



GROUP MANAGEMENT REPORT

COMBINED MANAGEMENT REPORT OF MAX AUTOMATION SE FOR THE FINANCIAL YEAR 2018

BASIS OF THE PARENT COMPANY AND THE GROUP

Business model

Based in Düsseldorf, MAX Automation SE and its subsidiaries operate internationally and supply automation solutions in long-term growth industries. The subsidiaries are leading providers of integrated and complex systems and components in their fields. MAX Automation engages in segments with long-term growth potential, above-average margins and limited volatility.

The business operations were divided into two segments (Group Divisions) in 2018, the year under review: the Industrial Automation segment, where the Group invests its extensive knowledge of technology in the development and production of integrated and proprietary solutions for production and assembly in key industries characterised by sustained growth, such as medical technology, the automotive industry and electronics, and the Environmental Technology segment, where MAX Automation develops and installs complex systems for the recycling, energy and extractive industries.

The companies in the MAX Automation SE Group claim to be leaders in the technology in their respective markets. They develop complex automation and process solutions for their customers – including on an international scale. They offer a wide range of services, encompassing individual technical components and processes as well as turnkey automation systems. They also act as full-system providers for their customers and offer services like consultancy (including analyses, tests and feasibility studies), production support, servicing/repair and software development. The Group companies are therefore in a position to act as one-stop shops offering integrated automation solutions of high technical complexity and services of various kinds, such as for the maintenance of machines and systems and for the training of employees.

The MAX Automation Group operates primarily in target markets in Europe, North America, South America and Asia. The Group companies develop and produce their automation solutions in Germany predominantly and also at sites in the USA and Poland. They also have international sales and service offices to provide local support for their customers all over the world.

As the ultimate holding and lead Company, MAX Automation SE is responsible for the strategic and financial management of the Group. It also decides which strategic and operational measures are suitable and monitors the situation to ascertain that they are put in place in order to ensure that the stated aims of the Group companies and of the Group are achieved.

At the end of September 2018, the Board of Directors made the strategic decision to withdraw from the manufacture of special-purpose machines/assembly lines for automotive customers and to establish a structured sales process for this purpose, which is due to be completed in the course of 2019. The aim of this strategy is to improve the profitability and risk profile of the Group. The Executive Directors had analysed the prospects of the Group companies in depth on the basis of the 2021 Group Strategy. As a result of this move, ELWEMA, the companies in the IWM Automation Group and MAX Automation (Shanghai), being

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an important Chinese base for automotive customers, all have good potential which cannot be sufficiently exploited under the MAX umbrella. The companies up for sale are shown separately in the balance sheet and in the statement of comprehensive income as well as in other components of the Consolidated Financial Statement as business segments held for sale.

In line with its medium-term objectives, MAX Automation SE monitors important synergies between the Group companies which serve to increase efficiency within the Group. These include, first and foremost, uniform standards for risk management and controlling, the bundling of operations in purchasing and financing, a coordinated approach to international focus, know-how and technology transfer, best-practice approaches and cooperation in the development of new solutions in individual projects. In the year under review, the process for reinforcing the binding reporting and controlling instruments for all the Group companies was started.

The conversion of the former MAX Automation AG to a European Company (SE), as approved by the Annual General Meeting in a resolution passed on 30 June 2017, was entered in the commercial register on 8 February 2018 whereupon it became legally effective. Until the conversion, the Company was led by the Management Board in accordance with the regulations set out in the German Stock Corporation Act (Aktiengesetz - AktG). The Supervisory Board oversaw the Management Board and advised it in its management duties. Since the conversion, MAX Automation SE has had a monistic management structure in which the responsibility for the management of the SE is vested in a single management body, the Board of Directors. The operational side of the business is managed by the Executive Directors who provide the Board of Directors with the information required to govern corporate practices and to make decisions. The Executive Directors keep in close contact with the Group companies and receive regular financial statements and progress reports from them.

The MAX Automation SE share has been listed on the Frankfurt Stock Exchange since 1994. The share has been listed in the Deutsche Börse AG Prime Standard segment since April 2015.

The net assets, financial position and results of operations of MAX Automation SE as the parent company of the Group are essentially determined by the business development of the Group companies in the segments and by the corresponding profit transfers and distributions.

In the year under review, 2018, the operating companies in the Group were assigned to the two segments of Industrial Automation and Environmental Technology.

The following companies and their respective subsidiaries were in the Industrial Automation segment during this period:

- NSM Magnettechnik-Gruppe GmbH
- ELWEMA Automotive GmbH
- IWM Automation Group
- MAX Automation (Asia Pacific) Co., Ltd. Group
- bdtronic Group

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- MA micro automation Group
- IWM Automation Bodensee GmbH (hereinafter referred to collectively as IWM Automation Group)
- iNDAT Robotics GmbH
- Mess- und Regeltechnik Jücker GmbH
- AIM Micro Systems GmbH
- MAX Automation North America Inc.

MAX Automation SE completed the sale of all shares in NSM Packtec GmbH, a subsidiary of the Group company NSM Magnettechnik GmbH, with effect from 9 March 2018. The divestment served to maintain the focus of the Group portfolio on the core businesses in the Industrial Automation segment.

In the year under review, the Environmental Technology segment still included Vecoplan AG, Bad Marienberg, with Vecoplan LLC (USA) as its major subsidiary.

Key performance indicators and strategic positioning

Financial performance indicators

MAX Automation SE uses financial performance indicators to manage and evaluate the business operations with a view to safeguarding and increasing long-term profitability.

The financial performance indicators include the following:

- order intake and orders on hand
- profitability ratios
- capital and liquidity ratios
- personnel figures (especially staffing levels)
- syndicated loan agreement covenants

The covenant agreements on the syndicated loan agreement include the equity ratio, the debt ratio and the interest coverage ratio of the MAX Group. They are managed by defining and reviewing target ranges.

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Change in financial performance indicators

In 2018, the MAX Group recorded the following changes to key financial indicators, relating to the business operations to be continued, which serve as financial performance indicators.

	2018	2017	Change
	in m euro	in m euro	in %
Order intake	325.4	248.9	30.8
Orders on hand ¹	173.6	113.7	52.7
Working capital	27.8	107.8	-74.2
Revenue	277.4	250.8	10.6
EBITDA	24.0	26.1	-7.7
EBIT before PPA	18.8	21.0	-10.6
EBIT after PPA	13.6	19.8	-31.7
Return on sales (% of total output before PPA)	6.8%	8.4%	+0.8 (% points)
Equity ratio (in %)	25.1%	42.6%	+6.7 (% points)
Headcount (number of staff)	1,426	1,327	7.5
- of which trainees	109	108	0.9
Weighted average number of employees	1,321	1,263	4.6
- of which trainees	98	91	8

¹ As at 31 December

Non-financial performance indicators are not used for the internal management of the Group. The primary management of the Group is based on the key figures for sales, EBIT and working capital. The Group will be managed on the basis of the key ratios for sales, EBITDA and working capital as from the financial year of 2019. From the perspective of the Executive Directors, the EBITDA is an indicator which is better at reflecting the business operations.

Strategic positioning

MAX Automation SE has a long-term business model. The model is based on the specific strengths of the Group companies in the Industrial Automation and Environmental Technology segments as well as on the Group-wide strategic guidelines issued by MAX Automation SE as the lead company. The strategic positioning of the Group is essentially determined by the following points:

- **Generation of added value:** The Group companies in the segments have many years of experience and extensive expertise. This enables them to combine automation components and a broad range of system, process and software know-how to develop sophisticated technology and complex solutions geared to individual requirements, including supplementary services. Working closely with their customers, the Group companies pursue the goal of continuously optimising their production processes

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through innovations in the interests of greater cost and time efficiency and higher product quality. The MAX companies thereby generate significant added value for their customers and in some cases have unique selling points.

- **Expertise for challenging projects:** The subsidiaries of MAX Automation have the ability to combine different services in an integrated project management package. This applies above all to the use of high-tech solutions, combined with special process know-how and end-to-end services. Such holistic project management is the essential starting point, not only for the development, production and maintenance of individual components but also for the acquisition and execution of challenging projects in international markets.
- **Corporate culture conducive to innovation:** The markets in which MAX Automation and its subsidiaries operate are characterised by intense competition and ongoing technological progress. The drivers here are digitisation in industrial production and the associated networking of machines and systems, as well as rapidly growing industrial sectors, such as micro-automation and robotics. The development of software solutions is becoming increasingly significant in this context for various purposes, such as the control or maintenance of plants. MAX Automation attaches great importance to the continuous further development of its technologies and to the development of innovative solutions in order to consolidate and build on the market position of the individual Group companies. Last but not least, this requires active recruitment of talented staff and top executives and therefore appropriate branding of the Group companies as employers.
- **Long-term growth drivers:** The MAX Automation Group benefits from long-term growth drivers in the Industrial Automation and Environmental Technology segments. These include the move towards electrification in the automotive sector or the demographic trend, for example, and therewith the increasing awareness of health among the population. The early identification of these trends and the right business strategy are essential for the long-term success of the Group. The goal pursued by MAX Automation in this regard is not only to participate in the corresponding technological developments but also to help shape them by developing innovative solutions in various areas, such as electric mobility, augmented automation or micro-automation for medical technology.
- **Expansion abroad:** The aim of the companies in the MAX Automation Group is to continuously expand their foreign business. International expansion is key to the further growth of the Group as markets continue to grow dynamically in the emerging economies of Asia and South America, as demand from customers for comprehensive support across national and continental borders increases, and as the need for investment in environmental technologies rises. An international network of sales and service branches, some of which are used jointly by the Group companies, and selected production sites abroad are the basis on which the MAX Automation Group will serve local customer requirements and generate synergies.

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Research and development

The MAX Automation Group serves a wide range of customers from various industries, including enterprises with high international profiles. They require automation solutions tailored to their individual needs based on the latest technologies and processes. The market environment is characterised by rapid technological change, intense competition, and increasing political regulation, especially in the Environmental Technology segment.

Against this background, MAX Automation regards research and development (R&D) as an essential prerequisite for future success in its individual markets. The development activities of the Group are decentralised. As a lead company with a focus on strategy, MAX Automation SE does not conduct its own R&D. Some of the subsidiaries have in-house capacity to this end in certain forms, such as specialist departments or technology centres. Most of their development work is carried out in the context of specific customer projects and is geared to the market situation and the needs of the customers. This also includes offering to do individual feasibility studies in advance.

The subsidiaries are continuously expanding their technological expertise in order to tap into new automation markets with good prospects. It stands to reason that they have a comparatively young product portfolio which is characterised by innovations.

Information on the development costs can be found in the Notes under other information on the Consolidated Financial Statement in the section on research and development.

GROUP ECONOMIC AND BUSINESS REPORT

General economic and business conditions

Macroeconomic environment

The global economy developed well in 2018 but lost momentum in the course of the year. The International Monetary Fund (IMF) cited increasing political uncertainty as the main reason, picking out the difficult Brexit negotiations or the trade conflict between the USA and China as examples. Other negative influencing factors were higher trade barriers worldwide and increasingly difficult economic conditions for emerging markets and developing countries due to tighter financing terms or higher oil prices.

The IMF forecast global economic growth of 3.7 % for 2018, the year under review, which is on a par with the previous year. According to the IMF estimates, the Chinese economy grew by 6.6 % as compared with 6.9 % in 2017. Economic growth in the USA was at 2.9 %, up from 2.2 % in the previous year. Economic activity in the Eurozone was expected to increase by 1.8 % after 2.4 % in the previous year.

The economy in Germany also slowed down in 2018. According to the Federal Statistical Office (Destatis), gross domestic product (GDP) rose by 1.5 %, compared with 2.2 % in the previous year. Therefore the German economy grew overall for the ninth year in succession. The continued positive development was driven most notably by private consumer spending as well as government spending. Exports were also up 2.4 % (adjusted for price changes) although growth was not as high as in 2017 (adjusted for price changes +4.6 %).

