

Annual Report

www.hermle.de



2020



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INDICES

HERMLE GROUP

€m	2016	2017	2018	2019	2020	Change 2020/2019
Turnover	394.0	402.0	452.9	463.1	296.9	-35.9%
- Domestic	160.3	168.2	186.8	197.6	112.2	-43.2%
- International	233.7	233.8	266.1	265.5	184.7	-30.4%
Orders received	364.5	433.2	475.9	414.4	242.5	-41.5%
Orders on hand	93.8	125.0	148.0	99.3	44.8	-54.9%
Investments	16.4	23.5	11.9	16.3	21.6	32.5%
- Tangible assets ¹	16.4	18.5	11.9	13.3	21.6	62.4%
- Financial assets	-	5.0	-	3.0	-	-100.0%
Depreciation	7.0	7.8	10.0	10.4	10.4	-
- Tangible assets ¹	7.0	7.8	10.0	10.4	10.4	-
- Financial assets	-	-	-	-	-	-
Operating result	99.8	99.0	111.7	114.2	54.2	-52.5%
Net income	73.8	73.3	82.5 ²	84.2	40.1	-52.4%
Cash flow	80.8	81.1	92.9	94.6	50.5	-46.6%
Balance sheet total	309.6	330.7	367.5 ³	360.1	347.0	-3.6%
Equity	229.9	237.5	250.3	260.4	274.4	5.4%
Employees (reporting date 12.31.)	1,018 ⁴	1,086 ⁴	1251	1319	1304	-1.1%

¹ Tangible 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

⁴ Without HLS employees

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

COMPANY EXECUTIVE BODIES

SUPERVISORY BOARD

Dietmar Hermle

Chairman,
Entrepreneur

Lothar Hermle

Deputy Chairman,
Industrial Foreman

Dr. Sonja Zobl-Leibinger

Deputy Chairwoman,
Lawyer

Dr. Wolfgang Kuhn

Entrepreneur

Gerd Grewin*

Industrial Foreman, Control Technician,
Chairman of the Works Council

Andreas Borho*

Industrial Business Management Assistant

Günther Leibinger

Honorary Director,
Entrepreneur

*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 80.

COMPANY HISTORY

- 1938 Founding of the company, a bolt and machine screw manufacturer in the southwestern German town of Gosheim.
Production of turned parts begins.
- 1953 Conversion of company to Maschinenfabrik Berthold Hermle KG.
- 1956 Centrifuge production begins.
- 1957 Milling machine production begins.
- 1972 Presentation of first Hermle universal milling machine.
- 1975 Production of numerically-controlled milling machines.
- 1978 Start of production of CNC controlled milling machines.
- 1984 Conversion of the company to Maschinenfabrik Berthold Hermle GmbH & Co.
- 1990 Conversion of company to Maschinenfabrik Berthold Hermle AG and IPO.
Company opens new sales and administration building in Gosheim.
- 1992 Start of comprehensive restructuring of the Hermle Group in Germany and abroad.
- 1995 Optimisation of company as part of the 2000 Concept.
- 1997 Hermle Vertriebs GmbH commences operations.
- 1998 Founding of HLS Hermle Systemtechnik GmbH as a joint venture for customer-specific automation of Hermle machines.
- 1999 Hermle Schweiz AG is founded in Switzerland as sales and service support centre.
Opening of the new demonstration centre in the Kassel-Lohfelden business park.
- 2000 New technology and training centre opened at the company headquarters in Gosheim.
- 2001 US branch becomes independent entity as Hermle Machine Co. LLC.
Founding of Hermle Nederland B.V.
- 2003 Service and sales centre commissioned in North America.
- 2004 Company opens a modern customer service centre at the Gosheim location.
Opening of the sales branches and representative offices in China, Austria and the Czech Republic.
- 2005 Founding of the export business Hermle WWE AG in Switzerland and a Russian subsidiary to expand activities in Eastern Europe.
- 2006 Founding of Hermle Italia S.r.l. to directly address the Italian market.
- 2009 During the grave financial crisis, the concept of the 'breathing company' proves successful, as it already had in 2002: Despite the massive 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, new branches are established in Denmark and Bulgaria.
- 2011 Hermle establishes new branch in Poland. A new warehouse and logistics centre with state-of-the-art shipping and warehousing systems commences operations at the company headquarters in Gosheim.
- 2013 Hermle celebrates its 75th company anniversary.
- 2014 At its Gosheim location, the company moves into a state-of-the-art production facility for the assembly of large machines and automated plant and opens a new restaurant for customers and visitors.
- 2016 Second production facility established in Zimmern ob Rottweil.
- 2017 Expansion of machining operations at the location in Gosheim.
- 2018 Acquisition of all shares in the former joint venture HLS, which specialises in automation.
- 2019 Opening of a further Russian location in Ulyanovsk.
Founding of a subsidiary in Mexico to intensify activities in Central and South America.

HIGHLIGHTS 2020

MARCH

Rapid response to Covid-19 – With the outbreak of the coronavirus pandemic, Hermle shuts down production for three weeks to protect its employees and due to disruptions in the movement of goods. In other areas of the company, we arrange for employees to work from home, wherever possible. The break in production is used to come up with suitable hygiene concepts and social distancing rules. During this period, customers still have full access to spare parts, services and sales support.

APRIL

Expansion of online offerings – After the temporary shutdown of production, Hermle implements extensive protective measures and resumes production as normal for three weeks before introducing reduced working hours in May. To ensure communication with customers and interested parties, the company increasingly relies on digital channels, as personal contact is very limited at this time. The range of online training courses and workshops as well as interactive product presentations is expanded, and social media activities are intensified.



HS flex heavy: Entire machine range automated – Hermle presents an important new automation module: The handling system HS flex heavy for heavy components weighing up to 1,200 kg. Automation solutions are now offered for the entire machine range, thereby significantly enhancing the range of applications once again.



JULY

Boost for US location – Hermle moves into a larger, state-of-the-art building at its US headquarters in Franklin/Wisconsin. In addition to the increased warehouse and logistics capacity to quickly supply the growing customer base in the USA and Canada, the new premises offer more space for showcasing products and providing a high-tech training and learning environment.



Digital shareholders' meeting – As with many other companies, the Hermle shareholders' meeting is held as a digital event due to the coronavirus pandemic. The event goes smoothly, even though personal contact with the shareholders and guided tours of the plant have to be cancelled unfortunately.

AUGUST

New subsidiary in Southeast Asia – Hermle Southeast Asia is founded in Thailand to strengthen the company's local presence in growth markets. The new company is based in Chonburi, southeast of the capital Bangkok. Hermle is initially offering services to customers in the local region but plans to expand operations in other promising countries throughout Southeast Asia.

OCTOBER

Opening of the new sheet metal production facility – Hermle commences production at its state-of-the-art, highly automated sheet metal production facility in Zimmern ob Rottweil. Fully automated laser cutting machines and an innovative high-bay storage system, which combines the production processes cutting, punching and bending, take centre stage at the new facility. The new build is also cutting edge in terms of sustainability: The production hall enables maximum energy efficiency and provides employees with a noise and temperature-optimised working environment.



NOVEMBER

Initial orders for the automation of completely networked manufacturing processes – As a full-range supplier in the field of high-end automation, Hermle implements fully integrated Industry 4.0 projects for its customers. In doing so, the actual machining process is networked with additional functionalities – for example, by utilising cleaning and measuring technology systems or driverless transport systems.

INTRODUCTION BY THE MANAGEMENT BOARD

DEAR SHAREHOLDERS, BUSINESS PARTNERS AND FRIENDS OF THE COMPANY,

2020 was a year like no other for Maschinenfabrik Berthold Hermle AG. The coronavirus pandemic presented completely new challenges in many areas of the company, but also personally. Fortunately, Hermle was able to cope very well with the challenges that it faced. This was primarily down to our employees, who adjusted to the new and difficult situation very quickly and mastered it with a high level of commitment. The Management Board would like to express its sincere thanks to the entire Hermle team for its amazing performance throughout this exceptional year.

Protecting our employees from the virus has been top of our agenda since the start of the pandemic. As early as mid-March, production was shut down for three weeks in order for us to come up with comprehensive hygiene and safety measures, which have been implemented diligently ever since. At the same time, the break in production was our response to disruptions in the supply chain. During this period, many employees reduced the balance of their accumulated flextime hours, which had increased steadily during the previous economically strong years. In other areas of the company, we arranged for employees to work from home. We then resumed production as normal for three weeks before introducing reduced working hours in May. The flextime model, at the heart of our 'breathing company' concept, and the introduction of reduced working hours enabled us to adjust our capacities relatively flexibly to the decline in demand. These instruments are thus an essential prerequisite for surviving the crisis with an intact workforce – which is of paramount importance to Hermle.

It was, and still is, imperative that there are absolutely no restrictions or limits imposed on our customers during the pandemic. Service, spare parts and sales support were available to our customers throughout the year. Since face-to-face contact was often impossible due to the coronavirus regulations, we had to

increasingly rely on online communication, for example via web conferences and training courses, increased social media use and digital product presentations.

Our rapid and flexible response to the consequences of the pandemic and our high level of resilience helped us to get through the crisis year 2020 in good shape. Despite business figures declining significantly, as expected – orders received by 41.5% to €m 242.5, sales by 35.9% to €m 296.9 and net income by 52.4% to €m 40.1. We still achieved a solid gross sales margin of more than 18% and further consolidated our strong capital base: At the end of 2020, our equity ratio was roughly 79%. Against this background, the Management Board and the Supervisory Board proposes the distribution of an unchanged basic dividend of € 0.80 per ordinary share and € 0.85 per preference share as well as a bonus of € 4.20 per share at the shareholders' meeting. Following the dividend payout, our employees are to receive a bonus for their enormous commitment, also at the same level of the previous year.

We used the crisis year 2020 to implement future projects and to prepare for the period after the pandemic. The main measures, which are described in more detail in this Annual Report, starting on page 32, focused on the following:

As a technology leader, one of our overriding goals is to actively shape and drive market trends. Over the past year, we focused, in particular, on further expanding our automation expertise – an important step to opening up new areas of demand and establishing Industry 4.0 manufacturing techniques at our customers' facilities. Within this context, the most important product innovation of 2020 was our handling system HS flex heavy for particularly heavy components. This enables us to now offer all our machining centres as automated system solutions, making

us a full-range supplier in the field of high-end automation. This means we are increasingly designing completely automated and networked manufacturing processes for our customers; with supplementary functionalities being integrated into the manufacturing systems in addition to Hermle machining centres. Yet another innovation in this field that we will be launching in 2021 is the compact RS 1 robot system, which optionally interconnects one or two machining centres and also boasts interfaces for external systems.

We also made important advances in additive manufacturing with our metal powder application process, which we now offer to our customers as a service. Since the end of 2020, we have been using a newly developed hybrid machining centre, the Hermle MPA 42, for this purpose, thus achieving an even higher level of precision and speed.

When it comes to our own production facilities, we also want to keep setting new standards. In 2020, we achieved this goal in the field of sheet metal production, which we expanded with pioneering production equipment and storage systems and relocated to a state-of-the-art facility in Zimmern ob Rottweil that additionally meets high sustainability standards.

Another strategic objective is to position the company as broadly as possible in terms of regional competitiveness and to improve our market position in growth regions, thereby making us independent of developments in individual countries. In addition, we modernised and expanded our headquarters in the USA in 2020. The focus was on increasing warehouse and logistics capacities, thus enabling us to supply our North American customers with machines and spare parts even faster. We are also gradually opening up new markets with strong potential for expansion: In the reporting period, we established a new Hermle subsidiary for the Southeast Asia region, which is based in Thailand.

Thanks to these projects, we are well prepared to hit the ground running as soon as the coronavirus pandemic is over. However, at

the moment, it is impossible to say when that will be. Although economic researchers and industry experts are forecasting an overall economic recovery in 2021, which should also boost the machine tool industry. However, current developments, particularly in Germany, indicate that the consequences of the pandemic will be with us for some time to come. Further, the much hoped for upswing will not only vary from region to region, but will also be sector specific: While the automotive industry, which has been additionally slowed down by structural changes, and the aviation industry, which has been particularly hard hit by the pandemic, are not expected to pick up quickly, there are already signs of positive momentum in numerous sectors, such as packaging, medical technology and electronics, for example.

As such, it is only possible to a limited extent for Hermle, and other market participants, to offer precise forecasts for the current year. We currently expect our orders received in 2021 to remain at the same level as in the previous year and, in the most favourable scenario, to exceed it slightly. Due to the low orders on hand from the previous year, we currently expect sales to decrease slightly in the negative scenario, and are hopeful of a small increase at best. The operating result is likely to develop at a significantly lower rate than sales, as we must expect higher costs associated with the reduced working hours in the second half of the year and continued heavy price and competitive pressure.

Fast-reacting, flexible and financially resilient companies such as Hermle are comparatively well placed to combat the many risks to which the economy will be exposed in the coming months. At the same time, these success factors also help us to exploit the long-term opportunities offered by our market. Generally speaking, they lie, in addition to the current trend towards automation and the potential of growth regions, in the changing technological landscape. Since switching to new types of production processes usually goes hand in hand with an increased demand for machine tools. With this in mind, we remain confident in the long-term future of our company.

Yours faithfully,



Günther Beck
Management Board



Franz-Xaver Bernhard
Management Board



Benedikt Hermle
Management Board



REPORTS



Robot system RS 05-2 – frontal adaptation to a C 250 from the Performance-Line series and lateral adaptation to a C 22 U from the High-Performance-Line series.

REPORT OF THE SUPERVISORY BOARD

LADIES AND GENTLEMEN, DEAR SHAREHOLDERS,

The 2020 business year was also an exceptional year for Maschinenfabrik Berthold Hermle AG. The Hermle team coped amazingly well with the major challenges posed by the Covid-19 pandemic. The situation was made even more complicated by the structural change in the automotive industry, which many industry experts, including myself, believe was overhasty. On behalf of the Supervisory Board, I would like to sincerely thank the Management Board and all the employees for their tremendous commitment. The outstanding motivation and flexibility of the workforce as part of the concept of the 'breathing company' have contributed to Hermle's ability to achieve a solid result and an above-average profit margin despite the significant drop in demand due to the coronavirus pandemic.

COOPERATION BETWEEN MANAGEMENT BOARD AND SUPERVISORY BOARD

The Supervisory Board performed the obligations incumbent upon it by law or under the articles of association in full in the 2020 business year. We supported the work of the Management Board in an advisory capacity and carefully monitored the management of the company. We used written and oral comprehensive reports, regularly provided by the Management Board, as a basis for this. We were therefore always aware of the ongoing situation and development of the company, the business performance, significant events and the associated opportunities and risks. We were also informed at all times about the strategy and business policy, corporate planning, including financial, investment and personnel planning, and any relating deviations. All significant issues and events were discussed in detail at the Supervisory Board meetings. We were involved in all major decisions at an early stage and, whenever the approval of the Supervisory Board was required for individual transactions or measures, passed our resolutions on the basis of detailed doc-

umentation and thorough discussions. The Chairman of the Supervisory Board was also in close contact with the Management Board between meetings to discuss the latest developments.

SUPERVISORY BOARD MEETINGS AND COMMITTEES

During the year under review, the Supervisory Board had five scheduled meetings: on 18 March, 28 April, 1 July (two meetings) and on 2 December. Our committee always had a quorum at meetings and, with the exception of the meeting on 18 March when two members were excused, enjoyed full participation. As in previous years, the Supervisory Board formed a general committee comprising the Chairman of the Supervisory Board and the two Vice Chairmen. It was not necessary for the committee to convene in 2020.

THE MAIN SUPERVISORY BOARD ISSUES IN 2020

The recurring topics of the regular Supervisory Board meetings in the year under review included market trends, the business performance in the new machines and service segments, and the development of operating result and personnel. Further, we dealt intensively in each meeting with the extraordinary situation caused by the Covid-19 pandemic and the corresponding measures. The progress of projects to further develop our locations was also a regular item on the agenda.

At our first Supervisory Board meeting on 18 March 2020, the focus was on the impact of the coronavirus crisis on market and business development and the necessary measures to combat its impact. The Management Board and the Supervisory Board discussed in detail appropriate responses to the onset of the pandemic. Due to the uncertainties in the industry, especially in the movement of goods, the Supervisory Board agreed to a three-

week shutdown, during which a comprehensive hygiene and protection concept was developed for the employees. The possible postponement of the shareholders' meeting and alternatives to a face-to-face event were also topics of discussion. Further, the Management Board informed us about the progress of construction of the state-of-the-art sheet metal production facility in Zimmern ob Rottweil and the planning status for the premises at the company headquarters in Gosheim that will become available as a result. Further internationalisation of the business through its new subsidiaries in Mexico and Thailand was also discussed in full. We also addressed the preliminary results for the 2019 business year and the upcoming change of auditor as required by law. We invited the two candidates identified as most suitable during the selection process to give a presentation. Finally, the Supervisory Board adopted the Corporate Governance Statement pursuant to Sections 289f and 315d of the German Commercial Code (HGB).

