

Annual Report

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2022



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INDICES

HERMLE GROUP

€m	2018	2019	2020	2021	2022	Change 2022/2021
Turnover	452.9	463.1	296.9	376.0	474.1	26.1%
- Domestic	186.8	197.6	112.2	139.2	171.5	23.2%
- International	266.1	265.5	184.7	236.8	302.6	27.8%
Orders received	475.9	414.4	242.5	439.1	534.1	21.6%
Order backlog	148.0	99.3	44.8	107.9	168.0	55.7%
Investments	11.9	16.3	21.6	8.6	10.4	20.9%
- Property, plant and equipment ¹	11.9	13.3	21.6	7.6	10.4	36.8%
- Financial assets	-	3.0	-	1.0	-	-
Depreciation	10.0	10.4	10.4	11.3	11.2	-0.1%
- Property, plant and equipment ¹	10.0	10.4	10.4	11.3	11.2	-0.1%
- Financial assets	-	-	-	-	-	-
Operating result	111.7	114.2	54.2	74.6	99.6	33.5%
Net income	82.5 ²	84.2	40.1	54.9	71.8	30.8%
Cash flow	92.9	94.6	50.5	66.3	87.8	32.4%
Balance sheet total	367.5 ³	360.1	347.0	415.0	467.8	12.7%
Equity	250.3	260.4	274.4	305.2	334.8	9.7%
Employees (reporting date 31 December)	1,251	1,319	1,304	1,320	1,383	4.8%

¹ Property, plant and equipment and intangible assets

² Without one-off valuation effect of €m 4.9 from the HLS complete acquisition

³ Adjustment due to the first-time application of IFRS 16

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.

ORGANS OF THE COMPANY

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

*Elected employee representatives

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

Additional Management Board and Supervisory Board positions are stated on page 82.

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 Technology and Training 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.
- 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.
- 2014 At its Gosheim location, the company moves into a state-of-the-art production facility for the assembly of large machines and automated plants 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 2022

JANUARY

Future investments – Due to the continued high demand for machining centres and automation solutions, Hermle launches an extensive investment programme at the beginning of the year. The aim is to expand capacity at the two manufacturing locations in Gosheim and Zimmern ob Rottweil. Over the next five years, a total of around €m 60 will be invested in this area.

FEBRUARY

New Hermle company in China – With the payment of the share capital, the new subsidiary Hermle Machine (Shanghai) Co., Ltd. is officially launched. During the course of the year, the employees of the previous Chinese representative offices relocate to the new company and commence business activities.



APRIL



Hermle Open House opens its doors to visitors – under the motto "Precision meets Technology", numerous customers and interested parties meet again in person in Gosheim after a two-year break due to COVID-19. Guests are able to discover the latest trends in automation and machine tool manufacturing. Intensive discussions highlight the importance of direct contacts.

Loss of the Russian businesses – Due to a lack of future prospects and limited control, the Russian subsidiaries leave the Group. The start of the war in Ukraine brought an end to their operations.

JULY

Works meeting in person – After a two-year break due to the pandemic, a Hermle works meeting took place again in 2022. Around 750 employees meet at the new Zimmern ob Rottweil location to discover the latest developments at Hermle and to exchange ideas with each other in person.



SEPTEMBER

The focus is on automation at AMB and IMTS – Hermle presents its technologically advanced range of machining centres and automation solutions at the two major international trade fairs, AMB in Stuttgart and IMTS in Chicago. In view of the shortage of skilled workers in many industrialised countries, visitors are particularly interested in the possibilities of individual, networked automation concepts for 24/7 production.



OCTOBER

Expanding capacity for future growth – Hermle acquires the required expansion areas at its Zimmern ob Rottweil location. These areas will facilitate the construction of a new production facility for large parts, extend the mineral casting production facility and generate additional storage capacity. This move is a critical part of Hermle's investment programme, which totals approximately €m 60 and was launched at the start of 2022.



DECEMBER

Expanding additive manufacturing – Hermle successfully concludes the development of an advanced hybrid machining centre, the MPA 42. This achievement is set to augment the additive manufacturing capabilities of the Hermle-specific metal powder application process. By offering MPA technology as a service, Hermle's customers can produce highly intricate components, including those with internal cooling ducts.



PREFACE BY THE COMPANY SPOKESMAN

DEAR SHAREHOLDERS, BUSINESS PARTNERS AND FRIENDS OF THE COMPANY,

Despite the tumultuous conditions, 2022 proved to be successful for Maschinenfabrik Berthold Hermle AG. Tumultuous because the year was fraught with uncertainty and volatility, driven by the war in Ukraine, extended COVID-19 lockdowns in China, steep material price hikes and supply chain disruptions, all of which compounded fears of an impending energy crisis. Successful for Hermle because we achieved record highs in the number of orders received and turnover, increased the result and gained market shares, particularly in the automation sector despite the volatile business environment.

In 2022, orders received by the Hermle Group surged by roughly 22% to €m 534, while sales rose by a good 26% to €m 474. The operating result increased by about 33% to €m 99.6, and net income by around 31% to €m 71.8. On this basis, the distribution to our shareholders should also increase: The Management Board and the Supervisory Board propose to the shareholders' meeting to increase the dividend by € 2.00 to € 11.05 per preference share and € 11.00 per ordinary share.

The good business performance is largely due to the outstanding commitment of our employees. Throughout the year, they compensated for the ongoing supply chain disruptions and the unforeseeable problems in shipping logistics by working overtime and making internal adjustments in many areas, even though there was a high sickness absence rate due to COVID-19 and other respiratory infections until October. The entire Hermle team showed great commitment, flexibility and creativity in meeting the challenges. We would like to express our sincere thanks to all of them.

It was not until the last few months of the year that the situation eased somewhat. On the one hand, the sickness absence rate dropped and, on the other hand, the supply situation improved. Consequently, we optimally leveraged our capacities and achieved a final surge that surpassed our projections for the year as a whole.

The fact that the external disruptions at Hermle were managed so well not only benefits our figures but also our reputation as a reliable partner and our market success. We were thus able to deliver our machines and systems on time for the most part – an issue that has again become very important in the past year due to the difficult general conditions.

However, our impressive expertise in the field of automation was particularly critical to the improvement of our market position. Hermle has been a leading player in this high-growth segment since the late 1990s. While initially being mainly driven by the desire for higher productivity and efficiency, the growing shortage of skilled workers in many industrialised countries is now the main driver of the increasing demand for automated manufacturing solutions. Our offering, which ranges from fully automated individual machines to the implementation of completely networked, integrated manufacturing processes, supports our customers in actively meeting the challenges arising from the shortage of skilled workers.

As a full-range supplier for high-end automation, we have a modular system with a wide variety of automation and digitalisation components that can be used to expand our 5-axis machining centres – individually oriented to the requirements of our customers – into complete Industry 4.0 production systems. In the chapter "From the company" starting on page 34 of this annual report, we show you how versatile the possible applications are. For example, we present some Hermle customers from a wide range of industries who rely on our flexible manufacturing systems.

What is important for our users is not only reliable, high-performance and high-quality production equipment, but also competent, reliable and fast service. That is why we are continuously expanding our capacities in this area as well as in sales at home and abroad. After two new Hermle subsidiaries in Mexico and Thailand began operations in previous years to better serve the regions of Latin America and Southeast Asia, a separate Hermle company was founded in China in the year under review. In the future, we aim to further enhance our international operations and exploit untapped potential in foreign markets that Hermle has yet to fully explore.

Furthermore, we want to expand our production locations, although we will continue to manufacture our products in Germany. In the year under review, the first steps of the extensive investment programme for the Gosheim and Zimmern ob Rottweil locations, which was launched at the beginning of 2022, were taken. Over the next two years, a new production facility for large parts is, for example, to be installed in Zimmern, and the mineral casting production facility and storage areas are to be expanded in order to increase our automation capacities. Since we believe that the demand for automated production solutions will increase in the long term.

For the near future, we are cautiously confident despite the economic uncertainties. Thanks to our high order backlog and the still very good order situation at the beginning of the year, increases in turnover and the result are possible again for 2023 as a whole. Nevertheless, there are still significant risks, in particular, resulting from the war in Ukraine and other geopolitical tensions, notably the strained relations between China and the United States, but also from possible continued price hikes and supply chain disruptions as well as the recent banking crisis. All these factors – together with the rising interest rate level and reduced economic momentum – could dampen the industry's willingness to invest. We currently anticipate the 2023 Hermle Group turnover to be at least on par with the previous year's level; however, with the possibility of a potential 10% upturn in the absence of any external disturbances. The result is expected to remain stable, subject to fluctuations in material and energy prices and the possibility of any price hikes being transferred to customers. However, a favourable scenario could also enable increases in the operational result. Thanks to our high degree of flexibility and very solid financial situation, we will continue to be in a position – as in previous years – to adapt quickly and efficiently to changing market requirements and to make the best possible use of the opportunities that arise.

Yours faithfully,



Günther Beck
Management Board

Franz-Xaver Bernhard
Management Board

Benedikt Hermle
Management Board



REPORTS

Hermle C 22 U dynamic in 5-axis version |
Machining of a wheel suspension for automotive engineering.

REPORT OF THE SUPERVISORY BOARD

LADIES AND GENTLEMEN, DEAR SHAREHOLDERS,

Maschinenfabrik Berthold Hermle AG has successfully mastered the very tumultuous 2022 business year. Despite the many external disruptive factors, our company achieved new highs in the number of orders received and turnover as well as a significant improvement in the result. This was only possible thanks to a high degree of flexibility based on our company-specific concept of the breathing company and the strong performance of the Hermle team. The significant challenges in supply and logistics were successfully overcome through exceptional effort and innovative problem-solving. On behalf of the entire Supervisory Board, I would like to thank the Management Board and all employees for their outstanding commitment.

COOPERATION BETWEEN MANAGEMENT BOARD AND SUPERVISORY BOARD

The Supervisory Board performed the obligations incumbent upon it by law or under the articles of association prudently in the 2022 business year. We accompanied the Management Board in its work in an advisory capacity and carefully monitored the management of the company. Our cooperation was constructive, trusting and open in all matters. Regular oral and written reports from the Management Board updated us immediately and in full about all issues of importance to Maschinenfabrik Berthold Hermle AG. As a result, we were always fully informed about strategic measures, the operating business and the current situation of the company, including the risk and financial situation and important events. This also applied to corporate planning, including financial, investment and HR planning, as well as any deviations therefrom.

In the Supervisory Board meetings, we discussed all issues and events of importance to the company in detail and in a constructive manner, also taking into account important social and environmental concerns. We were involved in all major decisions at an early stage, especially in the case of transactions requiring approval, which were always decided on the basis of comprehensive reports and documents and after intensive discussions. The Chair of the Supervisory Board also regularly discussed current issues and special occurrences with the Management Board outside of the meetings. The Supervisory Board would like to expressly thank the entire Management Board for the consistently excellent preparation of the meetings and the harmonious cooperation.

SUPERVISORY BOARD MEETINGS AND COMMITTEES

Five ordinary Supervisory Board meetings were held in 2022. They took place on 16 March, 27 April, 6 July (two meetings) and 7 December. On 27 April, the Supervisory Board met in person, with one member being excused from attending. At the other meetings, which were held in a hybrid format, all Supervisory Board members were always in attendance. Thus, the Supervisory Board always had a quorum. The Management Board attended all meetings in person.

As in previous years, the Supervisory Board formed a general committee. It was not necessary to convene in 2022. In addition, we complied with our obligation to form an audit committee, which convened on 27 April. 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).

THE MAIN SUPERVISORY BOARD ISSUES IN 2022

In all Supervisory Board meetings in the year under review, we dealt intensively with the market situation and the consequences of the war in Ukraine for Hermle's business. Other recurring topics were the current course of business in the new machines and service areas as well as the development of the result and human resources. The projects to expand our Gosheim and Zimmern ob Rottweil locations were also regular items on the agenda.

At the meeting on 16 March 2022, we were also informed in detail about the preliminary figures and the development of the result for 2021 as well as the Management Board's dividend proposal to the Supervisory Board. The effects of the war in Ukraine on the 2021 annual financial statements as well as the situation of the Hermle subsidiaries in Russia and the future orientation of the export business Hermle WWE were also important items on the agenda. In addition, we intensively discussed the planned future projects in Gosheim and the acquisition of land for the upcoming construction of a production facility for large parts, including storage capacities, at the Zimmern location. Finally, the Supervisory Board decided to once again hold the 2022 shareholders' meeting virtually and adopted the Corporate Governance Statement pursuant to Sections 289f and 315d of the German Commercial Code (HGB).

Our meeting on 27 April 2022 focused on the 2021 annual financial statements. The representatives of the auditing company Ebner Stolz GmbH & Co. KG informed us in detail about the audit and the financial statements and were available for further questions. We discussed all the key points of the financial statements with the auditors, assessed the annual financial statements of Maschinenfabrik Berthold Hermle AG and approved the consolidated financial statements and the summary management report. Furthermore, we decided on the dividend proposal to the shareholders' meeting. It provided for an increased distribution of € 9.00 per ordinary share and € 9.05 per preference share compared to the previous year. The report of the Supervisory Board and the agenda for the shareholders' meeting were also adopted and the layout of the annual report was approved. Furthermore, the Management Board informed us about the termination of activities in Russia, which we approved, the topic of IT security against the background of increasing cyber attacks, as well as the site development in Gosheim and the construction plans in Zimmern. The Supervisory Board extended the expiring service contracts of the Management Board members Günther Beck and Benedikt Hermle. In addition, all Management Board contracts were changed to the new remuneration concept in this context.

On 6 July 2022, the Supervisory Board held one meeting before and one meeting after the shareholders' meeting. In the first meeting, we dealt with the challenging market and environmental conditions as well as the process of the virtual shareholders' meeting. Following the meeting, the focus was once again on the construction and future projects in Gosheim and Zimmern. The Supervisory Board approved the acquisition of the land required for the next construction phase in Zimmern. Furthermore, the Management Board informed us about additional measures in the area of IT security.

The Supervisory Board meeting on 7 December 2022 dealt intensively with the budget of Hermle AG and the Group for 2023, including sales and investment planning, which we approved after extensive discussion. Another focus was on the measures to expand capacity. The Management Board reported to us on the space concept for the vacated production area of the former sheet metal production site, the planning status of a new canteen and the application technology area in Gosheim, as well as the acquisition of the land and the start of the first construction phase in Zimmern. The Supervisory Board approved the inclusion of the second construction phase in Zimmern in the tender. We also approved the foundation of a subsidiary in France and the acquisition of the previously rented building of the sales company in Thailand. Finally, we approved the declaration of compliance pursuant to Section 161 of the German Stock Corporation Act (AktG), which we adapted to the amended version of the German Corporate Governance Code of 28 April 2022.

WORK OF THE AUDIT COMMITTEE

The audit committee mainly dealt with the preparation of the audit of the annual financial statements. On 30 March 2022, the audit committee decided by written consent in lieu of a live meeting to appoint Ebner Stolz GmbH & Co. KG as auditor for the 2022 business year and declared that this recommendation was made free of undue influence by third parties. In its meeting on 27 April 2022, the audit committee dealt in detail with the auditor's report on the audit of the annual financial statements of Hermle AG, the consolidated financial statements and the summary management report and proposed to the Supervisory Board that the financial statements be approved.

AUDIT OF THE ANNUAL FINANCIAL STATEMENTS

On July 6, 2022, the shareholders' meeting voted in favour of commissioning Ebner Stolz GmbH & Co. KG to conduct the annual audit for the 2022 business year. 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 applied that could jeopardise their impartiality.

The annual financial statements of Maschinenfabrik Berthold Hermle AG were 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). Ebner Stolz audited the annual financial statements and the summary management report in compliance with Section 317 of the German Commercial Code (HGB) and the EU Regulation on specific requirements regarding statutory audit of public-interest entities as well as the generally accepted German standards for the auditing of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW), and issued unqualified audit opinions in each case. The auditors assured 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.

Both the annual financial statements of Hermle AG and the Group and the summary management report as well as the audit reports were made available to the Supervisory Board in good time. In our own assessment, we discussed the documents in detail at the balance sheet meeting on 26 April 2023 in the presence of the auditors. The Supervisory Board agrees with the auditor's findings and raises no objections after completing its own review. We approve the annual financial statements and the management report. The annual financial statements of Maschinenfabrik Berthold Hermle AG have, therefore, been formally approved. We agree with the Management Board's proposal on the appropriation of profits for the 2022 business year. This corresponds to a basic dividend of € 0.80 per ordinary share and € 0.85 per preference share, as well as a bonus of € 10.20 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. We 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.

