03

COMBINED MANAGEMENT REPORT

Introduction to the Group

INDUS is a listed holding company with a managed portfolio of 46 SMEs based in German-speaking countries. INDUS acquires majority stakes in predominantly owner-managed companies and assists them in their entrepreneurial development on a long-term basis. INDUS ensures that the portfolio companies retain their SME status. In the years ahead, the portfolio is planned to grow by means of targeted acquisitions in defined growth industries.

The Company

Positioning and Business Model

VALUE- AND GROWTH-ORIENTED SME HOLDING COMPANY

INDUS Holding AG (hereinafter: INDUS) was founded in 1989 and today is among the leading specialists in the acquisition and long-term development of small- and medium-sized industrial companies in German-speaking countries. The focus of the investments is on owner-managed companies with their own industrial added value. INDUS preserves the SME status of its portfolio companies and supports them in their long-term entrepreneurial development.

As of the reporting date, its portfolio comprised 46 companies (previous year: 46). In the financial year, two more portfolio companies were acquired. One portfolio company from the Automotive Technology segment was sold and one other portfolio company was closed down. On December 31, 2021, a total of 193 fully consolidated enterprises (previous year: 195) belonged to the INDUS Group. More information on our portfolio on p. 159 et seqq. and online at www.indus.de/en/about-indus/investment

The INDUS Group consists of the holding company INDUS Holding AG with registered office in Bergisch Gladbach, Germany, and the individual portfolio companies. All direct INDUS portfolio companies have their registered offices in Germany (43) or Switzerland (3). The INDUS Group is represented by sub-subsidiaries, branches, and representative offices in 31 countries (previous year: 32 countries) on five continents.

INDUS has been a listed company since 1995. The share is traded on the regulated market at the stock exchanges in Frankfurt and Düsseldorf. In Berlin, Hamburg, Hanover, Munich and Stuttgart, the share is traded over the counter. The INDUS share is listed in the SDAX stock market index. INDUS fulfills the Prime Standard transparency requirements in its financial reporting. More information on our share on p. 14 et seqq.

In the regions where the portfolio companies operate, INDUS positions itself as a long-term-oriented investor without an exit strategy but with the clear aim of strategically developing the portfolio companies. More information on our business model online at www.indus.de/en/about-indus/business-model This sets the company apart from the buy-and-sell and turn-around investors in particular, who as a rule limit their financial involvement to brief periods. Among both listed and unlisted German holding companies, INDUS sees itself as one of the leading companies.

The holding company with its registered office in Bergisch Gladbach, Germany, is managed by the Board of Management, which consists of four members. The Board of Management consists of Dr. Johannes Schmidt (Chairman), Dr. Jörn Großmann, Axel Meyer, and Rudolf Weichert. More information on the INDUS Board of Management on p. 6 and online at www.indus.de/en/about-indus/board-of-management As of the reporting date, the holding company had 35 employees, not including the Board of Management (previous year: 34). The employees are all employed in Bergisch Gladbach, Germany, and report directly to the Board of Management.

THE INDUS BUSINESS MODEL: BUY, HOLD & DEVELOP

INDUS exclusively takes majority shareholdings at the level of its direct subsidiaries. The companies acquired and targeted for possible acquisition are exclusively SMEs with their own industrial added value in German-speaking countries and have an above-average level of profitability at the date of acquisition. They should generate annual sales figures amounting to between EUR 20 million and EUR 100 million and a sustained return on sales (EBIT margin) of 10% or more. The target companies operate in attractive domestic and international niche markets with growth potential. They should be unencumbered by economic legacy issues and be in an exemplary position in terms of sustainability considerations.

INDUS primarily acquires owner-managed companies and particularly keeps an eye on arrangements for succession in the families managing the companies. Continuity and the company's SME status are secured with the transfer of ownership. Therefore, the former owners ideally remain as co-shareholders and managing directors of the company for a certain period. INDUS avoids the direct acquisition of companies undergoing restructuring. INDUS does not acquire companies in the defense, alcohol or gambling sectors. Neither is INDUS planning any acquisitions in connection with the extraction of fossil fuels. More information online at www.indus.de/en/mergers-acquisitions/investment-criteria

INDUS continuously acquires new companies. This portfolio addition aims to improve the development prospects of the entire Group. In addition to the organic development of the existing portfolio companies, acquisitions ensure that over time the portfolio always represents an up-to-date cross section of growth industries. The Group's companies operate in diverse business and technological fields, selling markets, and business cycles – the Group is broadly diversified. With their respective core capabilities, the companies as a rule occupy niches of the market of great interest for their sectors, in which they assume a leading position. Ideally, INDUS portfolio companies fulfill all of the criteria of a "hidden champion."

As a majority shareholder and financial holding company, INDUS supports its portfolio companies as an "advisor" and as a "development bank." The Board of Management continuously provides advice to the managing directors in the portfolio companies through strategic dialog. In the portfolio companies, the holding company's experts share methodological knowledge, train employees, and support strategic projects. Support focuses on strengthening innovativeness, and boosting Market Excellence and Operational Excellence. The holding company's employees encourage the transfer of knowledge by networking within the Group as well as with external partners. INDUS provides capital to its portfolio companies for investments in fixed assets and for development plans, internationalization, and acquisitions of companies at sub-subsidiary level. The INDUS innovation development bank also provides capital for innovative projects.

INDUS' business model can be summarized by the phrase "buy, hold & develop." This strategy represents the intention to hold the company for a longer period while simultaneously developing the portfolio companies.

The portfolio companies thus develop over the long term in a fast-changing market environment while preserving their identity as an SME, and with the financially strong INDUS at their side. Shareholders in INDUS hold a valuable interest in a managed investment portfolio of SME assets, while profiting from regular dividend distribution.

EXTERNAL INFLUENCING FACTORS

As industrial companies, the INDUS Group's portfolio companies operate under the influence of the **general economy** – in Germany, in Europe, and in the international markets. At the same time, the individual companies are subject to sector-specific business cycles.

The main external influencing factor in 2021 was again the **coronavirus pandemic**. The consequences of the pandemic continued to weigh on the world economy in financial year 2021. Particularly the indirect consequences of the coronavirus pandemic, such as shortages of raw materials, higher prices and disruptions to supply chains, had a negative impact on the portfolio companies' ability to deliver their services. The global scarcity of computer chips had an indirect impact on the Automotive Technology segment, because OEM significantly reduced their orders due to the chip shortage.

Under these difficult circumstances, the INDUS portfolio's broad diversification once again proved to be an important pillar for stability. Economic risks are spread across the Group owing to its diversified positioning, thereby balancing out the portfolio. Compared with non-diversified holding companies, this gives INDUS a competitive advantage in the long term and also in the event of new exogenous shocks in individual sectors.

Cost factors also are important for the success of the portfolio companies. Globalization is increasingly thrusting SMEs into direct **price competition** with foreign competing companies that are, in some cases, able to produce under economically more favorable conditions. Material, energy, and personnel costs are especially relevant cost variables. Such an environment makes it all the more important to clearly set the companies apart through technological, innovation leadership, market and Operational Excellence, and INDUS provides important support to its portfolio companies to enable them to achieve these.

The labor market is changing due to the coronavirus pandemic. However, there is still a growing **skills shortage** in Germany. In light of this, recruitment is gaining in importance while wage costs rise at the same time. INDUS is tackling global competition and rising cost pressures by helping portfolio companies improve their organization internationally, too.

In order to be successful in the long term, companies need to successfully shape the **technological change**. The digital transformation currently demands an even more intense development process from manufacturing companies. The coronavirus pandemic has further increased the need for digitalization. Digitalization means that business models need to be adapted, resulting in a noticeable increase in the need for investment. Due to the importance of these external factors, INDUS supports investment in innovation through the INDUS innovation development bank.

Developments in the capital markets are also important factors for the entrepreneurial success of INDUS, as the situation on the stock exchanges and general interest rate trends determine the terms on which INDUS is able to secure equity and borrowed capital. Owing to its size, its broad access to capital markets, and its very solid credit rating, the company is well prepared for fluctuations in the capital markets.

Portfolio

46 COMPANIES IN FIVE SEGMENTS

The portfolio consisted of 46 portfolio companies on the reporting date. They are allocated to one of five segments: Construction/Infrastructure, Automotive Technology, Engineering, Medical Engineering/Life Science, and Metals Technology. In the 2021 financial year, these company areas were the reportable segments per IFRS, with no change from the previous year. More information on our portfolio online at www.indus.de/en/about-indus/investment

BASIC DATA FOR THE SEGMENTS

(in EUR million)

	Construction/ Infrastructure	Automotive Technology	Engineering	Medical Engineering/ Life Science	Metals Technology
Sales	451.6	281.9	438.9	148.7	420.4
Operating result (EBIT)	70.5	-57.3	56.9	12.1	42.3
Companies	12	7	13	5	9
Employees	2,173	3,277	2,289	1,613	1,520

PORTFOLIO STRUCTURE BY NUMBER OF YEARS WITH THE GROUP

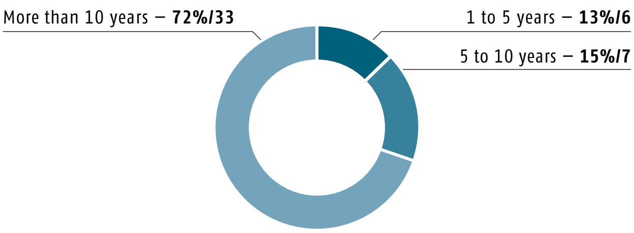
72% of the portfolio companies have belonged to the INDUS Group for more than ten years. Seven portfolio companies have been in the INDUS portfolio for between five and ten years, and six of the 46 portfolio companies have been acquired in the past five years.

PORTFOLIO STRUCTURE BY SALES

The portfolio companies' annual sales figures range from just under EUR 10 million to more than EUR 100 million. Roughly 56% of the portfolio companies generate annual sales figures of at least EUR 25 million. Slightly less than a quarter generate annual sales figures below EUR 15 million.

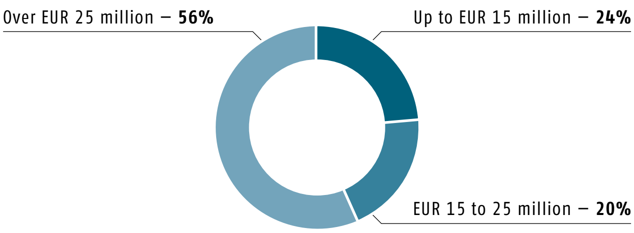
PORTFOLIO STRUCTURE BY AGE

(in %/number of portfolio companies)



PORTFOLIO STRUCTURE BY SALES

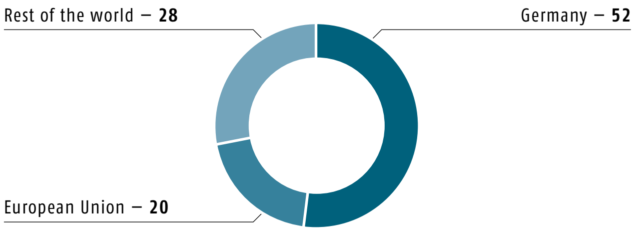
(in %)



SELLING MARKETS ON FIVE CONTINENTS

In regional terms, all of the portfolio companies are concentrated in sales territories with a politically and economically stable background. The portfolio companies' largest market for unit sales and thus revenue is Germany at 52%. The companies generate another 20% of their revenue in other EU countries. A further 28% is generated outside the EU. In the 2021 financial year, this distribution was unchanged from the previous year. The INDUS strategy also calls for an increase in the international share of sales in the years to come.

PORTFOLIO STRUCTURE BY REGION (in %)



PORTFOLIO CHANGES IN 2021

GROWTH ACQUISITIONS

In November 2020, INDUS acquired all the shares in JST Jungmann Systemtechnik GmbH & Co. KG in Buxtehude, Germany. JST is an SME that provides integrated control room solutions and extensive know-how in the conceptual design, construction, and maintenance of control rooms. Its traditional areas of activity are production control centers for industry, control rooms for energy and water management, IT control rooms for data centers, and safety and traffic control centers – all applications that have to satisfy the highest safety standards. The acquisition of JST is an addition to the INDUS portfolio in the defined growth industries of measuring technology, automation, and control engineering. The economic transfer and the initial consolidation of JST took place in January 2021.

In March 2021, INDUS acquired 70% of the shares in WIRUS Fenster GmbH & Co. KG, Rietberg-Mastholte (Gütersloh). WIRUS' product range encompasses window frames made of plastic and aluminum, sliding, house and side doors, and privacy and sun-protection systems. WIRUS' sales, production and logistics are above average in terms of the level of digitalization achieved and the company is experiencing solid growth. The managing director and former majority shareholder will remain with the company as managing director and co-shareholder. The initial consolidation took place on May 1, 2021.

In December 2021, INDUS signed a contract to purchase 100% of the shares in Heiber und Schröder Maschinenbau GmbH (HEIBER + SCHRÖDER) in Erkrath. HEIBER + SCHRÖDER is an SME provider of special machinery for the cardboard industry. HEIBER + SCHRÖDER covers the value chain from the development to production and servicing of its machines, supplying its products to packaging manufacturers worldwide, especially suppliers to the food, cosmetic, household goods and toy sectors. The economic transfer and the initial consolidation are expected to take place in Q2 2022.

ACQUISITIONS AT SUB-SUBIDIARY LEVEL

With contract and effect as of July 1, 2021, HORNGROUP Holding GmbH & Co. KG acquired 80% of the shares in FLACO Geräte GmbH, Gütersloh. FLACO manufactures products and systems for fluid management in workshops, fueling stations and industrial plants. The managing director and former majority shareholder will remain with the company as managing director and co-shareholder.

In December 2021, HORNGROUP Holding GmbH & Co. KG signed a contract to acquire 35% of the remaining shares in TECALEMIT, Inc. TECALEMIT Inc. was previously accounted for using the equity method. The initial consolidation took place on December 31, 2021.

ACQUISITION OF REMAINING SHARES

In October, M+P international Mess- und Rechnertechnik GmbH recalled 2.5% of its shares from a minority shareholder against payment of a settlement amount.

FS-BF GmbH & Co. KG purchased the 10% remaining shares in EVT GmbH from two minority shareholders in December.

TRANSACTIONS INVOLVING INTERESTS ATTRIBUTABLE TO NON-CONTROLLING SHAREHOLDERS

A reciprocal option agreement for the acquisition of a 20% minority interest in WEIGAND Bau GmbH was entered into in the second quarter of 2021. Another 23.2% minority interest was acquired in a sub-subsidiary.

SALE OF WIESAUPLAST

On December 30, 2021 the sale of WIESAUPLAST GmbH & Co. KG and its subsidiaries to a strategic investor from the automotive technology sector was closed. The deconsolidation took place on December 30, 2021. WIESAUPLAST manufactures high-precision plastic parts for the automotive technology industry, primarily safety components including for hydraulic brake systems, in Germany and Mexico. WIESAUPLAST had been part of the INDUS Group since 1997.

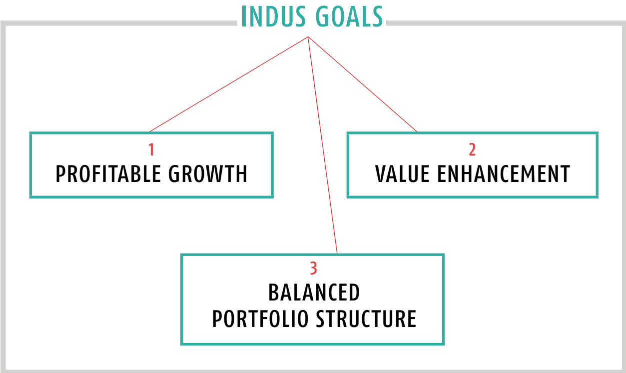
DISCONTINUATION OF BACHER

A decision was made in 2020 as part of the INTERIM SPRINT measures to discontinue BACHER AG, a company in the Metals Technology segment. The discontinuation of BACHER has now been completed and the last orders were processed in the third quarter.

Goals and Strategy

Goals

INDUS GOALS



PROFITABLE GROWTH

Our aim is for the INDUS Group to grow organically through the operational success of its portfolio companies and inorganically through acquisitions. A considerable portion of the income earned remains in the portfolio companies and is available to them to finance further growth. Inorganic growth is to be ensured through the continuous acquisition of hidden champions from industries with a promising future.

VALUE ENHANCEMENT

The focus on value enhancement of the individual portfolio companies is intended to sustainably increase their profitability and value. Overall, this leads to the value enhancement of the entire Group. The aim is to achieve an **EBIT margin of "10% + X"** in the medium term. INDUS actively advises the operationally independent portfolio companies on strategic decisions, shares its methodological expertise, and helps companies build internal and external networks. The portfolio companies are deliberately given capital and know-how that they can use for their development.

Concrete targets for the further development of the portfolio companies have been set out in the PARKOUR strategy program: INDUS encourages the companies to use **innovations** as a growth engine and successfully shape **digitalization**. The aim is to drive **Market Excellence** and **Operational Excellence** in the portfolio companies and thus support continuous improvement of business processes. The **internationalization** of the portfolio companies is being further expanded – particularly in the North American and Asian markets. The **improvement of performance in terms of sustainability** remains an overarching goal and guiding principle for the portfolio companies' economic activities.

BALANCED PORTFOLIO STRUCTURE

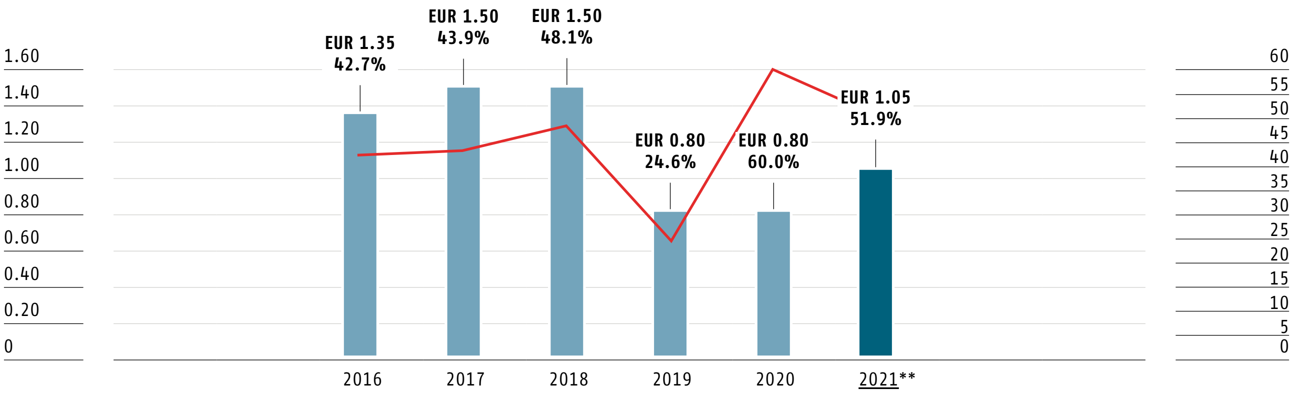
The INDUS Group is particularly intending to grow by means of acquisitions in the six defined growth industries "automation/measuring technology/control engineering," "construction technology," "safety technology," "medical engineering/life science," "technology for infrastructure and logistics," and "energy and environmental technology." Candidates of interest for the portfolio are companies that are active in future-oriented industrial niche markets and occupy leading positions in these markets. INDUS focuses on companies in growth industries to ensure that the investment portfolio will continue to maintain a balanced, and hence stable, structure in the future. For the period until 2025, the aim is to grow further and generate Group sales of significantly more than EUR 2 billion.

The investment portfolio's balanced structure and strong diversification are of particularly key significance when individual companies face structural or economic challenges. At present, the portfolio companies are faced with a general shortage of raw materials, supply chain bottlenecks and price increases due to the ongoing coronavirus pandemic. Permanent uncertainty about new virus variants and the current waves of infection mean that the coronavirus pandemic is the biggest risk for economic development. Overall, the portfolio companies of the INDUS Group coped well with the challenges of the coronavirus pandemic in the 2021 financial year. From the Board of Management's perspective, the INDUS Group's entire portfolio benefits from the agility of SMEs and their resilience.

CONSISTENT GROWTH – CONTINUOUS VALUE ENHANCEMENT – CONSTANT DIVIDEND POLICY

As owners, the shareholders are entitled to share in the success of their company through predictable profit distributions. That is why INDUS regularly pays a dividend. The average target value of the dividend proposed by the Board of Management and Supervisory Board amounts to between 40% and 50% of the balance sheet profit. The remaining balance sheet profit is retained in the Group to ensure further profitable growth.

DIVIDEND PER SHARE* AND DIVIDEND YIELD 2016 TO 2021 (in EUR/%)



—— Distribution ratio

* Dividend payment for the respective financial year

** Subject to approval at Annual Shareholders' Meeting on May 31, 2022

The Board of Management of INDUS Holding AG has decided to propose a dividend of EUR 1.05 per share to the Annual General Meeting. This corresponds to approximately 51.9% of the balance sheet profit of INDUS Holding AG.

More information on our share on p. 14 et seqq.

Strategy

"PARKOUR": TACKLING NEW OBSTACLES SUCCESSFULLY

The PARKOUR strategy program established in 2019 tackles the future challenges for the INDUS Group with sporting ambitions and focuses on development until 2025. INDUS' core task will continue to be the goal-oriented development of a diverse SME portfolio. In light of increasingly complex global conditions, competition growing globally, the challenge of the digital transformation and the structural change in the automotive industry, INDUS is giving its portfolio companies more support to ensure their competitiveness. This is more important than ever, particularly in times of crisis such as the current coronavirus pandemic. To get the INDUS portfolio companies fit for the current and future tasks of PARKOUR, INDUS will sharpen its focus on supporting innovation, Market Excellence and Operational Excellence. INDUS will set ambitious targets, encourage cooperation, and share the right methods.

Assisting the companies in their internationalization measures will also remain a central pillar of the INDUS strategy. The focus is on Asia and North America in particular, in addition to Europe. The further improvement of the portfolio companies' performance in terms of sustainability also continues to be actively supported and encouraged and embedded in the PARKOUR strategy with the strategic initiative "Striving for sustainability."

The PARKOUR strategy has set out four key strategic initiatives:

1. Strengthening the portfolio structure
2. Driving innovation
3. Improving performance
4. Striving for sustainability

1. STRENGTHENING PORTFOLIO STRUCTURE

INDUS plans to acquire two to three companies as direct subsidiaries each year. The holding company is increasingly setting its sights on larger companies with annual sales figures of between EUR 50 million and EUR 80 million. INDUS has defined six **growth industries** that will be favored in acquisitions of companies to support the forward-looking future development of the portfolio:

THE SIX FAVORED GROWTH INDUSTRIES FOR ACQUISITION

1
AUTOMATION AND MEASURING TECHNOLOGY AND CONTROL ENGINEERING

2
CONSTRUCTION TECHNOLOGY

3
SAFETY TECHNOLOGY

4
MEDICAL ENGINEERING/LIFE SCIENCE

5
TECHNOLOGY FOR INFRASTRUCTURE AND LOGISTICS

6
ENERGY AND ENVIRONMENTAL TECHNOLOGY

All six industries have above-average to very good prospects for development according to the relevant expert assessments. The INDUS portfolio is intended to represent a cross-section of the relevant growth industries. The Board of Management is aiming for an **appropriate mix of future-oriented companies** for the portfolio structure so INDUS can continue to reach its profitability targets.

