

GESCO AG
ANNUAL REPORT
2017/2018

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SUSTAINABLY SUCCESSFUL

GESCO 2017/2018



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GESCO AT A GLANCE

GESCO Group key figures (IFRS)

Financial year 01.04.-31.03.		2008/2009	2009/2010	2010/2011
Sales	€'000	378,388	277,664	335,237
of which domestic	€'000	276,602	183,536	219,981
of which foreign	€'000	101,786	94,128	115,256
EBITDA	€'000	49,689	27,156	38,180
EBIT	€'000	38,931	16,470	26,958
Earnings before tax	€'000	34,585	13,965	24,091
Taxes on income and earnings	€'000	-10,897	-4,389	-7,651
Taxation rate	%	31.5	31.4	31.8
Group net income after minority interest	€'000	21,618	8,896	15,251
Earnings per share pursuant to IFRS ¹⁾	€	2.39	0.98	1.68
Investment in Property, Plant and Equipment ²⁾	€'000	12,354	8,417	9,915
Depreciation on Property, Plant and Equipment	€'000	8,191	8,758	9,058
Equity	€'000	103,285	105,173	114,678
Total assets	€'000	259,598	246,356	260,246
Equity ratio	%	39.8	42.7	44.1
Employees	No.	1,795	1,733	1,775
of which trainees	No.	109	99	92
Year-end share prices as at 31.03. ¹⁾	€	10.83	13.33	19.63
Dividend per share ¹⁾	€	0.83	0.43	0.67

¹⁾ Figures for financial years 2008/2009 to 2015/2016 adjusted to share split 1:3 from Dec. 2016.

²⁾ Without additions from changes to the scope of consolidation.

³⁾ Dividend proposal to the AGM on 30.08.2018.

547.2

€ MILLION SALES

33.8

€ MILLION EBIT

1.49

€ EARNINGS
PER SHARE

2011/2012	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018	Change
415,426	440,417	453,336	451,434	494,014	482,480	547,193	13.4 %
270,888	286,609	300,263	303,597	323,862	302,419	335,981	11.1 %
144,538	153,808	153,073	147,837	170,152	180,061	211,212	17.3 %
51,186	51,763	48,719	46,171	53,261	49,745	57,404	15.4 %
39,116	37,341	32,010	27,300	31,457	22,137	33,789	52.6 %
35,672	33,825	29,018	24,553	28,828	19,187	31,861	66.1 %
-11,087	-11,088	-9,261	-10,401	-10,307	-9,458	-13,690	44.7 %
31.1	32.8	31.9	42.4	35.8	49.3	43.0	-
22,531	20,916	18,121	12,350	16,127	7,890	16,099	104.0 %
2.47	2.10	1.82	1.24	1.62	0.79	1.49	88.6 %
14,937	21,609	27,164	29,525	23,974	19,788	24,638	24.5 %
9,850	12,190	14,136	15,475	16,940	24,009	17,989	-25.1 %
154,988	166,500	176,604	182,803	195,773	214,095	224,265	4.8 %
321,138	357,547	379,950	403,739	410,175	439,915	456,256	3.7 %
48.3	46.6	46.5	45.3	47.7	48.7	49.2	-
1,899	2,292	2,360	2,465	2,537	2,535	2,489	-1.8 %
97	120	144	156	153	138	134	-2.9 %
21.80	25.18	25.38	25.46	24.71	24.96	28.50	14.2 %
0.97	0.83	0.73	0.58	0.67	0.35	0.60 ³⁾	71.4 %

SUSTAINABLY

GESCO AG

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 IN THE LONG TERM. GESCO AG HAS BEEN LISTED SINCE 1998.

THE GESCO GROUP

AS AT THE REPORTING DATE, THE GESCO GROUP COMPRISED 17 MATERIAL OPERATING SUBSIDIARIES DIRECTLY UNDER THE ROOF OF GESCO AG, AS WELL AS DOMESTIC AND FOREIGN SUB-SUBSIDIARIES, INCLUDING HIDDEN CHAMPIONS, MARKET AND TECHNOLOGY LEADERS.

THE COMPANIES

THE SUBSIDIARIES OPERATE INDEPENDENTLY OF ONE ANOTHER AND ARE MANAGED BY SEPARATE MANAGING DIRECTORS. THEY ARE TAKEN INTO ACCOUNT IN REPORTING, CONTROLLING AND IN THE RISK MANAGEMENT SYSTEM.

Sustainability has been an important component of the GESCO strategy since the company's founding in 1989: in this report, dedicated to the topic "sustainably successful", we have presented different aspects of sustainability and illustrated the various dimensions of success. This means that, this year, systematic CSR reporting is a component of this report for the first time (from p. 128). The goal of this report is to provide external interested parties with transparent insights into the strategies and processes of GESCO AG and the GESCO Group, but also to raise our own awareness of these issues, to better identify opportunities and risks, to scrutinise our strategies and, ultimately, to strengthen the group's future viability.

A woman with dark hair tied back, wearing glasses and a purple polo shirt, is smiling warmly at the camera. She is wearing white gloves and is positioned in a factory or industrial setting, with various pieces of machinery and equipment visible in the background. The lighting is bright and even, highlighting her features and the details of her work environment.

Since its founding in 1989, GESCO AG has been pursuing a long-term business policy. GESCO strives to generate internal growth on the basis of its existing portfolio and external growth by acquiring further industrial SMEs, in particular within the scope of succession planning. By taking over SMEs, GESCO AG preserves these companies together with their jobs and their corporate culture, and provides them with prospects to carry on positively. The long-term goal is to positively develop the individual companies and thereby the entire Group. The holding company's management of the group is based on this goal.

KEY COMPONENTS OF STRATEGY ARE
BASED ON THE GROUP'S LONG-TERM,
PROFITABLE DEVELOPMENT:

Solid finances

A strong equity ratio, a limited number of liabilities and sufficient liquidity create room for manoeuvre, allow for investment and acquisitions, and provide support in times of economic crisis.

Competitive technology

The companies in the GESCO Group are B2B providers that focus on technology, including market and technology leaders. Regular investments in manufacturing technology and IT sustain their competitiveness.

GROWING

A long-term strategy

At annual strategy meetings, the companies scrutinise their strategies and develop them further. The parameters for this are markets and competitors, technologies, regions and, in particular, trends with long-term effect.

Skilled, motivated workforces

In the self-image of the GESCO Group, company success is inextricably linked to skilled, motivated and hard-working employees. Within this context, GESCO places value on training and continuing education, as it does on a corporate culture based on openness and trust.

**KEEPING RISKS UNDER CONTROL -
RISK MANAGEMENT, COMPLIANCE, DATA
PROTECTION, INSURANCE.**

**OPERATIONAL EXCELLENCE -
ENTRENCHED AS A GUIDING PRINCIPLE
AND PRACTISED EVERY DAY.**

MULTI-DIMENSIONALLY SUCCESSFUL

Long-term, sustainable success can be measured using indicators, but cannot be managed by looking at indicators alone. Future viability is multi-dimensional, and there must be a similarly multi-dimensional focus in the way that the company is managed.

**HOLISTIC MANAGEMENT - LOOKING
AT INCOMING ORDERS AND SALES,
EARNINGS AND CASH FLOW.**

**REGULAR INVESTMENTS - PROPERTY,
PLANTS AND EQUIPMENT, AND IT ARE AT THE
CUTTING EDGE OF TECHNOLOGY.**



WELL-POSITIONED - IN TERMS OF TECHNOLOGY, MARKET POSITIONING, INNOVATION AND INTERNATIONALISATION.

PROFITABLE GROWTH - BOTH ORGANIC AND THROUGH ACQUISITIONS.

HEALTHY BALANCE SHEET - STRONG EQUITY RATIO, FEW LIABILITIES, ADEQUATE LIQUIDITY.

FULL FREEDOM TO MANOEUVRE - IN TERMS OF INVESTMENTS AND ACQUISITIONS.

GESCO AG - AN ESTABLISHED PLAYER IN THE M&A MARKET, WHOM PRIVATE AND INSTITUTIONAL INVESTORS HAPPILY ENTRUST WITH THEIR FINANCIAL RESOURCES.

GESCO AG - AN ESTABLISHED PLAYER IN THE CAPITAL MARKET, WHOM BOTH PRIVATE AND INSTITUTIONAL INVESTORS HAPPILY ENTRUST WITH THEIR FINANCIAL RESOURCES.

ATRACTIVE EMPLOYERS - IN EACH SPECIFIC REGION.

A STRONG CORPORATE CULTURE - SHAPED BY A FOCUS ON PERFORMANCE AND AGILITY, OPENNESS AND TRUST.

ROBUST ORGANISATIONS - ESTABLISHED WORKFORCES WITH MOTIVATED, QUALIFIED AND SKILLED MANAGERS AND LONG-TERM OUTLOOKS.

INDEPENDENT TOGETHER

Manufacturing customised products to the customer's specifications – this is just one of the things that HASEKE, the company that has been with the GESCO Group the longest, and Pickhardt & Gerlach, the company that we most recently acquired, have in common. Their quality standards and flexibility make both of them leading providers in their niche.

The success of our subsidiaries validates our acquisition criteria – with profitable growth after the purchase has been made. The portfolio currently comprises 17 operating subsidiaries directly under the roof of GESCO AG and their sub-subsidiaries for production, sales and service in Germany and abroad. The companies are allocated to four segments, which each target attractive end markets: Production Process Technology, Resource Technology, Healthcare and Infrastructure technology, and Mobility Technology.

17
SUBSIDIARIES
IN THE PORTFOLIO

36
LOCATIONS
WORLDWIDE



2,489
EMPLOYEES
WORLDWIDE

SEGMENTS

547
€ MILLION IN
SALES

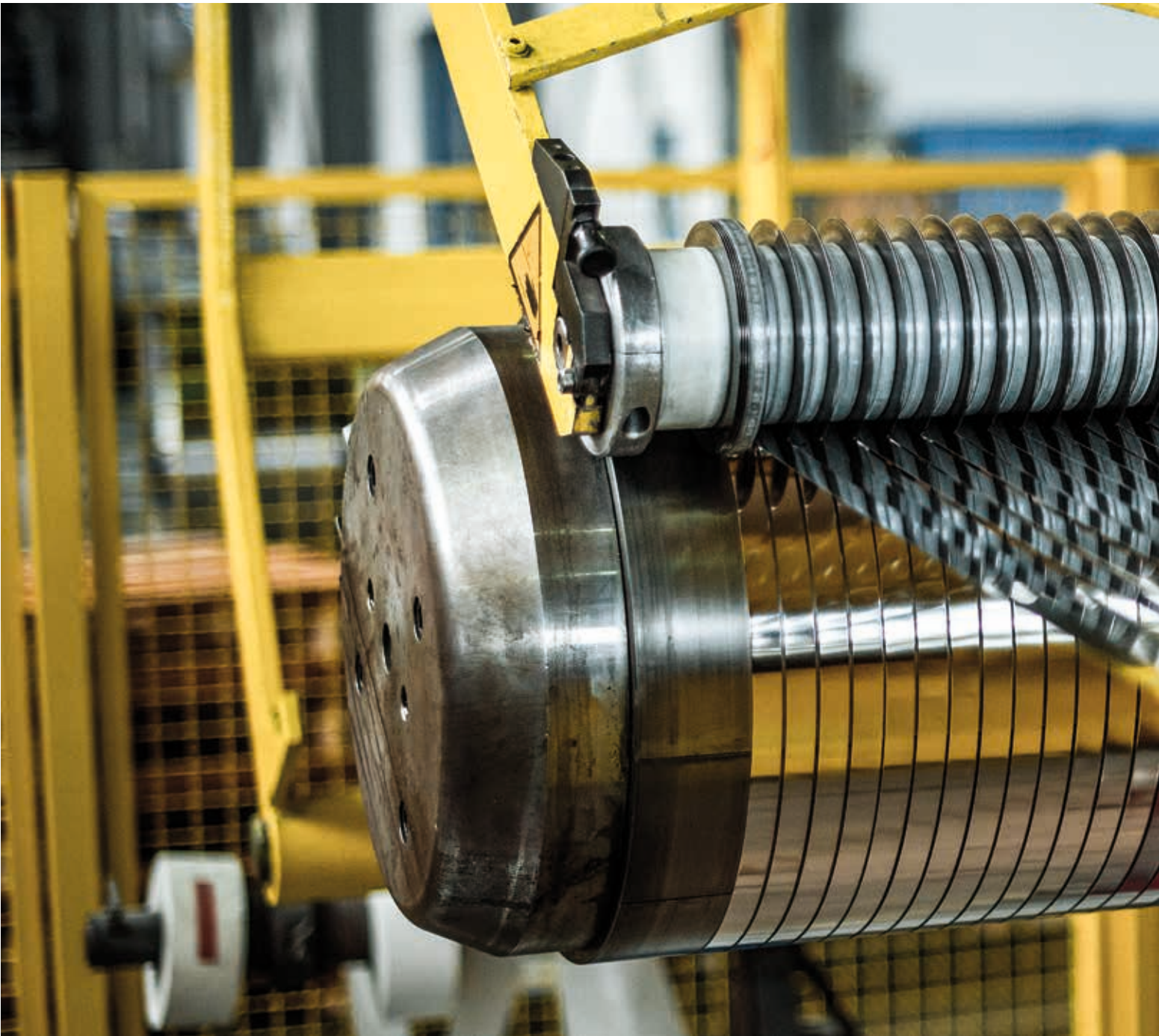


For around 35 years, the name HASEKE has stood for innovation and uncompromising quality in the fields of monitor suspension and enclosure technology.



“As a company that manufactures products with long life cycles and that maintains long-term supplier relationships with its customers, we are well taken care of at GESCO – and have been for 28 years. With GESCO as a long-term majority shareholder, we have continuously developed, made regular investments and generated constant growth.”

**UWE KUNITSCHKE,
MANAGING PARTNER
AT HASEKE**



A close-up photograph of industrial machinery, likely a metal rolling mill. The image shows a large, dark metal roller with a corrugated surface, and a yellow mechanical arm or component. The background is a blurred industrial setting with red and yellow elements. The text 'SUCCESS STORY' is overlaid in white, bold, uppercase letters, with a short white horizontal line underneath it.

SUCCESS STORY

As a long-term investor, we acquire SMEs that fulfil our acquisition criteria. This usually happens within the scope of succession planning, as in the case of our most recent acquisition, Pickhardt & Gerlach. With this specialist in strip steel processing, we have been able to develop a succession plan where everybody involved wins: after careful consideration, the vendors decided to sell the company. They found the partner they were looking for in GESCO, which has vision, a long-term interest, technological expertise and the intention to preserve and develop the company's location, jobs and brand. For GESCO, it was a gain for the portfolio: both the company's size and profitability, but also its leading position in the European market and highly efficient manufacturing technology were an excellent fit. In a complex M&A market, this was a successful step that will strengthen the Group in the long term.



“I see GESCO as a strong partner who lets us run the company independently. This was a crucial factor in my decision to assume a role in the company management team.”

Rainer Theile,
Commercial Managing Director at
Pickhardt & Gerlach

THE GESCO AG ACQUISITION CRITERIA

Sales of approx. € 10 million and up

Positive cash flow, no need for restructuring

Headquarters in Germany

ACQUISITIONS

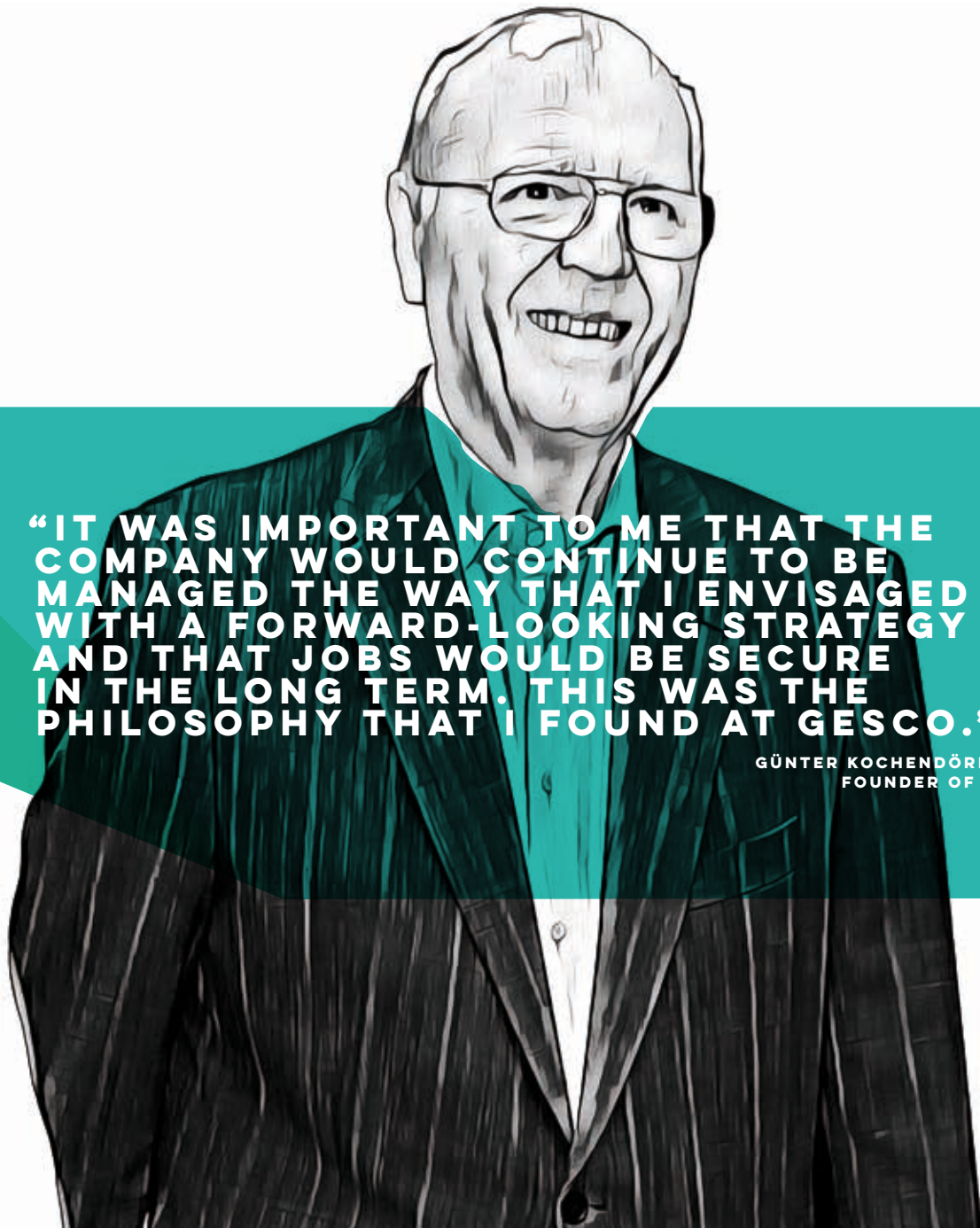


Solid equity base

Compelling, established business
model, strong market position in
the niche

SUCCESSION SUCCESS

For almost thirty years, GESCO has been a specialist in succession solutions for SMEs. With our expertise as a long-term investor, we find the right solutions in our target sectors - whether within the scope of classic succession planning due to age or as a partner for the next stage of growth. Succession is a topic that affects the owners of many SMEs, and it is connected with worries about their own life's work, employees and their own future. GESCO has the right answers. CFK is a successful example of an acquisition with a succession plan that was only made possible by GESCO's involvement, where start-up culture met an established company.



“IT WAS IMPORTANT TO ME THAT THE COMPANY WOULD CONTINUE TO BE MANAGED THE WAY THAT I ENVISAGED WITH A FORWARD-LOOKING STRATEGY AND THAT JOBS WOULD BE SECURE IN THE LONG TERM. THIS WAS THE PHILOSOPHY THAT I FOUND AT GESCO.”

**GÜNTER KOCHENDÖRFER.
FOUNDER OF CFK**

ENTREPRENEUR LIFE

When agile start-up culture fuses with years of experience – the win-win situation for two entrepreneurs has been part of the success of CFK. In 2005, Günter Kochendörfer met the 3D printing pioneer Dr Christoph Over, who was in his mid-thirties, at a trade fair and learned about his start-up inno-shape. With his young company, Dr Over had decided to focus on innovative 3D printing technology. Four years later, the two men merged their companies for eroding and laser melting under the banner of CFK: Dr Over has brought technological innovation and expertise to the table and has received the opportunity to make use of established company structures. CFK has gained another business segment with future viability – and a designated successor. When the CFK founder Günter Kochendörfer decided to retire at age 70, the two managing directors decided to get GESCO on board as a new partner. In May 2012, GESCO took over Günter Kochendörfer's shares, with Dr Christoph Over keeping the remaining 20 % as Managing Partner.



Company succession is a central issue not just for the entrepreneur personally, but also for the workforce.

Dr Christoph Over,
Managing
Partner at CFK



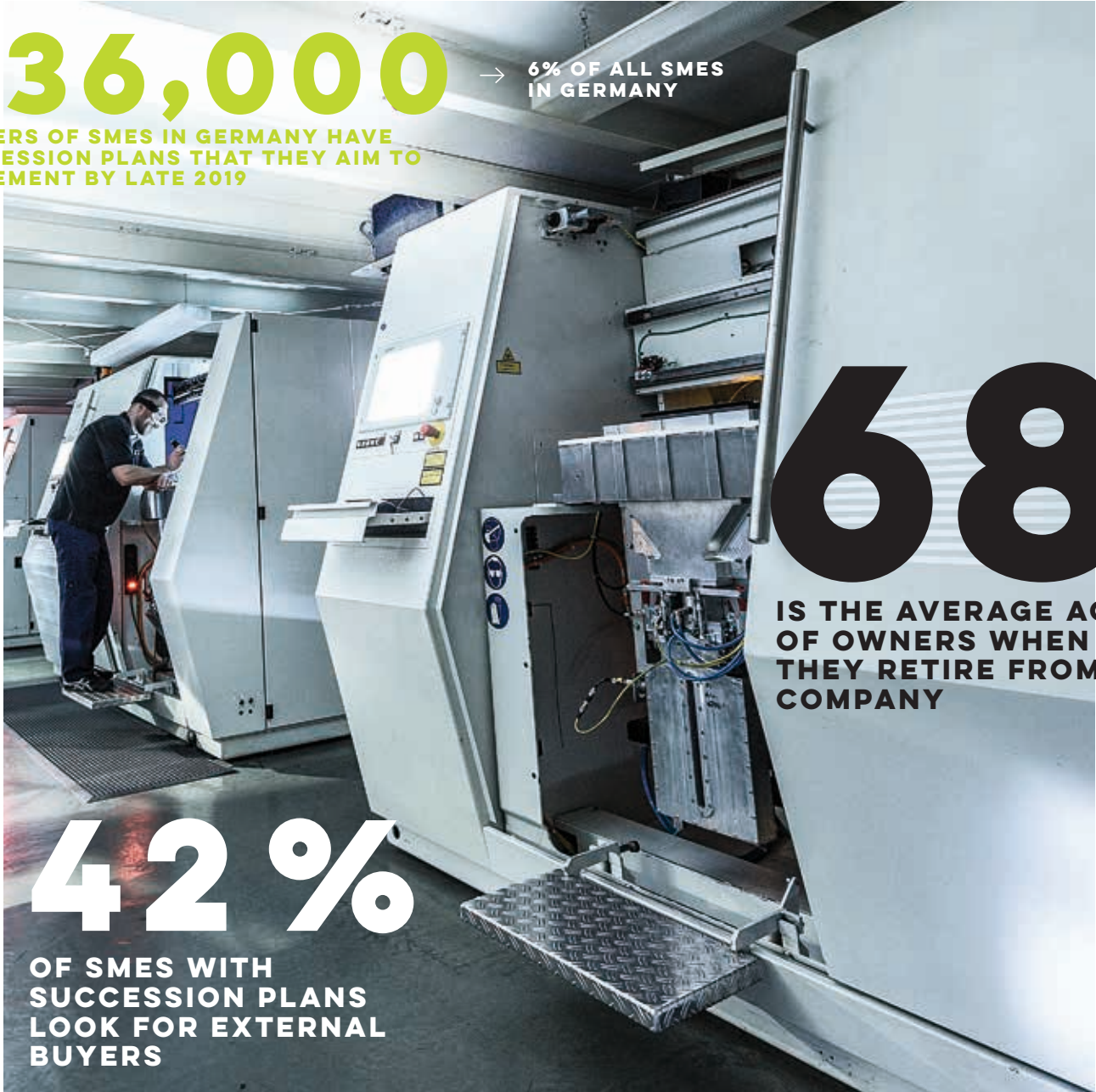
“70% of the CFK workforce has bought GESCO shares – a huge vote of confidence.”

↓
More on page 28

236,000

→ 6% OF ALL SMES
IN GERMANY

OWNERS OF SMES IN GERMANY HAVE
SUCCESSION PLANS THAT THEY AIM TO
IMPLEMENT BY LATE 2019



68

IS THE AVERAGE AGE
OF OWNERS WHEN
THEY RETIRE FROM THE
COMPANY

42%

OF SMES WITH
SUCCESSION PLANS
LOOK FOR EXTERNAL
BUYERS



EXPANDING SUCCESSFUL MODELS IN PARTNERSHIP



Partners for
further growth



Continuous
sparring partner



Stronger position
vis-à-vis banks due to renowned
co-shareholders



OPTION 1 AFTER SALE

Seller remains a managing minority partner or managing director and continues to run the company.



PUTTING THEIR LIFE'S WORK IN GOOD HANDS



Desire for
retirement or a change
in life situation



Continuation
of corporate culture



**Securing their life's
work and prospects**
for family and workforce in
the long term



OPTION 2 AFTER SALE

Together with GESCO, the seller looks for an optimal managing director with a shareholding option, carries out the quick handover, leaves the company and remains available as a consultant if needed.

**MOTIVATION
TO
SELL**

“Entrepreneurs and their plans for the future are just as different as their succession planning requirements. One of them might want to leave as soon as possible after the sale, the other might be looking for a partner who will be there to support the next stages of growth with capital and expertise and to provide prospects for leaving in the future. Because every case is different, our solutions are individual and customised.”

**Christoph Borges,
Head of Acquisitions
GESCO AG**



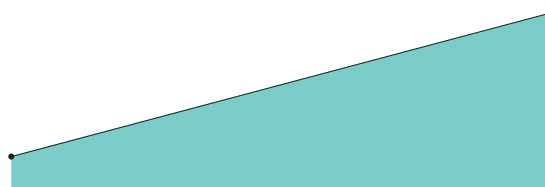
GROUP DYNAMICS

Around 2,500 employees work for the Group worldwide, constituting 2,500 instances of expertise that are crucial to its success. When a former owner leaves a company, the transfer of expertise becomes a succession task. This transfer is also at the centre of training and education, as is the task of passing on seasoned staff members' wealth of experience to younger employees, trainees and students. Moreover, each of the subsidiaries bridges various gaps - to other companies in the Group, to partners, universities and institutions.

**MANAGEABLE ANNUAL INVESTMENTS
LEAD TO AN IMPRESSIVE
ASSET SITUATION.**

€ ~6,300


Total investment during
annual participation in
employee shareholding
program



€ ~33,500

assets calculated on the
basis of the share price of
29 March 2018 including
annual dividend payments

+ 429 %



SINCE ITS IPO IN 1998, GESCO AG HAS OFFERED GESCO GROUP EMPLOYEES THE OPPORTUNITY TO BUY SHARES IN THE COMPANY AT FAVOURABLE CONDITIONS WITHIN THE SCOPE OF ITS ANNUAL EMPLOYEE SHARE SCHEME - IN ORDER FOR THEM TO INCREASE THEIR PERSONAL WEALTH AND STOCK UP THEIR RETIREMENT PROVISIONS, AND TO SUPPORT THE SHARE CULTURE.

During apprenticeships, MAE – the world leader in the construction of special machinery for automatic straightening machines and wheel set presses – unites product manufacturing and product application: in collaboration with the Rheinbahn in Düsseldorf, the first year of an apprenticeship as an industrial mechanic or an electrician for operating technology takes place in the training workshop of Düsseldorf Verkehrsbetriebe. This is also where trainees complete their preparation for the examination.



KNOWLEDGE



TRANSFER

Passing on expertise: at SVT, trainees use a model loading arm to learn the theoretical fundamentals, which they then apply on site during the different stages of the production process. Over 180 employees work for the loading technology provider in Schwelm.

EMPLOYER BRANDING



During skills shortages, a strong employer brand provides an important advantage in the competition for new talent and graduates. Those who want to score points here have to be able to make good arguments. A contemporary machine park and challenging technological assignments are just as much part of this as the company's open, collaborative corporate culture.

Gaining skilled, motivated employees and retaining them for the company in the long term – this is the crucial goal in order to secure future viability. The key to this is training and education. From classic teaching to dual study programmes: collaborations with schools, universities and institutes provide for the exchange of technical knowledge while simultaneously increasing a company's appeal as an employer.

5.8%

IS THE APPRENTICESHIP RATIO
IN THE GROUP.



SME sector as a compelling argument in the competition for skilled workers: in SMEs, employees can see the results of their efforts straight away. Flat hierarchies and personal dialogue with colleagues in all divisions allow for quick, specific feedback. In an SME, those who want to set something in motion have come to the right place.

KNOWLEDGESMITHS 10 YEARS OF THE DÖRRENBERG STUDIENAWARD

Enthusiasm for the "world of steel" – as a driver of innovation and an attractive employer, once a year, Dörrenberg Edelstahl presents the Dörrenberg StudienAWARD to students and graduates in materials technology and engineering. This year, the renowned award was presented for the tenth time – a success story. "The aplomb and technical confidence that our young students present to the audience are astonishing," said member of the jury Professor Dr Theisen from Ruhr-Universität Bochum to the press. It is also thanks to the award that Dörrenberg has been able to position itself accordingly within the sector: as a trailblazer and promoter of collaboration between science and business. For up-and-coming engineers, the award is not just a motivation boost, but also provides an attractive platform to present their work within a framework that goes beyond that of the university. In first place, Sebastian Ehrhard from the University of Kassel had the honour of taking home the tenth StudienAWARD this year.