Sources:

- International Monetary Fund (IMF), World Economic Outlook, October 2018 and January 2019
- Federal Statistical Office (Destatis), press release, 15 January 2019

Development of relevant industries

The German Mechanical Engineering Industry Association (Verband Deutscher Maschinen- und Anlagenbau - VDMA) was anticipating a record year for the business performance of its member companies in 2018. The Association expected industry sales to be up by 6.2 % on the previous year, for example, at around 240 billion euro. The VDMA cited export business as the main reason for this, making particular reference to an increase in exports to the USA and China. The tensions in trade between these two countries, however, coupled with a slowdown in the Chinese economy, had a diluting effect over the course of the year.

The VDMA Robotics and Automation Association identified numerous growth drivers for the industry for 2018 and beyond. These most notably included the worldwide trend towards automation and digitisation of production in various sectors, such as the automotive and electronics industries. Numerous car manufacturers invested in new production facilities for hybrid and electric drives, for example, pushing up demand for robotics and automation solutions. For 2018, therefore, the Association expected a 5.0 % increase in industry sales on the previous year, with revenue rising to EUR 15.1 billion.

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According to the German Association of the Automotive Industry (Verband der Automobilindustrie - VDA), the global automotive markets recorded a generally heterogeneous progression in 2018. Despite the continuing discussion about the future of diesel engines in the year under review, the European market remained at the same level as the previous year with 15.6 million new vehicles registered. The US market grew by 0.5 % to 17.2 million new registrations. By contrast, the Chinese market saw a drop of 3.8 % to 23.3 million new registrations.

The German medical technology sector took a positive course in the year under review. The industry association Spectaris assumed that sales in the industry would increase by 4 % to 5 % to around 31 billion euro, adding that momentum would come from foreign business in particular and citing digitisation as a key growth driver, ranging from networked hospitals to diagnostic implants.

The VDMA Waste Treatment and Recycling Technology Association (VDMA-Fachverband Abfall- und Recyclingtechnik) expected its member companies to achieve sales growth of at least 3 % in 2018, following industry sales forecasts of 2.7 billion euro for the previous year. It cited the great international interest in environmental technologies resulting from the growing world population, increasing urbanisation, soaring industrialisation and rising mobility as reasons for the growth. The amendment of the German Commercial Waste Ordinance (Gewerbeabfallverordnung - GewAbfV) was among the factors which generated significant growth in the domestic business.

Sources:

- Verband Deutscher Maschinen- und Anlagenbau (VDMA), press releases, 11 December 2018
- Verband Deutscher Maschinen- und Anlagenbau (VDMA), Fachverband Robotik und Automation, press release, 5 June 2018
- Verband der Automobilindustrie (VDA), press release, 16 January 2019
- Spectaris, Fachverband Medizintechnik, press release, 5 November 2018
- Verband Deutscher Maschinen- und Anlagenbau (VDMA), Fachverband Abfall- und Recyclingtechnik, press release, 24 April 2018

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Group business development

MAX Automation reported successful progress overall in the business operations continued in 2018. Order intake was buoyant, with wide-ranging dynamic growth across all business areas of the Group. Order backlog at the end of the reporting year were up by more than half on the figure at the end of the previous year. Revenue also rose significantly in 2018. MAX Automation made investments in the year under review for the restructuring of the risk management and the internal control and reporting systems of the Group which are absorbed in the result. The optimisation of reporting and controlling instruments will continue to be the focus of activities in 2019.

In their forecast of 25 September 2018 for the continuing business operations for the full year of 2018, the Executive Directors assumed sales of between 270 and 280 million euro and an EBIT before PPA of 16 to 18 million euro. According to the forecast, total consolidated earnings after taxes were expected to be heavily impacted by operational and extraordinary losses of the IWM Group and by one-off expenses for measures to improve its profitability.

MAX Automation recorded a 30.8 % improvement in incoming orders in the operations continued in the year under review, rising to 325.4 million euro as compared with 248.9 million euro in the previous year. The orders on hand as at 31 December 2018 increased to 173.6 million euro after amounting to 113.7 million euro in the previous year (up by 52.7 %). The book-to-bill ratio was 1.17 (previous year: 0.99).

At 277.4 million euro, revenues from the operations continued in the year under review were in the upper target range forecast (previous year: 250.8 million euro; +10.6 %). The consolidated earnings before interest and taxes (EBIT) and before depreciation and amortisation from purchase price allocations (PPA) were slightly higher than forecast at 18.8 million euro (2017: 21.0 million euro; -10.6 %). The EBIT margin (before PPA) – based on total output – fell from 8.3 % to 6.8 %. Net interest result improved slightly to -2.7 million euro, up on -2.8 million euro in the previous year (-3.3 %).

MAX Automation recorded earnings from continuing operations of 11.5 million euro in 2018, compared with 13.6 million euro in the previous year (-15.5 %).

The result from discontinued operations amounted to -47.1 million euro (previous year: 0.5 million euro), largely impacted by operating and extraordinary losses at the companies in the IWM Group.

The MAX Automation Group closed the year under review with an overall result of -35.7 million euro (previous year: 14.1 million euro).

Group equity was down by -34.1 % to 91.6 million euro at the end of 2018 (end of previous year: 139.0 million euro). The equity ratio was 25.1 % (previous year: 42.6 %).

The working capital of the continuing operations improved significantly as at 31 December 2018 to 27.8 million euro compared with 41.5 million euro as at 31 December 2017, partly as a result of an optimised approach to working capital management at the operating subsidiaries.

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Net indebtedness as at 31 December 2018 improved to 46.0 million euro from 47.7 million euro in the previous year.

Taking into account the extraordinary pressures at the companies in the IWM Group and the situation in the Group in terms of the expected negative results, the Board of Directors of MAX Automation intends to abandon the dividend policy adopted hitherto. It will propose to the Annual General Meeting on 17 May 2019 that the dividend for the financial year of 2018 be suspended.

Special events in the financial year

Andreas Krause appointed new CFO at MAX Automation SE

MAX Automation announced on 2 February 2018 that Mr. Andreas Krause would be appointed CFO of the Company with effect from 1 April 2018. His predecessor Fabian Spilker resigned as Managing Director and Member of the Board of Directors with effect from the end of the Annual General Meeting on 18 May 2018.

Divestiture of NSM Packtec

MAX Automation announced on 14 March 2018 that it had completed the sale of NSM Packtec GmbH, a subsidiary of the Group company NSM Magnettechnik GmbH (closing transaction). The divestment allowed MAX Automation to maintain its focus on its core business in the Industrial Automation division in line with its medium-term growth strategy.

MAX Automation adjusts earnings forecast for the financial year of 2018

MAX Automation announced on 28 June 2018 that it had adjusted its earnings forecasts for the financial year of 2018. This was due to liabilities from ongoing projects of the subsidiaries of the IWM Automation Group for several automotive customers. An economic re-evaluation of the projects not proceeding according to plan was then carried out. In addition, MAX Automation immediately initiated a number of structural measures, mainly to improve the project management practices at the IWM Automation Group, and filled key positions at the subsidiaries.

Resolution on the divestment of subsidiaries

On 25 September 2018, the Board of Directors of MAX Automation SE decided that the Group would no longer pursue the construction of special-purpose machines/assembly lines for automotive customers. A structured sales process was therefore introduced for the subsidiaries of the IWM Automation Group (IWM Automation GmbH and IWM Automation Bodensee GmbH), for ELWEMA Automotive GmbH and, associated with this, for the 51 % holding MAX Automation (Shanghai) Co., Ltd. An in-depth analysis of the requirements and prospects of all the Group companies yielded the conclusion that the construction of special-purpose machines/assembly lines for automotive customers no longer fits in with the profitability and risk profile of the high-tech mechanical engineering group in the background context of changing customer requirements. The sale is expected to be completed in the course of 2019. The companies to be divested have been reported as discontinued operations since 30 September 2018 in accordance with IFRS accounting rules.

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Daniel Fink to leave MAX Automation SE in the spring of 2019

MAX Automation announced on 29 October 2018 that the Managing Director (CEO) Daniel Fink (57) will not be renewing his contract when it expires on 31 March 2019, at his own request. He will at the same time step down from the Board of Directors of the Company.

Accounting and scope of consolidation of the Group

MAX Automation SE prepared the Consolidated Financial Statement for the financial year of 2018 in accordance with the International Financial Reporting Standards (IFRS). The Company is therefore exempt from preparing a Consolidated Financial Statement in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch - HGB). The figures for the previous year were also calculated in accordance with the IFRS.

On 25 September 2018, the Board of Directors of MAX Automation SE decided that the Group would withdraw from the construction of special-purpose machines and /assembly lines for automotive customers in the Mobility Automation division. The assets and liabilities of the Group companies to be divested are reported in total as discontinued operations for 2018 in accordance with IFRS 5. This means that the contributions to revenue and operating income of the IWM Automation Group, ELWEMA Automotive GmbH and of the 51 % holding MAX Automation (Shanghai) Co., Ltd. are no longer included in the consolidated income statement. The earnings after tax of the companies to be sold are shown in a separate item after the earnings of the operations to be continued. The net profit of the Group as a whole for the period is calculated from the sum of the two results. The comparative figures for the same period in the previous year have been adjusted accordingly. The consolidated balance sheet for the year ending 31 December 2017 includes the assets and liabilities of all the companies; the balance sheet for the year ending 31 December 2018 shows the discontinued operations separately in a new item as "Assets held for sale" and as "Liabilities in connection with assets held for sale".

Detailed information on the scope of consolidation is provided in the Notes on the Consolidated Accounts.

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Order book position

MAX Automation recorded an increase in incoming orders in 2018 to 325.4 million euro in its continued business operations. This was up 76.5 million euro or 30.8 % on the figure for the previous year (2017: 248.9 million euro).

The Industrial Automation segment increased its incoming orders to 209.4 million euro as compared with 155.9 million euro in the previous year (34.3 %). The Life Science Automation and Process Technologies business units were the main growth drivers. The segment again benefited from the impetus for growth driven by the movement towards electric mobility and driver assistance systems in the automotive sector, for example, or by the demographic trend and the generally increasing health awareness of the population in medical technology.

The Environmental Technology segment with the Vecoplan Group saw an increase in incoming orders to 116.0 million euro following on from 92.9 million euro (24.8 %). Vecoplan benefited from cyclical growth in the export business in this regard.

Order backlog in the continued business units as at 31 December 2018 rose by 59.9 million euro to 173.6 million euro (previous year: 113.7 million euro).

In Industrial Automation, orders on hand as at 31 December 2018 increased by 65.7 % to 139.1 million euro (31 December 2017: 83.9 million euro). In Environmental Technology, orders on hand as at 31 December 2018 increased to 34.6 million euro (31 December 2017: 29.7 million euro; 16.2 %).

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Revenue and result of operations

Revenue in the continued business units at MAX Automation increased by 26.6 million euro or 10.6 % in 2018 to 277.4 million euro (previous year: 250.8 million euro). Growth was driven by both the Industrial Automation and Environmental Technology segments. Foreign sales accounted for 62.2 % of consolidated sales in the year under review, compared with 64.0 % in the previous year.

The total operating performance of the continuing operations increased by 25.2 million euro or 10.0 % to 276.8 million euro (previous year: 251.6 million euro). This included changes in inventories of -1.8 million euro (previous year: -0.1 million euro) and other internally produced and capitalised assets of 1.3 million euro (previous year: 0.8 million euro).

Other operating revenue rose by more than a quarter to 8.2 million euro (previous year: 6.5 million euro; +27.2 %). This figure includes income of 2.9 million euro from the derecognition of NSM Packtec GmbH. Income from currency differences decreased from 1.1 million euro in the previous year to 0.4 million euro (see explanatory notes below on other operating expenses).

The cost of materials increased from 110.3 million euro to 128.4 million euro (16.4 %). The cost of materials ratio – in relation to total output – increased slightly to 46.4 % after 43.9 % in the previous year.

Personnel expenses rose by 7.5 % from 83.7 million euro to 90.0 million euro. The ratio of personnel expenses – in relation to total output – improved from 33.3 % to 32.5 %.

Depreciation and amortisation amounted to 10.5 million euro, exceeding the figure for the previous year of 6.2 million euro. This includes depreciation and amortisation from purchase price allocations (PPA) of 5.2 million euro as compared with 1.2 million euro in the previous year. The increase resulted from the goodwill amortisation in respect of iNDAT Robotics GmbH in the amount of 4.2 million euro.

