

## Search Result

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### Maschinenfabrik Berthold Hermle Aktiengesellschaft

Gosheim

### Consolidated annual financial statements 2018

#### Combined management report of Maschinenfabrik Berthold Hermle AG and the Group 2018

The present report is a summarized management report for Maschinenfabrik Berthold Hermle AG and the group. It was drawn up in accordance with the provisions of the German Accounting Standard (DRS) 20. As in the previous year, the 2018 consolidated financial statements comply with the accounting principles of the International Financial Reporting Standards as applied in the European Union. The provisions of the German Commercial Code (HGB) were used for the annual financial statements of the individual company Maschinenfabrik Berthold Hermle AG. Information relating to the individual company is provided with the addition "Hermle AG" or "Individual company". The non-financial declaration in accordance with Sections 289b and 315b of the German Commercial Code (HGB) is available on the Hermle website at [www.hermle.de](http://www.hermle.de) (menu item: Investor Relations / Mandatory Publications / Non-Financial Declaration). It contains all the essential information about our sustainability activities.

The share capital of Maschinenfabrik Berthold Hermle AG is divided into 4 million ordinary shares and 1 million non-voting preference shares. Only preference shares are traded on the stock exchange. There are therefore no disclosure requirements in accordance with Sections 289a and 315a of the German Commercial Code.

#### Basis of the group

##### Business model and sales markets

Maschinenfabrik Berthold Hermle AG is one of the world's leading providers of high-quality milling machines and machining centers. Our 5-axis machining centers and our high quality standards set standards in the industry. Our customers include domestic and foreign companies from high-tech sectors such as tool and mold construction, medical technology, optical industry, aviation, energy technology, the automotive industry and motor sports, as well as their supplier industries.

Our range of products and services has a modular structure and is continuously developed, geared towards the requirements of the various market segments. Innovative solutions for automation, networked production and additive manufacturing are becoming increasingly important.

##### organization structure

The Hermle Group consists of the parent company Maschinenfabrik Berthold Hermle AG and its subsidiaries. Hermle AG is responsible for most of the development and production activities, central service and logistics as well as commercial and administrative functions for the group of companies. The domestic subsidiaries include Hermle + Partner Vertriebs GmbH (HPV), the development company Hermle Maschinenbau GmbH (HMG) with a focus on additive manufacturing and Hermle-Leibinger Systemtechnik GmbH (HLS), which specializes in customized automation solutions, which until the end of 2017 were accounted for by equity Method was included in the group. With effect from 1. January 2018, Hermle AG took over the remaining 51% of the shares in Hermle-Leibinger Systemtechnik GmbH from the previous co-shareholders. This means that the company, in which we previously held a 49% stake, has been fully consolidated since 2018. The companies based in Germany form the domestic companies segment.

The international sales segment comprises the companies and branches outside Germany. You mainly take on sales and service activities in different regions. There are independent Hermle subsidiaries in Italy, the Netherlands, Russia, Switzerland and the USA. There are also branches in Denmark, Austria, Poland and the Czech Republic. We also have representative offices in important sales areas, for example in China and Bulgaria, which are organizationally assigned to Hermle AG.

##### Strategy and corporate management

The strategy of Maschinenfabrik Berthold Hermle AG is geared towards profitable organic growth. The aim is to use a strong equity base and a highly motivated, long-term, competent team of employees in Germany to produce top-quality machine tools and automation solutions, to offer excellent service worldwide and to generate adequate income. We also strive for the increasing digitization of our offer and all processes in the company, as well as the broadest possible regional and sector-specific positioning. We successfully implemented our strategy in 2018.

The Hermle Group is controlled centrally by Hermle AG. In addition to incoming orders and sales, earnings before interest and taxes (EBIT), which corresponds to the operating result, are the key performance indicators. The management of the company is the responsibility of the executive board of Hermle AG, which consists of three (in the first quarter of 2018 four temporarily) members. The remuneration of the Management Board consists of a fixed and a variable component, which depends on the development of the annual profit of the individual company.

#### Corporate governance statement

The working methods of the management board and the supervisory board as well as relevant information on corporate governance practices are described in the corporate governance declaration in accordance with Sections 289f and 315d of the German Commercial Code (HGB), which can be found on our website [www.hermle.de](http://www.hermle.de) (menu item: Investor Relations / Mandatory Publications / Declaration on Corporate Governance) is permanently available. This also includes the legally required information on the quota of women in accordance with Sections 76 and 111 of the AktG.

#### Economic report

##### Framework conditions: global economy with declining momentum

After a good start, the global economy increasingly lost momentum in the course of 2018 due to local crises and the deterioration in the trade policy framework. According to the International Monetary Fund (IMF), global growth in 2018 decreased from 3.8% in the previous year to 3.7% after adjustment for prices. In April 2018, the IMF had forecast an increase of 3.9%. In particular, some economies in Europe and Asia developed weaker than originally expected. Global industrial production is expected to increase by 3.0% after 3.5% in 2017, so that the utilization of industrial capacities remained high.

The overall economic expansion was based in particular on the good performance in the developing and emerging countries, with the economy in China slowing down by 6.6% compared to the previous year. Among the industrialized countries, the USA in particular grew, with gross domestic product (GDP) increasing by 2.9% on the back of tax cuts. In the euro area, growth slowed noticeably in 2018 from 2.4% in the previous year to 1.8%. The lower momentum resulted on the one hand from exports, which were slowed down by international trade disputes and the slowing economy in China. On the other hand, country-specific factors such as the new Italian government's EU confrontation course and the protests in France caused uncertainty. In Germany, whose GDP increased by 1.5%, the problems associated with converting to the new WLTP exhaust gas test standard had a negative impact due to the great economic importance of the automotive industry. Against the background of the still unresolved Brexit, the economy in Great Britain grew weaker than in the euro zone. Due to the great macroeconomic importance of the automotive industry, the problems with the changeover to the new WLTP exhaust gas test standard had a negative impact. Against the background of the still unresolved Brexit, the economy in Great Britain grew weaker than in the euro zone. Due to the great macroeconomic importance of the automotive industry, the problems with the changeover to the new WLTP exhaust gas test standard had a negative impact. Against the background of the still unresolved Brexit, the economy in Great Britain grew weaker than in the euro zone.

##### Slower pace in German mechanical engineering

The slowdown in macroeconomic dynamics was also noticeable in mechanical engineering. According to preliminary calculations by the Federal Statistical Office, the production output of the industry in Germany rose by 2% compared to 3% in the previous year. According to the VDMA (German Engineering Federation), incoming orders increased by 5%, with domestic orders increasing by 6% and demand from abroad by 4%. The strongest contributions to growth came from the USA, China and the EU countries.

After a very good first half of the year, the domestic machine tool industry lost significant momentum in the second half of 2018. According to calculations by the VDW (Association of German Machine Tool Builders), sales in the sector rose by a total of 7% last year, but incoming orders only grew by 1%. In the cutting machine tools area, which is relevant for Hermle, the new orders were at the previous year's level, with an increase of 3% in Germany and a decrease of 2% abroad.

From a technological point of view, machine tool construction, which is increasingly based on the Hermle standard in the area of 5-axis machining and continues to be characterized by intense competition, is primarily focused on the automation and digitization of production processes under the heading "Industry 4.0". In addition, we are still observing a high demand for extremely powerful, high-precision machines as well as high-quality, standardized and therefore inexpensive entry-level models. Furthermore, additive or generative manufacturing processes (so-called 3-D printing) are gradually gaining popularity.

##### Hermle business development at a glance

Maschinenfabrik Berthold Hermle AG was able to consolidate its market share as a technology leader in 5-axis machining centers in 2018 despite intense competition. Consolidated sales and incoming orders rose at an above-average rate compared to the industry, with the dynamism of new orders increasingly waning, as expected, after a surprisingly strong first quarter in the course of the year, particularly from the automotive supplier industry. The positive development was equally supported by our high-quality entry-level machines in the Performance Line and the extremely dynamic, precise and powerful machining centers in the High Performance Line. With these modular machine series, we cover the requirements of the market very well. Our versatile automation and digitization modules were also particularly in demand. Capacity utilization was at the upper end throughout the year.

##### Incoming orders increase by almost 10%

In 2018, Hermle's order intake rose by 9.9% across the group to EUR 475.9 million. The growth resulted from good business in Germany, where new orders rose by 26.9% to EUR 217.9 million. Additional orders of EUR 258.0 million were received from abroad, 1.3% less than in the same period of the previous year. Overall, after an extremely dynamic first quarter, demand normalized as the year progressed, as forecast. Nevertheless, the Hermle Group's order backlog at the end of 2018 rose by 18.4% to EUR 148.0 million compared to the reporting date.

##### Incoming orders of the Hermle Group

in million euros	2014	2015	2016	2017	2018
inland	140.1	155.8	156.8	171.7	217.9
foreign countries	192.4	204.9	207.7	261.5	258.0
total	332.5	360.7	364.5	433.2	475.9

In the individual company Hermle AG, incoming orders increased by 9.1% to 439.5 million euros. Of this, EUR 218.9 million (+26.8%) came from Germany and EUR 220.6 million (-4.1%) from abroad. The order backlog climbed to EUR 137.8 million by December 31, 2018, 18.9% above the previous year's figure.

##### Sales increase of almost 13% to a new high

In the reporting period, Hermle was able to increase group sales by 12.7% to the previous high of 452.9 million euros. We achieved growth both with new machines and in service. Business with automation solutions and the C 650 machining center from the Performance Line, which was presented in 2017, developed particularly well. In

Germany, sales increased by 11.1% to EUR 186.8 million and abroad by 13.8% to EUR 266.1 million. This increased the export quota slightly from 58.2% to 58.8%.

#### Sales in the Hermle Group

In million euros	2014	2015	2016	2017	2018
inland	147.7	147.9	160.3	168.2	186.8
foreign countries	199.1	208.7	233.7	233.8	266.1
total	346.8	356.6	394.0	402.0	452.9

The turnover of the individual company Hermle AG increased by 11.1% to 417.6 million euros. Of this, we achieved 187.8 million euros (previous year 169.2 million euros) in Germany and 229.8 million euros (previous year 206.8 million euros) abroad, so that the export quota remained unchanged from the previous year at 55.0% was.

#### Development in the segments

In the domestic companies segment, sales increased by 8.0% to EUR 272.2 million in the reporting period. In addition to Hermle AG, the sales company HPV and the automation solutions specialist HLS, whose capacities we further expanded in 2018 due to the high demand, posted increases. HMG, which specializes in additive manufacturing and received follow-up orders from various pilot customers in the reporting year, also developed positively.

The volume of business in the international sales segment increased by 20.6% to EUR 180.7 million. We recorded strong growth in the USA, for example, where we increased our capacities for service and application technology. The demand from our Italian company benefited greatly from government investment programs, so that a high increase was also achieved there. The sales companies in the Netherlands and Switzerland as well as the export company Hermle WWE, which is also based in Switzerland, also achieved gratifying increases. At the Russian site in Ulyanovsk, we started our first activities in 2018 to overhaul machines and set up a demonstration center.

#### Operating profit rises by almost 13% to EUR 111.7 million

The operating earnings situation of the Hermle Group improved roughly in proportion to sales in 2018. The higher raw material costs incurred in the first half of the year and losses from the weak US dollar were offset in the fourth quarter by a favorable product mix with high-quality systems, insurance compensation and currency gains from the US dollar, which rose again in the course of the year. The total output of the Hermle Group increased by 11.6% to 455.1 million euros in the reporting period. In addition to the increase in sales, this included a slight inventory build-up as well as own work capitalized for the Hermle machines installed in our metal-cutting production. The cost of materials quota was 41.6% (previous year 44.2%) and the personnel cost ratio to 23.3% (previous year 21.3%). The changes compared to 2017 mainly result from postponements due to the first-time full consolidation of HLS, which led to lower material and higher personnel costs. The sum of the two expense items was slightly below the level of the previous year when measured against the total output. The extensive investments made in previous years had an impact on depreciation, which increased from EUR 7.8 million to EUR 10.0 million. The balance of other operating expenses and income fell to EUR -37.9 million (previous year: EUR -33.5 million) due to, among other things, lower currency gains compared to the previous year. 2%) and the personnel expense ratio to 23.3% (previous year: 21.3%). The changes compared to 2017 result primarily from postponements due to the first-time full consolidation of HLS, which led to lower material and higher personnel costs. The sum of the two expense items was slightly below the level of the previous year when measured against the total output. The extensive investments made in previous years had an impact on depreciation, which increased from EUR 7.8 million to EUR 10.0 million. The balance of other operating expenses and income fell to EUR -37.9 million (previous year: EUR -33.5 million) due to, among other things, lower currency gains compared to the previous year. 2%) and the personnel expense ratio to 23.3% (previous year: 21.3%). The changes compared to 2017 mainly result from postponements due to the first-time full consolidation of HLS, which led to lower material and higher personnel costs. The sum of the two expense items was slightly below the level of the previous year when measured against the total output. The extensive investments made in previous years had an impact on depreciation, which increased from EUR 7.8 million to EUR 10.0 million. The balance of other operating expenses and income fell to EUR -37.9 million (previous year: EUR -33.5 million) due to, among other things, lower currency gains compared to the previous year.

In total, the operating result of the Hermle Group increased by 12.9% to EUR 111.7 million in 2018. The domestic companies segment contributed EUR 102.4 million (previous year: EUR 91.4 million) and foreign sales EUR 9.6 million (previous year: EUR 7.5 million) before consolidation effects.

The financial result contained an unsustainable one-off effect from the majority takeover of Hermle-Leibinger-Systemtechnik GmbH in the amount of EUR 4.9 million and therefore increased from EUR 0.4 million to EUR 4.8 million. This was a book gain from the revaluation of the HLS shares already in our possession. As a result, earnings before taxes rose across the group from EUR 99.4 million to EUR 116.6 million. Adjusted for the special income from the HLS takeover, the gross sales margin is roughly stable compared to the previous year at 24.6%. After deducting taxes, the consolidated net income for the year was EUR 87.5 million, compared to EUR 73.3 million in 2017. The result per ordinary share was EUR 17.48 (previous year: EUR 14.65) and EUR 17.53 per preference share (previous year: EUR 14.70). Normalized by the one-time special effect from the HLS takeover, the value per ordinary share was EUR 16.50 and EUR 16.55 per preference share.

#### Operating result and net income in the Hermle Group

in million euros	2014	2015	2016	2017	2018
Operating profit	79.0	80.4	99.8	99.0	111.7
Annual surplus	58.8	59.2	73.8	73.3	87.5

In the individual company Hermle AG, the operating result determined in accordance with the HGB regulations increased from EUR 90.4 million to EUR 101.5 million. The annual surplus rose from 69.3 million euros to 82.3 million euros. This includes dividends of EUR 8.5 million from subsidiaries (previous year: EUR 3.2 million).

#### Financial management and financial situation: Operating cash flow increases to 92.9 million euros

The financial management of Hermle AG and the group aims to provide extensive internal financing and to secure our liquidity. We invest available funds exclusively with low risk and predominantly on a short-term basis. As a rule, we want to finance both ongoing business and investment projects from cash flow. This allows us to react quickly and flexibly to market changes relatively independently of the interests of third parties and the uncertain capital markets. Financing measures such as leasing are only used in a few sensible exceptional cases.

The Hermle Group's financial position remained solid in 2018.

#### Liquidity development in 2018 in the Hermle Group

Financial resources as of 01.01.	103.4 million euros
Cash flow from business activities	+ 93.3 million euros
Cash flow from investing activities	+ 7.1 million euros

Cash outflow from financing activities	- 75.1 million euros
Other changes	- 0.1 million euros
Financial resources as of December 31	128.6 million euros
Values rounded	

Due to the increase in net income, cash flow before changes in working capital in 2018 increased by 14.7% to EUR 92.9 million compared to the same period in the previous year. In working capital, funds tied up in trade accounts receivable and in inventories, which were additionally stocked up to improve security of supply, increased due to the increased business volume. This was offset by increased short-term liabilities, which resulted on the one hand from increased advance payments received due to the further increase in the order backlog and on the other hand from additional short-term personnel and other provisions. Since these two effects largely canceled each other out,

After the high investments of the previous year, the corresponding expenditure normalized in 2018 to 11.9 million euros. The portfolio of securities classified as current assets, on the other hand, was significantly reduced due to repayments at maturity. This resulted in a net cash inflow from investing activities of EUR 7.1 million (previous year: outflow of EUR 34.2 million).

The outflow of funds for financing activities amounted to EUR 75.1 million in 2018 than in 2017 (previous year: EUR 64.1 million). The reason for this was the increased dividend for 2017 to EUR 15.00 per ordinary share and EUR 15.05 per preference share. The other changes amounted to EUR -0.1 million, so that the financial resources rose from EUR 103.4 million to EUR 128.6 million.

#### Capital investments normalized again

In 2018, Hermle invested 11.9 million euros across the group in property, plant and equipment and intangible assets (previous year: 18.5 million euros). This means that after the completion of the two construction projects in Gosheim and Zimmer, expenses have largely returned to normal. The focus in the reporting period was on subsequent measures for these major projects, which are described in the Production chapter, as well as the modernization of sheet metal production, a new transformer station and additional employee parking spaces at the Gosheim location. In addition, a Hermle machining center was purchased for training. In addition, there were net financial investments of EUR 2.8 million (previous year: 0.0) for the purchase of the remaining shares in HLS,

#### Cash flow and investments \* in the Hermle Group

In million euros	2014	2015	2016	2017	2018
Cash flow	64.4	65.4	80.8	81.1	92.9
Investments	15.4	7.1	16.4	18.5	11.9

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

At Hermle AG, investments in property amounted to EUR 10.2 million in 2018 (previous year: EUR 16.3 million). The priorities largely corresponded to those of the group.

#### Asset situation remains very solid

As of December 31, 2018, the Hermle consolidated balance sheet was extended by 10.8% to EUR 366.3 million on the reporting date. In terms of assets, non-current assets rose by a total of 11.1% to EUR 85.0 million. In addition to the investments in property, which once again exceeded depreciation, which increased property, plant and equipment by 3.6% to EUR 69.1 million, the takeover of Hermle-Leibinger Systemtechnik GmbH had an impact here: in the course of the purchase price allocation, the intangible assets from 1.8 million euros to 6.2 million euros (excluding goodwill) and goodwill to 6.1 million euros (previous year 0.0). Current assets increased by a total of 10.7% to EUR 281.3 million. Due to the expansion of business and to improve security of supply, inventories increased by 8.9% to 67.6 million. EUR and trade accounts receivable by 17.3% to EUR 71.7 million. In the case of the latter, the increase in sales abroad was particularly noticeable, as in some cases longer payment terms were granted there. At EUR 128.6 million, cash and cash equivalents were 24.4% higher than on the previous year's reporting date. This was offset by a decline in securities and other investments from EUR 22.1 million to EUR 6.5 million due to the repayment of time deposits and promissory note loans due. EUR and trade accounts receivable by 17.3% to EUR 71.7 million. In the case of the latter, the increase in sales abroad was particularly noticeable, as longer payment terms were sometimes granted there. At EUR 128.6 million, cash and cash equivalents were 24.4% higher than on the previous year's reporting date. This contrasted with a decline in securities and other investments from EUR 22.1 million to EUR 6.5 million as a result of the repayment of time deposits and promissory note loans due. EUR and trade accounts receivable by 17.3% to EUR 71.7 million. In the case of the latter, the increase in sales abroad was particularly noticeable, as in some cases longer payment terms were granted there. At EUR 128.6 million, cash and cash equivalents were 24.4% higher than on the previous year's reporting date. This was offset by a decline in securities and other investments from EUR 22.1 million to EUR 6.5 million as a result of the repayment of time deposits and promissory note loans due. At EUR 128.6 million, cash and cash equivalents were 24.4% higher than on the previous year's reporting date. This contrasted with a decline in securities and other investments from EUR 22.1 million to EUR 6.5 million as a result of the repayment of time deposits and promissory note loans due.