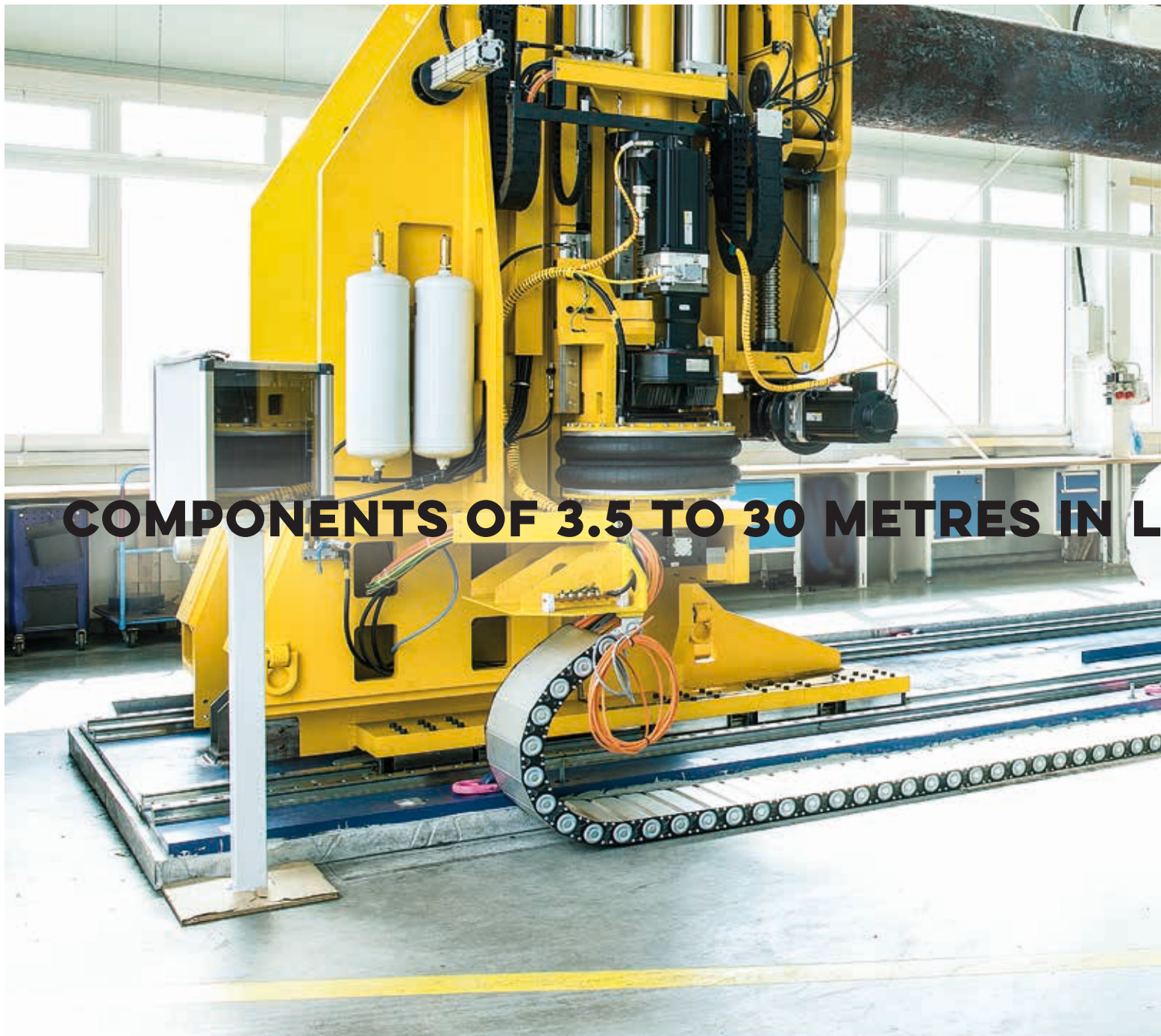
CONNECTED BY TECHNOLOGY

Technology is the element that connects the companies in the GESCO Group. This applies to their own products and the way they are used by the customer, as it does to the technical equipment of the companies themselves. The companies operate independently, but benefit from their membership in the Group due to the transfer of expertise and reciprocal support that take place. When it comes to topics such as automation and digitalisation, the holding company pools expertise to provide advisory support where needed. For their part, the subsidiaries communicate and collaborate with universities, institutes and research facilities.



"I am in charge of research and development at Dörrenberg Edelstahl, as well as technical customer support; while, as a teacher, I am in dialogue with university research and teaching. For me, this is the ideal way to bridge the gap between industry, theory and science to the benefit of everybody involved."

**PROF DR CHRISTOPH ESCHER,
HEAD OF CORPORATE MATERIALS TECHNOLOGY AT
DÖRRENBURG EDELSTAHL GMBH, LECTURER AT RUHR-UNIVERSITÄT
BOCHUM WITH HONORARY PROFESSORSHIP, AND MEMBER OF
THE DÖRRENBURG STUDIENAWARD JURY**



COMPONENTS OF 3.5 TO 30 METRES IN L



LENGTH 4,000 TONNES OF PRESS FORCE

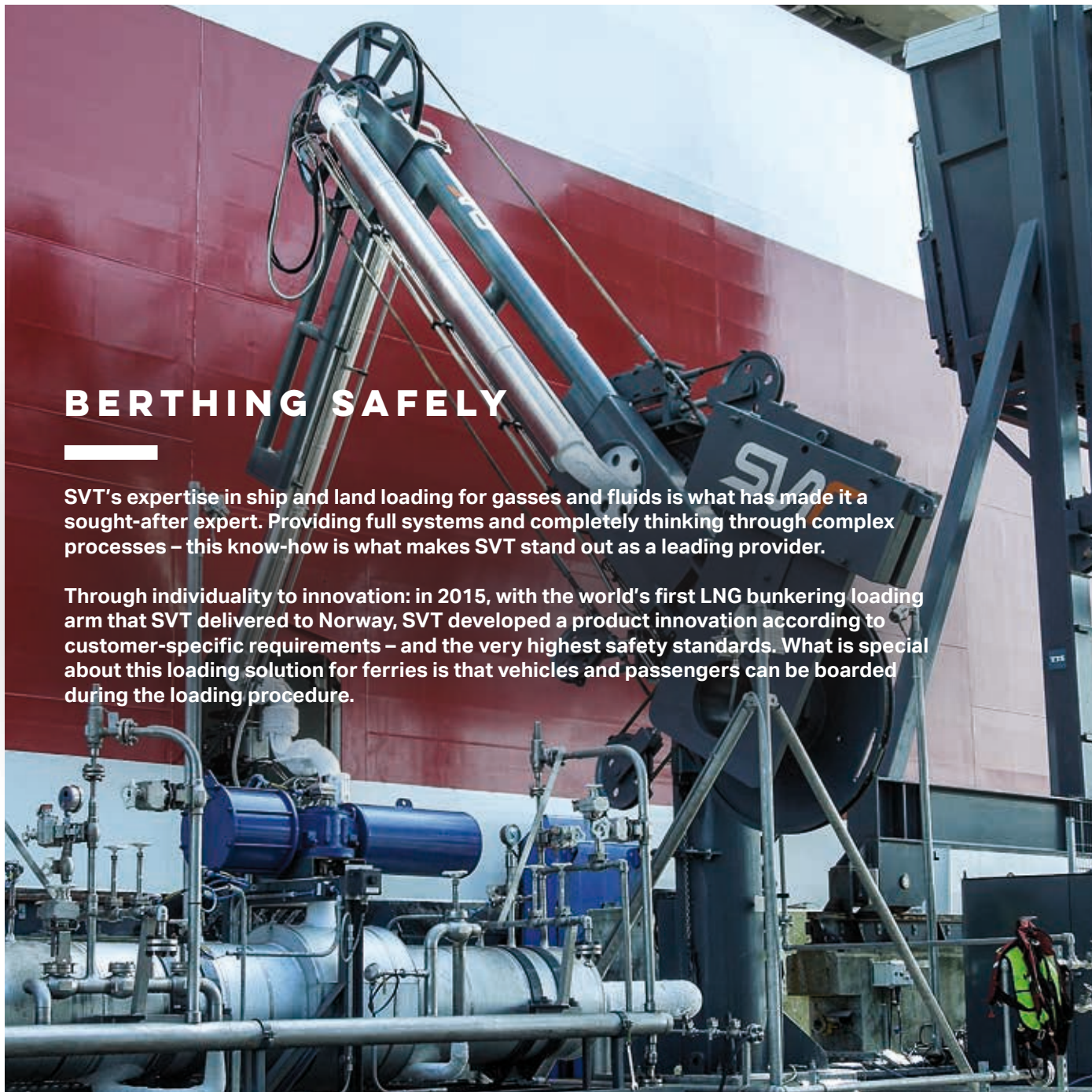
SUCCESSFUL DIMENSIONS

The appearance of the new straightening system for large parts by MAE in Erkrath is just as impressive as its performance. With this machine, the world market leader in automatic straightening machines and wheel set presses has expanded its product portfolio for long parts and will already be delivering the second version of the machine in the coming reporting year. MAE came up with the concept of the machine for a customer who supplies straightened raw materials for generators, turbine waves, ship propeller shafts and the main shafts of wind power plants.

BERTHING SAFELY

SVT's expertise in ship and land loading for gasses and fluids is what has made it a sought-after expert. Providing full systems and completely thinking through complex processes – this know-how is what makes SVT stand out as a leading provider.

Through individuality to innovation: in 2015, with the world's first LNG bunkering loading arm that SVT delivered to Norway, SVT developed a product innovation according to customer-specific requirements – and the very highest safety standards. What is special about this loading solution for ferries is that vehicles and passengers can be boarded during the loading procedure.



AROUND

270

**€ MILLION IS HOW MUCH THE
COMPANIES IN THE GESCO GROUP
HAVE INVESTED IN PROPERTY,
PLANTS AND EQUIPMENT
SINCE THE IPO.**

Dividends paid out
since the IPO:

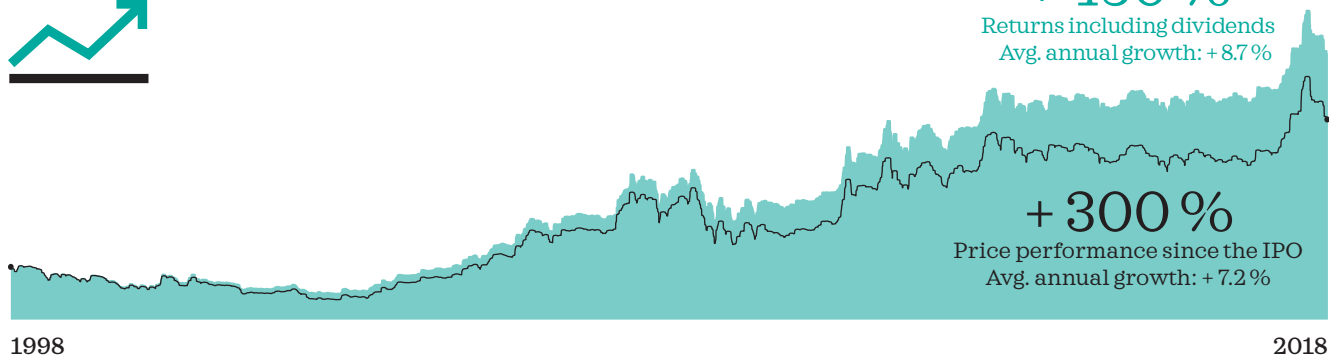
approx.

€ 87 Mn.

20 YEARS SINCE THE IPO 20 YEARS OF DIVIDENDS

24 March 2018 was the 20th anniversary of GESCO's IPO: that is 20 years of bridging the gap between SMEs and the capital market. GESCO AG gives the companies in its portfolio a long-term home, and provides investors with access to the entrepreneurial, technology-driven SME sector. During this period, the GESCO model has proven to be sustainably successful: its share price has risen by around 300 %, corresponding to annual average growth of 7.2 %. This long time frame proves that dividends can have a considerable share in an investor's overall returns: Returns including annual dividends come to around 430 %, and the average annual returns are 8.7 %.*)

*) Figures based on the XETRA closing price of 29 March 2018



Current number of shares

10,839,499

Market capitalisation of roughly ^{*)}

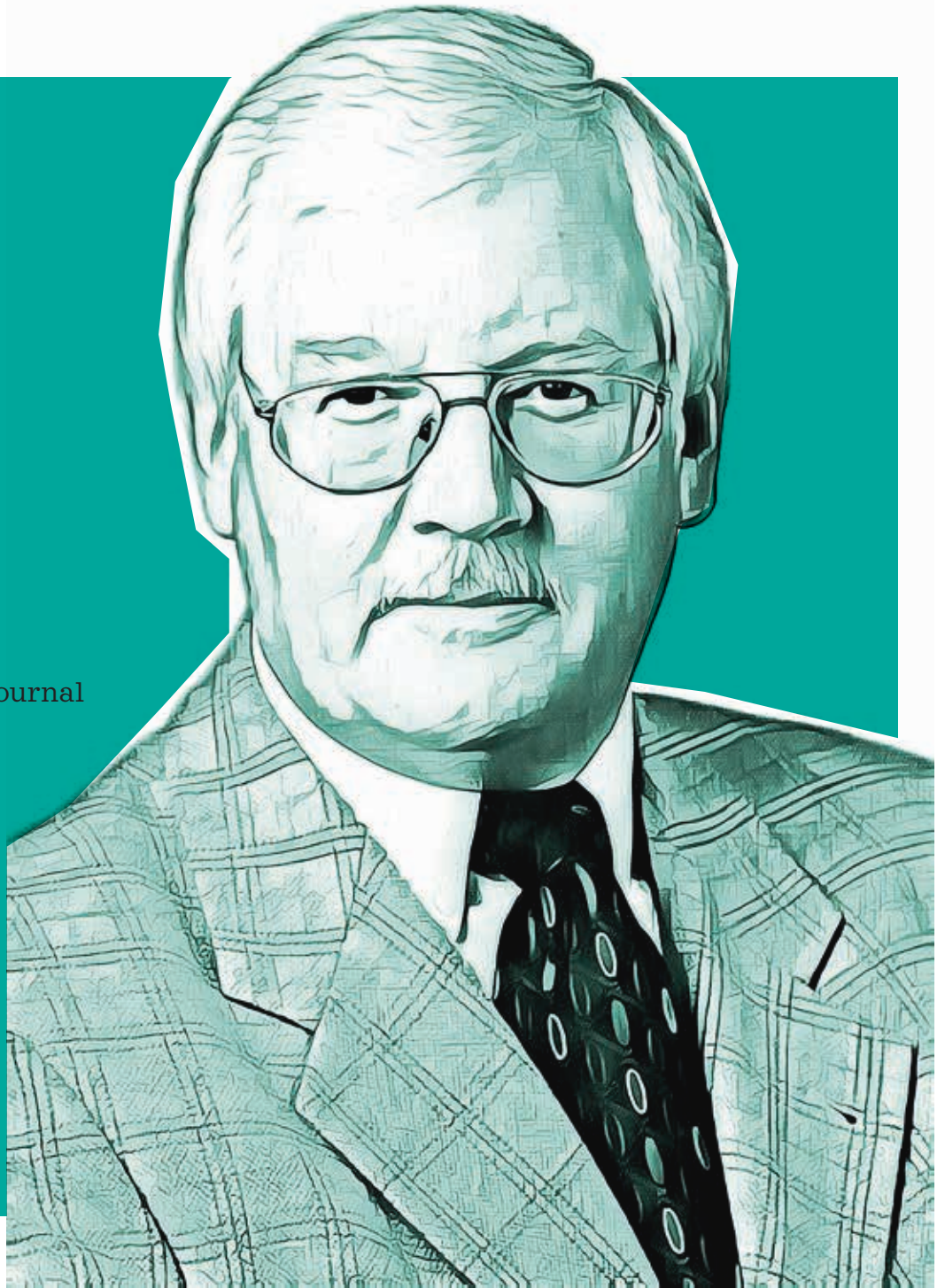
€ 310 million
(+475 % since IPO)

Equity of roughly

€ 224 million
(+500 % since IPO)

“For our journal, which specialises in small caps, it was only natural that we would provide GESCO Industrie Holding AG, founded in 1989, with journalistic coverage from its IPO in spring 1998, and we dedicated a cover story to the SME holding as far back as in October 2002. We congratulate GESCO on 20 years of continuity in the face of change – on the stock exchange as well!”

Klaus Hellwig,
Editor of
Nebenwerte Journal



2018
Compound Annual Growth Rate
1998

STEADY GROWTH

Price excluding
dividends *)

€ 28.50
2018

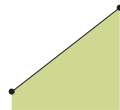


€ 7.16
1998

CAGR
7.2 %

Price including
dividends *)

€ 38.02
2018



€ 7.16
1998

CAGR
8.7 %

Equity

€ 224.3 million
2018



€ 37.1 million
1998

CAGR
9.4 %

Market capitalisation *)

€ 308.9 million
2018



€ 53.7 million
1998

CAGR
9.1 %

*) Figures based on the XETRA closing price of 29 March 2018.

"Since its IPO, GESCO has not just established itself as a serious partner in the SME sector, but has also developed into a fixture on the capital market. Both worlds use the same currency: trust. With its sustainable success, reliability and openness, GESCO has won investors over and, from time to time, has used this basis to bolster its growth with capital increases. We have enjoyed accompanying the Wuppertal team on its journey and are looking forward to future collaborations."



Lutz Weiler,
CEO of equinet Bank AG

A close-up portrait of Marc Tüngler, a man with dark, wavy hair and light-colored eyes, looking slightly to the right. He is wearing a dark suit jacket, a white dress shirt, and a patterned tie. The background is a blurred office setting with vertical lines. A teal vertical bar is on the left side of the image, and a teal horizontal line is on the right side.

MARC TÜNGLER,
CHIEF EXECUTIVE OFFICER
OF DSW E. V. / LAWYER

**“GESCO AND THE CAPITAL MARKET
- A WONDERFUL, SUSTAINABLE LIAISON
TO THE DELIGHT OF SHAREHOLDERS.
DEUTSCHE SCHUTZVEREINIGUNG FÜR
WERTPAPIERBESITZ E. V. (DSW) WARMLY
CONGRATULATES GESCO AG ON THE
20TH ANNIVERSARY OF ITS IPO AND IS
ALREADY LOOKING FORWARD TO THE
NEXT SUCCESSFUL, DIVIDEND-RICH AND
CONSTANTLY TRANSPARENT 20 YEARS,
DURING WHICH GESCO WILL CONTINUE
TO ENRICH THE SHARE LIST.”**

HID

DEN

SUBSIDIARIES CHAMPIONS

PRODUCTION PROCESS TECHNOLOGY

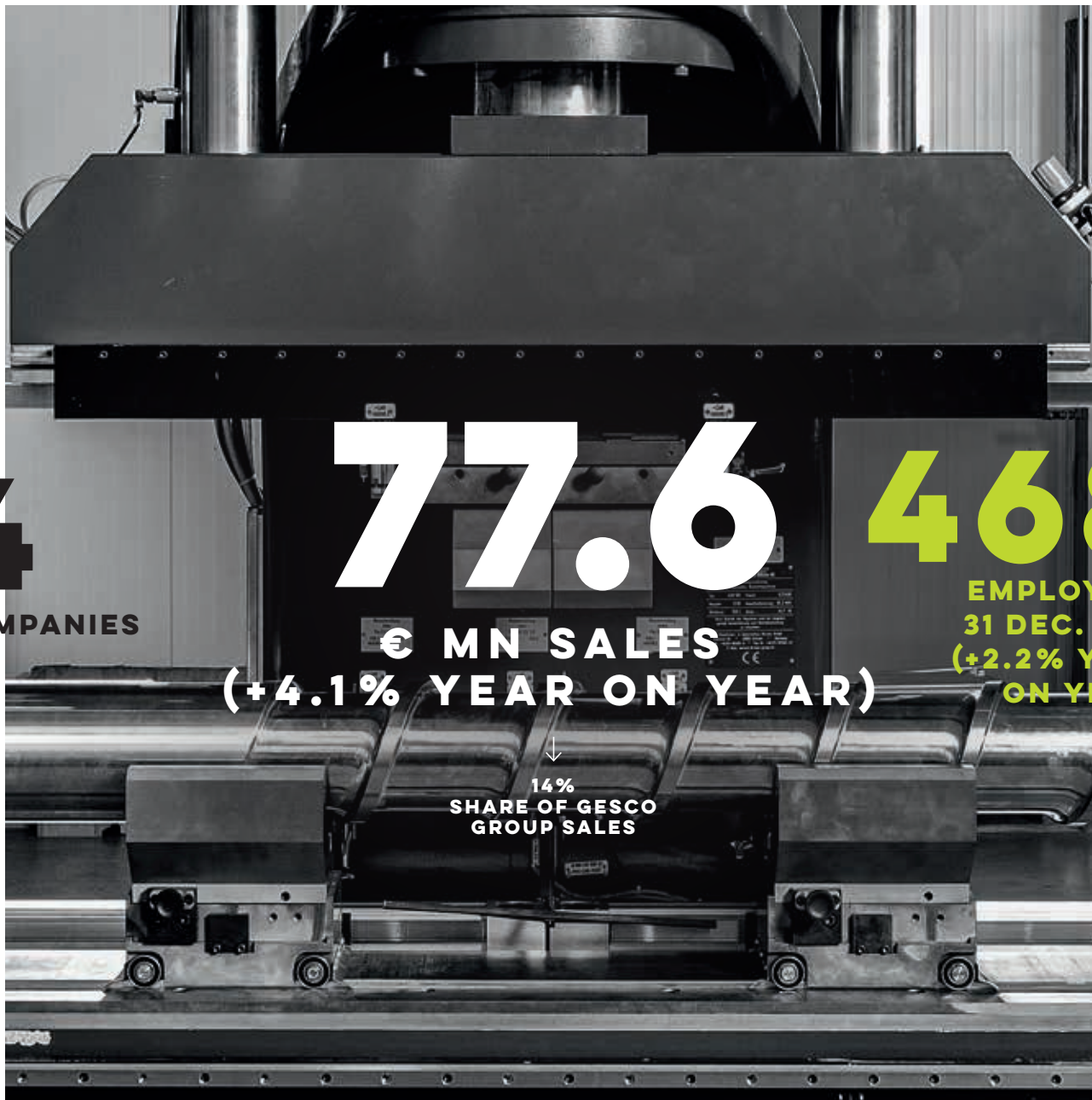
The companies in the Production Process Technology segment target the highly innovative, dynamically growing markets being shaped by automation, robotics and the trend towards “batch size 1”. In doing so, the subsidiaries usually occupy themselves with creating solutions for the automation of machine and plant engineering and with technology-intensive manufacturing services. With their products and services, they primarily assist series manufacturers with their production processes.

4
COMPANIES

77.6
€ MN SALES
(+4.1% YEAR ON YEAR)

↓
14%
SHARE OF GESCO
GROUP SALES

468
EMPLOYEES
31 DEC. 2017
(+2.2% YEAR
ON YEAR)



**C.F.K.
CNC-FERTIGUNGS-
TECHNIK
KRIFTEL GMBH,
KRIFTEL AM TAUNUS**

CFK is one of the leading names in Germany when it comes to technology for high-precision wire erosion and die sinking. The company is also a pioneer in the field of selective laser melting and additive manufacturing, also known as 3D printing. Unlike conventional methods, this production process provides a lot of design freedom and also allows small batches and one-off items ("batch size 1") to be manufactured economically. In the erosion segment, CFK deploys high-precision technology to produce parts for its domestic and foreign customers, many of which are used in advanced safety and security systems. The weight of the items produced ranges from a few micrograms to several tonnes. CFK is a partner for a wide range of sectors, including the aviation industry, the medical industry and the micro-technology sector.

Founding year

1986

Acquisition by GESCO

2012



Dr.-Ing Christoph Over
Managing Partner

Shareholding
Management

20 %

Shareholding
GESCO

80 %

67

**EMPLOYEES
31 DEC. 2017
(+1.5% YEAR
ON YEAR)**

E.G.

**MEDICAL
IMPLANTS,
SAFETY
COMPONENTS**

8.0

**€ MN SALES
(-6.6% YEAR
ON YEAR)**

GEORG KESEL GROUP, KEMPTEN

The Kesel Group develops and manufactures machine tools with a focus on highly specialised milling machines for linear tooth profiles. Machines for the manufacture of bandsaws – which are used in industries such as metal processing and in milling tooth profiles for steering systems and drive components in automotive manufacturing – are one of 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.

Founding year

1889

Acquisition by GESCO

2009



Martin K. Klug
Managing Partner

Shareholding
Management

10 %

Shareholding
GESCO

90 %



61

**EMPLOYEES
31 DEC. 2017
(+5.2% YEAR
ON YEAR)**

E.G.

**HIGHLY
SPECIALISED
MILLING MACHINES
FOR LINEAR
TOOTH PROFILES**

12.4

**€ MN SALES
(+14.7% YEAR
ON YEAR)**

MAE GROUP, ERKRATH

The MAE Group is a global leader in automatic straightening machines and wheel set presses for rolling stock. MAE has underpinned its global market positioning in both segments with its trailblazing innovations. Its product range is rounded off by a standard line of manual straightening presses and special machines for joining, assembling, testing and reforming. Major customer segments include the automotive and automotive supply industries, railway vehicle manufacturers and maintenance workshops, 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.

Founding year

1931

Acquisition by GESCO

1997



Rüdiger Schury
Managing Director

Shareholding
GESCO

100 %



217

**EMPLOYEES
31 DEC. 2017
(-2.3% YEAR
ON YEAR)**

E.G.

**STRAIGHTENING
MACHINES
AND WHEEL SET
PRESSES**

44.6

**€ MN SALES
(+4.0% YEAR
ON YEAR)**

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, known as Industry 4.0, creates significant 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.

Founding year

1960

Acquisition by GESCO

2007



Thomas Sturm
Managing Partner

Shareholding
Management

20 %

Shareholding
GESCO

80 %



123

**EMPLOYEES
31 DEC. 2017
(+9.8% YEAR
ON YEAR)**

E.G.

**COMPLEX
AUTOMATED
PRODUCTION
FACILITIES**

12.6

**€ MN SALES
(+2.5% YEAR
ON YEAR)**



RESOURCE TECHNOLOGY

Most of the subsidiaries in the Resource Technology segment supply products to material-intensive industrial companies, some of them with production structures spread throughout the world. These markets tend towards consolidation and 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

275.1
€ MN SALES
(+23.8% YEAR ON YEAR)

↓
50%
SHARE OF GESCO
GROUP SALES

761
EMPLOYEES
31 DEC. 2017
(+7.6% YEAR
ON YEAR)

DÖRRENBURG 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 a minority shareholding in a renowned tool steel specialist in Turkey. The company also has subsidiaries in Singapore, Taiwan, China and South Korea.

Founding year

1860

Acquisition by GESCO

1996



Gerd Böhner
Managing Partner (left)

Dr-Ing Frank Stahl
Managing Partner (right)

Shareholding
Management

10 %

Shareholding
GESCO

90 %



533

**EMPLOYEES
31 DEC. 2017
(+1.9% YEAR
ON YEAR)**

E.G.

**IN-DEPTH
EXPERTISE IN
METALLURGY**

199.1

**€ MN SALES
(+9.9% YEAR
ON YEAR)**

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.

Founding year

1902

Acquisition by GESCO

2017



Rainer Theile
Commercial Manager
(left)

Dr - Ing Paul Braun
Technical Director
(right)

Shareholding
GESCO

100 %

42

**EMPLOYEES
31 DEC. 2017
(+2.4% YEAR
ON YEAR)**

E.G.