Other operating expenses increased from 38.0 million euro to 42.6 million euro (+12.2 %) as a result of the increase in legal costs and consultancy fees in the course of the sale process and the investment in the restructuring of risk management and the internal control and monitoring system of the Group. Expenses from currency differences were down to -0.2 million from -1.8 million euro in the previous year. The balance of currency effects amounted to 0.3 million euro after -0.7 million euro in the previous year, resulting in an expense ratio in relation to the total operating performance of 15.4 % (previous year: 15.1 %).

Earnings before interest, taxes, depreciation and amortisation (EBITDA) from the continuing operations amounted to 24.0 million euro (previous year: 26.1 million euro; -2.0 million euro or -7.7 %).

MAX Automation reports consolidated operating earnings before interest and taxes (EBIT) and before depreciation and amortisation from purchase price allocations (PPA) of 18.8 million euro (2017: 21.0 million euro; -10.6 %) for the continuing operations for the financial year of 2018. The EBIT margin in relation to total operating performance fell from 8.4 % to 6.8 %. The EBIT per share before PPA amortisation dropped from 0.71 euro to 0.64 euro.

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The net interest loss decreased slightly from -2.8 million euro to -2.7 million euro (-3.3 %).

Earnings before taxes (EBT) from the continuing operations in the year under review were down to 9.6 million euro from 16.9 million euro in the previous year (-42.9 %).

Receipts from taxes on income and earnings amounted to 1.9 million euro, compared with expenses of 3.2 million euro in the previous year. Income taxes also reflect losses from the discontinued operations as a result of existing taxable entities.

MAX Automation recorded earnings from continuing operations of 11.5 million euro in the year under review, compared with 13.6 million euro in the previous year (-15.5 %).

The result from the discontinued operations amounted to -47.1 million euro in 2018 (previous year: 0.5 million euro). This is primarily attributable to the operating and extraordinary losses at the companies in the IWM Group and to measures put in place to improve profitability. There were also write-downs in the course of the re-evaluation process in the discontinued operations in accordance with IFRS 5.

The MAX Automation Group closed 2018 with an overall result of -35.6 million euro (2017: 14.1 million euro). This results in earnings per share of -1.05 euro, compared with 0.47 euro in the previous year.

Asset position

MAX Automation reported total assets of 364.3 million euro as at 31 December 2018. This was 41.0 million euro or 12.7 % higher than the level on the same date in the previous year (31 December 2017: 323.3 million euro).

Non-current assets decreased by 20.8 % to 87.9 million euro (31 December 2017: 111.1 million euro), primarily due to the reclassification of the discontinued operations. The intangible assets decreased by 10.0 million euro from 13.7 million euro to 3.6 million euro as at 31 December 2018. This includes 6.5 million euro from the reclassification to "Assets held for sale". Goodwill decreased by 4.2 million euro, due in part to the amortisation of the goodwill of iNDAT Robotics GmbH. The property, plant and equipment fell from 31.5 million euro to 25.1 million euro. Deferred tax assets rose by 37.2 % to 6.5 million euro (31 December 2017: 4.7 million euro).

Current assets increased to 276.4 million euro (31 December 2017: 212.3 million euro). Inventories grew by 16.3 % to 49.0 million euro (31 December 2017: 42.1 million euro). Trade receivables decreased sharply by 63.9 % to 49.9 million euro (31 December 2017: 138.3 million euro) due to the reclassification of the receivables from the discontinued operations as "Assets held for sale". Tax receivables increased from 0.4 million euro to 3.5 million euro. At 31.8 million euro, cash and cash equivalents were up 21.5 % on the level on the reporting date in the previous year (31 December 2016: 26.2 million euro).

An amount of 134.7 million euro is recorded under "Assets held for sale". This includes the current and non-current assets of the discontinued operations in Mobility Automation.

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The working capital fell sharply from 107.8 million euro as at 31 December 2017 to 27.8 million euro as at 31 December 2018 as a result of optimised working capital management at the operating subsidiaries and the reclassification of the discontinued operations. A reduction of 13.7 million euro was achieved in the previous year in relation to the continuing operations

Financial position

The equity capital of MAX Automation amounted to 91.6 million euro as at 31 December 2018 (31 December 2017: 139.0 million euro; -34.1 %). The equity ratio was 25.1 % (31 December 2017: 43.0 %). Revenue reserves fell by -6.3 % to 29.2 million euro (31 December 2017: 31.2 million euro). This includes the transfer of 5.0 million euro to retained earnings under the resolution passed by the Annual General Meeting on 18 May 2018 as well as adjustments of -4.0 million euro in accordance with the IFRS 15 accounting changes and the put options of -2.9 million euro of the minority interests reported in the balance sheet of MAX Automation (Asia Pacific) Co., Ltd., Hong Kong. Retained earnings fell from 58.8 million euro to 18.6 million euro.

Non-current liabilities added up to 86.9 million euro in total (31 December 2017: 77.3 million euro; +12.3 %). Non-current liabilities to banks amounted to 76.8 million euro (31 December 2017: 64.8 million euro; +18.4 %). Other non-current financial liabilities decreased from 1.8 million euro to 0.1 million euro, primarily due to the reclassification of the discontinued operations. Deferred tax liabilities fell to 6.8 million euro, down from 8.2 million euro as at 31 December 2017.

Current liabilities increased to 185.9 million euro (31 December 2017: 107.0 million euro). Trade payables decreased from 72.6 million euro to 71.1 million euro (-2.1 %). This includes prepayments on orders received in the Life Science Automation division.

Current liabilities to banks decreased to 1.1 million euro (31 December 2017: 8.4 million euro). Other current financial liabilities increased by 25.8 % to 16.2 million euro (31 December 2017: 12.9 million euro). This includes obligations from purchase agreements of around 4.0 million euro which are offset by a receivable of the same amount. Provisions and liabilities from income taxes decreased to 3.9 million euro (31 December 2017: 4.7 million euro).

Liabilities from the discontinued operations held for sale amounted to 81.0 million euro. Gross debt (current and non-current liabilities to banks) amounted to 77.8 million euro as at 31 December 2018 (31 December 2017: 73.3 million euro; +6.3 %).

Net indebtedness stood at 46.1 million euro (31 December 2017: 47.1 million euro).

GROUP MANAGEMENT REPORT

Liquidity

The MAX Group reported a cash inflow from operating activities of 20.6 million euro for 2018, following an inflow of 18.7 million euro in the previous year. The operating cash flow of the Group as a whole includes non-cash expenses of 11.1 million euro, mainly resulting from the valuation of inventories. The increase in trade payables includes prepayments received of around 48.0 million euro.

Investment activity resulted in a cash outflow of -13.5 million euro (previous year: -6.5 million euro).

Of this amount, -4.5 million euro was attributable to investments in property, plant and equipment and -10.8 million euro to the acquisition of MAX Automation (Shanghai) Co., Ltd. This was offset by an inflow of 2.9 million euro from the sale of NSM Packtec GmbH.

The cash inflow from financing activities amounted to 0.1 million euro (cash outflow in previous year: -8.4 million euro). This includes the dividend payment of 4.4 million euro (previous year: 4.0 million euro).

Total cash flows resulted in cash and cash equivalents of 33.5 million euro at the end of the reporting period of 2018, compared with 26.2 million euro at the beginning of the reporting period.

The continuing operations accounted for cash flow from operating activities of 10.6 million euro (previous year: 11.9 million euro), cash flow from investment activity of -1.2 million euro (previous year: -2.0 million euro) and cash flow from financing activities of -1.9 million euro (previous year: -6.5 million euro).

The discontinued operations accounted for cash flow from operating activities of 10.0 million euro (previous year: 6.8 million euro), cash flow from investment activity of -12.3 million euro (previous year: -4.5 million euro) and cash flow from financing activities of 2.0 million euro (previous year: -2.0 million euro).

Segment reporting

MAX Automation SE and its subsidiaries meet the demand for technologically complex and innovative components and solutions for efficient, flexible and networked automation systems in industrial production. The individual companies focus on solutions for specific industries.

In the Industrial Automation segment, MAX Automation and its subsidiaries develop machines and systems along with associated software solutions for high-precision production processes. The target industries are medical technology, electronics and the automotive sector. The companies provide reliable and professional services for their customers, enabling them to adapt their products to the ever-changing requirements of the markets and to keep optimising their production processes. The range of services offered by the subsidiaries covers the development and production of integrated assembly systems, including the integration of robotics solutions, the development of control software and the provision of maintenance services.

GROUP MANAGEMENT REPORT

In the Environmental Technology segment, the Vecoplan Group and its subsidiaries develop machines and systems for the sustainable use of raw materials. Vecoplan provides various services for the efficient recycling of resources and waste materials with a view to returning them to the cycle of recovered substances or using them as substitute fuel for energy recovery. Products and services are also offered to ensure compliance with the emissions standards which have been tightened up all over the world.

Industrial Automation segment

The development in the Industrial Automation segment was very positive in 2018, after adjustment for the revenue and operating income from the discontinued operations. Incoming orders in the continuing operations were up by 34.3 % on the previous year, while the orders on hand at the end of 2018 increased to 139.1 million euro.

The strong growth was most notable in the Life Science Automation and Process Technologies business units. The MAX Automation companies once again benefited from major growth drivers in their respective markets, such as the trends in the automotive sector towards driver assistance systems and electric drives or the policies designed to reduce CO₂ emissions in vehicles and, in the medical technology sector, the growing health awareness of the population and the demographic trend.

In the year under review, the Group companies continued to focus on the further optimisation of internal processes and the exploitation of synergies to increase efficiency. This most notably involved introducing uniform standards for risk management and controlling or cooperation on individual projects with a view to sharing know-how and transferring technology. The binding reporting and controlling instruments which are mandatory for all companies were greatly reinforced.

Key ratios in the Industrial Automation segment

There was a pleasing increase of 209.4 million euro in incoming orders in 2018 in the continuing operations in the Industrial Automation segment (previous year: 155.9 million euro; 34.3 %).

Order backlog in the continuing operations as at 31 December 2018 increased to 139.1 million euro (31 December 2017: 83.9 million euro; 65.7 %).

Revenue in the segment in 2018 rose by 5.6 million euro or 3.4 % to 166.6 million euro (previous year: 161.0 million euro). Foreign sales accounted for 50.2 % of revenue in the segment as compared to 54.7 % in the previous year.

At 20.1 million euro, the EBITDA was slightly below the level of the previous year of 21.6 million euro.

The operating income in the segment before interest and taxes (EBIT) and before PPA amortisation amounted to 16.6 million euro (2017: 18.3 million euro; -9.3 %). The EBIT margin – in relation to total output – amounted to 10.0 % as compared to 11.5 % in the previous year.

GROUP MANAGEMENT REPORT

Segment earnings after PPA amortisation fell to 11.4 million euro (2017: 17.5 million euro; -34.6 %). The Industrial Automation segment posted earnings from continuing operations of 8.8 million euro. This was 39.4 % below the previous year's figure of 14.5 million euro.

The result from the discontinued operations amounted to -44.8 million euro (previous year: +0.6 million euro), ensuing from the operating and extraordinary losses at the companies in the IWM Group.

The average number of employees in the Industrial Automation division in 2018 was 848 (excluding trainees). In the previous year, the segment had an average of 790 employees.

	2018	2017	Change
	in m euro	in m euro	in %
Order intake	209.4	155.9	34.3
Orders on hand ¹	139.1	83.9	65.7
Segment revenue	166.6	161.0	3.4
- of which foreign sales	84.4	88.9	-5.1
EBITDA	20.1	21.6	-6.8
Segment EBIT before PPA	16.6	18.3	-9.3
Segment EBIT after PPA	11.4	17.5	-34.6
Employees (number) ²	848	790	7.4

¹ As at 31 December

² Annual average excluding trainees

Environmental Technology segment

The Environmental Technology segment, which comprises the Vecoplan Group and its subsidiaries, reported a successful course of business in 2018, achieving a significant increase in all the key ratios.

In the year under review, the segment continued to concentrate on the development and manufacture of high-quality components and plants for the sustainable and efficient recycling and treatment of residual materials for the wood, recycling and waste management industries.

