MS Industrie AG

EXTRACTS from the Group's Management Report 2014

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

Message from the Board on the 2014 Annual Financial Statements

Dr. Andreas Aufschnaiter

Armin Distel

To all MS Industrie AG shareholders, employees and business partners:

Compared with last year, the year 2014 was a highly satisfactory one for our company group. In the fiscal year just ended the significant improvement in operating results was matched by a 20% increase in total sales to around EUR 218 million. This organic growth was generated by all product areas and locations.

As in the previous year, we would like to draw readers' attention to one or two pivotal issues and developments which we believe are important in assessing the year 2014 and for the further outlook:

- In the framework of the ongoing international alignment of our Group, and particularly with regard to a more precise definition of our product contents and core competencies, we have changed the names of our engine technology and welding technology business operations. The new names, which are also now embedded in our uniform corporate identity are firstly the **MS Powertrain Technology Group** (or „PTG" for short) at all the Group's locations and, secondly, the **MS Ultrasonic Technology Group** (or „UTG" for short) at the Spaichingen and Webberville locations and, from 2015, through partners also with presences in China and Brazil.

- The introduction of the **„Euro VI"** emission standard in **Europe** on 1 January 2014 was a key event in the PTG for our customers in the **commercial vehicles sector** and, as a result, for a large part of our Group. Significant pre-buy effects became apparent in 2013, well before the launch date, which had a considerable negative impact on sales figures for 2014, which were nonetheless compensated for by sales of new products. We also expect that the crisis in eastern Europe and the persistent financial market crisis, particularly in southern Europe, will counteract any substantial increases. We anticipate that ageing commercial vehicle fleets will slowly push up sales figures, whereby 2008 levels will only be reached again after 2015.

- In **North America** markets have developed positively which resulted in significant increases in sales. We expect this trend to continue throughout 2015 on the back of the very strong performance of the US economy.

- Construction of **ultrasonic custom machines** in the UTG for our customers in the car industry developed consistently well, both in Europe and in America, and we have a large volume of orders on hand for the year 2015. Ongoing recruitment and the professional development and training of personnel is essential in this know-how intensive field.

- Development and sales work was stepped up in the **systems and components product area** of the UTG. As a result we anticipate a further increase in sales in 2015. More prestigious customers were again acquired in 2014, mainly in the packaging and medical industries.

- Ahead of the growth which is expected in Europe, the **new production building** for MS Spaichingen GmbH in the neighbouring municipality of Trossingen/Schura was launched. The first large construction phase, covering around 18,000 square metres, is currently underway and is focused on boosting energy, logistics and production efficiency. It is planned that the PTG will move in upon completion in the period mid-December 2015 to approximately April 2016. The real estate leasing contract will run for 15 years.

- The **electronic motors plant** in Grünhain grew by a solid 5% plus in 2014 and pressed ahead with preparations for the mass-production of high-performance powertrain systems for e-mobility applications. A great deal of work was also undertaken on initiating, negotiating and preparing a joint venture in Bulgaria, which will be established in 2015, primarily for the manufacture of custom motors for the crane industry.

- A key milestone towards the industrial focusing of MS Industrie AG was the sale, in line with its corporate strategy, of 60% of its shares in **Beno Immobilien GmbH**. This resulted in structural simplification and a reduction in liabilities due to banks and total assets combined with an increase in the Group's equity ratio.

We will continue our strategy of bringing about tangible **reductions in Group debt**. The need for new investments in machines and equipment - excluding custom technology and tenant improvements for the new building in Trossingen - will not exceed 50% of depreciation and amortisation over a period of two more years.

Both **capital market instruments**, the MS Industrie share and the price of the MS bond 11/16 at the MS Spaichingen GmbH level, developed very positively in 2014 or remained at a good level. The issuer rating „BBB- / outlook positive" awarded to MS Spaichingen GmbH was confirmed as „Investment Grade" in April 2015. We are planning to arrange for suitable follow-up financing for the MS bond as early as 2015.

We are especially delighted that the Group again won several **awards** in 2014 (coming in as number 2 among the T0P100 most innovative medium-sized businesses in Germany and Best Supplier of Finished Parts for its customer MTU/Rolls Royce in Friedrichshafen). These awards again confirm the quality, delivery reliability and innovative strength of the MS Industrie Group.

Special thanks must go to all the employees of the MS Industrie Group for the outstanding results of all our joint work and efforts in 2014.

Best regards,

Dr. Andreas Aufschnaiter Armin Distel

München, 27. April 2015

Our product portfolio

ULTRASONIC
TECHNOLOGY
GROUP

MS Spaichingen GmbH
MS Plastic Welders, L.L.C.

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 Spaichingen GmbH
in Spaichingen, Baden-Württemberg: 26.000 m²
MS PowerTec GmbH
in Zittau, Saxony: 7.000 m²
EMGR Elektromotorenwerk Grünhain GmbH
in Grünhain-Beierfeld, Saxony: 17.000 m²

Locations in the United States:
MS Plastic Welders, L.L.C. and
MS Precision Components, L.L.C.
in Webberville, Michigan: 16.000 m²

Ultrasonic custom machines
for the automotive industry

Ultrasonic systems
for customer-specific ultrasonic solutions

Ultrasonic components
for multiple industrial applications

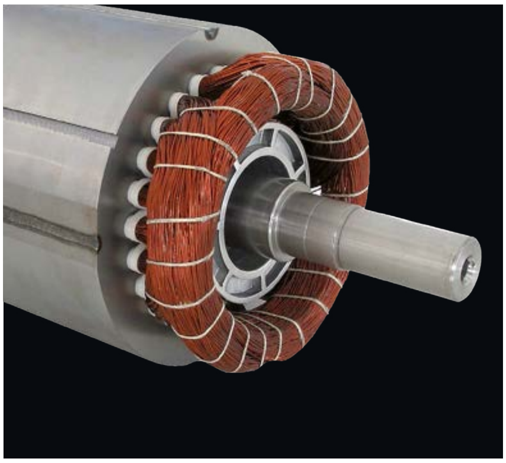
Ultrasonic technology

In the Ultrasonic Technology Group, MS uses state-of-the art technologies. Our machines for the processing of plastic parts are solutions that are sought after around the world in the manufacturing and automotive industries.
MS components and modules for ultrasonic sealing make packaging lines more efficient and save costs in the packaging process while ensuring highest seal quality.

POWERTRAIN
TECHNOLOGY
GROUP

MS Spaichingen GmbH
MS PowerTec GmbH
MS Precision Components, L.L.C.

EMGR Elektromotorenwerk Grünhain GmbH



Systems and components

- Valve trains
- Rocker arms and swing followers
- Gear box housings
- Valve bodies

Electric motors

- Capacitor motors
- Three phase A.C. motors
- Synchronous motors
- Rotors
- Stators

Machining technology and system assembly

In the Powertrain Technology Group, MS manufactures tailored solutions for engines and powertrain systems. Our powerful components, subassemblies and systems for off-highway and on-highway engines are used around the globe in leading manufacturers' vehicles, engines and transmissions. MS successfully combines years of manufacturing experience with the latest machining technologies.

Manufacturing of electric motors

Elektromotorenwerk Grünhain (EMGR) offers market-leading custom drive solutions for industry applications. Our electric motors, which are manufactured here with a high level of vertical integration, are developed together with our customers in accordance with their specific requirements. New energy-efficient motors, drive electronics, brakes, transmission elements and aluminum die cast parts round off our portfolio of motors.

