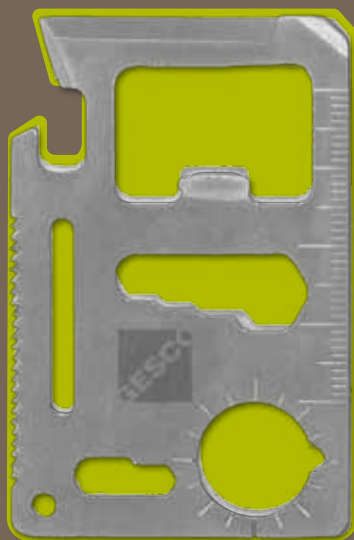


# 2013 ANNUAL REPORT 2014



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THE  
INDUSTRIAL  
GROUP



# THE INDUSTRIAL GROUP

GESCO Group: An association of industrial SMEs. Concentrating on tool manufacturing/mechanical engineering and plastics technology, i.e. core segments of Germany's industrial sector. A group of "hidden champions", market and technology leaders.



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# GESCO GROUP KEY FIGURES (IFRS)

Financial year 01.04.-31.03.		2004/2005	2005/2006	2006/2007	2007/2008
Sales	€'000	192,264	234,327	268,146	333,155
of which domestic	€'000	140,768	172,464	199,470	248,534
foreign	€'000	51,496	61,863	68,676	84,621
EBITDA	€'000	20,114	26,792	31,800	44,281
EBIT	€'000	12,512	18,792	23,728	34,158
Earnings before tax	€'000	11,850	16,562	23,570	30,783
Taxes on income and earnings	€'000	-4,868	-7,100	-9,311	-11,227
Taxation rate	%	41.1	42.9	39.5	36.5
Group net income after minority interest	€'000	6,228	9,325	13,313	17,883
Earnings per share pursuant to IFRS	€	2.50	3.54	4.83	5.92
Investment in Property, Plant and Equipment <sup>1)</sup>	€'000	6,404	9,014	8,332	12,030
Depreciation on Property, Plant and Equipment	€'000	6,318	6,718	6,745	8,252
Equity	€'000	41,878	54,379	74,948	89,845
Total assets	€'000	145,070	174,430	211,762	236,511
Equity ratio	%	28.9	31.2	35.4	38.0
Employees (as at 31.12.)	No.	1,215	1,329	1,543	1,713
of which trainees	No.	60	75	81	105
Year-end share prices as at 31.03.	€	23.61	38.90	38.20	48.00
Dividend per share	€	0.90	1.25	1.50	2.42 <sup>2)</sup>

<sup>1)</sup> Without additions from changes to the scope of consolidation.

<sup>2)</sup> Including dividend bonus of € 0.22 due to 10-year anniversary of IPO.

<sup>3)</sup> Dividend proposal to the AGM on 28.08.2014.

2008/2009	2009/2010	2010/2011	2011/2012	2012/2013	2013/2014	Change
378,388	277,664	335,237	415,426	440,417	453,336	2.9%
276,602	183,536	219,981	270,888	286,609	300,263	4.8%
101,786	94,128	115,256	144,538	153,808	153,073	-0.5%
49,689	27,156	38,180	51,186	51,763	48,719	-5.9%
38,931	16,470	26,958	39,116	37,341	32,010	-14.3%
34,585	13,965	24,091	35,672	33,825	29,018	-14.2%
-10,897	-4,389	-7,651	-11,087	-11,088	-9,261	-16.5%
31.5	31.4	31.8	31.1	32.8	31.9	-
21,618	8,896	15,251	22,531	20,916	18,121	-13.4%
7.16	2.95	5.05	7.40	6.30	5.45	-13.4%
12,354	8,417	9,915	14,937	21,609	27,164	25.7%
8,191	8,758	9,058	9,850	12,190	14,136	16.0%
103,285	105,173	114,678	154,988	166,500	176,604	6.1%
259,598	246,356	260,246	321,138	357,547	379,950	6.3%
39.8	42.7	44.1%	48.3	46.6	46.5	-
1,795	1,733	1,775	1,899	2,292	2,360	3.0%
109	99	92	97	120	144	20.0%
32.50	40.00	58.89	65.40	75.54	76.15	0.8%
2.50	1.30	2.00	2.90	2.50	2.20 <sup>3)</sup>	-12.0%

€ 5.45

EARNINGS PER SHARE

€ 2.20

DIVIDEND PER SHARE

 2,360

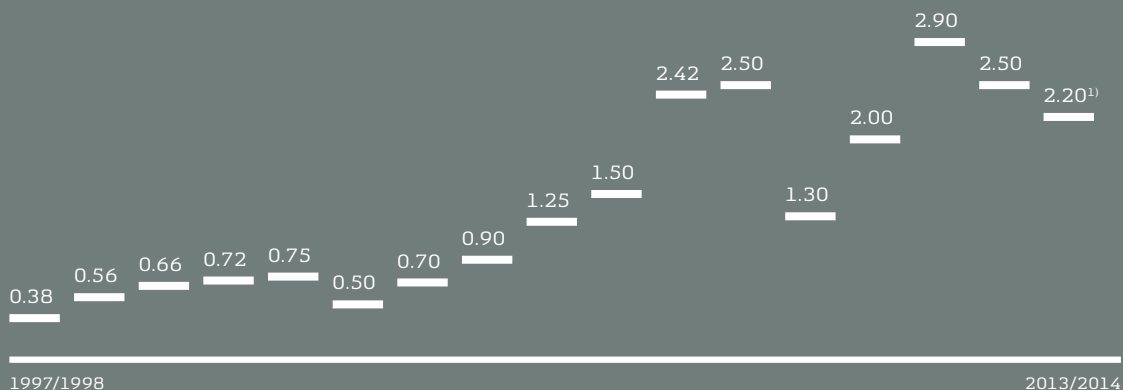
453

€ MILLION SALES

# The equity story

SUSTAINABLE DIVIDEND POLICIES:  
SINCE ITS IPO ON 24 MARCH 1998, GESCO AG  
HAS PAID OUT A DIVIDEND EVERY FINANCIAL YEAR.

DIVIDEND PER SHARE IN €



<sup>1)</sup> Dividend proposal to the AGM on 28.08.2014

THE GESCO SHARE AS AN OUTPERFORMER:  
PRICE PERFORMANCE SINCE THE IPO.

400 %

GESCO

SDAX

0 %

24.03.1998



## A SUSTAINABLY GROWING INDUSTRIAL GROUP

GESCO is a sustainably growing industrial group of leading German SMEs from the tool manufacture, mechanical engineering and plastics technology segments. Our goal is to increase the value of our individual subsidiaries – and, with it, the value of the entire Group – in the long term. We generate internal growth by developing the existing companies in the portfolio. In addition, we concentrate on buying additional “hidden champions” – strong industrial and technology companies with attractive growth potential – from the German SME sector. GESCO does not pursue exit strategies aimed at the later sale of holdings.

## TECHNOLOGY “MADE IN GERMANY”: IN HIGH DEMAND ALL OVER THE WORLD

The GESCO Group companies are strategically and technologically well-positioned specialists with German-made products that are also in high demand internationally. They supply a large circle of customers in a wide variety of markets. The companies secure their leading technological positions through regular investments in their technical equipment. The companies are operationally independent and receive active support from the holding in the form of coaching, consulting and financial controlling.

## SPECIALIST FOR SUCCESSION SOLUTIONS

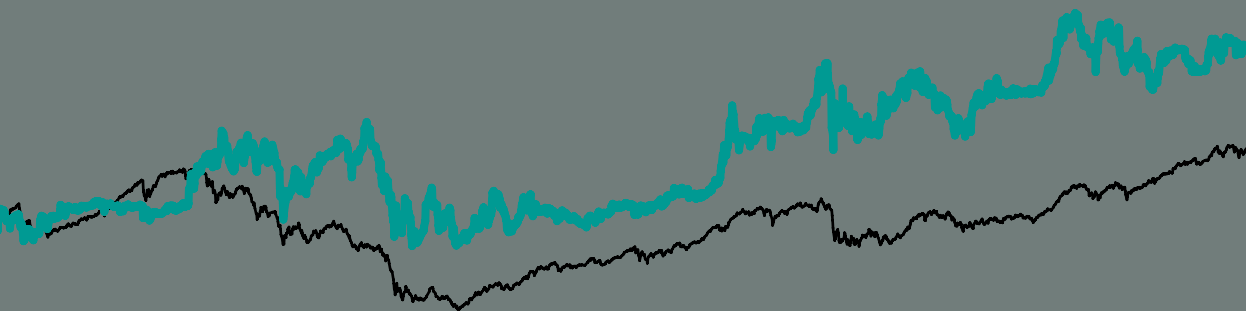
The abundance of unresolved succession issues in the German SME sector provides scope for external growth. GESCO is specialised in such issues. We only acquire majority shareholdings – usually 100%. As part of the succession plan, the new managers usually acquire a 10 to 20% share in the companies they manage. We apply strict criteria to acquisitions. These include business substance and innovative technology as well as the best possible international prospects. The companies should be among the leading providers in their segments and offer long-term potential for development.

## THE GROUP’S ADDED VALUE

We stay true to the spirit of entrepreneurship and the ethos of a family company while shaping companies to cope with the global economy. Our model preserves and promotes the strengths of the SME segment while compensating for potential weaknesses. To offer the best of both worlds, the GESCO model builds a bridge between the world of the family-run SME segment and the capital market.

## THE PEARLS OF THE TECHNOLOGY-DRIVEN GERMAN “MITTELSTAND” IN A SINGLE SHARE

The GESCO share offers investors access to leading companies in the technology-driven German “Mittelstand” some of which are among the top of their class on a national or international level. Investors benefit from our long-proven strategy of generating growth in two ways: internally through developing our subsidiaries, and externally through acquisitions. We ensure sustainable strategies, healthy finances and strong balance sheets at every subsidiary, thereby optimising the Group’s overall opportunities and limiting risks. Thanks to a transparent and calculable distribution policy offering a dividend oriented towards the Group’s earnings, shareholders have a stake in the business success of the GESCO model.



# Foreword by the Executive Board

## DEAR SHAREHOLDERS,

Financial year 2013/2014 was not an easy one for GESCO Group. The operating business missed out on growth momentum, and the share price saw a sideways trend, which is disappointing given rising indices.

What were the reasons?

The lack of economic impetus led to stagnant Group sales in organic terms. Sales growth was generated solely by the first full-year inclusion of all companies acquired in the previous year. Earnings were down because price quality decreases during slack economic periods and capacity utilisation is less efficient. A few of our companies were also affected by specific sector weaknesses and had a disproportionately large negative impact on the Group result. We tackled weaknesses whenever and wherever we identified them and implemented solutions. It was not all gloom, however; the previous financial year also held a few bright spots. Several Group companies experienced encouragingly stable business, and some generated growth in operational terms.

With sales of € 453 million and Group net income for the year after minority interest of € 18.1 million, the Group achieved respectable figures overall. Nevertheless, we are not satisfied with those figures on the earnings side. Demand picked up in certain areas towards the end of the financial year. We are therefore cautiously

optimistic for the new financial year 2014/2015. However, the continued uncertainty expressed in economic and political reports is reason enough to refrain from feeling euphoric.

Regardless of short-term economic fluctuations, we strengthened the Group with substantial investments in financial year 2013/2014. Our company MAE Maschinen- und Apparatebau Götzen GmbH has taken one especially strategic step. MAE, international market leader for automatic straightening machines and wheel presses, was able to take over Eitel Presses, the US straightening machine competitor. This represents an attractive opportunity in the niche markets in which our subsidiaries are typically active.

DR.-ING. HANS-GERT MAYROSE



Strategic measures target the Group's medium and long-term positive development. In other words: they target sustainable development. We feel that the term "sustainability" has become something of a trendy buzzword, so we try to use it sparingly. However, since the company was founded 25 years ago, GESCO AG has seen itself as committed to the idea behind the concept. The ten-year perspective on economic development that we traditionally provide you in the annual report is evidence of the power that a sustainable model such as ours can generate. And the capital market rewards that, even if our share underperformed in the reporting year. Those who subscribed for GESCO shares on 24 March 1998 have recorded an average annual share price increase of over 8 % since then and have received dividend payments to date totalling € 21.54 per share. And provided our proposal for the appropriation of profit is endorsed at the Annual General Meeting on 28 August 2014, there will be an additional dividend of € 2.20 per share. This proposal shows that we are remaining true to our policy of distributing around 40 % of Group net income after minority interest.



ROBERT SPARTMANN

At its core, the basis of GESCO AG's strategy has remained the same since the company was founded. Optimisation efforts and adjustments focus on the details. We touch on several of the key points of this strategy and our approach in the Annual Report, which you are holding in your hands (or reading on a screen). Several aspects of primary importance to us include SMEs and globalisation, company acquisitions as part of succession planning, technology and employees – the key factors for success, the stock market and also sustainability.

We wish you pleasant reading and thank you for your interest in GESCO AG and GESCO Group. Our thanks are also owed to everyone who works with us in the spirit of partnership and with a mind to fair business, from customers, suppliers, banks and public auditors to service providers, public sector bodies and associations. As in every year, we would especially like to thank the employees and managing directors of GESCO Group – their dedicated efforts form the basis of our success.

Yours sincerely,

A handwritten signature in black ink that reads "Hans-Gert Mayrose". The script is cursive and fluid.

Dr.-Ing. Hans-Gert Mayrose

A handwritten signature in black ink that reads "Robert Spartmann". The script is cursive and fluid.

Robert Spartmann







## SMES AND ENTREPRENEURIAL: THE STRATEGY

At its core, GESCO AG's strategy has remained the same since the company's founding in 1989: to acquire, hold and develop healthy industrial SMEs. The goal: to create a strong group of "hidden champions" led by a lean holding as the parent company. Operational independence was and still is a key tenet, in addition to controlling as well as coaching and consulting provided by GESCO AG. While retaining their respective autonomy, the GESCO Group companies benefit from sharing ideas and experience, best practice and the transfer of expertise.

As a basic rule, GESCO AG acquires majority interests. In principle, the holding period is unlimited; the exit has never been part of the GESCO business model. GESCO AG has also never aimed to be a restructuring company. Rather, it has focussed on acquiring healthy companies with a proven history of success. To this day, GESCO believes that the corporate succession plan is the ideal way to acquire new companies, whereby GESCO typically takes over 100 % of the shares. The new management then takes on a 5 % to 20 % stake in the company they head – the entrepreneurial component is therefore preserved.

# PRESERVING STRENGTHS, ELIMINATING WEAKNESSES

One of the strategy's essential elements is to preserve the strengths of the industrial SME within an intelligent model, to compensate for potential weak points and to create new growth and development opportunities through capital market orientation.

Well-managed SMEs have decisive strengths, including short communication channels, which enable quick decision-making, specific responsibility, and management's personal relationship to the market, as well as to customers, suppliers and competitors. Decisions are made based on practical experience, not on the drawing board. Ideally, the policy of "no politics" is achieved and maintained, meaning that all resources and energy are directed towards the shared task at hand.

When this is the case, management and employees can focus on those things that bring success: creating convincing technical solutions that inspire, attract and retain customers.

In addition to these traditional strengths, there is also a typical set of weaknesses to be found at SMEs. For instance, the founders or owners of the company often come from an engineering background and lack the necessary focus on matters of financing. Strategy development can also run the risk occasionally of falling victim to the demands of day-to-day business. GESCO AG addresses these issues provided there is a need for optimisation. GESCO AG assists Group companies in an advisory capacity with respect to financing structures and major investments. Each company holds a strategy day once a year in which the management and management team of each subsidiary as well as GESCO AG representatives take part to develop the company's future prospects and prepare plans to make them a reality. Strategy development is also reflected in regular on-site visits.











## NETWORKING AND EXCHANGE: AN UP-TO-DATE MODEL

However much we are convinced of the power of entrepreneurship, it is equally clear today that there are limits to the model of sole decision-maker. In the 25 years since GESCO was founded, globalisation and digitalisation have radically redefined the framework for business models. Technological development has accelerated tremendously and complexity has increased greatly, driven by market developments, on the one hand, and a thicket of regulation on the other. From compliance to the General Equal Treatment Act (AGG), from environmental regulations to matters of accounting and financing, companies have seen a spate of demanding tasks placed on their management. Dealing with all of them is both a matter of management capacity and an economic issue: margins must be high enough for a company to be able to afford simply meeting all of these requirements.

With respect to the considerable increase in various requirements, it makes sense – now more than ever – for SMEs to become part of a strong group and for companies as well as entrepreneurs to abandon their isolated status, instead becoming networked, sharing experiences and learning from each other. This is how collaboration in the GESCO model has always functioned – which has proven itself to be a highly up-to-date model.



# GLOBALISATION: A BLESSING AND A CURSE

Since GESCO AG was founded, globalisation has greatly picked up pace, the borders and economies of Eastern Europe have opened up, and China has launched itself into the top three industrial nations. All of these developments have entailed – and continue to entail – both opportunities and risks. Many of the business models in Germany and Western Europe fell apart as the production of simple tools, machines, cast parts or components was first relocated to Eastern Europe and then to Asia. Particularly in our capacity as a long-term investor, we must always ask ourselves whether the business models of existing or potential subsidiaries will still be economically relevant in Germany in five or ten years.

At the same time, there are major opportunities. The massive growth of the German automotive industry is due in large part to the Chinese market – while it also acts as an engine driving the economic and technological development of the German supplier industry and the tool manufacture and mechanical engineering sectors. Millions upon millions of people in emerging markets are striving for a better standard of living. This economic catch-up is and will continue to be a powerful driver for large parts of German industry, regardless of short-term fluctuations. GESCO Group also benefits from this trend as regards its materials, machinery, tools and components.

This does not necessarily mean that smaller SMEs have to take part in these trends in the form of direct exports. Indirect exports can present a more affordable option that carries fewer risks. For instance, Haseke GmbH & Co. KG develops and produces suspension, lift and swivel arm systems for the medical technology sector, among others. And Frank Walz- und Schmiedetechnik GmbH manufactures wear parts for the agriculture market. Both companies supply a large portion of their components to German customers, who integrate them into systems or vehicles, which are marketed internationally. In terms of bookkeeping, these represent domestic sales, but globally increasing demand is responsible for driving business.







## BOTH FOCUSSED AND DIVERSIFIED: THE PORTFOLIO

Over time, the portfolio has been given greater focus, and it has offered the capital market a clear profile for many years. The accusation of creating a “hawker’s tray” that many holdings face does not apply to GESCO. For many years, the Group has focussed on the tool manufacture/mechanical engineering and plastics technology segments. We achieve the diversification we have strived for from the outset by broadly diversifying our customer sectors, which counteracts the dependency on individual sectors. In addition, these two segments in Germany form broadly based sectors with a wide range of different business models and sales markets. The various manufacturing and lead times also help to ensure balance over the economic cycle. While the Group’s mechanical engineering companies often agree upon delivery times of twelve months or more with their customers, the special steel trading partly supplies its customers on a 24-hour cycle.





## SYNERGIES: ON A VOLUNTARY BASIS

As a basic rule, companies are taken over on a stand-alone basis, and synergy effects are not a primary focus during an acquisition. "Prescribed" synergies would undermine the entrepreneurial autonomy of the individual subsidiaries and their managing partners and, to a certain extent, relieve managers of their corporate responsibility.

However, the holding company stimulates an exchange of experience and information as well as collaborative activities provided it makes sense to do so. All managing directors gather at an annual company meeting so they can get to know each other and share ideas and experience. External speakers provide input on topics that affect all companies.

The holding company provides centralised support with such services as regularly obtaining and reviewing ratings from commercial credit insurers and rating agencies, as well as initiating regular and systematic monitoring of insurance coverage. By pooling needs, we enable access to such services at the conditions of major customers.




# HISTORY



24 MARCH 1998:  
GESCO AG'S IPO

22 MAY 1989:  
GESCO GMBH  
IS FOUNDED





24 MARCH 2014:  
LISTED ON THE STOCK EXCHANGE  
FOR 16 YEARS

SHARE PERFORMANCE +251.7 %  
A DIVIDEND OF € 21.54 PER SHARE  
OVERALL

It started with an idea... The five founders of GESCO AG, consisting of entrepreneurs, public auditors and tax advisers, were all associated with SMEs. They recognised the matter of succession as a pressing problem for SMEs and aimed to do their part in finding a solution. At the same time, they saw attractive investment opportunities in the acquisition of companies with no prospect of a continuation in the family. This is how the idea of establishing a group of successful, well-positioned industrial companies under the umbrella of a holding to be kept intentionally lean took shape. The exit, in other words the sale of the companies at a later date, was not a part of the plan, nor was the acquisition of companies in need of restructuring. On 22 May 1989, GESCO Industrie Holding GmbH was entered into the commercial register, and its transformation into a stock corporation was completed in December of the same year.

The IPO occurred on 24 March 1998, following a phase of portfolio expansion and acquiring more private shareholders. It aimed to give the Group more financial leeway for continued growth. The IPO was a resounding success – the share was oversubscribed by a factor greater than 40. In 1999, the company's name was streamlined and changed to GESCO AG.

Over the course of the years, GESCO has refined its strategy, further developed those ideas that proved successful, discarded those which did not work as well and learned from its mistakes. At its core, however, the strategy has remained the same to this day. Since GESCO AG was founded, it has looked at numerous companies, considered quite a few of them and purchased comparatively few. Moreover, it has sold even fewer companies. The sale of companies is not part of the strategy, but it can sometimes be a sensible course of action for strategic reasons and also in the interest of the respective company.

# SUCCESSION: ALWAYS A CURRENT ISSUE

Succession planning in SMEs is a much discussed topic. For GESCO AG, it is still by far the most important way of making new acquisitions.

A great deal has changed in this respect too since the company was founded. An abundance of publications, initiatives and campaigns has raised the awareness of entrepreneurs to this pressing issue. The level of professionalism in conducting transactions has increased. Today, proprietors rarely try to sell their companies on their own. Calling on the advice of a consultant is helpful for all those involved as long as the consultant has specific expertise in the area of succession planning. The type and number of potential buyers has also increased, and competition has become more intense. Besides strategic investors, who have always been on the scene, private equity firms have now also entered the picture, as well as family offices, which, following the last financial crisis, have also been striving to increase their direct investments in the SME sector.

The institute for research on small and medium-sized enterprises Institut für Mittelstandsforschung (IfM) in Bonn has determined that between 2014 and 2018, succession plans are pending in a total of 135,000 companies. As succession planning cannot be resolved within the family in about half of these cases, the field of activity for investors remains large. Moreover, it is a revolving issue as companies continue to be established and transition within the family becomes increasingly rare.

There are also some persistent stereotypes in the discussion about succession planning. There is still talk of “having to fill the big shoes” of the retired “patriarch”, a task that is purported to be difficult to master. However, most investors would view a company that is too specifically moulded to its proprietor extremely critically. The risks that could occur upon the proprietor’s departure would be incalculable. An overly patriarchal management style can become a negative factor, as it is unclear how independently the workforce operates and whether the company is able to develop its culture and attract new employees.

## Passion and rationale

On the whole, it is our impression that despite all their passion and enthusiasm, the new generation of entrepreneurs that are willing to sell adopts a more rational approach to the issue of succession than their predecessors once did.

To ascertain that a new management usually identifies and implements measures for improvements by no means diminishes the respect and appreciation that is held for the predecessors. It could be that the new managers have a greater affinity with the world of IT and can introduce modern systems for production planning and management, or that they are more willing and able to tap into new export markets on account of their training and education. New management expertise or a more transparent, more cooperative style of leadership can also bring a business forward.

The workforce, too, not infrequently welcomes a change of generation at the top. If it is delayed for too long, however, the workforce also sees this as a risk and the company is in danger of losing its best employees.

### **Traditional constellation in succession arrangements**

Traditionally, GESCO AG acquires 100 % of the shares, meaning that succession is resolved at the shareholder level. In companies with annual sales in the region of approximately € 10 million to € 50 million, which is the size relevant for us, the proprietor is usually the managing director, meaning that the succession issue also needs to be resolved at the management level. The seller's role continues for a transitional period until a successor is found and trained, which takes an average of about nine to twelve months. From the outset, the new managing director is committed to acquire shares in the company under his or her management following a period of mutual acquaintance. This stake amounts to between 5 % and 20 %, depending on the size of the company. We see this as a crucial component of the GESCO model that ensures that there is a balance between the interests of all those involved: both management and GESCO AG as the majority shareholder are equally geared to act in the long-term interests of the company. In addition, participating in the company's equity strengthens the manager's internal and external standing. Those that enter into such a constellation in cooperation with GESCO AG generally see it as a lifetime mission.

### **"Premature" succession**

Some entrepreneurs decide to sell their companies well before reaching retirement age. In most cases, this intention is based on the insight that they are unable to find a successor within the family. Moreover, particularly in the case of companies that have expanded strongly, some proprietors consider it a risk when the company is focused on them as an individual. It could be they do not want to finance and manage the next significant growth steps alone. In such cases, resolving succession at an early stage by selling the company whilst still being able to actively shape business operations as managing director can be a sensible solution.

# TECHNOLOGY:

## STATE OF THE ART, WITH AN EYE ON THE MARKET

The GESCO Group companies are technologically focused, and many of them operate in niche markets. Some of them are leading suppliers in their respective sectors, and some are international market leaders. Although reliable data is not always available for these highly specialised markets, it is possible to estimate their market positions.

- MAE Maschinen- und Apparatebau Götzen GmbH is the market leader in automatic straightening machines and wheel presses with a global market share of more than 60 % in each product group.
- SVT GmbH is one of the two leading global suppliers of loading arms for liquefied natural gas (LNG).
- Dörrenberg Edelstahl GmbH is the leading European specialist for tool steel.
- The Werkzeugbau Laichingen Group is one of the leading manufacturers of high-performance tools for forming sheet metal.
- Modell Technik GmbH & Co. Formenbau KG is one of the leading European manufacturers of moulds for aluminium die casting.
- Frank Walz- und Schmiedetechnik GmbH is Europe's leading forge for the production of wear parts for the agriculture market.
- The Setter Group is the global quality and volume leader in paper sticks for use in the sweets and hygiene industry.

A leading technology is not always the only thing at the heart of the business model. Some companies, such as the Werkzeugbau Laichingen Group, score with sophisticated service concepts. This ranges from on-site service in customers' production lines through to regular revision and optimisation of externally manufactured tools. In other cases, access to the market has been built up over decades, such as in Dörrenberg's special steel business. This is also a lead that no competitor will be able to match in the short term.

Ultimately, the strategy in the niche markets aims to build the highest possible barrier to entry in a market which, due to its limited volume compared to mass markets, is not as attractive for new competitors.









## REGULAR INVESTMENTS ARE COMPULSORY

The development and production of technologically sophisticated products requires appropriate means of production – a modern machine park is imperative. This is why regular investments in machinery and equipment, but also in appropriate information technology tools such as ERP systems for production planning and management, are a matter of course for GESCO AG as a long-term owner.

While the extent of investments in replacements and optimisation is typically roughly in line with the level of depreciation, GESCO Group also made considerable strategic investments in financial year 2013/2014. This particularly benefits those companies where we see particular growth opportunities. Investments in expanding capacity as well as the product ranges were flanked by investments in land, machinery and equipment.





# PEOPLE: A QUESTION OF QUALIFICATION AND MOTIVATION

A business cannot be successful without satisfied customers. In the same vein, a business cannot have satisfied customers without satisfied employees. Recruiting and retaining employees as well as supporting their opportunities for development is a strategic task. Their importance can scarcely be overestimated, and will continue to increase in the future. GESCO Group companies meet this challenge with various measures in order to position themselves as an attractive employer in their respective region. The companies attract academic graduates by conducting contests for student projects, cooperating with universities and other educational institutions as well as offering dual courses of study. Participating in activities such as Girls Days and cooperating with schools in general helps to dovetail the worlds of schools and work and at the same time promotes contact with potential trainees. On-the-job training continues to be one of the fundamental pillars for HR management. Companies that pursue their own interests by participating in such activities are also fulfilling their responsibility to society.

