MS Industrie AG, Munich
Extracts from the Group´s Management Report as of June 30, 2018

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

Consolidated Financial Statements as of June 30, 2018 - Overview of key figures

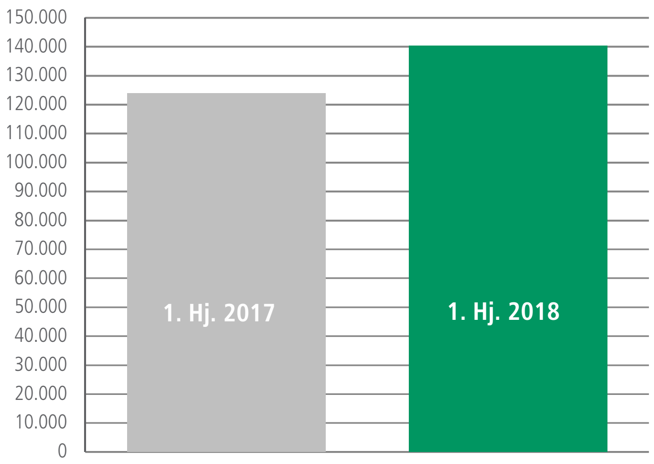
MS Industrie Group, according to IFRS, unaudited, in TEUR

Balance sheet key figures	31.12.2017	30.06.2018
Total assets	152.709	168.321
Equity and non-controlling interests	56.684	60.079
Equity ratio (%)	37,1%	35,7%
Trade receivables	27.506	41.721
Liquid funds (Cash and cash equivalents ./. Current accounts)	1.389	-10.913
Net working capital (Inventories + Trade receivab. ./. Trade payables)	54.407	66.371

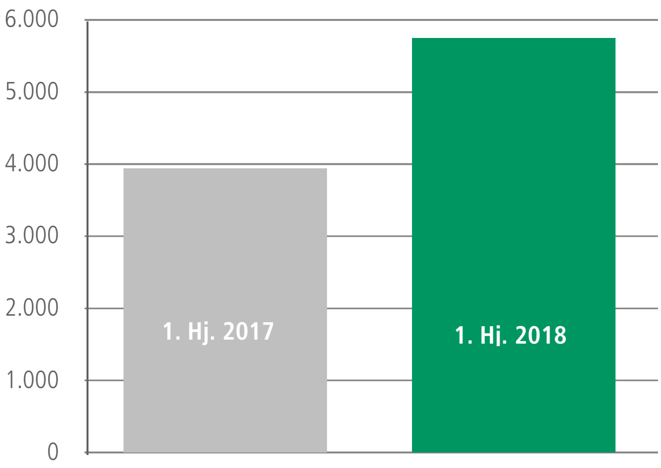
Cashflow key figures	1. Hj. 2017	1. Hj. 2018
Net cash generated from operating activities	11	-986
Net cash used in investing activities	-2.763	-6.056
Net cash used in financing activities	-3.542	-5.260

Income statement key figures	1. Hj. 2017	1. Hj. 2018
Revenues	123.938	140.319
Other operating income	1.249	2.942
Cost of materials (incl. changes in inventories)	66.388	75.467
Gross profit	58.799	67.794
Personnel expense	31.158	34.498
Other operating expense	17.128	21.441
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	10.513	11.855
Depreciation and amortisation expense	6.576	6.108
Operating Profit (EBIT)	3.937	5.747
Finance costs, net	-802	-1.055
Profit before income tax (EBT)	3.135	4.692
Profit for the year after non-controlling interests (EAT)	2.442	3.616
Consolidated earnings per share in EUR	0,08	0,12

Total revenues
in TEUR



Operating Profit
(EBIT) in TEUR



MS Industrie AG, München

Consolidated balance sheet as at June 30, 2018

	30.06.2018 TEUR	31.12.2017 TEUR
ASSETS		
Intangible assets	3.136	3.528
Property, plant and equipment	52.784	51.150
Investment property	7.028	7.065
Investments	1.927	1.918
Investments in associates	3.175	3.192
Deferred income tax assets	90	86
Other non-current financial assets	4.621	4.734
Other non-current assets	455	516
Non-current assets	**73.216**	**72.189**
Inventories	45.762	41.847
Trade receivables	41.721	27.506
Cash and cash equivalents	4.234	8.384
Income tax assets	440	512
Other current financial assets	365	548
Other current assets	2.583	1.723
Current assets	**95.105**	**80.520**
TOTAL ASSETS	**168.321**	**152.709**
EQUITY AND LIABILITIES		
Ordinary Shares (30.00 million shares less 105,670 treasury shares)	29.894	29.894
Share premium	7.590	7.590
Statutory reserve	439	439
Retained earnings	3.931	3.931
Other reserves	3.599	2.883
Consolidated profit	14.780	12.086
Non-controlling interests	-154	-139
Equity and non-controlling interests	**60.079**	**56.684**
Non-current Borrowings	16.843	17.808
Provisions for pensions and similar obligations	1.788	1.725
Deferred income tax liabilities	1.384	922
Other non-current provisions and accruals	378	382
Other non-current financial liabilities	12.944	14.010
Other non-current liabilities	876	947
Non-current provisions and liabilities	**34.213**	**35.794**
Current Borrowings	32.458	26.965
Trade payables	21.112	14.946
Current provisions and accruals	7.348	7.029
Other current financial liabilities	8.694	7.737
Other current liabilities	4.417	3.554
Current provisions and liabilities	**74.029**	**60.231**
TOTAL EQUITY AND LIABILITIES	**168.321**	**152.709**

