NOT LEGALLY BINDING

Important notes:
English translation for convenience purposes only
General data format is "TEUR" (Euro thousands),
i.e. TEUR 1.000 = EUR 1.000.000 or EUR 1 million

MS INDUSTRIE AG

Extracts from the Group's Management Report 2019

Dear Shareholders, Employees and Business Partners of MS Industrie AG,

Armin Distel und Dr. Andreas Aufschnaiter
Executive Board of MS Industrie AG

In 2019, MS Industrie AG generated revenues of around EUR 226,4 million overall. Compared with the previous year's revenues (EUR 282,3 million), this was a decline of around -19,9% immediately caused by the sale of the US valve train systems production for the Daimler "world engine" early in the second quarter 2019. Taking this step was based on strategic considerations relating to the whole Group in order to improve the Group's risk structure and balance, both within and between our two strategic segments "Powertrain" and "Ultrasonic Technology".

The performance of the different earnings figures was very positive as a result of the transaction: We achieved the highest consolidated profit for the year after taxes in the Company's history of EUR 16,7 million (previous year: EUR 7,1 million) and – despite the adoption of the new lease accounting standard IFRS 16 – the equity ratio changed only slightly from 38,2% to 37,1%.

We would like to highlight a few crucial milestones and developments for the readers of this Annual Report, which we consider to be significant in terms of assessing the financial year 2019 and the outlook:

- Business performance in the "Powertrain" segment ("MS Powertrain Technology Group", also briefly "MS PTG") reflected a level in demand in Europe and the NAFTA region which was still high in early 2019. However, a noticeable decline in demand set in at the beginning of the second half of the year also affecting adjusted consolidated profit (EUR -1,8 million) for the financial year. New orders for series production at the Trossingen site had been obtained in 2018 for which production started as planned in 2019 and which partly compensated for negative volume development affecting existing products.

- The sale of the production for the Daimler world engine at the Webberville / Michigan site to the US subsidiary of Gnutti Carlo Group (Gnutti Carlo S.p.A., Maclodio / Italy) in early April 2019 was a significant milestone. As a result of the divestment, revenues of MS Industrie AG initially declined by around EUR 80 million per year; however, at the same time, dependency on the major global customer Daimler decreased, to whom supply will continue in Europe with regards to the world engine and a number of other parts and components in the powertrain segment. The sale itself lead to deconsolidation gains amounting to some EUR 21,3 million before taxes.

- In 2019, MS PTG's management has introduced far-reaching internal restructuring measures at the two sites Trossingen and Zittau. These measures, together with further steps towards an increased level of automation and optimised use of space, will be completed by approximately mid-2020 with the objective of considerably bringing down the break-even threshold of the segment.

- MS Industrie AG will continue to be present in the US with both its segments and will systematically expand its local business activities, especially in connection with the marketing of ultrasonic welding machines throughout the North American market. The industrial property at the Webberville site acquired in early 2019 is leased to Gnutti on a long-term basis. Space at our former site is available to us on sublease as required until a new property close to the site is found for MS Industrie AG's activities.

- In addition, the "Powertrain" segment was successful in April 2019 in obtaining an order for series production of valve train components for a new engine platform for heavy trucks of a renowned global OEM group. Series production is expected to commence in the second half of 2021.

- In the "Ultrasonic Technology" segment ("MS Ultrasonic Technology Group", also briefly "MS UTG"), the special purpose machines business serving our customers in the passenger car industry still continued to be stable in Europe and North America compared with the previous year, although RFQs were down noticeably given the uncertainty and caution of car manufacturers in the course of the realignment of their model ranges as a consequence of the diesel vs electric cars debate. From the year 2021 onwards, we are expecting demand to pick up again as a considerable number of new models are going to be launched worldwide by 2023.

- The new range of MS UTG's industry 4.0-based ultrasonic welding machinery products for the "MS sonxTOP" brand developed positively as expected, growing by +45%. The "K-Messe" exhibition in Düsseldorf in October 2019 provided important stimuli for a better visibility and market penetration of our business as we premiered a highly innovative ultrasonic generator, among others.

- Revenues in the new MS UTG sub-segment Systems / Components for the packaging and food industry, which was created in 2019, were still low at around EUR 1 million as activities were dominated by new developments required under new packaging rules and regulations. Our developments are focused on fully recyclable packaging solutions for which we foresee strong market potential in the future.

- Demand for the electric drive "ERZMO" for "last mile" transport applications, which has been further developed by Elektromotorenwerk in Grünhain (EMGR), was again increasing noticeably in late 2019, particularly on the part of the end customer Deutsche Post.

Following the sale of the production for the Daimler world engine in the US, the order backlog in the Group was around EUR 107 million as of early April 2019 and decreased to around EUR 92 million towards the end of the first quarter 2020 following the general economic trend. Against the backdrop of a generally fragile global economy due to the COVID-19 pandemic, and as demand and sales forecasts have been revised downwards across the board, we expect a very difficult financial year 2020 with an overall development that is difficult to predict at the present juncture.

Despite the very positive consolidated profit, the MS Industrie share price unfortunately followed the general downward trend in the automotive sector of the stock market dropping by as much as around -26% in 2019. The onset of the COVID-19 pandemic in mid-March triggered a further decline in the share price to less than one Euro per share, followed by – albeit subdued – recovery since mid-April 2020.

While the market environment and the economic situation are extremely challenging, we expect that we can cope well with the COVID-19 crisis and the measures taken against it at a global level thanks to our solid balance sheet position. For the medium- and long-term we are confident that MS Industrie Group will return to constant organic growth given the order situation and MS Industrie Group's technology offering.

We are particularly grateful to all the employees at MS Industrie AG for their commitment in jointly mastering the extraordinary challenges we were facing in 2019 and the first quarter of 2020.

Yours sincerely,

Dr. Andreas Aufschnaiter Armin Distel

Munich, April 27, 2020

A SENSE FOR CRAFTSMANSHIP SINCE 1960

Production locations

Reputed customers around the world rely on us for our innovativeness, reliability and the premium quality of our products. We maintain production locations around the globe:

Production locations in Germany:
MS Ultraschall Technologie GmbH
in Spaichingen, Baden-Württemberg: 18,000 m²
MS Powertrain Technologie GmbH
in Trossingen-Schura, Baden-Württemberg: 16,000 m²
MS PowerTec GmbH
in Zittau, Saxony: 5,000 m²
Elektromotorenwerk Grünhain GmbH
in Grünhain-Beierfeld, Saxony: 17,000 m²

Production locations in the United States:
MS Plastic Welders, L.L.C.
in Webberville, Michigan: 2,700 m²

Production locations in Brazil:
WTP MS Ultrasonics
in Belo Horizonte: 900 m²

Production locations in China:
Shanghai MS soniTEC Co., LTD.
in Jiangyin: 4,000 m²

Production locations in Bulgaria:
EMGR EAD
in Gabrovo: 1,400 m²

Product area ultrasonic technology

MS Ultraschall Technologie GmbH
MS Plastic Welders, L.L.C.
WTP MS Ultrasonics
Shanghai MS soniTEC Co., LTD.