In 2023, Maschinenfabrik Berthold Hermle AG is once again operating in an extremely uncertain environment. Thanks to a high order backlog, the good market position in the fast-growing automation sector and the highly motivated and competent Hermle team, the chances for another positive business performance are nevertheless good. The planned construction measures at the two production locations in Gosheim and Zimmern ob Rottweil will place high demands on the employees. At the same time, however, this will also lay the foundation for Hermle's long-term successful development.

Gosheim, April 2023



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 is in line with the requirements of the German Accounting Standard (DRS) 20. As in the previous year, the consolidated financial statements for 2022 were prepared in compliance 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 statements 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 separate 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 (under: Investor Relations / Mandatory Disclosures / Sustainability Report / Non-Financial Statement). It contains all key information on our sustainability activities as well as the legally required disclosures in accordance with the EU Taxonomy Regulation.

GROUP FUNDAMENTALS

BUSINESS MODEL AND SALES MARKETS

Maschinenfabrik Berthold Hermle AG is one of the world's leading manufacturers of milling machines and machining centres and offers its customers complete automation solutions under one roof. 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 customer base is being continuously broadened so that the importance of individual sales sectors, such as the automotive industry, is gradually decreasing. In addition, we increasingly distribute our products worldwide and develop growth markets in a targeted manner in order to improve our international position. However, Germany remains our most important single market.

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. Furthermore, we offer a growing number of digital modules and automation components. Building

on this, we are increasingly designing individual solutions for integrated automation and digitally networked production for our customers. In addition, we offer services in the area of additive manufacturing.

ORGANISATIONAL STRUCTURE

The Hermle Group consists of the parent company Maschinenfabrik Berthold Hermle AG and several domestic and international subsidiaries. Within the Group, Hermle AG handles most of the development and production activities, central services and logistics services, as well as commercial issues and administrative functions. 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 mainly assume sales and service activities in various regions. In the year under review, we founded a subsidiary in Shanghai to better serve the Chinese market. It replaces the activities of our representative offices in China. Further independent Hermle subsidiaries are located in Italy, Mexico, the Netherlands, Switzerland, Thailand and the USA. In addition, there are Hermle operating facilities

in Denmark, Austria, Poland and the Czech Republic as well as representative offices in other sales regions, for example in Bulgaria, which organisationally belong to Hermle AG.

The two Russian subsidiaries Hermle Vostok and Hermle Uljanovsk were de-consolidated in April 2022 against the backdrop of the war in Ukraine. Details on this are included in the comments on the operating result.

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 solutions 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 adequate income. With our high-precision, powerful machining centres, automation components and digital modules, which are continuously being further developed, we have become an established partner for integrated automation solutions. We want to consolidate this position. Moreover, we are striving for a broad industry-related positioning and intend to further advance the internationalisation of our activities as well as the digitalisation of our product range and all corporate processes. In the year under review, we were able to successfully implement our strategy despite the difficult business environment.

In 2022, we began to develop a systematic sustainability strategy. This topic has always been a high priority at Hermle. For example, we are committed to conserving resources in our operations, sourcing raw materials from local suppliers, keeping transport routes short and providing attractive and secure jobs for our employees.

The Hermle Group is controlled centrally by Hermle AG. The orders received, turnover and earnings before interest and taxes (EBIT), which correspond to the result, are the key indicators for this. The Management Board of Hermle AG, which consists of three members, is responsible for managing 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 (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 at www.hermle.de (under: Investor Relations / Mandatory Disclosures / Other).

BUSINESS REPORT

FRAMEWORK CONDITIONS: RESTRAINED GROWTH WORLDWIDE

According to the International Monetary Fund (IMF), the global economy was slowed down by various factors in 2022. These included above all the war in Ukraine. Russia's invasion of Ukraine and its consequences intensified the already prevailing price increase tendencies for raw materials. Natural gas deliveries to Europe were restricted, which led to great uncertainty and an increase in the price of fossil fuels. This was compounded by China's strict zero-COVID policy with its negative, also price-driving, effects on international supply chains, as well as the key interest rate increases of many central banks to combat inflation. However, the global economy showed unexpected resilience from the third quarter onwards: The adjustment to the energy crisis went better than feared, inflation was somewhat dampened and the sudden reopening of China paved the way for a faster recovery of economic activity.

In its slightly raised projection for global economic growth in January 2023, the IMF estimated that the global gross domestic product (GDP) increased by 3.4% in 2022 in price-adjusted terms - after a rise of 6.2% in the previous year. Industrial production also slowed down significantly to an expected 3.1%, compared to 7.8% in 2021.

According to the IMF, economic output in the industrialised nations increased by 2.7%, supported in particular by the robust development in the eurozone with a plus of 3.5%. Government economic stimulus programmes had a positive impact there. In the USA, on the other hand, the GDP grew by only 2.0%.

According to IMF estimates, the developing and emerging countries achieved growth of 3.9%. The drivers of the positive development in this group were India and the ASEAN countries with growth rates of 6.8% and 5.2% respectively, while China developed below average with plus 3.0%.

According to the Federal Statistical Office of Germany (Destatis), Germany's gross domestic product increased by 1.8% in 2022 in price-adjusted terms. Catch-up effects led to strong increases, especially in the service sector. In contrast, high energy prices and the still limited availability of intermediate products impaired economic output in the manufacturing sector, which therefore hardly increased compared to the previous year.

INDUSTRY SITUATION: EXPANSION OF THE GERMAN MACHINE TOOL MANUFACTURING INDUSTRY POSSIBLE

The mechanical engineering sector proved to be robust in 2022 in this macroeconomically difficult environment, even though many companies were affected by the shortage of preliminary products such as electronic components. According to the VDMA (German Engineering Federation), global machine sales rose by an estimated 1% in 2022 in price-adjusted terms. Based on initial calculations by the Federal Statistical Office, German machinery and plant manufacturers increased their production by only 0.2% for the year as a whole and sales by 1.2% in the first eleven months. A better result would have been possible according to the VDMA, but was prevented by persistently disrupted supply chains, an intensifying shortage of skilled workers and difficulties in energy supply. The number of orders received initially increased dynamically, but visibly lost momentum as the year progressed. All things considered, new orders for 2022 were down 4% in real terms, while nominal growth was 4% due to the partly significant price adjustments.

The situation was better in machine tool manufacturing. According to preliminary data from the VDW (German Machine Tool Builders' Association), orders received by German manufacturers increased by 18% in nominal terms in 2022. Domestic and foreign markets contributed equally to this. Turnover and production in the industry each rose by 10%, with domestic sales increasing by 16%, more than twice as much as exports after a weak previous year. The companies have a large order cushion, which, in addition to the high demand, is also due to the continuing supply chain disruptions.

In technological terms, the topic of Industry 4.0 and thus the automation and digitalisation of manufacturing processes is playing a growing role for the machine tool industry. 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 and 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 was again able to expand its business in 2022 despite the extremely turbulent environment. Demand was equally high at home and abroad, especially for our automation solutions. In the first half of the year in particular, we achieved strong increases in orders received, turnover and operating result, although the same period of the previous year was still significantly affected by the COVID-19 pandemic. In the second half of 2022, the development normalised as expected, with the incalculable risks from the overall economic environment ultimately also having a smaller impact on Hermle than feared.

The increasing, unpredictable supply chain disruptions were compensated for by internal measures throughout the year, despite a high sickness absence rate among the workforce. As a result, we were always able to supply our customers on time, although the restrictions in the transport sector also affected our sales logistics to some extent.

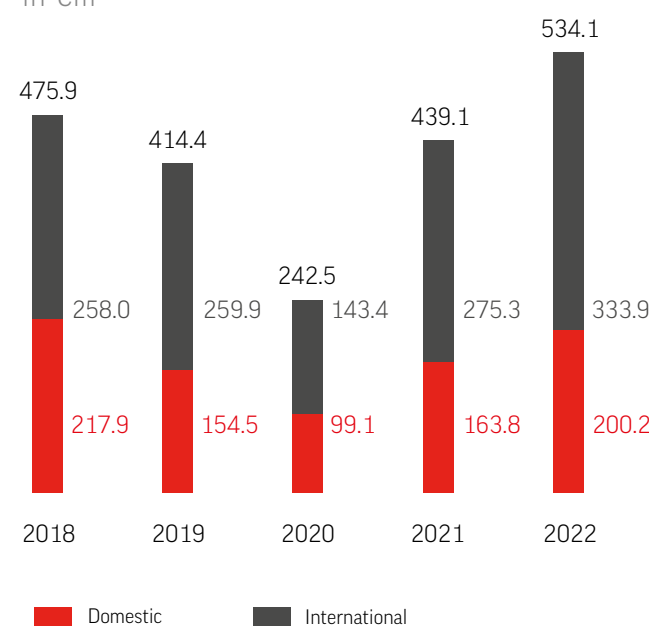
During the last two months of 2022, the supply situation improved and the sickness absence rate dropped. Urgently needed materials still arrived on time to deliver machines before the turn of the year, and our capacities could be utilised even more effectively thanks to higher employee presence. The resulting, surprisingly dynamic year-end business, the overall significant increase in capacity utilisation in 2022 and improved price quality more than compensated for the inflationary material price development and the additional internal expenses in the reporting period.

For the year as a whole, Hermle achieved double-digit growth rates in terms of orders received, turnover and the result and developed better than the industry average. We were able to consolidate our technologically leading position in 5-axis machining centres, gain market shares, especially in the automation solutions business field, and expand our position overall.

NUMBER OF ORDERS RECEIVED BY HERMLE INCREASED TO €M 534

The number of orders received by the Hermle Group increased by 21.6% to €m 534.1 in 2022 and thus exceeded the previous record value from 2018. New domestic orders rose by 22.2% to €m 200.2 and orders from abroad by 21.3% to €m 333.9. Once again, we recorded particularly high demand for integrated automation solutions equipped with Hermle digitalisation modules. The timely processing of orders was made more difficult by the uncertain supply situation worldwide, but remained fundamentally guaranteed. Without the supply chain disruptions, however, we would have been able to supply more machines. Therefore, the order backlog at the end of 2022, compared to the figure recorded on the same reporting date in the previous year, increased significantly by 55.7% to €m 168.0 (previous year €m 107.9).

Orders received by the Hermle Group in €m



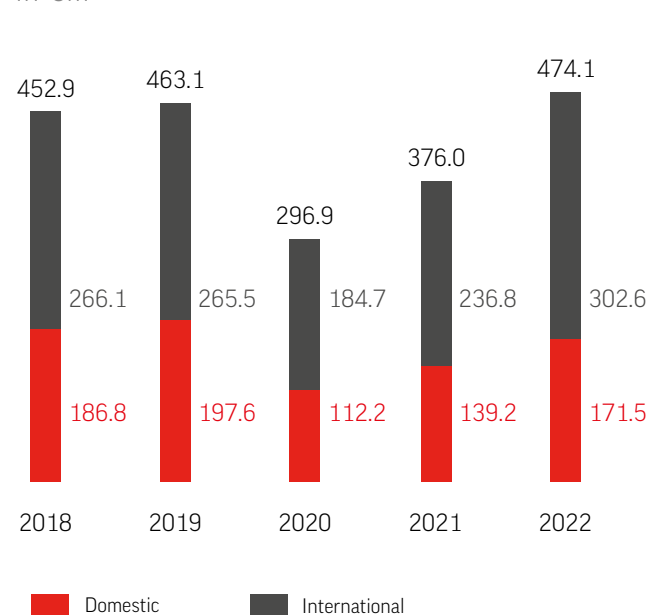
At the individual company Hermle AG, the number of incoming orders rose by 19.5% to €m 483.9 (previous year €m 404.9). €m 201.0, i.e. an increase of 21.9% (previous year €m 164.9), were generated nationally, and €m 282.9 (previous year €m 240.0, + 17.9%) internationally. As of 31 December 2022, the order backlog increased by 52.6% to €m 154.6 (previous year €m 101.3).

TURNOVER INCREASED BY A GOOD 26% TO €M 474

Hermle Group turnover increased by 26.1% to €m 474.1 in the reporting period. Both the new machine business and the sales of service and spare parts increased. After strong growth rates in the first half of the year, the development normalised in the third quarter. During the final weeks of the year, there was a resurgence of strong momentum due to improved material supply and a reduced sickness absence rate. In addition, due to the high demand, some demonstration machines were sold, especially by our customer centre in the USA.

Domestic sales increased by 23.2% to €m 171.5 for the year as a whole. Foreign sales saw an increase of 27.8% to €m 302.6. Consequently, the export ratio in the Group improved from 63.0% to 63.8%.

Hermle Group sales in €m



Turnover of the individual company Hermle AG increased by 24.8% to €m 430.6 (previous year €m 345.0). Domestic sales increased by 22.8% to €m 172.3 (previous year €m 140.3). Foreign sales saw an increase of 26.2% to €m 258.3 (previous year €m 204.7), meaning the export ratio rose from 59.3% to 60.0%.

SEGMENT DEVELOPMENT

Turnover in the Domestic company segment of the Hermle Group increased by 28.3% to €m 267.8 in 2022 (previous year €m 208.7). Both Hermle AG and HLS, which specialises in individual automation solutions, and the sales company HPV expanded their business volume. HMG, which is responsible for development and the range of services in the area of additive or generative manufacturing and contributes to Hermle AG's sales, was also able to increase its business volume.

In total, turnover in the Foreign sales segment increased by 23.3% to €m 206.3 (previous year €m 167.3). The largest increases were recorded by Hermle USA Inc., which benefited from extensive individual projects, and our subsidiary in the Netherlands, mainly supported by the special economic situation in the semiconductor industry. The Hermle companies in Italy, Mexico and Thailand were also able to expand their business volume, although the companies in Latin America and Southeast Asia were again slowed down by COVID-19 restrictions. The newly founded Chinese subsidiary recorded excellent initial sales. The good performance of these foreign companies more than compensated for the loss of the Russian business and correspondingly lower volumes of the export business Hermle WWE. The other foreign subsidiaries and representative offices assigned to Hermle AG also developed positively overall.

OPERATING RESULT INCREASED TO €M 99.6

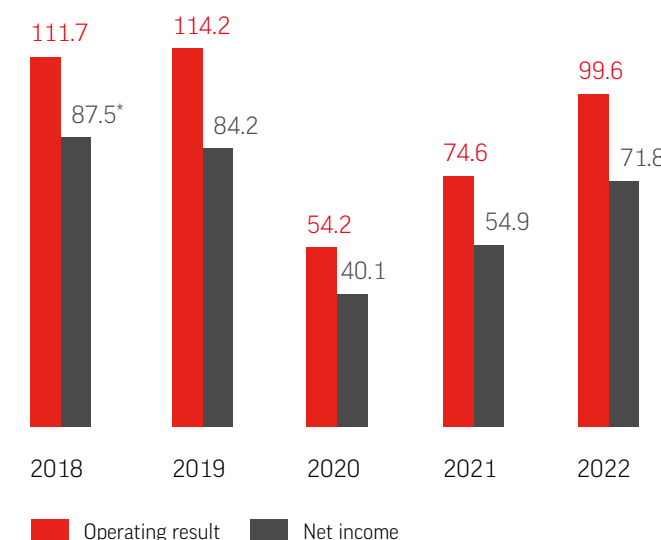
The results of operations of the Hermle Group in 2022 benefited from the very significant increase in capacity utilisation, improved price quality and the surprisingly strong year-end business. This more than compensated for the additional expenses due to supply chain disruptions as well as the continuing material price increases. The receipt of longer outstanding, risky receivables also had a positive effect.

The total operating performance of the Hermle Group increased by 26.0% to €m 484.9 in the year under review. In addition to the growth in turnover, an increase in inventories of €m 9.4 was noticeable here (previous year €m 7.5). On the one hand, the easing of the supply situation and the drop in the COVID-related absence rate at the end of the year enabled us to produce in advance for 2023. On the other hand, individual machines could no longer be delivered due to disruptions in sales logistics. The company-produced assets increased from €m 1.2 to €m 1.5 and, as in the previous year, mainly concerned self-produced machines and testing equipment for production and quality assurance as well as our service offering in the area of additive or generative manufacturing.

The cost of materials ratio measured against total operating performance amounted to 42.1% (previous year 42.6%). The partly noticeable price increases in purchasing were compensated by shifts in the product mix, the growing share of complex automation solutions and improved price quality, among other things through higher-value USD revenues converted into euros. Due to the considerable increase in capacity utilisation, the ratio of HR costs in total operating performance fell from 27.0% to 25.7%, despite the enlarged workforce, high sickness absence rate and the payment of the inflation compensation premium. At €m 11.2, depreciation was slightly below the previous year's figure of €m 11.3. The net balance of other operating expenses and income was €m -45.3 (previous year €m -31.1). In the year under review, this included higher expenses for trade fairs and travel after the discontinuation of COVID-related protective measures, business-related increases in freight and logistics costs, as well as costs of around €m 5 arising from the termination of activities in Russia. We discontinued the Russian business immediately at the start of the war, even before the EU sanction decision, and from today's perspective we consider it extremely unlikely that the activities will be resumed in the next few years. In addition, Russian countermeasures in response to the European sanctions effectively took away our control over our subsidiaries. Therefore, we have written off all assets and outstanding receivables in Russia. This was offset by positive effects from the net release of value adjustments on receivables and provisions.

