03 Combined Management Report

GESCO SE, Wuppertal
Combined management report for the 2024 financial year (01/01 until 12/31/2024)

The management report of GESCO SE is combined with the management report of the Group. This management report is published in the GESCO Annual Report 2024 and together with the annual financial statements of GESCO SE. Unless otherwise stated, the information relates to GESCO Group and GESCO SE together, whereby the explanations refer to the consolidated financial statements prepared in accordance with the International Financial Reporting Standards (IFRS). The information on GESCO SE is contained in a separate section and relates to the annual financial statements prepared in accordance with the provisions of the German Commercial Code (HGB) and the supplementary provisions of the SEAG and the German Stock Corporation Act (AktG).

The contents of websites or publications to which we refer in the management report are not part of the management report but merely serve to provide further information. This does not include the corporate governance statement in accordance with Sections 289f and 315d HGB.

Fundamentals of the Group

Business model

GESCO: Partner for SMEs

Founded in 1989, GESCO SE is a long-term investor that acquires economically sound industrial SMEs in order to hold and develop them over the long term. Acquisitions are often made in the course of succession planning, with GESCO SE generally acquiring majorities, usually 100%. Hubl GmbH is the only German company in which a managing director holds a 20% stake. The subsidiaries are operationally independent. They are integrated into GESCO Group's reporting and risk management system.

GESCO SE is a successful partner for industrial SMEs and has developed into a dynamic group consisting primarily of market and technology leaders. This development has been made possible by a clear and focussed business model based on identifying and exploiting growth potential. SMEs form the backbone of the German economy, and GESCO bridges the gap between SMEs and the capital market.

Developing vertical integration

Our focus is on business models with high intrinsic value contributions and differentiating features, which we are continuously developing. We are determined to identify sustainable growth potential and secure the future viability of our Group. Through this approach, we create added value for all stakeholders, including shareholders, employees, customers, suppliers, business partners and the communities in which we operate.

Concentrating on the essentials

Our philosophy is based not only on financial investment, but also on intensive cooperation with our subsidiaries. We focus on identifying the specific opportunities and challenges of each company and substantially improving their competitiveness through concrete and binding implementation plans.

As at the reporting date, GESCO Group consisted of GESCO SE, its 9 direct subsidiaries and their subsidiaries in Germany and abroad.

GESCO SE has been listed on the stock exchange since 24 March 1998. The GESCO share is listed in the Prime Standard segment of the Frankfurt Stock Exchange.

Strategic orientation of GESCO

Our vision

We are striving to become the best-managed SME investment company in the world.

Our mission

GESCO pursues a clear strategy: we acquire, hold and develop healthy SMEs. Under the umbrella of a lean holding company, our subsidiaries can operate independently while benefiting from the guidance and support of GESCO SE. In this way, we develop a strong group of sustainable market and technology leaders that lead and drive innovation in their respective sectors. The mission of GESCO SE is to jointly create sustainable value for our shareholders.

Our strategic orientation

The last few years have been characterised by a phase of consolidation. Companies and parts of companies were sold and the portfolio was streamlined. Acquisitions were only made selectively. The last investment was acquired in 2021. In 2023, two add-on acquisitions were made for the Doerrenberg Group and the SVT Group. The focus is now on strengthening our portfolio companies through their individual further development. By portfolio companies, we mean the corporate groups of our direct subsidiaries. Following the sale of AstroPlast, these are the nine companies or groups of companies:

- Kesel with headquarters in Kempten
- MAE based in Erkrath
- INEX based in Bretten
- Doerrenberg based in Engelskirchen-Ründeroth
- PGW based in Finnentrop
- SVT based in Schwelm
- Funke based in Sundern
- Setter based in Emmerich am Rhein
- AMTRION (previously referred to as UMT) based in Porta Westfalica

The portfolio companies are to be enabled to achieve sustainable organic growth. In addition, inorganic growth is also promoted through add-on acquisitions. Each group of companies should achieve at least two of the following three goals in the medium term:

- 7% compound annual growth rate (CAGR)
- At least 10% return on sales (ROS)
- At least 15% return on capital employed (ROCE)

In addition to the further development of existing companies, we also want to grow inorganically on a regular basis. The focus here is on existing areas of expertise and within the segments. In the medium term, we are also considering acquisitions in business areas that we do not currently occupy.

Focus on succession planning in the SME sector

One of GESCO's key concerns is to support entrepreneurs who are looking for a suitable successor. Many successful German SMEs are facing this challenge. GESCO offers itself here as a supportive partner and gives entrepreneurs the flexibility to either exit quickly or remain active in the company. This flexibility is particularly important for companies undergoing a transition, be it in terms of structural changes or strategic reorientation.

Individual development of each portfolio company

Each portfolio company can operate independently but is supported by an experienced team of business managers. This enables each company to be developed individually, tailored to its specific needs and opportunities. We rely on the GESCO Business System (GBS), which provides a framework for overarching principles, methods and best practices based on lean management. This system enables our companies to implement efficient processes and drive continuous improvement.

Sustainable investment

GESCO pursues an investment strategy that is not aimed at a short-term “exit strategy”. Instead, we invest with a “value agenda” in medium-sized industrial companies with sustainable, long-term potential. In our investments, we aim for majority shareholdings, usually 100%, in order to have full control over the strategic direction and operational efficiency of the companies.

Innovation and customer centricity

A central part of our agenda is the promotion of innovation and a strong customer focus. We encourage our portfolio companies to develop innovative solutions that meet the ever-changing demands of the market. The continuous improvement of products and services is crucial to ensure our competitiveness and to offer our customers the best added value.

GESCO is becoming increasingly global: expanding local expertise on a global level

With the increasing internationalisation of markets, GESCO pursues the strategy of being able to address regional customer needs as quickly and effectively as possible through a local presence. The “local for local” philosophy is actively practised by providing our portfolio companies with the necessary resources and financial leeway to effectively implement their globalisation strategies. This means that foreign customers should increasingly be able to rely on locally based sales and service structures and, in future, also increasingly on locally produced goods.

Access to family-run companies

Access to family-owned companies is a key value driver for GESCO. This network enables us to make targeted investments in companies that are characterised by tradition and innovative strength. The basis of our success is a deep and comprehensive understanding of the specific challenges and sectors in which we operate.

Focus on proven business models

When selecting our investments, we focus on established, well-positioned companies with proven and scalable business models that have development potential. We support our subsidiaries not only financially, but also strategically, methodically and procedurally by providing them with valuable experience and advice. This enables them to develop their businesses faster and better than they could on their own.

Adaptability to market conditions

In an increasingly dynamic market environment, it is essential that our companies remain adaptable in order to respond to changes in the industry and market conditions. We help our portfolio companies to strengthen their strategic position, be it through the expansion of their product range, regional expansion or targeted company acquisitions. Improving operational processes and adapting them to changing conditions are also essential components of this strategy.

The existing portfolio is being systematically developed through the GESCO Business System and lean management. The methodological expertise available within GESCO SE provides our subsidiaries with broad and comprehensive operational experience for the continuous implementation of upcoming activities. A special focus is also placed on establishing a common corporate culture with a balanced focus on performance.

Sustainability in corporate management

Another important aspect of our strategic focus is to support our portfolio companies in developing and implementing their sustainability strategies. In view of the transformation of our economy and society, we see it as our responsibility to support these companies in identifying and utilising opportunities that arise from sustainable practices.

Sector structure and geographical focus – investment focus of GESCO SE

GESCO has traditionally focussed on manufacturing companies, which form the foundation of the strong global reputation of the German Mittelstand. Our industry focus is diverse and ensures that we are active in different sectors with high growth potential.

When making acquisitions, GESCO focusses on companies with sales of between € 20 million and € 50 million. Strategically motivated bolt-on acquisitions of subsidiaries are made at lower sales levels. The plan is to finance acquisitions from the Company’s own funds and debt capital.

Geographical focus

All of our direct investments are currently based in Germany. However, the majority of our portfolio companies are well represented internationally, with foreign shares of over 80% in some cases. Some subsidiaries also have foreign production facilities, which enables them to serve their markets even better globally and benefit from international growth opportunities.

In 2023, the legal form was changed from a German stock corporation (AG) to a European stock corporation (SE). The increasingly European orientation is thus visible. Acquisitions of basic holdings in other European countries as well as acquisitions of supplementary investments outside Europe are part of the inorganic growth strategy.

Summary

GESCO SE is not a passive holding company, but an active partner. Through its clear strategic focus, commitment to sustainable growth and willingness to invest in innovative SMEs, GESCO helps to strengthen the competitiveness of its portfolio. GESCO endeavours to stand alongside our subsidiaries as a partner and master the challenges of the market together, while at the same time creating value that goes beyond financial aspects.

We see numerous opportunities and challenges and will actively tackle these in order to further secure and expand the future viability of GESCO Group and its subsidiaries.

Significant changes in the scope of consolidation

There were significant changes in the reporting year and the previous year as a result of reorganisations under company law and disposals.

1. Sales as part of asset or share deals:
GESCO SE sold 100% of the shares in AstroPlast Kunststofftechnik GmbH & Co. KG and AstroPlast Verwaltungs GmbH as part of a management buyout with economic transition as at 31 December 2024.

Dörrenberg Edelstahl GmbH sold the steelworks and foundry divisions to a private equity company with economic transition as at 31 December 2024.

2. Acquisitions as part of asset or share deals:
There were no acquisitions in the 2024 financial year.

3. Corporate reorganisations:
There were no reorganisations under company law in the 2024 financial year.

Control system

GESCO Group is planned and managed at the level of the individual subsidiaries and GESCO SE. The framework for the operational development, personnel measures and investments of the subsidiaries is provided by an annual plan prepared by the management of the respective company and approved jointly with the Executive Board of GESCO SE. As part of regular reporting, GESCO SE receives data from the subsidiaries during the year and at least on a monthly basis. This information is recorded and analysed by GESCO SE, supplemented by figures from the finance and accounting department of GESCO SE itself and consolidated. The findings from the subsidiaries' reporting are analysed between the responsible Business Director of GESCO SE and the respective managers of the companies in at least monthly meetings on site or in video meetings and evaluated with regard to the degree of target achievement. Options for action on both the opportunity and risk side are discussed together in order to be able to react promptly to changes in the market situation.

GESCO SE prepares Group planning based on the planning of the individual subsidiaries. At the annual accounts press conference, the Executive Board of GESCO SE provides an outlook for Group sales and Group net income after minority interest for the new financial year; this outlook is further specified in the course of quarterly reporting. In the economic report and the report on expected developments in this management report, consolidated revenue and consolidated net income after minority interests are included as the most significant indicators in the notes. For the separate financial statements of GESCO SE, this applies to income from investments and net income for the year as well as the equity ratio.

Research and development

As a holding company, GESCO does not conduct any research and development work. All activities in this area are carried out by the subsidiaries. The subsidiaries are mostly smaller SMEs whose research and development activities are largely market- and customer-related. Technical innovations as well as new products and applications are generally developed in project work as part of customer orders. Depending on the task at hand, companies cooperate with universities and institutes and participate in publicly funded research projects. Nevertheless, research and development is also of the utmost importance from GESCO's perspective and innovation is therefore seen as a central key to the further development of the Company.

