

# Annual Report

[www.hermle.de](http://www.hermle.de)



# 2021



# CONTENTS

<b>HERMLE</b>	<b>3</b>
Key figures	3
Company executive bodies	4
Company history	5
Highlights 2021	6
Introduction by the Management Board	8
<b>REPORTS</b>	<b>10</b>
Report of the Supervisory Board	12
Directors' company and consolidated report	15
Hermle share	30
From the company:	
Success factor vocational training	32
<b>CONSOLIDATED FINANCIAL STATEMENTS</b>	<b>36</b>
Consolidated balance sheet	38
Group income statement	40
Group cash flow statement	42
Group equity statement	44
Development of the Group fixed assets 2021	46
Development of the Group fixed assets 2020	48
Group segment reporting	50
Group notes to the financial statements	51
Unqualified opinion	81
Assurance of the legal representatives	87
Declaration of compliance pursuant to Section 161 of the German Stock Corporation Act (AktG)	88
<b>FURTHER INFORMATION</b>	<b>90</b>
on Maschinenfabrik Berthold Hermle AG	
Balance sheet	92
Development of assets	94
Income statement	96
Proposal on the appropriation of profits	97
Hermle worldwide	99

# INDICES

## HERMLE GROUP

€m	2017	2018	2019	2020	2021	Change 2021/2020
Turnover	402.0	452.9	463.1	296.9	376.0	26.6%
- Domestic	168.2	186.8	197.6	112.2	139.2	24.1%
- International	233.8	266.1	265.5	184.7	236.8	28.2%
Orders received	433.2	475.9	414.4	242.5	439.1	81.1%
Orders on hand	125.0	148.0	99.3	44.8	107.9	140.8%
Investments	23.5	11.9	16.3	21.6	8.6	-60.2%
- Tangible assets <sup>1</sup>	18.5	11.9	13.3	21.6	7.6	-64.8%
- Financial assets	5.0	-	3.0	-	1.0	-
Depreciation	7.8	10.0	10.4	10.4	11.3	8.4%
- Tangible assets <sup>1</sup>	7.8	10.0	10.4	10.4	11.3	8.4%
- Financial assets	-	-	-	-	-	-
Operating result	99.0	111.7	114.2	54.2	74.6	37.6%
Net income	73.3	82.5 <sup>2</sup>	84.2	40.1	54.9	36.9%
Cash flow	81.1	92.9	94.6	50.5	66.3	31.4%
Balance sheet total	330.7	367.5 <sup>3</sup>	360.1	347.0	415.0	19.6%
Equity	237.5	250.3	260.4	274.4	305.2	11.2%
Employees (reporting date 12.31.)	1,086 <sup>4</sup>	1,251	1,319	1,304	1,320	1.2%

<sup>1</sup> Tangible and intangible assets

<sup>2</sup> Without one-off valuation effect of €4.9 million from the HLS complete acquisition

<sup>3</sup> Adjustment due to the first-time application of IFRS 16

<sup>4</sup> Without HLS employees

For ease of reading, the terms used in this Annual Report, such as employee and worker, should be broadly representative and inclusive for all persons.

# COMPANY EXECUTIVE BODIES

## SUPERVISORY BOARD

**Dietmar Hermle**

Chair,  
Entrepreneur

**Lothar Hermle**

Deputy Chair,  
Industrial Foreman

**Dr. Sonja Zobl-Leibinger**

Deputy Chair,  
Lawyer

**Dr. Wolfgang Kuhn**

Entrepreneur

**Gerd Grewin\***

Industrial Foreman, Control Technician,  
Chair of the Works Council

**Andreas Borho\***

Industrial Business Management Assistant

## MANAGEMENT BOARD

**Günther Beck**

Areas of responsibility:  
Finances Information technology

**Franz-Xaver Bernhard**

Areas of responsibility:  
Research & development Sales

**Benedikt Hermle**

Areas of responsibility:  
Material management. Production Service

## FULLY AUTHORISED REPRESENTATIVE

**Gabriele Peyerl**

Area of responsibility:  
Human resources

\*Elected employee representatives

Additional Management Board and Supervisory Board positions  
are stated on page 80.

# COMPANY HISTORY

- 1938 Founding of the company, a bolt and machine screw manufacturer in the southwestern German town of Gosheim. Production of turned parts begins.
- 1953 Conversion of company to Maschinenfabrik Berthold Hermle KG.
- 1956 Centrifuge production begins.
- 1957 Milling machine production begins.
- 1972 Presentation of first Hermle universal milling machine.
- 1975 Production of numerically-controlled milling machines.
- 1978 Start of production of CNC controlled milling machines.
- 1984 Conversion of the company to Maschinenfabrik Berthold Hermle GmbH & Co.
- 1990 Conversion of company to Maschinenfabrik Berthold Hermle AG and IPO. Company opens new sales and administration building in Gosheim.
- 1992 Start of comprehensive restructuring of the Hermle Group in Germany and abroad.
- 1995 Optimisation of company as part of the 2000 Concept.
- 1997 Hermle Vertriebs GmbH commences operations.
- 1998 Founding of HLS Hermle Systemtechnik GmbH as a joint venture for customer-specific automation of Hermle machines.
- 1999 Hermle Schweiz AG is founded in Switzerland as sales and service support centre. Opening of the new demonstration centre in the Kassel-Lohfelden business park.
- 2000 New technology and training centre opened at the company headquarters in Gosheim.
- 2001 US branch becomes independent entity as Hermle Machine Co. LLC. Founding of Hermle Nederland B.V.
- 2003 Service and sales centre commissioned in North America.
- 2004 Opening of the customer service centre at the installation location in Gosheim. Opening of the sales branches and representative offices in China, Austria and the Czech Republic.
- 2005 Founding of the export business Hermle WWE AG in Switzerland and a Russian subsidiary to expand activities in Eastern Europe.
- 2006 Founding of Hermle Italia S.r.l. to directly address the Italian market.
- 2009 During the financial crisis, the concept of the breathing company proves itself once again: Despite the drop in demand, Hermle manages to make a profit and avoid job losses. In order to facilitate the opening up of the markets in Scandinavia and south-east Europe, a new branch is established in Denmark and a representative office is opened in Bulgaria.
- 2011 Hermle establishes new branch in Poland. A new warehouse and logistics centre commences operations at the company headquarters in Gosheim.
- 2013 Hermle celebrates its 75th company anniversary.
- 2014 At its Gosheim location, the company moves into a state-of-the-art production facility for the assembly of large machines and automated plant and opens a new restaurant for customers and visitors.
- 2016 Second production facility established in Zimmern ob Rottweil.
- 2017 Expansion of machining operations at the location in Gosheim.
- 2018 Acquisition of all shares in the former joint venture HLS, which specialises in automation.
- 2019 Founding of a subsidiary in Mexico to intensify activities in Central and South America.
- 2020 Hermle manages to overcome the economic slump caused by the Covid-19 pandemic and keeps its workforce intact. Founding of Hermle Southeast Asia (Thailand) to strengthen the company's market position in Southeast Asia. Opening of an ultra-modern sheet metal production facility at the location in Zimmern ob Rottweil. As a full-range supplier, Hermle now supplies automation solutions for the entire spectrum of machines.

# HIGHLIGHTS 2021

## FEBRUARY

**First RS 1 robot systems installed at customer's facility** – Hermle delivers the first automated plants equipped with the new, compact RS 1 robot system. It is suitable for six Hermle machine models of the Performance and High-Performance-Line, can be optionally adapted to one or two machining centres and, if required, also integrate external devices featuring additional functionalities – the ideal foundation for automated Industry 4.0 manufacturing processes in an array of industries.



**Digital sales conference** – Travel restrictions and Covid-19 prevention measures make attending events in person impossible at the beginning of 2021. The Hermle Sales Conference, which normally attracts employees and representatives from around 50 countries to Gosheim, also has to be held online. The exchange is nevertheless intensive and constructive.

## JUNE

**Hermle Moves** – As an alternative to the usually well-attended Hermle Open House at the company's headquarters, there is an attractive online event called "Hermle Moves". It offers customers and interested parties access to in-depth information about Hermle's products and latest innovations. The digital event proves to be extremely popular but cannot replace direct contact with other market participants.



## JULY

**Second online shareholders' meeting** – The Hermle shareholders' meeting is held for a second time as a digital event due to the ongoing pandemic. Despite this fact, several hundred shareholders and guests attend the event. The online proceedings, which are now almost routine, run very smoothly, but there is also a lack of opportunity for direct exchange and guided tours of the premises.

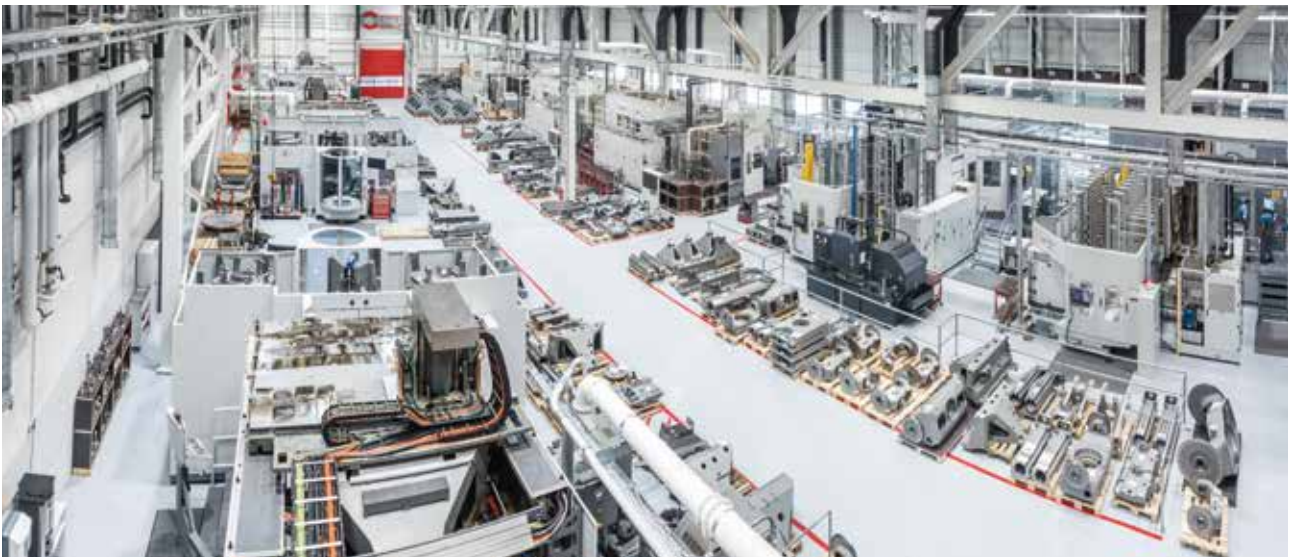


**New variants of the RS 05-2 robot system** – Due to the high demand for automation solutions, Hermle continues to develop the RS 05-2 robot system, which is suitable for producing workpieces weighing up to 5 kg. The system, which is predominantly used in precision mechanics and medical technology, is now available with a range of features, including a newly developed finger change on the gripper. This enables a fully automatic gripper changeover and thus, for the first time ever, truly flexible production in small robotics. The compactness, individuality and maximum efficiency of the RS 05-2, which can be adapted to various Hermle machining centres, also make it extremely popular in other customised variants.



## SEPTEMBER

**Expansion of machining operations** – Hermle expands its machining capacities at the location in Gosheim to cope with the growing demand. The first step involves installation and commissioning of an additional large machining centre. Further, Hermle automation systems, including an RS 2 robot system, are to be added to this sector.



## OCTOBER

**EMO: First large face-to-face trade fair 2021** – EMO MILANO, the leading trade fair dedicated to the metalworking sector in 2021, returns as a face-to-face event. At the world's largest metalworking trade fair, which attracts roughly 60,000 visitors from 91 countries, Hermle is once again able to present its automated machining centres and innovations live and make important contacts.



## NOVEMBER

**Presentation of MPA technology** – Innovative MPA technology, the Hermle process for additive manufacturing, is also presented live to trade visitors at two trade fairs in the autumn. After Fakuma near Friedrichshafen, Hermle is showcasing the versatile opportunities of this technology at Formnext in Frankfurt, the leading industry platform for additive manufacturing and industrial 3D printing.



# INTRODUCTION BY THE MANAGEMENT BOARD

## DEAR SHAREHOLDERS, BUSINESS PARTNERS AND FRIENDS OF THE COMPANY,

Maschinenfabrik Berthold Hermle AG enjoyed successful development in 2021 despite the once again difficult general conditions. Business recovered significantly after the previous year, which was severely impacted by the Covid-19 pandemic: The number of orders received throughout the Group increased by 81.1% to €439.1 million, Group turnover rose by 26.6% to €376.0 million and net income grew by 36.9% to €54.9 million. Our overall financial position was also further strengthened – at the end of 2021, the Hermle Group had an equity ratio of 73.5% and liquid funds of €109.5 million. Against this background, the Management Board and Supervisory Board propose to significantly increase distribution returns to shareholders yet again. Subject to the approval of the shareholders' meeting, a payout of €9.00 per ordinary share and €9.05 per preference share is planned for the past business year, which is €4.00 more than in the previous year for both types of share.

2021 was a challenging year. Our business performance resembled a roller-coaster ride at times. At the beginning of the year, demand was still sluggish and short-time work was extended to its highest level in the first quarter. Orders for our machining centres and automation solutions began to pick up strongly in the second quarter and short-time work was soon a thing of the past. In the third quarter and throughout the second half of the year, we reached a new highest level – but this time in terms of the number of orders received – and our production staff returned to working overtime. At the same time, there was a massive increase in supply chain disruptions due to transport shortages and material delays resulting from the Covid-19 pandemic.

The fact that we were able to cope with these disruptions and the sharp increase in capacity utilisation and offer our customers reliable supplies is, first and foremost, down to our employees.

They reacted extremely flexibly to short-term shortfalls in the supply chain, were fully committed to internal measures such as working overtime, redesigning processes, changing production patterns and moving to alternative materials. This often required a great deal of improvisation from the workforce. The Management Board would like to express its sincere thanks to the entire Hermle team for its amazing performance and steadfastness. The employees are set to receive a 2021 bonus based on the actual dividend to reward their outstanding efforts.

Our concept of the breathing company also proved its effectiveness yet again: It helped us to overcome the Covid-19 crisis, which lasted more than a year, without having to lay off any staff, and thus to respond to the strong demand and multitude of challenges in 2021 with a fully intact workforce.

The Hermle team will also face stiff challenges in 2022. Due to the high level of catch-up demand in the industry, we started the current year with a significant number of orders on hand and demand has continued to climb. Even if orders are expected to return to normal in the coming months, our capacities are likely to be at least regularly utilised throughout 2022. Moreover, the supply issues have continued and this situation will require a high degree of flexibility and overtime in peak periods.

At this point in time, we expect the Hermle Group's turnover to increase by at least 10% for the full year 2022 due to the significant number of orders on hand. However, the development is of course strongly dependent on the direct and indirect impact of the war in Ukraine, which has once again brought about imponderables, but certainly high risks for our business. This concerns not only the future level of demand in general but, above all, also a possible shortfall in supplies. The loss of our own business dealings in Russia, which make up only a small share of



the total volume, are, on the other hand, of secondary importance to the company. We currently expect the result to develop at a significantly lower rate than turnover due to the anticipated further increases in material and energy prices. Further, there is a specific risk of bad debts arising with Russian customers and the loss of the company's assets in Russia.

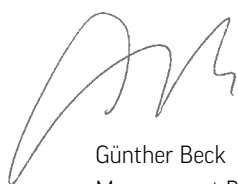
As dramatic and imponderable as the current situation might seem due to the war in Ukraine – we remain confident about the further development of our business activities. The demand for our machining centres and automation solutions is likely to continue in the future as a result of the generally growing efficiency requirements in manufacturing processes.

New social challenges such as the energy transition also offer us opportunities. Generally speaking, the machine tool industry enables other industries to progress. Since innovations and changes in the technological landscape lead to changes in industrial manufacturing – and this usually requires extremely precise and highly efficient machining centres and automation solutions such as those manufactured by Hermle.

By continuously enhancing our product range and building a reputation for high precision, quality and expertise, Hermle not only sets the standards for 5-axis machining centres, but is also one of the leading full-range suppliers in the automation sector. We plan to consolidate and expand this excellent market position in the future. To achieve this goal, we will continue to drive our internationalisation strategy, thereby expanding our sales and service activities in Asia and America through our new local subsidiaries. We are also increasingly looking to develop individual automation solutions tailored to the specific wants and needs of our customers.

Given the ongoing high demand we are also further increasing our capacities: Over the next five years, major investments totalling around €60 million are planned at our locations in Germany. This includes, for example, expansion of large parts production at the installation location in Zimmern ob Rottweil. A new training and application centre is also planned in Gosheim, which will offer more space for showcasing our automation systems. The basis for such projects is our healthy equity ratio and financial independence, which we also hope to secure in the future. Hermle will therefore continue to place a strong focus on its continued and sustainable positive development in the coming years.

Yours faithfully,



Günther Beck  
Management Board



Franz-Xaver Bernhard  
Management Board



Benedikt Hermle  
Management Board



# REPORTS



Hermle C 32 U dynamic in 5-axis version |  
Machining of a connecting support for automotive engineering.

# REPORT OF THE SUPERVISORY BOARD

## LADIES AND GENTLEMEN, DEAR SHAREHOLDERS,

Maschinenfabrik Berthold Hermle AG recovered exceptionally well during the past business year, although the impacts of the Covid-19 pandemic continue to be felt at the company. The resulting supply chain disruptions, in particular, meant the entire team faced major challenges that were ultimately managed very efficiently. The Hermle-specific concept of the breathing company once again proved itself to be extremely resilient: It enabled a quick and flexible response to both the unexpectedly strong increase in demand and the increasing shortfalls in supplies. During these troubling times, it was absolutely essential to keep the workforce intact. On behalf of the entire Supervisory Board, I would like to sincerely thank the Management Board and all the employees for their tremendous commitment and hard work.

### COOPERATION BETWEEN MANAGEMENT BOARD AND SUPERVISORY BOARD

The Supervisory Board diligently and dutifully performed the obligations incumbent upon it by law or under the articles of association in the 2021 business year. We supported the work of the Management Board in an advisory capacity and routinely monitored the management of the company. Cooperation between the Management Board and the Supervisory Board was always constructive, honest and open. Through regular oral and written reports, the Management Board informed us promptly and in detail about all issues of relevance to Maschinenfabrik Berthold Hermle AG. This included, in particular, the strategy, the operational business performance, the current situation of the company, including any changes to the risk and financial situation, as well as all significant events. We were also always fully aware of corporate planning activities, including financial, investment and HR planning, as well as any deviations that may occur.

All issues and events of importance to the company were discussed extensively and constructively in the relevant Supervisory Board meetings. We were involved in all key decisions from an early stage. This applied, in particular, to transactions requiring approval on which resolutions were already passed on the basis of comprehensive reports and documents and after detailed discussions. The Chair of the Supervisory Board was also in close contact with the Management Board outside the meetings to discuss current developments and special events.

### SUPERVISORY BOARD MEETINGS AND COMMITTEES

During the year under review, the Supervisory Board held five scheduled meetings: on 17 March, 28 April, 7 July (two meetings) and on 8 December. The attendance was very high: apart from the meeting on 17 March, when one member was officially excused, our committee enjoyed full attendance.

As in previous years, the Supervisory Board formed a general committee. It was not necessary for the committee to convene in 2021. In addition, on 7 July 2021, we complied with our obligation to form an audit committee, which did not convene during the year under review.

### THE MAIN SUPERVISORY BOARD ISSUES IN 2021

The recurring topics of the regular Supervisory Board meetings included the market situation, the business development in the service and new machines segments and the development of operating profit and personnel. Further, we dealt intensively with the extraordinary impacts of the Covid 19 pandemic on our business environment and company.

Other main issues at the first Supervisory Board meeting on 17 March 2021 included the presentation of the preliminary figures for the business year 2020 by the Management Board and a detailed discussion of the proposed dividend payout put forward by the Management Board to the Supervisory Board. The Management Board additionally reported on the goals and projects of the individual sectors as well as the current activities of Hermle Maschinenbau GmbH in the field of MPA technology, a Hermle-specific process for additive manufacturing. Furthermore, in view of the serious disruptions and uncertainties caused by the Covid-19 pandemic, we decided to hold the 2021 shareholders' meeting as a virtual event and prepared the upcoming elections to the Supervisory Board. We also addressed the new concept for the future remuneration of the Management Board members in accordance with the new regulations of the ARUG II and the German Corporate Governance Code 2020 and adopted the corporate governance statement in accordance with Sections 289f and 315d of the German Commercial Code (HGB).

At the meeting held on 28 April 2021, the Supervisory Board scrutinised the 2020 annual financial statements of Hermle AG and the Group. The representatives of the new auditors, Ebner Stolz, gave a detailed report on the final assignment and were available to answer further questions. We discussed the financial statements in detail with the auditors, assessed the annual financial statements of Maschinenfabrik Berthold Hermle AG and approved the consolidated financial statements and the summary management report. In addition, the Supervisory Board approved the distribution of an unchanged basic dividend of €5.00 per ordinary share and €5.05 per preference share to the shareholders' meeting. Moreover, the agenda of the shareholders' meeting and, in this context, the new remuneration system of the Management Board members to be submitted to the shareholders' meeting for approval, as well as the proposals for election to the Supervisory Board were approved. All shareholder representatives declared their willingness to stand for re-election. In addition, we dealt with the design of the Annual Report and approved the Report of the Supervisory Board for 2020. Other topics were the various development projects at the installation locations in Gosheim and Zimmern ob Rottweil. The Management Board also explained its plans for the area in Gosheim freed up by the decision to relocate sheet metal production to Zimmern. We were also informed about expansion and modernisation works at the Hermle subsidiary in the USA, which have almost been completed.

The two meetings on 7 July 2021 were held before and after the shareholders' meeting. In addition to the regular topics, the agenda again focused on further development of the two installation locations in Gosheim and Zimmern ob Rottweil. The

Supervisory Board instructed the Management Board to plan various future and expansion projects. We also discussed the future structure of the Management Board and dealt in general with succession planning at Management Board and Division Manager level. A constituent meeting took place after the shareholders' meeting confirmed the shareholder representatives of our board. The Supervisory Board once again elected Dietmar Hermle as Chair of the Board and Dr Sonja Zobl-Leibinger and Lothar Hermle as his deputies. All three of them were also confirmed as members of the general committee. Dietmar Hermle, Dr Sonja Zobl-Leibinger and Dr Wolfgang Kuhn were also elected to the audit committee. Pursuant to Section 107 (4), in compliance with the conditions set forth in Section 100 (5), of the German Stock Corporation Act (AktG), one member of this committee shall have expertise in the field of annual auditing (Dietmar Hermle) and one member in the field of accounting (Dr Wolfgang Kuhn). Furthermore, we adopted various formal amendments to the articles of association in addition to the resolutions of the shareholders' meeting.

One of the main focuses of the Supervisory Board meeting on 8 December 2021 was the 2022 budget, sales and investment planning for Hermle AG and the Group, which was presented by the Management Board. We discussed the planning in depth and gave it our approval. Further, we looked at various construction and future projects. In principle, the Supervisory Board agreed to the acquisition of additional land at the installation location in Zimmern ob Rottweil for the long-term development of the company. Another issue on the agenda was the current status of MPA technology at Hermle Maschinenbau GmbH, about which the Management Board informed us extensively. We also discussed the design of the remuneration report for 2021 pursuant to Section 162 of the German Stock Corporation Act (AktG) and resolved the declaration of compliance pursuant to Section 161 of the German Stock Corporation Act (AktG), which is printed in the 2021 annual report and available on the Hermle website.

In order to be able to make required decisions without delay, various resolutions were also passed by written consent in lieu of a live meeting in the year under review. On 23 June 2021, the Supervisory Board decided to maintain the targeted proportion of women on its committee, which currently stands at one. On 16 November 2021, we approved establishment of a subsidiary in China and agreed to the participation of Hermle AG in a new limited liability company (GmbH) to be founded by the trade association Wirtschaftsverband Heuberg and the assumption of a Supervisory Board mandate in this limited liability company by Hermle Management Board member Benedikt Hermle.

## AUDIT OF THE ANNUAL FINANCIAL STATEMENT

On 7 July 2021, the shareholders' meeting elected Ebner Stolz GmbH & Co. KG as the auditor for the business year 2021. Ebner Stolz audited the annual financial statements of Maschinenfabrik Berthold Hermle AG, the consolidated financial statements and the summary management report and issued an unqualified opinion. The auditors assured in advance that they did not render any significant services to Maschinenfabrik Berthold Hermle AG in the year under review going beyond this assignment and that no circumstances apply that could jeopardise their impartiality.

The annual financial statement of Maschinenfabrik Berthold Hermle AG was prepared in accordance with the provisions of the German Commercial Code (HGB). The consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) as applicable within the European Union and the additional requirements of German commercial law pursuant to Section 315e (1) of the German Commercial Code (HGB). The annual financial statements and the summary management report were conducted by Ebner Stolz pursuant to Section 317 of the German Commercial Code (HGB) and the EU Audit Regulation, in line with the generally accepted German standards for the auditing of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). The auditors confirmed that the financial statements give a fair and appropriate presentation of the net assets, financial position and results of operations of the company and that the management report accurately presents the opportunities and risks of future development of Hermle AG and the Group.

All Supervisory Board members were provided in good time with the annual financial statement of Hermle AG, the consolidated financial statement, the summary management report and the audit reports. We scrutinised the documents and discussed them together with the auditors during the accounts meeting on 27 April 2022. According to our assessment, there are no objections to be raised. We concur with the judgement of the auditors and approve the annual financial statements and the management report. The annual financial statement of Maschinenfabrik

Berthold Hermle AG is, therefore, formally approved. We concur with the proposal on the appropriation of profits for the 2021 business year put forward by the Management Board entailing the distribution of a dividend of €0.80 for each ordinary share and €0.85 for each preference share, plus a one-off special bonus of €8.20 per share.

The auditor also examined the remuneration report pursuant to Section 162 of the German Stock Corporation Act (AktG) and raised no objections. The Supervisory Board also examined this report, formed an opinion on its correctness and expediency and approved it. The Supervisory Board also reviewed the mandatory non-financial statement pursuant to Sections 289b and 315b of the German Commercial Code (HGB) and confirmed that it complies with the legal requirements.

The prospects in the 2022 business year are generally positive for Maschinenfabrik Berthold Hermle AG in view of the significant number of orders on hand from the previous year and the continuing good demand. That said, the risks to our business environment, which was already characterised by various economic factors of uncertainty, have increased considerably due to the war in Ukraine. The Supervisory Board wishes the Management Board and the entire Hermle team every success in overcoming the challenges that no doubt lie ahead.

