allocation is reported in the financial result.

Other provisions include all liabilities identified on the reporting date that are based on past business transactions and where the amount or due date is uncertain. Provisions are established according to the best estimate of the actual liability and are not offset against positive profit contributions.

A legal or factual obligation to a third party is required in order to establish a provision. Provisions with a residual term of more than one year are discounted to the reporting date at a market interest rate suitable for the Group and term, and under consideration of future price developments.

Liabilities are always reported at their respective cash value. Foreign currency liabilities are converted using the exchange rates in effect on the reporting date. Gains and losses from exchange rate fluctuations are included in earnings. Discounts are deducted from liabilities to financial institutions and credited to the loan over its term.

Deferred taxes arising from timing differences between the commercial and tax balance sheet are calculated according to the balance sheet based liability method and reported separately. Deferred taxes are calculated based on current tax laws. Deferred tax assets are offset against deferred tax liabilities when the creditor, debtor and term are the same.

Contingent liabilities represent possible or existing obligations based on past events where resources are not expected to be expended. Therefore, they are not included on the balance sheet. The reported contingent liabilities correspond to the scope of liability on the reporting date.

Information on the Group balance sheet

The breakdown of fixed assets as well as changes for the reporting year and the previous year are shown in the following tables:

Group statement of fixed assets as at 31.03.2019

€'000	Cost of acquisition or manufacture					
	As at 01.04.2018	Change Scope of consoli-dation	Additions	Reclassifi-cations	Disposals	Change Exchange rate difference
I. Intangible assets						
1. Industrial property rights and similar rights and assets as well as licences to such rights and assets						
a. Computer software	11,607	38	812	21	276	5
b. Technology	16,536	31	0	0	0	0
c. Customer base / order backlog	30,667	5,079	0	0	1,629	327
	58,810	**5,148**	**812**	**21**	**1,905**	**332**
2. Goodwill	20,019	9,665	0	0	0	93
3. Prepayments	16	0	212	- 21	0	0
	78,845	**14,813**	**1,024**	**0**	**1,905**	**425**
II. Property, plant and equipment						
1. Land and buildings	91,705	4,834	2,410	1,410	625	68
2. Technical plant and machinery	134,503	1,902	11,251	3,372	3,162	44
3. Other plant, fixtures and fittings	76,699	511	5,138	427	2,553	23
4. Prepayments and assets under construction	6,908	0	5,039	- 5,209	15	11
	309,815	**7,247**	**23,838**	**0**	**6,355**	**146**
III. Financial assets						
1. Shares in affiliated companies	40	0	0	0	2	0
2. Shares in companies valued at equity	1,835	0	608	0	76	- 195
3. Investments	156	80	0	0	0	0
4. Other loans	190	0	0	0	9	0
	2,221	**80**	**608**	**0**	**87**	**- 195**
	390,881	**22,140**	**25,470**	**0**	**8,347**	**376**

[1] Includes impairment losses (in €'000): 2,023

	Depreciation and amortization						Book values	
As at 31.03.2019	As at 01.04.2018	Additions	Disposals	Write-ups	Change Exchange rate difference	As at 31.03.2019	As at 31.03.2019	As at 31.03.2018
12,207	9,705	966	263	- 51	5	10,362	1,845	1,902
16,567	16,298	142	0	0	0	16,440	127	238
34,444	11,092	3,640	1,629	0	141	13,244	21,200	19,575
63,218	**37,095**	**4,748**	**1,892**	**- 51**	**146**	**40,046**	**23,172**	**21,715**
29,777	866	2,023 1)	0	0	0	2,889	26,888	19,153
207	0	0	0	0	0	0	207	16
93,202	**37,961**	**6,771**	**1,892**	**- 51**	**146**	**42,935**	**50,267**	**40,884**
99,802	25,530	2,869	580	0	11	27,830	71,972	66,175
147,910	82,458	10,504	2,850	0	34	90,146	57,764	52,045
80,245	55,131	5,708	2,197	0	22	58,664	21,581	21,568
6,734	0	0	0	0	0	0	6,734	6,908
334,691	**163,119**	**19,081**	**5,627**	**0**	**67**	**176,640**	**158,051**	**146,696**
38	0	0	0	0	0	0	38	40
2,172	620	0	0	0	0	620	1,552	1,215
236	0	0	0	0	0	0	236	156
181	0	0	0	0	0	0	181	190
2,627	**620**	**0**	**0**	**0**	**0**	**620**	**2,007**	**1,601**
430,520	**201,700**	**25,852**	**7,519**	**- 51**	**213**	**220,195**	**210,325**	**189,181**

Group statement of fixed assets as at 31.03.2018

€'000	Cost of acquisition or manufacture				
	As at 01.04.2017	Additions	Reclassifi-cations	Disposals	Change Exchange rate difference
I. Intangible assets					
1. Industrial property rights and similar rights and assets as well as licences to such rights and assets					
a. Computer software	10,832	824	0	43	- 6
b. Technology	16,558	0	0	12	- 10
c. Customer base / order backlog	31,617	0	0	0	- 950
	59,007	**824**	**0**	**55**	**- 966**
2. Goodwill	20,290	0	0	0	- 271
3. Prepayments	0	16	0	0	0
	79,297	**840**	**0**	**55**	**- 1,237**
II. Property, plant and equipment					
1. Land and buildings	86,666	4,578	656	0	- 195
2. Technical plant and machinery	123,201	9,053	3,543	1,165	- 129
3. Other plant, fixtures and fittings	73,415	5,582	346	2,560	- 84
4. Prepayments and assets under construction	6,132	5,425	- 4,545	103	- 1
	289,414	**24,638**	**0**	**3,828**	**- 409**
III. Financial assets					
1. Shares in affiliated companies	52	0	0	12	0
2. Shares in companies valued at equity	1,664	335	0	0	- 164
3. Investments	156	0	0	0	0
4. Other loans	210	0	0	20	0
	2,082	**335**	**0**	**32**	**- 164**
	370,793	**25,813**	**0**	**3,915**	**- 1,810**

	Depreciation and amortization					Book values	
As at 31.03.2018	As at 01.04.2017	Additions	Disposals	Change Exchange rate difference	As at 31.03.2018	As at 31.03.2018	As at 31.03.2017
11,607	8,702	1,050	43	- 4	9,705	1,902	2,130
16,536	15,895	425	12	- 10	16,298	238	663
30,667	7,221	4,151	0	- 280	11,092	19,575	24,396
58,810	**31,818**	**5,626**	**55**	**- 294**	**37,095**	**21,715**	**27,189**
20,019	866	0	0	0	866	19,153	19,424
16	0	0	0	0	0	16	0
78,845	**32,684**	**5,626**	**55**	**- 294**	**37,961**	**40,884**	**46,613**
91,705	22,928	2,624	0	- 22	25,530	66,175	63,738
134,503	73,798	9,814	1,092	- 62	82,458	52,045	49,403
76,699	51,852	5,551	2,208	- 64	55,131	21,568	21,563
6,908	0	0	0	0	0	6,908	6,132
309,815	**148,578**	**17,989**	**3,300**	**- 148**	**163,119**	**146,696**	**140,836**
40	0	0	0	0	0	40	52
1,835	620	0	0	0	620	1,215	1,044
156	0	0	0	0	0	156	156
190	0	0	0	0	0	190	210
2,221	**620**	**0**	**0**	**0**	**620**	**1,601**	**1,462**
390,881	**181,882**	**23,615**	**3,355**	**- 442**	**201,700**	**189,181**	**188,911**

1 Industrial property rights and similar rights and assets as well as licences to such rights and assets

The assets summarised under this item are depreciated and amortised using the straight-line method over the following periods:

	Years
Computer software	3 – 7
Technology	10 – 13
Customer base	7 – 10
Order backlog	1 – 2

The development of the individual items is shown in the asset history sheets (reporting year and previous year). The technology and customer base / order backlog items are the result of hidden reserves uncovered as part of first-time consolidations.

2 Goodwill

In accordance with IFRS 3, goodwill is not subject to regular amortisation but is instead subjected to an annual impairment test. This process in principle uses the cash flows from the current company budget for the next three years; a continuous growth rate of 1 % is assumed for subsequent periods. The resulting values are discounted using a pre-tax cost of capital of 8.1 % (previous year: 8.2 %). This results in a present value (value in use) that is compared to the reported goodwill. The goodwill arising from company acquisitions is distributed among 15 (previous year: 16) cash generating units. The goodwill amounts of Sommer & Strassburger Edelstahlanlagenbau GmbH & Co. KG (€ 9.7 million) and the Pickhard & Gerlach Group (€ 6.3 million) are considered significant as defined by IAS 36.134. These goodwill amounts together form 59.6 % of the total goodwill. In the previous year, the significant goodwill amounts as defined by IAS 36.134 formed 33.1 % of the total goodwill.

