

Annual Accounts and Management Report

as at 31 March 2018

Auditor's Report

**GESCO AG
Wuppertal**

GESCO AG, Wuppertal

Balance sheet as at 31 March 2016

ASSETS

	<u>Note</u>	<u>31.03.2018</u>	<u>Previous</u>
		€	<u>year</u> €000
A. NON-CURRENT ASSETS			
I. Intangible assets			
IT software		<u>7.628.50</u>	<u>11</u>
II. Tangible assets			
Other plant, fixtures and fittings		<u>443.230.12</u>	<u>466</u>
III. Financial investments			
1. Shares in affiliated companies	(1)	117,703,475.32	115,023
2. Investments		<u>5.000</u>	<u>5</u>
		<u>117.708.475.32</u>	<u>115.028</u>
		<u>118.159.333.94</u>	<u>115.505</u>
B. CURRENT ASSETS			
I. Receivables and other assets			
1. Amounts owed by affiliated companies	(2)	52,618,995.94	49,917
of which with a residual term of more than one year: € 30,443,356.83 (€ 28,869 thousand)			
2. Other assets	(3)	9,465,252.18	7,308
of which with a residual term of more than one year: € 1,154,253.37 (€ 1,336 thousand)			
		<u>62.084.248.12</u>	<u>57.225</u>
II. Cash, credit with financial institutions		<u>19.189.141.27</u>	<u>10.817</u>
		<u>81.273.389.39</u>	<u>68.042</u>
C. ACCOUNTS RECEIVABLE AND PAYABLE			
		<u>164.749.65</u>	<u>161</u>
		<u>199.597.472.98</u>	<u>183.708</u>

EQUITY AND LIABILITIES

	<u>Note</u>	<u>31.03.2018</u>	<u>Previous</u>
		€	<u>year</u> €000
A. EQUITY			
I. Issued capital			
1. Subscribed capital	(4)	10,839,499.00	10,839
2. Acquired own shares	(5)	<u>-3.572.00</u>	<u>0</u>
		<u>10.835.927.00</u>	<u>10.839</u>
II. Capital reserves	(6)	55366557,92	55367
III. Revenue reserves	(6)		
1. Statutory reserves		58,717.27	59
2. Other revenue reserves		<u>62.180.024.62</u>	<u>50.100</u>
		<u>62.238.741.89</u>	<u>50.159</u>
IV. Retained profit		<u>12.184.757.19</u>	<u>3.794</u>
		<u>158.747.211.50</u>	<u>138.280</u>
B. PROVISIONS			
1. Provisions for pensions and similar obligations	(7)	1812393	1738
2. Provisions for taxes		80,332.00	0
3. Other provisions	(8)	<u>4.055.990.32</u>	<u>6.555</u>
		<u>6.187.167.32</u>	<u>8.595</u>
C. LIABILITIES			
1. Liabilities to financial institutions		33,950,785.81	36,423
2. Trade creditors		169,834.28	114
3. Liabilities to affiliated companies		183,654.25	184
4. Other liabilities		121,684.82	112
of which from taxes: € 75,007:59 (€ 68 thousand)			
of which related to social security: € 9,731.97 (€ 9 thousand)			
		<u>34.425.959.16</u>	<u>36.833</u>
D. DEFERRED TAX LIABILITIES	(10)	<u>237.135.00</u>	<u>0</u>
		<u>199.597.472.98</u>	<u>183.708</u>

GESCO AG

Income statement for the period from 1 April 2017 to 31 March 2018

	<u>Note</u>	<u>2017/2018</u>	<u>Previous</u>
		€	year €000
1. Sales revenue		311,878.24	522
2. Other operating income	(11)	2,348,245.96	447
3. Personnel expenditure			
a) Wages and salaries		-3,445,657.64	-3,312
b) Social security contributions and expenditure on pensions and benefits		-268,632.27	-461
of which for pensions and benefits: € 43,160.32 (€ 264 thousand)			
		-3,714,289.91	-3,773
4. Depreciation and amortisation			
a) on tangible and intangible assets		-178,674.39	-175
b) on current assets in as far as such exceed the usual depreciations in the corporation		<u>0</u>	<u>-3,687</u>
		-178,674.39	-3,862
5. Other operating expenses	(12)	<u>-4720,277.50</u>	<u>-5,514</u>
		-5,953,117.60	-12,180
6. Earnings from investments		27,835,765.61	17,923
of which from affiliated companies: € 27,835,765.61 (€ 17,923 thousand)			
7. Earnings from profit and loss transfer agreements		2,685,407.02	3,669
8. Other interest and similar income	(13)	723,454.30	476
of which to affiliated companies: € 404,642.53 (€ 436 thousand)			
9. Depreciation on financial assets and on securities held as current assets		0	-1,895
10. Interest and similar expenditure		-592,778.25	-513
of which to affiliated companies: € 679.97 (€ 1 thousand)			
of which expenditure from interest: € 99,175.00 (€ 106 thousand)			
11. Taxes on income and earnings		<u>-321,953.71</u>	<u>-100</u>
12. Earnings after taxes		24,376,77.37	7,380
13. Other taxes		<u>-7,263.00</u>	<u>-77</u>
14. Net income		24,369,514.37	7,303
15. Transfer to revenue reserves		<u>-12,184,757.18</u>	<u>-3,509</u>
16. Retained profit		<u>12,184,757.19</u>	<u>3,794</u>

GESCO AG
Annual Financial Statements as at 31 March 2018

Notes

1. General information

GESCO AG has its headquarters in Wuppertal, Germany. It is registered in the commercial register of the District Court of Wuppertal, Germany, under HRB 7847.