The best qualifications are only worth something if the employees can put them to use in a job they enjoy doing. Those who merely work according to their job descriptions will not necessarily feel at home in an SME. Those who are passionate about the task itself, who want to find expression in and experience the results of their work quickly and first hand, are in the right place. An employee that identifies with their respective employer is typical of the SME sector.

The company is still of a modest size, the employees know each other and have a sense of their employer's economic situation. Employees of older companies are quite often in the second or even third generation.

And the workforces are clearly well-disposed to GESCO as the majority shareholder. Since the IPO in 1998, the AG has conducted an employee share scheme every year, which allows Group employees to acquire GESCO shares at favourable terms to the extent permitted by tax regulations. The scheme aims to help employees grow their assets in the long term, although the shares are not subject to lock-up periods. The high participation rate of 46 % at the last count also reflects the workforce's confidence in GESCO AG.







>8 %

AVERAGE ANNUAL SHARE  
PRICE GAIN SINCE THE IPO

STOCK MARKET:  
GEARED TO THE CAPITAL  
MARKET OUT OF CONVICTION

GESCO is listed on the stock exchange out of conviction. The IPO, which was completed in March 1998, had been planned since the company was founded for the purpose of providing the Group with capital for expansion. Whatever changes and upheavals that have occurred on the capital markets since then, and despite all the regulatory hurdles, we believe in the basic idea of the stock market: bringing together companies and investors for mutual benefit. Since the IPO, we practice open and continuous communication and active investor relations. Fair disclosure, in other words, providing the same information to all stakeholders at the same time, has always been our policy since the IPO. Moreover, within the limits of our possibilities, we advocate a functioning capital market and the development of equity culture in Germany in institutions such as Deutsches Aktieninstitut (DAI) and the German IR Association Deutscher Investor Relations Verband (DIRK).

### Fresh capital when required

If major steps in the growth strategy are pending in the form of acquisitions, we use the capital market where necessary to raise new equity. "Small" increases of up to 10% of share capital have proved to be successful. This is what we practiced in the years 2005, 2007 and 2012. GESCO AG's long-term investor relations strategy, good track record and reputation mean that issues can be placed with institutional investors at home and abroad quickly, efficiently, and cost effectively. The total of the three capital increases conducted after the IPO led to more than twice as much capital being raised than was injected in the company during the original IPO – this was due to a substantial increase in earnings potential in the Group and the associated share price gains, which led to a higher level of market capitalisation.

### Return on investment and conviction

The view that the stock market is merely a place for short-term thinkers and speculators belongs in the world of clichés. We regularly meet investors who invest their own money or funds entrusted to them very carefully and very deliberately, analyse business models thoroughly and have a long-term commitment to their shareholdings. Approximately 60% of the shares are held in the portfolios of private investors. Of course, these investors are aiming for an appropriate return on their investment in the form of dividends and share price development. Through our contacts, meetings, phone calls and e-mails, we have at the same time gained the impression that many of them are investors who deliberately invest in a medium-sized, entrepreneurial business model. Quite a few shareholders are entrepreneurs themselves or have some form of connection with the SME sector. The institutional investors, who hold around 40% of the share capital, are predominantly long-term investors such as foundations, traditional funds, asset managers or family offices.

In financial year 2013/2014, the GESCO share performed well below our benchmark index SDAX and other major indices, but the share is trend wise positive in the medium term. An investor that purchased shares during the IPO in 1998 has benefited from average annual share price gains of more than 8% and has received dividends per share totalling € 21.54. Given GESCO AG's diversified, relatively risk-averse business model, these figures are not bad.







# SUSTAINABILITY FROM THE OUTSET

The idea of sustainability is deeply rooted in GESCO's DNA. Even though the term has become a buzzword in recent years, GESCO has been committed to the sustainability cause since it was founded. What could be more sustainable than continuing with and developing proven business models? We see it as our central task to secure the future of the Group in the long term.

Most of our companies have been in business for several decades. Georg Kesel GmbH und Co. KG and the Werkzeugbau Laichingen Group were founded in the late 19th century. Dörrenberg has been in business for more than 150 years and Frank Walz- und Schmiedetechnik for more than 175 years. Without sustainable management, none of these companies would be where they are today.

We have a long-term horizon, which is logically based on the following essential components: regular investments in technical equipment and a positive, constructive relationship with our employees. And solid financing as a basis for all of this.

If we go into the details, there is of course more to it, such as fair, partner relations with customers and suppliers. We advocate long-term partnerships as all parties benefit from them. Depending on the economic cycle and the demand situation, sometimes one party has greater leverage, and sometimes another. Despite each being necessarily geared to commercial success, partnership relations also mean that neither side should overstep the mark – in the knowledge that the tide will turn again.

An essential component of sustainability is the relationship between the parent company and the subsidiaries when it comes to distribution of profits. GESCO AG and the respective companies jointly decide which payout ratio is appropriate depending on the current situation. Accordingly, less profit is distributed in periods of strong growth and high investment. We see further evidence of sustainability in the fact that the costs of financing acquisitions, as is customary in the private equity industry, are not assigned to the operating companies, but remain at the level of the acquiring holding company. In this way, the companies are not burdened with interest payments on the repayment of principal, are able to act confidently in periods of growth and, if business should decline, do not run the risk of violating debt covenants of the lending banks and facing financial difficulties.



## FINANCES

A healthy financial position is the basis of sustainability. Specifically, this means a strong, solid equity base, adequate liquid assets and a moderate level of net bank debt.

All subsidiaries have a solid equity base with capital ratios generally above 30 %, and in some cases significantly higher. This means that the companies are able to take out necessary loans at favourable terms. If necessary, GESCO AG will act in an advisory capacity in this regard, but it does not assume the role of a central debt financing mechanism for the Group. Moreover, this avoids dependence on individual banks – an otherwise common problem of smaller companies in the SME sector.

Since the foundation of the company, one of the core corporate philosophies has been to avoid possible knock-on effects as far as possible. Entrepreneurial activity also implies the possibility of failure. If one of the companies should fail, however, then the Group as a whole must not fall into distress. This is why GESCO foregoes the use of instruments such as cash pooling or joint liability schemes. The only exceptions to this rule are individual profit and loss transfer agreements, which are concluded for tax reasons. Moreover, the parent company has no contractual obligation to offset the losses of subsidiaries. Even in 2009, the year of the financial crisis, the holding company did not inject liquidity into the companies. The parent company merely issues declarations in which it commits not to undertake additional payouts if the equity ratio falls below a defined level.



# WHERE DO WE GO FROM HERE?

The global competition landscape is changing. China is moving away from being a low-wage country and is increasingly using automated systems. This presents both opportunities and threats. The US is experiencing a renaissance of its industrial sector due to a dramatic fall in energy costs. As this requires significant investment to some extent, this is good news for suppliers of machinery and equipment. At the same time, the low energy costs provide US companies with a distinct competitive advantage. MAE Maschinen- und Apparatebau Götzen GmbH, the global market leader in automatic straightening machines and wheel presses, took a decisive step forward in this important market by acquiring its US competitor and market leader Eitel Presses at the beginning of 2014.

The rapid advance in technology also continues unabated. Under the term "Industrie 4.0" ("Industry 4.0"), mechanical and plant engineering and information technology are merging. German industry, with its in-depth expertise and strong network, has a good chance of developing new business models from this initiative. At the same time, they need to be vigilant, because threats of an unexpected nature can also arise. For example, Google purchased no less than eight manufacturers of robots in 2013 and is reportedly working with Foxconn on an operating system for robots. Will there be more margins in hardware or software in the future? Questions that German manufacturers of capital goods should be dealing with.

Another much-discussed topic is the laser melting technology that is commonly known as 3-D printing. The technology itself is a rapid prototyping method that has been used in the construction of models and prototypes since the 1980s. The possibility of using this application on a wider scale in industry as well as in the consumer sector is currently being discussed and tests are also underway. Our subsidiary C.F.K. CNC-Fertigungstechnik

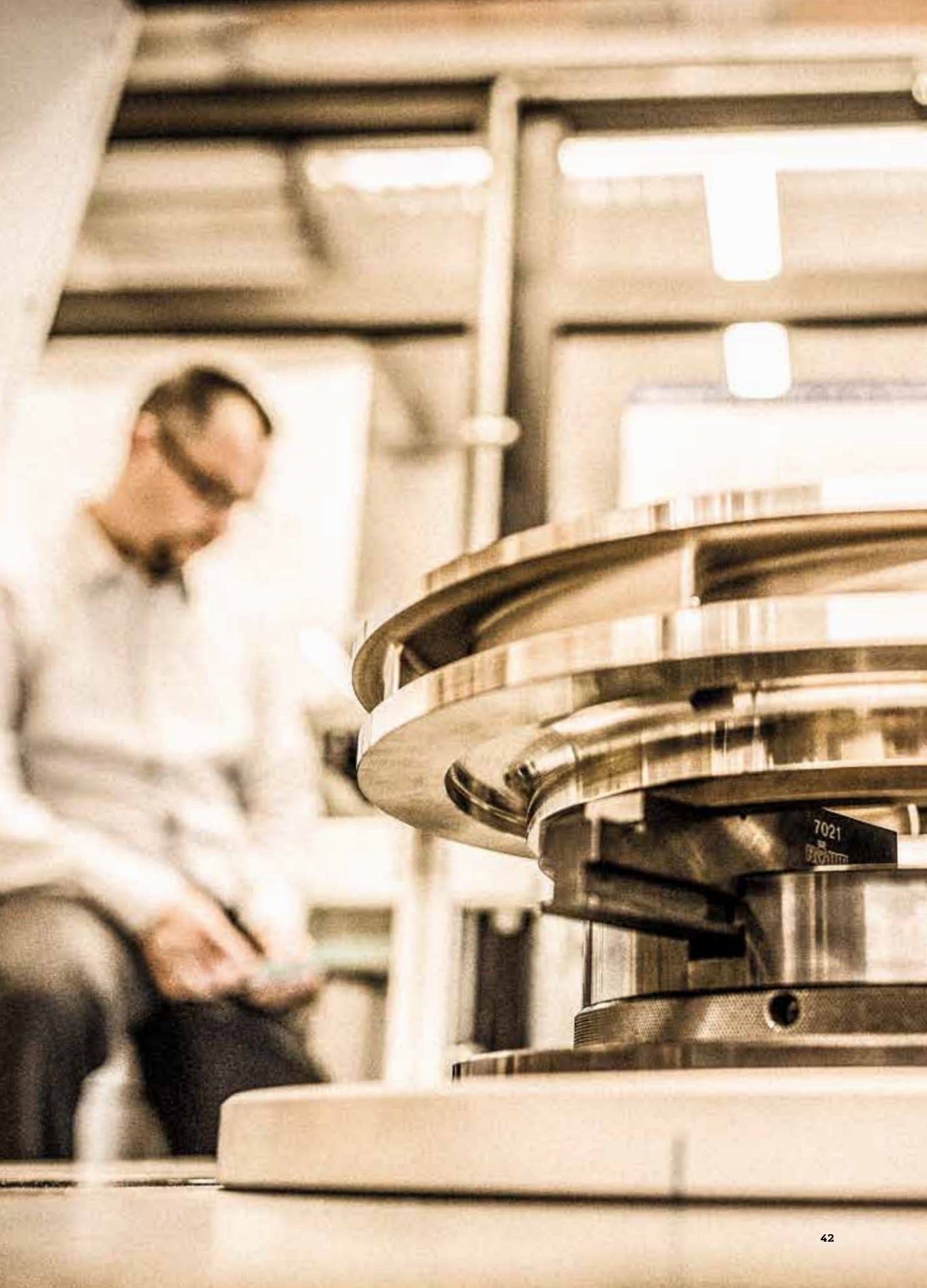
Kriftel GmbH operates in this field, manufacturing products such as patient-specific medical implants. It is currently not possible to make a reliable prediction as to what extent 3-D printing can replace conventional manufacturing processes such as milling or casting – but the progress of this technology must be closely monitored and analysed in any case.

According to consultants' charts, companies go through certain "phases" from formation of the company, growth and decline through to insolvency and resurrection, sometimes combined with an IPO and then going private. These conventionalised portrayals should no longer be confused with business reality. **In real life, companies have histories. In the case of GESCO Group, these histories often go back many decades, sometimes far more than a hundred years. We see it as our task to successfully carry on the histories of these companies.**













## FURTHER GROWTH – IN THE INTERESTS OF ALL STAKEHOLDERS

Our basic policy is: GESCO Group plans to grow internally and externally in the interests of all stakeholders. The reason why the whole business model is so successful is because of the clear benefits it offers each partner:

The **previous owner** that is selling the company to GESCO can enter into a new phase of life with the safe knowledge that his or her life's work is in capable hands and that employees' jobs are safeguarded. He has sold to an investor who neither wishes to break up, merge or resell the company in a few years' time.

The **new managing director**, who is generally appointed from outside the ranks of the company, but in the case of a management buy-out can also come from within the company, is entirely responsible for heading the operating business but can also fall back on the expertise of GESCO AG as well as that of other companies in the GESCO Group as required.

The **workforce** can depend on the fact that the company will retain its established identity, while fresh impetus will contribute to the company's development.

**Customers, suppliers, business partners and banks** benefit from the continuation of a successful business.

The **economic benefit** is therefore immense, as a business entity that is worth preserving will continue to exist in the long term.

The GESCO share gives the **GESCO shareholder** access to the ambitious, creative industrial SME sector. Unlike a fund, GESCO AG as the main shareholder exerts direct influence on the strategic business policy, appoints the management and provides the companies with intense support.





# ALKO20

## INFORMATION ON THE GESCO SHARE <sup>1)</sup>

International Securities Identification Number (ISIN)	DE000A1K0201
Securities Identification Number (SIN)	A1K020
Stock market abbreviation	GSC1
Share capital (31.03.2014)	€ 8,645,000
Number of shares (31.03.2014)	3,325,000
IPO	24 March 1998
Issue price	DM 42 / € 21.47
Year-end price, previous year (28.03.2013)	€ 75.54
Year-end price, reporting year (31.03.2014)	€ 76.15
Reporting year high (20.05.2013)	€ 81.10
Reporting year low (30.08.2013)	€ 66.00
Market capitalisation as of 31.03.2014	around € 253.2 million
Free float	around 86.4 %
Market capitalisation of free float as at 31.03.2014	around € 218.8 million
Shares held by members of the Supervisory Board (31.03.2014)	13.7 %
Shares held by members of the Executive Board (31.03.2014)	0.6 %
Transparency standard	Prime Standard
Indices	SDAX CDAX overall index Prime All Share Prime Industrial Classic All Share Prime Industrial Diversified

## STOCK EXCHANGES

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

## GOOD REASONS TO BUY THE GESCO SHARE:

THE GESCO SHARE PROVIDES  
ACCESS TO THE AMBITIOUS  
SME SECTOR

STABLE BUSINESS MODEL  
PROVEN OVER MANY YEARS

SOUND, HEALTHY ASSETS  
WITH LOW BALANCE SHEET  
RISKS

SUSTAINABLE, CALCULABLE  
DIVIDEND POLICIES

HIGH LEVEL OF MANAGE-  
MENT EXPERTISE WITH  
INDUSTRY EXPERIENCE

OPPORTUNITIES THROUGH  
NUMEROUS UNSOLVED  
SUCCESSION ISSUES

ACTIVE INVESTOR RELATIONS,  
HIGHLY TRANSPARENT  
REPORTING

## DIVIDEND PER SHARE IN €

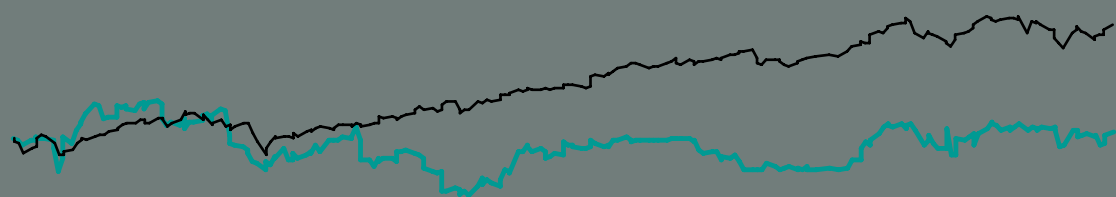


<sup>1)</sup> All share prices reflect the XETRA closing price

<sup>2)</sup> Dividend proposal to the AGM on 28.08.2014

### GESCO VS. SDAX (1 YEAR)

140%



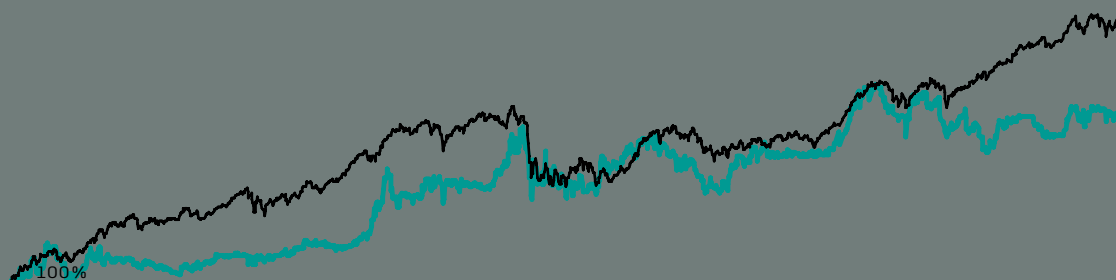
80%

31.03.2013

31.03.2014

### GESCO VS. SDAX (5 YEARS)

320%

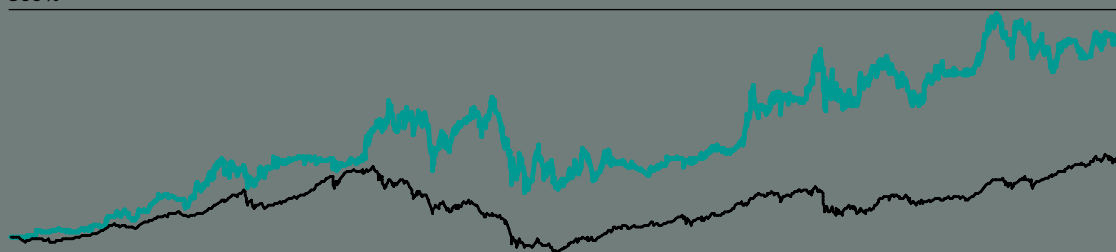


31.03.2009

31.03.2014

### GESCO VS. SDAX (10 YEARS)

500%



100%

31.03.2004

31.03.2014

GESCO

SDAX

DIVIDEND  
PER SHARE

€ 2.20 <sup>2)</sup>

EARNINGS  
PER SHARE

€ 5.45

YEAR-END SHARE PRICE,  
REPORTING YEAR

€ 76.15

## THE SHARE

The GESCO share offers investors access to leading companies in the technology-driven German Mittelstand. Thanks to price performance and sustainable, calculable dividend policies, investors participate in the business success of GESCO Group.

In 2013, the German stock markets performed well across the board, and our benchmark index, the SDAX, recorded a rise of 27.2%. The GESCO share, in contrast, moved sideways and finished calendar year 2013 nearly unchanged with a slight gain of 0.4%. In financial year 2013/2014, the GESCO share also posted a gain of 0.8%, remaining well behind the SDAX, which rose by 25.8% during this period.

SHARE PRICE LARGELY  
UNCHANGED OVER  
COURSE OF THE YEAR

This is a disappointing development after the GESCO share outperformed the SDAX significantly in the past two financial years. For the most part, the strong rise of the index was probably driven by liquidity as the investment alternatives to shares were not very attractive. As a smaller SDAX share, GESCO AG traditionally does not benefit very much from liquidity-driven price rises.

In Deutsche Börse AG's MDAX and SDAX indices, the GESCO share ranked 87<sup>th</sup> in terms of market capitalisation and 91<sup>st</sup> in terms of trading liquidity.



## ANALYSTS MOSTLY POSITIVE

The GESCO share remains widely spread, with share capital in the hands of some 9,000 investors. The entrepreneur Stefan Heimöller, who was appointed as a member of the Supervisory Board by the Annual General Meeting in 2013, holds approximately 13.6 % of the shares. According to the regulations of Deutsche Börse AG, such private shareholdings exceeding 5 % have to be deducted from free float. To our knowledge, of the remaining free float of around 86.4 %, around 46.4 % is held by further private investors and about 40 % by institutional investors. German investors hold around 85 % of the shares. Further key shareholder markets include Switzerland, Luxembourg, the US and the UK.

As in the previous year, research into the GESCO share was compiled by equinet Bank AG, Close Brothers Seydler Bank AG, Bankhaus Lampe, GSC Research, WGZ-Bank and Performaxx. On the reporting date, four analysts rated the share as “buy”, one with “accumulate” and one as “hold”.

## DIVIDEND POLICIES

## SUSTAINABLE AND CALCULABLE DIVIDEND POLICIES

We see a sustainable dividend as an important factor for the position of the GESCO share. We are aiming for a distribution ratio of around 40 % of Group net income after minority interest, adjusted by possible one-off effects. The dividend is therefore inseparably linked to earnings, which we believe is appropriate for an entrepreneurial investment such as shares. We feel that this ratio provides a perfect balance between the request of many investors for distributions and GESCO Group's need to retain sufficient liquid assets for securing future growth. Thanks to this clear dividend policy, which we have followed for many years, we are highly calculable for investors.

On 26 July 2013, a dividend for financial year 2012/2013 amounting to € 2.50 per share was paid out, corresponding to a total volume of around € 8.3 million. At the Annual General Meeting on 28 August 2014, the Executive Board and Supervisory Board will propose a dividend of € 2.20 per share for financial year 2013/2014. At the time this decision was made, the dividend return, based on the proposed dividend, amounted to 2.9 %.

## DIRECTORS' DEALINGS

Both Executive Board members, Dr. Hans-Gert Mayrose and Robert Spartmann, informed GESCO AG in August 2013 that they had acquired 1,000 GESCO shares each.

## INVESTOR RELATIONS

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

We have also been a member of the **Deutsches Aktieninstitut e. V. (DAI)** since 1999 and support the development of share culture in Germany. We also raise issues encountered by listed SMEs in DAI's Workgroups.

GESCO AG won third place at the **GBC Award 2013** during the Capital Market Conference in Munich in December 2013. As a result, GESCO AG has now made the top three for the fourth time in a row. Criteria of this award include the continuity of IR communication as well as the quality of publications and company presentations.

GESCO AG WINS  
THIRD PLACE AT  
GBC AWARD 2013

Our website, **www.gesco.de**, is a central information platform for all issues relating to the GESCO share, GESCO AG and GESCO Group companies. Since financial year 2010/2011, we have published video commentaries on the quarterly figures by Executive Board member Dr. Mayrose, who is responsible for Investor Relations, on our website. We see this as a contemporary method of conveying information to supplement the comprehensive written reports. These videos have been very well received by institutional and private investors, as well as by those involved in the M&A process and entrepreneurs. The videos can also be recalled on Youtube.

We maintained active investor relations and general public relations activities during financial year 2013/2014. These activities mainly consisted of replying to shareholder questions, roadshows, holding one-on-one meetings with domestic and foreign investors and analysts, and presenting our business model during capital market events.

The following events deserve special mention:

<b>6 May 2013</b>	Deutsche Börse Spring Conference, Frankfurt/Main
<b>11 June 2013</b>	Annual Accounts Press Conference and Analysts' Meeting, Wiesbaden/Kriftel
<b>24/25 June 2013</b>	Small & Mid Cap Conference, Close Brothers Seydler Bank AG, Paris
<b>8 July 2013</b>	DSW Frankfurter Aktienforum (DSW Frankfurt Share Forum), Frankfurt/Main
<b>27 August 2013</b>	DVFA Small Cap Conference, Frankfurt/Main
<b>5 September 2013</b>	Zurich Capital Market Conference, Zurich
<b>26 September 2013</b>	Baader Investment Conference, Munich
<b>1 October 2013</b>	German Mittelstand Conference, New York
<b>16 October 2013</b>	Unternehmen treffen Investoren (Companies Meet Investors), Munich
<b>12/13 November 2013</b>	German Equity Forum, Frankfurt/Main
<b>21 November 2013</b>	Hamburg Investors Conference, Hamburg
<b>5 December 2013</b>	Münchener Kapitalmarkt-Konferenz (Munich Capital Market Conference), Munich
<b>11 December 2013</b>	European Midcap Event, Close Brothers Seydler Bank AG, Geneva
<b>15 January 2014</b>	Dr. Kalliwoda Capital Markets Conference, Warsaw
<b>13 February 2014</b>	Small and Mid Cap Conference, Close Brothers Seydler Bank AG, Frankfurt/Main
<b>24 March 2014</b>	DSW Aktienforum (DSW Share Forum), Cologne



# DECLARATION OF COMPLIANCE AND CORPORATE GOVERNANCE REPORT

In this report, the Executive Board – on its own behalf and that of the Supervisory Board – provides information on its corporate governance in accordance with Section 3.10 of the German Corporate Governance Code and Section 298a of the German Commercial Code (HGB).

The Executive Board and Supervisory Board of GESCO AG govern the Company with a view to sustainability. The business model is of a long-term nature and all measures are aimed at sustainable positive development. The Executive Board and Supervisory Board of GESCO AG agree with the aims of the Code to promote good, trustworthy Company management for the benefit of shareholders, employees and customers.

The Executive Board and Supervisory Board submitted a declaration of compliance in accordance with Section 161 of the German Stock Corporation Act (AktG) in December 2013 and made it permanently available to shareholders on the company website ([www.gesco.de](http://www.gesco.de)). It is also included in this corporate governance report.

The company dealt with the issue of corporate governance early on, already recognising the precursors to the Code published by the Government Commission on the Corporate Governance Code in February 2002. The version dated 15 May 2012 applies at present. Section 161 of the German Stock Corporation Act (AktG) requires an annual declaration of compliance with this Code. The current declaration of compliance and previous declarations are available to our shareholders and other interested parties on our website.

The Code requires a corporate governance report and, in particular, explanations regarding deviations from its recommendations. The preamble to the Code expressly provides for deviations from its recommendations, which are aimed at enhancing the “flexibility and self regulation with regard to the corporate legal structure of German companies”. This means that deviations are not negative per se, but can actually be beneficial for smaller companies in particular.

## SHAREHOLDERS AND ANNUAL GENERAL MEETING

Shareholders exercise their voting rights at the Annual General Meeting. Each share carries one vote. GESCO AG publishes all documents relevant to points on the agenda on the company website in the weeks before the Annual General Meeting. In the invitation to the Annual General Meeting, the company requests that shareholders exercise their voting rights. To make it easier for shareholders to vote, the company appoints a voting rights representative who can vote at the Annual General Meeting on behalf of shareholders and according to their instructions. The company feels that a high attendance rate is important for maintaining democracy amongst shareholders and for ensuring that decisions of the Annual General Meeting reflect the wishes of the majority of shareholders. GESCO AG publishes the invitation to the Annual General Meeting and any reports and information required to pass a resolution in accordance with the regulations of the German Stock Corporation Act (AktG). This information is also available on the company website. Since its IPO in 1998, the company publishes the voting results on its website on the day of the Annual General Meeting.