Products:
- Ultrasonic custom machines MS sonxMAC
  for the automotive industry.
- Ultrasonic servo presses MS sonxTOP
  for industry-independent ultrasonic applications.
- Ultrasonic systems MS sonxSYS
  for customized ultrasonic solutions.
- Ultrasonic components MS sonxCOM
  for industry-independent ultrasonic applications.

Ultrasonic technology:
The MS Ultrasonic Technology Group operates globally and across all industries. As a leader in innovation in the area of ultrasonic technology, it provides customisable special machines, innovative servo presses, modular systems and efficient components as powerful integrated solutions in connection and processing technology for thermoplastic materials, films and textiles as well as for cutting food.

Product area powertrain technology

MS Powertrain Technologie GmbH
MS PowerTec GmbH

Products:
- Systems
  - Complete valve trains
  - Rocker arms
- Components
  - Gear box housings
  - Valve bodies
- Development
  - innovative and targeted cost-related valve control and engine braking systems

Machining technology and module assembly:
The MS Powertrain Technology Group has extensive knowledge for perfectly customised solutions over the entire power train. It develops, manufactures, assembles and delivers powerful systems and components for and to many well-known automobile and commercial vehicle manufacturers as well as leading engine and gear manufacturers globally. MS does this by successfully combining many years of manufacturing experience with the latest processing technologies.

Elektromotorenwerk Grünhain GmbH
EMGR EAD

Products:
- Electric motors
  - Capacitor motors
  - Three phase A.C. motors
  - Synchronous motors
  - Rotors
  - Stators
  - Pedelec-drive for Cargo-e-mobility

Electric motor production:
At our electric motor company Elektromotorenwerk Grünhain (EMGR) we offer market-leading customised drive solutions for industrial applications. Our electric motors, which are produced based on a high vertical integration, are developed in cooperation with our customers based on their specific requirements. New energy-efficient motors, drive electronics, brakes, gear elements and aluminium die-cast components are being increasingly added to our motor range.

ANNUAL CONSOLIDATED FINANCIAL STATEMENTS 2019

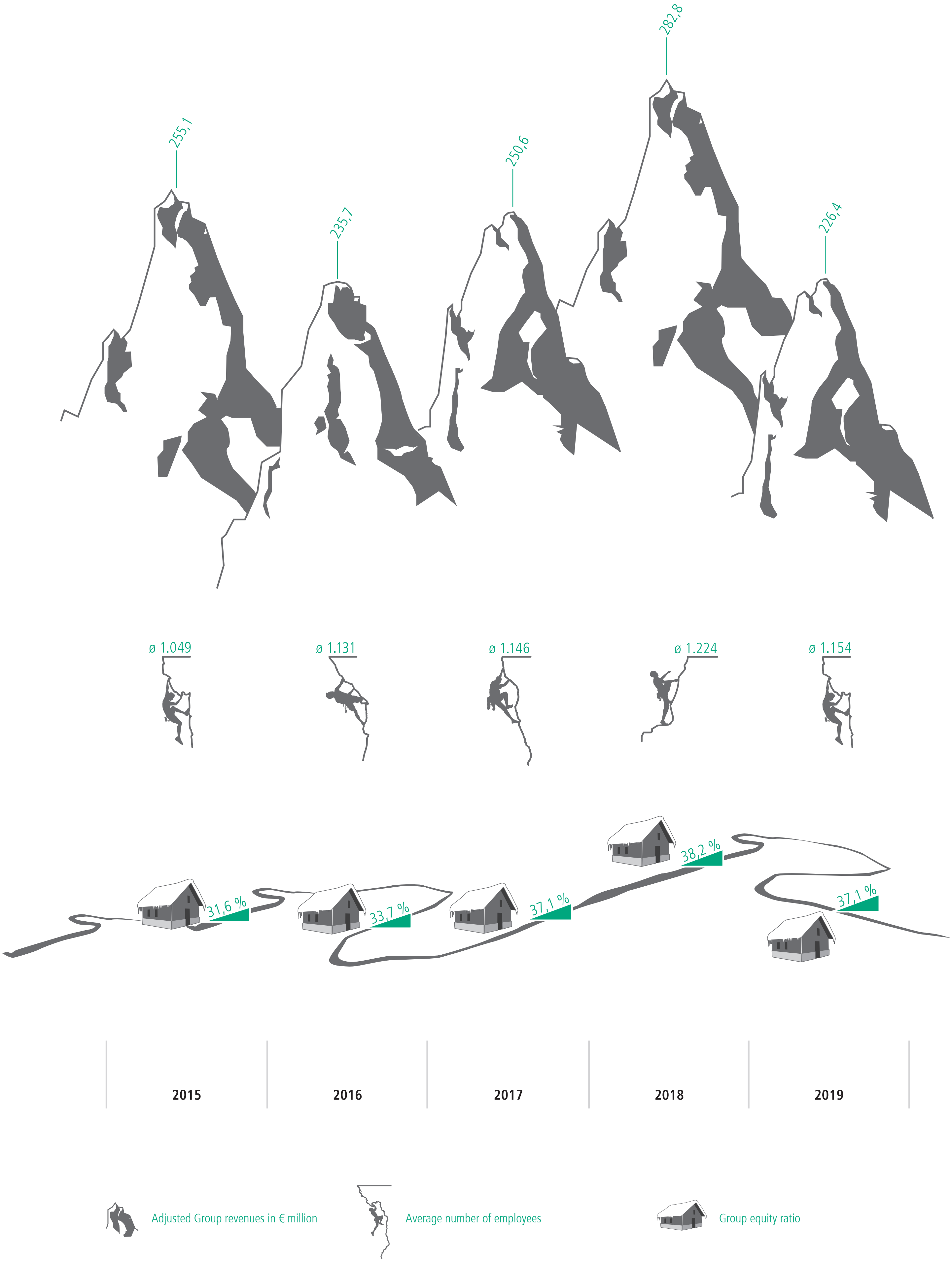
MS Industrie Group, according to IFRS, audited, in TEUR