In addition to growth acquisitions for the portfolio, INDUS continued to have a focus on complementary additions to strengthen individual portfolio companies. For strategic acquisitions at sub-subsidiary level, the investment decisions are linked to the portfolio companies' individual strategies, although INDUS is promoting more innovation- and sustainability-oriented acquisitions. In some cases, INDUS may also acquire companies in the early stages of development at sub-subsidiary level, if they have the potential to be particularly useful to the portfolio company due to their innovation or technological expertise, and the viability of their business model has already been proven. PARKOUR includes plans for two to four strategic additions at portfolio company level per year.

In the 2020 financial year, the **INTERIM SPRINT** package of measures to optimize the portfolio was adopted and implemented by the INDUS Board of Management. The sale and discontinuation of portfolio companies and sub-subsidiaries or divisions of portfolio companies were part of this package of measures to implement the targets defined in the PARKOUR strategy program. The INTERIM SPRINT package of measures was brought to an end in 2021 when the discontinuation of BACHER was completed. The successes of INTERIM SPRINT are clearly visible. Implementing INTERIM SPRINT did reduce sales in a year-over-year comparison by EUR 29.5 million (1.9%). However, eliminating negative contributions to income had a positive impact on the financial position.

The disposal of the WIESAUPLAST Group was completed in the current financial year. All the partnership interests in WIESAUPLAST GmbH & Co. KG in Wiesau and all its subsidiaries were transferred to the SCHERDEL Group in Marktredwitz on December 30, 2021. This is another step for INDUS towards reducing the weight in the portfolio of series suppliers to the automotive industry.

Exit strategies play no role when INDUS makes its buying decisions, the "hold" principle being a key component of INDUS' DNA. However, to ensure stable performance and achieve the growth targets set for the individual company and the Group, parting with a company remains an option in exceptional cases – for example, if there has been a substantial change in the original environment and market conditions under which a portfolio company operates and a new configuration would make more financial sense for the company and its employees.

In light of the structural upheaval in the automotive industry, which has resulted in high pressure on margins, series suppliers in the Automotive Technology segment will not be able to achieve INDUS' margin targets for the foreseeable future. The environment for suppliers has further deteriorated with the coronavirus crisis. Extensive repositioning projects are currently being pursued to make series suppliers fit for the demands of future technologies. The medium-term goal remains to reduce the importance of series suppliers in the INDUS portfolio.

2. DRIVING INNOVATION

Competitive positions once established must be repeatedly defended. For this reason, the companies in the INDUS Group must actively embrace future trends, identify opportunities and make use of opportunities to act. The "driving innovation" initiative is of particular importance to adapt to changing market situations at an early stage. Driving innovation among the INDUS companies is a key component of the PARKOUR strategy program.

INDUS supports selected innovation projects in the Group with financial subsidies. The development funds cover 50% to 80% of the project volume. The holding company has set aside an annual budget up to 3% of consolidated EBIT for this purpose. The aim is to ensure the portfolio companies' future viability and open up new production areas and markets. Despite the coronavirus pandemic and as in the previous year, INDUS therefore did not reduce the absolute volume of development funds available in the 2021 financial year compared to the 2019 financial year.

To increase innovativeness, INDUS supports the portfolio companies strategically as a sparring partner and conceptually with methodological knowledge. In addition to developing company-specific innovation strategies, opening up individual innovation search areas and developing company-specific innovation road maps are particularly important. INDUS also creates networks with other Group companies and external institutions in order to obtain ideas from outside, collaborate on innovation projects or jointly open up innovation search areas in the network. This takes place in the "Hydrogen" working group, for example, and in future in the new working group "Sustainable construction."

INDUS strengthens the development of defined, dynamic growth industries and analyzes possible points of intersection with its portfolio companies. Younger companies with high innovativeness make interesting acquisition targets for the INDUS Group, particularly at sub-subsidiary level. INDUS therefore supports the acquisitions of younger companies with a high level of technological competence as a complementary addition to increase its portfolio companies' innovativeness.

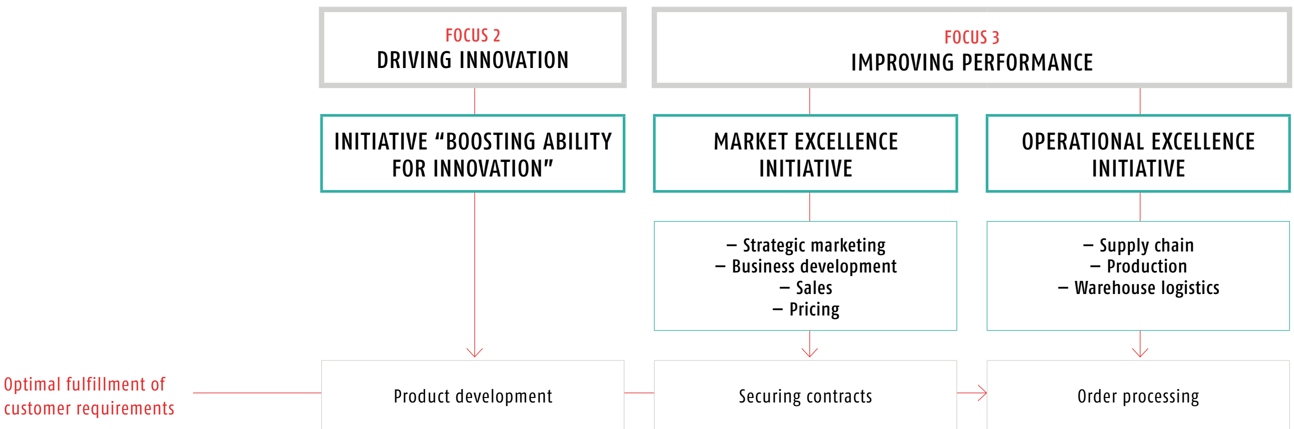
3. IMPROVING PERFORMANCE

INDUS addresses increasing global competition and rising margin pressure by promoting **Market Excellence** and **Operational Excellence** in the portfolio companies. INDUS assists its portfolio companies with the optimization of value-adding core processes from order entry to order processing. The Market Excellence initiatives focus on making optimal use of market potential. Lean management approaches are at the heart of our activities to achieve Operational Excellence. These approaches avoid waste and they focus on added value in all tasks.

As part of the **Market Excellence** initiative INDUS provides advice in the areas of business development, strategic marketing, sales, and pricing. It supports portfolio companies' processes from strategic market cultivation right through to securing contracts. The support on offer also includes sharing methodological expertise, for instance, with regard to market, potential, and competition analyses, and improving pricing for products and services. Another significant aspect is providing advice on choosing sales channels, designing sales organizations, and conducting specific sales training.

As part of the **Operational Excellence** initiative INDUS assists the portfolio companies in realizing productivity potential in procurement, production, and logistics. The support consists of an overarching training program on Lean management, various networking formats for sharing best practices in the INDUS Group, and individual workshops with the portfolio companies to impart specific methodological knowledge. Specific optimization projects are accompanied directly by INDUS or by external partners.

STRATEGIC INITIATIVES



4. STRIVING FOR SUSTAINABILITY

Sustainable business practices generate competitive advantage, increase corporate value and strengthen the corporate culture. Working from this conviction, INDUS has made its approach to sustainability increasingly professional in recent years. Sustainable practices for INDUS means treating economic, social and ecological objectives equally over the long term: we want to create lasting values, enable quality work by doing so, and protect the environment at the same time. The sustainability strategy has therefore now become an independent strategic initiative, "Striving for sustainability," within the PARKOUR strategy program.

In order to ensure long-term entrepreneurial success, INDUS follows clear guidelines with respect to sustainable practices:

- **Economically sustainable conduct ensures future success.**
- **Social fairness is a fundamental SME principle and encourages cooperation.**
- **Considering environmental factors prevents subsequent costs and improves process efficiency.**
- **Compliance with agreements and rules strengthens trust.**

To **ensure profitability**, INDUS uses traditional economic key figures, thus aligning itself with stability-oriented aspects. This safeguards entrepreneurial success in the interests of the Group, the shareholders, and other stakeholders in the long term. The holding company ensures a stable balance sheet, adequate liquidity, and a flexible financing basis. In terms of their **social** orientation, all the companies in the INDUS Group are guided by traditional SME values. Central to these is the principle of responsibility – for the survival of the company, but first and foremost for the people who ensure it. This is expressed in company-specific codes of conduct, that cover the continuous development of occupational health and safety and support for trainees, as well as training courses for the employees. Social responsibility is expressed by support for non-profit initiatives, particularly in the portfolio companies' local region. With respect to the **environment**, INDUS supports the portfolio companies with their efforts to conserve resources and avoid greenhouse gas emissions. The portfolio companies express their environmental responsibility in particular by installing photovoltaic systems, by switching to more climate-friendly heating systems, buying green power, converting their fleet to vehicles with alternative drives and setting up Bike to Work initiatives for employees. The environmental development bank provides development funds for sustainable product innovations in the future field of green tech (energy and environmental technology and products with an improved energy-efficiency profile). The sustainability development bank will provide additional funding starting in 2022 for projects to achieve significant emissions reductions in the portfolio companies.

The Board of Management and the Supervisory Board have always felt committed to responsible, transparent and sustainable **corporate governance**. For example, they have followed the recommendations and suggestions of the German Corporate Governance Code since its introduction, now without exceptions, thus documenting the importance of the rules of good corporate governance and supervision. A whistleblowing system was also introduced across the Group in the 2021 financial year that can be used on a decentralized basis by the portfolio companies and so satisfies the corresponding statutory obligations and the recommendations of the German Corporate Governance Code.

INDUS will again publish a non-financial report for the INDUS Group for the period to December 31, 2021. This will be published as part of the Annual Report. The magazine SUSTA[IN] was published for the first time in 2021 to report on projects and the progress of sustainability initiatives in the INDUS Group and will now be published on an annual basis. The next issue will come out in summer 2022. More information in Non-financial Report on p. 19 et seqq. and online at www.indus.de/en/sustainability

Management Control

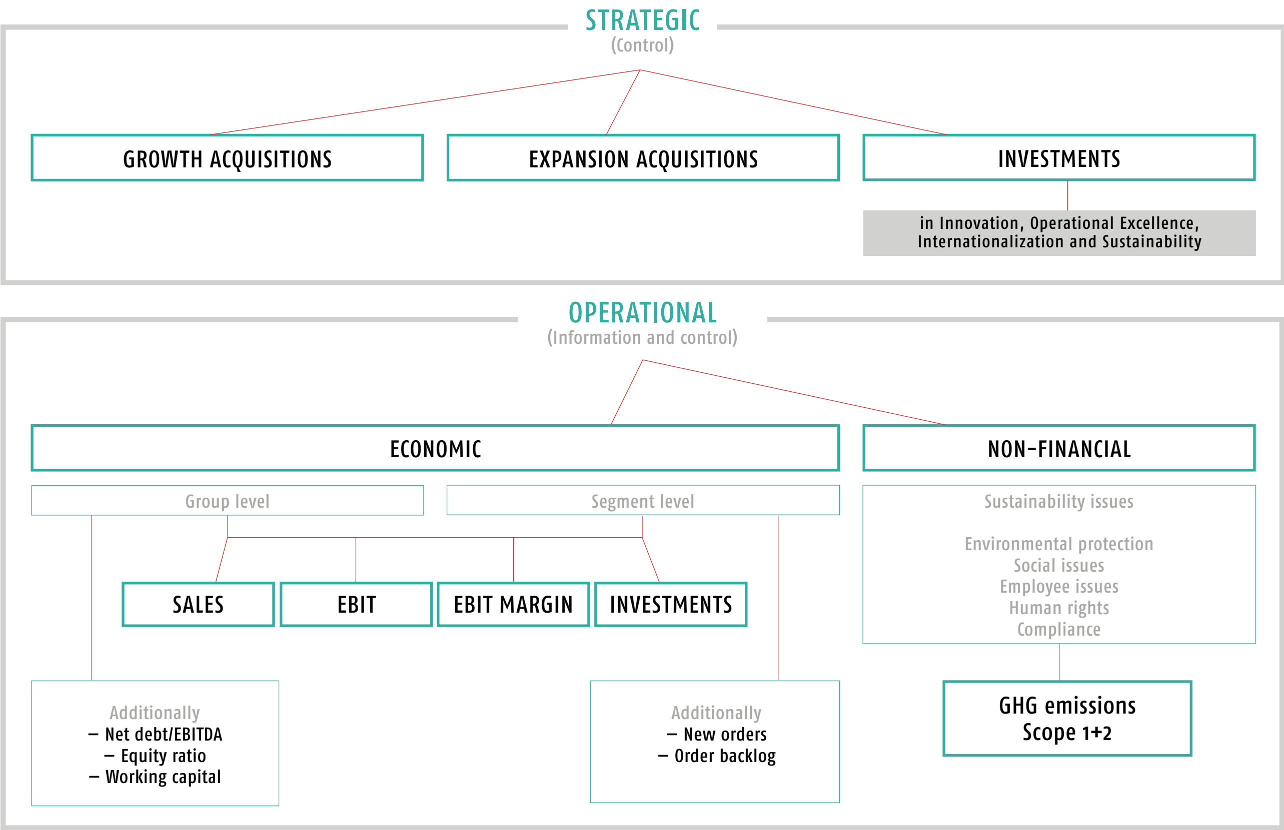
Planning and Strategy Processes

Based on the INDUS strategy PARKOUR, the portfolio companies develop their own individual business strategies for the coming financial years. This then forms the strategic base for planning their business development, the necessary investments and the development of their financial position and financial performance, usually in three- to five-year plans.

As part of the planning process, a structured discussion on business planning, risks and opportunities is held between the entire Board of Management and individual managing directors. Using the planning data and the exchanges with the managing directors, the INDUS Board of Management can gain an overall view of the business performance expected. The Board of Management uses this to create the planning for the necessary funds at holding company level and then communicates the results of the consolidated planning and expectations to the INDUS shareholders and creditors. The business objectives of INDUS Holding AG are thus based primarily on annual targets set by the portfolio companies.

The planning process pays particular attention to sustainability projects at the portfolio companies. Steps to reduce CO_2 emissions and activities related to social issues are particularly recorded.

BASIS FOR INFORMATION AND CONTROL



Management Variables

The economic indicators used by the holding company to assess the situation correspond to the operational **financial performance** indicators commonly used for manufacturing companies. In addition, **strategic financial performance** indicators are used for direct investment decision-making. Starting in financial year 2021, the greenhouse gas emissions (GHG emissions Scope 1+2) are used as a non-financial performance indicator for information and control.

The target performance comparison results obtained by INDUS as part of its regular financial reporting for the last financial year are to be found in the Report on the Economic Situation.

Interim Reporting

The portfolio companies inform INDUS about the financial performance of the companies on an ongoing basis. The companies report monthly to the holding company on their financial situation. INDUS also receives information focused on specific topics. This gives the holding company's management a continuous insight into the situation at the portfolio companies and thus an overview of the Group's overall situation.

INDUS monitors the performance of the companies in light of projections based on monthly figures. The portfolio companies update their forecast for the current financial year three times within the financial year. The controlling system delivers early warning if there are divergences from the plans. The subsidiaries also employ individual control mechanisms and, due to their different natures, individual key figures. The managing directors of the portfolio companies observe and analyze their markets and specific competitive environments, and report any material changes in either back to INDUS.

Regular Management Dialog

In addition to the obligatory information flows for financial reporting, the Board of Management and the individual managing directors also regularly exchange information in a less formal manner about developments in the portfolio companies. INDUS proactively pursues its interests as owner by providing advice and supporting the portfolio company' development.

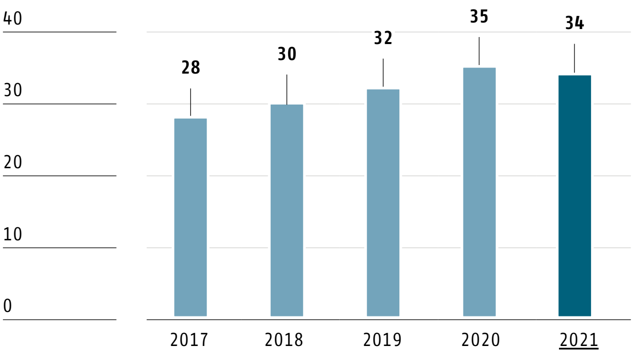
Non-financial Performance Indicators

Employees

IN THE HOLDING COMPANY: A TEAM OF SPECIALISTS FOR EFFECTIVE SUPPORT OF PORTFOLIO COMPANIES

On average in the 2021 financial year, the holding company had 34 employees excluding members of the Board of Management (previous year: 35). It is in the interest of INDUS to boost the productivity of its employees and to encourage their long-term loyalty to the company. To that end, INDUS offers its employees the basic conditions of a modern, attractive employer in terms of healthcare, educational advancement, and income.

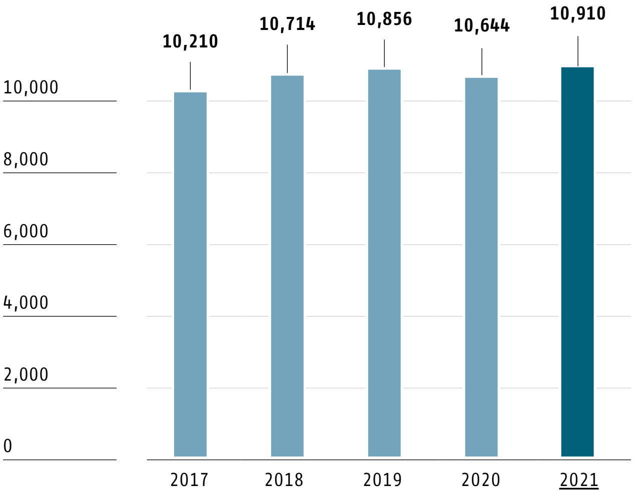
EMPLOYEES OF THE HOLDING COMPANY (Number)



IN THE GROUP: CULTIVATING AN SME-APPROPRIATE CULTURE

On average, 10,910 people were employed in the INDUS Group during the reporting year (previous year: 10,644). Management of those employed by the portfolio companies is the responsibility solely of their managements. Accordingly, the portfolio companies direct their human resources work, in both quantitative and qualitative terms, on their own. SMEs assume a high level of responsibility when it comes to training; this is also true in particular of the companies within the INDUS Group. A total of 380 trainees were employed throughout the Group in 2021 (previous year: 415); this equates to a trainee ratio of 3.5 % (previous year: 3.9 %).

EMPLOYEES OF THE INDUS GROUP (Number)



Development and Innovation

R&D SUPPORT FOR PORTFOLIO COMPANIES

As a holding company, INDUS does not engage in research or development work in the traditional sense. All activities, along with responsibility for ensuring that the portfolio companies have their fingers on the pulse in terms of the technology that their products embody and are strategically well positioned in their markets, are in the hands of the portfolio companies themselves.

INDUS is also keenly interested in the long-term economic success of its portfolio companies. The INDUS Board of Management therefore regards the subject of innovation as a central key to the healthy development of the companies. For this reason, the Board of Management has increasingly initiated support services in recent years that the portfolio companies can avail themselves of. These are:

Funds for innovations in future fields: INDUS budgets up to 3% of annual consolidated EBIT for its portfolio companies as part of the “driving innovation” strategic initiative to advance suitable innovation projects. The volume of innovation funding fell in 2021 because some larger projects expired. The aim for 2022 is to achieve a similar level of innovation funding in the portfolio companies as before the coronavirus pandemic. This enables INDUS to specifically promote activities and projects with a significant level of innovation and in predefined future fields that, in INDUS’ view, offer outstanding long-term development potential but are also associated with higher risks. These innovations enable the companies to tap into new business fields and technologies and thus strengthen their competitive position.

Methodological support: INDUS focuses in particular on promoting innovation. It supports its portfolio companies in innovation and technology management in order to improve their strategic position and thus optimize the focus and effectiveness of the development work. The portfolio companies are provided with methodological support for the derivation of innovation strategies, the identification of innovation potential, generating and selecting ideas, and project management during the innovation process.

Awareness and networking: the management of the holding company watches the trends and developments in the markets across sectors, and transfers the resulting knowledge to the portfolio companies through active dialog with their managements. INDUS also supports information exchange between the portfolio companies to allow innovation to flourish through changes in perspective. INDUS also helps set up connections between its portfolio companies and external partners and institutions and looks for opportunities to collaborate in the fields of science, research, and economics.

INNOVATION ACTIVITIES UP AGAIN AT THE PORTFOLIO COMPANIES

The expenses for R&D activities recognized in the INDUS Group's consolidated financial statements for 2021 amounted to EUR 20.4 million (previous year: EUR 18.9 million). This was an increase in research and development funding of a good EUR 1.5 million. More information on p. 108 [9]

The aim is to achieve an increasing degree of in-house, individual R&D capability and innovation effectiveness at the portfolio companies. The relevance to customers is a top priority in development work: successful development partnerships are in place with both customers and suppliers.

The INDUS Group works in successful collaborations with research institutions and universities in connection with the portfolio companies' development activities. Some Group companies already collaborate with research organizations – for instance, through product innovations or innovation-related market analyses. Forms of cooperation range from traditional customer-supplier relationships to contract research and participation by individual companies in publicly funded research projects.

Sustainability

The sustainability strategy was added to **PARKOUR** as the fourth independent strategic initiative. In terms of the sustainability strategy the years ahead will focus particularly on implementing the greenhouse gas reduction targets defined in the Climate Protection Act. There are two ways of reducing greenhouse gases (GHG emissions). One is to use low-emission sources of energy (Scope 1+2) and the other is to increase energy efficiency, which is also vital from an economic perspective (Scope 2).

The reduction in gross greenhouse gas emissions (GHG emissions) in Scope 1+2 was defined as the performance indicator for management control purposes at INDUS. The gross emissions were chosen deliberately, because this figure cannot be corrected by the purchase of certificates. Scope 1 comprises stationary combustion, mobile combustion and fluid emissions. Greenhouse gas emissions in Scope 2 currently comprise power and district heating. Emissions are measured in tons of CO_2 and presented per million euros of gross value added.