**COATED STRIP
STEEL FOR THE
ELECTRICAL
ENGINEERING
INDUSTRY**

33.0

**€ MN SALES
(+11.9% YEAR
ON YEAR)**



SVT GMBH, SCHWELM

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

Founding year

1968

Acquisition by GESCO

2002



Harm Stöver
Managing Partner

Shareholding
Management

10 %

Shareholding
GESCO

90 %

186

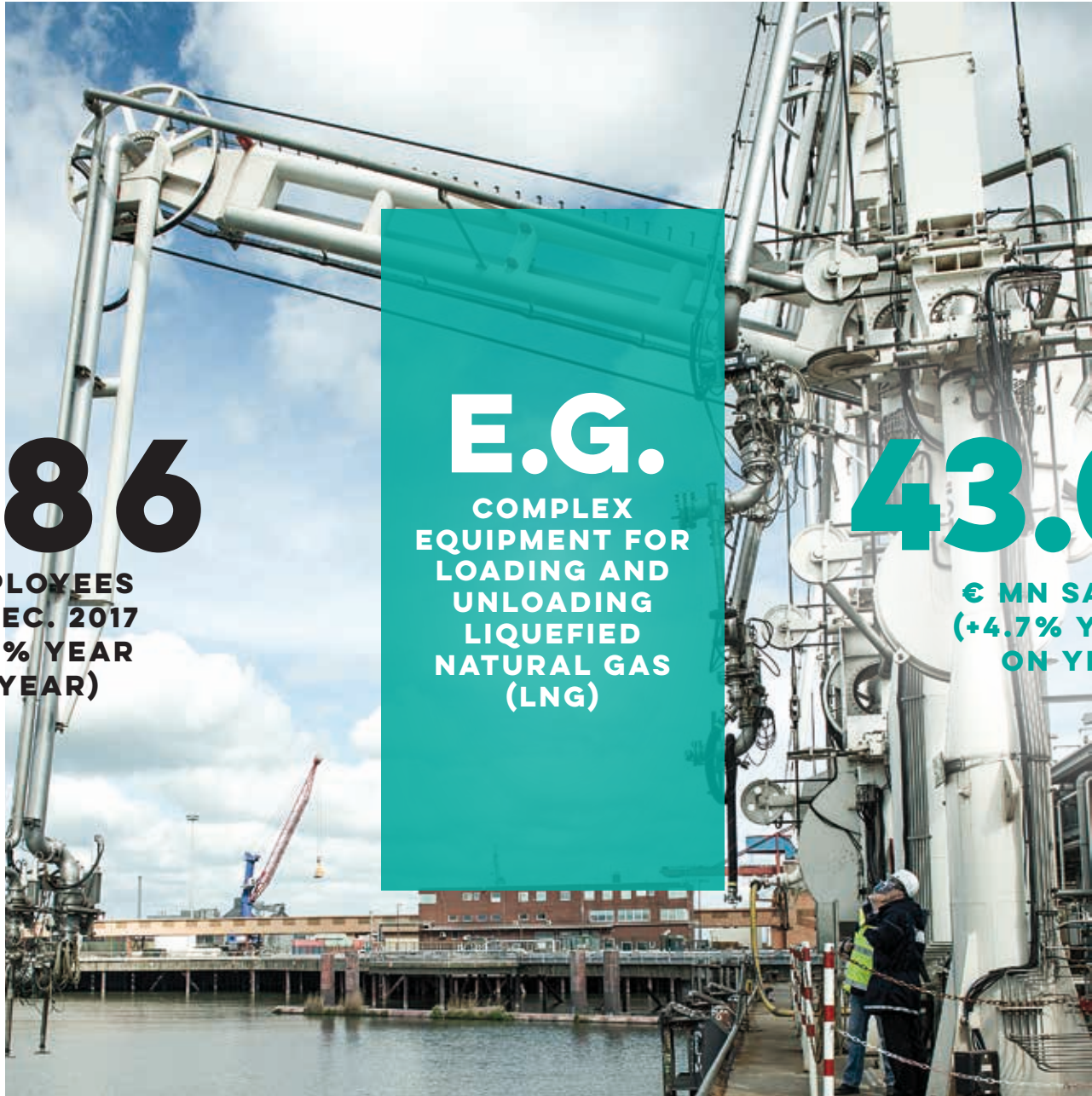
**EMPLOYEES
31 DEC. 2017
(+1.1% YEAR
ON YEAR)**

E.G.

**COMPLEX
EQUIPMENT FOR
LOADING AND
UNLOADING
LIQUEFIED
NATURAL GAS
(LNG)**

43.0

**€ MN SALES
(+4.7% YEAR
ON YEAR)**



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

123.7

**€ MN SALES
(+8.6% YEAR ON YEAR)**

759

**EMPLOYEES
31 DEC. 2017
(+3.8% YEAR
ON YEAR)**



**23%
SHARE OF GESCO
GROUP SALES**

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. Another speciality is the manufacture of large components made from crystal-clear thermoplastics. AstroPlast wins its customers, firstly, 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 in-house tool manufacturing capabilities, and, secondly, as a consultant and development partner. Its customers come from fields such as the electrical engineering and household appliance industries, and the construction industry, and the company develops and manufactures products for lighting manufacturers, for the medical technology sector and for the logistics and waste disposal sectors.

Founding year

1972

Acquisition by GESCO

1995



Rouven Steffens
Managing Director

Shareholding
GESCO
100 %



82
EMPLOYEES
31 DEC. 2017
(-3.5% YEAR
ON YEAR)

E.G.
EXTREMELY
STURDY PLASTIC
SPOOLS

14.4
€ MN SALES
(+10.7% YEAR
ON YEAR)

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. Moreover, Frank supplies spare parts to international specialist wholesalers and cooperatives.

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

Founding year

1836

Acquisition by GESCO

2006



Dr Frank Grote
Managing Partner

Shareholding
Management

10 %

Shareholding
GESCO

90 %



298

**EMPLOYEES
31 DEC. 2017
(+4.6% YEAR
ON YEAR.)**

E.G.

**WEAR PARTS AND
COMPONENTS FOR
AGRICULTURAL
ENGINEERING**

31.5

**€ MN SALES
(+5.1% YEAR
ON YEAR)**

Founding year

1919

Acquisition by GESCO

1995

FRANZ FUNKE ZERSPANUNGSTECH- NIK 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.



**Dr-Ing
Wolfgang Kemper**
Managing Partner
until 01.06.2018 (left)

Till Wasner
Managing Director
since 01.06.2018 (right)

Shareholding
Third Parties
20%

Shareholding
GESCO
80%

86

**EMPLOYEES
31 DEC. 2017
(+4.9% YEAR
ON YEAR)**

E.G.

**HIGH-QUALITY
TURNING PARTS
WITH DIAMETERS
OF 6 TO 140 MM
MADE FROM
BRASS,
ALUMINIUM,
RED BRASS AND
CUPHIN**

18.0

**€ MN SALES
(+7.5% YEAR
ON YEAR)**

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".

Founding year

1983

Acquisition by GESCO

1990



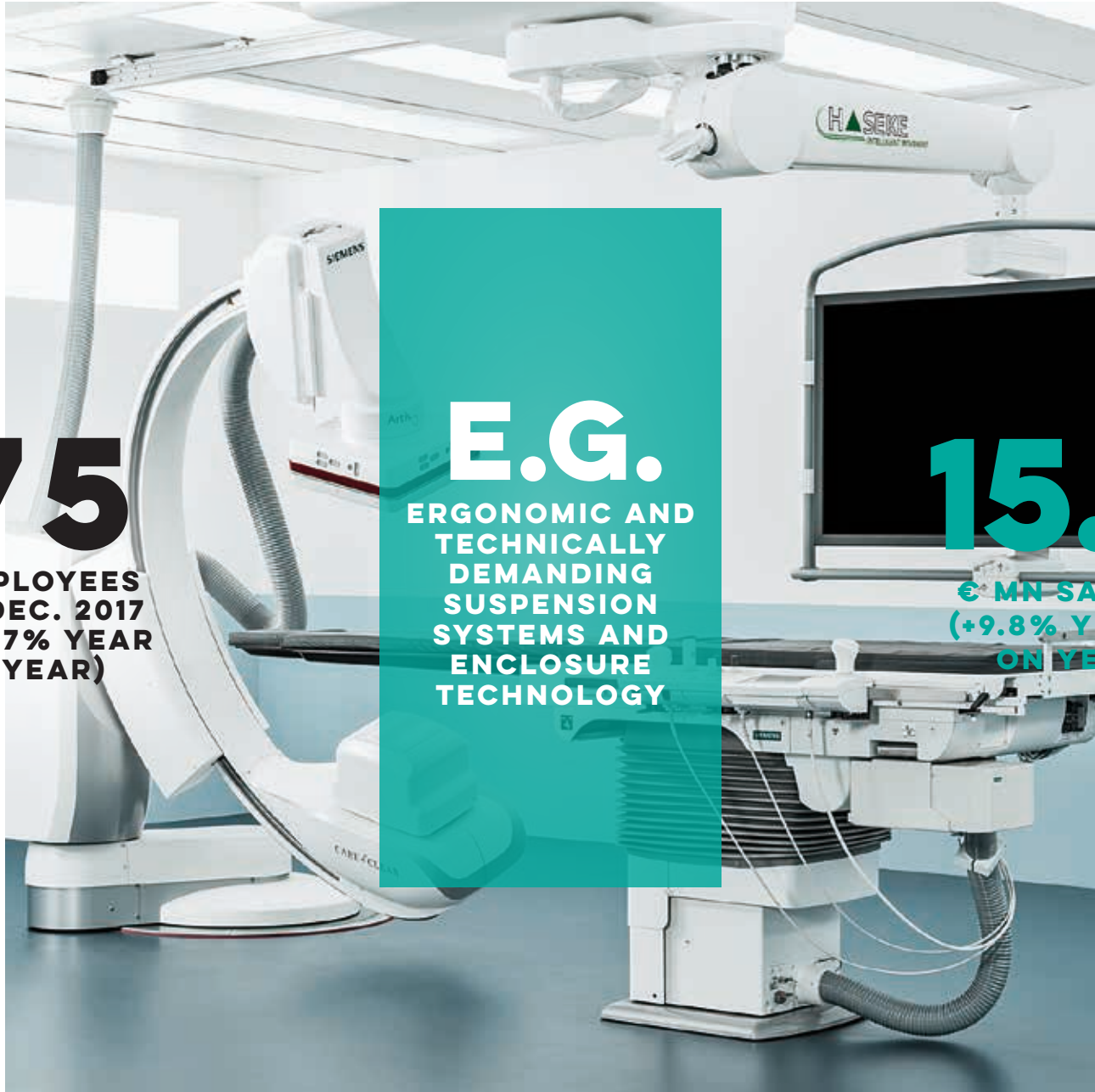
Uwe Kunitschke
Managing Partner

Shareholding
Management

20%

Shareholding
GESCO

80%



75

**EMPLOYEES
31 DEC. 2017
(+8.7% YEAR
ON YEAR)**

E.G.

**ERGONOMIC AND
TECHNICALLY
DEMANDING
SUSPENSION
SYSTEMS AND
ENCLOSURE
TECHNOLOGY**

15.1

**€ MN SALES
(+9.8% YEAR
ON YEAR)**

HUBL GMBH, VAIHINGEN/ENZ

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

Founding year

1976

Acquisition by GESCO

2002



Rainer Kiefer
Managing Partner

Shareholding
Management

20%

Shareholding
GESCO

80%



105

**EMPLOYEES
31 DEC. 2017
(-5.4% YEAR
ON YEAR)**

E.G.

**CUSTOM-MADE
PRODUCTS AND
SMALL BATCHES
MADE FROM
HIGH-END
STAINLESS STEEL
SHEETS**

14.1

**€ MN SALES
(+3.7% YEAR
ON YEAR)**

SETTER GROUP, EMMERICH

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

Founding year

1964

Acquisition by GESCO

2004



Steffen Grasse
Managing Director

Shareholding
GESCO

100 %

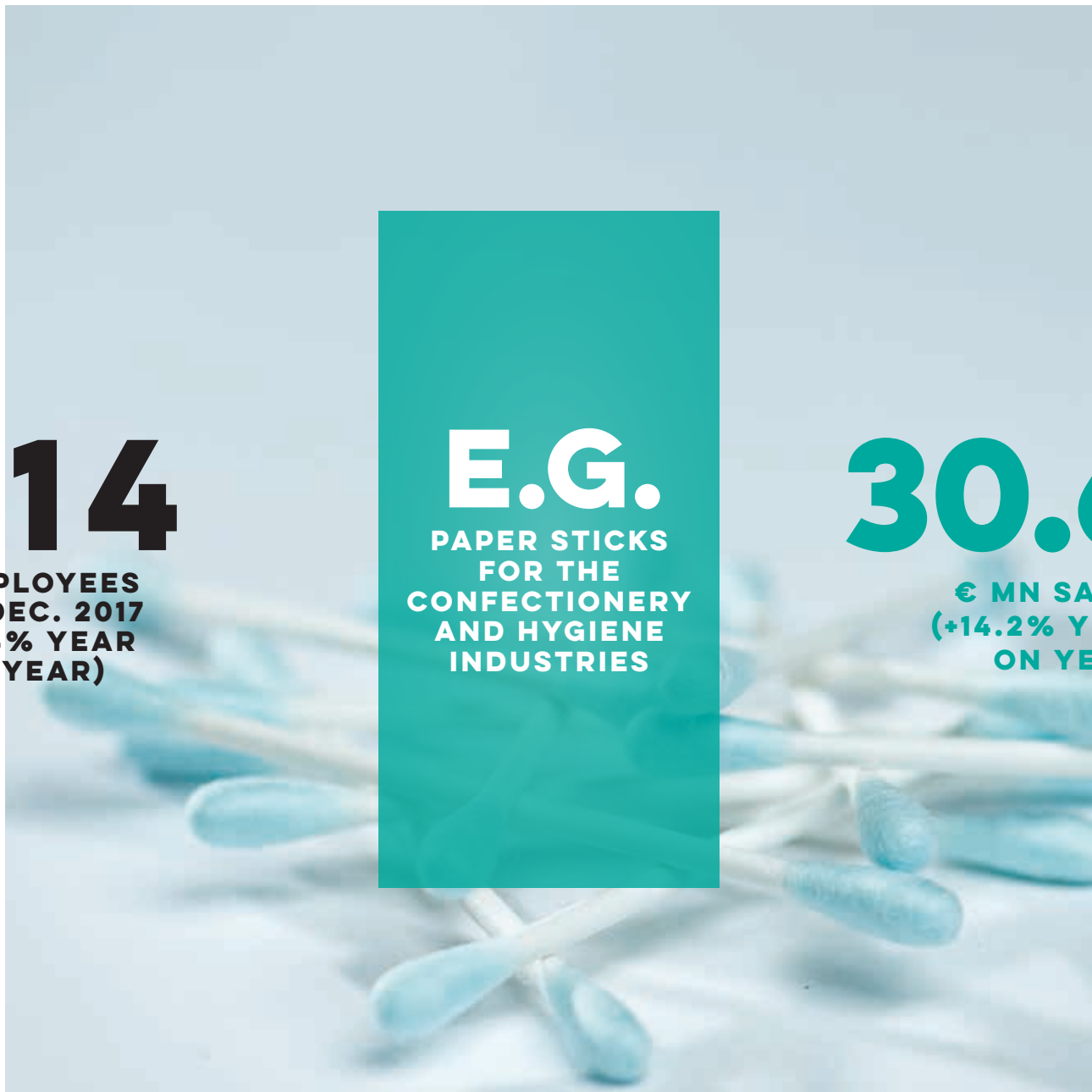
114

**EMPLOYEES
31 DEC. 2017
(+14% YEAR
ON YEAR)**

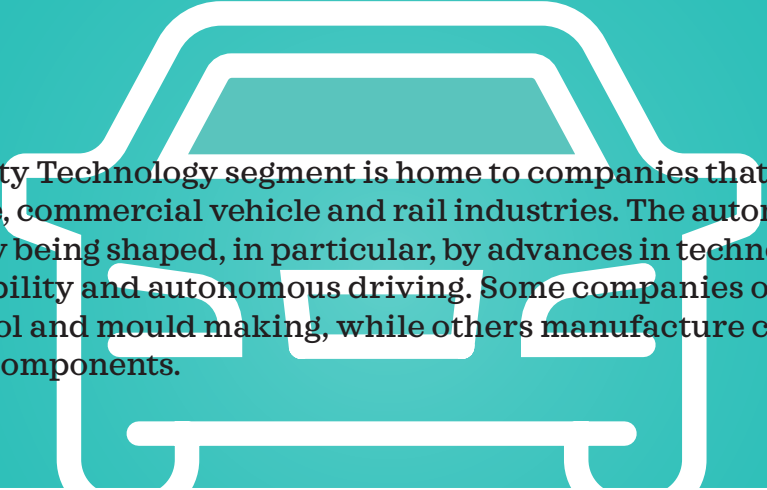
E.G.
**PAPER STICKS
FOR THE
CONFECTIONERY
AND HYGIENE
INDUSTRIES**

30.6

**€ MN SALES
(+14.2% YEAR
ON YEAR)**



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 shaped, in particular, by advances in technology such as electromobility and autonomous driving. Some companies operate in the fields of tool and mould making, while others manufacture construction parts and components.

4
COMPANIES

71.4
€ MN SALES
(-3.4% YEAR ON YEAR)

↓
13%
SHARE OF GESCO
GROUP SALES

482
EMPLOYEES
31 DEC. 2017
(-22.4% YEAR
ON YEAR)

PAUL BEIER GMBH WERKZEUG- UND MASCHINENBAU & 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.

Founding year

1924

Acquisition by GESCO

1999



Bernhard Keller
Managing Director

Shareholding
GESCO

100 %



93
EMPLOYEES
31 DEC. 2017
(-17.7% YEAR
ON YEAR)

E.G.
PARTS AND
COMPONENTS
FOR MECHANICAL
ENGINEERING

10.4
€ MN SALES
(-0.6% YEAR
ON YEAR)

DÖMER GMBH & CO. KG STANZ- UND UMFORMTECHNO- LOGIE, 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.

Founding year

1969

Acquisition by GESCO

2005



**Dr.-Ing
Michael Dammer**
Managing Director

Shareholding
GESCO
100 %



100

**EMPLOYEES
31 DEC. 2017
(UNCHANGED
YEAR ON YEAR)**

E.G.

**COMPLEX
TECHNICAL
PARTS**

17.8

**€ MN SALES
(+17.2% YEAR
ON YEAR)**

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

Founding year

1993

Acquisition by GESCO

2012



Matthias Huke
Managing Director

Shareholding
GESCO

100 %



116

**EMPLOYEES
31 DEC. 2017
(+0.9% YEAR
ON YEAR)**

E.G.

**TOOLS FOR
COMPLEX
AND LARGE
COMPONENTS**

11.5

**€ MN SALES
(+0.5% YEAR
ON YEAR)**

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.

Founding year

1891

Acquisition by GESCO

2011



Uwe Born
Managing Director

Shareholding
GESCO
100 %



173

**EMPLOYEES
31 DEC. 2017
(+0.6% YEAR
ON YEAR)**

E.G.

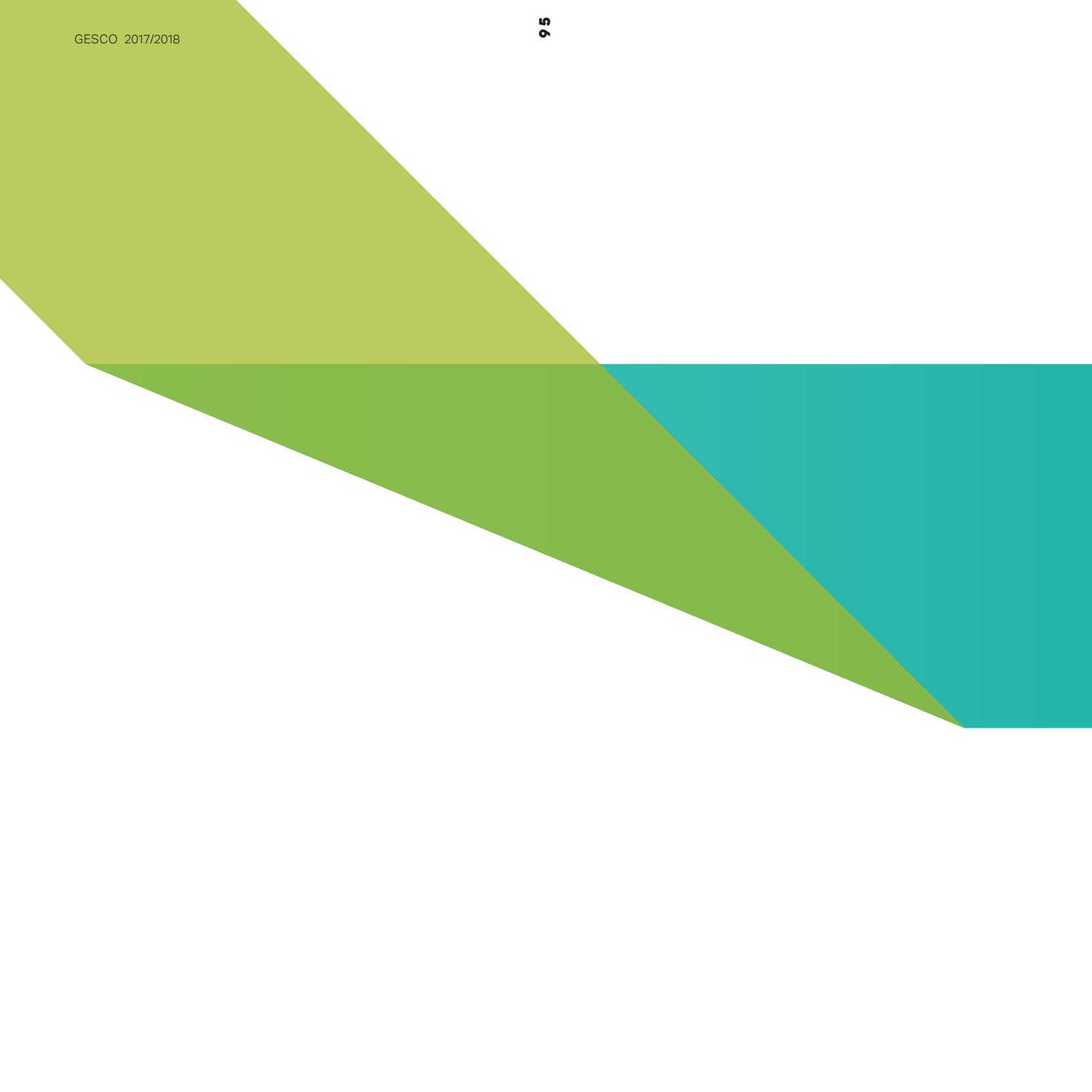
**HIGH-
PERFORMANCE
TOOLS FOR THE
AUTOMOTIVE AND
AUTOMOTIVE
SUPPLIER
INDUSTRIES**

21.2

**€ MN SALES
(-12.5% YEAR
ON YEAR)**

GESCO Group: Significant Companies

Company	Sales 2017 €'000	Staff 31.12.2017	GESCO AG shareholding in %
Production Process Technology			
MAE Group	44,608	217	100
VWH GmbH	12,641	123	80
Georg Kesel Group	12,369	61	90
C.F.K. CNC-Fertigungstechnik Kriftel GmbH	8,017	67	80
Resource Technology			
Dörrenberg Group	199,120	533	90
SVT GmbH	42,975	186	90
Pickhardt & Gerlach Group	32,989	42	100
Healthcare and Infrastructure Technology			
Frank Group	31,517	298	90
Setter Group	30,614	113	100
AstroPlast Kunststofftechnik GmbH & Co. KG	14,381	82	100
Franz Funke Zerspanungstechnik GmbH & Co. KG	17,951	86	80
Haseke GmbH & Co. KG	15,107	75	80
Hubl GmbH	14,092	105	80
Mobility Technology			
Werkzeugbau Laichingen Group	21,248	173	100
Dömer GmbH & Co. KG Stanz- und Umformtechnologie	17,849	100	100
Modell Technik Formenbau GmbH	11,460	116	100
Paul Beier GmbH Werkzeug- und Maschinenbau & Co. KG	10,409	93	100



GEESS



SCCO

2017/2018

Foreword by the Executive Board



GESCO AG's Executive Board



DEAR SHAREHOLDERS,

GESCO Group looks back at a successful financial year 2017/2018. One key factor in the past year was the economic upturn that hit the capital goods industry at a delay. The fact that we continued to swiftly and systematically implement our Portfolio Strategy 2022 also contributed to the positive development.

Sales grew by 13 % and set a record at € 547 million. Alongside organic growth coming from within the existing Group, Pickhardt & Gerlach Group – which we successfully integrated during the reporting year and included in the figures for the first time with the start of the financial year – also made a favourable contribution. The very pleasing development seen in operations was overshadowed by antitrust proceedings, covering the period from 2003 to 2015, against our subsidiary Dörrenberg Edelstahl GmbH, in which we hold a 90 % stake. The planned settlement of these proceedings negatively affected Group net income after minority interest as a non-recurring item of €7.5 million. Nonetheless, even after this non-recurring item was deducted, earnings rose much more strongly than sales, nearly doubling year on year at € 16.1 million.

We are happy to report that now, at the end of the second financial year after we adopted the Portfolio Strategy 2022, the majority of optimisation projects have already been carried out and are beginning to bear fruit. Due to the large number of measures initiated in 2016 and whose implementation even then was scheduled with a three-year time frame in mind, from 2016 to 2018, we settled on the slogan “relaunch” for the last financial year 2016/2017 and set ourselves a medium-term target of a sustainably established EBIT margin of at least 8 %. Economic effects and results from the Portfolio Strategy have now put the possibility of surpassing this target of an 8 % EBIT margin within reach again for the first time in five years.

But what exactly did GESCO’s realignment entail as part of the Portfolio Strategy 2022? And how has it impacted the reporting year and our outlook for the future? By adopting the Portfolio Strategy 2022 in early 2016, we aimed to return GESCO to profitable growth after experiencing declining business momentum in the previous years. In 2016, we introduced the Group’s current segments and first agreed on ambitious targets with all managing directors based on a Group-wide benchmarking process. In cases where companies’ current performance fell below the established benchmark, steps were taken to identify room for improvement, followed by the establishment of optimisation projects across the entire value chain – ranging from sales, pricing and service initiatives to process optimisation, increased efficiency and cost reduction in production, purchasing and administration. Whereas all of this commenced in 2016, the implementation phase largely fell in the reporting year 2017/2018, with lasting full-year effects to be expected in the subsequent years.

Eliminating sources of loss was another of the Portfolio Strategy 2022 measures implemented during the reporting year. For example, we sold our investment in Protomaster, as announced. Protomaster had significantly strained earnings in the previous year as a result of impairment losses due to the intention to sell the company. In addition, AstroPlast was cost-efficiently consolidated at one production site, while Paul Beier’s tool manufacture business division was shut down following several years of loss. On the one hand, these adjustments and the various optimisation projects at the shareholdings resulted in non-recurring negative effects of around € 3 million altogether. On the other hand, the settlement of long-standing tax proceedings generated a positive non-recurring effect of around € 2 million. Adjustments in planning and reporting led to a stronger emphasis on free cash flow, paired with a focus on investments to achieve profitable growth, for example in automation or digitalisation. Expansion projects meant

to serve as the basis for further profitable growth were also carried out in particular in our second largest segment, Healthcare and Infrastructure Technology. For a number of shareholdings, the changes included their further transformation into more robust organisations with a view to the first and second levels of management. We would like to thank the managing directors and employees of GESCO Group for making our joint success possible through the commitment they have shown every day.

GESCO is celebrating its 20th anniversary as a listed company this year. Since the initial public offering, our shareholders have seen a long-term average return of 8.7 %, including the annual dividend payments. A look at financial year 2017/2018 reveals a favourable development as well: following several years in which it had been trending sideways, the share price picked up considerable steam on the back of the positive outlook presented at the 2017 annual accounts press conference and reached a new all-time high in December 2017 with an XETRA closing price of € 36.00. Despite the possible negative effect, which was then communicated, from the antitrust proceedings, total shareholder return stood at a considerable 15.6 % in the financial year, including dividend payment, which put it well above the long-term average return. All five equity analysts raised their target prices for the GESCO share in the reporting year and recommended to “buy” or “accumulate”. Ultimately, a rising share price reflects an increase in investor confidence in our company’s business development – and we would like to thank you, the shareholders, in particular for this. In light of the significantly higher earnings, the Executive Board and the Supervisory Board will propose raising the dividend from € 0.35 to € 0.60 per share for the reporting year at the Annual General Meeting on 30 August 2018. In taking this step, we are following our long-standing dividend policy of distributing around 40 % of Group net income after minority interest.

For the first time, GESCO AG has provided a report on sustainability issues in the form of the CSR statement, presented with these annual financial statements. In doing so, we have established guideposts for a systematic sustainability management system and created a reporting process that we intend to expand in future. We want to use this process to deliberately shape the future of the companies in GESCO Group with respect to sustainability. During the reporting year, we also continued refining our compliance system and once again carried out training, which focused in particular on competition law and corruption, as well as on the Group-wide Code of Conduct.

What is our outlook? Despite all the political uncertainties, there are many indications of further positive economic development. At some companies, we are experiencing longer delivery times for primary materials and components; however, we do not yet regard this as a sign of overheating, but rather as evidence of an ongoing high level of utilisation of the industry’s capacities. We expect to see sales growth and another strong, disproportionate increase in earnings for the new financial year 2018/2019. From the perspective of the Executive Board and the Supervisory Board, GESCO AG’s strategic realignment to new and profitable growth has now been successfully completed. Against the backdrop of a market and order situation that remains favourable moving forward, we expect additional full-year effects from the Portfolio Strategy 2022 projects that have been carried out. At the same time, we have already digested the non-recurring expenses associated with the projects in financial years 2016/2017 and 2017/2018. From today’s perspective, no relevant non-recurring or one-off effects are foreseeable for the new financial year. As a result, performance should largely be shaped by organic business development.

In addition to our positive operational outlook for organic growth, we are continuously reviewing options for growth through acquisitions. We are generating an attractive deal flow, which is due not least to the rollout of our active market approach in 2016, and thus have a sound basis for pursuing external growth. Nevertheless, we remain cautious. While we have prudently adjusted our valuations in recent years in light of market trends, in contrast to many other investors, we are not prepared to make any concessions in terms of due diligence, as we intend to strengthen our portfolio by adding only true hidden champions – just like with the integration of Pickhardt & Gerlach.

As reported, we will both be leaving GESCO AG in the course of the year, which is why we would like to take this opportunity to thank you for the trust you have shown us. We wish the new Executive Board the best of luck, and lasting success for GESCO AG and the companies of GESCO Group.

Best regards,



.....
Dr Eric Bernhard
(CEO)



.....
Robert Spartmann

Report from the Supervisory Board 2017/2018

Financial year 2017/2018 was characterised by a significant improvement in subsidiaries' results thanks to a positive economic environment and the strategic realignment implemented over the past two years. Group net income was impacted by a fine relating to antitrust proceedings against Dörrenberg Edelstahl GmbH.

In this report, the Supervisory Board provides information about its activities during financial year 2017/2018. The main topics are its continuous dialogue with the Executive Board and the audit of the annual financial statements and consolidated financial statements.

COOPERATION BETWEEN THE EXECUTIVE BOARD AND THE SUPERVISORY BOARD

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

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

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

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

In order to gain a better understanding of the individual subsidiaries, the Supervisory Board visits one or two subsidiaries per year together with the Executive Board. 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 2017.