Balance sheet key figures	31.12.2018	31.12.2019
Total assets	171.070	207.025
Equity and non-controlling interests	65.313	76.745
Equity ratio (%)	38,2 %	37,1 %
Trade receivables	44.267	40.180
Liquid funds (Cash and cash equivalents ./. Current accounts)	-4.028	-1.297
Net working capital (Inventories + Trade receivab. ./. Trade payables)	73.160	72.030

Cashflow key figures	2018	2019
Net cash generated from operating activities	1.132	6.048
Net cash used in investing activities	-12.365	6.033
Net cash used in financing activities	5.816	-9.350

Income statement key figures	2018	2019
Revenues	282.753	226.400
Gross profit	136.324	137.794
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	22.781	32.670
Operating Profit (EBIT)	10.764	18.473
Profit before income tax (EBT)	9.311	17.557
Profit for the year after non-controlling interests (EAT)	7.190	16.717
Consolidated earnings per share in EUR	0,24	0,56

Income statement key figures (adjusted for Non-recurring items)	2018	2019
Revenues	282.753	226.400
Gross profit	136.324	116.460
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	22.781	12.116
Operating Profit (EBIT)	10.764	-2.081
Profit before income tax (EBT)	9.311	-2.997
Profit for the year after non-controlling interests (EAT)	7.190	-1.830
Consolidated earnings per share in EUR	0,24	-0,06


255,1
235,7
250,6
282,8
226,4
ø 1.049
ø 1.131
ø 1.146
ø 1.224
ø 1.154
31,6 %
33,7 %
37,1 %
38,2 %
37,1 %
2015
2016
2017
2018
2019
Adjusted Group revenues in € million
Average number of employees
Group equity ratio

MS Industrie AG, Munich
Consolidated income statement for the financial year 2019

	2019 TEUR		2018 TEUR
Revenues			
b) Revenues from industrial and real estate business	226.258		282.625
c) Revenues from consulting and commissions	142		128
		226.400	282.753
Changes in inventory of work in process and finished goods		1.818	4.504
Other income		26.411	4.148
		254.629	291.405
Cost of materials			
b) Costs of raw materials and consumables used and of goods purchased	108.410		146.590
c) Costs of services	8.425		8.491
		116.835	155.081
Personnel expense		69.815	71.083
Depreciation and amortisation expense			
a) Depreciation of property, plant and equipment	14.197		11.990
c) Impairment losses	0		27
		14.197	12.017
		-237	467
Other expense		35.072	42.927
		236.156	280.641
Operating Profit		18.473	10.764
Finance income		1.151	883
Finance costs		2.645	2.401
Share of profit of investments accounted for using the equity method		578	65
Profit before income tax		17.557	9.311
Income tax expense		859	2.163
Profit for the year		16.698	7.148
profit attributable to owners of the parent		16.717	7.190
profit attributable to non-controlling interests		-19	-42
		16.698	7.148
Consolidated earnings per share, in EUR			
basic, after non-controlling interests		0,56	0,24
diluted, after non-controlling interests		0,56	0,24
Number of shares, average weighting			
basic		29.903.682	29.901.131
diluted		29.903.682	29.901.131

MS Industrie AG, Munich
Consolidated statement of comprehensive income for the financial year 2019

INDUSTRIE AG

	2019 TEUR	2018 TEUR
Profit for the year	16.698	7.148
Items that may be subsequently reclassified to profit or loss		
Currency translation differences	-2.471	902
	-2.471	902
Items that will not be reclassified to profit or loss		
Gains from the sale of financial assets and investments (IFRS 9)	-253	106
Change in value of financial assets (IFRS 9)	546	-535
Remeasurements of post employment benefit obligations	-39	-72
Actuarial gains/losses	-382	1
Income taxes recorded in other comprehensive income	117	20
	-11	-480
Other comprehensive income for the year, net of tax	-2.482	422
Total comprehensive income for the year	14.216	7.570
attributable to owners of the parent	14.235	7.612
attributable to non-controlling interests	-19	-42
	14.216	7.570
Consolidated earnings per share, in EUR		
basic, after non-controlling interests	0,56	0,24
diluted, after non-controlling interests	0,56	0,24
Number of shares, average weighting		
basic	29.903.682	29.901.131
diluted	29.903.682	29.901.131

MS Industrie AG, München

Consolidated balance sheet as at December 31, 2019

	31.12.2019 TEUR	31.12.2018 TEUR
ASSETS		
Intangible assets	2.817	2.817
Property, plant and equipment	33.260	55.247
Investment property	6.915	6.990
Right of use-assets according to IFRS 16	41.581	0
Investments	1.609	1.038
Investments in associates	3.806	3.230
Deferred income tax assets	62	208
Other non-current financial assets	14.464	4.930
Other non-current assets	387	430
Non-current assets	**104.901**	**74.890**
Inventories	37.108	41.494
Trade receivables	40.180	44.267
Assets held for disposal, classified as held for sale	0	1.194
Cash and cash equivalents	9.181	2.256
Income tax assets	1.232	118
Contract assets	6.032	4.238
Other current financial assets	7.071	896
Other current assets	1.320	1.717
Current assets	**102.124**	**96.180**
TOTAL ASSETS	**207.025**	**171.070**
EQUITY AND LIABILITIES		
Ordinary Shares (30.00 million shares less 140.889 treasury shares)	29.859	29.909
Share premium	7.616	7.609
Statutory reserve	439	439
Retained earnings	3.897	3.946
Other reserves	624	3.106
Consolidated profit	34.510	20.485
Non-controlling interests	-200	-181
Equity and non-controlling interests	**76.745**	**65.313**
Non-current Borrowings	21.420	26.962
Provisions for pensions and similar obligations	1.940	1.525
Deferred income tax liabilities	145	1.706
Other non-current provisions and accruals	1.617	389
Other non-current financial liabilities	31.453	12.785
Other non-current liabilities	445	693
Non-current provisions and liabilities	**57.020**	**44.060**
Current Borrowings	35.112	27.342
Trade payables	11.290	16.259
Current income tax liabilities	0	277
Current provisions and accruals	9.435	8.780
Liabilities held for disposal	0	580
Other current financial liabilities	11.320	5.691
Other current liabilities	6.103	2.768
Current provisions and liabilities	**73.260**	**61.697**
TOTAL EQUITY AND LIABILITIES	**207.025**	**171.070**