According to the results of the impairment test, an impairment of € 2.0 million was required for the Werkzeugbau Laichingen Group companies as at the reporting date. Goodwill has therefore been written down in full. The Werkzeugbau Laichingen Group is assigned to the Mobility Technology segment.

Pursuant to IAS 36, the Group would have needed to impair non-current assets by an additional € 2.8 million had the pre-tax cost of capital been 0.5 percentage points higher.

This method of determining the cash value follows the relevant IFRS standards; it does not correspond to the method we use to determine company values for the purpose of acquisitions.

_3 Prepayments made

The reported amount is related to the acquisition and implementation of software.

_4 Land and buildings

Buildings are always depreciated over a 30 or 50 year period using the straight-line method. This item also includes first-time equipment under financing leases with a book value (cash value of the lease payments less planned depreciation) of € 4,779 thousand on the reporting date. The company is not free to dispose of the assets held under financing lease contracts. These assets are depreciated over their expected useful life.

_5 Technical plants and machinery

Technical plants and machinery are always depreciated over a 5 to 15 year period using the straight-line method. This item also includes equipment under financing leases with a book value (cash value of the lease payments less planned depreciation) of € 4,507 thousand on the reporting date (previous year: € 2,704 thousand). The company is not free to dispose of the assets held under financing lease contracts. These assets are depreciated over their expected useful life.

_6 Other plants, fixtures and fittings

Other plants, fixtures and fittings are always depreciated over a 3 to 15 year period using the straight-line method.

_7 Prepayments made and assets under construction

The amount reported primarily relates to machinery and property.

_8 Shares in affiliated companies

Shares are held in distribution companies in the USA and South Africa.

_ 9 Shares in companies valued at equity

Share acquisitions and positive results of companies valued at equity are reported as additions on the Group asset history sheet. A share of a loss, dividend distributions and the sale of shares are reported under disposals. Currency translation differences are included in equity without affecting income.

The share of income for companies valued at equity is reported on the income statement under income from investments in companies valued at equity.

The following table depicts significant **financial information** for companies valued at equity. Total values without consideration for the share held by the Group.

€'000	31.03.2019	31.03.2018
Assets	20,602	18,335
Liabilities	13,865	12,438
Sales	29,210	24,619
Net profit	2,017	981

_ 10 Investments

Companies of minor significance are reported under investments. The addition concerns the 10 % share held by S&S in PAT Process Anlagen Technik GmbH & Co. KG, Kirchheim, Germany.

_ 11 Receivables and other assets

Receivables and other assets are measured at fair value on initial recognition. These are subsequently measured at amortised cost, taking into account commensurate allowances.

Trade receivables

Trade receivables are non-interest-bearing and due within 12 months. The first-time application of IFRS 15 only had a limited impact.

The decrease in value of trade receivables developed as follows:

€'000	2018 / 2019	2017 / 2018
As at 01.04.	**3,083**	**3,253**
Claims	- 233	- 399
Reversals	- 596	- 244
Change in scope of consolidation	57	0
Additions	660	473
As at 31.03.	**2,971**	**3,083**
of which individual valuation allowances	1,852	2,197

Allowances were recorded in specific cases under consideration of the credit rating, economic situation and economic environment of the respective business partners.

Amounts owed by companies valued at equity

As in the previous year, decreases in the value of receivables were not made.

Other assets

€'000	31.03.2019	31.03.2018
Non-current		
Loan receivables	929	1,359
Other	4	1
	933	**1,360**

Most of the loan receivables resulted from financing the acquisition of minority shares by the managers of the respective subsidiaries and are secured by pledging the shares. The loans have an initial term of up to ten years and are subject to interest at market rates.

€'000	31.03.2019	31.03.2018
Current		
Loan receivables	382	232
Income tax refund claims	11,811	8,678
Tax prepayments	1,973	1,615
Creditors with debit accounts	431	215
Other	866	1,507
	15,463	**12,247**

The decrease in value of other financial assets is as follows:

€'000	2018 / 2019	2017 / 2018
As at 01.04.	**11**	**14**
Reversals	- 2	- 3
As at 31.03.	**9**	**11**
of which individual valuation allowances	9	11

12 Deferred tax assets and liabilities

Deferred taxes are determined and reported at 30.5 % (previous year: 30.5 %) of the timing differences between the valuation of assets and liabilities in the IFRS financial statements and financial statements for tax purposes as well as realisable loss carry-forwards. The deferred taxes reported on the balance sheet result from the following balance sheet items and loss carry-forwards:

€'000	31.03.2019		31.03.2018	
Deferred taxes	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Intangible assets	2,882	809	2,598	985
Property, plant and equipment	64	7,074	59	5,208
Inventories	401	632	339	546
Receivables	330	203	140	111
Pension provisions	2,111	0	2,040	0
Other provisions	205	220	162	107
Liabilities	3,111	0	975	0
Tax loss carry-forwards	860	0	732	0
Other	10	56	22	83
	9,974	**8,994**	**7,067**	**7,040**
Net figure[1)]	- 5,944	- 5,944	- 3,901	- 3,901
	4,030	**3,050**	**3,166**	**3,139**

[1)] Deferred tax assets and liabilities are offset when the creditor, debtor and term are the same.

Deferred taxes on loss carry-forwards are capitalised if the future realisation of these potential tax reductions within up to a five-year planning horizon is reasonably certain on the reporting date. Deferred tax assets in the amount of € 5,763 thousand (previous year: € 5,654 thousand) from loss carry-forwards for tax purposes were not reported since it is not considered likely that these will be offset against taxable income within a period of up to five years.

13 Inventories

Write-downs are distributed among the individual items as follows:

€'000	Raw Materials and supplies		Unfinished products and services		Finished products and goods		Prepayments		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Cost of acquisition or manufacture	32,185	26,167	51,273	42,891	87,139	75,288	733	845	171,330	145,191
Write-downs	2,831	2,551	1,468	1,953	5,202	4,774	0	0	9,501	9,278
As at 31.03.	**29,354**	**23,616**	**49,805**	**40,938**	**81,937**	**70,514**	**733**	**845**	**161,829**	**135,913**

14 Cash and credit balances with financial institutions

This item mainly consists of short-term fixed deposits and current account credit balances denominated in euros and held by various banks. A partial amount of the reported deposit in the amount of € 1,345 thousand (previous year: € 1,345 thousand) has been pledged to a financial institution.

15 Equity

The **subscribed capital** of the Group equals the subscribed capital of GESCO AG and totals € 10,839,499.00 divided into 10,839,499 registered shares with full voting and dividend rights.

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

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

Shares in circulation and **own shares** developed as follows:

	Shares in circulation	Own shares held	
	Number	Number	Share of the share capital in %
As at 31.03.2017	**10,839,499**	**0**	**0.00**
Purchases	- 35,000	35,000	0.32
Employee share scheme	31,428	- 31,428	0.29
As at 31.03.2018	**10,835,927**	**3,572**	**0.03**
Purchases	- 29,589	29,589	0.27
Employee share scheme	33,161	- 33,161	0.31
As at 31.03.2019	**10,839,499**	**0**	**0.00**

In the past, the Company offered an employee share scheme limited to approximately two months in the second half of the calendar year after the respective Annual General Meeting. The purpose of this scheme was to provide employees of GESCO Group with the opportunity to acquire GESCO AG shares at a discount from the market price. Shares with a total value of € 996 thousand (previous year: € 943 thousand) disposed of under the employee share scheme were issued to employees at a total selling price of € 730 thousand (previous year: € 691 thousand). The discount granted to employees was included in other operating expenditure. The proceeds from the sale were used to pay off liabilities.

Most of the **capital reserve** of € 72,364 thousand (previous year: € 72,364 thousand) is the result of shares issued at a premium.

The Annual General Meeting of GESCO AG authorised the company to acquire own shares according to Section 71 para. 1 No. 8 of the Stock Corporation Act (AktG) and to use these shares for a stock option programme. Beneficiaries include the Executive Board and a small group of management employees of GESCO AG. A twelfth tranche was initiated in September 2018 in the form of a virtual share-option programme. A total of 85,100 options were issued to members of the Executive Board and management employees of GESCO AG.

Non-cash expenditure under this programme is determined using a common binomial model, recorded in earnings and recognised in liabilities. This model assumes volatility of 23.94 % plus a risk-free interest rate of - 0.06 %. The volatility is based on the historical value of the last five years. The exercise price of the options issued in September 2018 is € 29.45 and corresponds to the average share price of the last six months before the Annual General Meeting 2018. The waiting period is four years and two months after the date of the Annual General Meeting. Once the waiting period is over, the programme gains are calculated. The fair value per option on the issue date is € 1.84. These annual financial statements are the first to include the expenditure (€ 22 thousand) resulting from the stock option programme initiated in the reporting year for a seven-month period. Taking into account the change in value, total earnings for the eighth to twelfth tranche amounted to € 108 thousand in the reporting year; in the previous year, total expenditure was € 506 thousand. Liabilities came to € 204 thousand as of the reporting date. No options were exercised in the financial year.