## EXECUTIVE BOARD AND SUPERVISORY BOARD

GESCO AG is a stock corporation under German law and as such is managed by two boards with individual ranges of competence – the Executive Board and Supervisory Board. Both boards maintain a close and trusting working relationship within the scope of their legally defined responsibilities. The Executive Board provides the Supervisory Board with regular, prompt and comprehensive information on company planning, earnings and financial position, risk management, strategic development and intended acquisitions. A list of transactions requiring approval by the Supervisory Board was compiled.

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

## EXECUTIVE BOARD

Executive Board members are jointly responsible for managing the company. The Articles of Association stipulate their responsibilities. The Executive Board works out the strategic development of the company, asks the Supervisory Board for approval and implements it. The Executive Board also defines the company's goals, makes plans and manages the internal control and risk management system as well as the controlling of subsidiaries. In addition, the Executive Board prepares the quarterly and interim reports and also the individual financial statements of GESCO AG and the consolidated financial statements.

The Executive Board of GESCO AG consists of two people; no Chairman or Spokesman has been appointed. In this, the company did not comply with the recommendations of the Corporate Governance Code. Both Executive Board members complement one another with their professional know-how and their responsibilities are clearly defined; the company therefore does not feel it is necessary to appoint a Chairman or Spokesman.

In the reporting year, Dr. Hans-Gert Mayrose and Mr. Robert Spartmann were Executive Board members.

## SUPERVISORY BOARD

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

The Supervisory Board of GESCO AG comprises three members. This number has proven to be extremely effective, as strategic issues as well as detailed questions can be discussed in depth. Forming committees is obviously not practical in the case of a Supervisory Board consisting of only three people. The company feels that a strong point of the Supervisory Board derives from the fact that its members are equally informed about all issues.

We are also convinced that the composition of the Supervisory Board is appropriate and provides the highly important professional diversity through expertise in all fields important for the Group in view of the business model oriented towards the German SME sector.

Supervisory Board members in the reporting year were Klaus Möllerfriedrich (Chairman), Rolf-Peter Rosenthal (Deputy Chairman) and Willi Back until the conclusion of the Annual General Meeting held on 25 July 2013. Willi Back was a former member of the Executive Board of GESCO AG. He was Chairman of the Executive Board of GESCO AG until 31 March 2004 and was appointed as member of the Supervisory Board by the Annual General Meeting in 2004. As part of a long-planned handover to a new generation, Mr Back resigned from his position effective as at the end of the Annual General Meeting on 25 July 2013. The Annual General Meeting on 25 July 2013 elected Stefan Heimöller, Dipl.-Kfm./entrepreneur, to serve as his successor on the Supervisory Board.

## DIVERSITY AMONG MANAGERS, EXECUTIVE BOARD AND SUPERVISORY BOARD

The Executive Board and Supervisory Board have deliberated the requirements of the Corporate Governance Code calling for companies to increase diversity among managers, Executive Board and Supervisory Board and pay special attention to appropriately considering women for such positions. As GESCO AG feels that its primary duty lies in considering the interests of the company when appointing managers, Executive Board members as well as Supervisory Board members, the suitable qualifications of an applicant for a vacant position must always be regarded as the most important criteria. We are convinced that appointing a fixed percentage of women would not appropriately reflect this principle. We also feel that at the present time, a stronger international orientation of the Supervisory Board is not an option, as the direct subsidiaries of GESCO AG all have their headquarters in Germany. It must be taken into account that they are SMEs, both in terms of size and company culture. When GESCO AG's subsidiaries and, in turn, their subsidiaries are export-oriented, their personnel structure is suitably matched to their international activities. In the eyes of the Supervisory Board and Executive Board of GESCO AG, diversity is not merely defined by gender and nationality, but also, and specifically, by professional diversity and a well-balanced mix of expertise from various professional fields.

At management level, and especially in terms of the managers of the subsidiaries, most have a technical education and usually hold a degree in engineering. In this professional group, the number of female applicants remains extremely low. The GESCO Group companies are trying in many ways to get young people, with a particular focus on young women, interested in technical professions.

## COMPREHENSIVE AND TRANSPARENT COMMUNICATION

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

## DIRECTORS' DEALINGS AND SHAREHOLDINGS OF MEMBERS OF THE EXECUTIVE BODIES

Both Executive Board members, Dr. Hans-Gert Mayrose and Robert Spartmann, informed GESCO AG in August 2013 that they had purchased 1,000 GESCO shares each. The shareholding ratio of the Executive Board was 0.6 % on the reporting date, while the ratio for the Supervisory Board was 13.7 %.



## REMUNERATION REPORT

The remuneration report is part of the Group management report.

## ACCOUNTING AND AUDIT OF FINANCIAL STATEMENTS

The individual financial statements of GESCO AG are prepared in accordance with the German Commercial Code (HGB). Since the financial year 2002/2003, the consolidated financial statements of GESCO AG have been pursuant to IFRS. The individual and consolidated financial statements were audited by Dr. Breidenbach und Partner GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Wuppertal. The subsidiaries' financial statements were audited by the following auditing companies: Dr. Breidenbach und Partner GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Wuppertal; K/S/R Treuhand und Revision GmbH Wirtschaftsprüfungsgesellschaft, Ennepetal; and RSM Altavis GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Düsseldorf. Foreign subsidiaries of subsidiaries are primarily audited by international associated partners of our domestic auditors.

The Chairman of the Supervisory Board obtained the auditor's statement of independence in accordance with Section 7.2.1 of the Corporate Governance Code. In line with the resolution passed by the Annual General meeting on 25 July 2013, the Chairman of the Supervisory Board appointed the auditor for the individual and consolidated financial statements. The interim and quarterly reports were not audited in the reporting year.

## DECLARATION OF COMPLIANCE IN ACCORDANCE WITH SECTION 161 OF THE GERMAN STOCK CORPORATION ACT (AKTG)

The Executive Board and Supervisory Board of GESCO AG declare in accordance with Section 161 AktG that the recommendations of the Government Commission German Corporate Governance Code published by the Federal Ministry of Justice in the official section of the Bundesanzeiger (Federal Gazette) on 15 June 2012 were being followed pursuant to the version of the Code dated 15 May 2012 since the last declaration of compliance was issued in December 2012 until the effective date of the new version of the Code dated 13 May 2013 on 10 June 2013, with the following exceptions:

- **Section 4.2.1, sentence 1:**

- **Chairman of the Executive Board or Spokesman of the Executive Board**

- The Executive Board of GESCO AG comprises two people; no Chairman or Spokesman has been appointed. Both Executive Board Members complement one another with their professional know-how and their responsibilities are clearly defined. In view of their joint overall responsibility, the Executive Board Members maintain a close and trusting working relationship and hold equal rights.

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

- The Supervisory Board of GESCO AG comprises three members. This number has proven to be extremely effective, as overarching strategic issues as well as detailed questions can be discussed in depth and without any loss of efficiency and decided upon by the entire Supervisory Board. We therefore believe that it is not appropriate to create Supervisory Board Committees. The company rather feels that a strong point of the Supervisory Board derives from the fact that its members are equally involved in all issues.

- **Section 5.4.6, para. 2, sentence 2:**

- **Performance-oriented Supervisory Board remuneration**

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

The Executive Board and Supervisory Board of GESCO AG also declare in accordance with Section 161 AktG that the recommendations of the Government Commission German Corporate Governance Code in the version dated 13 May 2013 have been and will be followed since its publication in the official section of the Bundesanzeiger (Federal Gazette) on 10 June 2013, with the exceptions as justified above.

Wuppertal, December 2013

GESCO AG

For the Supervisory Board  
Klaus Möllerfriedrich

For the Executive Board  
Dr. Hans-Gert Mayrose

Robert Spartmann



2013/2014

# GROUP MANAGEMENT REPORT





## 1. FUNDAMENTALS OF THE GROUP

### BUSINESS MODEL

Since it was founded in 1989, GESCO AG has been acquiring stakes in financially sound companies in the German industrial SME sector for the purpose of maintaining and developing them over the long term. In most cases, these investments are conducted as part of succession arrangements in which GESCO AG acquires a majority interest, usually 100 %. To support the long-term, entrepreneurial nature of the business model, the new management acquires a stake of between 5 % and 20 %, depending on the size of the company being managed, after a trial period.

As at the reporting date, there are currently 17 material operating subsidiaries in GESCO Group under the roof of GESCO AG as the holding company. These companies operate in the tool manufacture and mechanical engineering (segment sales in financial year 2013/2014: € 423.9 million) and plastics technology segments (segment sales in financial year 2013/2014: € 29.1 million). While this portfolio has a clear focus, we seek diversity in our customer sectors.

The subsidiaries are independently operating entities that benefit from being integrated in the close-knit reporting and financial controlling system and risk management system of GESCO Group. All subsidiaries have a sufficient equity ratio and are financially autonomous.

GESCO AG has been a listed company since 24 March 1998. The GESCO share is listed in the Prime Standard and Deutsche Börse AG's SDAX selection index.

#### Significant change to the scope of consolidation

MAE of America Inc., Wilmington/USA, a 100 % subsidiary of MAE Maschinen- und Apparatebau Götzen GmbH, was fully consolidated for the first time in the reporting year. MAE Maschinen- und Apparatebau Götzen GmbH acquired the operations of US competitor and market leader Eitel Presses Inc., which is based in Orwigsburg/Pennsylvania, through this subsidiary on 6 January 2014. Eitel's 50 employees generate annual sales of approximately € 10 million. The company's customers are mainly from the automotive, aerospace, agricultural technology and construction sectors. Eitel Presses generates roughly 20 % of its sales from exports, its main sales markets being the United States, Canada, Mexico and South America. MAE of America Inc. has since been renamed MAE-EITEL INC. The managing director has held a 10 % share in the company since April 2014 pursuant to the GESCO model; MAE Maschinen- und Apparatebau Götzen GmbH has since held 90 % of the shares. MAE-EITEL INC. is assigned to the tool manufacture and mechanical engineering segment.

## MANAGEMENT SYSTEM

Planning and management of GESCO Group is conducted at the levels of the individual subsidiaries, GESCO AG and GESCO Group.

A jointly developed annual budget establishes the framework for business developments, personnel measures and investments of the subsidiaries. During the year, GESCO AG receives monthly figures from the subsidiaries 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 business administration executive and the respective managers at the subsidiaries promptly analyse, interpret and evaluate these figures to determine the degree to which the objectives have been met.

GESCO AG draws up a Group business plan based on the individual business plans of the subsidiaries. The Executive Board of GESCO AG provides an 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 in the course of the quarterly reports. The key performance indicators are incoming orders, sales, earnings before and after tax, cash flow and equity ratio, as well as Group net income after minority interest.

## RESEARCH AND DEVELOPMENT

Most of our subsidiaries are SMEs whose research and development activities are largely market and customer-driven. Technical innovations as well as new products and applications are usually developed in projects as part of customer orders.

At Dörrenberg Edelstahl GmbH, research and development are an ongoing process carried out over many individual projects. The company cooperates with various universities and institutions, as required. In 2013, it again focused on energy efficient, resource-saving products and methods.

Alongside its focus on erosion technology, C.F.K. CNC-Fertigungstechnik Kriftel GmbH continues to work on the development of its laser melting system. This technology, also known as 3D printing, is based on CAD data and entails using a laser to melt metal layer by layer and construct 3D metal parts. This technology also allows small batches and one-off items to be manufactured economically and with an extremely wide scope of design possibilities. One of the focuses of C.F.K.'s applications is the medical technology sector.



## 2. ECONOMIC REPORT

### MACROECONOMIC AND INDUSTRIAL SECTOR CONDITIONS

The German economy has experienced stable development on the whole following a period of weak performance at the beginning of 2013; however, the much-awaited recovery in the second half of the year failed to materialise. With an increase of 0.4 % in gross domestic product (GDP), growth was even weaker than in 2012, which saw an only marginal rise of 0.7 %.

The Verband Deutscher Maschinen- und Anlagenbau e.V. (VDMA – German Machinery and Plant Manufacturers Association), which is relevant for our largest segment, tool manufacture and mechanical engineering, had originally forecast a 2 % increase in production, but ultimately recorded a decline of 1.7 % following growth of 1.2 % in 2012. Overall, the association rated the development in 2013 as “disappointing”. The lack of growth momentum affected both domestic demand and exports.



The Gesamtverband Kunststoffverarbeitende Industrie e. V. (GKV – Association of Plastic Goods Producers), the association relevant for our second, much smaller segment, namely plastics technology, reported a significant increase in sales of 3 % in 2013, with sales picking up steam in the second half after a sluggish start to the year.

When looking at the figures provided by both associations, it has to be remembered that the sectors they represent are each extremely diverse and the data therefore represents a vast number of different companies. As GESCO Group companies are mostly specialised SMEs in niche markets, these figures only serve as a rough guide and are of limited value when used as benchmarks for evaluating the actual development of GESCO Group.

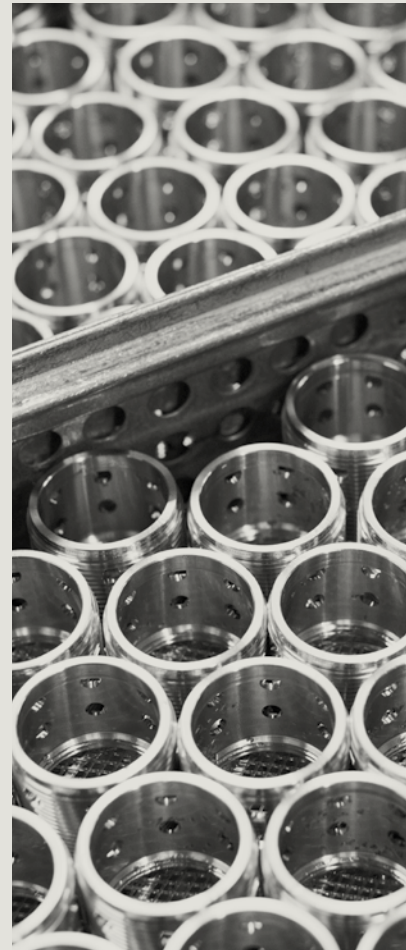
In the German M&A market segment for companies with sales in the region of € 5 million to € 50 million, which is the segment relevant for us, the Bundesverband Deutscher Kapitalbeteiligungsgesellschaften (BVK – German Private Equity and Venture Capital Association) registered 62 investments in 2013 compared to 74 in the previous year, which is equivalent to a decrease of 16.2 %.

## BUSINESS PERFORMANCE

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

2013 was characterised by a subdued economic environment. Having already cooled off somewhat in the second half of 2012, both in macroeconomic terms and in relation to GESCO Group, growth continued to be less dynamic in the first half of 2013, and the upturn that was originally anticipated in the second half of 2013 failed to materialise. In view of these factors, companies found it much harder to plan ahead and be able to rely on their business plans. Customers responded to these developments by being more cautious, placing smaller orders at short notice, and investments in capital goods were extremely restricted. The operational processes at our subsidiaries were accordingly less efficient than they are in periods of stable economic development. In addition, prices were the main item on the agenda in meetings with customers, while the ability to deliver on schedule was paramount in periods of growth. In regional terms, demand from the emerging markets, particularly from China, was significantly weaker than in the previous year. This affects both GESCO Group's direct and indirect exports, the latter relating to goods that are sold to our domestic customers who then export these. The favourable development of the US market was unable to fully compensate this drop in demand.

All in all, GESCO Group succeeded in maintaining a relatively solid position in this rather difficult market environment: Business at the larger companies as well as the majority of our smaller subsidiaries mostly either declined slightly or remained at a stable level. Demand for the loading arms manufactured by SVT GmbH was at a very high level,





and the larger tool manufacturers in the Group likewise recorded a satisfactory level of demand, boosted by the expanding model ranges of car manufacturers and the trend towards lightweight vehicles. Several smaller companies, however, were hit hard by problems in some industrial sectors, such as weak demand in the semiconductor and solar energy markets, or the massive drop in demand from China, all of which impacted Group earnings.

The decline in incoming orders on an organic basis was largely offset as a result of newly acquired companies being consolidated for the full year for the first time. Sales also increased slightly due to the first full-year consolidation of the new companies. Key earnings figures came under pressure due to the aforementioned reasons and were additionally impacted by one-off effects. These include higher than expected costs for due diligence expenses related to acquisitions abroad, as well as considerable technical problems with two major contracts at two subsidiaries. None of these factors is material in itself, but in total had a further negative impact on earnings.

GESCO Group companies consider procurement a strategic task and also pursue international procurement strategies depending on the task at hand and supply needs. Subsidiaries usually maintain long-term, constructive partnerships with their suppliers. They strive to avoid dependencies and conclude framework agreements so as to obtain security for their planning.

Given the sluggish economy, raw material and steel prices were less volatile than in previous years. There were no serious supply bottlenecks in the reporting year.

## SITUATION OF THE GROUP

### EARNINGS POSITION

C.F.K. CNC-Fertigungstechnik Kriftel GmbH, Protomaster Riedel & Co. GmbH and Modell Technik GmbH & Co. Formenbau KG, which were newly acquired during the financial year 2012/2013, were included in the consolidated income statement for the full 12-month period for the first time in financial year 2013/2014. In the previous year, C.F.K. had been included for a period of seven months, Protomaster for five months and Modell Technik for six months.

Incoming orders stood at € 435.6 million, which was almost 1 % lower than the level in the previous year (€ 439.4 million). In organic terms, incoming orders were approximately 3.5 % lower year on year. Group sales rose by 2.9 % to € 453.3 million (previous year: € 440.4 million). Organically speaking, sales remained virtually unchanged. Due to the change in stocks of unfinished and finished products during the reporting period, the total output fell by almost 1 % from € 456.1 million to € 452.2 million. Order backlog stood at € 183.4 million at the end of the financial year (previous reporting date: € 202.7 million).

Material prices were less volatile and the ratio of material expenditure in relation to total output decreased from 51.8% to 50.2%. In contrast, the ratio of personnel expenditure rose from 24.9% to 27.2%. Not even those companies that had been particularly affected by drops in demand in 2013 cut a significant number of jobs. Recruiting, retaining and developing qualified employees is a crucial strategic task that will continue to become more important in the future. We will therefore retain our core staff for as long as the company's perspectives are positive. For this reason, we accept temporary margin downturns in the interests of GESCO Group's long-term success. To a certain extent, fluctuations in the order situation can be compensated by hiring temporary employees; however, in view of the highly specialised technical nature of our companies, this remains a limited option.

Earnings before interest, taxes, depreciation and amortisation (EBITDA) fell from € 51.8 million to € 48.7 million year on year. Depreciation and amortisation rose at a significantly faster rate than sales, totalling € 16.7 million (previous year: € 14.4 million) due to the considerable investments made in the reporting year and in previous years as well as the effects of first-time consolidation of the companies acquired between December 2011 and July 2012. Consequentially, earnings before interest and taxes (EBIT) fell more sharply than EBITDA in percentage terms to € 32.0 million (€ 37.3 million). Following an improvement in the financial result from € -3.5 million to € -3.0 million, a slightly lower tax rate and lower minority interest in incorporated companies, Group net income after minority interest amounted to € 18.1 million (€ 20.9 million). Earnings per share pursuant to IFRS came in at € 5.45 (€ 6.30).

In terms of sales, these figures are at the upper end of our original business plan, whereas earnings did not quite reach the lower end of our original guidance. At the accounts press conference on 11 June 2013, we forecasted Group sales of between € 435 million and € 450 million and Group net income after minority interest of between € 18.5 million and € 20.5 million. In the quarterly reports, we went into more detail on this forecast and finally communicated a sales target of € 450 million in the report for the third quarter in February 2014 and anticipated Group net income after minority interest of slightly below € 18 million. The figures slightly exceeded our latest guidance.

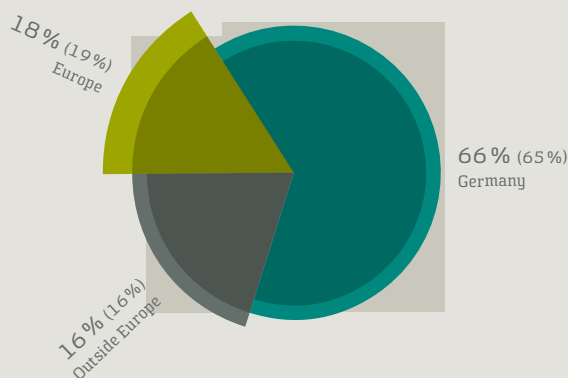
#### Sales and earnings by segment

Detailed segment reporting included in the consolidated financial statements is divided into the operating segments tool manufacture and mechanical engineering, plastics technology as well as the segments GESCO AG and other/consolidation. As neither the GESCO AG segment nor the other/consolidation segment generates material sales or earnings from operating activities, they are not included in this analysis.



## SALES BY REGION

(previous year's value in brackets)



Against the backdrop of a difficult market environment, sales in the tool manufacture and mechanical engineering segment increased by 2.6 % to € 423.9 million (€ 413.3 million). With earnings generally under pressure and a significant rise in depreciation and amortisation, EBIT fell to € 36.2 million (€ 44.0 million). Incoming orders amounted to € 403.7 million compared to € 414.5 million in the previous year's period.

The significantly smaller plastics technology segment recorded favourable development in the past financial year, with sales increasing by 9.2 % to € 29.1 million (€ 26.6 million). EBIT amounted to € 4.6 million compared to € 4.4 million in the previous year's period. Incoming orders rose sharply from € 24.4 million to € 31.5 million.

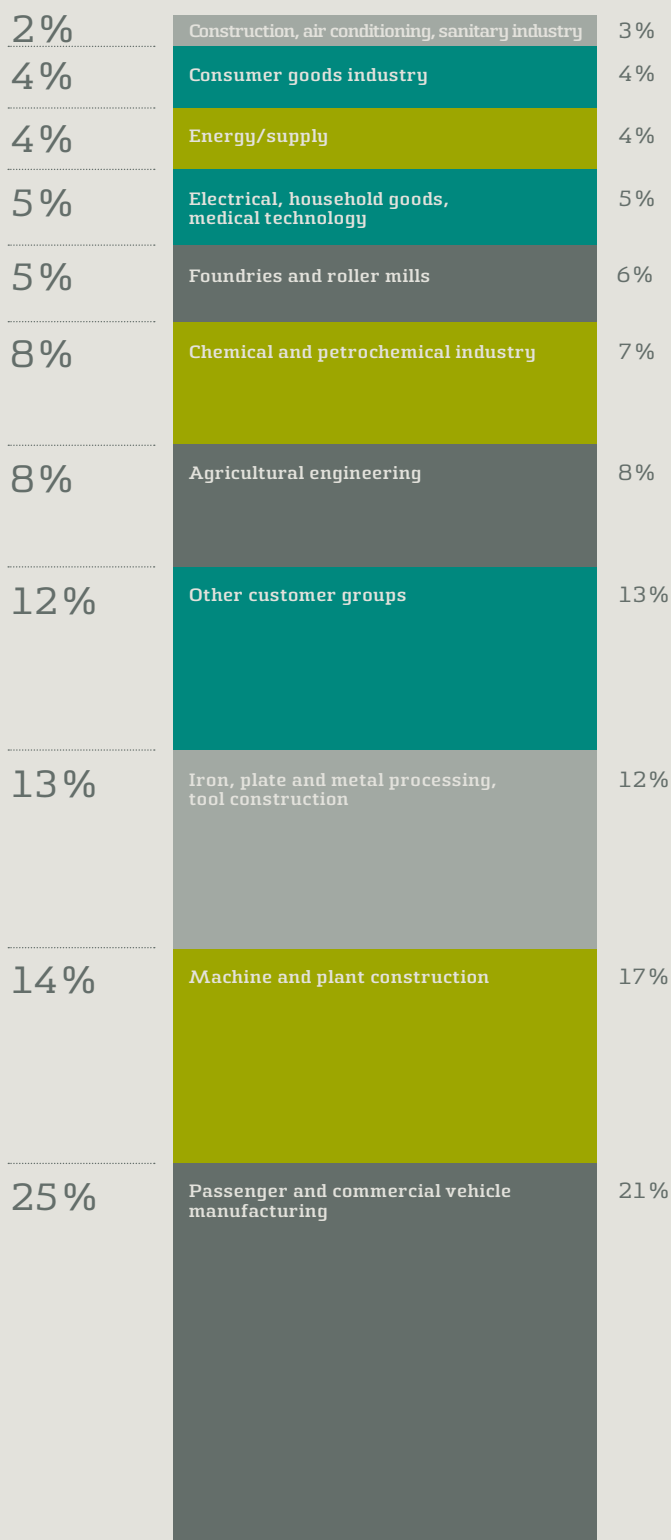
### Sales by region

At 34 %, the export ratio for the Group remained almost unchanged over the previous year's figure of 35 %. The share of European and non-European exports likewise did not manifest any significant changes. Significant non-European markets in the reporting period were China and the United States.

As many customers of our subsidiaries are export-driven, GESCO Group also likely has a significant amount of indirect exports which, of course, cannot be precisely quantified.

Setter (91 %), SVT (87 %), Kesel (73 %) and MAE (52 %) had particularly high direct export ratios in the reporting year.





SALES BY CUSTOMER SECTOR  
(previous year's value on the right)

## Sales by customer sector

GESCO AG considers the diversification of customer sectors as a key element of its risk mitigation process. As a result, GESCO Group supplies a large variety of industries, which makes it less dependent on economic developments in specific sectors.

The acquisition of three tool manufacturers between December 2011 and July 2012 has increased the proportion of passenger car and commercial vehicle manufacturing. However, these are primarily capital goods; the Group-wide proportion of supplies of series parts to the automotive industry is below 5 %.

## FINANCIAL POSITION

### CAPITAL STRUCTURE

The Group has a strong equity base and sufficient liquidity, which could be easily increased by taking out additional loans, if necessary. The net bank debt to EBITDA ratio is very low, coming in at 1.2. Goodwill amounts to merely € 12.4 million, or 7.0 % of equity. The overall balance sheet structure continues to be very healthy. To this end, GESCO Group is on a solid financial footing for internal and external growth.

On the liabilities side, equity rose to € 176.6 million (€ 166.5 million) due to the year's result. Consequently, the equity ratio remains at a high level of 46.5 % (46.6 %) despite the rise in total assets. Current and non-current liabilities to financial institutions increased in total to € 96.9 million (€ 78.8 million), which was partly attributable to financing required for investments in property, plant and equipment as well as to the acquisition of Eitel Presses.

### INVESTMENTS

We consider future-oriented technical equipment to be a key competitive factor for the success of our subsidiaries. Regularly investing in fixed assets and contemporary information technology, and in particular systems for efficient production planning and control, are in our view equally essential.

We also announced at the accounts press conference in June 2013 that we planned to invest a record figure of approximately € 30 million in GESCO Group in financial year 2013/2014. Half of this amount goes into the usual level of replacements and optimisation measures, and half is used for extraordinary investments resulting from growth potential or special opportunities at individual subsidiaries. Owing to delays in regulatory approval processes, investments in property, plant and equipment and intangible assets amounted to € 28.3 million (€ 22.4 million). We are making use of the extremely attractive financing terms and conditions currently on offer. Regardless of short-term economic development, these strategic investments in real estate and technical equipment will strengthen the Group's sustainable performance.

The main focuses of investment in the tool manufacture and mechanical engineering segment included Dörrenberg Edelstahl GmbH, which, besides investing in furnace technology, acquired factory premises in Gummersbach-Dieringhausen, modernising and equipping the facility with high-performance saws. This new capacity serves to meet the dynamic development of the company's special steel division. MAE Maschinen- und Apparatebau Götzen GmbH continued the extensive new building measures that it commenced in 2011 with the construction of a new assembly facility. Franz Funke Zerspanungstechnik GmbH & Co. KG, Modell Technik GmbH & Co. Formenbau KG, Werkzeugbau Leipzig GmbH and Paul Beier GmbH Werkzeug- und Maschinenbau & Co. KG, among other companies, made investments in state-of-the-art, high-performance machining centres.