The portfolio companies are encouraged to invest in defined future fields in which there are very good long-term development prospects. The holding company supports the subsidiaries methodically in deriving innovation strategies, identifying innovation potential, generating and selecting ideas and managing innovation potential. An important focus is also on sensitising and networking the various management teams. Trends and developments in the markets are observed across all sectors and the knowledge is brought into the Group companies as part of an active dialogue with the respective management teams. GESCO actively promotes dialogue between the portfolio companies in order to facilitate the development of innovation through a change of perspective. If required, GESCO also establishes links to external partners and institutions for its subsidiaries and provides support in collaborating with science and research.

Economic report

Macroeconomic and sector-specific framework conditions

In 2024, Germany was particularly affected by the subdued global economic growth prospects. In its latest World Economic Outlook, the International Monetary Fund (IMF) states that although the global decline in inflation represents an important milestone for economic development, persistent structural burdens – such as an ageing population and weak productivity – are slowing potential growth in many economies. In addition, downside risks are increasing and now dominate the outlook. The latter include an escalation of regional conflicts, a monetary policy that remains tight for too long, a possible resurgence of financial market volatility with negative effects on the markets for government bonds, a stronger slowdown in growth in China and a further tightening of protectionist policies.

At the beginning of 2024, many economic experts expected an imminent upturn. However, this failed to materialise. The real wage increases in 2023 and 2024 have not yet prompted private households to substantially increase their consumer spending. In addition, there have been significant losses in production and value added in the construction and manufacturing industries. This is reflected in weak exports and a sharp decline in corporate investment in the current year. The German export industry is benefiting less from the growing global economy than in the past, although the traditional German export markets are proving robust. This indicates that the economic weakness is largely due to high cost increases and non-price competitive factors in an international comparison. In addition, there are domestic negative factors such as high economic uncertainty. However, the greater weight of German energy-intensive industries in an international comparison, which are reacting to high energy costs, as well as the mechanical engineering and automotive industries, which are facing increasing competition from China in addition to restructuring in connection with decarbonisation and digitalisation, are also currently proving to be a burden.

This means that the German economy is still in a stagnation phase at the end of 2024 despite falling inflation and the recovery of the global economy. High levels of uncertainty regarding the economic outlook both at home and abroad have dampened demand, production, investment and private consumption. The key sectors of manufacturing and the property market are particularly weak.

According to estimates by the Federal Statistical Office, price-adjusted gross domestic product (GDP) fell by 0.2% in 2024 as a whole compared to the previous year. This makes Germany the only major country in the eurozone to experience a decline in gross domestic product in the calendar year 2024.

According to the German Engineering Federation (VDMA), mechanical and plant engineering companies from Germany suffered noticeable losses on foreign markets in 2024. According to preliminary calculations by the Federal Statistical Office, the nominal decline in exports was 5.0% compared to the previous year. Adjusted for prices, machinery exports were even 7.1% below the previous year's level over the course of the year. This largely corresponded to the decline in production in the mechanical engineering sector of (provisionally) 7.5% in real terms.

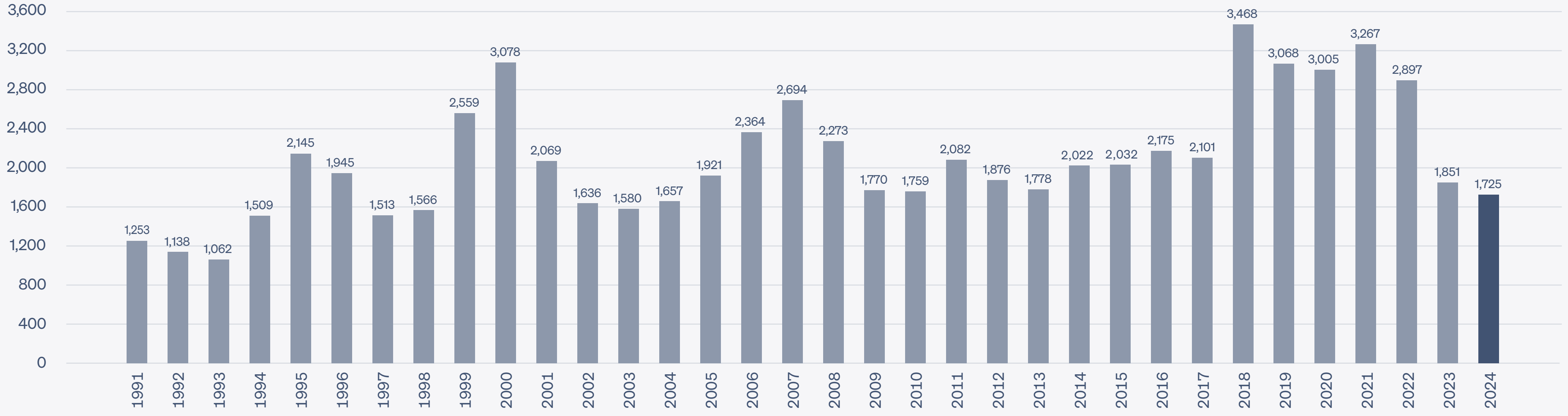
The very subdued outlook in the mechanical engineering sector is reflected in incoming orders: orders for large-scale systems provided a positive surprise in the order books of mechanical and plant engineering companies at the end of the year. However, the overall order result was disappointing, with orders in 2024 down 8% on the previous year in real terms. Domestic mechanical engineering companies recorded a 13% drop in orders in 2024, while orders from abroad fell by 5%. The drop in orders from euro countries amounted to 9%, while non-euro countries recorded a decline of 4%.

This is the second year in a row that companies have recorded a significant drop in orders across the board, meaning that the wait for a turnaround continues. The looming trade conflict with the United States continues to be a burden. A free trade agreement with the Mercosur countries could provide a boost.

In terms of the number of M&A deals, the M&A market had already slumped significantly in the 2023 financial year and has not recovered since then. Increased financing costs due to higher interest rates, continued high valuations for attractive target companies and, above all, uncertainties regarding future business development continued to put pressure on M&A activities in the 2024 financial year.

What is striking in the 2024 financial year is the significant increase in companies actively seeking a buyer. However, these are usually companies that are struggling due to the economic environment and where it is difficult to assess whether this is just a temporary phase of weakness or a structural break. GESCO does not invest in distressed securities, but rather in promising companies that are either already market leaders or can be developed further. In this environment, GESCO continues to actively approach entrepreneurs both for basic investments and, increasingly, for potential bolt-on acquisitions.

Number of M&A deals in Germany from 1991 to 2024



Source: https://imaa-institute.org/mergers-and-acquisitions-statistics/germany-ma-statistics

Business performance

The German economy as a whole and, in particular, the heavily export-orientated German mechanical and plant engineering sector suffered from customers' increasing reluctance to invest over the course of the year due to heightened economic uncertainty. According to the order balance sheet of the German Engineering Federation (VDMA), incoming orders remained at a low level at the end of 2024. Compared to the previous year, companies recorded a decline in orders of 6% in real terms. While domestic orders fell by 4%, foreign orders presented a mixed picture: 5% more orders came from euro countries, while non-euro countries were 11% down on the previous year. This also resulted in an overall decline in orders of 7% in foreign business.

With Germany accounting for 46.7% of sales, GESCO Group is still largely dependent on developments in its home country. The mechanical engineering companies within GESCO Group in particular were unable to escape these general conditions.

The difficult general conditions and the stagnation of the economy in Germany led to a decline in business figures in all segments compared to the previous year. On a positive note, both the managing directors and the Executive Board are of the opinion that, with a few exceptions, the companies have not lost any market share. This is a strong indication of the companies' good market position. The companies continued to record high demand. In view of the general reluctance to invest, many enquiries have not yet led to incoming orders. Nevertheless, the ratio of incoming orders to sales for the Group was 1.1 in the 2024 financial year.

The decline in sales compared to the previous year led to a loss of margin. The companies countered this with cost-cutting measures such as short-time working, a reduction in temporary staff and personnel as well as a general freeze on costs and investments. The focus was also on securing liquidity and thus reducing working capital and debt. As a result, the pleasingly solid balance sheet ratios were maintained and the equity ratio even improved.

SVT bucked the trend in the past financial year. The high demand for LNG terminals brought SVT record sales and earnings for the past financial year.

The largest subsidiary, Doerrenberg, had a significant impact on GESCO Group's performance. Falling material prices and alloy surcharges, high energy costs and, above all, weak demand, which had a particularly negative impact on the foundry and steel mill business areas, put significant pressure on profitability. The two loss-making divisions Foundry and Steelworks alone led to an operating loss of around € 4.2 million in EBIT. In December 2024, the process of selling these two divisions, Foundry and Steelworks, was successfully completed. As a result, Doerrenberg will focus on its core competence as an international trading organisation for tool steel in future. The figures for these two divisions were included in the GESCO Group figures for 2024. The sale led to a one-off charge of around € 4.8 million on Group earnings in 2024.

AstroPlast was also sold at the end of the year as part of a management buyout. As a locally operating, highly automated contract manufacturer with low vertical integration, AstroPlast's business model set it apart from most other GESCO Group companies. The sale was therefore completed as announced.

Due to the one-off effects from the sale of the Foundry and Steelworks divisions, the sales and earnings forecast updated in December 2024 had to be adjusted following the sale. Accordingly, the Executive Board expected consolidated sales of € 520 – 540 million and consolidated earnings after minority interests of around € 3.5 – 7.5 million for 2024.

This adjusted forecast was essentially achieved in the end.

Position of the Group

Earnings situation

GESCO Group's incoming orders totalled € 519.1 million in financial year 2024 (previous year: € 542.7 million), down 4.4% on the previous year. By contrast, the Healthcare and Infrastructure Technology segment increased incoming orders by 6.9% compared to the previous year.

Group sales totalled € 513.8 million, down 8.4% on the previous year (€ 560.7 million). The financial year ended with an order backlog of € 188.9 million (previous year: € 196.4 million), 3.8% lower than in the previous year.

Due to the only moderate decline in prices over the course of the year, the cost of materials ratio of 56.8% is only slightly below the previous year (57.1%).

Other operating income was slightly higher than in the previous year, mainly due to income from currency conversion.

Earnings before interest, taxes, depreciation and amortisation (EBITDA) amounted to € 36.7 million, compared to € 59.0 million in the previous year. The cost of materials ratio fell slightly, while the personnel expenses ratio rose from 22.5% to 25.5%, primarily due to the lower sales and wage increases for the workforce. Depreciation and amortisation amounted to € 21.5 million in the reporting period (previous year: € 23.1 million) and included scheduled depreciation and amortisation as well as impairment losses of € 2.2 million (previous year: € 5.1 million).

Earnings before interest and taxes (EBIT) totalled € 15.2 million (€ 35.9 million). This includes a one-off charge of € 4.3 million in connection with the sale of the Foundry and Steelworks divisions at Doerrenberg. The EBIT margin thus totalled 3.0% (6.4%) and was therefore well below our target corridor for the Group of 8 – 10%.

The financial result of € –5.2 million (previous year: € –3.5 million) is primarily due to the increase in interest rates. The result from investments is recognised at € 0.4 million (previous year: € 0.0 million). Interest and similar expenses increased slightly from € 4.7 million to € 5.3 million.

Earnings before taxes (EBT) totalled € 10.0 million (previous year: € 32.4 million). At 43.8%, the tax rate was higher than in the previous year (31.6%). This was due, among other things, to effects from the sale of the Foundry and Steelworks divisions.