2. Accounting and valuation methods

The annual financial statements as at 31 March 2018 were prepared in accordance with the regulations regarding the balance sheet structure of large corporations under German commercial law and take into account the legal principles of accounting and measurement as well as the regulations of the Articles of Association.

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

Assets are recognised at cost. Straight-line depreciation during the expected useful life is applied to movable items of property, plant and equipment. Low-value assets costing less than €410 are written off in the year of acquisition; their immediate disposal is assumed in the asset history sheet.

Financial assets are reported at cost, taking into account any unscheduled write-downs in the case of the value of the asset having to be reduced because of the impairment being potentially permanent.

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

In accordance with actuarial principles, provisions for pensions and similar obligations, and the purchase price annuity obligation are stated at the value of the actual liability. They are measured using the "projected unit credit method" (PUC method). The calculations are based on the 2005 G tables of Prof. Dr K. Heubeck. The interest rate was recognised on the basis of an assumed remaining term of 15 years and Section 253 para. 2 sentences 1 and 2 of the German Commercial Code (HGB) was applied.

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

Liabilities are recognised at their actual settlement values.

3. Information on the balance sheet

The following table shows the structure and development of assets:

	Cost of acquisition or manufacture				Depreciation				Book values	
	01.04.2017	Additions	Disposals	31.03.2018	01.04.2017	Additions	Disposals	31.03.2018	31.03.2018	31.03.2017
	€	€	€	€	€	€	€	€	€	€
NON-CURRENT ASSETS										
I. Intangible assets										
IT software	227,534.26	2,681.34	0,00	230,215.60	216,074.26	6,512.84	0,00	222,587.10	7,628.50	11,460.00
II. Tangible assets										
Other plant, fixtures and fittings	1,028,594.51	194,727.05	115,780.21	1,107,541.35	562,220.89	172,161.55	70,071.21	664,311.23	443,230.12	466,373.62
III. Financial investments										
1. Shares in affiliated companies	128,000,119.73	2,721,080.14	6,135,378.00	124,585,821.87	12,977,574.55	0,00	6,095,228.00	6,882,346.55	117,703,475.32	115,022,545.18
2. Investments	5,000.00	0.00	0.00	5,000.00	0.00	0.00	0.00	0.00	5,000.00	5,000.00
	<u>128,005,119.73</u>	<u>2,721,080.14</u>	<u>6,135,378.00</u>	<u>124,590,821.87</u>	<u>12,977,574.55</u>	<u>0,00</u>	<u>6,095,228.00</u>	<u>6,882,346.55</u>	<u>117,708,475.32</u>	<u>115,027,545.18</u>
	<u>129,261,248.50</u>	<u>2,918,488.53</u>	<u>6,251,158.21</u>	<u>125,928,578.82</u>	<u>13,755,869.70</u>	<u>178,674.39</u>	<u>6,165,299.21</u>	<u>7,769,244.88</u>	<u>118,159,333.94</u>	<u>115,505,378.80</u>

Shares in affiliated companies (1)

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

Amounts owed by affiliated companies (2)

Some of the items included here are unpaid pro-rata profit distributions, loans and receivables from the tax consolidation of affiliated companies for trade and corporation tax purposes.

Other assets (3)

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

Subscribed capital (4)

The company's subscribed capital amounts to € 10,839,499, divided into 10,839,499 no-par value registered shares with a mathematical share in equity of € 1.00 each. The company held 3,572 own shares as at the reporting date.

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 own shares already held. The Annual General Meeting of GESCO AG authorised the company to acquire own shares according to Section 71 para. 1 No. 8 of the German Stock Corporation Act (AktG) subject to the approval of the Supervisory Board and excluding shareholders' subscription rights and to use these shares for the purpose of a stock option programme. Beneficiaries include the Executive Board and a small group of management employees of GESCO AG. In August 2017, this programme was restructured to become a virtual stock option programme with profits paid out in cash. A new 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 on a pro rata basis and recognised in other provisions. The model assumes volatility of 20.25 % (previous year: 22.7 %) and a risk-free interest rate of -0.17 % (previous year: -0.45 %); the exercise price of the options issued in September 2017 is €24.93. The vesting period is four years and two months from the date of the Annual General Meeting. The fair value per option on the issue date is € 1.43. Expenses from the stock option programme set up in the reporting year are included in the annual financial statements for the first time in the amount of € 12 thousand for the seventh-month period. Taking into account the change in value, total expenditure for the sixth to eleventh tranche amounted to €529 thousand in the reporting year; in the previous year, total expenditure was € 143 thousand. Provisions came to €333 thousand as at the reporting date.

The key framework of the stock option programme is shown in the following table; the tranches attributable to previous years have been adjusted to reflect the share split.