On the liabilities side of the consolidated balance sheet, equity continued to dominate, growing by 5.4% to EUR 250.3 million. Despite the high dividend payout, the equity ratio was a solid 68.3% (previous year 71.8%). The long-term liabilities, which still did not contain any bank loans, amounted to EUR 3.6 million (previous year: EUR 2.0 million). Current liabilities increased by 23.2% to EUR 112.4 million. This was due in particular to the significantly higher advance payments received on orders for other current liabilities, which rose by 48.9% to EUR 53.9 million. There were also increases in other short-term provisions, which were related to the expansion of business and the well-filled flexitime accounts of our employees. In contrast, trade payables decreased from EUR 11.4 million to EUR 9.5 million.

#### Balance sheet structure of the Hermle Group

	2018 in million euros	2018 in%
ASSETS		
Fixed assets including other long-term assets and deferred taxes	85.0	23.2
Short-term assets	281.3	76.8
total	366.3	100.0
LIABILITIES		
Equity	250.3	68.3

	2018 in million euros	2018 in%
Long-term liabilities and provisions	3.6	1.0
Short-term liabilities and provisions	112.4	30.7
total	366.3	100.0
Values rounded		

#### Hermle Group's equity ratio

in %	2014	2015	2016	2017	2018
Equity ratio	71.7	72.8	74.3	71.8	68.3

At Hermle AG, the balance sheet total grew by 7.9% to EUR 284.9 million and equity by 3.8% to EUR 198.0 million. This results in an equity ratio of 69.5% (previous year: 72.2%).

#### Overall statement on the economic situation and comparison with the forecast

In 2018, Maschinenfabrik Berthold Hermle AG was able to consolidate its market position and develop somewhat better than expected overall. Consolidated sales increased by almost 13% to EUR 452.9 million and the operating result increased by a similar amount to EUR 111.7 million. As forecast in November, both values were thus slightly above the original planning, which had assumed a medium to high single-digit percentage increase. The basis for the stronger increase was the longer-than-expected positive economic situation. The result also benefited in the fourth quarter from a favorable product mix, insurance compensation and currency gains. This compensated for the currency losses incurred in the first half of the year and rising raw material costs. In the case of incoming orders, the expected normalization started later than expected after an overheated first quarter, but in the course of the year the new orders declined slightly as forecast.

Hermle's financial and asset position continues to form a stable foundation. The operating cash flow was EUR 92.9 million and the equity ratio was 68.3%. Against the background of the weakening economy, the Management Board judges the earnings, financial and asset situation of Hermle AG and the Group as still very solid overall, even at the time the financial statements were prepared.

#### Other performance indicators

##### Development: focus on automation and additive manufacturing

Our research and development activities remained at a high level in 2018. In addition to the continuous improvement of our machine series, for example through the development of even more powerful spindle technologies, we concentrated on the design of new automation and digitization modules. At our in-house exhibition in April 2018, we presented our customers and the specialist public with corresponding innovations: for example the new RS 2 Kombi robot system for further automation of our machines, a multi-pallet variant of the HS flex handling system and the Hermle Home screen, an individually configurable screen view that can be networked with our other digitization modules.

Another focus was on adapting our additive manufacturing technology M PA (metal powder application process) to the Hermle C 42 machining centers. The aim is to increase the capacities for this technology, which we are already successfully offering our customers as a service to enlarge the expansion of the MPA machine park. The first prototype of the C 42 with MPA technology will go into operation in 2019.

##### Production: Capacities for sheet metal and machining production increased

Due to the continued high demand, we again expanded and modernized our capacities in the year under review. We also made the processes more fail-safe and efficient. At the company headquarters in Gosheim, after completion of the construction work in the metal-cutting production, the new large machining center including a high-performance pallet system and several automated Hermle machines were installed and put into operation as planned. In addition, we have modernized sheet metal production and expanded it with several laser punching and folding systems. In order to further increase the process efficiency, the subassembly was also intensified.

At the new Zimmer location, we set up additional cranes and a second mineral casting mixing plant in order to increase the reliability of key capacities through redundant system technology.

##### New storage system and increased delivery security

In the logistics area, a new, fully automatic high-bay storage system was put into operation in 2018 to further reduce travel and picking times. At the same time, we can use the greater height of the new premises more efficiently.

We work with our suppliers for many years in a trusting manner in order to avoid bottlenecks when purchasing important materials and components. Due to the increasing shortage in our procurement markets, we diversified our supply sources in individual cases in the year under review.

##### Service and sales further expanded

Hermle has a high service quality and quick responsiveness that is recognized in the industry. In 2018 we consolidated our service network again, especially abroad, in order to be even closer to customers and more decentralized. In addition, preparations were made for the establishment of further sales subsidiaries abroad.

In order to present our range of products to the market, we participated in around 45 national and international trade fairs in 2018. In addition to the Hermle in-house exhibition, the major industry meetings AMB in Stuttgart and IMTS in Chicago were of particular importance to us. There we showed the specialist audience not only machining centers, but above all our innovations from the areas of automation and digitization.

In addition, numerous workshops were held in Germany and abroad, in which our customers could find out about innovations and new technologies at Hermle.

##### Employees: Group-wide 1,251 employees

As of December 31, 2018, the Hermle Group had 1,251 employees. After the takeover of all shares, this also includes the employees of Hermle-Leibinger-Systemtechnik GmbH for the first time, so that the previous year's figure of 1,086 people is not comparable. Including HLS, which was then still consolidated using the equity method, the number at the end of 2017 would have been 1,171 employees. At HLS, the workforce grew from 85 to 93 employees in the reporting year due to the high demand for automation solutions. There were also new hires at our foreign subsidiaries, particularly in the USA, and in service. In addition, the Hermle team increased in the production areas by taking on trainees who had successfully completed their degrees and filling vacant training positions accordingly. At the end of 2018, a total of 486

employees were employed in production (previous year, including HLS 439), in the areas of customer and supplier support and R&D 685 (previous year, including HLS 654) and 80 people in administration (previous year, incl . HLS 78).

On average for 2018, the Hermle Group had 1,225 employees (previous year, including HLS 1,136), of which 1,085 people (previous year, including HLS 1,010) worked in the domestic companies and 140 (previous year 126) in the international sales segment.

Hermle AG employed 1,000 people on December 31, 2018 after 937 on the previous year's reporting date. This included 89 trainees in the reporting year (previous year: 96). Further information on our training activities can be found in the Social Issues chapter of the non-financial statement.

#### Powerful Hermle team

The good sales and earnings development at Hermle is essentially based on the high level of commitment and the well-founded specialist knowledge of the workforce. The total output per employee in 2018 was 363.8 thousand euros. The corresponding previous year's figure of 375.4 thousand euros is not comparable due to the first-time inclusion of HLS in the scope of consolidation. Including the HLS employees, i.e. based on a total of 1,171 employees, this would have resulted in a value of 348.1 thousand euros in 2017. In the reporting period, the flexitime accounts of the majority of our employees reached the maximum level, since capacities were fully utilized throughout the year and high average weekly working hours were worked.

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

	2014	2015	2016	2017	2018
Employees (as of December 31)	964	977	1,018	1,086	1,251 *
Total output in million euros	348.2	362.4	394.2	407.7	455.1

\* including HLS employees

#### Diversity in the workforce

Hermle promotes diversity and tolerance with regard to gender, nationality and age as well as towards people with disabilities. The aim is to be able to fall back on the broadest and most varied of experience and to counter the shortage of skilled workers in Germany. In order to increase the diversity in our workforce, we primarily want to increase the proportion of women in the commercial and technical area. In 2018, this rate at Hermle AG was unchanged at a good 7%. Well over 80% of all positions at Hermle and around 90% of the positions on the first two management levels have a technical focus and require training in commercial professions or so-called MINT subjects (mathematics, IT, natural sciences and technology) - fields in which women are still severely underrepresented. That is why we strive for new hires in the technical area to consider women at least proportionally relative to the total number of applicants. We also specifically address young women through events in schools and so-called "Girls' Days". Information on the proportion of women in management positions at Hermle can be found in the declaration on corporate governance in accordance with Sections 289f and 315d of the German Commercial Code. That is why we strive for new hires in the technical area to consider women at least proportionally relative to the total number of applicants. We also specifically address young women through events in schools and so-called "Girls' Days". Information on the proportion of women in management positions at Hermle can be found in the declaration on corporate governance in accordance with Sections 289f and 315d of the German Commercial Code. That is why we strive for new hires in the technical area to consider women at least proportionally relative to the total number of applicants. We also specifically address young women through events in schools and so-called "Girls' Days". Information on the proportion of women in management positions at Hermle can be found in the declaration on corporate governance in accordance with Sections 289f and 315d of the German Commercial Code.

Our increasing international activities create more and more tasks for employees of other nationalities. In order to expand our position in important foreign sales markets and to intensify customer contact, we are specifically hiring native speakers from the relevant regions, for example from Eastern Europe.

Hermle endeavors to retain employees in the company over the long term. In this way we can use the extensive experience of older employees in particular. If you are interested, we also offer partial retirement models. In the past financial year, the average length of service at Hermle AG was twelve years, as in the previous year. During the past ten years, 18 people celebrated their 40th anniversary with the company. In 2018, one employee was even honored for 50 years of service. The average age of the workforce remained unchanged at 37 years.

Hermle also offers attractive jobs to people with disabilities. The rate of severely disabled employees at Hermle AG in 2018 was around 3%, similar to the previous year.

#### Supplementary report

Between the end of the 2018 financial year and the signing of this report, there were no events with a material impact on the earnings, financial and asset position of Hermle AG and the Group.

#### Risk and opportunity report

##### Risk and opportunity management

As a globally active, medium-sized company, Maschinenfabrik Berthold Hermle AG is confronted with a wide range of opportunities and risks in its work. The use of opportunities is often only possible if certain risks are accepted. The management of opportunities and risks is therefore a fundamental part of our corporate governance and of essential importance for the long-term positive development of Hermle. It is our aim to only take risks if the related business can be expected to make an appropriate contribution to the company's value.

The group-wide planning and controlling system forms the basis of our risk and opportunity management. It provides us with early information about important external or internal changes that could give rise to opportunities or risks for Hermle. The relevant findings are discussed regularly and across departments within the company. As part of this open discussion, we develop suitable strategies for dealing with the respective opportunities and risks.

##### Internal control system

In addition to our risk and opportunity management, we have an internal control system (ICS). Essential core elements are a basic four-eyes principle and a general separation of central functions in the areas and business processes that are important for the overall risk situation of the company, which is additionally secured by access restrictions in the IT systems. In addition, there is the monthly analysis of incoming orders, sales as well as essential expense items and the observation of the development of individual cost types in order to determine deviations promptly. In addition, product and order costing, service, warehousing and production include suitable control mechanisms, to disclose conspicuous changes at an early stage. In 2018, the ICS was revised in various areas and expanded in particular in the area of monitoring tax risks.

#### Presentation of the main risks

The most important risks for Hermle are described below in the order of their importance:

**Market and economic risks** - The already fast and strong demand cycles in our industry can be exacerbated by a deterioration in the general economic conditions. From our point of view, the risk from the uncertain macroeconomic environment with its diverse political and economic imponderables, which was already great in previous years, will increase further in 2019. We are particularly critical of the still unexplained process of Brexit, the economic and political situation in Turkey and the protectionist tendencies in the USA. This could result in both direct and indirect burdens for Hermle. In addition, there is an increasing density of regulations and bureaucratisation in Germany, which are not conducive to positive economic development. Hermle can compensate for economic fluctuations in the normal scope through flexible structures and processes within the concept of the breathing company, especially thanks to the well-filled flexitime accounts of our employees. Our high liquidity and equity ratio as well as the resulting extensive independence also contribute to Hermle's ability to withstand large-scale fluctuations in demand unscathed. Hermle can compensate for economic fluctuations in the normal scope through flexible structures and processes within the concept of the breathing company, especially thanks to the well-filled flexitime accounts of our employees. Our high liquidity and equity ratio as well as the resulting extensive independence also contribute to Hermle's ability to withstand large-scale fluctuations in demand unscathed. Hermle can compensate for economic fluctuations in the normal scope through flexible structures and processes within the concept of the breathing company, especially thanks to the well-filled flexitime accounts of our employees. Our high liquidity and equity ratio as well as the resulting extensive independence also contribute to Hermle's ability to withstand large-scale fluctuations in demand unscathed.

**Competitive risks** - As a reaction to the unchanged intense price and competitive pressure in the machine tool industry, Hermle relies on particularly high-quality machines, individual system solutions and a very competent and reliable service in order to strengthen customer loyalty. With our sensibly structured product range and the modular structure of the machines, we can also offer tailor-made solutions and at the same time keep the cost structures solid. In addition, we benefit from the targeted differentiation of our offer with regard to different market requirements.

Hermle prepares itself against concentration tendencies on the customer side and corresponding dependencies with regional and branch-specific diversification as well as the development of new customers and markets. We prevent the risk of insolvency-related payment defaults through intensive order reviews and comprehensive receivables management.

Due to the increasing internationalization in our industry, the likelihood of imitators is also growing. Hermle therefore concentrates its R&D activities at the Gosheim location, strictly regulates access and produces with a high degree of in-house production. A certain protection also results from the fundamentally very high complexity of our machines.

**Innovation and product risks** - By regularly exchanging ideas with customers, system suppliers and other market participants, we reduce innovation risks. Based on the information obtained from these discussions, we consistently align Hermle machines with market requirements. In addition, we secure our technological leadership role through intensive R&D activities. Product liability risks are limited by extensive series of tests prior to market launch as well as appropriate contract drafting and insurance.

**Production risks** - With the establishment of our own mineral casting production and the correspondingly increased vertical range of manufacture, production risks have arisen, but we have been able to reduce procurement risks. In general, we reduce the risk of production failures through careful, preventive and extensive maintenance and early investment measures. We also keep the production facilities up to date with the latest technology. Efficient organizational structures also enable a smooth process in production. The occurrence of operating errors is very unlikely due to the great technical competence of our employees.

**Quality risks** - Hermle regards the high quality of the machines and services as an important competitive factor, which we ensure for our employees through systematic quality management, comprehensive testing procedures and training. In order to ensure the high level of services and the supply of spare parts, we are also continuously expanding our service.

**Procurement risks** - We carefully select our suppliers and work with them in fair, mostly long-term partnerships. In this way we can largely avoid procurement bottlenecks despite the increasing overheating in various markets. The risk of supply failures is reduced, as far as it makes sense, with a second source strategy and rolling demand planning. We are reducing the growing energy supply risks resulting from the exit from nuclear power and the energy transition to a certain extent through our own combined heat and power plants.

**IT risks** - The most modern technologies and redundant systems in important areas limit IT risks as much as possible. Hermle has two mirrored computer rooms as well as an additional room for data backup in different parts of the building and ensures the highest level of data protection through consistent security mechanisms. We have these mechanisms checked by external specialists at regular intervals. We give this topic a high priority and we train our employees intensively in the area of data security.

**Personnel risks** - Most of our employees complete their training in the company and regularly take part in qualification measures. Therefore, they are highly competent in their field. Interesting tasks, usually long-term employment relationships and independent activities increase the already great motivation and reliability of the workforce. We are preventing the increasing shortage of skilled workers expected due to the demographic development in Germany by positioning ourselves as an attractive employer, committed above-average to training and promoting the proportion of women in the workforce, especially in technical areas.

**Financial risks** - Financial and liquidity risks are very low at Hermle, as we largely finance larger investment projects and ongoing business internally, balance sheet very conservatively and have a high equity ratio. Currency risks are minimized through suitable hedging transactions, which are described in detail in the notes to the consolidated financial statements under point 30. Tax risks can arise from regular tax audits.

**Overall risk situation** - From the perspective of the Executive Board, the currently discernible risks for Hermle are manageable. They still do not pose a threat to the company's continued existence, either individually or in combination.

### **Presentation of the opportunities**

Significant opportunities for Hermle result from the environment and the strengths of the company. They are divided into these categories below:

#### **Opportunities from the environment**

In principle, Hermle has the chance of a business development that exceeds the forecasts, provided that the macroeconomic and industry-specific framework conditions develop better than expected. Our concept of the breathing company as well as flexible capacity reserves and processes generally lead to high delivery capabilities and quick reactions to possible positive economic fluctuations.

In the course of an overall economic upswing, our customers' business can pick up, which further improves the sales opportunities for our products. Because in phases with high demand, our customers usually need particularly powerful and reliable machines like those manufactured by Hermle.

The trend towards networking and automation in production (Industry 4.0), which is intensified by the demographically-related shortage of skilled workers, also harbors additional expansion potential for Hermle. Firstly, high-quality, extremely reliable machines are also required for this, and secondly, Hermle has a wide range of corresponding automation and digitization modules.

There are still particularly great growth opportunities for Hermle abroad. That is why we are continuously expanding our position in important markets and are constantly examining additional interesting sales regions. The increasing maturity of various foreign markets in which Hermle is already present gives us the opportunity to increasingly sell higher quality machining centers there in the future.

**Opportunities from the company's strengths**

The internal success factors flexibility and quality already mentioned in connection with external opportunities are reinforced by the high level of competence and motivation of the Hermle workforce. The commitment, experience and know-how of our employees also consolidate our good market position and help us to cope with fluctuations in demand and capacity utilization and to strengthen customer loyalty through convincing service.

Due to the good reputation we have built up in the past as a reliable, quality and service-oriented partner who relies on continuity, we generally have a strong starting position for gaining additional customers in new market segments that have already been worked on. At the same time, the high reliability of our machining centers as well as our very up-to-date and demand-oriented product portfolio with ongoing innovations increase the chance of new customers and further application possibilities of our machines with existing customers. In addition, this has improved in recent years with high-quality,

Our solid liquidity and equity base gives us a certain financial independence and enables us to react quickly to economic fluctuations and to survive lean periods for longer.