After minority interests in the earnings of corporations totalling € 1.2 million (previous year: € 1.3 million), Group earnings for the year after minority interests amounted to € 4.4 million, compared to € 20.9 million in the previous year. Earnings per share according to IFRS totalled € 0.42 (previous year: € 1.93).

Sales and earnings by segment

GESCO SE reorganised the segmentation of its portfolio companies as of 1 January 2025. The segments are more clearly structured, particularly for investors. They are based on known sales markets and are aligned even more closely with the respective business models of the individual subsidiaries. This repositioning followed the M&A activities in December 2024 and will ensure greater transparency, comparability and balance within the segments in future. The three segments also reflect the strategic focus on high value-added and customer-oriented business models relating to industrial processes, products and projects. From now on, GESCO will be organised into the following three segments:

Materials Refinement & Distribution: This segment comprises the companies Doerrenberg, PGW and Funke. These companies generate added value for customers through complex production processes and the ability to deliver highly specialised primary materials and semi-finished products at short notice. They are characterised both by their ability to master global supply chains and by ensuring the highest quality standards in their processes. Their diversification in terms of different sales markets and global customers makes them more resilient to economic fluctuations.

Lifescience & Healthcare: This segment comprises the companies Setter, INEX and AMTRION. The companies in this segment offer customised products and solutions. They are aimed at the rapidly growing healthcare, medical, pharmaceutical and food markets. Thanks to their innovative strength, which is closely aligned with real customer needs, they are well placed to fulfil the increasing requirements in these important areas.

Industrial Assets & Infrastructure: With SVT, MAE and Kesel, this segment includes companies that are leaders in mechanical and plant engineering within their infrastructure markets. They are all globally positioned, relevant players on international markets. Their excellent skills in managing large and complex projects help them to fulfil even highly individual customer requirements efficiently and on time.

In the following comments on the earnings situation, the segmentation valid until 31 December 2024 is still used, with the **Process Technology** segment (INEX, MAE and Kesel), **Resource Technology** (Doerrenberg, PGW and SVT) and the **Healthcare and Infrastructure Technology** segment (Setter, Funke, AMTRION and AstroPlast).

In the Process Technology segment, market participants continue to adopt a wait-and-see attitude due to uncertainty about future economic developments. The good market positioning of our companies is also confirmed. Customer enquiries remain high. Due to the continued restraint in orders, incoming orders of € 92.6 million in the 2024 financial year were only slightly below the previous year's figure of € 93.3 million. This resulted in an order backlog of € 43.8 million as at the reporting date (2023: € 56.5 million).

Segment sales fell by 3.2% from € 107.6 million in the previous year to € 104.2 million. EBIT totalled € 8.3 million in the reporting period after € 12.0 million in the previous year, which corresponds to an EBIT margin of 8.0% (2023: 11.2%). The decline is due to reduced margins from shifts in the product mix and higher other operating expenses.

The Resource Technology segment continued to develop very heterogeneously in the reporting period. While Doerrenberg in particular recorded a decline in sales and earnings due to falling material prices and customer restraint, SVT continued its profitable growth unperturbed.

At € 290.0 million, incoming orders were below the previous year's level (€ 321.8 million) despite the high order intake at SVT. At € 105.2 million, the order backlog was almost on a par with the previous year (€ 105.8 million). Sales fell significantly and only reached € 283.6 million after € 320.9 million in 2023. Segment EBIT amounted to € 7.9 million after € 28.1 million in the same period of the previous year. The result was primarily impacted by Doerrenberg. Customer restraint, declining material prices and lower alloy surcharges played an important role here. In addition to the operating loss of € 4.2 million from the Foundry and Steelworks divisions, one-off effects totalling € 4.3 million from the sale contributed to the poor result. The segment's EBIT margin fell accordingly from 8.8% (2023) to 2.8%.

By focusing the Doerrenberg Group on its core competence as an international trading organisation for tool steel, we aim to deliver significantly better results again in 2025. We will also continue to pursue our successful internationalisation strategy.

The companies in the Healthcare and Infrastructure Technology segment recorded solid business development in the 2024 financial year in view of the general conditions. Incoming orders in the segment increased by 6.9% compared to the previous year to € 136.5 million. The fact that incoming orders are once again higher than sales is a ray of hope and indicates a slow recovery. In line with the higher order intake, the order backlog increased by 17.2% to € 39.9 million at the end of 2024. At € 126.2 million, sales in the segment were down on the previous year (€ 132.2 million). At € 6.2 million, EBIT was lower than in the previous year (€ 9.5 million), mainly due to reduced sales.

In addition to GESCO SE, the GESCO SE/other companies segment also includes a number of subordinate companies. The reconciliation item shows consolidation effects and the reconciliation to the corresponding IFRS Group figures.

Sales by region

The foreign share of Group sales totalled 53.3% (previous year: 53.5%). Europe (excluding Germany) accounted for 30.0% (27.7%) of sales, with France and Italy being the most important individual markets. Asia accounted for 8.0% (9.8%), of which 4.4 (3.7) percentage points were attributable to China. With a share of 13.1% (12.9%), the USA was the most important market outside Germany.

The foreign shares of the individual companies vary greatly depending on the respective business model; several subsidiaries have export quotas of over 80%.

With regard to this regional distribution of sales, it should be noted that many of our companies' domestic customers are themselves export-orientated. GESCO Group is therefore likely to have significant indirect exports, although this cannot be quantified precisely.

Financial situation

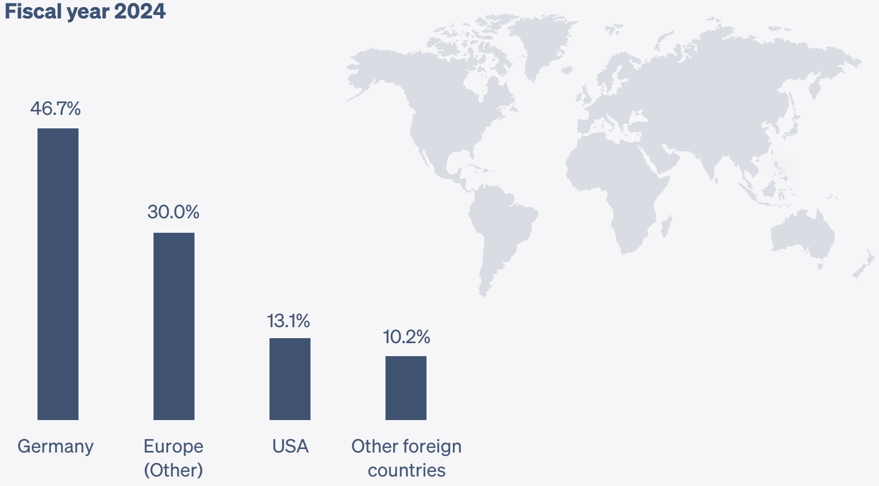
Capital structure

GESCO Group's balance sheet continues to show very strong balance sheet ratios with high equity. At 14.4% (14.0%) of equity, goodwill is at a low level. Overall, GESCO Group has the necessary financial resources for internal and external growth.

On the liabilities side, equity totalled € 270.1 million, down on the level at the beginning of the financial year of € 277.7 million, which resulted in particular from the share buy-back and the dividend paid out. The reduction in current liabilities meant that the balance sheet total was significantly lower than in the previous year; the 7.6% reduction in the balance sheet total increased the equity ratio from 59.2% to 62.3%.

Sales by region

Fiscal year 2024



Investments

As a long-term investor, GESCO SE supports regular investments by the subsidiaries in their technical equipment to strengthen their competitiveness. This includes investments in tangible assets as well as modern information technology and, in particular, systems for efficient production planning and control.

Overall, investments in tangible assets and intangible assets for all companies totalled € 11.4 million compared to € 20.3 million in the previous year. This includes right-of-use assets recognised as investments in accordance with IFRS 16 of € 3.1 million in the reporting period and € 3.2 million in the previous year.

In the reporting year, the total volume was spread across various replacement, modernisation and expansion investments. The focus of investment this year was once again on the Resource Technology segment. Pickardt & Gerlach finalised the capacity expansions launched in 2024.

Depreciation and amortisation of tangible assets, current assets and intangible assets amounted to € 21.5 million in the reporting period (previous year: € 23.1 million).

Liquidity and net debt

Cash and cash equivalents totalled € 33.3 million on the balance sheet date, slightly below the previous year's figure of € 34.5 million.

Current and non-current liabilities to banks fell significantly by € 29.8 million to € 57.3 million. Current and non-current lease liabilities fell by € 0.4 million from € 18.0 million to € 17.6 million.

Net debt was reduced significantly. It fell from € 52.6 million to € 24.0 million. Taking into account the lease liabilities, this results in an improvement from € 70.6 million to € 41.6 million.

In relation to EBITDA of € 36.7 million, the net debt to EBITDA ratio is therefore at 0.7 or, including IFRS 16, at 1.1. This means that the ratio improved slightly compared to the previous year (previous year: 0.9 or 1.2 including IFRS 16) despite the fall in EBITDA.

At the end of the financial year, there were committed but unutilised credit lines amounting to € 57.5 million. The Group was able to always fulfil its payment obligations.

Based on the positive result for the period before minority interests of € 5.6 million, cash flow from earnings decreased to € 34.8 million (previous year: € 55.4 million). Cash flow from working capital improved significantly to € 29.9 million compared to € –8.3 million in the previous year. Cash flow from operating activities totalled € 51.6 million (previous year: € 33.1 million). Cash flow from investing activities fell compared to the previous year, primarily due to the reluctance to invest in tangible assets. The repayment of loans in the amount of € 77.1 million is counterbalanced by new borrowings in the amount of € 47.7 million.

Financial position

GESCO Group's total assets amounted to € 433.3 million as at the reporting date, compared to € 469.0 million in the previous year. Non-current assets fell by 5.1 % to € 178.0 million due to significantly lower tangible assets (€ –11.5 million) and lower other intangible assets (€ –3.2 million), while other assets increased (€ +7.1 million). Inventories fell sharply by € 19.3 million, while trade receivables decreased moderately by € 6.2 million.

Economic development of GESCO SE

The notes refer to the separate financial statements of GESCO SE prepared in accordance with the German Commercial Code (HGB). GESCO SE assumes a holding company function within the Group.

At € 4.1 million, GESCO SE's income from investments in financial year 2024 was below the level of the previous financial year (€ 11.0 million). Distributions are determined individually, considering the earnings, net assets and liquidity position of the subsidiaries as well as the optimisation of liquidity within GESCO Group.

As in the previous year, no loss transfers had to be recognised in 2024. Income from profit and loss transfer agreements fell from € 16.6 million to € 13.1 million in the reporting year. As at the balance sheet date, there were a total of three profit and loss transfer agreements with the following subsidiaries

- INEX – solutions GmbH
- Setter Holding GmbH
- MAE Maschinen- und Apparatebau Götzen GmbH

There are no write-downs on financial assets in 2024; the amount of € 6.7 million from 2023 relates to the fair value adjustments recognised at the subsidiaries AstroPlast and Funke.

The slight decrease in sales compared to the previous year of € 1.8 million (previous year: € 2.1 million) is due to the recharging of expenses to the associated companies and consultancy services.