In the plastics technology segment, AstroPlast Kunststofftechnik GmbH & Co. KG acquired a plot of land in Meschede in the course of strategically modernising its portfolio and expanding its capacity and has begun constructing logistics and production buildings on the site.

Due to the investments made in previous years, depreciation on property, plant and equipment and amortisation on intangible assets increased from € 14.4 million to € 16.7 million in the reporting year.

## LIQUIDITY

Liquidity amounted to € 38.8 million (€ 36.5 million) as at the reporting date 31 March 2014. A dividend of € 8.3 million for the financial year 2012/2013 was paid in the reporting period. At year-end, the Group had access to approved credit lines totalling € 38.2 million, none of which had been utilised. The Group was able to meet its payment obligations at all times.

While there was a decline in earnings and higher depreciation and amortisation, cash flow for the year remained virtually unchanged, increasingly only marginally from € 36.2 million in the previous year to € 36.6 million. Cash flow from ongoing business activity decreased from € 29.4 million to € 24.0 million year on year. Although the increase in inventories, trade receivables and other assets was significantly lower than in the previous year, this was compensated for by a marked decrease in trade payables and other liabilities.

## ASSETS

Total assets increased by 6.3 % to € 379.9 million compared to the previous year (€ 357.5 million). Non-current assets rose by 10.2 % to € 146.4 million (€ 132.9 million). The main reasons for this increase are the acquisition of Eitel Presses Inc. as well as the significant investments in property, plant and equipment. Current assets were 3.9 % higher year on year, increasing from € 224.7 million to € 233.6 million. This rise was primarily attributable to trade receivables, which increased to € 65.5 million (€ 53.1 million). The capitalisation ratio increased from 28.4 % to 30.2 % year on year. The ratio of long-term capital to non-current assets amounts to 1.8 (1.9).





## NON-FINANCIAL PERFORMANCE INDICATORS

### ENVIRONMENTAL PROTECTION

The obligation to protect the environment, even beyond legal regulations and requirements, is firmly anchored in the self-image of GESCO Group. This applies to production as well as the life cycle of products up to the point of recycling.

By aligning development and production to comply with environmental issues, the companies are opening up attractive opportunities in the market. After all, saving resources and energy are key selling points in these times of rising energy and raw materials prices. However, not only products are relevant in terms of the environment. Construction projects at GESCO Group also take into account energy aspects so as to reduce follow-up costs and emissions. As in the previous year, numerous options in the field of alternative energies for saving energy and generating power were analysed in terms of their technical feasibility and cost-effectiveness during the reporting year. However, when analysed in detail, it quite often emerges that such projects are not economically viable or cannot be reliably planned. The German renewable energy levy (EEG) on self-generated power is a good example of this.

### EMPLOYEES

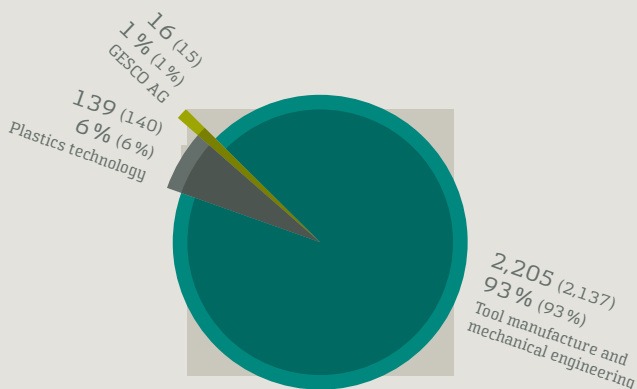
We are convinced that technically competent, motivated and loyal employees who identify with their employer represent a key strength of SMEs. That is why training and continuing education is extremely important within the Group.

As at the reporting date, the Group employed 2,360 people compared to 2,292 in the previous year. This slight increase is due to a moderate increase of the workforce in some subsidiaries.

In an effort to make personnel costs more flexible, the subsidiaries are introducing variable remuneration components that are linked to the performance of the company.

In the autumn of 2013, GESCO AG offered all Group employees the opportunity to buy shares in the company at favourable terms under its 16th employee share scheme. Roughly 46 % of the Group's workforce took advantage of this opportunity to make a personal investment, which was yet again more than in the previous year. The participation rate has increased steadily in recent years. We also see this as a sign of confidence in the majority shareholder, GESCO AG.

**EMPLOYEES BY SEGMENT**  
(End of the financial year;  
previous year's value in brackets)



The subsidiaries use a variety of activities to position themselves as attractive employers. For example, at the beginning of 2013, Dörrenberg Edelstahl GmbH announced its fifth competition for students of engineering-related subjects with an emphasis on materials technology. An expert panel selected four prize winners from the scientific work submitted. Dörrenberg intends to continue this competition, which now has an established place in the sector, and has again awarded prizes to four winners in February 2014.

Several subsidiaries cooperate with universities and other educational facilities to tap new talent, especially engineering science graduates. Haseke GmbH & Co. KG, for instance, has continued its cooperation with the technical school in Stadthagen (Technikerschule Stadthagen), offering students at universities of applied sciences specialised work placements, and has established a dual course of industrial engineering studies in cooperation with the Minden campus of the FH Bielefeld University of Applied Sciences. Paul Beier GmbH Werkzeug- und Maschinenbau & Co. KG now offers a dual course of studies in mechanical engineering with an industrial mechanic apprenticeship in cooperation with the University of Kassel. Frank Walz- und Schmiedetechnik GmbH also now offers a dual training programme. In addition, Frank Walz- und Schmiedetechnik GmbH has taken on the role of a model company together with other partners in the “Gute Arbeit und gutes Leben” project (Good Work, Good Life). The main focus of the project is to find solutions to the challenges of demographic change.

As part of the “Unternehmen der Region und Schulen – KURS” initiative, a cooperative network of companies and schools, Dörrenberg has concluded a cooperation agreement with the secondary school in Engelskirchen. The initiative aims to dovetail the worlds of school and work and to offer students more support in the transition from education to professional life.

Haseke GmbH & Co. KG has set an example in the field of social inclusion. As part of the instrument of assisted employment, a young man with learning disabilities was offered an employment opportunity in the manufacturing process. For two years, he went through an individual training plan that introduced him to the production processes, all the while assisted by an internal mentor and an external coach. Following the training period, he started on a permanent employment contract on 1 July 2013.

### 3. OTHER INFORMATION

#### REMUNERATION REPORT

Remuneration for Executive Board members comprises three components: a fixed and a variable, performance-related component as well as a component with long-term incentive. This remuneration structure remained unchanged during the reporting year.

The fixed component comprises annual base salary, additional benefits (mainly the private use of company vehicle and medical care) and pension commitments.

The variable component is calculated as a performance-related bonus, which is geared towards the Group's net profit after minority interest. It 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 earnings after minority interest are 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 measurement base for the bonus. If Group earnings after minority interest are negative in the expired financial year prior to the Executive Board member leaving or in the same year that the member leaves, the Executive Board member shares in the loss.

Remuneration components with long-term incentives are stock options issued to Executive Board members based on the approved stock option programme. The stock options are issued in yearly tranches at an exercise price corresponding with the average XETRA closing price of the GESCO share on the ten consecutive stock exchange trading days after the Annual General Meeting in the year the options are issued. The options are issued within one month after the Annual General Meeting. 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 waiting period. Ten options can be purchased for each share. The waiting period is four years and two months after the option is issued; after the end of the waiting period, the options may be exercised at any time up to 15 March of the year after next. 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 their options. If the absolute but not the relative target is reached, the Executive Board members can exercise only 75 % of their options while the remaining 25 % expire completely without recourse. One option entitles the holder to acquire one GESCO share. If neither targets are met at the time of exercise, all options of the corresponding tranche expire completely without recourse. The maximum gain of the Executive Board members is capped at 50 % of the exercise price.

In 2013, the Supervisory Board decided that the existing stock option programme will be continued in the form of a virtual stock option programme in the future. Until then, any gains resulting from the programme could be paid out to participants in cash based on the allocation of GESCO share options or the calculated gain. Now, it is possible to have gains paid out either half in cash and half in GESCO shares, or the full amount paid out in cash. However, in the event that the full amount is paid out in cash, Executive Board members are required to purchase GESCO shares valued at least half of the amount paid.

The Supervisory Board of GESCO AG initiated another tranche in July 2013. A total of 20,200 options were issued to members of the Executive Board and management employees of GESCO AG. Non-cash expenditure under this programme is determined using a common binomial model, recorded in earnings and recognised in other provisions. The model assumes volatility of 34.54 % and a risk-free interest rate of 0.97 %; the exercise price of the options issued in July 2013 is € 71.93. The fair value per option on the issue date is € 8.94.



The pension commitment (including widow and orphan benefits of 60 % and 30 %) of Executive Board members amounts to a specified percentage of the annual base salary paid prior to retirement. The actual percentage calculated for each Executive Board member includes two components: a basic percentage of 10 % of the annual base salary paid prior to retirement after a waiting period of five years, and an additional 0.5 % increase of the basic percentage for each completed working year.

Remuneration for the Supervisory Board consists of a fixed salary plus a fixed payment for each Supervisory Board meeting. In addition, each member of the Supervisory Board receives performance-based remuneration calculated as a fixed percentage of Group net income. 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.

## TAKEOVER-RELATED DISCLOSURES

Disclosures under Section 315 para. 4 of the German Commercial Code (HGB)

The share capital of GESCO AG is € 8,645,000 and is divided into 3,325,000 registered shares. Each share is granted one vote in the Annual General Meeting. The Executive Board is not aware of any restrictions on voting rights or on the transfer of shares.

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

Share issue and repurchase

The Annual General Meeting on 30 August 2012 authorised the Executive Board to increase the company's share capital once or several times by a total of € 864,500.00 until 29 August 2015 with the consent of the Supervisory Board by issuing new registered shares in exchange for cash. Subscription rights may be excluded in certain cases. No use of this authorisation has been made to date.

The Annual General Meeting on 2 September 2010 authorised the company to acquire up to ten out of every hundred shares of the share capital until 1 September 2015 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 17 para. 1 sentence 2 AktG. GESCO AG held 237 treasury shares as at the reporting date.

Shareholdings of more than 10 %

Entrepreneur Stefan Heimöller, Germany, held approximately 13.6% of the shares in GESCO AG as at the reporting date. The Annual General Meeting on 25 July 2013 elected Mr. Heimöller to the Supervisory Board. Stefan Heimöller replaced the Supervisory Board member Willi Back, who stood down at the Annual General Meeting in 2013.

## **CORPORATE GOVERNANCE AND DECLARATION OF COMPLIANCE**

The Corporate Governance Report and Declaration of Compliance in accordance with Section 289a HGB are available on the company website at [www.gesco.de](http://www.gesco.de).

### **4. EVENTS AFTER THE REPORTING DATE**

No significant events occurred after the end of the reporting period.



## 5. OUTLOOK, OPPORTUNITY AND RISK REPORT

### OUTLOOK

Given the subdued performance of the economy in 2013, the leading economic research institutes predicted 1.9% GDP growth for 2014 in their spring report. This growth will be driven primarily by rising domestic demand. The VDMA expects production to rise by 3%. At the time the association released its forecast of a significant increase in December 2013, however, this was not based on the actual level of incoming orders, but on leading economic indicators, such as the Ifo Business Climate Index. The VDMA expects domestic business to provide the greatest momentum, while it anticipates that demand from the emerging markets will be rather restrained. The GKV's outlook for 2014 is very optimistic and considers sales growth of between 4% and 5% percent to be possible. However, the VDMA and GKV published their forecasts before the political crisis in the Ukraine escalated.

For GESCO Group as a whole, we expect to see a slight increase in Group sales and anticipate Group net income after minority interest to remain stable or rise slightly in the new financial year 2014/2015.

Positive signals have been emerging from several areas in the Group since the end of 2013. For example, demand from China, which in some areas had almost come to a complete standstill in 2013, has picked up again. Furthermore, the wide-scale reluctance to investment appears to be subsiding, particularly among the major automotive suppliers. In addition, the special steel business of our largest subsidiary, Dörrenberg Edelstahl GmbH, a typical early indicator for the development of the German capital goods industry, has been looking very positive since the beginning of 2014. Coupled with the favourable prospects already mentioned, these developments give us grounds for cautious optimism for the new financial year. However, German industry sentiment is definitely still on the whole restrained. Many entrepreneurs regard the structural problems of the eurozone as still unsolved, and they are highly sceptical about the energy transition and concerned about the political uncertainties around the globe. Massive political upheavals, such as in relation to Russia and leading to wider economic sanctions are bound to have an adverse effect on business in the German industrial sector.

The statements on future development made in the outlook are based on assumptions and estimates that were 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.

## OPPORTUNITY AND RISK MANAGEMENT

### RISK MANAGEMENT SYSTEM

GESCO Group's concept is designed to recognise, evaluate and seize opportunities on the 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. This is why we largely forego the use of instruments such as cash pooling or guarantees and contingencies.

The analysis of opportunities and risks is especially important when acquiring companies. GESCO AG generally acquires companies in the tool manufacture and mechanical engineering and plastics technology segments. In order to reduce its dependency on the cycles of individual segments and markets, GESCO AG attaches great importance to a diversified customer base. Accordingly, new companies that help broaden the spectrum of the customer base are of particular interest.

Since information asymmetry between buyer and seller is unavoidable in the course of company acquisitions, every purchase involves risks. The retirement of the existing owner-manager and the appointment of a new managing director are some of the critical aspects 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 give new momentum to the company.

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. In particular, the level of earnings used to establish a purchase price and respective company budgets are critically evaluated. When the expectations of buyer and seller regarding the future earnings potential of the acquisition target diverge, an earn-out agreement is an appropriate method for sharing the risks and opportunities of future developments.

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 and classification thereof are assessed by estimating the effects on a subsidiary's earnings and their probability of occurrence. Risks are reported monthly by the subsidiaries, while high risks are reported to GESCO AG ad hoc.

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. Companies in GESCO Group and wide sections of German industry alike are faced with the uncertainties concerning the future development of the energy transition. This concerns both security of supply as well as costs.

**Trade receivables** are largely covered by credit insurance. 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.

**Overall insurance coverage** for GESCO Group is regularly evaluated in order to ensure sufficient protection under adequate terms and conditions.

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

Based on current knowledge, we are not aware of any **financing and/or equity bottlenecks** for our Group. In order to limit the interest rate risk, we have used interest rate swaps for part of the variable interest rate financing and thus exchanged each floating rate with a fixed rate. We expect interest rates to remain low in financial year 2014/2015. GESCO Group works with around two dozen different banks and is therefore not dependent on any one institution. We currently see no need to increase our equity base further.

There were no material changes to the **tax situation** in financial year 2013/2014. We are also not aware of any developments with regard to **legal conditions** that would have a significant impact on the Group. It is also important to note that the number of taxation and legal changes results in significant administrative costs for GESCO AG and our subsidiaries. Such changes ultimately need to be assessed at least in terms of their relevance.





The biggest risks typically arise from the operating business. As an industrial Group whose business is based to a notable extent on direct and indirect exports, we are significantly affected by economic fluctuations in Germany and abroad. Our diversification strategy, particularly in the customer sectors, is aimed at offsetting economic fluctuations in individual branches of industry and therefore reducing the risks arising from economic cycles. We currently see the greatest risks for our operating business, not only in GESCO Group, but also in broad sections of German industry, to be those resulting from the ongoing structural problems in the eurozone as well as the risks of political developments, particularly in Ukraine. These macroeconomic factors continue to have a negative impact on the investment propensity of our customer groups and, should these problems escalate further, could have a material negative impact on economic development.

There are also 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 confronted 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.

As in many parts of German industry, there continues to be a risk of uncertainty in the ability of companies to find and retain sufficient qualified employees in the future. Demographic change will continue to worsen this situation. GESCO Group companies meet this challenge with various measures in order to position themselves as an attractive employer in their respective region. More detailed information on this can be read in the “Employees” section of this Group management report.

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

Wuppertal, 26 May 2014

The Executive Board

Robert Spartmann

Dr.-Ing. Hans-Gert Mayrose





2013/2014

# ANNUAL FINANCIAL STATEMENTS

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GESCO AG  
SUMMARY OF THE ANNUAL FINANCIAL  
STATEMENTS DATED 31 MARCH 2014

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## BALANCE SHEET

€'000	31.03.2014	31.03.2013
<b>Assets</b>		
Intangible Assets	35	27
Property, plant and equipment	291	409
Financial Assets	81,498	83,693
<b>Non-current assets</b>	<b>81,824</b>	<b>84,129</b>
Receivables and other assets	47,663	47,827
Securities and liquid funds	20,626	16,339
<b>Current assets</b>	<b>68,289</b>	<b>64,166</b>
<b>Total assets</b>	<b>150,113</b>	<b>148,295</b>
<b>Equity and liabilities</b>		
Equity	117,589	114,639
Provisions	5,432	6,878
Liabilities	27,092	26,778
<b>Total Assets</b>	<b>150,113</b>	<b>148,295</b>

## INCOME STATEMENT

€'000	01.04.2013- 31.03.2014	01.04.2012- 31.03.2013
Earnings from investments	16,801	20,173
Other operating income and expenditure	-89	-1,976
Personnel expenditure	-2,950	-2,807
Depreciation on property, plant and equipment and intangible assets	-158	-143
Financial result	-2,081	-300
Earnings from ordinary business activity	11,523	14,947
Taxes on income and earnings	-303	-934
<b>Net income</b>	<b>11,220</b>	<b>14,013</b>
Transfer to revenue reserves	-3,906	-5,702
<b>Retained Profit</b>	<b>7,314</b>	<b>8,311</b>



## PROPOSED APPROPRIATION OF RETAINED PROFIT

For the 2013/2014 financial year, the Executive Board and Supervisory Board of GESCO AG are proposing the following appropriation of retained profit for the year in the amount of € 7,314,478.60:

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Payment of a dividend in the amount of € 2.20 per share on the current share capital entitled to dividends (3,325,000 shares less 237 treasury shares)	7,314,478.60 €
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The complete financial statements of GESCO AG compiled in accordance with the regulations of the German Commercial Code (HGB) and the Stock Corporation Act (AktG) and audited by Dr. Breidenbach und Partner GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Wuppertal, and attested with an unqualified audit opinion, are published in the German Federal Gazette and submitted to the commercial registry under HRB (German Commercial Registry) number 7847. The financial statements are available from GESCO AG.

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GESCO GROUP  
CONSOLIDATED FINANCIAL STATEMENTS  
DATED 31 MARCH 2014

## GESCO GROUP BALANCE SHEET

€'000		31.03.2014	31.03.2013
<b>Assets</b>			
<b>A. NON-CURRENT ASSETS</b>			
I. Intangible assets			
1. Industrial property rights and similar rights and assets as well as licences	(1)	11,888	11,876
2. Goodwill	(2)	12,423	12,356
3. Prepayments made	(3)	264	75
		<b>24,575</b>	<b>24,307</b>
II. Property, plant and equipment			
1. Land and buildings	(4)	50,213	42,632
2. Technical plants and machinery	(5)	35,942	32,881
3. Other plants, fixtures and fittings	(6)	21,310	21,208
4. Prepayments made and plants under construction	(7)	5,670	2,949
5. Property held as financial investments	(8)	1,737	1,832
		<b>114,872</b>	<b>101,502</b>
III. Financial investments			
1. Shares in affiliated companies	(9)	15	40
2. Shares in associated companies	(10)	1,192	1,547
3. Investments	(11)	156	38
4. Other loans		181	207
		<b>1,544</b>	<b>1,832</b>
IV. Other assets	(12)	2,344	2,551
V. Deferred tax assets	(13)	3,057	2,665
		<b>146,392</b>	<b>132,857</b>
<b>B. CURRENT ASSETS</b>			
I. Inventories	(14)		
1. Raw materials and supplies		21,986	21,286
2. Unfinished products and services		41,514	46,951
3. Finished products and goods		55,225	57,093
4. Prepayments made		443	579
		<b>119,168</b>	<b>125,909</b>
II. Receivables and other assets	(12)		
1. Trade receivables		65,517	53,121
2. Amounts owed by affiliated companies		624	672
3. Amounts owed by associated companies		431	676
4. Other assets		8,468	6,454
		<b>75,040</b>	<b>60,923</b>
III. Securities	(15)	0	1,000
IV. Cash and credit with financial institutions	(16)	38,815	36,464
V. Accounts receivable and payable		535	394
		<b>233,558</b>	<b>224,690</b>
		<b>379,950</b>	<b>357,547</b>

[illegible]

## GESCO GROUP INCOME STATEMENT

€'000		01.04.2013- 31.03.2014	01.04.2012- 31.03.2013
<b>Sales revenues</b>	<b>(21)</b>	<b>453,336</b>	<b>440,417</b>
Change in stocks of finished and unfinished products		-7,412	8,643
Other company-produced additions to assets	(22)	821	805
Other operating income	(23)	6,577	6,262
<b>Total income</b>		<b>453,322</b>	<b>456,127</b>
Material expenditure	(24)	-227,211	-236,208
Personnel expenditure	(25)	-122,785	-113,553
Other operating expenditure	(26)	-54,607	-54,603
<b>Earnings before interest, tax, depreciation and amortisation (EBITDA)</b>		<b>48,719</b>	<b>51,763</b>
Depreciation on property, plant and equipment and intangible assets	(27)	-16,709	-14,422
<b>Earnings before interest and tax (EBIT)</b>		<b>32,010</b>	<b>37,341</b>
Earnings from securities		2	3
Earnings from investments		57	83
Earnings from investments in associated companies		-119	-20
Other interest and similar income		253	476
Interest and similar expenditure		-3,006	-3,635
Minority interest in partnerships		-179	-423
<b>Financial result</b>		<b>-2,992</b>	<b>-3,516</b>
<b>Earnings before tax (EBT)</b>		<b>29,018</b>	<b>33,825</b>
Taxes on income and earnings	(28)	-9,261	-11,088
<b>Group net income for the year after tax</b>		<b>19,757</b>	<b>22,737</b>
Minority interest in incorporated companies		-1,636	-1,821
<b>Group net income for the year after minority interest</b>		<b>18,121</b>	<b>20,916</b>
Earnings per share (€) acc. to IFRS	(29)	5.45	6.30



## GESCO GROUP STATEMENT OF COMPREHENSIVE INCOME

€'000	01.04.2013- 31.03.2014	01.04.2012- 31.03.2013
<b>1. Group net income</b>	<b>19,757</b>	<b>22,737</b>
2. Revaluation of benefit obligations not impacting on income	202	-2,117
<b>3. Items that cannot be transferred into the income statement</b>	<b>202</b>	<b>-2,117</b>
4. Difference from currency translation		
a) Reclassification into the income statement	0	0
b) Changes in value with no effect on income	-257	73
5. Market valuation of hedging instruments		
a) Reclassification into the income statement	-335	0
b) Changes in value with no effect on income	82	0
<b>6. Items that can be transferred into the income statement</b>	<b>-510</b>	<b>73</b>
<b>7. Other income (30)</b>	<b>-308</b>	<b>-2,044</b>
<b>8. Total result for the period</b>	<b>19,449</b>	<b>20,693</b>
of which shares held by minority interest	1,621	1,672
of which shares held by GESCO shareholders	17,828	19,021

## GESCO GROUP STATEMENT OF CHANGES IN EQUITY CAPITAL

€'000	Subscribed capital	Capital reserves	Revenue reserves	Own shares
<b>As at 01.04.2012</b>	<b>8,645</b>	<b>54,631</b>	<b>82,827</b>	<b>-634</b>
Dividends			-9,614	
Acquisition of own shares				-66
Disposal of own shares		4,00		669
Disposal of shares in subsidiaries				
Other neutral changes			-418	
Result for the period			20,916	
Change in scope of consolidation				
<b>As at 31.03.2013</b>	<b>8,645</b>	<b>54,635</b>	<b>93,711</b>	<b>-31</b>
Dividends			-8,311	
Acquisition of own shares				-800
Disposal of own shares		27		814
Other neutral changes				
Result for the period			18,121	
<b>As at 31.03.2014</b>	<b>8,645</b>	<b>54,662</b>	<b>103,521</b>	<b>-17</b>

## GESCO GROUP SEGMENT REPORT

€'000	Tool manufacture and mechanical engineering		Plastics technology	
	2013/2014	2012/2013	2013/2014	2012/2013
Order backlog	177,334	199,234	6,065	3,504
Incoming orders	403,702	414,519	31,545	24,373
Sales revenues	423,918	413,305	29,055	26,611
of which with other segments	7	0	0	0
Depreciation	11,745	10,356	1,470	1,552
EBIT	36,775	43,982	4,626	4,389
Investments	21,100	20,239	7,151	1,926
Employees (No./reporting date)	2,205	2,137	139	140

Exchange equalisation items	Revaluation of pensions	Hedging instruments	Total	Minority interest incorporated companies	Equity capital
-500	-140	0	144,829	10,159	154,988
			-9,614	-1,352	-10,966
			-66		-66
			673		673
			0	-419	-419
			-418		-418
73	-2,117	369	19,241	1,672	20,913
				1,795	1,795
-427	-2,257	369	154,645	11,855	166,500
			-8,311	-1,159	-9,470
			-800		-800
			841		841
			0	84	84
-245	178	-226	17,828	1,621	19,449
-672	-2,079	143	164,203	12,401	176,604

	GESCO AG		Other/consolidation		Group	
	2013/2014	2012/2013	2013/2014	2012/2013	2013/2014	2012/2013
	0	0	0	0	183,399	202,738
	0	0	371	501	435,618	439,393
	0	0	363	501	453,336	440,417
	0	0	-7	0	0	0
	158	143	3,336	2,371	16,709	14,422
	-3,802	-4,926	-5,589	-6,104	32,010	37,341
	48	220	0	0	28,299	22,385
	16	15	0	0	2,360	2,292

## GESCO GROUP CASH FLOW STATEMENT

€'000	01.04.2013- 31.03.2014	01.04.2012- 31.03.2013
<b>Group net income for the year (including share attributable to minority interest in incorporated companies)</b>	<b>19,757</b>	<b>22,737</b>
Depreciation on property, plant and equipment and intangible assets	16,709	14,422
Result from investments in associated companies	119	20
Share attributable to minority interest in partnerships	179	423
Decrease in long-term provisions	-135	-1,296
Other non-cash expenditure/income	6	-120
<b>Cash flow for the year</b>	<b>36,635</b>	<b>36,186</b>
Losses from the disposal of property, plant and equipment/intangible assets	106	616
Gains from the disposal of property, plant and equipment/intangible assets	-309	-263
Gains from changes to the scope of consolidation	0	-222
Increase in stocks, trade receivables and other assets	-3,111	-8,628
Decrease/increase in trade creditors and other liabilities	-9,361	1,716
<b>Cash flow from ongoing business activity</b>	<b>23,960</b>	<b>29,405</b>
Incoming payments from disposals of property, plant and equipment/intangible assets	561	980
Disbursements for investments in property, plant and equipment	-27,164	-21,609
Disbursements for investments in intangible assets	-1,135	-776
Incoming payments from disposals of financial assets	28	31
Disbursements for investments in financial assets	-121	-2
Incoming payments from the disposal of securities	1,000	0
Incoming payments from the sale of consolidated companies	0	3,500
Disbursements for the acquisition of consolidated companies and other business units	-3,304	-14,100
<b>Cash flow from investment activity</b>	<b>-30,135</b>	<b>-31,976</b>
Disbursements to shareholders (dividend)	-8,311	-9,614
Disbursement for the purchase of own shares	-800	-66
Incoming payments from the sale of own shares	841	674
Incoming payments from minority interests	84	0
Disbursements to minority interests	-1,500	-2,725
Incoming payments from raising (financial) loans	32,138	24,679
Outflow for repayment of (financial) loans	-13,926	-16,871
<b>Cash flow from funding activities</b>	<b>8,526</b>	<b>-3,923</b>
<b>Cash increase in cash and cash equivalents</b>	<b>2,351</b>	<b>-6,494</b>
Financial means on 01.04	36,464	42,958
<b>Financial means on 31.03</b>	<b>38,815</b>	<b>36,464</b>

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# GESCO AG NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, 31 MARCH 2014

## GENERAL INFORMATION

GESCO AG is a private limited company with headquarters in Wuppertal, Germany. The company is registered under commercial register number HRB 7847 at Wuppertal district court. The company is dedicated to acquiring investments in SMEs and providing consulting and other services. The consolidated financial statements of GESCO AG, Wuppertal, dated 31 March 2014 were prepared based on the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) as they apply in the EU and under consideration of Section 315a para. 1 of the German Commercial Code (HGB).