Key ratios in the Environmental Technology segment

In 2018, the Environmental Technology segment recorded an increase in order intake on the previous year to 116.0 million euro (2017: 92.9 million euro; 24.8 %). The orders on hand as at 31 December 2018 grew to 34.6 million euro (31 December 2017: 29.7 million euro).

GROUP MANAGEMENT REPORT

The revenue in the segment rose sharply in the year under review to 110.6 million euro, up from 89.4 million euro in the previous year (+23.7 %). Foreign sales accounted for a share of 79.8 % as compared with 80.0 % in 2017.

The EBITDA grew from 8.2 million euro in the previous year to 10.0 million euro in the year under review (+23.3 %).

The segment increased its operating earnings before interest and taxes (EBIT) and before PPA amortisation from 6.5 million euro to 8.5 million euro. The EBIT margin – in relation to total output – improved to 7.8 % (previous year: 7.0 %).

The MAX Automation Group employed an average of 375 people (excluding trainees) in the Environmental Technology segment in 2018.

	2018	2017	Change
	in m euro	in m euro	in %
Order intake	116.0	92.9	24.8
Orders on hand ¹	34.6	29.7	16.2
Segment revenue	110.6	89.4	23.7
– of which foreign sales	88.3	71.6	23.4
EBITDA	10.0	8.2	23.3
Segment EBIT before PPA	8.5	6.5	30.2
Segment EBIT after PPA	8.5	6.5	30.7
Employees (number) ²	375	374	0.3

¹As at 31 December

²Annual average excluding trainees

GROUP MANAGEMENT REPORT

INVESTMENTS

The MAX Group invested 7.0 million euro in non-current assets, excluding the discontinued operations, in the financial year of 2018, compared with 7.7 million euro in the previous year. Investments were essentially made in relation to IT, technical equipment, machinery, operating facilities and office equipment.

Detailed information on the investments in the segments can be found in the segment reporting attachment.

PERSONNEL REPORT

The MAX Automation Group and its companies acted in accordance with the proviso that the staffing level should be duly adjusted in 2018 – as in previous years – in line with operational developments.

As at 31 December 2018, the Group had a total of 2,136 employees, including trainees (31 December 2017: 1,796). Of this total, 1,426 employees (previous year: 1,327) were working in the divisions where operations were to be continued.

The average number of employees, excluding trainees, rose by 197 or 12.5 % from 1,576 to 1,773. Of this number, 1,223 were working in the divisions where operations were to be continued (previous year: 1,172).

MAX Automation considers its employees in the Group companies and in the holding company as essential resources for business success. It therefore seeks to create attractive opportunities for professional and personal development in all the relevant respects. The personnel policy adopted across the Group entails high standards of training and skills enhancement input with a view to retaining highly professional and committed staff in the long term. MAX Automation also recruited more experienced engineers and software developers in the year under review, thereby strengthening its capacities in these areas.

MAX AUTOMATION SE

The Annual Financial Statement of MAX Automation SE was prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch - HGB). The regulations set out in the German Stock Corporation Act (Aktiengesetz - AktG) were also followed. The Annual Financial Statement was prepared in accordance with the regulations for large corporations.

Results of operations and application of earnings

The earnings position of MAX Automation SE is dependent to a large extent on movements in the results of the subsidiaries. By resolution of the Annual General Meeting on 18 May 2018, control agreements and profit transfer agreements were concluded with three subsidiaries of the Industrial Automation segment (IWM Automation GmbH, bdtronic GmbH and NSM Magnettechnik GmbH). The amounts distributed by the other companies to the parent company are dependent on the results and take due account of the future capital expenditure requirements of the subsidiaries.

GROUP MANAGEMENT REPORT

The development of the earnings situation of the subsidiaries is presented in the segment reporting section. The following figures are based on the result of MAX Automation SE under commercial law.

MAX Automation SE reports income from profit transfers of 14.7 million euro (previous year: 14.6 million euro), expenses from profit transfers of 12.6 million euro (previous year: 2.7 million euro) and investment income of 2.4 million euro (previous year: 3.5 million euro) in the financial year of 2018.

Sales revenues, which mainly include group allocations to affiliated enterprises, amounted to 3.1 million euro (previous year: 2.3 million euro).

Other operating expenses rose from 2.9 million euro to 7.7 million euro due to investments in the restructuring of the risk management and internal control system and in the sale of the companies in the Mobility Automation division initiated in the third quarter of 2018.

Net interest result amounted to 0.1 million euro after 0.4 million euro in the previous year. This mainly includes expenses for the syndicated loan and interest income with affiliated enterprises.

The Company reports earnings before taxes of -1.8 million euro (previous year: 11.7 million euro). Tax income of 1.2 million euro is reported (previous year: tax expense of 3.4 million euro).

The annual result amounts to -0.6 million euro (previous year: 8.2 million euro). Balance sheet profits of 4.4 million euro from the previous year were distributed in the financial year of 2018.

Net assets and financial position

MAX Automation SE reported total assets of 244.1 million euro as at 31 December 2018. This corresponds to an increase of 37.1 million euro on the level on the reporting date in the previous year (207.0 million euro). The increase is due, on the one hand, to the acquisition of MAX Automation (Asia Pacific) Co., Ltd. and the takeover of assigned receivables from the sale of NSM Packtec GmbH and, on the other hand, to the syndicated financing of the subsidiaries.

Receivables and other assets increased from 106.7 million euro to 125.4 million euro. This figure includes 97.5 million euro from receivables due from subsidiaries from the syndicated financing arrangements (previous year: 86.2 million euro). Cash and cash equivalents amounted to 8.3 million euro on the reporting date (previous year: 0.0 million euro).

MAX Automation SE reports equity of 109.3 million euro as at 31 December 2018 (previous year: 114.3 million euro). The equity ratio was 44.8 % (previous year: 55.2 %).

Liabilities to banks as at 31 December 2018 rose from 62.3 million euro to 74.0 million euro. These have a term until 2022. Liabilities to subsidiaries amounted to 38.0 million euro as at 31 December 2018, compared with 22.5 million euro in the previous year, and mainly comprise loans granted/deposits.

The net assets, financial position and results of operations of MAX Automation SE are in order.

NON-FINANCIAL GROUP DECLARATION IN ACCORDANCE WITH SECTION 315B HGB

Corporate responsibility

The MAX Group operates internationally in industry and bears responsibility in Germany, Europe and all over the world. Corporate responsibility and long-term success are inseparable from the viewpoint of MAX Automation SE. In the interests of the stakeholders, MAX Automation SE regards profitable and long-term growth as its way of acting responsibly for future generations.

The commitment of the MAX Automation Group to sustainability extends to three main areas: environment, workforce and compliance.

MAX Automation takes environmental responsibilities

Sustainability as a growth driver

The protection of the environment and climate is one of the main challenges of our time. With natural resources becoming increasingly scarce, the world population growing and consumption rising, the demands on the use of natural resources are constantly increasing. Sustainability has become a growth driver which is developing into an increasingly important factor in purchasing decisions. The MAX Group positioned itself early on in emerging markets with a future based on sustainable environmental trends. These include reducing CO₂ emissions, increasing resource efficiency and supplying products which combine ecological progress and economic success.

Innovative green technology for effective recycling and treatment of waste

In the Environmental Technology segment, the MAX Group develops components and plants for the effective recycling and processing of waste and residual materials, such as systems for opening the "Yellow Bags" which are filled with plastic packaging for recycling. This is more complex than it may seem because the bags must first be opened without damaging the contents. Our design allows the outer bags and any other bags inside to be torn carefully, making it easy to sort the material for the downstream processes. This system works with a "HiTorc" drive with direct power transmission instead of a clutch or gearbox. This reduces the energy consumption to one third of the amount used in previous processes.

Effective shredding and cleaning of plastic waste

The innovative Environmental Technology unit in the MAX Group supplies shredders for all plastic materials. With the aid of the latest shredding technology, a wide variety of plastic input is turned into high-quality, homogeneous output. The shredders can be easily integrated into existing systems and boast impressively low energy consumption and high efficiency levels.

The MAX Group also offers a system which cleans plastic waste entirely without chemicals. The VecoDyn technology consumes significantly less energy than conventional processes and also automatically treats the dirty water in a closed loop.

GROUP MANAGEMENT REPORT

Efficient impregnation process for electric mobility

The MAX Group has developed an efficient and cost-effective process for the impregnation of stators. The stator is the component in the electric motor which is responsible for generating the power and is therefore of major importance for electric mobility. Each stator must be coated to protect it from external influences like moisture. The process involves drizzling a polyester resin onto the preheated, rotating stator. Conventional methods involve the immersion of the stator in an impregnating bath. The process developed by the MAX Group is faster and cheaper than any other method as it avoids waste and loss through dripping. Nor is there any need for finishing work. It therefore allows the customers of the MAX Group to produce stators quickly and efficiently and promote e-mobility.

MAX Automation insists on responsible business practices

Acting with integrity

MAX Automation is synonymous with responsible action and lawful conduct in every respect. All MAX employees are obliged to adhere to the relevant legislative framework, abide by internal policies and act in accordance with the rules of conduct in the business environment. For the MAX Group this means acting in conformity with the applicable local legal norms at all times. Violations of the law are not tolerated. This approach boosts the confidence of our customers, shareholders and employees and strengthens the trust of the public in our products, services, independence and integrity.

Compliance as a code of conduct

Compliance means much more than just complying with laws and internal regulations. It forms the basis of our decisions and activities. Compliance is integrated into the business processes at MAX Automation. One aspect of this is informing our customers worldwide about our principles. It is our goal to cement a code of responsible behaviour permanently into the mindset and conduct of the entire workforce. Essential requirements are summarised in a Group-wide compliance policy which is binding on all employees in the MAX Group. Questionable practices or violations can either be flagged up anonymously using the "Whistle-Blowing Report" on the MAX website or reported directly to the relevant Compliance Officer.

Fair competition

We are convinced that compliance can contribute to the development of companies and countries, both directly and sustainably, with the prevention of corruption, for example, forming an important cornerstone. The MAX Group is fully and unreservedly committed to fair competition. We compete solely on the basis of the value for money and the quality of our products and services. Compliance with all laws and regulations on the prevention of unfair competition is an integral part of our business policy.

Prohibition of child labour and forced labour

The MAX Group respects the prohibition of child labour according to the standards formulated by the International Labour Organization (ILO).

GROUP MANAGEMENT REPORT

People must not be employed against their will or forced to work. The MAX Group does not use forced or compulsory labour.

MAX Automation assumes responsibility for its employees

Sustainable and future-oriented personnel work

Motivated, qualified and committed employees are the key to our success. It is our responsibility to make sure that they do a good job and that they enjoy their work and stay with us. The recruitment, development and retention of first-class employees are therefore our top priorities. We want to be perceived as an attractive employer. We provide a pleasant working environment in which our employees are treated fairly. We see equality and equal opportunities as fundamental principles of working together. We encourage a healthy work/life balance and offer flexible working hours.

The fast pace of change in our markets necessitates continuous improvement of our processes and products – a challenge which we meet head-on with training and skills enhancement opportunities for our employees geared to the precise requirements. In this way, we prepare our employees specifically for the new market developments and changes.

Commitment to the promotion of young talent

We regard the training of young people as part of our corporate social responsibility. Many of the MAX companies are prominent training companies in their local areas. This enables us to fill vacancies with junior staff who have trained with us. Students can write their bachelor's and master's theses and do internships in our Company in order to get the best possible introduction to the various jobs and trades. We also offer placements for sandwich degree students at several sites in subjects like mechanical engineering, electrical engineering and business administration.

Staff safety takes priority

High levels of occupational health & safety and plant safety and therefore the protection of the employees have absolute priority at the MAX Group. An attractive and healthy working environment is one of the prerequisites for dedicated employees. We observe occupational health & safety regulations and encourage our staff to adopt a safety-conscious approach to their work. Training and workshops on occupational health & safety are held regularly in our companies. Measures were defined in the course of various TÜV/ISO certification processes at our subsidiaries to ensure the safety of employees in the workplace. Once they have been put in place, these measures will be regularly reviewed and, if necessary, adjusted.