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

Tranche		2018	2017	2016	2015	2014
End of waiting period		30.10.2022	31.10.2021	25.10.2020	18.10.2019	28.10.2018
End of term		31.10.2022	01.11.2021	15.03.2022	15.03.2021	15.03.2020
Exercise price	€	29.45	24.93	22.99	23.12	24.52
No. of options issued		85,100	62,100	80,100	60,600	60,600
Profit limit per option	€	14.73	12.47	11.50	11.56	12.26
Fair value per option as at the reporting date 31.03.2019	€	1.60	1.14	1.43	1.18	0.45
Fair value per option as at the time of issue	€	1.84	1.43	1.78	2.25	2.53

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

	No. of options No.		Weighted average exercise price €	
	2018 / 2019	2017 / 2018	2018 / 2019	2017 / 2018
Outstanding options 01.04.	258,480	327,980	23.83	23.21
In the financial year				
granted	85,100	62,100	29.45	24.93
returned	0	- 6,000	0.00	24.25
exercised	0	- 94,200	0.00	22.74
expired	0	- 31,400	0.00	22.74
Outstanding options 31.03.	343,580	258,480	25.22	23.83
Options that can be exercised 31.03.	57,600	0	24.52	0.00

During the reporting year, **revenue reserves** increased by net earnings for the year in the amount of € 26,598 thousand. The figure was reduced by the effect on the share price arising from the sale of own shares of € 24 thousand for the employee share scheme and the dividends of € 6,502 thousand (€ 0.60 per share) for the previous year and a subsequent purchase price payment for the acquisition of shares in subsidiaries of € 55 thousand.

In addition to exchange equalisation items and currency hedging transactions that do not affect income, other **comprehensive income** includes in particular the effects from actuarial gains and losses from pension obligations that do not impact income.

The **proposed dividend** per share was € 0.90 on the financial statement preparation date. With 10,839,499 shares currently issued and outstanding, the proposed dividend payout is € 9,756 thousand. This dividend payout has no income tax consequences for the company.

GESCO AG's and the GESCO Group's **capital management** serves to ensure the going-concern assumption as well as return on assets for shareholders, appropriate liquidity and credit standing, which will also be assisted by the optimisation of the capital structure. We consider the minimum equity ratio for the Group to be 40 %. The ratio stood at 47.9 % in the reporting period (previous year: 49.2 %). The drop resulted from the fact that total assets were much higher than equity due in particular to the company acquisition and the rise in current assets over the course of the expansion of operating business. Key performance indicators for the equity ratio in the Group are the management of the Group on an operational level, investment activity and the raising of equity and debt capital. Another key metric is the ratio of net bank liabilities (liabilities to financial institutions less liquid assets) to EBITDA. We are aiming for a maximum ratio of 3 for this. In the reporting period, net bank liabilities stood at € 110.1 million (previous year: € 80.5 million), EBITDA amounted to € 73.5 million (€ 57.4 million). The ratio was 1.5 in the reporting period after 1.4 in the previous year. Key performance indicators here also include the management of the Group on an operational level and the raising of debt capital.

Within the scope of loan agreements, individual companies of the GESCO Group have undertaken to comply with specific equity ratios or equity bases.

_ 16 Minority interests

Minority interests consist of capital and earnings interests in the incorporated companies and partnerships. Minority interests in incorporated companies are reported in equity and primarily result in shares in the C.F.K. CNC-Fertigungstechnik Kriftel GmbH, Dörrenberg Edelstahl GmbH with its subsidiaries, Hubl GmbH, Frank Walz- und Schmiedetechnik GmbH with its subsidiaries, MAE-EITEL Inc., SVT GmbH and VWH GmbH.

In accordance with IAS 32, minority interest in partnerships is included under non-current liabilities. This is the result of investments in Haseke GmbH & Co. KG and Georg Kesel GmbH & Co. KG.

No significant minority interest in subsidiaries are included in the consolidated financial statements.

17 Provisions

Provisions for pensions are based on salary-dependent direct benefits for former members of the Executive Board of GESCO AG and acting and former members of bodies and employees of subsidiaries as well as fixed pension benefits for certain employees. Pension provisions refer exclusively to the defined benefit plans and are calculated according to the projected unit credit method under IAS 19.

Liability insurance policies obtained to finance pension obligations qualify as plan assets and are recorded at the value of the obligation if the insurance benefits coincide with the payments to entitled employees and are paid to the employees in case the employer becomes insolvent. The fair value of plan assets corresponds to the cash value of the underlying obligations.

Defined benefit obligations have developed as follows:

€'000	2018 / 2019	2017 / 2018
As at 01.04.	**16,698**	**17,773**
Service expenditure	169	185
Interest expenditure	312	332
Pension annuities paid	- 847	- 838
Actuarial losses / gains (-) from financial assumptions	277	- 754
Actuarial losses / gains (-) from demographic assumptions	188	0
As at 31.03.	**16,797**	**16,698**

Development of plan assets (liability insurance):

€'000	2018 / 2019	2017 / 2018
As at 01.04.	**678**	**672**
Employer contributions	29	29
Benefits paid	- 48	- 48
Actuarial gains	26	25
As at 31.03.	**685**	**678**

Pension provisions are derived as follows:

€'000	2018 / 2019	2017 / 2018
Projected pension obligations	16,797	16,698
Plan assets (liability insurance)	- 685	- 678
As at 31.03.	**16,112**	**16,020**

Asset coverage of pension obligations:

€'000	Projected unit credit		Plan assets	
	2018 / 2019	2017 / 2018	2018 / 2019	2017 / 2018
Without asset cover	16,009	15,918	0	0
Some asset cover	788	780	685	678
As at 31.03.	**16,797**	**16,698**	**685**	**678**

Pension costs consist of the following:

€'000	2018 / 2019	2017 / 2018
Service expenditure	169	185
Interest accruing on expected pension obligations	312	332
	481	**517**

The calculations are based on biometric core values according to Prof Dr Klaus Heubeck (2018 G) and the following **actuarial assumptions**:

in %	2018 / 2019	2017 / 2018
Interest rate	1.90	1.90
Increase in salaries	2.75	2.75
Increase in pensions	1.60	1.40
Staff turnover	1.00	1.00

Development of **pension obligations and fund assets**:

€'000	2018 / 2019	2017 / 2018	2016 / 2017	2015 / 2016	2014 / 2015
Projected unit credit	16,797	16,698	17,773	16,973	17,793
Plan assets	- 685	- 678	- 672	- 667	- 652
Funded status	16,112	16,020	17,101	16,306	17,141

Expected contribution payments for the 2019 / 2020 financial year are € 29 thousand.

Expected future **pension payments** are as follows:

€'000	2019 / 2020	2020 / 2021 – 2023 / 2024	2024 / 2025 – 2028 /2029
Expected future pension payments	849	3,427	4,374

Of the above-mentioned actuarial assumptions, the interest rate in particular has a **material impact** on the measurement of pension obligations as at the reporting date. Had the discount factor for otherwise constant other assumptions been 100 basis points higher or lower as at the reporting date, pension obligations would have been € 1,945 thousand lower (previous year: € 1,940 thousand) or € 2,427 thousand higher (previous year: € 2,421 thousand).

The composition and development of **other provisions** is shown in the following summary.

€'000	01.04.2018	Change Scope of consoli-dation	Utilisation	Addition / New formation	Reversal	31.03.2019
Non-current						
Purchase price annuity obligation	589	0	- 79	65	0	575
	589	**0**	**- 79**	**65**	**0**	**575**
Current						
Guarantees and warranties	4,870	139	- 1,293	1,609	- 884	4,441
Follow-up costs	3,082	0	- 2,017	2,021	- 304	2,782
Cost of annual financial statements	1,008	24	- 817	939	- 27	1,127
Sewer renovation	880	0	0	0	0	880
Impending losses	309	0	- 169	327	- 38	429
Taxes and incidental tax expenditure	843	0	- 183	154	- 624	190
Antitrust proceedings	8,500	0	- 8,500	0	0	0
Restructuring	1,243	0	- 811	0	- 432	0
Other	342	48	- 276	457	- 29	542
	21,077	**211**	**- 14,066**	**5,507**	**- 2,338**	**10,391**

The purchase price annuity obligation resulted from the acquisition of shares in a subsidiary and is reported at the projected unit credit according to IAS 19.