The agenda of the meeting on 28 April 2020 initially included the 2019 annual financial statements of Hermle AG and the Group. The representatives of our previous auditors, Bansbach GmbH, were invited to attend and gave a detailed report on the final assignment and were available to answer further questions. The Supervisory Board discussed the financial statements in detail with the auditors, assessed the annual financial statements of Maschinenfabrik Berthold Hermle AG and approved the consolidated financial statements and the summary management report. Another important topic of the meeting was once again the impact of the coronavirus crisis. The Supervisory Board thoroughly considered possible scenarios for liquidity risk management purposes and approved a revised budget based on a sharp, coronavirus-related, decline in sales. Against this background, we also resolved to propose to the shareholders' meeting for 2019 a reduced dividend payout of € 5 per ordinary share and € 5.05 per preference share as a precautionary measure. Further stipulations were made with regard to the shareholders' meeting: The Supervisory Board decided to hold the meeting virtually, due to the threats posed by the Covid-19 pandemic, and adopted the agenda and the report of the Supervisory Board. Following completion of the selection process for the new auditor, we also resolved to propose to the shareholders' meeting that Ebner Stolz GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Stuttgart, as auditors for the 2020 business year. Furthermore, we dealt with developments at the various Hermle locations and, in particular, with the almost completed new build at the US subsidiary.

The two Supervisory Board meetings on 1 July 2020 were held before and after the shareholders' meeting. In addition to the topics discussed at the shareholders' meeting, we focused in particular on current business performance, including the market and sales situation, and the development of the service business. Moreover, the Supervisory Board was provided with comprehensive information on the status of the new sheet metal production facility being constructed in Zimmern ob Rottweil, on renovation and future projects at the company headquarters in Gosheim, and on the completion of the new build at Hermle USA. In addition, the Management Board reported on the expansion of capacities at Hermle Maschinenbau GmbH, whose range of services in the field of MPA technology (metal powder application) was expanded in the year under review. All the projects were discussed intensively.

We began the meeting on 2 December 2020 with a tour of the new sheet metal production facility in Zimmern ob Rottweil to get a first-hand view of the now completed high-tech site. The subsequent meeting focused on the 2021 sales, budget and investment planning for Hermle AG and the Group, which was presented by the Management Board. After extensive discussions, the Supervisory Board approved the planning. We also dealt with the upcoming refurbishment and conversion of spaces in Gosheim that have been freed up for other production purposes due to the relocation of sheet metal production. To create further long-term opportunities for expansion at the company's headquarters, we also instructed the Management Board to examine possible real estate acquisitions. The Supervisory Board was also provided with information about ongoing and planned development projects, particularly in the areas of automation and digitalisation. Yet another topic was the expansion of our activities in Asia. The Supervisory Board approved the lease of premises for the newly established subsidiary in Thailand. Finally, we resolved the declaration of compliance pursuant to Section 161 of the German Stock Corporation Act (AktG), which is printed in this Annual Report and can be accessed on the Hermle website, and discussed the key points for a new remuneration concept in accordance with the latest regulations resulting from ARUG II and the German Corporate Governance Code 2020.

AUDIT OF THE ANNUAL FINANCIAL STATEMENT

On 1 July 2020, the shareholders' meeting elected Ebner Stolz GmbH & Co. KG as auditors for the 2020 business year, who the Supervisory Board subsequently commissioned for the first time. The company assured that it had not rendered any significant services to Maschinenfabrik Berthold Hermle AG in the year under review going beyond this assignment and that no circumstances apply that could jeopardise their impartiality.

The annual financial statements of Maschinenfabrik Berthold Hermle AG and the Group as well as the summary management report were audited by Ebner Stolz GmbH & Co. KG and were each issued with an unqualified opinion. The auditors confirmed that the financial statements give a fair and appropriate presentation of the net assets, financial position and results of operations of the company and that the management report accurately presents the opportunities and risks of future development. The annual financial statement of Maschinenfabrik Berthold Hermle AG was prepared in accordance with the provisions of the German Commercial Code (HGB). The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The audit was 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).

All Supervisory Board members were provided in good time with the annual financial statement of Hermle AG, the consolidated financial statement, the summary management report and the audit reports. We scrutinised the documents and discussed them together with the auditors during the accounts meeting on 28 April 2021. According to our assessment, there are no objections to be raised. We concur with the judgement of the auditors and approve the annual financial statements and the management report. The annual financial statement of Maschinenfabrik Berthold Hermle AG is, therefore, formally approved. We concur with the proposal on the appropriation of profits for the 2020 business year put forward by the Management Board entailing the distribution of a dividend of € 0.80 for each ordinary share and € 0.85 for each preference share, plus a one-off special bonus of € 4.20 per share. The Supervisory Board also reviewed the mandatory non-financial statement pursuant to Sections 289b and 315b of the German Commercial Code (HGB) and confirmed that it complies with the legal requirements.

The 2021 business year is again characterised by a large number of uncertainties and will place great demands on Maschinenfabrik Berthold Hermle AG. The Supervisory Board is certain that our company is well prepared to meet these challenges in a sustainable way and wishes the entire Hermle team every success in this endeavour.

Gosheim, April 2021



Dietmar Hermle
Chairman of the Supervisory Board

MANAGEMENT REPORT OF THE AG AND CONSOLIDATED REPORT

This report is a summary management report covering Maschinenfabrik Berthold Hermle AG and the Group. It was prepared in line with the requirements of the German Accounting Standard (DRS) 20. The consolidated financial statements 2020 were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The annual financial statement of the individual company Maschinenfabrik Berthold Hermle AG was prepared in accordance with the accounting principles of the German Commercial Code (HGB). Details that refer to the individual company are denoted with the addition "Hermle AG" or "Individual Company". The mandatory Non-Financial Statement pursuant to Sections 289b and 315b of the German Commercial Code (HGB) can be viewed on the Hermle website at www.hermle.de (section heading: Investor Relations / Mandatory Disclosures / Sustainability Report / Non-Financial Statement). It set out all the key information on our sustainability-related activities.

GROUP FUNDAMENTALS

BUSINESS MODEL AND SALES MARKETS

Maschinenfabrik Berthold Hermle AG is one of the world's leading suppliers of high-quality milling machines and machining centres, which now also offers its customers complete automation solutions from a single source for its entire product range. Our 5-axis machining centres and high quality standards set benchmarks in the industry. Hermle customers at home and abroad include companies from high-tech sectors such as tool and mould making, medical technology, the optics industry, packaging technology, aviation, power engineering, electronics, the automotive industry and motor racing as well as their supplier industries. The most important single market is Germany. In addition, we distribute our products worldwide and develop targeted growth markets.

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

ORGANISATIONAL STRUCTURE

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

The Foreign sales segment comprises our companies and operating facilities outside Germany. They largely perform marketing and service activities in various regions. Independent Hermle subsidiaries are located in Italy, Mexico, the Netherlands, Russia, Switzerland and the USA. In 2020, another sales company was founded in Thailand for the South East Asia region. Hermle operating facilities are located in Denmark, Austria, Poland and the Czech Republic. We also operate representative offices in key sales territories, such as China and Bulgaria, which are organisationally allocated to Hermle AG.

STRATEGY AND MANAGEMENT CONTROL

The strategy of Maschinenfabrik Berthold Hermle AG is geared towards profitable organic growth. We aim to produce premium grade tool machines and top-class automation components at our location in Germany relying on a strong equity base and a highly motivated and competent team of employees working for the company on a long-term basis, offer excellent service worldwide and in the process generate comfortable revenues. At the same time, we have increasingly established ourselves as a partner for integrated automation solutions for our customers and want to further consolidate this position. In addition, we are striving for the broadest possible regional and sector-related positioning as well as the further digitalisation of our product range and all processes in the company. In 2020, we successfully implemented our strategy despite facing difficult conditions.

The Hermle Group is controlled centrally by Hermle AG. In addition to orders received and turnover, we use earnings before interest and taxes (EBIT), which corresponds to the operating result, as a key indicator for this. The Management Board of Hermle AG, which consists of three members, is responsible for the management of the company. The Management Board remuneration is made up of a fixed element and a variable element that is dependent on the development of the net income of the individual 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 of the German Commercial Code (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).

BUSINESS REPORT

FRAMEWORK CONDITIONS: GLOBAL ECONOMIC SLUMP DUE TO THE COVID-19 PANDEMIC

In 2020, the effects of the corona pandemic led to the most severe economic slump in decades and a global recession. Especially in the second quarter, the global economy was significantly affected by lockdowns, disrupted supply chains and the high level of uncertainty in many areas. As the first wave of the pandemic subsided, the situation recovered noticeably, helped not only by lower infection rates and corresponding easing of the restrictions, but also by extensive government aid, the expansive monetary policy of many central banks and growing confidence thanks to rapid progress in testing, treatment methods and vaccine research. Nevertheless, according to estimates by the International Monetary Fund (IMF), the global economy shrank by 3.5% overall in 2020 and global industrial production fell by 4.4%.

According to preliminary IMF figures, gross domestic product (GDP) in the industrialised nations fell by 4.9%. Economic output is expected to have fallen by 3.4% in the USA, 7.2% in the eurozone and 10% in the UK. The only major economy to expand last year was China. China's GDP grew by an estimated 2.3%. Supported by this positive development, the developing and emerging countries as a whole recorded a milder economic slump of 2.4%.

In Germany, GDP fell by 5.0% in 2020 according to initial provisional calculations by the Federal Statistical Office (Destatis). As a result, the German economy also fell into a deep recession after a ten-year growth phase – similar to what happened during the economic and financial crisis of 2008/2009. Gross fixed capital formation declined by 3.5%, and investments in equipment such as machines and devices as well as vehicles were even 12.5% lower than in the previous year. Massive disruptions in supply and logistics chains also affected foreign trade: Exports declined by 9.9%.

MACHINE TOOL INDUSTRY HEAVILY BURDENED

Global machine production fell drastically as a result of the coronavirus pandemic according to the VDMA, especially in the second quarter of 2020, with the slump in China occurring earlier. The industry recovered over the course of the year, albeit with different dynamics in different regions. For the year as a whole, world machine sales declined by an estimated 6%. Turnover in the German mechanical engineering sector fell short of the previous year's level by 12.7% and orders received dropped by 11%.

According to initial calculations by the VDW (German Machine Tool Builders' Association), turnover in Germany in 2020 fell by 32% in the machine tool industry, which is particularly sensitive to the economic situation. Orders received fell by 30%, with new orders from abroad and the domestic market down by 28% and 35% respectively. Due to the structural change of the automotive industry towards electromobility, countries in which this industry has traditionally been of high importance were, according to our observations, more affected by the declines than regions with other industrial core areas. At the same time, the already high competitive pressure in the machine tool industry increased further due to the structural changes in the automotive industry.

From a technological point of view, the topic of Industry 4.0 and thus the automation and digitalisation of production processes continued to play an increasingly important role in machine tool manufacturing, which is still oriented towards the Hermle standard in the area of 5-axis machining. In addition, we continued to observe a high demand for both extremely powerful, high-precision machines as well as high-quality, standardised and thus low-priced entry-level models. Furthermore, additive or generative manufacturing processes (so-called 3D printing) continued to gain importance in various special applications.

AN OVERVIEW OF HERMLE'S BUSINESS PERFORMANCE

The effects of the Covid-19 pandemic also affected the business development of Maschinenfabrik Berthold Hermle AG. Following an already subdued start to 2020 due to the economic situation, the outbreak of the pandemic in the second quarter resulted in a slump in demand that affected both the new machines and the spare parts and service business. Towards the middle of the year,

this was accompanied by a gradual recovery of the spare parts and service business and the first indications that demand for new machines had bottomed out in some sectors. Thereafter, a moderate recovery in demand began, which continued until the end of the year, but still only affected some sectors such as the medical or packaging technology. Despite this slight recovery, orders received and turnover fell by double-digit percentages across the Group in 2020 as a whole. Thanks to our high flexibility, we were nevertheless able to achieve a satisfactory, albeit significantly reduced, result, so that our financial and assets position was further strengthened. Overall, Hermle coped well with the crisis year 2020.

We reacted quickly to the first signs of the pandemic. To protect the employees and due to disruptions in the movement of goods, production was shut down for three weeks in mid-March. In the process, part of the workforce has largely reduced their flextime accounts that were well filled from previous years. In parallel, we developed a suitable safety and hygiene concept for the entire company in order to protect our employees from infection in the best possible way. Subsequently, production continued normally until the end of April with the necessary protective measures, and reduced working hours were introduced from May onwards. This useful tool supports our goal of getting through the crisis with an intact workforce. In the other areas of the company, we arranged for employees to work from home during the acute phase where this was possible and expedient. With the first wave of the pandemic subsiding and the corresponding easing of restrictions and organisational changes, a large part of the employees were able to return to the company by the middle of the year.

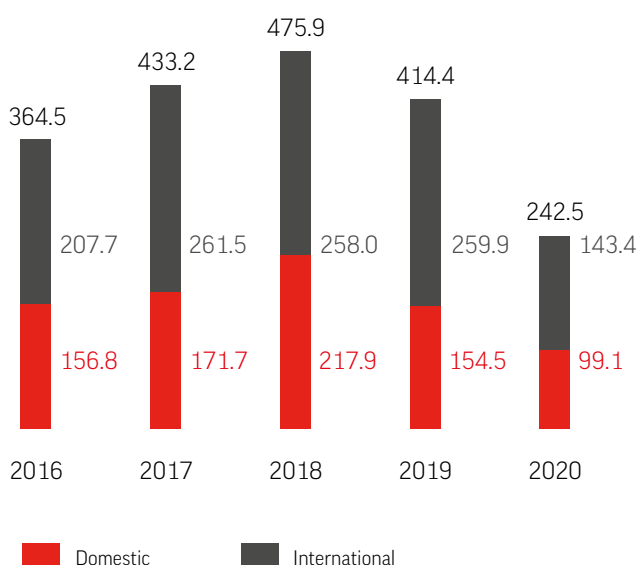
There were no restrictions for our customers throughout the year: Spare parts supply, service and distribution were always available to them. Our development activities also continued at a high level. By expanding and optimising our range of automation and digitalisation components, we were able to increasingly offer our customers integrated solutions for setting up Industry 4.0 manufacturing from a single source. This has enabled us to maintain our market share and our position as the technology leader in 5-axis machining centres despite the difficult environment and intense competition, and we are well prepared to hit the ground running as soon as the crisis is over.

HERMLE ORDERS RECEIVED AT €M 242

In 2020, the Hermle Group achieved orders received of €m 242.5 compared to €m 414.4 in the previous year (-41.5%).

New orders from Germany decreased by 35.8% to €m 99.1 and orders received from abroad fell by 44.8% to €m 143.4. After the slump in the second quarter, demand began to recover moderately in the second half of the year. At €m 44.8, the orders on hand on 31 December 2020 were nevertheless significantly below the previous year's level of €m 99.3.

Orders received by the Hermle Group in €m

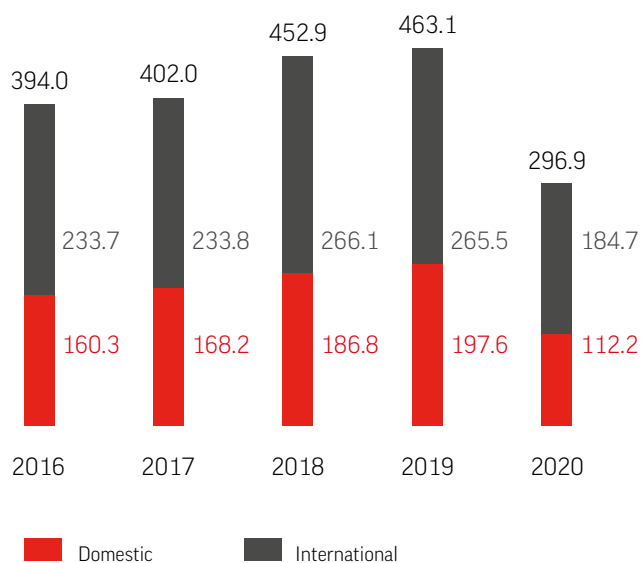


At €m 225.4, the orders received of the individual company Hermle AG was 39.7% below the comparable figure for 2019. Of that, €m 100.3 (-35.5%) was generated in Germany and €m 125.1 (-42.8%) on international markets. The orders on hand fell from €m 87 to €m 41.3 on the reporting date.

TURNOVER OF €M 296.9

As a result of the corona-related decline in orders, Hermle Group sales fell by 35.9% to €m 296.9 in the reporting period, with service and spare parts sales proving much more robust than the new machine business. Germany, which is particularly characterised by the automotive industry, saw a decline of 43.2% to €m 112.2. Foreign sales, which also included the relatively stable exports to China, amounted to €m 184.7 (-30.4%). Thus the export rate rose from 57.3% to 62.2%.

Hermle Group sales in €m



The business volume of the individual company Hermle AG fell by 36.2% to €m 271.1 compared to the previous year. Domestic business contributed €m 113.4 (previous year: €m 198.7) and foreign business €m 157.7 (previous year: €m 226.2). The export ratio increased from 53.2% to 58.2%.

SEGMENT DEVELOPMENT

In 2020, the Domestic Companies segment of the Hermle Group achieved sales of €m 176 compared to €m 290.4 in the previous year. The business of HLS, which specialises in individual automation solutions, performed better than that of Hermle AG and the sales company HPV. HMG, which is responsible for the development of our additive manufacturing process, again recorded repeat sales with pilot customers.