Gosheim, April 2021



Dietmar Hermle  
Chair of the Supervisory Board

# MANAGEMENT REPORT OF THE AG AND CONSOLIDATED REPORT

This report is a summary management report covering Maschinenfabrik Berthold Hermle AG and the Group. It was prepared in line with the requirements of the German Accounting Standard (DRS) 20. As in the previous year, the Group consolidated financial statements for 2021 comply with the International Financial Reporting Standards (IFRS), as applicable within the European Union. The accounting principles of the German Commercial Code (HGB) were applied to the annual financial statement of the individual company Maschinenfabrik Berthold Hermle AG. Details that refer to the individual company are denoted with the addition "Hermle AG" or "Individual Company". The mandatory non-financial statement pursuant to Sections 289b and 315b of the German Commercial Code (HGB) can be viewed on the Hermle website at [www.hermle.de](http://www.hermle.de) (section heading: Investor Relations / Mandatory Disclosures / Sustainability Report / Non-Financial Statement). It set out all the key information on our sustainability-related activities.

## GROUP FUNDAMENTALS

### BUSINESS MODEL AND SALES MARKETS

Maschinenfabrik Berthold Hermle AG is one of the world's leading suppliers of high-quality milling machines and machining centres and now also offers complete automation solutions from a single source for its entire product range. Our 5-axis machining centres and high quality standards set benchmarks in the industry. Hermle's customers include domestic and international companies in high-tech sectors such as toolmaking and mould construction, medical technology, the electronics and chip industries, packing technology, the optical industry, the aerospace industry, energy technology as well as the automotive industry, including their subcontractors. The most important single market is Germany. In addition, we distribute our products worldwide and develop targeted growth markets.

The Hermle product range has a modular structure that is continuously enhanced in line with the requirements of the various market segments. The basis is formed by two machine series: High-quality entry-level machines of the Performance Line and extremely dynamic, precise and powerful machining centres of the High Performance Line. They are complemented by innovative solutions for integrated automation, digitally networked production and additive manufacturing – topics that are becoming increasingly important to our customers.

### ORGANISATIONAL STRUCTURE

The Hermle Group consists of the parent company Maschinenfabrik Berthold Hermle AG (Hermle AG) and several domestic and international subsidiaries. Hermle AG assumes most of the development and production activities, central services and logistics services, as well as commercial and administrative functions of the Group. Other domestic companies include the subsidiaries HPV Hermle Vertriebs GmbH (HPV), HLS Hermle Systemtechnik GmbH (HLS), which specialises in customised automation solutions, and the development company Hermle Maschinenbau GmbH (HMG), which focuses on additive manufacturing. The companies which have their headquarters in Germany make up the Domestic company segment.

The Foreign sales segment comprises our companies and operating facilities outside Germany. They are mainly responsible for sales and service activities in various regions. Independent Hermle subsidiaries are located in Italy, Mexico, the Netherlands, Russia, Switzerland and the USA. Other operating facilities are located in Denmark, Austria, Poland and the Czech Republic. Furthermore, we have representative offices in key sales regions, for example in China and Bulgaria, which organisationally belong to Hermle AG. An application for the establishment of a subsidiary in China was made in December 2021.



## STRATEGY AND MANAGEMENT CONTROL

The strategy of Maschinenfabrik Berthold Hermle AG is geared towards profitable organic growth. We aim to produce premium grade tool machines and top-class automation components at our location in Germany relying on a strong equity base and a highly motivated and competent team of employees working for the company on a long-term basis, offer excellent service worldwide and in the process generate comfortable revenues.

We have established ourselves as a partner for integrated automation solutions for our customers and want to further consolidate this position. In addition, we are striving for the broadest possible regional and sector-related positioning as well as the further digitalisation of our product range and all processes in the company. In the year under review, we were able to successfully implement our strategy despite the highly volatile business environment.

The Hermle Group is controlled centrally by Hermle AG. In addition to orders received and turnover, we use earnings before interest and taxes (EBIT), which corresponds to the operating result, as a key indicator for this. The Management Board of Hermle AG, which consists of three members, is responsible for the management of the company.

There are no disclosure requirements in accordance with Sections 289a and 315a of the German Commercial Code (HGB), as only the preference shares of Maschinenfabrik Berthold Hermle AG's share capital, which is divided into 4 million ordinary shares and 1 million non-voting preference shares, are traded on the stock exchange.

## CORPORATE GOVERNANCE STATEMENT

The working methods adopted by the Management Board and the Supervisory Board as well as relevant details of corporate governance practices are set out in the Corporate Governance Statement pursuant to Sections 289f and 315d HGB, which is permanently available on our website [www.hermle.de](http://www.hermle.de) (under: Investor Relations / Mandatory Disclosures / Management Declaration). It also includes the legally required disclosures of female-to-male employee ratios pursuant to Sections 76 and 111 of the German Stock Corporation Act (AktG).

Remuneration of the Management Board is presented in detail in the remuneration report, which is available on our website [www.hermle.de](http://www.hermle.de) (section heading: Investor Relations / Mandatory Disclosures / Other).

## BUSINESS REPORT

### FRAMEWORK CONDITIONS: ECONOMIC RECOVERY WITH STRONG FLUCTUATIONS

In the year under review, the global economy continued to recover from the Covid-19 crisis. Development was, however, twofold: In the first half of 2021, a fall in infection rates and advances in vaccination led to a surprisingly rapid recovery, although in many countries base effects led to an overstatement of growth rates. But the upward trend slowed down noticeably in the second half of the year. Ongoing supply issues and a drastic increase in prices for many raw materials and preliminary products, caused by a simultaneous upswing in several economic sectors and regions and further exacerbated by strict quarantine measures when new infections appeared in China, slowed down economic development. Added to this was the discovery of new Covid-19 variants and rising inflation.

According to the International Monetary Fund (IMF), the global economy is projected to grow 5.9% in 2021 as a whole, following a decline of 3.1% in the previous year. The increase in industrialised countries as a whole was 5.0% (previous year -4.5%) according to the IMF. The USA achieved an increase of 5.6%. In the eurozone, GDP increased by 5.2%, with particularly strong growth in countries such as France and Italy, which had recorded considerable losses in 2020. Economic activity also proved to be dynamic in some Central and Eastern European member states such as Poland, Romania and Hungary.

For developing states and emerging markets, the IMF provisionally calculated growth of 6.5% in 2021 (previous year -2.0%), which was mainly based on high growth rates in both Asia and Latin America. Despite the Chinese economy losing considerable momentum in the fourth quarter, it still expanded 8.1% year-on-year in 2021.

In Germany, GDP rose by 2.9% in 2021 according to initial provisional calculations by the Federal Statistical Office (Destatis). Economic performance has increased in almost all sectors, but in most cases pre-crisis levels have not yet been reached. Investments in equipment, such as machines, devices and vehicles, were up 3.4% compared to the crisis year 2020.

## INDUSTRY SITUATION: UPWARD TREND IN INTERNATIONAL MACHINE TOOL MANUFACTURING

The mechanical engineering sector initially recovered more quickly from the Covid-19 pandemic in 2021 than after previous crises. However, a shortage of raw materials and preliminary products and significant drops in transport capacities increasingly slowed down production processes as the year progressed. Preliminary data from Oxford Economics suggests global machine sales rose by 13% for the year as a whole. German mechanical engineering production grew by 6.4% in 2021 according to data of the German Mechanical Engineering Industry Association (VDMA). Without the major supply chain disruptions, development could have been significantly higher according to VDMA, as the number of orders received rose by 32%.

According to the German Machine Tool Builders' Association (VDW), production in the machine tool manufacturing sector increased by 18% worldwide in 2021. This was supported primarily by strong growth rates in Asia and America. Recovery was much slower in Germany, where production only increased by 4%. Business in Germany was driven forwards by exports, while domestic sales continued to drop, partly due to a reluctance to invest in the automotive industry. Orders from German manufacturers, on the other hand, increased significantly by 58%.

Structural changes in the automotive industry have also led to increased competitiveness in our sector, as many companies are being forced to find new customers. Further, increasing price pressure continued to be a problem, although there were slight signs of improvement over the course of the year.

From a technological point of view, the topic of Industry 4.0 and thus the automation and digitalisation of production processes continues to play an increasingly important role in machine tool manufacturing, which is still oriented towards the Hermle standard in the area of 5-axis machining. A major driver in this field is the growing shortage of skilled workers in Germany, which companies are compensating for with fully automated production facilities, thereby reinforcing the trend towards autonomous manufacturing. In addition, we continued to observe a high demand for both extremely powerful, high-precision machines as well as high-quality, standardised and thus low-priced entry-level models. Furthermore, additive or generative manufacturing processes (so-called 3D printing) continue to gain importance in various special applications.

## AN OVERVIEW OF HERMLE'S BUSINESS PERFORMANCE

Maschinenfabrik Berthold Hermle AG enjoyed a strong recovery overall in 2021: The number of orders received, turnover and the operating result increased significantly throughout the Group. This was despite our business being subject to strong fluctuations over the course of the year. While demand remained sluggish in the first few months, it picked up noticeably from April onwards when Covid-19 infection rates started to fall. Initially orders picked up in crisis-proof sectors such as the medical technology, electronics and packaging industries, soon followed by those sub-sectors of the automotive industry that are not directly affected by the changes in automotive technology. Demand was especially concentrated on Industry 4.0, where we offer the complete range from a single automated machine up to and including automation solutions for fully networked manufacturing processes. In the second half of the year, the actual level of demand was somewhat surprising, enabling us to achieve new highs in the number of orders received in the third quarter and overall in the last six months of the year. At the same time, however, problems in the transport sector and shortages of many materials and raw materials increasingly led to disruptions in the supply chain, significant price increases in procurement and a meltdown of our safety stocks.

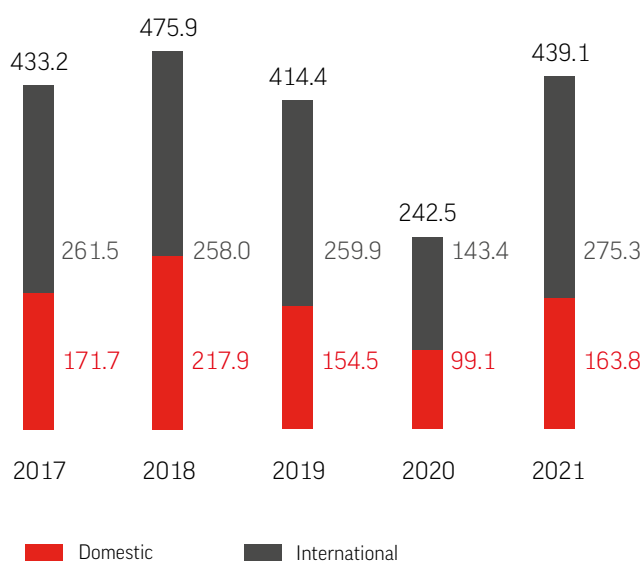
As a result of the fluctuating general conditions, utilisation of our capacities varied greatly over the course of the year: At the beginning of 2021, short-time work was extended to its highest level due to the low number of orders on hand from the previous year. In the second quarter, the use of this measure was rapidly reduced and short-time work was completely stopped in August. From the middle of the year, our manufacturing employees were already back to working overtime. This became necessary not only due to the significant increase in the number of orders received, but also to respond flexibly to supply chain disruptions through internal measures such as overtime or the short-term conversion of processes. In this situation, the fact that we were able to keep the Hermle workforce intact during the pandemic proved to be particularly important. This enabled us to quickly adapt to the dynamic changes in demand and to supply our customers as reliably as usual, despite the ongoing Covid-19-related restrictions.

Furthermore, we managed to improve our range of automation and digitalisation components in the reporting period, moderately expanded production capacities and boosted our international service and sales activities. Overall, we were able to consolidate our market share and our position as the technology leader in 5-axis machining centres besides expanding our position in the automation sector.

## HERMLE ORDERS RECEIVED HAVE INCREASED TO €439 MILLION

In 2021, compared with the previous year, which was severely impacted by the pandemic, the number of orders received by Hermle Group increased by 81.1% to €439.1 million (previous year €242.5 million). New domestic orders totalled €163.8 million, an increase of 65.2% compared to the same period in 2020 (previous year €99.1 million). Orders received from international customers climbed about 92.0% to €275.3 million (previous year €143.4 million). Business in automation solutions, including the newly launched RS 1 robot system, developed particularly well. Demand gained momentum over the course of the year and was additionally supported by various major projects in the final quarter. This meant that the number of orders on hand at the end of December 2021 increased by 140.8% to €107.9 million compared to figures on the same reporting date in 2020 (previous year €44.8 million).

### Orders received by the Hermle Group in €m



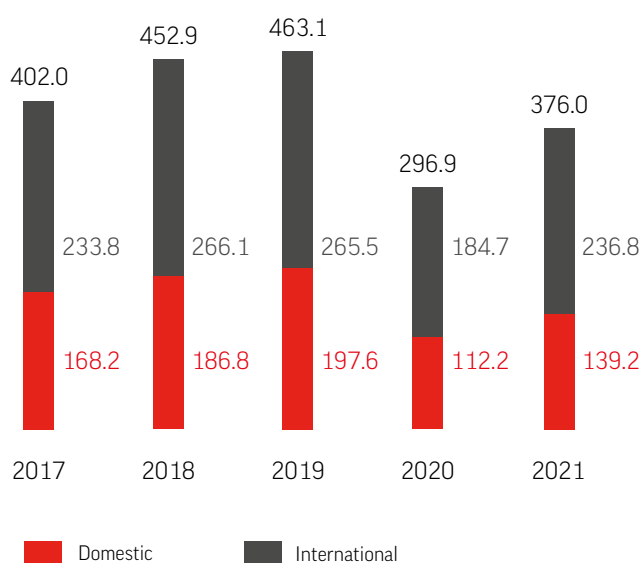
At the individual company Hermle AG, incoming orders rose by 79.7% to €404.9 million (previous year €225.4 million). Of that, €164.9 million (+ 64.8%) were generated in Germany and €240.0 million (+ 91.7%) on international markets. The number of orders on hand, compared to figures recorded on the same reporting date in the previous year, rose by 145.3% from €41.3 million to € 101.3 million.

## INCREASE IN TURNOVER OF 27%

Hermle Group turnover rose by 26.6% in 2021 to €376.0 million (previous year €296.9 million). Due to the surprisingly dynamic upturn in demand, we were able to more than make up for the significant loss in turnover at the start of the year as the year

progressed. Service and spare parts sales were the first to pick up, followed with a slight delay by business in new machines. Broken down by regions, domestic turnover growth increased by 24.1% to €139.2 million (previous year €112.2 million). The volume of sales outside Germany rose by roughly 28.2% to €236.8 million (previous year €184.7 million). This meant the export quota increased slightly from 62.2% to 63.0%.

### Hermle Group sales in €m



In 2021, sales at the individual company Hermle AG climbed by 27.2% to €345.0 million (previous year €271.1 million). Of which €140.3 million were generated by domestic sales (previous year €113.4 million; + 23.7%) and €204.7 million by foreign sales (previous year €157.7 million; + 29.8%). The export quota was 59.3% compared to 58.2% in the previous year.

## SEGMENT DEVELOPMENT

The volume of business in the Domestic company segment of the Hermle Group increased by 18.6% to €208.7 million in 2021 (previous year €176.0 million). In addition to Hermle AG, HLS, which specialises in individual automation solutions, the sales company HPV and HMG, which is responsible for development and the range of services in the area of generative manufacturing, were able to make gains.

The volume of business in the Foreign sales segment rose by roughly 38.4% to €167.3 million (previous year €120.9 million), with the majority of the subsidiaries and sites recording increases. Companies witnessed particularly strong growth in Italy, the Netherlands and the USA. Hermle Southeast Asia, which was newly established in 2020, was able to generate initial sales, but due to the Covid-19 pandemic, the acquisition of new customers was severely curtailed by respective travel restrictions.

## OPERATING RESULT INCREASES TO €74.6 MILLION

The results of operations and cash flows of the Hermle Group recovered significantly in 2021 from the Covid-19-related decline of the previous year. This was due to the surprisingly strong increase in turnover, especially in the fourth quarter, and the correspondingly high utilisation of our capacities. The ongoing supply chain disruptions were well compensated for by internal measures. This ensured we were able to meet all agreed delivery deadlines and also pre-produce on a larger scale for the 2022 business year. Towards the end of the year, we also experienced some positive effects from an improvement in price quality.

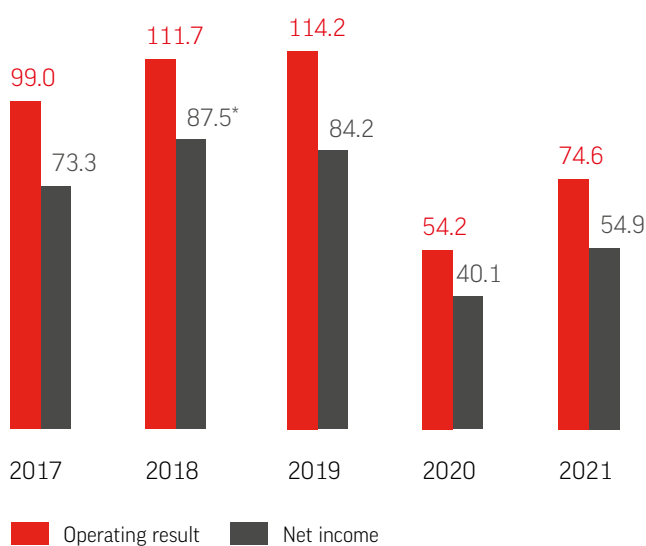
Total output increased by 31.8% to €384.7 million in the reporting period. This included an inventory increase of €7.5 million (previous year decrease of €6.3 million), which resulted mainly from an increase in products being manufactured. As in the previous year, company-produced assets amounted to €1.2 million and were related to in-house produced machines and testing equipment for production and quality assurance processes, as well as another MPA 42 hybrid machining centre for additive manufacturing.

The share of material costs in the total output rose from 39.7% to 42.6% due to an inventory increase and higher material prices. The personnel expenditure quota was in contrast cut from 30.5% to 27.0%. The effects of higher capacity utilisation and growth in turnover more than compensated for the additional expenses incurred to soften the blow of delivery delays. Depreciation increased by 8.4% to €11.3 million due to the extensive investments in previous years. The net balance of other operating expenses and income was €-31.1 million compared to €-22.5 million in the previous year. Among other things, increased trade fair and travel costs as well as outgoing freight and a turnover-related increase in expenses for provisions against warranty claims were felt.

The overall operating result of the Hermle Group grew by 37.6% to €74.6 million: Prior to consolidation effects, €69.7 million were attributable to the Domestic company segment (previous year €47.7 million) and €5.3 million to foreign sales (previous year €6.9 million). The decline in the foreign segment is mainly due to lower earnings at Hermle WWE AG, which is active on the Russian market, and Hermle USA Inc, while earnings at Hermle Italia s.r.l., in particular, improved considerably compared to the previous year.

Including the financial result, which declined to €-0.2 million (previous year €0.1 million) due to the ECB's negative interest rate policy, the result before taxes was €74.4 million (previous year €54.3 million). The result is an improved gross margin on turnover from 18.3% to 19.5%. After taxes had been deducted, a Group net income of €54.9 million was reported (previous year €40.1 million). Earnings per ordinary share increased to €10.97 (previous year €8.01) and €11.02 per preference share (previous year €8.06).

### Hermle Group operating result and net income in €m



\*incl. €m 4.9 special effect

In the individual company Hermle AG, the operating result, determined according to German Commercial Code (HGB) regulations, increased by 43.3% to €67.8 million (previous year €47.3 million). The net income increased by 34.8% to €51.1 million (previous year €37.9 million). This included €2.5 million (previous year €3.0 million) in dividends from subsidiaries and a partial write-down of €0.6 million on Hermle Ulyanovsk. This revaluation became necessary due to weak business development in the business year as well as the rather bleak outlook for the Russian market as of 31 December 2021.

## FINANCIAL MANAGEMENT AND FINANCIAL POSITION: OPERATING CASH INCREASES TO €66.3 MILLION

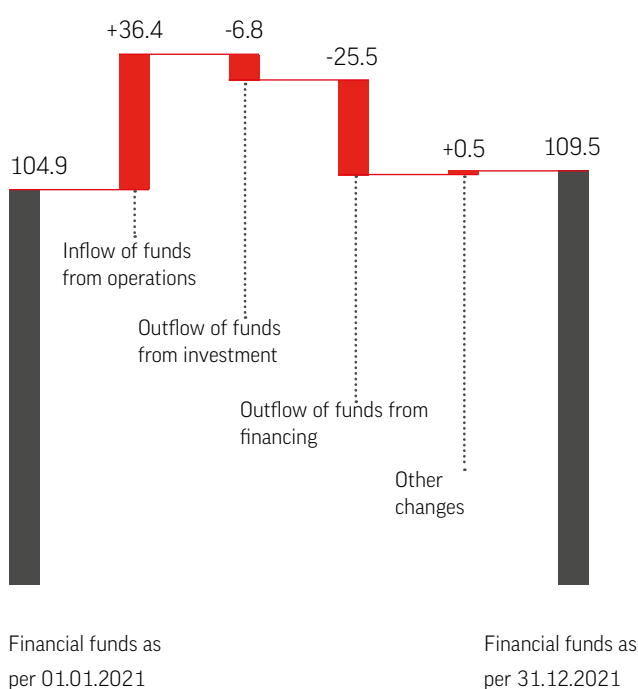
The financial management of Hermle AG and the Group aims to achieve largely internal financing and to safeguard liquidity. We invest available funds exclusively on a low-risk and primarily short-term basis. We normally aim to finance both current business operations and capital investments from cash flow. This enables us to respond quickly and flexibly to changes in the market

relatively independently of third-party interests and the unsettled capital markets. We use financing options such as leasing only in a few exceptional cases where this seems advisable.

The solid financial position of the Hermle Group was further consolidated in the year under review. Cash flow before changes in working capital increased by 31.4% to €66.3 million on the basis of the improved net income for the year. Due to the unusually strong expansion of business throughout the second half of the year, funds tied down in the working capital increased significantly. The increase in inventories and trade accounts receivable was particularly noticeable. This was contrasted by, among other things, considerably higher advance payments on orders and increased provisions in human resources. All things considered, the cash flow from operating activities was €36.4 million (previous year €43.2 million).

The outflow of funds for investment amounted to €6.8 million compared to €19.6 million in the previous year. In addition to the payments for the fixed investments described in the following chapter, purchases and sales of time deposits with maturities of more than one year were reported in accordance with the International Financial Reporting Standards (IFRS). These were largely offset on balance through the reinvestment of maturing funds.

### Hermle Group change in liquidity in 2021 in €m



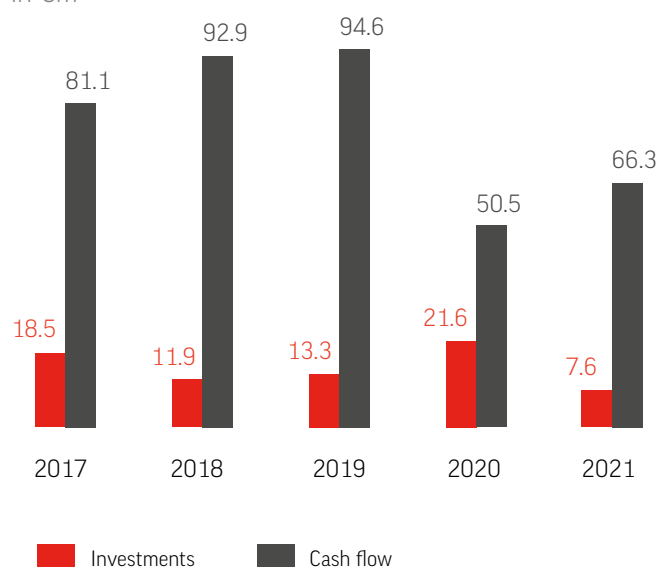
The cash outflow for financing activities was €25.5 million (previous year €25.6 million), with the distribution to shareholders amounting to €25.1 million, as in the previous year. For 2021, the Management Board recommends that the Supervisory Board proposes an increased distribution (payout) at the shareholders' meeting consisting of an unchanged basic dividend of €0.80 per ordinary share and €0.85 per preference share as well as a bonus of €8.20 (previous year €4.20) per share at the shareholders' meeting. The dividend proposal will be determined at the end of April 2022.

Taking into account exchange rate-related and other changes, the Hermle Group received financial funds totalling €4.6 million in 2021 (previous year €-2.7 million). At the end of December 2021, liquidity increased to €109.5 million (previous year €104.9 million)

### FIXED INVESTMENTS OF €7.6 MILLION

Investments in property, plant, equipment and intangible assets of the Hermle Group totalled €7.6 million in 2021 compared to €21.6 million in the same period of the previous year during which various major projects were completed. In the reporting period, the focus was firmly on measures for expanding machining and sheet metal processing capacities at the installation locations in Gosheim and Zimmern ob Rottweil respectively. Further, we also invested in in-house logistics and cyber security. Further details can be found in the chapter on production and logistics.

### Hermle Group cash flow and investments\* in €m



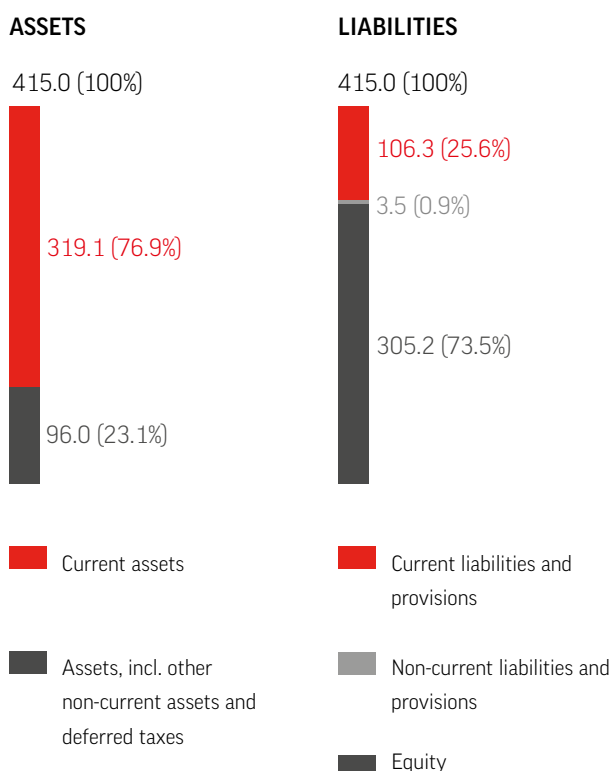
\*Investments in property, plant and equipment and intangible assets

At Hermle AG, investments in property, plant, equipment and intangible assets totalled €5.6 million (previous year €18.5 million), the main focus here was also on measures for expanding machining and developing logistics.