**Forecast report****World economy 2019 with subdued growth**

Due to the numerous economic and political uncertainties, the outlook for the global economy in 2019 has clouded over. The biggest disruptive factors include the trade conflicts between the USA and China and, in the meantime, the EU, the slowdown in the Chinese economy and Brexit, the political situation in Italy and the stalled reforms in France. Many leading indicators are therefore signaling weakened growth. The International Monetary Fund is forecasting growth of 3.5% for the current year, a 0.2 percentage point lower global expansion than in 2018. The emerging and developing countries are expected to increase by 4, 5% and therefore again above-average dynamic growth. The growth is being driven primarily by India and China, whose GDP increase is likely to be slightly lower than in the previous year, starting from a high level. The IMF is expecting a significant upturn in Brazil, while the economy in Russia is likely to expand only slightly again and even stagnate in Turkey. For the industrialized countries, the experts assume an overall increase of 2.0%. Accordingly, positive impulses come from the USA in particular. In contrast, below-average growth rates are expected in the euro area and the UK. According to the IMF, German GDP will increase by 1,

**Restrained industry environment**

For mechanical engineering, the VDMA is forecasting production growth of 2% both worldwide and in Germany in 2019. The weaker macroeconomic development and the various risk factors are likely to curb the global propensity to invest, so that the expected increase in production is largely due to the high order backlog that could not be processed in the past year due to numerous bottlenecks. On average, the mechanical engineering companies assess the opportunities in the USA, China and Germany with cautious optimism, while other markets in the EU are rather skeptical.

In the German machine tool industry, production growth of 2% is also to be expected in the current year, according to the industry association VDW, thanks to the large existing order volume. The strong capacity utilization in important customer industries and the trend towards more networking and automation could have a positive effect, according to the VDW. Nevertheless, the association expects demand to decline. In total, incoming orders are likely to decline by 2% in 2019, with a 3% decrease in Germany and stagnation abroad.

**Hermle 2019 with stable to slightly positive sales development**

The first weeks of 2019 were still satisfactory at Hermle, with the slightly positive sales development being offset by a significantly lower order intake compared to the extremely good start of the previous year. For the year as a whole, we expect an economic slowdown, in line with the forecasts of economic researchers. For this reason, we have planned a reduction of up to 20% for our incoming orders across the group compared to the exceptionally strong 2018 value. On the basis of the high order backlog from the previous year, a stable to slightly positive development should again be possible for consolidated sales, at best an increase of around 5%.

The forecast is based on the premise that the macroeconomic and industry-specific framework conditions develop as expected. Should the situation worsen in the numerous trouble spots around the world, short-term drastic downturns are also conceivable, which could lead to a clear double-digit drop in sales and disproportionate losses in earnings at Hermle. We are particularly concerned about the trade disputes between the USA and China and the EU as well as the difficulties and upheavals in the automotive industry, but also the impending Brexit, the state and financial crisis in Italy and Russia's withdrawal from the INF disarmament treaty.

**Financial and asset situation still solid**

From today's perspective, Hermle's financial and asset position will continue to be very solid thanks to the expected stable earnings trend. The financing of the upcoming investment projects as well as the operative business should therefore also be possible from own funds and without taking on bank liabilities.

**Stable capital investments**

Our investments in property, plant and equipment and intangible assets across the Group in 2019 will be roughly at the previous year's level. The most important projects at our company headquarters include the installation of further Hermle machining centers for machining and additional measuring devices for quality assurance, the completion of the new transformer station and the modernization of our combined heat and power plants. In addition, there is a modified approach to our premises in order to optimize the flow of traffic and a new canteen, in the planning of which our employees played a key role. In addition, we are investing in the expansion of the building of our American subsidiary,

**Hermle team is growing easily**

The number of Hermle employees is expected to increase moderately in 2019. New hires are planned in areas such as sales and service.

**Expansion of the presence in Asia and Central America**

In order to better develop our overseas markets, we want to establish two new subsidiaries this year: a sales company in Mexico and one for the Asia / Pacific region, which is to be based in Thailand. Both companies are expected to be launched in the middle of the year.

**R&D: focus on automation, digitization and MPA technology**

In 2019, our intensive development activities will be continued with undiminished commitment. In addition to the continuous improvement of our machine series, we are primarily concerned with other automation and digitization solutions in order to enable our customers to have a longer service life and easier operation. We will also further develop our MPA technology for additive manufacturing services in the current year.

**Overall statement on future development**



The Management Board expects the economy to cool down in 2019 and for the Hermle Group an order intake that will be up to 20% lower than in the previous year. On the basis of the high order backlog from the previous year, consolidated sales should again be stable to slightly positive and the consolidated operating result should be largely stable. With our concept of the breathing company, however, we would be as well prepared as possible for a significantly worse course, which cannot be ruled out in view of the various crises around the world. The flexitime accounts of our employees are full due to the very high capacity utilization last year and currently. Thanks to this and our extensive financial independence, Hermle can adapt relatively well to lower demand. At the same time, our range of machines as well as automation and digitization solutions, which are tailored to different market requirements, offer good opportunities for long-term positive corporate development.

Gosheim, March 2019

**Maschinenfabrik Berthold Hermle AG**

*The board of directors*

**Consolidated balance sheet according to IFRS as of December 31, 2018**

**OF MASCHINENFABRIK BERTHOLD HERMLE AG, GOSHEIM**

**ASSETS**

	KEUR	Previous year KEUR
<b>A. LONG-TERM ASSETS</b>		
I. Intangible Assets		
1. Goodwill	6,096	0
2. Capitalized development effort	319	546
3. Other intangible assets	5,912	1,208
	12,327	1,754
II. Tangible assets		
1. Land, leasehold rights and buildings including buildings on third-party land	42,069	43,330
2. Technical systems and machines	15,919	13,130
3. Other equipment, factory and office equipment	10,659	9,920
4. Advance payments made on property, plant and equipment	482	357
	69,129	66,737
III. Shares in companies valued at equity	0	1,073
IV. Other financial assets	5	5,006
Capital assets (7)		81,461
V. Other long-term assets (8th)		29
VI. Deferred tax assets (25)		3,571
		85,061
<b>B. CURRENT ASSETS</b>		
I. Inventories (9)		
1. Raw materials and supplies	31,330	26,121
2. Work in progress, work in progress	19,512	18,300
3. Finished products and merchandise	15,498	15,879
4. Advance payments made for inventories	1,265	1,783
	67,605	62,083
II. Accounts receivable from deliveries and services (10)		
1. Towards third parties	71,719	61,033
2. To companies with which there is a participation relationship	0	129
	71,719	61,162
IV. Other short-term receivables (10)	6,840	5,404
V. Securities and other investments (11)	6,505	22,118
VI. Means of payment (12)	128,596	103,390
		281,265
		366,326
<b>LIABILITIES</b>		
	KEUR	Previous year KEUR
<b>A. EQUITY</b>		
I. Equity of the shareholders of Hermle AG (13)	250,302	237,494

		KEUR	Previous year KEUR
II. Shares of other shareholders	(14)	11	17th
		250.313	237,511
<b>B. LONG-TERM LIABILITIES AND PROVISIONS</b>			
I. Other long-term liabilities	(16)	0	0
II. Long-term provisions	(15)	1,815	1,523
III. Deferred tax liabilities	(25)	1,818	431
		3,633	1,954
<b>C. CURRENT LIABILITIES AND PROVISIONS</b>			
I. Short-term trade payables	(16)	9,538	11,418
II. Other current liabilities	(16)	53,953	36,234
III. Tax provisions	(15)	4,117	4,464
IV. Short-term provisions	(15)	44,772	39,106
		112,380	91,222
		366.326	330,687

**Consolidated income statement ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS for the period from January 1, 2018 to December 31, 2018**

**OF MASCHINENFABRIK BERTHOLD HERMLE AG, GOSHEIM**

	attachment	2018 kEUR	Previous year KEUR
1. Sales	(17)	452.922	402.009
2. Change in inventory of finished and unfinished products		917	4,519
3. Other own work capitalized		1,290	1,137
Overall performance		455.129	407.665
4. Other operating income	(18)	7,090	8,849
5. Cost of materials	(19)	189,263	180.349
6. Personnel expenses	(20)	106,235	87.004
7. Depreciation of intangible assets and property, plant and equipment	(21)	10,013	7,810
8. Other operating expenses	(22)	44,978	42,366
		350,489	317,529
9. Income from operations		111,730	98,985
10. Earnings from companies valued at equity	(23)	0	428
11. Other financial result	(24)	4,824	-8th
12. Financial result		4,824	420
13. Profit before tax		116,554	99,405
14. Taxes on income and earnings	(25)	29,083	26,079
15. Annual net income		87,471	73,326
16. Profit shares of other shareholders		-3	-2
17. Share of profits of the shareholders of Maschinenfabrik Berthold Hermle AG		87,468	73,324
Earnings per share in euros:			
Per common share *		17.48	14.65
Per preference share including dividend preference *		17.53	14.70

\* Details of the calculation in the appendix under (26)

**CONSOLIDATED COMPREHENSIVE INCOME STATEMENT IN ACCORDANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS FOR THE FISCAL YEAR 2018**

**OF MASCHINENFABRIK BERTHOLD HERMLE AG, GOSHEIM**

	2018 kEUR	Previous year KEUR
I. Net income according to the profit and loss account	87,471	73,326
II. Other total income		
Items that may subsequently be reclassified to the income statement		
1. Currency Changes	376	-2,315
2. Changes from derivative financial instruments	-565	830
3. Changes in financial instruments available for sale	0	0

	2018 kEUR	Previous year KEUR
4. Income taxes on other total income		
- Taxes on currency changes (1.)	0	0
- Taxes on changes in derivative financial instruments (2.)	150	-220
- Taxes on changes in financial instruments available for sale (3.)	0	0
Sum of income taxes on other total income	150	-220
5. Other total income after taxes	-39	-1,705
III. Total income	87,432	71,621
Minority interests in total income	3	1
Share of Hermle AG shareholders in total income	87,429	71,620

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR FISCAL YEAR 2018 IN ACCORDANCE WITH IFRS FOR THE PERIOD 01/01/2017 to 31/12/2018**

**OF MASCHINENFABRIK BERTHOLD HERMLE AG, GOSHEIM**

	Subscribed capital			Retained earnings		Balance sheet
	Ordinary shares T-Euro	Preference shares T-Euro	Capital reserve T-Euro	Statutory revenue reserves T-Euro	Other revenue reserves T-Euro	profit T-Euro
As of 01/01/2017	12,000	3,000	3,286	1,749	102,021	105,306
Dividend for the previous year according to the AGM resolution						-64,050
Annual surplus 2017						73,324
Withdrawal from retained earnings					-6,000	6,000
Currency changes						
Cash flow hedges						
Other changes					8th	-8th
As of December 31, 2017	12,000	3,000	3,286	1,749	96,029	120,572
Dividend for the previous year according to the AGM resolution						-75,050
Adjustment to the retained earnings according to the AGM resolution						
Annual surplus 2018						87,468
Allocation to revenue reserves in accordance with Section 16 (3) of the Articles of Association					7,500	-7,500
Currency changes						0
Cash flow hedges						
Other financial instruments						
Uncalled dividends						1
Other changes					1	427
As of December 31, 2018	12,000	3,000	3,286	1,749	103,530	125,918
	Revenue reserves			Equity of the shareholders of Hermle AG		Shares of other shareholders
	T-Euro	T-uro	T-Euro	T-Euro	at the capital T-Euro	on the cumulative group result T-Euro
As of 01/01/2017	209,076	2,839	-277	229,924	1	15th
Dividend for the previous year according to the AGM resolution	-64,050			-64,050		0
Annual surplus 2017	73,324			73,324		2
Withdrawal from retained earnings	0			0		
Currency changes	0	-2,314		-2,314		-1
Cash flow hedges	0		610	610		
Other changes	0			0		
As of December 31, 2017	218,350	525	333	237,494	1	16
Dividend for the previous year according to the AGM resolution	-75,050					-9
Adjustment to the retained earnings according to the AGM resolution	0			0		
Annual surplus 2018	87,468			87,468		3
Allocation to revenue reserves in accordance with Section 16 (3) of the Articles of Association	0			0		
Currency changes	0	376		376		
Cash flow hedges	0		-415	-415		
Other financial instruments	0			0		

	Revenue reserves		Equity from derivative	Equity of the shareholders of Hermle AG	Shares of other shareholders at the capital	on the cumulative group result
	T-Euro	T-uro	T-Euro	T-Euro	T-Euro	T-Euro
Uncalled dividends	1			1		
Other changes	428			428		
As of December 31, 2018	231.197	901	-82	250,302	1	10
						Equity in EUR thousand
As of 01/01/2017						229,940
Dividend for the previous year according to the AGM resolution						-64,050
Annual surplus 2017						73,326
Withdrawal from retained earnings						0
Currency changes						-2,315
Cash flow hedges						610
Other changes						0
As of December 31, 2017						237,511
Dividend for the previous year according to the AGM resolution						-75,059
Adjustment to the retained earnings according to the AGM resolution						0
Annual surplus 2018						87,471
Allocation to revenue reserves in accordance with Section 16 (3) of the Articles of Association						
Currency changes						376
Cash flow hedges						-415
Other financial instruments						0
Uncalled dividends						1
Other changes						428
As of December 31, 2018						250.313

#### CONSOLIDATED STATEMENT OF CASH FLOWS FOR FISCAL 2018 IN ACCORDANCE WITH IFRS

##### OF MASCHINENFABRIK BERTHOLD HERMLE AG, GOSHEIM

	2018 T-Euro	Previous year T-Euro
Annual surplus	87,471	73,326
Depreciation on fixed assets	10,013	7,810
Write-downs on securities and other investments	131	176
Change in long-term provisions	234	172
Profit shares from joint ventures	0	-428
Other non-cash transactions	-4,903	0
Cash flow before changes in working capital	92,946	81,056
Elimination of after-tax earnings from asset disposals	-528	-361
Funds commitment / release of funds		
Supplies	-5,521	-8,536
Requests from deliveries and services	-9,177	-2,522
Other short-term receivables	-1,405	-1,274
Deferred tax assets and other long-term assets	-1,232	257
Short-term trade payables	-2,088	2,952
Short-term provisions	5,369	3,285
Other current liabilities	15,413	6,917
Long-term financial liabilities	0	-65
Deferred tax liabilities	-463	291
Cash flow from operating activities	93,314	82,000
Payments for investments in property, plant and equipment	-10,955	-17,579
Payments received from disposals of property, plant and equipment	784	663
Payments for investments in intangible assets	-917	-963
Proceeds from the disposal of intangible assets	0	0
Dividends received from joint ventures	0	368
Payments for the purchase of third-party securities and other investments	-1,500	-23,988

	2018 T-Euro	Previous year T-Euro
Proceeds from the sale of third-party securities and other investments	22,449	7,303
Payments for investments in fully consolidated companies	-2,805	0
Cash outflow from investing activities	7,056	-34.196
Borrowing / releasing funds		
Sale (+) / purchase (-) own shares	0	0
Payment of dividends	-75.058	-64,050
Cash outflow from financing activities	-75.058	-64,050
Changes in value due to exchange rates *	301	-1,966
Changes from direct offsetting not affecting income *	-415	610
Other changes *	8th	0
Change in financial resources	25.206	-17,602
Financial resources as of 01.01.	103,390	120.992
Financial resources as of December 31	128,596	103,390

\* See statement of changes in equity and schedule of assets

See explanations in Appendix (27)

#### GROUP SEGMENT REPORTING FOR FISCAL YEAR 2018 IN ACCORDANCE WITH IFRS

##### OF MASCHINENFABRIK BERTHOLD HERMLE AG, GOSHEIM

	Domestic companies		Foreign sales		Consolidation Effects	
	2018 T-Euro	2017 T-Euro	2018 T-Euro	2017 T-Euro	20 8 thousand euros	2017 T-Euro
Third party sales	272.234	252.169	180,688	149,840	0	0
Operating profit	102,479	91,351	9,561	7,458	-310	176
Share in the period result of the companies valued at equity	0	428	0	0	0	0
Annual surplus	88,588	70,332	7,431	5,640	-8,548	-2. 646
Long-term segment assets	79,724	71,753	5,337	4,777	0	0
dv. Book value of companies valued at equity	0	1,073	0	0	0	0
Short-term segment assets	220,588	197.379	71 .876	74,946	-11.199	-18,168
Segment assets (total assets)	300,312	269.132	77.213	79,723	-11.199	-18. 168
Segment debts including provisions	86.193	67,748	39,319	42,475	-9,499	-17,047
Investments <sup>(1)</sup>	10,538	21,994	1,334	1,549	0	0
Depreciation	8,848	6,840	1,165	970	0	0
Employees annual average	1.0 86	927	139	126	0	0

#### Consolidated Financial Statements

	2018 T-Euro	2017 T-Euro
Third party sales	452.922	402.009
Operating profit	111,730	98,985
Share in the period result of the companies valued at equity	0	428
Annual surplus	87,471	73,326
Long-term segment assets	85,061	76,530
dv. Book value of companies valued at equity	0	1,073
Short-term segment assets	281.265	254.157
Segment assets (total assets)	366.326	330,687
Segment debts including provisions	116.013	93.176
Investments <sup>(1)</sup>	11,872	23,543
Depreciation	10,013	7,810
Employees annual average	1,225	1,053

For an explanation of the reimbursement of the semen, see Appendix (28)

<sup>(1)</sup> Without investments in fully consolidated companies, see Appendix (7)

Fixed asset items	Acquisition / production costs					
	1.1.2018 KEUR	Additions of TEUR	Disposals in EUR thousand	Transfer postings EUR thousand	Currency adjustments in EUR thousand	12/31/2018 kEUR
I. Intangible Assets						

Fixed asset items	Acquisition / production costs					
	1.1.2018 KEUR	Additions of TEUR	Disposals in EUR thousand	Transfer postings EUR thousand	Currency adjustments in EUR thousand	12/31/2018 kEUR
1. Goodwill	0	6,096	0	0	0	6,096
2. Capitalized development effort	3,754	53	850	0	1	2,958
3. Other intangible assets	7,079	5,951	874	0	1	12,157
	10,833	12,100	1,724	0	2	21,211
II. Tangible assets						
1. Land, leasehold rights and buildings including buildings on third-party land	68,290	653	0	7th	111	69,061
2. Technical systems and machines	47,432	5,395	1,572	296	13	51,564
3. Other equipment, factory and office equipment	30,074	4,536	4,065	29	71	30,645
4. Advance payments made on property, plant and equipment	357	473	15th	-332	-1	482
	146.153	11,057	5,652	0	194	151.752
III. Financial assets						
1. Shares in companies valued at equity	1,073	0	1,073	0	0	0
2. Other financial assets	5,006	0	5,001 <sup>(1)</sup>	0	0	5
	6,079	0	6,074	0	0	5
	163.065	23,157	13,450	0	196	172,968

Fixed asset items	Accumulated depreciation					
	1.1.2018 KEUR	Additions of TEUR	Disposals in EUR thousand	Rebookings EUR	Currency adjustments in EUR thousand	12/31/2018 kEUR
I. Intangible Assets						
1. Goodwill	0	0	0	0	0	0
2. Capitalized development effort	3,208	281	850	0	0	2,639
3. Other intangible assets	5,871	1,242	869	0	1	6,245
	9,079	1,523	1,719	0	1	8,884
II. Tangible assets						
1. Land, leasehold rights and buildings including buildings on third-party land	24,960	1,991	0	0	41	26,992
2. Technical systems and machines	34,302	2,775	1,462	0	30th	35,645
3. Other equipment, factory and office equipment	20,154	3,724	3,939	0	47	19,986
4. Advance payments made on property, plant and equipment	0	0	0	0	0	0
	79,416	8,490	5,401	0	118	82,623
III. Financial assets						
1. Shares in companies valued at equity	0	0	0	0	0	0
2. Other financial assets	0	0	0	0	0	0
	0	0	0	0	0	0
	88,495	10,013	7.120	0	119	91.507

Fixed asset items	Book values	
	1.1.2018 KEUR	12/31/2018 kEUR
I. Intangible Assets		
1. Goodwill	0	6,096
2. Capitalized development effort	546	319
3. Other intangible assets	1,208	5,912
	1,754	12,327
II. Tangible assets		
1. Land, leasehold rights and buildings including buildings on third-party land	43,330	42,069
2. Technical systems and machines	13,130	15,919
3. Other equipment, factory and office equipment	9,920	10,659
4. Advance payments made on property, plant and equipment	357	482
	66,737	69,129
III. Financial assets		
1. Shares in companies valued at equity	1,073	0
2. Other financial assets	5,006	5
	6,079	5
	74,570	81,461

DEVELOPMENT OF GROUP FIXED ASSETS 2017 AS PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

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Fixed asset items	Book values	
	1.1.2017 KEUR	12/31/2017 KEUR
1. Shares in companies valued at equity	1,012	1,073
2. Other financial assets	5	5,006
	1,017	6,079
	59,428	74,570

<sup>(1)</sup> Contains the pro-rata annual result (including changes from the elimination of intercompany profits) less the dividend distribution of the investment valued at equity.