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

The Supervisory Board also spent a great deal of time dealing with the antitrust proceedings against Dörrenberg Edelstahl GmbH. It analysed the situation and conducted a differentiated assessment of the legal and financial implications of the proceedings on Dörrenberg Edelstahl GmbH, GESCO AG and the GESCO Group. The Supervisory Board also received assistance from external legal advisors in this regard.

ORGANISATION OF THE SUPERVISORY BOARD

The GESCO AG Articles of Association currently provide for a Supervisory Board consisting of four members, in accordance with the German Stock Corporation Act (AktG) and the amendments resolved by the Annual General Meeting dated 31 August 2017. We described the reasons for last year's expansion of the Supervisory Board and for the proposal of the candidates in the Supervisory Board Report for the previous year.

The Supervisory Board of GESCO AG consists 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, since 4 October 2017, Mr Jens Große-Allermann.

In October 2016, a shareholder of the company initiated proceedings to review whether the composition of the Supervisory Board is legally compliant. A ruling on these proceedings is pending. The GESCO AG Supervisory Board remains of the conviction that it is properly composed.



Klaus Möllerfriedrich,
Chairman



Stefan Heimöller,
Deputy Chairman



Dr Nanna Rapp



Jens Große-Allermann

GESCO AG's
Supervisory
Board

The size of the Supervisory Board of GESCO AG has been deliberately kept small in order to facilitate efficient work and in-depth discussions on both strategic and detailed issues. The Supervisory Board therefore believes that it is not sensible or appropriate to create Supervisory Board committees. This also applies to an audit committee, whose tasks continue to be carried out by the entire Supervisory Board. Supervisory Board committees were therefore not created in financial year 2017/2018. However, the Supervisory Board has delegated individual tasks to its members, who deal with particular issues and propose decisions to the board, particularly concerning acquisitions, personnel decisions and auditing. The four members of the Supervisory Board have different areas of competency that complement each other and, from GESCO AG's perspective, therefore ensure that the Supervisory Board offers sufficient professional diversity.

MEETINGS AND RESOLUTIONS OF THE SUPERVISORY BOARD

There were a total of 16 Supervisory Board meetings in financial year 2017/2018; five of these meetings took place internally without the involvement of the Executive Board. All members of the Supervisory Board attended each of these meetings. The financial development of the GESCO Group, the development of certain subsidiaries, target achievement with regard to the annual budget and ongoing acquisition projects were all matters discussed by the Supervisory Board on a continuous basis. A GESCO AG employee reported to the Supervisory Board on a quarterly

basis on the internal control system and risk management system. In addition, the Supervisory Board sought advice and, if necessary, passed resolutions on the following issues:

- Discussion of the annual financial statements of GESCO AG and of the consolidated financial statements as at 31 March 2017; adoption of the annual financial statements and the consolidated financial statements as at 31 March 2017
- Agenda at the Annual General Meeting on 31 August 2017
- Annual budget for 2018/2019
- Acquisition strategy
- Matters relating to the Supervisory Board, Executive Board and personnel
- Revision of the stock option programme
- Declaration of compliance and corporate governance
- Internal controlling, risk management and compliance management system
- Investment at subsidiaries
- Implementation of the CSR directive
- Sale of Protomaster GmbH
- Antitrust proceedings against Dörrenberg Edelstahl GmbH
- Interviews for CEO positions at subsidiaries
- Interviews in relation to the change to the Executive Board effective as at 1 July 2018

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 duly submitted the declaration of compliance as required by law in December 2017 and made it permanently accessible to the shareholders on the company's website. GESCO AG complies with the recommendations of the Government Committee on the German Corporate Governance Code, with the exception of the deviations given and explained in the Declaration of Compliance.

The members of the Supervisory Board participated in various training measures in the reporting year in accordance with the recommendations of the German Corporate Governance Code and received sufficient support in this regard from the company.

An efficiency audit based on a structured questionnaire was performed on the Supervisory Board in May 2017. The audit confirmed that the Supervisory Board was working efficiently. The insights into potential improvements resulting from the audit were taken into consideration with regard to the Supervisory Board's future work. The next audit is scheduled to be conducted in spring 2019 and will analyse and assess the activities of the now four-strong Supervisory Board.

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. There were no material changes to the structure of Executive Board remuneration in the reporting year. However, adjustments were made to the company's stock option programme. In particular, the process of calculating the issue price and total profit is now based on average prices over a six-month period and the point at which the options are exercised is also defined. As was the case in the past, the opportunity to exercise 100 % of the stock options is linked to outperformance compared to the SDAX. However, now only 50 % of the stock options and not 75 % may be exercised if they do not outperform the SDAX. The existing Executive Board remuneration system is to be put to a vote at the Annual General Meeting on 30 August 2018 as part of a 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 31 August 2017, Breidenbach und Partner PartG mbB, Wirtschaftsprüfungsgesellschaft – Steuerberatungsgesellschaft, Wuppertal, was commissioned by the Supervisory Board on 20 October 2017 to audit the annual financial statements and consolidated financial statements. The auditor confirmed its independence to us in a letter dated 19 May 2017. Furthermore, the auditor provided evidence that it is qualified to audit listed companies due to its successful participation in a quality control audit conducted by the German Chamber of Public Accountants.

The annual financial statements drawn up by the Executive Board for the financial year from 1 April 2017 to 31 March 2018 in accordance with the regulations of the German Commercial Code (HGB) and the management report of GESCO AG were audited by the auditor. The auditor issued an unqualified audit report.

The consolidated financial statements and Group management report of GESCO Group for the financial year from 1 April 2017 to 31 March 2018 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.

This year, the focal points of the audit for the individual financial statements of GESCO AG were the recoverability of investments, the accrual and recoverability of receivables from affiliated companies and the valuation of other provisions with discretionary judgement. The focal points of the audit of the consolidated financial statements were the recoverability of goodwill (impairment test), as well as the recognition and measurement of deferred tax assets. The focal points of the audit are agreed with the auditor before the audit takes place. The Supervisory Board did not place any special demands on the auditor this year. The focal points of the audit identified by the auditor already included the Supervisory Board's desired scope. The Supervisory Board and the auditor were in contact during the ongoing audit activities with regard to exchanging information about the audit. In the final phase of the audit, two Supervisory Board members 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. They were the subject of intensive discussions in the meeting of the Supervisory Board on 30 May 2018. The auditors were in attendance at this meeting, reported in detail on the main results of the audits and were available to the Supervisory Board for questions and additional information. The auditors gave comprehensive answers to all questions from the Supervisory Board. No objections were raised to the annual financial statements, the management report, the consolidated financial statements or the Group management report after the final result of the audit carried out by the Supervisory Board. After its own audit of the annual financial statements, the consolidated financial statements, the management report and the Group management report, the Supervisory Board unanimously approved the result of the audit by the auditor and accepted the annual financial statements and the consolidated financial statements in the meeting on 4 June 2018. 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 intensively engaged in the issue of recruitment for the Executive Board in the coming years in financial year 2017/2018 in order to ensure that exactly the right competencies can be acquired to match expected requirements within the GESCO Group moving forward as well as the dynamic corporate environment.

The Chairman of the Executive Board, Dr Eric Bernhard, has been the primary driving force in the strategic realignment of the GESCO Group over the past two financial years. This realignment process has since been completed. The Supervisory Board believes that there is a greater need for practically oriented management of the company's subsidiaries in order to anchor the relevant targets in the operating business of these companies. In March 2018, the Supervisory Board decided in mutual consent with Dr Bernhard to not extend the latter's contract, which is due to expire on 31 December 2018. Effective as at 1 July 2018, the Supervisory Board appointed Mr Ralph Rumberg, an industrial manager with a technical background and a wealth of operative management experience, as the Spokesman for the Executive Board. Dr Bernhard will resign from his position with the agreement of the Supervisory Board on 15 June 2018.

In May 2018, Mr Robert Spartmann, long-time CFO of GESCO AG, announced to the Supervisory Board that he does not intend to extend his contract, which is set to expire on 30 November 2018, due to his personal plans for the future. Mr Spartmann will therefore leave the Executive Board on 30 November 2018. The Supervisory Board greatly regrets Mr Spartmann's decision.

The Supervisory Board would like to thank Dr Bernhard and Mr Spartmann for their excellent service to GESCO AG.

The Supervisory Board has assigned a prestigious recruitment firm with the task of identifying and selecting a new spokesman for the Executive Board and for the ongoing search for a new CFO on the basis of specific job profiles drawn up by the Supervisory Board.

THANKS FOR ALL THE EFFORT

The Supervisory Board would like to thank the Executive Board, the managing directors of the subsidiaries and all GESCO Group employees for their outstanding loyalty and great commitment in the past financial year and the contribution they have made to significantly improving the Group's results.

Wuppertal, 4 June 2018

Klaus Möllerfriedrich
Chairman of the Supervisory Board



2020

THE GESCO SHARE

On 24 March 2018, GESCO celebrated the 20th anniversary of its initial public offering (IPO). Twenty years of GESCO on the stock market means 20 years of building a bridge between SMEs and the capital market. Through its model, GESCO gives companies a home in the long term and provides investors with access to the entrepreneurial, technology-driven SME sector.

TWENTY YEARS OF SMES ON THE STOCK MARKET

The GESCO share was first listed on the stock market on 24 March 1998. In the two decades since then, GESCO has demonstrated that it is possible to successfully combine the SME sector and the stock market. The cliché that the stock market only thinks in quarters is just that: a cliché. A business model with a focus on the long term, like GESCO AG's, is also capable of successfully positioning itself on the capital market. Institutional investors such as funds, pension schemes, asset management companies, family offices and a growing number of foundations have therefore invested in GESCO. Private investors also continue to hold a large portion of the company's share capital. Through many e-mails, phone calls, letters and face-to-face encounters, we have come to appreciate that while these investors naturally expect appropriate returns on their capital employed, they also invest in GESCO's decidedly SME-focused and entrepreneurial business model with a certain conviction.

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

DECISIVE COMPONENT IN RETURNS: THE DIVIDEND

On 24 March 1998, the GESCO share was issued at a price of DM 42.00. Adjusted for the December 2016 share split, this corresponds to a price of € 7.16. The share ended financial year 2017/2018 in XETRA trading at a closing price of € 28.50, resulting in an increase of around 300 % – or average annual growth of 7.2 %.

Since the IPO, GESCO has paid out a dividend every financial year. Over this span of 20 years, it has become clear that distributions can play a substantial role in an investor's overall returns. Returns including dividend payments amount to around 430 %, with average annual returns of 8.7 %. As a result, the GESCO share outperformed our benchmark, the SDAX, as well as the DAX during this period. Both the SDAX and the DAX were designed as performance indices, meaning that they also include dividend payments.

Adjusted for the split, total dividend payments per share over the past 20 years stand at € 9.51 per share – one-third above the issue price. GESCO AG has distributed over € 87 million in total to the company's shareholders since the IPO.

STRENGTHENING EQUITY WITH SOUND JUDGEMENT: CAPITAL INCREASES

Using sound judgement, and with due consideration to shareholders' interests, GESCO AG has completed capital increases since the IPO so as to back the external growth through acquisitions anchored in GESCO AG's strategy with equity on a case-by-case basis. All told, four capital increases of no more than 10 % of the share capital in each instance were completed in 2005, 2007, 2012 and 2017, bringing in a total of around € 56 million for the company – more than the market capitalisation at the time of the IPO.

In view of the capital increases, market capitalisation has grown faster than the share price over the past 20 years, having increased nearly sixfold.

SHARE PRICE DEVELOPMENT IN FINANCIAL YEAR 2017/2018

After trending sideways for several years, the GESCO share took an upward turn in financial year 2017/2018 starting with the positive outlook presented at the annual accounts press conference at the end of June. The positive figures for the first quarter and the upgrade in the outlook following the half-year interim report in November provided additional tailwind for the price. As a result, the share reached an all-time high in December, with an XETRA closing price of € 36.00. December's ad hoc notification on the antitrust proceedings put an end to this upward trend, and the share responded with falling prices. Despite the improvement in the operating outlook in February 2018, the uncertain outcome of the antitrust proceedings has had a negative impact on the share price. The share ended the financial year at € 28.50, amounting to a total increase of 14.2 %. Including the dividend of € 0.35 per share distributed in the summer of 2017, shareholders achieved overall returns of 15.6 %. In the same period, our benchmark, the small-cap index SDAX, gained 18.2 %, whereas the DAX was down by 1.8 %.

SHAREHOLDER STRUCTURE

The GESCO share remains widely spread, with share capital in the hands of some 7,400 investors. To our knowledge, Investmentaktiengesellschaft für langfristige Investoren TGV, Bonn, Germany, whose executive board member Jens Große-Allermann joined the Supervisory Board in October 2017, and the entrepreneur Stefan Heimöller, who has been a member of the GESCO AG Supervisory Board since the 2013 Annual General Meeting, hold the largest shares of the share capital. Investmentaktiengesellschaft für langfristige Investoren TGV holds around 14.4 % of the shares; Mr Heimöller holds around 13.7 %. According to the regulations of Deutsche Börse AG, Stefan Heimöller's shareholding is to be deducted from free float, resulting in a remaining free float of approximately 86.3 %.

Apart from Mr Heimöller and Investmentaktiengesellschaft für langfristige Investoren TGV, no other investors have informed us that they have met or exceeded shareholding thresholds that are subject to notification. To our knowledge, private investors and institutional investors each account for around half of the remaining shares. The percentage of shares held by German investors has fallen slightly and now amounts to approximately 81 % (previous year: approximately 85 %). Further key shareholder markets include the UK and Luxembourg.

In financial year 2017/2018, Dr Eric Bernhard, Chairman of the Executive Board of GESCO AG, informed the company of the acquisition of GESCO shares. The company immediately initiated the corresponding statutory releases.

RESEARCH

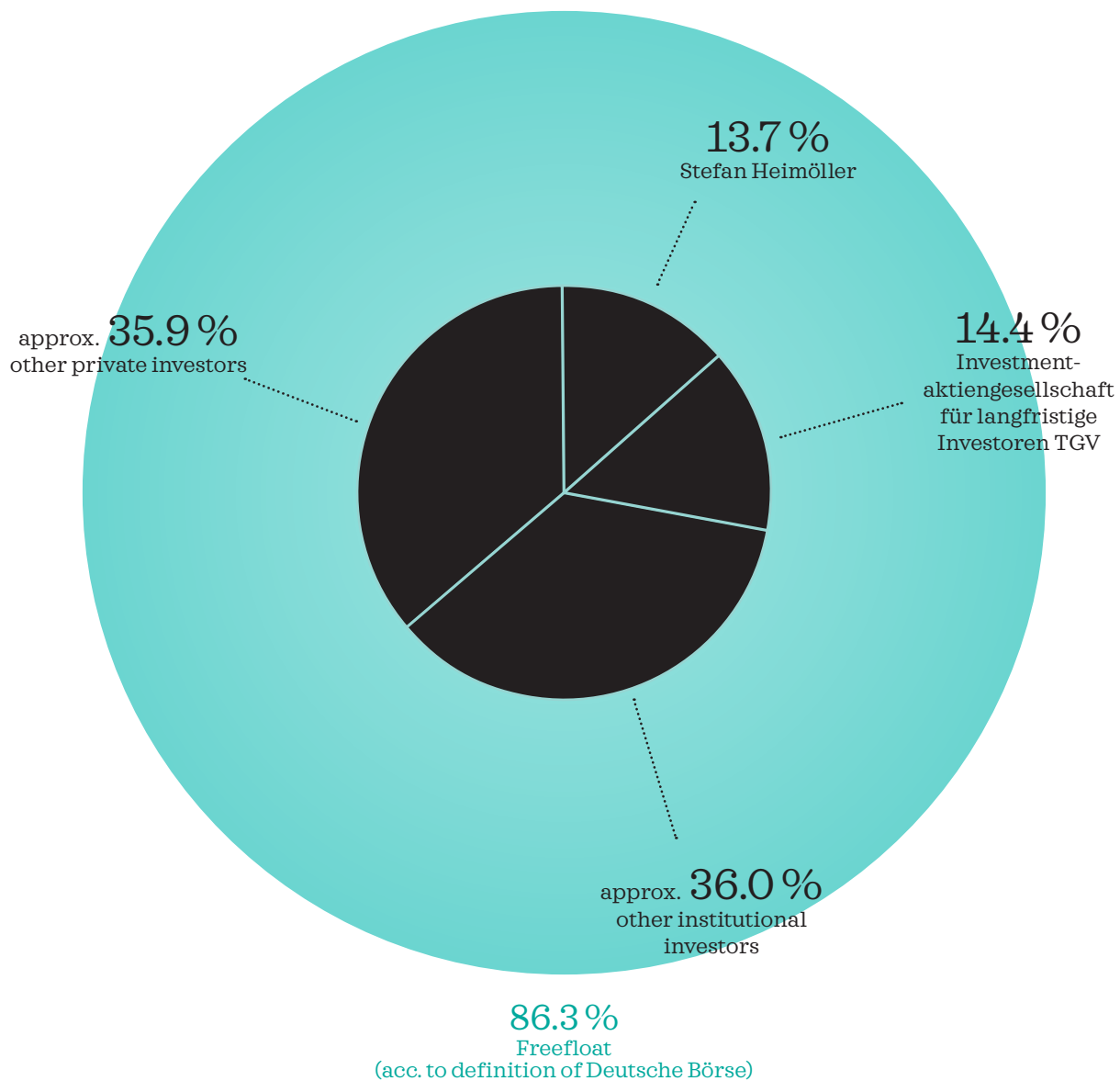
Regular research into the GESCO share is compiled by equinet Bank AG, Oddo Seydler Bank AG, Bankhaus Lampe, GSC Research and SMC Research. As at the reporting date, four analysts rated the share as "buy" and one as "accumulate".

DIVIDEND POLICY

GESCO AG has for years pursued a sustainable, calculable dividend policy with a distribution ratio of roughly 40 % of Group net income after minority interest. We feel that this dividend policy strikes an appropriate balance between investors' desire for distributions and GESCO Group's need to retain sufficient liquid assets in order to secure future growth. Following the Annual General Meeting on 31 August 2017, a dividend for financial year 2016/2017 amounting to € 0.35 per share was paid out, corresponding to a total volume of around € 3.8 million.

In view of the significant rise in earnings, the Executive Board and the Supervisory Board will propose to the Annual General Meeting on 30 August 2018 a substantial increase in the dividend to € 0.60 per share for financial year 2017/2018. At the time this decision was made, the dividend return, based on the proposed dividend, amounted to 2 %.

Shareholder structure as at 31.03.2018



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. In the reporting year, around 45 % of the employees entitled to participate in the scheme seized this opportunity for private asset accumulation. We regard this programme as more than just a means to encourage private retirement planning, but also as a way to support the equities culture in Germany.

INVESTOR RELATIONS

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

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

STOCK EXCHANGES

XETRA

Frankfurt (regulated market)

Berlin (open market)

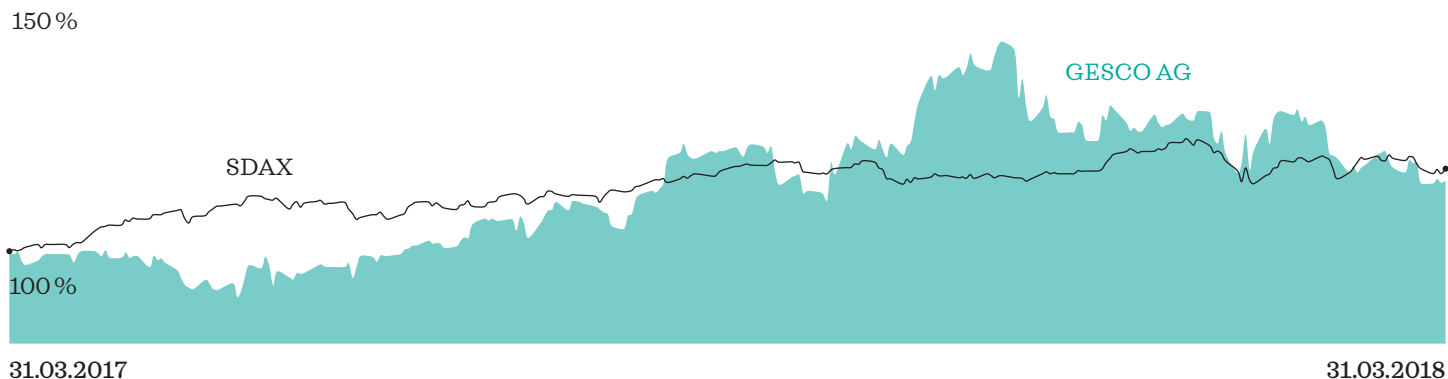
Düsseldorf (open market)

Hamburg-Hanover (open market)

Munich (open market)

Stuttgart (open market)

GESCO Share (incl. div.) vs. SDAX - Financial Year 2017/2018



INFORMATION ON THE GESCO SHARE ¹⁾

International Securities Identification Number (ISIN)	DE000A1K0201
Stock market abbreviation	GSC1
Share capital (31.03.2018)	10,839,499 €
Number of shares (31.03.2018)	10,839,499
IPO	24 March 1998
Year-end price, previous year	24.96 €
Year-end price, reporting year (31.03.2018)	28.50 €
Reporting year high (08.12.2017)	36.00 €
Reporting year low (30.05.2017)	22.66 €
Market capitalisation (31.03.2018)	approximately € 308.9 million
Free float (31.03.2018)	approximately 86.3 %
Free float market capitalisation (31.03.2018)	approximately € 266.6 million
Shares held by members of the Supervisory Board (31.03.2018)	13.7 %
Shares held by members of the Executive Board (31.03.2018)	0.6 %
Transparency standard	Prime Standard
Indices	CDAX overall index Prime All Share Prime Industrial Classic All Share Prime Industrial Diversified

KEY FIGURES PER GESCO SHARE FOR 2017/2018 ¹⁾

Dividend per share

€ 0.60 ²⁾
2017/2018



€ 0.35
2016/2017

Earnings per share
acc. to IFRS

€ 1.49
2017/2018



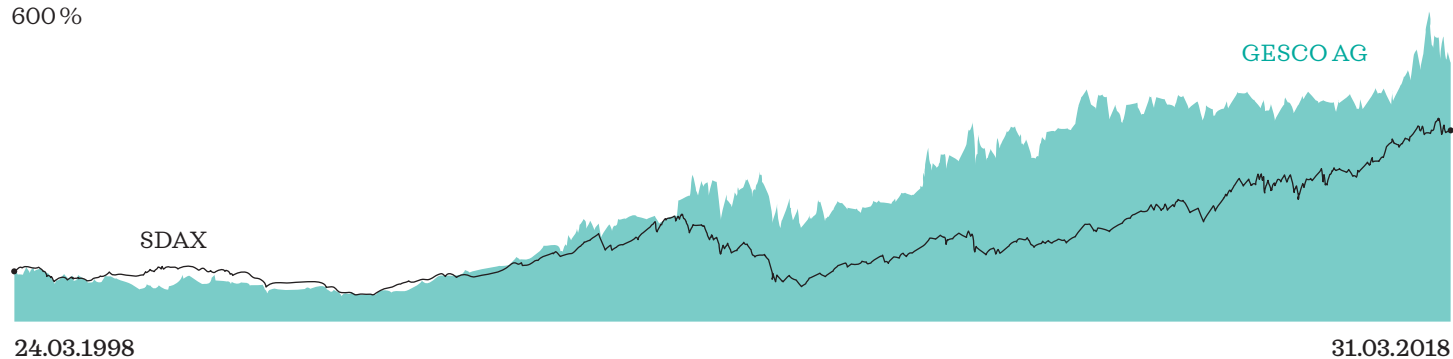
€ 0.79
2016/2017

¹⁾ All share prices reflect the XETRA closing price, historical prices and dividends converted on the basis of the 1:3 share split in December 2016.

²⁾ Dividend proposal to the AGM on 30 August 2018.

GESCO Share (incl. div.) vs. SDAX since IPO

600 %





**DECLARATION OF COMPLIANCE AND
CORPORATE GOVERNANCE REPORT
FINANCIAL YEAR 2017/2018**

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 2017 and made it permanently available to shareholders on the company’s website (<https://www.gesco.de/en>). That declaration is based on the version of the Code dated 7 February 2017. The declaration of compliance issued in December 2017 is included in this corporate governance report. Previous declarations of compliance are also available to our shareholders and other interested parties on our website.

SHAREHOLDERS AND ANNUAL GENERAL MEETING

Shareholders exercise their voting rights at the Annual General Meeting. Each share in GESCO AG grants one vote. GESCO AG publishes all documents relevant to points on the agenda on the company website in due time before the Annual General Meeting. In the course of the invitation to the Annual General Meeting, the company explicitly requests that shareholders exercise their voting rights. To make it easier for shareholders to vote, the company appoints a voting rights representative who can vote at the Annual General Meeting on behalf of shareholders and according to their instructions. The company enables shareholders to order tickets, complete their postal vote and appoint a proxy via an online tool. The company feels that a high attendance rate at the Annual General Meeting is important in order to maintain democracy amongst shareholders and to ensure

that decisions of the Annual General Meeting reflect the wishes of the majority of shareholders. GESCO AG publishes the invitation to the Annual General Meeting and any reports and information required to pass a resolution in accordance with the regulations of the German Stock Corporation Act (AktG). This information is also available on the company website. Since its IPO in 1998, the company publishes the voting results on its website on the day of the Annual General Meeting.

EXECUTIVE BOARD AND SUPERVISORY BOARD

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

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

EXECUTIVE BOARD

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

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

In the reporting year, Dr Eric Bernhard (Chairman) and Mr Robert Spartmann were Executive Board members. Within the Executive Board, Dr Bernhard is responsible for the portfolio strategy and the strategic and operating development of the subsidiaries. Mr Spartmann is responsible for Finance, M&A, IT, Legal, Investor Relations, HR and Compliance

RELEVANT DETAILS REGARDING MANAGEMENT PRACTICES

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

SUPERVISORY BOARD

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

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

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

The Annual General Meeting of the company on 31 August 2017 increased the number of Supervisory Board members from three to four and appointed Mr Jens Große-Allerman, Cologne, as another member of the committee. Mr Große-Allermann became a member of the Supervisory Board effective as at the entry of the amended Articles of Association in the commercial register on 4 October 2017. Mr Große-Allermann is the managing director of Investmentaktiengesellschaft für langfristige Investoren TGV, our largest institutional investor. He brings many years of experience as an investor and in operational corporate governance to the board, and rounds out our Supervisory Board's capital market expertise. Mr Große-Allermann also has experience as a member of supervisory boards at listed companies.

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

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

The Supervisory Board members in the reporting year were Mr Klaus Möllerfriedrich (Chairman), Mr Stefan Heimöller (Deputy Chairman), Dr Nanna Rapp and, since 4 October 2017, 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 and personal skills to act as financial experts in accordance with Section 100 para. 5 AktG. In their entirety, the members of the Supervisory Board are familiar with the sector in which GESCO AG operates.

COMPOSITION OF THE SUPERVISORY BOARD AND DIVERSITY AMONG SUPERVISORY BOARD, EXECUTIVE BOARD AND EXECUTIVES

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

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

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

The Supervisory Board of GESCO AG set a target of a 30 % share of women on the **Supervisory Board** on 13 August 2015. This target was achieved with the election of Dr Nanna Rapp at the Annual General Meeting on 18 August 2015. As explained above, the Annual General Meeting on 31 August 2017 increased the number of Supervisory Board members from three to four and appointed Mr Große-Allermann as an additional member, resulting in the reduction of the figure to below the current target of 30 %. The Supervisory Board set the target share of female participation on the Supervisory Board at 25 % in line with the resulting composition of the Supervisory Board.

At the current time, the **Executive Board** of GESCO AG consists solely of male members. The share of female participation on the Executive Board of 30 %, as set by the Supervisory Board, is therefore not currently achieved. The committee will also continue to have two male members following the changes announced in March 2018. The new member was selected in a structured search and selection process with the support of an executive recruitment firm. In its search for a new Executive Board member, the Supervisory Board wished to find a candidate with a technical background and considerable experience in a management function in the manufacturing industry, preferably in metalworking, tool constructing, mechanical engineering or plant engineering. There is only a very limited number of suitably experienced female candidates with the required technical training due to the extremely low share of female students completing technical degrees in the relevant age group. As a result, it was not possible to find a suitable female candidate for the role. The target of a 30 % share of women will continue to apply for future changes to the Executive Board.

The Executive Board is tasked with setting targets for the percentage of women on the **first two levels of management below the Executive Board**. The holding company GESCO AG has no distinct hierarchy within its operating organisational structure as envisaged by lawmakers. All employees report directly to the Executive Board. First and second levels of management do not currently exist at GESCO AG, nor are there plans to introduce such levels of management in the foreseeable future. The Executive Board therefore decided not to define a target.

We maintain 30 June 2022 as 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, 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 AG publishes without delay transactions by the persons referred to in Article 19 of the Market Abuse Regulation – particularly by members of executive bodies, and by persons closely associated with them, involving equities and debt instruments of the company or financial instruments related thereto – that require notification under the regulation. The transactions reported to GESCO AG in the past financial year are available from the company's website.

REMUNERATION REPORT

The remuneration report is part of the Group management report.

ACCOUNTING AND AUDIT OF FINANCIAL STATEMENTS

The individual financial statements of GESCO AG are prepared in accordance with the German Commercial Code (HGB). Since the financial year 2002/2003, the consolidated financial statements of GESCO AG have been prepared according to International Financial Reporting Standards (IFRS). The individual and consolidated financial statements were audited by Breidenbach und Partner PartG mbB, Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Wuppertal. The responsible auditor is Mr Nils-Christian Wendlandt, the sixth 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 Roelfs AG Wirtschaftsprüfungsgesellschaft, Düsseldorf and RSM Altavis GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Hamburg, Düsseldorf office. Foreign subsidiaries of subsidiaries are primarily audited by international associated partners of our domestic auditors.