MS Industrie AG, Munich

Consolidated cash flow statement 2019

	2019 TEUR	2018 TEUR
Profit for the year	16.698	7.148
Income tax expense (recognised through profit and loss)	859	2.163
Finance income (recognised through profit and loss)	-1.151	-883
Finance costs (recognised through profit and loss)	2.645	2.401
Depreciation of property, plant and equipment and amortisation of intangible assets	14.197	11.990
Material non-cash other expenses (+) or income (-):		
- Impairment losses	0	27
- Gains/losses on revaluation of investment property	75	75
Losses/gains (-) on investments accounted for using the equity method	-578	-65
Losses/gains (-) on disposal of property, plant and equipment and intangible assets	-36	-91
Losses/gains (-) on disposal of investments held for sale	-1	-7
Losses/gains (-) on deconsolidation	-21.334	0
Increase/decrease (-) in inventories, trade receivables and other assets not assigned to investing or financing activities	-2.506	-19.812
Increase/decrease (-) in trade payables and other liabilities not assigned to investing or financing activities	465	98
Interest received	271	122
Interest paid	-1.855	-1.197
Income tax received	255	0
Income tax paid	-1.956	-837
Net cash generated from operating activities	**6.048**	**1.132**
Proceeds from sale of property, plant and equipment and intangible assets	243	149
Purchases of property, plant and equipment and intangible assets	-13.019	-12.143
Purchases of investment property	-263	-63
Proceeds from disposal of fully consolidated subsidaries less cash and cash equivalents transferred under the sale	17.860	0
Proceeds from disposals of investments held for sale	1.257	7
Purchase of investments	-35	-25
Payments made for the granting of borrowings	-22	-325
Proceeds received from investments	12	35
Net cash used in investing activities	**6.033**	**-12.365**
Repayments of debt-equivalent bonds	0	-200
Proceeds from borrowings	11.547	30.305
Repayments of borrowings	-13.256	-20.013
Repayment mezzanine capital	-2.692	-897
Proceeds from finance lease transactions	3.804	634
Payments made for finance lease transactions	-8.632	-4.013
Purchase of treasury shares	-121	0
Net cash used in financing activities	**-9.350**	**5.816**
Net decrease in liquid funds	**2.731**	**-5.417**
Exchange gains/losses on liquid funds	**0**	**0**
Liquid funds at beginning of period	-4.028	1.389
Liquid funds at end of period	**-1.297**	**-4.028**

MS Industrie AG, Munich

EXTRACTS from the Group's management report for the financial year 2019

Content

1. Report on economic situation

1.a. Macroeconomic and industry-related environment

The German economy once again proved to be stable overall throughout 2019 according to the analysis published by the Federal Statistical Office in Wiesbaden in January 2020, showing price-adjusted growth of gross domestic product (GDP) of 0,6% (compared to 1,5% in 2018).

Growth in 2019 was supported by consumption in particular: On a price-adjusted basis, private consumer spending was 1,6% higher than in the previous year and government consumption grew by 2,5%. Thus, public and private consumer spending together showed stronger growth rates than in the two preceding years (compared to the previous year, private consumer spending was +1,3% in 2017 and 2018 respectively, and government consumption was +2,4% and +1,4% in 2017 and 2018 respectively). Gross fixed capital formation also increased considerably: On a price-adjusted basis, investments in buildings grew by 3,8% over the previous year, with a particular focus on civil engineering and residential construction. At +2,7%, other investments, which include e. g. investments in research and development, also significantly exceeded the previous year's level. The development of equipment investments — i.e. mainly the investments in vehicles and machinery and equipment — was less dynamic with an increase of only 0,4%. Overall price-adjusted gross investments, which include changes in inventory (incl. net additions to valuable items) in addition to gross fixed capital formation, dropped by 1,7% in 2019 compared to the previous year. The significant inventory destocking is due to, among other factors, weak industrial output and increasing exports. German exports continued to rise on an annual average in 2019, albeit at a lower rate than in the previous years. On a price-adjusted basis, Germany exported 0,9% more goods and services than it did in 2018. Price-adjusted imports increased more strongly, at a rate of +1,9%.[1]

The general economic stagnation in the fourth quarter of 2019 is a small success, bearing in mind that industrial production alone shrank by 2,3%.

In the USA and Canada — together still forming one of MS Industrie AG's most important sales markets outside the EU accounting for a 26,1% (previous year: 38,5%) share in the Group's revenues for 2019 — economic development exceeded the growth rate in Germany[2] with real GDP growth of around 2,3%. This was due in part to the fact that in the USA a positive economic sentiment in particular was a trigger for additional corporate investments. However, at the same time, there was a massive decline in truck sales in the USA in the second half of 2019.

In this global economic environment, the exchange rate of the US dollar to the euro fluctuated between values of 1,15 and 1,09 US dollars over the course of 2019. As of year-end 2019, the value of the euro was 1,12 US dollars, i.e. slightly lower than at the beginning of the year (1,14 US dollars).

Demand in the "Powertrain Technology" segment increased slightly, growing around +2,5% overall in Europe[3].

The year 2019 was a disappointing year for German mechanical engineering companies, with order books for the full year showing a real decline of -9% compared to the previous year. In December, orders fell short of the previous year's value by -7%. In Germany, orders declined by -5%, with -7% fewer orders coming from abroad.

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[1] Source: German Federal Statistical Office, (Destatis) Press release 018 of January 15, 2020.

[2] Source: "BEA" (Bureau of Economic Analyses), as at: January 31, 2020.

[3] Source: "ACEA", Commercial vehicle registrations, January 23, 2020.

In summary, the year 2019 was characterised by a difficult economic environment for the German mechanical and plant engineering industry. With the ongoing international trade conflicts, countries becoming increasingly protectionist and uncertainty over Brexit, in addition to the fundamental structural change in the automotive industry, the industry was uncertain and reluctant to invest. This has had an effect on the order books: For the year 2019 as a whole, the German mechanical engineering industry recorded a -9% drop in orders in Germany, with orders from abroad also falling by -9%. The order backlog from euro countries and non-euro countries was down by -8% and -9% respectively in 2019.[4]

1.b. Business development

As expected, the MS Industrie Group reported significantly lower revenues in the financial year 2019 compared to the previous year. This was due to the sale of a major share of the existing "Powertrain" order book or, more specifically, the sale of the existing long-term order for valve train systems for the Daimler "world engine" production at the site in Webberville, USA to Gnutti Carlo Group (Gnutti Carlo S.p.A., Maclodio, Italy; briefly "Gnutti") effective on April 10, 2019. In the 2019 financial year — after the sale of a portion of the Group's activities in the USA in early April — this development of revenues in geographic terms especially affects the Group's US site, and in terms of segments, the "Powertrain" segment. The very positive proceeds from the sale in the USA were accompanied in the financial year by a neutral development of the euro exchange rate, which, contrary to the previous year, had almost no effect on the positive annual result in the USA and thus the Group's total comprehensive income in the financial year 2019.