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 31.03.2017	€ 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 fair value per option as at the reporting date may differ from the fair value at the time the options are issued.

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

	No. of options		Weighted average exercise price €	
	Number			
	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

Own shares (5)

As part of a share acquisition pursuant to Section 71 para. 1 No. 2 AktG, the company acquired 35,000 shares in the reporting period and sold 31,428 of them at a nominal value totaling €31 thousand (0.29 % of share capital) and a sale price of €691 thousand to employees of the GES-CO Group as part of an employee share scheme. The proceeds from the sale were used to pay off liabilities.

Capital reserves / revenue reserves (6)

In addition to the amounts resulting from own shares, the Executive Board added €12,184,757.18 to revenue reserves from net earnings for the year 2017/2018 in accordance with Section 58 para. 2 of the German Stock Corporation Act (AktG).

Reserves developed as follows:

	Capital reserves € '000	Statutory reserves k€ '000	Other retained profits € '000
As at 31 March 2017	73,488	59	50,100
Acquisition/sale of own shares	0	0	-105
Addition	0	0	12,185
As at 31\March 2018	73,488	59	62,180

Provisions for pensions and similar obligations (7)

Development of provisions for pensions:

As at 31.03.2017 € 2,040 thousand

Interest expenditure € 79 thousand

Change € -68 thousand

As at 31.03.2018 € 2,051 thousand

Actuarial basis:

Interest rate 3.68 %

Increase in salaries 2.75 %

Increase in pensions 1.40 %

The difference pursuant to Section 253 para. 6 HGB is € 267 thousand.

The provisions relate to pension obligations to the one current Executive Board member and two former Executive Board members.

Other provisions (8)

Other provisions largely include the purchase price annuity obligation, outstanding invoices, obligations to employees and executive bodies, any non-deductible advance tax payments and interest on tax arrears as well as expenses for stock option programmes. The purchase price annuity obligation was calculated in accordance with actuarial principles on the basis of a 2.80 % interest rate.

Liabilities (9)

	As at 31.03.2018 (31.03.2017)	Residual term up to 1 year	Residual term up to 5 years	Resid- ual term > 5 years
	€'000	€'000	€'000	€'000
Liabilities to financial institu- tions	33,951 (36,423)	4,180 (2,466)	21,201 (22,841)	8,570 (11,116)
Trade liabilities	170 (114)	170 (114)	0 (0)	0 (0)
Liabilities to affiliated com- panies	184 (184)	184 (184)	0 (0)	0 (0)
Other liabilities	121 (112)	121 (112)	0 (0)	0 (0)
	<u>34,426</u> <u>(36,833)</u>	<u>4,655</u> <u>(2,876)</u>	<u>21,201</u> <u>(22,841)</u>	<u>8,570</u> <u>(11,116)</u>

The company pledged investments to secure liabilities to financial institutions.

Deferred tax liabilities (10)

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

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

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

In financial year 2016/2017, the calculation of deferred taxes resulted in an asset surplus. The capitalisation option was not utilised. In the current financial year, the calculation of deferred taxes led to a tax obligation of € 237 thousand reported under deferred tax liabilities.

€thousand	01.04.2017	Change	31.03.2018
Deferred taxes	€000	€000	€000
Deferred tax assets	4.805	257	5.062
Deferred tax liabilities	-4.138	-1.161	-5.299
	667	-904	-237

Contingent liabilities and other financial obligations

The management of one subsidiary is entitled to transfer its shares to GESCO AG at a later date and at a fixed price. In return for this right, the management has forfeited part of its profit share so far.

GESCO AG reached an agreement with former Executive Board member Dr.-Ing. Mayrose whereby GESCO AG will exempt Dr.-Ing. 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.-Ing. Mayrose left GESCO AG as at 31 December 2016. It is not expected that this insurance will be utilised as at the balance sheet date given the lack of discernible breaches of duty or claims made by the company or third parties.

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

In order to secure the loan granted from a bank to a managing director to acquire shares in the company they manage, GESCO AG pledged fixed deposits in the same amount (€1,345 thousand) to the lending bank. The fixed deposits will be released in parallel with the respective loan repayments. In the case of utilisation, GESCO AG is entitled to use the shares that have been sold and pledged to GESCO. As at the balance sheet date and according to our current assessment, no utilisation is expected at the current time due to the planned settlement of the loan.

4. Information on the income statement

Other operating income (11)

Other operating income includes income from the reversal of provisions (€ 1,562 thousand), of which € 995 thousand is attributable to all obligations to repay already reimbursed advanced tax payments and associated interest on arrears (€ 188 thousand), which are no longer anticipated due to the provisional results of the previous external tax audit. This item also includes advance tax payment refunds for previous year (€ 532 thousand). Of this income, €2,184 thousand is attributable to other periods.

Other operating expenditure (12)

Other operating expenditure concerns legal and consulting costs, increases in value relating to the stock option programme, expenses for investor relations, insurance, M&A, provisions for non-deductible advance taxes and the employee share scheme.

Other interest and similar income (13)

This item includes interest attributable to other periods in the amount of €270 thousand.