The Chairman of the Supervisory Board obtained the auditor's statement of independence in accordance with Section 7.2.1 of the GCGC. In line with the resolution passed by the Annual General meeting on 31 August 2017, the Chairman of the Supervisory Board appointed the auditor for the individual and consolidated financial statements. The interim report and first- and third-quarter statement were not audited in the reporting year.

GESCO AG, WUPPERTAL

Securities Identification Number (SIN) A1K020
ISIN DE000A1K0201

DECLARATION OF COMPLIANCE IN ACCORDANCE WITH SECTION 161 AKTG

The Executive Board and Supervisory Board of GESCO AG declare in accordance with Section 161 AktG that the recommendations of the Government Commission German Corporate Governance Code published by the Federal Ministry of Justice and Consumer Protection in the official section of the Bundesanzeiger (Federal Gazette) 12 June 2015 were being followed pursuant to the version of the Code dated 5 May 2015 since the last declaration of compliance was issued in December 2016 until the new version of the Code dated 7 February 2017 comes into effect on 24 April 2017, with the following exceptions:

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

The Supervisory Board of GESCO AG comprised three members up to and including 3 October 2017. The Supervisory Board was increased to four persons as at 4 October 2017 with the entry into force of the change to the Articles of Association resolved by the Annual General Meeting on 31 August 2017. The small size of the committee allows overarching strategic issues, as well as detailed questions, to be discussed in depth and without any loss of efficiency and decided upon by the entire Supervisory Board. We therefore believe that it is not appropriate to create Supervisory Board Committees. The company rather feels that a strong point of the Supervisory Board derives from the fact that its members are equally involved in all issues.

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

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

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

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

The Executive Board and Supervisory Board of GESCO AG also declare in accordance with Section 161 AktG that the recommendations of the Government Commission German Corporate Governance Code published by the Federal Ministry of Justice and Consumer Protection in the official section of the Bundesanzeiger (Federal Gazette) on 24 April 2017 were being followed pursuant to the version of the Code dated 7 February 2017, with the exceptions substantiated above regarding Section 5.3, Section 5.4.1 paragraph 2 sentence 1 (former version; now Section 5.4.1 paragraph 2 sentence 2) and Section 5.4.6 paragraph 2 sentence 2, and will be followed in the future.

Wuppertal, December 2017

GESCO AG

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

On behalf of the Executive Board
Dr Eric Bernhard
(Chairman of the Executive Board)

**NON-FINANCIAL STATEMENT /
CSR REPORT**

Summarised non-financial report 2017/2018 for GESCO AG and the GESCO Group pursuant to the CSR Directive Implementation Act (CSR-RLUG)

Since its foundation 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, employees, customers and other stakeholders as well as the principles of good corporate governance and compliance. It is also duty bound to conduct business in an environmentally friendly manner. In accordance with the CSR Directive Implementation Act (CSR-RLUG), GESCO AG submits a **non-financial statement** in which it reports on the primary aspects of its sustainability activities. We have established a systematic reporting process and are currently setting up a corresponding sustainability management concept. In the first year of the report, financial year 2017/2018, the focal point is on activities at GESCO AG and the controlling function it performs for the Group. In subsequent years, the scope of reporting will be expanded to include subsidiaries to an extent that is sensible and appropriate. 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 first non-financial statement, we are not applying an existing framework and follow the requirements of the CSR Directive Implementation Act (CSR-RLUG). We consider CSR (corporate social responsibility) to be all issues relating to our responsibility towards the environment, employee-related and social issues, including human rights, compliance and principles of sound corporate governance.

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

In **establishing its systematic CSR reporting process**, GESCO AG joined forces with an external partner and opted for a roadmap involving several different stages and running across multiple years. After a number of preliminary meetings, two externally moderated workshops were held for the Executive Board, technical and commercial investment managers and representatives of M&A and Investor Relations. The first workshop involved addressing issues linked to the group of subsidiaries. In the second workshop, discussions centred around the holding company and included looking into internationally recognised regulatory frameworks such as GRI, ISO 26000 and the UN Global Compact, performing a relevance review of key issues and taking into account the provisions of CSR-RLUG. In particular, the role of the holding company and its effects on the five CSR aspects was analysed. This resulted in the five issues outlined in CSR-RLUG being defined in precise terms and

specifically attributed to GESCO AG. The following issues are focused on in the report:

Environmental matters

- Reducing energy consumption
- Saving resources

Employee matters

- Occupational health and safety
- Robust organisation

Social matters

- Corporate social responsibility in the value chain
- Enabling succession

Respecting human rights

- Preventing human rights violations in the value chain

Fighting corruption and anti-competitive conduct

- Ensuring compliant conduct

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

THE BUSINESS MODEL

GESCO Group is an association of small and medium-sized enterprises operating independently from one another with a decentralised organisational structure under the umbrella of GESCO AG, which functions as a holding company. GESCO strives to generate profitable growth on the basis of its existing portfolio and external growth by acquiring further industrial SMEs, particularly in the case of succession situations. The holding company's management of the Group is based on this target. The subsidiaries are small industrial companies. Putting Dörrenberg Edelstahl GmbH, which is the largest company in the Group by a considerable margin, to one side for a moment, the subsidiaries generate an average sales volume of roughly € 20 million with an average workforce of 120 employees. Each subsidiary is allocated to one of four segments: Production Process Technology, Resource Technology, Healthcare and Infrastructure Technology and Mobility Technology. The individual business models vary greatly and 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 the GESCO Group is presented in the corresponding management reports in the financial statements for financial year 2017/2018. 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, and so matters such as finances, human resources and purchasing are left to the subsidiaries themselves.

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

- general decisions on the acquisition of companies and therefore on the composition of the portfolio
- appointing the management teams of subsidiaries
- approving annual budgets
- approving larger investments
- involvement in subsidiaries' strategic consultations
- ongoing controlling
- establishing Group-wide standards (such as a code of conduct)
- master agreements and service level agreements (IT security, insurance cover)
- project-related consulting and commercial and technical support
- annual, Group-wide management meetings with opportunities to share knowledge and experience and draw on external expertise
- circulars to management teams providing information, asking for feedback or raising awareness on specific issues
- Group-wide training and information events for managing directors as well as, depending on the topic, also for technical and management personnel

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

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, technical and commercial investment managers and representatives from Legal, M&A and Investor Relations.

The plan is to intensify liaison between the subsidiaries moving forward and expand GESCO AG's function as a central knowledge platform for issues of primary importance. These include CSR issues that have already been considered significant.

ENVIRONMENTAL MATTERS

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

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

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

GESCO AG actively engages in the best practice of conveying environmental issues to the rest of the Group as a way to share expertise.

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. GESCO AG actively shares environmental issues with the rest of the Group as a best practice and as a way to share expertise. 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 in GESCO Group have all conducted an energy audit in which they identified potential for energy savings and, if appropriate, implemented corresponding measures.

When reviewing M&A projects 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.

Hubl has
invested
around
10%
of the sum
required to
construct
a building
extension in
environmental
measures.



Example: As part of its new extension opened in May 2018, Hubl GmbH invested around 10 % of the total construction amount in environmental measures; these included an extensive green roof, a planting plan for native trees, a flower garden featuring plants grown from local seeds and an insect house. In addition, employees will be planting a vegetable garden. As part of the construction measures, the site has also been connected to the district heating network.

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.

Example: The current generation of MAE Maschinen- und Apparatebau Götzen GmbH wheel presses saves 90 % more energy compared to the previous generation and almost completely eliminates noise pollution.

In automotive construction, some subsidiaries are benefiting from the trend towards lightweight construction, which is also a means of saving energy. This applies to the construction and manufacture of forming dies for high-strength panels at the Werkzeugbau Laichingen Group and to aluminium injection moulding at Modell Technik GmbH. 3D printing technology, as used by C.F.K. CNC-Fertigungstechnik Kriftel GmbH, enables significant weight savings for metal parts thanks to the high level of constructive freedom permitted by this form of technology. As a manufacturer of paper sticks for the hygiene and confectionery industry, the Setter Group is benefiting from a trend in some markets towards banning plastic sticks with the aim of cutting down on plastic waste.



Energy consumption has been reduced by 90 % and noise emissions have been almost completely eliminated by current generation of wheel set presses.

Environmental aspects, and particularly resource and energy efficiency, are to be taken into greater consideration on a more systematic basis in future investment requests from subsidiaries. In addition, environment issues affecting production but also products and services themselves are to be covered in a more in-depth manner in the annual strategic consultations. We see potential for development in this area and consider it to be a significant means of leveraging our key environmental issues, against which the performance of the holding company will be able to be measured moving forward.

EMPLOYEE MATTERS

In our workshops, we identified occupational health and safety and robust organisation 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. As a shareholder, GESCO AG sent out a circular to the subsidiaries' managing directors in February 2018 to highlight the importance of occupational health and safety and corresponding measures such as employee training.



Frank has realised extensive automation projects that replace tasks that involve excessive physical effort.

GESCO AG has collected data on employee absences on a monthly basis since 2016, which it also communicates in anonymous form to the rest of the GESCO Group. Any significant discrepancies or increases in employee absences are discussed in monthly meetings with the subsidiaries.

GESCO AG advises and supports subsidiaries in their automation projects.

Example: Over the past few years, Frank Walz- und Schmiedetechnik GmbH has been implementing an extensive automation project with the help of GESCO AG's technical and commercial investment management team which eliminates tasks involving excessive physical effort.

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.

As an example, the suspension systems manufactured by Haseke play a major role in improving ergonomics in industrial and medical applications. The new generation of wheel presses manufactured by MAE Maschinen- und Apparatebau Götzen GmbH has almost completely eliminated noise emissions compared to the previous generation, which significantly improves the situation in the workplace accordingly.

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

The suspension systems manufactured by Haseke play a major role in improving ergonomics.



The holding company GESCO AG will be looking to increase its level of transparency moving forward, particularly in the area of occupational safety. To do so, subsidiaries are to report to GESCO AG on occupational accidents resulting in days of employee absence as well as reportable accidents as part of their regular reporting processes. The performance indicator in this case will be based on consolidated figures gathered from all subsidiaries, which will then be compared against total working hours of all employees. The holding company will also increase its level of transparency with regard to companies and sites abroad.

We consider the **robust organisation** concept to be a way to secure 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. This applies to the personnel structure of the holding company itself, but also to the managing directors in place at subsidiaries, which are appointed by the holding company, and the first level of management at the subsidiaries, the recruitment of which also involves the holding company.

In 2015, GESCO AG joined forces with an external partner and began to conduct systematic **employee surveys** at certain companies. These surveys are aimed at obtaining an authentic insight into employee sentiment through aspects such as employee satisfaction and stress levels and, if necessary, identifying potential for improvement. In addition, the surveys also give companies specific and credible arguments for their status as an employer. Surveys were carried out at three other subsidiaries in financial year 2017/2018.

Since its IPO in 1998, GESCO AG has offered GESCO Group employees in Germany the opportunity to participate in an **employee share scheme**. This scheme allows participants to acquire GESCO shares at a reduced price using tax-free allowances. This way, GESCO AG helps its employees make personal contributions to their pension plans, promotes employee investment in productive capital, enables employees to own a stake in the company and fosters a shareholder culture. We use the level of participation among eligible employees in the annual employee share scheme as a performance indicator. In financial year 2017/2018, the participation rate was roughly on a par with the previous years at approximately 45 %.

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

We gather data on the training ratio at Group level, although we focus on employees in Germany for the purposes of comparability. The training ratio stood at 5.8 % at the end of financial year 2017/2018 and therefore on a par with the previous year's figure of 5.6 %.

GESCO Group companies position themselves as **attractive employers** in their respective sectors and regions. Dörrenberg Edelstahl GmbH has given out its Dörrenberg Award every year for ten years now. This award is a highly acclaimed prize for up-and-coming materials technology talents. Other company activities include participation in



Dörrenberg
Edelstahl
GmbH is now
in its tenth
year of
presenting
the
Dörrenberg
Studien
AWARD.

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 applies to the potential impact on people, health and safety and the environment caused by products and the manner in which they are used by customers. 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 so 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 so also in markets subject to strict regulation. By using conventional supply chains mostly involving established and often large suppliers and customers, we believe that we have met our responsibilities in terms of the supply chain to a sufficient extent, although this is based on the assumption that suppliers and customers operate in accordance with the law and regulatory requirements. Given that the majority of our subsidiaries are small and medium-sized enterprises, we also consider the potential to influence other levels of the value chain to be limited.

The GESCO Group Code of Conduct governs general questions concerning customers and suppliers (see “fighting corruption and anti-competitive conduct”). So far, no other dedicated concept has been put in place in relation to the issues of social matters and human rights given what we consider to be a limited influence of GESCO Group companies. However, we will be looking into these issues in greater detail moving forward considering their growing importance and the increasing internationalisation of the Group. We will be raising awareness among the subsidiaries about responsibility in the supply chain, particularly in terms of critical raw materials and regions, in order to increase transparency within the Group. We will be placing particular focus on international companies and sites. Here, we will take into consideration established standards, requirements and recommendations from relevant industrial associations

As SMEs, the GESCO AG companies primarily procure their raw materials, primary materials and components from established, predominantly German providers.

and also draw on the NAP (German National Action Plan for the Implementation of the UN Guiding Principles on Business and Human Rights). Further measures can then be planned on the basis of these results.

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.

Special issue:
Enabling succession

We have identified this issue as having particular relevance as a separate issue. 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

GESCO AG strives to acquire up to three companies per year. 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 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 – and in particular the age – structure, occupational health and safety and the corporate culture. The due diligence process involves employees at the holding company and external experts.

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. This creates a basis on which interests can be aligned. The management team then thinks and acts long-term, just like GESCO AG as the majority shareholder.

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 retain an established partner by keeping the existing location, workforce and corporate identity of the company concerned

After a takeover, the location, workforce and corporate identity are maintained.

while maintaining the existing network and stakeholders such as customers, suppliers, municipalities, neighbours and banks. There is no plan to sell off the company at a later date, also this can make sense for strategic reasons if GESCO no longer considers itself to be the best possible owner of the company. When selling a company, GESCO seeks to achieve an entrepreneurial, socially acceptable solution. If certain business areas are discontinued, GESCO AG checks whether the employees affected by a closure can be offered jobs elsewhere within GESCO Group.

These processes are long established and are continuously being developed; no fundamental changes are planned. The Pickhardt & Gerlach Group, which was acquired in the previous year, was integrated into the reporting structure and processes of GESCO Group in the reporting period. As at the reporting date, 5 of GESCO AG's 17 direct subsidiaries have been part of GESCO Group for more than 20 years and a further 7 for between 10 and 19 years.

We calculate our performance based on GRI Standard 201 (Economic Performance), indicator GRI 201-1 "Direct economic value generated and distributed". Figures are based on the consolidated financial statements for financial year 2017/2018. In this period, GESCO Group generated sales of € 547.2 million. Wages and salaries, social security contributions and expenses for pensions amounted to € 148.1 million. A total of € 3.8 million was paid out to company shareholders in the form of dividends, while € 2.3 million in interest was also paid. Taxes in the amount of € 11.4 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 rose by 14.2 % in the reporting year, with the total return including the dividend paid in the reporting year amounting to 15.6 %. GESCO Group employees were also able to participate in this value growth provided they participated in the employee share scheme described in the section on employee matters and held their shares during the reporting period.

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. Further training events in March and April 2018 introduced managing directors and key management personnel at subsidiaries and at GESCO AG to the requirements of the Code of Conduct and also offered background information on issues such as antitrust law and corruption. The managing directors'



The GESCO share price rose by 14.2 % in the reporting year, with total returns including the dividends paid in the reporting year coming to 15.6 %.

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. In addition, these external partners are also familiarised with issues such as corruption and cartels in sales partner meetings.

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

We measure our performance in accordance with the GRI 419 standard and indicator 419-1 by the number of incidents and violations of the law and regulations in the social and economic area. In reporting year 2017/2018, proceedings such as these were pending against Dörrenberg Edelstahl GmbH. We have reported extensively on these proceedings in the management report in GESCO AG's consolidated financial statements for financial year 2017/2018. The report includes direct and specific references to amounts in the financial statements.

Over the course of its workshop and while assessing the relevance of various issues, 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.

GR



**GROUP MANAGEMENT REPORT
2017/2018**

1/ 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 which are integrated into GESCO Group's reporting and financial controlling system and risk management system.

As at the reporting date, GESCO Group comprised GESCO AG, its 17 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.

Significant changes to the scope of consolidation

In December 2016, GESCO AG acquired 100 % of the shares in Pickhardt & Gerlach Group (PGW), Finnentrop, Germany, a leading strip steel processor, as part of a succession planning process. The transaction was concluded in January 2017 following approval from antitrust authorities. PGW was already included in the consolidated balance sheet as at 31 March 2017 and was included in the Group income statement for the first time in financial year 2017/2018.

Effective as at 8 December 2017, GESCO AG sold its majority stake in Protomaster GmbH, Wilkau-Haßlau, Germany, to the company's managing director and a co-investor. Protomaster was deconsolidated as at 30 November 2017.

MANAGEMENT SYSTEM

Planning and management at GESCO Group is conducted at the levels of the individual subsidiaries and GESCO AG. An annual budget created by the management of the respective company and jointly approved by the Executive Board of GESCO AG establishes the framework for operating development, personnel measures and subsidiary investments. GESCO AG receives monthly figures from the subsidiaries throughout the year as part of regular reporting. GESCO AG records and assesses this information, adds its own financial and accounting figures and consolidates the information. In monthly on-site meetings at each company,

the GESCO AG commercial investment manager and the respective subsidiary managers promptly analyse, interpret and evaluate these figures to determine the degree to which objectives have been met.

GESCO AG draws up a Group budget on the basis of the subsidiaries' individual budgets. The Executive Board of GESCO AG presents its outlook for Group sales and Group net income after minority interest for the new financial year at the annual accounts press conference; this outlook is adjusted further in the course of the quarterly reports. The key performance indicators are incoming orders, sales, 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. In financial year 2017/2018, a number of different companies became involved in development projects relating to 3D printing.



2/ Economic report

MACROECONOMIC AND INDUSTRIAL SECTOR CONDITIONS

The **German economy** experienced a major upswing in 2017. Gross domestic product grew by 2.2 % in total and therefore by a greater margin than the average of the past ten years (+1.3 %). The upswing was fuelled by robust private consumption (+2.0 %), government spending (+1.4 %) and construction investment (+2.6 %). In addition, companies are investing more in equipment and so this form of investment experienced above-average growth (+3.5 %).

The **Verband Deutscher Maschinen- und Anlagenbau e.V.** (VDMA – German machinery and plant manufacturers association) reported significant market growth after years of stagnation thanks to the global increase in demand for capital goods. According to provisional statistics published by the Federal Statistical Office (Destatis), price-adjusted production rose by 3.1 % in real terms. This confirms the VDMA forecast, which had stood at around 3 %. Not adjusting for prices, sales reached € 224 billion in the previous year. Non-price-adjusted production volume stood at approximately € 212 billion.

Production growth was almost exclusively the result of rising exports, which increased to an estimated € 167 billion. This figure was 7 % higher than the previous year's figure. Exports to China and the USA saw the sharpest growth. Exports to EU countries also increased, albeit at a lower rate. All in all,

growth on export markets was observed across a broad regional base, which follows on from the return to growth of exports to many developing and emerging markets such as Russia and Brazil last year.

Incoming orders in 2017 were up by 8 % on the previous year in real terms. Domestic demand rose by 5 %, while orders from abroad even increased by 10 %. There was a very minor spread in this regard: Orders from euro partner countries increased by 11 % year on year, while orders from non-euro countries rose by 9 %.

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 have also intensified our direct approach with entrepreneurs. We believe that the market is now showing signs of overheating, both in terms of company valuations and with regard to the scope and intensity of due diligence.

BUSINESS PERFORMANCE

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

**GESCO
Group
was able to
experience
brisk
demand with
rising sales
and dispro-
portionately
high
operating
profit
growth.**

Given the dynamic economic development and significant recovery in the capital goods industry, the GESCO Group was able to experience brisk demand with rising sales and disproportionately high operating profit growth. As part of the Portfolio Strategy 2022, specific optimisation projects both in sales areas and to improve cost efficiency were developed for various subsidiaries in the previous year. These were primarily implemented in financial year 2017/2018.

These projects encompass a broad range of measures that the subsidiaries had already resolved in the previous year that aimed to achieve the goals defined in benchmark analysis within the scope of the Portfolio Strategy 2022 in subsequent years. The measures refer to different parts of the value chain specific to each company and range from pricing initiatives to new customer sales initiatives, product development and automation in production to procurement projects such as through tenders for particular modules. The implementation of the Portfolio Strategy 2022 also involved putting critical areas of the Group that had posted losses in previous years under particular scrutiny. All in all, these measures have allowed human resources deployment to be reduced slightly despite rising sales, which in turn has resulted in enhanced human resources efficiency.

Group net income was significantly impacted by a provision relating to antitrust proceedings against Dörrenberg Edelstahl GmbH. We reported on these proceedings on several occasions during the financial year. As part of investigations into manufacturers of steel products due to suspected anti-competitive arrangements and conduct between 2003 and 2015, the Bundeskartellamt had also

investigated Dörrenberg Edelstahl GmbH, a 90 % subsidiary of GESCO AG. In December 2017, the Bundeskartellamt notified Dörrenberg Edelstahl GmbH of an offer to settle the case by mutual consent in return for the payment of a significant seven-digit figure. Dörrenberg Edelstahl GmbH has since received an offer from the Bundeskartellamt to settle the antitrust proceedings in return for the payment of a financial penalty of € 8.5 million. In the fourth quarter, a provision for this amount was formed in the Resource Technology segment, to which Dörrenberg Edelstahl GmbH is attributed. In the Group income statement, this amount is included under other operating expenses; the 10 % share of this amount attributable to the other managing directors involved is recognised under the item minority interest in incorporated companies. The settlement is expected to have an overall impact on GESCO Group's net income after minority interest of approximately € 7.5 million. Resolutions concerning the acceptance of the settlement offer by the responsible bodies are still pending.

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

Order
intake
in
GESCO
Group
+10,8 %
yoy.

SITUATION OF THE GROUP

EARNINGS POSITION

Key performance figures developed very well against the backdrop of robust economic development and a number of optimisation projects.

Income orders at GESCO Group increased by 10.8 % to € 552.4 million (previous year: € 498.7 million) year on year in financial year 2017/2018. Group sales came to € 547.2 million, up from € 482.5 million in the previous year, which equates to growth of 13.4 %. In organic terms, in other words excluding the newly acquired Pickhardt & Gerlach Group, income orders would have increased by 3.9 % and sales by 6.6 %. The fact that Protomaster GmbH was included in the previous year's figures for the entire twelve-month period but only for eleven months in the reporting year did not result in any significant effects regarding organic development.

Order backlog increased slightly as at the reporting date by 1.7 % from € 188.5 million to € 191.6 million; this figure no longer includes the order backlog of Protomaster GmbH due to this company's deconsolidation.

The ratio of material expenditure to total output increased in the reporting period, whereas the personnel expenditure ratio declined on the back of higher capacity utilisation. Other operating income includes one-off income of around € 1.7 million resulting from multiple-year tax proceedings in relation to which a settlement was reached with the tax authorities at the turn of 2018. Other operating expenses include the aforementioned settlement amounting to € 8.5 million. In addition, one-off expenses of some € 2.0 million have been recognised for the discontinuation of the

business segment relating to the strategic realignment of a subsidiary. Earnings before interest, taxes, depreciation and amortisation (EBITDA) rose by 15.4 % from € 49.7 million to € 57.4 million.

Depreciation and amortisation in the previous year of € 27.6 million included impairment losses totalling approximately € 6.6 million relating to the planned sale of Protomaster GmbH. Depreciation and amortisation normalized in the reporting year and amounted to € 23.6 million. Earnings before interest and taxes (EBIT) rose much more sharply as a result, by 52.6 % from € 22.1 million to € 33.8 million.

In terms of the financial result, net interest result improved from € -2.7 million to € -2.2 million. This also included the interest income from tax prepayments of € 0.3 million. Earnings from companies valued at equity improved from € -0.5 million to € 0.3 million. The previous year's figure included an impairment loss. All in all, the financial result improved significantly from € -3.0 million to € -1.9 million. The tax rate declined compared to the unusually high previous-year figure of 49.3 % but still remained at an above-average level of 43.0 % due to the non-tax-deductible financial penalty.

With minority interest in incorporated companies up slightly, Group net income for the year after minority interest stood at € 16.1 million, more than double the previous year's figure of € 7.9 million. Earnings per share pursuant to IFRS increased by a disproportionately lower margin of 88.6 % from € 0.79 to € 1.49 as the weighted average number of shares was lower in the previous year due to the March 2017 capital increase.



Segment
sales
€
77.6
mn
+4,1 %



Segment
sales
€
275.1
mn
+23.8 %

At the annual accounts press conference on 29 June 2017, we forecast Group sales of between € 510 million and € 530 million and Group net income after minority interest of between € 17 million and € 18 million for financial year 2017/2018. On the back of better-than-expected operating business, various positive and negative effects and one-off expenses linked to the anti-trust proceedings against Dörrenberg Edelstahl GmbH, we published a revised forecast of Group sales at approximately € 545 million and Group net income after minority interest of approximately € 16 million on 4 May 2018. The final figures match this outlook.

Sales and earnings by segment

In the **Production Process Technology** segment, incoming orders declined year on year from € 77.1 million to € 72.1 million. This was due to companies operating in the mechanical engineering sector experiencing relatively low incoming orders in the fourth quarter in particular, whereas the plant engineering sector benefited from the automation trend and significantly increased its incoming orders year on year. Segment sales stood at € 77.6 million, up on the previous year's figure of € 74.6 million. EBIT was on a par with the previous year at € 5.4 million.

The largest segment, **Resource Technology**, experienced significant internal and external growth in financial year 2017/2018 as a result of the first-time inclusion of the Pickhardt & Gerlach Group. Incoming orders rose by a total of 21.8 % from € 222.6 million to € 271.0 million. Sales rose by an even sharper 23.8 % to € 275.1 million (previous year: € 222.2 million). In organic terms, in other

words excluding the Pickhardt & Gerlach Group, incoming orders would have increased by 6.4 % and sales by 9.0 %. EBIT rose by a disproportionately high margin of 31.8 % and reached € 27.6 million (€ 20.9 million). Regarding this significant rise, it is worth noting that the first half of the year was characterised by a temporarily favourable order mix coupled with dynamic market development.

Healthcare and Infrastructure Technology, the company's second-largest segment, benefited from the positive trend of consumer-centric markets and continued on its stable growth course. Other factors that contributed to this profitable growth were the fact that multiple subsidiaries expanded their production capacities and optimisation projects implemented in the previous and reporting year began to take effect, particularly in terms of sales. Incoming orders in this segment increased by 11.1 % to € 129.9 million (€ 116.9 million), while sales rose by 8.6 % to € 123.7 million (€ 113.8 million). EBIT grew by a disproportionately high margin of 14.6 %, rising to € 11.7 million (€ 10.2 million).

The **Mobile Technology** segment was not able to match the positive development recorded by the other segments. Development in terms of parts for mass production continued to be positive, while tool manufacturing suffered declining business performance. One company in this segment discontinued a business segment as part of a strategic realignment process. This business segment specialised in developing tools for transmission components used in combustion engine power trains. This resulted in one-off expenses of approximately € 2.0 million. Protomaster GmbH was also attributed to the Mobile Technology segment; it was



Segment
sales
€
123.7
mn
+ 8.6 %



Segment
sales
€
71.4
mn
- 3.4 %

sold in December 2017 and deconsolidated effective as at 30 November 2017. Protomaster was included in segment reporting with its full sales for the eleven-month period of € 10.6 million and negative EBIT of approximately € -0.1 million. This was offset by a positive earnings contribution from the deconsolidation of roughly the same amount, which is included in the segment reconciliation. Incoming orders in this segment declined by € 82.1 million to € 79.4 million, while sales fell from € 73.9 million to € 71.4 million. EBIT was negatively affected by the one-off effect and amounted to € 0.5 million, down from € 2.6 million in the previous-year period.

In addition to GESCO AG, companies that are not assigned to any other segment, as well as consolidation effects and reconciliations to the corresponding Group values, are reported in the **Reconciliation** segment. In the previous year, impairment losses impacted EBIT in the amount of € 6.6 million in this segment. In the reporting year, depreciation and amortisation normalised.

Sales by region

Following the trend observed over the past few years, Group sales attributable to international business increased from 37 % to 39 % in financial year 2017/2018. The share attributable to domestic business fell accordingly from 63 % to 61 %. Accounting for 21 % of sales, Europe (excluding Germany) remains the primary sales region for GESCO Group, with Italy, France, the Czech Republic and Austria remaining the most important individual markets. Approximately 10 % of Group sales were generated in Asia, with 4.2 % attributable to China.

This makes China the second-largest market outside of Germany, behind the US, which accounts for 5.1 % of sales. Individual companies' international sales vary significantly depending on their respective business models. Some companies in the portfolio have export ratios of over 80 %.

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

FINANCIAL SITUATION

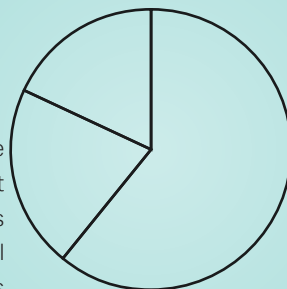
CAPITAL STRUCTURE

The GESCO Group balance sheet is in healthy shape with a strong equity base and sufficient liquidity. The debt ratio, defined as the ratio of net bank debt to EBITDA, is low at 1.4 and allows the Group to borrow additional capital for further growth as and when required. Goodwill remains very low at just 8.5 % of equity. All in all, GESCO Group is on a solid financial footing for internal and external growth.

On the liabilities side, equity rose by 4.8 % from € 214.1 million to € 224.3 million over the course of the financial year. The equity ratio increased from 48.7 % to 49.2 %. Current and non-current liabilities to banks were able to be reduced by a total of 3.0 % and amounted to € 118.8 million (€ 122.4 million).