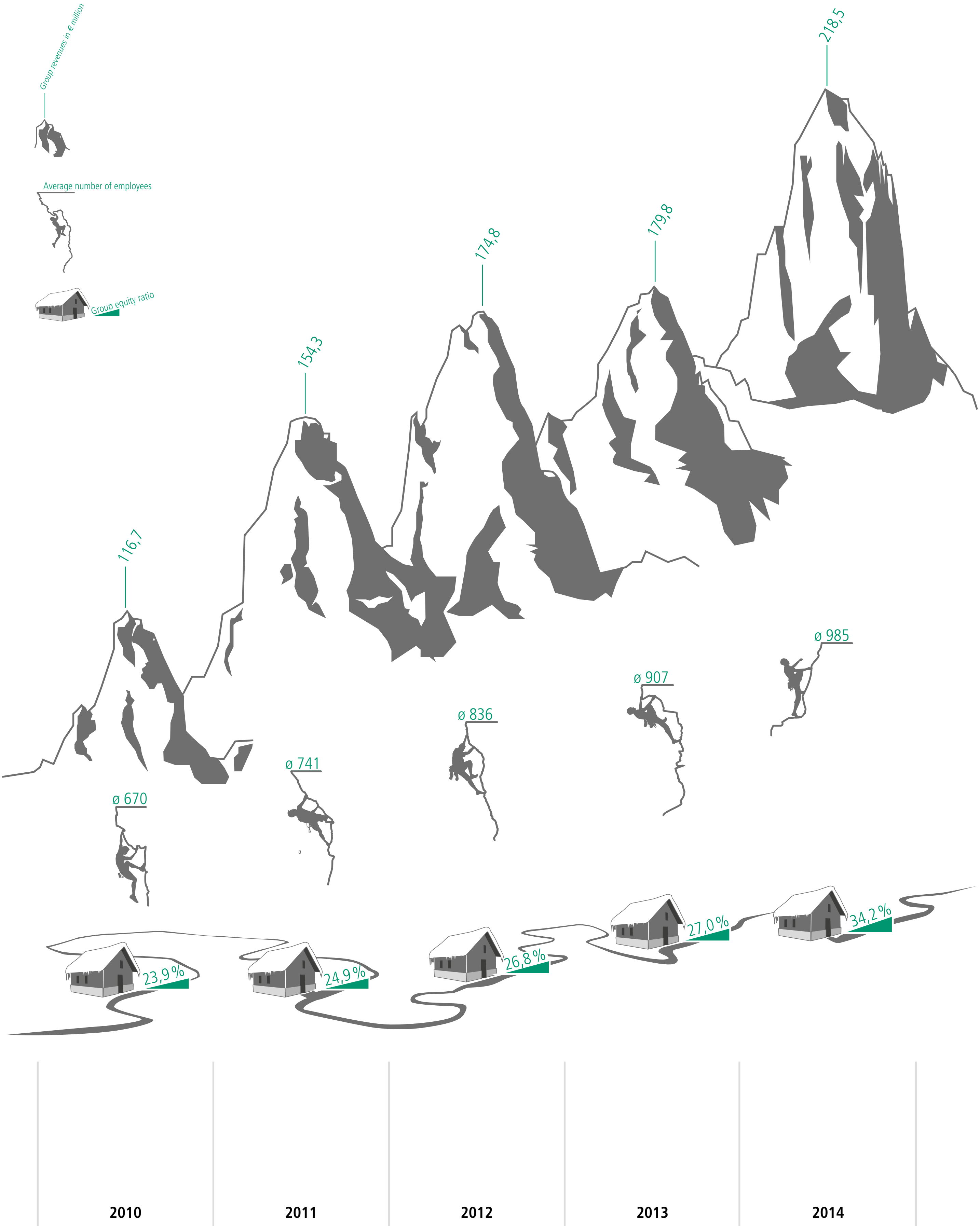
Annual Consolidated Financial Statements 2014 - Overview of key figures

MS Industrie Group, according to IFRS, in TEUR

Balance sheet key figures	31.12.2013	31.12.2014
Total assets	155.470	138.287
Equity and non-controlling interests	42.000	47.247
Equity ratio (%)	27,0 %	34,2 %
Trade receivables	23.117	27.008
Liquid funds (Cash and cash equivalents ./. Current accounts)	3.369	2.553
Net working capital (Inventories + Trade receivab. ./. Trade payables)	37.342	47.486

Cashflow key figures	2013	2014
Net cash generated from operating activities	8.226	6.810
Net cash used in investing activities	-11.266	-443
Net cash used in financing activities	-3.383	-7.314

Income statement key figures	2013	2014
Revenues	**179.775**	**218.450**
Other operating income	4.457	4.500
Cost of materials (incl. changes in inventories)	96.565	125.669
Gross profit	**87.667**	**97.281**
Personnel expense	42.105	47.717
Other operating expense	28.287	28.367
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**17.275**	**21.197**
Depreciation and amortisation expense	10.546	11.286
Operating profit (EBIT)	**6.729**	**9.911**
Finance costs, net	-4.286	-4.339
Profit before income tax (EBT)	2.443	5.572
Profit for the year after non-controlling interests (EAT)	**1.975**	**4.128**
Consolidated earnings per share in EUR	**0,07**	**0,14**



Group revenues in € million
Average number of employees
Group equity ratio
116,7
154,3
174,8
179,8
218,5
ø 670
ø 741
ø 836
ø 907
ø 985
23,9 %
24,9 %
26,8 %
27,0 %
34,2 %
2010
2011
2012
2013
2014

MS Industrie AG, Munich
Consolidated income statement for the financial year 2014

	2014 TEUR		2013 TEUR
Revenues			
a) Proceeds from the sale of investments and securities held as current assets	3.999		176
b) Revenues from industrial and real estate business	214.179		179.507
c) Revenues from consulting and commissions	272		92
		218.450	179.775
Changes in inventory of work in process and finished goods		1.768	2.305
Other operating income		4.500	4.457
		224.718	186.537
Cost of materials			
a) Disposal of investments and securities held as current assets (carrying amounts)	2.524		149
b) Costs of raw materials and consumables used and of goods purchased	118.330		91.054
c) Costs of services	6.583		7.667
		127.437	98.870
Personnel expense		47.717	42.105
Depreciation and amortisation expense			
a) Depreciation of property, plant and equipment and amortisation of intangible assets	11.230		10.296
b) Depreciation of investment property	56		0
c) Impairment losses	0		250
		11.286	10.546
Other operating expense		28.367	28.287
		214.807	179.808
Operating Profit		9.911	6.729
Finance income		253	280
Finance costs		4.592	4.566
Share of profit of investments accounted for using the equity method		0	0
Profit before income tax		5.572	2.443
Income tax expense		1.438	158
Profit for the year		4.134	2.285
profit attributable to owners of the parent		4.128	1.975
profit attributable to non-controlling interests		6	310
		4.134	2.285
Consolidated earnings per share, in EUR			
basic, after non-controlling interests		0,14	0,07
diluted, after non-controlling interests		0,14	0,07
Number of shares, average weighting			
basic		29.857.893	29.506.957
diluted		29.857.893	29.506.957

MS Industrie AG, Munich, Consolidated statement of comprehensive income
for the financial year 2014

	2014 TEUR	2013 TEUR
Profit for the year	4.134	2.285
Items that may be subsequently reclassified to profit or loss		
Change in value of available-for-sale financial assets (IAS 39)	-139	0
Currency translation differences	2.437	-720
	2.298	-720
Items that will not be reclassified to profit or loss		
Remeasurements of post employment benefit obligations	419	138
Actuarial gains/losses	-698	-50
Income taxes recorded in other comprehensive income	152	-17
	-127	71
Other comprehensive income for the year, net of tax	2.171	-649
Total comprehensive income for the year	6.305	1.636
attributable to owners of the parent	6.299	1.326
attributable to non-controlling interests	6	310
	6.305	1.636

MS Industrie AG, Munich

Consolidated balance sheet as at 31 December 2014

	31.12.2014 TEUR	31.12.2013 TEUR
ASSETS		
Intangible assets	4.601	6.160
Property, plant and equipment	48.400	61.762
Investment property	7.290	20.180
Net defined benefit assets	2.097	2.192
Investments and loans	4.072	345
Investments accounted for using the equity method	1.255	0
Deferred income tax assets	864	647
Other non-current financial assets	1.367	485
Non-current assets	**69.946**	**91.771**
Inventories	31.777	28.417
Trade receivables	27.008	23.117
Cash and cash equivalents	3.464	3.623
Income tax assets	345	144
Other current financial assets	3.708	2.464
Other current assets	2.039	2.117
	68.341	59.882
Assets held for disposal, classified as held for sale	0	3.817
Current assets	**68.341**	**63.699**
TOTAL ASSETS	138.287	155.470
EQUITY AND LIABILITIES		
Ordinary Shares (30,00 million shares less 161.000 treasury shares)	29.839	29.848
Perpetual bond	5.411	5.411
Share premium	7.454	7.372
Statutory reserve	439	439
Retained earnings	3.955	4.030
Other reserves	2.564	393
Consolidated loss	-2.415	-6.387
Non-controlling interests	0	894
Equity and non-controlling interests	**47.247**	**42.000**
Non-current Borrowings	11.575	23.778
Deferred income tax liabilities	1.349	1.121
Other non-current provisions and accruals	311	257
Other non-current financial liabilities	32.639	35.471
Other non-current liabilities	3.337	3.007
Non-current provisions and liabilities	**49.211**	**63.634**
Current Borrowings	10.681	13.609
Trade payables	11.299	14.192
Current income tax liabilities	349	353
Current provisions and accruals	5.091	8.464
Other current financial liabilities	9.554	10.278
Other current liabilities	4.855	2.940
Current provisions and liabilities	**41.829**	**49.836**
TOTAL EQUITY AND LIABILITIES	138.287	155.470