Corporate Governance

Declaration on Corporate Governance

The Board of Management and Supervisory Board of INDUS have committed themselves to thorough observance of the principles of good corporate governance. The management body and supervisory body therefore issue the appropriate "Declaration on Corporate Governance" on an annual basis. The current declaration in its complete wording can be found on the INDUS website. www.indus.de/en/about-indus/corporate-governance

The annual Declaration of Conformity pursuant to Section 161 of the German Stock Corporation Act (AktG) constitutes a part of the Declaration on Corporate Governance. This was issued by the Board of Management and the Supervisory Board on December 9, 2021. In it, they state that in 2020, INDUS Holding AG was in compliance with all of the recommendations made by the government commission and the German Corporate Governance Code. The Declaration of Conformity in its complete wording can be found on the INDUS website. www.indus.de/en/about-indus/corporate-governance

Report on the Economic Situation

Sales for the INDUS Group rose from the previous year's figure of EUR 1.56 billion to EUR 1.74 billion in the 2021 financial year. The INDUS Group's operating result (EBIT) was EUR 115.4 million, compared to EUR 25.1 million in the previous year. All the segments increased both their sales and operating income (EBIT). The performance was particularly good in the segments Construction/Infrastructure, Engineering and Metals Technology. Operating cash flow decreased from EUR 174.4 million in the previous year to EUR 136.4 million in the reporting period.

Changes in the Economic Environment

Macroeconomic Trends

WORLD ECONOMY RECOVERS BUT LOSES MOMENTUM

Following the historic collapse in 2020, global production increased sharply in 2021, despite some residual friction. The Kiel Institute for the World Economy (IfW) forecasts growth of 5.7% and the International Monetary Fund (IMF) predicts 5.9%. These growth rates are lower than the expectations at the start of 2021, however. Developments in advanced economies were particularly subdued by supply chain disruptions and price increases and are only expected to regain their pre-crisis levels in 2022. Delays also increasingly affected downstream production stages in the second half of 2021. As a result, global industrial production fell sharply in the final months of the year – although the number of incoming orders remained high. The fact that the pandemic took a turn for the worse in many parts of the world towards year-end was an additional burden. Some regions achieved a dynamic performance in the third quarter of 2021; the Indian economy recovered from the effects of the lockdown in the spring, for example, but overall, the global economic expansion lost a lot of momentum. The COVID-19 pandemic continued to depress economic activities, but the regional impact varied widely due to asynchronous waves of infections and different levels of vaccination.

GERMAN ECONOMY: LONG-TERM EFFECTS OF THE PANDEMIC SUBDUE THE UPSWING

Many areas of the German economy recovered from the impact of the coronavirus pandemic in 2021, although the upswing was not able to make up altogether for the collapse in 2020. Gross domestic product rose by 2.8% last year, after adjustment for the calendar year. Despite this significant recovery, economic output is therefore still 1.5% below the pre-crisis level. The effects of the pandemic on international supply chains had a massive impact on added value over the course of the year. Supply-side constraints and steep price rises that went well beyond the normal cyclical range were the result. Presented with these obstacles, industrial production in Germany fell by 5.5% on the pre-crisis year 2019. Outstanding order volumes in the manufacturing sector in December 2021 were 29.3% higher than the pre-crisis level in January 2020 and at their highest since January 2015, partly due to a backlog in production. The inflation rate hit 5.3% in December 2021, the highest rate in almost 30 years. Demand returned to normal after the coronavirus shock, however: German exports in 2021 rose in a year-over-year comparison by 14.0% and so were 8.9% up on the 2019 figure. New orders in the manufacturing sector rose by 9.3% in 2021 compared with the year before the crisis. Whereas economic output increased overall in the summer, driven by strong growth in the services sector, GDP declined by 0.7% in the fourth quarter of 2021 compared with the previous quarter. The fourth wave of the coronavirus and the accompanying restrictions particularly depressed consumer spending and further slowed the recovery.

Changes in the Industrial Environment

CONSTRUCTION/INFRASTRUCTURE: CONSTRUCTION INDUSTRY DEFIES THE DIFFICULT ENVIRONMENT

The construction industry got off to a subdued start to 2021, with the pull effect of the VAT change and bad weather adversely affecting the business. Construction activity stabilized rapidly, however, and continued its general growth trend. Sales in the main construction sector rose year-over-year by 6.2% in November 2021, and by 1.6% in the first eleven months. Construction permits for residential and non-residential properties increased by 4.5% year-over-year in the period from January to November 2021 to reach their highest level since 2006.

A shortage of upstream products and rising materials prices also posed problems for the construction industry, however. Average producer prices for individual construction materials rose faster in 2021 than in the past 70 years, with timber around 77.3% more expensive and rebar steel up by 53.2%. Higher energy prices also contributed to the rise in inflation. For long-term contracts in particular, these massive price increases could only partially be passed on to customers and so reduced the earnings margin. Finally, the real volume of new orders in the main construction sector declined slightly, albeit at a high level: November 2021 saw 7.1% fewer orders than in the previous month, but new orders in the period from January to November 2021 were still 1.3% up on the same period of the previous year. Consumers in particular seem to be postponing their construction projects in view of the significant price increases. Commercial construction is still reporting a high level of new orders. Overall – and despite an increasing shortage of qualified employees and a growing backlog of construction permits – the main construction sector has come through the coronavirus pandemic well.

AUTOMOTIVE TECHNOLOGY: GERMAN AUTOMOTIVE MARKET SUFFERS FROM SHORTAGE OF SEMICONDUCTORS

Expectations at the start of the year for making good in 2021 on the business lost to the coronavirus did not come true for the automotive market. Demand for vehicles did increase over the year, but the industry was not able to satisfy the demand. The vehicle industry in particular was massively hit by the effects of increasing material shortfalls: a lack of semiconductors brought production lines to a standstill. Higher prices for energy and logistics were a further burden on performance. Production by automotive manufacturers in Germany fell year-over-year by 12% in 2021 as a result, its lowest level since 1975. This is also reflected in the export figures, with vehicle exports down by 10% on 2020 in 2021. Orders from abroad were 2% higher than in the first coronavirus year, but order volumes from international customers fell in December 2021 by 20% compared with the same month the previous year. Domestic orders for German OEMs increased by 6% in 2021, however, with strong growth at year-end.

New vehicle registrations fell in 2021, with 10% fewer new cars registered in Germany – the year-over-year decline came to 27% in December 2021 alone. The share of electric cars continues to rise: one in four new cars registered in Germany in 2021 has an electric motor. The European market also saw new car registrations fall by 2%. Light vehicle sales in the United States rose by 3% in 2021, but were still significantly down on the 2019 level. The Chinese market grew year-over-year by 7% by contrast, and so overtook the pre-crisis year 2019.

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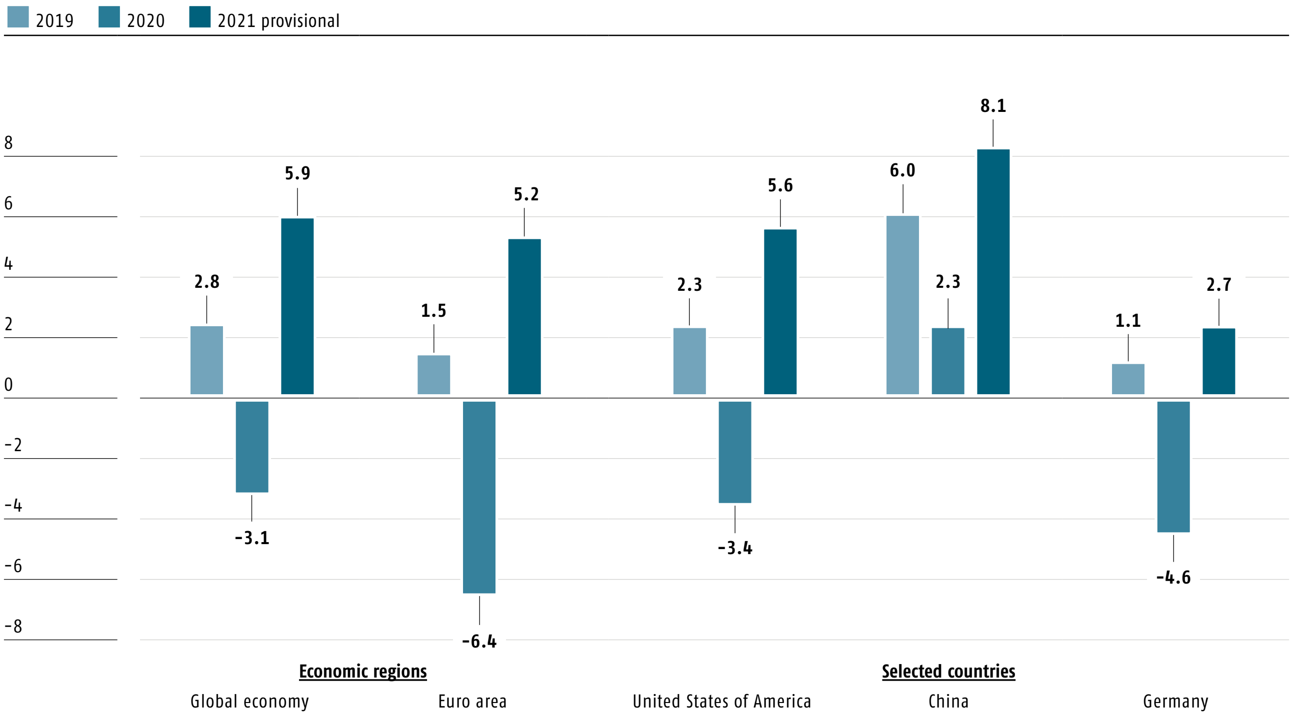
ANNUAL ECONOMIC GROWTH (in %)



Source: International Monetary Fund, World Economic Outlook (as of Jan. 2022, for 2019 Oct. 2021)

ENGINEERING: STRONG RECOVERY

Broad swathes of the German engineering sector recovered from the previous year's massive coronavirus crisis in 2021. And in the final months of the year, the engineering firms really accelerated down the final straight. VDMA reported for 2021 a year-over-year increase of 32% in orders in real terms, which was 7% higher than the strong year 2018. Orders from abroad – especially from countries outside Europe – rose particularly fast. The sub-sectors machine tools, robotics and automation, drive technology, construction machinery and production equipment, and general ventilation all reported an increase of more than 20% in orders between October and December 2021.

Material shortages, a lack of qualified staff, and problems with logistics and transport were also challenges for engineering companies last year, however, as bottlenecks slowed both production and sales. Production and sales are both expected to have grown by 7% in 2021. Exports of machinery from Germany rose by 7.8% in real terms in the first eleven months of 2021. In the period from September to November 2021 exports to the United States (+22.0%), UK (+21.4%) and India (+25.3%) grew particularly rapidly, whereas exports to China declined (-2.9%).

MEDICAL TECHNOLOGY: STILL SUFFERING FROM THE EFFECTS OF THE CORONAVIRUS

The coronavirus pandemic continued to depress the economic opportunities of the medical technology industry in 2021. A majority of companies surveyed by BVMed in the fall did expect better sales than the previous year, but 11% of those questioned believed their sales would fall by a double-digit rate – and this was even before the fourth wave. Overall, it was not possible to return to pre-coronavirus figures. Small and medium-sized businesses, which account for 93% of medical technology companies, as well as some areas of the medtech sector, are still affected by postponed operations and a decline in the number of visits to physicians. Operating sets, bandages and implants all underperformed slightly in 2021. In the BVMed fall survey, 62% of companies gave the postponement of elective surgery as the biggest obstacle to sales, 59% thought it was the decline in hospital case numbers and 55% the restricted contact to patients and customers. Earnings were also affected, with 42% of the companies surveyed expecting their profits to be lower in 2021. Higher raw materials prices and higher transport and logistics costs put pressure on earnings. The EU Medical Device Regulation (MDR) in effect since May 2021 remains a burden for sales, with its obligation to gather extensive clinical data and long periods for evaluating conformity.

METALS TECHNOLOGY: DIFFICULT ENVIRONMENT HINDERS RECOVERY

Companies in the metal processing industry in 2021 were hindered in their efforts to make up for lost time by the difficult operating environment. Serious supply bottlenecks hampered production at a high level in the third quarter, but production was stabilized in the fourth quarter. New orders from Germany and abroad fell at the same time, however. New orders fell by 6.9% compared with the third quarter in October/November 2021. In total, the sector was not able in 2021 to regain the levels reported before the coronavirus and the previous recession. The overall situation remains uncertain. According to a survey by the employer association Gesamtmetall, 96% of companies in the metal and electrical industry were affected by delivery and supply chain problems in fall 2021; both for feedstocks and materials as well as for upstream services. This had a corresponding impact on prices: almost 90% of businesses complained of price increases averaging 36%. The financial position of the M+E industry, which was already suffering from the structural change in the sector, has come under further pressure from higher prices for energy and materials.

Performance of the INDUS Group

The Board of Management's Overall Assessment

SIGNIFICANT INCREASES IN SALES AND OPERATING INCOME (EBIT) ACROSS THE ENTIRE INDUS GROUP – ENGINEERING REPORTS FASTEST GROWTH RATES

In the 2021 financial year, the INDUS Group generated sales of EUR 1.74 billion. Sales rose by 11.7% and including acquisitions were thus slightly above the originally forecast range of EUR 1.55–1.70 billion. All five segments in the INDUS Group reported an increase in sales; sales in the Engineering segment grew fastest at 18.6%. The sales performance is particularly impressive given the difficult operating environment in some areas, such as the global supply shortage, the ongoing coronavirus pandemic, and the decisions by OEM not to draw down orders in the Automotive Technology segment. It was even possible to compensate for the sales lost as a result of the INTERIM SPRINT package.

At EUR 115.4 million, operating income (EBIT) was above the original forecast of EUR 95 to 110 million and significantly higher than the previous year's figure of EUR 25.1 million, which was impaired by the coronavirus pandemic. Earnings contributions in the segments Construction/Infrastructure (EUR 70.5 million), Engineering (EUR 56.9 million) and Metals Technology (EUR 42.3 million) were significantly better than expected. The Medical Engineering/Life Science segment reported operating income (EBIT) of EUR 12.1 million, which is in line with our expectations. Operating income in the Automotive Technology segment improved from EUR -87.8 million to EUR -57.3 million. Automotive technology remains a challenging industry. The automotive sector is currently under pressure due to supply shortages and a scarcity of materials, in particular the global shortage of computer chips.

The EBIT margin of the INDUS Group came to 6.6%, which was slightly above our forecast range of 5.5% to 6.5% and above the previous year's figure of 1.6%, but still well short of the "10% + X" target. Operating flow of EUR 136.4 million was EUR 38.0 million lower than the previous year's figure (EUR 174.4 million), as expected, due to the additional working capital. Working capital was EUR 457.5 million as of December 31, 2021, and was thus EUR 47.0 million higher than as of the previous year's reporting date. The rise is due to greater business activities and higher material prices. Some companies also built inventories to hedge against price hikes and raw materials shortages.

INDUS strengthened its business with two first-level investments in 2021. The acquisition of JST closed at the beginning of the year. JST Systemtechnik GmbH & Co. KG is a medium-sized provider of integrated control room solutions and has been in the scope of consolidation since January 2021. WIRUS Fenster GmbH & Co. KG was acquired in March. WIRUS produces window frames made of plastic and aluminum, sliding, front and side doors. The company is highly digitalized and growing fast. At the sub-subsidiary level, HORNGROUP Holding acquired FLACO Geräte GmbH and a controlling majority stake in TECALEMIT, Inc. A contract to acquire the shares of Heiber und Schröder Maschinenbau GmbH (HEIBER + SCHRÖDER) was also signed at year-end 2021. HEIBER + SCHRÖDER is an SME provider of special machinery for the cardboard industry. The economic transfer and initial consolidation HEIBER + SCHRÖDER will take place in Q2 2022. These acquisitions were funded by the capital increase of EUR 85 million completed in March 2021.

INDUS sold the WIESAUPLAST Group to a strategic investor at the end of December 2021. This enabled a series supplier from the Automotive Technology segment to be successfully transferred to a buyer with better development prospects for the company.

Investments in property, plant and equipment and intangible assets amounted to EUR 75.6 million (previous year: EUR 52.5 million). Investment was deliberately scaled back the previous year, and this is now a clear signal that the INDUS Group continues to invest strongly.

The Group's economic position improved significantly in 2021 compared with the coronavirus year 2020, also thanks to the capital increase completed in March 2021. At 42.4%, the Group's equity ratio is significantly up on the year (previous year: 39.1%) and above the target ratio of 40%. The liquidity built up in the previous year as a precautionary measure was reduced again significantly and came to EUR 136.3 million as of the reporting date. The repayment term (net debt/EBITDA) was 2.3 years (previous year: 3.3 years), which was a great improvement and a return to the stipulated target range of 2 to 2.5 years. Gearing, the ratio of net debt to equity, was 64%, more than 10 percentage points better than in the previous year (77%).

Overall, the INDUS Group has recovered very quickly from the coronavirus crisis, performing even better than expected in many areas. Our PARKOUR strategy provided the portfolio companies with a toolbox to tackle the numerous challenges in these difficult times. The INTERIM SPRINT from 2020 was completed with the discontinuation of BACHER and it is clear that these measures have boosted the Group's profitability.

PARKOUR focuses increasingly on non-financial performance indicators. We are now using greenhouse gas emissions (GHG emissions Scope 1+2) as a management variable at Group level. Greenhouse gas emissions (Scope 1+2) came to 93.91 t CO_2/EUR million GAV in 2021. This was a reduction of a good 7.8% in greenhouse gas emissions (8 t CO_2/EUR million GAV).

TARGET PERFORMANCE COMPARISON

	ACTUAL 2020	TARGET 2021	ACTUAL 2021	Level of achievement
GROUP				
Management variables				
Acquisitions	1 Growth acquisition that was signed in 2020 and is economically effective starting in 2021.	2 Growth acquisitions	2 Growth acquisitions, 2 Purchase of sub-subsidiaries	better than expected
Sales	EUR 1.56 billion	EUR 1.55 to 1.70 billion	EUR 1.74 billion (EUR 1.68 billion without growth acquisitions)	achieved (upper end of expectations)
EBIT	EUR 25.1 million	EUR 95 to 110 million	EUR 115.4 million	better than expected
EBIT margin	1.6%	5.5% to 6.5%	6.6%	better than expected
Investments in property, plant, and equipment, and intangible assets	EUR 52.5 million	EUR 85 to 90 million	EUR 75.6 million	not achieved
Greenhouse emissions (GHG emissions Scope 1+2)*	102.07 t CO_2/million EUR GAV	95.80 t CO_2/million EUR GAV	93.91 t CO_2/million EUR GAV	better than expected
Supplementary management variables				
Equity ratio	39.1%	<40%	42.4%	better than expected
Net debt/EBITDA	3.3 years	<3 years	2.3 years	better than expected
Working capital	EUR 410.5 million	Above previous year	EUR 457.5 million	forecast achieved
SEGMENTS				
Construction/Infrastructure				
Sales	EUR 384.0 million	Slight fall in sales	EUR 451.6 million (including EUR 45.8 million due to WIRUS acquisition)	better than expected
EBIT	EUR 64.5 million	falling income	EUR 70.5 million	better than expected
EBIT margin	16.8%	13% to 15%	15.6%	better than expected
Automotive Technology				
Sales	EUR 269.2 million	Strong rise in sales	EUR 281.9 million	achieved
EBIT	EUR -87.8 million (including impairment of EUR 33.8 million)	Strong rise in income	EUR -57.3 million (including impairment of EUR 8.2 million)	forecast achieved
EBIT margin	-32.6% (without impairment -20.1%)	Negative	-20.3% (without impairment -17.4%)	forecast achieved
Engineering				
Sales	EUR 370.0 million	Strong rise in sales	EUR 438.9 million	better than expected
EBIT	EUR 31.4 million (including impairment of EUR 2.3 million)	Strong rise in income	EUR 56.9 million	better than expected
EBIT margin	8.5% (without impairment 9.1%)	7% to 9%	13.0%	better than expected
Medical Engineering/Life Science				
Sales	EUR 142.1 million	Rising sales	EUR 148.7 million	achieved
EBIT	EUR 10.2 million	Strong rise in income	EUR 12.1 million	achieved
EBIT margin	7.2%	7% to 9%	8.1%	achieved
Metals Technology				
Sales	EUR 393.6 million	falling sales	EUR 420.4 million	better than expected
EBIT	EUR 14.4 million (including impairment of EUR 4.5 million)	Strong rise in income	EUR 42.3 million	better than expected
EBIT margin	3.7% (without impairment 4.8%)	7% to 9%	10.1%	better than expected

* Net emissions intensity

Group Earnings Performance

CONSOLIDATED STATEMENT OF INCOME (in EUR million)

	2021	2020	2019	Difference 2021 to 2020 absolute	Difference 2021 to 2020 in %
Sales	**1,741.5**	**1,558.6**	**1,742.8**	**182.9**	**11.7**
Other operating income	28.4	22.1	34.4	6.3	28.5
Own work capitalized	6.0	6.4	7.6	-0.4	-6.3
Change in inventories	23.7	-27.6	-22.9	51.3	>100
Overall performance	**1,799.6**	**1,559.5**	**1,761.9**	**240.1**	**15.4**
Cost of materials	-817.6	-690.1	-782.4	-127.5	-18.5
Personnel expenses	-529.1	-501.0	-527.5	-28.1	-5.6
Other operating expenses	-232.5	-210.7	-226.3	-21.8	-10.3
EBITDA	**220.4**	**157.7**	**225.7**	**62.7**	**39.8**
Depreciation/amortization	-105.0	-132.6	-107.8	27.6	20.8
Operating income (EBIT)	**115.4**	**25.1**	**117.9**	**90.3**	**>100**
Financial income	-16.3	-15.5	-18.9	-0.8	-5.2
Earnings before taxes (EBT)	**99.1**	**9.6**	**99.0**	**89.5**	**>100**
Taxes	-51.5	-36.5	-38.9	-15.0	-41.1
Earnings after taxes	**47.6**	**-26.9**	**60.1**	**74.5**	**>100**
of which attributable to non-controlling shareholders	0.8	0.1	0.6	0.7	>100
of which attributable to INDUS shareholders	46.8	-27.0	59.5	73.8	>100
Earnings after taxes	**1.78**	**-1.10**	**2.43**	**2.88**	**>100**

GROWTH IN SALES IN THE WHOLE INDUS GROUP

INDUS Group **sales** rose by 11.7% (EUR +182.9 million) to EUR 1,741.5 million in the financial year 2021. Organic growth came to 7.6%. Inorganic growth as a result of the new acquisitions of JST, WIRUS and FLACO amounted to 4.1%. The acquisition of a controlling stake in the North American sub-subsidiary TECALEMIT, Inc. and the disposal of WIESAUPLAST took place as of December 31, 2021 and therefore had no impact on inorganic revenue. The INTERIM SPRINT package implemented in 2020 caused the INDUS Group to lose sales of EUR 29.5 million (1.9%) in the financial year under review.

All segments contributed to the sales increase. The fastest rises came from the Engineering segment (+18.6%) and the Construction/Infrastructure segment (+17.6%). In the Automotive Technology segment the INTERIM SPRINT measures in the reporting year reduced sales by EUR 8.9 million (-3.3%). Despite this, sales in the Automotive Technology segment went up overall by 4.7%. The Medical Engineering/Life Science segment was significantly affected by the coronavirus pandemic during the first lockdown in 2020. The 4.7% increase in sales is therefore partly due to the negative coronavirus effect in the previous year. The Metals Technology segment reported a growth in sales of 6.8%, which represents an increase of 12.1% after adjusting for the effect on sales of INTERIM SPRINT.