## APPLICATION AND IMPACT OF NEW OR AMENDED STANDARDS

These consolidated financial statements of GESCO AG were prepared under consideration of all standards applicable to annual reporting years commencing prior to 1 April 2013. The following new or amended standards had to be considered for financial year 2013/2014:

- Amendment to IAS 1 “Presentation of Financial Statements” – Presentation of Items of Other Comprehensive Income (OCI)
- Amendment to IAS 12 “Income Taxes” – Deferred Taxes: Recovery of Underlying Assets
- IAS 19 “Employee Benefits”
- Amendment to IFRS 1 “First-time Adoption of International Financial Reporting Standards” – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
- Amendment to IFRS 1 “First-time Adoption of International Financial Reporting Standards” – Government Loans
- Amendment to IFRS 7 “Financial Instruments: Disclosures” – Netting of Financial Assets and Liabilities
- IFRS 13 “Fair Value Measurement”
- IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine”

The application of the above-mentioned regulations did not have any material effects on the consolidated financial statements of GESCO AG. The company applied IAS 19 “Employee Benefits” in advance in the previous year.



The following standards and interpretations are mandatory from financial year 2014/2015:

Standard	Adopted by the EU	Early application
IAS 27 "Separate Financial Statements"	Yes	Permitted
IAS 28 "Investments in Associates and Joint Ventures"	Yes	Permitted
Amendment to IAS 32 "Financial Instruments: Presentation" – Offsetting of Financial Assets and Financial Liabilities	Yes	Permitted
Amendment to IAS 36 – Recoverable amount disclosures for non-financial assets	Yes	Permitted
Amendment to IAS 39 – Novation of derivatives and continuation of hedge accounting	Yes	Permitted
IFRS 10 "Consolidated Financial Statements"	Yes	Permitted
IFRS 11 "Joint Arrangements"	Yes	Permitted
IFRS 12 "Disclosure of Interests in Other Entities"	Yes	Permitted
Amendment to IFRS 10, 11, 12 – Transition Provisions	Yes	Permitted
Amendment to IFRS 10, IFRS 12 and IAS 27 – Investment Entities	Yes	Permitted
IFRIC 21 "Levies"	Pending	Permitted

The following standards and interpretations are mandatory from financial year 2015/2016:

Standard	Adopted by the EU	Early application
Amendment to IAS 19 "Employee Benefits – Defined Benefit Plans: Employee Contributions"	Pending	Permitted
Annual Improvement to the International Financial Reporting Standards (2010-2012)	Pending	Permitted
Annual Improvements to the International Financial Reporting Standards (2011-2013)	Pending	Permitted

Based on current information, standards and interpretations that will become mandatory in future periods have no material impact on the consolidated financial statements of GESCO AG.

## CONSOLIDATED FINANCIAL STATEMENTS – REPORTING DATE

The reporting date for the consolidated financial statements is the reporting date of the parent company (31 March 2014). The financial years of the subsidiaries and associated companies included in the consolidated financial statements match the calendar year, and therefore do not deviate from the parent company's financial year by more than three months. As a result, interim financial statements were not prepared for 31 March 2014 in accordance with IAS 27.22. There are only a few buying and selling relationships between the operating subsidiaries. Their products and services differ. Some loan relationships exist between the parent company and certain subsidiaries. Any significant events affecting included companies that occurred by the consolidated reporting date were considered in the preparation of the consolidated financial statements. Preparing and auditing additional interim financial statements would mean a disproportionately high amount of time and expenditure, with no corresponding gain of information.

## SCOPE OF CONSOLIDATION

In addition to GESCO AG, the consolidated financial statements include all material subsidiaries for which GESCO AG directly or indirectly holds the majority of voting rights. Significant associated companies were included according to the equity method. In principle, first-time consolidation and deconsolidation takes place on the investment acquisition or disposal date. A property leasing company was included in the scope of consolidation according to SIC 12 since the Group is entitled to the economic benefits from the assets held by said company.

MAE Maschinen- und Apparatebau Götzen GmbH acquired the business operations of Eitel Presses Inc., Orwigsburg/Pennsylvania via MAE of America Inc., a 100 % subsidiary, by way of an agreement dated 30 December 2013. Eitel Presses is the US straightening machine market leader. MAE of America Inc., which had not been included in the consolidated financial statements in the previous year, has since been renamed MAE-EITEL INC. and is included in the consolidated financial statements as a fully consolidated company. In April 2014, the managing director acquired a 10 % share in this company pursuant to the GESCO model; MAE Maschinen- und Apparatebau Götzen GmbH has since held 90 % of the shares. The company was acquired at a fixed purchase price of € 3.6 million (USD 5.0 million) plus variable payment obligations of € 2.8 million (USD 3.9 million). The ancillary company acquisition costs included in expenditure amounted to € 389 thousand. The large majority of the variable payment obligations are performance related and, to a small extent, relate to tax payments. Of the total amount, € 2.4 million (USD 3.4 million) are certain; the remaining components in the amount of € 0.4 million (USD 0.5 million) were estimated on the basis of corporate planning.

MAE Amerika GmbH, Erkrath, and MAE Machines (Beijing) Co. Ltd., China, were also included as fully consolidated companies in the consolidated financial statements for the reporting year for the first time.

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

EUR'000	31.03.2014	31.03.2013
Intangible assets	1,706	8,306
Property, plant and equipment	703	14,586
Inventories	2,476	5,901
Trade receivables	2,470	3,997
Other current assets (excluding liquid assets)	97	1,224
Liquid assets	297	5,391
Provisions	38	642
Liabilities	1,270	17,359

The gross amount of the trade receivables is € 2,472 thousand.

The hidden reserves were assigned to real estate, customer relationships and order backlog. The fair value of the real estate was determined using the estimated amount at which the asset could be marketed. The present values of the remaining assets were calculated using the present value method.

These additions affected Group net income after minority interest by € -0.6 million (previous year: € 1.5 million) and Group sales by € 0.4 million (previous year: € 13.3 million). If the companies had been included in the consolidated financial statements of GESCO AG at the beginning of the financial year, earnings would have been affected by approximately € 2.0 million (previous year: € 3.2 million) and sales by approximately € 11.4 million (previous year: € 26.2 million). The earnings effect includes the impact from first-time consolidation.

In addition to the parent company, a total of 50 companies are included in the consolidated financial statements according to the principle of full consolidation, and three other companies are included under the equity method.

Four subsidiaries with an immaterial effect on the assets, financial position and earnings were not consolidated but instead valued at their respective cost of acquisition. The effect on sales, earnings and total assets is less than 1.0 %. Another company, which is also not of material significance, was valued at cost of acquisition. This affected earnings and total assets by less than 0.2 % overall. Frank Lemeks Tow, Ternopil/Ukraine, which had not been consolidated in the previous year, was included in the interim reports as a fully consolidated company in the consolidated financial statements for the reporting period for the first time as part of a provisional initial consolidation within the meaning of IFRS 3.45 et seq. as the company was expected to significantly expand its economic activities in the reporting period. As it did not expand activities in the reporting period to the extent previously expected, the company will now not be fully consolidated in the consolidated financial statements as at 31 March 2014 as it has an immaterial effect on the Group's assets, financial position and earnings.

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

## CONSOLIDATION METHODS/EQUITY METHOD

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

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

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

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

## ACCOUNTING AND VALUATION METHODS

The financial statements, on which the consolidated financial statements dated 31 March 2014 are based, are consistently prepared according to uniform accounting and valuation methods.

In the individual financial statements, **foreign currency transactions** are converted using the exchange rate in effect at the time of the respective transaction. On the reporting date, monetary items are adjusted to their fair value using the relevant conversion rate; differences are included in earnings.

The companies outside the Eurozone prepare their financial statements in the respective national currency according to the functional currency concept. Assets and liabilities in these financial statements are converted to Euros using the exchange rate in effect on the reporting date. Equity is reported at the historical exchange rate, with the exception of items recorded directly in equity. Income statement items are converted at average exchange rates and the resulting exchange rate differences are recognised directly in equity. The following table lists the exchange rates that were used:

		Reporting date rate		Average rate	
	1 €=	31.12.2013	31.12.2012	2013	2012
Brazil	BRL	3.2576	2.7036	2.8672	2.5084
China	CNY	8.3491	8.2207	8.1646	8.0739
Singapore	SGD	1.7414	1.6111	1.6672	1.6055
South Korea	KRW	1,450.93	1,406.23	1,453.91	1,447.69
Taiwan	TWD	41.3370	38.4910	39.6988	38.1113
Turkey	TRY	2.9605	2.3551	2.5217	2.3135
Hungary	HUF	297.0400	291.2900	296.8730	289.2455
USA	USD	1.3791	1.3194	1.3281	1.2848

In the presentation of changes to property, plant and equipment, provisions and equity, the opening and closing balances are converted using the exchange rates on the respective reporting dates while changes during the year are converted using the average rate. Exchange rate differences are reported separately and excluded from income.

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

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

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

**Investment properties** are valued at the lower of fair value and the historical production or acquisition cost.

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

**Securities** held as non-current assets are valued at market prices on the reporting date. Changes in value are included in equity with no effect on income. When securities are sold or in case of a permanent impairment, changes in value are included in the result for the period.

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

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

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

**Minority interest in our incorporated companies and partnerships** pertains to the investments of managers in the companies they manage as well as the proportion of earnings to which they are entitled. Minority interest in our incorporated companies is reported as separate items in equity. In accordance with IAS 32, minority interest in our partnerships is reported as separate items in debt capital.



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

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

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

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

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

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

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

## INFORMATION ON THE GROUP BALANCE SHEET

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

### GROUP STATEMENT OF FIXED ASSETS AS AT 31.03.2014

EUR'000	Cost of acquisition or manufacture					
	As at 01.04.2013	Change in scope of consolidation	Additions	Transfers	Disposals	Change Exchange rate difference
I. INTANGIBLE ASSETS						
1. Industrial property rights and similar rights and assets as well as licences to such rights and assets						
a. Building cost subsidies	10	0	0	0	0	0
b. Computer software	7,969	0	910	36	63	0
c. Technology	16,542	0	0	0	0	0
d. Customer base	7,449	1,639	0	0	0	0
	<b>31,970</b>	<b>1,639</b>	<b>910</b>	<b>36</b>	<b>63</b>	<b>0</b>
2. Goodwill	13,222	67	0	0	0	0
3. Prepayments made	75	0	225	-36	0	0
	<b>45,267</b>	<b>1,706</b>	<b>1,135</b>	<b>0</b>	<b>63</b>	<b>0</b>
II. TANGIBLE ASSETS						
1. Land and buildings	58,334	475	8,902	58	207	0
2. Technical plant and machinery	81,612	26	8,026	2,252	1,746	0
3. Other plant, fixtures and fittings	64,993	202	4,966	236	2,222	-2
4. Prepayments made and assets under construction	2,949	0	5,270	-2,546	4	1
5. Investment properties	5,432	0	0	0	0	0
	<b>213,320</b>	<b>703</b>	<b>27,164</b>	<b>0</b>	<b>4,179</b>	<b>-1</b>
III. FINANCIAL ASSETS						
1. Shares in affiliated companies	40	0	0	0	25	0
2. Shares in associated companies	1,547	0	117	0	236	-236
3. Investments	38	0	118	0	0	0
4. Other loans	207	0	2	0	28	0
	<b>1,832</b>	<b>0</b>	<b>237</b>	<b>0</b>	<b>289</b>	<b>-236</b>
	<b>260,419</b>	<b>2,409</b>	<b>28,536</b>	<b>0</b>	<b>4,531</b>	<b>-237</b>

Depreciation						Book values		
	As at 31.03.2014	As at 01.04.2013	Additions	Disposals	Change Exchange rate difference	As at 31.03.2014	As at 31.03.2014	As at 31.03.2013
	10	10	0	0	0	10	0	0
	8,852	5,229	911	61	0	6,079	2,773	2,740
	16,542	12,833	809	0	0	13,642	2,900	3,709
	9,088	2,022	851	0	0	2,873	6,215	5,427
	<b>34,492</b>	<b>20,094</b>	<b>2,571</b>	<b>61</b>	<b>0</b>	<b>22,604</b>	<b>11,888</b>	<b>11,876</b>
	13,289	866	0	0	0	866	12,423	12,356
	264	0	0	0	0	0	264	75
	<b>48,045</b>	<b>20,960</b>	<b>2,571</b>	<b>61</b>	<b>0</b>	<b>23,470</b>	<b>24,575</b>	<b>24,307</b>
	67,562	15,702	1,854	207	0	17,349	50,213	42,632
	90,170	48,731	7,193	1,696	0	54,228	35,942	32,881
	68,173	43,785	4,996	1,917	-1	46,863	21,310	21,208
	5,670	0	0	0	0	0	5,670	2,949
	5,432	3,600	95	0	0	3,695	1,737	1,832
	<b>237,007</b>	<b>111,818</b>	<b>14,138</b>	<b>3,820</b>	<b>-1</b>	<b>122,135</b>	<b>114,872</b>	<b>101,502</b>
	15	0	0	0	0	0	15	40
	1,192	0	0	0	0	0	1,192	1,547
	156	0	0	0	0	0	156	38
	181	0	0	0	0	0	181	207
	<b>1,544</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,544</b>	<b>1,832</b>
	<b>286,596</b>	<b>132,778</b>	<b>16,709</b>	<b>3,881</b>	<b>-1</b>	<b>145,605</b>	<b>140,991</b>	<b>127,641</b>

**GROUP STATEMENT OF FIXED ASSETS AS AT 31.03.2013**

EUR'000	Cost of acquisition or manufacture					
	As at 01.04.2012	Change in scope of consolidation	Additions	Transfers	Disposals	Change Exchange rate difference
I. INTANGIBLE ASSETS						
1. Industrial property rights and similar rights and assets as well as licences to such rights and assets						
a. Building cost subsidies	20	0	0	0	10	0
b. Computer software	6,995	208	701	340	280	5
c. Technology	16,542	0	0	0	0	0
d. Customer base	2,867	4,582	0	0	0	0
	<b>26,424</b>	<b>4,790</b>	<b>701</b>	<b>340</b>	<b>290</b>	<b>5</b>
2. Goodwill	9,706	3,516	0	0	0	0
3. Prepayments made	340	0	75	-340	0	0
	<b>36,470</b>	<b>8,306</b>	<b>776</b>	<b>0</b>	<b>290</b>	<b>5</b>
II. TANGIBLE ASSETS						
1. Land and buildings	43,206	5,429	9,086	980	496	129
2. Technical plant and machinery	70,942	7,921	4,198	110	1,649	90
3. Other plant, fixtures and fittings	59,688	1,064	5,707	507	2,003	30
4. Prepayments made and assets under construction	1,786	172	2,618	-1,597	31	1
5. Investment properties	6,941	0	0	0	1,509	0
	<b>182,563</b>	<b>14,586</b>	<b>21,609</b>	<b>0</b>	<b>5,688</b>	<b>250</b>
III. FINANCIAL ASSETS						
1. Shares in affiliated companies	240	0	0	0	200	0
2. Shares in associated companies	1,525	0	116	0	136	42
3. Investments	38	0	0	0	0	0
4. Securities held as non-current assets	1,000	0	0	-1,000 <sup>1)</sup>	0	0
5. Other loans	236	0	2	0	31	0
	<b>3,039</b>	<b>0</b>	<b>118</b>	<b>-1,000</b>	<b>367</b>	<b>42</b>
	<b>222,072</b>	<b>22,892</b>	<b>22,503</b>	<b>-1,000</b>	<b>6,345</b>	<b>297</b>

<sup>1)</sup> Securities were reclassified as current assets, as their residual terms as of 31 March 2013 were less than 12 months.

		Depreciation					Book values	
	As at 31.03.2013	As at 01.04.2012	Additions	Disposals	Change Exchange rate difference	As at 31.03.2013	As at 31.03.2013	As at 31.03.2012
	10	16	0	6	0	10	0	4
	7,969	4,641	862	279	5	5,229	2,740	2,354
	16,542	12,050	783	0	0	12,833	3,709	4,492
	7,449	1,435	587	0	0	2,022	5,427	1,432
	<b>31,970</b>	<b>18,142</b>	<b>2,232</b>	<b>285</b>	<b>5</b>	<b>20,094</b>	<b>11,876</b>	<b>8,282</b>
	13,222	866	0	0	0	866	12,356	8,840
	75	0	0	0	0	0	75	340
	<b>45,267</b>	<b>19,008</b>	<b>2,232</b>	<b>285</b>	<b>5</b>	<b>20,960</b>	<b>24,307</b>	<b>17,462</b>
	58,334	14,566	1,429	301	8	15,702	42,632	28,640
	81,612	44,274	5,957	1,547	47	48,731	32,881	26,668
	64,993	40,820	4,662	1,715	18	43,785	21,208	18,868
	2,949	0	0	0	0	0	2,949	1,786
	5,432	4,254	142	796	0	3,600	1,832	2,687
	<b>213,320</b>	<b>103,914</b>	<b>12,190</b>	<b>4,359</b>	<b>73</b>	<b>111,818</b>	<b>101,502</b>	<b>78,649</b>
	40	0	0	0	0	0	40	240
	1,547	0	0	0	0	0	1,547	1,525
	38	0	0	0	0	0	38	38
	0	0	0	0	0	0	0	1,000
	207	0	0	0	0	0	207	236
	<b>1,832</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,832</b>	<b>3,039</b>
	<b>260,419</b>	<b>122,922</b>	<b>14,422</b>	<b>4,644</b>	<b>78</b>	<b>132,778</b>	<b>127,641</b>	<b>99,150</b>

## **(1) INDUSTRIAL PROPERTY RIGHTS AND SIMILAR RIGHTS AND ASSETS AS WELL AS LICENCES**

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

Building cost subsidies:	19-20 years
Computer software:	3-7 years
Technology:	10-13 years
Customer base:	6-10 years

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

## **(2) GOODWILL**

In accordance with IFRS 3, goodwill is not subject to regular amortisation but is instead subjected to an annual impairment test. This process uses the cash flows from the current company budget for the next three years; a continuous growth rate of 1 % is assumed for subsequent periods. The resulting values are discounted using a weighted average cost of capital of 7.3 % (previous year: 8.0 %). This results in a present value (value in use) that is compared to the reported goodwill. As in the previous year, according to the results of the impairment test, no write-down was required as at the reporting date.

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

The addition is a result of the acquisition of the business operations of Eitel Presses Inc. and relates to intangible assets that do not meet the criteria for separate recognition.

## **(3) PREPAYMENTS MADE**

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

## **(4) LAND AND BUILDINGS**

Buildings are always depreciated over a 40 or 50 year period using the straight-line method.

## **(5) TECHNICAL PLANTS AND MACHINERY**

Technical plants and machinery are always depreciated over a five to 15 year period using the straight-line method. This balance sheet item also includes equipment under financing leases with a book value (cash value of the lease payments less scheduled depreciation) of € 462 thousand as at the consolidated reporting date (previous year: € 733 thousand). The company is not free to dispose of the assets held under financing lease contracts. These assets are depreciated over their expected useful life.



## **(6) OTHER PLANTS, FIXTURES AND FITTINGS**

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

## **(7) PREPAYMENTS MADE AND PLANTS UNDER CONSTRUCTION**

The amount reported primarily relates to buildings and machinery.

## **(8) INVESTMENT PROPERTIES**

Fixed assets include two (previous year: two) investment properties and generate rental income.

These properties are valued at the cost of acquisition less straight-line depreciation on parts of the buildings over the estimated useful life of 40 years. The fair value of these investment properties was € 1,817 thousand (previous year: € 1,919 thousand). The fair values for each property were calculated using the gross rental method. This calculation was based on market interest rates of approximately 8.0 % (previous year: 8.0 %). No expert opinions regarding the attributable present values were obtained.

Investment properties generated rental income in the amount of € 371 thousand (previous year: € 501 thousand) and resulted in directly attributable operating expenditure in the amount of € 145 thousand (previous year: € 161 thousand) and depreciation of € 95 thousand (previous year: € 142 thousand).

## **(9) SHARES IN AFFILIATED COMPANIES**

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

## **(10) SHARES IN ASSOCIATED COMPANIES**

Positive results of companies valued at equity are reported as additions on the Group asset history sheet. A share of a loss, dividend distributions and the sale of shares are reported under dispositions.

Currency translation differences are included in equity without affecting income.

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

The shares in Gluckstahl Ltda., Brazil were tested for impairment due to sustained losses. This resulted in the complete impairment of the shares (€ 235 thousand). Receivables from the company in the amount of € 946 thousand were also written off.

The following table depicts significant **financial information** for associated companies: total values without consideration for the share held by the Group. Gluckstahl Ltda., Brazil is not included as at 31 March 2014 as the requisite information was not available.

€'000	31.03.2014	31.03.2013
Assets	14,851	16,322
Liabilities	9,771	10,277
Sales	20,020	20,723
Net profit	247	-93

## (11) INVESTMENTS

Companies of minor significance are reported under investments.

## (12) RECEIVABLES AND OTHER ASSETS

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

Other assets consist of the following:

€'000	31.03.2014	31.03.2013
<b>Non-current</b>		
Loan receivables	2,341	2,550
Miscellaneous	3	1
<b>Total</b>	<b>2,344</b>	<b>2,551</b>

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

€'000	31.03.2014	31.03.2013
<b>Current</b>		
Loan receivables	158	258
Income tax refund claims	4,441	2,248
Tax prepayments	1,173	1,119
Derivative financial instruments	116	533
Purchase price claims – real estate	0	430
Claims arising from purchase price adjustments	965	118
Miscellaneous	1,615	1,748
<b>Total</b>	<b>8,468</b>	<b>6,454</b>

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

€'000	2013/2014	2012/2013
<b>As at 01.04.</b>	<b>24</b>	<b>26</b>
Reversals	-3	-2
<b>As at 31.03.</b>	<b>21</b>	<b>24</b>
(specific adjustments out of this amount)	(21)	(24)

## Trade receivables

Trade receivables are non-interest-bearing and are due within 12 months.

The decrease in value of trade receivables developed as follows:

€'000	2013/2014	2012/2013
<b>As at 01.04.</b>	<b>1,794</b>	<b>1,260</b>
Claims	-100	-33
Reversals	-226	-225
Additions	167	792
<b>As at 31.03.</b>	<b>1,635</b>	<b>1,794</b>
(specific adjustments out of this amount)	(813)	(1,041)

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

The maturity structure of receivables before allowances is as follows:

€'000	Book value	Not due	overdue up to ... days				
			30	60	90	180	over 180
31.03.2014	67,152	50,840	10,153	1,580	1,202	2,103	1,274
31.03.2013	54,915	41,303	7,975	2,018	984	1,368	1,267

## Receivables from associated companies

The decrease in the value of receivables from associated companies developed as follows:

€'000	2013/2014	2012/2013
<b>As at 01.04.</b>	<b>0</b>	<b>0</b>
Additions	946	0
<b>As at 31.03.</b>	<b>946</b>	<b>0</b>
(specific adjustments out of this amount)	(946)	(0)

### (13) DEFERRED TAX ASSETS AND LIABILITIES

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

€'000	31.03.2014		31.03.2013	
	Deferred taxes		Deferred taxes	
	Assets	Liabilities	Assets	Liabilities
Intangible assets	1,769	1,767	2,017	2,094
Property, plant and equipment	210	4,969	312	5,477
Inventories	118	147	120	481
Pension provisions	1,743	0	1,843	0
Other provisions	573	55	360	73
Liabilities	469	0	533	38
Tax loss carry forwards	1,571	0	1,111	0
Other	216	170	170	345
	<b>6,669</b>	<b>7,108</b>	<b>6,466</b>	<b>8,508</b>
Net figure <sup>1)</sup>	-3,612	-3,612	-3,801	-3,801
<b>Total</b>	<b>3,057</b>	<b>3,496</b>	<b>2,665</b>	<b>4,707</b>

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

Deferred taxes on loss carry-forwards are capitalised if the future realisation of these potential tax reductions within a five-year planning horizon is reasonably certain on the reporting date. Deferred tax assets in the amount of approximately € 747 thousand (previous year: € 673 thousand) from loss carry-forwards for tax purposes were not reported since it is not considered very likely that a trade tax will be applied.

### (14) INVENTORIES

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

€'000	Raw materials and supplies		Unfinished products and services		Finished products and services		Prepayments made		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Cost of acquisition or manufacture	24,170	23,339	44,166	48,794	60,301	61,535	443	579	129,080	134,247
Write-downs	2,184	2,053	2,652	1,843	5,076	4,442	0	0	9,912	8,338
<b>As at 31.03.</b>	<b>21,986</b>	<b>21,286</b>	<b>41,514</b>	<b>46,951</b>	<b>55,225</b>	<b>57,093</b>	<b>443</b>	<b>579</b>	<b>119,168</b>	<b>125,909</b>

## (15) SECURITIES

Securities reported under current assets are highly liquid and not subject to material fluctuations in value; these became due in the reporting year.

## (16) CREDIT BALANCES WITH FINANCIAL INSTITUTIONS

This item mainly consists of short-term fixed deposits and current account credit balances denominated in Euros and held by various banks. A partial amount of the reported deposit in the amount of € 601 thousand (previous year: € 1,064 thousand) has been pledged to a financial institution.

## (17) EQUITY CAPITAL

The **subscribed capital** of the Group equals the subscribed capital of GESCO AG and totals € 8,645 thousand divided into 3,325,000 registered shares with full voting and dividend rights.

The Annual General Meeting on 30 August 2012 authorised the Executive Board to increase the company's share capital once or several times by a total of € 864,500.00 until 29 August 2015 with the consent of the Supervisory Board by issuing new registered shares in exchange for cash. Subscription rights may be excluded in certain cases. No use of this authorisation has been made to date.

The Annual General Meeting on 2 September 2010 authorised the company to acquire up to ten out of every hundred shares of the share capital until 1 September 2015 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 Group acquired a small number of treasury shares for the annual employee share scheme within the scope of a share acquisition pursuant to Section 71 para. 1 No. 2 of the Stock Corporation Act (AktG). GESCO AG held 237 treasury shares as at the reporting date.