Sales by region

2017/2018
vs.
2016/2017



Domestic
61%
63%

Europe
21%
19%

Rest of the world
18%
18%

In the previous year, Protomaster GmbH's debts were reported as "held for sale" due to the intended sale of the company.

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.

Overall, GESCO Group companies invested a total of € 25.3 million (€ 20.2 million) in property, plant and equipment and intangible assets in financial year 2017/2018. This total volume was spread across a series of small and medium-sized replacement and modernisation investments. Companies in the Production Process Technology segment invested in their production lines. Major investments included a property in the Resource Technology segment to expand capacity and optimise production processes. Subsidiaries in the Healthcare and Infrastructure Technology segment have also invested in expanding their production capacities.

Commitments totalled € 5,567 thousand as at the reporting date. These mainly relate to production buildings currently under construction and machinery and technical equipment ordered by numerous companies which has yet to be delivered. Investments will be completed in financial year 2018/2019 and are financed by equity as well as borrowed capital.

Depreciation and amortisation on property, plant and equipment and intangible assets amounted to € 23.6 million in the reporting period. The previous year's figure of € 27.6 million included impairment losses of € 6.6 million.

LIQUIDITY

Liquid assets stood at € 38.3 million (€ 35.1 million) as at the reporting date of 31 March 2018. A dividend of € 3.8 million was distributed to the company's shareholders for financial year 2016/2017 in the reporting period.

At the end of the year, the Group had access to approved but unused credit lines totalling € 55.3 million. The Group was able to meet its payment obligations at all times.

Cash flow for the year rose from € 37.6 million to € 41.2 million on the back of the significant rise in earnings and the decline in amortisation and depreciation. Given the major expansion of operating business and the corresponding increases in inventories and trade receivables in particular, cash flow from operating activities came in at € 38.5 million, down on the previous year's figure of € 41.9 million. Free cash flow before changes to the scope of consolidation amounted to € 16.5 million in the reporting year (€ 22.7 million). The more pronounced decline compared to cash flow from operating activities was attributable to higher investment activity.

A dividend of € 3.8 million was distributed to the company's shareholders for financial year 2016/2017 in the reporting period.

ASSETS

GESCO Group's total assets amounted to € 456.3 million as at the reporting date, 3.7 % higher than the previous year's figure of € 439.9 million.

Non-current assets were almost unchanged year-on-year at € 193.7 million (€ 194.0 million).

Current assets, and inventories and trade receivables in particular, rose by 9.7 % to € 262.5 million (€ 239.3 million) over the course of the expansion of operating business. Other assets increased by a disproportionately high margin, which was primarily due to the significant rise in tax assets.

The capitalisation ratio barely changed year on year at 32.2 % (32.0 %). At 1.7, the ratio of long-term capital to non-current assets remained the same as the previous year.

In the previous year's balance sheet, the assets of Protomaster GmbH were reported as "held for sale" due to the intended sale of the company.

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 key 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), which is to be published for the first time in the reporting year, 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

At 2,489, the number of employees at GESCO Group at the end of the reporting period was slightly down on the previous year's figure of 2,535. The 42 employees of the newly acquired Pickhardt & Gerlach Group are included in this figure for the first time. The 115 employees of Protomaster GmbH, which was sold at the beginning of December 2017, are no longer included. In organic terms, in other words excluding employees of PGW and Protomaster, the number of Group employees would have increased by 1.4 %.

In autumn 2017, GESCO AG offered all GESCO Group employees in Germany the chance to buy shares in the company at favourable terms for the twentieth year in succession. In this tranche, around 45 % of employees acted on this opportunity to make a personal investment.

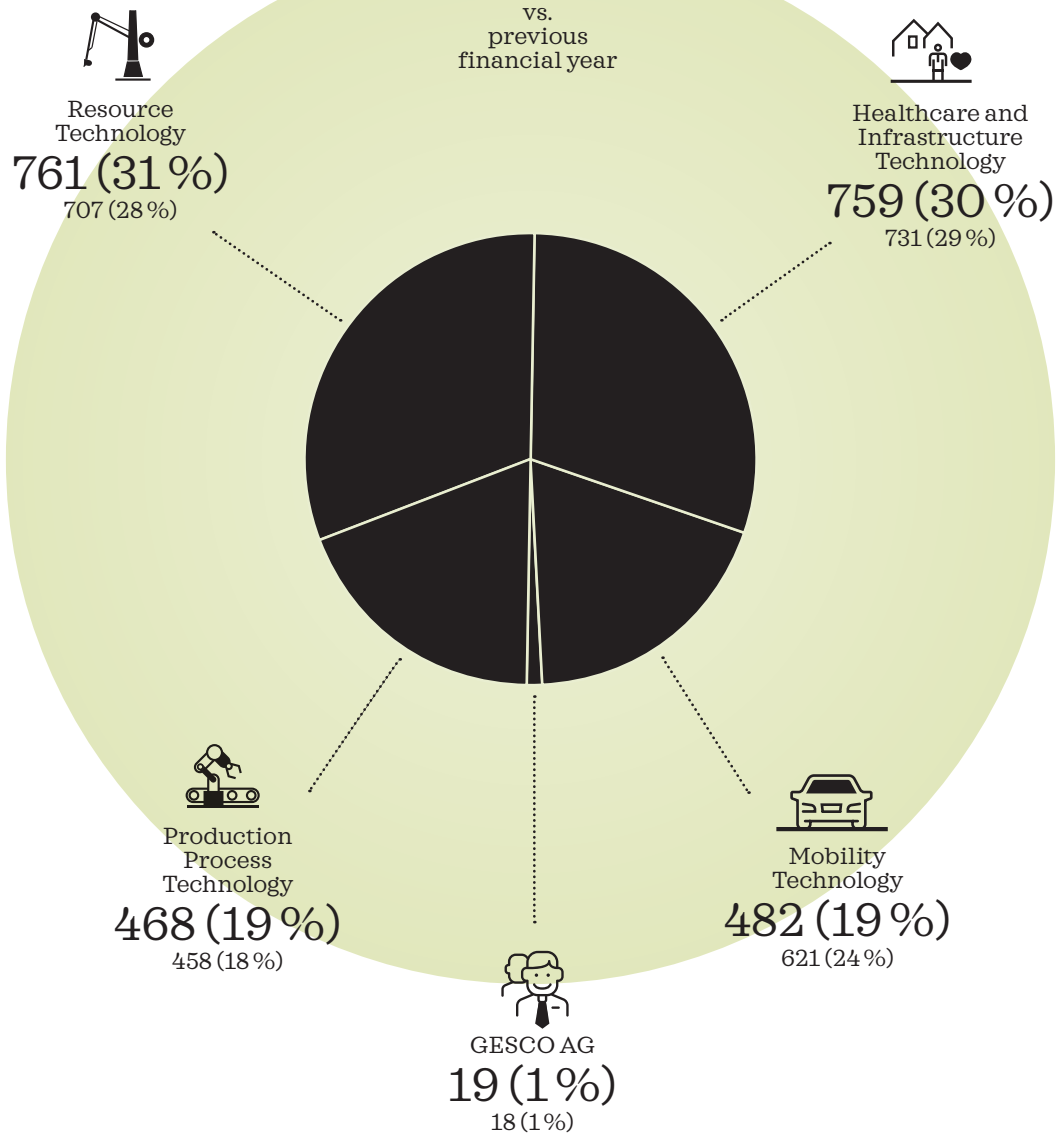
Attracting qualified, motivated employees and fostering their loyalty to the company is absolutely essential in guaranteeing the future of GESCO Group. That is why training and continuing education is extremely important within the Group. In addition, the subsidiaries use a variety of activities to position 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. Dörrenberg Edelstahl GmbH gave out its Dörrenberg Award, a highly acclaimed prize for students studying materials technology and engineering, for the tenth year in succession.

GESCO Group has concluded an agreement pursuant to Section 3 paragraph 1 no. 4 German Works Constitution Act (BetrVG) with trade union IG Metall in order to permit employee representatives within GESCO Group to liaise with one another and provide mutual assistance and information on financial matters. This working group is known as the "Forum der Betriebsräte" (Works Council Forum).

The Group non-financial report pursuant to the CSR Directive Implementation Act (CSR-RLUG), which is to be published for the first time in the reporting year, provides further information on employees.

Employees by segment

2017/2018
vs.
previous
financial year



3/

Other information

CHANGES TO THE EXECUTIVE BODIES OF THE COMPANY

The Annual General Meeting on 31 August 2017 decided to increase the number of Supervisory Board members from three to four and appointed Jens Große-Allerman as another member of the committee.

On 2 March 2018, the GESCO AG Supervisory Board decided by mutual agreement with Dr Eric Bernhard not to extend his contract as CEO, which terminates on 31.12.2018. Dr Bernhard will resign effective as at 15 June 2018. Ralph Rumberg has been appointed as Spokesman of the Executive Board effective as at 1 July 2018. Robert Spartmann has notified the Supervisory Board that he is not willing to extend his contract, which is set to expire on 30 November 2018, and will therefore leave the Executive Board at the end of November.

REMUNERATION REPORT

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

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

The variable component is generally granted in the form of a **performance-related bonus**, which is geared towards the Group's net income after minority interest. This component has since been switched to a multi-annual calculation base for future financial years. This does not apply to existing agreements extended prior to 15 June 2015. For financial year 2017/2018, two-thirds of bonuses 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 financial year preceding it. From financial year 2018/2019, two-thirds of the respective bonus will be 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 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 tranche issued in 2017 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 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 tranche 2017, 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 Supervisory Board revised the stock option programme in August 2017. The average XETRA closing price of the GESCO share in the six months prior to the Annual General Meeting is now the key factor in determining the issue price. 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 tranche set up by the Supervisory Board in September 2017 resulted in 62,100 options being issued to members of the Executive Board and managers of GESCO AG. Non-cash expenditure under this programme is determined using a common binomial model, recorded in earnings and recognised in other provisions. The model assumes volatility of 20.25 % and a risk-free interest rate of -0.17 %; the options' exercise price is € 24.93. The vesting period is four years and two months after issuing the options. The fair value per option on the issue date is € 1.43.

For Executive Board member Robert Spartmann, the **pension commitment** (including widow and orphan benefits of 60 % and 30 %) equates to a certain percentage of the annual base salary paid prior to retirement. The actual percentage determined individually for each Executive Board member comprises two components: the base percentage, which corresponds to 10 % of the annual base salary paid prior to retirement after a waiting period of five years, and an annual increase in the base percentage of 0.5 percentage points after each further year of service. For Executive Board member Dr Eric Bernhard, a pension contribution is made at a certain percentage of his base salary.

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

EXECUTIVE BOARD REMUNERATION: COMPENSATION

Compensation	Dr Eric Bernhard CEO				Robert Spartmann Executive Board member				Dr-Ing Hans-Gert Mayrose Executive Board member (until 31 December 2016)
	31.03.2017	31.03.2018	31.03.2018 (min)	31.03.2018 (max)	31.03.2017	31.03.2018	31.03.2018 (min)	31.03.2018 (max)	31.03.2017
€'000									
Fixed remuneration	300	300	300	300	264	264	264	264	189
Additional benefits	13	11	11	11	17	17	17	17	11
Total	313	311	311	311	281	281	281	281	200
One-year variable remuneration	300	221	0	600	117	242	0	528	88
Multi-year variable remuneration									
2016 tranche	32	0	0	0	32	0	0	0	32
2017 tranche	0	26	0	224	0	26	0	224	0
Total	332	247	0	824	149	268	0	752	120
Pension-related expenses	60	60	60	60	60	57	57	57	43
Total remuneration	705	618	371	1,195	490	606	338	1,090	363

EXECUTIVE BOARD REMUNERATION: PAYMENTS

Payments	Dr Eric Bernhard CEO		Robert Spartmann Executive Board member		Dr-Ing Hans-Gert Mayrose Executive Board member (until 31 December 2016)
	31.03.2017	31.03.2018	31.03.2017	31.03.2018	31.03.2017
€'000					
Fixed remuneration	300	300	264	264	189
Additional benefits	13	11	17	17	11
Total	313	311	281	281	200
One-year variable remuneration	88	300	279	118	279
Multi-year variable remuneration					
2011 tranche	0	0	14	0	14
2012 tranche	0	0	0	88	0
2013 tranche	0	0	0	117	0
Total	88	300	293	323	293
Pension-related expenses	60	60	60	57	43
Total remuneration	461	671	634	661	536

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.

4/ Outlook, opportunity and risk report

OUTLOOK

Given the ongoing upturn in economic development, the German federal government expects gross domestic product to increase by 2.4 % in 2018. Booming residential construction and investment in public infrastructure will ensure that order books will remain full and that companies will invest more. The German economy is also experiencing additional upward momentum from dynamic export activity and robust private consumption. Employment is likely to rise further in this economic environment, although new record employment figures will lead to an increasingly tense situation on the labour market. This bottleneck will result in increased production restrictions in certain areas.

The VDMA raised its forecast for production growth in the current year from 3 % to 5 % at Hannover-Messe in April 2018; the association also announced that it expected regional shifts in growth. Exports to the US and EU partner countries, excluding the UK, are expected to reach the same rate of growth as in the current year. However, exports to the UK could continue to fall. Machinery exports to China are likely to grow even further, although the rate of growth is expected to drop off a little.

We
expect
GESCO
Group
to
develop
positively
overall
in
financial
year
2018/2019.

We expect GESCO Group to develop positively overall in financial year 2018/2019. The Group began the year with a solid order backlog, although the order books of some larger companies in the Production Process Technology segment were not as full compared to the previous year. Given the positive economic environment in the capital goods industry and the projects implemented to optimise sales and costs, we expect to achieve slight growth in terms of Group sales on an organic basis – in other words after taking the sale of Protomaster GmbH into consideration. Due to the elimination of the negative effects from the antitrust proceedings, we expect to achieve a significant rise in Group net income after minority interest. However, even after excluding this one-off effect, we still anticipate significant growth in this regard. This is also due to cost cutting within the scope of the efficiency measures taking effect as part of Portfolio Strategy 2022. We expect the rise in earnings to be supported by the broad portfolio.

General economic development and the incoming orders required as a result pose a risk to the achievement of these targets. In addition, there is also a risk of customers postponing machinery, equipment and component deliveries into the next financial year. Furthermore, the dynamic development of the capital goods industry is resulting in supply bottlenecks in relation to primary materials and components; despite pursuing long-term procurement strategies, this can also lead to risks in terms of completing and delivering products on time.

GESCO AG continues to aim to generate external growth by acquiring up to three industrial companies in the SME segment per year and has the financial situation required to acquire companies quickly and without any financing reservation. Subsidiaries are also in a position to acquire additional companies. We continue to generate a consistent flow of deals through our existing network and by directly approaching business owners. However, the fact that the M&A market has developed more into a seller's market in the past year and is now showing clear signs of overheating cannot be ignored. As far as we can determine, other investors are not only prepared to pay significantly high multiples, but are also significantly reducing the scope and intensity of their pre-acquisition assessments. We have moderately adjusted our valuations in line with the market environment over the past few years, but we are not willing to compromise when it comes to our duty of care with regard to company analysis. We will continue to only acquire companies that we believe are a good fit for GESCO Group and if we are able to analyse the risks involved to an acceptable extent and if the purchase price is appropriate.

We continue to consider the minimum equity ratio for GESCO Group to be 40 % in the current financial year.

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

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 ultimately 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 efficiency. They also evaluate the respective risks.

MANAGING OPPORTUNITIES

Managing opportunities is a permanent process at the level of GESCO AG and at the level of its subsidiaries.

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 and the associated earnings from investments as well as dividends. The holding company offers its subsidiaries extensive assistance and support in this regard.

For the operating subsidiaries, it is important to constantly identify opportunities on national and international markets and convert these opportunities into successful business activities. Strategic development, sales and marketing, product development, 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 classification thereof are assessed by estimating the effects on a subsidiary's earnings 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. A GESCO AG employee reports to the Supervisory Board on the progress of risk notifications in quarterly meetings. The Supervisory Board is notified by the Executive Board in person on an ad hoc basis in the event of larger risks.

RISKS IN ACQUIRING COMPANIES

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

Each acquisition carries the inherent risk that newly acquired companies will not develop according to plan and expectations. The withdrawal of the existing owner-manager and the appointment of a new managing director is a critical aspect of succession planning. The risk lies in finding a suitable new managing director who can live up to expectations. On the other hand, replacing the management is also an opportunity to add fresh momentum to the company.

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

RISKS 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 significantly affected by economic fluctuation in Germany and abroad. Our diversification strategy, particularly in 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 such as the addition of different drive types to the combustion engine, digitalisation, the emergence of new competitors, the development of regional markets, changes in social values and principles, political push towards decarbonisation, regulatory frameworks and a wealth of other influencing factors. 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 executive employees meet on a regular basis for the purpose of this analysis and to share information and expertise on these kinds of 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 cooperation with customers.

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

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

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

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

COMPLIANCE RISKS

Compliance risks include those relating to corruption, breaches of antitrust regulations and criminal acts, and the resulting financial penalties and compensation claims. These risks can lead to significant financial damage as well as major reputation damage. GESCO Group mitigates these risks through its compliance management system, which includes a Group-wide Code of Conduct, accompanying

guidelines and work instructions, an online information system (Rulebook) for GESCO Group employees, accompanying training courses, random case-by-case assessments and a whistleblower system for both employees and external parties. Training courses were held in March and April 2018 for managing directors and key employees at subsidiaries and at GESCO AG to familiarise them with the rules of the Code of Conduct and to enhance their knowledge of anti-trust laws and anti-corruption laws. The managing directors' job is to anchor these requirements and principles in their company's corporate culture.

RISKS RELATING TO PERSONNEL

Access to qualified personnel is vital to the current and future performance of subsidiaries. As in many parts of German industry, there continues to be a risk of uncertainty in the ability of companies to find and retain sufficiently qualified employees 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. There is also a risk that existing expertise within the company will not be passed on at all or only passed on insufficiently to younger employees; this expertise can be lost when older employees leave the company, which can hamper company development. Companies mitigate this risk by implementing measures to achieve a targeted transfer of expertise between older and younger employees and appropriately documenting expertise.

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

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

The GESCO AG employee share scheme offers GESCO Group employees in Germany the chance to invest in the company by acquiring GESCO shares at a reduced cost and thus make a personal contribution to their pension plans. GESCO AG considers this initiative to be 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.

GESCO AG has Group IT insurance policies in place, which cover breaches of data protection, confidentiality and network security obligations. In relation to this, all Group companies are obliged to develop IT contingency plans that are documented in IT emergency manuals.

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. GESCO AG has already familiarised its subsidiaries with the terms of the General Data Protection Regulation.

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 also the 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, controlling activities and its support and assistance of subsidiaries. Subsidiaries can be exposed to the risk of shortfalls in terms of borrowed capital if they experience negative financial performance. In addition, there is also the risk that this negative performance impacts the reputation of GESCO AG and, potentially, other subsidiaries as debtors. Companies conclude interest rate swaps to limit the risks of changes in variable rates. These swaps involve swapping the variable rate for a fixed rate. We expect interest rates to remain low in the eurozone and increase slightly in the US in financial year 2018/2019.

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

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

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

Accounting risks are mitigated by detailed Group guidelines that are documented in a manual and a binding standard for all Group companies and all auditors. Regular analysis of subsidiaries' figures during the year also includes analysing and assessing accounting risks. The responsible GESCO AG employees are available to advise the subsidiaries' financial officers on all accounting matters and provide support.

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 project management activities, including appropriate documentation and a variety of quality management strategies. 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. As explained, Dörrenberg Edelstahl GmbH was subject to antitrust proceedings during the reporting year.

Besides the aforementioned General Data Protection Regulation, we are not aware of any developments with regard to legal conditions that would have a significant impact on the Group.

REPUTATION RISKS

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

FINAL RISK ASSESSMENT

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

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

5/

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.

6/

Takeover-related disclosures

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

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

According to Sections 76 and 84 of the Stock Corporation Act (AktG) and Section 6 para. 1 of the GESCO AG Articles of Association, the Executive Board consists of one or more persons. Pursuant to Section 6 para. 2 of the Articles of Association and in accordance with legal regulations, the Supervisory Board appoints and dismisses the Executive Board and establishes the term of service and the number of members. The Supervisory Board may also appoint substitute members. According to Section 17 para. 1 of the Articles of Association, resolutions are passed by the Annual General Meeting with a simple majority of the votes cast, unless 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 of 31 August 2017 authorised the company to increase the company's share capital on one or several occasions by a total of up to € 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 in 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 treasury 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 the employee share scheme. GESCO AG held 3,572 treasury shares as at 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.

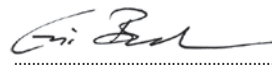
Entrepreneur Stefan Heimöller, Germany, member of the Supervisory Board of GESCO AG since 25 July 2013, held roughly 13.7 % of shares in GESCO AG as at the reporting date.

7/ 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 May 2018

The Executive Board

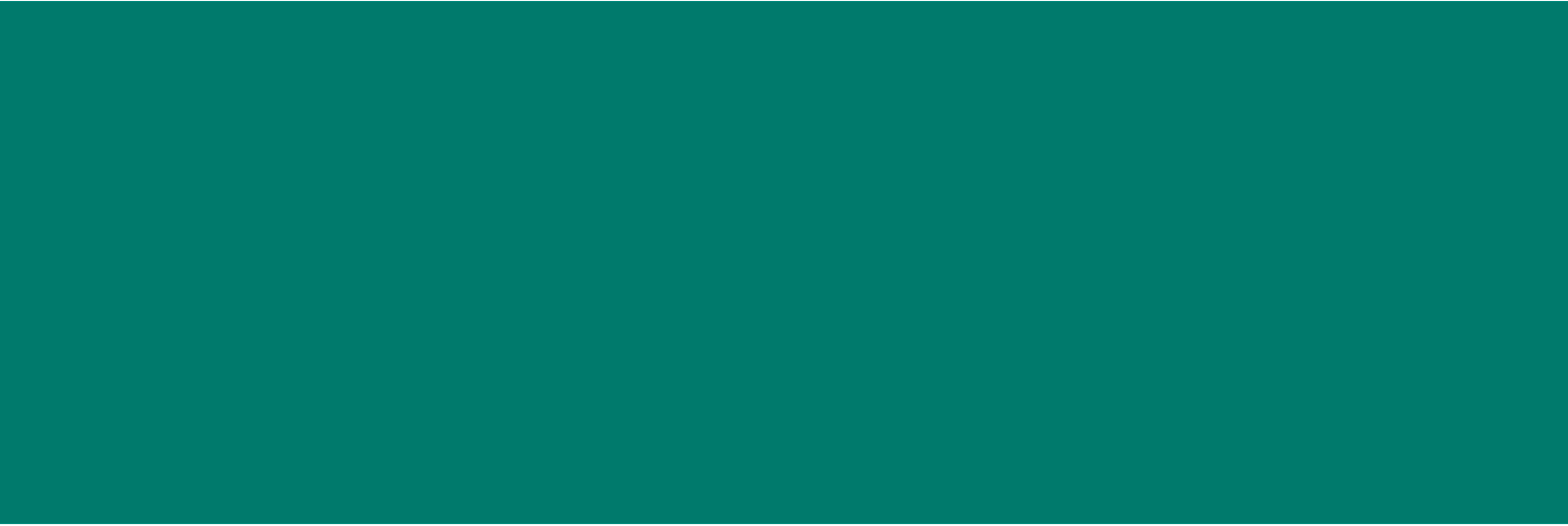


Dr Eric Bernhard
(Chairman)



Robert Spartmann





GESCO FINANCES

**GESCO AG
SUMMARY OF THE
ANNUAL FINANCIAL STATEMENTS
AS AT 31 MARCH 2018**



BALANCE SHEET

€'000	31.03.2018	31.03.2017
Assets		
Intangible assets	8	11
Property, plant and equipment	443	466
Financial assets	117,708	115,028
Non-current assets	118,159	115,505
Receivables and other assets	62,249	57,386
Securities and liquid funds	19,189	10,817
Current assets	81,438	68,203
Total assets	199,597	183,708
Equity and liabilities		
Equity	158,747	138,280
Provisions	6,187	8,596
Liabilities	34,663	36,832
Total assets	199,597	183,708

INCOME STATEMENT

€'000	01.04.2017- 31.03.2018	01.04.2016- 31.03.2017
Sales revenues	312	522
Other operating income	2,348	447
Personnel expenditure	-3,714	-3,773
Depreciation/amortisation	-179	-3,862
Other operating expenditure	-4,720	-5,514
Earnings from investments	27,836	17,923
Income from profit and loss transfer agreements	2,685	3,669
Net interest income	131	-37
Write-downs on financial assets	0	-1,895
Taxes	-329	-176
Net income	24,370	7,304
Transfer to revenue reserves	-12,185	-3,510
Retained profit	12,185	3,794

PROPOSED APPROPRIATION OF RETAINED PROFIT

For financial year 2017/2018, the Executive Board and Supervisory Board of GESCO AG are proposing the following appropriation of retained profit for the year in the amount of € 12,184,757.19:

Payment of a dividend in the amount of € 0.60 per share on the current share capital entitled to dividends 10,839,499 shares less 3,572 own shares)	6,501,556.20 €
Transfer to other revenue reserves	5,683,200.99 €
	12,184,757.19 €

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 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 GROUP
CONSOLIDATED
FINANCIAL STATEMENTS
DATED 31 MARCH 2018**

GESCO GROUP BALANCE SHEET

€ '000		31.03.2018	31.03.2017
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)	21,715	27,189
2. Goodwill	(2)	19,153	19,424
3. Prepayments made	(3)	16	0
		40,884	46,613
II. Property, plant and equipment			
1. Land and buildings	(4)	66,175	63,738
2. Technical plant and machinery	(5)	52,045	49,403
3. Other plants, fixtures and fittings	(6)	21,568	21,563
4. Prepayments made and assets under construction	(7)	6,908	6,132
		146,696	140,836
III. Financial assets			
1. Shares in affiliated companies	(8)	40	52
2. Shares in companies valued at equity	(9)	1,215	1,044
3. Investments	(10)	156	156
4. Other loans		190	210
		1,601	1,462
IV. Other assets	(11)	1,360	1,662
V. Deferred tax assets	(12)	3,166	3,431
		193,707	194,004
B. Current assets			
I. Current assets	(13)		
1. Raw materials and supplies		23,616	22,928
2. Unfinished products and services		40,938	38,759
3. Finished products and goods		70,514	63,054
4. Prepayments made		845	426
		135,913	125,167
II. Receivables and other assets	(11)		
1. Trade receivables		73,190	69,206
2. Amounts owed by affiliated companies		1,782	1,302
3. Amounts owed by companies valued at equity		19	836
4. Other assets		12,247	6,806
		87,238	78,150
III. Cash and credit balances with financial institutions	(14)	38,295	35,146
IV. Accounts receivable and payable		1,103	852
		262,549	239,315
C. Assets held for sale	(15)	0	6,596
		456,256	439,915

€ '000	31.03.2018	31.03.2017
Equity and liabilities		
A. Equity capital		
I. Subscribed capital (16)	10,839	10,839
II. Capital reserves	72,364	72,364
III. Revenue reserves	130,773	118,468
IV. Own shares	-119	0
V. Other comprehensive income	-4,398	-2,748
VI. Minority interest (incorporated companies) (17)	14,806	15,172
	224,265	214,095
B. Non-current liabilities		
I. Minority interest (partnerships) (17)	1,868	1,790
II. Provisions for pensions (18)	16,020	17,101
III. Other non-current provisions (18)	589	610
IV. Liabilities to financial institutions (19)	76,232	81,667
V. Other liabilities (19)	3,822	2,206
VI. Deferred tax liabilities (12)	3,139	3,495
	101,670	106,869
C. Current liabilities		
I. Other provisions (18)	21,077	11,851
II. Liabilities (19)		
1. Liabilities to financial institutions	42,523	40,760
2. Trade creditors	15,036	13,135
3. Payments received on account of orders	18,928	17,383
4. Liabilities to affiliated companies	316	460
5. Liabilities to companies valued at equity	0	12
6. Other liabilities	32,350	26,706
	109,153	98,456
III. Accounts receivable and payable	91	27
	130,321	110,334
D. Liabilities held for sale (15)	0	8,617
	456,256	439,915

GESCO GROUP INCOME STATEMENT

€ '000		01.04.2017- 31.03.2018	01.04.2016- 31.03.2017
Sales revenues	(20)	547,193	482,480
Change in stocks of finished and unfinished products		2,832	-1,992
Other company-produced additions to assets	(21)	854	1,584
Other operating income	(22)	8,554	6,019
Total income		559,433	488,091
Material expenditure	(23)	-274,524	-233,003
Personnel expenditure	(24)	-148,100	-143,207
Other operating expenditure	(25)	-79,405	-62,136
Earnings before interest, tax, depreciation and amortisation (EBITDA)		57,404	49,745
Depreciation on property, plant and equipment and amortisation of intangible assets	(26)	-23,615	-27,608
Earnings before interest and tax (EBIT)		33,789	22,137
Earnings from securities		0	1
Earnings from investments		315	405
Earnings from companies valued at equity		335	-464
Other interest and similar income		403	132
Interest and similar expenditure		-2,641	-2,785
Minority interest in partnerships		-340	-239
Financial result		-1,928	-2,950
Earnings before tax (EBT)		31,861	19,187
Taxes on income and earnings	(27)	-13,690	-9,458
Group net income for the year after tax		18,171	9,729
Minority interest in incorporated companies		-2,072	-1,839
Group net income for the year after minority interest		16,099	7,890
Earnings per share (€) acc. to IFRS	(28)	1,49	0,79

