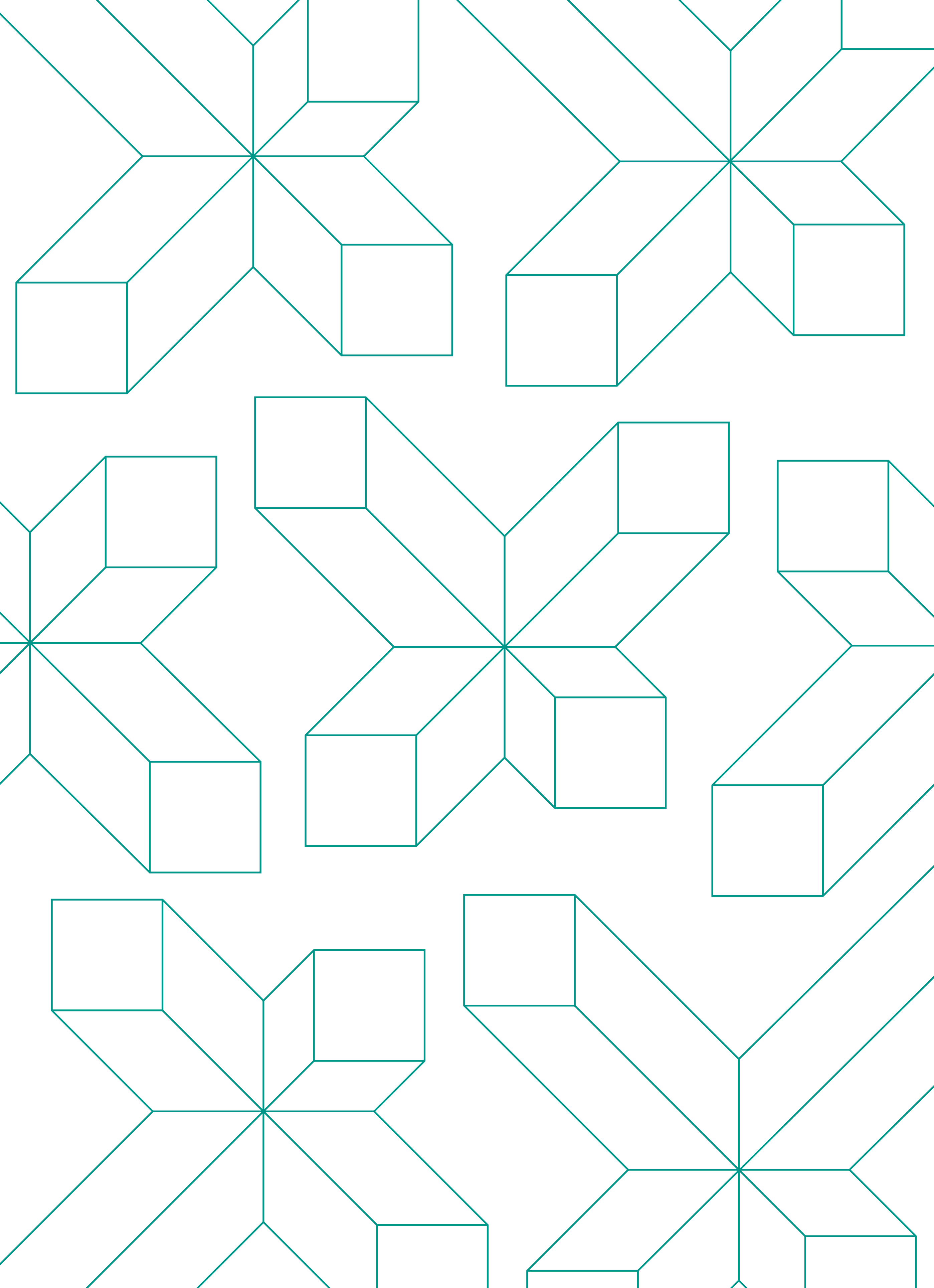
GESCO AG
Annual Report
2019

NEXT LEVEL
In Progress



NEXT LEVEL

In Progress

NEXT LEVEL
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"In the past year, we launched NEXT LEVEL, a new chapter in GESCO's history. In abbreviated financial year 2019, we made good headway with the implementation of the strategy. The coronavirus dramatically demonstrates that every company must maintain a strong position in order to survive. That includes healthy finances, a leading market position and strong profitability. And that is exactly what we are trying to achieve with NEXT LEVEL."

Ralph Rumberg, CEO

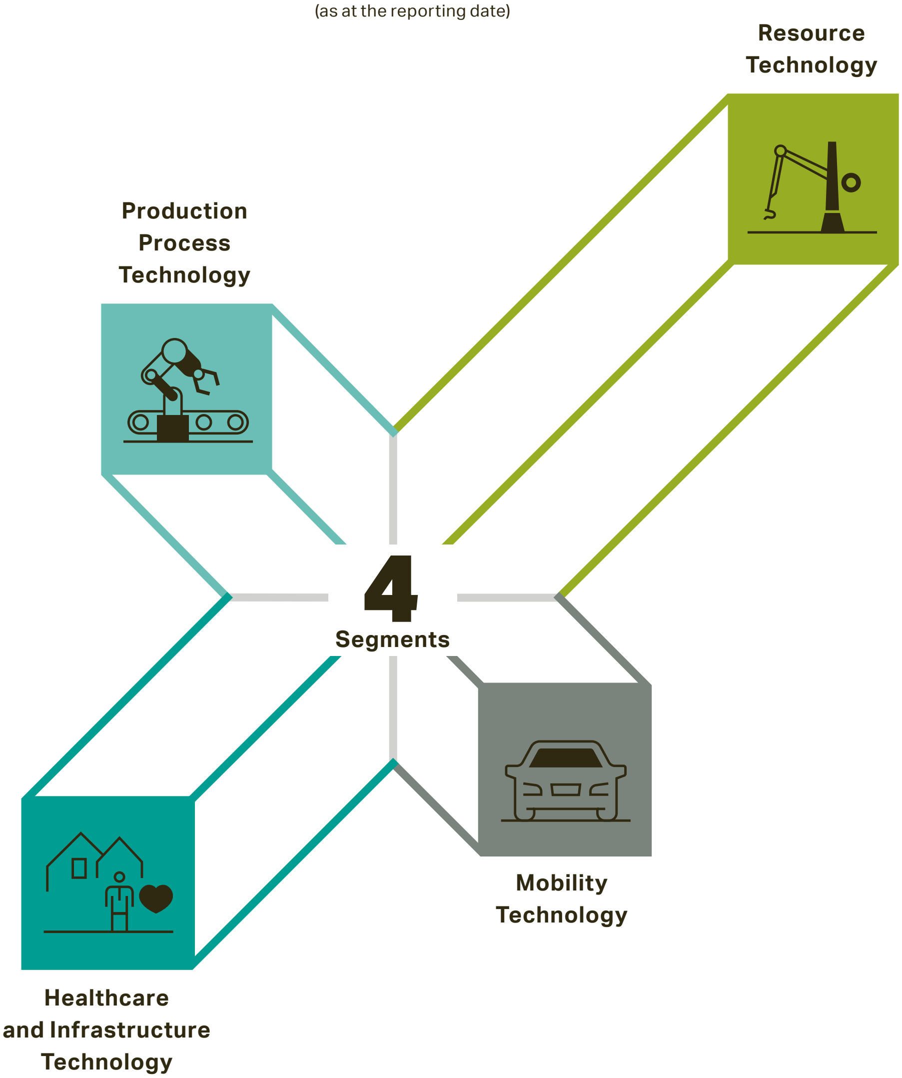
Profile

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 ploughshares to suspension arms for medical technology. Many of the companies are niche providers. Some are market leaders. And all are recognized players with established brands. The 18 companies are allocated to four segments that are geared towards customer markets.

2,718

employees worldwide

(as at the reporting date)



40

locations worldwide

GESCO at a Glance

Key figures GESCO Group (IFRS)

Financial year until 2018 / 2019: 01.04. – 31.03. Abbreviated financial year 2019: 01.04. – 31.12.2019		2010 / 2011 01.04. – 31.03.	2011 / 2012 01.04. – 31.03.	2012 / 2013 01.04. – 31.03.	2013 / 2014 01.04. – 31.03.	
Sales	€'000	335,237	415,426	440,417	453,336	
of which domestic	€'000	219,981	270,888	286,609	300,263	
of which foreign	€'000	115,256	144,538	153,808	153,073	
EBITDA	€'000	38,180	51,186	51,763	48,719	
EBIT	€'000	26,958	39,116	37,341	32,010	
Earnings before tax	€'000	24,091	35,672	33,825	29,018	
Taxes on income and earnings	€'000	- 7,651	- 11,087	- 11,088	- 9,261	
Taxation rate	%	31.8	31.1	32.8	31.9	
Group net income after minority interest	€'000	15,251	22,531	20,916	18,121	
Earnings per share pursuant to IFRS[1)]	€	1.68	2.47	2.10	1.82	
Investment in Property, Plant and Equipment[2)]	€'000	9,915	14,937	21,609	27,164	
Depreciation on Property, Plant and Equipment	€'000	9,058	9,850	12,190	14,136	
Equity	€'000	114,678	154,988	166,500	176,604	
Total assets	€'000	260,246	321,138	357,547	379,950	
Equity ratio	%	44.1	48.3	46.6	46.5	
Employees (as at balance sheet date)	No.	1,775	1,899	2,292	2,360	
of which trainees	No.	92	97	120	144	
Year-end share price[1)]	€	19.63	21.80	25.18	25.38	
Dividend per share[1)]	€	0.67	0.97	0.83	0.73	

[1)] Financial years 2010/2011 to 2015/2016 adjusted to share split 1:3 from Dec. 2016.
[2)] Without additions from changes to the scope of consolidation and in 2019 without initial accounting according to IFRS 16.
[3)] Dividend proposal to the AGM 2020.

Information on the changeover of the financial year and the adjustment of the previous year's figures can be found in the chapter "Change in financial year".

439.6

€ million sales

23.5

€ million EBIT

1.14

€ earnings per share

2014 / 2015 01.04. – 31.03.	2015 / 2016 01.04. – 31.03.	2016 / 2017 01.04. – 31.03.	2017 / 2018 01.04. – 31.03.	2018 / 2019 01.04. – 31.03. as reported	2018 / 2019 01.04. – 31.03. adjusted	Abbreviated financial year 01.04. – 31.12.
451,434	494,014	482,480	547,193	574,532	580,254	439,619
303,597	323,862	302,419	335,981	351,272	353,178	258,844
147,837	170,152	180,061	211,212	223,260	227,076	180,775
46,171	53,261	49,745	57,404	73,498	68,375	44,035
27,300	31,457	22,137	33,789	47,646	42,101	23,470
24,553	28,828	19,187	31,861	45,420	39,809	21,804
- 10,401	- 10,307	- 9,458	- 13,690	- 15,443	- 14,042	- 8,076
42.4	35.8	49.3	43.0	34.0	35.3	37.0
12,350	16,127	7,890	16,099	26,598	22,582	12,386
1.24	1.62	0.79	1.49	2.46	2.08	1.14
29,525	23,974	19,788	24,638	23,838	23,354	15,838
15,475	16,940	24,009	17,989	19,081	19,415	17,487
182,803	195,773	214,095	224,265	244,261	250,567	250,428
403,739	410,175	439,915	456,256	509,513	525,486	506,099
45.3	47.7	48.7	49.2	47.9	47.7	49.5
2,465	2,537	2,535	2,489	2,662	2,684	2,718
156	153	138	134	134	108	130
25.46	24.71	24.96	28.50	22.75	22.75	18.86
0.58	0.67	0.35	0.60	0.90	0.90	0.23[3)]

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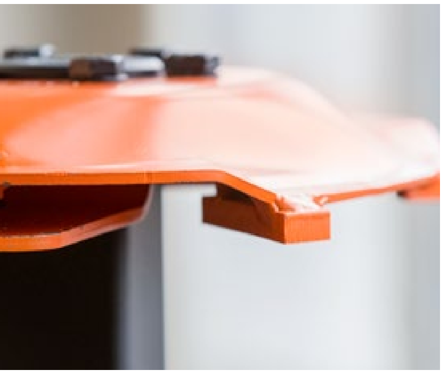

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01

NEXT LEVEL In Progress

NEXT LEVEL In Progress

Markets are evolving faster and faster while conditions are becoming increasingly complex. Resolute, wide-reaching and with high intensity, NEXT LEVEL is the biggest transformation since our company was founded.

MAPEX goal:
(12 – 24 months to efficiency)
Annual sales growth
above the market of

3 %

The CANVAS workshop and our OPEX, MAPEX and LEADEX Excellence Programmes are the stepping stones to sustainable performance, growth and dynamic adaptability. We are strengthening the Group from the inside out by building strong individual subsidiaries regardless of the economic cycle.

CANVAS – business model analysis
Introductory workshop for a holistic analysis of the respective business model.
Goal:
to instil common understanding in the managing team and identify potential for development within the company

OPEX – Operational Excellence
Analysis of value creation processes, particularly quality, lead time and delivery performance, as well as cost structures.
Goal:
increasing efficiency and margins

OPEX goal:
(9–12 months to efficiency)
Annual growth of
sales per employee

3 %

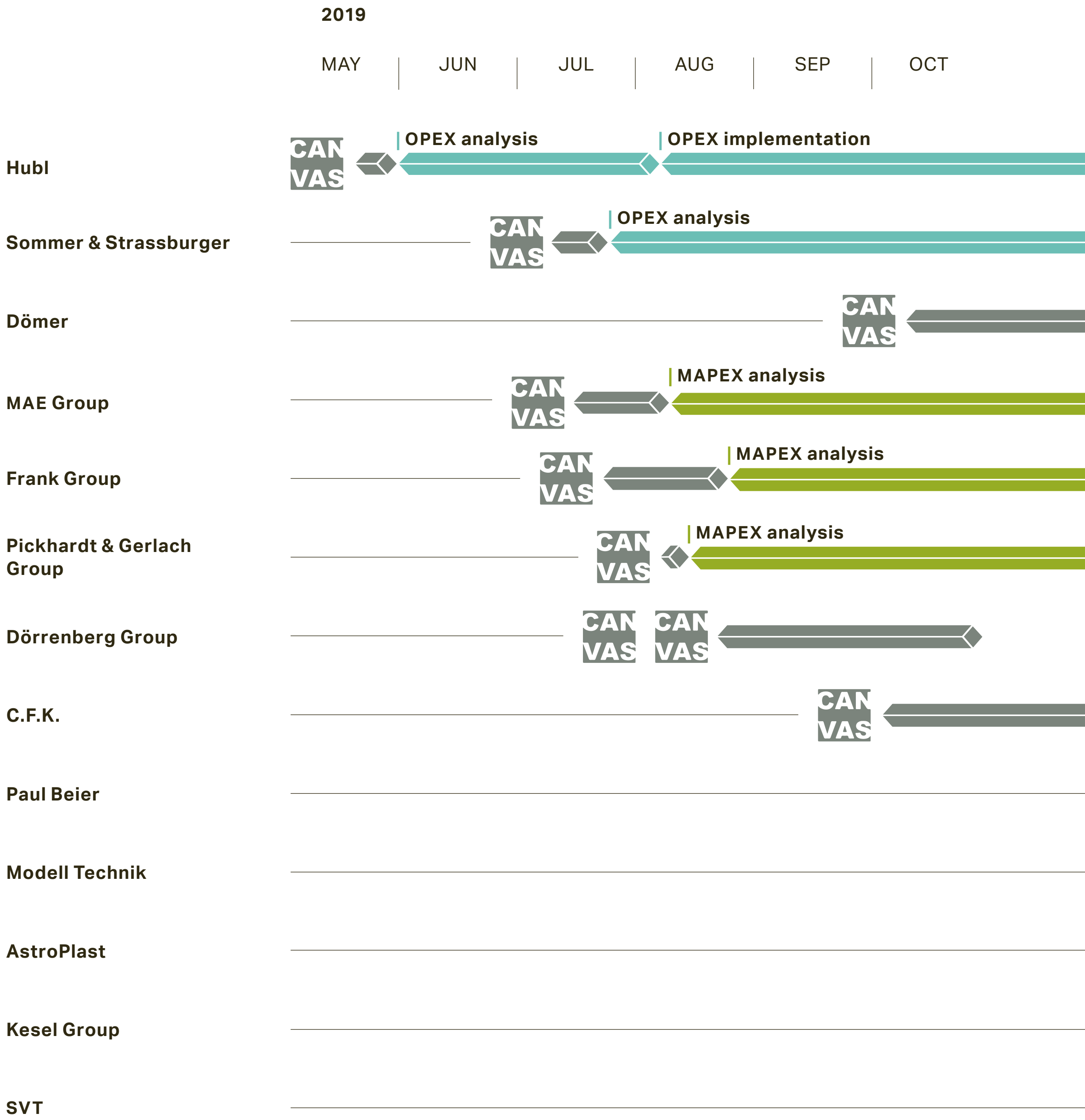
MAPEX – Market and Product Excellence
Analysis of customer segments, product offerings, customer channels and relationships. Further development of the product portfolio and market position.
Goal:
expanding business volumes

LEADEX – Leadership Excellence
Workshops for sharpening leadership skills in a dynamic environment.
Goal:
promote and develop executives, strengthen corporate culture

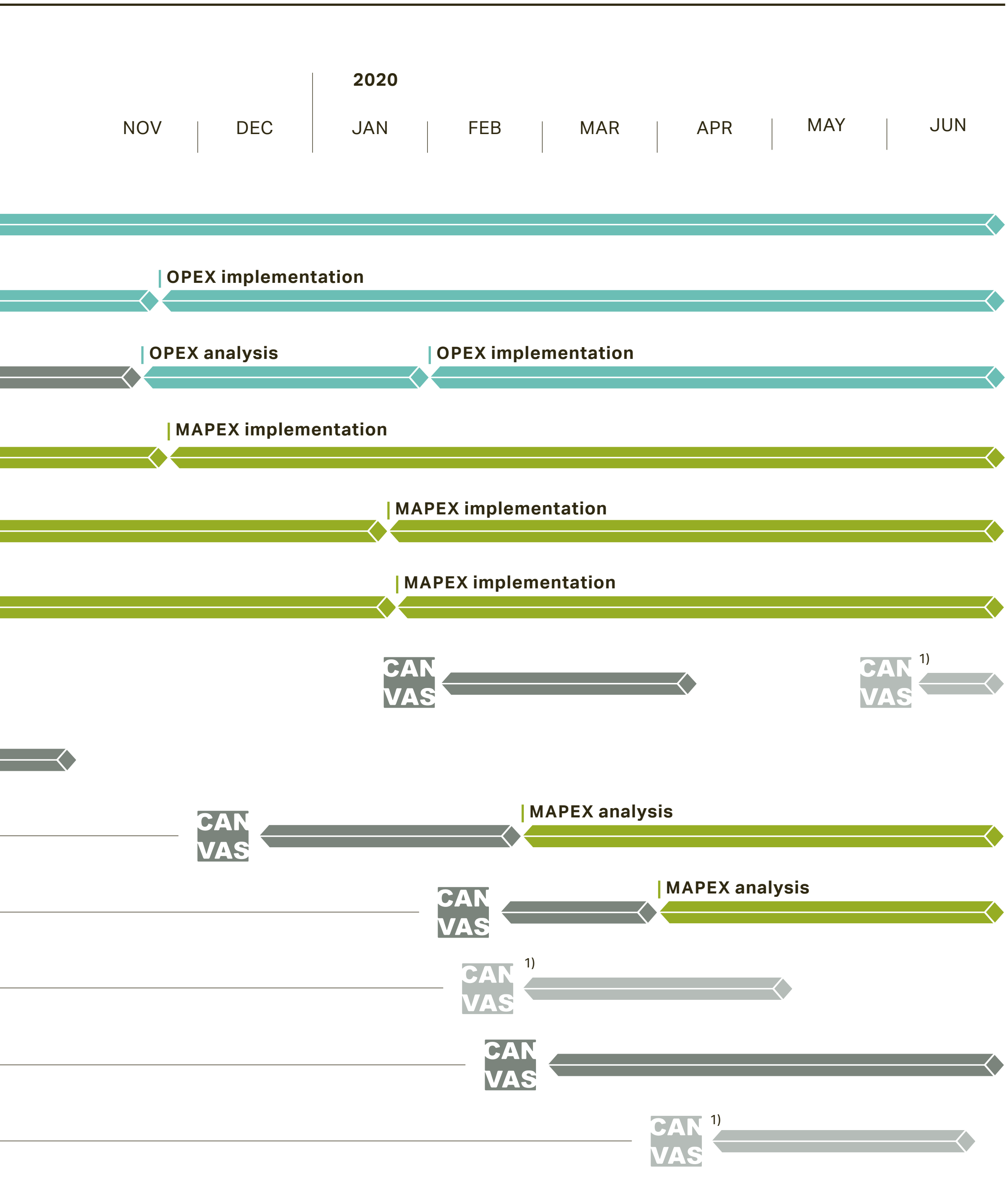
Target EBIT margin
(throughout the whole cycle)
p.a.

8 – 10 %

NEXT LEVEL In Progress



Due to the coronavirus pandemic, workshops with large participant groups have been postponed. Projects that had already been launched are continuing and being implemented step by step as far as restrictions allow.



1) Postponed due to the coronavirus

An interview with Kerstin Müller-Kirchhofs (CFO) and Ralph Rumberg (CEO)

A new chapter

In the year of its 30th anniversary, 2019, GESCO AG started a new chapter in its corporate history. The implementation of the strategy comes at a time of headwind in the capital goods industry and massive upheaval in the automotive sector. The corona crisis has now radically changed the conditions.

13

CANVAS workshops, as well as three OPEX and three MAPEX programmes, have already been completed or are scheduled.

Mr Rumberg, Ms Müller-Kirchhofs: How much progress has GESCO made with the implementation of the strategy?

RR We developed the foundation of the strategy in autumn 2018, added detail to the concept in early 2019 and then got the managing directors of the subsidiaries on board in spring 2019. After that, we started the first workshops, which served as flagship projects, before moving directly into broad implementation.

So far we have scheduled a total of 13 CANVAS workshops, and have carried out three OPEX programmes and three MAPEX programmes.

Have you drawn any initial conclusions?

RR The CANVAS workshops provide clarity. We are developing a common understanding of the company's strengths and weaknesses, its organisational structure and processes, and its external positioning. That has also enabled teams that have been working together for some time to grow closer. They have been able to clarify their position and define their goals, resulting in further fields of action. If we primarily see potential in internal processes and increased efficiency in production, then an OPEX programme is suitable. Where markets and products have to be actively developed, MAPEX is the tool of choice. In the end, the goal is to anchor the underlying methods of the excellence programmes at the company – and to do so sustainably.

Are there already specific examples?

RR In a CANVAS workshop, one company set itself the goal of re-weighting its business segments and growing more strongly in the pharmaceutical market. Excellent references from a customer that is a leader in that market and introductions by a sister company have helped it to gain new customers in this attractive market. On the OPEX side, the company focused on lean production. Process stages that had been carried out externally were brought in house, making the production process more efficient while reducing process times and inventories.

Have the excellence programmes already resulted in positive earnings contributions?

RR It is still too early to broadly quantify the successes. However, I can give you an example: In the course of OPEX, one subsidiary analysed its customer portfolio and stopped fulfilling small orders. That was a mental hurdle for the company, because it had to deal with uncomfortable situations with long-standing customers. But its processes are now significantly smoother and more efficient. The reject rate improved markedly, and deliveries on

“The CANVAS workshop creates clarity. We work on a collective understanding of the strengths and the weaknesses of the company, its organisation, its processes and its external positioning.”

Ralph Rumberg, CEO GESCO AG

schedule increased from 50 % to 90 %. As a result, customer satisfaction was up, and the freed capacity could be used profitably.

Can you name any typical areas for development?

RR There are plenty of opportunities for creativity and active market development. Pickhardt & Gerlach, an electroplating company with state-of-the-art production processes, is currently developing a branding concept that includes establishing a brand for nickel-plated steel strip with specific properties, which will allow the company to open up new potential in e-mobility, specifically for e-bikes. PGW is also very active in the field of battery technology for lifestyle products. We are encouraging the companies to open their eyes to a wide variety of approaches.

What is the situation with regard to the new portfolio architecture?

RR With NEXT LEVEL, we have adapted our M&A search profile. For base investments, we are now looking for companies with sales of at least € 20 million. We also want to reduce the weight of Dörrenberg with two new anchor investments. To this end, we have identified and approached companies that are potential candidates. As always: we do not report on transactions until after the contracts have been signed.

Mr Rumberg, at the Annual General Meeting in 2019 you said: “A strong history has never been less meaningful for the future than today.” What does that mean with regard to acquisitions and the existing portfolio?

RR It means that our discussions with candidates for acquisition are much more focused on the future, and that we research markets, trends and technologies even more intensively than in the past. In ideal circumstances, entrepreneurs engage in joint workshops prior to a transaction. Both sides profit enormously from that, regardless of whether we decide to buy or not.

The message to the existing portfolio is clear: there is a lot to be proud of, but we cannot rest on our laurels. That is why we have significantly increased our interaction with the subsidiaries within the scope of NEXT LEVEL. CANVAS creates clarity, and the excellence programmes are orienting the company for the future.

90 %

Delivery reliability has been significantly improved and has increased from 50 % to 90 %.

Ms Müller-Kirchhofs, even before the coronavirus, the outlook wasn't exactly rosy. Automotive manufacturers have reined in investments for some time now. After originally predicting a decline of 2 %, the VDMA now expects production to decrease by 5 % in 2020 on account of the corona crisis. Has that headwind slowed down the implementation of our strategy?

KMK The contraction of the market underlines the urgency of the measures. We would prefer it if the external conditions were better, but NEXT LEVEL is all about strengthening the Group from within – regardless of the economic climate. That means it is even more important to look beyond the current customer segments and to cater to new applications. We can't change the market, but we are actively looking for new opportunities.

And how will the corona crisis affect implementation?

KMK Due to the coronavirus, we have postponed workshops with a large number of participants and will reschedule them for as soon as possible. Projects already under way will continue and will be implemented step by step, conditions permitting.

How have you countered the decrease in demand?

KMK As you must in such a diverse group: by differentiating. The companies in the Mobility Technology segment, along with mechanical and plant engineering companies, are suffering from the reluctance to invest among their automotive sector customers. Meanwhile, the Setter Group, a manufacturer of paper sticks, is performing well in a market that is currently growing very fast. We are supporting the companies depending on the specific tasks they face.

In general, we warned of the gathering dark clouds at an early stage and have implemented measures to adapt. We are currently using all the tools at our disposal. We have stopped non-essential investment. And we have critically assessed all other costs. We have terminated temporary employment contracts, and have been forced to adjust employee numbers in some cases. We are using short time work where necessary and appropriate.

At the start of the corona crisis, we took measures to protect the health of employees, keep production running and provide customers with the best possible service. The situation can change at short notice. It calls for flexibility and creativity. As a group of SMEs, we are well prepared for that. From my point of view, fairness and solidarity are also the order of the day right now. Companies can destroy trust in such times, but they can also strengthen it. And trust pays in the long term.

What is LEADEX?

KMK We compete for employees just as we compete for customers. Good staff can choose where they want to work these days. A good working climate is crucial to that decision and is determined by leadership behaviour. The aim of LEADEX is, in particular, to support and develop executives, to show them specific opportunities at the GESCO Group and to sharpen leadership skills in a dynamic environment.

„With LEADEX, our focus will be on promoting and developing executives, showing them specific prospects within the GESCO Group and sharpening their leadership skills in a dynamic environment.“

Kerstin Müller-Kirchhofs, CFO GESCO AG

from
€ 20
million

We are now looking for base investments with sales from € 20 million.