Other operating income amounted to EUR 28.4 million, compared with EUR 22.1 million in the same period of the previous year. The increase mainly relates to higher income from currency conversion. **Change in inventories** went up significantly from EUR -27.6 million to EUR +23.7 million.

At EUR 1,799.6 million, the **overall performance** exceeded the previous year's figure of EUR 1,559.5 million by EUR 240.1 million (15.4%).

The **cost of materials** rose year-over-year by 18.5% to EUR 817.6 million (previous year: EUR 690.1 million). The increase was greater than the growth in sales because of higher materials prices in all areas. The **cost-of-materials ratio** therefore rose from 44.3% to 46.9%.

Personnel expenses increased by EUR 501.0 million to EUR 529.1 million. This represents an increase of 5.6% due to greater business activities and the new portfolio companies. In personnel expenses, the subsidies for social security contributions in connection with the short-time working allowance from the state COVID-19 support measure of

EUR 1.1 million (previous year: EUR 2.6 million) were offset with an effect on income. Furthermore, income from the settlement of Swiss pension plans in the amount of EUR 4.5 million was charged to personnel expenses in the previous year. Because personnel expenses went up by less than sales, the **personnel expense ratio** of 30.4% in the past financial year was 1.7 percentage points lower than in the previous year (32.1%).

Other operating expenses increased by 10.3% to EUR 232.5 million. Freight costs in particular were significantly higher. Exchange rate losses (EUR -1.5 million) in particular were significantly lower. As a result, operating income before depreciation/amortization **(EBITDA)** amounts to EUR 220.4 million compared with EUR 157.7 million the previous year. This represents an increase of EUR 62.7 million (39.8%).

Depreciation and amortization of EUR 105.0 was EUR 27.6 million (-20.8%) down on the previous year. This included planned depreciation/amortization of EUR 96.8 million (previous year: EUR 92.1 million) and impairments of EUR 8.2 million (previous year: EUR 40.6 million). The impairments relate to **goodwill** and property, plant, and equipment, as well as intangible assets. They relate to the Automotive Technology segment (previous year: EUR 33.8 million) attributable to the Automotive Technology segment, EUR 2.3 million attributable to the Engineering segment and EUR 4.5 million attributable to the Metals Technology segment.

EBIT SIGNIFICANTLY HIGHER

Operating income or EBIT came to EUR 115.4 million in 2021. EBIT was therefore EUR 90.3 million higher than the previous year (EUR 25.1 million). The EBIT margin was 6.6% compared with 1.6% in the previous year. Without taking impairments into account, the INDUS Group generated operating income of EUR 123.6 million (previous year: EUR 65.7 million). The EBIT margin before impairment was 7.1%, as against 4.2% in the previous year. Net financial income fell by EUR 0.8 million, from EUR -15.5 million to EUR -16.3 million. The financial income includes net interest, income from shares measured according to the equity method, and other financial income. Net interest improved from EUR -16.2 million to EUR -14.5 million. Measurements of minority interests in particular are reported in the other financial income item. The reason for the higher income is the lower valuation of the call/put options for the later purchase of minority interests; the call/put options are measured at fair value.

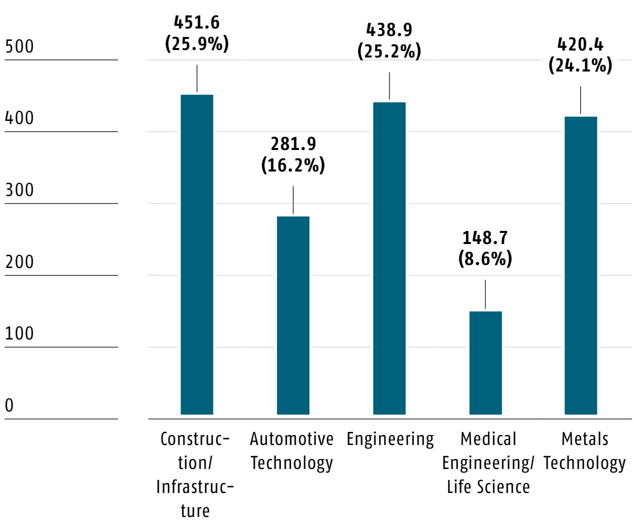
Earnings before taxes or **EBT** rose by EUR 89.5 million to EUR 99.1 million (previous year: EUR 9.6 million). Tax expenses decreased by EUR 15.0 million to EUR 51.1 million. This increase is largely due to the higher earnings before taxes. The tax ratio was 52.0%. This high tax ratio stems from the absence of tax loss carryforwards within the Group. Due to its business model, INDUS does not form tax groups.

Earnings after taxes totaled EUR 47.6 million (previous year: EUR -26.9 million). This equates to an increase of EUR 74.5 million compared with the previous year. Interests attributable to non-controlling shareholders amounted to EUR 0.8 million (previous year: EUR 0.1 million). Earnings after taxes for INDUS shareholders amounted to EUR 46.8 million. This equates to earnings per share of EUR 1.78 as compared to EUR -1.10 in the previous year.

IMPROVED SHARE OF SALES AND EARNINGS IN CONSTRUCTION/ INFRASTRUCTURE AND ENGINEERING

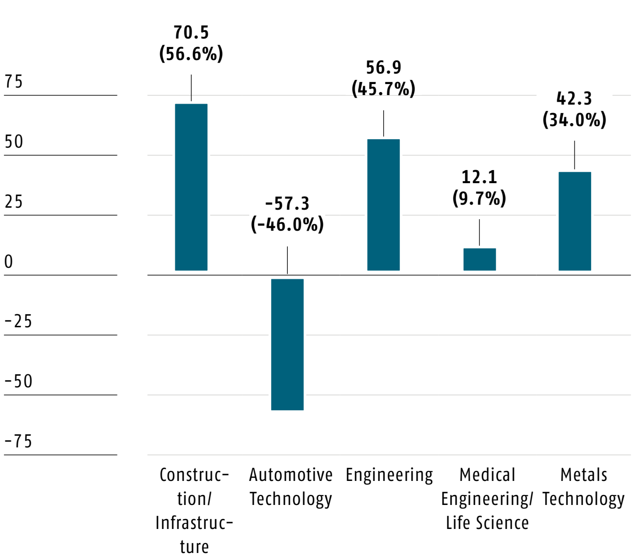
The individual segments' shares of sales and earnings have changed further in relation to one another. The **Construction/Infrastructure** segment's contribution to sales increased to 25.9% (previous year: 24.6%) and that of **Engineering** to 25.2% (previous year: 23.7%). The new acquisitions WIRUS in the Construction/Infrastructure segment (EUR +45.8 million) and JST in the Metals Technology segment (EUR +11.9 million) made a significant contribution to sales growth in these segments. The Construction/ Infrastructure segment was thus the strongest segment in the INDUS Group in terms of sales in 2021, overtaking the **Metals Technology** segment as the segment with the strongest sales. Sales in the Metals Technology segment fell from 25.3% to 24.1%. It should be remembered here that the INTERIM SPRINT measures reduced sales by EUR 20.6 million. The **Automotive Technology** segment also lost sales because of the measures taken in 2020 (EUR -8.9 million). Automotive Technology now accounts for 16.2% of sales (previous year: 17.3%). The **Medical Engineering/Life Science** segment remains the smallest segment in the Group with a revenue share of 8.6% (previous year: 9.1%).

SALES BREAKDOWN BY SEGMENT (in EUR million)



The distribution of operating income (EBIT) exhibits large differences between the segments. The Construction/Infrastructure segment generated a 56.6% share of income (previous year: 197.3%). The Engineering segment accounted for 45.7% of income (previous year: 96.0%). The Metals Technology segment earnings contributed 34.0% (previous year: 44.0%), around one third of Group operating income. The Medical Engineering/Life Science segment made a contribution to income of 9.7% (previous year: 31.2%) in line with its sales volume. The still difficult situation in the Automotive Technology segment led to a contribution to income of -46.0% compared with -268.5% in the previous year.

EBIT BREAKDOWN BY SEGMENT (in EUR million)



CONTRIBUTION TO SALES BY REGION

The INDUS Group's sales are attributable in almost equal measure to its domestic and international business. In relative terms, the domestic share of sales increased by 0.9 percentage points to 52.3% (previous year: 51.4%). Foreign sales increased by 9.8% to EUR 831.2 million as compared with the previous year. Domestic sales rose by 13.5% to EUR 910.4 million.

Earnings Trends in the Segments

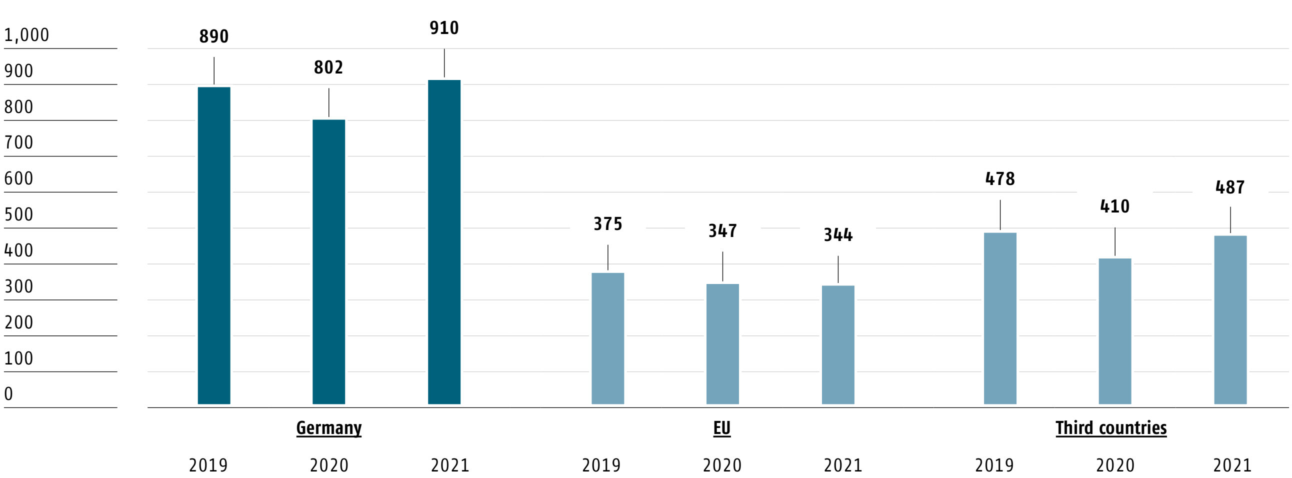
CONSTRUCTION/INFRASTRUCTURE

SEGMENT DESCRIPTION

The twelve (previous year: eleven) portfolio companies in the Construction/Infrastructure segment operate in various areas within the construction industry. Their products and services range from reinforcement technology for reinforced concrete through construction materials, air-conditioning and heating technology and expansion of infrastructure networks – particularly fiberglass networks – to accessories for private housing construction. Traditional building construction and civil engineering are not included in the INDUS portfolio.

Since May 2021 (initial consolidation) the Construction/Infrastructure segment has included WIRUS Fenster GmbH & Co. KG, Rietberg-Mastholte (Gütersloh). WIRUS' product range encompasses window frames made of plastic and aluminum, sliding, house and side doors, and privacy and sun-protection systems. WIRUS' sales, production and logistics are above average in terms of the level of digitalization achieved and the company is growing significantly faster than the market.

SALES 2019–2021 BY REGION (in EUR million)



The segment has above-average profitability and is positioned well for the future. Strategically speaking, therefore, INDUS is looking to boost this segment through the acquisition of more companies.

SEGMENT PERFORMANCE: EBIT MARGIN AGAIN ABOVE TARGET RANGE

The Construction/Infrastructure segment improved both sales and income despite supply shortages and a scarcity of qualified staff. The EBIT margin of 15.6% again exceeded the target range of 13–15%.

At EUR 451.6 million, the sales of the companies in the segment were significantly above the previous year's figure of EUR 384.0 million. Segment sales therefore grew very strongly year-over-year by EUR 67.6 million or 17.6%. Inorganic growth in sales of 11.9% stemmed from the acquisition of WIRUS. Organic sales growth was 5.7%, which is again high. Most of the portfolio companies in the segment contributed to the organic growth. The fastest sale growth came from portfolio companies in the sealant systems space.

At EUR 70.5 million, operating income (EBIT) was up by EUR 6.0 million or 9.3% on the previous year's figure (EUR 64.5 million). The EBIT margin of 15.6% was again very good and above the target range of 13–15%. As expected, the segment was not able to match the previous year's EBIT margin (16.8%) due to significantly higher material prices. The price increases could only partly be passed on in the form of higher prices for the finished products.

Overall, the segment performed rather better than expected in 2021. In addition to the new acquisition of WIRUS (EBIT contribution for the Construction/Infrastructure segment: EUR 3.0 million), this was due to the performance of the existing companies in the segment. They reported substantial EBIT increases in some cases. Incoming orders remain at a good level. Due to targeted stockpiling of raw materials, amongst other measures, none of the companies in the segment have yet suffered from any serious materials shortages.

Investments in the reporting year of EUR 48.6 million related to the acquisition of WIRUS. Investments in fixed assets of EUR 15.9 million were EUR 2.2 million lower than the previous year (previous year: EUR 18.1 million).

KEY FIGURES FOR CONSTRUCTION/INFRASTRUCTURE (in EUR million)

				Difference 2021 to 2020	
	2021	2020	2019	absolute	in %
Revenue with external third parties	451.6	384.0	388.9	67.6	17.6
EBITDA	89.6	79.9	77.0	9.7	12.1
Depreciation/amortization	-19.1	-15.4	-14.0	-3.7	-24.0
EBIT	70.5	64.5	63.0	6.0	9.3
EBIT margin in %	15.6	16.8	16.2	1.2 pp	–
Investments	48.6	18.1	18.8	30.5	>100
Employees	2,173	1,898	1,874	275	14.5

AUTOMOTIVE TECHNOLOGY

SEGMENT DESCRIPTION

The Automotive Technology segment comprised seven units (previous year: eight) as of the reporting date. The portfolio companies and their solutions cover the entire value chain in the automotive industry. The range of products and services covers everything from design and model or prototype construction to test and measurement solutions to series production of components for major manufacturers of cars and commercial or agricultural vehicles.

The segment companies operate in a highly competitive environment shaped by automotive manufacturers' technological change toward e-mobility and the associated structural change.

INDUS disposed of the portfolio company KIEBACK and the sub-subsidiary FICHTHORN the previous year as part of the INTERIM SPRINT measures. In the reporting year INDUS sold WIESAUPLAST GmbH & Co. KG and its subsidiaries to a strategic investor. For the remaining series suppliers in the segment, INDUS continues to check whether better development prospects for the companies and employees would present themselves under a different owner.

SEGMENT PERFORMANCE: DISPOSAL OF WIESAUPLAST GROUP COMPLETED

Sales in the Automotive Technology segment went up by EUR 12.7 million, or 4.7%, to EUR 281.9 million during the reporting period. The increase is particularly due to the collapse in sales the previous year during the coronavirus lockdown. New series ramp-ups continue to have a positive effect on sales. This fortunately more than offset some negative sales effects; particularly the shortage of computer chips, which meant that OEM significantly reduced drawdowns of order volumes and the effect of deconsolidating KIEBACK and FICHTHORN. Both companies were sold in 2020 as part of the INTERIM SPRINT package of measures. The company disposals reduced segment sales year-over-year by 3.4%. Segment growth at the remaining segment portfolio companies was therefore 8.1%.

At EUR -49.1 million, operating income before impairment was up EUR 4.9 million on the previous year's figure (EUR -54.0 million). The EBIT margin before impairment also improved by 2.7 percentage points from -20.1% to -17.4%. The sale of KIEBACK and FICHTHORN in the second half of 2020 was one reason, in addition to the coronavirus effect the previous year.

Regular impairment testing and the disposal of WIESAUPLAST resulted in impairment losses of EUR 8.2 million on goodwill, property, plant, and equipment, and intangible assets. Impairment losses of EUR 33.8 million were recognized the previous year.

At EUR -57.3 million, operating income (EBIT) was up by EUR 30.5 million on the previous year's figure (EUR -87.8 million). The EBIT margin was -20.3%, as against -32.6% in the previous year.

Two portfolio companies in the series supplier field are still undergoing restructuring and again are delivering high negative contributions to income. The work to set up the low cost locations is progressing well and a series ramp-up for an important new project at a portfolio company has begun. Capacity utilization at both portfolio companies will improve significantly from 2022; 2021 will be a year of starting-up and transition for both companies. These two companies will not be profitable in 2022 either.

The whole automotive sector is currently feeling the global chip shortage and the general scarcity of materials. This also had a serious impact on one segment company's ability to deliver measuring technology products in the financial year. There is currently no way of knowing how long this tense situation on the procurement markets will continue. This is causing great uncertainty amongst INDUS portfolio companies in the Automotive Technology segment due to rising material prices and reduced sales. Passing higher prices on to OEMs is only partially possible and with a delay.

Investments amounted to EUR 27.7 million (previous year: EUR 18.0 million) and were thus EUR 9.7 million higher than in the previous year. The increase stems from the restrictive investment policy in the previous year due to the coronavirus crisis and preparations for new series runs.

KEY FIGURES FOR AUTOMOTIVE TECHNOLOGY

(in EUR million)

				Difference 2021 to 2020	
	2021	2020	2019	absolute	in %
Revenue with external third parties	281.9	269.2	350.3	12.7	4.7
EBITDA	-21.6	-26.7	9.0	5.1	19.1
Depreciation/amortization	-27.5	-27.3	-27.5	-0.2	-0.7
EBIT before impairment	-49.1	-54.0	-18.5	4.9	9.1
EBIT margin before impairment in %	-17.4	-20.1	-5.3	+2.7 pp	–
Impairment	-8.2	-33.8	0.0	25.6	75.7
EBIT	-57.3	-87.8	-35.8	30.5	34.7
EBIT margin in %	-20.3	-32.6	-10.2	+12.3 pp	–
Investments	27.7	18.0	22.8	9.7	53.9
Employees	3,277	3,202	3,360	75	2.3

ENGINEERING

SEGMENT DESCRIPTION

The Engineering segment comprises thirteen units (previous year: twelve). The segment's companies produce complete automation systems, package distribution systems, robotic gripping systems, valve technology, inert gas systems, electric heat tracing systems, vibration measurement technology, metal detectors and control room technology.

JST Jungmann Systemtechnik GmbH & Co. KG has been part of the INDUS Group since the beginning of financial year 2021. JST is a specialist in the production of integrated control room solutions and offers extensive know-how in the conceptual design, construction, and maintenance of control rooms. In the middle of the year, HORNGROUP Holding GmbH & Co. KG acquired 80% of the shares in FLACO Geräte GmbH, Gütersloh. FLACO manufactures products and systems for fluid management in workshops, fueling stations and industrial plants. In December 2021, HORNGROUP Holding GmbH & Co. KG acquired a further 35% of the shares in the US company TECALEMIT, Inc. TECALEMIT, Inc. was previously measured according to the equity method and the initial consolidation took place on December 31, 2021.

In the view of INDUS, the impressive technical capabilities and quality of goods “engineered and made in Germany” promise further growth, particularly in the sub-fields of automation, measuring technology, and control engineering. INDUS intends to invest more in acquisitions in this area.

In the opinion of the Board of Management, the segment constitutes to be one of the mainstays of Germany's SME sector and has good prospects.

SEGMENT PERFORMANCE: GOOD EARNINGS PERFORMANCE DELIVERS EBIT MARGIN OF 13.0%

Segment sales in Engineering rose by EUR 68.9 million (+18.6%) to EUR 438.9 million (previous year: EUR 370.0 million). This was the result of an increase in operating activities across the entire segment; the increase was particularly noticeable in the field of logistics. In addition, segment sales increased inorganically by EUR 18.6 million as a result of the acquisition of JST and FLACO. This represents inorganic growth of 5.0%.

Operating income (EBIT) rose disproportionately by EUR 25.5 (81.2%) million to EUR 56.9 million. The previous year's figure includes impairment losses of EUR 2.3 million. Almost all portfolio companies reported significant improvements in income. The EBIT margin of 13.0% was 4.5 percentage points above the previous year's figure (8.5%) and significantly above the target range of 8% to 10%. Incoming orders/order backlog also improved significantly year-over-year.

Segment investment of EUR 40.9 million was significantly up on the previous year and went on the purchase of shares in JST, FLACO and TECALEMIT, Inc. as well as investments in fixed assets. Investments in fixed assets of EUR 6.3 million were EUR 2.1 million higher than in the same period of the previous year.

KEY FIGURES FOR ENGINEERING (in EUR million)

				Difference 2021 to 2020	
	2021	**2020**	**2019**	**absolute**	**in %**
Revenue with external third parties	438.9	370.0	434.6	68.9	18.6
EBITDA	79.6	53.9	73.0	25.7	47.7
Depreciation/amortization	-22.7	-20.2	-18.4	-2.5	-12.4
EBIT before impairment	56.9	33.7	54.6	23.2	68.8
EBIT margin before impairment in %	13.0	9.1	12.6	+3.9 pp	–
Impairment	0.0	-2.3	0.0	2.3	100.0
EBIT	56.9	31.4	54.6	25.5	81.2
EBIT margin in %	13.0	8.5	12.6	+4.5 pp	–
Investments	40.9	4.1	30.9	36.8	>100
Employees	2,289	2,243	2,180	46	2.1

MEDICAL ENGINEERING/LIFE SCIENCE

SEGMENT DESCRIPTION

As in the previous year, the Medical Engineering/Life Science segment comprises five units. The companies in this segment produce orthotic devices and medical compression garments, develop optical lenses and full optical devices, produce surgical accessories and rehabilitation technology, and sell hygienic products for both medical applications and household purposes.

The segment represents one of the industries in which the Board of Management sees potential for future growth. In spite of greater cost pressure in the healthcare sector and higher regulatory requirements – particularly in the MDR – the Board of Management believes the Medical Engineering/Life Science segment continues to offer good prospects and attractive margins.

SEGMENT PERFORMANCE: SALES UPTURN AND EBIT IMPROVEMENT

The medical devices sector was severely hit by the coronavirus pandemic in the form of postponed operations, a fall in visits to physicians and fewer prescriptions for medical aids, and has only recovered relatively slowly. The Medical Engineering/Life Science segment generated sales of EUR 148.7 million in the 2021 financial year (previous year: EUR 142.1 million) and was thus EUR 6.6 million (4.6%) up on the previous year. The increase in sales came particularly from accessories for walkers and wheelchairs, bandages and support stockings.

At EUR 12.1 million, operating income (EBIT) was up by EUR 1.9 million on the previous year (EUR 10.2 million). The segment's EBIT margin improved from 7.2% in the previous year to 8.1% last year and so was exactly within the forecast range of 7% to 9%. In the same period of the previous year, the segment results included a severe collapse during the coronavirus lockdown. Non-wovens business reported a fall in income in 2021. The relocation of administrative functions and the closure and transfer of production facilities to a new, modern site resulted in higher costs. Another production facility will be relocated to the new site in 2022, which will further reduce income for the current year. Corresponding cost savings are expected from 2023.