## NET ASSETS POSITION: EQUITY RATIO AT MORE THAN 73%

In the course of the expansion of business, the balance sheet of the Hermle Group on 31 December 2021 had increased by 19.6% to €415.0 million compared to figures recorded on the same reporting date in 2020. On the assets side of the balance sheet, current assets grew by a total of 29.7% to €319.1 million due to the upturn in demand. Trade accounts receivable increased by 87.8% to €81.2 million and inventories by 23.4% to €82.7 million. In addition, cash and cash equivalents increased by 4.4% to €109.5 million. Other current receivables increased to €34.8 million, mainly due to a rise in tax refund claims (previous year €22.0 million). Current securities and other assets, which are near-term investments, decreased from €9.0 million to €6.0 million as a result of changed maturities and the reinvestment of maturing funds. Conversely, the corresponding non-current position dropped from €3.0 million to €1.0 million. Overall, non-current assets were slightly below the previous year's level at €96.0 million (previous year €101.0 million). Due to the restrained investment activity, property, plant and equipment assets decreased by 3.4% to €81.1 million and intangible assets by 8.2% to €10.3 million.

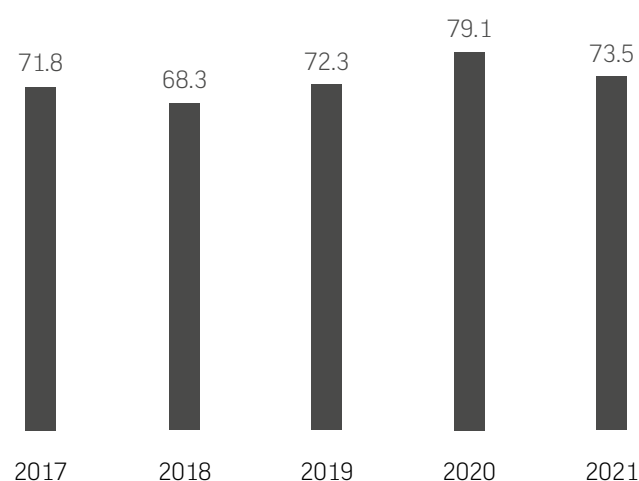
### Hermle Group balance sheet structure (31.12.2021) in €m



Liabilities and shareholder's equity continued to be dominated by the company's own funds, which rose by 11.2% to €305.2 million due to the improved result. This represented an equity ratio of 73.5% (previous year 79.1%).

Moreover, current liabilities increased significantly by 55.1% to €106.3 million. Due to the dynamic developments in demand, there was a sharp rise in advance payments received on orders, which led to other current liabilities rising by 115.1% to €55.7 million. Current provisions increased by about 21.9% to €43.8 million, mainly due to higher provisions for personnel-related expenses and provisions against warranty claims as a result of the strong growth in turnover. Totalling €6.5 million, liabilities were 8.0% higher than in the previous year. Non-current liabilities decreased from €4.1 million to €3.5 million.

### Hermle Group equity ratio in %



The balance sheet total of Hermle AG grew by 19.1% to €326.6 million compared to the same reporting date in the previous year. As a result, equity capital increased by 11.8% to €245.7 million, ensuring the equity ratio was 75.2% (previous year 80.1%).

## OVERALL ASSESSMENT OF THE ECONOMIC SITUATION AND COMPARISON WITH THE FORECAST

In the reporting period, Maschinenfabrik Berthold Hermle AG recorded a significant upswing in business compared to the previous year, which was severely affected by the Covid-19 pandemic. Orders received by the Group increased by 81%, turnover by around 27% and the operating result by roughly 37%.

Development turned out better than expected at the start of the business year. At that time, statements about the future were fraught with enormous uncertainties due to the serious disruptions and scepticism caused by the Covid-19 pandemic. Our original forecast of March 2021 was therefore wide ranging and covered many aspects: It expected the orders received for the full year to be at least at the previous year's level across the Group or – in a positive scenario – to increase. Due to the low number of orders on hand from the previous year, a slight decline in the worst case scenario and an increase in the best case scenario were considered possible in terms of the Group turnover. The operating result was expected to develop at a significantly lower rate.

In the following months, there were promising signs that the upper end of these ranges could be reached, but uncertainty about how the pandemic was going to develop continued and this situation was further exacerbated by increasing supply shortages. At the shareholders' meeting in July 2021 and in the half-yearly report, reference was, therefore, made to the possibility of turnover increasing by 10% or more, but this scenario was still fraught with risks. After the good performance continued and based on the surprisingly strong demand in the third quarter, we raised the forecast for turnover and operating result in November 2021 and announced an increase in turnover of 20% to 25% for the year as a whole and an almost proportional development of the operating result.

The forecast turnover was slightly exceeded, as the ongoing supply chain disruptions in the fourth quarter were offset far better than expected through internal measures. Therefore, we were even able to manufacture products in advance for 2022 on a larger scale and utilise our capacities to a very high degree. This had a positive impact on the results of operations and led to an operating result above expectations. An improvement in price quality also offered a buoyant effect towards the end of the year. Overall, the Management Board considers the results of operations to be very satisfactory against the backdrop of the extremely difficult economic situation.

Our solid financial and assets position was further strengthened in the reporting period. At the end of 2021, Hermle had liquid funds of more than €109 million and an equity ratio of at least 73%.

## ADDITIONAL PERFORMANCE INDICATORS

### R&D FOCUSING ON CUSTOMISED AUTOMATION

Hermle conducts intensive research and development (R&D) with the aim of offering customers additional benefits and thus further consolidating its own market position. R&D activities continued at a high level in 2021. The main focus was on continuous technological advancements in our machine series as well as enhancing the breadth and depth of our automation expertise. In this field, customer-specific development work is necessary in addition to expansion of the existing modular system. The aim is to design solution modules in a wide variety of fields, from tool handling to digital components and robot systems, in conjunction with our machining centres to meet the varying requirements of our customers.

The focus during the reporting period was on, among other things, individually adaptable robot systems: Following the successful launch of the compact RS 1 at the start of 2021, we presented the RS 05-2 system, equipped with an array of customer-specific features, during the course of the year. The RS 05-2, which is ideal for producing workpieces weighing up to 5 kg and is thus predominantly used in precision mechanics and medical technology, has been fitted, for example, with a newly developed automatic finger change for a wide variety of grippers. Such features obviously enhance the productivity of our systems even further.

An additional topic of our R&D work was the further development of our MPA technology (metal powder application process), which we offer to our customers as a service. To further expand the capacities for this innovative process, a second, optimised MPA 42 hybrid machining centre was developed during the reporting period.

### PRODUCTION AND LOGISTICS: INCREASING CAPACITIES IN GERMANY

We are continuously optimising our highly efficient production facilities and processes, making sure they remain at the leading edge of technology. This all helps to ensure a successful transition towards Industry 4.0. In addition, we pay close attention – as with all our processes – to environmental compatibility and resource conservation. Additional information on this can be found in the chapter on environmental issues in the non-financial statement.



In 2021, we expanded our production capacities at the company headquarters in Gosheim: This involved installing and commissioning a new large machining centre for machining operations. Furthermore, in preparation for a new spindle assembly facility, we started with the refurbishment of existing areas and improved quality assurance processes. Further investments focused on optimising in-house transport between the installation location in Gosheim and the new installation location in Zimmern ob Rottweil.

## PROCUREMENT: OVERCOMING PROBLEMS IN THE SUPPLY CHAIN

Purchased materials and components account for more than 40% of the Hermle Group turnover and are therefore of major importance. To ensure an excellent security of supply, we generally work together with our suppliers in a trustworthy and honest manner. In addition, we contribute to financial stability in the supply chain as a reliable and solvent partner with an excellent payment record.

In the reporting period, the supply chain disruptions triggered by the Covid-19 pandemic placed particularly high demands on our procurement processes. We compensated for any shortfalls in supplies and transport delays arising from increasing Covid-19 cases through various internal measures such as working overtime, redesigning processes and moving to alternative suppliers. In this context, and due to the surge in the number of orders received, our traditionally well-stocked stores, which help to efficiently address fluctuations in demand and supply, were also significantly reduced.

## SERVICE AND SALES: REINFORCEMENT AT HOME AND ABROAD

Hermle has a highly efficient sales team and extremely reliable service staff. To further develop existing and new markets and to safeguard our high quality of service, which is renowned throughout the industry, we are constantly improving our service and sales network and continuously driving forward the digitalisation agenda for our processes.

In the year under review, additional employees were hired for customer service activities in Germany and for the new companies in Mexico and Thailand. Starting from these two installation locations, we have been able to continue to drive our internationalisation strategy in America and Asia. The extremely strict Covid-19 restrictions in many countries around the world made both new customer acquisitions and travel to countries outside Europe very difficult. However, this did not impact the commissioning of new Hermle plants in America and Asia, since we have highly competent technical staff on the ground in key sales markets.

Larger face-to-face events such as trade fairs could only be held to a limited extent due to the various Covid-19 restrictions in place, especially in the first half of the reporting period. This led to us further improving our online offerings for customers and interested parties. Instead of at the Hermle Open House, we decided to present our latest innovations and products as part of an attractive online event called HERMLE MOVES. The second half of the year witnessed a number of consumer trade fairs, including the leading industry trade fair EMO MILANO. This trade fair is particularly important for the machine tool manufacturing sector and we showcased numerous products, for example the new RS 1 robot system. We were also delighted to present MPA technology live to trade visitors at two German trade fairs in the autumn – Fakuma in Friedrichshafen and Formnext in Frankfurt.

## 1,320 EMPLOYEES IN THE HERMLE GROUP

On 31 December 2021, Hermle employed 1,320 people throughout the Group, 16 more than on the same date in 2020. The increase resulted mainly from our recruitment drive for service staff in Germany. In addition, the foreign companies were strengthened selectively, especially the new ones in Mexico and Southeast Asia. On 31 December 2021, 511 people worked in production (previous year 512), 81 in administration (previous year 79) and 728 (previous year 713) in the areas of customer and supplier service as well as R&D.

On average, 1,307 people were employed throughout the Hermle Group in 2021 (previous year 1,310). Of which 1,154 people (previous year 1,156) worked at companies in Germany and 153 (previous year 154) in foreign sales.

At the end of 2021, Hermle AG employed 1,050 people (previous year 1,048). The number of apprentices included in this figure was 99 (previous 112). Due to the increasing shortage of skilled workers caused by demographic developments and our responsibility as an employer, we continue to regard the training of young people as a high priority. More information on our respective activities is contained in chapter Social affairs of our non-financial statement.

## TOTAL OUTPUT PER EMPLOYEE INCREASED SIGNIFICANTLY

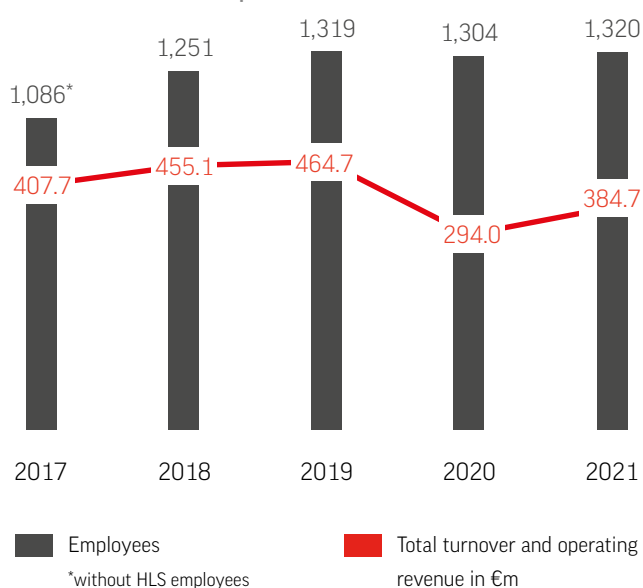
With the upturn in demand, the total output per employee in the Hermle Group increased from €k225.1 in the previous year to €k291.4. Our employees were once again challenged considerably during the reporting period. The high fluctuations in capacity utilisation and supply chain disruptions demanded maximum flexibility. Due to the low number of orders on hand from the previous year, the first quarter of 2021 initially saw a peak level of short-time work. Capacity utilisation then increased rapidly over the following months. In many areas,

short-time work ceased in the first half of the year and ended in the company as a whole in August. Soon afterwards, the high level of demand meant that some of our manufacturing employees returned to working overtime. Shortfalls in supplies also led to overtime being worked. This mainly affected assembly staff, as processes had to be changed at short notice, but staff in other areas, such as procurement, design and service, were also expected to work longer hours. In the second half of the year, employees steadily began refilling their flexitime accounts, which are an integral part of our concept of a breathing company. Further, numerous preventive measures still had to be implemented to protect against Covid-19 infections. Details on this can be found in the chapter on employee issues in the non-financial statement.

The highly motivated members of the Hermle team dealt with all the challenges they faced in 2021. To reward their outstanding contribution and commitment to the company and its rapid recovery, all the employees in Germany will again receive an incentive payment in the form of a fixed one-off amount following the distribution of dividends. The bonus is linked to the amount paid out to the shareholders.

Our flexible response to volatile business developments was underlined by our concept of a breathing company as well as our decision to get through the pandemic with an intact workforce without laying off any members of staff. This has enabled us to adapt to the dynamic developments in demand quickly and with a capable and competent workforce.

### Total output and number of employees of the Hermle Group



## DIVERSITY OF THE WORKFORCE

Hermle attaches great importance to diversity of its workforce. Through tolerance and diversity, for example in terms of gender, nationality and age, we are able to draw on a broad range of experience and expertise and prevent a shortage of skilled workers in Germany. Our main aim remains the same – increasing the quota of women in industrial-technical professions. In 2021, the figure was similar to the previous year at 6.3% (previous year 6.5%). Basically, well over 80% of all jobs and positions on the first two management levels at our company have a technical focus. They require training in industrial professions or so-called MINT subjects (mathematics, information technology, natural sciences and technology) – fields in which women are still strongly underrepresented.

In our recruitment procedures for technical staff, we aim to consider at least a number of women proportionate to the total number of applicants. To this end, recruitment campaigns specifically geared towards young women, such as Girls' Days, have already taken place in the past. They gave interested female candidates the chance to find out about career opportunities in technical professions. Further, we also launched the EMMA programme in 2021. EMMA stands for Electronics, Mechatronics, Mechanics and Automation and is a support project especially designed for female apprentices, since it is tailored to the specific needs of young women.

Disclosures relating to the percentage of women in management positions at Hermle are contained in the Corporate Governance Statement pursuant to Sections 289f and 315d of the German Commercial Code (HGB).

Due to the increasing internationalisation of our business, more and more tasks for employees of other nationalities are arising within our operations. In order to expand our position in key foreign sales regions, to open up new markets and to intensify customer contact, we specifically recruit native speakers from the regions concerned as needed.

Hermle also offers attractive employment to people with disabilities. The quota of severely disabled employees at Hermle AG dropped slightly from 2.4% in 2020 to 2.0% in 2021. This was down to the fact that one disabled employee left the company due to their age. We attach great importance to the extensive experience and expertise of older employees. Therefore, we encourage our employees to stay with us for as long as possible. We do, however, also offer older employees the possibility to switch to part-time working models prior to retirement if they are interested in so doing. In 2021, the average age of employees at Hermle AG was 38 years (previous year 37), and the average length of service with the company was 13 years (previous year 12). In the last ten years, 32 people, among them three women, have been able to celebrate 40 years of service with the company.

## SUPPLEMENTARY REPORT

At the beginning of 2022, the security situation in Europe dramatically deteriorated due to the escalating conflict in Ukraine. It is to be expected that our business dealings with Russia will be very significantly restricted by stricter trade sanctions. Additionally, following the conclusion of the 2021 business year and up until this report was signed off, there were no events that had significant effects on the earnings, financial and assets position of Hermle AG or the Group. Basically, the high level of demand for our products initially continued unabated in the first weeks of 2022. Coping with this demand remained the challenge as supply chain disruptions continued. The indirect impacts of the current situation in Eastern Europe on further economic development are also difficult to predict.

## RISK AND OPPORTUNITIES REPORT

### RISK AND OPPORTUNITIES MANAGEMENT

As an internationally active, medium-sized company, Maschinenfabrik Berthold Hermle AG sees itself as being faced with a wide range of opportunities and risks due to its business activities. Opportunities can often only be exploited by accepting certain risks. The management of opportunities and risks therefore represents a fundamental cornerstone of our corporate governance and is absolutely essential for our long-term positive development. As a matter of principle, we only want to take risks if the associated business can be expected to make an appropriate contribution to the company's assets.

The basis of our risk and opportunity management is our Group-wide planning and controlling system. This provides us with early information on important external or internal changes which might entail opportunities or risks for Hermle. The information is regularly reviewed within the company on a cross-divisional basis. As part of this open discussion, we develop suitable strategies to deal with the respective opportunities and risks.

### INTERNAL CONTROL SYSTEM

In addition to our risk and opportunities management, we have put in place an internal control system (ICS). Core elements of the ICS include the general separation of central functions and the application of the two-person rule as a matter of principle in the areas and business processes of key importance to the company's overall risk situation, which are additionally secured by access controls on IT systems. We also undertake monthly analyses of order receipts, sales revenues and key expenditure items, as well as monitor trends in individual cost categories in

order to identify any discrepancies quickly. In addition, there are suitable control mechanisms in product and order costing, service, sales, personnel, warehousing and manufacturing that enable conspicuous changes in these areas to be recognised at an early stage.

### PRESENTATION OF KEY RISKS

The following sets out the key risks for Hermle, in the order of their significance:

**Market and economic risks** – The demand cycles typical of our industry can be aggravated by a deterioration in the general economic conditions and place both a direct and indirect burden on Hermle. In 2021, demand increased significantly, but the risks resulting from the uncertain macroeconomic environment, which already existed in previous years but increased significantly in 2020 due to the Covid-19 pandemic, remains high. The situation is further exacerbated by serious disruptions in the supply chain, structural change in the automotive industry and increasing trade conflicts and geopolitical tensions between countries such as China, Russia and the USA, as well as the continued increase in regulation and red tape in Germany and throughout Europe. Escalation of the conflict in Ukraine due to the Russian invasion resulted in the outlook for our business in Russia and Eastern Europe deteriorating massively at the beginning of 2022. Moreover, the current, prolonged low-interest phase could have an unfavourable impact on the stability of the banking sector and inflation and thus on the overall economy.

Hermle can compensate for economic fluctuations to a normal extent very well through flexible structures and processes within the concept of the breathing company. Our high liquidity and equity ratio, as well as the resulting independence, additionally improve our starting position to be able to withstand changes in demand on a larger scale. In the first half of 2021, the reduced working hours also had a supporting effect.

**Procurement risks** – Hermle carefully selects suppliers and works with them in fair, usually long-term, partnerships in order to always have sufficient access to high-quality purchased materials and components and to avoid procurement bottlenecks. Generally speaking, we counter the risk of supply shortages with a second-source strategy, rolling demand planning and safety stock as far as this is reasonable. Since the outbreak of the Covid-19 pandemic, the risk of supply chain disruptions due to border closures and transport restrictions has increased. This particularly affects suppliers who source parts from overseas. Hermle works almost exclusively with suppliers in Germany or Europe. As the economy picked up again, there were shortages of materials worldwide in 2021, which also negatively impacted Hermle. In the year under review, we were able to compensate for these

shortages through various internal measures such as working overtime, moving to alternative materials and suppliers, changing design and production processes and reducing our safety stocks. If the situation on the procurement markets does not ease any time soon, the risk of supply gaps will also continue to increase for our suppliers.

Due to the Covid-19-induced economic slump, the financing risks in the supply chain have also increased and there have been isolated insolvencies. On the basis of our stable liquidity situation, we counteract this risk by making reliable and prompt payments.

By operating our own combined heat and power plant, we partly avoid increasing energy supply risks that result from the phasing out of nuclear power and the energy transition and which have recently also increased in the area of gas supplies due to the Ukraine crisis.

**Competitive risks** – Due to the global recession in 2020 and the associated reluctance to invest, especially in the automotive industry, the intense competitive pressure in our industry has increased further. With our particularly high-quality machines, individual system solutions and very competent and reliable service, we strengthen customer loyalty and prevent this risk. Through our intelligently structured product range and the modular design of our machines as well as automation and digitalisation components, we are able to offer tailor-made solutions and at the same time maintain a sound cost structure. Positive effects also result from the targeted differentiation of our offer with regard to different market requirements.

We counter trends towards market consolidation on the demand side and the risk of associated dependencies through regional and industry-specific diversification and by striving to acquire new customer accounts and opening up new markets. We reduce the risk of companies defaulting on payment through insolvency through intensive scrutiny of orders and comprehensive receivables management.

Due to the growing internationalisation in our industry, the probability of imitators is also increasing continuously. To counteract this, Hermle concentrates its R&D activities at the Gosheim site, strictly regulates access and produces with a high in-house production depth. The fundamentally highly complex nature of our machines also provides a certain degree of protection.

**Innovation and product risks** – We counter risks associated with innovation by regularly exchanging ideas with customers, system suppliers and other market participants. These discussions provide us with valuable information that enables us to consistently align our offer with the requirements of the users. We are also consolidating our technological leadership through intensive R&D activities. We prevent product liability risks through extensive testing prior to market launch as well as appropriate contract design, insurance and proactive service measures.

**IT risks** – With state-of-the-art technologies and redundant systems in key areas, Hermle is preparing itself against risks in the field of IT. For this purpose, we operate two mirrored computer rooms in Gosheim as well as another room for data backup in different parts of the building. Since the start of 2020, we have also been backing up our data on a partially redundant infrastructure at our installation location in Zimmern ob Rottweil. Consistent security mechanisms, which we have checked by external specialists at regular intervals, also offer the highest level of protection. In addition, our employees receive routine training in data protection to make them aware of the high priority of this issue. Nevertheless, IT problems cannot be completely ruled out and the risks from cyber crime are increasing worldwide. In the year under review, we increased our efforts to prevent hacker attacks through the use of new security software and cooperation with external consultants. In order to have access to sufficient capacities in case of an emergency, we also have a cyber insurance policy through which we can mobilise support from external specialists.

**Production risks** – As a matter of principle, we limit the risk of production failures through careful, preventive and far-reaching maintenance as well as early investment measures. In addition, we always keep the production facilities up-to-date with the latest technology and use efficient organisational structures to ensure that production runs as smoothly as possible. The great technical competence of our employees significantly reduces the probability of operating errors. In addition, some of our production facilities are redundant. However, the energy transition increases the risk of power supply interruptions. Currently, we operate emergency generators to power doors, gates, lighting and the IT infrastructure. Unfortunately, we do not have our own power plants to maintain a constant supply for production in the event of an outage.

**Quality risks** – Through systematic quality management, comprehensive testing procedures and training for our employees, we ensure the high quality of our machines and services, which is an important competitive factor for Hermle. Sophisticated machines as well as our great experience and competence in the field of automation additionally protect us from quality risks. The very good level in the areas of services and spare parts supply is consolidated by the continuous expansion of our service capacities.

**Personnel risks** – Most of our employees have completed their training at Hermle and regularly gain further qualifications. Therefore, they are very competent in their respective field. In order to increase their already high level of motivation and reliability, we offer our employees the most varied and interesting tasks possible, long-term employment relationships and autonomous activities. We are preventing the increasing shortage of skilled workers due to demographic developments in Germany by positioning ourselves as an attractive employer, making an above-average commitment to training and promoting the proportion of women in the workforce, especially in technical areas. To guarantee the best possible protection against infection from the Covid-19 virus, we continue to implement extensive hygiene and safety measures and, wherever possible, temporarily enable staff in regions with high infection rates to work from home. Overall, we classify personnel risks as low.

**Financial risks** – Since Hermle largely finances larger investment projects and its ongoing business internally, maintains conservative balance sheets and has a high equity ratio, financial and liquidity risks are very low. We minimise currency risks through suitable hedging transactions. Like the other financial risks, these are described in detail in the notes to the consolidated financial statements under item (29). Further, tax risks can also arise from regularly conducted tax audits.

**Overall risk situation** – The consequences of the Covid-19 pandemic led to greater uncertainties in the reporting period for individual risks, especially in the area of procurement, and thus to a shift in their significance. Moreover, risks in general have increased due to the escalation of the conflict in Ukraine. In the view of the Management Board, the currently discernible risks are manageable for Hermle. They still do not pose a threat to the company's existence, either individually or in combination.

## PRESENTATION OF THE OPPORTUNITIES

**For Hermle, significant opportunities for future development arise both from the corporate environment and from its own strengths. They are presented below and divided into these categories:**

### Opportunities from the environment

Technological changes generally offer innovative companies like Hermle great opportunities for growth. We currently see particular potential for expansion in the trend towards networking and automation in manufacturing (Industry 4.0), which is intensified by the demographically induced shortage of skilled workers. As a recognised and experienced full-range supplier in this field, we can design and implement a wide range of production systems for our customers, right up to complete automation solutions for large workshops, into which additional functionalities are integrated. Hermle has both the high-quality and extremely reliable machines required for this task and a diverse range of corresponding automation and digitalisation modules, which we are continuously expanding. This gives us the opportunity to open up new markets as well as additional areas of demand with existing customers.

From a regional perspective, there are good growth opportunities for Hermle, especially abroad. We are therefore expanding our position in key markets and are reviewing additional interesting sales regions on an ongoing basis. The increasing maturity of various international markets where Hermle is already present additionally opens up the opportunity for us to sell greater volumes of higher quality machining centres to them.

If the underlying macroeconomic and industry-specific conditions develop better than expected, Hermle is basically in a position to outperform its forecast business performance. Our concept of a breathing company as well as flexible capacity reserves and processes generally lead to high delivery and reaction capacity in the event of possible positive economic fluctuations.

In the course of an overall economic upswing, our customers' business would also pick up and the sales opportunities for our products would increase as a result. Since in periods of strong demand, our customers generally need reliable, high-performance production plants such as Hermle manufactures.

### Opportunities from the strengths of the company

The high level of competence and willingness to perform of the Hermle workforce reinforces the success factors of flexibility and quality already mentioned in connection with external opportunities. The great commitment, experience and know-how of our employees also consolidates our technologically leading market position. At the same time, these factors help us to better manage fluctuations in demand and capacity utilisation and to strengthen customer loyalty through excellent service. Our long-term human resources policy also has a positive impact. Seeing

as we were able to keep the workforce intact during the Covid-19 crisis, we have a full-strength, competent and motivated team at our disposal in the current and hopefully continuing upswing.

Furthermore, our good reputation as a reliable partner with strong liquidity focusing on quality and service based on continuity is an important prerequisite for gaining additional customers in existing and new market segments. The high reliability of our machining centres, the growing automation competence and our state-of-the-art, needs-oriented product portfolio, with ongoing innovations, also increase the chances of gaining new customers as well as opening up potential for additional applications by our existing customers. The high-grade, standardised and therefore cost-effective, 3 and 5-axis models that now augment the machinery portfolio have also improved our prospects of opening up markets in new regions.