Other operating income totalled € 0.6 million in the reporting year (previous year: € 0.3 million). Other operating expenses fell from € 10.6 million to € 4.8 million and are primarily made up of legal and consulting costs, recruitment costs and acquisition costs. In the 2023 reporting year, other operating expenses included in particular value adjustments on receivables from AstroPlast and Funke totalling € 4.5 million.

In the 2024 financial year, net income for the year totalled € 12.0 million (previous year: € 7.8 million).

In the management report for financial year 2023, GESCO SE had forecast income from investments and net income for the new financial year 2024 at approximately the same level as in 2023. In November 2024, GESCO SE revised its forecast for the Group figures for 2024 downwards, meaning that the original forecast figures for GESCO SE could no longer be achieved. The significantly lower income from investments and profit transfer agreements as well as write-downs on financial assets in financial year 2024 consequently led to net income for the year that was below the original forecast.

GESCO SE's total assets amounted to € 246.5 million as at the reporting date (previous year: € 250.8 million).

On the assets side, financial assets increased by a total of € 3.0 million because of the increase in other loans. The other loans totalling € 12.8 million (previous year: € 9.7 million) relate to vendor loans in connection with the transactions carried out at the end of 2020 and the end of 2024.

Cash and cash equivalents totalled € 3.4 million as at the balance sheet date (previous year: € 2.9 million).

In the 2023 financial year, a dividend of € 0.40 per share – corresponding to a total of € 4.1 million – was distributed to the Company's shareholders in the reporting period.

On the liabilities side, equity fell slightly to € 235.6 million (previous year: € 236.2 million), while the equity ratio rose from 94.2% to 95.6%.

The decrease in liabilities to banks from € 5.5 million to € 4.6 million is due to the repayment of bank loans.

Overall, GESCO SE's balance sheet had very healthy ratios as at the reporting date, with a very high equity ratio, low debt and sufficient cash and cash equivalents. Against this backdrop, GESCO SE continues to have sufficient access to debt capital at attractive conditions. The Company is thus fully capable of acting with regard to both its equity and liabilities.

In the management report for financial year 2023, GESCO SE had forecast an equity ratio of over 80% for the new financial year, and this is clearly being met with an equity ratio of 95.6%.

At the end of the financial year, GESCO SE had committed but unutilised credit lines amounting to € 9.2 million.

Overall assessment of business performance

We are not satisfied with the course of business. This applies to both the Group and GESCO SE. Even though the economic situation was challenging, this cannot be considered a justification. We were obviously too optimistic at the start of the financial year and expected an increase in annual sales and earnings roughly on a par with the previous year.

This assessment proved to be incorrect, as the general conditions deteriorated rather than improved over the course of the year. Almost all companies were unable to fulfil the expectations placed in them and had to pay tribute to the massively gloomier business prospects in their sectors. However, it should be noted that GESCO was once again able to end the financial year with a positive result despite considerable headwinds.

There were no other significant events or transactions with a material impact on the earnings situation, net assets and financial position of GESCO SE or within the Group during the reporting period.

Non-financial performance indicators

Environmental protection

The GESCO Group is committed to protecting the environment above and beyond legal requirements. This commitment applies to the entire production process and the life cycle of each product, including recycling.

Focusing development and production on environmental concerns can open new market opportunities. Resource conservation and energy efficiency are convincing sales arguments. But it is not only the products that have environmental aspects. Energy aspects are also considered in construction measures and investments in machinery and equipment. The aim is to reduce follow-up costs and emissions.

Climate-relevant emissions are calculated as CO_2-equivalents per million euros in sales.

Further information on environmental protection can be found in the non-financial Group report in accordance with Section 315b (3) HGB. This report is published as a separate section of the annual report, together with the Group management report. From 2021 to 2023, the report was based on the German Sustainability Code. For financial year 2024, GESCO followed the requirements of the CSRD.

Employees

As at the reporting date, GESCO Group employed a total of 1,642 people (previous year: 1,899).

In the fourth quarter of 2024, GESCO offered all domestic employees of GESCO Group the opportunity to acquire employee shares as part of an employee share ownership programme for the 25th time. GESCO SE sees this programme as an important instrument for employee retention. The continuation of the programme is therefore also planned for the future.

The future viability of GESCO Group companies depends heavily on attracting qualified and motivated employees and retaining them in the long term. Training and further education are highly valued within the Group. The subsidiaries also actively position themselves as attractive employers.

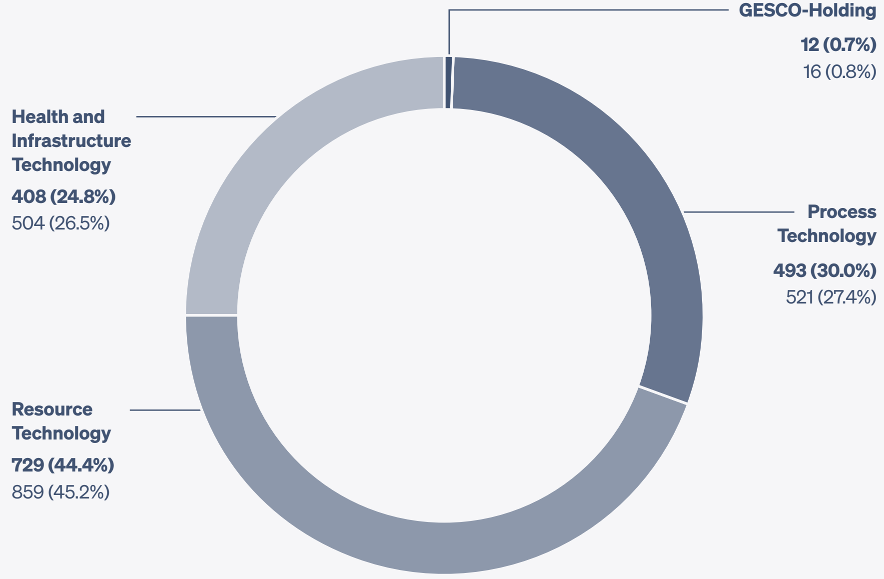
There are numerous activities, ranging from participation in school events such as Girls' Days and dual study programmes to cooperation with universities and other educational institutions. Doerrenberg Edelstahl GmbH has been giving out the "Doerrenberg Award" for many years. This is a prestigious award for students specialising in materials technology and engineering.

Performance indicators such as the training rate and the costs and hours of further training are determined for evaluation purposes.

Further information on the topic of employees can be found in the separate non-financial Group report in accordance with Section 315b HGB.

Employees by segment (end of financial year)

Fiscal year 2024*
Fiscal year 2023



*Excluding the sold business units Doerrenberg and AstoPlast.

Other information

Remuneration report

The remuneration report prepared separately for financial year 2024 and published on the GESCO SE website in accordance with Section 162 AktG provides information on the remuneration of the Executive Board and Supervisory Board.

Own shares

As part of its share buyback programme announced on 28 March 2024, which began on 11 April 2024 and ended on 25 April 2024, the Company bought back 499,974 shares via a voluntary public share buyback offer. Including the shares already held before the share buy-back offer, the Company then held 511,304 treasury shares. In connection with its employee share ownership programme 2024, the Company distributed 25,623 treasury shares to the securities accounts of employees participating in the programme in December 2024 in accordance with Section 71 para. 1 no. 2 AktG. As at the reporting date, GESCO SE therefore held 485,681 shares.

Forecast, opportunity and risk report

Forecast report

According to the ifo economic forecast from autumn 2024, the German economy will experience a gradual recovery over the next two years (2025 and 2026).

The development of the industrial and consumer economy shows that both sectors are only very slowly emerging from their stagnation. The ongoing economic uncertainties and global challenges, such as rising energy prices and geopolitical tensions, are having a negative impact on demand.

Particular attention will be paid to the year 2026, in which the increase in economic output could be overstated due to the high number of working days. Adjusted for calendar effects, however, an actual increase in price-adjusted gross domestic product of just 1.2% is expected. These adjustments make it clear that the economic basis remains fragile despite the positive forecasts.

The weak economy is also having an impact on the labour market. Employment growth will slow down and unemployment will initially rise. In 2024, the average unemployment rate was 6.0%, which corresponds to an increase of 0.3 percentage points compared to 2023. In the following years, however, unemployment is expected to decline, with the rate falling to 5.8% in 2025 and 5.3% in 2026. Despite this positive outlook, the increase in employment will only be slight.

Demographic change is becoming increasingly noticeable and a decline in the labour force potential is expected from 2025, which will reduce future growth potential.

The inflation rate fell significantly in 2024. It fell from 5.9% in 2023 to 2.2% in 2024. For the following years, the ifo Institute expects an inflation rate of 2.0% in 2025 and 1.9% in 2026. These declines offer some relief for consumers and companies.

Current early indicators point to a slight improvement in economic sentiment at the start of 2025. Nevertheless, there is a clear division between industry and the service sector. According to the ifo Business Climate Index, sentiment in the service sector improved slightly in January. Companies in the retail sector in particular are more satisfied with their current business. In manufacturing, on the other hand, the business climate remains characterised by scepticism.

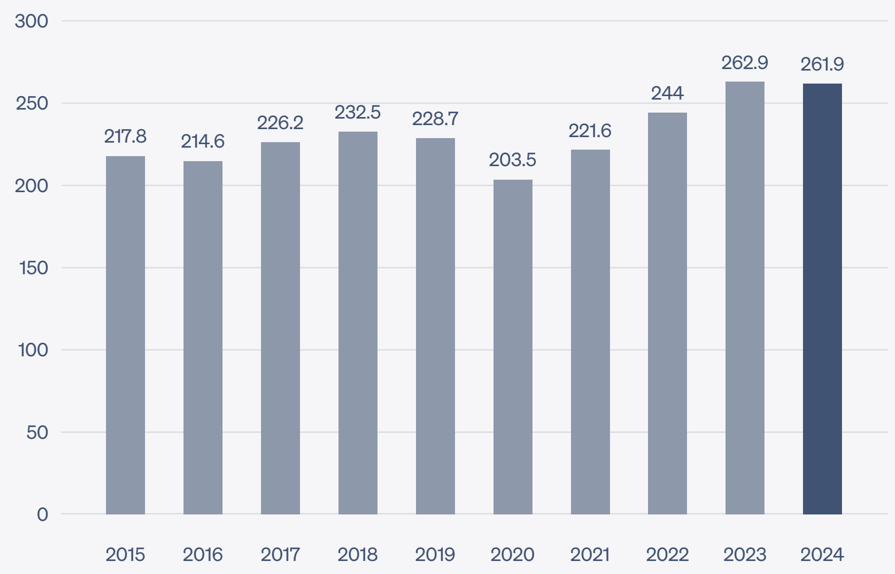
This uncertainty is due not least to the weak order situation, which is being influenced by stagnating demand and increased risks from the US tariffs that have been introduced and threatened.

In view of the continuing difficult framework conditions and domestic and foreign trade uncertainties, the manufacturing sector is not expected to recover quickly. The Ministry of Economic Affairs predicts that the German economy will continue to struggle to break free from the ongoing stagnation at the beginning of 2025.

Weak demand at domestic and foreign trade level, combined with increased political uncertainty and low capacity utilisation, is weighing on both production and investment. The reduced competitiveness of German industry will continue to dampen export growth.