GESCO GROUP STATEMENT OF COMPREHENSIVE INCOME

€ '000	01.04.2017- 31.03.2018	01.04.2016- 31.03.2017
1. Group net income	18,171	9,729
2. Revaluation of benefit obligations not impacting on income	540	-698
3. Items that cannot be transferred into the income statement	540	-698
4. Difference from currency translation		
a) Reclassification into the income statement	0	0
b) Changes in value with no effect on income	-2,162	399
5. Difference from currency translation from companies valued at equity		
a) Reclassification into the income statement	0	-18
b) Changes in value with no effect on income	-164	-125
6. Market valuation of hedging instruments		
a) Reclassification into the income statement	0	-21
b) Changes in value with no effect on income	17	123
7. Items that can be transferred into the income statement	-2,309	358
8. Other comprehensive income (31)	-1,769	-340
9. Total result for the period	16,402	9,389
of which shares held by minority interest	1,953	1,791
of which shares held by GESCO shareholders	14,449	7,598

GESCO GROUP STATEMENT OF CHANGES IN EQUITY

€ '000	Subscribed capital	Capital reserves	Revenue reserves	Own shares
As at 31.03.2016	8,645	54,662	119,171	-5
Distributions			-6,650	
Acquisition of own shares				-926
Disposal of own shares			-49	931
Acquisition of shares in subsidiaries			-1,894	
Increase in subscribed capital from company funds	1,330	-1,330		
Capital increase	864	19,451		
Transactions costs capital increase		-419		
Result for the period			7,890	
As at 30.03.2017	10,839	72,364	118,468	0
Distributions			-3,794	
Acquisition of own shares				-1,051
Disposal of own shares			10	932
Acquisition of shares in subsidiaries			-9	
Result for the period			16,099	
As at 30.03.2018	10,839	72,364	130,774	-119

GESCO GROUP SEGMENT REPORT

€ '000	Production Process Technology		Resource Technology	
	2017/2018	2016/2017	2017/2018	2016/2017
Order backlog	35,827	41,992	65,302	59,593
Incoming orders	72,087	77,118	271,008	222,556
Sales revenues	77,634	74,579	275,085	222,172
of which with other segments	7	1,073	555	920
Depreciation/amortisation	2,967	3,115	4,046	3,865
of which unscheduled see to IAS 36				
EBIT	5,359	5,416	27,614	20,948
Investments	3,044	1,597	6,917	3,660
Employees (No./reporting date)	468	458	761	707

Exchange equalisation items	Revaluation of pensions	Hedging instruments	Total	Minority interest incorporated companies	Equity capital
852	-3,140	-101	180,084	15,689	195,773
			-6,650	-735	-7,385
			-926	0	-926
			882	0	882
	-67		-1,961	-1,573	-3,534
			0	0	0
			20,315	0	20,315
			-419	0	-419
261	-651	98	7,598	1,791	9,389
1,113	-3,858	-3	198,923	15,172	214,095
			-3,794	-2,320	-6,114
			-1,051	0	-1,051
			942	0	942
			-9	0	-9
-2,174	509	15	14,449	1,953	16,402
-1,061	-3,349	12	209,460	14,805	224,265

Healthcare and Infrastructure Technology		Mobility Technology		Reconciliation		Group	
2017/2018	2016/2017	2017/2018	2016/2017	2017/2018	2016/2017	2017/2018	2016/2017
41,168	36,695	49,335	50,198	0	0	191,632	188,478
129,888	116,937	79,421	82,135	0	0	552,404	498,746
123,661	113,838	71,442	73,929	-629	-2,038	547,193	482,480
15	18	52	27	-629	-2,038	0	0
6,202	6,351	3,875	4,637	6,525	9,640	23,615	27,608
				0	6,591	0	6,591
11,737	10,243	499	2,632	-11,420	-17,102	33,789	22,137
9,130	7,082	6,005	7,501	196	335	25,292	20,175
759	731	482	621	19	18	2,489	2,535

GESCO GROUP CASH FLOW STATEMENT

€ '000	01.04.2017- 31.03.2018	01.04.2016- 31.03.2017
Group net income for the year (including share attributable to minority interest in incorporated companies)	18,171	9,729
Depreciation on property, plant and equipment and amortisation of intangible assets	23,615	27,608
Earnings from companies valued at equity	-335	464
Share attributable to minority interest in partnerships	340	239
Decrease in non-current provisions	-323	-131
Other non-cash income	-313	-268
Cash flow for the year	41,155	37,641
Losses from the disposal of property, plant and equipment/intangible assets	114	153
Gains from the disposal of property, plant and equipment/intangible assets	-459	-477
Gains from changes to the scope of consolidation	-41	0
Increase/decrease in stocks, trade receivables and other assets	-21,587	3,717
Increase in trade creditors and other liabilities	19,331	888
Cash flow from ongoing business activities	38,513	41,922
Incoming payments from disposals of property, plant and equipment	872	765
Disbursements for investments in property, plant and equipment	-22,116	-19,788
Disbursements for investments in intangible assets	-848	-387
Disbursements due to changes to the group of consolidated companies	-1,641	0
Incoming payments from disposals of financial assets	32	161
Disbursements for the acquisition of consolidated companies and other business units	0	-44,147
Cash flow from investment activities	-23,701	-63,396
Capital increase	0	19,896
Disbursements to shareholders (dividends)	-3,794	-6,650
Incoming payments from the sale of own shares	942	882
Disbursements for the purchase of own shares	-1,051	-926
Disbursements to minority interests	-2,583	-1,037
Incoming payments from raising (financial) loans	17,053	26,998
Outflow for repayment of (financial) loans	-22,442	-18,760
Cash flow from funding activities	-11,875	20,403
Decrease in cash and cash equivalents	2,937	-1,071
Exchange-rate related changes in cash and cash equivalents	-189	37
Financial means on 01.04.	35,547	36,581
Financial means on 31.03.	38,295	35,547
less cash held for sale	0	-401
Financial means on 31.03. from continuing operations	38,295	35,146

GESCO AG NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, 31 MARCH 2018

GENERAL INFORMATION

GESCO AG is a stock corporation with headquarters in Wuppertal, Germany. The Company is registered under commercial register number HRB 7847 at Wuppertal district court (Amtsgericht). The Company is dedicated to acquiring investments in SMEs and providing consulting and other services. The consolidated financial statements of GESCO AG, Wuppertal, dated 31 March 2018 were prepared based on the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) as they apply in the EU and under consideration of Section 315e para. 1 of the German Commercial Code (HGB).

APPLICATION AND IMPACT OF NEW OR AMENDED STANDARDS

These consolidated financial statements of GESCO AG were prepared under consideration of all standards applicable to annual reporting years commencing prior to 1 April 2017 and which have been endorsed into EU law. The following new or amended standards had to be considered for the 2017/2018 financial year:

- Amendments to IAS 7 "Disclosure Initiative"
- Amendments to IAS 12 "Recognition of deferred tax assets for unrealised losses"
- Annual improvements to IFRS (2014-2016)

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

The following standards and interpretations are mandatory from financial year 2018/2019:

Standard	Adopted by the EU	Early application
Amendments to IFRS 2: "Classification and measurement of share-based payment transactions"	Yes	Yes
Amendments to IFRS 4: "Application of IFRS 9 in conjunction with IFRS 4"	Yes	Yes
IFRS 9: "Financial instruments"	Yes	Yes
IFRS 15: "Revenue from Contracts with Customers Including New Effective Date"	Yes	Yes
Amendments to IAS 40: "Transfer of investment property"	Yes	Yes
IFRIC 22: "Foreign currency transactions and advance consideration"	Pending	Yes

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

Standard	Adopted by the EU	Early application
Amendments to IFRS 9: "Prepayment features with negative compensation"	Yes	Yes
IFRS 16: "Leases"	Yes	Yes
IFRS 17: "Insurance contracts"	Pending	Yes
Amendments to IAS 19: "Plan amendment, curtailment or settlement"	Pending	Yes
Amendments to IAS 28: "Long-term interests in associates and joint ventures"	Pending	Yes
IFRIC 23: "Uncertainty over income tax treatments"	Pending	Yes
Annual improvement of IFRS (2015-2017)	Yes	Yes

Based on current information, the application of IFRS 15 only has a limited impact. The prices of sold products include service fees and guarantees granted in line with local statutory rules or contractual agreements. The sales revenues are recorded when the power of disposition is transferred with the goods to the customer. This corresponds to the past identification of individual revenue components according to IAS 18. We believe that, in future, this distribution of sales revenues to products and goods and aftersales services is not expected to deviate significantly from the past procedure. The guarantees included in the revenues provide customers with the assurance that the products sold meet the agreed specifications and assurances and cannot be acquired independently from the products.

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, with the exception of IFRS 16. The impact of the application of IFRS 16, which is expected to be mandatory from financial year 2019/2020, on the assets, liabilities, financial position and profit or loss is being examined as follows.

No material impact is expected on existing financing lease contracts that have already been recognised in these consolidated financial statements. In addition, there are payment obligations arising from rental and lease agreements totalling approximately € 15.8 million as at the reporting date. According to IAS 17, it is not obligatory to record either an asset or a liability. A material impact on the consolidated financial statements, in particular on the balance sheet structure, is expected through the IFRS 16 accounting procedure. The new accounting procedure will result in a decreasing equity ratio, but EBIT and EBITDA will rise. The exact level of impact cannot be calculated at present, since it depends on the conclusion of new agreements and the use of options in the transition period, among other things.

CONSOLIDATED FINANCIAL STATEMENTS – REPORTING DATE

The reporting date for the consolidated financial statements is the reporting date of the parent company (31 March 2018). The financial years of the companies included in the consolidated financial statements match the calendar year, and therefore do not deviate from the parent company's financial year by more than three months. As a result, interim financial statements were not prepared for 31 March 2018 in accordance with IFRS 10.B92. There are only a few buying and selling relationships between the operating subsidiaries. Their products and services differ. Some loan relationships exist between the parent company and certain subsidiaries. Any significant events affecting included companies that occurred by the consolidated reporting date were considered in the preparation of the consolidated financial statements. Preparing and auditing additional interim financial statements for all subsidiaries would mean a disproportionately high amount of time and expenditure, with no corresponding gain of information.

SCOPE OF CONSOLIDATION

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

The Pickhardt & Gerlach Group (PGW), Finnentrop, Germany, consisting of Pickhardt & Gerlach GmbH & Co. KG, Hekhorn Immobilien GmbH and Hekhorn Verwaltungs GmbH, was acquired in December 2016 and was included in the consolidated income statement for the first time in this reporting period. The companies were already included in the Group balance sheet as at 31 March 2017.

In August 2017, OOO Frank Rus, Orjol, Russia, was founded as a wholly-owned subsidiary of Frank Walz- und Schmiedetechnik GmbH. The company is included in the consolidated income statement.

On 7 December 2017, GESCO AG sold its shareholding in Protomaster GmbH, Wilkau-Haßlau, Germany, in line with the resolution adopted in February 2017. The company's managing director, together with a co-investor, acquired the shares by means of a management buyout. Protomaster was deconsolidated on 30 November 2017. The sale resulted in disbursements totalling € 1.6 million (negative purchase price in particular). Assets of € 3.6 million (of which liquid assets of € 0.1 million) together with liabilities of € 5.3 million (of which liabilities to financial institutions of € 1.7 million) were sold. The gain on sale included in other income amounted to € 0.1 million.

In addition to the parent company, a total of 57 companies are included in the consolidated financial statements according to the principle of full consolidation, and two other companies are included under the equity method.

Three subsidiaries with an immaterial effect on the assets, financial position and earnings were not consolidated but instead valued at their respective cost of acquisition. The effect on sales, earnings and total assets is less than 2.0 %. Three other companies, which are also not of material significance, were valued at cost of acquisition. The maximum risk of losses from these investments amounts to € 1.5 million (previous year: € 0.8 million).

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

€'000	31.03.2018	31.03.2017
Shares in affiliated companies	40	52
Current assets	1,782	1,302
Current liabilities	316	460

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

CONSOLIDATION METHODS / EQUITY METHOD

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

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

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

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

ACCOUNTING AND VALUATION METHODS

The financial statements, on which the consolidated financial statements dated 31 March 2018 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 and 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:

		Reporting date rate		Average rate	
	1 €=	31.12.2017	31.12.2016	2017	2016
China	CNY	7.8044	7.3202	7.6290	7.3523
Russia	RUB	69.3920		68.7747	
Singapore	SGD	1.6024	1.5234	1.5588	1.5275
South Africa	ZAR	14.8054	14.4570	15.0490	16.2595
South Korea	KRW	1,279.6100	1,269.3600	1,276.7381	1,283.9962
Taiwan	TWD	35.5600	34.0640	34.4515	35.5812
Turkey	TRY	4.5464	3.7072	4.1206	3.3434
Hungary	HUF	310.3300	309.8300	309.1933	311.4275
USA	USD	1.1993	1.0541	1.1297	1.1069

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

INFORMATION ON THE GROUP BALANCE SHEET

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

GROUP STATEMENT OF FIXED ASSETS AS AT 31.03.2018					
€'000	Cost of acquisition or manufacture				
	As at 01.04.2017	Additions	Reclassifications	Disposals	Change Currency difference
I. Intangible assets					
1. Industrial property rights and similar rights and assets as well as licences to such rights and assets					
a. Computer software	10,832	824	0	43	-6
b. Technology	16,558	0	0	12	-10
c. Client base / order backlog	31,617	0	0	0	-950
	59,007	824	0	55	-966
2. Goodwill	20,290	0	0	0	-271
3. Prepayments	0	16	0	0	0
	79,297	840	0	55	-1,237
II. Property, plant and equipment					
1. Land and buildings	86,666	4,578	656	0	-195
2. Technical equipment and machinery	123,201	9,053	3,543	1,165	-129
3. Other plant, fixtures and fittings	73,415	5,582	346	2,560	-84
4. Prepayments made and assets under construction	6,132	5,425	-4,545	103	-1
	289,414	24,638	0	3,828	-409
III. Financial investments					
1. Shares in affiliated companies	52	0	0	12	0
2. Shares in companies valued at equity	1,664	335	0	0	-164
3. Investments	156	0	0	0	0
4. Other loans	210	0	0	20	0
	2,082	335	0	32	-164
	370,793	25,813	0	3,915	-1,810

	Depreciation and amortisation					Carrying amounts		
	As at 31.03.2018	As at 01.04.2017	Additions	Disposals	Change Currency difference	As at 31.03.2018	As at 31.03.2018	As at 31.03.2017
	11,607	8,702	1,050	43	-4	9,705	1,902	2,130
	16,536	15,895	425	12	-10	16,298	238	663
	30,667	7,221	4,151	0	-280	11,092	19,575	24,396
	58,810	31,818	5,626	55	-249	37,095	21,715	27,189
	20,019	866	0	0	0	866	19,153	19,424
	16	0	0	0	0	0	16	0
	78,845	32,684	5,626	55	-294	37,961	40,884	46,613
	91,705	22,928	2,624	0	-22	25,530	66,175	63,738
	134,503	73,798	9,814	1,092	-62	82,458	52,045	49,403
	76,699	51,852	5,551	2,208	-64	55,131	21,568	21,563
	6,908	0	0	0	0	0	6,908	6,132
	309,815	148,578	17,989	3,300	-148	163,119	146,696	140,836
	40	0	0	0	0	0	40	52
	1,835	620	0	0	0	620	1,215	1,044
	156	0	0	0	0	0	156	156
	190	0	0	0	0	0	190	210
	2,221	620	0	0	0	620	1,601	1,462
	390,881	181,882	23,615	3,355	-442	201,700	189,181	188,911

GROUP ASSET HISTORY SHEET AS AT 31.03.2017

€'000	Cost of acquisition or manufacture					
	As at 01.04.2016	Change Group of consolidated companies	Additions	Reclassi- fications	Disposals	Change Currency difference
I. Intangible assets						
1. Industrial property rights and similar rights and assets as well as licences to such rights and assets						
a. Computer software	10,775	17	387	134	288	1
b. Technology	16,540	17	0	0	0	3
c. Client base / order backlog	15,465	16,425	0	0	0	249
	42,780	16,459	387	134	288	253
2. Goodwill	15,389	6,347	0	0	0	72
3. Prepayments	134	0	0	-134	0	0
	58,303	22,806	387	0	288	325
II. Property, plant and equipment						
1. Land and buildings	79,602	8,106	1,174	701	622	50
2. Technical equipment and machinery	119,682	2,529	8,247	2,507	3,561	32
3. Other plant, fixtures and fittings	73,551	551	4,958	365	5,366	14
4. Prepayments made and assets under construction	4,445	0	5,409	-3,573	108	0
	277,280	11,186	19,788	0	9,657	96
III. Financial investments						
1. Shares in affiliated companies	52	0	0	0	0	0
2. Shares in companies valued at equity	1,743	0	193	0	148	-124
3. Investments	156	0	0	0	0	0
4. Other loans	262	0	0	0	52	0
	2,213	0	193	0	200	-124
	337,796	33,992	20,368	0	10,145	297

Included are the following extraordinary depreciations (€'000):

¹⁾ 57 | ²⁾ 2,008 | ³⁾ 4,141 | ⁴⁾ 344 | ⁵⁾ 41 | ⁶⁾ 620

Reclassifications Held for sale	As at 31.03.2017	Depreciation and amortisation						Carrying amounts		
		As at 01.04.2016	Additions	Disposals	Write-ups	Change Currency difference	Reclassifications Held for sale	As at 31.03.2017	As at 31.03.2017	As at 31.03.2016
-194	10,832	7,955	1,228 ¹⁾	288	0	1	-194	8,702	2,130	2,820
-2	16,558	15,161	733	0	0	3	-2	15,895	663	1,379
-522	31,617	6,029	1,638	0	0	76	-522	7,221	24,396	9,436
-718	59,007	29,145	3,599	288	0	80	-718	31,818	27,189	13,635
-1,518	20,290	2,384	0	0	0	0	-1,518	866	19,424	13,005
0	0	0	0	0	0	0	0	0	0	134
-2,236	79,297	31,529	3,599	288	0	80	-2,236	32,684	46,613	26,774
-2,345	86,666	21,616	4,339 ²⁾	588	-100	6	-2,345	22,928	63,738	57,986
-6,235	123,201	69,624	13,904 ³⁾	3,491	-20	16	-6,235	73,798	49,403	50,058
-658	73,415	51,908	5,725 ⁴⁾	5,139	0	16	-658	51,852	21,563	21,643
-41	6,132	0	41 ⁵⁾	0	0	0	-41	0	6,132	4,445
-9,279	289,414	143,148	24,009	9,218	-120	38	-9,279	148,578	140,836	134,132
0	52	0	0	0	0	0	0	0	52	52
0	1,664	0	620 ⁶⁾	0	0	0	0	620	1,044	1,743
0	156	0	0	0	0	0	0	0	156	156
0	210	0	0	0	0	0	0	0	210	262
0	2,082	0	620	0	0	0	0	620	1,462	2,213
-11,515	370,793	174,677	28,228	9,506	-120	118	-11,515	181,882	188,911	163,119

(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:

Computer software:	3-7 years
Technology:	10-13 years
Customer base:	7-10 years
Order backlog:	1-2 years

The development of the individual items is shown in the asset history sheets (reporting year and previous year). The technology and customer base items/order backlog 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 8.2 % (previous year: 7.8 %). 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 16 (previous year: 16) cash generating units. In terms of IAS 36.134, the goodwill amount of € 6.3 million of the PGW Group is significant. This goodwill forms 33.1 % of the total goodwill (previous year: 32.7 %).

Pursuant to IAS 36, the Group would have needed to impair non-current assets by € 0.9 million had the pre-tax cost of capital been 0.5 percentage points higher.

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

(3) PREPAYMENTS MADE

The reported amount is related to the acquisition and implementation of software (previous year: € 0 thousand).

(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. This item also includes equipment under financing leases with a book value (cash value of the lease payments less planned depreciation) of € 2,704 thousand on the reporting date (previous year: € 835 thousand). The company is not free to dispose of the assets held under financing lease contracts. These assets are depreciated over their expected useful life.

(6) OTHER PLANTS, FIXTURES AND FITTINGS

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

(7) PREPAYMENTS MADE AND ASSETS UNDER CONSTRUCTION

The amount reported primarily relates to machinery and property.

(8) SHARES IN AFFILIATED COMPANIES

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

(9) SHARES IN COMPANIES VALUED AT EQUITY

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 dispositions. Currency translation differences are included in equity without affecting income.

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

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

€'000	31.03.2018	31.03.2017
Assets	18,335	15,210
Liabilities	12,438	9,497
Sales	24,619	19,857
Net profit	981	102

(10) INVESTMENTS

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	2017/2018	2016/2017
As at 01.04.	3,253	2,718
Claims	-427	-236
Reversals	-244	-257
Additions	501	1,028
As at 31.03.	3,083	3,253
specific adjustments out of this amount	2,197	2,369

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

The maturity structure of receivables before allowances is as follows:

€'000	31.03.2018	31.03.2017
Book value	76,273	72,459
of which not overdue	56,404	55,163
of which overdue by up to 30 days	9,908	9,556
of which overdue by up to 60 days	2,158	2,043
of which overdue by up to 90 days	661	1,952
of which overdue by up to 180 days	1,892	823
of which overdue by more than 180 days	5,250	2,922

Amounts owed by companies valued at equity

Decreases in the value of receivables were not made (previous year: € 0 thousand).

Other assets

Other assets consist of the following:

€'000	31.03.2018	31.03.2017
Non-current		
Loan receivables	1,359	1,661
Miscellaneous	1	1
	1,360	1,662

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

€'000	31.03.2018	31.03.2017
Current		
Loan receivables	232	306
Income tax refund claims	8,678	4,054
Tax prepayments	1,615	1,180
Creditors with debit accounts	215	247
Miscellaneous	1,507	1,019
	12,247	6,806

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

€'000	2017/2018	2016/2017
As at 01.04.	14	16
Reversals	-3	-2
As at 31.03.	11	14
specific adjustments out of this amount	11	14

(12) DEFERRED TAX ASSETS AND LIABILITIES

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

€'000	31.03.2018		31.03.2017	
	Assets	Liabilities	Assets	Liabilities
Intangible assets	2,598	985	2,445	1,421
Property, plant and equipment	59	5,208	427	5,158
Inventories	339	546	262	533
Receivables	140	111	97	436
Pension provisions	2,040	0	2,483	0
Other provisions	162	107	242	94
Liabilities	975	0	694	0
Tax loss carry-forwards	732	0	1,025	0
Other	22	83	34	88
	7,067	7,040	7,709	7,730
Reclassification pursuant to IFRS 5	0	0	-54	-11
Net figure ¹⁾	-3,901	-3,901	-4,224	-4,224
	3,166	3,139	3,431	3,495

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

Deferred taxes on loss carry-forwards are capitalised if the future realisation of these potential tax reductions within up to a five-year planning horizon is reasonably certain on the reporting date. Deferred tax assets in the amount of approximately € 5,654 thousand (previous year: € 5,403 thousand) from loss carry-forwards for tax purposes were not reported since it is not considered likely that these will be offset against taxable income within a period of up to five years.

(13) INVENTORIES

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

€'000	Raw materials and supplies		Unfinished products and services		Finished products and services		Prepayments made		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Cost of acquisition or manufacture	26,167	25,360	42,891	40,552	75,288	67,806	845	426	145,191	134,144
Write-downs	2,551	2,432	1,953	1,793	4,774	4,753	0	0	9,278	8,978
As at 31.03.	23,616	22,928	40,938	38,759	70,514	63,053	845	426	135,913	125,166

(14) 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: € 1,375 thousand) has been pledged to a financial institution.

(15) ASSETS AND LIABILITIES HELD FOR SALE

On 7 December 2017, GESCO AG sold its shareholding in Protomaster GmbH, Wilkau-Haßlau, Germany, in fulfilment of its resolution dated February 2017. In the previous year, this item included the assets and liabilities of Protomaster GmbH, including MV Anlagen GmbH & Co. KG. MV Anlagen GmbH & Co. KG was not sold. The non-current assets of MV Anlagen GmbH & Co. KG were sold to Protomaster GmbH. In the previous year, the assets and liabilities of Protomaster GmbH and MV Anlagen GmbH & Co. KG were reported under "Assets and liabilities held for sale".

(16) EQUITY

The **subscribed capital** of the Group equals the subscribed capital of GESCO AG and totals € 10,839,499 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 has been 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 3,572 treasury shares as of the reporting date.

Shares in circulation and own shares developed as follows:

	Shares in circulation		Own shares held
	number*)	number*)	Share of the share capital in %
As at 01.04.2016	9,974,793	207	0.00
Purchases	-39,267	39,267	0.39
Employee share scheme	39,474	-39,474	0.39
Capital increase	864,499	0	0.00
As at 31.03.2017	10,839,499	0	0.00
Purchases	-35,000	35,000	0.32
Employee share scheme	31,428	-31,428	0.29
As at 31.03.2018	10,835,927	3,572	0.03

*) In December 2016, the number of shares was also historically converted in a ratio of 1:3 in line with the share split

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 € 943 thousand (previous year: € 882 thousand) disposed of under the employee share scheme were issued to employees at a total selling price of € 691 thousand (previous year: € 566 thousand). The discount granted to employees was included in other operating expenditure. The proceeds from the sale were used to pay off liabilities.

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

The Annual General Meeting of GESCO AG authorised the company to acquire own shares according to Section 71 para. 1 No. 8 of the Stock Corporation Act (AktG) and to use these shares for a stock option programme. Beneficiaries include the Executive Board and a small group of management employees of GESCO AG. In August 2017, the programme was redesigned in the form of a virtual share-option programme, and any gains resulting from it would be paid out in cash. An eleventh tranche was initiated in September 2017. A total of 62,100 options were issued to members of the Executive Board and management employees of GESCO AG.

Non-cash expenditure under this programme is determined using a common binomial model, recorded in earnings and recognised in liabilities. This model assumes volatility of 20.25 % plus a risk-free interest rate of -0.17 %. The volatility is based on the historical value of the last five years. The exercise price of the options issued in September 2017 is € 24.93 and corresponds to the average share price of the last six months before the Annual General Meeting 2017. 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 € 1.43. These annual financial statements are the first to include the expenditure (€ 12 thousand) resulting from the stock option programme initiated in the reporting year for a seven-month period. Taking into account the change in value, total expenditure for the sixth to eleventh tranche amounted to € 506 thousand in the reporting year; in the previous year, total expenditure was € 77 thousand. Liabilities came to € 312 thousand as of the reporting date. For the options exercised during the financial year, the weighted average share price on the day of the exercise was € 29.33.

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

Tranche		2017	2016	2015	2014
End of waiting period		31.10.2021	25.10.2020	18.10.2019	28.10.2018
End of term		31.10.2021	15.03.2022	15.03.2021	15.03.2020
Exercise price	€	24.93	22.99	23.12	24.52
No. of options issued		62,100	80,100	60,600	60,600
Profit limit per option	€	12.47	11.50	11.56	12.26
Fair value per option as at the reporting date 31.03.2018	€	1.62	1.87	1.67	3.46
Fair value per option as at the time of issue	€	1.43	1.78	2.25	2.53

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

	No. of options		Weighted average exercise price €	
	2017/2018	2016/2017	2017/2018	2016/2017
Outstanding options 01.04.	327,980	325,800	23.21	23.10
In the financial year				
granted	62,100	80,100	24.93	22.99
returned	-6,000	-1,920	24.25	23.12
exercised	-94,200	-57,000	22.74	22.50
expired	-31,400	-19,000	22.74	22.50
Outstanding options 31.03.	258,480	327,980	23.83	23.21
Options that can be exercised 31.03.	0	68,000	0.00	21.70

During the reporting year, **revenue reserves** increased by net earnings for the year in the amount of € 16,099 thousand as well as by the effect on the share price arising from the sale of own shares of € 10 thousand for the employee share scheme. The figure was reduced by the dividend of € 3,794 thousand (€ 0.35 per share) for the previous year and a subsequent purchase price payment for the acquisition of shares in subsidiaries of € 9 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 €0.60 on the financial statement preparation date. With 10,835,927 shares currently issued and outstanding, the proposed dividend payout is € 6,502 thousand. This dividend payout has no income tax consequences for the company.

GESCO AG's **capital management** serves to ensure the going-concern assumption as well as income and services for the shareholders, which will also be assisted by the further optimisation of the capital structure. Interest-bearing debt capital (pension provisions and financial liabilities) less liquid assets amounted to € 96.5 million (previous year: € 104.4 million). The share of equity in the interest-bearing total capital of € 320.7 million (previous year: € 318.4 million) was 69.9 % (previous year: 67.2 %).

(17) MINORITY INTERESTS

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

In accordance with IAS 32, minority interest in partnerships is included under non-current liabilities. It is the result of investments in Franz Funke Zerspanungstechnik GmbH & Co. KG, Haseke GmbH & Co. KG as well as Georg Kesel GmbH & Co. KG.

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

(18) PROVISIONS

Pension provisions are based on salary-dependent direct benefits for managing employees and acting and former members of the Executive Board as well as fixed pension benefits for certain employees. Increases for some of the pension plans for managing employees are based on the benefit plans of the Essener Verband. Pension provisions refer exclusively to the defined benefit plans and are calculated according to the projected unit credit method under IAS 19.