Thanks to our healthy liquidity and equity ratio, we are largely financially independent, enabling us to respond rapidly to fluctuations in the economic cycle, and to withstand economic downturns for longer. This success factor also increases our chances, especially in and after crises.

## FORECAST

### THE WAR IN UKRAINE SERIOUSLY CHANGES GENERAL ECONOMIC CONDITIONS

At the beginning of 2022, the International Monetary Fund assumed that the global economic recovery process would continue and expected moderate global growth of 4.4%. Russia's invasion of Ukraine fundamentally changed the economic landscape from February onwards. In addition to the direct effects of the sanctions on deliveries to Russia, there are numerous indirect effects such as the increase in the cost of energy and raw materials, greater supply chain disruptions and, in general, a very high level of uncertainty about further developments. So far, very few research institutes have comprehensively assessed the new situation. According to Oxford Economics, global growth of 2.3% to 3.7% currently seems the most likely outcome for 2022 as a whole – depending on how long the fighting in Ukraine lasts and whether even tougher sanctions are introduced, Russia's gas supplies to western Europe are disrupted and the war spreads to other regions. China's zero-Covid policy could also further impact the economic environment. Accordingly, the EU27 economy would grow by 1.8% to 3.2%; Oxford Economics forecasts a range of 1.8% to 3.4% for the USA and 3.9% to 4.9% for China.

The German economy is now being marred by the fallout from the war in Ukraine just as it was recovering from the pandemic and stronger levels of growth appeared feasible. According to the Kiel Institute for the World Economy, the buoyant forces – high pent-up purchasing power among private households, and record order backlogs in industry – should help to cushion the shock waves from the war in Ukraine, meaning Germany might recover more slowly, but still noticeably, with an increase in GDP of 2.1%.

### INDUSTRY ENVIRONMENT: GROWTH OPPORTUNITIES, BUT HIGH LEVEL OF UNCERTAINTY

According to Oxford Economics, the mechanical engineering industry will be able to increase its turnover by 4% worldwide in 2022, supported by the overall upswing. This is once again associated with major risks, especially from the war in Ukraine, supply chain disruptions, uncertainties about Covid-19, plus the threat of new variants, and higher inflation rates. The USA and Japan are forecast to grow slightly above the global average, while China is expected to develop in line with the average. In Germany, economists of the German Mechanical Engineering Industry Association (VDMA) expect production to increase by 4%, which is 3 percentage points less than back in December.

According to the German Machine Tool Builders' Association (VDW), the German machine tool industry also enjoys excellent opportunities for growth in 2022, although overall development is characterised by a high level of uncertainties. For the year as a whole, a 14% increase in production was expected at the beginning of 2022 based on a broad upswing in terms of industries and markets and a correspondingly strong upturn in demand since the middle of last year, without taking into account the impacts of the war in Ukraine.

### PROSPECTS FOR MASCHINENFABRIK BERTHOLD HERMLE AG

Maschinenfabrik Berthold Hermle AG is expected to continue on its road to recovery throughout the current year. From today's perspective, demand is expected to normalise in the coming months – starting from the currently still very high level. The war in Ukraine has brought about non-quantifiable, but certainly high risks both for the intake of orders and especially for material supply bottlenecks in the coming months. Overall, we expect that the number of orders received by the Hermle Group in 2022 will at least reach the previous year's level or even slightly exceed it. Based on the large number of orders on hand, but also depending on the direct and indirect effects of the war in Ukraine, we expect Group turnover to increase by at least around 10%. The operating result may be disproportionately low due to the expected further

massive increases in material and energy prices. Further, there are also substantial risks of default for claims against Russian customers as well as the loss of the company's assets in Russia, which would lead to balance-sheet losses of around €5 million.

Our forecast is based on the macroeconomic development expected and predicted by economic researchers and trade associations and, like these, is subject to a very high level of uncertainty. Risks result primarily from the ongoing shortage of supplies of various raw materials and components as well as possible further problems in the transport sector. The war in Ukraine, which is likely to have a significant impact on the supply of materials as well as the general economic situation, rising geopolitical tensions in other regions of the world and uncertainties about Covid-19 and new variants are also having a negative impact. This could result in short-term fluctuations in demand and corresponding negative effects on the volume of business. In addition, supply chain disruptions and material and energy price increases that exceed current assumptions and last longer than expected are also possible, which would ultimately lead to additional expenses.

In the course of the generally expected international easing of the Covid-19 situation and the associated reduction in contact and travel restrictions, we hope to be able to exchange more personal information with our customers and potential buyers again in the coming months. For example, we are planning to hold Hermle Open House as a face-to-face event again at the end of April. We also want to start intensify our foreign sales activities – starting with the Hermle locations in Asia and America.

The Hermle team will grow slightly in the current year. We are planning to take on new members of staff in the service sector, as well as in various areas directly related to production.

In 2022, our R&D activities will continue on the same high level as in the past. The focus will remain on the development of customised automation solutions to help our customers achieve Industry 4.0-capable production. To this end, we will also be further expanding our range of automation and digitalisation components. At the same time, we are continuously developing our machining centres of the Performance and High-Performance-Line. An additional focus is on the gradual transformation of our own production facilities towards networked Industry 4.0 manufacturing.

## FINANCIAL AND ASSET POSITION VERY SOUND IN THE FUTURE

The Hermle Group's financial and assets situation will continue to be very sound in 2022. Our high equity ratio and liquidity ensure that both upcoming investment projects and current business operations can be financed from our own resources without having to take out any loans. The investment volume is expected to increase in 2022 – after it was down in 2021 due to the Covid-19 pandemic. Among other things, we are planning to construct a state-of-the-art spindle assembly facility, further optimise quality assurance and install our own Hermle automation systems, including our RS 2 robot system, for machining operations. Investments are also planned, for example, in IT hardware and software, state-of-the-art lighting technology and workshop technology.

## OVERALL ASSESSMENT OF THE FUTURE DEVELOPMENT

Against the background of the high number of orders on hand from 2021 and the vigorous upturn in demand since the beginning of the year, our business is expected to develop positively overall in 2022. We expect the orders received by the Group to be at least at the previous year's level, a turnover increase of at least 10% and a disproportionately low increase in earnings. However, there are numerous serious risks that our business activities might face, especially due to possible further supply shortfalls, material and energy price increases, the war in Ukraine and uncertainties about Covid-19 and new variants.

Overall, the Management Board is still confident about 2022 and the coming years despite high and partly incalculable risks. Due to its competent and highly motivated members of staff, very flexible structures and extremely solid financial footing, our company offers excellent prospects for long-term, positive corporate development. Thanks to our exceptionally high product and service quality as well as our in-depth automation expertise, we are able to help companies from a wide range of industries and regions optimise their processes and overcome new technological challenges.

Gosheim, 30 March 2022

Maschinenfabrik Berthold Hermle AG

Management Board



# HERMLE SHARE

## KEY FIGURES OF THE HERMLE PREFERENCE SHARE IN €

	2017	2018	2019	2020	2021
Result per preference share <sup>1</sup>	14.70	16.55 <sup>3</sup>	16.88	8.06	11.02
Cash flow <sup>1</sup>	16.21	18.58	18.90	10.09	13.26
Equity <sup>1</sup>	47.50	50.06	52.08	54.89	61.04
All-time high <sup>2</sup>	398.00	412.00	337.00	294.00	310.00
All-time low <sup>2</sup>	271.00	268.00	250.00	197.00	228.00
Year-end share price <sup>2</sup>	359.00	295.00	282.00	294.00	243.00
Price/earnings ratio at year-end	24.42	17.82 <sup>3</sup>	16.72	35.36	22.05
Price/cash flow ratio at year-end	22.15	15.88	14.92	28.25	18.33
Dividend per preference share	0.85	0.85	0.85	0.85	0.85 <sup>4</sup>
Bonus	12.00	14.20	4.20	4.20	8.20 <sup>4</sup>
Special bonus	2.20				
Price on 31 March 2022					233.00

<sup>1</sup> Share basis: 5,000,000 pieces

<sup>2</sup> Source: Stuttgart Stock Exchange

<sup>3</sup> Without one-time valuation effect from the HLS complete acquisition

<sup>4</sup> Subject to approval at the shareholders' meeting

## STOCK MARKETS SLIGHTLY HIGHER OVERALL DESPITE THE COVID-19 PANDEMIC

The mood on the international stock markets was generally divided in 2021. Hopes of a quick end to the Covid-19 pandemic through vaccination campaigns and the prospect of a major stimulus package in the USA led to price gains in many trading centres in the first half of the year. In the second half of the year, development was curtailed by several factors: In addition to new Covid 19 variants and vaccination programmes that fell well short of expectations, high inflation rates and ongoing global shortages of raw materials and supplies, especially in the semiconductor sector, had a negative impact. Nevertheless, important indices remained up for the year as a whole. This was also the case for Germany's leading index, the DAX, which gained almost 16%. The CDAX, reflecting the development of all German stocks in the Prime and General Standard sectors, gained around 14%.

## HERMLE SHARE PRICE DROPS

The Hermle share price initially fell in 2021 after reaching a new high of €310.00 on 6 January. It slowly recovered over the following months and had risen again by the middle of the year. In the second half of the year, the share value dropped dramatically due to the uncertain macroeconomic environment, although the outlook for Hermle improved noticeably as reported in the financial reports. The lowest price for 2021 was reached at €228.00 towards the end of November. This was followed by a slight increase. The closing price in 2021 was €243.00. Compared to the end of the previous year, this represented a decline of 17%.

## UNEXPECTED GOOD OPERATING RESULT

After a sluggish start to the year, Hermle's business activities picked up momentum. A record number of orders was achieved in the third quarter and throughout the second half of the year, and the supply chain disruptions were offset better than expected by internal measures. As a result, the Group operating result for 2021 increased by 37.6% to €74.6 million compared to the previous year, which was severely impacted by the Covid-19 pandemic, and the net income for the year increased by 36.9% to €54.9 million. The result per preference share rose from €8.06 to €11.02. The gross margin on turnover climbed to 19.5% (previous year 18.3%).

## INCREASED DISTRIBUTION OF €9.05 PER PREFERENCE SHARE PLANNED

The individual company Hermle AG increased its net income for 2021 by 34.8% to €51.1 million. The balance sheet profit jumped to €122.8 million (previous year €96.8 million). The Management Board and the Supervisory Board will propose at the shareholders' meeting on 6 July 2022 to distribute an unchanged basic dividend of €0.85 per preference share and €0.80 per ordinary, as well as an increased bonus from €4.20 to €8.20 per share. This results in a payout of €9.05 per preference share, which corresponds to a dividend yield of 3.7% measured against the 2021 year-end share price. The total amount distributed as dividend is €45.1 million (previous year €25.1 million).

The share capital of Maschinenfabrik Berthold Hermle AG is, without change, divided into 4 million ordinary shares and 1 million non-voting preference shares, however these have a dividend preference. The preference shares have been quoted on the stock exchange since 1990, and are traded on the regular market of the Stuttgart and Frankfurt am Main stock exchanges.

## CORPORATE GOVERNANCE AND TRANSPARENCY

Maschinenfabrik Berthold Hermle AG has always attached great importance to responsible corporate governance. It is our goal to sustainably secure the future and soundness of the Group and to harmonise the interests of shareholders, customers, employees, suppliers and other partners. To this end, we pursue our own corporate governance concept, which is appropriate for companies of our size and meets all legal standards. Further information on this is contained in our Corporate Governance Statement, which is available on our website at [www.hermle.de](http://www.hermle.de) in the Investor Relations / Mandatory Disclosures section. The declaration of compliance pursuant to Section 161 of the German Stock Corporation Act (AktG) can also be downloaded from the same location, and is additionally printed on page 88 of this annual report.

An important component of our responsible corporate governance is a transparent communication policy. Our shareholders, potential investors, the business press and financial market players are therefore informed on an equal footing and in a timely manner about the business performance and significant current issues. To this end, we publish an annual and a half-yearly report, interim reports on the first and third quarters as well as press releases and ad hoc announcements as required. These publications, as well as detailed background material about the company, our products and services, can be viewed or downloaded from our website at [www.hermle.de](http://www.hermle.de). As soon as the Covid-19 situation allows for normal face-to-face shareholders' meetings, our shareholders will once again have the opportunity of direct exchange and guided tours of the premises.

# FROM THE COMPANY: SUCCESS FACTOR VOCATIONAL TRAINING



Vocational training team of Hermle AG



Training marketing – in-house transport

Hermle has established itself as an attractive employer that takes responsibility and offers its employees interesting tasks and secure jobs. At the same time, like many companies in the machine tool industry and other sectors, the increasing shortage of skilled workers is one of the challenges we face. Our highly qualified and motivated employees are the main driving force for the success of our company. Most of them have acquired their extensive expertise at Hermle – for example as apprentices or as students of a cooperative university who complete their internship semesters with us. Finding committed and suitable junior staff and retaining them within the company is therefore one of our long-term goals. We are currently training around 100 young people in eight technical and commercial professions or are their industry partner in six technical degree programmes.

In 2021, we significantly expanded our apprentice recruitment activities in particular. Traditional measures, such as cooperating with schools and offering internships, were boosted with new and fresh ideas. The focus was on the digitalisation of information for career starters and the expansion of our social media reach. This allowed us to meet young people where they

prefer to communicate and collect information. We also expanded our commitment to female apprentices in technical professions and the promotion of success.

## New Hermle training marketing

It is essential to think outside the box if we want to continue to inspire career starters to train at Hermle in the future. In addition to traditional factors such as job security, interesting tasks, good remuneration and development opportunities, questions of work-life balance and social media are gaining in importance. We systematically analyse what young people expect from their working lives and what challenges the recruiting sector faces in the age of digitalisation, globalisation, sustainability and climate protection. This information is then used to develop the appropriate strategies and measures for our new training marketing. However, this is not a closed process. Flexibility appears to be the key to meeting the needs of future generations of apprentices.

## The Hermle career portal online

Today, the first place to look for information about a potential employer is usually the Internet. Our newly designed career portal [www.hermle.de/karriere](http://www.hermle.de/karriere) offers young people, in particular, interesting information about starting a career at Hermle. In addition to apprenticeships and study programmes or internship opportunities, we also present special training events and programmes for young women, for example. There are also web pages intended for teachers and parents.

## Digital life

To draw attention to Hermle as an employer, we are continuing to expand our social media reach. In addition to our YouTube channel and two Instagram accounts – one for the company ([www.instagram.com/hermle\\_ag/](http://www.instagram.com/hermle_ag/)) and one specifically for apprentices ([www.instagram.com/azubis\\_beim\\_hermle/](http://www.instagram.com/azubis_beim_hermle/)), Hermle is now also available on TikTok ([www.tiktok.com/@hermle\\_ag](http://www.tiktok.com/@hermle_ag)). With short video clips that achieve up to almost 400,000 clicks, we clearly demonstrate what our machining centres can do and also provide information about training and study opportunities at Hermle.

## Cooperation with schools and vocational training centres

Hermle has been working closely with schools and vocational training institutions in the region for many years. For initial orientation purposes, we offer guided tours of the company for children in grades 8 and 9, present our apprenticeship occupations and the company as part of a school lesson or participate in career information days at schools. In addition, we cooperate in project days, and even put together teaching materials if needed. We also support extracurricular projects: Since 2021, Hermle has been involved as the main sponsor of the project "Experimentierwelten Schule-Wirtschaft Rottweil", which lets young people and families, in particular, explore science and technology in a playful environment.

## Taster sessions

Under the motto "Einfach mal ausprobieren!" (Give it a go), schoolchildren can get a taste of a technical or commercial profession at Hermle and discover whether one of the training courses we offer appeals to them. They experience a day in the life of a Hermle trainee, see what prospects our company offers them, get to know the working world of Hermle and learn why others have chosen to work for us in the past.



VR technology with interactive presentation of professions



"EMMA" personal and professional support for girls



Hermle stand at a training fair





Hermle LOMO – Assembly Learning Location, practical training with real products

## Events: Getting to know Hermle personally

After the Covid-19-related restrictions of the last few years, there will probably be several face-to-face events in 2022 that introduce young people to apprenticeships at Hermle. At the Apprenticeship Workshop Open Day, we introduce young people, alone or accompanied by their parents, to the professions that they can learn at Hermle and inform them about what an apprenticeship entails, support programmes, their chances of being retained as a full-time employee and the benefits that Hermle employees receive. To increase the percentage of female trainees, we organise a Girls' Day. We invite girls from grade 5 onward to come and discover our technical professions. Hermle also takes part in trade fairs such as Ausbildungsbörse Tuttlingen. In addition to presenting our apprenticeships and study programmes, we also showcase current trainee projects and playfully test the technical knowledge of visitors in our Hermle Check-Out Area.

## Introductory week and additional training

You can learn more than just a profession at Hermle. New apprentices kick things off with an introductory week during which they gain an initial insight into the working world of Hermle and get to know their fellow apprentices, colleagues and supervisors personally during joint training sessions and team building exercises. During their vocational training, they have the chance to take part in additional courses, for example on road safety or IT issues, which promote both their professional and personal development.

## Special support programmes for girls

The majority of jobs at Hermle are technical at heart. Traditionally, women have been under-represented in these fields. We want to change this and therefore organise regular events especially for girls. In 2021, we launched EMMA, a support programme for female apprentices. EMMA stands for Electronics, Mechatronics, Mechanics and Automation, all key areas of our technical apprenticeship courses. The aim of this project is to encourage young women who are interested in technology to take advantage of the opportunities and prospects in this field by completing an apprenticeship at Hermle.

EMMA participants receive personal and professional support throughout the duration of their training and are supervised by a technical mentor from within our company. We organise seminars and workshops that are tailored to the needs of young women and ensure that they are not the only female trainee in a team. We also want to ensure that women feel comfortable at Hermle through technology projects that have social and ecological aspects at their core and the provision of special work clothes.

## Learning with responsibility

Our junior staff learn to take responsibility at an early stage: for instance at the Assembly Learning Location (LOMO), where they get the chance to assemble Hermle machining centres during their vocational training. Or on educational trips with sales experts, which allow them to come into direct contact with our customers.

## Real-life projects

Our apprentices and students learn to work independently and show initiative from the start. They are involved in exciting projects that integrate a wide variety of tasks in teamwork. In recent years, for example, our apprentices not only designed and manufactured a vehicle for the training workshop or an air hockey table, but also equipped a mountain rescue vehicle with a new siren system. Further, extremely useful products such as a disinfectant dispenser and a test kit holder were created during the Covid-19 pandemic.

## Participation

We believe it is important to know what our trainees think: Opinion surveys give them a say and allow them to comment on positive and negative experiences within the company. In addition, a youth and apprentice representation, JAV for short, which is made up of three apprentices, represents the needs and interests of our youngest employees. It monitors agreements, for example, and has a close exchange with our works council.

## Digital training

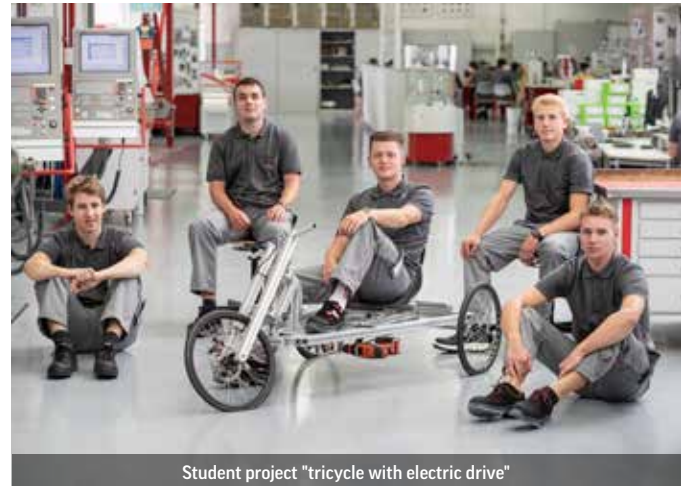
All apprentices and students have access to our digital training management, which we use to simplify important training processes for better learning and work experiences. It is where they can exchange ideas, share knowledge, pass on know-how, file documents and much more.

## High retention rate

After successfully completing their training, we usually offer the young people a full-time job: Our retention rate is almost 100%. But learning does not stop there. We enable all employees to continuously develop in lots of various areas.

## Future prospects: Promoting success

In recognition of good performance and to encourage commitment, Hermle apprentices aged 18 to 22 with good grades, i.e. up to an average grade of at least 1.5, are entitled to further promotion. For example, we provide professional or personal development training on a topic of their choice. We also support those interested in completing part-time further training to become a technician or master craftsman in the selection process and through a one-off financial gift. And anyone who would like to complete a study programme with us directly after finishing their vocational training will also receive competent advice and a generous study allowance. In addition, the best apprentice of each year group is rewarded with an educational trip to partner companies.



Student project "tricycle with electric drive"



Our apprentices



Girls do technology at "Girls' Day"



# CONSOLIDATED FINANCIAL STATEMENTS





Hermle C 42 U MT dynamic in 5-axis mill/turn version |  
Machining of a engine casing for the aerospace industry.

# CONSOLIDATED BALANCE SHEET

## ASSETS

€k	Appendix	31.12.2021	31.12.2020
<b>A. Non-current assets</b>			
I. Intangible assets	(7)		
1. Goodwill		6,096	6,096
2. Capitalised development expenditure		194	417
3. Other intangible assets		4,007	4,710
		10,297	11,223
II. Property, plant and equipment	(7)		
1. Land, leasehold rights and buildings, including the buildings on non-owned land		53,376	54,576
2. Technical plants and machinery		15,194	14,906
3. Other plants, fixtures and fittings		11,891	12,990
4. Advances paid		654	1,503
		81,115	83,975
III. Other financial assets	(11)	1,005	3,005
IV. Other non-current assets	(8)	3	7
V. Deferred tax assets	(24)	3,534	2,767
		<b>95,954</b>	<b>100,977</b>
<b>B. Current assets</b>			
I. Inventories	(9)		
1. Raw, process and operating materials		43,856	37,033
2. Unfinished products		20,538	14,158
3. Finished products and goods		16,925	15,133
4. Advances paid		1,359	668
		82,678	66,992
II. Trade accounts receivables	(10)	81,191	43,235
III. Other current receivables	(10)	34,758	21,970
IV. Securities and other assets	(11)	11,000	9,000
V. Liquid assets	(12)	109,452	104,860
		<b>319,079</b>	<b>246,057</b>
		<b>415,033</b>	<b>347,034</b>

**LIABILITIES**

€k	Appendix	31.12.2021	31.12.2020
<b>A. Equity</b>	(13)		
I. Equity of the shareholders		305,199	274,429
of Hermle AG II. Interests of other shareholders	(14)	11	12
		<b>305,210</b>	<b>274,441</b>
<b>B. Non-current liabilities and provisions</b>			
I. Non-current financial liabilities	(16)	322	715
II. Non-current provisions	(15)	1,894	1,754
III. Deferred tax liabilities	(24)	1,327	1,598
		<b>3,543</b>	<b>4,067</b>
<b>C. Current liabilities and provisions</b>			
I. Tax provisions	(15)	275	665
II. Current provisions	(15)	43,822	35,946
III. Current trade accounts payable	(16)	6,519	6,038
IV. Other current liabilities	(16)	55,664	25,877
		<b>106,280</b>	<b>68,526</b>
		<b>415,033</b>	<b>347,034</b>

# GROUP INCOME STATEMENT

## INCOME STATEMENT

€k	Appendix	2021	2020
1. Sales revenues	(17)	375,977	296,942
2. Inventory change of finished and unfinished products		7,533	-6,263
3. Other company-produced assets		1,238	1,183
<b>4. Total operating performance</b>		<b>384,748</b>	<b>291,862</b>
5. Other operating income	(18)	9,637	11,570
6. Material cost	(19)	163,740	115,880
7. Personnel costs	(20)	104,004	88,887
8. Depreciation of intangible fixed assets and depreciation of tangible fixed assets	(21)	11,284	10,409
9. Other operating costs	(22)	40,756	34,079
<b>10. Operating result</b>		<b>74,601</b>	<b>54,177</b>
11. Other financial result	(23)		
a) Other interest and similar income		93	317
b) Interest and similar expenses		298	196
		-205	121
<b>12. Result before taxes</b>		<b>74,396</b>	<b>54,298</b>
13. Taxes on income	(24)	19,486	14,220
<b>14. Net income</b>		<b>54,910</b>	<b>40,078</b>
15. Profit shares of other shareholders		-3	-1
<b>16. Group after-tax net income</b>		<b>54,907</b>	<b>40,077</b>

**OVERALL INCOME STATEMENT**

€k	Appendix	2021	2020
Transfer net income		54,910	40,078
<b>Other overall income</b>			
Items that may subsequently be reclassified to the income statement			
Currency differences		1,795	-1,411
Change from derivative financial instruments		-1,207	575
Income taxes on other overall income			
- Taxes on change in derivative financial instruments		320	-152
<b>Other result</b>		908	-988
<b>Overall result</b>		<b>55,818</b>	<b>39,090</b>
Attribution of the annual result			
Profit share of other shareholders		3	1
Profit share of the shareholders of Hermle AG		54,907	40,077
		54,910	40,078
Attribution of the overall result			
Profit share of other shareholders		2	1
Profit share of the shareholders of Hermle AG		55,816	39,089
		55,818	39,090
Result for each share (diluted and undiluted) in €	(25)		
Ordinary share		10.97	8.01
Preference share, incl. dividend preference		11.02	8.06
Number of shares used as a basis		5,000,000	5,000,000

# GROUP CASH FLOW STATEMENT

€k	Appendix	2021	2020
<b>Net income</b>		54,910	40,078
+/- Depreciation/appreciation of fixed assets		11,284	10,409
+/- Increase/decrease in non-current provisions		140	-14
<b>Cash flow before change in working capital</b>		66,334	50,473
- Elimination of supplementary tax from retirement of fixed assets		-252	-179
-/+ Increase/decrease from inventories		-15,685	6,929
-/+ Increase/decrease from trade accounts receivables		-37,957	20,989
-/+ Increase/decrease in other current receivables		-12,788	-8,914
-/+ Increase/decrease in deferred tax assets and other non-current assets		-763	464
+/- Increase/decrease in current trade accounts payable		481	-2,556
+/- Increase/decrease in current provisions		7,487	-10,578
+/- Increase/decrease in other current liabilities		29,798	-13,752
+/- Increase/decrease in deferred tax liabilities		-327	-43
+/- Increase/decrease in non-current financial liabilities		57	360
<b>Cash flow from operating activities</b>	(26)	36,385	43,193
- Disbursements for investments in intangible assets		-340	-797
+ Proceeds from retirements of property, plant and equipment		860	939
- Disbursements for investments in property, plant and equipment		-7,295	-20,764
- Disbursements for securities and other investments		-12,000	-9,000
+ Proceeds from the sale of outside marketable securities and other assets		12,000	10,000
<b>Cash flow from investment</b>	(26)	-6,775	-19,622
Transfer		29,610	23,571