In the Foreign sales segment, the business volume amounted to €m 120.9 compared to €m 172.7 in the previous year. Here, the markets that are more independent of the automotive industry tended to be more robust: In our Swiss sales company and the operating facility in Austria, the decline was significantly lower than in the other subsidiaries and bases. The new Mexican company was in the process of being set up and recorded low initial sales.

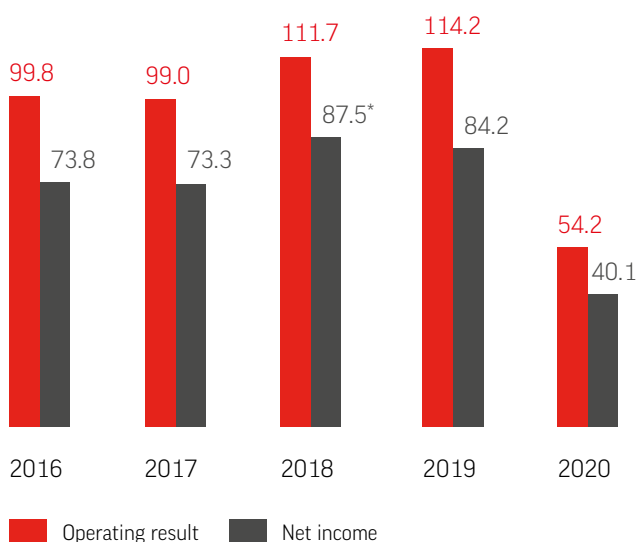
OPERATING RESULT AT €M 54.2

Against the backdrop of the corona-related sales shortfalls and the correspondingly lower utilisation of our capacities, the Hermle Group achieved a solid, albeit significantly reduced, result in 2020. Total output amounted to €m 291.9 compared to €m

464.7 in the previous year. This included changes in inventories of €m -6.3 (previous year: €m +0.4), which resulted primarily from the decrease in products in production and the sale of finished machines. This was offset by company-produced assets of €m 1.2 (previous year: €m 1.3). They were incurred on the one hand for the new hybrid machining centre C 42 MPA, with which we have expanded our capacities for additive manufacturing, and on the other hand for the capitalised new development of automation products. The share of material costs in the total output decreased from 40.8% to 39.7%. The comparatively stable service business became noticeable. The personnel cost ratio increased from 24.2% to 30.5% despite high braking times and reduced working hours, as personnel costs also include fixed elements such as holiday and Christmas bonuses. Due to the extensive investments of the past years, there were again high depreciations of €m10.4 (previous year: €m 10.4). The net balance of other operating expenses and income improved from €m -38.2 to €m -22.5. This was due, in particular, to a reduction in trade fair and travel costs as well as reduced outgoing freight and commissions.

All things considered, the operating result of the Hermle Group fell by 52.6% to €m 54.2. Of this amount, €m 47.7 before consolidation effects were attributable to the domestic companies segment (previous year: €m 103.5) and €m 6.9 to foreign sales (previous year: €m10.7).

Hermle Group operating result and net income in €m



*incl. €m 4.9 special effect

Adding the financial result of €m 0.1 (previous year: €m -0.1), the result before taxes was €m 54.3 (previous year: €m 114.1). This results in a reduced but still very solid gross sales margin of 18.3% (previous year: 24.6%). Group after-tax net income totalled €m 40.1 (previous year: €m 84.2). Earnings per share were € 8.01 (previous year: € 16.83) and € 8.06 per preference share (previous year: € 16.88).

The operating result of the individual company Hermle AG, determined in accordance with HGB regulations, was €m 47.3, 53% below the previous year's figure of €m 100.5. The net income for the year was €m 37.9 (previous year: €m 83.9). This included €m 3 in dividends from subsidiaries (previous year: €m 9.9).

FINANCIAL MANAGEMENT AND FINANCIAL POSITION: OPERATING CASH FLOW AT €M 50.5

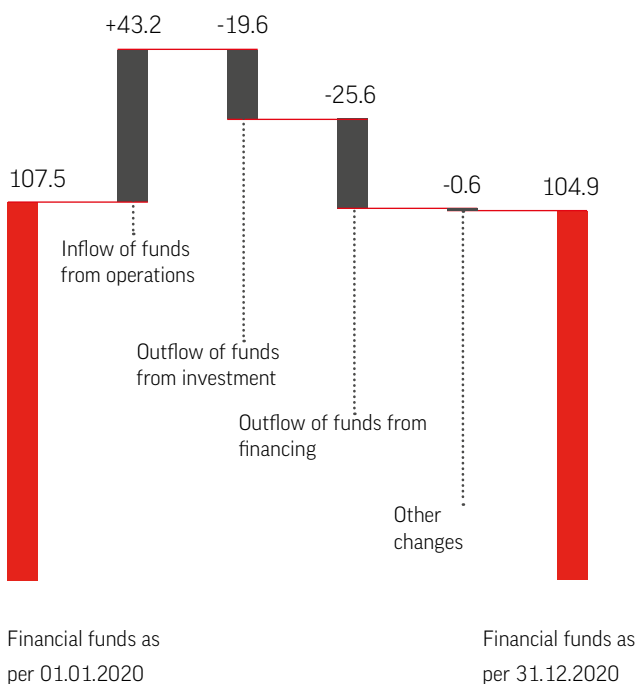
The financial management of Hermle AG and the Group aims to achieve largely internal financing and to safeguard liquidity. We invest available funds exclusively on a low-risk and primarily short-term basis. We normally aim to finance both current business operations and capital investments from cash flow. This allows us to react quickly, flexibly and almost independently of third-party interests and uncertain capital markets to changes on the market, which can be a great advantage especially in times of crisis. We use financing options such as leasing only in a few exceptional cases where this seems advisable.

The financial position of the Hermle Group remained sound in 2020. Due to the reduced result, the cash flow before changes in working capital decreased from €m 94.6 in the previous year to €m 50.5. Despite the slowdown in business activity, funds tied up in working capital increased slightly. The decrease in inventories and trade accounts receivables was mainly offset by higher tax refund claims, lower advance payments on orders and lower provisions for personnel. On balance, the cash flow from operating activities was €m 43.2 (previous year: €m 72).

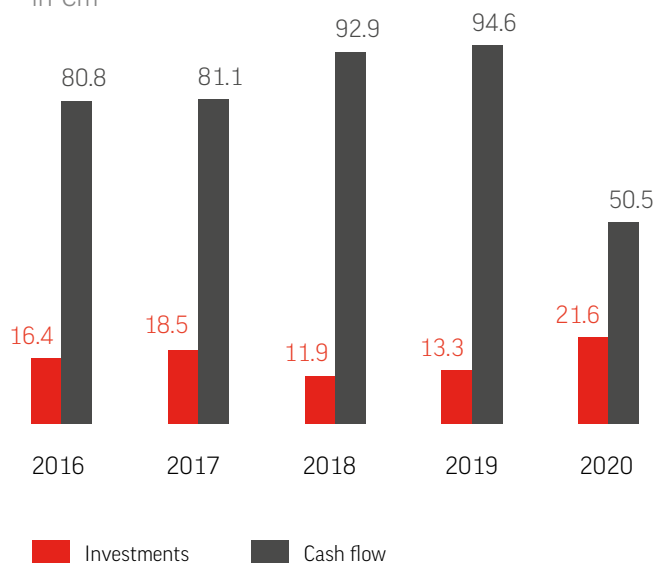
The net cash outflow for investments was similar to the previous year at €m 19.6. This was mainly due to the capacity expansion measures described in the chapter on capital expenditure. Cash outflow for financing activities decreased from €m 75.7 to €m 25.6 as we had already reduced the distribution to shareholders for 2019 as a precautionary measure to manage the impact of the corona pandemic. For 2020, the Management Board recommends to the Supervisory Board to propose at the shareholders' meeting an unchanged distribution compared to the previous 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 € 4.20 per share. The dividend proposal will be determined at the end of April.

Including exchange rate-related and other changes, cash outflow of the Group amounted to €m 2.7 in the year under review (previous year: €m 21.1), so that our liquidity as per 31 December 2020 amounted to €m 104.9 (previous year: €m 107.5).

Hermle Group change in liquidity in 2020 in €m



Hermle Group cash flow and investments* in €m



*Investments in property, plant and equipment and intangible assets

At Hermle AG, investments in property, plant and equipment and intangible assets amounted to €m 18.5 (previous year: €m 9.5), with the high-tech sheet metal production in Zimmern o. R. also playing a significant role here.

NET ASSETS POSITION: EQUITY RATIO INCREASED TO 79%

The Hermle consolidated balance sheet decreased by 3.6% to €m 347 as per 31 December 2020 compared to the same date in the previous year. The slowdown in business activities due to the coronavirus pandemic led to a decline in current assets by a total of 8.4% to €m 246. Trade accounts receivables, in particular, decreased by 32.7% to €m 43.2. Inventories decreased by 9.4% to €m 67 and liquid funds by 2.5% to €m 104.9. This was offset by a significant increase in other current receivables from €m 13.1 to €m 22, which resulted mainly from higher tax refund claims. Non-current assets, which grew by a total of 10.5% to €m 101, were mainly due to the investment projects in Germany and the USA, which have now been completed. They led to an increase in property, plant and equipment by 14.3% to €m 84.

CAPITAL EXPENDITURE AT €M 21.6

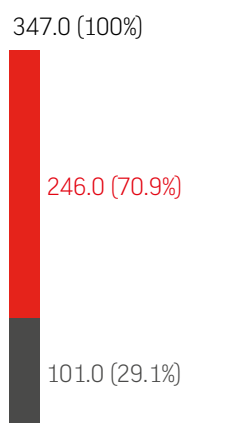
In 2020, Hermle invested €m 21.6 in property, plant and equipment and intangible assets across the Group, compared to €m 13.3 in the previous year. One focus was on setting up a state-of-the-art new sheet metal production facility in Zimmern ob Rottweil, for which we built an additional hall and purchased new production and storage systems (see chapter Production). Another major project was the expansion of our US branch (see chapter Service and sales), where, among other things, spare parts storage capacities were increased in order to be able to provide our customers with spare parts even faster. At the same time, this has made us more resilient to disruptions in the international movement of goods.

The equity and liabilities side of the balance sheet was still characterised by own funds, which increased by 5.4% to €m 274.4 thanks to the result of the business year 2020. Consequently, the equity ratio in the Group improved from 72.3% to 79.1%. Non-current liabilities changed only insignificantly and amounted to €m 4.1. In contrast, current liabilities decreased significantly on balance – by 28.2% to €m 68.5. The effects of the Covid-19 pandemic were also felt here: Trade accounts payable decreased by 29.7% to €m 6. Other current liabilities decreased by 34.7% to €m 25.9, mainly due to lower advance payments on orders and personnel liabilities.

Current provisions fell by 21.1% to €m 35.9. Here, due to the strong decline in turnover and the reduction of time accounts, the flextime, holiday and warranty provisions decreased in particular.

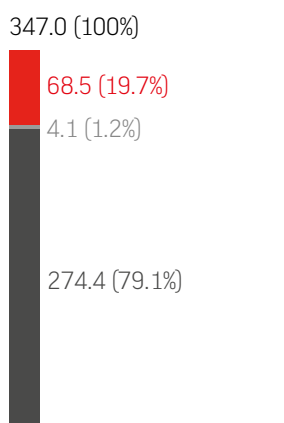
Hermle Group balance sheet structure (31.12.2020) in €m

ASSETS



- Current assets
- Assets, incl. other non-current assets and deferred taxes

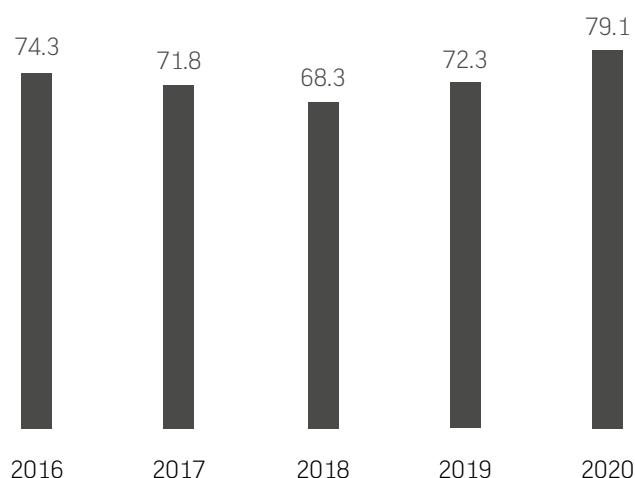
LIABILITIES



- Current liabilities and provisions
- Non-current liabilities and provisions
- Equity

The balance sheet total of Hermle AG decreased by 0.9% to €m 274.2 on the reporting date. At the same time, equity rose by 6.2% to €m 219.7, so that the equity ratio improved from 74.8% to 80.1%.

Hermle Group equity ratio in %



OVERALL ASSESSMENT OF THE ECONOMIC SITUATION AND COMPARISON WITH THE FORECAST

The business performance of Maschinenfabrik Berthold Hermle AG in 2020 was clearly marked by the effects of the coronavirus pandemic. After a sharp drop in demand in the second quarter, there was a moderate recovery from the middle of the year onwards, which lasted until the signing of this report. Overall, however, orders received for the full year 2020 decreased by 42% across the Group, turnover by 36% and operating result by 53%. The gross sales margin also declined, but again reached a good level of 18.3%. Business performance was thus in line with our original forecast of March 2020, in which we had assumed a decline in orders received in the lower to mid double-digit percentage range, a drop in turnover of up to about one third and a disproportionately high drop in earnings. In April, at the peak of the first wave of the pandemic, it was to be feared that the situation would develop less favourably, so that we had to reckon with a slump in turnover of around 50% and a correspondingly higher reduction in earnings. After a moderate easing of the situation in the autumn, we were able to raise our expectations slightly again in November – to an approximate 40% decline in turnover and a disproportionate decline in earnings. The actual business performance was in line with this forecast.

The financial and assets position was further strengthened in the reporting period. Liquid funds amounted to €m 104.9 and the equity ratio to 79.1% at the end of 2020.

Overall, the Management Board considers the business performance to be satisfactory against the backdrop of the extremely difficult general conditions. The earnings, financial and assets position remains solid even after the crisis year 2020.

ADDITIONAL PERFORMANCE INDICATORS

R&D REMAINS AT A HIGH LEVEL

Hermle conducts intensive research and development (R&D) with the aim of offering customers additional benefits and thus further consolidating its own market position. In 2020, we continued R&D activities at a high level without any significant restrictions despite the Covid-19 pandemic. In addition to technological optimisations of our machine series, for example in the field of spindle technology, the focus was again on expanding our automation skills. At the beginning of 2020, we reached a milestone with the successful market launch of the HS flex heavy handling system for particularly heavy workpieces, as we now have automation solutions for our complete machine range at our disposal. This allows us to offer our customers a wide range of products, from automated stand-alone machines and flexible production cells to completely integrated automation solutions for Industry 4.0 manufacturing. The very compact RS 1 robot system presented at the end of 2020, which adapts to various models of the Performance Line and High Performance Line and can also connect two different machine models, was another innovation in this field. R&D additionally focussed on our software tools for digital production and service processes, which we are constantly expanding and optimising in terms of functionality and user-friendliness.

We also made important progress in the area of additive manufacturing: In the year under review, we were able to complete the development of our new hybrid machining centre C 42 MPA, which combines machining and additive manufacturing, and could already manufacture the first components at the Ottobrunn site. As a result, the capacities for our MPA technology (metal powder application process), which we offer our customers as a service, were expanded as planned.

PRODUCTION: STATE-OF-THE-ART SHEET METAL PRODUCTION PUT INTO OPERATION IN ZIMMERN OB ROTTWEIL

Our highly efficient production facilities and processes are constantly optimised, kept at the cutting edge of technology and continuously developed towards Industry 4.0. We also pay attention 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 2020, we built and commissioned a high-tech sheet metal production

facility with an integrated storage system at our second German production site in Zimmern ob Rottweil. For this purpose, a new, energy-efficient production hall with an adjoining office wing and connection to the existing buildings was built, and the machinery and high-bay storage capacities were expanded with state-of-the-art equipment and systems. The relocation of the existing production facilities and welding workstations from Gosheim to Zimmern ob Rottweil took place almost without any interruptions to production in the fourth quarter and was completed by the end of the year. With the new sheet metal production, we are not only improving the processes in this strategically important area, but also the working environment for our employees. In addition, we are gaining space in Gosheim for optimising the production processes there.

PROCUREMENT: HIGH RELIABILITY OF SUPPLY

Purchased materials and components are of essential importance for Hermle, accounting for around 40% of Group sales. We generally work with our suppliers on a long-term and trusting basis to ensure a high level of supply reliability. In order to avoid short-term procurement bottlenecks due to the coronavirus pandemic, we increased our inventories in the reporting period, in some cases beyond the technically required level. In addition, we contribute to financial stability in the supply chain as a reliable and solvent partner with an excellent payment record.

SERVICE AND SALES: DIGITALISATION AND EXPANSION OF INTERNATIONAL PRESENCE

Hermle has a high level of service quality that is recognised in the industry and which we safeguard through a growing, close-knit service network and the increasing digitalisation of our processes. For example, we are increasingly using so-called "digital twins" – virtual copies of the machines and plants delivered to our customers, which contain all technical data from design to production. Among other things, this allows maintenance work to be even more demand-oriented and the efficiency of our products in use to be further increased.