MS Industrie AG, Munich
Consolidated income statement for the period 01.01-30.06.2018, unaudited

INDUSTRIE AG

	01.01. - 30.06.2018 (January - June 2018)	01.01. - 30.06.2017 (January - June 2017)	*Deviation Jan.-June 18 - Jan.-June 17* absolute	percentage
	"Six months"			
Revenues	140.319	123.938	*16.381*	*+13%*
a) Revenues from industrial and real estate business	*140.246*	*123.882*	*16.364*	*+13%*
b) Revenues from consulting and commissions	*73*	*56*	*17*	*+30%*
Changes in inventory of work in process and finished goods	1.973	533	*1.440*	*+270%*
Other income	2.942	1.249	*1.693*	*+136%*
Total income	**145.234**	**125.720**	***19.514***	***+16%***
Cost of materials	77.440	66.921	*10.519*	*+16%*
Personnel expense	34.498	31.158	*3.340*	*+11%*
Depreciation and amortisation expense				
a) Depreciation of property, plant and equipment, investment property and amortisation of intangible assets	6.108	6.576	*-468*	*-7%*
Other expense	21.441	17.128	*4.313*	*+25%*
Total expenses	**139.487**	**121.783**	***17.704***	***+15%***
Operating Profit	**5.747**	**3.937**	*1.810*	***+46%***
Finance costs, net	-1.038	-797	*-241*	*-30%*
Share of profit of investments acc. for using the equity method	-17	-5	*-12*	*-240%*
Profit before income tax	**4.692**	**3.135**	***1.557***	***+50%***
Income tax expense	1.091	728	*363*	*+50%*
Profit for the year	**3.601**	**2.407**	***1.194***	***+50%***
attributable to				
owners of the parent	3.616	2.442	*1.174*	*+48%*
non-controlling interests	-15	-35	*20*	*+57%*
	3.601	**2.407**	***1.194***	***+50%***
Consolidated earnings per share, in EUR				
basic, after non-controlling interests	0,12	0,08		
diluted, after non-controlling interests	0,12	0,08		
Number of shares, average weighting				
basic	29.894.330	29.892.330		
diluted	29.894.330	29.892.330		

MS Industrie AG, Munich
Consolidated income statement for the period 01.04-30.06.2018, unaudited

	01.04. - 30.06.2018 (April - June 2018)	01.04. - 30.06.2017 (April - June 2017)	*Deviation April-June 18 - April-June 17*	
	"Three months"		*absolute*	*percentage*
Revenues	73.813	65.403	*8.410*	*+13%*
a) Revenues from industrial and real estate business	*73.763*	*65.362*	*8.401*	*+13%*
b) Revenues from consulting and commissions	*50*	*41*	*9*	*+22%*
Changes in inventory of work in process and finished goods	-645	20	*-665*	*-3325%*
Other income	2.174	632	*1.542*	*+244%*
Total income	**75.342**	**66.055**	***9.287***	***+14%***
Cost of materials	39.700	34.813	*4.887*	*+14%*
Personnel expense	17.728	15.734	*1.994*	*+13%*
Depreciation and amortisation expense				
a) Depreciation of property, plant and equipment, investment property and amortisation of intangible assets	2.950	3.330	*-380*	*-11%*
Other expense	11.721	8.656	*3.065*	*+35%*
Total expenses	**72.099**	**62.533**	***9.566***	***+15%***
Operating Profit	**3.243**	**3.522**	*-279*	***-8%***
Finance costs, net	-640	-406	*-234*	*-58%*
Share of profit of investments acc. for using the equity method	-17	-5	*-12*	*-240%*
Profit before income tax	**2.586**	**3.111**	***-525***	***-17%***
Income tax expense	624	864	*-240*	*-28%*
Profit for the year	**1.962**	**2.247**	***-285***	***-13%***
attributable to				
owners of the parent	1.968	2.263	*-295*	*-13%*
non-controlling interests	-6	-16	*10*	*+63%*
	1.962	**2.247**	***-285***	***-13%***
Consolidated earnings per share, in EUR				
basic, after non-controlling interests	0,07	0,08		
diluted, after non-controlling interests	0,07	0,08		
Number of shares, average weighting				
basic	29.894.330	29.892.330		
diluted	29.894.330	29.892.330		

MS Industrie AG, Munich, Consolidated statement of comprehensive income
for the 1st half of the financial year 2018, unaudited