€k	Appendix	2021	2020
Transfer		29,610	23,571
- Payment of dividends		-25,050	-25,053
- Other non-current liabilities		0	-206
- Repayment of lease liabilities		-405	-360
<b>Cash flow from financing activities</b>	(26)	-25,455	-25,619
+/- Changes in the fund of cash and cash equivalents due to exchange rate fluctuations		1,324	-1,047
+/- Changes from offsetting without directly affecting the operating result		-887	423
+ Other changes		0	-8
<b>Changes in the fund of cash and cash equivalents with an effect on payments</b>	(26)	4,592	-2,680
Financial funds as per 01.01.		104,860	107,540
<b>Financial funds as per 31.12.</b>		109,452	104,860
<b>Fund of cash and cash equivalents</b>			
Current bank liabilities		0	0
Liquid assets		109,452	104,860
		109,452	104,860

# GROUP EQUITY STATEMENT

## Equity of the parent company

€k	Subscribed capital Ordinary shares	Subscribed capital Preference shares	Capital reserve	Statutory reserves	Other revenue reserves
As per 01.01.2020	12,000	3,000	3,286	1,815	103,538
Dividend for the previous year as per shareholders' meeting resolution	0	0	0	0	0
Net income 2020	0	0	0	0	0
Currency loss	0	0	0	0	0
Cash flow hedges	0	0	0	0	0
Unclaimed dividend	0	0	0	0	0
Change in profit carried forward	0	0	0	0	784
Other changes	0	0	0	0	0
As per 31.12.2020	12,000	3,000	3,286	1,815	104,322
Dividend for the previous year as per shareholders' meeting resolution	0	0	0	0	0
Net income 2021	0	0	0	0	0
Currency loss	0	0	0	0	0
Cash flow hedges	0	0	0	0	0
Unclaimed dividend	0	0	0	0	0
Change in profit carried forward	0	0	0	0	215
<b>ASper 31.12.2021</b>	<b>12,000</b>	<b>3,000</b>	<b>3,286</b>	<b>1,815</b>	<b>104,537</b>



Equity of the parent company					Interests of other shareholders		Group equity
Group balance sheet profit	Total revenue reserves	Cumulated other equity from currency conversion	Cumulated other equity from derivative financial instruments	Total	in capital	in cumulated Group profit	Total
135,002	240,355	1,698	50	260,389	1	14	260,404
-25,050	-25,050	0	0	-25,050	0	-3	-25,053
40,077	40,077	0	0	40,077	0	1	40,078
-16	-16	-1,387	0	-1,403	0	-1	-1,404
0	0	0	423	423	0	0	423
1	1	0	0	1	0	0	1
-784	0	0	0	0	0	0	0
0	0	-8	0	-8	0	0	-8
149,230	255,367	303	473	274,429	1	11	274,441
-25,050	-25,050	0	0	-25,050	0	0	-25,050
54,907	54,907	0	0	54,907	0	3	54,910
15	15	1,785	0	1,800	0	-4	1,796
0	0	0	-887	-887	0	0	-887
0	0	0	0	0	0	0	0
-215	0	0	0	0	0	0	0
178,887	285,239	2,088	-414	305,199	1	10	305,210

# DEVELOPMENT OF THE GROUP FIXED ASSETS 2021

€k	Acquisition/manufacturing costs					As of 31.12.2021
	As of 01.01.2021	Additions	Repostings	Retirements	Currency adjustment	
<b>I. Intangible assets</b>						
1. Goodwill	6,096	0	0	0	0	6,096
2. Capitalised development expenditure	3,061	0	0	0	0	3,061
3. Other intangible assets	13,004	340	0	51	3	13,296
	22,161	340	0	51	3	22,453
<b>II. Property, plant and equipment</b>						
1. Land, leasehold rights and buildings, including the buildings on non-owned land	85,438	1,448	124	487	423	86,946
2. Technical plants and machinery	53,545	2,347	1,264	942	127	56,341
3. Other plants, fixtures and fittings	37,756	2,935	20	1,969	232	38,974
4. Advances paid	1,503	564	-1,408	5	0	654
	178,242	7,294	0	3,403	782	182,915
<b>III. Other financial assets</b>	3,005	1,000	0	3,000	0	1,005
	203,408	8,634	0	6,454	785	206,373

	Cumulated depreciation				Book values		
	As of 01.01.2021	Additions	Retirements	Currency adjustment	As of 31.12.2021	As of 31.12.2021	As of 31.12.2020
	0	0	0	0	0	6,096	6,096
	2,644	223	0	0	2,867	194	417
	8,294	1,042	49	2	9,289	4,007	4,710
	10,938	1,265	49	2	12,156	10,297	11,223
	30,862	2,660	29	77	33,570	53,376	54,576
	38,639	3,264	835	79	41,147	15,194	14,906
	24,766	4,095	1,933	155	27,083	11,891	12,990
	0	0	0	0	0	654	1,503
	94,267	10,019	2,797	311	101,800	81,115	83,975
	0	0	0	0	0	1,005	3,005
	105,205	11,284	2,846	313	113,956	92,417	98,203

# DEVELOPMENT OF THE GROUP FIXED ASSETS 2020

€k	Acquisition/manufacturing costs					As of 31.12.2020
	As of 01.01.2020	Additions	Repostings	Retirements	Currency adjustment	
<b>I. Intangible assets</b>						
1. Goodwill	6,096	0	0	0	0	6,096
2. Capitalised development expenditure	2,656	493	0	88	0	3,061
3. Other intangible assets	12,764	304	0	64	0	13,004
	21,516	797	0	152	0	22,161
<b>II. Property, plant and equipment</b>						
1. Land, leasehold rights and buildings, including the buildings on non-owned land	70,347	12,286	3,003	36	-162	85,438
2. Technical plants and machinery	51,333	3,839	85	1,615	-97	53,545
3. Other plants, fixtures and fittings	35,246	4,269	288	1,899	-148	37,756
4. Advances paid	5,147	370	-3,376	461	-177	1,503
	162,073	20,764	0	4,011	-584	178,242
<b>III. Other financial assets</b>	3,005	0	0	0	0	3,005
	186,594	21,561	0	4,163	-584	203,408

	Cumulated depreciation				Book values		
	As of 01.01.2020	Additions	Retirements	Currency adjustment	As of 31.12.2020	As of 31.12.2020	As of 31.12.2019
	0	0	0	0	0	6,096	6,096
	2,573	158	87	0	2,644	417	83
	7,278	1,080	64	0	8,294	4,710	5,486
	9,851	1,238	151	0	10,938	11,223	11,665
	28,984	1,965	36	-51	30,862	54,576	41,363
	37,231	3,032	1,550	-74	38,639	14,906	14,102
	22,361	4,174	1,664	-105	24,766	12,990	12,885
	0	0	0	0	0	1,503	5,147
	88,576	9,171	3,250	-230	94,267	83,975	73,497
	0	0	0	0	0	3,005	3,005
	98,427	10,409	3,401	-230	105,205	98,203	88,167

# GROUP SEGMENT REPORTING

€k	Domestic companies		Foreign sales companies		Consolidation effects		Consolidated financial statements	
	2021	2020	2021	2020	2021	2020	2021	2020
Turnover with third parties	208,699	175,979	167,278	120,963	0	0	375,977	296,942
Operating result	69,680	47,712	5,326	6,937	-405	-472	74,601	54,177
Income tax	-18,490	-12,940	-1,231	-1,519	236	239	-19,486	-14,220
Net income	53,078	37,301	3,994	5,726	-2,162	-2,949	54,910	40,078
Non-current segment assets	86,774	92,292	9,180	8,685	0	0	95,954	100,977
Current segment assets	245,014	191,538	98,718	61,777	-24,653	-7,258	319,079	246,057
Segment assets (sum of assets)	331,788	283,830	107,898	70,462	-24,653	-7,258	415,033	347,034
Segment debts incl. provisions	74,776	53,912	57,758	24,306	-22,711	-5,625	109,823	72,593
Investments (incl. additions in rights of use)	6,437	19,142	1,193	2,419	0	0	7,630	21,561
Depreciation	9,647	8,961	1,637	1,448	0	0	11,284	10,409
Employees annual average	1,151	1,156	156	154	0	0	1,307	1,310

# GROUP NOTES TO THE FINANCIAL STATEMENTS

## (1) GENERAL PRINCIPLES

Maschinenfabrik Berthold Hermle AG, which has its headquarters in Gosheim, Industriestrasse 8-12, Germany, and is entered in the Stuttgart Local Court ("Amtsgericht") commercial register under HRB 460397, is the primary controlling company of the Hermle Group. Maschinenfabrik Berthold Hermle AG and its subsidiaries manufacture and sell high-end precision milling machines and machining centres.

The consolidated financial statements of Maschinenfabrik Berthold Hermle AG were prepared in accordance with the International Financial Reporting Standards (IFRS), as applicable in the European Union (EU), and in compliance with the commercial requirements pursuant to Section 315e of the German Commercial Code (HGB). In that respect, all applicable standards, concepts and interpretations that were mandatory on the reporting date were taken into account.

The statements of the companies incorporated in the consolidated financial statements are prepared pursuant to standardised accounting and valuation principles applicable on the reporting date 31 December 2021.

To improve the clarity of the presentation, some items of the Group balance sheet and Group income statement are summarised. These are stated separately and explained in the Group notes to the financial statements. The Group income statement was prepared pursuant to the total cost type of accounting. The Group currency is the euro. Unless otherwise stated, the figures are presented in thousands of Euro, with the standard commercial rounding up or down.

The Management Board of Maschinenfabrik Berthold Hermle AG released the consolidated financial statements on 7 March 2022 for forwarding to the Supervisory Board. The Supervisory Board's responsibility is to review the consolidated financial statements and state whether or not it approves them.

## (2) NEW AND AMENDED STANDARDS/INTERPRETATIONS

The IFRS standards were taken as a basis for the 2021 business year. Their application is mandatory for business years that commence on January 1, 2021.

The following standards and interpretations were mandatory for the first time in the current business year:

Amend. IFRS 4: Extension of the temporary exemption from IFRS  
Amend. IFRS 9, IAS 39, Reform of the reference interest rates (phase II)  
IFRS 4, 7, 16

The application of these new standards and interpretations did not have any significant impact on the consolidated financial statements.

The following new standards and interpretations that have already been adopted by the European Union are not mandatory until 1 January 2022 or later:

Amend. IFRS 3: References to the conceptual framework in the IFRS standards  
Amend. IAS 37: Onerous contracts – cost of fulfilling a contract  
Amend. IAS 16: Property, plant and equipment – revenue before intended use  
Amend. IAS 1: Presentation of annual financial statements and disclosure of the accounting principles  
Amend. IAS 8: Change in the definition of accounting estimates  
IFRS 17: Insurance contracts

Furthermore, the following new or amended standards and interpretations exist which were issued by IASB, but have yet to be recognised by the European Union.

Amend. IAS 1:	Change in the classification of liabilities as current or non-current
Amend. IAS 12:	Change in deferred taxes relating to assets and liabilities arising from a single transaction
Amend. IFRS 17:	Comparative information

Based on current knowledge, it is not to be expected that these standards will have significant effects on the consolidated financial statement. No use was made of the option to apply already adopted standards early.

### (3) GROUP OF CONSOLIDATED COMPANIES

All subsidiaries of Maschinenfabrik Berthold Hermle AG are incorporated in the consolidated financial statements. All subsidiaries are companies that are directly controlled by Maschinenfabrik Berthold Hermle AG according to IFRS 10 and are thus consolidated in full.

The group of consolidated companies is shown in the following table:

Company	Type of consolidation	Amount of holding
<b>Domestic segment</b>		
Hermle Vertriebs GmbH, Gosheim	Full	100.0%
Hermle Systemtechnik GmbH, Gosheim	Full	100.0%
Hermle Maschinenbau GmbH, Gosheim	Full	100.0%
<b>Foreign sales segment</b>		
Hermle (Schweiz) AG, Neuhausen, Switzerland	Full	100.0%
Hermle WWE AG, Neuhausen, Switzerland	Full	99.8%
Hermle Vostok OOO, Moskau, Russia	Full	99.8%
Hermle Nederland BV, Horst, Netherlands	Full	100.0%
Hermle Italia S.R.L., Rodano, Italy	Full	100.0%
Hermle USA INC., Franklin Wisconsin, USA	Full	100.0%
Hermle Properties INC., Franklin Wisconsin, USA	Full	100.0%
Hermle Ulyanovsk OOO, Ulyanovsk, Russia	Full	100.0%
Hermle Mexiko S. DE R.L. DE C.V., Querétaro, Mexiko	Full	100.0%
Hermle SEA Co., Ltd., Bangkok, Thailand	Full	100.0%

The group of consolidated companies remained unchanged from the previous year.



#### (4) CONSOLIDATION PRINCIPLES

The capital consolidation applies pursuant to IFRS 3 ("Business Combinations") using the purchase method. Accordingly, the acquisition costs of the purchased shares are offset at the market value of the purchased assets and debts of the subsidiary at the time of acquisition. A resulting positive difference is capitalised as derivative goodwill, a resulting negative difference is immediately liquidated affecting the current result. Resulting goodwill normally undergoes an impairment test at least annually.

Interim results between the fully consolidated companies are eliminated – where significant. Expenses and income as well as receivables and liabilities between Group companies are offset.

A compensating item for interests of other shareholders has been created in the sum of their share of the equity for the interests of non-Group shareholders in the Group companies. In addition to third party holdings in capital and provisions, this amount includes the pro rata balance sheet profit.

#### (5) CURRENCY CONVERSION

The annual financial statements of consolidated companies prepared in foreign currencies were converted on the basis of the concept of the functional currency using the modified reporting date rate method. In view of the fact that all companies incorporated in the consolidated financial statements operate their business transactions independently in terms of finances, management and organisation, as a general rule the functional currency is identical to the respective national currency of the company. Therefore, the assets and debts are converted in the consolidated financial statements at the reporting date rate, equity items at historical rates, and expenses and income at the annual average rate. Conversion differences resulting from converting the statement are recorded in equity without an effect on the operating result up until the subsidiary leaves the Group.

As a general rule, monetary items in foreign currencies are converted in the statements of the individual Group companies at the reporting date rate. Currency gains or losses as a result are directly recorded as having an effect on the operating result. As a general rule, currency conversion differences from the conversion of balance sheet items of foreign operating facilities are recorded with an effect on the operating result.

The following exchange rates were used for converting the key foreign currency contracts:

	Exchange rate on the reporting date 31.12.2021	Exchange rate on the reporting date 31.12.2020	Average prices 2021	Average prices 2020
EUR/USD	1.1326	1.2271	1.1816	1.1470
EUR/CHF	1.0331	1.0802	1.0799	1.0709

#### (6) ACCOUNTING AND VALUATION PRINCIPLES

The financial statements of Hermle AG and the domestic and international subsidiaries are prepared in accordance with IFRS 10.19 using uniform accounting and valuation principles.

#### ASSET ITEMS

##### INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

Intangible assets are stated at acquisition costs in accordance with IAS 38, reduced by scheduled straight-line depreciation over the expected economic useful life periods. The cost of intangible assets acquired in a business combination is the market value at the date of the business combination.

Intangible assets with indefinite useful life periods – including goodwill – are capitalised and tested for impairment at least annually in accordance with IAS 36. If a need for value adjustment is identified, a depreciation is made.

Even the company's own intangible assets that are highly likely to provide future benefit for the company, and the cost of which can be reliably determined, are capitalised in the manufacturing costs. In that respect, the manufacturing costs record all costs that are directly attributable to the manufacturing process and reasonable parts of the associated overheads. Financing costs are not capitalised. As a general rule, research and development expenses that are not eligible for capitalisation are treated as ongoing costs when they arise. The development cost of new or significantly improved products are capitalized provided the technical implementation capability and the marketing eligibility and intent are secured. Proof of the stated criteria is furnished via the technical trials of the new products at the company and the successful presentation to trial customers. Capitalised developments are depreciated via the straight-line method for an expected product life cycle of three to four years, starting with the public presentation, and their soundness is reviewed annually by means of an impairment test.

The property, plant and equipment item is stated on the basis of the acquisition and manufacturing costs less scheduled depreciation in line with the customary company life cycle. Scheduled depreciation applies in line with the expected consumption of the future use. The company-produced assets were stated in the balance sheet with the directly attributable costs plus pro rata overheads. Repair and maintenance costs as well as financing expenses are recorded as current expenses.

The scheduled depreciation is based on the following standardised Group useful life periods:

Industrial property rights and similar rights	3 to 5 years
Development costs	3 to 4 years
Technical know-how	10 years
Building	12 to 50 years
Technical plants and operating equipment	3 to 14 years
Other fixtures and fittings	3 to 14 years

There are no assets with indefinite useful live periods other than goodwill.

## LEASING

Maschinenfabrik Berthold Hermle AG assesses at the beginning of the contract whether a contract establishes or contains a leasing relationship. A lease exists if the contract gives the right to control the use of an identified asset for a certain period of time in return for payment of a consideration within the meaning of IFRS 16. The Group operates exclusively as a lessee and not as a lessor. At the inception of the lease, rights to use the leased assets and lease liabilities for the payment obligations incurred are recognised for all leases.

In accordance with the option, short-term leases with a term of no more than twelve months (and without a purchase option) and leases where the asset underlying the lease is of low value within the meaning of IFRS 16 have not been recognised. The related lease payments continue to be recognised as an expense in the consolidated income statement. Non-lease and lease components are generally accounted for separately.

The initial recognition of the lease liability is determined as the cash value of the lease payments to be made over the term of the lease. The lease payments exclusively comprise fixed lease payments. In calculating the cash value of the lease liability, the Group uses its incremental borrowing rate at the commitment date, as the interest rate underlying the lease cannot be readily determined. The lease liability is subsequently increased to reflect the higher interest expenditure and reduced by the lease payments made. In addition, the book value of the lease liability is reassessed for changes in the lease, the term of the lease, the lease payments (e.g. as a result of a change in the index or interest rate used to determine those payments) or a change in the assessment of a purchase option on the underlying asset.

## IMPAIRMENT TEST

The soundness of the fixed assets is regularly reviewed on the reporting date. A review also takes place when circumstances indicate that the value may be impaired. Non-scheduled depreciation is applied if a likely permanent drop in value is given as a result of changed circumstances. The soundness is determined by way of a comparison of the book value of the respective asset with the achievable amount. The achievable amount corresponds with the higher value from the use or the sale of the affected asset. Non-scheduled depreciation is applied insofar as this has fallen below the book value. If the market value increases for an asset that had to date been depreciated on a non-scheduled basis, an increased valuation is applicable up to the amount of the amortised cost. Goodwill is excluded from the increased valuation.

Goodwill is also subjected to an impairment test annually or if there are indications of impairment. The goodwill plus the allocated pro rata book value is compared with the higher value of the value in use and the fair value minus costs to sell derived from the discounted free cash flow of the cash-generating units to which the goodwill was allocated. The calculation uses cash flow forecasts based on a five-year planning period. To extrapolate the cash flow forecast for periods outside the detailed planning period, a growth rate of 1% is assumed, which corresponds to the expected long-term growth rate in the mechanical engineering industry. The calculation method corresponds to level 3 of the valuation hierarchy according to IFRS 13.

### Discount rates

The discount rates represent the current market assessments with regard to the risks assigned to the respective cash-generating units. The interest effect and the specific risks of the assets are taken into account. The discount rate takes into account the risks of the Group and its segments and companies that would arise for a comparable investment on the capital market and is based on the weighted average cost of capital (WACC). A uniform discount rate of 5.99% (previous year 5.96%) after tax was used to calculate the fair value against the background of increased economic uncertainties due to the Covid-19 pandemic.

The annual impairment test did not identify any need for depreciation.

### Sensitivity of the assumptions made

Scenario analyses with differing assumptions were prepared as part of the impairment test. An interest rate increase of 100 basis points or an EBIT margin deterioration of up to 2% would not have resulted in a need for depreciation on the book value.

## FINANCIAL ASSETS

Other financial assets generally include financial assets in the form of time assets or comparable financial assets with a term of more than one year, which are stated at amortised cost.

## OTHER NON-CURRENT ASSETS

Other non-current assets mainly include claims from reinsurance policies, which are stated at amortised cost. Depreciation is recorded with an effect on the operating result where necessary in accordance with IFRS 9.

## INVENTORIES

As a general rule, raw materials and merchandise are stated at average acquisition cost or the lower net sale value. Unfinished and finished goods are stated at manufacturing costs or the lower net sale value. In addition to the directly attributable costs, manufacturing costs contain the reasonable and necessary production and material overheads as well as applicable administrative costs eligible for capitalisation based on normal utilisation. Adequate depreciation is applied to the lower net sale value for stocks warehoused for lengthy periods and in the case of diminished marketability or loss-free valuation. This becomes inapplicable once the reasons for depreciation no longer apply. Interest on borrowings is not taken into account.

## TRADE ACCOUNTS RECEIVABLES AND OTHER CURRENT RECEIVABLES

Trade accounts receivables and other current receivables are stated in the balance sheet at the nominal value or the lower fair value. Potential and identifiable defaults in the case of individual receivables are taken into account by way of appropriate value adjustments for losses on individual bank loan accounts.

The determination of value adjustments for doubtful debts is based on discretionary decisions and assessments of individual receivables, taking into account not only the creditworthiness and default of the respective customer, but also current economic developments, current business developments, country-specific circumstances, past experience, etc. Non-interest bearing or low-interest bearing receivables and assets with terms in excess of one year are stated at the cash value.

## FINANCIAL INSTRUMENTS

Financial instruments within the meaning of IFRS 9 are contracts that in the case of a company lead to a financial asset and in the case of the contracting party a financial obligation or an equity capital instrument.

Financial assets include in particular trade accounts receivables, cash and cash equivalents, derivative financial assets as well as marketable securities and similar cash investments and financial investments.

Financial assets, with the exception of trade accounts receivables, and liabilities are recognised for the first time on the trading date when Hermle becomes a contracting party under the contracts for the financial instruments. Trade accounts receivables are recognised from the date on which they arose.

Financial assets, with the exception of trade accounts receivables without a significant financing component or financial liabilities, are stated at fair value on initial recognition. For items not stated at the fair value with an effect on the operating result in the following, transaction costs directly attributable to the acquisition or issue are recognised as incidental acquisition costs. Trade accounts receivables without a significant financing component are initially stated at transaction price (which generally corresponds to acquisition cost). Subsequent measurement is based on the classification of the financial instruments.

The classification of financial instruments is based on the business model in which the instruments are held and the composition of the contractual cash flows. The business model is determined at the portfolio level and is based on the management's intention and past transaction patterns. The cash flow review is carried out on an instrument-by-instrument basis.

Financial assets are classified into the following three categories according to IFRS 9:

1. Financial assets that are stated at amortised cost,
2. Financial assets stated at the fair value without an effect on the operating result
3. Financial assets stated at the fair value with an effect on the operating result.

## FINANCIAL ASSETS THAT ARE STATED AT AMORTISED COST

Financial assets that are stated at amortised cost are non-derivative financial assets with contractual payments that consist solely of interest and principal payments on the nominal amount outstanding and are held for the purpose of collecting the contractual cash flows, such as trade accounts receivables or cash and cash equivalents ("hold to collect" business model).

Cash and cash equivalents may include, in particular, cash on hand, cheques, demand deposits with banks as well as bonds and certificates of deposit with a remaining term at the time of acquisition of up to three months, which are only subject to insignificant risks of value fluctuations. Cash and cash equivalents match the fund of cash and cash equivalents in the consolidated cash flow statement.

After initial recognition, these financial assets are stated at amortised cost using the effective interest method minus impairment. Gains and losses are recorded in the Group profit with an effect on the operating result when the loans and receivables are impaired or derecognised.

The interest effects from the application of the effective interest method and effects from currency conversion are also recorded with an effect on the operating result.

## FINANCIAL ASSETS STATED AT THE FAIR VALUE WITHOUT AN EFFECT ON THE OPERATING RESULT

Financial assets stated at the fair value without an effect on the operating result are non-derivative financial assets with contractual payments that consist solely of interest and principal payments on the nominal amount outstanding and are held for the purpose of collecting the contractual cash flows, as well as sales, for example in order to achieve a defined liquidity target ("hold to collect and sell" business model). This category also includes equity instruments that are not held for trading and for which the option to recognise changes in fair value in other comprehensive income was exercised.

After initial measurement, financial assets in this category are stated at fair value through other comprehensive income, with unrealised gains or losses recognised in other comprehensive income. On disposal of debt instruments in this category, the cumulative fair value gains and losses recognised in other comprehensive income are recorded with an effect on the operating result. Interest received from financial assets that are stated at fair value through other comprehensive income is generally recorded with an effect on the operating result as interest income using the effective interest method. Changes in the fair value of equity instruments that are stated at fair value through other comprehensive income are not recorded with an effect on the operating result, but are transferred to the revenue reserve. Dividends are recorded with an effect on the operating result when the right to receive payment is established.

## FINANCIAL ASSETS STATED AT THE FAIR VALUE WITH AN EFFECT ON THE OPERATING RESULT

Financial assets stated at the fair value with an effect on the operating result comprise financial assets whose cash flows do not exclusively consist of interest and principal payments on the outstanding nominal amount. In addition, financial assets are also included that were neither allocated to the business model "hold to collect" nor to the business model "hold to collect and sell".

Also included here are shares or interest bearing securities acquired with the intention of selling them in the short term. Gains or losses on these financial assets are recorded with an effect on the operating result.

## DERIVATIVE FINANCIAL INSTRUMENTS

Hermle uses financial instruments to safeguard existing or planned basic operating transactions and appertaining risks. At present, forward exchange transactions are largely used to safeguard foreign currency risks. Derivative financial instruments and forward exchange transactions are initially recognised by Hermle AG at the fair value. The market values are also relevant to the follow-up valuation. Derivative financial instruments with a positive fair value are stated in the other current receivables, while those with a negative fair value are stated in the other current liabilities. As part of the hedge accounting, value changes of fair value hedges used to safeguard value fluctuations of balance sheet items are, as in the case of value fluctuations of basic transactions stated in the balance sheet, recorded with an effect on profits in the income statement. Value changes of cash flow hedges are offset against the cumulated other equity by way of eliminating the ineffective part and with consideration given to deferred taxes without affecting the profit.

## DEPRECIATION

In principle, the expected credit loss model is to be applied according to the 12-month credit loss concept. Evaluation over the entire term is to be applied if the credit risk of a financial asset on the reporting date has increased significantly since initial recognition. Evaluation over the entire term is always to be carried out for trade accounts receivables and for contractual assets without a significant financing component.