Investments were made exclusively in fixed assets and, at EUR 11.6 million, were EUR 5.4 million higher in 2021 than the previous year's figure of EUR 6.2 million; they particularly related to the purchase of a new production site.

KEY FIGURES FOR MEDICAL ENGINEERING/LIFE SCIENCE

(in EUR million)

				Difference 2021 to 2020	
	2021	2020	2019	absolute	in %
Revenue with external third parties	148.7	142.1	159.7	6.6	4.6
EBITDA	23.0	20.4	27.9	2.6	12.7
Depreciation/amortization	-10.9	-10.2	-9.3	-0.7	-6.9
EBIT	12.1	10.2	18.6	1.9	18.6
EBIT margin in %	8.1	7.2	11.6	0.9 pp	–
Investments	11.6	6.2	4.9	5.4	87.1
Employees	1,613	1,646	1,718	-33	-2.0

METALS TECHNOLOGY

SEGMENT DESCRIPTION

This segment serves highly specialized customers in particular and comprises nine units (previous year: ten). The range of solutions is large and includes the production of carbide tools for road construction, civil engineering, and the agricultural industry, manufacture of housings for laboratory diagnostic equipment, and manufacturing stainless metallic blasting agents and bolt welding technology – for example, for structural elements used in bridge construction.

A decision was made in 2020 as part of the INTERIM SPRINT measures to discontinue BACHER AG and this was completed in the third quarter of 2021. The SIMON plastics plating division was also closed in 2020 and the SIMON Kinetics division was successfully sold.

SEGMENT PERFORMANCE: DISCONTINUATION OF BACHER AG COMPLETED

The Metals Technology segment reported a significant increase in sales compared with the previous year. Sales rose from EUR 393.6 million to EUR 420.4 million in the reporting year. This represents an increase of 6.8%. Taking the sales lost from the discontinuation of BACHER and other INTERIM SPRINT measures into account, sales fell by 5.3%, so sales growth in the remaining segment companies came to 12.1%.

At EUR 42.3 million, operating income (EBIT) was up by EUR 27.9 million on the previous year's figure (EUR 14.4 million). The EBIT margin was 10.1%, as against 3.7% in the previous year. The increase of 6.4 percentage points is due to the improved the financial position of the segment companies and the absence of non-recurring expenses and impairment losses the previous year in connection with INTERIM SPRINT. The forecast margin of 7% to 9% was significantly exceeded.

The portfolio companies have been partially able to absorb higher materials prices by stocking up on specific raw materials. In the months ahead, rising materials prices will represent an increasing burden for the portfolio companies, however.

Investments of EUR 14.0 million in the reporting year related to investments in fixed assets. Investments in fixed assets were very low in the previous year (EUR 6.9 million) because of the restrictive investment policy in connection with the coronavirus pandemic.

KEY FIGURES FOR METALS TECHNOLOGY

(in EUR million)

				Difference 2021 to 2020	
	2021	2020	2019	absolute	in %
Revenue with external third parties	420.4	393.6	409.2	26.8	6.8
EBITDA	57.9	36.9	46.1	21.0	56.9
Depreciation/amortization	-15.6	-18.0	-20.3	2.4	13.3
EBIT before impairment	42.3	18.9	25.8	23.4	>100
EBIT margin before impairment in %	10.1	4.8	6.3	5.3 pp	–
Impairment	0.0	-4.5	0.0	4.5	100.0
EBIT	42.3	14.4	25.8	27.9	>100
EBIT margin in %	10.1	3.7	6.3	6.4 pp	–
Investments	14.0	6.9	25.1	7.1	>100
Employees	1,520	1,616	1,687	-96	-5.9

Financial Position

Financial and Liquidity Management

PRINCIPLES AND OBJECTIVES

Financial management at INDUS Holding AG consists of managing equity and borrowings and managing interest rate and currency risks. As a financial holding company, INDUS engages in liquidity management without central cash pooling. For financial management purposes, INDUS relies mainly on long-term bank loans and promissory note loans.

Every portfolio company has an individual financial and liquidity management system of its own, with INDUS available to them for advice.

INDUS can invest flexibly at any time owing to its comfortable liquidity base in combination with financing commitments from banks. INDUS relies on its long-term ties with a number of German financial institutions as partners. Factors stabilizing its long-term financing needs include broad diversification of the loan volume and a balanced redemption structure. Alternative financing instruments are less important, but are used occasionally at the level of the overall portfolio. To manage financing risks, the Group employs interest rate and currency derivatives where needed. These are used exclusively for risk hedging.

Financial and liquidity management pursues three objectives: securing sufficient liquidity reserves, risk limitation, and earnings and cost optimization. Securing liquidity assumes special importance since it not only enables INDUS to meet its payment obligations at all times but also to exploit acquisition opportunities at any time with no dependence on banks.

The risk-limiting activities focus primarily on hedging against financial risks that might jeopardize the continued existence of INDUS. The most important financing source is cash flow from current operating activities (operating cash flow). The treasury department carefully monitors the use of funds by the subsidiaries and the investing of cash and cash equivalents.

Earnings and cost optimization specifically means managing net current assets (working capital). This frees up cash and cash equivalents, keeps debt levels low, and optimizes key figures for the balance sheet structure (e.g., equity ratio) and return on capital. INDUS supports companies in the management of working capital. However, the companies themselves are wholly responsible for their working capital.

INDUS does not have rating agencies assess their creditworthiness since lenders have so far not regarded such ratings as relevant. This also saves INDUS a considerable amount of time and money. The assessments of INDUS' principal banks all indicate that the companies are "investment grade."

FINANCING ANALYSIS FOR 2021

A substantial part of the capital requirement in 2021 was covered by an equity issue. This generated funds of EUR 84.7 million for INDUS. Further funds were raised from operating cash flow and long-term borrowing. This largely consisted of long-term bilateral bank loans with no collateral provided. Lease financing was also used to a lesser extent. Credit lines were also used on a temporary basis to cover short-term liquidity needs. These short-term borrowings play a subordinate role for the portfolio as a whole and only came to a minor amount on the reporting date (EUR 7.4 million). Liabilities to banks amounted to EUR 281.3 million as of the reporting date (previous year: EUR 340.4 million); these are primarily (99.7%) denominated in euros. The volume of credit held in foreign currencies is low and consists of South African rands amounting to EUR 0.9 million (previous year: EUR 1.5 million). Promissory note loans amounted to EUR 264.0 million (previous year: EUR 287.1 million). INDUS also has unused credit lines totaling EUR 85.1 million (previous year: EUR 83.6 million).

Pursuant to loan agreements, INDUS entered into obligations to maintain a minimum equity ratio for the holding company. The required ratio was considerably exceeded again in the last financial year. The lenders have extraordinary termination rights in the event of a change of control. Certain key figures must be complied with for two promissory note loans.

Financial Position

CONSOLIDATED STATEMENT OF CASH FLOWS, CONDENSED (in EUR million)

	2021	2020	2019
Earnings after taxes	**47.6**	**-26.9**	**60.1**
Depreciation/amortization	105.0	131.5	107.8
Other non-cash changes	68.2	51.9	40.9
Cash-effective change in working capital	-54.9	63.9	4.3
Change in other balance sheet items	14.7	0.4	6.2
Tax payments	-44.2	-46.4	-51.6
Operating cash flow	**136.4**	**174.4**	**167.7**
Interest	-19.8	-19.2	-20.4
Cash flow from operating activities	**116.6**	**155.2**	**147.3**
Cash outflow for investments and acquisitions	-145.1	-54.5	-108.3
Cash inflow from the disposal of assets	14.7	2.1	32.1
Cash flow from investing activities	**-130.4**	**-52.4**	**-76.2**
Contributions to capital (capital increase)	84.7	0.0	0.0
Cash inflow from minority shareholders	0.0	0.2	0.0
Dividend payment	-21.5	-19.6	-36.7
Dividends paid to minority shareholders	-0.3	-1.0	-1.4
Cash outflow from the repayment of contingent purchase price commitments	0.0	-22.3	-2.4
Payments related to transactions involving interests attributable to non-controlling shareholders	-0.7	0	0.0
Cash inflow from raising of loans	57.5	140.6	141.5
Cash outflow from the repayment of loans	-143.2	-120.3	-125.4
Cash outflow from the repayment of lease liabilities	-21.0	-19.6	-21.7
Cash flow from financing activities	**-44.5**	**-42.0**	**-46.1**
Net changes in cash and cash equivalents	-58.3	60.8	25.0
Changes in cash and cash equivalents caused by currency exchange rates	-0.1	-1.2	0.5
Cash and cash equivalents at the beginning of the period	194.7	135.1	109.6
Cash and cash equivalents at the end of the period	**136.3**	**194.7**	**135.1**

HIGHER WORKING CAPITAL REDUCES CASH FLOW FROM OPERATIONS

Based on earnings after taxes of EUR 47.6 million (previous year: EUR -26.9 million), operating cash flow of EUR 136.4 million was generated. At EUR 38.0 million, this was below the operating cash flow reported in the previous year (EUR 174.4 million). The main reason for the change was the higher cash outflow from changes in working capital of EUR -54.9 million in the current financial year. The year-over-year increase is due to the higher working capital planned in anticipation of greater business activities. Some companies also built inventories to hedge against the current price hikes and raw materials shortages. The high rise in the price of raw materials has also led to a rise in the value of inventories as volumes remained the same.

Interest paid (including variable interest on purchase price commitment to minority shareholders) of EUR -19.8 million was slightly above the previous year's figure of EUR -19.2 million. This reflects the addition of purchase price obligations for the new company acquisitions.

This resulted in a cash flow from operating activities of EUR 116.6 million, a decline of EUR 38.6 million mainly due to the change in working capital described above.

Cash flow from investing activities was EUR -130.4 million as of the end of the financial year (previous year: EUR -52.4 million). Due to the coronavirus crisis, the previous year was characterized by a policy of more restrained investment to secure liquidity. The cash outflow for investments in intangible assets and in property, plant, and equipment was significantly higher than in the same period of the previous year at EUR 75.6 million. Cash outflow was therefore back at its 2019 level. Cash payments of EUR 67.3 million were also made in financial year 2021 for the acquisition of JST, WIRUS and other companies. Proceeds on the disposal of shares in fully consolidated companies came from the sale of WIESAUPLAST. Cash inflow from the disposal of other assets came to EUR 6.9 million. Overall, cash flow from investing activities increased by EUR 78.0 million to EUR 130.4 million.

At EUR -44.4 million, cash flow from financing activities was slightly above the previous year's figure of EUR -42.0 million. It was dominated by the capital increase completed in March 2021 which resulted in cash inflow of EUR 84.7 million. Dividends paid to shareholders rose by EUR 1.9 million from the previous year to EUR 21.5 million as a result of the capital increase. The balance of cash inflow and outflow from receiving and repaying loans amounted to EUR -85.7 million in the current period. Cash inflow in the previous year included precautions against liquidity risk from contractually agreed credit lines due to the coronavirus pandemic. Contingent purchase price liabilities of EUR -22.3 million were repaid the previous year, whereas no contingent purchase price liabilities were repaid in the reporting year. Cash outflow from the repayment of lease liabilities rose by EUR 1.4 million to EUR 21.0 million, largely due to the acquisitions in the financial year.

Cash and cash equivalents as of the reporting date of EUR 136.3 million (previous year: EUR 194.7 million) were therefore again very comfortable.

Net Assets

CONSOLIDATED STATEMENT OF FINANCIAL POSITION, CONDENSED (in EUR million)

			Difference 2021 to 2020	
	Dec. 31, 2021	Dec. 31, 2020	absolute	in %
ASSETS				
Non-current assets	**1,099.0**	**1,001.7**	**97.3**	**9.7**
Fixed assets	1,081.8	985.8	96.0	9.7
Receivables and other assets	17.2	15.9	1.3	8.2
Current assets	**758.4**	**727.1**	**31.3**	**4.3**
Inventories	403.9	332.5	71.4	21.5
Receivables and other assets	218.2	199.9	18.3	9.2
Cash and cash equivalents	136.3	194.7	-58.4	-30.0
Total assets	**1,857.4**	**1,728.8**	**128.6**	**7.4**
EQUITY AND LIABILITIES				
Non-current financial instruments	**1,403.1**	**1,333.5**	**69.6**	**5.2**
Equity	787.5	676.4	111.1	16.4
Borrowings	615.6	657.1	-41.5	-6.3
of which provisions	42.7	51.1	-8.4	-16.4
of which payables and deferred taxes	572.9	606.0	-33.1	-5.5
Current financing instruments	**454.3**	**395.3**	**59.0**	**14.9**
of which provisions	88.3	77.3	11.0	14.2
of which liabilities	366.0	318.0	48.0	15.1
Total equity and liabilities	**1,857.4**	**1,728.8**	**128.6**	**7.4**

As of the reporting date, total assets of the INDUS Group amounted to EUR 1,857.4 million, a EUR 128.6 million increase from the previous year's reporting date. The increase in total equity and liabilities is mostly due to the rise of EUR 47.0 million in working capital and the initial consolidation of JST, WIRUS, FLACO and TECALEMIT, Inc. which in total added EUR 133.7 million to assets. It was offset by the deconsolidation of WIESAUPLAST (EUR -39.4 million).

ASSETS INCREASED DUE TO NEW ACQUISITIONS AND HIGHER INVENTORIES

As compared to the previous reporting date, **non-current assets** rose by EUR 97.3 million, or 9.7%, to EUR 1,099.0 million. Goodwill was up by EUR 28.9 million due to the new acquisitions. The increase of EUR 49.8 million in other intangible assets was for the same reason. Tangible fixed assets rose moderately by EUR 11.1 million and results from investments in the financial year and new acquisitions. Additions exceeded depreciation, amortization and impairment losses.

Compared with the previous reporting date, **current assets** increased by EUR 31.3 million to EUR 758.4 million. Inventories were up by EUR 71.4 million due to increased business activity and new acquisitions. This was offset by a reduction of EUR 58.4 million in cash and cash equivalents to EUR 136.3 million. The level of liquidity was deliberately increased in the previous year as a precautionary measure because of the possible impact of the coronavirus pandemic. Liquidity was brought back to its normal pre-pandemic level as at December 31, 2021.

EQUITY AND LIABILITIES: EQUITY RATIO AGAIN SIGNIFICANTLY ABOVE 40%

Equity rose by EUR 111.1 million to EUR 787.5 million. The increase is due to the higher annual result (EUR +47.6 million) and the 10% capital increase in the first quarter (EUR +84.7 million). It was offset by the payment of dividends in the amount of EUR 21.5 million. The equity ratio rose slightly year-over-year from 39.1% to 42.3% as of the reporting date. This puts the equity ratio back significantly above its minimum target of 40%.

At EUR 615.6 million, **non-current liabilities** were EUR 41.5 million lower than the previous year. Both non-current provisions (EUR -8.4 million) and non-current financial liabilities (EUR -76.5 million) were lower than the previous year. They were offset by the rise of EUR 26.9 million in other non-current liabilities. This results from new purchase price obligations from the acquisitions in the financial year.

Current liabilities went up by EUR 59.0 million to EUR 454.3 million. The increase stemmed from trade payables (EUR +13.3 million) and other current liabilities (EUR 31.6 million). The increase in other liabilities comes from higher purchase price liabilities.

WORKING CAPITAL

(in EUR million)

	Dec. 31, 2021	Dec. 31, 2020	Difference 2021 to 2020 absolute	Difference 2021 to 2020 in %
Inventories	403.9	332.5	71.4	21.5
Trade receivables	168.9	161.9	7.0	4.3
Trade payables	-62.2	-48.9	-13.3	-27.2
Advance payments received	-25.7	-9.7	-16.0	<-100
Contract liabilities	-27.4	-25.3	-2.1	-8.3
Working capital	**457.5**	**410.5**	**47.0**	**11.4**

INDUS calculates **working capital** by adding trade receivables to inventories and deducting trade payables along with advance payments received and contract liabilities. As of December 31, 2021, working capital stood at EUR 457.5 million. This was 11.4% higher than on the previous year's reporting date. The increase is in line with greater business activity.

NET FINANCIAL LIABILITIES

(in EUR million)

	Dec. 31, 2021	Dec. 31, 2020	Difference 2021 to 2020 absolute	Difference 2021 to 2020 in %
Non-current financial liabilities	477.3	553.8	-76.5	-13.8
Current financial liabilities	163.2	159.8	3.4	2.1
Cash and cash equivalents	-136.3	-194.7	58.4	30.0
Net financial liabilities	**504.2**	**518.9**	**-14.7**	**-2.8**

INDUS calculates **net debt** as the sum of current and non-current financial liabilities less cash and cash equivalents. As of December 31, 2021, it amounted to EUR 504.2 million, which represents a decline of 2.8% as compared with the previous year's reporting date. This is due to a fall in financial liabilities of EUR 73.1 million, offset by a reduction of EUR 58.4 million in cash and cash equivalents. The ratio of net debt to equity (gearing) is 64% (previous year: 77%). The net debt/EBITDA ratio is 2.3 (previous year: 3.3). This means the repayment term is back within the target range of 2.0 to 2.5 years.

INVESTMENTS AND DEPRECIATION/AMORTIZATION

(in EUR million)

	2021	2020	2019	Difference 2021 to 2020 absolute	Difference 2021 to 2020 in %
Investments	**142.9**	**53.5**	**107.5**	**89.4**	**>100**
of which in:					
Company acquisitions	**67.3**	**0.0**	**29.2**	**67.3**	**–**
Equity method investments	**0.0**	**1.0**	**0.0**	**-1.0**	**-100.0**
Intangible assets	**8.9**	**8.4**	**11.0**	**0.5**	**6.0**
Property, plant and equipment	**66.7**	**44.1**	**67.3**	**22.6**	**51.2**
of which in:					
Land and buildings	5.2	2.9	7.1	2.3	79.3
Technical equipment and machinery	21.3	13.7	27.5	7.6	55.5
Other equipment, factory and office equipment	12.4	10.9	16.6	1.5	13.8
Advance payments and facilities under construction	27.8	16.6	16.1	11.2	67.5
Depreciation/amortization (without right-of-use assets/leases)*	**-83.2**	**-110.7**	**-91.5**	**27.5**	**24.8**

* This table does not include amortization of right-of-use assets/leases totaling EUR 21.8 million (previous year: EUR 21.9 million)

Investments in the reporting year were EUR 89.4 million higher than in the previous year and amounted to EUR 142.9 million. EUR 67.3 million was for company acquisitions; EUR 66.7 million for property, plant and equipment (+51.2%); and EUR 8.9 million for intangible fixed assets (+6.0%).

Investments in intangible assets of EUR 8.9 million related to EDP systems and capitalized development costs.

Investments in property, plant, and equipment continued to be the focal point of investments. They were increased to their level prior to the coronavirus pandemic. The funds used by the portfolio companies are intended to improve the portfolio companies' value-added processes and thus strengthen the companies' competitive position. The investment projects include a diverse range of individual measures.

In 2021, there were some major specific investments in technical equipment, in particular at the series suppliers in the Automotive Technology segment in preparation for new series ramp-ups.

Advance payments increased slightly to EUR 27.8 million. **Depreciation/amortization** amounted to EUR 83.2 million, compared with EUR 110.7 million the previous year.

Financial Performance of INDUS Holding AG

INDUS Holding AG's annual financial statements comply with the accounting standards of the German Commercial Code (HGB) and with the accounting standards of the German Stock Corporation Act (AktG) specific to the legal form and are summarized in the following tables. The complete annual financial statements are available separately.

STATEMENT OF INCOME FOR INDUS HOLDING AG (in EUR million)

				Difference 2021 to 2020	
	2021	**2020**	**2019**	**absolute**	**in %**
Sales	**6.1**	**6.1**	**5.9**	**0.0**	**0.0**
Other operating income	35.5	1.6	19.4	33.9	>100
Personnel expenses	-7.6	-6.0	-6.6	-1.6	-26.7
Other operating expenses	-14.9	-11.7	-8.0	-3.2	-27.4
Income from investments	97.3	69.2	85.6	28.1	40.6
Income from loans of financial assets	47.7	42.8	58.7	4.9	11.4
Other interest and similar income	13.1	11.4	9.8	1.7	14.9
Depreciation and amortization of property plant, and equipment and intangible assets	-0.6	-0.6	-0.6	0.0	0.0
Impairment of financial investments	-99.1	-51.3	-55.2	-47.8	-93.2
Expenses from loss absorption	-7.0	-5.1	-11.7	-1.9	-37.3
Interest and similar expenses	-11.3	-11.8	-10.7	0.5	4.2
Earnings before taxes	**59.2**	**44.6**	**86.6**	**14.6**	**32.7**
Taxes	-4.8	-9.8	-8.7	5.0	51.0
Net income	**54.4**	**34.8**	**77.9**	**19.6**	**56.3**
Profit carried forward	0.3	1.0	1.7	-0.7	-70.0
Balance sheet profit	**54.7**	**35.8**	**79.6**	**18.9**	**52.8**

As well as being influenced by the business operations of the holding company, INDUS Holding AG's income is largely influenced by income and expenses from the portfolio companies. The income comprises income from investments and income from loans of financial assets, income from interest charged on, and appreciation of financial investments. The expenses include expenses from loss absorption, impairments of financial investments and impairments of loans.

Revenues comprise the services provided by the company for portfolio companies. These came to EUR 6.1 million, exactly the same as the previous year.

Other operating income increased by EUR 33.9 million to EUR 35.5 million. In the reporting year, appreciation of EUR 33.9 million was recognized on financial investments. The appreciation related to reversals of depreciation of financial assets in previous years. These are permitted up to the level of the original acquisition cost but not beyond this. No appreciation took place in the previous year.

Personnel expenses rose from EUR 6.0 million in 2020 to EUR 7.6 million. This was caused mainly by the higher expenses for variable compensation paid to the Board of Management.

The EUR 3.2 million increase in other operating expenses to EUR 14.9 million is due to the disposal loss from the disposal of WIESAUPLAST GmbH & Co. KG.

The income from investments rose from EUR 69.2 million to EUR 97.3 million due to the financial performance in the financial year. Income from loans of financial assets correspondingly went up by EUR 4.9 million to EUR 47.7 million. Interest income arises largely from interest expenses charged on by the holding company to the portfolio companies and, at EUR 13.1 million, was higher than the previous year, rising by EUR 1.7 million.

Impairments of financial investments relate to write-downs of shares in affiliated companies amounting to EUR 63.6 million (previous year: EUR 15.1 million) and write-downs on loans of EUR 35.5 million (previous year: EUR 36.2 million). These arose as a result of impairment testing for the carrying amounts of the portfolio companies and largely concerned the Automotive Technology segment (previous year: Metals Technology). Expenses from loss absorption came to EUR 7.0 million (previous year: EUR 5.1 million) and primarily related to losses in the Metals Technology and Engineering segments (previous year: mostly

Metals Technology). Interest expense declined slightly by EUR 0.5 million to EUR 11.3 million.

In total, earnings before taxes were thus EUR 59.2 million, which was EUR 14.6 million above the previous year's level.