	01.01. - 30.06.2018 (January - June 2018)	01.01. - 30.06.2017 (January - June 2017)
	"Six months"	
Profit for the year	**3.601**	**2.407**
Items that may be subsequently reclassified to profit or loss		
Change in value of available-for-sale financial assets	0	-105
Currency translation differences	559	-1.763
	559	-1.868
Items that will not be reclassified to profit or loss		
Remeasurements of post employment benefit obligations	-33	-37
Change in value of financial assets (IFRS 9)	-709	0
Income taxes recorded in other comprehensive income	9	10
	-733	-27
Other comprehensive income for the year, net of tax	-174	-1.895
Total comprehensive income for the year	3.427	512
attributable to owners of the parent	3.442	547
attributable to non-controlling interests	-15	-35
	3.427	512

MS Industrie AG, Munich, Consolidated cash flow statement for the period 01.01.-30.06.2018, previous year´s period for comparison purposes (unaudited)

INDUSTRIE AG

	01.01. - 30.06.2018 TEUR	01.01. - 30.06.2017 TEUR
Profit for the period	3.601	2.407
Income tax expense (recognised through profit and loss)	1.091	728
Finance income (recognised through profit and loss)	-88	-223
Finance costs (recognised through profit and loss)	1.126	1.020
Depreciation of property, plant and equipment and amortisation of intangible assets	6.071	6.539
Depreciation of investment property	38	38
Material non-cash other expenses (+) or income (-):		
Losses/gains (-) on investments accounted for using the equity method	17	5
Losses/gains (-) on disposal of property, plant and equipment and intangible assets	-10	-5
Losses/gains (-) on disposal of investments and associates	-4	68
Increase in inventories, trade receivables and other assets not assigned to investing or financing activities	-17.692	-12.819
Increase/decrease (-) in trade payables and other liabilities not assigned to investing or financing activities	5.707	3.411
Interest received	58	13
Interest paid	-695	-898
Income tax received	0	0
Income tax paid	-205	-272
Net cash generated from / used in operating activities	**-986**	**11**
Proceeds from sale of property, plant and equipment and intangible assets	89	6
Purchases of property, plant and equipment and intangible assets	-5.801	-3.350
Payments received from disposals of investments	0	752
Purchase of investments	0	-8
Payments made for the granting of borrowings to investments	-350	-170
Proceeds received from investments	6	7
Net cash used in investing activities	**-6.056**	**-2.763**
Repayments of debt-equivalent bonds	-200	0
Proceeds from borrowings	6.348	2.943
Repayments of borrowings	-10.019	-3.470
Proceeds from finance lease transactions	634	0
Payments made for finance lease transactions	-2.023	-3.015
Net cash used in financing activities	**-5.260**	**-3.542**
Net decrease in liquid funds	**-12.302**	**-6.294**
Liquid funds at beginning of period	1.389	895
Liquid funds at end of period	**-10.913**	**-5.399**

MS Industrie AG,
Munich

EXTRACTS from the Group´s interim management report for the 1st half of financial year 2018

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MS Industrie AG, Munich

1. Highlights of the first half year

Dear Shareholders, Dear Colleagues and Business Partners,

in line with expectations, the first six months of 2018 were marked by another clear year-on-year increase in revenues for the MS Industrie Group. In geographic terms this is particularly true for the Group's US site and in terms of segments for the "Powertrain" segment including the German sites. For the Group's German sites, business continued to develop positively overall in comparison to both the satisfactory first half of the previous year and also compared to the equally satisfactory first quarter of the current financial year 2018. In total, revenues in the individual entities were well ahead of targets, which had again been deliberately set at conservative levels for the first half year, especial purposely in view of the situation in the US market. Business performance in the (US) powertrain market was positive in the first half of the financial year, accompanied by a slight weakening of the euro exchange rate, which has a positive effect on the Group's total comprehensive income in the first six months of 2018 due to the still high volume of revenues in the USA.

In the two main business segments **Powertrain Technology Group ("Powertrain")** and **Ultrasonic Technology Group ("Ultrasonic")** revenue development varied: As at the end of the first half year, external revenues in the "**Powertrain**" segment were around +15% higher than revenues in the previous year, whereas external revenues in the "**Ultrasonic**" segment only slightly outperformed prior year revenues by +7%. Such temporary revenue weakness as experienced by the "Ultrasonic" segment in the course of the year are quite usual in the (special purpose) machines market; they are mainly the result of the dates of actual deliveries and acceptances of finished machines.

Revenues in the "Powertrain" segment in the first half of 2018 accounted for around 80% of the Group's consolidated revenues. The contribution of the "Ultrasonic" segment was around 20%.

As at the end of June 2018, orders on hand were worth around EUR 148 million in total (average in the previous year: EUR 127 million), with orders on hand exceeding the average recorded in the previous year by around 14% in the "Ultrasonic" segment, and also exceeding it by around 14% in the "Powertrain" segment.

The "Powertrain" segment obtained two new orders. The orders are for parts for the companies "American Axle & Manufacturing Inc. (AAM)" and "ZF" with start of production ("SOP") before the end of 2018, the parts being used in pure electric drive and hybrid drive systems in passenger car applications. The MS Industrie Group has thus successfully gained access to the field of new drive technologies precisely in accordance with its core capabilities while progressively diversifying the industries and customer groups it serves.