Extraordinary income

At the beginning of 2018, the company reached a settlement with financial authorities regarding a tax issue that had been unresolved for several years. This settlement resulted in one-off income of approximately € 1.7 million, which is included in other operating income and, in the amount of roughly €0.3 million, in interest income.

5. Other information

Corporate governance

The Executive Board and Supervisory Board of GESCO AG comply with the German Corporate Governance Code and have made the current as well as previous declarations of compliance available to shareholders and interested parties on the website of GESCO AG. Members of the Executive Board hold a total of 0.6 % of company shares. Members of the Supervisory Board hold a total of 13.7 % of company shares.

Disclosures pursuant to the German Securities Trading Act (WpHG)

Stefan Heimöller, Germany, informed us on 11 January 2011 that his voting rights in GESCO AG exceeded the 10 % threshold on 10 January 2011 and amounted to 10.01 % on 10 January 2011 (302,648).

Investmentaktiengesellschaft für langfristige Investoren TGV, Bonn, informed us on 14 December 2015, and issued a correction on 15 December 2015, pursuant to Section 21 para. 1 of the German Securities Trading Act (WpHG; previous version) that its share of the voting rights in GESCO AG had exceeded the 10 % threshold on 9 December 2015 and amounted to 10.51 % (corresponding to 349,537 voting rights) on that day.

Norman Rentrop, Germany, informed us on 14 December 2015, and issued a correction on 15 December 2015, pursuant to Section 21 para. 1 of the German Securities Trading Act (WpHG, previous version) that his share of the voting rights in GESCO AG had exceeded the 10 % threshold on 9 December 2015 and amounted to 10.51 % (corresponding to 349,537 voting rights) on that day. Of that, 10.51 % (corresponding to 349,537 voting rights) of the voting rights under Section 22 of the German Securities Trade Act (WpHG, previous version) are allocated to him.

These voting rights refer to the number of shares prior to the share split at a ratio of 1:3 at the end of December 2016.

Employees

The company employed an average of 18 people (pursuant to Section 267 para. 5 of the German Commercial Code (HGB)) during the financial year (previous year: 17).

Auditor

The fee in the financial year for auditing services amounted to € 169 thousand, € 96 thousand for other audit services (mainly due diligence reviews) and € 17 thousand for tax consulting. Other audit services include a fee charged by an affiliated company of the auditor of € 16 thousand.

Executive bodies of the company

Executive Board

Dr Eric Bernhard, Langenfeld,
Chairman of the Executive Board

Robert Spartmann, Gevelsberg,
Member of the Executive Board

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

By the reporting date, current Executive Board member Robert Spartmann had earned a pension in the amount of 16 % of the calculation base (last fixed annual salary) on the basis of his pension commitment. A provision for pensions in the amount of € 723 thousand (previous year: € 662 thousand) had been formed for this amount as at the reporting date. The addition to this provision in the financial year amounted to € 61 thousand.

Outgoing Executive Board member Dr Hans-Gert Mayrose is entitled to a pension in the amount of 16 % of the calculation base (last fixed annual salary) on the basis of his pension commitment. As at 31 March 2018, a provision for pensions in the amount of € 701 thousand (previous year: € 672 thousand) existed for this amount. The addition to this provision in the financial year amounted to € 29 thousand. Dr Mayrose was granted transitional payments of € 3 thousand (previous year: € 10 thousand) in financial year 2017/2018.

Former Chairman of the Executive Board of GESCO AG, Willi Back, was granted payments of € 62 thousand (previous year: € 62 thousand) on the basis of his pension commitment in the financial year. As at 31 March 2018, a provision for pensions in the amount of € 627 thousand (previous year: € 658 thousand) existed for this amount.

Supervisory Board

Klaus Möllerfriedrich, Düsseldorf
Chairman,
Auditor

Deputy Chairman of the Supervisory Board:
- TopAgers AG, Langenfeld

Member of the Supervisory Board:
- Dr. Ing. Thomas Schmidt AG, Cologne
- HINKEL & CIE. Vermögensverwaltung AG, Dusseldorf

Stefan Heimöller, Neuenrade
Deputy Chairman,
Managing Director of Plate Stahl Umformtechnik GmbH, Lüdenscheid,
and of Helios GmbH, Neuenrade

Dr Nanna Rapp, Dusseldorf
Chief Executive Officer of E.ON Inhouse Consulting GmbH, Essen

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

Jens Große-Allermann, Cologne (from 4 October 2017)
Member of the Executive Board of Investmentaktiengesellschaft für langfristige Investoren
TGV, Bonn, and the Executive Board of Fiducia Treuhand AG, Bonn

Deputy Chairman of the Supervisory Board:
- KROMI Logistik AG, Hamburg
(since 4 January 2018; Chairman of the Supervisory Board until 3 January
2018)

Member of the Supervisory Board:
- Washtec AG, Augsburg
- Sparta AG, Hamburg
- FPM Deutsche Investmentgesellschaft mit Teilgesellschaftsvermögen
i. L., Frankfurt am Main

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

	<u>Fixed remuneration</u> €000	<u>Variable remuneration</u> €000	<u>Total</u> €000
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	<u>9 (0)</u>	<u>28 (0)</u>	<u>37 (0)</u>
	<u>66 (50)</u>	<u>199 (69)</u>	<u>265 (119)</u>

Events after the reporting date

After the reporting period, the company announced that Ralph Rumberg would be appointed as Spokesman for the Executive Board effective as at 1 July 2017 and that Chairman of the Executive Board, Dr Bernhard, would resign from office as agreed with the Supervisory Board effective as at 15 June 2018. In May 2018, Robert Spartmann notified the Supervisory Board that he was 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.