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

	Shares in circulation	Own shares held	
	No.	No.	Share of the share capital in %
<b>As at 01.04.2012</b>	<b>3,315,212</b>	<b>9,788</b>	<b>0.29</b>
Purchases	-1,000	1,000	0.03
Employee share scheme	10,309	-10,309	0.31
<b>As at 31.03.2013</b>	<b>3,324,521</b>	<b>479</b>	<b>0.01</b>
Purchases	-11,000	11,000	0.33
Employee share scheme	11,242	-11,242	0.33
<b>As at 31.03.2014</b>	<b>3,324,763</b>	<b>237</b>	<b>0.01</b>

In the past, the company offered an employee share scheme limited to approximately two months in the second half of the calendar year after the respective Annual General Meeting. The purpose of this scheme was to provide employees of GESCO Group with the opportunity to acquire GESCO AG shares at a discount from the market price. Shares with a total value of € 841 thousand (previous year: € 673 thousand) disposed of under the employee share scheme were issued to employees at a total selling price of € 571 thousand (previous year: € 430 thousand). The discount granted to employees was included in other operating expenditure. The proceeds from the sale were used to pay off liabilities.

Most of the **capital reserve** of € 54,662 thousand (previous year: € 54,635 thousand) is the result of shares issued at a premium.

The Annual General Meeting of GESCO AG on 2 September 2010 authorised the company to acquire own shares according to Section 71 para. 1 No. 8 AktG and to use these shares for the stock option programme launched in September 2010. Beneficiaries include the Executive Board and a small group of management employees of GESCO AG. GESCO AG reserves the right to provide partial or full cash compensation for gains under the programme instead of issuing some or all of the shares. The Supervisory Board of GESCO AG initiated the seventh tranche in September 2013. A total of 20,200 options were issued to members of the Executive Board and management employees of GESCO AG. The gains under the programme can either be paid out half in cash and half in GESCO shares, or the full amount in cash. However, in the event that the full amount is paid out in cash, beneficiaries are required to purchase GESCO shares valued at least half of the amount paid.

Non-cash expenditure under this programme is determined using a common binomial model, recorded in earnings and recognised in liabilities. The model assumes volatility of 34.54 % and a risk-free interest rate of 0.97 %; the exercise price of the options issued in September 2013 is € 71.93. The waiting period is four years and two months after the option is issued; after the end of the waiting period, the options may be exercised at any time up to 15 March of the year after next. The fair value per option on the issue date is € 8.94. These annual financial statements are the first to include the expenditure (€ 31 thousand) resulting from the stock option programme initiated in the reporting year for a seven-month period. Total expenditure for the fourth to seventh tranche amounted to € 289 thousand in the reporting year; in the previous year, total expenditure was € 499 thousand. Liabilities came to € 661 thousand as at the reporting date.

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

	<b>Tranche</b>			
	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
End of waiting period	25.09.2017	31.10.2016	22.09.2015	01.11.2014
End of term	15.03.2019	15.03.2018	05.03.2017	15.03.2016
Exercise price	€ 71.93	65.10	67.64	42.65
No. of options issued	20,200	24,000	24,000	24,000
Profit limit per option	€ 35.97	32.55	33.82	21.33
Fair value per option as at the reporting date 31.03.2014	€ 9.93	12.11	11.06	16.79
Fair value per option as at the time of issue	€ 8.94	8.15	9.49	7.18



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

	2013/2014		2012/2013	
	No. of options	Weighted average exercise price €	No. of options	Weighted average exercise price €
Outstanding options 01.04.	72,000	58.46	87,000	50.21
In the financial year				
granted	20,200	71.93	24,000	65.10
returned	0		0	
exercised	0		-39,000	44.14
expired	0		0	
Outstanding options 31.03.	92,200	61.41	72,000	58.46
Options that can be exercised 31.03.	0		0	

The company settled any profits for options already exercised in cash.

During the reporting year, **revenue reserves** increased by net earnings for the year in the amount of € 18,121 thousand. The figure was reduced by the dividend of € 8,311 thousand (€ 2.50 per share) for the previous year.

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

The **proposed dividend** per share was € 2.20 as at the financial statement preparation date. With 3,324,763 shares currently issued and outstanding, the proposed dividend payout is € 7,314 thousand. This dividend payout has no income tax consequences for the company.

## (18) MINORITY INTEREST

Minority interest consists of capital and earnings interests in the incorporated companies and partnerships. Minority interest in the incorporated companies is reported under equity and is mainly the result of investments in C.F.K. CNC-Fertigungstechnik Kriftel GmbH, Dörrenberg Edelstahl GmbH and its subsidiaries, Hubl GmbH, Protomaster Riedel & Co. GmbH, SVT GmbH, VWH Herschbach GmbH as well as WBL Holding GmbH and its subsidiaries.

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

## (19) PROVISIONS

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

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

The **projected unit credit of pension obligations** has developed as follows:

€'000	2013/2014	2012/2013
<b>As at 01.04.</b>	<b>16,003</b>	<b>12,904</b>
Service expenditure	203	129
Interest costs	533	640
Pension annuities paid	-897	-936
Actuarial gains/losses	-276	3,266
<b>As at 31.03.</b>	<b>15,566</b>	<b>16,003</b>

**Development of plan assets** (liability insurance):

€'000	2013/2014	2012/2013
<b>As at 01.04.</b>	<b>654</b>	<b>708</b>
Employer contributions	40	34
Benefits paid	-48	-40
Actuarial losses/gains	12	-48
<b>As at 31.03.</b>	<b>658</b>	<b>654</b>

**Pension provisions** are derived as follows:

€'000	2014	2013
Projected pension obligations	15,566	16,003
Plan assets (liability insurance)	-658	-654
<b>As at 31.03.</b>	<b>14,908</b>	<b>15,349</b>

**Asset coverage** of pension obligations:

€'000	31.03.2014		31.03.2013	
	Pension commitments	Plan assets	Pension commitments	Plan assets
Without asset cover	14,809	0	15,250	0
Some asset cover	757	658	753	654
<b>As at 31.03.</b>	<b>15,566</b>	<b>658</b>	<b>16,003</b>	<b>654</b>

**Pension costs** consist of the following:

€'000	2013/2014	2012/2013
Service expenditure	203	129
Interest accruing on expected pension obligations	533	640
	<b>736</b>	<b>769</b>

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

	2013/2014	2012/2013
Interest rate	3.50 %	3.40 %
Increase in salaries	3.00 %	3.00 %
Increase in pensions	2.00 %	2.00 %
Staff turnover	1.00 %	1.00 %

The development of **pension obligations and fund assets** is shown in the following table:

€'000	2013/2014	2012/2013	2011/2012	2010/2011	2009/2010
Pension commitments	15,566	16,003	12,904	10,055	9,832
Plan assets	-658	-654	-708	-747	-726
Funded status	14,908	15,349	12,196	9,308	9,106

Expected contribution payments for financial year 2014/2015 are € 40 thousand.

Expected future pensions are as follows:

€'000	2014/15	2015/16- 2019/20	2020/21- 2025/26
Expected future pensions	840	3,534	4,371

Of the above-mentioned actuarial assumptions, the interest rate in particular has a material impact on the measurement of pension obligations as at the reporting date. Had the discount factor for otherwise constant other assumptions been 100 basis points higher or lower as at the reporting date, pension obligations would have been € 1,721 thousand lower (previous year: € 1,819 thousand) or € 2,138 thousand higher (previous year: € 2,258 thousand).

The composition and development of **other provisions** is shown in the following table:

€'000	As at 01.04.2013	Change in scope of consoli- dation	Utilisation	Addition/ new creation	Release	Transfer	As at 31.03.2014
<b>Non-current</b>							
Purchase price annuity obligation	577	0	0	16	0	0	593
<b>Total</b>	<b>577</b>	<b>0</b>	<b>0</b>	<b>16</b>	<b>0</b>	<b>0</b>	<b>593</b>
<b>Current</b>							
Recultivation obligation	880	0	0	0	0	0	880
Guarantees and warranties	4,527	0	-1,090	1,277	-652	0	4,062
Purchase price obligation	496	0	-496	0	0	0	0
Cost of annual financial statements	786	0	-728	797	-13	0	842
Follow-up costs	2,204	0	-1,604	1,254	0	0	1,854
Taxes and incidental tax expenses	1,865	0	-851	71	0	0	1,085
Impending losses	115	0	-115	442	0	0	442
Miscellaneous	256	38	-159	566	-50	0	651
<b>Total</b>	<b>11,129</b>	<b>38</b>	<b>-5,043</b>	<b>4,407</b>	<b>-715</b>	<b>0</b>	<b>9,816</b>

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

## (20) LIABILITIES

€'000	As at 31.03.2014 (31.03.2013)	Residual term up to 1 year	Residual term up to 5 years	Residual term > 5 years
Liabilities to financial institutions	96,881	31,971	48,827	16,083
	(78,760)	(23,318)	(43,386)	(12,056)
Trade payables	14,581	14,581	0	0
	(14,995)	(14,995)	(0)	(0)
Payments received on orders	25,513	25,513	0	0
	(27,301)	(27,301)	(0)	(0)
Liabilities to affiliated companies	3	3	0	0
	(16)	(16)	(0)	(0)
Liabilities to associated companies	7	7	0	0
	(3)	(3)	(0)	(0)
Other liabilities	34,400	32,573	1,805	22
	(34,941)	(31,318)	(3,606)	(17)
<b>Total</b>	<b>171,385</b>	<b>104,648</b>	<b>50,632</b>	<b>16,105</b>
	<b>(156,016)</b>	<b>(96,951)</b>	<b>(46,992)</b>	<b>(12,073)</b>

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

€'000	As at 31.03.2014 (31.03.2013)	Residual term up to 30 days	Residual term 30 to 90 days	Residual term 90 to 360 days
Liabilities to financial institutions	31,971	20,979	1,488	9,504
	(23,318)	(12,907)	(2,228)	(8,183)
Trade payables	14,581	13,831	646	104
	(14,995)	(13,444)	(1,543)	(8)
Payments received on orders	25,513	2,865	3,691	18,957
	(27,301)	(1,252)	(2,912)	(23,137)
Liabilities to affiliated companies	3	3	0	0
	(16)	(16)	(0)	(0)
Liabilities to associated companies	7	7	0	0
	(3)	(3)	(0)	(0)
Other liabilities	32,573	12,960	5,354	14,259
	(31,318)	(14,302)	(6,366)	(10,650)
<b>Total</b>	<b>104,648</b>	<b>50,645</b>	<b>11,179</b>	<b>42,824</b>
	<b>(96,951)</b>	<b>(41,924)</b>	<b>(13,049)</b>	<b>(41,978)</b>

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

€'000	31.03.2014	31.03.2013
Load charges	46,751	36,838
of which on investment properties	4,090	4,090
Book value of existing property and property under construction	46,601	39,639
Assignment of		
moveable fixed assets as security	17,504	11,792
inventories	7,542	13,722
Assignment of receivables	6,728	6,685

The parent company has also pledged shares in subsidiaries with a total book value of € 46,222 thousand (previous year: € 46,222 thousand).

€ 83,261 thousand (previous year: € 70,941 thousand) of the liabilities to financial institutions result from long-term loans of domestic companies with fixed repayment terms and a remaining term between one and 20 years (previous year between one and 14 years).

Interest rates for the Euro loans vary between 0.50 % and 6.10 % (previous year: 0.47 % and 7.50 %). These interest rates correspond to the market rates for the respective loans and companies. Other liabilities to financial institutions consist of current accounts.

**Other liabilities** consist of the following:

€'000	31.03.2014	31.03.2013
Wages, salaries, social security	14,510	14,504
Other taxes	3,300	4,144
Income taxes	4,140	5,524
Outstanding incoming invoices	2,259	1,994
Finance leasing	505	777
Purchase price commitments company acquisitions	4,605	1,644
Miscellaneous liabilities	5,081	6,354
<b>Total</b>	<b>34,400</b>	<b>34,941</b>

Most of the other liabilities result from current liabilities owed to third parties. Wage, salary and social security liabilities include partial retirement and anniversary obligations in the amount of € 681 thousand (previous year: € 694 thousand) that will be due in more than one year.



## INFORMATION ON THE CONSOLIDATED INCOME STATEMENT

C.F.K. CNC-Fertigungstechnik Kriffel GmbH, Modell Technik GmbH & Co. Formenbau KG, Modell Technik Beteiligungsgesellschaft mbH, Protomaster Riedel & Co. GmbH and TM Erste Grundstücksgesellschaft mbH were included in the income statement for financial year 2013/14 for the first time for a 12-month period (on a pro rata temporis basis in the previous year).

### (21) SALES REVENUES

Sales revenue is recognised with the transfer of liabilities and benefits related to the assets that are sold. For more information, please consult the section on segment reporting.

### (22) OTHER COMPANY PRODUCED ADDITIONS TO ASSETS

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

### (23) OTHER OPERATING INCOME

Other operating income breaks down as follows:

€'000	2013/2014	2012/2013
Income from writing back/utilising provisions	3,324	2,451
Price gains	131	994
Income from public subsidies	180	73
Income from the reversal of value adjustments and from the payment of receivables previously written off	353	252
Income from the disposal of fixes assets	309	485
Income from insurance refunds	184	103
Income from payments in kind	617	460
Income from licences	245	155
Miscellaneous	1,234	1,289
<b>Total</b>	<b>6,577</b>	<b>6,262</b>

### (24) MATERIAL EXPENDITURE

Material expenditure includes:

€'000	2013/2014	2012/2013
Expenditure on raw materials and supplies and goods supplied	195,802	207,436
Expenditure on services purchased	31,409	28,772
<b>Total</b>	<b>227,211</b>	<b>236,208</b>

## (25) PERSONNEL EXPENDITURE

Personnel expenditure includes:

€'000	2013/2014	2012/2013
Wages and salaries	103,559	95,269
Social security contributions/expenditure on pensions and benefits	19,226	18,284
<b>Total</b>	<b>122,785</b>	<b>113,553</b>

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

## (26) OTHER OPERATING EXPENDITURE

Other operating expenditure breaks down as follows:

€'000	2013/2014	2012/2013
Operating expenditure	22,550	21,362
Administrative expenditure	6,382	6,714
Expenditure on distribution	18,637	18,480
Miscellaneous expenditure	7,038	8,047
of which allowances on receivables and other assets	1,137	742
<b>Total</b>	<b>54,607</b>	<b>54,603</b>

## (27) DEPRECIATION ON PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Depreciation on property, plant and equipment and amortisation on intangible assets is reported in the Group asset history sheet. Additional information can be found in the notes regarding the corresponding balance sheet items.

## (28) TAXES ON INCOME AND EARNINGS

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

€'000	2013/2014	2012/2013
Actual taxes	10,846	12,386
Deferred taxes	-1,585	-1,298
<b>Total</b>	<b>9,261</b>	<b>11,088</b>

The reconciliation between budgeted income tax expenditure based on a tax rate of 30.5 % (previous year: 30.5 %) and actual income tax expenditure reported on the income statement is as follows:

€'000	2013/2014	2012/2013
<b>Group result before income tax</b>	<b>29,018</b>	<b>33,825</b>
Anticipated income tax expenditure	-8,850	-10,317
Permanent differences arising on expenditure which is not tax deductible	-325	-408
Income tax for different reporting periods	-154	-110
Consolidation effects	-177	-191
Differences in tax rates	161	146
Miscellaneous	84	-208
<b>Total</b>	<b>-9,261</b>	<b>-11,088</b>

The capitalisation (previous year: capitalisation) of future tax savings from tax loss carry-forwards led to a tax asset of € 0.5 million (previous year: tax asset of € 0.2 million) in the 2013/2014 reporting year.

## (29) EARNINGS PER SHARE

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

	2013/2014	2012/2013
Group net income (€'000)	18,121	20,916
Weighted number of shares (number)	3,324,386	3,318,143
<b>Earnings per share in accordance with IAS 33 (€)</b>	<b>5.45</b>	<b>6.30</b>

There are no factors that would cause dilution.

## (30) OTHER COMPREHENSIVE INCOME

The actuarial gains and losses from pension obligations contained in this item and currency hedging transactions were reduced by income taxes of € 22 thousand (previous year: € 836 thousand).

## INFORMATION ON THE CASH FLOW STATEMENT

In accordance with IAS 7 (Statement of Cash Flows), the **cash flow statement** shows the movement in the inflows and outflows of funds in the Group during the reporting year. The financial resources portfolio includes credit balances held by financial institutions (€ 38,815 thousand).

Cash flow from investment activity includes € 205 thousand (previous year: € 58 thousand) in unpaid investments.

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

€'000	2013/2014	2012/2013
Interest paid	2,154	1,949
Interest received	320	793
Dividends received	57	83
Taxes paid	14,703	9,810

## INFORMATION ON THE SEGMENT REPORTING

The companies are assigned to segments according to their respective field of activity. Companies in the **tool manufacture and mechanical engineering segment** mainly focus on the production of machines and tools as well as the provision of related services. The **plastics technology segment** includes plastic processing companies that manufacture injection-moulded plastic parts as well as plastic and paper sticks.

The **GESCO AG** segment comprises the activities of GESCO AG as an investment holding company. Companies that are not assigned to any other segment as well as consolidation effects and reconciliations to the corresponding Group values are reported in the **other/consolidation** segment.

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

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

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

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

	2013/2014		2012/2013	
	€'000	%	€'000	%
Germany	300,263	66.2	286,609	65.1
Europe (excluding Germany)	81,907	18.1	83,082	18.8
Other	71,166	15.7	70,726	16.1
<b>Total</b>	<b>453,336</b>	<b>100.0</b>	<b>440,417</b>	<b>100.0</b>

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

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

	2013/2014		2012/2013	
	€'000	%	€'000	%
Germany	133,845	96.0	122,489	97.4
Other regions	5,602	4.0	3,320	2.6
<b>Total</b>	<b>139,447</b>	<b>100.0</b>	<b>125,809</b>	<b>100.0</b>

## OTHER INFORMATION ON THE CONSOLIDATED FINANCIAL STATEMENTS

### RESEARCH AND DEVELOPMENT COSTS

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

### INFORMATION ON FINANCIAL INSTRUMENTS

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

€'000	Book value		Fair value	
	31.03.2014	31.03.2013	31.03.2014	31.03.2013
Trade receivables	65,517	53,121	65,517	53,121
Other receivables	7,427	8,106	7,427	8,106
of which hedging instruments	116	533	116	533
Cash and cash equivalents	38,815	36,464	38,815	36,464
Securities	0	1,000	0	1,000
<b>Financial assets</b>	<b>111,759</b>	<b>98,691</b>	<b>111,759</b>	<b>98,691</b>
Trade payables	14,581	14,995	14,581	14,995
Liabilities to financial institutions	96,881	78,760	96,881	78,760
Other liabilities	56,983	56,737	56,983	56,737
of which hedging instruments	293	482	293	482
<b>Financial liabilities</b>	<b>168,445</b>	<b>150,492</b>	<b>168,445</b>	<b>150,492</b>

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

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

€'000	Balance sheet amount		Fair value		Net result on the income statement	
	31.03.2014	31.03.2013	31.03.2014	31.03.2013	31.03.2014	31.03.2013
Loans and receivables	111,759	97,691	111,759	97,691	244	468
Assets available for sale	0	1,000	0	1,000	3	8
<b>Financial assets</b>	<b>111,759</b>	<b>98,691</b>	<b>111,759</b>	<b>98,691</b>	<b>247</b>	<b>476</b>
Liabilities held for trading	293	482	293	482	225	183
Other financial liabilities	168,152	150,010	168,152	150,010	-2,372	-2,738
<b>Financial liabilities</b>	<b>168,445</b>	<b>150,492</b>	<b>168,445</b>	<b>150,492</b>	<b>-2,147</b>	<b>-2,555</b>



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

## CONTINGENT LIABILITIES

Investment projects initiated during the reporting year resulted in commitments in the amount of € 3,562 thousand (previous year: € 4,239 thousand). These investments will be concluded in financial year 2014/2015.

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

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

## RENTAL AND LEASE AGREEMENTS

The following payment obligations exist for finance lease arrangements:

€'000	Total	2014/15	2015/16- 2018/19	2019/20 & following years
Minimum lease payments	546	273	273	0
Discounting amount	41	30	11	0
<b>Cash amount</b>	<b>505</b>	<b>243</b>	<b>262</b>	<b>0</b>

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

Rental and lease agreements (operating leases) have been concluded for buildings as well as other plant, fixtures and fittings. Related rental and lease payments amounted to € 3,674 thousand for the reporting year (previous year: € 3,884 thousand).

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

€'000	2013/2014	2012/2013
Up to one year	3,179	3,170
One to five years	6,404	6,758
Over five years	5,311	5,371
<b>Total</b>	<b>14,894</b>	<b>15,299</b>

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

## RISK MANAGEMENT

In order to recognise risks as early as possible and initiate compensating measures, GESCO Group implemented a Group-wide risk management system in 1999. Detailed information regarding risks and opportunities can be found in the Group management report.

The GESCO Group is exposed to **financial instrument risk** in the form of credit risk, liquidity risk and market price risk. All types of risk may affect the assets, financial position and earnings of the Group.

**Credit risk** mainly affects trade receivables.

**Liquidity risk** refers to the risk of being unable to meet payment obligations as they come due.

**Market price risk** mainly consists of exchange rate changes relating to business operations as well as interest rate and exchange rate changes related to financing.

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

Information on the individual risk categories:

### 1. CREDIT RISK

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

The theoretical maximum default risk (credit risk) equals a total loss of the book value of the financial instruments. Based on current information, the default risk for unadjusted financial instruments is low since risk management tools limit the probability of default.

### 2. LIQUIDITY RISK

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

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

### 3. MARKET PRICE RISK

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

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

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

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

**Interest rate risk** mainly results from debt financing. According to IFRS 7, interest rate risk is represented by means of a sensitivity analysis. The sensitivity analysis illustrates the effects of hypothetical changes in market interest rates on interest expenditure. Had market interest rates been 100 basis points higher or lower during the reporting year, Group net earnings and consolidated equity after minority interest would have been € 618 thousand (previous year: € 535 thousand) lower or higher.

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

Trade receivables denominated in foreign currencies amounted to € 5,133 thousand (previous year: € 4,696 thousand) as at the reporting date. This corresponds to 7.8 % (previous year: 8.8 %) of total trade receivables. Receivables are denominated in the following currencies:

€'000	2013/2014	2012/2013
US dollar:	4,332	3,594
Singapore dollar:	0	308
Taiwanese dollar:	92	441
South African rand:	106	167
Hungarian forint:	14	41
Chinese renminbi yuan:	536	90
Swiss franc:	53	54

A 10% fluctuation in exchange rates as at the reporting date would have affected both equity and Group net earnings after minority interest by either € -297 thousand or € +363 thousand (previous year: € -263 thousand or € +322 thousand).

Forward exchange transactions and foreign currency loans are used to hedge pending sales transactions in USD against exchange rate risks. The fair value of hedging transactions amounted to € 210 thousand as at the reporting date (previous year: € 573 thousand). Other comprehensive income amounted to € 143 thousand after deferred taxes and minority interest (third party) (previous year: € 369 thousand). Cash flows of USD 4.7 million are hedged.

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

USD '000	2014/2015	2015/2016	2016/2017
Expected cash flows	3,470	694	578

## INFORMATION ON RELATIONSHIPS WITH AFFILIATED COMPANIES

Business relationships between fully consolidated and not fully consolidated companies within the Group are conducted under regular market terms and conditions. Receivables from related companies are mainly due from Frank Lemeks TOW, Ukraine. Entrepreneur Stefan Heimöller, elected to GESCO AG's Supervisory Board by the Annual General Meeting on 25 July 2013, maintains business relationships to a minor extent with Dörrenberg Edelstahl GmbH, a 90 % subsidiary of GESCO AG, through his company Platestahl Umformtechnik GmbH. These business relationships are conducted under regular market terms and conditions.

## EMPLOYEES

The average number of employees was as follows:

	2013/2014	2012/2013
Factory staff	1,395	1,336
Office staff	800	711
Trainees	125	98
<b>Total</b>	<b>2,320</b>	<b>2,145</b>

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

## EXEMPTION REQUIREMENTS FOR GROUP COMPANIES

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

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

## PUBLICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements for 2013/2014 are to be examined and approved by the Supervisory Board of GESCO AG in its meeting on 28 May 2014 and are then authorised for publication.

The consolidated financial statements will be published on 26 June 2014 in conjunction with an annual accounts press conference and analysts' meeting in Wuppertal.

## CORPORATE GOVERNANCE

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

The Executive Board holds a total of approximately 0.6 % of company shares. Members of the Supervisory Board hold a total of approximately 13.7 % of company shares.

## AUDITOR

The fee included in expenditure for the financial year amounted to € 143 thousand (previous year: € 128 thousand) for the audit of the annual and consolidated financial statements of GESCO AG, € 6 thousand (previous year: € 10 thousand) for tax consulting services and € 15 thousand (previous year: € 44 thousand) for other services.

Fees were also incurred in the amount of € 232 thousand (previous year: € 223 thousand) for the audit of consolidated subsidiaries, € 160 thousand (previous year: € 0 thousand) for other audit services, € 68 thousand (previous year: € 44 thousand) for tax consulting services and € 6 thousand (previous year: € 21 thousand) for other services. Of the other audit services, € 150 thousand relate to recharged invoices (primarily from Mc Gladerey, USA) in connection with the due diligence audit at Eitel Presses Inc., USA.

## EXECUTIVE BODIES OF THE COMPANY

### EXECUTIVE BOARD

**Robert Spartmann, Gevelsberg**  
**Member of the Executive Board**

**Dr.-Ing. Hans-Gert Mayrose, Mettmann**  
**Member of the Executive Board**

Remuneration received by the Executive Board – distributed among its members – is as follows (previous year):

€'000	Fixed remuneration		Variable remuneration		Stock options		Total	
Robert Spartmann	255	(255)	272	(313)	54	(61)	581	(629)
Dr.-Ing. Hans-Gert Mayrose	244	(244)	272	(313)	54	(61)	570	(618)
<b>Total</b>	<b>499</b>	<b>(499)</b>	<b>544</b>	<b>(626)</b>	<b>108</b>	<b>(122)</b>	<b>1,151</b>	<b>(1,247)</b>

Each Executive Board member received 6,000 stock options.

By the reporting date, members of the Executive Board achieved an entitlement to the following percentages of their pensions commitments based on their assessment value (most recent fixed salary):

Robert Spartmann	14.0 %
Dr.-Ing. Hans-Gert Mayrose	14.5 %

As at the reporting date, defined benefit obligations (DBO) and changes for 2013/2014 came to:

€'000	Pension commitments		Additions	
Robert Spartmann	558	(529)	29	(199)
Dr.-Ing. Hans-Gert Mayrose	592	(563)	29	(209)
<b>Total</b>	<b>1,150</b>	<b>(1,092)</b>	<b>58</b>	<b>(408)</b>

Remuneration received by a former member of the Executive Board amounted to € 60 thousand in the financial year (€ 71 thousand). To cover this, the company's pension obligations (DBO) amounted to € 797 thousand (€ 758 thousand) as at 31 March 2014.