MS Industrie AG, Munich

Consolidated cash flow statement 2014

	2014 TEUR	2013 TEUR
Profit for the year	4.134	2.285
Income tax expense (recognised through profit and loss)	1.438	158
Finance income (recognised through profit and loss)	-253	-280
Finance costs (recognised through profit and loss)	4.592	4.566
Depreciation of property, plant and equipment and amortisation of intangible assets	11.230	10.296
Depreciation of investment property	56	0
Material non-cash other expenses (+) or income (-):		
- Impairment losses	0	250
- Gains/losses on revaluation of investment property	0	-1.465
- Expenses from transfers to provisions	0	1.500
Losses/gains (-) on disposal of property, plant and equipment and intangible assets	-153	-25
Losses/gains (-) on disposal of investments and associates	0	1
Losses/gains (-) on disposal of investments held for sale	-14	-28
Losses/gains (-) on deconsolidation	-1.461	0
Increase in inventories, trade receivables and other assets not assigned to investing or financing activities	-12.746	-2.872
Increase/decrease (-) in trade payables and other liabilities not assigned to investing or financing activities	4.136	-1.753
Interest received	90	88
Interest paid	-3.566	-3.939
Income tax received	61	12
Income tax paid	-734	-568
Net cash generated from operating activities	**6.810**	**8.226**
Proceeds from sale of property, plant and equipment and intangible assets	167	358
Purchases of property, plant and equipment and intangible assets	-5.643	-7.820
Proceeds received from government subsidies for investments in property, plant and equipment	1.727	291
Purchases of investment property	0	-3.885
Proceeds from disposal of fully consolidated subsidaries less cash and cash equivalents transferred under the sale	3.177	0
Proceeds from disposal of available-for-sale financial assets	0	13
Proceeds from disposals of investments held for sale	209	160
Purchase of investments	-80	0
Acquisition of non-controlling interests	0	-383
Net cash used in investing activities	**-443**	**-11.266**
Proceeds from issuance of debt-equivalent bonds	299	0
Repayments of debt-equivalent bonds	-1.455	-660
Proceeds from borrowings	5.310	6.053
Repayments of borrowings	-6.931	-5.026
Proceeds from finance lease transactions	255	245
Payments made for finance lease transactions	-4.550	-3.642
Dividends paid to holders of perpetual bond	-156	-300
Payments made in connection with the issuance of ordinary shares of MS Industrie AG	0	-53
Proceeds received from the sale of treasury shares	29	0
Purchase of treasury shares	-115	0
Net cash used in financing activities	**-7.314**	**-3.383**
Net decrease in liquid funds	**-947**	**-6.423**
Exchange gains/losses on liquid funds	**131**	**-131**
Liquid funds at beginning of period	3.369	9.923
Liquid funds at end of period	**2.553**	**3.369**

MS Industrie AG,
Munich

EXTRACTS from the group's management report for the financial year 2014

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1. Businessmodel and strategy of MS Industrie AG

MS Industrie AG (MS AG) operates in investment business with a special focus on the industrial as well as real estate and management services sectors. MS Industrie AG and its core holdings are engaged in the following business activities:

a) Industrial holdings

MS Spaichingen GmbH through MS Enterprise Group GmbH: Manufacturing of mechanical subassemblies and components for the automotive industry, especially for the commercial vehicle industry (Powertrain Technology division); manufacturing of custom machines for the automotive industry and ultrasonic sealing systems for the packaging industry (Ultrasonic Technology division).

Elektromotorenwerk Grünhain GmbH: Manufacturing of electric motors and aluminium die-cast components

b) Real estate holdings

The non-current assets of GCI BridgeCapital GmbH and Beno Immobilien GmbH (until 20 May 2014): acquisition, management and rental of commercial properties

c) Services

MS Industrie AG: management consulting

2. Report on economic situation

2.a. Macroeconomic and industry-related environment

Instability in parts of the eurozone continued to weigh on the economy and financial markets throughout last year. Nonetheless, Germany's economy once again proved astonishingly robust in 2014 as, adjusted for prices, gross domestic product (GDP) grew by 1,5% (compared to just 0,1% in 2013) over the year as a whole. Manufacturing, which excluding the core construction sector contributes around a quarter of gross value added, also expanded by a tangible 1,1%. Record rates of employment and rising wages gave an additional boost to consumer spending, in particular last year, which rose by 1,1% over the previous year. Despite the uncertain economic outlook, businesses nonetheless again took the risk of engaging in larger-scale investment activities. Spending on machines and equipment went up by 3,7% following a decline of 2,4% in 2013.

Germany's economy performed unmistakably well in a generally difficult global economic setting and benefited in particular from strong domestic demand. German exports also picked up steam again on average in 2014, despite the unchanged fragile state of surrounding economies: adjusted for prices, Germany exported 3,7% more goods and services than in the year 2013.

Germany's economy thus showed itself in robust form in 2014 and is weathering the difficult external environment well. After a buoyant start to the year and the subsequent weaker phase in the summer, economic activity stabilised towards the end of the year. According to Germany's Federal Statistical Office, Germany narrowly avoided recession in the second half of 2014.

The North American (US and NAFTA) economy – which accounts for around 36,0% (previous year: 36,8%) of Group sales, and which remains one of MS Industrie AG's most important sales market outside the EU – performed somewhat better. GDP in this region grew by around 2,8% despite hesitant corporate investment activities in response to fears of a renewed deployment of US troops following the end of the US military engagement in Iraq and Afghanistan and signals from the Federal Reserve Bank ("FED") in the second half of the year of an end to near-zero interest rates.

In this global economic setting the US dollar traded against the euro at between 1,38 and 1,21 throughout 2014. At the end of the year, the euro was worth 1,21 US dollars, substantially less than at the start of the year (1,38 US dollars).

Demand in Germany and Europe for older Powertrain Technology division products remained subdued below pre-crisis 2008 levels. The US commercial vehicles market was much less muted, not least due to the release of enormous pent up demand following a period in previous years in which customers held off on purchases.

In February 2015, the "VDMA" (German Engineering Association) Plastics and Rubber Machinery Association reported that German manufacturers of plastics machinery had closed the previous year with a minimal 1% increase in sales. Around 3% more incoming orders were received for the entire year than last year. With orders up by 17%, the much bemoaned backlog in Germany has now at last been worked off. Eurozone countries continued to develop positively and this had a corresponding impact on export demand, which rose by 15%. "VDMA" statistics show that total orders from abroad were 1% down on the previous year. Up to November 2014, deliveries made abroad were 0,9% lower than last year, a decline which tailed off in the course of the year. Exports also clearly reflected the recovery of Germany's EU partners with the "VDMA" statistics revealing strong increases in exports to both the south and the east.

In fiscal year 2014, MS Industrie AG with its internationally active subsidiaries operated in the macroeconomic and industry-related environment described above , primarily in the industrial (subgroup MS Spaichingen GmbH and Elektromotorenwerk Grünhain GmbH), real estate (non-current assets of GCI BridgeCapital GmbH and the subgroup Beno Immobilien GmbH, up to 20 May 2014) and, with its supplementary management consultancy, management service sectors.

2.b. Business development

Fiscal 2014 was a year of continuing growth, particularly at the MS Spaichingen (MS) subgroup's two German locations. Volumes of several new articles went up significantly and the Ultrasonic Technology division's order books are full. There was further growth in the number of employees at the two German MS locations in Spaichingen and Zittau and the level of machine equipment – including fully-integrated axle production for valve trains. This dynamic development is clearly reflected in the performance indicators for the fiscal year in the form of volume growth.

With the exception of the planning for a new production plant for MS Spaichingen GmbH in Trossingen, most investment for growth across all the group's locations has been completed. This means that the additional need for investment – with the exception of capital spending on the supply of sustainable power to MS Spaichingen GmbH locations in Germany – will be considerably lower in the next few years than has been the case in recent years, unless new and unplanned large orders require higher levels of capital spending. In parallel, we also anticipate a further steady increase in capacity utilisation in specific areas of production.

Bearing in mind substantial structural adjustments, one-off effects and endeavours we are again very satisfied with operative performance at the various results levels.