The key data of the transaction, which has dominated earnings and liquidity in the 2019 financial year, are as follows:

After concluding a purchase agreement on March 21, 2019 which became effective on April 10, 2019, the wholly-owned subsidiary **MS Powertrain Technologie GmbH, Trossingen, Germany** sold the production of the valve train systems for the Daimler "world engine" in the USA at the Webberville site (in 2018, revenues of close to USD 100 million), including all related machinery, current assets and employees, by way of a "share deal" to Gnutti Carlo Group, USA for a purchase price of USD 40 million, thereof USD 16 million to be paid by April 2022 in three annual instalments bearing interest; the sale has resulted in gains from deconsolidation of around EUR 21,3 million after taxes in the 2019 financial year, which are reported in other income. Under the transaction, all of the shares in MS Industries Inc. including its three subsidiaries MS Property & Equipment, LLC, MS Precision Components, LLC, and MS Industries Administrative, LLC, were sold after all employees, assets and liabilities not required for the valve production had been bundled either in the entity MS Plastic Welders, LLC, which has remained in the Group, or in the newly incorporated entities MS Technology Inc. and MS Land & Buildings, LLC.

As a result of this strategic move, annual sales of the MS Industrie Group were reduced by around EUR 80 million per year in the short term; at the same time, the Group decreased its dependency on its major global customer Daimler, while of course still supplying it in Europe in the usual quality and reliability with regard to both the "world engine" and a number of other parts and components in the powertrain segment.

The MS Industrie Group will continue to be present in the US, however, where it will continue to systematically expand its local business activities, especially in connection with the marketing of ultrasonic welding machines throughout the North American market. A new location is currently being looked for in the USA. The property in "Webberville" acquired in January 2019 is leased to Gnutti Carlo Group, USA under a long-term lease (total rent to be paid in 10

[4] Source: "VDMA", Disappointing year 2019 for mechanical engineering companies, February 6, 2020.

years: USD 5 million), with a part of the space in the Webberville building being subleased by the Group for a period extending to early 2021 at least.

This transaction above all means long-term continuity for the Webberville site, enabling it to continue supplying Daimler with the systems required for the world engine in the USA from the plant in Webberville beyond the year 2021. The MS Industrie Group and Gnutti continue to maintain their business relationship after the transaction by supplying parts and components to each other. These parts and components will be supplied at arm’s length prices and without any purchase obligations. However, we expect the future volume of revenues for MS Industrie Group to reach around USD 10 million per year. The transaction was based on the strategic aim pursued by the Managing and Supervisory Boards of maintaining a risk balance both within segments and between the two segments “MS Powertrain Technology” and “MS Ultrasonic Technology”. After the dividend payout in 2019, the liquidity gained from the sale is mainly to be used for reducing net debt and also for financing investments, innovations and international expansion plans.

As a result of the above-mentioned transaction, revenue development varied strongly in the two main business segments **Powertrain Technology** (**“Powertrain”**) and **Ultrasonic Technology** (“**Ultrasonic**”). External revenues in the “**Powertrain**” segment were significantly lower (around -25.8%) than revenues in the previous year, which is attributable to the transaction. External revenues in the “**Ultrasonic**” segment rose slightly by around +1.3% compared to the previous year. Revenues in the “Powertrain” segment in the financial year 2019 accounted for around 74% (previous year: 79%) of the Group's consolidated revenues. The “Ultrasonic” segment’s contribution was around 26% (previous year: 21%).

As at the end of December 2019, orders on hand were worth around EUR 83 million in total (previous year: EUR 144 million), with orders on hand below the average recorded in the previous year by around 30% in the “Ultrasonic” segment and by around 21% in the “Powertrain” segment, due to the transaction; in total, they were 24% below the average recorded for orders on hand in the previous year.

The “Powertrain” segment obtained new orders in the previous year relating to parts to be supplied to the companies American Axle & Manufacturing Inc. (AAM), ZF, Daimler, and Thyssen-Krupp with start of production in 2019. The parts will predominantly be used in electric drive and hybrid drive systems for passenger car applications. The MS Industrie Group has thus successfully entered the market for new drive technologies precisely in accordance with its core capabilities while progressively diversifying the industries and customer groups it serves.

In April 2019, MS Industrie Group’s “Powertrain Technology” segment successfully pitched for a supply contract for key components of the valve train system of an entirely new truck engine platform developed by an international truck manufacturing group. The engine is to be launched in mid-2021. As it will be gradually introduced in all of the customer's brands reaching full quantities by 2026, the MS Industrie Group expects target revenues of around EUR 25 to 30 million per year.

In the financial year 2019, MS Industrie AG sold all of its remaining shares in Zehnder Pumpen GmbH, Grünhain-Beierfeld (19,9% as of December 31, 2018). The sale had no material impact on the Group in this financial year, as the gain from the transaction had already been anticipated in the previous year in the measurement of the shares according to IFRS 9. Cash flow from the transaction amounts to EUR 1,2 million before transaction costs.

After completion of the new building in Trossingen in 2016, all production sites are now equipped with modern technology and provide sufficient capacity reserves to ensure that they can cope with continuing organic growth in a profitable manner. Most of the investments to support growth at the different sites of the Group have already been completed. This means that any additional requirement for capital expenditure in the coming years will be much below the average of recent years, unless any unforeseen new large-scale orders would involve increased capital spending. At the same time, we continue to expect a constant increase in capacity utilisation in the individual production areas.

The earnings situation regarding operating business and the key earnings figures have unfortunately not developed satisfactorily in the financial year 2019, especially earnings before interest, taxes, depreciation and amortisation (**EBITDA**), earnings before interest and taxes (**EBIT**), earnings before taxes (**EBT**), earnings after taxes (**EAT**) and **earnings per share** (**EPS**), adjusted for non-recurring items related to the US transaction. In the second half of 2019, demand both in the truck and in the passenger car markets was much more subdued than had been expected at the beginning of the year.

Nevertheless, the Group's revenues developed quite satisfactorily overall in 2019. Total consolidated revenues in the financial year were close to EUR 226,4 million (previous year EUR 282,8 million) and thus just under the projected revenues of around EUR 230 million. EBITDA (+43,4%), EBIT (+71,6%), EBT (+88,6%), earnings per share (+132,5%) and gross margin (+12,7 percentage points) and EBIT margin (+4,4 percentage points) also showed the expected clear increase, albeit not at the projected high rates. This is mainly due to effects of fluctuations in capacity utilisation and organisational restructuring measures. The machine park and equipment at the three German MS sites in Trossingen, Spaichingen and Zittau have been upgraded and extended considerably in the course of 2019. However, these positive developments have not yet had a positive impact on volumes reflected by an increase in the corresponding key figures for the financial year.