## SUPERVISORY BOARD

### **Klaus Möllerfriedrich, Düsseldorf**

#### **Chairman, Auditor**

Deputy Chairman of the Supervisory Board:

- TopAgers AG, Langenfeld
- GHL Gesellschaft für Logistikleistung im Handel AG, Graz, Austria (until 30 September 2013)
- Alexanderwerk AG, Remscheid (from 14 May 2013)

Member of the Supervisory Board:

- Dr. Ing. Thomas Schmidt AG, Cologne
- Artus Asset Management AG, Düsseldorf (from 6 September 2013)

### **Rolf-Peter Rosenthal, Wuppertal**

#### **Deputy Chairman, Retired bank director**

Member of the Advisory Board:

- Jackstädt Holding GmbH, Wuppertal
- Coroplast Fritz Müller GmbH & Co. KG, Wuppertal
- Siegfried Leithäuser GmbH & Co. KG, Hamm

Deputy Chairman of the Supervisory Board:

- ETRIS Bank GmbH, Wuppertal

### **Willi Back, Neckargemünd (until 25 July 2013)**

#### **Retired Chairman of the Executive Board of GESCO AG, Wuppertal**

Member of the Advisory Board:

- Metall-Chemie Holding GmbH, Hamburg

### **Stefan Heimöller, Neuenrade (from 25 July 2013)**

#### **Managing partner at Platestahl Umformtechnik GmbH, Lüdenscheid and at Helios GmbH, Neuenrade**

Remuneration received by the Supervisory Board – distributed among its members – is as follows (previous year):

€'000	Fixed remuneration		Variable remuneration		Total	
Klaus Möllerfriedrich	19	(20)	64	(75)	83	(95)
Rolf-Peter Rosenthal	16	(17)	64	(75)	80	(92)
Willi Back (until 25.07.2013)	6	(15)	20	(75)	26	(90)
Stefan Heimöller (from 25.07.2013)	8	(0)	43	(0)	51	(0)
<b>Total</b>	<b>49</b>	<b>(52)</b>	<b>191</b>	<b>(225)</b>	<b>240</b>	<b>(277)</b>



GESCO AG has obtained a "Directors' and Officers' Liability Insurance" (D&O Insurance) policy for Group management. This policy covers the members of the Executive Board and Supervisory Board of GESCO AG as well as the managers of the subsidiaries. Insurance premiums of € 32 thousand (previous year: € 32 thousand) were paid during financial year 2013/2014.

Wuppertal, 26 May 2014

The Executive Board

R. Spartmann      Dr.-Ing. H.-G. Mayrose

## STATEMENT OF THE LEGAL REPRESENTATIVES

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

Wuppertal, 26 May 2014

The Executive Board

R. Spartmann      Dr.-Ing. H.-G. Mayrose

## SIGNIFICANT GROUP SHAREHOLDINGS

Fully consolidated companies <sup>1)</sup>	Proportion of capital in %
Alro GmbH, Wuppertal	100
AstroPlast Kunststofftechnik GmbH & Co. KG, Sundern	80
AstroPlast Verwaltungs GmbH, Sundern <sup>2)</sup>	100
C.FK. CNC-Fertigungstechnik Kriftel GmbH, Kriftel	80
Degedenar Grundstückverwaltungsgesellschaft mbH & Co.Immobilien-Vermietungs KG, Eschborn <sup>3)</sup>	100
Dömer GmbH & Co. KG Stanz- und Umformtechnologie, Lennestadt	100
Dömer GmbH, Lennestadt <sup>2)</sup>	100
Dörrenberg Edelstahl GmbH, Engelskirchen	90
Dörrenberg Tratamientos Térmicos SL, Alasua, Navarra, Spain	60
Dörrenberg Special Steels PTE. Ltd., Singapore	90
Dörrenberg International PTE. Ltd., Singapore	90
Doerrenberg Special Steels Taiwan Ltd., Tainan, Taiwan	100
Middle Kingdom Special Steels PTE Ltd., Singapore	60
Jiashan Doerrenberg Mould & Die Trading Co., China	100
Frank Walz- und Schmiedetechnik GmbH, Hatzfeld	100
Frank-Hungaria Kft., Ózd, Hungary	100
Franz Funke Zerspanungstechnik GmbH & Co. KG, Sundern	80
Franz Funke Verwaltungs GmbH, Sundern <sup>2)</sup>	100
Georg Kesel GmbH & Co. KG, Kempten	90
Kesel International GmbH, Kempten	100
Georg Kesel Machinery (Beijing) Co., Ltd., China	100
Kesel & Probst Verwaltungs-GmbH, Kempten <sup>2)</sup>	100
Haseke GmbH & Co. KG, Porta Westfalica	80
Haseke Beteiligungs-GmbH, Porta Westfalica <sup>2)</sup>	100
Hubl GmbH, Vaihingen/Enz	80
MAE Maschinen- und Apparatebau Götzen GmbH, Erkrath	100
MAE International GmbH, Erkrath	100
MAE Machines (Beijing) Co., Ltd., China	100
MAE Amerika GmbH, Erkrath	100
MAE-EITEL INC., Wilmington, USA	100
Modell Technik GmbH & Co. Formenbau KG, Sömmerda	100
Modell Technik Beteiligungsgesellschaft mbH, Sömmerda <sup>2)</sup>	100
Molineus & Co. GmbH + Co. KG, Wuppertal	100
Grafic Beteiligungs-GmbH, Wuppertal <sup>2)</sup>	100
Paul Beier GmbH Werkzeug- und Maschinenbau & Co. KG, Kassel	100
WM Werkzeug- und Maschinenbau Verwaltungs-GmbH, Kassel <sup>2)</sup>	100
Protomaster Riedel & Co. GmbH, Wilkau-Haßlau	82.17
Q-Plast GmbH & Co. Kunststoffverarbeitung, Emmerich	100
Q-Plast Beteiligungs-GmbH, Emmerich <sup>2)</sup>	100
Setter GmbH & Co. Papierverarbeitung, Emmerich	100
Setter GmbH, Emmerich <sup>2)</sup>	100
HRP-Leasing GmbH, Emmerich	100
SVT GmbH, Schwelm	90
Tomföhrde GmbH & Co. Industrieverwaltungen KG, Wuppertal	100
Tomföhrde GmbH, Wuppertal <sup>2)</sup>	100
VWH Vorrichtungs- und Werkzeugbau Herschbach GmbH, Herschbach	80
WBL Holding GmbH, Laichingen	85
Werkzeughau Laichingen GmbH, Laichingen	100
Werkzeughau Leipzig GmbH, Leipzig	100
TM Erste Grundstücksgesellschaft mbH, Wuppertal	100

<sup>1)</sup> Share capital held directly or via majority shareholdings

<sup>2)</sup> Corporation as the general partner

<sup>3)</sup> Special purpose entity according to SIC 12

<b>Companies valued at equity <sup>1)</sup></b>	<b>Proportion of capital in %</b>
Saglam Metal Sanayi Ticaret A.S., Istanbul, Turkey	20
Doerrenberg Special Steels Korea Co. Ltd, Jeongwang-dong, South Korea	50
Gluckstahl Comercio Importacao e Exportacao Ltda., Sao Paulo, Brazil	50

<b>Companies which are not consolidated <sup>1)</sup></b>	<b>Proportion of capital in %</b>
Connex SVT Inc., Houston, USA	100
MAE.ch GmbH, Unterstammheim, Switzerland	100
Frank Lemeks Tow, Ternopil, Ukraine	75
Tiangong South East Asia Pte Ltd, Singapore	50

<sup>1)</sup> Share capital held directly or via majority shareholdings

# AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by GESCO AG comprising the balance sheet, income statement, statement of comprehensive income, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the Group management report for the financial year from 1 April 2013 to 31 March 2014. The preparation of the consolidated financial statements and the Group management report in accordance with IFRS, as adopted by the EU, and the additional requirements of Section 315a para. 1 of the German Commercial Code (HGB) are the responsibility of the legal representatives of the company. Our responsibility is to express an opinion on the consolidated financial statements and on the Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 of the German Commercial Code (HGB) and generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW – Institute of Public Auditors in Germany). Those standards require that we plan and perform the audit so that material misstatements affecting the presentation of the assets, financial position and earnings in the consolidated financial statements in accordance with the applicable financial reporting framework and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and economic and legal environment of the Group as well as expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in the consolidation, the accounting and consolidation principles used and significant estimates made by the legal representatives, as well as evaluating the overall presentation of the consolidated financial statements and the Group management report. We believe that our audit provides a reasonable basis for our assessment.

Our audit did not lead to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRS as adopted by the EU and the additional requirements under German commercial law pursuant to Section 315a para. 1 of the German Commercial Code (HGB) and give a true and fair view of the assets, financial position and earnings of the Group in accordance with these requirements. The Group management report is consistent with the consolidated financial statements and as a whole provides a suitable presentation of the Group's position and the opportunities and risks of future development.

Wuppertal, 26 May 2014

Dr. Breidenbach und Partner GmbH & Co. KG  
Wirtschaftsprüfungsgesellschaft  
Steuerberatungsgesellschaft

(Dr. Wollenhaupt)	(Wendlandt)
Auditor	Auditor

# REPORT FROM THE SUPERVISORY BOARD 2013/2014

**In financial year 2013/2014, GESCO Group performed solidly in a subdued economic climate, even if the results did not match those seen in the previous year. Thanks to the acquisition of Eitel Presses Inc.'s business operations, our subsidiary MAE Maschinen- und Apparatebau Götzen GmbH was able to take an important strategic step in the US market.**

In this report, the Supervisory Board provides information about its activities in financial year 2013/2014. 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, expediency 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 as well as the internal and external development of the Group were discussed in detail. 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. 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. 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 meetings. As scheduled, the Supervisory Board engaged with the structure and content of this system. In all cases, the members of the Supervisory Board dealt closely with the reports presented to it and contributed its own recommendations.

Detailed annual plans of selected 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 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 investigated 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. Major, strategic investments at subsidiaries are also associated with on-site visits and in-depth discussions. The Supervisory Board also uses the opportunity of a direct exchange of ideas with the individual managers of subsidiaries of GESCO AG during the management meetings of GESCO Group.

SUPERVISORY BOARD –  
KLAUS MÖLLERFRIEDRICH (CHAIRMAN),  
ROLF-PETER ROSENTHAL  
(DEPUTY CHAIRMAN),  
STEFAN HEIMÖLLER (L. TO R.)



GESCO AG's acquisition plans were extensively discussed by the Supervisory and Executive Boards. In the run-up to an acquisition, target companies are also appraised at their locations by a Supervisory Board member.

In financial year 2013/2014, the Supervisory and Executive Boards discussed the further development of the Group as part of a separate strategy conference and once again worked together to engage with GESCO Group's strategic objectives and their realisation.

## ORGANISATION OF THE SUPERVISORY BOARD

The Supervisory Board of GESCO AG consists of the representatives elected by the Annual General Meeting. Supervisory Board members in the reporting year were Klaus Möllerfriedrich (Chairman), Rolf-Peter Rosenthal (Deputy Chairman) and Willi Back until the conclusion of the Annual General Meeting held on 25 July 2013. As part of a long-planned handover to a new generation, about which we informed you in detail last year, Mr Back resigned from his position effective as at the end of the Annual General Meeting on 25 July 2013. We acknowledged extensively Mr Back's many years of work and achievements on behalf of GESCO AG in the Report from the Supervisory Board for the previous financial year. At this time, I would like to thank him once more on behalf of the entire Supervisory Board for his successful work and wish to convey to him our best wishes for the rest of his life's journey. The Annual General Meeting on 25 July 2013 elected Stefan Heimöller, Dipl.-Kfm./entrepreneur, to serve as his successor on the Supervisory Board.

The Supervisory Board of GESCO AG has consciously been kept small with three members in order to facilitate efficient work and intensive discussions both in 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 accounting committee, whose tasks continue to be carried out by the entire Supervisory Board. Supervisory Board committees were therefore not created in financial year 2013/2014.

## MEETINGS AND RESOLUTIONS OF THE SUPERVISORY BOARD

A total of ten Supervisory Board meetings took place in financial year 2013/2014. The Supervisory Board's resolutions were passed at these meetings. All members of the Supervisory Board attended each of these meetings. The Supervisory Board discussed and, if required, passed resolutions on the following issues:

Meeting of 24 May 2013:

Internal control system, current economic performance of GESCO Group, audit of annual financial statements and consolidated financial statements as at 31 March 2013

Meeting of 28 May 2013:

Approval of financial statements

Meeting of 12 July 2013:

Internationalisation of Dörrenberg Group

Meeting of 22 July 2013:

Internal control system, current economic performance of GESCO Group, preparations for the Annual General Meeting

Meeting of 07 August 2013:

Consultation on a major strategic investment in a subsidiary

Meeting of 07 October 2013:

Report on the internationalisation of Dörrenberg Group with participation of affected members of management

Meeting of 06 November 2013:

Approval of acquisition

Meeting of 12 December 2013:

Internal control system, current economic performance of GESCO Group, visit to a subsidiary

Meeting of 27 March 2014:

Internal control system, current economic performance of GESCO Group, discussion of outlook

Meeting of 28 March 2014:

Strategic development of GESCO Group, particularly portfolio and acquisition strategy

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 this Annual Report. The Executive Board and Supervisory Board submitted an updated declaration of compliance in accordance with Section 161 of the German Stock Corporation Act (AktG) in December 2013 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.

## REMUNERATION OF THE EXECUTIVE BOARD

The management report and notes to the consolidated and individual financial statements include detailed information on the structure of Executive Board remuneration. The Annual General Meeting approved the amended remuneration system on 2 September 2010 within the frame of a say on pay ruling.

## AUDIT OF ANNUAL FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

Corresponding to the legal provisions, the auditor selected by the Annual General Meeting on 25 July 2013, Dr. Breidenbach und Partner GmbH & Co. KG, Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Wuppertal, was commissioned by the Supervisory Board to audit the annual financial statements and consolidated financial statements on 7 August 2013. The auditor confirmed its independence to us in a letter dated 22 May 2013. Further, 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 Auditors.

The annual financial statements drawn up for the financial year from 1 April 2013 to 31 March 2014 by the Executive Board 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 auditor's report.

The consolidated financial statements and Group management report of GESCO Group for the financial year from 1 April 2013 to 31 March 2014 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 315a of the German Commercial Code (HGB). The auditor furnished the consolidated financial statements and Group management report with an unqualified auditor's report.

This year, the focal points of the audit by the auditor for the individual financial statements of GESCO AG were the valuation of investments, accrual and recoverable amount of receivables from associated companies and the completeness and valuation of other provisions, as well as the determination of tax refund claims, tax provisions and deferred taxes. The focal points of the audit of the consolidated financial statements were business combinations (purchase price allocation), impairment of assets including goodwill (impairment test) and management reporting according to DRS 20.

Prior to the audit, the Chairman of the Supervisory Board and the auditor discussed the focal points of the audit. The complete financial statements as well as the accompanying auditor's reports were sent to all members of the Supervisory Board in good time before the Supervisory Board meeting on 26 May 2014. They were the subject of intensive discussions in the meeting of the Supervisory Board on 26 May 2014. The auditors were in attendance at the meeting, reported on the main results of the audits and were available to the Supervisory Board for questions and additional information. The auditors gave comprehensive answers to all questions from the Supervisory Board. No objections were raised to the annual financial statements, the management report, the consolidated financial statements or the Group management report after the final result of the audit carried out by the Supervisory Board. After its own audit of the annual financial statements, the consolidated financial statements, the management report and the Group management report, the Supervisory Board approved the result of the audit by the auditor and accepted the annual financial statements and the consolidated financial statements in the meeting on 28 May 2014. 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.

## THANKS FOR THE WORK ACHIEVED

The Supervisory Board would like to thank the Executive Board, the managers of the subsidiaries and all GESCO Group employees for their impeccable loyalty and great commitment in the past financial year. Their work has made a key contribution to GESCO Group's success.

Wuppertal, 28 May 2014

Klaus Möllerfriedrich

Chairman of the Supervisory Board

# FINANCIAL CALENDAR/SHAREHOLDER CONTACT

## FINANCIAL CALENDAR

### **26 June 2014**

Annual Accounts Press Conference and Analysts' Meeting

### **August 2014**

Figures for the first quarter (01.04.-30.06.2014)

### **28 August 2014**

Annual General Meeting in the Stadthalle, Wuppertal

### **November 2014**

Figures for the first half year (01.04.-30.09.2014)

### **February 2015**

Figures for the first three quarters (01.04.-31.12.2014)

### **25 June 2015**

Annual Accounts Press Conference and Analysts' Meeting

### **August 2015**

Figures for the first quarter (01.04.-30.06.2015)

## SHAREHOLDER CONTACT

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

# IMPRINT

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heureka GmbH, Essen

# GESCO GROUP – PROFILES OF THE COMPANIES

Independent operations that are part of  
a strong Group: an overview of the main  
subsidiaries and their products, markets



A photograph of industrial machinery, featuring several circular grates or filters arranged in a row, receding into the background. The lighting is warm and slightly blurred, creating a sense of depth. A white rectangular box is overlaid on the right side of the image, containing text and a large number. A solid green rectangular box is at the bottom left, containing the company name.

2013 SALES  
IN € MILLION

14.3

ASTROPLAST KUNSTSTOFFTECHNIK  
GMBH & CO. KG, SUNDERN



DR. WOLFGANG KEMPER,  
MANAGING DIRECTOR

STRATEGY AND BUSINESS SEGMENTS

AstroPlast is a specialist for high precision injection-moulded plastics. The company develops, produces and markets its own range of plastic spools, which are sold to manufacturers of wires, cables, tapes and optical fibres. AstroPlast also produces customised injection-moulded parts for the electrical, household appliances and automotive industries as well as the logistics sector. Based on its high level of technical expertise and its state-of-the-art machine park, AstroPlast has positioned itself as a consultant and a partner during development for its customers. Large machines with locking pressure of up to 2,300 tonnes particularly distinguish the company from its competitors.

FINANCIAL YEAR 2013

AstroPlast saw a substantial increase in sales volume, with particularly high demand from the consumer goods industry and from customers in the market for spools. The company’s export quota of 18.3 % was only slightly lower than the previous year’s level of 18.8 %.

In early 2013, the company launched a major strategic investment in its next phase of growth by purchasing land in Meschede, where it began construction of logistics and production facilities, followed by the addition of several injection moulding machines in 2014. The company intends to move its headquarters gradually from the current location to Meschede.


These substantial investments have led to an increase in total assets. However, as the company’s equity base has not increased at the same rate, the equity ratio decreased.

OUTLOOK AND GOALS FOR 2014

AstroPlast is optimistic for 2014 and expects growth in sales. The investments that are underway at the Meschede site are to be continued.

GESCO AG SHAREHOLDING	80 %
MANAGEMENT SHAREHOLDING	20 %
CAPITAL RATIO (31.12.2013)	19.9 %
2013 SALES (IN € MILLION)	14.3 (+22.0 %)
STAFF (31.12.2013)	77 (+1.3 %)
MEMBER OF THE GESCO GROUP	SINCE 01.05.1995





2013 SALES  
IN € MILLION

8.9

PAUL BEIER GMBH WERKZEUG- UND  
MASCHINENBAU & CO. KG, KASSEL



DR. ANDREAS WENDE,  
MANAGING DIRECTOR

STRATEGY AND BUSINESS SEGMENTS

The company was founded in 1924 and has established an excellent reputation as a systems provider in sophisticated tool manufacturing and single and small-series part and component manufacturing for the specialist machinery industry. Beier offers its customers one-stop solutions starting with consulting and design all the way to production and on-site testing.

Paul Beier's customer base is largely from the automotive and mechanical engineering industries as well as the chemical and food industries. The company has been a strategic partner to Deutsche Bahn AG for many years. Thanks to its grading tools for parts with rotational symmetry, the company enjoys a special position as a supplier to gear manufacturers. Products include casting machines and heat exchangers for the food industry, gears and worm gears, pumps, as well as complete cutting, stamping, pulling and grading tools. The company also works for the aeronautical engineering industry and is certified to their highest security levels.

FINANCIAL YEAR 2013

As the tool manufacturing division in particular is impacted by bulk orders, the company's sales figures are in part subject to substantial fluctuations from year to year. Compared with the record level of the previous year, in which the company received two bulk orders, sales in 2013 declined accordingly.

OUTLOOK AND GOALS FOR 2014

Paul Beier started the new financial year with a higher level of incoming orders and an increase in demand. The company is therefore confident that it will see growth in sales in 2014.

GESCO AG SHAREHOLDING	100 %
CAPITAL RATIO (31.12.2013)	24.9 %
2013 SALES (IN € MILLION)	8.9 (-37.6 %)
STAFF (31.12.2013)	114 (+7.5 %)
MEMBER OF THE GESCO GROUP	SINCE 01.04.1999

A man with a beard, wearing safety glasses and a headlamp with the 'uvex' logo, is focused on his work in a workshop. He is using a tool on a piece of machinery. In the background, there are shelves filled with various electronic components and cables. The scene is well-lit, highlighting the industrial environment.

2013 SALES  
IN € MILLION

6.7

C.F.K.  
CNC-FERTIGUNGSTECHNIK KRIFTEL GMBH,  
KRIFTEL AM TAUNUS



DR. CHRISTOPH OVER,  
MANAGING DIRECTOR

## STRATEGY AND BUSINESS SEGMENTS

Founded in 1986, CFK is one of the leading names in high-precision wire erosion and die sinking in Germany. CFK deploys high-precision technology to produce its domestic and foreign customers' parts, many of which are used in advanced safety and security systems. The items produced range from a few microgrammes to several tonnes in weight. The Kriftel plant is also involved in producing parts with complex geometrical profiles, such as conical forms.

The fully climate-controlled production areas are home to a cutting-edge production line, currently comprising 45 machines. A high-precision measuring management system ensures that all parts can be produced to the most exacting documented and reproducible standards. CFK processes parts for companies active in different engineering segments as well as for firms from the aerospace, medical and microtechnology sectors.

The company's second-to-none expertise in wire erosion and die sinking is complemented by its advanced laser melting systems. This technology, also known as 3-D printing, entails the use of 3-D data to construct parts out of powdered metal layer by layer, and it is predominantly used for creating functional prototypes, small series, tool fittings and medical implants. Unlike conventional methods, this production process offers superior freedom of design and also allows small batches and one-off items to be manufactured economically.

## FINANCIAL YEAR 2013

As expected, CFK's sales remained below the level of the previous year, which had benefitted from a bulk order.

## OUTLOOK AND GOALS FOR 2014

CFK is optimistic for the next financial year and expects sales to rise. The energy technology segment and the laser melting activities are expected to be some of the drivers of growth. In particular, the company aims to expand its business in the area of medical technology in the long term.

GESCO AG SHAREHOLDING	80 %
MANAGEMENT SHAREHOLDING	20 %
CAPITAL RATIO (31.12.2013)	63.8 %
2013 SALES (IN € MILLION)	6.7 (-13.0 %)
STAFF (31.12.2013)	49 (-2.0 %)
MEMBER OF THE GESCO GROUP	SINCE 31.05.2012





2013 SALES  
IN € MILLION

13.7

DÖMER GMBH & CO. KG STANZ- UND  
UMFORMTECHNOLOGIE, LENNESTADT



DR. MICHAEL DAMMER,  
MANAGING DIRECTOR

STRATEGY AND BUSINESS SEGMENTS

Dömer was formed in 1969 and has long-standing expertise in metal stamping, bending and forming, as well as in related tool manufacture. The company manufactures sophisticated parts for the automotive, metal fittings and railway industries. In-depth expertise in machining technology and an above-average equipped machine park are major strengths, which are particularly important in the areas of advanced special components, complex structures and exacting material specifications. Dömer has special expertise in the production of absorber and cushioning elements which are used in wheel sets on high-speed trains and in regional railway transportation.

FINANCIAL YEAR 2013

Managing director Dr. Jochen Asbeck resigned from the company at his own request as at 31 March 2013. Dr. Michael Dammer took over as his successor effective 1 July 2013. Thomas Bierlich, member of the Management Board at GESCO AG, acted as interim managing director at Dömer from April to June 2013.

In a market environment that has remained difficult, the company recorded stable business performance and sales slightly above those of the previous year in both the automobile and rail and building technology sectors.

OUTLOOK AND GOALS FOR 2014

For the new financial year, Dömer predicts a slight upturn in business in its customer sectors and growing sales.

GESCO AG SHAREHOLDING	100 %
CAPITAL RATIO (31.12.2013)	55.6 %
2013 SALES (IN € MILLION)	13.7 (+1.1 %)
STAFF (31.12.2013)	102 (+5.2 %)
MEMBER OF THE GESCO GROUP	SINCE 30.08.2005

A full-page background image showing a worker in a white protective suit and yellow helmet working on industrial machinery. The worker is holding a long, dark rod or tool. The scene is dimly lit, with a strong orange glow from a light source on the right. The worker is positioned in the center-right of the frame, facing left. The machinery is metallic and complex, with various pipes and components visible. The overall tone is industrial and professional.

2013 SALES  
IN € MILLION

161.8

DÖRRENBURG EDELSTAHL GMBH,  
ENGELSKIRCHEN





DR. FRANK STAHL (L.) AND GERD BÖHNER,  
MANAGING DIRECTORS

## STRATEGY AND BUSINESS SEGMENTS

Dörrenberg is active in the special steel, special steel castings, steel works, investment castings and surface treatment business segments. The company offers its customers in a wide variety of industries expert technical consulting, often as early as in the design stage. The customer industries are widely spread, with the main sectors being machine and plant construction, tool manufacture and automotive.

Over decades, the company has developed an in-depth knowledge of metallurgy, conducts research and development activities with universities and institutes as well as increasing its ownership of numerous patents on steels developed in-house.

Dörrenberg Edelstahl GmbH has a majority shareholding in a joint venture in Spain with a focus on surface treatment as well as a minority shareholding in a renowned special steel specialist in Turkey. Furthermore, the company has significantly expanded its presence in the emerging markets in recent years and now has subsidiaries in Singapore, Taiwan, China, and Korea.

In 1997, Dörrenberg was the first German special steel manufacturer to introduce an environmental management system. Besides the compulsory quality management system, the company also implemented an energy management system based on the DIN EN ISO 50001 standard.

## FINANCIAL YEAR 2013

Following a high sales level in the previous year, Dörrenberg recorded a roughly 8 % decline in sales in 2013, which was more or less equally attributable to a reduction of tonnage and decreases in alloy surcharges. The company acquired factory premises in Gummersbach-Dieringhausen for the purpose of expanding its special steel business division and extending its product range.

## OUTLOOK AND GOALS FOR 2014

Dörrenberg started the new financial year with a cautiously positive outlook and expects sales to increase slightly overall.

GESCO AG SHAREHOLDING	90 %
MANAGEMENT SHAREHOLDING	10 %
CAPITAL RATIO (31.12.2013)	65.2 %
2013 SALES (IN € MILLION)	161.8 (-8.2 %)
STAFF (31.12.2013)	495 (-0.6 %)
MEMBER OF THE GESCO GROUP	SINCE 01.01.1996

A photograph of an industrial facility, likely a power plant or refinery, showing rows of large, orange-colored metal plates hanging from a complex metal framework. The plates are arranged in a way that they appear to be part of a large-scale manufacturing or processing operation. The background shows more industrial equipment and a concrete floor.

2013 SALES  
IN € MILLION

33.5

FRANK GROUP, HATZFELD



DR. FRANK GROTE,  
MANAGING DIRECTOR

STRATEGY AND BUSINESS SEGMENTS

Frank Walz- und Schmiedetechnik GmbH is Europe's leading supplier of wear parts and components for the agriculture market. The products are also used in the municipal technology sector and in industry. The company produces rolled and forged parts made from specialist steel alloys. Frank is original equipment manufacturer to agricultural machinery manufacturers in areas such as soil cultivation, feed technology and harvesting technology for root crops and special cultures. It also supplies spare parts to specialist wholesalers and cooperatives. The FRANK ORIGINAL brand has been well established with the relevant target groups for decades and stands for first class quality, both nationally and internationally. The company's production is mainly located at its headquarters in Hatzfeld, Hessen as well as at its Hungarian subsidiary Frank Hungária Kft./Ozd. Frank also owns the distribution company Frank Lemeks TOW/Ternopil in Ukraine.

FINANCIAL YEAR 2013

In 2013, Frank was able to maintain the high sales level it has achieved.