Tax expenses for the financial year amounted to EUR 4.8 million, EUR 5.0 million less than in the previous year. Current taxes went up by EUR 4.1 million compared to the previous year. The decrease results exclusively from deferred taxes (EUR -8.9 million). This was mainly due to differences between carrying amounts in the commercial balance sheet and capital accounts for tax purposes, including supplementary tax balance sheets for partnerships in connection with the sale of the WIESAUPLAST Group.

Net income amounted to EUR 54.4 million, EUR 19.6 million more than in the previous year.

STATEMENT OF FINANCIAL POSITION OF INDUS HOLDING AG (in EUR million)

	Dec. 31, 2021	Dec. 31, 2020
ASSETS		
Intangible assets	0.1	0.2
Property, plant and equipment	8.6	8.9
Financial investments	1,174.6	1,163.1
Fixed assets	**1,183.3**	**1,172.2**
Receivables and other assets	505.0	423.8
Cash on hand and bank balances	0.2	53.4
Current assets	**505.2**	**477.2**
Prepaid expenses	0.6	0.7
Total assets	**1,689.1**	**1,650.1**
EQUITY AND LIABILITIES		
Equity	1,068.2	950.0
Provisions	4.5	2.9
Liabilities	567.9	645.2
Deferred tax liabilities	48.5	52.0
Total equity and liabilities	**1,689.1**	**1,650.1**

The holding company's statement of financial position reflects on the asset side the carrying amounts of the portfolio companies along with long- and short-term loans to the portfolio companies. Total assets of INDUS Holding AG increased by EUR 39.0 million during the financial year and amounted to EUR 1,689.1 million as of December 31, 2021. Fixed assets rose by EUR 11.1 million, mainly from the acquisition of shares in JST and WIRUS and appreciation on shares in affiliates impaired in previous years. This was offset by amortization of financial assets and amortization of loans to affiliates.

Current assets increased by EUR 28.0 million to EUR 505.2 million. This is due to a substantial increase in receivables from affiliates (EUR +77.3 million). This more than offset the significant reduction in cash and cash equivalents (EUR -53.2 million).

The equity of INDUS Holding AG increased in the reporting period by EUR 118.2 million to EUR 1,068.2 million. The equity ratio as of December 31, 2021, amounted to 63.2%, significantly above the equity ratio as of December 31, 2020 (57.6%). The higher equity ratio was largely the result of the capital increase in March 2021. This generated proceeds of EUR 84.7 million.

Liabilities amounted to EUR 567.9 million as of December 31, 2021, and thus fell by EUR 77.3 million compared to December 31, 2020.

INDUS Holding AG employed a total of 35 employees, not including the Board of Management, as of December 31, 2021 (previous year: 34 employees).

Further Legal Information

Acquisition-related Disclosures

Disclosures in accordance with Sections 289a (1) and 315a (1) German Commercial Code (HGB): capital stock, voting rights, and transfer of shares

As of December 31, 2021, the capital stock of INDUS Holding AG amounted in total to EUR 69,928,453.64. This is divided into 26,895,559 no-par-value shares. Each individual no-par-value share entitles its holder to one vote. There are no different share classes. All shares carry the same rights and obligations. The rights and obligations are derived from provisions of law.

Interests of more than 10%

According to the information INDUS currently has, the insurer Versicherungskammer Bayern, Versicherungskammer des öffentlichen Rechts, Munich, held 17.7% of INDUS shares as of the reporting date.

Privileges and voting rights control

There are no shares with privileges conferring control rights. The Board of Management is not aware of any voting rights control in cases where employees hold shares of INDUS Holding AG without exercising their own control rights directly.

Appointment and dismissal of members of the Board of Management

Members of the Board of Management are appointed and dismissed in accordance with the provisions of Sections 84 and 85 of the German Stock Corporation Act (AktG). The Articles of Incorporation do not contain any special rules in this regard. The Supervisory Board appoints members of the Board of Management for a maximum term of five years; repeat appointments by the Supervisory Board are permitted. In accordance with Section 8.1 of the Articles of Incorporation, the Board of Management consists of at least two individuals. Pursuant to Section 8.3 of the Articles of Incorporation, the Supervisory Board may appoint one member of the Board of Management as chair or spokesperson, and another as deputy chair.

Material agreements in the event of a change of control

In the event of a material change in the composition of the Supervisory Board (change of control), implying a serious change to the current long-term focus of the corporate strategy, the members of the INDUS Holding AG Board of Management have a special right to terminate their employment contracts within one year. In the event of the dismissal of the Board of Management within one year after a change of control without good cause within the meaning of Section 626 BGB, the member of the Board of Management is also entitled to terminate their employment contract without notice. If a member of the Board of Management exercises their termination right, the company pays the member a severance payment amounting to their fixed salary for two years, but not more than the fixed salary that the member of the Board of Management would have received from the effective date of their own termination until the regular end of their contract. The severance payment is based on the fixed salary for the year in which the special right to terminate is exercised or the member is dismissed.

Amendments to the Articles of Incorporation

Amendments to the Articles of Incorporation are made in accordance with Section 179 of the German Stock Corporation Act (AktG) by resolution at the Annual Shareholders' Meeting. Amendments to the Articles of Incorporation are subject to approval by at least three-quarters of the capital stock represented in the voting. Pursuant to Section 17 of the Articles of Incorporation, the Supervisory Board is authorized to adopt purely editorial amendments to the Articles of Incorporation and, pursuant to Section 6.4, change wording to reflect the use of authorized capital. Please find The Articles of Incorporation online at www.indus.de/en/about-indus/corporate-governance

Share issuance and buy-back powers of the Board of Management

CONTINGENT CAPITAL

The total number of shares issued or to be issued with exclusion of subscription rights owing to one of these authorizations may not exceed 10% of the capital stock at the time at which the authorization is exercised; this includes shares sold or issued or to be issued with exclusion of subscription rights owing to a different authorization during the term of this authorization.

There was a contingent increase in the company's capital stock by up to EUR 11,700,000.04, divided into 4,500,000 new no-par-value shares (Contingent Capital 2018).

The implementation of the conditional capital increase is conditional upon:

— exercise by the holders or creditors of convertible bonds or warrants from option bonds (or a combination thereof) issued or guaranteed by INDUS Holding AG or its Group companies by May 23, 2023, pursuant to the authorization granted to the Board of Management by the Annual Shareholders' Meeting on May 24, 2018, of such convertible bonds or warrants;
— obligations from convertible bonds or option bonds, issued by the company, pursuant to the authorization granted to the Board of Management by the Annual Shareholders' Meeting on May 24, 2018, until May 23, 2023, that fulfill conversion or option rights;
— and contingent capital being required in accordance with the terms of the convertible bonds or option bonds.

AUTHORIZED CAPITAL

The Board of Management is authorized by Section 6.1, with the Supervisory Board's approval, to increase the company's capital stock in the period up until May 25, 2026, once or in several installments, by a total of up to EUR 34,964,225.52 in return for cash and/or non-cash contributions (including mixed non-cash contributions) by issuing up to 13,447,779 new registered no-par-value shares (Authorized Capital 2021) and, in doing so, to set a start date for profit sharing that deviates from that set out by law, also with retroactive effect from a financial year that has already passed insofar as no resolution has been passed as yet on the profit for this financial year that has already passed. Shareholders will generally be given subscription rights. The new shares may also be issued to one or more financial institutions or other entities mentioned in Section 186 (5) Sentence 1 AktG with the obligation to offer them to the shareholders (indirect subscription right), or partly by way of a direct subscription right (e.g. to shareholders who have previously signed a fixed subscription agreement), or otherwise by way of an indirect subscription right in accordance with Section 186 (5) AktG.

However, the Board of Management is authorized, with the Supervisory Board's approval, to exclude shareholders' statutory subscription rights in the following cases:

— to avoid fractional amounts;
— in the event of a capital increase through cash contributions; if the issue price of the new shares issued under exclusion of subscription rights pursuant to Section 186 (3) Sentence 4 of the German Stock Corporation Act (AktG) is not significantly below the stock market price and the aggregate number of the new shares issued under exclusion of subscription rights pursuant to Section 186 (3) Sentence 4 AktG does not exceed the lower of 10% of the capital stock at the time at which the authorized capital 2021 is entered in the Commercial Register or 10% of the capital stock at the time the new shares are issued. Shares that were sold or issued, or are to be issued, on the basis of other authorizations during the term of this authorization, in direct application or in application mutatis mutandis of Section 186 (3) Sentence 4 AktG excluding subscription rights, shall count towards this limit;
— in a capital increase through non-cash contributions, particularly to acquire companies, company divisions, equity interests in a company or other assets, including receivables owed by the Company; and
— to grant the holders of conversion or option rights relating to shares in the company/corresponding conversion or option obligations a subscription right, to offset dilutions, to the extent that would be available to them as shareholders following their exercise of these rights/fulfillment of these obligations.

The total number of shares issued or to be issued with exclusion of subscription rights owing to one of these authorizations may not exceed 10% of the capital stock at the time at which the authorization is exercised; this limit includes shares sold or issued or to be issued with exclusion of subscription rights owing to a different authorization during the term of this authorization.

SHARE BUY-BACKS

The Annual Shareholders' Meeting on August 13, 2020, also authorized the Board of Management, with the Supervisory Board's approval, to buy back treasury shares of up to 10% of the company's capital stock existing at the time of the resolution. The authorization took effect at the end of the Annual Shareholders' Meeting on August 13, 2020, and applies until August 12, 2025. The authorization may be exercised in full or in part one or more times.

No more than 10% of the company's capital stock may be bought back under this authorization, including treasury shares already owned by the company and shares attributable to the company according to Sections 71a et seq. of the German Stock Corporation Act (AktG). The company may not exploit this authorization for the purpose of trading in treasury shares.

The acquisition may take place in accordance with the following provisions over the stock exchange or by means of a public offer addressed to all shareholders:

— If the company's treasury shares are acquired over the stock exchange, then the equivalent paid per share by the company (less incidental acquisition costs) may not exceed or be less than the arithmetic average of the share prices (closing auction prices in Deutsche Börse AG's XETRA trading in Frankfurt am Main or in a comparable successor system) by more than 10% during the last ten trading days before the transaction imposing obligation to acquire is concluded;
— If the acquisition takes place through a public buy offer to all of the company's shareholders, the offered purchase price or the limits of the offered price margin per share (excluding incidental acquisition costs) may not exceed or be less than the arithmetic average of the share prices (closing auction prices in Deutsche Börse AG's XETRA trading in Frankfurt am Main or in a comparable successor system) by more than 10% during the last ten trading days before the day on which the decision to make the public buy offer is published. If, after a public buy offer is published, the share price deviates considerably from the purchase price offered or from the limits of the price margin offered, the offer can be adjusted with the approval of the Supervisory Board. In such cases, the relevant amount will be determined based on the corresponding share price on the last trading day before the adjustment is published; the 10% limit for exceeding or falling below this amount is to be applied to this amount. The volume of the offer may be limited. Should the total subscription for the offer exceed this volume, the offer must be accepted in relation to the offered shares. The preferential acceptance of lower volumes of up to 50 company shares offered for sale per shareholder as well as rounding according to commercial principles is acceptable to avoid remainder amounts. Any further right of the shareholders to tender is excluded.

The Board of Management is authorized to use the shares in the company acquired on the basis of the present authorization or of an authorization granted earlier, with the Supervisory Board's approval, in whole or in fractional amounts, one or several times, on the basis of one or several authorizations, with exclusion of the shareholders' subscription rights, as follows:

— to dispose of acquired shares otherwise than over the stock exchange or by public offer addressed to all shareholders, if it is done in exchange for payment in kind and serves the purpose of acquiring companies, company divisions or interests in companies (including increasing existing interests) or to complete business combinations;
— to dispose of acquired shares otherwise than over the stock exchange or by public offer addressed to all shareholders in exchange for cash if the purchase price is not significantly less than the exchange price of the shares at the time of their disposal.

This authorization is, however, subject to the proviso that the shares in the company sold subject to the exclusion of subscription rights pursuant to Section 186 (3) Sentence 4 AktG do not exceed 10% of the company's capital stock in total, either at the time at which this authorization takes effect or at the time at which this authorization is exercised, whichever value is lower. The shares that are issued during the term of this authorization up until the sale of treasury shares from authorized capital without subscription rights in accordance with Section 186 (3) Sentence 4 AktG under exclusion of subscription rights in accordance with Section 186 (3) Sentence 4 AktG count toward this limit of 10% of the capital stock. Furthermore, those shares which have been, or are to be, issued to service option and/or conversion rights and/or conversion obligations also count toward this limit of 10% of capital stock, provided that the bonds were issued during the term of this authorization in analogous application of Section 186 (3) Sentence 4 AktG under exclusion of subscription rights.

The price at which shares are issued to third parties under this authorization may not be more than 5% less than the arithmetic average of the share prices (closing auction prices in Deutsche Börse AG's XETRA trading in Frankfurt am Main or in a comparable successor system) on the last ten trading days before the obligation to sell was created:

— to issue shares to employees and members of the company's Board of Management or to employees and members of management of companies affiliated with the company if they are to be used to satisfy option or acquisition rights or acquisition duties in respect of shares in the company that have been granted to employees or members of the company's Board of Management or to employees or members of management of companies affiliated with the company;
— to meet obligations from security loans taken for the purpose of issuing shares to employees and members of the company's Board of Management or to employees and members of the management of companies affiliated with the company in accordance with the above-mentioned regulation;
— to satisfy exchange rights or duties arising from convertible, option and/or income bonds or certificates issued by the company or companies affiliated with the company; and/or to grant a subscription right to treasury shares for holders or creditors of convertible bonds or option bonds issued by the company or its Group companies to the extent to which they as shareholders would be entitled to them, after exercising the option or conversion rights granted to them and in accordance with the more detailed loan or option terms, and to the extent to which it can be offered to them for the purpose of protection against dilution;
— for fractional amounts in the case of a disposal of treasury shares pursuant to a sale offer addressed to all shareholders.

The Board of Management also has the authority to redeem all or a part of the company's treasury shares, with the Supervisory Board's approval, without requiring a resolution from the Annual Shareholders' Meeting for the redemption or the performance of such. The redemption authorization can be used several times. Treasury shares can be recalled also in a simplified process without a capital reduction by adjusting the proportionate share of capital stock attributable to each share in accordance with Section 237 (3) No. 3 AktG. In this case, the Board of Management is authorized to adjust the number of no-par-value shares in the Articles of Incorporation. The recall can also be combined with a capital reduction. In such cases, the Board of Management is authorized to reduce the capital stock by the proportionate amount of the capital stock attributable to all or some of the shares recalled and to adjust the number of shares and the capital stock set out in the Articles of Incorporation accordingly.

Opportunities and Risks

INDUS employs a professional opportunity and risk management system. It helps the management of INDUS achieve its corporate goals, especially those in the PARKOUR strategy program. Its core task is to discover opportunities early on and to enable their use following an appropriate opportunity/risk assessment. At the same time, risks should be identified at an early stage so that the company is able to respond appropriately and confidently. Risks sometimes need to be deliberately taken in order to be able to take advantage of opportunities at all. Risks may also arise from missed opportunities. The opportunity and risk management is a systematic process that accompanies entrepreneurial decisions to achieve targets.

Opportunity Management

Strengthening the portfolio structure

GROWTH ACQUISITIONS

INDUS' core task will continue to be the goal-oriented development of a diverse SME portfolio. INDUS Holding AG's Board of Management regularly discusses market and technology trends and has defined growth industries for strategic development. The regular dialog with the portfolio companies' managing directors yields further insights about market and technology opportunities. Opportunities to strengthen the portfolio structure are continuously analyzed and can be quickly implemented by the in-house M&A team on the basis of secured funding and the Group's stable financial position.

COMPLEMENTARY ADDITIONS

Opportunities for the inorganic development of a portfolio company as part of the individual strategic alignment are taken through acquiring complementary additions. There is a continuous exchange of views with the managing directors of the portfolio companies here as part of the strategic dialog in order to systematically analyze and actively pursue opportunities. The holding company's own M&A team supports the managing directors in assessing opportunities. Additional opportunities from complementary additions also arise in view of the increased internationalization of the portfolio companies. The focus here is on the markets in Asia and North America in particular, in addition to Europe.

Driving Innovation

Opportunities emerge for the Group companies especially from the steady development of new products or processes. Innovations help the companies maintain and enhance their market positions. By anchoring this in the PARKOUR strategy program, INDUS supports the use of opportunities from innovations and measures derived from these. The "innovation development bank" supports portfolio companies' innovation projects with financial subsidies. INDUS supports the portfolio companies with methodological knowledge when they are developing innovation strategies and connects institutions and specialist bodies with the Group companies.

Improving Performance

The aim of the "Improving Performance" initiative as part of the PARKOUR strategy program is the increased use of opportunities in operating activities. In the "Market Excellence" domain, INDUS specifically promotes activities in the areas of business development, strategic marketing, sales, and pricing and provides help and support for the portfolio companies' processes. The field of "Operational Excellence" focuses primarily on opportunities to realize productivity gains in the value-added processes (production, supply chain). There is a wide range of support services for the portfolio companies, particularly for the implementation of lean management plans.

Sustainability

The sustainability strategy is an independent component of the PARKOUR strategy program. INDUS sees considerable opportunities from the value drivers of the ESG initiatives significant to INDUS.

New “green” products can increase sales or offset an impending loss of sales. A differentiating feature could, for example, be the use of renewable or recycled raw materials in the current product range or the use of a new technology that minimizes resource consumption during the product’s service life. INDUS expects this value driver to further increase in importance in the future in connection with a progressive increase in public awareness and thus that additional sales opportunities will be generated or impending sales losses offset via relevant differentiating features.

On the personnel side, the Group’s clear commitment to sustainability in conjunction with the corresponding implementation of sustainability initiatives reflects the personal commitment of many INDUS Group employees to environmental issues, thus increasing the Group’s prospects in the competition for skilled employees in this regard as well.

The Portfolio Companies’ Opportunities

INDUS portfolio companies are benefiting primarily from positive macroeconomic developments in the manufacturing sector. As a result of the coronavirus crisis, the economy was severely impaired in Germany in 2021. Nevertheless, the circumstances also offer new opportunities for the portfolio companies. These can be found especially in the following sectors: parcel logistics, construction infrastructure in the area of expansion of fiber optic networks, increasing digitalization, and factory automation. By capitalizing on and, where necessary, further strengthening the global profiles of INDUS’ portfolio companies, we can succeed in better exploiting these opportunities in the relevant markets.
Environmental protection and energy efficiency are relevant in all manufacturing industries, and will remain important issues in the future. Energy prices and environmental standards will continue to rise over the long term. For this reason, INDUS expects investment in sustainable and energy-efficient production processes to increase. INDUS believes this will result in promising opportunities, particularly for companies in the Automotive Technology, Engineering, and Metals Technology segments in the medium term.
The Construction/Infrastructure segment will continue to benefit from strong domestic demand for construction stimulated by inflation worries, a growing inclination toward investment in real estate, and continuing low interest rates.
Over the medium to long term, INDUS believes there will be consistently good growth opportunities for the Medical Engineering/Life Science segment, due to demographic changes and consistent demand for medical technologies and their ensuing life science applications. Increasing regulatory requirements, particularly from the new European Medical Devices Regulation, offer opportunities for companies that are able to meet these requirements consistently.

Risk Management

Structure and instruments

INDUS Holding AG and its portfolio companies are exposed to a multiplicity of risks as a result of their international activities. Risk incidents can have adverse effects on the company’s business activities and on its financial position and financial performance. Thus, in compliance with industry standards and legal regulations, INDUS Holding AG has established a risk management system to identify potential risks and observe and assess these across all functional areas. This risk management system rests upon the individual and independent risk management systems of the portfolio companies in close coordination with shareholder INDUS.

This risk management system is embedded in the information and communication system of INDUS Holding AG as part of its business, planning, accounting, and management control processes. The structuring of the risk management system is the responsibility of the Board of Management, which ensures that risks are managed actively. The INDUS Holding AG risk management system is documented in the company’s risk management manual.

INDUS Portfolio Company Management Control plays a key role in risk management. Opportunities and risks are worked out in collaboration between the divisions and senior management of the portfolio companies and Portfolio Company Management Control and agreed with the Board of Management as part of planning. The portfolio companies’ deviation between planned and actual figures is analyzed each month by Portfolio Company Management Control and risks detected are reported to the competent member of the Board of Management. At the Board of Management’s regular, weekly meetings, significant changes in the risk situation are discussed as the need arises and measures are introduced where necessary. The Supervisory Board is informed about the economic position of the Group and deviation between planned and actual figures in regular Supervisory Board meetings.

The holding company’s risk manager functionally administers the risk management IT system, regularly conducts training sessions for users, analyzes the portfolio companies’ reported risks with Portfolio Company Management Control on a needs basis, and ensures superordinate systematic representation and assessment. The function of the risk manager is assigned directly to the Board of Management.

The core process of “acquisition of companies” is closely interconnected with risk management. The holding company’s dedicated M&A team analyzes the opportunities and risks of an acquisition company in a balanced way on the basis of due diligence audits and prepares the decision paper for the Board of Management. The Board of Management only makes a decision after detailed analysis of the opportunities and risks presented by an acquisition, taking account of risk-bearing capacity.

The objective of the risk management system is to identify, assess, manage, and monitor risks systematically. Thresholds for reporting the risks that take account of the structure of the investment portfolio exist. The Board of Management regularly, and as required by events, examines and revises the company’s risk portfolio. On this basis, the necessary risk control measures are defined and documented and their effectiveness is monitored. The Supervisory Board is regularly informed of the company’s risk situation.

The Board of Management subjects the risk management system’s structure and functional method to internal audits on a scheduled basis and as required. The results of these audits, together with the remarks made by the external auditor within the scope of the audit of the annual financial statements, then flow into the systematic optimization of the risk management system. The monitoring of the risk position over the course of the year, the assessment of the effectiveness of the risk management system, and measures implemented to improve it are all documented once a year in the company’s annual risk management report.

Internal control and risk management system (report in accordance with Sections 289 (4) and 315 (4) HGB)

The scope and form of INDUS Holding AG’s accounting-related internal control system (ICS) are at the discretion of and the responsibility of the Board of Management. The Supervisory Board monitors the accounting process and the effectiveness of the ICS. The viability and effectiveness of the ICS at the portfolio companies is also assessed by the auditors of Group companies’ financial statements. The viability and effectiveness of the ICS for INDUS Holding AG itself are assessed by the Board of Management.

The ICS is a set of principles, procedures, and measures aimed at ensuring proper accounting, which undergoes continuous optimization. The ICS is structured in such a way that the consolidated financial statements of INDUS Holding AG are prepared in lawful accordance with International Financial Reporting Standards (IFRS) as applicable in the European Union (EU), and with the commercial code provisions as per Section 315e (1) of the German Commercial Code (HGB), which must additionally be observed. Regardless of its structuring, however, the ICS cannot provide absolute assurance of the avoidance or identification of accounting errors.