All things considered, the operating result of the Hermle Group increased by 33.5% to €m 99.6. The Domestic company segment contributed €m 99.6 before consolidation effects (previous year €m 69.7). The result of the Foreign sales segment was €m 5.1 (previous year €m 5.3), wherein the negative impact from the termination of activities in Russia was largely offset by increases, particularly at the subsidiaries in Italy, the Netherlands and the USA.

Hermle Group operating result and net income in €m



*incl. €m 4.9 special effect

Including the financial result, which improved to €m 0.1 (previous year €m -0.2) due to the somewhat more restrictive interest rate policy of the European Central Bank, the Hermle Group reported a result before taxes of €m 99.7 (previous year €m 74.4) in 2022. This results in an increased gross margin on turnover from 19.5% to 21.0%. The consolidated after-tax net income rose from €m 54.9 to €m 71.8. The result increased from € 10.97 to € 14.35 per ordinary share and from € 11.02 to € 14.40 per preference share.

At the individual company Hermle AG, the operating result, determined according to the German Commercial Code (HGB) regulations, improved by 36.1% to €m 92.3 (previous year €m 67.8) and net income increased by 41.5% to €m 72.3 (previous year €m 51.1). This included €m 3.9 (previous year €m 2.5) dividends from subsidiaries.

FINANCIAL MANAGEMENT AND FINANCIAL POSITION: HIGH LIQUIDITY SUPPORTS INVESTMENT PLANS

The financial management of Hermle AG and the Group aims to achieve largely internal financing and to safeguard liquidity. Our available funds are invested exclusively at low risk and predominantly on a short-term basis. Both current business and investment projects are generally to be financed from the cash flow so that we can react to market changes quickly, flexibly and relatively independently of third-party interests and the uncertain capital markets. We use financing options such as leasing only in a few exceptional cases where this seems advisable.

The already solid financial situation of the Hermle Group improved further in 2022. Based on the increased net profit for the year, the cash flow before changes in working capital increased by 32.4% to €m 87.8. The funds tied up in working capital increased slightly: The increase in inventories and trade accounts receivables was largely offset by the repayment of taxes for previous years and a significant increase in advance payments received on orders. Overall, the cash flow from operating activities increased to €m 90.5 (previous year €m 36.4).

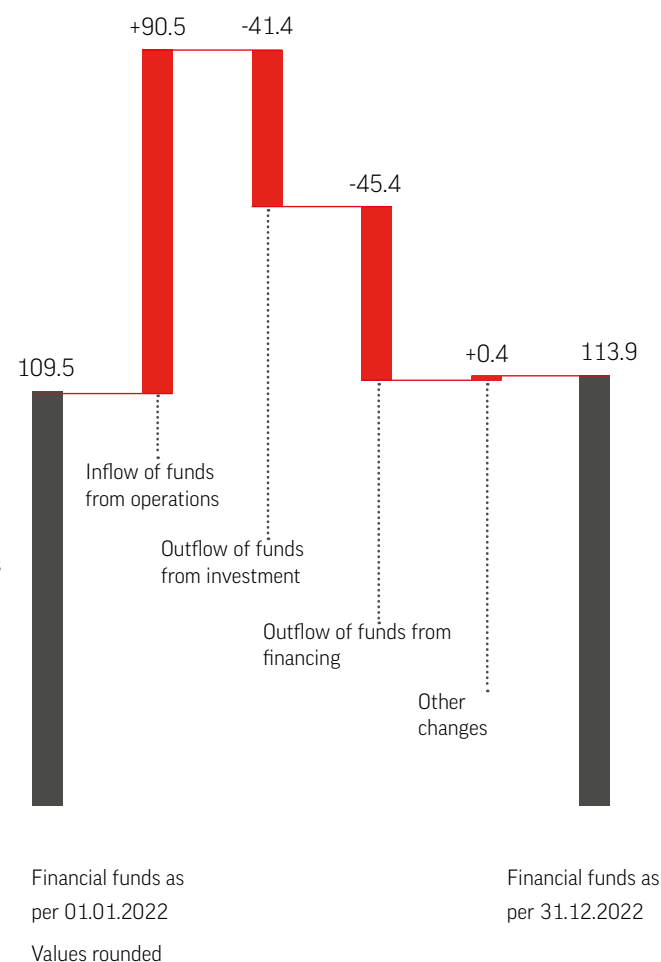
€m 41.4 was used for investment activities in the reporting period, compared to €m 6.8 in the previous year. In addition to payments for capital expenditure and intangible assets of €m 10.4, this was mainly due to purchases of time deposits with maturities of less than one year, which are to be reported here according to IFRS and, including repayments of the previous year's investments, amounted to €m 32.0 on balance.

The cash flow for financing activities amounting to €m 45.4 (previous year €m 25.5) resulted primarily from the payment to shareholders, which rose to €m 45.1 (previous year €m 25.1). For 2022, the Management Board recommends that the Supervisory Board proposes another increased distribution (payout) to 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 € 10.20 (previous year € 8.20) per share. The dividend proposal to the shareholders' meeting will be determined at the end of April 2023.

Including changes due to exchange rates, amendments to the group of consolidated companies and other non-significant changes, the Hermle Group received financial funds of €m 5.1 in 2022 (previous year €m 4.6). At the end of December 2022, liquidity increased to €m 113.9 (previous year €m 109.5). We are thus well prepared for the upcoming extensive projects resulting from our investment programme for the two locations in Gosheim and Zimmern ob Rottweil. Further information on this can be found in the forecast.

Hermle Group change in liquidity in 2022 in €m

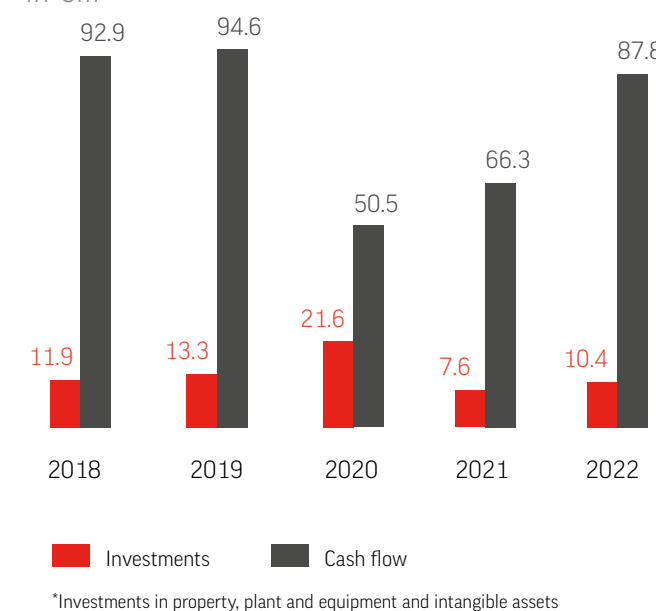


At the individual company Hermle AG, the liquid funds also increased from €m 73.7 to €m 99.7 at the end of December 2022.

CAPITAL EXPENDITURE INCREASED TO €M 10.4

In 2022, investments in property, plant and equipment and intangible assets of the Hermle Group increased from €m 7.6 to €m 10.4. The focus was on production, quality assurance and service as well as information technology, including IT security and hardware for mobile working. The acquisition of new land at the Zimmern location, where extensive construction measures are planned for 2023, also had a significant impact. We also invested in another in-house MPA 42 machining centre to expand our capacities for additive or generative manufacturing.

Hermle Group cash flow and investments* in €m



At Hermle AG, investments in property, plant and equipment and intangible assets amounted to €m 7.5 (previous year €m 5.6). The acquisition of land in Zimmern also had a significant impact here.

NET ASSETS: CONSOLIDATED BALANCE SHEET BACKED BY AROUND 73% EQUITY

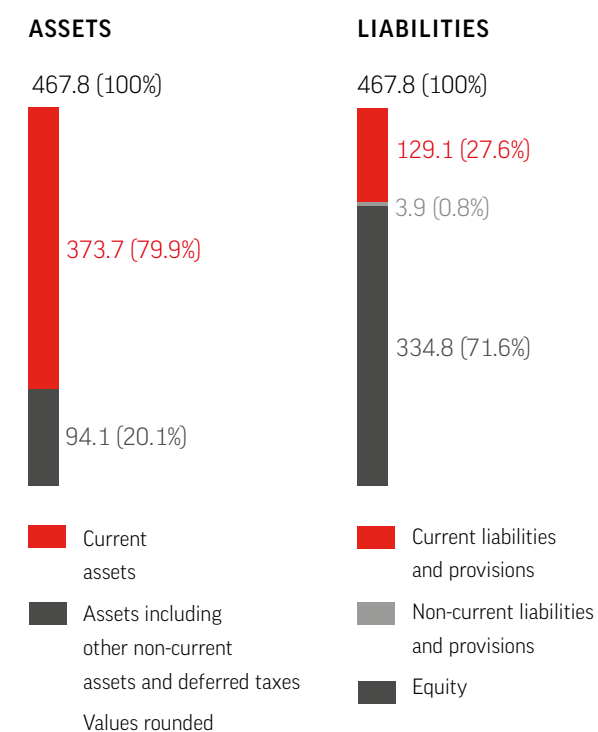
The Hermle consolidated balance sheet increased by 12.7% to €m 467.8 as per 31 December 2022 compared to the same date in the previous year. On the assets side, short-term assets rose by a total of 17.1% to €m 373.7. Inventories were increased by 30.7% to €m 108.1 in connection with securing the ability to deliver, the expansion of production, and disruptions in the supply chain and shipping logistics. The strong year-end business also led to an increase in trade accounts receivables by 16.5% to €m 94.6. The acquisition of time deposits resulted in an increase

in short-term securities and other investments from €m 33.0 to €m 44.0. Liquid funds increased by 4.1% to €m 113.9. In contrast, other current receivables decreased from €m 34.8 to €m 13.1 due to high tax refunds for previous years. Non-current assets decreased by 1.9% to €m 94.1. Among them, property, plant and equipment remained at the previous year's level of €m 81.1, intangible assets decreased slightly from €m 10.3 to €m 9.6, and other non-current financial assets fell from €m 1.0 to almost zero due to repayment at final maturity.

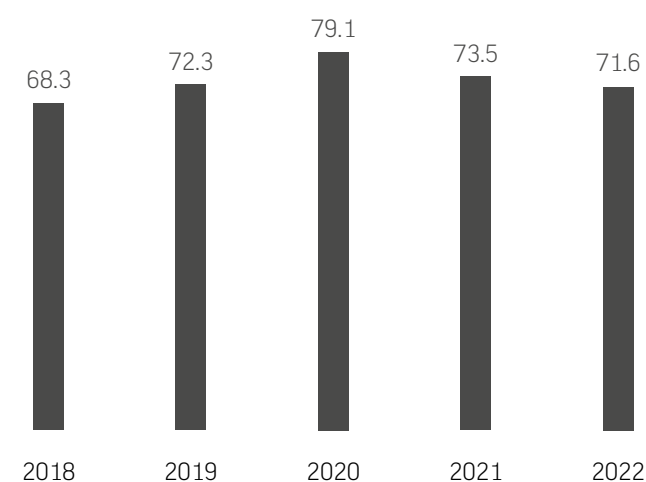
The most significant single item on the liabilities side continued to be equity, which increased by 9.7% to €m 334.8 compared to the figure recorded on the same reporting date in the previous year. This results in a continued high equity ratio of 71.6% after 73.5% at the end of the previous year.

Current liabilities increased by 21.4% to €m 129.1. This was mainly due to higher advance payments received on orders, which increased other current liabilities by 17.3% to €m 66.7. As a result of the high material deliveries at the end of the year, trade accounts payable also increased by 47.3% to €m 9.6 as of the reporting date. Current provisions grew by 13.6% to €m 48.4, mainly due to higher personnel provisions. Non-current liabilities amounted to €m 3.9 (previously €m 3.5).

Balance sheet structure of the Hermle Group (31.12.2022) in €m



Equity ratio of the Hermle Group in %



At the end of 2022, the balance sheet total of Hermle AG increased by 12.9% to €m 368.6 at the reporting date. Equity, which rose by 11.1% to €m 273.0, accounted for 74.1% of the balance sheet (previous year 75.2%).

OVERALL ASSESSMENT OF THE ECONOMIC SITUATION AND COMPARISON WITH THE FORECAST

In the past business year, the number of orders received by the Hermle Group increased by around 22% to €m 534.1, Group turnover rose by a good 26% to €m 474.1 and the operating result increased by around 30% to €m 99.6. The development was thus better than expected. At the beginning of the reporting period, it was assumed that orders received would be at least at the previous year's level or slightly higher, that turnover would increase by at least about 10% and that the result would increase at a lower rate. The forecast was directly influenced by the outbreak of the war in Ukraine and was subject to particularly great uncertainty. As the year progressed, it became clear that a better development with an increase in turnover of around 20% was possible, but the risks from the turbulent environment remained very high and incalculable.

Only the surprisingly dynamic course of the last weeks of the business year laid the foundation for the development that exceeded expectations. The sales forecast was exceeded, as Hermle's improved supply chain logistics in December meant that important supplier materials were received just in time to complete and deliver more machines than planned before the turn of the year. The pleasingly high sales of demonstration machines also led to additional turnover. In addition, capacity utilisation improved again in the last two months as the high

sickness absence rate dropped. A positive effect also arose from the receipt of longer outstanding unsecured receivables at the end of the year. Therefore, the result forecast was also exceeded.

As at the reporting date of 31 December 2022, Hermle had liquid funds of €m 113.9 across the Group as well as an equity ratio of almost 72% and thus a very solid financial foundation. Overall, and in view of the diverse external burdens and disruptions in 2022, the Management Board of Maschinenfabrik Berthold Hermle AG assesses the course of business and the economic situation as very satisfactory.

ADDITIONAL PERFORMANCE INDICATORS

R&D: CUSTOMISED DEVELOPMENT IN THE FOREGROUND

Our intensive research and development (R&D) activities aim to offer customers additional benefits and thus further strengthen our own market position. R&D activities continued at a high level in 2022. The main focus was on continuous technological advancements in our machine series as well as enhancing the breadth and depth of our automation expertise.

One focus in the further development of our machining centres was the area of spindle technology. These complex components are essential core components and decisive for the high performance of our products. In the year under review, a new spindle variant was designed and adapted to our various machine models.

In the area of automation, customised development activities play a major role. Solution modules from a wide variety of fields, from tool handling to digital components and robot systems, are combined with our machining centres to create a complete solution tailored to the different requirements of our customers. In addition to the corresponding automation modules, we are constantly expanding and improving our range of necessary digitalisation components. By using Hermle's own digitalisation modules, the ease of use in the complete organisation around our automation solutions can be increased and the range of functions significantly expanded.

We also made progress in the area of MPA technology (metal powder application process), which we offer our customers as a service. In 2022, the development of a second, optimised MPA 42 hybrid machining centre was completed, so that the capacities for additive or generative manufacturing can be significantly expanded in 2023.

PRODUCTION AND LOGISTICS: SUPPLY CHAIN DISRUPTIONS BALANCED

Our highly efficient production facilities and processes are constantly optimised, kept at the cutting edge of technology and increasingly developed 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 the year under review, persistent supply chain disruptions placed high demands on the flexibility of our production and logistics processes. Due to a lack of supplier parts, it was repeatedly necessary to change processes at short notice and to find creative solutions in all areas – from production and assembly to shipping logistics. We succeeded in this endeavour and were thus always able to supply our customers on time.

PROCUREMENT: COMPENSATION FOR SUPPLY BOTTLENECKS

Purchased materials and components play a significant role at Hermle. The cost of materials accounts for more than 40% of the Group turnover. To ensure an excellent security of supply, we generally work with our suppliers in a trustworthy and honest manner. Moreover, we cooperate with companies from our region wherever possible and do not use suppliers from overseas. In addition, we contribute to financial stability in the supply chain as a reliable and solvent partner with an excellent payment record.

In 2022, the procurement market disruptions were worsened by the war in Ukraine. Our workforce was again tasked with offsetting supply bottlenecks and transportation delays through internal measures or alternative materials and suppliers, and overcame these challenges swiftly and effectively.