OUTLOOK AND GOALS FOR 2014

The escalation of the crisis in the Ukraine rapidly had negative effects on the business of the European agricultural machinery manufacturers. In light of the extremely weak Eastern European currencies against the euro, orders from the important markets of Russia, Ukraine and Kazakhstan decreased significantly. Furthermore, business at the subsidiary Frank Lemeks in Ukraine has also suffered noticeably under the effects of the crisis there. Due to the political uncertainty, Frank expects a general decline in sales in the new financial year. The current difficult situation notwithstanding, the agriculture market is strategically attractive and customers have concrete interest in new products, leading Frank to invest in an expansion of its product range and its capacities at its headquarters in Hatzfeld in 2014.

GESCO AG SHAREHOLDING	100 %
CAPITAL RATIO (31.12.2013)	52.2 %
2013 SALES (IN € MILLION)	33.5 (-0.2 %)
STAFF (31.12.2013)	297 (+6.8 %)
MEMBER OF THE GESCO GROUP	SINCE 01.08.2006



2013 SALES  
IN € MILLION

16.1

FRANZ FUNKE ZERSpanUNGSTECHNIK  
GMBH & CO. KG, SUNDERN



DR. WOLFGANG KEMPER,  
MANAGING DIRECTOR

STRATEGY AND BUSINESS SEGMENTS

Franz Funke Zerspanungstechnik turns parts made of brass, aluminium, red brass and steel into dimensions from 6 to 65 mm on cutting-edge CNC controlled machines. The company's customers are primarily from the plumbing, air conditioning, electrical and mechanical engineering sectors. In addition to machining-based manufacturing, Funke offers services including galvanic surface finishing, assembly installation and thermal material treatments, as well as connection technology such as soldering, welding and compression. Consulting and other services position Funke as a problem solver and support customer retention.

FINANCIAL YEAR 2013

Contrary to its original targets, Franz Funke was unable to increase sales, and in fact recorded a slight decline in sales; the fourth quarter was in particular weaker than expected. The company invested in two new processing machines.

OUTLOOK AND GOALS FOR 2014

Franz Funke expects a slight increase in sales for 2014.

GESCO AG SHAREHOLDING	80 %
MANAGEMENT SHAREHOLDING	20 %
CAPITAL RATIO (31.12.2013)	28.0 %
2013 SALES (IN € MILLION)	16.1 (-4.3 %)
STAFF (31.12.2013)	81 (unchanged)
MEMBER OF THE GESCO GROUP	SINCE 01.05.1995





2013 SALES  
IN € MILLION

12.4

HASEKE GMBH & CO. KG,  
PORTA WESTFALICA



UWE KUNITSCHKE,  
MANAGING DIRECTOR

## STRATEGY AND BUSINESS SEGMENTS

Haseke manufactures ergonomically optimised solutions on the interface between man and machine, e.g. equipment for optimally placing monitors or operator panels in working environments. In its Medical and Industry business segments, the company develops and sells applications for medical technology and solutions for industrial and office technology based on its “raise, lower, swivel” concept.

Haseke has established itself as a system supplier providing excellent quality “Made in Germany”. Its products are ergonomic, well designed and technologically advanced. The company also offers its customers extensive before and after sales service and advice.

The company uses an innovative, sophisticated modular system to quickly implement individual customer requirements and it develops new products from these ideas.

## FINANCIAL YEAR 2013


Haseke was able to increase sales in 2013, continuing the company’s stable growth in recent years. Whereas the market environment for the company’s Industry business segment remained difficult, the Medical segment developed favourably.

## OUTLOOK AND GOALS FOR 2014

Given the upturn in enquiries for products and orders, Haseke anticipates potential for growth and rising sales in the new financial year.

GESCO AG SHAREHOLDING	80 %
MANAGEMENT SHAREHOLDING	20 %
CAPITAL RATIO (31.12.2013)	46.4 %
2013 SALES (IN € MILLION)	12.4 (+2.9 %)
STAFF (31.12.2013)	61 (+10.9 %)
MEMBER OF THE GESCO GROUP	SINCE 01.01.1990



A photograph of a male worker in a blue industrial uniform standing next to a large, complex industrial machine, likely a CNC lathe or mill. The machine has a large, dark, cylindrical component and a control panel with a '+Z' label. The background shows a factory environment with various mechanical parts and structures.

2013 SALES  
IN € MILLION

26.6

WERKZEUGBAU LAICHINGEN GROUP,  
LAICHINGEN AND LEIPZIG



JÜRGEN MANGOLD,  
MANAGING DIRECTOR

STRATEGY AND BUSINESS SEGMENTS

The Werkzeugbau Laichingen Group, comprising WBL Holding GmbH and its 100 % subsidiaries Werkzeugbau Laichingen GmbH at its headquarters in Baden-Württemberg as well as Werkzeugbau Leipzig GmbH, produces high-performance tools for the automotive and automotive supply industry and for household goods manufacturers. WBL's specialisation in complex and large sheet metal forming tools, in particular, has made it a renowned partner of major players in the German industrial sector. The company has a sophisticated service concept that includes the provision of permanent services at its customers' production plants. This sets it apart from the competition. In addition, WBL uses its own presses to produce equipment for series start-ups and small-scale series for its customers.

FINANCIAL YEAR 2013

The WBL Group recorded vigorous sales growth in 2013, as several bulk orders that were partially completed in the previous year were finalised in 2013. In addition, WBL was able to realise an above-average number of special orders placed at short notice. The machinery parks at both sites have each been equipped with a 5-axis machining centre.

OUTLOOK AND GOALS FOR 2014

Significant fluctuations in sales from year to year are quite common on account of the project business. Following strong growth in 2013, WBL forecasts a slight decline in sales in the new financial year. A new assembly and press facility is currently being built at the headquarters in Laichingen. In addition, a new large press with a press force of 2,500 tonnes is scheduled for delivery in the fourth quarter of 2014 and commissioning in the first half of 2015.

GESCO AG SHAREHOLDING	85 %
MANAGEMENT SHAREHOLDING	15 %
CAPITAL RATIO (31.12.2013)	28.1 %
2013 SALES (IN € MILLION)	26.6 (+25.2 %)
STAFF (31.12.2013)	182 (+4.0 %)
MEMBER OF THE GESCO GROUP	SINCE 30.12.2011

A close-up photograph of a white industrial robotic arm with a complex tool head, featuring various sensors and mechanical components. Blue cables are visible on the left side of the arm. The background is a blurred industrial setting.

2013 SALES  
IN € MILLION

10.8

VWH VORRICHTUNGS- UND  
WERKZEUGBAU HERSCHBACH GMBH,  
HERSCHBACH



THOMAS STURM,  
MANAGING DIRECTOR

STRATEGY AND BUSINESS SEGMENTS

VWH specialises in automation technology, mould design and construction and sensor technology. The company's core business is the development and manufacture of complex partially and fully automated production systems for the assembly of components, including the appropriate testing technology and packaging.

The company defines itself as a development supplier, manufacturing samples and prototypes for its customers' new products and subsequently supplying injection moulding forms and production systems for serial manufacturing of the respective parts.

VWH supplies well-known companies in the automotive and supplier industry, the electrical and electronics industry as well as the medical technology sector. Thanks to its high level of technical expertise, its clients turn to VWH as a competent partner from the development phase onwards.

FINANCIAL YEAR 2013

Sales remained at the same level of the previous year. Although there was a high volume of enquiries for products, the overall economic uncertainty ultimately led to reluctance to invest among customers.

OUTLOOK AND GOALS FOR 2014

The company recorded an upturn in incoming orders at the beginning of 2014 and expects a slight increase in sales for the year 2014 as a whole.

GESCO AG SHAREHOLDING	80 %
MANAGEMENT SHAREHOLDING	20 %
CAPITAL RATIO (31.12.2013)	36.4 %
2013 SALES (IN € MILLION)	10.8 (unchanged)
STAFF (31.12.2013)	105 (+1.9 %)
MEMBER OF THE GESCO GROUP	SINCE 25.04.2007



2013 SALES  
IN € MILLION

51.8

SVT GMBH, SCHWELM



HARM STÖVER,  
MANAGING DIRECTOR

STRATEGY AND BUSINESS SEGMENTS

SVT develops, manufactures and markets high-quality technical equipment for loading and unloading liquid and gaseous materials on and off ships and tankers. The company's customers come primarily from the chemical and petrochemical as well as the petroleum and gas industry. An important product group manufactured by the company is land and ship loading equipment for so-called liquefied natural gas (LNG), which is natural gas cooled to minus 165° C. In this growth market, SVT offers superior technology and is regarded as the world's second largest provider.

SVT generates the majority of its sales abroad. Products are used globally, including the EU, the US, the Middle East and Asia to as far away as Australia. The company has the technical expertise to design equipment and control units according to the standards in each respective country.

FINANCIAL YEAR 2013

SVT generated a strong increase of 17.6 % in sales in 2013, exceeding the € 50 million mark for the first time. Its export quota stood at 87 % (previous year 79 %).

OUTLOOK AND GOALS FOR 2014

Following the surge in sales in 2013, which included several bulk orders, SVT expects business to normalize in 2014 and return to a lower, but still very high level.

GESCO AG SHAREHOLDING	90 %
MANAGEMENT SHAREHOLDING	10 %
CAPITAL RATIO (31.12.2013)	72.6 %
2013 SALES (IN € MILLION)	51.8 (+17.6 %)
STAFF (31.12.2013)	187 (+2.2 %)
MEMBER OF THE GESCO GROUP	SINCE 01.01.2002



2013 SALES  
IN € MILLION

14.8

SETTER GROUP, EMMERICH





ROBERT PRAGER,  
MANAGING DIRECTOR

STRATEGY AND BUSINESS SEGMENTS

Setter Group was founded in 1964 and comprises Setter GmbH & Co. Papierverarbeitung and its wholly owned subsidiaries Q-Plast GmbH & Co. as well as HRP Leasing GmbH. The company produces plastic and paper sticks and, marketing its products across all continents, generates some 90 % of its sales revenue from exports. It also sees itself as the quality and volume leader in the niche market of paper sticks. Setter supplies companies in the sweets and hygiene industry. The sticks are used in products such as lollipops, cotton buds or medical products.

FINANCIAL YEAR 2013

Setter recorded stable business performance in 2013 and generated sales almost exactly on par with the level of the previous year.

OUTLOOK AND GOALS FOR 2014

The company expects sales roughly on the level of the previous year.

GESCO AG SHAREHOLDING	100 %
CAPITAL RATIO (31.12.2013)	84.3 %
2013 SALES (IN € MILLION)	14.8 (-0.9 %)
STAFF (31.12.2013)	60 (-3.2 %)
MEMBER OF THE GESCO GROUP	SINCE 30.04.2004

A large industrial robotic arm, primarily orange and white, is the central focus of the image. It is positioned in a factory environment with various mechanical components and structures visible in the background. The arm is equipped with numerous cables and hoses. The lighting is industrial, with overhead fluorescent lights. The overall scene depicts a modern manufacturing facility.

2013 SALES  
IN € MILLION

7.7

PROTOMASTER GMBH,  
WILKAU-HASSLAU



KLAUS BLAU,  
MANAGING DIRECTOR

## STRATEGY AND BUSINESS SEGMENTS

Protomaster GmbH specialises in prototype construction as well as small and medium series of high-quality outer skin, structural parts and complete assemblies, primarily made from aluminium, for the automotive industry. Protomaster develops and produces the necessary tools, some of which are complex and very large, at its own production plant. The company's first-class technical equipment includes milling machines, 3-D laser cutting systems and robot technology. The company produces the components in its own moulding presses, including a 2,100-tonne large press.

As Protomaster produces both components as well as complete tools, and owing to the fact that (large) tools are not invoiced every year, sales can fluctuate greatly from year to year. For this reason, the company's economic performance is better measured based on the total annual output.

Managing director Mario Moßler left the company effective 30 April 2014. Klaus Blau, who was appointed as an additional managing director as at 23 April 2014, is now the company's sole managing director.

The company changed its name from Protomaster Riedel & Co. GmbH to Protomaster GmbH effective 1 May 2014.

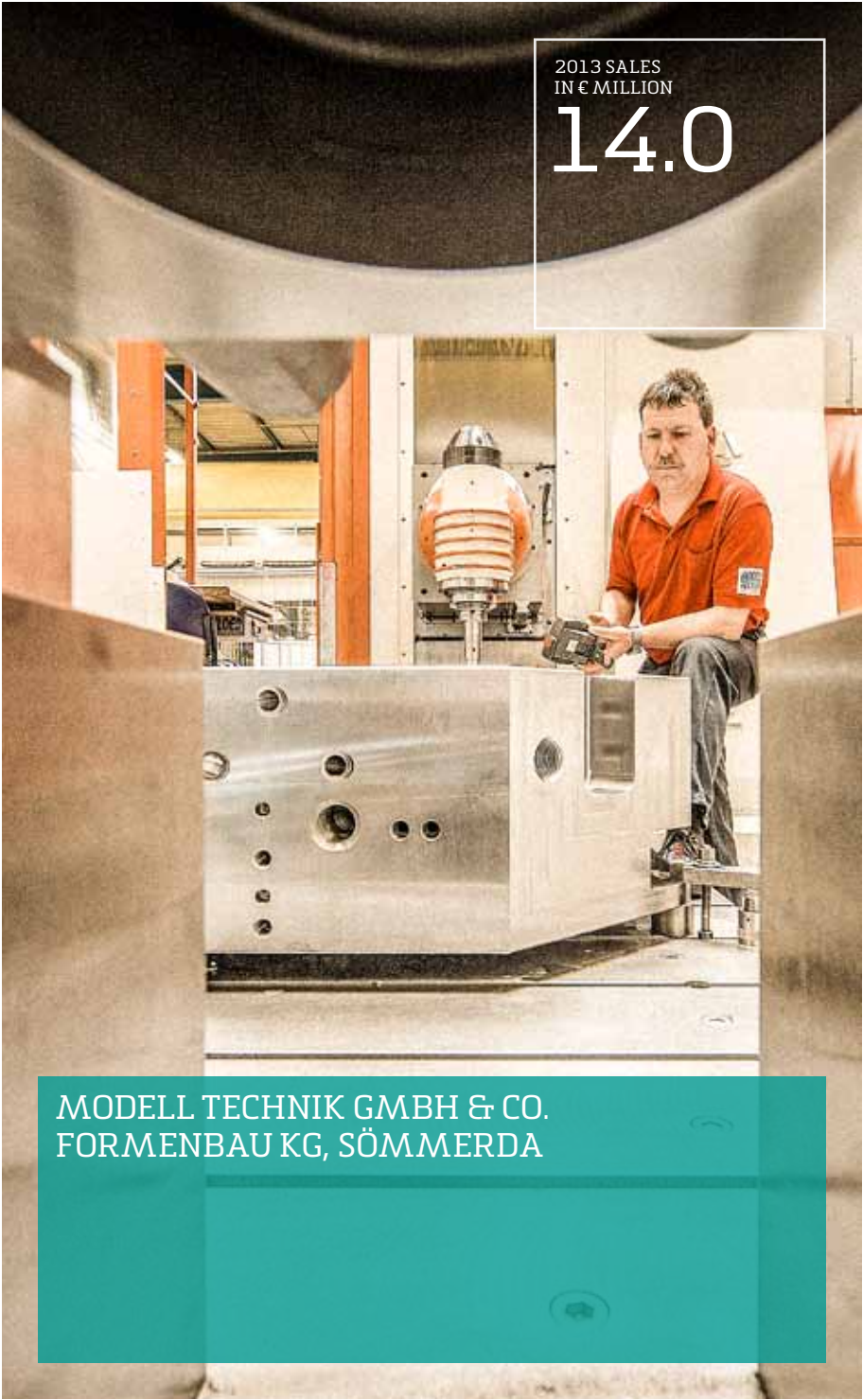
## FINANCIAL YEAR 2013

Protomaster succeeded in more than doubling its sales year on year in 2013. This was primarily due to the fact that major projects which had been started in 2012 were completed and invoiced in 2013. Total output amounted to € 9.9 million compared to € 7.3 million in the previous year.

## OUTLOOK AND GOALS FOR 2014

Protomaster started the new financial year with a higher-than-average order backlog. Tools that the company began manufacturing during financial year 2013 will be completed and will accordingly contribute to sales in 2014. Series start-ups for manufacturing of parts are also on the agenda for 2014. Overall, the company expects to be able to increase sales.

GESCO AG SHAREHOLDING	82.17 %
MINORITY INTEREST	17.83 %
CAPITAL RATIO (31.12.2013)	48.4 %
2013 SALES (IN € MILLION)	7.7 (+107.7 %)
STAFF (31.12.2013)	85 (+18.1 %)
MEMBER OF THE GESCO GROUP	SINCE 03.07.2012

A man in an orange polo shirt and grey trousers is working on a large, complex industrial machine. The machine has a prominent, bulbous, orange and white component. The man is kneeling next to a large, rectangular metal block with several circular openings. The background shows a factory environment with orange structural elements and other machinery.

2013 SALES  
IN € MILLION

14.0

MODELL TECHNIK GMBH & CO.  
FORMENBAU KG, SÖMMERDA



MATTHIAS HUKÉ,  
MANAGING DIRECTOR

## STRATEGY AND BUSINESS SEGMENTS

Modell Technik develops and manufactures moulds for aluminium and magnesium die casting. The company specialises in tools for manufacturing highly complex, large components, mainly for use in the automotive industry. The manageable tools weigh between approximately 1.8 tonnes and 45 tonnes. As part of its systematic development towards becoming a full service provider, Modell Technik has significantly expanded its repair and service portfolio in recent years. In addition, the company has its own foundry with three efficient die casting presses (400 tonne, 1,000 tonne and 2,300 tonne clamping force) to test and optimize tools as well as to manufacture prototypes, series start-ups and small-scale series for customers.

Modell Technik can draw on special expertise when it comes to components such as gear boxes, valve bodies, steering gear housing, cylinder valve covers and structural components such as vehicle doors.

With its efficient construction department, well-equipped machine park and in-house foundry, Modell Technik clearly sets itself apart from its European and international competitors. Almost 20% of sales are generated through exports.

## FINANCIAL YEAR 2013


2013 was a very successful year for Modell Technik. Following strong sales in the previous year, the company was able to generate an 8.8% rise in sales to a new record of approx. € 14 million. Modell Technik purchased an undeveloped plot of land next to the company premises in 2013 for the purpose of securing future expansion opportunities. Additions to the machine park included a large 5-axis machining centre, a large spotting press and three spark erosion machines.

## OUTLOOK AND GOALS FOR 2014

The company started off the new financial year with a good order backlog and anticipates a slight increase in sales for 2014. The company is sticking to the consistent investment policy it has pursued to date. By the middle of the year, Modell Technik will have added a new CNC milling machine, an additional vertical spark erosion machine as well as a milling centre to its machine park.

GESCO AG SHAREHOLDING	100 %
CAPITAL RATIO (31.12.2013)	50.6 %
2013 SALES (IN € MILLION)	14.0 (+8.8 %)
STAFF (31.12.2013)	106 (unchanged)
MEMBER OF THE GESCO GROUP	SINCE 11.07.2012





2013 SALES  
IN € MILLION

34.1

MAE MASCHINEN- UND APPARATEBAU  
GÖTZEN GMBH, ERKRATH



MANFRED MITZE AND RÜDIGER SCHURY,  
MANAGING DIRECTORS

STRATEGY AND BUSINESS SEGMENTS

The company, founded in 1931, is a global leader in automatic straightening machines as well as wheel presses for rolling stock. In recent years, ground-breaking innovations have enabled the company to expand its market position in both product groups and win over new target groups. These activities are complemented by a standard range of manual straightening presses and special machines for clearing, assembling, checking and forming. Major customer sectors are the automotive and automotive supply industry, railway vehicle manufacturers and maintenance workshops, mechanical engineering, and the machine tools and steel industries.

FINANCIAL YEAR 2013

In 2013, MAE was able to maintain the high level of sales attained in the previous year. The company benefited from strategic investments by global automotive manufacturers and suppliers. Sales in the railway engineering segment, however, declined. Its export quota stood at 55.6% (previous year 51.5%).

Extensive construction work that commenced in 2011 continued in 2013 with the construction of a new assembly facility. These measures are scheduled for completion by the middle of 2014.

The subsidiary MAE Machines (Beijing) Co. Ltd. began operations in 2013, giving the Chinese market access to a qualified team for technical support and sales.

At the start of 2014, MAE acquired the operations of the US competitor and market leader Eitel Presses Inc. through its subsidiary MAE of America Inc. This important strategic step has enabled MAE to considerably strengthen its market position in the US and gain additional production and service capacities. Eitel generates annual sales of approximately € 10 million with a total of 50 employees.

OUTLOOK AND GOALS FOR 2014

MAE expects to increase sales in rail technology in the new financial year, and anticipates a slow-down in demand in the automotive sector. The company forecasts overall sales to be slightly below the level of 2013.

GESCO AG SHAREHOLDING	100 %
CAPITAL RATIO (31.12.2013)	49.6 %
2013 SALES (IN € MILLION)	34.1 (unchanged)
STAFF (31.12.2013)	140 (+6.9 %)
MEMBER OF THE GESCO GROUP	SINCE 01.01.1997





2013 SALES  
IN € MILLION

10.7

GEORG KESEL GMBH & CO. KG,  
KEMPTEN



MARTIN KLUG,  
MANAGING DIRECTOR

STRATEGY AND BUSINESS SEGMENTS

Established in 1889, Kesel develops and produces milling machines and clamping systems. The milling machine product range includes rack and bandsaw blade milling machines. Machines for milling steering racks are a special product of the company. The company's clamping division has a broad range of systems meeting different specifications and offering a variety of clamping forces. The company's customer base operates primarily in the steel, gear-cutting and automotive industries.

FINANCIAL YEAR 2013

Kesel recorded a decline in sales in 2013, which was mainly due to distinctly weak demand in its major export market, China.

OUTLOOK AND GOALS FOR 2014

Kesel has recorded an upturn in incoming orders since the end of 2013 and forecasts an increase in sales for the new financial year.

GESCO AG SHAREHOLDING	90 %
MANAGEMENT SHAREHOLDING	10 %
CAPITAL RATIO (31.12.2013)	45.0 %
2013 SALES (IN € MILLION)	10.7 (-5.5 %)
STAFF (31.12.2013)	68 (-9.3 %)
MEMBER OF THE GESCO GROUP	SINCE 23.04.2009



2013 SALES  
IN € MILLION

10.3

HUBL GMBH, VAIHINGEN/ENZ



RAINER KIEFER,  
MANAGING DIRECTOR

STRATEGY AND BUSINESS SEGMENTS

Hubl GmbH was founded in 1976 and develops and produces high-end precision machine cladding, coverings, housings and stainless steel sheet components. Important customers include the mechanical engineering, biotechnology, pharmaceuticals, semiconductors, photovoltaics and food industries. Hubl's strengths include the construction department with its excellent staff and state-of-the-art equipment as well as a high quality machine park. Using its creativity and flexibility, the company develops superior solutions with sophisticated designs. Hubl has positioned itself as a system supplier to a wide range of customers and sectors. As a full service provider, the company provides complex development and construction services to its customers and is frequently involved in an advisory capacity in the respective customers' processes to find tailored solutions. The company focuses on product development, design, custom-made products and small batch series of between 500 and 1000.

FINANCIAL YEAR 2013

Hubl recorded a slight drop in sales in 2013, which was mainly caused by the continued weakness in the semiconductor and photovoltaics sectors.

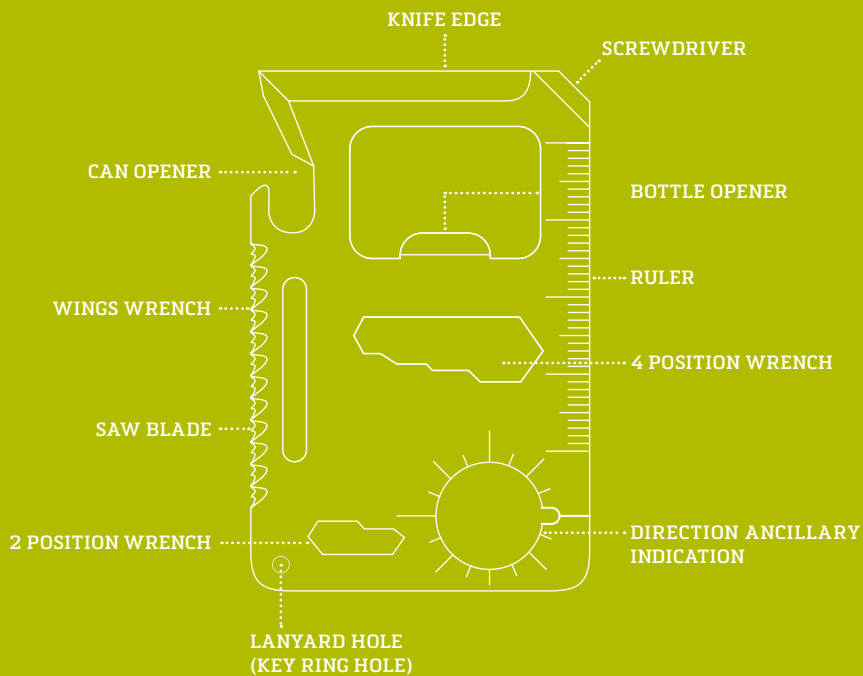
OUTLOOK AND GOALS FOR 2014

Hubl expects to see sales increase in the new financial year, partly due to positive development of new customer business and partly as a catch-up effect from 2013.

GESCO AG SHAREHOLDING	80 %
MANAGEMENT SHAREHOLDING	20 %
CAPITAL RATIO (31.12.2013)	48.2 %
2013 SALES (IN € MILLION)	10.3 (-2.7 %)
STAFF (31.12.2013)	106 (-2.8 %)
MEMBER OF THE GESCO GROUP	SINCE 01.01.2002

# GESCO GROUP: SIGNIFICANT COMPANIES

COMPANY	SALES 2013 €'000	STAFF 31.12.2013	GESCO AG SHARE- HOLDING IN %
ASTROPLAST KUNSTSTOFFTECHNIK GMBH & CO. KG, SUNDERN	14,282	77	80
PAUL BEIER GMBH WERKZEUG- UND MASCHINENBAU & CO. KG, KASSEL	8,901	114	100
C.F.K. CNC-FERTIGUNGSTECHNIK KRIFTEL GMBH, KRIFTEL	6,740	49	80
DÖMER GMBH & CO. KG			
STANZ- UND UMFORMTECHNOLOGIE, LENNESTADT	13,716	102	100
DÖRRENBURG EDELSTAHL GMBH, ENGELSKIRCHEN	161,782	495	90
FRANK GROUP, HATZFELD	33,547	297	100
FRANZ FUNKE ZERSPANUNGSTECHNIK GMBH & CO. KG, SUNDERN	16,130	81	80
HASEKE GMBH & CO. KG, PORTA WESTFALICA	12,359	61	80
HUBL GMBH, VAIHINGEN/ENZ	10,257	106	80
GEORG KESEL GMBH & CO. KG, KEMPTEN	10,723	68	90
MAE MASCHINEN- UND APPARATEBAU GÖTZEN GMBH, ERKRATH	34,078	140	100
MODELL TECHNIK GMBH & CO. FORMENBAU KG, SÖMMERDA	13,979	106	100
PROTOMASTER GMBH, WILKAU-HASSLAU	7,700	85	82.17
SETTER GROUP, EMMERICH	14,773	60	100
SVT GMBH, SCHWELM	51,770	187	90
VVH VORRICHTUNGS- UND WERKZEUGBAU			
HERSCHBACH GMBH, HERSCHBACH	10,809	105	80
WERKZEUGBAU LAICHINGEN GROUP, LAICHINGEN/LEIPZIG	26,573	182	85







GESCO AG // JOHANNISBERG 7 // 42103 WUPPERTAL // GERMANY // [WWW.GESCODE](http://WWW.GESCODE)