The consolidated accounting (hereinafter abbreviated as “accounting”) and management report drafting processes are managed by the responsible employees in the consolidated accounting and management control departments of INDUS Holding AG. Changes in the law, accounting standards, and other official acts are assessed for their relevance to and impact on the accounting process. Any resultant changes in the accounting processes are incorporated into centrally available procedural instructions and systems used for accounting purposes. The Group’s current accounting policy is communicated to all employees of INDUS Holding AG and the portfolio companies who are involved in the accounting process. These elements, together with the financial statements calendar that is applicable Group-wide, constitute the basis of the financial statement preparation process.

The portfolio companies prepare their financial statements for consolidation purposes (“reporting packages”) in accordance with the provisions of the Group’s consolidated accounting guidelines. Reporting and consolidation processes are carried out at all portfolio companies by means of a standardized IT system, which is made available by INDUS Holding AG via a centralized procedure. This process for uniform, proper Group accounting is supported by procedural instructions and standardized consolidated accounting. In some cases, external service providers are engaged as well, for example to assess pension obligations.

To avoid risks in the accounting process, the ICS involves preventative and probing internal control procedures. These include in particular automated and manual reconciliation, separation of responsibilities, and dual review. These controls and instruments are continually optimized whenever weaknesses are identified, to eliminate potential risks.

The management control and consolidated accounting departments of INDUS Holding AG ensure, through the appropriate processes, that the provisions of the consolidated accounting guidelines are complied with. Employees involved in the accounting process receive regular training. The portfolio companies are supported by central contact individuals throughout the entire accounting process.

The Board of Management of INDUS Holding AG and the managing directors of the portfolio companies are responsible for compliance with the pertinent guidelines and accounting procedures. They also ensure that their accounting processes and systems run properly and on time.

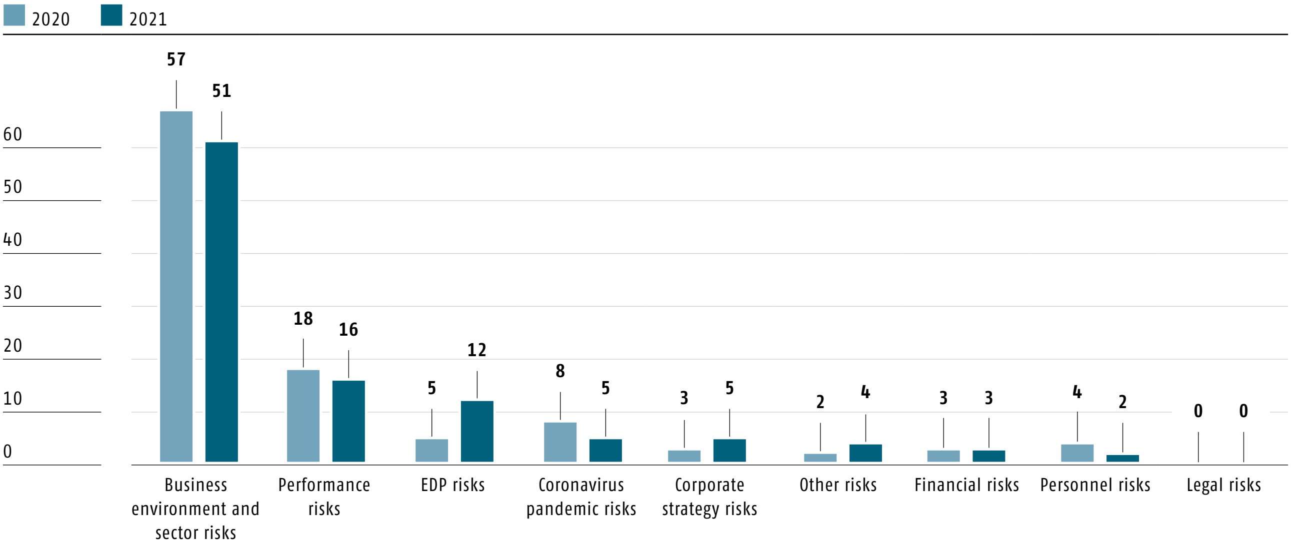
Description of Individual and Aggregate Risks

As in the previous year, the portfolio companies and INDUS Holding AG initially identify and assess risks by means of a decentralized bottom-up approach. The risk manager of INDUS Holding AG assists in this process. The risks are assessed on the basis of their potential effects and the probability of their occurrence. The probability of their occurrence relates to the forecast horizon of one year. The distribution of losses is shown by means of a triangular distribution. A triangular distribution describes the losses in the best, base and worst case. The following description of individual risks is based on the risks identified by the portfolio companies and INDUS Holding AG before the end of the reporting period. Risks arising from the Russia-Ukraine war were added at the time during which the financial statements were prepared. The impacts cannot currently be estimated or quantified and are not the subject of the following risk aggregation.

The Group's overall risk exposure is first assessed by means of a risk metric calculated using a Monte Carlo simulation of all the risks identified and measured. The Monte Carlo simulation simulates and aggregates the losses. Opportunities are not taken into account in this process. With a confidence level of 97%, the risk metric for the INDUS Group is approx. EUR 72.3 million. In other words, there is a probability of 97% that if the risks materialize, the financial burden will not exceed EUR 72.3 million. The estimate of the probabilities of occurrence and the amount of the loss in each case is subject to great discretionary judgment and may differ from the actual amount of the loss. The risk metric determined on the basis of the risk management system is nevertheless a guide to the risk-bearing capacity and financial stability of the Group. The Group is deemed to be capable of bearing its risk exposure when the risk metric is covered by liquidity and equity. The Board of Management considers that the Group can bear the risk of the exposure as calculated and that its continued existence is not threatened.

The graph below shows the proportion of the risk metric accounted for by the individual risk categories:

PROPORTION OF THE RISK METRIC ACCOUNTED FOR BY THE RISK CATEGORIES (in %)



Coronavirus pandemic risks

The coronavirus pandemic was included as a new standalone risk category in March 2020. Although there have been other epidemics in recent years, their impact has been limited and they did not have the same global consequences. Until now, the probability of such a risk had been regarded as low and now needs to be revised. A systematic analysis of extreme risks will now regularly be part of the risk assessment.

The risks resulting from the coronavirus pandemic are summarized and discussed below.

PANDEMIC-RELATED RISKS FOR THE BUSINESS ENVIRONMENT AND SECTOR

The drastic measures taken to slow the spread of the coronavirus caused disruptions to global economic processes. This was exacerbated by the high degree of anxiety among consumers and investors and its effects on consumption and investing activity. These risks materialized as a result of a drastic slump in sales in the Automotive Technology segment in particular, but also in parts of the Engineering segment and in Medical Engineering/Life Science. The risk-minimizing effect of INDUS' diversified portfolio has been confirmed. The Construction/Infrastructure segment, key portfolio companies in the Engineering segment and also the Metals Technology segment have only marginally been affected by the pandemic. Some companies in the Construction/Infrastructure segment have been able to take advantage of opportunities.

PANDEMIC-RELATED PERFORMANCE RISKS

The global travel restrictions made operations abroad (e.g., for assembly) impossible or very difficult. Facilities could not be installed at customer sites or assembled by suppliers at their own plants. Service work could not be carried out in certain countries; this particularly affected the Engineering segment. The situation has now improved. Restrictions have been eased in many countries.

The portfolio companies managed to maintain supplies of primary materials and either replace critical suppliers or qualify replacements. In some cases, emergency stocks had to be set up, with a negative effect on working capital. Nevertheless, no major production losses due to disruptions in the pre-supply chain have been reported to date – in part thanks to the measures taken. One exception is supplies of semiconductors to industry. This shortage may not be caused by the pandemic, but pandemic-related disruptions to supply chains have certainly made the situation worse. Portfolio companies were not always able to ensure supplies and some control units could not be procured or not in good time, particularly in the Engineering segment. This resulted in longer delivery periods and canceled shipments. The customers of the INDUS portfolio companies in the Automotive Technology segment were particularly affected by the supply shortages for semiconductors, which had a direct impact on their call-off of precursor products.

PANDEMIC-RELATED RISKS FOR EMPLOYEES

The risks in the personnel area arise from the absence of key personnel, or even of whole departments and divisions. Infections may occur both within and outside of employees' operational areas, meaning that key internal processes can no longer function.

All portfolio companies have taken steps to maintain normal operations as far as possible. This includes physically separating individual employees and groups of employees across all departments, facilitating a high degree of home working where possible, having groups of employees work in staggered shifts, holding online meetings, avoiding visits at either customers' or company premises, etc. The measures taken by the management teams of the portfolio companies have proved effective so far, as have the measures taken by INDUS Holding itself. In some companies, the difficulties caused by sick and quarantining employees due to coronavirus were significant at times, but in total they did not represent a material burden for the Group. With few exceptions, production was maintained or was only disrupted briefly. The risk has now abated due to the much milder illness caused by the Omicron variant.

PANDEMIC-RELATED EDP RISKS

Maintaining operational functions is contingent on the corresponding digitalization of vital processes. Based on current information, the companies in the INDUS Group are well positioned. Thanks to its IT environment, with completely virtual desktops, internet access with sufficient bandwidth and digital finance processes, INDUS Holding AG can to the best of current knowledge continue to operate in full for an extended period.

Based on the Group's past experience, we rather consider the risk for 2022 to be lower, since the companies are now better prepared and the existing IT equipment has been adapted wherever possible to the demands of mobile working.

PANDEMIC-RELATED FINANCIAL RISKS

A number of different financial risks arise from the economic collapse. The risk of inadequate service performance leads to loss in cash receipts. Possible insolvencies of customers may mean that expected cash inflows will not be received at all. This kind of situation always carries a liquidity risk. Thanks to its solid equity base and a number of long-standing and reliable partners in the banking sector, INDUS considers itself to be in a good position. Another advantage is the broad positioning of the Group, which balances out risks.

INDUS has since reduced its free liquidity again, which was increased as a precaution to prevent any possible cash shortages. At the same time, the more intensive monitoring of cash and cash equivalents in the Group has been retained. Moreover, there are unused credit lines available. INDUS has not experienced any major defaults on payments on the part of its customers to date. No liquidity risk has materialized so far.

There are no restrictions on INDUS' ability to continue to raise debt capital on favorable terms. The revolving borrowing structure and the placement of another ESG-linked promissory note loan were completed as planned.

PANDEMIC-RELATED LEGAL RISKS

Significant legal issues and risks have arisen from the coronavirus pandemic and subsequent disruptions to performance relationships. The INDUS Group's guiding principle in any coronavirus pandemic-related disruptions to the performance chain is good and direct communication with the relevant contracting partners so that any disputes can be avoided and issues arising from the global crisis can be resolved fairly. INDUS supports its portfolio companies with competent legal advice in cases where this is not possible. No legal disputes have arisen from the coronavirus pandemic for any portfolio company at the time of writing. For the 2022 financial year, we estimate the legal risk to be rather low based on the experience within the Group to date.

PANDEMIC-RELATED VALUATION RISKS FOR GOODWILL

The annual impairment test for all goodwill carried by the INDUS Group was carried out as of September 30, and the impairment test for the carrying amounts of the investment and loans for the individual commercial law financial statements of INDUS Holding AG was carried out as of December 31. Current plans were drawn up for this purpose as part of the annual budgeting and planning process. The resulting impairment loss was recognized through profit and loss. The economic consequences of the pandemic (e.g., government and corporate debt, inflation, interest rates) may impact the cost of capital rates, meaning that valuation risks may result from rising costs of capital. The sensitivity to cost of capital is presented in the notes to the consolidated financial statements in the "[18] Goodwill" chapter. The Board of Management of INDUS Holding AG is monitoring the potential impact of the coronavirus crisis on goodwill on an ongoing basis.

Regardless of the risks arising from the COVID-19 pandemic, described separately above, the business activities of INDUS continue to be subject to the business risks described below. The war between Russia and Ukraine may yield additional far-reaching risks for the main risk categories of environment, industry, and economic performance. The war may hurt the development of sales, production processes, and purchasing and logistics processes, for example through interruptions in supply chains and energy supplies or bottleneck situations for components, raw materials, and intermediate products. The war could also potentially give rise to information technology risks from increased cyberattacks as well as financial risks from direct and indirect payment defaults.

Business environment and sector risks

The business performance of the portfolio companies is closely related to developments in the economy as a whole. Along with the risks inherent in the business cycle, increases in energy and raw material prices pose risks to the performance of the individual companies and of the Group as a whole. High energy costs are a disadvantage in international competition, and the high volatility of commodities markets entails supply risks and the risk that price rises cannot be passed on to customers.

INDUS avoids disproportional dependency on individual sectors through a well-balanced investment portfolio diversified into five segments. The portfolio companies' high degree of specialization and strong positions within their respective niche markets reduce their industry risk and the general economic risk. However, fundamental risks arising from economic and/or sector-specific factors cannot be avoided. The automotive industry is also undergoing an enormous structural shift towards e-mobility, a shift that presents both opportunities and risks for the supplier industries.

INDUS concentrates on the acquisition of medium-sized production companies in Germany and other German-speaking countries. Currently 52.3% of total sales are generated domestically (previous year: 51.4%). The Group's business is thus still strongly affected by the state of the German economy. This regional diversification of operating activities disperses business risk for INDUS. Further internationalization will gradually de-prioritize the domestic market.

Corporate strategy risks

Corporate strategy risks arise mainly from incorrect assessment of acquired portfolio companies' respective future business results and market growth. The company's long-term success depends principally on careful analysis of acquisition targets, and on the holding company's development of its investment portfolio. To minimize corporate strategy risks, the holding company employs an extensive analysis of the market in every industry, as well as proprietary analysis. These in-house analyses are subject to additional independent external opinions. The Board of Management decides on all new acquisitions following extensive review; a unanimous vote is required.

INDUS counters potential risks associated with inaccurate assessment of the portfolio companies' strategic positioning through its own close monitoring of markets and competitors, and by holding regular informative reviews with the portfolio companies' managing directors. All portfolio companies submit monthly data reports on their current business results and individual risk situation. The short- and medium-term projections for each of the portfolio companies are aggregated at the holding company level. This ensures that INDUS, as a shareholder, has a comprehensive overview at all times of the risk situation of both individual companies and of the Group.

Performance risks

In addition to the risks associated with corporate strategy, there are performance risks to which INDUS and its portfolio companies are exposed. These consist primarily of procurement risks, production risks, and sales risks.

The portfolio companies need raw materials and supplies sourced from various suppliers to manufacture products. Given the wide diversification of the INDUS Group's overall portfolio, procurement risks are of subordinate importance regarding their potential impact on the Group as a whole. A key strategy employed by all companies is securing the supply of important raw materials through long-term contracts. Purchase prices of raw materials and energy sources can vary considerably. Depending on the prevailing market situation, it may not always be possible for portfolio companies to pass the resulting costs on to customers quickly and in full. Operations managers stay in constant contact with suppliers and customers. This enables them to react promptly to any price or volume risks which may arise. Where necessary, the portfolio companies also employ raw material hedges to limit risks. Given the wide diversification of the INDUS Group's overall portfolio, production and sales risks are of subordinate importance considering their potential impact on the Group. INDUS regularly analyzes the customer structure in the Group; there are no individual product or service groups and no individual customers that account for more than 10% of sales.

Business performance risks also exist in connection with wage settlements with unions, as these costs generally cannot be passed on in full to customers, and can only be offset by productivity increases.

Personnel risks

The long-term success of INDUS Holding AG depends largely on the expertise and commitment of its employees. Potential risks arise primarily in connection with recruitment and development of staff and employee turnover in key positions. INDUS Holding AG contains these risks via targeted basic and advanced training measures and appropriate remuneration. Employees appreciate this caring corporate culture. This is reflected in low fluctuation. All these measures make the company an attractive employer, providing proactive mitigation of risks associated with employee turnover, demographic trends, and skill drain.

The companies of the INDUS Group conduct their human resources work independently. They are located in many different industries and regions, so that the risks of recruitment and human resources development are highly diverse. Qualified employees are a vital factor in the success of every portfolio company. In light of demographic developments and the currently very positive employment situation, the risk presented by a shortage of skilled employees has increased. The portfolio companies are attempting to mitigate this risk by focusing their efforts on human resources training and development, and employer branding.

EDP risks

The basis of a modern work environment is formed by a secure and effective EDP infrastructure. Increased networking between different EDP systems and the need for these to be constantly available places high demands on the information technologies used. The company mitigates risks associated with computer crashes, network failure, unauthorized access to data, and data abuse by regularly investing in hardware and software, deploying virus scanners and firewall systems, and by using effective access controls. These measures are continuously monitored by internal and external experts.

The companies in the Group are increasingly dependent on the functionality and stability of the various individual EDP systems. Malfunctions or failures would have an immediate adverse financial impact. The loss of data or know-how and data manipulation pose further risks. The companies in the Group employ, depending on their individual risk exposure, various instruments to control risk. They range from emergency and data back-up processes to the use of modern anti-virus programs and firewall software and hardware, access and entry control measures, and other preventative protection measures such as raising employee awareness and training. Measures to prevent, discover, and handle cyberattacks remain absolutely relevant.

Financial risks

Financial risks consist primarily of liquidity risk, interest rate risk, foreign currency risk, and default risk. Individual portfolio companies finance themselves via their own operating income, as a policy. Depending on the liquidity situation, INDUS supports the portfolio companies with financing and makes funds available where necessary. The holding company keeps a suitable level of liquidity reserves allowing it to take action at any time, ensuring adequate financing for the portfolio companies.

A widely diversified financing structure, which is spread over eight (previous year: eight) core banks, keeps the company from being dependent on individual lenders, so the risk of losing banks as lenders is currently considered to be low. The portfolio of companies, which is intended to be long term in nature, is financed by the holding company via a revolving long-term loan. Credit protection is in place at individual subsidiary level. The agreed covenants do not appear to pose a business risk at this time. A deterioration in key financial ratios could lead to higher financing terms as a result of changed rating assessments. INDUS relies on a mix of fixed-rate and variable loans for its funding requirements, the latter of which are hedged with interest rate swaps. Due to the interest rate hedges, a change in interest rates would not impact financial position during the term of any particular loan. The nominal volume of interest rate hedges totaled EUR 155.3 million as of December 31, 2021 (previous year: EUR 198.8 million).

Customer default risk is substantially limited by the widely diversified portfolio and the autonomy of the portfolio companies, which focus their activities on selling a variety of products in diverse markets. The portfolio companies also maintain their own effective systems for monitoring customer-related risks, take out trade credit insurance at their own discretion, and report any such risks to the holding company on a monthly basis.

There are foreign currency risks as a result of the individual portfolio companies' international activities. INDUS mitigates these risks by hedging transactions using forward exchange contracts and suitable option transactions. The nominal volume of exchange rate hedges totaled EUR 5.2 million as of December 31, 2021 (previous year: EUR 10.1 million); the majority was held by the portfolio companies. Further explanation of financing matters may be found in the Notes under "Information on the Significance of Financial Instruments."

Legal risks

INDUS Holding AG and its portfolio companies are exposed to numerous legal risks. These lie primarily in the areas of competition, antitrust, foreign-trade, customs, and tax law. Risks also arise from the individual portfolio companies' operating activities through warranty and product liability claims. Effective contract and quality management reduces this risk, but it cannot be eliminated completely. By means of guidelines, training courses and information on compliance, the holding company provides the portfolio companies with support on competition and antitrust law, preventing money-laundering, foreign trade law and customs law.

Legal risks may arise from claims and actions against portfolio companies or administrative proceedings. Claims asserted by third parties are carefully and independently examined on their merits by INDUS or the portfolio company. Where necessary, external lawyers are commissioned for judicial and extra-judicial proceedings. The individual risks in this area are classed as low to medium. INDUS forms provisions if payment obligations seem likely and the corresponding amount can be reliably estimated.

Other risks

The principal risks included in this category are the risks of losses from natural disaster. The net risk of these exposures is low because these losses are usually adequately insured.

Sustainability risks

In the non-financial report, INDUS reports on risks linked to the Group's operating activities, business relationships, products and services, and that would likely have serious negative consequences on reportable aspects (environmental, employee and social concerns, respect for human rights, and combating corruption and bribery). No reportable individual risks were identified in connection with sustainability aspects in the financial year.

Risks arising from reported goodwill

Based on its corporate strategy of pressing ahead with diversification by continuously enlarging its investment portfolio, the Group recognized EUR 409.8 million in goodwill (previous year: EUR 380.9 million). According to IAS 36, this must be subjected to an impairment test at least once a year. If the recoverable amount is less than the carrying amount then goodwill is subject to impairment. In the reporting year, impairment losses of EUR 2.5 million were recognized on goodwill (previous year: EUR 33.9 million). INDUS has accounted for the goodwill risk by reporting in the statement of financial position any impairments identified through impairment testing.

The goodwill recognized is spread across 46 cash-generating units (CGUs) from all segments. No individual component of goodwill is larger than 10% of total goodwill. Any impairment does not have any immediate negative impact on liquidity. Indirect effects – for example, as a result of rising interest rates due to a deterioration in company key figures (rating) – are possible and are looked at as part of risk management. More information on goodwill on p. 112 et seq.

The Board of Management's Overall Assessment

In the 2021 financial year, INDUS was able to add two new portfolio companies to its portfolio and thus continue a key focus of its long-term strategy – growth through acquisitions. For 2022, INDUS aims to grow further through acquisitions. The emphasis will be on construction technology, measuring technology and control engineering, automation, energy and environmental technology, health, and safety technology. The Board of Management sees great growth opportunities for 2022 in possible acquisitions at both the portfolio level and the level of the portfolio companies (sub-subsidiaries).

With targeted promotion of innovations in the portfolio companies, opportunities will be considerably greater as the result of product and process innovations. The strengthened measures for Operational Excellence increase the portfolio companies' prospects in competition. Industry's structural change regarding climate protection and climate-neutral technologies will open up new market opportunities for the companies.

Opportunities arising can be taken on the basis of secured funding. Even during the second pandemic year of 2021, INDUS was able to draw on sufficient, freely available funds and place its financing needs on the market without any problems.

Risks to performance in 2022 are posed in particular by economic trends. These remain closely linked to the progression of the global coronavirus pandemic and its indirect impact on supply chains. We believe that the current coronavirus situation has improved again compared with 2021. The availability of vaccines, better testing systems and strategies create hope that the pandemic will be largely manageable and the negative influence on financial performance will diminish in 2022.

In addition, however, there are still major unresolved geopolitical conflicts and situations of instability in many countries. Developments in Europe are also characterized by numerous uncertainties, particularly the current war between Russia and Ukraine. It is not currently possible to foresee the extent and the consequences of the conflict. The INDUS Group would not be directly affected to a significant extent by sanctions and embargoes. Indirect effects are hard to predict (e.g. supplies of primary materials in the agricultural industry).

The Group's overall risk exposure is the aggregate total of individual risks across all risk categories. To some extent, the diversified and broadly-based portfolio balances out risks within the Group. The Board of Management has examined the risk-bearing capacity on the basis of aggregate risks and taken mitigating measures into account. In the financial year ended, and from a current perspective for the ongoing financial year, the Board of Management has identified no risks that could jeopardize the continued existence of the Group as a going concern.