Current indicators, such as the GfK consumer climate and ifo business expectations, also show a subdued trend in private consumption at the start of 2025 despite higher wages. Increasing concerns about job security and the tightening of the global customs regime announced by the new US government pose additional downside risks for the economy and are slowing down the recovery in consumer confidence.

Sales development in German mechanical engineering in billion €



Source: Statistisches Bundesamt, VDMA e. V.

The forecast for 2025 is based on the existing framework conditions, but is characterised by uncertainties. These result from the further course of the war in Ukraine, general geopolitical tensions and economic upheaval, particularly as a result of US economic policy.

Overall, the economic situation remains tense. Targeted measures and strategies are needed to overcome the challenges and set the course for a sustainable recovery.

According to the VDMA, the ongoing slump in the global economy is also leaving its mark on the mechanical and plant engineering sector. Following the slump in the wake of coronavirus, sales in the mechanical engineering sector reached a new record high in

2023. In 2024, Sales fell only slightly. However, taking the inflation rate into account, the mechanical engineering sector experienced a real contraction of around 3%.

In the medium term, however, investment in machinery and equipment should increase again, also against the backdrop of the high level of investment required as part of the transformation to a climate-neutral economy.

For the first half of 2025, we anticipate continued weak demand and expect economic activity to pick up in the second half of the year at the earliest. Not least due to inventory effects and improvement measures introduced in the subsidiaries, the financial figures should gradually improve.

The significant increase in wage costs is leading to higher production costs and has had a negative impact on earnings. We will counteract this by consistently implementing the measures associated with the GBS to expand market share and increase efficiency.

We expect our financial performance indicators to develop as follows in the 2025 financial year:

Group sales for the 2024 financial year, adjusted for the deconsolidated and divested AstroPlast, Foundry and Steel Mill business units, amount to € 480.1 million. Based on this adjusted figure, we expect an increase in Group sales in the high single-digit percentage range for 2025. Group net earnings after minority interest will recover significantly but will not yet reach the level of 2021 – 2023.

The ongoing tense geopolitical situation, high prices, high interest rates and generally subdued growth expectations may have a significant impact on some subsidiaries. Continued high and volatile energy prices will also have different effects on our subsidiaries. We have factored some direct effects into our expectations. However, the dynamics of the situation are such that we are currently unable to make any more precise statements on the extent of all direct and indirect effects.

GESCO SE faces the same opportunities and risks as GESCO Group. GESCO SE also expects the following developments in performance indicators for financial year 2025: Following the weak year 2024, income from investments and net income should rise again to the level of 2023. GESCO SE's equity ratio should be above 80% in 2025, provided there are no significant changes in the group of shareholdings.

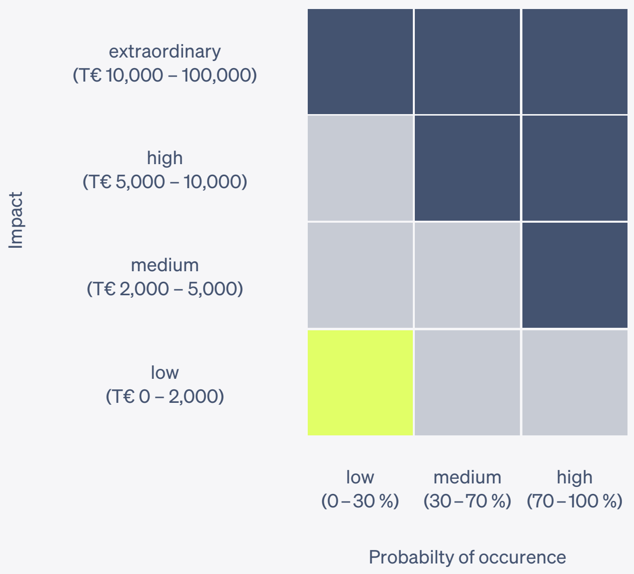
GESCO SE continues to strive for external growth through the acquisition of medium-sized industrial companies. As part of our growth strategy, we are looking for acquisition targets with sales of between € 20 million and € 50 million. Strategically motivated add-on acquisitions are realised at a lower sales level.

The statements in the report on expected developments are based on assumptions and estimates that were available to GESCO SE at the time the report was prepared. These statements are subject to risks and uncertainties. Actual results may therefore differ from expectations. No guarantee can be given for these statements.

Management of opportunities and risks

GESCO SE's business model is entrepreneurial in nature. Entrepreneurial activity is inherently associated with risks – they cannot be ruled out, but they can be handled with appropriate risk management. GESCO Group's concept is geared towards recognising, evaluating and exploiting opportunities on national and international markets on the one hand, and identifying and limiting risks on the other. The management of risks and opportunities is a continuous entrepreneurial process. GESCO Group is structured in such a way that negative developments at individual companies do not jeopardise the Group as a whole.

Risk matrix



An overall assessment of the Company's situation is carried out both in the planning meeting and in the monthly meetings and annual strategy meetings. On the one hand, this involves analysing the business opportunities and courses of action for expanding the volume of business in Germany and abroad and for increasing profitability, and on the other hand, the respective risks are assessed.

Management of opportunities

GESCO SE sees significant opportunities in the acquisition of further medium-sized industrial companies and the expansion of existing corporate structures. By maintaining the network, increasing awareness of GESCO SE as an investor and approaching interesting companies directly, a deal flow is generated that is evaluated and processed in step-by-step analyses. In addition, GESCO SE sees great opportunities in the positive operating performance of the portfolio companies and the associated investment income and dividends. To this end, the holding company offers its subsidiaries intensive advice and support in order to leverage and utilise synergy effects for the entire Group.

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

Risk management in the GESCO Group

GESCO Group has an internal risk management system. GESCO Group uses a software-supported system to record risks. Risks are assessed and categorised in the risk statistics by estimating the impact on earnings before interest and taxes (EBIT) and the probability of occurrence, with a focus on the net impact of risk after mitigating measures. The risks are weighted on a company-specific basis, taking into account the sales volume and earnings power of the respective company. Specific categorisations are defined at Group level. The combination of risk impact and probability of occurrence results in an assessment of the risks according to the following matrix, with dark blue indicating the highest risk level.

The risks reported by the subsidiaries are included in monthly reporting. The risks are reported by the managing directors in consultation with the respective investment managers in the finance department. High risks are also reported by the subsidiaries to GESCO SE on an ad hoc basis.

As at 31 December 2024, there are no individual risks that fall into the dark blue category. The focus of the individual risks recognised within the yellow category was on legacy risks and warranty risks, each with a low impact.

Risk management is the responsibility of the Executive Board and is monitored by the Supervisory Board. The GESCO SE employee responsible for risk management informs the Supervisory Board about the development of risks in quarterly meetings. The Supervisory Board is informed of major risks on an ad hoc basis.

In addition to the individual risks identified, we see risks for future development in the following areas in particular:

Risks and opportunities when acquiring companies

GESCO SE strives for internal growth based on its existing portfolio as well as external growth through the acquisition of further industrial SMEs. The search for new companies is a continuous process in which analysing opportunities and risks is naturally of particular importance as part of an acquisition due diligence. Prior to the acquisition, the companies are subjected to due diligence in order to identify the risks associated with each company acquisition, insofar as they are recognisable. Key aspects include financial, tax, technology, market and environmental risks, as well as corporate culture, the age structure of the workforce and legal risks. GESCO SE utilises both internal and external expertise.

Every acquisition harbours the risk that the newly acquired company will not develop as planned and expected and that the EBIT margin target set by GESCO will not be achieved. There is also the risk that the company's potential is not sufficient to develop into a hidden champion, i. e. a global market leader in its niche. A critical success factor for GESCO, particularly in succession solutions, is the appointment of a new managing director upon the departure of the previous owner-manager and the cultural change that is often associated with this.

Following the acquisition, the companies will be integrated into GESCO Group's reporting system in a structured process. The companies will also be integrated into GESCO Group's risk management, compliance, data protection and insurance management system.

Opportunities may arise from a better development of the acquired company compared to the plan. In addition to positive market influences, the rapid introduction and implementation of the programmes by GESCO can also contribute to this. The departure of a previous owner-manager can also open up opportunities. A new managing director can utilise their experience to leverage additional potential and promote the company's development through new perspectives and approaches.

Risks and opportunities in relation to the operating business

In their operating business, all GESCO SE subsidiaries are subject to the typical opportunities and risks of their respective industries as well as general economic risks. As an industrial group with significant direct and indirect exports, we are affected by economic fluctuations in Germany and abroad. Through our strategy of diversification, particularly with regard to customer industries, we endeavour to offset economic fluctuations in individual sectors to a certain extent and thus reduce the risks arising from economic cycles.

In addition to the economic situation, there are risks as well as opportunities for the subsidiaries in the strategic orientation of the companies, considering technological and social change. These include, in particular, digitalisation, the emergence of new competitors, the political and economic development of regional markets, the change in social values, the political goal of reducing CO_2 emissions, the energy transition, geopolitical risks and the tightening regulatory framework.

GESCO Group is meeting these challenges with the GESCO Business System (GBS), which is currently being rolled out and is intended to help increase market share and boost efficiency at the subsidiaries. Regular meetings between the Executive Board of GESCO SE, the Business Directors and the managing directors of the subsidiaries and their teams also serve to analyse and continuously exchange information on strategic issues. Significant regulatory tightening and legislative changes that affect GESCO SE as a Group are managed and implemented centrally by GESCO SE.

In principle, there is a risk of customer complaints and claims due to poor quality, non-fulfilment of promised services or failure to meet agreed deadlines. The companies counter this risk with diligence in their processes, quality management and close contact with their customers.

Risks typical of the respective business model exist in plant engineering in particular. Here, the corresponding Group companies are repeatedly confronted with customer requirements whose technical realisation possibilities in terms of time and costs can only be calculated in advance to a limited extent, meaning that there is a risk of loss-making orders. On the other hand, this can lead to opportunities, as challenging customer projects repeatedly result in innovative approaches that can lead to marketable product innovations.

In order to counter procurement risks, the subsidiaries endeavour to gain planning security by concluding framework agreements with their suppliers and service providers or agreeing price escalation clauses with customers and suppliers. A relationship based on partnership and long-term cooperation with key suppliers supports security of supply.

GESCO Group companies utilise the instrument of trade credit insurance to hedge trade receivables where this is deemed sensible and appropriate. If relevant customers cannot be insured, the subsidiaries analyse the respective situation and define the next steps, usually in direct dialogue with the customer. Significant uninsured risks are coordinated with GESCO SE and the legal department in particular. Naturally, this is always a balancing act between the endeavour to limit risks and the need to exploit business opportunities and not lose the customer. This balancing act is further complicated by the instrument of insolvency avoidance, which is, however, covered by group insolvency avoidance insurance.

Currency risks from the operating business are generally hedged at the level of the respective subsidiaries for significant order volumes.

Geopolitical risks

In addition to the typical economic fluctuations and the aforementioned operational risks, GESCO sees the greatest risk to its operating business in the generally high level of political uncertainty. The further development in Ukraine and the generally tense geopolitical situation with its diverse effects on the business development of the subsidiaries and the economy as a whole are naturally difficult to predict. Should there be any significant changes, expansions or intensifications, further sanctions and effects on energy and commodity markets could affect our subsidiaries in various ways.