<sup>(2)</sup> The access relates to time deposits at banks with terms of more than 1 year.

## Notes to the consolidated financial statements for the 2018 financial year

### OF MASCHINENFABRIK BERTHOLD HERMLE AG, GOSHEIM

#### (1) General principles

Maschinenfabrik Berthold Hermle AG, which is based in Gosheim, Industriestrasse 8-12, Germany, and is entered in the commercial register at the Stuttgart District Court, HRB 460397, is the ultimate parent company of the Hermle Group. Maschinenfabrik Berthold Hermle AG and its subsidiaries produce and sell high-precision milling machines and machining centers.

The consolidated financial statements of Maschinenfabrik Berthold Hermle AG were prepared in accordance with the International Financial Reporting Standards (IFRS), as they are to be applied in the European Union (EU), and the commercial law provisions to be observed in accordance with Section 315e of the German Commercial Code. All standards, interpretations and interpretations that were mandatory on the balance sheet date were taken into account.

The financial statements of the companies included in the consolidated financial statements are drawn up according to uniform accounting and valuation principles as of December 31, 2018.

In order to improve the clarity of the presentation, some items of the balance sheet and the income statement have been combined. These are shown and explained separately in the notes. The profit and loss account is prepared using the total cost method. The group currency is the euro. The information is given in thousands of euros, unless otherwise stated.

The Management Board of Maschinenfabrik Berthold Hermle AG approved the consolidated financial statements on March 29, 2019 for submission to the Supervisory Board. The supervisory board has the task of examining the consolidated financial statements and declaring whether it approves the consolidated financial statements.

#### (2) New and amended standards / interpretations

For the 2018 financial year, the IFRS were used as a basis, and their application is mandatory for financial years beginning on January 1, 2018.

The following standards and interpretations had to be observed for the first time in the current financial year:

IFRS 9:	Financial instruments
IFRS 15:	Revenue from contracts with customers and clarifications to IFRS 15
IFRS 2:	Classification and evaluation of share-based payments (changes)
IFRS 4:	Application of IFRS 9 Financial Instruments and IFRS 4 Insurance Contracts (amendments)
IAS 40:	Transfer of Investment Property (Changes)
IFRIC 22:	Transaction in foreign currency and consideration paid in advance
IFRS 2014-2016:	IFRS 1, IAS 12 and IAS 28 (amendments)

#### Regarding IFRS 9:

IFRS 9 "Financial Instrument" will be applied for the first time in the 2018 financial year. The standard replaces the provisions of IAS 39 "Financial Instruments: Recognition and Measurement" with regard to the recognition, classification and measurement of financial assets and financial liabilities, the derecognition of financial instruments, the impairment of financial assets and the accounting for hedging relationships. The first-time application of IFRS 9 on January 1, 2018 resulted in changes to the accounting methods and adjustments to the amounts recognized in the financial statements. In accordance with the transitional provisions, comparative information has not been adjusted retrospectively.

Differences between the carrying amounts of financial assets and financial liabilities due to the first-time application of IFRS 9 are recognized in retained earnings as of January 1, 2018.

The effects of the transition to IFRS 9 in the opening balance sheet as of January 1, 2018 can be shown as follows:

	Reduction in impairment as of January 1, 2018
in EUR thousand	
Trade receivables and other receivables	652
	652
in EUR thousand	
Group equity	511
Deferred tax liabilities	141
	652

Significant effects of the new standard result from the application of the new concept for recording impairments for financial assets, in particular for trade receivables.



The first-time application of IFRS 9 with regard to financial liabilities and derivative financial instruments did not have any material impact on the Group's accounting methods.

In detail, the first-time application of IFRS 9 at Hermle leads to the following significant changes:

#### Classification

IFRS 9 introduces a uniform model for the classification and measurement of financial assets. Financial assets are classified into the following three categories: 1. Financial assets that are measured at amortized cost, 2. Financial assets that are measured at fair value through profit or loss and 3. Financial assets that are measured at fair value through profit or loss. The classification is based on the company's business model for managing financial assets and the characteristics of the contractual cash flows.

Under IAS 39, financial assets are divided into loans and receivables, available-for-sale financial assets and financial assets that are measured at fair value through profit or loss.

The classification of financial liabilities according to IAS 39 is largely retained by IFRS 9.

The measurement categories and book values of financial assets and liabilities according to IAS 39 as well as the new measurement categories and book values of these financial assets and liabilities according to IFRS 9 can be found in the following table.

The reconciliation of the book values of financial assets and liabilities according to IAS 39 as of December 31, 2017 to the book values according to IFRS 9 as of January 1, 2018 is shown below.

in EUR thousand	Carrying amount as of December 31, 2017 (IAS 39)	Reclassification	Revaluations	Carrying amount as of January 1, 2018 (IFRS 9)
Financial instruments measured at amortized cost (previously loans and receivables)				
Other financial assets	5,001	0	0	5,001
Other long-term assets	49	0	0	49
Requests from deliveries and services	61,162	0	652	61,814
Other short-term receivables	875	0	0	875
Securities and other investments	10,002	0	0	10,002
Means of payment	103,390	0	0	103,390
total	180.479	0	652	181.002
Available-for-sale financial assets				
Other financial assets	5	-5	0	0
total	5	-5	0	0
in EUR thousand	Carrying amount as of December 31, 2017 (IAS 39)	Reclassification	Revaluations	Carrying amount as of January 1, 2018 (IFRS 9)
Financial assets held for trading				
Securities and other investments	12,116	-12,116	0	0
other assets	730	-730	0	0
total	12,846	-12,846	0	0
Financial assets measured at fair value without affecting income				
Other financial assets	0	5	0	5
other assets	0	453	0	453
total	0	458	0	458
Financial assets measured at fair value through profit or loss				
Securities and other investments	0	12,116	0	12,116
Other assets	0	277	0	277
total	0	12,393	0	12,393
total	193,330	0	652	193,982

#### Depreciation

IFRS 9 introduces an impairment model which, in contrast to IAS 39, is not based on credit losses that have occurred, but on expected credit losses. It is applicable to all financial assets (debt instruments) that are either measured at amortized cost or at fair value with no effect on income.

In accordance with IAS 39, these instruments were examined to determine whether there were any objective indications of impairment (loss model). Objective indications could be significant financial difficulties of the debtor, significant changes in the technological, economic and legal environment, as well as the market environment of the debtor. Under IFRS 9, the new approach also includes expectations about the future.

In the Hermle Group, trade receivables are predominantly affected by the new impairment model. Hermle applies the concept of "lifelong loan defaults" to all trade accounts receivable.

The new impairment model resulted in the following changes in impairment:

in EUR thousand	
Value adjustment as of December 31, 2017 in accordance with IAS 39	5,987
Reduction of the impairment loss as of January 1, 2018 to:	
Trade accounts receivable and other receivables and other assets	-652

in EUR thousand

Value adjustments as of January 1, 2018 in accordance with IFRS 9

5,335

As of January 1, 2018, as part of the initial application of IFRS 15, no additional trade receivables or contract assets for which an allowance had to be made were recognized.

#### Accounting for hedging transactions

Hermle will apply IFRS 9 to accounting for hedging transactions from January 1, 2018. The changes that are decisive for Hermle concern the scope of possible underlying and hedging transactions as well as the regulations on the effectiveness of hedging relationships.

If the requirements of IFRS 9 for hedge accounting are met, Hermle designates and documents the hedge as a fair value hedge or cash flow hedge from this point in time. The hedging relationship corresponds to the goals and strategy of risk management. Hermle uses a qualitative and future-oriented approach to assess the effectiveness of the hedging transactions.

Hermle currently only uses forward exchange transactions as hedging transactions.

Hedging relationships in hedge accounting in accordance with IAS 39 can be continued under IFRS 9. All hedge relationships at Hermle designated as of December 31, 2017 in accordance with IAS 39 meet the criteria for accounting for hedging transactions under IFRS 9 as of January 1, 2018 and are therefore regarded as ongoing hedging relationships.

In accordance with IAS 39, these were valued at fair value. Changes in the value of fair value hedges were recognized immediately in profit or loss. Changes in the value of cash flow hedges were recognized with no effect on income, eliminating the ineffective part and taking deferred taxes into account. This accounting for the hedging transactions used at Hermle is not changed by IFRS 9.

#### To IFRS 15:

IFRS 15 "Revenue from Contracts with Customers" replaces the standards IAS 18 "Sales Revenue", IAS 11 "Construction Contracts" and IFRIC 13 "Customer Loyalty Programs". The new standard provides for a five-stage revenue recognition model that is to be applied to all contracts with customers. The model defines when and in what amount sales revenue is to be recognized.

Hermle applies IFRS 15 using the modified retrospective method. Any accumulated adjustment amounts will be recognized as of January 1, 2018. Comparative information for 2017 has not been adjusted due to the transitional provisions. Disclosure requirements under IFRS 15 were not applied to comparative information.

The Hermle Group provides its services primarily through the sale of goods, in particular machine tools, accessories and spare parts. In addition, related services such as repairs, overhauls, maintenance and training are provided.

Contracts with customers for the sale of goods contain only a small amount of ancillary services that, according to the principles of IFRS 15, can be assessed as separate performance obligations. These concern guarantee services beyond the statutory guarantee periods as well as training. Incidentally, Hermle comes to the conclusion that the sales contracts usually include a uniform performance obligation with a uniform realization time of the sales. In these cases, the revenue is recognized at the point in time at which control of the asset is transferred to the customer.

In principle, there are country-specific, statutory warranties in connection with the sales contracts, which are also taken into account after the application of IFRS 15 as previously in accordance with IAS 37 on the formation of provisions. In addition, Hermle offers extended warranties, which are to be assessed as separate performance obligations and to which a standalone selling price can be assigned. In accordance with IFRS 15, sales are realized pro rata when the warranty period expires. According to IFRS 15, this revenue component leads to revenue at a later point in time than was previously the case.

Training services that were agreed in a contract for the sale of machines have already been delimited, and sales were only recognized after the training service had been provided. In the transition from IAS 18 to IFRS 15, therefore, only one reclassification was necessary.

Revenue for services was recognized in accordance with IAS 18 when the service was provided. Hermle assumes that in most service contracts, sales in accordance with IFRS 15 will be realized at the time the services are provided. In the case of contracts that contain various performance obligations, the allocation is made on the basis of the individual selling prices at which the services are also offered in separate transactions. The stand-alone selling prices also correspond to the fair value of the service components.

According to IFRS 15 there are also changes in connection with customer prepayments. Previously, customer payments were only recorded in the balance sheet when the payment was received. According to IFRS 15, the customer payment is recorded as a liability when the payment is made or becomes due (whichever of the two occurs earlier).

The application of IFRS 15 led to the following major adjustments to the balance sheet values as of January 1, 2018:

	Effects from the application of IFRS 15 as of January 1, 2018
in EUR thousand	
Deferred tax assets	399
Other short-term receivables	
Customer receivables from down payment invoices	4,759
Group equity	-93
Deferred tax liabilities	364
short time provision	-1,377
Other current liabilities	
Contractual debt from down payment invoices	4,759
Contract liabilities (guarantee and training)	2.165
Other liabilities	-660

The application of IFRS 15 resulted in the following significant effects in the 2018 financial year compared to the application of IAS 18:

	Effects from the application of IFRS 15 as of December 31, 2018
in EUR thousand	

	Effects from the application of IFRS 15 as of December 31, 2018
in EUR thousand	
Sales	-136
other operational expenses	-270
Taxes	107
Result after taxes	-299
Group equity	-392
Deferred tax assets	435
Other provisions	-1,106
Deferred tax liabilities	293
Contract liabilities (guarantee and training)	2,382
Other current liabilities	-742
Customer receivables from down payment invoices	3,568
Contractual debt from down payment invoices	3,568

The first-time application of the other standards and interpretations had no effects on the consolidated financial statements, as Hermle did not need to change the accounting and valuation methods.

The following new standards and interpretations, which have already been adopted by the European Union, have not yet come into force and have not yet been taken into account in the financial statements:

IFRS 16:	Leasing contracts
IFRS 9:	Financial assets with negative early repayment penalties (change)
IFRIC 23:	Uncertainty regarding income tax treatment
IAS 19:	Plan change, reduction or compensation
IAS 28:	Long-term shares in associated companies and joint ventures (changes)
IFRS 2015-2017:	IFRS 3, IFRS 11, IAS 12 and IAS 23 (amendments)

#### On IFRS 16:

The Hermle Group will not apply the new IFRS 16 "Leases" until the 2019 financial year. The standard provides that both finance and operating leases are to be shown in the balance sheet.

According to the uniform model for accounting for non-negligible leasing contracts with a term of more than twelve months, the lessee must post a lease liability in the amount of the present value of the future lease payments and capitalize a right to use the leased item in the same amount. While the lease liability develops according to the effective interest method, the right of use is amortized over the term of the lease agreement.

The new standard means that previously unrecognized rental and leasing relationships will in future have to be recognized in the balance sheet, comparable to the current accounting for finance leases. As of December 31, 2018, the future, undiscounted minimum lease payments from existing real estate, vehicle and other rental contracts amount to EUR 1,186 thousand (see (29)). Increasing the balance sheet total by this undiscounted amount would only reduce the equity ratio marginally. Due to the low rental and leasing volume, EBITDA will only increase slightly. In this respect, the effects of IFRS 16 on the Hermle Group are not material.

With regard to the other standards, it is not expected that there will be any material effects on the consolidated financial statements.

In addition, the following new or amended standards and interpretations exist that have been issued by the IASB but have not yet been recognized by the European Union. These standards and interpretations were not applied early:

Framework concept:	Changes to the references in various standards to the framework concept
IFRS 3:	Change the definition of business operations
IAS 1 and IAS 8:	Establishing a definition of materiality
IFRS 17:	Insurance contracts

It is not expected that these standards will have a material impact on the consolidated financial statements.

#### (3) Scope of consolidation

All subsidiaries and joint ventures of Maschinenfabrik Berthold Hermle AG are included in the consolidated financial statements. Subsidiaries are companies that are directly controlled and fully consolidated by Maschinenfabrik Berthold Hermle AG. Joint ventures are companies over which joint management is exercised with other companies and which are included in the consolidated financial statements at equity. The analysis of whether there is a subsidiary or a joint venture is carried out on the basis of the corporate governance structures and any existing additional agreements.

The scope of consolidation is shown in the following table:

society	Type of consolidation	Participation rate
Domestic segment		
Hermle + Partner Vertriebs GmbH, Gosheim	Full	100.0%
Hermle-Leibinger Systemtechnik GmbH, Gosheim	2018 full	100.0%
	Previous year at equity	49.0%
Hermle Maschinenbau GmbH, Gosheim	Full	100.0%
Foreign sales segment		
Hermle (Schweiz) AG, Neuhausen, Switzerland	Full	100.0%
Hermle WVE AG, Neuhausen, Switzerland	Full	99.8%

society	Type of consolidation	Participation rate
Hermle Vostok OOO, Moscow, Russia	Full	99.8%
Hermle Nederland BV, Blerick, Netherlands	Full	100.0%
Hermle Italia SRL, Rodano, Italy	Full	100.0%
Hermle USA INC. (formerly Hermle Machine Co. LLC), Franklin Wisconsin, USA	Full	100.0%
Hermle Uljanovsk OOO, Uljanovsk, Russia	Full	100.0%

The scope of consolidation remained unchanged compared to the previous year. Due to the acquisition of all shares from the co-shareholders of Hermle-Leibinger Systemtechnik GmbH (HLS) retrospectively as of January 1, 2018, HLS remained in the scope of consolidation, but the company was fully consolidated in the 2018 financial year, while in the previous year it was consolidated using the equity method was carried out.

#### Acquisition of shares in HLS

With effect from January 1, 2018, Maschinenfabrik Berthold Hermle AG took over the remaining 51% of the shares in HLS from the previous co-shareholders. Since January 1, 2018, Hermle AG has been entitled to 100% of the shares and all voting rights in Hermle-Leibinger Systemtechnik GmbH. The company, which was previously included in the consolidated financial statements at equity, will be fully consolidated from the 2018 financial year. Thanks to the complete takeover, Hermle will be able to act more flexibly in the important area of automation and further expand the product range of configurable automation solutions. Hermle AG expects

The purchase price for the 51% of the shares taken over amounted to EUR 6,245 thousand and was paid in full through the transfer of cash in the reporting period. There are no further contingent considerations. Costs directly related to the company acquisition in the amount of EUR 24 thousand were recognized in other operating expenses. Cash in the amount of EUR 3,464 thousand was acquired.

The individual assets and debts acquired were recognized at fair value and were as follows at the time of acquisition:

	T-EUR
financial assets	
Intangible assets	5,087
Property, plant and equipment	102
Requests from deliveries and services	728
Other short-term receivables	31
Securities and other investments	466
Means of payment	3,464
Deferred tax claims	10
	9,888
Debt	
Tax provisions	130
Other provisions	1,256
liabilities from goods and services	208
Other current liabilities	801
Deferred taxes	1,344
	3,739
Net worth	6,149

The residual value method was used to determine the fair value of the intangible assets.

The fair value of the trade receivables amounts to EUR 728 thousand, the gross amount of the trade receivables to EUR 728 thousand. None of the trade receivables was impaired and the entire contractually agreed amounts have now been reduced fully collected.

As a result of the acquisition, the goodwill was recognized as follows:

	T-EUR
Consideration Transferred	6,245
Fair value of the previously held share in HLS	6,000
Fair value of the identifiable net assets	-6,149
Company Value	6,096

The revaluation at the fair value of the existing 49% stake in HLS led to a profit of EUR 4,927 thousand (EUR 6,000 thousand less EUR 1,073 thousand equity book value of HLS). This amount was recognized in profit or loss within the financial result.

The goodwill results mainly from the skills and technical talent of the HLS workforce as well as the increasing business volume of HLS from expected synergy effects through further integration into the Hermle Group. The capitalized goodwill is not tax deductible.

Since January 1, 2018, HLS has generated external sales of EUR 0 thousand at group level. With services to Hermle AG, HLS achieved an annual surplus of EUR 811 thousand in the individual financial statements under commercial law.