The depreciation model is applicable to financial assets stated at amortised cost or at fair value with no effect on profit and loss.

Depreciation in the form of specific individual value adjustments take adequate account of the expected default risks. Specific defaults lead to the write-off of the receivable in question. As part of determining the individual value adjustments, receivables for which there is a potential need for devaluation are examined for impairment and value adjustments are made if necessary. The determination is based on assessments and evaluations of individual receivables. In addition to the creditworthiness and payment default of the respective customer, current and possible future economic and industry developments, country-specific risks and past experience are also taken into account.

Cash and cash equivalents are deposited with banks and financial institutions with good to very good credit ratings. The value adjustments on cash and cash equivalents are calculated on the basis of expected losses within twelve months. This is reflected in the short terms.

## LIABILITY ITEMS

### PROVISIONS AND LIABILITIES

The tax provisions and other provision take into account all legal and factual obligations and risks involving third parties that are identifiable on the reporting date that are based on past business transactions or past events and which in the future are likely to lead to an outflow of resources, and can be reliably assessed. They are created in the sum of their likely performance amount, and are not offset against potential recourse claims. Non-current provisions are stated in the balance sheet at the discounted performance amount on the reporting date provided the interest effect created from the discounting is significant.

As a general rule, financial liabilities are entered on the liabilities side at the fair value.

Trade accounts payable and other primary financial liabilities are stated at amortised cost.

## DEFERRED TAXES

Deferred taxes are stated for all temporary differences between the amounts stated in the IFRS balance sheet and the tax balance sheet of the individual companies and for consolidation measures that have an effect on profits. Furthermore, deferred tax assets for tax reductions claims based on tax losses carried forward are also stated in the balance sheet provided the future realizability is adequately safeguarded. The tax rates used to calculate the deferred taxes are in each case the tax rates valid or expected at the realisation time.

## INCOME STATEMENT

### SALES REVENUES

Pursuant to IFRS 15, revenue is recognised as soon as the customer obtains control over the products. This is generally the case when the products have been delivered and the risk has thus passed to the customer. In addition, the resulting performance obligations must be identified for each contract. A contract or the sum of combined contracts may include several performance obligations, each of which is subject to its own rules regarding the amount and timing of turnover realisation.

At Hermle, contracts with customers for the sale of goods only contain warranty and training services as separate performance obligations.

Country-specific statutory warranties exist in relation to the sale contracts which, following application of IFRS 15, will be taken into account through the creation of provisions as previously according to IAS 37. Hermle also offers extended warranties which must be classed as separate performance obligations, and to which a separate price can be allocated. Pursuant to IFRS 15, revenue is recognised pro rata temporis at the end of the warranty period. Hermle normally grants extended warranties of up to 36 months and thus beyond the statutory warranty periods (in Germany usually 24 months, abroad usually 12 months).

Corresponding turnover is also allocated to the training services in the amount of the individual sales price that is realised when the services are rendered. Training services in connection with the sale of machines are generally provided up to two years after delivery of the machines.

For all service contracts, revenue is recognised when the services are rendered in accordance with IFRS 15. In the case of contracts entailing a range of different performance obligations, the allocation will be based on their respective separate prices, as the services are also offered in separate transactions. The separate prices then also correspond to the respective fair values of the service components.

Revenue for these performance obligations and the related costs are recognised after the performance has been rendered.

Sales revenues are reported net of discounts and price reductions.

### GOVERNMENT GRANTS

Government grants are stated at fair value when there is reasonable assurance that the grant will be received and the Group will comply with the conditions attaching to it. Government grants that compensate for expenses incurred by the Group are recognised in the consolidated income statement in the periods in which the expenses are recognised.

Government grants for social security contributions in connection with the allowance for reduced working hours in Germany are offset against personnel costs. In the year under review, this resulted in grants of €k1,762 (previous year €k2,182).

Government grants in the context of Covid-19 aid in the Czech Republic are reported as other operating income at €k40 (previous year €k0).

Government grants in the context of Covid-19 aid in the USA are reported as other operating income at €k0 (previous year €k700).

## EXPLANATORY NOTES ON THE BALANCE SHEET

### (7) ASSETS

The development and apportionment of the fixed assets is set out in the statement of asset additions and disposals.

The capitalised development costs from the development of new tool machine products are stated in the intangible assets. At the end of the business year, the net amount was €k194 (previous year €k417). The research and development expenses recorded directly as expenses were €k13,815 (previous year €k11,669).

Other intangible assets include technical know-how, orders on hand, patents, software, licences and similar rights, as well as goodwill from the first-time consolidation of Hermle Systemtechnik GmbH in the 2018 business year.

Land and buildings are mainly owned assets and, to a lesser extent, rights of use on leased land, which are capitalised in accordance with IFRS 16 "Leases". For further disclosures on recognised leases, see the section on leases.

An overview of the interests held by Maschinenfabrik Berthold Hermle AG is stated in (3) Group of consolidated companies.

### LEASES

The Group has mainly entered into leasing agreements for building rental agreements and vehicle leasing agreements.

The following table shows the book values of the rights of use recognised in the balance sheet and the change during the reporting period:

€k	Land, leasehold rights and buildings, including the buildings on non-owned land	Other plants, fixtures and fittings	Total
As per 1 January 2020	730	212	942
Additions minus retirements	29	120	149
Depreciation	-227	-128	-355
As per 31 December 2020	532	204	736
Additions minus retirements	269	96	365
Depreciation	-271	-127	-398
As per 31 December 2021	530	173	703

The following table shows the book values of the lease liabilities and the change in the reporting period:

€k	2021	2020
As per 1 January	715	921
Additions minus retirements	381	147
Interest	5	7
Payments	-405	-360
As per 31 December	696	715



Leasing liabilities €k	up to 1 year	1 to 5 years	from 5 years	Total
Minimum lease payments	375	346	0	721
Cash value	374	322	0	696

For building leases, the terms can be up to five years. The term of the vehicle leasing contracts is usually three to four years.

## (8) OTHER NON-CURRENT ASSETS

The item exclusively includes surplus participations from life insurance policies.

## (9) INVENTORIES

The inventories are classified as follows:

€k	31.12.2021	31.12.2020
Raw, process and operating materials	43,856	37,033
Unfinished products, unfinished services	20,538	14,158
Finished products and goods	16,925	15,133
Advances paid on inventories	1,359	668
	82,678	66,992

The book value of the inventories stated at net sales prices was €k9,597 (previous year €k9,059). The decrease in the value adjustment for inventories recorded with an effect on profits was €k524 (previous year €k819). Advances paid are stated as net amounts without turnover tax.

## (10) TRADE ACCOUNTS RECEIVABLES AND OTHER CURRENT RECEIVABLES

€k	31.12.2021	31.12.2020
<b>Trade accounts receivables</b>		
Against third parties	81,191	43,235
<b>Other current receivables</b>		
Derivative financial instruments	0	790
Tax refund claims	25,770	18,480
Accrued and deferred items	1,194	766
Customer receivables from advance payments	6,542	716
Other assets	1,252	1,218
	34,758	21,970
<b>Total</b>	<b>115,949</b>	<b>65,205</b>

The trade accounts receivables with a remaining term of more than one year were €k5,280 (previous year €k 3,858). The other receivables and other assets all had a remaining term of less than one year.

Pursuant to IFRS 9 or IAS 39, the derivative financial instruments stated in the other current receivables are stated at the market value. They apply both to the so-called effective and ineffective part of the positive market values of currency hedge transactions as part of the statement presentation of hedging relationships pursuant to IFRS 9 or IAS 39. Insofar as they are intended for fair value hedge security purposes, the positive market values are juxtaposed with depreciation in the balance sheet items of the allocated basic transactions.

Furthermore, the remaining other assets contain as primary items current receivables due from suppliers from returns as well as current receivables due from employees.

The composition of the non-value adjusted trade accounts receivables classified according to overdue dates is stated below:

€k	Book value total	Of which: neither impaired nor overdue	Of which: not impaired and overdue in the following time bands			
			<3 months	3-6 months	6-12 months	>12 months
Trade accounts receivables 31.12.2021	81,191	23,214	3,135	893	257	0
Trade accounts receivables 31.12.2020	43,235	16,680	1,364	31	2	0

With regard to the neither impaired nor in default or overdue amount of trade accounts receivables, on the reporting date there are no indications of the debtors being unable to honour their payment obligations.

The following table illustrates the change in the value adjustments on the amount of trade accounts receivables and other current receivables:

€k	2021	2020
Value adjustments at the beginning of the business year	7,457	6,847
Recognised in the income statement in the reporting period	1,447	740
Write-off of receivables	-22	-54
Currency conversion effects	136	-76
Value adjustments at the end of the business year	9,018	7,457

The following table illustrates the expenses for the complete writing off of trade accounts receivables as well as income from the receipt of written-off trade accounts receivables:

€k	2021	2020
Expenses for the complete write-off of receivables	69	274
Income from the receipt of written off receivables	0	0

## (11) OTHER FINANCIAL ASSETS AND SECURITIES AND OTHER ASSETS

Fixed-term deposit investments with a remaining term of more than twelve months in the sum of €k1,000 (previous year €k3,000) are stated as other non-current financial assets.

In the year under review, fixed-term deposit investments with a remaining term of less than twelve months in the sum of €k11,000 (previous year €k9,000) are stated in this item.

## (12) LIQUID ASSETS

The liquid assets largely apply to cash in banks.

€k	31.12.2021	31.12.2020
Credit balance with financial institutions	109,422	104,820
Cash on hand	30	40
	109,452	104,860

## (13) EQUITY

The share capital is unchanged compared with the previous year and is divided into 4,000,000 ordinary shares and 1,000,000 non-voting preference shares. The preference shares have a surplus dividend of € 0.05. The arithmetical nominal value of the shares is € 3 for each share.

The capital reserve contains allocations from the sale of shares acquired in previous business years via the stock exchange.

In the business year, €k215 (previous year €k784) were allocated to the revenue reserves of Maschinenfabrik Berthold Hermle AG.

The Management Board recommended at the shareholders' meeting on 16 March 2022 to use the 2021 balance sheet profit of Maschinenfabrik Berthold Hermle AG amounting to €k122,832 to pay out €k45,050 through the payment of a dividend totalling €9.00 per ordinary share, and €9.05 per preference share, to return €k6,000 to other revenue reserves and to carry forward the remaining €k71,782 to a new account. This dividend proposal will be re-evaluated jointly by the Management Board and the Supervisory Board at the Supervisory Board meeting on 27 April 2022 based on the further development of the war in Ukraine and its effects.

In the 2021 business year a dividend totalling € 5 per ordinary share and € 5.05 per preference share was paid in respect of the 2020 business year.

The equity difference resulting from the currency conversion contains the differences resulting from the conversion of foreign subsidiaries.

The cumulated other equity contains the effects from the evaluation of derivative financial instruments without affecting the operating result. In the 2021 business year, expenses (previous year income) from the market valuation of derivative financial instruments attributable to cash flow hedges were allocated to the equity without affecting profits in the sum of €k414 (previous year €k473). In addition, an amount of €k473 (previous year €k50) was withdrawn from the equity and recorded as income (previous year income) in the period result.

The development of equity and its elements is stated in the equity statement.

(14) MINORITY INTERESTS

The remaining item is attributable to the share in equity of Hermle WWE AG attributable to the other shareholders.

(15) PROVISIONS

€k	As per 01.01.2021	Consump- tion	Resolution	Addition	Other changes	As per 31.12.2021
Tax provisions	665	571	97	253	25	275
Personnel provisions	10,389	8,632	159	11,882	74	13,554
Other provisions						
in sales and purchasing	26,125	10,669	1,575	16,745	173	30,799
for other areas	1,186	939	130	1,239	7	1,363
	27,311	11,608	1,705	17,984	180	32,162
	38,365	20,811	1,961	30,119	279	45,991
of which current provisions	36,611	20,634	1,935	29,790	265	44,097
of which non-current provisions	1,754	177	26	329	14	1,894

The provisions in the personnel area largely apply to holiday and flextime provisions, provisions for partial retirement commitments as well as bonus payments. The marketing and purchasing risks apply to warranties, fairness in trade and other follow-up benefits, acceptance or buy-back obligations and a raft of other purchasing and marketing risks. The other area contains other outstanding services and liabilities, which have not been identified on merit and/or in terms of their ultimate amount.

As in the previous year, the non-current provisions are personnel-related provisions, in particular relating to long-service award payments and flextime commitments.

The other changes comprised currency and interest effects totaling €k 279 (previous year €k142) were recorded as expenses (previous year income). The effects from the interest charge and from changes to the discounting interest rate in the sum of €k19 (previous year €k26) apply in an amount of €k14 (previous year €k16) to personnel provisions and with €k5 (previous year €k10) to other provisions.

**(16) LIABILITIES**

The liabilities relate in particular to:

€k	31.12.2021	31.12.2020
<b>Other non-current liabilities</b>		
Leasing liabilities	322	715
<b>Current trade accounts payable</b>		
against third parties	6,519	6,037
<b>Other current liabilities</b>		
Advances paid	28,984	13,786
Contractual debt from advance payment invoices	6,542	716
Contractual liabilities	2,234	2,456
Leasing liabilities	374	0
Derivative financial instruments	1,380	0
Tax liabilities	9,264	2,832
Social security liabilities	424	298
Other liabilities	6,462	5,789
	55,664	25,877
<b>Breakdown of liabilities by remaining terms</b>		
up to 1 year	62,183	31,915
from 1 year	322	715
	62,505	32,630

The current trade accounts payable contain title reservations that are customary in the trade. In the previous year, the non-current leasing liabilities included a partial amount of €k336 with a remaining term of less than one year.

Pursuant to IFRS 9, the derivative financial instruments stated in the other liabilities are stated at the market value. They apply both to the so-called effective and ineffective part of the negative market values of currency hedge transactions as part of the statement presentation of hedging relationships pursuant to IFRS 9. Insofar as they are intended for fair value hedge security purposes, the negative market values are juxtaposed with increases in value in the balance sheet items of the allocated basic transactions.

The advances paid are stated as net amounts without turnover tax.

## EXPLANATIONS ON THE GROUP INCOME STATEMENT

### (17) SALES REVENUES

The following table shows the distribution of sales in 2021 and 2020 by sales region as well as the reconciliation of sales by product and service areas to the reportable segments.

€k	Domestic companies		Foreign sales companies		Group	
	01-12/2021	01-12/2020	01-12/2021	01-12/2020	01-12/2021	01-12/2020
<b>Sales regions</b>						
Federal Republic of Germany	139,176	112,238	0	0	139,176	112,238
Other countries	69,523	63,741	167,278	120,963	236,801	184,704
<b>Total</b>	<b>208,699</b>	<b>175,979</b>	<b>167,278</b>	<b>120,963</b>	<b>375,977</b>	<b>296,942</b>
<b>Product and service areas</b>						
Sale of machine tools						
Accessories and spare parts	195,450	164,097	157,965	113,167	353,415	277,264
Service and training services	13,249	1,188	9,313	7,796	22,562	19,678
<b>Total</b>	<b>208,699</b>	<b>175,979</b>	<b>167,278</b>	<b>120,963</b>	<b>375,977</b>	<b>296,942</b>
Revenue from contracts with customers	208,699	175,979	167,278	120,963	375,977	296,942
Turnover with third parties	208,699	175,979	167,278	120,963	375,977	296,942

The contract balances are as follows:

€k	31.12.2021	31.12.2020
Trade accounts receivables against third parties	81,191	43,235
Customer receivables from advance payments	6,542	716
<b>Total</b>	<b>87,733</b>	<b>43,951</b>
Advances paid	28,984	13,786
Contractual liabilities	2,234	2,456
Contractual debt from advance payment invoices	6,542	716
<b>Total</b>	<b>37,760</b>	<b>16,958</b>

The advances paid relate to advances received from customers for machine sales. Contractual liabilities mainly include warranty and training services that have already been invoiced but not yet rendered.

The contractual debt from advance payment invoices is due advance payment invoices that have not yet been paid and for which there is an unconditional right to payment.

There are no contract assets.



In the 2021 business year, sales revenues of €k1,479 (previous year €k663) were recognised, which were included in the contractual liabilities at the beginning of the business year.

Hermle expects that amounts included in the contractual liabilities as of 31 December 2021 amounting to €k1,845 in 2022, €k383 in 2023 and the remaining amount of €k6 in 2024 will lead to sales.

## (18) OTHER OPERATING INCOME

The other operating income item applies to:

€k	2021	2020
Income from reversal of provisions	1,864	5267
Income from reversal of value adjustments	3,922	3783
Income from retirement of fixed assets	413	292
Currency gains from exchange rate differences and derivative financial instruments	1,021	0
Other operating income	2,417	2228
	9,637	11,570

The remaining other operating income item contains as key elements income from letting and leasing, from the passing on of costs and compensation payments of insurers and other third parties.

## (19) COST OF MATERIALS

Costs of materials apply to:

€k	2021	2020
Expenses for raw, process and operating materials and procured goods	156,889	110,123
Cost of purchased services	6,851	5,757
	163,740	115,880

## (20) PERSONNEL COSTS

Personnel costs include:

€k	2021	2020
Salaries and wages	87,930	75,691
Social security contributions	16,074	13,196
	104,004	88,887

As in the previous year, there were no expenses for old-age pensions.

Average numbers of employees:

	2021	2020
Industrial workers	457	461
Salaried employees	750	745
Apprentices	100	104
	1,307	1,310

The Management Board's emoluments totalled €k2,224. The Supervisory Board members' emoluments totalled €k 80.

## (21) DEPRECIATION

The depreciation largely applies to scheduled depreciation on intangible assets and property, plant and equipment.

The business year included non-scheduled depreciation of €k0 (previous year €k66).

## (22) OTHER OPERATING COSTS

€k	2021	2020
Creation of value adjustments on receivables	5,352	4,479
Currency losses	0	358
Other operating expenses	35,404	29,242
	40,756	34,079

The other operating expenses largely apply to expenses for marketing, service and administration, as well as for maintenance expenses for buildings, fixtures and fittings. In addition, the item contains so-called taxes chargeable as expenses for road tax and land tax as well as foreign representative offices.

Other operating expenses include expenses relating to leases amounting to €k1,141 (previous year €k1,034). Of which, €k1,012 (previous year €k891) is attributable to current leases and €k129 (previous year €k143) to leases for assets of low value that are not current term.

With regard to auditing the annual financial statement and consolidated financial statement of Maschinenfabrik Berthold Hermle AG, auditor's fees of €k187 (previous year €k195) were recorded as expenses in 2021. In addition, €k0 (previous year €k0) was paid in the current year for other certification services, €k0 (previous year €k0) were charged for tax consultancy services and €k0 (previous year €k0) for other services.

## (23) FINANCIAL RESULT

The financial result is classified as follows:

€k	2021	2020
Other interest and similar income	93	317
Interest and similar expenses	-298	-196
	-205	121

The interest expenditure comprises external interest and the internal interest charge on current and non-current provisions, as well as interest portions from the difference between the spot and forward rates of currency hedging transactions. Such differences from spot and forward rates of currency hedging transactions are also included in the interest income.

## (24) TAXES ON INCOME

The taxes on income apply to:

€k	2021	2020
Current taxes	20,139	13,996
Deferred taxes	-653	224
	19,486	14,220

The following table illustrates the transition from the calculated or expected to the actual income tax liability, and explains the key differences in a summary:

€k	2021	2020
Result before income tax	74,396	54,298
Calculated income tax in %	26.50 %	26.50 %
Calculated income tax	19,715	14,389
Tax-exempt income	-133	-169
Non-deductible expenses	+241	+143
Other aperiodic taxes	-73	-169
Newly accrued deferred taxes	0	-61
Differences from tax rates/currency conversion	-547	98
Losses carried forward not taken into account	283	-11
Total tax expenses	19,486	14,220

The calculated income tax was calculated for domestic companies based on a tax rate of 26.50 % (previous year 26,50 %), while the deferred taxes were created on the basis of a tax rate of 26.50 % (previous year 26.50 %). The tax rate contains trade tax, corporation tax and the solidarity surcharge.

The stated deferred tax assets and liabilities apply to the following balance sheet items:

€k	31.12.2021	31.12.2020
<b>Deferred tax assets</b>		
Tax losses carried forward	0	0
Consolidations	812	692
Assets	166	176
Inventories and receivables	1,313	1,104
Provisions	606	418
Liabilities	0	0
Derivative financial instruments	366	34
Contractual liabilities	271	343
<b>Total</b>	<b>3,534</b>	<b>2,767</b>
Offset against deferred tax liabilities	0	0
<b>Total</b>	<b>3,534</b>	<b>2,767</b>
of which items charged to equity without affecting the operating result	149	0
<b>Deferred tax liabilities</b>		
Assets	825	1,025
Inventories and receivables	297	115
Securities	0	0
Provisions	195	215
Derivative financial instruments	0	238
Other	10	5
<b>Total</b>	<b>1,327</b>	<b>1,598</b>
Offset against deferred tax assets	0	0
<b>Total</b>	<b>1,327</b>	<b>1,598</b>
of which items charged to equity without affecting the operating result	0	170

The deferred tax assets are stated in the balance sheet in the non-current assets item, while the deferred tax liabilities are stated in the non-current liabilities item.

Tax losses capable of being carried forward of €k 1,777 (previous year €k710) have not been stated due to the uncertain realisation options.

**(25) RESULT FOR EACH SHARE**

€k	2021	2020
Net income:		
Acc. to income statement	54,910	40,078
Minority interests in the result	-3	-1
Result acc. to minority interests	54,907	40,077
Accrued preference dividends	-50	-50
Result acc. to minorities and preference dividends	54,857	40,027
Weighted average in pieces:		
Outstanding ordinary shares	4000000	4,000,000
Outstanding preference shares	1000000	1,000,000
Total of all types of shares	5,000,000	5,000,000
Average weighted number of shares in items:	5,000,000	5,000,000
Undiluted result for each share in euros:		
Per ordinary share	10.97	8.01
Per preference share, incl. dividend preference	11.02	8.06

The company does not hold any treasury shares or preference shares. In other respects, too, no further changes to the equity instruments occurred. The preference shares contain a surplus dividend of € 0.05 for each share compared with the ordinary shares. This additional share in the profit is initially shortened on a standardized basis in the case of calculating the result for each share, and only added once again in the case of the result for each preference share.

**(26) GROUP CASH FLOW STATEMENT**

The development of the money flows and their effects on the funds of the cash equivalents are illustrated in the Group cash flow statement. In that respect a distinction is made between payment flows from the ongoing business activity and the investment and financing activity. The cash flow from the ongoing business activity is determined using the indirect method, while by contrast the cash flow from the investment and financing activity is determined on a payment-related basis. Effects from the currency conversion and amendments to the group of consolidated companies are adjusted in that respect.

The cash and cash equivalents explained under (12) from cash on hand and cash in banks make up the funds of the cash and cash equivalents.

Tax payments as well as interest payments are stated in full as fund outflows or fund inflows from the business activity. Cash flow from operating activities are cash flows consisting of interest and other financial expenses (previous year financial expenses) of €k205 (previous year €k -215) and cash flows from taxes of €k -21,772 (previous year €k -30,510).

## (27) SEGMENT REPORTING

With regard to the segment reporting, Hermle follows IFRS 8 "Operating Segments", which on a mandatory basis promotes classification in segments in line with the "Management Approach". By way of this method, information is published on the operating segments based on the internal organisational and management structure. In this respect, the financial reporting to the primary management committee of the company, which is represented at Hermle by the Management Board, is authoritative.

In view of this, this segment reporting is geared towards the segmenting in line with the marketing activities. On the one hand, the segments are divided into homogeneous activities of the foreign sales companies and sales branches, which cover the function of authorised dealers and sales branches, and on the other in the remaining domestic companies that each report their results on an ongoing basis. The companies and branches are classified in segments according to their affiliation. The Foreign sales segment includes the companies Hermle USA INC, Hermle Properties INC, Hermle Nederland BV, Hermle Italia S.R.L., Hermle (Schweiz) AG, Hermle WWE AG (Switzerland), Hermle Vostok OOO (Russia), Hermle Uljanovsk OOO (Russia), Hermle Mexico S. DE R.L. DE C.V. and Hermle SEA Co., Ltd. (Thailand), as well as the sales branches of Hermle AG in Austria, the Czech Republic, Denmark and Poland.

In that respect, sales and services between the segments are offset using conditions that are customary in the market. Hermle measures the success of the segments primarily by way of the operating result.

Receivables and liabilities, provisions, income and expenses between the segments are eliminated in the column consolidation effects. In addition, in the column consolidation effects the items are also stated that cannot be allocated to the stated segments. As a general rule, the segment reporting is based on the same accounting and valuation methods that apply to the consolidated financial statement. As a general rule, the assets of the segments comprise all assets, whereby the segment-wide relations are stated in the column consolidations. However, apart from the assets, all shares, interests and loans to companies that are incorporated in full or in part in the consolidated financial statements are in the non-current financial assets area.

As a result of Hermle's customer structure and business structure, there was no significant concentration on individual customers or regions in the years under review.

## (28) CONTINGENT LIABILITIES AND OTHER FINANCIAL OBLIGATIONS

The following contingent liabilities and other financial commitments applied on the reporting date:

€k	31.12.2021	31.12.2020
<b>Contingent liabilities</b>		
Liability from cooperative shares	5	5

## (29) FINANCIAL INSTRUMENTS

### ORIGINAL FINANCIAL INSTRUMENTS

The following section contains additional, key explanations on the statement presentation of financial instruments and their effects on profits in the income statement within the meaning of IFRS 7. The following overviews illustrate the composition of the financial instruments according to balance sheet items and valuation categories, the fair value and the valuation results according to valuation categories.