Since personal contacts were only possible to a very limited extent and larger events such as trade fairs were not possible in the reporting period, we also significantly increased our online offering for customers and interested parties, e.g., through digital, interactive product presentations as well as online training sessions and workshops. Our new module day concept, through which we have expanded and individualised the 2020 training programme, can also be booked as a digital event. Our presence in the social networks has also been greatly expanded.

In addition, we further improved our position in growth markets and broadened our regional base in the year under review. The focus was on America and Asia. In order to increase our presence in North America and to be able to react even faster to customer needs locally, we have significantly expanded our US location in Franklin/Wisconsin. For example, we have expanded the Technology and Training Centre there along with our spare parts warehouse capacity. In addition, we strengthened our presence in Central and South America through the sales and service company in Querétaro/Mexico, which was newly founded in 2019 and started operations last year. In order to better develop the Asia/Pacific growth region, we also founded Hermle Southeast Asia in Chonburi/Thailand in 2020 as planned, which will serve our customers and potential customers in six countries in this region in the future.

1,304 EMPLOYEES IN THE HERMLE GROUP

At the end of December 2020, the Hermle Group had a total of 1,304 employees, 15 less than on the previous year's reporting date. Due to the lower demand, mainly due to the coronavirus pandemic, positions that became vacant through natural fluctuation were, if possible, not refilled. On the other hand, we took on all apprentices who successfully completed their training and reallocated the training places that became available as a result. In addition, foreign sales were selectively strengthened. On 31 December 2020, 512 people were active in production (previous year: 511), 79 in administration (previous year: 85) and 713 in customer and supplier support and R&D (previous year: 723).

On average, Hermle employed 1,310 people across the Group in 2020 (previous year: 1,296). Of these, 1,156 people (previous year: 1,145) were employed by the domestic companies and 154 (previous year: 151) by the foreign sales companies.

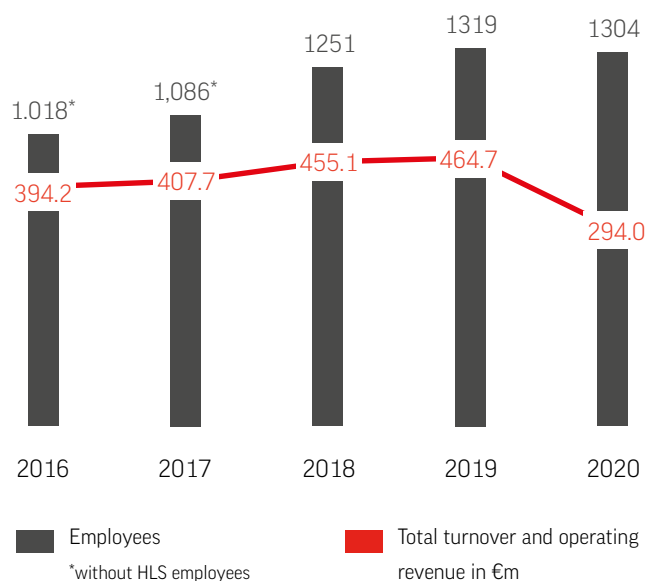
At the end of last year, Hermle AG had 1,048 employees, compared to 1,054 a year earlier. This figure included 112 apprentices, whose number increased by twelve young people in the reporting period. We consider the training of junior staff to be a particularly important task, both against the backdrop of the shortage of skilled workers accelerated by demographic change and because of our corporate responsibility, especially in economically difficult phases. More information on our respective activities is contained in chapter Social affairs of our non-financial statement.

CONCEPT OF THE BREATHING COMPANY SUPPORTS HERMLE IN THE CRISIS

Our concept of the breathing company once again proved to be a useful tool in the year under review. During the plant closure at the beginning of the Covid-19 pandemic, we were able to quickly adjust our capacities to the reduced demand by having our employees reduce or largely empty their well-filled positive flextime accounts wherever possible. From May onwards, we increasingly introduced reduced working hours in Germany, which initially affected just over 50% of the workforce due to the flextime accounts still held by some of the employees, but later affected almost all employees – albeit to a greater or lesser extent, as the service business, for example, was significantly less affected by the pandemic than the new machines sector. These helpful measures supported our goal of getting through the crisis with an intact workforce.

Total output per employee decreased from €k 352.3 to €k 225.1 in the reporting period due to the impact of the Covid-19 pandemic. The Hermle team has mastered the corona-related upheavals and changes with great commitment. In order to reward their outstanding performance in this exceptional situation, all employees will again receive an incentive payment in the form of a fixed one-off amount following the distribution of dividends. This payment is linked to the payout to shareholders and, like the dividend in the previous year, was reduced as a precaution. In 2020, it is expected to remain stable.

Total output and number of employees of the Hermle Group



DIVERSITY OF THE WORKFORCE

Hermle attaches great importance to diversity and tolerance with regard to gender, nationality and age, as well as towards people with disabilities. By having as much diversity as possible in our workforce, we can draw on a wide range of experience and prevent the shortage of skilled workers in Germany. The main aim is to increase the quota of women in industrial-technical professions. In these areas, almost 7% of the employees at Hermle AG in 2020 were women, similar to the previous year. Basically, well over 80% of all jobs and positions on the first two management levels at our company have a technical focus. They require training in industrial professions or so-called MINT subjects (mathematics, information technology, natural sciences and technology) – fields in which women are still strongly underrepresented. In our recruitment procedures for technical staff, we aim to consider at least a number of women proportionate to the total number of applicants. Disclosures relating to the percentage of women in management positions at Hermle are contained in the Corporate Governance Statement pursuant to Sections 289f and 315d of the German Commercial Code (HGB).

Due to the growing internationalisation of our business, more and more tasks for employees of other nationalities are arising at Hermle. In order to expand our position in important foreign sales markets and to intensify customer contact, we specifically recruit native speakers from the regions concerned as needed.

We also offer attractive jobs to people with disabilities. In 2020, the rate of severely disabled people at Hermle AG was 2.4%, compared to 2.8% in the previous year.

In order to be able to use the extensive experience of older employees in particular, we strive to tie our employees to the company in the long term. We do, however, also offer older employees the possibility to switch to part-time working models prior to retirement if they are interested in so doing. In 2020, the average age of employees at Hermle AG remained unchanged at around 37 years and they had been active in the company for twelve years. 27 people, among them three women, have celebrated 40 years of service with the company in the last 10 years.

SUPPLEMENTARY REPORT

Following the conclusion of the 2020 business year and up until this report was signed off, there were no events that had significant effects on the earnings, financial and assets position of Hermle AG or the Group. In the first weeks of 2021, our business was largely stable compared to the final quarter of 2020, despite continued coronavirus-related restrictions in many countries. At the same time, persistently high price and competitive pressure could be observed.

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 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 value of the company.

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

INTERNAL CONTROL SYSTEM

In addition to our risk and opportunities management, we have put in place an internal control system (ICS). Core elements of the ICS include the general separation of central functions and the application of the two-person rule as a matter of principle in the areas and business processes of key importance to the company's overall risk situation, which are additionally secured by access controls on IT systems. We also undertake monthly analyses of order receipts, sales revenues and key expenditure items, as well as monitor trends in individual cost categories in order to identify any discrepancies quickly. In addition, there are suitable control mechanisms in product and order costing, service, sales, personnel, warehousing and manufacturing that enable conspicuous changes in these areas to be recognised at an early stage.

PRESENTATION OF KEY RISKS

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

Market and economic risks – The demand cycles typical of our industry can be aggravated by a deterioration in the general economic conditions and place both a direct and indirect burden on Hermle. In 2020, the risk from the uncertain macroeconomic environment, which was already high in previous years, increased significantly due to the Covid-19 pandemic. In addition, the structural change in the automotive industry is affecting the situation. These negative tendencies are reinforced by the further increase in regulation and red tape in Germany and Europe. In addition, the current, prolonged low-interest phase could have an unfavourable impact on the stability of the banking sector and thus on the overall economy.

Hermle can compensate for economic fluctuations to a normal extent very well through flexible structures and processes within the concept of the breathing company. Our high liquidity and equity ratio, as well as the resulting independence, additionally improve our starting position to be able to withstand changes in demand on a larger scale. Since May 2020, the reduced working hours have also had a supporting effect.

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

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

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

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

Production risks – As a matter of principle, we limit the risk of production failures through careful, preventive and far-reaching maintenance as well as early investment measures. In addition, we always keep the production facilities up-to-date with the latest technology and use efficient organisational structures to ensure that production runs as smoothly as possible. The great technical competence of our employees significantly reduces the probability of operating errors. In addition, some of our production facilities are redundant.

Procurement risks – Hermle carefully selects suppliers and works with them in fair, usually long-term, partnerships in order to always have sufficient access to high-quality purchased materials and components and to avoid procurement bottlenecks. We counter the risk of supply shortages with a second-source strategy, rolling demand planning and safety stock as far as is reasonable. Since the outbreak of the coronavirus pandemic, the risk of supply chain disruptions due to border closures and transport restrictions has increased. This particularly affects suppliers who source parts from overseas. Hermle works almost exclusively with suppliers in Germany or Europe. Due to the coronavirus-induced economic slump, the financing risks in the supply chain have also increased and there have been isolated insolvencies. On the basis of our stable liquidity situation, we counteract this risk by making reliable and prompt payments. We obviate the increasing risk regarding energy supplies resulting from Germany's move away from nuclear power and its energy transition policies to some extent by operating our own combined heat and power (CHP) plants.

IT risks – With state-of-the-art technologies and redundant systems in key areas, Hermle is preparing itself against risks in the field of IT. For this purpose, we operate two mirrored computer rooms in Gosheim as well as another room for data backup in different parts of the building. Since the beginning of 2020, we have also been backing up our data on a partially redundant infrastructure at our site in Zimmern ob Rottweil. Consistent security mechanisms, which we have checked by external specialists at regular intervals, also offer the highest level of protection. In addition, our employees are intensively trained in data protection to make them aware of the high priority of this issue. Nevertheless, IT failures cannot be completely ruled out. In order to have access to sufficient capacities in case of an emergency, we have taken out cyber insurance through which we can mobilise support from external specialists.

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

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

Financial risks – Since Hermle largely finances larger investment projects and its ongoing business internally, maintains conservative balance sheets and has a high equity ratio, financial and liquidity risks are very low. We minimise currency risks through

suitable hedging transactions. Like the other financial risks, these are described in detail in the notes to the consolidated financial statements under item (29). Due to the Covid-19 pandemic, we carried out event-driven impairment tests in 2020. Just like the regular reviews at the end of the year, these did not reveal any need for devaluation. Tax risks can also arise from regularly conducted tax audits.

Overall risk situation – The coronavirus pandemic has increased the uncertainties in various business areas. However, in the view of the Management Board, the currently discernible risks are manageable for Hermle. They still do not pose a threat to the company's existence, either individually or in combination.

PRESENTATION OF THE OPPORTUNITIES

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

Opportunities from the environment

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

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

If the underlying macroeconomic and industry-specific conditions develop better than expected, Hermle is basically in a position to outperform its forecast business performance. Our concept of a breathing company as well as flexible capacity reserves and processes generally lead to high delivery and reaction capacity in the event of possible positive economic fluctuations. This will also allow us to act quickly when the investment backlog created by the Covid-19 crisis is released.

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

Opportunities from the strengths of the company

The high level of competence and willingness to perform of the Hermle workforce reinforces the internal success factors of flexibility and quality already mentioned in connection with external opportunities. The great commitment, experience and know-how of our employees also consolidates our technologically leading market position. At the same time, these factors help us to better manage fluctuations in demand and capacity utilisation and to strengthen customer loyalty through excellent service – even during the coronavirus crisis.

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

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

FORECAST

UNCERTAIN MACROECONOMIC DEVELOPMENT

Despite high uncertainties, the International Monetary Fund (IMF) is generally cautiously optimistic about the year as a whole at the beginning of 2021. Accordingly, not only the political support measures and the presumably broad availability of vaccines in the summer could have a positive effect, but also a general easing of trade policy. All in all, the IMF considers global economic growth of 5.5% possible in 2021. In the industrialised nations, the increase is expected to be 4.3%, whereby the US economy in particular is likely to grow noticeably with an increase of 5.1%. The outlook for the eurozone (+4.2%) and the United Kingdom (+4.5%) is somewhat less optimistic. In the developing and emerging countries, the IMF expects an overall increase in economic output of 6.3%. The mainstays of expansion are the Asian countries and especially China, whose GDP is expected to increase by 8.1%. By contrast, many other countries with limited resources to deal with the crisis are likely to see only a slight increase in GDP.

However, the forecast is associated with great risks. The renewed increase in infections at the end of 2020, accelerated by viral mutations, once again led to drastic restrictions in some areas of economic life, which continued in the first quarter of 2021, particularly in the eurozone, and are likely to weaken the expected recovery.

For Germany, the federal government expects GDP to rise by 3.0% in 2021, according to its annual report. Gross fixed capital formation is expected to increase significantly again due to the revival of equipment investment. Exports could also increase significantly.

SLIGHT RECOVERY OF THE INDUSTRY ENVIRONMENT EXPECTED

According to VDMA estimates, the global mechanical engineering industry will benefit from the recovery of the world economy in the current year and increase its sales by 7%. For German mechanical engineering companies, the VDMA economists expect production to increase by 4%. This forecast is also subject to higher uncertainty than in previous years. The recent lockdowns in many countries, especially the increasing travel and residence restrictions, could have a negative impact on the export-oriented industry.

In the machine tool industry, the VDW (German Machine Tool Builders' Association) expects production to increase by 6% in the current year so far. In addition to the continuing coronavirus-related risks, the structural change in the automotive industry towards electromobility and possibly continuing restrictions in foreign trade are likely to continue to pose challenges for the industry.

PROSPECTS FOR MASCHINENFABRIK BERTHOLD HERMLE AG

At Maschinenfabrik Berthold Hermle AG, demand at the beginning of the current year has remained stable at the level of the second half of 2020. Due to the still high degree of uncertainty about the future course of the Covid-19 pandemic and the corresponding effects and measures of the government to contain it, it is not reliably foreseeable from today's perspective whether the development will continue to normalise in the coming months or whether there will be renewed setbacks. We currently expect our orders received for the full year 2021 to be at least at the previous year's level across the Group or – in a positive scenario – to increase. We expect revitalising impulses above all from abroad and here especially in regions where industrial sectors such as medical technology, packaging or electronics industry play an important role. For countries with a high share of aviation and automotive industries, on the other hand, we expect the effects of the pandemic and the structural change in the automotive industry to continue to have a dampening effect for some time. Basically, we assume that the demand for automation solutions as well as for extremely powerful machining centres, such as those offered by Hermle, will continue to increase after the crisis and also in the long term.

The forecast for the Group's turnover is also within a wide range due to the unchanged uncertain development of demand caused by the coronavirus pandemic. Based on the significantly lower orders on hand compared to the previous year, a slight decline is possible in 2021 in the worst case, but an increase in turnover is possible in the best case. From today's perspective, the operating result will develop disproportionately low in relation to turnover. This is likely to reflect rising costs for reduced working hours and the continuing high price and competitive pressure in the second half of the year. In addition, bad debt losses cannot be ruled out due to the risks that have increased for many companies.

FINANCIAL AND ASSETS POSITION REMAINS SOUND

Based on the good equity ratio and the high level of liquidity, the financial and assets position of the Hermle Group will be robust and solid in 2021. This should enable us to continue financing capital investment projects and our business operations from our own funds, and without taking on bank liabilities.

CAPITAL EXPENDITURE NORMALISES

Following the completion of the major projects in Germany and the USA, our investments in property, plant and equipment and intangible assets will return to a normal level in the current year. We will continue to optimise our company to keep all technologies up-to-date. Among other things, the modernisation of our machinery in large parts production and spindle production is scheduled for 2021. We will also continue to drive forward the digitalisation of all corporate processes from development to service.

KEEPING THE WORKFORCE LEVEL STABLE

In the current year, we also want to keep the number of employees in the Hermle Group stable overall. In doing so, we will continue to use natural fluctuation to adjust our capacities where possible, but at the same time we will fulfil our responsibility for the next generation and take on apprentices who have successfully completed their training. We will also continue the use of reduced working hours. Our goal remains unchanged: Overcoming the coronavirus crisis with an intact workforce in order to be able to tackle the next upswing with our experienced and competent employees.

R&D: FOCUS ON INDUSTRY 4.0

One of the main focuses of our R&D activities in 2021 will be on increasing our automation expertise in order to better support our customers in implementing Industry 4.0 manufacturing. Accordingly, we will continue to expand our range of automation and digitalisation modules in the current year and present additional solutions for corresponding manufacturing processes to the market. In parallel, we also want to further develop our own processes with the goal of a networked Industry 4.0 production.

We are also continuing our involvement in the UMATI (Universal Machine Tool Interface) initiative organised by the VDMA for standardised, open, flexible and secure interfaces for connecting machine tools to higher-level IT systems in production environments. Another key development focus remains the continuous optimisation of our machining centres in the Performance Line and High Performance Line.