What does GESCO stand for with regard to leadership culture?

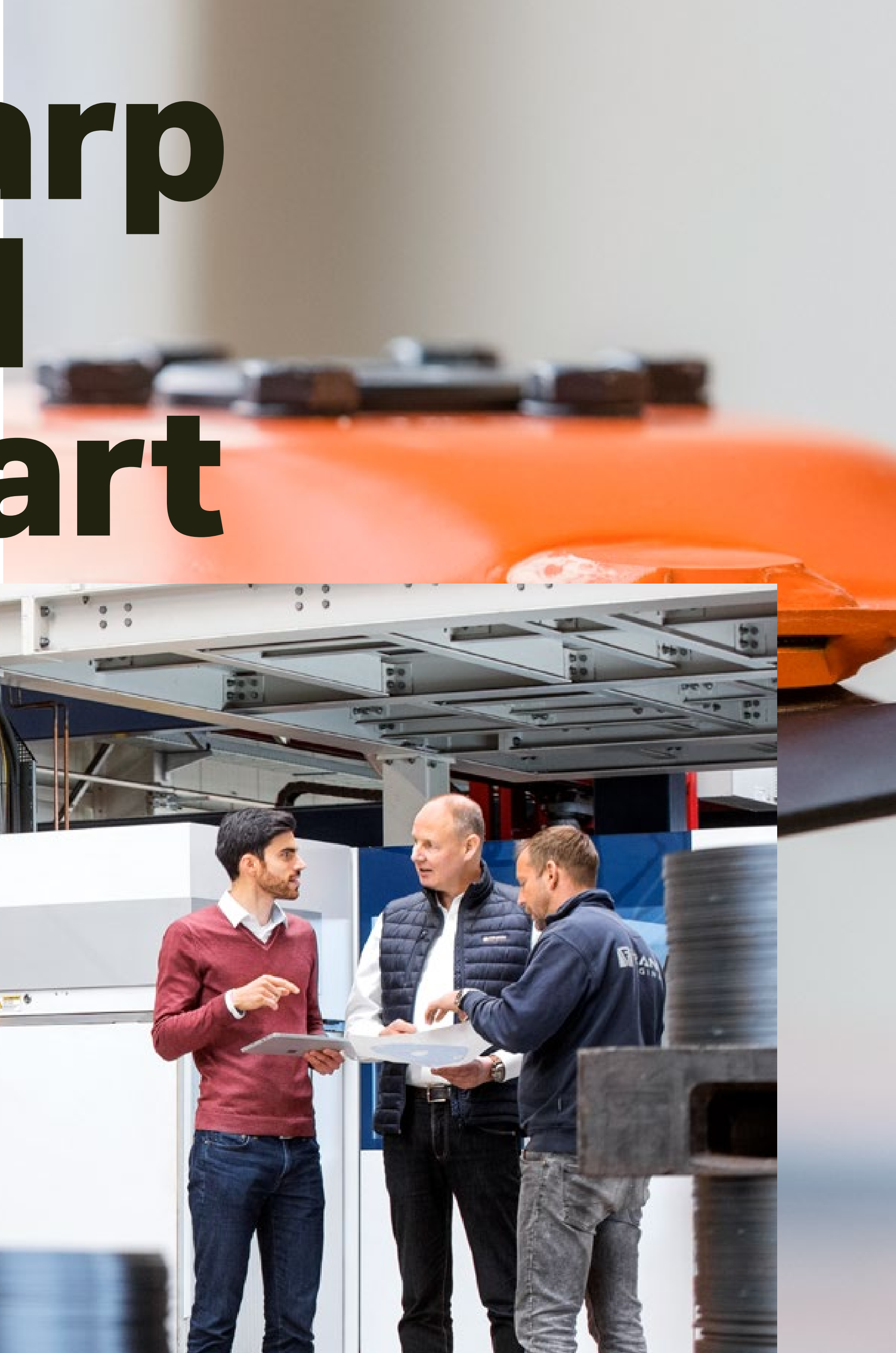
RR For a focus on performance in a trusting, constructive climate. For teams that understand and trust each other completely, and that pull in the same direction. For employees who enjoy achieving something together. After all, that is what SMEs are good at – they let you see the results of your work quickly and very concretely.

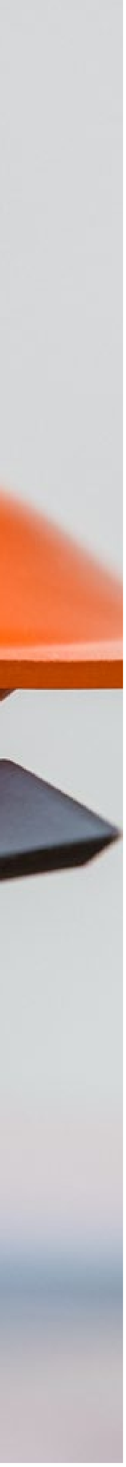
KMK It is important for our SMEs to include employees of different generations and with different expectations. Staff turnover has historically been low at our companies, and some of our employees are the second or third generation to work there. That is great, but it also creates an environment where managers must be very conscious about managing change. With regard to both acquisitions and the existing portfolio, it is important that we organise the transfer of expertise from older to younger employees.

Finally: How important is the strategy for GESCO?

RR NEXT LEVEL represents the greatest transformation since the company was founded. This process will take a number of years, and we will have to overcome obstacles. It is important that we have started the transformation very consistently, broadly and with high intensity. We are adapting to markets with an accelerating pace of change, and to increasingly complex external conditions. Once NEXT LEVEL has been fully implemented, the GESCO Group will be a different company. We are realigning it for sustainable performance, growth and the ability to adapt dynamically. I admit that, at group level, those requirements may sound abstract. But the responses of the individual companies are very specific.

Sharp and smart





The Frank Group's new product SafeKnives is a prize-winning innovation: The smart mowing disc combines conventional metalwork with Industry 4.0 technology and is a testament to GESCO Group's ambition to bring its portfolio companies up to the next level through excellence programmes.

Text: Dirk Böttcher
Photography: Marcus Pietrek

Metal blades with razor-sharp edges rotating at over 3,000 revolutions per minute are not something that anyone takes lightly, and that includes the farmers who use such blades in their rotating mower units to harvest forage. Defective holding springs carrying the blades could lead to severe injury or even worse.

Frank Walz- und Schmiedetechnik GmbH, founded in 1836, has a solution to this problem. It has developed a sensor that measures the pressure on the holding springs and transmits the data into the driver's compartment. If the pressure falls below the threshold, an alarm is triggered. The patent-pending system is called SafeKnives. According to Stefan Zimmermann, Head of Innovation and Materials Technology at Frank, the system "increases safety and prevents unnecessary outage due to unforeseen defects." Due to weather conditions, farmers often only have a very small window to gather their harvest at peak harvest times. Unexpected outages can soon translate into painful financial losses.

And so the reception for the SafeKnives system throughout the agricultural industry was all the more positive. The German Agricultural Society (DLG) awarded the innovation with the Systems & Components Trophy – Engineers' Choice prize at Agritechnica 2019. For the team at FRANK ORIGINAL, it was satisfying confirmation that the hard work of bringing the company to the next level has paid off.

From manufacturing to robotics

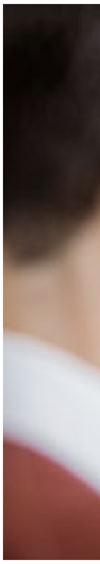
Frank has been tackling the issue of technological change head-on for some years now. At the company's head office in the town of Hatzfeld, northern Hesse, located in the picturesque Eder valley, the administration office built in the traditional timber-framed style is only a stone's throw away from the new, state-of-the-art production site. The production hall hums with the sound of large robotic arms moving metal discs around in a monotonous rhythm. Gripping, drilling and punching – everything is fully automated. The human factor here is limited to adjusting the settings on the display unit.

The mowing discs for forage harvesting systems are manufactured completely automatically and are just one of 12,000 wear and structural parts produced by the site and its 340 employees as the European market-leader for large agricultural machinery, municipal companies, various industrial applications and as own-brand products.

In the early days, metal products were still drilled, punched and pressed manually, with sparks flying and machines whirring, but it is this metalworking expertise that Frank has used to establish itself and cement its position on the market over the past 185 years.

12,000

different FRANK ORIGINAL wear and structural parts are on offer to customers.



Changes? Yes, please. But which ones?

Managing Director Dr Frank Grote is not sure whether this set-up alone would have been sufficient to secure the company's long-term future: "We saw clear proof that there is no guarantee of long-term success in 2014 and 2015, when there was a massive slump in the agricultural engineering industry." Grote believed it was essential that the Hatzfeld-based company broke new ground if it was to maintain its market-leading position with the FRANK ORIGINAL brand: "We needed high-tech products, services and partners that were more marketable on the international stage, as well as automation and new methods of working – the only thing was that no-one knew what this would all look like."

Frank Grote arrived at Frank in Hatzfeld in 2012 after a career in the aviation and power plant industries. There he came across a largely autonomous sector full of conservative manufacturers.

"Some of the company's systems were very outdated, so we had to ask ourselves which areas offered potential worth developing," recalls Grote. Part of the response was to expand the company's automation. Frank had already made a start on this aspect of business some years ago and had been constantly developing its approaches.

An open-space workshop in Berlin provided Grote and his team with inspiration for advancing their markets and products. This involved discussions on the company's core activities and competencies, potential new business models and value propositions for customers to enable Frank to stand out from the competition.

This enabled a number of new product approaches, such as smart components equipped with sensors. Frank presented these potential innovations to start-ups in Berlin. As an established SME, this is not how things usually work, but the pitch to the start-up scene was a great way of gaining some helpful feedback before implementing an initial roadmap for the next 90 days.

"Automation was a topic we had made a start on a number of years ago. An open-space workshop in Berlin provided us with inspiration for advancing our markets and products."

Dr Frank Grote,
Managing Director of the Frank Group

These strategies were of great relevance to the future orientation of business – and the perfect complement to the GESCO AG NEXT LEVEL strategy. Various excellence initiatives were launched for this purpose. The Frank Group opted for the MAPEX programme, which is geared towards opening up new markets and developing new products. For this, GESCO AG made its expertise and network of contacts available.

A new culture

Another major aim was to develop a new corporate culture based on agile methods and an innovative mindset. But that was easier said than done for some employees at the company. “Many of our team have been working here for over two decades,” says Grote. “The idea of leaving behind familiar routines proved challenging.”

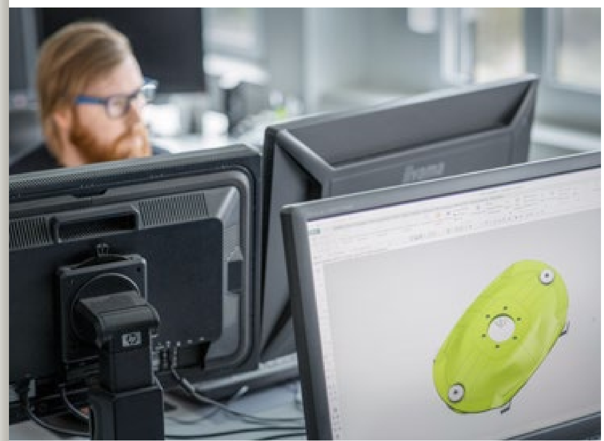
336

employees work at FRANK ORIGINAL, 168 in Hatzfeld, 137 in Hungary and 31 in Ukraine and Russia.

Grote made the conscious decision to recruit younger employees to actively drive forward the development of the existing workforce. “Now everyone knows that they are allowed, even actively encouraged, to attend conferences or training courses, and that everyone can come up with ideas.”

Stefan Zimmermann’s job is to manage all of these ideas. “We have lots of ideas, but we had to professionalise our project management, with clear road maps for overseeing projects, and with digital tools such as apps, so that everybody can see where we stand in the project, and who is responsible for it” says Zimmermann. For this purpose an innovation group has been formed that involves employees from all of the company’s business areas. “We have what we call an ‘ideas fridge’ where we park things that aren’t achievable at the current time but may be in the future,” adds Zimmermann. “Once an idea is past its sell-by date, we get rid of it.”

One of the ideas that successfully made it to product maturity was smart components equipped with sensors – such as the WearChecker. “The WearChecker allows you to monitor wear from the ground or stones in soil cultivation tools,” says Zimmermann.



High-tech development – employees develop a knife carrier with blade holder using CAD program.


The WearChecker system follows a radical new approach, with a sensor integrated directly into the component. This sensor gathers data that can be used for predictive maintenance, but Zimmermann sees real potential for concepts relating to autonomous agricultural machinery. If, in the future, farmers use self-driving machinery and no-one is sitting in the cockpit, the machine will need to be able to recognise whether a tool in the ground is no longer functioning at optimal capacity due to excess load or needs to be replaced due to damage.

Initial field tests for a feasibility study were conducted in close collaboration with experienced farmers. Building on the positive results from these tests, Frank then sought dialogue with reputable agricultural machinery manufacturers as they were in a position to bring a product like this to market with the necessary impact.

"We have lots of ideas, but we had to professionalise our project management, with clear road maps for overseeing projects, and with digital tools such as apps, so that everybody can see where we stand in the project."

Stefan Zimmermann (right),
Head of Innovation and Materials Technology, Frank Group

> **“We are also thinking about production with 3D printers and are already experimenting to this end with new alloys.”**
>
> Dr Frank Grote, Managing Director of the Frank Group

Big machinery, big data – and a whole lot of ideas for the future

Frank no longer works simply with big machinery, but also with big data. Products such as the WearChecker or SafeKnives – patent applications were submitted for both in 2017 – are a successful response to the megatrend that is the Internet of Things (IoT), which is set to revolutionise the industry. Agricultural equipment will be able to produce key data in the future, maybe even taken directly from the soil, and enhance the data with weather and GPS information. This could allow to determine what materials or maintenance intervals are the most efficient for each customer.

Frank Grote is even thinking one step further: “We are also thinking about production with 3D printers and are already experimenting to this end with new alloys.” The issue of sustainability has also been top of the agenda for a number of years now, including how to prevent microplastics from the component’s paintwork entering the ground. Solutions such as these could prove extremely popular with organic farmers, for example. A patent has already been applied for.

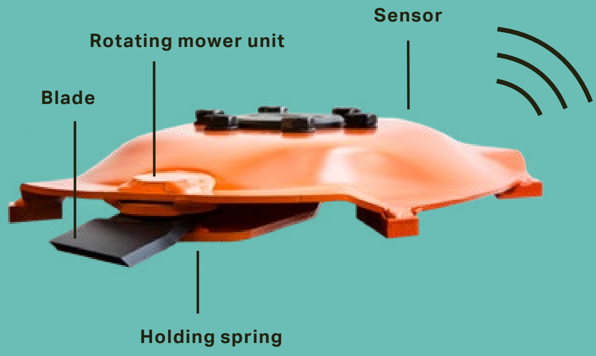
Change is not a linear process, it’s full of ups and downs – in Hatzfeld everyone is aware of that. The company does suffer setbacks, but it also knows that it has embarked on the right path. Each and every success, no matter how small, fosters a belief among the workforce that the company’s future is long-term.

To keep it this way, many things will have to change also in the future.

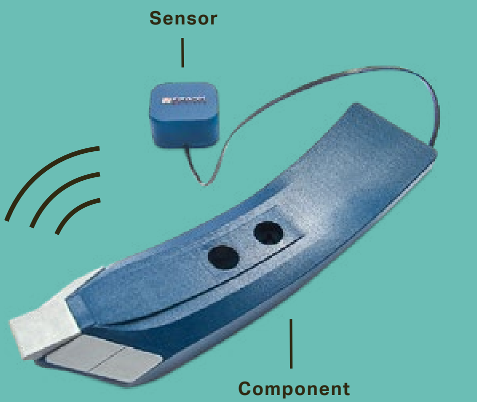
Thanks to sensors, we are now offering smart safety components for rotating mower units

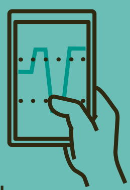
SafeKnives

Patent-pending safety solution



Rotating mower units are often only clamped in rather than screwed in to make changing them fast and easy. If a clamping bolt is damaged, the blades can come loose, turning them into projectiles. With SafeKnives, sensors constantly monitor how secure the bolts are. The system sets off an alarm if a value falls below the threshold due to factors such as locking, damage or improper assembly. Moreover, the new sensor system uses algorithms to predict when the holding spring will need changing.





The WearChecker

Radically new

FRANK has developed an innovative sensor that measures wear in soil cultivation tools. The sensor is integrated directly into the component and can be adapted to suit the requirements of agricultural machinery producers or implemented as a stand-alone solution. Data can be transferred by cable or wirelessly using LPWAN technology. Signal transmission via Wi-Fi or Bluetooth is also possible. The WearChecker is an essential factor when it comes to turning autonomously driving agricultural machines into autonomously operating machines for the first time. It brings the vision of autonomously acting and networked field robots within tangible reach.

Sensor data can be shared with any device, whether it's a computer, tablet or smartphone.

The driving forces behind technology

No matter whether the market is rife with opportunities or risks, or whether the environment is dynamic or stable, one thing will always have traction: innovation. Innovation is the foundation for sustainable success and guarantees you stay one step ahead of the competition. To constantly create new innovations, we need more than excellent knowledge of the technology. We need people who know what is possible, what can be made possible and it takes to get the job done.

Text: Tobias Rohe
Photography: GESCO-Gruppe

Technology

—

Innovation

—

Progress

Oliver Kaiser

Oliver Kaiser likes to get hands-on. The Head of Technology at the MAE Group plays an active role in the company's developments. Under his leadership, the machine software is now being programmed in-house.

MAE Group

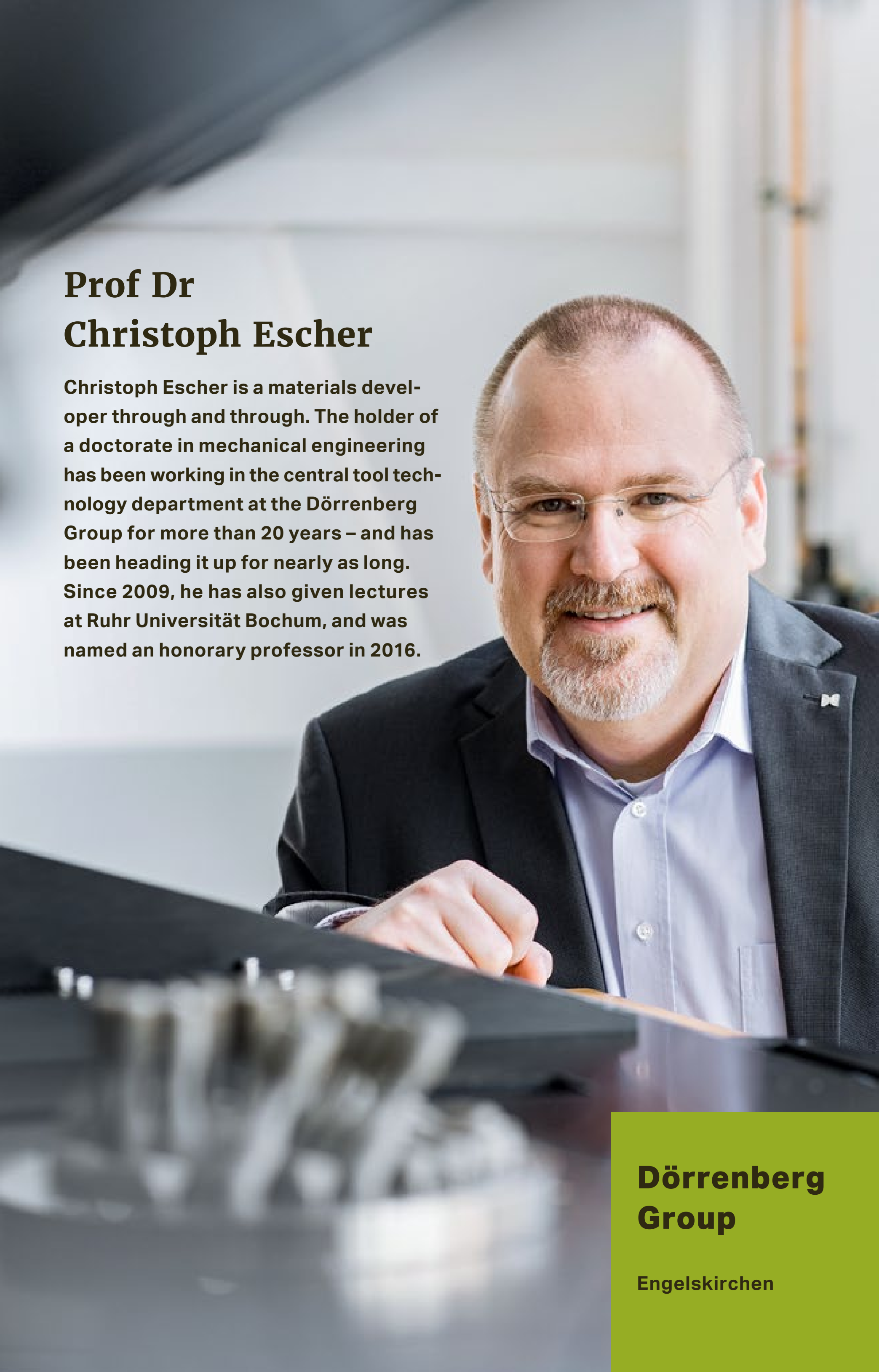
Erkrath

Business segments:

- **Automatic and manual straightening machines**
- **Wheel set presses**
- **Special machines for joining, assembling, testing and reforming**

Self-learning machines

As a global leader in a niche market, innovation is fundamental for the MAE Group. The MAE developers' current projects include a control software for straightening machines that optimises production processes autonomously through self-learning. In doing so, MAE is generating additional customer demand and expanding its product portfolio into new and existing markets.



Prof Dr Christoph Escher

Christoph Escher is a materials developer through and through. The holder of a doctorate in mechanical engineering has been working in the central tool technology department at the Dörrenberg Group for more than 20 years – and has been heading it up for nearly as long. Since 2009, he has also given lectures at Ruhr Universität Bochum, and was named an honorary professor in 2016.

Dörrenberg Group

Engelskirchen

Innovative tool technology

The Dörrenberg Group is the technology leader when it comes to high-alloyed tool steels and holds a number of process patents – also thanks to the development projects conducted by the central materials technology department. It transfers the acquired knowledge to all manufacturing business segments and furthers it in collaboration with Ruhr Universität Bochum. Access to the university's laboratories and the option of working with students on research projects facilitate the development of customised materials.

Business segments:

- **Special Steels**
- **Steel Foundry**
- **Casting Products**
- **Coating & Hardening**

Software and tool steel

←

→

Paper sticks and steel strips

Paper sticks and steel strips

→

←

Software
and
tool steel

Roland Hülkenberg

As Head of Technology and Operations at Setter, Roland Hülkenberg is an inventor, stick specialist and process expert. The fact that the performance of machines designed to produce paper sticks has more than doubled in recent years was also his own doing. He is currently developing new products from paper, such as stirrers and ice pop sticks.

Setter Group

Emmerich

Business segment: Paper sticks for the confectionery and hygiene industries.

Pure precision

**Even though consumers may not care about whether or not a paper stick has been measured precisely to a hundredth of a millimetre, this precision is of the essence for Setter's customers and their high-precision machines. This excellent degree of precision is what enables these modern machines to work quickly.
It is why precision and cost are a top priority in stick production – no mean feat, given that paper is a natural material.**

Dr Paul Braun

Paul Braun certainly knows his stuff when it comes to metal finishing. He has worked for numerous metal finishing companies and gained experience in all of the industry's key sectors. As Technical Managing Director of the Pickhardt & Gerlach Group, he also uses his experience to optimise galvanic production processes – and always has safety in mind.

Pickhardt & Gerlach Group

Finnentrop

Innovative and safe

Pickhardt & Gerlach Group's newest brass coating equipment meets the highest possible requirements. Ultimately, this piece of in-house engineering has done more than just increase production capacity. Since the material is heated with an innovative water heater, the system is particularly efficient, environmentally friendly and safe – an important factor in electroplating.

Business segment: Processed strip steel with brass, copper, nickel and zinc coating

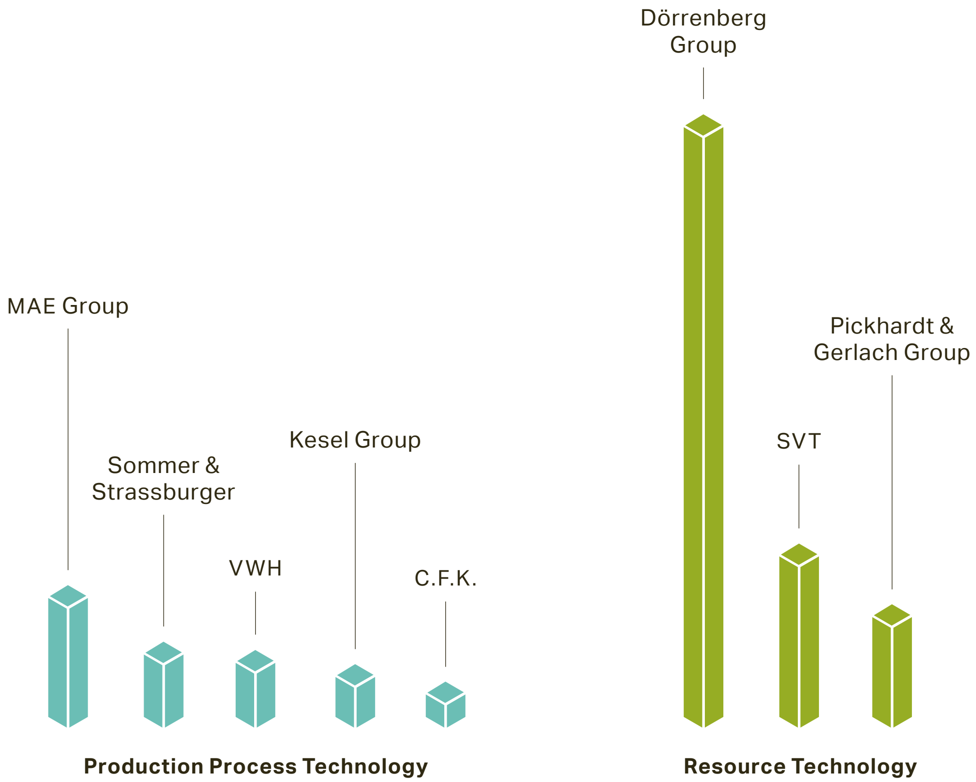
The subsidiaries in profile

Clear prospects

The GESCO Group unites 18 industrial SMEs – all established niche providers. Our NEXT LEVEL excellence programmes will advance those not quite there yet to market and technology leaders and real hidden champions. Through this approach, we are providing each of our subsidiaries with a viable position for the future and creating added value.