SERVICE AND SALES: FOCUS ON INTERNATIONALISATION

Powerful sales and extremely reliable service are key factors in Hermle's success. Our service and sales network is being continuously expanded and increasingly digitalised in order to further open up existing and new markets and to safeguard our service quality, which is recognised as high compared to the rest of the industry. Above all, we are continuously driving forward internationalisation, thereby ensuring greater resilience to possible relocations in our customer industries, for example due to rising energy costs in Europe or geopolitical conflicts.

To expand our market position in China, we founded our own subsidiary in 2022, based in Shanghai, where we previously operated a representative office. In the course of the year, employees from the previous representative offices were taken over, new employees were hired and operations were started. We also strengthened our foreign subsidiaries in Italy, Mexico, Thailand and the USA. Following the termination of our activities in Russia, the export business Hermle WWE is concentrating on the establishment and development of new markets, for example in Europe and Asia.

With the expiry of the COVID-related protective measures, we were again able to expand personal contact with our customers and other market participants in the year under review. Particularly important for this was the Hermle Open House, which took place as early as April under strict safety precautions and access restrictions. Hermle was also represented at various live trade fairs, including AMB in Stuttgart and IMTS in Chicago.

HERMLE GROUP WITH 1,383 EMPLOYEES

Compared to the figure recorded on the same reporting date in the previous year, the number of employees at the Hermle Group increased by 63 to 1,383 by the end of 2022. New hires were made in particular in all areas related to automation as well as in sales and service, especially in the foreign companies. In addition, junior staff were taken on after completing their training and the vacant positions were filled. On 31 December 2022, 531 people worked in production (previous year 511), 93 in administration (previous year 81) and 759 in the areas of customer and supplier service as well as R&D (previous year 728).

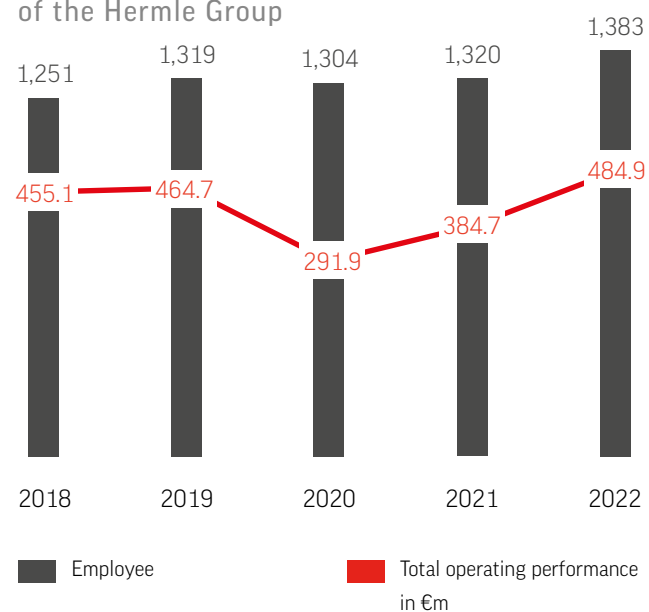
During the year, the Hermle Group employed an average of 1,355 people (previous year 1,307), of which 1,190 (previous year 1,154) worked at the domestic companies in Germany and 165 (previous year 156) at the foreign sales companies.

At the end of 2021, Hermle AG employed 1,097 people (previous year 1,050). This included 87 apprentices (previous year 99). In contrast to 2021, we shortened apprenticeship periods where possible during the reporting period. We consider the training of young people an important task not only because of the shortage of skilled workers, but also because of our corporate responsibility. Due to the demographic change and the changing life concepts of young people, the search for suitable candidates is becoming increasingly challenging. More information on our respective activities is contained in chapter Social affairs of our non-financial statement.

TOTAL OUTPUT PER EMPLOYEE AMOUNTED TO €K 350.6

Total output per employee in the Hermle Group rose by 20.7% to €k 350.6 in 2022 as a result of business expansion and improved capacity utilisation of the workforce (previous year €k 290.5). The good demand and the successful internal management of supply chain disruptions placed high requirements on our employees and made extra work necessary. Therefore, the flexitime accounts of the employees were replenished within the framework of our 2000 concept, especially in the directly productive areas and in service. In order to reward the outstanding commitment of the Hermle team, all 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.

Total output and number of employees of the Hermle Group



DIVERSITY IN THE HERMLE TEAM

Diversity in the workforce is a success factor for Hermle. Tolerance and diversity, for example in terms of gender, nationality and age, help us to draw on a wide range of experience and prevent the shortage of skilled workers in Germany. In doing so, we want to continue to expand the quota of women in industrial-technical professions in particular. Basically, well over 80% of all jobs and positions on the first two management levels at Hermle 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, take place at Hermle. They give interested female candidates the chance to find out about career opportunities in technical professions. Our EMMA (Electronics, Mechatronics, Mechanics and Automation) support project is also aimed at female apprentices and their specific needs. In 2022, we were able to increasingly consider female candidates in new hires, so that the quota of women at Hermle AG increased overall from 13.4% to 14.1% and in the industrial-technical field from 6.3% to 7.1%.

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

Due to the growing internationalisation of our activities, more and more tasks for employees of other nationalities are arising at Hermle. In particular, to strengthen our position in key foreign markets, open up new markets and intensify customer contacts, we specifically recruit native speakers from these regions as required. Applications from persons with an international background are also very welcome when expanding the workforce at the company headquarters. In 2022, there were corresponding new hires for sales and service in America and Asia as well as in IT at our corporate headquarters.

Hermle also offers attractive jobs to people with disabilities. In 2022, the rate of severely disabled people at Hermle AG was 2.5%, compared to 2.0% in the previous year.

We attach great importance to the extensive experience and expertise of older employees. Therefore, it is our goal to keep employees in the company for the long term. However, interested parties can also take advantage of partial retirement models. In 2022, the average age of employees at Hermle AG remained unchanged at around 38 years and they had been active in the company for thirteen years. In the last ten years, 30 people, among them three women, have been able to celebrate 40 years of service with the company.

SUPPLEMENTARY REPORT

At the beginning of 2023, Hermle recorded relatively good demand based on various larger projects, so that the level of orders received continues to be strong. Additionally, following the conclusion of the 2022 business year and up until this report was signed off, there were no events that had significant effects on the net assets, financial position and results of operations of Hermle AG or the Group.

RISK AND OPPORTUNITIES REPORT

RISK AND OPPORTUNITIES MANAGEMENT

As a globally active, medium-sized company, Maschinenfabrik Berthold Hermle AG is confronted with a wide range of opportunities and risks in the course of its business activities. Opportunities can often only be exploited by accepting certain risks. For this reason, managing opportunities and risks constitutes a fundamental element of our corporate governance and is of great importance for Hermle's 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.

Hermle's risk and opportunity management is based on the 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.

ACCOUNTING-RELATED INTERNAL CONTROL SYSTEM

Hermle has installed an internal control system (ICS) to supplement risk and opportunity management and to ensure that the annual and consolidated financial statements comply with the regulations. 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.

INTEGRATED MONITORING AND COMPLIANCE MANAGEMENT SYSTEM ¹

We also undertake monthly analyses of orders received, turnover 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. Due to the growing density of regulations, including new EU legislative initiatives, we are also continuously expanding our compliance activities.

¹ The information in this section is not part of the management report and is not subject to audit.

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 intensified by a deterioration in the economic environment. In 2022, we recorded another increase in demand, but the risks from the macroeconomic environment, which was already extremely uncertain in previous years, increased further. The war in Ukraine has additionally exacerbated the serious supply chain disruptions that have existed since the COVID-19 pandemic, significantly hampering global economic activity. The threats from the COVID-19 pandemic itself persist, but diminished in 2022.

The war in Ukraine and other crises, such as the strained relations between China and the United States, are weighing on the geopolitical situation and generally bring about growing sales and supply risks. These risks are magnified by the increasing density of regulation and red tape in Germany and Europe, as well as the tendency towards trade restrictions and rising energy prices, as these factors could weaken the competitive position of export-oriented companies based here.

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 base to be able to withstand changes in demand on a larger scale.

Procurement risks – In order to always have sufficient access to high-quality purchased materials and components and to avoid procurement bottlenecks, we carefully select our suppliers and work with them in fair, mostly long-term partnerships. We generally counter the risk of supply shortages with a second-source strategy, rolling demand planning and safety stock as far as is reasonable. The supply chain risks due to border closures and transport disruptions, which have increased since the outbreak of the COVID-19 pandemic, have been further exacerbated by the war in Ukraine. This particularly affects suppliers who source parts from overseas. Hermle works almost exclusively with suppliers in Germany or Europe. Nevertheless, we are also indirectly affected by the global material shortages that have been noticeable since 2021. In the year under review, these shortages were once again compensated for by internal measures such as overtime, switching to alternative materials and suppliers, and changes in design and production. We were also able to fall back on safety stocks, which were replenished in many areas. At the end of 2022, the situation on the procurement markets eased somewhat. However, the risk of supply shortages at our suppliers still exists. We counteract the associated financing risks in the supply chain, which could lead to insolvencies among suppliers, through reliable and fast payments.

By operating our own combined heat and power plant, we partly avoid increasing energy supply risks that result from the phasing out of conventional power plants and the energy transition and which have, in particular, increased in the area of gas supplies due to the war in Ukraine. We counteract the effects of the energy price increases, which mainly affect us indirectly due to the higher price demands from our suppliers, through moderate adjustments to our sales prices.

Competitive risks – In order to cushion the intense competitive pressure in our industry, Hermle relies on particularly high-quality machines, individual system solutions, a very competent and reliable service and the close customer loyalty that goes with it. In the current situation, which is affected by supply bottlenecks, we also benefit from our high delivery reliability. Through the 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.

Regional and industry-specific diversification as well as the development of new customers and markets, especially abroad help to protect Hermle against concentration tendencies of customers and corresponding dependencies. Hermle reduces 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, we concentrate our R&D activities at the Gosheim site, strictly regulate access and produce with a high in-house production depth. The fundamentally highly complex nature of our machines also provides a degree of protection.

IT risks – To counter IT-related risks, we employ state-of-the-art technology and redundant systems in key areas. 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. Furthermore, we secure our data on a partly redundant infrastructure. We have also implemented consistent security mechanisms, which are checked by external specialists at regular intervals, as well as repeated training for our employees in the area of data security in order to make them aware of the high priority of this topic. Nevertheless, IT problems cannot be completely ruled out and the risks from cyber crime are increasing worldwide. Like other companies, Hermle faces cyber attacks on an ongoing basis. In the year under review, we thus increased our efforts to prevent hacker attacks through the use of additional monitoring software and cooperation with an external service provider. Furthermore, cyber insurance is in place to ensure that we have access to sufficient support capacity from external specialists in the event of an emergency.

Innovation and product risks – We minimise 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 user requirements. Intensive R&D activities further strengthen our technological leadership. We counter product liability risks through extensive testing prior to market launch as well as appropriate contract design, insurance and proactive service measures.

Production risks – Careful, preventive and far-reaching maintenance measures as well as early investment strategies reduce the risk of production downtime at Hermle. In addition, we always keep our production facilities up-to-date with the latest technology and use efficient organisational structures to ensure that production runs as smoothly as possible. Operating errors are very unlikely to occur thanks to our employees' high skill levels. In addition, some of our production facilities are redundant. However, the risk of an interruption in the power supply has increased due to the energy transition and an energy supply crisis that cannot be ruled out due to the war in Ukraine. Although Hermle operates emergency generators to power doors, gates, lighting and the IT infrastructure, we do not have our own power plants to maintain a constant supply for production in the event of an outage.

Quality risks – The high quality of our machines and service is a key factor for Hermle's competitiveness. To safeguard them, we operate a systematic quality management system as well as comprehensive testing procedures and train our employees extensively. The use of sophisticated machines and components as well as our great experience and competence in the field of automation also contribute to reducing quality risks. In addition, we train our employees and continuously expand our service capacities to ensure a very good level of services and spare parts supply even with an increasing share of the automation business.

Personnel-related risks – Hermle's employees are highly competent in their field, have completed most of their training at our company and regularly gain further qualifications. By providing the most varied and interesting tasks possible, long-term employment relationships and autonomous activities, we help to increase their already high level of motivation and reliability even more. 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 quota of women in the workforce, especially in technical areas. Overall, we classify personnel risks as low.

Financial risks – Both major investment projects and ongoing business activities are largely financed internally at Hermle. We have a conservative balance sheet and a high equity ratio. Therefore, financial and liquidity risks are low. Currency risks are prevented through suitable hedge transactions, which are, just like the other financial risks, described in detail in the notes to the consolidated financial statements under item (29). However, tax risks can arise from the high complexity of national and international tax regulations.

Overall risk situation – Due to the increasing geopolitical tensions and the resulting continued possible impairment of supply chains and sales markets, the significance of risks in the areas of market and economic activity as well as procurement has increased further. Furthermore, the well-known increase in cyber attacks on companies has led us to rate IT risks higher than a year ago. 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

Both the business environment and our own strengths hold significant opportunities for future development. They are presented below divided into varying categories, but also partly overlap.

Opportunities from the environment

For innovative companies like Hermle, technological changes fundamentally offer great opportunities for growth. At present, the trend towards networking and automation in manufacturing (Industry 4.0) in particular offers great potential for expansion. Hermle is a recognised and experienced full-range supplier in this field and can design and implement a wide range of production systems for its customers, right up to complete automation solutions for large workshops, into which additional functionalities are integrated. The basis for this is formed by our high-quality and extremely reliable machines, a diverse range of corresponding automation and digitalisation modules, which we are continuously expanding, as well as our extensive experience in the field of automation. 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 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. In addition, the increasing maturity of various foreign markets in which we are already active offers us the opportunity to increasingly sell higher-quality machining centres there in the future.

In general, Hermle can develop better than expected if the overall economic and industry-specific conditions turn out to be more favourable than forecast. As we have flexible capacity reserves and processes due to our concept of a breathing company, which require a high ability to deliver and react, we are able to respond to positive economic developments even at short notice.

As the overall economy experiences an upswing, our customers' increased business activities provide further opportunities to sell our products. During periods of high demand, particularly efficient and dependable production systems, such as those manufactured by Hermle, are often sought after.

In addition, the demographic change in many industrialised countries strengthens the sales potential of our automation solutions, as they give our customers the opportunity to actively counter the resulting shortage of skilled labour.

Opportunities from the strengths of the company

The potentials arising from Hermle's above-average level of quality and flexibility have already been described in connection with external opportunities. They are reinforced by the high level of competence and motivation of our workforce. Their deep commitment, experience and know-how underpin our technologically leading market position and help us to cope with fluctuations in demand and capacity utilisation, and to enhance customer loyalty based on strong service.

Our long-term HR policy can also have a positive impact. By keeping the workforce stable during crises such as the recent COVID-19 pandemic, we have an intact, competent and motivated team in place for subsequent phases of upswing and thus an excellent ability to respond accordingly.

The high reliability of our machining centres, the growing automation competence and our product portfolio, which is very up-to-date and needs-oriented due to continuous innovations, are important prerequisites for gaining new customers as well as opening up potential for additional applications by our existing customers. We can also benefit from our increasing digitalisation expertise. 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 winning customers in new regions.

Our reputation as a dependable and financially stable partner, with a strong emphasis on quality and service, creates additional opportunities for us to pursue with a focus on continuity. As a result, our chances of acquiring new customers in both our existing market segments and new ones are also heightened.

Another success factor is our healthy liquidity and equity ratio, which makes us largely financially independent and enables us to respond rapidly to fluctuations in demand and to withstand economic downturns for longer. This increases our opportunities in particular in and after crises.

Furthermore, our high delivery reliability has been of particular importance in recent months – against the backdrop of supply chain disruptions – and is an important argument in favour of a Hermle system.

FORECAST

ECONOMIC FRAME CONDITIONS: MOMENTUM SLOWS DOWN

Overall economic momentum is expected to weaken further in 2023. According to its World Economic Outlook update of January 2023, the International Monetary Fund (IMF) expects the global economy to grow by 2.9% in the current year. This would be slower than in the previous year, but 0.2 percentage points better than the IMF forecast in autumn 2022. The main reason for the somewhat more optimistic outlook despite the multiple global crises is the reorientation of China's COVID policy, which should have a positive impact worldwide. At the same time, however, the IMF warns against too much optimism. In particular, the war in Ukraine, high inflation and rising interest rates as well as a possible deterioration of the COVID-19 situation and the real estate crisis in China continue to pose major economic risks.

In the industrialised countries, the IMF expects the GDP to grow by 1.2% in 2023. The US economy is expected to expand by 1.4% and the eurozone by 0.7%. The emerging and developing countries should be able to increase their economic output by 4% overall. India is the main contributor to this with an increase of 6.1%, but China and the other Asian countries are also expected to show above-average growth.