_ 18 Liabilities

Liabilities from financing activities are classified into the following repayment obligations:

€'000	31.03.2019 (31.03.2018)	Residual term up to 1 year	Residual term up to 5 years	Residual term > 5 years
Liabilities to financial institutions	141,846	53,810	74,662	13,374
	(118,755)	(42,523)	(54,915)	(21,317)
Lease liabilities	9,503	1,115	4,360	4,028
	(2,794)	(654)	(2,140)	(0)
	151,349	**54,925**	**79,022**	**17,402**
	(121,549)	**(43,177)**	**(57,055)**	**(21,317)**

Liabilities to financial institutions and bank guarantee lines of credit are mainly secured by:

€'000	31.03.2019	31.03.2018
Land charges	45,051	42,761
Book value of existing property and property under construction	47,247	47,594
Assignment of		
moveable fixed assets	24,150	24,660
inventories	3,083	2,466
Assignment of receivables	5,972	5,218

Shares in subsidiaries with a total book value of € 80,440 thousand (previous year: € 84,440 thousand) have also been pledged.

€ 127,723 thousand (previous year: € 108,002 thousand) of the liabilities to financial institutions result from long-term loans with fixed repayment terms and a remaining term between one and 14 years (previous year: between one and 15 years).

Interest rates for the loans vary between 0.69 % and 4.06 % (previous year: 0.53 % and 4.00 %). These interest rates correspond to the market rates for the respective loans and companies. Other liabilities to financial institutions consist of current accounts.

Repayment obligations for other liabilities are as follows:

€'000	31.03.2019 (31.03.2018)	Residual term up to 1 year	Residual term up to 5 years	Residual term > 5 years
Trade liabilities	18,334	18,334	0	0
	(15,036)	(15,036)	(0)	(0)
Prepayments received on orders	27,223	27,223	0	0
	(18,928)	(18,928)	(0)	(0)
Liabilities to affiliated companies	566	566	0	0
	(316)	(316)	(0)	(0)
Liabilities to companies valued at equity	1	1	0	0
	(0)	(0)	(0)	(0)
Other liabilities	36,309	33,892	2,417	0
	(33,378)	(31,696)	(1,682)	(0)
	82,433	**80,016**	**2,417**	**0**
	(67,658)	**(65,976)**	**(1,682)**	**(0)**

Other liabilities consist of the following:

€'000	31.03.2019	31.03.2018
Wages, salaries, bonuses, social security	16,401	14,519
Other taxes	4,111	3,794
Income taxes	7,477	4,667
Outstanding incoming invoices	3,031	4,177
Other miscellaneous liabilities	5,289	6,221
	36,309	**33,378**

The remaining other liabilities mainly result from current liabilities owed to third parties.

Information on the Consolidated Income Statement

_ 19 Sales revenue

Sales revenue is recognised with the transfer of liabilities and benefits related to the assets that are sold. For more information, please consult the section on segment reporting. All revenue in the financial year was generated on a time-related basis.

_ 20 Other company-produced additions to assets

This item mainly consists of reportable expenditure for technical equipment and tools.

_ 21 Other operating income

Other operating income breaks down as follows:

€'000	2018 / 2019	2017 / 2018
Income from writing back / utilising provisions	3,318	1,481
Price gains	808	1,412
Income from the reversal of valuation allowances and from the payment of receivables previously written off	480	326
Income from insurance refunds	351	234
Income from the disposal of fixed assets	336	459
Income from public subsidies	332	186
Income from VAT refunds and interest	291	1,717
Other	1,140	947
	7,056	**6,762**

In the previous year's financial statements, income from payments in kind (€ 1.0 million) was reported in other operating income, whereas it is included in personnel expenditure this year. In addition, the recognition of utilisation of provisions was adjusted (€ 0.8 million) and included in the corresponding expenditure items. The previous-year values were adjusted accordingly.

The income from the reimbursement of VAT and interest results from the mutual termination of a tax procedure of GESCO AG that lasted several years.

22 Material expenditure

€'000	2018 / 2019	2017 / 2018
Expenditure on raw materials and supplies and goods supplied	266,154	244,332
Expenditure on services purchased	32,107	30,192
	298,261	**274,524**

23 Personnel expenditure

€'000	2018 / 2019	2017 / 2018
Wages and salaries	126,337	123,610
Social security contributions / expenditure on pensions and benefits	23,973	23,483
	150,310	**147,093**

The interest on pension provisions is included under interest and similar expenditure.

24 Other operating expenditure

€'000	2018 / 2019	2017 / 2018
Operating expenditure	28,775	28,163
Administrative expenditure	9,533	9,547
Expenditure on distribution	23,420	22,372
Miscellaneous expenditure	7,947	18,065
	69,675	**78,147**

In the previous year, miscellaneous expenditure included the provision allocation (€ 8.5 million) from the antitrust proceedings of Dörrenberg Edelstahl GmbH (Resource Technology segment) and the restructuring expenditure (€ 2.0 million) in connection with the strategic repositioning (closure of a business division) of a company in the Mobility Technology segment.

25 Amortisation of intangible assets and depreciation on property, plant and equipment

Depreciation on property, plant and equipment and amortisation of intangible assets is reported in the Group asset history sheet. Depreciation and amortisation includes impairment losses in the amount of € 2,023 thousand.

Additional information can be found in the notes regarding the corresponding balance sheet items.

26 Taxes on income and earnings

Actual taxes on income and earnings as well as deferred taxes are reported as income tax. Income tax breaks down as follows:

€'000	2018 / 2019	2017 / 2018
Actual taxes	15,716	13,693
Deferred taxes	- 273	- 3
	15,443	**13,690**

The expected income tax expenditure, based on a tax rate of 30.5 % (previous year: 30.5 %), can be recognised as tax expenditure in the income statement as follows:

€'000	2018 / 2019	2017 / 2018
Group result before income tax	**45,420**	**31,861**
Anticipated income tax expenditure	- 13,853	- 9,718
Permanent differences arising on expenditure which is not tax deductible	- 331	- 2,826
Income tax for different reporting periods	- 249	255
Consolidation effects	- 704	- 57
Temporary differences from losses for which no deferred tax assets have been recognised	37	- 1,061
Differences in tax rates	- 55	- 223
Other	- 288	- 60
	- 15,443	**- 13,690**

Permanent differences arising on expenditure which is not tax deductible primarily included the value from the provision allocation of the antitrust proceedings in the previous year (€ – 2,592 thousand).

The change in deferred taxes on tax loss carry-forwards led to a tax asset of € 128 thousand (previous year: tax obligation of € 293 thousand) in the 2018 / 2019 reporting year.

27 Earnings per share

According to IAS 33, earnings per share are calculated by dividing the Group net earnings attributable to shareholders by the weighted average number of shares issued and outstanding.

	2018 / 2019	2017 / 2018
Group net income (€'000)	26,598	16,099
Weighted number of shares (number)	10,833,410	10,833,338
Earnings per share in accordance with IAS 33 (€)	**2.46**	**1.49**

There are no factors that would cause dilution.

28 Other income

The actuarial gains and losses from pension obligations, effects from currency translation and currency hedging transactions contained in this item were reduced by income taxes of € 162 thousand (previous year: € 245 thousand).

Information on the Cash Flow Statement

In accordance with IAS 7 (Statement of Cash Flows), the **cash flow statement** shows the movement in the inflows and outflows of funds in the Group during the reporting year. The financial resources portfolio includes credit balances held by financial institutions (€ 31,701 thousand; previous year: € 38,295 thousand).

Cash flow from investment activity includes € 193 thousand (previous year: € 1,244 thousand) in unpaid investments.

The Company paid and received the following cash flows during the financial year:

€'000	2018 / 2019	2017 / 2018
Interest paid	1,973	2,271
Interest received	85	521
Dividends received	0	257
Income tax paid	13,985	11,375

The development of liabilities from funding activities is shown in the table below:

€'000	Liabilities to financial institutions	Liabilities held for sale	Lease obligations	Liabilities from funding activities
Book value 31.03.2017	**122,427**	**2,931**	**839**	**126,197**
Cash transaction	- 3,616	- 1,271	- 502	- 5,389
Non-cash transaction				
Acquisition of assets			2,457	2,457
Exchange rate changes	- 56			- 56
Change in scope of consolidation		- 1,660		- 1,660
Book value 31.03.2018	**118,755**	**0**	**2,794**	**121,549**
Cash transaction	22,632	0	- 835	21,797
Non-cash transaction				
Acquisition of assets	0	0	2,710	2,710
Change in scope of consolidation	459	0	4,834	5,293
Book value 31.03.2019	**141,846**	**0**	**9,503**	**151,349**

Information on the segment reporting

The companies are assigned to segments according to their respective field of activity. The segmentation of the operating segments is geared towards the respective customer markets and encompasses the Production Process Technology, Resource Technology, Healthcare and Infrastructure Technology and Mobility Technology segments. One common element of all these segments is that they all pursue B2B business models with a focus on the capital goods industry.