OVERALL ASSESSMENT OF THE FUTURE DEVELOPMENT

From the perspective of the Management Board of Maschinenfabrik Berthold Hermle AG, business performance in 2021 is again subject to great uncertainty. An exact forecast can, therefore, not be made reliably. At the present time, depending on the further development of the Covid-19 pandemic and its effects, we expect the Hermle Group's orders received in 2021 to be at least at or above the previous year's level. Group turnover could be slightly below the previous year's figure in the worst case, or above it in the best case. The result is expected to develop disproportionately less than turnover, for example due to higher costs for reduced working hours.

Thanks to its highly flexible structures and solid capital and liquidity resources, the Hermle Group is well equipped for both a prolonged economic downturn and a rapid recovery. The great know-how and commitment of our workforce, our broader regional positioning and strong position in important markets, the high quality of products and service, and our growing automation expertise form a strong basis for hitting the ground running during the next upswing.

Gosheim, 31 March 2021

Maschinenfabrik Berthold Hermle AG

Management Board

HERMLE SHARE

KEY FIGURES OF THE HERMLE PREFERENCE SHARE IN €

	2016	2017	2018	2019	2020
Result per preference share ¹	14.81	14.70	16.55 ³	16.88	8.06
Cash flow ¹	16.15	16.21	18.58	18.90	10.09
Equity ¹	45.99	47.50	50.06	52.08	54.89
All-time high ²	306.15	398.00	412.00	337.00	294.00
All-time low ²	198.00	271.00	268.00	250.00	197.00
Year-end share price ²	271.00	359.00	295.00	282.00	294.00
Price/earnings ratio at year-end	18.30	24.42	17.82 ³	16.72	35.36
Price/cash flow ratio at year-end	16.78	22.15	15.88	14.92	28.25
Dividend per preference share	0.85	0.85	0.85	0.85	0.85 ⁴
Bonus	12.00	12.00	14.20	4.20	4.20 ⁴
Special bonus		2.20			
Price on 31 March 2021					285.00

¹ Share basis: 5,000,000 pcs.

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 GAIN SLIGHTLY DESPITE COVID-19 PANDEMIC

The stock exchange year 2020 was clearly marked by the coronavirus crisis. The pandemic led to sharp falls in share prices at many trading venues in the first quarter. However, as the first wave of infection subsided and supported by announced economic stimulus measures, share prices recovered surprisingly quickly. As early as the end of March, a broad-based upward trend set in, which continued throughout the year and was not significantly affected by the emergence of new pandemic waves. Extensive support programmes from central banks and governments, as well as rapid progress in vaccine development, obviously made investors optimistic. As a result, the German benchmark index DAX 2020 closed almost 4% higher than at the end of the previous year. The CDAX, reflecting the development of all German stocks in the Prime and General Standard sectors, gained around 2%.

HERMLE SHARE UP 4%

The Hermle share price initially developed largely parallel to the overall market in 2020. The quotation of our preference share rose for the first time in January to its high for the year of € 294, before losing considerable value due to the great uncertainties resulting from the coronavirus pandemic. After a brief revival in July, the share fell again and reached its low for the year of € 197 in August. A strong recovery followed in the fourth quarter, so that the high of € 294 was once again quoted at the end of 2020. Compared to the previous year's closing price, the Hermle share thus increased by a good 4% in the past business year.

SOLID EARNINGS IN A DIFFICULT ENVIRONMENT

Although the effects of the coronavirus crisis significantly impaired Hermle's business performance in 2020, our concept of a breathing company and the high flexibility of our processes nevertheless enabled us to achieve a satisfactory, albeit reduced, result. Group-wide, an operating result of €m 54.2 (previous year: €m 114.2) and a net income of €m 40.1 (previous year: €m 84.2) were reported. This results in earnings per preference share of € 8.06 compared to € 16.88 in the previous year. The gross sales margin was a sound 18.3% (previous year: 24.6%).

STABLE DISTRIBUTION OF € 5.05 PER PREFERENCE SHARE PLANNED

In the individual company Hermle AG, a net income of €m 37.9 was achieved in the year under review (previous year: €m 83.9). The balance sheet profit was €m 96.8 (previous year: €m 84). The Management Board and the Supervisory Board will propose at the shareholders' meeting on 7 July 2021 that from that amount, as in the previous year, a basic dividend of € 0.85 per preference share and € 0.80 per ordinary share be paid, as well as a bonus of € 4.20 per share. This results in a payout of € 5.05 per preference share, which corresponds to a dividend yield of 1.7% measured against the 2020 year-end closing price. The amount distributed, which had already been reduced in the previous year as a precautionary measure, remains unchanged at €m 25.1.

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 attaches great importance to responsible corporate governance in order to sustainably secure the future and value of the Group and to harmonise the interests of shareholders, customers, employees, suppliers and other partners. To this end, we rely on our own corporate governance concept, which meets all legal standards, is appropriate for companies of our size and is based on the rules of procedure of the Management Board and Supervisory Board. Further information on this can be found in the Corporate Governance Statement. It is available to interested parties on our website at www.hermle.de in the Investor Relations / Mandatory Publications section. Our declaration of compliance pursuant to Section 161 of the German Stock Corporation Act (AktG) can also be viewed there and is also printed on page 79 of this annual report.

For Hermle, responsible corporate governance includes transparent communication. Our shareholders, potential investors, the business press and financial market players are therefore informed on an equal footing and in a timely manner about the business performance and significant current issues. To this end, we publish an annual and a half-yearly report, interim reports on the first and third quarters as well as press releases and ad hoc announcements as required. These publications, as well as detailed background material about the company, our products and services, can be found on our website at www.hermle.de. As soon as the coronavirus situation allows for general meetings to be held in person again, we will also offer our shareholders the opportunity to get to know the company better through guided tours.

SHAPING THE FUTURE – PIONEER WITH A LONG TRADITION

Improving the market position in growth regions, actively shaping technological trends such as automation and additive manufacturing, implementing innovative production processes – in 2020 Hermle also implemented important strategic projects despite difficult general conditions in order to consolidate its technological pioneering role and position itself even better for the future.

STRENGTHENING THE MARKET POSITION IN GROWTH REGIONS

Hermle traditionally works worldwide. Starting from Germany, which is still our largest market, we exported our machines to important sales regions at an early stage. The aim is to be as independent as possible from developments in individual countries. Over the past 25 years or so, we have also established subsidiaries and branches in various countries around the world to supply our customers directly with our technologically pioneering 5-axis machining centres and automation solutions. In 2020, we strengthened our overseas activities in particular – with investments in our headquarters in the USA and new subsidiaries in Central America and Southeast Asia.

STATE-OF-THE-ART US HEADQUARTERS

North America is an important, continuously growing market for Hermle, which we have been serving through an independent subsidiary since 1999. To intensify our presence in the region, we expanded and modernised our US headquarters in Franklin/Wisconsin in 2020. The focus was on the expansion of the warehouse and logistics centre, which increases our responsiveness. From there, we can now supply our expanding US and Canadian customer base with machines and spare parts even faster. A second focal point was a modernised and expanded Technology and Innovation Centre with sufficient space to present more Hermle machining centres with automation solutions and software tools to our customers on site. In addition, we added a separate training area where we optimally train junior staff and service technicians, thus counteracting the shortage of skilled workers.

NEW BASES IN GROWTH REGIONS

In 2020, we also successfully achieved our goal of broadening our regional base and increasingly establishing ourselves in growth markets. The Hermle subsidiary in Querétaro/Mexico, founded in the previous year, was able to start operations in the year under review despite the pandemic-related restrictions. Its activities will initially focus primarily on services for the Central and South American region. In Asia, where Hermle has already been represented for many years by two representative offices in China, a further subsidiary, Hermle Southeast Asia, was founded in 2020. From its headquarters in Chonburi, Thailand, we are now able to serve six countries in the future region of Southeast Asia.

INTEGRATED AUTOMATION SOLUTIONS FROM A SINGLE SOURCE

Hermle has been taking the automation of machining centres and milling machines seriously for many years now. It all started with simple automation and handling solutions aimed at saving set-up time. As early as the mid-1990s, a subsidiary specialising in automation was founded which has become today's HLS Hermle Systemtechnik GmbH. The idea: Design and build application-specific individual solutions and integrated robot systems to provide customers with everything from a single source.

Much has happened in the meantime. Today, automation is all about higher autonomous runtimes and networked production in an Industry 4.0 environment. As a full-range supplier, Hermle has a wide range of solutions for precisely this: From pallet changers and storage systems to additional magazines, handling and robot systems to complex turnkey projects. Our offering thus ranges from automated machining centres to completely networked manufacturing processes. For easy entry into automation, Hermle offers its own easy-to-understand and intuitive software tools: HACS for intelligent order management, HIMS for central machine monitoring, various solutions for efficient tool organisation and the Hermle Home screen, which links all the essential information from these modules and makes it available to the user in a compact form. In 2021, Hermle plans to present further digitalisation modules.



2020: MILESTONES IN AUTOMATION

In 2020, Hermle reached important milestones in automation: With the HS flex heavy handling system, presented at the beginning of the year and designed for components weighing up to 1,200 kg, we are able to offer automation solutions for our complete machine range for the first time. Our modular principle allows customers maximum flexibility.

Yet another decisive step was the connection of supplementary functionalities to the actual machining process. Thanks to convincing concepts, products and services, Hermle received various orders for the automation of completely networked manufacturing processes – for example with integrated cleaning and measuring technologies or driverless transport systems that autonomously deliver workpieces and tools just-in-time. For the necessary cross-manufacturer networking of machines in higher-level IT systems, the VDW is developing the UMATI (Universal Machine Tool Interface) together with the VDMA. Hermle AG is also involved in the design and testing.





RS 1: COMPACT NEW ROBOT SYSTEM WITH HIGH FLEXIBILITY

Our technologically mature machines, automation components and digital modules are constantly being further developed and optimised. The aim is to integrate further functionalities in the sense of Industry 4.0 manufacturing, to offer our customers additional benefits and even more efficiency, and to open up new areas of demand. One of the most important innovations that Hermle will be launching on the market in 2021 in this context is the RS 1 robot system. The compact system can be adapted to six different machine models of our Performance Line and High Performance Line. Optionally, one or two machining centres can be connected – with unchanged space requirements of the automation solution. Expansion modules such as washing systems, measuring machines, racking or driverless transport systems can also be connected. All in all, the RS 1 is mighty impressive as a coherent overall concept with maximum variability through the use of universal components.

MPA: ADDITIVE MANUFACTURING AT SUPERSONIC SPEED

Hermle has been covering the topic of additive manufacturing for several years now with its own, extremely powerful and highly precise technology: The MPA (metal powder application) process, which we make available to our customers as a service. To expand our range, we have developed the Hermle MPA 42 hybrid machining centre over the past two years. With this generation of machines, we achieve higher order rates, precision and speed and raise our additive manufacturing to a new performance level.

On behalf of our customers, we use it to produce highly complex components by alternating milling and metal powder application, whereby the metal powder is applied to the component at supersonic speed. Due to the high machining complexity, we generate the code for the machine controller with our own CAM software, which allows us to realise customer requirements very flexibly.



Our MPA technology is used in particular by users from the tool and mould making industry, for example designers of injection moulding and press tools. The objective is to achieve reduced cycle times and improved parts qualities which would be difficult to achieve using other technologies. The manufacturing offer is complemented by services ranging from consulting over optimisation, feasibility check and material examination up to the final quality inspection. This creates an attractive overall package from a single source, with which we protect our own know-how as well as that of our customers.



FUTURE PROJECT SHEET METAL WORKING: TECHNOLOGICALLY PIONEERING AND SUSTAINABLE

In order to be able to manufacture top-class machine tools and automation solutions, Hermle makes no compromises and consistently relies on in-house production in strategically important areas. To safeguard our technological lead, we are also constantly breaking new ground in production. For example, in sheet metal production, which we relocated to our second production site in Zimmern ob Rottweil in 2020 and reorganised. The site, which was founded in 2016 and where we already operate a resource-saving, state-of-the-art mineral casting production facility, offers an optimal infrastructure with short distances to the headquarters in Gosheim and to important suppliers.

For the new sheet metal production facility, an energy-efficient production hall with a footprint of roughly 7,500 m² was built with an adjoining office complex and a connecting wing to the existing buildings. At the heart of the facility are fully automatic laser punching machines and a high-bay storage system for a wide variety of sheet metal panels that differ in thickness, dimensions and material. With the new plants, we are taking into account the increasing size of the parts for the cladding of our machines and automation components and expanding capacities. Via the storage system, the production steps of laser cutting and punching are connected fully automatically with the sheet metal forming, which is also integrated into the new hall, as are modern welding stations in a quieter and cooler working environment. The so-called cold hall, the connecting wing between the existing and new buildings, serves the logistics of both the sheet metal and casting divisions, and the office complex provides space for design, programming and production planning.

The future project in Zimmern is also convincing from a sustainability point of view. For maximum energy efficiency, the new building was connected to the existing heating network, which was supplemented with an additional heat pump. This is used to cool or heat the buildings as required. In the new hall, a heat exchanger ensures that the heat contained in the exhaust air is recycled. The necessary equipment for setting up a photovoltaic system has also already been installed.



CONSOLIDATED FINANCIAL STATEMENTS



The HS flex handling system adapted to a C 32 from the High-Performance-Line series and the HS flex heavy handling system adapted to a C 650 from the Performance-Line series.

CONSOLIDATED BALANCE SHEET

ASSETS

€k	Appendix	31.12.2020	31.12.2019
A. Non-current assets			
I. Intangible assets	(7)		
1. Goodwill		6096	6096
2. Capitalised development expenditure		417	83
3. Other intangible assets		4710	5486
		11223	11665
II. Property, plant and equipment	(7)		
1. Land, leasehold rights and buildings, including the buildings on non-owned land		54576	41363
2. Technical plant and machinery		14906	14102
3. Other plants, fixtures and fittings		12990	12885
4. Advances paid		1503	5147
		83975	73497
III. Other financial assets		3005	3005
IV. Other non-current assets	(8)	7	7
V. Deferred tax assets	(24)	2767	3231
		100977	91405
B. Current assets			
I. Inventories	(9)		
1. Raw, process and operating materials		37033	36838
2. Unfinished products		14158	19097
3. Finished products and goods		15133	16950
4. Advances paid		668	1036
		66992	73921
II. Trade accounts receivables	(10)	43235	64224
III. Other current receivables	(10)	21970	13056
IV. Securities and other assets	(11)	9000	10000
V. Liquid assets	(12)	104860	107540
		246057	268741
		347034	360146

LIABILITIES

€k	Appendix	31.12.2020	31.12.2019
A. Equity	(13)		
I. Equity of the shareholders of Hermle AG		274429	260389
II. Interests of other shareholders	(14)	12	15
		274441	260404
B. Non-current liabilities and provisions			
I. Non-current financial liabilities	(16)	715	921
II. Non-current provisions	(15)	1754	1768
III. Deferred tax liabilities	(24)	1598	1641
		4067	4330
C. Current liabilities and provisions			
I. Tax provisions	(15)	665	1639
II. Current provisions	(15)	35946	45550
III. Current trade accounts payable	(16)	6038	8594
IV. Other current liabilities	(16)	25877	39629
		68526	95412
		347034	360146

GROUP INCOME STATEMENT

INCOME STATEMENT

€k	Appendix	2020	2019
1. Sales revenues	(17)	296942	463099
2. Inventory change of finished and unfinished products		-6263	381
3. Other company-produced assets		1183	1259
Total operating performance		291862	464739
4. Other operating income	(18)	11570	8191
5. Material cost	(19)	115880	189693
6. Personnel costs	(20)	88887	112249
7. Depreciation of intangible fixed assets and depreciation of tangible fixed assets	(21)	10409	10391
8. Other operating costs	(22)	34079	46400
9. Operating result		54177	114197
10. Other financial result	(23)		
a) Other interest and similar income		317	189
b) Interest and similar expenses		196	294
		121	-105
11. Result before taxes		54298	114092
12. Taxes on income	(24)	14220	29882
13. Net income		40078	84210
14. Profit shares of other shareholders		-1	-5
15. Group after-tax net income		40077	84205

OVERALL INCOME STATEMENT

€k	Appendix	2020	2019
Transfer net income		40078	84210
Other overall income			
Items that may subsequently be reclassified to the income statement			
Exchange rate differences		-1411	798
Change from derivative financial instruments		575	180
Income taxes on other overall income			
- Taxes on change in derivative financial instruments		-152	-48
Other result		-988	930
Overall result		39090	85140
Attribution of the annual result			
Profit share of other shareholders		1	5
Profit share of the shareholders of Hermle AG		40077	84205
		40078	84210
Attribution of the overall result			
Profit share of other shareholders		1	6
Profit share of the shareholders of Hermle AG		39089	85134
		39090	85140
Result for each share (diluted and undiluted) in €			
Ordinary share		8.01	16.83
Preference share, incl. dividend preference		8.06	16.88
Number of shares used as a basis		5000000	5000000