According to the German government, the German economy has so far coped well with the economic consequences of the war in Ukraine and is holding its own despite the energy crisis and supply chain problems. Nevertheless, only a slight GDP increase of 0.2% is expected in 2023. At the same time, business sentiment is assessed favourably: Equipment investment is expected to increase by 3.3% in the current year after 2.5% in the previous year.

INDUSTRY ENVIRONMENT: SOLID ORDER CUSHION IN THE MACHINE TOOL INDUSTRY

The international mechanical engineering industry is expected to develop very differently from region to region in 2023. The research institute Oxford Economics estimates that the global turnover of the industry will grow by 1% in price-adjusted terms, supported mainly by China and Japan with growth rates of 5% and 3% respectively. In contrast, a decline of 1% is predicted in the EU and even a minus of 5% in the USA. According to VDMA calculations, German machinery manufacturers will cut their production by 2% in real terms. The reasons for this are the great uncertainties regarding the further development of the war in Ukraine and the energy supply next winter. The solid order cushion that many companies currently have is likely to partially melt away in the course of the year according to the VDMA.

As forecast by the VDW (German Machine Tool Builders' Association), domestic machine tool manufacturing will expand its production by 9% in 2023 and thus gradually approach the record high of 2018 again. In this context, the VDW assumes that inflation as well as energy and raw material prices have exceeded their highs, the lifting of COVID-19 restrictions in China is stimulating business and investments are increasing worldwide. The industry started the current year with a strong order backlog: The Federal Statistical Office reported an order backlog of twelve months for the machine tool industry. Accordingly, 45% of the companies expressed cautious optimism for 2023 in a survey.

PROSPECTS FOR MASCHINENFABRIK BERTHOLD HERMLE AG

Maschinenfabrik Berthold Hermle AG is cautiously optimistic overall about the 2023 business year thanks to the solid order backlog and the still high demand at the beginning of the current year. However, we anticipate very high risks from the war in Ukraine as well as other geopolitical tensions, notably the strained relations between China and the United States. Further price increases and supply chain disruptions cannot be ruled out either. A forecast for the year as a whole is therefore subject to high imponderables, which makes precise statements difficult. In principle, we make our assessment of future developments based on the premise that both the overall economy and the sector economy will develop in line with the expectations of economic researchers and trade associations.

Like the industry association VDMA, Hermle expects the uncertain overall economic situation in the industry to lead to restraint. We therefore assume that the orders received for the year as a whole will decrease noticeably after the above-average good development in 2022. Based on the high order backlog at the beginning of the year, the turnover of Hermle AG and the Group in 2023 should at least be on par with the sound level of the previous year; however, with the possibility of a potential 10% Upturn in the absence of any external disturbances. The result is expected to remain stable, subject to fluctuations in material and energy prices and the possibility of any price hikes being transferred to customers. However, a favourable scenario could also enable increases at Group level.

In the long term, it can still be assumed that the demand for machine tools and automation solutions will increase worldwide. Therefore, in the current year we are starting to expand our capacities as part of an extensive, multi-year investment programme with a total volume of around €m 60. In 2023, it is planned to build a new production facility for large parts at the Zimmern ob Rottweil site, to expand the existing mineral casting production facility and to generate additional storage capacities. Additional land will also be acquired for this purpose. At the company's headquarters in Gosheim, the refurbishment of the rooms freed up by the relocation of the sheet metal production facility to Zimmern will be completed for the new spindle assembly. Overall, a significant increase in the investment volume can therefore be assumed.

The Hermle workforce is also expected to grow in the current year. New hires are planned primarily to expand our automation capacities, from design to manufacturing and assembly to IT and service.

We will continue our R&D activities on the same high level as in the past. Here, too, the focus is on automation competence: One focus will be on the fundamental conversion of the internal hardware and software architecture of our machines and plants to meet the latest technological standards and to map additional functionalities.

In order to broaden our customer base and prepare for possible relocations of production by customers, we will continue to push ahead with internationalisation. To this end, Hermle AG and our export business Hermle WWE are constantly examining new sales regions. We are also strengthening our market position in France. A new Hermle subsidiary was founded there in March 2023, which will commence operations in the course of the year.

In the procurement area, we will continue to work on securing our supply chain and broaden our supplier structure in order to prevent possible global supply bottlenecks and disruptions in transport logistics.

NET ASSETS AND FINANCIAL POSITION REMAINS VERY SOUND

The Hermle Group's net assets and financial position will continue to be very sound in 2023. Based on our high equity and liquidity base, we will again finance both the extensive planned investment projects and the ongoing business activities from our own funds. As before, it will not be necessary to take on bank liabilities.

OVERALL ASSESSMENT OF THE FUTURE DEVELOPMENT

All in all, the Management Board of Maschinenfabrik Berthold Hermle AG is cautiously confident about the future development of the company. In 2023, the course of business will again be characterised by major uncertainties in the overall economic environment. Provided that – as predicted by the economic experts – there is only a moderate economic slowdown despite the various crises, we expect turnover and the result to at least remain stable and, in a favourable case, to increase compared to the very good 2022 level. The foundation for this is the high order backlog. However, the number of incoming orders is likely to decrease noticeably in 2023 due to the uncertain general conditions. In the long term, we expect growing demand for our high-quality, powerful machining centres and automation solutions, not least due to the demographic change. This is because with our customised production systems and particularly reliable service, we offer our customers the opportunity to actively counter the shortage of skilled workers, which is expected to become even more prevalent.

Gosheim, 30 March 2023

Maschinenfabrik Berthold Hermle AG

Management Board

HERMLE SHARE

KEY FIGURES OF THE HERMLE PREFERENCE SHARE IN €

	2018	2019	2020	2021	2022
Result per preference share ¹	16.55 ³	16.88	8.06	11.02	14.40
Cash flow ¹	18.58	18.90	10.09	13.26	17.57
Equity ¹	50.06	52.08	54.89	61.04	66.95
All-time high ²	412.00	337.00	294.00	310.00	255.00
All-time low ²	268.00	250.00	197.00	228.00	190.00
Year-end share price ²	295.00	282.00	294.00	243.00	202.00
Price/earnings ratio at year-end	17.82 ³	16.72	35.36	22.05	14.03
Price/cash flow ratio at year-end	15.88	14.92	28.25	18.33	11.50
Dividend per preference share	0.85	0.85	0.85	0.85	0.85 ⁴
Bonus	14.20	4.20	4.20	8.20	10.20 ⁴
Special bonus					
Price on 31 March 2023					233.00

¹Share basis: 5,000,000 pieces

² Source: Stuttgart Stock Exchange

³ Without one-time valuation effect from the HLS complete acquisition

⁴ Subject to approval at the shareholders' meeting

STOCK MARKETS 2022 UNDER PRESSURE

The difficult political and economic environment significantly affected the stock markets last year. Above all, the war in Ukraine, but also the ongoing supply chain disruptions exacerbated by China's strict zero-COVID policy, accelerated inflation and the corresponding countermeasures by central banks unsettled investors. Germany's leading index, the DAX, came under additional pressure from the threat of a gas shortage, but recovered surprisingly well in the final quarter of 2022, posting a bottom-line loss of around 12%. The CDAX, reflecting the development of all German stocks in the Prime and General Standard sectors, lost almost 17% of its value in the year as a whole.

HERMLE SHARE PRICE ALSO DECLINES

Hermle's share price also declined during the reporting period. Starting from the end of the previous year, which was € 243.00, it initially rose to a high of € 255.00 by mid-January 2022. In the following months, marked by the outbreak of the war in Ukraine, the share fell noticeably, recovered briefly in the middle of the year and then fell to the low of the reporting period of € 190.00 by October. In the last few weeks, the share price rose again. At the end of 2022, the Hermle share price was quoted at € 202.00, almost 17% below the value on the previous year's reporting date.

SIGNIFICANT IMPROVEMENT IN RESULTS

Hermle's business performance in 2022 was very satisfactory despite the difficult environment. The main reason for this was a surprisingly strong final quarter, in which production capacities were once again better utilised. Consequently, the operating result of the Hermle Group grew by 33.5% to €m 99.6 compared to the previous year. The gross margin on turnover rose from 19.5% to 21% and the consolidated after-tax net income from €m 54.9 to €m 71.8. The result thus increased from € 10.97 to € 14.35 per ordinary share and from € 11.02 to € 14.40 per preference share.

DIVIDEND INCREASE TO € 11.05 PER PREFERRED SHARE

At the individual company Hermle AG, the net income for 2022 increased by 41.5% to €m 72.3 and the balance sheet profit to €m 144.1 (previous year €m 122.8). On this basis, the Management Board and the Supervisory Board will propose an increase in the dividend to the shareholders' meeting on 5 July 2023. An unchanged basic dividend of € 0.85 per preference share and € 0.80 per ordinary share, as well as an increased bonus from € 8.20 to € 10.20 per share are planned. This results in a payout of € 11.00 per ordinary share and € 11.05 per preference share, which corresponds to a dividend yield of 5.5% measured against the 2022 year-end share price. The total amount distributed as dividend increases to €m 55.1 (previous year €m 45.1).

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 is committed to responsible corporate governance. It is our goal to sustainably secure the future and soundness of the Hermle Group and to harmonise the interests of shareholders, customers, employees, suppliers and other partners. To this end, we implement a company-specific corporate governance concept, which is appropriate for a company of our size and meets all legal standards. Further information on this can be found in our Corporate Governance Statement, which is available on our website at 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 website. It is also printed on page 90 of this annual report.

For Hermle, responsible corporate governance traditionally includes transparent communication. Our shareholders, potential investors, the business press and financial market players are informed on an equal footing and in a timely manner about the business performance and significant news from the company. To this end, we publish an annual report 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 information about the company, our products and services, can be viewed on and downloaded from our website at www.hermle.de.

The Hermle shareholders' meeting will take place in 2023 in person again after three COVID-related virtual events. This will give our shareholders the opportunity to get to know the company better during a guided tour of the plant following the meeting.

FROM THE COMPANY: INDIVIDUAL PRODUCTION SOLUTIONS FOR PERFECT PRODUCTS

5-axis machining centres and automation solutions from Hermle are enormously versatile. From medical technology, aerospace or the electronics industry to tool and mould making, automotive industry and packaging technology to the optical industry and energy technology – the list of high-tech industries in which our production solutions are used is long and varied. As different as the requirements and products of our customers around the globe may be, they have a lot in common: They need extremely dynamic, high-precision manufacturing systems and a reliable, competent partner who also provides them with optimal support in development and service. Due to the shortage of skilled workers, our customers are also increasingly using customised, powerful and reliable automation solutions for 24/7 production. And the machines should also be as durable and energy-efficient as possible – in other words, sustainable.

All these arguments are convincing more and more companies at home and abroad to turn to Hermle. In this chapter, we present six different users of our machining centres and automation solutions and their products as examples. More detailed information on the applications and companies can be found on our website at www.hermle.de under Media / user reports.

Medical technology – the life-saving respirator



Breathing is natural and vital. If the respiratory reflex stops, supplying a person with oxygen becomes a demanding task. Fortunately, there are reliable respirators for this.

It goes without saying that all parts of these technically complex devices must meet extremely high quality standards. This is why a Swiss medical technology company, which in addition to respirators also manufactures other pharmaceutical automation solutions such as pipetting robots, biopharma sensors and sample

management systems, relies on Hermle for the production of a wide range of components. To be precise, two Hermle C 12 U machining centres with RS 05-2 robot system and other Hermle machines from the High Performance Line.

Our machining centres with automation solutions not only offer the Swiss company the greatest precision and accuracy for its thin-walled and fragile component geometries, but also significantly increase the feasible complexity of the components being manufactured. Further advantages are the simple operability via Hermle's HACS software, the high degree of integration and the compact, space-saving design of the system. And finally, the customer was also convinced by the high level of competence and reliability of our design engineers as well as application and service technicians.



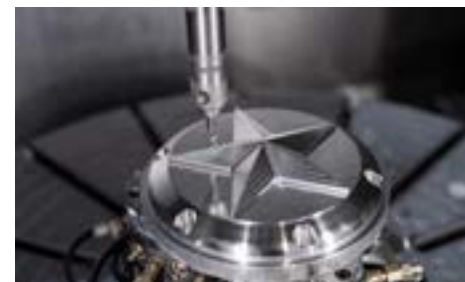
Vehicle construction – motorbikes with custom-made design



Our customer, a specialist manufacturer of custom-made motorbike parts on a small bespoke scale, is known for producing shiny metal parts with a rich sound that embody their unique brand. The German company, an official authorised dealer for Harley-Davidson, manufactures attachment parts such as wheel centres, indicator and air filter elements, but also exquisite-looking rims milled with an unprecedented level of perfection, as well as complete custom bikes with their own individual frames.

A C 42 U MT mill/turn machining centre and two C 32 U machines from Hermle are currently being used. The mill/turn variant of the C 42 U is developed in line with the strict safety requirements placed on lathes. It features a balancing system integrated into the rotary table that ensures safe machining of the motorbike specialist's 300-kilogram blanks even at maximum speeds. The demanding manufacture of the monoblock wheels with long runtimes at high feed rates and speeds and almost always in 5-axis simultaneous machining can thus be mastered without any problems.

In addition to safety, the highest demands on surfaces, design and complexity of the geometries, flexibility in the production processes and, last but not least, our exemplary service played an important role in the decision in favour of Hermle machines.



Subcontracting – products for travelling and outer space



As many as seven different Hermle machines are in operation at a Belgian subcontractor that specialises in complex geometries and perfect surfaces for a wide range of applications. Be it moulds for hard-top cases, prototypes of blades and turbine wheels for compressors and pumps or lens and sensor carriers for the aerospace industry – the innovative company believes there is a solution to every task. It relies on great know-how, many years of experience and high-performance Hermle machinery. The company is thus able to manufacture

geometries and surfaces in almost any conceivable quality and precision. For example, moulds for cases with a typical, concise surface structure, which are produced for a luggage manufacturer.

In order to produce the moulds at the required speed and precision, the subcontractor uses a C 52 U Hermle machining centre, which offers enough space even for large moulds. This allows for precise detailing of even the most delicate surface features and saves time during the reworking process. However, the customer does not only attach importance to the highest precision, dynamics and flexibility. Additionally, having direct access to competent contacts within our company is crucial to facilitate easy communication and exchange of ideas about new technologies.



Gear production – precise power transmission for electric cars



Short development cycles and extremely high demands on resilience and reliability characterise the customer industries of a Swiss gearwheel specialist. It therefore relies on Hermle machines to manufacture its products. The gearwheels and gearboxes of the component and system supplier, which also supports its customers in construction and design, are used in motor racing, rail vehicles and machines in the plastics and tool industries, among others. Yet another growing field of application is electric vehicles. In order to be able to react

quickly and flexibly to customer requirements, the company relies on several Hermle 5-axis machining centres and automation solutions. Thanks to simultaneous multi-side machining, they enable shorter runtimes, higher throughput rates and more productivity.

The machinery also includes an automated C 62 U with PW 3000 pallet changer and eight storage locations. This enables the manufacturer to accept orders for larger components as well, for example the machining of cast iron housings for railway gearboxes, and to reliably deliver them in the usual high quality. And if time is tight, our customer can also rely on us. In this case, special programs and processes are tested and run in beforehand at the Hermle Technology Centre in Gosheim.



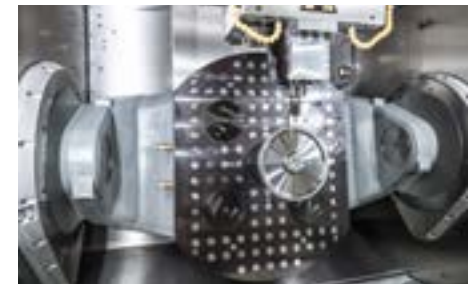
Aerospace – rocket technology from a startup



A Munich-based startup is developing rockets that will put satellites into orbit at low cost. Medium-sized carrier rockets – 27 metres long and two metres in diameter – are quite sufficient for this nowadays. After all, some satellites now weigh only around 100 kg and are comparatively easy to transport. The largest part of the rocket is made up of oxygen and fuel tanks. Only one fifth of the spacecraft is earmarked for payload and technology. At its core is

the propulsion system: In future, nine engines will propel the rocket into low earth orbit (LEO) with several satellites on board.

The prototypes for the propulsion system as well as subcomponents are produced on a Hermle C 42 U 5-axis machining centre – ideal for the high-precision machining of a wide range of parts made of varying materials, most of which are difficult to machine, as well as components that are used in an environment that is subject to strong temperature fluctuations. In serial production, an RS 1 robot system adapted to two C 22 and C 32 machining centres ensures automated processes. The startup is convinced that Hermle also offers one of the best solutions with the highest quality for automation.