Proposed appropriation of retained profit

Retained profit consists of the following:

	<u>2017/2018</u> €	<u>2016/2017</u> €
Net income for the period	24,369,514.37	7,303,442.75
Transfer to other revenue reserves	<u>12,184,757.18</u>	<u>3,509,618.10</u>
Retained profit	<u>12,184,757.19</u>	<u>3,793,824.65</u>

At the time of the proposal for the appropriation of net income, the company held 3,572 own shares.

For the 2017/2018 financial year, the Executive Board is proposing the following appropriation of retained profit for the year to the Annual General Meeting:

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	<u>€ 5,683,200.99</u>
	€ 12,184,757.19

Wuppertal, 30 May 2018

The Executive Board

Dr Eric Bernhard
(Chairman)

Robert Spartmann

GESCO AG holdings as at 31.03.2018

No.	Company	Location	Share in capital in %	Equity 2017 EUR'000	Year's result 2017 EUR'000	Assignment of shares to no.
1	GESCO AG (parent company)	Wuppertal				
	<u>a) fully consolidated companies</u>					
2	Alro GmbH	Wuppertal	100	310	-1	1
3	AstroPlast Kunststofftechnik GmbH & Co. KG	Meschede	100	1,241	-937	1
4	AstroPlast Verwaltungs GmbH	Meschede	100	85	3	1
5	C.F.K. CNC-Fertigungstechnik Kriftel GmbH	Kriftel	80	4,595	642	1
6	Dömer GmbH & Co. KG Stanz- und Umformtechnologie	Lennebstadt	100	2,068	543	1
7	Dömer GmbH	Lennebstadt	100	49	1	1
8	Dörrenberg Edelstahl GmbH	Engelskirchen	90	67,002	6,874	1
9	Dörrenberg Tratamientos Térmicos SL	Alasua, Navarra, Spain	60	1,589	237	8
10	Dörrenberg Special Steels PTE. LTD.	Singapore	90	2,073	327	8
11	Dörrenberg International PTE. LTD.	Singapore	90	628	-4	8
12	Dörrenberg Special Steels Taiwan LTD.	Tainan City, Taiwan	100	1,000	160	11
13	Middle Kingdom Special Steels Pte. Ltd.	Singapore	60	658	1	11
14	Jiashan Dörrenberg Mould & Die Trading Co.	Jiashan, China	100	2,378	486	13
15	Frank Walz- und Schmiedetechnik GmbH	Hatzfeld	90	11,657	532	1
16	Frank-Hungaria Kft.	Özd, Hungary	100	2,686	673	15
17	Frank RUS OOO	Russia	100	25	-21	15
18	Franz Funke Zerspanungstechnik GmbH & Co. KG	Sundern	80	1,253	453	1
19	Franz Funke Verwaltungs GmbH	Sundern	100	80	3	1
20	Haseke GmbH & Co. KG	Porta Westfalica	80	1,867	1,458	1
21	Haseke Beteiligungs-GmbH	Porta Westfalica	100	75	3	1
22	Hubl GmbH	Vaihingen/Enz	80	3,717	945	1
23	Georg Kesel GmbH & Co. KG	Kempton	90	647	493	1
24	Kesel & Probst Verwaltungs-GmbH	Kempton	100	40	1	23
25	Kesel International GmbH	Kempton	100	77	-8	23
26	Georg Kesel Machinery (Beijing) Co., Ltd.	Beijing, China	100	173	102	25
27	Kesel North America LLC	Beloit, USA	100	26	48	25
28	MAE Maschinen- und Apparatebau Götzen GmbH	Erkrath	100	5,444	0	1
29	MAE International GmbH	Erkrath	100	67	-1	28
30	MAE Machines (Beijing) Co., Ltd.	Beijing, China	100	207	51	29
31	MAE Amerika GmbH	Erkrath	100	1,729	18	28
32	MAE-EITEL INC.	Orwigsburg, USA	90	1,730	178	31
33	Modell Technik Formenbau GmbH	Sömmerda	100	641	0	1
34	Modell Technik Beteiligungsgesellschaft mbH	Sömmerda	100	134	-1	1
35	Molineus & Co. GmbH + Co. KG	Wuppertal	100	249	-5	1
36	GRAFIC Beteiligungs-GmbH	Wuppertal	100	46	0	35
37	MV Anlagen GmbH & Co. KG	Wuppertal	100	65	-14	1
38	Paul Beier GmbH Werkzeug-und Maschinenbau & Co. KG	Kassel	100	229	-2,439	1
39	WM Werkzeug-und Maschinenbau Verwaltungs-GmbH	Kassel	100	76	2	1
40	Pickhardt & Gerlach GmbH & Co. KG	Finnentrop	100	4,067	6,116	1
41	Hekhorn Verwaltungs-GmbH	Finnentrop	100	65	2	40
42	Hekhorn Immobilien GmbH	Finnentrop	100	2,180	328	1
43	Q-Plast GmbH & Co. Kunststoffverarbeitung	Emmerich	100	226	124	45
44	Q-Plast Beteiligungs-GmbH	Emmerich	100	80	3	45
45	Setter GmbH & Co. Papierverarbeitung	Emmerich	100	3,426	3,298	1
46	Setter GmbH	Emmerich	100	6,239	1,464	1
47	HRP-Leasing GmbH	Emmerich	100	734	0	46
48	Setter International GmbH	Emmerich	100	4,242	437	45
49	Setterstix Inc.	Cattaraugus, USA	100	5,285	880	48
50	SQG Verwaltungs GmbH	Emmerich	100	8	-1	45
51	SVT GmbH	Schwelm	90	12,246	2,874	1
52	IV Industrieverwaltungs GmbH & Co. KG	Wuppertal	100	123	-2	1
53	IMV Verwaltungs GmbH	Wuppertal	100	73	3	1
54	VWH GmbH	Herschbach	80	4,185	1,257	1
55	WBL Holding GmbH	Laichingen	100	10,454	244	1
56	Werkzeugbau Laichingen GmbH	Laichingen	100	3,351	0	55
57	Werkzeugbau Leipzig GmbH	Leipzig	100	2,833	-442	55
58	TM Erste Grundstücksgesellschaft mbH	Wuppertal	94	1,982	325	55
	<u>b) associated companies *)</u>					
59	Saglam Metal San. Tic.A.S.	Istanbul, Turkey	20	-	-	8
60	Dörrenberg Special Steels Korea Co. Ltd.	Jeongwang-dong, South Korea	50	-	-	11
	<u>c) companies which are not consolidated</u>					
61	Connex SVT Inc.	Houston, USA	100	561	123	51
62	FRANK Lemeks Tow	Ternopil, Ukraine	100	458	268	15
63	Papersticks S.A. Ltd.	Durban, South Africa	100	39	-6	45