The **Production Process Technology** segment houses Group subsidiaries that largely provide products and services for series manufacturers' production processes. The **Resources Technology** segment encompasses companies that supply material-intensive companies in the industrial sector. Companies in the **Healthcare and Infrastructure Technology** segment supply companies in mass consumer markets such as the medical, hygiene, food or sanitary sectors. Last but not least, the **Mobility Technology** segment houses companies that supply the automotive, commercial vehicle and rail industry.

GESCO AG along with immaterial companies that are not assigned to any other segment are reported in the **GESCO AG / Other companies** segment. Consolidation effects and reconciliations to the corresponding Group values are disclosed in the line item **Reconciliation**.

€'000	Production Process Technology		Resource Technology		Healthcare and Infrastructure Technology		Mobility Technology	
	2018 / 2019	2017 / 2018	2018 / 2019	2017 / 2018	2018 / 2019	2017 / 2018	2018 / 2019	2017 / 2018
Order backlog	46,771	35,827	73,554	65,302	49,842	41,168	47,767	49,335
Incoming orders	91,270	72,087	289,933	271,008	154,114	129,888	59,912	79,421
Sales revenues	85,967	77,634	288,546	275,085	141,497	123,661	59,290	71,442
of which with other segments	5	7	668	555	13	15	82	52
Depreciation and amortization	2,991	2,967	4,540	4,046	6,355	6,202	4,139	3,875
EBIT	8,237	5,359	36,430	27,614	14,065	11,737	3,189	499
Investments	2,214	3,044	8,360	7,103	8,086	9,130	6,102	6,005
Employees (No. / reporting date)	615	468	751	761	825	759	455	482

€'000	Total operating segments		GESCO AG / other companies		Reconciliation		Group	
	2018 / 2019	2017 / 2018	2018 / 2019	2017 / 2018	2018 / 2019	2017 / 2018	2018 / 2019	2017 / 2018
Order backlog	217,934	191,632	0	0	0	0	217,934	191,632
Incoming orders	595,229	552,404	0	0	0	0	595,229	552,404
Sales revenues	575,300	547,822	303	190	- 1,071	- 819	574,532	547,193
of which with other segments	768	629	303	190	- 1,071	- 819	0	0
Depreciation and amortization	18,025	17,090	175	179	7,652	6,346	25,852	23,615
of which unscheduled (IAS 36)					2,022			
EBIT	61,921	45,209	- 7,716	- 5,971	- 6,559	- 5,449	47,646	33,789
Investments	24,762	25,282	100	196			24,862	25,478
Employees (No. / reporting date)	2,646	2,470	16	19			2,662	2,489

There are no material **business relationships** between the segments.

Segment investments relate to intangible assets (excluding goodwill) as well as property, plant and equipment.

The **evaluation of the results** of the reportable segments is based on German commercial law. The conversion to international accounting standards occurs in the Reconciliation item. **Group EBIT** can be derived from Group net income for the year based on the consolidated income statement.

Sales revenues are divided by **region** as follows:

	2018 / 2019		2017 / 2018	
	€'000	%	€'000	%
Germany	351,272	61.1	335,981	61.4
Europe (excluding Germany)	129,731	22.6	113,833	20.8
Other	93,529	16.3	97,379	17.8
	574,532	**100.0**	**547,193**	**100.0**

Displaying information on sales revenues from products and services pursuant to IFRS 8.32 would incur disproportionate effort and expense due to the diverse range of products and services.

Non-current assets (only intangible assets and property, plant and equipment) per **region** are as follows:

	2018 / 2019		2017 / 2018	
	€'000	%	€'000	%
Germany	194,777	93.5	175,522	93.6
Other regions	13,541	6.5	12,058	6.4
	208,318	**100.0**	**187,580**	**100.0**

Other Information on the Consolidated Financial Statements

Research and development costs

Research and development costs are treated as current expenditure. No capitalisation was required. Research and development costs totalled approximately 2 % of sales in both financial years.

Information on financial instruments

Financial instruments

€'000	Book value 31.03.2019	Not in the scope of application of IFRS 9	Application IFRS 9	Of which at fair value	Of which historical production or acquisition cost
Financial assets	2,007	1,552	455	274	181
Receivables	84,134	0	84,134	0	84,134
Other assets	16,396	11,811	4,585	0	4,585
Liquid assets	31,701	0	31,701	0	31,701
Financial assets	**134,238**	**13,363**	**120,875**	**274**	**120,601**
Liabilities to financial institutions	141,846	0	141,846	0	141,846
Lease liabilities	9,503	0	9,503		
Trade payables	18,334	0	18,334	0	18,334
Other receivables	36,876	7,477	29,399	388	29,011
Financial liabilities	**206,559**	**7,477**	**199,082**	**388**	**189,191**

€'000	Book value 31.03.2018	Not in the scope of application of IFRS 9	Application IFRS 9	Of which at fair value	Of which historical production or acquisition cost
Financial assets	1,601	1,215	386	196	190
Receivables	74,991	0	74,991	0	74,991
Other assets	13,607	8,678	4,929	33	4,896
Liquid assets	38,295	0	38,295	0	38,295
Financial assets	**128,494**	**9,893**	**118,601**	**229**	**118,372**
Liabilities to financial institutions	118,755	0	118,755	0	118,755
Lease liabilities	2,794	0	2,794	0	2,794
Trade payables	15,036	0	15,036	0	15,036
Other receivables	33,694	4,667	29,027	330	28,697
Financial liabilities	**170,279**	**4,667**	**165,612**	**330**	**165,282**

The following table shows the **assignment of financial instruments to categories according to IAS 9**:

€'000		Balance sheet recognition		Net results in the income statement	
Category IFRS 9	**Category IAS 39**	**31.03.2019**	**31.03.2018**	**31.03.2019**	**31.03.2018**
Financial assets measured at fair value included in earnings	Measured at fair value included in earnings	274	229	56	315
Financial assets measured at cost of acquisition	Loans and receivables	120,601	118,372	109	403
Financial assets		**120,875**	**118,601**	**165**	**718**
Financial liabilities measured at fair value included in earnings	liabilities held for trading	388	330	- 72	785
Financial liabilities measured at cost of acquisition	Other financial liabilities	198,694	165,282	- 2,165	- 2,270
Financial liabilities		**199,082**	**165,612**	**- 2,237**	**- 1,485**

The net result mainly includes interest, dividends as well as income and expenditure from derivative financial instruments.

Contingent Liabilities

Investment projects resulted in commitments in the amount of € 1,139 thousand (previous year: € 5,567 thousand). It is estimated that these investments will be concluded in the 2019 / 2020 financial year.

Various companies in the GESCO Group are required to maintain specific covenants.

There are no ongoing legal disputes that are expected to result in a material effect on income in excess of the provisions that have already been established. The guarantees received are within industry standards. Where claims are expected, provisions have been established for the expected amounts based on current information.

GESCO AG reached an agreement with a former Executive Board member whereby GESCO AG will exempt this former 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.

Rental and lease agreements

The following payment obligations exist for finance lease arrangements:

€'000	Total	2019 / 2020	2020 / 2021 – 2023 / 2024	2024 / 2025 and subsequent years
Minimum lease payments	9,334	1,502	4,758	3,074
Discounting amounts	2,848	387	1,316	1,145
Property purchase options	3,017	0	0	3,017
Present values	**9,503**	**1,115**	**3,442**	**4,946**

Some of the lease agreements contain extension and purchase options to acquire the leased items. The purchase price depends on when these options are exercised.

Rental and lease agreements (operating leases) have been concluded for buildings as well as other plant, fixtures and fittings. Related rental and lease payments amounted to € 3,366 thousand for the reporting year (previous year: € 3,862 thousand).

Due dates for the minimum lease payments arising from operating leases and rental agreements are as follows:

€'000	2018 / 2019	2017 / 2018
within one year	4,423	3,627
in one to five years	7,674	7,190
in more than five years	3,541	4,490
	15,638	**15,307**

Some of the lease agreements contain purchase options to acquire the leased items at the end of the lease term.

Related parties

Business relationships between fully consolidated and non-fully consolidated companies within the Group are conducted under regular market terms and conditions. Liabilities to related companies concern Connex SVT Inc., USA. Entrepreneur Stefan Heimöller, elected to GESCO AG's Supervisory Board by the Annual General Meeting, maintains business relationships to a minor extent with Dörrenberg Edelstahl GmbH and SVT GmbH, a 90% subsidiary of GESCO AG, through his company Platestahl Umformtechnik GmbH. These business relationships are conducted under regular market terms and conditions.