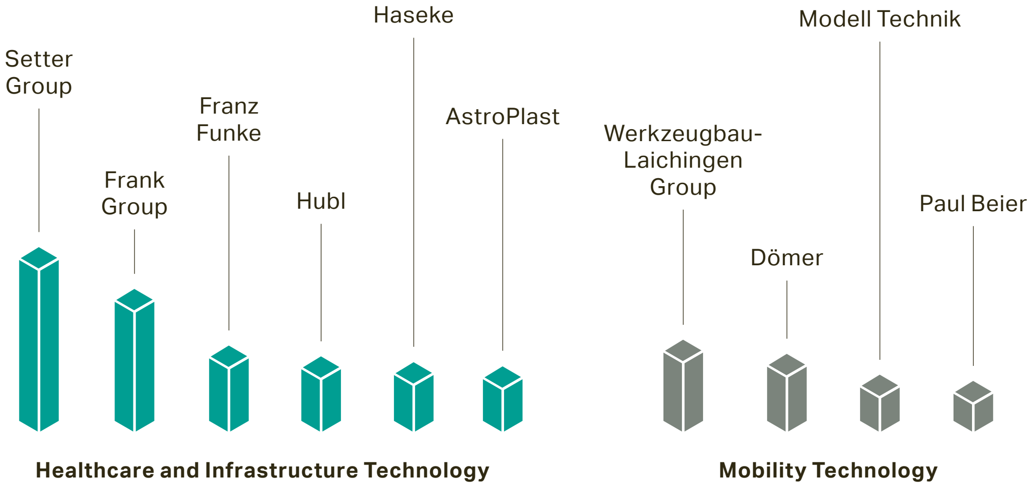
GESCO Group at a glance

Significant subsidiaries by sales



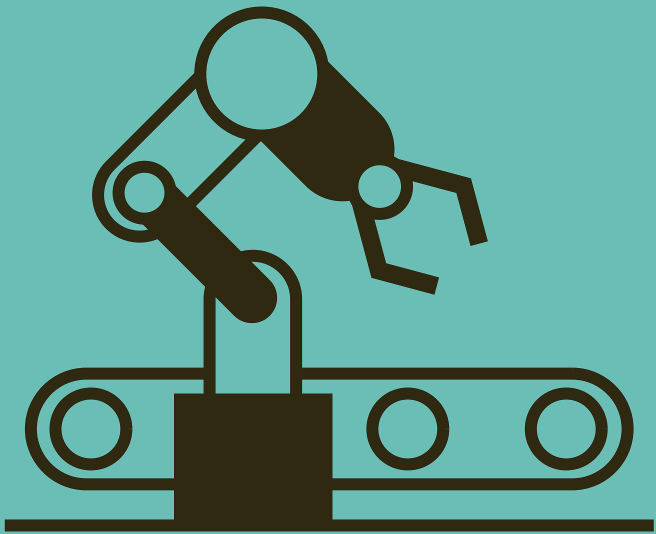
Company	Sales 2019 €'000	Staff 31.12.2019	GESCO AG shareholding in %
Production Process Technology			
MAE Group	37,875	218	100 %
Sommer & Strassburger GmbH & Co. KG	20,753	144	100 %
VWH GmbH	16,977	129	80 %
Kesel Group	12,596	60	90 %
C.F.K. CNC-Fertigungstechnik Kriftel GmbH	7,177	60	80 %
Resource Technology			
Dörrenberg Group	204,862	527	90 %
SVT GmbH	44,768	177	100 %
Pickhardt & Gerlach Group	31,268	45	100 %

Note: GESCO Group's nine-month abbreviated financial year 2019 and the consolidated financial statements for 2019 cover the months from April to December 2019 at the GESCO Group companies. In the interest of ensuring better comparability with previous years, this overview and the profiles of the individual subsidiaries refer to the values for their full twelve-month financial year in 2019.



Company	Sales 2019 €'000	Staff 31.12.2019	GESCO AG shareholding in %
Healthcare and Infrastructure Technology			
Setter Group	50,435	180	100 %
Frank Group	37,434	336	90 %
Franz Funke Zerspanungstechnik GmbH & Co. KG	20,285	95	100 %
Hubl GmbH	16,356	118	80 %
Haseke GmbH & Co. KG	14,404	81	80 %
AstroPlast Kunststofftechnik GmbH & Co. KG	13,550	90	100 %
Mobility Technology			
Werkzeugbau-Laichingen Group	21,469	173	100 %
Dömer GmbH & Co. KG Stanz- und Umformtechnologie	17,286	96	100 %
Modell Technik Formenbau GmbH	10,356	107	100 %
Paul Beier GmbH & Co. KG	8,548	63	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

16 %
share of
GESCO Group
sales

←

95.4

€ million sales
(previous year 86.0 € million)

611

Employees
31.12.2019
(previous year 615)

MAE Group

Erkrath

The MAE Group is world market leader in automatic straightening machines and wheel set presses. MAE has underpinned its technology leadership 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.

1931
Founding year

1997
Acquisition by GESCO


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

100 %
Shareholding
GESCO

218

Employees
31.12.2019
(previous year 221)

37.9

€ million sales
(previous year 42.0 € million)

Status NEXT LEVEL

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 the highest quality for the respective customer sectors.

1973
Founding year

2018
Acquisition by GESCO

Michael Hilpp
Managing Director

100 %
Shareholding
GESCO

144

Employees
31.12.2019
(previous year 137)

20.8

€ million sales
(previous year 19.0 € million)

Status **NEXT LEVEL**

CANVAS OPEX MAPEX

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.

1960
Founding year

2007
Acquisition by GESCO

Thomas Sturm
Managing Partner

20 %
Shareholding
Management

80 %
Shareholding
GESCO

Status NEXT LEVEL

129

Employees
31.12.2019
(previous year 131)

17.0

€ million sales
(previous year 16.6 € million)

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 and the US with subsidiaries for sales and service, storage of spare parts and repair facilities.

1889
Founding year

2009
Acquisition by GESCO

Martin K. Klug
Managing Partner

10 %
Shareholding
Management

90 %
Shareholding
GESCO

60

Employees
31.12.2019
(previous year 61)

12.6

€ million sales
(previous year 13.3 Mio. €)

Status NEXT LEVEL

CANVAS OPEX MAPEX

C.F.K. CNC-Fertigungstechnik Kriftel GmbH

Kriftel am Taunus

CFK is the leading Germany centre 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 allows customized items like medical implants. 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

Status NEXT LEVEL

CANVAS

60

Employees
31.12.2019
(previous year 65)

7.2

€ million sales
(previous year 8.1 Mio. €)

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

48 %
share of
GESCO Group
sales

280.9

€ million sales
(previous year 288.5 € million)

749

Employees
31.12.2019
(previous year 751)

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. Dörrenberg Edelstahl GmbH has a majority shareholding in a joint venture in Spain that focuses on surface treatments and minority shareholdings in renowned tool steel specialist in Turkey and Romania. 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.

1860
Founding year

1996
Acquisition by GESCO

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

10 %
Shareholding
Management

90 %
Shareholding
GESCO

Status NEXT LEVEL

CANVAS OPEX MAPEX

527

Employees
31.12.2019
(previous year 538)

204.9

€ million sales
(previous year 220.0 € million)

SVT GmbH

Schwelm

SVT is one of the world's leading providers 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.

1968
Founding year

2002
Acquisition by GESCO

Michael Schauerte
Managing Director

100 %
Shareholding
GESCO

177

Employees
31.12.2019
(previous year 168)

44.8

€ million sales
(previous year 36.4 € million)

Status NEXT LEVEL

CANVAS OPEX MAPEX

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.

1902
Founding year

2017
Acquisition by GESCO


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

100 %
Shareholding
GESCO

Status NEXT LEVEL

CANVAS OPEX MAPEX

45

Employees
31.12.2019
(previous year 45)

31.3

€ million sales
(previous year 32.2 € million)

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

26 %
share of
GESCO Group
sales

← 152.5

€ million sales
(previous year 141.5 € million)

900

Employees
31.12.2019
(previous year 825)

Setter Group

Emmerich

Setter Group is the world's leading manufacturer 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 company markets its products across all continents. Setter supplies its products to the world from its headquarters in Emmerich and has always had a focus on international business. Having already been producing paper sticks on its own technology in the USA for many years via a licensing model, the company took over the complementary US supplier Setterstix Corp. in early 2015. In 2018, the company also founded a subsidiary in Mexico.

1964
Founding year

2004
Acquisition by GESCO

Steffen Grasse
Managing Director

100 %
Shareholding
GESCO

Status NEXT LEVEL

180

Employees
31.12.2019
(previous year 134)

50.4

€ million sales
(previous year 34.9 € million)

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 wear parts to international specialist wholesalers and cooperatives. The company's production is mainly located at its headquarters in Hatzfeld / Hesse as well as at its Hungarian subsidiary Frank Hungária Kft. / Ozd. Frank has its own sales offices at several locations in Ukraine as well as in Russia.

1836
Founding year

2006
Acquisition by GESCO

Dr Frank Grote
Managing Partner

10 %
Shareholding Management

90 %
Shareholding GESCO

Status NEXT LEVEL

CANVAS OPEX MAPEX

336

Employees
31.12.2019
(previous year 325)

37.4

€ million sales
(previous year 39.1 € million)

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.

1919
Founding year

1995
Acquisition by GESCO

Till Wasner
Managing Director

100 %
Shareholding
GESCO

95

Employees
31.12.2019
(previous year 89)

20.3

€ million sales
(previous year 19.2 € million)

Status NEXT LEVEL

Hubl GmbH

Vaihingen / Enz

Hubl is a full-service provider in stainless steel sheet metal processing. The company's strengths lie predominantly in product development, technical design and construction but also in high-end production. Innovative tailor-made solutions meeting extremely high standards of quality are the company's speciality. Thanks to its flexibility and creativity, Hubl is in particular demand as a partner for prototype production, pilot series and limited-run series for customers in the pharmaceuticals and biotechnology, mechanical engineering, cleanroom and food technology industries.

1976
Founding year

2002
Acquisition by GESCO

Rainer Kiefer
Managing Partner

20 %
Shareholding Management

80 %
Shareholding GESCO

Status NEXT LEVEL

118

Employees
31.12.2019
(previous year 110)

16.4

€ million sales
(previous year 15.6 € million)

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".

1983
Founding year

1990
Acquisition by GESCO

Uwe Kunitschke
Managing Partner

20 %
Shareholding
Management

80 %
Shareholding
GESCO

Status NEXT LEVEL

81

Employees
31.12.2019
(previous year 79)

14.4

€ million sales
(previous year 15.7 € million)

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.

1972
Founding year

1995
Acquisition by GESCO

André Krichel
Managing Director

100 %
Shareholding
GESCO

Status NEXT LEVEL

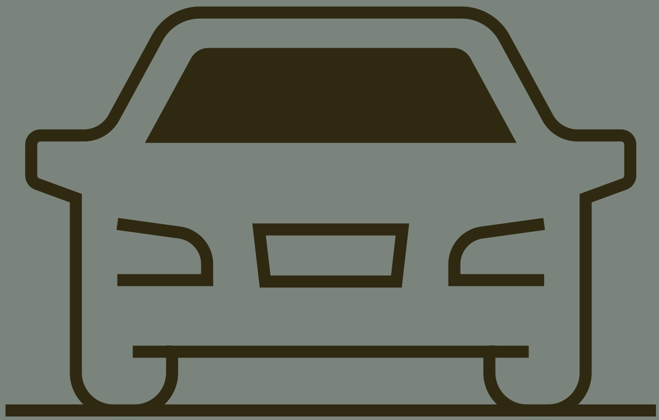
90

Employees
31.12.2019
(previous year 88)

13.6

€ million sales
(previous year 17.2 € million)

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

←

57.7

€ million sales
(previous year 59.3 Mio. €)

439

Employees
31.12.2019
(previous year 455)

Werkzeugbau-Laichingen Group

Laichingen and Leipzig

The Werkzeugbau Laichingen Group manufactures high performance tools for the automotive and automotive 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.

1891
Founding year

2011
Acquisition by GESCO

Thomas Hansmann
Managing Director

100 %
Shareholding
GESCO

173

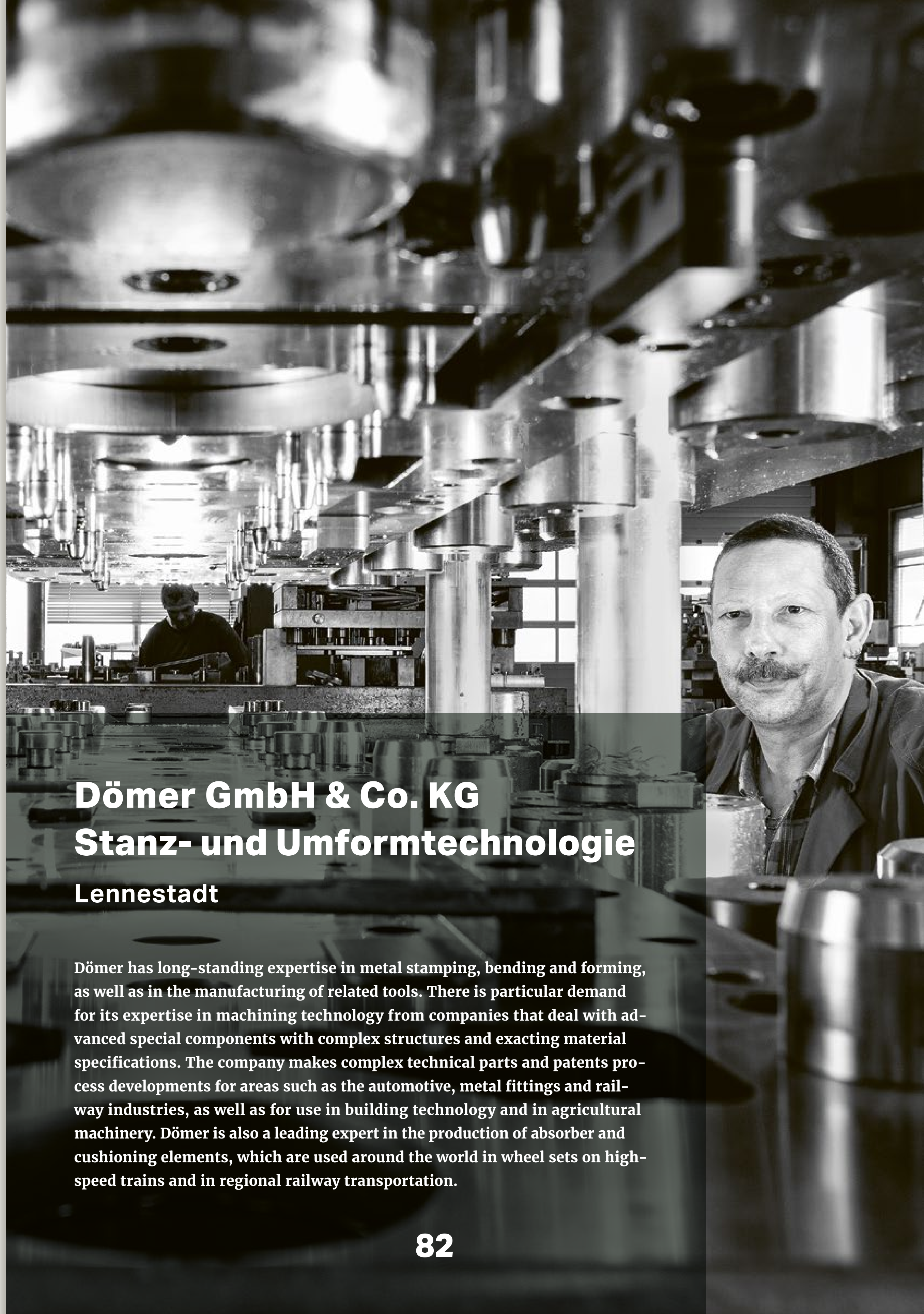
Employees
31.12.2019
(previous year 178)

21.5

€ million sales
(previous year 18.8 Mio. €)

Status NEXT LEVEL

CANVAS OPEX MAPEX



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.

1969
Founding year

2005
Acquisition by GESCO

Dr-Ing Michael Dammer
Managing Director

100 %
Shareholding
GESCO

96

Employees
31.12.2019
(previous year 105)

17.3

€ million sales
(previous year 18.5 Mio. €)

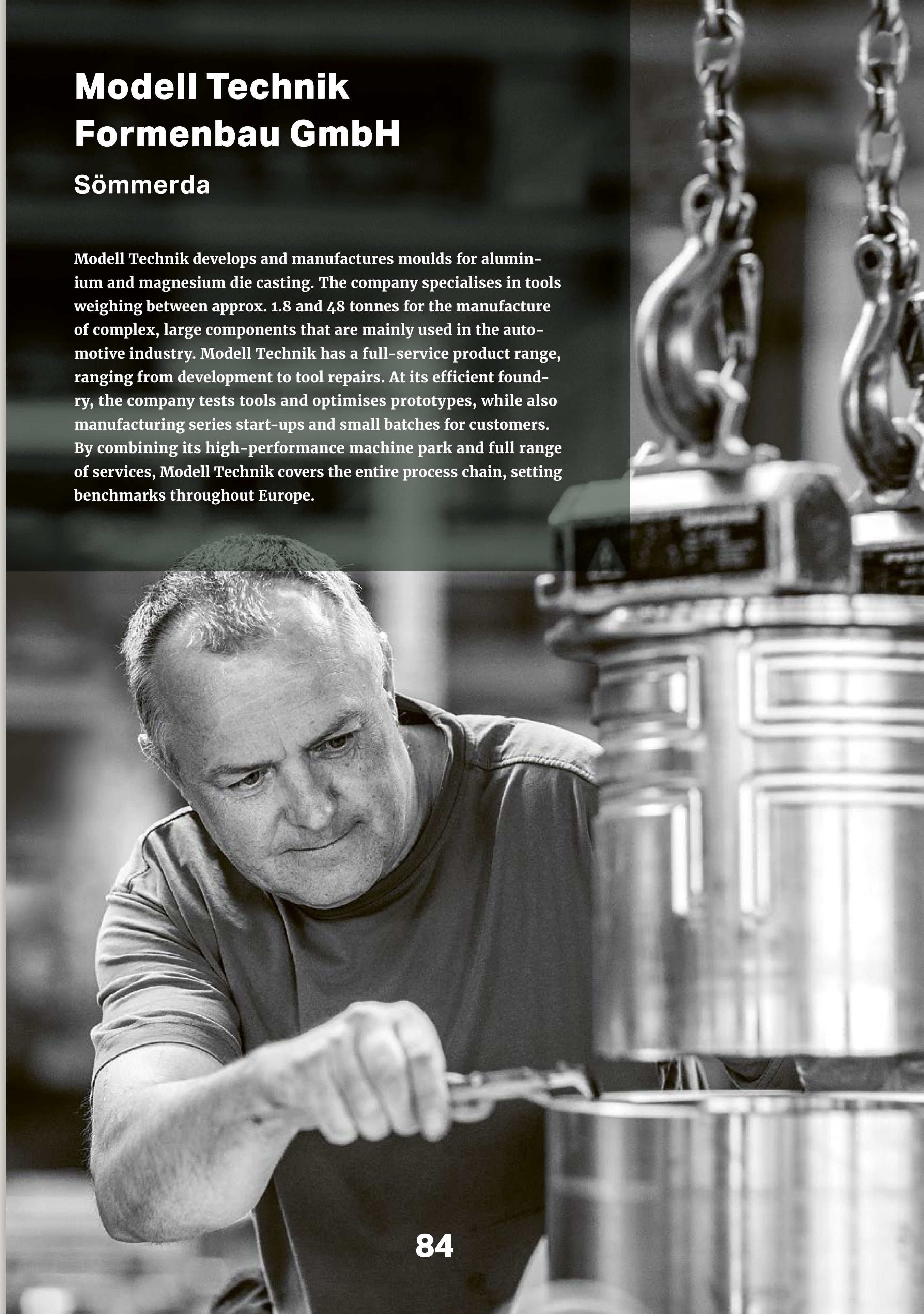
Status NEXT LEVEL

CANVAS OPEX MAPEX

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. By combining its high-performance machine park and full range of services, Modell Technik covers the entire process chain, setting benchmarks throughout Europe.



1993
Founding year

2012
Acquisition by GESCO

Mike Ziesemann
Managing Director

100 %
Shareholding
GESCO

107

Employees
31.12.2019
(previous year 105)

10.4

€ million sales
(previous year 13.6 Mio. €)

Status NEXT LEVEL

CANVAS OPEX MAPEX

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

63

Employees
31.12.2019
(previous year 67)

8.5

€ million sales
(previous year 8.4 Mio. €)

Status NEXT LEVEL

CAN VAS OPEX MAPEX

02

To our shareholders

Foreword by the Executive Board

Kerstin Müller-Kirchhofs, CFO, and Ralph Rumberg, CEO

Dear Shareholders,

Topics of particular importance in the abbreviated financial year 2019 included the implementation of NEXT LEVEL, the change in the financial year and, of course, the operative development of the GESCO Group. In the new financial year 2020, we initially expected slight improvement in margins in a challenging environment – now development will be determined by the corona pandemic for the foreseeable future.

NEXT LEVEL strategy

In the past year, we launched NEXT LEVEL, a new chapter in GESCO's history. Based on the vision of GESCO as a group of hidden champions, the strategy defines key measures and objectives for the GESCO Group's strategic and operative development in the years ahead. The core elements include balancing out the portfolio and the further development of the operating subsidiaries. Since its launch, we have worked intensively to implement the strategy and held on-site workshops with management to analyse the business models of the majority of our subsidiaries. These discussions were intensive and inspiring. They generated an abundance of ideas, focused our common understanding of the company's position and strengthened our team spirit. Knowledge gained from these workshops was used to generate specific fields of action. Depending on the situation of the company in question, these fields of action initially involve either optimising operational processes or strengthening market position and product portfolio. The resulting programmes for market and product excellence, known as MAPEX, and for operational excellence, known as OPEX, are being launched progressively. The Annual Report offers further insights into the implementation of NEXT LEVEL.

Change in the financial year

Last year, we announced and explained the forthcoming change in the financial year to the calendar year. The 2019 Annual General Meeting passed the resolution accordingly, the implementation has been finalised. Further information on the topic is also included in the Annual Report.

Abbreviated financial year 2019

The change in the financial year to the calendar year resulted in a nine-month abbreviated financial year 2019, with figures that cannot be directly compared to the full twelve-month previous year. In the reporting period, there was a clear economic downturn in the capital goods industry and the automotive sector. Without question, we would have preferred a more positive environment for the implementation of NEXT LEVEL. However, the economic headwind confirmed our conviction that the strategy is the right approach.

Dividends and shares

Along with the internal strengthening of the group through the excellence programmes, NEXT LEVEL also aims to improve the balance of the portfolio architecture. In order to increase flexibility of financing for the resulting M&A activities, we have amended GESCO AG's dividend policy. While, in the past, we distributed approximately 40 % of group net income after minority interest, our new target is a range between 20 % and 60 %. That puts GESCO AG in a position to keep liquid assets within the company by reducing the distribution ratio, particularly when acquisitions are planned, while in phases with strong results and cash flow, distributions can significantly exceed the past limit of 40 %.

The decision by the Executive Board and Supervisory Board regarding the dividend for the abbreviated financial year 2019 was not an easy one. While shareholders should participate in gains, it remains to be seen what challenges the corona pandemic will bring. Considering the great uncertainty, we have decided to strengthen our liquid reserves by applying our new dividend policy to the past year and setting the distribution for the abbreviated financial year 2019 at the lower end of the range, resulting in a proposed dividend of € 0.23 per share. Like many other companies, we reserve the right to reassess the proposed dividend based on further developments in the corona crisis in the period until this year's Annual General Meeting is convened.

“NEXT LEVEL sets the main courses for the strategic and operational development of GESCO Group in the coming years.”

Ralph Rumberg, CEO

“With the new dividend strategy, we gain more flexibility, particularly in order to implement the acquisition strategy associated with NEXT LEVEL.”

Kerstin Müller-Kirchhofs, CFO

Developments in the price of the GESCO share were disappointing. In the abbreviated financial year, the share price initially tracked the development of our benchmark, the SDAX, but in the last few months of 2019 it lost considerable ground. The capital goods industry and the automotive sector, which are important to our Group, showed negative signs. The general drop in prices in recent weeks due to the corona crisis, which affected our shares along with those of many comparable companies, sent our share price to a multi-year low.

Outlook

We were initially cautiously optimistic about the new financial year 2020. While there was no broad impetus for growth, we saw good opportunities to slightly improve the group's margins despite the challenging environment.

Corona has dampened that outlook, like so many other things. Within the Group, we immediately implemented the necessary measures to protect our employees and offer our customers the best possible service in these difficult times. We are currently proceeding cautiously and basing our actions on the latest information and conditions. The nature of our group, which consists of small and medium-sized enterprises, is benefiting us because decisions can be made locally and then implemented rapidly and specifically. The subsidiaries also benefit from intensive knowledge sharing within the Group.

The corona crisis dramatically demonstrates that every company must maintain a strong position in order to survive. That includes a healthy, resilient balance sheet, a leading market position, strong profitability and the ability to generate significant cash flows. As a group, we have a strong position but the individual companies are not all where they should be. Our group includes hidden champions, but is not yet exclusively made up of hidden champions. That is our goal and the aim of NEXT LEVEL. We are convinced that we are on the right path.

Thanks

We would like to take this opportunity to offer our heartfelt thanks to the managing directors and employees of the GESCO Group for their work over the past financial year. The markets presented numerous operational challenges and in some cases the launch of NEXT LEVEL is accompanied by additional workload. This gives us all the more reason to be pleased that the programme has found fertile ground, that our managing directors and employees recognise its benefits for their companies and that they are committed to making it a success.

Recent weeks and months have been difficult for you as shareholders. Unfortunately not just, but especially, with regard to GESCO shares. We would therefore like to offer our explicit thanks for the trust you place in us.

Yours faithfully,

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

Report from the Supervisory Board for the abbreviated financial year 2019

Klaus Möllerfriedrich, Chairman

Stefan Heimöller, Deputy Chairman

Jens Große-Allermann

Dr Nanna Rapp

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

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

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

Change in financial year

As announced in the Supervisory Board report for the previous financial year, the Executive Board and Supervisory Board proposed to the Annual General Meeting on 29 August 2019 that the financial year of GESCO AG be adjusted to match the calendar year. This resolution was passed by the Annual General Meeting, resulting in an abbreviated financial year from 1 April to 31 December 2019. The change was initiated as a result of an error determined by the German Financial Reporting Enforcement Panel (FREP) with regard to the consolidated financial statements as at 31 March 2018. Detailed information on this issue can be found in the Annual Report of GESCO AG for the abbreviated financial year 2019.

Cooperation between the Executive Board and the Supervisory Board

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

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

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

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

Significant strategic investments at subsidiaries are discussed in depth on the basis of detailed investment plans and, if required, on-site visits are also organised. The Supervisory Board also used the opportunity to exchange ideas directly with the individual managing directors of GESCO AG subsidiaries during the management meeting of GESCO Group in the summer of 2019. It was within this context that the Supervisory Board visited two subsidiaries near the meeting venue.

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

Organisation of the Supervisory Board

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

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

Meetings and resolutions of the Supervisory Board

There were a total of 11 Supervisory Board meetings in the abbreviated financial year 2019; one of these meetings took place internally without the involvement of the Executive Board. Nine of these meetings were attended by all members of the Supervisory Board; Mr. Große-Allermann did not attend two of these meetings for personal reasons. The financial development of the GESCO Group, the development of certain subsidiaries, personnel-related matters relating to subsidiaries, target achievement with regard to the annual budget and ongoing acquisition projects were all matters discussed by the Supervisory Board on a continuous basis. A GESCO AG employee reported to the Supervisory Board on a quarterly basis on the internal control system and risk management system. In addition, the Supervisory Board sought advice and, if necessary, passed resolutions on the following key issues:

- Discussion of the annual financial statements and consolidated financial statements of GESCO AG as at 31 March 2019; adoption of the annual financial statements and the consolidated financial statements as at 31 March 2019
- Annual budget for 2020
- Agenda at the Annual General Meeting
- Strategy implementation at GESCO AG and GESCO Group
- Matters relating to the Supervisory Board, Executive Board and personnel
- Declaration of compliance and corporate governance
- Internal controlling, risk management and compliance system
- Investments at subsidiaries
- Error Determination of DPR and change in financial year of GESCO AG to the calendar year
- Rules of management/distribution of business for the Executive Board
- Organisation of the Supervisory Board
- Rules for the management of the Supervisory Board
- New arrangement regarding remuneration of the Supervisory Board
- Nomination of candidates for the next Supervisory Board period

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

Corporate Governance

The Supervisory Board continuously monitored the development of corporate governance standards. The Executive Board and the Supervisory Board report on corporate governance at GESCO AG in their joint Corporate Governance Report, which is also contained in the Annual Report. The Executive Board and Supervisory Board submitted a declaration of compliance on schedule and as required by law in December 2019; an updated declaration was published in January 2020. GESCO AG complies with the recommendations of the Government Committee on the German Corporate Governance Code, with the exception of the deviations given and explained in the Declaration of Compliance.