Developments throughout the fiscal year ending in detail:

The MS Spaichingen (MS) subgroup reported subgroup sales for 2014 of around EUR 196 million compared with EUR 161 million in the previous year. MS is mainly active in two divisions: "Powertrain Technology" (mechanical subassemblies and components for the automotive industry, and for commercial vehicles in particular) and "Ultrasonic Technology" (custom machines for the automotive industry and ultrasonic sealing systems and components, including for the packaging industry). It is one of the few single source suppliers in the automotive supply sector, and in the commercial vehicles sector in particular. It continues to have long-term supply contracts with its main customers.

MS again provided impressive evidence of its innovative strength as one of Germany's "100 most innovative medium-sized business operations". In its particular size category (firms with over 250 employees) the Company again won the second place in 2014. MS has, in fact, been named as one of Germany's most innovative medium-sized businesses three times in a row over the past three years. One of the secrets of MS' success is its high vertical range of manufacture and development: MS has its own laboratory, which is staffed by seven developers, as well as all the important competencies – from development and volume production of all ultrasonic components through to toolmaking and CNC production, prototyping and production with assembly. The extent of MS' innovative capacity is demonstrated by the fact that it generates a large share of its sales with products which have been launched on the market in the last three years – importantly, earlier than the company's competitors. MS naturally meets the requirements of the DIN 14002 environmental management standard, and therefore of all its high-profile customers, at all its locations in Germany.

With sales of around EUR 18 million in fiscal 2014 (compared to EUR 17 million in fiscal 2013) Elektromotorenwerk Grünhain GmbH ("EMGR") reported the second highest sales figures in the history of the company, despite a mild slowing down of the economy, to close the fiscal year ending with a positive year-end result in the mid three-digit million euro range. EMGR is a successful manufacturer of customised electric motors in various configurations as well as of related products. EMGR also has its own modern aluminium die casting unit for internal and external use (mainly for the automotive and heating industries, etc.).

Fiscal 2014 was also marked by the consolidation of the existing holding portfolio, the disposal of remaining minority shareholdings and by steps to secure provisions, first recognised in fiscal 2008, to cover liability risks arising for a former subsidiary, which finally became manifest in the period under review.

The court settlement reached with the insolvency administrator of the former subsidiary Pfaff Industrie Maschinen AG i. I. on 24 July 2014 is expected to result in the following structured outflows of liquidity after 2015 (whereby EUR 1.0 million of this amount was already paid out in fiscal 2014): Total of EUR 2,1 million, due for payment in three instalments each of EUR 0,5 million on 15 June 2015, 15 December 2015 and 15 June 2016 and a final instalment of EUR 0,6 million on 15 December 2016, EUR 1 million of which is due in the near future. The remaining liabilities arising from the court settlement, totalling EUR 2,1 million, were shown in full in the balance sheet as at December 2014. The settlement – which now brings to a final close the legal disputes arising from the insolvency of the former subsidiary which have been ongoing since 2008 – impacted the consolidated results in the fiscal year to the tune of EUR -0,4 million in the form of losses on the derecognition of receivables.

The financial position of the Group is still stable. With equity rising 12,5% and total assets decreasing by 11,1%, the equity ratio continued to improve year on year, climbing to 34,2% (previous year: 27,0%).

Revenues have increased considerably and the earnings situation is characterised by operating profit which is higher than in the previous year and thus on track. The finance costs, net have remained almost unchanged. Income tax expenses again reflect one-off effects: in the period under review this is the impact of a tax audit and in the previous year a tax audit which had knock-on effects on entities in other countries.

Overall, the business situation of the MS Industrie-Group as at the balance sheet date can again be considered good. The good or even excellent order books recorded by all operating subsidiaries of the Group support this positive assessment - despite continuing uncertainties concerning the development of the general economy.

In the Group's previous year´s management report, group sales were forecasted to increase by round 10% to nearly EUR 200 million. Consolidated revenues in fact rose by around 21,5% to round EUR 218,5 million in the period under review. Thus the forecast of a marked increase in group sales of 10% to nearly EUR 200 million was again exceeded considerably. For the fiscal year 2014 the Group's key earning figures EBITDA, EBIT, EBT, EBIT margin and earnings per share from continuing operations (without exceptional items) were expected to increase and consequently growth was also anticipated for the Group's equity. These expectations have been fully met (refer to section 2.c., Situation of the Group, below for more detailed information on developments). In addition, cash flows from operating activities (without exceptional items) were also forecast to clearly improve over the previous year, which, however, did not materialise due to the expansion of working capital. The steps taken were intended to reduce the debt-to-equity ratio and lead to a significant increase of the equity ratio. These expectations have also been fully met (refer to section 2.c., Performance of the Group below for more detailed information on developments).

Last year´s forecasts regarding the development of non-financial performance indicators assumed that MS Industrie AG would continue to undertake all possible measures to meet relevant environmental norms and to endeavour to minimise employee turnover by introducing employee retention schemes. The Group has implemented the required measures as well. The planned expansion of revenues required the recruitment of more personnel, specialists and managers in particular, and the employment of the required number of temporary staff. The purpose of these measures has been and is to counteract a potential shortage of skilled workers and, in particular, to prepare future management staff to deal with challenging tasks. The required measures have also been implemented.

2.c. Business Performance

Earnings situation

The following table provides an overview of the major performance figures for the earnings situation of our Group and of the comparative figures for the previous year.

	1/1 to 31/12/2014		1/1 to 31/12/2013		Changes	
	TEUR	%	TEUR	%	TEUR	%
Revenues	218.450	100,0	179.775	100,0	38.675	21,5
Other operating income	4.500	2,1	4.457	2,5	43	1,0
Cost of materials (incl. changes in inventory)	125.669	57,5	96.565	53,7	29.104	30,1
Gross profit	**97.281**	**44,6**	**87.667**	**48,8**	**9.614**	**11,0**
Personnel expense	47.717	21,8	42.105	23,4	5.612	13,3
Other operating expense	28.367	13,0	28.287	15,7	80	0,3
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**21.197**	**9,8**	**17.275**	**9,6**	**3.922**	**22,7**
Depreciation/amortisation expense	11.286	5,2	10.546	5,9	740	7,0
Operating profit (EBIT)	**9.911**	**4,6**	**6.729**	**3,7**	**3.182**	**47,3**
Finance costs, net	-4.339	-2,0	-4.286	-2,4	-53	1,2
Profit before income tax (EBT)	**5.572**	**2,6**	**2.443**	**1,4**	**3.129**	**>100,0**
Income tax (expense)	1.438	0,7	158	0,1	1.280	>100,0
Profit for the year before non-controlling interests (EAT)	**4.134**	**1,9**	**2.285**	**1,3**	**1.849**	**80,9**
- attributable to non-controlling interests	6	0,0	310	-0,2	-304	-98,1
Profit for the year after non-controlling interests (EAT)	**4.128**	**1,9**	**1.975**	**1,1**	**2.153**	**>100,0**

After a somewhat moderate increase of 2,8% in the previous year, consolidated revenues rose considerably by around 21,5% to round EUR 218.5 million in the period under review. Thus the previous year forecast, which projected a 10% increase to nearly EUR 200.0 million, was again exceeded significantly. This growth in revenues is mainly due to the revenue increase recorded by the subgroup MS Spaichingen which had been planned on a long-term basis and forecasted accordingly in the previous year. The projected revenue growth and resulting increase in earnings of Elektromotorenwerk Grünhain GmbH were largely attained as the electric motor manufacturing industry picked up. Both revenues and earnings of Elektromotorenwerk Grünhain GmbH therefore once more exceeded previous-year figures in 2014.

Revenues grew significantly, albeit at substantially different rates, across nearly all geographical regions. Revenues were, for example, up by 19,1% in the domestic (and still strongest) market; in the NAFTA region (North America/Canada), the strongest international export market, revenues rose by 18,8% while exports to the EU market (the second-most important foreign market) even increased by 83,5%.

Revenues include sales revenues generated by the Group's investment business including revenues from the sale of investments and securities held as current assets in the amount of TEUR 218.178 (previous year: TEUR 179.683) as well as revenues generated from consulting activities amounting to TEUR 272 (previous year: TEUR 92).

Investment business revenues particularly include TEUR 195.637 generated by MS (previous year: TEUR 160.663). In addition, especially the revenues from the operating activities of Elektromotorenwerk Grünhain GmbH in the amount of TEUR 17.576 (previous year TEUR 16.723) also form part of the revenues which the Group generates from its investment business activities.