After completion of the new production building in Trossingen in 2016, all production sites are equipped with modern technology and provide sufficient capacity reserves to ensure that they can cope with the expected organic growth in a profitable manner.

In line with the development of revenues, the earnings situation and key earnings figures also developed very satisfactorily in the first half of the current financial year 2018, 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**).

This can be seen against the backdrop of a continued recovery in the European commercial vehicle market with a year-on-year growth in new registrations of +4,7% in the first half of 2018 (increase in Germany: +3,7 %) and of +7,3% in June 2018 compared to the same month last year, as again confirmed by the latest regular analysis of July 25, 2018 by "ACEA"

(Association des Constructeurs Européens d´Automobiles, Brussels). The European market for heavy commercial vehicles over 16 tonnes developed somewhat less dynamically year on year, with an increase in European registrations of +3,9% (increase in registrations in Germany: +1,6%) in the first half of 2018 (same source: "ACEA", as of July 25, 2018). However, based on these figures we maintain our confident outlook, also bearing in mind that 2016 and 2017 were years considered rather satisfactory by the European commercial vehicle sector. "Daimler Trucks", one of our key accounts, are very likely to accomplish their original sales target of an annual 200,000 units of the "World Engine" (NEG OM 47X) complying with the EURO 6 standard.

The US market for heavy and medium-duty commercial vehicles reported an increase of around +10,0% in June 2018, which was slightly ahead of previous year's level and in line with expectations. As anticipated, revenues rose by +8,0% compared to the first half year 2017 according to the statistics of the private US analysis firm "FTR", among other sources. According to FTR, incoming orders in the "Class 8" segment were around 41.800 units in June, equivalent to a year-on-year increase of +140%. At the same time, sales of heavy duty commercial vehicles in June exceeded the figures of May 2018 by around +11.0% which means that for the fourth consecutive month within the last six months the 40.000 orders mark in the "Class 8" segment was exceeded according to a study published by FTR. Adjusted for seasonal effects, orders in June even reached some 48.200 units. This indicates that the recovery of the US market for heavy commercial vehicles expected in early 2018 and again used as a basis for the Company's full-year forecasts will most likely materialise with around 315.000 units to be sold in total in 2018. Not least because of tax cuts, the US economy is anticipated to continue its solid growth (current forecast 2018: 2,8%). For 2019 we are currently expecting a growth rate of 2,6%.

Given this sector-related background, the business activities of MS Industrie AG have continued to show a satisfactory development in the first half of 2018. Total consolidated revenues in the first half of 2018 were around EUR 140,3 million (previous year: EUR 123,9 million) and thus slightly above the previous year at +13,2%.

Resulting from the slight year-on-year increase in revenues, both earnings before interest, taxes, depreciation and amortisation (EBITDA) and operating profit (EBIT) are higher than in the previous year, with a slightly increased EBITDA of EUR 11,9 million (previous year: EUR 10,5 million) and a considerably increased EBIT of EUR 5,7 million (previous year: EUR 3,9 million).

The financial result declined somewhat, coming to EUR -1,0 million (previous year: EUR -0,8 million), which is mainly due to a non-recurrent repayment of derivative financial liabilities originating from previous years, and the market valuation of financial derivatives, in particular the fair value measurement of interest swaps.

As a result, the profit before taxes (EBT) rose considerably by 50% and totaled EUR 4,7 million (previous year: EUR 3,1 million).

Profit after taxes (EAT) was EUR 3,6 million (previous year: EUR 2,4 million), thus showing a clear increase of around 50% compared to the same period in the previous year. The profit after non-controlling interests was also EUR 3,6 million in the reporting period (previous year: EUR 2,4 million).

Liquidity within the Group decreased in the reporting period from EUR 8,4 million at the start of 2018 to EUR 4,2 million as of June 30, 2018. The decline of EUR 4,2 million in the first half of 2018 was primarily a result of a strong increase in working capital as at the reporting date in conjunction with a negative cash flow from financing activities, which failed to offset the anticipated negative cash flow from investing activities.

Compared to the first three months, the **second quarter of 2018** - both adjusted and unadjusted - was also very satisfactory with a slightly higher EBITDA of EUR 6,2 million (first quarter 2018: EUR 5,7 million) as well as higher earnings before interest and taxes (EBIT) of EUR 3,2 million (first quarter 2018: EUR 2,5 million) and also a slightly higher pre-tax profit (EBT) of EUR 2,6 million (first quarter 2018: EUR 2,1 million).

For the current financial year 2018, the Executive Board expects that the greatest organic growth in percentage terms will once again be achieved in the field of the new ultrasonic servo presses of the "MS soniTOP" brand, while the greatest increase in absolute terms is expected for valve train systems in the Powertrain Diesel sub-segment as volumes are picking up again in the USA. Moreover, we are expecting additional effects from newly obtained orders for series production.