#### (4) Consolidation principles

Capital consolidation is carried out in accordance with IFRS 3 ("Business Combinations") using the purchase method. According to this, the acquisition costs of the shares acquired are offset against the fair value of the acquired assets and liabilities of the subsidiary at the time of acquisition. Any positive difference that arises is capitalized as derivative goodwill; any negative difference that arises is immediately released to income. Any goodwill that arises is subjected to an impairment test at least once a year.

In the previous year, jointly controlled companies were accounted for using the equity method in accordance with IFRS 11. On each balance sheet date, the Group checks whether there are any indications that an impairment loss must be taken into account with regard to the investment in the jointly managed company.

Intercompany results between the fully consolidated companies are - if material - eliminated. Expenses and income as well as receivables and liabilities between group companies are offset.

In the previous year, intercompany results between the Group and companies included using the equity method - insofar as they are material - were proportionally eliminated.

For the shares of non-group shareholders in group companies, an adjustment item for shares of other shareholders has been created in the amount of their share in equity. In addition to the shares of third parties in the capital and reserves, this amount also includes the proportionate balance sheet profit.

#### (5) Currency conversion

The annual financial statements of the consolidated companies prepared in a foreign currency are converted on the basis of the functional currency concept using the modified closing rate method. Since all companies included in the consolidated financial statements operate their business independently from a financial, economic and organizational point of view, the functional currency is basically identical to the company's respective national currency. Therefore, in the consolidated financial statements, assets and liabilities are translated at the rate on the reporting date, equity items at historical rates, and expenses and income at the annual average rate.

In the financial statements of the individual group companies, monetary items in foreign currency are generally converted at the rate on the reporting date. The resulting currency gains or losses are recognized immediately in profit or loss. Currency conversion differences from the conversion of balance sheet items of foreign permanent establishments are generally recognized in profit or loss.

The following exchange rates were used to convert the main foreign currency financial statements:

	Closing rates		Average rates	
	December 31, 2018	December 31, 2017	2018	2017
€ / US \$	1.1450	1.1993	1.1793	1.1766
€ / SFR	1.1269	1.1702	1.1877	1.1163

#### (6) Accounting and valuation principles

##### ACTIVE ITEMS

##### Intangible assets and property, plant and equipment

In accordance with IAS 38, intangible assets are valued at acquisition cost less scheduled depreciation. The cost of intangible assets acquired in a business combination corresponds to the fair value at the time of the business combination.

Acquired goodwill is capitalized and subjected to an annual impairment test. If a need for value adjustment is determined, a write-down is made.

Internally generated intangible assets from which the Group will most likely receive future benefits and whose costs can be reliably determined are capitalized at manufacturing costs. The manufacturing costs include all costs directly attributable to the manufacturing process and appropriate parts of the associated overheads. Financing costs are not capitalized. Research and development expenses that cannot be capitalized are treated as current expenses when they arise. Development costs for new or significantly improved products are capitalized as long as the technical feasibility as well as the marketability and intent are ensured. Evidence for the criteria mentioned is provided with the technical testing of the new products in-house and the successful presentation to test customers. Capitalized developments are amortized on a straight-line basis over an expected product life cycle of three to four years, beginning with the public presentation, and are checked annually by means of an impairment test.

Property, plant and equipment is valued on the basis of acquisition and production costs, reduced by scheduled depreciation in accordance with the normal useful life. Scheduled depreciation is carried out in accordance with the expected consumption of future benefits. The internal work was accounted for with the directly attributable costs plus a proportion of overheads. Repair and maintenance costs as well as finance costs are recognized as current expenses.

Scheduled depreciation is based on the following uniform Group useful lives:

Industrial property rights and similar rights	3 to 5 years
Development costs	3 to 4 years
Technical know-how	ten years
building	12 to 50 years
Technical systems and operating devices	3 to 14 years
Other fixtures and fittings	3 to 14 years

There are no assets with an indefinite useful life - apart from goodwill.

##### Impairment test

The intrinsic value of the fixed assets is checked regularly on the balance sheet date. A review also takes place if circumstances indicate that the value could be reduced. Extraordinary depreciation is carried out if, as a result of changed circumstances, there is an expected permanent impairment. The recoverability is determined by comparing the book value of the respective asset with the recoverable amount. The recoverable amount corresponds to the higher value from the use or sale of the asset concerned. If this has fallen below the book value, an impairment loss is made. If the fair value of an asset that has previously been subject to unscheduled depreciation increases, the value is reversed. Goodwill is excluded from the reversal.

Goodwill is also subjected to an impairment test annually or if there are indications. The goodwill plus the allocated pro rata book value is compared with the realizable value in use, derived from the discounted free cash flow of the company's cash-generating units. This calculation is based on a planning period of several years. 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 sector.

Basic assumptions for the calculation of the fair value less costs to sell relate to the discount rates and the growth rate on which the extrapolation of the cash flow forecasts for the multi-year plan was based.

##### Discount rates

The discount rates represent the current market assessments with regard to the risks assigned to the cash-generating units. The interest rate 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 6.71% was used to calculate the fair value.

**Sensitivity of the assumptions made**

As part of the impairment test, scenario analyzes were created with different assumptions. Both an interest rate increase of 100 basis points and a deterioration in the EBIT margin of up to 2% lead to the book value exceeding the fair value of a good 0.5 million euros or 1.25 million euros.

**Financial assets**

The financial assets basically include other financial assets in the form of time deposits or comparable financial assets with a term of more than one year, which are recognized at amortized cost. The previous year also included shares in companies valued at equity.

**Other long-term assets**

The other non-current assets essentially include unsecuritized receivables that are recognized at amortized cost. If necessary, impairments are recognized in profit or loss in accordance with IFRS 9.

**Stocks**

Raw materials and merchandise are generally valued at average acquisition cost or the lower net realizable value. Work in progress and finished goods are valued at production cost or the lower net realizable value. In addition to the directly attributable costs, the production costs include the appropriate and necessary production and material overheads as well as the related administrative costs that are subject to capitalization based on normal capacity utilization. Finished products are valued at standard cost. Sufficient devaluations to the lower net realizable value are made for stocks that are stored for a longer period of time and in the event of reduced usability or for loss-free valuation. If the reasons no longer apply, these will be made up again. Interest on borrowed capital is not taken into account.

**Trade receivables and other short-term receivables**

Trade receivables and other short-term receivables are reported at amortized cost or the lower applicable value. Possible and recognizable default risks with individual receivables are taken into account by means of appropriate individual value adjustments.

The determination of the value adjustments for doubtful receivables is based on discretionary decisions and assessments of individual receivables, in which, in addition to the creditworthiness and default of payment of the respective customer, current economic developments, current business developments, country-specific circumstances, past experience etc. were taken into account. Interest-free or low-interest receivables and assets with terms of more than one year are shown at their present value.

**Financial instruments**

Financial instruments are contracts that lead to a financial asset for a company and a financial liability or an equity instrument for the contractual partner.

**Before January 1st, 2018:**

Financial instruments are accounted for in accordance with IAS 39 "Financial Financial Instruments: Recognition and Measurement". In accordance with IAS 39, financial instruments were assigned to the following categories upon acquisition:

Loans and receivables Financial assets

- financial assets held to maturity
- financial assets held for trading
- available-for-sale financial assets

Financial liabilities that are valued at amortized cost

Financial liabilities that are measured at fair value through profit or loss

**Original financial instruments**

Financial assets that were not held for trading purposes were generally recognized at amortized cost less any impairments (loans and receivables). Allowances for bad debts, especially for trade receivables, were made depending on the probability of full or partial realizability. The value adjustments were based to a large extent on assessments and assessments of individual receivables, which, in addition to the default in payment and the creditworthiness of the respective customer, were based on current economic developments and assessments of further developments. Receivables were finally written off,

Financial assets held to maturity were valued at amortized cost. These financial instruments only occurred in isolated cases in the Hermle Group and were of no material significance.

Financial assets held for trading were measured at fair value. The fair value was the amount that could be achieved in business transactions between independent contractual partners under current market conditions.

Available-for-sale financial assets are reported at fair value. Mainly securities fell into this category. Changes in the fair value were recognized in other comprehensive income, taking deferred taxes into account. If the fair value was permanently or significantly below the book value, the impairment was recognized in profit or loss. In addition, changes in fair value at the time of the sale were recognized through profit or loss.

Financial liabilities measured at amortized cost essentially comprised trade payables. The approach on the balance sheet date was accordingly made at the nominal value including sales tax or at the higher fair value.

Financial liabilities that were valued at fair value through profit or loss only occurred in individual cases in the Hermle Group and were therefore of no material significance.

IAS 39 only permitted reallocations between certain categories of financial instruments in strictly defined exceptional cases. There were no reallocations of financial instruments in the previous year.

If the reasons for the previous unscheduled depreciation no longer exist, corresponding write-ups were made up to a maximum of the original acquisition cost.

**From January 1st 2018:**

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

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

Financial assets, with the exception of trade receivables without a significant financing component, or financial liabilities are initially measured at fair value. For items that are not assigned to the category at fair value through profit or loss in the following, transaction costs that are directly attributable to the acquisition or issue are recognized as incidental acquisition costs. Trade accounts receivable without a significant financing component are initially valued at the transaction price (this generally corresponds to the acquisition costs).

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 defined at the portfolio level and is based on the intention of management and the transaction patterns of the past. The payment flows are checked on the basis of the individual instruments.

According to IFRS 9, financial assets are classified into the following three categories:

1. Financial assets that are valued at amortized cost,
2. Financial assets that are valued at fair value with no effect on income and
3. Financial assets that are measured at fair value through profit or loss.

#### **Financial assets that are valued at amortized cost**

Financial assets measured at amortized cost are non-derivative financial assets with contractual payments that consist exclusively of interest and principal payments on the outstanding nominal amount and that are held with the aim of collecting the contractually agreed cash flows, such as B. Trade accounts receivable or cash and cash equivalents ("Hold" business model).

Cash and cash equivalents can in particular include cash on hand, checks, sight deposits at banks, as well as bonds and certificates of deposit with a remaining term of up to three months at the time of acquisition that are only subject to insignificant risk of fluctuations in value. Cash and cash equivalents correspond to the cash funds in the consolidated cash flow statement.

After initial recognition, these financial assets are valued at amortized cost using the effective interest method less impairments. Profits and losses are recognized in profit or loss when the loans and receivables are impaired or derecognized.

The interest effects from the application of the effective interest method and effects from currency translation are also recognized in profit or loss.

#### **Financial assets that are measured at fair value without affecting profit or loss**

Financial assets that are measured at fair value with no effect on income are non-derivative financial assets with contractual payments that consist exclusively of interest and principal payments on the outstanding nominal amount and that are held with the aim of collecting the contractually agreed cash flows as well as sales for example to achieve a defined liquidity target (business model "hold and sell"). This category also includes equity instruments that are not held for trading and for which the option to record changes in fair value in other comprehensive income was exercised.

After the initial valuation, financial assets in this category are valued at fair value with no effect on income, with unrealized gains or losses being recognized in other comprehensive income. When debt instruments in this category are disposed of, the cumulative gains and losses from measurement at fair value recognized in other comprehensive income are recognized in profit or loss. Interest received from financial assets that are valued at fair value with no effect on income are generally recognized as interest income using the effective interest method. Changes in the fair value of equity instruments, that are valued at fair value with no effect on income are not recognized in profit or loss, but are transferred to retained earnings when they are disposed of. Dividends are recognized in profit or loss when the legal claim to payment arises.

#### **Financial assets that are measured at fair value through profit or loss**

Financial assets measured at fair value through profit or loss include financial assets whose cash flows do not consist exclusively of interest and redemption payments on the outstanding nominal amount. This also includes financial assets that were not assigned to either the "Hold" or "Hold and sell" business model.

This also includes shares or interest-bearing securities that were acquired with the intention of selling them in the short term. Profits or losses from these financial assets are recognized in profit or loss.

#### **Derivative financial instruments**

Hermle uses derivative financial instruments to hedge existing or planned basic operational transactions and the associated risks. Currently, forward exchange contracts are mainly used to hedge foreign currency risks. Derivative financial instruments such as currency forwards are recognized by Hermle AG at their fair value when they are first recorded. The fair values are also relevant for the subsequent valuation. Derivative financial instruments with a positive fair value are shown under other receivables, while those with a negative fair value are shown under other liabilities. In the context of hedge accounting, changes in the value of fair value hedges, which are used to hedge against fluctuations in the value of balance sheet items, as well as fluctuations in value of recognized underlying transactions are recognized in the income statement. Changes in the value of cash flow hedges are offset directly against the accumulated other equity with no effect on income, eliminating the ineffective part and taking deferred taxes into account.

The previous accounting treatment of the currency forwards used exclusively at Hermle in accordance with IAS 39 has not changed due to the application of IFRS 9 from January 1, 2018.

#### **Depreciation**

In principle, the model of expected credit defaults based on the concept of 12-month credit defaults is to be applied. The valuation over the entire term is to be used if the credit risk of a financial asset has increased significantly since its initial recognition on the reporting date. The valuation over the entire term must always be carried out for trade accounts receivable and for contractual assets without significant financing components.

The new impairment model is to be applied to financial assets that are measured at amortized cost or at fair value with no effect on income.

The impairments in the form of individual value adjustments take appropriate account of the expected default risks. Specific failures lead to the relevant receivable being written off. As part of the determination of the individual value adjustments, receivables for which there is a potential need for devaluation are examined for impairment and, if necessary, written down. The determination is based on estimates and assessments of individual claims. In addition to the creditworthiness and late payment of the respective customer, current and possible future economic and industry developments, country-specific risks and past experience are also taken into account.

The valuation allowances on other receivables under the general approach were calculated on the basis of ratings and default probabilities for a period of six months and reflect the short terms.

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

## LIABILITY ITEMS

### Provisions and liabilities

The tax provisions and other provisions take into account all identifiable legal and factual obligations and risks towards third parties on the balance sheet date that are based on past business transactions or events that are likely to lead to an outflow of resources in the future and can be reliably estimated. They are formed in the amount of their probable fulfillment amount and are not offset against any recourse claims. Long-term provisions are recognized at their settlement amount discounted to the balance sheet date if the interest effect resulting from discounting is significant.

Financial liabilities are generally carried at the repayment amount.

### Deferred taxes

Deferred taxes are reported for all temporary differences between the valuations in the IFRS balance sheet and the tax balance sheet of the individual companies as well as for consolidation measures affecting income. In addition, deferred tax assets are accounted for for tax reduction claims based on tax loss carryforwards, provided that future realizability is sufficiently assured. The tax rates used to calculate deferred taxes are the tax rates applicable or expected at the time of realization.

## PROFIT AND LOSS ACCOUNT

### Income and Expenses

Hermle has applied IFRS 15 "Revenue from Contracts with Customers" since January 1, 2018. For the effects of the first-time application of IFRS 15, please refer to the explanations under Section 2.

According to IFRS 15, sales are recognized as soon as the customer gains control of the power of disposal over the products. This is basically the case when the customer gains possession of the products. In addition, the resulting performance obligations must be identified for each contract. A contract or the sum of combined contracts can comprise several performance obligations, each of which is subject to its own regulations with regard to the amount and timing of revenue recognition.

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

In principle, there are country-specific, statutory warranties in connection with the sales contracts, which are also taken into account after the application of IFRS 15 as previously in accordance with IAS 37 on the formation of provisions. In addition, Hermle offers extended warranties, which are to be assessed as separate performance obligations and to which a standalone selling price can be assigned. In accordance with IFRS 15, sales are realized pro rata when the warranty period expires. In individual cases, Hermle grants extended guarantees of up to a total of 36 months compared to the statutory warranty periods (in Germany usually 24 months, abroad usually 12 months).

The training services are also assigned corresponding sales in the amount of the stand-alone selling price that is realized when the services are provided. Training services in connection with the sale of machines are generally provided up to two years after the machines have been delivered.

For most service contracts, sales are recognized in accordance with IFRS 15 at the point in time when the services are provided. In the case of contracts that contain various performance obligations, the allocation is made on the basis of the individual selling prices at which the services are also offered in separate transactions. The stand-alone selling prices also correspond to the fair value of the service components.

The sales for these performance obligations and the associated costs are recognized after the service has been performed.

According to IAS 18, sales revenues were posted at the point in time at which the products or goods were delivered or the services provided and the risk was transferred to the customer.

The sales are shown less discounts and price reductions.

Operating expenses are recorded when the service is delivered or when the service is used. We set up provisions for warranty obligations at the time the products are sold. Interest income and expenses are recorded in the appropriate period.

## EXPLANATIONS TO THE BALANCE SHEET

### (7) Fixed Assets

The development and distribution of fixed assets is shown in the fixed assets schedule.

The capitalized development costs from the development of new machine tool products are shown under intangible assets. At the end of the financial year they amounted to EUR 319 thousand (previous year: EUR 546 thousand). The research and development expenses immediately recognized as expenses amounted to T-Euro 13,941 (previous year T-Euro 12,677).

The other intangible assets include technical know-how, order backlog, patents, software, licenses and similar rights.

The additions in fiscal year 2018 include the following additions from the change in the scope of consolidation:

	T-Euro
Intangible assets	
Goodwill	6,096
Other intangible assets	5,087
	11,183
Property, plant and equipment	
Other equipment, factory and office equipment	102
	102



T-Euro  
11,285

An overview of the holdings held by Maschinenfabrik Berthold Hermle AG is shown under (3).

Summarized information for joint ventures included in the previous year that were individually immaterial:

	2018 T-Euro	2017 T-Euro
Share of earnings from continuing operations	0	428
Share in the result from discontinued activities	0	0
Share in other result	0	0
Share in the overall result	0	428
Aggregated book value as of December 31	0	1,073

#### (8) Other long-term assets

The item only includes profit sharing from life insurance companies.

#### (9) Inventories

The inventories break down as follows:

	12/31/2018 T-Euro	December 31, 2017 T-Euro
Raw materials and supplies	31,330	26,121
Work in progress, work in progress	19,512	18,300
Finished products and goods	15,498	15,879
Prepayments made for inventories	1,265	1,783
	67,605	62,083

The book value of the inventories stated at net selling price amounted to T-Euro 10,045 (previous year T-Euro 9,181). The increase in the value adjustment on inventories recognized in profit or loss in the financial year amounted to T-Euro 303 (previous year increase of T-Euro 510). Payments on account are shown net without sales tax.

#### (10) Trade receivables and other short-term receivables

	12/31/2018 T-Euro	December 31, 2017 T-Euro
Requests from deliveries and services		
To third parties	71,719	61,033
Against companies with which there is a participation relationship	0	129
	71,719	61,162
Other short-term receivables		
Derivative financial instruments	0	730
Tax Refund Claims	1,324	2,841
Prepaid expenses	778	818
Customer receivables from down payments	3,568	0
Remaining miscellaneous assets	1,170	1,015
	6,840	5,404
total	78,559	66,566

The trade receivables and other short-term receivables with a remaining term of more than one year amounted to T-Euro 2,130 (previous year T-Euro 1,468). The remaining receivables and other assets only had remaining terms of less than one year.