Graphite machining – highest precision and sustainability



A family-owned company in southern Germany is making a name for itself by providing a unique offering that is unparalleled throughout Europe: It mills complex graphite electrodes for die-sinking EDM for the production of injection moulds and also manufactures the respective holders. For this purpose, the specialist relies on two C 22 U automated 5-axis milling centres and one C 32 U, including a Hermle RS 2 robot system.

Graphite machining is very demanding because the polycrystalline structure of the porous material differs from manufacturer to manufacturer. At the same time, complex geometries with absolute dimensional accuracy are required for die-sinking EDM. If ten identical graphite electrodes are produced, they must roll off the machine as identically as possible. This is the only way to guarantee that the plastic parts of a pirate ship fit together perfectly or that shampoo bottles close reliably.

Selecting Hermle aligns with the customer's sustainability goals and complies with the Greenhouse Gas Protocol standards for environmentally conscious businesses. During the summer months, the waste heat generated by Hermle machines is harnessed through a heat exchanger and repurposed to heat the halls directly during the winter. The carefully designed machine concept also boasts environmental benefits. It allows for optimal extraction of fine dust generated during graphite machining, preventing contamination of both the environment and the machining centre.





CONSOLIDATED FINANCIAL STATEMENTS

Hermle C 22 U dynamic in 5-axis version |
Machining of a bone plate for medical technology.

CONSOLIDATED BALANCE SHEET

ASSETS

€k	Appendix	31.12.2022	31.12.2021
A. Non-current assets			
I. Intangible assets	(7)		
1. Goodwill		6,096	6,096
2. Capitalised development expenditure		15	194
3. Other intangible assets		3,490	4,007
		9,601	10,297
II. Property, plant and equipment	(7)		
1. Land, leasehold rights and buildings, including the buildings on non-owned land		52,404	53,376
2. Technical plants and machinery		14,099	15,194
3. Other plants, fixtures and fittings		12,831	11,891
4. Advances paid		1,726	654
		81,060	81,115
III. Other financial assets	(11)	5	1,005
IV. Other non-current assets	(8)	0	3
V. Deferred tax assets	(24)	3,464	3,534
		94,130	95,954
B. Current assets			
I. Inventories	(9)		
1. Raw, process and operating materials		61,613	43,856
2. Unfinished products		22,041	20,538
3. Finished products and goods		22,528	16,925
4. Advances paid		1,888	1,359
		108,070	82,678
II. Trade accounts receivables	(10)	94,579	81,191
III. Other current receivables	(10)	13,071	34,758
IV. Securities and other assets	(11)	44,000	11,000
V. Liquid assets	(12)	113,901	109,452
		373,621	319,079
		467,751	415,033

LIABILITIES

€k	Appendix	31.12.2022	31.12.2021
A. Equity	(13)		
I. Equity of the shareholders of Hermle AG		334,755	305,199
II. Interests of other shareholders	(14)	3	11
		334,758	305,210
B. Non-current liabilities and provisions			
I. Non-current financial liabilities	(16)	186	322
II. Non-current provisions	(15)	2,023	1,894
III. Deferred tax liabilities	(24)	1,677	1,327
		3,886	3,543
C. Current liabilities and provisions			
I. Tax provisions	(15)	4,382	275
II. Current provisions	(15)	48,380	42,579
III. Current trade accounts payable	(16)	9,605	6,519
IV. Other current liabilities	(16)	66,740	56,907
		129,107	106,280
		467,751	415,033

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

INCOME STATEMENT

€k	Appendix	2022	2021
1. Sales revenues	(17)	474,065	375,977
2. Inventory change of finished and unfinished products		9,383	7,533
3. Other company-produced assets		1,468	1,238
4. Total operating performance		484,916	384,748
5. Other operating income	(18)	9,927	9,637
6. Material cost	(19)	204,179	163,740
7. Personnel costs	(20)	124,559	104,004
8. Depreciation on intangible assets and property, plant and equipment	(21)	11,223	11,284
9. Other operating costs	(22)	55,259	40,756
10. Operating result		99,623	74,601
11. Other financial result	(23)		
a) Other interest and similar income		279	93
b) Interest and similar expenses		229	298
		50	-205
12. Result before taxes		99,673	74,396
13. Taxes on income	(24)	27,888	19,486
14. Net income		71,785	54,910
15. Profit shares of other shareholders		0	-3
16. Consolidated after-tax net income		71,785	54,907

STATEMENT OF COMPREHENSIVE INCOME

€k	Appendix	2022	2021
Transfer net income		71,785	54,910
Other overall income			
Items that may subsequently be reclassified to the income statement			
Currency differences		1,600	1,795
Change from derivative financial instruments		984	-1,207
Income taxes on other overall income			
- Taxes on changes in derivative financial instruments		-261	320
Change from amendments to the group of consolidated companies		662	0
- Taxes on changes of amendments to the group of consolidated companies		-175	0
Other result		2,810	908
Overall result		74,595	55,818
Attribution of the annual result			
Profit share of other shareholders		0	3
Profit share of the shareholders of Hermle AG		71,785	54,907
		71,785	54,910
Attribution of the overall result			
Profit share of other shareholders		-13	2
Profit share of the shareholders of Hermle AG		74,608	55,816
		74,595	55,818
Result for each share (diluted and undiluted) in €	(25)		
Ordinary share		14.35	10.97
Preference share, incl. dividend preference		14.40	11.02
Number of shares used as a basis		5,000,000	5,000,000

CONSOLIDATED CASH FLOW STATEMENT

€k	Appendix	2022	2021
Net income		71,785	54,910
+/- Depreciation/appreciation of fixed assets		11,223	11,284
+/- Increase/decrease in non-current provisions		129	140
+ Change to the group of consolidated companies		4,708	0
Cash flow before change in working capital		87,845	66,334
- Elimination of supplementary tax from retirement of fixed assets		-731	-252
-/+ Increase/decrease from inventories		-28,046	-15,685
-/+ Increase/decrease from trade accounts receivables		-12,484	-37,957
-/+ Increase/decrease in other current receivables		21,669	-12,788
-/+ Increase/decrease in deferred tax assets and other non-current assets		72	-763
+/- Increase/decrease in current trade accounts payable		3,412	481
+/- Increase/decrease in current provisions		9,996	7,487
+/- Increase/decrease in other current liabilities		8,435	29,798
+/- Increase/decrease in deferred tax liabilities		351	-327
+/- Increase/decrease in non-current financial liabilities		0	57
Cash flow from operating activities	(26)	90,519	36,385
- Disbursements for investments in intangible assets		-480	-340
+ Proceeds from retirements of property, plant and equipment		695	860
- Disbursements for investments in property, plant and equipment		-9,651	-7,295
- Disbursements for securities and other investments		-43,000	-12,000
+ Proceeds from the sale of outside marketable securities and other assets		11,000	12,000
Cash flow from investment	(26)	-41,436	-6,775
Transfer		49,083	29,610

€k	Appendix	2022	2021
Transfer		49,083	29,610
- Payment of dividends		-45,047	-25,050
- Repayment of lease liabilities		-375	-405
Cash flow from financing activities	(26)	-45,422	-25,455
+/- Changes in the fund of cash and cash equivalents due to exchange rate fluctuations		1,219	1,324
+/- Changes from offsetting without directly affecting the operating result		723	-887
+/- Other changes		-463	0
Changes in the fund of cash and cash equivalents with an effect on payments	(26)	5,140	4,592
Financial funds as per 01.01.		109,452	104,860
Change in financial funds due to amendments to the group of consolidated companies		-691	0
Financial funds as per 31.12.		113,901	109,452
Fund of cash and cash equivalents			
Liquid assets		113,901	109,452
		113,901	109,452

CONSOLIDATED EQUITY STATEMENT

€k	Equity of the parent company					Equity of the parent company					Interests of other shareholders		Consolidated equity
	Subscribed capital Ordinary shares	Subscribed capital Preference shares	Capital reserve	Statutory reserves	Other revenue reserves	Consolidated 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
As per 01.01.2021	12,000	3,000	3,286	1,815	104,322	149,230	255,367	303	473	274,429	1	11	274,441
Dividend for the previous year as per shareholders' meeting resolution	0	0	0	0	0	-25,050	-25,050	0	0	-25,050	0	0	-25,050
Net income 2021	0	0	0	0	0	54,907	54,907	0	0	54,907	0	3	54,910
Currency loss	0	0	0	0	0	15	15	1,785	0	1,800	0	-4	1,796
Cash flow hedges	0	0	0	0	0	0	0	0	-887	-887	0	0	-887
Unclaimed dividend	0	0	0	0	0	0	0	0	0	0	0	0	0
Change in profit carried forward	0	0	0	0	215	-215	0	0	0	0	0	0	0
As per 31.12.2021	12,000	3,000	3,286	1,815	104,537	178,887	285,239	2,088	-414	305,199	1	10	305,210
Dividend for the previous year as per shareholders' meeting resolution	0	0	0	0	0	-45,050	-45,050	0	0	-45,050	0	0	-45,050
Net income 2022	0	0	0	0	0	71,785	71,785	0	0	71,785	0	0	71,785
Allocation to the revenue reserves	0	0	0	0	6,139	-6,139	0	0	0	0	0	0	0
Currency loss	0	0	0	0	0	-155	-155	1,768	0	1,613	0	-13	1,600
Cash flow hedges	0	0	0	0	0	0	0	0	723	723	0	0	723
Unclaimed dividend	0	0	0	0	0	3	3	0	0	3	0	0	3
Amendments to the group of consolidated companies	0	0	0	0	0	0	0	483	0	483	0	5	488
Other changes	0	0	0	-315	315	-1	-1	0	0	-1	0	0	-1
ASper 31.12.2022	12,000	3,000	3,286	1,500	110,991	199,330	311,821	4,339	309	334,755	1	2	334,758

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DEVELOPMENT OF THE CONSOLIDATED FIXED ASSETS 2022

€k	Acquisition/manufacturing costs						Cumulated depreciation					Book values	
	As of 01.01.2022	Additions	Repostings	Retirements	Currency adjustment	As of 31.12.2022	As of 01.01.2022	Additions	Retirements	Currency adjustment	As of 31.12.2022	As of 31.12.2022	As of 31.12.2021
I. Intangible assets													
1. Goodwill	6,096	0	0	0	0	6,096	0	0	0	0	0	6,096	6,096
2. Capitalised development expenditure	3,061	0	0	0	0	3,061	2,867	179	0	0	3,046	15	194
3. Other intangible assets	13,296	480	0	66	3	13,713	9,289	997	66	3	10,223	3,490	4,007
	22,453	480	0	66	3	22,870	12,156	1,176	66	3	13,269	9,601	10,297
II. Property, plant and equipment													
1. Land, leasehold rights and buil- dings, including the buildings on non-owned land	86,946	1,127	15	137	355	88,306	33,570	2,381	121	72	35,902	52,404	53,376
2. Technical plants and machinery	56,341	2,274	35	1,667	114	57,097	41,147	3,409	1,628	70	42,998	14,099	15,194
3. Other plants, fixtures and fittings	38,974	5,065	321	3,143	187	41,404	27,083	4,257	2,900	133	28,573	12,831	11,891
4. Advances paid	654	1,479	-371	36	0	1,726	0	0	0	0	0	1,726	654
	182,915	9,945	0	4,983	656	188,533	101,800	10,047	4,649	275	107,473	81,060	81,115
III. Other financial assets	1,005	0	0	1,000	0	5	0	0	0	0	0	5	1,005
	206,373	10,425	0	6,049	659	211,408	113,956	11,223	4,715	278	120,742	90,666	92,417

DEVELOPMENT OF THE CONSOLIDATED FIXED ASSETS 2021

€k	Acquisition/manufacturing costs						Cumulated depreciation					Book values	
	As of 01.01.2021	Additions	Repostings	Retirements	Currency adjustment	As of 31.12.2021	As of 01.01.2021	Additions	Retirements	Currency adjustment	As of 31.12.2021	As of 31.12.2021	As of 31.12.2020
I. Intangible assets													
1. Goodwill	6,096	0	0	0	0	6,096	0	0	0	0	0	6,096	6,096
2. Capitalised development expenditure	3,061	0	0	0	0	3,061	2,644	223	0	0	2,867	194	417
3. Other intangible assets	13,004	340	0	51	3	13,296	8,294	1,042	49	2	9,289	4,007	4,710
	22,161	340	0	51	3	22,453	10,938	1,265	49	2	12,156	10,297	11,223
II. Property, plant and equipment													
1. Land, leasehold rights and buildings, including the buildings on non-owned land	85,438	1,448	124	487	423	86,946	30,862	2,660	29	77	33,570	53,376	54,576
2. Technical plants and machinery	53,545	2,347	1,264	942	127	56,341	38,639	3,264	835	79	41,147	15,194	14,906
3. Other plants, fixtures and fittings	37,756	2,935	20	1,969	232	38,974	24,766	4,095	1,933	155	27,083	11,891	12,990
4. Advances paid	1,503	564	-1,408	5	0	654	0	0	0	0	0	654	1,503
	178,242	7,294	0	3,403	782	182,915	94,267	10,019	2,797	311	101,800	81,115	83,975
III. Other financial assets	3,005	1,000	0	3,000	0	1,005	0	0	0	0	0	1,005	3,005
	203,408	8,634	0	6,454	785	206,373	105,205	11,284	2,846	313	113,956	92,417	98,203

CONSOLIDATED SEGMENT REPORTING

€k	Domestic companies		Foreign sales companies		Consolidation effects		Consolidated financial statements	
	2022	2021	2022	2021	2022	2021	2022	2021
Turnover with third parties	267,749	208,699	206,316	167,278	0	0	474,065	375,977
Operating result	99,560	69,680	5,078	5,326	-5,015	-405	99,623	74,601
Income tax	-24,890	-18,491	-3,193	-1,231	195	236	-27,888	-19,486
Net income	71,666	53,078	1,890	3,994	-1,771	-2,162	71,785	54,910
Non-current segment assets	83,635	86,774	10,495	9,180	0	0	94,130	95,954
Current segment assets	296,047	245,014	109,229	98,718	-31,655	-24,653	373,621	319,079
Segment assets (sum of assets)	379,682	331,788	119,724	107,898	-31,655	-24,653	467,751	415,033
Segment debts incl. provisions	93,091	74,776	68,685	57,758	-28,783	-22,711	132,993	109,823
Investments (incl. additions in rights of use)	7,993	6,437	2,432	1,193	0	0	10,425	7,630
Depreciation	9,469	9,647	1,754	1,637	0	0	11,223	11,284
Employees annual average	1,190	1,151	165	156	0	0	1,355	1,307

(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 of December 31 2022.

To improve the clarity of the presentation, some items of the consolidated balance sheet and consolidated income statement are summarised. These are stated separately and explained in the notes to the consolidated financial statements. The consolidated 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 30 March 2023 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 2022 business year. Their application is mandatory for business years that commence on 1 January 2022.

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

- 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

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 2023 or later:

- IFRS 17: Insurance contracts
- Amend. IAS 8: Accounting policies, changes in accounting estimates and errors - definition of accounting estimates
- Amend. IAS 12: Income taxes - deferred taxes relating to assets and liabilities arising from a single transaction
- Amend. IFRS 17: Insurance contracts: Initial application of IFRS 17 and IFRS 9 – comparative information
- Amend. IAS 1: IFRS Practice Statement 2: Disclosure of Accounting Policies

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

Amend. IAS 1:	Presentation of financial statements – classification of liabilities as current or non-current
IFRS 16:	Lease liability in a sale and leaseback transactions

Based on current knowledge, it is not to be expected that these standards will have significant effects on the consolidated financial statements. 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
Domestic segment		
Hermle Vertriebs GmbH, Gosheim	Full	100.0%
Hermle Systemtechnik GmbH, Gosheim	Full	100.0%
Hermle Maschinenbau GmbH, Gosheim	Full	100.0%
Foreign sales segment		
Hermle (Schweiz) AG, Neuhausen, Switzerland	Full	100.0%
Hermle WWE AG, Neuhausen, Switzerland	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 Mexiko S. DE R.L. DE C.V., Querétaro, Mexico	Full	100.0%
Hermle SEA Co., Ltd., Bangkok, Thailand	Full	100.0%
Hermle Machine (Shanghai) Co. Ltd., Shanghai, China	Full	100.0%

Hermle Vostok OOO, Moscow, Russia, and Hermle Uljanovsk OOO, Uljanovsk, Russia, were removed from the group of consolidated companies on 1 April 2022 due to the war in Ukraine and the loss of control resulting from the mutual sanctions imposed by the EU and Russia.