The amounts stated for the financial instruments according to valuation categories pursuant to IFRS 9 as per 31 December 2021 are as follows:

€k	Values stated in the balance sheet pursuant to IFRS 9					
	Book value 31.12.2021	Amortised cost	Fair value with an ef- fect on the operating result	Fair value without an effect on the operat- ing result	Leasing	Fair value 31.12.2021
<b>Assets</b>						
<b>Non-current assets</b>						
Other financial assets	1,005	1,000		5		1,005
Other non-current assets	3	3				3
<b>Current assets</b>						
Trade accounts receivables	81,191	81,191				81,191
Other current receivables	6,801	6,801				6,801
Derivative financial instruments	0					0
Securities and other assets	11,000	11,000				11,000
Cash and cash equivalents	109,422	109,422				109,422
<b>Liabilities</b>						
<b>Non-current liabilities</b>						
Financial liabilities	0					0
Derivative financial instruments	0					0
Leasing liabilities	322				322	322
<b>Current liabilities</b>						
Trade accounts payable	6,519	6,519				6,519
Other liabilities	1,818	1,818				1,818
Leasing liabilities	374				374	374
Derivative financial instruments	1,380		812	568		1,380



The amounts stated for the financial instruments according to valuation categories pursuant to IFRS 9 as per 31 December 2020 are as follows:

€k	Values stated in the balance sheet pursuant to IFRS 9					Fair value 31.12.2020
	Book value 31.12.2020	Amortised cost	Fair value with an ef- fect on the operating result	Fair value without an effect on the operat- ing result	Leasing	
<b>Assets</b>						
<b>Non-current assets</b>						
Other financial assets	3,005	3,000		5		3,005
Other non-current assets	7	7				7
<b>Current assets</b>						
Trade accounts receivables	43,235	43,235				43,235
Other current receivables	1,008	1,008				1,008
Derivative financial instruments	790		212	578		790
Securities and other assets	9,000	9,000				9,000
Cash and cash equivalents	104,860	104,860				104,860
<b>Liabilities</b>						
<b>Non-current liabilities</b>						
Financial liabilities	0					0
Derivative financial instruments	0					0
Leasing liabilities	715				715	715
<b>Current liabilities</b>						
Trade accounts payable	6,038	6,038				6,038
Other liabilities	1,091	1,091				1,091
Derivative financial instruments	0		0			0

The net results of the financial instruments according to valuation categories are as follows for the 2021 business year pursuant to IFRS 9:

€k	From interest/ Dividends	From follow-on valuations: On fair value	Currency conversion	Value adjustment	off Retirement	2021
<b>Financial assets</b>						
Stated at amortised cost	-93		1,021	-1,430	69	-433
Stated at fair value directly in equity	220					220
Stated at fair value through profit and loss		0				0
<b>Financial liabilities</b>						
Stated at amortised cost	233					233
Stated at fair value through profit and loss		5				5
<b>Total</b>	<b>360</b>	<b>5</b>	<b>1,021</b>	<b>-1,430</b>	<b>69</b>	<b>25</b>

The net results of the financial instruments according to valuation categories are as follows for the 2020 business year pursuant to IFRS 9:

€k	From interest/ Dividends	From follow-on valuations: On fair value	Currency conversion	Value ad- justment	off Retirement	2020
<b>Financial assets</b>						
Stated at amortised cost	75		-358	-696	-274	-1253
Stated at fair value directly in equity	226					226
Stated at fair value through profit and loss		0				0
<b>Financial liabilities</b>						
Stated at amortised cost	-120					-120
Stated at fair value through profit and loss		-25				-25
<b>Total</b>	<b>181</b>	<b>-25</b>	<b>-358</b>	<b>-696</b>	<b>-274</b>	<b>-1,172</b>

The net profits or losses from loans and receivables largely contain changes in the value adjustments, currency conversions, income from received payments, write-ups as well as interest income.

Determining the fair value of the financial instruments set out in the above tables is geared towards a fair value hierarchy that takes into account the significance of the input data used for the valuation, and is classified as follows:

Level 1: listed on active markets (unchanged assumed prices) for identical assets and liabilities;

Level 2: for the asset or the liability either directly (as price) or indirectly (derived from the prices) observable input data that do not constitute a listed price according to Level 1;

Level 3: drawn input data that are not based on observable market data for valuing the asset and the liability (non-observable input data).

In the business year and in the previous year, the stated fair values were determined exclusively according to Level 2 of the fair value hierarchy.

## DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING STRATEGIES

### FINANCIAL RISK MANAGEMENT

As per 31 December 2021, the Hermle Group has an above-average equity ratio in the sum of 73.5%. On the reporting date, the amount of liquid funds and securities was €k 120,452. Liquid funds and securities relate to debtors with credit ratings that are generally still considered good. As a result of these circumstances, the Hermle Group is not dependent on interest-bearing outside capital to finance spare parts and expansion investments and the distribution of dividends. The Hermle Group gives consideration at all times to keeping adequate financial reserves available to react at short notice to potential changes in the economic situation.

Below the financial risks are assessed insofar as these are of importance to the Hermle Group.

### RISKS FROM INTEREST CHANGES

Risks from interest changes arise from the investment of liquid funds in the form of variable and short-term, fixed-interest investments. Additional interest risks do not apply because there is no interest-bearing outside capital. At the end of the year, the liquid funds were invested largely with remaining terms of less than one year, in part even with terms of up to three months, and therefore were practically equated with variable interest rates.

With regard to the liquid funds and marketable securities (current assets) held up to the end of the year, an increase in the interest rates of 0.5% during the period of one year would lead to a potential increase in the net interest income of the following year by approximately €0.4 million (previous year €0.4 million). The risk of a deterioration in interest rates exists because, due to the ECB's policy, negative interest rates are now being widely applied to parts of demand deposits at banks and increased negative interest rates of banks are also being passed on to these. So far we have not been fully affected by the negative interest rate, but in 2022 increased negative interest rates of up to 100% may be passed on to bank customers in the event of an economic downturn. The effect should thus amount to approx. €-0.6 million (previous year €-0,6 million).

### DEFAULT RISKS

There is no significant concentration of default risks at the Hermle Group because no more than 10% of the Group's sales are generated with any single end customer. Furthermore, the default risks are further reduced by way of the ongoing monitoring of the payment behaviour of our customers, and consistent receivables management. However, against the backdrop of the coronavirus pandemic and the resulting impaired earnings and financial situation in individual customer sectors of our products, we currently assess the credit risk as higher than the average of previous years.

Liquid funds are invested in securities or debtors with a generally good credit rating, so that from today's perspective, despite latent risks from the capital markets and for the banks from the eroding earning power due to the ECB's interest rate policy, short-term default risks should not be assumed. In addition, short investment periods are currently chosen. The for us highly significant indirect risk of default of totally over-indebted countries, if it were to occur, cannot be assessed by us with regard to the likelihood of occurrence. However, during the course of the last few years it has increased, and in the case of individual countries, in particular in the eurozone, it is still to be classified as 'high' or 'very high'. Risk-limiting countermeasures were introduced through the so-called "Stability Pact" and defined new debt limits, which were, however, suspended in practically all countries in the course of the coronavirus pandemic. In the case of other countries, and most recently in Germany, temporary exemptions have repeatedly been granted or, most recently, the binding nature and purpose of these rules have been openly disputed, so that the guarantee of future compliance with the rules is increasingly in question. The maximum default risk arises from the book value of the financial assets stated in the Group balance sheet.

## LIQUIDITY RISKS

The Hermle Group have above-average high stocks of cash and cash equivalents. Current liquidity risks have not been identified in view of this, whereby the stability of the German banking system is deemed given despite the eroding earning power (see comments on default risks).

## EXCHANGE RATE RISKS

Exchange rate risks apply, in particular, where receivables and liabilities exist in a currency other than the functional currency of the respective company or will arise in the case of scheduled business development in the form of future payment flows. Hedging exchange rate risks refers to payment flows; foreign currency risks that do not lead to payment flows are not secured. These are, for example, risks from converting the contracts of foreign subsidiaries and operating facilities in the Group reporting currency euro.

The exchange rate risks of the Hermle Group largely refer to the amount of trade accounts receivables in foreign currencies as well as the inflow of cash and cash equivalents in foreign currencies. Maschinenfabrik Berthold Hermle AG uses derivative instruments to hedge these currency risks. These are aimed at securing the foreign currency receivables that exist on the reporting date against Group companies, which are normally hedged as a rule, beyond this additionally the hedging of cash flows that have yet to be recorded in the balance sheet on the reporting date or pending or anticipated cash flows. Hedges for expected cash flows only are secured depending on the assessment of the price situation within a window of up to twelve months, beyond this in exceptional cases.

With regard to the presentation of market risks, IFRS 7 specifies sensitivity analyses on the effects on hypothetical changes in relevant risk variants on the year-end result and equity. As per 31 December 2021 and 31 December 2020, all key trade accounts receivables in foreign currency at Maschinenfabrik Berthold Hermle AG against Group companies had been hedged by way of forward exchange transactions that were classified as fair value hedges. Currency items concluded from these result, in each case, in compensation effects such that changes do not, insofar, occur in equity and in the annual result. However, the valuation of the cash flow hedges as well as the conversion of foreign currency contracts are sensitive in relation to changes in exchange rates.

In the case of depreciation of the key foreign currencies by 5% in 2021, an income for the 2021 business year of €0.3 million (previous year €0.4 million) would arise; in the case of a corresponding increase in value, a loss of €0.3 million (previous year €0.4 million). In the case of depreciation of the key foreign currencies by 5% in 2021, the Group capital as per 31 December 2021 would decrease by €0.1 million (previous year €0.2 million); in the case of a corresponding write-up of the foreign currencies, it would increase by €0.1 million (previous year €0.2 million).

The nominal volumes taken as a basis for the derivative financial instruments as well as their market values on the reporting date are stated in the following table:

€k	31.12.2021	31.12.2020
Forward currency sales:		
Nominal volume	35,641	17,778
of which Remaining term > 1 year	0	0
Positive market values	0	790
of which Fair value hedges < 1 year	(0)	(212)
of which Fair value hedges > 1 year	(0)	(0)
of which Cash flow hedges < 1 year	(0)	(578)
of which Cash flow hedges > 1 year	(0)	(0)
Negative market values	1,380	0
of which Fair value hedges < 1 year	(812)	(0)
of which Fair value hedges > 1 year	(0)	(0)
of which Cash flow hedges < 1 year	(568)	(0)
of which Cash flow hedges > 1 year	(0)	(0)

The market value corresponds with the profits and losses in the case of a notional settlement of the derivatives on the reporting date. The maximum default risk of derivative financial instruments corresponds with the total positive market values. It applies to potential assets that may arise from the failure by individual trading partners to honour contractual obligations. Derivative financial instruments are only concluded with banks that have the stated credit rating to avoid such a risk.

As a general rule, changes in the market values are recorded with an effect on profits. If future planned cash flows in foreign currencies are the subject matter of an effective hedge within the meaning of IFRS 9, the regulations of a cash flow hedge are applied. The market values of the corresponding hedge transactions are then initially offset against the equity, without affecting profits, in the "cumulated other equity" item, and only recorded with an effect on profits at a later date in the case of realizing the basic transaction.

### (30) ESTIMATES

Estimates are incorporated in the valuation of the trade accounts receivables, inventories as well as determining the other provisions. In the case of goodwill recognised in the consolidated balance sheet, these relate to the calculation of future cash flows and the determination of an appropriate discount rate; in the case of trade accounts receivables, these largely apply to the likelihood of default for the individual debtors and the default amount, in the case of the inventories warehoused for lengthy periods or inventories with a low likelihood of being marketed the future marketability, in the case of deferred tax assets, the realisability of tax losses carried forward, and in the case of the stated other provisions both the likelihood of occurrence of events and assumed performance amounts which, where possible, are determined on the basis of previous empirical values. In view of the fact that the actual future development of these parameters may vary from the forecast assumptions, new valuations of the corresponding items may arise in subsequent years with an effect on profits.

The Group profit in the 2021 business year was negatively affected by the coronavirus pandemic. The estimation uncertainties remain high in the following year due to uncertainties about Covid-19 and how the conflict in Ukraine will develop.

### **(31) EVENTS AFTER THE REPORTING DATE**

The effects of the conflict in Ukraine, which escalated in February 2022, and the supply chain issue are presented in the chapter "Supplementary report" of the summary management report. Additionally, following the conclusion of the 2021 business year and up until the consolidated financial statement was signed off, there were no events that had significant effects on the earnings, financial and assets position of Hermle AG or the Group.

### **(32) RELATIONS WITH CLOSELY AFFILIATED COMPANIES AND PERSONS**

In addition to the subsidiaries incorporated in the consolidated financial statements as the holdings not incorporated in the consolidated financial statement, as a general rule consideration here is given to members of the Management Board or Supervisory Board as well as shareholders with a considerable influence within the meaning of IAS 24 "Related Party Disclosures". The relations with this group of closely affiliated companies and groups are processed at conditions that are customary in the market.

There are no closely affiliated companies that are dominated by the Hermle Group or upon which the Hermle Group exerts a considerable influence but which are not included in the consolidated financial statements.

The deliveries and services performed and rendered by the Group for other closely affiliated companies were €k592 (previous year €k69), while the deliveries and services purchased by the Group from other closely affiliated companies were €k2,329 (previous year €k 1,787). On the reporting date, the Group receivables due from other closely affiliated companies were €k 6 (previous year €k0), while the Group liabilities due to other closely affiliated companies were €k133 (previous year €k 85).

### **(33) DECLARATION PURSUANT TO SECTION 161 OF THE GERMAN STOCK CORPORATION ACT (AKTG)**

The Management Board and the Supervisory Board of Hermle AG issued the declaration of compliance with GCGC on 8 December 2021 with an update dated 16 March 2022, pursuant to Section 161 of the German Stock Corporation Act (AktG) and made it permanently available to the general public on the Hermle AG homepage at [www.hermle.de](http://www.hermle.de) (under: Investor Relations / Mandatory Publications / Code Section 161 AktG).

## (34) DETAILS OF THE COMPANY'S EXECUTIVE BODIES

The following persons form the board of management:

**Günther Beck**, Member of the Board, Finances, Information Processing

**Franz-Xaver Bernhard**, Member of the Board, Sales, Research and Development

Other mandates in supervisory boards and controlling bodies:

Member of the Supervisory Board of VOLLMER Werke Maschinenfabrik GmbH, Biberach, Riss

**Benedikt Hermle**, Member of the Board, Production, Customer Service, Materials Management

The following persons form the Supervisory Board:

**Dietmar Hermle**, Chair of the Supervisory Board

Entrepreneur, former spokesperson of the Management of Maschinenfabrik Berthold Hermle AG

**Lothar Hermle** Deputy Chair, Industrial Foreman

**Dr. Sonja Zobl-Leibinger**, Deputy Chairwoman

Lawyer

Other mandates in supervisory boards and controlling bodies:

Chair of the Supervisory Board of AdCapital AG, Tuttlingen

**Dr. Wolfgang Kuhn**

Entrepreneur

Other mandates in supervisory boards and controlling bodies:

Chair of the Supervisory Board of Concept AG, Stuttgart

Member of the Supervisory Board of SALytic Invest AG, Cologne, since 1 January 2021

Member of the Administrative Board of Pactum AG, Zurich, since 10 November 2021

Chair of the Supervisory Board of E3 Holding AG, Biberach an der Riß, since 23 April 2021

**Gerd Grewin\***

Chair of the Works Council

Industrial Foreman, Control Technician

**Andreas Borho\***

Industrial Business Management Assistant

\* Elected employee representatives

Gosheim, 30 March 2022

Maschinenfabrik Berthold Hermle AG

Günther Beck

Franz-Xaver Bernhard

Benedikt Hermle

## UNQUALIFIED OPINION

### AUDITOR'S REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND THE SUMMARY MANAGEMENT REPORT

#### Audit appraisal

We have audited the consolidated financial statements of Maschinenfabrik Berthold Hermle AG, Gosheim, and its subsidiary companies (the Group) – comprising the consolidated balance sheet as per 31 December 2021, the Group income statement, the overall Group income statement, the Group equity statement and the Group cash flow statement – for the business year from 1 January to 31 December 2021, as well as the Group notes to the financial statements, including a summary of key financial reporting methods applied. We have also audited the management report (company and consolidated report/summary management report) of Maschinenfabrik Berthold Hermle AG, Gosheim, for the business year from 1 January to 31 December 2021. In accordance with German legal requirements, we have not audited the content of the Corporate Governance Statement pursuant to Sections 289f and 315d of the German Commercial Code (HGB) and the non-financial statement pursuant to Sections 289b and 315b of the German Commercial Code (HGB), each of which has been published on the company's website and to which reference is made in the section "Corporate Governance Statement" or in the first paragraph of the summary management report.

In our opinion, based on the findings of our audit,

- the enclosed consolidated financial statements comply in all respects with IFRS, as adopted in the EU, and with the additional requirements of Section 315e (1) of the German Commercial Code (HGB), and in line with those requirements give a true and fair view of the net assets and financial position of the Group as per 31 December 2021, and of the results of its operations and cash flows for the business year from 1 January to 31 December 2021.
- The summary management report as a whole provides an accurate view of the Group's position. The summary management report is consistent with the consolidated financial statements in all material respects, complies with German law, and accurately presents the opportunities and risks of future developments. Our audit appraisal on the summary management report does not cover the aforesaid components of the summary management report that were not audited as to their substance.

Pursuant to Section 322 (3) Clause 1 of the German Commercial Code (HGB), we hereby declare that our audit raised no objections concerning the accuracy and propriety of the consolidated financial statements or the summary management report.

#### Basis of the audit appraisal

We conducted our audit of the consolidated financial statements and the summary management report in accordance with Section 317 of the German Commercial Code (HGB) and EU Regulation 537/2014 on specific requirements regarding statutory audit of public-interest entities (in the following referred to as the EU Audit Regulation), in line with the generally accepted German standards for the auditing of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Our responsibilities pursuant to the said regulations and principles is detailed in the section of our unqualified opinion headed "Responsibilities of the auditor for auditing the consolidated financial statements and the summary management report". In accordance with European law and with German commercial law and professional standards, we are independent of the Group companies, and have fulfilled our other professional duties as German auditors in line with the said requirements. Furthermore, we hereby declare in accordance with Article 10 (2) f) of the EU Audit Regulation that we have provided no prohibited non-audit services pursuant to Article 5 (1) of the EU Audit Regulation. In our view, the documentary records we requested were adequate and suitable to serve as the basis for our audit of the consolidated financial statements and the summary management report.

#### Key matters in auditing the consolidated financial statements

Key audit matters are matters which according to our prudent judgement were the most significant in our audit of the consolidated financial statements for the business year from 1 January to 31 December 2021. The said matters were given due consideration in the context of our audit of the consolidated financial statements as a whole and in drawing up our overall audit appraisal; we provide no separate appraisal of the said matters.

In the following, we present the audit matter that we consider to be of particular importance:

- Recognition of revenue from new machine and spare parts sales



**a) The risk for the conclusion**

The Group of Maschinenfabrik Berthold Hermle AG, Gosheim, generates revenue from the sale of machines and spare parts as well as from the provision of services. In the 2021 business year, sales revenue of €m 353.4 was generated from the sale of new machines and spare parts. Sales revenue is generally recognised at the time the products are delivered and the ownership or risk is transferred to the customer. The Group of Maschinenfabrik Berthold Hermle AG also offers extended warranties and training in connection with the sales contracts, which are accounted for as a separate performance obligation in accordance with IFRS 15. For contracts that contain various performance obligations, the allocation of revenue is based on the individual sales prices.

The company's disclosures on turnover realisation are contained in particular in the section "Income statement" in chapters (6) and (17) of the Notes to the consolidated financial statements and in the summary management report in the section "An overview of Hermle's business performance".

Due to the variety of contractual provisions using different general terms of delivery (Incoterms), the complexity in allocating the sales price to the individual performance obligations as well as the large number of business transactions in the area of spare parts sales, turnover realisation is considered complex and therefore classified as a significant risk. Against the background of the materiality of sales revenue from new machine and spare parts sales for the annual result and thus the relevance for understanding the net assets, financial position and results of operations as well as the high significance as an important financial performance indicator for corporate management and corporate planning, the turnover realisation of new machine and spare parts sales was of particular importance within the scope of our audit.

**b) Audit procedure and conclusions**

We have assessed the compliance of the accounting and valuation methods applied by the Maschinenfabrik Berthold Hermle AG Group for the recognition of sales revenue with the IFRS framework and the relevant IFRS. Based on our understanding of business and processes, we analysed the revenue reported in the 2021 business year using key figures and performed data analyses to assess the accounting system recording. We have assessed the adequacy and effectiveness of the internal control system and also examined, on the basis of extensive sampling of the sales revenues generated from new machines and spare parts sales in the business year, whether the revenues have been correctly recognised in the business year in accordance with the contractual agreements, the available customer acceptance or shipping documents and other related documentation.

We also obtained balance confirmations from customers on a sample basis in order to verify the trade accounts receivables recognised by the Maschinenfabrik Berthold Hermle AG Group on the reporting date and assessed whether the Maschinenfabrik Berthold Hermle AG Group has properly identified the separate accounting units, correctly determined the transaction price for such units and ensured turnover realisation on an accrual basis. We have also assessed the adequacy of the related disclosures in the Notes to the consolidated financial statements.

The approach of the Group of Maschinenfabrik Berthold Hermle AG to recognise sales revenues from new machines and spare parts sales is appropriate. Our audit procedures did not reveal any objections with regard to turnover realisation.

**Other information**

The legal representatives or the Supervisory Board are/is responsible for the other information given. The other information obtained up to the date of this unqualified opinion includes:

- The separate non-financial statement pursuant to Sections 289b and 315b of the German Commercial Code (HGB) published on the company's website, to which reference is made in the first paragraph of the summary management report
- The Corporate Governance Statement published on the company's website in accordance with Sections 289f and 315d of the German Commercial Code (HGB), to which reference is made in the "Corporate Governance Statement" section of the summary management report,
- The remuneration report published on the company's website to which reference is made in the "Corporate Governance Statement" section of the summary management report,
- The Report of the Supervisory Board
- The other parts of the annual report, but not the consolidated financial statements, not the audited content of the summary management report and not our unqualified opinion thereon

- The assurance pursuant to Section 297 (2) Clause 4 of the German Commercial Code (HGB) relating to the consolidated financial statements and the assurance pursuant to Section 289 (1) Clause 5 of the German Commercial Code (HGB) and to Section 315 (1) Clause 5 relating to the summary management report

The Supervisory Board is responsible for the Report of the Supervisory Board. The legal representatives and the Supervisory Board are responsible for the declaration pursuant to Section 161 of the German Stock Corporation Act (AktG) on the German Corporate Governance Code, which is part of the Corporate Governance Statement published on the company's website. Otherwise, the legal representatives are responsible for the other information.

The Management Board and the Supervisory Board are responsible for compiling the remuneration report, which complies with the requirements of Section 162 of the German Stock Corporation Act (AktG).

Our audit appraisal of the consolidated financial statements and the summary management report does not extend to the other information. Accordingly, we provide no audit appraisal, nor do we present any other form of audit conclusions, on the said other information.

In connection with our audit appraisal of the consolidated financial, we have a duty to read the aforesaid other information, and to consider whether the other information

- contains material inaccuracies relating to the consolidated financial statements, the content of the audited disclosures in the summary management report or our findings from the audit, or
- appears to be materially incorrectly presented in any other way.

If, based on the work we have performed, we conclude that there has been materially false information in this other information, we are required to report that fact. We have nothing to report in this context.

#### **Responsibility of the legal representatives and of the Supervisory Board for the consolidated financial statements and the summary management report**

The legal representatives are responsible for compiling the consolidated financial statements in compliance with IFRS, as applicable in the EU, and with the additional German legal requirements pursuant to Section 315e (1) of the German Commercial Code (HGB) in all material respects, and for ensuring that the consolidated financial statements convey a true and accurate view of the net assets, financial position, results of operations and cash flows of the Group in line with those requirements. The legal representatives are also responsible for the internal controls which they have designated as necessary in order to compile consolidated financial statements containing no – intentionally or unintentionally – materially false information.

In compiling the consolidated financial statements, the legal representatives are responsible for assessing the ability of the Group to maintain its business operations. They further have a duty to disclose any relevant matters pertinent to the maintaining of business operations. Their responsibilities also include reporting on the Group's ability to maintain business operations on the basis of financial reporting principles, unless it is intended that the Group should be liquidated or cease its business operations, or there is no realistic alternative to doing so.

The legal representatives are also responsible for compiling the summary management report, presenting an accurate overall view of the Group's position and complying in all material respects with the consolidated financial statements and with German law, and accurately presenting the opportunities and risks of future developments. Furthermore, the legal representatives are responsible for the precautions and measures (systems) that they deem necessary to enable the preparation of a summary management report in accordance with the applicable German legal requirements and to provide sufficient appropriate evidence for the statements made in the summary management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting processes in compiling the consolidated financial statements and the summary management report.

## Responsibilities of the auditor for auditing the consolidated financial statements and the summary management report

Our objective is to establish with adequate certainty that the consolidated financial statements as a whole contain no – intentionally or unintentionally – materially false information, and that the summary management report presents an accurate overall view of the Group's position and complies in all material respects with the consolidated financial statements, with the findings of the audit, and with German law, and accurately presents the opportunities and risks of future developments. We are required to draw up an audit report setting forth our appraisal of the consolidated financial statements and the summary management report.

'Adequate certainty' means a high degree of certainty, but does not guarantee that an audit conducted in accordance with Section 317 of the German Commercial Code (HGB) and the EU Audit Regulation, in line with the generally accepted German standards for the auditing of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW), will reveal all materially false information. False information may result from violations of regulations or from errors, and is regarded as material if it might reasonably be expected that – in isolation or overall – it will influence commercial decisions of the target readership taken on the basis of these consolidated financial statements and this summary management

During the audit, we exercise due diligence in making judgements and adopt a critical view. Additionally:

- We identify and assess the risks of intentionally or unintentionally materially false information presented in the consolidated financial statements and the summary management report, plan and implement audit procedures in response to the said risks, and gather evidence which is adequate and suitable to serve as the basis for our audit appraisal. The risk that materially false information will not be revealed is higher in the case of violations against regulations than it is in the event of errors being made, as violations can include fraudulent collaboration, fakery, intentional omission, presentation of misleading information or the bypassing or disabling of internal controls.
- We gain an understanding of the internal control system relevant to auditing of the consolidated financial statements and the precautions and measures relevant to auditing of the summary management report, in order to plan audit procedures which are appropriate to the given circumstances, though not with the aim of appraising the efficacy of these systems.
- We assess the adequacy of the financial reporting methods applied by the legal representatives and the accuracy of the estimated values and related information given by the legal representatives.
- We draw conclusions as to the adequacy of the financial reporting methods applied by the legal representatives in evidencing the ability of the Group to maintain its business operations, and check on the basis of the audit evidence gathered whether there is any material uncertainty in relation to events or circumstances which might cast significant doubt on the ability of the Group to maintain its business operations. If we conclude that there is any material uncertainty, we have a duty to cite the relevant disclosures in the consolidated financial statements and the summary management report in our unqualified opinion or, if the said disclosures are inappropriate, to modify our audit appraisal. We draw our conclusions on the basis of the audit evidence gathered up to the date of our unqualified opinion. Future events or circumstances may, however, result in the Group no longer being able to maintain its business operations.
- We assess the overall view presented, and the structure and content of the consolidated financial statements, including the disclosures in it, as well as assessing whether the consolidated financial statements present the underlying transactions and events such that the consolidated financial statements in compliance with IFRS, as applicable in the EU, and with the additional German legal requirements pursuant to Section 315e (1) of the German Commercial Code (HGB) convey a true and accurate view of the net assets, financial position, results of operations and cash flows of the Group.
- We gather adequate and suitable audit evidence concerning the financial reporting information on the companies or business operations within the Group in order to provide appraisals of the consolidated financial statements and the summary management report. We are responsible for guiding, supervising and conducting the audit of the consolidated financial statements. We bear sole responsibility for our audit appraisal.
- We assess the conformance of the summary management report to the consolidated financial statements, its legal compliance, and the view it provides of the Group's position.
- We implement audit procedures relating to the forward-looking information set out by the legal representatives in the summary management report. Based on adequate and suitable audit evidence, we in particular trace the significant assumptions made by the legal representatives underpinning the forward-looking information they set out, and assess the correct and proper derivation of the said forward-looking information from the said assumptions. We do not provide a separate appraisal of the forward-looking information or of the assumptions underpinning it. There is a significant unavoidable risk that future events will vary materially from the forward-looking information presented.