Adjusted cash flow used in investing activities was more or less at the previous year's level, while cash flow from operating activities even exceeded the forecasts as a result of working capital effects. Liquidity within the Group increased in the reporting period from EUR 2,3 million at the start of the financial year to EUR 9,2 million as of December 31, 2019. The increase by EUR 6,9 million in the 2019 financial year was primarily a result of positive cash flow from investing activities derived from the "Gnutti" sales transaction.

In line with the development of earnings, the Group's reported equity (+17,5%) was slightly below expectations. Moreover, the extension of the balance sheet resulting from the adoption of IFRS 16 slightly exceeds the expected values due to the assumption of longer lease terms. The projected increase in the equity ratio was missed by -1,1 % percentage points. The debt-to-equity ratio, on the other hand, was considerably reduced (-18,0 percentage points) in line with expectations.

For the development of non-financial performance indicators, the previous year's report had forecasted that the MS Industrie Group would do all it can to continue fulfilling all relevant environmental standards and to continue in its - to date successful - attempts to keep staff turnover as low as possible using staff retention programs. In view of the anticipated modest revenue growth, there were no plans to hire new staff in 2019, especially no specialists and managers. The Company envisaged the employment of temporary agency workers, however. As a result of the strong decline in volume, which had not been projected in the annual planning for 2019, the Company significantly reduced its headcount instead in the course of the financial year, also in order to be able to respond in a more timely and successful manner to volume fluctuations which continue to be anticipated for the near future at least. Despite these measures, the Company always seeks to counteract a shortage of skilled workers and to prepare future managers for demanding tasks in a targeted manner.

Ongoing, individual job training and development continue to be regarded as a matter of great importance within the Group. The Company had also planned to maintain the existing high level of customer satisfaction as a minimum, and to further increase the already very high level of innovative strength while at the same time ensuring a constant delivery performance in all segments and product lines. All this has been implemented as planned. The Group's research and development spending was considerably stepped up in the financial year from EUR 3,8 million to EUR 4,8 million, thus remaining at a very high level just like in previous years. The Group maintained its ability to deliver at all times and customer satisfaction continues to be very high.

1.c. Status of the Group

All figures are prepared in accordance with IFRS as adopted by the European Union.

Earnings situation

The essential key figures of our Group are presented and explained in the following with a comparison to the previous year. The first table shows the key figures unadjusted for the non-recurring items related to the "partial sale of Powertrain USA".

Unadjusted for non-recurring items:	1.1. to 31.12.2019		1.1. to 31.12.2018		Difference	
	TEUR	%	TEUR	%	TEUR	%
Revenues	**226.400**	**100,0**	**282.753**	**100,0**	**-56.353**	**-19,9**
Other income	26.411	11,7	4.148	1,5	22.263	536,7
Cost of materials (incl. changes in inventory)	115.017	50,8	150.577	53,3	-35.560	-23,6
Gross profit	**137.794**	**60,9**	**136.324**	**48,2**	**1.470**	**1,1**
Personnel expense	69.815	30,8	71.083	25,1	-1.268	-1,8
Other expenses and impairment loss according to IFRS 9	35.309	15,6	42.460	15,0	-7.151	-16,8
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**32.670**	**14,4**	**22.781**	**8,1**	**9.889**	**43,4**
Depreciation and amortisation expense	14.197	6,3	12.017	4,2	2.180	18,1
Operating profit (EBIT)	**18.473**	**8,2**	**10.764**	**3,8**	**7.709**	**71,6**
Finance costs, net	-1.494	-0,7	-1.518	-0,5	24	-1,6
Share of profit of investments accounted for using the equity method	578	0,3	65	0,0	513	789,2
Consolidated profit before income tax (EBT)	**17.557**	**7,8**	**9.311**	**3,3**	**8.246**	**88,6**
Income tax (expense)	859	0,4	2.163	0,8	-1.304	-60,3
Consolidated profit for the year before non-controlling interests (EAT)	**16.698**	**7,4**	**7.148**	**2,5**	**9.550**	**133,6**
Profit attributable to non-controlling interests	-19	0,0	-42	0,0	23	-54,8
Consolidated profit for the year after non-controlling interests (EAT)	**16.717**	**7,4**	**7.190**	**2,5**	**9.527**	**132,5**

In the reporting period, earnings figures in particular were affected by positive non-recurring items, whose effect on the key figures is described below.

The only — but all the more significant — "non-recurring effect" with an influence on profit or loss in the financial year 2019 related to the gains from deconsolidation arising from the sale of the valve train system production at the US

Webberville site. Based on gross proceeds from the sale of close to USD 40 million, these gains amounted to EUR +21,3 million net, minus bonuses for Executive Board members in the amount of EUR -0,8 million and income taxes of EUR -2,0 million.

As a result of the transaction, external revenues in the "**Powertrain**" segment were around 25,3% lower in this financial year than the revenues in the previous year. The "**Ultrasonic**" segment reported a plus of around 0,1% in revenues in 2019, quite a success considering that some machine deliveries in this segment were delayed again in 2019 due to reporting date effects.

After a strong rise of around 12,8% in the previous year, external revenues dropped sharply in the reporting period by around 19,9% to around EUR 226,4 million. As a result, the previous year's forecast of a marked decline in revenues of around 18,7% to around EUR 230,0 million was almost met. The sharp dip in revenues is mainly attributable to the US business of the MS Industrie Group, in particular the "Powertrain" segment, which weakened considerably after the US transaction, just as expected. The increase in revenues and the associated positive annual result projected in the previous year for the "Powertrain / Electric motors" sub-segment have not materialised unfortunately. The revenues generated by Elektromotorenwerk Grünhain GmbH in 2019 were more or less at the previous year's level.

In geographic terms, revenues again developed quite heterogeneously: While there was only a slight increase in industrial revenues of around 1,4% in the domestic market – still the market with the highest revenues - exports to the second-strongest foreign market, the EU, fell sharply by around -33,2%. In the North America / Canada region, which remains the strongest foreign market with 26,1% of consolidated revenues, revenues declined by around -45,8%.

Revenues include primarily the revenues of TEUR 207.315 (previous year: TEUR 263.629) generated by the MS Technologie Group. They also include revenues of TEUR 18.937 generated by the Elektromotoren-werk Grünhain Group (previous year: TEUR 18.990).

As in the past, we are therefore entirely satisfied with the revenue trend in the financial year, both overall and by region. However, the operating performance at the different earnings levels is in some respects considerably below what we are expecting.

Other income includes the net proceeds of EUR +21,3 million from the sale of the production of valve train systems for the Daimler world engine in the USA (refer to the information above). Further, other income includes in particular income from the reversal of provisions and other accruals as well as other income generated in prior periods totaling TEUR 1.589 (previous year: TEUR 1.112). Other operating income also includes exchange rate gains of TEUR 806 (previous year: TEUR 999) incurred by the MS Technologie Group.