Hermle Machine (Shanghai) Co. Ltd., founded in January 2022 and based in Shanghai, China, was included in the group of consolidated companies for the first time in the business year.

Otherwise, 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 31.12.2022	Exchange rate on the reporting date 31.12.2021	Average prices 2022	Average prices 2021
EUR/USD	1.0666	1.1326	1.0500	1.1816
EUR/CHF	0.9847	1.0331	1.0017	1.0799

(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. In the development phase, the soundness is reviewed annually by means of an impairment test. Capitalized developments are depreciated using the straight-line method for an expected product life cycle of three to four years and commence with the public presentation.

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.

Rights of use are capitalised at the date of provision at cost, which is the cost of the recognised lease liability, the initial direct costs incurred and the rental incentive granted by the lessor. Subsequently, the right-of-use assets are reduced by straight-line depreciation until the end of the lease term and adjusted for any revaluation of the lease liability.

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 impairment 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 book value of the corresponding cash-generating unit, including the goodwill allocated to it, is compared with the fair value less costs of sale. The calculation uses cash flow forecasts based on a five-year planning period. The EBIT margin in the detailed planning period is in a range of between 6.0% to 7.5%. The sales revenues are planned to increase at rates ranging from 16% – with a downward trend – to 1% during this 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 7.89% (previous year 5.99%) 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 200 base points would not result in a need for devaluation, but an additional EBIT margin deterioration of up to 2% would result in a need for depreciation of the book value by €m 0.3.

FINANCIAL ASSETS

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

OTHER NON-CURRENT ASSETS

Other non-current assets include claims from reinsurance policies, which are stated at amortised cost. Impairment 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 assets 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 in this and the previous business year 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 is 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 derivative 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 consolidated income statement. Value changes of cash flow hedges are offset against the cumulated other equity with consideration given to deferred taxes without affecting the profit.

IMPAIRMENT

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

Impairment 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 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.

The holiday entitlements for employees recorded in the previous year in the other current provisions were reclassified to other liabilities in the reporting year. This gives the reader of the annual financial statements a better overview of the Group's existing performance obligations. The previous year's figures were adjusted accordingly to the amount of €m 1.2.

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.

CONSOLIDATED INCOME STATEMENT

SALES REVENUES

Pursuant to IFRS 15, sales revenues are recognised as soon as the customer obtains control over the products or rendered services. This is generally the case when the products have been delivered or the services have been rendered and the risk has thus passed to the customer. If spare parts are related to a service agreement, turnover realisation is not recognised until the service agreement has been completed, as the agreed consideration is only fully met at that moment. 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.

Sales revenues 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 Germany are offset against personnel costs. In the year under review, this resulted in grants in connection with the allowance for reduced working hours amounting to €k 0 (previous year €k 1,762) as well as reimbursements of COVID-19 related deficiency compensation within the framework of the Infection Protection Act (IfSG) amounting to €k 107 (previous year €k 0).

Government grants in the context of COVID-19 aid in the Czech Republic are reported as other operating income at €k 0 (previous year €k 40).

EXPLANATORY NOTES ON THE CONSOLIDATED 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 €k 15 (previous year €k 194). The research and development expenses recorded directly as expenses were €k 15,947 (previous year €k 13,815).

The goodwill results from the first-time consolidation of Hermle Systemtechnik GmbH in the 2018 business year.

Other intangible assets include technical know-how, patents, software, licences and similar rights.

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 2021	532	204	736
Additions minus retirements	269	96	365
Depreciation	-271	-127	-398
As per 31 December 2021	530	173	703
Additions minus retirements	131	163	294
Depreciation	-279	-145	-424
As per 31 December 2022	382	191	573

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

€k	2022	2021
As per 1 January	696	715
Additions minus retirements	247	381
Interest	5	5
Payments	-375	-405
As per 31 December	573	696

Leasing liabilities €k	up to 1 year	1 to 5 years	from 5 years	Total
Minimum lease payments	393	191	0	584
Cash value	387	186	0	573

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	31.12.2022	31.12.2021
Raw, process and operating materials	61,613	43,856
Unfinished products, unfinished services	22,041	20,538
Finished products and goods	22,528	16,925
Advances paid on inventories	1,888	1,359
	108,070	82,678

The book value of the inventories stated at net sales prices was €k 10,118 (previous year €k 9,597). The decrease in the value adjustment for inventories recorded with an effect on profits was €k 669 (previous year €k 524). Advances paid are stated as net amounts without turnover tax.

(10) TRADE ACCOUNTS RECEIVABLES AND OTHER CURRENT RECEIVABLES

€k	31.12.2022	31.12.2021
Trade accounts receivables		
Against third parties	94,579	81,191
Other current receivables		
Derivative financial instruments	528	0
Tax refund claims	2,798	25,770
Accrued and deferred items	1,065	1,194
Customer receivables from advance payments	7,609	6,542
Other assets	1,071	1,252
	13,071	34,758
Total	107,650	115,949

The trade accounts receivables with a remaining term of more than one year were €k 5,634 (previous year €k 5,280). 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 to 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 impairment 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 31.12.2022	94,579	20,643	633	1,326	2,934	354
Trade accounts receivables 31.12.2021	81,191	23,214	3,135	893	257	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	2022	2021
Value adjustments at the beginning of the business year	9,018	7,457
Recognised in the income statement in the reporting period	-1,180	1,447
Write-off of receivables	-36	-22
Currency conversion effects	164	136
Value adjustments at the end of the business year	7,966	9,018

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	2022	2021
Expenses for the complete write-off of receivables	55	69
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 €k 0 (previous year €k 1,000) 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 €k 44,000 (previous year €k 11,000) are stated in this item.

(12) LIQUID ASSETS

The liquid assets largely apply to cash in banks.

€k	31.12.2022	31.12.2021
Credit balance with financial institutions	113,879	109,422
Cash on hand	22	30
	113,901	109,452

(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, €k 6,000 (previous year €k 215) were allocated to the revenue reserves of Maschinenfabrik Berthold Hermle AG. A further €k 139 was allocated to the revenue reserves of the subsidiaries.

The Management Board recommended at the shareholders' meeting on 22 March 2023 to use the 2022 balance sheet profit of Maschinenfabrik Berthold Hermle AG amounting to €k 144,096 to pay out €k 55,050 through the payment of a dividend totalling € 11.00 per ordinary share, and € 11.05 per preference share, to return €k 16,000 to other revenue reserves and to carry forward the remaining €k 73,046 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 26 April 2023 based on the further development of the war in Ukraine and its effects.

In the 2022 business year a dividend totalling € 9.00 per ordinary share and € 9.05 per preference share was paid in respect of the 2021 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 business year, an amount of €k 414 (previous year €k -473) was withdrawn from the equity and recorded as expenses (previous year income) in the period result. In addition, income (previous year expenses) 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 €k 309 (previous year €k -414).

The development of equity and its elements is stated in the consolidated 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 01.01.2022	Consumption	Resolution	Addition	Other changes	As per 31.12.2022
Tax provisions	275	227	40	4,379	-5	4,382
Personnel provisions	12,311	7,909	270	13,476	49	17,657
Other provisions in sales and purchasing	30,799	15,818	2,019	18,008	222	31,192
for other areas	1,363	1,373	49	1,605	8	1,554
	32,162	17,191	2,068	19,613	230	32,746
	44,748	25,327	2,378	37,468	274	54,785
of which current provisions	42,854	25,113	2,311	37,070	262	52,762
of which non-current provisions	1,894	214	67	398	12	2,023

The provisions in human resources largely apply to 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 comprise currency and interest effects totalling €k 299 (previous year €k 279), which were recognised as income, as well as expenses from the de-consolidation of Hermle Vostok amounting to €k -25.

The effects from the interest charge and from changes to the discounting interest rate in the sum of €k 15 (previous year €k 19) apply in an amount of €k 12 (previous year €k 14) to personnel provisions and €k 3 (previous year €k 5) to other provisions.

(16) LIABILITIES

The liabilities relate in particular to:

€k	31.12.2022	31.12.2021
Other non-current liabilities		
Leasing liabilities	186	322
Current trade accounts payable		
against third parties	9,605	6,519
Other current liabilities		
Advances paid	37,316	28,984
Contractual debt from advance payment invoices	7,609	6,542
Contractual liabilities	2,463	2,234
Leasing liabilities	387	374
Derivative financial instruments	259	1,380
Tax liabilities	10,200	9,264
Social security liabilities	690	424
Other liabilities	7,814	6,462
	66,740	55,664
Breakdown of liabilities by remaining terms		
up to 1 year	73,345	62,183
from 1 year	186	322
	76,531	62,505

The current trade accounts payable contain title reservations that are customary in the trade.

Pursuant to IFRS 9, the derivative financial instruments stated in the other liabilities are stated at the market value. They apply to the negative 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 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 CONSOLIDATED INCOME STATEMENT

(17) SALES REVENUES

The following table shows the distribution of sales in 2022 and 2021 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	
	01-12/2022	01-12/2021	01-12/2022	01-12/2021	01-12/2022	01-12/2021
Sales regions						
Federal Republic of Germany	171,489	139,176	0	0	171,489	139,176
Other countries	96,260	69,523	206,316	167,278	302,576	236,801
Total	267,749	208,699	206,316	167,278	474,065	375,977
Product and service areas						
Sale of machine tools						
Accessories and spare parts	253,266	195,450	196,346	157,965	449,612	35,3415
Service and training services	14,483	13,249	9,970	9,313	24,453	22,562
Total	267,749	208,699	206,316	167,278	474,065	375,977
Revenue from contracts with customers	267,749	208,699	206,316	167,278	474,065	375,977
Turnover with third parties	267,749	208,699	206,316	167,278	474,065	375,977

The contract balances are as follows:

€k	31.12.2022	31.12.2021
Trade accounts receivables against third parties	94,579	81,191
Customer receivables from advance payments	7,609	6,542
Total	102,188	87,733
Advances paid	37,316	28,984
Contractual liabilities	2,463	2,234
Contractual debt from advance payment invoices	7,609	6,542
Total	47,388	37,760

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 2022 business year, sales revenues of €k 1,354 (previous year €k 1,479) 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 2022 amounting to €k 1,886 in 2023 and €k 191 in 2024 will lead to sales.

(18) OTHER OPERATING INCOME

The other operating income item applies to:

€k	2022	2021
Income from reversal of provisions	2,331	1,864
Income from reversal of value adjustments	5,062	3,922
Income from retirement of fixed assets	994	413
Currency gains from exchange rate differences and derivative financial instruments	0	1,021
Other operating income	1,540	2,417
Total	9,927	9,637

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	2022	2021
Expenses for raw, process and operating materials and procured goods	195,856	156,889
Cost of purchased services	8,323	6,851
Total	204,179	163,740

(20) PERSONNEL COSTS

Personnel costs include:

€k	2022	2021
Salaries and wages	106,190	87,930
Social security contributions	18,369	16,074
Total	124,559	104,004

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

Average numbers of employees:

	2022	2021
Industrial workers	494	457
Salaried employees	774	750
Apprentices	87	100
	1,355	1,307

The Management Board's emoluments totalled €k 2,861. 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 €k 0 (previous year €k 0).

(22) OTHER OPERATING COSTS

€k	2022	2021
Formation of value adjustments on receivables	3,986	5,352
Currency losses	2,618	0
Expense from amendments to the group of consolidated companies	4,708	0
Other operating costs	43,947	35,404
	55,259	40,756

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.

The expense from amendments to the group of consolidated companies relates to the two companies in Russia.

Other operating expenses include expenses relating to leases amounting to €k 1,273 (previous year €k 1,141). Of which, €k 1,157 (previous year €k 1,012) is attributable to current leases and €k 116 (previous year €k 129) to leases for assets of low value that are not current term.

With regard to auditing the annual financial statements and consolidated financial statements of Maschinenfabrik Berthold Hermle AG, auditor's fees of €k 215 (previous year €k 187) were recorded as expenses in 2022. In addition, €k 0 (previous year €k 0) was paid in the current year for other certification services, €k 0 (previous year €k 0) were charged for tax consultancy services and €k 0 (previous year €k 0) for other services.

(23) FINANCIAL RESULT

The financial result is classified as follows:

€k	2022	2021
Other interest and similar income	279	93
Interest and similar expenses	-229	-298
	50	-205

In addition to external interest, the interest expenditure mainly relates to internal expenses from the interest charge of current and non-current provisions.

(24) TAXES ON INCOME

The taxes on income apply to:

€k	2022	2021
Current taxes	27,707	20,139
Deferred taxes	181	-653
	27,888	19,486

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	2022	2021
Result before income tax	99,673	74,396
Calculated income tax in %	26.50%	26.50%
Calculated income tax	26,413	19,715
Tax-exempt income	0	-133
Non-deductible expenses	+174	+241
Other aperiodic taxes	-137	-73
Newly accrued deferred taxes	0	0
Differences from tax rates/currency conversion	418	-547
Losses carried forward not taken into account	1,020	283
Total tax expenses	27,888	19,486

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	31.12.2022	31.12.2021
Deferred tax assets		
Tax losses carried forward	0	0
Consolidations	857	812
Assets	165	166
Inventories and receivables	1,272	1,313
Provisions	778	606
Liabilities	0	0
Derivative financial instruments	69	366
Contractual liabilities	323	271
Total	3,464	3,534
Offset against deferred tax liabilities	0	0
Total	3,464	3,534
of which items charged to equity without affecting the operating result	28	149
Deferred tax liabilities		
Assets	651	825
Inventories and receivables	618	297
Securities	0	0
Provisions	260	195
Derivative financial instruments	140	0
Other	8	10
Total	1,677	1,327
Offset against deferred tax assets	0	0
Total	1,677	1,327
of which items charged to equity without affecting the operating result	140	0

The deferred tax assets are stated in the consolidated 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 5,260 (previous year €k 1,777) have not been stated due to the uncertain realisation options.

(25) RESULT FOR EACH SHARE

€k	2022	2021
Net income:		
Acc. to income statement	71,785	54,910
Minority interests in the result	0	-3
Result acc. to minority interests	71,785	54,907
Accrued preference dividends	-50	-50
Result acc. to minorities and preference dividends	71,735	54,857
Weighted average in pieces:	4,000,000	4,000,000
Outstanding ordinary shares	1,000,000	1,000,000
Outstanding preference shares	5,000,000	5,000,000
Total of all types of shares		
Average weighted number of shares in items:	5,000,000	5,000,000
Undiluted and diluted result for each share in euros:		
Per ordinary share	14.35	10.97
Per preference share, incl. dividend preference	14.40	11.02

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) CONSOLIDATED CASH FLOW STATEMENT

The development of the money flows and their effects on the funds of the cash equivalents are illustrated in the consolidated 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 and, if applicable, short-term bank liabilities make up the fund 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. The cash flow from the ongoing business activity contains cash flows from interest and other financial expenses amounting to €k -58 (previous year €k -205) and cash flows from taxes of €k +547 (previous year €k -21,772).

(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 is authoritative, which is represented at Hermle by the Management Board.

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 (Switzerland) AG, Hermle WWE AG (Switzerland), Hermle Vostok OOO (Russia), Hermle Uljanovsk OOO (Russia), Hermle Mexico S. DE R.L. DE C.V., Hermle SEA Co, Ltd. (Thailand), newly founded in January 2022, as well as the sales branches of Hermle AG in Austria, the Czech Republic, Denmark and Poland. Hermle Vostok OOO and Hermle Uljanovsk OOO left the group of consolidated companies on 1 April 2022. However, they are included in the current business year's turnover, operating result, income taxes and net income up to this point.