Principles of cooperation

The MAX Group attaches great importance to cooperation, courtesy and fairness in dealing with each other. Respect for the privacy and dignity of others is essential for a good working environment.

A good working atmosphere is indispensable for the success of the MAX Group. Loyalty, mutual support, respect, appreciation, openness and fairness are all fundamental to our work ethic.

GROUP MANAGEMENT REPORT

Diversity and appreciation

The individuality of the employees in the MAX Group is a key feature of the corporate culture and is conducive to a good working atmosphere. The corporate culture is based on appreciation. Different religious beliefs, sexual orientations or ideological views are treated with respect.

Discrimination is entirely contrary to the core values of the MAX Group. Any form of discrimination, whether in relation to employees or third parties, is therefore prohibited. Discrimination means any form of differentiation, exclusion or preference which restricts equal treatment or access to work and employment and which may be based on skin colour, gender, religion, political beliefs, age, nationality, social background, ethnic origin, family commitments or similar considerations. The MAX Group is also committed to workplaces which are free from all forms of harassment and bullying.

DISCLOSURES IN ACCORDANCE WITH SECTION 315A (1) HGB AND SECTION 289A (1) HGB

(and explanatory report of the Board of Directors pursuant to Section 48 (2) clause 2 SEAG in conjunction with Section 176 (1) clause 1 AktG)

Listed parent companies are obliged under Section 289a (1) and Section 315a (1) of the German Commercial Code (Handelsgesetzbuch - HGB) to provide such information in the Group Management Report on the capital composition, the shareholder rights and their restrictions, the ownership structure and the governing bodies of the Company as would be relevant in the event of any takeover.

The legal representatives of a corporation domiciled in Germany whose voting shares are admitted to an organised market, as defined in Section 2 (7) of the German Securities Acquisition and Takeover Act (Wertpapiererwerbs- und Übernahmegesetz - WpÜG), must provide such information irrespective of whether a takeover bid has been submitted or is anticipated. The information is intended to enable potential bidders to obtain a full picture of the Company and of any obstacles to a takeover.

The Board of Directors is also required, under Section 48 (2) clause 2 SEAG in conjunction with Section 176 (1) clause 1 AktG to provide the Annual General Meeting with an explanatory report. The disclosures pursuant to Section 315a (1) HGB and Section 289a (1) HGB are summarised below with the corresponding explanations pursuant to Section 48 (2) clause 2 SEAG in conjunction with Section 176 (1) clause 1 AktG.

a) Composition of the subscribed share capital

The subscribed share capital (share capital) of MAX Automation SE amounts to 29,459,415 euro and is divided into 29,459,415 no-par shares, each of which carries the same rights, especially the same voting rights. Each share grants a voting right in this respect. The shares are issued in the name of the bearer. Different classes of shares do not exist. Each share has a notional value of 1.00 euro as part of the share capital. The Company does not currently hold any of its own shares. MAX Automation SE is listed on the stock exchange. The MAX Automation SE share changed from the General Standard segment to the Prime Standard segment of Deutsche Börse on 1 April 2015.

GROUP MANAGEMENT REPORT

b) Voting rights and transfer restrictions

The Board of Directors is not aware of any restrictions relating to the voting rights or the transfer of shares.

c) Shareholdings exceeding 10 % of voting rights

To the knowledge of the Board of Directors, and on the basis of the notifications received by the Company under securities trading law and securities acquisition and takeover law, there is an interest in the share capital of MAX Automation SE which exceeds 10 % of the voting rights. Orpheus Capital II GmbH & Co. KG, headquartered in Hamburg, holds 34.92 % of the voting rights in MAX Automation SE. The voting rights are assigned to Mr. Oliver Jaster through Günther SE based in Bamberg, Günther Holding SE based in Hamburg and Orpheus Capital II Management GmbH based in Hamburg.

Further details on this situation are provided in the overview in the Notes under "Shareholdings subject to notification pursuant to Section 160 (1) subs. 8 AktG".

d) Shares with special rights conferring powers of control

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

e) Control of voting rights in case of employee participation

The Board of Directors is not aware of any employees with an equity stake in the Company who do not directly exercise their control rights.

f) Appointment and dismissal of Executive Directors and amendments to the Articles of Incorporation

As a company with a monistic governance and control structure, MAX Automation SE takes the disclosure requirement relating to the appointment and dismissal of Members of the Management Board pursuant to Section 48 (2) clause 2 SEAG, in conjunction with Section 176 (2) clause 1 AktG in conjunction with Section 289a(1) subs. 6 HGB and Section 315a(1) subs. 6 HGB, and applies it to the Executive Directors. Art. 43 SE-VO and Section 40 SEAG apply to their appointment. According to Section 11(1) clause 1 of the Articles of Association, MAX Automation SE has one or more Executive Directors; this applies irrespective of the amount of share capital. According to Section 11(2) clause 1 of the Articles of Association, the Board of Directors determines the number of Executive Directors. The Executive Directors are appointed and dismissed in accordance with the statutory provisions set out in Section 40(1) clause 1 and (5) clause 1 SEAG in conjunction with Section 11(2) and (4) of the Articles of Association. The Board of Directors has sole responsibility for the appointment and dismissal of the Executive Directors, except in cases where a replacement is appointed by the court pursuant to Section 45 SEAG.

According to Section 11(3) clause 1 of the Articles of Association, the Board of Directors appoints Executive Directors for a maximum term of five years. According to Section 11(3) clause 2 of the Articles of Association, a repeat appointment is again limited to a maximum of five years. According to Section 11(2) clause 2 of the Articles of Association, the Board of Directors may appoint a Managing Director as Chairman and a Managing Director as Deputy Chairman of the Executive Directors.

GROUP MANAGEMENT REPORT

Internal practices are consistent with suggestion 5.1.2 in the German Corporate Governance Code, according to which the maximum permissible appointment period of five years should not be applied as a rule for first-time appointments. According to Section 11(4) of the Articles of Association, an appointment may only be revoked, by way of derogation from Section 40(5) SEAG, for good cause as defined in Section 84(3) AktG or in the event of termination of the employment contract, for which a resolution of the Board of Directors with a simple majority of the votes cast is required in each case.

Pursuant to Art. 59 SE-VO and Section 51 SEAG in conjunction with Section 17(1) clause 2 of the Articles of Association, the amendment of the Articles of Association of MAX Automation SE requires a majority of two thirds of the votes cast or, if at least half of the share capital is represented, a simple majority of the votes cast, unless dictated otherwise by mandatory statutory provisions. Pursuant to Section 179(2) clause 2 AktG in conjunction with Section 17(1) clause 3 of the Articles of Association, a simple majority of the capital represented is also sufficient, unless a greater majority of shares is required by law. If not all of the share capital is represented at the Annual General Meeting, it is conceivable that shareholders with less than 50 % of the voting rights may be able to enforce certain amendments to the Articles of Association with their own votes. Pursuant to Section 22(6) SEAG in conjunction with Section 179(1) clause 2 AktG in conjunction with Section 17(2) of the Articles of Association, the Board of Directors is authorised to make such amendments to the Articles of Association as relate only to the wording. In all other respects, the statutory provisions set out in Art. 57 and 59 SE-VO and Section 51 SEAG apply.

g) Authority of the Board of Directors to issue and buy back shares

The Board of Directors is authorised, under Section 5(7) of the Articles of Association, to increase the share capital of the Company once or several times until 29 June 2020 by up to a total of 4,019,000.00 euro by issuing new individual bearer shares (with voting rights) in return for cash contributions (Authorised Capital I). The new shares are to be offered to the shareholders to purchase, whereby an indirect subscription right as defined in §186(5) clause 1 AktG will also suffice. The Board of Directors is authorised, however, to exclude subscription rights for fractional amounts from the shareholders. The Board of Directors is also authorised to set the date on which the dividend entitlement is to commence in a departure from the law and to determine the further details of the implementation of capital increases from Authorised Capital I. The Board of Directors is authorised to amend the wording of the Articles of Association after the full or partial implementation of the capital increase from Authorised Capital I or after the expiration of the authorisation period in accordance with the scope of the capital increase from Authorised Capital I. The Board of Directors has not yet exercised the right pursuant to Section 5(7) of the Articles of Association (Authorised Capital I).

h) Fundamental agreement of the Company on condition of the change of control

MAX Automation SE has borrowed funds in a syndicated loan arrangement. In the event of a change of control, the lenders are entitled to request early repayment of all drawdowns within 15 days plus interest, commission and all other amounts owed. The condition for a change of control is that one person or a group of persons acting jointly (with the exception of Mr. Oliver Jaster or companies in which he holds a majority interest) directly or indirectly owns 50 % or more of the shares and/or voting rights in MAX Automation SE; reference may be made to the section "Non-current loans" in the Notes to the Consolidated Financial Statement regarding the drawdown of the loan. There are no other fundamental agreements of the Company which are subject to the condition of a change of control following a takeover bid.

GROUP MANAGEMENT REPORT

i) Compensation agreements in the event of a change of control

As an enterprise with a monistic governance and control structure, MAX Automation SE takes the disclosure requirement pursuant to Section 289a (1) subs. 9 HGB, with regard to the disclosure of compensation agreements of the parent company with the Members of the Management Board in the event of a takeover bid, and applies it to the Executive Directors. The Company has not entered into any compensation agreements with the Executive Directors or employees in the event of a takeover bid.

CORPORATE GOVERNANCE STATEMENT (SECTION 289F HGB AND SECTION 315D HGB)

The Corporate Governance Statement required under Section 289f HGB and Section 351d HGB was issued by the Board of Directors in February 2019 and can be accessed on the Internet under the following link: www.maxautomation.com/de/investor-relations/corporate-governance/. The Company also published a Corporate Governance Report in connection with the Corporate Governance Statement. The Corporate Governance Report is included in the 2018 Annual Report.

DEPENDENCY REPORT

Statement on the report issued by the Executive Directors on relations with affiliated companies pursuant to Section 312 AktG

In the financial year of 2018, MAX Automation SE was a controlled enterprise, as defined in Section 17 AktG, of Günther Holding SE, Hamburg, Germany. The Executive Directors of MAX Automation SE have therefore prepared a report on relations with affiliated enterprises in accordance with Section 312 (1) AktG which contains the following concluding statement:

“We declare that, in the legal transactions and actions undertaken from 1 January to 31 December 2018 and listed in the report on relations with affiliated companies, the Company received appropriate consideration for each legal transaction in accordance with the circumstances known to us at the time at which the legal transactions were carried out or the actions taken or omitted. To the extent that the Company has been disadvantaged as a result, it has been granted a legal claim to an adequate benefit by way of compensation before the end of the financial year of 2018. The Company has not been disadvantaged by the fact that actions were taken or omitted.”

REPORT ON BOARD MEMBERS' COMPENSATION

Compensation of the Board of Directors

In addition to the reimbursement of their expenses, the Chairman and Deputy Chairman of the Board of Directors are paid 120,000 euro and 60,000 euro respectively and the remaining Members of the Board of Directors, with the exception of the Executive Directors, are paid 40,000 euro at the end of the financial year.

This table below shows the resulting compensation for the individual Members of the Board of Directors for the financial year of 2018:

In kEUR	Fixed compensation		Consultancy services		Total	
	2017	2018	2017	2018	2017	2018
Gerhard Lerch, Chairman	144	132	0	0	144	132
Dr. Jens Kruse, Deputy Chairman	60	60	0	0	60	60
Oliver Jaster	40	40	0	0	40	40

The above figures also include the 12,000 euro paid to Mr. Lerch for sitting on the Supervisory Board at Vecoplan AG.

The Members of the Board of Directors did not receive any loans or advances in the financial year of 2018.

Compensation report

The compensation system in place at MAX Automation SE is based on the principles of proportionality and sustainability. The total amount of compensation takes particular account of the remit of the Executive Directors, their personal performance, the economic situation, the success and future prospects of the enterprise with due regard for the market environment as well as the pay and salary structure in the enterprise and the compensation in other companies of comparable size working in comparable sectors of industry.