In the financial year 2014 revenues from the sale of investments were mainly attributable to the sale of 60,1% of the shareholding in Beno Immobilien GmbH (TEUR 3.790) and to the sale of shares in UMT United Mobility Technology AG (TEUR 209). Corresponding disposals of assets with carrying amounts of TEUR 2.524 in total were shown in cost of materials.

In fiscal 2013 revenues from the sale of investments were mainly attributable to the sale of shareholdings in UMT United Mobility Technology AG (TEUR 160) and GCI Management Consulting GmbH (TEUR 10). Corresponding disposals of assets with carrying amounts of TEUR 143 in total were shown in cost of materials.

Other operating income includes income from the reversal of provisions and other income generated in prior periods amounting to a total of TEUR 546 (previous year: TEUR 342). Of this income, TEUR 121 (previous year: TEUR 5) is attributable to MS Industrie AG and GCI BridgeCapital GmbH, and TEUR 405 (previous year: TEUR 296) is attributable to MS. Moreover, the MS Spaichingen Group generated foreign currency gains of TEUR 1.845 (previous year: TEUR 983).

The ratio of gross profit margin (revenues including changes in inventory and other operating income less cost of materials) and revenues in the financial year 2014 is 44,6% (previous year: 48,8%).

The increased material cost ratio of 57,5% (previous year: 53,7%) can be explained by two factors in particular: On the one hand, the product mix of the MS Spaichingen-Group changed in the course of the fiscal year (with an increase of material-intensive product groups), on the other, more manufacturing work had to be outsourced in the fiscal year to meet higher demand.

Personnel expenses increased over the previous year by around 13,3% with an average headcount of 985 (previous year: 907) permanent employees (an increase of about 8,6%), excluding temporary agency staff and trainees.

Thus, earnings before interest, taxes, depreciation and amortisation (EBITDA) showed a marked increase and came to EUR 21,2 million (previous year: EUR 17,3 million). Thus, the forecast of the previous year which projected a significant increase of EBITDA for the Company proved to be accurate.

Depreciation and amortisation expense and impairment losses increased according to plan from TEUR 10.546 to TEUR 11.286 in fiscal year 2014. In the previous fiscal year, impairment losses of TEUR 250 in relation to a processing plant of the MS Spaichingen Group were disclosed under this item.

After higher personnel expenses, which were mainly caused by another increase in revenues of the MS Spaichingen Group (see explanations above, and an increase of depreciation/amortisation expense and other operating expenses, operating profit (EBIT) showed significant growth in fiscal 2014, reaching EUR 9,9 million (previous year: EUR 6,7 million). Thus, the previous year´s forecast according to which operating profit (EBIT) was to rise significantly also proved to be accurate.

The ratio of EBIT and revenues in the financial year 2014 is about 4,6% (previous year: 3,7%).

The Group's net finance costs remained almost unchanged over the previous year. The net finance costs include finance income of TEUR 253 (previous year: TEUR 280) and finance costs amounting to TEUR 4.592 (previous year: TEUR 4.566).

Finance income partly results from the market valuation of derivative financial instruments, especially the fair value measurement of interest rate swaps (TEUR 49; previous year: TEUR 189), and it is also generated from investing existing cash on hand.

Finance costs include EUR 3,7 million finance costs incurred by the MS Spaichingen Group (previous year: EUR 3,6 million). This amount includes EUR 0,5 million (previous year: EUR 0,1 million) finance costs resulting from derivative financial instruments, especially the fair value measurement of interest rate swaps and foreign exchange forwards.

Profit for the year before income taxes (EBT) is EUR 5,6 million; in the previous year the MS Industrie Group generated pre-tax earnings of EUR 2,4 million. Consolidated earnings before non-controlling interests (EAT) amount to EUR 4,1 million (previous year: EUR 2,0 million). This confirms the expectations of a marked improvement in pre-tax earnings according to the forecast of the previous year.

With EUR 0,14 per share, rounded consolidated earnings per share have also improved over the previous year (EUR 0,07 per share). The previous year's forecast of a significant improvement in consolidated earnings per share from continuing operations (without exceptional items) has thus been outperformed.

Cash situation

	2014 TEUR	2013 TEUR
Net cash generated from operating activities	6.810	8.226
Net cash used in investing activities	-443	-11.266
Net cash used in financing activities	-7.314	-3.383
Net decrease in cash and cash equivalents	**-947**	**-6.423**
Exchange gains/losses on liquid funds	131	-131
Liquid funds at beginning of period	3.369	9.923
Liquid funds at end of period	**2.553**	**3.369**

The negative changes in liquid funds are due to the negative cash flow from investing activities on the one hand and the negative cash flow from financing activities on the other, the accumulated amount of which exceed the positive cash flow from operating activities by TEUR 947.

Especially the positive cash flow from operating activities of the MS Spaichingen-Group is reflected in the consolidated positive cash flow from operating activities. The negative cash flow from investing activities reflects the investing activities of MS which were very high in the fiscal year 2014 - albeit according to plan - and mainly funded through lease purchase contracts.

The previous year's forecast of a considerable improvement in cash flow from operating activities (without exceptional items) unfortunately did not materialise due to the expansion of working capital.

As at 31 December 2014 credit facilities in the amount of EUR 19,1 million (previous year: EUR 5,9 million) are available to the Company. Moreover, current assets (EUR 68,3 million) exceed current liabilities (EUR 41,8 million) by EUR 29,9 million. Cash and cash equivalents amount to EUR 3,5 million (previous year: EUR 3,6 million).

We expect that we will be able to obtain follow-on-financing regarding the corporate bond in the amount of EUR 22,7 million which falls due in mid-July 2016.

Financial position

The following table provides an overview of significant changes in financial position of the Group:

	31/12/2014		31/12/2013		Changes	
	TEUR	%	TEUR	%	TEUR	%
A S S E T S						
Deferred income tax assets	864	0,6	647	0,4	217	33,5
Other non-current assets	69.082	50,0	91.124	58,6	-22.042	-24,2
Current assets	68.341	49,4	63.699	41,0	4.642	7,3
Total assets	**138.287**	**100,0**	**155.470**	**100,0**	**-17.183**	**-11,1**

	31/12/2014		31/12/2013		Changes	
	EUR mn	%	EUR mn	%	EUR mn	%
E Q U I T Y + L I A B I L I T I E S						
Equity and minority interests	47.247	34,2	42.000	27,0	5.257	12,5
Deferred income tax liabilities	1.349	1,0	1.121	0,7	228	50,3
Other debt	89.691	64,8	112.349	72,3	-22.658	-20,2
Total equity and liabilities	**138.287**	**100,0**	**155.470**	**100,0**	**-17.183**	**-11,1**

In fiscal year 2014 the non-current assets of our Group declined in absolute terms, decreasing by around EUR 21,8 million, and also changed significantly in relation to total assets, declining to a share of only 50,6% (previous year: around 58,6%). The decrease in absolute terms of non-current assets in the period was mainly caused by the sale of the majority of the shares of Beno Immobilien -group and the deconsolidation of said company and the resulting disposal of the (investment)-properties of Beno Immobiliengroup. Additionally, non-current assets declined in the fiscal year owing to the depreciation and amortisation expense incurred by the subgroup MS Spaichingen in particular regarding intangible assets and machinery and equipment.

Capital spending planned for 2014 amounted to a total of EUR 4,6 million for the MS Spaichingen Group, of which EUR 3,6 million were to be invested at the head office in Spaichingen, EUR 0,5 million at the site in Zittau, Germany as well as around EUR 0,5 million at the site in Webberville, USA. Actual capital spending in 2014 was somewhat higher with MS accounting for a total of around EUR 5,0 million. Of this total, around EUR 4,0 million were invested at the head office in Spaichingen, EUR 0,6 million at the second German location in Zittau and around EUR 0,4 million at the site in Webberville, USA. The main reason why the investment volume deviated from the plan was the lease-purchase of two new machining centres.

Current assets increased by around 7,3%, which was mainly due to the growth in receivables and inventories by overall around 14,1%, whereas cash and cash equivalents remained almost unchanged. In relation to total assets, the percentage share of current assets also showed a significant increase.

Net working capital (inventories and trade receivables less trade payables) was EUR 47,5 million as at 31 December 2014 (previous year: EUR 37,3) and thus has strongly increased by around 27,3% over the previous year.