As explained in the Annual Report 2017, **MS Industrie AG's** plans for the full year 2018 include a moderate increase in Group revenues to around EUR 270 million from the industrial segments, accompanied by another slight increase in EBITDA, while EBIT and EBT can be expected to continue to improve considerably as a result of reduced depreciation and amortisation. As tax expense increased again in 2018 and as we no longer benefit from the one-time positive tax effects that arose from the tax reform in the USA adopted in late 2017, we expect the consolidated profit for the year to slightly exceed the level of the previous year. According to the Group's forecasts, a constant development is to be expected for the gross margin, while a slightly positive development is anticipated for the EBIT margin accompanied by a slight improvement in earnings per share from continuing operations. Based on the anticipated annual result for the year 2018, the Group also expects another considerable increase in Group equity. In addition, it is expected that the cash flow from operating activities will develop somewhat better in 2018 than in the previous year. Regarding cash flow used in investing activities, we expect a marked turn towards an on-balance negative cash flow used in planned investing activities, because we no longer generate positive inflow from divestments as we did in the previous year. Given the large number of steps initiated, it should be possible for the Group to at least stabilise the debt-to-equity ratio and slightly increase the equity ratio. At the date of preparation of these interim financial statements, the Group continues to be convinced that it will be able to achieve this target.

2. Report on the economic situation

2.a Macroeconomic and industry-related environment in first half of 2018

The industrial business performed positively in the first half year. This was due to the persistent excellent order books of the industrial segments **"MS Powertrain"** and **"MS Ultrasonic"**, which have been barely affected by the uncertainties within the EU in the run-up to the implementation of Brexit and the international tensions with the USA, Russia and in the Middle East. Moreover, sales remain very positive in the (US) commercial vehicle market for heavy trucks, which continues to show positive medium and long-term prospects. In its May and June analysis reports the US analysis firm "Rhein Report" forecasts that "Class 8" production of heavy duty diesel trucks will reach its "zenith" in the current financial year 2018 at some 325.000 units produced on the US market. But there is every indication according to the recent forecast of Rhein Report that the prevailing upturn on the (US) market for heavy commercial vehicles - which is already associated with advance compliance effects related to the tightened US emission standards to enter into force in 2021 - will remain constant at least during 2019.

It is expected that the market recovery in the USA will continue in the third quarter and the second half of 2018. Daimler Trucks' market share in North America remained constant at 38,4% in June. The positive market development in the USA was accompanied by a further weakening of the euro exchange rate in the first half of the year, which, due to the high revenue volume in the USA, has a positive effect on the Group's overall revenues and total comprehensive income.

2.b Status of the Group as of June 30, 2018

Earnings situation

The essential key figures of our Group are presented and explained in the following tables with a comparison with the previous year. Like in the corresponding previous year's period, no substantial non-recurring items arose in first six months of 2018, so that no adjustment was required:

	1.1. to 30.06.2018		1.1. to 30.06.2017		Difference	
	TEUR	%	TEUR	%	TEUR	%
Revenues	**140.319**	**100,0**	**123.938**	**100,0**	**16.381**	**13,2**
Other income	2.942	2,1	1.249	1,0	1.693	135,5
Cost of materials (incl. changes in inventory)	75.467	53,8	66.388	53,6	9.079	13,7
Gross profit	**67.794**	**48,3**	**58.799**	**47,4**	**8.995**	**15,3**
Personnel expense	34.498	24,6	31.158	25,1	3.340	10,7
Other expense	21.441	15,3	17.128	13,8	4.313	25,2
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**11.855**	**8,4**	**10.513**	**8,5**	**1.342**	**12,8**
Depreciation and amortisation expense	6.108	4,4	6.576	5,3	-468	-7,1
Operating profit (EBIT)	**5.747**	**4,1**	**3.937**	**3,2**	**1.810**	**46,0**
Finance costs, net	-1.038	-0,7	-797	-0,6	-241	30,2
Share of profit of investments accounted for using the equity method	-17	0,0	-5	0,0	-12	240,0
Profit before income taxes (EBT)	**4.692**	**3,3**	**3.135**	**2,5**	**1.557**	**49,7**
Income tax (expense)	1.091	0,8	728	0,6	363	49,9
Profit for the period before non-controlling interests (EAT)	**3.601**	**2,6**	**2.407**	**1,9**	**1.194**	**49,6**
Profit attributable to non-controlling interests	-15	0,0	-35	0,0	20	-57,1
Profit for the period after non-controlling interests (EAT)	**3.616**	**2,6**	**2.442**	**2,0**	**1.174**	**48,1**

In the first half of the year, external revenues in the "**Powertrain**" segment were around 15% higher than revenues in the previous year. The "**Ultrasonic**" segment also reported higher revenues in the first six months with an increase of 7%, quite a success considering that machine deliveries in this segment were delayed in the first half of 2018 due to reporting date effects.

In the USA/Canada ("North America") markets, revenues of EUR 52,2 million in total were generated in the first half of 2018 (previous year: EUR 43,8 million). The North American market therefore accounts again for around 37,2% (previous year: 35,3%) of the consolidated total revenues of the MS Industrie Group.