The total compensation of the Executive Directors comprises non-performance-related and performance-related components. The targets set by the Board of Directors in respect of the performance-related compensation components are intended to provide sustainable and long-term incentives with a view to increasing the profitability and value of the entire MAX Group and thereby generate added value for all stakeholders.

The overall compensation structure is geared to sustainable corporate development. The fixed compensation accounts for a significant portion of the total compensation package. Some of the performance-related compensation components have an assessment basis spanning several years. Due to the length of

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the assessment period, their share increasingly gains weight in annual increments. The service contracts of the Executive Directors contain provisions allowing a proportionate reduction of the earnings if the situation of the Company deteriorates to such an extent that it would be unreasonable to continue the payments. The compensation terms also include an upper limit (cap), both for the performance-related components and for the total compensation.

The non-performance-related components of the package consist of the fixed compensation in the form of the fixed annual salary, which is paid in monthly instalments, and ancillary benefits (e.g. private use of staff cars, insurance premiums and rent subsidies for housing). The performance-related pay consists of a one-year variable payment (Short-Term Incentive Plan - "STIP") and a multi-year variable payment (Long-Term Incentive Plan - "LTIP"). The STIP payment is granted annually and the LTIP payment after the term of four years has expired in any given case.

The payment of the STIP is linked to the achievement of financial performance targets related to the financial year at any given time. The STIP target (amount paid out in the event of 100 % achievement of targets) was set by the Board of Directors as a percentage of the fixed annual salary. In setting the target amount, the Board of Directors took account of various factors, such as the remit and performance of the Executive Directors and their impact on the value chain. The performance targets relate to the EBIT and the RoCE (return on capital employed), in both cases with regard to the Group. The targets are set annually at the beginning of the financial year by the Board of Directors which also sets minimum levels, below which no payout is made, and maximum levels, at or above which the payout is 150 % of the target amount (cap). The payouts therefore range between 0 % and 150 % of the target amount.

The payment of the LTIP is linked to the achievement of financial performance targets which are measured over a period of four financial years, beginning with the financial year in which the respective tranche is granted. The LTIP target (amount paid out in the event of 100 % achievement of targets) was set by the Board of Directors as a percentage of the annual fixed salary, as is the case with the STIP. In setting the target amount for the LTIP, the Board of Directors again took account of various factors, such as the remit and performance of the Executive Directors and their impact on the value chain. The performance targets relate to the growth in sales and to a "MAX bonus" which takes account of the RoCE (return on capital employed), the WACC (weighted average cost of capital) and the amount of capital employed, in each case with regard to the Group. The targets are set at the beginning of the first financial year of the four-year period by the Board of Directors which also sets minimum levels, as with the STIP, below which no payout is made, and maximum levels, at or above which the payout is 150 % of the target amount (cap). The LTIP payouts therefore also range between 0 % and 150 % of the target amount. The term and assessment period of the LTIP tranche granted for the financial year of 2018 comprise the financial years 2016 to 2019, 2017 to 2020, and 2018 to 2021. The amount to be paid out will not be apparent until the end of the respective tranche therefore it will be granted in the last year of the respective tranche.

No share options or similar securities-based incentive systems have been offered to the Executive Directors or employees.

In the event of premature termination of the service contract, the Executive Directors generally receive a severance payment by way of compensation amounting to three months of their fixed annual salary but

GROUP MANAGEMENT REPORT

capped in principle at the prorated value of their compensation claims for the remaining term of the service contract. The claim to compensation will not apply if the Company is entitled to terminate the contract for good cause or if the Managing Director resigns from office without such good cause as is recognised by the Company. The service contracts do not contain any specific commitments to the Managing Director in the event of premature termination following a change of control.

The Company has no pension commitments towards the current Executive Directors. Nor are there any pension commitments to former Members of the Management Board of the AG. Therefore no reserves had to be set aside for this purpose.

The following amounts were granted to the Executive Directors of MAX Automation SE in the financial year of 2018:

In kEUR	Daniel Fink, Managing Director (CEO)			
	2017	2018	2018 (min)	2018 (max)
Fixed compensation	320	320	320	320
Ancillary benefits*	33	34	34	34
Total	353	354	354	354
One-year variable payment (STIP)	31	61	0	315
Multi-year variable payment (LTIP)	0	266	0	699
of which 2016 to 2019 plan ¹⁾	0	0	0	233
of which 2017 to 2020 plan ¹⁾	0	126	0	233
of which 2018 to 2021 plan ¹⁾	0	140	0	233
Total	384	681	354	1,368
Pension-related expenses	0	0	0	0
Total compensation	384	681	354	1,368

*The main ancillary benefits were private use of staff car, insurance premiums and rent subsidies for housing

¹⁾Payment in 2019

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In kEUR	Fabian Spilker, Managing Director (CFO) until 31.03.2018			
	2017	2018	2018 (min)	2018 (max)
Fixed compensation	220	84	0	0
Severance payment	0	600	0	0
Ancillary benefits*	22	9	0	0
Total	242	693	0	0
One-year variable payment (STIP) ²⁾	20	0	0	0
Multi-year variable payment (LTIP) ²⁾	0	0	0	0
of which 2016 to 2019 plan	0	0	0	0
of which 2017 to 2020 plan	0	0	0	0
of which 2018 to 2021 plan	0	0	0	0
Total	262	693	0	0
Pension-related expenses	0	0	0	0
Total compensation	262	693	0	0

*The main ancillary benefits were private use of staff car and insurance premiums

2) Offset against other compensation components on departure in 2018

In kEUR	Andreas Krause, Managing Director (CFO) from 01.03.2018 onwards			
	2017	2018	2018 (min)	2018 (max)
Fixed compensation	0	225	225	225
Ancillary benefits*	0	24	24	24
Total	0	249	249	249
One-year variable payment (STIP)	0	42	0	256
Multi-year variable payment (LTIP)	0	92	0	185
of which 2018 to 2021 plan	0	92	0	185
Total	0	383	249	690
Pension-related expenses	0	0	0	0
Total compensation	0	383	249	690

*The main ancillary benefits were private use of staff car, insurance premiums and rent subsidies for housing

GROUP MANAGEMENT REPORT

The following amounts or credits accrued to the individual Executive Directors of MAX Automation SE in the financial year of 2018:

In kEUR	Daniel Fink Managing Director (CEO)		Fabian Spilker Managing Director (CFO) until 31.03.2018		Andreas Krause Managing Director (CFO) from 01.03.2018 onwards	
	2017	2018	2017	2018	2017	2018
Fixed compensation	320	320	220	84	0	225
Severance payment	0	0	0	600	0	0
Ancillary benefits	33	34	22	9	0	24
Total	353	354	242	693	0	249
One-year variable payment	0	0	0	0	0	0
Multi-year variable payment	0	0	0	0	0	0
Total	353	354	242	693	0	249
Pension-related expenses	0	0	0	0	0	0
Total compensation	353	354	242	693	0	249

The Executive Directors did not receive any loans or advances in the financial year of 2018.

Former Members of the Management Board of the AG or their surviving dependants did not receive any compensation in the financial year of 2018.

RISK REPORT

Risk management system and internal control system

Scope of application

A Group-wide risk management system (RMS) has been in place since 2000 which complies with the German Corporate Sector Supervision and Transparency Act (Gesetz zur Kontrolle und Transparenz im Unternehmensbereich - KonTraG). This enables the early identification of potential risks, both at MAX Automation SE as the parent company and in the operating units, and the initiation of suitable measures in response. The risk management system underwent a radical review in 2009 and has since been continuously updated to accommodate new requirements. Measures were introduced in 2018, the year under review, to restructure the risk management and internal control and reporting system which will be continued in 2019.

Objectives and principles

The objective of the risk management system (RMS) at the MAX Automation Group is to contain risk. The RMS is based on an orderly process of risk identification, risk assessment and risk management encompassing the entire Group. The risk management process is based on the principle of assuring the medium-term and long-term goals of the Company, especially maintaining and expanding its market position within the target sectors. The overriding objectives are to identify the risk factors by managing all the drivers of risk in an appropriate manner and to take proportionate action in response.

The following principles are based on this approach to risk:

- Risk management is integrated into all the key operational business processes and decision-making processes. Risks are primarily managed by the organisational units which operate at local level.
- The risk management process serves as a toolbox for the systematic identification, analysis, management and monitoring of risks which pose a threat to the survival of the business.
- Active and open communication of risks is key to the success of the RMS. All employees of the MAX Automation Group are called upon to be proactive in managing risk in their respective spheres of responsibility.
- The risk assessment is basically conservative, i.e. it estimates the maximum damage which can be expected (worst case).
- Central monitoring is carried out by MAX Automation SE.

Methods and processes

The risk management process involves various computer-assisted matrices structured in such a way as to facilitate the detection and assessment of levels of risk and ultimately the management of risks. Risks and the significance of the risks for the Company are identified in the process and a theoretical risk factor is calculated so that risk management measures can then be formulated to tailor the response to the exact needs at the right time. A list of example risks and a guide to using the electronic file round off the system.

GROUP MANAGEMENT REPORT

The reporting interval is quarterly. One key element of this standard risk cycle is the risk inventory compiled by the operational units. Individual risks are identified, evaluated and summarised, i.e. assigned to one of seven specific risk classes.

The assessment of the individual risks is the responsibility of the risk management section at the Group companies and at MAX Automation. The risk management handbook serves as a guide. The assessment process consists of three steps. Firstly, where possible, the potential loss and damage are calculated, i.e. the maximum impact that a risk can have on the EBIT within the next 24 months. Secondly, the probability of occurrence is determined in respect of the individual risk. Thirdly, the effectiveness of possible countermeasures is examined and a judgement is made as to whether these will reduce the risk. Ultimately, the net risk potential is left, i.e. the net EBIT risk still remaining after taking into account the probability of occurrence and the effectiveness of the measures.

The net risks in the seven classes are calculated from the sum of all the individual risks included. Depending on the probability of occurrence, each risk class is assigned to one of the following categories:

- Low probability of occurrence < 10 %
- Average probability of occurrence 10 - 50 %
- High probability of occurrence > 50%

The net risks in the classes add up to the overall potential risk to which the Group is exposed. Portfolio and correlation effects are not taken into account.

After conducting the risk inventory, the operating units prepare their risk reports. The risk management section at MAX Automation takes these as a basis to prepare the Group risk report which provides information on major individual risks and on the overall risk and is subsequently discussed by the Executive Directors and the Board of Directors.

The Executive Directors and the Board of Directors are informed immediately of any acute risks. The risk managers are responsible for the identification, evaluation, control, monitoring and reporting of risks. These are usually the heads of the controlling departments at MAX Automation and at the Group companies.

Main features of the risk management system for the accounting process

One essential component of the internal control system (ICS) is the reporting system which is constantly developed by MAX Automation within the value-based reporting framework.

The MAX Automation accounting handbook is available to all the companies in order to ensure consistency and uniformity in the treatment and evaluation of accounting-related issues. The accounting manual is updated regularly. It covers all the regulations, measures and procedures which ensure to an adequate extent that the financial reporting processes are sound and that the annual accounts of the Group and its subsidiaries are prepared in accordance with the IFRS.

GROUP MANAGEMENT REPORT

The overall responsibility for the RMS/ICS lies with the Executive Directors. They have established a clearly defined management and reporting process for the RMS/ICS which covers all the organisational and legal units. The process is monitored on a random spot-check basis by the accounting and controlling departments at MAX Automation.

The main instruments, governance procedures and safeguarding routines for the accounting process are as follows:

- The MAX Automation Group is characterised by a clear organisational, corporate, governance and monitoring structure.
- Planning, reporting, controlling and early warning systems and processes and lists of transactions requiring approval or disclosure are in place which have been discussed and agreed across the Group for the holistic analysis and management of earnings-related risk factors and risks threatening the continued existence of the business.
- The functions in all areas of the accounting process (e.g. bookkeeping and controlling) are clearly assigned.
- An internal system for the issue of policies (including Group-wide risk management guidelines and an accounting manual, for example) has been established and is adjusted as and when necessary.
- The IT systems used in accounting are protected from unauthorised access. Standard software is mainly used for the financial systems.
- The consolidation software LucaNet is used as standard and is also used for the Group-wide medium-term planning.