The growth in equity compared to 31 December 2013 by EUR 5,2 million was primarily a result of the Group's positive total comprehensive income of the year, amounting to EUR 6,3 million. Compared to 31 December 2013 the equity ratio in the Group has also experienced significant growth and was at 34,2% as at the balance sheet date (31 December 2013: 27,0%), while total assets were down by 11%. Apart from the decrease of total assets (primarily a result of the deconsolidation of the Beno Immobilien Group) it was primarily the Group's positive total comprehensive income amounting to EUR 6,3 million, which contributed to the increase of the equity ratio. This development clearly confirmed the previous year's forecast regarding continued growth of the equity ratio.

As the Group sold the majority of its shareholding in the Beno Immobilien-Group and the real estate loans were consequently deconsolidated, debt capital also went down in absolute terms. Moreover, loans from banks were extinguished and finance lease obligations reduced in the financial year (EUR 11,5 million in total). Another important factor is the slight decrease in trade payables by EUR 2,9 million to EUR 11,3 million. Thus the previous year's forecast of a significant reduction in the debt-to-equity ratio with a slight decrease of total assets has been confirmed in the period under review.

Non-controlling interests were EUR 0,0 million as at 31 December 2014 (previous year: EUR 0,9 million). In the previous year all minority interests were attributable to Beno Immobilien GmbH.

Non-financial indicators

Sustainability / environment

The MS Industrie Group fulfils the requirements of the DIN 14002 (environmental audit) standard at all its company locations. No special environmental risks are known of.

The Company wishes to ensure that the building complex for the new head office for the MS Spaichingen Group in Trossingen-Schura, on which work began in fiscal 2014, is built to highly-efficient standards of energy and environmental technology. The new building is intended to stand out in terms of its extraordinary energy saving, sustainability and independence features. There are therefore plans to produce a large proportion of the required energy from an internal combined cycle power plant and to use this energy with intelligent waste-heat systems, air conditioning and heating sources.

Human resources and social responsibility

At the end of the fiscal year the MS Industrie Group had a workforce of 983 permanent employees (including 746 within the MS Spaichingen Group) compared to 928 such employees at the end of 2013 (including at the time 694 within MS).

There is only minor fluctuation in the workforce.

The Group has always employed a sufficient number of temporary staff to match the ebb and flow of economic activity. The Group's human resources strategy is to continue to develop its own training capacities, as it has done in recent years, in order to counteract the shortage of skilled workers and to prepare up-and-coming managers for the demanding tasks they will face in the future.

Individual continuing professional development and training is assigned high priority in the Group.

Innovative strength

The innovative strength of the MS Industrie Group is manifested by the second place won once again in 2014 by the subsidiary MS Spaichingen GmbH in the round of the "100 most innovative medium-sized businesses in Germany" in its size category (over 250 employees). Yet again MS Spaichingen GmbH has provided impressive evidence of its innovative strength: MS had, in fact, been named as one of Germany's most innovative medium-sized businesses three times in a row over the last three years.

Customer satisfaction/loyalty

Customer satisfaction and loyalty are illustrated in particular by the "Supplier Award", given for the third time in the "Best Supplier of Finished Parts" category, made to MS on 30 June 2014 by "Rolls-Royce Power Systems AG", the parent company of our direct customer "MTU Friedrichshafen". The award is conferred every year by Rolls-Royce for the outstanding quality and performance of supplied products. The renewed award for MS is prestigious evidence of the consistent quality of the company's products. Winners are selected from around 1.500 suppliers of production material from all around the world. The jury reaches its decision based on the criteria of quality, logistics, environmental credentials and cooperation. We are also particularly delighted that MS Spaichingen GmbH has been able to extend its existing multi-year contracts with important OEM customers (such as Daimler and MTU Friedrichshafen), in most cases to the end of 2018. This once again reinforces long-term planning certainty in this, in volume terms largest, product area.

Delivery capacity

The ability to make prompt delivery in industry business was sustained in all business fields and product lines throughout the year.

General statement on business performance

Fiscal year 2014 was again marked by concentration on Powertrain Technology and Ultrasonic Technology divisions as well as on real estate and ongoing preparations for the sale of holdings which are no longer of strategic importance, including in particular UMT United Mobility Technology AG, as well as further steps to secure provisions for risks, first recognised in fiscal 2008, to cover follow-on liabilities for a former subsidiary, the amount of which has finally been specified and recognised in the accounts. There are no longer any potential liquidity risks since the court settlement reached during the fiscal year with the insolvency administrator of the former subsidiary Pfaff Industrie Maschinen AG i. I.

The cash situation in late 2014 and early 2015 – with high available lines of credit – continues to be stable. All subsidiaries are well able to meet the payment obligations arising from ongoing business operations.

As a positive total comprehensive income was again achieved by the Group during the fiscal year, equity plus non-controlling interests rose by 12,5% to EUR 47,2 million. The financial position, with a higher equity ratio of 34,2% (previous year: 27,0%) continues to be stable.

Operative business development during the first months of 2015 developed positively for all subsidiaries in line with plans up to the time at which the 2014 consolidated financial statements is to be prepared. The financial position, cash situation and earnings situation therefore are also well ordered and stable at the time the 2014 Group management report is to be prepared.

3. Research and Development at MS Industrie Group

Research is undertaken for all divisions at MS Industrie's subsidiary MS Spaichingen GmbH ("MS"), with a special focus on custom machines, systems and components for ultrasonic sealing technology applications (Ultrasonic Technology division). In this area the Company is eager to newly or further develop existing joining technologies combining them with intelligent machine concepts to meet the needs arising on the market. Having established packaging technology as a product area, development activities were measurably intensified in this field in previous years already as highly precise ultrasonic sealing applications, and high-speed applications in particular, bring about major technical challenges for MS and its customers. For strategic considerations, MS has initiated first development activities in the Powertrain Technology division in the year 2014 as well. Here the objective is to be able, in the medium to long term, to offer our own components and subassemblies in the area of powertrains featuring unique selling propositions that are attractive for our customers. Intensified R&D activities have an impact on R&D expenses, which have increased by 50% to TEUR 3.734. The awards received this year and in previous years were encouraging in this respect. In 2014, for the fourth time in a row, the Company received an award in the competition "TOP 100 innovativste Mittelständler Deutschlands" ("Germany's 100 most innovative medium-sized businesses"). In 2014 MS came in second again in the size category of companies with more than 250 employees.

Apart from the continuation of development projects commenced in previous years, mainly in the field of e-mobility and traction drives, the subsidiary Elektromotorenwerk Grünhain GmbH („EMGR") has added three new focal areas of research and development in 2014: 1. Addition of customised transmissions for industry and special applications in e-mobility to the product range. In this context, EMGR is evolving into more of a system provider with an offering which includes integrated electronics but also external electronics for actuation. 2. Addition of new motor series to the range to cater for individual solutions including IEC standard parts in the power ratings 3 KW to 7,5 KW. 3. Further development of particularly energy-efficient asynchronous motors using new materials with optimised dimensions and preparation of prototype manufacturing in cooperation with a local university. Apart from its core business, the modification of existing drive concepts for customer-specific applications, EMGR's research and development department was mainly active in the following five projects in 2014: transferring a first traction drive, destinated for applications in the field of mobile cargo, to production scheduled to begin in 2015; investigating the most important manufacturing technologies for an EC motor as solution for hybrid applications (permanent magnet rotor, synchronous motor) based on existing motor components; pre-series study of a new asynchronous motor generation IE3/IE4 using new materials and geometries; elaboration of a concept for a new industrial brake series to be used, in particular, in crane applications; and a pre-series study of a conical hoist motor.

Research and development expenditure in the Group rose again this year from EUR 2,6 million to EUR 3,9 million, of which 0,4 million development costs were capitalised as intangible assets. Amortisation of capitalised development costs amounted to EUR 0,3 million in the year 2014.

4. Report on subsequent events

The Executive Board is not aware of any material events that occurred after the reporting period with a material impact on the financial position, cash situation or earnings situation of the Company.