Throughout, we are therefore again more than satisfied with the revenue trend in the first half of the year, both overall and by region. However, the operating performance at the different earnings levels is partially still below what we expected. As at the end of June, orders on hand were around 15% higher across all product groups than the average of the first half of 2017. Both in the "Ultrasonic" and the "Powertrain" segment the order backlog will be sufficient until the end of the fourth quarter of 2018 and extends well into 2019. With a three-shift production schedule, capacity utilisation is still high.

The revenues of MS Industrie Group, which at the consolidated level slightly increased in the reporting period, mainly comprise EUR 112,2 million (previous year: EUR 97,7 million) from the "Powertrain" segment and EUR 28,0 million (previous year: EUR 26,2 million) from the "Ultrasonic" segment (figures for segments after intercompany consolidation).

Personnel expenses rose year-on-year by around 10,7% in the first half, i.e. slightly more than proportionately to the increase in the headcount, with an average of 1.207 permanent employees (same period 2017: 1.136 employees). In addition, capacity utilisation was high (over 90%).

The gross margin (revenues including changes in inventory plus other operating income minus cost of materials) as a percentage of revenues amounts to 48,3% in the first half of the year (previous year: 47,4%).

Other expenses increased significantly by EUR 4,3 million overall to EUR 21,4 million due to, amongst other things, non-capitalised research and development costs of EUR 1,9 million (previous year: EUR 1,9 million) and considerably higher costs for power supply and consumables. As a result, earnings before interest, taxes, depreciation and amortisation (EBITDA) were slightly up, at around EUR 11,9 million (previous year: EUR 10,5 million).

After depreciation and amortisation there were considerably higher earnings before interest and taxes (EBIT) in the first half of 2018 amounting to EUR 5,8 million (previous year: EUR 3,9 million). The EBIT margin in the first six months of 2018 was around 4,6% in the "Powertrain Technology" segment and thus slightly higher than the average of around 4,0% reported in the German automotive supplier industry in 2017 (according to a current study published by Commerzbank AG in April 2018). In the "Ultrasonic Technology" segment the EBIT margin reported for the first half of 2018 was around 2,4% and thus still at around half of the average of around 5,0% reported in the German market for the construction of (special purpose) machines in 2017 (also according to a Commerzbank AG's study of April 2018).

The net financial result somewhat declined to EUR -1,0 million (previous year: EUR -0,8); thereof EUR +0,2 million (previous year: EUR +0,2 million) result from the valuation of derivative financial instruments and, in the first half of the year, EUR -0,4 million (previous year: EUR 0,0 million) from the repayment of derivative financial liabilities. The financial result includes financial income in the amount of EUR +0,1 million (previous year: EUR +0,2 million) and finance costs amounting to EUR -1,1 million (previous year: EUR -1,0 million).

Profit before taxes (EBT) distinctly increased to EUR 4,7 million in the first half of 2018 (previous year: EUR 3,1 million).

Profit after taxes (EAT) amounts to around EUR 3,6 million (previous year: EUR 2,4 million). Profit after non-controlling interests amounts also to EUR 3,6 million (previous year: EUR 2,4 million).

Cash Situation

	HY.1-2018 TEUR	HY.1-2017 TEUR
Net cash generated from / used in operating activities	-986	11
Net cash used in investing activities	-6.056	-2.763
Net cash used in / generated from financing activities	-5.260	-3.542
Net decrease in cash and cash equivalents	**-12.302**	**-6.294**
Liquid funds at beginning of period	1.389	895
Liquid funds at end of period	**-10.913**	**-5.399**

As at June 30, 2018, cash and cash equivalents amount to EUR 4,2 million (December 31, 2017: EUR 8,4 million). In addition, current account credit facilities of EUR 13,5 million were available (December 31, 2017: EUR 11,8 million).

Liquid funds as of June 30, 2018 amount to EUR -10,9 million (December 31, 2017: EUR +1,4 million) and thus have declined by EUR -12,3 million compared to December 31, 2017. The main reason for the decrease in liquid funds was, besides the strong increase in working capital (as at the reporting date), the negative cash flow from financing activities, which failed to offset the anticipated negative cash flow from investing activities.

Financial Situation

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

	30.06.2018		31.12.2017		Difference	
	TEUR	%	TEUR	%	TEUR	%
ASSETS						
Deferred income tax assets	90	0,1	86	0,1	4	4,2
Other non-current assets	73.126	43,4	72.103	47,2	1.023	1,4
Current assets	95.105	56,5	80.520	52,7	14.585	18,1
Total assets	**168.321**	**100,0**	**152.709**	**100,0**	**15.612**	**10,2**

	30.06.2018		31.12.2017		Changes	
	TEUR	%	TEUR	%	TEUR	%
EQUITY AND LIABILITIES						
Equity and minority interests	60.079	35,7	56.684	37,1	3.395	6,0
Deferred income tax liabilities	1.384	0,8	922	0,6	462	50,1
Other debt	106.858	63,5	95.103	62,3	11.755	12,4
Total equity and liabilities	**168.321**	**100,0**	**152.709**	**100,0**	**15.612**	**10,2**

Non-current assets increased by around 1,4% in the first half of the year, but barely changed as a percentage of total assets (around 44%). The increase is mainly caused by capital spending in the first half of 2018.