The reconciliation of the unadjusted key figures with the adjusted key figures is as follows in the financial year 2019:

	1.1. to 31.12.2019			
	Before Adjustments TEUR	Effect of Adjustments TEUR	Adjusted TEUR	Adjusted %
Revenues	**226.400**	**0**	**226.400**	**100.0**
Gross profit	**137.794**	**-21.334**	**116.460**	**51,4**
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**32.670**	**-20.554**	**12.116**	**5,4**
Operating profit (EBIT)	**18.473**	**-20.554**	**-2.081**	**-0,9**
Consolidated profit before income tax (EBT)	**17.557**	**-20.554**	**-2.997**	**-1,3**
Consolidated profit for the year before non-controlling interests (EAT)	**16.698**	**-18.547**	**-1.849**	**-0,8**
Consolidated profit for the year after non-controlling interests (EAT)	**16.717**	**-18.547**	**-1.830**	**-0,8**

The difference in the key figures adjusted for non-recurring items is summarised as follows for the financial year (no adjustments are required for 2018):

	1.1. to 31.12.2019		1.1. to 31.12.2018		Differences, adjusted	
	Adjusted TEUR	Adjusted %	Adjusted TEUR	Adjusted %	18 / 19 TEUR	18 / 19 %
Revenues	**226.400**	**100.0**	**282.753**	**100.0**	**-56.353**	**-19,9**
Gross profit	**116.460**	**51,4**	**136.324**	**48,2**	**-19.864**	**-14,6**
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**12.116**	**5,4**	**22.781**	**8,1**	**-10.665**	**-46,8**
Operating profit (EBIT)	**-2.081**	**-0,9**	**10.764**	**3,8**	**-12.845**	**-119,3**
Consolidated profit before income tax (EBT)	**-2.997**	**-1,3**	**9.311**	**3,3**	**-12.308**	**-132,2**
Consolidated profit for the year before non-controlling interests (EAT)	**-1.849**	**-0,8**	**7.148**	**2,5**	**-8.997**	**-125,9**
Consolidated profit for the year after non-controlling interests (EAT)	**-1.830**	**-0,8**	**7.190**	**2,5**	**-9.020**	**-125,5**

The adjusted gross margin (revenues including changes in inventory plus other income minus cost of materials) as a percentage of revenues is 51,4% in the financial year (previous year: 48,2%). This development and also the minor decrease in the cost of materials ratio to 50,8% (previous year: 53,3%) are mainly due to the changes in the product mix with a higher share of ultrasonic products and considerable lower revenues of the "Powertrain Technology" segment after the partial sale of the US business. The "Powertrain Technology" segment also changed its product mix in the course of the financial year (fewer material-intensive product groups).

Personnel expenses fell year-on-year by around -1,8%, i.e. slightly less than proportionately to the decrease in headcount, with the average headcount reduced by around -5,7% to 1.154 permanent employees (excluding temporary agency workers and trainees) (previous year: 1.224 employees).

As a result, after a marked decrease in other expenses by overall EUR 7,2 million to EUR 35,3 million, earnings before interest, taxes, depreciation and amortisation and impairment (EBITDA) adjusted for non-recurring items dropped sharply to EUR 12,1 million (previous year: EUR 22,8 million). Of the marked decrease in other expenses by TEUR 7.151 in the financial year, TEUR 3.954 is attributable to the adoption of the new lease accounting requirements under IFRS 16.

As expected, depreciation and amortisation in the financial year strongly increased by around TEUR 2.180 (around 18,1%) from TEUR 12.017 to TEUR 14.197. This was largely due to the adoption of IFRS 16 resulting in additional depreciation of property, plant and equipment (right-of-use assets according to IFRS 16) of TEUR 3.387.

After increased personnel expenses and depreciation and significantly lower other expenses, earnings before interest and taxes (EBIT) adjusted for non-recurring items were EUR -2,1 million in the financial year (previous year: EUR 10,8 million).

The adjusted EBIT margin as a percentage of revenues is around -0,9% in 2019 (previous year: 3,8%). The significantly smaller EBIT margin can be explained by the fluctuations in capacity utilisation referred to above and the restructuring measures adopted for the MS Powertrain Technology Group.

The net financial result improved by around 1,6% year-on-year, mainly because of the Group's lower net financial debt. The net financial result includes financial income of TEUR 1.151 (previous year: TEUR 883) and finance costs of TEUR 2.645 (previous year: TEUR 2.401).

Financial income results partly, in the amount of TEUR 280 (previous year: TEUR 366), from the market valuation of financial derivatives, especially the fair value measurement of interest rate swaps.

Finance costs include EUR 2,2 million attributable to the MS Technologie Group (previous year: EUR 1,8 million). Interest expense showed a marked rise of TEUR 640, resulting from the initial application of IFRS 16 in the 2019 financial year.

In 2019, the share of profit of investments accounted for using the equity method is TEUR 528 (previous year: TEUR 212) from the "at equity" valuation of the Beno Immobilien Group, Starnberg; TEUR 97 (previous year: TEUR -145) from the "at equity" valuation of Shanghai MS soniTEC Co., Ltd., China; and TEUR -47 (previous year: TEUR 2) from the "at equity" valuation of WTP Ultrasonic Industria e Comercio de Maquinas Ltda., Contagem City, Brazil.

At EUR 17,6 million, consolidated profit before income tax (EBT) is significantly higher than in the previous year: In 2018, the Group generated pre-tax profit of EUR 9,3 million. Adjusted consolidated profit before income tax (EBT) came to EUR -3,0 million, which is considerably less than in the previous year.

Consolidated profit for the year after non-controlling interests (EAT) clearly exceeds the previous year's result and is EUR 16,7 million (previous year: EUR 7,2 million). Adjusted consolidated profit for the year after non-controlling interests (EAT) is significantly lower than in the previous year at EUR -1,8 million (previous year: EUR 7,2 million).

Unadjusted consolidated earnings per share rose from EUR 0,24 per share in the previous year to as much as EUR 0,56 per share in the financial year under review. Adjusted consolidated earnings per share dropped sharply from EUR 0,24 per share in the previous year to EUR -0,06 per share in 2019.

Cash Situation

Principles and objectives of financial management

In its financing strategy, the Group attaches the highest priority to safeguarding its financial flexibility. To this end, the Group uses a broad range of financing instruments and adopts a diversified approach in its selection of investors and financial institutions. The maturity profiles of the Group's liabilities are characterised by a broad range of maturities and a large share of medium- and long-term financing. Particular emphasis is placed on market capacity, investor diversification, flexibility, covenants and the existing maturity profile.