The members of the Supervisory Board participated in various training measures in the reporting year in accordance with the recommendations of the German Corporate Governance Code. The focus of these measures was on the development of the regulatory framework.

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

Executive Board remuneration

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

Audit of the annual and consolidated financial statements

Corresponding to the legal provisions, the auditor selected by the Annual General Meeting on 29 August 2019, Breidenbach und Partner PartG mbB, Wirtschaftsprüfungsgesellschaft – Steuerberatungsgesellschaft, Wuppertal, was commissioned by the Supervisory Board on 14 October 2019 to audit the annual financial statements and consolidated financial statements. The auditor confirmed its independence to us in a letter dated 15 May 2019. Furthermore, the auditor provided evidence that it is qualified to audit listed companies due to its successful participation in a quality control audit conducted by the German Chamber of Public Accountants.

The annual financial statements drawn up by the Executive Board for the abbreviated financial year from 1 April to 31 December 2019 in accordance with the regulations of the German Commercial Code (HGB) and the management report of GESCO AG were audited by the auditor. The auditor issued an unqualified audit report on 30 March 2020.

The consolidated financial statements and Group management report of GESCO Group for the abbreviated financial year from 1 April to 31 December 2019 were drawn up by the Executive Board and audited by the auditor on the basis of the International Financial Reporting Standards (IFRS), taking into account Section 315e of the German Commercial Code (HGB). The auditor furnished the consolidated financial statements and Group management report with an unqualified audit report on 30 March 2020.

This year, the focal points of the audit for the individual financial statements of GESCO AG were the recoverable amount of investments, the accrual and recoverable amount of receivables from associated companies and the valuation of other provisions with discretionary powers. The focal points of the audit of the consolidated financial statements were the recoverability of goodwill (impairment test), and the retrospective correction of errors in accordance with IAS 8. The focal points of the audit are agreed with the auditor before the audit takes place. The Supervisory Board did not place any special demands on the auditor this year. The focal points of the audit identified by the auditor already included the Supervisory Board's desired scope. The Supervisory Board, represented by the Chairman of the Supervisory Board and an additional member of the board, and the auditor were in contact during the ongoing audit activities with regard to exchanging information about the audit. In the final phase of the audit, the Supervisory Board liaised intensively with the auditor on the progress of the audit for the purpose of preparing for the committee's decision.

The complete financial statements as well as the auditor's accompanying audit reports were sent to all members of the Supervisory Board in good time before the accounts meeting and included in the Supervisory Board's audit. They were the subject of intensive discussions in the meeting of the Supervisory Board on 30 March 2020. The auditors were in attendance at this meeting, reported in detail on the main results of the audits and were available to the Supervisory Board for questions and additional information. The auditors gave comprehensive answers to all questions from the Supervisory Board. No objections were raised to the annual financial statements, the management report, the consolidated financial statements or the Group management report after the final result of the audit carried out by the Supervisory Board. After its own audit of the annual financial statements, the consolidated financial statements, the management report and the Group management report, the Supervisory Board approved the result of the audit by the auditor and unanimously accepted the annual financial statements and the consolidated financial statements in the meeting on 1 April 2020. The annual financial statements of GESCO AG have thereby been adopted. Taking into account the company's earnings and financial position as well as the shareholders' interests, the Supervisory Board endorsed the proposal of the Executive Board to appropriate the retained profit.

Changes to the Executive Board

The Supervisory Board completed the recruitment of a new Executive Board member in the financial year 2019. As discussed in the Supervisory Board Report on the financial year 2018/2019, Ms Kerstin Müller-Kirchhofs took up her position as Chief Financial Officer of GESCO AG on 1 May 2019. With Mr Rumberg as CEO and Ms Müller-Kirchhofs as CFO, we believe that the GESCO AG Executive Board team is excellently positioned to actively bring the GESCO Group forward over the coming years.

Election to the Supervisory Board

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

Thanks for all the effort

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

Wuppertal, 1 April 2020

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

GESCO shares

GESCO has been building a bridge between SMEs and the capital market ever since its IPO in 1998. 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 2019

The SDAX, which we consider to be the benchmark, rose significantly in spring 2019 before beginning a sideways-facing trend. It then climbed considerably once again toward the end of the year. GESCO shares, on the other hand, treaded water through to the midway point of the year, albeit with some major fluctuations. This was followed by a steady downward trend through to the end of the year. The general downward trend on the markets in the wake of the coronavirus crisis pushed GESCO shares down to a multi-year low.

Taking into account the dividend of 0.90 € per share distributed in the reporting period, the overall performance stood at -13.1% in the abbreviated financial year 2019. The SDAX, which also includes dividend payments as a performance index, performed with 14.4% at the same time.

Shareholder structure

GESCO shares remain 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 held a 14.4% stake as at the reporting date, and has since increased its holding to 14.8 %. Mr Heimöller holds 13.7 % of the company.

According to the regulations of Deutsche Börse AG, shares in share capital greater than 10 % held by private individuals are not considered part of free float. As a result, Mr Heimöller's stake is deducted from free float. Shares held by institutional investors are generally considered to be part of free float. However, in the case of the shares held by Investmentaktiengesellschaft für langfristige Investoren TGV, these shares are also deducted from free float by Deutsche Börse as this company is represented on the GESCO AG Supervisory Board through Mr Große-Allermann and can therefore influence GESCO AG's strategy. Free float amounted to approximately 71.9 % on the reporting date and is now at 71.5 %.

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 vast majority of shares, 87 %, are held by German investors.

In the abbreviated financial year 2019, the members of the GESCO AG Executive Board notified the company of the purchase of GESCO shares. The company immediately initiated the corresponding statutory releases.

Active investor relations

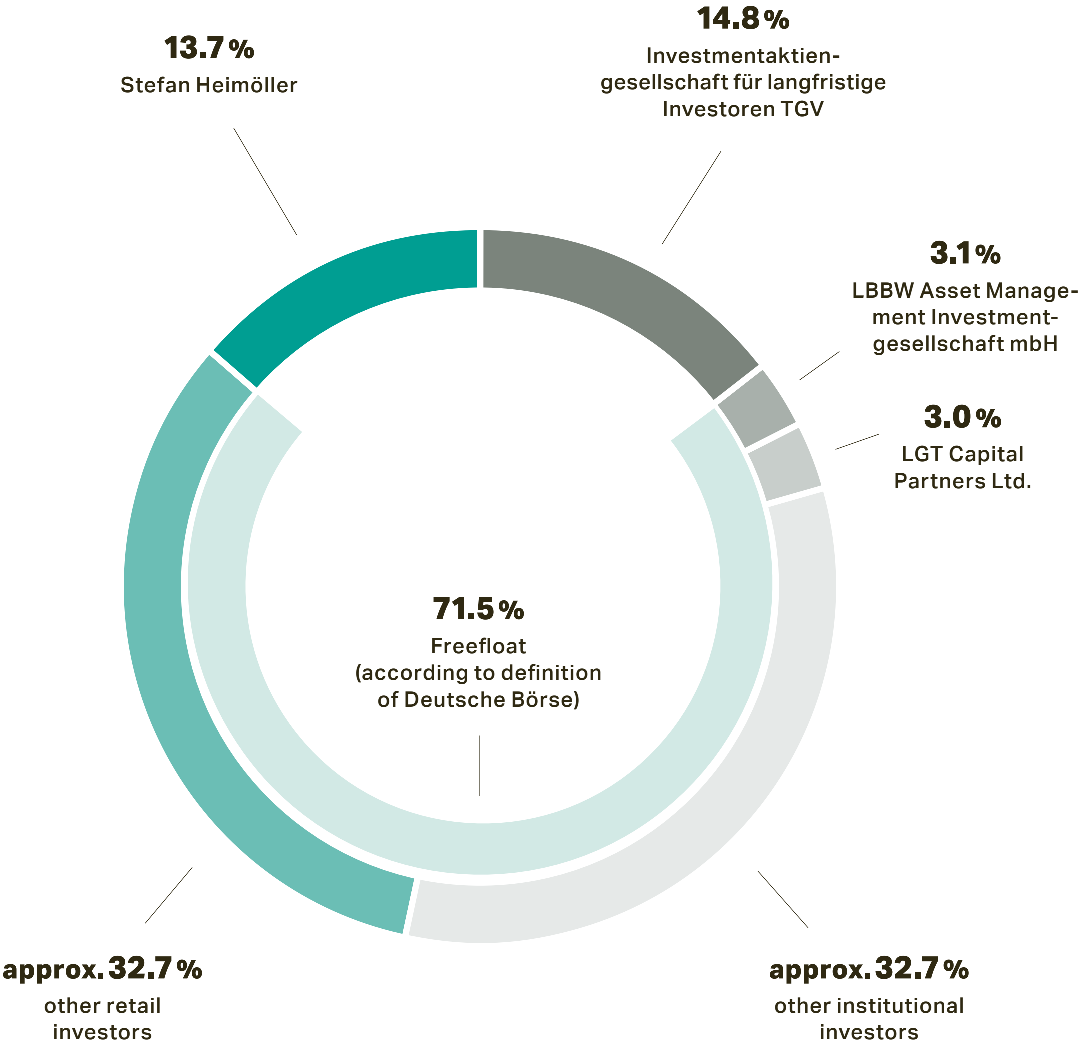
Since the IPO on 24 March 1998, GESCO AG has maintained an active and open approach to investor relations and seeks dialogue with its owners. It interacts with institutional investors through capital market events and conferences, roadshows, one-on-one meetings and conference calls. We not only engage 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.

As a member of the **Deutsches Aktieninstitut e. V. (DAI)**, we have been supporting the development of share culture in Germany since 1999.

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 30.03.2020



Research and designated sponsoring

Pareto Securities AS, Frankfurt Branch (formerly: equinet Bank AG), Bankhaus Lampe, GSC Research and SMC Research compiled regular research into the GESCO share in the reporting year. As at the reporting date, three analysts rated the share with “buy” and one with “hold”. M. M. Warburg commenced research on GESCO in the first quarter of 2020.

Pareto continues to be engaged in the area of designated sponsoring. We terminated the partnership with Oddo Seydler as at 31 December 2019 and instead commissioned the services of M. M. Warburg as at 1 February 2020.

Dividend policy

One of the aims of the NEXT LEVEL strategy is to make the portfolio more robust and balanced. In addition, the minimum sales for potential direct investments has also been raised. The Executive Board and Supervisory Board have decided to adjust the GESCO AG dividend policy in order to support the associated acquisition strategy. Under the previous dividend policy, approximately 40 % of Group net income after minority interest was to be distributed. In future, the distribution is to be within the range of 20 % to 60 %. This puts GESCO AG in a position to keep liquid assets within the company, particularly with upcoming acquisitions or major investments, by reducing the distribution ratio, particularly when acquisitions are planned. Meanwhile, in phases with strong results and cash flow, distributions can significantly exceed the past limit of 40 %. Overall, the implementation of the NEXT LEVEL strategy will give the company greater flexibility.

Originally, this new dividend policy was supposed to apply from financial year 2020. However, given the huge amount of uncertainty created by the coronavirus crisis, we have brought the new policy forward and based our distribution for the abbreviated financial year 2019 at the lower end of the range in order to strengthen the company’s liquidity reserves. The dividend proposal for the nine-month abbreviated financial year 2019 therefore stood at € 0.23 per share on the financial statement preparation date. We reserve the right to adjust the proposed dividend for the abbreviated financial year 2019 in line with further developments relating to the coronavirus crisis until the Annual General Meeting is convened.

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 acted on this opportunity to make a personal investment was approximately 42 % 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, contributing to their pension plans. Owning a stake in the company helps to foster an entrepreneurial attitude. With this programme we also 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)

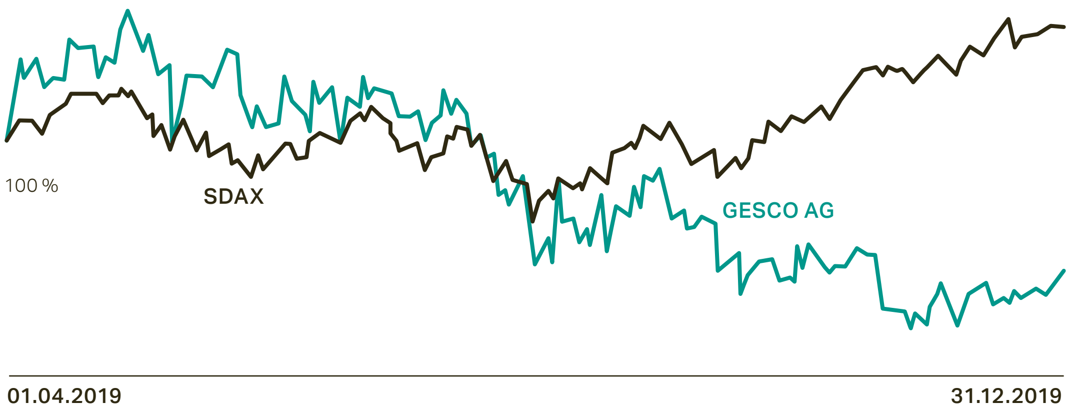
Information on the GESCO share[1)]

International Securities Identification Number (ISIN)	DE000A1K0201
Securities Identification Number (SIN)	A1K020
Stock market abbreviation	GSC1
Share capital (31.12.2019)	€ 10,839,499
Number of shares (31.12.2019)	10,839,499
IPO	24 March 1998
Year-end price, previous year (31.03.2019)	€ 22.75
Year-end price, abbreviated financial year (31.12.2019)	€ 18.86
Reporting year high (02.05.2019)	€ 26.25
Reporting year low (21.11.2019)	€ 17.52
Market capitalisation (31.12.2019)	approx. € 204.4 million
Free float (31.12.2019)	approx. 71.9 %
Market capitalisation of free float (31.12.2019)	approx. € 147.0 million
Transparency standard	Prime Standard
Indices	Prime Standard CDAX overall index Prime All Share Prime Industrial Classic All Share Prime Industrial Diversified

1) All share prices reflect the XETRA closing price.

GESCO AG (incl. dividends) vs. SDAX

Abbreviated financial year 2019



Declaration of Compliance and Corporate Governance Report Abbreviated financial year 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 2019 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 January 2020, the company published an update to this declaration concerning an update to Section 7.1.2 sentence 3 GCGC for financial year 2020. This was due to last year's change in the company's financial year to coincide with the calendar year. The resulting accounting adjustments mean that the mandatory interim financial information, the consolidated financial statements and the Group management report cannot be published within the recommended period of time.

The declaration of compliance issued in December 2019 and the update from January 2020 are included in this corporate governance report. Previous declarations of compliance are also available to our shareholders and other interested parties on our website. The GESCO AG Articles of Association are also available on the 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

The Executive Board is responsible for managing the company, while 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. The maximum age for members of the Executive Board is 65.

The Executive Board comprised Ralph Rumberg (Spokesman of the Executive Board) and Kerstin Müller-Kirchhofs (Chief Financial Officer, since 1 May 2019).

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. The Executive Board and Supervisory Board declare a deviation from Section 5.3 GCGC in this regard.

Pursuant to the recommendation in Section 5.1.3 GCGC and in accordance with the law and the Articles of Association, the Supervisory Board has created Rules of Procedure for itself, which are available on the company's website. 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.

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, the Supervisory Board believes that introducing limits on the length of membership for members of the Supervisory Board is neither appropriate nor useful and therefore declares a deviation from Section 5.4.1 paragraph 2 sentence 2 GCGC. The purpose of the age limit for members of the Supervisory Board is so that a member's term usually ends at the end of the regular term of office following the respective member's 70th birthday. 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.

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 competences are fully covered by the current committee members as follows:

Area of competence	Möllerfriedrich	Heimöller	Dr Rapp	Große-Allermann
Organisation of the Supervisory Board	x			
Corporate governance	x			
Legal	x			
Taxes	x			
Controlling and risk management	x	x	x	x
Accounting	x	x	x	x
Personnel		x	x	x
Production		x	x	
Financing	x	x	x	x
Capital market	x			x
M&A	x	x	x	x
Strategy	x	x		
Internationalisation			x	x

Target regarding the inclusion of women

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**. 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 Alexander Koch, the first 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 29 August 2019, the Chairman of the Supervisory Board appointed the auditor for the individual and consolidated financial statements. The interim report and first-quarter statement were not audited in the reporting year. The quarterly statement for the third quarter was not necessary due to the nine-month abbreviated financial 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 2018, 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 a result of the departure of the company's Chief Financial Officer, Robert Spartmann, with effect from 30 November 2018, the Executive Board of GESCO AG comprised only one person from 1 December 2018 up to and including 30 April 2019.

Section 7.1.2 sentence 3 German Corporate Governance Code (GCGC): Publishing financial information

The Annual General Meeting of GESCO AG on 29 August 2019 voted to change the financial year of GESCO AG to the calendar year effective as of entry into the commercial register on 4 September 2019. The resulting accounting changes meant that the interim report for the abbreviated financial year 2019 were not able to be published within 45 days of the end of the reporting period.

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 7.1.2 sentence 3 GCGC, as justified above, although the exception concerning Section 7.1.2 sentence 3 GCGC only applies in relation to the abbreviated financial year 2019, when the consolidated financial statements and the Group management report were not able to be published within 90 days of the end of the financial year.

Wuppertal, December 2019
GESCO AG

On behalf of the Supervisory Board
Klaus Möllerfriedrich
(Chairman of the Supervisory Board)

On behalf of 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 2019

The change in financial year of GESCO AG to the calendar year and the resulting changes in accounting will also result in GESCO AG not being able to publish the mandatory interim financial information within 45 days of the end of the reporting period and the consolidated financial statements and the Group management within 90 days of the end of the financial year (deviation from Section 7.1.2 sentence 3 GCGC).

The declaration of compliance issued in December 2019 continues to apply in all other respects.

Wuppertal, January 2020
GESCO AG

On behalf of the Supervisory Board
Klaus Möllerfriedrich
(Chairman of the Supervisory Board)

On behalf of the Executive Board
Ralph Rumberg
(Spokesman of the Executive Board)

Change in financial year

GESCO's history

Ever since GESCO AG was founded in 1989, its financial year has begun on 1 April and ended on 31 March of the following year. The financial years of its subsidiaries, on the other hand, coincide with the calendar year. This decision by the founders was aimed at taking the strong SME character of the group, which comprises many small and medium-sized enterprises with limited accounting resources, into consideration. In addition, the lack of similarity between the various business models meant that the group was unable to use a standard group-wide ERP system and instead consolidated the figures reported by the subsidiaries at the level of GESCO AG using consolidation software. The consolidated financial statements of GESCO AG are based on audited financial statements of the subsidiaries and therefore offer a high level of reliability. This system was also retained after the GESCO Group's accounting system was switched to IFRS in financial year 2002/2003. The notes to each year's consolidated financial statements contained an explanation of the system. In accordance with IFRS 10.B93, no interim financial statements were prepared for the subsidiaries on the reporting date of the parent company. Any significant events affecting subsidiaries that occurred by the consolidated reporting date were considered in the preparation of the consolidated financial statements.

Audits by the German Financial Reporting Enforcement Panel (FREP)

The German Financial Reporting Enforcement Panel (FREP) audited the consolidated financial statements of GESCO AG on multiple occasions. The discrepancy between the reporting dates of GESCO AG and the subsidiaries and the lack of interim financial statements for the subsidiaries as at the reporting date of the parent company was covered in the audit of the consolidated financial statements as at 31 March 2006, but was not determined to be an error. The matter was not covered or identified as an error in subsequent audits of the various consolidated financial statements.

As part of a random audit of the GESCO AG consolidated financial statements as at 31 March 2018, FREP found that the use of different reporting dates constituted a violation of IFRS 10.B92 as there were no practical reasons for not using the same reporting dates. GESCO AG agreed with this error finding and, at the request of the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) on 28 June 2019, submitted the finding to the German Federal Gazette, where it was published on 1 July 2019.

Change in financial year

The Annual General Meeting of GESCO AG on 29 August 2019 resolved that the financial year of GESCO AG and therefore GESCO Group be adjusted to match the calendar year so as to synchronise the financial years of GESCO AG with those of the subsidiaries. This resulted in a nine-month abbreviated financial year for

GESCO AG and GESCO Group from 1 April to 31 December 2019.

Adjustment of previous-year figures in the abbreviated financial year

The relevant previous-year figures had to be adjusted in accordance with IAS 8 on account of the error finding. The consolidated financial statements as at 31 March 2019, including the opening balance sheet as at 1 April 2018, have been adjusted to the extent that the subsidiaries are no longer included in the consolidated financial statements for the months of January to December 2018 (consolidated financial statements as reported), rather for the months April 2018 to March 2019 (consolidated financial statements as adjusted). The disclosures in the notes to the consolidated financial statements have also been adjusted to the greatest extent possible. The figures in the adjusted consolidated financial statements are therefore no longer comparable with the consolidated financial statements of previous years due to the amended reporting periods applying to the subsidiaries.

The abbreviated financial year includes, on the basis of the adjusted opening balances as at 1 April 2019, the nine-month period from 1 April to 31 December 2019. The figures for the abbreviated financial year are not comparable with those of the twelve-month previous year due to the abbreviated period.

The results of the subsidiaries from January to March 2019 were not included in the consolidated financial statements as at 31 March 2019, as the figures in these consolidated financial statements covered the period from January to December 2018. The results have been processed in the adjusted consolidated financial statements as at 31 March 2019 and are included accordingly in the opening balance sheet in these consolidated financial statements for the abbreviated financial year 2019.

Mid-year reporting in 2019

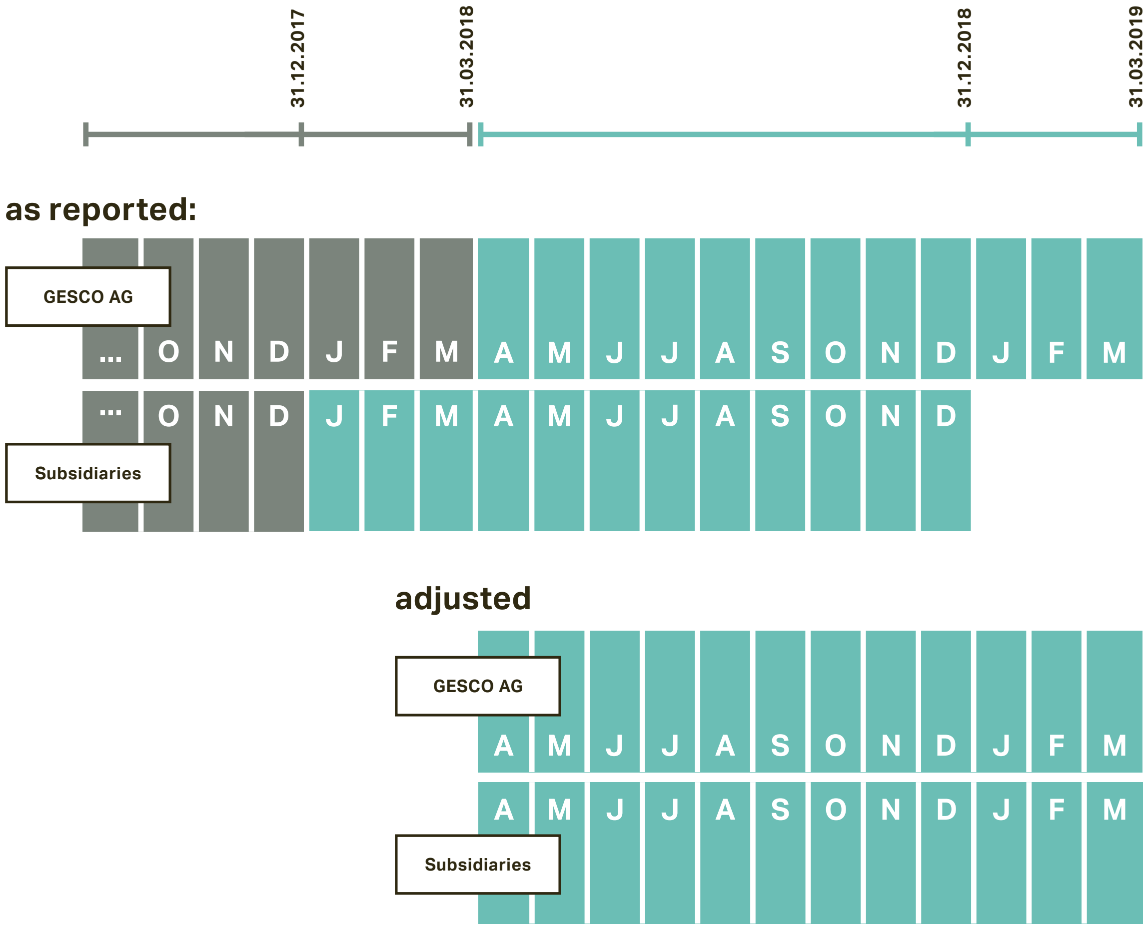
Given that the Annual General Meeting resolution was only made on 29 August 2019, the quarterly statement for the first quarter of financial year 2019 / 2020 published on 14 August 2019 was still in line with the previous approach. It covered the months of April to June of GESCO AG and the months of January to March of the subsidiaries.

The half-year interim report published on 25 November 2019, after the change of financial year, covered the months of April to September of both the subsidiaries and of GESCO AG. This report was based on the provisional adjusted opening balance sheet as at 31 March 2019, which included the results of the subsidiaries for the months January to March 2019.