The derivative financial instruments reported under other current receivables are recognized at market value in accordance with IFRS 9 and IAS 39. They relate to both the so-called effective and ineffective part of the positive market values of currency hedging transactions in the context of accounting for hedging relationships in accordance with IFRS 9 or IAS 39. Insofar as they serve as fair value hedges for hedging purposes, the positive market values are shown in the balance sheet items of the assigned underlying transactions across from.

The remaining other assets also contain the main items of short-term receivables from suppliers from returns and short-term receivables from employees.

The following is a breakdown of the non-impaired trade receivables, classified according to overdue:

		Book value	From that:	From that:		
		Total	neither impaired nor overdue	not impaired and overdue in the following time bands		
		T-Euro	T-Euro	<3 months T-Euro	3-6 months T- Euro	6-12 months T- Euro
Requests from deliveries and services	December 31, 2018	71,719	43,356	12,114	3	0
Requests from deliveries and services	December 31, 2017	61,162	38,322	6,149	0	0

not impaired and  
overdue in the  
following time bands

not impaired  
overdue  
following time bands

Requests from deliveries and services

Requests from deliveries and services

With regard to the trade receivables that are neither impaired nor overdue, there are no indications as of the reporting date that the debtors will not meet their payment obligations.

The following table shows the change in the value adjustments on the balance of trade receivables and other short-term receivables:

	2018 T-Euro	2017 T-Euro
Value adjustment at the beginning of the financial year	5,987	6,064
Adjustment amount for transition to IFRS 9	-652	0
Amount recorded in the income statement in the reporting period	1,387	-100
Writing off receivables	-74	-191
Currency translation effects	77	+ 214
Value adjustments at the end of the financial year	6,725	5,987

The following table shows the expenses for the complete write-off of trade receivables and the income from the receipt of write-off trade receivables:

	2018 T-Euro	2017 T-Euro
Expenses for the complete write-off of receivables	76	474
Income from the receipt of written off receivables	0	9

### (11) Securities and other investments

In the year under review, time deposits with a term of more than three months in the amount of EUR 6,505 thousand (previous year: EUR 22,118 thousand) were reported under this item. The previous year also included bonds and commercial paper.

### (12) Means of Payment

The means of payment essentially relate to bank balances.

	12/31/2018 T-Euro	December 31, 2017 T-Euro
Bank balances	128,570	103.353
Cash on hand	26th	37
	128,596	103,390

### (13) Equity

The share capital is unchanged compared to the previous year and is divided into 4,000,000 ordinary shares and 1,000,000 non-voting preference shares. The preference shares carry an additional dividend of EUR 0.05. The arithmetical nominal value of the shares is EUR 3.00 per share.

The capital reserve contains transfers from the sale of own shares acquired in previous financial years on the stock exchange.

In the financial year, T-Euro 7,500 were added to the revenue reserves of Maschinenfabrik Berthold Hermle AG. In the previous year, T-Euro 6,000 was withdrawn from the revenue reserves.

A proposal will be made to the Annual General Meeting to convert the 2018 unappropriated profit of Maschinenfabrik Berthold Hermle AG of EUR 75,119 thousand to an amount of EUR 75,050 thousand by paying a dividend totaling EUR 15.00 per ordinary share and EUR 15.05 to be paid out per preference share and the remaining amount of T-Euro 69 to be carried forward to a new account.

In the 2018 financial year, a dividend totaling EUR 15.00 per ordinary share and EUR 15.05 per preference share was distributed for the 2017 financial year.

The differences from the currency conversion include the differences from the conversion of foreign subsidiaries.

The accumulated other equity contains the effects of the valuation of derivative financial instruments with no effect on income. In the 2018 financial year, expenses (previous year income) from the market valuation of derivative financial instruments that are attributable to cash flow hedges in the amount of EUR 112 thousand (previous year: EUR 500 thousand) were offset against equity with no effect on income. In addition, an amount of EUR 453 thousand (previous year: EUR 330 thousand) was withdrawn from equity and recorded as income (previous year expense) in the result for the period.

The development of equity and its components are shown in the statement of changes in equity.

### (14) Shares of other shareholders

The remaining position relates to the share in the equity of Hermle WWE AG due to the other shareholders.

### (15) Provisions

	As of 1.1.2018 T-Euro	Consumption T-Euro	Dissolution of T-Euro	Allocation of T-Euro	Other changes T-Euro	As of December 31, 2018 T-Euro
Tax provisions	4,464	4.136	95	3,747	137	4.117
Personnel provisions	16,011	15,548	173	18,066	1,280	19,636
Other provisions in sales and purchasing	23,649	13,121	1,322	17,973	-1,243	25,936

	As of 1.1.2018 T-Euro	Consumption T-Euro	Dissolution of T-Euro	Allocation of T-Euro	Other changes T-Euro	As of December 31, 2018 T-Euro
for other areas	969	738	61	827	18th	1,015
	24,618	13,859	1,383	18,800	-1,225	26,951
	45,093	33,543	1,651	40,613	192	50,704
dv. short time provision	43,570	33,384	1,633	40,224	80	48,889
dv. long-term provisions	1,523	159	18th	389	112	1,815

In the personnel area, the provisions essentially relate to vacation and flexitime provisions, provisions for partial retirement obligations and bonus payments. The sales and purchasing risks relate to warranties, goodwill and other subsequent services, purchase or repurchase obligations and a number of other purchasing and sales risks. In the remaining area, other open services and liabilities are shown, the reason and / or their final amount not yet determined.

As in the previous year, long-term provisions relate to personnel provisions, in particular for anniversary and partial retirement obligations.

The other changes included currency and interest rate effects totaling T-Euro 192 (previous year T-Euro -372). The effects from the compounding and from changes in the discount rate in the amount of T-Euro 35 (previous year: T-Euro 36) were accounted for by T-Euro 22 (previous year: T-Euro 19) on personnel provisions and T-Euro 13 (previous year: T-Euro 19). T-Euro 16) on other provisions. Furthermore, there were adjustment effects from the first-time application of IFRS 15 in the amount of EUR -1,377 thousand and changes in the scope of consolidation in the amount of EUR 1,386 thousand as of January 1, 2018.

### (16) Liabilities

The liabilities relate to:

	12/31/2018 T-Euro	December 31, 2017 T-Euro
Other long-term liabilities		
Derivative financial instruments > 1 year	0	0
Short-term trade payables		
to third parties	9,538	10,690
towards companies with which a participation relationship exists	0	728
	9,538	11,418
Other current liabilities		
Payments received	31,449	23,062
Contractual debt from down payment invoices	3,568	0
Contract liabilities	2,382	0
Derivative financial instruments	364	122
Tax liabilities	8,925	5,817
Social security liabilities	420	254
Other liabilities	6,845	6,065
	53,953	36,234
Breakdown of Liabilities		
after remaining terms		
up to 1 year	63,491	47,652
1 to 5 years	0	0
more than 5 years	0	0
	63,491	47,652

Customary retention of title applies to short-term trade payables.

In accordance with IFRS 9, the derivative financial instruments reported under other liabilities are recognized at market value. They relate to both the so-called effective and ineffective part of the negative market values of currency hedging transactions in the context of accounting for hedging relationships in accordance with IFRS 9. To the extent that they serve as fair value hedges for hedging purposes, the negative market values are offset by opposing increases in the balance sheet items of the underlying transactions.

The advance payments received are shown net without sales tax.

### EXPLANATIONS TO THE PROFIT AND LOSS ACCOUNT

#### (17) Sales

The sales break down regionally as follows:

	2018 T-Euro	2017 T-Euro
Federal Republic of Germany	186,802	168,211
Other countries	266,120	233,798
	452,922	402,009

The following table contains a reconciliation of sales in 2018 according to sales regions and product and service areas to the reportable segments:

	Domestic companies T-Euro	Foreign sales T-Euro	Group T-Euro
Sales areas			

	Domestic companies T-Euro	Foreign sales T-Euro	Group T-Euro
Federal Republic of Germany	186,802	0	186,802
Other length	85,432	180,688	266.120
total	272.234	180,688	452.922
Product and service areas			
Sales of machine tools, accessories and spare parts	259.334	173.020	432.354
Service and training services	12,900	7,668	20,568
total	272.234	180,688	452.922
Revenue from contracts with customers	272.234	180,688	452.922
Third party sales	272.234	180,688	452.922

The contract balances are as follows:

	12/31/2018 T-Euro	01/01/2018 T-Euro
Trade accounts receivable from third parties	71,719	61,685
Customer receivables from down payment invoices	3,568	4,759
total	75.287	66,444
Payments received	31,449	23,062
Contract liabilities	2,382	2.165
Contractual debt from down payment invoices	3,568	4,759
total	37,399	29,986

The advance payments received relate to advance payments received from customers for machine sales. The contractual liabilities essentially contain warranty and training services that have already been calculated but not yet provided.

The contractual debt from down payment invoices is due, not yet paid down payment invoices for which there is an unconditional claim to payment.

Contract assets do not exist.

In the 2018 financial year, sales of EUR 1,412 thousand were recorded, which were included in the contractual liabilities at the beginning of the financial year.

Hermle expects that amounts included in the contract liabilities as of December 31, 2018 in the amount of EUR 2,117 thousand will lead to sales in 2019 and the remaining amount in 2020.

#### (18) Other operating income

The other operating income relates to:

	2018 T-Euro	2017 T-Euro
Income from the release of provisions	1,540	1,950
Income from the reversal of value adjustments	3,037	3,007
Income from asset disposals	778	524
Currency gains from exchange rate differences and derivative financial instruments	0	1,268
Remaining other operating income	1,735	2,100
	7,090	8,849

The remaining other operating income includes, as essential components, income from renting and leasing, from passing on costs and compensation payments from insurance companies and other third parties.

#### (19) Cost of materials

The material costs relate to:

	2018 T-Euro	2017 T-Euro
Cost of raw materials and supplies		
and for purchased goods	180,658	166.029
Expenses for purchased services	8,605	14,320
	189,263	180.349

#### (20) Personnel Expenses

The personnel expenses include:

	2018 T-Euro	2017 T-Euro
Wages and salaries	91.164	74,614
social taxes	15,071	12,390
	106,235	87.004

As in the previous year, there were no pension expenses.

The average employed were:

	2018	2017
Wage earners	428	348
Employees	719	616
trainee	78	89
total	1,225	1,053

According to the resolution of the Annual General Meeting on July 6, 2016, the remuneration of the Management Board is not stated individually, but for the entire Management Board. The total remuneration of the board of management amounted to T-Euro 3,431. Of this, T-Euro 756 came from basic payments including the use of a car and direct insurance. It also included performance-related components in the amount of EUR 2,675 thousand. The total remuneration of the Supervisory Board amounted to T-Euro 80.

#### (21) Depreciation

The depreciation mainly relates to scheduled depreciation on intangible assets and property, plant and equipment. In the financial year, unscheduled depreciation in the amount of T-Euro 5 (previous year: T-Euro 54) was included.

#### (22) Other operating expenses

	2018 T-Euro	2017 T-Euro
Formation of allowances on accounts receivable	4,348	3,138
Currency losses	559	0
Remaining other operating expenses	40,071	39,228
	44,978	42,366

The remaining other operating expenses mainly relate to expenses for sales, service and administration, for rent and leasing installments as well as maintenance expenses for buildings, operating and office equipment. In addition, so-called cost taxes for vehicle and property taxes as well as foreign representative offices are included.

For the audit of the annual and consolidated financial statements of Maschinenfabrik Berthold Hermle AG, fees of the auditor of EUR 190 thousand (previous year: EUR 170 thousand) were recorded as expenses in 2018. In the 2018 financial year, as in the previous year, no amounts were charged for tax advisory services, other confirmation services and other services.

#### (23) Earnings from companies valued at equity

The result from companies valued at equity in the previous year in the amount of T-Euro 428 related to the proportionate income from the investment in Hermle-Leibinger Systemtechnik GmbH, which was then consolidated at equity.

#### (24) Other financial result

The remaining financial result breaks down as follows:

	2018 T-Euro	2017 T-Euro
Revaluation gain in connection with the acquisition of shares in HLS (see explanations under (3))	4,927	0
Other interest and similar income	298	308
Write-downs on securities and other investments	-131	-176
Interest and similar expenses	-270	-140
	4,824	-8th

The depreciation on securities and other investments relates to the time-dependent, interest-related depreciation of the fixed-income securities acquired above their nominal value up to the point of repayment.

In addition to external interest, interest expense relates to internal expenses from the compounding of short-term and long-term provisions as well as interest components from the difference between spot and forward rates of currency hedging transactions. Differences from spot and forward rates from currency hedging transactions are also included in the interest income.

#### (25) Income taxes

Income taxes relate to:

	2018 T-Euro	2017 T-Euro
Current taxes	30,619	25,868
Deferred taxes	-1,536	211
	29,083	26,079

The following table converts the calculated or expected to the actual income tax expense and explains the main differences in a summarized form:

	2018 T-Euro	2017 T-Euro
Earnings before income taxes	116,554	99,405
Calculated income tax in%	26.50%	26.50%
Calculated income tax	30,887	26,342
Tax-free income	-1,306	0
Non-deductible expenses	+ 192	+ 64
Other aperiodic taxes	+ 100	-121

	2018 T-Euro	2017 T-Euro
Change of tax rates	0	+ 197
Differences a. Tax rates / currency conversion	-810	-364
Loss carryforwards not taken into account	+ 20	-39
Total tax expense	29,083	26,079

The calculated income tax for domestic companies was calculated on the basis of a tax rate of 26.50% (previous year: 26.50%), the deferred taxes were calculated on the basis of a tax rate of 26.50% (previous year: 26.50%). The tax rate includes trade tax, corporation tax and solidarity surcharge.

The reported deferred tax assets and liabilities relate to the following balance sheet items:

	12/31/2018 T-Euro	December 31, 2017 T-Euro
Deferred tax assets		
Tax loss carryforwards	0	0
Consolidations	605	415
Capital assets	132	140
Inventories and Receivables	1,799	880
accruals	504	444
liabilities	0	0
Derivative financial instruments	96	32
Contract liabilities	435	0
total	3,571	1,911
Offsetting with deferred tax liabilities	0	0
total	3,571	1,911
dv. Offsetting in equity with no effect on income	30th	0
Deferred tax liabilities		
Capital assets	1,239	159
Inventories and Receivables	260	68
Securities	0	0
accruals	316	11
Derivative financial instruments	0	193
Others	3	0
total	1,818	431
Offsetting with deferred tax assets	0	0
total	1,818	431
dv. Offsetting in equity with no effect on income	0	120

The deferred tax assets are shown under the item long-term assets in the balance sheet, the deferred tax liabilities under the item long-term liabilities.

Tax loss carryforwards amounting to T-Euro 611 (previous year: T-Euro 536) have not been recognized due to uncertain realization possibilities.

#### (26) Earnings per share

	2018 T-Euro	2017 T-Euro
Annual surplus:		
Lt. Profit and Loss Account	87,471	73,326
Minority interests in the result	-3	-2
Result after minority interests	87,468	73,324
Accrued Preferred Dividends	-50	-50
Result after minorities and		
Preferential Dividends	87,418	73.274
Weighted average in pieces:		
Outstanding Common Stock	4,000,000	4,000,000
Preference Shares Outstanding	1,000,000	1,000,000
Sum of all share classes	5,000,000	5,000,000
Average weighted number of shares:	5,000,000	5,000,000
Basic earnings per share in euros:		
Per common share	17.48	14.65
Per preference share including dividend preference	17.53	14.70

The company owns a cumulative 0 (previous year: 0) of its own preference shares. There were no other changes in the equity instruments either. The preference shares receive an additional dividend of EUR 0.05 per share, which can be paid at a later date, compared to the ordinary shares. This additional share in the profit is initially reduced uniformly when calculating the earnings per share and only added again to the earnings per preferred share.

**(27) Cash flow statement**

The development of the cash flows and their effect on the fund of cash equivalents are shown in the cash flow statement. A distinction is made between cash flows from operating activities and from investing and financing activities. The cash flow from operating activities is determined using the indirect method, while the cash flow from investing and financing activities is determined on the basis of payments. Effects from currency translation and changes in the scope of consolidation are adjusted.

The cash and cash equivalents from cash on hand and credit balances at banks, as explained under (12), form the fund of cash equivalents.

Tax payments and interest payments are shown in full as cash outflows or inflows from operating activities. The cash flow from operating activities included cash flows from interest and other financial income of T-Euro 307 (previous year: T-Euro 316) and cash flows from taxes of T-Euro -25,079 (previous year: T-Euro -26,325).

**(28) Segment reporting**

For segment reporting, Hermle follows IFRS 8 "Operating Segments", which requires the division of the segments according to the "Management Approach". Information on the operating segments based on the internal organizational and management structure is then published. The key here is the internal financial reporting to the company's top management body, which is represented at Hermle by the Executive Board.

Against this background, this segment report is based on the segmentation corresponding to sales activities. The segments are divided into the homogeneous activities of the foreign sales companies and sales branches, which cover the function of authorized dealers and sales branches, and the remaining domestic companies, which report their results on an ongoing basis. The companies and branches are assigned to the segments according to their affiliation. The international sales segment includes the companies Hermle USA INC. (formerly Hermle Machine Company LLC), Hermle Nederland BV, Hermle Italia SRL, Hermle (Schweiz) AG,

Sales and services between the segments are offset on the basis of customary market conditions. Hermle measures the success of the segments primarily on the basis of the operating result.

Receivables and liabilities, provisions, income and expenses between the segments are eliminated in the consolidation effects column. The consolidation effects column also shows items that cannot be allocated to the segments mentioned. The segment reporting is based on the same accounting and valuation methods as in the consolidated financial statements. The assets of the segments generally include all assets, with cross-segment relationships being included in the Consolidations column. However, in the area of financial assets, all shares, participations and loans to companies are excluded from the assets,

Due to the customer structure and business activities of Hermle, there was no significant concentration on individual customers or regions in the reporting years.

**(29) Contingent Liabilities and Other Financial Commitments**

The following contingent liabilities and other financial obligations existed on the balance sheet date:

	12/31/2018 T-Euro	December 31, 2017 T-Euro
Contingent Liabilities		
Liability from cooperative shares	5	5
Other financial obligations		
Obligations from operational rental and leasing contracts		
due up to 1 year	451	334
due from 1 to 5 years	735	268
due after 5 years	0	0

**(30) Financial Instruments****Original financial instruments**

The following section contains further key explanations of the financial instruments on the balance sheet and their effect on the income statement in terms of IFRS 7. The following overviews show 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 effects of the first-time application of IFRS 9 on the consolidated financial statements are explained under (2). Due to the right to choose during the changeover, the comparative values have not been adjusted.