Forecast Report

The INDUS Group expects sales totaling EUR 1.80–1.95 billion and an operating income (EBIT) of EUR 115–130 million for 2022. Further reductions in greenhouse gas emissions are planned for 2022. Neither the premises used in our planning nor the forecasts that are set out below include effects from the war between Russia and Ukraine. We are closely monitoring all developments. Any effects on our business performance in 2022 cannot currently be quantified. Please refer to our comments in the Risk and Opportunity Report.

Forecast Economic Outlook

Global economy: stronger downside risks hinder recovery

At the start of 2022, the world economy is in a weaker position than was expected just a few months ago. Geopolitical risks are high as a result of Russia's attack on Ukraine, but it is too early to fully predict the concrete military and economic consequences. At the same time, the rapid spread of the Omicron variant and the related restrictions are slowing the economic recovery. Rising energy prices and ongoing disruptions to supply chains are driving inflation rates in the United States, but also in many emerging and developing markets. The economy in China is also stumbling due to the problems in the real estate sector, pandemic-related disruptions and subdued private consumption.

Before the escalation of the Russia–Ukraine conflict, the International Monetary Fund was forecasting global economic growth of 4.4% for 2022. The forecast in October 2021 was 4.9%. The pandemic therefore remains a key economic factor and progress with vaccinations worldwide remains vital, especially given the risk of new virus variants. At the same time, the scenario of higher inflation in industrialized economies becomes more relevant. A risk remains that the difficult situation on procurement markets will become entrenched; that energy prices continue to rise, especially in view of the Russian invasion of Ukraine; and that pent-up purchasing power adds to inflationary pressure. The result would be a more restrictive monetary policy to contain consumption. It is not currently possible to say to what extent the sanctions on Russia and generally high uncertainty will hinder the recovery of the global economy.

ANNUAL ECONOMIC GROWTH (in %)

	2021 (preliminary)	2022 (Forecast)	2023 (Forecast)
Economic regions			
Global economy	5.9	4.4	3.8
Euro area	5.2	3.9	2.5
Selected countries			
United States of America	5.6	4.0	2.6
China	8.1	4.8	5.2
Germany	2.7	3.8	2.5

Source: International Monetary Fund, World Economic Outlook (as of January 2022)

German economy: recovery, although environment remains uncertain

The resurgent coronavirus pandemic, ongoing disruptions to supply chains and higher inflation rates will continue to affect the German economy in 2022. The impact of the war between Russia and Ukraine remains unclear and has not been factored into these growth forecasts. Assuming that the infection rate slows over the course of the year and supply problems are gradually resolved, the economy should perform well. The International Monetary Fund is forecasting growth of 3.8% and the Kiel Institute for the World Economy predicts growth of 4.0%. The German federal government cut its forecast to 3.6% in January 2022, particularly due to ongoing supply bottlenecks and higher inflation expectations. However, the latest indicators pointed to a slightly brighter economic picture, with real new orders increasing month on month by 2.8% in December 2021. Material shortages in industry eased slightly in January 2022, even though 70% of companies are still reporting bottlenecks in sourcing precursors and raw materials. Sanctions against Russia are expected to perturb energy prices and possibly also the availability of commodities such as aluminum. The inflation rate remained high at 4.9% in January, but this was 0.4 percentage points lower than the month before. The ifo business confidence index recovered slightly at the beginning of the year, particularly due to more optimistic expectations. Pent-up consumer demand and an investment backlog are expected to generate momentum in 2022. On condition that the armed conflict between Russia and Ukraine does not spill over to the NATO area, the decisive factor for the economy in 2022 will be when the supply and logistics problems are resolved and how the pandemic develops. Beyond this, the transformation to a climate-neutral and digital economy remains a core challenge for German companies.

Construction industry: positive outlook continues for 2022

The positive performance of the construction sector should continue in 2022. The trade association BAUINDUSTRIE is expecting a nominal sales increase of 5.5% and a real increase of 1.5%. The expectations indicator in the ifo business confidence index also went up in January 2022. Residential construction is expected to keep growing in 2022, buttressed by low medium-term interest rates, high inflation and municipal residential building programs. This expansion will be held back by rapid increases in construction costs: New residential properties were 9.1% more expensive in 2021. The backlog of approved but as yet unfinished apartments that first have to be completed will also be a limiting factor. Commercial property construction recently reported a significant rise in new orders. A positive impetus is expected to come from civil engineering work in view of the forecast investments in rail networks, renewable energies and communications networks. Investments announced in infrastructure and climate protection are a positive signal for the public construction sector, but only slow growth is forecast in this segment in 2022. Key questions for the growth potential of the construction industry are how the situation on procurement markets develops and whether the supply shortages in precursor products will ease in the first half of 2022.

Vehicle market: gradual return to normal on procurement markets

The outlook for automotive technology remains mixed. On the one hand, the mood in the sector brightened at the start of the year: The ifo business confidence index improved significantly for vehicles and vehicle components, both in terms of the assessment of the current economic situation and expectations. Domestic orders rose year-over-year by 53% in January 2022, whereby the return to the higher rate of VAT in January 2021 resulted in lower new orders. Automotive production increased again for the first time in January, but was still 20% down on the figure for January 2020. At the same time, the assumption is that long lead times in chip production will only allow the situation on procurement markets to ease significantly in the second half of 2022 at the earliest. The trade association ZDK only expects the order backlog for new vehicles to unwind from the middle of 2022 onwards. New vehicle registrations in January 2022 were 8.5% up on the year, but the overall level remained low. An increase in new vehicle registrations to 2.9 million is forecast over the course of the year, which is some 340,000 more than in 2021. Apart from the economic situation, manufacturers and suppliers are still faced with the technological upheaval in the automotive industry. Electric vehicles accounted for 21.6% of new car registrations in Germany in January 2022. This exacerbates the current material shortages, since electric vehicles need even more semiconductors for their power electronics.

Engineering: order books well filled

German engineering firms should continue to benefit from the global economic recovery in 2022. The trade association Verband Deutscher Maschinen- und Anlagenbau e. V. (VDMA) is predicting a production increase of 7% for 2022. The faster pace of incoming orders should continue. Expectations for the Chinese market are subdued, but government programs like the stimulus package in the United States, the EU reconstruction fund or the Agenda 2030 in France for green and digital projects should boost international demand on a regional level. In January 2022, the ifo business confidence index for the engineering sector went up again – against the backdrop of very optimistic expectations and building on a very good assessment of the current situation. At the same time, the obstacles from 2021 have not yet been cleared: Ongoing material and logistics bottlenecks and an increasing shortage of qualified staff are holding back production. Capacity utilization for machinery is at almost 90% in January 2022. The general risks for the world economy would also affect the German engineering sector. This applies not least to the forecast sanctions against Russia.

Medical technology: approval hurdles and bureaucracy slow growth

The performance of medical technology companies in Germany will again be affected by the ongoing course of the coronavirus pandemic in 2022. The effects of the fourth wave cannot be quantified at present, particularly because the rapid spread of the Omicron variant, which has a greater impact on ordinary hospital capacities, means that the impact on the healthcare sector varies considerably. However, the experience of past waves shows that SMEs only have limited opportunities to generate sales under pandemic conditions.

The trend towards the digitalization of the medtech sector continues across economic cycles, however. Demand for digital pre- and post-treatment care is rising, as well as for digital or digital-supported forms of treatment as such. Digital sales solutions are becoming more important. A trend is also visible towards more outpatient care.

The trade association SPECTARIS sees the sector's innovativeness at risk from excessive approval procedures and a lack of incentives. The additional paperwork caused by the new Medical Devices Regulation represents a significant challenge for companies in the medical engineering and life science sector. SPECTARIS warns of supply shortages and barriers to innovation from the MDR, particularly for SME. It is also critical of the complex reimbursement system. Medical technology companies believe that simpler regulatory requirements are urgently needed.

Metals technology: supply bottlenecks hinder recovery of the metalworking industry

The outlook for 2022 remains uncertain for the metals industry. Almost 90% of the M+E companies reported production restrictions due to material shortages in December 2021. In December 2021 the number of people on short-time work returned to its highest level since April 2021. The trade association M+E Gesamtmetall is forecasting a production increase of 1% to 5% in 2022, depending on how the situation on procurement markets evolves. This does not reflect the possible impact of the war between Russia and Ukraine and any potential worsening of the metals shortage that this may cause. This means the metal industry can only regain its pre-crisis level in 2023 at the earliest. The mood lightened somewhat at the start of the year, however, with the ifo business confidence index improving in January 2022 for the first time in four months. Companies' expectations for the next six months remained subdued, however. Apart from the long-term burden of the coronavirus pandemic, the M+E market is still in the middle of a structural transformation, caused particularly by the upheaval in the automotive sector.

Expected Group Performance

PARKOUR: the INDUS Group's strategy program until 2025

The aims of ensuring a balanced portfolio structure and value enhancement are at the heart of the PARKOUR strategy program.

PARKOUR looks at the Group's development through 2025 and strives to boost the entrepreneurial fitness of the portfolio companies in order to overcome the ongoing challenges of their markets. The agility and resilience of the SME portfolio companies in the INDUS Group was proven by how they dealt with the coronavirus crisis. The PARKOUR strategy will continue to focus on strengthening the portfolio structure, driving innovation and improving performance by means of Market Excellence and Operational Excellence in the portfolio companies.

STRENGTHENING PORTFOLIO STRUCTURE

When it comes to growth acquisitions to complement the portfolio, INDUS particularly looks to companies in technology-driven growth industries. To ensure the right mix in the future, INDUS intends to focus acquisition activities on the six sectors it has identified as growth industries: automation, measuring technology and control engineering, construction and safety technology, medical engineering and life science, technology for infrastructure and logistics, and energy and environmental technology.

Two acquisitions at portfolio level were realized in financial year 2021. The contract for the acquisition of Heiber und Schröder Maschinenbau GmbH (HEIBER + SCHRÖDER) was signed at the end of 2021. The economic transfer and initial consolidation of HEIBER + SCHRÖDER will take place in Q2 2022. One company was acquired at the sub-subsidiary level and control was assumed of a company previously accounted for using the equity method following a share purchase.

The discontinuation of one portfolio company was completed in 2021 as the last stage of the INTERIM SPRINT package of measures from 2020. Overall, the INTERIM SPRINT package was a necessary and important step to achieve the objectives set with the PARKOUR strategy, and it has now been brought to a successful conclusion.

One series supplier was transferred to a new owner in 2021 with the sale of the WIESAUPLAST Group. This strategic investor is interested in the long-term development of WIESAUPLAST. By selling this company, INDUS was able to further reduce the importance of series production in the portfolio, and will continue to review whether another owner can offer the other series suppliers and their employees better long-term development opportunities.

If the situation on the M&A market is conducive, at least two add-on acquisitions are planned at the level of the portfolio companies in 2022.

There will be no change in the fundamental corporate strategy of "buy, hold & develop."

DRIVING INNOVATION

INDUS will push ahead with the already successfully established strategy for supporting innovation ability in the portfolio companies and expand it further. In addition to product innovations, INDUS will provide portfolio companies with support from the innovation development bank to develop new services, business processes and business models. Up to 3% of consolidated EBIT remains available each year to drive promising innovation projects forward. The portfolio companies significantly reduced their innovation projects during the first phase of the coronavirus pandemic. Activity resumed significantly in the second half of 2021, so a higher number of applications and new project funding are expected in 2022.

Since innovations often come about as a result of exchange with others, the existing network will be promoted internally and externally through cooperation with external partners and within the Group. More working groups will be launched for this purpose in order to focus on the latest cutting-edge ideas and develop commercial strategies and/or product ideas. There are concrete plans in the field of sustainable construction and artificial intelligence. Artificial intelligence applications are increasingly being used in industry.

Promoting fundamental work on innovation strategies for the portfolio companies also calls for the Group to **provide strategic sparring for the innovation strategy.** Any strategic project is therefore based on the individual corporate strategy from which the innovation strategy is to be derived. An up-to-date status check was drawn up in 2021. The aim is to build on this basis in order to devise focused innovation projects, with the support of external partners as necessary. This topic will be implemented in 2022 and the years thereafter.

IMPROVING PERFORMANCE

INDUS will concentrate on improving performance at the portfolio companies by encouraging their **Market Excellence** and **Operational Excellence.** The Market Excellence topic offers portfolio companies support in various areas, which form part of one of the following four pillars: status check, implementation, knowledge and cooperation. These offerings are actively requested by the portfolio companies and are also deployed by the holding company as needed. They directly target the optimization of market positioning and market cultivation and so result in sustainable earnings improvements.

The Operational Excellence topic is based on the same four pillars: the production status check, support with implementation projects, knowledge transfer and the provision of a cooperation platform. With the Production project, the holding company supports portfolio companies in improving their value-adding core processes, ranging from production strategy and production planning and control to process effectiveness and efficiency. The program to boost Operational Excellence includes comprehensive education and training offers in Lean management for knowledge transfer. INDUS also initiates and assists the portfolio companies on site with corresponding optimization projects.

The financial starting points for improving performance in the portfolio companies include Group-wide liquidity management, working capital optimization in the companies, and portfolio management by INDUS. Also included is increased information and communication in relation to financial and accounting-related topics between the holding company and the portfolio companies.

Additional activities to promote sustainability in the 2022 financial year

INDUS will further intensify its activities to promote sustainable business practices within the holding company and its portfolio companies in the 2022 financial year. Special attention will be paid to continuing with measures to achieve the sector-wide target for a 35% reduction in CO_2 emissions by 2025 (compared to the base year 2018) set by the German federal government in its Climate Action Program 2030. More information on p. 20 et seqq. of the non-financial report

Expectations for the financial year 2022

The following forecast is based on the corporate planning approved by the Board of Directors and the Supervisory Board. The statements about the predicted development in the economic situation and particularly about the economic development of the effects of the coronavirus pandemic are based on statements made by leading organizations, such as economic research institutes and banks. Plans for 2022 remain subject to uncertainty in view of the ongoing coronavirus pandemic and increasing geopolitical tensions. Neither the premises used in our planning nor the forecasts that are set out below include effects from the war between Russia and Ukraine. The scope of these effects on the INDUS Group cannot currently be known or quantified.

Companies in the **Construction/Infrastructure** segment are expecting a slight rise in sales and a slight fall in EBIT in the year ahead. Further increases in material prices and a slight slowdown in the market for air-conditioning devices are anticipated. In their budgets, the companies in the **Automotive Technology** segment only assume that sales will recover from the middle of 2022. Segment sales will rise slightly, with the loss of some EUR 50 million in WIESAUPLAST sales offset by new series runs at other portfolio companies. Repositioning by companies in the segment will continue. Segment EBIT should rise sharply, but remain negative. The positive performance of the companies in the **Engineering** segment in 2021 will continue in 2022. The companies expect a strong rise in sales and a slight rise in segment EBIT. Overall, the companies in the **Medical Engineering/Life Science** segment are forecasting higher sales and slightly higher segment EBIT in the coming year. The forecast for the **Metals Technology** segment shows a slight fall in sales and a sharp decline in segment EBIT. Further materials price rises will have an adverse effect here.

Overall, the forecasts for 2022 predict that sales will rise from EUR 1.80 billion to 1.95 billion. Operating income (EBIT) is likely to be in a range of EUR 115 million to EUR 130 million and thus above the level of 2021. This includes two planned add-on acquisitions with cumulative sales of around EUR 60 million. The range for the EBIT margin will probably be between 6.0% and 7.0%. These forecasts were made under the conditions of uncertainty outlined above resulting from the ongoing coronavirus pandemic, the disruptions to supply chains and further price rises for raw materials. The forecast for operating income (EBIT) does not include any impairment of goodwill or property, plant, and equipment.

The INDUS Group investment budget for this year was set in the course of the planning process and totals around EUR 90 million to 100 million (excluding acquisitions). New production equipment and the establishment of new production sites are planned as large investment projects. The plan budgets an amount of EUR 62 million for acquisitions of companies for 2022. This includes the cash outflow for the purchase of Heiber und Schröder Maschinenbau GmbH (HEIBER + SCHRÖDER). The contract was signed on December 17, 2021, with the transfer of risks and rewards, initial consolidation and payment of the purchase price to take place in the second quarter of 2022. The acquisition budget for 2022 includes at least one more acquisition at portfolio company level.

The INDUS Group's equity ratio of 42.4% was back above the target of 40% in 2021. A figure of around 43% is forecast for year-end 2022. In the medium term, the target is still to maintain a stable equity ratio of more than 40%. Under its revolving financing program, INDUS also expects to borrow in the form of loans and promissory note loans in 2022. Another ESG-linked promissory note loan with a volume of EUR 56,000 thousand was taken out in December 2021. Funds were credited on January 12, 2022. In such financing matters, INDUS can rely on its tried and tested bank partners of many years, with whom the holding company is in constant contact. Capital repayments of some EUR 125 million are planned for financial year 2022. On the basis of the current financial planning the Board of Management assumes new borrowing of roughly the same amount. Planned net borrowing for 2022 would therefore be zero. The repayment term based on EBITDA improved significantly year-over-year in 2021 and is already back at 2.3. INDUS is expecting the repayment term to stay roughly constant in 2022. The repayment term in 2022 will therefore remain within the target range of 2.0 to 2.5 years.

FINANCIAL POSITION: SHARPLY RISING SALES AND EBIT PLANNED FOR 2022

TARGET PERFORMANCE COMPARISON

	ACTUAL 2021	TARGET 2022
GROUP		
Management variables		
Acquisitions	2 growth acquisitions, 2 purchased sub-subsidiaries	2 growth acquisitions
Sales	EUR 1.74 billion	EUR 1.80–1.95 billion
EBIT	EUR 115.4 million	EUR 115–130 million
EBIT margin	6.6%	6.0% to 7.0%
Investments in property, plant, and equipment, and intangible assets	EUR 67.3 million	EUR 90–100 million
Greenhouse emissions (GHG emissions Scope 1+2)*	93.91 t CO_2/million EUR GAV	Lower than previous year
Supplementary management variables		
Equity ratio	42.4%	>40.0%
Net debt/EBITDA	2.3 years	2–2.5 years
Working capital	EUR 457.5 million	Lower than previous year
SEGMENTS		
Construction/Infrastructure		
Sales	EUR 451.6 million	Slight rise in sales
EBIT	EUR 70.5 million	Slight fall in income
EBIT margin	15.6%	13% to 15%
Automotive Technology		
Sales	EUR 281.9 million	Slight rise in sales
EBIT	EUR -57.3 million	Strong rise in income
EBIT margin	-20.3%	Negative
Engineering		
Sales	EUR 438.9 million	Strong rise in sales
EBIT	EUR 56.9 million	Slight rise in income
EBIT margin	13.0%	10% to 12%
Medical Engineering/Life Science		
Sales	EUR 148.7 million	Rising sales
EBIT	EUR 12.1 million	Slight rise in income
EBIT margin	8.1%	7% to 9%
Metals Technology		
Sales	EUR 420.4 million	Slight fall in sales
EBIT	EUR 42.3 million	Strong fall in income
EBIT margin	10.1%	7% to 9%

* Net emissions intensity

Most of the companies in the **Construction/Infrastructure** segment worked to their capacity limit again. Record EBIT from 2019 was surpassed in 2021, but the EBIT margin contracted slightly. Sales increased, with both organic growth from the existing portfolio companies and inorganic growth from the acquisition of WIRUS. Almost all the companies in the segment are expecting sales to rise slightly in the year ahead, partly due to pricing. The Construction/Infrastructure segment will remain a dependable pillar of the INDUS portfolio in 2022. Overall, the INDUS Board of Management is expecting a slight rise in sales, a slightly lower operating result (EBIT) and an EBIT margin of 13% to 15% for the segment.

The performance of the companies in the **Automotive Technology** segment was again very unsatisfactory in 2021, particularly due to the chip shortage and the resulting sharp fall in drawdowns of series orders from the third quarter. Unfortunately it was not only the series suppliers, but also the development and prototype companies that suffered from a shortage of parts and a lack of new orders. The companies in the segment have planned for a subdued 2022, with series drawdowns predicted to remain low in the first half-year. The operating result (EBIT) and the EBIT margin for the Automotive Technology segment will remain negative in 2022, despite a gradual improvement, slightly higher sales and a strong rise in EBIT.

For the companies in the **Engineering** segment, the year 2021 was very positive, with significant sales and EBIT increases. The EBIT margin improved significantly to 13.0%, which was well above the target range of 8–10%. The portfolio companies in the Engineering segment anticipate a sharp rise in sales in 2022. The situation has now also improved at those companies reporting low levels of new orders until the middle of 2021. Further growth is also expected in EBIT. Then there are the sales and operating income (EBIT) from the recently acquired packaging machine specialist HEIBER + SCHRÖDER. Despite these positive prospects for 2022, it remains to be seen whether the segment companies will be able to cope with the operating problems as before, given the material shortages. Overall, INDUS is expecting a strong rise in sales, a slight rise in EBIT and an EBIT margin in the 10–12% range for the Engineering segment in 2022.

Overall, the companies in the **Medical Engineering/ Life Science** segment reported slightly higher sales and EBIT in 2021. An increasing trend towards digitalization in the medtech sector is expected. In addition, more outpatient treatment is forecast. The implementation of the new Medical Devices Regulation means that the companies are still subject to high regulatory hurdles, however. All the companies in this INDUS segment are expecting higher sales in 2022. Segment EBIT will rise slightly, but the merger of facilities at one portfolio company will remain a significant drain on EBIT in 2022. The EBIT margin will be within the 7–9% range.

All the continuing operations in the **Metals Technology** segment reported higher sales in financial year 2021. The discontinuation of BACHER and structural changes at SIMON caused a loss of EUR 20.6 million in sales compared with the previous year. The improved performance of many companies in the segment and the portfolio changes mentioned above enabled a significant increase in operating income (EBIT) in 2021. Companies in the segment expect sales to fall slightly in 2022; some EUR 10 million in sales will be lost in a year-over-year comparison because the discontinuation of BACHER was only completed in 2021. The continuing segment companies are forecasting a sharp fall in segment EBIT due to higher materials prices. The EBIT margin will be within a range of 7–9%.

Post-balance Sheet Events

Russia began military action against Ukraine on February 24, 2022. We are closely monitoring the situation and understand that the economic consequences of the war between Russia and Ukraine will also likely impact the business activities of the INDUS Group portfolio companies. Material adverse effects on assets, finances, and profit for financial year 2022 beyond the direct effects presented in the following cannot be ruled out. The scope of these effects cannot currently be known or quantified and thus do not constitute part of our forecast.

The portfolio companies of the INDUS Group generated sales of some EUR 17 million with customers in Russia in 2021 and of some EUR 3 million with customers in Ukraine. This represents around 1.2% of total Group sales in 2021. Sales to customers in Russia and Ukraine stem principally from the Metals Technology segment. The loss of this business will not have a material impact on the financial position and financial performance of the INDUS Group. INDUS Holding AG does not have any operating subsidiaries or plants in Russia or Ukraine.