Change in financial year from an investor relations perspective

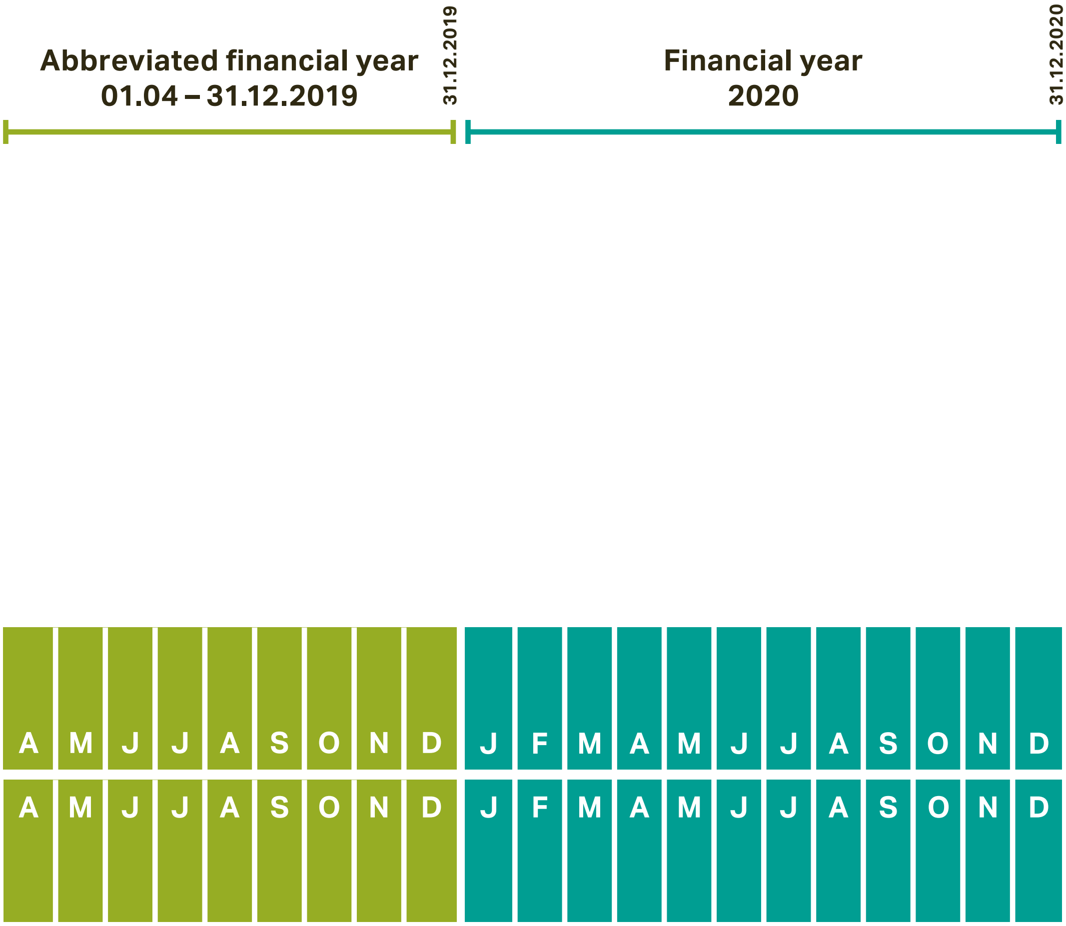
GESCO AG had reviewed the possibility of changing the financial year of GESCO AG in the interests of transparent capital market communication and independently of the error finding by FREP. Synchronised financial years offer the capital market more transparent, up-to-date and relevant reporting and better comparability with the financial statements of other companies.

Change in financial year



"Adjusting the financial years to match each other offers the capital market a more transparent, up-to-date and modern approach to reporting, as well as better comparability with the financial statements of other companies."

Kerstin Müller-Kirchhofs, CFO



Chronology of the change

1. **Since GESCO's founding in 1989**
   GESCO AG financial year
   1 April – 31 March
   Financial years of the subsidiaries
   1 January – 31 December

2. **FREP random audit 2017 / 2018**
   First deficiency finding due to the different financial years

3. **Resolution of the Annual General Meeting 29 August 2019**

4. **GESCO switches financial year to the calendar year**
   2019
   Nine-month abbreviated financial year
   2020
   First identical full financial year at the Group and its subsidiaries

03

Sustainability

Non-Financial Statement / CSR Report

Summarised non-financial report for the abbreviated financial year 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 will set 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. Initial cross-functional workshops also took place in this regard. The first workshop involved addressing issues linked to the group of subsidiaries. In the second workshop, discussions centred on the holding company and included looking into internationally recognised regulatory frameworks such as GRI, ISO 26000 and the UN Global Compact, performing a relevance review of key issues and taking into account the provisions of CSR-RLUG. In particular, the role of the holding company and its effects on the five CSR aspects was analysed. This resulted in the five issues outlined in CSR-RLUG being defined in precise terms and specifically attributed to GESCO AG. The following issues are focused on in the report:

Environmental concerns
- Reducing energy consumption
- Saving resources

Employee matters
- Occupational health and safety
- Corporate culture

Social concerns
- Corporate social responsibility in the value chain
- Enabling succession

Respecting human rights
- Preventing human rights violations in the value chain

Fighting corruption and anti-competitive conduct
- Ensuring compliant conduct

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.

In 2020 / 2021, GESCO AG will develop a new concept for its sustainability management and CSR reporting.

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 some € 20 million with an average workforce of 125 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 abbreviated financial year 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
- ongoing reporting
- approving annual budgets
- approving larger investments
- NEXT LEVEL strategy
- project-related consulting and support on all company-relevant issues
- establishing Group-wide standards (such as a code of conduct)
- Group-wide management meetings with opportunities to share knowledge and experience and draw on external expertise
- Group-wide training and information events for managing directors and, depending on the topic, also for technical and management personnel

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

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

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

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

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

Besides the risks of GESCO Group's business operations having a negative impact on the environment and risks resulting from damage to the environment and their associated financial and reputational effects, the long-term strategic risks that GESCO Group is exposed to include technological change, which itself is strongly affected by environmental issues such as climate change and the resulting political aim to reduce 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.

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.

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. LEADEX programmes are planned as part of the NEXT LEVEL strategy to promote and develop executives, showcase specific prospects at GESCO Group and sharpen leadership skills in a dynamic environment.

In 2015, GESCO AG joined forces with an external partner and began to conduct systematic **employee surveys** at certain companies. One of the goals is to authentically gauge sentiment on aspects such as job satisfaction and stress levels while identifying potential room for improvement. In addition, the surveys also give companies specific and credible arguments for their status as an employer. In the abbreviated financial year 2019, one survey was concluded and one further survey begun.

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 abbreviated financial year 2019, the participation rate stood at approximately 42 %, compared to 45 % in the previous year.

The companies also value **sustainable training** and offer training 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 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"). We have so far not implemented any further dedicated concept in relation to the issues of social matters and human rights as we believe GESCO Group companies have a limited influence in this regard.

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.

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

Supporting Wuppertal's Junior Uni

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

Special issue: enabling succession

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.

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 the nine-month abbreviated financial year 2019. In this period, GESCO Group generated sales of € 439.6 million. Wages and salaries, social security contributions and expenses for pensions amounted to € 118.9 million. A total of € 9.8 million was paid out to company shareholders in the form of dividends, while € 2.1 million in interest was also paid. Taxes in the amount of € 12.7 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 17.1 % in the reporting year, with the total return including the dividend paid in the reporting year amounting to - 13.1 %.

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.

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. We did not record any such incidents or violations in abbreviated financial year 2019.

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.

PAPER CHAMPIONS

Setter has been the world market leader in the production of paper sticks for lollipops and cotton swabs for many years. Demand for the environmentally friendly sticks produced by the GESCO subsidiary has shot up because a number of single-use plastic items will be banned in the EU from 2021. The company is rising to the challenge and is able to fulfil all of the orders by using internally developed machines and long-term customer relationships.

Text: André Boße
Photography: GESCO

Steffen Grasse has travelled the world for the sake of paper sticks. His calendar is loaded with appointments in Germany and around the world, taking him to China, the US and Mexico. There has always been a lot to do, says the Managing Director of Setter, a GESCO Group company. "But things have really ramped up since that ominous day in October 2018." He says he feels a little like in the Brothers Grimm tale of the hare and the hedgehog: "No matter how fast we work, there are always new orders to process. That is already challenging enough." Within the last few months, the number of orders has increased and so has the number of employees: in the past, Setter had always employed around 70 people, now there are more than 150, so the workforce has more than doubled. "To start with, we need to learn how to manage our workforce," says Grasse.

Global trend to stop using plastic

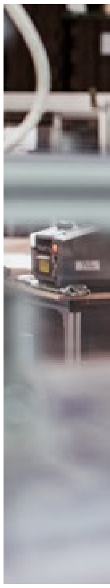
So what did happen on that "ominous day in October"? All eyes were on Strasbourg, where MEPs had adopted a groundbreaking directive. In order to finally reduce plastic waste, politicians announced a ban on many single-use plastic products; plastic sticks used for cotton swabs or lollipops will also be banned from 2021. Although the ban applies only in Europe, the decision has turned the stick industry worldwide upside down. The trend is to move away from plastic and towards a sustainable alternative. And this is exactly what Setter has specialised in for many years.

Founded in 1963 with headquarters in Emmerich (North Rhine-Westphalia), the company is the world market leader in the paper sticks industry. The GESCO subsidiary generates approximately 80% of its sales with international customers. The paper sticks market used to be a "small pond", as Steffen Grasse puts it, "with us as the biggest fish". The EU decision and the global trend to stop using plastic have changed the situation. "The pond is increasing in size. And we want to maintain our position as the big fish in this new environment, too." The conditions for this are excellent: when the demand for sustainable sticks increased following the EU decision, Setter was the logical company to turn to. Managing Director Steffen Grasse was not surprised: "For many, sustainable sticks are something new, but for us, they have been our core business for years."

Certificates for sustainability

The production of sticks for cotton swabs, lollipops, small flags and balloons is a business with huge production runs. The industry estimates that 80 to 90 billion cotton swabs are produced annually in the EU alone. The number of lollipops is also likely to be in the billions, although these sweets are often imported into Europe from China or North and Central America. After use, cotton swab and lollipop sticks are disposable products, and this is exactly the problem. Far too many plastic sticks have ended up in the oceans where, together with other plastic waste, they form gigantic carpets of rubbish and pose a threat to fish and seabirds. And even away from the oceans, incorrectly disposed of plastic sticks are becoming a problem. If users throw used sticks down the toilet, the plastic residue clogs the sewers and pollutes the groundwater.

The paper alternative produced by Setter offers crucial advantages from an environmental point of view. After use, the sticks dissolve completely, making them biodegradable and therefore not harmful to the environment. The sticks are made from regenerative cellulose. Certificates from the FSC and PEFC organisations ensure that the paper products are made of raw materials from sustainably managed forests. "We produce the sticks as a 100% natural product, without any chemical additives such as optical brighteners, which is used for example to treat photocopying paper to make it look



"For many, sustain-
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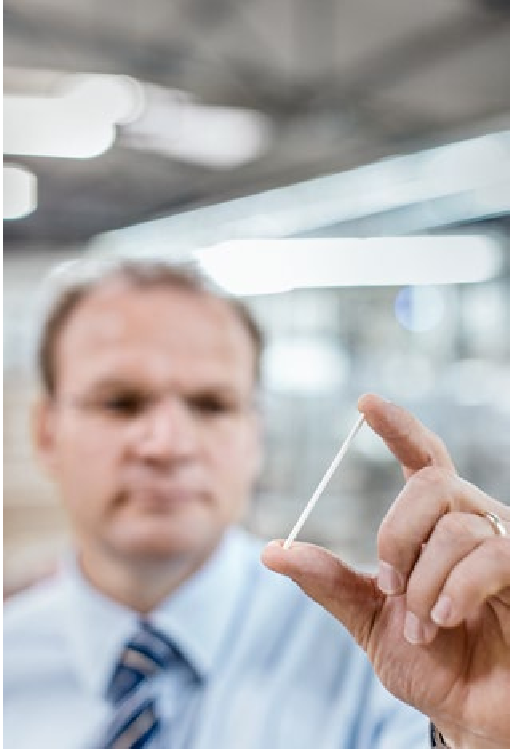
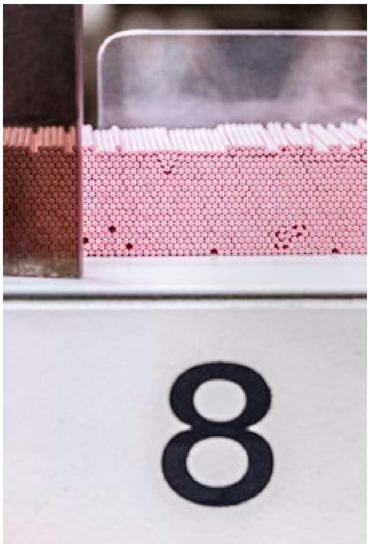
Steffen Grasse, Managing Director at Setter



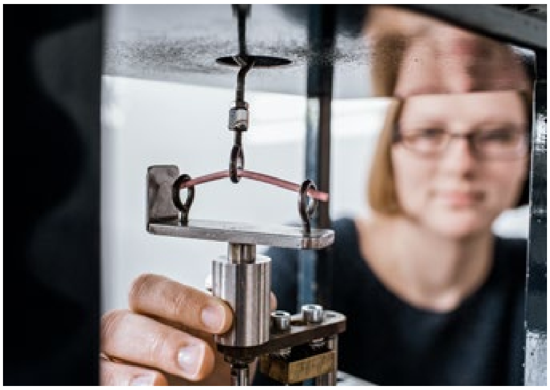


Two certificates ensure sustainability

The paper that Setter uses in stick production has been certified for sustainability. The Forest Stewardship Council (FSC) seal guarantees that the paper comes from wood grown in sustainably managed forests. For example, the forestry operations that are part of the FSC system agree bindingly to keep the forest's ecosystem intact. From a global perspective, the rights of indigenous peoples are upheld. The certificate issued by the Programme for the Endorsement of Forest Certification (PEFC) is seen as an international stamp of approval for forested products. It lets consumers know that independent experts have checked and certified that the entire production process – from the raw material to the ready-to-use final product – complies with strict sustainability criteria.

"Being the reliable leader in terms of quality and price at the same time – that is the special position we occupy in this market."

Steffen Grasse, Managing Director at Setter (left)



Advantages of Setter paper sticks over plastic

- Biologically degradable to prevent years of environmental pollution
- Made from paper sourced from sustainably managed forests rather than crude oil
- Made without any chemical additives
- Do not splinter – no sharp edges, even if they break
- No static charge during processing for greater productivity

whiter," says Steffen Grasse. The company also has to comply with a wide range of food and health regulations. After all, the lollipop sticks end up in people's mouths, the cotton swabs in people's ears. The Managing Director details what is important: "Our sticks do not splinter, they can bend, have no taste and no sharp edges."

Lucrative business made to measure

What makes Setter so powerful in this business with the huge quantities is that the machines for the production of the sticks have been developed by the company itself. "Our systems ensure that we are significantly more productive and cheaper than the competition," says Steffen Grasse. The success is also guaranteed by the dimensional accuracy of the products. The sticks may appear simple at first glance, but for the customer they become the central part of a production process in which three things are important: speed, quality and costs. According to Grasse, the skill lies in optimising all three criteria. "For their part, our customers also produce on high-performance machines, so the demands on our sticks are enormous." The sticks need to be able to bend, but should not break. The length and diameter must fit exactly. Defective sticks lead to losses in production – something that must be avoided at all costs in this business. For many years, Setter has succeeded in getting the balance right between efficiency and quality. Steffen Grasse gets straight to the point: "Being the reliable leader in terms of quality and price at the same time – that is the special position we occupy in this market."

The company is determined to defend this position. At the headquarters in Emmerich, it is assumed that competition in the field of paper stick production will continue to intensify. Management needs to be smart, because the price for the sustainable cellulose used by Setter is also rising. The long-term business relationships that Setter fosters with its suppliers are an asset here: "Compared to the new players in the industry, we have the advantage of possessing many years of valuable experience and contacts," says Steffen Grasse. This pioneering role also helps the company to react to new developments. "Some customers who have stopped using plastic sticks are now using sticks made from recycled paper as a way of further reinforcing their focus on sustainability," says Steffen Grasse. The problem with this is that not everything that used to be a newspaper can now be made into a stick. After all, that paper contains chemical residues. This is why Setter uses untreated paper waste of the highest quality – and also meets the high quality requirements in this regard.

A trivial matter? The Setter Managing Director shakes his head when he hears people say this. "Plastic waste is not a trivial matter for the oceans." When he looks at how the company has developed in recent months, he finds it hard to imagine a more interesting job. "Because we are growing, there are a number of new departments, processes and structures. To bring this change in line with our experience requires a lot of work – but above all it is extraordinarily exciting."

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 from 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 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 be subject to lower sales criteria.

GESCO AG began to establish excellence programmes, which are common in the large-scale manufacturing industry, through its NEXT LEVEL strategy in the reporting period to take the Group's SMEs to the next level. The move was associated with a new focus and a shift in GESCO AG's role as an owner. At GESCO AG level, we have taken targeted steps to build methodology-related expertise and know-how so as to provide the subsidiaries with specific support for the upcoming activities. These activities are preceded by CANVAS workshops aimed at business model analysis. These are joined by MAPEX or OPEX programmes, depending on the specific requirements of the subsidiary in question. MAPEX is focused on analysing and developing target markets and the product portfolio with the aim of expanding business volume and gaining market share. OPEX programmes serve to optimise processes in all corporate functions, thereby increasing efficiency. LEADEX programmes ultimately strengthen leadership behaviour and corporate culture.

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.

We began the systematic implementation of the strategy in the reporting period and scheduled CANVAS workshops for business model analysis at most subsidiaries. On this basis, and depending on the specific requirements of the company in question, initial excellence programmes for OPEX or MAPEX were launched.

Changing the financial year

The financial years of GESCO AG and GESCO Group have run from 1 April to 31 March of the following year ever since the company was founded in 1989, while the financial years of the subsidiaries coincide with the calendar year. The German Financial Reporting Enforcement Panel (FREP) conducted a random audit of the consolidated financial statements as at 31 March 2018 and submitted an error finding for the first time in relation to the different financial years. The reason given for this error finding was that the use of different financial years is a violation of IFRS 10.B92, as there are no valid reasons that preclude the practical implementation of the same reporting dates.

The Annual General Meeting of GESCO AG on 29 August 2019 resolved that the financial year of GESCO AG be adjusted to match the calendar year so as to synchronise the reporting dates of GESCO AG with those of the subsidiaries. This resulted in a nine-month abbreviated financial year from 1 April to 31 December 2019 for GESCO AG. The financial years of the subsidiaries continue to coincide with the calendar year.

The relevant previous-year figures had to be adjusted in accordance with IAS 8 on account of the error finding. The consolidated financial statements as at 31 March 2019, including the opening balance sheet as at 1 April 2018, have been adjusted to the extent that the subsidiaries are no longer included in the consolidated financial statements for the months of January to December 2018 (consolidated financial statements as reported), rather for the months April 2018 to March 2019 (consolidated financial statements as adjusted). The disclosures in the notes to the consolidated financial statements have also been adjusted to the greatest extent possible. The figures in the adjusted consolidated financial statements are therefore no longer comparable with the consolidated financial statements of previous years due to the amended reporting periods applying to the subsidiaries. The abbreviated financial year includes, on the basis of the adjusted opening balances as at 1 April 2019, the nine-month period from 1 April to 31 December 2019. The figures for the abbreviated financial year are not comparable with those of the twelve-month previous year due to the abbreviated period.

Significant changes to the scope of consolidation

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

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. Sommer & Strassburger generates sales of roughly € 20 million, employs approximately 140 members of staff and is part of the Production Process Technology segment. The company was included in the consolidated income statement for the full nine months in the abbreviated financial year 2019 and for seven months in the adjusted previous-year period.

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 regular 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.

Activities in the reporting period were focused on various additive manufacturing applications (3D printing), particularly at Dörrenberg Edelstahl GmbH and VWH GmbH. MAE Maschinen- und Apparatebau Götzen GmbH has cemented its technology leadership in automatic straightening machines through a new type of straightening process. Frank Walz- und Schmiedetechnik GmbH was awarded with a new innovation prize by the German Agricultural Society (DLG) at Agritechnica in Hanover, the world's leading trade fair for agricultural technology. Frank was among only three recipients of the Systems & Components Trophy – Engineers' Choice prize for its new SafeKnives product. The sensor system measures the tension on the holding springs of cutter blades fitted to rotating mower units during forage harvesting and sends the data in real time straight to the driver's compartment.

02 – Economic report

Macroeconomic and industrial sector conditions

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

The **Verband Deutscher Maschinen- und Anlagenbau e. V. (VDMA)** had initially forecast a 2 % increase in production in 2019, but reduced its outlook to 1 % in March 2019 at Hannover Messe and subsequently forecast a decline in production of 2 % in July 2019. According to figures published by the VDMA in March 2020, production fell by 2.8 % year on year. Exports to industrialised economies are expected to have been positive according to VDMA figures, whereas exports to developing and emerging economies, which account for more than one-third of all machinery exports, were negative.

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

Business performance

The capital goods industry, in which the majority of GESCO Group companies operate, was characterised by declining development in 2019. According to the preliminary figures of the VDMA, production in mechanical and plant engineering was 2.8 % down on the previous year's figure. There was a lack of growth momentum and the market environment was shaped by a reluctance to invest and under-pressure margins.

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. There were no serious supply bottlenecks in the reporting year.

Situation of the Group

Earnings position

The GESCO Group recorded a significant decline in demand in the nine-month abbreviated financial year 2019. Customers in the automotive industry were particularly reluctant in terms of their investments, which negatively affected the Mobility Technology and Production Process Technology segments above all. Business in the Resource Technology segment was comparatively stable in terms of sales, however margins were significantly down on the previous-year period due to the weak development of the capital goods industry. The Healthcare and Infrastructure Technology segment proved to be comparatively robust against economic development, even though margins were unable to reach the level of the previous year due to increased price pressure.

Incoming orders at the GESCO Group came to € 403.2 million in the nine-month abbreviated financial year (twelve-month previous year: € 602.9 million) and Group sales came to € 439.6 million (€ 580.3 million). The financial year closed with an order backlog of € 191.2 million (€ 224.3 million).

The ratio of material expenditure barely changed during the reporting period, whereas the personnel expenditure ratio increased on account of lower capacity utilisation. Other operating income remained virtually unchanged year on year. Earnings before interest, taxes, depreciation and amortisation (EBITDA) over the nine-month period came to € 44.0 million (€ 68.4 million).

Depreciation and amortisation stood at € 20.6 million in the reporting period. The previous-year figure of € 26.3 million included impairment losses in the amount of € 2.0 million on the goodwill of the Werkzeugbau Laichingen Group (WBL) companies.

Earnings before interest and taxes (EBIT) over the nine-month period came to € 23.5 million (€ 42.1 million), putting the EBIT margin at 5.3 % (7.3 %).

With a financial result of €- 1.7 million (€ - 2.3 million), a tax rate of 37.0 % (35.3 %) and minority interest in incorporated companies of € 1.3 million (€ 3.2 million), Group net income after minority interest in the nine-month abbreviated financial year stood at € 12.4 million compared to € 22.6 million in the twelve-month previous year. Earnings per share pursuant to IFRS stood at € 1.14 (€ 2.08).

In the previous year's consolidated financial statements and prior to the change in financial year implemented by the 2019 Annual General Meeting, we had forecast a slight rise in Group sales and a moderate decline in Group net income after minority interest.

Our most recent Group sales forecast was issued in November 2019, in which we anticipated Group sales of € 425 million to € 435 million for the nine-month abbreviated financial year 2019. In the end we slightly exceeded this forecast range. In terms of Group net income after minority interest, the final value came in midway through the forecast corridor of € 11.5 million to € 13 million.

Sales and earnings by segment

Development in the Production Process Technology segment was shaped by a significant reluctance to invest among customers in the automotive industry. Incoming orders in the nine-month abbreviated financial year stood at € 62.0 million (twelve-month previous year: € 93.2 million). Sales were higher than incoming orders at € 76.4 million (€ 87.5 million), as orders from previous periods were processed in the reporting period. EBIT came to € 7.7 million (€ 8.1 million), which corresponds to an EBIT margin of 10.1 % (9.3 %). Sommer & Strassburger GmbH & Co. KG, which was acquired in August 2018, is allocated to this segment. Nine months of the company's business activities were included in the consolidated income statement in the reporting year and seven months in the previous year.

The downturn in the capital goods industry had a noticeable effect on the **Resource Technology** segment. The effect was all the more significant in terms of earnings due to the fact that above-average margins had been generated in the previous year. The segment's incoming orders came to € 200.1 million (€ 289.2 million), while sales stood at € 211.4 million (€ 287.2 million). With EBIT coming in at € 17.9 million (€ 31.8 million), the EBIT margin declined to 8.5 % after the above-average rate of 11.1 % in the previous year.

The second-largest segment, **Healthcare and Infrastructure Technology**, demonstrated its less-cyclical character in the reporting period through stable sales. However, margins came under pressure here, too. Within the segment, the Setter Group generated significant growth in a dynamic market in its role as a manufacturer of paper sticks for the hygiene and confectionery industries. The segment's incoming orders came to € 108.5 million (€ 161.2 million), while sales stood at € 112.7 million (€ 145.2 million). EBIT came to € 8.3 million (€ 14.3 million), which corresponds to an EBIT margin of 7.3 % (9.9 %).

Companies in the **Mobility Technology** segment suffered from a reluctance to invest in the automotive and automotive supplier industries in the reporting period. The segment's incoming orders came to € 32.5 million (€ 59.3 million), while sales stood at € 39.5 million (€ 61.0 million). The fall in capacity utilisation and the pressure on margins caused the segment to record negative EBIT of € - 2.1 million (previous-year period: € 2.1 million with an EBIT margin of 3.4 %).

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**. The aforementioned impairment losses of € 2.0 million are included in this amount.

Sales by region

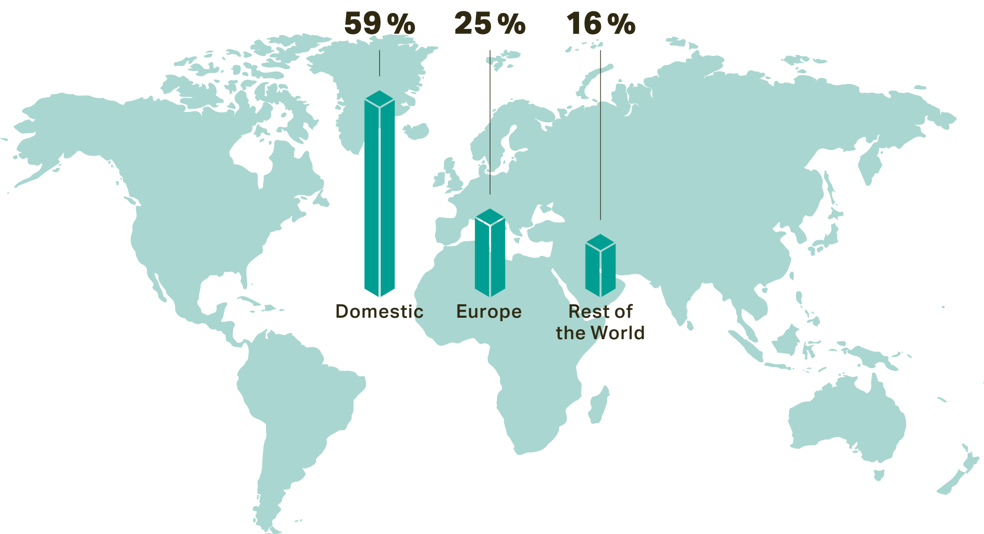
The share of Group sales attributable to international business was 41 % in the abbreviated financial year. A total of 25 % of sales were generated in Europe (excluding Germany), with France, Italy and Czech Republic the most important individual markets. The share of sales generated in Asia came to 9.3 %, 3.4 percentage points of which were attributable to China. With a share of 7.0 %, the US was the most important market outside Germany.

Individual companies' international sales vary significantly depending on their respective business models. Some subsidiaries 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

Abbreviated financial year 2019



Financial situation

Capital structure

The GESCO Group balance sheet is in healthy shape with a strong equity base and sufficient liquidity. At 10.8 % of equity, goodwill remains low. All in all, GESCO Group is on a solid financial footing for internal and external growth.

On the liabilities side, equity of € 250.4 million was almost on par with the level recorded at the start of the financial year of € 250.6 million. Given the decline in total assets, the equity ratio increased from 47.7 % to 49.5 %. Current and non-current liabilities to financial institutions declined by € 7.0 million to € 133.7 million (€ 140.7 million). At the beginning of the financial year, leases previously not recognised in the amount of € 16.8 million were recognised as rights of use and lease liabilities pursuant to IFRS 16. All in all, current and non-current lease liabilities climbed from € 9.3 million to € 24.6 million.

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.