The valuations of the financial instruments according to valuation categories in accordance with IFRS 9 as of December 31, 2018 are as follows:

Balance sheet valuation according to IFRS 9						
	Book value December 31, 2018 EUR thousand	Amortized cost of EUR k	Fair value through profit or loss in k euros	Fair value with no effect on income in EUR thousand	Fair value 12/31/2018 EUR thousand	
assets						
Long-term assets						
Other financial assets	5			5		5
Other long-term assets	29	29				29
Short-term assets						
Requests from deliveries and services	71,719	71,719				71,719
Other current assets	4,504	4,504				4,504
Securities and other investments	6,505	6,505				6,505
Means of payment	128,596	128,596				128,596
	211,358	211,353		5		211,358
liabilities						
Long-term liabilities						

## Balance sheet valuation according to IFRS 9

	Book value December 31, 2018 EUR thousand	Amortized cost of EUR k	Fair value through profit or loss in k euros	Fair value with no effect on income in EUR thousand	Fair value 12/31/2018 EUR thousand
assets					
Financial liabilities	-				-
Derivative financial instruments	-				-
Short term liabilities					
liabilities from goods and services	9,538	9,538			9,538
Other liabilities	10,257	10,257			10,257
Derivative financial instruments	215		215		215

The valuations of the financial instruments according to valuation categories in accordance with IAS 39 as of December 31, 2017 are as follows:

## Balance sheet valuation according to IAS 39

## assets

	Book value 12/31/2017 EUR thousand	Amortized cost of EUR k	Fair value through profit or loss in k euros	Fair value with no effect on income in EUR thousand	Fair value 12/31/2017 EUR thousand
Long-term assets					
Other financial assets	5,006	5,001		5	5,006
Other long-term assets	49	49			49
Short-term assets					
Requests from deliveries and services	61,162	61,162			61,162
Other current assets	875	875			875
Derivative assets	730		277	453	730
Securities and other investments	22,118	-10,002	12,116		22,118
Means of payment	103,390	103,390			103,390
liabilities					
Long-term liabilities					
Financial liabilities	-				-
Derivative financial liabilities	-				-
Short term liabilities					
liabilities from goods and services	11,418	11,418			11,418
Other liabilities	6,055	6,055			6,055
Derivative financial liabilities	122		122		122
Of which, aggregated according to valuation categories in accordance with IAS 39:					
Loans and Receivables	180,479				
Available-for-sale financial assets	5				
Financial assets held for trading	12,846				
Financial liabilities that are valued at amortized cost	17,473				
Financial liabilities that are measured at fair value through profit or loss	122				

The net results of the financial instruments according to valuation categories are as follows for the 2018 financial year in accordance with IFRS 9:

	out Interest / dividends T-Euro	At fair value T-Euro	from subsequent reviews: Currency conversion T-Euro	Value adjustment T-Euro	from disposal T-Euro	2018 T-Euro
Financial assets Valued at amortized cost	303		-560	-1,311	-65	-1,632
Measured at fair value with no effect on income	0					0
Measured at fair value through profit or loss		-131				-131
Financial liabilities Valued at amortized cost	-235					-235
Measured at fair value through profit or loss		-35				-35
total	68	-166	-560	-1,311	-65	-1,998

The net results of the financial instruments according to valuation categories are as follows for the 2017 financial year in accordance with IAS 39:

	out Interest / dividends T-Euro	At fair value T-Euro	from subsequent reviews: Currency conversion T-Euro	Value adjustment T-Euro	from disposal T-Euro	2017 T-Euro
Loans and Receivables	93		1,150	-131	-617	495



	out		from subsequent reviews:				
	Interest / dividends	At fair value	Currency conversion	Value adjustment	from disposal	2017	
	T-Euro	T-Euro	T-Euro	T-Euro	T-Euro	T-Euro	
Available-for-sale financial assets	0						0
Financial assets held for trading	221	-176					45
Financial liabilities	-103	-36					-139
Financial liabilities that are measured at fair value							
total	211	-212	1,150	-131	-617		401

The net gains and losses from loans and receivables essentially include changes in value adjustments, currency conversions, income from incoming payments and reversals, and interest income.

The determination of the fair values of the financial instruments shown in the tables above is based on a fair value hierarchy that takes into account the importance of the input data used for the valuation and is structured as follows:

Level 1: prices quoted in active markets, adopted unchanged for identical assets and liabilities;

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

Level 3: input data used that are not based on observable market data for the measurement of the asset and liability (unobservable input data).

In the financial year and in the previous year, the fair values reported were determined exclusively according to level 2 of the fair value hierarchy.

### Derivative financial instruments and hedging strategies

#### Financial risk management

As of December 31, 2018, the Hermle Group had an above-average equity ratio of 68.3%. The stock of liquid funds and securities amounted to T-Euro 135,101 on the balance sheet date. The liquid funds and securities relate to debtors with generally good credit ratings. Due to these circumstances, the Hermle Group is not dependent on interest-bearing borrowed capital to finance replacement and expansion investments and the distribution of dividends. The Hermle Group is always careful to maintain sufficient financial reserves in order to be able to react quickly to any changes in the economic situation.

In the following, the financial risks are discussed insofar as they are significant for the Hermle Group.

#### Interest rate risks

Interest rate risks arise from investing liquid funds in the form of variable and fixed-interest investments. There are no further interest rate risks, especially since there is no interest-bearing debt. At the end of the year, cash and cash equivalents were mainly invested with remaining terms of less than one year, in some cases even with terms of up to three months and thus practically equated with variable interest rates.

An increase in interest rates of 0.5% over the term of one year would mean that the net interest income for the following year would increase by around EUR 0.3 million (previous year: EUR 0.3 million) for the liquid funds and securities held as current assets at the end of the year. Euro could improve. The risk of a deterioration in interest rates is increased because negative interest rates are also possible due to the ECB's policy. So far, we have only been affected by negative interest rates to a limited extent, however, in the event of an economic downturn, increased negative interest rates of up to 100% (previous year: 100% expectation) could be passed on to bank customers in 2019. But the risk is likely to be at the cost of the alternative cash withdrawal, i.e. custody fees and insurance premiums, in the amount of -0,

#### Default risks

There are no significant concentrations of default risks in the Hermle Group, as no end customer generates more than 10% of the Group's sales. In addition, the risk of default is further reduced by continuously monitoring the payment behavior of our customers and systematic receivables management.

Liquid funds are invested in securities or in the case of borrowers with a generally good credit rating, so that, from today's perspective, short-term default risks should not be assumed despite latent risks from the capital markets. In addition, rather short investment periods are currently chosen. The risk of default of completely overindebted states, which is indirect for us, if it occurs, cannot be assessed with regard to the probability of occurrence, but has increased over the past few years and can be assessed as "high" or "very high" in the medium term for individual states, particularly in the euro zone. Through the so-called "Stability Pact" and defined new indebtedness limits, countermeasures to limit the risk were introduced, but these only dampen new indebtedness and therefore have little effect on the accumulated debt level. In other countries, temporary exceptions have been granted repeatedly or recently the binding nature of rules has been disputed relatively openly, so that the guarantee of future compliance with the rules is increasingly in question. The maximum default risk results from the book value of the financial assets recognized in the balance sheet. However, they only dampen new debt and therefore have little effect on the accumulated debt level. In other countries, temporary exemptions were repeatedly granted or, recently, the binding nature of rules was disputed relatively openly, so that the guarantee of future compliance with the rules is increasingly in question. The maximum default risk results from the book value of the financial assets recognized in the balance sheet.

#### Liquidity risks

The Hermle Group has an above-average level of cash and cash equivalents. Current liquidity risks cannot be identified due to this fact, whereby the stability of the German banking system is assumed to be given (see explanations on default risks).

#### Exchange rate risks

Exchange rate risks exist in particular where receivables and liabilities exist in a currency other than the functional currency of the respective company or will arise in the form of future cash flows if business progresses as planned. The hedging of exchange rate risks relates to payment flows; Foreign currency risks that do not lead to cash flows are not hedged. These are, for example, risks from the conversion of the financial statements of foreign subsidiaries and permanent establishments into the group reporting currency, the euro.

The exchange rate risks of the Hermle Group essentially relate to the balance of trade accounts receivable in foreign currency and the inflow of cash in foreign currency. Derivative instruments are used at Maschinenfabrik Berthold Hermle AG to hedge against these currency risks. These serve to hedge the foreign currency receivables from

Group companies existing on the balance sheet date, which are generally hedged, and also to hedge cash flows that are not yet recorded on the balance sheet date but are pending or anticipated.

To present market risks, IFRS 7 requires sensitivity analyzes of the effects hypothetical changes in relevant risk variables have on the annual result and equity. As of December 31, 2018 and also as of December 31, 2017, all significant trade accounts receivable from Group companies in foreign currency at Maschinenfabrik Berthold Hermle AG were hedged using forward exchange transactions that were classified as fair value hedges. These closed currency positions result in compensatory effects in each case, so that there are no changes in equity and annual results.

A decrease in value of the main foreign currencies by 5% in 2018 would have resulted in income of EUR 0.3 million for the 2018 financial year (previous year: income of EUR 0.3 million), with a corresponding increase in value a loss of EUR 0.4 million. Euros (previous year loss of 0.4 million euros). A decrease in value of the main foreign currencies by 5% in 2018 would have resulted in a decrease in consolidated equity as of December 31, 2018 by EUR 0.4 million (previous year: decrease in EUR 0.4 million), with a corresponding appreciation of foreign currencies an increase of 0.4 million euros (previous year increase of 0.4 million euros).

The nominal volumes underlying the derivative financial instruments and their market values on the balance sheet date are listed in the following table:

	12/31/2018 T-Euro	December 31, 2017 T-Euro
Forward currency sales:		
Nominal volume	27,186	15,936
dv. Remaining term > 1 year	0	0
Positive market values	0	730
dv. Fair value hedges < 1 year	(0)	(271)
dv. Fair value hedges > 1 year	(0)	(0)
dv. Cash flow hedges < 1 year	(0)	(459)
dv. Cash flow hedges > 1 year	(0)	(0)
Negative market values	364	122
dv. Fair value hedges < 1 year	(107)	(43)
dv. Fair value hedges > 1 year	(0)	(0)
dv. Cash flow hedges < 1 year	(257)	(79)
dv. Cash flow hedges > 1 year	(0)	(0)

The market value corresponds to the profits and losses with a fictitious closing of the derivatives on the balance sheet date. The maximum default risk of derivative financial instruments corresponds to the sum of the positive market values. It concerns possible asset losses that can result from the non-fulfillment of contractual obligations of individual trading partners. To reduce this risk, derivative financial instruments are only entered into with banks of the creditworthiness described.

Changes in market values are generally recognized in profit or loss. If future planned cash flows in foreign currencies are effectively hedged within the meaning of IFRS 9, the rules of a cash flow hedge are applied. The market values of the corresponding hedging transactions are then initially offset against equity under the item "Cumulative other equity" with no effect on income and are only recognized in profit or loss when the underlying transaction is realized.

### (31) Estimates

Estimates flow into the valuation of trade accounts receivable, inventories and the determination of other provisions. In the case of the trade receivables shown in the balance sheet, these essentially relate to the probability of default for the individual debtors, in the case of inventories that have been in storage for a longer period of time or inventories with a lower turnover rate, the future usability and, in the case of the other provisions shown, both the probability of occurrence of events and assumed occurrences Settlement amounts, which, if possible, are determined on the basis of past experience.

### (32) Events after the balance sheet date

There were no events after the balance sheet date with a significant impact on the Hermle Group's earnings, financial and asset position.

As of January 1, 2019, Hermle AG's previous Hermle USA facility was transferred to Hermle Properties Inc. The company building located in Franklin, Wisconsin, will be held as the business purpose, which will remain unchanged at Hermle USA INC. (formerly Hermle Machine Co. LLC) is rented. This is not expected to have any material impact on the earnings, financial or asset situation.

### (33) Relationships with related companies and persons

In addition to the subsidiaries included in the consolidated financial statements and participations not included in the consolidated financial statements, members of the board of directors or supervisory board and shareholders with significant influence within the meaning of IAS 24 "Related Party Disclosures" can be considered. Relationships with this group of related companies and persons are handled at normal market conditions.

Related companies that are controlled by the Hermle Group or over which the Hermle Group exercises significant influence are listed in the list of shareholdings (3).

The scope of the Hermle Group's business relationships with related companies is as follows:

The deliveries and services provided by the group to companies consolidated at equity in the previous year amounted to EUR 0 thousand (previous year: EUR 330 thousand), the supplies and services purchased by the group from companies consolidated at equity amounted to a proportion of EUR 0 thousand (previous year: EUR 330 thousand) -EUR 9,670). As of the balance sheet date, the Group's receivables from companies consolidated using the equity method were EUR 0 (previous year: EUR 129 thousand), while the group's liabilities to companies consolidated using the equity method were EUR 0 thousand (previous year: EUR 728 thousand).

The supplies and services provided by the group to other related companies amounted to T-Euro 85 (previous year: T-Euro 119), the supplies and services purchased by the group from other related companies amounted to T-Euro 3,020 (previous year: T-Euro 2,825). As of the balance sheet date, the group's receivables from other related companies amounted to EUR 6k (previous year: EUR 15k), while the group's liabilities to other related companies amounted to EUR 442k (previous year: EUR 481k).

### (34) Declaration in accordance with Section 161 AktG

The board of directors and the supervisory board declare that the recommendations of the government commission on the German Corporate Governance Code are not complied with, with the exception of various individual points. As a justification, we would like to point out that Maschinenfabrik Berthold Hermle AG is based on the

principles of an open information policy that it has already practiced, which was implemented within the framework of the rules of procedure of the management board and the supervisory board. The legal requirements are met in full.

For various reasons, the Executive Board and the Supervisory Board do not consider the implementation of additional recommendations of the Corporate Governance Code to be appropriate. The recommendations under 2.3 are not complied with because the ordinary shares of Hermle AG with voting rights are not listed. The recommendations under 3 and 4 are not complied with, as the applicable legal regulations together with the rules of procedure are judged to be completely sufficient by the Management Board and the Supervisory Board. In addition, "external experts" referred to by the code are not used. In our opinion, the Code Regulations re 5 are also tailored to large international DAX corporations, However, not to a medium-sized company with a limited number of ordinary shareholders, some of whom are personally represented on the supervisory board. The recommendations under point 6 are also not complied with, as the legal regulations are sufficient. In addition, various topics are regulated here that are also irrelevant to Hermle because of the composition of the preferred shareholders. The recommendations under 7 are not complied with, as fields that are not relevant, such as stock options, are also regulated, but there are additional cost reasons. Overall, Hermle has chosen due to the relatively lower market capitalization of the company, the shareholder structure,

However, in addition to all legal regulations, Hermle complies with various individual recommendations of the Code, which are listed below:

3.10 .: Publication of the declaration of conformity on the website for 5 years

4.2.1 .: Board with several people

7.1.1 .: Notification of shareholders and third parties

This declaration is permanently available to the general public for inspection on the Hermle homepage <https://www.hermle.de/de/investor-relations/obligedveroeffnungen/kodex-161-aktg>.

### **(35) Information on the company's executive bodies**

The following people make up the board:

**Günther Beck**

**Franz-Xaver Bernhard**

Further mandates in supervisory boards and supervisory bodies:

Member of the supervisory board of VOLLMER Werke Maschinenfabrik GmbH, Biberach / Riss

**Alfons Betting, until March 31, 2018**

**Benedikt Hermle, from January 1, 2018**

The following persons form the supervisory board:

**Dietmar Hermle, chairman of the supervisory board**

Entrepreneur, formerly spokesman for the management board of Maschinenfabrik Berthold Hermle AG Further mandates in supervisory boards and control bodies:

Chairman of the Board of Directors of Hermle WWE (Worldwide Export) AG, Neuhausen / Switzerland

**Lothar Hermle, Deputy Chairman**

Industrial master

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

Lawyer

Further mandates in supervisory boards and supervisory bodies:

Chairwoman of the Supervisory Board of AdCapital AG, Tuttlingen

**Dr. Wolfgang Kuhn**

Spokesman for the Board of Management of Südwestbank AG, Stuttgart

Further mandates in supervisory boards and supervisory bodies:

Deputy Chairman of the Supervisory Board of KIWI Financial Living AG, Heidelberg

Chairman of the Advisory Board of Vertiva Family Office GmbH, Stuttgart

Chairman of the Supervisory Board of Tresides Asset Management GmbH, Stuttgart, until November 30, 2018

Member of the Advisory Board of SWB Treuhand GmbH, Stuttgart, until September 30, 2018

**Adolf Weber \* , until May 31, 2018**

Works council chairman until April 23, 2018

**Gerd Grewin \***

Works council chairman from April 23, 2018 industrial foreman, control and regulation technician

**Andreas Borho \* , from June 12, 2018**

Industrial clerk

**Günther Leibinger, honorary member**

Entrepreneur

\*) elected employee representatives

### (36) Assurance by the legal representatives (balance sheet oath)

To the best of our knowledge, we assure that in accordance with the accounting principles to be applied, the consolidated financial statements give a true and fair view of the asset, financial and earnings position and that in the joint management report of Maschinenfabrik Berthold Hermle AG and the Group, the course of business, including the business results and the position of the Group are shown so that a picture that corresponds to the actual circumstances is conveyed, and the essential opportunities and risks of the expected development are described.

Gosheim, March 29, 2019

**Maschinenfabrik Berthold Hermle AG**

*Günther Beck*

*Franz-Xaver Bernhard*

*Benedikt Hermle*

### Independent auditor's report

To Maschinenfabrik Berthold Hermle AG, Gosheim

### NOTE ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND THE COMBINED MANAGEMENT REPORT

#### Examination Opinions

We have the consolidated financial statements of Maschinenfabrik Berthold Hermle AG, Gosheim, and its subsidiaries (the group) - consisting of the consolidated balance sheet as of December 31, 2018, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the group -Cash flow statement for the financial year from January 1, 2018 to December 31, 2018 as well as the notes to the consolidated financial statements, including a summary of significant accounting methods.

In addition, we have audited the group management report of Maschinenfabrik Berthold Hermle AG, which was combined with the company's management report (hereinafter: combined management report), for the financial year from January 1, 2018 to December 31, 2018. In accordance with German legal regulations, we have not audited the content of the components of the combined management report named in the "Other information" section of our auditor's report.

In our opinion, based on the knowledge gained during the audit

- The attached consolidated financial statements comply in all material respects with the IFRS as they are to be applied in the EU, and the additional German legal regulations to be applied according to § 315e Abs. 1 HGB and give a true and fair view of the asset and financial situation in compliance with these regulations of the group as of December 31, 2018 and its earnings position for the financial year from January 1, 2018 to December 31, 2018 and
- the attached combined management report gives an overall accurate picture of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal regulations and accurately presents the opportunities and risks of future development. Our audit opinion on the combined management report does not cover the content of the "Other information" section Components of the group management report.

In accordance with Section 322 (3) sentence 1 of the German Commercial Code (HGB), we declare that our audit has not led to any objections to the correctness of the consolidated financial statements and the combined management report.

#### Basis for the examination results

We conducted our audit of the consolidated financial statements and the combined management report in accordance with Section 317 of the German Commercial Code (HGB) and the EU Auditor Ordinance (No. 537/2014; hereinafter "EU-APrVO"), taking into account the German principles established by the Institut der Wirtschaftsprüfer (IDW) proper final audit carried out. Our responsibility under these regulations and principles is further described in the section "Responsibility of the auditor for the audit of the consolidated financial statements and the combined management report" of our auditor's report. We are independent of the group companies in accordance with European and German commercial and professional regulations and have fulfilled our other German professional obligations in accordance with these requirements. In addition, we declare in accordance with Article 10 Paragraph 2 Letter f) of the EU Audit Regulation that we have not provided any prohibited non-audit services in accordance with Article 5 Paragraph 1 of the EU Audit Regulation. We are of the opinion that the audit evidence we have obtained is sufficient and suitable to serve as a basis for our audit opinions on the consolidated financial statements and the combined management report.