Current assets increased by around 18%, mainly due to the increase in accounts receivable as at the reporting date – especially in the "Ultrasonic" segment – by around 52%. The percentage ratio of non-current assets to total assets increased only slightly and was 57% as of the end of the first half of the year.

The Group's equity ratio fell slightly compared to December 31, 2017, caused in particular by the increase in total assets by around 10% during the first six months of the year. As of June 30, 2018, the equity ratio was at 35,7% (December 31, 2017: 37,1%). As a result of the Group's positive total comprehensive income, equity including non-controlling interests rose, in absolute terms, by EUR 3,4 million to EUR 60,1 million (December 31, 2017: EUR 56,7 million).

Liabilities also showed a marked increase in absolute terms, especially because of the increase in the Group's working capital, but remained almost unchanged as a percentage of total assets.

The Group's net debt ratio (short and long-term net bank liabilities/equity) increased from 64,2% as at the end of 2017 to 75,0% as at the end of the first half of the year 2017.

General statement on business performance and financial situation

The first half of 2018 continues to be marked by a focus on the core business segments **"MS Powertrain"** and **"MS Ultrasonic"** and on the three ongoing internationalisation projects (Brazil, China and Bulgaria).

The MS Industrie Group got off to a very good start in the first quarter 2018 and the first half year overall showed a noticeable upturn in demand, especially in the geographical sub-segment "Powertrain USA". The positive development in the second quarter of 2018, which was influenced by already somewhat increased shipments of ultrasonic custom machines, and the large order backlog for the rest of the year are reasons for the Executive Board to stay optimistic. The operating business in the current financial year developed largely according to plan for all subsidiary companies.

3. Information relevant to acquisitions and other reports

3.a. Risk report in relation to the use of financial instruments (Section 315 para. 2 no. 1 of the German Commercial Code - HGB)

Various bank liabilities of the MS Industrie Group continue to bear a variable interest rate. The Group is therefore exposed to an interest rate risk to this extent. This risk is partly neutralised through the use of interest rate swaps.

As of the interim reporting date, the Group had short-term bank loans of EUR 26,6 million, for which the interest rate is almost exclusively variable and linked to a EURIBOR rate plus margin. The Group held long-term interest rate swaps in the amount of EUR 10,9 million as of the interim reporting date to cover the interest rate risk. These interest rate swaps did not qualify as hedges for IFRS-accounting purposes. The negative cash value of these interest rate swaps as of the interim reporting date totaled EUR -0,9 million.

To hedge liquidity risks in relation to pension obligations in the MS Industrie Group, the relevant subsidiary companies took out partial reinsurance contracts and concluded a "Contractual Trust Arrangement" ("CTA"). The fair value of the claims under these insurance contracts and the contractual trust arrangement were deducted as plan assets from the present value of the obligation.

3.b. Report on the powers granted to the Managing Board of MS Industrie AG, especially in relation to the power to issue or buy back shares (Section 315a para. 1 no. 1 German Commercial Code - HGB)

Under a resolution of the shareholders' meeting as of June 29, 2016, the Executive Board is entitled for a period of five years from the registration of the relevant amendments to the Articles of Association in the Commercial Register on July 1, 2016, and subject to the approval of the Supervisory Board, to increase the Company's share capital on one or more occasions by up to EUR 6.000.000,00 by issuing up to 6.000.000 new shares in return for cash or contributions in kind and, under certain circumstances, to exclude shareholders' subscription rights. The Authorised Capital 2016/I of MS Industrie AG at the time the interim financial statements were prepared thus totaled EUR 6.000.000 (December 31, 2017: EUR 6.000.000).

The Executive Board is further authorised by resolution of the shareholders' meeting as of June 28, 2017 to acquire, until June 27, 2022, treasury shares up to a portion of 10% of the Company's existing share capital of EUR 30.000.000 as at the time of the resolution. The buy-back of treasury shares is intended, among other things, to permit the use of all or a part of the shares thus acquired for share option schemes for members of the Executive Board, bodies and employees of the Company or its associated companies, for the acquisition of companies or holdings in companies or to smooth out peaks in subscription rights. Hence, at the time these interim financial statements were prepared the maximum number of shares that could be bought back was 3.000.000. As of the interim reporting date, MS Industrie AG held 105.670 treasury shares of which 105.670 had been acquired in previous years.

4. Forecast report

The uncertainty about future global economic trends has been persisting since the publication of our Annual Report 2017 in April 2018. It is currently impossible to predict how much the German real economy will be affected by the smoldering crisis in the eurozone with the still slow pace of Brexit negotiations and crises flaring up in various regions in the Middle East. The uncertainties regarding the impact of the future (economic) policy pursued by the USA also add to this scenario. There are also some positive effects such as the continued historically low German base rate and the low inflation rate as well as the persistent low oil price - all of which are factors outside the control of the German industry, however.