In view of the drop in demand, we deferred any investment projects that were not urgently necessary. All in all, investments in property, plant and equipment and intangible assets came to € 16.8 million in the nine-month abbreviated financial year, down from € 24.5 million in the twelve-month previous year. This amount includes rights of use of € 1.7 million in the reporting period and € 2.7 million in the previous year, which are reported as investments pursuant to IFRS 16. Rights of use of € 16.8 million were recognised for the first time due to the first-time application of IFRS 16.

This total volume was spread across a series of small and medium-sized replacement and modernisation investments in the reporting year. The Setter Group was a focus of investment activity, as it expanded its manufacturing capacities on the back of rising demand for paper sticks in the confectionery and hygiene industries.

Commitments totalled € 271 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 2020 and are financed by equity as well as borrowed capital.

Depreciation and amortisation of property, plant and equipment and intangible assets amounted to € 20.6 million. The previous year's figure of € 26.3 million included impairment losses of € 2.0 million.

Liquidity

At € 30.9 million, liquid assets were slightly up on the previous year's value of € 29.3 million. A dividend of € 9.8 million was distributed to the company's shareholders for financial year 2018 / 2019 in the reporting period.

At the end of the year, the Group had access to approved but unused credit lines totalling € 39.4 million. The Group was able to meet its payment obligations at all times.

Despite the lower result for the nine-month period, cash flow from ongoing business activity improved to € 38.6 million (€ 13.7 million). This was primarily due to the reduction in working capital, which had risen in the previous-year period.

Assets

GESCO Group's total assets amounted to € 506.1 million as at the reporting date, 3.7 % lower than the adjusted figure as at 1 April 2019 of € 525.5 million.

On the assets side, the new accounting requirements pursuant to IFRS 16 led to an increase in non-current assets of € 15.0 million. All told, non-current assets rose by 5.3 %. The fall in inventories and trade receivables resulted in a 9.9 % drop in current assets.

The capitalisation ratio stood at 34.0 % (previous-year reporting date: 30.1 %). The ratio of long-term capital to non-current assets amounted to 1.6 (1.7) as at the reporting date.

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, 2,718 people were employed by GESCO Group (previous year: 2,684). Given the decline in demand in the capital goods and automotive industries, GESCO Group has in some cases not extended employment agreements and reduced employee numbers in some cases. We make use of short-time work instruments where possible. Some of the measures we have taken will only lead to a reduction in employee numbers in the first quarter of 2020. The number of employees changed slightly or declined in all segments with the exception of the Healthcare and Infrastructure Technology segment. This segment is allocated to the Setter Group, which significantly increased its number of employees due to market growth.

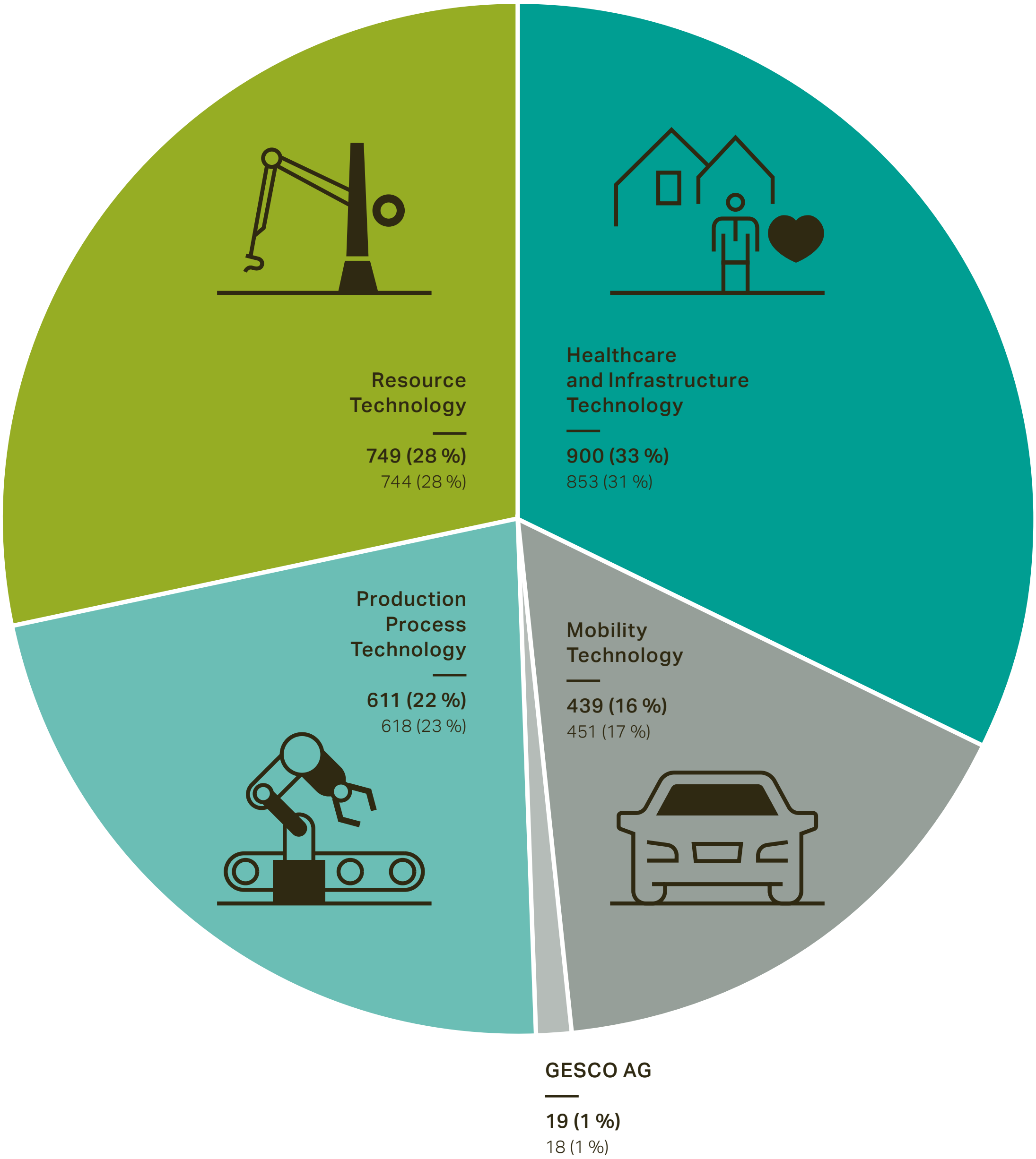
In autumn 2019, GESCO AG offered all GESCO Group employees in Germany the chance to buy shares in the company at favourable terms for the 21st year in succession. On the back of a 48 % rate in the previous year, around 42 % of those employees acted on this opportunity to make a personal investment.

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)

Abbreviated financial year 2019 vs. 2018 / 2019 (adjusted)



03 – Other information

Changes to the executive bodies of the company

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.

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 between 2017 and 2019 are exercised on a defined issue date.

The stock options for the tranches 2014 to 2016 were issued at an exercise price equating to the average XETRA closing price of the GESCO share on the ten consecutive trading days following the Annual General Meeting in the year the options were issued. The average XETRA closing price of the GESCO share in the six months prior to the Annual General Meeting is the key factor in determining the issue price for the tranches issued between 2017 and 2019. The average closing price of the SDAX price index over the same period serves as a benchmark. The profit from the programme is determined once the vesting period of four years and two months is over, with the average closing price of the GESCO share and the average closing price of the SDAX price index of the six months prior to the end of the vesting period being the deciding factor. The options were issued within one month after the Annual General Meeting taking place.

If and how many options can be exercised depends on the achievement of an absolute and relative performance target. The absolute performance target is met when the price of the GESCO share has developed positively at the time the option is exercised. The relative performance target is met when the price of the GESCO share has outperformed the SDAX at the time the option is exercised. If both targets are met, the Executive Board members are able to exercise all of their options. If the absolute performance target is met but not the relative performance target, members of the Executive Board may only exercise 75 % of their options for tranches 2014 to 2016 and 50 % of their options for the tranches issued between 2017 and 2019 tranches, with the remaining 25 % and 50 % respectively expiring completely without recourse. If neither target is met at the point at which the options may be exercised, all options of the corresponding tranche expire completely without recourse. The maximum profit of the Executive Board members is capped at 50 % of the exercise price. The profit from the programme is paid out in cash.

The tranche set up by the Supervisory Board in September 2019 resulted in 68,800 options being issued to members of the Executive Board and managers of GESCO AG. Non-cash expenditure under this programme is determined using a common binomial model, recorded in earnings and recognised in other provisions. The model assumes volatility of 26.40 % and a risk-free interest rate of - 0.86 %; the options' exercise price is € 23.92. The 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 € 1.28.

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

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

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)	Robert Spartmann (until 30.11.2018)
€'000	2018 / 2019	2018 / 2019
Fixed remuneration	234	217
Additional benefits	7	11
Total	**241**	**228**
One-year variable remuneration	262	298
Multi-year variable remuneration		
Tranche 2018	33	33
Tranche 2019	0	0
Total	**295**	**331**
Pension-related expenses	62	57
Total remuneration	**598**	**616**

	Ralph Rumberg Spokesman (since 01.07.2018)				Kerstin Müller-Kirchhofs (since 01.05.2019)		
	2018 / 2019	**01.04. – 31.12.2019**	**01.04. – 31.12.2019 (min)**	**01.04. – 31.12.2019 (max)**	**01.04. – 31.12.2019**	**01.04. – 31.12.2019 (min)**	**01.04. – 31.12.2019 (max)**
	244	244	244	244	187	187	187
	18	18	18	18	9	9	9
	262	**262**	**262**	**262**	**196**	**196**	**196**
	298	207	84	488	176	0	373
	33	0	0	0	0	0	0
	0	23	0	215	23	0	215
	230	**230**	**84**	**703**	**199**	**0**	**588**
	49	49	49	49	37	37	37
	642	**541**	**395**	**1.014**	**432**	**233**	**821**

Executive Board remuneration: payments

Payments	Dr. Eric Bernhard CEO (until 15.06.2018)	Robert Spartmann (until 30.11.2018)	Ralph Rumberg Spokesman (since 01.07.2018)		Kerstin Müller-Kirchhofs (since 01.05.2019)
€'000	**2018 / 2019**	**2018 / 2019**	**2018 / 2019**	**01.04. – 31.12.2019**	**01.04. – 31.12.2019**
Fixed remuneration	234	217	244	244	187
Additional benefits	7	11	18	18	9
Total	**241**	**228**	**262**	**262**	**196**
One-year variable remuneration	221	242	0	276	0
Multi-year variable remuneration	0	0	0	0	0
Total	**221**	**242**	**0**	**276**	**0**
Pension-related expenses	62	57	65	32	37
Total remuneration	**524**	**527**	**327**	**570**	**233**

The following payments were included in financial year 2018 / 2019 in connection with the departure of members from the Executive Board: Dr Bernhard received fixed remuneration of € 169 thousand for the period from his resignation as at 15 June 2018 until the end of his contract on 31 December 2018. Mr Spartmann received compensation for annual leave in the amount of € 33 thousand; this compensation was included in fixed remuneration.

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

04 – Outlook, opportunity and risk report

Outlook / events after the reporting date

In its November 2019 forecast for the coming year, the German Council of Economic Experts initially anticipated gross domestic product growth of 0.9 % in Germany in 2020. Due to the corona pandemic, the Kiel Institute for the World Economy (IfW Kiel) subsequently predicted a 0.1 % decline in GDP in its spring forecast, which it released on 12 March 2020. Just one week later, on 19 March 2020, IfW Kiel released a revised forecast on account of the significant deterioration in the outlook that predicted a decline of between 4.5 % and 9 % depending on the duration of the lockdown imposed on the German economy.

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

In view of the weak economic environment, we assumed from the outset that development within GESCO Group would be subdued in financial year 2020. If we compare financial year 2020 with annualised figures, in other words an approximate projection for the twelve-month financial year 2019, we originally expected largely unchanged sales and a slight increase in earnings, without taking the pandemic into account.

Based on the currently available specific insights into the impact of the corona pandemic on business activity within the GESCO Group, we currently expect sales and earnings to be down slightly on the level for the projected twelve-month period. However, we would like to explicitly note that the full impact of the pandemic cannot be foreseen at the current time. As a result, expectations for financial year 2020 may change significantly at short notice.

We consider the minimum equity ratio at GESCO Group to be 40 % in the new financial year.

GESCO AG continues to aim to generate external growth by acquiring further industrial companies in the SME segment. 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, the scope of which has been significantly expanded within the scope of the NEXT LEVEL strategy.

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

Risk management at GESCO Group

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

Risk impact:

Up to € 2 million	low
€ 2 million – € 5 million	moderate
Over € 5 million	high

Probability of occurrence:

0 % to 10 %	very low
10 % to 30 %	low
30 % to 70 %	moderate
70 % to 100 %	high

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

The Executive Board is responsible for conducting risk management and the Supervisory Board is responsible for oversight. The Supervisory Board is informed about the latest risk developments in quarterly meetings. The Supervisory Board is notified on an ad hoc basis in the event of larger risks.

Risks in acquiring companies

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

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

Following acquisition, companies are rapidly integrated into GESCO Group's planning and reporting system, as described in the "Management system" section. In addition, the companies are integrated into GESCO Group's 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 the risk of making losses on contracts cannot be ruled out at the current time. On the other hand, these can be regarded as opportunities, since challenging customer projects frequently result in innovative approaches that can lead to marketable product innovations.

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

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

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

Compliance risks

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

Risks relating to personnel

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

Acquiring and retaining suitable managing directors for GESCO AG companies is also particularly important. Managing directors 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 managing directors the opportunity to personally invest in the company they are managing. This is aimed at fostering an entrepreneurial approach and 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 programme to be an important part of its personnel retention efforts.

Risks relating to IT

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

Risks relating to data protection

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

Risks relating to financing

Risks relating to financing can include the inability to supply the holding company with sufficient equity capital and / or borrowed capital. Access to borrowed capital at adequate terms and conditions is significantly linked to the operating success of GESCO Group and therefore to the associated ability to make interest and principal payments in accordance with the agreed terms. Subsidiaries can directly influence such matters, whereas the holding company can exert indirect influence as part of its acquisition decisions, reporting activities and its support and assistance of subsidiaries. Subsidiaries can be exposed to the risk of shortfalls in terms of borrowed capital if they experience negative financial performance. In addition, there is also the risk that this negative performance impacts the reputation of GESCO AG and, potentially, other subsidiaries as debtors. Companies conclude interest rate swaps to limit the risks of changes in variable rates. These swaps involve swapping the variable rate for a fixed rate. We do not expect to see any material changes in interest rates in financial year 2020, either in the eurozone or in the US.

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

Risks relating to accounting

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

Environmental risks

Environmental damage can lead to significant financial and reputation-related risks and, in a worst-case scenario, threaten the continued existence of the company concerned. Subsidiaries pursue different approaches here depending on the relevant business model. Dörrenberg Edelstahl GmbH, for instance, introduced an environmental management system in 1997 that continues to be developed and is regularly audited. Due to its classification as a hazardous site, regular environmental audits are carried out at 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 and the other operative risks referred to above, we currently see the high level of political uncertainty as a great risk to operating business.

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

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 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, 30 March 2020

Ralph Rumberg
Spokesman of the Executive Board

Kerstin Müller-Kirchhofs
Member of the Executive Board

05

GESCO finances

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

Balance sheet

€'000	31.12.2019	31.03.2019
Assets		
Intangible assets	52	39
Property, plant and equipment	338	265
Financial assets	138,539	133,187
Non-current assets	**138,929**	**133,491**
Receivables and other assets	89,453	82,876
Cash and credit with financial institutions	6,494	8,330
Current assets	**95,947**	**91,206**
Accounts receivable and payable	**75**	**171**
Total assets	**234,951**	**224,868**
Equity and liabilities		
Equity	200,614	187,773
Provisions	5,460	5,773
Liabilities	28,877	31,322
Total equity and liabilities	**234,951**	**224,868**

Income statement

€'000	01.04.2019 – 31.12.2019	01.04.2018 – 31.03.2019
Sales revenues	801	519
Other operating income	282	545
Personnel expenditure	- 3,619	- 4,293
Depreciation / amortisation	- 140	- 175
Other operating expenditure	- 3,037	- 4,319
Earnings from investments	26,667	45,237
Income from profit and loss transfer agreements	2,927	3,373
Write-downs on financial assets	0	- 4,000
Net interest income	242	133
Taxes	- 1,505	- 1,587
Net income	**22,618**	**35,433**
Transfer to revenue reserves	- 11,309	- 17,716
Retained profit	**11,309**	**17,717**

Proposed appropriation of retained profit

For the abbreviated financial year 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 € 11,309,289.17:

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

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 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 December 2019

GESCO Group balance sheet

€'000		31.12.2019	31.03.2019 adjusted	01.04.2018 adjusted
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)	20,354	22,320	20,689
2. Goodwill	(2)	26,927	26,927	19,100
3. Prepayments	(3)	133	240	7
		47,414	**49,487**	**39,796**
II. Property, plant and equipment				
1. Land and buildings	(4)	83,039	71,526	65,666
2. Technical plant and machinery	(5)	55,979	56,456	51,477
3. Other plant, fixtures and fittings	(6)	21,810	21,271	21,223
4. Prepayments and assets under construction	(7)	11,487	9,135	9,252
		172,315	**158,388**	**147,618**
III. Financial assets				
1. Shares in affiliated companies	(8)	0	38	40
2. Shares in companies valued at equity	(9)	1,635	1,610	1,206
3. Investments	(10)	236	236	156
4. Other loans		100	181	190
		1,971	**2,065**	**1,592**
IV. Other assets	(11)	652	982	1,359
V. Deferred tax assets	(12)	4,318	4,303	3,248
		226,670	**215,225**	**193,613**
B. Current assets				
I. Inventories	(13)			
1. Raw materials and supplies		28,480	31,471	25,820
2. Unfinished products and services		42,489	55,481	44,353
3. Finished products and goods		79,576	89,920	71,459
4. Prepayments		976	896	1,129
		151,521	**177,768**	**142,761**
II. Receivables and other assets	(11)			
1. Trade receivables		79,072	83,999	81,416
2. Amounts owed by affiliated companies		2,086	1,072	1,976
3. Amounts owed by companies valued at equity		319	603	82
4. Other assets		14,597	15,933	12,553
		96,074	**101,607**	**96,027**
III. Cash and credit with financial institutions	(14)	30,870	29,336	47,754
IV. Accounts receivable and payable		964	1,550	1,461
		279,429	**310,261**	**288,003**
		506,099	**525,486**	**481,616**

€'000		31.12.2019	31.03.2019 adjusted	01.04.2018 adjusted
Equity and liabilities				
A. Equity				
I. Subscribed capital	(15)	10,839	10,839	10,839
II. Capital reserves		72,364	72,364	72,364
III. Revenue reserves		158,049	156,458	140,457
IV. Own shares		0	0	- 119
V. Other income		- 5,388	- 4,252	- 4,837
VI. Minority interest (incorporated companies)	(16)	14,564	15,158	15,603
		250,428	**250,567**	**234,307**
B. Non-current liabilities				
I. Minority interest (partnerships)	(16)	992	1,170	1,983
II. Provisions for pensions	(17)	17,728	16,445	15,954
III. Other non-current provisions	(17)	550	586	600
IV. Liabilities to financial institutions	(18)	66,938	85,879	76,850
V. Lease liabilities	(18)	20,530	8,324	2,128
VI. Other liabilities	(18)	1,493	1,801	1,701
VII. Deferred tax liabilities	(12)	2,774	2,556	3,242
		111,005	**116,761**	**102,458**
C. Current liabilities				
I. Other provisions	(17)	10,683	10,722	20,186
II. Liabilities	(18)			
1. Liabilities to financial institutions		66,793	54,834	42,205
2. Lease liabilities		4,027	971	503
3. Trade payables		14,978	27,280	18,234
4. Prepayments received on orders		19,310	25,667	24,991
5. Liabilities to affiliated companies		675	625	478
6. Liabilities to companies valued at equity		5	99	33
7. Other liabilities		28,012	37,645	38,063
		133,800	**147,121**	**124,507**
III. Accounts receivable and payable		183	315	158
		144,666	**158,158**	**144,851**
		506,099	**525,486**	**481,616**

GESCO Group income statement

€'000		01.04.2019 – 31.12.2019	01.04.2018 – 31.03.2019 adjusted
Sales revenues	**(19)**	**439,619**	**580,254**
Change in stocks of finished and unfinished products		- 10,214	12,250
Other company-produced additions to assets	(20)	862	1,948
Other operating income	(21)	7,023	6,733
Total income		**437,290**	**601,185**
Material expenditure	(22)	- 222,806	- 305,907
Personnel expenditure	(23)	- 118,923	- 154,246
Other operating expenditure	(24)	- 51,101	- 71,993
Impairment losses on financial assets		- 425	- 664
Earnings before interest, tax, depreciation and amortisation (EBITDA)		**44,035**	**68,375**
Amortisation of intangible assets and depreciation on property, plant and equipment	(25)	- 20,565	- 26,274
Earnings before interest and tax (EBIT)		**23,470**	**42,101**
Earnings from investments		807	56
Earnings from companies valued at equity		89	520
Other interest and similar income		121	63
Interest and similar expenditure	(26)	- 2,483	- 2,659
Third party profit share in incorporated companies		- 200	- 272
Financial result		**- 1,666**	**- 2,292**
Earnings before tax (EBT)		**21,804**	**39,809**
Taxes on income and earnings	(27)	- 8,076	- 14,042
Group net income		**13,728**	**25,767**
Minority interest in incorporated companies		- 1,342	- 3,185
Group net income after minority interest		**12,386**	**22,582**
Earnings per share (€) acc. to IFRS	(28)	**1.14**	2.08

GESCO Group statement of comprehensive income

€'000		01.04.2019 – 31.12.2019	01.04.2018 – 31.03.2019 adjusted
Group net income		**13,728**	**25,767**
Revaluation of benefit obligations not impacting income		**- 1,052**	**- 646**
Items that cannot be transferred into the income statement		**- 1,052**	**- 646**
Difference from currency translation			
a) Reclassification into the income statement		0	0
b) Changes in value with no effect on income		- 157	1,503
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		- 65	- 141
Market valuation of hedging Instruments			
a) Reclassification into the income statement		0	0
b) Changes in value with no effect on income		36	- 105
Items that can be reclassified into the income statement		**- 186**	**1,257**
Other income	**(29)**	**- 1,238**	**611**
Total result for the period		**12,490**	**26,378**
of which share attributable to minority interest		1,231	3,205
of which share attributable to GESCO shareholders		11,259	23,173

GESCO Group statement of changes in equity

€'000	Subscribed capital	Capital reserves	Revenue reserves	Own shares
As at 01.04.2018 adjusted	**10,839**	**72,364**	**140,457**	**- 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			22,582	
As at 31.03.2019 adjusted	**10,839**	**72,364**	**156,458**	**0**
Dividends			- 9,756	
Acquisition of own shares				- 755
Disposal of own shares			- 22	755
Acquisition of shares in subsidiaries			- 1,017	
Result for the period			12,386	
As at 31.12.2019	**10,839**	**72,364**	**158,049**	**0**

	Exchange equalisation items	Revaluation of pensions	Hedging instruments	Total	Minority interest incorporated companies	Equity
	- 1,499	**- 3,349**	**11**	**218,704**	**15,603**	**234,307**
				- 6,502	- 3,650	- 10,152
				- 901	0	- 901
				996	0	996
		- 6		- 61	0	- 61
	1,271	- 586	- 94	23,173	3,205	26,378
	- 228	**- 3,941**	**- 83**	**235,409**	**15,158**	**250,567**
				- 9,756	- 1,175	- 10,931
				- 755	0	- 755
				733	0	733
			- 9	- 1,026	- 650	- 1,676
	- 177	- 986	36	11,259	1,231	12,490
	- 405	**- 4,927**	**- 56**	**235,864**	**14,564**	**250,428**

GESCO Group cash flow statement

€'000	01.04.2019 – 31.12.2019	01.04.2018 – 31.03.2019 adjusted
Group net income for the year (including share attributable to minority interest in incorporated companies)	**13,728**	**25,767**
Amortisation of intangible assets and depreciation on property, plant and equipment	20,565	26,274
Earnings from companies valued at equity	- 89	- 520
Share attributable to minority interest in partnerships	200	272
Decrease in non-current provisions	- 267	- 453
Other non-cash income	- 170	253
Cash flow for the year	**33,967**	**51,593**
Losses from the disposal of property, plant and equipment / intangible assets	380	63
Gains from the disposal of property, plant and equipment / intangible assets	- 377	- 331
Decrease/increase in stocks, trade receivables and other assets	33,095	- 33,287
Decrease in trade creditors and other liabilities	- 28,512	- 4,289
Cash flow from ongoing business activity	**38,553**	**13,749**
Incoming payments from disposals of property, plant and equipment / intangible assets	1,144	848
Disbursements for investments in property, plant and equipment	- 14,137	- 20,644
Disbursements for investments in intangible assets	- 952	- 1,136
Incoming payments from disposals of financial assets	119	86
Disbursements for investments in financial assets	0	- 124
Disbursements for the acquisition of consolidated companies and other business units	0	- 20,374
Cash flow from investment activity	**- 13,826**	**- 41,344**
Disbursements to shareholders (dividends)	- 9,756	- 6,502
Incoming payments from the sale of own shares	733	996
Disbursement for the purchase of own shares	- 755	- 901
Disbursements to minority interests	- 1,553	- 4,040
Disbursements for the purchase of non-governing shares	- 1,676	- 750
Incoming payments from raising (financial) loans	14,043	38,617
Outflow for repayment of (financial) loans	- 21,025	- 17,418
Outflow for repayment of lease liabilities	- 3,204	- 880
Cash flow from funding activities	**- 23,193**	**9,122**
Changes in cash and cash equivalents	**1,534**	**- 18,473**
Exchange-rate related changes in cash and cash equivalents	**0**	**55**
Financial means on 01.04.	29,336	47,754
Financial means on 31.12. / 31.03.	**30,870**	**29,336**

GESCO AG
Notes to the Consolidated Financial Statements as at 31 December 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, for the abbreviated financial year from 1 April until 31 December 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).

Change in the financial year

The Annual General Meeting on 29 August 2019 voted to change the financial year of GESCO AG, and therefore that of GESCO Group, to the calendar year with effect from 1 January 2020. The financial years of GESCO AG and GESCO Group have so far run from 1 April to 31 March of the following year, while the financial years of the subsidiaries have coincided with the calendar year, resulting in a three-month difference between the financial years of the subsidiaries and that of the parent company. The periods have now been harmonised. As a result, these consolidated financial statements include the months April to December 2019 at both GESCO AG and the subsidiaries.

Adjustment of comparative consolidated financial statements

The German Financial Reporting Enforcement Panel (FREP) has determined that the consolidated financial statements with reporting date 31 March 2018 and the Group management report for financial year 2017/2018 of GESCO Aktiengesellschaft, Wuppertal, are incorrect:

“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.”