*) the associated companies make use of the exemption rule according to section 286 para 3 sentence 2 of the German Commercial Code (HGB).

GESCO AG
Management report for financial year 2017/2018
(from 1 April 2017 to 31 March 2018)

1. General economic development

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 extremely 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.

2. Changes to the scope of consolidation

In December 2016, GESCO AG acquired 100 % of the shares in Pickhardt & Gerlach Group (PGW), Fimmtrop, 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 contributed to income from investments for the full year 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.

3. Business performance

The capital goods industry experienced a dynamic year in 2017. GESCO Group generated brisk demand, within rising sales and disproportionately high profit growth. All in all, GESCO AG's income from investments rose from € 17.9 million to € 27.8 million year on year in financial year 2017/2018. Income from profit and loss transfer agreements declined in the same period from € 3.7 million to € 2.7 million. At the beginning of 2018, we were able to reach a settlement with financial authorities regarding a tax issue that had been unresolved for several years. This settlement resulted in one-off income of approximately € 1.7 million, which is included in other operating income and, in the amount of roughly € 0.3 million, in interest income. This positive one-off effect in the reporting period was offset by a negative one-off effect of roughly € 7 million in the previous year relating to an impairment test of the investment in Protomaster GmbH and all associated assets. GESCO AG generated total net income of € 24.4 million in financial year 2017/2018 (previous year: € 7.3 million).

We had originally anticipated that GESCO AG's income from investments would rise slightly and that its net income would increase significantly in year-on-year terms in financial year 2017/2018. The reason for the sharp rise in income from investments is the distribution policy: Dividends to the parent company are determined annually in view of growth forecasts and the capital structure of the respective subsidiary. The disproportionately high rise in terms of net income was primarily due to the elimination of the aforementioned negative one-off effect from the previous year and the one-off income from the tax proceedings recorded in the reporting year.

GESCO AG's total assets amounted to € 199.6 million as at the reporting date of 31 March 2018. On the assets side, receivables and other assets increased in particular, as did liquid assets, which stood at € 19.2 million as at the reporting date (previous year: € 10.8 million). A dividend of € 3.8 million was distributed to the company's shareholders in the reporting period. On the liabilities side, equity rose from € 138.3 million to € 158.7 million. The equity ratio increased from 75.3 % to 79.5 %. Liabilities declined from € 36.8 million to € 34.4 million.

The GESCO AG balance sheet remains in good shape with a high equity ratio, moderate debt and sufficient liquid assets. Against this backdrop, GESCO AG continues to maintain appropriate access to borrowed capital at favourable conditions. The company therefore has leeway in its business transactions in terms of equity and borrowed capital alike.

At the end of the financial year, GESCO AG had access to approved but unused credit lines totalling approximately € 1.3 million.

Significant events in the reporting period

As part of investigations into manufacturers of steel products due to suspected anti-competitive arrangements and conduct between 2003 and 2015, the Bundeskartellamt also investigated Dörrenberg Edelstahl GmbH, a 90 % subsidiary of GESCO AG, in the reporting period. 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 by mutual consent in return for the payment of a financial penalty of € 8.5 million. This amount is taken into account through profit and loss in the annual financial statements as at 31 December 2017 of Dörrenberg Edelstahl GmbH. Resolutions concerning the acceptance of the settlement offer by the responsible bodies are still pending.