GROUP CASH FLOW STATEMENT

€k	Appendix	2020	2019
Net income		40078	84210
+/- Depreciation/appreciation of fixed assets		10409	10391
+/- Increase/decrease in non-current provisions		-14	-47
Cash flow before change in working capital		50473	94554
- Elimination of supplementary tax from retirement of fixed assets		-179	-1010
-/+ Increase/decrease from inventories		6929	-6317
-/+ Increase/decrease from trade accounts receivables		20989	7495
-/+ Increase/decrease in other current receivables		-8914	-6245
-/+ Increase/decrease in deferred tax assets and other non-current assets		464	362
+/- Increase/decrease in current trade accounts payable		-2556	-944
+/- Increase/decrease in current provisions		-10578	-1701
+/- Increase/decrease in other current liabilities		-13752	-14323
+/- Increase/decrease in deferred tax liabilities		-43	-176
+/- Increase/decrease in non-current financial liabilities		360	336
Cash flow from operating activities	(26)	43193	72031
- Disbursements for investments in intangible assets		-797	-639
+ Proceeds from retirements of property, plant and equipment		939	1617
- Disbursements for investments in property, plant and equipment		-20764	-12617
- Disbursements for securities and other investments		-9000	-13000
+ Proceeds from the sale of outside marketable securities and other assets		10000	6505
Cash flow from investment	(26)	-19622	-18134

€k	Appendix	2020	2019
Transfer		-19622	-18134
- Payment of dividends		-25053	-75051
- Other non-current liabilities		-206	-345
- Repayment of lease liabilities		-360	-336
Cash flow from financing activities	(26)	-25619	-75732
+/- Changes in the fund of cash and cash equivalents due to exchange rate fluctuations		-1047	645
+/- Changes from offsetting without directly affecting the operating result		423	132
+ Other changes		-8	2
Changes in the fund of cash and cash equivalents with an effect on payments	(26)	-2680	-21056
Financial funds as per 01.01.		107540	128596
Financial funds as per 31.12.		104860	107540
Fund of cash and cash equivalents			
Current bank liabilities		0	0
Liquid assets		104860	107540
		104860	107540

GROUP EQUITY STATEMENT

Equity of the parent company

€k	Subscribed capital Ordinary shares	Subscribed capital Preference shares	Capital reserve	Statutory reserves	Other revenue reserves
As per 01.01.2019	12000	3000	3286	1749	103530
Dividend for the previous year as per AGM resolution	0	0	0	0	0
Net income 2019	0	0	0	0	0
Transfer to statutory revenue reserves HIT	0	0	0	66	0
Change in currency	0	0	0	0	0
Cash flow hedges	0	0	0	0	0
Unclaimed dividend	0	0	0	0	0
Other changes	0	0	0	0	8
As per 31.12.2019	12000	3000	3286	1815	103538
Dividend for the previous year as per AGM resolution	0	0	0	0	0
Net income 2020	0	0	0	0	0
Change in currency	0	0	0	0	0
Cash flow hedges	0	0	0	0	0
Unclaimed dividend	0	0	0	0	0
Change in profit carried forward	0	0	0	0	784
Other changes	0	0	0	0	0
AS PER 31.12.2020	12000	3000	3286	1815	104322

Equity of the parent company					Interests of other shareholders		Group equity
Group balance sheet profit	Total revenue reserves	Cumulated other equity from currency conversion	Cumulated other equity from derivative financial instruments	Total	in capital	in cumulated Group profit	Total
125918	231197	901	-82	250302	1	10	250313
-75050	-75050	0	0	-75050	0	-2	-75052
84205	84205	0	0	84205	0	5	84210
-66	0	0	0	0	0	0	0
0	0	797	0	797	0	1	798
0	0	0	132	132	0	0	132
1	1	0	0	1	0	0	1
-6	2	0	0	2	0	0	2
135002	240355	1698	50	260389	1	14	260404
-25050	-25050	0	0	-25050	0	-3	-25053
40077	40077	0	0	40077	0	1	40078
-16	-16	-1387	0	-1403	0	-1	-1404
0	0	0	423	423	0	0	423
1	1	0	0	1	0	0	1
-784	0	0	0	0	0	0	0
0	0	-8	0	-8	0	0	-8
149230	255367	303	473	274429	1	11	274441

DEVELOPMENT OF THE GROUP FIXED ASSETS 2020

€k	Acquisition/manufacturing costs					As of 31.12.2020
	As of 31.12.2019	Additions	Repostings	Retirements	Currency adjustment	
I. Intangible assets						
1. Goodwill	6096	0	0	0	0	6096
2. Capitalised development expenditure	2656	493	0	88	0	3061
3. Other intangible assets	12764	304	0	64	0	13004
	21516	797	0	152	0	22161
II. Property, plant and equipment						
1. Land, leasehold rights and buildings, including the buildings on non-owned land	70347	12286	3003	36	-162	85438
2. Technical plants and machinery	51333	3839	85	1615	-97	53545
3. Other plants, fixtures and fittings	35246	4269	288	1899	-148	37756
4. Advances paid	5147	370	-3376	461	-177	1503
	162073	20764	0	4011	-584	178242
III. Other financial assets	3005	0	0	0	0	3005
	3005	0	0	0	0	3005
	186594	21561	0	4163	-584	203408

	Cumulated depreciation				Book values		
	As of 31.12.2019	Additions	Retirements	Currency adjustment	As of 31.12.2020	As of 31.12.2020	As of 31.12.2019
	0	0	0	0	0	6096	6096
	2573	158	87	0	2644	417	83
	7278	1080	64	0	8294	4710	5486
	9851	1238	151	0	10938	11223	11665
	28984	1965	36	-51	30862	54576	41363
	37231	3032	1550	-74	38639	14906	14102
	22361	4174	1664	-105	24766	12990	12885
	0	0	0	0	0	1503	5147
	88576	9171	3250	-230	94267	83975	73497
	0	0	0	0	0	3005	3005
	0	0	0	0	0	3005	3005
	98427	10409	3401	-230	105205	98203	88167

DEVELOPMENT OF THE GROUP FIXED ASSETS 2019

€k	Acquisition/manufacturing costs					As of 31.12.2019
	As of 01.01.2019	Additions	Repostings	Retirements	Currency adjustment	
I. Intangible assets						
1. Goodwill	6096	0	0	0	0	6096
2. Capitalised development expenditure	2958	0	0	302	0	2656
3. Other intangible assets	12157	639	0	34	2	12764
	21211	639	0	336	2	21516
II. Property, plant and equipment						
1. Land, leasehold rights and buildings, including the buildings on non-owned land	69990	252	0	0	105	70347
2. Technical plants and machinery	51564	1652	7	1939	49	51333
3. Other plants, fixtures and fittings	30886	5753	445	1965	127	35246
4. Advances paid	482	5117	-452	0	0	5147
	152922	12774	0	3904	281	162073
III. Non-current financial assets	5	3000	0	0	0	3005
	5	3000	0	0	0	3005
	174138	16413	0	4240	283	186594

	Cumulated depreciation				Book values		
	As of 01.01.2019	Additions	Retirements	Currency adjustment	As of 31.12.2019	As of 31.12.2019	As of 31.12.2018
	0	0	0	0	0	6096	6096
	2639	236	302	0	2573	83	319
	6245	1063	31	1	7278	5486	5912
	8884	1299	333	1	9851	11665	12327
	26992	1962	0	30	28984	41363	42998
	35645	3059	1488	15	37231	14102	15919
	19986	4071	1781	85	22361	12885	10900
	0	0	0	0	0	5147	482
	82623	9092	3269	130	88576	73497	70299
	0	0	0	0	0	3005	5
	0	0	0	0	0	3005	5
	91507	10391	3602	131	98427	88167	82631

GROUP SEGMENT REPORTING

€k	Domestic companies		Foreign sales companies		Consolidation effects		Consolidated financial statements	
	2020	2019	2020	2019	2020	2019	2020	2019
Turnover with third parties	175979	290376	120963	172723	0	0	296942	463099
Operating result	47712	103470	6937	10654	-472	73	54177	114197
Net income	37301	85870	5726	8330	-2949	-9990	40078	84210
Non-current segment assets	92292	82981	8685	8424	0	0	100977	91405
Current segment assets	191538	206351	61777	76395	-7258	-14005	246057	268741
Segment assets (sum of assets)	283830	289332	70462	84819	-7258	-14005	347034	360146
Segment debts incl. provisions	53912	75011	24306	39957	-5625	-15226	72593	99742
Investments (incl. additions in rights of use)	19142	12931	2419	3482	0	0	21561	16413
Depreciation	8961	9072	1448	1319	0	0	10409	10391
Employees annual average	1156	1145	154	151	0	0	1310	1296

GROUP NOTES TO THE FINANCIAL STATEMENTS

(1) GENERAL PRINCIPLES

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

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

The statements of the companies incorporated in the consolidated financial statements are prepared pursuant to standardised accounting and valuation principles applicable on the reporting date 31 December 2020.

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

The Management Board of Maschinenfabrik Berthold Hermle AG released the consolidated financial statements on 17 March 2021 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 2020 business year. Their application is mandatory for business years that commence on 1 January 2020.

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

Amend. IAS 1 and IAS 8:	Establishing a definition for materiality
Conceptual framework:	Updating the references to the conceptual framework in the IFRS standards
Amend. IFRS 3:	Change in the definition of business operations
Amend. IFRS 9, 7, IAS 19:	Reform of the reference interest rates (phase I)
Amend. IFRS 16:	Changes related to Covid-19 related lease concessions

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 2021 or later:

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

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

IFRS 17:	Insurance contracts
Amend. IFRS 3:	Reference to the conceptual framework in the IFRS standards
Amend. IAS 1:	Changes in the classification of liabilities as current or non-current
Amend. IAS 16:	Property, plant and equipment – revenue before intended use
IAS 37:	Onerous contracts – cost of fulfilling a contract
IFRS 1, 9, 16	Improvement of IFRS (cycle 2018-2020)
IAS 41	

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

(3) GROUP OF CONSOLIDATED COMPANIES

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

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

Company	Type of consolidation	Amount of holding
Domestic segment		
Hermle + Partner Vertriebs GmbH, Gosheim	Full	100.0%
Hermle Systemtechnik GmbH, Gosheim	Full	100.0%
Hermle Maschinenbau GmbH, Gosheim	Full	100.0%
Foreign sales companies segment		
Hermle (Schweiz) AG, Neuhausen, Switzerland	Full	100.0%
Hermle WWE AG, Neuhausen, Switzerland	Full	99.8%
Hermle Vostok OOO, Moscow, Russia	Full	99.8%
Hermle Nederland BV, Horst, Netherlands	Full	100.0%
Hermle Italia S.R.L., Rodano, Italy	Full	100.0%
Hermle USA INC. (formerly Hermle Machine Co. LLC), Franklin/Wisconsin, USA	Full	100.0%
Hermle Properties INC., Franklin/Wisconsin, USA	Full	100.0%
Hermle Uljanovsk OOO, Uljanovsk, Russia	Full	100.0%
Hermle Mexico S. DE R.L. DE C.V., Querétaro, Mexico	Full	100.0%
Hermle SEA Co., Ltd. Bangkok, Thailand	Full	100.0%

Hermle SEA Co., Ltd., newly founded on 13 March 2020, was included in the consolidated financial statements 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 31.12.2020	Exchange rate on the reporting date 31.12.2019	Average exchange rate 2020	Average exchange rate 2019
EUR/USD	1.2271	1.1234	1.1470	1.1195
EUR/CHF	1.0802	1.0854	1.0709	1.1111

(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 costs of new or significantly improved products are capitalised provided the technical implementation capability and the marketing eligibility and intent are secured. Proof of the stated criteria is furnished via the technical trials of the new products at the company and the successful presentation to trial customers. Capitalised developments are depreciated via the straight-line method for an expected product life cycle of three to four years, starting with the public presentation, and their soundness is reviewed annually by means of an impairment test.

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

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

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

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

LEASING

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

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

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 expense and reduced by the lease payments made. In addition, the book value of the lease liability is reassessed for changes in the lease, the term of the lease, the lease payments (e.g. as a result of a change in the index or interest rate used to determine those payments) or a change in the assessment of a purchase option on the underlying asset.

IMPAIRMENT TEST

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

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

Discount rates

The discount rates represent the current market assessments with regard to the risks assigned to the respective cash-generating units. The interest effect and the specific risks of the assets are taken into account. The discount rate takes into account the risks of the Group and its segments and companies that would arise for a comparable investment on the capital market and is based on the weighted average cost of capital (WACC). A uniform discount rate of 5.96% (previous year: 5.18%) after tax was used to calculate the fair value against the background of increased economic uncertainties due to the coronavirus pandemic.

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

Sensitivity of the assumptions made

Scenario analyses with differing assumptions were prepared as part of the impairment test. An interest rate increase of 100 basis points leads to the book value exceeding the fair value by a good €m 0.5. If an additional EBIT margin deterioration of up to 2% occurs, the carrying amount is up to €m 2.6 above the fair value.

NON-CURRENT FINANCIAL ASSETS

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

OTHER NON-CURRENT ASSETS

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

INVENTORIES

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

TRADE ACCOUNTS RECEIVABLES AND OTHER CURRENT RECEIVABLES

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

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

FINANCIAL INSTRUMENTS

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

Hermle has applied IFRS 9 since 1 January 2018. Financial assets include in particular trade accounts receivables, cash and cash equivalents, derivative financial assets as well as marketable securities and similar cash investments and financial investments.

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

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

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

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

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

FINANCIAL ASSETS THAT ARE STATED AT AMORTISED COST

Financial assets that are stated at amortised cost are non-derivative financial assets with contractual payments that consist solely of interest and principal payments on the principal 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 fluctuation in value. Cash and cash equivalents match the fund of cash and cash equivalents in the consolidated cash flow statement.

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

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

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

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

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

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

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

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

DERIVATIVE FINANCIAL INSTRUMENTS

Hermle uses 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 income statement. Value changes of cash flow hedges are offset against the cumulated other equity by way of eliminating the ineffective part and with consideration given to deferred taxes without affecting the profit.

DEPRECIATION

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

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

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

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

LIABILITY ITEMS

PROVISIONS AND LIABILITIES

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

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

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

DEFERRED TAXES

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

INCOME STATEMENT

SALES REVENUES

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

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

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

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

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

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

Sales revenues are reported net of discounts and price reductions.

GOVERNMENT GRANTS

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

Government grants for social security contributions in connection with the allowance for reduced working hours in Germany are offset against personnel costs. In the year under review, this resulted in grants of €m 2.2.

Government grants in the context of Covid-19 aid in the USA are reported as other operating income at €m 0.7.

EXPLANATORY NOTES ON THE BALANCE SHEET

(7) ASSETS

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

The capitalised development costs from the development of new tool machine products are stated in the intangible assets.

At the end of the business year, the net amount was €k 417 (previous year: €k 83).

The research and development expenses recorded directly as expenses were €k11,669 (previous year: €k14,904).

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

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

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

LEASES

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

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

€k	Land, leasehold rights and buildings, including the buildings on non-owned land	Other plants, fixtures and fittings	Total
As per 1 January 2019	928	241	1.169
Additions minus retirements	29	100	129
Depreciation	-227	-128	-356
As per 31 December 2019	730	212	942
Additions minus retirements	29	120	149
Depreciation	-227	-128	-355
As per 31 December 2020	532	204	736

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

€k	2020	2019
As per 1 January	921	1140
Additions minus retirements	147	107
Interest	7	10
Payments	-360	-336
As per 31 December	715	921

Leasing liabilities €k	up to 1 year	1 to 5 years	from 5 years	Total
Minimum lease payments	336	380	0	716
Cash value	336	379	0	715

The incremental borrowing rate used in 2020 is approx. 0.6% (previous year: 0.6%). 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	31.12.2020	31.12.2019
Raw, process and operating materials	37033	36838
Unfinished products, unfinished services	14158	19097
Finished products and goods	15133	16950
Advances paid on inventories	668	1036
	66992	73921

The book value of the inventories stated at net sales prices was €k 9,059 (previous year: €k 9,613). The decrease in the value adjustment for inventories recorded with an effect on profits was €k 819 (previous year increase: €k 823). Advances paid are stated as net amounts without turnover tax.

(10) TRADE ACCOUNTS RECEIVABLES AND OTHER CURRENT RECEIVABLES

€k	31.12.2020	31.12.2019
Trade accounts receivables		
Against third parties	43235	64224
Other current receivables		
Derivative financial instruments	790	249
Tax refund claims	18480	4804
Accrued and deferred items	766	835
Customer receivables from advance payments	716	5641
Other assets	1218	1527
	21970	13056
Total	65205	77280

The trade accounts receivables with a remaining term of more than one year was €k 3,858 (previous year: €k 1,983). 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 fair value. They apply both to the so-called effective and ineffective part of the positive market values of currency hedge transactions as part of the statement presentation of hedging relationships pursuant to IFRS 9 or IAS 39. Insofar as they are intended for fair value hedge security purposes, the positive market values are juxtaposed with depreciation in the balance sheet items of the allocated basic transactions.