Staff

	2018 / 2019	2017 / 2018
Factory staff	1,566	1,588
Office staff	879	872
Trainees	119	122
Annual average number of employees	**2,564**	**2,582**

Marginal part-time employees were converted to the equivalent in full-time employees.

Exemption requirements for Group companies

Since some subsidiaries have been included in the consolidated financial statements of GESCO AG, they are exempt from the obligation to publish annual financial statements and a management report in accordance with the applicable regulations for incorporated companies as per Section 264b and Section 264 (3) of the German Commercial Code (HGB) (see Appendix: Significant Group Shareholdings).

Publication of the consolidated financial statements

The consolidated financial statements for 2018 / 2019 are to be examined and approved by the Supervisory Board of GESCO AG in its meeting on 16 May 2019 and are then authorised for publication.

The consolidated financial statements will be published on 27 June 2019 in conjunction with an annual accounts press conference and analysts' meeting in Bretten.

Corporate governance

The Executive Board and Supervisory Board of GESCO AG comply with the German Corporate Governance Code and have made a declaration of compliance available to shareholders on the website of GESCO AG.

The Executive Board holds a total of approximately 0.02 % of Company shares. Members of the Supervisory Board hold a total of approximately 13.73 % of Company shares.

Auditor

The auditing fees at GESCO AG for the financial year amounted to € 175 thousand (previous year: € 169 thousand), € 129 thousand for other auditing services (predominantly due diligence reviews) (previous year: € 96 thousand) and € 20 thousand (previous year € 17 thousand) for tax consulting services. The other auditing services include a fee of € 19 thousand (previous year: € 16 thousand) from a company associated with the auditor.

Fees were also incurred in the amount of € 274 thousand (previous year: € 270 thousand) for the audit of consolidated subsidiaries, € 72 thousand (previous year: € 63 thousand) for tax consulting services and € 21 thousand (due diligence reviews and audit according to Germany's Renewable Energies Act [EEG]) (previous year: € 13 thousand) for other auditing services.

Risk management

In order to recognise risks as early as possible and initiate compensating measures, the GESCO Group implemented a Group-wide risk management system. Detailed information regarding risks and opportunities can be found in the Group management report.

The GESCO Group is exposed to **financial instrument risk** in the form of credit risk, liquidity risk and market price risk. All types of risk may affect the assets, financial position and earnings of the Group. **Credit risk** mainly affects trade receivables. **Liquidity risk** refers to the risk of being unable to meet payment obligations as they come due. **Market price risk** mainly consists of exchange rate changes related to business operations as well as interest rate and exchange rate changes related to financing.

Since the type and scope of the respective risks affect every company differently, the management of these risks is defined separately for each company in the Group. Most risk management activities are implemented as part of business operations and financing activities.

Information on the individual risk categories

Credit Risk

Credit risk consists of the potential for an economic loss when a contractual partner does not pay on time or fails to meet all or part of the payment obligations. Great emphasis is placed on the management of trade receivables within the Group. The receivables are highly diversified; there are no debtors that owe more than 10 % of the Group's receivables portfolio. The type and extent of credit insurance coverage depends on the credit rating of the respective customer. Commonly used instruments include export insurance, letters of credit, credit insurance, prepayments, guarantees, bonds and the retention of title. The risk of default for the Group is limited to the ordinary business risk. Allowances for doubtful accounts were established for identifiable default risks. Counterparty risk for derivative financial instruments is limited by only entering into derivative transactions with well-known domestic financial institutions.

The theoretical maximum default risk (credit risk) equals a total loss of the book value of the financial instruments. Based on current information, the default risk for unadjusted financial instruments is low since risk management tools limit the probability of default. The following table includes the expected default risk and credit default from trade receivables:

€'000	Loss rate	Gross book value	Valuation allowance	Impairment of credit rating
Not overdue	1.35 %	64,705	871	no
overdue by up to 30 days	1.54 %	9,677	149	no
overdue by 30 to 90 days	5.13 %	5,500	282	no
overdue by 90 to 180 days	5.85 %	1,933	113	no
overdue by more than 180 days	44.85 %	3,469	1,556	yes

Liquidity Risk

Cash is managed separately by each company in the Group; there is no centralised cash pooling for the Group. Expected cash flows from business operations as well as financial assets and liabilities are considered for cash management purposes.

Future payments are largely covered by receipts from business operations. Peak financing requirements are covered by the existing liquidity and by lines of credit.

Market Price Risk

Market price risk refers to the risk of exchange rate changes related to business operations as well as the risk of interest rate changes related to financing and fluctuations in the market price of securities.

Market price risk due to the **risk of exchange rate changes** is the result of international business relationships. Exchange rate fluctuations are constantly monitored using a variety of information sources. The relationship between the US dollar and the Euro is especially important. The general competitiveness and profitability of specific projects for companies within the Group that have production facilities in the eurozone while issuing invoices in US dollars is naturally affected by changes in the relationship between the US dollar and the Euro.

For significant business transactions, exchange rate risks are hedged by means of forward exchange transactions. These forward exchange transactions may be subject to market price risk to the extent that currencies must be sold at the current spot price on the settlement date. The ultimate purpose of forward transactions is to avoid risks resulting from exchange rate fluctuations. As a result, potential losses due to exchange rate changes are eliminated along with potential gains. The term and scope of these transactions corresponds to the underlying business transactions.

In accordance with IFRS 7, the company prepares a sensitivity analysis for market price risk in order to determine the effects of hypothetical changes to the risk variables. These hypothetical changes are applied to the financial instrument portfolio on the reporting date. This process assumes that the portfolio on the reporting date is representative for the entire year.

Interest rate risk mainly results from debt financing. According to IFRS 7, interest rate risk is represented by means of a sensitivity analysis. The sensitivity analysis illustrates the effects of hypothetical changes in market interest rates on interest expenditure. Had market interest rates been 100 basis points higher or lower during the reporting year, Group net earnings and consolidated equity after minority interest would have been € 779 thousand (previous year: € 827 thousand) lower or higher.

Currency risks from the supply of goods and services are only limited for GESCO Group. For goods supplied by subsidiaries outside the eurozone, larger orders are almost entirely hedged by forward transactions.

Trade receivables denominated in foreign currencies amounted to € 10,094 thousand (previous year: € 9,207 thousand) on the reporting date. This corresponds to 12.3 % (previous year: 12.6 %) of total trade receivables. Receivables are denominated in the following currencies:

€'000	2018 / 2019	2017 / 2018
US dollar	7,626	5,947
Taiwanese dollar	942	1,220
Chinese renminbi yuan	677	1,244
Ukrainian hryvnia	588	471
South African rand	120	161
Russian ruble	46	0
Mexican peso	40	142
Hungarian forint	36	17
British pound	19	5

A 10 % fluctuation in exchange rates on the reporting date would have affected both Group net earnings and consolidated equity after minority interests by either € -637 thousand or € +779 thousand (previous year: € -496 thousand or € +606 thousand).

Forward exchange transactions and foreign currency loans are used to hedge pending sales transactions in US$ against exchange rate risks. The fair value of hedging transactions amounted to € -70 thousand as at the reporting date (previous year: € 20 thousand). Other comprehensive income amounted to € -44 thousand after deferred taxes and minority interest (third party) (previous year: € 12 thousand). Cash flows of US$ 5.1 million are hedged, which will be due in financial year 2019 / 2020.

Executive bodies of the Company

Executive Board

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

Ralph Rumberg, Witten, Germany (since 1 July 2018) – Speaker of the Executive Board

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

On 31 January 2019, the company announced that Kerstin Müller-Kirchhofs would become a member of the Executive Board effective 1 May 2019.

The remuneration of the Executive Board is as follows:

€'000	Dr Eric Bernhard		Ralph Rumberg		Robert Spartmann		Total	
	2018 / 2019	2017 / 2018	2018 / 2019	2017 / 2018	2018 / 2019	2017 / 2018	2018 / 2019	2017 / 2018
Fixed remuneration	241	311	262	-	228	281	731	592
Variable remuneration	262	221	298	-	298	242	858	463
Stock options	33	26	33	-	33	26	99	52
Pension-related expenses	62	60	49	-	57	57	168	117
	598	**618**	**642**	**-**	**616**	**606**	**1,856**	**1,224**

Executive Board members Dr Eric Bernhard, Robert Spartmann and Ralph Rumberg each received 18,000 stock options in September 2018.

Outgoing Executive Board member Robert Spartmann achieved an entitlement to his pension commitment of 16 % of its assessment value (most recent annual salary). As at 31 March 2019, the projected unit credit of pension obligations (DBO) stood at € 903 thousand (previous year: € 1,001 thousand).

As at 31 March 2019, additional pension obligations (DBO) for outgoing members of the Executive Board amounted to € 1,773 thousand (previous year: € 1,648 thousand). Another member of the Executive Board was granted payments of € 71 thousand (previous year: € 62 thousand) on the basis of his pension commitment in the financial year.