Presentation and analysis of the financial position

	2019 TEUR	2018 TEUR
Net cash generated from operating activities	6.048	1.132
Net cash generated from/used in investing activities	6.033	-12.365
Net cash used in/ generated from financing activities	-9.350	5.816
Net increase/decrease in cash and cash equivalents	2.731	-5.417
Exchange gains/losses on liquid funds	-4.028	1.389
Liquid funds at beginning of period	**-1.297**	**-4.028**

The increase in liquid funds (liquid assets less current account liabilities) is mainly due to the positive cash flows from investing activities and operating activities, which enabled the Group to compensate the negative cash flow from financing activities.

The improved cash flow from operating activities primarily reflects the slight reduction in working capital. The positive cash flow used in investing activities results from the cash receipts relating to the sale of the existing long-term order for valve train systems for the Daimler "world engine" production at the site in Webberville, USA to Gnutti Carlo Group (Gnutti Carlo S.p.A., Maclodio, Italy; briefly "Gnutti") effective on April 10, 2019. Capital expenditure in the financial year was partly realised through a lease (EUR 5,7 million; previous year: EUR 3,0 million) which did not affect cash flow at the time the investment was made, and through advance payments of EUR 3,5 million for a rotary indexing machine (previous year: EUR 3,5 million).

As at December 31, 2019, cash and cash equivalents amount to EUR 9,2 million (previous year: EUR 2,3 million). In addition, unused current account credit facilities of EUR 8,0 million are available (previous year: EUR 21,6 million), and current assets (EUR 102,1 million) exceed current liabilities (EUR 73,3 million) by EUR 28,9 million as at the balance sheet date.

Bank borrowings as at the balance sheet date are EUR 56,5 million of which EUR 42,9 million are subject to certain financial covenants. Unused credit facilities amount to EUR 8,0 million including EUR 1,2 million provided with financial covenants (refer to Section "Financing Risks" in Chapter 6 of the Opportunities and Risk Report).

Financial Situation

The essential changes to the Group's financial situation can be seen in the following table:

	31.12.2019		31.12.2018		Difference	
	TEUR	%	TEUR	%	TEUR	%
ASSETS						
Deferred income tax assets	62	0,0	208	0,1	-146	-70,2
Other non-current assets	104.839	50,7	74.682	43,6	30.157	40,4
Current assets	102.124	49,3	96.180	56,3	5.944	6,2
Total assets	**207.025**	**100.0**	**171.070**	**100.0**	**35.955**	**21,0**

	31.12.2019		31.12.2018		Difference	
	TEUR	%	TEUR	%	TEUR	%
EQUITY AND LIABILITIES						
Equity and minority interests	76.745	37,1	65.313	38,2	11.432	17,5
Deferred income tax liabilities	145	0,1	1.706	1,0	-1.561	-91,5
Other debt	130.135	62,8	104.051	60,8	26.084	25,1
Total equity and liabilities	**207.025**	**100.0**	**171.070**	**100.0**	**35.955**	**21,0**

Non-current assets in our Group grew by around 40,4% in the financial year to a share of around 50,7% of total assets (previous year: around 43,6%), a change which is not insignificant. The increase in non-current assets in 2019 is mainly due to the additions of right-of-use assets of around EUR 24,7 million resulting from the adoption of IFRS 16. Set against this are the scheduled amortisation of intangible assets and depreciation of plant and machinery and IFRS 16 right-of-use assets, as well as the disposal of investments no longer considered strategically important, such as Zehnder Pumpen GmbH, Grünhain-Beierfeld, and the sale of the existing long-term order for valve train systems for the Daimler "world engine" production at the site in Webberville, USA.

Based on increased cash and cash equivalents and slightly reduced inventories, the slight increase in current assets of around 6,2% is mainly due to the increase in other current financial assets resulting from the outstanding short-term receivable of EUR 5,4 million from the partial sale of the US business. As a proportion of total assets, the percentage share of current assets of around 49,3% (previous year: around 56,2%) somewhat declined towards the end of the financial year.

Net working capital (inventories, contract assets and trade accounts receivable minus trade accounts payable and contract liabilities) as of December 31, 2019 is EUR 72,0 million (previous year: EUR 73,2 million) and thus decreased by around 1,5% year-on-year.

Compared to December 31, 2018, equity grew in absolute terms by EUR 11,4 million to EUR 76,7 million. This is essentially attributable to the Group’s total comprehensive income of EUR 14,2 million minus dividends paid out. As a result of total assets expanding by 21,0%, the Group’s equity ratio is at around 37,1% as of the balance sheet date, thus slightly lower than as of December 31, 2018 (38,2%). The increase in total assets is mainly due to the additions of right-of-use assets and corresponding lease liabilities of around EUR 24,7 million following the adoption of IFRS 16.

Other debt in the Group rose substantially by around 25,1% to EUR 130,1 million. In spite of this, the debt-to-equity ratio was reduced in the fiscal year as the Group’s total assets increased by around 21,0%.

The Group's net debt ratio (defined as net liabilities/equity) fell significantly from 79,7% as of the end of 2018 to 61,7% as of the end of this financial year. The net debt ratio is calculated by dividing the Company’s liabilities, which are defined as current and non-current financial liabilities (excluding derivatives and financial guarantees) minus cash and bank balances, by its equity (the Group’s share capital and reserves).

Non-controlling interests as of December 31, 2019 are TEUR -200 (previous year: TEUR -181). As in the previous year, the non-controlling interests are completely attributable to the subsidiary of Elektromotorenwerk Grünhain GmbH.

General statement on business performance and financial situation

As in the years before, the Group continued its focus on the two business segments “Powertrain Technology” and “Ultrasonic Technology” and on further measures for the disposal of investments which are no longer strategically relevant.

The cash situation in late 2019 and early 2020 can still be described as sound, with significant available credit lines. All of the subsidiaries continue to be well able to meet their payment obligations from ordinary activities.

Since the Group was able also in this financial year to generate positive total comprehensive income, equity including non-controlling interests increased in absolute terms. The financial situation continues to be in good order, with a slightly reduced equity ratio of 37,1% (previous year: 38,2%).

With the unfolding of the Covid-19 pandemic, operating business in the Group’s operating subsidiaries has not developed satisfactorily in the first half of 2020 until the date of preparation of the consolidated financial statements 2019. Despite this, the Group’s financial, cash and earnings situation was sound when these extracts from the Group’s management report for 2019 were prepared. For further information on the effects of the Covid-19 pandemic see the explanations provided in the Forecast.

Munich, April 27, 2020

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