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

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

€k	Book value total	Of which: neither impaired nor overdue	Of which: not impaired and overdue in the following time bands			
			<3 months	3-6 months	6-12 months	>12 months
Trade accounts receivables 31.12.2020	43235	16680	1364	31	2	0
Trade accounts receivables 31.12.2019	64224	22582	5843	275	0	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	2020	2019
Value adjustments at the beginning of the business year	6847	6725
Adjustment amount for transition to IFRS 9	0	0
Amount recognised in the income statement in the reporting period	740	574
Write-off of receivables	-54	-541
Currency conversion effects	-76	89
Value adjustments at the end of the business year	7457	6847

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	2020	2019
Expenses for the complete write-off of receivables	274	814
Income from the receipt of written off receivables	0	0

(11) SECURITIES AND OTHER ASSETS

In the year under review, fixed-term deposit investments with a term of more than three months in the sum of €k 9,000 (previous year: €k10,000).

(12) CASH AND CASH EQUIVALENT

The cash and cash equivalents largely apply to cash in banks.

€k	31.12.2020	31.12.2019
Credit balance with financial institutions	104820	107512
Cash on hand	40	28
	104860	107540

(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 treasury shares acquired in previous business years via the stock exchange.

In the business year, €k 784 (previous year: €k 8) were allocated to the revenue reserves of Maschinenfabrik Berthold Hermle AG.

The Management Board recommended at the shareholders' meeting on March 17, 2021 to pay out the amount of €k 96,821 from the 2020 balance sheet profit of Maschinenfabrik Berthold Hermle AG amounting to €k 25,050 through the payment of a dividend totalling € 5 per ordinary share and € 5.05 per preference share, and to carry forward the remaining €k 71,771 to new account. This dividend proposal will be re-evaluated jointly by the Management Board and the Supervisory Board at the Supervisory Board meeting on 28 April 2021 based on the further development of the coronavirus pandemic.

In the 2020 business year a dividend totalling € 5 per ordinary share and € 5.05 per preference share was paid in respect of the 2019 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 2020 business year, income (previous year: income) from the market valuation of derivative financial instruments attributable to cash flow hedges in the amount of €k 423 (previous year: €k 48) was offset against equity without affecting profit or loss. In addition, an amount of €k 50 (previous year: €k 112) was withdrawn from equity and recognised as expense (previous year: income) in the result for the period.

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

(14) MINORITY INTERESTS

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

(15) PROVISIONS

€k	As per 01.01.2020	Consumption	Resolution	Addition	Other changes	As per 31.12.2020
Tax provisions	1639	1226	198	448	1	665
Personnel provisions	19044	16675	818	8853	-14	10389
Other provisions						
in sales and purchasing	27179	12065	4415	15552	-126	26125
for other areas	1095	865	34	993	-3	1186
	28273	12930	4449	16545	-129	27311
	48957	30831	5465	25846	-142	38365
of which current provisions	47189	30527	5444	25552	-159	36611
of which non-current provisions	1768	304	21	295	16	1754

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

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

The other changes included currency and interest effects totalling €k 142 (previous year: €k 177), which were recognised as income (previous year: expense). The effects from the addition of accrued interest and from changes in the discount rate amounting to €k 26 (previous year: €k 30) were accounted for by personnel provisions totalling €k 16 (previous year: €k 19) and by other provisions totalling €k 10 (previous year: €k 11).

(16) LIABILITIES

The liabilities relate in particular to:

€k	31.12.2020	31.12.2019
Other non-current liabilities		
Leasing liabilities	715	921
Current trade accounts payable		
against third parties	6037	8594
Other current liabilities		
Advances paid	13786	18537
Contractual debt from advance payment invoices	716	5641
Contractual liabilities	2456	2918
Derivative financial instruments	0	522
Tax liabilities	2832	4894
Social security liabilities	298	391
Other liabilities	5789	6726
	25877	39629
Breakdown of liabilities by remaining terms		
up to 1 year	31915	48223
from 1 year	715	921
	32630	49144

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

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

EXPLANATIONS ON THE INCOME STATEMENT

(17) SALES REVENUES

The following table shows the distribution of sales in 2020 and 2019 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	
	01-12/2020	01-12/2019	01-12/2020	01-12/2019	01-12/2020	01-12/2019
Sales regions						
Federal Republic of Germany	112238	197630	0	0	112238	197630
Other countries	63741	92748	120963	172721	184704	265469
Total	175979	290378	120963	172721	296942	463099
Product and service areas						
Sale of machine tools						
Accessories and spare parts	164097	276799	113167	164199	277264	440998
Service and training services	11882	13579	7796	8522	19678	22101
Total	175979	290378	120963	172721	296942	463099
Revenue from contracts with customers	175979	290378	120963	172721	296942	463099
Turnover with third parties	175979	290378	120963	172721	296942	463099

The contract balances are as follows:

€k	31.12.2020	31.12.2019
Trade accounts receivables against third parties	43235	64224
Customer receivables from advance payments	716	5640
Total	43951	69864
Advances paid	13786	18537
Contractual liabilities	2456	2918
Contractual debt from advance payment invoices	716	5640
Total	16958	27095

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 2020 business year, sales revenues of €k 663 (previous year: €k 1,560) 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 2020 amounting to €k 2,003 in 2021, €k 435 in 2022 and the remaining amount of €k 18 in 2023 will lead to sales.

(18) OTHER OPERATING INCOME

The other operating income item applies to:

€k	2020	2019
Income from reversal of provisions	5267	1409
Income from reversal of value adjustments	3783	3924
Income from retirement of fixed assets	292	1433
Currency gains from exchange rate differences and derivative financial instruments	0	0
Other operating income	2228	1425
	11570	8191

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	2020	2019
Expenses for raw, process and operating materials and procured goods	110123	181195
Cost of purchased services	5757	8498
	115880	189693

(20) PERSONNEL COSTS

Personnel costs include:

€k	2020	2019
Salaries and wages	75691	96379
Social security contributions	13196	15870
	88887	112249

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

Average numbers of employees:

	2020	2019
Industrial workers	461	456
Salaried employees	745	749
Apprentices	104	91
	1310	1296

In line with the resolution adopted at the shareholders' meeting on 6 July 2016, the emoluments of the Management Board are not stated individually but rather for the entire Management Board. The board members' emoluments totalled €k 1,852. Of that total, €k 692 was attributable to basic salaries including passenger car use and direct insurance policies. In addition, the item contained performance-related elements of €k 1,160. 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. Non-scheduled depreciation of €k 66 (previous year: €k 14).

(22) OTHER OPERATING COSTS

€k	2020	2019
Creation of value adjustments on receivables	4479	3957
Currency losses	358	864
Other operating expenses	29242	41579
	34079	46400

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

Other operating expenses include expenses relating to leases amounting to €k 1,034 (previous year: €k 1,377). Of this amount, €k 891 (previous year: €k 1,238) is attributable to short-term leases and €k 143 (previous year: €k 139) to leases for assets of low value that are not short-term.

With regard to auditing the annual financial statement and consolidated financial statements of Maschinenfabrik Berthold Hermle AG, in 2020 auditor's fees of €k 195 (previous year: €k 220) were recorded as expenses. In addition, €k 0 (previous year: €k 0) was charged for other certification services, €k 0 (previous year: €k 0) for tax consultancy services and €k 0 (previous year: €k 4) for other services in the current year.

(23) OTHER FINANCIAL RESULT

The other financial result is classified as follows:

€k	2020	2019
Other interest and similar income	317	189
Interest and similar expenses	-196	-294
	121	-105

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

(24) TAXES ON INCOME

The taxes on income apply to:

€k	2020	2019
Current taxes	13996	29751
Deferred taxes	224	131
	14220	29882

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	2020	2019
Result before income tax	54298	114092
Calculated income tax in %	26.50%	26.50%
Calculated income tax	14389	30234
Tax-exempt income	-169	0
Non-deductible expenses	+143	+258
Other aperiodic taxes	-169	0
Newly accrued deferred taxes	-61	0
Differences from tax rates/currency conversion	98	-617
Losses carried forward not taken into account	-11	+7
Total tax expenses	14220	29882

The calculated income tax for domestic companies was based on a tax rate of 26.50% (previous year: 26.50%), deferred taxes were formed 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	31.12.2020	31.12.2019
Deferred tax assets		
Tax losses carried forward	0	0
Consolidations	692	607
Assets	176	124
Inventories and receivables	1104	1429
Provisions	418	491
Liabilities	0	0
Derivative financial instruments	34	138
Contractual liabilities	343	442
Total	2767	3231
Offset against deferred tax liabilities	0	0
Total	2767	3231
of which items charged to equity without affecting the operating result	0	39
Deferred tax liabilities		
Assets	1025	1050
Inventories and receivables	115	193
Securities	0	0
Provisions	215	305
Derivative financial instruments	238	66
Other	5	27
Total	1598	1641
Offset against deferred tax assets	0	0
Total	1598	1641
of which items charged to equity without affecting the operating result	170	60

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

Tax losses carried forward of €k 710 (previous year: €k 818) have not been recognised due to uncertain realisation possibilities.

(25) RESULT FOR EACH SHARE

€k	2020	2019
Net income:		
Acc. to income statement	40078	84210
Minority interests in the result	-1	-5
Result acc. to minority interests	40077	84205
Accrued preference dividends	-50	-50
Result acc. to minorities and preference dividends	40027	84155
Weighted average in pieces:		
Outstanding ordinary shares	4000000	4000000
Outstanding preference shares	1000000	1000000
Total of all types of shares	5000000	5000000
Average weighted number of shares in items:	5000000	5000000
Undiluted result for each share in euros:		
Per ordinary share	8.01	16.83
Per preference share, incl. dividend preference	8.06	16.88

On a cumulated basis the company holds 0 own preference shares (previous year: 0 pieces). 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 standardised basis in the case of calculating the result for each share, and only added once again in the case of the result for each preference share.

(26) GROUP CASH FLOW STATEMENT

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

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

Tax payments as well as interest payments are stated in full as fund outflows or fund inflows from the business activity. The cash flow from operating activities included cash flows from interest and other financial expenses (previous year: financial income) of €k -215 (previous year: €k 15) and cash flows from taxes of €k -30,510 (previous year: €k -39,707).

(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 B.V., Hermle Italia S.R.L., Hermle (Schweiz) AG, Hermle WWE AG (Switzerland), Hermle Vostok OOO (Russia), Hermle Uljanovsk OOO (Russia); Hermle Mexico S. DE R.L. DE C.V. and Hermle SEA Co., Ltd., newly founded in 2020 in Thailand, as well as the sales branches of Hermle AG in Austria, the Czech Republic, Denmark and Poland.

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

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

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

(28) CONTINGENT LIABILITIES AND OTHER FINANCIAL OBLIGATIONS

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

€k	31.12.2020	31.12.2019
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 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 2020 are as follows:

€k	Values stated in the balance sheet pursuant to IFRS 9					
	Book value 31.12.2020	Amortised cost	Fair value with an ef- fect on the operating result	Fair value without an effect on the operat- ing result	Leasing	Fair value 31.12.2020
Assets						
Non-current assets						
Other financial assets	3005	3000		5		3005
Other non-current assets	7	7				7
Current assets						
Trade accounts receivables	43235	43235				43235
Other current receivables	1008	1008				1008
Derivative financial instruments	790		578	212		790
Securities and other assets	9000	9000				9000
Cash and cash equivalents	104860	104860				104860
Liabilities						
Non-current liabilities						
Financial liabilities	0					0
Derivative financial instruments	0					0
Leasing liabilities	715				715	715
Current liabilities						
Trade accounts payable	6038	6038				6038
Other liabilities	1091	1091				1091
Derivative financial instruments	0		0			0

The amounts stated for the financial instruments according to valuation categories pursuant to IFRS 9 as per 31 December 2019 are as follows:

Values stated in the balance sheet pursuant to IFRS 9						
€k	Book value 31.12.2019	Amortised cost	Fair value with an ef- fect on the operating result	Fair value without an effect on the operat- ing result	Leasing	Fair value 31.12.2019
Assets						
Non-current assets						
Other financial assets	3005	3000		5		3005
Other non-current assets	7	7				7
Current assets						
Trade accounts receivables	64224	64224				64224
Other current receivables	6876	6876				6876
Derivative financial instruments	16		16			16
Securities and other assets	10000	10000				10000
Cash and cash equivalents	107540	107540				107540
Liabilities						
Non-current liabilities						
Financial liabilities	0					0
Derivative financial instruments	0					0
Leasing liabilities	921				921	921
Current liabilities						
Trade accounts payable	8594	8594				8594
Other liabilities	12421	12421				12421
Derivative financial instruments	351		351			351

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

€k	From interest/ Dividends	From follow-on valuations:			From Retirement	2020
		On fair value	Currency conversion	Value adjustment		
Financial assets						
Stated at amortised cost	75		-358	-696	-274	-1253
Stated at fair value directly in equity	226					226
Stated at fair value through profit and loss		0				0
Financial liabilities						
Stated at amortised cost	-120					-120
Stated at fair value through profit and loss		-25				-25
Total	181	-25	-358	-696	-274	-1172

The net results of the financial instruments according to valuation categories are as follows for the 2019 business year pursuant to IFRS 9:

€k	From interest/ Dividends	From follow-on valuations:			Off Retirement	2019
		On fair value	Currency conversion	Value ad- justment		
Financial assets						
Stated at amortised cost	173		-864	-91	814	32
Stated at fair value directly in equity	0					0
Stated at fair value through profit and loss		0				0
Financial liabilities						
Stated at amortised cost	-254					-254
Stated at fair value through profit and loss		-30				-30
Total	-81	-30	-864	-91	814	-253

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

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

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

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

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

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

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING STRATEGIES

FINANCIAL RISK MANAGEMENT

As per 31 December 2020, the Hermle Group has an above-average equity ratio in the sum of 79.1%. On the reporting date, the amount of liquid funds and securities was €k 116,860. Liquid funds and securities relate to debtors with credit ratings that are generally still considered good. As a result of these circumstances, the Hermle Group is not dependent on interest-bearing outside capital to finance spare parts and expansion investments and the distribution of dividends. The Hermle Group gives consideration at all times to keeping adequate financial reserves available to react at short notice to potential changes in the economic situation.

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

RISKS FROM INTEREST CHANGES

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

With regard to the liquid funds and marketable securities (current) held up to the end of the year, an increase in the interest rates of 0.5% during the period of one year would lead to a potential increase in the net interest income of the following year by approximately € 0.4 (previous year: € 0.2). The risk of a deterioration in interest rates exists because, due to the ECB's policy, negative interest rates are now being widely applied to parts of demand deposits at banks and increased negative interest rates are also being passed on to these. So far we have not been fully affected by the negative interest rate, but in 2021 increased negative interest rates of up to 100% may be passed on to bank customers in the event of an economic downturn. The effect should thus amount to approx. €-0.6 (previous year: €-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 sales are generated with any single end customer. Furthermore, the default risks are further reduced by way of the ongoing monitoring of the payment behaviour of our customers, and consistent receivables management. However, against the backdrop of the coronavirus pandemic and the resulting impaired earnings and financial situation in individual customer sectors of our products, we currently assess the credit risk as higher than the average of previous years.

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

LIQUIDITY RISKS

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

EXCHANGE RATE RISKS

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

The exchange rate risks of the Hermle Group largely refer to the amount of trade accounts receivables in foreign currencies as well as the inflow of cash and cash equivalents in foreign currencies. Maschinenfabrik Berthold Hermle AG uses derivative instruments to hedge these currency risks. These are aimed at securing the foreign currency receivables that exist on the reporting date against Group companies, which are normally hedged as a general 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 2020 and 31 December 2019, all key trade accounts receivables in foreign currency at Maschinenfabrik Berthold Hermle AG against Group companies had been hedged by way of forward exchange transactions that were classified as fair value hedges. Currency items concluded from these result, in each case, in compensation effects such that changes do not, insofar, occur in equity and in the annual result. However, the valuation of the cash flow hedges as well as the conversion of foreign currency contracts are sensitive in relation to changes in exchange rates.

A 5% decrease in the value of the main foreign currencies in 2020 would have resulted in an income of €m 0.4 (previous year: income of € 0m.6) for the 2020 business year, and a corresponding increase in value would have resulted in a loss of €m 0.4 (previous year: loss of €m 0.7). A 5% decrease in the value of the main foreign currencies in 2020 would have resulted in a decrease of €m 0.2 (previous year: decrease of €m 0.7) in the Group's equity as per 31 December 2020, and a corresponding increase of €m 0.2 (previous year: increase of €m 0.7) in the value of the foreign currencies.

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	31.12.2020	31.12.2019
Forward currency sales:		
Nominal volume	17778	32709
of which Remaining term > 1 year	0	0
Positive market values	790	249
of which Fair value hedges < 1 year	(212)	(19)
of which Fair value hedges > 1 year	(0)	(0)
of which Cash flow hedges < 1 year	(578)	(230)
of which Cash flow hedges > 1 year	(0)	(0)
Negative market values	0	-522
of which Fair value hedges < 1 year	(0)	(-174)
of which Fair value hedges > 1 year	(0)	(0)
of which Cash flow hedges < 1 year	(0)	(-348)
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 creditworthiness to avoid such a risk.

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

(30) ESTIMATES

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

The Group profit in the 2020 business year was negatively affected by the coronavirus pandemic. Estimation uncertainties remain high in the following year due to uncertainties about the course of the coronavirus pandemic.

(31) EVENTS AFTER THE REPORTING DATE

No events occurred after the reporting date having material effects on the earnings, financial and assets position of the Hermle Group.