Supervisory Board

Klaus Mollerfriedrich, Düsseldorf, Germany – Chairman
Auditor

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

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

Stefan Heimöller, Neuenrade, Germany – Deputy Chairman
Managing partner at Platestahl Umformtechnik GmbH, Ludenscheid, Germany, and at Helios GmbH, Neuenrade, Germany

Jens Große-Allermann, Cologne, Germany – Member of the Supervisory Board
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

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

Dr Nanna Rapp, Düsseldorf – Member of the Supervisory Board
Chief Executive Officer of E.ON Inhouse Consulting GmbH, Essen, Germany

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

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

€'000	Fixed remuneration		Variable remuneration		Total	
	2018 / 2019	2017 / 2018	2018 / 2019	2017 / 2018	2018 / 2019	2017 / 2018
Klaus Möllerfriedrich	20	22	94	57	114	79
Stefan Heimöller	17	19	94	57	111	76
Jens Große-Allermann	15	9	94	28	109	37
Dr Nanna Rapp	14	16	94	57	108	73
	66	**66**	**376**	**199**	**442**	**265**

GESCO AG has obtained a "Directors' and Officers' Liability Insurance" (D&O Insurance) policy for Group management. This policy covers, among others, the members of the Executive Board and Supervisory Board of GESCO AG as well as the managing directors of the subsidiaries. Insurance premiums of € 69 thousand (previous year € 69 thousand) were paid during the 2018 / 2019 financial year.

Wuppertal, Germany, 14 May 2019

The Executive Board

Ralph Rumberg
(Spokesman of the Executive Board)

Kerstin Müller-Kirchhofs

Statement of the legal representatives

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

Wuppertal, 14 May 2019

The Executive Board

Ralph Rumberg
(Spokesman of the Executive Board)

Kerstin Müller-Kirchhofs

Significant Group Shareholdings

Fully consolidated companies[1]	Proportion of capital %
Alro GmbH, Wuppertal	100
AstroPlast Kunststofftechnik GmbH & Co. KG, Meschede[3]	100
AstroPlast Verwaltungs GmbH, Meschede[2]	100
C.F.K. CNC-Fertigungstechnik Kriftel GmbH, Kriftel	80
Dömer GmbH & Co. KG Stanz- und Umformtechnologie, Lennestadt[3]	100
Dömer GmbH, Lennestadt[2]	100
Dörrenberg Edelstahl GmbH, Engelskirchen	90
Dörrenberg Tratamientos Térmicos SL, Alasua, Navarra, Spain	60
Dörrenberg Special Steels PTE. Ltd., Singapore	90
Dörrenberg International PTE. Ltd., Singapore	90
Doerrenberg Special Steels Taiwan Ltd., Tainan, Taiwan	100
Middle Kingdom Special Steels PTE Ltd., Singapore	60
Jiashan Doerrenberg Mould & Die Trading Co., Jiashan, China	100
Doerrenberg Specialty Steel Corp., Macedonia, Ohio, USA	100
Frank Walz- und Schmiedetechnik GmbH, Hatzfeld	90
Frank-Hungaria Kft., Òzd, Hungary	100
Frank Lemeks Tow, Ternopil, Ukraine	100
OOO Frank RUS, Orjol, Russia	100
Franz Funke Zerspanungstechnik GmbH & Co. KG, Sundern[3]	100
Franz Funke Verwaltungs GmbH, Sundern[2]	100
Georg Kesel GmbH & Co. KG, Kempten[3]	90
Kesel International GmbH, Kempten	100
Georg Kesel Machinery (Beijing) Co., Ltd., Beijing, China, i.L.	100
Georg Kesel Machinery (Jiashan) Co., Ltd., Jiashan, China	100
Kesel North America, LLC, Beloit, Wisconsin, USA	100
Kesel & Probst Verwaltungs-GmbH, Kempten[2]	100
Haseke GmbH & Co. KG, Porta Westfalica[3]	80
Haseke Beteiligungs-GmbH, Porta Westfalica[2]	100
Hubl GmbH, Vaihingen / Enz	80
MAE Maschinen- und Apparatebau Götzen GmbH, Erkrath[4]	100
MAE International GmbH, Erkrath	100
MAE Machines (Beijing) Co., Ltd., Beijing, China	100
MAE Amerika GmbH, Erkrath	100
MAE-EITEL INC., Orwigsburg, Pennsylvania, USA	90
Modell Technik Formenbau GmbH, Sömmerda[4]	100
Modell Technik Beteiligungsgesellschaft mbH, Sömmerda	100
Molineus & Co. GmbH + Co. KG, Wuppertal[3]	100
Grafic Beteiligungs-GmbH, Wuppertal[2]	100
Paul Beier GmbH & Co. KG, Kassel[3]	100
Paul Beier Verwaltungs-GmbH, Kassel[2]	100
Pickhardt & Gerlach GmbH & Co. KG, Finnentrop[3]	100
Hekhorn Verwaltungs-GmbH, Finnentrop[2]	100

Fully consolidated companies[1]	Proportion of capital %
Hekhorn Immobilien GmbH, Finnentrop	100
Q-Plast GmbH & Co. Kunststoffverarbeitung, Emmerich[3]	100
Q-Plast Beteiligungs-GmbH, Emmerich[2]	100
Setter GmbH & Co. Papierverarbeitung, Emmerich[3]	100
Setter GmbH, Emmerich[2]	100
HRP-Leasing GmbH, Emmerich	100
Setter International GmbH, Emmerich	100
Setterstix Inc., Cattaraugus, New York, USA	100
SQG Verwaltungs GmbH, Emmerich	100
Setterstix de México S.A.DE C.V., San Luis Potosi, Mexico	100
Sommer & Strassburger Edelstahlanlagenbau GmbH & Co. KG, Bretten[3]	100
So-Stra Verwaltungs-GmbH, Bretten	100
SVT GmbH, Schwelm	90
IV Industrieverwaltungs GmbH & Co. KG, Wuppertal[3]	100
MV Anlagen GmbH & Co. KG, Wuppertal[3]	100
IMV Verwaltungs GmbH, Wuppertal[2]	100
VWH GmbH, Herschbach	80
WBL Holding GmbH, Laichingen	100
Werkzeugbau Laichingen GmbH, Laichingen	100
Werkzeugbau Leipzig GmbH, Leipzig	100
TM Erste Grundstücksgesellschaft mbH, Wuppertal	94

Companies valued at equity[1]	Proportion of capital %
Saglam Metal Sanayi Ticaret A.S., Istanbul, Turkey	20
Doerrenberg Special Steels Korea Co. Ltd, Jeongwang-dong, South Korea	50
Fine Metal S.R.L., Bukarest, Romania	40

Companies which are not consolidated[1]	Proportion of capital %
Connex SVT Inc., Houston, Texas, USA	100
Papersticks S.A. Ltd., Durban, South Africa	100

[1] Share capital held directly or via majority shareholdings
[2] Corporation as the general partner
[3] Utilisation of exemption pursuant to Section 264b of the German Commercial Code (HGB)
[4] Utilisation of exemption pursuant to Section 264 (3) of the German Commercial Code (HGB)

Independent Auditor's Report

To GESCO AG

Report on the audit of the consolidated financial statements and the Group management report

Audit opinions

We audited the consolidated financial statements of GESCO AG and its subsidiaries (the Group) – comprising the consolidated balance sheet as at 31 March 2019, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year from 1 April 2018 to 31 March 2019 as well as the notes to the consolidated financial statements, including a summary of material accounting methods. In addition, we also audited the Group management report of GESCO AG for the financial year from 1 April 2018 to 31 March 2019. We did not audit the content of the separate, non-financial Group report and the Group declaration of compliance, which were referred to in the Group 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 consolidated financial statements comply with the International Financial Reporting Standards (IFRS), as applicable in the EU, in all material aspects and additional German legal requirements in accordance with Section 315e para. 1 German Commercial Code (HGB) and gives a true and fair view of the assets and financial position of the Group as at 31 March 2019 as well as its earnings for the financial year from 1 April 2018 to 31 March 2019 and
- the Group management report provides a suitable presentation of the Group's position. This Group management report corresponds to the consolidated financial statements in all material aspects, complies with German commercial law and provides a true reflection of the opportunities and risks of future development. Our audit findings concerning the management report do not extent to the content of the aforementioned separate non-financial Group report and the aforementioned Group declaration of compliance.

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 consolidated financial statements and the Group management report.