In accordance with IAS 8, the error was corrected by retrospectively adjusting all affected financial statement items from previous years as follows:

€'000	Adjusted 31.03.2019	Change	Reported 31.03.2019
Assets			
A. Non-current assets			
I. Intangible assets	49,487	- 780	50,267
II. Property, plant and equipment	158,388	337	158,051
III. Financial investments	2,065	58	2,007
IV. Other assets	982	49	933
V. Deferred tax assets	4,303	273	4,030
	215,225	**- 63**	**215,288**
B. Current assets			
I. Inventories	177,768	15,939	161,829
II. Receivables and other assets	101,607	2,010	99,597
III. Cash and credit with financial institutions	29,336	- 2,365	31,701
IV. Accounts receivable and payable	1,550	452	1,098
	310,261	**16,036**	**294,225**
Total assets	**525,486**	**15,973**	**509,513**
Equity and liabilities			
A. Equity capital			
I. Subscribed capital	10,839	0	10,839
II. Capital reserves	72,364	0	72,364
III. Revenue reserves	156,458	5,667	150,791
IV. Own shares	0	0	0
V. Other income	- 4,252	- 1	- 4,251
VI. Minority interest (incorporated companies)	15,158	640	14,518
	250,567	**6,306**	**244,261**
B. Non-current liabilities			
I. Minority interest (partnerships)	1,170	11	1,159
II. Provisions for pensions	16,445	333	16,112
III. Other non-current provisions	586	11	575
IV. Liabilities to financial institutions	85,879	- 2,157	88,036
V. Lease liabilities	8,324	- 64	8,388
VI. Other liabilities	1,801	- 616	2,417
VII. Deferred tax liabilities	2,556	- 494	3,050
	116,761	**- 2,976**	**119,737**
C. Current liabilities			
I. Other provisions	10,722	331	10,391
II. Liabilities	147,121	12,180	134,941
III. Accounts receivable and payable	315	132	183
	158,158	**12,643**	**145,515**
Total equity and liabilities	**525,486**	**15,973**	**509,513**

€'000	Adjusted 01.04.2018	Change	Reported 31.03.2018
Assets			
A. Non-current assets			
I. Intangible assets	39,796	- 1,088	40,884
II. Property, plant and equipment	147,618	922	146,696
III. Financial investments	1,592	- 9	1,601
IV. Other assets	1,359	- 1	1,360
V. Deferred tax assets	3,248	82	3,166
	193,613	**- 94**	**193,707**
B. Current assets			
I. Inventories	142,761	6,848	135,913
II. Receivables and other assets	96,027	8,789	87,238
III. Cash and credit with financial institutions	47,754	9,459	38,295
IV. Accounts receivable and payable	1,461	358	1,103
	288,003	**25,454**	**262,549**
Total assets	**481,616**	**25,360**	**456,256**
Equity and liabilities			
A. Equity capital			
I. Subscribed capital	10,839	0	10,839
II. Capital reserves	72,364	0	72,364
III. Revenue reserves	140,457	9,683	130,774
IV. Own shares	- 119	0	- 119
V. Other income	- 4,837	- 439	- 4,398
VI. Minority interest (incorporated companies)	15,603	798	14,805
	234,307	**10,042**	**224,265**
B. Non-current liabilities			
I. Minority interest (partnerships)	1,983	115	1,868
II. Provisions for pensions	15,954	- 66	16,020
III. Other non-current provisions	600	11	589
IV. Liabilities to financial institutions	76,850	618	76,232
V. Lease liabilities	2,128	- 12	2,140
VI. Other liabilities	1,701	19	1,682
VII. Deferred tax liabilities	3,242	103	3,139
	102,458	**788**	**101,670**
C. Current liabilities			
I. Other provisions	20,186	- 891	21,077
II. Liabilities	124,507	15,354	109,153
III. Accounts receivable and payable	158	67	91
	144,851	**14,530**	**130,321**
Total equity and liabilities	**481,616**	**25,360**	**456,256**

€'000	Adjusted 01.04.2018 – 31.03.2019	Change	Reported 01.04.2018 – 31.03.2019
Sales revenues	**580,254**	**5,722**	**574,532**
Change in stocks of finished and unfinished products	12,250	3,374	8,876
Other company-produced additions to assets	1,948	8	1,940
Other operating income	6,733	- 323	7,056
Total income	**601,185**	**8,781**	**592,404**
Material expenditure	- 305,907	- 7,646	- 298,261
Personnel expenditure	- 154,246	- 3,936	- 150,310
Other operating expenditure	- 71,993	- 2,318	- 69,675
Impairment losses on financial assets	- 664	- 4	- 660
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**68,375**	**- 5,123**	**73,498**
Amortisation of intangible assets and depreciation on property, plant and equipment	- 26,274	- 422	- 25,852
Earnings before interest and tax (EBIT)	**42,101**	**- 5,545**	**47,646**
Financial result	**- 2,292**	**- 66**	**- 2,226**
Earnings before tax (EBT)	**39,809**	**- 5,611**	**45,420**
Taxes on income and earnings	- 14,042	1,401	- 15,443
Group net income	**25,767**	**- 4,210**	**29,977**
Minority interest in incorporated companies	- 3,185	194	- 3,379
Group net income after minority interest	**22,582**	**- 4,016**	**26,598**
Earnings per share (€) acc. to IFRS	2.08	- 0.38	2.46

Unless otherwise stated in the following, the previous-year comparative figures have been adjusted.

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 01 April 2019 and which have been endorsed into EU law. The following new or amended standards had to be considered for the abbreviated financial year 2019:

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

The application of the above-mentioned regulations – with the exception of IFRS 16 – did not have any material effects on the consolidated financial statements of GESCO AG.

IFRS 16 was applied for the first time at the start of the abbreviated financial year 2019, in application of the modified retrospective method. This is why there is no adjustment to the previous-year period. The following financial relief was applied for the first-time application:

- The lease liability as at 1 April 2019 is measured at the fair value of the remaining lease payments. The assets from rights of use are recognised at the amount of the lease liability.
- 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 uniform 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.
- Rights of use are shown in the balance sheet under the balance sheet items in which the underlying assets would also be shown if they were owned by the Group.

The initial recognition of leases and their presentation in the balance sheets as at 1 April 2019 and 31 December 2019 are explained under the respective balance sheet items. The effects on EBIT and EBT are shown in the following table.

€'000	01.04.2019 – 31.12.2019
Amortisation of rights of use	- 2,342
Other operating expenditure	2,489
EBIT	**147**
Interest expenditure	- 228
EBT	**- 81**

The difference between the minimum lease payments from operating leases and rental payments reported in the previous year and the addition from initial recognition in accordance with IFRS 16 results primarily from the estimate of the expected lease term for rental agreements for properties.

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

Standard	Adopted by the EU	Early application
Amendments to references to the framework concept in IFRS	Yes	No
Amendments to IAS 1 and IAS 8 – "Definition of materiality"	Yes	Yes
Amendment to IFRS 9, IFRS 39 and IFRS 7 "Interest Rate Benchmark Reform"	Yes	Yes
Amendments to IFRS 3 "Definition of business operations"	Pendent	Yes

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

Standard	Adopted by the EU	Early application
IFRS 17: "Insurance Contracts"	Pendent	Yes

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.

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, along with its asset and liability items as at 31 March 2019, is included in the adjusted previous-year balance sheet as at 31 March 2019. The adjusted consolidated income statement of the previous year covers seven months on a pro rata basis. The companies belong to the Production Process Technology segment.

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

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.

One subsidiary with an immaterial effect on the assets, financial position and earnings was 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 € 1.4 million (previous year: € 0.4 million).

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

€'000	31.12.2019	31.03.2019 adjusted
Shares in affiliated companies	0	38
Current assets	2,086	1,072
Current liabilities	675	625

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 December 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	
		31.12.2019	31.03.2019 adjusted	01.04.2019 – 31.12.2019	01.04.2018 – 31.03.2019 adjusted
China	CNY	7.8205	7.5397	7.7597	7.7705
Mexico	MXN	21.2202	21.6910	21.4787	22.4814
Romania	RON	4.7830	4.7608	4.7485	4.6739
Russia	RUB	69.9563	72.8564	71.6501	75.2720
Singapore	SGD	1.5111	1.5214	1.5235	1.5723
South Africa	ZAR	15.7773	16.2642	16.2594	15.9180
South Korea	KRW	1,296.2800	1,276.4600	1,314.0856	1,289.4235
Taiwan	TWD	33.6100	34.6400	34.3600	35.3213
Turkey	TRY	6.6843	6.3446	6.4391	6.0586
Ukraine	UAH	26.5600	30.6400	28.0211	31.6166
Hungary	HUF	330.5300	321.0500	288.8913	320.5896
USA	USD	1.1234	1.1235	1.1141	1.1579

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. Intangible assets that were accounted for in the course of initial consolidation in accordance with IFRS 3 are recognised as disposals in the year of full amortisation.

Internally generated intangible assets are reported at cost.

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.

Intangible assets and property, plant and equipment from **leases** (IFRS 16) are initially recognised at the cash value of the lease liabilities. The interest rate on borrowings is determined individually for each company on the basis of a comparative interest rate that the company would have to pay if the asset were acquired with borrowed capital. The weighted average incremental borrowing rate of interest amounts to approximately 2.1 %. Depreciation follows the principles of depreciation for assets owned by the Group or under consideration of the shorter term of the lease. If it is reasonably certain that a purchase option will be exercised, it is amortised over the useful life of the underlying asset.

Rights of use are shown in the balance sheet under the balance sheet items in which the underlying assets would also be shown if they were owned by the Group.

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 31.12.2019

€'000	Cost of acquisition or manufacture						
	As at 01.04.2019 adjusted	Additions Initial accounting	Additions	Reclassifi-cations	Disposals	Change Currency difference	As at 31.12.2019
I. Intangible assets							
1. Industrial property rights and similar rights and assets as well as licences to such rights and assets							
a. Computer software	12,609	51	523	10	1,156	2	12,039
b. Technology	16,566	0	0	0	15,879	0	687
c. Customer base / order backlog	34,307	0	0	0	4,357	1	29,951
d. Company-produced development costs	0	0	296	230	0	0	526
	63,482	51	819	240	21,392	3	43,203
2. Goodwill	29,816	0	0	0	0	0	29,816
3. Prepayments made	240	0	133	- 240	0	0	133
	93,538	**51**	**952**	**0**	**21,392**	**3**	**73,152**
II. Property, plant and equipment							
1. Land and buildings	100,078	14,646	767	33	1	2	115,525
2. Technical plant and machinery	149,237	918	5,435	2,388	3,469	- 2	154,507
3. Other plant, fixtures and fittings	81,183	1,150	3,932	632	2,564	9	84,342
4. Prepayments made and assets under construction	9,135	0	5,704	- 3,053	299	0	11,487
	339,633	**16,714**	**15,838**	**0**	**6,333**	**9**	**365,861**
III. Financial assets							
1. Shares in affiliated companies	38	0	0	0	38	0	0
2. Shares in companies valued at equity	2,230	0	89	0	0	- 64	2,255
3. Investments	236	0	0	0	0	0	236
4. Other loans	181	0	0	0	81	0	100
	2,685	**0**	**89**	**0**	**119**	**- 64**	**2,591**
	435,856	**16,765**	**16,879**	**0**	**27,844**	**- 52**	**441,604**
Of which rights of use							
1. Intangible assets	0	51	0	0	0	0	51
2. Land and buildings	4,909	14,646	311	0	0	3	19,869
3. Technical plant and machinery	7,031	918	925	0	121	0	8,753
4. Other plant, fixtures and fittings	0	1,150	465	0	0	0	1,615
	11,940	**16,765**	**1,701**	**0**	**121**	**3**	**30,288**

Depreciation and amortisation					Book values	
As at 01.04.2019 adjusted	Additions	Disposals	Change Currency difference	As at 31.12.2019	As at 31.12.2019	As at 31.03.2019 adjusted
10,508	686	1,156	2	10,040	1,999	2,101
16,510	32	15,877	0	665	22	56
14,144	2,360	4,357	- 3	12,144	17,807	20,163
0	0	0	0	0	526	0
41,162	3,078	21,390	- 1	22,849	20,354	22,320
2,889	0	0	0	2,889	26,927	26,927
0	0	0	0	0	133	240
44,051	**3,078**	**21,390**	**- 1**	**25,738**	**47,414**	**49,487**
28,552	3,933	0	1	32,486	83,039	71,526
92,781	8,752	3,004	- 1	98,528	55,979	56,456
59,912	4,802	2,183	1	62,532	21,810	21,271
0	0	0	0	0	11,487	9,135
181,245	**17,487**	**5,187**	**1**	**193,546**	**172,315**	**158,388**
0	0	0	0	0	0	38
620	0	0	0	620	1,635	1,610
0	0	0	0	0	236	236
0	0	0	0	0	100	181
620	**0**	**0**	**0**	**620**	**1,971**	**2,065**
225,916	**20,565**	**26,577**	**0**	**219,904**	**221,700**	**209,940**
0	22	0	0	22	29	0
102	1,764	0	1	1,867	18,002	4,807
2,795	1,083	45	0	3,833	4,920	4,236
0	479	0	0	479	1,136	0
2,897	**3,348**	**45**	**1**	**6,201**	**24,087**	**9,043**

Group statement of fixed assets as at 31.03.2019

€'000	Cost of acquisition or manufacture						
	As at 01.04.2018 adjusted	**Change Scope of consoli-dation**	**Additions**	**Reclassifi-cations**	**Disposals**	**Change Exchange rate difference**	**As at 31.03.2019 adjusted**
I. Intangible assets							
1. Industrial property rights and similar rights and assets as well as licences to such rights and assets							
a. Computer software	11,722	38	882	21	337	8	12,334
b. Technology	16,535	31	0	0	0	0	16,566
c. Customer base / order backlog	30,616	5,079	0	0	1,629	516	34,582
	58,873	5,148	882	21	1,966	524	63,482
2. Goodwill	19,966	9,665	0	0	0	185	29,816
3. Prepayments	7	0	254	- 21	0	0	240
	78,846	**14,813**	**1,136**	**0**	**1,966**	**709**	**93,538**
II. Property, plant and equipment							
1. Land and buildings	91,885	4,834	2,470	1,410	634	113	100,078
2. Technical plant and machinery	136,139	1,902	10,183	3,794	2,850	69	149,237
3. Other plant, fixtures and fittings	77,430	511	5,446	170	2,429	55	81,183
4. Prepayments and assets under construction	9,252	0	5,255	- 5,374	0	2	9,135
	314,706	**7,247**	**23,354**	**0**	**5,913**	**239**	**339,633**
III. Financial assets							
1. Shares in affiliated companies	40	0	0	0	2	0	38
2. Shares in companies valued at equity	1,826	0	644	0	75	- 165	2,230
3. Investments	156	80	0	0	0	0	236
4. Other loans	190	0	0	0	9	0	181
	2,212	**80**	**644**	**0**	**86**	**- 165**	**2,685**
	395,764	**22,140**	**25,134**	**0**	**7,965**	**783**	**435,856**

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

	Depreciation and amortization					Book values	
As at 01.04.2018 adjusted	Additions	Disposals	Write-ups	Change Exchange rate difference	As at 31.03.2019 adjusted	As at 31.03.2019 adjusted	As at 01.04.2018 adjusted
9,920	955	323	- 51	7	10,508	1,826	1,802
16,365	145	0	0	0	16,510	56	170
11,899	3,736	1,629	0	138	14,144	20,438	18,717
38,184	4,836	1,952	- 51	145	41,162	22,320	20,689
866	2,023[1)]	0	0	0	2,889	26,927	19,100
0	0	0	0	0	0	240	7
39,050	**6,859**	**1,952**	**- 51**	**145**	**44,051**	**49,487**	**39,796**
26,219	2,926	592	0	- 1	28,552	71,526	65,666
84,662	10,626	2,549	0	42	92,781	56,456	51,477
56,207	5,863	2,206	0	48	59,912	21,271	21,223
0	0	0	0	0	0	9,135	9,252
167,088	**19,415**	**5,347**	**0**	**89**	**181,245**	**158,388**	**147,618**
0	0	0	0	0	0	38	40
620	0	0	0	0	620	1,610	1,206
0	0	0	0	0	0	236	156
0	0	0	0	0	0	181	190
620	**0**	**0**	**0**	**0**	**620**	**2,065**	**1,592**
206,758	**26,274**	**7,299**	**- 51**	**234**	**225,916**	**209,940**	**189,006**

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
Company-produced additions to assets	7

The development of the individual items is shown in the asset history sheets (reporting year and previous year). The technology, customer base and 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 8.3% (previous year: 8.1%). 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: 15) 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 (previous year: 59.6 %).

According to the results of the impairment test, no impairment was required as at the reporting date (previous year: € 2.0 million).

Pursuant to IAS 36, the Group would have needed to impair non-current assets by an additional € 0.8 million (previous year: € 2.8 million) had the pre-tax cost of capital been 0.5 percentage points higher.

The above 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.

_5 Technical plants and machinery

Technical plants and machinery are always depreciated over a 5 to 15 year period using the straight-line method.

_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

These shares relate to a sales office in the US.

_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	01.04.2019 – 31.12.2019	01.04.2018 – 31.03.2019 adjusted
Assets	25,121	20,936
Liabilities	18,122	14,067
Sales	24,081	30,750
Net profit	391	2,029

10 Investments

Shares in companies of minor significance are reported under investments.

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 decrease in value of trade receivables developed as follows:

€'000	01.04.2019 – 31.12.2019	01.04.2018 – 31.03.2019 adjusted
As at 01.04.	**2,963**	**2,964**
Claims	- 1,139	- 233
Reversals	- 509	- 489
Change in scope of consolidation	0	57
Additions	425	664
As at end of the financial year	**1,740**	**2,963**
of which individual valuation allowances	1,048	1,842

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	31.12.2019	31.03.2019 adjusted
Non-current		
Loan receivables	649	980
Other	3	2
	652	**982**

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	31.12.2019	31.03.2019 adjusted
Current		
Income tax refund claims	11,159	12,075
Tax prepayments	1,482	2,002
Loan receivables	235	308
Creditors with debit accounts	213	55
Other	1,508	1,493
	14,597	**15,933**

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

€'000	01.04.2019 – 31.12.2019	01.04.2018 – 31.03.2019 adjusted
As at 01.04.	**9**	**11**
Reversals	- 2	- 2
As at end of the financial year	**7**	**9**
of which individual valuation allowances	7	9

12 Deferred tax assets and liabilities

In principle, 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	31.12.2019		31.03.2019 as reported	
Deferred taxes	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Intangible assets	2,594	814	2,882	809
Property, plant and equipment	66	11,151	64	7,074
Inventories	456	455	401	632
Receivables	365	136	330	203
Pension provisions	2,394	0	2,111	0
Other provisions	450	302	205	220
Liabilities	7,362	0	3,111	0
Tax loss carry-forwards	600	0	860	0
Other	**160**	45	10	56
	14,447	**12,903**	**9,974**	**8,994**
Net figure[1)]	- 10,129	- 10,129	- 5,944	- 5,944
	4,318	**2,774**	**4,030**	**3,050**
adjusted			**4,303**	**2,556**

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

The changes in deferred taxes from the items property, plant and equipment and liabilities mainly result from the first-time recognition of leases in accordance with IFRS 16.

Deferred taxes on loss carry-forwards are capitalised if the future realisation of these potential tax reductions within up to a three-year planning horizon is reasonably certain on the reporting date. Deferred tax assets in the amount of € 6,277 thousand (previous year as reported: € 5,763 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 three years.

13 Inventories

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

€'000 31.12.2019	Raw materials and supplies	Unfinished products and services	Finished products and goods	Prepayments	Total
Cost of acquisition or manufacture	31,781	45,364	84,303	976	**162,424**
Write-downs	3,301	2,875	4,727	0	**10,903**
As at 31.12.2019	**28,480**	**42,489**	**79,576**	**976**	**151,521**

€'000 31.03.2019	Raw materials and supplies	Unfinished products and services	Finished products and goods	Prepayments	Total
Cost of acquisition or manufacture	32,185	51,273	87,139	733	**171,330**
Write-downs	2,831	1,468	5,202	0	**9,501**
As at 31.03.2019 as reported	**29,354**	**49,805**	**81,937**	**733**	**161,829**
adjusted	**31,471**	**55,481**	**89,920**	**896**	**177,768**

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 circulations	Own shares held	
	Number	Number	Share of the share capital in %
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**
Purchases	- 39,969	39,969	0.37
Employee share scheme	39,969	- 39,969	0.37
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 € 733 thousand (previous year: € 996 thousand) disposed of under the employee share scheme were issued to employees at a total selling price of € 520 thousand (previous year: € 730 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 on 18 August 2015 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 thirteenth tranche was initiated in September 2019 in the form of a virtual share-option programme. A total of 68,800 options were issued to members of the Executive Board and management employees of GESCO AG.

Non-cash expenditure under this programme is determined using a common binomial model, recorded in earnings and recognised in liabilities. This model assumes volatility of 26.4 % plus a risk-free interest rate of -0.86 %. The volatility is based on the historical value of the last five years. The exercise price of the options issued in September 2019 is € 23.92 and corresponds to the average share price of the last six months before the Annual General Meeting 2019. 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 € 1.28. These annual financial statements are the first to include the expenditure (€ 6 thousand) resulting from the stock option programme initiated in the reporting year for a four-month period. Taking into account the change in value, total earnings for the eighth to thirteenth tranche amounted to € 14 thousand in the reporting year (previous year: € 108 thousand). 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		2019	2018	2017	2016	2015	2014
End of waiting period		29.10.2023	30.10.2022	31.10.2021	25.10.2020	18.10.2019	28.10.2018
End of term		30.10.2023	31.10.2022	01.11.2021	15.03.2022	15.03.2021	15.03.2020
Exercise price	€	23.92	29.45	24.93	22.99	23.12	24.52
No. of options issued		68,800	85,100	62,100	80,100	60,600	60,600
Profit limit per option	€	11.96	14.73	12.47	11.50	11.56	12.26
Fair value per option as at the reporting date 31.12.2019	€	1.07	1.31	0.86	1.15	0.94	0.00
Fair value per option at the time of issue	€	1.28	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 €	
	01.04.2019 – 31.12.2019	01.04.2018 – 31.03.2019	01.04.2019 – 31.12.2019	01.04.2018 – 31.03.2019
Outstanding options at start of financial year	343,580	258,480	25.22	23.83
In the financial year				
granted	68,800	85,100	23.92	29.45
returned	0	0	0.00	0.00
exercised	0	0	0.00	0.00
expired	- 18,500	0	0.00	0.00
Outstanding options at end of financial year	393,880	343,580	25.00	25.22
Exercisable options at end of financial year	116,280	57,600	23.81	24.52

During the reporting year, **revenue reserves** increased by net earnings for the year in the amount of € 12,386 thousand. The figure was reduced by the effect on the share price arising from the sale of own shares of € 22 thousand for the employee share scheme and the dividends of € 9,756 thousand (€ 0.90 per share) for the previous year as well as the subsequent acquisition of 10 % of shares in SVT GmbH (€ 1,017 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 € 0.23 on the financial statement preparation date. With 10,839,499 shares currently issued and outstanding, the proposed dividend payout is € 2,493 thousand. This dividend payout has no income tax consequences for the company.

GESCO AG's and 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 49.5 % in the reporting period (previous year: 47.7 %). The increase resulted from the fact that total assets decreased, due in particular to the reduction in working capital, while equity remained virtually unchanged. 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 € 102.9 million (previous year: € 111.4 million), EBITDA for nine months amounted to € 44.0 million (previous year for 12 months: € 68.4 million). 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 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. 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. Plan assets are carried at fair value.

Defined benefit obligations have developed as follows:

€'000	01.04.2019 – 31.12.2019	01.04.2018 – 31.03.2019 adjusted
As at 01.04.	**17,125**	**16,627**
Other changes / reversals	0	- 92
Service expenditure	115	169
Interest expenditure	266	312
Pension annuities paid	- 626	- 847
Actuarial losses / gains (-) from financial assumptions	1,541	768
Actuarial losses / gains (-) from demographic assumptions	0	188
As at end of financial year	**18,421**	**17,125**

Development of plan assets (liability insurance):

€'000	01.04.2019 – 31.12.2019	01.04.2018 – 31.03.2019 adjusted
As at 01.04.	**680**	**673**
Employer contributions	22	29
Benefits paid	- 36	- 48
Actuarial gains	27	26
As at end of financial year	**693**	**680**

Pension provisions are derived as follows:

€'000	01.04.2019 – 31.12.2019	01.04.2018 – 31.03.2019 adjusted
Projected pension obligations	18,421	17,125
Plan assets (liability insurance)	- 693	- 680
As at end of financial year	**17,728**	**16,445**

Asset coverage of pension obligations:

€'000	Projected unit credit		Plan assets	
	31.12.2019	31.03.2019 adjusted	31.12.2019	31.03.2019 adjusted
Without asset cover	17,618	16,337	0	0
Some asset cover	803	788	693	680
As at end of financial year	**18,421**	**17,125**	**693**	**680**

Pension costs consist of the following:

€'000	01.04.2019 – 31.12.2019	01.04.2018 – 31.03.2019 adjusted
Service expenditure	115	169
Interest accruing on expected pension obligations	266	312
	381	**481**

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

%	31.12.2019	31.03.2019
Interest rate adjusted	1.05	1.65
Increase in salaries	2.75	2.75
Increase in pensions	1.60	1.60
Staff turnover	1.00	1.00

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

€'000	31.12.2019	31.03.2019 adjusted	31.03.2018 adjusted	31.03.2017 as reported	31.03.2016 as reported
Projected unit credit	18,421	17,125	16,627	17,773	16,973
Plan assets	- 693	- 680	- 673	- 672	- 667
Funded status	17,728	16,445	15,954	17,101	16,306

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

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

€'000	2020	2021 – 2024	2025 – 2029
Expected future pension payments	873	3,418	4,449

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 € 2,241 thousand lower (previous year as reported: € 1,945 thousand) or € 2,826 thousand higher (previous year as reported: € 2,427 thousand).

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

€'000	01.04.2019 adjusted	Utilisation	Addition / New formation	Reversal	31.12.2019
Non-current					
Purchase price annuity obligation	586	- 90	54	0	550
	586	**- 90**	**54**	**0**	**550**
Current					
Guarantees and warranties	5,827	- 1,234	749	- 951	4,391
Follow-up costs	2,169	- 1,732	1,434	- 267	1,604
Impending losses	452	- 83	961	- 54	1,276
Cost of annual financial statements	938	- 720	1,019	- 44	1,193
Restructuring	0	0	903	0	903
Sewer renovation	880	0	0	0	880
Taxes and incidental tax expenditure	190	- 34	11	- 83	84
Other	266	- 130	234	- 18	352
	10,722	**- 3,933**	**5,311**	**- 1,417**	**10,683**

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 (previous-year values adjusted)	31.12.2019 (31.03.2019)	Residual term up to 1 year	Residual term 1 to 5 years	Residual term > 5 years
Liabilities to financial institutions	133,731	66,793	55,362	11,576
	(140,713)	(54,834)	(85,879)	
Lease liabilities	24,557	4,027	13,566	6,964
	(9,295)	(971)	(8,324)	
	158,288	**70,820**	**68,928**	**18,540**
	(150,008)	**(55,805)**	**(94,203)**	

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

€'000	31.12.2019	31.03.2019 as reported
Land charges	45,505	45,051
Book value of existing property and property under construction	47,655	47,247
Assignment of		
moveable fixed assets	23,570	24,150
inventories	2,327	3,083
Assignment of receivables	4,689	5,972

Shares in subsidiaries with a total book value of € 85,793 thousand (previous year: € 80,440 thousand) have also been pledged.

A total of € 109,102 thousand (previous year: € 124,618 thousand) of the liabilities to financial institutions result from long-term loans with fixed repayment terms and a remaining term between one and 13 years (previous year: between one and 14 years).