(32) RELATIONS WITH CLOSELY AFFILIATED COMPANIES AND PERSONS

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

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

Deliveries and services performed and rendered by the Group to other closely affiliated companies amounted to €k 69 (previous year: €k 112), while deliveries and services procured by the Group from other closely affiliated companies amounted to €k 1,787 (previous year: €k 3,088). On the reporting date, Group receivables due from other closely affiliated companies amounted to €k 0 (previous year: €k 6), while Group liabilities due to other closely affiliated companies amounted to €k 85 (previous year: €k 2).

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

The Management Board and Supervisory Board of B. Hermle AG issued the declaration of compliance with GCGC pursuant to Section 161 of the German Stock Corporation Act (AktG) on 9 December 2020 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, Riss

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

The following persons form the Supervisory Board:

Dietmar Hermle, Chairman of the Supervisory Board

Entrepreneur, Former Spokesman of the Management of Maschinenfabrik Berthold Hermle AG

Other mandates in supervisory boards and controlling bodies:

President of the Administrative Board of Hermle WWE (Worldwide Export) AG, Neuhausen/Switzerland until 10.12.2020

Lothar Hermle Deputy Chairman, Industrial Foreman

Dr. Sonja Zobl-Leibinger, Deputy Chairwoman

Lawyer

Other mandates in supervisory boards and controlling bodies:

Chairman of the Supervisory Board of AdCapital AG, Tuttlingen

Dr. Wolfgang Kuhn

Entrepreneur

Other mandates in supervisory boards and controlling bodies:

Chairman of the supervisory board of Concept AG, Stuttgart

Gerd Grewin*

Chairman of the Works Council

Industrial Foreman, Control Technician

Andreas Borho*

Industrial Business Management Assistant

Günther Leibinger, Honorary Member,

Entrepreneur

* Elected employee representatives

Gosheim, 31 March 2021

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 2020, the Group income statement, the overall Group income statement, the Group equity statement and the Group cash flow statement – for the business year from 1 January to 31 December 2020, as well as the Group notes to the financial statements, including a summary of key financial reporting methods applied. We have also audited the summary management report of Maschinenfabrik Berthold Hermle AG, Gosheim, for the business year from 1 January to 31 December 2020. In accordance with German legal requirements, we have not audited the content of the Corporate Governance Statement pursuant to Sections 289f and 315d of the German Commercial Code (HGB) and the non-financial statement pursuant to Sections 289b and 315b of the German Commercial Code (HGB), each of which has been published on the company's website and to which reference is made in the section "Corporate Governance Statement" or in the first paragraph of the summary management report.

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

- the enclosed consolidated financial statements comply in all respects with IFRS, as adopted in the EU, and with the additional requirements of Section 315e (1) of the German Commercial Code (HGB), and in line with those requirements give a true and fair view of the net assets and financial position of the Group as per 31 December 2020, and of the results of its operations and cash flows for the business year from 1 January to 31 December 2020.
- 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 judgment were the most significant in our audit of the consolidated financial statements for the business year from 1 January to 31 December 2020. The said matters were given due consideration in the context of our audit of the consolidated financial statements as a whole and in drawing up our overall audit appraisal; we provide no separate appraisal of the said matters.

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

- Recognition of revenue from new machine and spare parts sales

a) The risk for the conclusion

The Maschinenfabrik Berthold Hermle AG Group generates revenue from the sale of machines and spare parts as well as from the provision of services. In the 2020 business year, sales revenue of €m 277.3 was generated from the sale of new machines and spare parts. Sales revenue is generally recognised at the time the products are delivered and the ownership or risk is transferred to the customer. The 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 revenue recognition are contained in particular in the section "Income statement" in chapters (6) and (17) of the Notes to the consolidated financial statements and in the summary management report in the section "An overview of Hermle's business performance".

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

b) Audit procedure and conclusions

We have assessed the compliance of the accounting and valuation methods applied by the Maschinenfabrik Berthold Hermle AG Group for the recognition of sales revenue with the IFRS framework and the relevant IFRS. Based on our understanding of business and processes, we analysed the revenue reported in the 2020 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 agreement, 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 revenue recognition 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 Maschinenfabrik Berthold Hermle AG Group to recognise sales revenues from new machines and spare parts sales is appropriate. Our audit procedures did not reveal any objections with regard to revenue recognition.

Other information

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

- The separate non-financial statement pursuant to Sections 289b and 315b of the German Commercial Code (HGB) published on the company's website, to which reference is made in the first paragraph of the summary management report
- The Corporate Governance Statement published on the company's website in accordance with Sections 289f and 315d of the German Commercial Code (HGB), to which reference is made in the Corporate Governance Statement contained in the "Corporate Governance Statement" section of the summary management report
- The Report of the Supervisory Board
- The other parts of the annual report, but not the consolidated financial statements, not the audited content of the summary management report and not our unqualified opinion thereon
- The assurance pursuant to Section 297 (2) Clause 4 of the German Commercial Code (HGB) relating to the consolidated financial statements and the assurance pursuant to Section 289 (1) Clause 5 of the German Commercial Code (HGB) and to Section 315 (1) Clause 5 relating to the summary management report

The Supervisory Board is responsible for the Report of the Supervisory Board. The legal representatives and the Supervisory Board

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

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

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

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

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

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

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

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

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

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

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

Our objective is to establish with adequate certainty that the consolidated financial statements as a whole contain no – intentionally or unintentionally – materially false information, and that the summary management report presents an accurate overall view of the Group's position and complies in all material respects with the consolidated financial statements, with the findings of the audit, and with German law, and accurately presents the opportunities and risks of future developments. We are required to draw up an 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 violations of regulations or from errors, and is regarded as material if it might reasonably be expected that – in isolation or overall – it will influence commercial decisions of the target readership taken on the basis of these consolidated financial statements and this summary management

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

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

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

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

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

OTHER STATUTORY REQUIREMENTS

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

Audit appraisal

In accordance with Section 317 (3b) 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 attached file "Hermle_AG_KA_2020-12-31.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 attached 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 2020 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 contained in the aforesaid attached file in accordance with Section 317 (3b) of the German Commercial Code (HGB) and in compliance with the draft IDW Auditing Standard: Audit of Electronic Reproductions of Financial Statements and Management Reports Prepared for the Purpose of Disclosure pursuant to Section 317 (3b) of the German Commercial Code (HGB) (IDW EPS 410). 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 legal representatives of the company are also responsible for submitting the ESEF documents together with the unqualified opinion and the attached audited consolidated financial statements and audited summary management report as well as other documents to be disclosed to the operator of the Federal Gazette.

The Supervisory Board is responsible for overseeing the preparation of 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) 2019/815, 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) 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 1 July 2020. Pursuant to Section 318 (2) of the German Commercial Code (HGB), we are deemed to be the auditors of the consolidated financial statements as no other auditor has been appointed. We were contracted to conduct the audit by the Supervisory Board on 1 July 2020. 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).

Responsible auditor

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

Stuttgart, 23 April 2021

Ebner Stolz GmbH & Co. KG
Auditors and tax consultants

Oliver Striebel	Dr. Volker Hecht
Auditor	Auditor

The unqualified opinion reproduced also includes a "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 (3b) of the German Commercial Code (HGB)" (ESEF note) with embedding of the ESEF documents in the form of a zip file. If the additional report to the audit committee with the unqualified opinion reproduced is passed on to third parties in paper form or without an embedded zip file, the audit subject matter on which the ESEF opinion is based (ESEF documents to be audited) can be inspected or retrieved from the Federal Gazette after publication.

ASSURANCE OF THE LEGAL REPRESENTATIVES (BALANCE SHEET OATH)

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

Gosheim, 31 March 2021

Maschinenfabrik Berthold Hermle AG

Günther Beck

Franz-Xaver Bernhard

Benedikt Hermle

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

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

The Management Board and the Supervisory Board declare that the recommendations of the Government Commission on the German Corporate Governance Code as amended on 16 December 2019, which came into force on 20 March 2020 (GCGC 2020), are not complied with, 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. The legal requirements, including the Act Implementing the Second Shareholders' Rights Directive (ARUG II), which came into force on 1 January 2020, are fully complied with.

The Management Board and the Supervisory Board hold the view there are various reasons for not implementing recommendations of the GCGC 2020 that extend beyond this.

The recommendations under B. regarding the appointment of members to the Management Board are largely not complied with. In view of the successful decades of 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.

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 recommendation under C. to F. are geared towards international major DAX-listed Groups but not, however, to an SME with a limited number of ordinary shareholders who, in part, are represented personally in the supervisory committees – also due to a right of delegation under the articles of association.

Finally, the recommendations on the remuneration of the Management Board and the Supervisory Board under G. (GCGC 2020) are essentially not complied with. In addition to the principles for the remuneration of board members according to Section 87 of the German Stock Corporation Act (AktG), the legislator has standardised for us as a listed company in Section 87 (a) of the German Stock Corporation Act (AktG) a remuneration system with complex individual requirements, in Section 162 of the German Stock Corporation Act (AktG) the obligation to prepare a remuneration report and in Section 120 (a) of the German Stock Corporation Act (AktG) the requirement to obtain a vote of the shareholders' meeting on the remuneration system and the remuneration report. We will fully comply with all of these legal requirements within the time frame set by the legislator, but we also consider 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 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 Hermle has decided in favour of a merely very limited implementation of the GCGC.

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

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

Gosheim, 2 December 2020

Maschinenfabrik Berthold Hermle AG

Management Board

Supervisory Board



FURTHER
INFORMATION



The RS-1 robot system adapted to two 5-axis machining centres C 22 U of the High-Performance-Line series.

BALANCE SHEET

BY MASCHINENFABRIK BERTHOLD HERMLE AG

ASSETS

€k	31.12.2020	31.12.2019
A. Assets		
I. Intangible assets		
Industrial property rights and similar rights acquired for value consideration	1351	1637
II. Property, plant and equipment		
1. Land and buildings, including the buildings on non-owned land	49174	38139
2. Technical plant and machinery	14183	13798
3. Other plants, fixtures and fittings	10127	9897
4. Advances paid	1489	2918
	74973	64752
III. Non-current financial assets		
1. Investments in associated companies	12342	12115
2. Loans to associated companies	275	275
3. Other loans	5	5
	12622	12395
	88946	78784
B. Current assets		
I. Inventories		
1. Raw, process and operating materials	34172	35989
2. Unfinished products	14519	17159
3. Finished products	14608	16419
4. Advances paid	665	806
	63964	70373
II. Trade and other receivables		
1. Trade accounts receivables	26224	41302
2. Receivables from associated companies	4610	10889
3. Other receivables	17810	4190
	48644	56381
III. Liquid assets	72305	70609
	184913	197363
C. Accrued and deferred items	361	556
	274220	276703

LIABILITIES

€k	31.12.2020	31.12.2019
A. Equity		
I. Subscribed capital	15000	15000
II. Capital reserves	2874	2874
III. Revenue reserves		
1. Statutory reserves	1500	1500
2. Other revenue reserves	103517	103517
IV. Net earnings	96821	83992
	219712	206883
B. Provisions		
1. Tax provisions	75	554
2. Other provisions	32241	41521
	32316	42075
C. Liabilities		
1. Advance payments on orders received	9057	12685
2. Trade accounts payable	4287	4466
3. Payables to associated companies	2634	3428
4. Other liabilities	5621	6574
	21599	27153
D. Accrued and deferred items	593	592
	274220	276703

DEVELOPMENT OF ASSETS

BY MASCHINENFABRIK BERTHOLD HERMLE AG

€k	Acquisition/manufacturing costs					As of 31.12.2020
	As of 01.01.2020	Additions	Repostings	Currency adjustment	Retirements	
I. Intangible assets						
Industrial property rights and similar rights acquired for value consideration	7710	301	0	-1	21	7989
II. Property, plant and equipment						
1. Land and buildings, including the buildings on non-owned land	65241	11475	1179	1	0	77895
2. Technical plants and machinery	47777	3316	0	0	1610	49483
3. Other plants, fixtures and fittings	27610	3150	4	-17	1052	29695
4. Advances paid	2918	215	-1183	0	461	1489
	143546	18156	0	-16	3123	158562
III. Non-current financial assets						
1. Investments in associated companies	12115	227	0	0	0	12342
2. Loans to associated companies	275	0	0	0	0	275
3. Other loans	5	0	0	0	0	5
	12395	227	0	0	0	12622
	163651	18684	0	-17	3144	179173

	Cumulated depreciation				Book values		
	As of 01.01.2020	Additions	Currency adjustment	Retirements	As of 31.12.2020	As of 31.12.2020	As of 31.12.2019
	6073	586	0	21	6638	1351	1637
	27102	1619	0	0	28721	49174	38139
	33979	2870	0	1549	35300	14183	13798
	17713	2837	-8	974	19568	10127	9897
	0	0	0	0	0	1489	2918
	78794	7326	-8	2523	83589	74973	64752
	0	0	0	0	0	12342	12115
	0	0	0	0	0	275	275
	0	0	0	0	0	5	5
	0	0	0	0	0	12622	12395
	84867	7912	-8	2544	90227	88946	78784

INCOME STATEMENT

BY MASCHINENFABRIK BERTHOLD HERMLE AG

€k	2020	2019
1. Sales revenues	271129	424869
2. Decrease (in previous year: Increase) in inventory of finished and unfinished products	-4164	521
3. Other company-produced assets	691	1259
4. Other operating income	9733	6948
	277389	433597
5. Material cost	121427	190614
6. Personnel costs	65551	84424
7. Depreciation on intangible assets and property, plant and equipment	7912	7965
8. Other operating costs	35204	50076
9. Operating result	47295	100518
10. Financial result and investment earnings	2952	9969
11. Taxes on income (in previous year: Taxes on income and earnings)	12169	26327
12. Result after taxes	38077	84159
13. Other taxes	199	237
14. Net income	37878	83922
15. Profit carried over from previous year	58943	70
16. Net earnings	96821	83992

PROPOSAL ON THE APPROPRIATION OF PROFITS

RESOLUTION ON APPROPRIATION OF BALANCE SHEET PROFIT FOR THE 2020 BUSINESS YEAR

The Management Board and Supervisory Board proposes to appropriate the balance sheet profit of the 2020 business year of € 96,820,632.38 as follows:

Distribution of a dividend of € 5

Per ordinary share (€ 0.80 + € 4.20 bonus)

Security identification number 605 280 / ISIN DE0006052806

for 4,000,000 ordinary shares for the 2020 business year:

€ 20,000,000.00

Distribution of a dividend of € 5.05

Per preference share (€ 0.85 + € 4.20 bonus)

Security identification number 605 283 / ISIN DE0006052830

for 1,000,000 preference shares for the 2020 business year:

€ 5,050,000.00

To be carried forward to new account:

€ 71,770,632.38

Balance sheet profit

€ 96,820,632.38

In accordance with Section 58 (4) Clause 2 of the German Stock Corporation Act (AktG), claims to a dividend become due on the third working day following the resolution by the shareholders' meeting, i.e. on 12 July 2021. Therefore the dividend shall be paid out on 12 July 2021.

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 28, 2021

Maschinenfabrik Berthold Hermle AG

Günther Beck

Franz-Xaver Bernhard

Benedikt Hermle

HERMLE WORLDWIDE



HPV Hermle Vertriebs GmbH
Gosheim, Germany
www.hermle.de



HLS Hermle Systemtechnik GmbH
Gosheim, Germany
www.hermle.de



Hermle Maschinenbau GmbH
Ottobrunn, Germany
www.hermle-generativ-fertigen.de



Hermle Austria
Vöcklabruck Branch,
Austria
www.hermle-austria.at



**Hermle Česká Republika,
Organizacni slozka,**
Prague Branch, Czech Republic
www.hermle.cz



Hermle Polska
Warsaw Branch, Poland
www.hermle.pl



Hermle Nordic
Odense Branch, Denmark
www.hermle-nordic.dk



Hermle Southeast Europe
Sofia, Bulgaria
www.hermle.de



Hermle (Switzerland) AG
Neuhausen am Rheinflall, Switzerland
www.hermle-schweiz.ch



Hermle USA Inc.
Franklin/Wisconsin, USA
www.hermleusa.net



Hermle Nederland B.V.
Horst, Netherlands
www.hermle-nederland.nl



Hermle Belgium
Belgium
www.hermle-nederland.nl



Hermle Italia S.r.l.
Rodano, Italy
www.hermle-italia.it



Hermle WWE AG
Neuhausen am Rheinflall, Switzerland
www.hermle-vostok.ru



Hermle Vostok OOO
Moscow, Russian Federation
www.hermle-vostok.ru



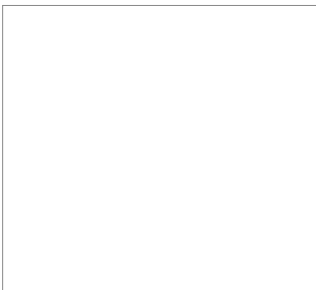
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Shanghai and Beijing
Representative Office, China
www.hermle.de



Hermle México S. DE R.L. DE C.V.
Querétaro, Qro, Mexico
www.hermle.mx



Hermle SEA Co., Ltd.
Chonburi, Thailand
www.hermle-sea.com



Maschinenfabrik
Berthold Hermle AG
Industriestrasse 8-12
D-78559 Gosheim, Germany

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

info@hermle.de
www.hermle.de