Basis for the audit opinions

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

Key audit matters in the audit of the consolidated financial statements

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

We consider the following to be key audit matters:
- Recoverability of goodwill (impairment test)
- Initial consolidation of Sommer & Strassburger KG (purchase price allocation)
- Recognition and measurement of deferred taxes on loss carry-forwards

Recoverability of goodwill (impairment test)

Reason for classifying this matter as a key audit matter

The company performs an annual impairment test on all goodwill that is not able to be written down on schedule, irrespective of whether there are indications of impairment. The impairment test is conducted for each affected cash-generating unit (CGU) by comparing the recoverable amount with the corresponding book value. Each individual company is generally defined as a CGU. Recoverable amounts are generated calculated according to the discounted cash flow (DCF) method. This calculation is based on available cash flows for the next 3 years (detailed planning phase) as derived from companies' budgets. The financial surpluses for the subsequent years are forecast as perpetual annuities on the basis of the detailed plan; growth is accounted for by means of a discount applied to the discounting rate. 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 consolidated financial statements.

The company's disclosures on goodwill are included in paragraphs 2 and 25 of the notes to the consolidated financial statements.

Treatment in auditing the financial statements

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

The measurement models applied to the calculation of the recoverable amounts, the underlying measurement parameters and assumptions and the presented calculations are appropriate. We have no objections regarding the assessment of goodwill recoverability.

Initial consolidation of Sommer & Strassburger KG (purchase price allocation)

Reason for classifying this matter as a key audit matter

In financial year 2018/2019, GESCO AG acquired 100% of the shares in Sommer & Strassburger Edelstahlanlagenbau GmbH & Co. KG. During the initial consolidation, the assets and liabilities of the acquired company were revalued and offset against the purchase price. The purchase price allocation resulted in a goodwill of € 9.7 million. Due to the complexity of the purchase price allocation procedure and the discretionary judgement applied to the determination of the fair value during the revaluation, this matter was considered to be one of the most significant in the auditing of the consolidated financial statements.

The company's disclosures on the initial consolidation of Sommer & Strassburger KG are included in the General information section of the notes to the consolidated financial statements under the scope of consolidation.

Treatment in auditing the financial statements

We audited the purchase price allocation using the provisions of the purchase agreement, the opening balance sheet and the submitted calculations. We also used our findings from the due diligence review we carried out. We assessed whether the models applied to measure intangible assets and property, plant and equipment were appropriate. In relation to this, we gained an understanding of the data on which the models were based and the assumptions made or used. We verified the mathematical accuracy of the calculated fair value. In addition, we analysed the recognition of deferred taxes in consideration of the supplementary tax balance sheet during the purchase price allocation.

All in all, we verified that the acquisition of Sommer & Strassburger KG was properly reflected.

Recognition and measurement of deferred taxes on loss carry-forwards

Reason for classifying this matter as a key audit matter

The company has recognised deferred tax liabilities to the extent that it is likely that future taxable income will be generated in a sufficient volume. The tax calculation is complex due to the structure of the Group and is linked to estimation uncertainty and discretionary judgement in terms of the forecast of future tax calculation bases and the applicable planning period. Against this backdrop, this matter was considered to be one of the most significant in the auditing of the consolidated financial statements.

The company's disclosures on deferred taxes on loss carry-forwards are included in paragraphs 12 and 26 of the notes to the consolidated financial statements.

Treatment in auditing the financial statements

We compared the forecast future tax calculation bases with the approved budgets of the companies concerned. We assessed whether the material assumptions underpinning the budgets are plausible and whether the applied planning periods are appropriate. In addition, we also analysed the treatment of deferred tax assets on temporary differences in the case of non-recognised deferred taxes on loss carry-forwards. We verified the mathematical accuracy of the tax loss carry-forwards.

All in all, we verified that the estimations and assumptions are suitable and justified. We do not have any objections with regard to the recognition and measurement of deferred taxes on loss carry-forwards.

Other information

The legal representatives are responsible for other information Other information includes the following
- the separate non-financial Group report
- the Group declaration of compliance referred to in the Group management report
- the other parts of the annual report, with the exception of the audited consolidated financial statements, the Group management report and our [independent] auditor's report
- the corporate governance report pursuant to Section 3.10 German Corporate Governance Code, and
- the statement of assurance pursuant to Section 297 paragraph 2 sentence 4 HGB concerning the consolidated financial statements and the statement of assurance pursuant to Section 315 paragraph 1 sentence 5 HGB concerning the Group management report.

Our audit opinions concerning the consolidated financial statements and the Group 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 consolidated financial statements, the Group management report or our findings gathered within the scope of our audit or
- otherwise appears to be incorrectly presented.

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

The legal representatives are responsible for preparing the consolidated financial statements that comply in all material aspects with IFRS as applicable in the EU and the German legal requirements applicable pursuant to Section 315e paragraph 1 HGB and also for ensuring that the consolidated financial statements provide a true and fair view, in accordance with these requirements, of the assets, financial position and earnings of the Group. In addition, the legal representatives are also responsible for implementing the internal controls they deem necessary to prepare consolidated financial statements that do not contain – either intentionally or unintentionally – any material misstatements.

In preparing the consolidated financial statements, the legal representatives are responsible for assessing the ability of the Group 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 on the basis of the going concern assumption, unless there is the intention to liquidate the Group or discontinue business operations or there is no other realistic alternative.

In addition, the legal representatives are also responsible for preparing a Group management report that provides a true and fair view of the Group's position and corresponds in all material aspects to the consolidated 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 Group 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 Group management report.

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

Responsibility of the auditor for auditing the consolidated financial statements and the Group management report

Our aim is to determine with a sufficient level of certainty whether the consolidated financial statements as a whole are free of material misstatements – both intentional and unintentional – and whether the Group management report as a whole provides a true and fair view of the Group's position and corresponds in all material aspects with the consolidated 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 consolidated financial statements and the Group management report.

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

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

- we identify and assess the risks of material – intentional or unintentional – misstatements in the consolidated financial statements in the Group management, 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 consolidated financial statements and the precautions and measures relevant to the audit of the Group 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 Group to continue operating as a going concern. If we concluded that there is material uncertainty in this context, we are obliged to refer to the relevant disclosures in the consolidated financial statements and in the Group 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 Group being unable to continue operating as a going concern.
- we assess the overall presentation, structure and content of the consolidated financial statements, including the notes to the consolidated financial statements, and whether the consolidated 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 Group in consideration of IFRS as applicable in the EU and additional applicable German legal regulations pursuant to Section 315e paragraph 1 HGB.
- we obtain sufficiently suitable audit evidence for the company's accounting information or business activities within the Group in order to provide audit opinions on the consolidated financial statements and the Group management report. We are responsible for instructing, monitoring and conducting the audit of the consolidated financial statements. We bear sole responsibility for our audit opinions.
- we assess the consistency of the Group management report with the consolidated financial statements, its compliance with the law and the presented position of the Group.
- we conduct audit activities on the forward-looking statements in the Group management made by the legal representatives. On the basis of sufficient audit evidence, we verify in particular the material assumptions underpinning the forward-looking statements made by the legal representatives and assess that the forward-looking statements have been correctly derived from these statements. We do not provide a separate audit opinion on the forward-looking statements or on the underlying assumptions. There is a material and unavoidable risk that future events will significantly deviate from the forward-looking statements.

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

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

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

Other legal requirements

Other disclosures pursuant to Article 10 EU AR

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

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

Responsible auditor

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

Wuppertal, Germany, 14 May 2019

Breidenbach und Partner PartG mbB
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

(Straube)	(Wendlandt)
Wirtschaftsprüfer	Wirtschaftsprüfer

Financial calendar

27 June 2019
Annual accounts press conference and analysts' meeting

14 August 2019
Publication of the quarterly statement for the first quarter

29 August 2019
Annual General Meeting at the Stadthalle Wuppertal, Germany

14 November 2019
Publication of the Half Year Interim Report

February 2020
Publication of the quarterly statement for the third quarter

30 April 2020
Annual accounts press conference and analysts' meeting*)

May 2020
Publication of the quarterly statement for the first quarter*)

18 June 2020
Annual General Meeting at the Stadthalle Wuppertal, Germany*)

*) In case of change of financial year.

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If you would like to be kept regularly informed, please let us know and ask to be included in our mailing list.

Note:

This Annual Report contains forward-looking statements that are based on current assumptions and forecasts of the Executive Board of GESCO AG. These statements are therefore subject to risks and uncertainties. The results and business development of GESCO AG and the GESCO Group may, under certain circumstances, deviate substantially from the estimates provided in this Annual Report. GESCO AG does not assume any obligation to update such forward-looking statements or adjust them according to future events or developments.

Despite extensive precautions, discrepancies may occur between this Annual Report and the accounting documents submitted to the German Federal Gazette, especially for technical reasons (e.g. conversion of electronic formats). In this case, the version submitted to the German Federal Gazette prevails.

A German version of the Annual Report is also available; in the event of any discrepancies, the German version prevails.

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