Only selected employees are granted access to the consolidation system. Only a small group of employees in Group accounting and controlling has access to all the data. Access for other users is restricted to the data relevant to their job.

The procedure is as follows:

- The subsidiaries report to the parent company on a monthly basis on the developments in the past month and in the current financial year. This process is supplemented at least once a quarter by an updated forecast.
- All the reports are subjected to a critical variance analysis. An additional management report comments on departures from the plan and provides information on measures put in place to fulfil the plan and on developments in the current month and other issues like market conditions, competition, investments, financing and law. Verbal explanations are given to supplement the report.
- In addition, the Executive Directors hold regular discussions with the Executive Directors of the subsidiaries in order to review the business development with reference to the plans and, where necessary, to initiate measures to fulfil the plans.

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- One essential component of the RMS is the operative planning. At the end of each financial year, the Executive Directors of the subsidiaries present the current course of the business and outline the corporate strategy going forward. The discussions are based on the corporate strategy and, building on this, three-year plans for business development, investment and liquidity. The planning process helps to identify and assess potential opportunities and risks long before major business decisions are made.
- Fundamental accounting-related processes are subject to regular analysis and review. The existing Group-wide RMS is continuously adapted to current developments and continuously reviewed to ensure that it is fit for purpose. The system was scrutinised by the auditor, Ebner Stolz GmbH & Co. KG, Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft, Hannover, in the course of the audit of the Consolidated Financial Statement.
- The Board of Directors regularly addresses key issues relating to the RMS.

The accounting-related ICS was optimised and developed in 2018 as part of the “Next Level Corporate Reporting” project.

The RMS/ICS also involves regular training for all employees. Workshops are organised on various subjects, such as the application of accounting standards (e.g. IFRS 15 and IFRS 16), reporting rules and software tools. The accounting processes are adapted quickly in the case of company acquisitions, and new employees are familiarised with all the relevant processes, content and systems.

Finally, it is important to note that neither the RMS nor the ICS can provide absolute security as the installation of appropriate systems can be fundamentally flawed even if the necessary care is taken.

Overall risk situation

The total potential risk to which the Group was exposed at the end of 2018 amounted to around 7.4 million euro (previous year: 6.1 million euro). This includes the net risk potential of 30 quantifiable individual risks (previous year: 55). In addition, there were still 207 non-quantifiable individual risks (previous year: 189). In view of the business volume and the overall economic situation, the overall risk potential is considered to be proportionate and manageable. There are no identifiable risks at present which could jeopardise the continued existence of the Group, either on their own or in interaction with other risks.

Almost half of the total risk potential is attributable to “Risks from business operations/project risks” although, after assessment, these have a probability of occurrence of less than 50 %.

GROUP MANAGEMENT REPORT

Corporate risks	Probability of occurrence	Possible financial impact	Risk situation for 2018 as compared to the previous year
Strategic risks	Low	Low	No change
Market risks and economic risks	Possible	Low	Better
Risks from business operations/project risks	Possible	Significant	Better
Financial risks/ tax risks	Possible	Significant	Worse
Legal risks	Low	Low	No change
Risks from equity interests	Low	Significant	No change
Other risks (e.g. IT, personnel, environment)	Possible	Low	No change

Degree of potential financial impact on the consolidated result or Group EBIT: low (< 400,000 euro); moderate (from 400,000 euro to 1.3 million euro); significant (> 1.3 million euro)

RISK REPORTING

Risk classes and significant individual risks

- Market risks and economic risks:** All the companies in the MAX Automation Group are exposed to market risks and economic risks, i.e. geographical and industry-specific economic trends, political reforms (e.g. Brexit, protectionism, trade wars), financial changes (e.g. banking crises), commodity prices and exchange rates which influence the course of business and can impact the future success of the Group companies. As a general principle, the business development of the operating units is closely linked to macroeconomic developments and the economy as a whole. MAX Automation is divided into two segments and is heavily dependent on various markets in the "Industrial Automation" segment, such as the automotive industry. A high degree of specialisation and a strong position within attractive niche markets reduce both the industry risk and the general economic risk. The risk is also minimised by diversification into other sectors, such as medical technology. The process of selling the companies in the Mobility Automation division, which has now been initiated, will greatly reduce dependence on the automotive industry in the future. In principle, however, market risks and economic risks cannot be ruled out.

As at 31 December 2018, the MAX Automation Group had orders on hand of 173.6 million euro (previous year: 113.7 million euro), providing a time buffer to counteract any market risks and cyclical risks which may arise.

- Risks from business operations/project risks:** Due to the size of individual projects, MAX Automation sees a possible risk in **project planning and project execution**. Errors of judgement and/or delays can occur, especially with relatively large projects. The fact that this can have a significant impact on the operating result was particularly evident in 2018 when the forecast for the entire MAX Automation Group had to be revised in an ad hoc announcement dated 28 June 2018 due to liabilities from ongoing projects of the subsidiaries of the IWM Group. MAX Automation counters the risk of misjudgements by means of a project-related risk policy introduced throughout the Group in the middle of 2018. The aim of the project-related risk policy is to provide guidelines on risk awareness at all management levels of the Group.

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- **Financial risks:** The Group financing was switched from bilateral bank accounts of the individual Group companies to a uniform **Group financing** in 2015 through the new syndicated loan agreement and adjusted again in 2018 in favour of MAX Automation. The covenants agreed with the Group's lending banks have a direct influence on the interest margin and allow the banks an extraordinary right of termination in the event of a failure to comply. There is a regular exchange of information with the lending banks and bond insurance companies. MAX Automation adhered to all the agreed covenants in 2018. These covenants are based on the balance sheet and earnings figures in the Consolidated Financial Statement prepared in accordance with the IFRS. The counterparty default risk is limited by the fact that banking transactions are concluded exclusively with reputable banks.
- There are ongoing risks from the **project business of the former Group company NSM Packtec GmbH** which was sold on 9 March 2018. The MAX Group issued contract performance and advance payment guarantees for an order of the company now operating under the name Finnah Packtec GmbH ("Finnah Packtec"). The purchaser has undertaken to enter into this contract in the deed of sale for Finnah Packtec. No such succession has yet taken place. The guarantee of the advance payment of 4.0 million euro was claimed by the customer of Finnah Packtec at the end of January 2019. The liability in this regard but also the receivable due from the buyer were taken into account in the Consolidated Financial Statement.

In addition, Finnah Packtec has assigned receivables of 4.9 million euro to the MAX Group. This includes receivables of 2.8 million euro from the contentious project. The issue as to whether they can be collected will depend on the outcome of the dispute over the propriety of the project contract. Furthermore, the contract for the sale of Finnah Packtec provides for a loss-sharing arrangement based on the EBITDA of Finnah Packtec in 2018 (earn-out clause). Provisions of 0.5 million euro were set aside in the Consolidated Financial Statement for this purpose. The Annual Financial Statement of Finnah Packtec has not yet been approved at the time of reporting.

- There are opportunities and risks from the **process of selling** the Mobility Automation companies which was started in the fourth quarter of 2018. Opportunities may arise primarily in a situation where the companies are sold at prices which are higher than their carrying amounts. Risks may arise if the sale is not completed within the planned period or if the selling prices are below the carrying amount of the companies.

Other risks:

- **Loss of efficiency due to non-standardised IT systems:** The Group companies all have different IT systems. This leads to a loss of efficiency, especially in respect of standardised processes and possible synergy effects (e.g. purchasing). The introduction of a uniform IT system in the medium term is currently under review.
- **Portfolio-related measures:** The planned divestments entail the risk of not being able to sell the business operations as projected. This could have a negative impact on the business outlook, financial situation, profitability and reputation.
- The auditor scrutinised the risk management system of the SE and of the Group during the audit of the 2018 accounts and came to the conclusion that the system is capable of meeting the legal requirements in respect of risk management.

Explanatory report on the disclosures in accordance with Section 315 (4) HGB and Section 289 (4) HGB

Subject of the report

According to the explanatory memorandum on the German Accounting Law Modernisation Act (Bilanzrechtsmodernisierungsgesetz - BilMoG), which entered into force on 29 May 2009, the internal control system embraces the principles, procedures and measures required to ensure effective, due and proper accounting practices and to ensure compliance with the relevant legal provisions. This also includes the internal auditing system insofar as it relates to the accounting procedures.

With regard to the accounting process, the risk management system, as part of the internal control system and like the latter, relates to accounting oversight and monitoring processes, especially for balance sheet items hedging the risks to which the enterprise is exposed.

Key features of the internal control system and of the risk management system with regard to the accounting process

The key features of the existing internal control system at MAX Automation SE and of the risk management system with regard to the (Group) accounting process are detailed at length in the risk report section.

Explanation of the key features of the internal control system and of the risk management system with regard to the accounting process

The internal control and risk management system with regard to the accounting process, the main features of which are outlined above, ensures that business matters are correctly recorded, presented and recognised in the balance sheet and so transferred to the external accounts.

The clear organisational, corporate, governance and monitoring structure of the accounting department as well as the qualified staff and material resources form the basis for the efficient work of the departments involved in the accounting process. Clear statutory and internal requirements and guidelines ensure a uniform and orderly accounting process. The clearly defined review mechanisms within the divisions involved in the accounting process itself and early identification of risk through the risk management system guarantee coherent accounting practices.

The internal control and risk management system at MAX Automation SE ensures that the accounting processes at MAX Automation SE and in all the companies included in the Consolidated Financial Statement are consistent and compliant with the legal provisions, statutory requirements and internal guidelines. The Group-wide risk management system, which complies fully with the legal requirements, is responsible for identifying risks in due time, evaluating them, and reporting them through the appropriate channels so as to ensure that accurate, relevant and reliable information is promptly directed to the correct recipients.

The risk management and internal control system of the Group was restructured in 2018. This process, which is designed to optimise the reporting and controlling instruments, will be continued in 2019.

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OPPORTUNITIES REPORT

The business segments of the MAX Automation Group serve various growth drivers which are benefiting worldwide from the dynamic technological development in the wake of digitisation and from changes in the political and social arena. This strategic positioning of the Group opens up numerous opportunities which can have a positive impact on the course of business.

The long-term strategy adopted by MAX Automation seeks to focus on a number of growth areas with good prospects and high profit margins, to increase local presence and value added in attractive foreign markets, and to develop an innovative range of services in networked production. This is meant to be accompanied by a reduction in volatility in order intake, operational excellence in project management, expansion of the service business and increased exploitation of existing synergies in the Group.

Uniform standards for risk management and controlling within the Group are of major importance in this regard. Mandatory reporting and controlling instruments for this purpose are binding on all the companies in the Group.

Opportunity management

MAX Automation understands opportunities to be possible avenues of diversion from targets opened up through events or developments. The opportunity management system encompasses all the measures involved in a systematic and transparent approach to potential business. The Executive Directors of MAX Automation SE enter into strategic dialogue with the Executive Directors of the subsidiaries to this end. The basis for this is a structured and standardised Group-wide process involving joint review meetings with the Executive Directors three times a year in all the Group companies in which they discuss the adoption of their strategies and outline the opportunities and risks from relevant market trends and directions in technology.

Following on from the strategic dialogue, all the companies write up the opportunities in their operational plans and monthly reports in order to be able to assess and analyse the current earnings and liquidity situation more accurately.

All the decision-makers are involved in the opportunity management system, from the Executive Directors of the MAX Group and the executives in the Group companies right through to the departmental heads and project managers. The process is supported by the "Corporate Development" holding function.

Due to its integral link with the strategic, planning and reporting processes, opportunity management is a key component of the strategic and value-based governance at MAX Automation.