The strategic competition between the USA and China also harbours further risks. Trade tensions, technological advances and the impact on the energy sector are issues that influence the global economy. The increasing dependence on renewable energies can lead to tensions with countries that rely primarily on fossil fuels and nuclear power.

Last but not least, the new US administration is forcing an emancipation of European economic, energy and environmental policy.

By international comparison, the very high bureaucratic and regulatory requirements placed on European companies, such as the effects of the Supply Chain Sustainability Act and CSRD reporting, present them with immense challenges and worsen their international competitive position.

Climate change has become a highly political issue worldwide, affecting national security and global stability. Extreme weather events, rising sea levels and water shortages are becoming more frequent.

Having available and accessible energy resources is crucial for a country's economic development. Several of the issues mentioned above – especially climate change, cyber security threats and the war in Ukraine – have increased the vulnerability of energy security in Europe. Energy security and high energy prices will remain one of the relevant geopolitical problems and risks in 2025.

The new US administration has shattered fundamental certainties in a very short space of time. With its appeasement policy towards Russia and the questioning of the NATO defence umbrella for Europe, Europe finds itself in a threat situation that has never been higher since the Cold War. The tariffs that have been announced and introduced have the potential to significantly increase existing trade conflicts. In January 2025, the Cologne Institute for Economic Research (IW Köln) calculated that a trade dispute between the US and the EU could cost Germany around 180 billion euros over the course of Trump's four-year term in office. This would correspond to more than one per cent of German economic output per year. According to calculations by the Prognos Institute, 1.2 million jobs in Germany depend on exports to the USA. That is 10% of all jobs directly or indirectly dependent on exports.

It is to be feared that the increasing international protectionism emanating from the USA and escalating trade conflicts will remain constant challenges. In addition to the escalating trade conflict between the US and its Western trading partners, including Canada and Mexico, the trade conflict between the US and China is also likely to escalate further. This will not only affect the global production of goods and services but will also have a major impact on trade flows. Many goods will increasingly be exported to Europe if sales markets in the USA collapse.

With the foreseeable success of the Russian invasion of Ukraine, a potential military conflict between China and Taiwan is also becoming more likely. This would have dramatic economic consequences, as Taiwan is an important producer of semiconductors and microchips. A loss of production could lead to a severe global recession.

The GESCO subsidiaries may be directly and indirectly affected by the global impact to varying degrees. Direct effects may result from a lack of energy supply and rising energy prices. Even though GESCO disposed of very energy-intensive areas and one subsidiary at the end of 2024, the availability of energy at competitive prices remains an important factor influencing business development. Some subsidiaries have a high export ratio or are partially dependent on international suppliers. They may be directly affected by general geopolitical effects. Indirect effects affect subsidiaries with major international customers. If customers' supply chains are disrupted or if general developments have an impact on direct customers, this can lead to changes in customers' purchasing behaviour.

These general geopolitical risks are followed by specific effects for the subsidiaries' operating business, which are referred to as "decoupling" or "derisking" effects and affect the entire economy.

In terms of regulation, the enactment of mutually exclusive and often extraterritorial local laws and rules can be observed, which range from exclusion from public tenders to fines and even a ban on activities (e. g. import ban in the event of a breach of the CO_2 border adjustment mechanism "CBAM"). In terms of raw materials, this means export and import restrictions on rare earths or export restrictions. In terms of sales markets, this means punitive tariffs and non-tariff trade barriers, import and export bans for chips, network equipment and basic materials such as rare earths or certain chemicals, as well as market entry barriers. Regarding data, these include a ban on data transfers to other countries, the obligation to make data and algorithms available to government agencies and related counter-legislation (e. g. the US Cloud Act and GDPR). In terms of technology, this means setting uniquely valid norms and standards per region and defining different interfaces and usage bans for business-relevant software. In terms of environmental protection, this means different environmental standards and the resulting competitive advantages and disadvantages.

As part of GESCO's accelerated internationalisation strategy, the decoupling effects for subsidiaries with existing international locations and international customers lead to increased risks. Risks include rising procurement and production costs due to "multiple regional sourcing" instead of "single global sourcing" from the most favourable supplier worldwide, multiple costs for research and development, procurement and lower economies of scale due to regional differences in norms and standards. Furthermore, this can lead to additional costs for various compliance management systems, high implementation costs and high implementation effort.

In terms of personnel, this means a restriction or ban on the employment of foreign expats or travel restrictions for business trips (e. g. through work visa restrictions, tax disadvantages and travel restrictions) as well as a ban on the employment of foreign researchers in research institutes. Travel restrictions pose risks, particularly for subsidiaries with international customers and international service business, as trade fair and customer visits, but above all service technician assignments, cannot take place as planned and often as necessary.

These decoupling effects are expected to intensify in the future. For this reason, the GESCO subsidiaries abroad should increasingly follow the “local for local” approach. This means that foreign customers will increasingly be able to utilise locally produced goods in the future.

However, these risks are also offset by opportunities. Aid decided by governments, such as the energy price brake in Germany, is helping to stabilise the energy markets. The market leadership of many of our subsidiaries, combined with further internationalisation and the establishment of sustainable supply chains, secures and offers opportunities for the further expansion of market shares. For example, the information gained through the implementation of the national Supply Chain Duty of Care Act can be used to stabilise global supply chains and for more effective risk management and the development of resilient supply chains.

In addition, the subsidiaries of GESCO SE source raw materials, materials and services from suppliers/service providers predominantly from Germany and countries in the European Union, which significantly reduces the overall decoupling effects and geopolitical risk.

Against this backdrop, GESCO Group believes that it remains well positioned and ready to master these challenges through consistent risk management and the diversification of its subsidiaries’ business activities.

Compliance risks

Compliance risks include corruption, violations of human rights and environmental due diligence obligations, antitrust violations and criminal behaviour and the resulting fines and claims for damages. These risks can lead to significant financial damage as well as considerable reputational damage. GESCO Group counters these risks with a compliance management system that includes, in particular, a Group-wide Code of Conduct, accompanying guidelines and work instructions, an online information system (Rulebook) for GESCO Group employees, accompanying training, case-related spot checks and a whistleblower system for employees and external parties as well as a complaints system in accordance with the German Supply Chain Compliance Act (LkSG). The managing directors of the subsidiaries are responsible for anchoring the respective requirements and principles in their companies.

Compliance management is conceptualised and managed centrally by the Group compliance officer at GESCO SE. In financial year 2024, closer cooperation with the subsidiaries and, in particular, the establishment and expansion of a compliance governance structure was driven forward.

Such a structure will enable the subsidiaries to concentrate more on their core business, as regulatory requirements are becoming increasingly strict and will become even stricter in the future.

This system is primarily the responsibility of the legal department, which is accountable to and reports to the Executive Board of GESCO SE. To this end, a compliance report is prepared regularly, but at least once a year, and presented to the Executive Board of GESCO SE.

This report also presents the compliance strategy and the specific targets for the current financial year.

Risks and opportunities in relation to personnel

Qualified personnel play a key role in the current performance and long-term competitiveness of GESCO SE's subsidiaries. In Germany's manufacturing industry, companies are faced with the constant challenge of recruiting enough qualified specialists and retaining them in the long term. This challenge is being exacerbated by demographic change, which is leading to a decline in the available labour force. The mechanical engineering sector in particular needs highly qualified labour to keep pace with rapid technological developments and drive forward innovative solutions that are crucial for market locations and the industry as a whole.

In order to overcome these challenges, GESCO Group companies are developing a variety of measures aimed at positioning themselves as attractive and competitive employers in their respective regions. These include creating a positive working environment, flexible working time models and training opportunities that help employees to continuously develop their skills. These initiatives not only attract the interest of potential new employees but also strengthen the loyalty of existing employees to the company.

The potential loss of expertise poses an additional risk to the performance of companies within GESCO Group. If proven knowledge and skills are not adequately passed on from more experienced employees to less experienced colleagues, this can lead to a lethal knowledge gap. To counteract this and ensure long-term success, the subsidiaries are implementing targeted measures to transfer expertise. These include structured mentoring systems, workshops and training courses that enable an effective exchange of knowledge and ensure thorough documentation of company processes.

The recruitment and retention of suitable managing directors and managers for the companies of GESCO SE is also of paramount importance. These key positions ensure that the corporate strategy is successfully implemented. Managers who do not fulfil the high expectations of the company's management or whose positions are subject to frequent personnel changes pose a considerable risk. Such instabilities can have a negative impact not only on the internal corporate culture, but also on the external perception of the company. GESCO SE counters this risk with great care. Through a multi-stage selection process, which includes comprehensive interviews and assessments, great importance is attached to the suitability of managers as early as the selection phase. The Supervisory Board is also involved in the selection process to ensure a high level of transparency and accountability.

At the level of GESCO SE, difficulties in recruiting and retaining qualified employees can also jeopardise the company's overall success. Building a trusting and resilient working relationship within the holding company and with the subsidiaries in particular requires personnel continuity and transparent knowledge sharing. This is where regular team meetings, open communication channels and a culture of mutual respect and recognition come into play in order to ensure a productive working environment.

The targeted filling of managing director and management positions not only harbours risks, but also many opportunities. A good management culture ensures reduced fluctuation, motivated employees and an overall positive working atmosphere, which contributes significantly to the achievement of corporate goals. In addition, GESCO SE's established management development programmes offer considerable potential. These programmes are designed to promote and adapt management skills in the subsidiaries and within the holding company. These investments in the development of managers not only strengthen relationships within the companies but also strengthen the ties between the holding company and the subsidiaries.

To summarise, qualified personnel are of crucial importance for GESCO SE and its subsidiaries. Through strategic initiatives to recruit skilled labour, effective measures to secure expertise and the targeted selection of managers, GESCO SE will not only meet current challenges, but also emerge from them stronger. Ultimately, the aim is to form a dynamic, innovative and competitive group of companies that can respond optimally to market requirements and thus lay the foundation for sustainable success.

GESCO SE's employee share ownership programme regularly offers GESCO Group employees in Germany the opportunity to participate in the company by purchasing discounted GESCO shares and thus accumulate assets for their retirement provision. GESCO SE sees this programme as an important instrument for employee retention.

Risks and opportunities from information technology

Cyberattacks are a growing geopolitical risk in today's interconnected world, posing a significant threat not only to businesses but also to national security. More and more countries are increasingly exposed to the threat of cybercrime, which targets critical infrastructure such as energy grids, water treatment plants and communication systems. In addition to physical damage, such attacks can also have far-reaching economic and social consequences. In this context, global cooperation to combat cyber-attacks is complicated by the complex interplay of diverse geopolitical interests and relationships, which in turn leads to a tense and often volatile insurance market.

The risks arising from information technology are of central importance to GESCO Group, as they can have a direct impact on the operations and stability of the subsidiaries. In particular, IT system failures in the companies can not only lead to considerable downtime, but also to other critical consequences such as industrial espionage, loss of expertise, data misuse and unauthorised data access. A targeted attack on company data, for example, could not only cause technical and financial damage, but also have a lasting impact on the trust of customers, business partners and the public.

In order to effectively counter these potential threats, GESCO SE invests in modern hardware and software solutions that are characterised by their resilience and flexibility. These investments are not only reactive, but also proactive, ensuring that the systems are state of the art and can withstand potential threats. In addition, GESCO SE has implemented a comprehensive information security management system (ISMS), which is continuously developed to meet the constantly changing threat landscape.