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

Defined benefit obligations have developed as follows:

€'000	2017/2018	2016/2017
As at 01.04.	17,773	16,973
Service expenditure	185	229
Interest costs	332	391
Pension annuities paid	-838	-848
Actuarial losses / gains (-)	-754	1,028
As at 31.03.	16,698	17,773

Development of plan assets (liability insurance):

€'000	2017/2018	2016/2017
As at 01.04.	672	667
Employer contributions	29	31
Benefits paid	-48	-48
Actuarial gains	25	22
As at 31.03.	678	672

Pension provisions are derived as follows:

€'000	2017/2018	2016/2017
Projected pension obligations	16,698	17,773
Plan assets (liability insurance)	-678	-672
As at 31.03.	16,020	17,101

Asset coverage of pension obligations:

€'000	Pension commitments		Plan assets	
	2017/2018	2016/2017	2017/2018	2016/2017
Without asset cover	15,918	17,000	0	0
Some asset cover	780	773	678	672
As at 31.03.	16,698	17,773	678	672

Pension costs consist of the following:

€'000	2017/2018	2016/2017
Service expenditure	185	229
Interest accruing on expected pension obligations	332	391
	517	620

The calculations are based on biometric core values according to Prof. Dr Klaus Heubeck (2005 G) and the following **actuarial assumptions**:

%	2017/2018	2016/2017
Interest rate	1.90	1.90
Increase in salaries	2.75	2.75
Increase in pensions	1.40	1.75
Staff turnover	1.00	1.00

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

€'000	2017/2018	2016/2017	2015/2016	2014/2015	2013/2014
Pension commitments	16,698	17,773	16,973	17,793	15,566
Plan assets	-678	-672	-667	-652	-658
Funded status	16,020	17,101	16,306	17,141	14,908

Expected contribution payments for the 2018/2019 financial year are € 29 thousand.

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

€'000	2018/2019	2019/2020- 2022/2023	2023/2024- 2027/2028
Expected future pensions	849	3,357	4,382

Of the above-mentioned actuarial assumptions, the interest rate in particular has a **material impact** on the measurement of pension obligations as at the reporting date. Had the discount factor for otherwise constant other assumptions been 100 basis points higher or lower as at the reporting date, pension obligations would have been € 1,940 thousand lower (previous year: € 2,133 thousand) or € 2,421 thousand higher (previous year: € 2,677 thousand).

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

€'000	01.04.2017	Utilisation	Additions/ New formation	Release	31.03.2018
Non-current					
Purchase price pension obligation	610	-79	58	0	589
	610	-79	58	0	589
Current					
Sewer renovation	880	0	0	0	880
Guarantees and warranties	4,596	-1,174	1,606	-158	4,870
Restructuring	0	0	1,243	0	1,243
Antitrust proceedings	0	0	8,500	0	8,500
Financial statement cost	956	-909	985	-24	1,008
Follow-up costs	2,076	-1,481	2,800	-313	3,082
Taxes and incidental tax expenses	2,397	-560	189	-1,183	843
Impending losses	275	-47	81	0	309
Miscellaneous	671	-371	342	-300	342
	11,851	-4,542	15,746	-1,978	21,077

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.

(19) LIABILITIES

€'000	31.03.2018 (31.03.2017)	Remaining term up to 1 year	Remaining term up to 5 years	Remaining term > 5 years
Liabilities to financial institutions	118,755 (122,427)	42,523 (40,760)	54,915 (49,976)	21,317 (31,691)
Trade payables	15,036 (13,134)	15,036 (13,134)	0 (0)	0 (0)
Prepayments received on account of orders	18,928 (17,383)	18,928 (17,383)	0 (0)	0 (0)
Liabilities to affiliated companies	316 (460)	316 (460)	0 (0)	0 (0)
Liabilities to companies valued at equity	0 (12)	0 (12)	0 (0)	0 (0)
Other liabilities	36,172 (28,912)	32,350 (26,706)	3,822 (2,141)	0 (65)
	189,207 (182,328)	109,153 (98,455)	58,737 (52,117)	21,317 (31,756)

Liabilities with a remaining term of up to one year are as follows:

€'000	31.03.2018 (31.03.2017)	Remaining term up to 30 days	Remaining term 30 to 90 days	Remaining term 90 to 360 days
Liabilities to financial institutions	42,523 (40,760)	23,751 (25,441)	2,302 (2,612)	16,470 (12,707)
Trade payables	15,036 (13,134)	14,324 (12,132)	661 (870)	51 (132)
Prepayments received on account of orders	18,928 (17,383)	2,078 (1,847)	6,762 (6,163)	10,088 (9,373)
Liabilities to affiliated companies	316 (460)	316 (460)	0 (0)	0 (0)
Liabilities to companies valued at equity	0 (12)	0 (12)	0 (0)	0 (0)
Other liabilities	32,350 (26,706)	14,639 (13,024)	5,828 (6,741)	11,883 (6,941)
	109,153 (98,455)	55,108 (52,916)	15,553 (16,386)	38,492 (29,153)

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

€'000	31.03.2018	31.03.2017
Land charges	42,761	45,550
of which on assets held for sale	0	2,790
Book value of existing property and property under construction	47,594	48,589
Assignment of		
moveable fixed assets	24,660	26,685
inventories	2,466	2,304
Assignment of receivables	5,218	4,606

Shares in subsidiaries with a total book value of € 84,440 thousand (previous year: € 84,260 thousand) have also been pledged.

€ 108,002 thousand (previous year: € 108,023 thousand) of the liabilities to financial institutions result from long-term loans with fixed repayment terms and a remaining term between one and 15 years (previous year: between one and 16 years).

Interest rates for the loans vary between 0.53 % and 4.00 % (previous year: 0.62 % and 5.00 %). These interest rates correspond to the market rates for the respective loans and companies. Other liabilities to financial institutions consist of current accounts.

Other liabilities consist of the following:

€'000	31.03.2018	31.03.2017
Wages, salaries, bonuses, social security	14,519	13,681
Other taxes	3,794	4,346
Income taxes	4,667	1,984
Outstanding incoming invoices	4,177	3,245
Finance leasing	2,794	839
Purchase price liability property	900	0
Miscellaneous liabilities	5,321	4,817
	36,172	28,912

Most of the other liabilities result from current liabilities owed to third parties. Wage, salary and social security liabilities include partial retirement and anniversary obligations in the amount of € 702 thousand (previous year: € 625 thousand) that will be due in one year.

NOTES TO THE GROUP INCOME STATEMENT

(20) 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.

(21) OTHER COMPANY-PRODUCED ADDITIONS TO ASSETS

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

(22) OTHER OPERATING INCOME

Other operating income breaks down as follows:

€'000	2017/2018	2016/2017
Income from writing back/utilising provisions	2,267	1,906
Price gains	1,412	546
Income from public subsidies	186	163
Income from the reversal of value adjustments and from the payment of receivables previously written off	326	226
Income from the disposal of fixed assets	459	477
Income from insurance refunds	234	673
Income from payments in kind	1,006	985
Income from VAT refunds and interest	1,717	0
Miscellaneous	947	1,043
	8,554	6,019

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

(23) MATERIAL EXPENDITURE

Material expenditure includes:

€'000	2017/2018	2016/2017
Expenditure on raw materials and supplies and goods supplied	244,332	207,186
Expenditure on services purchased	30,192	25,817
	274,524	233,003

(24) PERSONNEL EXPENDITURE

Personnel expenditure includes:

€'000	2017/2018	2016/2017
Wages and salaries	124,617	120,264
Social security contributions/expenditure on pensions and benefits	23,483	22,943
	148,100	143,207

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

(25) OTHER OPERATING EXPENDITURE

Other operating expenditure breaks down as follows:

€'000	2017/2018	2016/2017
Operating expenditure	28,163	23,598
Administrative expenditure	9,547	8,801
Expenditure on distribution	22,372	20,621
Miscellaneous expenditure	19,323	9,116
of which allowances on receivables and other assets	501	1,028
	79,405	62,136

Miscellaneous expenditure includes the provision allocation (€ 8.5 million) from the antitrust proceedings of Dörrenberg Edelstahl GmbH. Dörrenberg is allocated to the Resource Technology segment. In past interim reporting periods, the probability of occurrence and amount of a possible payment was not able to be determined due to the information available at that time.

This item also includes the restructuring expenditure (€ 2.0 million) in connection with the strategic repositioning (closure of a business division) of a company in the Mobility Technology segment.

(26) 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. Impairment losses were not necessary in the reporting year. The following impairment losses were included in the previous year:

€'000	2017/2018	2016/2017
Intangible assets	0	57
Property, plant and equipment	0	6,534
	0	6,591

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

(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	2017/2018	2016/2017
Actual taxes	13,693	10,471
Deferred taxes	-3	-1,013
	13,690	9,458

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	2017/2018	2016/2017
Group result before income tax	31,861	19,187
Anticipated income tax expenditure	-9,718	-5,852
Permanent differences arising on expenditure which is not tax deductible	-2,826	-229
Tax-free income	0	72
Income tax for different reporting periods	255	-192
Consolidation effects	-57	-2,451
Temporary differences from losses for which no deferred tax assets have been recognised	-1,061	-712
Differences in tax rates	-223	-160
Miscellaneous	-60	66
	-13,690	-9,458

Permanent differences arising on expenditure which is not tax deductible primarily includes the value from the provision allocation of the antitrust proceedings (€ -2,592 thousand).

The capitalisation of deferred taxes on tax loss carry-forwards led to a tax obligation of € 0.3 million (previous year: tax asset of € 0.4 million) in the 2017/2018 reporting year.

(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.

	2017/2018	2016/2017
Group net income (€'000)	16,099	7,890
Weighted number of shares (number)	10,833,338	9,994,867
Earnings per share in accordance with IAS 33 (€)	1.49	0.79

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 income taxes of € 245 thousand (previous year: € 262 thousand).

INFORMATION ON THE CASH FLOW STATEMENT

In accordance with IAS 7 (Statement of Cash Flows), the **cash flow statement** shows the movement in the inflows and outflows of funds in the Group during the reporting year. The financial resources portfolio includes credit balances held by financial institutions (€ 38,295 thousand; previous year: € 35,146 thousand). In addition, a further € 401 thousand in financial resources were allocated to "Assets held for sale".

Cash flow from investment activity includes € 1,244 thousand (previous year: € 32 thousand) in unpaid investments.

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

€'000	2017/2018	2016/2017
Interest paid	2,271	2,331
Interest received	521	128
Dividends received	257	0
Income tax paid	11,375	12,227

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

€'000	Liabilities to financial institutions	Liabilities held for sale	Lease obligations	Debt from financing activities
Book value 01.04.2017	122,427	2,931	839	126,197
Cash transaction	-3,616	-1,271	-502	-5,389
Non-cash transaction				
Acquisition	0	0	2,457	2,457
Exchange rate changes	-56	0	0	-56
Deconsolidation	0	-1,660	0	-1,660
Book value 31.03.2018	118,755	0	2,794	121,549

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.

Companies that are not assigned to any other segment as well as consolidation effects and reconciliations to the corresponding Group values are reported in the **Reconciliation** segment.

The material items are listed in the table below:

€'000	Depreciation		EBIT	
	2017/2018	2016/2017	2017/2018	2016/2017
GESCO AG	179	175	-5,960	-6,976
Other entities	0	0	-11	-13
Reconciliation IFRS / Consolidation	6,346	2,874	-5,449	-3,522
Impairment-depreciation	0	6,591	0	-6,591
	6,525	9,640	-11,420	-17,102

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

Segment investments relate to intangible assets (excluding goodwill) as well as property, plant and equipment. The **valuation of the results** of the reportable segments is based on German commercial law. The conversion to international accounting standards occurs in the Reconciliation segment. **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:

	2017/2018		2016/2017	
	€'000	%	€'000	%
Germany	335,981	61.4	302,419	62.7
Europe (excluding Germany)	113,833	20.8	92,175	19.1
Other	97,379	17.8	87,886	18.2
	547,193	100.0	482,480	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) broken down by **region** are as follows:

	2017/2018		2016/2017	
	€'000	%	€'000	%
Germany	175,522	93.6	173,895	92.8
Other regions	12,058	6.4	13,554	7.2
	187,580	100.0	187,449	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

The **book values of the financial instruments** are divided into the following classes:

€'000	Carrying amount		Fair value	
	31.03.2018	31.03.2017	31.03.2018	31.03.2017
Trade receivables	73,190	69,206	73,190	69,206
Other receivables	6,731	6,489	6,731	6,489
Cash and cash equivalents	38,295	35,146	38,295	35,146
Assets held for sale	0	893	0	893
Financial assets	118,216	111,734	118,216	111,734
Trade payables	15,036	13,135	15,036	13,135
Liabilities to financial institutions	118,755	122,427	118,755	122,427
Other liabilities	50,749	44,783	50,749	44,783
of which hedging instruments	63	127	63	127
Liabilities held for sale	0	8,161	0	8,161
Financial liabilities	184,540	188,506	184,540	188,506

Hedging instruments at fair value are **measured** using the market price method, taking into account generally observable input parameters (such as exchange and interest rates). This method is the equivalent of Level 2 pursuant to IFRS 13.81 et seq.

The following table shows the **assignment of assets and liabilities to categories according to IAS 39**:

€'000	Balance sheet recognition		Fair value		Net results in the income statement	
	31.03.2018	31.03.2017	31.03.2018	31.03.2017	31.03.2018	31.03.2017
Loans and receivables	118,216	110,841	118,216	110,841	403	126
Assets available for sale	0	893	0	893	0	0
Financial assets	118,216	111,734	118,216	111,734	403	126
Liabilities held for trading	63	127	63	127	785	178
Other financial liabilities	184,477	188,379	184,477	188,379	-2,659	-2,578
Financial liabilities	184,540	188,506	184,540	188,506	-1,874	-2,400

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 € 5,567 thousand (previous year: € 2,760 thousand). It is estimated that these investments will be concluded in the 2018/2019 financial year.

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

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

GESCO AG reached an agreement with former Executive Board member Dr Mayrose whereby GESCO AG will exempt Dr Mayrose from liability claims of up to € 20 million arising from certain breaches of duty, plus any legal fees, or those arising in connection with his activities as managing director of Protomaster GmbH. This exemption from liability is subordinate to the insurance coverage on the grounds of D&O insurance. Dr Mayrose left GESCO AG effective 31 December 2016.

RENTAL AND LEASE AGREEMENTS

The following payment obligations exist for finance lease arrangements:

€'000	Total	2018/2019	2019/2020- 2022/2023	2023/2024 and following years
Minimum lease payments	2,876	688	2,175	13
Discounting amounts	82	34	48	0
Present values	2,794	654	2,127	13

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

Rental and lease agreements (operating leases) have been concluded for buildings as well as other plant, fixtures and fittings. Related rental and lease payments amounted to € 3,862 thousand for the reporting year (previous year: € 3,588 thousand).

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

€'000	2017/2018	2016/2017
within one year	3,627	3,382
in one to five years	7,190	6,167
in over five years	4,490	2,782
	15,307	12,331

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

RELATED PARTIES

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

EMPLOYEES

The average number of employees was as follows:

	2017/2018	2016/2017
Factory staff	1,588	1,553
Office staff	872	847
Trainees	122	130
	2,582	2,530

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

EXEMPTION REQUIREMENTS FOR GROUP COMPANIES

Since AstroPlast Kunststofftechnik GmbH & Co. KG, Dömer GmbH & Co. KG Stanz- und Umformtechnologie, Franz Funke Zerspanungstechnik GmbH & Co. KG, Haseke GmbH & Co. KG, Georg Kesel GmbH & Co. KG, Molineus & Co. GmbH + Co. KG, Paul Beier GmbH Werkzeug- und Maschinenbau & Co. KG, Q-Plast GmbH & Co. Kunststoffverarbeitung, Setter GmbH & Co. Papierverarbeitung, IV Industrieverwaltungs GmbH & Co. KG, MV Anlagen GmbH & Co. KG and Pickhardt & Gerlach GmbH & Co. KG have been included in the consolidated financial statements of GESCO AG, they are exempt from the obligation to prepare, audit and publish annual financial statements and a management report in accordance with the applicable regulations for incorporated companies as per Section 264b of the German Commercial Code (HGB).

According to Section 264 para. 3 HGB, MAE Maschinen- und Apparatebau Götzen GmbH and Modell Technik Formenbau GmbH are exempt from the obligation to prepare, audit and publish annual financial statements and a management report according to Sections 264 HGB et seq.

PUBLICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements for 2017/2018 are to be examined and approved by the Supervisory Board of GESCO AG in its meeting on 4 June 2018 and are then authorised for publication.

The consolidated financial statements will be published on 28 June 2018 in conjunction with an annual accounts press conference and analysts' meeting in Erkrath.

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 0.6 % of Company shares. Members of the Supervisory Board hold a total of approximately 13.7 % of Company shares.

AUDITOR

The auditing fees for the financial year amounted to € 169 thousand (previous year: € 150 thousand), € 96 thousand for other auditing services (predominantly due diligence reviews) (previous year: € 29 thousand) and € 17 thousand (previous year € 4 thousand) for tax consulting services. The other auditing services include a fee of € 16 thousand from a company associated with the auditor.

Fees were also incurred in the amount of € 270 thousand (previous year: € 272 thousand) for the audit of consolidated subsidiaries, € 63 thousand (previous year: € 78 thousand) for tax consulting services and € 13 thousand (due diligence reviews and audit according to Germany's Renewable Energies Act [EEG]) (previous year: € 2 thousand) for other auditing services. There were no other services (previous year: € 0 thousand). Other auditing services include a fee of € 7 thousand from a company associated with the auditor.

RISK MANAGEMENT

In order to recognise risks as early as possible and initiate compensating measures, GESCO Group implemented a Group-wide risk management system in 1999. 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.

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 inflows 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 € 827 thousand (previous year: € 794 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 € 9,207 thousand (previous year: € 11,660 thousand) on the reporting date. This corresponds to 12.6 % (previous year: 16.8 %) of total trade receivables. Receivables are denominated in the following currencies:

€'000	2017/2018	2016/2017
US dollar	5,947	8,587
British pound	5	5
Taiwanese dollar	1,220	724
South African rand	161	99
Hungarian forint	17	6
Chinese renminbi yuan	1,244	1,571
Ukrainian hryvnia	471	557
Mexican peso	142	111

A 10 % fluctuation in exchange rates on the reporting date would have affected both equity and Group net earnings after minority interests by either € -496 thousand or € +606 thousand (previous year: € -638 thousand or € +780 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 € 20 thousand as at the reporting date (previous year: € -4 thousand). Other comprehensive income amounted to € 4 thousand after deferred taxes and minority interest (third party) (previous year: € -2 thousand). Cash flows of US\$ 3.5 million are hedged.

The following cash flows are expected to be due in the following financial years:

in TUS\$	2018/2019	2019/2020	2020/2021
Expected cash flows	3,458	0	0

EXECUTIVE BODIES OF THE COMPANY

EXECUTIVE BOARD

Dr Eric Bernhard, Langenfeld, Germany – Chairman of the Executive Board

Robert Spartmann, Gevelsberg, Germany – Member of the Executive Board

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

€'000	Fixed remuneration		Variable remuneration		Stock options		Total	
	2017/2018	2016/2017	2017/2018	2016/2017	2017/2018	2016/2017	2017/2018	2016/2017
Dr Eric Bernhard	311	313	221	300	26	32	558	645
Robert Spartmann	281	281	242	117	26	32	549	430
Dr-Ing Hans-Gert Mayrose	0	200	0	88	0	32	0	320
	592	794	463	505	52	96	1,107	1,395

Executive Board members, Dr Eric Bernhard and Robert Spartmann, each received 18,000 stock options in September 2017.

By the reporting date, acting Executive Board member Robert Spartmann achieved an entitlement to his pension commitment of 16 % of its assessment value (most recent fixed salary). Outgoing Executive Board member Dr Hans-Gert Mayrose achieved an entitlement to his pension commitment of 16 % of its assessment value (most recent fixed salary).

On the reporting date, defined benefit obligations (DBO) and changes for 2017/2018 came to:

€'000	Projected unit credit		Additions	
	2017/2018	2016/2017	2017/2018	2016/2017
Robert Spartmann	1,001	996	5	175
Dr-Ing Hans-Gert Mayrose	939	971	-32	144
	1,940	1,967	-27	319

Remuneration received by a former member of the Executive Board amounted to € 62 thousand in the financial year (previous year: € 62 thousand). To cover this, the company's pension obligations (DBO) amounted to € 709 thousand (previous year: € 767 thousand) as at 31 March 2018. Transitional payments for Dr-Ing Mayrose, who left the Executive Board on 31 December 2016, amounted to € 3 thousand (previous year: € 10 thousand) in the financial year. As of 31 March 2018, there are no more obligations (DBO) recognised as liabilities (previous year: € 49 thousand).

SUPERVISORY BOARD

Klaus Möllerfriedrich, Düsseldorf, Germany – Chairman

Auditor

Deputy Chairman of the Supervisory Board:

- TopAgers AG, Langenfeld, Germany

Member of the Supervisory Board:

- Dr Ing Thomas Schmidt AG, Cologne, Germany
- HINKEL & CIE. Vermögensverwaltungs AG, Düsseldorf, Germany

Stefan Heimöller, Neuenrade, Germany – Deputy Chairman

Managing partner at Platestahl Umformtechnik GmbH, Ludenscheid, Germany,
and at Helios GmbH, Neuenrade, Germany

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

Chairwoman of the Supervisory Board:

- E.ON Energie AG, Düsseldorf, Germany

Jens Große-Allermann – Member of the Supervisory Board (since 4 October 2017)

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 (since 4 January 2018; until 3 January 2018 Chairman of the Supervisory Board)

Member of the Supervisory Board:

- Washtec AG, Augsburg, Germany
- Sparta AG, Hamburg, Germany
- FPM Deutsche Investmentgesellschaft mit Teilgesellschaftsvermögen, in liquidation, Frankfurt am Main, Germany

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

€'000	Fixed remuneration		Variable remuneration		Total	
	2017/2018	2016/2017	2017/2018	2016/2017	2017/2018	2016/2017
Klaus Möllerfriedrich	22	19	57	23	79	42
Stefan Heimöller	19	17	57	23	76	40
Dr Nanna Rapp	16	14	57	23	73	37
Jens Große-Allermann	9	0	28	0	37	0
	66	50	199	69	265	119

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: € 61 thousand) were paid during the 2017/2018 financial year.

Wuppertal, 30 May 2018

The Executive Board



Dr Eric Bernhard
(Chairman)



Robert Spartmann

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 May 2018

The Executive Board



Dr Eric Bernhard
(Chairman)



Robert Spartmann

SIGNIFICANT GROUP SHAREHOLDINGS

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

Fully consolidated companies ¹⁾	Proportion of capital in %
Hekhorn Verwaltungs-GmbH, Finnentrop ²⁾	100
Hekhorn Immobilien GmbH, Finnentrop	100
Q-Plast GmbH & Co. Kunststoffverarbeitung, Emmerich	100
Q-Plast Beteiligungs-GmbH, Emmerich ²⁾	100
Setter GmbH & Co. Papierverarbeitung, Emmerich	100
Setter GmbH, Emmerich ²⁾	100
HRP-Leasing GmbH, Emmerich	100
Setter International GmbH, Emmerich	100
Setterstix Inc., Cattaraugus, USA	100
SQG Verwaltungs GmbH, Emmerich	100
SVT GmbH, Schwelm	90
IV Industrieverwaltungs GmbH & Co. KG, Wuppertal	100
MV Anlagen GmbH & Co. KG, Wuppertal	100
IMV Verwaltungs GmbH, Wuppertal ²⁾	100
VWH GmbH, Herschbach	80
WBL Holding GmbH, Laichingen	100
Werkzeugbau Laichingen GmbH, Laichingen	100
Werkzeugbau Leipzig GmbH, Leipzig	100
TM Erste Grundstücksgesellschaft mbH, Wuppertal	94

Companies valued at equity ¹⁾	Proportion of capital in %
Saglam Metal Sanayi Ticaret A.S., Istanbul, Turkey	20
Doerrenberg Special Steels Korea Co. Ltd, Jeongwang-dong, South Korea	50

Non-consolidated companies¹⁾	Proportion of capital in %
Connex SVT Inc., Houston, USA	100
Frank Lemeks Tow, Ternopil, Ukraine	100
Papersticks S.A. Ltd., Durban, South Africa	100

¹⁾ Share capital held directly or via majority shareholdings

²⁾ Corporation as the general partner

INDEPENDENT AUDITOR'S REPORT

To GESCO AG

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

AUDIT OPINIONS

We audited the consolidated financial statements of GESCO AG and its subsidiaries (the Group) – comprising the consolidated balance sheet as at 31 March 2018, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year from 1 April 2017 to 31 March 2018 as well as the notes to the consolidated financial statements, including a summary of material accounting methods. In addition, we also audited the Group management report of GESCO AG for the financial year from 1 April 2017 to 31 March 2018. 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 attached consolidated financial statements comply with the International Financial Reporting Standards (IFRS), as applicable in the EU, in all material aspects and additional German legal requirements in accordance with Section 315e para. 1 German Commercial Code (HGB) and gives a true and fair view of the assets and financial position of the Group as at 31 March 2018 as well as its earnings for the financial year from 1 April 2017 to 31 March 2018 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 opinion concerning the management report does not extend 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 Regulation (No. 537/2014; hereinafter referred to as EU AR) in consideration of the German principles of proper auditing of financial statements as promulgated by the Institut der Wirtschaftsprüfer (IDW – Institute of Public Auditors in Germany). Our responsibility under these requirements and principles is described in further detail in the “Responsibility of the auditor for auditing the 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 is sufficient and suitable to serve as a basis for our audit opinions concerning the consolidated financial statements and the Group management report.

KEY AUDIT MATTERS IN THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Key audit matters are matters that we consider, in applying due discretion, to be the most significant in our audit of the consolidated financial statements for the financial year from 1 April 2017 to 31 March 2018. 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)
- Recognition and measurement of deferred taxes on loss carry-forwards

RECOVERABILITY OF GOODWILL (IMPAIRMENT TEST)

Reason for classifying this matter as a key audit matter

The company performs an annual impairment test on all goodwill that is not able to be written down on schedule, irrespective of whether there are indications of impairment. The impairment test is conducted for each affected cash-generating unit (CGU) by comparing the recoverable amount with the corresponding book value. Each individual company is generally defined as a CGU. Recoverable amounts are generated 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 on pages 12 and 32 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 2018. 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.

RECOGNITION AND MEASUREMENT OF DEFERRED TAXES ON LOSS CARRY-FORWARDS

Reason for classifying this matter as a key audit matter

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

The company's disclosures on deferred taxes on loss carry-forwards are included on pages 17 and 32 et seqq. of the notes to the consolidated financial statements.

Treatment in auditing the financial statements

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

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

OTHER INFORMATION

The legal representatives are responsible for other information. Other information includes the following

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

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

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

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

RESPONSIBILITY OF THE LEGAL REPRESENTATIVES AND THE SUPERVISORY BOARD FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

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

In preparing the consolidated financial statements, the legal representatives are responsible for assessing the ability of the Group to continue operating as a going concern. Furthermore, they are also responsible for disclosing matters relating to the continuation of the company as a going concern, if relevant. They are also responsible for accounting on the basis of the going concern assumption, unless there is the intention to liquidate the Group or discontinue business operations or there is no other realistic alternative.

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

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

RESPONSIBILITY OF THE AUDITOR FOR AUDITING THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

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

A sufficient level of certainty is a high level of certainty but not a guarantee that a proper audit conducted in accordance with Section 317 HGB and the EU AR in consideration of the German principles of proper accounting as promulgated by the Institut der Wirtschaftsprüfer (IDW – Institute of Public Auditors in Germany) will always detect a material misstatement. Misstatements can result from breaches of requirements or errors and are considered to be material if 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 report on the basis of these documents.

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

- we identify and assess the risks of material – intentional or unintentional – misstatements in the consolidated financial statements and in the Group management report, plan and conduct audit activities in response to these risks and obtain audit evidence that is sufficient and suitable to serve as a basis for our audit opinions. The risk that material misstatements are not uncovered is higher in the case of breaches of regulations than it is in the case of errors, as legal violations can include fraudulent conduct, forgery, intentionally incomplete information, misleading statements and the circumvention of internal controls.
- we gain an understanding of the internal control system relevant for the audit of the 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 company 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 obtained, 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 conclude 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 the consolidated financial statements provide 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 report made by the legal representatives. On the basis of sufficient audit evidence, we verify in particular the material assumptions underpinning the forward-looking statements made by the legal representatives and assess that the forward-looking statements have been correctly derived from these assumptions. We do not provide a separate audit opinion on the forward-looking statements or on the underlying assumptions. There is a material and unavoidable risk that future events will significantly deviate from the forward-looking statements.

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

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

Of the matters we discuss with the individuals responsible for monitoring, we discuss the matters that were of greatest significance to the audit of the 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

Please note:

The page numbers listed relate to the notes to the consolidated financial statements as they appear in the auditor's report. In this Annual Report, the notes to the consolidated financial statements are found on pages 183 to 228.

OTHER DISCLOSURES PURSUANT TO ARTICLE 10 EU AR

We were appointed as the auditor of the consolidated financial statements at the Annual General Meeting held on 31 August 2017. We were engaged by the Supervisory Board on 20 October 2017. We have been the appointed auditor of the GESCO AG consolidated financial statements since financial year 1997/1998.

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

RESPONSIBLE AUDITOR

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

Wuppertal, 30 May 2018

Breidenbach und Partner PartG mbB
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

(Straube)	(Wendlandt)
Wirtschaftsprüfer	Wirtschaftsprüfer

FINANCIAL CALENDAR

28 JUNE 2018

Annual accounts press conference and analysts' meeting

14 AUGUST 2018

Publication of the quarterly statement
for the first quarter (01.04.-30.06.2018)

30 AUGUST 2018

Annual General Meeting in the Stadthalle, Wuppertal

14 NOVEMBER 2018

Publication of the Half Year Interim Report
(01.04.-30.09.2018)

14 FEBRUARY 2019

Publication of the quarterly statement
for the first nine months (01.04.-31.12.2018)

27 JUNE 2019

Annual accounts press conference and analysts' meeting

14 AUGUST 2019

Publication of the quarterly statement
for the first quarter (01.04.-30.06.2019)

29 AUGUST 2019

Annual General Meeting in the Stadthalle, Wuppertal

14 NOVEMBER 2019

Publication of the Half Year Interim Report
(01.04.-30.09.2019)

SHAREHOLDER CONTACT

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GESCO Group,

Artur Lik, Koblenz

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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