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 statements. 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	31.12.2022	31.12.2021
Contingent liabilities		
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 consolidated 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 2022 are as follows:

€k	Values stated in the balance sheet pursuant to IFRS 9					Fair value 31.12.2022
	Book value 31.12.2022	Amortised cost	Fair value with an ef- fect on the operating result	Fair value without an effect on the opera- ting result	Leasing	
Assets						
Non-current assets						
Other financial assets	5			5		5
Other non-current assets	0					0
Current assets						
Trade accounts receivables	94,579	94,579				94,579
Other current receivables	7,956	7,956				7,956
Derivative financial instruments	528			528		528
Securities and other assets	44,000	44,000				44,000
Cash and cash equivalents	113,879	113,879				113,879
Liabilities						
Non-current liabilities						
Derivative financial instruments	0					0
Leasing liabilities	-186				-186	-186
Current liabilities						
Trade accounts payable	-9,605	-9,605				-9,605
Other liabilities	-4,342	-4,342				-4,342
Leasing liabilities	-259		-151	-108		-259
Derivative financial instruments	-387				-387	-387

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 opera- ting result	Leasing	Fair value 31.12.2021
Assets						
Non-current assets						
Other financial assets	1,005	1,000		5		1,005
Other non-current assets	3	3				3
Current assets						
Trade accounts receivables	81,191	81,191				81,191
Other current receivables	6,801	6,801				6,801
Derivative financial instruments						
Securities and other assets	11,000	11,000				11,000
Cash and cash equivalents	109,452	109,452				109,452
Liabilities						
Non-current liabilities						
Financial liabilities	0					0
Derivative financial instruments	0					0
Leasing liabilities	322				322	322
Current liabilities						
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 net results of the financial instruments according to valuation categories are as follows for the 2022 business year pursuant to IFRS 9:

€k	From interest/ Dividends	From follow-on valuations: On fair value	Currency conversion	Value adjustment	off Retirement	2022
Financial assets						
Stated at amortised cost	301		-2,618	1,076	-55	-1,296
Stated at fair value directly in equity		-22				-22
Stated at fair value through profit and loss		0				0
Financial liabilities						
Stated at amortised cost	-171					-171
Stated at fair value through profit and loss		-49				-49
Stated at fair value directly in equity		-22				-22
Total	130	-93	-2,618	1,076	-55	-1,560

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 ad- justment	off Retirement	2021
Financial assets						
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
Financial liabilities						
Stated at amortised cost	233					233
Stated at fair value through profit and loss		5				5
Total	360	5	1,021	-1,430	69	25

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 December 31, 2022, the Hermle Group has an above-average equity ratio in the sum of 71.6%. Liquid funds and securities amounted to €k 113,901 on the reporting date. The 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 of circulating 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 €m 0.8 (previous year €m 0.4). The risk from a deterioration in interest rates exists to the same extent, as banks also pass on falling interest rates directly to customers. This effect is thus a mirror image of approximately €m -0.8 (previous year €m -0.6).

DEFAULT RISKS

There is no significant concentration of default risks at the Hermle Group because no more than 10% of the Group's turnover 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 an expected economic downturn and the impaired results of operations and financial position in individual customer sectors of our products, after the COVID-19 pandemic, 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, short-term default risks are not assumed. In addition, short investment periods are currently still chosen. The for us 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'. Risk-limiting countermeasures were introduced through the so-called "Stability Pact" and defined new debt limits, which were, however, temporarily suspended in practically all countries in the course of the COVID-19 pandemic and the war in Ukraine, circumvented by "special funds" or "flexibly handled". The sense and binding nature of these rules is openly disputed by many countries. This increases the likelihood that future compliance with the rules will also be questioned. The maximum default risk arises from the book value of the financial assets stated in the consolidated balance sheet.

LIQUIDITY RISKS

The Hermle Group have above-average high stocks of cash and cash equivalents. Liquidity risks are not discernible in the short to medium term due to these facts, wherein the stability of the German banking system is still assumed to be given despite eroding earning power and a reduction in protection from the banks' voluntary protection systems – which may give rise to doubts (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 or third parties, 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 2022 and 31 December 2021, 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 currency rates.

In the case of impairment of the key foreign currencies by 5% in 2022, a loss for the 2022 business year of €m 0.1 (previous year income of €m 0.3) would arise; in the case of a corresponding increase in value, an income of €m 0.1 (previous year €m 0.3 loss). In the case of impairment of the key foreign currencies by 5% in 2022, the Group capital as per 31 December 2022 would decrease by €m 0.4 (previous year €m 0.1); in the case of a corresponding write-up of the foreign currencies, it would increase by €m 0.4 (previous year €m 0.1).

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	31.12.2022	31.12.2021
Forward currency sales:		
Nominal volume	43,108	35,641
of which Remaining term > 1 year	0	0
Positive market values	528	0
of which Fair value hedges < 1 year	(0)	(0)
of which Fair value hedges > 1 year	(0)	(0)
of which Cash flow hedges < 1 year	(528)	(0)
of which Cash flow hedges > 1 year	(0)	(0)
Negative market values	259	1,380
of which Fair value hedges < 1 year	(151)	(812)
of which Fair value hedges > 1 year	(0)	(0)
of which Cash flow hedges < 1 year	(108)	(568)
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.

In the 2022 business year, the Group profit was again negatively affected by the COVID-19 pandemic, the outbreak of the war in Ukraine and supply chain disruptions. Estimation uncertainties remain high in the following year due to these uncertainties about the course and outcome of the Ukraine conflict.

(31) EVENTS AFTER THE REPORTING DATE

Following the conclusion of the 2022 business year and up until these consolidated financial statements were signed off, there were no events that had significant effects on the net assets, financial position and results of operations 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 statements, 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 €k 119 (previous year €k 592), while the deliveries and services purchased by the Group from other closely affiliated companies were €k 693 (previous year €k 2,329). On the reporting date, the Group receivables due from other closely affiliated companies were €k 16 (previous year €k 6), while the Group liabilities due to other closely affiliated companies were €k 4 (previous year €k 133).

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

The Management Board and Supervisory Board of Hermle AG issued the declaration of compliance with GCGC pursuant to Section 161 of the German Stock Corporation Act (AktG) on 9 December 2022 and made it permanently available to the general public on the Hermle AG homepage at 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 an der 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, Köln

Member of the Board of Directors of Pactum AG, Zürich

Chair of the Supervisory Board of E3 Holding AG, Biberach an der Riss

Deputy Chair of the Supervisory Board of WS Holding AG, Ludwigsburg, since 3 June 2022

Gerd Grewin*

Chair of the Works Council

Industrial Foreman, Control Technician

Andreas Borho*

Industrial Business Management Assistant

* Elected employee representatives

Gosheim, 30 March 2023

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 2022, the consolidated statement of comprehensive income, the consolidated equity statement and the consolidated cash flow statement – for the business year from 1 January to 31 December 2022, as well as the notes to the consolidated 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 2022. 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 separate 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, as well as the subsection "Integrated monitoring, control and compliance management system" in the section "Risk and opportunities 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 2022, and of the results of operations for the business year from 1 January to 31 December 2022.
- 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 2022. 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 sales revenues from new machine and spare parts sales

a) The risk for the consolidated financial statements

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 2022 business year, sales revenues of €m 449.6 were generated from the sale of new machines and spare parts. Sales revenues are generally recognised at the time the products are delivered and the ownership or risk is transferred to the customer. If spare parts are related to a service agreement, turnover realisation is not recognised until the service agreement has been completed, as the agreed consideration is only fully met at that moment. The Maschinenfabrik Berthold Hermle AG Group 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 "Consolidated income statement" in chapter (6) "Accounting and valuation principles" and in chapter (17) "Sales revenues" 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 revenues 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 revenues with the IFRS framework and the relevant IFRS. Based on our understanding of business and processes, we analysed the revenue reported in the 2022 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. Other information 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 subsection "Integrated monitoring, control and compliance management system" in the chapter "Risk and opportunities report" of the summary management report
- The Report of the Supervisory Board

- The other parts of the published annual report, but not the consolidated financial statements, not the audited content of the summary management report and not our unqualified opinion thereon, and
- 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.

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 statements, 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 and results of operations 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 that do not contain false information, whether due to fraud or error (i.e. manipulation of the accounting system or misstatement of assets).

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. The legal representatives are also responsible for implementing the precautions and measures (systems) they consider necessary in order to compile a summary management report in compliance with the applicable German laws and to provide adequate and suitable evidence supporting 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 do not contain false information, whether due to fraud or error, 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 unqualified opinion 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 fraud or 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 report.

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

- We identify and assess the risks of materially false information presented in the consolidated financial statements and the summary management report due to fraud or error, 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 of not detecting materially false information resulting from fraud is higher than the risk of not detecting materially false information resulting from errors, as fraud may involve collusion, forgery, intentional omissions, misleading information or override 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 presentation, the structure and content of the consolidated financial statements, including the disclosures therein, 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 and results of operations 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 important 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, and, where relevant, the actions taken or the preventive measures implemented to prevent any such independence threats.

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_2022-12-31.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 2022 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 (06.2022)). 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 July 6, 2022. We were contracted to conduct the audit by the Supervisory Board on 6 December 2022. 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 Company Register – 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, 24 April 2023

Ebner Stolz GmbH & Co. KG
Auditors and tax consultants

Oliver Striebel Dr. Volker Hecht
Auditor 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 and results of operations, 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 2023

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)

The Management Board and the Supervisory Board declare that the recommendations of the Government Commission on the German Corporate Governance Code as amended on 28 April 2022, which came into force on 17 May 2022 (GCGC 2022), are not complied with, with the exception of various individual points. 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. In that respect, the mandatory requirements were complied with in full.

The Management Board and the Supervisory Board hold the view there are various reasons for not implementing recommendations of the GCGC 2022 that extend beyond this. As detailed below, Maschinenfabrik Berthold Hermle AG therefore deviates considerably from the recommendations of the GCGC 2022, whereby it may be assumed for the following statements that all GCGC 2022 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 all legal framework conditions and requirements.

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 large groups but not to an SME with a limited number of ordinary shareholders who in part – 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 2022) 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 German Stock Corporation Act (AktG) for DAX-listed companies in Section 87a of the German Stock Corporation Act (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 120a (1) of the German Stock Corporation Act (AktG) wherein, 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 German Stock Corporation Act (AktG) the obligation pertains to draw up a remuneration report containing, in particular, evidence of compliance with the remuneration system. In accordance with Section 120a (4) of the German Stock Corporation Act (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 the recommendations under G of the GCGC 2022 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 recommendations of the GCGC.

However, Maschinenfabrik Berthold Hermle AG complies with various individual regulations of the GCGC 2022 that go beyond the legal requirements; these are listed below:

Recommendation A.2	Observance of diversity when filling management positions
Recommendation A.4	Compliance Management System with disclosure of the principles
Recommendation A.5	Disclose and statement in the management report on the main features of the internal control system and the risk management system and on the appropriateness and effectiveness of these systems.
Suggestion A.7	Limitation of the time of the shareholders' meeting to a maximum of four to six hours
Recommendation B.1	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.5	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.7	Information on Supervisory Board meetings in the report of the Supervisory Board
Recommendation D.8	Agreement on immediate notification of the Supervisory Board by the auditor in the event of significant findings and occurrences
Recommendation D.9	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 G.18	Fixed remuneration of Supervisory Board members

Gosheim, 9 December 2022

Maschinenfabrik Berthold Hermle AG

Management Board
Supervisory Board

FURTHER
INFORMATION



Hermle C 42 U dynamic in 5-axis version |
Machining of a car mirror for automotive engineering.

BALANCE SHEET

BY MASCHINENFABRIK BERTHOLD HERMLE AG

ASSETS

€k	31.12.2022	31.12.2021
A. Assets		
I. Intangible assets		
Industrial property rights and similar rights acquired for value consideration	1,081	1,130
II. Property, plant and equipment		
1. Land and buildings, including the buildings on non-owned land	46,985	47,921
2. Technical plants and machinery	12,789	14,360
3. Other plants, fixtures and fittings	9,719	9,226
4. Advances paid	1,726	652
	71,219	72,159
III. Financial assets		
1. Investments in associated companies	12,025	11,743
2. Loans to associated companies	275	275
3. Other loans	5	5
	12,305	12,023
	84,605	85,312
B. Circulating assets		
I. Inventories		
1. Raw, process and operating materials	56,496	40,263
2. Unfinished products	22,683	21,257
3. Finished products	21,881	16,238
4. Advances paid	1,888	1,359
	102,948	79,117
II. Trade and other receivables		
1. Trade accounts receivables	53,152	40,130
2. Receivables from associated companies	25,394	23,997
3. Other receivables	1,995	23,698
	80,541	87,825
III. Liquid assets	99,745	73,730
	283,234	240,672
C. Accrued and deferred items	726	625
	368,565	326,609

LIABILITIES

€k	31.12.2022	31.12.2021
A. Equity		
I. Subscribed capital	15,000	15,000
II. Capital reserves	2,874	2,874
III. Revenue reserves		
1. Statutory reserves	1,500	1,500
2. Other revenue reserves	109,517	103,517
IV. Balance sheet profit	144,096	122,832
	272,987	245,723
B. Provisions		
1. Tax provisions	3,536	171
2. Other provisions	42,748	39,411
	46,284	39,582
C. Liabilities		
1. Advance payments on orders received	27,619	21,829
2. Trade accounts payable	6,152	4,223
3. Payables to associated companies	4,725	5,543
4. Other liabilities	9,815	9,028
	48,311	40,623
D. Accrued and deferred items	983	681
	368,565	326,609

DEVELOPMENT OF ASSETS

BY MASCHINENFABRIK BERTHOLD HERMLE AG

€k	Acquisition/manufacturing costs						Cumulated depreciation					Book values	
	As of 01.01.2022	Additions	Repostings	Currency adjustment	Retirements	As of 31.12.2022	As of 01.01.2022	Additions	Currency adjustment	Retirements	As of 31.12.2022	As of 31.12.2022	As of 31.12.2021
I. Intangible assets													
Industrial property rights and similar rights acquired for value consideration	8,287	464	0	0	65	8,686	7,157	513	0	65	7,605	1,081	1,130
II. Property, plant and equipment													
1. Land and buildings, including the buildings on non-owned land	78,740	999	15	10	0	79,754	30,819	1,950	0	0	32,769	46,985	4,7921
2. Technical plants and machinery	51,969	1,473	35	0	1,623	51,854	37,609	3,067	0	1,611	39,065	12,789	14,360
3. Other plants, fixtures and fittings	30,322	3,072	321	10	1,075	32,650	21,096	2,879	4	1,048	22,931	9,719	9,226
4. Advances paid	652	1,458	-371	0	13	1,726	0	0	0	0	0	1,726	652
	161,683	7002	0	10	2,711	165,984	89,524	7,896	4	2,659	94,765	71,219	72,159
III. Financial assets													
1. Investments in associated companies	12,342	282	0	0	599	12,025	599	0	0	599	0	12,025	11,743
2. Loans to associated companies	275	0	0	0	0	275	0	0	0	0	0	275	275
3. Other loans	5	0	0	0	0	5	0	0	0	0	0	5	5
	12,622	282	0	0	599	12,305	599	0	0	599	0	12,305	12,023
	18,2592	7,748	0	10	3,375	186,975	97,280	8,409	4	3,323	102,370	84,605	85,312

INCOME STATEMENT

BY MASCHINENFABRIK BERTHOLD HERMLE AG

€k	2022	2021
1. Sales revenues	430,580	344,963
2. Increase in inventory of finished and unfinished products	7,069	8,368
3. Other company-produced assets	1,468	1,238
4. Total operating performance	439,117	354,569
5. Other operating income	10,616	5,969
6. Material cost	206,673	165,533
7. Personnel costs	93,939	78,612
8. Depreciation on intangible assets and property, plant and equipment	8,409	8,488
9. Other operating costs	48,398	40,120
10. Operating result	92,314	67,785
11. Financial result and investment earnings	3,848	1,702
12. Taxes on income	23,586	18,072
13. Result after taxes	72,576	51,415
14. Other taxes	265	355
15. Net income	72,311	51,060
16. Profit carried over from previous year	71,785	71,772
17. Balance sheet profit	144,096	122,832

PROPOSAL ON THE APPROPRIATION OF PROFITS

RESOLUTION ON APPROPRIATION OF BALANCE SHEET PROFIT FOR THE 2022 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 26 April 2023 to allocate €m 16 from the result of the 2022 business year to the revenue reserves.

The Management Board and the Supervisory Board propose to appropriate the balance sheet profit of the 2022 business year of € 128,096,043.78 as follows:

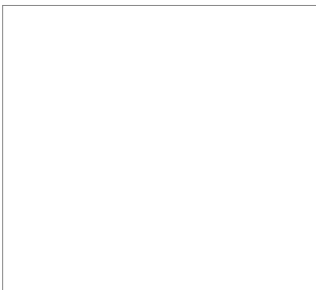
Distribution of a dividend of € 11.00 per ordinary share (€ 0.80 + € 10.20 bonus) Security identification number 605 280 / ISIN DE0006052806 for 4,000,000 ordinary shares for the 2022 business year:	€ 44,000,000.00
Distribution of a dividend of € 11.05 per preference share (€ 0.85 + € 10.20 bonus) Security identification number 605 283 / ISIN DE0006052830 for 1,000,000 preference shares for the 2022 business year:	€ 11,050,000.00
To be carried forward to new account:	€ 73,046,043.78
Balance sheet profit	€ 128,096,043.78

The dividend is due for payment on the third business day following the resolution of the shareholders' meeting, i.e. on Monday, 10 July 2023.

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 26, 2023
Maschinenfabrik Berthold Hermle AG

Günther Beck Franz-Xaver Bernhard Benedikt Hermle



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