4. 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.

5. Opportunity and risk management

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 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 income from equity investments and 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 also 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 retirement 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 forms 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 company mitigates this risk by exercising a duty of care in its process as well as through its quality management system 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. GESOC 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 antitrust 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 all 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 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 borrow any additional equity at the current time.

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

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

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 ensures that its subsidiaries obtain the correct authorisations and licences.

Insurance cover

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

Legal risks

GESCO Group companies are confronted by a number of potential legal risks. In terms of operating companies, these particularly include product liability and warranty claims as well as risks linked to customs and export law as well as sanctions imposed on target export countries. There are also risks linked to antitrust and competition law, personnel and the environment. GESCO Group companies mitigate legal risks from their operating business through 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.

6. Declaration of corporate governance

The declaration of corporate governance in accordance with Section 289f HGB is available on the company website at www.gesco.de.

7. Other information

Disclosures under Section 289 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.

Disclosures under Section 289a para. 1 no. 3 HGB are included in the notes.

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 legally binding regulations state otherwise; where the law requires a capital majority in addition to a majority of votes cast, resolutions are passed with a simple majority of the share capital represented when the resolution is voted on. 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.

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 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 own shares already held. Subject to the approval of the Supervisory Board and under certain conditions, the Executive Board is also authorised to dispose of the acquired shares in a manner other than via the stock exchange or by offering them to all shareholders, to use them for the purpose of acquiring companies or investments, or to retract some or all of them. The Executive Board has not made use of this authorisation to date. The company acquired a small number of treasury shares for the annual employee share scheme within the scope of a share acquisition pursuant to Section 71 para. 1 sentence 2 AktG and subsequently issued to GESCO Group employees within the scope of the employee share scheme. GESCO AG held 3,572 treasury shares as at the reporting date. Disclosures under Section 160 para. 1 no. 2 HGB are included in the notes.

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 and Dr Eric Bernhard agreed not to extend his contract as CEO, which is due to expire on 31 December 2018, by mutual consent. Dr Bernhard will resign effective as at 15 June 2018. Effective as at 1 July 2018, Ralph Rumberg will be appointed Spokesman of the Executive Board. 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.

8. 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 of the Annual General Meeting taking place.

If and how many options can be exercised depends on the achievement of an absolute and relative performance target. The absolute performance target is met when the price of the GESCO share has developed positively at the time the option is exercised. The relative performance target is met when the price of the GESCO share has outperformed the SDAX at the time the option is exercised. If both targets are met, the Executive Board members are able to exercise all of their options. If the absolute performance target is met but not the relative performance target, members of the Executive Board may only exercise 75 % of their options for tranches 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 in €'000	Dr Eric Bernhard CEO				Robert Spartmann Member of the Executive Board				Dr-Ing Hans- Gert Mayrose Executive Board member (until 31 December 2016)
	31 Mar 2017	31 Mar 2018	31 Mar 2018 (min)	31 Mar 2018 (max)	31 Mar 2017	31 Mar 2018	31 Mar 2018 (min)	31 Mar 2018 (max)	31 Mar 2017
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 (SOP)									
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 in €'000	Dr Eric Bernhard CEO		Robert Spartmann Member of the Executive Board		Dr-Ing Hans- Gert Mayrose Executive Board member (until 31 December 2016)
	31 Mar 2017	31 Mar 2018	31 Mar 2017	31 Mar 2018	31 Mar 2017
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 (SOP)					
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.

9. Outlook / forecast report

Given the ongoing upturn in economic development, the German federal government expects the 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 companies will invest more. The German economy is also experiencing additional 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 interruptions in certain areas.

At this year's Hannover-Messe trade fair in April 2018, the VDMA raised its forecast for production growth in the current year from 3 % to 5 %; 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 fall even further. Machinery exports to China are likely to grow even further, however the rate of growth is expected to drop off a little.

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 and Resources Technology segments were not as full compared to the previous year due to a cautious fourth quarter. Given the dynamic 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 accounting for the sale of Protomaster GmbH. We expect earnings growth that will be carried by the breadth of the portfolio. This is also due to cost-cutting effects within the scope of the efficiency measures taking effect as part of Portfolio Strategy 2022. We expect GESCO AG to generate income from investments and net income for the period approximately on a par with the figures generated in financial year 2017/2018. GESCO AG's equity ratio should also be over 70 % in the new financial year.

GESCO AG continues to aim to generate external growth by acquiring up to three more industrial companies in the SME segment per year and has the liquidity required to acquire companies quickly and without the need for financing. 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, it cannot be ignored 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. As far as we can determine, other investors are not only prepared to pay significantly higher multiples, but they are also prepared to significantly reduce 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 corporate analysis. We will continue to only acquire companies that we believe fit in GESCO Group and if we

are able to analyse the risks involved to an acceptable extent and if the purchase price is appropriate.