Markets and competitive opportunities

MAX Automation operates in various markets in the Industrial Automation segment, and the Group expects significant opportunities in the segment combined with overarching growth drivers:

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- In industrial production, there is a continuous rise in the degree of automation and in the demand for efficient processes, especially with a view to progressively strong networking. This development is based on several trends. In the automotive industry, these include the growing demand for powerful driver assistance systems through to driverless cars and for customised, freely configurable equipment. At the same time, policy decisions and increased environmental awareness among the public have ignited the social conscience and led to targets for the sustainable reduction of CO₂ emissions from conventional combustion engines and for the development of powerful electric drives.
- MAX Automation provides specialist services in proprietary mechanical engineering processes, including metering, hot riveting, plasma treatment and impregnation. For example, bdtronic offers solutions for bonding and sealing the adaptive cruise control unit in vehicles and, with the largest and fastest impregnation machine in the world, it offers unique process expertise and experience in the coating of electric motors for high production volumes. MA micro automation manufactures lenses for cameras used in driver assistance systems.
- The medical technology sector is dominated by worldwide trends, such as general medical progress, growing health awareness in society, individual approaches to therapy using so-called digital e-health solutions, or the desire of patients for more freedom in their treatment, perhaps in the form of self-medication, for example.

At the same time, the medical technology market has high barriers to entry in insisting that manufacturers meet strict regulatory requirements in terms of quality and technology, thereby enabling long-term customer relations based on trust.

- MAX Automation has specialist expertise and the necessary prerequisites to meet the numerous requirements in medical technology, especially with MA micro automation on board. This is evident in the growing customer base which is a good starting point to share in the growth in the market.
- Digital networking has become an integral part of industrial production. At the same time, there is a trend towards complex robotics solutions. The use of collaborative robots, for example, is contributing to a significant transition to flexibility and increased efficiency in production.
- The MAX Automation Group has a wide range of knowledge and technology to be able to keep pace with the progress and to help shape the developments in Industry 4.0 and in robotics. One point of note in this regard is that the Group is establishing a growing client base as its sales of machines and systems increase, thereby boosting the potential for business in after-sales service. The subsidiaries can meet the demands in this regard, given their expertise in servicing and remote maintenance.

The MAX companies are seeing increased demand in their international business for production in line with local market requirements and local presence for after-sales service and sales. The Group therefore has sites in Europe, North America and Asia, guaranteeing extensive customer support and opening up additional opportunities in order acquisition.

MAX Automation predicts the following major growth opportunities in the Environmental Technology segment:

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- Environmental protection, conservation of natural resources, and recycling of waste and residual materials with a view to returning them to the cycle of recovered substances and using them for energy are becoming increasingly important all over the world. The heightened environmental awareness among the public in general along with economic and social changes, such as the steep growth in big cities in Asia, for example, are leading to a constantly increasing demand for high-output and innovative solutions for the environmentally-friendly disposal of waste and the efficient processing of residual materials.
- The MAX Automation Group has a wealth of expertise in the development, production and maintenance of individual components and systems thanks to the many years of experience of Vecoplan which is well established in the market. The Group has the opportunity to benefit from the continuously increasing demands for climate control and environmental protection.
- There are policies in place at regional, national and international level imposing stricter requirements with regard to environmental protection and recycling of residual and reusable materials. One milestone in this development was the third United Nations Environment Assembly (UNEA) in December 2017, at which more than 100 participating countries committed themselves to the move “towards a pollution-free planet”. At the same time, binding regulations have been in place for years, as reflected in the targets in the European Union (EU) for the reduction of carbon dioxide emissions, for example, or in the “Zero Waste” schemes run by the local authorities in North America. China plans to tighten its ban on waste imports in July 2019 which will further increase the demand for recycling solutions in the exporting countries in the opinion of MAX Automation.
- Overall, the Group anticipates a rising demand for efficient reprocessing solutions. Its aim in response to this situation is to develop existing solutions for the recycling of valuable materials and to adapt them to markets facing increasingly complex challenges in individual countries.

Opportunities from synergy effects

In addition to the respective growth drivers in the Industrial Automation and Environmental Technology segments, the MAX Automation Group sees opportunities in the exploitation of synergies between the Group companies. These include the pooling of operations in purchasing (bundling of volume and benchmarking in aid of purchasing benefits) and financing, or the transfer of know-how and technology, for example, as well as best-practice approaches in joint projects and the development of new applications.

One of the goals of MAX Automation is to increase the value added in the Group through the targeted increase of supply and service relationships between the Group companies. To a limited extent, there are also opportunities to exploit synergies in sales through project-based collaboration within the Group.

OUTLOOK

Macroeconomic environment

According to International Monetary Fund (IMF) estimates, the global economy will grow at a more measured and slower pace in 2019. The main reasons it cites for this are persistent political uncertainties, such as the trade conflict between the USA and China or the danger of a disorderly Brexit. Other influencing factors flagged up by the IMF include incalculable effects of a more restrictive monetary policy at the major central banks and the possibility of a further slowdown in the Chinese economy.

The IMF forecasts global economic growth of 3.5 % for 2019 (2018: 3.7 %). Growth in China is expected to be down on 2018 at 6.2 % (2018: 6.6 %). According to the IMF, the economy in the USA will grow by 2.5 % compared with 2.9 % in the previous year.

The IMF predicts that economic growth in the Eurozone will slow to 1.6 % in 2019 (2018: 2.0 %). The Institute for the World Economy (IfW) points to structural problems, especially in Italy and France, which it expects will take time to solve. According to the Institute, risks stemmed from the decision taken by the Italian government to abandon the consensus on the stability criteria underlying the euro. The political protests in France at the beginning of 2019 also created uncertainty about the country's ability to reform. The IfW expects economic output in the Eurozone to increase by 1.7 % overall in 2019.

The IfW anticipates the gross domestic product (GDP) in Germany to grow by 1.8 %. The Institute cites stronger export figures than in the previous year and higher private consumer spending as key influencing factors, in some cases as a result of generous wage increases. The construction industry, by contrast, will reach the limits of its capacity. The IMF forecasts that the German economy will grow by a mere 1.3 % in 2019, due in part to the negative impact of new emission requirements for diesel vehicles on industrial and auto production, and on private consumption combined with more sluggish demand from abroad.

Sources:

- International Monetary Fund (IMF), World Economic Outlook, October 2018 and January 2019
- Institute for the World Economy (IfW), World Economy, Winter 2018, 11 December 2018
- Institute for the World Economy (IfW), Economic Outlook, press release, 12 December 2018

Development of relevant industries

The German mechanical and plant engineering industry is optimistic about 2019, with the German Mechanical Engineering Industry Association (Verband Deutscher Maschinen- und Anlagenbau - VDMA) expecting its member companies to increase their revenue in the industry to around 247 billion euro (2018: 240 billion euro). The Association also sounds a note of caution, however, pointing to the high export ratio of almost 80 % in the German mechanical engineering sector and the resulting dependence of the sector on the development of the global economy. The ongoing trade conflict between the USA and China, for example, or Brexit could have a direct impact on the course of business in mechanical engineering.

There will be a gratifying movement in the demand for robotics solutions in the medium term. According to the International Federation of Robotics (IFR), the global stock of industrial robots will rise by 14 % annually until 2021, roughly corresponding to an average increase of 630,000 units per year. This follows on from its forecast from the previous year, according to which there is set to be a global supply of 3.1 million industrial robots in 2020. The IFR explained that the robotics solutions are constantly being developed and enhanced using modern technologies like machine vision, error forecasts and artificial intelligence or new concepts in human-machine collaboration. The IFR expects that robotics solutions will improve productivity in manufacturing and expand the areas of application for robots.

The German Association of the Automotive Industry (Verband der Automobilindustrie - VDA) regards 2019 as a year of transition. The vehicle manufacturers are therefore facing mounting challenges, such as lower emissions, networked and automated driving systems, and higher environmental protection and climate control requirements in general. Nevertheless, the VDA still believes global vehicle production could reach the 17 million unit mark for the first time (2018: 16.5 million units) in a favourable economic climate.

In the medical technology sector, the industry association Spectaris is confident about the current year and expects sales to increase by 4 % to more than 32 billion euro (2018: around 31 billion euro). It suggests that business with the emerging markets will provide significant impetus for growth but also anticipates positive developments in Europe and the USA.

Based on discussions with various companies, the VDMA Waste Treatment and Recycling Technology Association (VDMA-Fachverband Abfall- und Recyclingtechnik) is optimistic about the development of the sector in 2019. The companies claim to have full order books and domestic demand is allegedly also good. It is assumed that challenges will arise with the availability of personnel and materials. The Federal Association for Secondary Raw Materials and Waste Management (Bundesverband Sekundärrohstoffe und Entsorgung - bvse) is expecting a more difficult overall economic environment for SMEs in the recycling and waste management sector in 2019 as well as a sustained consolidation process in the sector.

Sources:

- Verband Deutscher Maschinen- und Anlagenbau (VDMA), press releases, 12 December 2017
- International Federation of Robotics, press release, 27 September 2017
- Verband der Automobilindustrie (VDA), press release, 6 December 2017
- Spectaris, Fachverband Medizintechnik, press release, 9 November 2017
- VDMA Fachverband Abfall- und Recyclingtechnik, bulletin, 1 February 2019
- Bundesverband Sekundärrohstoffe und Entsorgung (bvse), press release, 22 January 2019

Prospective development in the financial year of 2019

The Board of Directors of MAX Automation SE is basically optimistic about the development of the Group in the financial year of 2019 and beyond. It expects the healthy demand for the Group's high-tech automation solutions in its core business to continue on the basis of the overall economic outlook, the industry prospects and the trends in the Industrial Automation and Environmental Technology markets.

MAX Automation is focusing on attractive growth markets which offer above-average margins and limited volatility. There will also be a further push to increase the efficiency in the Group and reduce its risk profile. Uniform standards for risk management and controlling as well as clear and binding guidelines for the acquisition of orders will play an important role here. MAX Automation already invested heavily in corresponding control systems in 2018 and will do so again in 2019. The goal is to achieve a further reduction in the funds tied up with working capital, which will be sustained at a maximum of 15 % of the sales across the Group.

One important factor in 2019 will be the continuation of the divestments of the companies in the IWM Automation Group, ELWEMA Automotive GmbH and the 51 % stake in MAX Automation (Shanghai) Co., Ltd., as resolved in September 2018. The strategic decision on which these sales are based to withdraw from the construction of special-purpose machines/assembly lines for automotive customers will have a positive impact on the financing power, risk profile and earnings position of the MAX Automation Group in the medium term. The structured sales processes for the companies are expected to be completed in the course of 2019.

By concentrating on the core business and the agreed divestments, the Board of Directors of MAX Automation is seeking a new segmentation of the Group. The business operations will probably be divided into three segments – Process Technologies, Environmental Technologies and Evolving Technologies – which will replace the existing segments Industrial Automation and Environmental Technology. Reporting according to the new segments is to proceed with the publication of the quarterly figures for Q1 2019.

Financial forecast

The Executive Directors see the position of MAX Automation with its continued business units as promising and strategically strong, and they regard the high order backlog at the beginning of 2019 as a good starting point for further development in the course of the year. The withdrawal from the manufacture of special-purpose machines for the automotive industry in the Mobility Automation division will have a positive effect on the risk profile and financing power of MAX Automation.

The outlook for the global economy in 2019 has been downgraded on the previous year, however. MAX Automation will therefore conduct a precise analysis of the economic development going forward. It remains to be seen to what extent the business trading of MAX Automation will be affected by a more subdued demand due to the economic situation. The introduction of the structural measures at the IWM Group in the course of the selling process will lead to further costs in the first quarter, although the largest portion by far was already included in the Consolidated Financial Statement for 2018.

GROUP MANAGEMENT REPORT

The Executive Directors are assuming consolidated sales of more than 300 million euro and an EBITDA of more than 20 million euro for the continuing operations in the financial year of 2019 on the basis of the current portfolio and the expected developments in the economy as a whole (excluding the effects of the changeover from IFRS 16).

Prospective business development of the SE

The earnings position of MAX Automation SE is heavily dependent on the development of the Group. Based on the expected development of the operating companies, the Executive Directors are anticipating a rise in profit transfer and investment income for the financial year of 2019.

Forward-looking statements

This report contains forward-looking statements based on the current assumptions and forecasts made by the managers of MAX Automation SE. Such statements are subject to risks and ambiguities. These and other factors may lead to a situation where the actual results, financial position, developments or capacity of the Company differ substantially from the estimates given here. The Company assumes no liability whatsoever to update these forward-looking statements or to adapt them in the light of future events or developments.

Düsseldorf, February 2019

The Executive Directors

Daniel Fink

Andreas Krause