5. Forecast report

The forecast for the economic development in 2015 must again account for a number of uncertainties. However, we are generally confident that 2015 will be another good year for the German economy as a whole. The global economy continues to recover. As in the previous year, the moderate upturn is mainly attributable to the development of consumer spending in the industrialised countries. A gradual improvement in the labour market situation, but also a marked decrease in oil prices, drive private consumption thanks to improved purchasing power; investment activities of companies seem to be recovering slightly. Consumer spending is supporting growth in the eurozone in particular. On the other hand, numerous problematic structural issues remain unchanged. Rates of unemployment continue to be high in countries affected by crises, in particular, where high public and private debt levels are a burden on demand. In the emerging economies growth is expected to continue to be weak. According to a recent forecast (published in March 2015) by the "Deutsches Institut für Wirtschaftsforschung (DIW)" (German Institute for Economic Research) the average annual growth rate of the global economy is expected to be 3,8% in 2015 and 4,0% in the following year. A study by the "European Union" forecasts that the economies of all EU Member States will grow moderately by an average 1,7% for the first time again since the financial crisis 2008/2009. This moderate growth is expected to accelerate in 2016. Despite these overall favourable prospects the economy is still beset with risks: Tensions may increase considerably on international financial markets in response to a rekindling of the crisis in the eurozone, but also to an aggravation of the Ukraine conflict. However, driven by strong domestic demand, at least the German economy can be expected to grow vigorously. After a robust first half of 2015, the German economy should be able to utilise its production capacities to the full according to the researchers of the "DIW" institute. However, growth is likely to be driven more than before the crisis by consumer spending, which, in turn, should benefit from a lasting increase in employment and marked wage increases. Despite fully utilised production capacities, the inflation rate is likely to stay low; according to "DIW" there are currently no indications of the economy overheating. Some important export markets have lost momentum compared to the pre-crisis years and export activities are therefore expected to provide very limited impetus as a whole. Spending on equipment investments will only grow moderately and will remain far below pre-crisis levels as a proportion of GDP. Moreover financial market stability is still at risk and this could be an additional factor contributing to companies' investment restraint. In several industrial countries, such as the United States, which continues to be one of the most important international markets for the MS Industrie Group, the economy is robust. The low-interest rate level should remain in 2015, and monetary policy will remain expansionary both at national and international levels. According to "DIW" the inflation rate is expected to be at 0,5% this year and 1,2% in the coming year. We expect the EUR-USD exchange rate to be at approximately EUR 1,10 at the end of 2015. The expected stable development of diesel oil prices at low levels in conjunction with the further worldwide tightening of emission regulations is likely to encourage demand for diesel trucks.

For MS Industrie AG's strategic core business "Engine Technology for Diesel Drives" ("Powertrain Technology") the following market scenario is decisive for the future development of the two main markets, Europe and the United States: As the new emission standard "Euro VI" has been mandatory for all newly registered vehicles throughout Europe since the beginning of 2014, a boost in growth can be expected in the European market. In the wake of this, major German OEMs such as "Daimler" or "MAN" will launch new fuel-efficient diesel-engined truck models to the market. In the United States the growing demand for new trucks is attributable on the one hand to the stricter emission standard for commercial vehicles ("EPA 10") which has applied since 2010 and, on the other hand, also to the high average age of truck fleets currently in use of approximately 7 years. Experience shows that the total lifecycle of the heavy-duty truck diesel engine generation now marketed by major OEMs based on the new emission standards in Europe and the US will be roughly 30 years. This assumption is supported by historical registration figures for trucks of the last 10 years which show that market numbers have not picked up to more than 2002 levels since the all-time-low of the crisis year 2009. This implies an increasing investment backlog which is associated with the introduction of new emission standards.

Financial analysts believe that existing large truck manufacturers are most likely to benefit from growth potentials in the premium segment for heavy trucks on the Western European and US markets. At present the two largest truck makers operating globally, "Daimler" and "Volvo", together control approximately a third of this market. "MAN" and "Scania" together account for a market share of roughly one fifth; together with "Daimler" and "Volvo" this adds up to roughly half of the total market. MS Industrie Group is a single-source supplier to the two German OEMs with long-term contracts and is therefore likely to be in a position to continue to benefit from the expected market growth.

According to the recently published statistics of the industry association "ACEA" Association des Constructeurs Européens d'Automobiles for December 2014, new registrations of heavy trucks above 16 t in the EU were down by -49,3% year-on-year. In the preceding year, new registrations of heavy trucks above 16 t in the EU were up 135,9% year-on-year compared to December 2012 thanks to the advance compliance with the "EURO VI" emission standard which is mandatory since 1 January 2014. For the whole year 2014, the number of heavy trucks registered was down 6,1% on 2013. The extent to which different markets were affected by this decline differed. The German (+6,1%) and Spanish (+25,6%) markets were on a growth path while the Italian (-1,4%), French (-13,1%) and UK (-28,3%) markets were shrinking.

As is the case for heavy-duty trucks, "ACEA" reports a year-on-year decline of 49% in new registrations of medium-duty trucks (3,5 t-16 t) for December 2014. This affected almost all local sales markets, except for Spain. For the whole year 2014, the number of trucks registered in this segment was down 8,1% on the previous year. In the preceding year, due to advance compliance with the "EURO VI" emission standard, new registrations in the EU of medium-duty trucks were also up year-on-year in December 2013 by 124,2%, mainly in the UK, followed by Germany and France. We expect that the trend of advance compliance with emission standards that began in 2013 will continue in 2015.

Europe has stagnated for years. The recovery has been particularly slow in the countries of southern Europe. The introduction of the "Euro VI" emission standard triggered advance compliance effects in 2013, but sales then declined again in 2014. At present the Ukraine crisis is a burden on the business and Eastern Europe is in reverse gear. The Japanese market of just over 200.000 trucks is also expected to shrink again in 2015. While Brazil and South America continue to be crisis-ridden, the truck markets in India and Indonesia are growing vigorously. With more than one million trucks sold each year, China continues to offer large potential as in previous years. However, trucks made in China have little in common with their Western counterparts. Emission standards, requirements regarding safety and efficiency are far less demanding than in Western markets. While all major Western OEMs are represented in China through joint ventures with local manufacturers, the market is not ready for large-volume business.

The US-American business report "Rhein Report" forecasts that the US economy, which has picked up to relatively high levels in 2014, will continue to grow in 2015 and 2016 at 3,2% and 2,8% respectively. Consumer spending is expected to be the main driver of growth. Growth in this sector should, in turn, have a positive effect on the market for heavy trucks, because this sector is an important driving force behind demand for transport services. According to the "Rhein Report" industry report, production of diesel engines has been booming in the NAFTA area since the second half of

2014 at the latest. The year 2014 consequently proved to be the best year in history for heavy-duty trucks in North America. Due to the general market recovery and the introduction of new engines, positive growth is expected to continue for the following years starting 2015. The economic upturn and low energy costs boost sales. There are no length restrictions in North America and, traditionally, large and heavy trucks are sold here which travel large distances on endless highways. The industry expects rather more than 400.000 units to be sold here in 2015, which will translate into growth again of at least 10%. Revenues in 2015 are expected to be determined by the limited production capacities of heavy-truck manufacturers and thus by excess demand and the extent to which manufacturers manage to avoid production shortages.

The number of heavy-duty truck new registrations in the NAFTA area shows growth of 23% for January 2015 year-on-year according to an analysis of the "Rhein Report" published in February 2015. It should be noted that the order intake in 2014 had been up 42% already on the preceding year 2013. The growth in order intake of the fourth quarter of 2014 was the strongest since the first quarter of 2006 (i.e. before the crisis), with that quarter containing an advance compliance effect.

Against the global economic background and the situation in the industry outlined above one of our major customers primarily turned to North America, and more specifically the USA, for short-term growth in the truck sector in 2015. This approach has been officially confirmed several times by the management board of the customer in question. The same company estimates overall market growth for 2015 of at least 10%, own sales are even projected to exceed the positive figure of the previous year by 5%. This is a welcome trend for MS Industrie AG as the Company is well positioned in this respect with its new US-location in Webberville/Michigan which was opened just two years ago.

According to a press release published on 12 February 2015 by the "VDMA" (German Engineering Association) Plastics and Rubber Machinery Association, German manufacturers of plastics and rubber machines closed the year with a slight increase (1%) in sales. For the year 2014 as a whole, order intake was 3% above the previous year figure. With orders up by 17%, the much bemoaned backlog in Germany has now at last been worked off. Eurozone countries continued to develop positively and this had a corresponding impact on export demand, which rose by 15%. Overall, orders from abroad were 1% down on the previous year. The "VDMA" Plastics and Rubber Machinery Association projects sales revenues to increase in 2015 by overall 4% to more than EUR 7,0 billion. The demand for plastics and rubber machinery partially picked up in the second half of 2014. Expectations for the current first half 2015 are positive for all sales regions but Eastern Europe. In Latin America and China sales figures are expected to grow again.