Another important aspect of our security strategy is comprehensive training programmes for employees. These training programmes are designed to create a general awareness of IT risks and provide specific guidelines for the secure handling of company resources. Employees are informed about current threats and learn how to recognise and report potential security vulnerabilities at an early stage.

The IT security guidelines are clearly formulated and regulate in particular the handling of the company's own hardware and software as well as data security requirements. This also includes access to sensitive information and the use of password-protected systems to prevent unauthorised access. In addition, external IT service providers are contractually obliged to comply with specified security standards, which promotes a consistent security culture at all levels of the company.

In cooperation with an external IT security officer, information security management is regularly developed and reviewed through comprehensive tests of systems and processes to ensure that all security measures are comprehensive and effective. GESCO SE also conducts regular surveys on the status of information security management at the subsidiaries in order to identify potential weaknesses at an early stage and make any necessary adjustments.

One important area of reform for GESCO Group is the transition to digital technologies and the implementation of Industry 4.0 principles. This transformation requires investment and a profound rethink of production processes. Companies must proactively address the digitalisation of their manufacturing processes in order to not only remain competitive, but also to meet the dynamic demands of the market. The creation of a digital infrastructure requires integrative approaches and long-term planning to ensure that synergetic effects are realised.

There are also risks in this context, particularly if competitors make the transition to digital solutions more quickly and efficiently. Strategies for automation and digitalisation must be carefully evaluated and implemented in order to overcome the associated challenges.

Despite the risks associated with the digital transformation, there are also considerable opportunities for GESCO Group. The automation and digitalisation of processes and workflows enables companies to achieve efficiency gains and promote agility. This includes, for example, the digitalisation of workflows along the entire value chain, which not only optimises the production process but also ensures better traceability and quality assurance.

Innovative working methods, such as mobile working and the creation of paperless offices, promote a contemporary working environment that enables quick access to relevant data and information on a daily basis. These changes help to increase responsiveness to customer needs and promote a culture of continuous learning and process improvement.

GESCO SE is driving forward the digitalisation of internal processes and the development of digital business models at its subsidiaries in order to make targeted use of these opportunities. The innovation processes initiated enable the subsidiaries to tap into new market segments and sustainably strengthen their competitiveness.

To summarise, GESCO SE is meeting both the challenges and opportunities arising from the digital transformation and cyber risks with a proactive, holistic strategy. By investing in modern security infrastructures, targeted training measures for employees and the implementation of a robust information security management system, we aim to achieve a stronger position in the market. At the same time, we aim to actively shape the digitalised transformation and position GESCO Group as an innovative and future-oriented player.

Risks and opportunities of using artificial intelligence

The integration of artificial intelligence (AI) in companies presents itself as a double-edged sword that harbours both significant opportunities and serious risks. The dynamic development of the technology is progressing rapidly and is changing the way companies work, optimise processes and make decisions.

A key argument in favour of using AI is the increase in efficiency. AI has the potential to automate routine tasks and optimise processes. This allows resources to be utilised more efficiently and productive capacities to be increased. Companies that implement corresponding systems not only benefit from time and cost savings but can also deliver higher quality results.

Another significant potential of AI lies in data analysis. In the age of big data, companies can use AI-supported analyses to process large volumes of information in order to gain insights into market trends, customer preferences and operational processes. These data-based decisions enable a more precise market approach and a faster response to changes.

AI also promotes the personalisation of products and services. Companies can offer customised solutions that are tailored to individual customer needs. This personalisation increases customer satisfaction and promotes loyalty to the brand.

Despite the compelling benefits, there are also considerable risks associated with the use of AI. One of the most prominent risks relates to data protection. The use of AI requires access to large amounts of sensitive data. This raises concerns about misuse and the protection of personal information. A breach of data protection regulations can have significant legal consequences and reputational damage.

In addition, the implementation of AI poses challenges in terms of transparency and traceability. The decisions made by AI algorithms are often incomprehensible – a phenomenon known as the “black box”. This can cause mistrust among both employees and customers, especially when it comes to important decisions that have personal or economic implications.

In addition, attacks on companies using deep fakes are on the rise. Recognising these in good time and taking appropriate countermeasures requires companies to react quickly, which makes it necessary to maintain the corresponding resources.

In addition, excessive reliance on AI technologies leads to vulnerability to technical faults, cyberattacks and system failures, which can jeopardise overall operational performance. Regulatory uncertainty is also a significant risk, as the rapid progress of AI technologies is often not accompanied by a clear legal framework, which can put companies in uncertain situations. Finally, the high cost of implementing and maintaining AI systems is another challenge.

Overall, the use of AI in companies requires well thought-out risk management in order to minimise potential pitfalls and use the benefits responsibly. At GESCO Group, AI is only used in closed internal company environments in compliance with the GDPR. Employees also receive training in the correct and responsible use of AI. The introduction of an AI guideline is planned for 2025.

Risks in connection with data protection

Risks in the area of data protection lie in the loss or disclosure of confidential internal information, business secrets and personal data and the associated loss of reputation and risk of fines. Violations may result in the imposition of fines and the assertion of lawsuits due to the disclosure of personal or otherwise sensitive data of third parties. GESCO SE works with an external data protection officer in the area of data protection.

Risks and opportunities from financing

Financing risks could arise from the holding company's lack of access to equity and/or debt capital. Access to debt capital at adequate conditions is largely dependent on the operating success of GESCO Group and the associated ability to make interest and redemption payments as agreed. The subsidiaries have a direct influence on this, while the holding company has an indirect influence as part of its acquisition decisions and in its reporting and support of the subsidiaries. In the event of negative economic developments at individual subsidiaries, there is a risk of bottlenecks in the supply of debt capital for the respective subsidiary. There is also a risk that the reputation of GESCO SE and possibly other subsidiaries as debtors could deteriorate because of such a negative development. In order to limit the interest rate risk associated with variable interest rates, the companies enter into interest rate swaps as required, thereby swapping a variable interest rate for a fixed interest rate. The central banks have been combating the sharp rise in inflation since the first quarter of 2022 to date with significant interest rate hikes since the second half of 2022. It is possible that the central banks will not yet lower interest rates in 2024. The higher interest rates will increase financing costs in the medium term.

When it comes to accessing equity by way of possible capital increases by GESCO SE, the condition of the capital market at the relevant time, the economic development of GESCO Group, the reputation of GESCO SE and continuous, credible investor relations are key elements. We currently see no need to raise new equity.

Regarding financing structures, GESCO Group is structured in such a way that a negative development of individual companies should not jeopardise the entire Group. For this reason, we largely refrain from using instruments such as cash pooling or contingent liabilities. In the interest of financial stability, GESCO SE refrains from speculative elements both in the investment of free financial resources and on the financing side. GESCO Group works with around two dozen different banks in order to limit its dependence on individual institutions.

Opportunities in financing arise from GESCO's access to the capital market. A solid balance sheet and good equity ratio enable easy access to debt capital.

Environmental risks

Environmental damage can have considerable financial consequences as well as serious reputational risks for companies. In extreme circumstances, these risks can even threaten the existence of the company. The subsidiaries of GESCO SE pursue different approaches to risk minimisation and environmental management, depending on their specific business model and the associated environmental aspects.

One example of proactive environmental management is Doerrenberg Edelstahl GmbH, which introduced a comprehensive environmental management system back in 1997. This system is continuously developed and regularly audited to ensure that it complies with current legal requirements and industry best practice. Internal and external audits are used to check the effectiveness of the system, and necessary adjustments are made to minimise environmental impact and maximise resource conservation.

Regular environmental audits are carried out at the Pickhardt & Gerlach Group, particularly in view of its categorisation as an incident site. These audits are crucial for identifying potential environmental risks and implementing suitable risk minimisation measures. As part of these evaluations, a comprehensive analysis of operational processes is carried out to ensure that all legal requirements relating to environmental protection are met and to identify any potential for improvement.

GESCO SE has formulated clear guidelines for its subsidiaries to ensure that they strictly comply with the requirements for obtaining the necessary permits and licences. In financial year 2023, GESCO SE conducted a thorough analysis of its own business area regarding the obligations of the German Supply Chain Act (LkSG). In this context, environmental risks were identified and assessed using individual questionnaire catalogues. These catalogues help to shed light on specific environmental aspects and to plan and implement the corresponding measures. The information gathered from this analysis was integrated into the existing risk management system of the LkSG, allowing a holistic approach to risk minimisation to be developed.

GESCO SE has implemented more intensive reporting of environmental risks as part of its non-financial reporting, particularly in consideration of the implementation of the CSR Directive Implementation Act (CSR-RUG). This reporting is supported by a software-based process that enables precise and continuous monitoring of environmental impacts. The use of modern software solutions makes it possible to record and analyse data in real time, which leads to improved transparency about environmental risk assessment.

In addition, software-supported monitoring ensures that risk minimisation measures are effectively implemented and regularly reviewed. This not only helps to increase operational efficiency, but also to continuously improve the environmental performance of the entire GESCO Group.

Overall, GESCO SE endeavours to systematically identify, assess and actively manage environmental risks. By implementing effective environmental management systems in its subsidiaries, conducting regular environmental audits and strictly complying with legal regulations, GESCO SE not only strives to comply with environmental standards, but also to ensure sustainable corporate governance that contributes to protecting the environment and safeguarding competitiveness in the long term.

Risks at the level of GESCO SE

At the level of GESCO SE, there is a risk that investments and receivables from affiliated companies may not be recoverable. This is typically caused by operating developments at the subsidiaries concerned that fall short of the premises and expectations underlying the original purchase price determination or the current investment valuation. GESCO SE endeavours to counteract negative developments through sustainable investment management in its management and support of subsidiaries.

Risks and opportunities from the insurance cover

GESCO Group's insurance cover is regularly reviewed in order to ensure appropriate cover at adequate conditions. A dualistic insurance management of Group and individual insurance policies is currently in place.

Opportunities arise where synergy effects are possible, and insurance policies are taken out as group insurance policies. These include, for example, D&O insurance, insolvency contingency insurance, cyber risk insurance and group accident insurance.

Regarding insurance, GESCO SE, like the entire industry and industrial insurers, is affected by the "decoupling" and "derisking" effects described above. This leads to risks from rising insurance premiums or risks that are no longer insurable. GESCO Group is endeavouring to counteract this by strengthening and intensifying its insurance management.

Decoupling" or "derisking" refers to a long-term trend that has been increasingly fuelled by "America first" and China's strategy of "two cycles" and increasing geopolitical risks in recent years and is particularly affecting the insurance market.

Legal risks

GESCO Group companies are confronted with a variety of potential legal risks. For the operating companies, this relates in particular to product liability and warranty claims as well as risks from customs and foreign trade law and from sanctions imposed by third countries on potential export destinations. There are also risks in the areas of antitrust and competition law, human resources and the environment, among others. Another legal risk relates to due diligence obligations with regard to supply chains in accordance with the German Supply Chain Due Diligence Act (Lieferkettensorgfaltspflichtengesetz – LkSG).

GESCO Group companies counter legal risks from their operating business with prudent project management, including appropriate documentation, as well as adequate quality management, including the involvement of the legal department and the involvement of specialised experts on a case-by-case basis. GESCO SE supports the subsidiaries in part by providing internal (legal) advice and by procuring external legal advice. In addition, the instruments described in the Compliance section are used to counter a wide range of risks.