Interest rates for the loans vary between 0.65 % and 4.06 % (previous year as reported: 0.69 % and 4.06 %). 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 (previous-year values adjusted)	31.12.2019 (31.03.2019)	Residual term up to 1 year	Residual term 1 to 5 years	Residual term > 5 years
Trade liabilities	14,978	14,978	0	0
	(27,280)	(27,280)	(0)	(0)
Prepayments received on orders	19,310	19,310	0	0
	(25,667)	(25,667)	(0)	(0)
Liabilities to affiliated companies	675	675	0	0
	(625)	(625)	(0)	(0)
Liabilities to companies valued at equity	5	5	0	0
	(99)	(99)	(0)	(0)
Other liabilities	29,505	28,012	1,493	0
	(39,446)	(37,645)	(1,801)	(0)
	64,473	**62,980**	**1,493**	**0**
	(93,117)	**(91,316)**	**(1,801)**	**(0)**

Other liabilities consist of the following:

€'000	31.12.2019	31.03.2019 adjusted
Wages, salaries, bonuses, social security	14,386	19,159
Other taxes	5,136	4,358
Outstanding incoming invoices	3,533	2,929
Income taxes	2,413	7,756
Other miscellaneous liabilities	4,037	5,244
	29,505	**39,446**

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	01.04.2019 – 31.12.2019	01.04.2018 – 31.03.2019 adjusted
Income from writing back / utilising provisions	2,637	2,735
Price gains	1,248	833
Income from the reversal of valuation allowances and from the payment of receivables previously written off	557	345
Income from insurance refunds	380	487
Income from the disposal of fixed assets	377	331
Income from public subsidies	194	353
Income from VAT refunds and interest	84	291
Other	1,546	1,358
	7,023	**6,733**

22 Material expenditure

€'000	01.04.2019 – 31.12.2019	01.04.2018 – 31.03.2019 adjusted
Expenditure on raw materials and supplies and goods supplied	200,555	273,016
Expenditure on services purchased	22,251	32,891
	222,806	**305,907**

23 Personnel expenditure

€'000	01.04.2019 – 31.12.2019	01.04.2018 – 31.03.2019 adjusted
Wages and salaries	99,519	129,672
Social security contributions / expenditure on pensions and benefits	19,404	24,574
	118,923	**154,246**

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

24 Other operating expenditure

€'000	01.04.2019 – 31.12.2019	01.04.2018 – 31.03.2019 adjusted
Operating expenditure	19,386	29,662
Expenditure on distribution	17,997	23,075
Administrative expenditure	7,703	9,812
Miscellaneous expenditure	6,015	9,444
	51,101	**71,993**

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. The previous year's depreciation and amortisation included impairment losses in the amount of € 2,023 thousand.

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

26 Interest and similar expenditure

€'000	01.04.2019 – 31.12.2019	01.04.2018 – 31.03.2019 adjusted
Interest expenditure from bank loans	1,617	2,020
Interest accruing on non-current provisions and pensions and benefits	307	344
Interest expenditure from lease liabilities	497	240
Other	62	55
	2,483	**2,659**

_27 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	01.04.2019 – 31.12.2019	01.04.2018 – 31.03.2019 adjusted
Actual taxes	7,339	15,018
Deferred taxes	737	- 976
	8,076	**14,042**

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	01.04.2019 – 31.12.2019	01.04.2018 – 31.03.2019 adjusted
Group result before income tax	**21,804**	**39,809**
Anticipated income tax expenditure	- 6,650	- 12,142
Permanent differences arising on expenditure which is not tax deductible	- 260	- 331
Income tax for different reporting periods	109	- 249
Consolidation effects	15	- 704
Temporary differences from losses for which no deferred tax assets have been recognised	- 1,459	37
Differences in tax rates	365	- 55
Other	- 196	- 288
Effect of adjustment to previous year		- 310
	- 8,076	**- 14,042**

The change in deferred taxes on tax loss carry-forwards led to a tax obligation of € 260 thousand in the abbreviated financial year 2019 (previous year as reported: tax asset of € 128 thousand).

28 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.

	01.04.2019 – 31.12.2019	01.04.2018 – 31.03.2019 adjusted
Group net income (€'000)	12,386	22,582
Weighted number of shares (number)	10,833,036	10,833,410
Earnings per share in accordance with IAS 33 (€)	**1.14**	**2.08**

There are no factors that would cause dilution.

29 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 net income taxes of € 446 thousand (previous year: € 330 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 cash and credit balances with financial institutions of € 30,870 thousand (previous year as adjusted: € 29,336 thousand).

Cash flow from investment activity includes € 184 thousand (previous year as reported: € 193 thousand) in unpaid investments.

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

€'000	01.04.2019 – 31.12.2019	01.04.2018 – 31.03.2019 as reported
Interest paid	2,079	1,973
Interest received	78	85
Dividends received	807	0
Income tax paid	12,738	13,985

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

€'000	Liabilities to financial institutions	Lease obligations	Liabilities from funding activities
Book value 01.04.2018 adjusted	**119,055**	**2,631**	**121,686**
Cash transaction	21,199	- 880	20,319
Non-cash transaction			
Acquisition of assets	0	2,710	2,710
Changes in scope of consolidation	459	4,834	5,293
Book value 31.03.2019 adjusted	**140,713**	**9,295**	**150,008**
Cash transaction	- 6,982	- 3,204	- 10,186
Non-cash transaction			
Acquisition of assets	0	1,701	1,701
Initial accounting IFRS 16	0	16,765	16,765
Book value 31.12.2019	**133,731**	**24,557**	**158,288**

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	
	01.04.2019 – 31.12.2019	01.04.2018 – 31.03.2019 adjusted	01.04.2019 – 31.12.2019	01.04.2018 – 31.03.2019 adjusted
Order backlog	34,869	51,105	70,255	79,268
Incoming orders	62,034	93,224	200,113	289,244
Sales revenues	76,421	87,543	211,387	287,210
of which with other segments	88	5	302	569
Depreciation and amortisation	2,423	3,370	3,462	4,603
EBIT	7,737	8,125	17,896	31,806
Investments	3,867	2,387	3,922	8,947
Employees (No. / reporting date)	611	618	749	744

€'000	Healthcare and Infrastructure Technology		Mobility Technology	
	01.04.2019 – 31.12.2019	01.04.2018 – 31.03.2019 adjusted	01.04.2019 – 31.12.2019	01.04.2018 – 31.03.2019 adjusted
Order backlog	44,334	51,961	41,721	41,974
Incoming orders	108,478	161,168	32,532	59,257
Sales revenues	112,723	145,217	39,520	60,959
of which with other segments	10	18	32	83
Depreciation and amortisation	5,085	6,454	3,261	4,209
EBIT	8,274	14,345	- 2,148	2,077
Investments	5,279	9,273	1,775	1,073
Employees (No. / reporting date)	900	853	439	451

€'000	Total operating segments		GESCO AG / other companies	
	01.04.2019 – 31.12.2019	01.04.2018 – 31.03.2019 adjusted	01.04.2019 – 31.12.2019	01.04.2018 – 31.03.2019 adjusted
Order backlog	191,179	224,308	0	0
Incoming orders	403,157	602,893	0	0
Sales revenues	440,051	580,929	801	303
of which with other segments	432	675	801	303
Depreciation and amortisation	14,231	18,636	140	175
of which unscheduled (IAS 36)				
EBIT	31,759	56,353	- 5,716	- 7,716
Investments	14,843	21,680	246	100
Employees (No. / reporting date)	2,699	2,666	19	18

€'000	Reconciliation		Group	
	01.04.2019 – 31.12.2019	01.04.2018 – 31.03.2019 adjusted	01.04.2019 – 31.12.2019	01.04.2018 – 31.03.2019 adjusted
Order backlog	0	0	191,179	224,308
Incoming orders	0	0	403,157	602,893
Sales revenues	- 1,233	- 978	439,619	580,254
of which with other segments	- 1,233	- 978	0	0
Depreciation and amortisation	6,194	7,463	20,565	26,274
of which unscheduled (IAS 36)	0	2,023	0	2,023
EBIT	- 2,573	- 6,536	23,470	42,101
Investments	18,466	2,710	33,555	24,490
Employees (No. / reporting date)	0	0	2,718	2,684

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

Segment investments relate to intangible assets (excluding goodwill) as well as property, plant and equipment, including the rights of use capitalised for the first time in accordance with IFRS 16 in the "Reconciliation" column.

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:

	01.04.2019 – 31.12.2019		01.04.2018 – 31.03.2019 adjusted	
	€'000	**%**	**€'000**	**%**
Germany	258,844	58.9	353,178	60.9
Europe (excluding Germany)	109,614	24.9	227,076	39.1
Other	71,161	16.2		
	439,619	**100.0**	**580,254**	**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:

	31.12.2019		31.03.2019 adjusted	
	€'000	**%**	**€'000**	**%**
Germany	205,343	93.5	193,977	93.3
Other regions	14,386	6.5	13,898	6.7
	219,729	**100.0**	**207,875**	**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 31.12.2019	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	1,971	1,635	336	236	100
Receivables	81,477	0	81,477	0	81,477
Other assets	15,249	11,159	4,090	0	4,090
Liquid assets	30,870	0	30,870	0	30,870
Financial assets	**129,567**	**12,794**	**116,773**	**236**	**116,537**
Liabilities to financial institutions	133,731	0	133,731	0	133,731
Lease liabilities	24,557	0	24,557	0	24,557
Trade payables	14,978	0	14,978	0	14,978
Other receivables	30,185	2,413	27,772	82	27,690
Financial liabilities	**203,451**	**2,413**	**201,038**	**82**	**200,956**

€'000	Book value 31.03.2019 adjusted	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	2,065	1,610	455	274	181
Receivables	85,674	0	85,674	0	85,674
Other assets	16,915	12,075	4,840	0	4,840
Liquid assets	29,336	0	29,336	0	29,336
Financial assets	**133,990**	**13,685**	**120,305**	**274**	**120,031**
Liabilities to financial institutions	140,713	0	140,713	0	140,713
Lease liabilities	9,295	0	9,295	0	9,295
Trade payables	27,280	0	27,280	0	27,280
Other receivables	40,170	7,756	32,414	465	31,949
Financial liabilities	**217,458**	**7,756**	**209,702**	**465**	**209,237**

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

€'000		Balance sheet recognition		Net results in the income statement	
Category IFRS 9	**Category IAS 39**	**31.12.2019**	**31.03.2019 adjusted**	**01.04.2019 – 31.12.2019**	**01.04.2018 – 31.03.2019 adjusted**
Financial assets measured at fair value included in earnings	Measured at fair value included in earnings	236	274	807	56
Financial assets measured at cost of acquisition	Loans and receivables	116,537	120,031	121	63
Financial assets		**116,773**	**120,305**	**928**	**119**
Financial liabilities measured at fair value included in earnings	Liabilities held for trading	82	465	- 192	- 73
Financial liabilities measured at cost of acquisition	Other financial liabilities	200,956	209,237	- 2,176	- 2,315
Financial liabilities		**201,038**	**209,702**	**- 2,368**	**- 2,388**

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 € 271 thousand (previous year as reported: € 1,139 thousand). It is estimated that these investments will be concluded in the financial year 2020.

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. As at the balance sheet date, it was not expected that this insurance will be utilised 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 recognised leases agreements:

€'000	Total	2020	2021 – 2024	2025 and subsequent years
Minimum lease payments	25,351	4,689	13,802	6,860
Discounting amounts	3,811	662	1,997	1,152
Property purchase options	3,017	0	0	3,017
Present values	**24,557**	**4,027**	**11,805**	**8,725**

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 payments related to lease agreements not capitalised in accordance with IFRS 16 (low-value assets) totalled € 301 thousand.

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, subsidiaries of GESCO AG, through his company Platestahl Umformtechnik GmbH. These business relation-ships are conducted under regular market terms and conditions.

Staff

	01.04.2019 – 31.12.2019	01.04.2018 – 31.03.2019 adjusted
Factory staff	1,647	1,629
Office staff	940	914
Trainees	124	121
Annual average number of employees	**2,711**	**2,664**

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 the abbreviated year from 1 April until 31 December 2019 are to be examined and approved by the Supervisory Board of GESCO AG in its meeting on 1 April 2020 and are then authorised for publication.

The consolidated financial statements will be published on 28 April 2020 in conjunction with an annual accounts press conference and analysts’ meeting.

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 0.06 % 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 € 249 thousand (previous year: € 175 thousand) and € 7 thousand for tax consulting services (previous year: € 20 thousand). For other auditing services (mainly due diligence reviews), the fee amounted to € 129 thousand in the previous year.

Fees were also incurred in the amount of € 307 thousand (previous year: € 274 thousand) for the audit of consolidated subsidiaries, € 70 thousand (previous year: € 72 thousand) for tax consulting services and € 18 thousand (due diligence reviews and audit according to Germany's Renewable Energies Act [EEG]) (previous year: € 21 thousand) for other auditing services.

The fees also include audit services in connection with the correction of errors in accordance with IAS 8.

Risk management

ln 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 31.12.2019	Loss rate	Gross book value	Valuation allowance	Impairment of credit rating
Not overdue	0.04 %	56,207	23	no
overdue by up to 30 days	2.96 %	17,837	528	no
overdue by 30 to 90 days	3.67 %	3,322	122	no
overdue by 90 to 180 days	7.19 %	890	64	no
overdue by more than 180 days	39.24 %	2,556	1,003	yes

€'000 31.03.2019 as reported	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 € 937 thousand (previous year as reported: € 779 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 € 10,356 thousand (previous year as reported: € 10,094 thousand) on the reporting date. This corresponds to 13.1 % (previous year as reported: 12.3 %) of total trade receivables. Receivables are denominated in the following currencies:

€'000	31.12.2019	31.03.2019 as reported
US dollar	7,675	7,626
Taiwanese dollar	930	942
Chinese renminbi yuan	757	677
Ukrainian hryvnia	549	588
Mexican peso	303	40
Russian rouble	66	46
Swiss franc	60	0
Hungarian forint	11	36
British pound	5	19
South African rand	0	120

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 € – 651 thousand or € +795 thousand (previous year as reported: € – 637 thousand or € +779 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 € – 80 thousand as at the reporting date (previous year as reported: € –70 thousand). Other comprehensive income amounted to € – 36 thousand after deferred taxes and minority interest (third party) (previous year as reported: € – 44 thousand). Cash flows of US$ 15.9 million are hedged, which will be due in financial year 2020.

Supplementary report / events after the reporting date

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

Executive bodies of the Company

Executive Board

Ralph Rumberg, Witten, Germany
Spokesman of the Executive Board

Kerstin Müller-Kirchhofs, Düsseldorf, Germany (since 01.05.2019)
Member of the Executive Board

The remuneration of the Executive Board is as follows:

€'000	Ralph Rumberg		Kerstin Müller-Kirchhofs	
	01.04.2019 – 31.12.2019	01.04.2018 – 31.03.2019	01.04.2019 – 31.12.2019	01.04.2018 – 31.03.2019
Fixed remuneration	262	262	196	-
Variable remuneration	207	298	176	-
Stock options	23	33	23	-
Pension-related expenses	49	49	37	-
	541	**642**	**432**	**-**

€'000	Dr. Eric Bernhard	Robert Spartmann	Total	
	01.04.2018 – 31.03.2019	01.04.2018 – 31.03.2019	01.04.2019 – 31.12.2019	01.04.2018 – 31.03.2019
Fixed remuneration	241	228	458	731
Variable remuneration	262	298	383	858
Stock options	33	33	46	99
Pension-related expenses	62	57	86	168
	598	**616**	**973**	**1,856**

Executive Board members Ralph Rumberg and Kerstin Müller-Kirchhofs each received 18,000 stock options in September 2019.

As at 31 December 2019, pension obligations (DBO) for outgoing members of the Executive Board amounted to € 3,021 thousand (previous year: € 2,676 thousand). One member of the Executive Board was granted payments of € 53 thousand (previous year: € 71 thousand) on the basis of his pension commitment in the financial year.

Supervisory Board

Klaus Möllerfriedrich, Düsseldorf, Germany
Chairman,
Auditor

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

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, Germany
- Sparta AG, Hamburg, Germany (until 15.05.2019)

Dr Nanna Rapp, Düsseldorf, Germany
Member of the Supervisory Board
CEO of E.ON Inhouse Consulting GmbH, Essen, Germany (until 31.01.2020)

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

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

€'000	Fixed remuneration		Variable remuneration		Total	
	01.04.2019–31.12.2019	01.04.2018–31.03.2019	01.04.2019–31.12.2019	01.04.2018–31.03.2019	01.04.2019–31.12.2019	01.04.2018–31.03.2019
Klaus Möllerfriedrich	16	20	44	94	60	114
Stefan Heimöller	14	17	44	94	58	111
Jens Große-Allermann	10	15	44	94	54	109
Dr. Nanna Rapp	12	14	44	94	56	108
	52	**66**	**176**	**376**	**228**	**442**

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 financial year 2019.

Wuppertal, Germany, 30 March 2020

Ralph Rumberg
Spokesman of the Executive Board

Kerstin Müller-Kirchhofs
Member of the Executive Board

Statement of the legal representatives

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

Wuppertal, 30 March 2020

Ralph Rumberg
Spokesman of the Executive Board

Kerstin Müller-Kirchhofs
Member of the Executive Board

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 Tratam ientos Térm icos 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
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

Fully consolidated companies[1]	Proportion of capital %
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[2]	100
SVT GmbH, Schwelm	100
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	100

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

[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 December 2019, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the abbreviated financial year from 1 April 2019 to 31 December 2019 as well as the notes to the consolidated financial statements, including a summary of material accounting methods. In addition, we audited the Group management report of GESCO AG for the abbreviated financial year from 1 April 2019 to 31 December 2019. We did not audit the content of the 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 December 2019 as well as its earnings for the financial year from 1 April 2019 to 31 December 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 abbreviated financial year from 1 April 2019 to 31 December 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)
- Correction of prior accounting error pursuant to IAS 8

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 2020. We verified the calculation of the discounting rate and the parameters underpinning the WACC and the appropriateness of these figures on the basis of publicly available information. Given the importance of the discounting rate and the perpetual annuity to the calculation, we also performed sensitivity analyses in relation to these parameters. We verified the mathematical accuracy of the 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.

Correction of prior accounting error pursuant to IAS 8

Reason for classifying this matter as a key audit matter

The German Financial Reporting Enforcement Panel (FREP) has determined that the inclusion of subsidiaries with the reporting date of 31 December in consolidated financial statements as at 31 March is a violation of IFRS 10.B92. As per the resolution of the Annual General Meeting, the financial year was changed to coincide with the calendar year effective as at 1 January 2020. An abbreviated financial year was formed for the period from 1 April 2019 to 31 December 2019. The inclusion of subsidiaries with a reporting date differing from the Group reporting date was corrected retroactively pursuant to IAS 8 by consolidating the subsidiaries in question on the basis of interim financial statements as at 31 March. Due to the complexity of the correction, 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 error correction pursuant to IAS 8 are included in the notes to the consolidated financial statements under "Adjustment of comparative consolidated financial statements".

Treatment in auditing the financial statements

We verified the regularity of the interim financial statements of the subsidiaries prepared for the purposes of the retroactive correction. We assessed whether the interim financial statements of the companies in question were properly adjusted in line with the IFRS as they apply in the EU, Group-wide accounting and measurement principles and consolidation measures. We also verified the corrections to the items in the financial statements and the correction to the equity amount as at 1 April 2018. We analysed the accuracy and completeness of the disclosures in the notes to the consolidated financial statements required in accordance with IAS 8.

All in all, we verified that the correction of the prior accounting error pursuant to IAS 8 was properly reflected.

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 29 August 2019. We were engaged by the Supervisory Board on 14 October 2019. 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 Alexander Koch.

Wuppertal, 30 March 2020

Breidenbach und Partner PartG mbB
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

(Straube)	(Koch)
Wirtschaftsprüfer	Wirtschaftsprüfer
German Public Auditor	German Public Auditor

Financial calendar

28 April 2020
Annual accounts press conference and analysts' meeting (online conference)

May 2020
Publication of the quarterly statement for the first quarter

18 June 2020
Annual General Meeting

August 2020
Publication of the Half Year Interim Report

November 2020
Publication of the quarterly statement for the third quarter

27 April 2021
Annual accounts press conference and analysts' meeting

May 2021
Publication of the quarterly statement for the first quarter

30 June 2021
Annual General Meeting in the Stadthalle, Wuppertal

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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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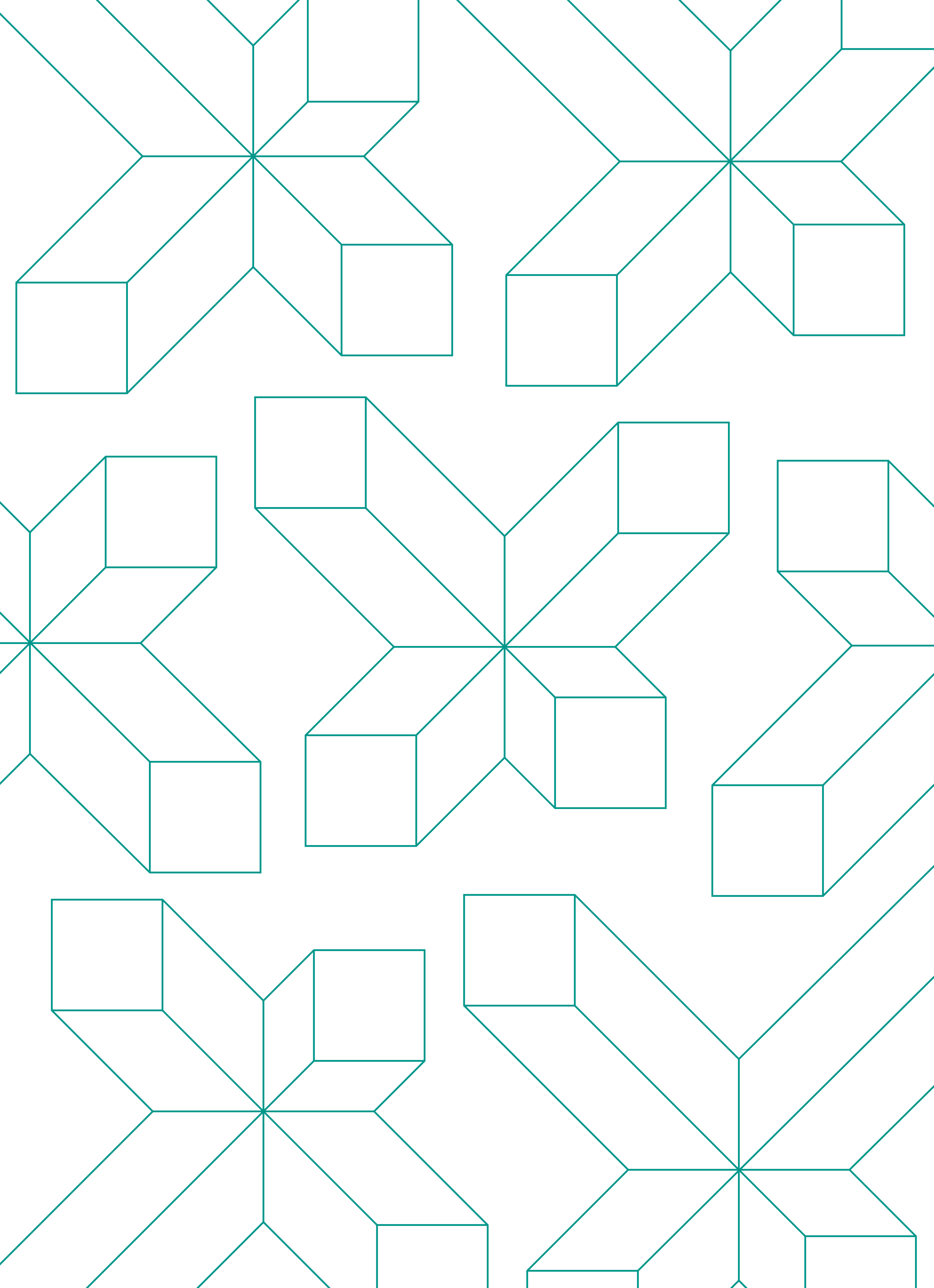

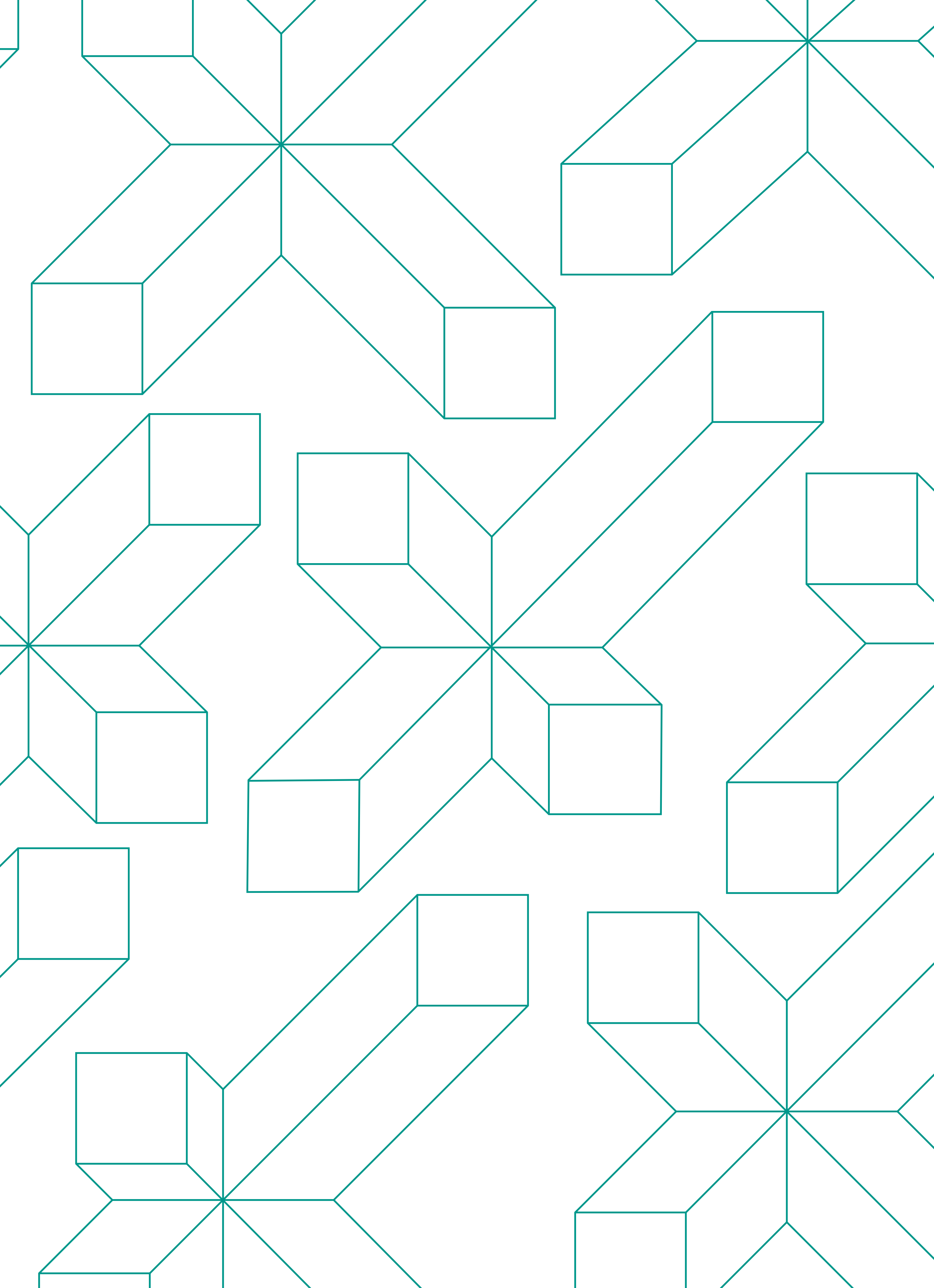

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