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

Wuppertal, 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 financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the company, and the management report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal opportunities and risks associated with the expected development of the company.”

Wuppertal, 30 May 2017

Executive Board

Dr Eric Bernhard
(Chairman)

Robert Spartmann

INDEPENDENT AUDITOR'S REPORT

To GESCO AG

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

Audit opinions

We have audited the annual financial statements of GESCO AG, comprising the balance sheet as at 31 March 2018, the income statement for the financial year from 1 April 2017 to 31 March 2018 and the notes to the financial statements, together with the bookkeeping system and the valuation methods. In addition, we also audited the 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 corporate governance report, which was referred to in the management report, in accordance with German legal requirements.

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

- the attached annual financial statements comply in all material aspects with German commercial law provisions applying to corporations and present a true and fair view of the company's assets and financial position as at 31 March 2018 and its earnings for the financial year from 1 April 2017 to 31 March 2018 in accordance with the German principles of proper accounting, and
- the attached management report provides a suitable presentation of the company's position. This management report corresponds to the annual financial statements in all material aspects, complies with German commercial law provisions and provides a true reflection of the opportunities and risks of future development. Our audit opinion concerning the management report does not extend to the content of the aforementioned corporate governance report.

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

Basis for the audit opinions

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

Key audit matters in the audit of the annual financial statements

Key audit matters are matters that we consider, in applying due discretion, to be the most significant in our audit of the annual financial statements for the financial year from 1 April 2017 to 31 March 2018. These matters were taken into consideration in relation to our audit of the annual financial statements as a whole and in forming our audit opinion; we do not issue any separate audit opinion concerning these matters.

We consider the following to be key audit matters:

- Recoverability of shares in affiliated companies and receivables from affiliated companies
- Measurement of other provisions with discretionary judgement.

Recoverability of shares in affiliated companies and receivables from affiliated companies

Reason for classifying this matter as a key audit matter

The annual financial statements include shares in affiliated companies amounting to € 117 million (=59 % of total assets) and receivables from affiliated companies amounting to € 52.6 million (= 26 % of total assets). Shares in affiliated companies are recognised at cost or at the lower fair value as at the reporting date if a permanent impairment is assumed to be likely. The recoverability of these shares is assessed on an ad hoc basis by the company. No impairment losses were required in financial year 2017/2018. The lower fair values were calculated according to the DCF method. In this method, the market value of the equity under the weighted average cost of capital approach (WACC) is indirectly calculated as the difference between the total value of the equity and the market value of borrowed capital (including liabilities to shareholders). This calculation is based on available cash flows for the next 3 years (detailed planning phase) as derived from subsidiaries' budgets. The financial surpluses for the subsequent years are forecast as perpetual annuities on the basis of the detailed plan; growth is accounted for by means of a discount applied to the discounting rate. Receivables from affiliated companies are recognised accordingly when calculating the fair values of shares in affiliated companies. This method is exposed to uncertainty linked to estimation and discretion, particularly with regard to forecasting financial surpluses and deriving a discounting rate. Against this backdrop and due to the complexity of the valuation procedure, this matter was considered to be one of the most significant in the auditing of the annual financial statements.

The company's disclosures regarding shares in affiliated companies and receivables from affiliated companies are included on pages 1 and 4 of the notes to the financial statements.

Treatment in auditing the financial statements

We assessed the calculation of fair values using a selection of samples chosen in accordance with the risk and volume involved. We verified the appropriateness of the method and the consistent application of the process, using this sample. We assessed whether the assumptions underpinning the company budgets included in the calculations are plausible, in other words verifiable, consistent and not contradictory. As part of this process, we also analysed the accuracy of the budgets by comparing actual figures with last year's budgeted figures and assessing development in 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 calculated fair values and the inclusion of receivables from affiliated companies.

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

Measurement of other provisions with discretionary judgement.

Reason for classifying this matter as a key audit matter

The annual financial statements include other provisions amounting to € 4.1 million. The recognition and measurement of provisions (including the purchase price annuity obligation, obligations to employees and executive bodies, expenses for the stock option programmes, any non-deductible advance tax payments and interest on tax arrears) are based to a not insignificant extent on estimates and assumptions subject to discretionary judgement, both of which are linked to uncertainty. Against this backdrop and due to the volume of the individual provisions, this matter was considered to be one of the most significant in the auditing of the annual financial statements.

The company's disclosures on other provisions are included on pages 2, 4 et seqq. and 7 of the notes to the financial statements.

Treatment in auditing the financial statements

We assessed the plausibility and appropriate explanation of the figures using calculations and documents submitted by the company as well as by comparing figures with those from the past. We also assessed the consideration of events after the reporting date that have a positive effect on valuations. We inspected contractual documentation and assessed the underlying assumptions and factors affecting valuations.

All in all, we verified that the estimations and assumptions are suitable and justified. We did not determine any indications of discretionary judgement being applied in a biased manner.

Other information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

OTHER LEGAL REQUIREMENTS

Other disclosures pursuant to Article 10 EU AR

We were appointed as the auditor of the annual 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 annual 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)
Wirtschaftsprüfer
[German Public Auditor]

(Wendlandt)
Wirtschaftsprüfer
[German Public Auditor]

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.

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