In terms of the legal framework, we are currently observing significant regulatory developments at national and supranational level, particularly at European level, which have a considerable impact on GESCO Group companies. In financial year 2024, GESCO Group was intensively involved in preparing for the CSR Directive Implementation Act (CSR-RUG).

In addition, other European legislation, such as the carbon border adjustment mechanism (CBAM) and the regulation on deforestation-free supply chains (EUDR), as well as numerous national and supranational regulations will also require a strong commitment to implementation in 2025 and beyond. This includes comprehensive planning and management on the part of GESCO SE towards its subsidiaries.

These developments harbour both risks and opportunities. The risks include the considerable effort required to implement the new regulations and the rising costs of governance and compliance. On the other hand, opportunities arise from the swift and targeted implementation of these requirements, supported by GESCO SE. This will allow the subsidiaries to focus on their core business and at the same time position themselves as strategic suppliers for their customers by adapting quickly.

In the future, regulatory trends are also expected to continue to tighten as a result of the European Union's ambitious climate policy.

Reputational risks

Reputational risks could hinder GESCO SE both in its ability to acquire further industrial SMEs and in its relationship with the capital market. They could also limit the company's ability to recruit qualified personnel. The subsidiaries could be restricted in their operating business and in their personnel work. GESCO Group counters this risk with great care in its business processes, a compliance system, active LkSG management and open, confidence-building communication both internally and externally.

Final risk assessment

The composition of the investment portfolio plays a decisive role in GESCO Group, as it consists of various business models that are active in a wide variety of markets. This diversified structure of the Group acts as an effective mitigating factor in the aggregation of risks resulting from the individual subsidiaries.

On the one hand, the risks identified are diverse and heterogeneous due to the different business activities, while on the other hand the companies operate largely independently of each other. As a result, risks tend to occur selectively rather than having an impact across the entire Group. This independence helps to minimise the general risk to the value of GESCO SE's investments. In addition, the holding company's high equity ratio ensures stability, even in the event of higher risk-related impairments of individual investments.

When assessing risk, we also place particular emphasis on the financial situation of the respective companies and the holding company and their currently available credit lines. Our assessment is based on the overall risk-bearing capacity of GESCO Group, understood as the ability to cover potential losses from equity and liquidity. Additional sources of liquidity, such as debt capital in the form of loans or bonds, are also available.

We currently see the greatest challenges in the geopolitical environment as well as in the areas of information technology, data protection and the increasingly stringent regulatory requirements and the associated insurability of these risks. In our view, geopolitical uncertainties have increased significantly in the past year and could intensify further. We are also seeing a global increase in cyber security threats, which have intensified during the war in Ukraine. The trend towards decoupling and derisking is also likely to intensify in the future.

Business risks	Significance of risk	Change compared to previous year
Risks associated with the acquisition of companies	low	–
Risks in relation to the operating business	medium	–
Geopolitical risks	high	–
Compliance risks	medium	–
Risks in relation to personnel	medium	–
Risks from information technology	medium	reduced
Risks in connection with data protection	medium	reduced
Risks from financing	low	–
Environmental risks	low	–
Recoverability of the investments	medium	–
Insurance cover	medium	–
Legal risks	medium	–
Reputational risks	low	–

At present, we have not identified any specific risks that could jeopardise or significantly impair the continued existence of GESCO SE and the Group, either individually or collectively, but we are aware of the increasing risks and want to counter these by strengthening risk management at GESCO SE level.

Internal control and risk management system in relation to the accounting process

The internal control and risk management system in relation to the accounting process (ICS) is designed and overseen by the Executive Board and monitored by the Supervisory Board. It comprises principles, procedures and measures that serve to ensure the correctness of internal and external accounting and compliance with legal regulations as well as the timely identification of accounting risks. The ICS is continuously developed further.

The subsidiaries are responsible for their own accounting. Group accounting is carried out by the responsible employees of GESCO SE on the basis of the subsidiaries' reporting. Detailed Group guidelines, which are set out in a manual, define a binding standard for all Group companies and all auditors. Changes to laws, accounting standards or other regulations are reviewed with regard to their relevance to the accounting process and, if necessary, are incorporated into the internal guidelines. If necessary, external service providers are consulted, for example for the valuation of pension obligations.

The responsible employees of GESCO SE are available to the managing directors, the financial officers and the relevant employees of the subsidiaries as contacts and advisors for all questions relating to accounting. The responsible employees receive regular training. To avoid risks from the accounting process, IT-supported and manual plausibility checks, the principle of segregation of duties and the principle of dual control are implemented. The functionality and effectiveness of the ICS is assessed by the auditors as part of the audit of the annual financial statements.

Takeover-relevant information

Disclosures in accordance with Sections 289a, 315a (1) HGB

No. 1: Composition of the subscribed capital

As at the reporting date, the share capital of GESCO SE totalled € 10,353,818.00 and is divided into 10,353,818 no-par value registered shares. The shares are fully paid up. All shares carry the same rights and obligations. The rights and obligations of shareholders are set out in detail in the provisions of the German Stock Corporation Act (AktG), in particular Sections 12, 53a ff, 118 ff and 186 AktG.

No. 2: Restrictions affecting voting rights or the transfer of shares

Each share grants one vote at the Annual General Meeting and is decisive for the shareholders' share in the company's profit. This does not apply to treasury shares held by the company, which do not entitle the company to any rights. As at the balance sheet date, the company held 485,681 treasury shares. In the cases of Section 136 AktG, voting rights from the shares concerned are excluded by law.

No. 3: Shareholdings exceeding 10 % of the voting rights

Information on shareholdings exceeding 10% of the voting rights is included in the notes.

No. 4: Holders of shares with special rights conferring powers of control

There are no shares in the company with special rights conferring powers of control.

No. 5: Control of voting rights in the case of employee shareholdings

There is no control of voting rights in the event that employees hold shares in the capital of GESCO SE and do not exercise their control rights directly.

No. 6: Appointment and dismissal of members of the Executive Board; amendments to the Articles of Association

Members of the Executive Board are appointed and dismissed on the basis of Article 39 of the SE Regulation, Section 16 para. 1 of the SE Implementation Act, Sections 84 and 85 of the German Stock Corporation Act (AktG) and Article 7 of the Articles of Association of GESCO SE. Accordingly, Executive Board members are appointed by the Supervisory Board for a maximum of five years. Reappointment or extension of the term of office, in each case for a maximum of five years, is permitted. Appointments may be revoked by the Supervisory Board for good cause. In accordance with Section 7 para. 1 of the Articles of Association of GESCO SE, the Executive Board consists of one or more persons. In accordance with Section 7 para. 2 of the Articles of Association and within the framework of the statutory provisions, the Supervisory Board appoints the members of the Executive Board and determines their number; it may also appoint deputy members of the Executive Board.

Amendments to the Articles of Association are governed by Article 59 para. 1 SE Regulation, Section 179 AktG and Article 18 of the Articles of Association of GESCO SE. In accordance with Article 59 para. 1 SE Regulation and Section 179 para. 1 sentence 1 AktG, any amendment to the Articles of Association requires a resolution by the Annual General Meeting. Pursuant to Section 179 para. 1 sentence 2 AktG in conjunction with Section 18 para. 2 of the Articles of Association, however, the Supervisory Board is authorised to make amendments to the Articles of Association that only affect their wording. Otherwise, amendments to the Articles of Association require a majority of two-thirds of the votes cast when the resolution is passed in accordance with Article 59 para. 1 of the SE Regulation and, insofar as there are no mandatory statutory provisions to the contrary, in accordance with Section 18 para. 1 of the Articles of Association in conjunction with Section 179 para. 2 sentence 2 AktG. § Section 179 para. 2 sentence 2 AktG of the simple majority of the share capital represented when the resolution is passed.

No. 7: Authorisation of the Executive Board to issue or buy back shares

The company currently has no authorised capital.

The company may only repurchase treasury shares on the basis of an authorisation by the Annual General Meeting or in the few cases expressly regulated in the German Stock Corporation Act. The Annual General Meeting on 18 June 2020 authorised the company, with the approval of the Supervisory Board, to acquire treasury shares of up to ten percent of the share capital until 17 June 2025, taking into account treasury shares already held by the company. The authorisation may be exercised for any legally permissible purpose; trading in treasury shares is excluded. At the discretion of the Executive Board, the shares may be acquired via the stock exchange or by means of a public purchase offer to all shareholders, subject to the conditions specified in the authorisation resolution. The Executive Board is also authorised, with the approval of the Supervisory Board, to sell the acquired treasury shares on the stock exchange or by means of a public offer to all shareholders. Shareholders have no subscription rights if the shares are sold via the stock exchange. In the event of a sale by means of a public offer, the Executive Board is authorised to exclude shareholders' subscription rights for fractional amounts. In addition, the Executive Board is authorised, with the approval of the Supervisory Board, to use the acquired treasury shares as follows, excluding shareholders' subscription rights, subject to the conditions specified in the authorisation resolution:

- Sale to third parties for cash at a price that is not significantly lower than the market price of the company's shares at the time of sale (exclusion of subscription rights limited to 10% of the share capital in accordance with Section 186 (3) sentence 4 AktG);
- Sale to third parties for the purpose of acquiring companies, parts of companies and/or equity interests in companies or to service bonds with warrants and/or convertible bonds;
- in the event of an offer to all shareholders for the purpose of granting subscription rights to the shares to the holders of any bonds with warrants and/or convertible bonds issued by the company or a Group company to the extent to which they would be entitled after exercising their option or conversion rights or after fulfilment of their conversion obligation.

The Executive Board is also authorised, with the approval of the Supervisory Board, to withdraw some or all of the treasury shares acquired without a further resolution by the Annual General Meeting.

These authorisations may be exercised once or several times, in full or in partial amounts, individually or jointly by the company or its affiliated companies or by third parties for the account of the company or its affiliated companies.

As part of its share buyback programme announced on 28 March 2024, which began on 11 April 2024 and ended on 25 April 2024, the company bought back 499,974 shares via a voluntary public share buyback offer. Including the shares already held before the share buy-back offer, the company then held 511,304 treasury shares. In connection with its employee share ownership programme 2024, the company distributed 25,623 treasury shares in December 2024 to the securities accounts of employees participating in the programme in accordance with Section 71 para. 1 no. 2 AktG. As at the reporting date, GESCO SE therefore held 485,681 shares.

No. 8: Material agreements of the company that are subject to the condition of a change of control following a takeover bid

The company has not entered into any agreements that are subject to the condition of a change of control following a takeover bid.

No. 9: Compensation agreements between the company and members of the Executive Board or employees in the event of a takeover bid

The company has not entered into any compensation agreements with members of the Executive Board or employees in the event of a takeover bid.

Declaration on corporate governance

The corporate governance declaration in accordance with Sections 289f and 315d of the German Commercial Code (HGB) is published on our website at **www.gesco.de/en/investor-relations/financial-reports** ↗.

Wuppertal, 31 March 2025

GESCO SE
– Executive Board –

Johannes Pfeffer
CEO/Speaker of the Executive Board

Andrea Holzbaur
CFO

Insurance of the legal representatives

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

Wuppertal, 31 March 2025

GESCO SE
– Executive Board –

Johannes Pfeffer
CEO/Speaker of the Executive Board

Andrea Holzbaur
CFO