#### Particularly important audit matters in the audit of the consolidated financial statements

Particularly important audit matters are those matters which, in our professional judgment, were most significant in our audit of the consolidated financial statements for the financial year from January 1, 2018 to December 31, 2018. These matters were taken into account in connection with our audit of the consolidated financial statements as a whole and in forming our audit opinion on them; we do not issue a separate audit opinion on these matters.

From our point of view, the following issues were most significant in our audit:

1. Valuation of inventories
2. Recognition and valuation of other provisions
3. Acquisition of Hermle-Leibinger Systemtechnik GmbH

We have structured our presentation of these particularly important audit matters as follows:

- a. Facts and problems
- b. Audit approach and findings

c. Reference to further information

We present the particularly important audit issues below:

### **1. Valuation of inventories**

#### **a. Facts and problems**

In the consolidated financial statements of Maschinenfabrik Berthold Hermle AG, inventories totaling EUR 67.6 million are shown under the balance sheet item "Inventories". Inventory assets are valued at acquisition cost or production cost or the lower net realizable value. The determination of the net realizable values depends to a large extent on the estimates and assumptions of the legal representatives. Since there is a risk that the valuation of the inventories is not within an appropriate range, from our point of view this matter was of particular importance in the context of the audit.

#### **b. Audit approach and findings**

As part of our audit, we first verified the methodical procedure for determining the net realizable value. Furthermore, we have assessed the appropriateness of the main estimates and assumptions made by the legal representatives on the basis of the past.

In addition, we have convinced ourselves that the result of the inventory valuation is correctly recorded in the consolidated financial statements, i.e. that the inventories are recognized at the lower of acquisition costs or production costs or net realizable value.

In doing so, we were able to convince ourselves that the determination of the net realizable value was carried out correctly and that the estimates and assumptions made by the legal representatives were adequately documented and justified.

#### **c. Reference to further information**

The company's information on the valuation of inventories is contained in section (6) "Accounting and valuation principles" and in section (9) "Inventories".

### **2. Recognition and valuation of other provisions**

#### **a. Facts and problems**

In the consolidated financial statements of Maschinenfabrik Berthold Hermle AG, other provisions totaling EUR 46.6 million are shown under the balance sheet items "Long-term provisions" and "Short-term provisions". From our point of view, this issue was of particular importance, as the approach and valuation of this item, which is significant in terms of amount, are based to a large extent on assessments and assumptions made by the company's legal representatives.

#### **b. Audit approach and findings**

With the knowledge that there is an increased risk of incorrect information in the accounting for estimated values and that the recognition and valuation decisions of the legal representatives have a direct effect on the consolidated result, we assessed the appropriateness of the values. Among other things, we assessed the contractual basis, cost estimates and the existence of factual obligations with regard to the approach and evaluation of obligations.

In doing so, we were able to convince ourselves that the estimates and assumptions made by the legal representatives are sufficiently documented and justified to justify the recognition and valuation of the other provisions, which are significant in terms of amount.

#### **c. Reference to further information**

The company's information on other provisions is contained in Section (6) "Accounting and valuation principles" and Section (15) "Provisions".

### **3. Acquisition of Hermle-Leibinger Systemtechnik GmbH**

#### **a. Facts and problems**

With effect from January 1, 2018, Maschinenfabrik Berthold Hermle AG acquired the remaining 51% of the shares in Hermle-Leibinger Systemtechnik GmbH (hereinafter: "HLS"), which was previously included in the consolidated financial statements as a joint venture using the equity method, acquired by the previous co-shareholders for a total purchase price of EUR 6.2 million. The acquisition was accounted for as a business combination in accordance with IFRS 3 using the purchase method. In the context of the purchase price allocation, the identifiable assets and assumed liabilities and contingent liabilities were recognized at their fair values. In this context, the 49% stake in HLS previously held by Maschinenfabrik Berthold Hermle AG was revalued in accordance with IFRS 3 at a fair value of EUR 6.0 million, resulting in a profit of EUR 4.9 million, Euro, which was recognized in the other financial result. Taking into account the acquired net assets of EUR 6.1 million, this resulted in goodwill of EUR 6.1 million. From our point of view, the matter was of particular importance in the context of the audit, as it has an increased degree of complexity and the accounting presentation is based to a large extent on the estimates and assumptions of the legal representatives.

#### **b. Audit approach and findings**

As part of the audit, we first dealt with the contractual agreements for the company acquisition and discussed the underlying strategic considerations and objectives with the legal representatives of Maschinenfabrik Berthold Hermle AG in order to gain a sufficient understanding of the acquisition process.

Building on this, with the involvement of our own valuation specialists, we assessed the appropriateness of the valuation methods on which the valuations are based and the key assumptions. In particular, we discussed the expected sales and earnings planning for HLS with those responsible for planning and coordinated them with the budget planning of the Hermle Group. We compared the valuation parameters used in the valuation models, in particular the risk-free interest rate, the market risk premium and the beta factor, with our own assumptions and publicly available market data.

In addition, we verified the accounting for the company acquisition and assessed the disclosures in the notes required by IFRS 3.

On the basis of our audit procedures, we were able to convince ourselves that the essential assessments and assumptions of the legal representatives on which the company acquisition is based are adequately documented and justified and that the company acquisition as a whole has been properly mapped.

#### **c. Reference to further information**

The information provided by the company on mapping the initial consolidation of HLS is contained in section (3) "Scope of consolidation", section (4) "Consolidation principles" and section (24) "Other financial result".

**Other Information**

The legal representatives are responsible for the other information. The other information includes the following information we obtained prior to the date of this auditor's report:

- the separate non-financial report in accordance with Section 289b (3) and Section 315b (3) HGB contained in the first paragraph of the combined management report,
- the corporate governance declaration in accordance with Section 289f and Section 315d of the German Commercial Code (HGB) contained in the section "Declaration on corporate governance",
- the insurance according to Section 297 (2) sentence 4 HGB for the annual financial statements and the insurance according to Section 315 (1) sentence 5 HGB for the combined management report.

The other information also includes the remaining parts of the annual report that is expected to be made available to us after this date, with the exception of the audited consolidated financial statements, the audited combined management report and our auditor's report.

Our audit opinions on the consolidated financial statements and the combined management report do not extend to the other information, and accordingly we do not express an audit opinion or any other form of audit conclusions thereon.

In connection with our audit, it is our responsibility to read the other information and, in doing so, to assess whether the other information

- have material inconsistencies with the consolidated financial statements, the combined management report or our knowledge obtained during the audit or
- otherwise appear materially misrepresented.

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

The legal representatives are responsible for the preparation of the consolidated financial statements, which comply with the IFRS, as they are to be applied in the EU, and the additional German legal regulations to be applied according to § 315e Abs. 1 HGB in all essential respects, and for that the consolidated financial statements under Compliance with these regulations provides a true and fair view of the Group's asset, financial and earnings position. Furthermore, the legal representatives are responsible for the internal controls that they have determined to be necessary to enable the preparation of consolidated financial statements.

When preparing the consolidated financial statements, the legal representatives are responsible for assessing the Group's ability to continue as a going concern. Furthermore, they are responsible for disclosing matters relating to the going concern of the company, if relevant. In addition, they are responsible for the going concern basis of accounting, unless the intention is to liquidate the group or to cease operations or there is no realistic alternative.

In addition, the legal representatives are responsible for the preparation of the combined management report, which as a whole provides a suitable view of the Group's position and is in all material respects consistent with the consolidated financial statements, complies with German legal requirements and applies the opportunities and risks of future development represents. Furthermore, the legal representatives are responsible for the precautions and measures (systems) that they have deemed necessary to enable the preparation of a group management report in accordance with the applicable German legal regulations,

The Supervisory Board is responsible for monitoring the Group's accounting process for the preparation of the consolidated financial statements and the combined management report.

**Auditor's responsibility for the audit of the consolidated financial statements and the combined management report**

Our objective is to obtain sufficient certainty as to whether the consolidated financial statements as a whole are free of material - intended or unintentional - misrepresentation and whether the combined management report as a whole provides an accurate picture of the Group's position and, in all material matters, the consolidated financial statements as well as is consistent with the knowledge gained during the audit, complies with German legal regulations and correctly presents the opportunities and risks of future development, as well as issuing an auditor's report that includes our audit opinions on the consolidated financial statements and the combined management report.

Sufficient security is a high level of security, but no guarantee that an audit carried out in accordance with Section 317 of the German Commercial Code (HGB) and the EU-APrVO in compliance with the German principles of proper auditing established by the Institute of Auditors (IDW) will always reveal a material misrepresentation. Misrepresentations can result from violations or inaccuracies and are regarded as material if it could reasonably be expected that they individually or collectively influence the economic decisions of addressees made on the basis of these consolidated financial statements and the combined management report.

During the examination, we exercise due discretion and maintain a critical attitude. Furthermore

- We identify and assess the risks of material - intentional or unintentional - misrepresentations in the consolidated financial statements and the combined management report, plan and carry out audit procedures in response to these risks, and obtain audit evidence that is sufficient and suitable to serve as a basis for our audit opinions. The risk that material misrepresentations are not detected is higher in the case of violations than inaccuracies, since violations result in fraudulent cooperation, forgeries, intentional incompleteness, misleading representations or
- We gain an understanding of the internal control system relevant to the audit of the consolidated financial statements and the provisions and measures relevant to the audit of the combined management report in order to plan audit procedures that are appropriate under the given circumstances, but not with the aim of achieving an audit opinion on effectiveness of these systems of society.
- we assess the appropriateness of the accounting methods used by the legal representatives as well as the acceptability of the estimated values presented by the legal representatives and related information.
- we draw conclusions about the appropriateness of the going concern accounting principle applied by the legal representatives and, on the basis of the audit evidence obtained, whether there is any material uncertainty in connection with events or circumstances, the significant doubts about the Group's ability to continue as a going concern can raise. If we conclude that there is material uncertainty, we are required to draw attention in the auditor's report to the relevant information in the consolidated financial statements and in the combined management report or, if this information is inappropriate, to modify our respective audit opinion. We draw our conclusions based on the audit evidence obtained up to the date of our auditor's report. Future events or circumstances can, however, mean that the group can no longer continue its business activities. We draw our conclusions based on the audit evidence obtained up to the date of our auditor's report. Future events or circumstances can, however, mean that the group can no longer continue its business activities.

- We assess the overall presentation, structure and content of the consolidated financial statements, including the information, as well as whether the consolidated financial statements present the underlying business transactions and events in such a way that the consolidated financial statements take into account the IFRS as they are to be applied in the EU, and the supplementary according to § 315e Paragraph 1 of the German Commercial Code (HGB) provides a true and fair view of the Group's asset, financial and earnings position.
- We obtain sufficient suitable audit evidence for the accounting information of the companies or business activities within the group in order to issue audit opinions on the consolidated financial statements and the combined management report. We are responsible for guiding, monitoring and performing the group audit. We are solely responsible for our audit opinions.
- We assess the consistency of the combined management report with the consolidated financial statements, its compliance with the law and the picture it provides of the Group's position.
- we perform audit procedures on the future-oriented information presented by the legal representatives in the combined management report. On the basis of sufficient, suitable audit evidence, we particularly review the significant assumptions underlying the future-oriented information from the legal representatives and assess the appropriate derivation of the future-oriented information from these assumptions. We do not issue an independent audit opinion on the future-oriented information or the underlying assumptions. There is a significant unavoidable risk

Among other things, we discuss with those responsible for monitoring the planned scope and timing of the audit as well as significant audit findings, including any deficiencies in the internal control system that we discover during our audit.

We issue a declaration to those responsible for monitoring that we have complied with the relevant independence requirements and discuss with them all relationships and other matters that can reasonably be assumed to affect our independence and the protective measures taken in this regard .

From the matters that we discussed with those responsible for monitoring, we determine those matters that were most significant in the audit of the consolidated financial statements for the current reporting period and are therefore the most important audit matters. We describe these matters in the auditor's report, unless laws or other legal provisions preclude public disclosure of the matter.

## **OTHER LEGAL AND OTHER LEGAL REQUIREMENTS**

### **Other information according to Article 10 EU-APrVO**

We were elected as group auditor by the Annual General Meeting on July 4, 2018. We were engaged by the Supervisory Board on July 5, 2018. We have been the group auditor of Maschinenfabrik Berthold Hermle AG without interruption since the 1990 financial year.

We declare that the audit opinions contained in this auditor's report are consistent with the additional report to the Supervisory Board in accordance with Article 11 of the EU Audit Regulation (audit report).

### **RESPONSIBLE AUDITOR**

The auditor responsible for the audit is Mr. Andreas K. Wiedmann.

**Stuttgart, March 29, 2019**

**BANSBACH GmbH**  
**Wirtschaftsprüfungsgesellschaft**  
**Steuerberatungsgesellschaft**  
*Johannes Hauser, auditor*  
*Andreas K. Wiedmann, auditor*

### **Supervisory Board Report**

**Dear Sir or Madam, Dear Shareholders,**

Maschinenfabrik Berthold Hermle AG consolidated its technologically leading market position in 2018 and was able to increase incoming orders as well as sales and earnings again. The good business development was only possible thanks to the great commitment of the entire Hermle team. On behalf of the Supervisory Board, I would like to thank the Management Board and all employees for their impressive performance.

### **Close cooperation between the board of directors and the supervisory board**

In the year under review, the Supervisory Board carefully performed the tasks incumbent on it according to the law and the Articles of Association. We advised the board of directors in managing the company and constructively monitored its work. The Management Board kept us informed regularly, promptly and comprehensively by means of written and verbal reports about important questions of corporate planning, the situation and business development of Hermle AG and the group as well as the associated opportunities and risks. The Board of Management explained in detail any deviations in business development from planning.

On the basis of the reports from the Management Board, the Supervisory Board dealt intensively in its meetings with the course of business and all important events for the company. We also discussed the financial and earnings position, developments in the personnel area, corporate planning including financial, investment and personnel planning as well as business policy and strategy in detail. We were involved at an early stage in decisions that were of fundamental importance to the company. We always decided on transactions requiring approval on the basis of comprehensive documents and after extensive discussion.

### **Board meetings and committees**

In 2018, the Supervisory Board held five regular meetings: on March 21, April 25, July 4 (two meetings) and December 5. We had a quorum at all appointments, only one member of our committee was absent, excused, from two meetings. As in previous years, a presidential committee was formed, which consists of the chairman of the supervisory board and the two deputies. It was not necessary to convene this committee in the year under review.

### **Main focus of the work of the Supervisory Board in 2018**

In all Supervisory Board meetings, we dealt intensively with the market situation and the business development of Hermle AG and the domestic and foreign subsidiaries. We also regularly discussed the development of results and personnel. Another recurring focus of the meetings was the current or planned expansion and modernization projects at the company headquarters. These included, above all, the expansion of production capacities in the metal-cutting production, the installation of an additional transformer station, additional parking spaces for employees, a traffic-optimized access to the company premises in Gosheim and preparations for a new canteen,

At the first Supervisory Board meeting on March 21, 2018, we also dealt in detail with the preliminary business figures for 2017 and discussed the dividend proposal in detail on this basis. We also approved the purchase of a second mixing plant at the Zimmer site in order to increase capacities and production reliability. In addition, we have adopted the corporate governance declaration in accordance with Sections 289f and 315d of the German Commercial Code.

At the balance sheet meeting for the 2017 financial year on April 25, 2018, we dealt intensively with the annual financial statements of Hermle AG and the Group as well as the combined management report, and have adopted or approved them. The auditors also took part in the meeting, reported on their work and were available to provide additional information. We also resolved the agenda and the dividend proposal for the Annual General Meeting and adopted the report of the Supervisory Board on the 2017 financial year.

On July 4, 2018, a Supervisory Board meeting took place before and after the Annual General Meeting. In addition to the topics of the Annual General Meeting, production planning for 2019 was one of the items on the agenda due to the continued high level of capacity utilization. The Supervisory Board approved a cautious increase in personnel and an increase in inventories. We also dealt with organizational changes at the US Hermle subsidiary and approved its name change to a corporation.

The Supervisory Board meeting on December 5, 2018 focused on budget, sales and investment planning for 2019 including a sensitivity calculation for possible crisis scenarios. After extensive consultation, we adopted the planning. In addition, we decided to increase the capital of the Russian subsidiary Hermle Uljanovsk to build up the machine overhaul business and approved the establishment of two new subsidiaries in Mexico and Thailand. In addition, the supervisory board obtained information about current development and digitization projects and entrusted the management board with the development of a long-term new room concept for the Gosheim location due to the constantly growing space requirements. Finally, we also adopted the Corporate Governance Declaration, which is permanently available on the Hermle website under the heading Investor Relations / Mandatory Publications / Codex § 161 AktG.

#### **annual audit**

The supervisory board commissioned the auditing and tax consultancy company Bansbach GmbH, Stuttgart, elected by the general meeting on July 4, 2018, to audit the financial statements for the 2018 financial year. The auditors assured that in the reporting year they did not provide any significant services for the Maschinenfabrik Berthold Hermle AG in addition to this contract and there are no circumstances that could affect their independence.

For the preparation of the annual financial statements of Maschinenfabrik Berthold Hermle AG, the provisions of the HGB were applied. The consolidated financial statements were prepared in accordance with the IFRS standards. Bansbach GmbH audited the two financial statements as well as the combined management report of the AG and the group for the 2018 financial year. The auditors confirmed that the financial statements provide an actual picture of the company's assets, financial and earnings position and the management report the opportunities and risks of accurately represents future development.

The annual financial statements of Hermle AG, the consolidated financial statements, the combined management report and the audit reports were available to all members of the Supervisory Board in good time. We checked the documents and discussed them with the auditor at the balance sheet meeting. Our own examination gave no cause for objection. The Supervisory Board concurs with the auditor's findings and approves the annual financial statements and the management report. The annual financial statements of Maschinenfabrik Berthold Hermle AG are thereby adopted. We have also checked the non-financial declaration in accordance with Sections 289b and 315b of the German Commercial Code (HGB) and are convinced that it meets the legal requirements.

#### **Personal details**

On January 1, 2018, Mr. Benedikt Hermle took over responsibility for the area of materials management as a new member of the management board and, from April 1, also for the areas of production and service, for which Mr. Alfons Betting was responsible until then. At the end of March 31, 2018, Mr. Betting resigned from the Management Board at his own request. The Supervisory Board once again expressly thanks him for his many years of excellent work.

Effective May 31, 2018, Mr. Adolf Weber, long-time Chairman of the Works Council of Hermle AG and a member of the Supervisory Board as an elected employee representative since 1996, left the company and thus also from our committee. The Supervisory Board thanks Mr. Weber for the trusting and constructive cooperation. On June 12, 2018, the employees elected Andreas Borho as his successor on the Supervisory Board.

In 2019, Maschinenfabrik Berthold Hermle AG expects a significant drop in demand due to the economic slowdown and numerous external uncertainties. Due to the large order backlog from the previous year, a high capacity utilization and at least stable or slightly improved business development can be assumed. We wish the Board of Management and all employees every success in the associated tasks.

#### **Gosheim, April 2019**

*Dietmar Hermle, chairman of the supervisory board*

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