According to current data (February/March 2015) provided by the "economic barometer" of the "German Electrical and Electronic Manufacturers Association (ZVEI)", order intake in the German electrical and electronic industry increased again by overall 2,2% towards the end of the year 2014. Total sales revenues for 2014 increased by 2,9%. While orders from German customers more or less stagnated with growth of only 1,7%, foreign orders again increased and were up by 4,3%. Orders from the eurozone grew by 2,9% and from countries outside the eurozone by 5,1%. A third of the revenues generated in 2014 were attributable to new products. For the year 2015 as a whole, the "ZVEI" expects real revenues to grow by 1,5% to EUR 174,5 billion. In January 2015 sales by Germany's electrical and electronic industry were up 0,5% over the previous year and reached a volume of EUR 13,2 billion. While revenues with domestic customers declined by 5,8%, revenues generated in the foreign market increased 6,7%. Broken down by major regions, revenues in the eurozone grew 8,1% and in third countries were up by 5,8%.

Against this background we anticipate the clearly positive development of the MS Industrie Group to continue throughout fiscal 2015 regarding both revenues and earnings.

Thus we expect a boost in group sales, increasing by around 10% to 15% in 2015 to reach nearly EUR 250 million. The Group's key earning figures EBITDA, EBIT, EBT, EBIT margin and earnings per share from continuing operations (without exceptional items) are expected to increase again and consequently the Group's equity is also expected to grow significantly. We also anticipate the net cash generated from operating activities (without exceptional items) to improve over the previous year. The net cash used in investing activities is expected to increase because we will step up spending on property, plant and equipment and thus incur higher cash payments. Moreover no payments received from disposals of former fully consolidated subsidiaries are expected for 2015, hence the net cash used in investing activities will increase overall. The steps taken should further reduce the debt-to-equity ratio and lead to a significant increase of the equity ratio.

Forecasts regarding the development of non-financial indicators are based on the assumption that MS Industrie AG will do everything in its power to continue to meet relevant environmental norms and to endeavour to minimise employee turnover by introducing employee retention schemes. Due to the projected expansion of revenues the Company plans to recruit additional personnel, specialists and managers in particular, and to employ the required number of temporary staff. The purpose of these measures has been and is to counteract a potential shortage of skilled workers and to prepare future management staff especially for dealing with challenging tasks. Individual continuing professional development and training is assigned high priority in the Group. The Group also makes every possible effort to maintain the currently high level of customer satisfaction and to further increase its innovative strength which already is very high. The Company will moreover continue to ensure that delivery capacity is maintained in all business units and product lines.

For the financial year 2015 we expect the MS Spaichingen Group will again show stable order books and a further improvement in capacity utilisation as well as further growth in its annual results. Capital spending projected for 2015 amounts to a total of EUR 12,0 million for the MS Spaichingen group, of which EUR 8,2 million are to be invested at the headquarters in Spaichingen, EUR 3,0 million at the second German site in Zittau as well as around EUR 0,8 million at the site in Webberville, Michigan, USA.

MS Spaichingen GmbH plans a significant year-on-year increase in its revenues in the Powertrain Technology division in fiscal 2015 compared to fiscal 2014 on the basis of the existing order book. Given the gradual market penetration of the new generation of Daimler truck engines, future revenues can be planned with a relatively high level of certainty. As described above, experience has shown that the total lifecycle of new engine generations can be assumed to be roughly 30 years. In addition, MAN, MTU, Motorenwerke Mannheim, etc. started production of additional products in 2014 which will have a positive impact on the degree of capacity utilisation at throughout 2015. The Ultrasonic Technology division also plans moderate growth in revenues in comparison with 2014 based on its orders on hand.

The order books of MS Spaichingen GmbH in the fields of manufacturing of custom machines for the car industry and ultrasonic welding systems for the packaging industry are still good with orders on hand as at the balance sheet date reaching far into the third quarter of 2015. Since capacity utilisation in this area is not directly dependent to the number of vehicles produced but primarily on new model launches and the steadily increasing proportion of plastic materials, this division is considerably more resistant to economic fluctuations and less susceptible to crisis than the Powertrain Technology division. In the Ultrasonic Technology division new application areas are to be tapped into through innovations and in-house developments, especially in ultrasonic sealing technology. This systematic innovation strategy adopted by MS Spaichingen GmbH is being successfully continued in this market segment, leading to the development and market launch of several new products. Thus MS was successful in winning new, well-known and renowned customers such als Klosterfrau, SIG or Optima. Growth rates in this highly innovative product domain are again expected to be the highest by far within the MS Industrie Group.

As of February 2015, the product area Ultrasonic/Custom Machines has a consistently large volume of orders on hand (around EUR 25 million). Again, competitive price pressure is higher than in the preceding years. The trend towards a greater diversity of passenger car models and a higher proportion of plastic components continues unbroken.

On 2 April 2015, Creditreform Rating AG published its 2015 annual rating review and awarded the MS Spaichingen Group with the rating "BBB- / outlook positive" and thus with investment grade status as in the previous year.

To meet the requirements associated with further growth at the headquarters of MS Spaichingen GmbH the company resolved in 2014 to erect a new building to house production facilities and administration in the neighbouring municipality of Trossingen-Schura (District of Tuttlingen/Baden-Württemberg) after failing to reach agreement on a new building plot for a new building with the town of Spaichingen. In the Powertrain Technology division in particular, efficiency gains and more growth are only possible to a limited extent at the present location because of the limited space and constraints of the logistics situation. The new building complex will be erected in several independent construction phases. In the first phase about 18,000 square metres net floor area will be provided in the new building for the Powertrain Technology division. Relocation to the building area completed in the first construction phase is planned for early 2016. Depending on how the economy evolves, the Ultrasonic Technology division and the administration will be relocated to the new site. As things currently stand this relocation will take place in 2017. Besides the economic and logistic considerations mentioned above the Company also wishes to ensure that the building complex is built to highly-efficient standards of energy and environmental technology. The new building should stand out in terms of its extraordinary energy saving, sustainability and independence features. There are therefore plans to produce a large proportion of the required energy from an internal combined cycle power plant and to use this energy with intelligent waste-heat systems, air conditioning and heating sources. The first construction phase will cost about EUR 30 million and include, in addition to the cost of land, construction work and building, the cost of the highly efficient building services for both construction phases. Around 50,000 square metres were aquired from the town of Trossingen in 2014. Agreements on the potential purchase of further land for the second construction phase and for potential long-term expansion have been made. The financing model chosen for the major part of the first construction phase is off balance sheet leasing. The agreements were notarised in December 2014. Groundbreaking for the first construction phase took place in the late summer of 2014. All earth and foundation works had almost been completed by late 2014. As expected, the additional expense caused by the leasing agreement will be largely compensated by cost savings due to the energy efficiency of the new building and the reduction of logistics costs.

Elektromotorenwerk Grünhain GmbH in Grünhain-Beierfeld, Germany ("EMGR") plans to further drive its growth by stepping up sales activities in other European countries, based on its stable and broad customer base. For 2015, further growth is planned for the product area of aluminum die-casting. In addition, the company analyses the market potential for customer-specific high-quality motors in other industry segments and considers the cooperation with other manufacturers.

EMGR is currently preparing its entry into the market for custom electric motors for bicyles and trikes for cargo or electro-mobility applications. After production of prototypes was successfully tested in 2013/2014, volume production is scheduled for launch in Germany in 2015. EMGR acts independently of existing cooperation partners without needing their support in this field. 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 is enlarging its product portfolio by including transmissions and controls.

Especially after the increase in revenues in the previous year and the good performance of the electric motor business in the current year, the management of EMGR anticipates an even better business development in 2015 with revenues continuing to rise and positive annual results. This expectation has been confirmed by the strong first quarter of 2015.

The project planning conducted by GCI BridgeCapital GmbH, Munich for the construction of a photovoltaic plant on the Leipzig / Wiederitzsch property was completed. In August 2014 construction work was completed by the operating company in which GCI BridgeCapital GmbH still holds a founding limited partner's minority interest of 9,9%. The facility was connected to the power grid by the tenant and operator "MR3W Solarpark Leipzig GmbH & Co. KG", Augsburg in August 2014.

In 2015 MS Industrie AG will focus on further developing these investments and selling the rest of its shares in UMT United Mobility Technology AG. However, the strategic focusing process can be considered as basically concluded.

As the comprehensive investment in business expansion in the previous years has been largely completed and optimisation of processes and capacity utilisation at MS Industrie group is still ongoing, we therefore now expect consolidated earnings per share in 2015 to even exceed the good result achieved in fiscal 2014.

This 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 the actual results, success and performance of MS Industrie AG to differ materially from those expressed or implicitly contained in the forward-looking statements.

Munich, 24 April 2015

MS Industrie AG

The Executive Board

Dr. Andreas Aufschnaiter
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