We consult with the staff responsible for overseeing the planned audit on matters including the scope and timing of the audit, and discuss with them significant findings from the audit, including any deficiencies in the internal control system which we identify in the course of our audit.

We provide the staff responsible for overseeing the audit with a declaration that we have complied with the relevant requirements for independence, and discuss with them all the relationships and any other matters which might reasonably give rise to the assumption that our independence could be impaired, as well as discussing with them the preventive measures implemented to prevent any such impairment.

From the matters discussed with the staff responsible for overseeing the audit, we define those matters which were most significant in auditing the consolidated financial statements for the current reporting period, and which consequently are considered to be key audit matters. We detail the said matters in our unqualified opinion unless the law or other legally binding regulations prohibit public disclosure of the matters.

### **OTHER STATUTORY REQUIREMENTS**

Report on the audit of the electronic reproductions of the consolidated financial statements and the summary management report prepared for the purpose of disclosure in accordance with Section 317 (3a) of the German Commercial Code (HGB)

#### **Audit appraisal**

In accordance with Section 317 (3a) of the German Commercial Code (HGB), we have performed a reasonable assurance engagement to determine whether the reproductions of the consolidated financial statements and the summary management report (hereinafter also referred to as "ESEF documents") contained in the file "Hermle\_AG\_KA\_2021-12-31.zip" and prepared for the purpose of disclosure comply in all material respects with the requirements of Section 328 (1) of the German Commercial Code (HGB) regarding the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this audit extends only to the conversion of the information contained in the consolidated financial statements and the summary management report into the ESEF format and therefore neither to the information contained in these reproductions nor to any other information contained in the aforesaid file.

In our opinion, the reproductions of the consolidated financial statements and the summary management report contained in the aforesaid file and prepared for the purpose of disclosure comply in all material respects with the requirements of Section 328 (1) of the German Commercial Code (HGB) regarding the electronic reporting format. Other than this audit appraisal and our audit appraisals on the accompanying consolidated financial statements and on the accompanying summary management report for the business year from 1 January to 31 December 2021 included in the "Auditor's report on the audit of the consolidated financial statements and the summary management report", we do not provide any audit appraisal on the information given in these reproductions or on the other information included in the aforesaid file.

#### **Basis for the audit appraisal**

We performed our audit of the reproductions of the consolidated financial statements and the summary management report in the aforesaid file in accordance with Section 317 (3a) of the German Commercial Code (HGB) and in compliance with IDW Auditing Standard: Audit of Electronic Reproductions of Financial Statements and Management Reports Prepared for the Purpose of Disclosure pursuant to Section 317 (3a) of the German Commercial Code (HGB) (IDW PS 410 (10.2021)). Our responsibility is further described in the section "Auditor's responsibility for the audit of the ESEF documents". Our audit firm has applied the quality assurance system requirements of the IDW quality assurance standard: Requirements for Quality Control in Audit Firms (IDW QS 1).

#### **Responsibility of the legal representatives and of the Supervisory Board for the ESEF documents**

The legal representatives of the company are responsible for the preparation of the ESEF documents with the electronic reproductions of the consolidated financial statements and the summary management report in accordance with Section 328 (1) Clause 4 No. 1 of the German Commercial Code (HGB) and for the mark-up of the consolidated financial statements in accordance with Section 328 (1) Clause 4 No. 2 of the German Commercial Code (HGB).

Furthermore, the legal representatives of the company are responsible for the internal controls they deem necessary to enable the preparation of the ESEF documents that are free from material non-compliance, whether due to fraud or error, with the electronic reporting format requirements of Section 328 (1) of the German Commercial Code (HGB).

The Supervisory Board is responsible for overseeing the process of preparing the ESEF documents as part of the financial reporting process.

#### **Auditor's responsibility for the audit of the ESEF documents**

Our objective is to obtain reasonable assurance about whether the ESEF documentation is free from material non-compliance, whether due to fraud or error, with the requirements of Section 328 (1) of the German Commercial Code (HGB). During the audit, we exercise due diligence in making judgements and adopt a critical view. Additionally:

- We identify and assess the risks of material non-compliance, whether due to fraud or error, with the requirements of Section 328 (1) of the German Commercial Code (HGB), design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit appraisal.
- We gain an understanding of the relevant internal controls to audit the ESEF documents in order to plan audit procedures which are appropriate to the given circumstances, though not with the aim of appraising the efficacy of these controls.
- We assess the technical validity of the ESEF documents, i.e. whether the file containing the ESEF documents meets the requirements of Delegated Regulation (EU) 2020/815, as amended at the reporting date, for the technical specification for that file.
- We assess whether the ESEF documents provide a consistent XHTML representation of the audited consolidated financial statements and the audited summary management report.
- We assess whether the mark-up of the ESEF documents with inline XBRL technology (iXBRL) in accordance with Articles 4 and 6 of Commission Delegated Regulation (EU) 2019/815, as applicable on the reporting date, provides an adequate and complete machine-readable XBRL copy of the XHTML representation.

#### **OTHER DISCLOSURE PURSUANT TO ARTICLE 10 OF THE EU AUDIT REGULATION**

We were elected to audit the consolidated financial statements by the shareholders' meeting on 7 July 2021. Pursuant to Section 318 (2) of the German Commercial Code (HGB), we are deemed to be the auditors of the consolidated financial statements as no other auditor has been appointed. We were contracted to conduct the audit by the Supervisory Board on 10 October 2021. We have been the auditors of the consolidated financial statements of Maschinenfabrik Berthold Hermle AG since the 2020 business year.

We hereby declare that the audit appraisals set forth in this unqualified opinion conform to the additional report to the Supervisory Board pursuant to Article 11 of the EU Audit Regulation (Additional report to the audit committee).

#### **Other matters – use of the audit opinion**

Our audit opinion should always be read in conjunction with the audited consolidated financial statements and the audited summary management report and the audited ESEF documents. The consolidated financial statements and the summary management report converted into ESEF format – including the versions to be published in the Federal Gazette – are merely electronic reproductions of the audited consolidated financial statements and the audited summary management report and do not replace them. In particular, the ESEF note and our audit opinion contained therein can only be used in conjunction with the audited ESEF documentation provided in electronic form.

#### **Responsible auditor**

The auditor responsible for the audit is Dr. Volker Hecht.

Stuttgart, 26 April 2022

Ebner Stolz GmbH & Co. KG  
Auditors and tax consultants

Oliver Striebel  
Auditor

Dr. Volker Hecht  
Auditor

## ASSURANCE OF THE LEGAL REPRESENTATIVES (BALANCE SHEET OATH)

We assure to the best of our knowledge that pursuant to the applicable accounting principles, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations and cash flows, and in the joint management report of Maschinenfabrik Berthold Hermle AG and the Group, the business performance, including the business result, and the Group's position are stated such that a true and fair view of the actual circumstances is presented, and the key opportunities and risks of the likely development are described.

Gosheim, 30 March 2022

Maschinenfabrik Berthold Hermle AG

Günther Beck

Franz-Xaver Bernhard

Benedikt Hermle

## DECLARATION OF COMPLIANCE PURSUANT TO SECTION 161 OF THE GERMAN STOCK CORPORATION ACT (AKTG)

Declaration of compliance pursuant to Section 161 of the German Stock Corporation Act (AktG) of Maschinenfabrik Berthold Hermle AG on the recommendations of the Government Commission on the German Corporate Governance Code

The Management Board and the Supervisory Board declare that apart from various individual points the recommendations of the Government Commission on the German Corporate Governance Code as amended on 16 December 2019, which came into force on 20 March 2020 (GCGC 2020), are not complied with. This is justified in that Maschinenfabrik Berthold Hermle AG conducts its operations in accordance with the principles of open information policy that it has put in place to date, which were implemented as part of the rules of procedure of the Management Board and the Supervisory Board. The legal requirements, including the Act Implementing the Second Shareholders' Rights Directive (ARUG II), which came into force on 1 January 2020, are fully complied with.

The Management Board and the Supervisory Board hold the view there are various reasons for not implementing recommendations of the GCGC 2020 that extend beyond this. As detailed below, Maschinenfabrik Berthold Hermle AG therefore deviates considerably from the recommendations of the GCGC 2020, whereby it may be assumed for the following statements that all GCGC 2020 recommendations that are not identified as being positively regarded in the following have been deviated from.

The recommendations under B. regarding the appointment of members to the Management Board are largely not complied with. In view of the successful, decade-long practice in the appointment of Management Board members and the continuity in the Management Board, the previous framework conditions for the appointment of board members shall essentially be retained and no further restrictions shall be deliberately imposed, albeit in compliance with legal framework conditions.

The recommendations under C. on composition, under D. on working methods, under E. on conflicts of interest and under F. on transparency and external reporting of the Supervisory Board are largely not complied with, as the applicable legal regulations together with the rules of procedure of the Management Board and the Supervisory Board are judged to be fully sufficient for the topics dealt with there. Furthermore, we believe that the Code recommendations under C. to F. are geared towards international major DAX listed Groups but not to an SME with a limited number of ordinary shareholders who – in part and also on the basis of a right of delegation under the articles of association – are represented personally in the supervisory committees.

Finally, the recommendations on the remuneration of the Management Board and the Supervisory Board under G. (GCGC 2020) are essentially not complied with. In addition to the basic provisions for the remuneration of Management Board members in accordance with Section 87 of the AktG for DAX-listed companies in Section 87 a of the AktG, the legislator has regulated the obligation to establish a remuneration system that is to be put before the shareholders' general meeting in accordance with Section 120 a, Para. 1 of the AktG, whereby with only a few exceptions the specified, comprehensive individual requirements of the remuneration system are only then to be implemented in the remuneration system if they are indeed part of contractual agreements with Management Board members. Correspondingly, in accordance with Section 162 of the AktG the obligation pertains to draw up a remuneration report containing, in particular, evidence of compliance with the remuneration system. In accordance with Section 120 a, Para. 4 of the AktG, this is to be approved by the shareholders' meeting for the respective previous business year. To date, Maschinenfabrik Berthold Hermle AG has completely fulfilled all these legal requirements within the timespan prescribed by the legislator and will also do this in future. Maschinenfabrik Berthold Hermle AG also considers these requirements by the legislator to be absolutely sufficient to ensure appropriate remuneration for the Management Board and the Supervisory Board and also transparency in this regard. In particular, we expressly view the individual complexities designated in G. of the GCGC 2020 as being unsuitable for a company of our dimensions with regard to ensuring fair and transparent remuneration of the Management Board members that remains beneficial to the company as well. In addition, in the past Maschinenfabrik Berthold Hermle AG had variable remuneration based on the company's results, but no share-based remuneration for the board members, and from today's perspective such share-based remuneration is not planned for the future.

Overall, in view of the relative lower market capitalisation of the company, the shareholder structure, the very lean and therefore efficient company organisation to date as well as the additional costs associated with full implementation, Maschinenfabrik Berthold Hermle AG has decided in favour of a merely very limited implementation of the GCGC.

However, Maschinenfabrik Berthold Hermle AG complies with various individual regulations of the GCGC 2020, which are listed below:

- Recommendation A.1 GCGC - Observance of diversity when filling management positions
- Recommendation A.2 GCGC - Compliance management system with disclosure of the principles
- Recommendation B.1 GCGC - Observance of diversity by the Supervisory Board in the composition of the Management Board
- Recommendation B.4 Reappointment of the Management Board before the end of one year prior to the end of the term of appointment only in the case of special circumstances
- Recommendation C.4 Multiple mandates of Supervisory Board members
- Recommendation C.11 Supervisory Board mandates for former Management Board members
- Recommendation C.12 Position of Supervisory Board members towards competitors
- Recommendation D.6 Consultation of the Chair of the Supervisory Board with the Management Board on issues of strategy, business development, risk situation, risk management and compliance of the company
- Recommendation D.8 Information on Supervisory Board meetings in the report of the Supervisory Board
- Recommendation D.9 Agreement on immediate notification of the Supervisory Board by the auditor in the event of significant findings and occurrences
- Recommendation D.10 Agreement on the provision of information to the Supervisory Board by the auditor in the event that incorrect declarations regarding the Code are identified
- Recommendation E.3 Secondary activities of Management Board members
- Recommendation F.3 Publication of quarterly reports or information during the year on significant changes in the business outlook and the risk situation
- Recommendation F.5 Publication of the declaration of compliance on the website for five years
- Recommendations G.12-  
G.14 Benefits in the event of termination of contracts of Management Board members
- Recommendation G.15 Offsetting the remuneration for intra-group Supervisory Board mandates in the Management Board remuneration
- Recommendation G.16 Decision of the Supervisory Board on the offsetting of remuneration for Supervisory Board mandates outside the group in the Management Board remuneration
- Recommendation C.18 Fixed remuneration of Supervisory Board members

Gosheim, 16 March 2022

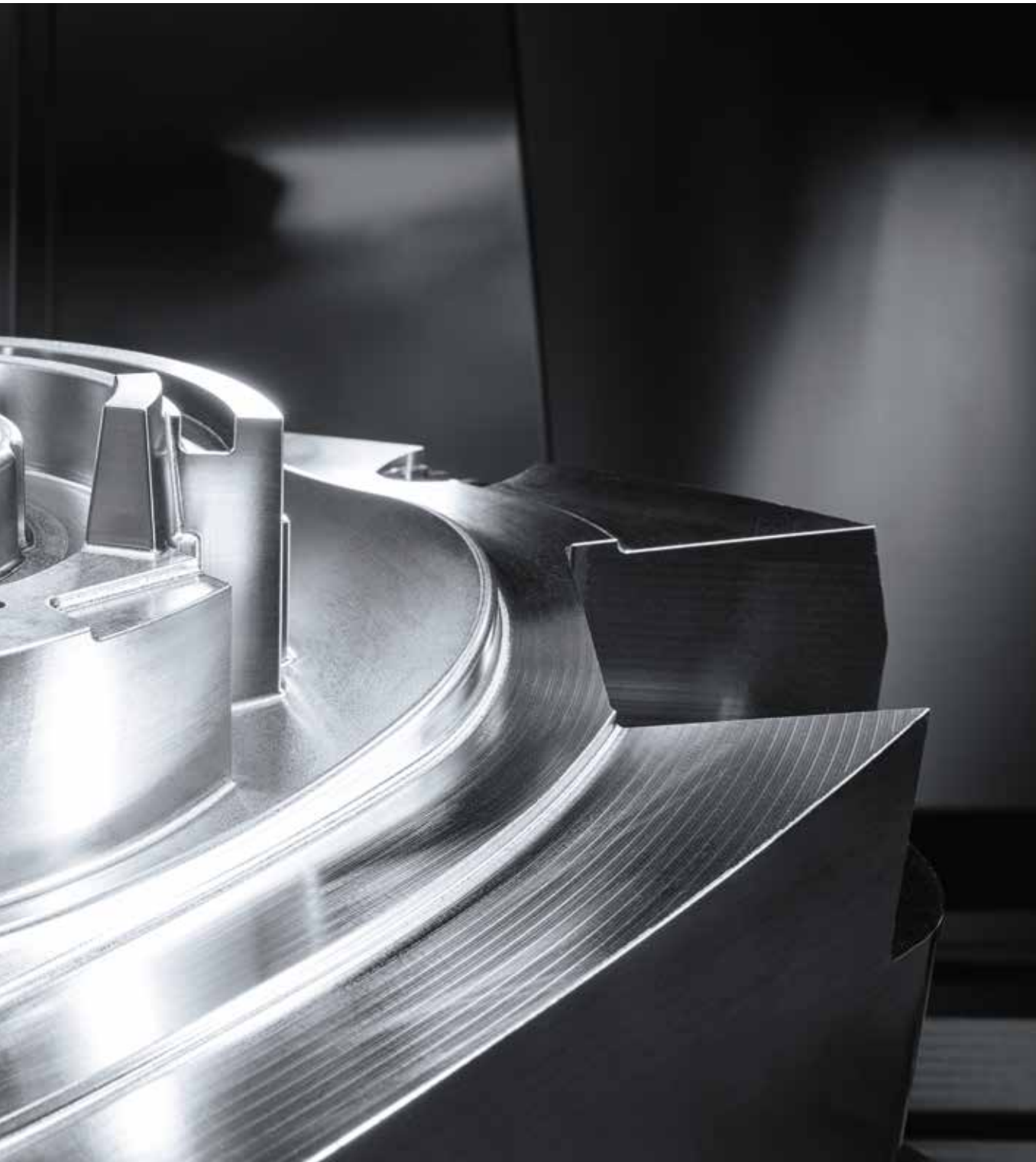
Maschinenfabrik Berthold Hermle AG

Management Board  
Supervisory Board





FURTHER  
INFORMATION



Hermle C 42 U dynamic in 5-axis version |  
Machining of a mould insert for toolmaking and mould construction.

# BALANCE SHEET

BY MASCHINENFABRIK BERTHOLD HERMLE AG

## ASSETS

€k	31.12.2021	31.12.2020
<b>A. Assets</b>		
I. Intangible assets		
Industrial property rights and similar rights acquired for value consideration	1,130	1,351
II. Property, plant and equipment		
1. Land and buildings, including the buildings on non-owned land	47,921	49,174
2. Technical plants and machinery	14,360	14,183
3. Other plants, fixtures and fittings	9,226	10,127
4. Advances paid	652	1,489
	72,159	74,973
III. Financial assets		
1. Investments in associated companies	11,743	12,342
2. Loans to associated companies	275	275
3. Other loans	5	5
	12,023	12,622
	<b>85,312</b>	<b>88,946</b>
<b>B. Current assets</b>		
I. Inventories		
1. Raw, process and operating materials	40,263	34,172
2. Unfinished products	21,257	14,519
3. Finished products	16,238	14,608
4. Advances paid	1,359	665
	79,117	63,964
II. Trade and other receivables		
1. Trade accounts receivables	40,130	26,224
2. Receivables from associated companies	23,997	4,610
3. Other receivables	23,698	17,810
	87,825	48,644
III. Liquid assets	73,730	72,305
	<b>240,672</b>	<b>184,913</b>
<b>C. Accrued and deferred items</b>	<b>625</b>	<b>361</b>
	<b>326,609</b>	<b>274,220</b>



# DEVELOPMENT OF ASSETS

BY MASCHINENFABRIK BERTHOLD HERMLE AG

€k	Acquisition/manufacturing costs					As of 31.12.2021
	As of 01.01.2021	Additions	Repostings	Currency adjustment	Retirements	
<b>I. Intangible assets</b>						
Industrial property rights and similar rights acquired for value consideration	7,989	340	0	0	42	8,287
<b>II. Property, plant and equipment</b>						
1. Land and buildings, including the buildings on non-owned land	77,895	721	124	10	0	78,740
2. Technical plants and machinery	49,483	2,046	1,264	0	824	51,969
3. Other plants, fixtures and fittings	29,695	1,922	8	17	1,320	30,322
4. Advances paid	1,489	564	-1,396	0	5	652
	158,562	5,253	0	17	2,149	161,683
<b>III. Financial assets</b>						
1. Investments in associated companies	12,342	0	0	0	0	12,342
2. Loans to associated companies	275	0	0	0	0	275
3. Other loans	5	0	0	0	0	5
	12,622	0	0	0	0	12,622
	179,173	5,593	0	17	2,191	182,592

	Cumulated depreciation				Book values		
	As of 01.01.2021	Additions	Currency adjustment	Retirements	As of 31.12.2021	As of 31.12.2021	As of 31.12.2020
	6,638	559	0	40	7,157	1,130	1,351
	28,721	2,098	0	0	30,819	47,921	49,174
	35,300	3,024	0	715	37,609	14,360	14,183
	19,568	2,807	8	1,287	21,096	9,226	10,127
	0	0	0	0	0	652	1,489
	83,589	7,929	8	2,002	89,524	72,159	74,973
	0	599	0	0	599	11,743	12,342
	0	0	0	0	0	275	275
	0	0	0	0	0	5	5
	0	599	0	0	599	12,023	12,622
	90,227	9,087	8	2,042	97,280	85,312	88,946

# INCOME STATEMENT

## BY MASCHINENFABRIK BERTHOLD HERMLE AG

€k	2021	2020
1. Sales revenues	344,963	271,129
2. Increase (in previous year decrease) in inventory of finished and unfinished products	8,368	-4,164
3. Other company-produced assets	1,238	691
4. Total operating performance	354,569	267,656
5. Other operating income	5,969	9,733
6. Material cost	165,533	121,427
7. Personnel costs	78,612	65,551
8. Depreciation on intangible assets and property, plant and equipment	8,488	7,912
9. Other operating costs	40,120	35,204
<b>10. Operating result</b>	<b>67,785</b>	<b>47,295</b>
11. Financial result and investment earnings	1,702	2,952
12. Taxes on income	18,072	12,169
<b>13. Result after taxes</b>	<b>51,415</b>	<b>38,077</b>
14. Other taxes	355	199
<b>15. Net income</b>	<b>51,060</b>	<b>37,878</b>
16. Profit carried over from previous year	71,772	58,943
<b>17. Balance sheet profit</b>	<b>122,832</b>	<b>96,821</b>

# PROPOSAL ON THE APPROPRIATION OF PROFITS

## RESOLUTION ON APPROPRIATION OF BALANCE SHEET PROFIT FOR THE 2021 BUSINESS YEAR

In accordance with Section 16 (3) of the Articles of Association of Maschinenfabrik Berthold Hermle AG, the Management Board and the Supervisory Board resolved on 27 April 2022 to allocate €6 million from the result of the 2021 business year to the revenue reserves.

The Management Board and the Supervisory Board propose to appropriate the balance sheet profit of the 2021 business year of €116,831,830.23 as follows:

Distribution of a dividend of € 9.00 Per ordinary share (€ 0.80 + € 8.20 bonus) Security identification number 605 280 / ISIN DE0006052806 for 4,000,000 ordinary shares for the 2021 business year:	€ 36,000,000.00
Distribution of a dividend of € 9.05 Per preference share (€ 0.85 + € 8.20 bonus) Security identification number 605 283 / ISIN DE0006052830 for 1,000,000 preference shares for the 2021 business year:	€ 9,050,000.00
To be carried forward to new account:	€ 71,781,830.23
<b>Balance sheet profit</b>	<b>€ 116,831,830.23</b>

In accordance with Section 58 (4) Clause 2 of the German Stock Corporation Act (AktG), claims to a dividend become due on the third working day following the resolution by the shareholders' meeting, i.e. on 11 July 2022. Therefore the dividend shall be paid out on 11 July 2022.

Insofar as Maschinenfabrik Berthold Hermle AG holds its treasury shares at the time at which a resolution is adopted at the shareholders' meeting, these shall not be eligible for a dividend pursuant to the German Stock Corporation Act. The partial amount attributable to individual share certificates will likewise be carried forward to a new account.

Gosheim, April 27, 2022

Maschinenfabrik Berthold Hermle AG

Günther Beck

Franz-Xaver Bernhard

Benedikt Hermle



# NOTES

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

# HERMLE WORLDWIDE



**HPV Hermle Vertriebs GmbH**  
Gosheim, Germany  
[www.hermle.de](http://www.hermle.de)



**HLS Hermle Systemtechnik GmbH**  
Gosheim, Germany  
[www.hermle.de](http://www.hermle.de)



**Hermle Maschinenbau GmbH**  
Ottobrunn, Germany  
[www.hermle-generativ-fertigen.de](http://www.hermle-generativ-fertigen.de)



**Hermle Austria**  
Vöcklabruck Branch,  
Austria  
[www.hermle-austria.at](http://www.hermle-austria.at)



**Hermle Česká Republika,  
Organizacni slozka,**  
Prague Branch, Czech Republic  
[www.hermle.cz](http://www.hermle.cz)



**Hermle Polska**  
Warsaw Branch, Poland  
[www.hermle.pl](http://www.hermle.pl)



**Hermle Nordic**  
Odense Branch, Denmark  
[www.hermle-nordic.dk](http://www.hermle-nordic.dk)



**Hermle Southeast Europe**  
Sofia, Bulgaria  
[www.hermle.de](http://www.hermle.de)



**Hermle (Switzerland) AG**  
Neuhausen am Rheinfall, Switzerland  
[www.hermle-schweiz.ch](http://www.hermle-schweiz.ch)



**Hermle USA Inc.**  
Franklin/Wisconsin, USA  
[www.hermleusa.net](http://www.hermleusa.net)



**Hermle Nederland B.V.**  
Horst, Netherlands  
[www.hermle-nederland.nl](http://www.hermle-nederland.nl)



**Hermle Belgium**  
Belgium  
[www.hermle-nederland.nl](http://www.hermle-nederland.nl)



**Hermle Italia S.r.l.**  
Rodano, Italy  
[www.hermle-italia.it](http://www.hermle-italia.it)



**Hermle WWE AG**  
Neuhausen am Rheinfall, Switzerland  
[www.hermle-vostok.ru](http://www.hermle-vostok.ru)



**Hermle Vostok OOO**  
Moscow, Russian Federation  
[www.hermle-vostok.ru](http://www.hermle-vostok.ru)



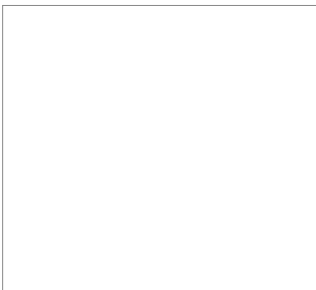
**Hermle China**  
Shanghai and Beijing  
Representative Office, China  
[www.hermle.de](http://www.hermle.de)



**Hermle México S. DE R.L. DE C.V.**  
Querétaro, Qro, Mexico  
[www.hermle.mx](http://www.hermle.mx)



**Hermle SEA Co., Ltd.**  
Chonburi, Thailand  
[www.hermle-sea.com](http://www.hermle-sea.com)



Machine factory  
Berthold Hermle AG  
Industriestr. 8-12  
D-78559 Gosheim

Phone +49 (0)7426 95-0  
Fax +49 (0)7426 95-1309

[info@hermle.de](mailto:info@hermle.de)  
[www.hermle.de](http://www.hermle.de)