Despite the above-mentioned macroeconomic risks, we assume that business for the MS Industrie Group will continue to develop solidly during the second half of 2018 in terms of revenues and earnings.

Provided that the global economy will remain stable at large, the Executive Board anticipates a continuing strong order book and expects the Group to have a solid annual result for the full 2018 financial year. The originally planned investment volumes for 2018 for MS Technologie Group were set at a total of around EUR 9,2 million, with EUR 6,2 million accounted for by the "Powertrain" segment, EUR 2,6 million by the "Ultrasonic" segment and EUR 0,4 million by the "Services" segment. In the first half of 2018, EUR 7,1 million of the planned total investment volume has been invested. According to the current investment forecast for 2018 the remaining investment budget is EUR 6,3 million, of which EUR 6,3 million will probably have an effect on cash flow. In terms of volumes, the greatest long-term growth is expected in the "Powertrain" segment from systems and components for heavy diesel engines in Europe. In the "Ultrasonic" segment, the strongest percentage growth is expected in the fields of the new ultrasonic servo presses of the "MS soniTOP" brand and "Systems and components for customer-specific applications".

In the "**Powertrain / Diesel**" sub-segment, the so-called "Class 8" sales - i.e. sales of heavy trucks in North America and Canada – showed disproportionately high growth. According to current market research, an even stronger market recovery can be expected for the second half of 2018. The main reasons for this are the US tax reform of 2017 and the more stable economic outlook for the USA in comparison to last year: the reluctance to purchase capital goods which could still be observed in the previous year has been overcome. Capacity utilisation is high at all production sites.

Elektromotorenwerk Grünhain GmbH, Grünhain-Beierfeld ("EMGR") operates in the "**Powertrain / Electric motors**" sub-segment. It is a successful manufacturer of customer-specific electric motors in a variety of different designs and of related products. EMGR is working towards entering the market for customer-specific electric motors for bicycles and tricycles (cargo sector/electro-mobility). After production of prototypes was successfully tested in 2013/2014, series production was started in Germany in 2017. By consistently pursuing development projects initiated in previous years (new and more efficient drive systems for industrial and electro-mobility applications), EMGR is increasingly becoming a system provider. To this end, EMGR has enlarged its product portfolio by including transmissions and controls. The management of EMGR anticipates the business development to correspond more or less to the previous year with stable revenues and a break-even annual result.

Since January 2016, the operating subsidiary "EMGR EAD", Gabrovo, Bulgaria has been manufacturing trolley drives for the crane industry using existing designs developed by the German parent company. The subsidiary also manufactures electric motors for the industry in general. Since early 2017, the company has also been manufacturing other customer-specific motors for industrial customers in Germany and Europe.

In the "**Ultrasonic / Special purpose machines**" sub-segment the order book continues to be good. Since capacity utiliation in this area is not directly dependent on the number of vehicles produced but primarily on new model launches by OEMs, this segment is considerably less cyclical than the "Powertrain" segment and has always been only slightly affected by crises. This is further enhanced by the policy of OEMs to offer a continuously increasing number of models and variants as well as their constant efforts to reduce vehicle costs through lightweight design, which is set to continue.

The packaging machine industry, which is a target market of the "**Ultrasonic / Systems & Components**" sub-segment – still the smallest in terms of revenues and headcount –, continues to show high growth rates due to the growing amount of plastic packaging in all areas of life worldwide. By rigorously pursuing our innovation strategy regarding new applications in the automotive, medical engineering, consumer goods and electronics industries we were able to showcase a new **servo press** for product lines at the "K-trade fair" in Düsseldorf in autumn 2016. Even if the level of orders received in the previous year was rather modest because production was still in the start-up phase, we are expecting disproportionately high growth rates in this highly innovative product area. In Brazil and China orders received continued to develop positively in the first half of 2017. The new Brazilian 45%-owned subsidiary acquired in 2016 is working at full capacity with orders from the "UTG" segment, and the pipeline is full. For the second half of 2018, stands for the "UTG" segment have been booked at the major trade fair "PackExpo" in Nuremberg from September, 25 to 27, 2018 and at the "Fakuma" trade fair in Friedrichshafen from October, 16 to 20, 2018.

This Interim Management Report contains forward-looking statements and information, i.e. statements relating to events that will occur in the future and are not historical facts. Forward-looking statements can be identified by the fact that they use words such as 'expect', 'anticipate', 'intend' or other words of similar meaning. Such forward-looking statements are based on our current expectations and certain assumptions and are therefore subject to inherent risks and uncertainties. A multitude of factors, many of which are beyond the Company's control, influence the business activities, success, business strategy and results of MS Industrie AG. These factors could cause our actual results, success and performance to differ materially from those expressed or implicitly contained in the forward-looking statements.

Munich, August 20, 2018

With kind regards

MS Industrie AG – The Executive Board

Dr Andreas Aufschnaiter
(Chairman of the Executive Board)

Armin Distel

MS Industrie AG
Brienner Straße 7 | 80333 Munich, Germany
Phone: +49 89 20500-900 | Fax: -999
info@ms-industrie.ag | www.ms-industrie.ag